

October 20, 2010

HDFC Bank (HDFBAN)

Rs 2330

WHAT'S CHANGED...

PRICE TARGET Changed from 2349 to Rs 2559
EPS (FY11E) Changed from Rs 85.8 to Rs 86.6
EPS (FY12E) Changed from Rs 110.9 to Rs 113.5
RATING..... Changed from Add to Buy

Business growth surprises - A big positive...

HDFC Bank's Q2FY11 business growth of over 7% QoQ is way ahead of the industry, which stalled at 2.8%. This spooked up the market share in advances to 4.6% (up 80 bps in H1FY11) and deposits to 4.1% (up 50 bps in H1FY11). The bank witnessed a 38% YoY jump in the loan book to Rs 1,58,512 crore, up 32% after adjusting for one-off wholesale loans that is still way ahead of industry growth of 19%. Deposit mobilisation is up to a healthy 30% YoY to Rs 195321 crore. CASA ratio improved 143 bps QoQ to 50.6%. We expect it to stay ~50% levels till FY12E.

P&L in line, projections upgraded

The bank reported growth in business parameters ahead of our expectations but net interest income (NII) at Rs 2526 crore and PAT at Rs 912 crore is in line with estimates. We are revising our projections for FY12E PAT by 3% due to higher business growth. This would result in 33% CAGR in PAT over FY10-12E to Rs 5195 crore. We forecast 28% and 27% CAGR over FY10-12E in advances and deposits to Rs 207100 crore and Rs 268803 crore, respectively. NIM is likely to stay stable at 4.2%.

No surprises on asset quality, non-interest income growth a concern

GNPA @1.2%, NNPA @ 0.3% as against 1.8% GNPA and 0.5% NNPA in Q2FY10 looks very healthy. The NPA provision coverage ratio (excluding write-offs) stands at 78%. Total cumulative restructured assets were at 0.3% of the bank's gross advances, which is the lowest in the industry. The bank reported a fourth consecutive dip in non interest income to Rs 961 crore. MTM hit of Rs 52 crore in Q12FY11 against profit of Rs 151 crore in Q2FY10 was a drag. Overall, we expect 15% CAGR in non interest income over FY10-12E to Rs 5022 crore.

Valuation

We have recently seen the premium multiple at which the bank was trading to its peers shrink lately. Looking at the performance, we see no reason for such an occurrence. The bank's consistency in maintaining above industry growth, NIM over 4%, CASA at ~50%, 30%+ PAT growth demands higher premium. We estimate RoA of 1.7% and RoE of 20% for FY12E with stable asset quality. Therefore, we now value the bank at 4.3x FY12E ABV and arrive at a fair value of Rs 2559.

Exhibit 1: Financial Performance

Rs Crore	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	YoY Gr.(%)	QoQ Gr.(%)
NII	2526.3	2552.3	1955.8	2351.4	29.2	7.4
Other income	960.7	938.1	1007.4	903.6	-4.6	6.3
Total Income	3487.0	3490.4	2963.2	3254.9	17.7	7.1
PPP	1807.1	1859.6	1593.0	1694.4	13.4	6.7
PAT	912.1	909.3	687.5	836.6	32.7	9.0

Source: Company quarterly press release, ICICIdirect.com Research

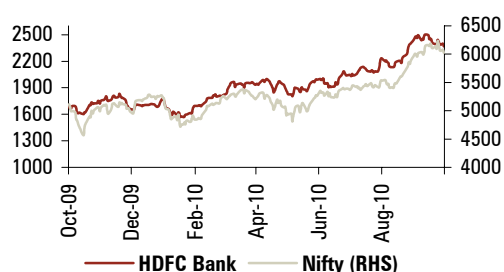
Rating matrix	
Rating	: Buy
Target	: Rs 2559
Target Period	: 12 months
Potential Upside	: 10%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	7421	8386	10571	13423
PPP	5179	6429	7960	10178
PAT	2245	2949	3963	5195

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs Cr)	2244.9	2948.7	3963.0	5194.9
EPS (Rs)	52.8	64.4	86.6	113.5
Growth (%)	17.6	22.1	34.4	31.1
ABV (Rs)	329.6	461.6	518.7	595.0
P/E (x)	44.7	36.7	27.3	20.8
Price / Book (x)	6.9	5.0	4.4	3.9
Price / ABV (x)	7.2	5.1	4.6	4.0
GNPA (%)	2.0	1.4	1.2	1.1
NNPA (%)	0.6	0.3	0.3	0.2
RoNA (%)	1.4	1.5	1.6	1.7
RoE (%)	17.2	16.3	17.3	20.0

