



TM

HDFC Bank

21 April 2024

In-line result with focus on profitability intact

RESULT UPDATE

Sector: Banks Rating: BUY

CMP: Rs 1,534 Target Price: Rs 1,885

Stock Info

Sensex/Nifty	73,088/22,147
Bloomberg	HDFCB IN
Equity shares	7,596 mn
52-wk High/Low	Rs 1,757/1,363
Face value	Re 1
M-Cap	Rs 11,633bn/ USD 140bn
3-m Avg value	USD 418mn

Financial Snapshot (Rs bn)

Y/E March	FY24	FY25E	FY26E
NII	1,085	1,285	1,505
PPP	870	1,006	1,206
PAT	597	639	769
EPS (Rs)	80.0	84.1	101.2
EPS Gr. (%)	1.3	5.1	20.4
BV/Sh (Rs)	576	640	716
Adj. BV/Sh (Rs)	567	631	706

Ratios

NIM (%)	3.8	3.5	3.6
C/I ratio (%)	42.1	43.3	41.9
RoA (%)	2.0	1.7	1.8
RoE (%)	16.9	13.8	14.9
Payout (%)	24.36	24.36	24.36

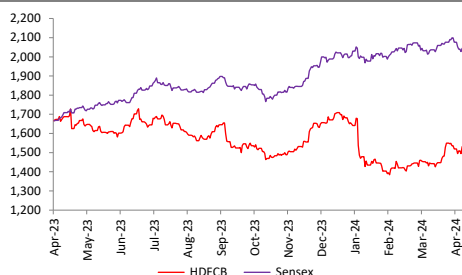
Valuations

P/E (x)	16.7	15.9	13.2
P/BV (x)	2.3	2.1	1.9
P/Adj. BV	2.4	2.1	1.9
Div. Yield (%)	1.3	1.3	1.6

Shareholding pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	-	-	-
-Pledged	-	-	-
FII	52.1	52.3	47.8
DII	30.4	30.6	33.3
Others	17.5	17.1	18.8

Stock Performance (1-year)



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HDFCB bank (HDFCB IN) reported earnings of Rs.165bn (+1% qoq, +37% yoy), in-line with estimates. Factoring the provisional update on headline numbers reported at the start of Apr'24 and the management's preference for profitability vs growth, the key focus area of the result was on the margin performance. In this respect, the bank reported core NIM of 3.44% which was largely stable qoq and in-line with expectations. The bank also utilized the one-off gain of Rs 73.4Bn from the sale of Credila along with tax reversals of Rs 38.2Bn to create counter-cyclical floating provisions of Rs 109Bn (qualified as tier-II capital). Overall a good result reflecting progress in line with the recent management commentary and provisional numbers.

Other key highlights for the quarter were: 1) Gross advances (net of IBPC) growth of 1.6% qoq, 12.5% yoy was led by ~4% qoq growth in higher yielding retail and CRB while wholesale advances declined by 5.2% qoq due to run-down in eHDFCL's non-individual book and increased competitive activity. 2) Strong deposit growth (7.5% qoq, 17% yoy) reported in a seasonally strong 4Q. That said, the bank is unlikely to go aggressive on pricing to raise deposits. Deposit mobilization strategy will be driven by repayment of eHDFCL's high-cost borrowings, buffer creation to reduce CDR and the balance for asset allocation. 3) 4QFY24 Core NIM of 3.44%, NIM (as % of IEA) of 3.63% were stable qoq. Going forward, despite the drag from higher PSL requirements on e-HDFC Ltd portfolio from FY25 onwards, management indicated a stable margin trajectory with positive bias. 6) Asset quality remains benign with GNPA/NNPA at 1.2 / 0.33% (stable qoq) and reported credit costs (net of recoveries) decreased to 27bps vs 35bps in 3Q. 7) RoA of 1.96% in 4Q, 1.98% in FY24 was in-line with FY24 guidance of 1.9-2%.

