

HDFC Bank Ltd

Founder : Hasmukhbhai Parekh

Founding Year : 1977

Overview

Introduction

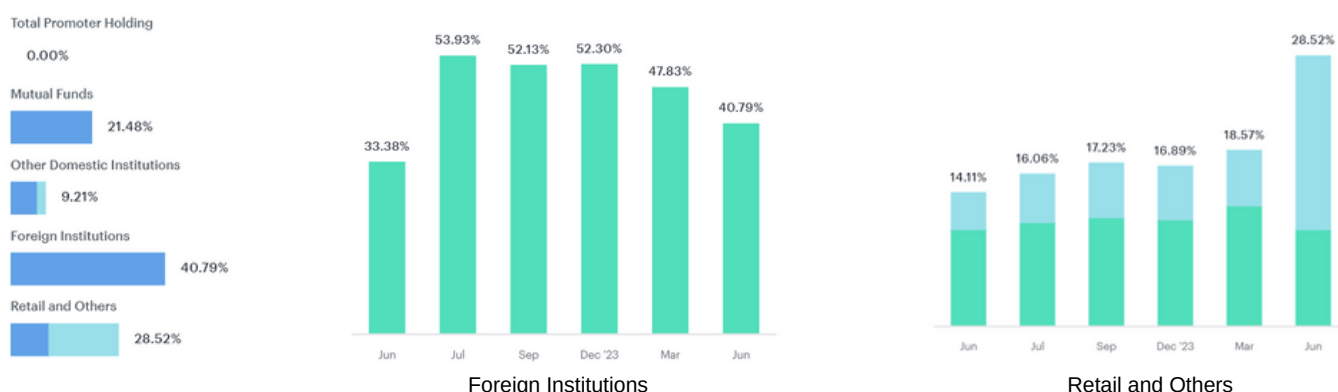
HDFC Bank has been at the forefront of banking in India, through innovation, efficiency and customer-centricity. This has earned HDFC Bank the distinction of being one of the most trusted financial institutions in the country. The Bank focuses on holistic value creation for stakeholders. It plays a critical role in achieving individuals' financial goals, fostering business growth, making a difference to the lives of people through our social initiatives and contributing to the nation's overall progress. HDFC Bank's strength lies in identifying promising opportunities and capitalising on them quickly through their execution skills. Their extensive physical and digital footprint enables them to extend world-class banking services to even remote parts of the country. They have consistently grown their balance sheet and profits while maintaining a best-in-class asset quality.

Vision, Mission And Values

HDFC Bank's mission is to be a world class Indian bank. We have a two-fold objective: first, to be the preferred provider of banking services for target retail and wholesale customer segments. The second objective is to achieve healthy growth in profitability, consistent with the bank's risk appetite.

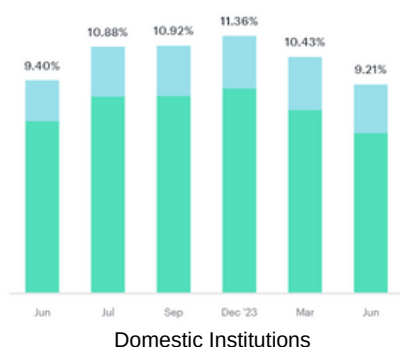
The bank is committed to maintaining the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on five core values: Operational Excellence, Customer Focus, Product Leadership, People and Sustainability.

Shareholding Pattern



Recently, FIIs' shareholding had been reduced in the Bank and on the other hand, Retail investment have been increased.

- **Red flag** if: FIIs are reducing their stake due to specific concerns about the company's performance or the industry, while retail investors are piling in without fully understanding the risks. This could signal that the stock is being driven more by sentiment than solid fundamentals.
- **Neutral/positive sign** if: FII exits are driven by macro factors (e.g., global market shifts), and the company's fundamentals remain strong. In this case, increased retail participation may reflect domestic confidence in the company.



Looking into the shareholding pattern of DIIs, it can be seen that their shareholding is also decreasing, that means that domestic confidence is not the factor that driving increase in retail investment.

