

NIMs Likely to Bottom-Out in Q2, Optimistic on Growth Picking Up!

Est. Vs. Actual for Q1FY26: NII – **INLINE**; PPOP – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q1FY26

FY26E/27E (%): NII: -1.9/-0.8 PPOP: +7.1/+0.7; PAT: -3.8/+0.8

Recommendation Rationale

- Readying to Accelerate Growth:** HDFCB's credit growth lagged systemic growth, driven by its conscious decision to reduce LDR. With the LDR now <100%, the bank will look to resume its growth journey, with FY26 pegged at par with systemic growth and a further acceleration going into FY27E, with growth ahead of systemic growth. The management has identified segments to drive this growth, with the retail portfolio, particularly non-mortgage segments, poised for a strong growth uptick. This growth will be driven by a pick-up in consumption demand on the back of tax rate cuts and improved demand during the festive season. The mortgages segment continues to face rising pressures, especially from PSBs; however, the bank will look at accelerating growth from H2FY26 onwards. On the MSME side, despite the macro uncertainties pertaining to tariffs, the bank has seen a good demand uptick from export-oriented entities. The bank is confident of pursuing growth in the MSME customer category, given demand buoyancy. In the corporate segment, the bank will continue lending to highly-rated corporates despite pricing pressures persisting. Lending will primarily be towards working capital requirements, as private capex continues to remain elusive. **We expect HDFCB to deliver a healthy 14% CAGR advances growth over FY25-28E, against deposits growth of ~17% CAGR over the same period. Resultantly, LDR is set to improve to ~88% by FY28E (near pre-merger levels).**
- Near-term NIM Pressures to Persist:** In Q1FY26, the NIMs contracted by 19bps QoQ (~11bps QoQ excluding the impact of one-time IT refund in Q4FY25). The sharp margin compression is on account of the higher share of floating rate loans (~70%) driving a sharp decline in lending yields by ~30bps QoQ, with the impact of the Feb'25 and Apr'25 repo rate cuts visible. **In Q2FY26, the management expects NIMs to remain under pressure and are likely to bottom out with the Jun'25 repo rate cut (of 50bps) reflecting in the lending yields.** The SA rate cut taken by the bank reflected in the CoF (down 10bps QoQ); however, the TD repricing is expected to happen with a lag, given the average tenor for TDs is ~12-18 months. Margins are expected to stabilise from H2FY26 onwards as the deposits reprice downwards. **We expect HDFCB's margins to settle at ~3.4% in FY26E (vs 3.5% in FY25) and improve to 3.5-3.55% over FY27-28E.**

Sector Outlook: Positive

Company Outlook: HDFCB has been consistently performing on its guidance in its endeavour to revert to its pre-merger levels across metrics, and its execution capabilities remain strong. With LDR at a <100% level, the bank will look to accelerate growth momentum in FY26 to match systemic growth. While near-term pressures on NIMs will weigh on earnings, healthy fee income growth, controlled costs, and pristine asset quality, keeping credit costs benign, will offset the impact of margin compression. We expect HDFCB's RoA/RoE to improve to 1.9%/15-16% over FY27-28E vs 1.7%/13.6% in FY26. **HDFCB has announced a 1:1 Bonus and a special dividend of Rs 5/share. Record date for bonus is 27 August, 2025.**

Current Valuation: 2.6x FY27E ABV; **Earlier Valuation:** 2.5x FY27E ABV

Current TP: Rs 2,300/share; **Earlier TP:** Rs 2,250/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

ICICI Bank (TP – Rs 1,650/share)

