

**Balancing Between Profitable Growth and LDR Improvement!**
**Est. Vs. Actual for Q2FY25:** NII – **INLINE**; PPOP – **INLINE**; PAT – **INLINE**
**Changes in Estimates post Q2FY25**
**FY25E/FY26E/27E:** NII: -4.5%/-7.2%/-7.7% PPOP: -3.4%/-4.9%/-5.2%; PAT: +1.2%/-1.7%/-0.9%

**Recommendation Rationale**

- **Eyeing accelerated LDR improvement:** HDFCB has re-iterated its stance of reducing its LDR to pre-merger levels of mid-to-high 80%. The management indicated that the bank would adopt an accelerated approach to trim LDR to the desired level from the current levels of ~100%. While deposit growth has seen a strong pick-up in Q2FY25, the bank will continue to maintain the momentum, with a focus on granular retail deposits. **Credit growth slowdown is imperative and the management highlighted that credit growth in FY25E would be below systemic growth. It would pick up in FY26E and be largely in line with systemic growth before accelerating in FY27E. Thus, the bank aims to reduce its LDR to high-80% over the next 2-3 years. We factor in a slower credit growth of ~12% CAGR over FY24-27E vs a deposit growth of ~17% CAGR over the same period, thereby enabling HDFCB to bring down its LDR to ~90-91% by FY27E.**
- **Pursuing credit growth judiciously:** HDFCB continues to focus on mortgages as it provides a better customer relationship. In the non-mortgage retail segments, the bank has moderated growth purely based on credit dynamics. HDFCB continues to focus on growing the priority sector advances organically while maintaining high quality by passing them through stringent credit filters. In the corporate book, the bank has refrained from pursuing growth in the higher ticket-size loans, wherein the spreads are unencouraging. Going ahead, as the unsecured loan cycle turns positive, HDFCB will resume its growth trajectory by cherry-picking the right customers at the right price.
- **Best-in-class Asset Quality:** HDFCB has been able to maintain pristine asset quality across cycles and this can be credited to its strong underwriting practices and risk-calibrated lending. Currently, amidst stress in the unsecured portfolios at a systemic level, HDFCB's unsecured portfolio continues to perform well, with retail GNPA at 0.8%. This is primarily owing to the bank being ahead of the curve in identifying stress based on early warning indicators and pruning growth in the unsecured segment. Asset quality in the other segments (CRB, Agri and Corporate) continues to remain healthy, given the bank's ability to judiciously balance between growth and risk. **We do not expect any major asset quality challenges and believe credit costs are likely to be contained at ~50bps over the medium term.**

**Sector Outlook: Positive**

**Company Outlook:** The management has clearly highlighted its focus on reducing its LDR to pre-merger levels adopting an accelerated approach, resulting in a significantly slower credit growth vs deposit growth. HDFCB does not intend to disturb the deposit growth momentum that has picked up in the current quarter. The management remains confident of maintaining NIMs in a tight range on a steady state basis, despite ~70% of the book being EBLR-linked (primarily repo-linked). We expect HDFCB to deliver RoA/RoE of 1.8-1.9%/14-16% over FY25-27E, supported by gradually improving cost ratios and steady credit costs.

**Current Valuation:** 2.3x Sep'26E ABV; **Earlier Valuation:** 2.4x FY26E ABV

**Current TP:** Rs 2,025/share; **Earlier TP:** Rs 1,950/share

**Recommendation:** We maintain our **BUY** recommendation on the stock.

**Financial Performance**

- **Operational Performance:** HDFCB's advances grew by 8/2% YoY/QoQ. Retail grew by 11/3% YoY/QoQ, CRB by 17/4% YoY/QoQ, while corporate de-grew by 3% QoQ and grew by 9% YoY. Deposits growth improved registering a growth of 15/5% YoY/QoQ. C-D Ratio improved to 100.8% vs 104.5% QoQ.
- **Financial Performance:** NII grew by 10/1% YoY/QoQ, with core NIMs remaining largely stable QoQ. Non-interest income grew by 7/8% YoY/QoQ, driven by healthy fee income growth. Opex grew by 10/2% YoY/QoQ. C-I Ratio stood at 40.6% vs 40.4/41% YoY/QoQ. PPOP grew by 9/3% YoY/QoQ. Credit costs (calc.) stood at 43bps, largely stable QoQ. PAT grew by 5/4% YoY/QoQ.
- **Asset quality** was stable with GNPA/NNPA at 1.4/0.4% vs 1.3/0.4% QoQ. Slippages stood at Rs 78 Bn in Q2FY25. Barring agri slippages, GNPA would have been 1.16%.

