

HDFC Bank

HDFCB seems on track to miss growth guidance

Valuation differential with ICICI seems narrow, given RoA differential

Balance sheet growth – While LDR considerations seem less onerous than before, growing largest private sector balance sheet no ordinary ask: The advances for the bank stood at Rs 27,463 bn, up by 4.5% QoQ and 10.1% YoY. Loan to deposit ratio for the bank has come down from the highs of 110% at the time of merger to 98% in 2QFY26. Incremental LDR rose during the quarter as credit demand presented itself. Management stated that LDR would fall below 90% but the progression towards the same would not be linear and there would be quarterly fluctuation. The objective to grow loan book at the banking system level this financial year and exceed it the next still holds good.

Net Interest Margin – Margin contracted sequentially by a greater quantum than ICICI for second quarter in a row but TD book has a longish tenure: NIM was at 3.27%, down -8bps QoQ and -19bps YoY. Most of the repricing of assets has played out with maybe a month of impact left. The term deposit rate cut amounts to 70-80 bps and takes about 6 quarters to flow through for the bank, given its longer tenure deposits book. Hence, another 4-5 quarters of term deposits repricing is still to play out.

Asset Quality – Slippages declined on sequential basis while there was a largish one-off upgrade during the quarter: Gross NPA additions amounted to Rs 74bn for 2QFY26, translating to an annualized slippage ratio of 1.1% for the quarter. Gross NPA additions had amounted to Rs 90bn during 1QFY26. Provisions were Rs 35.05bn, down by 75.8% QoQ and 29.6% YoY, translating to calculated annualised credit cost of 52bps. Recoveries and upgrades amounted to Rs 68bn for 2QFY26, implying net NPA addition of Rs 6bn for the quarter.

We maintain an ADD rating with an unchanged price target of Rs 1150: We value the standalone bank at 2.5x FY27 P/BV for an FY26/27/28E RoE profile of 13.1/13.4/14.0%. We assign a value of Rs 134 per share to the subsidiaries.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio was at 39.2% up/down by 638/-144bps QoQ/YoY and the Cost to assets was at 1.8% up by 3bps/5bps QoQ/YoY.
- **Fee income:** Core fee income to average assets was at 1.0%, up/down by 11/-1 bps QoQ/YoY

Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Total Interest Income	766,907	774,702	(1.0)	740,169	3.6
Interest Expense	(451,392)	(460,322)	(1.9)	(439,030)	2.8
Net Interest Income	315,515	314,380	0.4	301,139	4.8
Fee Income	104,000	92,000	13.0	96,000	8.3
Non-fee Income	39,500	125,298	(68.5)	18,827	109.8
Total Non-Interest Income	143,500	217,298	(34.0)	114,827	25.0
Total Income	459,015	531,678	(13.7)	415,966	10.3
Employee Expense	(64,613)	(61,580)	4.9	(59,853)	8.0
Non-employee Opex	(115,166)	(112,759)	2.1	(109,056)	5.6
Total Operating expenses	(179,779)	(174,338)	3.1	(168,909)	6.4
PPOP	279,236	357,340	(21.9)	247,057	13.0
Provisions	(35,005)	(144,416)	(75.8)	(27,005)	29.6
PBT	244,231	212,923	14.7	220,053	11.0
Tax	(57,818)	(31,371)	84.3	(51,843)	11.5
PAT	186,413	181,552	2.7	168,210	10.8

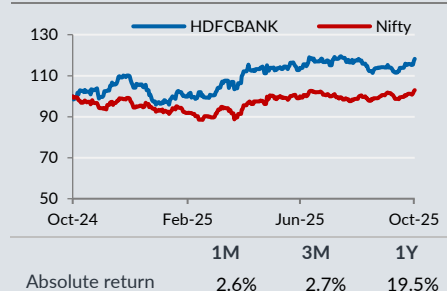
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 1,003
Target Price	: Rs 1,150
Potential Return	: +15%

Stock data (as on October 18, 2025)

Nifty	25,710
52 Week h/l (Rs)	1016 / 810
Market cap (Rs/USD mn)	15402840 / 175084
Outstanding Shares (mn)	15,364
6m Avg t/o (Rs mn):	18,425
Div yield (%):	1.1
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



Shareholding pattern (As of Jun'25 end)

Promoter	0.0%
FII+DII	73.4%
Others	13.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1150	1150

