

**CMP: INR 1,957**

**Rating: BUY**

**Target Price: INR 2,409**

**Stock Info**

|                          |               |
|--------------------------|---------------|
| BSE                      | 500180        |
| NSE                      | HDFCBANK      |
| Bloomberg                | HDFCB IN      |
| Reuters                  | HDBK.BO       |
| Sector                   | Banks         |
| Face Value (INR)         | 1             |
| Equity Capital (INR Mn)  | 7,648         |
| Mkt Cap (INR Bn)         | 15,009        |
| 52w H/L (INR)            | 2,027 / 1,589 |
| Avg Yearly Vol (in 000') | 15,137        |

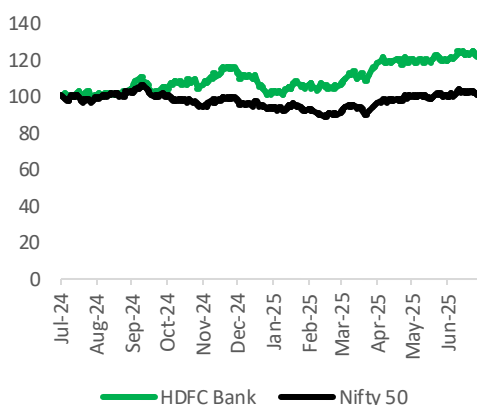
**Shareholding Pattern %**

(As on June, 2025)

|                 |     |
|-----------------|-----|
| Promoters       | -   |
| Public & Others | 100 |

| Stock Performance (%) | 1m   | 6m    | 12m   |
|-----------------------|------|-------|-------|
| HDFC Bank             | 3.46 | 20.84 | 23.63 |
| Nifty 50              | 1.44 | 8.15  | 1.66  |

**HDFC Bank Vs Nifty**



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HDFC Bank has posted a decent set of Q1FY26 earnings with a net profit of INR 182 Bn, slight deterioration in asset quality (GNPAs/NNPAs up 7 bps/4 bps QoQ), and declared an interim dividend of INR 5 per share. Net Interest Income for Q1FY26 stood at INR 314.4 Bn against our estimates of INR 320.8 Bn, down by 1.96% QoQ / up by 5.4% YoY. Adjusted PPOP came at INR 266.0 Bn against our estimates of INR 261.6 Bn, up 0.25% QoQ / up by 11.39% YoY. Provisions stood at INR 144.4 Bn against our estimates of INR 32.6 Bn increasing by 352.3% QoQ / up by 455.0% YoY. PAT stood at INR 181.6 Bn against our estimates of INR 172.8 Bn increasing by 3.1% QoQ / up by 12.2% YoY. GNPA came at 1.40% up 7 bps QoQ / down by 3 bps YoY against our estimates of 1.30% while NNPA was at 0.47% against our estimates of 0.47% up 4 bps QoQ / up 1 bps YoY. Deposits increased by 1.8% QoQ / up 16.2% YoY to INR 27,641 Bn. Advances increased by 0.34% QoQ / up 6.7% YoY to INR 26,284 Bn. HDFC Bank reported transaction gains of INR 91.3 billion from a partial divestment through an offer for sale in the recent IPO of its subsidiary, HDB Financial Services Ltd.

**Margin Resilience Despite Repricing Headwinds; Stability Expected by FY-End:** The bank's NIM trajectory reflects short-term pressure due to faster repricing of the asset side (floating rate book ~70%) compared to the liability side (more fixed in nature). With EBLR forming around 65-67% of the book, recent repo rate cuts have already impacted yields on assets, causing a ~22 basis point QoQ decline in yield in Q1FY26. However, management expects this lead-lag effect to fade gradually, as the average maturity of deposits (~12–18 months) allows the cost of funds to adjust. Importantly, no further policy rate cuts and stabilizing deposit costs are expected to restore NIMs toward Q4FY26. The bank continues to manage deposit pricing prudently and does not chase irrational pricing. As a result, while short-term margin compression is acknowledged, the long-term margin outlook remains constructive.