This overall shareholding pattern shows a red flag.

While promoter shareholding is often a symbol of confidence from the founders or management, the **zero promoter shareholding** in HDFC Bank could be seen as a potential risk by some investors, especially if they prefer a higher insider stake as a signal of long-term commitment. Although, for some investors it often seen as a sign of transparency and a broad investor base.

Pan India Presence

Metro	Urban	Semi-Urban	Rural
2,399 Branches	1,758 Branches	3,023 Branches	1,550 Branches
1 DBUs	2 DBUs	0 DBUs	1 DBUs
1 Other BCs	14 Other BCs	193 Other BCs	268 Other BCs
299 CSC BC	688 CSC BC	2,302 CSC BC	11,417 CSC BC

$$\begin{array}{rcl}
 \mathbf{8,738^*} & + & \mathbf{15,182} \\
 \text{Total Branches} & & \text{Total Business Correspondents (BCs)} \\
 & = & \mathbf{23,920} \\
 & & \text{Total Banking Outlets}
 \end{array}$$

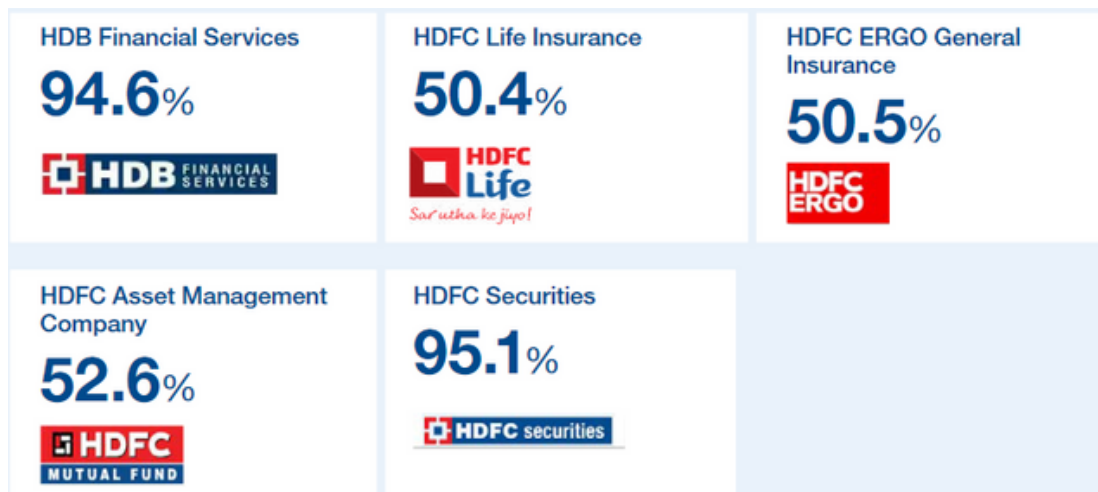
8,006 Metro	5,317 Urban	5,854 Semi-Urban	1,761 Rural	20,938 Total ATMs + Cash Recycler Machines Network
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*As on March 31, 2024, including 4 overseas branches and 4 DBUs

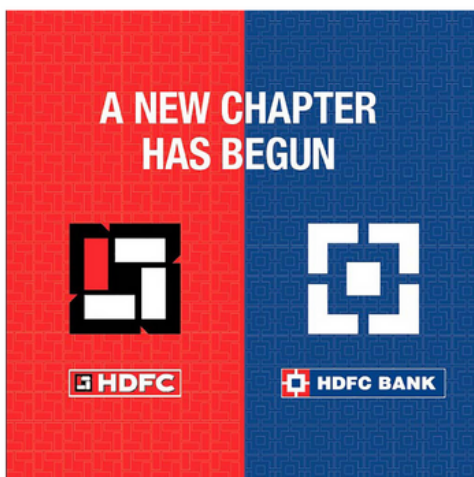
International Presence

During the year, HDFC Bank continued to cater to NRI clients and deepen its product and service proposition. The Bank has global footprints by way of representative offices and branches in Bahrain, Hong Kong, the UAE and Kenya. It also has a presence in International Financial Service Centre (IFSC) at GIFT City in Gandhinagar, Gujarat. In addition, two existing representative offices of erstwhile HDFC Limited in London and Singapore have become representative offices of the Bank post the merger. These offices are for providing loan-related services for availing housing loans and purchase of properties in India.