Financial Summary

(Rs mn)	FY26E	FY27E	FY28E
NII	1,292,288	1,489,570	1,715,195
PPOP	1,176,806	1,269,652	1,475,147
Net Profit	692,458	788,350	919,527
Growth (%)	2.8	13.8	16.6
EPS (Rs)	45.2	51.5	60.1
BVPS (Rs)	364.1	405.6	454.0
P/E (x)	19.1	16.8	14.4
P/BV (x)	2.4	2.1	1.9
ROE (%)	13.1	13.4	14.0
ROA (%)	1.7	1.7	1.8
Tier-1 (%)	17.4	16.6	16.0

Δ in earnings estimates

Rs.	FY26E	FY27E	FY28E
EPS (New)	45.2	51.5	60.1
EPS (Old)	46.2	52.3	61.0
% change	-2.1%	-1.6%	-1.5%

SHIVAJI THAPLIYAL
Head of Research (Overall)
& Lead Sector Research Analyst
☎ +91 22 6992 2932



HEMANT KADIAN, Associate
HIMANSHU BAROT, Associate

COMPREHENSIVE CON-CALL TAKEAWAYS

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.27%, down -8bps QoQ and -19bps YoY.
- **Discussion on margin outlook**
 - 100 bps worth of rate cut has led a 50 bps decline in yield as 70% of the book is floating rate.
 - Most of the repricing of assets has played out with maybe a month of impact left.
 - The cost of funds has declined about 30 bps cumulatively and 19 bps QoQ to 4.6% with more than half of the impact having flowed through.
 - The savings account rate cut impact had completely flowed through whereas some of the term deposit impact still to flow through.
 - The term deposit rate cut amounts to 70-80 bps and takes about 6 quarters to flow through for the bank, given its longer tenure deposits book.
 - Hence, another 4-5 quarters of term deposits repricing is still to play out.
- **Gold loan yield**
 - This book is being grown in a steady manner and the yield is pretty rich.
 - The gold loan yield is incremental to the bank's overall and even the retail segment yield.
- **Cost of funds**
 - The cost of funds declined to 4.6% in 2Q as compared to 4.8% in 1QFY26.
- **Yield on advances**
 - The yield on assets was at 7.8%, down by -30bps QoQ.

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 74bn for 2QFY26, translating to an annualized slippage ratio of 1.1% for the quarter (Gross NPA additions had amounted to Rs 90bn during 1QFY26)
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 68bn for 2QFY26, implying net NPA addition of Rs 6bn for the quarter.
 - **One-off upgrade**
 - The upgrades for the quarter contain a one-off in the form of an account that performed satisfactorily for 2 years and its rating was upgraded.
 - The upgrade quantum amounted to 10 bps loan book and belonged to the erstwhile HDFC Limited pool of accounts which were performing but tagged NPA, worth 20-30 bps.
- **Provisions**
 - Provisions were Rs 35.05bn, down by 75.8% QoQ and 29.6% YoY, translating to calculated annualised credit cost of 52bps.
 - While the one-off action released some provision, the contingent provisions were added to by Rs 16bn on a net basis.
- **NPA ratios**
 - GNPA ratio stands at 1.20%, down -16 bps QoQ and -12 bps YoY while NNPA ratio stands at 0.42%, down -5bps QoQ but up 1bps YoY.

(Con call takeaways continue on the next page)

Loan growth

- The advances for the bank stood at Rs 27,463 bn, up by 4.5% QoQ and 10.1% YoY.
- **Discussion on LDR and growth outlook**
 - Loan to deposit ratio for the bank has come down from the highs of 110% at the time of merger to 98% in 2QFY26.
 - Incremental LDR rose during the quarter as credit demand presented itself.
 - Management stated that LDR would fall below 90% but the progression
 - The objective to grow loan book at the banking system level this financial year and exceed it the next still holds good.
- **Home loan business**
 - The bank was conscious of the yield at which it wanted to participate and has now started to increase its market share.
 - The bank witnessed competition lower rates after the 50 bps repo rate cut in June but the bank did not participate.
 - The players have started to bring the rates back up and sanity is returning but is still some distance from fully returning.
 - Over the next 18-24 months, the bank will participate in opportunities but not do anything just to win market share.
- **Unsecured lending**
 - The bank has always had an approach of not reducing credit under-writing standards.
 - Hence, the rightful share will be captured but without diluting standards.
 - **Credit cards**
 - There are certain spends categories that the bank is cautious of.
 - The bank is circumspect on increasing credit lines for revolvers.
 - Hence, the credit cards book has grown slower than otherwise.
 - 65-70% of credit cards sourced are from existing to bank customers.