We remain enthused about the medium-term prospects for the bank and view the quarterly results as signposts towards building a truly pan India presence. With regulatory overhang on CDR, we estimate CDR for the bank to trend from 104/99/96 over FY24-26E. Consequently, factoring in c. Rs 41Tn and Rs 48Tn of incremental deposits over the forecast period, we revise our loan growth estimates to avg c.13% vs earlier assumed 16% over forecast period. Given the lower growth, we reduce our target multiple to 2.4x (from 2.5x) FY26E adj BVPS resulting in a Mar-25 TP of Rs 1,885 (from Rs. 1,975). The based TP includes Rs 200 per share contribution from subsidiaries.

Credit growth led by retail and CRB while wholesale advances declined: Gross Advances (net of IBPC) growth (1.6% qoq, 12.5% yoy) was led by higher yielding segments of retail (3.7% qoq) and commercial and rural banking (4.2% qoq). Retail growth was mainly led by Home Loans (4% qoq) while growth was relatively soft (2-3% qoq) in key non-mortgage segments of Auto Loans, personal loans and credit cards. Commercial and rural banking was led by 13% qoq growth in agri and ~5% qoq growth in each of business banking and commercial transportation. On the other hand, emerging corporate group declined by 2% qoq. Wholesale declined by 5.2% qoq mainly due to run-down in eHDFCL's non-individual book which declined by 18% qoq, 34% yoy. Other wholesale (ex non-individual loans of eHDFCL) advances also declined by 2.2% qoq due to heightened competition driven unviable pricing. Going forward, the bank's strategy will be to focus on profitable deposit led advances growth. Growth will be supported by capacity building exercise done in recent years via technology / distribution / human resource augmentation and merger led synergies. That said, given the regulator's increased focus to reduce CDR, incremental CDR for the bank is likely to remain below the historical trend of 85-86%.

Focused on mobilizing profitable deposits: Deposits increased by 7.5% qoq, 17% yoy leading to a deposit accretion of Rs 1.66Tn qoq in 4QFY24 (vs Rs. 0.4Tn in 3Q). FY24 deposit accretion was c. Rs 3.43Tn. In 4QFY24, retail deposits increased by 6.9% qoq (accretion Rs. 1.3 Tn qoq) with CASA increasing by 8-9% qoq and yoy with CASA ratio increasing to 38.2% (+50bp qoq). Wholesale deposit growth was also strong at 10.6% qoq due to strong seasonality in 4Q. That said, the bank's focus remains on mobilizing granular retail deposits in a profitable manner. The management will refrain from (i) aggressive pricing strategies in the face of market-wide deposit competition (ii) aggressively mobilizing higher cost volatile bulk deposits to fund growth. Deposit mobilization strategy will be led by repayment of eHDFCL's high-cost borrowings, buffer creation to reduce CDR and balance for asset allocation. Deposit growth will be supported by ramp up of newly added branches and higher penetration in Tier-2/3 cities.

Bank focused on driving profitable growth with margin accretion driven by repayment of high-cost eHDFC Ltd debt: Going into results, margins were a key focus area given the strong deposit mobilization and weak loan growth. In that respect, Core NIM of 3.44% and NIM (% of IEA) of 3.63% remained largely stable qoq and in-line with our expectations. LCR also increased to 115% from 110% as of Dec'23. This was mainly led by 60-90bps higher share of higher yielding segments i.e. retail and CRB. Wholesale share declined by 150bps qoq. Going forward, the management's focus remains on driving profitable growth by keeping incremental cost of deposits range bound and offsetting cost increases by pass-through in the form of higher yields and portfolio mix management. Margin accretion will be from substitution of high-cost bond maturities with low-cost deposits. While the bank has organically met its PSL targets for FY24, it is likely to face a PSL shortfall in FY25, in specific sub-segments of small and marginal farmers and weaker sections. As per the forbearance provided by RBI, the bank is required to achieve a higher PSL target taking into consideration 1/3rd of the book of eHDFCL from Oct'24 and remaining 2/3rd to be considered over next 2 years equally. As per management, the drag due to this has been factored in the profitability outlook. In FY24 it has achieved PSL of 52% vs 40% target, 45% in FY23. Further, it has also achieved PSL targets in all sub-categories except small and marginal farmers and weaker sections.

