

**Growth Momentum to Improve; LDR to Touch Pre-Merger Levels by FY27!**
**Est. Vs. Actual for Q3FY26: NII – **INLINE**; PPOP – **MISS**; PAT – **INLINE****
**Changes in Estimates post Q3FY26**
**FY26E/27E/FY28E (%): NII: -1.8/-1.0/-1.0 PPOP: -2.9/-0.5/0.0; PAT: -1.6/-0.8/-0.2**
**Recommendation Rationale**

- Growth Outlook Remains Buoyant; LDR Improvement on Track:** The management remains confident on the medium-term growth trajectory, with **LDR normalisation to near pre-merger levels and confidence of delivering better-than-system credit growth in FY27**. The management does not intend to sacrifice profitable growth to achieve the targeted LDR and has expressed confidence in LDR trending directionally downwards. For FY26, the management is comfortable operating within a 90-96% band, while maintaining credit growth broadly in line with the system. In Q3, credit growth was slightly ahead of the management's expectations and was supported by CRR cuts, easing rate cycle, and a benign credit costs environment. **The management has pegged FY27 system credit growth at 12-13% and remains confident of outperforming systemic growth by ~200bps.** This confidence is underpinned by improved retail distribution, stronger MSME positioning, and renewed traction in the wholesale book. **Thus, with pick-up in growth visible in Q3 and the momentum expected to persist going into Q4, we expect HDFCB to exit FY26 with credit growth of ~13%. This is expected to further accelerate to ~15% CAGR over FY26-28E.**
- NIMs to Move in Upward Trajectory:** In Q3, the bank's NIMs expanded by 8bps QoQ, aided by a 10bps reduction in CoF, while yields remain steady sequentially. The management has indicated that the **primary lever for margin improvement remains CoF**. TD repricing is underway with only 2/3<sup>rd</sup> of the rate cut having flown through so far, reflecting the lag in rate transmission. The full benefit of the rate cut is expected to reflect over a period of 5 quarters, part of which is already reflected in the CoF. Another lever driving margin improvement is a lower mix of borrowings, followed by the bank's continued focus on CASA accretion. CASA mobilisation is an outcome of firing the customer acquisition engine, deepening engagement, and higher retail product penetration. **Collectively, the management expects margins to witness a gradual improvement over the medium term. We pencil-in NIMs to improve to 3.5-3.6% over FY27-28% vs ~3.4% in FY26E.**

**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. The management has indicated that LDR normalisation remains a key medium-term objective; it will not act as a limiting factor in pursuing credit growth. However, it will take constructive steps to strengthen its retail-focused deposit franchise with an emphasis on mobilizing CASA Deposits. Though margin recovery is taking longer than earlier expected, we expect continued TD repricing, high-cost borrowings getting replaced, strong CASA mobilisation, and improved growth to drive gradual margin improvement. An upward trajectory on margins, healthy fee income, improving operational efficiency, and benign credit costs supported by pristine asset quality across segments should enable HDFCB deliver RoA/RoE of 1.8-1.9%/14-16% over FY26-28E.

**Current Valuation: 2.5x Sep'27E ABV; Earlier Valuation: 2.6x FY27E ABV**
**Current TP: Rs 1,190/share; Earlier TP: Rs 1,170/share**
**Recommendation:** We maintain our **BUY** recommendation on the stock.

**Alternative BUY Ideas from our Sector Coverage**
**ICICI Bank (TP – Rs 1,700/share)**
**Financial Performance**

- Operational Performance:** HDFCB's advances grew by 10/3% YoY/QoQ. Retail grew by 7/1% YoY/QoQ, CRB by 17/5% YoY/QoQ, and Corporate grew by 10/4% YoY/QoQ. Deposits growth trailed credit growth, registering a growth of 12/2% YoY/QoQ. CASA Deposits growth was muted at 10/1% YoY/QoQ. CASA ratio stood at 33.6% vs 33.9% QoQ. TDs grew by 12/2% YoY/QoQ. C-D Ratio inched up to 98.7% vs 98.0% QoQ.
- Financial Performance:** NII grew by 6/3% YoY/QoQ, on an advances growth of 10/3% YoY/QoQ, with core NIMs improving by 8bps QoQ. NIMs stood at 3.35% vs 3.27% QoQ. NIMs (as % of IEA) stood at Non-interest income growth was lower-than-expected at 16% Yo and down ~8% QoQ owing to lower treasury income. Fee income growth was strong at 13/4% YoY/QoQ. Treasury income stood at Rs 9.3 Bn vs Rs 7.0/23.9 Bn YoY/QoQ. Opex growth was higher due to provisions towards revised labour laws to the tune of Rs 8 Bn and grew by 10/4% YoY/QoQ. C-I Ratio stood at 40.9% vs 39.2% QoQ. PPOP grew by 8/-3% YoY/QoQ. Credit costs (calc.) stood at 40bps vs 52bps QoQ, aiding earnings for the bank. PAT grew by 11%/flat YoY/QoQ.
- Asset quality:** GNPA/NNPA remained stable at 1.24/0.42%, flat QoQ. Slippage ratio (not annualized) stood at 24bps in Q3.