Subsidiaries and their holdings of HDFC Bank Ltd



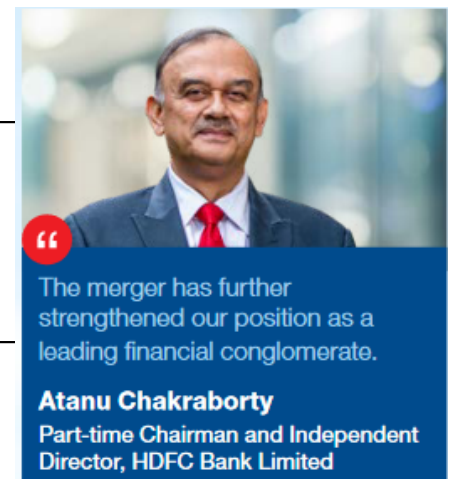
Recent Merger



During the year, HDFC Bank continued to cater to NRI clients and deepen its product and service proposition. The Bank has global footprints by way of representative offices and branches in Bahrain, Hong Kong, the UAE and Kenya. It also has a presence in International Financial Service Centre (IFSC) at GIFT City in Gandhinagar, Gujarat. In addition, two existing representative offices of erstwhile HDFC Limited in London and Singapore have become representative offices of the Bank post the merger. These offices are for providing loan-related services for availing housing loans and purchase of properties in India.

We've recently completed one year of the merger which formally came into effect on July 1, 2023. In many ways it is now a new organisation with a different balance sheet composition. For example, it has a higher proportion of borrowing at 21 per cent versus 8 per cent pre-merger and a lower CASA ratio. Key metrics of the new organisation will be different than that of pre-merger levels. For us, this is HDFC Bank 2.0 that has to be seen differently, and comparing with the past in terms of metrics would not be the right way

The merger has presented the Bank with a massive opportunity which we're working to seize. India is today in the midst of unprecedented urbanisation, fuelled by rising incomes and aspirations cutting across metros and beyond. The real estate sector as expected to reach a market size of US\$1 trillion by 2030, a significant increase from US\$ 200 billion in 2021, contributing 13 per cent to the country's GDP by 2025.



Financial Analysis

Lets look into the Income statements of the Bank

Profit & Loss													
	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024	TTM
Revenue	35,861	42,555	50,666	63,162	73,271	85,288	105,161	122,189	128,552	135,936	170,754	283,649	314,027
Interest	19,695	23,445	27,288	34,070	38,042	42,381	53,713	62,137	59,248	58,584	77,780	154,139	172,763
Expenses	12,631	13,508	16,164	20,055	23,856	29,532	34,856	45,459	52,457	56,557	63,042	174,196	208,507
Financing Profit	3,534	5,602	7,214	9,037	11,374	13,374	16,592	14,593	16,848	20,795	29,932	-44,685	-67,244
Financing Margin %	10%	13%	14%	14%	16%	16%	16%	12%	13%	15%	18%	-16%	-21%
Other Income	7,133	8,298	9,546	11,212	12,905	16,057	18,947	24,879	27,333	31,759	33,912	124,346	149,943
Depreciation	663	689	680	738	886	967	1,221	1,277	1,385	1,681	2,345	3,092	0
Profit before tax	10,004	13,211	16,079	19,511	23,393	28,464	34,318	38,195	42,796	50,873	61,498	76,569	82,699
Tax %	31%	34%	33%	34%	35%	35%	35%	29%	26%	25%	25%	15%	
Net Profit	6,903	8,768	10,703	12,821	15,317	18,561	22,446	27,296	31,857	38,151	46,149	65,446	70,231
EPS in Rs	14.44	18.22	21.32	25.32	29.81	35.66	41	49.7	57.74	68.62	82.44	84.33	89.75
Dividend Payout %	19%	19%	19%	19%	18%	18%	18%	5%	11%	23%	23%	23%	

