

HDFC Bank

3Q24 – broadly inline; high bar for execution through FY25

Reiterate Rating: BUY | PO: 1,950 INR | Price: 1,679 INR

3Q24 – operationally inline; stable NIMs + strong growth

HDFCB reported 3Q24 PAT of Rs163.7 bn (3% QoQ/34% YoY) – headline PBT inline (flat NIMs QoQ, higher contingency provisions offset by better non-II) but PAT beat on lower tax. Strong organic loan growth (+5% QoQ) and steady growth in retail deposits (2.9% QoQ). Focus during the results call was on the difficult trade-offs in managing growth, NIMs and liquidity through FY25-26– especially in a challenging liquidity environment. The bank remains confident about sustaining 17-18% growth levels (deposits>loans) and delivering on the 1.9-2.1% RoAs.

We trim our EPS by 2-4% (adjusting NIMs, opex) and maintain PO of Rs1950. Re-it Buy - the execution bar remains high but risks largely priced in at current valns + likely outperformance (vs big pvt banks) on NIMs+PPOP growth through FY25.

Focus areas – LDR, loan-mix, merger synergies

Retail deposit growth led by customer acquisition – Mgmt is confident of driving deposit growth without taking major rate hikes. It expects robust growth in retail deposits led by customer acquisition – added 2.2/7.4mn in 3Q/9M. and improvement in system liquidity.

Key drivers of NIM expansion over next 2yrs – (1) improvement in retail loan mix, (2) recovery in CASA ratio, and (3) replacement of borrowings with deposits.

Cost to income ratio to moderate gradually – Bank re-iterated guidance of achieving 35% CIR from current 40% levels. It also expects some cost benefit from tech investments to start realizing within a year. Better topline growth another tailwind.

Merger synergies to be more visible in FY25 – The bank saw 65% SA penetration in ‘new to bank’ home loan customers (first time disbursal) in 3Q24 and expects to increase penetration level to 95%. It also expects meaningful pickup in consumer durables loan as more new home customers starts to move in.

Estimates (Mar) (Rs)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	369,617	441,087	600,504	717,827	907,739
EPS	66.35	79.05	78.97	93.84	117.96
EPS Change (YoY)	17.8%	19.1%	-0.1%	18.8%	25.7%
Dividend / Share	15.50	19.00	18.00	20.00	22.00
ADR EPS (US\$)	2.67	2.95	2.86	3.40	4.27
ADR Dividend / Share (US\$)	0.624	0.709	0.651	0.724	0.796
Valuation (Mar)					
P/E	25.3x	21.2x	21.3x	17.9x	14.2x
Dividend Yield	0.923%	1.13%	1.07%	1.19%	1.31%
Pre-exceptional PE	25.31x	21.24x	21.26x	17.89x	14.24x
Price / Book	5.31x	4.55x	3.00x	2.65x	2.30x
RoE / PB	3.14x	3.73x	5.67x	5.98x	7.63x
Price / Pre-Provision Profit	14.53x	13.31x	14.32x	11.67x	9.27x

17 January 2024

Equity

Key Changes

(Rs)	Previous	Current
2024E EPS	80.30	78.97
2025E EPS	97.97	93.84
2026E EPS	123.21	117.96

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Stock Data

Price (Common / ADR)	1,679 INR / 65.58 USD
Price Objective	1,950 INR / 70.00 USD
Date Established	1-Jan-2024 / 2-Nov-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	1,460 INR-1,758 INR
Market Value (mn)	153,808 USD
Market Value (mn)	12,748,921 INR
Shares Outstanding (mn)	7,592.5 / 2,530.8
Average Daily Value (mn)	347.67 USD
Free Float	92.8%
BofA Ticker / Exchange	HDFBF / NSI
BofA Ticker / Exchange	HDB / NYS
Bloomberg / Reuters	HDFCB IN / HDBK.BO
ROE (2024E)	17.0%

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iQprofileSM HDFC Bank

Key Income Statement Data (Mar)	2022A	2023A	2024E	2025E	2026E
(Rs Millions)					
Net Interest Income	720,096	868,422	1,083,720	1,360,387	1,704,221
Net Fee Income	195,367	238,440	273,836	325,865	391,038
Securities Gains / (Losses)	22,827	(10,375)	45,477	35,000	45,000
Other Income	76,908	84,083	107,186	126,479	150,425
Total Non-Interest Income	295,102	312,148	426,499	487,344	586,463
Total Operating Income	1,015,198	1,180,571	1,510,219	1,847,731	2,290,685
Operating Expenses	(374,422)	(476,521)	(618,839)	(746,775)	(896,130)
Pre-Provision Profit	640,776	704,050	891,380	1,100,957	1,394,555
Provisions Expense	(150,618)	(119,197)	(135,508)	(168,714)	(215,673)
Operating Profit	490,158	584,853	755,873	932,242	1,178,882
Non-Operating Income	0	0	0	0	0
Pre-Tax Income	490,158	584,853	755,873	932,242	1,178,882
Net Income to Comm S/Hold.	369,617	441,087	600,504	717,827	907,739
Adjusted Net Income (Operating)	369,617	441,087	600,504	717,827	907,739

Key Balance Sheet Data					
Total Assets	20,685,351	24,660,815	36,335,498	42,775,312	49,939,089
Average Interest Earning Assets	18,363,594	21,440,180	29,398,143	36,465,483	44,616,127
Weighted Risk Assets	13,535,110	15,866,350	24,867,330	29,343,449	34,625,270
Total Gross Customer Loans	13,804,336	16,121,769	25,797,301	30,440,815	35,920,162
Total Customer Deposits	15,592,174	18,833,946	23,246,759	28,128,578	34,035,579
Tier 1 Capital	2,418,068	2,718,239	4,749,660	5,251,255	5,999,741
Tangible Equity	2,400,929	2,801,990	4,243,652	4,808,522	5,547,008
Common Shareholders' Equity	2,400,929	2,801,990	4,243,652	4,808,522	5,547,008

