

Strong asset quality turnaround; deposit momentum and NIM recovery on track

CMP: INR 800

Rating: Buy

Target Price: INR 1,025

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	15,390
Mkt Cap (INR Bn)	12,248
52w H/L (INR)	1,020 / 727
Avg Yearly Vol (in 000')	21,796

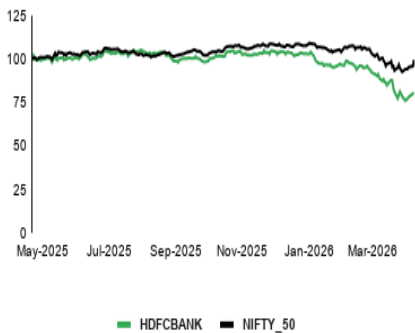
Shareholding Pattern %

(As on Dec 2024)

Promoters	-
Public & Others	100

Stock Performance (%)	1m	6m	12m
HDFC Bank	2.50	(20.24)	(16.97)
Nifty 50	5.36	(5.76)	0.95

HDFC Bank Vs Nifty



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HDFC Bank delivered a strong set of numbers in Q4FY26, with PAT of INR 192.2 bn, up 9.1% YoY, supported by healthy NII growth and lower provisions. NII for Q4FY26 stood at INR 330.8 bn, up 3.2% YoY and 1.4% QoQ, with NIM at 3.38% on total assets (3.53% on interest-earning assets). PPOP came in at INR 278.0 bn, up 4.8% YoY, while provisions declined 18.3% YoY to INR 26.1 bn, reflecting improving credit quality. For the full year FY26, net revenues rose to INR 1,912.2 bn (+13.6% YoY) and PAT increased 10.9% YoY to INR 746.7 bn.

Asset quality improvement continues: GNPA declined to 1.15% (vs 1.24% in Q3FY26 and 1.33% in Q4FY25), while NNPA improved to 0.38% (vs 0.42% QoQ and 0.43% YoY). The total credit cost ratio for the quarter was 0.35%, reflecting prudent provisioning while building buffers. The bank also took a floating provision of INR 90.0 bn during FY26 under its Board-approved policy.

Deposit franchise gaining strength with calibrated loan growth: Total EOP deposits stood at INR 31,053 bn as of March 31, 2026, an increase of 14.4% YoY. CASA deposits grew 12.3% YoY with savings deposits at INR 7,058 bn and current account deposits at INR 3,545 bn, resulting in a CASA ratio of 34.1%. Average deposits for Q4FY26 grew 12.8% YoY to INR 28,511 bn. Gross advances stood at INR 29,600 bn, up 12.0% YoY, with retail loans growing 6.5%, SME/mid-market loans up 17.2%, and corporate/wholesale loans up 13.0%.

Capital adequacy healthy; generous dividend: CAR as per Basel III stood at 19.7% (vs 19.6% in FY25), with CET1 at 17.3% and Tier 1 at 17.7%. The Board recommended a total dividend of INR 15.50 per share for FY26 (interim INR 2.50 + final INR 13.00), reflecting confidence in the earnings trajectory.

Valuation & View: NIM at 3.29% in FY26 appears to have bottomed out and is expected to recover to 3.32%/3.66%/3.90% over FY27E/FY28E/FY29E, aided by deposit repricing, an easing rate environment, and the CD ratio moderating to ~94.6% from elevated post-merger levels. Loan growth has picked up meaningfully to 12.1% in FY26 (vs 5.4% in FY25), broadening across retail, SME, and corporate segments, with management guiding to sustain this momentum going forward. Our model assumes 13.0%/15.0%/15.5% credit growth for FY27E/FY28E/FY29E. Asset quality improvement has been a key positive with GNPA declining to 1.15% (vs 1.33% YoY) and NNPA improving to 0.38%, supported by the bank's diversified portfolio and conservative provisioning approach (credit cost at 0.35%, provisioning buffer ~125 bps). Integration with erstwhile HDFC Ltd. continues to yield benefits, deposit growth at 14.4% has consistently outpaced credit growth, with incremental deposits under ₹3 crore rising sharply to 47% (from 31%), improving funding granularity. The bank's distribution has expanded to 9,689 branches across 4,170+ cities and a customer base of 101 mn. With ROA/ROE expected to improve from 1.80%/14.1% in FY26 to 2.20%/17.6% by FY29E, **we maintain our BUY rating on the stock with a target price of INR 1,025 on SOTP basis, with the standalone bank valued at 1.48x FY29E ABV.**

