HDFC Bank Limited (HDFBAN)

ICICI Direct

CMP: ₹ 1957 | Target: ₹ 2300 (18%) | Target Period: 12 months | BUY

July 21, 2025

Reaccelerating credit growth, Navigating margin cycles...

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

- Largest private sector bank with loan book of ~₹ 27 lakh crore

Q1FY26 performance: HDFC Bank delivered steady performance in Q1FY26, with advances growing 7.7% YoY (0.4% QoQ) to ₹26,53,200 crore, led by retail loans (57% of loans) up 8.1% YoY, MSME grew 17.1% YoY, while corporate book grew slower at 1.7% YoY. NII rose 5.4% YoY but fell 2% QoQ, as core margin contracted 11 bps QoQ to 3.35%, impacted by seasonal agri slippages and lagged repricing effect. Deposits grew 16.2% YoY (1.8% QoQ) to ₹27,64,100 crore, driven by 20.6% YoY rise in term deposit. Bank created a counter-cyclical buffer comprising ₹9,000 crore, in floating provisions funded from ₹9,100 crore, gains from partial divestment of HDB Financial and ₹1,700 crore in contingent provision which is purely model-driven, not account-specific. Operating expenses remained steady, while asset quality was resilient with GNPA at 1.4% (up 7 bps QoQ), GNPA (ex-agri) flat at 1.14%, and NNPA at 0.48% (up 5 bps QoQ). PAT stood at ₹18,155 crore, up 12.2% YoY.

Investment Rationale

- **Reduction in CD ratio underway, focus to return back on growth:** Continuing with liabilities accretion, through customer acquisition and enhancing experience, to reduce CD ratio towards targeted 87–90% range, HDFC Bank is strategically pivoting from balance sheet consolidation to growth acceleration. The bank maintains its guidance for system-aligned credit growth in FY26 and aims to outpace the industry in FY27, supported by a diversified franchise and improving liquidity. Growth is expected to be broad-based, led by a seasonal uptick in urban retail and unsecured lending, early rural revival on the back of favourable monsoon, buoyant MSME demand, and selective participation in working capital-led corporate lending. While mortgages remain rate-sensitive, the bank is prioritising full-service relationships. With growth likely to be back-ended in H2FY26, temporary deviations in CD ratio may be tolerated to capitalise on well-priced, risk-adjusted opportunities.

- **NIMs to trough in Q2, revival to be seen in H2FY26:** Margins are expected to remain under pressure in the near term, with further compression likely in Q2FY26 as transmission of residual 50 bps rate cut given ~65% of loans linked to EBLR. However, margin revival is expected in H2FY26, aided by 1) gradual repricing of term deposits, 2) supportive liquidity backdrop, 3) reduction in high-cost borrowing and 4) anticipated pickup in higher-yielding unsecured retail lending.

Rating and Target Price

- With strategic focus shifting from balance sheet consolidation to accelerating credit momentum remains encouraging, backed by improved liquidity, strong capital buffers, and diversified lending franchise. Margins are expected to stay within a broad range, despite near-term volatility owing to repo-linked resets. Given RoA at ~1.8% and revival in credit growth, we revise our multiple at 2.5x FY27E BV for standalone bank and assign ₹243 for subsidiaries, thus raising our target to ₹2,300. We maintain our **Buy** rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	86842.0	108531.9	122670.1	19%	130975.8	147845.3	10%
PPP	70405.0	94386.9	100127.5	19%	115676.8	124339.1	11%
PAT	44109.0	60811.7	67347.4	24%	72035.0	82179.0	10%
ABV (₹)	494.0	535.0	604.3		673.1	751.7	
P/E	24.7	24.4	22.2		20.8	18.2	
P/ABV	4.0	3.7	3.2		2.9	2.6	
RoA	2.1	2.0	1.8		1.7	1.8	
RoE	15.7	13.9	13.5		13.0	13.2	