Key Metrics					
Net Interest Margin	3.92%	4.05%	3.69%	3.73%	3.82%
Tier 1 Ratio	17.9%	17.1%	19.1%	17.9%	17.3%
Effective Tax Rate	24.6%	24.6%	20.6%	23.0%	23.0%
Loan / Assets Ratio	66.7%	65.4%	71.0%	71.2%	71.9%
Loan / Deposit Ratio	88.5%	85.6%	111.0%	108.2%	105.5%
Oper Leverage (Inc Growth - Cost Growth)	-1.7%	-11.0%	-1.9%	1.7%	4.0%
Gearing (Assets / Equity)	8.6x	8.8x	8.6x	8.9x	9.0x
Tangible Common Equity / Assets	11.6%	11.4%	11.7%	11.2%	11.1%
Tangible Common Equity / WRAs	17.7%	17.7%	17.1%	16.4%	16.0%
Revenue Growth	12.7%	16.3%	27.9%	22.3%	24.0%
Operating Expense Growth	14.4%	27.3%	29.9%	20.7%	20.0%
Provisions Expense Growth	-4.1%	-20.9%	13.7%	24.5%	27.8%
Operating Revenue / Average Assets	5.4%	5.3%	4.7%	4.7%	5.0%
Operating Expenses / Average Assets	2.0%	2.1%	1.9%	1.9%	2.0%
Pre-Provision ROA	3.4%	3.1%	2.8%	2.8%	3.0%
ROA	2.0%	2.0%	1.9%	1.8%	2.0%
Pre-Provision ROE	29.2%	27.3%	23.3%	24.6%	27.2%
ROE	16.7%	17.0%	17.0%	15.9%	17.5%
RoTE	15.4%	15.7%	14.2%	14.9%	16.4%
RoWRAs	2.7%	2.8%	2.4%	2.4%	2.6%
Dividend Payout Ratio	23.3%	24.0%	22.8%	21.3%	18.7%
Efficiency Ratio	37.7%	40.0%	42.2%	41.2%	39.9%
Headline Cost/Income Ratio	36.9%	40.4%	41.0%	40.4%	39.1%
Total Non-Interest Inc / Operating Inc	29%	26%	28%	26%	26%
Market-Related Revenue / Total Revenues	6.1%	2.6%	6.3%	5.1%	5.1%
Provisioning Burden as % of PPP	23.5%	16.9%	15.2%	15.3%	15.5%
NPLs plus Foreclosed Real Estate / Loans	1.2%	1.1%	1.4%	1.5%	1.8%
Loan Loss Reserves / NPLs	71.9%	64.3%	66.0%	75.3%	78.0%
Loan Loss Reserves / Total Loans	0.8%	0.7%	0.9%	1.2%	1.4%
Provisions Expense / Average Loans	1.2%	0.8%	0.6%	0.6%	0.7%

Other Metrics					
Income / Employee	NA	NA	NA	NA	NA
(Operating Expenses) / Employee	NA	NA	NA	NA	NA
Pre-Provision Profit / Employee	NA	NA	NA	NA	NA
Net Profit / Employee	NA	NA	NA	NA	NA

Company Sector

Banks-Multinational/Universal

Company Description

HDFC Bank is the largest private sector lender in India by standalone assets at Rs17 tn and over 7,600 branches as of Jun'23. HDFC Bank's main businesses consist of retail loans, working capital loans and trade services. In recent years, retail banking and wholesale banking have continued to grow at a robust pace. In Jul'23, bank merged with its parent entity to become second largest player in mortgage space and forth largest bank globally as per market cap.

Investment Rationale

HDFC Bank remains well positioned to capitalize on growth opportunities in both retail and wholesale by leveraging its scale- large distribution network, strong brand franchise and new age digital platforms. Post merger with its parent, the bank now has second largest mortgage book and huge cross-selling opportunities. Strong growth potential and synergy benefits over medium term and valn below long term average makes HDFC bank one of the most attractive picks in Indian banking space.

Stock Data

Shares / ADR	3.00
Price to Book Value	3.0x

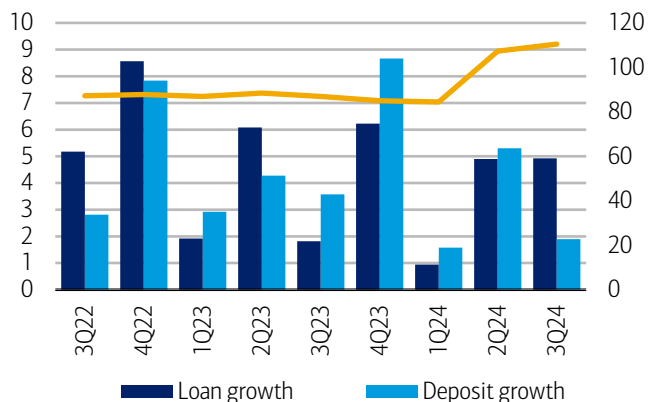
Key Changes

(US\$)	Previous	Current
2024E EPS	2.91	2.86
2025E EPS	3.55	3.40
2026E EPS	4.46	4.27

Key Charts: Quarterly Trends

Exhibit 1: Loans & Deposits Growth QoQ (%)

Strong loan growth and steady deposit growth led by higher LDR in 3Q

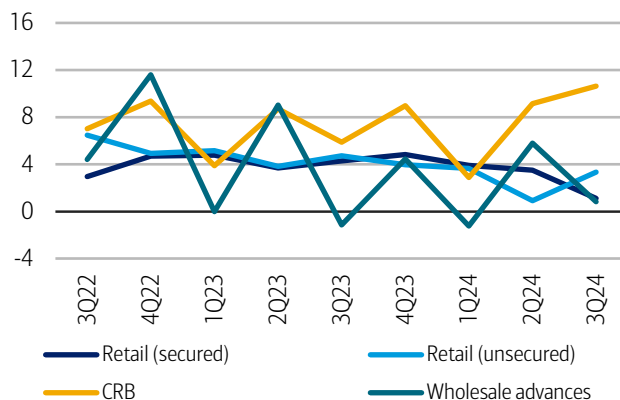


Source: BofA Global Research estimates, company report

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Exhibit 2: Domestic loan growth QoQ (%)

