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RoA to sustain going into FY27E, valuation warrants upside

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 ~₹ 29.6 lakh crore

Q4FY26 performance: HDFC Bank reported a steady Q4FY26 performance, with advances up 12% YoY (4.1% QoQ) to ₹29.6 lakh crore, driven by Gold (up 10.2% QoQ), MSME (5.3% QoQ) and corporate (5.1%). Deposits were up 14.4% YoY (8.6% QoQ) to ₹31,05,300 crore, led CASA which grew by 10.3% sequentially. NII grew 3.2% YoY (1.4% QoQ) to ₹33,082 crore, while NIM improved 3 bps QoQ to 3.38%, though still below YoY levels due to lagged transmission. Other income was flat - 0.4% QoQ, amid treasury normalization offsetting steady fee income. Provisions declined 18.3% YoY (-8% QoQ) on the back of benign asset quality and recoveries, aided PAT growth of 9.1% YoY (3% QoQ) to ₹19,221 crore. Asset quality remained stable, with GNPA/NNPA at 1.15%/0.38% (vs 1.24%/0.42% in Q3FY26), with management reiterating no emerging stress across segments.

Investment Rationale

- **Corporate and MSME led-growth, Retail recovery awaited, Liabilities franchise improving:** Advances growth improved to ~12% in FY26 (vs ~5.5% in FY25), led by growth in corporates (~13% YoY) and MSME (~17.2% YoY), this gradual revival in corporates was across sectors such as electronics, auto and renewables. Management remains confident of sustaining steady, risk-calibrated growth, improving retail traction (wheels, PL, mortgages) which was relatively subdued in FY26 (~6.2% YoY), supported by strong distribution (~9,700 branches). On liabilities side, deposits grew at 14.4% YoY (8.6% QoQ), led by robust liabilities mobilisation and seasonality. Management highlighted that deposit traction has now structurally improved, CASA uptick (up 53 bps QoQ) and branch maturity, providing better visibility on LDR normalisation. We model credit growth of ~12-13% and gradual improvement in CD ratio over FY27-28E.
- **Margin normalization and benign credit cost to support RoA sustainability:** Margins are expected to gradually improve, with residual benefits from deposit repricing (5-6 quarter lag cycle) and normalization in borrowing mix at ~11% of total assets (vs 14% in FY25) likely to support funding cost. While near-term NIMs may remain range-bound due to elevated term deposit share (~66% of total deposits), management is focused on RoA-led profitability (~1.9%), supported by stable asset quality, benign credit costs (21 bps vs 41 bps QoQ) and improving operating efficiency. Strong provisioning buffer (~125 bps), controlled opex growth and benefits from past investments in technology and distribution are expected to drive operating leverage and sustain return ratios over medium term.

Rating and Target Price

- Healthy credit trends, improving funding profile and well-capitalised balance sheet provides visibility for calibrated growth going into FY27E. Factoring RoA of ~1.8-1.9% in FY27-28E and sustained growth outlook, we value the bank at ~2.1x FY28E ABV and add ₹120 for subsidiaries, assigning a revised target price of ₹1,050 (earlier ₹1,070). We maintain our BUY rating.

Key Financial Summary

₹ crore	FY24	FY25	FY26	2 year CAGR (FY24-FY26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	108532.5	122670.1	128686.0	8.9%	144777.3	166055.6	13.6%
PPP	94387.5	100127.5	118558.3	12.1%	127266.9	143557.9	10.0%
PAT	60812.3	67347.4	74671.3	10.8%	84309.4	95197.8	12.9%
ABV (₹)	282.8	319.5	358.3		395.2	444.1	
P/E	20.0	18.2	16.5		14.6	12.9	
P/ABV	2.8	2.5	2.2		2.0	1.8	
RoA	2.0	1.8	1.8		1.8	1.9	
RoE	13.9	13.4	13.3		13.7	13.7	

