

October 20, 2026

New leadership at helm; Margins at inflection point

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 ~₹ 31 lakh crore

Q2FY27 performance: HDFC Bank reported 4.7% YoY growth in standalone PAT to ₹19,510 crore, while NII grew 9.7% YoY to ₹34,619 crore. Fee income grew 9.6% YoY, reflecting healthy core fee momentum. However, NIM declined 10 bps QoQ to 3.16%, indicating sequential margin pressure. Advances grew 16.3% YoY (14.3% excluding FCNR-linked lending), while deposits expanded 18.8% YoY (~14.8% excluding FCNR(B) deposits). Thus, underlying deposit and loan growth remained healthy, albeit lower than reported growth. Lower treasury trading gains weighed on other income, limiting earnings growth. Asset quality improved, with GNPA declining to 1.11% (vs 1.17% in Q1FY27).

Investment Rationale:

Retail acceleration and improving liability franchise to support growth:

Advances grew 16.3% YoY (5.2% QoQ) in Q2FY27, led by MSME/Business Banking (+28.1% YoY) and improving retail traction, with core retail asset growth accelerating to 11.3% YoY (vs 9.1% in Q1FY27). Retail disbursements crossed ₹90,000 crore (vs ₹76,000 crore QoQ). Deposits grew 18.8% YoY, including ~4 percentage points contribution from FCNR inflows, while retail CASA growth improved to 11.2% YoY. Higher customer acquisition, improving branch maturity and deeper customer engagement is expected to remain strategy to strengthen liability franchise. The appointment of Anup Bagchi as MD & CEO brings a strategic transition, with renewed focus expected on liability mobilisation, balance sheet optimisation and sustainable growth. We expect advances to grow at ~14-15% over FY27-28E, supported by improving retail traction and broad-based credit demand.

Margin recovery and operating leverage to support profitability: NIM moderated to 3.16% in Q2FY27 amid elevated funding cost, although management indicated that margins have likely bottomed out. With ~70% of advances on floating rate, the recent 25 bps repo hike should support asset repricing and gradual NIM recovery from Q3FY27, partly offset by the full-quarter impact of higher-cost FCNR deposits. Improving retail/MSME mix and moderation in back-book repricing should further support margins. Asset quality remains healthy, with GNPA at 1.1% (vs 1.17% QoQ), with credit cost contained at 44 bps. Productivity gains from branch maturity, digital adoption and AI-led efficiencies should drive operating leverage, while CASA dilution (down 72 bps QoQ) and LCR at 113% remain key monitorable.

Rating and Target Price

We expect RoA to remain around 1.8% over FY27-28E, supported by gradual margin recovery, benign credit cost and improving operating efficiency. Stepping down of Mr. Kaizad, DMD, brings in near term uncertainty. Anup Bagchi's appointment as MD & CEO marks a key leadership transition, with his forthcoming strategy on growth, margins and balance sheet optimisation remains awaited. Factoring all, we continue to value standalone bank at ~1.8x FY28E BV and ₹118 for subsidiaries, thus keeping target unchanged at ₹925. We maintain Buy rating.



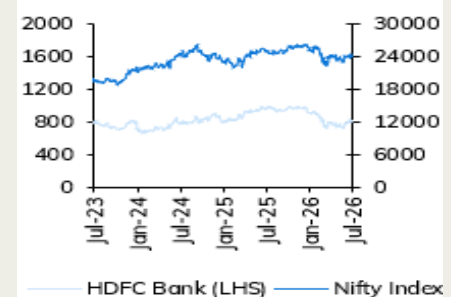
Particulars

Particulars	Crore
Market Capitalisation	₹ 10,97,804
52 week H/L	₹ 1,020 / 682
Networth	₹ 6,03,469
Face value	1
DII holding	44
FII Holding	39

Shareholding pattern

(in %)	Dec-25	Mar-26	Jun-26	Sep-26
Promoter	0	0	0	0
FII	47.7	44.0	41.8	39.4
DII	37	40.2	41.8	43.4
Others	15.3	15.8	16.43	17.2

Price Chart



Key risks

- Senior leadership exit remains concern in near term
- Margin compression due to adverse asset mix or slower growth

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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%	142442.8	164176.4	13.0%
PPP	94387.5	100127.5	118558.3	12.1%	122086.5	139019.5	8.3%
PAT	60812.3	67347.4	74671.3	10.8%	82105.7	91904.9	10.9%
ABV (₹)	282.8	320.0	357.6		387.2	433.8	
P/ABV	2.5	2.2	2.0		1.8	1.6	
RoA	2.0	1.8	1.8		1.8	1.8	

