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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

20 July 2025

HDFC Bank

Gearing up for growth

RESULT UPDATE

Sector: Banks **Rating:** BUY
CMP: Rs 1,957 **Target Price:** Rs 2,290

Stock Info

Nifty	24,968
Bloomberg Code	HDFCB IN
Equity shares	7652mn
52-wk High/Low	Rs 2027/ 1588
Face value	Rs 1
M-Cap	Rs 15,009bn/ USD 174bn
3-m Avg volume	USD 237mn

Financial Snapshot (Rs bn)

Y/E March	FY26E	FY27E	FY28E
NII	1,319	1,527	1,757
PPP	1,201	1,314	1,522
PAT	727	859	999
EPS (Rs)	95	112	131
EPS Gr. (%)	8	18	16
BV/Sh (Rs)	727	811	909
Adj. BV/Sh (Rs)	710	793	890

Ratios

NIM (%)	3.4	3.6	3.7
C/I ratio (%)	38.0	38.6	37.8
RoA (%)	1.8	1.9	2.0
RoE (%)	13.8	14.6	15.2

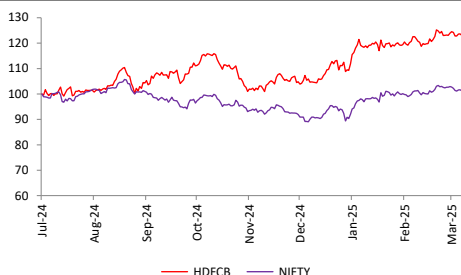
Valuations

P/E (x)	17.8	15.1	13.0
P/BV (x)	2.3	2.1	1.9
P/ABV (x)	2.4	2.1	1.9

Shareholding pattern (%)

	Dec'24	Mar'25	Jun'25
Promoter	0	0	0
-Pledged	-	-	-
FII	49	48	49
DII	35	36	36
Others	16	16	15

Stock Performance



HDFC Bank reported 1QFY26 PAT of Rs 181.55bn which is up by 3.1% qoq and 12.2% yoy. As expected, the bank had a one-off gain of Rs 91.28bn on sale of HDB Financials shares. The bank has almost entirely used it towards creating provisions where it has made a floating provision of Rs 90bn. Further the bank has made a contingency provision of Rs 17bn. The bank has witnessed higher slippages during the quarter, but they are mainly due to seasonally high agri slippages. The bank has witnessed fall in the net interest margin due to the transmission of the repo rate cuts. Total advances growth remains weak but broadly within guided lines. Management expects asset quality to improve going forward and the system level advances growth to improve from the start of festive season. Based on our revised estimates we have revised our target price to Rs 2,290 (from Rs 2300 earlier) and maintain our BUY rating on HDFC Bank. We are valuing the standalone bank at 2.5x its FY27E book value per share of Rs. 811. Further, we assign Rs 266 per share value to its subsidiaries and associates.

High other income due to expected one-off gain from sale of shares in HDB Financials: HDFC Bank (HDFCB) has divested around 135bn shares of HDB Financials as an offer for sale during its IPO in June 2025. The gross value for the OFS was Rs 100bn and post the estimated IPO expense the net gain for the bank was Rs. 91.28bn. The same was accounted as part of other income during the quarter.

Slippage ratio deteriorates but its more due to seasonally high agri slippages: The gross slippages were at Rs 90 bn in Q1FY26 as against Rs 75bn in 1QFY25. However, excluding the agri slippages it was Rs 68bn in 1QFY26 as against Rs 62bn in 1QFY25. The gross slippage ratio was at 1.36% up by 20bps QoQ and 9bps YoY. Agri slippage generally trends higher in the 1Q and 3Q. Excluding the recoveries and upgrades of Rs 42bn the net slippages for the quarter were at Rs. 48bn and the net slippage ratio was at 0.72%. The total provisions for the quarter were at Rs 144bn, up significantly both on YoY and QoQ basis. During the quarter the bank has made a floating provision of Rs 90bn and a contingency provision of Rs 17bn. We have assumed that a large part of the capital gain will be used for making provisions, but the bank has almost used the entire gain from sale of HDB Financial shares towards making provisions. Further the management has stated that the contingency provisions made are totally prudent and not an outcome of any forceable deterioration in asset quality going forward. The total outstanding contingency provisions now stand at 57bps of the total advances. The total credit cost for the quarter was 2.2%, up by 170bps QoQ and 178bps YoY. However, excluding the floating and contingency provisions made in the quarter, the credit cost is at 0.57%, up by 7bps QoQ and 15bps YoY.

