

3QFY24 Pre-Qtr: Softer Deposit & Retail Loan Growth; Rural/SME Lead Growth

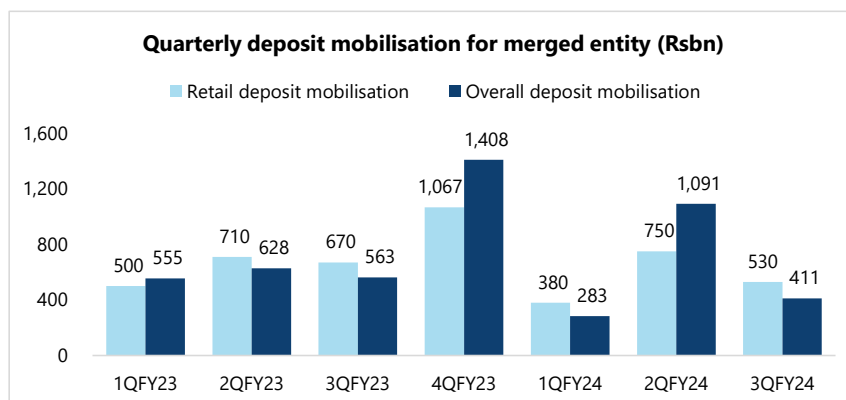
HDFCB's pre-qtr release for 3QFY24 points at tad softer deposit mobilisation with retail net inflows at Rs530bn vs. Rs700-800bn in 2Q & overall inflows of Rs400bn vs. Rs1.1tn in 2Q. HDFCB may have lowered its surplus liquidity, so we will watch out for change in LCR levels (121% in 2Q) & comments in results on 16Jan. Casa growth is okay at 10% YoY/ 2% QoQ. Loan growth was healthy at 5% QoQ, led by SME (up 7% QoQ), whereas retail lagged at 3% QoQ.

Exhibit 1 - 3QFY24 key data for merged entity: Tad softer deposit growth but loan momentum is healthy

HDFC Bank (merged entity) (Rsbn)	3QFY23 (Standalone)	2QFY24 (Merged)	3QFY24 (Merged)	YoY	QoQ
Deposit trends					
Deposits	17,332	21,729	22,140	28%	2%
Deposit mobilisation (overall)	563	1,091	411		
of which, retail deposit mobilisation	670	750	530		
Retail deposits				28%	3%
Wholesale deposits				24%	-3%
CASA deposits	7,630	8,177	8,355	10%	2%
Casa ratio (% of deposits)	44%	38%	38%	-630bps	10bps
Retail Casa				10%	2%
Loan book trends					
Total advances	15,205	23,546	24,695	62%	5%
Retail loans				111%	3%
Commercial/ rural loans				32%	7%
Corporate/ Wholesale loans (ex. non-individual loans of eHDFCL)				11%	2%

Source: Company Data, Jefferies; Excludes grossing up for transfers through inter-bank participation certificates and bills rediscounted

Exhibit 2 - Deposit mobilisation momentum was slower in 3QFY24, part of it may be driven by consumption of excess liquidity



Source: Company Data, Jefferies

Exhibit 3 - Key Metrics

Key metrics	FY22	FY23	FY24E	FY25E	FY26E
Net profit (Rsbn)	370	441	602	730	884
EPS (Rs)	67	79	85	97	117
ROA (%)	1.9%	1.9%	1.6%	1.7%	1.8%
ROE (%)	16.9%	17.2%	14.2%	15.7%	16.6%
P/E	24	20	17	15	12
P/ABV	3.7	3.2	2.7	2.3	2.0

Source: Company data, Jefferies estimates

FLASH NOTE

RATING	BUY
PRICE	INR1,690.10*
PRICE TARGET % TO PT	INR2,100 +24%
52W HIGH-LOW	INR1,757.80 - INR1,460.55
FLOAT (%) ADV MM (USD)	134.8% 366.99
MARKET CAP	INR9.3T \$111.9B
TICKER	HDFCB IN
*Prior trading day's closing price unless otherwise noted.	

