

Steady quarter; normalization underway

20 July 2025

HDFC Bank's (HDFCB IN) Q1FY26 PAT of INR 181bn, up 12% YoY, surpassed estimates on lower tax even as NII was lower; characteristically, Q1FY26 had steady undertones underlying encouraging progress. Q1FY26 saw softer growth outcomes (sub-7% YoY), but the bank is confident of tracking in-line system growth and above system growth in FY26 and FY27, respectively, as they have space on CD ratios. The Q1 NIM impact of 11bp QoQ was as we had expected and fed into a NII dip of 2% QoQ. We have highlighted HDFCB's conundrum to manage growth vs NIM vs LCR vs CD ratio outcomes, which may cause dislocation. However, the changing liquidity scenario and changes in regulatory approach would essentially play in favor of HDFCB, making balance sheet realignment easier. Having transitioned through the tough part journey hereafter should be more amicable for the bank. We remain away (still) from upswing in core earnings (even as we believe growth can surprise on relaxed CD ratio outcome). Having outperformed in the past two months, we expect some time correction. We reiterate **Accumulate** with a higher TP of INR 2,228 on 2.4x FY27E P/ABV.

Traversed through tougher transition; amicable outcomes likely: FY25 saw slower loan growth outcomes, with the bank seeing sub-6% YoY loan growth in its bid to accelerate CD ratio outcomes. Q1FY26 saw extension of that trend. Deposit growth albeit better (up >16% YoY), indicating the bank has been gaining in market share. We expect the bank to have a more calibrated approach to CD ratio outcome hereafter, which would pave the way for steady normalization. The bank reiterated its stance of in-line industry growth in FY26 and higher-than-industry growth in FY27, which seems more plausible and natural momentum in the machinery (the bank's infrastructure) takes over.

Much to ponder on with focus on NIM trajectory: HDFCB reported a 11bp QoQ dip in NIM to ~3.4% on total assets. Easing liquidity and relatively gradual normalization of the CD ratio would benefit NIM; that said, turning rate tables will have its own impact (the impact of the last rate cut is still to percolate). Given already low credit cost, we see levers in opex to help sustain earnings pressure in the near term.

Asset quality remains key differentiator: Slippages were curtailed at 1.4%, higher QoQ, given seasonally higher agri slippages and steady progress across segments. The bank seems confident of no major red flags. It has used gains from HDB Financials stake sale to make further floating provisions by INR 90bn and also buffered up contingent provisions by INR 17bn to strengthen balance sheet, taking the total (floating and contingent) buffer to 1.3% of loans. We see credit cost outcome to be steady for the bank.

Retain Accumulate with a higher TP of INR 2,228: A merger of this scale is an onerous ask, but HDFCB is doing a good job. The past two years have been challenging, undergoing transition on both sides of balance sheet. That said, we see HDFCB near-term challenges easing out. We believe valuation re-rating can possibly take time, but we are closer to the steady normalization phase. We retain **Accumulate** with a higher TP of INR 2,228 from INR 2,164 based on 2.4x FY27E P/ABV.

Key financials

YE March	FY24	FY25	FY26E	FY27E	FY28E
PPoP	943,875	1,001,275	1,224,880	1,286,541	1,493,409
YoY (%)	34.1	6.1	22.3	5.0	16.1
NP	608,123	673,474	726,876	816,982	921,771
YoY (%)	37.9	10.7	7.9	12.4	12.8
EPS (INR)	80.0	88.0	95.0	106.8	120.5
YoY (%)	1.3	9.9	7.9	12.4	12.8
P/PPoP	2,073.8	1,954.9	1,598.0	1,521.4	1,310.7
RoAE (%)	16.9	14.3	13.8	14.1	14.3
RoAA (%)	2.1	1.9	1.9	1.9	1.9
P/E (x)	24.5	22.2	20.6	18.3	16.2
P/ABV (x)	3.4	3.0	2.8	2.5	2.2

Note: Pricing as on 18 July 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**
 Target Price: **INR 2,228**
 Upside: **14%**
 CMP: **INR 1,957**
 As on 18 July 2025