Stock data	
Market Capitalisation	Rs 106667 crore
GNPA (Q2FY11)	Rs 1841 crore
NNPA (Q2FY11)	Rs 409 crore
NIM (Q2FY11)	4.2 %
52 week H/L	2518 / 1550
Equity capital	Rs 457 crore
Face value	Rs.10
DII Holding (%)	10.2
FII Holding (%)	29.7

Price movement



Analyst's name

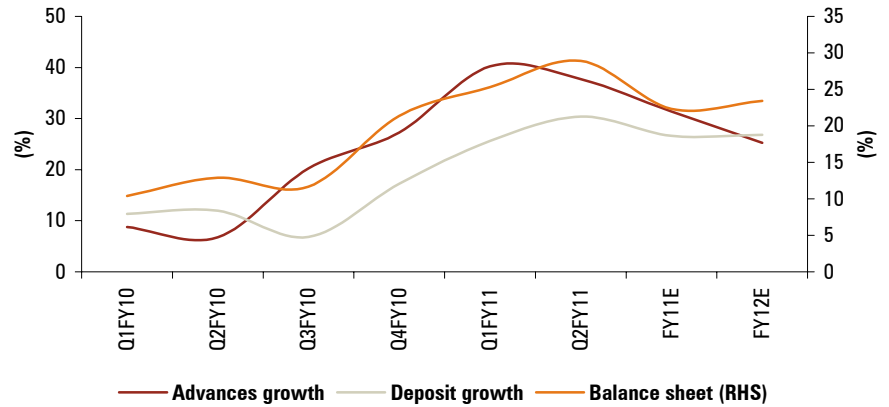
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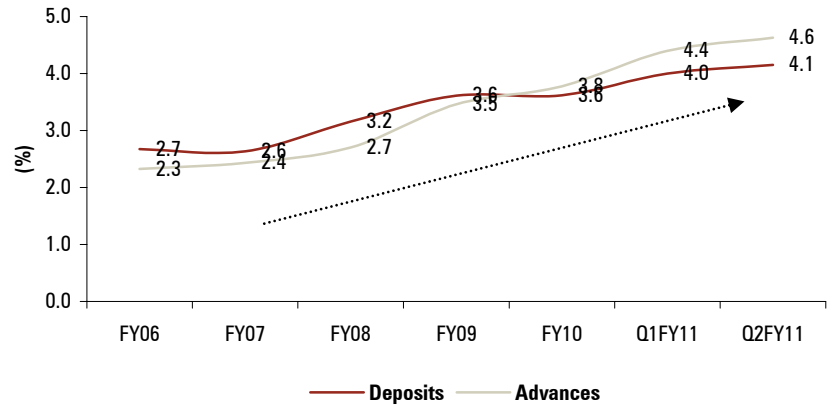
Exhibit 2: Balance sheet growth well on track

The growth in the loan book was boosted by short-term wholesale loans to the tune of Rs 10,000 crore. Even after excluding the one-off, the loan book registered a healthy 30% YoY growth



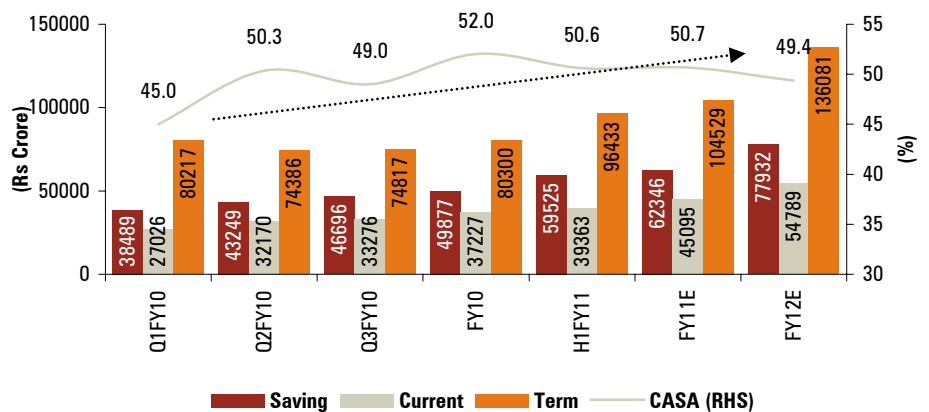
Source: Company quarterly press release, ICICIdirect.com Research

