Sharekhan by BNP PARIBAS

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Stock Update

Company Update

HDFC Bank Ltd

Deposit growth shines

Banks	Sharekhan code: HDFCBANK		
Reco/View: Buy	↔	CMP: Rs. 1,657	Price Target: Rs. 1,900 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- HDFC Bank's business update for Q2FY2025 indicated that deposit mobilisation (up 15.1% y-o-y/5.1% q-o-q) has been strong (above estimates), led by term deposits (19.3% y-o-y/6.7% q-o-q).
- CASA grew by 8.0% y-o-y/2.3% q-o-q. CASA ratio stood at 35.3% vs. 37.6% y-o-y/36.3% q-o-q. Gross advances grew by 7.0% y-o-y/1.3% q-o-q.
- Given the focus is on normalisation of the credit-deposit ratio faster, this is an excellent outcome considering the transition period. Asset growth would remain calibrated in the near term, while managing LCR and LDR.
- At the CMP, the stock trades at 2.2x and 1.9x its FY2025E and FY2026E core BV estimates, respectively. We maintain our BUY rating with an unchanged PT of Rs. 1,900. Retail deposit growth and NIM progression remain key monitorables.

HDFC Bank reported strong deposit growth led by term deposits in Q2FY2025. Incremental deposits mobilised during Q2 stood at Rs. 1,20,900 crore vs expectation of Rs. 80,000-100,000 crore. Given the focus is on normalisation of the credit-deposit ratio faster, deposit growth continued to outpace loan growth resulting in LDR falling to 100.8% vs 104.5% q-o-q. Gross advances grew by 7.0% y-o-y/1.3% q-o-q. Retail loans grew by 2.6% q-o-q. Commercial and rural banking grew by 4.7% q-o-q. However, corporate and other wholesale loans fell 2.8% q-o-q. Overall deposits grew by 15.1% y-o-y/5.1% q-o-q, led by term deposits. CASA grew by 8% y-o-y/2.3% q-o-q. Out of the total incremental deposits mobilised, 75-80% are retail deposits. Average LCR for the quarter is at 127% vs. 123% q-o-q. The likelihood of further weight increase in MSCI index in November review is higher but not given.

Loan growth to remain caliberated in the near term: The bank's focus is on bringing the CD ratio lower steadily and as early as possible while maintaining profitable growth. Thus, we believe loan growth is expected to be in low mid-teens in the near term and deposit growth should continue to outpace loan growth. The bank is also looking at a gradual shift in loan mix toward higher-yielding assets in retail. Commercial and rural segments continue to show healthy trends, while this portfolio is also an important source of PSL assets for the bank. Hence, it is likely to show healthy credit growth. Corporate loan growth will remain sluggish as the bank is not comfortable with pricing.

NIMs to improve gradually: NIM could remain rangebound in the near term. However, it could improve gradually by 25-30 bps as high-cost wholesale funding of HDFC Ltd. gets replaced with retail funding (CASA and retail deposits) and loan mix gets gradually improved towards retail high-yielding segments over the next 12-15 months. The bank has increased the yield thresholds on several asset products in the recent months. This along with a shift in loan mix away from corporate is expected to support overall asset yield for the bank.

Strong deposit moblisation: The bank reported strong deposit growth led by term deposits in Q2FY2025. Incremental deposits mobilised during Q2 stood at Rs. 1,20,900 crore vs expectation of Rs. 80,000-100,000 crore. Given the focus is on normalisation of the credit-deposit ratio faster, deposit growth continued to outpace loan growth resulting in LDR falling to 100.8% vs 104.5% q-o-q. The bank does not intend to use pricing as a tool to garner more deposits. Management's strategy is to enhance engagement and service delivery to differentiate itself. It continues to add new relationships.

