

HOLD

Target Price: Rs 724

CMP	: Rs 663
Potential Upside	: 9%
Relative to Sector	: Neutral

MARKET DATA

No. of Shares	: 2,368mn
Free Float	: 77%
Market Cap	: Rs1,569bn
52-week High / Low	: Rs705 / Rs468
Avg. Daily vol. (6mth)	: 2.5 mn shares
Bloomberg Code	: HDFCB IB Equity
Promoters Holding	: 23%
FII / DII	: 34% / 9%
BSE Code	: 500180
NSE Code	: HDFCBANK

HDFC BANK LTD

BANKS & FINANCIAL SERVICES

Retail growth robust despite slowdown in CVs

HDFC Bank's Q3FY13 net profit at Rs 18.6 bn, up 30% YoY, was in line with our estimate led by 27% YoY growth in non-interest income. Advances grew 24% YoY (4% QoQ) driven by 30% YoY (6% QoQ) growth in retail loans. Commission income grew 24% YoY to Rs 14 bn led by higher fee on products sold during festive season and annual fee collections. Absolute GNPA increased 14% QoQ; management indicated signs of stress in CV/ CE portfolio but credit costs are still low.

We introduce FY15 estimates and also roll forward our TP to FY15E ABV. Our revised TP stands at Rs 724 (3.4x FY15E ABV) vs. Rs 660 earlier. Maintain **HOLD**. The stock trades at 3.7x FY14E ABV of Rs 177 and 3.1x FY15E ABV of Rs 214.

Advances driven by retail: Advances grew 24% YoY to Rs 2,414 bn led by retail assets (up 30% YoY and 6% QoQ). Within retail loans, CV loans grew 30% YoY (down 1% QoQ) and credit cards rose 55% YoY (up 16% QoQ). Management guided for 3-5% higher than industry growth led by continued momentum in retail advances.

CASA ratio declined 50 bps QoQ to 45.4% with savings deposits rising 17% YoY (up 4% QoQ). Current account deposits increased 10% YoY (down 2% QoQ).

Limited scope for multiple expansion: We believe HDFC Bank will continue to command premium valuation as (1) Rs 17 bn of floating provisions will help smoothen earnings over cycles, (2) earnings growth is above balance sheet growth, (3) there is no asset quality overhang, and (4) CASA is above industry levels which supports superior margin. However, current valuation is rich and we see limited scope for multiple expansion.

FINANCIAL SUMMARY (Standalone)

Y/E March	FY12	FY13E	FY14E	FY15E
PAT (Rs mn)	51,671	67,245	83,437	102,746
EPS (Rs)	22	29	36	44
EPS chg (%)	31.2	30.1	24.1	23.1
Book value (Rs)	127	150	179	216
Adj. BV (Rs)	126	149	177	214
PE (x)	24.4	23.1	18.7	15.1
P/ABV (x)	4.3	4.5	3.7	3.1
RoE (%)	18.7	20.6	21.6	22.2
RoA (%)	1.7	1.8	1.9	1.9
Net NPA (%)	0.2	0.2	0.2	0.2

Source: Company, AXIS Capital estimates

KEY DRIVERS

(%)	Q1FY13	Q2FY13	Q3FY13
Loan growth (YoY)	22	23	24
NIM	4.2	4.3	4.2
CASA	48	46	46
GNPA ratio	1.0	0.9	1.0

