

**NIMs Surprise; Full Impact of Rate Cuts to be Visible from Q1FY26 Onwards!**
**Est. Vs. Actual for Q4FY25:** NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**
**Changes in Estimates post Q4FY25**
**FY26E/27E (%)**: NII: -1.4/-1.3 PPOP: -1.5/-1.9; PAT: -0.3/-1.4

**Recommendation Rationale**

- **NIMs remain priority:** In Q4FY25, HDFCB's NIMs surprised positively, inching up by ~11bps QoQ, supported by stable CoF, lower interest reversals and support from CRR cut in Dec'24. Since the merger, the bank has maintained its NIMs in a narrow range of 3.4-3.5% and the management expects to maintain margins within a similar range, barring quarterly variations. The yield repricing on repo-linked loans generally happens within a quarter, with mortgage and corporate loans repricing immediately. The repricing pattern across products is not uniform. With the regulator easing the rate cycle from Feb'24, the impact of the same on yields of repo-linked loans in Q4FY25 was limited, and the full impact on margins will be visible from Q1FY26 onwards. The bank continues to prioritise NIMs over growth and not indulge in irrational pricing across segments. **We believe HDFCB's margins will continue to operate in the range of 3.4-3.5% over FY26-27E with support from (i) an optimal portfolio mix while balancing between retail and non-retail loans, (ii) the scope to replace high-cost borrowings (intend to bring down borrowings mix to 8-9%) with retail granular deposits, and (iii) benefit flowing in from gradual downward repricing of deposits.**
- **LDR improvement to continue:** HDFCB's endeavour to bring down its LDR aggressively over FY25 has yielded results with LDR at 96.5% in Mar'25 vs 104.4% in Mar'24. This improvement was driven by the bank's conscious efforts to improve LDR with further support from an unfavourable pricing environment. Hereon, the bank intends to further bring down the LDR to pre-merger levels of 85-90% by FY27E, with improvement being less steep vs FY25. Thus, we expect the pace of credit growth to improve in FY26E and mirror systemic credit growth. The bank's focus on asset quality and profitable growth remains unabated. **We expect HDFCB to deliver a steady 13/18% CAGR advances/deposits growth over FY25-27E, driving LDR improvement to ~88% by FY27E.**
- **ROA optimisation underway:** NIMs are a function of the repo rate movements and will remain volatile (5-10bps) based on the rate changes. The bank has been an outlier in terms of asset quality by maintaining pristine asset quality metrics across credit cycles. With expectations of no major headwinds on asset quality, credit costs hereon are expected to remain steady. The bank has been investing in ramping up its distribution strength and will now look to leverage this strength to improve branch and employee-level productivity. This should aid the Cost-Income ratio over the medium term, an RoA improvement driver. **Thus, the management remains confident of maintaining RoA, similar to historical levels ranging between 1.9-2.1%.**

**Sector Outlook: Positive**

**Company Outlook:** HDFCB has been consistently performing on its guidance in its endeavour to revert to its pre-merger levels across metrics, and its execution capabilities remain strong. Supported by (i) Adequate levers to support NIMs, (ii) Controlled Opex growth and improving productivity ensuring Opex ratio moderation, (iii) Pristine asset quality ensuring controlled credit costs should enable HDFCB to deliver an improving trend on return ratios. RoA/RoE is expected to range between 1.8-1.9%/14-15% over FY26-27E.