Key data

Bloomberg	HDFCB IN
Reuters Code	HDBK.NS
Shares outstanding (mn)	7,668
Market cap (INR bn/USD mn)	15,009/174,204
EV (INR bn/USD mn)	0/0
ADTV 3M (INR mn/USD mn)	20,419/238.6
52 week high/low	2,027/1,588
Free float (%)	99

Note: as on 18 July 2025; Source: Bloomberg

Price chart



Source: Bloomberg

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Shareholding (%)				
Promoter	0.0	0.0	0.0	0.0
% Pledge	0.0	0.0	0.0	0.0
FII	54.6	55.2	56.3	55.3
DII	30.7	30.6	30.0	31.0
Others	14.7	14.2	13.7	13.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	3.5	8.4	1.8
HDFC Bank	2.7	19.6	21.8
NSE Mid-cap	6.8	9.0	3.0
NSE Small-cap	13.7	8.6	4.3

Source: Bloomberg

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Net interest income	1,085,325	1,226,701	1,344,799	1,493,347	1,719,754
Fee income	330,360	384,194	441,247	505,556	577,089
Trading profits	106,530	18,000	108,600	40,000	40,000
Non-interest income	492,410	456,323	629,557	628,124	702,816
Net operating revenue	1,577,735	1,683,024	1,974,356	2,121,472	2,422,571
Operating expenses	633,860	681,749	749,476	834,931	929,161
Pre-provisioning operating profit	943,875	1,001,275	1,224,880	1,286,541	1,493,409
Total provisions	234,921	116,494	253,511	194,757	261,590
Profit before tax	708,953	884,781	971,369	1,091,784	1,231,819
Tax	100,830	211,307	244,494	274,802	310,049
Minorities/exceptionals	-	-	-	-	-
Profit after tax	608,123	673,474	726,876	816,982	921,771
Balance Sheet (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Customer loans	24,848,616	26,196,086	29,130,048	32,916,954	37,525,328
Investments	7,024,150	8,363,597	8,640,064	9,426,791	10,533,958
Cash & bank balances	2,191,474	2,395,707	2,406,515	2,473,881	2,556,790
Fixed assets	113,990	136,554	164,184	185,526	200,579
Other assets	1,998,002	2,010,046	2,235,171	2,525,743	2,879,347
Total Assets	36,176,232	39,101,988	42,575,980	47,528,896	53,696,000
Net worth	4,402,458	5,014,246	5,504,869	6,105,484	6,783,137
Deposits	23,797,862	27,147,148	31,300,662	36,308,768	41,972,936
Borrowings	6,486,761	5,360,539	4,119,545	3,366,328	3,068,631
Other liabilities	1,354,379	1,461,285	1,552,636	1,670,543	1,814,028
Total Liabilities	36,176,232	39,101,988	42,575,980	47,528,896	53,696,000
Key operating ratios (%)	FY24	FY25	FY26E	FY27E	FY28E
Lending yield	9.2	9.6	9.2	9.0	8.8
Cost of Funds	5.6	5.4	5.1	4.9	4.7
Spreads	3.4	3.1	3.1	3.1	3.3
Net interest margin	3.8	3.5	3.5	3.5	3.6
CASA Ratio	38.2	34.8	35.0	35.3	35.5
Non-interest income / operating income	31.2	27.1	31.9	29.6	29.0
Cost/income	40.2	40.5	38.0	39.4	38.4
Operating expense/avg assets	(2.2)	(1.9)	(1.9)	(2.0)	(1.9)
Credit costs / avg loans	(0.8)	(0.3)	(0.7)	(0.5)	(0.5)
Effective tax rate	14.2	23.9	25.2	25.2	25.2
Loan deposit ratio	104.4	96.5	93.1	90.7	89.4
ROA decomposition (%)	FY24	FY25	FY26E	FY27E	FY28E
NII /Assets	3.8	3.5	3.5	3.5	3.6
Fees/Assets	1.2	1.1	1.1	1.2	1.2
Invst profits/Assets	0.4	0.1	0.3	0.1	0.1
Net revenues/Assets	5.1	4.7	4.8	4.9	5.0
Opex /Assets	(2.2)	(1.9)	(1.9)	(2.0)	(1.9)
Provisions/Assets	(0.8)	(0.3)	(0.7)	(0.5)	(0.5)
Taxes/Assets	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Total costs/Assets	(3.4)	(2.8)	(3.2)	(3.1)	(3.1)
ROA	2.1	1.9	1.9	1.9	1.9
Equity/Assets	12.6	13.3	13.6	13.7	13.5
ROAE	16.9	14.3	13.8	14.1	14.3
Key financial ratios (%)	FY24	FY25	FY26E	FY27E	FY28E
Tier I Capital adequacy	16.8	17.7	17.3	17.2	16.8
Gross NPL	1.2	1.3	1.3	1.3	1.4
Net NPL	0.3	0.4	0.4	0.4	0.4
Slippage ratio	1.7	1.3	1.4	1.7	1.8
Per share data					
EPS (INR)	80	88	95	107	120
BVPS (INR)	580	655	719	798	886
adj- BVPS (INR)	572	645	710	786	871
Valuation (x)					
P/BV	3.4	3.0	2.7	2.5	2.2
P/ABV	3.4	3.0	2.8	2.5	2.2
P/E	24.5	22.2	20.6	18.3	16.2