Our Call

Valuation: We maintain our BUY rating on the stock with an unchanged price target (PT) of Rs. 1,900: Loan growth is expected to remain muted in the near term and deposit growth is expected to outpace loan growth, which should bring the LDR to a normal level gradually. The bank is confident of regaining its growth trajectory once this transition period is completed over the next 12-15 months. We remain constructive from a medium to long term perspective, building an earnings CAGR of 12% over FY2024-FY2026E with ROA of 1.8%. At the CMP, the stock trades at a core book of 2.2x/1.9x FY2025E/FY2026E, thus valuing the subsidiary at Rs. 225 per share. We maintain BUY with an unchanged PT of Rs. 1,900. Key monitorable: NIM progression and retail deposit mobilisation

Key Risks

Slower retail deposit mobilisation; economic slowdown; tech outage.

Valuation Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	72,010	86,842	1,08,532	1,33,174	1,50,289
Net profit	36,962	44,109	60,812	69,160	77,383
EPS (Rs.)	66.3	78.9	80.0	89.9	100.5
P/E (x)	21.6	18.1	17.9	15.9	14.2
P/BV (x)	3.3	2.9	2.5	2.2	1.9
RoE	16.7	17.0	16.9	14.6	14.2
RoA	1.9	1.9	2.0	1.8	1.8

Source: Company; Sharekhan estimates

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		↔	

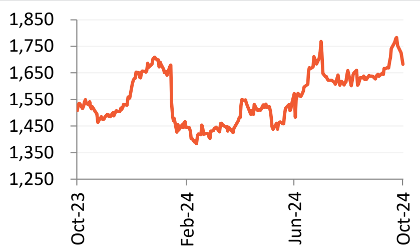
Company details

Market cap:	Rs. 12,64,267 cr
52-week high/low:	Rs. 1,792/1,363
NSE volume: (No of shares)	208.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	754 .9 cr

Shareholding (%)

Promoters	-
FII	48.0
DII	35.3
Others	16.7

Price chart

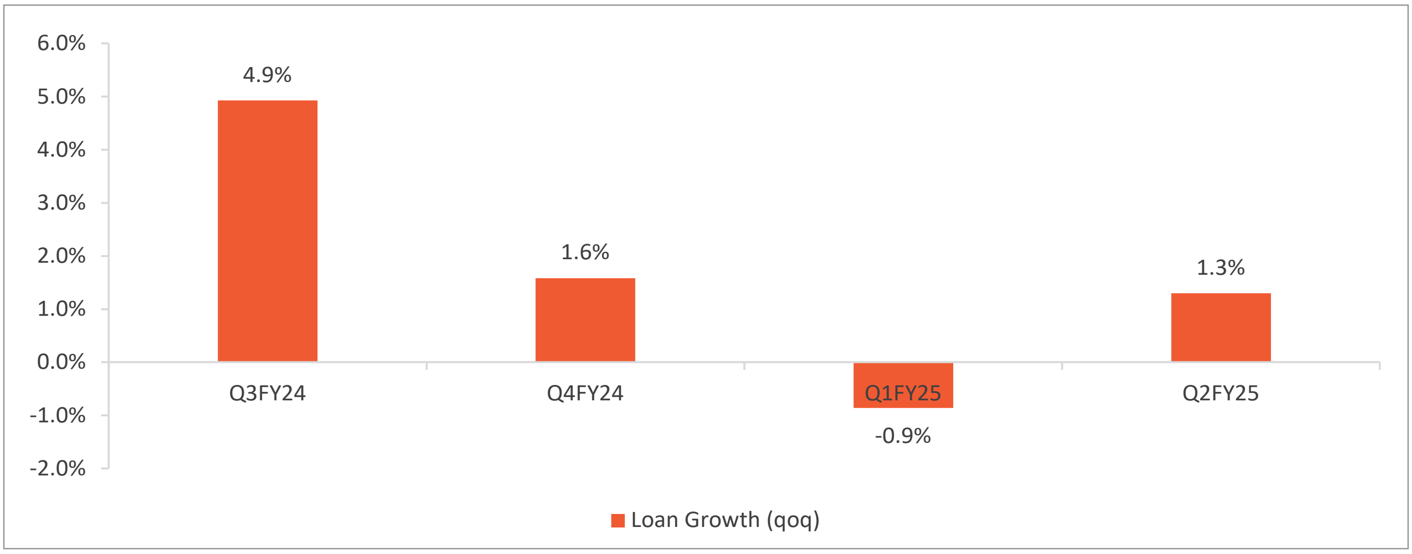


Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	-3.8	8.8	8.6
Relative to Sensex	1.9	-6.0	-1.5	-16.8