**Current Valuation:** 2.5x FY27E ABV; **Earlier Valuation:** 2.4x Sep'26E ABV

**Current TP:** Rs 2,250/share; **Earlier TP:** Rs 2,150/share

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

**Financial Performance**

- **Operational Performance:** HDFCB's advances (net) grew by 8/3% YoY/QoQ. Retail grew by 9/2% YoY/QoQ, CRB by 13/4% YoY/QoQ, and corporate grew by -4/2% YoY/QoQ. Deposits growth improved registering a growth of 14/6% YoY/QoQ. CASA Deposits growth was muted at 4/8% YoY/QoQ, mainly driven by CA deposits (+1/18% YoY/QoQ) while SA deposits growth was modest at 5/4% YoY/QoQ. TDs grew by 20/5% YoY/QoQ. CASA Ratio stood at 34.8% vs 34% QoQ. C-D Ratio improved to 97.4% vs 99.2% QoQ.
- **Financial Performance:** NII grew by 10/5% YoY/QoQ, on an advances growth of 8/3% YoY/QoQ, with core NIMs (reported) improved 11 bps QoQ. NIMs stood at 3.54% vs 3.43% QoQ. Non-interest income growth stood at 5% QoQ/-34% YoY. Slower non-interest income growth was off-set by controlled Opex growth, which grew by 3% QoQ and was down 2% YoY. C-I Ratio stood steady at 39.8% vs 40.6%. PPOP grew by 6% QoQ. Credit costs (calc.) stood at 49bps vs 50bps QoQ. PAT grew by 7/5% YoY/QoQ.
- **Asset quality:** GNPA/NNPA improved marginally to 1.33/0.43% vs 1.42/0.46% QoQ. Slippage ratio stood at 1.2% vs 1.4% QoQ.

**Key Financials (Standalone)**

(Rs Bn)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	321	+4.6	+10.3	311	+3.2
PPOP	265	+6.1	-9.4	257	+3.5
Net Profit	176	+5.3	+6.7	172	+2.6
NNPA (%)	0.4	-3 bps	+10 bps	0.4	+2 bps
RoA (%)	1.8	+4 bps	-12 bps	1.8	+5 bps

Source: Company, Axis Securities Research

(CMP as of 17<sup>th</sup> April, 2025)

CMP (Rs)	1,907
Upside /Downside (%)	18%
High/Low (Rs)	1919/1430
Market cap (Cr)	14,58,934
Avg. daily vol. (6m) Shrs.	1,42,79,597
No. of shares (Cr)	765.2

**Shareholding (%)**

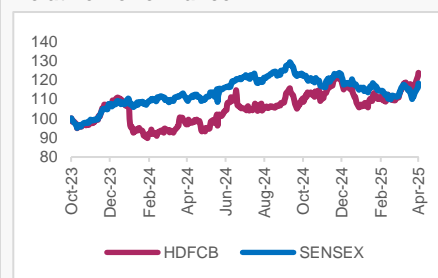
	Sep-24	Dec-24	Mar-25
Promoter	0.0	0.0	0.0
FII	48.0	49.3	48.4
MFs / UTI	24.6	24.0	25.3
Others	27.4	26.7	26.3

**Financial & Valuations**

Y/E Mar (Rs Bn)	FY25	FY26E	FY27E
NII	1,227	1,345	1,560
PPOP	1,001	1,122	1,323
Net Profit	673	746	880
EPS (Rs)	88.0	97.6	115.0
ABV (Rs)	641.1	713.2	798.3
P/ABV (x)	3.0	2.7	2.4
RoA (%)	1.8	1.8	1.9
NNPA (%)	0.4	0.4	0.4

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E
NII	-1.4	-1.3
PPOP	-1.5	-1.9
PAT	-0.3	-1.4

**Relative Performance**


Source: AceEquity, Axis Securities Research

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## Key Takeaways

- **Focus on Retail deposits remains unabated:** The bank's penetration of TDs in its existing customer base is low and it sees an opportunity to improve it over a period of time with having a predominant share the customer wallet share. The bank is selective in participating in corporate deposits (primarily large relationship clients) where rates tend to be higher than retail deposits, particularly for larger corporates. Similarly, wholesale deposits, which have been priced meaningfully higher over the past few quarters, have been a non-focus area for the bank. A general trend visible in a rate cut cycle has been improving CASA ratios. While it may be early to conclude that CASA ratios have not improved so far, the management believes it could witness an improvement over the current rate easing cycle, though gradually.
- **Meeting PSL targets:** The management has indicated that the bank is comfortably meeting its PSL targets at an aggregate level of 40%. However, the shortfall of ~1% in the sub-categories of Small and Marginal Farmers (SMF) and Weaker sections is met through IBPC, PSLC, and other means, with RIDF being the least favoured alternative.
- **Reshuffling the CRB segment:** The bank has undertaken a reorganisation exercise in the rural segment to drive synergies and capture the growth opportunities available in the segment. As a part of the reshuffle, the agri portfolio now forms part of the retail management team handling the 2-wheeler and Auto portfolio. The team will look to leverage the existing reach to 2.25 Lk villages and expand the product offering to the existing customer base.

