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Steady quarter, balancing between growth and profitability

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

Q2FY26 performance: HDFC Bank reported a steady Q2FY26 performance, with advances up 9.9% YoY (4.4% QoQ) to ₹27.7 lakh crore and deposits up 12.1% YoY (1.4% QoQ) to ₹28 lakh crore. NII grew 4.8% YoY to ₹31,552 crore, while NIM contracted 8 bps QoQ to 3.27% due to lagged deposit repricing. Other income rose 8.6% YoY. Provisions increased to ₹3,501 crore (credit cost ~51 bps), including ₹1,600 crore of contingent buffer. Asset quality remained strong, with GNPA at 1.24% and NNPA at 0.4% (comprising of 10 bps improvement owing to one account). PAT stood at ₹18,641 crore, up 10.8% YoY (2.7% QoQ), reflecting steady performance.

Investment Rationale

- **Broad-based growth recovery; margins to stabilize by H2FY26:** Healthy pick-up was witnessed in lending activity, with advances rising 10% YoY (4.4% QoQ), led by strong traction in small & mid-markets (17% YoY), while corporate demand remained selective. Management reiterated system-aligned growth in FY26 and aims to outpace the industry from FY27E, supported by festive-season lending, rural recovery, and stronger retail traction. Deposit growth remained granular with focus on CASA at ~34%. Temporary deviations in CD ratio may be tolerated to capitalise on well-priced, risk-adjusted opportunities. NIM contracted ~8 bps QoQ, owing to faster EBLR transmission and lag in term-deposit repricing. However, assuming no rate cuts further, management expects stabilization by Q4FY26 as deposit repricing benefits flow through. RBI's relaxation allowing banks to fund cross-border M&As also opens a new, selective growth opportunity on the corporate side. We model credit growth of ~11.5% CAGR for FY26-27E.
- **Stable asset quality; balance sheet well-fortified:** Asset quality remained strong and range-bound, with GNPA improving to ~1.24% aided by upgrades and healthy recoveries. Retail GNPA (ex-agri) stayed near 1%, while unsecured and MSME portfolios showed no signs of stress. Credit cost moderated to ~51 bps (vs 56 bps QoQ), within guided range. The bank augmented its balance sheet strength with ₹1,600 crore of contingent and ₹600 crore of general provisions, taking total contingent coverage to ~57 bps of loans. With CET-1 at ~17.5%, HDFC Bank remains among the best-capitalized private banks, well-placed for ECL transition from FY27E.

Rating and Target Price

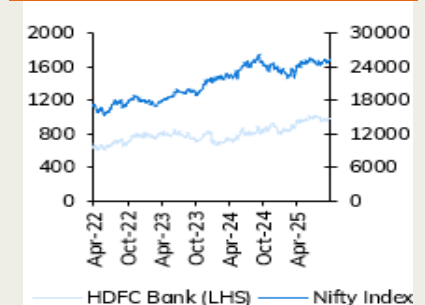
- Growth trajectory is seen to normalize gradually, supported by steady credit momentum, improving liabilities mix, and strong capital position. Margins are likely to stabilize in H2FY26 as deposit repricing benefits accrue, while operating leverage and healthy asset quality will underpin earnings recovery. Factoring RoA of ~1.8% FY27E and healthy profitability outlook, we value the bank at ~2.6x FY27E ABV and add ₹121 for subsidiaries, assigning a revised target price of ₹1,200. We maintain our **BUY** rating.

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 15,40,288 crore
52 week H/L	1,019 / 812
Networth	₹ 5,39,144 crore
Face value	1
DII holding	36
FII Holding	48

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	0	0	0	0
FII	49.2	48.3	48.8	48.4
DII	34.4	35.7	35.8	36.1
Others	16.4	16	15.4	15.5

Price Chart**Key risks**

- Slower than expected credit growth
- More rate cut in subsequent quarters amid margin pressure

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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	18.9%	128367.4	144164.2	8.4%
PPP	70405.0	94386.9	100127.5	19.3%	115093.1	123224.0	10.9%
PAT	44109.0	60811.7	67347.4	23.6%	72079.9	81474.3	10.0%
ABV (₹)	494.0	267.5	302.1		339.6	381.0	
P/E	12.7	25.1	22.8		21.3	18.8	
P/ABV	2.0	3.7	3.3		3.0	2.6	
RoA	2.1	2.0	1.8		1.8	1.8	
RoE	15.7	13.9	13.5		13.0	13.1	

Source: Company, ICICI Direct Research

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Concall highlights and outlook

Credit and deposit growth outlook

- Management reiterated its FY26 growth guidance in line with the system, with a clear pivot toward accelerated growth from FY27E, marking the transition from balance sheet consolidation to expansion.
- Loan growth witnessed pickup across segments in Q2, supported by improving economic momentum and festive-season traction.
 - Retail: Growth driven by urban discretionary spending, credit cards, and personal loans; festive lending expected to further accelerate in H2FY26.
 - Rural: Early revival visible owing to a favorable monsoon and improving agri sentiment.
 - Mortgages: Focus remains on relationship-driven lending over rate competition; selective participation amid aggressive PSU pricing.
 - Gold loans: Continued 5–6% QoQ growth; yields remain incremental to retail blended yield, offering strong RoA support.
 - Credit demand improving across mid-corporate and SME segments; underwriting remains selective and profitability-driven.
- Credit-Deposit (CD) ratio stands at ~96%; medium-term target reiterated 87–90%, reflecting gradual normalization of liquidity positioning post-merger.
- Fee income rose ~9% QoQ, supported by pickup in loan disbursements and cross-sell.
- Cross-sell ratios: credit card >14%, consumer durable mid-30s, brokerage >15%, and savings account attachment ~99%.

