

Active MFs reduce bets to multi-year low as HDFC Bank shares slide

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HDFC Bank's sharp share-price decline has reshaped its position in the mutual fund industry, with its share in active schemes declining to multi-year lows, even as overall MF ownership continues to rise.

The bank, which until recently had the largest mutual fund holding, now accounts for a comparatively small share of largecap-oriented funds. Its stock has fallen 25 per cent over the past year, even as the Nifty Bank index has risen 7 per cent over the same period. The decline led HDFC Bank to cede its position as the largest MF holding to ICICI Bank in July, ending its three-year stay at the top.

The retreat by active fund managers comes as the bank faces a combination of weak stock performance, soft margins, governance concerns and weeks of uncertainty over the continuation of Sashidhar Jagdishan as its managing director (MD) and chief executive officer (CEO). Jagdishan announced on Saturday that he would step down after his current tenure ends on October 26.

Market experts anticipate the stock could face further volatility till the announcement of his successor.

Most active funds are currently underweight on HDFC Bank relative to their respective benchmarks, despite the sharp decline in its valuation. As of July 2026, only 22 per cent of largecap schemes had a higher exposure to the bank than its 8.4 per cent weight in the Nifty 100. In the case of flexicap and large & midcap funds, the share of overweight schemes stood at 32 per cent and 36 per cent, respectively.

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Of the 321 diversified funds observed by Business Standard over the period between July 2025 and July 2026, 259 funds reduced their holding of HDFC Bank as a percentage of their net assets under management (AUM), while 57 increased their exposure. For ICICI Bank, 154 funds reduced their holdings over the same period, while 161 increased them.

Active largecap funds had an average exposure of 7.2 per cent to HDFC Bank in July 2026, compared with 9 per cent in July 2025. A similar trend has played out in the largest active fund category -- flexicap funds. Their average holding of 4.9 per cent last month was around 30 per cent lower than the 7.2 per cent level seen in July 2025, according to data from Prime Database.

Between July 2025 and July 2026, ICICI Prudential Multi Asset Fund increased its holding in the bank from 2.37 per cent to 5.97 per cent, Edelweiss Multi Asset Fund from 0.88 per cent to 4.9 per cent, and DSP Large & Mid Cap Fund from 4.75 per cent to 8 per cent. On the other hand, SBI Dividend Yield reduced its holding from 9.75 per cent to nil, LIC Balanced Fund from 7.61 per cent to nil, and Axis Quant Fund from 10.21 per cent to 3.07 per cent.

The average exposure across all diversified schemes has fallen from 6 per cent in July 2025 to 4.8 per cent in July 2026.

Yet overall MF ownership in HDFC Bank has continued to surge, with the collective stake of MFs in the lender surpassing 30 per cent for the first time in June 2026. The divergence suggests that while active managers have been reducing their positions, MFs as a whole have remained net buyers, likely supported by strong inflows into passive funds such as index funds.

The steep share-price correction has brought HDFC Bank's valuation to a multi-year low. The stock is now available at a price-to-book value (P/BV) of 1.8 times, a discount to some of its private bank peers though at a marginal premium to government-owned State Bank of India, which now trades at 1.6 times P/BV.

Two of the largest flexicap schemes, known for their value-investing approach, are currently among the small subset of active schemes that are overweight on the stock. Parag Parikh Flexicap and HDFC Flexicap, which manage funds worth more than ~1 trillion each, had exposure of 7.6 per cent and 6.1 per cent, respectively, in July 2026, compared with the Nifty 500's weight of 5.7 per cent.

Rajeev Thakkar, chief investment officer-equity and director at PPFAS Mutual Fund, recently defended his "overweight" stance on the stock. "Some time back there was heat on us for owning ICICI Bank around the time of the ouster of the previous CEO. Now there is heat on us for owning HDFC Bank. These are institutions with close Reserve Bank of India's oversight, diversified ownership, and robust governance mechanisms. The issues reported so far in HDFC Bank, while not desirable, do not appear to be materially threatening to the franchise or the customer base. Overall, there is no change to the outlook for the basket of the four private sector banks that we own," he said in the fund house's July 2026 newsletter.

HDFC Bank, which has remained under pressure since its merger with HDFC Limited in 2023, has had an especially tough time in 2026, with the stock down 27 per cent this year, making it one of the worst-performing largecap stocks.

A series of concerns have weighed on the stock: From weak margins and deposit mobilisation to governance questions following the abrupt resignation of part-time chairman Atanu Chakraborty this March. A subsequent review of a deposit arrangement with MSRDC (Maharashtra State Road Development Corporation) added to the concerns.

The latest is a proposed securities class-action lawsuit filed by an investor in the US, which alleges that HDFC Bank made false or misleading statements and failed to disclose vital business details, causing financial losses for investors. HDFC Bank has denied these allegations.

The bank has also faced continued foreign portfolio investor (FPI) selling and a lack of meaningful improvement in earnings. Foreign investor ownership has fallen from 60.4 per cent in July 2023 to 49.9 per cent in June 2026, a decline of more than 10 percentage points.

"HDFC Bank has suffered from two fundamental problems in the last three years. One is slower loan

growth, resulting in declining market share to other private and public-sector banks. Second, the change in the rate cycle has hit private banks, more so HDFC Bank. In the absence of the tailwind of FII buying in financials, it has lost more value,” said Manish Bhandari, CEO and portfolio manager at Vallum Capital.

The company reported a 5 per cent year-on-year rise in net profit in the first quarter of 2026-27, while its net interest margin, at 3.26 per cent, remained below the pre-merger level of 4 per cent.

The sharp fall in its stock price has also hurt its weighting in key indices. HDFC Bank now accounts for a little over 10 per cent of the Nifty 50, compared with around 14 per cent at the end of July 2025. In the Nifty Bank, its weighting has fallen from 30 per cent to 18 per cent.