

Result Update

Q3 FY24

HDFC BANK

Institutional
Research

Net profit beats market estimates; On the path of exponential growth

Net Interest Income stood at Rs. 28,471 crores in Q3FY24, up 4.0% QoQ / up 23.9% YoY. Pre-provision operating profit (PPOP) stood at Rs. 23,647 crores in Q3FY24, up 4.2% QoQ / 24.3% YoY, missing market estimates marginally of Rs. 23,700 crores. Provisions rose significantly to Rs. 4,217 crores in Q3FY24, up 45.2% QoQ / 50.3% YoY. Provisions have increased due to Rs. 1,220 crores of contingent provisions regarding investment in AIFs under the RBI Circular dated 19 December 2023. The bank's quarterly net profit of Rs. 16,373 crores in Q3FY24 surpassed market expectations of Rs. 16,016 crores. NIM remained stable sequentially at 3.6% in Q3FY24. However, there was compression of 50bps on a YoY basis. Gross NPA stood at 1.26% in Q3FY24, down 6bps QoQ / up 3bps YoY. Net NPA stood at 0.31% in Q3FY24, down 4bps QoQ / down 3bps YoY. Capital Adequacy Ratio stood at 18.4% in Q3FY24, down 115bps / up 73bps YoY. This was mainly due to the increase in the risk-weight assets on unsecured and other loans. Gross Deposits stood at Rs. 22,13,977 crores in Q3FY24, up 1.9% QoQ / up 27.7% YoY. The bank's savings account deposits stood at Rs. 5,79,900 crores, current account deposits at Rs. 2,55,800 crores, and time deposits stood at Rs. 13,78,300 crores. Gross Advances stood at Rs. 24,46,076 crores in Q3FY24, up 4.9% QoQ / 62.3% YoY. CASA ratio improved and stood at 37.7% in Q3FY24, up 10bps QoQ / down 630bps YoY. HDB Financial Services Ltd., the NBFC arm of the bank, reported a net revenue of Rs. 2,350 crores in Q3FY24, a growth of 5.0% YoY. Furthermore, the lending company's PAT stood at Rs. 640 crores, showing a healthy growth of 27.1% YoY. HDFC Life Insurance Company Ltd., the life insurer subsidiary of the bank, reported a Total Premium Income of Rs. 15,530 crores in Q3FY24, showcasing a growth of 6.5% YoY. The PAT stood at Rs. 370 crores, up 15.8% YoY. HDFC Ergo General Insurance Company Ltd. reported a PAT of Rs. 130 crores in Q3FY24, up 6.2% YoY.

Key Highlights

| Particulars (Rs. crores) | Q3FY23 | Q2FY24 | Q3FY24 | YoY (%)* | QoQ (%)* |
|--------------------------|--------|--------|--------|----------|----------|
| Net Interest Income | 22,988 | 27,385 | 28,471 | 23.9 | 4.0 |
| PPOP | 19,024 | 22,694 | 23,647 | 24.3 | 4.2 |
| Net Profit | 12,260 | 15,976 | 16,373 | 33.6 | 2.5 |
| NIM (%) | 4.10 | 3.60 | 3.60 | (50bps) | - |
| RoA (%) | 3.10 | 2.20 | 1.96 | (114bps) | (24bps) |
| GNPA (%) | 1.23 | 1.34 | 1.26 | 3bps | (8bps) |
| NNPA (%) | 0.33 | 0.35 | 0.31 | (2bps) | (4bps) |
| CASA (%) | 44.0 | 37.6 | 37.7 | (630bps) | 10bps |

Source: Company, BP Equities Research

Sector Outlook

Positive

Stock

| | |
|------------|----------|
| CMP (Rs.) | 1,678 |
| BSE code | 500180 |
| NSE Symbol | HDFCBANK |
| Bloomberg | HDFCB IN |
| Reuters | HDBK.BO |

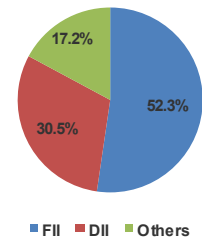
Key Data

| | |
|---------------------|-------------|
| Nifty | 22,032 |
| 52 Week H/L (Rs.) | 1,758/1,460 |
| O/s Shares (Mn) | 7,593 |
| Market Cap (Rs. bn) | 12,740 |
| Face Value (Rs.) | 1 |

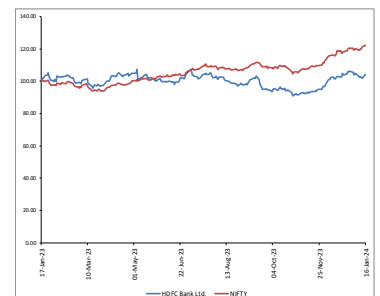
Average Volume

| | |
|----------|-------------|
| 3 months | 1,59,49,060 |
| 6 months | 1,89,97,500 |
| 1 year | 1,65,85,230 |

Share Holding (%)