Financial Summary

Y/E Mar (Rs Bn)	FY23	FY24	FY25	FY26A	FY27E	FY28E	FY29E
NII	868	1,085	1,227	1,287	1,444	1,780	2,143
Net profit	441	608	673	747	847	1,037	1,282
Networth	2,802	4,402	5,014	5,584	6,160	6,865	7,738
Adj BVPS	247	284	320	355	393	439	494
EPS (Rs)	39.53	40.02	44.01	48.62	55.02	67.35	83.27
P/ABV (x)	3.24	2.76	2.44	2.21	2.00	1.79	1.59
P/E (x)	20.24	19.99	18.18	16.45	14.54	11.88	9.61
RoA (%)	2.1	2.0	1.8	1.8	1.8	2.0	2.2
RoE (%)	17.0	16.9	14.3	14.1	14.4	15.9	17.6

Source: Arihant Research, Company Filings

Q3FY26 - Quarterly Performance (Standalone)

Income Statement (INR Bn.)	Q4FY26	Q3FY26	Q4FY25	Q-o-Q	Y-o-Y
Interest Income	766	768	775	-0.2%	-1.1%
Interest Expense	435	441	454	-1.4%	-4.1%
Net Interest Income	331	326	321	1.4%	3.2%
Non Interest Income	132	133	120	-0.4%	9.7%
Total Income	463	459	441	0.9%	5.0%
Employee Costs	62	72	61	-13.5%	1.8%
Other Operating Expenses	122	116	114	5.9%	7.1%
Operating Expenses	185	185	176	0.0%	5.2%
Pre-Provision Profit	278	274	265	1.5%	4.8%
Provisions	26	28	32	-8.0%	-18.3%
Profit Before Tax	252	246	233	2.6%	7.9%
Tax Expense	60	56	57	6.5%	4.3%
Net Profit	192	192	176	0.0%	9.1%
Balance Sheet Analysis					
Deposits	31,053	28,601	27,147	8.6%	14.4%
CASA (%)	34.0%	34.0%	34.0%	0bps	0bps
Advances	29,372	28,214	26,196	4.1%	12.1%
Total Assets	43,649	40,890	39,102	6.7%	11.6%
Capital Adequacy Ratio (%)	0.00%	19.90%	19.55%	-1990bps	-1955bps
Spread Analysis					
NIM (%)	0.00%	3.35%	3.70%	-335bps	-370bps
Asset Quality					
Gross NPA	340.61	351.79	352.23	-3.2%	-3.3%
Net NPA	111.70	119.82	113.20	-6.8%	-1.3%
GNPA (%)	1.15%	1.24%	1.33%	-9bps	-18bps
NNPA (%)	0.38%	0.42%	0.43%	-4bps	-5bps
Key Ratios					
Cost to Income Ratio (%)	39.9%	39.9%	39.8%	0bps	11bps
C/D Ratio	94.6%	94.6%	96.5%	0bps	-191bps
RoA (%) (annualized)	1.92%	1.92%	1.92%	0bps	0bps

Q4FY26 Concall Takeaways

Outlook

Credit growth accelerated from 5.5% in FY25 to 12% in FY26 against system growth of ~13.5-14%. Positive momentum expected to continue into FY27 with demand across corporate sectors including electronics, food processing, auto ancillaries, renewables, semiconductors, acquisition financing, project finance and supply chain. No asset quality alarm bells despite geopolitical headwinds from trade tariffs and ongoing conflicts. Management cautioned that the fallout should not last more than a couple of months but the bank will not overstretch growth in a manner that creates future landmines. LDR is no longer considered a binding constraint; the regulator has acknowledged this and the bank has demonstrated its ability to gain 30-50 bps of deposit market share every year over the last 5 years. The guiding principle is ROA, loan growth, deposit growth and balance sheet quality, all culminating in consistent EPS growth. The sizable investments made over the last 5-6 years in distribution which nearly doubled to 9,700 branches, customer base which nearly doubled to 100 Mn, and tech investments which quadrupled to ~\$1 Bn are expected to provide significant operating leverage going forward.

