

Much appreciated earnings despite interest rate impacts on Costs

CMP: INR 1,678

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

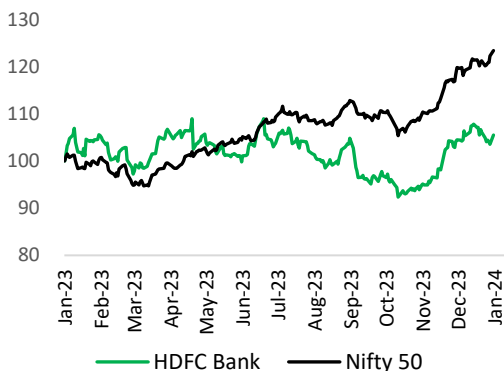
Shareholding Pattern %

(As on December, 2023)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
HDFC Bank	1.4	-0.1	4.3
Nifty 50	2.9	11.8	22.0

HDFC Bank Vs Nifty



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HDFC Bank reported the healthy Net Profit growth for the Q3FY24 earnings. NII increased 23.9% YoY/4% QoQ, PPOP increased by 24.3% YoY/4.2% QoQ and Net Profits increased by 33.5% YoY/2.5% QoQ. The increase in the topline was looked larger than the bottomline due to a prudent provisioning by the bank as Provisions increased by 50.2% YoY/45.2% QoQ. The increase in advances by 62.3% YoY/4.9% QoQ and deposit growth of 27.7% YoY/1.9% QoQ, was merely the bank managing the Cost of Deposits as interest rates started impacting like other banks. However, the asset quality stabilized as the GNPA/NNPA declined by 8/4 bps sequentially respectively.

NIMs stabilized sequentially, expect to increase marginally in future: We expect that HDFC Bank's NIMs will stabilize around 3.7% by last quarter of FY24, and await interest rate cuts for further improvement in FY25 and beyond.

Better growth visibility against overall banking credit growth: While the current rate of overall banking sector credit growth is in the high teens, we believe the disbursements from PSU banks to cool off in few quarters and the lending growth to maintain momentum with the larger Private banks, led by HDFC Bank with advances growth above 22% YoY growth.

Higher Opex due to large pipeline of new branches: HDFC Bank is increasing its presence faster than other large Private banks across the nation, with more than 570 new branches in the pipeline as per the Management. These new branches will add to the liability franchise of the bank in the coming quarters increasing the deposits growth at par with the loan book of the bank.

Improved Deposit and CASA levels to help in future: As the bank's deposits grow faster in coming quarters and CASA levels increase to 42-44% levels as intended by the Management, the Cost of Deposits will stabilize. This will allow the bank's spread to remain wider compared to other larger banks and improve the NIMs from current 3.6% to marginally better at 3.7% in subsequent quarters. Higher NIMs and spread will take the RoA for the bank back at above 2% levels on an annualized basis as the bank has shown historically.

Valuation & View: On a sequential basis, retail, corporate and SME books of the bank have shown healthy growth in Q3FY24, and we expect it to grow stronger in the Q4FY24 as well as retail portfolio grows faster than corporates & SMEs. Going forward, the NIMs will stabilize at current levels and start improving with rising retail while 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 its 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 target price of INR 2,072 on SOTP basis, with 2.8x FY26E P/ABV for the standalone bank.**

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

Q3FY24 - Quarterly Performance (Standalone)

HDFC Bank - Q3FY24 (Standalone)

Income Statement (INR bn)	Q3 FY24	Q2 FY24	Q3 FY24	Q-o-Q	Y-o-Y
Interest Income	706	677	427	4.3%	65.3%
Interest Expense	421	403	197	4.5%	113.5%
Net Interest Income	285	274	230	4.0%	23.9%
Non Interest Income	111	107	85	4.0%	31.0%
Total Income	396	381	315	4.0%	25.8%
Employee Costs	54	52	41	3.5%	29.7%
Other Operating Expenses	106	102	83	3.7%	27.3%
Operating Expenses	160	154	125	3.6%	28.1%
Pre-Provision Profit	236	227	190	4.2%	24.3%
Provisions	42	29	28	45.2%	50.2%
Profit Before Tax	194	198	162	-1.8%	19.8%
Tax Expense	31	38	40	-19.8%	-22.7%
Net Profit	164	160	123	2.5%	33.5%
Balance Sheet Analysis					
Deposits	22,140	21,729	17,332	1.9%	27.7%
CASA (%)	37.7%	37.6%	44.0%	10bps	-630bps
Advances	24,461	23,312	15,068	4.9%	62.3%
Total Assets	34,926	34,163	22,953	2.2%	52.2%
Capital Adequacy Ratio (%)	18.39%	19.54%	17.66%	-115bps	73bps
NIM (%)	3.60%	3.60%	4.30%	0bps	-70bps
Asset Quality					
Gross NPA	310	316	188	-1.79%	65.27%
Net NPA	77	81	50	-5.06%	52.54%
GNPA (%)	1.26%	1.34%	1.23%	-8bps	3bps
NNPA (%)	0.31%	0.35%	0.33%	-4bps	-2bps
Key Ratios					
C/D Ratio (%)	110.5%	107.3%	86.9%	319bps	2355bps
RoA (%) (annualized)	1.96%	2.00%	2.24%	-4bps	-28bps

