

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	HDBK.BO
Bloomberg code	HDFCB IN
Market cap. (US\$ mn)	20,077
6M avg. daily turnover (US\$ mn)	35.9
Issued shares (mn)	458
Target price (Rs)	1,935

Performance (%) 1M 3M 12M

Absolute	4	16	79
Relative	2	11	12

Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	83.6	106.0
+/- (%)	29.7	26.8
ABV (Rs)	519.8	604.6
+/- (%)	14.4	16.3
PER (x)	23.4	18.4
PABV (x)	3.8	3.2
Dividend/Yield (%)	0.8	1.0

Major shareholders (%)

Promoters	24
FII's	27
MF's	4
BFSI's	8
Public & Others	37

Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Interest Earned	42,508	40,531	(4.7)	163,322	161,729	(1.0)	205,121	26.8	256,041	24.8
Interest Expended	23,988	17,018	(29.1)	89,111	77,863	(12.6)	104,659	34.4	133,574	27.6
Net Interest Income	18,520	23,514	27.0	74,212	83,866	13.0	100,462	19.8	122,467	21.9
Other Income	11,147	9,036	(18.9)	32,906	38,076	15.7	44,464	16.8	52,931	19.0
Total Income	53,655	49,567	(7.6)	196,229	199,805	1.8	249,585	24.9	308,972	23.8
Total Net Income	29,667	32,549	9.7	107,118	121,942	13.8	144,926	18.8	175,398	21.0
Staff Expenses	5,039	5,972	18.5	22,382	22,892	2.3	24,751	8.1	28,124	13.6
Other operating expenses	8,923	9,634	8.0	32,946	34,753	5.5	42,666	22.8	49,986	17.2
Operating Profit	15,705	16,944	7.9	51,790	64,297	24.2	77,509	20.5	97,288	25.5
Provision & Contingencies	6,574	4,399	(33.1)	18,797	21,406	13.9	20,417	(4.6)	24,893	21.9
Provision for tax	2,822	4,178	48.0	10,543	13,404	27.1	18,840	40.6	23,890	26.8
Reported Profit	6,309	8,366	32.6	22,450	29,487	31.3	38,252	29.7	48,505	26.8

HDFC Bank

Maintain Underperformer

Price: Rs 1,952

BSE Index: 17,694

24 April 2010

4QFY10 Result – Strong quarter: fairly valued

- HDFC Bank (HDFCB) reported in line results with profit growth of 32.6% YoY to Rs 8.4 bn. Key highlights of the quarter were above industry credit growth (27.3% YoY) with healthy sequential improvement in margins (up 10 bps QoQ and 20 bps YoY to 4.4%) and asset quality (gross NPAs down 8% QoQ and 8.6% YoY).
- Key positives:** a) CASA growth of 8.9% QoQ and 37.5% YoY coupled with flat term deposit growth helped improving CASA ratio to 52% (50% QoQ) and improve cost of deposits to 4.7% in FY10. b) Asset quality improves to 1.43% against 1.98% YoY and 1.63% QoQ, mainly due to substantially lower slippages. For FY10 slippages came down to ~2.1%. c) NPA coverage increased to 78.4% from 72.4% QoQ and credit costs were below ~1% in 4QFY10 due to higher recoveries helping profitability.
- Other highlights:** Fee-income growth has largely remained subdued with growth of 7.1% YoY and 5.7% QoQ due to one-offs in 4QFY09 and lower contribution from third party income. HDFCB maintains healthy CAR of 17.4% (Tier I – 13.3%).

