

# FIRST GLOBAL

[www.firstglobal.in](http://www.firstglobal.in)

## India Research



### Sector: Indian Banking

### What Happened Last Quarter

## **HDFC Bank (HDFCB.IN/HDBK.BO)**

**Outperform**

(CMP: Rs. 489.6, Mkt. Cap: Rs. 1,144.7 bn/ \$23.0 bn, Oct. 20, '11)

Relevant Index: CNX Nifty: 5,091.9, BANKNIFTY: 9,746.4 (Oct. 20, '11)

**Strong growth in retail loan book & lower provisions  
drives profitability in Q2 FY12...**

**Improvement in asset quality continues...**

Last report's recommendation: Outperform (MP: Rs. 503.1, July 21, 2011)

Relevant Index: CNX Nifty: 5,567.1, Bank Nifty: 11,164.7, July 21, 2011

Relative performance since last rating change: CNX Nifty: Down 3.5%, HDFCB: Up 22.4%

**October 21, 2011**

TO ACCESS FIRST GLOBAL RESEARCH ON BLOOMBERG, TYPE FGSL <GO>

Research Contact: Associate Director, Research: Hitesh Kuvelkar Mob. +91 9833 732633  
Email: [hitesh.kuvelkar@fglobal.com](mailto:hitesh.kuvelkar@fglobal.com)

Sales Offices: India Sales: Tel. No: +91-22-400 12 440 Email: [indiasales@fglobal.com](mailto:indiasales@fglobal.com)  
[fgasiasales@bloomberg.net](mailto:fgasiasales@bloomberg.net)

UK, US & Europe: Tel.: + 44-203-189 0057 Email: [uk@fglobal.com](mailto:uk@fglobal.com)

Research Note issued by First Global Securities Ltd., India

First Global (UK) Ltd. is a member of London Stock Exchange and is regulated by  
Financial Services Authority (FSA), UK

First Global Stockbroking is a member of Bombay Stock Exchange & National Stock Exchange, India

**IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT**





## Financial Snapshot

Key Financials							
(YE March) (Rs mn)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>Net Interest Income</b>	<b>35,284</b>	<b>52,279</b>	<b>74,212</b>	<b>83,866</b>	<b>105,431</b>	<b>120,572</b>	<b>140,138</b>
<i>Net Interest Income (Y-o-Y) (%)</i>	38.6%	48.2%	42.0%	13.0%	25.7%	14.4%	16.2%
<b>Non-Interest Income</b>	<b>14,563</b>	<b>22,832</b>	<b>32,906</b>	<b>39,470</b>	<b>43,352</b>	<b>51,592</b>	<b>59,248</b>
<i>Non-Interest Income (Y-o-Y) (%)</i>	29.6%	56.8%	44.1%	19.9%	9.8%	19.0%	14.8%
<b>Operating Income</b>	<b>49,847</b>	<b>75,111</b>	<b>107,118</b>	<b>123,336</b>	<b>148,783</b>	<b>172,164</b>	<b>199,386</b>
<i>Operating Income (Y-o-Y) (%)</i>	35.8%	50.7%	42.6%	15.1%	20.6%	15.7%	15.8%
<b>Operating Expenses</b>	<b>24,208</b>	<b>37,456</b>	<b>55,328</b>	<b>59,039</b>	<b>71,529</b>	<b>82,439</b>	<b>91,505</b>
<i>Operating Expenses (Y-o-Y) (%)</i>	43.2%	54.7%	47.7%	6.7%	21.2%	15.3%	11.0%
<b>Provisions and Contingencies</b>	<b>9,252</b>	<b>14,848</b>	<b>18,797</b>	<b>21,406</b>	<b>19,067</b>	<b>16,392</b>	<b>19,870</b>
<i>Provisions and Contingencies (Y-o-Y) (%)</i>	27.6%	60.5%	26.6%	13.9%	-10.9%	-14.0%	21.2%
<b>Profit Before Tax</b>	<b>16,387</b>	<b>22,807</b>	<b>32,993</b>	<b>42,891</b>	<b>58,187</b>	<b>73,333</b>	<b>88,012</b>
<i>Profit Before Tax (Y-o-Y) (%)</i>	30.7%	39.2%	44.7%	30.0%	35.7%	26.0%	20.0%
<b>Profit After Tax</b>	<b>11,415</b>	<b>15,902</b>	<b>22,450</b>	<b>29,487</b>	<b>39,264</b>	<b>50,332</b>	<b>60,728</b>
<i>Profit After Tax (Y-o-Y) (%)</i>	31.1%	39.3%	41.2%	31.3%	33.2%	28.2%	20.7%
<b>Adj. No of Diluted shares (mn)</b>	<b>1,597</b>	<b>1,744</b>	<b>2,154</b>	<b>2,231</b>	<b>2,335</b>	<b>2,356</b>	<b>2,356</b>
<b>No of Diluted shares (mn) - Pre-Split</b>	<b>319</b>	<b>349</b>	<b>427</b>	<b>443</b>	<b>469</b>		
(YE March 31) (in Rs mn)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>Deposits</b>	<b>682,979</b>	<b>1,007,686</b>	<b>1,428,116</b>	<b>1,674,044</b>	<b>2,085,864</b>	<b>2,589,721</b>	<b>3,159,460</b>
<i>Deposits (Y-o-Y) (%)</i>	22.4%	47.5%	41.7%	17.2%	24.6%	24.2%	22.0%
<b>Loans and advances</b>	<b>469,448</b>	<b>634,269</b>	<b>988,831</b>	<b>1,258,306</b>	<b>1,599,827</b>	<b>2,016,356</b>	<b>2,499,465</b>
<i>Loans and advances (Y-o-Y) (%)</i>	33.9%	35.1%	55.9%	27.3%	27.1%	26.0%	24.0%
<b>Networth</b>	<b>64,332</b>	<b>114,972</b>	<b>150,527</b>	<b>215,225</b>	<b>253,793</b>	<b>307,258</b>	<b>367,996</b>
<i>Networth (Y-o-Y) (%)</i>	21.4%	78.7%	30.9%	43.0%	17.9%	21.1%	19.8%
Key Operating Ratios							
(YE March)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Book Value (Rs)	40	66	70	96	109	130	156
<b>Diluted EPS (Rs)</b>	<b>7.1</b>	<b>9.1</b>	<b>10.4</b>	<b>13.5</b>	<b>16.8</b>	<b>21.4</b>	<b>25.8</b>
<i>EPS Y-o-Y Growth (%)</i>	28.5%	27.6%	14.3%	29.7%	24.4%	27.0%	20.7%
Dividend Per share	7.0	9.0	10.0	12.0	16.5	NA	NA
Net Interest Margin	4.4%	4.6%	4.6%	4.4%	4.5%	4.2%	4.1%
Operating Exp / Operating Income	48.6%	49.9%	51.7%	47.9%	48.1%	47.9%	45.9%
Tax/PBT (%)	30.3%	30.3%	32.0%	31.3%	32.5%	31.4%	31.0%
Advance / Deposit Ratio	68.2%	68.1%	71.3%	74.2%	79.8%	80.7%	78.5%
Return on Assets	1.4%	1.4%	1.3%	1.5%	1.6%	1.7%	1.7%
Leverage (x) (Assets/ Tangible Networth)	14.3	12.0	12.4	11.0	10.4	10.9	10.7
Return on Equity	19.5%	16.2%	16.3%	16.5%	16.6%	18.0%	18.0%
Capital Adequacy Ratio	13.1%	13.6%	15.1%	17.4%	16.2%	15.3%	14.3%