Key Concall Highlights:**Management Guidance:**

- The management expects the Cost to Income ratio to decline going ahead gradually to mid 30s levels, as it used to be around 37-38% for the bank earlier on a long term average before the merger and Covid.
- Management intends to operate at an LCR ratio between 110-120% in the future, as they have been doing 113-114% over the last couple of quarters.
- Management expects the LDR ratio to come down gradually between 87-88% as loan growth will come down in sometime and deposits pick up more than advances growth.
- The bank intends to add around 800-1,000 branches by end of FY24 on a full year basis, and they have more than 570 branches are in the Pipeline to be opened by March 2024.

Key Highlights:

- NII came at INR 285 bn (up 23.9% YoY/up 4.0% QoQ). PPOP came at INR 236 bn (up 24.3% YoY/ up 4.2% QoQ).
- Provisions decreased in the quarter to INR 42 bn (up 50.2% YoY/ up 45.2% QoQ).
- Net Profits came at INR 164 bn (up 33.5% YoY/ up 2.5% QoQ).
- NIMs came down by 70 bps YoY and remained flat QoQ to 3.6% for Q3FY24.
- Advances at INR 24.46 tn grew by 62.3% YoY/4.9% QoQ against Deposits at INR 22.14 tn which grew by 27.7% YoY/1.9% QoQ.
- CASA ratio came down to 37.7%, down 630 bps YoY / up 10 bps QoQ.
- GNPA ratio increased by 3 bps YoY / down 8 bps QoQ at 1.26% and NNPA came down to 2 bps YoY / 4 bps QoQ 0.31% for Q3FY24.
- Retail mix to be increased in the Loan book which will aid the bank's margin going ahead. Also, the bank's Management believes they used to have a CASA ratio between 42-44% on an average, so, they will get to those levels in the future, which will normalize the Cost of Deposits down for the bank.
- Consumer and Rural banking segment growth stood at 6.7% on QoQ basis while other wholesale segment book increased by 1.9% sequentially.
- Slippages during the quarter stood at INR 70 bn versus INR 78 bn in Q2FY24.
- Recoveries and upgrades during the quarter stood at INR 44 bn crore while write-offs came in at INR 31 bn.
- Credit cost ratio for the quarter stood at 0.49% (excluding contingent provisions made) as against 0.74% in Q3FY23 for the bank. There was no sale to ARC (asset reconstruction company) done during the quarter.
- Total provisions with the bank (including floating, contingent, standard and others) form 159% of the total GNPA with the bank vs 156% a quarter ago.
- Liquidity coverage ratio declined to 110% from 121% QoQ as bank utilized funds from investments towards lending.
- The bank added 146 branches during the quarter and 22 lakh liability customer franchisees too. Total customer base increased to 930 mn v/s 91 mn in the previous quarter Q2FY24.
- Total employee addition during the quarter was around ~10,000.
- Retail segment contributes to 95% of total fee income for the bank on incremental basis. Retail segment now forms 84% of total deposit base.

Source: Company, Arianth Research

Key Financials

Profit & 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
NII	649	720	868	1104	1287	1581
Other Income	252	295	312	442	583	697
Net Income	901	1015	1181	1546	1870	2278
Operating Exp	327	374	477	603	663	729
PPOP	574	641	704	943	1208	1549
Provisions	157	151	119	124	153	166
PBT	417	490	585	820	1055	1383
Tax	105	121	144	202	259	340
PAT	311	370	441	618	796	1043

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

Balance Sheet

Rs in Bn	FY21	FY22	FY23	FY24E	FY25E	FY26E
CAPITAL & LIABILITIES						
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
TOTAL	17469	20685	24661	35609	41520	45991
ASSETS						
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
TOTAL	17469	20685	24661	35609	41520	45991

Source: Arianth Research, Company Filings

Ratios (%)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
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
Returns						
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
Efficiency						
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
Per Share						
BV (Rs)	370	433	502	534	614	718
ABV (Rs)	361	425	491	522	598	695
EPS (Rs)	56	67	79	82	105	138
Valuation						
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
Asset quality						
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%

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