

## HDFC Bank

*Marginal improvements, valuations attractive; upgrade to BUY*

Rating: **BUY**

Target Price (12-mth): Rs.967

Share Price: Rs.800

4Q was relatively better for HDFC Bank with deposit growth accelerating to 14.4% y/y (vs. 11.6% in Q3), 406bps q/q improvement in LDR, +3bps q/q NIM expansion, and improved asset quality both on q/q and y/y basis. While loan growth continued to remain below industry, the management's commentary does not indicate any meaningful acceleration in credit growth. Given the bank's large balance sheet, low balance sheet liquidity and weak system deposit growth, we believe meaningful acceleration in loan growth from the current levels should lead to margin compression. We continue to prefer ICICI Bank despite valuation premium, as it is better placed to navigate the growth vs. margin trade-off, aided by high balance sheet liquidity and lower cost of funds. That said, the recent stock correction has improved the risk-reward for HDFC Bank. We upgrade our rating on HDFC Bank to BUY with an SOTP-based TP of Rs967, valuing the core bank at 2x FY28E P/ABV and assigning Rs125/share to subsidiaries.

### Deposit momentum strong; elevated LDR caps credit growth outlook:

Deposit growth accelerated meaningfully to 14.4% y/y (vs. 11.6% in Q3FY26), driving a sharp 406bps q/q improvement in LDR to 94.6%. However, credit growth continues to lag industry, primarily due to weak retail traction, which has remained in single digit for five consecutive quarters, partially offset by steady momentum in other segments. Elevated LDR, coupled with relatively lower LCR and tighter balance sheet liquidity vs. ICICI Bank, we see limited headroom for a meaningful acceleration in credit growth. Accordingly, we model loan growth at ~12-13% over FY27-28e.

**RoE to remain at 13-14% level through FY27-28e:** The bank reported NIM of 3.38% (+3bps q/q), aided by 10bps q/q decline in cost of funds, while yields remained broadly stable, driving margin expansion despite 406bps q/q improvement in LDR. We expect margin to remain near current levels, as pressure on yields are likely to be offset by further easing in funding cost. Fee income growth of 7.9% y/y lagged overall loan growth, impacted by weaker traction in retail loans. Opex growth of 5.2% y/y remained below business growth, indicating operating efficiency post-merger. Provisioning declined on the back of lower net slippages. Going ahead, stable margin, controlled opex and moderate credit cost should support healthy profitability, while RoE is expected to remain in 13-14% range over FY27-28e.

**Asset quality improves:** Gross and net slippages improved on both y/y and q/q basis, led by better trend across retail and corporate segments. Thus, GNPA/NNPA ratios improved by 9bps/4bps q/q. The bank maintains a strong provisioning buffer of Rs486bn (~1.7% of loans) as additional provisioning.

**Valuation:** We upgrade our rating on HDFC Bank to BUY with an SOTP-based TP of Rs967, valuing the core bank at 2x FY28e P/ABV and assigning Rs125/share to subsidiaries.

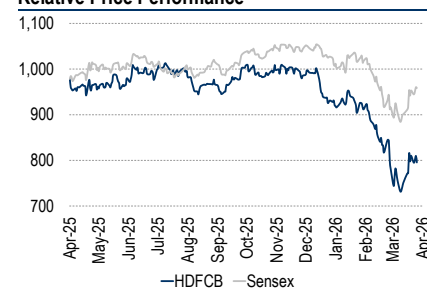
**Key Risks:** Lower-than-expected growth; and higher-than-expected slippages.

Key Data	HDFCB IN / HDBK.BO
/ 52-week high / low	Rs1,021 / 727
Sensex / Nifty	78494 / 24354
Market cap	Rs14421bn
Shares outstanding	15393m

Shareholding Pattern (%)	Mar'26	Dec'25	Sep'25
Promoters	-	-	-
- of which, Pledged	-	-	-
Free float	100.0	100.0	100.0
- Foreign institutions	44.1	47.7	48.4
- Domestic institutions	40.3	37.0	36.1
- Public	15.6	15.3	15.6

Estimates Revision (%)	FY27e	FY28e
Net interest income (Rs m)	(1.3)	(2.8)
Pre-provisioning profit (Rs m)	(1.2)	(2.4)
PAT (Rs m)	(1.1)	(2.3)

