

**CMP: INR 1,532**

**Rating: Buy**

**Target Price: INR 2,072**

**Stock Info**

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	75,818
Mkt Cap (INR Bn)	11,615
52w H/L (INR)	1,757 / 1,384
Avg Yearly Vol (in 000')	13,805

**Shareholding Pattern %**

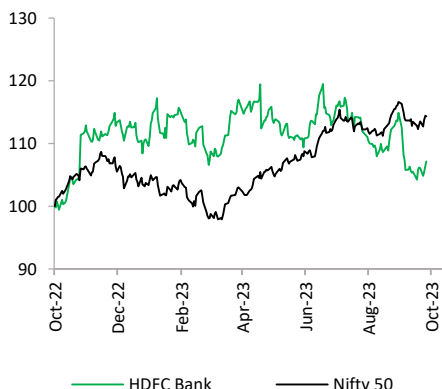
(As on September, 2023)

Promoters	-
Public & Others	100

**Stock Performance (%)**

	1m	6m	12m
HDFC Bank	-6.3	-8.4	5.5
Nifty 50	-1.9	11.6	14.1

**HDFC Bank Vs Nifty**



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**After Q2FY24, HDFC Bank reported the first quarterly earnings of the merged entity after the merger of HDFC Limited with the bank. NII increased 30.3% YoY/16% QoQ, PPOP increased by 30.5% YoY/20.9% QoQ and Net Profits increased by 50.6% YoY/33.7% QoQ. The proportional increase as we flow down from the topline to bottomline was driven by an increase in advances by 57.5% YoY/45.6% QoQ and deposit growth of 29.8% YoY/15.4%, clearly a result of the merger event of an NBFC with a Bank. Consequently, the asset quality deteriorated due to the first time conjugation of the 2 entities as GNPA/NNPA deteriorated by 17/5 bps sequentially respectively.**

**Fall in margins to stabilise and gradually normalize by FY25 End:** We expect the HDFC Bank's fallen margins would normalize by FY25 end as mix of mortgage loans in overall loan book normalizes and legacy retail loanbook maintains the faster growth mixed with higher yields.

**Banking sector's overall loan book growth normalizes to below mid-teen digits in the near term:** With the overall banking sector reporting faster loan growth over more than a year now, we expect the PSU Banks that have been modest in lending practices will have to again check their growth rates as risk of rising NPAs mount while Private banks like HDFC with a niche segment of customers will be still able to maintain a much faster growth rate than its comparable PSU banking lenders.

**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, and while it will spike the current Opex/Income ratio for the current year and the next, the cost of acquisition of new customers will be far more lower than the yields the bank will be able to reap out of them.

**Current marginal dip in NIMs won't affect the RoA for the bank overall as the large mortgage book won't require higher Provisioning compared to the size of the business:** Normalized NIMs will be proportionately compensated with lower Credit Costs for the overall bank with increased mortgage composition. Hence, RoA will not get affected by much in the coming year, and neither will the attractiveness of the bank's valuations.

**Valuation & View:** On a like to like basis, all of retail, corporate and SME books of the bank have shown healthy growth in Q2FY24, and we expect it to only grow stronger in the H2FY24 as retail growth catches up to faster growing corporates & SMEs. Going forward, while the NIMs start improving with rising retail, large mix of mortgage loans in the book will keep credit costs below 0.7-0.8% for the bank in the medium term. Hence, we maintain our Positive stance on the bank, and raise our estimates, valuation backed by more stability and available liquidity to fuel faster growth for the bank. **We maintain our Buy rating on the stock with a revised target price of INR 2,072, on 2.8x FY26E P/ABV.**

**Financial Performance**

Y/E Mar (Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	720	868	1104	1287	1581
Net profit	370	441	618	796	1043
Networth	2401	2802	4050	4655	5447
Adj BVPS	425	491	522	598	695
EPS (Rs)	67	79	82	105	138
P/ABV (x)	3.2	2.8	2.6	2.2	1.9
P/E (x)	20	17	17	13	10
RoA (%)	2.0	2.1	2.1	2.1	2.4
RoE (%)	16.7	17.0	18.0	18.3	20.6