**Outlook**

Given HDFCB's accelerated efforts to reduce LDR, we trim our credit growth estimates driving an NII cut of 5-8% over the same period. However, backed by expectations of healthy fee income growth and stable credit costs, we broadly maintain our earnings estimates over FY25-27E. We expect HDFCB to deliver a 12/17/15% CAGR Credit/Deposit/Earnings growth over FY24-27E.

**Valuation & Recommendation**

We value the core book at 2.3x Sep'26E ABV vs. its current valuation of 2.2x Sep'26E ABV and assign a value of Rs 255/share to subsidiaries, thereby arriving at a **target price of Rs 2,025/share**, implying an upside of 20% from the CMP. We maintain our **BUY** recommendation on the stock.

**Key Financials (Standalone)**

(Rs Bn)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	301.1	+0.9	+10.0	302.1	-0.3
PPOP	247.1	+3.4	+8.9	247.0	0.0
Net Profit	168.2	+4.0	+5.3	165.2	+1.8
NNPA (%)	0.4	+2 bps	+6 bps	0.4	+2 bps
RoA (%)	1.9	-4 bps	-24 bps	1.8	+3 bps

Source: Company, Axis Securities Research

(CMP as of 18 October, 2024)

CMP (Rs)	1,681
Upside /Downside (%)	20%
High/Low (Rs)	1,792/1,363
Market cap (Cr)	12,82,848
Avg. daily vol. (6m) Shrs.	2,13,10,009
No. of shares (Cr)	763.1

**Shareholding (%)**

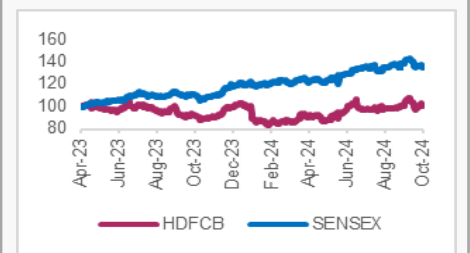
	Mar-24	Jun-24	Sep-24
Promoter	0.0	0.0	0.0
FII	47.8	47.2	48.0
MFs / UTI	23.2	24.8	24.6
Others	29.0	28.0	27.4

**Financial & Valuations**

Y/E Mar (Rs Bn)	FY25E	FY26E	FY27E
NII	1,238	1,418	1,648
PPOP	1,012	1,182	1,376
Net Profit	679	786	919
EPS (Rs)	89.2	103.4	120.8
ABV (Rs)	639.3	721.4	817.5
P/ABV (x)	2.6	2.3	2.1
RoA (%)	1.8	1.9	1.9
NNPA (%)	0.4	0.4	0.4

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E	FY27E
NII	-4.5	-7.2	-7.7
PPOP	-3.4	-4.9	-5.2
PAT	+1.2	-1.7	-0.9

**Relative Performance**


Source: AceEquity, Axis Securities Research

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## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum owing to the bank's inability to ensure deposit mobilization which could potentially derail earnings momentum for the bank.
- Slower substitution of higher-cost debt with lower cost deposits could continue to hurt margins

## Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent		2.3x Sep'26E Adj. BV	1,770
<b>Subsidiaries</b>			
HDB Financial Services	94.5	2.5x Sep'26E BV	69
HDFC Securities	94.9	16x Sep'26E EPS	36
HDFC Life	50.3	2.5x Sep'26E EV	115
HDFC AMC	52.5	36x Sep'26E EPS	84
HDFC Ergo	50.5	25x Sep'26E EPS	14
Total Subsidiary Value			319
Less: 20% holding discount			64
Net Value of Sub.			255
Target Price			2,025
CMP			1,681
<b>Potential Upside</b>			<b>20%</b>

Source: Axis Securities Research

## Change in Estimates

(Rs Bn)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	1238	1418	1649	1297	1528	1786	-4.5	-7.2	-7.7
PBP	1012	1181	1375	1049	1241	1450	-3.4	-4.9	-5.2
PAT	679	786	919	671	800	927	1.2	-1.7	-0.9

