



India

ADD (no change)

Consensus ratings*: Buy 46 Hold 3 Sell 0

Current price: Rs1,957
 Target price: ▲ Rs2,250
 Previous target: Rs2,200
 Up/downside: 15.0%
 InCred Research / Consensus: 1.0%

Reuters: HDBK.NS
 Bloomberg: HDFCB IN
 Market cap: US\$174,204m
 Rs15,009,170m
 Average daily turnover: US\$243.3m
 Rs20962.1m
 Current shares o/s: 1,980.4m
 Free float: 100.0%

*Source: Bloomberg

Key changes in this note

Revise our margin assumptions for FY26F-28F based on 1QFY26 results.

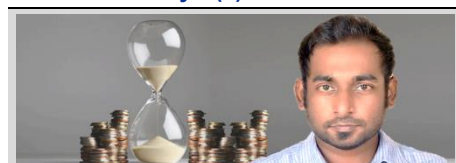


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.4)	2.7	21.8
Relative (%)	0.4	(0.3)	20.1

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

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HDFC Bank

Gearing to step up loan growth

- 1QFY26 earnings beat estimates because of better core PPop and strong treasury gains while credit costs rose marginally. Asset quality remains robust.
- HDFC Bank is well-placed to post a better margin progression versus peers. The valuation gap vs. ICICI Bank can dip further as volume growth picks up.
- Raise our target price to Rs2,250 (15% upside) as we marginally tweak our sustainable RoE assumptions. Stock looks attractive at 2.1x FY27F core BV.

Healthy core performance; fortifies B/S with additional provision

1QFY26 PAT of HDFC Bank grew by 12% YoY to Rs181bn (annualized RoA of 1.9%). During the quarter, the bank utilized a) stake sale in HDB Financial (Rs91bn), and b) treasury gains (Rs11bn vs. Rs4bn) to make additional provision of Rs108bn (i.e. Rs91bn floating + Rs17bn contingent). Adjusted for one-off stake sale gains and excess provision, PBT was 5% above our estimate, mainly led by better-than-expected core PPop (7% YoY) and treasury income while credit costs inched up marginally QoQ (57bp vs. 50bp). Contained costs (5% YoY; 4% below our estimate) and better-than-expected NII (5% YoY) aided core PPop beat while core fee growth remains subdued (+8% YoY). Healthy average balance sheet growth at 4% QoQ (11% YoY) aided NII growth while the margin declined by 15bp QoQ to 3.5% (on assets). Retail deposit (per LCR) growth was strong at 4% QoQ (12% YoY). Net loan growth was 7% YoY, and management alluded to improving the growth trajectory from here on. Moreover, the bank is now willing to prioritize opportunistic growth over its chase to fix the loan-to-deposit ratio. It has given guidance of in-line growth vs. system for FY26F and a better-than-system growth for FY27F. It targets to achieve LDR in the range of 87-90% by FY27F vs. 95% currently.

Better placed on margin vs. large private peers for the next few years

Adjusted margin fell by 15bp QoQ to 3.5%. Management noted that the transmission varies across portfolio, with the repo rate reset's ranging from monthly to quarterly. Management indicated that the repo rate cut in Feb 2025 of 25bp & early Apr 2025 of another 25bp has been entirely passed on while some portion of the Jun 2025 repo rate cut of 50bp will flow through in 2Q. We expect the margin to trough in 2Q and then improve. During 2Q, the margin impact of ~20bp owing to the dip in yields will be partly offset by savings account rate benefit (~9bp) as well as funding cost benefit from a gradual repricing of time liabilities (~8bp; term deposits & wholesale borrowings). Over the next few years, we believe the bank can post a margin relatively better than its peer large private banks, given a few favourable levers including legacy hedge on liabilities as well as repayment of the erstwhile HDFC's high-cost borrowings.

