

Recommendation: **BUY**

EXECUTIVE SUMMARY

HDFC Bank, trading at ₹1,651 (as of 13 October 2024), presents a **28.3% upside** with a target price of **₹2,117.66**, based on the **Peter Lynch Fair Value model**. The bank's **Net Interest Income (NII)** is projected to grow from **₹129,510 crore in FY24** to **₹190,994 crore in FY26**, reflecting a **14.6% CAGR**, while **net profit** is expected to rise from **₹64,062 crore in FY24** to **₹84,133 crore in FY26**, at a **10.9% CAGR**. **Net Interest Margin (NIM)** currently stands at **3.5%** and is expected to improve as HDFC Bank replaces high-cost borrowings with lower-cost deposits. The **loan book** is set to grow at a **10% CAGR** over FY24-FY26, driven by higher-yielding retail and rural segments. HDFC Bank's **capital adequacy ratio (CAR)** of **19.3%** and **Tier-1 ratio** of **17.3%** provide a solid foundation for future growth, while the **P/BV of 2.2x FY25E** and **P/E of 15.9x FY25E** make it an attractive proposition. The bank has a **return on equity (RoE)** of **14.6%** and offers a **dividend yield of 1.2%**, ensuring value for shareholders. Moreover, **gross non-performing assets (GNPA)** are well-contained at **1.33%**, reflecting the bank's strong asset quality. HDFC Bank is poised to benefit from the ongoing shift to **higher-margin retail loans**, which currently account for **50% of its total loan book**, further improving profitability. With a **loan-to-deposit ratio** of **103.5%** and a **52-week high of ₹1,792**, the bank is well-positioned for sustainable growth. Factoring in multiple valuation models, along with the **after-tax WACC of 11.0% to 12.4%**, our blended analysis points to a long-term target price of **₹1,950 (15.3%)**.

1. Strong Earnings Growth & Profitability

HDFC Bank had impressive earnings growth, with **net profit** projected to rise from **₹64,062 crore in FY24** to **₹84,133 crore in FY26**, representing a **10.9% CAGR**. The bank's **Net Interest Income (NII)** is expected to grow significantly from **₹129,510 crore in FY24** to **₹190,994 crore by FY26**, equating to a **14.6% CAGR**.

- Substantial portion of this growth can be attributed to HDFC Bank's diversified loan portfolio, where retail loans now constitute **50%** of total advances, where retail loans now constitute **50%** of total advances. The bank is strategically focusing on sectors like housing finance and commercial banking, which are expected to grow at **10% CAGR** over the next two years.
- HDFC Bank's **Net Interest Margin (NIM)** stands at **3.5%**, with expectations of gradual improvement as the bank replaces high-cost borrowings with lower-cost retail deposits.
- Bank maintains a strong **return on equity (RoE)** of **14.6%**, significantly higher than its peers, alongside a healthy **gross NPA ratio of 1.33%**, indicating effective risk management.

2. Improving Net Interest Margins and Asset Quality

HDFC Bank's **Net Interest Margin (NIM)** is currently at **3.5%**, with projections indicating a gradual improvement as the bank replaces high-cost borrowings from its merger with HDFC Ltd. with lower-cost retail deposits. The bank aims to enhance its NIM, which is critical in the current low-interest-rate environment. For context, a **25-30 basis point improvement** in NIM could significantly impact profitability, given the bank's scale.

- As of Q1FY25, HDFC Bank's **loan-to-deposit ratio (LDR)** stands at **103.5%**, indicating effective use of its deposit base to fund growth. The bank's strong focus on retail deposits, which now comprise approximately **75-80%** of its total incremental deposits, supports to enhance funding stability.
- In terms of asset quality, HDFC Bank has maintained a **gross non-performing assets (GNPA)** ratio of **1.33%** and a **net NPA (NNPA)** ratio of **0.39%**, reflecting strong credit risk management. The bank's **provision coverage ratio** stands at **71.2%**, ensuring adequate buffers against potential losses. These figures position it strongly against potential economic headwinds while continuing to focus on improving net interest margins and maintaining high asset quality.

3. Attractive Valuation & Capital Strength

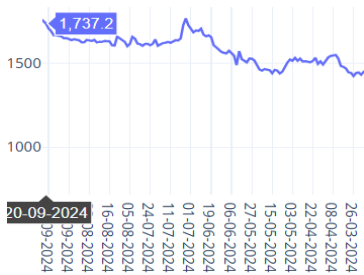
HDFC Bank has an attractive valuation, trading at a **price-to-earnings (P/E) ratio of 15.9x FY25E** earnings (sharekhan estimate), which is below the sector average, while its **price-to-book value (P/BV)** stands at **2.2x FY25E** (sharekhan estimate). Given its projected **return on equity (RoE)** of **14.6%**, these valuation metrics indicate a favorable investment opportunity compared to its peers, many of which are trading at higher multiples. Furthermore, HDFC Bank's intrinsic value is estimated at **₹2,117.66**, suggesting a **28.3% upside** from its current trading price of **₹1,651**. The bank maintains a strong **capital adequacy ratio (CAR)** of **19.3%**, significantly above the regulatory minimum of **10.5%** set by the Reserve Bank of India. Its **Tier-1 capital ratio** is at **17.3%**, providing a strong buffer for potential growth and mitigating risks associated with economic fluctuations.

Key Financial Figures (INR Billion) (source, Motilal Oswal Research)	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Spread	4.0	3.9	4.1	3.2	3.3	3.3
Net Interest Margin	4.1	3.9	4.1	3.4	3.5	3.5
CET1 Ratio	16.9	16.7	16.4	16.3	17.0	17.4
CASA Ratio	46.1	48.2	44.4	38.2	35.3	36.4
Cost / Total Income	36.3	36.9	40.4	40.2	40.7	40.1
ROA	1.9	1.9	1.9	1.8	1.8	1.9
Book Value (INR)	370	433	502	580	649	731
EPS Growth %	17.8	18.1	18.6	1.0	11.9	14.5
Dividend Per Share (INR)	6.5	15.5	19.0	19.0	20.0	21.0
Dividend Yield (%)	0.4	1.0	1.2	1.2	1.2	1.3

HDFCBANK Overview

Target Price	₹1,950.30
Last close	₹1,651
Upside	5.3%
Market Cap	₹12,59,842 Cr.
Shares Out.	763.08 Cr.
52-Week High	₹1,794
52-Week Low	₹1,363.55
P / E (LTM)	18.48x
P / B (LTM)	2.66x

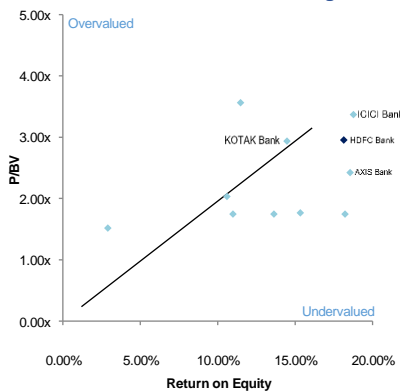
Price History



Market Multiples

Ticker	Market Cap	P/E	P/B
HDFCBANK	12.6T CMC	15.9x FY25E	2.2x FY25E
ICICIBANK	8.6T	19x	3.2x
KOTAKBANK	3.7T	17.4x	2.9x
AXISBANK	3.6T	13.6x	2.2x
INDUSINDBK	1T	11.6x	1.7x
YESBANK	670.6B	46.1x	1.5x
IDBIBANK	895.5B	14.2x	1.6x
FEDERALBK	456.8B	11.3x	1.5x
BANDHANBK	338.7B	13.2x	1.6x
RBLBANK	123.7B	9.6x	0.8x
Median		17.10x	1.92x

Private Banks P/BV vs ROE Regression



Source: Alpha Spread

Recent Catalysts

Oct 4 - HDFC Bank's deposits rise 15.1% in September quarter

Oct 4 - HDFC Bank's gross advances rise 1.3% sequentially in Q2, deposits climb

Sept 20 - HDB Financial clears IPO in first public float from HDFC group in 6 years

Sept 20 - HDB Financial Services to raise 299mnl dollars via IPO

Sept 12 - HDFC Bank in talks with global lenders to offload 1 billion dollars in loans