NA – Not Applicable



Valuation Ratios							
(YE March)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Price / Earnings (x)					29.1	22.9	19.0
Price / Book Value (x)					4.5	3.8	3.1
Dividend Yield (%)	1.1%	1.0%	1.3%	2.5%	3.4%	NA	NA
Dividend Payout (%)	97.9%	98.7%	96.0%	88.8%	98.1%	NA	NA
<i>NA – Not Applicable</i>							
Commonsized Ratios							
Profit and Loss - as a % of Total Income	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Net Interest Income	43.2	42.2	37.8	41.7	43.5	37.4	38.3
Non Interest Income	17.8	18.4	16.8	19.6	17.9	16.0	16.2
Operating Expenses	29.7	30.2	28.2	29.3	29.5	25.6	25.0
Provisions and Contingencies	11.3	12.0	9.6	10.6	7.9	5.1	5.4
Tax	6.1	5.6	5.4	6.7	7.8	7.1	7.5
Profit After Tax	14.0	12.8	11.4	14.7	16.2	15.6	16.6
Balance sheet - as a % of Total Assets	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>Assets</b>							
Investments	33.5	37.1	32.1	26.3	25.6	25.5	24.7
Loans and advances	51.4	47.6	54.0	56.6	57.7	61.6	63.4
<b>Liabilities</b>							
Deposits	74.8	75.7	77.9	75.3	75.2	79.1	80.2
Networth	7.0	8.6	8.2	9.7	9.2	9.4	9.3

Note : (1) NIM numbers may differ from those given by the bank due to difference in method of calculation.

(2) The shareholders of the bank, at its Annual General Meeting held on July 06,2011 approved the sub- division(split) of one equity share of the bank having a nominal value of Rs. 10 each into five equity shares of nominal value Rs. 2 each. The record date for the same was July 16, 2011.



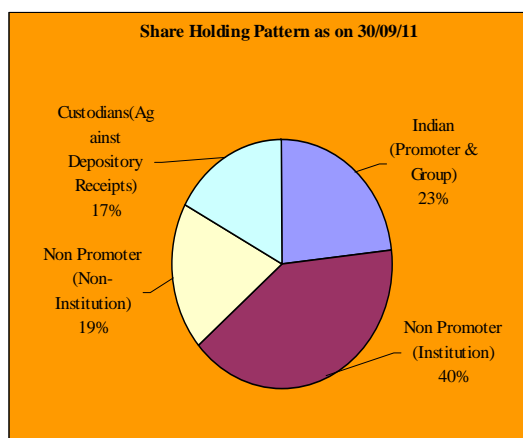
### Top Management Team

Name	Designation
C.M. Vasudev	Chairman
Aditya Puri	Managing Director
Ashim Samanta	Director
Pandit Palande	Director
Partho S. Datta	Director
Renu Karnad	Director
Bobby Parikh	Director
A. N. Roy	Director
Harish Engineer	Executive Director
Paresh Sukthankar	Executive Director

### Capital Issue History

Date	Equity Capital	
	Post Issue (Rs. Mn)	Mode of Capital Raising
30/04/1995	1500	Issue To Foreign Collaborators
31/05/1995	2000	Public Issue
29/03/2000	2234.8	Shares Issued On Amalgamation
31/03/2000	2432.8	Issued To Promoters, Friends, etc.
21/07/2001	2812.1	Equity underlying ADS
24/01/2005	3098.7	Equity underlying ADS
29/06/2007	3331.9	Preferential Issue Of Shares
18/07/2007	3529.7	Equity underlying ADS
24/06/2008	4246.2	Scheme of Arrangement/Amalgamation
31/11/2009	4552.4	Conversion of Warrants

