

Progressing Well on LDR Improvement; Outlier on Asset Quality!
Est. Vs. Actual for Q3FY25: NII – INLINE; PPOP – INLINE; PAT – INLINE
Changes in Estimates post Q3FY25
FY25E/FY26E/27E (%): NII: -1.6/-3.8/-4.2 PPOP: -1.6/-3.5/-1.9; PAT: -1.6/-4.7/-2.9
Recommendation Rationale

- Progressing well on LDR improvement; Growth momentum to resume from FY26:** In line with HDFCB's stance of improving LDR aggressively to pre-merger levels of mid-80%, the bank has been progressing well with deposit growth outpacing credit growth. In Q3FY25, LDR stood at 98.2% vs 99.8% QoQ. The management has reiterated its guidance of limiting growth to below systemic growth in FY25 to accelerate LDR improvement. FY26 growth will align with industry growth, gradually improving (outpacing industry growth) from FY27E onwards. **We expect the bank's efforts to materialise with LDR dropping to ~87% by FY27E.** HDFCB continues to calibrate growth, considering concerns about both credit quality and pricing (mainly in corporate lending). The bank is re-orienting itself amidst a challenging environment, preparing to resume its growth journey, and gaining market share as macros change. Additionally, the bank remains well-capitalized to steer strong growth. Thus, going into FY26, HDFCB expects growth, led by the retail segment, to pick up. **We expect HDFCB to deliver a healthy Credit/Deposit growth of ~12/18% CAGR over FY25-27E.**
- Best-in-Class Asset Quality Metrics:** HDFCB has maintained pristine asset quality across cycles, which can be credited to its strong underwriting practices and risk-calibrated lending. While slippages in Q3FY25 were marginally higher, led by seasonally high agri slippages, the management indicated that ex-agri, slippages have remained flat QoQ. The management also emphasised that asset quality metrics across segments remain best-in-class, and the bank is confident that these trends are sustaining. **We do not expect any major asset quality challenges and believe credit costs are likely to be contained at ~50bps over the medium term.**
- Controlled Opex growth:** The management has indicated that the bank will pull back from investing in people, technology and distribution networks. However, Opex growth is expected to remain modest, with improving productivity driving Opex ratios, thereby partially supporting gradual RoA recovery. We expect the C-I Ratio to improve gradually and settle at <40% in FY27E.

Sector Outlook: Positive

Company Outlook: The bank's efforts at aggressively improving LDR are yielding results, and we expect the LDR to improve to ~87% by FY27E. Amidst challenges on deposit mobilisation, especially CASA deposits, the bank continues to ensure to maintain a strong pace of TD growth to enable HDFCB to build a sticky customer base. HDFCB remains an outlier among banks because of its strong asset quality performance, given the rising stress, especially in the unsecured segment. Thus, supported (i) Adequate levers to improve NIMs, (ii) Controlled Opex growth and improving productivity ensuring cost ratio moderation, and (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 FY25-27E. **Faster improvements in LDR and NIM expansion remain key re-rating levers for the bank.**

Current Valuation: 2.3x Sep'26E ABV; Earlier Valuation: 2.3x Sep'26E ABV
Current TP: Rs 2,000/share; Earlier TP: Rs 2,025/share
Recommendation: We maintain our BUY recommendation on the stock.
Alternative BUY Ideas from our Sector Coverage
Kotak Mahindra Bank (TP – Rs 2,140/share)
Financial Performance

- Operational Performance:** HDFCB's advances (net) grew by 3/1% YoY/QoQ. Deposits growth improved, registering a growth of 16/3% YoY/QoQ. CASA Deposits growth was muted at 4/-1% YoY/QoQ, while TDs grew by 23/5% YoY/QoQ. CASA Ratio stood at 34% vs 35.3% QoQ. LDR improved to 99.2% vs 100.8% QoQ.
- Financial Performance:** NII grew by 8/2% YoY/QoQ, with core NIMs (reported) down marginally by 3bps QoQ. NIMs stood at 3.43% vs 3.46% QoQ. Non-interest income growth was slower than expected at 3% YoY/flat QoQ. Fee income (1.3% of loans) grew slower at 18%/flat YoY/QoQ. Treasury gain was at ~Rs 0.7 Bn vs Rs 2.9 Bn QoQ. Slower non-interest income growth was offset by modest Opex growth, which grew by 7/1% YoY/QoQ. C-I Ratio stood steady at 40.6%, flat QoQ. PPOP grew by 6/1% YoY/QoQ. Credit costs (calc.) stood at 50bps vs 43bps QoQ. PAT grew by 2% YoY/ flatish QoQ.
- Asset quality:** GNPA/NNPA increased marginally to 1.42/0.46% vs 1.36/0.41% QoQ. Slippages are likely to be higher due to seasonally high agri slippages. Barring agri slippages, GNPA would have been 1.19%.

