



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
1,532	1,685	10%

**MARKET DATA**

No. of Shares	759.3 Cr
Market Cap	11,55,985 Cr
52-week High / Low	1,758/1,363
BSE Code	500180
NSE Code	HDFCBANK

**Why HDFC Bank Ltd ?**

- ✓ **Reasonable Valuations**
- ✓ **Stronger branch network and larger customer base provides healthy growth opportunity**
- ✓ **Stable asset quality across cycles**
- ✓ **Focus on deposit accretion to help improve LCR**

**About the Company**

HDFC Bank (HDFCB) is the second-largest bank in the country with a Balance Sheet size of ~Rs 36 Tn (post merger). As of Mar'24, the bank has 8,738 branches and 20,938 ATMs spread across 4,065 Indian cities. Post the merger with HDFC Ltd., amongst the key subsidiaries of the bank are HDFC Life, HDFC ERGO General Insurance, HDFC AMC, HDB Financial and HDFC Securities.

**Investment Rationale**

- A. Deposit growth becomes priority, Credit growth to follow:** HDFCB's focus remains on gaining incremental deposit market share while keeping CoF range-bound. The bank will look to leverage the strength of its franchise, ensure enhanced customer engagement, elevate 'service-first' culture, and ensure increasing customer wallet share in order to ensure sustainable retail-franchise-led deposit growth. However, despite its focus on mobilizing granular deposits, HDFCB will not want to be an outlier in terms of deposit pricing. As HDFC Ltd's borrowings get replaced, HDFCB is likely to have substantial liquidity, which it would deploy in pursuing growth. Till then the bank will look to pursue credit growth where the risk-reward ratio is favourable. Thus, with deposit growth likely to outpace credit growth we expect a visible improvement in LDR over the medium term.
- B. NIM improvement to be visible, though gradually:** A shift in the portfolio mix towards retail assets along with replacement of HDFC Ltd's higher-cost borrowings with deposits are key levers for margin improvement. Some of HDFC Ltd's high-cost borrowings will begin maturing in FY25. Near-term constraints w.r.t higher CoF will continue to limit NIM expansion, thereby keeping margins largely steady at current levels (~3.6% of Interest earning assets/~3.4% Core NIMs in Q4FY24). We expect a gradual margin recovery from FY25E onwards and expect NIMs to be at ~3.8% by FY26E. Margin improvement remains not only a key RoA improvement lever but also a key re-rating trigger for HDFCB.
- C. Medium to long-term key focus areas identified:** The management has identified levers to steer growth for HDFCB over the medium-long term. These include (a) Focus on improving profitability metrics – RoA and EPS, (b) Ensuring sustainable deposit growth alongside delivering strong growth in the retail deposit franchise, (c) Investing in distribution, workforce and technology/digital infrastructure and (d) Unabated focus on quality with a balance between margins and risk. Given HDFCB's track record of delivering a strong and consistent performance across cycles, we remain confident in the bank's ability to deliver robust performance over the medium term.
- D. Recommendation:** We recommend a BUY on the stock with a TP of Rs 1,685/share, implying an upside of 10% from the CMP.

**Financial Summary**

Y/E	NII (Rs Bn)	PPOP (Rs Bn)	PAT (Rs Bn)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY23	1,085	944	608	80.0	568.9	3.1	2.0	0.3
FY24	1,317	1,097	706	92.9	633.9	2.7	1.8	0.3
FY25E	1,567	1,316	853	112.2	716.4	2.4	1.9	0.3
FY26E	1,827	1,549	996	131.1	812.9	2.1	1.9	0.3

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