HDFC Bank

Trade-offs and scenarios – addressing key investor questions

Maintain Rating: BUY | PO: 1,950 INR | Price: 1,455 INR

30 January 2024

Equity

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Growth-NIM-LDR trilemma: lack of clarity hurts sentiment

HDFC Bank faces a major trilemma in the next 2-3 yrs balancing trade-offs between growth, liquidity and profitability. There are no easy answers in a very competitive sector and with a conservative regulator. But the lack of clarity is hurting investor sentiment and valuation multiples. We discuss the various trade-offs and scenarios in this report. In our view, slowing down growth (even as a short-term solution) risks hurting the franchise (and valuation multiples) more than taking a NIM/RoA hit (which could impact peers as well). Maintain Buy - current valuations (both in absolute and relative terms) are discounting a lot of risks keeping the risk-reward attractive, but investors need better visibility.

Scenarios FAQ – growth, LDR, loan mix, multiples

#1 Are deposit growth targets achievable? 20-21% dep growth (=20% inc mkt share) looks achievable but difficult without help from bulk deposits. Key variable here is the level of system growth – even a 0.5% delta impacts mkt share targets by 1-2%.

#2 LDR target – what is the right level? 95% LDR appears more achievable over the next 5yrs without compromising on loan growth targets. With 20% deposit growth, loan growth needs to be 12-15% to achieve 85-90% LDRs levels in 3-5yrs.

#3 How much can loan mix help NIMs? Growth in retail unsecured (~4% higher yield vs group) is the most critical variable - needs to be ~2x of corporate to move overall NIMs by 12-20 bp over 3yrs. Other loan segments cannot move the needle by much.

#4 By when will funding synergies kick in? Borrowing mix likely to settle at ~15% (vs 25% now and 10% pre-merger). Can help NIMs by 15-17 bp – but mostly post FY26.

#5 Valuation multiples – what matters and what is priced in? Current valuations pricing in roughly 15% ROEs & <15% growth. A short-term growth slowdown should not impact multiples in theory, but investors need medium-long term visibility to drive a re-rating. A short term hit to NIM/ROE might be easier to look through in our view.

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$)	2.67	2.95	2.85	3.39	4.26
ADR Dividend / Share (US$)	0.624	0.709	0.649	0.722	0.794
Valuation (Mar)					
P/E	21.9x	18.4x	18.4x	15.5x	12.3x
Dividend Yield	1.07%	1.31%	1.24%	1.37%	1.51%
Pre-exceptional PE	21.92x	18.40x	18.42x	15.50x	12.33x
Price / Book	4.60x	3.94x	2.60x	2.30x	1.99x
RoE / PB	3.62x	4.30x	6.55x	6.91x	8.81x
Price / Pre-Provision Profit	12.59x	11.53x	12.41x	10.11x	8.03x

Stock Data

Price (Common / ADR)	1,455 INR / 55.36 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	1,380 INR-1,758 INR
Market Value (mn)	132,839 USD
Market Value (mn)	11,044,408 INR
Shares Outstanding (mn)	7,592.5 / 2,530.8
Average Daily Value (mn)	455.31 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%

Refer to important disclosures on page 22 to 25. Analyst Certification on page 19. Price Objective Basis/Risk on page 19.
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Timestamp: 30 January 2024 03:42AM EST

iQprofile℠ 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

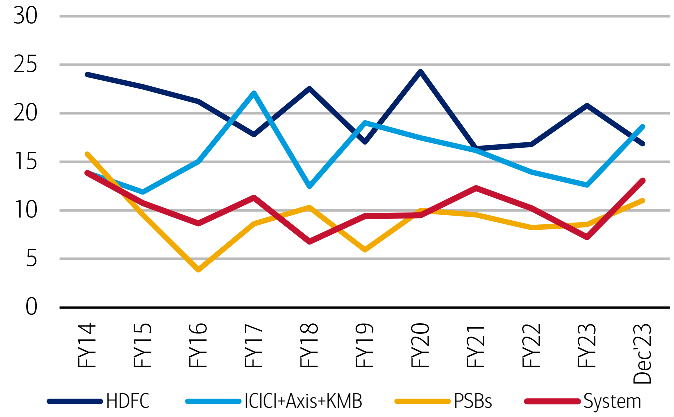
HDFC Bank remains well positioned to capitalize on growth opportunities in both retail and wholesale by leveraging its scale- large distribution network, strong brand franchise and new age digital platforms. Post merger with its parent, the bank now has second largest mortgage book and huge cross-selling 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	2.6x

Key charts

Exhibit 1: Deposits YoY growth (%)
HDFC Bank has consistently grown 7-8% above system



Source: BofA Global Research estimates, Company report

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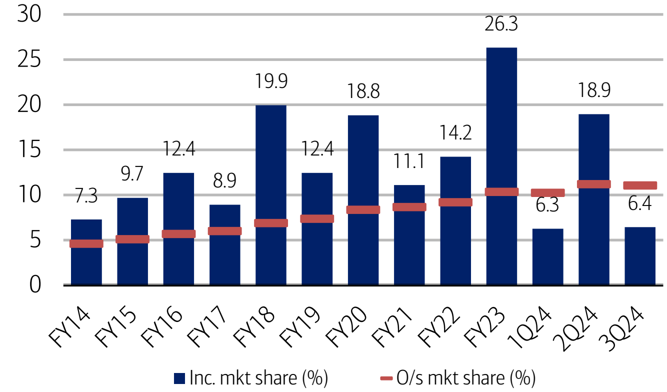
Exhibit 2: HDFC Bank – incremental vs o/s deposit market share (%)
Recent qtr-to-qtr volatility is driven by seasonality and tactical decisions



Source: BofA Global Research, Company reports, RBI
Note – 2Q24 incremental market share adjusted merger impact

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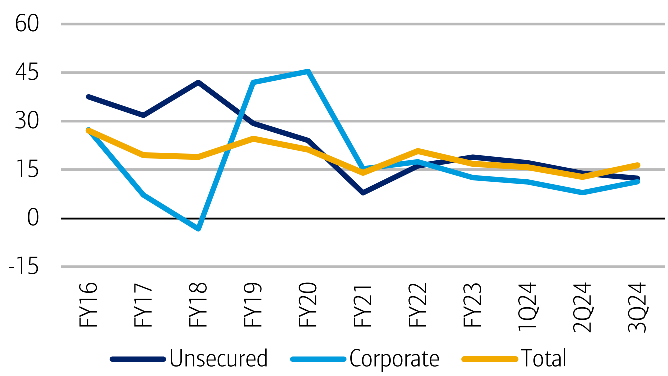
Exhibit 3: Loan growth YoY% - unsecured vs corporate
Unsecured loan book growth still meaningfully below pre-COVID levels



Source: BofA Global Research, Company reports

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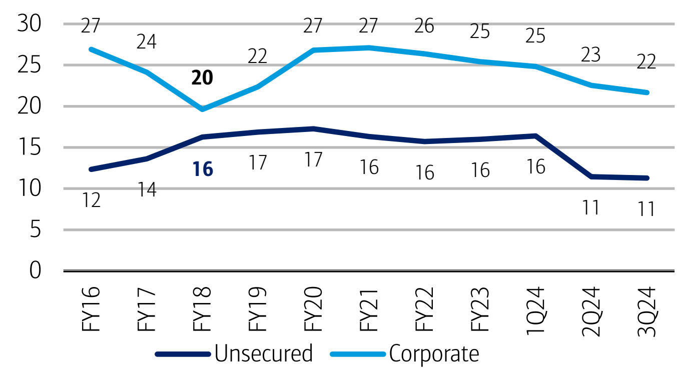
Exhibit 4: Loan mix – unsecured vs corporate (%)
Share of high yield unsecured book is now half of corporate



Source: BofA Global Research, Company reports

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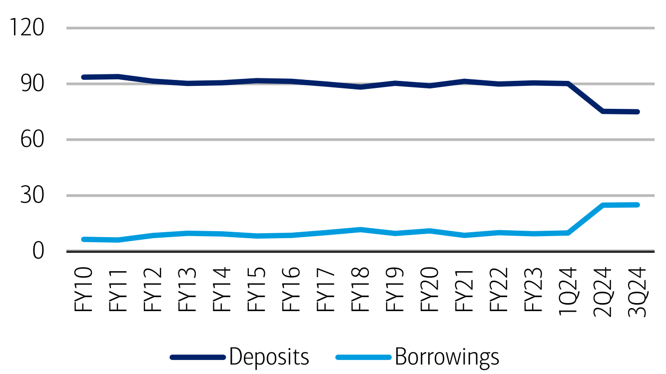
Exhibit 5: Funding mix (%)
Share of borrowings jumped to 25% vs pre-merger level of 10%



Source: BofA Global Research, Company report

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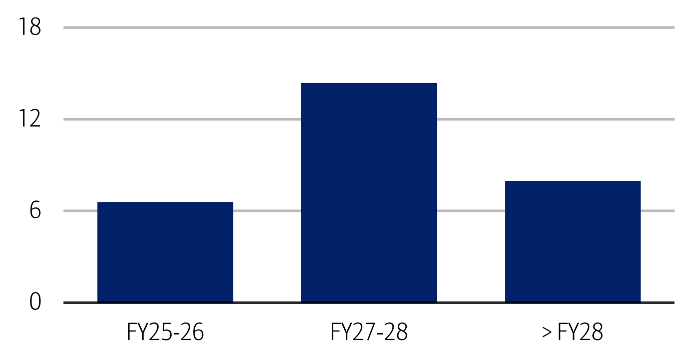
Exhibit 6: Run-off timeline for debt borrowings as % of deposits (%)
Bulk of the deposit run-down likely to happen only post FY26



Source: BofA Global Research estimates, Company report
Note – deposits base is taken as of Dec'23