## Q2FY24 - Quarterly Performance (Standalone)

## HDFC Bank - Q2FY24 (Standalone)

Income Statement (INR Mn)	Q2 FY24	Q1 FY24	Q2 FY23	Q-o-Q	Y-o-Y
Interest Income	676,984	485,868	385,864	39.3%	75.4%
Interest Expense	403,132	249,877	175,652	61.3%	129.5%
<b>Net Interest Income</b>	<b>273,852</b>	<b>235,991</b>	<b>210,212</b>	16.0%	30.3%
Non Interest Income	107,078	92,299	75,956	16.0%	41.0%
<b>Total Income</b>	<b>380,931</b>	<b>328,289</b>	<b>286,167</b>	16.0%	33.1%
Employee Costs	51,702	47,821	35,238	8.1%	46.7%
Other Operating Expenses	102,290	92,748	77,007	10.3%	32.8%
Operating Expenses	153,992	140,569	112,246	9.5%	37.2%
<b>Pre-Provision Profit</b>	<b>226,939</b>	<b>187,720</b>	<b>173,922</b>	20.9%	30.5%
Provisions	29,038	28,600	32,401	1.5%	-10.4%
<b>Profit Before Tax</b>	<b>197,901</b>	<b>159,120</b>	<b>141,520</b>	24.4%	39.8%
Tax Expense	38,139	39,602	35,463	-3.7%	7.5%
<b>Net Profit</b>	<b>159,761</b>	<b>119,518</b>	<b>106,058</b>	33.7%	50.6%
<b>Balance Sheet Analysis</b>					
Deposits	21,728,578	18,833,947	16,734,080	15.4%	29.8%
CASA (%)	37.6%	42.5%	45.4%	-490bps	-780bps
Advances	23,312,329	16,005,859	14,798,732	45.6%	57.5%
Total Assets	34,163,102	24,660,815	22,278,934	38.5%	53.3%
Capital Adequacy Ratio (%)	19.54%	18.93%	16.92%	61bps	262bps
NIM (%)	3.85%	4.30%	4.30%	-45bps	-45bps
<b>Asset Quality</b>					
Gross NPA	315,779	190,641	183,010	65.64%	72.55%
Net NPA	80,728	47,769	48,827	69.00%	65.34%
GNPA (%)	1.34%	1.17%	1.23%	17bps	11bps
NNPA (%)	0.35%	0.30%	0.33%	5bps	2bps
<b>Key Ratios</b>					
C/D Ratio (%)	107.3%	85.0%	88.4%	2230bps	1885bps
RoA (%) (annualized)	2.00%	2.04%	2.04%	-4bps	-4bps

**Key Concall Highlights:**

**Management Vision: To Grow the current business of the bank with a Profitability of 1.9-2.0% RoA in the future.**

- There was an incremental spike in NPA in standard assets due to the merger as HDFC Ltd.'s non-retail borrowers, due to a standard asset which required restructuring and as per norms had to be tagged as an NPA.
- The margins for the bank got hit by around ~25 bps due to excess ICRR and liquidity due to merger, but is expected to improve going forward as the high cost bond borrowings are substituted over time with bank's deposits and CASA.
- Management emphasized on the addition of 85 net branches in the quarter taking the total to 7,945 branches, and how these physical addition of branches is turning beneficial for customer acquisition for the bank. They have also added 16,000 employees in the quarter.
- As per the Bank's Management, 90% of the bank's branches have broke even in around 2 years of time.

- The bank issued 1.7 million cards in the quarter. This is very important for the bank as they had to make up for the lost period in the previous years when they were restricted to issue new cards.
- Retail deposit comprised 83% of the total due to the merged balance sheet, and Management expects it to grow at high teens, like the way it increased by 1.1 lakh Cr sequentially this quarter.
- Distribution market share is 4.5%, deposit market share is at around 10%, i.e., a 2x plus of distribution efficiency.
- Pre-approved Personal Loan market is good, and the Management believes it to remain growing by high teens annually.
- Retail mortgage loans increased by Rs 400 bn in disbursals for the quarter.
- The Management is currently not concerned about the funding part right now.

#### Provisions:

- Provisions reported decreased from Rs 32.4 bn to Rs 29.04 bn in the previous quarter as the bank is increased its secured mortgage book.
- We believe this scenario to stay the same for the medium term of next couple of years as the bank is increasing its presence in geographies where credit defaults are much less seen, especially in the mortgage book, the Tier 2 & 3 cities / towns and the satellite semi-urban areas in the countryside's.

#### Loan book:

- The total loan book at Sept end stood at 23,312 bn, growing 5.5% sequentially.
- Mortgage loans comprised of 60% of the total retail loan book.

#### Current Account deficit:

- The CRB (Commercial, Rural and SME loan book grew sequentially by 9.9% QoQ, thereby bolstering the bank's yields for the future and benefitting the overall yields.

#### Deposits:

- Deposits stood at INR 21,728 Bn , increasing by 29.8% YoY/15.4% QoQ. We expect the deposit growth to be around 18% for the next year as the bank tries to substitute the high cost borrowings and bonds at higher than 8% p.a. interest rates with lower cost savings and time deposits during this period.

#### Advances:

- Advances stood at INR 23,312 Bn as of Sept 2023, increased by 57.5% YoY / 45.6% QoQ as a result of the merger.
- Retail advances grew robustly, with domestic retail growing by 3.1% QoQ, which considering the size and the 2<sup>nd</sup> quarter (which generally is sluggish across the whole economy), much faster and had the potential to grow at a much faster rate in the H2 of FY24.