**Strategic Shift to Sustainable and Broad-Based Loan Growth from FY26 Onwards:** HDFC Bank aims to align its loan growth with the system average in FY26 and outperform the system in FY27. Advances had grown only 7% YoY last year due to the bank's focus on CD ratio correction, but this has already picked up to 8% YoY in Q1FY26. Importantly, disbursement growth is expected to outpace loan book growth due to a typical lag between the two, especially in non-mortgage retail and MSME segments where the bank sees strong momentum. Despite competition, the bank's strong brand recall, large customer base, and broad presence across geographies position it well to tap into festive season demand and recover market share in mortgages, unsecured loans, and MSME lending. Management's confidence in achieving higher loan growth is backed by improving macroeconomic tailwinds such as normal monsoons, stable food inflation (~3.7%), tax cuts, and strong rural demand recovery all of which suggest an upturn in credit demand in the upcoming quarters.

**Valuation & View:** HDFC bank's strategic realignment to lower its credit-deposit (CD) ratio from 110% to 95% has set the stage for a more balanced and sustainable growth trajectory. Loan growth should mirror system averages in FY26 and outpace them in FY27, supported by improving retail demand, MSME buoyancy, and selective corporate participation. NIMs may remain under pressure in the near term due to the lag effect of deposit repricing, normalization is expected by Q4 FY26. Deposit cost pressures are gradually easing, and the bank is leveraging its liquidity buffer and strong liability franchise to protect spreads. Additionally, cost pressures from recent hiring and tech investments are expected to moderate, with management reiterating its commitment to improving the cost-to-income ratio over the medium term. **We maintain a BUY rating on the stock with a revised target price of INR 2,409 on SOTP basis, with the standalone bank valued on 2.6x FY28E P/ABV.**

| Financial Summary |       |       |       |       |        |        |
|-------------------|-------|-------|-------|-------|--------|--------|
| Y/E Mar (Rs Bn)   | FY23  | FY24  | FY25  | FY26E | FY27E  | FY28E  |
| NII               | 868   | 1,085 | 1,227 | 1,313 | 1,473  | 1,638  |
| Net profit        | 441   | 608   | 673   | 751   | 868    | 997    |
| Networth          | 2,802 | 4,402 | 5,014 | 5,265 | 5,527  | 5,638  |
| Adj BVPS          | 494   | 569   | 640   | 668   | 695    | 700    |
| EPS (Rs)          | 79.05 | 80.05 | 88.01 | 98.16 | 113.47 | 130.30 |
| P/ABV (x)         | 3.96  | 3.38  | 2.99  | 2.84  | 2.71   | 2.66   |
| P/E (x)           | 24.76 | 24.45 | 22.24 | 19.94 | 17.25  | 15.02  |
| RoA (%)           | 2.1   | 2.0   | 1.8   | 1.8   | 1.9    | 1.9    |
| RoE (%)           | 17.0  | 16.9  | 14.3  | 14.6  | 16.1   | 17.9   |

