CREDIT SUISSE

Equity Research Asia Pacific

Housing Development Finance Corp.

HDFC.BO / HDFC IN

INITIATION

At home

We expect HDFC to continue its steady performance in the mortgages business, even as it leverages off it expertise with a foray into real estate private equity, which has significant long-term potential. A tightening liquidity environment, however, could pose some risks to spreads. We initiate coverage of HDFC with a NEUTRAL rating and Rs1,491 target price.

- **Low-risk proxy for real estate.** We believe HDFC represents everything that is positive about the Indian real estate sector – a strong track record of growth, profitability and quality. It has achieved a robust 30% CAGR in mortgage disbursements over the past 10-12 years. Home-loan rates have risen recently, but we believe that growth should continue to be strong, although at a modestly lower rate of 25% over the next two to three years. HDFC also has a strong track record in corporate real estate lending (30% of its portfolio) – with strong growth ahead likely in the real estate sector, we expect this segment also to continue growing and become more profitable, as we believe spreads have improved. HDFC is also leveraging off its expertise in private equity in real estate – although still only nascent, we believe is potential to generate significant value over the long term.
- **Can HDFC's spreads decline?** Interest spreads (ex. FCCB) on loans have declined in the past three to four quarters, as rates have gone up and liquidity tightened relative to the past – and HDFC's predominantly wholesale cost funding has suffered. Although long-term interest rates have declined in the past six months, and HDFC's deposit franchise is kicking in again, we believe there is a risk of spread contraction. We believe asset growth opportunities are significantly in excess of liability growth, resulting in greater pricing power with banks, and that liquidity is getting tighter, although it is adequate now.
- **Initiating with NEUTRAL.** We value HDFC on sum-of-the-parts analysis, as the value is increasingly diversifying outside of the core business. We value the core mortgage business at 3.75x FY3/08E BV (book value), or Rs861, at an estimated ROE of 21-22% (factoring in FCCB conversion) for this business in FY3/08E. We also value the investment in HDFC Bank at Rs285/share (current market price), and subsidiaries and other investments at Rs345/share. Our fair value, and target price is Rs1,491, implying potential downside of 5%.

HDFC provides long-term housing loans to low- and middle-income individuals and corporations, construction finance to real estate developers, and lease financing to companies and development authorities.

Research team

Aditya Singhania
Research Analyst
9122 6777 3718
aditya.singhania@credit-suisse.com

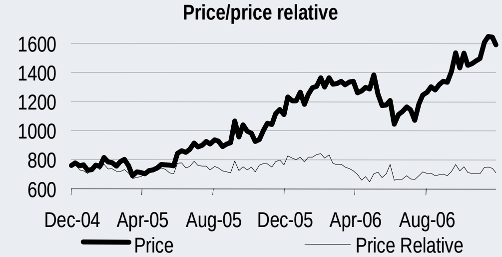
Sanjay Jain
Research Analyst
65 6212 3017
sanjay.jain@credit-suisse.com

Anand Swaminathan
Research Analyst
65 6212 3012
anand.swaminathan@credit-suisse.com

Rating	**NEUTRAL***
Price (07 Dec 06)	**1,589.50 (Rs)**
Target price (12 months)	**1,491.00 (Rs)**
Market cap (Rs mn)	**396,961.73 (US$8,926.60)**
Enterprise value (Rs mn)	**396,961.73**
52-wk price range	**1665.10-997.10**
Region/Country	**Asia Pacific/India**
Sector	**Regional Banks**
Date	**8 December 2006**

** Stock ratings are relative to the relevant country index.*

Price/price relative



The price relative chart measures performance against the BOMBAY SE 30 SHARE SENSITIVE index
On 07/12/06 the BOMBAY SE 30 SHARE SENSITIVE index closed at 13972.03
On 07/12/06 the spot exchange rate was Rs44.47/US$1

Performance over	1M	3M	12M
Absolute (%)	**1.9**	**17.5**	**41.9**
Relative (%)	**-4.0**	**-0.3**	**-9.7**

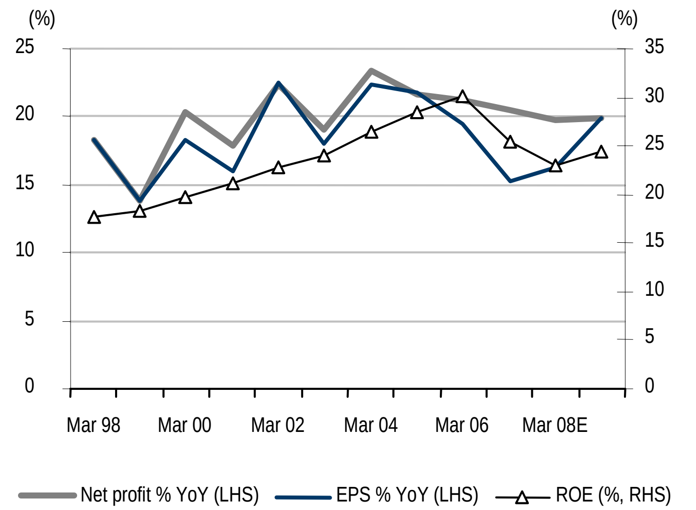
Year	3/06A	3/07E	3/08E	3/09E
Pre-prov. profit (Rs mn)	**15,723.0**	**19,149.4**	**22,955.1**	**27,541.6**
Pre-tax profit (Rs mn)	**15,573.0**	**18,945.5**	**22,698.7**	**27,221.1**
Net attrib. profit (Rs mn)	**12,573.0**	**15,156.4**	**18,159.0**	**21,776.9**
EPS (CS adj., Rs)	**49.56**	**57.13**	**66.46**	**79.71**
CS adj. BVPS (Rs)	**179.05**	**280.28**	**315.08**	**356.30**
ROE (%)	**30.11**	**25.46**	**22.99**	**24.44**
P/E (adj., x)	**32.1**	**27.8**	**23.9**	**19.9**
P/B (x)	**8.88**	**5.67**	**5.04**	**4.46**

Dividend (3/07E, Rs)	**24.00**	Free float (%)	**100.00**
Dividend yield (3/07E, %)	**1.51**	Number of shares (mn)	**249.74**
LTD ratio (3/07E, %)	**—**	Total capital ratio (3/07E, %)	**13.81**
Cost/income (3/07E, %)	**15.14**	Tier 1 ratio (3/07E, %)	**11.03**
Net interest margin (3/07E, %)	**2.78**	Reserves/NPL (3/07E, %)	**82.16**
ROA (3/07E, %)	**2.53**	NPL/gross loans (3/07E, %)	**0.89**

Source: Company data, Thomson Financial Datastream, Credit Suisse estimates

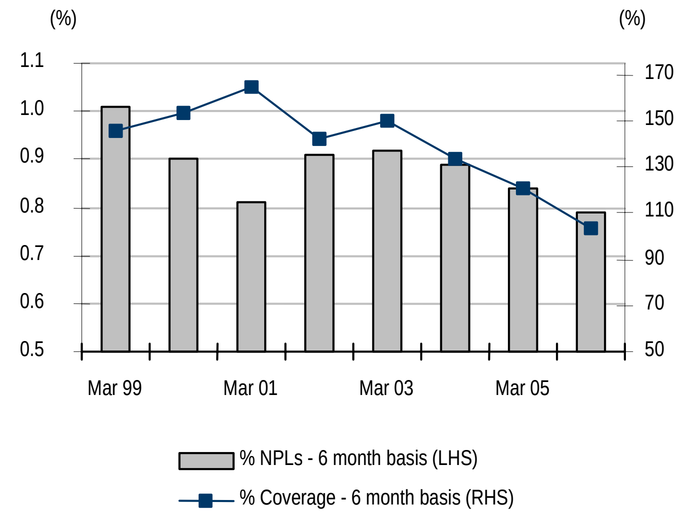
Focus charts and table

Figure 1: **Great track record of growth and profitability**



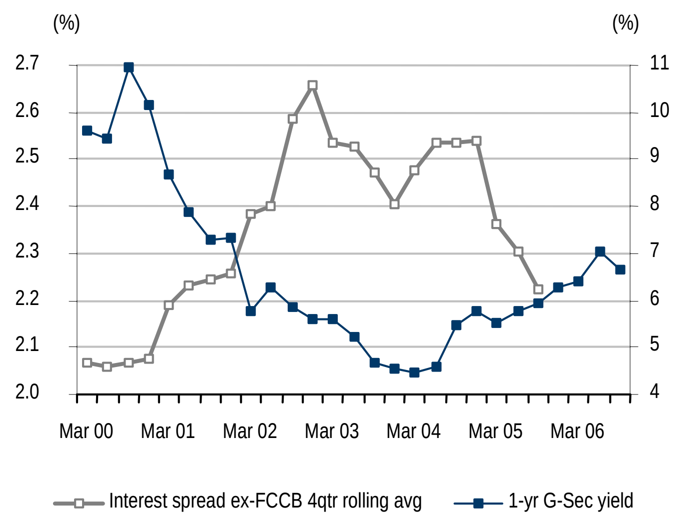
Source: Company data, Credit Suisse estimates

