

Larger sized ship looking for stability in growth and returns. Requires LDR stability as well

CMP: INR 1,531

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)	7,597
Mkt Cap (INR Bn)	11,655
52w H/L (INR)	1,757 / 1,363
Avg Yearly Vol (in 000')	13,805

Shareholding Pattern %

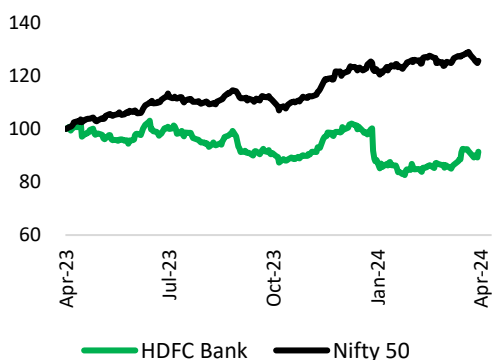
(As on March, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)

	1m	6m	12m
HDFC Bank	6.1	1.9	-8.4
Nifty 50	0.6	14.9	25.7

HDFC Bank Vs Nifty



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HDFC Bank reported the Q4 and FY24 earnings of the merged entity. NII increased 24.5% YoY/2.1% QoQ, PPOP increased by 57.2% YoY / 23.8% QoQ and Net Profits increased by 37.1% YoY/0.9% QoQ. The increase in advances by 55.2% YoY/1.6% QoQ and deposit growth of 26.4% YoY/7.5% QoQ was slower than their historic lending growth. Consequently, the asset quality stabilized as GNPA/NNPA came at 1.24%/0.33% respectively. GNPA was down 2 bps & NNPA was up 2 bps sequentially.

Margins improved slightly, will hover around 3.5-3.8% in futures: In Q4FY24, the bank's Net Interest Margins came at 3.63% 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 legacy retail loan book maintains the faster growth mixed with higher yields.

Banking sector's overall CASA levels coming down historic levels: We believe the bank will have to balance out the product pricing versus overall Cost of Funds through rapid deposit mobilization in order to keep posting stabilized returns and margins. Also, 38.2% levels of CASA is adequate enough for bank of this size to maintain better 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. 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, and as more Private Capex catches on, the bank can expand that significantly in the future.

Valuation & View: Apart from the prudent behaving floating provision of INR 109 bn, the bank's Q4 & FY24 earnings came very much in line with street expectations. The bank's subsidiaries in the Insurance, AMC and NBFC subsidiary, are all doing healthy profitable business. While the bank faces challenges on growth, NIM and spreads, the entire financial product offering by the group looks versatile and promising for future growth. Hence, we maintain our Positive stance on the bank, and barring some standalone contraction in medium term estimates, 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)	FY23	FY24E	FY25E	FY26E	FY27E
NII	868	1,085	1,280	1,582	2,042
Net profit	441	619	764	1,012	1,393
Networth	2,802	4,402	4,631	5,400	6,458
Adj BVPS	491	567	593	687	815
EPS (Rs)	79.05	93.32	100.57	133.26	183.34
P/ABV (x)	2.78	2.35	2.24	1.92	1.60
P/E (x)	17.25	14.62	13.56	10.24	7.44
RoA (%)	2.1	2.0	2.0	2.3	2.7
RoE (%)	17.0	17.2	16.9	20.2	23.5

Q4FY24 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	714.73	705.83	451.19	1.3%	58.4%
Interest Expense	423.96	421.11	217.68	0.7%	94.8%
Net Interest Income	290.77	284.71	233.52	2.1%	24.5%
Non Interest Income	181.66	111.37	87.31	63.1%	108.1%
Total Income	472.43	396.08	320.83	19.3%	47.3%
Employee Costs	69.36	53.52	43.62	29.6%	59.0%
Other Operating Expenses	110.33	106.09	91.00	4.0%	21.2%
Operating Expenses	179.69	159.61	134.62	12.6%	33.5%
Pre-Provision Profit	292.74	236.47	186.21	23.8%	57.2%
Provisions	135.12	42.17	26.85	220.4%	403.2%
Profit Before Tax	157.63	194.31	159.36	-18.9%	-1.1%
Tax Expense	-7.49	30.58	38.88	-124.5%	-119.3%
Net Profit	165.12	163.73	120.47	0.9%	37.1%
Balance Sheet Analysis					
Deposits	23,797.86	22,139.77	18,833.95	7.5%	26.4%
CASA (%)	38.2%	37.7%	44.4%	50bps	-620bps
Advances	24,848.62	24,460.76	16,005.86	1.6%	55.2%
Total Assets	36,176.23	34,926.39	24,660.81	3.6%	46.7%
Capital Adequacy Ratio (%)	18.80%	18.39%	19.26%	41bps	-46bps
Spread Analysis					
NIM (%)	3.63%	3.60%	4.30%	3bps	-67bps
Asset Quality					
Gross NPA	311.73	310.12	180.19	0.5%	73.0%
Net NPA	80.92	76.64	43.68	5.6%	85.2%
GNPA (%)	1.24%	1.26%	1.12%	-2bps	12bps
NNPA (%)	0.33%	0.31%	0.27%	2bps	6bps
Key Ratios					
Cost to Income Ratio (%)	38.0%	40.3%	42.0%	-230bps	-396bps
C/D Ratio	104.4%	110.5%	85.0%	-607bps	1943bps
RoA (%) (annualized)	1.96%	1.96%	2.12%	0bps	-16bps

