

January 28, 2011

Reco Previous Reco
Hold Reduce

CMP Target Price
Rs2,052 Rs2,100

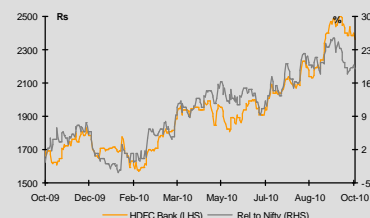
EPS change CY10E/11E (%) NA
Target Price change (%) NA
Nifty 5,604
Sensex 18,684

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(9)	(2)	29
Rel. to Nifty	(3)	(2)	(6)	11

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	4643
Face Value(Rs)	10
No of shares o/s (mn)	464
52 Week H/L	2,518/1,550
Market Cap (Rs bn/USD mn)	953/20,880
Daily Avg Volume (No of sh)	890654
Daily Avg Turnover (US\$m)	43.9

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	23.4	23.5	23.6
FII/NRI	48.1	48.5	46.5
Institutions	10.9	10.2	11.3
Private Corp	8.5	8.6	9.2
Public	9.2	9.3	9.5

Source: Capitaline

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- **HDFC bank results inline with expectation with NII at Rs27.8bn and Net profit at Rs10.9bn**
- **The NII has grown by strong 9.9% qoq driven by stable NIM's at 4.2% and moderate growth in advances (1.3%qoq), albeit core advance growth strong at 5-6%qoq**
- **Other positive highlights were (1) CASA maintained at 50.5% and (2) improvement in asset quality**
- **Stability in parameters like NIMs, NII and asset quality as expected. But, the valuations at 3.8x/3.2x FY11E/FY12E ABV still not reasonable. Upgrade to HOLD; upside very limited**

NII growth in line with expectations

HDFC Bank's NII grew by 24.9% yoy to Rs27.8bn driven by 33.1% yoy growth in advances (1.3% qoq) and stable NIMs at 4.2%. The NIM's for the quarter remain stable at 4.2% benefiting from 239bps expansion in CD ratio to 83%.

Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	10.4	9.9	9.7	9.7	10.0	-43	30
Yield on investments*	6.5	6.6	7.1	7.1	7.7	127	67
Yield on assets*	8.1	7.6	7.8	8.0	8.4	27	41
Cost of funds*	3.6	3.2	3.5	3.8	3.9	29	15
NIM*	4.5	4.4	4.2	4.2	4.4	-2	26
NIM (Reported)	4.2	4.4	4.3	4.2	4.2	0	0

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

.....Balance sheet flat qoq as short term 3G advances got repaid

Balance sheet remained flat qoq at Rs2.5tn as advances grew by a moderate 1.3% qoq, while deposits declined by 1.6%qoq. The balance sheet growth was flat as short term loans worth Rs70-80bn taken by telecom companies for 3G licenses in Q1FY11, got repaid during the quarter. Adjusted for which the balance sheet growth would have been at 5-6%qoq.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	107,118	22,449	52.8	319.6	1.4	17.2	38.9	6.4
FY2010	121,942	29,487	64.4	451.6	1.5	16.3	32.7	4.5
FY2011E	150,749	40,482	87.3	533.4	1.6	17.2	23.8	3.8
FY2012E	187,655	53,266	113.3	640.0	1.6	19.0	18.1	3.2

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	22,239	23,514	24,011	25,263	27,767	24.9	9.9	77,041	60,353	27.7
Other Income	8,530	9,036	9,399	9,607	11,278	32.2	17.4	30,284	29,032	4.3
Fee Income	7,237	7,653	7,457	8,570	9,428	30.3	10.0	25,455	20,654	23.2
Net Income	30,769	32,550	33,410	34,870	39,045	26.9	12.0	107,325	89,385	20.1
Total Operating Expenses	14,532	15,605	15,923	16,799	18,318	26.1	9.0	51,040	42,040	21.4
As % Of Net Income	47.2	47.9	47.7	48.2	46.9			47.6	47.0	
Employee Expenses	5,786	5,972	6,671	7,106	7,251	25.3	2.0	21,027	16,920	24.3
As % Of Net Income	18.8	18.3	20.0	20.4	18.6			19.6	18.9	
Other Expenses	8,746	9,634	9,252	9,693	11,068	26.5	14.2	30,013	25,119	19.5
As % Of Net Income	28.4	29.6	27.7	27.8	28.3			28.0	28.1	
Operating Profit	16,237	16,944	17,487	18,071	20,727	27.7	14.7	56,285	47,345	18.9
As % Of Net Income	52.8	52.1	52.3	51.8	53.1			52.4	53.0	
Provisions	4,477	4,399	4,377	4,545	4,659	4.1	2.5	13,580	17,006	-20.1
Prov for NPA	4,379	4,399	3,651	4,450	2,929	-33.1	-34.2	11,030	16,908	-34.8
PBT	11,760	12,545	13,111	13,526	16,068	36.6	18.8	42,705	30,339	40.8
Total Tax	3,575	4,178	3,820	4,405	5,190	45.2	17.8	13,415	9,226	45.4
Adjusted PAT	8,185	8,367	9,291	9,121	10,878	32.9	19.3	29,290	21,113	38.7
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	8,185	8,367	9,291	9,121	10,878	32.9	19.3	29,290	21,113	38.7
Reported EPS	18.0	18.3	20.2	19.7	23.4	30.3	18.8	63.4	48.0	32.0

