

Awaiting 2-3 quarters more to see growth wings to span wide, Deposits growth truly appreciable

CMP: INR 1,682

Rating: Accumulate

Target Price: INR 2,002

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

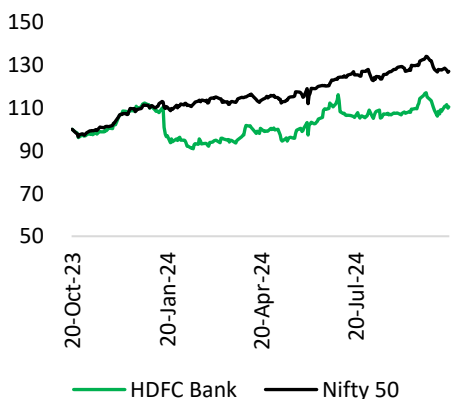
Shareholding Pattern %

(As on Sept, 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
HDFC Bank	-3.2	11.4	10.6
Nifty 50	-3.6	11.3	27.2

HDFC Bank Vs Nifty



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HDFC Bank reported Q2FY25 earnings very much in line with our expectations. NII increased 0.9% QoQ/10.0% YoY to INR 301 bn against our estimates of INR 306 bn, PPOP increased by 3.4% QoQ/ up by 8.9% YoY to INR 247 bn against estimates of INR 246 bn and Net Profits increased slightly to INR 168 bn against estimates of INR 163.8 bn, up by 4% QoQ/ 5.3% YoY. As was expected, the bank's advances grew by a mere 1.3% QoQ while Deposit growth was faster sequentially 5.1% QoQ / 15.1% YoY. The asset quality remained relatively stable though we saw marginal spike in GNPA/NNPA ratios at 1.36%/0.41% respectively. GNPA was up 3 bps & NNPA was up 2 bps sequentially.

Margins intact, and to hover between 3.6-3.8% in coming quarters: In Q2FY25, the Bank's Net Interest Margins came at 3.65% 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 35.3%, to decrease by 150-200 bps by the end of FY25: As the maturity levels increases for the newer bank branches, newer customer accounts will benefit from the bank's increased rate offerings in Time Deposits which showed growth. Also, at 35.3% levels, the Bank's CASA is adequate enough for bank of this size to maintain higher spreads.

Increasing on ground presence with branches across Tier 2 & 3 towns: Faster branch expansion compared to Peers will keep elevated the current Opex/Income ratio for the current year, the investments in the Agrarian & Tier 2 & 3 cities will be beneficial in long term.

LDR ratio coming down swiftly: As informed by the bank's MD & CEO Mr Shashidhar Jagdishan, the bank may avail opportune moments to prepay some debt borrowings while their Time deposits grow faster. Also, the Bank has high Liquidity Coverage ratio at 128%, which will prove vital when they start pushing loan growth which we expect to witness right after next 2-3 quarters.

Valuation & View: HDFC Bank's Q2FY25 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 has come strong on a sequential basis as they strategized, and we expect strong Deposit Mobilization by the bank in subsequent quarters as well. The LDR ratio already below 100%, is expected to come further down in 2-3 quarters, and we expect to see faster advances growth afterwards. 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 the group. **We have an Accumulate rating on the stock with a revised target price of INR 2,002 on SOTP basis (earlier INR 2,017), with the standalone bank valued on 2.2x FY27E P/ABV.**

Financial Summary

Y/E Mar (Rs Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	720	868	1,085	1,280	1,582	2,042
Net profit	370	441	608	712	937	1,287
Networth	2,401	2,802	4,402	4,591	5,303	6,281
Adj BVPS	425	491	567	588	674	792
EPS (Rs)	66.65	79.05	93.32	93.73	123.33	169.43
P/ABV (x)	3.78	3.27	2.77	2.66	2.30	1.94
P/E (x)	24.11	20.33	17.22	17.14	13.03	9.48
RoA (%)	2.0	2.1	2.0	1.8	2.1	2.5
RoE (%)	16.7	17.0	16.9	15.8	18.9	22.2

Source: Arihant Research, Company Filings

Q2FY25 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	740	730	677	1.3%	9.3%
Interest Expense	439	432	403	1.6%	8.9%
Net Interest Income	301	298	274	0.9%	10.0%
Non Interest Income	115	107	107	7.6%	7.2%
Total Income	416	405	381	2.7%	9.2%
Employee Costs	60	58	52	2.3%	15.8%
Other Operating Expenses	109	108	102	1.2%	6.6%
Operating Expenses	169	166	154	1.6%	9.7%
Pre-Provision Profit	247	239	227	3.4%	8.9%
Provisions	27	26	29	3.8%	-7.0%
Profit Before Tax	220	213	198	3.4%	11.2%
Tax Expense	52	51	38	1.5%	35.9%
Net Profit	168	162	160	4.0%	5.3%
Balance Sheet Analysis					
Deposits	25,001	23,791	21,729	5.1%	15.1%
CASA (%)	35.3%	36.3%	37.7%	-100bps	-240bps
Advances	24,951	24,635	23,312	1.3%	7.0%
Total Assets	36,881	35,672	34,163	3.4%	8.0%
Capital Adequacy Ratio (%)	19.77%	19.33%	19.54%	44bps	23bps
Spread Analysis					
NIM (%)	3.65%	3.66%	3.85%	-1bps	-20bps
Asset Quality					
Gross NPA	342.51	330.26	315.78	3.7%	8.5%
Net NPA	103.09	95.08	80.73	8.4%	27.7%
GNPA (%)	1.36%	1.33%	1.34%	3bps	2bps
NNPA (%)	0.41%	0.39%	0.35%	2bps	6bps
Key Ratios					
Cost to Income Ratio (%)	40.6%	41.0%	40.4%	-43bps	18bps
C/D Ratio	99.8%	103.5%	107.3%	-375bps	-749bps
RoA (%) (annualized)	1.96%	1.88%	2.00%	8bps	-4bps