Source: Axis Securities Research

**Results Review (Standalone)**

(Rs Bn)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	301.1	273.9	10.0	298.4	0.9	599.5	509.8	17.6
Non-Interest Income	114.8	107.1	7.2	106.7	7.6	221.5	199.4	11.1
Operating expenses	168.9	154.0	9.7	166.2	1.6	335.1	294.6	13.8
-- Staff Cost	59.9	51.7	15.8	58.5	2.3	118.3	99.5	18.9
Pre provision profits	247.1	226.9	8.9	238.8	3.4	485.9	414.7	17.2
Provisions and contingencies	27.0	29.0	-7.0	26.0	3.8	53.0	57.6	-8.0
PBT	220.1	197.9	11.2	212.8	3.4	432.9	357.0	21.2
Provision for Tax	51.8	38.1	35.9	51.1	1.5	102.9	77.7	32.4
PAT	168.2	159.8	5.3	161.7	4.0	330.0	279.3	18.1
Deposits	25,001	21,729	15.1	23,791	5.1	25,001	21,729	15.1
CASA Deposits	8,835	8,174	8.1	8,635	2.3	8,835	8,174	8.1
CASA Ratio %	35.3	37.6	-228bps	36.3	-96bps	35.3	37.6	-228bps
Advances	24,951	23,312	7.0	24,635	1.3	24,951	23,312	7.0
Retail	13,155	11,802	11.5	12,817	2.6	13,155	11,802	11.5
CRB	7,427	6,339	17.2	7,128	4.2	7,427	6,339	17.2
Agri	1,081	905	19.5	1,001	8.0	1,081	905	19.5
Corporate	4,671	4,281	9.1	4,805	-2.8	4,671	4,281	9.1
C/D Ratio (Net)	99.8	107.3	-749bps	103.5	-375bps	99.8	107.3	-749bps
NIM (%)	3.5	3.4	6bps	3.5	-1bps	3.5	3.8	-26bps
Cost-Income ratio (%)	40.6	40.4	18bps	41.0	-43bps	40.8	41.6	-80bps
Gross NPA (%)	1.4	1.3	2bps	1.3	3bps	1.4	1.3	2bps
Net NPA (%)	0.4	0.4	6bps	0.4	2bps	0.4	0.4	6bps
PCR (%)	69.9	74.4	-453bps	71.2	-131bps	69.9	74.4	-453bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Net Interest Income</b>	<b>1,085</b>	<b>1,238</b>	<b>1,418</b>	<b>1,649</b>
Other Income	492	469	549	630
<b>Total Income</b>	<b>1,578</b>	<b>1,707</b>	<b>1,968</b>	<b>2,279</b>
Total Operating Exp	634	694	787	904
PPOP	<b>944</b>	<b>1,012</b>	<b>1,181</b>	<b>1,375</b>
Provisions & Contingencies	235	117	144	163
<b>PBT</b>	<b>709</b>	<b>895</b>	<b>1,037</b>	<b>1,212</b>
Provision for Tax	101	217	251	293
<b>PAT</b>	<b>608</b>	<b>679</b>	<b>786</b>	<b>919</b>

Source: Company, Axis Securities Research \*\*FY24 onwards are post-merger numbers

### Balance Sheet

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>				
Share Capital	8	8	8	8
ESOPs	27	33	40	50
Reserves	4,368	4,925	5,554	6,289
<b>Shareholder's Funds</b>	<b>4,402</b>	<b>4,965</b>	<b>5,601</b>	<b>6,347</b>
<b>Total Deposits</b>	<b>23,798</b>	<b>27,795</b>	<b>32,510</b>	<b>38,040</b>
Borrowings	6,622	5,608	5,100	5,291
Other Liabilities & Provisions	1,354	1,534	1,727	1,986
<b>Total Liabilities</b>	<b>36,176</b>	<b>39,902</b>	<b>44,938</b>	<b>51,663</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	2,191	2,365	2,766	3,237
Investments	7,024	8,065	9,108	10,657
Advances	24,849	27,063	30,373	34,650
Fixed & Other Assets	2,112	2,409	2,691	3,119
<b>Total Assets</b>	<b>36,176</b>	<b>39,902</b>	<b>44,938</b>	<b>51,663</b>

