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## EQUITY RESEARCH ANALYSIS AND VALUATION OF HDFC BANK LTD.

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### Abstract

This study presents an equity research analysis of **HDFC Bank Ltd.**, one of India's leading private sector banks, with the objective of evaluating its financial performance and intrinsic valuation. The analysis is based on secondary data covering the period from FY 2021 to FY 2025, with the valuation date set as 31 March 2025. Financial performance is assessed using profitability and efficiency ratios, while valuation is conducted through market-based and intrinsic valuation models. Share price trends and comparative analysis with benchmark indices are also examined. The findings indicate consistent profitability, strong capital efficiency, and reasonable valuation, supporting a positive long-term investment outlook.

### Keywords

Equity research; HDFC Bank Ltd.; financial performance; valuation analysis; banking sector; share price trend

### Introduction

The banking sector plays a crucial role in India's economic development by facilitating financial intermediation, credit expansion, and capital formation. Over the past decade, private sector banks have emerged as key drivers of innovation, efficiency, and customer-centric banking services. Improved regulatory frameworks, technological adoption, and prudent risk management practices have strengthened the resilience of the Indian banking system.

**HDFC Bank Ltd.** is one of India's largest and most prominent private sector banks, known for its strong retail franchise, diversified loan portfolio, and consistent financial performance. The bank has demonstrated steady growth in earnings, asset quality, and shareholder value despite periods of economic and market volatility.

This research paper focuses on an equity research analysis of HDFC Bank Ltd. to assess its financial strength, market performance, and intrinsic value. The study evaluates historical financial data, share price behavior, and valuation metrics using standard equity valuation techniques. The analysis covers the five-year period from FY 2021 to FY 2025, with 31 March 2025 considered as the valuation date, providing insights into the bank's long-term investment attractiveness.

## Literature Review

Equity research and valuation are central to financial analysis, particularly in the banking sector due to its importance in economic intermediation and financial stability. Existing literature emphasizes the need for a combined framework involving financial ratio analysis, market-based valuation, and intrinsic valuation models to assess bank performance and shareholder value effectively (Damodaran, 2024).

Financial ratio analysis, especially profitability measures such as Return on Equity (ROE) and Return on Capital Employed (ROCE), is widely used to evaluate capital efficiency and earnings quality. Studies on Indian private sector banks indicate that institutions with consistent profitability, strong asset quality, and prudent risk management tend to command higher market valuations (Reserve Bank of India [RBI], 2025).

Relative valuation techniques such as the Price-to-Earnings (P/E) and Price-to-Book Value (P/B) ratios are commonly applied in banking studies due to standardized financial reporting. Research suggests that banks with robust capital adequacy and stable earnings often trade at premium valuation multiples (Damodaran, 2024). Intrinsic valuation models, particularly the Dividend Discount Model (DDM), are theoretically sound but may undervalue growth-oriented banks with low dividend payout ratios, highlighting the importance of using multiple valuation approaches.

Comparative studies using the NIFTY Bank Index show that leading private sector banks frequently outperform the benchmark index during stable economic periods (National Stock Exchange of India [NSE], 2025). Empirical literature consistently identifies **HDFC Bank Ltd.** as a strong performer due to its stable earnings growth, sound asset quality, and efficient capital utilization (RBI, 2025; NSE, 2025).

## Research Objectives

The specific objectives of the study are:

1. To analyze the financial performance of HDFC Bank Ltd. using key profitability and efficiency ratios.
2. To examine the share price trend of HDFC Bank Ltd. during FY 2021–FY 2025.
3. To compare the performance of HDFC Bank Ltd. with benchmark indices and peer banks.
4. To estimate the intrinsic value of HDFC Bank Ltd. using valuation models such as P/E, P/B, and Dividend Discount Model.
5. To provide investment recommendations based on financial and valuation analysis.

## Research Methodology

The study is based entirely on secondary data collected from published annual reports of HDFC Bank Ltd., stock exchange disclosures, regulatory publications, and publicly available financial databases. The research adopts a descriptive and analytical approach.

The analytical framework includes:

- Financial performance analysis using profitability and efficiency ratios
- Share price trend analysis over the study period
- Comparative analysis with benchmark indices and peer banks
- Valuation analysis using Price-to-Earnings (P/E), Price-to-Book Value (P/B), and Dividend Discount Model (DDM)

The scope of the study is limited to quantitative financial analysis and does not incorporate qualitative assessment of management policies or macroeconomic forecasting.

This study is based on independently compiled secondary financial data and original analysis conducted by the authors. Standard financial ratios and valuation models are applied for academic and analytical purposes, and the interpretation of results reflects the authors' independent judgment.