Yield on assets slips more than cost of funds impacting the net interest margin: HDFC Bank's EBLR linked loans share in the total advances is around 59%. During the quarter the bank has witnessed the payout of the repo rate cut of 25bps announced each in February 2025 and April 2025. Hence, the overall yield on assets for the bank at 8.1% was down -30bps both QoQ and YoY. To counter the compression on yields the bank has taken Saving account and term deposit rate cuts. The SA rate cut benefit has been immediate, but the transmission of the term deposit rate cut would take time to reflect on the stock deposits as the bank's term deposits are mostly in the 12-18 months period. The banks reported cost of funds (including shareholders

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funds) in the quarter at 4.80% down by -10bps both QoQ and YoY. The net interest margin (on interest earning assets) for the quarter was at 3.5%, down by -20bps QoQ and -16bps YoY. The bank would further witness a transition of 50bps repo rate cut announced in June 2025 in 2QFY26. The management has indicated that 2QFY26 could be trough in NIMs and post which it could recover as the liability profile reprices.

Deposit growth continues to significantly outpace advances growth leading to improvement in CD ratio: Total gross advances in the quarter has grown by 0.4% QoQ and 6.7% YoY. The retail segment has grown by 0.3% QoQ and 8.1% YoY. The retail loan segment's sequential growth was driven by Mortgages, Auto Loans, Personal Loans and Gold Loans. The bank has rejigged its loan classification and has formulated a new segment Small and Mid-market which consists of business banking and CVs. This segment has grown by 2.4% QoQ and 17.1% YoY. The corporate and other wholesale advances were down -1.3% QoQ but up 1.7% YoY. The deposits growth continues to be healthy and for 1Q it grew by 1.8% QoQ and 16.2% YoY. The current account deposits have de-grown by -5.1% QoQ but saving account deposits have grown by 1.3% QoQ. The bank's CASA ratio was at 33.9% down by -90bps QoQ and -240bps YoY. The bank has earlier instructed its branch force to focus on deposit growth but has now guided them to focus on CASA also. Hence, the CASA ratio for the bank is expected to improve going forward. HDFCB's credit to deposit ratio has come to 95% and the management has stated that they will be more comfortable in the 87-90% range in the medium term. The management has restated its earlier guidance to grow advances at industry level growth in FY26 and above industry level growth in FY27. The management also expected the advances growth in the system to pick up from the start of festive season in August and expect 4QFY26 to see much better growth.

Operating expenses remains broadly under control: The total operating expense for the quarter was at Rs 174bn own by -0.7% QoQ but up 4.9% YoY. The employee expense for the quarter was at Rs 61.6bn up by 0.7% QoQ and 5.3% YoY. During the quarter the bank has added 4,000 employees largely to man its branches and add to its field sales force. The other operating expense was at Rs 113bn, down by -1.4% QoQ but up 4.7% YoY. The management has stated that the cost to income is a priority for them, and they will keep on improving on the same.

Tax Provisions: During the quarter the bank has received a favorable order and hence have written back tax provisions of Rs 11.45bn. Hence, the tax rate for the quarter was 14.7%.

Interim dividend and Bonus: During the quarter the bank announced an interim dividend of Rs 5 per equity share and a first-time bonus with the ratio of 1:1.

Valuation and recommendation: We have revised our estimates to factor in the higher-than-expected provisions made during the quarter and volatility in spread aspects. Based on our revised estimates we have revised our target price to Rs 2290 (from Rs 2300 earlier) and maintain our **BUY** rating on HDFC Bank. We are valuing the standalone bank at 2.5x its FY27E book value per share of Rs. 811. Further, we assign Rs 266 per share value to its subsidiaries and associates.

Key takeaways from 1QFY26 earnings call:

1. Asset Quality

- **NPA Recognition:** One-time settlement (OTS) is recognized as NPA.
- **Retail NPA:** Stable at 82 basis points (bps) in Q1 FY25, consistent with the previous quarter, excluding agriculture.
- **Contingent Provisions:** Made floating provision of Rs 90bn and contingency provision of Rs 17 bn. Total contingency provision held is around 57 bps of the loan book.
- **Asset Quality Outlook:** Continues to be a key strength, benign across segments except agriculture, with no anticipated pain points.