B&K's view

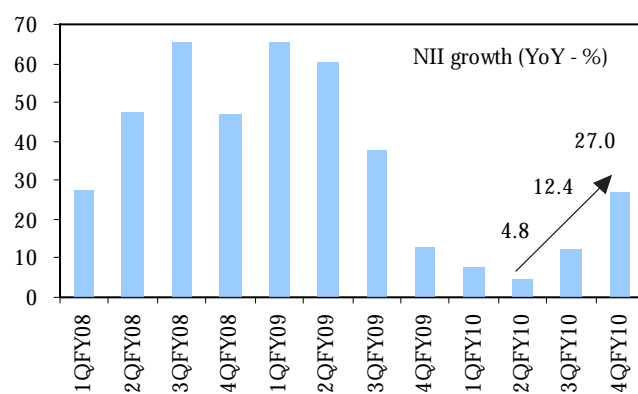
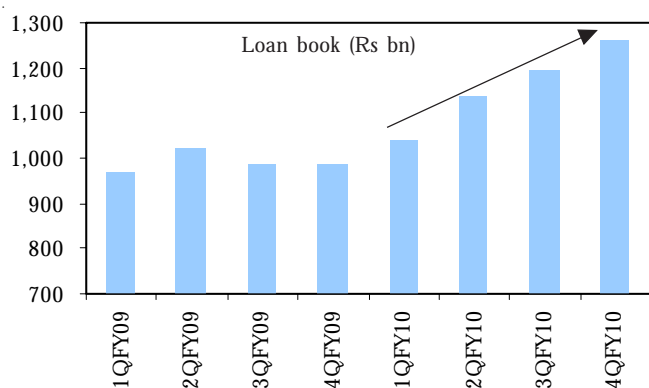
HDFCB has delivered strong growth with robust quality and profitability in FY10. The improvement in asset quality and substantial improvement in credit costs against industry has been the key highlight for FY10. We expect the bank to maintain 22-23% credit growth ahead of industry averages while maintaining its CASA ratio at ~48-50%. NIMs are likely to be marginally lower at ~4.3% due to change in saving account deposit rate computation. We believe lower treasury gains in FY11-12E will off-set the benefit arising out of improving operating efficiencies. However, lower credit costs in FY11-12E will support profit growth. We have revised our earnings estimates upwards by 10% for FY11E and introduce FY12E estimates. However, the recent outperformance of stock by 11% since 3QFY10 results and rich valuations of 3.8x FY11E and 3.2x FY12E ABV offer minimum upside in the near-term. Maintain Underperformer rating with a revised target price of Rs 1,935 (earlier Rs 1,597).

Business growth trends

(Rs bn)	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	YoY (%)	QoQ (%)
Deposits	1,428	1,457	1,498	1,548	1,674	17.2	8.2
Advances	989	1,038	1,137	1,196	1,258	27.3	5.2
Total Business	2,417	2,495	2,635	2,744	2,932	21.3	6.9
CASA	634	655	754	800	871	37.5	8.9
CASA ratio (%)	44.4	45.0	50.3	51.7	52.0	-	-

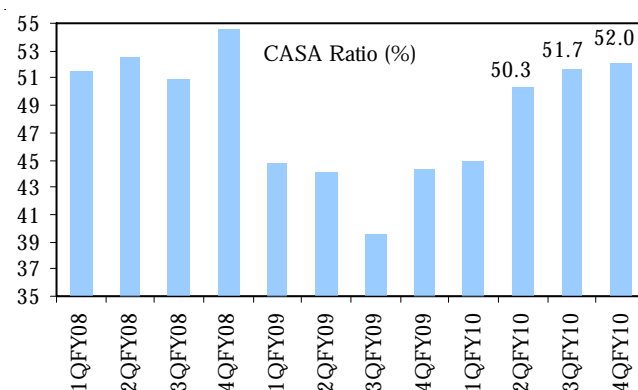
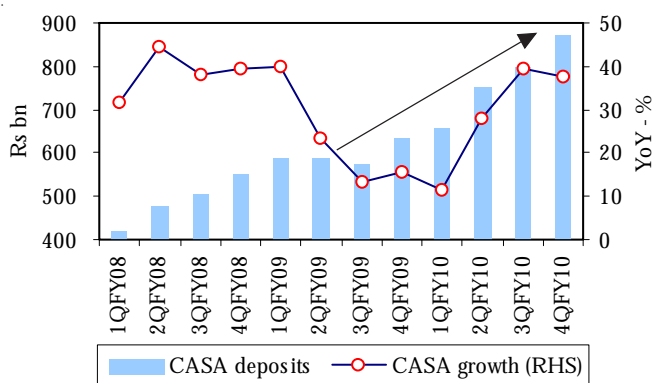
Key performance charts

Loan growth well above industry averages, growing by 27.3% YoY supporting NII growth