Exhibit 1: Loan Book Growth

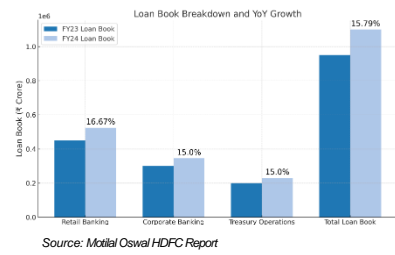


Exhibit 2: CASA and Advances Growth

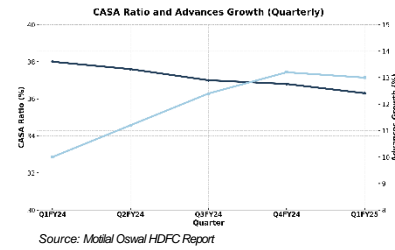


Exhibit 3: Subsidiary PAT Distribution

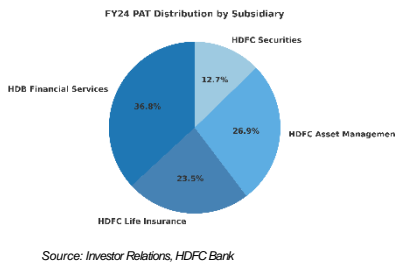


Exhibit 4: Loan Book Breakdown

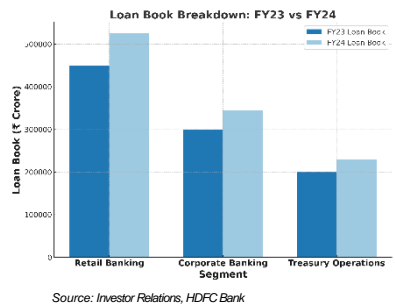


Exhibit 5: CASA Ratio vs NIM

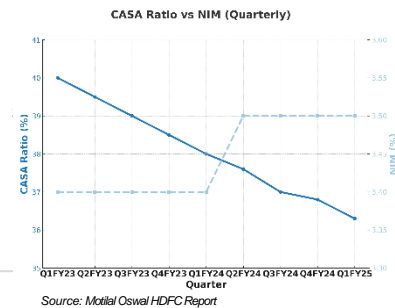
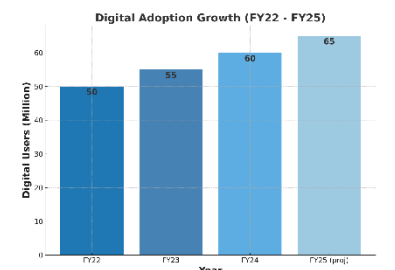


Exhibit 6: Digital Adoption Growth



BUSINESS DESCRIPTION

Overview

HDFC Bank operates a diversified financial services model with a strong focus on **retail and wholesale banking**. With a vast customer base of **93 million** and an extensive **branch network of 8,000+ outlets**, the bank provides a broad range of products, including **personal loans, home loans, auto loans, credit cards**, and HDFC Bank's business model is a balanced mix of **retail and wholesale banking**, supported by **treasury operations**, a HDFC Bank's business model is a balanced mix of **retail and wholesale banking**, supported by **treasury operations**, a strong **digital strategy**, and contributions from its **subsidiaries**. The bank serves **93 million customers** through **8,091 branches** and digital channels, offering a wide range of retail products like **personal loans, home loans, auto loans**, and **credit cards**, with retail loans accounting

Business Model

HDFC Bank's business model is built on a well-diversified platform that includes **retail banking, wholesale banking**, and **treasury operations**, supported by its strong digital capabilities and subsidiaries. With over **93 million customers** and **8,091 branches**, the bank's retail segment offers a wide array of products, including **personal loans, home loans**, and **credit cards**, contributing **50%** to the total loan book (Investor Presentation) (Annual Report FY24). On the corporate side, HDFC Bank provides **working capital loans, trade finance**, and **forex services**, ensuring a stable flow of fee-based income. Treasury operations help manage liquidity through investments in **government securities** and **forex trading** (Annual Report FY24). A **CASA ratio of 38%** supports low-cost funding, allowing the bank to maintain competitive lending rates, while a **capital adequacy ratio of 19.3%** underlines its financial strength. **HDB Financial Services Limited (HDBFSL)**, in which HDFC Bank holds a **94.6% stake**, operates as a non-deposit taking NBFC. It offers a wide range of loans and asset finance products, including secured and unsecured loans tailored to meet the needs of first-time borrowers and underserved segments. HDBFSL reported a **25.6% increase in profit after tax**, reaching ₹2,461 crore for FY24, with a total loan book growth of **28.8%**, now at ₹90,218 crore.

HDFC Life Insurance Company Limited, with HDFC Bank holding **50.4%**, is a leading provider of life insurance solutions in India. It offers over **80 products**, including individual and group insurance plans, achieving a claim settlement ratio of **99.7%** in FY24. In the same period, HDFC Life reported a profit after tax of **₹1,569 crore**, expanding its reach with **535 branches** nationwide. **HDFC Asset Management Company Limited (HDFC AMC)**, in which HDFC Bank holds **52.55%**, is a significant player in mutual funds, managing assets worth over ₹6 lakh crore, catering to **96 lakh unique investors**. Other key subsidiaries include **HDFC ERGO General Insurance**, which provides a complete range of general insurance products and holds a **50.5% market share**, and **HDFC Securities**, a major brokerage firm that serves **53.82 lakh customers**. Together, these subsidiaries reinforce HDFC Bank's position as a comprehensive financial services provider, enabling cross-selling opportunities and enhancing customer engagement across various financial sectors.

Dominance in Indian Banking: HDFC Bank is a leading player in the Indian banking sector, characterized by a strong position among the top private sector banks. As of FY24, it holds a significant market share in various segments, including retail banking, where it commands a **50% share of total advances** (Annual Report FY24). The bank's diversified portfolio includes personal loans, home loans, credit cards, and commercial lending, which allows it to cater to a wide array of customers, ranging from individuals to large corporations. Its robust retail banking operations are bolstered by a vast network of **8,091 branches** and over **22,000 ATMs**, ensuring extensive reach and accessibility (Annual Report FY24).

Leadership in Retail Banking: HDFC Bank has cemented its position as a frontrunner in the retail banking space, boasting a **CASA ratio of 38%** and a **Net Interest Margin (NIM) of 3.5%**, which underscores its ability to attract low-cost deposits while maintaining profitability (Annual Report FY24). The bank's strong emphasis on customer experience, enhanced by its award-winning **mobile banking app**, has positioned it as a digital banking leader. This is reflected in the high customer satisfaction ratings and a significant digital adoption rate among its **over 60 million active users** (Investor Presentation). Moreover, HDFC Bank's focus on technological innovation and digital transformation has allowed it to maintain a competitive edge, with strategic initiatives targeting the millennial demographic driving brand loyalty and increasing its low-cost deposit base.

Emerging Competitive Forces: However, HDFC Bank faces increasing competition from both traditional and non-traditional players in the Indian banking landscape. The rise of fintech companies, neo-banks, and peer-to-peer lending platforms is disrupting the industry, challenging the established banks' market share and pricing strategies. Additionally, initiatives like **open banking** are facilitating easier access to consumer data, empowering customers to compare products and switch providers with minimal friction, thereby intensifying competition. Despite these challenges, HDFC Bank's solid financial fundamentals, asset quality (GNPA at **1.33%**), and proactive risk management strategies position it well to navigate the evolving banking landscape while capitalizing on growth opportunities across various financial sectors.

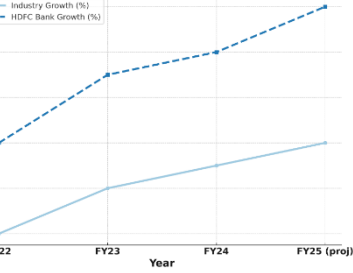
Future Growth Prospects: As the economy grows, demand for financial products is expected to rise, particularly in retail and rural banking, aligning with government initiatives for financial inclusion. The bank aims to enhance its offerings in **digital payments** and **sustainable finance** to capture emerging trends. With a strong capital base (CAR of **19.3%**) and a commitment to innovation, HDFC Bank is poised to maintain its market leadership while adapting to the changing landscape.

Market Dynamics

Persistent Low Interest Rates: The Indian banking sector is navigating a landscape characterized by sustained low interest rates due to the Reserve Bank of India's (RBI) accommodative monetary policy. The current repo rate is at **6.50%**, and market analysts expect further cuts to stimulate economic activity amidst sluggish growth. The RBI has projected GDP growth at **6.4%** for FY25, rebounding from the slowdown.

Exhibit 7: Industry vs HDFC Bank

Industry Growth vs HDFC Bank Growth (YoY %)



Source: Motilal Oswal HDFC Report

experienced in FY24, when GDP growth dipped to **5.0%**. With inflation rates remaining below target levels, the RBI is poised to maintain its dovish stance, signaling that low rates may persist in the near term.

