HDFC Bank Limited (HDFBAN)

ICICI Direct

CMP: ₹ 820 | Target: ₹ 1000 (22%) | Target Period: 12 months | BUY

July 19, 2026

Result Update

ICICI Securities – Retail Equity Research

Focus on deepening customer relation to sustain RoA...

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 ~₹ 30.6 lakh crore

Q1FY27 performance: HDFC Bank reported a steady Q1FY27 performance, with advances increasing 15.4% YoY (3.4% QoQ) to ₹30.6 lakh crore, supported by continued traction across MSME and corporate segment. Deposits grew 14.7% YoY (2.1% QoQ) to ₹31.7 lakh crore, while average deposits increased 13.3% YoY. Net interest income rose 6.7% YoY (1.4% QoQ) to ₹33,530 crore, though NIM moderated ~10 bps QoQ to 3.4%, amid evolving interest rate cycle. Operating expenses increased 4.3% YoY but declined 1.6% QoQ, keeping core cost-to-income ratio at 39.2%. Provisions declined sharply by 78.8% YoY, PAT grew 9.8% YoY to ₹19,060 crore (normalised).

Investment Rationale

- **Customer acquisition to drive retail acceleration and strenghten funding profile:** Advances grew ~15.4% YoY in Q1FY27, driven by growth in corporate/wholesale (~18% YoY) and MSME/Business Banking (~22.3% YoY). Retail disbursements also improved, with mortgages up ~14% YoY and healthy traction across wheels and unsecured loans. Focus on customer acquisition is expected to boost retail growth and aims for a retail mix of ~60%. Deposits grew ~14.7% YoY, supported by continued market-share gains. Management targets rebuilding CASA towards pre-merger levels (~38–40%) driven by higher customer acquisition, improving branch maturity and deeper customer engagement over medium term, while FCNR(B) mobilisation window provides an additional lever for deposit growth. We expect advances to grow at ~13% over FY27–28E, supported by broad-based credit demand, improving retail traction and sustained liability franchise strength.
- **Funding cost normalisation and operating leverage to support profitability:** NIM remained at 3.4% in Q1FY27 as funding cost transmission continued to lag asset repricing. Funding costs are expected to moderate gradually as ~₹40,000–50,000 crore of borrowings costing >7% are replaced with lower-cost deposit. While margins may remain range-bound in the near term, improvement in funding mix and lower borrowing cost are expected to support gradual NIM expansion over FY27–28E. Asset quality remained strong (GNPA: 1.17%), with sufficient provisioning to mitigate credit cost increases amid ECL transition. Moderation in distribution costs (core cost-to-income: 39.2%) and productivity gains from previous investments in branches, technology and AI are expected to improve operating leverage. We expect RoA to remain stable at 1.8% over FY27–28E, supported by steady margin, benign credit cost and improving operating efficiency.

Rating and Target Price

- Continued recovery on credit trends, gradual funding cost normalisation and resilient asset quality provide visibility for sustainable earnings growth. Appointment of Chairman induces comfort, decision on extension of MD & CEO remains awaited. Factoring RoA of ~1.8% in FY27-28E and sustained growth outlook, we value the bank at ~2x FY28E ABV and add ₹118 for subsidiaries, assigning a revised target price of ₹1,000 (earlier ₹1,050). We maintain our BUY rating.

HDFC BANK

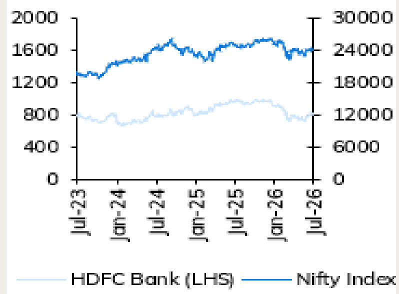
Particulars

Particulars	Amount
Market Capitalisation	₹ 12,62,293 crore
52 week H/L	₹ 1,020 / 727
Networth	₹ 6,01,411 crore
Face value	1
DII holding	42
FII Holding	42

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	0	0	0	0
FII	48.4	47.7	44.0	41.8
DII	36.1	37	40.2	41.8
Others	15.5	15.3	15.8	16.43

Price Chart



Key risks

(i) Leadership transition and MD & CEO reappointment remain key monitorable

(ii) Slower-than-expected funding cost normalisation could keep margins under pressure