Utilization of one-off gains to create provision buffers. Overall PAT in-line: In 4QFY24, the bank utilized one-off gains from sale of HDFC Credila (Rs. 73bn) and tax provision write-back (Rs 38bn) to create (i) counter cyclical floating provision buffer of Rs 109bn (qualified as tier-II capital) to strengthen the balance sheet which will be invoked only with RBI approval. With asset quality remaining benign, the bank does not see any need to utilize the same in the near future (ii) the bank also provided for ex-gratia staff bonus (Rs 15bn) to manage heightened market-wide attrition. Consequently, PAT growth was 1% qoq, 37% yoy which was largely in-line with expectations.

CIR (ex-one offs) increased to 41.3% (+100bps qoq) mainly due to higher branch additions (647 additions in 4Q, 917 in FY24). While the pace of branch expansion will remain similar to current trends of around 1000 new branches per year, the bank's focus is on increasing branch productivity: Business per branch has increased to Rs 2.7bn per branch (ex. eHDFCL's deposits) in FY24 vs Rs 2.6bn per branch in FY23. With asset quality metrics in sound condition and integration of the 2 entities behind, focus would be on driving productivity/growth synergies from combined network.

Valuations and recommendations: We remain enthused about the medium-term prospects for the bank and view the quarterly results as signposts towards building a truly pan India presence. With regulatory overhang on CDR, we estimate CDR for the bank to trend from 104/99/96 over FY24-26E. Consequently, factoring in c. Rs 41Tn and Rs 48Tn of incremental deposits over the forecast period, we revise our loan growth estimates to avg c. 13% vs earlier assumed 16% over forecast period. Given the lower growth, we reduce our target multiple to 2.4x (from 2.5x) FY26E adj BVPS resulting in a Mar-25 TP of Rs 1,885 (from Rs. 1,975). This factors in Rs 200 per share contribution from subsidiaries.

HDFC Bank (HDFCB) 4QFY24 result concall key takeaways:

On distribution and expansion of business services

- The bank has added 647 branches in 4Q leading to a branch count of 8,738 as of Mar'24. Mix of Metro : Urban : Semi-Urban: Rural is 28%: 20%: 34%: 18%
- The bank added 75 smart banking lobbies this year and has 148 smart banking lobbies as of Mar'24
- Customer base of 93.2m as of Mar'24 vs 92.6m as of Dec'23

Other Income

- Share of Fees and commission income as % of average assets was 87 bps (stable qoq).
- Within that share of third-party products increased to 26% vs 22% in 3Q while that of payments decreased to 34% vs 35% in 3Q

Balance sheet

- Retail deposit mix stands at 84% (largely stable qoq)
- Period end LCR has increased to 115% as of Mar'24 vs 110% as of Dec'23.
- Borrowings as % of total liabilities declined to 18% as of Mar'24 vs 21% as of Dec'23 due to run-down of Rs. 290bn of Commercial paper that came from eHDFCL.
- CRAR improved to 18.8% (+40bps qoq) while Tier-1 at 16.8% (stable qoq).
- CRB (ex-agri) GNPA increased to 1.17% (+9bps qoq)
- The bank held total provisions of Rs.610bn (2.47% of Gross advances) with specific provision of 94bps, contingent provision of 60bps, floating provision of 50bps, general provision of 43bps
- Credit costs (net of recoveries) declined to 27bps vs 35bps in 3Q

HDB Financial

- Disbursements increased by 24% yoy, while loan growth was 29% yoy, 7% qoq
- Stage-3 improved to 1.9% vs 2.25% qoq.
- RoA was 3% and RoE was 19.6%
- Capital adequacy at 19.2% vs 18% in 3Q

