

A Case Analysis of HDFC Bank's Share Price Correction: Fundamental Weakness or Market Sentiment

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Abstract- This paper investigates the recent correction observed in the market price of HDFC Bank shares, with a view to establishing whether the decline is better explained by deterioration in the bank's underlying fundamentals or by shifts in investor sentiment surrounding specific corporate and regulatory events. Drawing on secondary data from HDFC Bank's annual reports, NSE price records, and RBI notifications, the study computes standard profitability and growth ratios — Return on Assets, Return on Equity, Net Profit Margin, Earnings Per Share, Loan Growth and Net Interest Margin — for the period FY2020 to FY2024, and combines this with an event-study analysis of six identified events between December 2021 and March 2026. Abnormal and cumulative average abnormal returns are computed using a mean-adjusted return model over a thirty-one-day event window. The results show that HDFC Bank's core financial indicators remained healthy and broadly improving over the study period, while short-term price movements around specific events were more strongly associated with investor perception than with any deterioration in fundamentals. Cumulative abnormal returns are found to correlate strongly with Return on Equity ($r = 0.85$) and Return on Assets ($r = 0.77$), but only weakly with Earnings Per Share ($r = 0.04$). The study concludes that the price correction reflects a combination of both forces, with sentiment dominating in the short run and fundamentals reasserting themselves over the longer term.

Keywords: HDFC Bank, Share Price Correction, Financial Fundamentals, Market Sentiment, Event Study, Abnormal Returns, Banking Sector, India.

I. INTRODUCTION

The Indian Banking Industry

Banking occupies a central place in any modern economy by channelling household savings into productive investment, extending credit to

individuals and enterprises, and supporting the implementation of monetary policy. The Indian banking system comprises public sector banks, private sector banks, foreign banks, regional rural banks, small finance banks and cooperative banks, each serving a distinct segment of the credit market. Over the past three decades the sector has been reshaped by three broad forces: the liberalisation of banking licences after 1991, which allowed private players such as HDFC Bank to enter and compete on service quality and technology; the spread of digital channels, including internet banking, mobile applications and UPI, which has widened access and lowered transaction costs; and a series of financial-inclusion initiatives, notably the Pradhan Mantri Jan Dhan Yojana and the broader Digital India programme, aimed at bringing unbanked populations into the formal financial system. Emerging technologies such as artificial intelligence, data analytics and blockchain are increasingly being layered onto this base, and the sector is widely expected to continue expanding in step with the broader economy.

The origins of banking as an institution long precede the modern Indian banking system, with early deposit-and-lending practices recorded in Mesopotamia, Greece and Rome, and later formalised in Renaissance Italy through the merchant banks of Florence and Venice. In the Indian context, references to deposit-taking and lending appear as far back as Kautilya's writings, while the first commercial bank, the Bank of Hindustan, was established in 1770. The Presidency Banks of Bengal, Bombay and Madras followed under British administration. Post-independence, the nationalisation of banks in 1969 and 1980 extended

formal banking to rural and underserved areas, and the 1991 liberalisation reforms subsequently opened the door to a new generation of private banks, of which HDFC Bank is among the most prominent.

Company Profile: HDFC Bank

HDFC Bank was promoted by Housing Development Finance Corporation Limited (HDFC Ltd.) and commenced operations in January 1995, shortly after its incorporation in August 1994, taking advantage of the Reserve Bank of India's liberalised licensing regime for private banks. Headquartered in Mumbai, the bank offers a broad suite of retail and corporate banking products, including savings and current accounts, fixed and recurring deposits, personal, home, vehicle, gold and business loans, credit and debit cards, NRI banking, and internet and mobile banking services. Following the 2023 merger of HDFC Ltd. with HDFC Bank, the combined entity became a widely held public company, with ownership spread across domestic and foreign institutional investors, retail shareholders and other stakeholders. The bank has built an extensive branch and ATM network that supports its stated ambition of combining scale with digital convenience.

SWOT Summary

Strengths: an established brand built on customer trust; consistent profitability and a sound capital base; a customer-friendly digital banking platform; and a wide branch and ATM network across India.