### Relative Price Performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income Statement (Rs bn)**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net interest income	1,085	1,227	1,287	1,446	1,622
<i>NII growth (%)</i>	25.0	13.0	4.9	12.3	12.2
Non-interest income	492	456	625	567	633
Income	1,578	1,683	1,912	2,013	2,255
<i>Income growth (%)</i>	33.6	6.7	13.6	5.2	12.0
Operating expenses	634	682	727	792	862
PPoP	944	1,001	1,186	1,221	1,393
<i>PPoP growth (%)</i>	34.1	6.1	18.4	2.9	14.1
Provisions	235	116	234	188	224
PBT	709	885	952	1,033	1,169
Tax	101	211	205	248	281
PAT	608	673	747	785	889
<i>PAT growth (%)</i>	37.9	10.7	10.9	5.1	13.2
EPS (Rs)	40.0	44.0	48.5	51.0	57.7
DPS (Rs)	9.8	11.0	15.5	16.3	18.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance Sheet (Rs bn)**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	8	8	15	15	15
Reserves & surplus	4,395	5,007	5,614	6,147	6,752
Deposits	23,798	27,147	31,053	35,245	40,003
Borrowings	6,622	5,479	4,894	4,992	5,092
Other liabilities	1,354	1,461	2,073	2,325	2,583
<b>Total liabilities</b>	<b>36,176</b>	<b>39,102</b>	<b>43,649</b>	<b>48,724</b>	<b>54,444</b>
Advances	24,849	26,196	29,372	33,190	37,505
Investments	7,024	8,364	8,842	9,549	10,313
Cash & bank balances	2,191	2,396	2,985	3,343	3,744
Fixed & other assets	2,112	2,147	2,451	2,642	2,882
<b>Total assets</b>	<b>36,176</b>	<b>39,102</b>	<b>43,649</b>	<b>48,724</b>	<b>54,444</b>
No. of shares (m)	15,194	15,304	15,393	15,393	15,393
<i>Deposits growth (%)</i>	26.4	14.1	14.4	13.5	13.5
<i>Advances growth (%)</i>	55.2	5.4	12.1	13.0	13.0

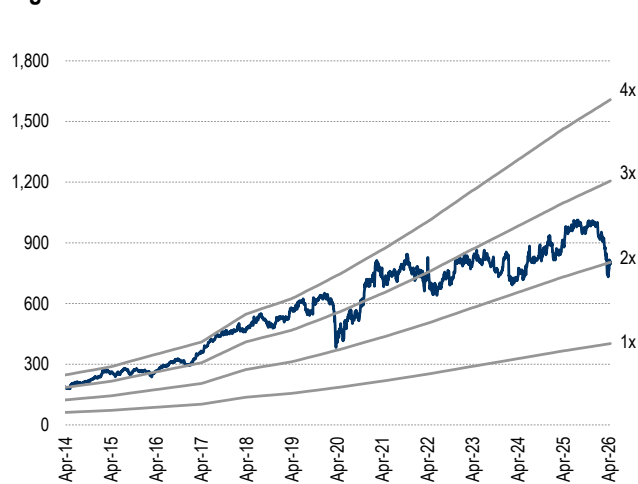
Source: Company, Anand Rathi Research

**Fig 3 – Ratio Analysis**

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
NIM	4.0	3.6	3.4	3.5	3.5
Cost-income	40.2	40.5	38.0	39.4	38.2
RoA	2.0	1.8	1.8	1.7	1.7
RoE	16.9	14.3	14.0	13.3	13.7
DPS (₹)	9.8	11.0	15.5	16.3	18.5
Credit-deposit	104.4	96.5	94.6	94.2	93.8
Gross NPA	1.2	1.3	1.2	1.1	1.1
Net NPA	0.3	0.4	0.4	0.4	0.4
Provision coverage	74.0	67.9	67.3	66.0	65.0
BV (₹)	289.8	327.6	365.7	400.4	439.6
CRAR (%)	18.8	19.6	19.7	19.0	18.3
- Tier 1	16.8	16.8	17.7	17.2	16.8
P / E (x)	17.7	16.1	14.6	13.9	12.3
P / BV (x)	2.4	2.2	1.9	1.8	1.6
P / ABV (x)	2.5	2.2	2.0	1.8	1.6