#### Distribution network:

- On the distribution side, 85 new net branches were added in the quarter taking up the total number of branches to 7,945 branches. Along with that, the bank also added around 16,000 new employees using its expansion plans further.
- As per the Management, 90% of their branches had hit break even, and it usually took 20-21 months for every incremental bank branch to break even.
- In the Gold loan processing, the bank now offered it from 4,544 branches as of Sept 2023, an increase of 53% over Sept 22.

#### Cards Business and Pre-approved Personal loans:

- HDFC Bank issued 1.7 million cards in the quarter, which is among the highest among the large banks.
- The Pre-approved 10-second loan disbursement scheme is also doing very good as per the Management, and they expect it to keep growing in the high teen digits in the future as well, specially higher in the Q3 and Q1 quarters when the consumer durables and Auto sector loans are seen growing faster than other periods of the year.

## Key Financials

## Profit &amp; Loss Account

Rs in Bn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Earned	1209	1278	1616	2352	2839	3362
Interest expended	560	557	747	1248	1551	1780
<b>NII</b>	<b>649</b>	<b>720</b>	<b>868</b>	<b>1104</b>	<b>1287</b>	<b>1581</b>
Other Income	252	295	312	442	583	697
<b>Net Income</b>	<b>901</b>	<b>1015</b>	<b>1181</b>	<b>1546</b>	<b>1870</b>	<b>2278</b>
Operating Exp	327	374	477	603	663	729
<b>PPOP</b>	<b>574</b>	<b>641</b>	<b>704</b>	<b>943</b>	<b>1208</b>	<b>1549</b>
Provisions	157	151	119	124	153	166
<b>PBT</b>	<b>417</b>	<b>490</b>	<b>585</b>	<b>820</b>	<b>1055</b>	<b>1383</b>
Tax	105	121	144	202	259	340
<b>PAT</b>	<b>311</b>	<b>370</b>	<b>441</b>	<b>618</b>	<b>796</b>	<b>1043</b>

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

## Balance Sheet

Rs in Bn	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>CAPITAL &amp; LIABILITIES</b>						
Capital	5.5	5.5	5.6	7.6	7.6	7.6
Reserves & Surplus	2032	2395	2796	4043	4647	5439
Deposits	13351	15592	18834	23502	27756	32969
Borrowings	1355	1848	2068	6809	7831	6265
Other Liabilities	726	844	957	1248	1279	1310
<b>TOTAL</b>	<b>17469</b>	<b>20685</b>	<b>24661</b>	<b>35609</b>	<b>41520</b>	<b>45991</b>
<b>ASSETS</b>						
Cash & Balances	1195	1523	1938	2682	2345	-649
Investments	4437	4555	5170	6794	7886	9202
Advances	11328	13688	16006	25215	30258	36309
Fixed Assets	49	61	80	87	95	103
Other Assets	459	858	1467	830	937	1026
<b>TOTAL</b>	<b>17469</b>	<b>20685</b>	<b>24661</b>	<b>35609</b>	<b>41520</b>	<b>45991</b>

Source: Arianth Research, Company Filings

Ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth</b>						
NII	15.5	11.0	20.6	27.1	16.6	22.8
PPOP	17.7	11.7	9.9	34.0	28.0	28.3
Net profit	18.5	18.8	19.3	40.1	28.7	31.1
Deposits	16.3	16.8	20.8	24.8	18.1	18.8
Advances	14.0	20.8	16.9	57.5	20.0	20.0
<b>Returns</b>						
ROA	1.97	2.03	2.07	2.05	2.06	2.38
ROE	16.6	16.7	17.0	18.0	18.3	20.6
NIM (%)	4.10	3.92	4.05	3.82	3.42	3.71
<b>Efficiency</b>						
C/I Ratio	36.3	36.9	40.4	39.0	35.4	32.0
CASA	46.1	48.2	49.6	37.6	38.6	39.6

Ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share</b>						
BV (Rs)	370	433	502	534	614	718
ABV (Rs)	361	425	491	522	598	695
EPS (Rs)	56	67	79	82	105	138
<b>Valuation</b>						
P/BV (x)	3.7	3.2	2.7	2.6	2.2	1.9
P/ABV (x)	3.8	3.2	2.8	2.6	2.3	2.0
P/EPS (x)	24.2	20.5	17.3	16.7	13.0	9.9
<b>Asset quality</b>						
GNPA	1.3	1.2	1.2	1.2	1.2	1.2
NNPA	0.4	0.3	0.4	0.4	0.4	0.5
PCR	69.8	72.7	69.3	68.6	65.9	59.9

Source: Arianth Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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