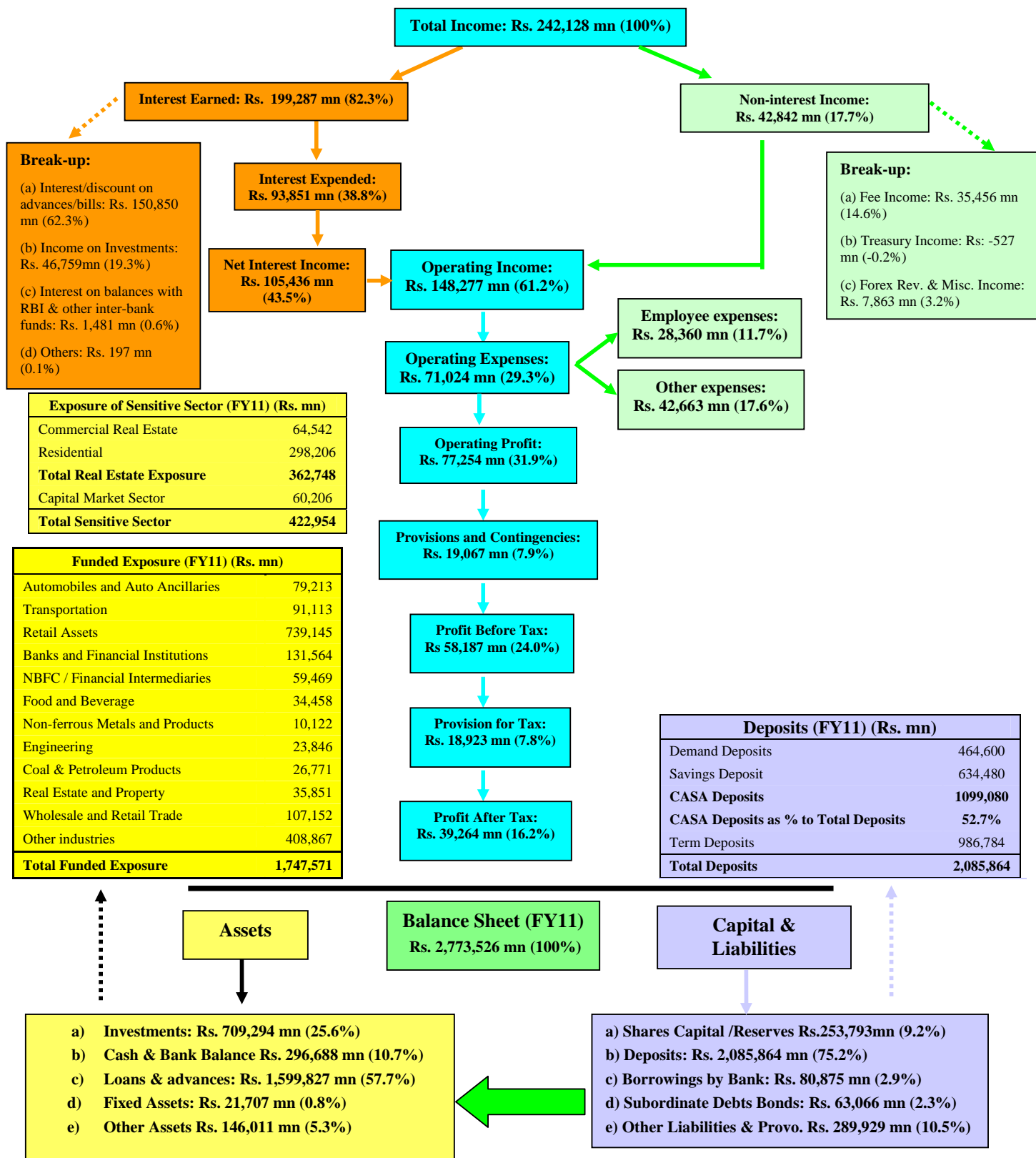
### Key Statistics



Industry	Banking
52 Week High/Low	Rs. 519/396.3
CMP	Rs. 489.6
Avg. Daily Volume (20 days)	4.23 mn
Avg. Daily Value (20 days)	Rs. 1954.4 mn
Performance over 52 weeks	
HDFC BANK	Up 3.8%
CNX NIFTY	Down 14.7%