Deposits Growth

- The deposits were at Rs. 28,017 bn, up by 1.4% QoQ and 12.1% YoY.

RBI draft circulars

- **Credit risk circular**
 - The credit risk circular will benefit capital ratios at the bank.
 - There was already a build up of capital ratios at the bank since it has chosen to slow down balance sheet growth.
- **ECL circular**
 - Management is not as sure about the ECL circular (in terms of benefiting the bank).
 - Since there are a lot of floors prescribed, the pure ECL advantages may get nullified (for the bank).

Capital adequacy

- The CET 1 and total capital adequacy ratio was at 17.5% and 20.0% respectively.
- **Capital usage**
 - The change in economic cycle has begun and the bank should start to consume capital (more meaningfully) in FY27, when it grows faster.
 - In FY27, the bank intends to have a cushion to grow for 3-4 years before it starts to look for other options (capital raise).
 - If there are opportunities to delight shareholders (capital distribution), the bank will explore the same.

(Con call takeaways continue on the next page)

Fee income

- The fee income uptick is not driven by wholesale business and was driven by asset build (presumably on the retail side).

Merger impact

- Home loans
 - The bank has been trying to sell home loans from a larger distribution.
 - **Penetration of home loan customers**
 - Savings account – 98-99%
 - Consumer durables – 30% plus
 - Broking – 15% plus
 - Credit cards – 14%

Operating expenses

- Total opex
 - Total Opex, at Rs. 179.7 bn, is up by 3.1% QoQ and 6.4% YoY.
 - Consequently, cost/income ratio came in at 39.2%, up by 638bps QoQ but down - 144bps YoY.
- Staff opex
 - The staff opex is up by 4.9% QoQ and 8.0% YoY.
- Other opex
 - Other opex is up by 2.1% QoQ and 5.6% YoY.

Other Income

- Other income for 2QFY26 was at Rs 143.5bn, down by -34% QoQ but up 25% YoY.

Return Ratios

- The RoA was at 1.9%, up 4bps QoQ.

Exhibit 2: Key quarterly balance sheet / business data

Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Gross Advances	27,692,000	26,532,000	4.4	25,190,000	9.9
Retail	14,478,000	15,215,000	(4.8)	14,478,000	0.0
Small and mid-market	5,718,000	5,523,000	3.5	4,888,000	17.0
Corporates & Other Wholesale	7,416,000	7,082,000	4.7	11,733,000	(36.8)
IBPC/BRDS	(997,000)	(1,288,000)	(22.6)	(1,144,000)	(12.8)
Total Deposits	28,017,888	27,640,890	1.4	25,000,882	12.1
CA deposits	2,964,000	2,980,000	(0.5)	2,754,000	7.6
SA deposits	6,527,000	6,390,000	2.1	6,081,000	7.3
Term deposits	18,526,888	18,270,890	1.4	16,165,882	14.6

Source: Company, YES Sec – Research

Exhibit 3: Key quarterly ratios

(%)	Q2 FY26	Q1 FY26	chg qoq	Q2 FY25	chg yoy
Net Interest Margin	3.27	3.35	-8bps	3.46	-19bps
Yield on Assets	7.80	8.10	-30bps	8.30	-50bps
Cost of Funds	4.60	4.80	-20bps	4.90	-30bps
Non-interest income/Total income	31.3	40.9	-961bps	27.6	366bps
Fee Income to Avg. Total Assets	1.0	0.9	11bps	1.1	-1bps
Cost to Income ratio	39.2	32.8	638bps	40.6	-144bps
Opex to Avg. Total Assets	1.8	1.8	3bps	1.9	-5bps
Credit Cost	0.52	2.2	-168bps	0.4	9bps
CASA ratio	33.9	33.9	-2bps	35.3	-146bps
Loan to Deposit ratio	98.0	95.1	293bps	99.8	-178bps
Capital adequacy ratio	20.0	19.9	8bps	19.8	19bps
Tier I capital ratio	17.9	17.8	10bps	17.8	10bps
Common equity tier 1	17.5	17.4	10bps	17.3	20bps
Annualised Slippage Ratio	1.1	1.4	-27bps	1.2	-15bps
Provision Coverage Ratio	66.6	66.9	-24bps	69.9	-329bps
RoA*	2.0	1.9	4bps	2.0	0bps
Gross NPA	1.2	1.4	-16bps	1.4	-12bps
Net NPA	0.4	0.5	-5bps	0.4	1bps