Figure 2: **Asset quality continues to be robust**



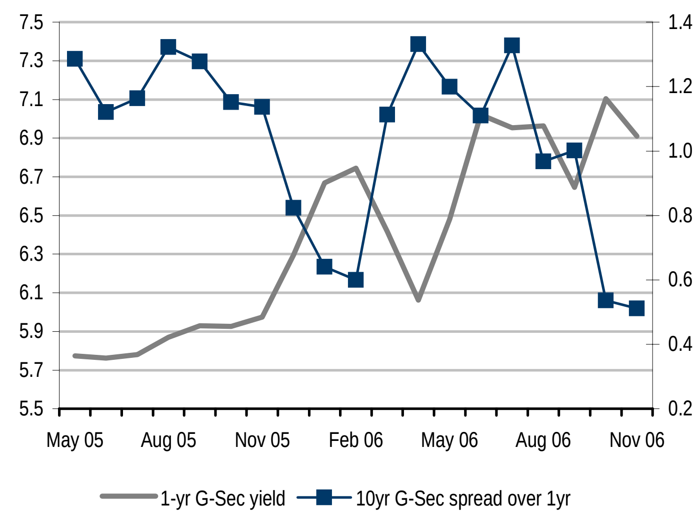
Source: Company data, Credit Suisse estimates

Figure 3: **Interest spread versus G-sec yields**



Source: Company data, Credit Suisse estimates

Figure 4: **Shorter term yields have not declined**



Source: Company data, Credit Suisse estimates

Figure 5: **HDFC – sum-of-the-parts valuation**

Business	Basis	Year	Multiple	Value per share	Comments
Core mortgage business	BV	FY08	3.75	860.7	Based on 21-22% underlying ROE
Investments	Income	FY06	10.00	92.2	Comprises capital gains and dividend income, at a low multiple market at a relative high currently
HDFC Bank	Market price			285.4	On market price
BPO	Revenues	FY08	3	25.9	Industry benchmark at 2-4x
Asset management	AUM	FY08	5%	42.7	M&A transactions in industry in the past at 4-6% of AUM
Private equity	AUM	FY08	10%	21.5	Higher return potential, and higher growth in the near future, than mutual funds
Life insurance	NBAP	FY08	15	156.5	Factoring 65% growth in FYP in FY07E and 60% in FY08E, at a 20% NBAP margin
Non life insurance	BV	FY08	2	6.2	
Total				1,491	

Source: Credit Suisse estimates

Financial summary

Figure 6: **Financial summary**

Year-end 31 Mar (Rs mn)	2005	2006	2007E	2008E	2009E
Income statement					
Interest income	29,302	37,849	54,247	69,914	88,012
Interest expense	19,575	24,911	37,879	49,911	63,548
Net interest income	9,727	12,938	16,368	20,003	24,464
Fee income	1,119	818	779	874	957
Operating income	10,846	13,755	17,147	20,877	25,421
Operating cost	1,775	2,139	2,593	3,145	3,820
Pre-provision operating profit	9,071	11,616	14,554	17,732	21,601
Loan loss provisions	140	150	204	256	320
Operating profit	8,931	11,466	14,350	17,475	21,281
Non operating items	3,637	4,107	4,624	5,286	5,952
Pre-tax profit	12,568	15,573	18,974	22,762	27,233
Taxes	2,202	3,000	3,789	4,540	5,431
PAT	10,366	12,573	15,185	18,222	21,802
Balance sheet					
Other current assets/DTA	8,260	7,921	44,171	52,616	62,834
Total investments	31,300	38,763	49,321	59,375	70,647
Total advances	360,115	449,901	569,741	712,176	890,220
Fixed assets	2,948	2,473	2,597	2,856	3,142
Preference capital	-	-	-	-	-
Total assets	424,812	533,982	665,829	827,023	1,026,842
Net worth	38,831	44,683	74,735	84,422	95,858
Sub/hybrid debt	4,000	9,000	19,000	29,000	39,000
Total borrowings	362,474	436,057	543,384	676,277	843,464
Current liabilities	19,507	22,085	28,710	37,324	48,521
Total liabilities	424,812	533,982	665,829	827,023	1,026,842
Key ratios					
NIM (%)	2.63	2.76	2.78	2.73	2.68
Credit costs % of average loans	4.4	3.7	4.0	4.0	4.0
Fee income % of average assets	29.3	17.1	13.0	11.7	10.3
Operating expenses % of average assets	46.5	44.6	43.2	42.1	41.2
ROAA (%)	2.7	2.6	2.5	2.4	2.3
ROAE, (%)	28.5	30.1	25.4	22.8	24.1
Tier I (%)	12.1%	8.5%	11.1%	9.8%	8.9%
EPS (Rs)	41.6	50.4	57.1	68.4	81.8
EPS (% chg.)	21.7	17.8	13.6	19.8	19.6
BVPS (Rs)	155.9	179.0	281.6	318.1	361.2
DPS (Rs)	17.0	20.0	24.0	28.0	34.0

Source: Company data, Credit Suisse estimates

Low-risk proxy for real estate

We believe HDFC represents everything that is positive about the Indian real estate sector – a strong track record of growth, profitability and quality. It has achieved a robust 30% CAGR in mortgage disbursements over the past 10-12 years. Home-loan rates have risen recently, but we believe that growth should continue to be strong, although at a modestly lower rate of 25% over the next two to three years. HDFC also has a strong track record in corporate real estate lending (30% of its portfolio). With strong growth ahead likely in the real estate sector, we expect this segment also to continue growing and become more profitable, as we believe spreads have improved. HDFC is also leveraging off its expertise in private equity in real estate – although still only nascent, we believe that there is potential to generate significant value over the long term.

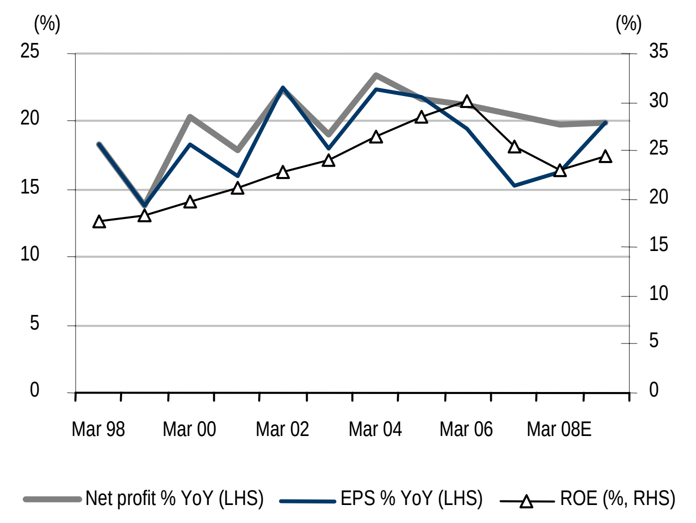
Robust track record

HDFC has a robust track record in the mortgages business – with strong and stable growth in disbursements, loans and earnings. Disbursements have seen a CAGR of 30% over the past 12 years, and loans at 25%. HDFC's ROE has also improved steadily over the years, along with steady EPS growth.

Figure 7: **Loan growth**

Source: Company data, Credit Suisse estimates

Figure 8: **Net profit and EPS growth and ROE**



Source: Company data, Credit Suisse estimates

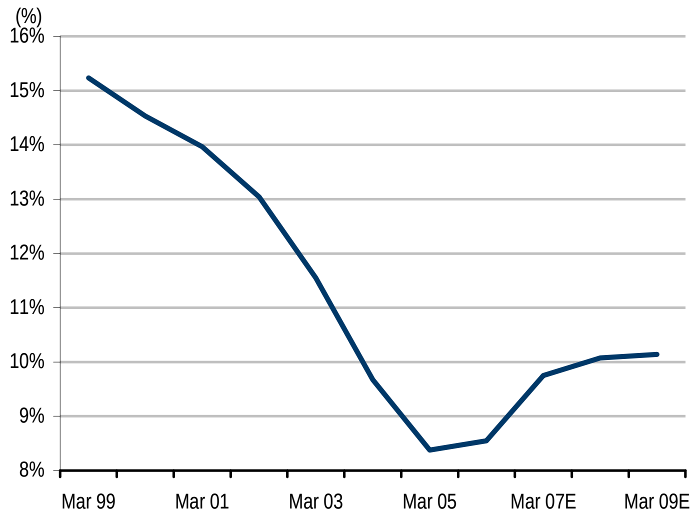
Individual loans – steady growth to continue

HDFC's individual mortgage loans have grown at a steady pace over the past ten years. This growth has been driven by: 1) strong underlying demand, driven by a shortage of homes, 2) a decline in interest rates since 2000, 3) increasing fiscal benefits, 4) better affordability, with rising income levels and 5) until about two years ago, stable real estate prices.