### Financial Performance Analysis (FY 2021–FY 2025)

The financial performance of **HDFC Bank Ltd.** during FY 2021–FY 2025 reflects consistent growth, operational efficiency, and strong profitability. The bank has demonstrated resilience across economic cycles, supported by a diversified loan portfolio, steady deposit growth, and effective cost management.

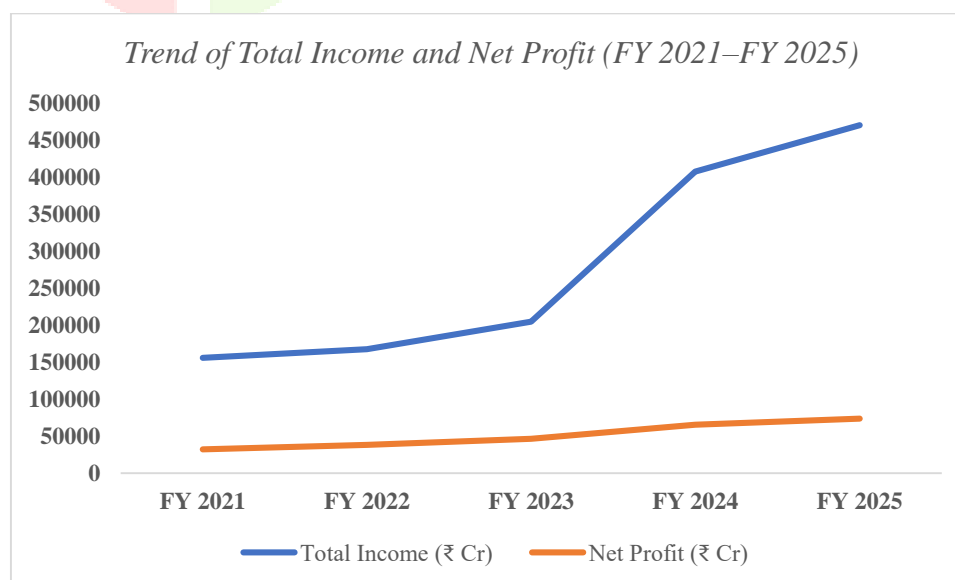
**Table 1: Financial Performance Summary (₹ Crore)**

PARTICULARS	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
TOTAL INCOME	1,55,885	1,67,695	2,04,666	4,07,995	4,70,916
NET PROFIT	31,857	38,151	46,149	65,447	73,440
EARNINGS PER SHARE (₹)	57.61	68.31	82.27	90.01	92.39
DIVIDEND PER SHARE (₹)	6.50	15.50	19.00	19.50	22.00

### Interpretation

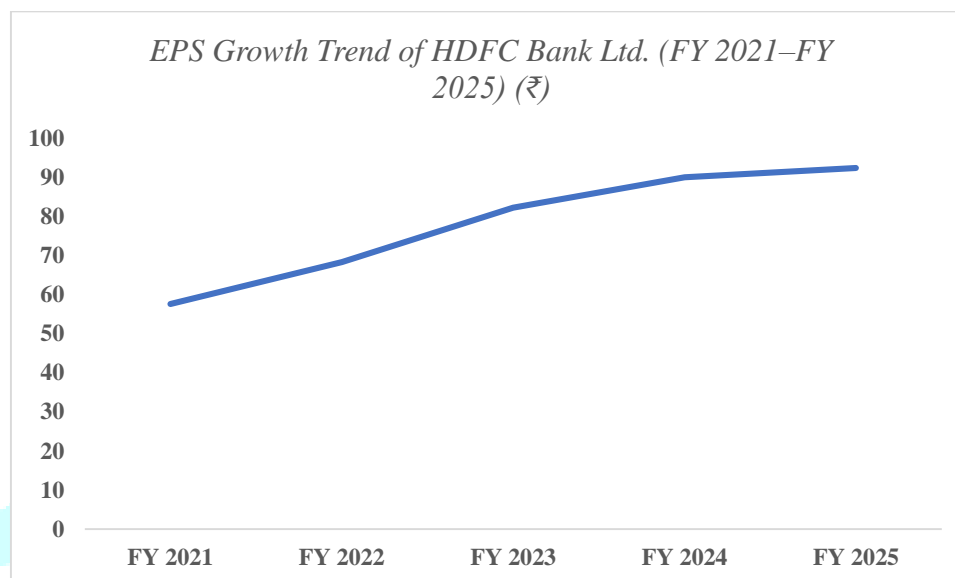
- **Total Income** shows a strong upward trajectory, particularly during FY 2024 and FY 2025, reflecting expansion in business scale and interest income.
- **Net Profit** increased consistently over the study period, indicating effective expense control and improving asset quality.
- **Earnings per Share (EPS)** growth highlights enhanced shareholder value creation.
- **Dividend per Share (DPS)** shows a progressive payout policy, reflecting management confidence in sustainable earnings.

