BUY
TP: Rs 944 | ⮝ 30%

HDFC BANK

| Banking | 19 October 2026

Earnings remain resilient with valuation comfort

- **Earnings strong; deposit growth picks up, leading to an ease in the CD ratio**
- **NIMs have bottomed out, increase in retail/MSME growth and back book repricing to support NIMs**
- **Maintain BUY with a TP of Rs.944 at 2x Sep28E ABV, as risk reward profile remains favourable**

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NII/other income growth picks up : PAT grew to Rs.195bn, driven by 16% YoY loan growth, 14% QoQ core fee growth and Rs.8bn treasury income, partly offset by credit costs of 46bps (vs. 40bps estimated) and a 10bps QoQ NIM decline. NIM on earning assets fell 8bps QoQ and YoY to 3.32%, while CoF remained flat QoQ at 4.4%, down 20bps YoY, as deposit repricing benefits were offset by a higher time-deposit mix, including FCNR. Management expects retail/MSME growth and back-book repricing to support margins, with Q2FY27 likely marking the bottom of the cycle. The 25bps repo rate hike is expected to benefit 70% of floating-rate loans by December 2026, partly offset by higher FCNR funding costs

Deposit growth picks up, share of retail assets to increase: HDFCB reported healthy loan growth of 15% YoY, mainly driven by growth in BBG (+28% YoY), agri (+10% YoY), gold loans (+39% YoY), and corporate (+16% YoY). Deposit growth picked up well (+16.4% YoY), which helped ease the CD ratio to 96% vs 98% in Q2FY27. Retail disbursements rose to >Rs.900bn from Rs.760bn QoQ, with advances growing 11.2% YoY. ECLGS 5.0 disbursements of ~Rs.410bn supported MSME growth. Management expects sustained retail/MSME momentum, driven by improved productivity and faster TAT, while selectively expanding higher-yielding retail loans based on risk-adjusted returns. Retail aum mix is now 53% of AUM vs 52% in Q1.

AQ remains pristine: Slippage ratio improved 31bps YoY/ 29bps QoQ to 0.78%, while GNPA declined 6 bps QoQ to 1.11% due to decline in slippages. Credit costs stood at 46bps, up 5bps QoQ. Agri asset quality remained stable despite uneven monsoons, with management prioritising asset quality alongside growth in higher-yielding retail/MSME portfolios. Further, provisioning buffer (floating + contingent) remains robust at Rs 368bn or 1.1% of net loans, with healthy PCR at 67%.

Maintain BUY: HDFC Bank's strong profitability and asset quality have driven historical outperformance vs peers. Improving deposit/loan growth, bottoming NIMs and a higher retail/MSME mix should support margins. Valuations may normalise as the new CEO drives performance and -ve sentiment eases. Maintain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 729
Market cap	US$ 118.4bn
Free float	100%
3M ADV	US$ 226.6mn
52wk high/low	Rs 1,021/Rs 682
Promoter/FPI/DII	0%/39%/43%

