

HDFC Bank (HDFCB)

Banks

ADD

CMP(₹): 1,957

Fair Value(₹): 2,200

 Sector View: **Attractive**

NIFTY-50: 24,968

July 20, 2025

Delivering on expected lines

HDFC Bank reported 12% yoy earnings growth, but the quarter saw a few one-offs on gains from the partial stake sale of its subsidiary, offset by higher contingent/floating provisions. Loan growth was at 7% yoy while NIM declined 10 bps qoq to 3.4%. We are entering a period where the bank is stepping up growth while continuing to replace its high-cost liabilities and looking to improve NIM. The key concern is that the current valuations leave limited room for disappointment. Retain ADD with an FV of Rs2,200 (Rs2,100 earlier).

Less to show as improvement this quarter; fewer concerns key positive

Key highlights for HDFC Bank's 1QFY26 results: (1) NIM declined 10 bps to 3.4%. (2) Loan growth accelerated to 7% yoy while NII growth was at 5% yoy. Deposits grew ~16% yoy with CASA growth at 9% yoy. The CASA ratio declined 100 bps qoq to ~34%. (3) Operating profits grew ~50% yoy, led by higher treasury income (stake sale in HDB Financial). The bank made a similar provision of these gains as contingency and floating provisions. (4) Fee income grew 8% yoy. (5) Slippages were at ~1.4% with no concerns on asset quality. (6) RoA was 1.8% and RoE was 14%. The tax rate was lower at 15%. The cost-income ratio was at 33% (treasury income).

Executing a well-defined strategy; optimistic assumptions concerning

The earnings print for HDFC Bank was largely about focusing on a single variable—NIM. Headline NIM performance (~10 bps decline qoq) did not have any disappointment and reflected the reduction in policy rates, which was partly offset by the reduction in savings interest rates. Management has guided that 2QFY26 would see further contraction of NIM factoring in the last policy action. We are building a more conservative outlook and factoring in a lower NIM expansion than before. HDFC Bank's recent outperformance stems from (1) minimal negative surprises, (2) a clear roadmap targeting CD ratio reduction in FY2025, industry-level loan growth by FY2026 and above-average growth by FY2027, and (3) stable asset quality. The bank trades near best-in-class peers despite lower returns and slower growth. Optimistic earnings forecasts raise the risk of disappointment. However, the journey hereon is a bit more challenging. Growth acceleration implies a slower pace of CD ratio improvement, which implies costs of funds are likely to be relatively higher, and consequently, NIM convergence could take a longer time. Stronger CASA growth is essential to deliver this performance. Rising competition is compressing spreads. While the impact has been limited due to earlier growth moderation, delivering on NIM, loan growth and RoE simultaneously could challenge valuations.

Maintain ADD: Drivers of outperformance fewer hereon

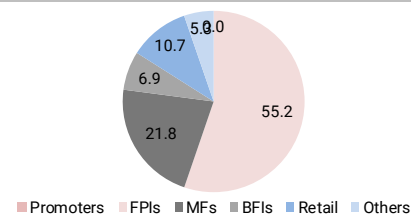
We retain ADD rating with FV revised to Rs2,200 (Rs2,100 earlier). We cut near-term earnings to reflect the slower NIM improvement and build in a bit of cautious outlook given the current market structure. At our FV, we value the bank at 2.5X book and ~17X June FY2027E EPS for RoEs at 15% levels. We value the subsidiaries at Rs200. We like the franchise but see a lower probability of an outperformance.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	1,957/2,200/ADD
52-week range (Rs) (high-low)	2,027-1,588
Mcap (bn) (Rs/US\$)	15,009/174.2
ADTV-3M (mn) (Rs/US\$)	20,701/240.3

Shareholding pattern (%)



Price performance (%)

	1M	3M	12M
Absolute	1	3	21
Rel. to Nifty	1	(2)	21
Rel. to MSCI India	(0)	(4)	22

Forecasts/Valuations

	2025	2026E	2027E
EPS (Rs)	88.0	96.2	118.6
EPS growth (%)	9.9	9.3	23.3
P/E (X)	22.2	20.3	16.5
P/B (X)	3.0	2.7	2.4
BVPS (Rs)	644.3	717.8	805.5
RoE (%)	14.3	13.9	15.4
Div. yield (%)	1.1	1.2	1.5
NII (Rs bn)	1,227	1,356	1,625
PPOP (Rs bn)	1,002	1,230	1,395
Net profits (Rs bn)	673	736	907

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of July 18, 2025

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Exhibit 1: HDFC Bank quarterly result, March fiscal year-ends, 1QFY25-1QFY26 (Rs mn)

	1QFY26	1QFY26E	1QFY25	4QFY25	(% chg.)			2026E	2025	(% chg.)	2027E
					1QFY26E	1QFY25	4QFY25				
Income statement (Rs mn)											
Interest income	774,702	771,704	730,331	774,601	0.4	6.1	0.0	3,130,798	3,005,170	4.2	3,457,291
Interest on advances	601,926	606,556	587,149	604,158	(0.8)	2.5	(0.4)	2,410,373	2,384,444	1.1	2,650,500
Interest on investments	150,701	144,210	125,438	144,272	4.5	20.1	4.5	631,685	533,197	18.5	713,893
Other interest	22,075	20,937	17,744	26,172	5.4	24.4	(15.7)	88,740	87,529	1.4	92,898
Interest expense	460,322	457,620	431,960	453,943	0.6	6.6	1.4	1,775,025	1,778,470	(0.2)	1,832,748
Net interest income	314,380	314,084	298,371	320,658	0.1	5.4	(2.0)	1,355,773	1,226,701	10.5	1,624,543
Non interest income	217,298	126,640	106,681	120,279	71.6	103.7	80.7	604,289	456,323	32.4	585,209
- fee income	75,900	81,075	70,500	85,300	(6.4)	7.7	(11.0)	361,061	318,986	13.2	413,755
- exchange income	16,300	14,700	14,000	14,400	10.9	16.4	13.2	51,650	49,190	5.0	58,881
- sale of invts.	101,000	15,000	2,200	3,900	573.3	4,490.9	2,489.7	120,000	17,543	584.0	40,000
Total income	531,678	440,724	405,053	440,937	20.6	31.3	20.6	1,960,062	1,683,024	16.5	2,209,751
Op. expenses	174,338	177,325	166,206	175,570	(1.7)	4.9	(0.7)	730,051	681,749	7.1	814,413
Employee cost	61,580	63,606	58,489	61,159	(3.2)	5.3	0.7	256,279	239,005	7.2	285,277
Other cost	112,759	113,720	107,717	114,410	(0.8)	4.7	(1.4)	473,772	442,744	7.0	529,136
Operating profit	357,340	263,398	238,846	265,367	35.7	49.6	34.7	1,230,011	1,001,275	22.8	1,395,338
Provisions and cont.	144,416	27,141	26,021	31,931	432.1	455.0	352.3	261,713	116,494	124.7	192,176
PBT	212,923	236,257	212,826	233,437	(9.9)	0.0	(8.8)	968,298	884,781	9.4	1,203,163
Tax	31,371	57,883	51,078	57,275	(45.8)	(38.6)	(45.2)	232,392	211,307	10.0	295,978
Net profit	181,552	178,374	161,748	176,161	1.8	12.2	3.1	735,907	673,474	9.3	907,185
Tax rate (%)	14.7	24.5	24.0	24.5	-977 bps	-927 bps	-980 bps	24.0	23.9	12 bps	24.6
Op.profit excl treasury gains	256,340	248,398	236,646	261,467	3.2	8.3	(2.0)	1,110,011	983,732	12.8	1,355,338
EPS (Rs)	24	23	21	23	1.6	11.4	2.8	96	88	9.3	119
Key balance sheet items (Rs bn)											
Total deposits	27,641	27,645	23,791	27,147	(0.0)	16.2	1.8	31,249	27,147	15.1	36,248
Term deposits	18,271		15,154	17,701		20.6	3.2	19,773	17,702	12	22,574
CASA deposits	9,370		8,637	9,446		8.5	(0.8)	11,476	9,446	21	13,674
Savings deposits	6,390		5,964	6,305		7.1	1.3	7,570	6,305	20	9,143
Current deposits	2,980		2,673	3,141		11.5	(5.1)	3,906	3,141	24	4,531
CASA ratio (%)	33.9		36.3	34.8		-240 bps	-90 bps	36.72	34.79	193 bps	37.72
Investment	8966.6	8,196	7088.2	8363.6	9.4	26.5	7.2	9,827	8,364	17.5	11,341
Loans	26,284	26,222	24,635	26,196	0.2	6.7	0.3	28,524	26,196	8.9	32,201
Retail ex rural and agri	14,062		13,070	13,980		7.6	0.6				
Mortgages	8,428		7,880	8,357		7.0	0.8				
Personal loans	2,016		1,859	1,993		8.4	1.2				
Auto	1,483		1,330	1,457		11.5	1.8				
Payment products	1,135		1,034	1,136		9.8	(0.1)				
Two wheelers	120		120	124		-	(3.2)				
Gold loans	189		149	177		26.8	6.8				
Other retail	691		698	736		(1.0)	(6.1)				
Commercial and rural ex agri	3,944		3,299	3,827		19.6	3.1				
Agriculture and transportation	2,731		2,417	2,748		13.0	(0.6)				
Corporates	7,082		6,963	7,177		1.7	(1.3)				
Asset quality (Rs bn)											
Gross NPL	370		330	352		12.2	5.2	404.6	352.2	14.9	461.7
Net NPL	123		95	113		29.1	8.4	98.9	113.2	(12.7)	111.0
Gross NPL (%)	1.4		1.3	1.3		7 bps	7 bps	1.4	1.3	6 bps	1.4
Net NPL (%)	0.5		0.4	0.4		8 bps	4 bps	0.3	0.4	-9 bps	0.3
PCR (%)	67		71	68		-435 bps	-100 bps	75.6	67.9	770 bps	76.0
Gross slippages	90		79	75		13.9	20.0	393	320	22.9	485
Gross slippage ratio (%)	1.37		1.27	1.19		10 bps	18 bps				
Recoveries and upgradations	42		35	50		20.0	(16.0)				
Write-offs	30		26	33		15.4	(9.1)				
Net slippages	48		44	25		9.1	92.0				
Net slippage ratio (%)	0.73		0.71	0.40		2 bps	34 bps				
Capital adequacy (%)											
CAR	19.9		19.3	19.6		60 bps	30 bps				
Tier-I	17.8		17.3	17.7		50 bps	10 bps				
Key calculated ratios (%)											
Yield on advances	9.2		9.5	9.4		-32 bps	-23 bps	8.8	9.3	-53 bps	8.7
Yield on investment	6.4		6.7	6.3		-36 bps	4 bps	7.0	7.0	2 bps	6.8
Yield on funds	8.3		8.6	8.6		-29 bps	-20 bps	8.0	8.5	-44 bps	7.9
Cost of funds	5.6		5.7	5.7		-11 bps	-4 bps	5.1	5.6	-48 bps	4.7
NIM	3.4		3.5	3.5		-14 bps	-15 bps	3.5	3.5	2 bps	3.7
Cost-income	32.8		41.0	39.8		-824 bps	-703 bps	37.2	40.5	-326 bps	36.9
Cost to average assets	1.8		1.9	1.8		-8 bps	-6 bps	1.8	1.8	-4 bps	1.8
CD ratio	95.1		103.5	96.5		-846 bps	-140 bps	91.3	96.5	-522 bps	88.8
Credit cost	2.2		0.4	0.5		178 bps	170 bps	0.9	0.5	41 bps	0.6
RoA	1.8		1.8	1.8		5 bps	1 bps	1.8	1.8	-1 bps	2.0
RoE	14.2		14.4	14.3		-21 bps	-13 bps	13.9	14.3	-39 bps	15.4
Other key parameters (#)											
Branch	9,499		8,851	9,455		7.3	0.5	9,805	9,455	3.7	10,155
ATM	21,251		21,163	21,139		0.4	0.5	22,139	21,139	4.7	23,139
Employees	218,822		213,069	214,521		2.7	2.0	225,515	214,521	5.1	243,720

Source: Company, Kotak Institutional Equities estimates

Loan growth at 6.7% yoy; gold and auto loans show strong traction

Overall loan growth (gross) stood at 6.7% yoy, while AUM growth stood at 8.3% yoy in 1QFY26. CRB (ex-agri) segment showed positive momentum, growing 19.6% yoy. The retail loan book grew 7.6% yoy, with mortgages growing at 7%. The agricultural loan book grew by 13% yoy. However, the corporate loan book continued to face challenges, up 1.7% yoy, which management indicated as strategic due to persistent unfavorable pricing conditions in the market.