Exhibit 3: Market share on a roll



Source: WSS-RBI, Company quarterly press release, ICICIdirect.com Research

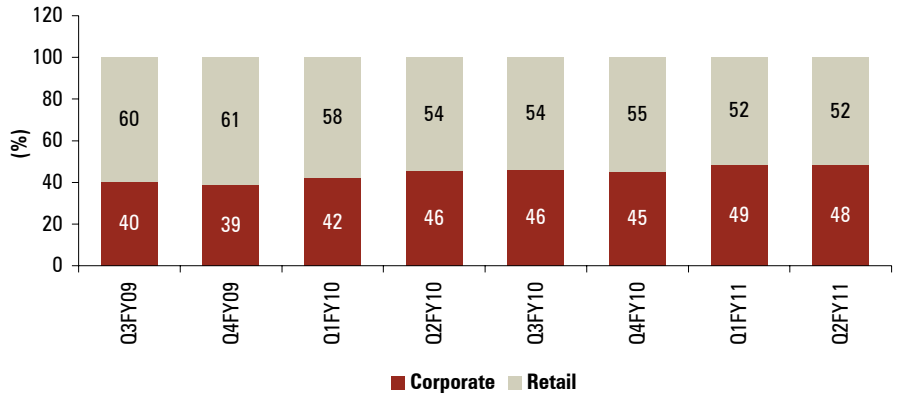
Exhibit 4: CASA to stabilise around 50%



Source: Company quarterly press release, ICICIdirect.com Research,

The corporate portfolio, which contributed 40% in FY09, now accounts for 48% of the total loan book of the bank

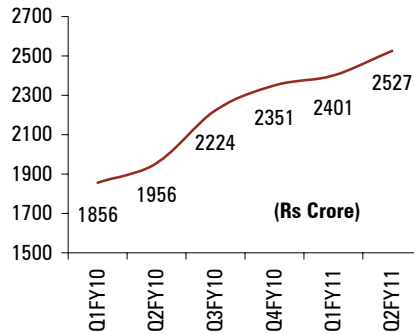
Exhibit 5: Incremental loan growth in Q2FY11 comes from retail book



Source: Company quarterly press release, ICICIdirect.com Research

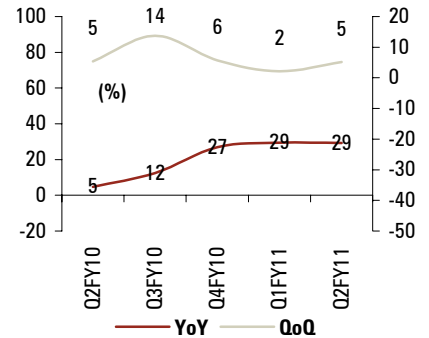
Income Analysis

Exhibit 6: Trend in net interest income



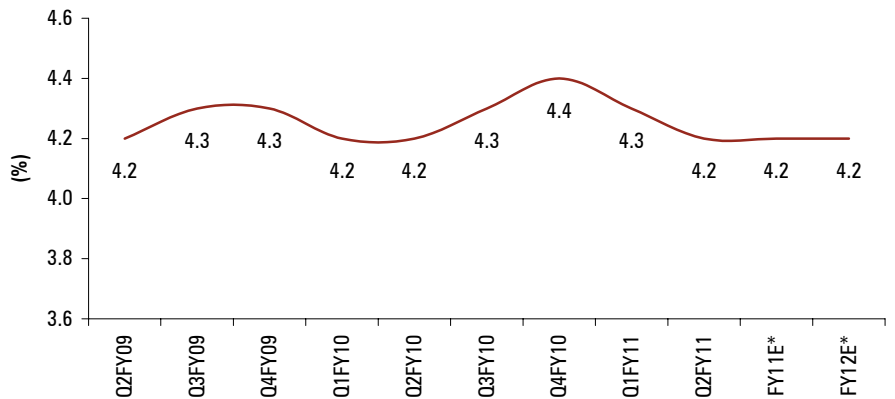
Source: Company, ICICIdirect.com Research