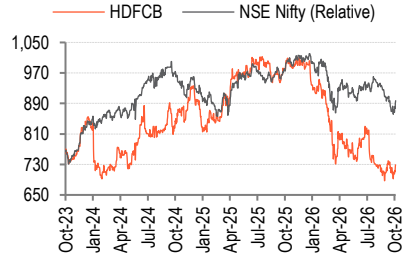
Source: NSE | Price as of 16 Oct 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	1,286,860	1,448,768	1,749,348
NII growth (%)	4.9	12.6	20.7
Adj. net profit (Rs mn)	746,713	842,270	1,001,828
EPS (Rs)	48.6	54.7	65.1
P/E (x)	15.0	13.3	11.2
P/BV (x)	2.0	1.8	1.6
ROA (%)	1.8	1.8	1.9
ROE (%)	14.0	14.2	15.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
Income Statement							
Interest Income	5,92,648	5,99,538	6,03,512	6,19,539	6,54,583	10.5	5.7
Income on investments	1,52,855	1,46,658	1,39,240	1,42,722	1,52,535	(0.2)	6.9
Int. on bal. with RBI & inter-bank funds & Others	21,404	21,315	23,348	31,367	27,148	26.8	(13.5)
Interest income	**7,66,907**	**7,67,512**	**7,66,100**	**7,93,628**	**8,34,266**	**8.8**	**5.1**
Interest expense	4,51,392	4,41,362	4,35,285	4,58,288	4,88,074	8.1	6.5
Net interest income	**3,15,515**	**3,26,150**	**3,30,816**	**3,35,340**	**3,46,192**	**9.7**	**3.2**
Growth YoY (%)	4.77	6.40	3.17	6.67	9.72		
Fee Income	88,000	92,000	92,000	85,000	97,000	10.2	14.1
Trading gains/(losses)	24,000	9,000	8,000	4,000	8,000	(66.7)	100.0
Forex Income	16,000	14,000	15,000	13,000	16,000	0.0	23.1
Others	15,500	17,538	16,989	26,216	17,310	11.7	(34.0)
Non-interest income	**1,43,500**	**1,32,538**	**1,31,989**	**1,28,216**	**1,38,310**	**(3.6)**	**7.9**
Growth YoY (%)	25.0	15.7	9.7	(41.0)	(3.6)		
Total Income	**4,59,015**	**4,58,688**	**4,62,805**	**4,63,556**	**4,84,502**	**5.6**	**4.5**
Growth YoY (%)	10.3	8.9	5.0	(12.8)	5.6		
Staff expenses	64,613	72,032	62,277	64,148	67,742	4.8	5.6
Other operating expenses	1,15,166	1,15,679	1,22,498	1,17,727	1,21,926	5.9	3.6
Operating expenses	**1,79,779**	**1,87,710**	**1,84,775**	**1,81,875**	**1,89,668**	**5.5**	**4.3**
Pre-Provisioning Profit (PPoP)	**2,79,236**	**2,70,978**	**2,78,029**	**2,81,681**	**2,94,834**	**5.6**	**4.7**
Growth YoY (%)	13.0	8.4	4.8	(21.2)	5.6		
Provisions	35,005	28,379	26,096	30,598	35,736	2.1	16.8
Growth YoY (%)	29.6	(10.0)	(18.3)	(78.8)	2.1		
PBT	2,44,231	2,42,599	2,51,934	2,51,083	2,59,098	6.1	3.2
Tax	57,818	56,062	59,723	60,486	63,998	10.7	5.8
PAT	**1,86,413**	**1,86,538**	**1,92,211**	**1,90,597**	**1,95,100**	**4.7**	**2.4**
Growth YoY (%)	10.8	11.5	9.1	5.0	4.7		
Per Share							
FV (Rs)	1.0	1.0	1.0	1.0	1.0	0.0	0.0
EPS (Rs)	12.1	12.1	12.5	12.4	12.7	4.3	2.3
Book Value (Rs)	341	354	367	380	380	11.4	0.1

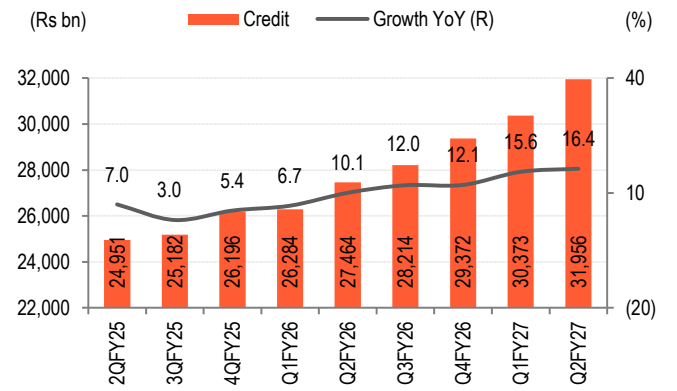
Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
Deposits	**2,80,17,888**	**2,86,00,546**	**3,10,52,505**	**3,17,08,301**	**3,32,74,489**	**18.8**	**4.9**
Growth YoY (%)	12.1	11.6	14.4	14.7	18.8		
Advances	**2,74,63,598**	**2,82,14,465**	**2,93,71,663**	**3,03,73,033**	**3,19,55,661**	**16.4**	**5.2**
Growth YoY (%)	10.1	12.0	12.1	15.6	16.4		
Investment	87,43,213	87,82,567	88,42,015	91,94,134	92,39,971	5.7	0.5
Equity	52,39,450	54,39,934	56,44,402	58,46,332	58,57,961	11.8	0.2
Assets	4,00,30,084	4,08,89,873	4,36,48,863	4,39,74,613	4,57,77,598	14.4	4.1
Growth YoY (%)	8.5	8.8	11.6	11.2	14.4		
Yield (%)							
Yield on Funds	7.80	7.80	7.80	7.70	7.60	(20bps)	(10bps)
Cost of Funds	4.60	4.50	4.40	4.40	4.40	(20bps)	0bps
Spread	3.20	3.30	3.40	3.30	3.20	0bps	(10bps)
Net Interest Margin	**3.27**	**3.35**	**3.38**	**3.26**	**3.16**	**(11bps)**	**(10bps)**
Ratios (%)							
Other Income / Net Income	31.3	28.9	28.5	27.7	28.5	(272bps)	89bps
Cost to Income ratio	39.2	40.9	39.9	39.2	39.1	(2bps)	(9bps)
CASA ratio	33.9	33.6	34.1	32.3	31.6	(226bps)	(72bps)
C/D ratio	98.0	98.7	94.6	95.8	96.0	(199bps)	25bps
Investment to Assets	21.8	21.5	20.3	20.9	20.2	(166bps)	(72bps)
Assets Quality							
GNPA	3,42,895	3,51,790	3,40,612	3,58,464	3,58,097	4.4	(0.1)
NNPA	1,14,473	1,19,818	1,11,695	1,23,573	1,18,509	3.5	(4.1)
Provision	2,28,422	2,31,972	2,28,917	2,34,891	2,39,588	4.9	2.0
GNPA (%)	1.24	1.24	1.15	1.17	1.11	(13bps)	(6bps)
NNPA (%)	0.42	0.42	0.38	0.41	0.37	(5bps)	(4bps)
PCR (%)	66.62	65.94	67.21	65.53	66.91	29bps	138bps

