Stock Update

Result Update

MIRAE ASSET Sharekhan

HDFC Bank

Steady Q1

Banks	Sharekhan code: HDFCBANK
Reco/View: Buy ↔	CMP: Rs. 1,957
	Price Target: Rs. 2,300 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

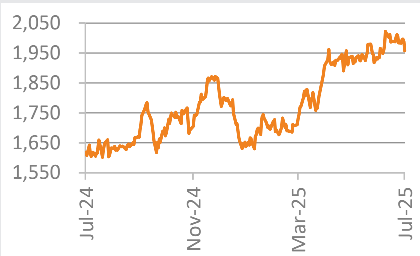
Company details

Market cap:	Rs. 15,01,325 cr
52-week high/low:	Rs. 2,027/ 1,589
NSE volume: (No of shares)	110.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	760.2 cr

Shareholding (%)

Promoters	-
FII	48.8
DII	36.0
Others	15.2

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	2.6	19.5	21.8
Relative to Sensex	0.7	-1.4	12.9	20.2

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Overall, HDFC Bank reported steady numbers. Better NIM, strong deposit growth, contained opex growth and pristine asset quality were key positives.
- Asset quality was broadly stable except seasonality seen in agri portfolio.
- Deposit growth was healthy and loan growth remained modest, which led to decline in LDR to ~95% versus 96% q-o-q. The bank is well-positioned to deliver credit growth in line with system growth in FY26E.
- Stock trades at 2.3x/2.1x its FY2026E/FY2027E core BV estimates. We maintain a Buy with an unchanged PT of Rs. 2,300 and remain assertive for the medium to long term.

Q1FY26 numbers were broadly line with estimates. NII at Rs. 31,438 crore (up 5% y-o-y/ down 2% q-o-q) was in line. Core NIM declined by 11 bps q-o-q to 3.35% versus expectations of 15 bps. The bank indicated that the February and April repo rate changes have been largely reflected in the margins while June 50 bps repo cut will be fully transmitted in Q2. Core fee income grew 8% y-o-y/ down 11% q-o-q. Treasury gains stood at Rs. 980 crore versus Rs. 220 crore y-o-y and Rs. 390 crore q-o-q. Other income (ex. Trading gains) at Rs. 13,160 crore (includes stake sale gains from HDB Financials, amounting to Rs. 9,130 crore) versus Rs. 3.398 crore y-o-y and Rs. 3,108 crore q-o-q. Operating expenses growth was contained at 5% y-o-y/ down 1% q-o-q. PPoP (ex. stake sale gains) at Rs. 26,604 crore (in line) grew by 11% y-o-y / flat q-o-q. Core PPoP (ex. treasury gains & stake sale gains) grew 8% y-o-y. Reported total provisions were higher at Rs. 14,442 crore but it included Rs. 9,000 crore as floating provisions and Rs. 1,700 crore as contingent provisions, thus core credit cost stood at 57 bps versus 48 bps q-o-q. Adjusted PBT (for stake sale gains & floating/contingent provisions) was in line at Rs. 22,862 crore (7% y-o-y, down 2% q-o-q). Reported PAT was higher at Rs. 18,155 crore due to tax credit of Rs. 1,145 crore leading to lower effective tax. Net advances grew 7% y-o-y/ flat q-o-q. Among key segments, commercial and rural banking grew 17% y-o-y/ 2% q-o-q. Retail loans grew by 8% y-o-y/ flat q-o-q. Mortgage loans grew 1% q-o-q. Corporate loans grew 2% y-o-y but declined by 1% q-o-q. Deposit growth was healthy at 16% y-o-y/ 2% q-o-q. LDR was lower at 95% versus. 96% q-o-q. Liquidity coverage ratio stands at a healthy 124% versus 119% q-o-q. CASA grew 9% y-o-y/ down 1% q-o-q, with savings account balances higher by 1% q-o-q and CA down by 5% q-o-q. Term deposits grew by 21% y-o-y/ 3% q-o-q. GNPA/ NNPA ratio deteriorated q-o-q by 7 bps/ 4 bps q-o-q at 1.40%/ 0.47% mainly due to seasonality in agri portfolio. In absolute terms, GNPA/NNPA increased by 5%/8% q-o-q respectively. PCR at 67% versus 68% q-o-q. Ex agri- GNPA ratio is stable at 1.1% q-o-q. Slippages ratio higher at 1.5% versus 1.2% q-o-q (mainly due to agri portfolio). Net slippages at 0.8% versus 0.4% q-o-q. Total floating provisions and contingent provisions were at 140 bps of net loans.