Exhibit 7: NII growth strong YoY



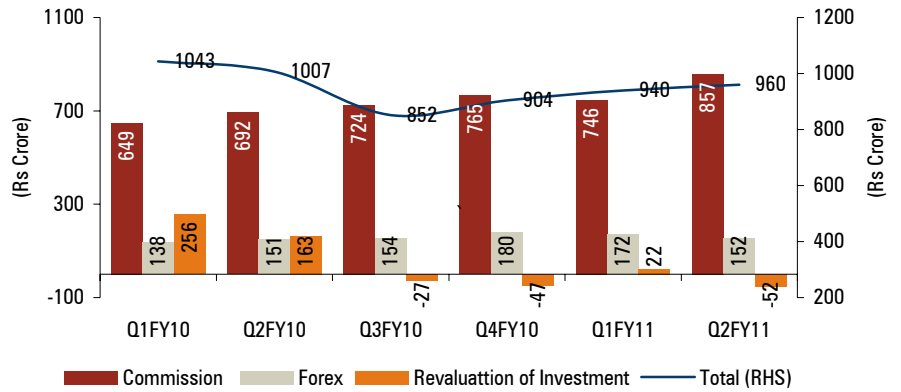
Source: Company, ICICIdirect.com Research

Exhibit 8: NIM stable despite higher interest cost



Source: Company quarterly press release, ICICIdirect.com Research * - Calculated NIM

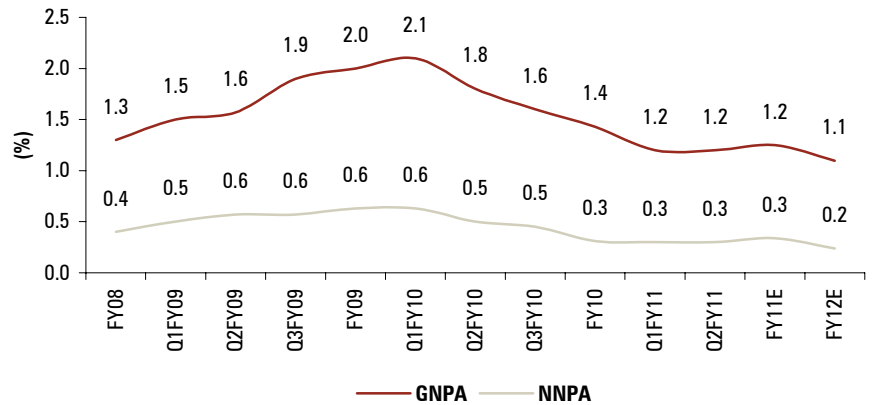
Exhibit 9: Treasury gains disappoint, fee income stable



Source: Company quarterly press release, ICICIdirect.com Research

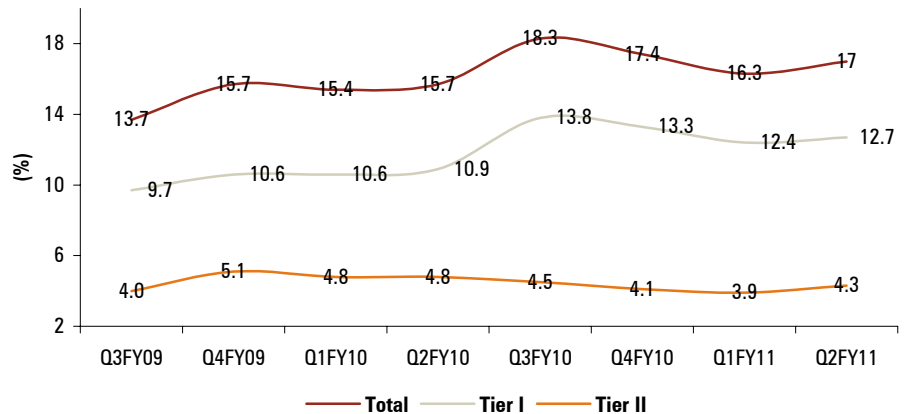
Exhibit 10: Consistent on asset quality

Provision coverage ratio excluding write-off stands at 78%



Source: Company quarterly press release and annual report, ICICIdirect.com Research