Source: Company, ICICI Direct Research

HDFC BANK

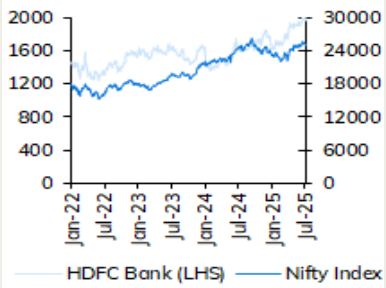
Particulars

Particulars	Amount
Market Capitalisation	₹ 15,00,917 crore
52 week H/L	2027 / 1588
Networth	₹ 5,21,791 crore
Face value	1
DII holding	36
FII Holding	49

Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	0	0	0	0
FII	48.0	49.2	48.3	48.8
DII	35.1	34.4	35.7	35.8
Others	16.9	16.4	16	15.4

Price Chart



Key risks

(i) Slower than expected credit growth

(ii) More rate cut in subsequent quarters amid margin pressure

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Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Credit and deposit growth outlook

- Management reiterates growth outlook with industry in-line growth in FY26 and target to outpace system growth, marking a strategic pivot from balance sheet consolidation to acceleration in FY27E.
- Loan growth drivers:
  - Retail: Anticipated pickup in urban discretionary and unsecured lending during the festive season (from Q2FY26 onwards).
  - Rural: Early signs of pickup aided by better monsoon and agri sentiment.
  - MSME: Strong enquiries, especially from export-focused clients frontloading shipments ahead of tariff uncertainty.
  - Corporate: Working capital demand rising; private capex still muted.
  - Mortgages: Remain selective due to aggressive PSU pricing; will focus on full customer relationships over rate play.
- CD ratio currently at ~95%; aim to bring it back to 87–90% range over medium term.
- Temporary deviation in CD ratio can be seen if growth opportunities arise at appropriate pricing and at targeted risk-adjusted returns.
- Majority of growth expected to come in H2FY26, in line with typical seasonal trends.
- FY25 focus on bulk deposit mobilisation will shift in FY26 towards reviving CASA share through:
  - Stronger customer engagement.
  - Product cross-sell and upsell strategy.
  - Refined focus on experience-led acquisition across branches.
- Management expects CASA to recover gradually from FY26 onward, albeit with a lag due to deposit franchise maturity.

Margins

- EBLR-linked loans (65–67% of book) typically reset over 1–3 months.
- February and April repo cuts mostly flowed through in Q1; 50 bps cut in June 20205 yet to be absorbed.
- NIMs likely to remain under pressure in near term due to:
  - Faster transmission of repo rate cuts on floating-rate loans.
  - Lag in cost reduction on longer-duration fixed deposits (12–18 months average maturity).
- Management expects margins to stabilize toward Q4FY26, assuming no further rate cuts.
- NIM recovery will be gradual as deposit repricing catches up, and incremental liabilities are being raised at lower rates.

Asset quality

- Asset quality remains stable and benign across segments.
  - Retail GNPA (ex-Agri) steady at 82 bps
  - Unsecured portfolio - cards and PL, show no signs of stress.
  - MSME and corporate segments remain healthy.
- Q1 credit cost up considerably from 29 bps to 41 bps led by seasonal agri-driven slippages.
- Credit cost may revert to long-term average over time, but management sees no visible deterioration in the near term.
- Contingent provision of ₹1,700 crore, added in Q1 (total now at ~57 bps of loans); purely model-driven, not account-specific. One time accrual of ~₹9100 crore, from stake sale in HDB Financial utilized to make floating provision of ~₹9,000 crore.
- Quarterly fluctuations in C/I may persist going forward due to marketing or festival-linked spending.

Other updates

- Q1 fee income muted due to lower third-party distribution activity (mutual funds, insurance). Management expects recovery in 2H; outlook for FY26 remains optimistic.
- Long-term plan: front-end heavy, tech-enabled, leaner backend through upcoming digital transformation initiatives (to be unveiled later in FY26).
- 1:1 bonus share proposal approved by the board, pending shareholder approval.
- Interim dividend of ₹5/share announced.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.5x FY27E ABV	100.0	2057
HDFC AMC	37x FY27E EPS	52.4	74
HDFC Life Insurance	2.4x FY27E EV	50.3	115
HDFC ERGO		50.5	12
HDB fin Serv		74.2	78
HDFC Sec		95.1	25
Value per share			2361
Discount @ 20%			61
Value per share for HDFC Bank			2300

