

Healthy credit offtake; however, margins remained flat

Q3FY24 Result Update | Sector: Bank | January 17, 2024

BUY

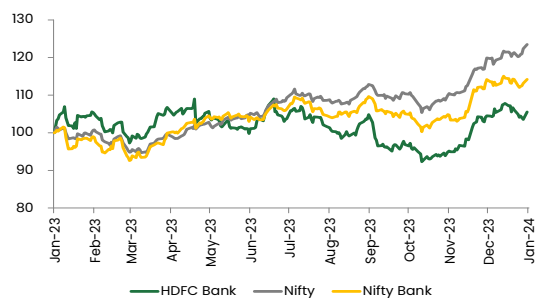
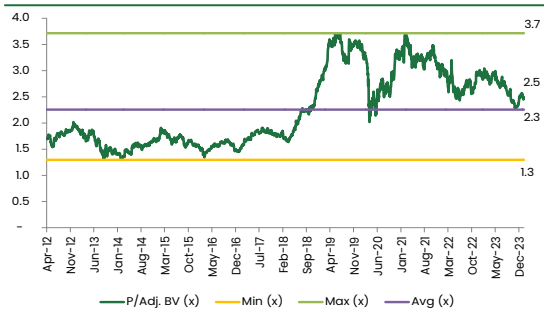
CMP (Rs)	1,679
Target Price (Rs)	2,010
Potential Upside	19.7%
Sensex	73,129
Nifty	22,032

Key Stock data

BSE Code	500180
NSE Code	HDFCBANK
Bloomberg	HDFCB:IN
Shares o/s, Cr (FV 1)	759.2
Market Cap (Rs Cr)	1,274,892
3M Avg Volume	15,250,800
52 week H/L	1758/1460

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promotor	25.5	-	-
FII	33.4	52.1	52.3
DII	27.0	30.6	30.8
Public	14.1	17.2	16.9

1 year relative price performance

1 year forward P/Adj. BV (x)

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Moderation in topline growth: HDFC Bank reported net interest income growth of 4% QoQ to Rs 28,471 Cr as cost of funds remained elevated during the quarter. Interest earned during the quarter increased by 4.3% QoQ to Rs 67,908 Cr, however, interest expended saw an increase of 4.5% QoQ to Rs 40,313 Cr due to which the net interest income remained moderated.

Margins continued to remain flat: Net interest margin on core assets in Q3FY24 remained flat sequentially as expected at 3.4% while it declined by 70bps YoY post-merger. Yield on interest earning assets increased by 10bps QoQ to 8.3%, however, it was offset by the increase in cost of funds by 10bps to 4.9%. The management sees scope of decline in cost of funds going forward due to which the net interest margin is expected to improve.

Loan growth remained healthy: The bank saw healthy growth in credit demand which was led by its growing retail customers. Its loan book increased by 4.9% QoQ to Rs 24,693 Bn. It saw an increase in its secured lending book such as mortgage, auto and gold loans while growth in unsecured lending remained moderate. The bank intends to grow its loan book in a sustainable manner which healthy mix of both secured and unsecured loans. Its unsecured loans cater to high ticket size customers leading to lower delinquencies and high margins. The bank expects to see benefits merger through cross selling of its products from coming quarters.

Deposits continued to remain sluggish: Deposits mobilization remained slow during the quarter as it stood at Rs 22,140 Bn growing by 1.9% QoQ. The growth remained slow on both the fronts i.e, CASA and term deposits. It is yet to see the effect of its branch expansion drive which is expected to accumulate deposits as a faster pace as compared to its peers. Due to lag in deposits, its credit to deposits ratio stood at 111.5% as against 87.7% in Q3FY23.

Marginal improvement in asset quality: Asset quality for the bank saw an improvement as the GNPA/NNPA declined by 4bps/5bps QoQ to 1.3%/0.3%. However, provisions and contingencies increased by 45.2% QoQ to Rs 4,217 Cr. The asset quality is expected to decline going forward as the bank is seeing decline in slippages on both retail and corporate segment.