Key Financials (Standalone)

(Rs Bn)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	306.5	+1.8	+7.7	307.8	-0.4
PPOP	250.0	+1.2	+5.7	251.0	-0.4
Net Profit	167.4	-0.7	+1.5	167.4	0.0
NNPA (%)	0.5	+5 bps	+15 bps	0.4	+4 bps
RoA (%)	1.8	-6 bps	-20 bps	1.8	+1 bps

Source: Company, Axis Securities Research

 (CMP as of 22nd January, 2025)

CMP (Rs)	1,665
Upside /Downside (%)	20%
High/Low (Rs)	1,880/1,363
Market cap (Cr)	12,73,483
Avg. daily vol. (6m) Shrs.	1,84,78,984
No. of shares (Cr)	764.8

Shareholding (%)

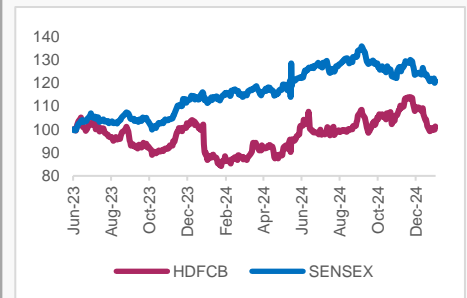
	Jun-24	Sep-24	Dec-24
Promoter	0.0	0.0	0.0
FII	47.2	48.0	49.3
MFs / UTI	24.8	24.6	24.0
Others	28.0	27.4	26.7

Financial & Valuations

Y/E Mar (Rs Bn)	FY25E	FY26E	FY27E
NII	1,219	1,364	1,580
PPOP	996	1,139	1,348
Net Profit	668	749	892
EPS (Rs)	87.8	98.5	117.3
ABV (Rs)	637.2	714.8	807.6
P/ABV (x)	2.6	2.3	2.1
RoA (%)	1.8	1.8	1.9
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-1.6	-3.8	-4.2
PPOP	-1.6	-3.5	-1.9
PAT	-1.6	-4.7	-2.9

Relative Performance


Source: AceEquity, Axis Securities Research

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Key Takeaways

- Benefits of merger to be visible in the coming quarters:** The bank has gained substantial traction on converting incremental new-to-bank mortgage customers to liability customers. Currently, ~1.9 Mn customers have been converted into liability customers out of the 4 Mn eHDFC accounts. Additionally, HDFCB intends to continue to make strides to expand its wallet share amongst these customers by cross-selling other retail products. After the merger, the bank maintained NIMs in a narrow range. ~70% of the bank's portfolio is floating, with ~45% of loans being Repo/T-bill linked. Going forward, though the floating book would get re-priced in a rate cut cycle, we expect NIMs to find support with (1) Tailwinds on CoF with the repayment of high-cost borrowings (of eHDFC), (2) Increasing low-cost CASA deposits, (3) Gradually improving product mix aiding yield. We factor in a gradual NIM improvement over the medium term, with margins ranging between 3.7-3.8%. Controlled opex growth, improved productivity, and benign credit costs would further supplement RoA improvement. **We expect RoA to improve to ~1.9% by FY27 from 1.8% over FY25-26E, with RoE ranging between 14-15% over FY25-27E.**

Outlook

- Given HDFCB's accelerated efforts to reduce LDR alongside its cautious approach in terms of credit quality and pricing, we trim our credit growth estimates marginally, driving an NII/Earnings cut of 3-4% each over FY26-27E, while broadly maintaining our FY25 estimates. However, backed by expectations of gradually improving margins, healthy fee income growth, controlled Opex growth and stable credit costs, we expect HDFCB to deliver a 12/18/16% CAGR Credit/Deposit/Earnings growth over FY25-27E.