Solid growth momentum in CRB, softer trend in mortgage, corporate book

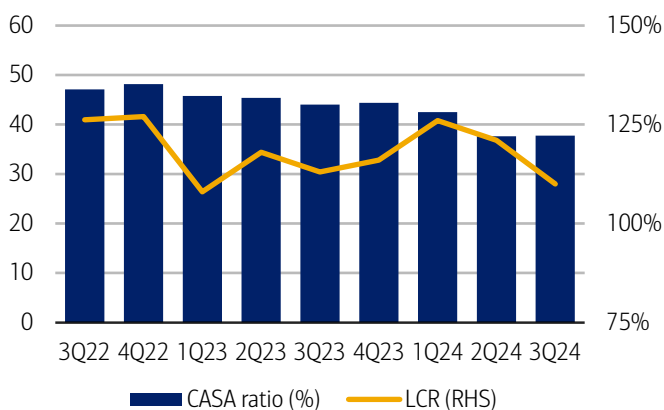


Source: BofA Global Research estimates, company report

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Exhibit 3: CASA ratio and LCR (%)

LCR declined to 110in%, CASA ratio further moderated

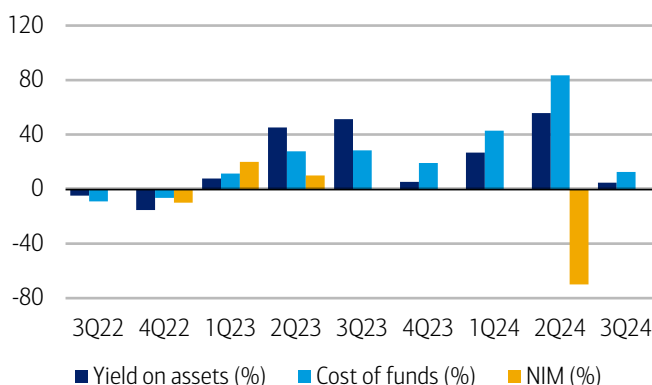


Source: BofA Global Research estimates, company report

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Exhibit 4: Change in cost, yield and NIM QoQ (bps)

Flat NIM as higher increase in funding cost was offset by faster loan growth

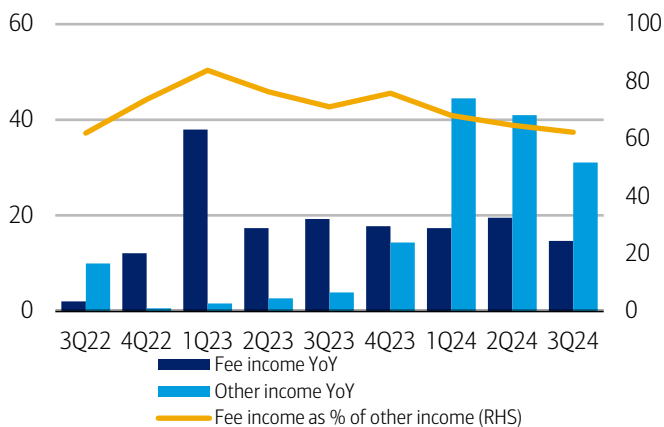


Source: BofA Global Research estimates, company report

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Exhibit 5: Fee income and total other income growth YoY (%)

Healthy growth in fee income as well as investment gains

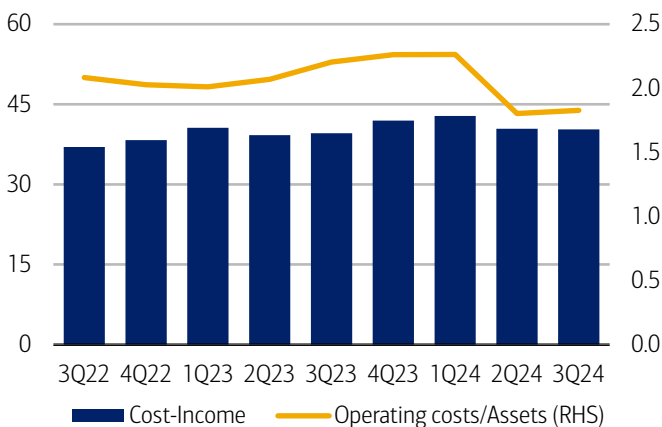


Source: BofA Global Research estimates, company report

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Exhibit 6: Cost Efficiency

Cost-income ratio mostly flat QoQ, expected to improve slightly in next 1 yr

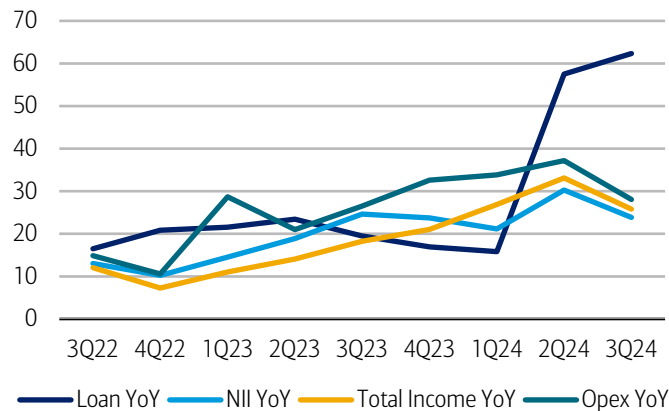


Source: BofA Global Research estimates, company report

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Exhibit 7: Income vs opex growth YoY (%)

Strong YoY growth led by merger and healthy business growth momentum

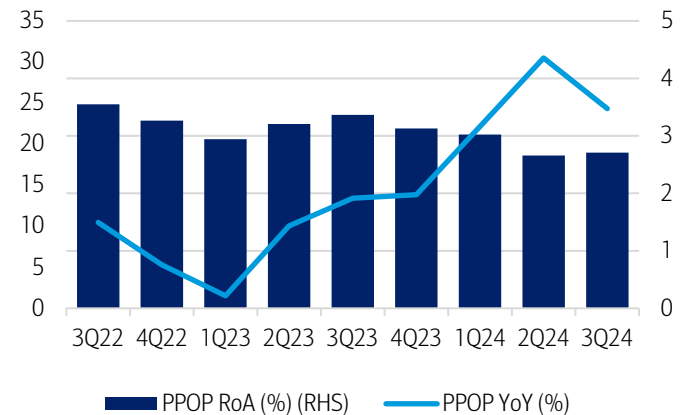


Source: BofA Global Research estimates, company report

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Exhibit 8: PPOP RoA and PPOP YoY (%)

