

CMP: ₹ 931

Target: ₹ 1150 (23%)

Target Period: 12 months

BUY

January 19, 2026

### Q3 in-line with guidance; reiterated focus on growth....

**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 ~₹ 28.5 lakh crore

**Q3FY26 performance:** HDFC Bank reported steady Q3FY26 performance, with advances up 11.9% YoY (2.7% QoQ) to ₹28.5 lakh crore, driven by MSME and corporate segments, while deposits grew 11.6% YoY (2.1% QoQ) to ₹28.6 lakh crore, led by term deposits (+12.3% YoY). NII rose 6.4% YoY to ₹32,615 crore, while NIMs improved 8 bps QoQ to 3.35%, reflecting easing funding costs and CRR benefit. Operating performance was benign, with staff costs up 21.1% YoY, owing to wage revisions and labour-code provisioning (~₹800 crore in Q3). Including release of ₹1,040 crore of contingent provision, PAT grew 11.5% YoY to ₹18,654 crore, while asset quality remained stable with slippages (ex-agri) at ~24 bps.

#### Investment Rationale

- Growth momentum improves with calibrated LDR glide path:** Management indicated that credit momentum has turned more favourable, aided by easing rates, CRR release and benign credit conditions, creating headroom for faster balance-sheet expansion. Thus, management reiterated system aligned growth in FY26 and aims to outpace the industry from FY27E. This growth engine is expected to be broad-based, led by retail (51% of advances) and MSME (21%), with recovery in wholesale lending as liquidity conditions ease. Further, on the liabilities side, management reiterated its commitment to granular, relationship-led deposit mobilisation, supported by branch vintage maturation and cross-sell of products such as mortgages, cards and auto loans. This strategy enables bank to achieve its stated objective of bringing loan-deposit ratio toward ~90% over the medium term, while sustaining profitable growth rather than chasing deposits through aggressive pricing.
- Stable asset quality; with margin recovery levers visible:** Management highlighted three key levers to drive gradual improvement in NIMs - 1) TD repricing benefits are expected to flow through with a lag of ~5 quarters; 2) borrowings mix remains elevated at ~13% currently (vs ~7% in Q3FY25), with scope for normalization over time, which should lower funding costs; 3) CASA and granular deposit mobilisation is expected to improve through better customer engagement and higher product penetration across cards, mortgages and auto loans. Further, asset quality is expected to remain benign, with low slippages (ex-agri) and stable recoveries, while the recent labour-code provisioning of ₹800 crore (impacting staff cost up ~11.5% QoQ) is based on actuarial assumptions under evolving rules and does not yet reflect a steady-state recurring cost.

#### Rating and Target Price

- Supported by steady credit momentum, improving liabilities mix, and strong capital position, growth trajectory is seen to normalize gradually. Factoring RoA of ~1.8-1.9% in FY27-28E and sustained growth outlook, we value the bank at ~2.5x FY28E ABV and add ₹124 for subsidiaries, assigning a revised target price of ₹1,150 (earlier ₹1,200). We maintain our BUY rating.

#### Key Financial Summary

₹ crore	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	108531.9	122670.1	18.9%	128492.2	146279.5	171278.4	11.8%
PPP	94386.9	100127.5	19.3%	117334.6	128769.2	148780.5	14.1%
PAT	60811.7	67347.4	23.6%	73631.8	85433.9	99088.7	13.7%
ABV (₹)	267.5	302.1		338.6	381.9	432.2	
P/E	23.3	21.2		19.5	16.8	14.5	
P/ABV	3.5	3.1		2.7	2.4	2.2	
RoA	2.0	1.8		1.8	1.9	1.9	
RoE	13.9	13.5		13.2	13.7	14.1	

Source: Company, ICICI Direct Research

ICICI Securities | Retail Research



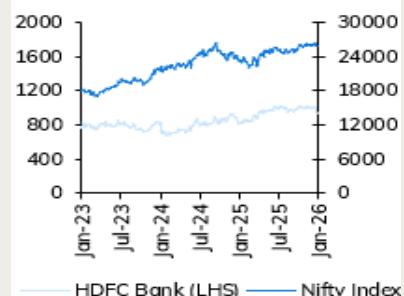
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 14,32,458 crore
52 week H/L	1020 / 813
Networth	₹ 5,60,489 crore
Face value	1
DII holding	37
FII Holding	48

#### Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	0	0	0	0
FII	48.3	48.8	48.4	47.7
DII	35.7	35.8	36.1	37
Others	16	15.4	15.5	15.1

#### Price Chart



#### Key risks

- Slower than expected deposit growth
- Margin pressure amid change in asset mix

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## Concall highlights and outlook

### Credit and deposit growth outlook

- The easing rate cycle and benign credit environment acted as catalysts for credit growth, while CRR release enabled credit deployment slightly ahead of expectations.
- Management reiterated guidance of system-aligned loan growth in FY26, followed by outperformance versus system growth from FY27 onward.
- LDR (Loan–Deposit) glide path:
  - Management reiterated LDR is not a regulatory compliance metric, but an internal profitability/sustainability focus.
  - FY26: comfortable operating within the earlier indicated 92–96% band.
  - FY27: indicated “around 90” (broadly discussed as 85–90% range, later clarified as a directional band, not a hard target).
  - Management cautioned against focusing on quarterly volatility, noting seasonality, CRR release, and tactical growth opportunities can temporarily impact ratios.
- Importantly, management stated that LDR will not constrain growth, and the bank remains confident of achieving its stated glide path.

### Margins

- NIM expanded ~8 bps QoQ to 3.35% primarily by cost of funds improvement.
- Management highlighted key levers to improve NIMs:
  - Time deposit repricing lag: deposit rate adjustments flow through over ~five quarters; management indicated bank has repriced about ~two-thirds of that so far.
  - Borrowings mix: borrowings were ~13% currently (vs ~7% Q3FY25); management sees scope for this to decline, improving funding cost.
  - CASA/granular mobilisation: improved customer engagement + product penetration expected to aid CASA over time.

### Asset quality

- RBI inspection-related provisions of ~₹500 crore pertaining to agriculture portfolio compliance have been fully absorbed in Q3FY26.
- Seasonal patterns in agri are normal; management indicated delinquencies/slippages remain low with healthy recoveries.
- Credit cost (net of recoveries) stands at 41 bps (vs 37 bps in Q2FY26)
- Management clarified quarterly slippages (ex-agri) were about ~24 bps (vs ~23 bps Q2FY26), broadly stable.

### Other updates

- Elevated labour code provisions (~₹800 crore in Opex) reflect a high-level actuarial estimate, based on best available information.
- Management highlighted that:
  - Final impact remains uncertain as rule-making on wage definitions is still pending
  - Current provisioning should not be interpreted as a recurring run-rate
  - Estimates will evolve as regulatory clarity improves
- LCR update: Reported LCR at 116; management does not expect the April 2026 guideline changes to cause a material impact.
- Cards strategy: Card franchise is being managed more as a liability/deposit enabler than a revolve-led receivables business; revolver rates structurally lower than pre-2020, reflecting conservative risk posture.
- Management acknowledged irrational pricing in mortgages/auto in the system, but reiterated they will compete via relationship and segmentation, not uneconomic pricing, expecting irrationality to fade over a few quarters.

**Exhibit 1: SOTP Valuation**

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.6x FY28E ABV	100.0	1026
HDFC AMC	37x FY28E EPS	52.4	47
HDFC Life Insurance	2.4x FY28E EV	50.3	59
HDFC ERGO		50.5	6
HDB fin Serv		74.2	31
HDFC Sec		95.1	12
Value per share			1181
Discount @ 20%			31
Value per share for HDFC Bank			1150

