



India

ADD (no change)

Consensus ratings*: Buy 43 Hold 5 Sell 0

Current price: Rs1,907
 Target price: ▲ Rs2,200
 Previous target: Rs2,150
 Up/downside: 15.4%
 InCred Research / Consensus: 8.2%

Reuters: HDBK.NS
 Bloomberg: HDFCB IN
 Market cap: US\$170,899m
 Rs14,590,490m
 Average daily turnover: US\$291.9m
 Rs24917.2m
 Current shares o/s: 1,930.4m
 Free float: 100.0%

*Source: Bloomberg

Key changes in this note

- ▶ We revisit our estimates to build margin factoring in ~50bp repo rate cut.
- ▶ We cut the risk-free rate by 25bp.
- ▶ We introduce FY28F estimates.

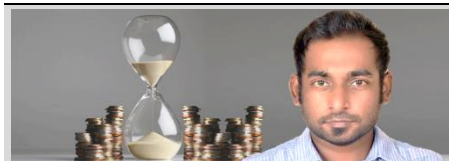


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.1	16.5	27.6
Relative (%)	7.8	12.5	18.7

Major shareholders	% held
SBI MF	6.9
LIC	5.5
ICICI Pru AMC	3.0

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HDFC Bank

Broadly in-line earnings

- The key positive was delivery on core margin and contained opex trend.
- HDFC Bank is well placed to post better margin progression versus peers.
- We raise our target price to Rs2,200 (16% upside) as we cut the risk-free rate by 25bp. The stock appears attractive at 2x FY27F core BV.

Broadly in-line earnings; asset quality continues to remain robust

4QFY25 PAT of HDFC Bank grew by 7% YoY to Rs176bn (annualized RoA of 1.9%) and was in line with our estimate. Core PPOP grew by 17% YoY (+3% QoQ). Core fee income grew by +7% YoY and was below our estimate. Headline NII grew by 10% YoY (+5% QoQ). Adjusted for interest on income-tax refund (Rs7bn; 8bp), NII grew by 8% YoY (+2% QoQ) and was broadly in line. Core margin was up 3bp QoQ at 3.65% and avg. balance sheet grew by 2% QoQ (+7% YoY). Sequentially, net loan growth was healthy at 4% On a yoy basis, loans grew by 5% YoY while deposits grew by 14% YoY (+5% QoQ). This helped bring down the loan-to-deposit ratio by 8ppt YoY to 96%. Management gave guidance of in-line loan growth vs. system for FY26F, while it aspires to gain market share on deposits through customer engagement. It targets to achieve LDR in the range of 85-90% by FY27F.

Better placed on margin vs. large private peers over the next one year

Margin trailed in a narrow range over the past few year. A few factors which helped includes the shift in loan mix towards higher-yielding segments and reduction in the share of borrowings in the funding mix. Going ahead (with ~50bp repo rate cut so far), we believe the bank can manage margin relatively better than peer large private banks, given a few favourable levers still available. These includes legacy hedge on liabilities as well as repayment of the erstwhile HDFC's high-cost borrowings. Sharp term deposit rate cuts in Apr 2025, along with savings account rate cut of 25bp, will drive a faster normalization in margin throughout the cycle. We have built in margin compression of ~10 bp in FY26F.

Operating leverage to help offset some profitability pressure

Over the past four years, HDFC Bank has materially stepped on branch addition vs. historical periods. Management stated that there is scope for productivity gains to play out as branches mature and tech investments aid efficiency over the next few years. We believe this will help offset some pressure on profitability while margin normalizes.