## Outlook

With the LDR below 100% and the trajectory in line with the bank's intent to bring it down to pre-merger levels over the medium term, we expect credit growth to pick up in FY26 and mirror systemic credit growth. The bank will continue to flex its distribution strength and RM outreach to maintain strong deposit growth. We believe the pressure on NIMs in the rate cut cycle would be adequately offset by improving cost ratios driven by better productivity and efficiency, thereby enabling the bank maintain RoA at 1.8-1.9% over the medium term. We expect HDFCB to deliver a 13/18/13/14% CAGR Credit/Deposit/Earnings growth over FY25-27E.

## Valuation & Recommendation

We value the core book at 2.5x FY27E ABV vs. its current valuation of 2.4x FY27E ABV and assign a value of Rs 255/share to subsidiaries, thereby arriving at a target price of Rs 2,250/share, implying an upside of 18% from the CMP. **We maintain our BUY recommendation on the stock.**

## 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

## Change in Estimates

Rs Bn	Change in Estimates					
	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	1,345	1,560	1,364	1,580	-1.4	-1.3
PBP	1,122	1,323	1,139	1,348	-1.5	-1.9
Provisions	132	156	138	155	-4.4	0.8
PAT	746	880	749	892	-0.3	-1.4

Source: Axis Securities Research

## Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent		2.5x FY27E Adj. BV	1,994
<b>Subsidiaries</b>			
HDB Financial Services	94.3	3x FY27E BV	80
HDFC Securities	94.6	18x FY27E EPS	38
HDFC Life	50.3	2.4x FY27E EV	118
HDFC AMC	52.5	32x FY27E EPS	73
HDFC Ergo	50.3	22x FY27E EPS	9
Total Subsidiary Value			319
Less: 20% holding discount			64
Net Value of Sub.			255
Target Price			2,250
CMP			1,907
Potential Upside			18%

Source: Axis Securities Research

**Results Review (Standalone)**

Rs. Bn	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
Net Interest Income	320.7	290.8	10.3	306.5	4.6	1226.7	1085.3	13.0
Non-Interest Income	120.3	181.7	-33.8	114.5	5.0	456.3	492.4	-7.3
Operating expenses	175.6	179.7	-2.3	171.1	2.6	681.7	633.9	7.6
-- Staff Cost	61.2	69.4	-11.8	59.5	2.8	239.0	222.4	7.5
Pre-provision profits	265.4	292.7	-9.4	250.0	6.1	1001.3	943.9	6.1
Provisions and contingencies	31.9	135.1	-76.4	31.5	1.2	116.5	234.9	-50.4
PBT	233.4	157.6	48.1	218.5	6.9	884.8	709.0	24.8
Provision for Tax	57.3	-7.5	-864.4	51.1	12.1	211.3	100.8	109.6
PAT	176.2	165.1	6.7	167.4	5.3	673.5	608.1	10.7
Deposits	27,147	23,798	14.1	25,638	5.9	27,147	23,798	14.1
CASA Deposits	9,445	9,090	3.9	8,725	8.3	9,445	9,090	3.9
CASA Ratio %	34.8	38.2	-340bps	34.0	76bps	34.8	38.2	-340bps
Advances	26,196	24,849	5.4	25,182	4.0	26,196	24,849	5.4
Retail	13,758	12,628	8.9	13,425	2.5	13,758	12,628	8.9
CRB	7,865	6,969	12.9	7,532	4.4	7,865	6,969	12.9
Agri	1,184	1,053	12.4	1,076	10.0	1,184	1,053	12.4
Corporate	4,926	5,109	-3.6	4,806	2.5	4,926	5,109	-3.6
C/D Ratio	96.5	104.4	-792bps	98.2	-173bps	96.5	104.4	-792bps
NIM (%)	3.5	3.4	10bps	3.4	11bps	3.5	3.6	-9bps
Cost-Income ratio (%)	39.8	38.0	178bps	40.6	-81bps	40.5	40.4	13bps
Gross NPA (%)	1.3	1.2	9bps	1.4	-9bps	1.3	1.2	9bps
Net NPA (%)	0.4	0.3	10bps	0.5	-3bps	0.4	0.3	10bps
PCR (%)	67.9	74.0	-618bps	67.8	3bps	67.9	74.0	-618bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Bn)

