HDFC BANK LIMITED (HDFBAN)

ICICI direct Research

CMP: ₹ 1531 | Target: ₹ 1850 (21%) | Target Period: 12 months | BUY

April 22, 2024

Result Update

ICICI Securities – Retail Equity Research

One-off gains utilized to strenghten balance sheet

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. Post merger, the bank has become the second largest in terms of size with diversified portfolio. The bank has maintained superior return ratios resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 24 lakh crore
- Consistent performance with steady NIM and RoE in past many years

Q4FY24 performance: Operational performance remained steady with one-off including gains from stake sale in subsidiary, ex-gratia provision for staff and creation of floating provision kept earnings broadly flattish. Advances grew 1.6% QoQ, led by retail & CRB segment while deposit growth remained robust at 7.5% QoQ. NII grew 2.1% QoQ, margins improved by 4 bps at 3.44% while other income surged led by gain of ₹7340 crore related to stake sale in HDFC Credila Financial Services. However, the bank utilized the gains to shore up floating provision by ₹10900 crore. Ex-gratia staff provision kept opex a tad higher; excluding the same CI ratio was at 41.3%. Asset quality remained broadly steady with GNPA at 1.24% and slippages at ~1.2%.

Investment Rationale

- **Strengthening of distribution capabilities to enable future growth:** Strategy to continue focus on strengthening distribution capabilities is seen to aid liabilities accretion. The bank emphasizes on enhancing customer service and customer first culture to enable the bank to garner business at reasonable pricing. Tough management has avoided to give any guidance, focus on semi urban & rural areas, adoption of digital initiatives and customer accretion is seen to keep opex elevated, though the same will aid business growth ahead.
- **Focus on liabilities accretion & pricing to aid improvement in margins:** Advance growth remained modest at 1.6% QoQ, led by de-growth in corporate book while retail & CRB book witnessed traction. Accelerating retail & CRB loans with strategy to garner liabilities at competitive pricing thereby gradually replacing erstwhile bonds is seen to aid LDR ratio and margins. Expect advance growth at ~14% CAGR in FY25-26E, LDR ratio to decline below 100% and margins to improve at 3.6% in FY26E.

Rating and Target Price

- Underlying strength of the organisation remain resilient. Continued focus on gaining market share at reasonable pricing is expected to aid improvement in margins. Strategy to increase distribution capabilities to continue ahead with focus on risk. Improving profitability matrix remains a medium-term focus through sustainable retail liabilities franchise.
- Rolling our estimates to FY26E, we assign multiple of 2.4x FY26E ABV for standalone bank and ₹225 for subsidiaries. Thus, we revise our target price from ₹1800 to ₹1850 and maintain our BUY rating.

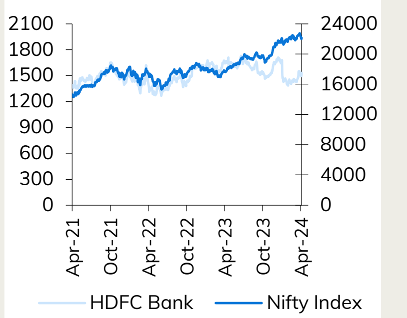
Particulars

Particulars	Amount
Market Capitalisation	₹ 11,63,315 crore
52 week H/L	1758 / 1363
Networth	₹ 4,37,593 crore
Face value	1
DII holding (%)	33.33
FII Holding (%)	47.83

Shareholding pattern

in %	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	25.6	25.5	-	-	-
FII	32.2	33.4	52.1	52.1	47.4
DII	28.1	26.8	30.4	30.5	33.3
Government	0.2	0.2	0.2	0.2	0.2
Others	13.9	14.2	17.3	17.0	18.6

Price Chart



Key risks

(i) Pace of liabilities accretion remains crucial

(ii) Slower business growth

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Key Financial Summary

₹ crore	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	72,010	86,842	1,08,532	23%	1,27,550	1,48,833	17%
PPP	64,077	70,405	94,387	21%	1,05,303	1,23,901	15%
PAT	36,961	44,109	60,812	28%	68,810	78,916	14%
ABV (|)	425.0	494.3	535.0		603.3	681.9	
P/E	23.0	19.4	19.1		16.9	14.7	
P/ABV	3.6	3.1	2.9		2.5	2.2	
RoA	2.0	2.1	2.0		1.8	1.8	
RoE	15.4	15.7	13.9		14.0	14.2	

Source: Company, ICICI Direct Research

Concall highlights and outlook

- Key focus medium (2 - 3 years) to long term is to increase profitability by ensuring the sustainability of the franchise and focussing on mobilising retail deposits
- HDFC Bank is a completely new organisation post the merger. Post merger, business metric has been stable and demonstrates resilience of underlying strength of the franchise
- Key to this sustained momentum is to maintain the customer satisfaction and service first culture. Thus, the bank will continue to invest in people and technology

Advances and Deposits

- The focus us on quality rather than quantity in terms of lending
- Credit to deposit ratio is similar to their historical level (HDFC Bank taken in standalone).
- The bank continues to gain market share in deposits with cost of deposit being stable. Retail deposit mobilisation will be the key focus for the bank going forward with small granular deposit being the key focus area
- Deposit flows consists of some transitory flows which might be one-offs. Repayment of bonds from merger will keep improvement in LDR gradual.
- The bank will go slow on lending whenever there is an early sign of risk or where there is high competition intensity
- Advance mix is currently tilted towards better yield segment. Expect Credit to Deposit ratio to be in the same level going forward in the next 2-3 years

