Weekly Wealth

BP WEALTH

Stock Idea Note - HDFC Bank Ltd

Company Overview

HDFC Bank Ltd. is India's largest private sector bank, with a diversified franchise across Retail, Small & Mid-Market and Corporate & Wholesale banking. As of Q1FY27, its Rs. 31.27 trillion AUM comprised 52% Retail, 21% Small & Mid-Market and 27% Corporate & Wholesale, with mortgages accounting for 29% of AUM following the HDFC Ltd. merger. The merger has strengthened HDFC Bank's mortgage franchise and created a strong mortgage-to-liability model, with 95% of new-to-bank home-loan customers opening a savings account, allowing the bank to build deposits around long-term lending relationships. This is supported by a large phygital distribution network of 9,689 branches and 21,172 ATMs/CRMs. Bank's 50% of branches are in semi-urban and rural markets, alongside 98% of financial transactions being digital. The bank further deepens customer relationships through its ecosystem of HDB Financial Services, HDFC Life, HDFC AMC, HDFC ERGO and HDFC Securities. Its conservative underwriting has kept asset quality resilient, with GNPA at 1.17% in Q1FY27. With 10+ crore customers, Rs. 31.27 trillion deposits, 17.4% CET-1 and 1.85% RoA, HDFC Bank combines scale, distribution, a large mortgage franchise and a broad financial-services ecosystem, supported by increasing in-house technology and digital capabilities.

Investment Rationale

HDFC bank's young branch base and low customer penetration provide runway for deposit and customer growth

HDFC Bank deliberately slowed customer acquisition over the last two years while strengthening onboarding and fraud controls, rather than due to weak underlying demand. With these guardrails now largely in place, management is restarting customer sourcing, creating a visible runway for the 40% of branches that are less than five years old to mature and improve productivity. Business per branch has already increased from Rs. 266 crores in FY23 to Rs. 330 crores, indicating the operating leverage available as the network matures. The opportunity is particularly large in deposits, with only 14% of HDFC Bank's 10+ crore customers currently holding a term deposit, providing a large cross-sell pool within the existing customer base. The bank is also using FCNR(B) to address near-term funding requirements, with the FCNR(B) book rising from USD 4.02 bn in early June to USD 5.42 bn by end-July, while further mobilisation is being pursued ahead of the RBI's August 31 deadline. As customer acquisition picks up, younger branches mature and existing customers are converted into deeper deposit relationships, HDFC Bank can rebuild granular deposits and gradually reduce its dependence on more expensive funding.

HDFC Bank's funding normalisation and improving asset mix provide a clear path for NIM recovery

HDFC Bank's 3.26% NIM in Q1FY27 remains below its historical level, but the pressure is increasingly identifiable and therefore reversible. Around Rs. 40,000-50,000 crores of high-cost borrowings carrying slightly above 7% coupons are due to mature over the next few years and can be replaced with retail funding at lower rates, creating a direct funding-cost benefit. At the same time, deeper term-deposit penetration should reduce reliance on wholesale funding, while management's target to increase Retail's share of AUM from 52% towards 60% should support asset yields. Credit growth is also showing renewed momentum, with advances growing 15.4% YoY in Q1FY27, led by Corporate (+18.6%), SME (+18.7%) and improving retail disbursements, while GNPA remains at 1.17% and credit cost at 41bps. The bank's ability to grow without a corresponding deterioration in credit quality provides an important earnings cushion. Thus, lower funding costs, a more retail-oriented asset mix and controlled credit costs can progressively lift NIM and RoA, with ROE improving as the post-merger balance sheet becomes more efficient.

Stock Rating

BUY	HOLD	SELL
■		
> 15%	-5% to 15%	< -5%

Sector Outlook — Positive

Stock

CMP (INR)	727
Target Price (INR)	850
NSE Symbol	HDFCBANK
BSE Code	500180
Bloomberg	HDFCBC IN
Reuters	HDBK.BO

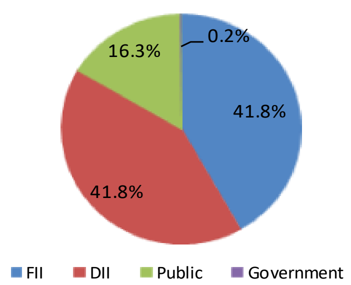
Key Data

Nifty	24,252
52WeekH/L(Rs.)	1,020/715
O/s Shares (Cr.)	1541
Market Cap (Rs, Cr.)	11,20,311
Face Value (Rs.)	1