PRICE PERFORMANCE

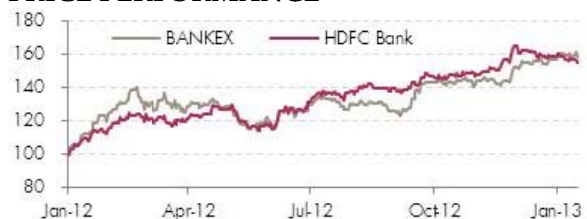
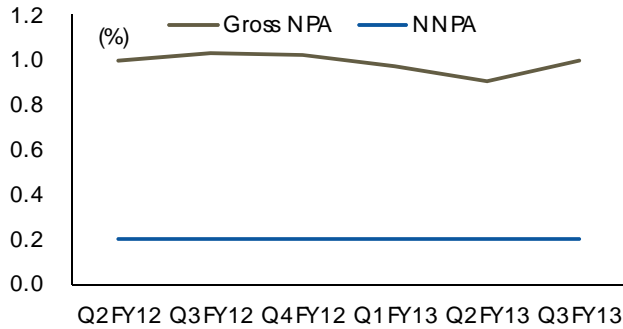
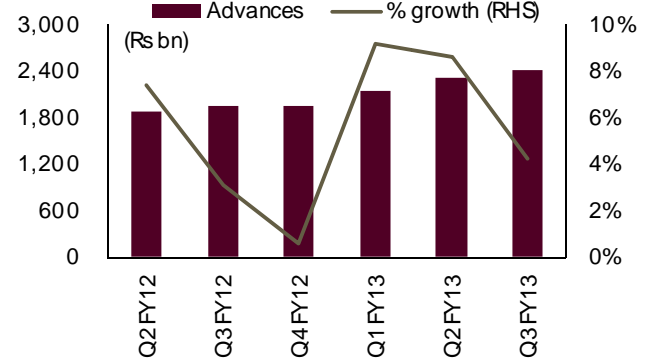
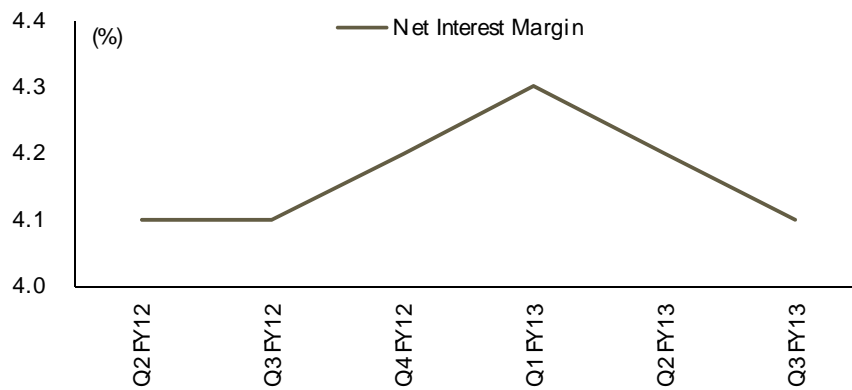


Exhibit 1: NPAs continue to be stable


Source: Axis Capital

Exhibit 2: Advances growth higher than industry


Source: Axis Capital

Exhibit 3: Stable NIM


Source: Axis Capital

Exhibit 4: Breakup of Retail Advances

(Rsbn)	Q3FY12	Q2FY13	Q3FY13	YoY growth (%)	QoQ growth (%)
Auto	26	29	30	17	4
CV / CE	13	16	16	30	(1)
Two Wheelers	2	3	3	22	7
Personal Loans	13	16	17	28	6
Business Banking	17	21	23	33	7
Loan against securities	1	1	1	3	10
Credit Cards	6	9	10	55	16
Home Loans	13	16	16	21	2
Gold Loans	3	4	5	82	18
Others	6	8	9	53	7
Total Retail Advances	100	123	130	30	6