PPOP RoA flat at 2.7%, lower than historical level

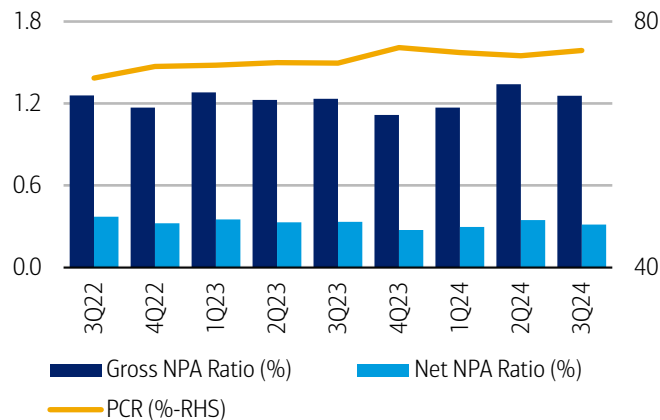


Source: BofA Global Research estimates, company report

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Exhibit 9: Asset Quality - NPA ratios and PCR (%)

Improvement in NPA ratios as well as PCR

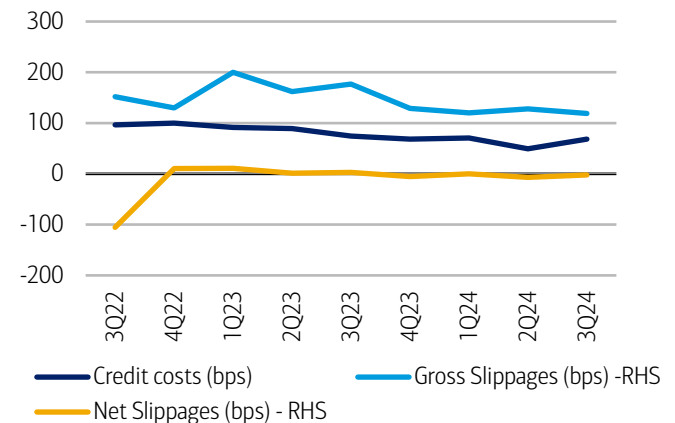


Source: BofA Global Research estimates, company report

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Exhibit 10: Asset Quality - Provisioning and Slippages (bps, annualized)

Higher credit cost led by contingent provision towards investment book

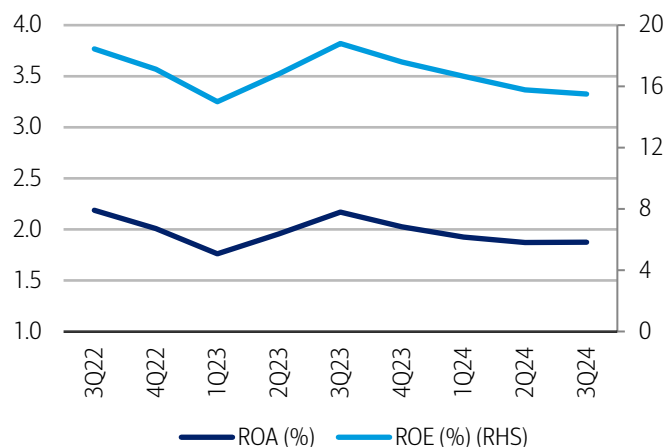


Source: BofA Global Research estimates, company report

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Exhibit 11: Profitability (%)

Mgmt confident of delivering 1.9-2.1% RoAs

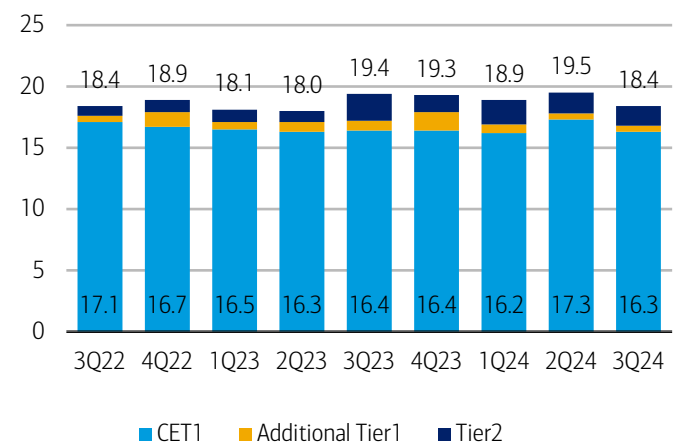


Source: BofA Global Research estimates, company report

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Exhibit 12: Capital Adequacy