Source: Company, ICICI Direct Research

Q2FY27 Earnings Conference Call Highlights

Performance and growth outlook

- Gross advances grew ~16.3% YoY (5.2% QoQ), while deposits increased ~18.8% YoY (4.9% QoQ), including ~4 percentage points contribution from the special FCNR window.
- Retail loan growth accelerated, with core retail assets (excluding agri, payments and FCNR leverage loans) growing 11.3% YoY. Retail disbursement increased to over ₹90,000 crore from ~₹76,000 crore in Q1FY27.
- MSME/Business Banking grew 28.1% YoY, supported by ~₹41,000 crore of ECLGS 5.0 disbursement, which management indicated were the highest across banks.
- Corporate and wholesale advances grew 16.4% YoY (2.8% QoQ), with management maintaining a calibrated approach across working capital, term loans and project finance, focusing on risk-adjusted returns rather than incremental yields alone.
- Credit card issuances increased ~19% QoQ to 14 lakh cards, while improving traction in personal loans, vehicle finance, gold loans and MSME lending is expected to support retail growth momentum.
- CASA deposits increased 10.8% YoY, with retail CASA growth accelerating to 11.2% YoY. The bank added ~17 lakh new liability relationships, up 25% QoQ and 33% compared to Q4FY26.
- Core liability mobilisation continued to improve, with savings accounts opened per branch per day increasing ~19% QoQ and core incremental deposits per branch per day rising ~2.3x. However, extraordinary outflows from large government, MSME and legacy deposits masked the underlying traction.
- Retail deposits constituted ~80% of average deposits, while retail CASA ratio remained healthy in the high-40% range. Management expects the maturing branch network and deeper customer engagement to support improvement in retail deposit mobilisation.
- Management highlighted that in over 54% of the 765 districts where the bank operates, deposit market share remains ~2–3 percentage points below its average, indicating significant scope for expansion as newly established branches mature.
- The bank has replaced ~₹2.6 lakh crore of erstwhile HDFC Ltd borrowings over the past three years, necessitating higher term deposit mobilisation. Management indicated that alternative funding strategies and structural balance sheet adjustments could help reduce reliance on expensive liabilities going forward.

Margins

- NIM declined to 3.16% on total assets (3.32% on interest-earning assets), reflecting continued pressure from faster asset repricing relative to the lagged reduction in deposit cost during the declining interest rate cycle.
- Management indicated that Q2FY27 likely marks the bottom of the margin cycle, with an improving trajectory expected from Q3FY27, supported by the October repo rate hike and gradual improvement in the retail/MSME asset mix.
- Floating-rate advances constitute ~70% of the loan portfolio, with a majority linked to the repo rate, while MCLR-linked advances represent a minuscule single-digit share. The 25 bps repo hike in October is expected to be largely transmitted by December, providing a partial-quarter benefit in Q3FY27.
- Cost of funds remained flat QoQ at ~4.4%, as incremental term deposits of ~₹1.30 lakh crore accounted for a significant portion of total deposit accretion of ~₹1.57 lakh crore, offsetting benefits from repricing of the existing deposit book.

- The redemption of AT1 bonds in August provided some funding cost relief, although the benefit was offset by incremental leverage-related borrowings.
- Full-quarter impact of FCNR-related funding cost could partly offset the benefit from repo-linked asset repricing in Q3FY27. However, management expects the net impact on margins to be neutral to favourable, with gradual improvement thereafter.
- Around 20–30% of the retail loan portfolio runs off annually, given the relatively short tenure of several products. Management expects back-book repricing pressures to moderate over the next two quarters, providing further support to margins.

Asset quality & Opex

- GNPA improved to 1.11% (vs 1.17% QoQ), while NNPA stood at 0.37%. Credit cost remained contained at ~44 bps, reflecting stable underlying asset quality.
- Agri GNPA remained broadly stable QoQ despite uneven monsoon conditions. Kharif sowing declined only ~1.5–2% YoY to ~108–109 million hectares, with management estimating a potential 3–5% variation in crop output. No material deterioration in the agricultural portfolio has been observed so far.
- Core cost-to-income ratio stood at ~39.1%, while operating expenses increased 5.5% YoY (4.3% QoQ), reflecting steady investment in business growth and technology.
- Customer visits per employee per day increased ~50% QoQ, while daily disbursement run rates across key retail/MSME products improved ~10–20%, reflecting benefits from enhanced execution and operating productivity.
- Headcount could remain broadly stable in the near term, with incremental hiring potentially resuming over the next three to four years. Management highlighted ~10% CAGR in headcount over the longer term against ~18–19% business volume growth, indicating scope for further productivity gains.

Other updates

- LCR stood at ~113% against management's preferred operating range of 110–120%, with an indicative target around 115%. Management acknowledged that maintaining adequate LCR headroom remains important for supporting incremental loan growth.
- FCNR funds have largely been deployed, with incremental deposits of ~₹1.57 lakh crore broadly matching incremental advances of ~₹1.58 lakh crore during the quarter, supporting the associated ANBC benefit for PSL purposes.
- Aggregate priority sector lending achievement stood at ~50%, although shortfalls persisted in small and marginal farmer and weaker-section categories. Management continues to pursue organic origination and market purchases of eligible PSL assets, subject to availability and pricing.
- Proposed insurance commission regulations could materially affect bancassurance fee income in their current form. Management indicated that better policy persistency, higher insurance volumes and distribution cost rationalisation could partly mitigate the impact, with clarity awaited on final regulations.
- Capital adequacy remained comfortable, with CRAR at 18.9% and CET1 at 17.1%, providing headroom for continued business expansion.
- The bank introduced AI-powered conversational banking, collections bots and digital security capabilities, including Edge Security, Kavach and Secure Lock, aimed at improving customer experience, fraud prevention and processing efficiency.