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 248/share to subsidiaries, thereby arriving at a target price of Rs 2,000/share. This implies an upside of 20% 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 mobilisation, potentially derailing the bank's earnings momentum.
- Slower substitution of higher-cost debt with lower-cost deposits could continue to hurt margins

Change in Estimates

(Rs Bn)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	1219	1364	1580	1238	1418	1649	-1.6	-3.8	-4.2
PBP	996	1139	1348	1012	1181	1375	-1.6	-3.5	-1.9
PAT	668	749	892	679	786	919	-1.6	-4.7	-2.9

Source: Axis Securities Research

Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent		2.3x Sep'26E Adj. BV	1,751
Subsidiaries			
HDB Financial Services	94.5	3x Sep'26E BV	78
HDFC Securities	94.6	18x Sep'26E EPS	33
HDFC Life	50.3	2.3x Sep'26E EV	108
HDFC AMC	52.5	36x Sep'26E EPS	76
HDFC Ergo	50.5	25x Sep'26E EPS	14
Total Subsidiary Value			309
Less: 20% holding discount			62
Net Value of Sub.			248
Target Price			2,000
CMP			1,665
Potential Upside			20%

Source: Axis Securities Research

Results Review (Standalone)

Rs. Bn	Q3FY25	Q3FY24	% YoY	Q2FY25	% QoQ	9MFY25	9MFY24	% YoY
Net Interest Income	306.5	284.7	7.7	301.1	1.8	906.0	794.6	14.0
Non-Interest Income	114.5	111.4	2.8	114.8	-0.3	336.0	310.7	8.1
Operating expenses	171.1	159.6	7.2	168.9	1.3	506.2	454.2	11.5
-- Staff Cost	59.5	53.5	11.2	59.9	-0.6	177.8	153.0	16.2
Pre provision profits	250.0	236.5	5.7	247.1	1.2	735.9	651.1	13.0
Provisions and contingencies	31.5	42.2	-25.2	27.0	16.8	84.6	99.8	-15.3
PBT	218.5	194.3	12.4	220.1	-0.7	651.3	551.3	18.1
Provision for Tax	51.1	30.6	67.1	51.8	-1.4	154.0	108.3	42.2
PAT	167.4	163.7	2.2	168.2	-0.5	497.3	443.0	12.3
Deposits								
Deposits	25,638	22,140	15.8	25,001	2.5	25,638	22,140	15.8
CASA Deposits	8,725	8,357	4.4	8,835	-1.2	8,725	8,357	4.4
CASA Ratio %	34.0	37.7	-371bps	35.3	-131bps	34.0	37.7	-371bps
Advances								
Advances	25,182	24,461	3.0	24,951	0.9	25,182	24,461	3.0
Retail	13,425	12,188	10.1	13,155	2.1	13,425	12,188	10.1
CRB	7,532	6,800	10.8	7,427	1.4	7,532	6,800	10.8
Agri	1,076	930	15.7	1,081	-0.5	1,076	930	15.7
Corporate	4,806	4,363	10.2	4,671	2.9	4,806	4,363	10.2
C/D Ratio								
C/D Ratio	98.2	110.5	-1226bps	99.8	-158bps	98.2	110.5	-1226bps
NIM (%)								
NIM (%)	3.4	3.4	3bps	3.5	-3bps	3.5	3.6	-14bps
Cost-Income ratio (%)								
Cost-Income ratio (%)	40.6	40.3	33bps	40.6	2bps	40.8	41.2	-43bps
Gross NPA (%)								
Gross NPA (%)	1.4	1.3	16bps	1.4	6bps	1.4	1.3	16bps
Net NPA (%)								
Net NPA (%)	0.5	0.3	15bps	0.4	5bps	0.5	0.3	15bps
PCR (%)								
PCR (%)	67.8	75.3	-746bps	69.9	-207bps	67.8	75.3	-746bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,085	1,219	1,364	1,580
Non-Interest Income	492	463	542	637
Total Income	1,578	1,681	1,906	2,216
Total Operating Exp	634	685	766	868
PPOP	944	996	1,139	1,348
Provisions & Contingencies	235	115	138	155
PBT	709	881	1,001	1,193
Provision for Tax	101	213	252	301
PAT	608	668	749	892

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

Balance Sheet

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	8	8	8	8
ESOPs	27	33	40	50
Reserves	4,368	4,916	5,515	6,229
Shareholder's Funds	4,402	4,956	5,563	6,287
Total Deposits	23,798	27,637	32,554	38,430
Borrowings	6,622	5,197	4,301	4,108
Other Liabilities & Provisions	1,354	1,511	1,696	1,952
Total Liabilities	36,176	39,301	44,113	50,776
APPLICATION OF FUNDS				
Cash & Bank Balance	2,191	2,628	2,933	3,366
Investments	7,024	8,295	9,771	11,535
Advances	24,849	26,142	28,922	33,013
Fixed & Other Assets	2,112	2,235	2,487	2,863
Total Assets	36,176	39,301	44,113	50,776