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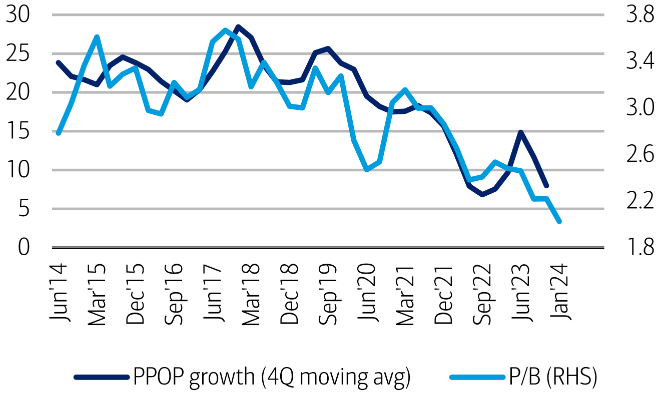
Exhibit 7: HDFC Bank – PPOP growth YoY (%) vs 12M fwd P/B(x)

Growth execution and perception matter a lot for valuation multiples



Source: BofA Global Research estimates, Company report

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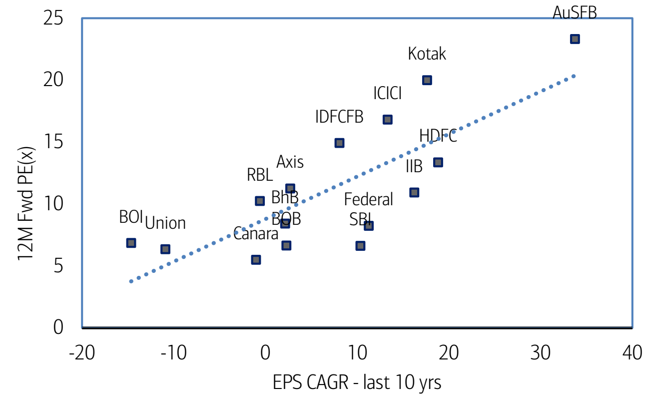
Exhibit 8: 12M fwd PE vs 10Y EPS CAGR

Long term growth delivery a key driver of relative valuations



Source: BofA Global Research estimates, Company report

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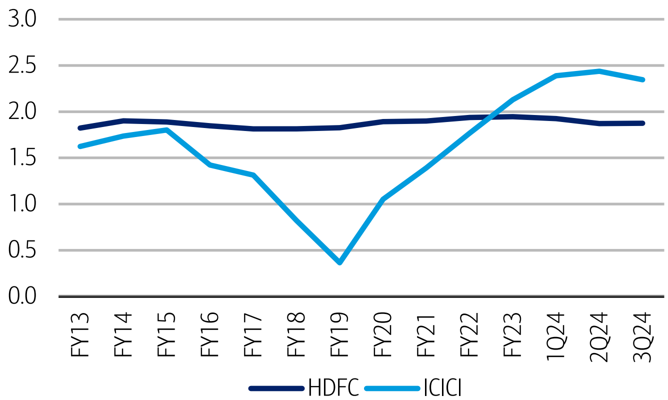
Exhibit 9: RoA (%) - HDFC Bank vs ICICI Bank

ICICI's RoA and growth delivery has now overtaken HDFC...



Source: BofA Global Research Estimates, Company report

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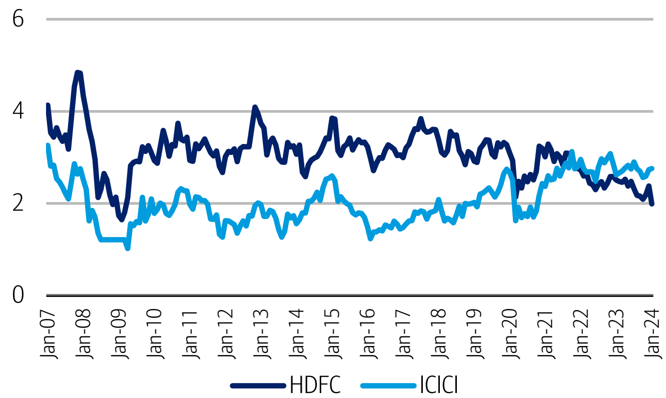
Exhibit 10: 12M fwd P/B(x)

.. resulting in a visible valuation premium



Source: BofA Global Research Estimates, Company report

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Exhibit 11: P/B(x) sensitivity to stage 1 growth and RoE(%)

Current valuations pricing in 15% ROEs + 15% growth

Warranted P/B(x)										
		Stage 1 RoE								
		13.0	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0
Stage 1 growth	12.0	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1
	13.0	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1	2.1
	14.0	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.2
	15.0	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3
	16.0	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3
	17.0	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.4
	18.0	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5

Source: BofA Global Research Estimates

Note – we assume sustainable RoE of 16%, sustainable growth of 8%, CoE of 13%

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Exhibit 12: P/B(x) sensitivity to sustainable growth and RoE (%)

Valuation multiples more sensitive to long term growth assumptions

Warranted P/B(x)										
		Sustainable RoE								
		13.0	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0
Sustainable growth	6.0	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1
	6.5	1.3	1.4	1.6	1.7	1.8	1.9	2.0	2.1	2.2
	7.0	1.3	1.5	1.6	1.7	1.8	1.9	2.0	2.2	2.3
	7.5	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.4
	8.0	1.4	1.5	1.6	1.8	1.9	2.1	2.2	2.3	2.5
	9.5	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8	3.0
	10.0	1.4	1.6	1.8	2.1	2.3	2.6	2.8	3.0	3.3

Source: BofA Global Research Estimates

Note – we assume stage 1 RoE of 16.5%, stage 1 growth of 17% and COE of 13%

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Exhibit 13: Deposit growth CAGR (%) required
LDR target of 85-95% looks achievable with 20-23% deposit growth

	Loan growth CAGR (%) as constant					
	14%	15%	16%	17%	18%	19%
3Y LDR target						
'85%	24	26	27	28	29	30
'90%	22	23	24	25	26	27
'95%	20	21	22	23	24	25
'100%	18	19	20	21	22	23
5Y LDR target						
'85%	20	21	22	23	24	25
'90%	19	20	21	22	23	24
'95%	17	19	20	21	22	23
'100%	16	17	18	19	20	21

Source: BofA Global Research Estimates

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Exhibit 14: Loan growth CAGR (%) required
3Y LDR target 85-95% will need loan growth to come off to low teens

	Dep growth CAGR (%) as constant					
	16%	17%	18%	19%	20%	21%
3Y LDR target						
'85%	6	7	8	9	10	11
'90%	8	9	10	11	12	13
'95%	10	11	12	13	14	15
'100%	12	13	14	15	16	17
5Y LDR target						
'85%	10	11	12	13	14	15
'90%	11	12	13	14	15	16
'95%	13	14	14	15	16	17
'100%	14	15	16	17	18	19

Source: BofA Global Research Estimates

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Exhibit 15: Deposit – growth and incremental market share (%)
HDFC Bank's could gain 20% market share with system deposits growth of 12%+ and PSBs growing slower than overall industry

		Growth CAGR (%)					Incremental market share (%)				
		FY13-21	FY21-23	FY24-27E			FY13-21	FY21-23	FY24-27E		
	Mkt share (%)			Scenario 1	Scenario 2	Scenario 3			Scenario 1	Scenario 2	Scenario 3
HDFCB	11	20.7	18.8	21.0	20.0	18.0	12	17	20	19	17
ICICI+ Axis+ KMB	14	15.9	13.3	16.0	16.0	16.0	15	17	18	18	18
PSBs	63	9.1	8.4	9.5	9.5	9.5	57	54	46	46	46
MSBs	12	8.4	13.4	15.0	16.0	17.9	16	13	15	16	19
System	100	10.3	8.4	12.5	12.5	12.5			100	100	100

Source: BofA Global Research estimates

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Exhibit 16: Improvement in loan yield based on loan mix change
1% increase in unsecured loan share + 1% decline in corporate loan share could improve loan yield by 6-7 bps

	As of Mar'23	As of Dec'23			FY21-23		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
	Mix	Mix	Yield BofAe,	Spread BofAe,	2Y CAGR	1Y g'th	3Y CAGR	3Y CAGR	3Y CAGR	Mix	Mix	Mix
	%	%	%	%	%	%	%	%	%	%	%	%
Corporate	24	21	7.5	1.8	15.0		15	12	10	20	19	18
CRB	33	27	10.1	4.4	30.7		25	25	25	33	33	33
Retail	38	48	10.6	4.9	18.5		13	14	15	44	45	46
Mortgages	11	29	8.9	3.2	21.4		12	12	12	26	26	26
Unsecured	15	11	14.0	8.3	17.5		16	20	24	11	12	13
Auto & others	12	8	12.0	6.3	13.5		15	15	15	7	7	7
Agri	5	4	12.5	6.8	26.4		13	13	13	3	3	3
Total loans	100	100	9.9	4.2	18.8		17	17	17	100	100	100
Avg loan yield (%)			9.9							9.9	10.0	10.1
Improvement in loan yield										5	12	20
Cost of funding % (assumed)	5.7											

Source: BofA Global Research Estimates, Company reports

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Exhibit 17: Improvement in funding on change in liability mix (%)
Funding synergies could drive 15 bp+ improvement in NIMs over 3-4 yrs

	Mar'23	Dec'23		FY21-23	Scenario 1	Scenario 2	Scenario 3
(%)	Mix	Mix	Cost	2Y CAGR	Mix	Mix	Mix
Deposits	90	75	5.3	18.8	80	85	90
Borrowings	10	25	7.0	25.3	20	15	10
Total			5.7	19.4	100	100	100
Avg cost of funds (%)			5.7		5.6	5.6	5.5
Chg in funding cost					-8	-17	-25

Exhibit 17: Improvement in funding on change in liability mix (%)
Funding synergies could drive 15 bp+ improvement in NIMs over 3-4 yrs

	Mar'23	Dec'23		FY21-23	Scenario 1	Scenario 2	Scenario 3

Source: BofA Global Research Estimates, Company reports

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Growth-NIM-Liquidity trilemma – the likely scenarios

HDFC Bank faces a major trilemma in the next 2-3 yrs trying to balance the trade-offs between growth, liquidity and margins. There are no easy answers, especially with an increasingly competitive environment and a more conservative regulator.