Conclusion: We remain positive on HDFC Bank as the bank is seeing healthy credit demand. The management expects margin to improve in the coming quarters as the deposits pace picks up and interest rates moderate. The bank continues to maintain healthy asset quality. The bank is also yet to see the synergies from merger which will enable in higher cross selling of products to existing customers. We maintain **Buy** rating on HDFC Bank and revise our target price to **Rs 2,010** valuing the bank at 2.4x of its FY26E Adj. BV.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest earned	161,586	265,514	316,975	375,705
Interest expended	74,743	146,892	176,859	209,938
Net interest income	86,842	118,622	140,116	165,767
Operating profit before provisions	70,405	99,331	116,896	147,252
Profit after tax	44,109	67,969	77,821	100,208
EPS (Rs)	79.3	89.6	102.6	132.2
BVPS (Rs)	502.0	605.9	708.5	840.7
Adj. BVPS (Rs)	492.4	563.0	665.2	793.4
P/Adj. BV (x)	3.4	3.0	2.5	2.1
RoA (%)	2.1	1.8	1.8	2.0
RoE (%)	17.4	14.8	14.5	15.7

Source : RBL Research

Con-call highlights: 1) Non retail deposits reduced by 3.3% QoQ which is very price sensitive. The bank has seen consumers preference towards time deposits given the interest rate cycle. 2) Incremental spends/incremental deposits stands at 5.4 times for the bank indicating good for spending by the customers. 3) During 9MFY24, the bank opened new 270 branches this year. The bank has 500-550 new branches in the pipeline. The bank targets total 800-1,000 new branches for the year FY25 as compared to earlier target of 1,500 branches. Over a long term, the bank expects to have 13,000-14,000 branches wide geographical presence. 4) The bank sees opportunity in the retail unsecured lending segment which has been growing at 2-3% QoQ. 5) The bank borrowings to total liabilities was 8% which increased to 21% post merger. It intends to bring the borrowings down and increase deposits in the long term. The bank expects that the mix of funding will move towards deposits. 6) The management will look take cost control measures to bring it's cost to income down to mid 30%. It is function of efficiency and digital offerings and serveral measures which are undertaken by the bank are in pipeline. 7) The bank will keep to keep it's liquidity coverage ratio in the range of 110%-120%. Loan to Deposits ratio (LDR) without the effect of merger stands at 89%. On a merged basis, it will look to bring LDR down in the coming quarters. 8) On an incremental basis, the bank has a 18-20% market share in deposits. 9) Yield on CRB loan segment was 9-11% based on different products.

Net interest income growth remained flat with 4% QoQ in Q3FY24

Provisions and contingencies increased by 45.2% QoQ in Q3FY24

PAT grew by 2.5% QoQ due to increase in provisions and operating costs

Revenue from retail banking segment increased by 6.4% QoQ

Quarterly performance - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Interest earned	70,583	42,708	65.3	67,698	4.3
Other income	11,137	8,500	31.0	10,708	4.0
Interest expended	42,111	19,720	113.5	40,313	4.5
Net interest income	28,471	22,988	23.9	27,385	4.0
Employee cost	5,352	4,126	29.7	5,170	3.5
Other operating expenses	10,609	8,337	27.3	10,229	3.7
Operating profit before provisions	23,647	19,024	24.3	22,694	4.2
Operating margin (%)	33.5	44.5	-1104bps	33.5	-2bps
Provisions and contingencies	4,217	2,806	50.2	2,904	45.2
Profit before tax	19,431	16,218	19.8	19,790	(1.8)
Tax	3,058	3,958	(22.7)	3,814	(19.8)
Tax rate (%)	15.7	24.4	-867bps	19.3	-353bps
Profit after tax	16,373	12,259	33.5	15,976	2.5
PAT margin (%)	23	29	-551bps	24	-40bps
EPS (Rs)	21.6	22.0	(1.9)	21.1	2.1

Source : RBL Research

Segments - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Revenue from operations					
Treasury	14,665	9,551	53.5	15,898	(7.8)
Retail Banking	64,774	35,302	83.5	60,859	6.4
Wholesale Banking	49,744	25,375	96.0	47,299	5.2
Other Banking	7,511	6,567	14.4	7,270	3.3
Profit before tax					
Treasury	1,883	775	143.0	1,823	3.3
Retail Banking	5,726	4,409	29.9	5,939	(3.6)
Wholesale Banking	9,877	8,494	16.3	9,805	0.7
Other Banking	2,746	2,552	7.6	2,774	(1.0)

Source : RBL Research

Advances/deposits increased by 4.9%/1.9% QoQ in Q3FY24

Net interest margin remained flat during the quarter at 3.4%

GNPA/NNPA decline by 4bps/5bps QoQ which is positive

Increase in retail customers post merger

Business parameters - standalone

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Advances	24,693	15,205	62.4	23,546	4.9
Deposits	22,140	17,332	27.7	21,729	1.9
New branches (Abs)	146	684	(78.7)	85	71.8
Credit to deposits ratio (%)	111.5	87.7	2380bps	108.4	317bps
RoA (%)	2.0	2.2	-20bps	2.0	0bps
RoE (%)	15.8	19.7	-390bps	16.2	-40bps
NIM (%)	3.4	4.1	-70bps	3.4	0bps
Cost to income ratio (%)	40.3	39.6	70bps	40.4	-10bps
Yield on assets	8.3	7.7	60bps	8.2	10bps
Cost of funds (incl. shareholders)	4.9	3.5	140bps	4.8	10bps