Capital ratios declined on strong growth + higher capital for select segments



Source: BofA Global Research estimates, company report

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Heat-map

Exhibit 13: Heat map- key quarterly financial metrics

Summary of key earnings drivers

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
1. Loan growth											
Group YoY%	14	16	17	21	21	23	20	17	16	58	62
Group QoQ%	1	4	5	9	2	6	2	6	1	5	5
Retail YoY%	7	14	11	13	22	21	21	20	19	98	94
Wholesale YoY%	21	17	21	27	21	25	19	14	13	26	37
2. Deposit growth											
Group YoY%	13	14	14	17	19	19	20	21	19	30	28
Group QoQ%	1	4	3	8	3	4	4	9	2	5	2
LDR %	85	85	87	88	87	88	87	85	84	107	110
CASA %	45	47	47	48	46	45	44	44	42	38	38
3. Net interest margins											
NIM (%)	4.1	4.1	4.1	4.0	4.2	4.3	4.3	4.3	4.3	3.6	3.6
NIMs QoQ (bp)	-10.0	0.0	0.0	-10.0	20.0	10.0	0.0	0.0	0.0	-70.0	0.0
4. Revenue & Costs											
Net interest inc YoY%	9	12	13	10	15	19	25	24	21	30	24
Fee income YoY%	74	26	2	12	38	17	19	18	17	20	15
Revenue YoY%	18	15	12	7	11	14	18	21	27	33	26
Opex YoY%	18	15	15	11	29	21	27	33	34	37	28
Cost-income ratio %	35	37	37	38	41	39	40	42	43	40	40
PPOP YoY%	18	14	10	5	2	10	13	14	22	30	24
7. Asset quality*											
Gross NPA ratio (%)	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.1	1.2	1.3	1.3
Gross slippages (bp of loans)	406	364	152	130	200	162	177	129	120	128	119
Credit costs (bp of loans)	168	132	96	100	91	89	74	69	71	58	70
PCR (%)	68	71	71	73	73	73	73	76	75	74	75
8. Capital											
CET1 (%)	17.2	17.4	17.1	16.7	16.5	16.3	16.4	16.4	16.2	17.3	16.3
9. Profitability											
PPOP ROA (%)	3.5	3.5	3.5	3.3	2.9	3.2	3.4	3.1	3.0	2.7	2.7
ROA (%)	1.8	2.0	2.2	2.0	1.8	2.0	2.2	2.0	1.9	1.9	1.9
ROE (%)	14.9	16.4	18.5	17.1	15.0	16.8	18.8	17.6	16.7	15.8	15.5

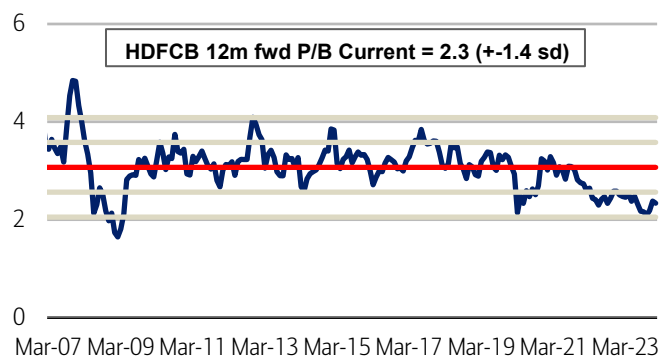
Source: Global Research estimates

**2Q24 QoQ loan and deposit growth are organic growth; rest all 2Q24 metrics include impact of merger

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Exhibit 14: HDFC Bank: 12m fwd PB (x)

Bank trading at P/B multiple of 1.4 SD below historical avg

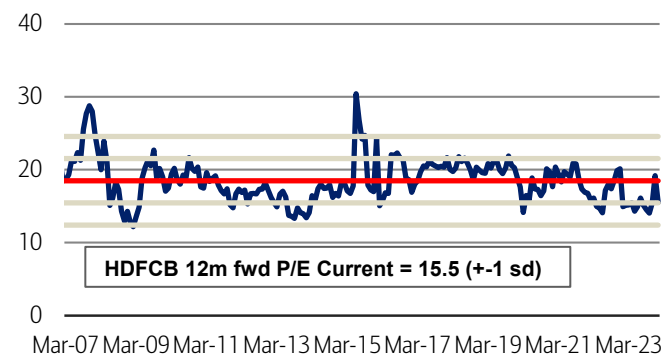


Source: BofA Global Research, Bloomberg

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Exhibit 15: HDFC Bank : 12m fwd PE (x)

P/E multiple now almost ~1 SD below historical avg



Source: BofA Global Research, Bloomberg

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3Q24 Analyst briefing takeaways

Particular	Key Highlights
FY24 Guidance	<ul style="list-style-type: none"> • Deposit growth – Mgmt expects to continue robust deposit growth led by new customer acquisition. Improvement in system liquidity could be key driver to improve growth. • NIM – Mgt expects NIM to expand by ~30 bps over next 2 years led by (1) improvement in retail loan share, (2) pick up in unsecured loan growth, (3) recovery in CASA ratio, and (4) replacement of borrowings with deposits. • RoA – guided for 1.9% to 2.1% RoA
Positives	<ul style="list-style-type: none"> • Healthy organic loan growth – 4.9% QoQ loan growth • NIM flat QoQ at 3.6% • Lower effective tax rate of 15.7%
Negatives	<ul style="list-style-type: none"> • Softer NIMs – NIM at 3.6% was lower (down 70 bps QoQ)
Loans growth – solid loan growth resulting in LDR of 110%	<ul style="list-style-type: none"> • Healthy loan growth of 4.9% QoQ in 3Q24 was led by – • Retail (3.3% QoQ) – steady mortgage growth offset by flattish trend in unsecured book - Bank saw healthy growth of 3.5% QoQ in mortgage and 3.1% QoQ in auto loans. Unsecured book saw softer growth of 1.1% in personal loans and 0.5% in credit cards. Total number of credit cards reached 19.9 mn by Dec'23. Bank sees unsecured loans as very attractive business and expects pick up in growth rate. This could also help drive margin up. • Commercial and rural banking (6.7% QoQ) – solid growth momentum - Bank has continued to expand its distribution reach – it has reached its target of 2L+ villages. Strong growth continued in business banking, SME and CV/CE as well as agri book. • Wholesale (1.9% QoQ) – modest growth on high base – Bank is seeing healthy momentum in capex activity and manufacturing, likely to aid corporate loan growth. • eHDFCL non-individual book (-6% QoQ) – continues to run down – eHDFCL's non-individual book declined 6% QoQ in 3Q24. • LDR up 110% by Dec'23 – Bank's 110% LDR level is unsustainable and management plans to focus on increasing pace of deposit growth to bring down LDR. • Distribution expansion slower than expected – Bank has added 270 branches in 9M24 and plans to add 550 more branches in 4Q. But mgmt. comfortable with lower branch addition of ~800-900 vs earlier target of 1,500 branch addition annually. • Cross-sell opportunity in SA, consumer loans - The bank saw 65% SA penetration in 'new to bank' home loan customers (first time disbursal) in 3Q24 and expects to increase penetration level to 95%. It also expects meaningful pick up in consumer durables loan as more new home customers start to move in.
Deposit growth – healthy growth in retail deposits	<ul style="list-style-type: none"> • Healthy growth in retail TD; wholesale TD declined sequentially – Steady deposit growth of 1.9% QoQ led by 2.9% growth in retail TD, offset by decline in bulk deposits. CASA ratio marginally improved to 38% on 2.2% QoQ growth. Retail deposit constituted 84% of total deposits. • LCR down to 110%, deposit growth challenging amidst system liquidity deficit - The bank's LCR declined to 110% from 121% last qtr. But mgmt is confident of driving deposit