Weaknesses: integration challenges arising from the HDFC Ltd. merger; a large loan book that can constrain liquidity; heavy dependence on the domestic Indian market; and rising technology and branch-expansion costs.

Opportunities: the continuing shift toward digital payments; expansion into semi-urban and rural markets; cross-selling of investment and insurance products; and operational efficiencies expected to follow from the merger.

Threats: intense competition from other banks and non-bank financial companies; exposure to regulatory change; cybersecurity risk associated with growing reliance on technology; and vulnerability to broader

economic slowdowns that could affect borrowers' repayment capacity.

II. THEORETICAL BACKGROUND AND LITERATURE REVIEW

Share prices in the securities market are conventionally understood to reflect two broad sets of influences: the fundamental performance of the underlying company, captured through indicators such as Return on Equity, Return on Assets, Earnings Per Share and the Price-to-Earnings ratio; and the collective sentiment of market participants, shaped by news flow, analyst commentary, macroeconomic conditions and the behaviour of large institutional investors. For banks specifically, share price is additionally sensitive to profitability, loan and deposit growth, asset quality, and regulatory developments. This study is positioned within that dual framework, seeking to disentangle the fundamental and sentiment-driven components of HDFC Bank's recent price correction.

A number of prior studies inform this framing. Gupta (2015) linked bank profitability and asset quality to investor decision-making and stock performance. Rao and Kumar (2016) found profitability and earnings-per-share to be significant determinants of bank stock valuations. Mehta (2017) showed that investor expectations can drive short-term price movements independent of underlying performance. Verma (2018) traced the influence of macroeconomic variables such as interest rates and inflation on bank stock behaviour. Joseph (2019) associated technology adoption with improved bank profitability and customer satisfaction. Kumar and Reddy (2020) documented heightened volatility in bank stocks during the COVID-19 pandemic, attributing it to sentiment-driven uncertainty. Kundu (2021) demonstrated that public perception can move share prices even where core performance is largely unchanged. Saha (2022) linked the volatility of Indian bank stocks to policy actions, macroeconomic conditions and sector-wide developments. Chandak (2023) used sentiment indicators alongside historical performance to explain banking-stock behaviour. Joseph et al. (2024) concluded that macroeconomic factors and bank-specific performance jointly

determine stock returns. Taken together, this body of work supports the premise that both fundamentals and sentiment plausibly contributed to HDFC Bank's price correction, and that an event-study approach combined with ratio analysis is well suited to separating the two.

III. RESEARCH METHODOLOGY

Statement of the Problem

The Indian banking sector has undergone substantial change through liberalisation, digital transformation and consolidation. Against this backdrop, HDFC Bank's share price has shown marked fluctuation, particularly following its merger with HDFC Ltd., and more recently entered a correction phase. This raises the question of whether the decline reflects weakening fundamentals or a temporary shift in market sentiment — the question this study sets out to answer.

Objectives

- To examine HDFC Bank's financial performance over FY2020–FY2024 using key financial ratios.
- To trace the bank's share price movement and identify the principal correction periods.
- To determine whether the observed price decline is attributable to fundamental factors, market sentiment, or both.

Need for the Study

- To understand the drivers of fluctuation in banking-sector share prices.
- To assess the extent to which fundamental performance explains share price movement.
- To evaluate the role of investor sentiment in short-term stock behaviour.
- To assist investors and researchers in interpreting whether HDFC Bank's correction is temporary or structural.

Sampling Design and Data Sources

The study is centred on HDFC Bank as a single sample unit, drawing on secondary data only; no primary survey was conducted. Data sources include HDFC Bank's published annual reports (FY2020–FY2024), historical daily closing prices from the NSE and BSE, financial-data aggregators such as

Moneycontrol and Screener, RBI notifications, and published research articles and financial press coverage.

Tools and Limitations

Financial ratios and the event-study computations were carried out using MS Excel, with MS Word used for reporting. The study is limited by its reliance on secondary data, its confinement to the financial years for which data was available, the inherently fast-changing nature of market conditions, and the difficulty of quantifying investor psychology with precision. The analysis is also confined to HDFC Bank rather than a peer-group comparison.

