

HDFC Bank

Muted Sequential Growth

HDFC Bank reported net profit of Rs 1,088 cr (up 33% YoY), driven by 25% YoY growth in core income and lower provisioning. Though advances grew 33% YoY, they witnessed muted sequential growth at 1%. Despite a 10 bps YoY decline, margins remained healthy at 4.2% supported by its strong CASA franchise. Core fee income impressed with a 25% YoY increase, while treasury losses declined sequentially to Rs 30.7 cr (Vs Rs 52 cr in 2QFY11). Provisioning expenses were under control and coverage ratio improved to 81%. Asset quality remained sound and continued to improve; Gross and net NPA ratios improved sequentially by 5 bps and 10 bps resp. Restructured assets were at 0.3% of the loan book.

Q4FY10 Highlights

- Retail credit share as a % to total credit has improved to 55% (vs. 52% in Sep-10). The growth in advances was also on account of portfolio buyout of Rs 1500 cr from HDFC Ltd. Without this, HDFC Bank would have witnessed a sequential de-growth in advances.
- CASA ratio remained impressive at ~51%, with savings deposits rising 3% QoQ; while, current a/c deposits declined by 8% QoQ.
- The bank maintains a healthy capital adequacy ratio of 16.3%, with a Tier 1 ratio of 12.1%. The bank has a network of 1,780 branches and 5,121 ATMs spread across 833 cities.

Valuations

Despite mortgage loan buyout from parent HDFC Ltd, the total business de-grew marginally by 0.3%, with deposits falling ~2% QoQ. Asset quality remained stress free. Margins, which remained sequentially stable, may witness pressure going forward as a result of: (a) the bank's requirement to grow its deposit base; and (b) recent RBI directive to bring down the high C-D ratios to moderate levels. We maintain our HOLD rating on the stock with a revised Target Price of Rs 2,250 (3.8x FY12E Adj. BV and 24x FY12E earnings) – upside of 10% from CMP.

Financial summary

Y/E Mar	PAT (Rs cr)	EPS (Rs.)	Change YoY (%)	P/E (x)	BV (Rs)	Adj. BV (Rs.)	P/ BV* (Rs.)	P/Adj. BV (x)	ROE(%)	RoA (%)	Net NPA (%)
2009	2,245	52.8	18	39	344	335	6.0	6.1	17.2	1.4	0.6
2010	2,949	64.4	22	32	470	465	4.4	4.4	16.3	1.5	0.3
2011E	3,876	83.5	30	25	531	525	3.9	3.9	16.8	1.6	0.2
2012E	4,332	93.3	12	22	605	600	3.4	3.4	16.4	1.5	0.2

Source: Company, ENAM Estimates

CMP (Rs)	2,052
Target price (Rs)	2,250
Potential upside	10%

Stock data

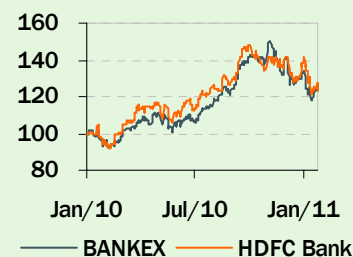
No. of shares (cr)	46.4
FV (Rs)	10/-
Market cap (Rs cr)	95,300
52 week high/low (Rs)	2,518/ 1,550
Avg. daily vol.* (shrs)	863149
BSE Code	500180
NSE Code	HDFCBANK
Bloomberg code	HDFCB IB
Reuters Code	HDBK.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Dec-10	QoQ Chg
Promoter	23.4	(0.1)
FII's	29.4	(0.3)
MFs / UTI	3.9	0.6
Banks / Fis	7.0	0.0
Others	36.4	(0.2)

Relative performance



Source: Cline, ENAM Direct Research

HDFC - Results update

(Rs cr)	Quarter ended					Y/E		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	5,230	4,035	30	4,810	9	19,929	16,173	23
Interest Expended	2,453	1,811	35	2,284	7	9,408	7,786	21
Net Interest Income	2,777	2,224	25	2,526	10	10,521	8,387	25
Non-Interest Income	1,128	899	25	961	17	4,140	3,808	9
Net Income	3,905	3,123	25	3,487	12	14,661	12,194	20
Operating Expenses	1,832	1,499	22	1,680	9	6,988	5,765	21
Operating profit	2,073	1,624	28	1,807	15	7,673	6,430	19
Provision & Contingencies	466	448	4	455	3	1,940	2,140	(9)
PBT	1,607	1,176	37	1,353	19	5,734	4,290	34
Tax	519	358	45	440	18	1,858	1,341	39
Net Profit	1,088	819	33	912	19	3,876	2,949	31
No. of shares (cr)	46.4	45.5		46.2		46.4	45.8	
Rep. EPS - non-annualized (Rs.)	23	18	30	20	19	83	64	30
Yields & Margins (%)								
Net interest margin	4.2	4.3	(10) bps	4.2	0 bps	4.1	3.9	21 bps
Cost to income ratio	46.9	48	(109) bps	48.2	(126) bps	47.7	47.3	39 bps
Asset quality								
Gross NPAs (Rs cr)	17.8	19.7	(9.7)	18.4	(3.2)	19.3	18.5	4.4
Gross NPAs (%)	1.1	1.6	(52) bps	1.2	(5) bps	1.2	1.5	(27) bps
Net NPAs (Rs cr)	3.3	5.4	(39.2)	4.1	(19.1)	3.9	3.9	(1.3)
Net NPAs (%)	0.2	0.5	(30) bps	0.3	(10) bps	0.2	0.3	(7) bps
Provisioning coverage (%)	81.4	72.4	900 bps	77.8	363 bps	80	78.8	116 bps
Capital (%)								
Tier-I	12.1	13.8	(170) bps	12.7	(60) bps	12.4	13.3	(89) bps
CAR	16.3	18.3	(200) bps	17	(70) bps	15.9	17.4	(156) bps
Balance sheet (Rs cr)								
Advances	159,200	119,600	33	157,100	1.3	161,400	125,800	28.3
Deposits	192,200	154,800	24	195,300	(1.6)	202,800	167,400	21.1
CASA (%)	50.5	49	150 bps	50.6	(10) bps	50.7	52	(134) bps

Source: Company, ENAM Research; Note: Full year ratios (FY10 and FY11E) are on calculated basis

ENAM Securities Direct Pvt. Ltd.

201, Laxmi Towers, 'A' Wing, Bandra-Kurla Complex, Bandra East, Mumbai - 400 051.

Board: 6680 3600 **Helpline:** 6680 ENAM **Fax:** 6680 3700

Website: www.enam.com / www.enamdirect.in **Email:** directresearch@enam.com

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