Financial Performance

FY26 standalone net revenues: INR 1,912 Bn (+13.6% YoY). FY26 PAT: INR 747 Bn (+10.9% YoY). Q4 PAT: INR 192 Bn (+9.1% YoY). FY26 Basic EPS: INR 48.62 vs INR 44.15 (+10% growth vs 3% in FY25). ROA: 1.94% (FY26), 1.96% (Q4) — held steady through cost efficiencies and lower credit costs despite NIM compression. Q4 NII: INR 331 Bn (+3.2% YoY). NIM: 3.38% on total assets, 3.53% on IEA. The 125 bps rate cut cycle saw near full asset side transmission given 70%+ floating rate book, while deposit side has transmitted only 40-50 bps so far. No change in TD pricing for last 4 months across industry. G-Sec yields ticking up due to geopolitical uncertainty, suggesting rate cycle may be pausing. NIM expected range-bound with offsets through cost and credit cost levers.

Other Income

Q4 other income: INR 132 Bn. Fees and commissions: INR 92.2 Bn vs INR 85.3 Bn (Q4 FY25). FX and derivatives revenue: INR 14.9 Bn vs INR 14.4 Bn, impacted by lower trade volumes and tighter spreads. Net trading and MTM gains: INR 8.2 Bn vs INR 3.9 Bn. 3P distribution income growth modest at 3.5% for FY26 due to lower volumes and unfavorable mix; penetration in customer base still mid-single digit, leaving a large opportunity.

Operating Efficiency

Q4 opex: INR 185 Bn vs INR 176 Bn. Cost-to-income: 39.9%. Core cost-to-income improved from 40.5% to 39.5% for FY26. Full year cost growth ~6.5-7%, well below top-line growth. Cost-to-assets: 1.9%, best in class with further room for improvement.

Provisions

Q4 provisions: INR 26.1 Bn. Credit cost: 0.35%. Floating provision of INR 90 Bn created during FY26 under board-approved policy. Total provisioning buffer: ~125 bps to absorb potential future shocks.

Deposits

Total deposits: INR 31,053 Bn (+14.4% YoY). Q4 alone accreted INR 2.45 lakh Cr. CASA deposits grew 12.3%. SA: INR 7,058 Bn. CA: INR 3,545 Bn. CASA ratio: 34.1%. Time deposits: INR 20,450 Bn (+15.5%). Granularity improved significantly — sub INR 3 Cr retail TDs constituted 47% of FY26 net accretion vs 31% in FY25; absolute accretion in this bucket grew 74% YoY. Retail deposits: 80-85% of total. Average deposits Q4: INR 28,511 Bn (+12.8% YoY, +3.6% QoQ). Average CASA Q4: INR 9,184 Bn (+10.8% YoY). LCR: 114% within 110-120% target band. Cost of funds declined ~50 bps YoY to ~4.4%. Residual repricing benefit remains as TDs take 5-6 quarters to fully reprice.

Advances

Gross advances: INR 29,600 Bn (+12% YoY). Avg AUM Q4: INR 29,644 Bn (+10% YoY, +3.5% QoQ). Retail loans +6.5%, SME/MME +17.2%, Corporate/wholesale +13%. Loan mix: ~53-54% retail, balance wholesale. Overseas advances: 1.6% of total. Retail growth stepped up sequentially over last 3 quarters across wheels, personal loans, business loans and mortgages. In mortgages, the bank is among top 2 by quarterly disbursements with coverage expanded from 6,800 to ~8,000 locations. Digital channels driving higher utilization of 10-second pre-approved loans in auto and personal loan segments. Market leader in wheels across auto and transportation. Salary account franchise is a key retail funnel — 22% of customer base under 30 and 42% under 40, enabling lifecycle cross-sell

Customer acquisition continues at 6-8 Mn/year. Gold loans launched and building quality book. #1 in MSME nationally, #1 in 15/28 states, top 2 in 25/28 states. Business banking grew ~20% YoY, expected to sustain 18-21% range. Corporate growth expected to sustain with demand across sectors including acquisition financing, project finance and supply chain.