Q4FY24 Concall Takeaways

Guidance:

- The Management refused to give any numerical short to medium term targets for the bank.
- The Management says they see some irrational pricing going on currently in the macro banking and lending businesses, and they are okay to grow slower than their usual rate of growth seen in the past. Also, the Management says the largest bank with +20% market share, they being 2nd are much behind. Hence, the Management sees no reason why the bank can't grow faster in the future against current irrational pricing environment as there is much scope of using their larger economies of scale at this point.
- The Management believes that their strategy of branch expansion along with the business volume increase is seen working as they have added 917 branches in the last year, and the productivity has gone up from INR 2.62 bn business per branch in FY23 to INR 2.7 bn per branch now.

Key Highlights:

- In Q4FY24, NII reached INR 290.77 bn (+24.5% YoY, +2.1% QoQ). PPOP came at INR 292.74 bn, reflecting a 57.2% YoY / 23.8% QoQ increase. PAT came at INR 165.12 bn (INR 163.73 bn in Q3FY23, i.e., up 0.9% QoQ and +37.1% YoY). GNPA and NNPA came at 1.24%/0.33% respectively for Q4FY24, down 2 bps QoQ/ up 2 bps QoQ sequentially.
- The MD & CEO Mr. Shashidhar Jagdishan addresses concerns on the bank's current LDR ratio, and the bank's rapid deposit mobilization as seen in Q4FY24. He says that the Q4 is generally the quarter in which significantly faster deposit growth is seen.
- The MD & CEO also says that the erstwhile HDFC Limited has several bonds issued which will mature in the coming years, and that will require their bank to have higher deposits in future. So, they saw faster deposits growth than industry peers.
- The Management states their belief on the bank's ability now to offer complete suite of financial products and services for customer's every need after the HDFC Limited merger.
- On the increased exposure with Private mortgage loans and mandated target for small & marginal farmers and weaker sections of the society, the bank has been accelerated expanding into villages. A couple of years ago at 117,000 villages network to 225,000 villages today with 3.5 million small & marginal village customers, the Bank Management says they are expecting some penalty for not meeting their targets on time, but they are expanding very fast. Hence, we saw the agrarian book grow much faster for some time as the bank seeks increased focus to cover the sub targets of regulatory mandated levels.
- As per the Priority Sector Lending norms, against a target of 40%, the bank has achieved more than 52% for FY24. Similarly, last year as well, they achieved 45% against a target of 40%.
- The Management owes the increase in yield rates across all product categories of loan products to the contraction seen in the LDR ratio, and expresses a chance of further marginal increase in those yields. However, they say the bank is almost done increasing yield rates for most products as they also have to be realistic in the markets.
- The bank has provided for a one-off bonus of INR 15 bn for their ground level staff as a gesture for their hard work through the merger of HDFC Ltd with the bank.
- The MD & CEO says that the banking system has been witnessing a gradual decline in CASA levels across the banking sector as the households are allocating surplus savings in alternative instruments.
- The Management attributes the floating Provisions taken in the quarter due to the stake sale in Credila for INR 95.53bn as a one-off gain, and the Management says they are keeping this as Floating Provision for unseen future impacts. On the question whether the bank will be keeping the future One-offs flowing into the Profit & Loss statement for the shareholder's, the Bank's Management refused to give a clear answer, and said this decision of floating provision taken in good times is for now.
- The Management says that the Corporate side of the book is seen growing slow currently due to the Bank's belief that the rates offered in the markets are far too low for being sustainable, and hence they will remain growing slow in that segment for now.
- In the Rural banking side, the Bank's Management believes that 60-70% of India's population resides in the Tier 2 & 3 towns & cities and rural parts of India. Hence, the current expansion campaign in the rural segment by the bank has to be seen as an Investment for the bank's future growth from these countryside geographies that will happen over a longer period of time.

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	123	152	166	180
PBT	417	490	585	821	1,013	1,342	1,847
Tax	105	121	144	202	249	330	454
PAT	311	370	441	619	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	6	6	6	8	8	8	8
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	40.4	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	2.04	1.98	2.3	2.69
ROE	16.6	16.7	17.0	17.2	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)	3.7	3.2	2.7	2.4	2.2	1.9	1.6
P/ABV (x)	3.8	3.2	2.8	2.4	2.3	2.0	1.7
P/EPS (x)	24.2	20.5	17.3	14.6	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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