- **Growth – should remain the priority –** slowing down loan growth for 2-3yrs is the easy way out but taking that option could meaningfully hurt investor confidence and investment thesis for the stock, in our view. More importantly, slowing down growth at this stage of the cycle would mean ceding tactical advantage to competition and would risk losing customer relationships built over the years. In our view, slowing down growth could hurt the franchise (and valuation multiples) more than taking a NIM/RoA hit in the short term.

- **Liquidity – high bar for execution + RBI expectations –** both the competitive and rate environments have turned adverse compared to what was envisaged during merger announcement (in Apr 2022). The bank's retail deposit execution over the past two years has been nothing short of impressive (with almost 25% incremental market share) but the quarter to quarter volatility is making investors nervous. The bar for execution remains high for the next two years, but it is clear that the bank's engine has the capability to deliver on the deposit targets albeit at a slightly higher funding cost than it hoped for. It would help boost investor confidence if the incremental delivery is smoother on a QoQ basis – the bank is probably being too tactical with managing liquidity in the short term. Another recent complication is RBI's apparent focus on LDRs – it appears that banks have been given specific LDR targets (based on various factors including capital buffers). With current LDR at 110%, it is unclear what is the bank's target level, in what timeframe and what is practically achievable.

- **Margins – more dispensable than growth –** the most impressive aspect of the bank's execution over the past two years has been the ability to gather incremental deposits without paying up on pricing. Looking forward, there are two critical questions – 1) what is the price elasticity of their deposit customers (in other words, will the deposit targets be easily achieved if the deposit pricing goes up?), 2) can higher deposit pricing just be a short-term tactic or would it permanently hurt its margins? There are no easy answers in such a competitive environment. But we believe accepting a lower margin might be the better trade-off as that will help keep the asset franchise intact and will hurt valuation multiples less. Accepting lower margins will likely hurt competitors equally but lowering growth targets could cede strategic advantage to competitors.

#1 What is a reasonable target LDR and by when?

The bank's stated objective is to double the loan book every 4-5yrs – which roughly works out to 15-18% loan growth per year. It appears that the bank and investors see potential for the bank to sustainably growth the loan book at 16-17% levels.

The tables below provide LDR sensitivity to loan and deposit growth outcomes over the next 3-5 yrs. Some key points to note –

- Every 1% of incremental deposit growth brings down LDR by 2-3% over 3yrs and 3-4% in 5yrs (assuming the same level of loan growth)

- **To achieve 100% LDR target in 3yrs –** deposit growth has to be 4% higher than loan growth
- **To achieve 100% LDR target in 5yrs –** deposit growth has to be roughly 2% higher than loan growth
- If we assume 16-17% loan growth aspirations, deposit growth has to be 20-21% annually to hit 100% LDRs in 3yrs

Exhibit 18: LDR sensitivity to deposit and loan growth (3Y Loan CAGR)
Deposit should grow 4-6% faster than loan to bring down LDR to 100-95%

		Loan growth 3Y CAGR (%)						
		13.0	14.0	15.0	16.0	17.0	18.0	19.0
Deposit growth 3Y CAGR (%)	15.0	105	108	110	113	116	119	122
	16.0	102	105	108	110	113	116	119
	17.0	100	102	105	108	110	113	116
	18.0	97	100	102	105	108	110	113
	19.0	95	97	100	102	105	108	110
	20.0	92	95	97	100	102	105	108
	21.0	90	92	95	97	100	102	105
	22.0	88	90	93	95	97	100	103

Source: BofA Global Research Estimates

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Exhibit 19: LDR sensitivity to deposit and loan growth (5Y Loan CAGR)
2-3% faster deposit growth over next 5 years could bring LDR below 100%

		Loan growth 5Y CAGR (%)						
		13.0	14.0	15.0	16.0	17.0	18.0	19.0
Deposit growth 5Y CAGR (%)	15.0	101	106	110	115	120	126	131
	16.0	97	101	106	110	115	120	126
	17.0	93	97	101	106	110	115	120
	18.0	89	93	97	101	106	110	115
	19.0	85	89	93	97	102	106	110
	20.0	82	85	89	93	97	102	106
	21.0	78	82	86	89	93	97	102
	22.0	75	79	82	86	90	94	98

Source: BofA Global Research Estimates

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The tables below look at the same issue from a different angle – based on 3-5yr LDR targets. To achieve 85-95% LDRs maintaining the loan growth aspiration of 16-17%, deposit growth needs to be 23-28% for the next 3-5yrs. If we assume 20% growth as the achievable target, loan growth needs to come down to 12-15% to bring down LDRs to 85-90% levels in 3-5yrs.

Overall, a 95% LDR target appears more achievable over the next 5yrs without compromising too much on loan growth assumptions.

Exhibit 20: Deposit growth CAGR (%) required or target LDR with loan growth constant
LDR target of 85-95% looks achievable with 20-23% deposit growth

	Loan growth CAGR (%) as constant					
	14%	15%	16%	17%	18%	19%
3Y LDR target						
'85%	24	26	27	28	29	30
'90%	22	23	24	25	26	27
'95%	20	21	22	23	24	25
'100%	18	19	20	21	22	23
5Y LDR target						
'85%	20	21	22	23	24	25
'90%	19	20	21	22	23	24
'95%	17	19	20	21	22	23
'100%	16	17	18	19	20	21

Source: BofA Global Research Estimates

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Exhibit 21: Loan growth CAGR (%) required or target LDR with deposit growth constant
LDR target of 85-95% in 3 yrs will need loan growth to come off to low teens

	Dep growth CAGR (%) as constant					
	16%	17%	18%	19%	20%	21%
3Y LDR target						
'85%	6	7	8	9	10	11
'90%	8	9	10	11	12	13
'95%	10	11	12	13	14	15
'100%	12	13	14	15	16	17
5Y LDR target						
'85%	10	11	12	13	14	15
'90%	11	12	13	14	15	16
'95%	13	14	14	15	16	17
'100%	14	15	16	17	18	19

Source: BofA Global Research Estimates

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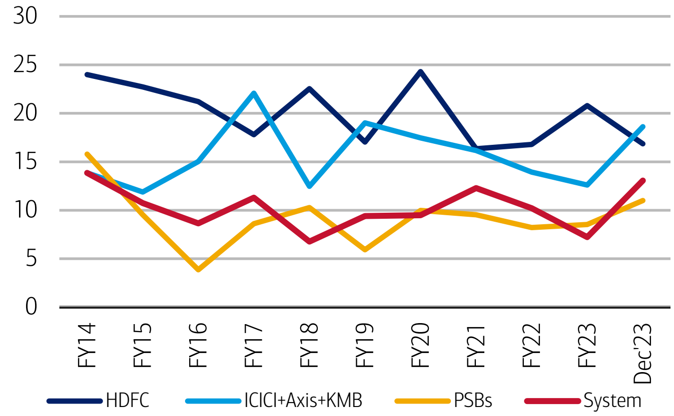
#2 Are deposit growth targets achievable?

Historically, the bank has been able to deliver deposit growth outcomes consistently better than other private bank peers and on average 7-8% above system growth. Over the past decade, the bank's overall deposit market share more than doubled (from 5% to 11%) and increased by 6-7%.

Exhibit 22: Deposits YoY growth (%)

HDFC Bank has grown~1.5-2x of system growth over last decade....



Source: BofA Global Research estimates, Company report

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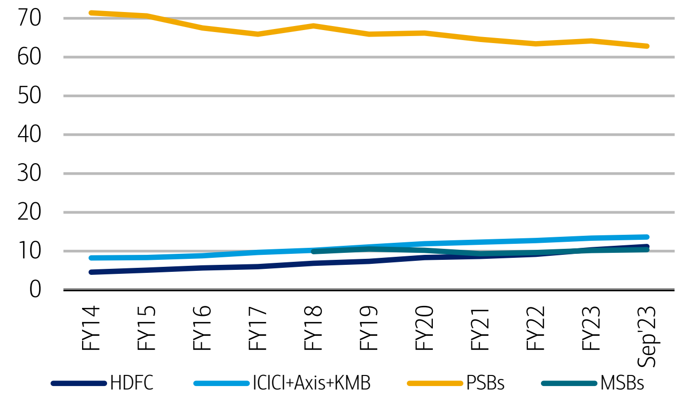
Exhibit 23: Deposit- os/s market share (%)

...leading to its market share more than doubling (excluding merger impact)



Source: BofA Global Research estimates, Company report

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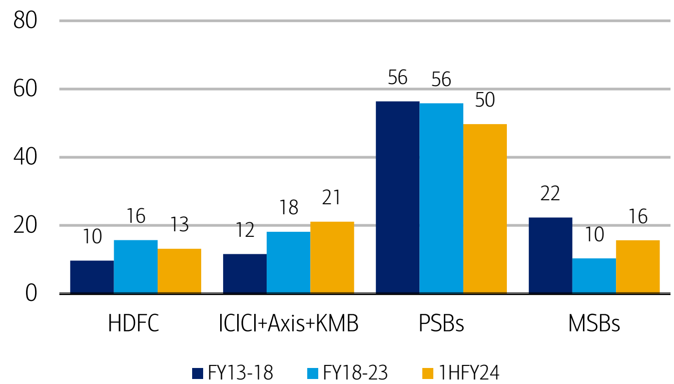
The bank has been able to deliver close to 20% incremental market share in FY18, FY20 and crossed 25% in FY23. The incremental market share gains have been more volatile in recent quarters as the bank has been more tactical with managing the price sensitive wholesale deposits (roughly 15-20% of overall deposits). In 3Q24 itself, bank added retail deposit of Rs 530 Bn but was partially offset by decline of Rs 118 Bn in wholesale deposits. If we see bank's incremental market share based on retail deposits only, it would have gained 8-9% incremental market share.