Exhibit 1: Quarterly performance

P&L (INR, mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Advances	2,48,48,615	1,60,05,859	55%	2,44,60,757	1.6%
Deposits	2,37,97,863	1,88,33,947	26%	2,21,39,770	7.5%
Interest income	7,14,728	4,51,194	58%	7,05,826	1.3%
Interest expenses	4,23,959	2,17,675	95%	4,21,113	0.7%
NII	2,90,768	2,33,518	25%	2,84,713	2.1%
Other income	1,08,248	87,312	24%	1,11,370	-2.8%
Operating income	3,99,017	3,20,830	24%	3,96,084	0.7%
Operating expenses	1,79,688	1,34,621	33%	1,59,611	12.6%
- Staff expenses	69,362	43,621	59%	53,518	29.6%
PPOP	2,19,328	1,86,209	18%	2,36,473	-7.3%
Provisions	35,116	26,854	31%	42,166	-16.7%
Profit before tax	1,84,213	1,59,355	16%	1,94,307	-5.2%
Taxes	30,681	38,881	-21%	30,581	0.3%
Profit after tax	1,65,119	1,20,475	37%	1,63,725	0.9%
Key Ratios (%)	4QFY24	4QFY23	YoY (bps)	3QFY24	QoQ (bps)
Net Advances growth (YoY, %)	55.2%	16.9%	3832 bp	62.3%	-709 bp
Deposit growth (YoY, %)	26.4%	20.8%	557 bp	27.7%	-138 bp
Avg. CASA Ratio	38.2%	44.4%	-620 bp	37.7%	45 bp
CD Ratio	104.4%	85.0%	1943 bp	110.5%	-607 bp
NIM % of IEA (reported)	3.6%	4.3%	-67 bp	3.6%	3 bp
Cost to Income (ex capital gains)	45.3%	41.9%	340 bp	41.9%	346 bp
Credit costs % advances (reported)	0.4%	0.7%	-25 bp	0.5%	-7 bp
GNPA (%)	1.2%	1.1%	12 bp	1.3%	-2 bp
NNPA (%)	0.33%	0.3%	6 bp	0.31%	2 bp
PCR (%)	74.0%	75.8%	-171 bp	75.3%	-124 bp
CAR	18.8%	19.3%	-46 bp	18.4%	40 bp
Tier-I	16.8%	17.1%	-30 bp	16.8%	0 bp

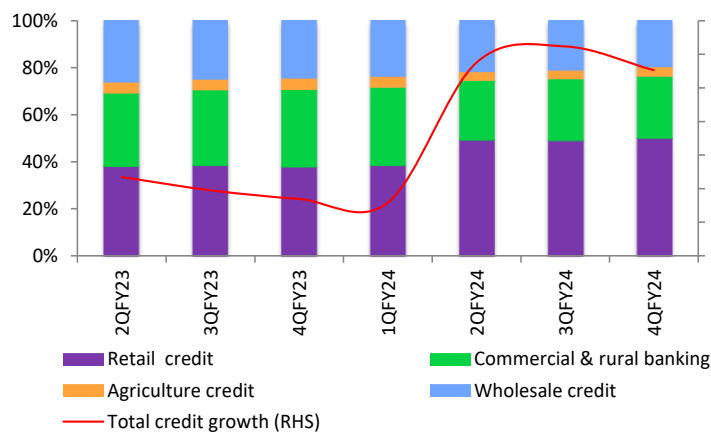
Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

Du Pont (% of average assets)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Net interest income	3.9%	3.8%	3.3%	3.3%	3.3%
Other income	1.5%	1.5%	1.3%	1.3%	1.2%
Total income	5.4%	5.3%	4.6%	4.6%	4.5%
Operating expenses	2.3%	2.3%	1.8%	1.8%	2.0%
Employee expenses	0.7%	0.8%	0.6%	0.6%	0.8%
PPOP	3.1%	3.0%	2.7%	2.7%	2.5%
Provisions	0.5%	0.5%	0.3%	0.5%	0.4%
PBT	2.7%	2.6%	2.4%	2.2%	2.1%
PAT (RoAA)	2.0%	1.9%	1.9%	1.9%	1.7%
Leverage	8.7	8.7	8.8	8.4	8.2
ROE	17.6%	16.7%	16.8%	15.8%	14.2%