- ▶ **Retail segment** growth remained reasonably strong, with both retail mortgages and non-mortgages portfolios growing 7.0% and 9.6% yoy. The personal loans portfolio grew 8.4% yoy. Growth in the payment products loan book was strong at 9.8% yoy. Auto loans experienced a steady growth of 11.5% yoy. Gold loans exhibited strong growth (27% yoy).
- ▶ **Commercial and rural segment.** The CRB (ex-agri) loan book remains the key driver of loan growth, with growth noted at 19.6% yoy in 1QFY26. Despite a deceleration in growth over the past few years, management reassured that there are no indications of asset quality concerns in this segment. This portfolio continues to be a vital source of priority sector lending (PSL) assets for the bank. Notably, lending to small and marginal farmers within the CRB portfolio remains crucial for fulfilling PSL requirements, as this segment commands a premium in the PSLC market.
- ▶ **Priority sector lending requirement.** The bank is required to meet the additional priority sector lending requirements (related to the book acquired as part of the merger) in a phased manner over a 3-year period.

Management sees growth opportunities across rural, select MSME segments, and corporates despite tight pricing. With improved liquidity, lending is expected to pick up. Retail demand, including urban consumption and unsecured segments, is also likely to strengthen ahead of the festive season.

Share of mortgage loans now stands at >30% of overall loans for HDFC Bank

Exhibit 2: Loan segment breakup as per revised reporting format, March fiscal year-ends, 1QFY22-1QFY26 (Rs bn)

Break-up of loan book (Rs bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY	QoQ
Retail ex rural and agri	5,579	5,805	5,913	6,172	6,395	11,802	12,188	12,856	13,070	13,397	13,651	13,980	14,062	7.6	0.6
Personal loans	1,479	1,548	1,646	1,717	1,767	1,787	1,815	1,846	1,859	1,896	1,944	1,993	2,016	8.4	1.2
Auto	1,040	1,088	1,124	1,174	1,217	1,255	1,280	1,311	1,330	1,375	1,399	1,457	1,483	11.5	1.8
Mortgages	1,534	1,624	1,700	1,788	1,873	7,171	7,432	7,728	7,880	8,028	8,171	8,357	8,428	7.0	0.8
Home loans	882	931	976	1,021	1,085										
LAP	651	693	724	768	789										
Payment products	801	820	833	861	904	909	971	1,002	1,034	1,097	1,123	1,136	1,135	9.8	(0.1)
Two wheelers	92	96	98	99	104	110	113	118	120	125	122	124	120	-	(3.2)
Gold loans	88	94	100	108	117	126	131	138	149	159	167	177	189	26.8	6.8
Other retail	544	536	411	424	412	445	446	713	698	717	725	736	691	(1.0)	(6.1)
Commercial and rural ex agri	4,365	4,745	5,176	5,648	5,814	6,339	6,801	3,217	3,299	3,439	3,629	3,827	3,944	19.6	3.1
Emerging corporates	1,528	1,646	1,706	1,832	1,878	2,060	2,212	2,168	2,159	2,298	2,192	2,252			
Business banking	1,992	2,180	2,320	2,535	2,590	2,850	3,068	3,217	3,299	3,439	3,629	3,827			
Commercial transportation	845	919	997	1,108	1,164	1,238	1,313	1,374	1,416	1,449	1,485	1,564			
Agriculture	616	703	709	817	796	905	930	2,427	2,417	2,530	2,561	2,748	2,731	13.0	(0.6)
Corporates	3,639	3,968	3,923	4,097	4,046	5,309	5,352	7,243	6,963	6,968	6,998	7,177	7,082	1.7	(1.3)
Total	14,199	15,221	15,721	16,735	17,052	24,355	25,271	25,743	25,749	26,334	26,839	27,732	27,819	8.0	0.3

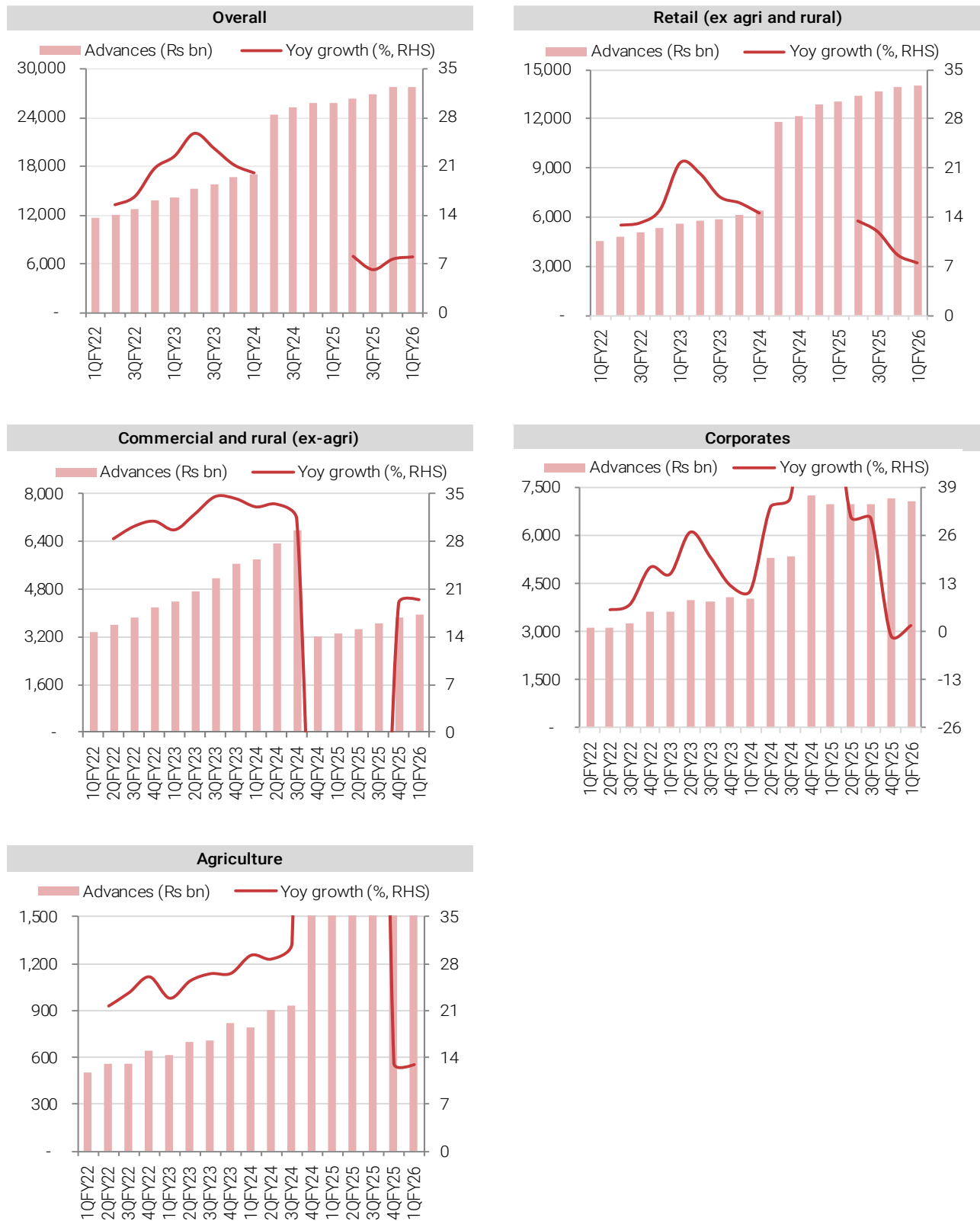
Break-up of loan book (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Retail ex rural and agri	39.3	38.1	37.6	36.9	37.5	48.5	48.2	49.9	50.8	50.9	50.9	50.4	50.5
Personal loans	10.4	10.2	10.5	10.3	10.4	7.3	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Auto	7.3	7.1	7.2	7.0	7.1	5.2	5.1	5.1	5.2	5.2	5.2	5.3	5.3
Mortgages	10.8	10.7	10.8	10.7	11.0	29.4	29.4	30.0	30.6	30.5	30.4	30.1	30.3
Home loans	6.2	6.1	6.2	6.1	6.4								
LAP	4.6	4.6	4.6	4.6	4.6								
Payment products	5.6	5.4	5.3	5.1	5.3	3.7	3.8	3.9	4.0	4.2	4.2	4.1	4.1
Two wheelers	0.6	0.6	0.6	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.4
Gold loans	0.6	0.6	0.6	0.6	0.7	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Other retail	3.8	3.5	2.6	2.5	2.4	1.8	1.8	2.8	2.7	2.7	2.7	2.7	2.5
Commercial and rural ex agri	30.7	31.2	32.9	33.8	34.1	26.0	26.9	12.5	12.8	13.1	13.5	13.8	14.2
Emerging corporates	10.8	10.8	10.9	10.9	11.0	8.5	8.8	8.4	8.4	8.7	8.2	8.1	
Business banking	14.0	14.3	14.8	15.1	15.2	11.7	12.1	12.5	12.8	13.1	13.5	13.8	
Commercial transportation	6.0	6.0	6.3	6.6	6.8	5.1	5.2	5.3	5.5	5.5	5.5	5.6	
Agriculture	4.3	4.6	4.5	4.9	4.7	3.7	3.7	9.4	9.4	9.6	9.5	9.9	9.8
Corporates	25.6	26.1	25.0	24.5	23.7	21.8	21.2	28.1	27.0	26.5	26.1	25.9	25.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: The bank has aggregated the reporting for "LAP" within the "Home loans" category from 2QFY24 onwards.