To analyse it efficiently, we can look into the growth Table of Income statements

Financial Year	FY '15 - FY '16	FY '16 - FY '17	FY '17 - FY '18	FY '18 - FY '19	FY '19 - FY '20	FY '20 - FY '21	FY '21 - FY '22	FY '22 - FY '23	FY '23 - FY '24	TTM
Total Revenue	23.52	+15.87%	+17.60%	+22.46%	+18.50%	+6.00%	+7.58%	+22.05%	+99.35%	+13.72%
EBITDA ‡	20.82	+19.90%	+21.22%	+20.75%	+11.07%	+11.93%	+18.95%	+21.48%	+24.77%	+3.81%
PBIT ‡	21.34	+19.90%	+21.68%	+20.57%	+11.30%	+12.05%	+18.87%	+20.89%	+24.51%	+8.01%
PBT ‡	21.34	+19.90%	+21.68%	+20.57%	+11.30%	+12.05%	+18.87%	+20.89%	+24.51%	+8.01%
Net Income ‡	19.76	+19.37%	+21.14%	+20.65%	+22.04%	+16.80%	+19.54%	+20.88%	+39.27%	+6.41%
EPS	19.25	+18.05%	+19.56%	+17.00%	+18.76%	+16.10%	+18.86%	+20.15%	+17.59%	-7.72%
DPS	18.75	+15.79%	+18.18%	+15.38%	-66.67%	+160.00%	+138.46%	+22.58%	+2.63%	+0.00%
Payout ratio	-0.42	-1.92%	-1.16%	-1.38%	-71.93%	+123.95%	+100.62%	+2.02%	-12.72%	+8.37%

Sales growth was consistently growing till 2020-21, but Covid-19 led to the drop in sales growth, but after that it just not only recovered, it had given a sales growth f around 100%. The reason of this drastic boost in sales is because of expansion of services as a consequence of **merger of HDFC Ltd.**

Operating profit margins (PBIT) was consistent around 20% except the Covid phase, but it had shown a boost after that,. Although, TTM shows that recently in 12 months it had shown an increase of only 8%, which means that Bank had shown its growth only in initial time of new financial year, after that its growth have not been so good.

Net Income have shown more growth than Operating profits recently, which shows that it had **reduced its debt or saved taxes or asset management of company is optimal.**

DPS and Payout Ratio growth tells that Bank is currently **not willing to pay much dividend.**

Further we will look into the Balance sheet of the Bank

Balance Sheet												
	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Equity Capital	476	480	501	506	513	519	545	548	551	555	558	760
Reserves	36,167	43,687	62,653	73,798	91,281	109,080	153,128	175,810	209,259	246,772	288,880	455,636
Borrowings	335,588	416,677	509,762	649,587	741,550	944,817	1,080,235	1,333,041	1,511,418	1,784,970	2,139,212	3,107,503
Other Liabilities	35,492	42,776	34,181	38,321	59,000	48,770	58,898	71,430	78,279	90,639	101,783	466,296
Non controlling int	221	152	162	181	291	356	502	577	633	720	860	13,383
Trade Payables	5,479	5,611	6,085	7,378	16,667	8,222	7,040	7,584	12,424	13,094	11,791	13,933
Other liability items	29,792	37,013	27,934	30,762	42,042	40,192	51,355	63,270	65,222	76,824	89,132	438,980
Total Liabilities	407,723	503,620	607,097	762,212	892,344	1,103,186	1,292,806	1,580,830	1,799,507	2,122,934	2,530,432	4,030,194
Fixed Assets	2,773	3,026	3,225	3,667	4,000	4,008	4,369	4,776	5,248	6,432	8,431	12,604
CMP	0	0	0	0	0	0	0	0	0	0	0	0
Investments	110,960	119,571	149,454	193,634	210,777	238,461	289,446	389,305	438,823	449,264	511,582	1,005,682
Other Assets	293,989	381,023	454,417	564,912	677,567	860,717	998,991	1,186,750	1,355,435	1,667,238	2,010,419	3,011,909
Cash Equivalents	27,531	39,913	36,526	39,069	49,311	123,062	81,818	87,940	121,273	155,386	197,148	228,835
Other asset items	266,458	341,109	417,891	525,843	628,256	737,656	917,174	1,098,810	1,234,163	1,511,853	1,813,272	2,783,074
Total Assets	407,723	503,620	607,097	762,212	892,344	1,103,186	1,292,806	1,580,830	1,799,507	2,122,934	2,530,432	4,030,194