2. Net Interest Margin (NIM)

- **NIM Pressure:** Yield change of 30 bps due to repo rate impact on EBLR linked loans.
- **Repricing Dynamics:** Modified duration of 1-1.3 years, indicating gradual stock repricing.
- **Outlook:** Margins could potential bottom in Q2, subject to rate cuts and multiple moving parts.

3. Fee Income

- **Performance:** Subdued in Q1 due to lower third-party distribution fees.
- **Outlook:** Strong potential for recovery, especially with festive season demand expected to drive an uptick in Q3.

4. Advances Growth

- **Outlook:** Loan growth expected to improve from the start of festive season. The bank would grow at system-level growth in FY26 and above-system growth in FY27.
- **Key Segments:**
 - **Rural:** Healthy demand observed, presenting growth opportunities.
 - **MSME:** Buoyancy noted, driven by upfronting of exports.
 - **Corporate:** Participation in working capital, supported by benign interest rates, though private capex remains muted.
 - **Mortgages:** High competition, but opportunities exist through optimized operations and volume pickup.
 - **Retail segment:** Expected to grow, particularly from the festive season starting in August.

5. Deposits Growth

- **CASA Deposits:** Market share loss due to focus on overall deposit growth post-merger with HDFC limited in July 2023. Ground-level staff now directed to prioritize CASA through increased product sales and engagement.
- **Credit-Deposit (CD) Ratio:** Currently at 95%, with a medium-term target of 87-90%.
- **Liquidity:** Strong system liquidity supports deposit growth efforts.
- **Strategy:** Focus on middle and upper-middle-income customers to drive CASA growth, expected to improve gradually.

Exhibit 1: Quarterly performance

P&L (INR, mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Interest Earned	7,74,702	7,74,601	0.0	7,30,331	6.1
Interest Expended	(4,60,322)	(4,53,943)	1.4	(4,31,960)	6.6
Net Interest Income	3,14,380	3,20,658	(2.0)	2,98,371	5.4
Fee income	92,200	99,700	(7.5)	84,500	9.1
Non-fee Income	1,25,098	20,579	507.9	22,181	464.0
Other Income	2,17,298	1,20,279	80.7	1,06,681	103.7
Total Net Income	5,31,678	4,40,937	20.6	4,05,052	31.3
Employee Expense	(61,580)	(61,159)	0.7	(58,489)	5.3
Other operating expense	(1,12,759)	(1,14,410)	(1.4)	(1,07,717)	4.7
Operating expenses	(1,74,338)	(1,75,570)	(0.7)	(1,66,206)	4.9
PPOP	3,57,340	2,65,367	34.7	2,38,846	49.6
Core PPOP	2,32,241	2,44,788	(5.1)	2,16,665	7.2
Provisions	(1,44,416)	(31,931)	352.3	(26,021)	455.0
PBT	2,12,923	2,33,437	(8.8)	2,12,826	0.0
Tax	(31,371)	(57,275)	(45.2)	(51,078)	(38.6)
PAT	1,81,552	1,76,161	3.1	1,61,747	12.2
Key Ratios (%)	Q1 FY26	Q4 FY25	chg qoq	Q1 FY25	chg yoy
Net Interest Margin	3.50	3.70	-20bps	3.66	-16bps
Yield on Assets	8.10	8.40	-30bps	8.40	-30bps
Cost of Funds	4.80	4.90	-10bps	4.90	-10bps
CASA ratio	33.9	34.8	-90bps	36.3	-240bps
Loan to Deposit ratio	95.1	96.5	-140bps	103.5	-846bps
Fee Income to Avg. Total Assets	0.94	1.04	-10bps	0.94	0bps
Non-interest income/Total income	40.9	27.3	1359bps	26.3	1453bps
Cost to Income ratio	32.8	39.8	-703bps	41.0	-824bps
Opex to Avg. Total Assets	1.77	1.83	-6bps	1.85	-8bps
Annualised Slippage Ratio	1.36	1.16	20bps	1.27	9bps
Credit Cost	2.20	0.50	170bps	0.42	178bps
Gross NPA	1.40	1.33	7bps	1.33	7bps
Provision Coverage Ratio	66.9	67.9	-100bps	71.2	-435bps
Net NPA	0.47	0.43	4bps	0.39	8bps
RoA	1.92	1.92	0bps	1.88	4bps
Capital adequacy ratio	19.9	19.6	33bps	19.3	55bps
Tier I capital ratio	17.8	17.7	10bps	17.3	50bps
Common equity tier 1	17.4	17.2	20bps	16.8	60bps