Unemployment and Its Influence on Economic Activity: India's labor market challenges have also played a role in dampening economic activity. With **unemployment rates** hovering around **7.0%**, consumer confidence remains low, contributing to the overall weakness in demand. However, HDFC Bank's strategic focus on rural and semi-urban markets, combined with its expansive branch network of over **8,000 branches**, has allowed it to tap into underserved markets, providing it with a buffer against the impact of urban employment stagnation.

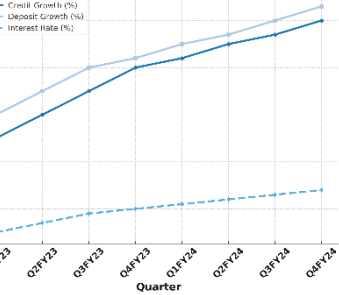
Impact of Consumer Debt and Economic Conditions: Despite low interest rates, the Indian economy faces significant challenges due to high household debt levels, currently at around **60% of GDP**. This high debt burden has reduced discretionary spending, with many households prioritizing debt repayment. Additionally, wage growth remains stagnant at around **3.0%**, contributing to a subdued consumer sentiment and slower retail spending growth. Unemployment remains elevated at **7.0%**, further straining consumption and overall economic activity. In response, HDFC Bank's strong **CASA ratio of 38%** has enabled it to maintain a low-cost funding base, which positions the bank well to offer competitive loan products.

Investor Behaviour in a Low Yield Environment: In a low yield environment where fixed-income investments provide limited returns, investors are increasingly turning to equities and dividend-paying stocks for better yields. HDFC Bank, with a stable **dividend yield of 1.2%**, has attracted significant investor interest. The bank's strong financial performance, with **net profit rising by 37.9% to ₹60,812.3 crore** in FY24, highlights its resilience and growth potential in a challenging market. Its emphasis on digital transformation and expanding its service offerings, including enhanced digital banking and wealth management, positions the bank to capture emerging opportunities in the evolving market.

Shifts in Investor Preferences: In this environment of persistently low interest rates, fixed-income investments have delivered historically low returns, leading investors to seek alternative assets such as equities and dividend-yielding stocks. HDFC Bank, with its **1.2% dividend yield**, has become an attractive option for yield-seeking investors. The bank's financial performance, with **net profit increasing by 37.9% to ₹60,812.3 crore** in FY24, further strengthens its investment appeal. The stability of its dividend payouts, combined with its strong growth prospects in key sectors like housing finance and retail banking, positions HDFC Bank as a leading choice for investors looking for long-term, stable returns.

Exhibit 8: Key Industry Metrics

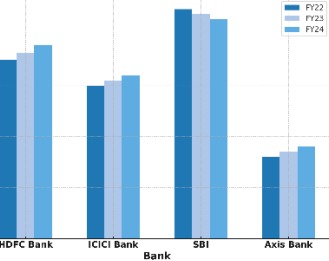
Key Industry Metrics (Quarterly)



Source: Team Research

Exhibit 9: Market Share Growth

Market Share of Key Competitors (FY22 - FY24)



Source: Annual Report FY24

Industry Dynamics

Loan and Credit Growth: The Indian banking sector's loan book continues to expand, with system credit growth reaching **13.0% YoY** as of September 2024. This growth is largely driven by the **personal loans** segment, reflecting a **21.2% YoY** increase, and the **MSME sector**, which saw a **14.8% YoY** rise. Retail lending has been a key focus, with banks like HDFC Bank capitalizing on demand in home loans, auto loans, and personal credit. However, the growth in **unsecured retail loans** is tapering as banks adopt more cautious risk management practices corporate credit growth, although slower than retail, remains a significant contributor to overall loan growth, especially in sectors like infrastructure, telecom, and renewable energy.

Deposit Growth and Funding Challenges: The banking system saw **deposit growth of 11.6% YoY**, driven largely by **term deposits**, as competition for retail deposits heightened. Banks have increasingly turned to **certificates of deposit (CDs)** as a supplemental funding mechanism to counterbalance slow growth in low-cost CASA deposits. HDFC Bank outperformed the system average, with deposits growing by **15.1% YoY**. However, deposit rates have increased in line with the rising cost of funds, squeezing margins across the sector.

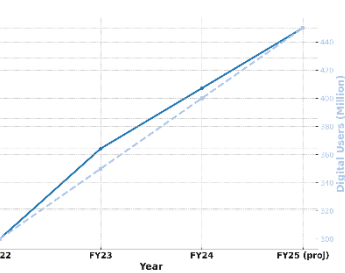
Net Interest Margin (NIM) Compression: The industry is witnessing **NIM compression** due to a combination of rising deposit costs and moderated loan yields. This is particularly evident as banks are compelled to offer competitive rates to attract and retain deposits. NIMs across the sector are expected to contract by **5-15 bps** in Q2FY25, reflecting the ongoing deposit competition. Despite this, banks like HDFC Bank are still poised to grow their **Net Interest Income (NII)**, which is expected to rise by **9.4% YoY**.

Asset Quality and Credit Costs: Asset quality across the banking sector has generally improved, with gross non-performing asset (GNPA) ratios expected to remain stable. GNPA's are anticipated to improve slightly, aided by better recoveries and proactive management of stressed accounts. However, **slippages** are expected in specific segments such as **microfinance** and **unsecured personal loans**, which have seen higher defaults due to economic stresses. Credit costs are forecasted to normalize, and large banks like HDFC Bank are expected to see credit costs revert to **1.1% in Q2FY25**, down from previous quarters. Nonetheless, certain microfinance-heavy portfolios may face elevated stress.

Monetary Policy and Regulatory Changes: The RBI's monetary policy remains accommodative, with the **repo rate** held steady at **6.00%** to support economic recovery and credit growth. However, rising inflationary pressures and global interest rate trends could push the RBI toward a more cautious approach, which may lead to tighter liquidity in the future. Additionally, regulatory measures such as higher risk weights for unsecured loans and increased scrutiny of stressed sectors like microfinance are expected to impact banks' risk appetite and lending patterns.

Exhibit 10: Digital Banking Adoption

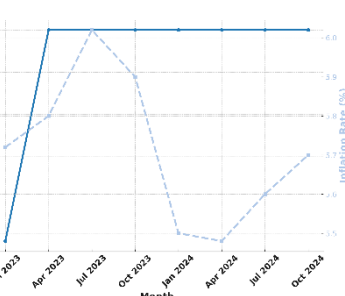
Digital Banking Adoption (India-Wide)



Source: Annual Report FY24

Exhibit 11: Interest Rates and Inflation Trends

Interest Rates and Inflation Trends in India (2023-2024)



Source: Team Research

CORPORATE GOVERNANCE & MANAGEMENT

HDFC Bank has built a strong reputation for its prudent management and robust corporate governance framework, which has played a pivotal role in its consistent financial performance and market leadership. The bank adheres to the highest standards of transparency and regulatory compliance, ensuring alignment with both domestic regulations and international best practices. The **Board of Directors** at HDFC Bank is composed of a diverse group of individuals, including independent directors, which ensures a broad perspective in decision-making processes. The bank complies with the governance requirements outlined by the Reserve Bank of India (RBI) and SEBI, maintaining a well-balanced mix of executive and non-

Exhibit 12: Corporate governance

HDFC Bank Corporate Governance History

February 7, 2024
HDFC Bank raised \$300 million through its first sustainable finance bond issue

July 1, 2023
Board was restructured after merger

July 1, 2023
HDFC Bank officially completed its merger with HDFC Ltd.

July 2023
RBI provided relief regarding SLR and PSL requirements

October 27, 2020
Sashidhar Jagdishan was appointed as the CEO and Managing Director of HDFC Bank

October 26, 2020
Aditya Puri, the founding CEO, retired on October 26, 2020

Source: Team Research

executive directors. This structure enhances oversight and ensures that decisions are made in the best interest of shareholders and other stakeholders. HDFC Bank's board committees, including the Audit Committee, Risk Management Committee, and Nomination & Remuneration Committee, play an integral role in maintaining the bank's corporate governance framework, with a special focus on risk mitigation and regulatory compliance.

Executive Leadership

HDFC Bank's management team is led by seasoned professionals with significant industry experience. The leadership has been instrumental in driving the bank's growth and ensuring that it maintains a high standard of customer service, operational efficiency, and profitability. Under the guidance of the senior leadership, HDFC Bank has focused on expanding its footprint across India, growing its digital banking services, and developing innovative financial products. The executive management also focuses on maintaining operational discipline and managing risks efficiently, which is reflected in the bank's **Gross Non-Performing Assets (GNPA) ratio of 1.33%**. HDFC Bank's management continues to focus on enhancing shareholder value by maintaining a solid capital base and executing strategic initiatives that align with the bank's long-term goals.