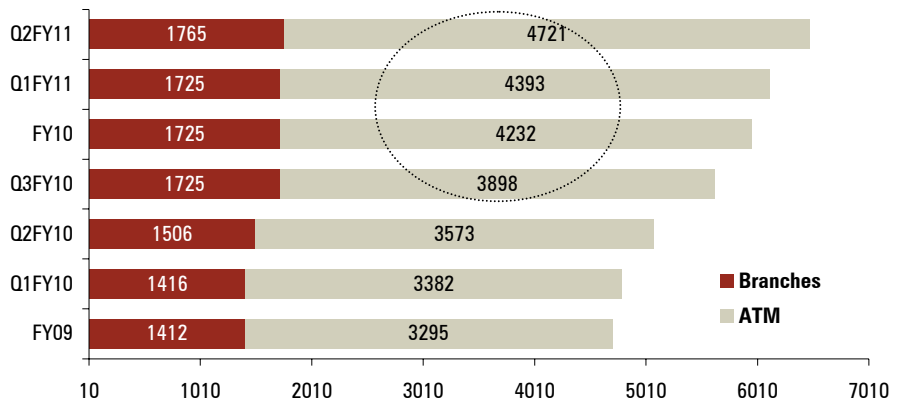
Exhibit 11: CAR to remain strong on healthy accruals



Source: Company quarterly press release and annual report, ICICIdirect.com Research

Exhibit 12: Distribution platform expanding fast

The bank is planning to add another 150-200 branches in FY11E. Of this, the bank has opened 40 branches in H1FY11



Source: Company quarterly press release and annual report, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	522	FY10	1741.1	33.1	15.8	2.6	0.7	12.6
		Target	525	FY11E	2895.1	55.0	9.5	2.2	1.0	18.8
Mcap (Rs Cr)	27452	Upside (%)	0.6	FY12E	3768.9	62.3	8.4	1.8	1.1	19.9
Bank of Baroda					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	964	FY10	3058.3	83.7	11.5	2.9	1.2	21.9
		Target	918	FY11E	3683.2	100.8	9.6	2.3	1.2	21.9
Mcap (Rs Cr)	35237	Upside (%)	-4.8	FY12E	4373.2	119.6	8.1	1.9	1.2	21.1
Dena Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	116	FY10	511.3	17.8	6.5	1.7	1.0	21.4
		Target	127	FY11E	621.0	18.2	6.4	1.4	1.0	20.3
Mcap (Rs Cr)	3327	Upside (%)	9.5	FY12E	746.0	21.8	5.3	1.2	1.0	19.5
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	155	FY10	707.0	13.0	11.9	1.9	0.6	11.5
		Target	145	FY11E	996.3	18.3	8.5	1.5	0.7	14.6
Mcap (Rs Cr)	8444	Upside (%)	-6.5	FY12E	1287.4	23.6	6.6	1.2	0.8	16.4
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	161	FY10	1031.1	8.8	18.4	2.4	0.5	13.2
		Target	150	FY11E	1267.2	12.9	12.5	1.8	0.5	12.3
Mcap (Rs Cr)	11670	Upside (%)	-6.8	FY12E	1683.8	17.1	9.4	1.5	0.6	12.8
OBC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	480	FY10	1134.7	45.3	10.6	1.6	0.9	14.5
		Target	545	FY11E	1533.9	61.2	7.8	1.4	1.0	17.2
Mcap (Rs Cr)	12026	Upside (%)	13.5	FY12E	1851.2	73.9	6.5	1.1	1.0	17.7
Punjab National Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1301	FY10	3905.4	123.9	10.5	2.7	1.4	23.9
		Target	1218	FY11E	4854.6	154.0	8.4	2.2	1.5	24.7
Mcap (Rs Cr)	41021	Upside (%)	-6.4	FY12E	5788.5	183.6	7.1	2.0	1.5	25.5
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	3088	FY10	91.7	144.4	21.4	3.6	0.9	14.8
		Target	3210	FY11E	113.2	160.5	19.2	2.7	1.0	14.4
Mcap (Rs Cr)	8444	Upside (%)	4.0	FY12E	142.1	201.5	15.3	2.4	1.0	14.7
Syndicate Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SYNBN	CMP	130	FY10	813.3	15.6	8.3	1.6	0.6	15.3
		Target	144	FY11E	1094.6	21.0	6.2	1.4	0.7	18.2
Mcap (Rs Cr)	6786	Upside (%)	10.8	FY12E	1380.6	26.4	4.9	1.3	0.8	20.5
Union Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	403	FY10	2074.9	41.1	9.8	2.6	1.2	26.2
		Target	398	FY11E	2444.0	48.4	8.3	2.2	1.1	24.8
Mcap (Rs Cr)	20356	Upside (%)	-1.2	FY12E	2948.7	53.1	7.6	1.7	1.2	22.8
Axis Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1457	FY10	2514.5	62.1	23.5	3.8	0.4	1.7
		Target	1520	FY11E	3008.4	74.3	19.6	3.3	0.4	1.3
Mcap (Rs Cr)	59034	Upside (%)	4.3	FY12E	3825.8	94.4	15.4	2.8	0.3	1.2
Dhanlaxmi Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	188	FY10	23.3	3.6	51.7	3.0	0.3	5.4
		Target	191	FY11E	61.2	7.2	26.1	2.0	0.6	9.5
Mcap (Rs Cr)	1205	Upside (%)	1.6	FY12E	101.1	11.9	15.8	1.9	0.7	11.2
HDFC Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	2330	FY10	2948.7	64.4	36.2	5.0	1.5	16.3
		Target	2559	FY11E	3963.0	86.6	26.9	4.5	1.6	17.3
Mcap (Rs Cr)	106667	Upside (%)	9.8	FY12E	5194.9	113.5	20.5	3.9	1.7	20.0
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	509	FY10	561.1	8.1	64.3	8.5	1.7	13.5
		Target	454	FY11E	793.6	10.9	47.6	6.5	1.9	15.0
Mcap (Rs Cr)	17698	Upside (%)	-10.8	FY12E	1009.7	13.8	37.4	5.9	2.0	15.7
South Indian Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	27.4	FY10	233.7	2.1	13.3	2.2	1.1	17.9
		Target	32.0	FY11E	272.5	2.4	11.4	2.0	1.0	17.4
Mcap (Rs Cr)	3090	Upside (%)	16.8	FY12E	335.6	3.0	9.2	1.7	1.0	18.6
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	350	FY10	477.7	14.1	24.9	3.9	1.6	20.3
		Target	365	FY11E	685.7	20.2	17.3	3.2	1.6	20.2
Mcap (Rs Cr)	10510	Upside (%)	4.3	FY12E	885.6	26.1	13.4	2.7	1.5	21.6