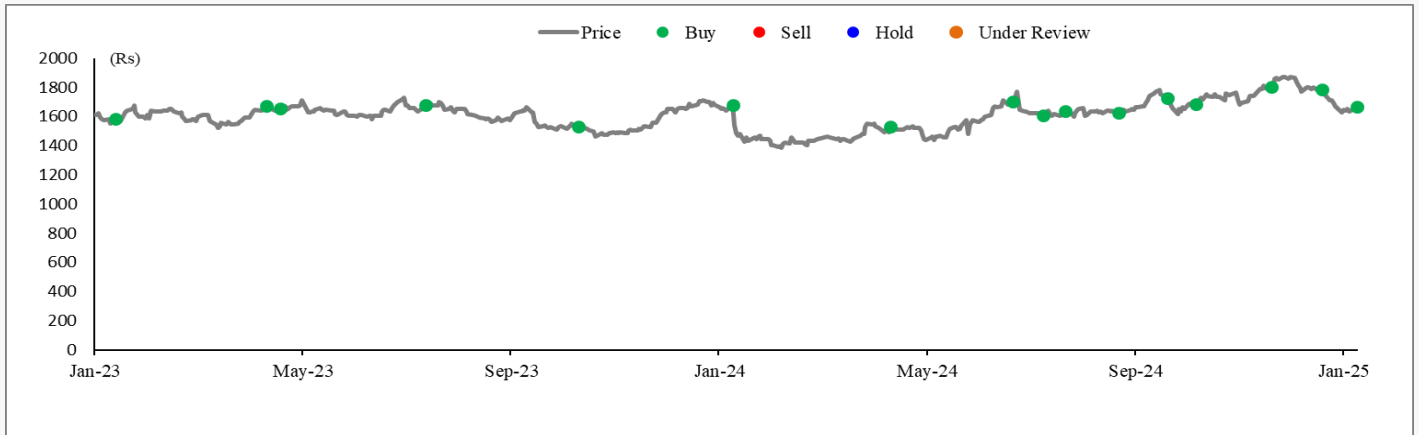
Source: Company, Axis Securities Research **FY24 onwards are post-merger numbers

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	80.0	87.8	98.5	117.3
Earnings Growth (%)	1.3	9.7	12.1	19.1
BVPS	579.5	651.4	731.2	826.4
Adj. BVPS	568.9	637.2	714.8	807.6
ROAA (%)	2.0	1.8	1.8	1.9
ROAE (%)	14.2	14.3	14.2	15.1
P/E (x)	20.8	19.0	16.9	14.2
P/ABV (x)	2.9	2.6	2.3	2.1
Dividend Per Share	19.5	15.8	19.7	23.5
Dividend Yield (%)	1.2	0.9	1.2	1.4
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	3.8	3.4	3.5	3.5
Cost/Avg. Asset Ratio (%)	2.1	1.8	1.8	1.8
Cost-Income Ratio (%)	40.2	40.7	40.2	39.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	55.2	5.2	10.6	14.1
Deposit Growth (%)	26.4	16.1	17.8	18.0
C-D Ratio (%)	104.4	94.6	88.8	85.9
Equity/Assets (%)	12.2	12.6	12.6	12.4
Equity/Advances (%)	17.7	19.0	19.2	19.0
CAR (%)	18.3	17.7	17.4	16.3
Tier 1 CAR (%)	16.3	15.9	15.7	14.8
ASSET QUALITY				
Gross NPLs (Rs Bn)	311.7	361.2	414.6	474.6
Net NPLs (Rs Bn)	80.9	108.4	124.4	142.9
Gross NPLs (%)	1.3	1.4	1.4	1.4
Net NPLs (%)	0.3	0.4	0.4	0.4
Coverage Ratio (%)	74.0	70.0	70.0	69.9
Provisions/Avg. Adv(%)	1.0	0.5	0.5	0.5
ROAA TREE (%)				
Net Interest Income	3.6	3.2	3.3	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	8.1	7.9	8.0
ROAE	14.8	14.2	14.4	15.2

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
01-Oct-24	BUY	2,025	Top Picks
02-Dec-24	BUY	2,025	Top Picks
01-Jan-25	BUY	2,025	Top Picks
23-Jan-25	BUY	2,000	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
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.