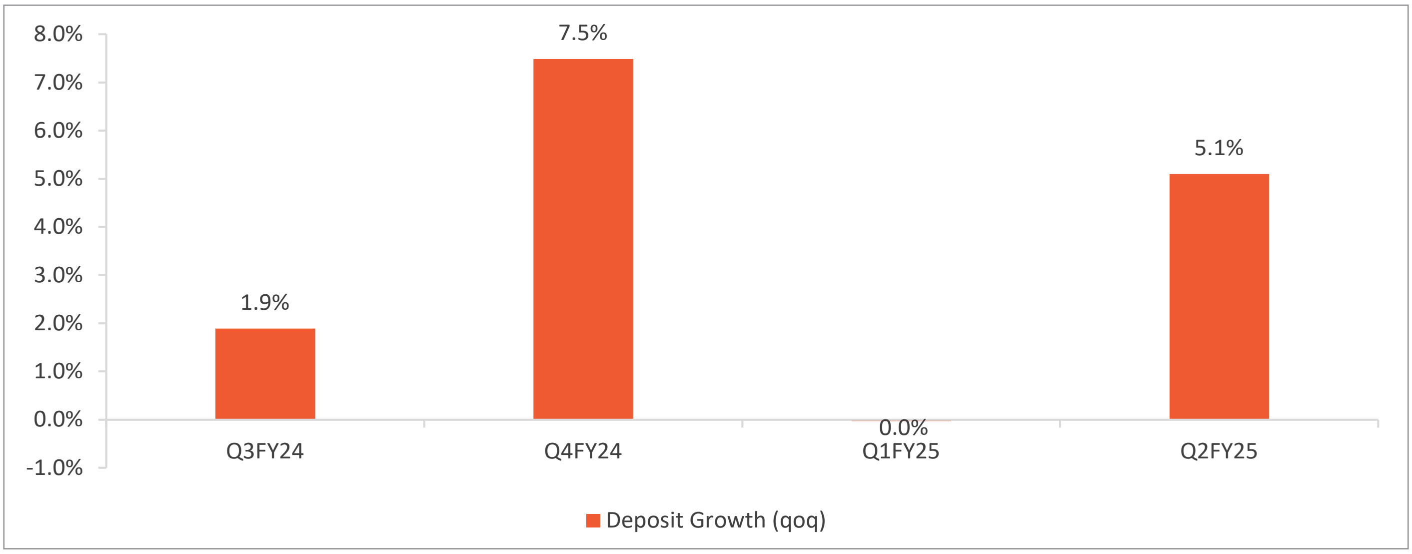
Sharekhan Research, Bloomberg

Trend in loan growth post merger



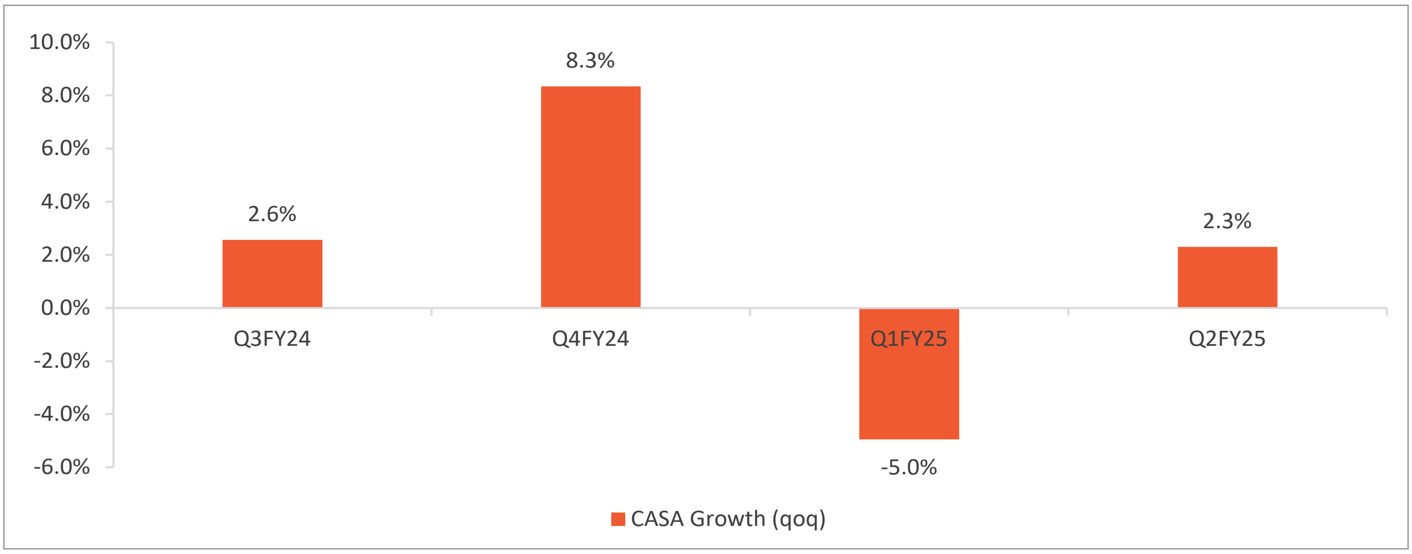
Source: Company, Sharekhan Research

Trend in deposit growth post merger



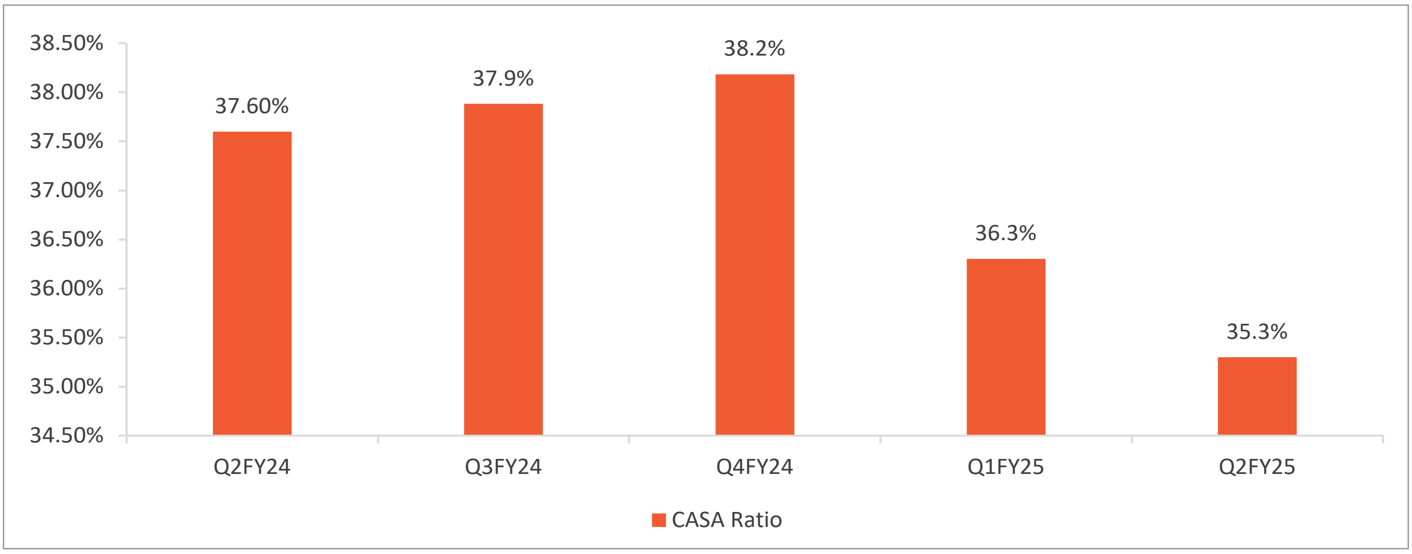
Source: Company, Sharekhan Research

Trend in CASA growth post merger



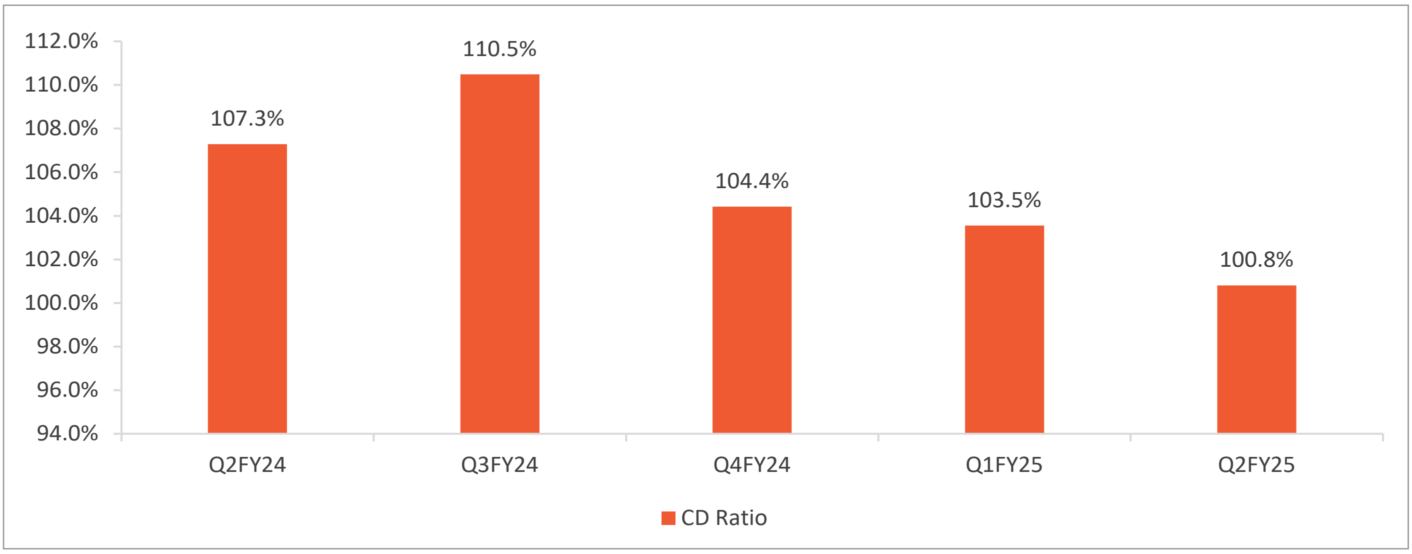
Source: Company, Sharekhan Research

Trend in CASA ratio post merger



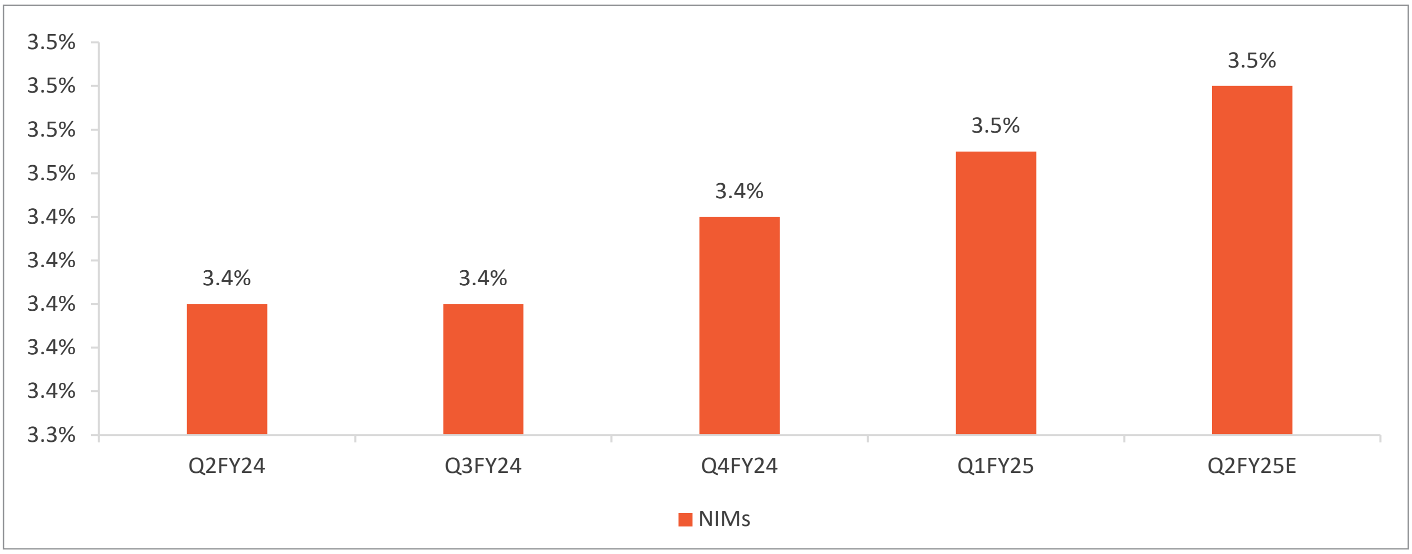
Source: Company, Sharekhan Research

Trend in CD ratio post merger



Source: Company, Sharekhan Research

Trend in NIMs post merger



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deposit mobilisation continues to remain in focus; banks with a superior liability franchise placed better