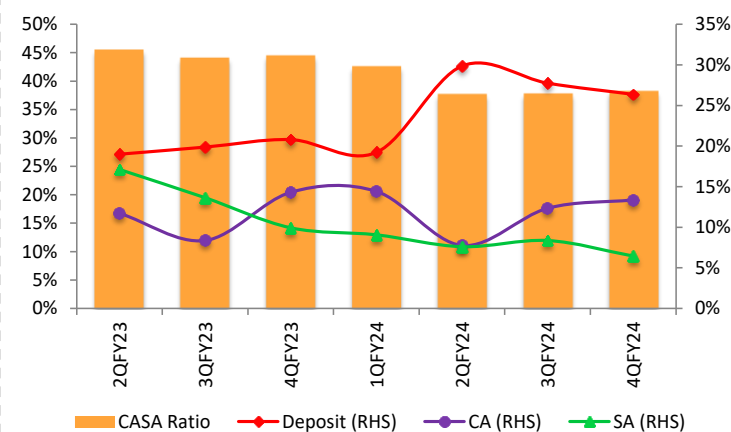
Source: Company, Systematix Institutional Research

Exhibit 3: Credit growth driven by CRB and retail credit



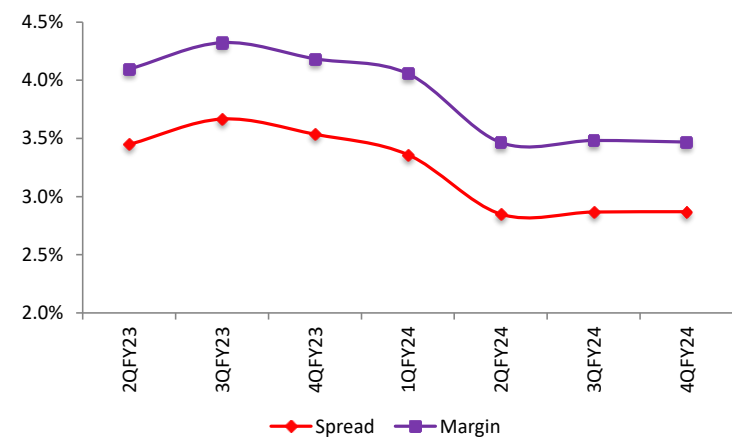
Source: Company, Systematix Institutional Research

Exhibit 4: CASA ratio improved 50bps qoq



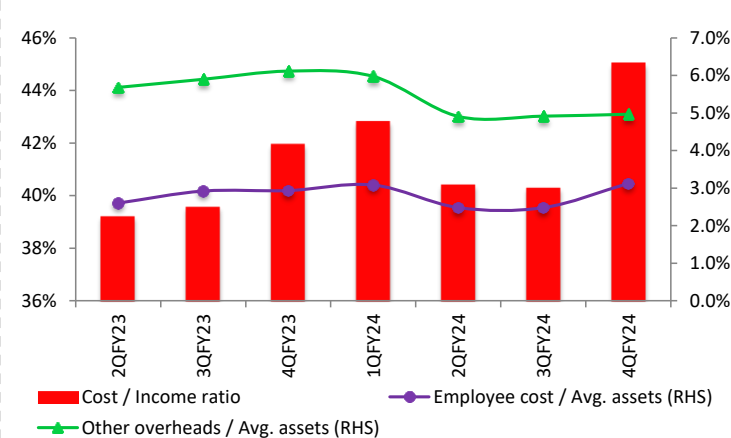
Source: Company, Systematix Institutional Research