Source: Company, Emkay Research

Core advances growth strong at 5-6%qoq

The advance growth during the quarter was lower at 1.3%qoq as some big ticket short term loan got repaid during the quarter. These short term loans pertain to the 3G licenses, which were given in Q1FY11. Adjusted for which the growth would have been higher at ~5-6%qoq.

Advances mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Retail advances	663	720	761	820	899	35.7	9.7	56.5
Wholesale advances	534	539	702	751	693	29.8	-7.8	43.5
Total	1,196	1,258	1,462	1,571	1,592	33.1	1.3	100.0

Source: Company, Emkay Research

However Retail advances growth was strong at 9.7%qoq at Rs899bn driven by Home loans (retained on book), CV/CE and business banking loans.

Retail advances mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Auto Loans	181	196	214	232	246	35.9	6.0	27.4
Personal Loans	85	88	90	95	100	17.1	5.3	11.1
CVs	84	94	100	112	125	48.8	11.6	13.9
Loan Against Securities	9	10	10	11	12	27.8	9.5	1.3
2-Wheelers	18	18	19	20	22	19.4	7.5	2.4
Business Banking	127	139	144	158	179	40.6	13.3	19.9
Credit Cards	38	38	39	42	46	19.7	9.6	5.1
Home loans	78	87	95	91	110	41.3	20.3	12.2
Others	43	50	49	61	62	44.2	2.5	6.9
Total	663	720	761	820	899	35.7	9.7	100.0

Source: Company, Emkay Research

CASA profile stable as bank sheds some term deposits

The CASA was maintained at 50.5% for the quarter as HDFC Bank shed some term deposits during the quarter. The term deposits declined by ~1.3% qoq in Q3FY11.

CASA Mix

Rs bn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Current Deposits	333	372	362	394	360	8.3	-8.5
Saving	467	499	539	595	610	30.7	2.5
CASA	800	871	900	989	971	21.4	-1.8
Term deposits	748	803	930	964	951	27.2	-1.3
Total Deposits	1,548	1,674	1,830	1,953	1,922	24.2	-1.6
CASA (%)	51.7	52.0	49.2	50.6	50.5	-117	-13

Source: Company, Emkay Research

Other income strong helped by higher forex and fee income

The other income grew by a strong 17.4% qoq led by 40%qoq growth in forex gains and 10%qoq growth in fee income. As expected, the bank reported treasury loss of Rs307mn during the quarter.

Fee income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	7,237	7,653	7,457	8,570	9,428	30.3	10.0	25,455	20,654	23.2
Trading gains/(losses)	-265	-473	224	-521	-307	15.8	-41.1	-604	3,924	-115.4
Others	1,558	1,856	1,718	1,558	2,168	39.2	39.2	5,444	4,454	22.2
Total	8,530	9,036	9,399	9,607	11,278	32.2	17.4	30,284	29,032	4.3

Source: Company, Emkay Research

Note: During the quarter the total fees were gross of charges paid to other banks for use of their ATMs whereas earlier it was netted off from fee income. To that extent the fee income growth is overstated.

Asset quality shows further improvement

The asset quality improved as the gross NPAs declined by 3.2%qoq, while Net NPA declined by a higher 19.1%qoq. We believe that the sharper fall in net NPAs could be because of lower write back of provisions on upgrades and recoveries. As a result the provision coverage also improved by to 81.4% from 77.8% in Q2FY11.