Retain ADD rating; raise TP to Rs2,250 as we tweak sustainable RoE

The key monitorable will be sustained delivery on deposit growth as well as margin progression going ahead. We raise our target price to Rs2,250 (Rs2,200 earlier) as we marginally tweak our RoE assumption. We revisit our earnings estimates and build in a special dividend. We expect RoA of 1.8%/1.9% in FY26F/27F & RoE of ~14-15% for the same period. The stock trades at 2.1x FY27F core BV while we assign a multiple of 2.5x FY27F core BV. We have assigned a sum-of-the-parts or 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	1,310,514	1,522,262	1,728,712
Total Non-Interest Income (Rsm)	492,410	463,323	628,047	605,103	690,814
Operating Revenue (Rsm)	1,577,735	1,683,024	1,938,561	2,127,365	2,419,526
Total Provision Charges (Rsm)	(234,921)	(116,494)	(257,289)	(166,490)	(193,895)
Net Profit (Rsm)	608,123	673,474	728,119	852,779	981,201
Core EPS (Rs)	80.05	88.01	94.67	110.31	126.27
Core EPS Growth	1%	10%	8%	17%	14%
FD Core P/E (x)	24.45	22.24	20.68	17.74	15.50
DPS (Rs)	19.50	22.00	30.00	28.50	28.50
Dividend Yield	1.00%	1.12%	1.53%	1.46%	1.46%
BVPS (Rs)	579.5	655.3	728.3	812.7	914.1
P/BV (x)	3.38	2.99	2.69	2.41	2.14
ROE	16.9%	14.3%	13.7%	14.4%	14.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs Mn	1QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	298,371	320,658	314,380	5%	-2%
Other Income	106,681	120,279	217,298	104%	81%
Adj. Other income	106,681	120,279	126,298	18%	5%
--Core Fee	70,500	85,300	75,900	8%	-11%
--Treasury Income	2,000	3,900	101,100	4955%	2492%
Adj. treasury gains	2,000	3,900	10,100	405%	159%
--Misc. Income	34,181	31,079	40,298	18%	30%
Total income	405,053	440,937	531,678	31%	21%
Adj. Total income	405,053	440,937	440,678	9%	0%
--Core Revenues	368,871	405,958	390,280	6%	-4%
Operating Expenses	166,206	175,570	174,338	5%	-1%
--Staff Expenses	58,489	61,159	61,580	5%	1%
--Other Operating Expenses	107,717	114,410	112,759	5%	-1%
Operating Profit	238,846	265,367	357,340	50%	35%
Adj. Operating profit	238,846	265,367	266,340	12%	0%
--Core PPop	202,665	230,388	215,941	7%	-6%
Provisions	26,021	31,931	144,416	455%	352%
Adj. Provisions	26,021	31,931	37,416	44%	17%
PBT	212,826	233,437	212,923	0%	-9%
Adj. PBT	212,826	233,437	228,923	8%	-2%
Tax	51,078	57,275	31,371	-39%	-45%
PAT	161,748	176,161	181,552	12%	3%
EPS	21	23	24		
Advances	24,635,208	26,196,086	26,284,342	7%	0%
Deposits	23,790,845	27,147,149	27,640,890	16%	2%
LD Ratio	104%	96%	95%		
CASA Ratio	36%	35%	34%		
Margins (%)	3.70	3.73	3.50	-0.20	-0.23
Overall provisions (in bp)	42	50	220		
---Credit cost (in bp)	42	50	220		
-----NPA provisions	42	50	57		
GNPA	330,257	352,226	370,408	12%	5%
GNPA Ratio (%)	1.33%	1.33%	1.40%		
NNPA	95,084	113,204	122,760	29%	8%
NNPA Ratio (%)	0.39	0.43	0.47		
PCR	235,173	239,022	247,648	5%	4%
PCR Ratio (%)	71%	68%	67%		
Slippages	79,000	75,000	90,000	14%	20%
--% of trailing loans	2.0%	1.2%	1.5%		
CET-1 Ratio (%)	16.8%	17.2%	17.4%		
RoA	1.9%	1.9%	1.9%		
RoE	14.4%	14.3%	14.2%		