TICKER	HDB
PRICE	\$73.01*
PRICE TARGET % TO PT	\$88.00 +21%

Prakhar Sharma * | Equity Analyst

91 22 4224 6129 | prakhar.sharma@jefferies.com

Vinayak Agarwal * | Equity Associate

+91 22 4224 6178 | vagarwal2@jefferies.com

Exhibit 4 - HDFC Bank: Post- Merger Summary Income Statement

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,277,531	1,615,855	2,400,850	2,960,672	3,422,181
Interest expense	557,435	747,433	1,299,772	1,641,109	1,843,201
Net interest income	720,096	868,422	1,101,079	1,319,563	1,578,980
Other income	295,099	312,148	423,796	499,664	592,522
Fees	234,445	279,259	334,461	406,945	483,672
Treasury income	22,826	(11,312)	31,107	21,832	25,203
Other income	37,828	44,201	58,228	70,887	83,646
Total income	1,015,195	1,180,570	1,524,874	1,819,227	2,171,501
Operating expenses	374,422	476,521	620,936	712,147	815,295
Employee costs	120,317	155,124	208,785	240,911	274,639
Other costs	254,105	321,397	412,151	471,235	540,656
Pre-provision Profit	640,773	704,050	903,938	1,107,080	1,356,207
Total Provision	150,618	119,197	116,473	139,901	185,551
Loan loss provisions	113,772	122,060	116,473	139,901	185,551
Pre-tax profit	490,155	584,853	787,466	967,179	1,170,655
Provision for Tax	120,541	143,766	185,054	236,959	286,811
Net profit	369,614	441,087	602,411	730,220	883,845

Source: Company data, Jefferies

Exhibit 5 - HDFC Bank: Post- Merger Summary Balance Sheet

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	5,546	5,580	7,538	7,538	7,538
Reserves & Surplus	2,395,384	2,796,410	4,187,452	4,773,093	5,481,685
Shareholders' funds	2,400,929	2,801,990	4,194,989	4,780,631	5,489,223
Deposits	15,592,174	18,833,946	23,942,481	28,736,637	34,609,847
Casa deposits	7,510,491	8,359,889	9,308,376	11,175,711	13,536,736
Term deposits	8,081,683	10,474,058	14,634,105	17,560,926	21,073,111
Borrowings	1,848,172	2,067,656	7,163,081	7,521,235	7,897,296
Other liabilities	844,075	957,222	1,372,236	1,509,460	1,660,406
Total Liabilities	20,685,351	24,660,815	36,672,787	42,547,962	49,656,772
Cash & bank balance	1,523,269	1,937,651	2,089,648	2,667,926	2,946,008
Investments	4,555,357	5,170,014	7,038,550	7,698,175	8,796,788
G-Secs	3,665,273	4,373,698	5,963,064	6,512,523	7,489,402
Loans	13,688,209	16,005,859	25,583,444	29,992,160	35,467,614
Fixed assets	60,837	80,165	96,880	101,724	107,827
Current assets	857,678	1,467,125	1,864,265	2,087,977	2,338,535
Total Assets	20,685,351	24,660,815	36,672,787	42,547,962	49,656,772

Source: Company data, Jefferies

Exhibit 6 - HDFC Bank: Post- Merger Key Metrics

	FY22	FY23	FY24E	FY25E	FY26E
EPS (Rs)	67	79	85	97	117
EPS growth (% YoY)	18%	19%	7%	14%	21%
Profit growth (% YoY)	19%	19%	37%	21%	21%
BV/share (Rs)	433	502	557	634	728
Adjusted BV / share (Rs)	435	504	544	618	709
ROAA (%)	1.9%	1.9%	1.6%	1.7%	1.8%
ROE (%)	17%	17%	14%	16%	17%
RORWA (%)	3.0%	3.0%	3.2%	3.0%	3.0%
NIM (%)	4.2%	4.3%	3.6%	3.7%	3.8%
Gross NPAs (% of loans)	1.2%	1.1%	1.4%	1.3%	1.2%
Net NPAs (% of loans)	0.3%	0.3%	0.4%	0.3%	0.3%
Coverage (% of gross NPA)	73%	76%	73%	73%	73%
Capital Adequacy Ratio (% of RWA)	19%	19%	18.0%	17.6%	16.7%
Tier I CAR (% of RWA)	18%	17%	16.3%	16.0%	15.3%
Fee growth (% YoY)	26%	19%	20%	22%	19%
Fee/ asset (% of avg assets)	1.2%	1.2%	1.1%	1.0%	1.0%
Fee (% total revenue)	23%	24%	22%	22%	22%
Cost-Income ratio (Excl Treasury) (%)	38%	40%	42%	40%	38%
Cost/ asset ratio (%)	2.0%	2.1%	2.0%	1.8%	1.8%
Loan growth (% YoY)	21%	17%	60%	17%	18%
Equity / assets (%)	12%	11%	11%	11%	11%
Equity / loans (%)	18%	18%	16%	16%	15%
Loan/deposit ratio (%)	88%	85%	107%	104%	102%
Provision/ avg. loans (%)	1.20%	0.80%	0.56%	0.50%	0.57%
CASA (% of deposits)	48%	44%	39%	39%	39%
CASA (% funds)	43%	40%	30%	31%	32%
Tax rates (% of PBT)	25%	25%	24%	25%	25%
Yield on loans (%)	7.9%	8.6%	8.7%	8.7%	8.6%
Yield on Investments (%)	5.8%	6.5%	6.7%	6.6%	6.5%
Cost of funds (%)	3.5%	3.9%	4.5%	4.9%	4.7%
PPP / share (Rs)	116	127	128	147	180
Dividend per share (Rs)	16	19	20	23	28
Dividend payout (% of PAT)	23%	24%	24%	24%	24%
Dividend yield (%)	0.9%	1.1%	1.2%	1.4%	1.7%
P/E (x)	24	20	17	15	12
P/ PPP (x)	14	13	12	10	8
P/ABV (x)	3.7	3.2	2.7	2.3	2.0
P/BV (x)	3.9	3.4	3.0	2.7	2.3