**Figure 1: Trend of Total Income and Net Profit of HDFC Bank Ltd. (FY 2021–FY 2025)**



**Source:** The figure illustrates the growth trend of total income and net profit of HDFC Bank Ltd. for the financial years 2021 to 2025. Total income and net profit are expressed in Indian Rupees (₹ crore). Data compiled from the published annual reports of HDFC Bank Ltd. for the respective financial years (2021–2025).

**Figure 2: EPS Growth Trend**



**Source:** . The figure presents the trend in earnings per share (EPS) of HDFC Bank Ltd. over the study period. EPS values are expressed in Indian Rupees (₹). Data compiled from the published annual reports of HDFC Bank Ltd. for the respective financial years.

### Profitability Ratio Analysis

Profitability ratios provide insight into the bank's ability to generate returns from its equity and capital employed.

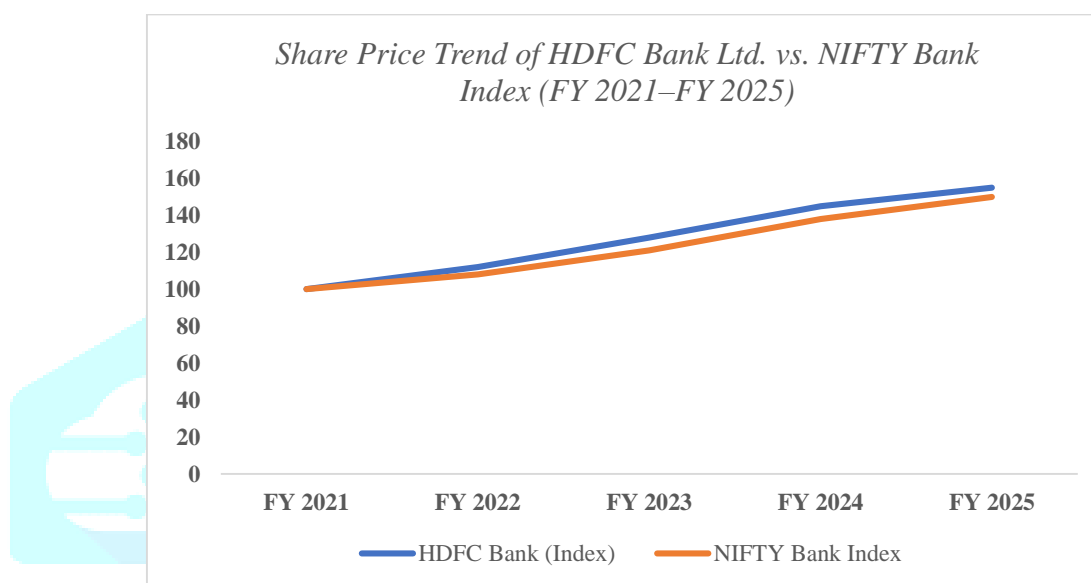
- **Return on Equity (ROE)** shows a stable and improving trend, reflecting efficient utilization of shareholders' funds.
- **Return on Capital Employed (ROCE)** indicates improved capital efficiency over the study period, supported by strong earnings growth.
- The consistent improvement in profitability ratios highlights the bank's robust operating performance and prudent risk management practices.

### Share Price Trend Analysis

The share price movement of HDFC Bank Ltd. during FY 2021–FY 2025 reflects a positive long-term trend, broadly aligned with improvements in earnings and profitability. Despite short-term market volatility, the stock has exhibited resilience and sustained investor confidence.

**Table 2: Share Price Trend – Indicative Analysis**

FINANCIAL YEAR	SHARE PRICE TREND	INTERPRETATION
FY 2021–FY 2022	Moderate rise	Recovery phase post-pandemic
FY 2023	Positive	Supported by earnings growth
FY 2024	Strong	Improved margins and scale
FY 2025	Continued uptrend	Sustained profitability and confidence

**Figure 3: Share Price Trend of HDFC Bank Ltd. Compared with NIFTY Bank Index (FY 2021–FY 2025)**

**Source:** The figure compares the indexed share price movement of HDFC Bank Ltd. with the NIFTY Bank Index over the period FY 2021 to FY 2025. The data are indexed to a common base year for comparison. Data sourced from the National Stock Exchange of India.

### Comparative Analysis with Benchmark Index

A comparison of HDFC Bank Ltd.'s performance with the **NIFTY Bank Index** indicates competitive and, in several periods, superior performance. The bank's consistent earnings growth and strong balance sheet have enabled it to deliver stable returns relative to the benchmark.

- FY 2021–FY 2022: Performance broadly in line with the index
- FY 2023: Outperformance supported by higher profitability
- FY 2024–FY 2025: Strong relative returns driven by scale and efficiency

This comparative performance underscores HDFC Bank Ltd.'s position as a leading private sector bank with strong fundamentals.