**Key Financials (Standalone)**

(Rs Bn)	Q3FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	326.2	+3.4	+6.4	323.1	+1.0
PPOP	271.0	-3.0	+8.4	281.8	-3.8
Net Profit	186.5	+0.1	+11.5	185.8	+0.4
NNPA (%)	0.4	0 bps	-4 bps	0.4	+3 bps
RoA (%)	1.8	-3 bps	+4 bps	1.8	+1 bps

Source: Company, Axis Securities Research

 (CMP as of 16<sup>th</sup> January, 2026)

CMP (Rs)	931
Upside /Downside (%)	28%
High/Low (Rs)	1,020/813
Market cap (Cr)	14,32,535
Avg. daily vol. (6m) Shrs.	1,78,41,013
No. of shares (Cr)	1538.6

**Shareholding (%)**

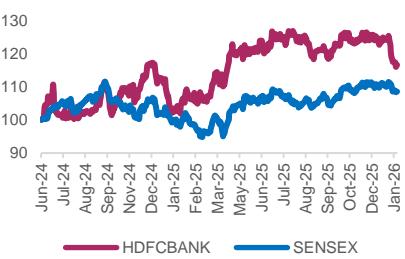
	Jun-25	Sep-25	Dec-25
Promoter	0.0	0.0	0.0
FII	47.8	48.5	47.7
MFs / UTI	25.1	26.1	26.7
Others	27.1	25.4	25.6

**Financial & Valuations**

Y/E Mar (Rs Bn)	FY26E	FY27E	FY28E
NII	1,300	1,547	1,784
PPOP	1,196	1,331	1,538
Net Profit	729	884	1,022
EPS (Rs)	47.4	57.5	66.4
ABV (Rs)	354.0	396.6	445.8
P/ABV (x)	2.6	2.3	2.1
RoA (%)	1.8	1.9	1.9
NNPA (%)	0.4	0.4	0.4

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E	FY28E
NII	-1.8	-1.0	-1.0
PPOP	-2.9	-0.5	0.0
PAT	-1.6	-0.8	-0.2

**Relative Performance**


Source: AceEquity, Axis Securities Research

**Results Gallery**
**[Q2FY26](#)**
**[Q1FY26](#)**
**[Q4FY25](#)**
**[Q3FY25](#)**
**Dnyanada Vaidya**

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

**Abhishek Pandya**

Research Associate

Email: abhishek.pandya@axissecurities.in

## Key Takeaways

- **Branch Productivity Improvement To Drive Strong Deposit Growth:** HDFCB's branch expansion plans remain tightly linked to the availability of growth opportunities. Presently, the bank's branches deliver Rs 305 Cr deposits/branch, with each branch breaking even in ~2 years. However, **the maturing branch network has better potential to scale up meaningfully**, with ~1,232 branches with a 5-10 year vintage doing 3x of the deposits they generated 5 years ago. Presently, **1,300 branches in the 3-5 year vintage bucket will transition into the higher-productivity 5+ year vintage, which augurs well from a deposit mobilisation perspective**. The bank has added ~4800 branches over the last 5 years, which currently contribute to slightly north of 20% of the incremental deposits, and as they mature, these branches should further support strong deposit accretion.
- **Focus on Granular Deposits:** HDFCB continues to prioritize retail-focused, relationship-driven, granular deposits over high-cost bulk deposits, and the bank has seen continued strong traction in the individual retail segment. However, the growth in the non-retail institutional deposits remains muted owing to conscious pricing discipline. The management continued to prioritize rate discipline at the cost of growth in certain segments.
- **Asset Quality Not A Cause Of Concern:** HDFCB's asset quality has continued to remain pristine, with GNPA/NNPA at a decadal low. During Q3, the bank reported a one-time impact on provisions to the tune of Rs 5 Bn for Agri PSL compliance, pursuant to the annual review undertaken by the RBI. The bank will work towards adjusting its agri lending to ensure regulatory compliance. Apart from this, slippages across segments continue to remain benign, with no specific segment exhibiting signs of stress.
- **Opex Growth Ex-Labour Low Impact Modest:** In Q3, opex growth was higher owing to the impact of the revised labour laws, with employee opex higher by Rs 8 Bn. The management clarified that this is a higher side estimates based on available information.