Reiterate ADD rating; raise TP to Rs2,200 as we cut risk-free rate

Key to track will be sustained delivery on deposit growth as well as margin progression going forward. We raise our target price to Rs2,200 (Rs2,150 earlier) as we cut the risk-free rate by 25bp. We also revisit our earnings estimates to build ~50bp rate cut. We expect RoA of 1.7%/1.8% for FY26F/27F and RoE of ~14% for FY26F-27F. The stock currently trades at 2x F27F core BV while we assign a multiple of 2.4x FY27F core BV. We have assigned SOTP value of Rs270/share for subsidiaries. Downside risks: Lower-than-expected deposit growth, delay in operating leverage, and deterioration in asset quality.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	1,085,325	1,219,701	1,306,351	1,500,845	1,701,331
Total Non-Interest Income (Rsm)	492,410	463,323	534,114	608,145	694,886
Operating Revenue (Rsm)	1,577,735	1,683,024	1,840,465	2,108,990	2,396,217
Total Provision Charges (Rsm)	(234,921)	(116,494)	(130,877)	(149,487)	(174,387)
Net Profit (Rsm)	608,123	673,474	723,483	847,808	974,037
Core EPS (Rs)	80.05	88.01	94.06	109.67	125.35
Core EPS Growth	1%	10%	7%	17%	14%
FD Core P/E (x)	23.82	21.66	20.27	17.39	15.21
DPS (Rs)	19.50	22.00	25.00	28.50	28.50
Dividend Yield	1.02%	1.15%	1.31%	1.49%	1.49%
BVPS (Rs)	579.5	655.3	731.7	820.5	920.9
P/BV (x)	3.29	2.91	2.61	2.32	2.07
ROE	16.9%	14.3%	13.6%	14.2%	14.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	290,768	306,533	320,658	10%	5%
Adj. Net Interest Income	290,768	306,533	313,658	8%	2%
Other Income	181,663	114,536	120,279	-34%	5%
--Core Fee	79,900	81,800	85,300	7%	4%
--Treasury Income	75,900	700	3,900	-95%	457%
--Misc. Income	25,863	32,036	31,079	20%	-3%
Total income	472,431	421,068	440,937	-7%	5%
--Core Revenues	370,668	388,333	398,958	8%	3%
Operating Expenses	179,688	171,064	175,570	-2%	3%
--Staff Expenses	69,362	59,504	61,159	-12%	3%
--Other Operating Expenses	110,326	111,560	114,410	4%	3%
Operating Profit	292,742	250,004	265,367	-9%	6%
--Core PPOP	190,980	217,268	223,388	17%	3%
Provisions	135,116	31,539	31,931	-76%	1%
PBT	157,626	218,466	233,437	48%	7%
Tax	-7,493	51,111	57,275	-864%	12%
PAT	165,119	167,355	176,161	7%	5%
EPS	22	22	23		
Advances	24,848,615	25,182,482	26,196,086	5%	4%
Deposits	23,797,863	25,637,950	27,147,149	14%	6%
LD Ratio	104%	98%	96%		
CASA Ratio	38%	34%	35%		
Margins (%)	3.63	3.62	3.73	0.10	0.11
Core Margin (%)	3.63	3.62	3.65	0.02	0.03
Overall provisions (in bp)	219	50	50		
---Credit cost (in bp)	219	50	50		
-----NPA provision	42	50	50		
GNPA	311,733	360,186	352,226	13%	-2%
GNPA Ratio (%)	1.24%	1.42%	1.33%		
NNPA	80,917	115,875	113,204	40%	-2%
NNPA Ratio (%)	0.33	0.46	0.43		
PCR	230,816	244,310	239,022	4%	-2%
PCR Ratio (%)	74%	68%	68%		
Slippages	73,000	88,000	75,000	3%	-15%
--% of trailing loans	1.9%	1.4%	1.2%		
CET-1 Ratio (%)	16.3%	18.0%	17.2%		
RoA	2.0%	1.9%	1.9%		
RoE	15.3%	14.1%	14.3%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs bn)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	1,409	1,306	-7.3%	1,667	1,501	-10.0%	NA	1,701	NA
Non-Interest Income	513	534	4.0%	577	608	5.5%	NA	695	NA
PPOP	1,166	1,098	-5.8%	1,376	1,282	-6.8%	NA	1,476	NA
PAT	790	723	-8.5%	925	848	-8.4%	NA	974	NA
EPS (Rs)	103.4	94.2	-8.9%	121.1	109.9	-9.3%	NA	125.6	NA
BV (Rs)	709.2	731.7	3.2%	794.8	820.5	3.2%	NA	920.9	NA
Net Advances	29,543.1	28,815.7	-2.5%	33,704.3	32,417.7	-3.8%	NA	37,280.3	NA
Deposits	30,669.0	31,219.2	1.8%	35,335.9	35,902.1	1.6%	NA	41,287.4	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key highlights