Financial Performance

- Operational Performance:** HDFCB's advances (net) grew by 7%/flat YoY/QoQ. Deposits growth improved, registering a growth of 16/2% YoY/QoQ. CASA Deposits growth was muted at 9/-1% YoY/QoQ, mainly due to de-growth in CA deposits (+11/-5% YoY/QoQ) while SA deposits growth was modest at 7/1% YoY/QoQ. TDs grew by 21/3% YoY/QoQ. CASA Ratio stood at 33.9% vs 34.8% QoQ. C-D Ratio improved to 95.1% vs 96.5% QoQ.
- Financial Performance:** NII grew by 5/-2% YoY/QoQ, on an advances growth of 7%/flat YoY/QoQ, with core NIMs (reported) declining by 19bps QoQ. NIMs stood at 3.35% vs 3.54% QoQ. Non-interest income growth was robust at 104/81% YoY/QoQ, led by strong treasury income and one-time gain from stake sale in HDB (Rs 91.3 Bn). Treasury gain during the quarter was ~Rs 9.8 Bn vs Rs 3.9 Bn QoQ. Opex growth was controlled and grew by 5/-1% YoY/QoQ. C-I Ratio stood steady at 32.8% (significantly lower due to one-time gain) vs 39.8%. PPOP grew by 50/35% YoY/QoQ. Credit costs (calc.) stood at 218bps vs 49bps QoQ. The bank has made a floating provision of Rs 90 Bn and a contingent provision of Rs 17 Bn during the quarter to strengthen the balance sheet. PAT grew by 12/3% YoY/QoQ.
- Asset quality:** GNPA/NNPA deteriorated marginally to 1.4/0.47% vs 1.33/0.43% QoQ. Slippages were higher due to seasonal agricultural slippages.

Key Financials (Standalone)

(Rs Bn)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	314	-2.0	+5.4	317	-0.8
PPOP	144	+34.7	+49.6	260	+37.4
Net Profit	182	+3.1	+12.2	171	+6.0
NNPA (%)	0.5	+4 bps	+8 bps	0.4	+3 bps
RoA (%)	1.8	+1 bps	-4 bps	1.7	+11 bps

Source: Company, Axis Securities Research

(CMP as of 18th July, 2025)

CMP (Rs)	1,957
Upside /Downside (%)	18%
High/Low (Rs)	2,027/1,589
Market cap (Cr)	15,00,917
Avg. daily vol. (6m) Shrs.	1,14,02,969
No. of shares (Cr)	766.8

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	0.0	0.0	0.0
FII	49.3	48.4	47.8
MFs / UTI	24.0	25.3	25.1
Others	26.7	26.3	27.1

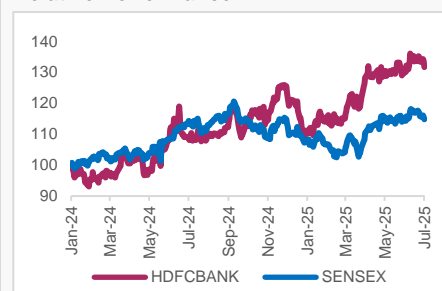
Financial & Valuations

Y/E Mar (Rs Bn)	FY26E	FY27E	FY28E
NII	1,319	1,547	1,768
PPOP	1,201	1,333	1,526
Net Profit	718	887	1,009
EPS (Rs)	93.8	115.9	131.8
ABV (Rs)	710.1	796.3	892.6
P/ABV (x)	2.8	2.5	2.2
RoA (%)	1.7	1.9	1.9
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-1.9	-0.8
PPOP	+7.1	+0.7
PAT	-3.8	+0.8