Growth drivers have not changed significantly

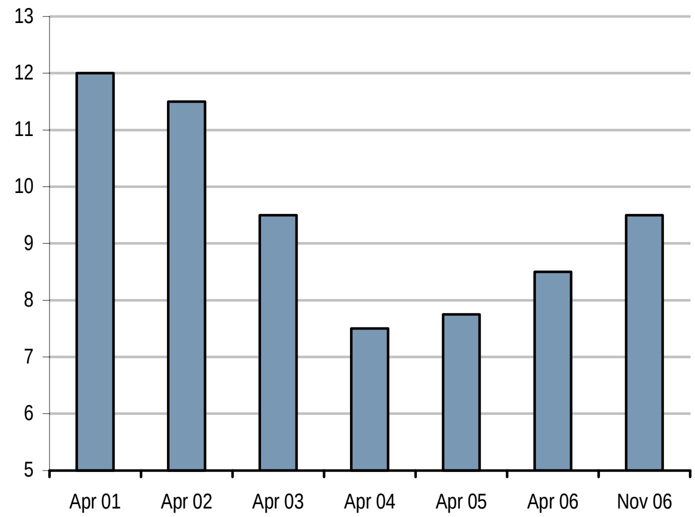
Home-loan rates have risen by 200-250 bp from their bottom about 30 months ago, and real estate prices having also risen significantly across the country. We believe affordability has deteriorated to some extent, due to higher borrowing costs, especially for loans with long tenors (20 years), and due to higher prices.

Figure 9: Overall loan yields



Source: Company data, Credit Suisse estimates

Figure 10: Mortgage rates – floating

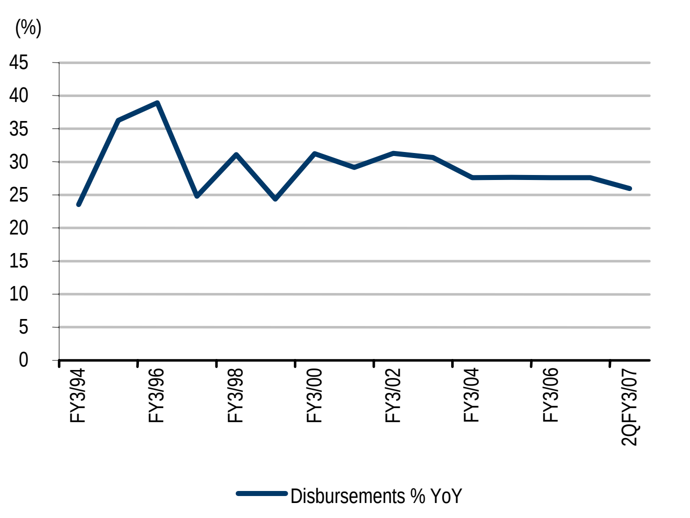


Source: Company data, Credit Suisse estimates

Growth should continue at 20-25%, unless interest rates rise significantly

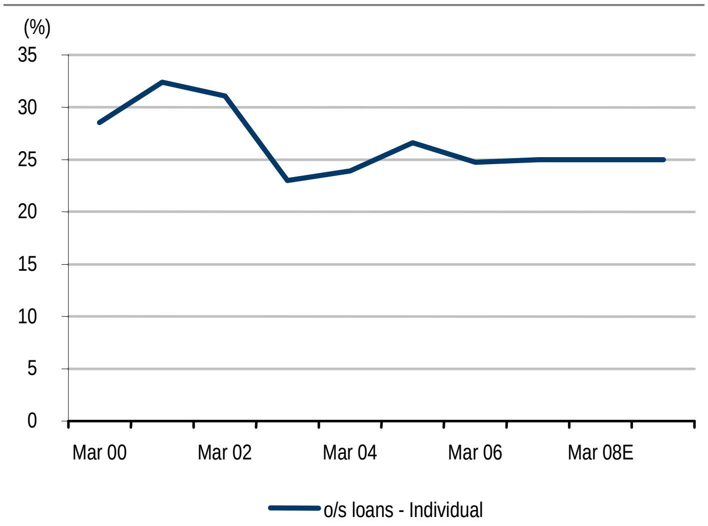
Loan-disbursement growth has slowed modestly in the past two to three quarters. However, we expect growth of about 20-25% p.a. to continue over the next two years, as: 1) individual income growth remains strong, with the underlying shortage continuing, and 2) fiscal benefits continue. We do not expect a significant decline in disbursement growth unless interest rates on home loans rise abruptly by 100-125 bp. HDFC's disbursement growth should also be boosted by the increasing contribution from HDFC Bank (through its mortgage arrangement), and from DSAs (direct selling agents), through its disbursements. A positive trigger for the industry in the medium term could be a reduction in individual housing risk weights (currently at 75%) – this could enable lenders to reduce mortgage rates.

Figure 11: Total disbursements (% YoY)



Source: Company data, Credit Suisse estimates

Figure 12: Individual loans outstanding (% YoY)



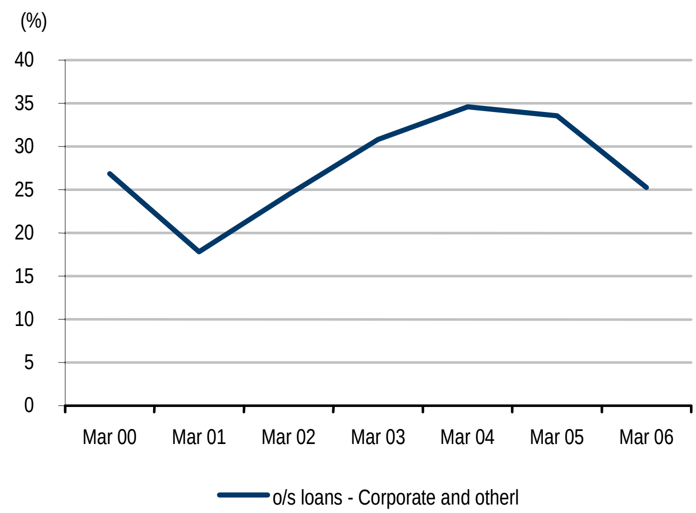
Source: Company data, Credit Suisse estimates

Corporate loans – strong outlook

HDFC has had a strong presence in developer and corporate real estate lending – historically, this has comprised 30-32% of its loan portfolio, and has grown at 20-35% p.a. over the past seven to eight years.

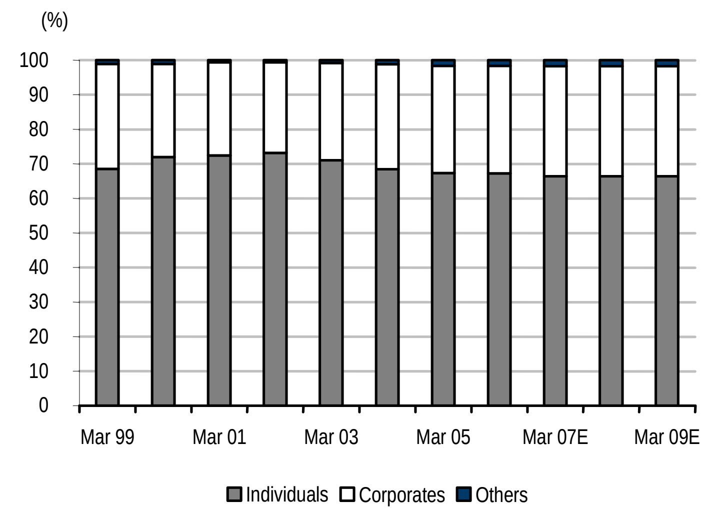
The regulators have increased risk weights on lending to commercial real estate (currently 150%) and this has discouraged banks from lending aggressively to this sector (although growth in loans to commercial real estate have still grown by more than 100% YoY, as per the latest available RBI data). Lending rates have thus increased sharply, relative to individual loan rates.