Source: Company, Systematix Institutional Research, ^Annualised

Exhibit 2: Advances and Deposits break-up

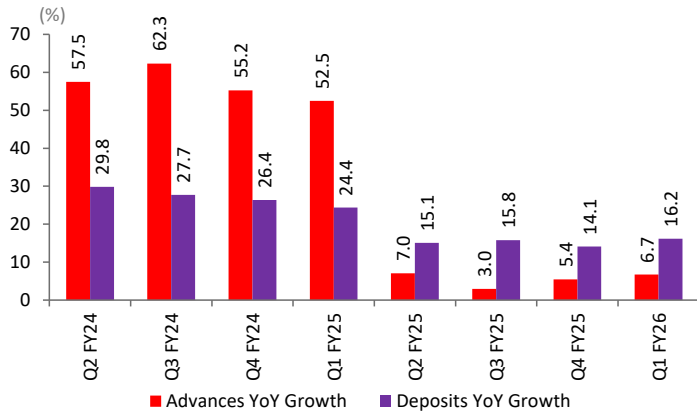
Particulars (Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Retail	1,52,15,000	1,51,64,000	0.3	1,40,72,000	8.1
Mortgages	84,28,000	83,57,000	0.8	78,80,000	7.0
Personal Loans	20,16,000	19,93,000	1.2	18,59,000	8.4
Auto	14,83,000	14,57,000	1.8	13,30,000	11.5
Payment Business	11,35,000	11,36,000	(0.1)	10,34,000	9.8
Agri	11,53,000	11,84,000	(2.6)	10,01,000	15.2
Two Wheelers	1,20,000	1,24,000	(3.2)	1,20,000	0.0
Gold Loans	1,89,000	1,77,000	6.8	1,49,000	26.8
Other Retail	6,91,000	7,36,000	(6.1)	6,98,000	(1.0)
Small and mid-market	55,23,000	53,91,000	2.4	47,15,000	17.1
Business Banking	39,44,000	38,27,000	3.1	32,99,000	19.6
Commercial Transportation	15,78,000	15,64,000	0.9	14,16,000	11.4
Corporate and other wholesale	70,82,000	71,77,000	(1.3)	69,63,000	1.7
Advances under management	2,78,20,000	2,77,33,000	0.3	2,57,50,000	8.0
IBPC/BRDS/Securitisation	-12,88,000	-12,98,000	(0.8)	-8,81,000	46.2
Gross Advances	2,65,32,000	2,64,35,000	0.4	2,48,69,000	6.7
Total Deposits	2,76,40,890	2,71,47,149	1.8	2,37,90,845	16.2
CA deposits	29,80,000	31,41,000	(5.1)	26,73,000	11.5
SA deposits	63,90,000	63,05,000	1.3	59,64,000	7.1
Term deposits	1,82,70,890	1,77,01,149	3.2	1,51,53,845	20.6

Source: Company, Systematix Institutional Research

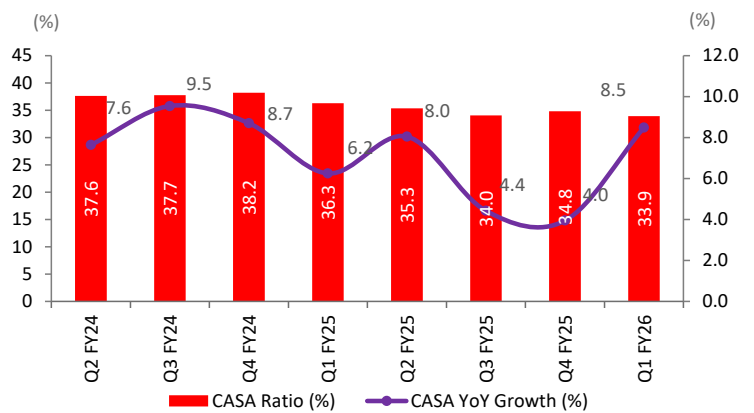
Exhibit 3: Actuals Vs Expectation

Q1FY26 (Rs. mn)	Actuals	Estimates	Variance
Net Interest Income	3,14,380	3,22,441	(2.5)
Pre-Prov. Operating Profit	3,57,340	3,59,007	(0.5)
Profit After Tax	1,81,552	2,01,968	(10.1)

