

July 15, 2009

**ACCUMULATE**

Price **Rs1,375** Target Price **Rs1,500**

Sensex **13,853**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(10)	31	37	29
Rel. to Sensex	2	6	(7)	29

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	HDBK.BO
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	4262
Face Value	10
No. of shares (mn)	426
52 Week H/L	1,580/774
Market Cap	Rs586bn/USD11.9bn
Daily Avg Volume (No of shares)	1.9mn
Daily Avg Turnover (US\$)	50.2mn

**Shareholding Pattern (%)**

	J'09	M'08	D'08
Promoters	19.4	19.4	19.4
FII/NRI	48.5	46.8	47.8
Institutions	12.6	13.9	10.6
Private Corp	8.8	8.8	10.8
Public	10.8	11.2	11.4

**Kashyap Jhaveri**
[kashyap.jhaveri@emkayshare.com](mailto:kashyap.jhaveri@emkayshare.com)

+91 22 6612 1249

**Pradeep Agrawal**
[pradeep.agrawal@emkayshare.com](mailto:pradeep.agrawal@emkayshare.com)

+91 22 6612 1340

**HDFC Bank**Result  
Update**Asset growth weak; merger benefits consolidate**

HDFC Bank's reported NII of Rs18.6bn, growth of 7.7%yoy, below our estimates as the growth in advances was lower than expected. However the bank held 4.0% NIMs as the CASA was maintained at 45% and deposits got repriced lower.

The highlights of the quarter were (1) CASA at 45% despite 5% qoq growth in advances and seasonally weak quarter, (2) fee income growth of 27% yoy despite just 10% yoy growth in assets, (3) better utilization ratios and (4) moderation in estimated slippages at <2% (annualised) vis-à-vis 3.4% in FY09 and 1.7% in FY08.

Driven by higher treasury income (Rs2.6bn against a loss of Rs776mn in Q1FY09), the operating profit has grown by 47.7% yoy to Rs15.2bn. However adjusted for treasury gains the core operating profit grew by 14.2%yoy to Rs12.6bn.

At the CMP, the stock is quoting at 3.4x FY10E ABV and 2.8x FY11E ABV. We maintain our ACCUMULATE recommendation on the stock with price target of Rs1500.

**NII growth below expectation as NIMs maintained...**

The NII has grown by 7.7% yoy to Rs18.6bn driven by 7.2% yoy growth in advances (5.0% qoq) and sequentially stable margins of 4.0%. The NII was lower than our expectations driven by lower than expected advances growth.

The NIMs were maintained sequentially at 4.0% driven by stable CASA and lower repricing of the term deposits.

**Yield analysis**

%	Q1FY10	Q1FY09	Q4FY09	Change in bps	
				yoy	Qoq
Yield on advances*	11.9	13.2	12.5	-125.1	-62.3
Yield on investments*	6.9	8.0	7.4	-102.3	-43.7
Yield on assets*	8.9	9.6	9.3	-73.6	-41.5
Cost of funds*	4.8	5.0	5.2	-18.6	-39.1
NIM*	4.0	4.6	4.0	-55.0	-2.4
NIM (Reported)	4.2	4.1	4.2	10.0	0.0

Source: Company, Emkay Research

Note:\* Calculated on basis of average quarterly balances

**.... But advances grow at moderate pace**

The bank's advances grew by just 7.2%yoy to Rs1,038bn for the quarter due to high base. However sequentially it grew by 5.0%. Retail advances grew by 11.3%yoy to Rs612bn during the quarter. The growth in retail advances was primarily driven by higher auto loans.

