

HDFC Bank

Bloomberg: HDFCB IN Equity

Reuters: HDBK.BO

Recommendation: **HOLD**

No Change



RESULT UPDATE

Citius, Altius, Fortius

Recommend portfolio shift to AXSB

- 29% YoY growth in NII at Rs25.26bn - in line
- Lower-than-anticipated provisioning drives 33% bottomline growth
- YoY credit growth at 38% buoyed by wholesale loans; core growth at 32%
- Efficiency parameters steadily inching up to pre-CBoP levels
- Little headroom for further expansion in multiples; maintain **'HOLD'**
- Correction offers investors portfolio realignment opportunity towards AXSB

HDFC Bank announced its Q2/H1FY11 results in line with our expectations. While the NII clocked in at Rs25.3bn (~30% YoY growth), net profit registered a 33% YoY growth at Rs9.12bn. On the balance sheet front, YoY growth in credit was just under 40%, predominantly driven by the wholesale book, evidently from exposure to larger telcos. Our numbers build in a 27% growth in lending this fiscal, predominantly led by short-term credit.

Valuation and recommendation: At its CMP of Rs2,366, the stock quotes at 4.1x our FY12E ABVPS of Rs577. We continue to see little headroom for a further re-rating in the multiples in the near-term. However, given the recent underperformance of other banks in the relevant peerset (AXSB IN), we advise investors to use the correction in AXSB to re-align their portfolio towards AXSB (CMP Rs1,466; TP Rs1,725).

While gross NPAs inched up in absolute terms on a sequential basis, net NPAs were lower from the Jun'10 levels, implying a rise in the provisioning coverage ratio. Hence, we read the lower-than-anticipated provisioning figure as either indicative of a lower depreciation booked on the investment book or a lower charge on the restructured portfolio.

Exhibit 1: Quarterly performance

Quarterly performance (Rs mn)	Q2FY11	Q2FY10	% chg	FY11E	FY10	% chg
Interest on advances	36,732	30,102	22.0	162,988	120,983	34.7
Interest on investment	11,003	9,596	14.7	46,941	39,813	17.9
Interest on bal. with RBI	355	211	67.8	3,825	810	372.4
Other interest	11	10	14.6	218	124	76.5
Interest income	48,100	39,919	20.5	213,973	161,729	32.3
Interest expenditure	22,837	20,361	12.2	105,132	77,863	35.0
Net interest income	25,263	19,558	29.2	108,840	83,866	29.8
Other income	9,607	10,074	(4.6)	45,194	38,076	18.7
Operating profit	18,071	15,930	13.4	80,035	64,297	24.5
Provisions & contingencies	4,545	5,941	(23.5)	23,375	21,405	9.2
Provision for taxes	4,405	3,114	41.5	18,131	13,404	35.3
Net profit	9,121	6,875	32.7	38,529	29,488	30.7
EPS (Rs)	19.8	15.9	24.1	82.4	64.4	27.9

Source: Company, Ambiti Capital Research

Analyst contact

Krishnan ASV

Tel: +91 22 3043 3205

vkrishnan@ambitcapital.com

Recommendation

CMP:	Rs2,366
Target Price :	Rs2,600
Previous TP:	Rs2,335
Upside (%):	10.0
ABVPS (FY12E):	Rs577.2
Change from previous (%):	NA

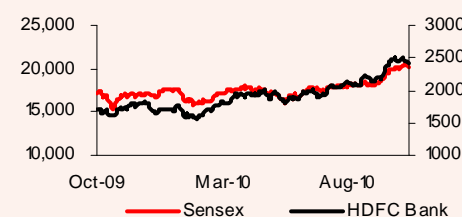
Stock Information

Mkt cap:	Rs1,109,535mn/US\$25,157mn
52-wk H/L:	Rs2,540/1,549
3M Avg. daily vol. (mn):	1
Beta (x):	0.9
BSE Sensex:	20169
Nifty:	6076

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-0.1	17.6	40.8	40.9
Rel. to Sensex	-2.9	4.7	21.0	22.0

Performance (%)



Source: Bloomberg, Ambiti Capital research

Consistency personified

Steep outperformance calls for re-alignment in portfolio weights

Profitability driven by balanced business growth: HDFC Bank reported an in-line set of numbers with NII growth clocking in at Rs25.26bn (29% YoY growth) and net profit clocking in at Rs9.12bn (33% YoY growth). While the bottomline was partially driven by lower-than-anticipated provisioning, the robust growth has also been synonymous with the balanced business growth that the bank has witnessed during the first half this fiscal.