Source: Company, YES Sec – Research, *Annualised,

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY26 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	315,515	316,216	(0.2)
Pre-Prov. Operating Profit	279,236	253,121	10.3
Profit After Tax	186,413	167,701	11.2

Source: Company, YES Sec – Research

Exhibit 5: Gross Advances Mix - Quarterly

Particulars (Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy	Q2 FY26*	chg qoq	chg yoy
Retail Mortgages	8,565,000	8,428,000	1.6	8,028,000	6.7	30.9	-84bps	-94bps
Personal Loans	2,063,000	2,016,000	2.3	1,896,000	8.8	7.4	-15bps	-8bps
Auto Loans	1,515,000	1,483,000	2.2	1,375,000	10.2	5.5	-12bps	1bps
Payment Products	1,148,000	1,135,000	1.1	1,097,000	4.6	4.1	-13bps	-21bps
Agri	1,234,000	1,153,000	7.0	1,081,000	14.2	4.5	11bps	16bps
Two Wheelers	125,000	120,000	4.2	125,000	0.0	0.5	0bps	-4bps
Gold Loans	201,000	189,000	6.3	159,000	26.4	0.7	1bps	9bps
Other Retail	703,000	691,000	1.7	717,000	(2.0)	2.5	-7bps	-31bps
Total Retail Assets	14,478,000	15,215,000	(4.8)	14,478,000	0.0	52.3	-506bps	-519bps
Business Banking	4,107,000	3,944,000	4.1	3,439,000	19.4	14.8	-3bps	118bps
Commercial Transportation	1,612,000	1,578,000	2.2	1,449,000	11.2	5.8	-13bps	7bps
Small and mid-market	5,718,000	5,523,000	3.5	4,888,000	17.0	20.6	-17bps	124bps
Corporates & Other Wholesale	7,416,000	7,082,000	4.7	6,968,000	6.4	26.8	9bps	-88bps
IBPC/BRDS	(997,000)	(1,288,000)	(22.6)	(1,144,000)	(12.8)	(3.6)	125bps	94bps
Total Gross Advances	27,692,000	26,532,000	4.4	25,190,000	9.9	100.0	0bps	0bps

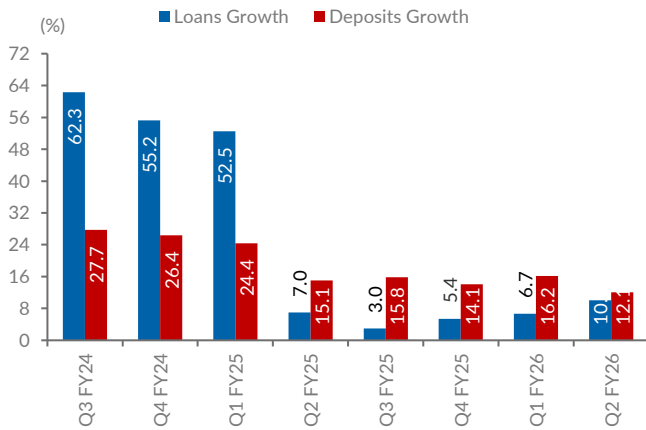
Source: Company, YES Sec – Research, *Share in total gross advances and change in share

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q2 FY26	Q1 FY26	% qoq	Q2 FY25	% yoy
Fees & commissions	88,000	76,000	15.8	81,400	8.1
Foreign exchange & derivatives	16,000	16,000	0.0	14,600	9.6
P/L on sale / revaluation of investments	24,000	101,000	(76.2)	2,900	727.6
Miscellaneous income	15,000	24,000	(37.5)	15,900	(5.7)
Total Non-Interest Income	143,000	217,000	(34.1)	114,800	24.6