Risk Management and Controls

HDFC Bank places a significant emphasis on risk management, with its **Risk Management Committee** overseeing the identification, evaluation, and mitigation of risks across various verticals. The bank follows a comprehensive risk management framework that covers credit risk, operational risk, market risk, and liquidity risk. This is complemented by an internal audit function that reports directly to the Audit Committee, ensuring that controls are in place to mitigate operational risks and safeguard the bank's assets.

Ethical Standards and Compliance

HDFC Bank is committed to adhering to ethical standards in all its operations. The bank has established a robust compliance framework to ensure adherence to all regulatory requirements, and the **Whistleblower Policy** enables employees to report unethical practices in a confidential manner. The bank has also implemented strong policies regarding anti-money laundering (AML) and the prevention of fraud.

GROWTH & STRATEGY

The bank has cemented its position through a strategic focus on expanding its retail and MSME banking portfolios, driving digital transformation, and maintaining robust asset quality. The bank's consistent growth, coupled with its forward-looking investment in technology and customer service, has allowed it to outperform peers and position itself as one of the top financial institutions in India. Below, we delve into the bank's strategic growth pillars and examine the factors driving its success, backed by recent financial reports.

Retail Banking Growth

Retail banking remains the dominant segment of HDFC Bank's operations, contributing significantly to the bank's overall loan growth and profitability. As of September 2024, **retail loans** accounted for a large portion of the bank's total advances. HDFC Bank has capitalized on the growing demand for **personal loans, home loans, auto loans, and credit cards** in India's urban and semi-urban markets. **Retail loan growth** continues to be supported by HDFC Bank's ability to customize products based on customer needs. For instance, in FY24, the demand for **home loans** surged after the bank's merger with HDFC Ltd., significantly expanding its reach within the housing finance sector. The bank is also a leader in the **credit card market**, with a substantial market share, and continues to see growth despite increased competition from fintech players.

In particular, the growth in **auto loans** and **personal loans** has been instrumental in driving the bank's retail lending portfolio. Consumers in India, especially in metro and urban areas, continue to opt for these loans due to rising disposable income, improved consumer confidence, and a favourable lending environment supported by low interest rates. HDFC Bank has leveraged its extensive branch network and digital platforms to capture a larger share of the market. The bank's focus on tailoring loan products to specific customer segments, along with competitive interest rates, has made it a preferred choice among borrowers.

MSME Lending

In addition to retail banking, HDFC Bank has made significant inroads into the **micro, small, and medium enterprises (MSME)** sector. Credit to the MSME sector saw a **14.8% year-on-year growth** as of August 2024, reflecting the bank's strategic focus on supporting India's burgeoning small business segment. The bank's commitment to the MSME sector aligns with the Indian government's push for financial inclusion, which aims to increase credit flow to smaller businesses and reduce their dependence on informal sources of funding. HDFC Bank has introduced tailored financial products and services for MSMEs, including working capital loans, term loans, and trade finance solutions, which have been well-received by the market. The bank's extensive branch network, coupled with its expanding digital reach, has enabled it to penetrate deeper into this sector. MSMEs remain an essential growth driver for HDFC Bank, as these businesses contribute significantly to India's GDP and employment.

Digital Transformation

Digital transformation has been at the core of HDFC Bank's growth strategy over the past few years. The bank has heavily invested in upgrading its **digital banking infrastructure**, aiming to improve customer experiences and enhance operational efficiency. HDFC Bank's **mobile banking app**, one of the top-rated platforms in India, has been instrumental in driving customer engagement and transaction volumes. The bank's focus on digital transformation has allowed it to effectively compete with **fintech companies** and **digital-first players** that are reshaping the Indian banking sector. HDFC Bank's robust digital offerings, particularly in the areas of **digital payments** and **lending**, have made it a key player in India's digital financial ecosystem. The bank's partnership with fintech companies has allowed it to integrate advanced technologies such as **artificial intelligence (AI)** and **machine learning (ML)** to offer more personalized banking services. As part of its digital strategy, HDFC Bank has also placed significant emphasis on its **Unified Payments Interface (UPI)** offerings, which have seen rapid adoption across India. UPI, which is now the preferred mode of payment for many consumers and businesses, has allowed HDFC Bank to capture a significant portion of the digital payments market. The bank's ongoing investments in its digital platforms, along with its focus on expanding the reach of its mobile banking services, are expected to drive future growth. In addition, HDFC Bank's digital transformation has allowed it to reduce **operational costs**, improve efficiency, and enhance the speed and accuracy of financial transactions. The integration of AI-driven technologies into its digital platform has helped the bank offer seamless, personalized banking solutions that cater to the specific needs of its customers.

Branch Expansion and CASA Growth

While HDFC Bank has embraced digital banking, it remains committed to expanding its **physical branch network**, especially in **semi-urban and rural areas**. The bank has over **8,738 branches** and **20,938 ATMs** as of FY24, with plans to further increase its presence in underbanked regions. This expansion aligns with the Indian government's efforts to improve **financial inclusion**, particularly in rural areas where formal banking services

remain limited. HDFC Bank's focus on rural and semi-urban areas has allowed it to tap into markets that are often overlooked by larger banks. The bank's extensive branch network enables it to offer personalized services and cater to the specific financial needs of customers in these regions. Moreover, the bank's commitment to expanding its physical presence has strengthened its **deposit mobilization efforts**, leading to steady growth in its **CASA (Current Account Savings Account) deposits**. The bank's **CASA ratio**, which stands at **38%**, remains a key factor in its ability to maintain a **low-cost funding base**. The strong CASA growth has allowed the bank to offer competitive interest rates to borrowers while maintaining healthy margins. As of Q2FY25, HDFC Bank's deposits grew by **15.1% year-on-year**, reflecting its strong franchise in both retail and corporate banking.

Capital Adequacy and Asset Quality

HDFC Bank has consistently maintained a robust **Capital Adequacy Ratio (CAR)**, which stood at **19.3%** as of FY24, well above the regulatory requirement. This solid capital base gives the bank ample room to expand its loan book while maintaining a strong buffer against potential economic shocks. The bank's focus on maintaining a healthy capital position has been a cornerstone of its growth strategy, ensuring that it can continue to invest in new opportunities without compromising on risk management. In terms of **asset quality**, HDFC Bank has demonstrated its ability to manage risks effectively, reflected in its low **gross non-performing assets (GNPA) ratio** of **1.33%**. The bank's prudent lending practices and stringent credit risk management framework have enabled it to keep NPAs well below the industry average. HDFC Bank has also maintained **credit costs** at stable levels, with expectations for credit costs to normalize at **1.1%** in Q2FY25. The bank's focus on maintaining asset quality and managing credit risk has allowed it to maintain a strong balance sheet. As the Indian economy recovers, HDFC Bank is well-positioned to continue expanding its loan book while keeping asset quality intact.

Strategic Merger with HDFC Ltd.

The merger between **HDFC Ltd.** and **HDFC Bank**, completed in FY24, marks a pivotal moment in the Indian financial services landscape, creating one of the largest financial conglomerates in the country. This strategic move combined HDFC Ltd.'s dominance in the housing finance sector with HDFC Bank's expansive retail banking network, significantly enhancing the bank's ability to offer a broader suite of financial products. The merger allows for substantial cross-selling opportunities, particularly in home loans, insurance, and investment products, as **85% of HDFC Ltd.'s home loan customers** have been integrated into HDFC Bank's liability portfolio. This integration not only bolsters the bank's deposit base but also allows it to offer other banking services to these customers, such as personal loans, credit cards, and wealth management services. The merger has also allowed HDFC Bank to strengthen its foothold in the housing finance market, where HDFC Ltd. held a leadership position. With the combined expertise in retail banking and housing finance, the bank is now better positioned to meet the growing demand for home loans, particularly in semi-urban and rural areas. Additionally, the merger has strengthened the bank's **capital adequacy ratio (CAR)**, which stands at **19.3%**, providing it with a robust capital base to pursue future growth opportunities. This merger is expected to generate significant synergies across operations, reduce redundancies, and improve efficiency, enabling HDFC Bank to leverage its enhanced scale to deliver sustained growth and long-term value for its shareholders. Overall, this strategic consolidation not only solidifies HDFC Bank's leadership in the financial services sector but also sets the stage for future expansion across India's diverse markets.