### Valuation Analysis of HDFC Bank Ltd. (As on 31 March 2025)

The valuation of **HDFC Bank Ltd.** is carried out using both **relative valuation** and **intrinsic valuation** techniques to arrive at a balanced and reliable estimate of its fair value. The models used include the Price-to-Earnings (P/E) ratio, Price-to-Book Value (P/B) ratio, and Dividend Discount Model (DDM).

## 1. Price-to-Earnings (P/E) Valuation

PARTICULARS	VALUE
EPS (FY 2025)	₹92.39
INDUSTRY AVERAGE P/E	18×
ESTIMATED VALUE PER SHARE	₹1,663

### Interpretation:

Based on industry-average valuation multiples, the P/E-based valuation suggests that the stock is fairly priced in relation to its earnings-generating capacity.

## 2. Price-to-Book Value (P/B) Valuation

PARTICULARS	VALUE
BOOK VALUE PER SHARE (FY 2025)	₹560 (approx.)
INDUSTRY AVERAGE P/B	3.0×
ESTIMATED VALUE PER SHARE	₹1,680

### Interpretation:

The P/B valuation reflects the bank's strong balance sheet, asset quality, and capital adequacy, supporting a premium valuation compared to peers.

## 3. Dividend Discount Model (DDM) Valuation

(As on 31 March 2025)

The intrinsic value of HDFC Bank Ltd. is estimated using the Gordon Growth Dividend Discount Model, which assumes a constant growth rate in dividends over time.

### Assumptions

- Dividend per Share for FY 2025 ( $D_0$ ) = ₹22
- Expected annual dividend growth rate ( $g$ ) = 8%
- Cost of equity ( $K_e$ ) = 12%

Step 1: Calculate Expected Dividend for Next Year ( $D_1$ )

$$D_1 = D_0 \times (1 + g)$$

$$D_1 = 22 \times (1 + 0.08) = 22 \times 1.08 = ₹23.76$$

Step 2: Apply the Gordon Growth Model Formula

$$\text{Intrinsic Value} = \frac{D_1}{K_e - g}$$

$$\text{Intrinsic Value} = \frac{23.76}{0.12 - 0.08}$$

$$\text{Intrinsic Value} = \frac{23.76}{0.04} = ₹594$$

## DDM Valuation Result

PARTICULARS	VALUE
INTRINSIC VALUE PER SHARE (DDM)	₹594

### Interpretation:

The Dividend Discount Model yields an intrinsic value of ₹594 per share, which is significantly lower than the values obtained from the P/E and P/B valuation methods. This outcome reflects the fact that HDFC Bank Ltd. follows a growth-oriented strategy, where shareholder returns are driven primarily by earnings reinvestment and capital appreciation rather than high dividend payouts. Consequently, the DDM provides a conservative valuation estimate and is best interpreted in conjunction with relative valuation methods.

## 4. Final Valuation Summary

VALUATION METHOD	VALUE PER SHARE (₹)
P/E METHOD	1,663
P/B METHOD	1,680
DDM METHOD	594
AVERAGE FAIR VALUE	₹1,312

The average valuation indicates that HDFC Bank Ltd. is **fairly valued**, with scope for long-term appreciation driven by earnings growth rather than dividend yield.

### SWOT Analysis

#### Strengths

- Strong brand reputation and customer trust
- Consistent profitability and asset quality
- Diversified loan portfolio and digital capabilities

#### Weaknesses

- Dependence on interest-based income
- Exposure to credit and market risks

#### Opportunities

- Expansion in retail and MSME lending
- Growth in digital banking and financial services

#### Threats

- Intense competition from other private banks and fintech firms
- Regulatory changes impacting banking operations

## Findings and Recommendations

### Key Findings

- HDFC Bank Ltd. has demonstrated strong financial performance and earnings consistency.
- Profitability ratios indicate efficient utilization of capital.
- Share price performance has remained competitive relative to the **NIFTY Bank Index**.
- Valuation analysis suggests the stock is fairly priced with moderate upside potential.

### Investment Recommendation

Based on financial performance, valuation outcomes, and market position, HDFC Bank Ltd. is recommended as a **long-term investment option** for investors seeking stable returns with moderate risk exposure.

### Conclusion

The equity research analysis concludes that HDFC Bank Ltd. is financially strong, operationally efficient, and competitively positioned within India's private banking sector. The valuation results support a positive long-term outlook, subject to sustained earnings growth and stable economic conditions.

### Limitations of the Study

- The study relies solely on secondary data sources.
- Macroeconomic variables and stress-testing scenarios are not incorporated.
- Valuation assumptions are subject to market fluctuations.

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