Note: Pricing as on 18 July 2025; Source: Company, Elara Securities Estimate

Overall loan growth remains softer than deposit growth

- ▶ Q1FY26 net loan growth was slower than deposit growth at 6.7% YoY and flat QoQ. Growth was cushioned by commercial banking, up 2.4% QoQ.
- ▶ In the retail segment, growth was led by gold loans, up 6.8% QoQ, followed by auto loans of 1.8% QoQ and personal loans of 1.2% QoQ
- ▶ The bank has classified commercial and rural banking to small and mid-market, which includes business banking and commercial transportation, which grew 2.4% QoQ
- ▶ Growth momentum in corporate and wholesale loans (which currently includes emerging corporate) saw a decline of 1.3% QoQ. Pricing in this segment remains amid benign interest rates and surplus liquidity
- ▶ HDFCB's priority to moderate the CD ratio is unchanged, and management expects to continue the pace of moderation. Thus, it is focused on deposit growth and improving advances growth; however, advances growth would improve from the current levels of 8% YoY to systemic credit growth levels in FY26

Deposit growth, key focus

- ▶ Deposits grew at a healthy 16.2% YoY and 1.8% QoQ. On an average, a sequential momentum in deposits stood at 3.8% QoQ. Deposit momentum continues to be led by term deposits at 20.6% YoY and 3.2% QoQ. With this, LDR was further reduced to 95.1%. HDFCB aims to lower it. We expect momentum to continue in the near to medium term
- ▶ In the medium term, the bank aims to operate CD ratio in the range of 87-90%
- ▶ CASA traction was slower this quarter with ratio 90bp QoQ to 33.9%. Overall, CASA deposits grew by 8.5% QoQ, with SA deposits registering 1.3% QoQ while CA deposits declined 5.1% QoQ
- ▶ In HDFCB's balance sheet, borrowings had ~13% share in Q1FY26 vs ~14% in March 2025

NIM trajectory, key monitorable

- ▶ Reported NIM improved 11bp sequentially to 3.35% (on total assets) and to 3.5% on earnings assets, there would be quarterly fluctuations in NIM, given the lead lag effect in transmission of rate cuts
- ▶ Yield on advances declined 20bp QoQ, given repricing on floating rate loans; however, transmission of June repo rate cut is yet to take the full effect
- ▶ Cost of funds decline was ~10bp QoQ; this is expected to drop further as deposits reprice

Overall asset quality improves

- ▶ Asset quality saw a slight dip on a sequential basis, with an overall GNPL at 1.4% and NNPL at ~0.5% from 1.3% and 0.4% in Q4FY25, respectively. Slippages inched up too to INR 90bn (~1.4% of lagged loans) vs INR 75bn (~1.2% of lagged loans) in Q4FY25
- ▶ On a segmental basis, retail GNPA came in at 1.29% while ex-agri retail GNPA was 0.82% showing majority GNPA was led by Q1 seasonality on account of agri book
- ▶ HDFCB created further contingency buffer of INR 17bn from the gains on sale of HDB Financials. Floating provisions and contingent increased sequentially to INR 214bn and INR 152bn, respectively
- ▶ Credit cost remains increased to 56bp vs 48bp in the previous quarter