Exhibit 24: Incremental deposit market share (%)

HDFC and other big pvt banks gave been gaining market share from PSBs



Source: BofA Global Research estimates, Company report

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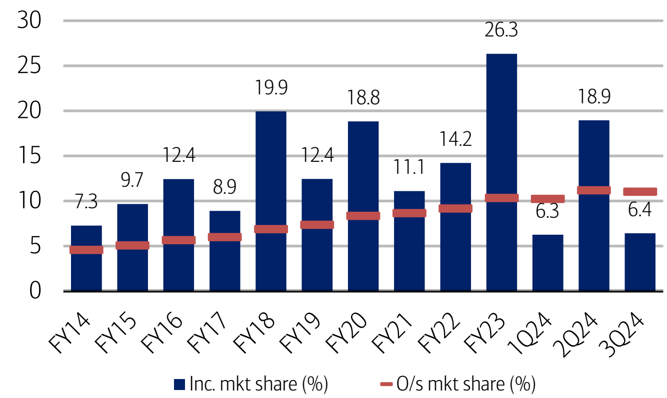
Exhibit 25: HDFC Bank – incremental vs o/s deposit market share (%)

HDFC has gained ~2x incremental mkt share (vs o/s share) in 5/10 years



Source: BofA Global Research , Company reports, RBI

Note – 2Q24 incremental market share adjusted merger impact

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To achieve roughly 20-21% deposit growth outcome over the next 3yrs – the bank needs to deliver on 20% incremental market share gains consistently. Given the historical experience, this looks achievable, but the key change now is the increased competitive intensity in the system (especially from the PSB peers).

The system growth assumptions are the most critical in the below table and could make a big difference to incremental market share targets. ***Even a 0.5% change in system growth assumptions could change HDFC's incremental market share target by 1-2%.*** This introduces a systemic uncertainty, more than just the bank's ability to grow deposits. Another key assumption here is that PSBs will continue to lose headline market share (defending retail shares, but willing to cede share in wholesale deposits).

Exhibit 26: Deposit – growth and incremental market share (%)
HDFC Bank's could gain 20% market share conditional to health system deposits growth of 12%+ and PSBs growing slower than overall industry

		Growth CAGR (%)					Incremental market share (%)				
		FY13-21	FY21-23	FY24-27E			FY13-21	FY21-23	FY24-27E		
	Mkt share (%)			Scenario 1	Scenario 2	Scenario 3			Scenario 1	Scenario 2	Scenario 3
HDFCB	11	20.7	18.8	21.0	20.0	18.0	12	17	20	19	17
ICICI+ Axis+ KMB	14	15.9	13.3	16.0	16.0	16.0	15	17	18	18	18
PSBs	63	9.1	8.4	9.5	9.5	9.5	57	54	46	46	46
MSBs	12	8.4	13.4	15.0	16.0	17.9	16	13	15	16	19
System	100	10.3	8.4	12.5	12.5	12.5			100	100	100

Source: BofA Global Research estimates

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The volatility of deposit growth in recent quarters was driven by the bank's unwillingness to pay up for wholesale/bulk deposits (typically 10-20% of overall deposits for banks). From a 3-5yr perspective, incremental deposit growth targets of 20%+ cannot be achieved purely by gathering retail deposits. The bank is taking a tactical stance of preferring other market borrowings (Tier 2, infra bonds etc) – this complicates the LDR targets for the bank.

Overall, we believe the bank's retail engine has the capability to deliver 15%+ incremental deposit market share consistently. But to achieve 20% incremental market share, the bank might have to depend a bit more on wholesale deposits, at least in the near term. Replacing wholesale deposits with bonds might further complicate LDR targets.

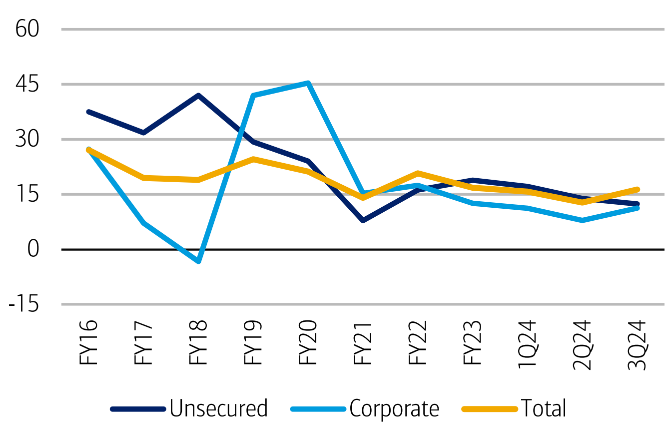
#3 How much can loan mix help NIMs?

Improvement in loan mix is another driver that could help the bank improve its structural NIMs. Through COVID and post-merger, the loan book's share of unsecured loans has fallen to 11% from 17%% in FY19. **The yields in the retail unsecured book are 4-5% above the overall book yield and almost double that of corporate book.**

Every 1% increase in retail unsecured share could help overall NIMs by 10-12 bp. Importantly, the increase in retail unsecured mix needs to come at the cost of corporate to make a real impact. Simplistically, **the retail unsecured growth needs to be almost 2x of corporate to make a real difference to overall NIMs**.

The key question here is whether slowing down the corporate loan growth would impact the bank's ability to grow deposits efficiently (as the transaction banking franchise is a key source of deposits).

Exhibit 27: Loan growth YoY% - unsecured vs corporate
Unsecured loan book growth has come off below 20% YoY since FY21....



Source: BofA Global Research, Company reports

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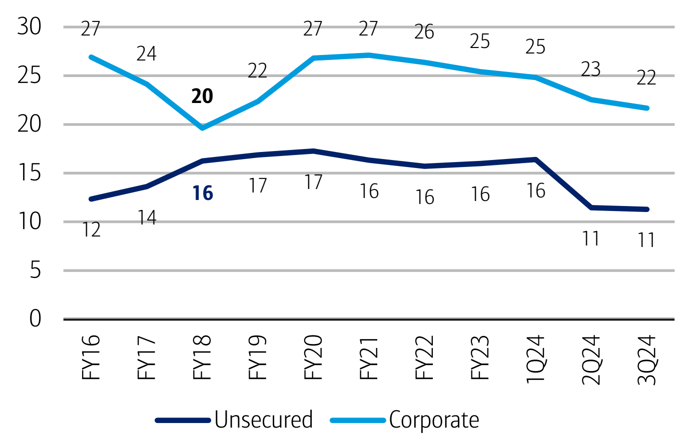
Exhibit 28: Loan mix – unsecured vs corporate (%)
...leading to gradual loan share decline over FY19-23 and to 11% post merger



Source: BofA Global Research, Company reports

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In recent years post COVID, retail unsecured loan growth has been in the similar range as corporate growth. This must change drastically to make a real difference to NIMs. No other segment will be able to give such a NIM uplift.

Exhibit 29: Improvement in loan yield based on loan mix change
1% increase in unsecured loan share and 1% decline in corporate loan share could improve loan yield by 6-7 bps

	As of Mar'23	As of Dec'23			FY21-23		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
	Mix	Mix	Yield BofAe,	Spread BofAe,	2Y CAGR	1Y g'th	3Y CAGR	3Y CAGR	3Y CAGR	Mix	Mix	Mix
	%	%	%	%	%	%	%	%	%	%	%	%
Corporate	24	21	7.5	1.8	15.0		15	12	10	20	19	18
CRB	33	27	10.1	4.4	30.7		25	25	25	33	33	33
Retail	38	48	10.6	4.9	18.5		13	14	15	44	45	46
Mortgages	11	29	8.9	3.2	21.4		12	12	12	26	26	26
Unsecured	15	11	14.0	8.3	17.5		16	20	24	11	12	13
Auto & others	12	8	12.0	6.3	13.5		15	15	15	7	7	7
Agri	5	4	12.5	6.8	26.4		13	13	13	3	3	3
Total loans	100	100	9.9	4.2	18.8		17	17	17	100	100	100
Avg loan yield (%)			9.9							9.9	10.0	10.1
Improvement in loan yield										5	12	20
Cost of funding % (assumed)	5.7											

Source: BofA Global Research Estimates, Company reports

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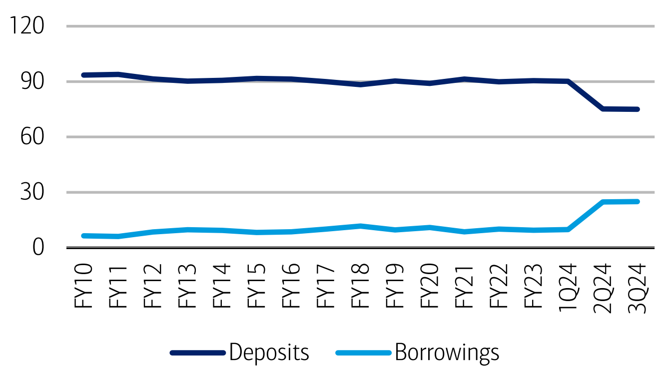
#4 By when will funding synergies kick in?

Replacing the vintage higher cost borrowings (from the erstwhile HDFC Ltd) with lower cost retail deposits is a key synergy benefit expected post-merger.

HDFC bank has traditionally been operating with less than 10% of overall funding from borrowings which are typically 1.0-1.5% more expensive than customer deposits. Post the merger, this has gone up to 25% as the bank inherited HDFC Ltd's debt borrowings and also raised surplus liquidity going into the merger.