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Key Financial Summary

₹ crore	FY25	FY26	2 year CAGR (FY24-FY26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	122670.1	128686.0	8.9%	138787.5	160871.0	11.8%
PPP	100127.5	118558.3	12.1%	123005.3	139403.5	8.4%
PAT	67347.4	74671.3	10.8%	82609.0	92649.0	11.4%
ABV (₹)	320.0	357.6		389.2	439.5	
P/E	18.6	16.9		15.3	13.6	
P/ABV	2.6	2.3		2.1	1.9	
RoA	1.8	1.8		1.8	1.8	
RoE	13.4	13.3		13.5	13.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Gross advances grew ~15.4% YoY (3.4% QoQ), deposits grew ~14.7% YoY (2.1% QoQ EOP), corporate & wholesale grew ~18% YoY, amid intense but selective competitive engagement.
- MSME/Business Banking grew 22.3% YoY, aided by ~₹14,000 crore of ECLGS 5.0 disbursements as of June 30.
- Core retail disbursements (wheels and unsecured) grew ~20% YoY and mortgages ~14% YoY, with gold loans and microlending scaling as diversifiers.
- Card spend grew 13% YoY but the outstanding card book grew only 2–3%, reflecting a conservative translation of spend into revolving debt.
- Acquisition guardrails tightened over FY24–26 to curb a systemwide rise in "mule" accounts are now largely in place; management is preparing to "press the pedal" on acquisition, with higher additions and wallet share expected to support deposits growth.
- Retail AUM mix eased to 52% (vs 53% QoQ); management reiterated its longterm aspiration of taking the retail mix to ~60%.
- FCNR(B)/swap window flagged as a key depositmobilization lever; June spent on documentation/approvals, with meaningful traction targeted for Jul–Sep.
- Governance overhang eases with Rajiv Kumar's appointment as parttime Chairman, following Keki Mistry's interim tenure. MD & CEO reappointment remains pending, with the process under NRC review.

Margins

- NIM came in at 3.26%, still under YoY pressure as costoffunds transmission lags asset repricing.
- Management declined to call a margin bottom, citing volatile system liquidity — average ₹2.08 lakh crore for the quarter, swinging between a ₹5.5 lakh crore peak and a ₹43,000 crore trough — and said rates need this volatility to narrow before stabilizing structurally.
- Cost of funds was broadly flat QoQ at 4.4% but down ~40–50 bps YoY, with further structural benefit expected as liquidity stabilizes.
- Borrowings remain at ~11% of liabilities, above the 5–6% industry norm, which the management expects to approach as growth funding shifts toward deposit.
- ~₹40,000–50,000 crore of borrowings matures over the next couple of years at >7%, offering a 100–125 bps pickup versus retail TD replacement.
- CASA ratio fell to 32% (from 34% QoQ); management expects customer acquisition and deeper relationships to gradually improve CASA over the medium term towards premerger levels (~38–40%).
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Asset quality & Opex

- GNPA broadly stable at 1.17% (ex-agri at 0.91%); credit cost rose to ~40 bps (29 bps net of recoveries) from 35 bps in Q4FY26.
- Headline PCR eased to 66% (70% ex-agri), a decline attributed mainly to a higher agri (secured) book mix rather than quality deterioration.
- Unsecured book coverage remains mid70splus, following a formulaic, composition driven methodology.
- Ahead of ECL transition (April 1, 2027), reserves are expected to be adequate for stage3/NPA equivalent coverage.
- Regulatory floors under ECL (1% for Stage 1 unsecured, 5% for Stage 2) will lift standard asset provisioning from ~40 bps currently, but management expects no material P&L impact given existing contingent provisions.
- Core cost to income improved to 39.2% (from 39.9% QoQ) and cost to assets to 1.8% (from 1.9%), aided by moderating distribution investment.
- Management expects prior investments in branches and technology to drive productivity gains and operating leverage over next 2–3 years, via

faster turnaround times, higher customer engagement and AI led efficiencies.

Other updates

- Capital position remains comfortable, with CRAR at 19.6% and CET1 at 17.4%, providing headroom for growth acceleration.
- Branch productivity improved to ~₹330 crore per branch (vs ₹266 crore in FY23), with ~40% of the network with vintage under five years old.
- Only ~14% of customers currently hold term deposits with the bank, leaving significant scope to deepen deposit penetration alongside CASA mobilisation.
- Consolidated PAT grew 18.4% YoY to ₹19,240 crore; standalone PAT grew 5% YoY (9.8% adjusted for prior year one offs, HDB gains, floating provisions and a contingent buffer) to ₹19,100 crore.
  Management reiterated its medium-term objective of growing profits at or above balance sheet growth.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2x FY28E ABV	100.00	882
HDFC AMC	36x FY28E EPS	52.37	45
HDFC Life Insurance	1.9x FY28E EV	50.21	48
HDFC ERGO		50.50	6
HDB fin Serv		74.15	35
HDFC Sec		95.10	12
Value per share			1,029
Discount @ 20%			29
Value per share for HDFC Bank			1,000