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	32,615	30,653	6.4	31,552	3.4	NII growth was driven by healthy loan growth and reduced CoF
NIM (%)	3.35	3.43	-8 bps	3.27	8 bps	Repricing deposits, CRR benefit and thus decline in CoF aids NIMs sequentially
Other Income	13,254	11,454	15.7	14,350	-7.6	Treasury income aids YoY growth in other income
Net Total Income	45,869	42,107	8.9	45,902	-0.1	
Staff cost	7,203	5,950	21.1	6,461	11.5	Higher employee base and labour code related provisioning ~800 crore
Other Operating Expenses	11,568	11,156	3.7	11,517	0.4	
PPP	27,098	25,000	8.4	27,924	-3.0	
Provision	2,838	3,154	-10.0	3,501	-18.9	₹1,040 crore of contingent provision released in Q3FY26
PBT	24,260	21,847	11.0	24,423	-0.7	
Tax	5,606	5,111	9.7	5,782	-3.0	
PAT	18,654	16,736	11.5	18,641	0.1	Steady earnings driven by pick up in business momentum

**Key Metrics**

GNPA	35,179	36,019	-2.3	34,289	2.6	GNPA steady ex-agri slippages (seasonal)
NNPA	11,982	11,588	3.4	11,447	4.7	
Advances	2,844,600	2,542,600	11.9	2,769,200	2.7	Growth seems across corporate and MSME segments
Deposits	2,860,100	2,563,800	11.6	2,801,800	2.1	Term deposits grew 12.3% YoY

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement		₹ crore		
(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	300517.0	316065.3	349711.3	391419.8
Interest Expended	177847.0	187573.2	203431.8	220141.4
NII	122670.1	128492.2	146279.5	171278.4
Growth (%)	13.0	4.7	13.8	17.1
Other income	45632.3	62318.7	61437.4	66798.6
Total Income	168302.4	190810.9	207716.9	238077.0
Employee cost	23900.5	27669.4	29705.5	33571.1
Other operating Exp.	44274.4	45806.9	49242.3	55725.3
PPP	100127.5	117334.6	128769.2	148780.5
Provisions	11649.4	24716.0	16356.2	18400.7
PBT	88478.1	92618.6	112413.0	130379.8
Taxes	21130.7	18986.8	26979.1	31291.2
Net Profit	67347.4	73631.8	85433.9	99088.7
Growth (%)	10.7	9.3	16.0	16.0
EPS	44.0	47.9	55.5	64.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
<u>Valuation</u>				
No. of Equity Shares	1,530.4	1,538.5	1,538.5	1,538.5
EPS (₹)	44.0	47.9	55.5	64.4
BV (₹)	325.1	361.7	406.2	457.7
ABV (₹)	302.1	338.6	381.9	432.2
P/E	21.2	19.5	16.8	14.5
P/BV	2.9	2.6	2.3	2.0
P/ABV	3.1	2.7	2.4	2.2
<u>Yields &amp; Margins (%)</u>				
Net Interest Margins	3.7	3.5	3.6	3.8
GNPA	1.3	1.2	1.1	1.1
RoE	13.5	13.2	13.7	14.1
RoA	1.8	1.8	1.9	1.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet		₹ crore		
(Year-end March)	FY25	FY26E	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	1,530.4	1,538.5	1,538.5	1,538.5
Reserves and Surplus	496,089.0	554,994.4	623,341.5	702,612.4
Networth	497,619.4	556,532.9	624,880.0	704,150.9
Deposits	2,714,714.9	3,026,907.1	3,456,727.9	3,940,669.8
Borrowings	547,930.9	558,889.5	586,834.0	616,175.7
Other Liabilities & Prov	149,933.7	160,881.4	155,558.4	144,365.1
Total	3,910,198.9	4,303,210.9	4,824,000.3	5,405,361.5
<u>Applications of Funds</u>				
Fixed Assets	13,655.4	15,020.9	16,523.0	18,175.3
Investments	836,359.7	902,272.0	995,827.3	1,095,836.4
Advances	2,619,608.6	2,907,765.6	3,271,236.3	3,680,140.8
Other Assets	201,004.6	217,084.9	243,135.1	272,311.3
Cash with RBI & call money	239,570.7	261,067.5	297,278.6	338,897.6
Total	3,910,198.9	4,303,210.9	4,824,000.3	5,405,361.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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