Source: Arihant Research, Company Filings

## Q1FY26 - Quarterly Performance (Standalone)

| Income Statement (INR Bn.)    | Q1FY26     | Q4FY25     | Q1FY25     | Q-o-Q        | Y-o-Y        |
|-------------------------------|------------|------------|------------|--------------|--------------|
| Interest Income               | 775        | 775        | 730        | 0.0%         | 6.1%         |
| Interest Expense              | 460        | 454        | 432        | 1.4%         | 6.6%         |
| <b>Net Interest Income</b>    | <b>314</b> | <b>321</b> | <b>298</b> | <b>-2.0%</b> | <b>5.4%</b>  |
| Non Interest Income           | 217        | 120        | 107        | 80.7%        | 103.7%       |
| <b>Total Income</b>           | <b>532</b> | <b>441</b> | <b>405</b> | <b>20.6%</b> | <b>31.3%</b> |
| Employee Costs                | 62         | 61         | 58         | 0.7%         | 5.3%         |
| Other Operating Expenses      | 113        | 114        | 108        | -1.4%        | 4.7%         |
| Operating Expenses            | 174        | 176        | 166        | -0.7%        | 4.9%         |
| <b>Pre-Provision Profit</b>   | <b>357</b> | <b>265</b> | <b>239</b> | <b>34.7%</b> | <b>49.6%</b> |
| Provisions                    | 144        | 32         | 26         | 352.3%       | 455.0%       |
| <b>Profit Before Tax</b>      | <b>213</b> | <b>233</b> | <b>213</b> | <b>-8.8%</b> | <b>0.0%</b>  |
| Tax Expense                   | 31         | 57         | 51         | -45.2%       | -38.6%       |
| <b>Net Profit</b>             | <b>182</b> | <b>176</b> | <b>162</b> | <b>3.1%</b>  | <b>12.2%</b> |
| <b>Balance Sheet Analysis</b> |            |            |            |              |              |
| Deposits                      | 27,641     | 27,147     | 23,791     | 1.8%         | 16.2%        |
| CASA (%)                      | 34.0%      | 35.0%      | 36.3%      | -100bps      | -230bps      |
| Advances                      | 26,284     | 26,196     | 24,635     | 0.3%         | 6.7%         |
| Total Assets                  | 39,541     | 39,102     | 35,672     | 1.1%         | 10.8%        |
| Capital Adequacy Ratio (%)    | 19.90%     | 19.55%     | 19.33%     | 35bps        | 57bps        |
| <b>Spread Analysis</b>        |            |            |            |              |              |
| NIM (%)                       | 3.50%      | 3.70%      | 3.66%      | -20bps       | -16bps       |
| <b>Asset Quality</b>          |            |            |            |              |              |
| Gross NPA                     | 370.41     | 352.23     | 330.26     | 5.2%         | 12.2%        |
| Net NPA                       | 122.76     | 113.20     | 95.08      | 8.4%         | 29.1%        |
| GNPA (%)                      | 1.40%      | 1.33%      | 1.33%      | 7bps         | 7bps         |
| NNPA (%)                      | 0.47%      | 0.43%      | 0.39%      | 4bps         | 8bps         |
| <b>Key Ratios</b>             |            |            |            |              |              |
| Cost to Income Ratio (%)      | 32.8%      | 39.8%      | 41.0%      | -703bps      | -824bps      |
| C/D Ratio                     | 95.1%      | 96.5%      | 103.5%     | -140bps      | -846bps      |
| RoA (%) (annualized)          | 1.92%      | 1.92%      | 1.88%      | 0bps         | 4bps         |

### Q1FY26 Concall Takeaways

The bank expects its loan growth to align with system growth in FY26 and exceed it in FY27, after having deliberately slowed lending to reduce the credit-deposit ratio post-merger. Management highlighted ongoing strength in asset quality, with no visible stress across retail, corporate, or MSME segments, and credit costs remain low, though they may normalize gradually. Margin pressures are expected in the near term due to the lag in deposit repricing, but the bank anticipates stabilization by year-end.