Source: Company, Kotak Institutional Equities

Loan growth was sluggish at 8% yoy while CRB grew at 20%

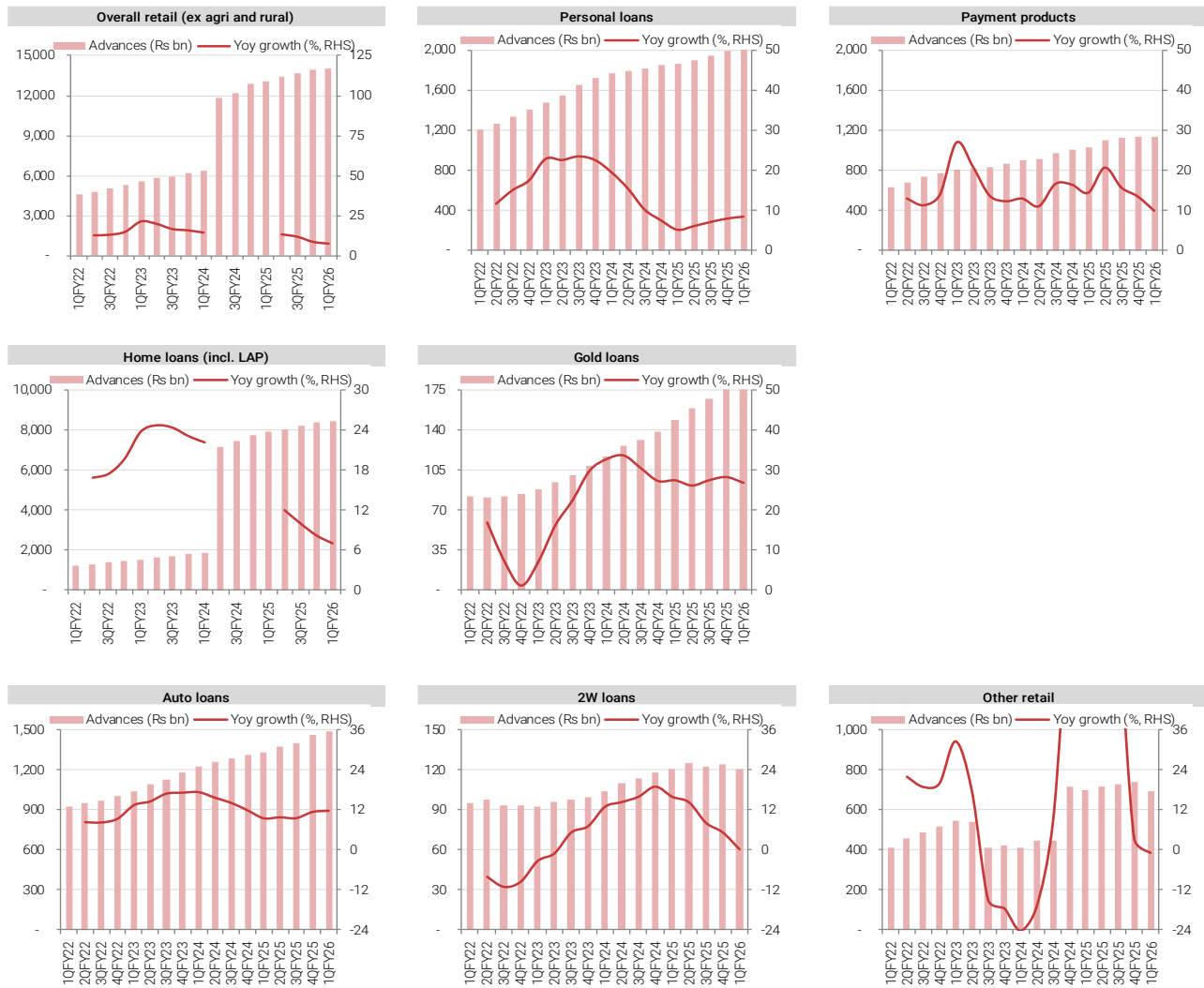
Exhibit 3: Loan growth across segments, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Loan growth in personal loans portfolio has declined in the last couple of years

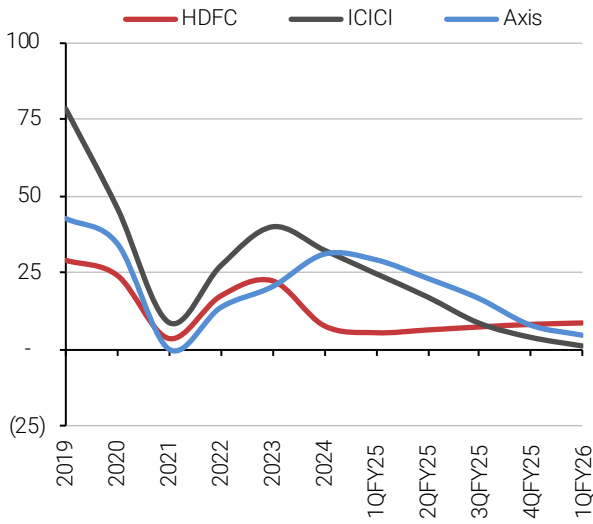
Exhibit 4: Loan growth across segments within retail, March fiscal year-ends, 2QFY21 onwards (%)



Source: Company, Kotak Institutional Equities

HDFC Bank had slowed down growth in personal loans sharper than peers in the last couple of years

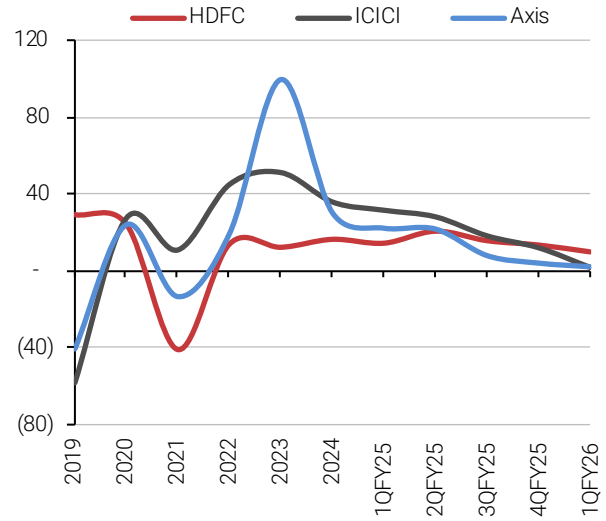
Exhibit 5: Growth in personal loans outstanding across large private banks, March fiscal year-ends (% yoy)



Source: Company, Kotak Institutional Equities estimates

Credit card loan book showing moderation in growth for HDFC

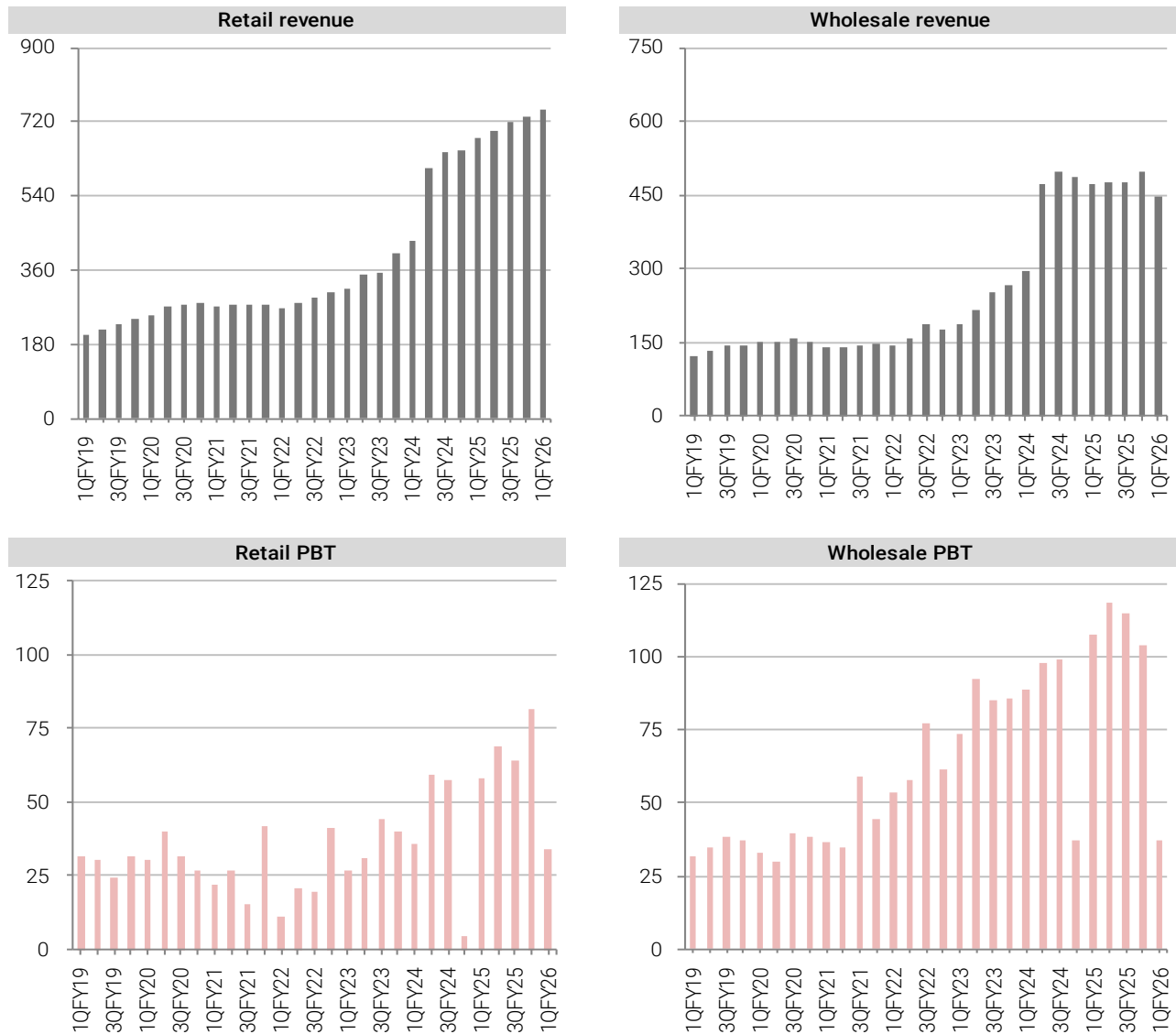
Exhibit 6: Growth in credit card loan book across large private banks, March fiscal year-ends (% yoy)



Source: Company, Kotak Institutional Equities estimates

Profitability has been healthy across both retail and wholesale

Exhibit 7: Segmental revenues and profitability, March fiscal year-ends (Rs bn)