Source : RBL Research

Asset quality - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Gross NPA	31,012	18,764	65.3	31,578	(1.8)
Net NPA	7,664	5,024	52.5	8,073	(5.1)
Gross NPA (%)	1.3	1.2	7bps	1.3	-4bps
Net NPA (%)	0.3	0.3	-3bps	0.4	-5bps

Source : RBL Research

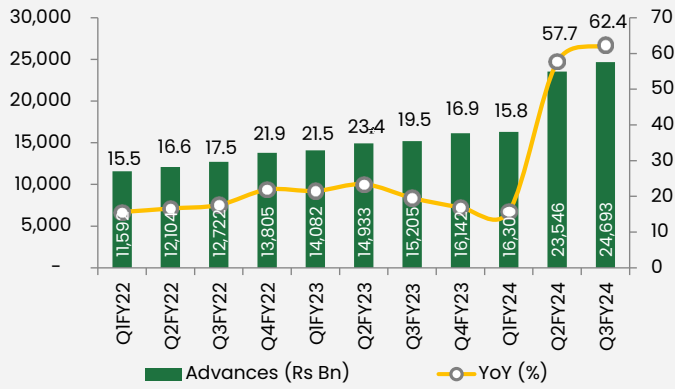
Loans and deposits mix - standalone

Particulars (%)	Q3FY24	Q3FY23	YoY (bps)	Q2FY24	QoQ (bps)
Loan mix					
Retail mix	54.0	44.0	1000	55.0	-100
Wholesale mix	46.0	56.0	-1000	45.0	100
Deposits mix					
SA mix	26.2	31.0	-481	26.0	19
CA mix	11.6	13.0	-145	11.0	55
CASA ratio	37.7	44.0	-625	37.0	75