Growth table shows the real analysis

Financial Year	FY 2015	FY '15 - FY '16	FY '16 - FY '17	FY '17 - FY '18	FY '18 - FY '19	FY '19 - FY '20	FY '20 - FY '21	FY '21 - FY '22	FY '22 - FY '23	FY '23 - FY '24
Current Assets ↓	36,526.42	+6.96%	+26.22%	+149.56%	-33.51%	+7.48%	+37.90%	+28.13%	+26.88%	+16.07%
+										
Non Current Assets ↓	5,70,642.44	+26.74%	+16.58%	+16.25%	+23.55%	+23.28%	+12.42%	+17.24%	+18.59%	+63.16%
=										
Total Assets	6,07,168.86	+25.55%	+17.07%	+23.62%	+17.18%	+22.28%	+13.83%	+17.97%	+19.20%	+59.49%
Current Liabilities ↓	4,50,283.65	+21.23%	+17.82%	+22.58%	+17.01%	+24.25%	+16.36%	+16.82%	+20.84%	+26.25%
+										
Non Current Liabilities ↓	93,569.51	+51.70%	+10.77%	+30.31%	+5.48%	+19.23%	-0.91%	+24.10%	+12.81%	+232.66%
=										
Total Liabilities	5,43,853.16	+26.47%	+16.36%	+24.10%	+14.63%	+23.30%	+13.19%	+17.99%	+19.48%	+59.19%
Total Equity ↓	63,315.70	+17.64%	+23.63%	+19.41%	+40.22%	+14.76%	+18.94%	+17.87%	+17.03%	+61.83%
Total Liabilities & Shareholder's Equity	6,07,168.86	+25.55%	+17.07%	+23.62%	+17.18%	+22.28%	+13.83%	+17.97%	+19.20%	+59.49%
Total Common Shares Outstanding	501.30	+0.87%	+1.36%	+1.27%	+4.94%	+0.67%	+0.54%	+0.59%	+0.62%	+36.15%

Recently, Current assets growth have not been so good, rather non-current assets have been increased, that means company is investing with a long term vision. Similarly, current liabilities have been consistent but non-current liabilities have increased drastically, which means that Bank has possibly taken long term debts or bonds.

As we have previously seen that Retail Investment have been drastically increased, that was because of increase in number of outstanding shares, as we can see from Balance sheet, the increase is of around 36% which was around 0-1% in previous years. This shows that HDFC Bank is encouraging public participation in their equity. Maybe, this is the reason why dividend payout have been reduced as they will need to pay more to more shareholders.

Cash Flows

	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Cash from operating activity	-5,847	4,211	-21,281	-34,435	17,282	17,214	-62,872	-16,869	42,476	-11,960	20,814	19,069
Cash from Investing Activity	-902	-1,099	-800	-837	-1,146	-842	-1,503	-1,403	-1,823	-2,051	-2,992	16,600
Cash from Financing Activity	13,105	9,270	18,694	37,815	-5,893	57,378	23,131	24,394	-7,321	48,124	23,941	-3,983
Net Cash Flow	6,356	12,382	-3,387	2,542	10,242	73,750	-41,244	6,122	33,332	34,113	41,762	31,687

Cashflow from Investing became positive in the previous year. This is because of the sudden increase in outstanding shares to retailers as promoters sold their complete stocks.