Event-Study Framework

To isolate the sentiment component of price movement, six corporate and regulatory events were identified as plausible drivers of abnormal returns: the imposition of RBI restrictions on digital card issuance (December 2021), the subsequent lifting of those restrictions (August 2022), pre-merger book preparation (April 2023), the structural integration of HDFC Ltd. into HDFC Bank (July 2023), the disclosure of adverse structural metrics (January 2024), and a governance-related concern (March 2026). For each event, a thirty-one trading-day window was defined, spanning fifteen days before to fifteen days after the event date (day 0). Daily returns were computed as $R_t = (P_t - P_{t-1}) / P_{t-1}$. Expected returns were estimated using a mean-adjusted return model, $E(R_t) = \text{mean return over the estimation window}$, with abnormal return calculated as $AR_t = R_t - E(R_t)$. Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) were then aggregated across events for each relative day.

IV. DATA ANALYSIS AND
INTERPRETATION

Balance Sheet, FY2020–FY2024 (₹ Crore)

Capital & laibilities	FY 2020	FY2021	FY2022	FY2023	FY2024
Capital & laibilities	548.33	551.28	554.55	557.97	759.27
Reserve & Surplus	1,70,502.29	2,03,169.53	2,39,538.43	2,79,641.05	4,37,422.01
Deposites	11,47,502.29	13,35,060.20	15,59,217.44	18,83,394.64	23,79,786.27
Borrowings	1,44,628.54	1,35,482.20	1,84,817.21	2,06,765.61	6,28,934.39
Other Liabilities & Provisions	67,394.10	72,602.16	84,407.45	95,721.49	1,68,778.69
TOTAL LIABILITIES	15,30,511.20	17,46,864.71	20,68,535.08	24,66,081.04	36,15,680.78
ASSETS					
Cash & Bank balance	72,205.12	97,340.52	1,29,995.62	1,43,155.85	1,68,643.51
Balance with banks & money at call	14,413.56	22,130.31	22,331.05	50,652.12	34,745.89
Investments	3,91,826.66	4,43,728.29	4,55,535.69	5,17,001.99	9,14,641.87
Advances	9,93,702.88	11,32,836.63	13,68,820.94	16,00,585.94	24,84,874.19
Fixed Assets	4,431.92	4,909.32	6,076.38	8,016.54	11,353.47
Other Asstes	53,931.06	45,919.64	85,775.40	1,46,668.60	2,01,421.77
TOTAL ASSETS	15,30,511.20	17,46,864.71	20,68,535.08	24,66,081.04	36,15,680.70

Profit and Loss Account, FY2020–FY2024 (₹ Crore)

Particulars	FY2020	FY2021	FY2022	FY2023	FY2024
RECEIPTS					
Interest Earned	1,14,807.65	1,20,858.23	1,27,653.44	1,61,585.91	2,50,810.03
Other Income	23,260.05	25,204.88	29,509.91	31,214.80	39,267.43
TOTAL INCOME (A)	1,38,060.05	1,46,063.11	1,57,163.35	1,92,800.71	2,90,077.46
PAYMENTS					
Interest expended	58,626.24	55,959.88	55,643.04	74,743.06	1,42,303.40
Operating expenses	30,698.41	32,722.61	37,442.23	47,652.15	68,524.41
Provisions &Contigencies	22,161.26	15,702.85	15,061.83	11,919.66	13,382.88
Taxes	10,347.41	10,542.44	12,054.56	14,374.72	5,110.12
TOTAL EXPENDITURE(B)	1,21,833.05	1,14,927.78	1,20,201.66	1,48,689.59	2,29,320.81
Net Profit	16,235.65	31,135.33	36,961.69	44,111.12	60,756.65