Source: Axis Capital

Exhibit 5: Results Update

(Rs. mn)	Quarter ended					12 months ended		
	Dec-12	Dec-11	% Chg	Sep-12	% Chg	Mar-13E	Mar-12	% Chg
Interest Income	87,076	72,026	21	85,247	2	340,883	272,864	25
Interest Expended	49,088	40,867	20	47,930	2	191,849	149,896	28
Net Interest Income	37,989	31,160	22	37,317	2	149,034	122,968	21
Non-Interest Income	17,989	14,200	27	13,451	34	65,716	52,437	25
Net Income	55,977	45,360	23	50,768	10	214,750	175,405	22
Operating Expenses	25,741	21,580	19	25,055	3	102,288	85,901	19
Operating profit	30,236	23,780	27	25,713	18	112,462	89,504	26
Provision & Contingencies	3,072	3,292	(7)	2,929	5	15,006	14,367	4
PBT	27,164	20,488	33	22,784	19	97,456	75,137	30
Tax	8,573	6,191	38	7,184	19	30,211	23,466	29
Net Profit	18,591	14,297	30	15,600	19	67,245	51,671	30
No. of shares (mn)	2,368	2,341	-	2,362	-	2,348	2,348	-
Rep. EPS - non-annualized (Rs.)	8	6	29	7	19	29	22	30
Yields & margins (%)								
Yield on advances	11.4	11.3	0.0	11.6	(0.2)	12.1	11.6	0.5
Net interest margin	4.1	4.1	0 bps	4.2	(10) bps	3.9	3.9	(1)bps
Cost to income ratio	46.0	47.6	(159) bps	49.4	(337) bps	47.6	49.0	(134) bps
Asset quality								
Gross NPAs (Rsbn)	24.3	20.2	20.4	21.3	14.0	25.1	20.0	25.6
Gross NPAs (%)	1.0	1.0	(3) bps	0.9	9 bps	1.0	1.0	3 bps
Net NPAs (Rsbn)	5.0	4.0	24.6	3.9	28.2	5.0	3.5	42.6
Net NPAs (%)	0.2	0.2	0 bps	0.2	0 bps	0.2	0.2	3 bps
Provisioning coverage (%)	79.6	80.3	(69) bps	81.9	(225) bps	80.0	82.4	(238) bps
Capital (%)								
Tier-I	10.9	11.2	(30) bps	11.4	(50) bps	11.0	11.6	(58) bps
CAR	17.0	16.3	70 bps	17.0	0 bps	14.8	16.5	(169) bps
Balance sheet (Rs. Bn)								
Advances	2,415	1,943	24	2,316	4.2	2,384	1,954	22.0
Deposits	2,841	2,325	22	2,741	3.6	2,945	2,467	19.4
CASA (%)	45.4	47.7	(230) bps	45.9	(50) bps	47.0	48.4	(136) bps

Source: Company, Axis Capital; Note: Full year ratios are on calculated basis

FINANCIAL SUMMARY (Standalone)
Profit & Loss (Rsbn)

Y/E March	FY12	FY13E	FY14E	FY15E
Interest earned	273	341	398	472
Interest expended	(150)	(192)	(220)	(263)
Net interest income	123	149	177	209
Non interest income	52	66	80	94
Net income	175	215	257	303
Operating expenses	(86)	(102)	(114)	(128)
Staff expenses	(34)	(41)	(45)	(51)
Other operating expenses	(52)	(62)	(69)	(77)
Operating profit	90	112	143	175
Provisions & contingencies	(14)	(15)	(22)	(26)
Pre-tax profit	75	97	121	149
Tax expense	(23)	(30)	(37)	(46)
Profit after tax	52	67	83	103
Extraordinary item	-	-	-	-
Minority interest/ Associates	-	-	-	-
Adj. PAT	52	67	83	103

Balance Sheet (Rsbn)

Y/E March	FY12	FY13E	FY14E	FY15E
Total assets	3,379	4,086	4,874	5,819
Cash & Balances with RBI	209	322	386	463
Investments	975	1,103	1,299	1,534
Advances	1,954	2,384	2,860	3,431
Fixed assets	23	26	28	32
Other assets	217	252	300	359
Total liabilities	3,379	4,086	4,874	5,819
Equity capital	5	5	5	5
Preference capital	-	-	-	-
Reserves & surplus	295	348	416	502
Networth	299	352	420	507
Borrowings	238	274	338	419
Deposits	2,467	2,945	3,523	4,216
Other liabilities & prov.	374	515	592	678