Cashflow from Operating activities were volatile, negative cashflows may be threatening but it may have been used for company expansion, more specifically we can see from balance sheet that cashflows were majorly used to payoff non-current liabilities.

Cashflow from Financing activities shows that probably it had taken many debts as it was positive in the last decade for almost all of the years.

Funds (Top 5)	Market-cap held	Weight	3M holding change
Parag Parikh Flexi Cap Fund -... GROWTH	0.4683%	7.98%	-0.59%
HDFC Balanced Advantage F... GROWTH	0.4354%	6.10%	-0.03%
HDFC Flexi Cap Fund - Growt... GROWTH	0.4218%	9.16%	-0.67%
ICICI Prudential Value Discov... GROWTH	0.3533%	9.42%	0.74%
SBI Blue Chip Fund - Growth ... GROWTH	0.2971%	7.75%	-0.62%

HDFC Bank seems to sell his stake from AMUs for business purposes or debt repayment that we have seen above. It is ironic to notice that it had invested in the fund of ICICI Bank.

	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
ROE %	20%	21%	19%	18%	18%	18%	16%	16%	17%	17%	17%	17%

Returns on equity have been reduced over the decade but still its consistent, It indicates how effectively management is using the company's assets to generate profits for shareholders.

Peers

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	HDFC Bank	1726.20	19.32	1317224.95	1.13	17188.05	33.18	81546.20	59.37	7.67
2.	ICICI Bank	1274.40	19.82	897967.91	0.78	12462.81	9.96	44581.65	20.15	7.60
3.	Axis Bank	1226.65	14.19	379434.05	0.08	6467.13	5.67	31158.52	18.72	7.06
4.	Kotak Mah. Bank	1879.40	20.04	373647.28	0.11	7448.16	10.35	15836.79	23.06	7.86
5.	IndusInd Bank	1409.70	12.23	109814.66	1.17	2152.16	1.34	12546.77	16.94	7.93
6.	IDBI Bank	87.78	15.00	94384.59	1.71	1739.15	41.09	6669.84	-2.82	6.23
7.	Yes Bank	22.42	48.32	70279.72	0.00	516.00	48.84	7725.41	19.86	5.83
Median: 29 Co.		197.12	12.0	11616.37	0.78	371.52	16.38	2284.53	20.32	7.07

P/E Ratio of HDFC Bank is around 19.32 which is comparable to big Indian Banks, but still higher than Median (12) and Mean (13.7) of banking sector, which means that in perspective of Banking sector it is overvalued, but as it have many other subsidiaries too in different sectors like finance, **it justifies its P/E Ratio.**

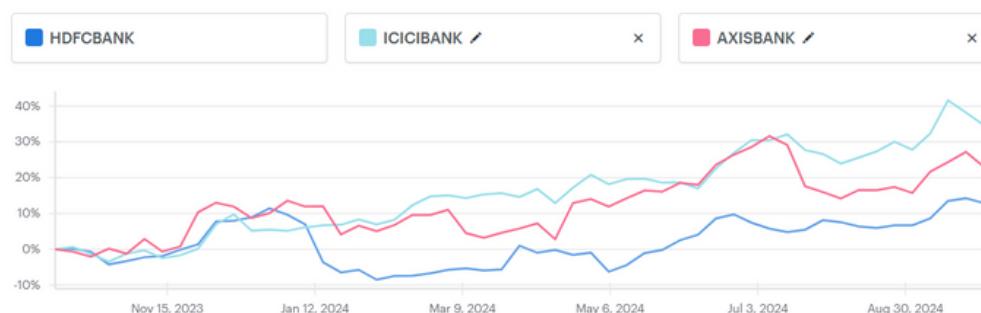
Market Cap of HDFC Bank is the highest among all Indian Banks, which makes it hard or **almost impossible for operators to drive the stock price.**

Although, Bank didn't encourage dividends recently, still it gives better dividend yield than other Indian banks.