Exhibit 5: Margin stable qoq



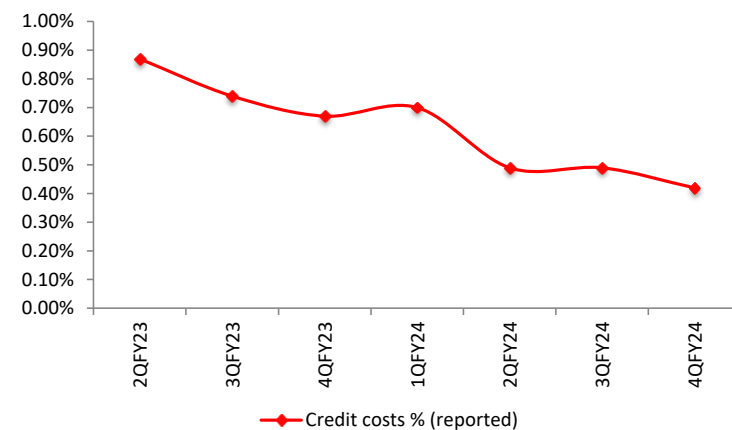
Source: Company, Systematix Institutional Research

Exhibit 6: Cost to income increased due to ex-gratia bonus staff provisions and branch additions



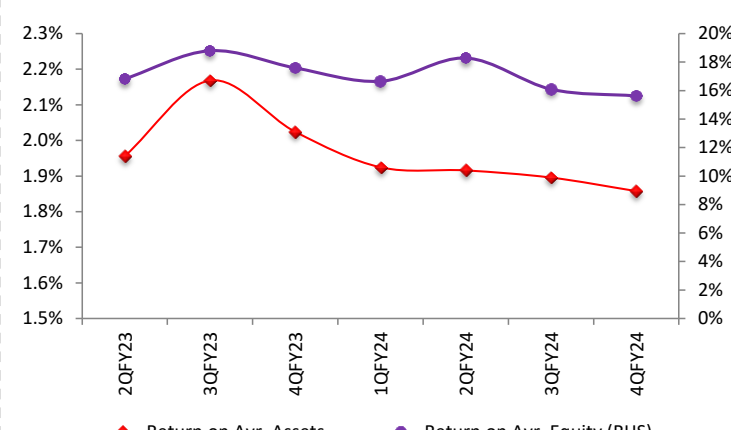
Source: Company, Systematix Institutional Research

Exhibit 7: Total provisions (ex-floating provisions) improved on qoq basis



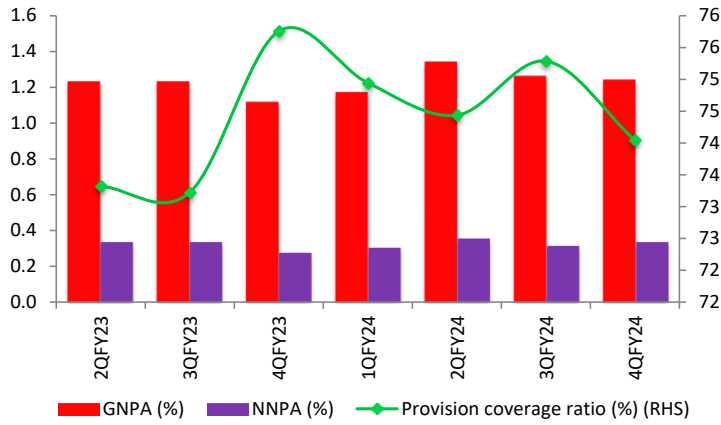
Source: Company, Systematix Institutional Research *2Q for merged entity

Exhibit 8: RoA remains around the guided 1.9-2.1% range



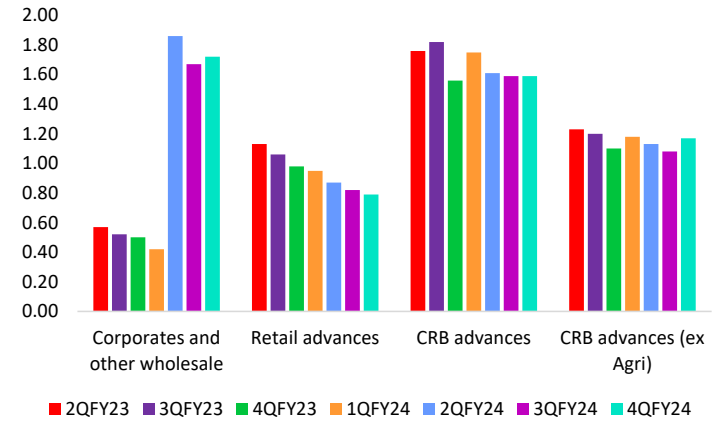
Source: Company, Systematix Institutional Research