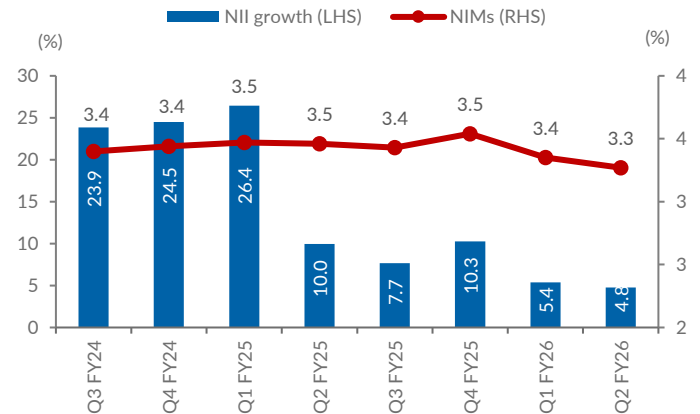
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



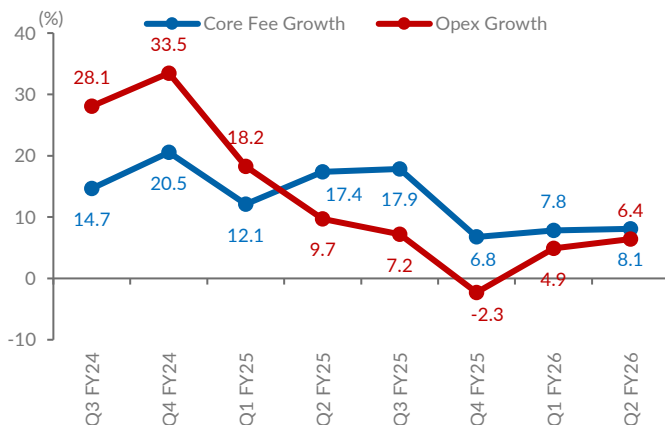
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



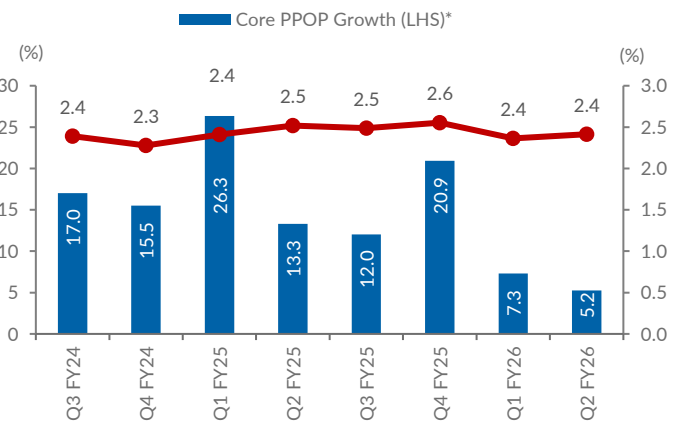
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



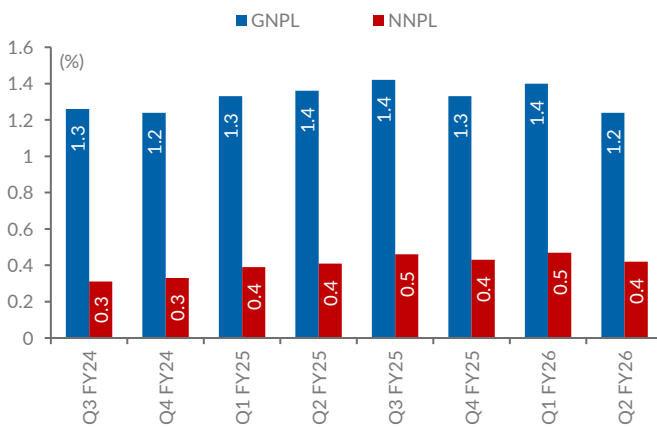
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



