ICICI Direct

HDFC Bank Limited (HDFBAN)

CMP: ₹ 1906 | Target: ₹ 2200 (15%) | Target Period: 12 months

BUY

April 21, 2025

Result Update

Navigating rate cut: Margin levers intact; growth to resume after strategic calibration...

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. Post merger, the bank has become the second largest in terms of size with diversified portfolio. The bank has maintained superior return ratios resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 27 lakh crore.
- Consistent performance with steady NIM and RoE in past many years

Q4FY25 performance: HDFC Bank continued to deliver steady revival in Q4FY25, with advance growth at 6.4% YoY (4% QoQ) to ₹26,43,500 crore, driven by retail advances (57% of advances) growing at 9% YoY (2.5% QoQ) and 12.8% YoY (5.1% QoQ) growth in CRB, while corporate segment de-grew 3.6% YoY. NII grew at 10.3% YoY (4.6% QoQ), led by 11 bps QoQ improvement in margins at 3.54%. Excluding ₹700 crore of tax refund, core margins was up 3 bps at 3.46%, owing to selective business mix and benefit from CRR cut offset liquidity pressure. Deposits rose 14.1% YoY (5.9% QoQ) to ₹27,14,700 crore, driven by term deposit growth of 20.3% YoY (4.7% QoQ). Provisions were flat sequentially, but declined 76.4% YoY owing to one-off build-up of contingent provision in Q4FY24, PAT stood at ₹17,616 crore, up 6.7% YoY, excluding one-offs, the same was up ~10%. Asset quality remained resilient with GNPA at 1.33% (down 9 bps QoQ) and NNPA at 0.43% (down 3 bps QoQ).

Investment Rationale

- **Margin cushioning in focus as repo reset looms:** Margins continued to remain in a tight range of 3.4-3.5%, despite lag in CASA growth and improvement in CD ratio which was offset by benefit from CRR reduction and RBI's proactive liquidity support. Anticipating 100 bps rate cut (of which 50 bps has already been subsumed), yields are poised to witness pressure, given ~60% of loans are linked to EBLR. While interim volatility could be ruled out, expect margin pressure to remain range bound (~10-15 bps) given levers including 1) 25 bps cut in SA rates, 2) selective term deposit rate reductions and 3) shift in portfolio focus towards higher-yielding CRB segment. Additionally, bank has steadily reduced its relatively high-cost borrowings from 21% in Dec'23 to 14% by Mar'25 and plans to bring it down further to 8–10% of liabilities, aiming to return to pre-merger level.
- **Strategic slowdown behind, credit engine gearing up:** Following a strategic slowdown in FY25 aimed at improving LDR ratio - from 105% in FY24 to 96% - achieving a notable ~8% reduction within a year, management targets to re-accelerate credit growth in FY26, aligning with system-level expansion. Thus, the bank is positioned to pursue asset growth in a balanced yet growth-oriented manner. Conservatively, we expect advances to grow at ~11.5% CAGR over FY26–27E, LDR ratio is projected to ease further to ~93/91% in FY26/FY27E.

Rating and Target Price

- Credit growth outlook remains encouraging, supported by a calibrated shift in funding cost and mix. Margins are expected to stay within a broad range, despite near-term volatility owing to repo-linked resets. Given RoA at ~2% and revival in credit growth, we revise our multiple at 2.4x FY27E BV for standalone bank and assign ₹260 for subsidiaries, thus raising our target to ₹2200. Upgrade rating from Hold to **Buy**.

HDFC BANK

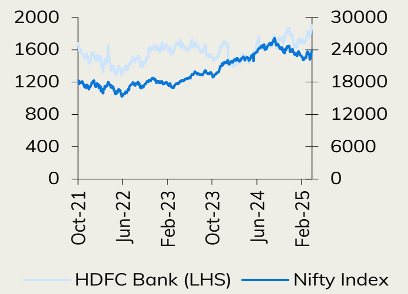
Particulars

Particulars	Amount
Market Capitalisation	₹ 14,59,049 crore
52 week H/L	1920 / 1427
Networth	₹ 4,88,899 crore
Face value	1.0
DII holding	35.7
FII Holding	48.3

Shareholding pattern

(in %)	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	-	-	-	-
FII	47.2	48.0	49.2	48.3
DII	35.2	35.1	34.4	35.7
Others	17.6	16.9	16.4	16.0

Price Chart



Key risks

(i) Pace of liability mobilisation remains a key monitorable

(ii) Pace of reversal in interest rate cycle to impact volatility in margins

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Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY24-27E)
NII	86842	108532	122670	19%	133890	151136	11%
PPP	70405	94387	100127	19%	110755	126872	13%
PAT	44109	60812	67347	24%	72693	83495	11%
ABV (₹)	494.0	535.0	604.3		673.8	753.8	
P/E	24.1	23.8	21.7		20.1	17.5	
P/ABV	3.9	3.6	3.2		2.8	2.5	
RoA	2.1	2.0	1.8		1.8	1.8	
RoE	15.7	13.9	13.5		13.1	13.4	

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Growth outlook and business performance

- Loan growth is expected to re-accelerate in FY26, after a deliberate moderation in FY25 to manage CD ratio. Focus remains on quality over volume, especially in corporate and unsecured segments.
- CD ratio likely to glide down to 85-90% by FY27, allowing room to step up asset growth thereafter.
- Deposits rose 14.1% YoY (5.9% QoQ) to ₹27,14,700 crore, driven by term deposit growth of 20.3% YoY (4.7% QoQ).
- Borrowing mix expected to normalize over time to pre-merger levels (8–10% of liabilities), which is currently at 14%
- ~₹2 lakh crore unsecured loan book; 75–80% to salaried customers, rest to self-employed professionals and MSMEs. Management not observing stress signs; underwriting remains conservative
- Business loans are extended only where the entire banking relationship (current account, salary, etc.) is captured—avoiding transactional credit.
- RoA likely to hover around 1.9–2.1% band, may fluctuate 5–10 bps due to margin movements and PSL costs but will remain structurally strong.