	growth without taking major rate hike. It expects robust growth in retail deposits led by customer acquisition – added 2.2mn/7.4 mn in 3Q/9M24 and improvement in system liquidity.
NIMs – stable at 3.6%, gradual expansion expected	<ul style="list-style-type: none"> • NIM stable at 3.6% on faster loan growth – 3Q24 NIM was stable at 3.6% despite increase in funding cost as loan book grew much faster than deposits. Bank expects NIM to expand gradually over next 2 years led by 1) improvement in retail loan mix, (2) recovery in CASA ratio, and (3) replacement of borrowings with deposits.
Opex – cost to income flat QoQ	<ul style="list-style-type: none"> • Cost to income flat QoQ at 40.3% - Opex grew 3.6% QoQ/28.1% YoY as bank continues to invest in branch expansion staff addition and converting acquired HDFC Ltd branch to regular branches. Bank expects cost to income ratio to moderate to 35-36% in next 4-5 years. It also expects some cost benefit from tech to start realizing within a year. CIR could further improve on increase in income base.
Asset Quality – remains stable, credit cost (ex-CP) at 30 bps	<ul style="list-style-type: none"> • NPA ratios moderated, credit cost (ex-Cp) at 30 bps – GNPA/NNPA ratio moderated to 1.26%/0.31% in 3Q24 and gross slippage ratio was also lower at 119 bps. PCR increased to 74% and credit cost was flat at 49 bps and 30 bps (ex-contingent provision). Total provision (including SP, GP, floating and contingent) is 159% of Gross NPA.

Exhibit 16: HDFC Bank 3Q24 results snapshot

Summary of quarterly and annual financials

	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ%	YoY%	FY23	FY24E	YoY%
KEY EARNINGS DRIVERS										
Loans (Rs. bn)	15,068	16,006	16,157	23,312	24,461	4.9	62.3	16,006	25,561	59.7
Net interest margin (%)	4.3	4.3	4.3	3.6	3.6			4.1	3.7	
Cost-income ratio (%)	39.6	42.0	42.8	40.4	40.3			40.4	41.0	
Credit costs (bp)	74	69	71	49	68			80	60	
Gross NPA ratio (%)	1.2	1.1	1.2	1.3	1.3			1.1	1.4	
Net NPA ratio (%)	0.3	0.3	0.3	0.3	0.3			0.3	0.5	
Net profit (Rs. mn)	122,600	120,473	119,519	159,763	163,721	2.5	33.5	441,087	600,504	36.1
Loan-deposit ratio	86.9	85.0	84.5	107.3	110.5			85.0	110.0	
CASA ratio	44.0	44.4	42.5	37.6	37.7			44.4	0.0	
INCOME STATEMENT (Rs. mn)										
Net interest income	229,878	233,518	235,991	273,852	284,713	4.0	23.9	868,422	1,083,720	24.8
Non-interest income	84,999	87,311	92,300	107,080	111,400	4.0	31.1	312,148	426,499	36.6
Fee income	60,526	66,281	62,900	69,360	69,400	0.1	14.7	238,440	273,836	
Forex & derivatives	10,741	10,105	13,090	12,210	12,100	-0.9	12.7	40,819	49,984	
Investment related	2,614	-377	5,520	10,410	14,700	41.2	462.4	-10,375	45,477	
Others non-interest income	11,118	11,302	10,790	15,100	15,200	0.7	36.7	43,265	57,202	
Total income	314,877	320,829	328,291	380,932	396,113	4.0	25.8	1,180,571	1,510,219	27.9
Operating expenses	-124,636	-134,621	-140,569	-153,992	-159,611	3.6	28.1	-476,521	-618,839	29.9
Staff costs	-41,262	-43,621	-47,821	-51,702	-53,518	3.5	29.7	-155,124	-208,431	34.4
PPOP	190,241	186,208	187,722	226,940	236,503	4.2	24.3	704,050	891,380	26.6
Loan loss provisions	-28,060	-26,854	-28,600	-29,038	-42,200	45.3	50.4	-119,197	-135,508	13.7
Operating profit	162,181	159,354	159,121	197,902	194,303	-1.8	19.8	584,853	755,873	29.2
Pre-tax profit	162,181	159,354	159,121	197,902	194,303	-1.8	19.8	584,853	755,873	29.2
Core net profit	122,600	120,473	119,519	159,763	163,721	2.5	33.5	441,087	600,504	36.1
BALANCE SHEET (Rs. bn)										
Loans (Rs. bn)	15,068	16,006	16,157	23,312	24,461	4.9	62.3	16,006	25,561	59.7
Industry										
Retail	6,775	7,163	7,374	12,900	13,118	1.7	93.6	6,346		
-Auto	1,124	1,174	1,217	1,255	1,280	2.0	13.8	1,174		
-Personal Loans	1,646	1,717	1,767	1,787	1,815	1.6	10.2	1,717		
-Home Loans	976	1,021	1,085	7,171	7,432	3.6	661.5	1,021		
-Kisan Gold Card	709	817	796	905	930	2.8	31.1	817		
-Two Wheelers	98	99	104	110	113	3.1	15.8	993		
-Gold Loans	100	108	117	126	131	3.9	30.5	108		
-Others	564	598	595	638	446	-30.1	-20.9	598		
-Payment product	833	861	904	909	971	6.8	16.5	861		
Wholesale	8,430	8,979	8,925	10,647	11,576	8.7	37.3	9,660		
Geographical										
Domestic	15,068	16,006	16,157	23,312	24,461	4.9	62.3	16,006	25,561	59.7
Foreign	0	0	0	0	0			495	791	59.7
Deposits (Rs. bn)	17,332	18,834	19,131	21,729	22,140	1.9	27.7	18,834	23,247	23.4
KEY RATIOS (%)										
Gross NPAs (Rs. mn)	187,639	180,190	190,641	315,779	310,117	-1.8	65.3	180,190	357,530	98.4
Net NPAs Rs. mn)	50,243	43,684	47,769	80,728	76,641	-5.1	52.5	43,684	121,719	178.6
NPA coverage	111	116	112	107	109			115	96	
Fully loaded CET1	16.4	16.4	16.2	17.3	16.3			16.4	17.8	
RoE	19	18	17	16	16			17	16	
RoA	2.2	2.0	1.9	1.9	1.9			1.9	1.8	