Source: Company, Kotak Institutional Equities

Asset quality stable; credit cost elevated due to prudential provisioning

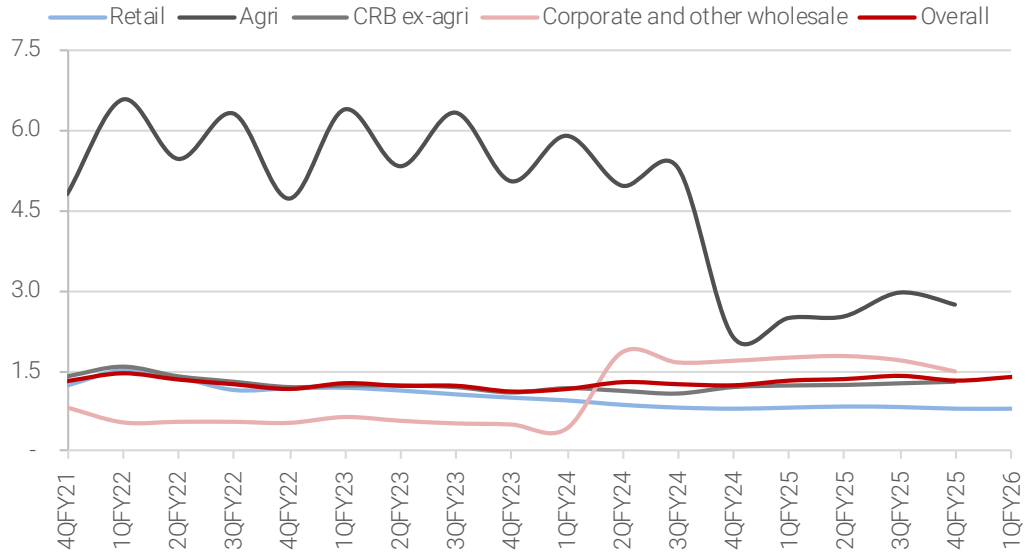
- ▶ **NPLs and coverage.** Gross NPL ratio was up 10 bps qoq to 1.4%, while the net NPL ratio was up 5 bps qoq to 0.5%. Provision coverage ratio declined ~100 bps qoq to 67%.
- ▶ **Slippages and recoveries.** Annualized slippages ratio was at ~1.37% for the quarter, amounting to ~Rs90 bn. Recoveries and upgradations are at ~Rs42 bn, accounting for ~60 bps of net advances (annualized) for 1QFY26. Write-offs amounted to ~Rs30 bn, which corresponds to ~46 bps of net advances (annualized) for the same period.
- ▶ **Provisions.** Credit cost for the quarter was at ~220 bps (annualized). The bank added Rs17 bn of contingent provisions as well as Rs90 bn of floating provisions to its stock. Credit cost excluding these prudential measures was at 56 bps for 1QFY26.

Management clarified that all asset quality metrics (NPA ratios, slippages and credit cost) are quite stable across segments. Credit quality remains healthy across product segments—retail (both secured and unsecured), MSME, agri and corporate.

Management reiterated its strong reserving stance, with contingent provisions rising to ~57 bps of advances from ~51 bps earlier. Ex-agri, asset quality remains benign with stable gross NPAs and credit costs. The outlook continues to be positive.

Gross NPA ratio was broadly stable overall

Exhibit 8: Gross NPA ratio across segments, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

NIM (reported) was down 11 bps at 3.35%; CD ratio moderates

- ▶ **Headline NIM.** NIM (reported) was down 15 bps qoq at 3.35%. Yield on loans and cost of funds declined 23 bps and 4 bps qoq, respectively.
- ▶ **Liquidity.** As of 1QFY26, the CD ratio is at 95.1%, down ~140 bps qoq. LCR ratio increased 500 bps sequentially to 124%. In the past, management had guided that it targets an LCR range of 110-120%.
- ▶ **Liability mix.** The bank continues to shed some of the higher cost borrowings whenever possible and replace it with deposits. As part of that process, percentage of borrowings in total liabilities has been trending downwards and is currently at 13%

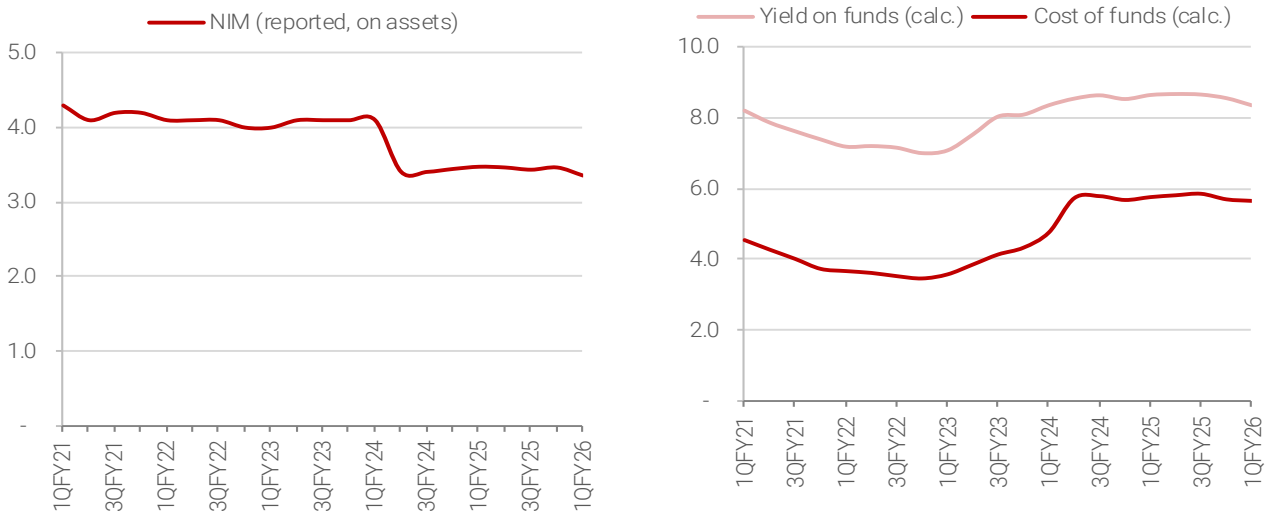
Management indicated that the February and April EBLR rate changes are largely reflected in the margins. However, the June 50 bps repo cut will not be fully transmitted in 1QFY26, as pricing typically lags by 1-3 months for the bank.

Management has communicated over the past couple of years that it does not intend to use pricing as a tool to garner more deposits in spite of the focus on deposit mobilization. Management’s strategy is to enhance engagement and service delivery to differentiate itself.

Over the past year, the bank had increased the yield thresholds on several asset products. This along with a shift in loan mix away from corporate is supporting overall asset yield for the bank to some extent. At the same time, management had also indicated earlier that the potential for further hike in disbursement yield seems limited.

NIM (reported, on average assets) has been depressed post-merger

Exhibit 9: Trend in margin metrics, March fiscal year-ends (%)



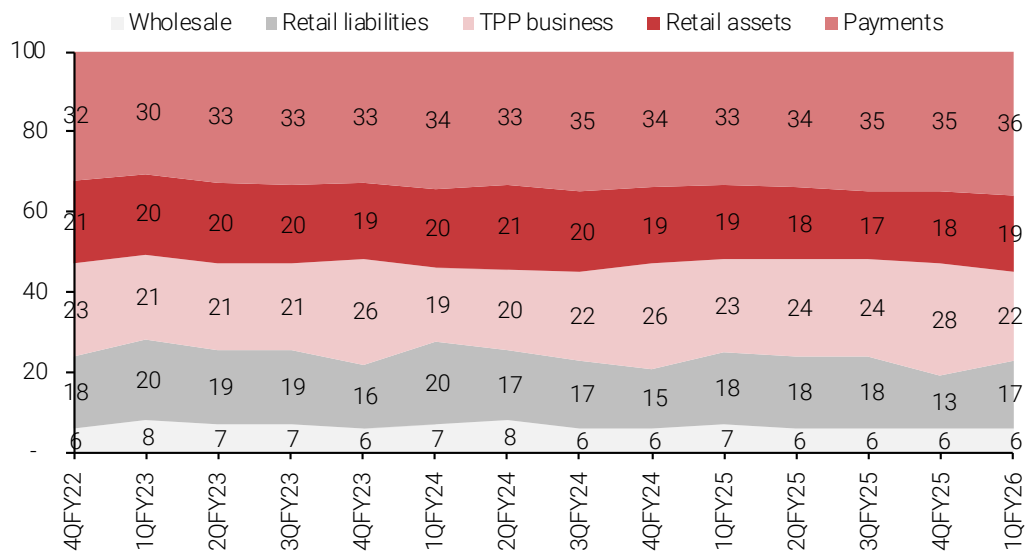
Source: Company, Kotak Institutional Equities

Growth in non-interest income was strong; investment income grew strong

- ▶ Non-interest income showed strong growth of ~104% yoy, supported by a robust increase in investment income, while there was steady growth in fee income also driven by growth in payment products (~36% of fee income). Treasury profit was strong because of the stake sale in HDB Financial Services, and was at Rs101 bn.
- ▶ Retail fees constituted ~94% of overall fees (92-94% in the past few quarters) for the bank.

Retail business makes up >90% of fees for HDFC Bank

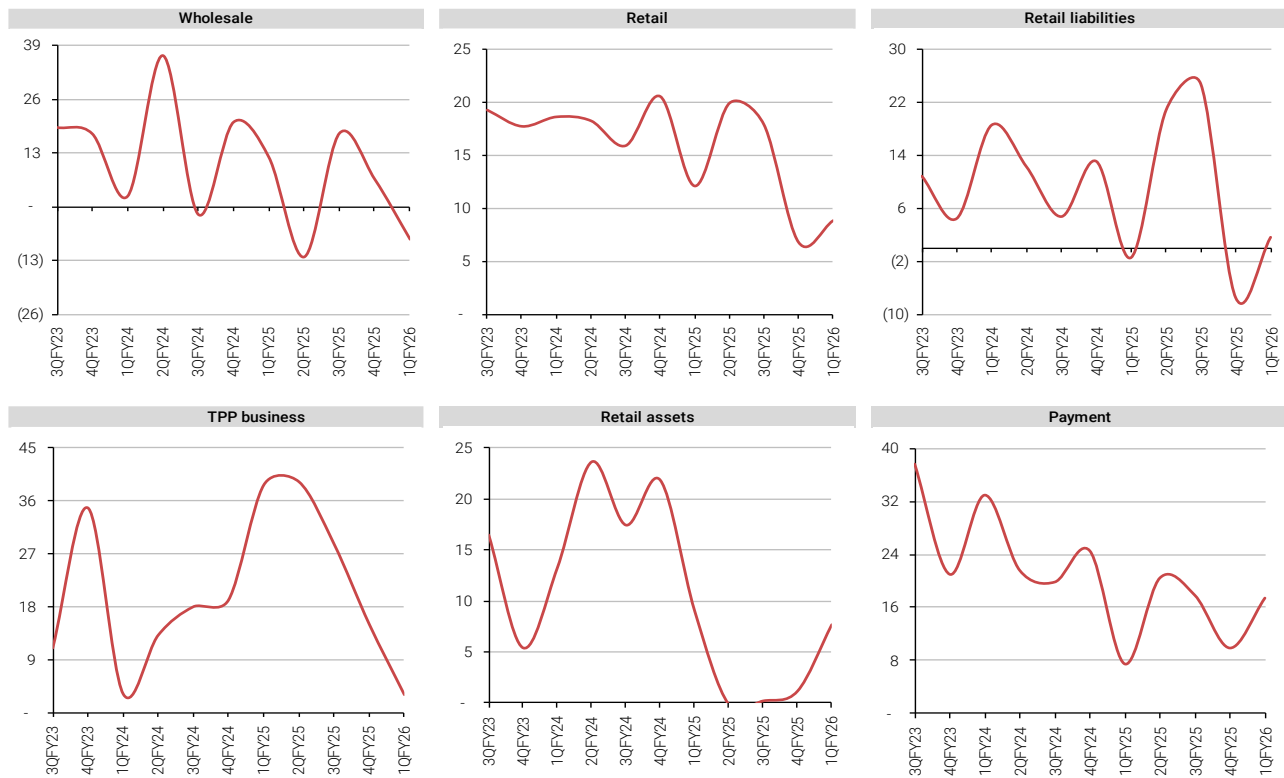
Exhibit 10: Break-up of fee income for HDFC Bank, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Growth in payment products (~17% yoy) led the growth in overall fee income