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	33,534	31,438	6.7	33,082	1.4	Growth remained moderate, reflecting healthy loan growth but constrained by margin pressure
NIM (%)	3.26	3.35	-9 bps	3.38	-12 bps	Margin moderated due to repo rate transmission and lagged deposit repricing
Other Income	12,822	21,730	-41.0	13,199	-2.9	Treasury normalization offset steady fee income; one-off base impact on YoY basis
Net Total Income	46,356	53,168	-12.8	46,280	0.2	
Staff cost	6,415	6,158	4.2	6,228	3.0	
Other Operating Expense	11,773	11,276	4.4	12,250	-3.9	
PPP	28,168	35,734	-21.2	27,803	1.3	Lower treasury income weighed on operating profit
Provision	3,060	14,442	-78.8	2,610	17.3	Credit cost remained benign at ~40 bps, aided by strong recoveries and low slippages
PBT	25,108	21,292	17.9	25,193	-0.3	
Tax	6,049	3,137	92.8	5,972	1.3	
PAT	19,060	18,155	5.0	19,221	-0.8	Excluding base effect, PAT growth stood at 9.8% YoY
Key Metrics						
GNPA	35,846	37,041	-3.2	34,061	5.2	Aided by strong recoveries and low slippages
NNPA	12,357	12,277	0.7	11,170	10.6	
Advances	3,060,800	2,653,200	15.4	2,960,000	3.4	Healthy growth driven by retail, MSME and gradual corporate pickup
Deposits	3,170,800	2,764,100	14.7	3,105,300	2.1	Granular liability mobilisation continue to remain in focus

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	333985	373738
Interest Expended	177847	178836	195197	212867
NII	122670	128686	138787	160871
Growth (%)	13.0	4.9	7.8	16
Other income	45632	62533	61440	65467
Total Income	168302	191219	200228	226338
Employee cost	23901	26050	27980	30337
Other operating Exp.	44274	46610	49242	56598
PPP	100127	118558	123005	139404
Provisions	11649	23390	14309	17497
PBT	88478	95169	108696	121907
Taxes	21131	20497	26087	29258
Net Profit	67347	74671	82609	92649
Growth (%)	10.7	10.9	10.6	12
EPS	44.0	48.5	53.7	60

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	1530.4	1539.3	1539.3	1539.3
EPS (₹)	44.0	48.5	53.7	60.2
BV (₹)	328.1	365.7	398.1	448.8
ABV (₹)	320.0	357.6	389.2	439.5
P/E	18.6	16.9	15.3	13.6
P/BV	2.5	2.2	2.1	1.8
P/ABV	2.6	2.3	2.1	1.9
Yields & Margins (%)				
Net Interest Margins	3.7	3.5	3.4	3.5
GNPA	1.4	1.2	1.0	0.8
NNPA	0.5	0.4	0.4	0.4
RoE	13.4	13.3	13.5	13.4
RoA	1.8	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	1530	1539	1539	1539
Reserves and Surplus	500659	561362	611309	689295
Networth	502190	562901	612848	690834
Deposits	2714715	3105250	3566080	4065171
Borrowings	547931	489395	464925	488171
Other Liabilities & Provisions	145363	207340	227318	237340
Total	3910199	4364886	4871171	5481516
Applications of Funds				
Fixed Assets	13655	14725	16784	18454
Investments	836360	884201	944714	1037205
Advances	2619609	2937166	3324416	3767588
Other Assets	201005	230328	257967	288923
Cash with RBI & call money	239571	298466	327291	369347
Total	3910199	4364886	4871171	5481516

Source: Company, ICICI Direct Research

Exhibit 6: Growth (%)

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	8.1	11.6	11.6	12.5
Advances	5.4	12.1	13.2	13.3
Deposit	14.1	14.4	14.8	14.0
Total Income	6.7	13.6	4.7	13.0
Net interest income	13.0	4.9	7.8	15.9
Operating expenses	7.6	6.6	6.3	12.6
Operating profit	6.1	18.4	3.8	13.3
Net profit	10.7	10.9	10.6	12.2
Net worth	14.6	12.1	8.9	12.7
EPS	9.9	10.2	10.6	12.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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