

Steady earnings recovery, stable margins expectation in coming quarters

CMP: INR 986

Rating: Buy

Target Price: INR 1,215

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	15,304
Mkt Cap (INR Bn)	15,402
52w H/L (INR)	1,018 / 812
Avg Yearly Vol (in 000')	13,058

Shareholding Pattern %

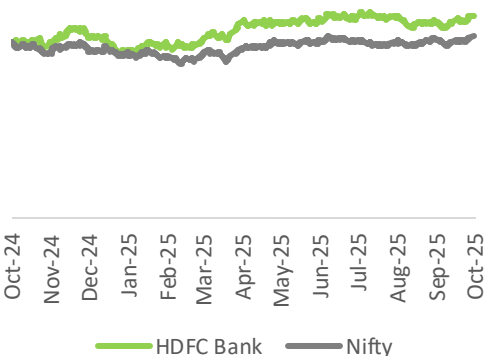
(As on Sep 2024)

Promoters	-
Public & Others	100

Stock Performance (%)

	3m	6m	12m
HDFC Bank	-0.92	3.37	15.04
Nifty 50	2.59	5.68	3.75

HDFC Bank Vs Nifty



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HDFC Bank reported a mixed set of Q2FY26 results. Net Interest Income for Q2FY26 stood at INR 315.5 Bn against our estimates of INR 314.3 Bn, up by 0.36% QoQ & 4.77% YoY. Adjusted PPOP came at INR 279.3 Bn against our estimates of INR 258.8 Bn, down 21.86% QoQ / up by 13.02% YoY. Provisions stood at INR 35.0 Bn against our estimates of INR 32.6 Bn down by 75.76% QoQ / up by 29.63% YoY. PAT stood at INR 186.4 Bn against our estimates of INR 169.7 Bn increasing by 2.68% QoQ / up by 10.82% YoY. GNPA came at 1.24% down 16 bps QoQ / up by 3.5 bps YoY against our estimates of 1.4% while NNPA was at 0.42% against our estimates of 0.46% down 5 bps QoQ / up 5 bps YoY. Deposits increased by 1.36% QoQ / up 12.07% YoY to INR 28,018 Bn. Advances increased by 4.49% QoQ / up 10.07% YoY to INR 27,464 Bn.

Merger synergies beginning to play out, operating leverage to strengthen: Two years post-merger with HDFC Ltd. distribution expansion, technology modernization, and home loan turnaround improvement are largely on track. Home loan sanction time has reduced to 2–3 days, with ~98–99% linked to savings accounts and 14% linked to credit cards. The cross-sell momentum from mortgages is expected to improve operating metrics and return ratios over the next 3–5 years as the bank reaps technology and scale benefits.

Margins to stabilize gradually as deposit repricing benefits flow through: NIMs declined marginally by ~8 bps during Q2FY26 due to front-loaded repricing on the asset side. Management expects NIMs to improve over the next 4–6 quarters as the cost of funds normalizes, aided by the lag effect of lower time-deposit rates and a more stable policy rate environment. The bank continues to follow disciplined pricing on deposits and maintains an optimal asset-liability duration to support balance sheet stability.

Deposit franchise expanding through retail granularity and branch network: Retail deposits constituted ~83% of total deposits, reflecting the continued success of the bank’s granular approach. Deposit growth averaged ~15% YoY, led by retail time deposits, while the share of non-retail deposits moderated. Its focus is on disciplined pricing and sustained deposit mobilization to reduce the LDR below 90% over the medium term, from ~96% at the start of FY26.

Valuation & View: Margins is expected to gradually improve over the next 6–12 months as deposit costs ease and asset yields stabilize. Loan growth picked up across retail, SME, and corporate segments, and management guided for credit growth in line with the industry in FY26, turning faster than the system from FY27 onward. Asset quality remains strong with further provisioning buffers created, and capital adequacy continues to be healthy at around 20%, giving ample room for growth. The integration with HDFC Ltd. has started yielding benefits through better cross-sell in home loans, faster turnaround times, and higher product linkages such as credit cards and savings account. **We have an BUY rating on the stock with a revised target price of INR 1,215 on SOTP basis, with the standalone bank valued on 2.1x FY28E P/ABV.**