Managing Interest Rate and Margin Pressures

HDFC Bank has effectively navigated the challenges posed by **rising interest rates** and **margin pressures**, which have impacted the banking sector in recent quarters. One of the key strategies the bank employs is leveraging its **low-cost funding base**, supported by a strong **CASA (Current Account Savings Account) ratio** of **38%**. This enables the bank to maintain a lower cost of funds compared to its peers, even as the cost of deposits rises due to increased competition for funds. Despite industry-wide pressures on **Net Interest Margins (NIMs)**—expected to contract by **5-15 basis points** in Q2FY25—the bank's **Net Interest Income (NII)** is projected to grow by **9.4% YoY**, reflecting its ability to manage the balance between deposit growth and lending operations effectively. The **repo rate**, currently at **6.50%**, has put upward pressure on deposit rates, compelling banks to offer higher interest on term deposits to attract funds. In response, HDFC Bank has strategically diversified its funding sources, increasing its reliance on **longer-term, higher-yielding loans**, such as home loans and MSME lending, to offset the impact of higher deposit costs. Additionally, the bank's focus on **fee-based income** and **non-interest revenue streams** has helped cushion the impact of margin compression, further reinforcing its profitability. HDFC Bank's ability to maintain solid margins, even in a rising rate environment, underscores its robust financial management practices and positions it well for continued growth amid fluctuating economic conditions.

Sustainable Finance and Future Outlook

HDFC Bank's commitment to **sustainable finance** has become an integral part of its growth strategy. The bank has been actively involved in financing green energy projects, renewable energy infrastructure, and environmentally sustainable businesses. The bank's focus on **sustainable finance** aligns with global trends and India's push toward a greener economy. HDFC Bank has also launched green financial products, such as loans for electric vehicles and renewable energy projects, to cater to the growing demand for eco-friendly solutions. Looking ahead, HDFC Bank is well-positioned to benefit from India's economic growth and increasing demand for financial services. The bank's continued focus on retail lending, digital banking, and expanding its physical presence will be key drivers of future growth. Additionally, the integration of HDFC Ltd. provides the bank with significant opportunities to expand its customer base and cross-sell a wide range of financial products.

PRODUCTS AND SERVICES



Complete suite of products and services

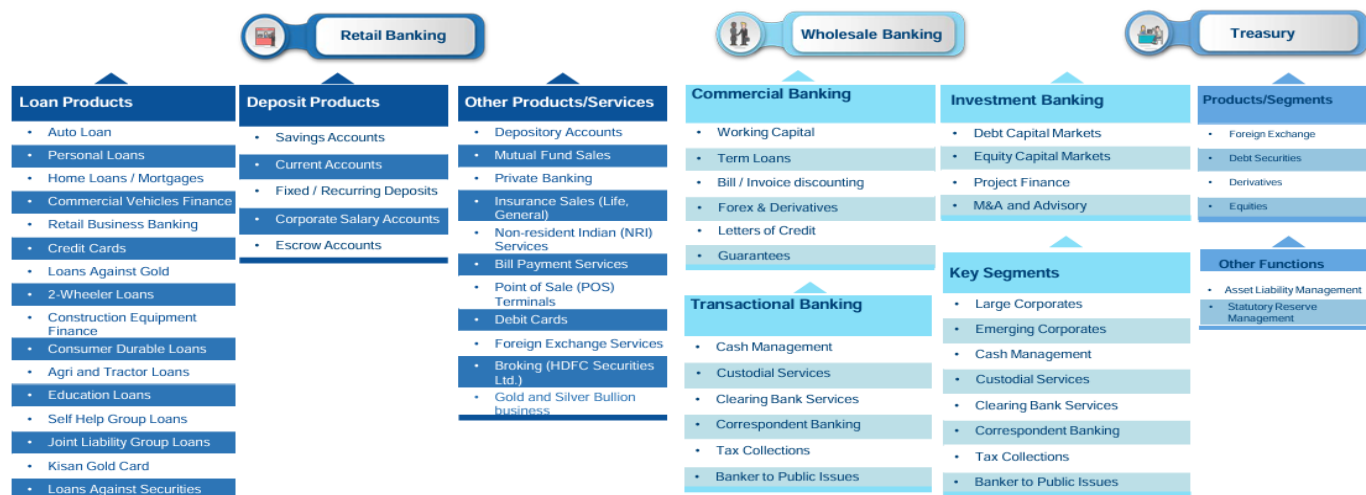
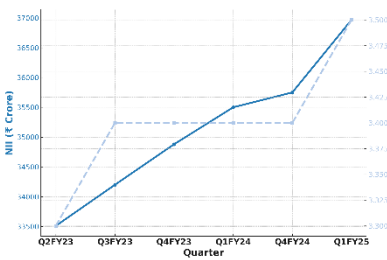


Exhibit 13: NII & NIM Growth

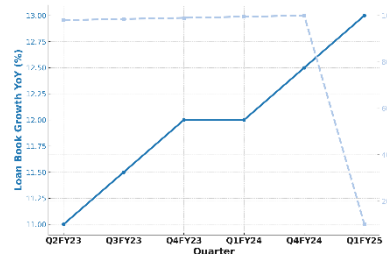
Net Interest Income (NII) Growth and Net Interest Margin (NIM)



Source: Company Data

Exhibit 14: Loan Book & LDR Ratio

Loan Book Growth YoY and Loan-to-Deposit Ratio (LDR)



Source: Company Data

Exhibit 15: Quarterly Results

Year	Sep-23	Dec-23	Mar-24	Jun-24
Revenue	75,039	78,008	79,434	81,546
Interest	41,250	43,242	43,692	44,580
Expenses	45,349	50,530	62,938	49,690
Financing Profit	-11,560	-15,764	-27,196	-12,723
Financing Margin %	-15%	-20%	-34%	-16%
Other Income	32,528	37,007	44,958	35,450
Profit before tax	20,967	21,243	17,761	22,727
Tax %	17%	17%	-1%	24%
Net Profit	17,312	17,718	18,013	17,188
EPS in Rs	22.17	22.73	23.2	21.65

Source: Company Data

Exhibit 16: Balance Sheet

Year	Mar-21	Mar-22	Mar-23	Mar-24
Equity Capital	551	555	558	760
Reserves	2,09,259	2,46,772	2,88,880	4,55,636
Borrowings +	15,11,418	17,84,970	21,39,212	31,07,503
Other Liabilities +	78,279	90,639	1,01,783	4,66,296
Total Liabilities	17,99,507	21,22,934	25,30,432	40,30,194
Fixed Assets +	5,248	6,432	8,431	12,604
CWIP	0	0	0	0
Investments	4,38,823	4,49,264	5,11,582	10,05,682
Other Assets +	13,55,435	16,67,238	20,10,419	30,11,909
Total Assets	17,99,507	21,22,934	25,30,432	40,30,194

Source: Company Data

Exhibit 17: Cash Flow

Year	Mar-21	Mar-22	Mar-23	Mar-24
Cash from Operating Activity	42,476	-11,960	20,814	19,069
Profit from operations	65,619	70,781	79,722	91,618
Loans Advances	-1,55,681	-2,48,946	-2,54,569	-3,09,211
Operating investments	-50,157	-10,849	-64,182	-88,412
Deposits	1,87,514	2,24,282	3,24,660	3,36,965
Other WC items	8,203	-32,389	-48,450	10,951
Working capital changes	-10,121	-67,902	-42,541	-49,706
Direct taxes	-13,021	-14,838	-16,367	-22,843
Cash from Investing Activity	-1,823	-2,051	-2,992	16,600
Fixed assets purchased	-1,696	-2,236	-3,467	-4,287
Fixed assets sold	15	20	48	100
Investments sold	0	0	0	9,501
Invest in subsidiaries	0	0	0	0
Acquisition of companies	0	0	0	0
Other investing items	-142	165	432	11,287
Cash from Financing Activity	-7,321	48,124	23,941	-3,983
Proceeds from shares	1,780	2,610	3,416	5,250
Proceeds from debentures	356	8,313	23,000	2,350
Redemption of debentures	-1,105	-3,650	-12,077	-230
Proceeds from borrowings	0	44,308	18,007	0
Repayment of borrowings	-8,389	0	0	-7,343
Dividends paid	0	-3,592	-8,605	-8,404
Other financing items	56	136	199	4,394
Net Cash Flow	33,332	34,113	41,762	31,680

Source: Company Data

Profitability

1) Net Interest Income (NII) Growth and Net Interest Margins (NIMs)

As of **Q1FY25**, HDFC Bank's **Net Interest Income (NII)** grew by **3.4% QoQ** to ₹36,967 crore, indicating the bank's continued ability to expand its lending book despite increased competition for deposits. The bank's **Net Interest Margin (NIM)** stood at **3.5%**, up from **3.4% in Q4FY24**, reflecting an improved loan mix that prioritizes higher-yielding assets, particularly in the **retail and commercial rural banking** segments. The gradual improvement in NIMs is attributed to the strategic replacement of HDFC Ltd.'s high-cost borrowings with lower-cost retail deposits, enabling the bank to reduce its overall cost of funds.