Relative Performance



Source: AceEquity, Axis Securities Research

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Key Takeaways

- **Deposit Market Share to Improve; CASA Remains Focus Area:** With the liquidity environment being benign and HDFCB seeing some respite on LDR, the bank will now particularly focus on mobilising CASA deposits. This would be achieved through upselling and cross-selling to the retail customers, with emphasis on the upper and middle customer segments. With the bank's efforts to mobilise CASA should in turn help HDFCB support CoF, thereby aiding margins.
- **Asset Quality remains Best-in-class:** in Q1FY26, slippages were elevated mainly owing to seasonal agri slippages (higher in Q1 and Q3). Slippage ratio stood at 1.4% vs 1.3/1.2% YoY/QoQ. HDFCB has been able to maintain asset quality across credit cycles with best-in-class asset quality metrics. Despite unfavourable macros, especially in the unsecured segments over the past year, the bank's asset quality has remained pristine and credit costs benign. The management has indicated that the asset quality in the personal loans, credit cards and other retail assets continues to remain stable. **The bank made a floating provision of Rs 90 Bn and a contingent provision of Rs 17 Bn, which is purely towards strengthening the balance sheet and not towards any risks emerging across segments. Resultantly, credit costs are expected to remain benign at ~50bps (+/-5bps) over the medium term.**
- **Disciplined Opex Growth to Drive C-I ratio improvement:** The bank will continue to remain disciplined in terms of opex growth. That said, it will not refrain from incurring costs to boost growth, improve volumes and towards festive season marketing. The bank has added ~4000 employees during the quarter in its efforts to strengthen the branches it opened in Q4FY25. These new hires are primarily recruited for sales and branch operations. The bank has also been hiring to beef up its tech teams. **The management expects controlled opex growth and healthy top-line growth to drive C-I Ratio improvement over the medium term. We expect the C-I ratio to operate in a tight range of 38-39% over FY26-28E.**

Outlook

With the LDR below 100% and the trajectory in line with the bank's intent to bring it down to pre-merger levels over the medium term, we expect credit growth to pick up in FY26 and mirror systemic credit growth. The bank will continue to flex its distribution strength and RM outreach to maintain strong deposit growth. We believe the pressure on NIMs in the rate cut cycle would be visible for another quarter and is likely to bottom out in Q2. HDFCB's earnings growth is likely to be driven by (a) improving cost ratios driven by better productivity and efficiency, (b) controlled Credit costs on the back of strong asset quality and (c) Gradual improvement in NIMs with deposit repricing playing out from H2FY26E onwards. **We expect the bank to deliver RoA/RoE at 1.7-1.9%/13-15% over the medium term. We expect HDFCB to deliver a 14/17/13/14% CAGR Credit/Deposit/Earnings growth over FY25-28E.**

Valuation & Recommendation

We value the core book at 2.6x FY27E ABV vs. its current valuation of 2.5x FY27E ABV (the core book trades at 2.2x FY27E ABV) and assign a value of Rs 259/share to subsidiaries, thereby arriving at a target price of Rs 2,300/share, implying an upside of 18% from the CMP. **We maintain our BUY recommendation on the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum owing to the bank's inability to ensure deposit mobilisation, which could potentially derail earnings momentum for the bank.
- Slower substitution of higher-cost debt with lower-cost deposits could continue to hurt margins

Change in Estimates

Rs Bn	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	1,319	1,547	1,768	1,345	1,560	-	-1.9	-0.8	-
PBP	1,201	1,333	1,526	1,122	1,323	-	7.1	0.7	-
Provisions	249	156	188	132	156	-	89.1	0.0	-
PAT	718	887	1009	746	880	-	-3.8	0.8	-

Source: Axis Securities Research

Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent		2.5x FY27E Adj. BV	2,038
Subsidiaries			
HDB Financial Services	74.2	3.3x FY27E BV	70
HDFC Securities	94.4	18x FY27E EPS	34
HDFC Life	50.3	2.4x FY27E EV	120
HDFC AMC	52.4	40x FY27E EPS	90
HDFC Ergo	50.3	22x FY27E EPS	10
Total Subsidiary Value			324
Less: 20% holding discount			65
Net Value of Sub.			259
Target Price			2,300
CMP			1,957
Potential Upside			18%

Source: Axis Securities Research

Results Review (Standalone)