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	31,438	29,837	5.4	32,066	-2.0	Gradual pick up in growth; margin pressure persist
NIM (%)	3.35	3.47	-12 bps	3.54	-19 bps	Decline on account of asset repricing and seasonal agri slippages
Other Income	21,730	10,668	103.7	12,028	80.7	Surge in treasury gains amid monetary easing; ~₹9100 crore one-time accrual from stake sale in subsidiary
Net Total Income	53,168	40,505	31.3	44,094	20.6	
Staff cost	6,158	5,849	5.3	6,116	0.7	Steady employee cost
Other Operating Expense	11,276	10,772	4.7	11,441	-1.4	
PPP	35,734	23,885	49.6	26,537	34.7	
Provision	14,442	2,602	455.0	3,193	352.3	Counter-cyclical buffer created (~9000 crore floating provision and ~1700 crore contingent provision)
PBT	21,292	21,283	0.0	23,344	-8.8	
Tax	3,137	5,108	-38.6	5,728	-45.2	
PAT	18,155	16,175	12.2	17,616	3.1	Adjusting for one-offs, earnings remain steady
Key Metrics						
GNPA	37,041	33,026	12.2	35,223	5.2	GNPA climbed to 1.4% due to agri slippages
NNPA	1,228	9,508	-87.1	11,320	-89.2	NNPA higher 5 bps QoQ at 0.48%
Advances	2,653,200	2,463,521	7.7	2,643,500	0.4	Agri, auto and gold grew decently YoY, corporate growth was flat
Deposits	2,764,100	2,379,100	16.2	2,714,700	1.8	Term deposit accretion at 20.6% YoY, Uptick witnessed in CA

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	258340.0	300517.0	319714.2	354722.0
Interest Expended	149808.1	177847.0	188738.3	206876.7
NII	108531.9	122670.1	130975.8	147845.3
Growth (%)	25.0	13.0	6.8	12.9
Other income	49241.0	45632.3	60248.9	56181.2
Total Income	157772.9	168302.4	191224.7	204026.5
Employee cost	22240.2	23900.5	26199.6	27545.5
Other operating Exp.	41145.8	44274.4	49348.3	52141.9
PPP	94386.9	100127.5	115676.8	124339.1
Provisions	23492.1	11649.4	24493.3	16208.8
PBT	70894.7	88478.1	91183.5	108130.2
Taxes	10083.0	21130.7	19148.5	25951.3
Net Profit	60811.7	67347.4	72035.0	82179.0
Growth (%)	37.9	10.7	7.0	14.1
EPS	80.0	88.0	94.1	107.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares	759.7	765.2	765.2	765.2
EPS (₹)	80.0	88.0	94.1	107.4
BV (₹)	576.0	650.3	725.6	811.5
ABV (₹)	535.0	604.3	673.1	751.7
P/E	24.4	22.2	20.8	18.2
P/BV	3.4	3.0	2.7	2.4
P/ABV	3.7	3.2	2.9	2.6
Yields & Margins (%)				
Net Interest Margins	4.1	3.7	3.6	3.7
GNPA	1.3	1.3	1.4	1.4
RoE	13.9	13.5	13.0	13.2
RoA	2.0	1.8	1.7	1.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	759.7	765.2	765.2	765.2
Reserves and Surplus	436,833.4	496,854.2	554,482.2	620,225.4
Networth	437,593.1	497,619.4	555,247.4	620,990.6
Deposits	2,379,786.3	2,714,714.9	3,108,348.6	3,590,142.6
Borrowings	662,153.1	547,930.9	520,534.4	546,561.1
Other Liabilities & Prov	135,437.9	149,933.7	139,864.8	105,606.8
Total	3,617,623.1	3,910,198.9	4,323,995.2	4,863,301.1
Applications of Funds				
Fixed Assets	11,399.0	13,655.4	15,020.9	16,523.0
Investments	702,415.0	836,359.7	926,548.3	1,034,261.9
Advances	2,484,861.5	2,619,608.6	2,881,569.5	3,241,765.7
Other Assets	199,800.2	201,004.6	221,105.0	247,637.6
Cash with RBI & call money	219,147.4	239,570.7	279,751.4	323,112.8
Total	3,617,623.1	3,910,198.9	4,323,995.2	4,863,301.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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