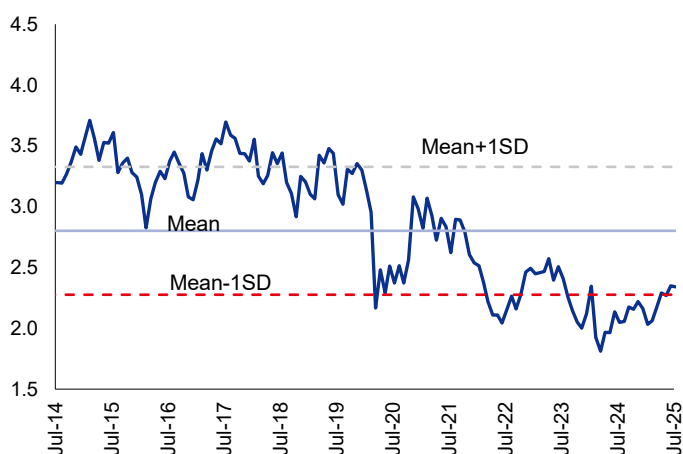
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs bn	New Estimates				Old Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Net Interest Income	1,220	1,311	1,522	1,729	1,306	1,501	1,701	0%	1%	2%
--Growth YoY	12%	7%	16%	14%	7%	15%	13%			
Non-Interest Income	463	628	605	691	534	608	695	18%	-1%	-1%
--Growth YoY	-6%	36%	-4%	14%	15%	14%	14%			
Total Income	1,683	1,939	2,127	2,420	1,840	2,109	2,396	5%	1%	1%
--Growth YoY	7%	15%	10%	14%	9%	15%	14%			
Opex	682	738	821	914	743	827	920	-1%	-1%	-1%
--Growth YoY	8%	8%	11%	11%	9%	11%	11%			
PPOP	1,001	1,201	1,306	1,505	1,098	1,282	1,476	9%	2%	2%
--Growth YoY	6%	20%	9%	15%	10%	17%	15%			
Provision	116	257	166	194	131	149	174	97%	11%	11%
--as a % of avg. loans	46	94	54	56	48	49	50			
PBT	885	943	1,140	1,311	967	1,133	1,302	-2%	1%	1%
Tax	211	215	287	330	243	285	328	13%	-1%	-1%
PAT	673	728	853	981	723	848	974	1%	1%	1%
--Growth YoY	11%	8%	17%	15%	7%	17%	15%			
Advances	26,196	28,816	32,418	37,280	28,816	32,418	37,280	0%	0%	0%
--Growth YoY	5%	10%	13%	15%	10%	13%	15%			
Deposits	27,147	31,219	35,902	41,287	31,219	35,902	41,287	0%	0%	0%
--Growth YoY	14%	15%	15%	15%	15%	15%	15%			
Book Value	655	728	813	914	732	820	921	0%	-1%	-1%
--Growth YoY	13%	11%	12%	12%	12%	12%	12%			
EPS	88	95	111	127	94	110	126	1%	1%	1%
--Growth YoY	3%	7%	17%	14%	7%	17%	14%			
ROA	1.8%	1.8%	1.9%	1.9%	1.8%	1.8%	1.9%	1	1	1
ROE	14.3%	13.8%	14.5%	14.8%	13.7%	14.3%	14.6%	3	22	23

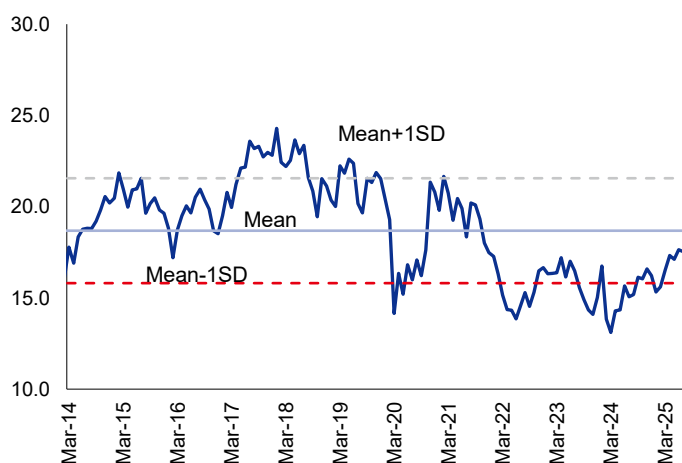
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/BV



SOURCES: INCRED RESEARCH

Figure 4: One-year forward P/E



SOURCES: INCRED RESEARCH

Key highlights

- Average deposits grew by 16% YoY, steady vs. last quarter. This was led by strong growth in term deposits (22% YoY) while average CASA deposits grew by 6% YoY (+4% 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 12% YoY vs. 11% last quarter. Sequentially, growth was 4% vs. 2% last quarter.
- Gross loan book (pre-interbank participation certificates) grew by 8% YoY (flat QoQ), mainly led by the commercial & rural segment (17% YoY; 2% QoQ) and retail (+8% YoY; 1% QoQ) while corporate loans grew by 2% YoY (down 1% QoQ). Management indicated that pricing competition remains intense in large corporate and mortgage segments. There are still no material signs of private capex picking up. Also, the bank faces intense pricing competition from SOE banks in mortgages. However, there are a few pockets where it looks to turn opportunistic. The bank is seeing healthy demand/signs of positive enquiries from the rural segment, given better monsoons. As regards urban consumption, it noted that premium cohort (i.e. mid-high income bracket) is growing well but overall, there seems to be a little bit of fatigue. Overall, it

expects strong consumption demand (from both rural & urban areas) with the festive season coming up.