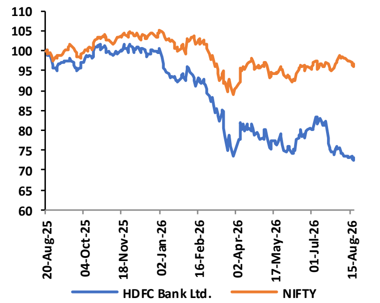
Average volume

3 months	3,58,19,521
6 months	4,17,91,856
1 year	3,19,91,178

Share Holding Pattern (%)



Relative Price Chart



Valuation and Outlook

We expect HDFC Bank to sustain above 15% advance growth, supported by continued strength in Corporate and SME lending, improving Retail disbursements and strong MSME traction. The key constraint however is the 95.8% LDR, as credit is currently growing faster than deposits. We believe this can gradually ease as customer acquisition normalises after the bank spent the last two years tightening onboarding and fraud controls. With these guardrails now largely in place, the bank can accelerate acquisition through its branch network, where 40% of branches are less than five years old, allowing branch productivity and granular deposit mobilisation to improve. Further, only 14% of its 10+ crore customers hold term deposits, providing a large cross sell opportunity, while Rs. 40,000-50,000 crores of high cost borrowings maturing over the next two years can be replaced with retail funding. This should allow deposits to catch up with advances and reduce reliance on expensive funding. We therefore expect NIM to gradually recover from 3.26% towards 3.4-3.5%, as lower funding costs from replacement of high cost borrowings combine with deeper TD penetration and a gradual shift in the loan mix towards the targeted 60% Retail share. This should drive RoA towards 1.9% and RoE towards 15-16% by FY29E, as higher NII flows through to earnings while benign credit costs limit provisioning drag. We expect this to support 15% earnings CAGR over FY26-29E, making the earnings recovery increasingly visible as the liability franchise normalises. On governance, the March 2026 resignation of Atanu Chakraborty had created an overhang, particularly around leadership stability and the allegations raised at the time. However, external law firms subsequently found no evidence substantiating the core allegations against the bank or its management, while the bank separately took internal action through warning letters and monetary penalties relating to the historical MSRDC deposit structuring issue. The appointment of Rajiv Kumar as Independent Director and Chairman designate materially strengthens the governance framework and addresses a large part of the uncertainty. The key remaining monitorables are the MD & CEO reappointment and appointment of an additional Executive Director, where continued clarity on the leadership structure will be important for investor confidence. At 1.86x P/B, HDFC Bank trades at a 37% discount to its 5-year median P/B of 3.00x. While we do not expect a rerating purely on the valuation gap, the current multiple provides downside support, with scope for rerating as deposit mobilisation improves, NIM recovers, RoA expands and the remaining leadership uncertainties are resolved . **We maintain a Buy rating on the stock, with a target price of Rs. 850 (which is 17% upside from current levels). This valuation is based on a (P/BV) multiple of 2.05x times the estimated FY27E book value.**

Key Financials						
YE March (Rs. Cr.)	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Net Interest Income	**86,842**	**1,08,532**	**1,22,670**	**1,28,686**	**1,43,951**	**1,65,576**
Growth (Y-o-Y)	*20.6%*	*25.0%*	*13.0%*	*4.9%*	*11.9%*	*15.0%*
Pre-Provision operating profit	**70,405**	**94,387**	**1,00,127**	**1,18,558**	**1,33,874**	**1,52,330**
PPOP Growth (Y-o-Y)	*9.9%*	*34.1%*	*6.1%*	*18.4%*	*12.9%*	*13.8%*
Net Profit	**44,109**	**60,812**	**67,347**	**74,671**	**85,804**	**98,917**
Growth (Y-o-Y)	*19.3%*	*37.9%*	*10.7%*	*10.9%*	*14.9%*	*15.3%*
EPS	**39.5**	**40.0**	**44.0**	**48.5**	**55.7**	**64.2**
Key Ratios						
NIM (%)	3.8%	3.2%	3.3%	3.3%	3.3%	3.4%
RoA (%)	**1.9%**	**2.0%**	**1.8%**	**1.8%**	**1.8%**	**1.8%**
RoE (%)	17.0%	17.0%	14.4%	14.1%	14.2%	14.5%
CASA (%)	**44.4%**	**38.2%**	**34.8%**	**34.1%**	**34.6%**	**34.9%**
BV per share (Rs.)	250.1	288.0	325.1	365.7	414.3	477.2
Valuation Ratios						
P/E (x)	18.4x	18.1x	16.5x	15.0x	13.0x	11.3x
P/BV (x)	**2.9x**	**2.5x**	**2.2x**	**2.0x**	**1.8x**	**1.5x**

Source: Bloomberg, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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Corporate Office:
4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:
24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392