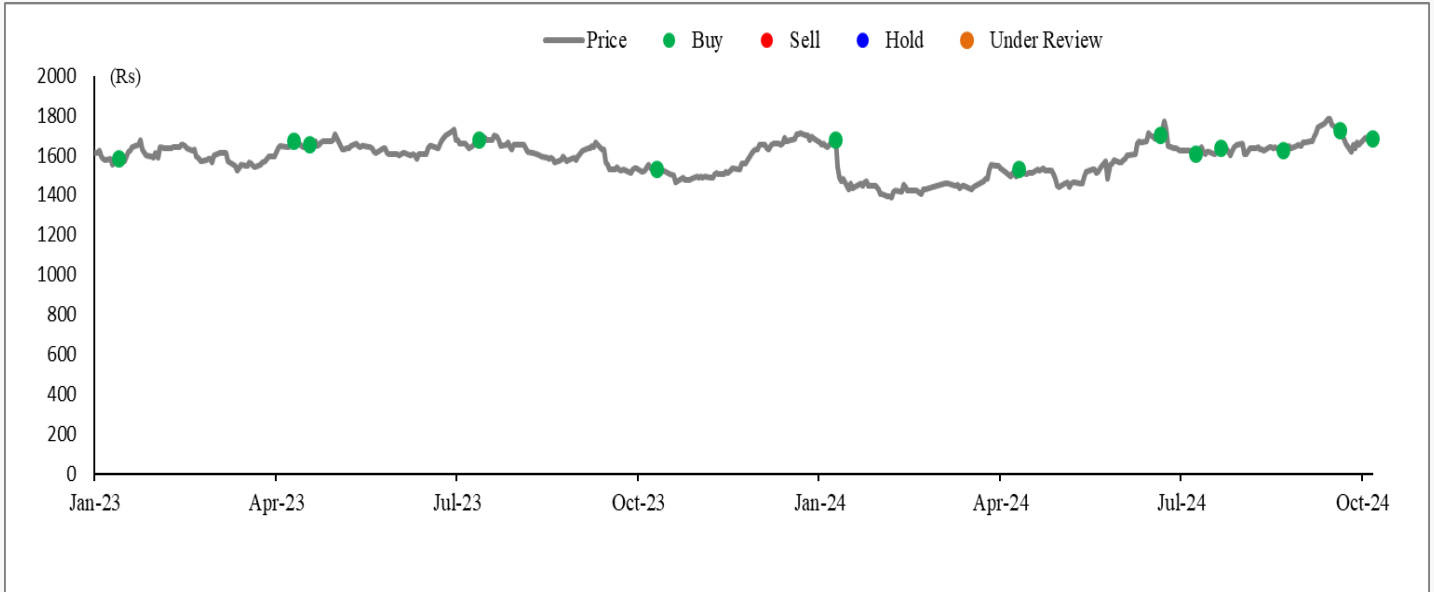
Source: Company, Axis Securities Research \*\*FY24 onwards are post-merger numbers

**Ratio Analysis**
**(%)**

Y/E March	FY24	FY25E	FY26E	FY27E
<b>VALUATION RATIOS</b>				
EPS	80.0	89.2	103.3	120.7
Earnings Growth (%)	1.3	11.4	15.8	16.9
BVPS	579.5	652.6	736.2	834.2
Adj. BVPS	568.9	639.3	721.3	817.4
ROAA (%)	2.0	1.8	1.9	1.9
ROAE (%)	14.2	14.5	14.9	15.4
P/E (x)	21.0	18.8	16.3	13.9
P/ABV (x)	3.0	2.6	2.3	2.1
Dividend Per Share	19.5	16.1	20.7	24.1
Dividend Yield (%)	1.2	1.0	1.2	1.4
<b>PROFITABILITY &amp; OPERATING EFFICIENCY</b>				
NIM (%)	3.8	3.5	3.5	3.6
Cost/Avg. Asset Ratio (%)	2.1	1.8	1.9	1.9
Cost-Income Ratio (%)	40.2	40.7	40.0	39.7
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	55.2	8.9	12.2	14.1
Deposit Growth (%)	26.4	16.8	17.0	17.0
C-D Ratio (%)	104.4	97.4	93.4	91.1
Equity/Assets (%)	12.2	12.4	12.5	12.3
Equity/Advances (%)	17.7	18.3	18.4	18.3
CAR (%)	18.3	17.6	17.5	16.9
Tier 1 CAR (%)	16.3	15.8	15.8	15.4
<b>ASSET QUALITY</b>				
Gross NPLs (Rs Bn)	311.7	336.1	377.5	424.3
Net NPLs (Rs Bn)	80.9	100.9	113.4	127.4
Gross NPLs (%)	1.3	1.2	1.2	1.2
Net NPLs (%)	0.3	0.4	0.4	0.4
Coverage Ratio (%)	74.0	70.0	70.0	70.0
Provisions/Avg. Adv(%)	1.0	0.5	0.5	0.5
<b>ROAA TREE (%)</b>				
Net Interest Income	3.6	3.3	3.3	3.4
Non-Interest Income	1.6	1.2	1.3	1.3
Operating Cost	2.1	1.8	1.9	1.9
Provisions	0.8	0.3	0.3	0.3
ROAA	1.8	1.8	1.8	1.9
Leverage (x)	8.4	8.1	8.0	8.1
ROAE	14.8	14.4	14.8	15.3

Source: Company, Axis Securities Research \*\*FY24 onwards are post-merger numbers

## HDFC Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
16-Jan-23	BUY	1,860	Result Update
17-Apr-23	BUY	1,975	Result Update
24-Apr-23	BUY	1,975	Result Update
18-Jul-23	BUY	2,050	Result Update
17-Oct-23	BUY	1,925	Result Update
17-Jan-24	BUY	1,975	Result Update
20-Apr-24	BUY	1,885	Result Update
01-Jul-24	BUY	2,000	Top Picks
22-Jul-24	BUY	1,950	Result Update
01-Aug-24	BUY	1,950	Top Picks
02-Sep-24	BUY	1,950	Top Picks
01-Oct-24	BUY	1,950	Top Picks
21-Oct-24	BUY	2,025	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.