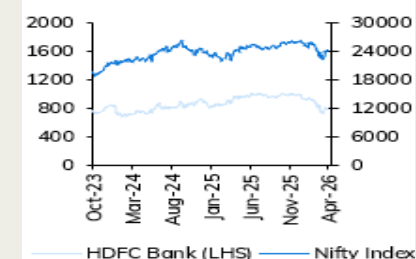
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 12,31,316 crore
52 week H/L	₹ 1,020 / 727
Networth	₹ 5,81,514 crore
Face value	1
DII holding	40
FII Holding	44

Shareholding pattern

(in %)	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	0	0	0	0
FII	48.8	48.4	47.7	44
DII	35.8	36.1	37	40.2
Others	15.4	15.5	15.3	15.8

Price Chart**Key risks**

- Leadership rejig and deposit accretion may remain watchful
- Margin pressure amid alteration in asset mix

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Concall highlights and outlook

Performance and growth outlook

- Advances grew ~12% YoY (vs ~4.1% QoQ), indicating sharp recovery in momentum; deposits grew ~14.4% YoY (8.6% QoQ), continuing to outpace credit, supporting balance-sheet stability.
- Growth remains broad-based, with retail contributing ~53–54% of mix, while corporate traction improved across electronics, auto, renewables and supply-chain financing.
- Retail growth has picked up sequentially over last 3 quarters, led by wheels, PL and mortgages, supported by distribution expansion (~8k locations) and digital sourcing.
- MSME remains a key growth engine with ~20% growth trajectory, with leadership across geographies supporting sustained momentum.
- Management expects continued positive growth trajectory, though calibrated vs system given evolving macro/geopolitical risks; focus remains on risk-adjusted, not aggressive growth.
- Third-party fee income growth remained muted due to product mix and softer customer preference, not structural weakness.
- Treasury performance impacted by lower FX volumes and spreads, while investment yield movement reflects portfolio duration and reinvestment dynamics rather than spot yield changes.

Margins

- NIM expanded ~3 bps QoQ to 3.38% primarily by repricing of deposits; though compressed 16 bps YoY.
- NIM pressure was largely driven by faster asset repricing vs lagged deposit repricing, with only ~40–50 bps transmission on deposits so far, indicating residual benefit yet to flow through.
- Time deposit repricing cycle (5–6 quarters) suggests further moderation in cost of funds over time, although pace depends on rate environment.
- Borrowings substitution into deposits has not yet fully translated into margin gains, as incremental deposits are relatively higher-cost vs CASA.
- Near-term margin outlook remains range-bound, with focus shifting toward RoA stability via operating and credit cost efficiencies.

Asset quality & Opex

- Asset quality remains robust, with GNPA at ~1.15% and no visible stress across segments.
- Healthy provisioning buffer (~125 bps) provides cushion against potential shocks, supporting earnings stability.
- Credit cost improved to 21 bps (vs 41 bps Q3FY26), aided by low slippages and steady recoveries, reinforcing quality of growth.
- Cost trajectory remains controlled with ~6–7% opex growth, lower than topline growth, indicating operating leverage kicking in.
- Cost-to-income improved to ~39.5%, with further scope for efficiency gains driven by technology investments and scale benefits.

Other updates

- Strong capital position with CRAR at ~19.7%, providing ample headroom for growth and balance-sheet resilience.
- Management reiterated that LDR is not a constraint, with continued focus on granular deposit mobilisation; <₹3 crore deposits now ~47% of incremental accretion.
- Digital and tech investments (~\$1bn over last few years) driving ~97% digital transactions and enhancing customer experience and efficiency.
- AI-led transformation underway with multiple use cases live; expected to drive productivity gains and RoA improvement over medium term.
- Governance-related developments (chairman exit, Dubai matter) remain non-disruptive, with regulatory support and no impact on operations.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.1x FY28E ABV	100.00	930
HDFC AMC	36x FY28E EPS	52.37	47
HDFC Life Insurance	1.9x FY28E EV	50.21	52
HDFC ERGO		50.50	6
HDB fin Serv		74.15	33
HDFC Sec		95.10	12
Value per share			1,080
Discount @ 20%			30
Value per share for HDFC Bank			1,050