Continued...

NBFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	200	FY10	1117.0	8.2	24.5	3.8	3.2	16.2
		Target	215	FY11E	1327.5	8.5	23.4	2.8	3.2	14.2
Mcap (Rs Cr)	29220	Upside (%)	7.5	FY12E	1678.2	10.5	19.0	2.5	3.3	13.7
LICHF					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	LICHF	CMP	1330	FY10	662.1	69.7	19.1	3.6	1.9	22.7
		Target	1506	FY11E	856.7	90.2	14.7	3.0	1.9	21.8
Mcap (Rs Cr)	12628	Upside (%)	13.2	FY12E	1025.5	108.0	12.3	2.5	1.8	21.9
Rel Cap					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	RELCAP	CMP	826	FY10	434.6	17.7	46.8	2.7	2.0	5.7
		Target	852	FY11E	787.9	32.0	25.8	2.5	3.4	9.9
Mcap (Rs Cr)	20289	Upside (%)	3.1	FY12E	826.7	33.6	24.6	2.3	3.2	9.7
Brokerage firms										
Edelweiss Capital					NP (Rs Cr)	EPS (Rs)*	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	EDECAP	CMP	59.5	FY10	229.2	30.5	19.5	2.0	5.5	11.2
		Target	65.0	FY11E	270.2	3.6	16.5	1.8	4.1	12.1
Mcap (Rs Cr)	447	Upside (%)	9.2	FY12E	290.8	3.9	15.4	1.6	3.1	11.8
India Infoline					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	INDINF	CMP	113	FY10	232.0	8.1	15.7	2.3	5.7	14.9
		Target	141	FY11E	237.1	8.3	15.4	2.0	3.9	14.3
Mcap (Rs Cr)	3221	Upside (%)	24.8	FY12E	286.2	10.0	12.8	1.8	4.8	15.5
MOFSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	206	FY10	170.4	11.9	18.2	3.4	10.3	18.6
		Target	224	FY11E	183.2	12.5	17.3	2.8	9.8	16.9
Mcap (Rs Cr)	2945	Upside (%)	8.7	FY12E	198.7	13.6	15.9	2.4	9.1	15.6

*Adjusted for bonus and stock split

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 Add: Up to 10%;
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