Y/E March	FY24	FY25	FY26E	FY27E
<b>Net Interest Income</b>	<b>1,085</b>	<b>1,227</b>	<b>1,345</b>	<b>1,560</b>
Non-Interest Income	492	456	532	617
<b>Total Income</b>	<b>1,578</b>	<b>1,683</b>	<b>1,877</b>	<b>2,177</b>
Total Operating Exp	634	682	755	854
PPOP	<b>944</b>	<b>1,001</b>	<b>1,122</b>	<b>1,323</b>
Provisions & Contingencies	235	116	132	156
<b>PBT</b>	<b>709</b>	<b>885</b>	<b>990</b>	<b>1,167</b>
Provision for Tax	101	211	244	287
<b>PAT</b>	<b>608</b>	<b>673</b>	<b>746</b>	<b>880</b>

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

### Balance Sheet

(Rs Bn)

Y/E March	FY24	FY25	FY26E	FY27E
<b>SOURCES OF FUNDS</b>				
Share Capital	8	8	8	8
ESOPs	27	38	46	56
Reserves	4,368	4,969	5,528	6,188
<b>Shareholder's Funds</b>	<b>4,402</b>	<b>5,014</b>	<b>5,582</b>	<b>6,252</b>
<b>Total Deposits</b>	<b>23,798</b>	<b>27,147</b>	<b>31,824</b>	<b>37,563</b>
Borrowings	6,622	5,479	5,002	4,991
Other Liabilities & Provisions	1,354	1,461	1,695	1,951
<b>Total Liabilities</b>	<b>36,176</b>	<b>39,102</b>	<b>44,103</b>	<b>50,756</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	2,191	2,396	2,872	3,390
Investments	7,024	8,364	9,552	11,275
Advances	24,849	26,196	29,192	33,230
Fixed & Other Assets	2,112	2,147	2,487	2,862
<b>Total Assets</b>	<b>36,176</b>	<b>39,102</b>	<b>44,103</b>	<b>50,756</b>

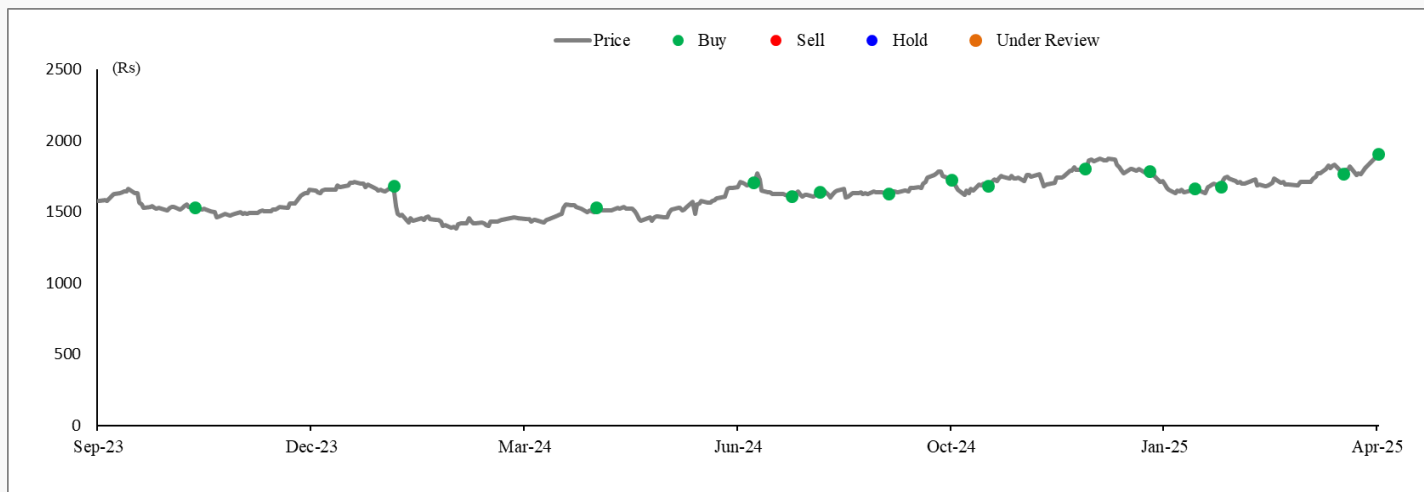
Source: Company, Axis Securities Research. \*\*FY24 onwards are post-merger numbers