Figure 13:**Corporate and other loans outstanding (% YoY)**



Source: Company data, Credit Suisse estimates

Figure 14: **Loan mix**



Source: Company data, Credit Suisse estimates

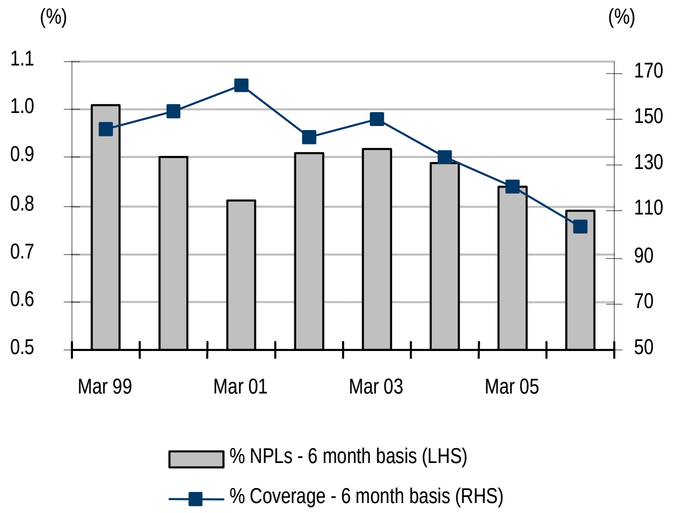
However, growth in the sector should continue to be strong – we expect HDFC to maintain lending to the corporate/developer segment at 30-32% of its loan portfolio, or growth of 25% for the next two to three years. The real estate development sector is growing robustly at present, with significant investments in real estate projects across the various segments – residential, office and retailing – and emerging segments, such as SEZs (special economic zones) and hospitality.

Asset quality is in good shape

Overdue loans (180 days) have actually declined steadily

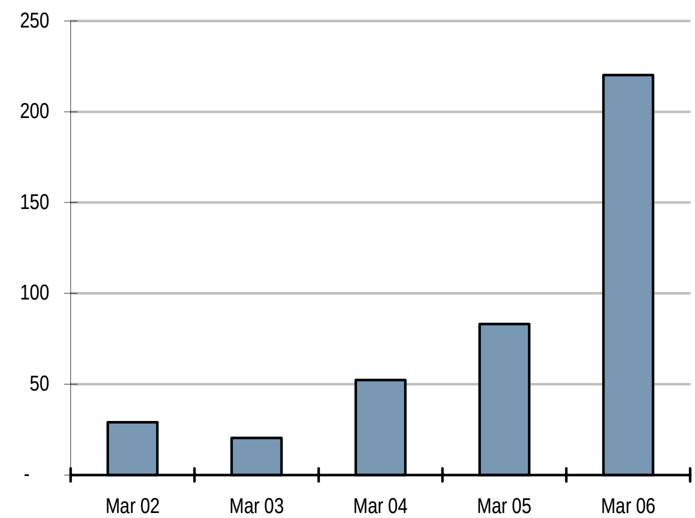
HDFC has managed to maintain very robust asset quality over the past 10-15 years – loans at the 180-day delinquency level have actually been declining over the past seven to eight years, and stood at 0.8% in March 2006. Coverage of loans (on 180-day outstanding basis) continues to be over 100%, although it has declined from its high levels of over 150%. Write-offs increased substantially in FY3/06, but management suggests there has been no deterioration in asset quality trends.

Figure 15: 6-month overdue loans and coverage



Source: Company data, Credit Suisse estimates

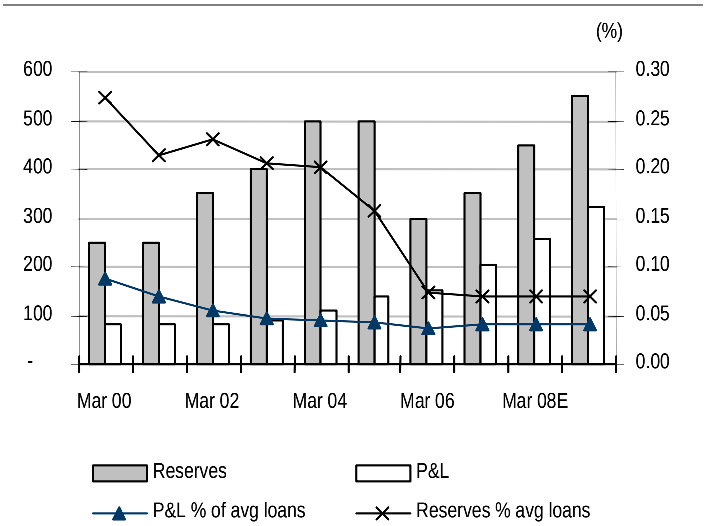
Figure 16: Write-offs (Rs mn)



Source: Company data, Credit Suisse estimates

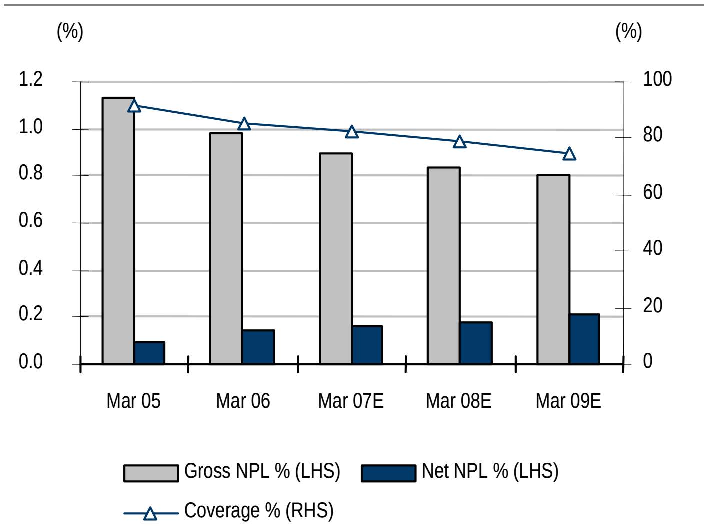
Gross NPLs (on a 90-day outstanding basis) also declined in FY3/06 – an indication of the strong economic environment and HDFC's credit appraisal strengths. Provisions made for contingencies have declined over the past few years (as a percentage of average loans) to about 12 bp through P&L and reserves combined) in FY3/06. Provision for contingencies (NPLs on a 90-day basis) have declined, but remain high at about 85%. We expect asset quality to remain strong and provision cover high, at about 75% by FY3/09E.

Figure 17: Provision – through P&L and reserves



Source: Company data, Credit Suisse estimates

Figure 18: Gross and net NPL and coverage – 90-day basis



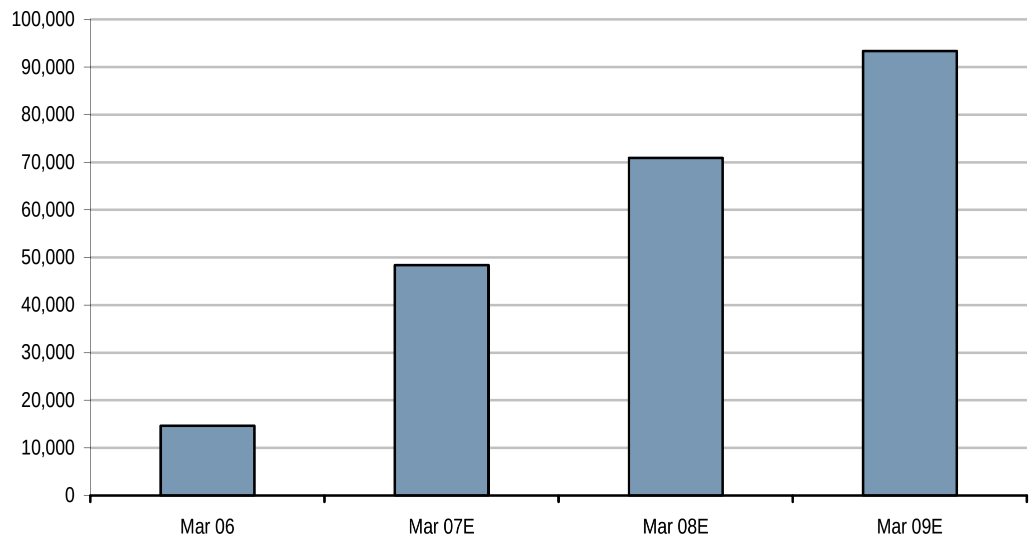
Source: Company data, Credit Suisse estimates

Leveraging off its expertise – real estate private equity

Aiming to raise a US$750 mn foreign real estate fund

HDFC leverages off its expertise and brand equity in mortgage and corporate/developer financing, and its extensive and deep relationships with real estate developers, to foray into the real estate private equity business. It has entered this business in a JV with SBI (State Bank of India), of which HDFC owns 80%. The company had raised Rs14.6 bn in funds up to FY3/06 – including a domestic real estate fund of about Rs10 bn. It is also aiming to raise an overseas real estate fund of US$750 mn.

Figure 19: **Assets under management – real estate private equity**



Source: Company data, Credit Suisse estimates

We expect HDFC to grow its private equity business substantially over the next two to three years and benefit from the strong growth in the sector. And although this business is still only nascent, we believe it has tremendous potential for creating value over the long term. We value this business at Rs21 per HDFC share, based on 10% of about Rs70 bn in assets under management by FY3/08E.

Can HDFC's spreads decline?