Relative Price Chart



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Valuation and Outlook

India's largest private sector lender, HDFC Bank Ltd., reported decent Q3FY24 results, with net profit beating market estimates. Amidst the NIM compression experienced by the banking industry, the private lender managed to sustain it on a sequential basis. Though the bank took a hit in its capital due to higher risk weights on unsecured loans, we believe that the growth in unsecured loans has been modest. With the aim of the bank to have over 13,000 branches in the next three to five years, we remain optimistic about building momentum on deposit growth in the long run. This will improve its CASA ratio going forward. Also, PAT improved in Q3FY24 due to lower taxes and higher treasury gains. Going forward, due to the bank's legacy of healthy credit profiling, we do not see any further deterioration in its asset quality and expect it to be stable. Also, due to the bank's vast branch network, its subsidiaries can access large cross-selling opportunities, thus indirectly supporting the topline growth. However, the effect of synergies due to the merger is still to be reflected in the bank's numbers, and a wide gap is seen between advances growth and deposit growth. Thus, our outlook remains positive in the medium to long term, with the effect of synergies of the merger a key monitorable in the forthcoming quarters.

"The management believes that on the macro front, there is healthy domestic economic activity driven by robust common spending, primarily in capital expenditure, improvement in domestic manufacturing, and resilient services sector performance."

Key Concall Highlights

- HDFC Bank's gross advances saw healthy growth primarily driven by strong performance in the mortgage business. Furthermore, 84% of total deposits are comprised of retail deposits due to the bank's focus on granular deposits.
- On the distribution footprint expansion, as of 31st December 2023, the bank's branch network stood at 8,091 outlets with the addition of 146 branches in Q3FY24. Additionally, around 10,000 employees were added in this quarter to engage and deepen its relationship with its customer base of around 93 million. However, the bank's target of opening around 1,500 branches in FY24 looks difficult to materialize. Thus, the company has revised its target of opening 1,000 branches in FY24, with 570 branches in the pipeline for Q4FY24.
- The total provisions in Q3FY24 are elevated due to additional contingent provisions of approximately Rs. 1,220 crores pertaining to investments in AIF due to a recent RBI circular dated 19 December 2023.
- The bank's asset quality happens to be in a comfortable state as the total provisions comprising specific floating, contingent, and generals were about 159% of gross non-performing loans. This is in addition to security held as collateral in several of the cases.
- On the deposit front, the bank saw a decline of around 3.3% QoQ in its non-retail deposits due to its focus on granular deposits.
- The bank sees mortgage loans as a big opportunity for them where they are targeting around 5.6 million customers. This will enhance its NIMs and will further lead to a pick-up in RoAs in the medium term.
- The management expects the CASA ratio to improve in the long run and get back in the range of 42%-44%, as they expect customer spending will abate at some point in time and the addition of new customers.
- Though there has been some impact visible due to the RBI's circular on risk-weighted assets, the management alluded to the unsecured loan book to be an extremely profitable product. This is mainly on account of its delinquency and NPA profile which happens to be better than its secured book through the bank's credit filter. Furthermore, due to enough headroom and opportunity for the unsecured book, the bank will continue to grow at a pace of 18-20%.

"The bank has not yet booked gains on HDFC Credila, the education loan subsidiary arm of HDFC Bank, as it is awaiting regulatory clearance before the transaction can close. The management is hopeful that the transaction will be closed soon but there is no concrete time for the transaction to conclude."

"HDFC Bank has sold its entire stake (4.31%) in Bandhan Bank in Q3FY24. However, the management did not wish to inform the gains from the particular transaction."

| Key Financials | | | | | | | |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|
| YE March (Rs. crores) | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | 9MFY24 |
| Net Interest Income | 40,095 | 48,243 | 56,186 | 64,880 | 72,010 | 86,840 | 79,456 |
| Growth % | | 20.3% | 16.5% | 15.5% | 11.0% | 20.6% | |
| PPOP | 32,625 | 39,750 | 48,750 | 57,362 | 64,080 | 70,410 | 65,113 |
| Growth% | | 21.8% | 22.6% | 17.7% | 11.7% | 9.9% | |
| Net Profit | 17,500 | 21,100 | 26,300 | 31,100 | 36,960 | 44,110 | 44,300 |
| Growth % | | 20.6% | 24.6% | 18.3% | 18.8% | 19.3% | |
| EPS | 34.00 | 39.00 | 48.00 | 57.00 | 67.00 | 79.00 | 64.06 |
| Profitability & Valuation | | | | | | | |
| NIM (%) | 4.30% | 4.30% | 4.30% | 4.20% | 4.10% | 4.10% | 3.80% |
| RoA (%) | 1.90% | 1.90% | 2.00% | 2.00% | 2.00% | 2.10% | 2.00% |
| RoE (%) | 18.20% | 16.30% | 16.80% | 16.60% | 16.90% | 17.40% | 15.80% |
| BV per Share (Rs.) | 205.00 | 274.00 | 312.00 | 370.00 | 433.00 | 502.00 | 556.20 |
| P/E (x) | 49.6 | 43.2 | 35.1 | 29.6 | 25.1 | 21.3 | 26.2 |
| P/BV (x) | 8.2 | 6.1 | 5.4 | 4.6 | 3.9 | 3.4 | 3.0 |
| Cost to Income Ratio | 41.00% | 39.70% | 38.60% | 36.30% | 36.90% | 40.40% | 40.30% |

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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