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

Y/E March	FY24	FY25	FY26E	FY27E
<b>VALUATION RATIOS</b>				
EPS	80.0	88.0	97.6	115.0
Earnings Growth (%)	1.3	9.9	10.8	17.9
BVPS	579.5	655.3	729.4	817.0
Adj. BVPS	568.9	640.5	712.5	797.7
ROAA (%)	2.0	1.8	1.8	1.9
ROAE (%)	14.2	14.3	14.1	14.9
P/E (x)	23.8	21.7	19.5	16.6
P/ABV (x)	3.4	3.0	2.7	2.4
Dividend Per Share	19.5	22.0	24.4	28.7
Dividend Yield (%)	1.0	1.2	1.3	1.5
<b>PROFITABILITY &amp; OPERATING EFFICIENCY</b>				
NIM (%)	3.8	3.5	3.4	3.5
Cost/Avg. Asset Ratio (%)	2.1	1.8	1.8	1.8
Cost-Income Ratio (%)	40.2	40.5	40.2	39.2
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	55.2	5.4	11.4	13.8
Deposit Growth (%)	26.4	14.1	17.2	18.0
C-D Ratio (%)	104.4	96.5	91.7	88.5
Equity/Assets (%)	12.2	12.8	12.7	12.3
Equity/Advances (%)	17.7	19.1	19.1	18.8
CAR (%)	18.3	17.9	17.6	16.3
Tier 1 CAR (%)	16.3	16.0	15.9	14.8
<b>ASSET QUALITY</b>				
Gross NPLs (Rs Bn)	311.7	352.2	405.9	466.5
Net NPLs (Rs Bn)	80.9	113.2	129.2	147.7
Gross NPLs (%)	1.3	1.3	1.4	1.4
Net NPLs (%)	0.3	0.4	0.4	0.4
Coverage Ratio (%)	74.0	67.9	68.2	68.3
Provisions/Avg. Adv(%)	1.0	0.5	0.5	0.5
<b>ROAA TREE (%)</b>				
Net Interest Income	3.6	3.3	3.2	3.3
Non-Interest Income	1.6	1.2	1.3	1.3
Operating Cost	2.1	1.8	1.8	1.8
Provisions	0.8	0.3	0.3	0.3
ROAA	1.8	1.8	1.8	1.9
Leverage (x)	8.4	8.0	7.9	8.0
ROAE	14.8	14.2	14.1	14.9

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

## HDFC Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
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
03-Nov-24	BUY	2,025	Top Picks
01-Dec-24	BUY	2,025	Top Picks
01-Jan-25	BUY	2,025	Top Picks
23-Jan-25	BUY	2,000	Result Update
03-Feb-25	BUY	2,000	Top Picks
01-Mar-25	BUY	2,000	Top Picks
01-Apr-25	BUY	2,150	Top Picks
21-Apr-25	BUY	2,250	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.