Key positives

- Deposits grew strongly at 16% y-o-y/ 2% q-o-q, while system deposit growth has been at ~10% y-o-y.
- Opex growth stayed contained. Cost to average asset improved by 6 bps q-o-q to 1.77%.

Key negatives

- Slippages ratio was higher at 1.5% versus 1.2% q-o-q (mainly due to agri-portfolio).

Management Commentary

- The bank remains committed to achieve the glide path on the LDR and loan growth for FY26 & FY27E.
- The bank is seeing intense competition in mortgages from PSU banks but is reasonably confident for improving the overall loan growth going forward.
- Asset quality of the portfolio continues to remain stable.
- Assuming no repo rate cuts further, NIMs should bottom out in Q2FY26.

Our Call

Valuation – We maintain a Buy with an unchanged PT of Rs. 2,300: The stock trades at 2.3x/2.1x its FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth, which should bring down the LDR to normalised level over the next few quarters. The bank is looking to gradually improve the overall loan growth going forward however NIMs convergence would take a longer time as higher CASA growth is essential to deliver the requisite performance apart from run down of wholesale borrowings. We retain our Buy rating with an unchanged PT of Rs. 2,300 and remain assertive from the medium to long term, valuing the subsidiaries at Rs. 250 per share.

Key Risks

Slower retail deposit mobilisation; economic slowdown; tech outage.

Valuation Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Net Interest Income	86,842	1,08,532	1,22,670	1,29,508	1,48,345
Net profit	44,109	60,812	67,347	69,328	76,336
EPS (Rs.)	78.9	80.0	87.9	90.0	98.5
P/E (x)	21.6	21.3	19.4	18.9	17.3
P/BV (x)	3.4	2.9	2.6	2.3	2.1
RoE	17.0	16.9	14.3	13.0	12.6
RoA	1.9	2.0	1.8	1.7	1.7

Source: Company; Mirae Asset Sharekhan estimates

Results (Standalone) Rs cr

Particulars	1QFY26	1QFY25	4QFY25	Y-o-Y	Q-o-Q
Interest Inc.	77,470	73,033	77,460	6.1%	0.0%
Interest Expenses	46,032	43,196	45,394	6.6%	1.4%
Net Interest Income	**31,438**	**29,837**	**32,066**	**5.4%**	**-2.0%**
NIM (%)	3.35	3.47	3.54		
Core Fee Income	7,590	7,050	8,530	7.7%	-11.0%
Other Income	14,140	3,618	3,498	290.8%	304.2%
Net Income	**53,168**	**40,505**	**44,094**	**31.3%**	**20.6%**
Employee Expenses	6,158	5,849	6,116	5.3%	0.7%
Other Opex	11,276	10,772	11,441	4.7%	-1.4%
Total Opex	**17,434**	**16,621**	**17,557**	**4.9%**	**-0.7%**
Cost to Income Ratio	32.8%	41.0%	39.8%		
Pre Provision Profits	**35,734**	**23,885**	**26,537**	**49.6%**	**34.7%**
Provisions & Contingencies - Total	14,442	2,602	3,193	455.0%	352.3%
Profit Before Tax	**21,292**	**21,283**	**23,344**	**0.0%**	**-8.8%**
Tax	3,137	5,108	5,728	-38.6%	-45.2%
Effective Tax Rate	15%	24%	25%		
Reported Profits	**18,155**	**16,175**	**17,616**	**12.2%**	**3.1%**
Basic EPS (Rs)	23.7	21.3	23.0	11.4%	3.0%
Diluted EPS (Rs)	23.6	21.2	22.9	11.3%	2.8%
Adjusted RoA (%)	1.9	1.8	1.8		
Advances	**26,28,434**	**24,63,521**	**26,19,609**	**6.7%**	**0.3%**
Deposits	**27,64,089**	**23,79,085**	**27,14,715**	**16.2%**	**1.8%**
Gross NPA	**37,041**	**33,026**	**35,223**	**12.2%**	**5.2%**
Gross NPA Ratio (%)	1.40	1.33	1.33		
Net NPA	**12,276**	**9,508**	**11,320**	**29.1%**	**8.4%**
Net NPAs Ratio (%)	0.47	0.39	0.43		
PCR - Calculated	**66.9%**	**71.2%**	**67.9%**		