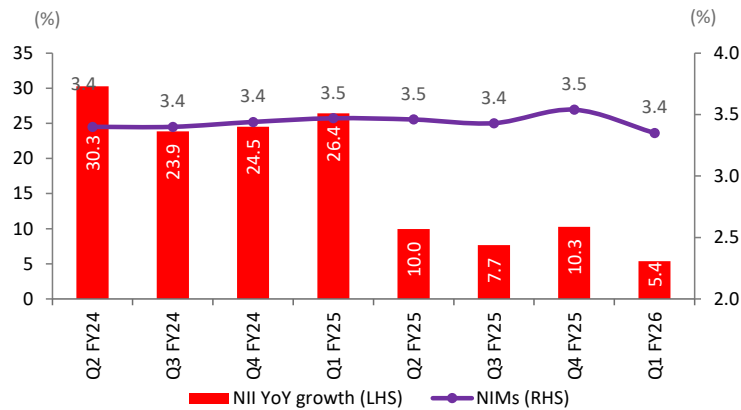
Source: Company, Systematix Institutional Research

Exhibit 4: Advances and Deposits YoY Growth (%)

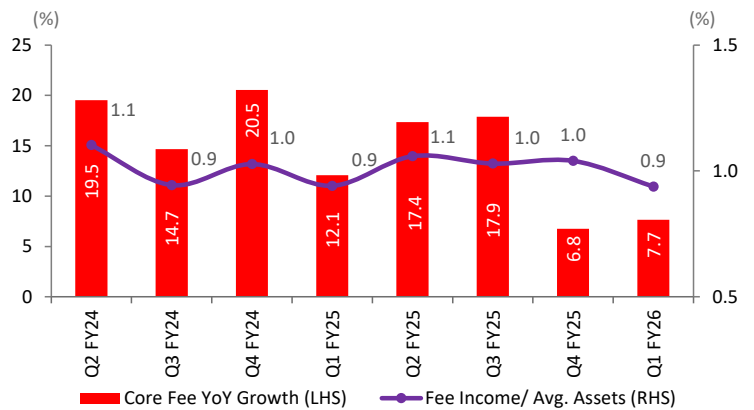
Source: Company, Systematix Institutional Research

Exhibit 5: CASA Ratio and CASA YoY Growth (%)

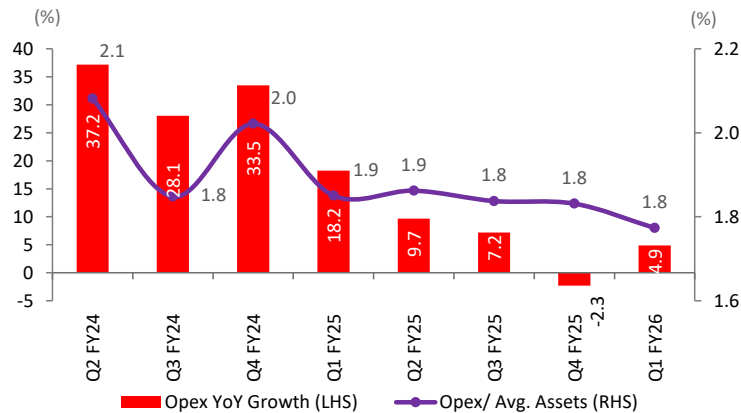
Source: Company, Systematix Institutional Research

Exhibit 6: NII YoY Growth and NIM (%)