Margins

- NIM contracted ~8 bps QoQ due to front-loaded rate transmission on the asset side.
- Cost of funds fell ~18–19 bps QoQ, led by savings rate repricing; term deposit repricing benefit will flow over 4–5 more quarters given longer deposit duration.
- Exit margins expected to improve gradually as deposit costs stabilize and lending rates bottom out.

Asset quality

- One-off upgrade of an NPA account contributed ~10 bps improvement in GNPA to 1.24% (vs 1.34% in Q1FY26).
- This upgrade followed satisfactory performance and rating improvement over the last two years.
- Contingent provisions increased by ₹1,600 crore in Q2 (total now ~57 bps of loans); general provisions up ~₹600 crore supporting growth and buffers, offsetting any release from upgrades — maintaining balance-sheet strength.
- Overall asset quality remains strong, and early indicators across portfolios remain stable.

Other updates

- Capital ratios optically higher post-merger related slowdown; growth resumption to consume 50–60 bps capital annually (steady-state).
- Draft ECL norms: Potential RWA relief offset by regulatory floors/prescriptions; bank already runs mature ECL models (US GAAP history). Management to refine once final guidelines are out.
- RBI's draft policy allowing banks to finance cross-border M&As seen as a new growth opportunity; bank evaluating participation once final norms are issued.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.6x FY27E ABV	100.0	1078
HDFC AMC	37x FY27E EPS	52.4	37
HDFC Life Insurance	2.4x FY27E EV	50.3	58
HDFC ERGO		50.5	6
HDB fin Serv		74.2	39
HDFC Sec		95.1	12
Value per share			1230
Discount @ 20%			30
Value per share for HDFC Bank			1200

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	31,552	30,114	4.8	31,438	0.4	Gradual pick up in growth; margin pressure persist
NIM (%)	3.27	3.46	-19 bps	3.35	-8 bps	Margin decline in-line with expectation, higher CD ratio supports margins
Other Income	14,350	11,483	25.0	21,730	-34.0	Treasury income continue to aid earnings; fee income up 8.6% YoY
Net Total Income	45,902	41,597	10.3	53,168	-13.7	
Staff cost	6,461	5,985	8.0	6,158	4.9	
Other Operating Expense	11,517	10,906	5.6	11,276	2.1	
PPP	27,924	24,706	13.0	35,734	-21.9	
Provision	3,501	2,700	29.6	14,442	-75.8	Credit cost remains elevated at ~51 bps, includes ₹1600 crore of contingent provision made in Q2FY26
PBT	24,423	22,005	11.0	21,292	14.7	
Tax	5,782	5,184	11.5	3,137	84.3	
PAT	18,641	16,821	10.8	18,155	2.7	Steady earnings despite contingent provisioning
Key Metrics						
GNPA	34,289	34,251	0.1	37,041	-7.4	GNPA excl agri stands at ~1%
NNPA	11,447	10,309	11.0	12,276	-6.7	NNPA steady ~0.4%
Advances	2,769,200	2,519,000	9.9	2,653,200	4.4	Growth seems across corporate and retail segments
Deposits	2,801,800	2,500,100	12.1	2,764,100	1.4	CASA proportion steady QoQ

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	313575.9	344079.7
Interest Expended	149808.1	177847.0	185208.5	199915.5
NII	108531.9	122670.1	128367.4	144164.2
Growth (%)	25.0	13.0	4.6	12.3
Other income	49241.0	45632.3	60332.7	56224.1
Total Income	157772.9	168302.4	188700.0	200388.3
Employee cost	22240.2	23900.5	25853.7	27054.3
Other operating Exp.	41145.8	44274.4	47753.3	50110.0
PPP	94386.9	100127.5	115093.1	123224.0
Provisions	23492.1	11649.4	24426.5	16020.9
PBT	70894.7	88478.1	90666.5	107203.1
Taxes	10083.0	21130.7	18586.6	25728.7
Net Profit	60811.7	67347.4	72079.9	81474.3
Growth (%)	37.9	10.7	7.0	13.0
EPS	40.0	44.0	47.1	53.2

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Valuation</u>				
No. of Equity Shares	1,519.4	1,530.4	1,530.4	1,530.4
EPS (₹)	40.0	44.0	47.1	53.2
BV (₹)	288.0	325.1	362.8	405.4
ABV (₹)	267.5	302.1	339.6	381.0
P/E	25.1	22.8	21.3	18.8
P/BV	3.5	3.1	2.8	2.5
P/ABV	3.7	3.3	3.0	2.6
<u>Yields & Margins (%)</u>				
Net Interest Margins	4.1	3.7	3.5	3.6
GNPA	1.3	1.3	1.2	1.2
RoE	13.9	13.5	13.0	13.1
RoA	2.0	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
<u>Sources of Funds</u>				
Capital	1,519.4	1,530.4	1,530.4	1,530.4
Reserves and Surplus	436,073.7	496,089.0	553,752.9	618,932.4
Networth	437,593.1	497,619.4	555,283.4	620,462.8
Deposits	2,379,786.3	2,714,714.9	3,040,480.7	3,450,945.6
Borrowings	662,153.1	547,930.9	520,534.4	546,561.1
Other Liabilities & Prov	135,437.9	149,933.7	168,175.4	149,082.3
Total	3,617,623.1	3,910,198.9	4,284,473.8	4,767,051.8
<u>Applications of Funds</u>				
Fixed Assets	11,399.0	13,655.4	15,020.9	16,523.0
Investments	702,415.0	836,359.7	906,318.0	994,161.5
Advances	2,484,861.5	2,619,608.6	2,873,710.6	3,204,187.4
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	268,319.2	304,542.2
Total	3,617,623.1	3,910,198.9	4,284,473.8	4,767,051.8

Source: Company, ICICI Direct Research

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