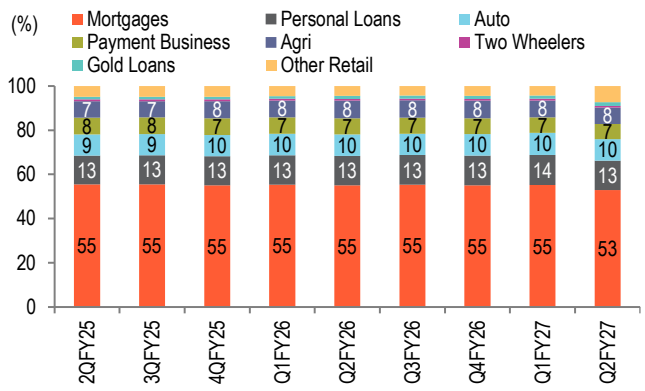
Source: Company, BOBCAPS Research

Fig 3 – Credit growth improves



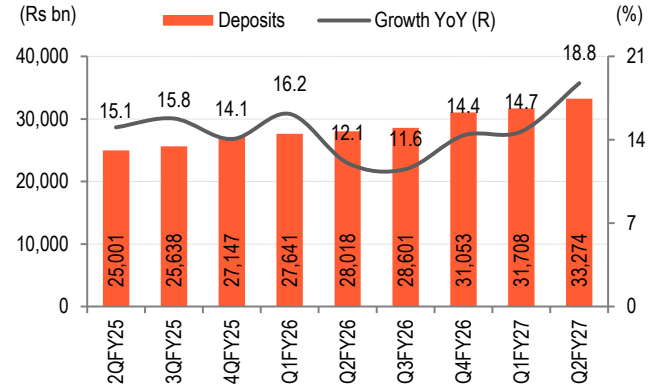
Source: Company, BOBCAPS Research

Fig 4 – Retail loan mix %



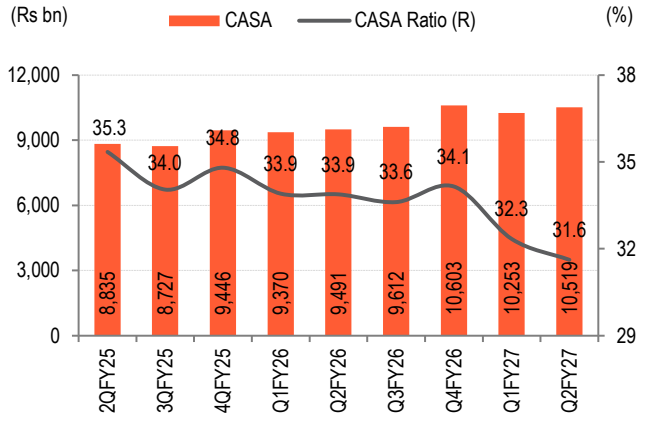
Source: Company, BOBCAPS Research

Fig 5 – Deposit growth improves



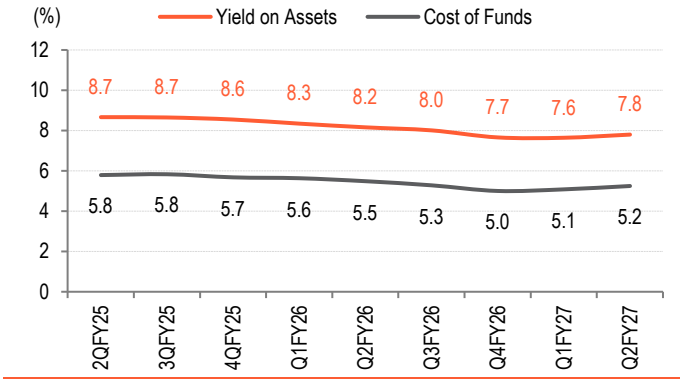
Source: Company, BOBCAPS Research

Fig 6 – CASA ratio moderates QoQ



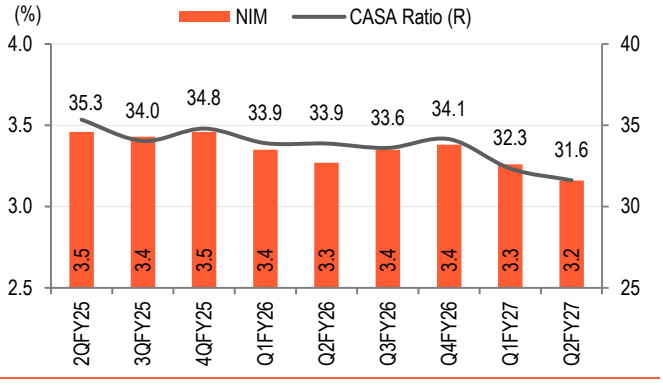
Source: Company, BOBCAPS Research

Fig 7 – Yields declined due to repricing



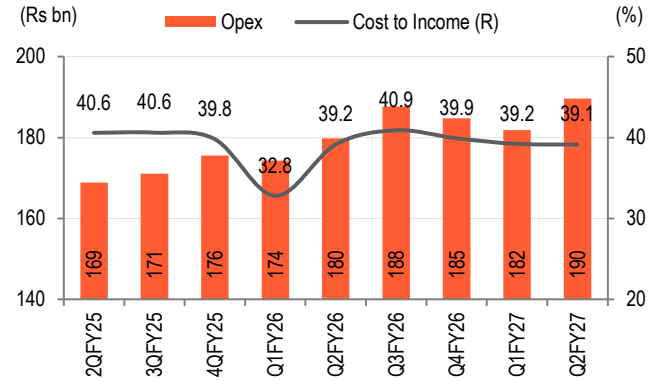
Source: Company, BOBCAPS Research

Fig 8 – NIMs bottomed out this quarter



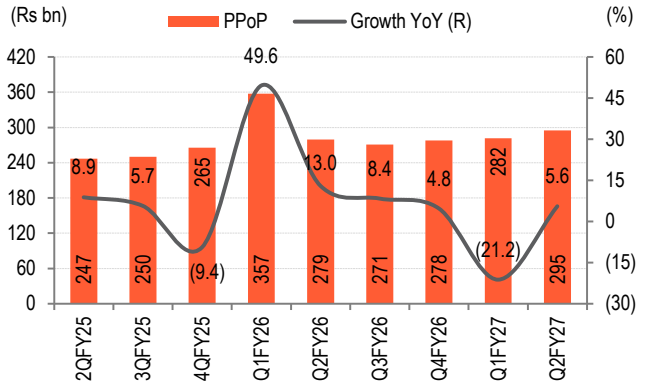
Source: Company, BOBCAPS Research

Fig 9 – C/I ratio stable



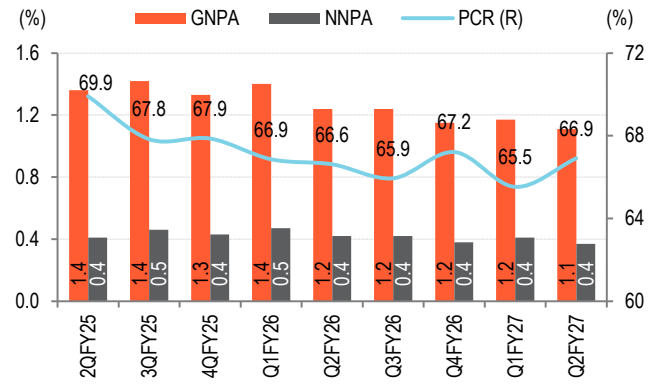
Source: Company, BOBCAPS Research

Fig 10 – PPoP grew on QoQ basis



