

CMP: ₹ 1486

Target: ₹ 1800 (21%)

Target Period: 12 months

BUY

January 20, 2024

Near term headwinds; expect gradual recovery ahead...

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

Q3FY24 performance: HDFC Bank continued to deliver strong loan growth, however, deposit accretion remained weak which led to jump in CD ratio at ~110%. Utilization of excess liquidity resulted in decline on LCR (Liquidity Coverage Ratio) from 121% to ~110% QoQ. Steady margins at 3.4%, treasury gains and tax write-back (one-time) aided earnings growth at 2.5% to ₹16372 crore. The bank has parked ~₹1200 crore as prudential provision towards AIF exposure. Asset quality remained steady with GNPA at 1.26%; down 8 bps QoQ and strong PCR at ~75%.

Investment Rationale

- Challenge to maintain growth lever with margin sustenance: Given increase in interest sensitivity of advances, utilization of excess liquidity and pressure on LDR/ LCR, margin trajectory is contingent on acceleration in liabilities accretion and focus on high yield book which is to accrue gradually. Thus, maintaining growth momentum along with improvement in margins remains a challenge in near term. Expect growth to continue at 15-16% CAGR in FY24-25E, though margins (calculated) could remain at 3.4-3.6% levels. Gradual replacement of borrowing from the parent is expected to aid margins in the long run ahead.
- Strengthening of distribution capabilities to enable future growth: Strategy to focus on aggressive strengthening of distribution capabilities continued. Tough branch addition remained slower in FY24E (expect to add 900-1000 branches vs 1480 branches in FY23), focus on semi urban & rural areas, adoption of digital initiatives and customer accretion seen to keep opex elevated, though the same will aid business growth ahead.
- Steady operational performance to regain normalised RoA: On reported basis, RoA is steady at ~2%, however, adjusting for one-offs RoA has declined by 10-20 bps. Going ahead, gradual improvement in CD ratio, decline in CI ratio to below 40% and steady credit cost is expected to result in sustainable RoA of 1.8-1.9% in FY24-25E.

Rating and Target price

- Revising our RoA estimates downwards, maintaining multiple at ~2.5x FY25E ABV for lending business and ₹ 166 for subsidiaries, we revise our target from ₹2050 to ₹1800 per share. Maintain BUY rating on the stock.

Key Financial Summary

₹ crore	FY21	FY22	FY23	2 year CAGR (FY21-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	64,880	72,010	86,842	16%	1,08,332	1,29,386	14%
PPP	57,362	64,077	70,405	11%	88,867	1,06,245	15%
PAT	31,117	36,961	44,109	19%	60,024	69,393	16%
ABV (I)	361.3	425.0	494.3		555.7	623.8	
P/E	26.3	22.2	18.7		18.6	16.1	
P/ABV	4.1	3.5	3.0		2.7	2.4	
RoA	2.0	2.0	2.1		1.6	1.6	
RoE	15.3	15.4	15.7		13.9	14.2	

Source: Source: Company, ICICI Direct Research



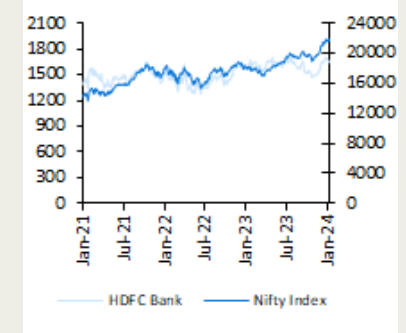
Particulars

Particulars	Amount
Market Capitalisation	₹ 11,27,826
52 week H/L	1758 / 1460
Networth	₹ 129239 crore
Face value	1.0
DII holding	30.5
FII Holding	52.3

Risks to our call

- 1) Slower liabilities accretion which could impact advances trajectory
- 2) Slower accretion in high yield asset

Price performance



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Financial Summary

Exhibit 1: Profit & Loss statement (₹ crore)				
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	127753	161586	244255	283955
Interest Expended	55744	74743	135922	154569
NII	72010	86842	108332	129386
Growth (%)	11.0	20.6	24.7	19.4
Other income	29510	31215	41785	47265
Total Income	101519	118057	150118	176652
Employee cost	12032	15512	21042	24929
Other operating Exp.	25410	32140	40209	45478
PPP	64077	70405	88867	106245
Provisions	15062	11920	12887	15453
PBT	49015	58485	75980	90792
Taxes	12054	14377	15956	21399
Net Profit	36961	44109	60024	69393
Growth (%)	18.8	19.3	36.1	15.6

Source: Company, ICICI Direct Research

Exhibit 2: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	554.6	558.0	754.1	754.1
EPS (₹)	66.7	79.1	79.6	92.0
BV (₹)	433.0	502.2	572.3	645.9
ABV (₹)	425.0	494.3	555.7	623.8
P/E	22.2	18.7	18.6	16.1
P/BV	3.4	3.0	2.6	2.3
P/ABV	3.5	3.0	2.7	2.4
Yields & Margins (%)				
Net Interest Margins	4.1	4.1	3.4	3.5
GNPA	1.4	1.2	1.2	1.2
RoE	15.4	15.7	13.9	14.2
RoA	2.0	2.1	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet Statement (₹ crore)				
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	555	558	754	754
Reserves and Surplus	239538	279641	430860	486375
Networth	240093	280199	431615	487129
Deposits	1559217	1883395	2372700	2788963
Borrowings	184817	206766	697413	794484
Other Liabilities & Provisions	84407	95722	156882	168692
Total	2068535	2466081	3658610	4239269
Applications of Funds				
Fixed Assets	6084	8017	11562	12575
Investments	455539	517001	687165	786556
Advances	1368821	1600586	2565665	2975237
Other Assets	85765	146713	200228	250744
Cash with RBI & call money	152327	193765	193989	214155
Total	2068535	2466081	3658610	4239269

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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