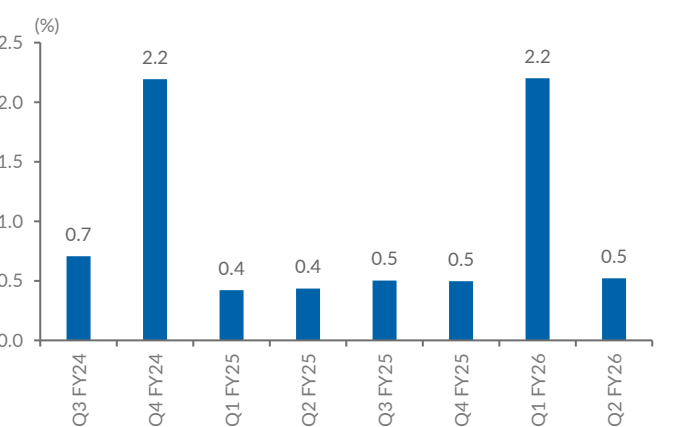
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Total cash & equivalents	2,191,474	2,395,707	3,198,542	3,314,853	3,778,932
Investments	7,024,150	8,363,597	8,484,020	9,583,155	10,836,170
Advances	24,848,615	26,196,086	29,077,656	33,148,527	37,789,321
Fixed assets	113,990	136,554	150,209	165,230	181,753
Other assets	1,998,002	2,010,046	2,412,055	2,653,261	2,918,587
Total assets	36,176,231	39,101,989	43,322,482	48,865,026	55,504,763
Net worth	4,402,458	5,014,246	5,572,367	6,207,777	6,948,916
Deposits	23,797,863	27,147,149	30,893,189	35,778,235	41,347,188
Borrowings	6,621,531	5,479,309	4,758,917	4,555,373	4,323,333
Other liabilities	1,354,379	1,461,285	2,098,009	2,323,640	2,885,326
Total liabilities incl. Equity	36,176,231	39,101,989	43,322,482	48,865,026	55,504,763

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	2,583,406	3,005,170	3,202,268	3,598,305	4,082,527
Interest expense	(1,498,081)	(1,778,470)	(1,909,981)	(2,108,735)	(2,367,332)
Net interest income	1,085,325	1,226,701	1,292,288	1,489,570	1,715,195
Non-interest income	492,410	456,323	639,806	624,749	710,510
Total income	1,577,735	1,683,024	1,932,094	2,114,318	2,425,705
Operating expenses	(633,860)	(681,749)	(755,288)	(844,666)	(950,558)
PPoP	943,875	1,001,275	1,176,806	1,269,652	1,475,147
Provisions	(234,922)	(116,494)	(253,529)	(218,519)	(249,111)
Profit before tax	708,953	884,781	923,277	1,051,134	1,226,036
Taxes	(100,830)	(211,307)	(230,819)	(262,783)	(306,509)
Net profit	608,123	673,474	692,458	788,350	919,527

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	7.9	8.0	7.8	7.8	7.8
Interest expense	-4.6	-4.7	-4.6	-4.6	-4.5
Net interest income	3.3	3.3	3.1	3.2	3.3
Non-interest income	1.5	1.2	1.6	1.4	1.4
Total income	4.8	4.5	4.7	4.6	4.6
Operating expenses	-1.9	-1.8	-1.8	-1.8	-1.8
PPoP	2.9	2.7	2.9	2.8	2.8
Provisions	-0.7	-0.3	-0.6	-0.5	-0.5
Profit before tax	2.2	2.4	2.2	2.3	2.3
Taxes	-0.3	-0.6	-0.6	-0.6	-0.6
Net profit	1.9	1.8	1.7	1.7	1.8

Source: Company, YES Sec – Research

Exhibit 18: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
HDB Financial Services	605,833	BV	158,197	3.8x	74.2%	449,467	29.4
HDFC Securities	100,458	BV	33,486	3.0x	94.4%	94,812	6.2
HDFC AMC	1,221,662	QAAUM	8,286,006	14.7%	52.4%	640,639	41.9
HDFC Life	1,608,225	EV	583,550	2.8x	50.3%	808,615	52.8
HDFC ERGO	125,043	PE	5,002	25.0x	50.3%	62,934	4.1
Value of Subsidiaries						2,056,468	134.4

Source: Company, YES Sec – Research

Exhibit 19: Change in Annual Estimates

Y/e 31 Mar (Rs. mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	1,292,288	1,489,570	1,715,195	1,314,652	1,507,556	1,735,213	(1.7)	(1.2)	(1.2)
Pre-Prov. Operating Profit	1,176,806	1,269,652	1,475,147	1,108,457	1,288,392	1,496,024	6.2	(1.5)	(1.4)
Profit after tax	692,458	788,350	919,527	707,370	800,928	933,502	(2.1)	(1.6)	(1.5)