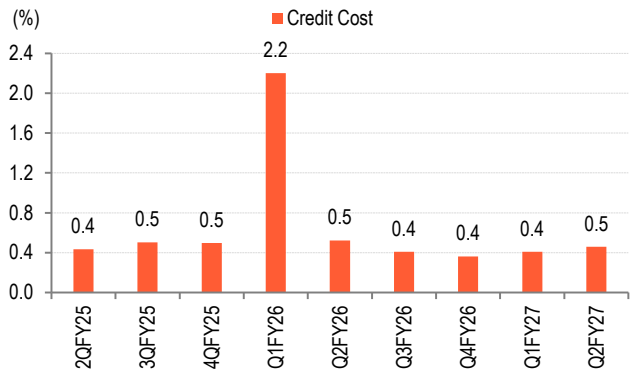
Source: Company, BOBCAPS Research

Fig 11 – Asset quality improves



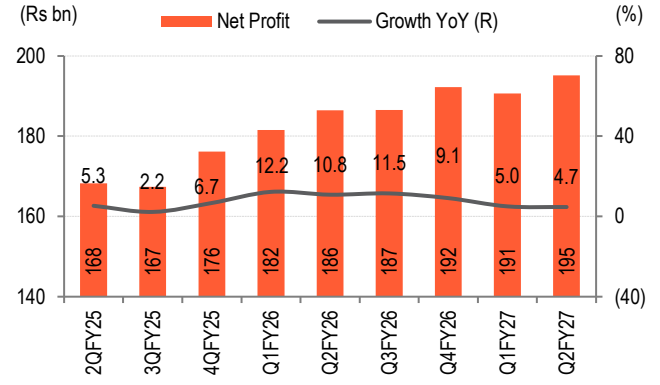
Source: Company, BOBCAPS Research

Fig 12 – Credit cost inched up QoQ



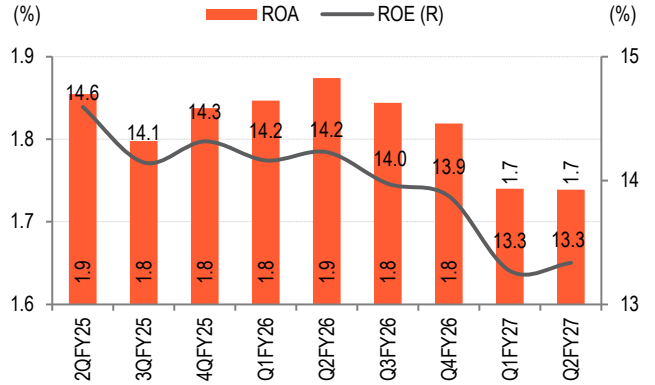
Source: Company, BOBCAPS Research

Fig 13 – Net profit grew QoQ



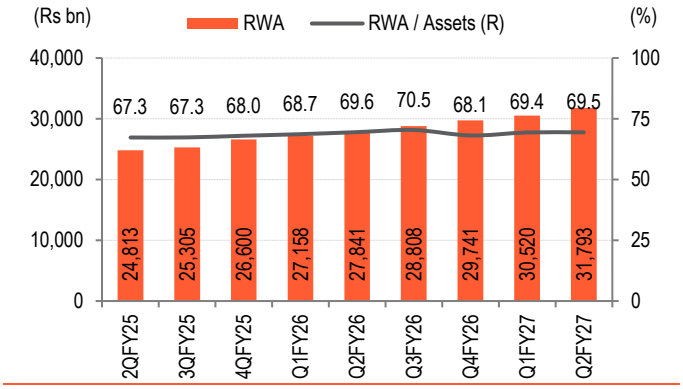
Source: Company, BOBCAPS Research

Fig 14 – Return ratios stable, to improve as yields pick and CoF improves



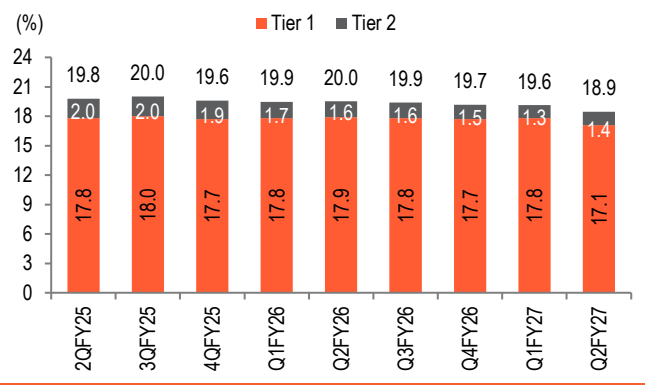
Source: Company, BOBCAPS Research

Fig 15 – RWA/Assets stable



Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 16 – Well capitalised



Source: Company, BOBCAPS Research

Earnings Call Takeaways

Loan Growth & Outlook

Advances

- Retail disbursements increased to over Rs.900 bn in Q2FY27 from Rs.760 bn in Q1FY27, reflecting broad-based growth. Retail advances excluding agriculture grew 11.2% YoY in September 2026, compared with 9.1% in June 2026 and 7.4% in March 2026.
- MSME and mid-market advances grew 23.5% YoY, accelerating from 17–18% in the preceding quarter. Disbursements of approximately Rs.410 bn under ECLGS 5.0 supported MSME and Business Banking growth.
- Corporate advances increased 16.4% YoY and 2.8% QoQ. Management will maintain a calibrated approach across working capital, term loans and project finance, with growth decisions guided by portfolio returns.
- Management expects retail and MSME growth momentum to sustain over the coming quarters, supported by improved frontline productivity, faster turnaround times and higher customer engagement.
- The bank will selectively expand higher-yielding retail products while maintaining its presence across corporate, wholesale and other banking segments, given comparable risk-adjusted returns across major businesses.

