

Medium term growth to lag for few quarters, Deposit and customer accounts to drive growth

CMP: INR 1,607

Rating: Buy

Target Price: INR 2,017

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB.IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	7,608
Mkt Cap (INR Bn)	12,228
52w H/L (INR)	1,794 / 1,363
Avg Yearly Vol (in 000')	20,852

Shareholding Pattern %

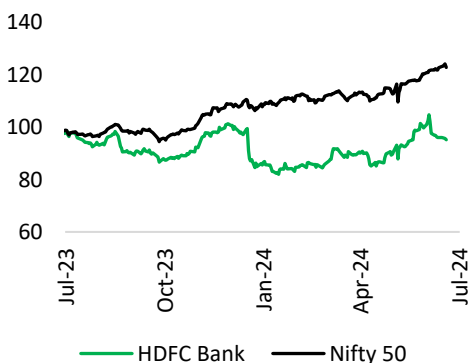
(As on June, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)

	1m	6m	12m
HDFC Bank	-3.85	12.45	-4.9
Nifty 50	4.1	15.5	22.8

HDFC Bank Vs Nifty



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HDFC Bank reported a rather muted set of earnings for the Q1FY25. NII increased 2.6% QoQ/26.4% YoY, PPOP decreased by 18.4% QoQ/ up by 27.2% YoY and Net Profits decreased by 2% QoQ/ and up by 35.3% YoY. As was expected, the bank's advances degrew by 0.9% QoQ while Deposit growth was flat sequentially due to outflows from the Current Accounts. The asset quality remained stable though we saw marginal spike in GNPA/NNPA ratios at 1.33%/0.39% respectively. GNPA was up 9 bps & NNPA was up 6 bps sequentially.

Margins improved slightly, and will hover around 3.5-3.8% in coming quarters: In Q1FY25, the bank's Net Interest Margins came at 3.66% on average interest yielding assets. We expect that HDFC Bank's fallen margins would normalize by FY25 end as mix of mortgage loans in overall loan book normalizes and deposit costs flatten during the year.

CASA at 36.3%, to increase by 150-200 bps by the end of FY25: As the maturity levels increases for the newer bank branches and they get some market share, newer customer accounts will fill the gap in the CASA deposits. Also, at 36.3% levels, the Bank's CASA is adequate enough for bank of this size to maintain higher spreads.

Higher Opex in the near term to pay rich dividends as the bank flexes across the Tier 2 & Tier 3 towns: HDFC Bank is increasing its presence faster than other large Private banks across the nation; while this will spike the current Opex/Income ratio for the current year and next, the investments in the Agrarian & Tier 2 & 3 cities will be beneficial in long term.

Current overhang of high LDR ratio to sustain for sometime: As informed by the bank's MD& CEO Mr Shashidhar Jagdishan, there are borrowings in issued by HDFC Limited which will mature over the next 3 years. To fill for that liability, deposit growth is expected to remain strong and asset growth may take a back step for the medium term. Also, the bank has slowed down their Corporate books growth willingly as the Pricing does not fit their Profitability requirements.

Valuation & View: HDFC Bank's Q1FY25 earnings came very much in line with street expectations as the growth was expected to be checked. The bank's subsidiaries in the Insurance, AMC and NBFC subsidiary, are all doing healthy profitable business. The Deposits growth which was supposed to come strong was not visible on a sequential basis due to Seasonality factors, but we do expect strong Deposit Mobilization by the bank in subsequent quarters. Hence, we maintain our Positive stance on the bank, and barring some standalone contraction in medium term estimates, we see long term economies of scale playing out for HDFC group. **We maintain our Buy rating on the stock with a revised target price of INR 2,017 on SOTP basis, with the standalone bank valued on 2.2x FY27E P/ABV.**

Financial Summary

Y/E Mar (Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E
NII	720	868	1,085	1,280	1,582	2,042
Net profit	370	441	608	764	1,012	1,393
Networth	2,401	2,802	4,402	4,631	5,400	6,458
Adj BVPS	425	491	567	593	687	815
EPS (Rs)	66.65	79.05	93.32	100.57	133.26	183.34
P/ABV (x)	3.78	3.27	2.77	2.24	1.92	1.60
P/E (x)	24.11	20.33	17.22	13.56	10.24	7.44
RoA (%)	2.0	2.1	2.0	2.0	2.3	2.7
RoE (%)	16.7	17.0	16.9	16.9	20.2	23.5

Q1FY25 - Quarterly Performance (Standalone)