Rs bn	Q1FY10	Q1FY09	Q4FY09	% yoy chg	% qoq chg
Retail Advances	612	550	612	11.3	0.0
Wholesale Advances	426	418	377	1.8	12.9
<b>Gross Advances</b>	<b>1,038</b>	<b>968</b>	<b>989</b>	<b>7.2</b>	<b>5.0</b>

Source: Company, Emkay Research

## Retail loan portfolio mix

	Rs mn	% yoy chg	% qoq chg	Proportion (%)	Change in bps	
					yoy	qoq
Auto Loans	161,000	42.5	3.9	26.3	575	95
Personal Loans	85,000	1.2	-3.4	13.9	-139	-51
CVs	77,000	-3.8	-3.8	12.6	-197	-51
Loan Against Securities	7,000	-35.2	0.0	1.1	-82	0
2-Wheelers	17,500	-30.0	-7.9	2.9	-169	-25
Business Banking	122,000	-10.9	-3.9	19.9	-499	-84
Credit Cards	38,000	8.6	-2.6	6.2	-16	-17
Others	104,300	61.2	8.6	17.0	527	134
<b>Total</b>	<b>611,800</b>	<b>11.3</b>	<b>0.1</b>			

Source: Company, Emkay Research

## Can achieve 20-22% advances growth for FY10

Although year on year advances growth was slower, the sequential growth was still sharp at 5%, despite the systemic loan growth being in negative (even Axis Bank shrunk the book by 4.2%). We believe that for FY10, the loan growth of 20-22% will be achievable by the bank.

## CASA profile maintained at 45%

Despite 5.0% qoq growth in advances and Q1 being seasonally weak, CASA float has been maintained at 45%. The bank's total deposit grew 11.3%yoy, while sequentially it grew by just 2.0%.

## Deposit mix

Rs bn	Q1FY10	Q1FY09	Q4FY09	% yoy chg	% qoq chg
Total Deposits	1,457.3	1,309.2	1,428.1	11.3	2.0
Savings	384.9	318.5	349.2	20.8	10.2
Current	270.3	268.7	284.5	0.6	-5.0
Total CASA	655.2	587.2	633.6	11.6	3.4
CASA (%)	45.0	44.9	44.4	10	59
Term deposits	802.2	722.0	794.5	11.1	1.0

Source: Company, Emkay Research

## Fee income continues to grow strong

The other income has grown strong by 75.8% yoy over last year as the treasury gains stood at Rs2.6bn against a loss of Rs776mn in Q1FY09.

The fee income on higher base has grown by 27.0% yoy to Rs6.5bn. We would like to highlight here that the fee income growth has come on higher base over last year as the CBOP accounts got consolidated from Q1FY09 onwards.

## Other income

Rs mn	Q1FY10	Q1FY09	Q4FY09	% yoy chg	% qoq chg
Fee income	6,493	5,112	7,148	27.0	-9.2
Treasury	2,560	-776	2,436	-	5.1
Other	1,377	1,598	1,563	-13.8	-11.9
Total	10,430	5,934	11,147	75.8	-6.4

Source: Company, Emkay Research

## Opex growth moderates

During the quarter, the operating expenses grew by a modest 7.1%yoy, while sequentially it showed a decline of 1.1% primarily driven by just 3.5% growth in employee expenditure. The branch utilization has also improved during the quarter with cost/asset ratio at 3.0% as against ~3.3% in most of FY09.

### Treasury gains used to hike provisions:

The bank utilizes strong treasury gains to jack up its provisions during the quarter. The bank made provisions of Rs6.6bn as against Rs3.4bn in corresponding quarter last year. NPA provisions was higher at Rs6.6bn, resulting in improvement in coverage to 69.7%.

### Slippages likely to normal at 1.8-2.0% this year

The Gross NPAs increased marginally at Rs21.6bn as against Rs19.9bn in Q4FY09 and Net NPA at Rs6.6bn as against Rs6.2bn in Q4FY09. However, the provision cover improved to 69.7%

With estimated slippages for Q1FY10 at 0.5%, we believe that the full year slippages would be 1.8-2.0% lower than 3.4% in FY09 and in line with 1.7% in FY08.