Asset quality

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	19,741	18,168	17,912	18,412	17,818	-9.7	-3.2
Net NPAs	5,440	3,921	4,125	4,085	3,307	-39.2	-19.1
Gross NPAs (%)	1.6	1.4	1.2	1.2	1.1		
Net NPAs (%)	0.5	0.3	0.3	0.3	0.2		
Net NPAs/Net worth (%)	2.6	1.8	1.8	1.7	1.3		
Provision cover (%)	72.4	78.4	77.0	77.8	81.4		

Source: Company, Emkay Research

Provisions continue to trend down

The pressure on credit costs have also moderated (which rose sharply post CBOP merger) as the provisions for Q3Y11 were Rs2.9bn. The credit cost at 0.7% of advances is back to pre-CBOP merger level. The bank also provided Rs~1.1bn towards probable doubtful debt in MFI segment.

Capital adequacy ratio comfortable

The bank's CAR stood at comfortable 16.3% as at 31December 2010, with tier I at 12.1% which is very comfortable for at least next 18-24 month's growth.

Valuations and view

Stability in HDFC Bank's operating parameters like NIMs, NII and asset quality is in line with our expectations. However, the valuations at 3.8x FY11E and 3.2x FY12E ABV are still not very reasonable. Upgrade to HOLD with TP of Rs2100. We do not see any great upside in the stock.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	74,212	83,866	106,394	133,324
Other income	32,906	38,076	44,355	54,331
Net income	107,118	121,942	150,749	187,655
Operating expenses	55,328	57,645	69,909	85,469
Pre provision profit	51,790	64,297	80,840	102,186
PPP excl treasury	55,895	67,778	82,240	103,586
Provisions	18,797	21,406	19,503	21,479
Profit before tax	32,992	42,891	61,337	80,706
Tax	10,543	13,404	20,855	27,440
Tax rate	32.0%	31.3%	34.0%	34.0%
Profit after tax	22,449	29,487	40,482	53,266

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	4,254	4,577	4,639	4,701
Reserves	142,209	210,648	250,235	302,351
Net worth	146,463	215,225	254,874	307,052
Deposits	1,428,116	1,674,044	2,141,555	2,759,268
Borrowings	254,119	336,300	349,957	360,636
Total liabilities	1,828,699	2,225,569	2,746,386	3,426,956
Assets				
Cash and bank	175,066	299,424	234,601	302,270
Investments	568,747	574,683	663,819	836,779
Customer assets	1,008,259	1,269,699	1,753,025	2,184,820
Others	80,636	81,763	94,940	103,087
Total assets	1,832,708	2,225,569	2,746,386	3,426,956

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	4.7	4.1	4.3	4.3
Non-ll/avg assets	2.1	1.9	1.8	1.8
Fee income/avg assets	2.7	2.5	2.6	2.6
Opex/avg assets	3.5	2.8	2.8	2.8
Provisions/avg assets	2.0	1.7	1.2	1.0
PBT/avg assets	2.1	2.1	2.5	2.6
Tax/avg assets	0.7	0.7	0.8	0.9
RoA	1.4	1.5	1.6	1.6
RoAE	17.2	16.3	17.2	19.0
GNPA (%)	2.0	1.4	1.0	0.8
NNPA (%)	0.6	0.3	0.2	0.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	22,449	29,487	40,482	53,266
Shares in issue (mn)	425	458	464	470
EPS (Rs)	52.8	64.4	87.3	113.3
PER (x)	38.9	31.9	23.5	18.1
FDEPS(Rs)	52.8	62.7	86.1	113.3
FDPER (x)	38.9	32.7	23.8	18.1
Book value (Rs)	334.3	460.2	539.4	643.2
P/BV (x)	6.1	4.5	3.8	3.2
Adj book value (Rs)	319.6	451.6	533.4	640.0
P/ABV (x)	6.4	4.5	3.8	3.2
P/PPP (x)	16.9	14.6	11.8	9.4
Dividend yield (%)	0.5	0.6	0.6	0.6

Recommendation History: HDFC Bank – HDFCB IN

Date	Reports	Reco	CMP	Target
19/10/2010	HDFC Bank Q2FY11 Result Update	Reduce	2,366	2,100
20/07/2010	HDFC Bank Q1FY11 Result Update	Hold	2,050	1,950
26/04/2010	HDFC Bank Q4FY10 Result Update	Accumulate	1,944	1,950
18/01/2010	HDFC Bank Q3FY10 Result Update	Reduce	1,691	1,500

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2011	United Bank of India Q3FY11 Result Update	Buy	95	130
24/01/2011	ICICI Bank Q3FY11 Result Update	Hold	1,084	1,200
24/01/2011	Union Bank of India Q3FY11 Result Update	Hold	338	370
24/01/2011	State Bank of India Q3FY11 Result Update	Accumulate	2,598	3,000

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