## Outlook

We expect HDFCB to deliver a 15/18/17/18% CAGR Credit/Deposit/Earnings growth over FY26-28E, while delivering RoA/RoE of 1.8-1.9%/14-16% over the same period. We broadly maintain our FY27-28E estimates with minor tweaks. However, given slower-than-expected recovery on NIMs and the impact of revised labour laws, we trim our NII/Earnings estimates for FY26 by ~2% each.

## Valuation & Recommendation

The stock has corrected ~7% over the past couple of weeks. We believe that at current valuations, the risk-reward is favourable. We value the core book at 2.5x Sep'27E ABV vs. its current valuation of 2.2x Sep'27E ABV (on core book) and assign a value of Rs 135/share to subsidiaries, thereby arriving at a target price of Rs 1,190/share, implying an upside of 28% 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 mobilization, 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	1300	1547	1784	1323	1564	1802	-1.8	-1.0	-1.0
PBP	1196	1331	1538	1232	1338	1538	-2.9	-0.5	0.0
Provisions	237	159	183	249	156	179	-5.0	1.4	1.9
PAT	729	884	1022	741	891	1024	-1.6	-0.8	-0.2

Source: Axis Securities Research

### Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
<b>HDFC Bank - Parent</b>		<b>2.5x Sep'27E Adj. BV</b>	<b>1,053</b>
<b>Subsidiaries</b>			
HDB Financial Services	74.2	3.2x Sep'27E BV	33
HDFC Securities	94.1	18x Sep'27E EPS	19
HDFC Life	50.2	2.3x Sep'27E EV	60
HDFC AMC	52.4	35x Sep'27E EPS	49
HDFC Ergo	50.3	20x Sep'27E EPS	8
<b>Total Subsidiary Value</b>			<b>169</b>
<b>Less: 20% holding discount</b>			<b>34</b>
<b>Net Value of Sub.</b>			<b>135</b>
<b>Target Price</b>			<b>1,190</b>
<b>CMP</b>			<b>931</b>
<b>Potential Upside</b>			<b>28%</b>