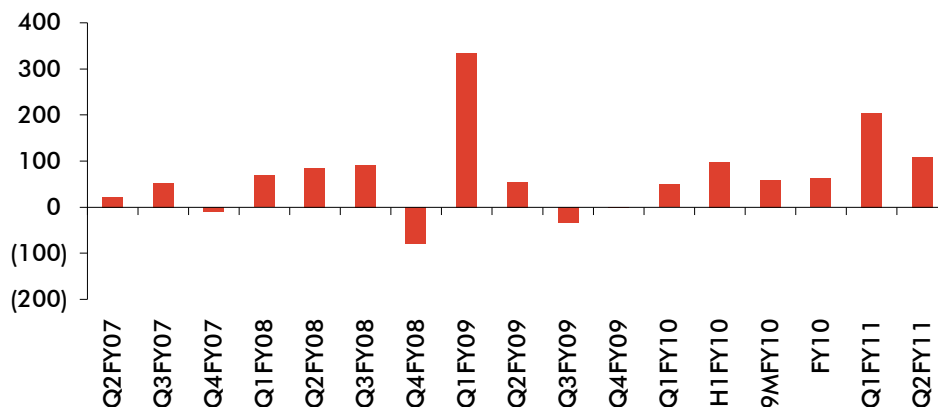
Exhibit 2: Business traction (Rs bn)

Business traction (Rs bn)	H1FY11	H1FY10	% chg	Q1FY11	% chg
Advances	1,570.91	1,136.72	38.2	1,462.48	7.4
Current deposits	393.63	321.70	22.4	361.69	8.8
Savings deposits	595.25	432.49	37.6	538.69	10.5
CASA deposits	988.88	754.19	31.1	900.38	9.8
Term deposits	964.33	743.86	29.6	929.95	3.7
Deposits	1,953.21	1,498.05	30.4	1,830.33	6.7
Business	3,524.12	2,634.77	33.8	3,292.81	7.0
CASA ratio (%)	50.6	50.3		49.2	
C-D ratio (%)	80.4	75.9		79.9	

Source: Company, Ambit Capital research

While the growth in advances appears abnormally high vis-à-vis the system growth (just under 20%), this is more to do with the one-off wholesale advances, evidently from exposure to larger telcos. Excluding the one-off wholesale advances, the YoY growth in the core loan book was reported at 32%.

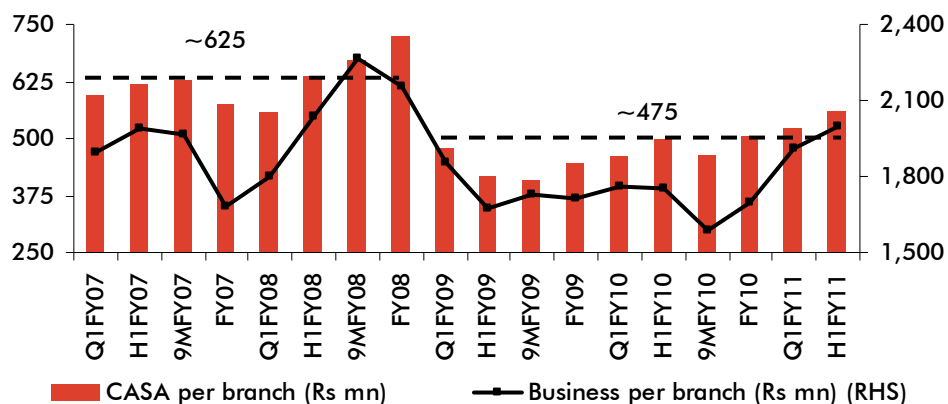
Exhibit 3: Incremental QoQ lending (Rs bn) - notice the high lending in H1FY11 coincides with high proportion of wholesale advances @above 48% (mean at 42%)



Source: Company, Ambit Capital research

Efficiency parameters steadily inching upwards: As we have been highlighting in the last three updates, the dilution in key business indicators (key efficiency parameters) has bottomed out and indeed, starting inching up at a brisk pace towards the pre-CBoP levels.

Exhibit 4: Efficiency parameters - steadily scaling back to pre-CBoP levels



Source: Company, Ambit Capital research

We continue to believe that on a steady state basis, the dilution in these efficiency parameters from pre-CBoP merger levels will continue to narrow - however, they are unlikely to scale back to parity over the next 12 months.