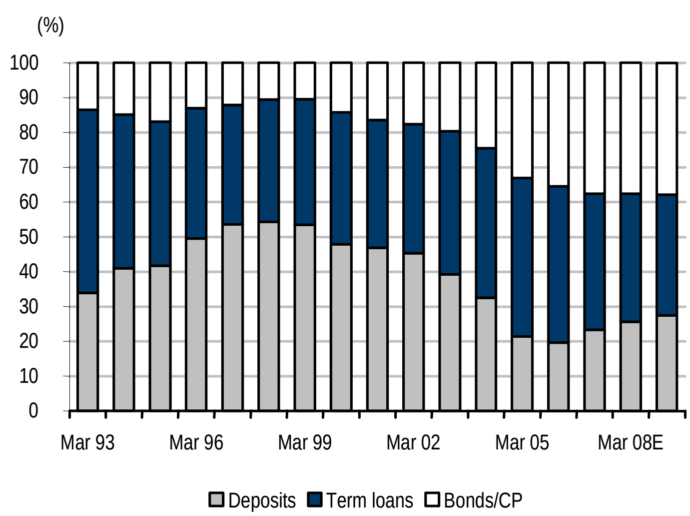
Interest spreads (excluding FCCB) on loans have declined over the past three to four quarters, as rates have gone up and liquidity tightened relative to the past – and HDFC's predominantly wholesale cost funding has suffered. Although long-term interest rates have declined over the past six months, and HDFC's deposit franchise is kicking in again, we believe that there is a risk of spread contraction. We believe that asset growth opportunities are significantly in excess of liability growth, resulting in greater pricing power with banks, and that liquidity is getting tighter, although it is adequate now.

Beneficiary of easy liquidity and falling interest rates

HDFC focused on wholesale borrowings, as interest rates fell and liquidity was easy

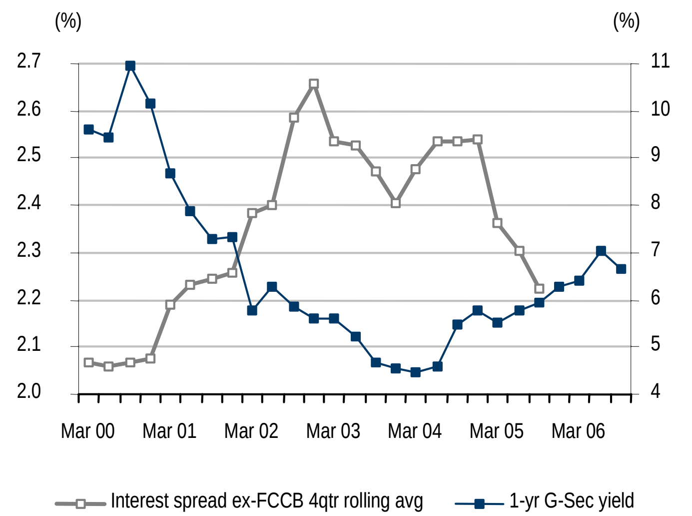
In 2000-04, HDFC was a significant beneficiary of declining interest rates and easy liquidity. Spreads on corporate bonds rated AAA (HDFC's bonds are rated AAA by domestic rating agencies) declined sharply during this period. HDFC also benefited from changing its mix of borrowings in that period – the proportion of deposits declined from over 50% of borrowed funds in FY3/99 to 20% in FY3/06. Loan yields also fell sharply, but HDFC was able to increase its interest spread on loans steadily in that period.

Figure 20: Borrowing mix



Source: Company data, Credit Suisse estimates

Figure 21: Interest spreads and G-Sec yield

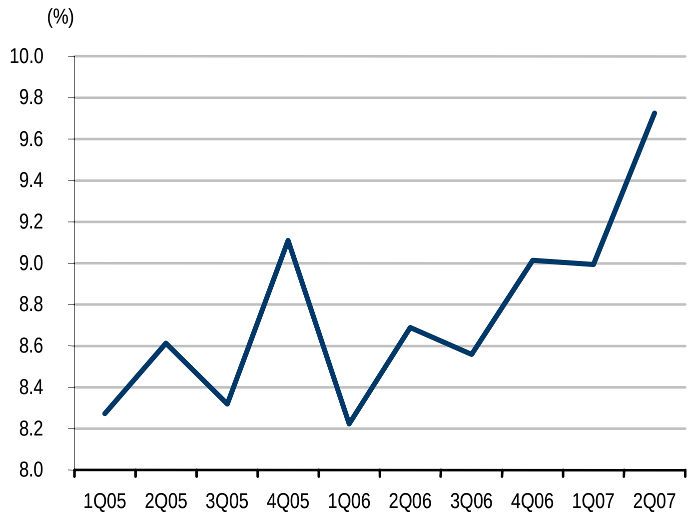


Source: Company data, Credit Suisse estimates

Interest spreads have declined as rates have risen

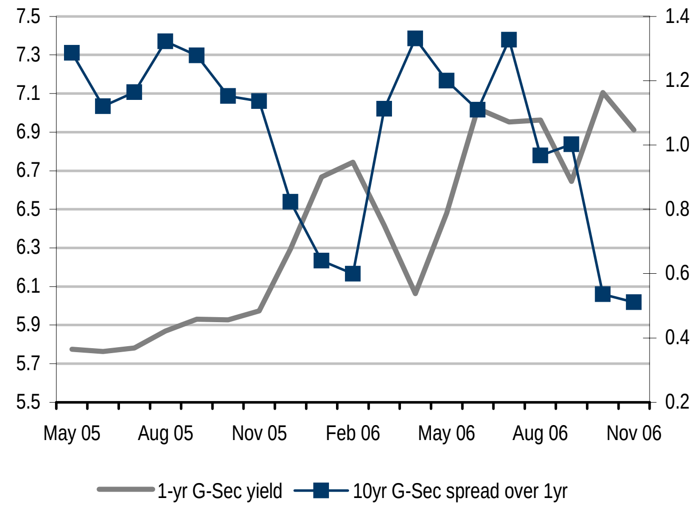
HDFC (and other mortgage lenders) have raised lending rates steadily over the past two years, as other interest rates (G-Sec yields) and borrowing costs have risen, and liquidity has tightened. However, spreads on loans (versus borrowed funds, excluding FCCB) have declined over the past three to four quarters, as wholesale funding has become more expensive.

Figure 22: Loan yields



Source: Company data, Credit Suisse estimates

Figure 23: Ten-year G-Sec yield over one year



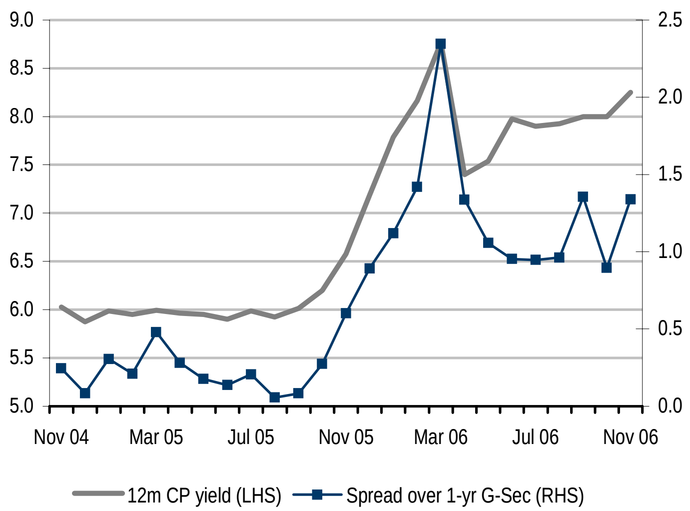
Source: Company data, Credit Suisse estimates

CP spreads have risen, and the one-year g-sec has not declined with the ten-year

Short-term rates have not declined, CP spreads wider

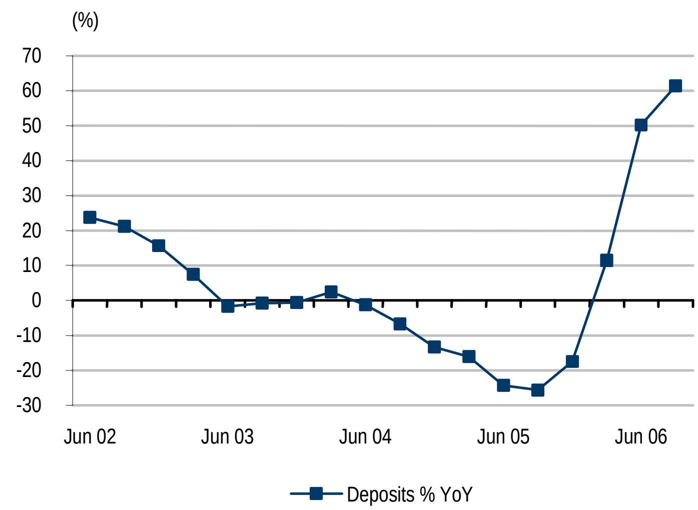
The spread of 12-month commercial paper (CP) borrowings over the one-year G-Sec yield has increased from 20-40 bp in 2005 to over 100 bp now. And while the ten-year G-Sec yield has declined by over 100 bp in the past six months (after touching a high of 8.45% in mid-2006), the one-year yield has declined only marginally. The spread of the ten-year over the one-year bond has shrunk sharply. Over 75-80% of incremental mortgage lending continues to be at floating rates, indicating that borrowing costs for mortgage lenders are unlikely to come down in line with yields on the ten-year bond.