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-Book Band**



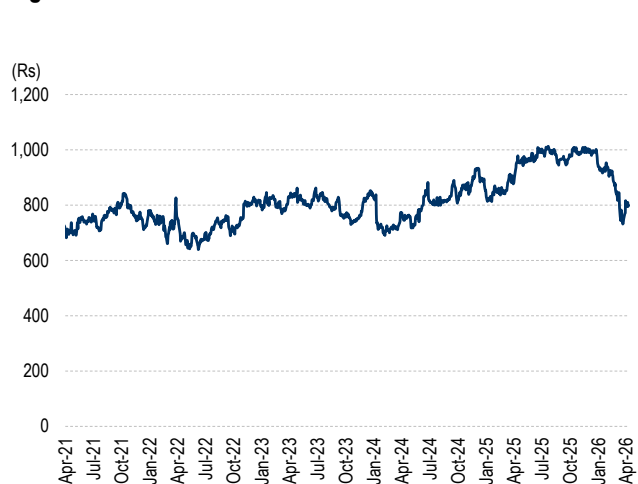
Source: Bloomberg

**Fig 5 – 1-Year Fwd. Price-to-BV**



Source: Company, Anand Rathi Research

**Fig 6 – Price Movement**



Source: Bloomberg

## Key Highlights

### Quarterly Snapshot

Fig 7 – Income Statement

(Rs bn)	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3FY26	Q4FY26
Interest income	760	775	775	767	768	766
Interest expense	454	454	460	451	441	435
<b>NII</b>	<b>307</b>	<b>321</b>	<b>314</b>	<b>316</b>	<b>326</b>	<b>331</b>
y/y growth (%)	7.7	10.3	5.4	4.8	6.4	7.7
Non-interest income	115	120	217	144	133	132
<b>Total Income</b>	<b>421</b>	<b>441</b>	<b>532</b>	<b>459</b>	<b>459</b>	<b>463</b>
y/y growth (%)	6.3	-6.7	31.3	10.3	8.9	5.0
Operating expenses	171	176	174	180	188	185
Of which, staff cost	60	61	62	65	72	62
<b>PPoP</b>	<b>250</b>	<b>265</b>	<b>357</b>	<b>279</b>	<b>271</b>	<b>278</b>
y/y growth (%)	5.7	-9.4	49.6	13.0	8.4	4.8
Total provisions	32	32	144	35	28	26
<b>PBT</b>	<b>218</b>	<b>233</b>	<b>213</b>	<b>244</b>	<b>243</b>	<b>252</b>
Tax	51	57	31	58	56	60
<b>PAT</b>	<b>167</b>	<b>176</b>	<b>182</b>	<b>186</b>	<b>187</b>	<b>192</b>
y/y growth (%)	2.2	6.7	12.2	10.8	11.5	9.1

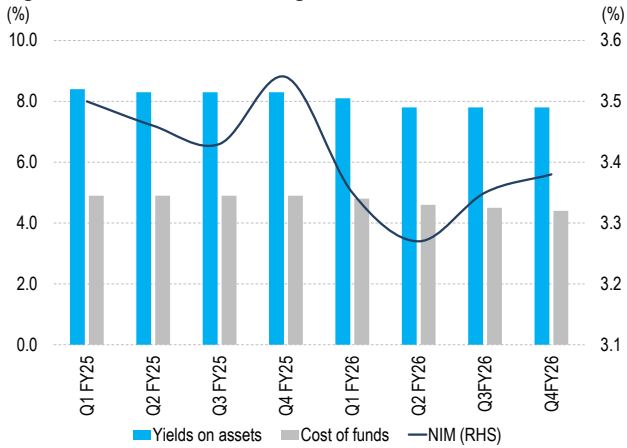
Source: Company, Anand Rathi Research

Fig 8 – Balance Sheet

(Rs bn)	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3FY26	Q4FY26
Equity capital	8	8	8	15	15	15
Reserves & Surplus	4,823	5,007	5,219	5,209	5,409	5,614
Deposits	25,638	27,147	27,641	28,018	28,601	31,053
Borrowings	5,702	5,479	5,101	5,096	5,211	4,894
Other liabilities	1,419	1,461	1,573	1,692	1,653	2,073
<b>Total Liabilities</b>	<b>37,590</b>	<b>39,102</b>	<b>39,541</b>	<b>40,030</b>	<b>40,890</b>	<b>43,649</b>
y/y deposits growth (%)	15.8	14.1	16.2	12.1	11.6	14.4
q/q deposits growth (%)	2.5	5.9	1.8	1.4	2.1	8.6
Cash and cash balances	2,202	2,396	2,026	1,651	1,752	2,985
Advances	25,182	26,196	26,284	27,464	28,214	29,372
Investments	8,119	8,364	8,967	8,743	8,783	8,842
Other assets	2,087	2,147	2,264	2,172	2,141	2,451
<b>Total Assets</b>	<b>37,590</b>	<b>39,102</b>	<b>39,541</b>	<b>40,030</b>	<b>40,890</b>	<b>43,649</b>
y/y advances growth (%)	3.0	5.4	6.7	10.1	12.0	12.1
q/q advances growth (%)	0.9	4.0	0.3	4.5	2.7	4.1