Exhibit 30: Funding mix (%)
Share of borrowings jumped to 25% vs usual level of close to 10%



Source: BofA Global Research, Company report

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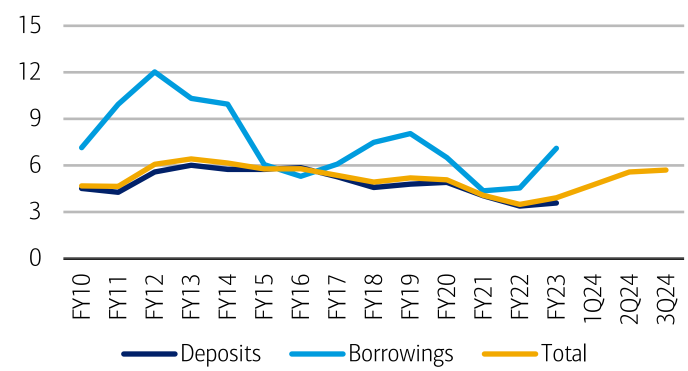
Exhibit 31: Cost of funding (%)
Total cost of funding increased 83 bps, mostly due to merger



Source: BofA Global Research, Company report

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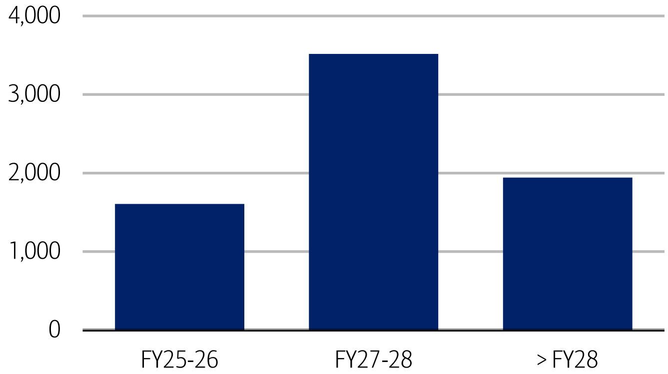
In the past 2 yrs, the spread between cost of retail deposits and bond borrowings has narrowed to <1% as there has been more pressure on the front end. This spread in theory should widen when the policy rate cut cycle starts. But until then, the impact of funding synergies from replacement of borrowings will likely be gradual.

Based on our estimates, a major part (14-15%) of the borrowings will run-off only during the FY27-28 period. Over the next two years, borrowings equal to less than 7% of deposits are likely to run-off.

Exhibit 32: Run-off timeline for debt borrowings (Rs bn)
~23% of borrowings need to be retired in next 2 yrs



Source: BofA Global Research estimates, Company report

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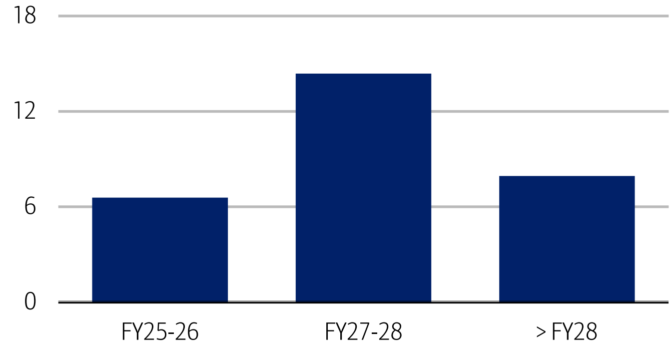
Exhibit 33: Run-off timeline for debt borrowings as % of deposits (%)
~3% higher deposit YoY growth needed to replace borrowings over FY25-26



Source: BofA Global Research estimates, Company report
Note – deposits base is taken as of Dec'23

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Historically, bonds were less than 10% of overall borrowings for the bank. Post merger, the new normal is likely to be higher as the tenure of the asset book has increased. The new normal will likely be close to 15% - which might result in a 15-20 bp cost synergy. But this is likely to play out only over a 3-5yr period and is also dependent on the cost spread between retail deposits and bond borrowings.

Exhibit 34: Improvement in funding on change in liability mix (%)
Decline in share of debt borrowing in total funding mix by even 5% could help NIM by 5-10 bps

	As of Mar'23	As of Dec'23		FY21-23	Scenario 1	Scenario 2	Scenario 3
	Mix	Mix	Cost	2Y CAGR	Mix	Mix	Mix
	%	%	BofAe, %	%	%	%	%
Deposits	90	75	5.3	18.8	80	85	90
Borrowings	10	25	7.0	25.3	20	15	10
Total			5.7	19.4	100	100	100
Avg cost of funds (%)			5.7		5.6	5.6	5.5
Improvement in funding cost					-8	-17	-25

Source: BofA Global Research estimates, Company report

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Growth-ROE scenarios – how to think about risk-reward?

Considering all the operational complexities, the big decision for the bank is to make a trade-off between growth and profitability (NIM/ROE) in the near to medium term. There are several considerations when making this choice –

- **Short or medium term?** For investors, the big question is – are these trade-offs for the short or medium term? Given the trade-offs between NIM, growth and liquidity – it is difficult to see how the bank might be able to compromise on one of the drivers and get back to normalcy within 3-4 qtrs especially in such a competitive environment. Any further guidance misses might adversely impact valuation multiples if investors start pricing in a longer timeline for normalization.

- **Will giving up on growth have long term implications?** The bigger strategic question is whether slowing down credit growth (even if it is for 3-4 quarters) will have medium to longer term implications. Importantly, the consumer and CRB businesses have been built for a much bigger scale and we believe have the runway for sustainably high 20%+ growth. Starving them of growth during this part of the cycle might cede strategic advantage to competitors, impact existing relationships and have longer term strategic implications. Also, slowing down credit growth might also adversely impact deposit growth potential – especially in the corporate transaction banking business.

- **Will investors be willing to look through?** The key question from a stock perspective is how will investors react? Simplistically, we believe investors look for growth in markets like India – many might prefer stable growth / lower ROE over slower growth / stable ROE. This is especially true in the current environment where asset quality outlook is quite benign and 'high quality' banks no longer enjoy much safety premium.

#1 What are the likely Growth-ROE scenarios?

The bank's target of sustainable 1.9-2.1% RoAs is dependent on two key factors – NIMs and cost-income ratio. The visibility around credit costs appears relatively better at this stage of the cycle. The bank targets a sustainable NIM profile of around 3.9-4.0% (versus 3.6% currently). Cost-income ratios are currently elevated because of accelerated investments – the bank eventually is targeting a 35% cost-inc ratio over the next five year period once the investment cycle peaks.

Exhibit 35: RoA sensitivity to NIM and CIR

20-30 bps improvement in NIM could results in 10-20 bps RoA expansion

		NIM (%)							
		3.5	3.6	3.7	3.8	3.9	4	4.1	4.2
Cost-income ratio (%)	37	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2
	38	1.8	1.8	1.9	1.9	2.0	2.1	2.1	2.2
	39	1.7	1.8	1.8	1.9	2.0	2.0	2.1	2.1
	40	1.7	1.8	1.8	1.9	1.9	2.0	2.0	2.1
	41	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1
	42	1.6	1.7	1.7	1.8	1.9	1.9	2.0	2.0

Source: BofA Global Research estimates

Note – we are assuming credit cost of 65 bps

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Exhibit 36: RoE sensitivity to NIM and CIR

Bank needs to reach 3.8-3.9% NIM to cahieve16% RoE

		NIM (%)							
		3.5	3.6	3.7	3.8	3.9	4	4.1	4.2
Cost-income ratio (%)	37	15.1	15.6	16.1	16.6	17.1	17.6	18.1	18.6
	38	14.8	15.3	15.8	16.3	16.8	17.3	17.8	18.3
	39	14.6	15.0	15.5	16.0	16.5	17.0	17.5	18.0
	40	14.3	14.8	15.2	15.7	16.2	16.7	17.2	17.6
	41	14.0	14.5	14.9	15.4	15.9	16.4	16.8	17.3
	42	13.7	14.2	14.6	15.1	15.6	16.0	16.5	17.0

Source: BofA Global Research estimates

Note – we are assuming credit cost of 65 bps

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Exhibit 37: DuPont and key earnings driver table
HDFC bank's ROA has been in the range of 1.8-1.9% for past 8 years

% of average assets	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	1Q24	2Q24	3Q24
DuPoint - % of average assets											
Net interest income	4.1	4.1	4.2	4.2	4.0	4.0	3.8	3.8	3.8	3.2	3.3
Fee income	1.2	1.1	1.2	1.2	1.2	1.0	1.0	1.1	1.0	0.8	0.8
Total non-II	1.6	1.5	1.6	1.5	1.7	1.5	1.5	1.4	1.5	1.3	1.3
Total income	5.8	5.7	5.7	5.7	5.7	5.5	5.3	5.2	5.3	4.5	4.5
Operating costs	-2.6	-2.5	-2.4	-2.3	-2.2	-2.0	-2.0	-2.1	-2.3	-1.8	-1.8
PPOP	3.2	3.2	3.4	3.4	3.5	3.5	3.4	3.1	3.0	2.7	2.7
Provisions	-0.4	-0.4	-0.6	-0.7	-0.9	-1.0	-0.8	-0.5	-0.5	-0.3	-0.5
Operating profit	2.8	2.8	2.8	2.8	2.6	2.5	2.6	2.6	2.6	2.3	2.2
PBT	2.8	2.8	2.8	2.8	2.6	2.5	2.6	2.6	2.6	2.3	2.2
Core net profit (ROA)	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Leverage (x)	9.9	9.9	9.8	9.0	8.7	8.7	8.6	8.7	8.7	8.4	8.3
Core net profit (ROE)	18.3	17.9	17.9	16.5	16.4	16.6	16.7	17.0	16.7	15.8	15.5
Other key ratios (%)											
Loan-Deposit Ratio	85	86	83	89	87	85	88	85	84	107	110
Net Interest Margin	4.4	4.4	4.4	4.4	4.2	4.1	3.9	4.1	4.1	3.6	3.6
Cost-Income Ratio	44.3	43.4	41.0	39.7	38.6	36.3	36.9	40.4	42.8	40.4	40.3
Credit costs (bps)	65	70	97	101	133	146	119	80	71	49	68
Return on Assets	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Return on Equity	18.3	17.9	17.9	16.5	16.4	16.6	16.7	17.0	16.7	15.8	15.5

Source: BofA Global Research estimates, Company reports

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#2 What is priced in?

The ROE vs growth trade-off and its implication on valuation multiples is not straightforward and depends a lot on investor perception of short vs medium term potential. We value banks on a two stage Dividend Discount Model (DDM) with the first stage ranging 7-8 yrs. In theory, any change in first stage growth assumptions does not have a major impact on warranted valuation multiples. But if investors start pricing in a slower sustainable growth (second stage / g), the sensitivity to valuation multiples goes up significantly. Until there is clarity on eventual growth trajectory, the worry is that investors might extrapolate any short-term slowdown in growth.