Ratio Analysis

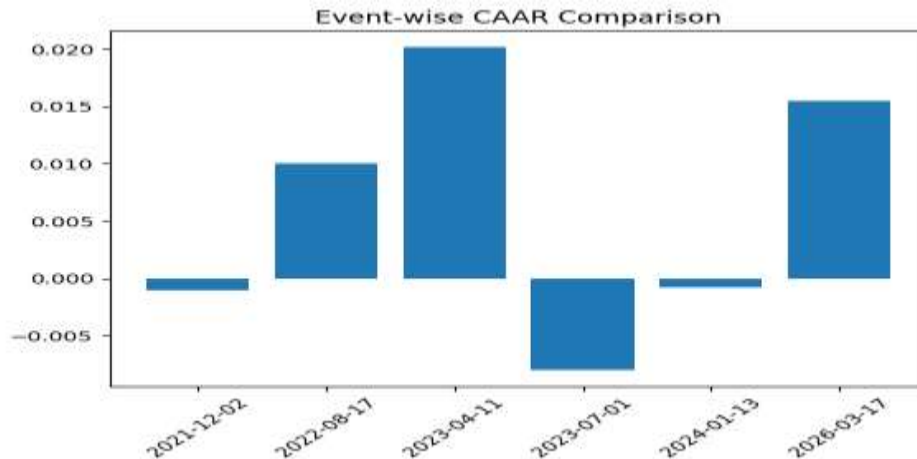
Particulars	FY2020	FY2021	FY2022	FY2023	FY2024
1.Profitability Ratio					
a.Return on Assets	1.06079916	1.782354971	1.78685343	1.788713318	1.68036547
b.Return on Equity	9.49172239	15.28333311	15.39474	15.74278168	13.8656425
c.Net Profit Margin	11.7598465	21.31635428	23.5180085	22.87912736	20.9449745
d.EPS	29.6092681	56.47825062	66.6516815	79.05643673	80.0198217
2.Growth Indicators					
a.Loan Growth	---	14.00154441	20.8312747	16.9317252	55.2477832
b.Net Interest Margin	3.67076112	3.715133154	3.48122692	3.52149214	3.00100144

Return on Assets rose from 1.06% in FY2020 to a peak of 1.79% in FY2023, before easing slightly to 1.68% in FY2024 — a level that still indicates efficient asset utilisation. Return on Equity followed a similar trajectory, improving from 9.49% to 15.74% before moderating to 13.87%, suggesting continued, if slightly reduced, efficiency in deploying shareholder capital. Net Profit Margin expanded from 11.76% in FY2020 to above 20% in every subsequent year, reflecting sustained cost discipline. Earnings

Per Share rose consistently across the period, from ₹29.61 to ₹80.02, indicating steady value creation for shareholders. Loan growth accelerated sharply to 55.25% in FY2024, largely a function of the HDFC Ltd. merger enlarging the loan book, while the Net Interest Margin held in a relatively narrow 3.0%–3.7% band, indicating stable core lending profitability despite the change in balance-sheet composition.

Event CAAR Comparison

Event Date	Event Name	CAAR
2021-12-02	RBI digital card restrictions.	-0.001065739
2022-08-17	RBI restrictions lifted.	0.010017287
2023-04-11	Pre-merger book preparation.	0.020160308
2023-07-01	Structural integration of HDFC Ltd.	-0.00800245
2024-01-13	Negative structural metrics.	-0.000823733
2026-03-17	Governance concern.	0.015490798



Integration of Event Study Results with Financial Performance Indicator

Event Date	CAAR	Year	FY	ROA	ROE	NPM	EPS	Loan Growth	NIM
02-12-2021	-0.092413346	2021	FY2021	1.78	15.28	21.31	56.47	14	3.71
17-08-2022	0.065113814	2022	FY2022	1.78	15.39	23.51	66.65	20.83	3.48
11-04-2023	0.105786012	2023	FY2023	1.78	15.74	22.87	79.05	16.93	3.52
01-07-2023	0.033597059	2023	FY2023	1.78	15.74	22.87	79.05	16.93	3.52
13-01-2024	-0.140696879	2024	FY2024	1.68	13.86	20.94	80.01	55.24	3
17-03-2026	-0.118662566	2026	FY2024	1.68	13.86	20.94	80.01	55.24	3

Correlation Analysis between Cumulative Abnormal Returns (CAAR) and Financial Performance Indicators

	CAAR	ROE	ROA	EPS
CAAR	1	0.847993	0.773929	0.042301
ROE	0.847993	1	0.978078	-0.32302
ROA	0.773929	0.978078	1	-0.50975
EPS	0.042301	-0.32302	-0.50975	1

The results indicate that event-driven market reactions are strongly linked with profitability measures such as ROE and ROA, while EPS shows limited.

sharp negative reaction in the days immediately following the event before a partial recovery — consistent with an initial sentiment-driven overreaction that was subsequently corrected.

