HDFC Bank Ltd.

ISIN :INE040A01034 | NSE :HDFCBANK

Price: 1,928
Recommendation: Buy
Industry: Private Sector Bank
Sector: Financial Services
Report Date: 21-Apr-2025

HDFC Bank is strategically navigating a challenging macroeconomic environment by focusing on a stable credit deposit ratio, with deposit growth outpacing loans. The bank has expanded its network by adding over 1,000 branches, maintaining cost growth at 7% year-on-year. Through mergers, it has integrated 1.9 million customers, enhancing relationships. The bank plans phased growth, leveraging technology and maintaining a stable cost-to-income ratio for future resilience.

Sales		Profit & Loss		Profitability Matrix	
Current Year	300517 Cr	Operating Profit(Year)	220693 Cr	Operating Profit Margin	73.4 %
Previous Year	258341 Cr	Operating Profit(Quarter)	56710 Cr	EBITDA Margin	88.62 %
Current Quarter	77460 Cr	PAT (Year)	67347 Cr	Net Profit Margin	22.4 %
Previous Quarter	76007 Cr	PAT (Quarter)	17616 Cr	EPS	88.0
Revenue (QYoY)	71473 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	21.8	Sales Growth	16.3 %	Sales Growth	1.91 %
PEG Ratio	1.05	PAT Growth	10.75 %	Sales Growth QYoY	8.38 %
EV/EBITDA	17.8	EPS Growth	0.0 %	PAT Growth	5.26 %
P/B	2.99	Dividend Yield	1.01	PAT Growth QYoY	6.69 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	14.4 %	Promoter	0.00 %	Debt/Equity	6.56
RoA	1.79 %	FII	48.3 %	Debt	3262646 Cr
RoCE	7.35 %	DII	35.7 %	Market Cap	1475004 Cr
RoIC	7.35 %	Public	15.8 %	Enterprise value	4737650 Cr
		No of Shares	765 Cr	Cash Equivalents	0.00 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent meeting, HDFC Bank outlined several strategic initiatives and business strategies aimed at navigating the challenging macroeconomic environment. The bank is focusing on maintaining a stable credit deposit ratio, with deposit growth outpacing loan growth. This strategy is supported by a robust 15% growth in average deposits, which has allowed the bank to gain market share. The bank has also added over 1,000 branches in the past year, demonstrating a commitment to expanding its distribution network while keeping costs tightly controlled. The cost growth has been limited to 7% year-on-year, reflecting productivity gains and a focus on efficiency.

The bank is actively pursuing diversification schemes, particularly through its merger activities. The merger has enabled the bank to open new liability accounts for a significant number of customers, enhancing its overall banking relationships. The bank has successfully integrated 1.9 million customers into its liability relationship, with plans to expand this further. Additionally, the bank is focusing on maintaining a holistic customer relationship, which includes a strategic choice to grow time deposits by 22.7% in the quarter, despite the potential impact on margins. This approach underscores the bank's commitment to long-term customer engagement and growth.

Looking ahead, HDFC Bank is well-positioned for future growth and scaling. The bank has sufficient liquidity and capital to capture market share in loans when macroeconomic conditions improve. The bank's strategy includes a phased approach to growth, with plans to grow slower than the system in FY '25, in line with the system in FY '26, and faster than the system in FY '27. This approach is designed to ensure stability and resilience in the face of changing economic conditions. The bank's focus on maintaining a stable cost-to-income ratio and leveraging technology investments further supports its growth ambitions.

From a positive perspective, HDFC Bank's strategic initiatives and disciplined approach to cost management position it well for future growth. The bank's ability to maintain stable credit parameters and a strong deposit growth rate in a challenging environment is commendable. However, there are areas for improvement, such as accelerating the realization of merger synergies to enhance margins and reduce cost ratios. The bank's focus on maintaining a stable CASA ratio and its strategic choice to prioritize customer relationships over immediate margin gains are prudent, but there is potential for further optimization as economic conditions evolve. Overall, HDFC Bank's strategic initiatives and disciplined approach provide a solid foundation for future growth and resilience.