Other highlights

- ▶ RWA to total assets stood at 69% as on Q1FY26
- ▶ The cost-income ratio stood at 39.6%, below 40% levels in the past six quarters
- ▶ With respect to fees income, contribution of third-party products was down from 28% to 22% QoQ, whereas retail liabilities saw an increase, from 13% to 17% of total fee income
- ▶ HDB Financials: Loan growth was soft at 2.3% QoQ and 14.3% YoY. Gross Stage 3 assets remain steady on a sequential basis at ~2.6%

Exhibit 1: PAT of INR 181bn – the bank receives gains from the stake sale in HDB Financials

(INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
NII	233,518	235,991	273,852	284,713	290,768	298,371	301,139	306,533	320,658	314,380
Other Income	87,312	92,299	107,078	111,370	181,663	106,681	114,827	114,536	120,279	217,298
Net revenue	320,830	328,289	380,931	396,084	472,431	405,053	415,966	421,068	440,937	531,678
Opex	134,621	140,569	153,992	159,611	179,688	166,206	168,909	171,064	175,570	174,338
PPoP	186,209	187,720	226,939	236,473	292,742	238,846	247,057	250,004	265,367	357,340
Investment Gains	(377)	5,520	10,410	14,700	75,900	2,200	2,900	700	3,900	101,100
Core PPoP	186,586	182,200	216,529	221,773	216,842	236,646	244,157	249,304	261,467	256,240
Provisions	26,854	28,600	29,038	42,166	135,116	26,021	27,005	31,539	31,931	144,416
PBT	159,355	159,120	197,901	194,307	157,626	212,826	220,052	218,466	233,437	212,923
PAT	120,475	119,520	159,761	163,725	165,119	161,748	168,209	167,355	176,161	181,552
YoY (%)										
NII	23.7	21.1	30.3	23.9	24.5	26.4	10.0	7.7	10.3	5.4
Other Income	14.3	44.5	41.0	31.0	108.1	15.6	7.2	2.8	(33.8)	103.7
Net revenue	21.0	26.9	33.1	25.8	47.3	23.4	9.2	6.3	(6.7)	31.3
Opex	32.6	33.9	37.2	28.1	33.5	18.2	9.7	7.2	(2.3)	4.9
PPoP	13.8	22.2	30.5	24.3	57.2	27.2	8.9	5.7	(9.4)	49.6
Investment Gains	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Core PPoP	14.4	9.2	21.8	18.2	16.2	29.9	12.8	12.4	20.6	8.3
Provisions	(18.9)	(10.3)	(10.4)	50.2	403.2	(9.0)	(7.0)	(25.2)	(76.4)	455.0
PAT	19.8	30.0	50.6	33.5	37.1	35.3	5.3	2.2	6.7	12.2
QoQ (%)										
NII	1.6	1.1	16.0	4.0	2.1	2.6	0.9	1.8	4.6	(2.0)
Other Income	2.7	5.7	16.0	4.0	63.1	(41.3)	7.6	(0.3)	5.0	80.7
Net revenue	1.9	2.3	16.0	4.0	19.3	(14.3)	2.7	1.2	4.7	20.6
Opex	8.0	4.4	9.5	3.6	12.6	(7.5)	1.6	1.3	2.6	(0.7)
PPoP	(2.1)	0.8	20.9	4.2	23.8	(18.4)	3.4	1.2	6.1	34.7
Investment Gains	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Core PPoP	(0.6)	(2.4)	18.8	2.4	(2.2)	9.1	3.2	2.1	4.9	(2.0)
Provisions	(4.3)	6.5	1.5	45.2	220.4	(80.7)	3.8	16.8	1.2	352.3
PAT	(1.7)	(0.8)	33.7	2.5	0.9	(2.0)	4.0	(0.5)	5.3	3.1