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Acronyms and Abbreviations –

CRB – Commercial and Rural banking
NPA- Non-performing assets
NIM- Net interest margin
SME- Small and medium enterprises
CV/CE – Commercial Vehicle, Construction Equipment
AQ - Asset Quality
CASA – Current Account, Savings Account
TD – Term Deposits
LCR – Liquidity Coverage Ratio
PPOP – Pre-Provision op profit
PCR – Provision coverage ratio
CAR – Capital Adequacy Ratio
CIR – Cost to Income Ratio
LDR – Loan to Deposit Ratio
CET1 – Common Equity Tier 1
NII – Net Interest Income
FY – Fiscal Year
ICRR – Incremental Cash Reserve Ratio
NBFC- Non-Banking Financial Company
SP, GP – Specific Provision, General Provision

Price objective basis & risk

HDFC Bank (HDFBF / HDB)

We have an SOTP PO of Rs1,950 (US\$70), assigning value to the standalone bank and subsidiaries separately - Rs1600 (2.7x P/B) for standalone bank and Rs 230 for subsidiaries. For the standalone bank, our two-stage Gordon Growth model assumes a Stage-1 high growth period (ROE 16.5%, growth 17%) and then a Stage-2 normalization period (ROE 16.5%, growth 8.5%). We use a Cost of Equity of 12.7%. We use a risk free rate of 7.0%, in line with historical average 10Y bond yields in India. We use a market risk premium of 6.0%, in line with our estimate of expected equity market return in the Indian equity market.

Upside risks: 1) Shallow growth slowdown followed by a swift recovery will be the key upside risk for whole sector, 2) Bank's loan exposures significantly outperforming peers in similar segments, 3) Retail (especially unsecured) asset quality cycle is more benign than expected and/or the bank's book significantly outperforms peers, 4) The bank's market share gains continue to accelerate.

Downside risks: 1) Corporate and retail asset quality cycles are more severe than expected, 2) RBI pursues an aggressive combination of rate cuts and more targeted rate transmission driving bank NIMs lower, 3) No meaningful support from gov't either to boost economic growth or backstop NPA risks in specific sectors.

Analyst Certification

I, Anand Swaminathan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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South Asia Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Capital	XADIF	ABCAP IN	Anuj Singla
	Bajaj Finance	XECVF	BAF IN	Anuj Singla
	Bandhan Bank	XBNDF	BANDHAN IN	Anand Swaminathan
	Bangkok Bank	BKKLF	BBL TB	Bay Tuntisrisuk, CFA
	Bangkok Bank -F	BKKPF	BBL/F TB	Bay Tuntisrisuk, CFA
	Bank Mandiri	PPERF	BMRI IJ	Anand Swaminathan
	Bank Negara Indonesia	PBNNF	BBNI IJ	Anand Swaminathan
	Bank of the Philippine Islands	BPHLF	BPI PM	Joahna See-Soriano
	Bank Rakyat Indonesia	BKRKF	BBRI IJ	Anand Swaminathan
	BDO Unibank	BDOUF	BDO PM	Joahna See-Soriano
	Canara Bank	CNRKF	CBK IN	Anand Swaminathan
	CIMB Group	CIMDF	CIMB MK	Anand Swaminathan
	Federal Bank	XMTRF	FB IN	Anand Swaminathan
	HDFC Bank	HDFBF	HDFCB IN	Anand Swaminathan
	HDFC Bank	HDB	HDB US	Anand Swaminathan
	HDFC Life	XETUF	HDFCLIFE IN	Anuj Singla
	ICICI Bank	XLORF	ICICIB IN	Anand Swaminathan
	ICICI Bank	IBN	IBN US	Anand Swaminathan
	ICICI Pru Life	XIIF	IPRU IN	Anuj Singla
	Indusind Bank	IDUBF	IIB IN	Anand Swaminathan
	Life Insurance Corporation of India	XVRYF	LICI IN	Anuj Singla
	Mahindra Finance	XGDAF	MMFS IN	Anuj Singla
	Manappuram Finance	XMGP	MGFL IN	Anuj Singla
	Metrobank	MTPOF	MBT PM	Joahna See-Soriano
	Muthoot Finance	XMFLF	MUTH IN	Anuj Singla
	Public Bank	PBLOF	PBK MK	Anand Swaminathan
	SBI Life	XETAF	SBILIFE IN	Anuj Singla
	SCB X PCL	XUVNF	SCB TB	Bay Tuntisrisuk, CFA
	Shriram Finance	SHTFF	SHFL IN	Anuj Singla
	Star Health Insurance	XRUF	STARHEAL IN	Anuj Singla
	Thai Life Insurance	XDQJF	TLI TB	Bay Tuntisrisuk, CFA
	TMBThanachart Bank	XMKZF	TTB TB	Bay Tuntisrisuk, CFA
	Union Bank Of India	UBOIF	UNBK IN	Anand Swaminathan
NEUTRAL				
	Aditya Birla Sun Life AMC	XABSF	ABSLAMC IN	Anuj Singla
	AU Small Finance Bank	XAIIF	AUBANK IN	Anand Swaminathan
	Axis Bank	XLIRF	AXSB IN	Anand Swaminathan
	Bank Central Asia	PBCRF	BBCA IJ	Anand Swaminathan
	Bank of Baroda	XZYRF	BOB IN	Anand Swaminathan
	Bank of India	XDIIF	BOI IN	Anand Swaminathan
	DBS Group	DBSDF	DBS SP	Anand Swaminathan
	DBS Group	DBSDY	DBSDY US	Anand Swaminathan
	HDFC Asset Management Company Limited	XJARF	HDFCAMC IN	Anuj Singla
	KASIKORNBANK	KPCKF	KBANK TB	Bay Tuntisrisuk, CFA
	KASIKORNBANK - F	KPCPF	KBANK/F TB	Bay Tuntisrisuk, CFA
	Kotak Mahindra Bank	XWUUF	KMB IN	Anand Swaminathan
	Krungthai Card	XXHFF	KTC TB	Napassorn Jittimaitrskul