- Incoming MD & CEO Anup Bagchi indicated that the bank's strategic priorities would be articulated following consultation with regulators, customers and shareholders, with emphasis on growth, margins, asset quality, productivity and disciplined capital deployment.
- Kaizad Bharucha has requested early retirement by December 2026, marking another senior leadership transition alongside the change in MD & CEO. The incoming leadership's strategy for core liability mobilisation, liquidity management and margin recovery will remain key monitorables.

Exhibit 1: Variance Analysis

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	34,619	31,552	9.7	33,534	3.2	Driven by healthy advances growth of 16.3% YoY, partially offset by continued margin compression
NIM (%)	3.16	3.27	-11 bps	3.26	-10 bps	Margin moderated due to elevated incremental TD mix
Other Income	13,831	14,350	-3.6	12,822	7.9	Primarily due to lower treasury gains of ₹780 crore (vs ₹2,390 crore YoY), partly offset by healthy fee income growth
Net Total Income	48,450	45,902	5.6	46,356	4.5	
Staff cost	6,774	6,461	4.8	6,415	5.6	Steady staff cost
Other Operating Expenses	12,193	11,517	5.9	11,773	3.6	Cost-to-income ratio at 39.1%
PPP	29,483	27,924	5.6	28,168	4.7	Lower treasury income weighed on operating profit
Provision	3,574	3,501	2.1	3,060	16.8	Credit cost remained contained at 44 bps, reflecting stable underlying asset quality
PBT	25,910	24,423	6.1	25,108	3.2	
Tax	6,400	5,782	10.7	6,049	5.8	
PAT	19,510	18,641	4.7	19,060	2.4	Supported by NII growth, partially offset by lower treasury gains

Key Metrics

GNPA	35,810	34,289	4.4	35,846	-0.1	Aided by lower slippages of ~₹6,100 crore (vs ~₹8,000 crore QoQ)
NNPA	11,851	11,447	3.5	12,357	-4.1	
Advances	3,219,500	2,769,200	16.3	3,060,800	5.2	Small and mid-market growth of 23.5% YoY and corporate growth of 16.4% YoY
Deposits	3,327,400	2,801,800	18.8	3,170,800	4.9	Driven by 22.8% YoY growth in term deposits, including FCNR inflows, while CASA ratio moderated to 31.6%.

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	300517	307522	337657	378995
Interest Expended	177847	178836	195214	214818
NII	122670	128686	142443	164176
Growth (%)	13.0	4.9	10.7	15.3
Other income	45632	62533	56866	61777
Total Income	168302	191219	199309	225954
Employee cost	23901	26050	27980	30337
Other operating Exp.	44274	46610	49242	56598
PPP	100127	118558	122087	139020
Provisions	11649	23390	14053	18092
PBT	88478	95169	108034	120927
Taxes	21131	20497	25928	29023
Net Profit	67347	74671	82106	91905
Growth (%)	10.7	10.9	10.0	11.9
EPS	44.0	48.5	53.3	59.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
<u>Valuation</u>				
No. of Equity Shares	1530.4	1539.3	1539.3	1539.3
EPS (₹)	44.0	48.5	53.3	59.7
BV (₹)	328.1	365.7	397.8	448.1
ABV (₹)	320.0	357.6	387.2	433.8
P/E	16.2	14.7	13.3	11.9
P/BV	2.2	1.9	1.8	1.6
P/ABV	2.2	2.0	1.8	1.6
<u>Yields & Margins (%)</u>				
Net Interest Margins	3.7	3.5	3.5	3.6
GNPA	1.4	1.2	1.1	1.1
NNPA	0.5	0.4	0.5	0.6
RoE	13.4	13.3	13.4	13.3
RoA	1.8	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
<u>Sources of Funds</u>				
Capital	1530	1539	1539	1539
Reserves and Surplus	500659	561362	610881	688235
Networth	502190	562901	612420	689774
Deposits	2714715	3105250	3606979	4112458
Borrowings	547931	489395	464925	488171
Other Liabilities & Provisions	145363	207340	237720	248853
Total	3910199	4364886	4922044	5539257
<u>Applications of Funds</u>				
Fixed Assets	13655	14725	16784	18454
Investments	836360	884201	944714	1037205
Advances	2619609	2937166	3375288	3825328
Other Assets	201005	230328	257967	288923
Cash with RBI & call money	239571	298466	327291	369347
Total	3910199	4364886	4922044	5539257

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	8.1	11.6	12.8	12.5
Advances	5.4	12.1	14.9	13.3
Deposit	14.1	14.4	16.2	14.0
Total Income	6.7	13.6	4.2	13.4
Net interest income	13.0	4.9	10.7	15.3
Operating expenses	7.6	6.6	6.3	12.6
Operating profit	6.1	18.4	3.0	13.9
Net profit	10.7	10.9	10.0	11.9
Net worth	14.6	12.1	8.8	12.6
EPS	9.9	10.2	10.0	11.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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