Deposits

- Deposits grew 18.8% YoY and 4.9% QoQ, with the special FCNR(B) swap window contributing approximately 4 percentage points to growth.
- Of the total deposit accretion of Rs.1.57 tn during Q2FY27, approximately Rs.1.3 tn came from time deposits.
- CASA deposits increased 10.8% YoY, while retail CASA grew 11.2% YoY.
- The bank added approximately 1.7 million liability relationships during Q2FY27, up 25% from Q1FY27 and 33% from Q4FY26, indicating improved customer acquisition momentum.
- Management highlighted that structural changes in household savings behaviour are constraining incremental low-cost deposit mobilisation across the banking system. The bank is evaluating longer-term balance-sheet adjustments and alternative funding strategies to reduce dependence on expensive liabilities.
- Branches contribute approximately 80% of total deposits. Management will continue mobilising deposits opportunistically at suitable pricing, particularly amid intermittent large-ticket outflows.

NIM

- NIM declined 8 bps QoQ and YoY to 3.32% in Q2FY27.
- Cost of funds remained flat QoQ but declined 20 bps YoY to 4.4%. Benefits from repricing the existing deposit book were offset by the incremental time-deposit mix, including FCNR(B) deposits.
- Management indicated that the quarter likely marked the bottom of the current margin cycle.
- The recent 25 bps repo rate hike is expected to benefit approximately 70% of the loan book comprising floating-rate loans, with most of the impact expected to be reflected by December 2026. The benefit from loan repricing is expected to be partly offset by higher funding costs from FCNR(B) deposits.
- Retail and MSME growth is expected to support margin improvement over the next few quarters, as back-book repricing gradually materialises and higher-yielding retail products contribute more to the portfolio.
- Portfolio allocation decisions will be guided by overall returns rather than yields, as wholesale and retail segments deliver comparable returns on assets despite differences in operating costs and credit costs.
- MCLR-linked loans account for a single-digit share of advances, limiting the impact of MCLR movements on the bank's loan repricing cycle.
- Management sees further scope to reduce CoF through an improved CASA mix, with additional market-share gains possible across its branch network.
- LCR stood at 113%, against management's preferred operating range of 110–120% and target of approximately 115%. Liquidity requirements remain an important consideration in calibrating incremental loan growth.

Asset Quality

- The slippage ratio improved 29 bps QoQ and 31 bps YoY to 0.78%, with improvement across most portfolios.
- GNPA declined 6 bps QoQ and 13 bps YoY to 1.11%.Credit costs stood at 46 bps, increasing 5 bps QoQ but declining 6 bps YoY.
- Despite uneven monsoon conditions, the bank has not observed any material deterioration in the agricultural portfolio. Agricultural GNPA remained broadly stable between June and September 2026, while Kharif sowing declined marginally by approximately 1.5–2% YoY.
- Management remains comfortable with the overall credit environment and will continue prioritising asset quality while expanding higher-yielding retail and MSME portfolios.
- Risk-weighted assets accounted for approximately 69% of total assets, reflecting the bank's portfolio risk profile.

Other highlights

- Customer visits per frontline resource per day increased approximately 50% QoQ, while savings accounts opened per branch per day improved 19%.
- Core incremental deposits per branch per day increased 2.3x from Q1FY27.
- Management discussed the potential impact of proposed insurance regulations on bancassurance income, noting that the final impact will depend on the commission structure ultimately implemented.
- Potential mitigating factors include improved policy persistency, higher insurance penetration and sales volumes due to lower insurance costs for customers, and cost rationalisation across the bank and insurance manufacturers to offset lower commissions.
- The new leadership team is expected to outline its strategy for strengthening core liabilities, improving the LCR trajectory and optimising balance-sheet funding over the coming months