Source: Company, Elara Securities Research

Exhibit 2: Loan growth at 6.7% YoY and 0.3% QoQ

(INR bn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Net Advances	16,006	16,157	23,312	24,461	24,849	24,635	24,951	25,182	26,196	26,284
-YoY	16.9	15.8	57.5	62.3	55.2	52.5	7.0	3.0	5.4	6.7
-QoQ	6.2	0.9	44.3	4.9	1.6	-0.9	1.3	0.9	4.0	0.3

Source: Company, Elara Securities Research

Exhibit 3: Muted loan growth QoQ

Segment	(INR bn)			Growth (%)		Loan mx (%)		
	Q1FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)	Q1FY25	Q4FY25	Q1FY26
Personal Loans	1,859	1,993	2,016	8.4	1.2	7.5	7.5	7.6
Auto	1,330	1,457	1,483	11.5	1.8	5.3	5.5	5.6
Payment Products	1,034	1,136	1,135	9.8	(0.1)	4.2	4.3	4.3
Two-wheelers	120	124	120	0.0	(3.2)	0.5	0.5	0.5
Gold Loans	149	177	189	26.8	6.8	0.6	0.7	0.7
Other Retail	698	736	691	(1.0)	(6.1)	2.8	2.8	2.6
Retail Non-Mortgages	5,190	5,623	5,634	8.6	0.2	20.9	21.3	21.2
Retail Mortgages	7,880	8,357	8,428	7.0	0.8	31.7	31.6	31.8
Total Retail Advances	13,070	13,980	14,062	7.6	0.6	52.6	52.9	53.0
Business Banking	3,299	3,827	3,944	19.6	3.1	13.3	14.5	14.9
Commercial Transportation	1,416	1,564	1,578	11.4	0.9	5.7	5.9	5.9
Total Commercial	4,715	5,391	5,522	17.1	2.4	19.0	20.4	20.8
Agriculture	1,001	1,184	1,153	15.2	(2.6)	4.0	4.5	4.3
Corporates and Other Wholesale	6,963	7,177	7,082	1.7	(1.3)	28.0	27.2	26.7
Gross Advances	25,749	27,732	27,819	8.0	0.3	103.5	104.9	104.9
IBPC/BRDS	(881)	(1,298)	(1,288)	46.2	(0.8)	(3.5)	(4.9)	(4.9)
Total Advances	24,868	26,434	26,531	6.7	0.4	100.0	100.0	100.0

Source: Company, Elara Securities Research

Exhibit 4: Sequential deposit accretion at 1.8% QoQ

(INR bn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Deposits	18,834	19,131	21,729	22,140	23,798	23,791	25,001	25,638	27,147	27,641
-YoY	20.8	19.2	29.8	27.7	26.4	24.4	15.1	15.8	14.1	16.2
-QoQ	8.7	1.6	13.6	1.9	7.5	0.0	5.1	2.5	5.9	1.8
CA	2,735	2,524	2,477	2,558	3,100	2,673	2,754	2,671	3,141	2,980
-YoY	14.3	14.4	7.7	12.3	13.3	5.9	11.2	4.4	1.3	11.5
-QoQ	20.1	(7.7)	(1.8)	3.2	21.2	(13.8)	3.0	(3.0)	17.6	(5.1)
SA	5,625	5,606	5,700	5,799	5,987	5,964	6,081	6,056	6,305	6,390
-YoY	9.9	9.1	7.6	8.4	6.4	6.4	6.7	4.4	5.3	7.1
-QoQ	5.1	(0.3)	1.7	1.7	3.2	(0.4)	2.0	(0.4)	4.1	1.3

Source: Company, Elara Securities Research

Exhibit 5: Slower business momentum in Q1

(%) QoQ	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Loan growth	6.2	0.9	44.3	4.9	1.6	(0.9)	1.3	0.9	4.0	0.3
NII growth	1.6	1.1	16.0	4.0	2.1	2.6	0.9	1.8	4.6	(2.0)
PPoP growth	(2.1)	0.8	20.9	4.2	23.8	(18.4)	3.4	1.2	6.1	34.7
core PPoP growth	(0.6)	(2.4)	18.8	2.4	(2.2)	9.1	3.2	2.1	4.9	(2.0)