Rs. Bn	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
Net Interest Income	314.4	298.4	5.4	320.7	-2.0
Non-Interest Income	217.3	106.7	103.7	120.3	80.7
Operating expenses	174.3	166.2	4.9	175.6	-0.7
-- Staff Cost	61.6	58.5	5.3	61.2	0.7
Pre-provision profits	357.3	238.8	49.6	265.4	34.7
Provisions and contingencies	144.4	26.0	455.0	31.9	352.3
PBT	212.9	212.8	0.0	233.4	-8.8
Provision for Tax	31.4	51.1	-38.6	57.3	-45.2
PAT	181.6	161.7	12.2	176.2	3.1
Deposits	27,641	23,791	16.2	27,147	1.8
CASA Deposits	9,370	8,635	8.5	9,445	-0.8
CASA Ratio %	33.9	36.3	-240bps	34.8	-89bps
Advances (Net)	26,284	24,635	6.7	26,196	0.3
Retail	15,215	14,072	8.1	15,163	0.3
Small and Mid Market	5,523	4,715	17.1	5,391	2.4
Corporate and Other Wholesale	7,082	6,964	1.7	7,178	-1.3
C/D Ratio	95.1	103.5	-846bps	96.5	-140bps
NIM (%)	3.4	3.5	-12bps	3.5	-19bps
Cost-Income ratio (%)	32.8	41.0	-824bps	39.8	-703bps
Gross NPA (%)	1.4	1.3	7bps	1.3	7bps
Net NPA (%)	0.5	0.4	8bps	0.4	4bps
PCR (%)	66.9	71.2	-435bps	67.9	-100bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	1,227	1,319	1,547	1,768
Non-Interest Income	456	618	612	691
Total Income	1,683	1,938	2,159	2,459
Total Operating Expense	682	736	826	932
PPOP	1,001	1,201	1,333	1,526
Provisions & Contingencies	116	249	156	188
PBT	885	952	1,177	1,338
Provision for Tax	211	234	289	329
PAT	673	718	887	1,009

Source: Company, Axis Securities Research

Balance Sheet

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Share Capital	8	8	8	8
ESOPs	38	46	56	66
Reserves	4,969	5,507	6,172	6,929
Shareholder's Funds	5,014	5,560	6,236	7,003
Total Deposits	27,147	31,650	37,145	43,346
Borrowings	5,479	5,077	4,530	4,849
Other Liabilities & Provisions	1,461	1,690	1,915	2,207
Total Liabilities	39,102	43,978	49,825	57,405
APPLICATION OF FUNDS				
Cash & Bank Balance	2,396	2,856	3,352	3,695
Investments	8,364	9,500	10,406	12,144
Advances	26,196	29,142	33,257	38,329
Fixed & Other Assets	2,147	2,480	2,809	3,237
Total Assets	39,102	43,978	49,825	57,405