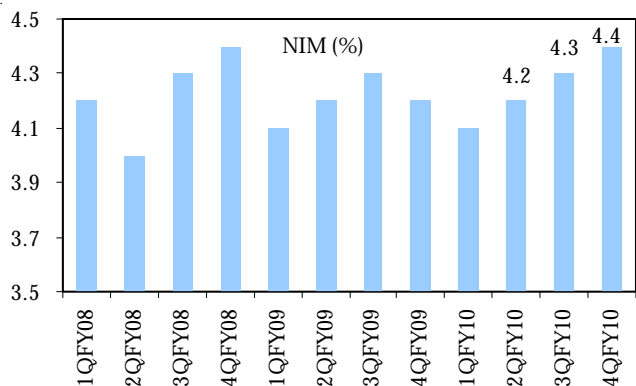
Source: Company, B&K Research

Robust CASA growth as the bank leverages its increased branch network and flat term deposit growth led to improvement in CASA ratio to 52%, average CASA at ~50% likely to remain in 48-50% range



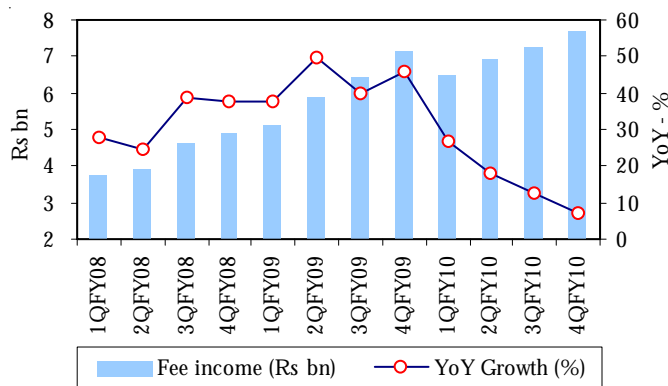
Source: Company, B&K Research

Margin trends upwards, improving to pre-merger levels

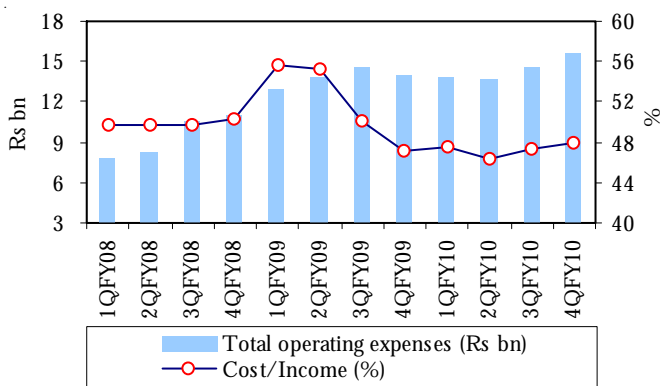


Source: Company, B&K Research

Fee-income growth remain subdued, improving sequentially

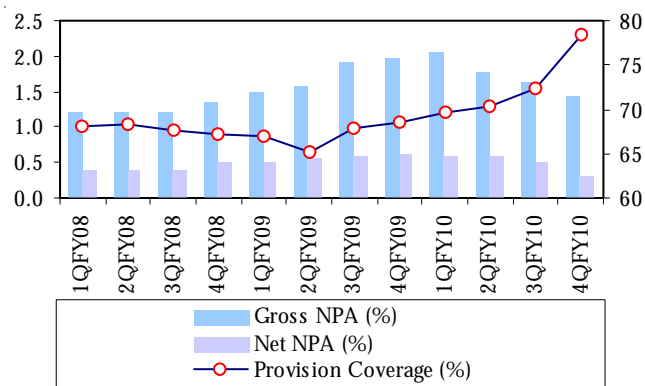


Operating leverage expected for further kick-in in FY11



Source: Company, B&K Research

Asset quality continues to improve with increasing coverage



Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Interest income	163,323	161,729	205,121	256,041
Interest expense	(89,111)	(77,863)	(104,659)	(133,574)
Net interest income	74,212	83,866	100,462	122,467
<i>Growth (%)</i>	<i>42.0</i>	<i>13.0</i>	<i>19.8</i>	<i>21.9</i>
Non-interest income	32,906	38,076	44,464	52,931
Operating income	107,118	121,942	144,925	175,398
Operating expenses	(55,328)	(57,645)	(67,417)	(78,110)
Pre-provisions profit	51,790	64,297	77,508	97,288
Core operating profit	47,964	60,846	75,265	95,830
Growth (%)	36.1	26.9	23.7	27.3
Provisions & Contingencies	(18,791)	(21,406)	(20,417)	(24,893)
Pre-tax profit	32,999	42,891	57,091	72,395
(before non-recurring items)				
Pre-tax profit	32,999	42,891	57,091	72,395
(after non-recurring items)				
Tax (current + deferred)	(10,549)	(13,404)	(18,840)	(23,890)
Net profit	22,449	29,487	38,251	48,505
Adjusted net profit	22,449	29,487	38,251	48,505
<i>Growth (%)</i>	<i>41.2</i>	<i>31.3</i>	<i>29.7</i>	<i>26.8</i>
Net income	22,449	29,487	38,251	48,505