Key ratios

Y/E March	FY12	FY13E	FY14E	FY15E
Per share data				
FDEPS (Rs.)	22	29	36	44
BV (Rs.)	127	150	179	216
Adj. BV (Rs.)	126	149	177	214
DPS (Rs.)	4	5	6	6
Dividend payout (%)	20	18	16	14
Yields & Margins (%)				
Yield on advances	11.6	12.1	11.7	11.6
Cost of deposit	5.6	6.0	5.7	5.6
Net interest margin	4.3	4.3	4.3	4.2
Asset quality (%)				
Gross NPAs	1.0	1.0	1.1	1.1
Net NPAs	0.2	0.2	0.2	0.2
Credit cost	0.4	0.7	0.8	0.8
Provisioning coverage	82.4	80.0	80.0	80.0
Capital (%)				
Tier-I	11.6	11.0	10.7	10.6
CAR	16.5	14.8	14.3	13.9
Efficiency (%)				
ROA	1.7	1.8	1.9	1.9
ROE	18.7	20.6	21.6	22.2
Cost to income	49	48	44	42
CASA	48	47	46	46
Effective tax rate	31	31	31	31
Growth (%)				
Net interest income	17	21	19	18
Operating expenses	20	19	12	12
Profit after tax	32	30	24	23
Advances	22	22	20	20
Deposits	18	19	20	20
Total assets	22	21	19	19

Axis Securities Limited *

Regd Office: Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.
Corporate Office: 201-A Laxmi Towers, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 ☎ (+91-22) 6680 3600

Axis Securities Limited Branch Details

Mumbai 201-A Laxmi Towers, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 ☎ (+91-22) 6680 3600	Bangalore Unit No.10/3, Ground Floor, Empire Infantry, 29 Infantry Road, Bangalore – 560 001 ☎ (+91-80) 4033 3200 - 212
Baroda GF 9 Silverline, Sayajiganj, – 390 005 ☎ (+91-265) 302 6945	Chennai 11 Vijay Delux Apts., 7/4 First CIT Colony, Mylapore, Chennai– 600 004 ☎ (+91-44) 3918 4228 / 3989 3626
Delhi Unit No. 815 & 816, Ambadeep Building, Kasturba Gandhi Marg, New Delhi - 110001 ☎ (+91-11) 9818263885	Hyderabad 217 B Maheshwari Chambers Somajiguda, – 500 082 ☎ (+91-40) 3065 8501
Indore 320 City Centre, 570, M.G. Road, Indore (M.P.) - 452 001 ☎ (+91-0731) 3916601	Kolkata Om Towers, 4th Floor, 401, 32 Chowringhee Road Kolkata – 700 071 ☎ (+91-33) 4005 6201
Pune (Shivajinagar) 1248 A , Goodluck Chowk Gymkhana, Shivajinagar, Pune – 411 004 ☎ (+91-20) 3054 7125	Rajkot Toral Building, Office no 308, 3 rd Floor, Near Galaxy Hotel, – 360001 ☎ (+91-281) 3200170

Website: www.axissecurities.in • **Email:** directresearch@enam.com

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Registered office address:

Axis House, 8th Floor, Wadia International Center, Pandurang Budhkar Marg, Worli, Mumbai 400 025.

SEBI Registration no : NSE (CM)-INB 231387235, (FO)-INF 231387235, (CDS)-INE 231387235, BSE(CM)-INB 011387330, (FO)-INF011387330, ARN No. 51485

Main/Dealing office:

Solaris, "C" Bldg., 6th floor, Opp. L&T Gate No. 6, Saki Vihar Road, Powai, Mumbai-400072, Tel No.-18001030808,

Compliance Officer Details:

Name: Anand Shaha, E-Mail ID: compliance.officer@axisdirect.in, Tel No: 022-40754152.