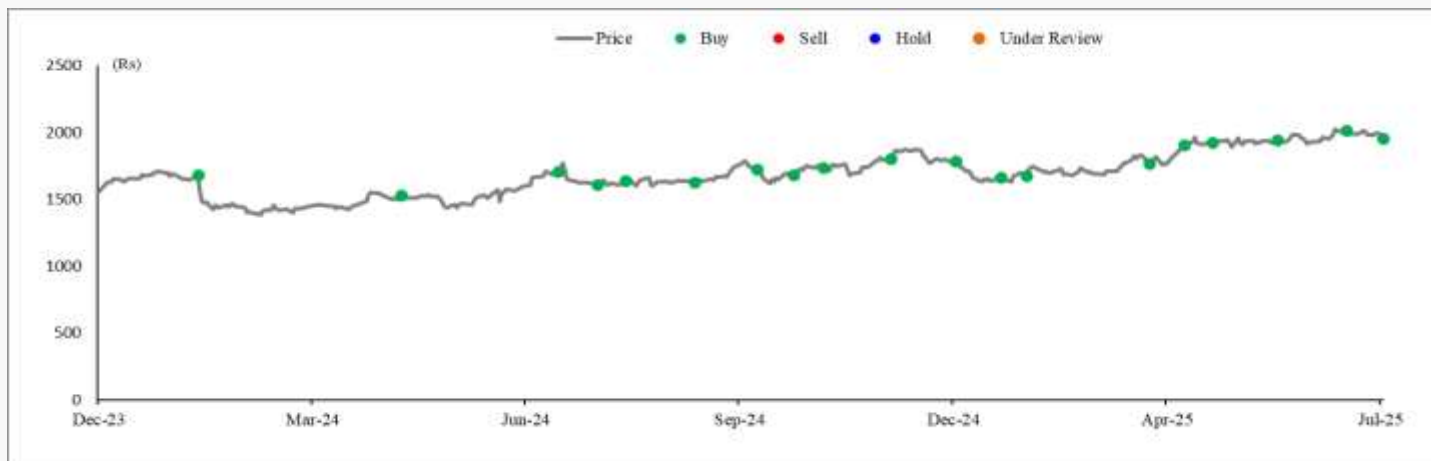
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	88.0	93.8	115.9	131.8
Earnings Growth (%)	9.9	6.6	23.6	13.7
BVPS	655.3	726.6	814.9	915.1
Adj. BVPS	640.5	710.1	796.3	892.6
ROAA (%)	1.8	1.7	1.9	1.9
ROAE (%)	14.3	13.6	15.0	15.2
P/E (x)	22.2	20.9	16.9	14.8
P/ABV (x)	3.1	2.8	2.5	2.2
Dividend Per Share	22.0	23.5	29.0	33.0
Dividend Yield (%)	1.1	1.2	1.5	1.7
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	3.5	3.4	3.5	3.5
Cost/Avg. Asset Ratio (%)	1.8	1.8	1.8	1.7
Cost-Income Ratio (%)	40.5	38.0	38.3	37.9
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	5.4	11.2	14.1	15.3
Deposit Growth (%)	14.1	16.6	17.4	16.7
C-D Ratio (%)	96.5	92.1	89.5	88.4
Equity/Assets (%)	12.8	12.6	12.5	12.2
Equity/Advances (%)	19.1	19.1	18.8	18.3
CAR (%)	19.6	18.7	17.4	16.9
Tier 1 CAR (%)	17.7	17.0	15.9	15.6
ASSET QUALITY				
Gross NPLs (Rs Bn)	352.2	396.1	445.6	538.2
Net NPLs (Rs Bn)	113.2	126.7	142.7	172.2
Gross NPLs (%)	1.3	1.4	1.3	1.4
Net NPLs (%)	0.4	0.4	0.4	0.4
Coverage Ratio (%)	67.9	68.0	68.0	68.0
Provisions/Avg. Adv(%)	0.5	0.9	0.5	0.5
ROAA TREE (%)				
Net Interest Income	3.3	3.2	3.3	3.3
Non-Interest Income	1.2	1.5	1.3	1.3
Operating Cost	1.8	1.8	1.8	1.7
Provisions	0.3	0.6	0.3	0.3
ROAA	1.8	1.7	1.9	1.9
Leverage (x)	8.0	7.9	8.0	8.1
ROAE	14.2	13.6	15.0	15.2

Source: Company, Axis Securities Research

HDFC Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
17-Jan-24	BUY	1,975	Result Update
20-Apr-24	BUY	1,885	Result Update
01-Jul-24	BUY	2,000	Top Picks
22-Jul-24	BUY	1,950	Result Update
01-Aug-24	BUY	1,950	Top Picks
02-Sep-24	BUY	1,950	Top Picks
01-Oct-24	BUY	1,950	Top Picks
21-Oct-24	BUY	2,025	Result Update
03-Nov-24	BUY	2,025	Top Picks
01-Dec-24	BUY	2,025	Top Picks
01-Jan-25	BUY	2,025	Top Picks
23-Jan-25	BUY	2,000	Result Update
03-Feb-25	BUY	2,000	Top Picks
01-Mar-25	BUY	2,000	Top Picks
01-Apr-25	BUY	2,150	Top Picks
21-Apr-25	BUY	2,250	Result Update
02-May-25	BUY	2,250	Top Picks
01-Jun-25	BUY	2,250	Top Picks
01-Jul-25	BUY	2,250	Top Picks
21-Jul-25	BUY	2,300	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.