

HDFC Bank

ADD

Limited upside to target price; downgrade to Add

CMP: Rs2,350

Target Price: Rs2,540

- Recent outperformance leaves ~8% upside to target price
- Valuation multiples have converged to historical averages
- For longer-term investors, we remain convinced on underlying operating fundamentals and would buy on dips
- Downgrade to Add, maintain price target at Rs2,540

Limited upside to target price after recent outperformance: We downgrade the stock to Add, given ~8% upside to our 12-month price target of Rs2,540. We had reiterated our Buy rating in our 28 February 2011 note "*Management call boosts confidence, reiterate Buy*" and since then the stock has outperformed Bank Nifty by ~1.5%. We recommend investors to take some profit off the table. However, we would revert to Buy rating, should stock price fall close to Rs2,200. There is no change to our earnings estimate.

Maintain our long-term bullish view on the stock: For long-term investors, we remain convinced on HDFC Bank's solid execution skills. The bank boasts of prudent loan growth, 30%+ PAT growth, higher profitability ratios (RoA > 1.6%, RoE ~21%), highest low-cost deposit (CASA) share among peer banks, lower and consistent ALM policy, and strong lending practice that not only enables the bank to report NIM in excess of 4% but also lowers overall credit costs. To put it in correct perspective, we believe the stock exhibits characteristics of safety in bank fixed deposit, while delivering much higher returns.

Valuation: Our target price of Rs2,540 is weighted average of blended DCF, P/B and P/E multiple valuation. Our target price reflects 3.9x FY12E adjusted book and 22.9x FY12E EPS. The stock trades at 3.6x FY12E adjusted book and 21.4x FY12E EPS, in line with average historical multiples commanded by the bank (3.6x 12-month forward adjusted book and 21.7x forward EPS). Given limited upside (~8%) to our target price, we downgrade the stock to Add from Buy.

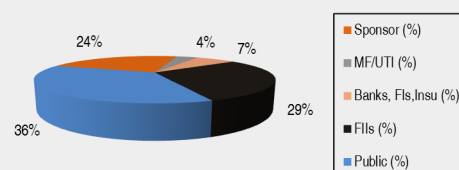
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

Bloomberg	HDFCB IN
Reuters	HDBK.BO
52-wk H/L (Rs)	2,518/1,785
6-m avg trd value	US\$46.3mn
Market cap	Rs1,106.2bn/US\$25.0bn
Shares o/s	465.2mn
Face value	Rs10

Source: Bloomberg

SHAREHOLDING (%)



Source: CMIE

As of 31 December 2010

PRICE PERFORMANCE



Source: Bloomberg

KEY FINANCIALS

(Rs mn)

Y/E 31 March	2010	2011E	2012E	2013E
Net interest income	83,866	104,234	120,838	153,109
Other income	38,076	41,963	57,410	73,923
EPS (Rs)	64.4	84.3	110.8	144.4
NIM	4.28%	4.40%	4.17%	4.16%
RoE	16.8%	16.2%	18.3%	20.3%
NPA coverage ratio	78.4%	82.0%	84.0%	85.0%
Tier 1 capital	13.3%	13.2%	12.5%	11.2%
P/ E (x)	-	28.19	21.45	16.47
P/ Adj. BV (x)	-	4.55	3.90	3.28

Source: Company, BRICS Research

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Exhibit 1: Valuation summary			(Rs)
Methodology		Weight	Valuation
Book value per share (FY12)	643.9		
P/BV multiple	3.7x		
Value per share	2,419	40%	968
Earnings per share (FY12)	110.8		
P/E multiple	21.6x		
Value per share	2,394	30%	718
DCF	2,868	30%	860
Blended value per share (rounded)			2,540

Source: Company

Financial summary

Income statement (Rs mn)

Y/E 31 March	2010	2011E	2012E	2013E
Net interest income	83,866	104,234	120,838	153,109
<i>Growth</i>	13.0%	24.3%	15.9%	26.7%
Other income	38,076	41,963	57,410	73,923
Total income (net of interest expense)	121,942	146,197	178,249	227,033
Employee expenses	22,892	28,324	33,356	42,185
Other operating expenses	34,753	40,959	50,034	63,277
Operating expenses	57,645	69,283	83,390	105,462
Operating profit	64,297	76,914	94,859	121,571
<i>Growth</i>	24.2%	19.6%	23.3%	28.2%
Provisions and contingencies	21,400	19,209	20,055	24,118
PBT	42,897	57,705	74,804	97,453
Provision for tax	13,410	18,541	23,339	30,405
PAT	29,487	39,163	51,465	67,048
<i>Growth</i>	31.3%	32.8%	31.4%	30.3%

Balance sheet (Rs mn)

Y/E 31 March	2010	2011E	2012E	2013E
Total Assets	2,224,586	2,496,329	3,149,156	4,215,115
Total equity	215,196	253,122	293,722	347,459
Borrowings	129,157	36,057	20,309	367,889
Deposits	1,674,044	2,016,201	2,592,068	3,170,558
CASA Deposits	871,039	985,922	1,197,535	1,525,038
Advances	1,258,306	1,590,644	2,006,621	2,532,620
Investments	586,076	615,660	792,599	1,272,239

Per share data and key ratios

Y/E 31 March	2010	2011E	2012E	2013E
Diluted EPS (Rs)	64.4	84.3	110.8	144.4
RoAA	1.53%	1.59%	1.72%	1.77%
RoAE	16.80%	16.21%	18.32%	20.29%
BV / share (Rs)	470	545	633	748
Adj. BV / share (Rs)	446	522	610	725
Other income % of net revenues	31.2%	28.7%	32.2%	32.6%
Cost / income ratio	47.3%	47.4%	46.8%	46.5%
Dividends / share	12.0	15.5	20.0	24.5
Effective tax rate	31.3%	32.1%	31.2%	31.2%
CASA % of deposits	52.0%	48.9%	46.2%	48.1%
Credit / deposit ratio	75.2%	78.9%	77.4%	79.9%

Yields and rates

Y/E 31 March	2010	2011E	2012E	2013E
NIM	4.28%	4.40%	4.17%	4.16%
Net interest spread	3.67%	3.76%	3.44%	3.43%
Yield on advances	10.49%	9.65%	10.20%	10.31%
Cost of deposits	4.60%	0.00%	0.00%	0.00%
Cost of funds	4.68%	4.55%	5.11%	5.09%

Capital ratios

Y/E 31 March	2010	2011E	2012E	2013E
Tier I	13.3%	13.2%	12.5%	11.2%
Total CRAR	17.4%	16.4%	14.9%	13.1%
Equity to assets	9.7%	10.1%	9.3%	8.2%

Asset quality and credit metrics

Y/E 31 March	2010	2011E	2012E	2013E
Gross NPA %	1.43%	1.13%	1.04%	0.89%
Net NPA %	0.31%	0.21%	0.17%	0.14%
Provision % of loans	1.85%	1.24%	1.05%	1.02%
NPA coverage ratio (incl. AUCA)	78.42%	82.00%	84.00%	85.00%
NPA coverage ratio (excl. AUCA)	78.42%	82.00%	84.00%	85.00%
Total gross NPAs	18,168	18,215	20,996	22,836

Valuations

Y/E 31 March	2010	2011E	2012E	2013E
Price/ Book	-	4.4	3.8	3.2
Price/ Adj. Book	-	4.6	3.9	3.3
Price/ Earnings	-	28.2	21.5	16.5

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and –15%)
SELL:	More than 15% downside

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