- Avg. deposits grew by 16% YoY, steady vs. last quarter. This was led by strong growth in term deposits (21% YoY) while avg. CASA deposits grew by 6% YoY (+1% QoQ). Management indicated that it aspires to increase savings accounts' market share over the next few years through engagement and improving penetration. Retail deposits (per LCR) grew by 11% YoY vs. 12% last quarter. Sequentially, growth was 2% vs. 3% last quarter.
- On priority sector lending or PSL targets, HDFC Bank is short by approx. 1ppt, mainly in the weaker section and small & marginal farmer category. It remains flexible to bridge the gap by exploring various options (i.e. inter-bank participatory certificates, pass-through certificates, on-lending, investment in

rural infrastructure development fund, etc.). Management indicated that the impact on the bank's profitability will be broadly similar across options.

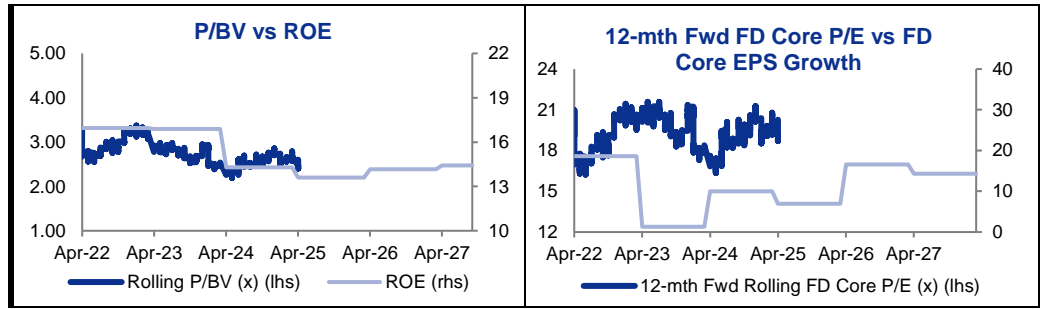
- Gross loan book (pre-IBPC) grew by 8% YoY (+3% QoQ), mainly led by commercial and rural segment (+12% YoY; +5% QoQ) and retail advances (+9% YoY; 2% QoQ) while the corporate loan book declined by 3% YoY (+2% QoQ). Management indicated that pricing competition remains intense in large corporate and higher SME ticket size loans, partly owing to SOE banks chasing growth over profitability. The retail segment continues to witness pricing competition, and the bank has not cut lending rates on fixed-rate products so far.
- On legacy borrowings, the bank expects Rs0.5tr of the erstwhile HDFC's borrowings to get repriced in FY26F.
- On management changes, HDFC Bank indicated that it has reorganized the team with Mr. Kaizad Bharucha (current executive director) now managing the entire asset side of the business. Mr. Rahul Shukla (head of CRB) is currently on a sabbatical for personal reasons and his portfolio was reorganized.
- On repo transmission, management stated the full impact of the rate cut in Feb 2025 will be seen in the Jun 2025F quarter as resets vary depending on products/terms with borrowers.