Financial Summary

Y/E Mar (Rs Bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	868	1,085	1,227	1,313	1,473	1,638
Net profit	441	608	673	751	868	997
Networth	2,802	4,402	5,014	5,272	5,535	5,645
Adj BVPS	494	569	640	334	348	351
EPS (Rs)	79.05	80.05	88.01	49.08	56.74	65.15
P/ABV (x)	1.99	1.70	1.50	2.86	2.73	2.67
P/E (x)	12.47	12.32	11.20	20.09	17.38	15.13
RoA (%)	2.1	2.0	1.8	1.8	1.9	1.9
RoE (%)	17.0	16.9	14.3	14.6	16.1	17.8

Source: Arihant Research, Company Filings

Q2FY26 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Interest Income	767	775	740	-1.0%	3.6%
Interest Expense	451	460	439	-1.9%	2.8%
Net Interest Income	316	314	301	0.4%	4.8%
Non Interest Income	144	217	115	-34.0%	25.0%
Total Income	459	532	416	-13.7%	10.3%
Employee Costs	65	62	60	4.9%	8.0%
Other Operating Expenses	115	113	109	2.1%	5.6%
Operating Expenses	180	174	169	3.1%	6.4%
Pre-Provision Profit	279	357	247	-21.9%	13.0%
Provisions	35	144	27	-75.8%	29.6%
Profit Before Tax	244	213	220	14.7%	11.0%
Tax Expense	58	31	52	84.3%	11.5%
Net Profit	186	182	168	2.7%	10.8%
Balance Sheet Analysis					
Deposits	28,018	27,641	25,001	1.4%	12.1%
CASA (%)	34.0%	35.0%	36.3%	-100bps	-230bps
Advances	27,464	26,284	24,951	4.5%	10.1%
Total Assets	40,030	39,541	36,881	1.2%	8.5%
Capital Adequacy Ratio (%)	20.00%	19.90%	19.77%	10bps	23bps
Spread Analysis					
NIM (%)	3.27%	3.50%	3.65%	-23bps	-38bps
Asset Quality					
Gross NPA	342.89	370.41	342.51	-7.4%	0.1%
Net NPA	114.47	122.76	103.09	-6.8%	11.0%
GNPA (%)	1.24%	1.40%	1.36%	-16bps	-12bps
NNPA (%)	0.42%	0.47%	0.41%	-5bps	1bps
Key Ratios					
Cost to Income Ratio (%)	39.2%	32.8%	40.6%	638bps	-144bps
C/D Ratio	98.0%	95.1%	99.8%	293bps	-178bps
RoA (%) (annualized)	1.96%	1.92%	1.96%	4bps	0bps

Q2FY26 Concall Takeaways

Cost-to-income ratios is expected to improve gradually as distribution and technology investments mature. ROA currently stands between 1.85% and 1.95%, with a medium-term target to return to the upper end of the 1.8–2.2% range. Asset quality remains stable and healthy, with early indicators showing no stress. The bank remains optimistic on sustaining loan growth momentum with strong capital buffers and stable NIMs.

Business Growth & Loan Book

- Loan growth accelerated across all segments, supported by strong domestic economic activity. FY26 will be in line with system growth, and FY27 growth will be faster than the system.
- LDR started the year at ~96%; targets to bring it below 90%, ideally between 85–90%, by FY27.
- The SME and mid-corporate segments showed healthy credit demand and asset quality remained strong.
- Personal loan and unsecured lending are growing steadily; management emphasized maintaining high credit standards and not diluting underwriting norms.

Deposits, Margins & Cost of Funds

- Deposit market share improved, driven by an 83% retail deposit contribution, with the proportion of retail deposits rising by ~1% point this quarter.
- Deposit growth was ~1.2x the industry average, with average deposits growing 15% YoY.
- The cost of funds reduced by ~18–20 bps in Q2.
- Yield on assets declined by ~50 bps since the beginning of the rate cycle, primarily due to repricing impacts from policy rate changes.
- NIM compressed by ~8 bps due to front-loaded asset-side rate cuts; expects NIMs to improve over the next 6–12 months as deposit repricing benefits flow through.

Capital and Provisions

- CET1 remains high at ~19.9–20%.
- Contingent provisions were increased by ~ INR 1,600 crore, while general provisions were raised by ~INR 600 crore, taking total provisioning coverage to ~41 bps of loans.
- The upgrades contributed ~10 bps to the improvement in GNPA ratio, reducing it from 1.34% in the prior quarter to 1.24%.
- As growth picks up in FY27, capital consumption now by 60–70 bps annually, aligning with pre-merger trends.