Source: Company; Mirae Asset Sharekhan Research

SOTP valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value (A)	2,050
HDB Financial Services	81
HDFC Securities	17
HDFC AMC	85
HDFC Life	120
HDFC ERGO	10
Sum of subs/ associates	**315**
(-) Holding Co. Discount - 20%	
Value of subs/ associates post holdco discount (B)	**250**
Fair Value (A+B)	**2,300**

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation, NIMs and asset quality to be in focus

System credit growth has further declined to ~9% y-o-y from 16% year ago as per the latest fortnight data, mainly driven by slower deposit growth, slower growth in secured retail segment and stress in the unsecured retail segment. Deposit growth for the system has been broadly at ~10% y-o-y. However, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to lower repo rates. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and the MFI segment but it appears that stress in unsecured segment has also broadly peaked out. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Gradually coming out of transition phase

Strong retail deposit mobilisation, resulting in faster normalisation of credit-deposit ratio in turn leading to a sustainable loan growth path, building strong reach and distribution, broadening customer base, and enabling technology are key positives. The bank is gradually coming out of transition phase and has a good track record of strong execution capability however, we acknowledge that NIM convergence would take a longer time as higher CASA growth is essential to deliver the requisite performance apart from run- down of wholesale borrowings.

■ Valuation – We maintain a Buy with an unchanged PT of Rs. 2,300

The stock trades at 2.3x/2.1x its FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth, which should bring down the LDR to normalised level over the next few quarters. The bank is looking to gradually improve the overall loan growth going forward however NIMs convergence would take a longer time as higher CASA growth is essential to deliver the requisite performance apart from run-down of wholesale borrowings. We retain our Buy rating with an unchanged PT of Rs. 2,300 and remain assertive from the medium to long term, valuing the subsidiaries at Rs. 250 per share.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
HDFC Bank	1,957	15,01,325	18.9	17.3	2.3	2.1	13.0	12.6	1.7	1.7
ICICI Bank	1,427	10,18,207	16.9	15.0	2.4	2.1	15.5	15.0	2.2	2.2
Axis Bank	1,099	3,40,605	11.1	9.6	1.4	1.3	13.9	14.5	1.6	1.7

Source: Company; Mirae Asset Sharekhan Research

About company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank has delivered steady performance across cycles. HDFC Bank and HDFC Limited have successfully completed one of India's largest financial services mergers.

Investment theme

HDFC Bank has consistently reported healthy return ratios and earnings growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality, which is indicative of its strong business franchise strength and leadership qualities The bank is confident of regaining its growth trajectory once the transition period of the merger is complete over the next 12 months.

Key Risks

Slower deposit mobilisation; economic slowdown; tech outage.

Additional Data

Key management personnel

Name	Designation
Sashidhar Jagdishan	Managing Director and CEO
Kaizad Bharucha	Deputy MD
Srinivasan Vaidyanathan	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	5.52
2	Life Insurance Corp of India	4.46
3	Vanguard Group Inc/The	3.59
4	Blackrock Inc	2.92
5	ICICI Prudential Asset Management	2.63
6	HDFC Asset Management Co Ltd	2.33
7	HDFC Trustee Co Ltd/India	2.33
8	FMR LLC	2.31
9	Republic of Singapore	2.09
10	UTI Asset Management Co Ltd	1.82

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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