Figure 3: Financial summary

HDFC Bank					Per Share Data and Valuations				
Profit and Loss Statement					Year end-March				
Rs B (Year end-March)	FY25	FY26F	FY27F	FY28F	Per Share Data (Rs)	FY25	FY26F	FY27F	FY28F
Interest Income	2,998	3,196	3,529	3,939	EPS	88	94	110	126
Interest Expense	1,778	1,890	2,028	2,238	EPS (ADR)	177	188	220	251
Net Interest Income	1,220	1,306	1,501	1,701	Book Value	655	732	820	921
---Fee Income	319	367	431	506	Book Value (Ex Subs Investments)	639	715	804	905
---Forex Income	57	66	75	87	Core PPOP	112	121	143	166
---Capital Gains	10	20	20	20	DPS	22.0	25.0	28.5	28.5
---Miscellaneous Inc.	78	82	82	82	Valuations				
Total Non Interest Income	463	534	608	695	PE Core	18.5	17.4	14.9	13.0
Total Operating Income	1,683	1,840	2,109	2,396	PE headline	21.6	20.2	17.4	15.2
---Employee Exp	239	256	276	298	Price to Book headline	2.9	2.6	2.3	2.1
---PSLC Expenses	0	0	0	0	P/PPOP (Core)	14.6	13.5	11.4	9.9
---Other Expenses	443	487	550	622	Dividend Yield	1.2%	1.3%	1.5%	1.5%
Total Operating Expenses	682	743	827	920	Price to Book (Core)	2.6	2.3	2.0	1.8
Operating Profit	1,001	1,098	1,282	1,476	Ratio Analysis				
---Specific Provisions	111	120	135	155	Year end-March	FY25	FY26F	FY27F	FY28F
Total provisions	116	131	149	174	Margins				
Profit Before Tax	885	967	1,133	1,302	Net Interest Margin	3.5%	3.4%	3.5%	3.5%
Provision for Tax	211	243	285	328	Average yield on assets	8.6%	8.3%	8.2%	8.1%
Net Profit	673	723	848	974	Cost of earning assets	5.1%	4.9%	4.7%	4.6%
Balance Sheet Data					Growth Ratios				
Rs B (Year end-March)	FY25	FY26F	FY27F	FY28F	Net Interest Income	12%	7%	15%	13%
Shareholders' equity	5,014	5,628	6,343	7,156	Non Interest Income	-6%	15%	14%	14%
Deposits	27,147	31,219	35,902	41,287	Operating expenses	8%	9%	11%	11%
Borrowings	5,479	4,945	4,704	4,476	Core Operating Profit	17%	9%	19%	16%
Other Liabilities & Prov.	1,461	1,680	1,933	2,222	Net Profit	11%	7%	17%	15%
Total Liabilities	39,102	43,473	48,882	55,142	EPS	3%	7%	17%	14%
Cash & Balances with RBI	2,396	2,170	2,639	2,975	Deposits	14%	15%	15%	15%
Investments	8,364	10,076	11,059	11,714	Advances	5%	10%	13%	15%
Advances	26,196	28,816	32,418	37,280	Total Assets	8%	11%	12%	13%
Total Assets	39,102	43,473	48,882	55,142	Profitability Ratios				
Earning Assets	36,955	41,061	46,116	51,969	Return On Equity	14.3%	13.7%	14.3%	14.6%
Average IEA	34,964	38,665	43,226	48,583	Return on Assets	1.8%	1.8%	1.8%	1.9%
Asset Quality					Efficiency Ratios				
Provisions/Avg Advances (bps)	46	49	50	51	Cost Income Ratio	41%	40%	39%	38%
Gross NPL	352	399	455	520	Expenses/Avg Assets	1.8%	1.8%	1.8%	1.8%
Net NPL	113	103	104	106	Capital Adequacy				
Reserve Coverage	239	296	350	415	CET 1 Ratio	17.2%	18.1%	18.8%	19.5%
Gross NPL Ratio	1.3%	1.4%	1.4%	1.4%	Tier 1 Ratio	17.7%	18.6%	19.2%	19.8%
Net NPL Ratio	0.4%	0.4%	0.3%	0.3%	Capital Adequacy Ratio	19.6%	20.3%	20.8%	21.2%