- The Bank sees improved rural and MSME demand, with urban premium consumption expected to rise during the upcoming festive season. It remains conservative in the mortgage segment due to intense pricing competition from PSUs but sees opportunity during festivals.
- The bank has ~70% of its loan book linked to external benchmarks like EBLR, while deposit repricing lags, leading to temporary margin compression. The management expects quarterly fluctuations in NIMs, but normalization is expected over the next few quarters as liabilities reprice.
- Deposit maturity durations average 12–18 months. Margins may trough in Q2FY26, assuming no further rate cuts, before stabilizing thereafter.
- Asset quality remains a key strength with no signs of stress; Retail GNPA (excluding agri) remains stable at 82 bps, same as last year. Net credit cost rose to 41 bps from 29 bps QoQ, driven primarily by agri portfolio seasonality.
- A contingent provision of INR 17 Bn was made during the quarter, taking total contingent provisions to 57 bps of loans. The bank sees no visible deterioration in corporate, retail secured or unsecured segments but acknowledges that credit costs will revert to the mean over time.
- CASA ratio dropped post-merger from ~41% to ~38%, largely due to prioritization of total deposit growth to improve liquidity and CD ratio. The bank intends to shift focus back to customer engagement and product upsell to regain low-cost deposits and improve CASA ratio.
- While there has been no significant overlap between HDFC Bank and HDB customer segments, the Bank sees significant opportunity to cross-sell to its own large base of 100 Mn customers.
- Headcount rose by ~4,000 employees in Q1FY26, driven by new branch openings in Q4 FY25 and front-office hiring, especially in sales and tech. The bank emphasized that its long-term strategy includes more front-end and tech-focused hiring, while backend functions will be optimized using tech.
- The board has declared an interim dividend of INR 5 per share and also recommended a 1:1 bonus issue. The bank also successfully completed the listing of HDB Financial Services, in which it divested a partial stake during the quarter.
- The bank expects to maintain CD ratio between 85–90% in the medium term, reverting to pre-merger levels.
- Cost-to-income ratio was ~42% in Q1, and while the bank aims to reduce it toward 40%, it will prioritize growth and customer experience when required.
- The bank continues to actively manage PSL through the PSLC market and remains compliant despite merger-related additions.

## Key Financials

## Profit &amp; Loss Account

| Rs in Bn          | FY23         | FY24         | FY25         | FY26E        | FY27E        | FY28E        |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Interest Earned   | 1,616        | 2,583        | 3,005        | 3,352        | 3,821        | 4,355        |
| Interest expended | 747          | 1,498        | 1,778        | 2,039        | 2,348        | 2,717        |
| <b>NII</b>        | <b>868</b>   | <b>1,085</b> | <b>1,227</b> | <b>1,313</b> | <b>1,473</b> | <b>1,638</b> |
| Other Income      | 312          | 492          | 456          | 654          | 745          | 858          |
| <b>Net Income</b> | <b>1,181</b> | <b>1,578</b> | <b>1,683</b> | <b>1,966</b> | <b>2,218</b> | <b>2,496</b> |
| Operating Exp     | 477          | 634          | 682          | 750          | 825          | 907          |
| <b>PPOP</b>       | <b>704</b>   | <b>944</b>   | <b>1,001</b> | <b>1,216</b> | <b>1,394</b> | <b>1,589</b> |
| Provisions        | 119          | 235          | 116          | 220          | 242          | 266          |
| <b>PBT</b>        | <b>585</b>   | <b>709</b>   | <b>885</b>   | <b>996</b>   | <b>1,151</b> | <b>1,322</b> |
| Tax               | 144          | 101          | 211          | 245          | 283          | 325          |
| <b>PAT</b>        | <b>441</b>   | <b>608</b>   | <b>673</b>   | <b>751</b>   | <b>868</b>   | <b>997</b>   |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Balance Sheet