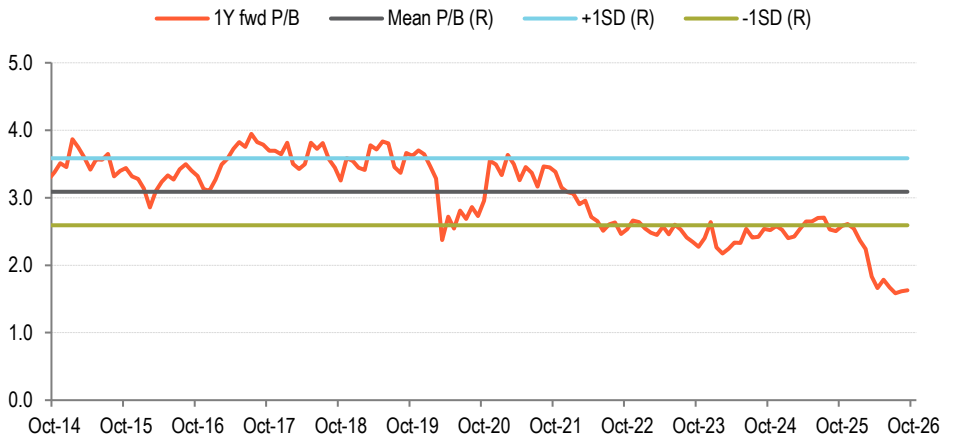
Valuation Methodology

We estimate FY27E deposits and advances growth of 16% each, supporting CD ratio improvement. HDFC Bank has historically outperformed private-sector peers through superior profitability and asset quality, with RoA/RoE expected at 1.8%/14.2% in FY27E. Following the governance overhang and geopolitical uncertainties, valuation multiples have corrected, offering an attractive entry point. Retirement of high-cost deposits and borrowings, a rising retail/MSME mix and gradual CASA improvement should support yields and NIMs. We expect valuations to converge towards historical levels as operating performance improves under the new CEO. Reiterate BUY with a revised SOTP-based TP of Rs.944 at 2x Sep 28E ABV (vs. 2.1x earlier).

(%)	FY26	FY27e	FY28e	FY29e
Advances growth	12.1	16.0	14.0	14.0
NII growth	4.9	12.6	20.7	13.1
PPoP growth	18.4	8.6	18.2	12.5
PAT growth	10.9	12.8	18.9	13.1
NIM	3.3	3.3	3.5	3.6
GNPA	1.2	1.1	1.0	1.0
CAR	19.7	19.3	18.9	18.1

Source: Company, BOBCAPS Research

Fig 17 – PB band chart



Source: Company, BOBCAPS Research

Key Risks

Key downside risks to our estimates:

- Mr. Bharucha's resignation may cause negative investor sentiment for some while, also we believe there could be potential management restructuring under the new CEO which may create uncertainty and weigh on investor sentiment.
- Delayed replacement of high-cost deposits and borrowings, alongside delayed CASA improvement, may keep funding costs elevated and pressure margins.

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	**LCR**	Liquidity Coverage Ratio
AIF	Alternative Investment Fund	**MCLR**	Marginal Cost of Funds-based Lending Rate
ARC	Asset Reconstruction Company	**MTM**	Mark to Market
BRDS	Bills Rediscounting Scheme	**NII**	Net Interest Income
CASA	Current Account and Savings Account	**NIM**	Net Interest Margin
CAR	Capital Adequacy Ratio	**NNPA**	Net Non-Performing Assets
CET1	Common Equity Tier 1	**PCR**	Provision Coverage Ratio
CD	Credit-Deposit Ratio	**PPOP**	Pre-Provision Operating Profit
C/I	Cost-Income Ratio	**PSU**	Public Sector Unit
CRB	Commercial and Rural Banking	**RWA**	Risk-weighted Assets
EBLR	External Benchmark-based Lending Rate	**TD**	Term Deposits
ECL	Expected Credit Loss	**SLR**	Statutory Liquidity Ratio
GNPA	Gross Non-Performing Assets	**SMA**	Special Mention Account
IBPC	Interbank Participation Certificate	**SME**	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	**1,226,701**	**1,286,860**	**1,448,768**	**1,749,348**	**1,978,202**
NII growth (%)	13.0	4.9	12.6	20.7	13.1
Non-interest income	456,323	625,326	606,239	649,307	730,303
Total income	1,683,024	1,912,186	2,055,007	2,398,655	2,708,505
Operating expenses	681,749	726,603	766,918	875,832	996,044
PPOP	1,001,275	1,185,583	1,288,090	1,522,822	1,712,461
PPOP growth (%)	6.1	18.4	8.6	18.2	12.5
Provisions	116,494	233,896	162,061	183,480	198,315
PBT	884,781	951,687	1,126,029	1,339,342	1,514,146
Tax	211,307	204,974	283,759	337,514	381,565
Reported net profit	**673,474**	**746,713**	**842,270**	**1,001,828**	**1,132,581**
Adjustments	0	0	0	0	0
Adjusted net profit	**673,474**	**746,713**	**842,270**	**1,001,828**	**1,132,581**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	15,304	15,393	15,393	15,393	15,393
Reserves & surplus	4,998,942	5,613,616	6,250,945	7,002,316	7,851,751
Net worth	5,014,246	5,629,009	6,266,338	7,017,709	7,867,145
Deposits	27,147,149	31,052,505	36,118,886	41,125,414	46,882,972
Borrowings	5,479,309	4,893,946	5,049,355	4,722,028	4,438,706
Other liab. & provisions	1,461,285	2,073,403	2,184,107	3,094,520	3,599,893
Total liab. & equities	**39,101,989**	**43,648,863**	**49,618,686**	**55,959,671**	**62,788,717**
Cash & bank balance	2,395,707	2,984,664	2,888,370	2,935,283	3,212,306
Investments	8,363,597	8,842,015	10,115,509	11,536,962	12,463,672
Advances	26,196,086	29,371,663	34,071,129	38,841,087	44,278,839
Fixed & Other assets	2,146,600	2,450,522	2,543,679	2,646,339	2,833,899
Total assets	**39,101,989**	**43,648,863**	**49,618,686**	**55,959,671**	**62,788,717**
Deposit growth (%)	14.1	14.4	16.3	13.9	14.0
Advances growth (%)	5.4	12.1	16.0	14.0	14.0