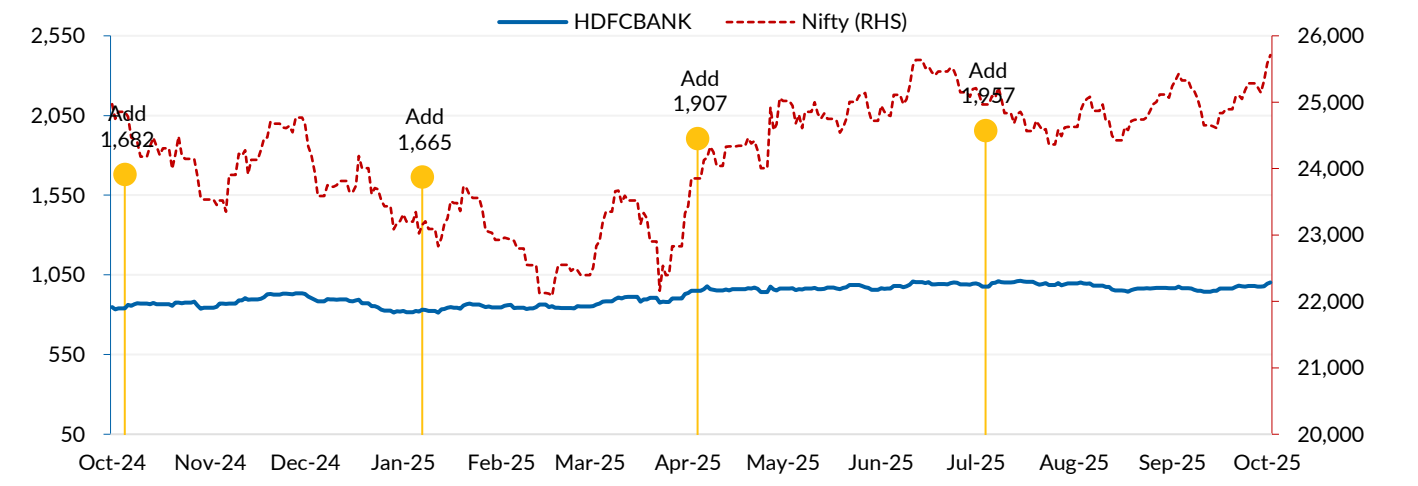
Source: Company, YES Sec – Research

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth matrix (%)					
Net interest income	25.0	13.0	5.3	15.3	15.1
PPoP	34.1	6.1	17.5	7.9	16.2
Net profit	37.9	10.7	2.8	13.8	16.6
Loans	55.2	5.4	11.0	14.0	14.0
Deposits	26.4	14.1	13.8	15.8	15.6
Profitability Ratios (%)					
Net interest margin	3.5	3.5	3.3	3.5	3.5
Return on Average Equity	15.6	14.3	13.1	13.4	14.0
Return on Average Assets	1.9	1.8	1.7	1.7	1.8
Per share figures (Rs)					
EPS	80.0	88.0	45.2	51.5	60.1
BVPS	580	655	364	406	454
ABVPS	569	640	355	396	443
Valuation multiples					
P/E	10.8	9.9	19.2	16.9	14.4
P/BV	1.5	1.3	2.4	2.1	1.9
P/ABV	1.5	1.4	2.4	2.2	2.0
NIM internals (%)					
Yield on loans	10.1	9.3	9.2	9.2	9.2
Cost of deposits	4.7	4.9	5.2	5.3	5.3
Loan-deposit ratio	104.4	96.5	94.1	92.6	91.4
CASA ratio	38.2	34.8	34.0	34.0	34.0
Opex control (%)					
Cost/Income ratio	40.2	40.5	39.1	39.9	39.2
Cost to average assets	1.9	1.8	1.8	1.8	1.8
Capital adequacy (%)					
Tier 1 capital ratio	16.8	17.7	17.4	16.6	16.0
Asset quality (%)					
Slippage ratio	2.0	1.3	1.2	1.2	1.2
Gross NPL ratio	1.2	1.3	1.4	1.4	1.4
Credit cost	0.5	0.5	0.6	0.7	0.7
Net NPL ratio	0.3	0.4	0.5	0.5	0.5

Source: Company, YES Sec – Research; Valuations are the implied valuation of standalone entity net of subsidiaries

Recommendation Tracker



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