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
NII	33,082	32,066	3.2	32,615	1.4	Growth remains moderate, reflecting steady loan growth (~4.1% QoQ) but constrained by margin pressure
NIM (%)	3.38	3.54	-16 bps	3.35	3 bps	Marginal QoQ improvement; though still below YoY levels due to lagged transmission
Other Income	13,199	12,028	9.7	13,254	-0.4	QoQ flat; treasury normalization offsets steady fee income
Net Total Income	46,280	44,094	5.0	45,869	0.9	
Staff cost	6,228	6,116	1.8	7,203	-13.5	Sharp QoQ decline due to base effect (Q3 labour code provisioning)
Other Operating Expense	12,250	11,441	7.1	11,568	5.9	
PPP	27,803	26,537	4.8	27,098	2.6	
Provision	2,610	3,193	-18.3	2,838	-8.0	Net of recoveries credit cost improved to 21 bps (vs 41 bps Q3FY26)
PBT	25,193	23,344	7.9	24,260	3.8	
Tax	5,972	5,728	4.3	5,606	6.5	
PAT	19,221	17,616	9.1	18,654	3.0	PAT grew largely on account of moderation in credit cost

Key Metrics

GNPA	34,061	35,223	-3.3	35,179	-3.2	Aided by strong recoveries and low slippages
NNPA	11,170	11,320	-1.3	11,982	-6.8	
Advances	2,960,000	2,643,500	12.0	2,844,600	4.1	Healthy growth driven by retail, MSME and selective corporate pickup
Deposits	3,105,300	2,714,700	14.4	2,860,100	8.6	Q4 was aided by system-wide liquidity surge and seasonal quarter-end flows

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	300517	307522	348804	387393
Interest Expended	177847	178836	204027	221337
NII	122670	128686	144777	166056
Growth (%)	13.0	4.9	12.5	14.7
Other income	45632	62533	61437	66799
Total Income	168302	191219	206215	232854
Employee cost	23901	26050	29705	33571
Other operating Exp.	44274	46610	49242	55725
PPP	100127	118558	127267	143558
Provisions	11649	23390	16333	18298
PBT	88478	95169	110933	125260
Taxes	21131	20497	26624	30062
Net Profit	67347	74671	84309	95198
Growth (%)	10.7	10.9	12.9	12.9
EPS	44.0	48.5	54.8	61.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26	FY27E	FY28E
<u>Valuation</u>				
No. of Equity Shares	1530.4	1539.3	1538.5	1538.5
EPS (₹)	44.0	48.5	54.8	61.9
BV (₹)	327.6	365.7	401.0	453.1
ABV (₹)	319.5	358.3	395.2	444.1
P/E	18.2	16.5	14.6	12.9
P/BV	2.4	2.2	2.0	1.8
P/ABV	2.5	2.2	2.0	1.8
<u>Yields & Margins (%)</u>				
Net Interest Margins	3.7	3.5	3.6	3.7
GNPA	1.4	1.2	1.0	0.8
NNPA	0.5	0.4	0.3	0.4
RoE	13.4	13.3	13.7	13.7
RoA	1.8	1.8	1.8	1.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	1530	1539	1539	1539
Reserves and Surplus	499894	561362	615444	695596
Networth	501425	562901	616982	697135
Deposits	2714715	3105250	3476637	3963684
Borrowings	547931	489395	503001	528151
Other Liabilities & Provision	146129	207340	226118	195200
Total	3910199	4364886	4822737	5384169
<u>Applications of Funds</u>				
Fixed Assets	13655	14725	16523	18175
Investments	836360	884201	973860	1051355
Advances	2619609	2937166	3291940	3703431
Other Assets	201005	230328	243135	272311
Cash with RBI & call money	239571	298466	297278	338897
Total	3910199	4364886	4822737	5384169

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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