Exhibit 11: Trend in fee income growth, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

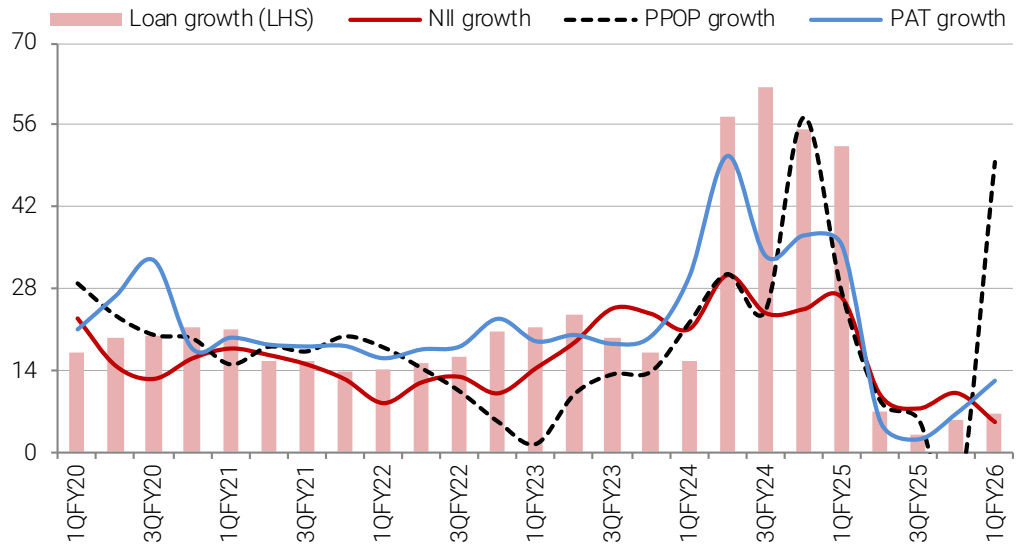
Cost growth at 5% yoy; cost-income ratio improves to 32%

- ▶ Overall costs for the bank increased 5% yoy, driven by an ~5% increase in staff costs and other expenses.
- ▶ Cost-income ratio for the bank improved for the bank at ~32%, declining 700 bps qoq.
- ▶ Management indicated that it continues to invest in people, distribution and technology. However, it has also become a bit more stringent about budgetary allocations while focusing on deriving productivity from investments.

Employee headcount rose by ~4,000 in 1QFY26, driven largely by branch additions in 4QFY25. Some incremental hiring was also in technology teams. Management clarified this is not due to lower attrition or front-loading.

NII growth was at 5.4% yoy against 6.7% yoy loan growth

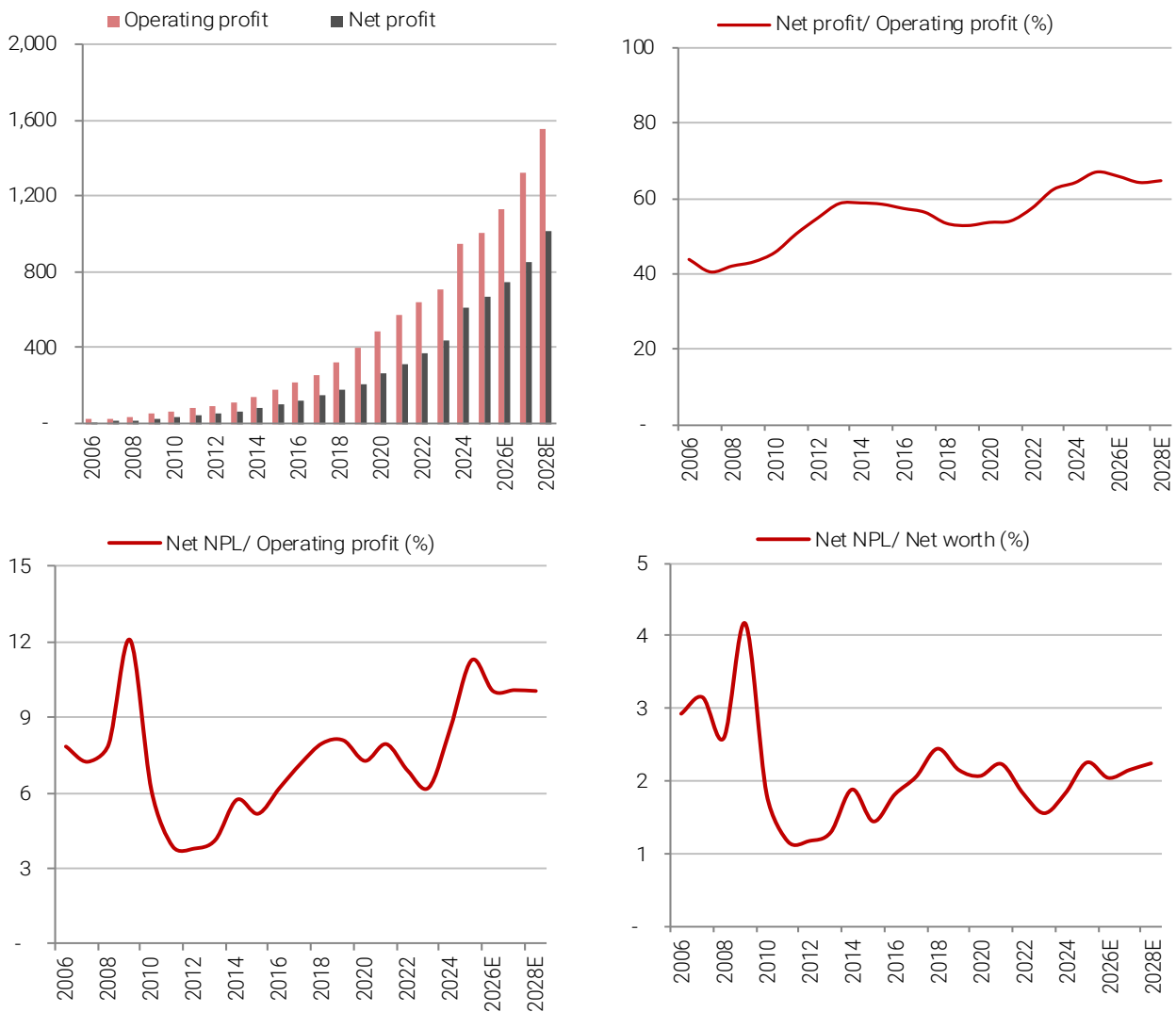
Exhibit 12: Comparison of yoy growth in loans, NII, PPOP and PAT, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Conversion of operating profit to net profit has improved

Exhibit 13: Trend in operating profit, net profit, net NPL and net worth, March fiscal year-ends (Rs bn)



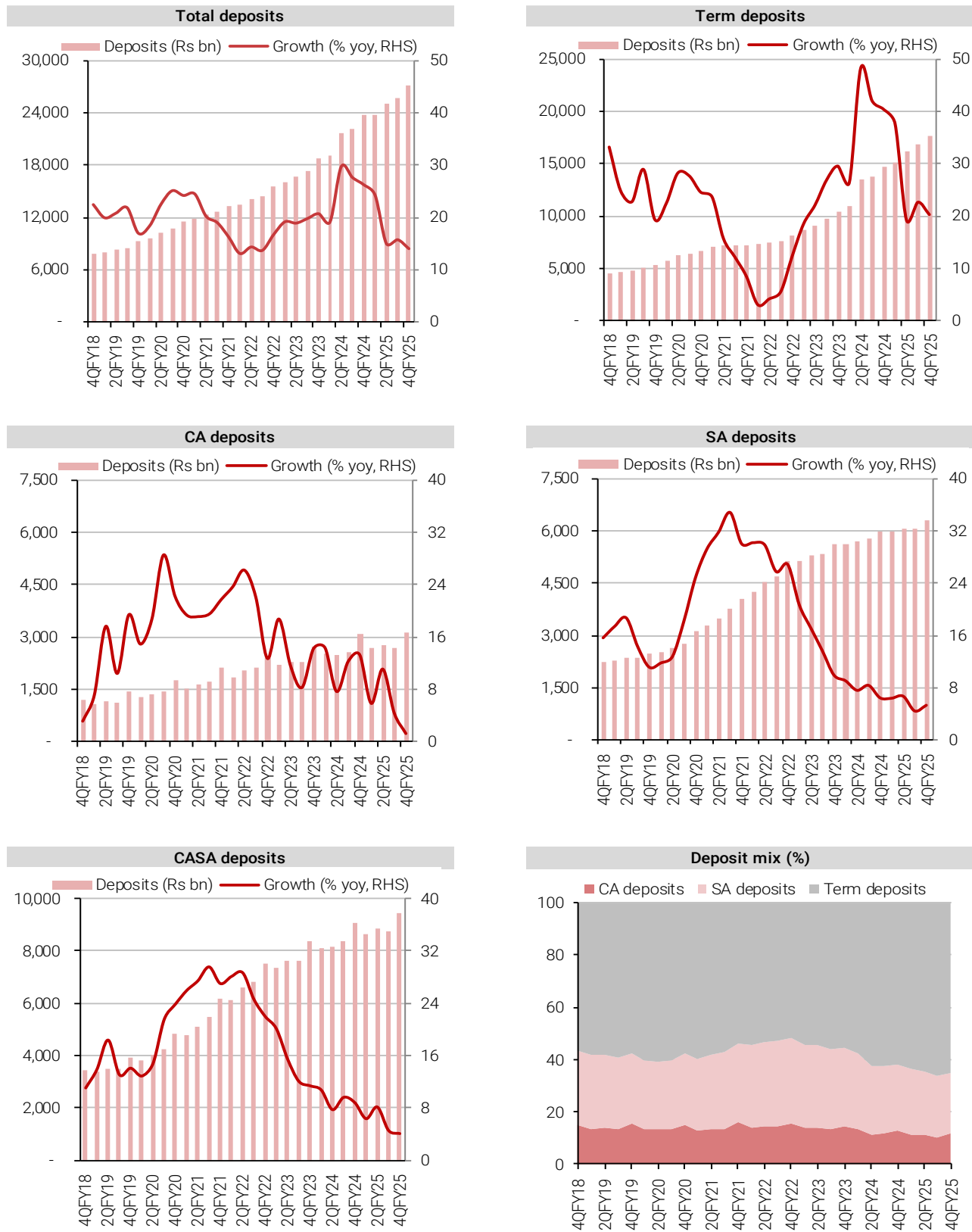
Source: Company, Kotak Institutional Equities estimates

Strong term deposit growth drives overall deposit momentum

- ▶ Deposit growth in 1QFY26 increased to ~16% yoy. This growth was driven by a strong ~20% yoy increase in term deposits, which rose 3.2% qoq. CASA deposits experienced more modest growth at 8.5% yoy, while remaining flat qoq due to the high base in 4QFY25.
- ▶ CASA ratio declined ~90 bps qoq to ~34%.
- ▶ LCR for the quarter decreased to ~124%, up from ~119% in 4QFY25.