Other Highlights

- The HDFC Ltd. merger has entered a stable phase with most synergies beginning to flow through.
- The bank has reduced home loan sanction turnaround time to 2 days for salaried and 3 days for self-employed customers.
- Credit card penetration in new home loan customers is at over 14%, consumer durable loan penetration is in the mid-30% range, and brokerage account penetration exceeds 15%.
- 98–99% of home loan customers now hold a savings account with the bank; expects stronger home loan growth over FY27–FY29 as pricing sanity returns in the market.
- Added 1.5 Mn new credit cards during Q2, maintaining growth above the industry average in issuances and spends.
- Despite strong spends, receivables growth was tepid due to a higher share of transactors and cautious participation in e-commerce promotional spends.
- 65–75% of new credit card customers are existing to the bank, with no major change in mix.
- Gold loan yields remain healthy, and the bank continues to grow this book at 5–6% QoQ, maintaining strong risk-adjusted returns.

Key Financials

Profit & Loss Account

Rs in Bn	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Earned	1,616	2,583	3,005	3,352	3,821	4,355
Interest expended	747	1,498	1,778	2,039	2,348	2,717
NII	868	1,085	1,227	1,313	1,473	1,638
Other Income	312	492	456	654	745	858
Net Income	1,181	1,578	1,683	1,966	2,218	2,496
Operating Exp	477	634	682	750	825	907
PPOP	704	944	1,001	1,216	1,394	1,589
Provisions	119	235	116	220	242	266
PBT	585	709	885	996	1,151	1,322
Tax	144	101	211	245	283	325
PAT	441	608	673	751	868	997

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet

Rs in Bn	FY23	FY24	FY25	FY26E	FY27E	FY28E
CAPITAL & LIABILITIES						
Capital	5.58	7.60	7.65	15.30	15.30	15.30
Reserves & Surplus	2,796	4,395	5,007	5,257	5,520	5,630
Deposits	18,834	23,798	27,147	31,503	38,022	45,438
Borrowings	2,068	6,622	5,479	4,931	4,192	3,563
Other Liabilities	957	1,354	1,461	1,364	1,501	1,651
TOTAL	24,661	36,176	39,102	43,071	49,250	56,298
ASSETS						
Cash & Balances	1,938	2,191	2,396	3,431	5,037	7,098
Investments	5,170	7,024	8,364	8,535	9,712	10,913
Advances	16,006	24,849	26,196	28,816	31,697	34,867
Fixed Assets	80	114	137	153	184	220
Other Assets	1,467	1,998	2,010	2,137	2,620	3,200
TOTAL	24,661	36,176	39,102	43,071	49,250	56,298

Source: Arianth Research, Company Filings

Ratios (%)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth						
NII	20.6	25.0	13.0	7.0	12.2	11.2
PPOP	9.9	34.1	6.1	21.5	14.6	14.0
Net profit	19.3	37.9	10.7	11.5	15.6	14.8
Deposits	20.8	26.4	14.1	16.0	20.7	19.5
Advances	16.9	55.2	5.4	10.0	10.0	10.0
Returns						
ROA	2.07	2.00	1.79	1.83	1.88	1.89
ROE	17.0	16.9	14.3	14.6	16.1	17.8
NIM (%)	4.05	3.80	3.45	3.38	3.38	3.30
Efficiency						
C/I Ratio	40.4	40.2	40.5	38.1	37.2	36.4
CASA	44.4	38.2	34.8	31.5	28.0	24.7

Ratios (%)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Per Share						
BV (Rs)	502	580	655	344	362	369
ABV (Rs)	494	569	640	334	348	351
EPS (Rs)	79	80	88	49	57	65
Valuation						
P/BV (x)	2.0	1.7	1.5	2.9	2.7	2.7
P/ABV (x)	2.0	1.7	1.5	2.9	2.8	2.8
P/EPS (x)	12.5	12.3	11.2	20.1	17.4	15.1
Asset quality						
GNPA	1.1	1.2	1.3	1.5	1.6	1.7
NNPA	0.3	0.3	0.4	0.5	0.7	0.8
PCR	75.8	74.0	67.9	63.8	58.4	52.6

Source: Arianth Research, Company Filings

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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