Exhibit 9: Asset quality stable qoq



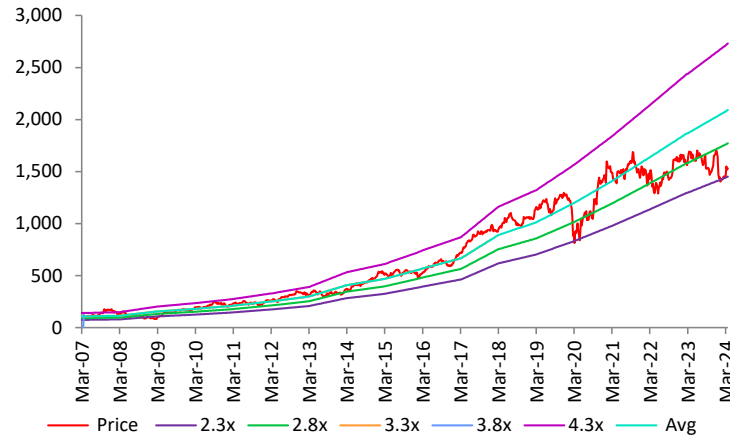
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA largely stable across key segments



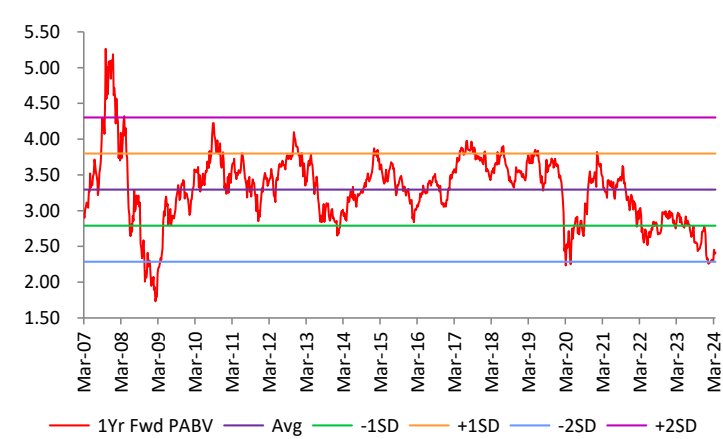
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward P/ABV (x) multiple trajectory



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/ABV trading 2SD below LT average



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	1,278	1,616	2,583	3,134	3,558
Interest Expenses	557	747	1,498	1,848	2,053
Net Interest Income	720	868	1,085	1,285	1,505
Change (%)	11.0	20.6	25.0	18.4	17.0
Comm., Exc. & Brokerage Inc.	195	238	282	332	392
Add: Other income	100	74	137	157	180
Net Income	1,015	1,181	1,504	1,775	2,077
Change (%)	12.7	16.3	27.4	18.0	17.0
Operating Expenses	374	477	634	769	871
Operating Profit	641	704	870	1,006	1,206
Change (%)	(11.6)	16.4	(17.5)	50.3	17.0
Provisions	151	119	135	158	186
PBT	490	585	736	848	1,020
Tax	121	144	139	208	251
Tax Rate (%)	24.59	24.58	17.32	24.60	24.60
PAT	370	441	597	639	769
Change (%)	18.8	19.3	35.2	7.1	20.4
Proposed Dividend	86	106	148	156	187

