

RESULTS REVIEW
HDFC Bank
Hold
Share Data

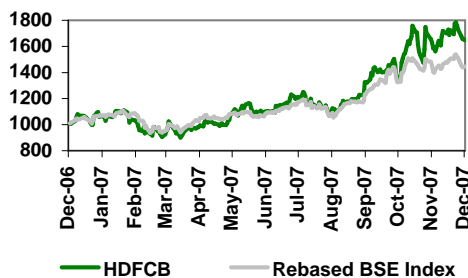
Market Cap	Rs. 582 bn
Price	Rs. 1,646.7
BSE Sensex	19,162.57
Reuters	HDBK.BO
Bloomberg	HDFCB IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 1,799 / 890
Shares Outstanding	353.5 mn

Valuation Ratios (Standalone)

Year to 31 March	2008E	2009E
EPS (Rs.)	51.2	71.7
+/- (%)	41.9%	40.1%
PER (x)	32.2x	23.0x
P / PPP (x)	15.2x	11.2x
P / BV (x)	5.5x	4.5x

Shareholding Pattern (%)

Promoter	23
FII's	26
Institutions	8
Public & Others	43

Relative Performance

Unabated growth

HDFC Bank reported impressive Q2'08 numbers with net profit increasing 40.1% yoy to Rs. 3.7 bn. Net interest income was up 47.6% yoy to Rs. 11.6 bn, driven by an average asset growth of 39.4% yoy, while non interest income increased 21.3% yoy to Rs. 4.8 bn on account of a rise in fee income and commissions. Balance sheet grew by 44.1% yoy to Rs. 1,215.5 bn, with advances and deposits increasing 45.6% and 43.5%, respectively. The Bank has been successful in maintaining its asset quality, with net NPAs remaining unchanged at 0.4%, both on a yearly as well as sequential basis.

The Bank recently raised around Rs. 37 bn through ADS and preferential allotment which will help it to meet the credit demand from both corporate as well as retail segment. We maintain our positive outlook on the Bank based on its strong fundamentals, healthy asset quality, high CASA ratio and a growth seeking management. However, the positives have already been factored into the current market price. Hence, we maintain our Hold rating on the stock.

Result Highlights

Net interest income grew 47.6% yoy to Rs. 11.6 bn, led by a strong growth in advances. The Bank's NIM witnessed a 20 bps yoy increase to 4% primarily due to higher yield on advances. However, sequentially, NIM

Key Figures (Standalone)

Quarterly Data	2Q'07	1Q'08	2Q'08	YoY %	QoQ%	1H'07	1H'08	YoY %
(Figures in Rs mn, except per share data)								
Net Interest Income	7,880	10,422	11,627	47.6%	11.6%	15,457	21,482	39.0%
Total Net Income	11,857	15,581	16,451	38.7%	5.6%	22,942	32,031	39.6%
Pre-Prov Profit	6,066	7,837	8,267	36.3%	5.5%	11,624	16,104	38.5%
Net Profit	2,629	3,212	3,685	40.1%	14.7%	5,022	6,897	37.3%
Cost/Total Income(%)	48.8%	49.7%	49.7%	-	-	49.3%	49.7%	-
NIM ratio	3.8%	4.2%	4.0%	-	-	-	-	-
NPA ratio	0.4%	0.4%	0.4%	-	-	0.4%	0.4%	-
Per Share Data (Rs.)								
PPP per share	19.1	24.4	23.6	23.0%	(3.4)%	36.6	47.9	30.9%
EPS	8.3	10.0	10.5	26.5%	5.0%	15.8	20.5	29.7%
ABVPS	186.1	202.7	308.0	65.5%	52.0%	186.1	308.0	65.5%

Fee and commission boosted other income

Business expansion accompanied by healthy asset quality

Growth in deposits accompanied by high proportion of CASA

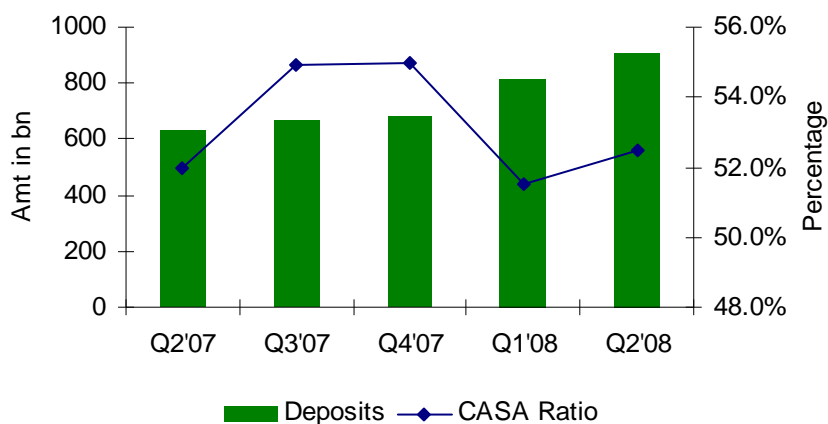
declined 20 bps due to Bank's lower exposure in retail advances, which decreased 190 bps to 55.1% as a percentage of gross advances.

Non interest income showed a moderate increase of 21.3% yoy to Rs. 4.8 bn primarily on account of higher fee income & commissions and increase in profit on sale of investments. However, on a sequential basis, non interest income declined 6.5%, owing to a fall in foreign exchange & derivatives revenue by 73.6%.