Roce % of almost all big Indian Banks are equal still HDFC Bank has the highest Roce % of around 7.67%, which means that for every rupee invested by the Bank, it generates 7.67 rupees of profit.

Stock	Volatility	RSI - 14D
HDFC Bank Ltd	21.07%	70.12
ICICI Bank Ltd	20.62%	59.25
Axis Bank Ltd	24.34%	64.85
Kotak Mahindra Bank Ltd	23.10%	61.75

RSI of HDFC Bank is over 70, which shows that Bank shares have been overbought, which indicates that even after being overvalued, people have positive sentiments with this stock and they are trusting and buying this stock relentlessly.



Percentage increase in stock prices have been shown in the above graph, from here we can see how volatile are the stocks of peer Banks, but HDFC Bank is changing in a range only due to its high market cap, which makes it a safer choice.

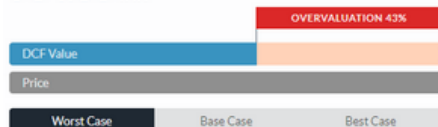
DCF Valuation

	Year 1 forecasted	Year 2 forecasted	Year 3 forecasted	Year 4 forecasted	Year 5 forecasted	Terminal forecasted
Currency: INR Millions						
*This valuation have been done with equity valuation model						
NET INCOME						
Revenue	1 584 321	2 193 633	2 484 093	2 917 816	3 257 449	3 447 033
Net Margin	39.15%	39.10%	40.12%	40.04%	39.96%	39.88%
Net Income	620 225	857 619	996 494	1 168 196	1 301 622	1 374 677
FREE CASH FLOW TO EQUITY						
FCFE	620 225	857 619	996 494	1 168 196	1 301 622	1 374 677
PRESENT VALUE						
Discount Rate	9.87%	9.87%	9.87%	9.87%	9.87%	9.87%
Present Value	564 508	710 454	751 341	801 677	812 998	8 699 370

HDFCBANK DCF Value

Worst Case

984.36 INR



HDFCBANK DCF Value

Base Case

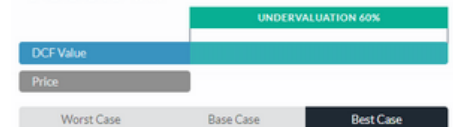
1 622 INR



HDFCBANK DCF Value

Best Case

4 300.9 INR



As we seen earlier, P/E Ratio was on a bit higher side but it justifies the work of HDFC Bank as it have many subsidiaries and it works in different sectors also, therefore HDFC Bank is overvalued by only 6%.

HDFC Bank and ICICI Bank had around same P/E ratio, but still there is a big difference in overvaluation of these two banks because of the same reason stated above.

ICICIBANK DCF Value

Base Case

1 029.72 INR



HDFCBANK Intrinsic Value

1 796.21 INR



The real value of HDFC Bank is higher than its current market price, which indicates that company is undervalued in terms of the value it deserves. This clears the trade-off that we were talking about between Higher P/E Ratio and the services and values it provides, hence P/E Ratio justifies it.

HDFC Bank is also undervalued with respect to the banking sector. If someone wants to invest in banking sector then it would prove to be one of the best choice.

HDFCBANK Relative Value

Base Case

1 970.42 INR



Conclusion

Although, There were some red flags for someone to invest in this Bank, still number of green flags overcomes effects of red flags. Its justified P/E Ratio, its Asset management ability, ability to produce returns for shareholders, its increased dividend even in one of the worst time of covid-19, its true intrinsic value, and any more qualities gives a notion of positive sense for the Bank. Its high market cap is one of the strongest reason for someone to invest in this Bank as operators cannot usually drive the stock price of a stock that have this big market cap. Although, selling of promoters' shares was seen to be suspicious, but that increased the transparency among investors as no single entity have major decision making power now. Nifty 50, the index of top 50 companies of India including HDFC Bank is driven majorly by the volatility of HDFC Bank's share price due to its large market cap. This again gives confidence to investors to play here safely, although returns might be lower due to its lesser volatility. In a nutshell, HDFC Bank will prove to be a good investment in long term.

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