MIRAE ASSET Sharekhan

HDFC Bank Ltd

Balanced outcome

Banks	Sharekhan code: HDFCBANK
Reco/View: **Buy** ↔	CMP: **Rs. 1,665**
	Price Target: **Rs. 2,100** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

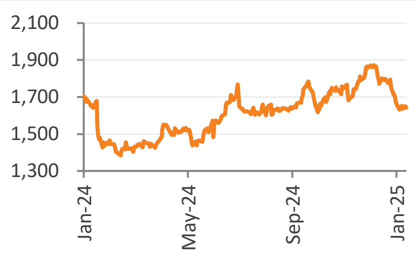
Company details

Market cap:	Rs. 12,73,483 cr
52-week high/low:	Rs. 1,880 / 1,363
NSE volume: (No of shares)	180.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	757.2 cr

Shareholding (%)

Promoters	-
FII	49.2
DII	34.6
Others	16.2

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-6.0	-2.9	1.3	12.6
Relative to Sensex	-3.9	2.9	6.5	4.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Q3FY25 numbers were stable given the transition period. Credit growth (up 1% q-o-q) continues to remain slower than deposit growth (up 3% q-o-q) to bring down LDR at normalised levels faster.
- The bank remains committed to achieve the glide path on the LDR and loan growth over FY25-27E.
- Most importantly, the quality of portfolio remains stable except some seasonality seen in agri-loan portfolio, at the time when the peers are witnessing asset quality headwinds.
- Stock trades at 2.1x/1.9x/1.6x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain BUY with an unchanged PT of Rs. 2,100 and remain assertive from the medium to long term.

Q3FY2025 numbers were broadly in line given the transition period. NII at Rs. 30,653 crore (up 8% y-o-y/2% q-o-q) in line with estimates, led by stable NIM of ~3.4% (marginally declined by 3 bps q-o-q led by interest income reversals on NPA agri portfolio) and net loan growth of ~1% q-o-q. Core fee income grew 18% y-o-y/ flat q-o-q. Treasury gains stood at Rs. 70 crore versus Rs. 1,470 crore y-o-y and Rs. 290 crore q-o-q. Other income (ex. trading gains) increased 18% y-o-y/5% q-o-q. Operating expenses growth was contained at 7% y-o-y/1% q-o-q. Cost to average asset stood at 1.8% vs 1.9% q-o-q. PPoP at Rs. 25,000 crore (marginally higher than estimates) grew by 6% y-o-y/1% q-o-q. Core PPoP (ex. treasury gains & other income) grew 12% y-o-y /2% q-o-q (broadly in line). Total provisions declined 25% y-o-y but increased on a low base by 17% q-o-q. Total credit cost stood at 50 bps vs. 44 bps q-o-q. PAT at Rs. 16,736 crore (in-line), up by 2% y-o-y/ down 1% q-o-q. Net advances grew 3% y-o-y/ 1% q-o-q. Among the key segments, commercial and rural banking grew 11% y-o-y/ 1% q-o-q. Retail loans grew by 10% y-o-y/ 2% q-o-q, driven by faster growth in non-mortgage loans (~3% q-o-q). Mortgage loans grew 2% q-o-q. Corporate loans declined ~10% y-o-y but grew by 1% q-o-q. Period-end deposit growth was healthy at 15.8% y-o-y/ 2.5% q-o-q mainly led by time deposits. LDR was lower at 98.2% vs. 99.8% q-o-q. Liquidity coverage ratio stands at a healthy level at 125% vs. 128% q-o-q. CASA declined by 1% q-o-q, with savings account balances flat q-o-q and CA declined by 3% q-o-q. Term deposits grew by 23% y-o-y/ 5% q-o-q. GNPA/ NNPA ratio marginally deteriorated q-o-q by 6 bps/ 5 bps q-o-q at 1.42%/ 0.46%. In absolute terms, GNPA/NNPA rose by 5%/ 12% q-o-q respectively mainly led by seasonality in agri portfolio. For rest of the portfolio, asset quality was stable. PCR at 68% vs 70% q-o-q. Net slippages were at Rs. 4,800 crore vs. Rs. 4,200 crore q-o-q led by higher agri slippages. Total floating provisions and contingent provisions were at 103bps of net loans.