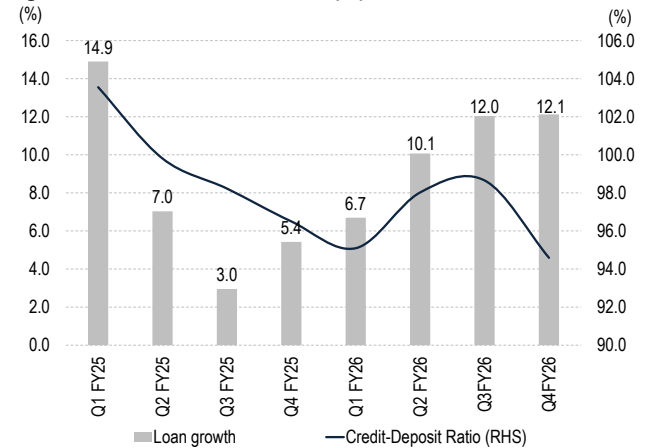
Source: Company, Anand Rathi Research

**Fig 9 – Yields, Cost and Margin**



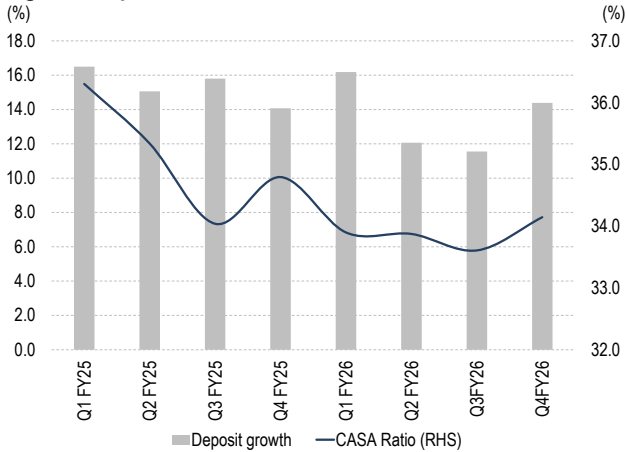
Source: Company, Anand Rathi Research

**Fig 10 – Credit Growth vs. LDR (%)**



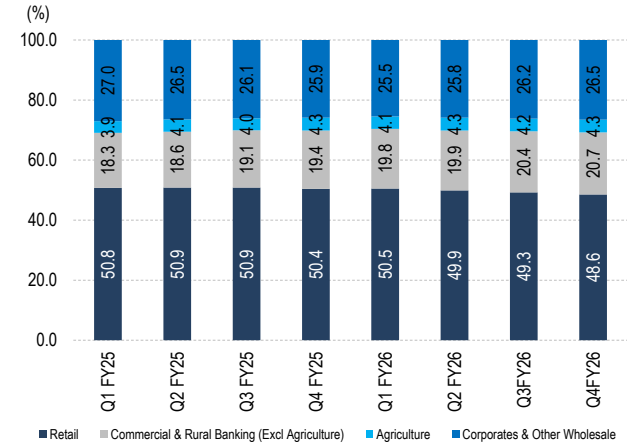
Source: Company, Anand Rathi Research

**Fig 11 – Deposit Growth vs. CASA Growth**



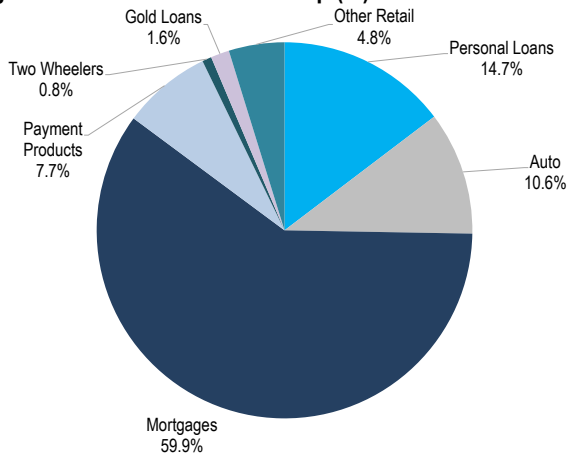
Source: Company, Anand Rathi Research

**Fig 12 – Advances Break-up (%)**



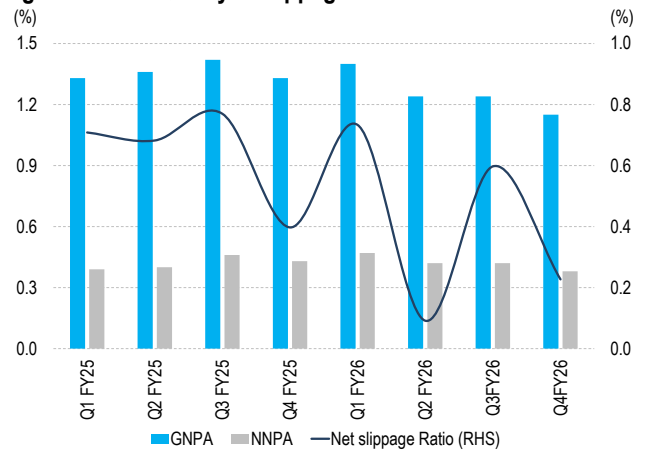
Source: Company, Anand Rathi Research

**Fig 13 – Retail Advances Break-up (%)**



Source: Company, Anand Rathi Research

**Fig 14 – Asset Quality & Slippage Trends**



Source: Company, Anand Rathi Research

## Valuation

We upgrade our rating on HDFC Bank to BUY with an SOTP-based TP of Rs967, valuing the core bank at 2x FY28e P/ABV and assigning Rs125/share to subsidiaries.

**Fig 15 – DuPont Analysis**

	FY24	FY25	FY26	FY27e	FY28e