Growth in CASA deposits continues to meaningfully lag the growth in term deposits

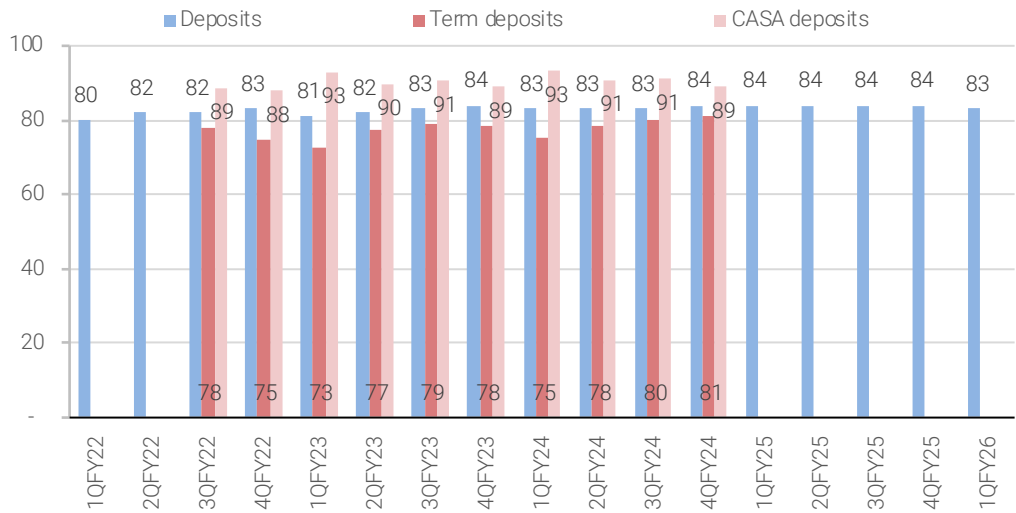
Exhibit 14: Trends in deposit growth, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Share of retail has been at ~83% of overall deposits

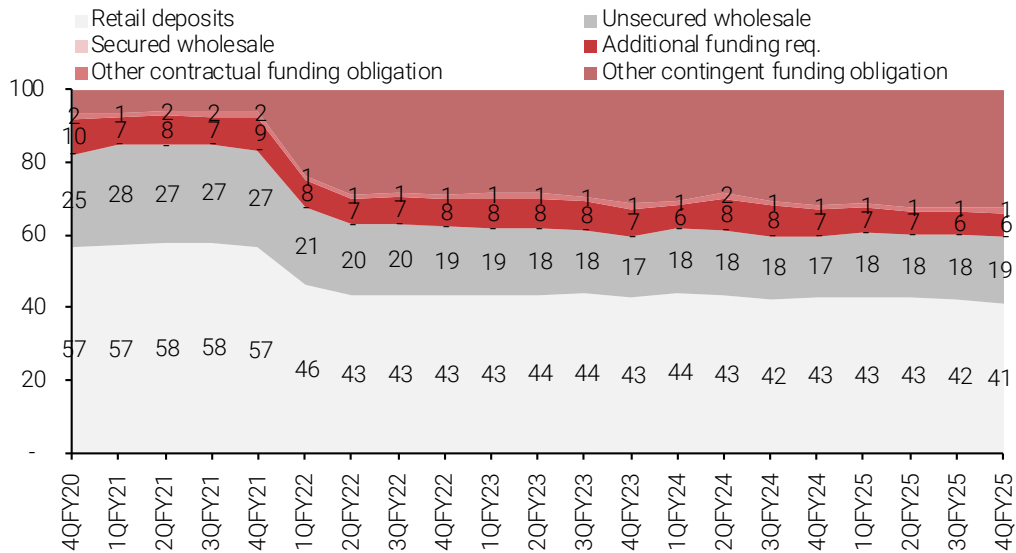
Exhibit 15: Share of retail in deposit base for HDFC Bank, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Share of retail deposits in potential gross cash outflows has been broadly stable

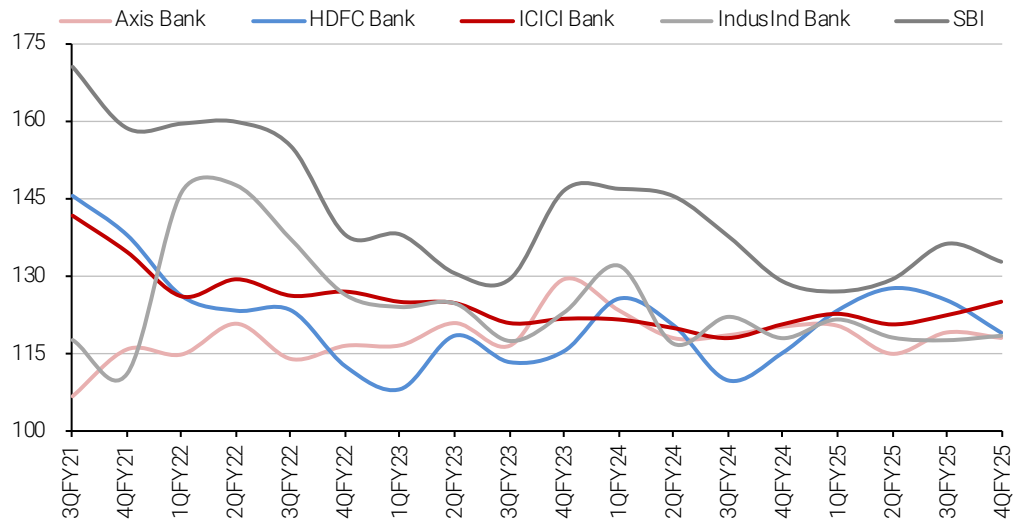
Exhibit 16: LCR disclosure on break-up of potential gross cash outflows (un-weighted) over a 30-day stress period, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

LCR is in a narrow band now for most of the large banks

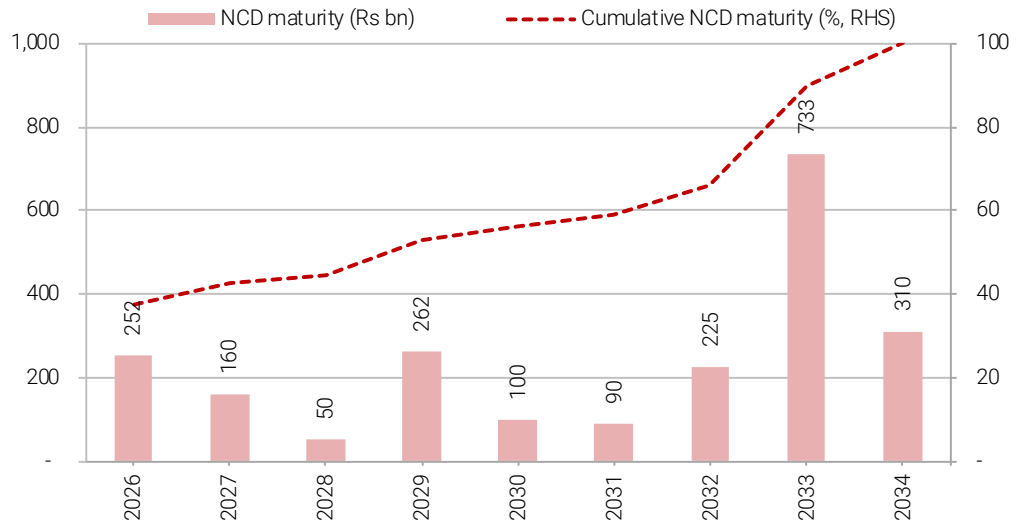
Exhibit 17: Liquidity coverage ratio for select large banks, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

A large chunk of the redemptions of NCDs (overall ~Rs3 tn) are rear-ended

Exhibit 18: Maturity profile of domestic NCDs outstanding for HDFC Bank as on March 18, 2024 (Rs bn)



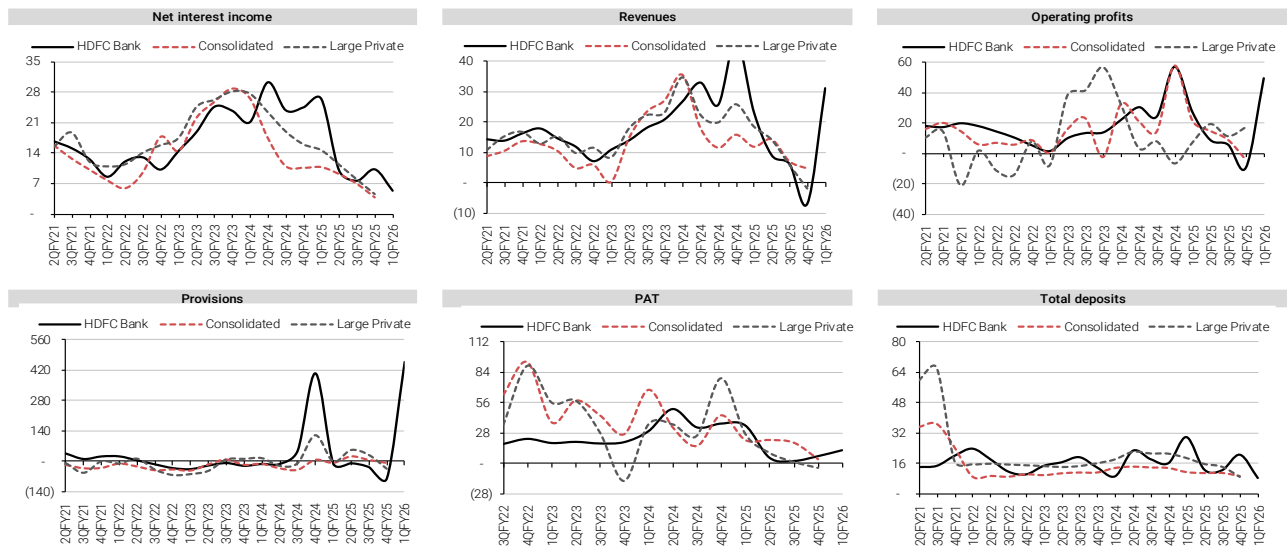
Source: Company, Kotak Institutional Equities

Other key highlights

- ▶ **Capital.** The bank's overall capital adequacy ratio (CAR) is at 19.9% under Basel-3 guidelines, while the CET-1 ratio was strong at 17.8%. Risk-weighted assets grew by 10.6% yoy, compared to the ~7% growth in net advances.
- ▶ **Branch network.** The bank has been rapidly expanding footprint in semi-urban areas and rural areas, which now account for ~51% of the total banking outlets. The bank expects this to assist in meeting PSL requirements for the merged entity. However, management also intends to improve branch productivity along with branch additions over the next few years.

