

HDFC Bank is winning the mutual fund vote over ICICI Bank. Can the shift last?

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HDFC Bank's stock has fallen 27% in 2026, making it one of the worst performers on the Nifty, while [ICICI Bank](#) has gained 1.6%. Yet mutual funds appear to be moving in the opposite direction, adding to [HDFC Bank](#) and reducing exposure to ICICI Bank.

The divergence is turning India's largest private-sector [banking stocks](#) into a fresh test of whether domestic investors are positioning for a recovery in HDFC Bank or simply buying a cheaper stock while trimming one that has already outperformed.

Mutual funds bought both banks in May, but their preference subsequently shifted towards HDFC Bank. In the months that followed, HDFC Bank continued to see net buying, while ICICI Bank recorded net selling. The data does not establish a direct one-for-one switch between the two stocks, but it does point to a broader change in preference.

By the end of August, ICICI Bank remained the larger mutual-fund holding by value at Rs 3,03,418 crore, compared with Rs 2,85,394 crore for HDFC Bank. ICICI Bank accounted for 5.27% of equity assets under management, against 4.96% for HDFC Bank, according to data from Prime Database.

That makes the recent flow pattern more significant. HDFC Bank is attracting incremental support despite its steep decline, even as ICICI Bank retains a larger overall position in fund portfolios.

The shift is also taking place as investors await clarity on HDFC Bank's next phase of leadership and growth. Nomura said the stock could remain under pressure in the near term until there is clarity on the next chief executive officer and the mandate.

"In short, one overhang closes, and the market now waits to see who leads HDFC Bank into its next phase," Nomura said.

The succession question is central to the investment case. According to Nomura, the next CEO will need to accelerate growth, improve deposit mobilisation and returns, extract synergies from the HDFC merger, and rebuild confidence around governance and senior-management stability.

Jefferies also identifies leadership clarity and improving business momentum as potential catalysts. The brokerage estimates HDFC Bank trades at 1.5 times FY27 adjusted book value, about 30% below ICICI Bank's valuation, around 15% below Kotak Mahindra Bank, in line with Axis Bank and at a roughly 15% premium to State Bank of India.

"We feel clarity here and improved business momentum may aid broader rerating as well," Jefferies

said.

The valuation gap is giving mutual funds a reason to look past HDFC Bank's recent underperformance. Jefferies' investment thesis rests on the bank's strong retail asset portfolio, an improving deposit franchise, branch expansion and potential synergies from the merger with HDFC Limited.

The merger could create opportunities to cross-sell products and improve service and operational efficiency, according to Jefferies. However, the brokerage also flags risks from friction in integrating teams and information technology systems, as well as a slower ramp-up in deposits and priority sector loans.

Kotak Institutional Equities takes a similar view on valuation. It said HDFC Bank trades at "more or less ex-growth multiples" despite delivering a 10% earnings-per-share compound annual growth rate over fiscal 2024 to fiscal 2026. The brokerage expects a 12% EPS CAGR over fiscal 2026 to fiscal 2029 and return on equity of 14.2% over the same period.

Kotak's assessment is notable because HDFC Bank has delivered that performance despite external pressures, including net interest margin pressure from aggressive competition from state-owned banks and non-bank lenders, as well as Reserve Bank of India rate cuts through fiscal 2026. The bank has also faced internal challenges related to changes in its board and management.

For investors, the question is whether HDFC Bank's underperformance has created a valuation opportunity or reflects unresolved operational and leadership concerns. Mutual-fund buying suggests some investors are willing to position ahead of greater clarity. But Nomura's assessment indicates that the market may continue to wait for evidence that the bank can improve growth, deposits, returns and management stability.

ICICI Bank, meanwhile, has delivered stronger stock market performance in 2026 and continues to command the larger mutual-fund holding. The recent selling does not erase that lead. It does, however, suggest that the bank may no longer offer the same combination of relative valuation appeal and recovery potential that HDFC Bank now presents.

Jefferies has a target price of Rs 880 for HDFC Bank, while Nomura's target remains Rs 950. Those targets underline the potential upside analysts see if leadership clarity and business momentum improve, but they also leave the stock's re-rating dependent on execution.

The emerging market signal is therefore less about abandoning ICICI Bank and more about increasing exposure to a laggard with a potential catalyst. HDFC Bank is winning the marginal mutual-fund vote. Whether it can convert that vote into a durable stock-market comeback will depend on who takes charge and how quickly the bank can turn its valuation discount into improved growth and returns.