2) Loan Book Growth and Lending Profitability

HDFC Bank's profitability is closely linked to the growth of its loan book. In **Q1FY25**, the bank's **total advances** increased by **13.0% year-on-year**, driven by strong demand for credit across retail, MSME, and corporate segments. The bank's **retail loan book** grew at a robust pace, supported by continued demand for **personal loans, home loans, and auto loans**, which tend to generate higher yields than corporate loans. HDFC Bank's ability to maintain a diversified loan portfolio has allowed it to optimize yields and enhance profitability. As of **Q1FY25**, the bank's focus on retail lending helped it achieve better loan spreads, supporting the growth in **Net Interest Income** and maintaining profitability. The bank's **Loan-to-Deposit Ratio (LDR)** stood at **100.8%**, reflecting strong credit growth. HDFC Bank is actively working to bring this ratio down by accelerating deposit growth, which should further enhance profitability in future quarters.

3) Non-Interest Income

Non-interest income has emerged as a crucial component of HDFC Bank's profitability. In **Q1FY25**, the bank's non-interest income increased by **259.8% YoY** to ₹35,450 crore, driven by fee income from retail products such as credit cards, wealth management services, and digital transaction fees. The bank has strategically expanded its **fee-based income** streams, capitalizing on its strong presence in the **digital payments** space and growing transaction volumes on its **UPI** and other digital platforms.

4) Cost Efficiency and Operating Leverage

HDFC Bank has maintained a disciplined approach to cost management, as reflected in its low **cost-to-income ratio of 40%**. This operational efficiency is achieved through a combination of strategic investments in digital infrastructure and automation, which have helped streamline processes and reduce manual overhead costs. The bank's focus on digital banking and **branch expansion** also contributed to enhanced operational leverage. In **Q1FY25**, HDFC Bank added **113 new branches**, taking its total to **8,851**, and plans to continue expanding its physical presence to tap into underserved markets. Despite this expansion, the bank has managed to keep its operating expenses under control, ensuring that the growth in revenue outpaces the rise in costs.

5) Return Ratios and Earnings Growth

HDFC Bank has consistently delivered healthy **return ratios**, supported by strong revenue growth and prudent risk management. The bank's **Return on Equity (RoE)** is projected to remain stable at **14.6%** in FY25, while its **Return on Assets (RoA)** is expected to be **1.8%**, reflecting its efficient use of capital. The bank's **net profit** for FY25 is expected to grow by **18.4% YoY** to ₹75,834 crore, driven by a combination of improved NII, controlled operating expenses, and a stable asset quality outlook. The **EPS** for FY25 is projected at **₹99.4**, up from ₹90.0 in FY24, signalling steady earnings growth.

Non-equity Bank Funding

Deposits continue to be the cornerstone of HDFC Bank's funding structure. As of **Q1FY25**, the bank's total deposits reached **₹22.35 lakh crore**, marking a **15.1% year-on-year growth**. This growth is underpinned by strong traction in **term deposits**, which grew by **19.3% YoY**, significantly contributing to the bank's ability to finance loan growth. Despite the rise in term deposits, HDFC Bank maintains a healthy **CASA (Current Account Savings Account) ratio of 36.3%**, providing the bank with a substantial low-cost funding advantage. CASA deposits are crucial for keeping funding costs low, as they carry lower interest obligations compared to term deposits. In addition to deposits, HDFC Bank actively manages its liquidity through **wholesale funding**, including **certificates of deposit (CDs)**, **commercial papers (CPs)**, and other money market borrowings. These instruments provide short-term funding solutions, allowing the bank to meet liquidity requirements without heavily relying on equity financing. As of Q1FY25, the bank has strategically tapped into these markets to complement its deposit base, especially when demand for credit exceeds the availability of deposits.

Asset Quality

As of **Q1FY25**, the bank reported a **Gross Non-Performing Asset (GNPA) ratio of 1.33%** and a **Net NPA (NNPA) ratio of 0.39%**, significantly lower than industry average. The bank's **Provision Coverage Ratio (PCR)** stood at a healthy **71.2%**, providing a solid buffer against future potential credit losses. In addition to these provisions, HDFC Bank has set aside **floating provisions of ₹124 billion** and **contingent provisions of ₹145 billion**, ensuring the bank is well-prepared to absorb shocks from any deterioration in asset quality. The bank's **credit costs** have remained stable at **42 basis points** in Q1FY25, supported by recoveries and upgrades amounting to **₹35 billion**. Though slippages during the quarter stood at **₹79 billion**, particularly from the agricultural sector where the GNPA increased to **3%**, the bank remains optimistic about recoveries in the upcoming quarters. Furthermore, HDFC Bank's sectoral asset quality trends remain strong, particularly in its retail portfolio, which includes high-growth segments like **personal loans, auto loans, and home loans**. Even with the merger of HDFC Ltd., which brought in a sizable housing finance portfolio, the bank has maintained stable trends in this segment. In more sensitive areas such as **commercial vehicle financing and developer loans**, where impairments are typically higher, HDFC Bank has proactively adjusted its provisioning, ensuring that these risks are well-managed. The bank's **Risk-Weighted Asset (RWA) density** improved to **64%**, reflecting its focus on lending to higher-rated customers, while its top 20 exposures have been reduced to **11%**, further diversifying its risk profile.

Exhibit 18: Financial Ratios

Year	FY22	FY23	FY24
Operational Ratios			
Gross NPA (%)	1.17	1.12	1.24
CASA Ratio (%)	48.13	44.37	38.14
CASA vs Total Liabilities (%)	35.33	33.01	22.49
Sales per Branch (Cr)	25.41	25.81	46.39
Profitability Ratios			
Net Interest Margin (%)	3.82	3.92	3.41
Return On Assets (%)	1.95	1.98	2
Credit Deposit Ratio (%)	91.2	88.28	108
ROE (%)	16.7	17.24	17.64
EPS	68.62	82.44	84.33
Valuation Ratios			
P/E	21.42	19.53	17.17
Price to Book Value	3.3	3.12	2.42
Dividend Yield (%)	1.05	1.18	1.35

Source: Company Data

Capital Management

HDFC Bank maintains an excellent capital management framework, ensuring that it remains well-capitalized and capable of withstanding market fluctuations while supporting its growth trajectory. The bank's capital position is governed by its commitment to maintaining strong capital ratios in line with Basel III requirements and ensuring an optimal balance between risk-weighted assets (RWA) and capital adequacy. As of **Q1FY25**, HDFC Bank reported a **Capital Adequacy Ratio (CAR)** of **19.3%**, which is comfortably above regulatory norms. The bank's **Tier I ratio** stood at **17.3%**, with a **Common Equity Tier 1 (CET-1) ratio** of **16.8%**, further reinforcing its capital strength.

Tier II Capital and Provision Buffers

In addition to maintaining strong Tier I capital, HDFC Bank also utilizes **Tier II capital**, which accounts for **2.0%** of its CAR. A key feature of the bank's capital management strategy is its emphasis on creating a strong provisioning buffer to protect against potential risks. The bank holds a **floating provision** of **₹124 billion** and a **contingent provision** of **₹145 billion**, providing a solid cushion against any deterioration in asset quality. In FY24, HDFC Bank created a **counter-cyclical floating provision buffer** of **₹109 billion**, which qualifies as Tier II capital and strengthens the bank's balance sheet. This provision can be invoked only with the Reserve Bank of India's (RBI) approval, reflecting the bank's conservative approach to managing risks.

Managing RWA Density and Credit Growth

HDFC Bank has focused on optimizing its risk-weighted assets (RWA) by targeting high-quality lending. As a result, the bank's **RWA density** improved to **64%** in FY23, down from earlier levels, reflecting a shift toward lending to higher-rated corporates and retail customers. However, the recent increase in risk weights for unsecured advances by the RBI led to a slight uptick in RWA density to **68%** in FY24. Despite this, the bank has been able to maintain a balanced approach to growth, with advances increasing by **13.0% YoY** as of September 2024.