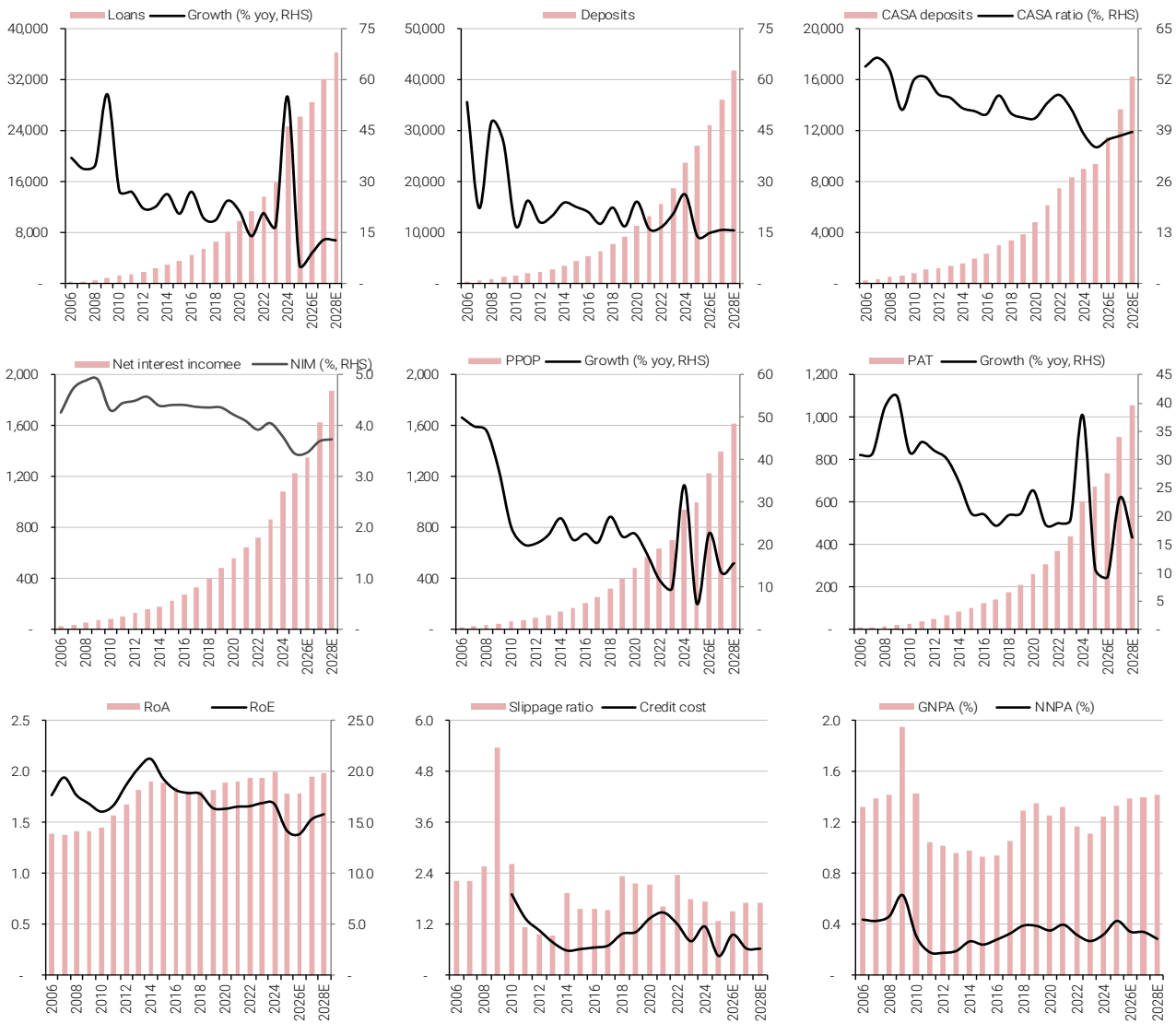
Merger has helped HDFC Bank report better growth

Exhibit 19: Comparison of key metrics reported by HDFC Bank and industry, March fiscal year-ends (% yoy growth)



Source: Company, Kotak Institutional Equities

Exhibit 20: Long-term history of key annual metrics for HDFC Bank, March fiscal year-ends (Rs bn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 21: Comparison of large private banks on key quarterly metrics, March fiscal year-ends



Note: Credit cost for all three banks is net of recoveries from written off accounts.

Source: Company, Kotak Institutional Equities estimates

Exhibit 22: HDFC Bank – changes in estimates, March fiscal year-ends (Rs mn)

	New estimates			Old estimates			% change		
	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Net loan growth (%)	8.9	12.9	12.8	8.9	12.9	12.8	0 bps	0 bps	0 bps
Total assets	43,489,854	49,420,899	56,704,601	43,548,555	50,117,572	57,727,790	(0.1)	(1.4)	(1.8)
Total income	1,960,062	2,209,751	2,534,447	1,965,358	2,261,745	2,604,675	(0.3)	(2.3)	(2.7)
Net interest income	1,355,773	1,624,543	1,879,533	1,421,069	1,676,537	1,949,761	(4.6)	(3.1)	(3.6)
NIM (%)	3.5	3.7	3.7	3.6	3.8	3.8	-16 bps	-6 bps	-4 bps
Other income	604,289	585,209	654,914	544,289	585,209	654,914	11.0	-	-
Fee income	361,061	413,755	474,204	361,061	413,755	474,204	-	-	-
Expenses	730,051	814,413	920,214	747,279	837,121	944,455	(2.3)	(2.7)	(2.6)
Employee cost	256,279	285,277	322,775	263,817	299,369	338,721	(2.9)	(4.7)	(4.7)
Other cost	473,772	529,136	597,439	483,462	537,752	605,734	(2.0)	(1.6)	(1.4)
Loan loss provisions	251,713	182,176	205,530	136,800	182,176	205,530	84.0	-	-
PBT	968,298	1,203,163	1,398,703	1,071,279	1,232,449	1,444,690	(9.6)	(2.4)	(3.2)
PAT	735,907	907,185	1,054,622	814,172	929,266	1,089,297	(9.6)	(2.4)	(3.2)
PBT-treasury+provisor	1,110,011	1,355,338	1,574,233	1,158,080	1,384,624	1,620,220	(4.2)	(2.1)	(2.8)
EPS (Rs)	96	119	138	106	121	142	(9.6)	(2.4)	(3.2)
Adjusted BVPS (Rs)	718	806	909	724	813	918	(0.9)	(0.9)	(0.9)
Slippage ratio (%)	1.5	1.7	1.7	1.6	1.8	1.8	-10 bps	-10 bps	-10 bps
Gross NPA (%)	1.4	1.4	1.4	1.3	1.4	1.5	9 bps	-1 bps	-10 bps
Credit cost (%)	0.9	0.6	0.6	0.5	0.6	0.6	42 bps	0 bps	0 bps
Cost-income ratio (%)	37.2	36.9	36.3	38.0	37.0	36.3	-78 bps	-16 bps	5 bps

Source: Company, Kotak Institutional Equities estimates

Exhibit 23: SoTP valuation for HDFC Bank (merged entity) as on March 2027 (Year 0 of DCF), March fiscal year-ends (%)

Business/ subsidiaries	HDFC Bank's holding (%)	Value of investee company (Rs mn)	Value per share (Rs)	Valuation basis	multiple (forward)	Comments
HDFC Bank standalone			1,950	BVPS (adj.)	2.5	Residual growth model; 2.2X FY2027E book
Value of subsidiaries and associates			189			
HDFC AMC	52.5	600,086	37	EPS	19	KIE's FV; 10% holding-company discount
HDFC Life	50.3	1,902,690	113	EV	2.1	KIE's FV; 10% holding-company discount
HDFC ERGO	50.5	21,000	1	EPS	35	35X FY2027E PAT; 10% holding-company discount
HDB Finance	74.2	433,113	38	BVPS	2.0	2X FY2027E book, 10% holding company discount
Equity investments			6			
Total value per share			2,145			

Source: Company, Kotak Institutional Equities estimates

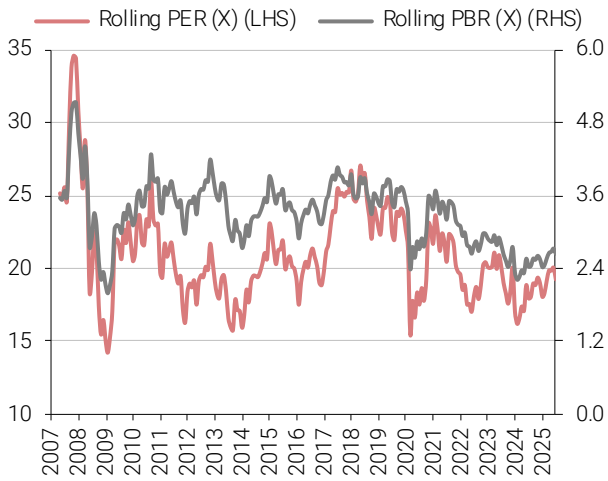
Exhibit 24: SoTP valuation for HDFC Bank (merged entity) as on March 2028 (Year 1 of DCF), March fiscal year-ends (%)

Business/ subsidiaries	HDFC Bank's holding (%)	Value of investee	Value per share (Rs)	Valuation basis	Valuation multiple	Comments
HDFC Bank standalone			2,150	BVPS (adj.)	3.1	Residual growth model; 2.3X FY2026E book
Value of subsidiaries and associates			228			
HDFC AMC	52.5	801,455	49	EPS	28	KIE's FV; 10% holding-company discount
HDFC Life	50.3	2,238,053	132	EV	2.1	KIE's FV; 10% holding-company discount
HDFC ERGO	50.5	25,200	1	EPS	35	35X FY2028E PAT; 10% holding-company discount
HDB Finance	74.2	506,742	44	BVPS	2.0	2X FY2028E book, 10% holding company discount
Equity investments			6			
Total value per share			2,384			

Source: Company, Kotak Institutional Equities estimates

HDFC Bank trades at 2.6X one-year forward book

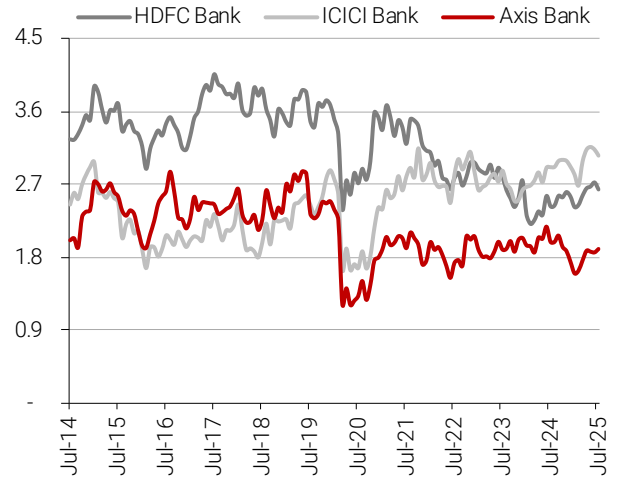
Exhibit 25: 1-year forward PER and PBR



Source: Bloomberg, Company, Kotak Institutional Equities estimates

HDFC Bank now trades at a discount to ICICI Bank

Exhibit 26: 1-year forward PBR for frontline private banks



Source: Bloomberg, Company, Kotak Institutional Equities estimates

RoA to stay in the range of 1.9-2.0% in the medium term

Exhibit 27: HDFC Bank growth rates and key ratios for the pro forma merged entity, March fiscal year-ends