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Cash and balance with RBI/Banks	175,066	299,424	275,370	337,154
Investments	588,175	586,076	714,180	888,281
Advances	988,830	1,258,306	1,541,516	1,895,113
Fixed assets (Net block)	17,067	21,228	23,812	26,581
Other assets	63,568	59,552	69,255	83,037
Total assets	1,832,708	2,224,586	2,624,133	3,230,167
Deposits	1,428,116	1,674,044	2,063,359	2,524,268
Borrowings	26,858	38,468	30,774	36,929
Other liabilities & provisions	227,206	301,455	288,454	388,074
Total liabilities	1,682,180	2,013,967	2,382,587	2,949,271
Share capital	4,254	4,577	4,577	4,577
Reserves & surplus	146,273	206,041	236,969	276,319
Shareholders' funds	150,527	210,619	241,546	280,896
Total equity & liabilities	1,832,708	2,224,586	2,624,133	3,230,167

Key Ratios

Yr end 31 Mar	FY09	FY10P	FY11E	FY12E
Operational & financial ratios (Rs)				
Adjusted EPS	52.8	64.4	83.6	106.0
DPS	10.0	12.0	16.0	20.0
Adjusted Book NAV/share	344.1	454.5	519.8	604.6
Profitability ratios (%)				
Yield on investment	7.4	6.8	7.0	7.0
Yield on advances	15.0	10.8	11.3	11.5
Yield on earning assets	10.8	8.3	8.8	9.1
Cost of deposits	6.6	4.5	5.1	5.3
Cost of funds	6.8	4.7	5.2	5.5
Performance ratios (%)				
RoA	1.4	1.5	1.6	1.7
RoE	16.1	15.7	16.3	17.8
Asset quality ratios (%)				
Gross NPLs	2.0	1.4	1.5	1.5
Net NPLs	0.6	0.3	0.4	0.3
Net NPLs/Net worth	4.0	1.8	2.2	2.1
Loan provisions/Net int. income	23.3	23.2	18.1	19.9
Loan provisions/Avg loans	2.1	1.7	1.3	1.4
Provisions cover	68.4	78.4	76.0	78.0
Provisions cover [incl General Provisions]	103.1	120.0	117.8	119.1
Capitalisation ratios (%)				
Tier I cap. adequacy	10.6	13.3	12.3	11.2
Total cap. adequacy	15.7	17.4	16.5	15.5
Equity/Total assets	0.2	0.2	0.2	0.1
Loans/Assets	54.0	56.6	58.7	58.7
Investments/Assets	32.1	26.3	27.2	27.5
Loans/Deposits	69.2	75.2	74.7	75.1
Investments/Deposits	41.2	35.0	34.6	35.2
Efficiency ratios (%)				
Cost/Income	51.7	47.3	46.5	44.5
Cost/Core income	53.6	48.6	47.2	44.9
Cost/Assets	3.5	2.8	2.8	2.7
Productivity ratios (Rs mn)				
Staff cost per employee	0.5	0.4	0.5	0.5
Assets per employee	40.5	42.4	49.5	59.0
Optg revenue per employee	2.4	2.3	2.7	3.2
Optg expense per employee	1.2	1.1	1.3	1.4
Adjusted net profit per employee	0.5	0.6	0.7	0.9
Valuation ratios (x)				
PER	37.0	30.3	23.4	18.4
Price/Adjusted book	5.7	4.3	3.8	3.2
Yield (%)	0.5	0.6	0.8	1.0

Dhaval Gala
dhaval.gala@bksec.com
+91-22-4031 7131

Anand Dama
anand.dama@bksec.com
+91-22-4031 7155

Analyst Declaration: We, Dhaval Gala & Anand Dama, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. 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 the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.