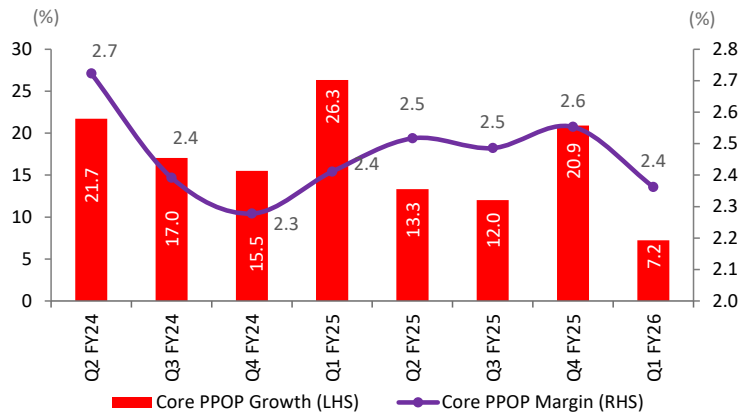
Source: Company, Systematix Institutional Research

Exhibit 7: Fee Income YoY Growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

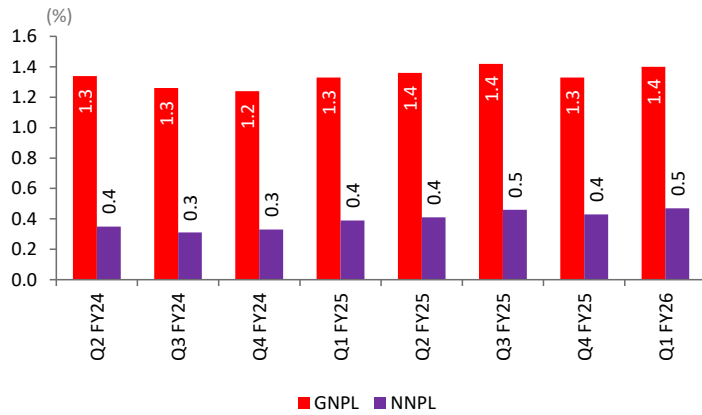
Exhibit 8: Opex YoY growth and as % of average assets (%)

Source: Company, Systematix Institutional Research

Exhibit 9: Core PPOP YoY Growth and Margin (%)

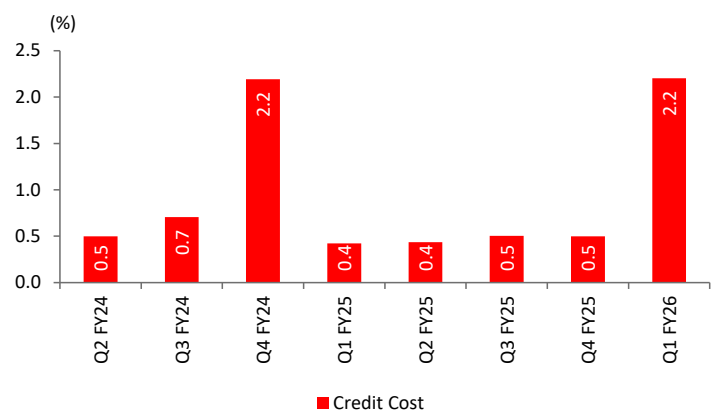
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA and NNPA Ratio (%)



Source: Company, Systematix Institutional Research

Exhibit 11: Credit Cost (%)



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/BV (x) trajectory



Source: Company, Systematix Institutional Research

Exhibit 13: 1-year forward P/BV (x) near long term average



Source: Company, Systematix Institutional Research

Exhibit 14: Revised vs earlier estimates

Particulars (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	13,18,506	15,27,341	17,57,233	13,32,292	15,27,341	17,57,233	(1.0)	0.0	0.0
Pre-Prov. Operating Profit	12,00,509	13,13,608	15,22,106	12,14,886	13,13,608	15,22,106	(1.2)	0.0	0.0
Profit after tax	7,27,436	8,59,017	9,98,822	7,60,718	8,59,017	9,98,822	(4.4)	0.0	0.0

Source: Company, Systematix Institutional Research

Exhibit 15: SOTP

Subsidiary	Value (Rs mn)	Valuation metric	Metric value (Rs mn)	Multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
HDB Financial Services	6,12,533	BV	1,58,197	3.9x	74.4%	4,55,725	60
HDFC Securities	1,00,458	BV	33,486	3.0x	94.6%	94,983	13
HDFC AMC	10,82,800	QAAUM	77,39,981	14.0%	52.5%	5,68,145	75
HDFC Life	16,79,692	EV	5,54,230	3.0x	50.3%	8,45,221	111
HDFC ERGO	1,09,418	PE	4,377	25.0x	50.3%	55,070	7
Value of Subsidiaries						5,50,707	266