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	44.2	48.6	54.7	65.1	73.6
Dividend per share	11.0	15.5	13.7	16.3	18.4
Book value per share	327.6	365.7	407.1	455.9	511.1

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	16.5	15.0	13.3	11.2	9.9
P/BV	2.2	2.0	1.8	1.6	1.4
Dividend yield (%)	1.5	2.1	1.9	2.2	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	3.3	3.1	3.1	3.3	3.3
Non-interest income	1.2	1.5	1.3	1.2	1.2
Operating expenses	1.8	1.8	1.6	1.7	1.7
Pre-provisioning profit	2.7	2.9	2.8	2.9	2.9
Provisions	0.3	0.6	0.3	0.3	0.3
PBT	2.4	2.3	2.4	2.5	2.6
Tax	0.6	0.5	0.6	0.6	0.6
ROA	1.8	1.8	1.8	1.9	1.9
Leverage (x)	8.0	7.8	7.8	7.9	8.0
ROE	14.3	14.0	14.2	15.1	15.2

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	13.0	4.9	12.6	20.7	13.1
Pre-provisioning profit	6.1	18.4	8.6	18.2	12.5
EPS	(4.3)	10.2	12.5	18.9	13.1
Profitability & Return ratios (%)					
Net interest margin	3.5	3.3	3.3	3.5	3.6
Fees / Avg. assets	0.8	0.8	0.8	1.0	1.0
Cost-Income	40.5	38.0	37.3	36.5	36.8
ROE	14.3	14.0	14.2	15.1	15.2
ROA	1.8	1.8	1.8	1.9	1.9
Asset quality (%)					
GNPA	1.3	1.2	1.1	1.0	1.0
NNPA	0.4	0.4	0.4	0.3	0.3
Slippage ratio	1.3	1.2	1.2	1.2	1.2
Credit cost	0.5	0.5	0.5	0.5	0.5
Provision coverage	67.9	67.2	67.7	68.3	68.6
Ratios (%)					
Credit-Deposit	96.5	94.6	94.3	94.4	94.4
Investment-Deposit	30.8	28.5	28.0	28.1	26.6
CAR	19.6	19.7	19.3	18.9	18.1
Tier-1	17.7	17.7	17.3	16.6	16.3

Source: Company, BOBCAPS Research

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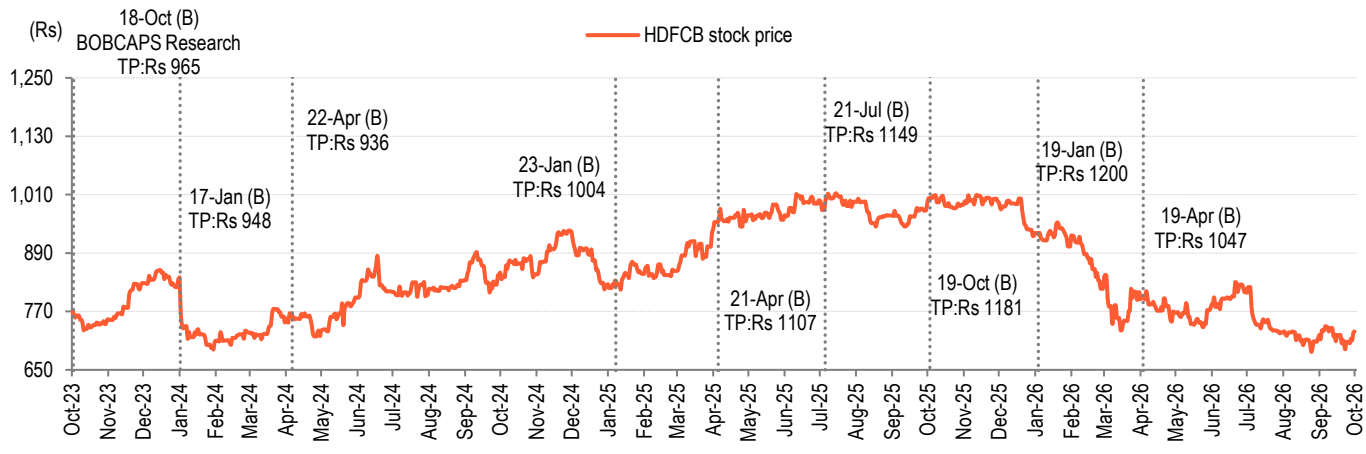
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