Exhibit 38: P/B(x) sensitivity to stage 1 growth and RoE(%)
Vlan multiple in theory has weak correlation with near term growth and RoE

Warranted P/B(x)										
		Stage 1 RoE								
		13.0	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0
Stage 1 growth	12.0	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1
	13.0	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1	2.1
	14.0	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.2
	15.0	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3
	16.0	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3
	17.0	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.4
	18.0	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5

Source: BofA Global Research Estimates
Note – we assume sustainable RoE of 16%, sustainable growth of 8%, CoE of 13%

BofA GLOBAL RESEARCH

Exhibit 39: P/B(x) sensitivity to sustainable growth and RoE (%)
Valuation multiples are more sensitive to long term growth assumptions

Warranted P/B(x)										
		Sustainable RoE								
		13.0	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0
Sustainable growth	6.0	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1
	6.5	1.3	1.4	1.6	1.7	1.8	1.9	2.0	2.1	2.2
	7.0	1.3	1.5	1.6	1.7	1.8	1.9	2.0	2.2	2.3
	7.5	1.4	1.5	1.6	1.7	1.9	2.0	2.1	2.2	2.4
	8.0	1.4	1.5	1.6	1.8	1.9	2.1	2.2	2.3	2.5
	9.5	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8	3.0
	10.0	1.4	1.6	1.8	2.1	2.3	2.6	2.8	3.0	3.3

Source: BofA Global Research Estimates
Note – we assume stage 1 RoE of 16.5%, stage 1 growth of 17% and COE of 13%

BofA GLOBAL RESEARCH

Determining what is priced is a tricky process as multiple assumptions are involved – cost of equity, stage 1 growth/ROE and sustainable growth/ROE.

To keep it simple - **if we assume 13.0% Cost of Equity, the current 2.0x P/B multiple is roughly assuming a 15% ROE + 15% growth in the medium term and a 7.5-8.0% sustainable growth.**

Every 1% change in stage 1 growth or ROE assumptions appears to impact P/B multiples by 0.1x. The trade-off between ROE and growth seems fungible on paper, but the worry is EM investors might prefer growth over ROEs. This might result in a more disproportionate impact on multiples than theory would suggest.

Exhibit 40: P/B(x) sensitivity to Cost of Equity and terminal growth rate
Assuming terminal rate of 7.5-8.5%, P/B multiple could range from 1.9-2.7%

Warranted P/B (x)							
		Terminal Growth rate					
		7.0	7.5	8.0	8.5	9.0	9.5
COE (%)	11.5	3.1	3.3	3.6	3.9	4.4	5.2
	12.0	2.7	2.8	3.0	3.2	3.6	4.0
	12.5	2.3	2.5	2.6	2.7	2.9	3.2
	13.0	2.1	2.1	2.2	2.3	2.5	2.6
	13.5	1.8	1.9	2.0	2.0	2.1	2.2
	14.0	1.6	1.7	1.7	1.8	1.8	1.9
	14.5	1.5	1.5	1.5	1.6	1.6	1.6

Source: BofA Global Research Estimates
Note – we assume stage 1 RoE of 16.5%, stage 1 growth of 17%, sustainable RoE of 16%
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Exhibit 41: P/B(x) sensitivity to Cost of Equity and sustainable RoE
Improved visibility on RoE sustaining above 16% could support valuation

Warranted P/B (x)							
		Sustainable ROE					
	2.6	14.0	15.0	16.0	17.0	18.0	19.0
COE (%)	11.5	3.9	4.5	5.0	5.5	6.1	6.6
	12.0	3.2	3.7	4.1	4.6	5.0	5.4
	12.5	2.7	3.1	3.5	3.8	4.2	4.6
	13.0	2.3	2.7	3.0	3.3	3.6	3.9
	13.5	2.0	2.3	2.6	2.9	3.1	3.4
	14.0	1.8	2.0	2.3	2.5	2.7	3.0
	14.5	1.6	1.8	2.0	2.2	2.4	2.6

Source: BofA Global Research Estimates
Note – we assume stage 1 RoE of 16.5%, stage 1 growth of 17%, sustainable growth of 8%
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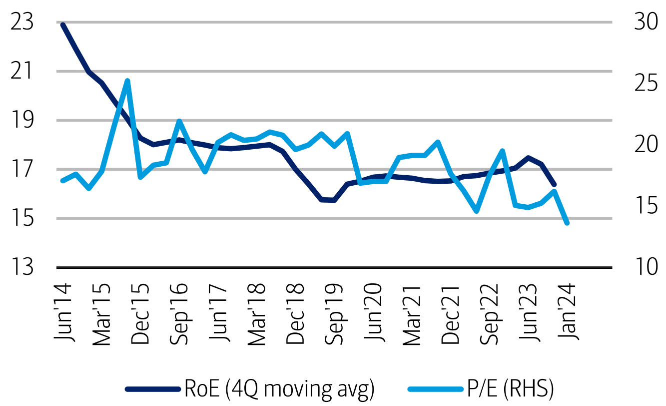
Historically, the bank has been able to deliver on both ROE and growth consistently within a narrow range. The recent de-rating of the stock could be more attributed to the slowdown in growth (or rather the perception of growth). A meaningful re-rating might be difficult until the market's confidence on growth trajectory improves.

Exhibit 42: HDFC Bank – RoE(%) vs 12M Fwd P/E(x)
HDFC bank's valn multiple has come off gradually



Source: BofA Global Research, Company reports, Bloomberg
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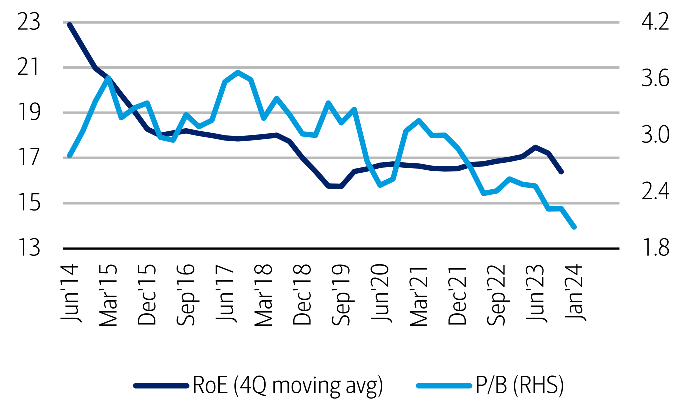
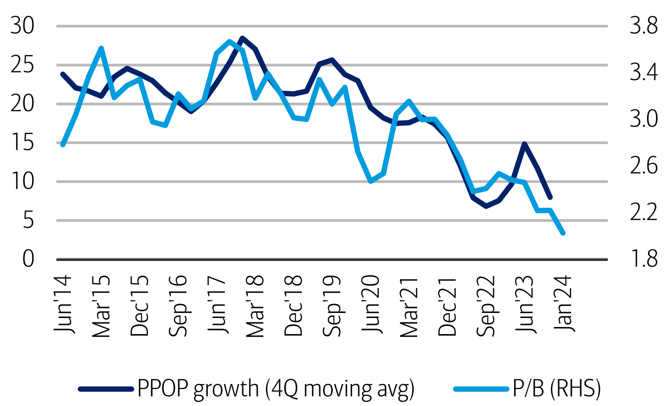
Exhibit 43: HDFC Bank – RoE (%) vs 12M Fwd P/B(x)
Recent dip in valuation multiple driven partially by lower RoA



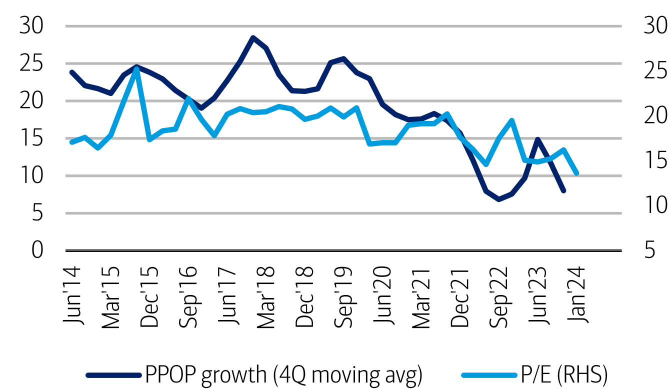
Source: BofA Global Research estimates, Company reports, Bloomberg
BofA GLOBAL RESEARCH

Exhibit 44: HDFC Bank – PPOP growth YoY (%) vs 12M fwd P/B(x)
Growth execution and perception matter a lot for valuation multiples



Source: BofA Global Research, Company reports, Bloomberg
BofA GLOBAL RESEARCH

Exhibit 45: HDFC Bank – PPOP growth YoY (%) vs 12M fwd P/E(x)
Bank's PPOP growth has reduced on NIM contraction in last 2-3 yrs



Source: BofA Global Research, Company reports, Bloomberg
BofA GLOBAL RESEARCH

#3 How to think about peer valuations?

The verdict from peer analysis is a bit mixed. In some cases, investors seem to be comfortable with low growth-high ROE mix but not in a general sense.

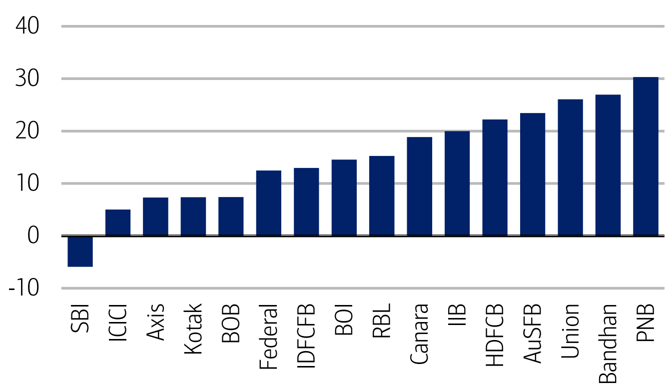
- **Visibility on growth is important –** to apply a valuation premium, investors need to have clear visibility that eventual growth trajectory would be meaningfully better.

- **Comfort on sector growth outlook –** For sectors with a very strong growth outlook, investors might prefer stocks with the best growth visibility resulting in a valuation premium.