While gross NPAs inched up in absolute terms on a sequential basis, net NPAs were lower from the Jun'10 levels, implying a rise in the provisioning coverage ratio. Hence, we read the lower-than-anticipated provisioning figure as either indicative of a lower depreciation booked on the investment book or a lower charge on the restructured portfolio.

Valuation and recommendation: At its CMP of Rs2,366, the stock quotes at 4.1x our FY12E ABVPS of Rs577. We continue to see little headroom for a further re-rating in the multiples in the near-term. However, given the recent underperformance of other banks in the relevant peerset (AXSB IN), we advise investors to use the correction in AXSB to re-align their portfolio towards AXSB (CMP Rs1,466; TP Rs1,725).

Exhibit 5: Profit & loss

Y/E Mar (Rsbn)	FY08	FY09	FY10	FY11E	FY12E
Interest income	101.15	163.32	161.73	213.97	281.70
Interest expense	48.87	89.11	77.86	105.13	138.24
Net interest income	52.28	74.21	83.87	108.84	143.46
% Growth	51%	42%	13%	30%	32%
Treasury income	4.47	10.09	9.58	6.95	8.81
Other income from banking operations	18.36	22.81	28.49	38.25	49.13
Total income	75.11	107.12	121.94	154.03	201.40
Employees expenses	13.01	22.38	22.89	28.61	35.77
Other operational expenses	24.44	32.95	34.75	45.38	57.89
Operating profit	37.65	51.79	64.30	80.04	107.74
% Growth	47%	38%	24%	24%	35%
Tax	6.91	10.55	13.40	18.13	26.11
Loan loss provisions	14.84	18.79	21.41	23.38	26.16
Net profit	15.90	22.45	29.49	38.53	55.48
% Growth	39%	41%	31%	31%	44%

Source: Company, Ambit Capital research

Exhibit 6: Balance sheet

Y/E Mar (Rsbn)	FY08	FY09	FY10	FY11E	FY12E
Capital	3.54	4.25	4.58	4.68	4.78
Reserves and surplus	111.43	146.27	210.66	240.91	287.94
Deposits	1,007.69	1,428.12	1,674.04	2,123.64	2,748.63
Borrowings	44.79	26.86	65.63	75.47	86.79
Other liabilities & provisions	164.32	227.21	269.69	331.67	377.30
TOTAL	1,331.77	1,832.71	2,224.60	2,776.37	3,505.44
Cash & balances with RBI	125.53	135.27	154.83	132.92	170.53
Balances with banks	22.25	39.79	143.47	223.18	249.55
Investments	493.94	588.18	586.08	718.26	883.24
Advances	634.27	988.83	1,258.31	1,599.93	2,076.55
Fixed assets	11.75	17.07	22.36	27.64	32.52
Other assets	44.03	63.57	59.55	74.44	93.05
TOTAL	1,331.77	1,832.71	2,224.60	2,776.37	3,505.44

Source: Company, Ambit Capital research

Exhibit 7: Asset quality

	FY08	FY09	FY10	FY11E	FY12E
Gross NPA (Rs bn)	9.1	19.9	18.9	21.0	22.6
Gross NPA (%)	1.6	2.4	1.7	1.5	1.2
Net NPA (Rs bn)	3.0	6.3	4.4	5.6	6.6
Net NPA (%)	0.5	0.8	0.4	0.4	0.4

Source: Company, Ambit Capital research

Exhibit 8: Business ratio

	FY08	FY09	FY10	FY11E	FY12E
Credit-Deposit(%)	65.3	66.6	72.4	75.3	75.5
Investment / Deposit (%)	47.3	44.4	37.9	34.3	32.9
Cash / Deposit (%)	14.1	13.3	15.3	17.2	15.9
RoAA (%)	1.4	1.4	1.5	1.5	1.8
RoE (%)	17.7	17.2	16.3	16.7	20.6
Dividend Yield (%)	0.4	0.4	0.5	0.6	0.6

Source: Company, Ambit Capital research

Exhibit 9: Valuation ratios

Per Share Data	FY08	FY09	FY10	FY11E	FY12E
BVPS (Rs)	324.4	344.3	470.2	525.0	612.7
Adj. BVPS (Rs)	301.5	312.3	437.9	491.0	577.2
Price/ Adj. BVPS (x)	7.8	7.6	5.4	4.8	4.1
EPS (Rs)	44.9	52.8	64.4	82.4	116.1
EPS growth (%)	25.5	17.6	22.1	27.9	41.0
P/E ratio (x)	52.7	44.8	36.7	28.7	20.4

Source: Company, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	< 5%

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Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone : +91-22-3043 3000
Fax : +91-22-3043 3100