Source: Company, Elara Securities Research

Exhibit 6: Reported margin down 11bp QoQ due to yield decline

(%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Yield on advances - Calculated	9.18	9.45	11.00	9.51	9.43	9.49	9.58	9.56	9.41	9.18
Cost of Funds - Calculated	4.32	4.75	6.43	5.77	5.66	5.74	5.79	5.83	5.68	5.63
NIM (on assets)	4.10	4.10	3.40	3.40	3.44	3.47	3.46	3.43	3.46	3.35

Source: Company, Elara Securities Research

Exhibit 7: Overall asset quality witnesses a slight uptick with GNPA at 1.4% and ~NNPL at 0.5% vs 1.33% & 0.43%, respectively, in the previous quarter

(INR mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Opening GNPA	187,639	180,190	190,641	315,779	310,117	311,733	330,257	342,506	360,186	352,226
Additions	49,000	58,000	78,000	70,000	73,000	79,000	78,000	88,000	75,000	90,000
Recoveries and upgradation	32,449	26,500	45,000	45,000	45,000	35,000	36,000	40,000	50,000	42,000
Write offs	24,000	21,000	32,500	31,000	26,000	26,000	29,000	31,000	33,000	30,000
Closing GNPA	180,190	190,690	191,141	309,779	312,117	329,733	343,257	359,506	352,186	370,226
GNPL (%)	1.12	1.17	1.34	1.28	1.24	1.33	1.36	1.42	1.33	1.40
NNPL (%)	0.27	0.30	0.35	0.31	0.33	0.39	0.41	0.46	0.43	0.47
PCR (%)	75.76	74.94	74.44	75.29	74.04	71.21	69.90	67.83	67.86	66.86
Slippages (%)	1.4	1.6	1.9	1.2	1.2	1.3	1.3	1.4	1.2	1.4

Source: Company, Elara Securities Research

Exhibit 8: Steady liquidity coverage ratio at 124%

(%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
LCR	116	126	121	110	115	123	128	125	119	124

Source: Company, Elara Securities Research

Exhibit 9: Performance of HDB financials - Gross stage-3 sees an uptick; loan growth continues to remain healthy

(INR bn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Loans	700.3	735.7	778.6	840.0	902.0	956.0	986.0	1,021.0	1,069.0	1,093.0
Net Income	22.6	23.1	23.6	23.5	22.9	23.9	24.1	25.0	26.2	27.3
PAT	5.5	5.7	6.0	6.4	6.6	5.8	5.9	4.7	5.3	5.7
Gross stage 3 ratio, %	2.7	2.5	2.4	2.3	1.9	1.9	2.1	2.3	2.3	2.6
Tier 1 ratio, %	15.9	15.8	15.7	14.5	14.1	14.0	14.6	14.4	14.7	15.7

Source: Company, Elara Securities Research

HDFC Bank Q1FY26 conference call highlights

Opening remarks by MD & CEO

- ▶ The global situation remains weak due to geopolitical uncertainty and tariffs, and India's economy is stable
- ▶ The bank expects GDP growth to sustain, led by better Monsoon, tax cuts, and domestic demand
- ▶ Focus would be on customer centricity, technology, and people

Business momentum

- ▶ The bank grew average deposits by 16% YoY in FY25 and continues to gain market share, while slowed advances growth to 7% YoY to reduce the CD ratio
- ▶ Management expects loan growth to improve from current levels of 8% YoY and grows at systemic level and higher than the system in FY27
- ▶ Around 70% of book is floating rate
- ▶ On the **retail side**, the bank is seeing healthy demand from the rural side – better Monsoon; we expect growth from this segment. In the urban side, premium side is better, but the festival season would offer the required fillip
- ▶ On the **MSME side**, there is upfronting of exports due to potential tariff rates, and we expect buoyancy in this segment to continue in H2FY26
- ▶ On the **corporate side**, benign interest rates and surplus liquidity have resulted in attractive rates to AA & above corporate houses. It would participate in corporate side in working capital