- **Peer group and cycle matters –** In some cases, the lack of high quality peers might impact relative valuation multiples

At this stage of the credit cycle in India, investors are no longer giving 'high quality' banks much of a 'safety' premium based on their execution track record. As the confidence around asset quality improved, the incremental valuation re-rating stories over the past 2yrs have been driven by increasing growth and ROE visibility – govt banks are a case in point. The relative valuation premiums are enjoyed by banks with a perceived 'high growth trajectory' like AU SFB, IDFC First, Kotak etc. Incidentally, these reported ROEs for these banks are not market-leading.

Exhibit 46: India banks – FY24-26E EPS CAGR (%)
HDFC's base case growth expectations – likely better than sector average



Source: BofA Global Research estimates

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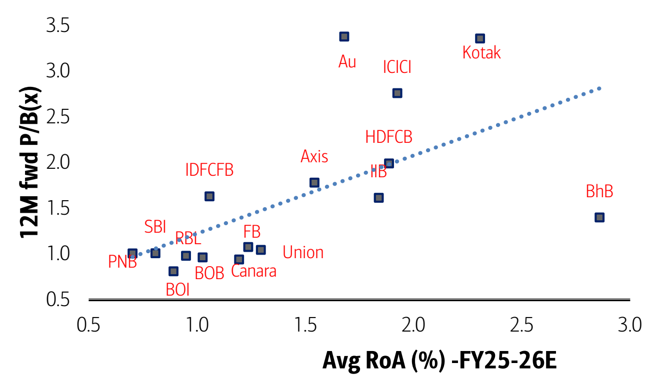
Exhibit 47: 12M fwd PB vs avg RoA(%)– FY25-26E
Higher core RoAs in general appear to drive valuation multiples



Source: BofA Global Research, Bloomberg

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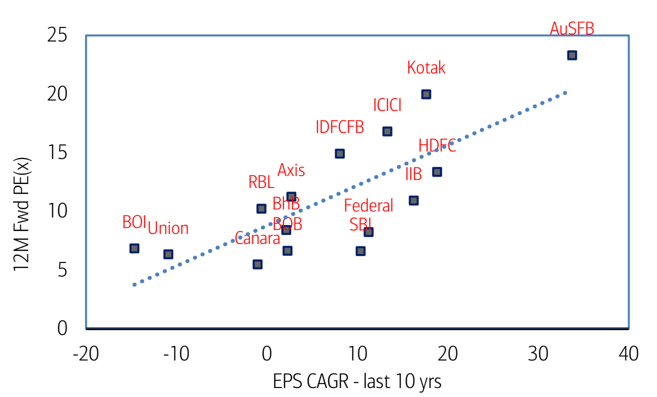
Exhibit 48: 12M fwd PE vs EPS CAGR – last 10 yrs
Long term growth outcomes seem to have a high correlation to multiples



Source: BofA Global Research, Bloomberg, company reports

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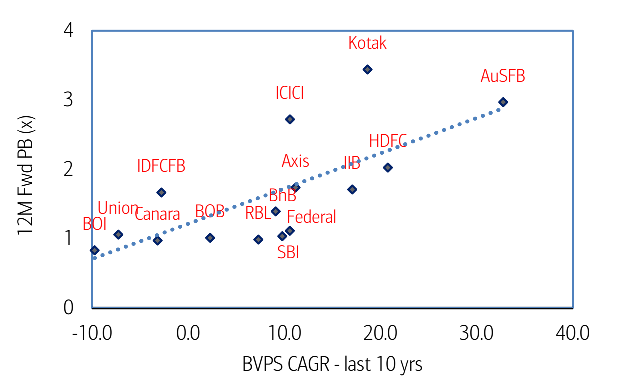
Exhibit 49: 12M fwd PB vs BVPS CAGR – last 10 yrs
P/B differentials seem to be driven by other factors as well



Source: BofA Global Research, Bloomberg, company reports

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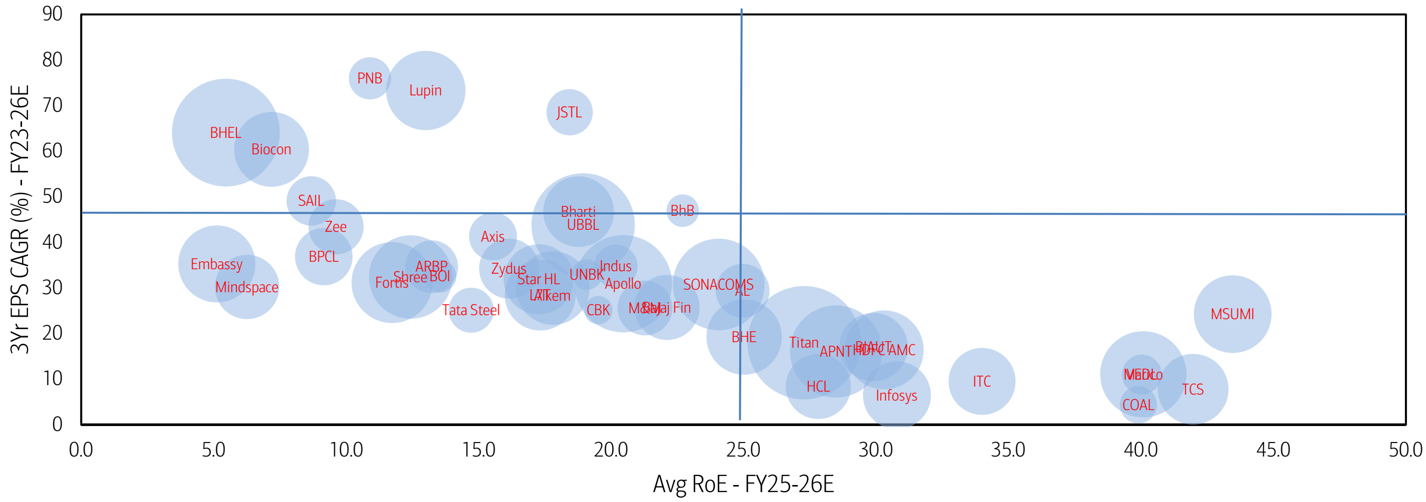
Exhibit 50: India large caps stocks - 12M Fwd PE (size of bubble) vs Avg RoE (FY25-26E) and EPS CAGR (FY23-26 CAGR)
In general, high growth stocks tend to enjoy better multiples – but the verdict is not clear



Source: BofA Global Research Estimates, Bloomberg, Company reports
Note – Size of bubble represents PE value

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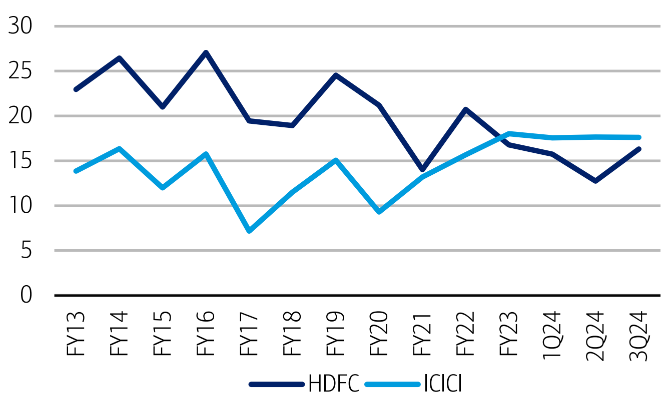
HDFC bank vs ICICI bank- what is right valuation premium?

Exhibit 51: Loan growth YoY (%) - HDFC Bank vs ICICI Bank
After almost a decade, ICICI has narrowed the gap with HDFC on loans..



Source: BofA Global Research Estimates, Company report
Note – HDFC bank's 2Q24, 3Q24 growth adjusted for merger

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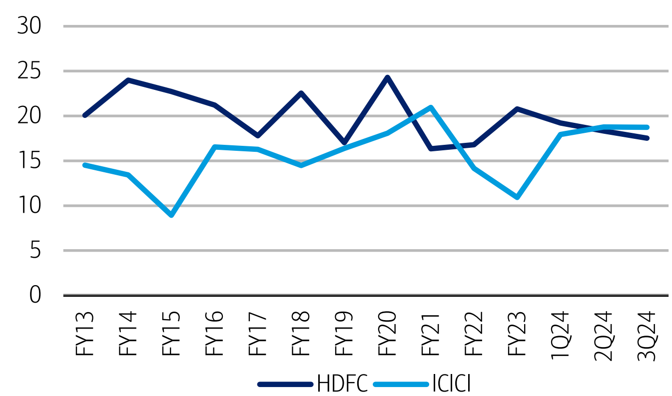
Exhibit 52: Deposit growth YoY (%) - HDFC Bank vs ICICI Bank
.. as well as deposit growth



Source: BofA Global Research Estimates, Company report
Note – HDFC bank's 2Q24, 3Q24 growth adjusted for merger

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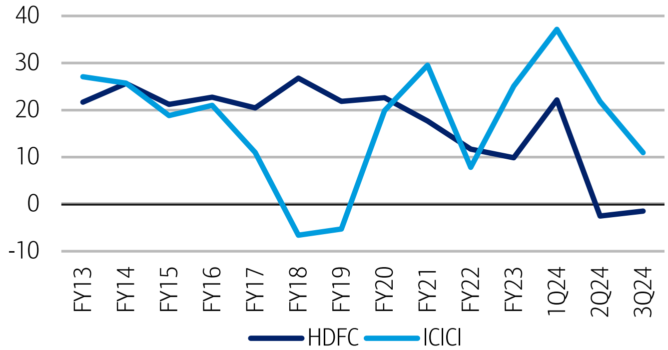
Exhibit 53: PPOP growth YoY (%) - HDFC Bank vs ICICI Bank
HDFC's PPOP growth has been weak for the past 2yrs



Source: BofA Global Research Estimates, Company report
Note – HDFC bank's 2Q24, 3Q24, FY24 growth adjusted for merger