Key positives

- Term deposits growth remained healthy at 23% y-o-y/ 5% q-o-q mainly led by retail term deposits.
- Excluding Agri-loan portfolio, asset quality is stable across portfolio segment.
- Opex growth remains contained.

Key negatives

- CASA growth has been weak at 4% y-o-y/ down 1% q-o-q.
- Slippages in agri-loan segment were higher at Rs. 2,300 crore vs Rs. 1,400 crore q-o-q.
- HDB Financial Services, a NBFC which is a subsidiary of the bank, saw deterioration in asset quality as gross 3 assets increased to 2.25% of loans vs 2.10% q-o-q and subsequently led to higher credit cost (2.5% of loans vs 1.8% q-o-q).

Management Commentary

- The bank remains committed to achieve the glide path on the LDR and loan growth over FY25-27E.
- Deposit growth has been healthy led by retail term deposits. Weak CASA growth has persisted reflecting the current macro-economic environment.
- Asset quality of the portfolio continues to remain stable except some seasonality seen in agri portfolio.
- Unsecured loans gets fully written off at 150 days overdue.
- At an aggregate level, bank is in comfortable position to meet the PSL requirements however bank would look for organic as well as inorganic opportunity to meet PSL requirements particularly in case of small & marginal farmers and weaker section as there is a shortfall.

Our Call

Valuation – We maintain a Buy with an unchanged PT of Rs. 2,100: The stock trades at 2.1x/1.9x/1.6x its FY2025E/FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth in the near term, which should bring down the LDR to normalised level. FY2025 and FY2026 would be the years of transition. The bank is confident of regaining its growth trajectory and NIM once this transition period is complete. We retain our BUY rating on the stock with an unchanged PT of Rs. 2,100, given better visibility of key business metrics and valuing the subsidiaries at Rs. 252 per share. Key monitorables remain NIM progression and retail deposit mobilisation.

Key Risks

Slower retail deposit mobilisation; economic slowdown; tech outage.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	86,842	1,08,532	1,22,064	1,36,684	1,58,680
Net profit	44,109	60,812	66,824	74,957	86,919
EPS (Rs.)	78.9	80.0	86.8	97.4	112.2
P/E (x)	17.9	17.7	16.3	14.5	12.6
P/BV (x)	2.8	2.4	2.1	1.9	1.6
RoE	17.0	16.9	14.1	13.8	14.0
RoA	1.9	2.0	1.8	1.8	1.9

Source: Company; Mirae Asset Sharekhan estimates

Results (Standalone) **Rs cr**

Particulars	Q3FY25	Q3FY24	Y-o-Y (%)	Q2FY25	Q-o-Q (%)
Interest Inc.	76,007	70,583	74,017	7.7%	2.7%
Interest Expenses	45,354	42,111	43,903	7.7%	3.3%
Net Interest Income	**30,653**	**28,471**	**30,114**	**7.7%**	**1.8%**
NIM (%)	3.43	3.40	3.46	0.9%	-0.9%
Core Fee Income	8,180	6,940	8,140	17.9%	0.5%
Other Income	3,274	4,197	3,343	-22.0%	-2.1%
Net Income	**42,107**	**39,608**	**41,597**	**6.3%**	**1.2%**
Employee Expenses	5,950	5,352	5,985	11.2%	-0.6%
Other Opex	11,156	10,609	10,906	5.2%	2.3%
Total Opex	**17,106**	**15,961**	**16,891**	**7.2%**	**1.3%**
Cost to Income Ratio	40.6%	40.3%	40.6%		
Pre-Provision Profit	**25,000**	**23,647**	**24,706**	**5.7%**	**1.2%**
Provisions & Contingencies – Total	3,154	4,217	2,700	-25.2%	16.8%
Profit Before Tax	**21,847**	**19,431**	**22,005**	**12.4%**	**-0.7%**
Tax	5,111	3,058	5,184	67.1%	-1.4%
Effective Tax Rate	23%	16%	24%		
Reported Profit	**16,736**	**16,373**	**16,821**	**2.2%**	**-0.5%**
Basic EPS (Rs.)	21.9	21.6	22.1	1.5%	-0.8%
Diluted EPS (Rs.)	21.8	21.5	22.0	1.4%	-0.8%
RoA (%)	1.9	2.0	2.0		
Advances	**25,18,248**	**24,46,076**	**24,95,120**	**3.0%**	**0.9%**
Deposits	**25,63,795**	**22,13,977**	**25,00,088**	**15.8%**	**2.5%**
Gross NPA	**36,019**	**31,012**	**34,251**	**16.1%**	**5.2%**
Gross NPA Ratio (%)	1.42	1.26	1.36		
Net NPA	**11,588**	**7,664**	**10,309**	**51.2%**	**12.4%**
Net NPAs Ratio (%)	0.46	0.31	0.41		
PCR – Calculated	**67.8%**	**75.3%**	**69.9%**		