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	2,583	3,005	3,166	3,497	3,923
Interest expense	(1,498)	(1,778)	(1,848)	(1,970)	(2,166)
Net interest income	1,085	1,227	1,319	1,527	1,757
Fee Income	282	319	372	446	503
Other Income	211	137	246	168	186
Total Non-interest income	492	456	618	614	689
Total income	1,578	1,683	1,936	2,141	2,446
Operating expenses	(634)	(682)	(736)	(827)	(924)
PPoP	944	1,001	1,201	1,314	1,522
Core PPOP	733	864	955	1,146	1,336
Provisions	(235)	(116)	(231)	(168)	(190)
Profit before tax	709	885	970	1,145	1,332
Taxes	(101)	(211)	(242)	(286)	(333)
Net profit	608	673	727	859	999

Source: Company, Systematix Institutional Research

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YE: Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	7.9	8.0	7.7	7.8	7.8
Interest expense	(4.6)	(4.7)	(4.5)	(4.4)	(4.3)
Net interest income	3.3	3.3	3.2	3.4	3.5
Non-interest income	1.5	1.2	1.5	1.4	1.4
Total income	4.8	4.5	4.7	4.8	4.9
Operating expenses	(1.9)	(1.8)	(1.8)	(1.8)	(1.8)
PPoP	2.9	2.7	2.9	2.9	3.0
Provisions	(0.7)	(0.3)	(0.6)	(0.4)	(0.4)
Profit before tax	2.2	2.4	2.4	2.5	2.6
Taxes	(0.3)	(0.6)	(0.6)	(0.6)	(0.7)
Net profit	1.9	1.8	1.8	1.9	2.0

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	8	8	8	8	8
Reserves & surplus	4,395	5,007	5,552	6,196	6,946
Net worth	4,402	5,014	5,560	6,204	6,953
Deposits	23,798	27,147	30,778	35,084	39,952
Borrowings	6,622	5,479	4,929	4,386	4,175
Other liabilities	1,354	1,461	1,360	1,805	2,277
Total liabilities	36,176	39,102	42,627	47,479	53,357
Total cash & equ.	2,191	2,396	2,316	2,280	2,576
Investments	7,024	8,364	8,802	9,816	10,882
Advances	24,849	26,196	28,947	32,565	36,798
Fixed assets	114	137	150	165	182
Other assets	1,998	2,010	2,412	2,653	2,919
Total assets	36,176	39,102	42,627	47,479	53,357

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth matrix (%)					
Net interest income	25.0	13.0	7.5	15.8	15.1
Total Income	33.6	6.7	15.1	10.6	14.3
PPoP	34.1	6.1	19.9	9.4	15.9
Net profit	37.9	10.7	8.0	18.1	16.3
Advances	55.2	5.4	10.5	12.5	13.0
Deposits	26.4	14.1	13.4	14.0	13.9
Return Ratios (%)					
Return on Average Equity	15.6	14.3	13.8	14.6	15.2
Return on Average Assets	1.9	1.8	1.8	1.9	2.0
Per share data (Rs)					
EPS	80	88	95	112	131
BVPS	580	655	727	811	909
ABVPS	569	640	710	793	890
Valuation multiples (x)					
P/E	21.1	19.2	17.8	15.1	13.0
P/BV	2.9	2.6	2.3	2.1	1.9
P/ABV	3.0	2.6	2.4	2.1	1.9
Spread Analysis (%)					
Net interest margin	3.5	3.5	3.4	3.6	3.7
Yield on loans	10.1	9.3	9.2	9.1	9.1
Cost of deposits	4.7	4.9	5.1	5.0	5.0
Loan-deposit ratio	104.4	96.5	94.1	92.8	92.1
Opex control (%)					
Cost/Income ratio	40.2	40.5	38.0	38.6	37.8
Cost to average assets	1.9	1.8	1.8	1.8	1.8
Asset quality (%)					
Gross NPL ratio	1.2	1.3	1.3	1.3	1.2
Gross Slippage ratio	2.0	1.3	1.2	1.2	1.1
Total Credit Cost	1.2	0.5	0.8	0.5	0.5
Net NPA ratio	0.3	0.4	0.4	0.4	0.4

Source: Company, Systematix Institutional Research

DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

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