Figure 24: 12M CP yield over one-year G-Sec



Source: Company data, Credit Suisse estimates

Figure 25: Deposit growth



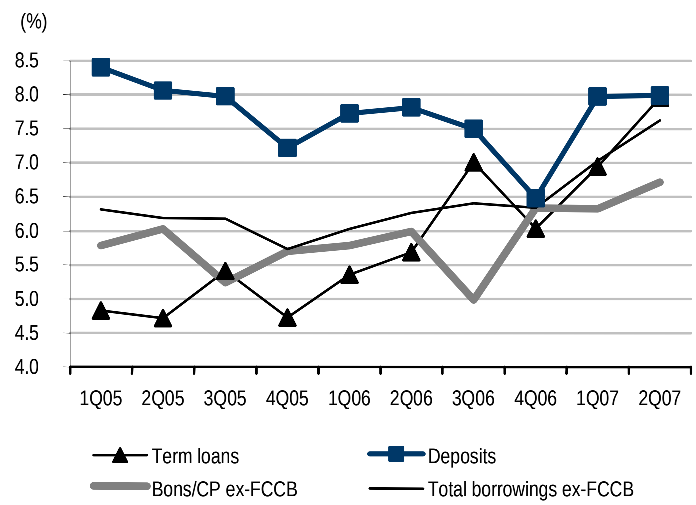
Source: Company data, Credit Suisse estimates

Risk of spread contraction

Focus on deposits, but it may take a while; foreign funding access could be a positive trigger

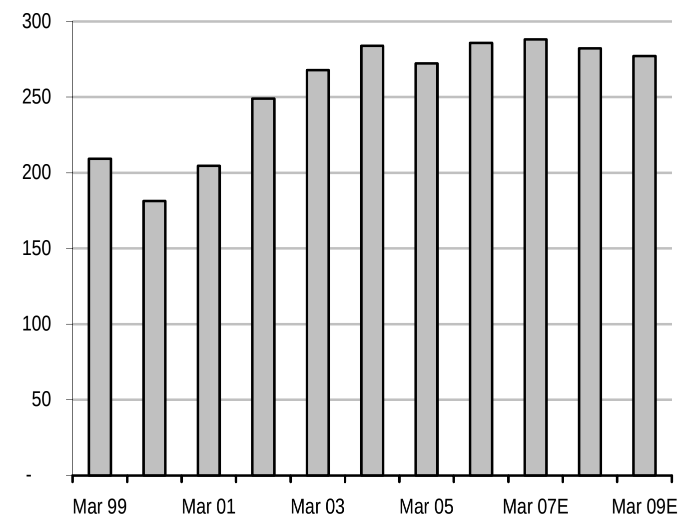
HDFC has started to focus strongly on deposits again in order to manage the rate sensitivity and potential volatility of wholesale funding – the decline in the deposit base has been arrested, though, and growth has picked up very sharply, off a low base. However, it may take time for the deposit franchise to contribute adequately in reducing the cost of funding. We believe asset growth opportunities for banks, and in the wider economy, are greater than liability growth opportunities. Moreover, liquidity is getting tighter, although it is adequate currently. Wholesale funding being the primary funding source for HDFC, we believe there is a risk of spread contraction. Access to foreign funding sources (ECBs), currently restricted, could alleviate funding risk for HDFC significantly.

Figure 26: Cost of borrowings (ex. FCCB) – quarterly



Source: Company data, Credit Suisse estimates

Figure 27: Net interest margin



Source: Company data, Credit Suisse estimates

Initiating coverage with NEUTRAL

We value HDFC on sum-of-the-parts analysis, as the value is getting increasingly diversified outside of the core business. We value the core mortgage business at 3.75x FY3/08E BV, or Rs861, at an estimated ROE of 21-22% (factoring FCCB conversion) for this business in FY3/08E. We also value the investment in HDFC Bank at Rs285 per share (at the current market price), and subsidiaries and other investments at Rs345 per share. Our fair value, and target price, on this basis is Rs1,491, implying potential downside of 5%. We initiate coverage of HDFC with a NEUTRAL rating.

Target price of Rs1,491, based on sum-of-the-parts; initiate coverage with a NEUTRAL rating

We have valued HDFC Bank based on sum-of-the-parts methodology, as we believe this best captures the value of its core mortgage business, as well as the substantial value being generated by its subsidiaries in non-banking businesses and its investment in HDFC Bank (22% ownership).

Figure 28: HDFC – sum-of-the-parts valuation

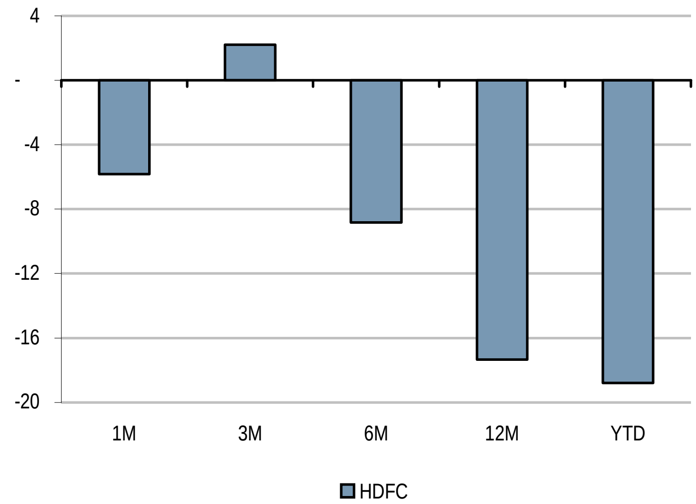
Business	Basis	Year	Multiple	Value per share	Comments
Core mortgage business	BV	FY08	3.75	860.7	Based on 21-22% underlying ROE
Investments	Income	FY06	10.00	92.2	Comprises capital gains and dividend income, at a low multiple market at a relative high currently
HDFC Bank	Market price			285.4	On market price
BPO	Revenues	FY08	3	25.9	Industry benchmark at 2-4x
Asset management	AUM	FY08	5%	42.7	M&A transactions in industry in the past at 4-6% of AUM
Private equity	AUM	FY08	10%	21.5	Higher return potential, and higher growth in the near future, than mutual funds
Life insurance	NBAP	FY08	15	156.5	Factoring 65% growth in FYP in FY07E and 60% in FY08E, at a 20% NBAP margin
Non-life insurance	BV	FY08	2	6.2	
Total				1,491	

Source: Credit Suisse estimates

On this basis, our fair value for the stock is Rs1,491. We initiate coverage of HDFC with a NEUTRAL rating and a target price of Rs1,491, implying 5% potential downside to the current level. The current market price, excluding the value we have attributed for subsidiaries and investments, and HDFC Bank’s market value, implies a P/B of 4.2x in FY3/08E.