Post-Merger Capital Position and Synergies

The successful merger with HDFC Ltd. has significantly impacted HDFC Bank's capital structure, introducing new challenges and opportunities. The merger brought in approximately **₹4 trillion in borrowings**, with a substantial portion of these being high-cost borrowings. To manage this, HDFC Bank has embarked on a strategic initiative to replace HDFC Ltd.'s higher-cost borrowings with lower-cost deposits. As of Q1FY25, the bank had successfully reduced its borrowings by **₹600 billion**, with **₹250 billion** of this reduction occurring in the June quarter alone. The bank aims to replace an additional **₹600 billion** of high-cost borrowings during FY25, which is expected to further improve its capital efficiency and support profitability.

Focus on CASA and Liquidity Management

HDFC Bank continues to prioritize increasing its **Current Account Savings Account (CASA)** ratio, which stood at **36.3%** as of Q1FY25. Although there has been a slight decline in the CASA ratio post-merger due to significant outflows from current accounts, the bank remains focused on improving its deposit mix to enhance liquidity and reduce funding costs. The replacement of high-cost borrowings with retail deposits has been a key part of this strategy, ensuring that the bank can maintain a strong liquidity profile while enhancing profitability. HDFC Bank's **Liquidity Coverage Ratio (LCR)** stood at **123%** in Q1FY25, comfortably above

VALUATIONS

Dividend Discount Model

HDFC Bank's valuation incorporates key projections from the Dividend Discount Model (DDM), which forecasts significant growth in profits and dividend payouts over the coming years. The bank's **profit after tax** is expected to rise sharply from **₹557,152 million in 9M FY2025** to **₹1,343,256 million by FY2029**, reflecting a compound annual growth rate (CAGR) of **23.8%**. This growth trajectory is matched by an increasing **payout ratio**, which is projected to rise from **12% in FY2025** to **90% in the terminal year**, showcasing the bank's ability to distribute a larger portion of its profits to shareholders as it matures. Consequently, dividend payments are expected to grow from **₹66,858 million in FY2025** to **₹1,050,167 million by FY2029**, reflecting a significant increase in shareholder returns. Over this period, the bank's profitability, driven by strong earnings and a more favorable loan mix, supports a higher dividend payout. By applying the appropriate discount rate to these projected dividends, the present value of these future cash flows forms a substantial part of the bank's intrinsic value. The terminal value, based on the **₹1,166,852 million profit** and a **90% payout ratio**, underscores the bank's capacity to sustain substantial dividend growth beyond FY2029.

Current payout ratio	12.30%					
Stable payout ratio	90.00%					
(in millions)						
Projections		9M/2025	2026	2027	2028	2029 Terminal
Profit after tax		5,57,152	8,61,438	9,98,931	11,58,370	13,43,256
Payout ratio		12%	28%	43%	59%	74%
Estimated paid dividends		68,693	2,40,026	4,33,512	6,82,647	10,00,267
Cost of equity	16.40%					
Long-term growth rate	3.50%					
Timing of dividends		0.38	1.25	2.25	3.25	4.25
Present value of dividends		64,886	1,98,480	3,07,912	4,16,474	5,24,173
Equity value	54,59,110					
(/) Outstanding shares	7,631					
Fair price	715					

Weighted Average Cost of Capital

The **Weighted Average Cost of Capital (WACC)** analysis for HDFC Bank includes key inputs that determine the bank's cost of funding and overall risk profile. The WACC is a crucial metric as it reflects the blended cost of both equity and debt, weighted by their respective proportions in the bank's capital structure. The **long-term bond rate** is estimated to range between **6.9% and 7.4%**, while the **equity market risk premium** ranges from **8.3% to 9.3%**, indicating the additional returns required by investors to compensate for the risk of holding equity in HDFC Bank. The **adjusted beta** of **1.01 to 1.04** shows that the bank's stock volatility is slightly higher than the market, reflecting its sensitivity to broader market movements. The **cost of equity** is calculated between **15.3% and 17.6%**, factoring in the equity risk premium and the adjusted beta. On the debt side, HDFC Bank's **cost of debt** is relatively low at **5%**, and after adjusting for taxes, this contributes to a more favourable cost structure. The **tax rate** used in the WACC calculations ranges from **25.0% to 25.2%**, in line with corporate tax rates in India. The **debt-to-equity ratio** is stable at **0.59**, indicating a balanced capital structure where debt constitutes a significant, but not overwhelming, part of the bank's financing. After accounting for these variables, the **after-tax WACC** is estimated between **11.0% and 12.4%**

Category	Low	High
Long-term bond rate	6.90%	7.40%
Equity market risk premium	8.30%	9.30%
Adjusted beta	1.01	1.04
Additional risk adjustments	0.00%	0.50%
Cost of equity	15.30%	17.60%
Tax rate	25.00%	25.20%
Debt/Equity ratio	0.59	0.59
Cost of debt	5.00%	5.00%
After-tax WACC	11.00%	12.40%
Selected WACC	11.70%	

Peter Lynch Fair Value

HDFC Bank's fair value, calculated using the **Peter Lynch Fair Value** model, is based on its impressive **5-year average earnings growth rate of 23.7%** and a **TTM EPS of ₹89.33**. Applying these figures, the fair value of HDFC Bank is estimated at **₹2,117.66**. This valuation indicates a significant upside potential from its current market price, driven by strong historical growth in net income. For instance, the bank's **net income** increased from **₹272,539 million in FY20 to ₹640,620 million in FY24**, marking a substantial rise with a **CAGR of 23.7%** over this period.

Historical Earnings	FY20	FY21	FY22	FY23	FY24	5Y Avg
Net income	2,72,539.51	3,18,332.09	3,80,527.50	4,59,971.10	6,40,620.40	4,14,398
YoY growth	22%	16.80%	19.50%	20.90%	39.30%	23.70%

Recommendation

Dividend Discount Model (DDM): This model forecasts HDFC Bank's future dividends based on projected profits and payout ratios. With profits expected to grow from **₹557,152 million in 9M FY2025 to ₹1,343,256 million by FY2029**, and payout ratios rising from **12% to 90%**, the model captures the bank's ability to generate substantial dividends. These dividends, when discounted to present value, suggest strong long-term value for shareholders.

WACC Analysis: The **after-tax WACC** is estimated between **11.0% and 12.4%**, reflecting the blended cost of equity and debt financing. This discount rate is used to assess the bank's future cash flows, ensuring that both risk and return are accounted for in the overall valuation.

Peter Lynch Fair Value: Using a **5-year average earnings growth rate of 23.7%** and a **TTM EPS of ₹89.33**, the fair value is calculated at **₹2,117.66**. This model emphasizes the relationship between earnings growth and valuation, indicating that HDFC Bank is currently undervalued and has significant growth potential.

Relative Valuation: Sell side brokerage firms use a relative valuation approach, factoring in HDFC Bank's **P/E ratio of 15.9x FY25E** and **P/BV of 2.2x FY25E**. These multiples, in line with the bank's peers, suggest a target price range between **₹1,850 and ₹1,900**.

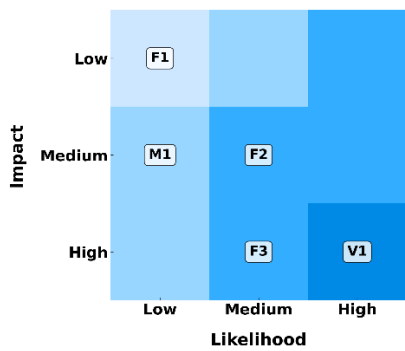
Based on a thorough analysis of multiple valuation models and broker recommendations, we assign a target price (TP) of **₹1,950** for HDFC Bank. The **Dividend Discount Model (DDM)**, projecting strong profit growth from **₹557,152 million in FY2025 to ₹1,343,256 million by FY2029**, alongside increasing payout ratios from **12% to 90%**, highlights the bank's capacity for substantial dividend generation. The **Peter Lynch Fair Value** model further supports this, estimating a fair value of **₹2,117.66**, driven by a **23.7% 5-year average earnings growth rate** and **₹89.33 TTM EPS**. Meanwhile, broker reports estimate target prices of **₹1,850 to ₹1,900**, reflecting strong fundamentals and earnings growth, with a **P/E ratio of 15.9x FY25E** and **P/BV of 2.2x FY25E**. Factoring in these models, along with the **after-tax WACC of 11.0% to 12.4%**, our blended analysis points to a mid-term target price of **₹1,950**

INVESTMENT RISKS

[V1] Valuation Risk

The **Peter Lynch Fair Value** model assumes an impressive **23.7% 5-year average earnings growth**, but this may be challenged by economic slowdowns, changes in competitive dynamics, or regulatory shifts, which could lead to actual growth rates falling below these estimates. Similarly, the **Dividend Discount Model (DDM)** relies on the assumption that the payout ratio will rise significantly from **12% in FY2025 to 90% by the terminal year**, which may be difficult to achieve if the bank faces increased capital requirements, regulatory interventions, or slower-than-expected earnings growth. Additionally, HDFC Bank is currently trading at premium valuation multiples, with a **P/E ratio of 15.9x FY25E earnings** and a **P/BV of 2.2x FY25E**, which raises the risk of a potential downside if growth fails to meet expectations. Any macroeconomic headwinds, such as slower credit growth or rising interest rates, could prompt a re-rating of the stock. The bank's **capital adequacy ratio (CAR)** stands at **19.3%**, but rising costs, such as an increase in the **cost of deposits to 5.1% by FY25E**, could pressure profitability and affect the valuation.