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	6.70	7.13	8.49	8.13	8.12
Interest Expended	2.92	3.30	4.92	4.80	4.69
Net Interest Income	3.77	3.83	3.57	3.34	3.43
Comm., Exc. & Brokerage Inc.	1.02	1.05	0.93	0.86	0.89
Other Fee Income	0.48	0.35	0.34	0.32	0.33
Net Operating Income	5.28	5.23	4.84	4.52	4.66
Profit on sale of investment	0.04	(0.03)	0.11	0.09	0.08
Net Income	5.32	5.21	4.95	4.61	4.74
Operating Expenses	1.96	2.10	2.08	2.00	1.99
Operating Income	3.36	3.11	2.86	2.61	2.75
Provisions	0.79	0.53	0.44	0.41	0.42
PBT	2.57	2.58	2.42	2.20	2.33
Tax	0.63	0.63	0.46	0.54	0.57
PAT	1.94	1.95	1.96	1.66	1.76
Leverage	8.6	8.7	8.5	8.3	8.5
RoE	16.7	17.0	16.6	13.8	14.9

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Capital	6	6	8	8	8
Reserves & Surplus	2,395	2,796	4,368	4,852	5,433
Net Worth	2,401	2,802	4,402	4,886	5,468
Change (%)	17.9	16.7	57.1	11.0	11.9
Deposits	15,592	18,834	23,798	27,898	32,698
Change (%)	16.8	20.8	26.4	17.2	17.2
CASA Ratio (%)	48.2	44.4	38.2	38.2	38.2
Borrowings	1,848	2,068	6,622	6,427	6,452
Other Liabilities	844	957	1,354	1,693	2,116
Total Liabilities	20,685	24,661	36,176	40,904	46,734
Change (%)	18.4	19.2	46.7	13.1	14.3
Investments	4,555	5,170	7,024	8,429	10,115
Cash & Bank balance	1,523	1,938	2,191	2,308	2,559
Loans	13,688	16,006	24,849	27,830	31,588
Change (%)	20.8	16.9	55.2	12.0	13.5
Fixed Assets	61	80	114	137	164
Other Assets	858	1,467	1,998	2,200	2,308
Total Assets	20,685	24,661	36,176	40,904	46,734

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Yield on Advances	7.9	8.6	10.1	9.6	9.6
Yield on Earning Assets	7.0	7.5	9.0	8.6	8.6
Cost of Deposits	3.4	3.6	6.1	6.4	6.2
Cost of Funds	3.5	3.9	5.8	5.7	5.6
NIM	3.9	4.1	3.8	3.5	3.6
Profitability Ratios (%)					
Cost/Income	36.9	40.4	42.1	43.3	41.9
PPOP / Avg. assets	3.4	3.1	2.9	2.6	2.8
RoE	16.7	17.0	16.9	13.8	14.9
RoA	1.9	1.9	2.0	1.7	1.8
Asset Quality (%)					
GNPA (Rs bn)	161	180	312	349	405
NNPA (Rs bn)	44	44	81	91	105
GNPA	1.2	1.1	1.2	1.2	1.3
NNPA	0.3	0.3	0.3	0.3	0.3
PCR	72.7	75.8	74.0	74.0	74.0
Capitalisation (%)					
CAR	18.9	19.3	18.8	18.6	18.1
Tier I	17.9	17.1	18.0	17.9	17.5
Tier II	1.0	2.1	0.7	0.7	0.6
Average Leverage on Assets (x)	8.6	8.7	8.5	8.3	8.5
Valuations					
Book Value (Rs)	433	502	576	640	716
Adj. Book Value (Rs)	427	496	567	631	706
Price-BV (x)	3.1	2.7	2.3	2.1	1.9
Price-Adj. BV (x)	3.1	2.7	2.4	2.1	1.9
EPS (Rs)	67	79	80	84	101
EPS Growth (%)	18	19	1	5	20
Price-Earnings (x)	20.0	16.9	16.7	15.9	13.2
Dividend (Rs)	16	19	20	20	25
Dividend Yield (%)	1	1	1	1	2

Source: Company, Systematix Institutional Research

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