	Standalone						Proforma merged				
	2018	2019	2020	2021	2022	2023	2024	2025.00	2026E	2027E	2028E
Growth rates (%)											
Net loan	18.7	24.5	21.3	14.0	20.8	16.9	55.2	5.4	8.9	12.9	12.8
Customer assets growth	21.3	21.8	20.0	18.0	19.8	15.4	49.8	5.8	8.8	12.7	12.6
Retail loans to Customer asset:	51.5	50.4	48.1	43.5	36.6	36.8	51.2	52.6	56.6	57.9	59.0
Net fixed assets	(0.5)	11.7	10.0	10.8	23.9	31.8	42.2	19.8	11.0	4.2	(1.0)
Cash and bank balance	151.1	(33.8)	6.5	37.9	27.5	27.2	13.1	9.3	15.9	18.5	20.8
Total Asset	23.2	17.0	23.0	14.1	18.4	19.2	46.7	8.1	11.2	13.6	14.7
Deposits	22.5	17.0	24.3	16.3	16.8	20.8	26.4	14.1	15.1	16.0	15.9
Current	3.2	19.5	22.3	21.8	12.8	14.3	13.4	1.3	24.4	16.0	15.9
Savings	33.2	19.4	24.6	8.5	12.3	29.6	40.4	20.3	11.7	14.2	14.0
Fixed	15.6	11.1	24.8	30.0	26.8	9.9	6.4	5.3	20.1	20.8	20.5
Net interest income	21.0	20.3	16.5	15.5	11.0	20.6	25.0	13.0	10.5	19.8	15.7
Loan loss provisions	54.6	27.9	62.3	32.8	(0.8)	(18.9)	86.8	(43.0)	93.6	(27.6)	12.8
Total other income	23.8	15.8	32.0	8.4	17.1	5.8	57.7	(7.3)	32.4	(3.2)	11.9
Net fee income	29.3	21.2	18.3	(1.0)	20.8	22.0	18.1	13.3	13.2	14.6	14.6
Net capital gains	(18.8)	(57.5)	391.9	99.9	(41.0)	(149.6)	(1,119.0)	(84.8)	584.0	(66.7)	-
Net exchange gains	20.6	12.9	25.2	13.2	60.3	4.5	(2.0)	22.9	5.0	14.0	14.0
Operating expenses	15.2	15.1	17.5	6.6	14.4	27.3	33.0	7.6	7.1	11.6	13.0
Employee expenses	5.0	14.0	22.7	8.8	16.1	28.9	43.4	7.5	7.2	11.3	13.1
Key ratios (%)											
Yield on average earning assets	8.7	8.9	8.6	7.6	7.0	7.5	9.0	8.5	8.0	7.9	7.7
Yield on average loans	10.3	10.5	10.1	8.9	7.9	8.6	10.1	9.3	8.8	8.7	8.6
Yield on average investments	7.1	7.5	6.1	5.6	5.8	6.4	7.3	7.0	7.0	6.8	6.6
Average cost of funds	4.9	5.2	5.0	4.0	3.4	3.9	5.8	5.6	5.1	4.7	4.5
Interest on deposits	4.6	4.8	4.9	4.0	3.4	3.6	4.7	4.9	4.5	4.2	4.1
Difference	3.9	3.8	3.6	3.6	3.5	3.7	3.2	2.9	2.9	3.2	3.2
Net interest income/earning as	4.4	4.4	4.2	4.1	3.9	4.1	3.8	3.5	3.5	3.7	3.7
New provisions/average net loa	0.9	1.0	1.3	1.4	1.2	0.8	1.1	0.5	0.9	0.6	0.6
Interest income/total income	72.5	73.2	70.7	72.0	70.9	73.6	68.8	72.9	69.2	73.5	74.2
Fee income to total income	20.6	21.0	20.6	17.9	19.2	20.2	17.8	19.0	18.4	18.7	18.7
Fees income to PBT	42.7	42.9	44.6	38.8	39.9	40.8	39.7	36.1	37.3	34.4	33.9
Net trading income to PBT	3.3	1.2	5.3	9.3	4.7	(1.9)	16.2	2.1	12.4	3.3	2.9
Exchange inc./PBT	5.7	5.3	5.9	5.9	8.0	7.0	5.6	5.6	5.3	4.9	4.8
Operating expenses/total income	41.0	39.7	38.6	36.3	36.9	40.4	40.2	40.5	37.2	36.9	36.3
Operating expenses/assets	2.4	2.3	2.2	2.0	2.0	2.1	2.1	1.8	1.8	1.8	1.7
Operating profit /AWF	2.8	2.9	2.6	2.4	2.6	2.8	2.1	2.5	2.2	2.7	2.7
Tax rate	34.5	34.5	28.3	25.3	24.6	24.6	14.2	23.9	24.0	24.6	24.6
Dividend payout ratio	19.3	19.4	-	-	23.3	24.0	24.4	25.0	25.0	25.0	25.0
Share of deposits											
Current	15.1	15.4	15.2	15.9	15.3	14.5	13.0	11.6	12.5	12.5	12.5
Fixed	56.5	57.6	57.8	53.9	51.8	55.6	61.8	65.2	63.3	62.3	61.3
Savings	28.4	26.9	27.0	30.2	32.8	29.9	25.2	23.2	24.2	25.2	26.2
Loans-to-deposit ratio	83.5	88.8	86.6	84.9	87.8	85.0	104.4	96.5	91.3	88.8	86.5
Equity/assets (EoY)	10.0	12.0	11.2	11.7	11.6	11.4	12.2	12.8	12.8	12.6	12.4
Asset quality trends (%)											
Gross NPL	1.3	1.4	1.3	1.3	1.2	1.1	1.2	1.3	1.4	1.4	1.4
Net NPL	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3
Slippages	2.3	2.2	2.1	1.6	2.4	1.8	1.7	1.3	1.5	1.7	1.7
Provision coverage (ex writeoff)	69.8	71.4	72.0	69.8	72.7	75.8	74.0	67.9	75.6	76.0	79.9
Dupont analysis (%)											
Net interest income	4.2	4.2	4.0	4.0	3.8	3.8	3.6	3.3	3.3	3.5	3.5
Loan loss provisions	0.6	0.6	0.8	0.9	0.8	0.5	0.7	0.3	0.6	0.4	0.4
Net other income	1.6	1.5	1.7	1.5	1.5	1.4	1.6	1.2	1.5	1.3	1.2
Operating expenses	2.4	2.3	2.3	2.0	2.0	2.1	2.1	1.8	1.8	1.8	1.8
Invt. depreciation	-	-	-	-	-	-	-	(-)	-	-	-
(1- tax rate)	65.5	65.5	71.7	74.7	75.4	75.4	85.8	76.1	76.0	75.4	75.4
ROA	1.8	1.8	1.9	1.9	1.9	1.9	2.0	1.8	1.8	2.0	2.0
Average assets/average equity	9.8	9.0	8.7	8.7	8.6	8.7	8.4	8.0	7.8	7.9	8.0
ROE	17.9	16.5	16.4	16.6	16.7	17.0	16.9	14.3	13.9	15.4	15.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 28: HDFC Bank – key financials, March fiscal year-ends (Rs bn)

	2018	2019	2020	2021	2022	2023	2024	Proforma merged			
								2025	2026E	2027E	2028E
Income statement											
Total interest income	802	990	1,148	1,209	1,278	1,616	2,583	3,005	3,131	3,457	3,872
Loans	627	775	918	948	985	1,271	2,072	2,384	2,410	2,650	2,949
Investments	162	200	206	232	260	313	444	533	632	714	816
Cash and deposits	14	14	24	28	32	32	68	88	89	93	107
Total interest expense	401	507	586	560	557	747	1,498	1,778	1,775	1,833	1,993
Deposits from customers	328	411	508	501	489	615	994	1,253	1,323	1,425	1,592
Net interest income	401	482	562	649	720	868	1,085	1,227	1,356	1,625	1,880
Loan loss provisions	55	70	114	152	151	122	228	130	252	182	206
Net interest income (after prov)	346	412	448	497	569	746	857	1,097	1,104	1,442	1,674
Other income	152	176	233	252	295	312	492	456	604	585	655
Net fee income	114	138	163	162	195	238	282	319	361	414	474
Net capital gains	9	4	19	39	23	(11)	115	18	120	40	40
Net exchange gains	15	17	22	24	39	41	40	49	52	59	67
Operating expenses	227	261	307	327	374	477	634	682	730	814	920
Employee expenses	68	78	95	104	120	155	222	239	256	285	323
Depreciation on investments	0	0	0	(0)	-	-	0	(1)	-	-	-
Other Provisions	4	5	7	5	(0)	(3)	7	(13)	10	10	10
Pretax income	267	322	366	417	490	585	709	885	968	1,203	1,399
Tax provisions	92	111	103	105	121	144	101	211	232	296	344
Net Profit	175	211	263	311	370	441	608	673	736	907	1,055
% growth	20.2	20.5	24.6	18.5	18.8	19.3	37.9	10.7	9.3	23.3	16.3
Operating profit	317	394	468	535	618	715	829	984	1,110	1,355	1,574
% growth	28.7	24.3	18.9	14.3	15.5	15.8	15.8	18.7	12.8	22.1	16.2
Balance sheet											
Assets											
Cash and bank balance	1,229	813	866	1,195	1,523	1,938	2,191	2,396	2,776	3,289	3,972
Cash	75	74	92	107	112	132	130	121	133	147	161
Balance with RBI	971	394	630	866	1,188	1,039	1,657	1,322	1,470	1,666	1,907
Balance with banks	10	3	3	8	3	17	5	2	3	4	7
Net value of investments	2,422	2,906	3,918	4,437	4,555	5,170	7,024	8,364	9,827	11,341	13,592
Govt. and other securities	1,884	2,397	3,230	3,511	3,665	4,374	6,448	7,652	9,140	10,653	12,904
Shares	1	4	4	4	5	5	20	36	36	36	36
Debentures and bonds	348	287	265	618	647	583	201	287	287	287	287
Net loans and advances	6,583	8,194	9,937	11,328	13,688	16,006	24,849	26,196	28,524	32,201	36,309
Fixed assets	36	40	44	49	61	80	114	137	152	158	156
Net Owned assets	36	40	44	49	61	80	114	137	152	158	156
Other assets	369	492	539	459	858	1,467	1,998	2,010	2,211	2,432	2,675
Total assets	10,639	12,445	15,305	17,469	20,685	24,661	36,176	39,102	43,490	49,421	56,705
Liabilities											
Deposits	7,888	9,231	11,475	13,351	15,592	18,834	23,798	27,147	31,249	36,248	41,997
Borrowings and bills payable	1,313	1,241	1,522	1,479	1,979	2,186	6,763	5,616	5,151	5,174	5,655
Other liabilities	375	481	598	602	713	839	1,213	1,325	1,523	1,752	2,015
Total liabilities	9,576	10,953	13,595	15,431	18,284	21,859	31,774	34,088	37,924	43,174	49,667
Paid-up capital	5	5	5	6	6	6	8	8	8	8	8
Reserves & surplus	1,058	1,487	1,704	2,032	2,395	2,796	4,395	5,007	5,559	6,239	7,030
Total shareholders' equity	1,063	1,492	1,710	2,037	2,401	2,802	4,402	5,014	5,566	6,247	7,038

Source: Company, Kotak Institutional Equities estimates