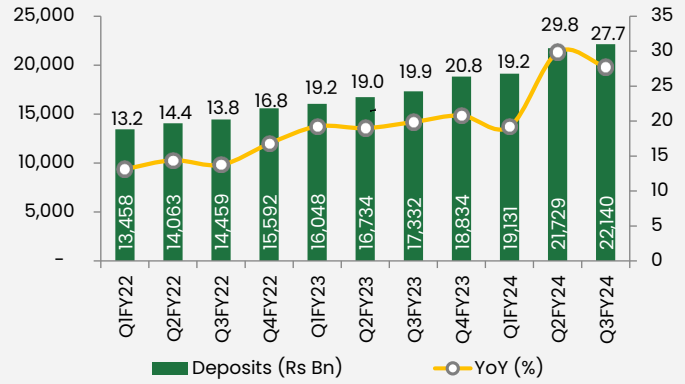
Source : RBL Research

Story in charts

Advances grew by 62.4% YoY in Q3FY24

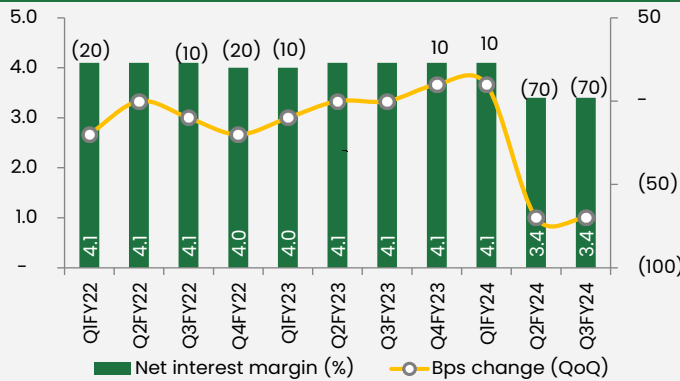


Deposits increased by 27.7% YoY in Q3FY24

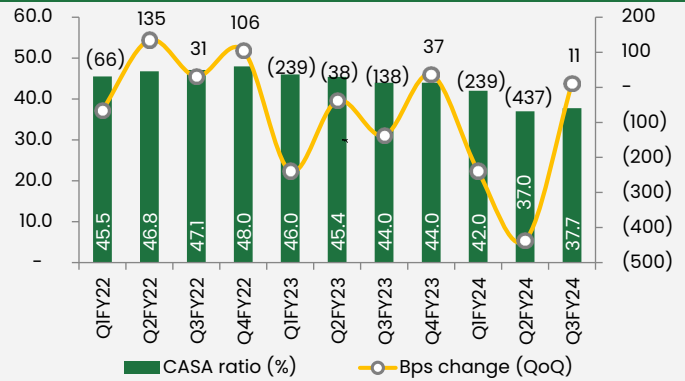


Source : RBL Research

Decline in net interest margin post merger

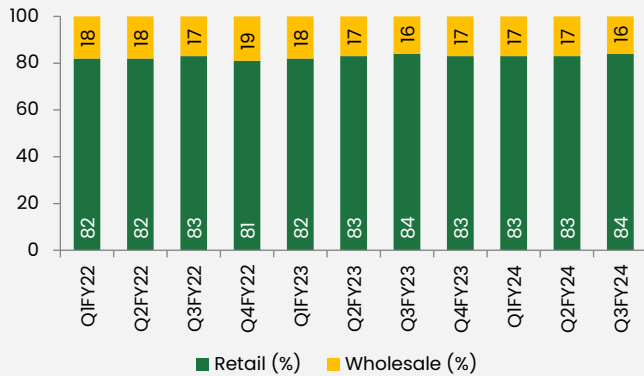


CASA ratio increased marginally by 11bps QoQ

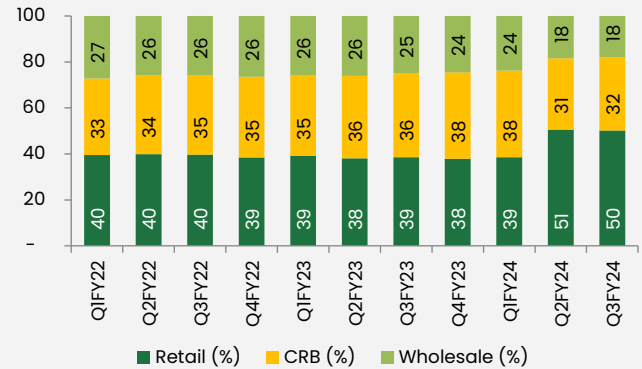


Source : RBL Research

Loans breakup with higher proportion of retail customers

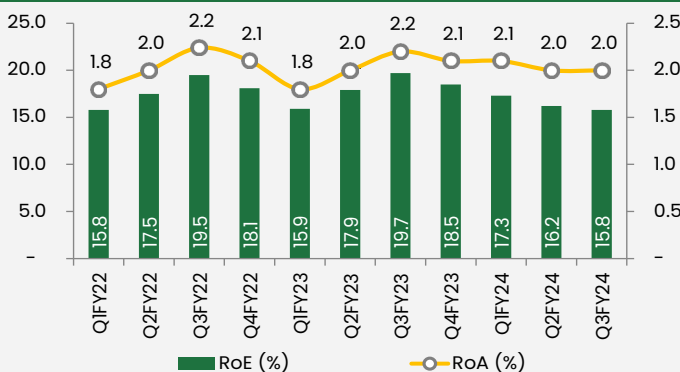


Retail segment form 50% of loan book in Q3FY24

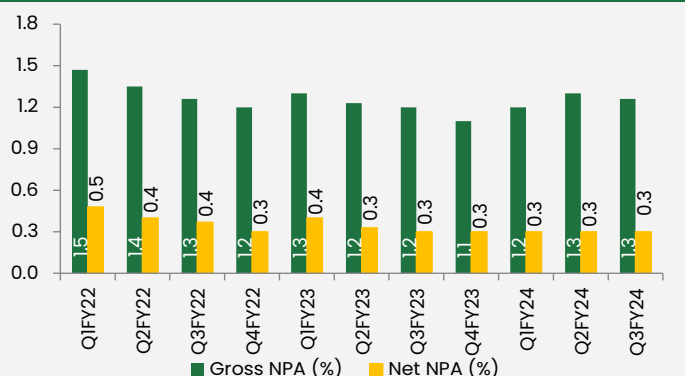


Source : RBL Research

RoA (%) / RoE (%) stood at 2% / 15.8% in Q3FY24



Marginal improvement in asset quality in Q3FY24



Source : RBL Research

Income statement – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest earned	161,586	265,514	316,975	375,705
Interest expended	74,743	146,892	176,859	209,938
Net interest income	86,842	118,622	140,116	165,767
Other income	31,215	44,079	51,944	63,286
Total income	118,057	162,701	192,060	229,053
Employee cost	15,512	21,145	24,561	26,564
Other operating expenses	32,140	42,224	50,603	55,237
Operating expenses	47,652	63,369	75,164	81,801
Operating profit before provisions	70,405	99,331	116,896	147,252
Provisions and contingencies	11,920	13,232	13,816	14,520
Profit before tax	58,485	86,100	103,081	132,732
Tax	14,377	18,131	25,260	32,524
Tax rate (%)	24.6	21.1	24.5	24.5
Profit after tax	44,109	67,969	77,821	100,208
EPS (Rs)	79.3	89.6	102.6	132.2