Operating expenses rose 41.3% yoy to Rs. 8.2 bn, led by 75.9% increase in employee costs, on account of aggressive hiring by the Bank.

Balance sheet recorded an impressive yoy growth of 44.1% to Rs. 1,215.5 bn. Total business grew 44.4% yoy to Rs. 1,533.5 bn, on account of a 45.6% rise in advances and 43.5% increase in deposits to Rs. 622.8 bn and Rs. 910.7 bn, respectively. CASA ratio though rose only marginally by around 50 bps yoy to 52.5%, is still among the highest in the industry. The Bank maintained its asset quality with net NPAs at 0.4%.

Low cost deposits to total deposits



Source: Company data, Indiabulls research

*New subsidiary to give boost
to retail activities*

*Capital infusion
will sustain growth*

Prospects

Focus on retail expansion

In order to tap the growing opportunities in the emerging retail finance business, HDFC Bank has acquired HDB Financial Services Ltd (HDBL). In the future, the Bank may perform its non-banking retail finance activities under HDBL. The unit is likely to be operational over the next few quarters, and will improve revenues under the retail finance channel.

Outlook

HDFC Bank's high CASA, low NPAs, coupled with a wide branch and ATM network will sustain its growth. Within a few quarters, it will start its non-banking subsidiary, HDBL. This subsidiary will focus exclusively on the retail finance business and thus revenues are likely to improve in the future. Moreover, its recent capital infusion via ADS issue and preferential allotment will enable it to cater to the credit demand from both the corporate as well as retail segment.

At the current price of Rs. 1,646.7, the stock is trading at a forward P/B of 5.5x FY08E and 4.5x FY09E.

We maintain our positive outlook on the Bank based on its strong fundamentals, healthy asset quality, and high CASA ratio. However, the positives have already been factored into the current market price. Hence, we maintain our Hold rating on the stock.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	44,753	68,890	88,934	121,678	Per share data (Rs.)				
Interest Expense	19,295	31,795	41,347	55,704	Shares outstanding (mn)	313.1	319.4	353.5	353.5
Net Interest Income	25,458	37,096	47,587	65,975	Basic EPS	27.9	36.3	51.2	71.7
YoY Growth (%)	43.2%	45.7%	28.3%	38.6%	Diluted EPS	26.1	36.1	51.2	71.7
Other Income	11,240	15,162	19,711	25,624	Book value per share	169.2	201.4	297.7	364.8
Total Net Income	36,698	52,258	67,298	91,599	Adj. book value per share	169.2	201.4	297.7	364.8
YoY Growth (%)	51.1%	42.4%	28.8%	36.1%	Valuation ratios (x)				
Operating Expense	16,911	24,208	30,957	42,135	P/PPP	26.0x	18.5x	15.2x	11.2x
Pre-Provisioning Profit	19,787	28,050	36,341	49,463	P/E	63.1x	45.7x	32.2x	23.0x
Provisions and Contingencies	7,252	11,663	11,749	15,013	P/B	9.7x	8.2x	5.5x	4.5x
Profit Before Tax	12,535	16,388	24,592	34,450	P/ABV	9.7x	8.2x	5.5x	4.5x
Tax	3,827	4,973	7,378	10,335	Performance ratio (%)				
Net Profit	8,708	11,415	17,215	24,115	Return on avg. assets	1.4%	1.4%	1.6%	1.6%
YoY Growth (%)	30.8%	31.1%	50.8%	40.1%	Return on avg. net worth	17.7%	19.5%	20.3%	20.6%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to deposits	62.8%	68.7%	68.2%	68.2%
Cash and balances with RBI	69,190	91,539	154,990	201,998	Borrowings to advances	8.2%	6.0%	7.0%	6.5%
Investments	283,940	305,648	430,277	580,874	Investments to assets	38.6%	33.5%	33.1%	33.3%
YoY Growth (%)	46.7%	7.6%	40.8%	35.0%	Investments to deposits	50.9%	44.8%	45.0%	45.0%
Advances	350,613	469,448	652,532	880,919	Net Worth to assets	7.2%	7.1%	8.1%	7.4%
YoY Growth (%)	37.1%	33.9%	39.0%	35.0%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	8,551	9,667	10,452	11,484	Opt. expense per employee	2.6	2.4	2.1	2.2
Other Assets	22,771	36,055	50,477	68,144	Net profit per employee	1.3	1.1	1.2	1.3
Total Assets	735,064	912,356	1,298,728	1,743,419	Asset per employee	112.5	91.4	89.7	92.7
Deposits	557,968	682,979	956,171	1,290,831	Operating ratios (%)				
YoY Growth (%)	53.5%	22.4%	40.0%	35.0%	Operating cost to net income	46.1%	46.3%	46.0%	46.0%
Borrowings	28,585	28,154	45,677	57,260	Operating cost to avg. assets	2.7%	2.9%	2.8%	2.8%
YoY Growth (%)	-40.3%	-1.5%	62.2%	25.4%					
Other Liabilities & Provisions	95,515	136,891	191,648	266,390					
Total Liabilities	682,068	848,025	1,193,496	1,614,481					
Share Capital	3,131	3,194	3,535	3,535					
Reserves & Surplus	49,865	61,138	101,697	125,403					
Total Equity & Liabilities	735,064	912,356	1,298,728	1,743,419					

Source: Bank data, Indiabulls research
Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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