Risk Matrix



Source – Squirera Research

[F1] Firm Risk | Credit Risk

A key firm-level risk for HDFC Bank stems from its **credit risk** exposure, particularly in the retail and commercial segments. The bank's **Gross Non-Performing Assets (GNPA)** stood at **1.24%** as of FY24, with **Net NPA at 0.33%**, indicating relatively stable asset quality. However, the bank's increasing focus on unsecured retail loans and the agricultural sector presents heightened risk, especially in case of an economic downturn. Regulatory changes, including higher risk weights on unsecured advances, further amplify credit risk exposure. The bank has taken proactive steps by maintaining **provision coverage ratios (PCR) at 71.2%** to mitigate potential losses

[F2] Firm Risk | CAR, RWA

Another significant risk is the **capital adequacy** and increased **Risk-Weighted Assets (RWA)** post-merger with HDFC Ltd. The bank's **capital adequacy ratio (CAR)** declined slightly to **18.8%** in FY24, down from **19.26%** in FY23, partly due to the higher RWA intensity of **68%**. As the bank integrates the operations of HDFC Ltd., managing capital adequacy under Basel III norms remains a challenge. This is critical for maintaining liquidity buffers and meeting regulatory requirements

[F3] Firm Risk | Liquidity

HDFC Bank also faces **liquidity risks**, particularly following the merger. The **Liquidity Coverage Ratio (LCR)**, while robust at **117.35%** in FY24, reflects the bank's need to manage liquidity effectively, especially during periods of market stress or significant deposit outflows. The bank has been replacing high-cost HDFC Ltd. borrowings with lower-cost retail deposits, but any disruptions in deposit mobilization could strain liquidity

[M1] Market Risk

HDFC Bank is exposed to significant **market risks**, particularly related to **interest rate fluctuations** and **foreign exchange volatility**. These risks are critical as the bank holds substantial **Government securities (SLR)** and other fixed-income investments in its portfolio. Any sharp reversal in interest rate trends could lead to marked-to-market losses, especially in its **Held-for-Trading (HFT)** and **Available-for-Sale (AFS)** portfolios. The bank's exposure to interest rate risk is further emphasized by its **Net Interest Margin (NIM)** was reported at **3.4% for Q3 FY24**, and any adverse interest rate movements could negatively affect this key profitability metric. HDFC Bank's involvement in **foreign exchange markets** and derivative transactions to hedge against currency risks introduces another layer of market risk. The bank's **foreign exchange book** is subject to fluctuations in currency exchange rates, and despite hedging mechanisms, counterparty risk remains an area of concern, particularly in volatile global markets. Additionally, the **cross-currency swaps** and **futures contracts** the bank engages in create potential exposure to both interest rate and currency mismatches. The bank's **Liquidity Coverage Ratio (LCR) of 117.35% as of FY24** reflects its ability to manage short-term liquidity needs. However, in times of financial stress or market volatility, maintaining this liquidity position could become more challenging, particularly if there is a tightening of liquidity conditions globally. Moreover, the overall **interest rate environment**, driven by inflation and monetary policy changes, poses risks to the bank's asset-liability management and its profitability. With the merger of HDFC Ltd., the bank's balance sheet has grown significantly, increasing its sensitivity to market risks. The increased size and complexity of its treasury operations mean that managing **interest rate risk** and **currency risk** will be crucial in maintaining profitability.

Scenario	NIM Impact
Base Case (Q1FY25)	3.50%
Loan Growth +1%	+5 bps
Loan Growth +5%	+20 bps
CASA Growth +2%	+10 bps
CASA Growth +5%	+20 bps
Cost of Funds -10 bps	+10 bps
LDR Reduction to 95%	+15 bps

Source – Squirera Research, Geojit HDFC Reports

Credit Costs	Net Profit (INR Cr)	Change in Net Profit (%)	ROE (%)	Change in ROE (%)
Base Case: INR 10,000 Cr	64,062	0%	17.20%	0%
+10% (INR 11,000)	63,062	-1.56%	16.80%	-2.33%
+20% (INR 12,000)	62,062	-3.12%	16.40%	-4.65%
+30% (INR 13,000)	61,062	-4.69%	16.00%	-6.98%
-10% (INR 9,000 Cr)	65,062	1.56%	17.60%	2.33%
-20% (INR 8,000 Cr)	66,062	3.12%	18.00%	4.65%

Source – Squirera Research, Geojit HDFC Reports

C/I Ratio (%)	Profit Before Tax (INR Cr)	Change in PBT (%)	ROA (%)	Change in ROA (%)
Base Case: 40%	1,01,587	0%	2.00%	0%
41% (+1%)	1,00,573	-1.00%	1.98%	-1.00%
45% (+5%)	96,507	-5.00%	1.90%	-5.00%
45% (+10%)	91,428	-10.00%	1.80%	-10.00%
39% (-1%)	1,02,601	1.00%	2.02%	1.00%
35% (-5%)	1,06,666	5.00%	2.10%	5.00%
30% (-10%)	1,11,746	10.00%	2.20%	10.00%

Source – Squirera Research, Geojit HDFC Reports

Technical Analysis

Indicators

Indicator	Value	Action
RSI (14)	66.441	Buy
STOCH (9,6)	78.931	Buy
STOCHRSI (14)	60.516	Buy
MACD (12,26)	10.88	Buy
ADX (14)	57.756	Sell
Williams %R	-26.194	Buy
CCI (14)	59.1199	Buy
ATR (14)	7.4071	Less Volatility
Highs/Lows (14)	5.0928	Buy
Ultimate Oscillator	66.745	Buy
ROC	0.822	Buy
Bull/Bear Power (13)	6.384	Buy

The technical indicators for HDFC Bank suggest a bullish outlook, with multiple metrics signalling buying strength and upward momentum. The **Relative Strength Index (RSI)** stands at **66.441**, nearing the overbought territory but still indicating strong buying momentum. This is reinforced by the **Stochastic Oscillator (78.931)** and **Stochastic RSI (60.516)**, both of which are in bullish territory, confirming that the stock has strong momentum without yet being overbought.

The **Moving Average Convergence Divergence (MACD) at 10.88** further adds to the bullish sentiment, signalling that the stock's short-term momentum is well above its longer-term momentum, a clear buy signal. Additionally, the **Williams %R at -26.194** and **Commodity Channel Index (CCI) at 59.1199** are both signalling "Buy," as they indicate the stock is trading above its typical range, but without reaching extreme overbought conditions.

However, one cautious note comes from the **Average Directional Index (ADX) at 57.756**, which suggests a very strong trend but issues a "Sell" signal, indicating that the trend might be becoming overextended. This could mean that while the trend is strong, traders should be cautious of a potential reversal or correction.

Volatility, as measured by the **Average True Range (ATR) at 7.4071**, suggests less price fluctuation, making the stock more stable in its movements. This is a favourable sign for investors looking for steadier price action. Furthermore, the **Highs/Lows (14) at 5.0928** and the **Ultimate Oscillator at 66.745** both signal bullish momentum, further supporting the overall positive sentiment.

The **Rate of Change (ROC) at 0.822** and **Bull/Bear Power (6.384)** continue to point toward buying pressure in the market, indicating that HDFC Bank is showing strength against bearish forces and is poised for upward movement.

Name	Simple	Exponential
MA5	1701.86	Sell
MA10	1695.84	Buy
MA20	1689.89	Buy
MA50	1666.22	Buy
MA100	1679.99	Buy
MA200	1695.61	Buy

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