Q2FY25 Concall Takeaways

Guidance:

- The Management says that they intend to maintain their NIMs at current levels even if a possible Repo rate cut comes in the medium term.
- Fee Income came at INR 81.4 bn for Q2FY25, which the Bank Management guided that will vary between 14-17% YoY as seen previously as well.
- The HDB Financial services is required to be listed by Sept 2025 as per RBI guidelines.
- The Bank has decided to come with an OFS of up to INR 100 bn for HDB Financial Services in the proposed IPO of INR 125 bn.
- The Management says that the faster growth of Time Deposits may cause the LCR ratio to increase for the near term as the Bank is calibrating the Loan to Deposit ratio currently.

- The Management says that if they see an opportunity to bring down the Borrowings through Bond prepayments, they will avail that, considering adequate cushion on the Liquidity side for the bank in the subsequent quarters.

Key Highlights:

- Net Interest Income for Q2FY25 stood at INR 301 bn against our estimates of 306 bn, up by 0.9% QoQ / up by 10.0% YoY while NIMs came at 3.65%, down by 1 bps QoQ / down by 20 bps YoY.
- PPOP came at INR 247 bn against our estimates of 246 bn, up by 3.4% QoQ / up by 8.9% YoY.
- Provisions stood at INR 27 bn against our estimates of 27.3 bn, up 3.8% QoQ / down by 7% YoY.
- PAT increased to INR 168 bn against our estimates of INR 163.8 bn, increasing by 4.0 QoQ / up by 5.3% YoY.
- RoA came at 1.96% for Q2FY25, up 8 bps QoQ / down 4 bps YoY.
- GNPA came at 1.36% against our estimates of 1.34%, up 3 bps QoQ/up 2 bps while NNPA was at 0.41% against our estimates of 0.39%, up 2 bps QoQ/ up 6 bps YoY.
- Advances increased by 1.3% QoQ / up 7.0% YoY to INR 24,951 bn.
- Deposits increased by 5.1% QoQ / up 15.1% YoY to INR 25001 bn.
- Cost to Income Ratio came at 40.6% down 43 bps QoQ / up 18 bps YoY.
- Credit Cost for the Quarter was at 0.43% against 0.49% in Q2FY24.
- Retail segment loan growth stood at 11.3% YoY while the Rural Banking Loans grew by 17.4% YoY. Corporate & Wholesale Loans were down by 12.0% YoY.
- CASA ratio came at 35.3% down 100 bps QoQ / down 240 bps YoY as CASA deposits came down 0.3% from Q1FY25 and grew by 7.3% YoY over Q2FY24.
- Contingent Provisioning saw a release of previous Contingent Provisions of INR 10 bn from Q2FY24 & INR 63.25 bn for the year FY24, and is no longer required as per orders received by the bank.
- The Management of the bank clarified regarding the RBI draft circular on Subsidiaries accounts that the HDB Financial Services does not offer any arbitrage to the Bank in terms of pricing.
- The Management said that before the HDFC Ltd merger with the Bank, the LDR ratio was around 86%, which jumped to ~110% post the merger. Hence the Bank is looking to bring the LDR ratio down and is witnessing it coming down faster than anticipated as it has come down to 99.8% in Q2FY25.
- The Mortgage book grew by 11% YoY for the bank while the Non-Mortgage loans grew by 11.7% YoY for the Bank. The Management said that they aren't limiting the Mortgage loan growth as it is vital for the Customer relationship that they have built over the years.
- The Management remained confident on the Credit Quality of the retail unsecured customers, as the Retail GNPA is 0.38%, which contains the Retail unsecured book GNPA's as well.
- The Bank's MCLR pricing is varying between 8.8-8.9%, which is lower than most Private Peers for the Mortgage loans.
- The Liquidity Coverage ratio is at 128% as of Q2FY25, which was 123% in Q1FY25. The Management said that they generally intend to see the LCR ratio between 110-120%. The Management attributed the faster growth of the Time Deposits in their Balance Sheet which is causing that.
- The Bank's EBLR, Repo & MCLR linked Loans including the Corporate & Wholesale book constitute 69% of the Overall Loan Book.

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	2,026
Provisions	157	151	119	235	220	266	320
PBT	417	490	585	709	944	1,243	1,707
Tax	105	121	144	101	232	306	420
PAT	311	370	441	608	712	937	1,287

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	4,584	5,295	6,273
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	40,910	47,595	55,811
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	7,224	7,524	8,073
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	880	957	1,068
TOTAL	17,469	20,685	24,661	36,177	40,910	47,595	55,811

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	17.1	31.6	37.4
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	1.85	2.1	2.49
ROE	16.6	16.7	17.0	16.9	15.8	18.9	22.2
NIM (%)	4.10	3.92	4.05	3.80	3.46	3.7	4.04
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	604	698	827
ABV (Rs)	361	425	491	567	588	674	792
EPS (Rs)	56	67	79	93	94	123	169
Valuation							
P/BV (x)	4.3	3.7	3.2	2.8	2.7	2.3	1.9
P/ABV (x)	4.4	3.8	3.3	2.8	2.7	2.4	2.0
P/EPS (x)	28.5	24.1	20.3	17.2	17.1	13.0	9.5
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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