Source : RBL Research

Business and efficiency ratios (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Loans/Deposit	85.0	110.2	103.5	99.6
CASA ratio	44.0	37.3	38.6	39.5
Cost/Assets	1.9	1.7	1.7	1.6
Interest expense/ Interest income	46.3	55.3	55.8	55.9
Investment/Deposit Ratio	27.5	30.8	29.4	28.2
Employee cost/Total expense	32.6	33.4	32.7	32.5

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Equity share capital	558	759	759	759
Reserves and Surplus	279,641	458,626	536,448	636,655
Net worth	280,199	459,385	537,207	637,415
Deposits	1,883,395	2,367,969	2,892,589	3,460,848
Borrowings	206,766	729,463	788,947	863,241
Other liabilities and Provisions	95,722	122,011	133,619	148,522
Total equity and liabilities	2,466,081	3,678,828	4,352,362	5,110,025
Cash and bank balance	193,765	116,881	245,523	375,161
Investments	517,001	730,170	850,966	974,478
Advances	1,600,586	2,609,677	2,993,332	3,447,432
Fixed assets	8,017	11,739	14,891	17,296
Other assets	146,713	210,361	247,650	295,658
Total assets	2,466,081	3,678,828	4,352,362	5,110,025
BVPS (Rs.)	502.0	605.9	708.5	840.7
Adj. BVPS (Rs.)	492.4	563.0	665.2	793.4

Source : RBL Research

Asset quality – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
GNPA	18,019	32,532	32,855	35,844
NNPA	4,368	8,634	8,972	9,819
Slippages	24,536	31,902	39,639	47,376
GNPA (%)	1.1	1.2	1.1	1.0
NNPA (%)	0.3	0.3	0.3	0.3
Slippages (%)	1.5	1.2	1.3	1.4
Provision coverage ratio (%)	75.8	73.5	72.7	72.6
Credit cost (%)	0.8	0.5	0.5	0.4

Source : RBL Research

Growth ratio (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Interest earned	26.6	22.6	19.4	18.5
Other income	7.6	22.1	17.8	21.8
Total income	23.5	22.5	19.2	19.0
Interest expended	34.3	32.6	20.4	18.7
Net interest income	19.5	12.1	18.1	18.3
Operating profit before provisions	11.2	8.1	17.7	26.0
Profit after tax	19.9	13.2	14.5	28.8
Advances	16.9	63.0	14.7	15.2
Deposits	20.8	25.7	22.2	19.6

Source : RBL Research

Yields and cost ratio (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Yields on interest earning assets	8.0	7.9	8.2	8.5
Cost of deposits	3.9	4.7	4.8	4.9
Interest spread	4.1	3.2	3.4	3.6
RoA	2.1	1.8	1.8	2.0
RoE	17.4	14.8	14.5	15.7
Net interest margin	4.1	3.6	3.6	3.7

Source : RBL Research

Valuations (x) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
P/E	21.2	18.7	16.4	12.7
P/BV	3.3	2.8	2.4	2.0
P/Adj. BV	3.4	3.0	2.5	2.1
Dividend per share (Rs)	19.0	19.7	20.8	21.9
Dividend yield (%)	1.1	1.2	1.2	1.3

Source : RBL Research

HDFC Bank SOTP valuation, FY25E

Particulars	Total value (Rs Bn)	Stake (%)	HDFC's stake (Rs Bn)	Value per share (Rs)	Methodology
HDFC Bank standalone	13,836	100.0%	13,836	1,825	2.4x of FY26E Adj. BV
Subsidiaries & associates					
HDFC Life Insurance	1,674	50.3%	842	111	3.2x of FY25E EV
HDFC AMC	591	52.6%	311	41	32x of FY25E EPS
HDB Financial Services	352	94.8%	333	44	2x of FY25E BV
HDFC ERGO General Insurance	217	50.5%	110	14	
HDFC Securities	162	95.5%	155	20	
Value of subsidiaries & associates				231	
Holding company discount (20%)				46	
Value post discount				185	
Target price (Rs)				2,010	
Current market price (Rs)				1,679	
Upside (%)				19.7%	

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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