| Rs in Bn                         | FY23          | FY24          | FY25          | FY26E         | FY27E         | FY28E         |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>CAPITAL &amp; LIABILITIES</b> |               |               |               |               |               |               |
| Capital                          | 5.58          | 7.60          | 7.65          | 7.65          | 7.65          | 7.65          |
| Reserves & Surplus               | 2,796         | 4,395         | 5,007         | 5,257         | 5,520         | 5,630         |
| Deposits                         | 18,834        | 23,798        | 27,147        | 31,503        | 38,022        | 45,438        |
| Borrowings                       | 2,068         | 6,622         | 5,479         | 4,931         | 4,192         | 3,563         |
| Other Liabilities                | 957           | 1,354         | 1,461         | 1,364         | 1,501         | 1,651         |
| <b>TOTAL</b>                     | <b>24,661</b> | <b>36,176</b> | <b>39,102</b> | <b>43,064</b> | <b>49,242</b> | <b>56,290</b> |
| <b>ASSETS</b>                    |               |               |               |               |               |               |
| Cash & Balances                  | 1,938         | 2,191         | 2,396         | 3,423         | 5,030         | 7,090         |
| Investments                      | 5,170         | 7,024         | 8,364         | 8,535         | 9,712         | 10,913        |
| Advances                         | 16,006        | 24,849        | 26,196        | 28,816        | 31,697        | 34,867        |
| Fixed Assets                     | 80            | 114           | 137           | 153           | 184           | 220           |
| Other Assets                     | 1,467         | 1,998         | 2,010         | 2,137         | 2,620         | 3,200         |
| <b>TOTAL</b>                     | <b>24,661</b> | <b>36,176</b> | <b>39,102</b> | <b>43,064</b> | <b>49,242</b> | <b>56,290</b> |

Source: Arianth Research, Company Filings

| Ratios (%)        | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|-------------------|------|------|------|-------|-------|-------|
| <b>Growth</b>     |      |      |      |       |       |       |
| NII               | 20.6 | 25.0 | 13.0 | 7.0   | 12.2  | 11.2  |
| PPOP              | 9.9  | 34.1 | 6.1  | 21.5  | 14.6  | 14.0  |
| Net profit        | 19.3 | 37.9 | 10.7 | 11.5  | 15.6  | 14.8  |
| Deposits          | 20.8 | 26.4 | 14.1 | 16.0  | 20.7  | 19.5  |
| Advances          | 16.9 | 55.2 | 5.4  | 10.0  | 10.0  | 10.0  |
| <b>Returns</b>    |      |      |      |       |       |       |
| ROA               | 2.07 | 2.00 | 1.79 | 1.83  | 1.88  | 1.89  |
| ROE               | 17.0 | 16.9 | 14.3 | 14.6  | 16.1  | 17.9  |
| NIM (%)           | 4.05 | 3.80 | 3.45 | 3.38  | 3.38  | 3.30  |
| <b>Efficiency</b> |      |      |      |       |       |       |
| C/I Ratio         | 40.4 | 40.2 | 40.5 | 38.1  | 37.2  | 36.4  |
| CASA              | 44.4 | 38.2 | 34.8 | 31.5  | 28.0  | 24.7  |

| Ratios (%)           | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|----------------------|------|------|------|-------|-------|-------|
| <b>Per Share</b>     |      |      |      |       |       |       |
| BV (Rs)              | 502  | 580  | 655  | 688   | 722   | 737   |
| ABV (Rs)             | 494  | 569  | 640  | 668   | 695   | 700   |
| EPS (Rs)             | 79   | 80   | 88   | 98    | 113   | 130   |
| <b>Valuation</b>     |      |      |      |       |       |       |
| P/BV (x)             | 3.9  | 3.4  | 3.0  | 2.8   | 2.7   | 2.7   |
| P/ABV (x)            | 4.0  | 3.4  | 3.1  | 2.9   | 2.8   | 2.8   |
| P/EPS (x)            | 24.8 | 24.4 | 22.2 | 19.9  | 17.2  | 15.0  |
| <b>Asset quality</b> |      |      |      |       |       |       |
| GNPA                 | 1.1  | 1.2  | 1.3  | 1.5   | 1.6   | 1.7   |
| NNPA                 | 0.3  | 0.3  | 0.4  | 0.5   | 0.7   | 0.8   |
| PCR                  | 75.8 | 74.0 | 67.9 | 63.8  | 58.4  | 52.6  |

Source: Arianth Research, Company Filings

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

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