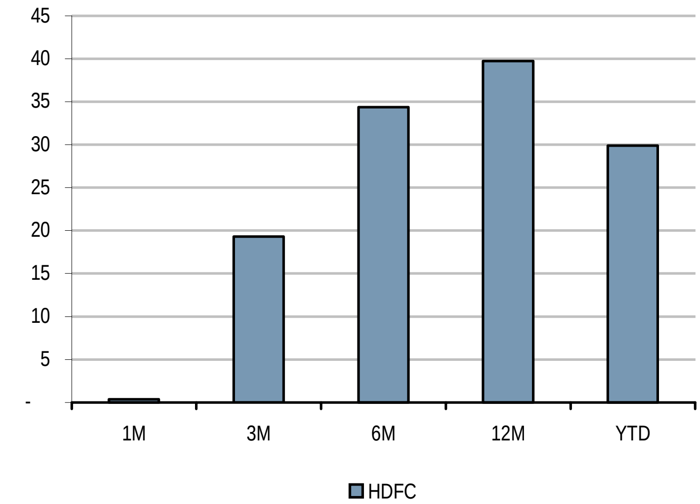
HDFC has underperformed

Figure 29: **Relative returns to Sensex**



Source: Company data, Credit Suisse estimates

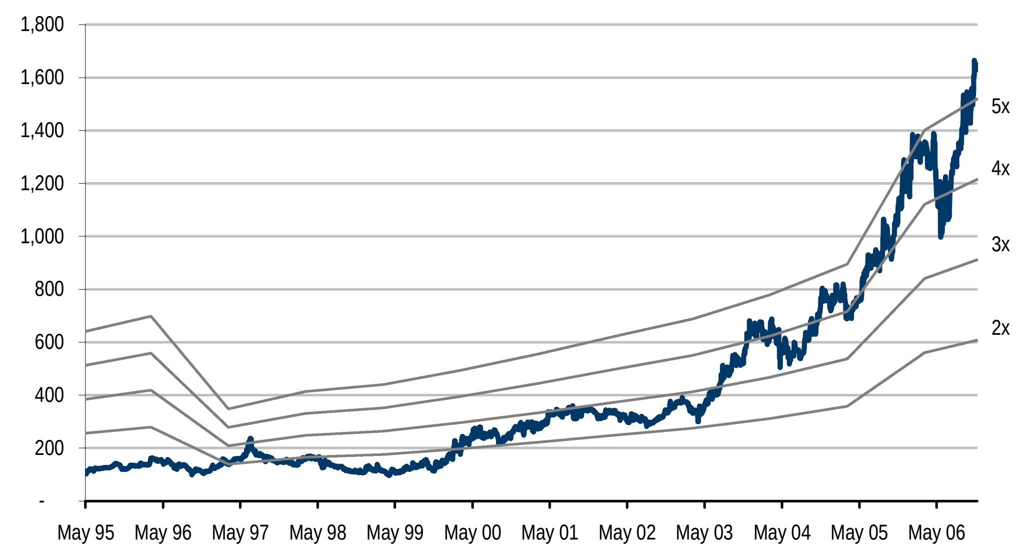
Figure 30: **Absolute returns**



Source: Company data, Credit Suisse estimates

HDFC has underperformed the Sensex and its peers over the past 12 months. We believe the stock's performance has been driven by the higher interest rate environment and the relatively tough funding environment for wholesale borrowers.

Figure 31: **P/B**



Source: Company data, Credit Suisse estimates

Risks

Upside risks

- Risk weight reduction, both on retail mortgages and commercial real estate, or reduction in capital adequacy requirements.
- Substantial growth in the real estate private equity business.
- Substantial increase in liquidity or decline in rates.
- Access to foreign funding sources and hybrid capital.
- M&A activity in the stock.

Downside risks

- Sharp slowdown in growth, or rise in interest rates.
- Higher capital provision for subsidiary investments, in line with RBI's requirement for banks.
- Tax breaks on housing being removed, or reduced, could affect growth.
- Reduction in SLR for banks.

Financial statements

Figure 32: Income statement

Year-end 31 Mar (Rs mn)	2005A	2006A	2007E	2008E	2009E
Total interest income	29,302	37,849	54,247	69,914	88,012
Total interest expended	19,575	24,911	37,879	49,911	63,548
Net interest income	9,727	12,938	16,368	20,003	24,464
Management fees	1,017	675	607	668	735
Other income	95	129	129	129	129
Other operating income	7	14	14	14	14
Total non-interest income	1,119	818	750	811	878
Operating income	10,846	13,755	17,118	20,814	25,342
Salaries/wages	649	803	1,004	1,255	1,569
Depreciation	163	176	197	221	247
Other operating expenses	963	1,159	1,391	1,670	2,003
Total operating expenses	1,775	2,139	2,593	3,145	3,820
Pre-provision operating profits	9,071	11,616	14,526	17,669	21,522
Loan-loss provisions	140	150	204	256	320
Other	-	-	-	-	-
Total provisions	140	150	204	256	320
Operating profits	8,931	11,466	14,322	17,412	21,202
Dividends	872	1,080	1,360	1,763	2,211
Capital gains	1,741	2,362	2,598	2,858	3,144
Net lease rentals	1,024	665	665	665	665
Total non-operating income/(loss)	3,637	4,107	4,624	5,286	6,020
Profit before tax	12,568	15,573	18,945	22,699	27,221
Taxes	2,202	3,000	3,789	4,540	5,444
Profit after tax	10,366	12,573	15,156	18,159	21,777
Dividend	4,235	4,991	6,370	7,431	9,024
Dividend tax	602	700	892	1,040	1,263
Dividend Rs per share	17	20	24	28	34

Source: Company data, Credit Suisse estimates

Figure 33: Balance sheet

Year-end 31 Mar (Rs mn)	2005A	2006A	2007E	2008E	2009E
Assets					
Other current assets/DTA	8,260	7,921	43,821	51,816	61,538
Total investments	31,300	38,763	49,321	59,375	70,647
Total advances	360,115	449,901	569,741	712,176	890,220
Fixed assets	2,948	2,473	2,597	2,856	3,142
Preference capital	-	-	-	-	-
Total assets	424,812	533,982	665,479	826,223	1,025,547
Liabilities					
Equity capital	2,491	2,496	2,654	2,654	2,654
Reserves and surplus	36,340	42,188	71,731	80,968	91,908
Net worth	38,831	44,683	74,385	83,622	94,562
Sub/hybrid debt	4,000	9,000	19,000	29,000	39,000
FCCB	-	22,156	-	-	-
Loans	166,897	199,956	219,951	259,542	306,260
Debentures/CP	114,137	147,459	191,697	235,787	294,734
Deposits	78,401	87,414	131,121	180,947	242,470
Bonds	3,039	1,228	614	-	-
Total borrowings	362,474	436,057	543,384	676,277	843,464
Current liabilities	19,507	22,085	28,710	37,324	48,521
Total liabilities	424,812	533,982	665,479	826,223	1,025,547

Source: Company data, Credit Suisse estimates

Figure 34: Key operating ratios

Year-end 31 Mar (Rs mn)	2005A	2006A	2007E	2008E	2009E
Loan yield	8.4	8.5	9.8	10.1	10.1
Cost of int-bearing liab.	6.0	6.1	7.5	7.9	8.0
NIM	2.72	2.86	2.88	2.82	2.77
Assets/equity	10.5	11.5	10.1	9.4	10.4
Gross NPL % of gross loans	1.1	1.0	0.9	0.8	0.8
Net NPL % of net loans	0.1	0.1	0.2	0.2	0.2
Loan-loss coverage	92	85	82	79	74
Tier I (%)	12.1	8.5	11.0	9.7	8.8

Source: Company data, Credit Suisse estimates

Figure 35: % Change YoY

Year-end 31 Mar (Rs mn)	2005A	2006A	2007E	2008E	2009E
Loans	28.7	24.9	26.6	25.0	25.0
Deposits	(16.0)	11.5	50.0	38.0	34.0
Assets	25.5	25.7	24.6	24.2	24.1
Net interest income	19.7	33.0	26.5	22.2	22.3
Fee income	(19.6)	(27.0)	(4.8)	12.2	9.5
Operating expenses	10.0	20.5	21.2	21.3	21.4
PPoP	14.8	28.1	25.0	21.6	21.8
Operating profit	14.6	28.4	24.9	21.6	21.8
PAT	21.7	21.3	20.5	19.8	19.9

Source: Company data, Credit Suisse estimates

Figure 36: RoAA decomposition

Year-end 31 Mar (Rs mn)	2005A	2006A	2007E	2008E	2009E
Interest income	7.68	7.90	9.05	9.37	9.51
Interest expense	5.13	5.20	6.32	6.69	6.86
Net Int Income	2.55	2.70	2.73	2.68	2.64
Fee income	0.29	0.17	0.13	0.12	0.10
Operating income	2.84	2.87	2.86	2.80	2.75
Operating cost	0.47	0.45	0.43	0.42	0.41
Pre-provision operating profits	2.38	2.42	2.43	2.38	2.33
Loan loss provisions	0.04	0.03	0.03	0.03	0.03
Pre provision profits	2.34	2.39	2.39	2.34	2.30
Non operating items	0.95	0.86	0.77	0.71	0.65
Operating profits	3.29	3.25	3.16	3.05	2.95
Taxes	0.58	0.63	0.63	0.61	0.59
PAT (RoAA)	2.72	2.62	2.53	2.44	2.36

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 07 Dec 06)*

HDFC Bank (HDBK.BO, Rs765.2, NEUTRAL, TP Rs990.00)
Housing Development Finance Corp (HDFC.BO, Rs1589.50, NEUTRAL, TP Rs1491.00)
State Bank Of India (SBI.BO, Rs736.4, OUTPERFORM, TP Rs1,278.00)