Q1FY25 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Interest Income	730.33	714.73	485.87	2.2%	50.3%
Interest Expense	431.96	423.96	249.88	1.9%	72.9%
Net Interest Income	298.37	290.77	235.99	2.6%	26.4%
Non Interest Income	106.68	181.66	92.30	-41.3%	15.6%
Total Income	405.05	472.43	328.29	-14.3%	23.4%
Employee Costs	58.49	69.36	47.82	-15.7%	22.3%
Other Operating Expenses	107.72	110.33	92.75	-2.4%	16.1%
Operating Expenses	166.21	179.69	140.57	-7.5%	18.2%
Pre-Provision Profit	238.85	292.74	187.72	-18.4%	27.2%
Provisions	26.02	135.12	28.60	-80.7%	-9.0%
Profit Before Tax	212.83	157.63	159.12	35.0%	33.8%
Tax Expense	51.08	-7.49	39.60	-781.7%	29.0%
Net Profit	161.75	165.12	119.52	-2.0%	35.3%
Balance Sheet Analysis					
Deposits	23,790.85	23,797.86	16,047.60	0.0%	48.3%
CASA (%)	36.3%	38.2%	31.5%	-190bps	480bps
Advances	24,635.21	24,848.62	13,950.68	-0.9%	76.6%
Total Assets	35,672.50	36,176.23	21,097.72	-1.4%	69.1%
Capital Adequacy Ratio (%)	19.33%	18.80%	17.50%	53bps	183bps
Spread Analysis					
NIM (%)	3.66%	3.63%	4.30%	3bps	-64bps
Asset Quality					
Gross NPA	330.26	311.73	180.34	5.9%	83.1%
Net NPA	95.08	80.92	48.88	17.5%	94.5%
GNPA (%)	1.33%	1.24%	1.28%	9bps	5bps
NNPA (%)	0.39%	0.33%	0.35%	6bps	4bps
Key Ratios					
Cost to Income Ratio (%)	41.0%	38.0%	42.8%	303bps	-179bps
C/D Ratio	103.5%	104.4%	86.9%	-87bps	1662bps
RoA (%) (annualized)	1.88%	1.96%	1.84%	-8bps	4bps

Q1FY25 Concall Takeaways

Guidance:

- The Management maintained that they will be trying to get the Loan Deposit ratio down over the next 3-4 quarters. The Management said that it is in their long term interest to decrease the LDR which is still above 100%.
- The Bank expects to see CASA ratio improving in the future as the new branches gain traction in getting more customer accounts, and which will be granular in nature.
- The Bank is awaiting regulatory approvals for its subsidiary HDB Financial Services IPO in the future.

Key Highlights:

- NII came at INR 298 bn against our estimates of INR 345.4 bn (up 2.6% QoQ/up 26.4% YoY).
- NIMs for the bank stood at 3.66%, up 6 bps QoQ/ down 64 bps YoY.
- PPOP came at INR 239 mn against our estimates of INR 347 bn (down 18.4% QoQ/up 27.2% YoY).
- Provisions decreased in the quarter to INR 26 bn against our estimates of INR 138 bn (down 80.7% QoQ/ down 9% YoY).
- PAT came at INR 162 bn against our estimates of INR 174 bn (down 2.04% QoQ/up 35.3% YoY).
- Asset Quality: GNPA/NNPA ratio for the bank stood at 1.33% / 0.39% for Q1FY25 against our estimates of 1.25%/0.34% respectively, up 9 bps QoQ / up 6 bps QoQ respectively.
- Balance Sheet: Advances were at INR 24,635 bn, down by 0.86% QoQ/ up 52.48% YoY. Similarly, Deposits stood at INR 23,791 bn, flat QoQ/ up 24.36% YoY.
- The Bank saw one large Current Account Deposit of INR 160 bn which came up in Q4FY24, being drawn out in Q1FY25.
- The Management mentioned that the Bank has one of the strongest Corporate relationships, and their ties to large Corporates are very strong. It's the transactional business that the bank is consciously keeping up with themselves as the Pricing is not suitable for them for Profitable growth.
- The Bank witnessed addition of 2.2 million new customer accounts during the quarter.
- The Bank has around half the number of branches which are older than 10 years, and have significant market share. And the remaining half which have come around over the past 5 years or so, has huge market share gaining ability as per the Management.
- The Bank has the largest Current Account deposits of any bank, and it is 11% of their total Deposits.
- The Bank's non-interest income was up 15.6% YoY but down 41% QoQ as prior quarter had one-off gain from stake sale. Fee income for the quarter stood at INR 70 bn v/s INR 80 bn in Q4FY24.
- Cost to income ratio for the quarter stood at 41%, up 300 bps QoQ, as prior quarter number was subdued due to one-off income line item.
- Domestic retail advances increased by 1.5% QoQ in which retail mortgages were up 1.8% QoQ while non-mortgage in retail segment were up 1.1% QoQ.
- Within retail segment, mortgages formed 61% of total loans while 15% and 10% contribution came in from personal loans and auto loan segment.
- Consumer and rural banking segment growth stood at 0.9% QoQ while other wholesale segment book was down 5.3% QoQ.
- Deposit growth for the quarter was flat at INR 23.8 lakh crore, CASA ratio declined to 36.3% from 38% a quarter ago mainly owing to outflow of transitory current account deposits from previous quarter.
- Liquidity coverage ratio for the quarter increased to 123% v/s 115% in Q4FY24.