Source: Axis Securities Research

**Results Review (Standalone)**

<b>Rs Bn</b>	<b>Q3FY26</b>	<b>Q3FY25</b>	<b>% YoY</b>	<b>Q2FY26</b>	<b>% QoQ</b>	<b>9MFY26</b>	<b>9MFY25</b>	<b>% YoY</b>
Net Interest Income	326.2	306.5	6.4	315.5	3.4	956.0	906.0	5.5
Non-Interest Income	132.5	114.5	15.7	143.5	-7.6	493.3	336.0	46.8
Operating expenses	187.7	171.1	9.7	179.8	4.4	541.8	506.2	7.0
-- Staff Cost	72.0	59.5	21.1	64.6	11.5	198.2	177.8	11.5
Pre-provision profits	271.0	250.0	8.4	279.2	-3.0	907.6	735.9	23.3
Provisions and contingencies	28.4	31.5	-10.0	35.0	-18.9	207.8	84.6	145.7
PBT	242.6	218.5	11.0	244.2	-0.7	699.8	651.3	7.4
Provision for Tax	56.1	51.1	9.7	57.8	-3.0	145.3	154.0	-5.7
PAT	186.5	167.4	11.5	186.4	0.1	554.5	497.3	11.5
Deposits	28,601	25,638	11.6	28,018	2.1	28,601	25,638	11.6
CASA Deposits	9,612	8,725	10.2	9,491	1.3	9,612	8,725	10.2
CASA Ratio %	33.6	34.0	-42bps	33.9	-27bps	33.6	34.0	-42bps
Advances	28,214	25,182	12.0	27,464	2.7	28,214	25,182	12.0
Retail	15,747	14,727	6.9	15,554	1.2	15,747	14,727	6.9
CRB	5,995	5,114	17.2	5,719	4.8	5,995	5,114	17.2
Agri	1,238	1,076	15.1	1,234	0.3	1,238	1,076	15.1
Corporate	7,717	6,998	10.3	7,416	4.1	7,717	6,998	10.3
C-D Ratio	98.7	98.2	43bps	98.0	63bps	98.7	98.2	43bps
NIM (%)	3.4	3.4	-8bps	3.3	8bps	3.5	3.5	1bps
Cost-Income ratio (%)	40.9	40.6	30bps	39.2	176bps	37.6	40.8	-313bps
Gross NPA (%)	1.2	1.4	-18bps	1.2	0bps	1.2	1.4	-18bps
Net NPA (%)	0.4	0.5	-4bps	0.4	0bps	0.4	0.5	-4bps
PCR (%)	65.9	67.8	-189bps	66.6	-68bps	65.9	67.8	-189bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>Net Interest Income</b>	<b>1,227</b>	<b>1,300</b>	<b>1,547</b>	<b>1,784</b>
Non-Interest Income	456	634	609	688
<b>Total Income</b>	<b>1,683</b>	<b>1,934</b>	<b>2,156</b>	<b>2,472</b>
Total Operating Expense	682	739	825	934
<b>PPOP</b>	<b>1,001</b>	<b>1,196</b>	<b>1,331</b>	<b>1,538</b>
Provisions & Contingencies	116	237	159	183
<b>PBT</b>	<b>885</b>	<b>959</b>	<b>1,172</b>	<b>1,355</b>
Provision for Tax	211	230	288	333
<b>PAT</b>	<b>673</b>	<b>729</b>	<b>884</b>	<b>1,022</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>				
Share Capital	8	15	15	15
ESOPs	38	46	56	66
Reserves	4,969	5,515	6,178	6,944
<b>Shareholder's Funds</b>	<b>5,014</b>	<b>5,576</b>	<b>6,249</b>	<b>7,026</b>
<b>Total Deposits</b>	<b>27,147</b>	<b>30,765</b>	<b>36,219</b>	<b>42,902</b>
Borrowings	5,479	5,191	4,776	4,877
Other Liabilities & Provisions	1,461	1,750	1,991	2,310
<b>Total Liabilities</b>	<b>39,102</b>	<b>43,283</b>	<b>49,236</b>	<b>57,115</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	2,396	2,161	2,472	2,799
Investments	8,364	9,234	10,147	12,020
Advances	26,196	29,447	33,841	39,076
Fixed & Other Assets	2,147	2,440	2,776	3,220
<b>Total Assets</b>	<b>39,102</b>	<b>43,283</b>	<b>49,236</b>	<b>57,115</b>