- ▶ On the **home loans**, there is increased competition from public sector banks (PSB), which are offering rates as low as 7.1-7.3%, while the bank's preference is to lend at 50-80bp higher than offered by PSB. In addition, HDFCB is trying to leverage its brand name and processes
- ▶ On loans against property (LAP), demand continues to be strong
- ▶ On the portfolio rejigging, the bank has reclassified emerging corporates to corporates while agri book has been moved to retail from Commercial & Rural Banking (CRB). Business heads remain the same, just reporting has been changed based on classification
- ▶ The bank expects credit growth from premium customers and unsecured retail book to pick up. Although, pricing on home loans is fine, the bank believes there are pockets of growth
- ▶ The CASA ratio would settle around 37-38%. In FY26, direction to the front team is to cross-sell, step up engagement, customer experience to garner more low-cost deposits
- ▶ The CASA ratio has not been affected due to the slowdown in corporate loan book, although it is volatile
- ▶ The bank has a CD ratio of 96%; in the medium term, it would be comfortable with a CD Ratio in the range of 87-90%

Asset quality

- ▶ On one-time settlement, if there is any change, it moves to NPA
- ▶ Credit cost is higher in Q1 and Q3, primarily due to agri slippages
- ▶ The bank created contingent provisions of INR 17bn or 57bp of loanbook

Cost & NIM

- ▶ Due to lead & lag in rate cut transmission, the bank expects quarterly fluctuations in NIM
- ▶ EBLR book repricing takes about 1-3 months to pass on
- ▶ Yield on advances declined by 20bp QoQ, and the rest is yet to come in

Other highlights

- ▶ **HDB Financials:** HDB caters to segment two levels below HDFCB and the rates on offer, higher than those offered by the bank. Thus, overlap in customer base would be minimal
- ▶ The bank has customer base of 998mn, while credit card customer base is 24mn, offering adequate headroom to deepen relationships
- ▶ On the employee front, the higher addition is on account of adding manpower in branches opened in Q4FY25, primarily sales and tech teams. Employee addition would be in sales and tech teams
- ▶ Third-party fee income has been lowered in Q1FY26; however, the bank has an optimistic outlook
- ▶ PSL would aim to increase it to 40%

Exhibit 10: Q1FY26 result highlights

(INR mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Interest income	774,702	730,331	6.1	774,601	0.0
Interest expenses	460,322	431,960	6.6	453,943	1.4
Net interest income	314,380	298,371	5.4	320,658	(2.0)
Other income	217,298	106,681	103.7	120,279	80.7
Operating expenses	174,338	166,206	4.9	175,570	(0.7)
Staff expense	61,580	58,489	5.3	61,159	0.7
Other opex	112,759	107,717	4.7	114,410	(1.4)
Pre prov op profit (PPP)	357,340	238,846	49.6	265,367	34.7
Provisions	144,416	26,021	455.0	31,931	352.3
Profit before tax	212,923	212,826	0.0	233,437	(8.8)
Provision for tax	31,371	51,078	(38.6)	57,275	(45.2)
Profit after tax	181,552	161,748	12.2	176,161	3.1
EPS (INR)	23.7	21.3		23.0	
Ratios (%)					
NII / GII	40.6	40.9		41.4	
Cost - income	32.8	41.0		39.8	
Provisions / PPOP	40.4	10.9		12.0	
Tax rate	14.7	24.0		24.5	
Balance sheet data (INR bn)					
Advances	26,284	24,635	6.7	26,196	0.3
Deposits	27,641	23,791	16.2	27,147	1.8
CD ratio (%)	95.1	103.5		96.5	
Asset quality (INR mn)					
Gross NPA	370,408	330,257	12.2	352,226	5.2
Gross NPAs (%)	1.4	1.3		1.3	
Net NPA	122,760	95,084	29.1	113,204	8.4
Net NPA(%)	0.5	0.4		0.4	
Provision coverage (%)	66.9	71.2		67.9	

Source: Company, Elara Securities Research

Exhibit 11: Valuation

Particulars (FY27E)	Value per share (INR)
HDFC Bank - Merged entity (standalone)	1,998
Value of subsidiaries and associates (post hold. co. discount)	229
Total value per share (INR)	2,228