V. EVENT-STUDY RESULTS

Table 4 summarises the Cumulative Average Abnormal Return (CAAR) associated with each of the six identified events. Positive CAAR values indicate that the market's cumulative reaction to the event was, on balance, favourable relative to the model's expected return; negative values indicate an unfavourable reaction.

The lifting of RBI's digital-card restrictions and the pre-merger book-preparation period were both associated with positive cumulative abnormal returns (0.0100 and 0.0202 respectively), consistent with a favourable market reading of regulatory easing and merger progress. By contrast, the structural integration of HDFC Ltd. into HDFC Bank in July 2023 and the imposition of the original RBI restrictions in December 2021 were both associated with negative CAAR, suggesting the market priced in integration and compliance uncertainty ahead of confirmation. The governance-related concern of March 2026 shows a positive CAAR over the thirty-one-day window as a whole, although the underlying daily series (not reproduced in full here) shows a

VI. RELATIONSHIP BETWEEN MARKET REACTION AND FUNDAMENTALS

To test whether abnormal returns track the bank's underlying financial performance, event-level CAAR figures were correlated against ROE, ROA and EPS for the corresponding financial year.

CAAR is strongly correlated with ROE ($r = 0.848$) and ROA ($r = 0.774$), indicating that periods of stronger profitability and asset efficiency tend to coincide with more favourable cumulative market reactions to specific events. The correlation with EPS is weak ($r = 0.042$), and ROE and ROA are themselves very highly correlated with each other ($r = 0.978$), suggesting that investors' event-driven reactions track broad profitability measures more closely than they track per-share earnings growth in isolation. This pattern is consistent with the view that short-term price reactions are shaped jointly by sentiment around specific triggers and by the market's underlying read of the bank's profitability, while EPS growth — which was continuous and monotonic throughout the period — carried comparatively little independent signal for short-window market reactions.

VII. OBSERVATIONS WITH THE STUDY

- HDFC Bank's core financial performance remained healthy and broadly improving over FY2020–FY2024, with rising profitability, a growing loan book and a stable net interest margin.
- Profitability and efficiency ratios — ROA, ROE, EPS, loan growth and NIM — collectively point to a fundamentally sound institution over the period studied.
- Share price volatility was closely associated with identifiable corporate and regulatory events rather than occurring at random.
- Regulatory actions and merger-related developments had a measurable, sometimes negative, short-term effect on cumulative abnormal returns, even where the bank's underlying fundamentals were stable or improving.
- Cumulative abnormal returns correlate strongly with ROE and ROA but weakly with EPS, indicating investors respond more to broad profitability signals than to per-share earnings in the short window around specific events.
- Overall, sentiment appears to dominate short-term price behaviour, while fundamentals appear to reassert themselves over longer horizons.

VIII. CONCLUSION

This study set out to determine whether HDFC Bank's recent share price correction reflects a genuine weakening of fundamentals or a shift in market sentiment. The evidence points to the latter as the dominant short-term driver: financial ratios throughout FY2020–FY2024 indicate a bank that remained profitable, well-capitalised and operationally sound, even as its share price reacted sharply — and at times negatively — around specific regulatory and merger-related events. The event-study results show that these reactions were often disproportionate to any change in underlying fundamentals, particularly around the 2024 disclosure of adverse structural metrics and the 2026 governance concern, both of which triggered marked short-term price movements later followed by partial recovery. The overall conclusion is that the correction

in HDFC Bank's share price is best understood as a combination of both forces — investor sentiment dominating in the short run, with the bank's underlying financial strength providing support and a basis for recovery over the longer term.

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