Source: Company; Mirae Asset Sharekhan Research

SOTP Valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value (A)	1,848
HDB Financial Services	89
HDFC Securities	21
HDFC AMC	73
HDFC Life	123
HDFC ERGO	9
Sum of subs/ associates	**315**
(-) Holding Co. Discount - 20%	
Value of subs/ associates post holdco discount (B)	**252**
Fair Value (A+B)	**2,100**

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.2% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high credit-deposit ratio. Deposit growth at 9.9% has again started to lag loan growth. However, deposit growth continues to remain rangebound at 10-12% and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

Company Outlook – In a transition phase, with a strong execution track record

Better NIMs, strong retail deposit mobilisation resulting in the normalisation of credit-deposit ratio in turn leading to a sustainable loan growth path, building strong reach and distribution, broadening customer base, and enabling technology to remain key monitorables in the near term. The bank has a track record of strong execution capabilities. The bank has consistently delivered a superior performance and its track record is unmatched in the sector.

Valuation – We maintain a Buy rating on the stock with an unchanged PT of Rs. 2,100

The stock trades at 2.1x/1.9x/1.6x its FY2025E/FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth in the near term, which should bring down the LDR to normalised level. FY2025 and FY2026 would be the years of transition. The bank is confident of regaining its growth trajectory and NIM once this transition period is complete. We retain our BUY rating on the stock with an unchanged PT of Rs. 2,100, given better visibility of key business metrics and valuing the subsidiaries at Rs. 252 per share. Key monitorables remain NIM progression and retail deposit mobilisation.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFC Bank	1,665	12,73,483	16.3	14.5	2.1	1.9	14.1	13.8	1.8	1.8
ICICI Bank	1,200	8,47,422	15.1	13.6	2.4	2.1	17.4	16.3	2.3	2.2
Axis Bank	960	2,97,104	9.9	9.3	1.5	1.3	15.9	14.7	1.7	1.6

Source: Company; Mirae Asset Sharekhan Research

About company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank has delivered steady performance across cycles. HDFC Bank and HDFC Limited have successfully completed one of India's largest financial services mergers.

Investment theme

HDFC Bank has consistently reported healthy return ratios and earnings growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality, which is indicative of its strong business franchise strength and leadership qualities The bank is confident of regaining its growth trajectory once the transition period of the merger is complete over the next 12-15 months.

Key Risks

Slower deposit mobilisation; economic slowdown; tech outage.

Additional Data

Key management personnel

Sashidhar Jagdishan	Managing Director and CEO
Kaizad Bharucha	Deputy MD
Srinivasan Vaidyanathan	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	4.93
2	Life Insurance Corp of India	4.74
3	Vanguard Group Inc/The	3.44
4	Blackrock Inc	2.84
5	ICICI Prudential Asset Management	2.65
6	HDFC Asset Management Co Ltd	2.33
7	FMR LLC	2.28
8	Republic of Singapore	2.27
9	UTI Asset Management Co Ltd	1.73
10	Nippon Life India Asset Management	1.61

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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