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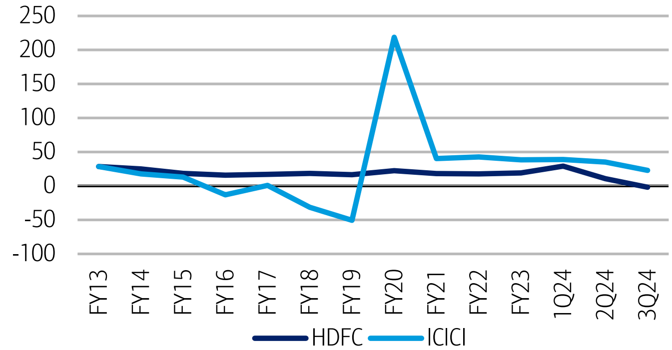
Exhibit 54: EPS growth YoY (%) - HDFC Bank vs ICICI Bank
HDFC's headline EPS growth has remained stable over the years



Source: BofA Global Research Estimates, Company report

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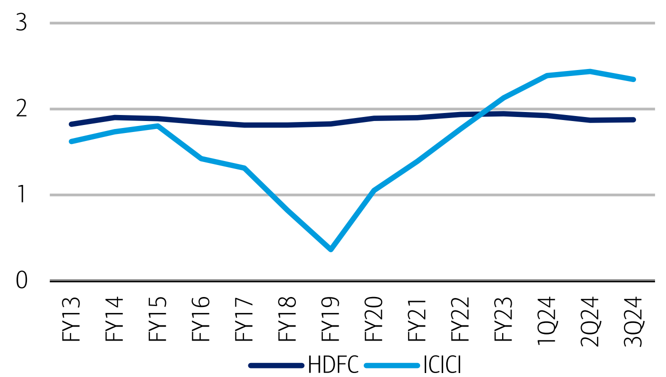
Exhibit 55: RoA (%) - HDFC Bank vs ICICI Bank
ICICI's RoAs have now been better than HDFC for the past 2yrs..



Source: BofA Global Research Estimates, Company report

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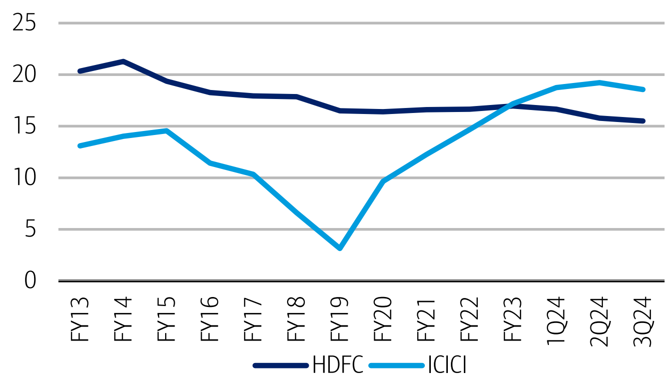
Exhibit 56: RoE (%) – HDFC Bank vs ICICI Bank
.. resulting in better ROEs as well



Source: BofA Global Research Estimates, Company report

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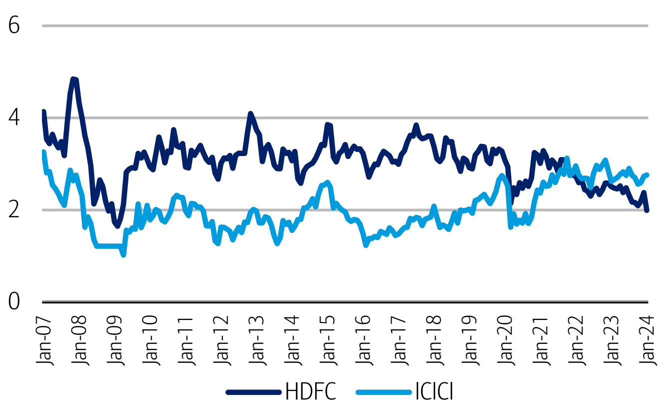
Exhibit 57: 12M fwd P/B(x)
ICICI now enjoys a visible premium



Source: BofA Global Research Estimates, Company report

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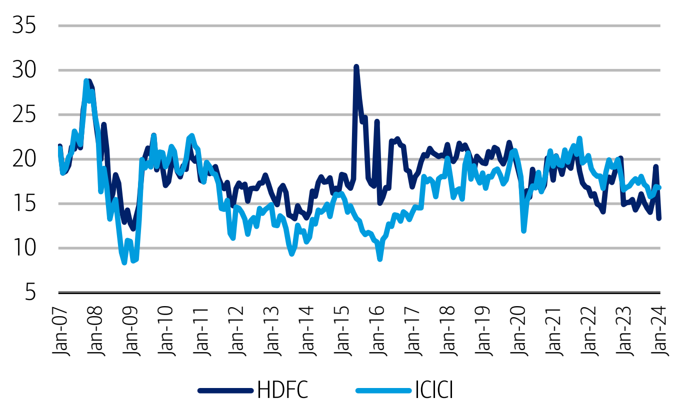
Exhibit 58: 12M fwd P/E(x)
ICICI now enjoys a visible premium



Source: BofA Global Research Estimates, Company report

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Acronyms and Abbreviations

NIM – Net Interest Margin

LDR – Loan Deposit Ratio

PPOP – Pre-Provision operating Profit

CRB – Commercial and Rural Banking

PSB – Public Sector Banks

MSB – Mid-sized Banks

BVPS – Book Value per Share

BhB- Bandhan Bank

AUSFB – AU Small Finance Bank

IIB – IndusInd Bank

BOI – Bank of India

PNB – Punjab National Bank

KMB – Kotak Mahindra Bank

BoB – Bank of Borada

SBI – State Bank of India

Axis – Axis Bank

ICICI – ICICI Bank

Union – Union Bank of India

IDFCFB – IDFC First Bank

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	Joahnna See-Soriano
	Bank Rakyat Indonesia	BKRKF	BBRI IJ	Anand Swaminathan
	BDO Unibank	BDOUF	BDO PM	Joahnna 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	ICICIBC IN	Anand Swaminathan
	ICICI Bank	IBN	IBN US	Anand Swaminathan
	ICICI Pru Life	XIIIF	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	XMGPF	MGFL IN	Anuj Singla
	Metrobank	MTPOF	MBT PM	Joahnna 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	XRXUF	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	XWIUF	KMB IN	Anand Swaminathan
	Krungthai Card	XXHFF	KTC TB	Napassorn Jittimaitriskul

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	Joahnna See-Soriano
	Union Bank of the Philippines	UBOPF	UBP PM	Joahnna 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

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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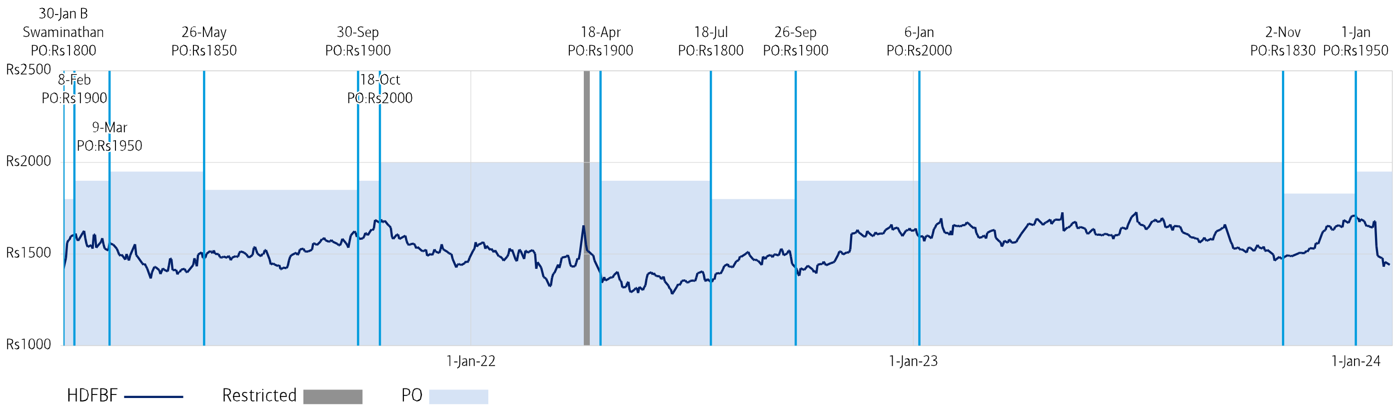
iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

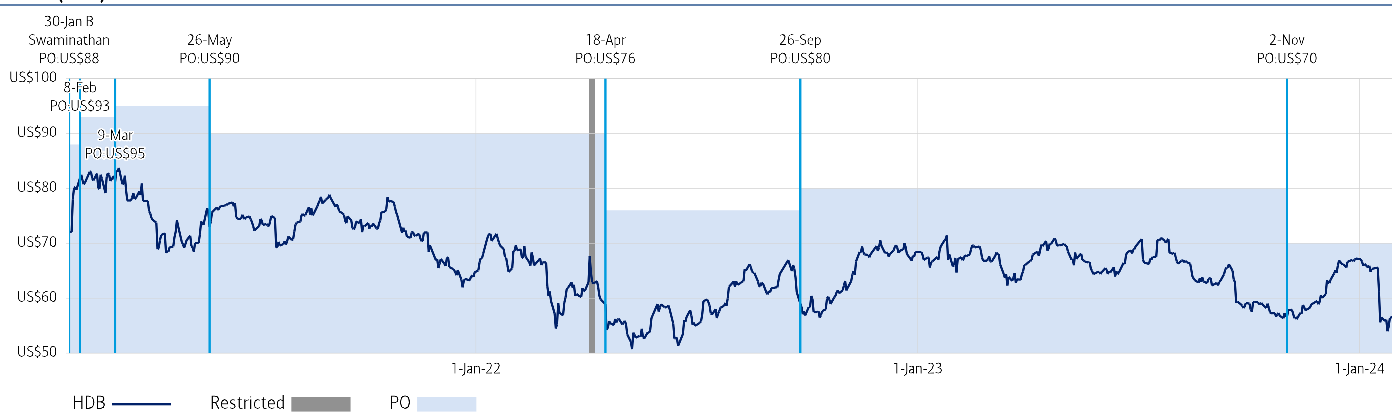
HDFC Bank (HDFBF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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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