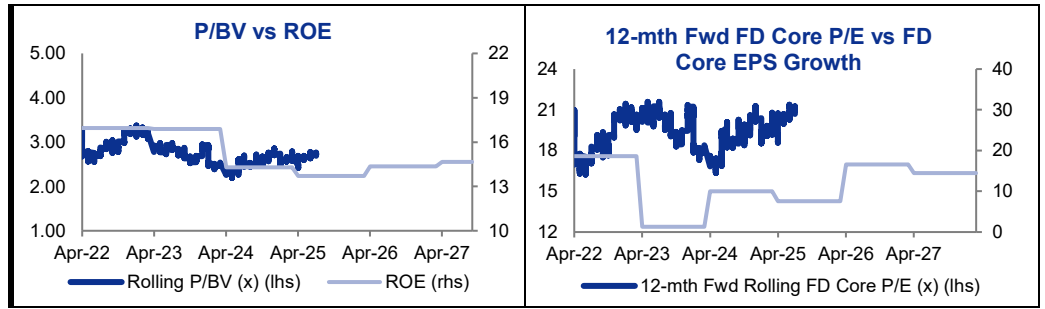
- Gross slippage stood at Rs90bn (1.5% annualized) vs. Rs75bn last quarter and Rs79bn last year. On a YoY basis, given that 1Q tends to witness seasonal agri loan slippage, gross slippage was broadly steady. Net slippage increased to Rs48bn vs. Rs44bn last year and that partly led to an uptick in credit costs (57bp vs. 42bp last year).
- Headline GNPA's increased by 5% QoQ to Rs370bn and the GNPA ratio was broadly steady QoQ at 1.4% vs. last quarter. PCR remains healthy at 67%, vs. 68% last quarter. Net NPL ratio was at 0.5%. Outstanding additional provisions (contingent + floating) stood at Rs366bn (1.4% of loans).