Interest income / Assets	8.5	8.0	7.4	7.4	7.4
Interest expense / Assets	4.9	4.7	4.3	4.3	4.2
Net interest income / Assets	3.6	3.3	3.1	3.1	3.1
Non-interest income / Assets	1.6	1.2	1.5	1.2	1.2
Net income / Assets	5.2	4.5	4.6	4.4	4.4
Operating expense / Assets	2.1	1.8	1.8	1.7	1.7
PPoP / Assets	3.1	2.7	2.9	2.6	2.7
Provision / Assets	0.8	0.3	0.6	0.4	0.4
Taxes / Assets	0.3	0.6	0.5	0.5	0.5
RoA	2.0	1.8	1.8	1.7	1.7
RoAE	16.9	14.3	14.0	13.3	13.7

Source: Anand Rathi Research

**Fig 16 – Change in Estimates**

(Rs bn)	FY27e			FY28e		
	New	Old	Change (%)	New	Old	Change (%)
Net interest income	1,446	1,464	(1.3)	1,622	1,669	(2.8)
Pre-provisioning profit	1,221	1,235	(1.2)	1,393	1,427	(2.4)
PAT	785	794	(1.1)	889	909	(2.3)

Source: Anand Rathi Research

### Key Risks

- Lower-than-expected growth.
- Higher-than-expected slippages.

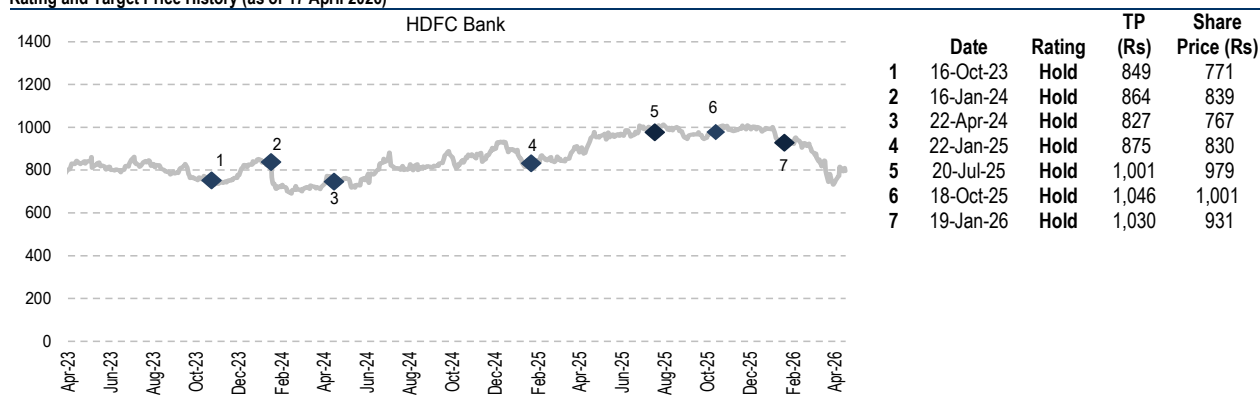
## Appendix

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