Margins

- Margin trajectory will depend on several factors including ability to garner liabilities at competitive pricing. Repayment of long-term borrowing with deposit will aid liquidity as well as margins.
- Stability in cost of fund is resultant of maintaining parity in the rates offered in each segment
- Benign probability of further increase in yields with further increase in yield will be dependent on deposit cost and pace of accretion

Provision

- The provision of ₹10,900 crore is a floating provision and not a contingency provision and does not reflect anything negative on the portfolio
- The provision enhances the resilience of the balance sheet and is created during a good time

Branches

- Branch expansion will depend several factors including identifying suitable locations and meeting regulatory requirements (in unbanked rural centres).
- The bank will continue to invest in new distribution centre. The bank has added ~1000 branches in FY 2023-2024

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.4x FY26E ABV	100.00	1,625
HDFC AMC	30x FY26E EPS	52.59	47
HDFC Life Insurance	2.8x FY26E EV	50.40	98
HDFC ERGO		50.50	12
HDB fin Serv		94.60	100
HDFC Sec		95.10	25
Value per share			1,907
Discount @ 20%			56
Value per share for HDFC Bank			**1,850**

Exhibit 2: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	29,076.8	23,351.8	24.5	28,471.3	2.1	Driven by loan growth and steady NIMs
NIM (%)	3.4	4.1	-16.1	3.4	1.2	NIM steady despite higher accretion in term deposits
Other Income	18,166.3	8,731.2	108.1	11,137.0	63.1	Other income includes gains of ₹ 7340 crore, related to stake sale in HDFC Credila Financial Services
Net Total Income	47,243.1	32,083.0	47.3	39,608.4	19.3	
Staff cost	6,936.2	4,362.1	59.0	5,351.8	29.6	CI ratio at 38%. Excluding one-off gains and staff ex-gratia provision of ₹1500 crore, CI ratio at 41.3%
Other Operating Expenses	11,032.6	9,100.1	21.2	10,609.3	4.0	
PPP	29,274.2	18,620.9	57.2	23,647.3	23.8	
Provision	13,511.6	2,685.4	403.2	4,216.6	220.4	Floating provision of ₹10900 crore created in Q4FY24
PBT	15,762.6	15,935.5	-1.1	19,430.7	-18.9	
Tax	-749.3	3,888.1	-119.3	3,058.1	-124.5	
PAT	16,511.9	12,047.5	37.1	16,372.5	0.9	Flattish earnings owing to contingent provision
Key Metrics						
GNPA	31,173	18,019	73.0	31,012	0.5	GNPA ratio broadly steady at 1.24%
NNPA	8,092	4,368	85.2	7,664	5.6	
Advances	24,84,862	16,00,586	55.2	24,46,076	1.6	Growth driven by retail and commercial segment
Deposits	23,79,786	18,83,395	26.4	22,13,977	7.5	CASA ratio at 38.2%

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	127753	161586	258340	295651	334841
Interest Expended	55744	74743	149808	168101	186008
NII	72010	86842	108532	127550	148833
Growth (%)	11.0	20.6	25.0	17.5	16.7
Other income	29510	31215	49241	48469	56557
Total Income	101519	118057	157773	176019	205390
Employee cost	12032	15512	22240	24812	28439
Other operating Exp.	25410	32140	41146	45904	53050
PPP	64077	70405	94387	105303	123901
Provisions	15062	11920	23492	14164	19376
PBT	49015	58485	70895	91139	104525
Taxes	12054	14377	10083	22329	25609
Net Profit	36961	44109	60812	68810	78916
Growth (%)	18.8	19.3	37.9	13.2	14.7
EPS	66.7	79.1	80.0	90.6	103.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	554.6	558.0	759.7	759.7	759.7
EPS (₹)	66.7	79.1	80.0	90.6	103.9
BV (₹)	433.0	502.2	576.0	648.5	731.6
ABV (₹)	425.0	494.3	535.0	603.3	681.9
P/E	23.0	19.4	19.1	16.9	14.7
P/BV	3.5	3.0	2.7	2.4	2.1
P/ABV	3.6	3.1	2.9	2.5	2.2
Yields & Margins (%)					
Net Interest Margins	4.1	4.1	3.4	3.5	3.6
GNPA	1.4	1.2	1.3	1.2	1.2
RoE	15.4	15.7	13.9	14.0	14.2
RoA	2.0	2.1	2.0	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital	555	558	760	760	760
Reserves and Surplus	239538	279641	436833	491881	555014
Networth	240093	280199	437593	492641	555774
Deposits	1559217	1883395	2379786	2784350	3257689
Borrowings	184817	206766	662153	629045	597593
Other Liabilities & Provisions	84407	95722	135438	233891	342819
Total	2068535	2466081	3617623	4139927	4753875
Applications of Funds					
Fixed Assets	6084	8017	11399	13109	15075
Investments	455539	517001	702415	814865	953392
Advances	1368821	1600586	2484862	2832742	3229326
Other Assets	85765	146713	199800	229770	264236
Cash with RBI & call money	152327	193765	219147	249442	291847
Total	2068535	2466081	3617623	4139927	4753875

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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