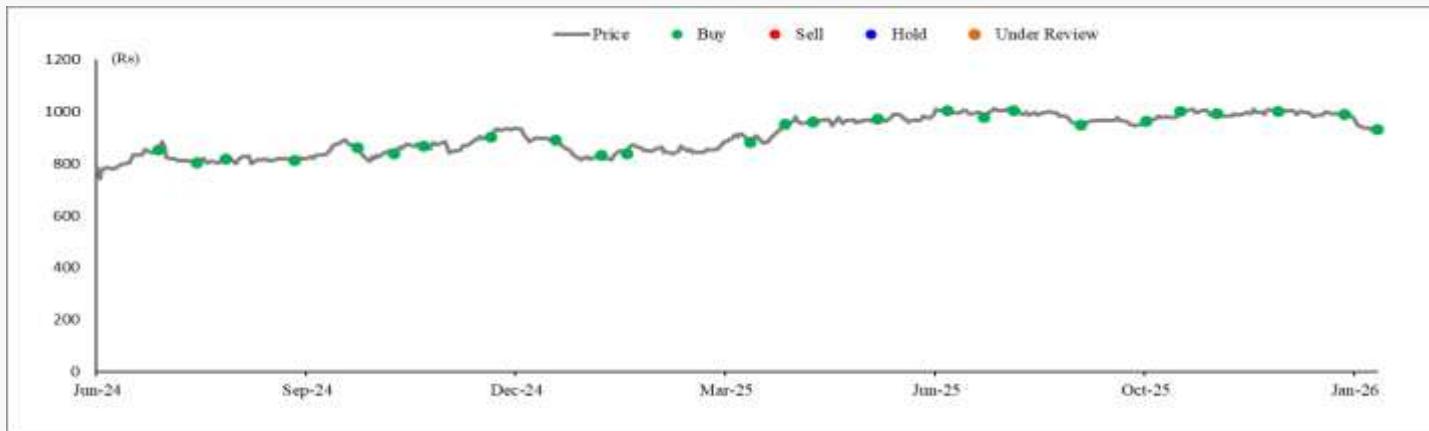
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>				
EPS	44.0	47.4	57.5	66.4
Earnings Growth (%)	-45.0	7.7	21.3	15.6
BVPS	327.6	362.4	406.2	456.7
Adj. BVPS	320.2	354.0	396.6	445.8
ROAA (%)	1.8	1.8	1.9	1.9
ROAE (%)	14.3	13.8	14.9	15.4
P/E (x)	21.2	19.7	16.2	14.0
P/ABV (x)	2.9	2.6	2.3	2.1
Dividend Per Share	11.0	11.8	14.4	16.6
Dividend Yield (%)	1.2	1.3	1.5	1.8
<b>PROFITABILITY &amp; OPERATING EFFICIENCY</b>				
NIM (%)	3.5	3.4	3.5	3.6
Cost/Avg. Asset Ratio (%)	1.8	1.8	1.8	1.8
Cost-Income Ratio (%)	40.5	38.2	38.3	37.8
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	5.4	12.4	14.9	15.5
Deposit Growth (%)	14.1	13.3	17.7	18.5
C-D Ratio (%)	96.5	95.7	93.4	91.1
Equity/Assets (%)	12.8	12.9	12.7	12.3
Equity/Advances (%)	19.1	18.9	18.5	18.0
CAR (%)	19.6	18.9	17.7	17.1
Tier 1 CAR (%)	17.7	17.1	16.2	15.8
<b>ASSET QUALITY</b>				
Gross NPLs (Rs Bn)	352.2	396.4	446.6	504.4
Net NPLs (Rs Bn)	113.2	130.7	147.2	166.7
Gross NPLs (%)	1.3	1.3	1.3	1.3
Net NPLs (%)	0.4	0.4	0.4	0.4
Coverage Ratio (%)	67.9	67.0	67.0	67.0
Provisions/Avg. Adv(%)	0.5	0.9	0.5	0.5
<b>ROAA TREE (%)</b>				
Net Interest Income	3.3	3.2	3.3	3.4
Non-Interest Income	1.2	1.5	1.3	1.3
Operating Cost	1.8	1.8	1.8	1.8
Provisions	0.3	0.6	0.3	0.3
ROAA	1.8	1.8	1.9	1.9
Leverage (x)	8.0	7.8	7.8	8.0
ROAE	14.2	13.7	15.0	15.4

Source: Company, Axis Securities Research

## HDFC Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
01-Jul-24	BUY	1,000	Top Picks
22-Jul-24	BUY	975	Result Update
01-Aug-24	BUY	975	Top Picks
02-Sep-24	BUY	975	Top Picks
01-Oct-24	BUY	975	Top Picks
21-Oct-24	BUY	1,013	Result Update
01-Nov-24	BUY	1,013	Top Picks
02-Dec-24	BUY	1,013	Top Picks
01-Jan-25	BUY	1,013	Top Picks
23-Jan-25	BUY	1,000	Result Update
03-Feb-25	BUY	1,000	Top Picks
01-Mar-25	BUY	1,000	Top Picks
01-Apr-25	BUY	1,075	Top Picks
21-Apr-25	BUY	1,125	Result Update
02-May-25	BUY	1,125	Top Picks
01-Jun-25	BUY	1,125	Top Picks
01-Jul-25	BUY	1,125	Top Picks
21-Jul-25	BUY	1,150	Result Update
01-Aug-25	BUY	1,150	Top Picks
01-Sep-25	BUY	1,150	Top Picks
01-Oct-25	BUY	1,150	Top Picks
20-Oct-25	BUY	1,170	Result Update
03-Nov-25	BUY	1,170	Top Picks
01-Dec-25	BUY	1,170	Top Picks
01-Jan-26	BUY	1,170	Top Picks
19-Jan-26	BUY	1,190	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr Rajiv Kejriwal, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
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 a 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, valuations or recommendations for the stock.

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