Key Financials

Profit & Loss Account

Rs in Bn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	1,209	1,278	1,616	2,583	2,831	3,363	4,031
Interest expended	560	557	747	1,498	1,551	1,780	1,989
NII	649	720	868	1,085	1,280	1,582	2,042
Other Income	252	295	312	492	582	693	828
Net Income	901	1,015	1,181	1,578	1,862	2,276	2,870
Operating Exp	327	374	477	634	697	767	844
PPOP	574	641	704	944	1,165	1,509	2,027
Provisions	157	151	119	235	152	166	180
PBT	417	490	585	709	1,013	1,342	1,847
Tax	105	121	144	101	249	330	454
PAT	311	370	441	608	764	1,012	1,393

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet

Rs in Bn	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CAPITAL & LIABILITIES							
Capital	5.51	5.55	5.58	7.60	7.60	7.60	7.60
Reserves & Surplus	2,032	2,395	2,796	4,395	4,623	5,392	6,450
Deposits	13,351	15,592	18,834	23,798	27,756	32,969	39,374
Borrowings	1,355	1,848	2,068	6,622	7,284	8,012	8,813
Other Liabilities	726	844	957	1,355	1,279	1,310	1,343
TOTAL	17,469	20,685	24,661	36,177	40,949	47,691	55,988
ASSETS							
Cash & Balances	1,195	1,523	1,938	2,191	2,420	2,661	2,938
Investments	4,437	4,555	5,170	7,024	7,228	7,572	8,183
Advances	11,328	13,688	16,006	24,849	30,258	36,309	43,571
Fixed Assets	49	61	80	114	128	143	160
Other Assets	459	858	1,467	1,998	915	1,006	1,135
TOTAL	17,469	20,685	24,661	36,176	40,948	47,691	55,988

Source: Arianth Research, Company Filings

Ratios (%)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth							
NII	15.5	11.0	20.6	25.0	17.9	23.6	29.0
PPOP	17.7	11.7	9.9	34.1	23.4	29.5	34.3
Net profit	18.5	18.8	19.3	37.9	23.4	32.5	37.6
Deposits	16.3	16.8	20.8	26.4	16.6	18.8	19.4
Advances	14.0	20.8	16.9	55.2	21.8	20.0	20.0
Returns							
ROA	1.97	2.03	2.07	2.00	1.98	2.3	2.69
ROE	16.6	16.7	17.0	16.9	16.9	20.2	23.5
NIM (%)	4.10	3.92	4.05	3.80	3.46	3.7	4.03
Efficiency							
C/I Ratio	36.3	36.9	40.4	40.2	37.4	33.7	29.4
CASA	46.1	48.2	49.6	37.6	38.6	39.6	40.6

Ratios (%)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per Share							
BV (Rs)	370	433	502	580	610	711	850
ABV (Rs)	361	425	491	567	593	687	815
EPS (Rs)	56	67	79	93	101	133	183
Valuation							
P/BV (x)	4.3	3.7	3.2	2.8	2.2	1.9	1.6
P/ABV (x)	4.4	3.8	3.3	2.8	2.3	2.0	1.7
P/EPS (x)	28.5	24.1	20.3	17.2	13.6	10.2	7.4
Asset quality							
GNPA	1.3	1.2	1.2	1.2	1.2	1.2	1.3
NNPA	0.4	0.3	0.4	0.4	0.4	0.5	0.6
PCR	69.8	72.7	69.3	68.6	65.9	59.9	53.4

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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