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	1,085,325	1,219,701	1,306,351	1,500,845	1,701,331
Total Non-Interest Income	492,410	463,323	534,114	608,145	694,886
Operating Revenue	1,577,735	1,683,024	1,840,465	2,108,990	2,396,217
Total Non-Interest Expenses	(633,860)	(681,749)	(742,754)	(826,525)	(920,163)
Pre-provision Operating Profit	943,874	1,001,275	1,097,712	1,282,465	1,476,054
Total Provision Charges	(234,921)	(116,494)	(130,877)	(149,487)	(174,387)
Operating Profit After Provisions	708,953	884,781	966,835	1,132,978	1,301,667
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	708,953	884,781	966,835	1,132,978	1,301,667
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	708,953	884,781	966,835	1,132,978	1,301,667
Exceptional Items					
Pre-tax Profit	708,953	884,781	966,835	1,132,978	1,301,667
Taxation	(100,830)	(211,307)	(243,352)	(285,171)	(327,630)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	608,123	673,474	723,483	847,808	974,037
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	608,123	673,474	723,483	847,808	974,037
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	95.8%	100.2%	94.3%	91.2%	90.3%
Avg Liquid Assets/Avg Assets	94.0%	94.3%	94.5%	94.4%	94.3%
Avg Liquid Assets/Avg IEAs	107.8%	106.9%	106.2%	105.8%	106.1%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.15%	0.46%	0.48%	0.49%	0.50%
Provision Charge/Avg Assets	0.77%	0.31%	0.32%	0.32%	0.34%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	24,848,616	26,196,086	28,815,694	32,417,656	37,280,304
Liquid Assets & Invst. (Current)	7,024,150	8,363,597	10,075,639	11,058,915	11,714,262
Other Int. Earning Assets					
Total Gross Int. Earning Assets	31,872,764	34,559,684	38,891,332	43,476,572	48,994,568
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	31,872,764	34,559,684	38,891,332	43,476,572	48,994,568
Intangible Assets					
Other Non-Interest Earning Assets	1,998,002	2,010,046	2,261,302	2,600,497	2,990,571
Total Non-Interest Earning Assets	2,111,992	2,146,600	2,411,511	2,765,727	3,172,325
Cash And Marketable Securities	2,191,474	2,395,707	2,169,845	2,639,420	2,974,614
Long-term Investments					
Total Assets	36,176,232	39,101,988	43,472,688	48,881,720	55,141,504
Customer Interest-Bearing Liabilities	23,797,862	27,147,148	31,219,222	35,902,104	41,287,420
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	30,419,394	32,491,688	36,029,308	40,471,684	45,628,524
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,354,379	1,596,055	1,815,248	2,067,320	2,357,202
Total Liabilities	31,773,772	34,087,744	37,844,556	42,539,004	47,985,724
Shareholders Equity	4,402,458	5,014,246	5,628,135	6,342,713	7,155,782
Minority Interests					
Total Equity	4,402,458	5,014,246	5,628,135	6,342,713	7,155,782

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	25.0%	12.4%	7.1%	14.9%	13.4%
Operating Profit Growth	34.1%	6.1%	9.6%	16.8%	15.1%
Pretax Profit Growth	21%	25%	9%	17%	15%
Net Interest To Total Income	68.8%	72.5%	71.0%	71.2%	71.0%
Cost Of Funds	5.84%	5.65%	5.52%	5.30%	5.20%
Return On Interest Earning Assets	9.7%	9.0%	8.7%	8.6%	8.5%
Net Interest Spread	3.90%	3.37%	3.19%	3.27%	3.32%
Net Interest Margin (Avg Deposits)	5.09%	4.79%	4.48%	4.47%	4.41%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	25%	12%	12%	12%	12%
Interest Return On Average Assets	3.57%	3.24%	3.16%	3.25%	3.27%
Effective Tax Rate	14.2%	23.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	24.4%	25.0%	26.6%	26.0%	22.7%
Return On Average Assets	2.00%	1.79%	1.75%	1.84%	1.87%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.