Margins

- Management advised not to assess margins quarterly, but on a full-year basis due to transient repo-linked volatility.
- Rate cuts are a headwind for margins as repo-linked loan yields reset immediately, while deposit repricing lags.
- Management expects margins to remain range-bound, supported by proactive cost of funds management through calibrated retail deposit sourcing, a balanced product mix, and a gradual reduction in the borrowing mix.
- Given rate cut announced in Feb'25 and April'25, full impact of 50 bps repo cut will reflect in Q1FY26
- Repo-linked loan repricing is product-specific: mortgages reset in ~1-month, corporate loans much quicker. No rate cuts yet on fixed loans like auto, etc as pricing remains competitive
- Management explains that CASA typically improves as interest rates decline, albeit with a lag. A gradual uptick is expected, particularly as real incomes and consumption trends stabilize.
- CASA ratio likely to recover gradually over next few quarters, supported by:
    - Rate cut cycle
    - Revival in disposable income
    - Improving household savings

Other updates

- Bank met overall 40% PSL norm. For SMF and weaker sections, shortfalls are bridged through instruments like IBPCs, PTCs, or RAF, with only a marginal impact on RoA.
- ~60–65% of borrowings are hedged floating-rate, inherited from legacy HDFC Ltd book
- AF provision declined, but no benefit flowed to P&L due to net additions in other provisions, keeping reported profits unaffected.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.4x FY27E ABV	100.00	1,940
HDFC AMC	37x FY27E EPS	52.51	74
HDFC Life Insurance	2.4x FY27E EV	50.40	115
HDFC ERGO		50.50	12
HDB fin Serv		94.60	99
HDFC Sec		95.10	25
Value per share			2,265
Discount @ 20%			65
Value per share for HDFC Bank			**2,200**

Exhibit 2: Variance Analysis

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments
NII	32,065.8	29,076.8	10.3	30,653.3	4.6	Gradual uptick in growth and margins aid NII
NIM (%)	3.54	3.4	2.9	3.43	3.2	Business mix and CRR cut offset liquidity pressure
Other Income	12,027.9	18,166.3	-33.8	11,453.6	5.0	Proceeds from stake sale remains one-off in Q4FY24
Net Total Income	44,093.7	47,243.1	-6.7	42,106.8	4.7	
Staff cost	6,115.9	6,936.2	-11.8	5,950.4	2.8	Tight control on opex aids operational efficiency
Other Operating Expenses	11,441.0	11,032.6	3.7	11,156.0	2.6	
PPP	26,536.7	29,274.2	-9.4	25,000.4	6.1	
Provision	3,193.1	13,511.6	-76.4	3,153.9	1.2	Credit cost steady at ~48 bps. Q4FY24 has one-off build up of contingent provision
PBT	23,343.7	15,762.6	48.1	21,846.6	6.9	
Tax	5,727.5	-749.3	-864.4	5,111.1	12.1	
PAT	17,616.1	16,511.9	6.7	16,735.5	5.3	
Key Metrics						
GNPA	35,223	31,173	13.0	36,019	-2.2	Slippages remain steady at ~1.1%
NNPA	11,320	8,092	39.9	11,588	-2.3	NNPA lowers 3 bps QoQ at 0.43%
Advances	26,43,500	24,84,862	6.4	25,42,600	4.0	De-growth in corporates & other wholesale loans; CRB witnessed growth
Deposits	27,14,700	23,79,786	14.1	25,63,800	5.9	Term deposit accretion at 20.3% YoY

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	258340	300517	320814	355944
Interest Expended	149808	177847	186924	204808
NII	108532	122670	133890	151136
Growth (%)	25.0	13.0	9.1	12.9
Other income	49241	45632	50878	58943
Total Income	157773	168302	184768	210079
Employee cost	22240	23901	25869	28993
Other operating Exp.	41146	44274	48144	54214
PPP	94387	100127	110755	126872
Provisions	23492	11649	14473	16283
PBT	70895	88478	96282	110590
Taxes	10083	21131	23589	27094
Net Profit	60812	67347	72693	83495
Growth (%)	37.9	10.7	7.9	14.9
EPS	80.0	88.0	95.0	109.1

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares	759.7	765.2	765.2	765.2
EPS (₹)	80.0	88.0	95.0	109.1
BV (₹)	576.0	650.3	726.3	813.6
ABV (₹)	535.0	604.3	673.8	753.8
P/E	23.8	21.7	20.1	17.5
P/BV	3.3	2.9	2.6	2.3
P/ABV	3.6	3.2	2.8	2.5
Yields & Margins (%)				
Net Interest Margins	4.1%	3.7%	3.7%	3.7%
GNPA	1.3	1.3	1.4	1.4
RoE	13.9	13.5	13.1	13.4
RoA	2.0	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	760	765	765	765
Reserves and Surplus	436833	496854	555008	621804
Networth	437593	497619	555773	622570
Deposits	2379786	2714715	3108349	3590143
Borrowings	662153	547931	520534	546561
Other Liabilities & Provisions	135438	149934	152437	118763
Total	3617623	3910199	4337093	4878036
Applications of Funds				
Fixed Assets	11399	13655	15021	16523
Investments	702415	836360	926548	1034262
Advances	2484862	2619609	2894668	3256501
Other Assets	199800	201005	221105	247638
Cash with RBI & call money	219147	239571	279751	323113
Total	3617623	3910199	4337093	4878036

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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