



Note on HDFC Bank

HDFC Bank dropped by 8% on 17Jan24

- Q3FY24 results were announced on 16 Jan 24.
- HDFC Bank shares fell sharply on Jan 17 morning despite reporting a 33% increase in net profit for the December quarter.
- Investors reacted to flat quarter-on-quarter net interest margins.
- While, analysts acknowledged positive long-term views, some adjusted their short-term estimates considering the margin performance.

Management Commentary

- Margin is currently at the lower end of the spectrum and should recover to 3.7% in 18-24 months.
- Along with an improvement in operating leverage will enable the bank to deliver healthy return ratios.
- Bank is confident in its growth trajectory as it has been able to maintain its incremental market share of ~16-20%, despite the increase in bank size.
- About 500-550 branches are in pipeline by the end of FY24.
- RoE/RoA stood at 15.8%/2% in 3QFY24 and the same is expected to improve going forward

Quick Result overview & key concerns

Note: Major concerns coming out of HDFC Bank results is due to the merged entity of HDFC Bank and HDFC Limited (which happened in Jun23)

- HDFC Limited was a housing loan NBFC which got merged with HDFC Bank.
- Loan / Deposit ratios, Net Interest Margins, Credit cost, Operating cost, etc significantly changed post mergers due to different business dynamics.

Result overview

Positives

- Q3FY24 earnings were in line with estimates.
- Gross NPA ratio improved to 1.3%
- Other income boosted by treasury gains which led to in-line profitability.
- Loan growth was robust at 4.9% Q-o-Q.

Negatives

- However, the concern shown by investors was - Net Interest Margins came out flat at 3.4% on Q-o-Q basis despite rise in Loan to Deposit ratio. This also led to lower Net Interest Income.
- Elongated impact of such lower NIM is expected by the market & thereby price corrected noticed.
- Deposit growth was modest at 1.9% Q-o-Q.

Analyst comments

● Motilal Oswal

- Motilal Oswal has reiterated its buy rating on HDFC Bank stock with a target price of ₹1,950
- We estimate HDFCB to deliver faster deposit growth at 19% CAGR while loan growth to sustain at 17% CAGR over FY24-26.
- We thus estimate HDFCB to deliver an FY26E RoA/RoE of 1.9%/16.7%.

● Nirmal Bang

- Buy call on the stock with a target price of ₹1,994.
- Positive on HDFC Bank from a long-term perspective due to its high growth potential on account of good capital position, revenue and cost synergies arising out of the HDFC merger and best-in-class asset quality.
- In the near term, successful merger transition, elevated operating costs due to continued expansion and margin trajectory will be the key monitorables.

● Kotak Institutional Equities

- Buy rating on the stock and raised the fair value

to ₹1,860 from ₹1,800

- HDFC Bank's reported earnings print was marginally weak as operating profit growth drivers appear to be less sustainable and the bank reported higher provisions.
- While NIM appears to have bottomed at 3.4 per cent, the drivers for NIM expansion appear to be slower than forecast, resulting in cuts to our earnings

● Nuvama Wealth

- Downgraded the stock to a hold & reduced the target price to ₹1,730 from ₹1,770.
- HDFC Bank remains the strongest banking franchise in India in our view, but the earnings narrative will overwhelm in the short to medium term
- We are cutting earnings by 5–6 per cent for FY25E–FY26E.
- While the cut in core earnings is higher at 8 per cent due to a nearly 4 per cent cut in loan growth, it is partially offset by an upward revision of non-core items.

Our view

- Market impact due to HDFC Bank earnings is most probably related to HDFC Bank alone and not have a bearing on the Banking sector overall.
- Loan growth continued to be strong with decadal low Gross NPAs in the Banking sector.
- Current valuations & Forward Earnings continue to be stronger for the Banking sector.