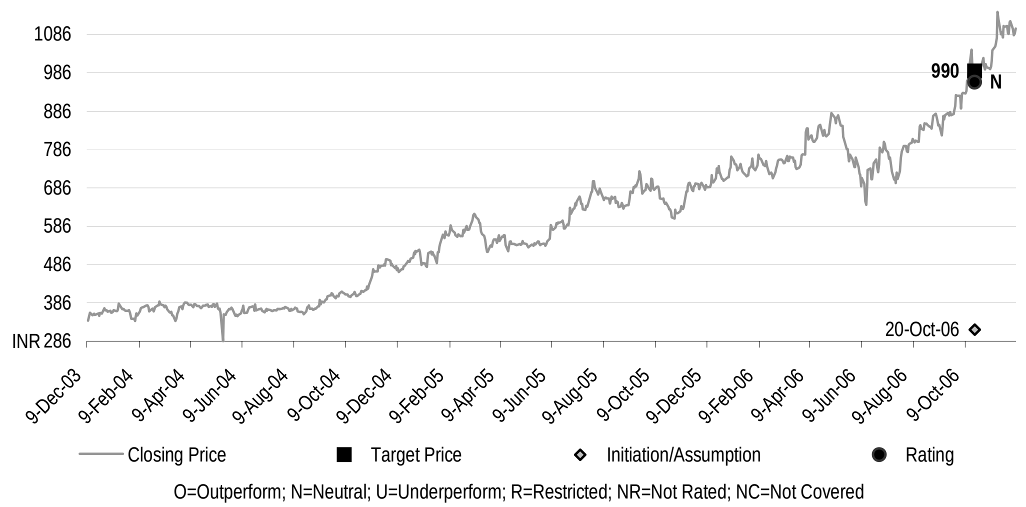
Disclosure Appendix

Important Global Disclosures

Aditya Singhania & Sanjay Jain each certify, with respect to the companies or securities that he or she analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

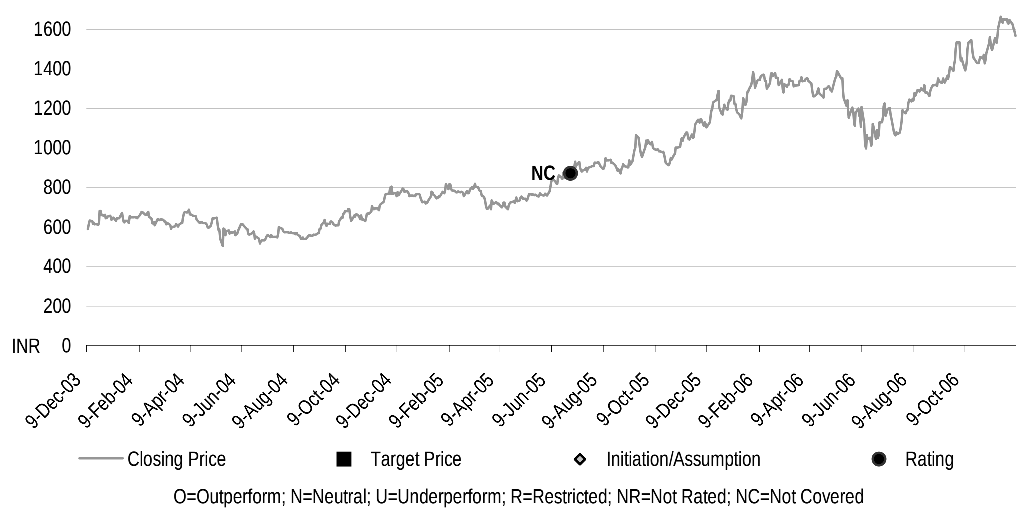
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for HDBK.BO



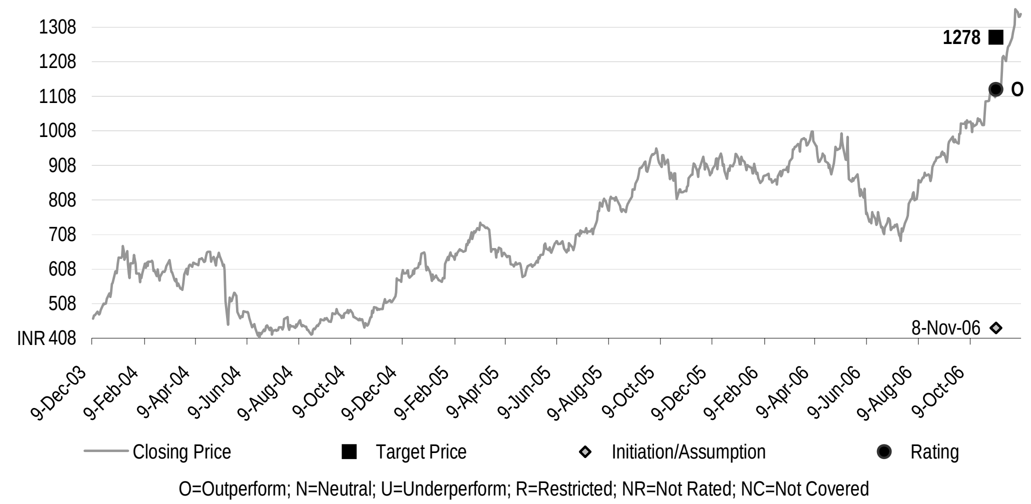
HDBK.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
20-Oct-06	960.85	990	NEUTRAL	X

3-Year Price, Target Price and Rating Change History Chart for HDFC.BO



HDFC.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
01-Jul-05	870.15		NOT COVERED	

3-Year Price, Target Price and Rating Change History Chart for SBI.BO



SBI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
08-Nov-06	1128	1278	OUTPERFORM	X

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts’ stock ratings are defined as follows***:

Outperform: The stock’s total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock’s total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform:** The stock’s total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.*

Restricted: In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All Credit Suisse Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts’ coverage universe weightings* are distinct from analysts’ stock ratings and are based on the expected performance of an analyst’s coverage universe** versus the relevant broad market benchmark***:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

***Credit Suisse Small and Mid-Cap Advisor stocks do not have coverage universe weightings.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

****The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Outperform/Buy*	39%	(60% banking clients)
Neutral/Hold*	44%	(56% banking clients)
Underperform/Sell*	15%	(53% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (HDBK.BO)

Method: Our target price of Rs990 for HDFC Bank is benchmarked off P/BV, P/E and Dividend Discount Model (DDM) analysis. We have valued HDFC Bank on a 1-year forward P/B of 4.5x and P/E of 23.8x. Our DDM analysis assumes a cost of equity of 14% and a terminal growth rate of 5%. We set out target price at Rs990, tilting towards the P/B methodology, but in the fair value range of Rs990-1070 based on the three methodologies.

Risks: Key upside risks to our target price of Rs990 for HDFC Bank are favourable Basel II guidelines, sustainable higher RoEs on use of hybrid capital, M&A activity in the longer-term. Downside risks are a reversal in asset environment, significant increase in competition, high stock valuations and branch licensing continuing beyond the short-term.

Price Target: (12 months) for (HDFC.BO)

Method: We value HDFC at Rs1491 on a sum of the parts, as the value is getting increasing diversified outside of the core business. We value the core mortgage business at 3.75x FY3/08E BV, or Rs861, on an estimated RoE of 21-22% (factoring FCCB conversion) for this business in FY3/08E, the investment in HDFC Bank at Rs285 per share (on the current market price), and subsidiaries and other investments at Rs345 per share.

Risks: Upside risks 1) Risk weights reduction both on retail mortgages and commercial real estate, or reduction in capital adequacy requirements 2) Substantial growth in the real estate private equity business 3) Substantial increase in liquidity or decline in rates 4) Access to foreign funding sources and hybrid capital 5) M&A activity in the stock. Downside risks are 1) sharp slowdown in growth, or rise in interest rates 2) Higher capital provision for subsidiary investments, in line with RBI 's requirement for banks 3) Tax breaks on housing being removed, or reduced, could affect growth 4) Reduction in SLR for banks

Price Target: (12 months) for (SBI.BO)

Method: We set our 12-month target price for State Bank of India (SBI) at Rs1,278, based on sum-of-the-parts analysis, by applying 1.60x price to book (P/B) (=Rs937) for the standalone bank, 1.25x (=Rs272) for the associate banks and Rs69 per SBI share for subsidiaries.

Risks: Downside risks to our target price of Rs1,278 for State Bank of India are a reversal in the growth and asset quality environment can lead to significant rise in provisioning levels, higher than expected pension liability, possible government involvement in operating decisions and a Sharp rise in interest rates. Upside risks to our target price are lower regulatory SLR/CRR requirements can free up liquidity and sustain higher growth for a longer time period, lower than expected pension liability, higher than assumed valuations for associate banks if listed and a ower government ownership or higher operational flexibility.

See the Companies Mentioned section for full company names.

The subject company (SBI.BO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (SBI.BO) within the past 12 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (SBI.BO) within the past 12 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (HDBK.BO, HDFC.BO, SBI.BO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

An analyst involved in the preparation of this report received third party benefits in connection with this research report from the subject company (HDBK.BO).

For disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

Disclaimers

References in this report to Credit Suisse or CS include all of the subsidiaries and affiliates of Credit Suisse, a Swiss bank, operating under its investment banking division. For more information on our structure, please follow the below link: http://www.credit-suisse.com/who_we_are/en/structure.html.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc..; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited , Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

ASIA/PACIFIC: +852 2101-6000 **EUROPE: +44 (20) 7888-8888** **UNITED STATES OF AMERICA: +1 (212) 325-2000**