South Asia Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SBI Cards	XLJGF	SBICARD IN	Anuj Singla
	Security Bank	SYBJF	SECB PM	Joahna See-Soriano
	Union Bank of the Philippines	UBOPF	UBP PM	Joahna See-Soriano

UNDERPERFORM

	IDFC First Bank	XQUFF	IDFCFB IN	Anand Swaminathan
	JMT Network Services	XQXRF	JMT TB	Narumon Ekasamut
	Krung Thai Bk	KGTLF	KTB TB	Bay Tuntisrisuk, CFA
	LIC Housing Finance	XLIIF	LICHF IN	Anuj Singla
	Maybank	MLYNF	MAY MK	Anand Swaminathan
	Oversea-Chinese Banking Corp	OVCHF	OCBC SP	Anand Swaminathan
	Punjab National Bank	XQGRF	PNB IN	Anand Swaminathan
	RBL Bank	XKITF	RBK IN	Anand Swaminathan
	State Bank of India	XDWRF	SBIN IN	Anand Swaminathan
	Tisco Financial Group	THVSF	TISCO TB	Bay Tuntisrisuk, CFA
	United Overseas Bank	UOVEF	UOB SP	Anand Swaminathan
	United Overseas Bank	UOVEY	UOVEY US	Anand Swaminathan
	UTI Asset Management Company	XUTTF	UTIAM IN	Anuj Singla

RVW

	Singapore Exchange	SPXCF	SGX SP	Anand Swaminathan
	Techcombank	XCWFF	TCB VN	Anand Swaminathan
	Vietcombank	XWRHF	VCB VN	Anand Swaminathan
	VPBank	XKOSF	VPB VN	Anand Swaminathan

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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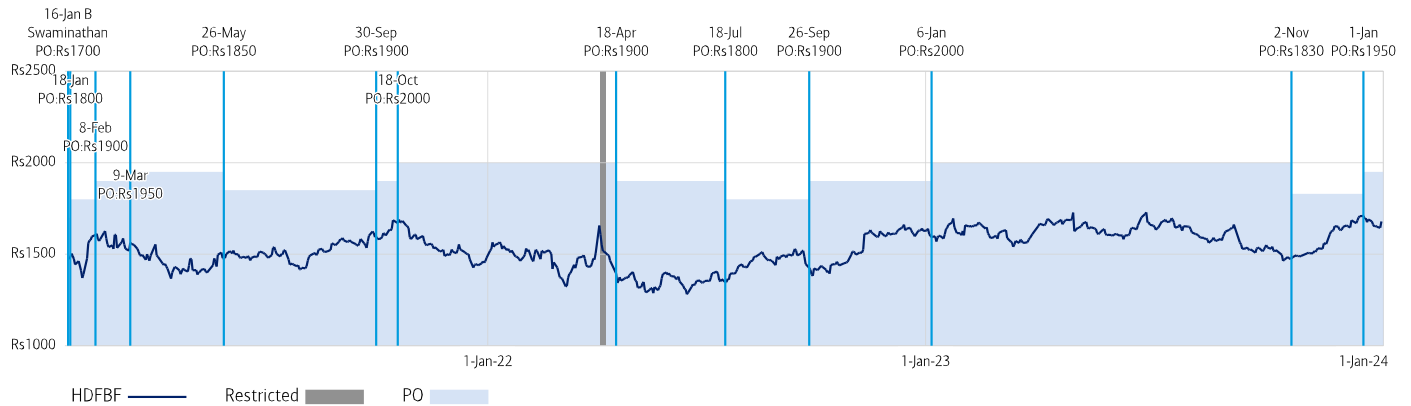
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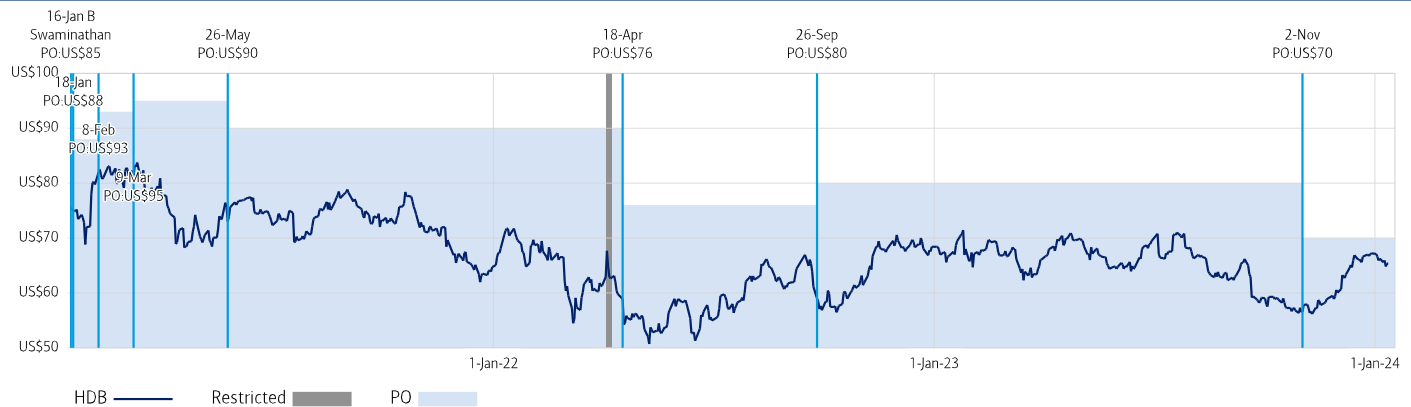
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HDFC Bank (HDFBF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

HDFC Bank (HDB) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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