Asset Quality

GNPA: 1.15% (Mar-26) vs 1.24% (Dec-25) vs 1.33% (Mar-25). Excluding agriculture: 0.91%. NNPA: 0.38% vs 0.42% (Dec) vs 0.43% (Mar-25). No current portfolio stress; tested across 3 decades of business cycles. CAR: 19.7%. Tier 1: 17.7%. CET1: 17.3% vs regulatory requirement of 11.9%. RWA: INR 29,741 Bn.

NIM & Returns Framework

Management firmly guided focus on ROA rather than NIM in isolation. When NIM compresses within a small range, offsets are delivered through operating efficiency and credit cost management. PPOP considered intermediate metric as it does not capture credit risk. Key metrics: ROA, EPS growth and top-line growth. Borrowings as % of liabilities declined 11% YoY. Shift from borrowings partly into TDs (higher cost than CASA), limiting full NIM benefit. Investment yields declining as prior rate cuts flow through maturing securities. G-Sec yield uptick will take time to reflect given large book size and duration management.

Merger Synergies

Liability penetration among home loan customers moved from 36% at merger to 50% currently. CASA balances from erstwhile HDFC book grew from INR 500 Bn to INR 860 Bn in 2.5 years. 98% of newly disbursed home loan customers now open a liability account. ~60-65% of home loan customers with HDFC Bank liability pay EMI through own HDFC Bank account. 23% of home loan stock holds an active credit card. Avg SA balances of home loan customers run 2-2.25x bank average. Cross-sell extends to insurance, wealth, digital wallets and PayZapp. Home loan book has lowest NPA % in industry for its size.

Technology & AI

New net banking, mobile banking and payment platforms launched at population scale. Mobile app serves 16 Mn+ registered customers with OTP-less authentication, enhanced security and full-stack UPI-enabled wallet (Zapp Account). Digital adoption: 97% for payments/service, 92% for acquisition journeys. Unified AI platform built in-house supports multi-foundational and open models with governance, compliance and security. Includes Model Context Protocol, Agentic Studio and Agentic Mesh for rapid AI agent deployment. 5 AI use cases in production, 14 in development. Expected to be key ROA enhancement driver over next 1-3 years.

Market Leadership

Cash management: 35-40% of capital markets account settlements, 40-50% of escrow settlements in bank tranche issues. Trade finance: 18-20% of country's exports, 13-15% of imports. Cards: 35-36% merchant acquiring, 21-22% credit card issuance, 26-28% card spends. Dominant salary bank in private sector. Top 2 in MSME and mortgages nationally.

Key Subsidiaries

HDBFSL (74.1%): FY26 PAT INR 25.4 Bn; Q4 PAT INR 7.5 Bn (+41.4%); loan book INR 1,185 Bn; Stage 3: 2.44%; CAR: 21.4%. IPO completed Jun-25 with fresh equity INR 2,500 Cr and OFS INR 10,000 Cr; net gain to bank INR 9,179 Cr pre-tax. HDFC Life (50.2%): FY26 PAT INR 19.1 Bn; board approved up to INR 10 Bn preferential issue investment. HDFC ERGO (50.3%): FY26 PAT INR 8.1 Bn. HDFC AMC (52.4%): FY26 PAT INR 28.6 Bn; quarterly avg AUM ~INR 9,275 Bn. HDFC Securities (94%): FY26 PAT INR 9.3 Bn. Consolidated FY26 net revenue: INR 3,100 Bn. Consolidated PAT: INR 760 Bn.