HDFCBANK Daily Closing One Year Price Chart

Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
IDBI Bank	89352.48	12.43	11.77%	5.03%	19.40%	4.69%	29.14%
IndusInd Bank	64396.70	8.92	15.25%	0.90%	10.62%	5.72%	-39.02%
Yes Bank	59008.40	24.05	5.44%	-2.68%	2.22%	20.21%	59.33%
Kotak Mah. Bank	445361.94	22.65	15.06%	1.26%	14.75%	-6.80%	10.23%
Axis Bank	378458.87	13.44	18.40%	1.78%	11.42%	-8.90%	3.86%

Aspect	Commentary
Revenue	The company shows a robust revenue increase, with a 16.3% YoY growth, indicating strong market demand and effective sales strategies. The quarterly growth of 1.91% suggests consistent performance, though slightly slower than annual growth, reflecting potential seasonal or market fluctuations.
Profit & Loss	Operating profit margins are high at 73.4%, with a net profit margin of 22.4%, indicating efficient cost management and strong profitability. The PAT growth of 10.75% YoY and 5.26% QoQ highlights steady profit expansion, supporting the company's financial health and shareholder value.
Profitability Matrix	The company maintains a strong EBITDA margin of 88.62%, reflecting excellent operational efficiency. The EPS remains stable, suggesting consistent earnings distribution. The high operating profit margin underscores the company's ability to convert sales into actual profit effectively.
Valuation Matrix	The trailing P/E ratio of 21.8 and PEG ratio of 1.05 suggest the stock is fairly valued with growth potential. The EV/EBITDA of 17.8 indicates a reasonable valuation relative to earnings, while the P/B ratio of 2.99 reflects moderate market confidence in the company's asset value.
Growth (YoY)	The company exhibits solid YoY growth with sales increasing by 16.3% and PAT by 10.75%, indicating strong market positioning and operational success. The stable EPS growth suggests consistent earnings performance, while a 1.01% dividend yield provides additional shareholder returns.
Growth (QoQ)	Quarterly growth shows a 1.91% increase in sales and a 5.26% rise in PAT, indicating steady performance. The QoQ growth in PAT of 6.69% suggests effective cost management and operational efficiency, supporting the company's ongoing financial stability and growth trajectory.
Capital Allocation	The company demonstrates prudent capital allocation with a RoE of 14.4% and RoA of 1.79%, indicating effective use of equity and assets. The RoCE and RoIC both at 7.35% reflect efficient capital utilization, supporting sustainable growth and shareholder value creation.
Holdings	The ownership structure shows no promoter holding, with significant FII at 48.3% and DII at 35.7%, indicating strong institutional confidence. Public holding at 15.8% suggests a balanced investor base, supporting market stability and potential for diverse shareholder engagement.
Leverage	The high debt/equity ratio of 6.56 indicates significant leverage, which could pose risks if not managed carefully. However, the substantial market cap and enterprise value suggest strong market positioning, providing a buffer against potential financial volatility and supporting growth.

Analyst viewpoint: HDFC Bank has demonstrated strong growth metrics, making it an attractive buy for short to mid-term investors. The bank's sales increased by 16.3% year-over-year while achieving a 5.26% quarter-over-quarter profit after tax growth. This reflects its robust market positioning and successful operational strategies amidst a challenging macroeconomic environment. The alignment of strategic initiatives, such as the addition of over 1,000 branches, stable cost growth, and focused technology leverage, underpins the bank's potential for sustained expansion. Compared to peers like Kotak Mahindra and IndusInd Bank, HDFC Bank maintains a competitive edge with superior loan market share and strategic diversification through merger activities that integrated 1.9 million customers, enhancing customer relationships and deposit growth.

Despite significant progress, certain areas, like realizing merger synergies faster to boost margins, present opportunities for optimization. Evaluating key valuation metrics such as a P/E ratio of 21.8 and EV/EBITDA of 17.8 indicates a fair valuation with growth prospects backed by efficient capital allocation strategies, demonstrated by a Return on Equity of 14.4%. The growth strategy accommodates exploration within safe liquidity parameters enabling resilience against economic fluctuations. While high debt/equity leverage at 6.56 might suggest financial caution, the bank's substantial market cap provides a comfortable buffer, securing its position in the financial sector landscape.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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