Source: Company data, Jefferies

Exhibit 7 - HDFC Bank: Post- Merger Dupont Analysis

Sum of the parts valuation, Mar-26	Rsbn	Rs/ share	Comment
HDFC Life Insurance (50.3% stake)	859	114	Target price, Rs800
HDB Financial (95% stake)	742	98	3.0x adjusted PB
HDFC AMC (52.5% stake)	363	48	Target price, Rs 3,230
HDFC Ergo General Insurance (50% stake)	213	28	30x PE
HDFC Securities (96% stake)	220	29	18x PE
HDFC Credila (10% stake)	10	1	Recent deal value
Total value of subsidiaries	2,407	319	
Holdco disc. on listed companies (20%)	244	32	
Value of group companies	2,162	287	
HDFC Bank	13,634	1,809	2.6x adjusted PB
Total	15,796	2,096	
Total (rounded-off)		2,100	

Source: Company data, Jefferies

Company Description

HDFC Bank

Promoted by HDFC LTD., HDFC Bank was incorporated in August 1994 and commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. Effective 1-Jul-23, HDFC Ltd. was merged with HDFC Bank.

Company Valuation/Risks

HDFC Bank

We value HDFC Bank at Rs2,100 - core bank at 2.6x Mar-26 adj book, HDFC Life and HDFC AMC at price target, HDB Financial at 3x adj book, HDFC Ergo at 30x PE and HDFC Securities at 18x PE. Our price target for the ADR is \$91 adjusted for share swap & forex.

Risk is from spike in rates as HDFC Bank now has a higher share of non-retail funds and its cost of funding will be more linked to market rates, than in the past. Also a slower than expected ramp-up of priority sector loans through the Commercial and Rural Banking Division would drag margins & ROA as it would lead to higher cost of compliance towards priority sector loans.

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(Article 3(1)e and Article 7 of MAR)

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Recommendation Distributed	January 4, 2024 , 23:32 ET.

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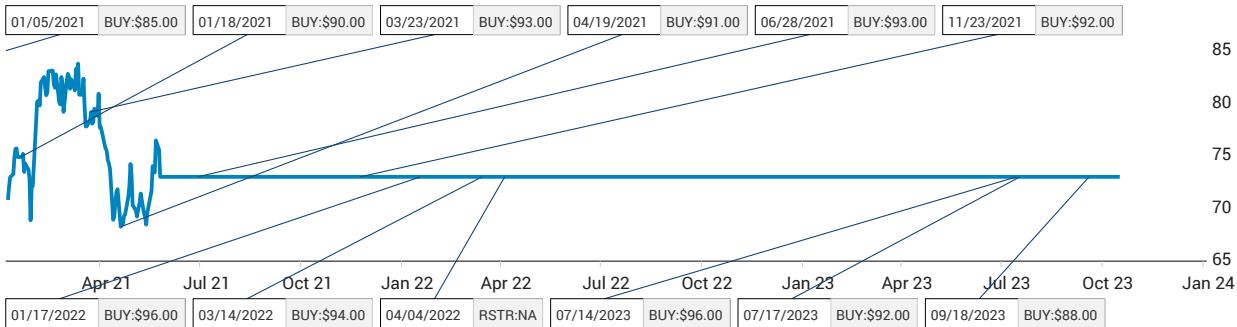
- Housing Development Finance Corp. Ltd. (HDFC IN: INR2,729.95, RESTRICTED)

Rating and Price Target History for: HDFC Bank (HDFCB IN) as of 01-03-2024



Ankur Pant holds a long position in HDFC Bank (HDFCB IN)

Rating and Price Target History for: HDFC Bank (HDB) as of 10-16-2023



Ankur Pant holds a long position in HDFC Bank (HDFCB IN)

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	Count	Percent	Count	Percent	Count	Percent
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