### Asset quality

Rs mn	Q1FY10	Q1FY09	Q4FY09	% yoy chg	% qoq chg
Gross NPA	21,635	15,027	19,887	44.0	8.8
% of gross advances	2.1	1.5	2.0		
Net NPA	6,565	4,961	6,276	32.3	4.6
% of net advances	0.60	0.50	0.60		
Provision cover (%)	69.7	67.0	68.4	267	122

Source: Company, Emkay Research

### Total standard restructured assets at just 0.2%

The overall restructured assets also remained very low with total standard assets already restructured or under consideration amount to just 0.2% of the advances. Fresh restructured assets were at Rs1.5bn (0.14% of gross advances). The total restructured assets are Rs5.8bn (0.55% of gross advances).

### Restructured assets among the lowest in industry

Rs mn	
<b>Q4FY09</b>	
NPAs restructured	3,230
Std assets restructured	1,020
<b>Total</b>	<b>4,250</b>
<b>Q1FY10</b>	
NPAs restructured	464
Std assets restructured	1,091
<b>Total</b>	<b>1,554</b>
<b>Total restructured</b>	
NPAs restructured	3,694
Std assets restructured	2,111
<b>Total</b>	<b>5,804</b>
<b>As % of advance</b>	
NPAs restructured	0.35
Std assets restructured	0.20
<b>Total</b>	<b>0.55</b>

Source: Company, Emkay Research

### Merger benefits sipping in

We believe that the benefits of CBOP merger have continued in this quarter with

- Improvement in branch utilization
- CASA maintained at 45%
- Fee income growth of 27% yoy
- Cost/asset ratio remaining lower at 3.0%.

**Branch utilization**

	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
No of branches	754	754	761	1,229	1,412	1,412	1,412	1,416
Advances per branch	826	947	833	788	724	700	700	733
Deposits per branch	1,208	1,318	1,324	1,065	947	1,026	1,011	1,029
Demand Deposits per branch	338	340	378	219	185	176	201	191
Savings deposits per branch	297	331	344	259	232	234	247	272
Term deposits per branch	573	648	603	587	530	616	563	567

Source: Company, Emkay Research

**Capital adequacy comfortable**

The bank's CAR stood at comfortable 15.4% as at 30<sup>th</sup> June2009, with tier I at 10.6%. Warrant conversion by HDFC Ltd will further boost the tier I capital adequacy.

**Valuations and view**

At the CMP, the stock is quoting at 3.4x FY10E ABV and 2.8x FY11E ABV. We maintain our ACCUMULATE recommendation on the stock with price target of Rs1500.

## Quarterly results (reported numbers)

Rs mn	Q1FY10	Q1FY09	Q4FY09	% yoy chg	% qoq chg
Net interest income	18,556	17,235	18,520	7.7	0.2
Other Income	10,430	5,934	11,147	75.8	-6.4
<i>Fee income</i>	7,870	6,710	8,711	17.3	-9.7
<i>Other</i>	2,560	-776	2,436	-430.0	5.1
Net Income	28,986	23,169	29,667	25.1	-2.3
Operating Expenses	13,806	12,894	13,962	7.1	-1.1
Operating Profit	15,180	10,275	15,705	47.7	-3.3
Provisions & Contingencies	6,588	3,445	6,574	91.3	0.2
<i>Loan loss provision</i>	6,588	3,244	6,574	103.1	0.2
Profit before tax	8,592	6,830	9,131	25.8	-5.9
Provision for Taxes	2,537	2,187	2,822	16.0	-10.1
Net Profit	6,055	4,644	6,309	30.4	-4.0

## Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2008	75,110	15,902	44.9	306.0	1.4	17.7	36.4	4.4
FY2009	107,118	22,449	52.8	317.0	1.4	17.2	25.8	4.3
FY2010E	128,242	29,867	70.2	395.6	1.4	18.6	19.4	3.4
FY2011E	157,851	39,342	92.5	489.8	1.6	20.4	14.7	2.8

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

**Emkay Global Financial Services Ltd.**  
Paragon Center, H -13 -16, 1st Floor,  
Pandurang Budhkar Marg, Worli, Mumbai – 400 013.  
Tel no. 6612 1212. Fax: 6624 2410