System credit growth is showing moderation. Credit growth has declined to ~14.2% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and an elevated CD ratio. The gap between advances and deposits growth has significantly narrowed down to ~2%. Overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower due to elevated cost of term deposits, while 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 small ticket size retail loans and MFI . 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, execution remains key

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

■ Valuation - We maintain our BUY rating on the stock with an unchanged TP of Rs. 1,900

Loan growth is expected to remain muted in the near term and deposit growth is expected to outpace loan growth, which should bring the LDR to a normal level gradually. The bank is confident of regaining its growth trajectory once this transition period is completed over the next 12-15 months. We remain constructive from medium to long term perspective, building earnings growth of 12% CAGR over FY24-26E with ROA of 1.8%. At CMP, the stock trades at a core book of 2.2x/1.9x FY25E/FY26E thus valuing the subsidiary at Rs 225 per share. Maintain Buy with an unchanged PT of Rs 1900. Key monitorable: NIM progression and retail deposit mobilisation.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFC Bank	1,657	12,64,267	15.9	14.2	2.2	1.9	14.6	14.2	1.8	1.8
ICICI Bank	1,239	8,72,954	16.2	14.4	2.6	2.2	17.5	16.6	2.3	2.2
Axis Bank	1,182	3,65,746	12.9	11.2	1.9	1.7	16.1	15.9	1.7	1.7

Source: Company; 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 continues to deliver steady performance with well-maintained margins and conservative asset-quality performance. 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 merger is completed over the next 12-18 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	4.99
2	Life Insurance Corp of India	4.64
3	The Vanguard Group Inc.	3.42
4	ICICI Prudential Asset Management	2.71
5	HDFC Asset Management Co. Ltd.	2.39
6	BlackRock Inc.	2.31
7	FMR LLC	2.19
8	Republic of Singapore	2.08
9	UTI Asset Management Co. Ltd.	1.74
10	Nippon Life AMC Ltd.	1.58

Source: Bloomberg

Understanding the 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: Sharekhan Research

Sharekhan

by BNP PARIBAS

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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.

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