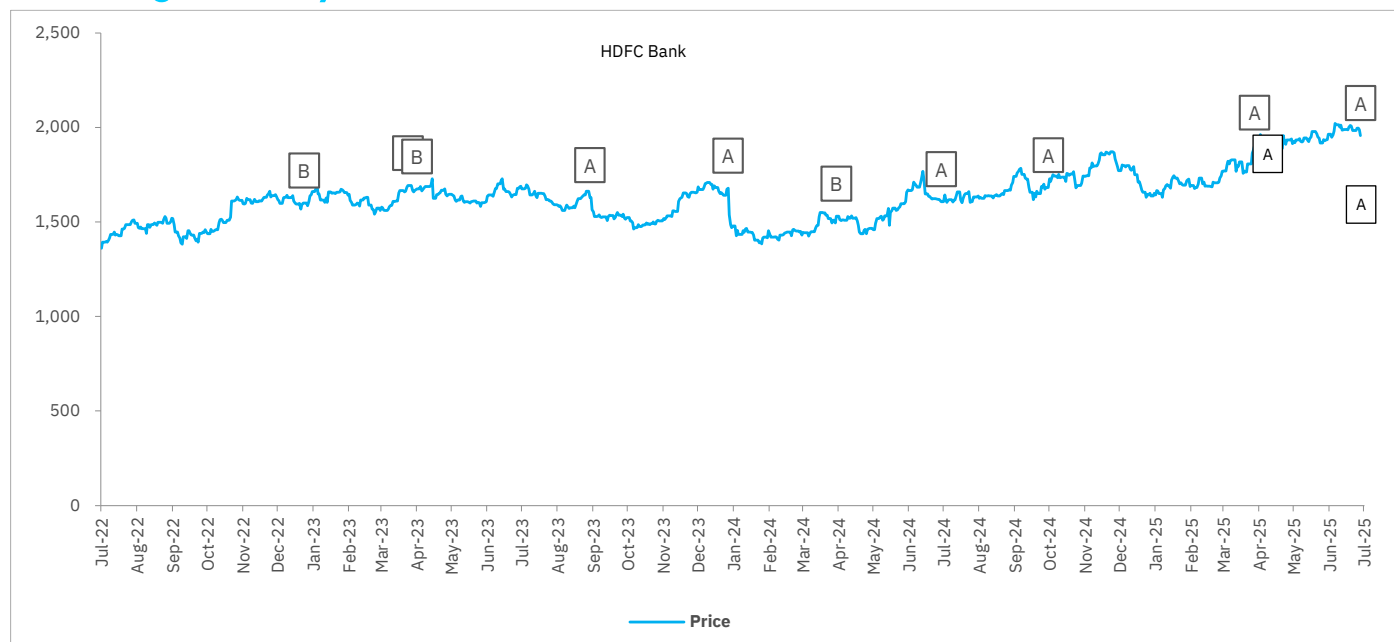
Source: Elara Securities Estimate

Exhibit 12: Change in estimates

(INR mn)	Revised			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	1,344,799	1,493,347	1,719,754	1,353,533	1,507,553	1,735,288	(0.6)	(0.9)	(0.9)
Operating Profit	1,224,880	1,286,541	1,493,409	1,150,014	1,300,746	1,508,943	6.5	(1.1)	(1.0)
Net Profit	726,875	816,982	921,770	740,224	826,589	932,019	(1.8)	(1.2)	(1.1)
TP (INR)			2,228			2,164			3

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
13-Jan-2023	Buy	1,925	1,601
13-Apr-2023	Buy	2,009	1,692
21-Apr-2023	Buy	2,013	1,675
18-Sep-2023	Accumulate	1,820	1,629
16-Jan-2024	Accumulate	1,889	1,679
19-Apr-2024	Buy	1,889	1,531
19-Jul-2024	Accumulate	1,843	1,607
20-Oct-2024	Accumulate	1,898	1,682
17-Apr-2025	Accumulate	2,164	1,907
18-Jul-2025	Accumulate	2,228	1,957

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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