Governance & Other Events

Legal review related to former part-time chairman's resignation (18 Mar 2026) in progress with external law firms appointed domestically and internationally. No expected material financial impact. Deposit flows remained stable and strong through the event. Dubai DIFC branch received DFSA prohibition on soliciting new clients (Sep-25); existing clients continue; not material to operations. FY26 total dividend: INR 15.50/share (INR 2.50 special interim + INR 13.00 final). Record date: 19 Jun 2026. Board approved up to INR 60,000 Cr in perpetual debt, Tier 2 bonds and infra bonds via private placement. ESIP 2022 extended to May 2031; per-employee annual RSU cap raised from 30,000 to 50,000. New Labour Code incremental impact: ~INR 600 Cr under employee costs. Distribution: 9,689 branches, 21,172 ATMs, 4,175 cities, 50% branches in semi-urban/rural, 14,400 BCs. Employee count: 2,11,178.

Key Financials

Profit & Loss Account

Rs in Bn	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Interest Earned	2,583	3,005	3,075	3,538	4,087	4,684
Interest expended	1,498	1,778	1,788	2,094	2,306	2,541
NII	1,085	1,227	1,287	1,444	1,780	2,143
Other Income	492	456	625	613	663	763
Net Income	1,578	1,683	1,912	2,057	2,443	2,906
Operating Exp	634	682	727	821	936	1,067
PPOP	944	1,001	1,186	1,236	1,507	1,839
Provisions	235	116	234	156	186	206
PBT	709	885	952	1,079	1,321	1,634
Tax	101	211	205	232	285	352
PAT	608	673	747	847	1,037	1,282

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

Balance Sheet

Rs in Bn	FY24	FY25	FY26A	FY27E	FY28E	FY29E
CAPITAL & LIABILITIES						
Capital	7.60	7.65	15.39	15.39	15.39	15.39
Reserves & Surplus	4,395	5,007	5,568	6,144	6,850	7,722
Deposits	23,798	27,147	31,053	35,743	41,249	47,769
Borrowings	6,622	5,479	4,894	4,160	3,952	3,754
Other Liabilities	1,354	1,461	2,073	2,281	2,509	2,760
TOTAL	36,176	39,102	43,603	48,344	54,575	62,020
ASSETS						
Cash & Balances	2,191	2,396	2,985	2,722	2,042	1,758
Investments	7,024	8,364	8,842	9,903	11,190	12,645
Advances	24,849	26,196	29,372	33,190	38,168	44,085
Fixed Assets	114	137	147	169	195	224
Other Assets	1,998	2,010	2,303	2,359	2,979	3,309
TOTAL	36,176	39,102	43,649	48,344	54,575	62,020

Source: Arianth Research, Company Filings

Ratios (%)	FY24	FY25	FY26A	FY27E	FY28E	FY29E
Growth						
NII	25.0	13.0	4.9	12.2	23.3	20.4
PPOP	34.1	6.1	18.4	4.2	21.9	22.1
Net profit	37.9	10.7	10.9	13.4	22.4	23.6
Deposits	26.4	14.1	14.4	15.1	15.4	15.8
Advances	55.2	5.4	12.1	13.0	15.0	15.5
Returns						
ROA	2.00	1.79	1.80	1.84	2.01	2.20
ROE	16.9	14.3	14.1	14.4	15.9	17.6
NIM (%)	3.80	3.45	3.29	3.32	3.66	3.90
Efficiency						
C/I Ratio	40.2	40.5	38.0	39.9	38.3	36.7
CASA	38.2	34.8	34.1	31.3	28.6	26.0

Ratios (%)	FY24	FY25	FY26A	FY27E	FY28E	FY29E			
Per Share									
BV (Rs)	185	216	251	290	328	363	400	446	503
ABV (Rs)	181	213	247	284	320	355	393	439	494
EPS (Rs)	28	33	40	40	44	49	55	67	83
Valuation									
P/BV (x)	4.3	3.7	3.2	2.8	2.4	2.2	2.0	1.8	1.6
P/ABV (x)	4.4	3.8	3.2	2.8	2.5	2.3	2.0	1.8	1.6
P/EPS (x)	28.3	24.0	20.2	20.0	18.2	16.5	14.5	11.9	9.6
Asset quality									
GNPA	1.3	1.2	1.1	1.2	1.3	1.2	1.1	1.1	1.1
NNPA	0.4	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3
PCR	69.8	72.7	75.8	74.0	67.9	67.2	70.4	73.3	72.7

Source: Arianth Research, Company Filings

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Stock Rating Scale

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

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