Figure 5: Financial summary

HDFC Bank					Per Share Data and Valuations				
Profit and Loss Statement					Year-end March				
Rs Bn (Year-end March)	FY25	FY26F	FY27F	FY28F	Per Share Data (Rs)	FY25	FY26F	FY27F	FY28F
Interest Income	2,998	3,191	3,518	3,903	EPS	88	95	111	127
Interest Expense	1,778	1,880	1,996	2,175	EPS (ADR)	177	190	221	253
Net Interest Income	1,220	1,311	1,522	1,729	Book Value	655	728	813	914
—Fee Income	319	362	425	499	Book Value (Ex Subs Investments)	637	710	795	896
—Forex Income	49	66	76	87	Core PPOP	112	122	146	169
—Capital Gains	18	116	20	20	DPS	22.0	30.0	28.5	28.5
—Miscellaneous Inc.	78	85	85	85	Valuations				
Total Non Interest Income	463	628	605	691	P/E Core	19.1	17.8	15.3	13.3
Total Operating Income	1,683	1,939	2,127	2,420	P/E headline	22.2	20.6	17.7	15.5
—Employee Exp	239	252	272	294	Price to Book headline	3.0	2.7	2.4	2.1
—PSLC Expenses	0	0	0	0	P/PPOP (Core)	15.0	13.9	11.6	10.0
—Other Expenses	443	486	549	620	Dividend Yield	1.1%	1.5%	1.5%	1.5%
Total Operating Expenses	682	738	821	914	Price to Book (Core)	2.6	2.4	2.1	1.9
Operating Profit	1,001	1,201	1,306	1,505	Ratio Analysis				
—Specific Provisions	128	140	152	174	Year-end March	FY25	FY26F	FY27F	FY28F
Total provisions	116	257	166	194	Margins				
Profit Before Tax	885	943	1,140	1,311	Net Interest Margin	3.5%	3.4%	3.5%	3.5%
Provision for Tax	211	215	287	330	Average yield on assets	8.6%	8.2%	8.1%	8.0%
Net Profit	673	728	853	981	Cost of earning assets	5.1%	4.9%	4.6%	4.5%
Balance Sheet Data					Growth Ratios				
Rs Bn (Year-end March)	FY25	FY26F	FY27F	FY28F	Net Interest Income	12%	7%	16%	14%
Shareholders' equity	5,014	5,602	6,283	7,103	Non Interest Income	-6%	36%	-4%	14%
Deposits	27,147	31,219	35,902	41,287	Operating expenses	8%	8%	11%	11%
Borrowings	5,479	5,218	4,970	4,734	Core Operating Profit	17%	10%	20%	17%
Other Liabilities & Prov.	1,461	1,680	1,933	2,222	Net Profit	11%	8%	17%	15%
Total Liabilities	39,102	43,719	49,087	55,346	EPS	3%	7%	17%	14%
Cash & Balances with RBI	2,396	2,113	2,330	2,623	Deposits	14%	15%	15%	15%
Investments	8,364	10,379	11,574	12,271	Advances	5%	10%	13%	15%
Advances	26,196	28,816	32,418	37,280	Total Assets	8%	12%	12%	13%
Total Assets	39,102	43,719	49,087	55,346	Profitability Ratios				
Earning Assets	36,955	41,308	46,321	52,174	Return On Equity	14.3%	13.8%	14.5%	14.8%
Average IEA	34,964	38,732	43,294	48,675	Return on Assets	1.8%	1.8%	1.9%	1.9%
Asset Quality					Efficiency Ratios				
Provisions/Avg Advances (bp)	47	95	55	56	Cost Income Ratio	41%	38%	39%	38%
Gross NPL	352	396	448	509	Expenses/Avg Assets	1.8%	1.8%	1.8%	1.8%
Net NPL	113	80	61	38	Capital Adequacy				
Reserve Coverage	239	315	387	471	CET 1 Ratio	17.2%	17.0%	17.8%	18.6%
Gross NPL Ratio	1.3%	1.4%	1.4%	1.3%	Tier 1 Ratio	17.7%	17.3%	18.2%	18.8%
Net NPL Ratio	0.4%	0.3%	0.2%	0.1%	Capital Adequacy Ratio	19.6%	19.2%	19.8%	20.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	1,310,514	1,522,262	1,728,712
Total Non-Interest Income	492,410	463,323	628,047	605,103	690,814
Operating Revenue	1,577,735	1,683,024	1,938,561	2,127,365	2,419,526
Total Non-Interest Expenses	(633,860)	(681,749)	(737,937)	(821,253)	(914,391)
Pre-provision Operating Profit	943,874	1,001,275	1,200,624	1,306,112	1,505,135
Total Provision Charges	(234,921)	(116,494)	(257,289)	(166,490)	(193,895)
Operating Profit After Provisions	708,953	884,781	943,335	1,139,622	1,311,240
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	708,953	884,781	943,335	1,139,622	1,311,240
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	708,953	884,781	943,335	1,139,622	1,311,240
Exceptional Items					
Pre-tax Profit	708,953	884,781	943,335	1,139,622	1,311,240
Taxation	(100,830)	(211,307)	(215,216)	(286,843)	(330,039)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	608,123	673,474	728,119	852,779	981,201
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	608,123	673,474	728,119	852,779	981,201
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%	106.1%	105.3%	105.3%
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%	0.94%	0.54%	0.56%
Provision Charge/Avg Assets	0.77%	0.31%	0.62%	0.36%	0.37%
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	10,378,598	11,573,887	12,270,607
Other Int. Earning Assets					
Total Gross Int. Earning Assets	31,872,764	34,559,684	39,194,292	43,991,544	49,550,912
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	31,872,764	34,559,684	39,194,292	43,991,544	49,550,912
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	2,113,351	2,329,682	2,623,196
Long-term Investments					
Total Assets	36,176,232	39,101,988	43,719,156	49,086,952	55,346,432
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	30,168,858	32,375,922	36,186,556	40,621,072	45,770,440
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,604,915	1,711,822	1,931,014	2,183,086	2,472,969
Total Liabilities	31,773,772	34,087,744	38,117,568	42,804,156	48,243,408
Shareholders Equity	4,402,458	5,014,246	5,601,585	6,282,794	7,103,025
Minority Interests					
Total Equity	4,402,458	5,014,246	5,601,585	6,282,794	7,103,025

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	25.0%	12.4%	7.4%	16.2%	13.6%
Operating Profit Growth	34.1%	6.1%	19.9%	8.8%	15.2%
Pretax Profit Growth	21%	25%	7%	21%	15%
Net Interest To Total Income	68.8%	72.5%	67.6%	71.6%	71.4%
Cost Of Funds	5.90%	5.69%	5.48%	5.20%	5.03%
Return On Interest Earning Assets	9.7%	9.0%	8.7%	8.5%	8.3%
Net Interest Spread	3.84%	3.34%	3.17%	3.26%	3.31%
Net Interest Margin (Avg Deposits)	5.09%	4.79%	4.49%	4.54%	4.48%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	25%	12%	21%	13%	13%
Interest Return On Average Assets	3.57%	3.24%	3.16%	3.28%	3.31%
Effective Tax Rate	14.2%	23.9%	22.8%	25.2%	25.2%
Net Dividend Payout Ratio	24.4%	25.0%	31.7%	25.8%	22.6%
Return On Average Assets	2.00%	1.79%	1.76%	1.84%	1.88%

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.