## HDFC Bank's Business in Pictures... (FY11)





## *What Happened Last Quarter...*

HDFC Bank (HDFCB.IN/HDBK.BO) posted a good set of numbers for Q2 FY12, driven by a strong growth in the loan book and lower provisioning, though the reported numbers fell short of our expectations. The EPS for the quarter came in at Rs.5.1, up 30.1% Y-o-Y, but below our estimate of Rs.5.3. The Net Interest Income was up 16.6% Y-o-Y and 3.4% sequentially to Rs.29.4 bn, on account of a strong growth in advances. The Net Interest Margin (NIM) contracted by 10 bps Y-o-Y and sequentially to 4.1%, due to a decline of 330 bps Y-o-Y and 180 bps sequentially in the CASA base to 47.3% of the total deposits. The Non Interest Income grew 26.1% Y-o-Y and 8.2% sequentially to Rs.12.1 bn in Q2 FY12, primarily on account of a rise of 15.3% Y-o-Y in fees & commissions to Rs.9.9 bn and an increase of 43.1% Y-o-Y in foreign exchange & derivatives income to Rs.2.2 bn. Operating expenses increased 20.9% Y-o-Y and 4.9% sequentially to Rs.20.3 bn, due to continued network expansion, with HDFC Bank opening an additional 39 branches and 522 ATMs in the quarter. Provisions and contingencies declined 19.5% Y-o-Y and 17.5% sequentially to Rs.3.7 bn due to an improvement in asset quality. Gross advances grew 25.6% Y-o-Y (adjusted for short-term one-off wholesale loans outstanding as of September 2010) and 7.3% sequentially to Rs.1899.2 bn, with retail advances up by a strong 34.2% Y-o-Y to Rs.928.8 bn. Deposits were up 18.1% Y-o-Y and 9.2% sequentially to Rs.2306.8 bn in the quarter.

In Q2 FY12, HDFC Bank's asset quality remained healthy, with the gross NPA ratio declining 20 bps Y-o-Y and 4 bps sequentially to 1% and the net NPA ratio falling 10 bps Y-o-Y, but increasing 2 bps sequentially to 0.20%. The provision coverage (excluding write-offs) stood at 81.3%, as of September 30, 2011. HDFC Bank's restructured assets remained stable at 0.4% of advances in the

*Management expects the bank to grow at a faster pace than the industry and believes that its expanding branch network and rising penetration will aid the growth in deposits. According to management, the bank's net interest margin will be in the range of 3.9-4.2% in the coming quarters*

quarter. Management expects the bank to grow at a faster pace than the industry and believes that its expanding branch network and rising penetration will aid the growth in deposits. According to management, the bank's net interest margin will be in the range of 3.9-4.2% in the coming quarters. We expect HDFC Bank to post an EPS of Rs.5.7 and Rs.21.4 for Q2 FY12 and FY12 respectively. The stock currently trades at a PE multiple of 22.9x its FY12 earnings and a P/BV of 3.8x FY12 book. We reiterate our rating of Outperform on HDFC Bank.



**Comparative Valuation**

	P/E (X times)			Div. Yield	P/BV (X Times)			EPS Growth		
	FY11	FY12E	FY13E	FY11	FY11	FY12E	FY13E	FY11	FY12E	FY13E
<b>Large Private Banks</b>										
Axis Bank	13.9	11.3	8.8	1.2%	2.4	2.0	1.6	26.9%	22.2%	29.5%
<b>HDFC Bank</b>	<b>29.1</b>	<b>22.9</b>	<b>19.0</b>	<b>3.4%</b>	<b>4.5</b>	<b>3.8</b>	<b>3.1</b>	<b>24.4%</b>	<b>27.0%</b>	<b>20.7%</b>
ICICI Bank	19.5	17.4	14.5	1.6%	1.8	1.8	1.6	25.2%	12.0%	19.6%
<b>Average</b>	<b>20.8</b>	<b>17.2</b>	<b>14.1</b>	<b>2.1%</b>	<b>2.9</b>	<b>2.5</b>	<b>2.1</b>	<b>25.5%</b>	<b>20.4%</b>	<b>23.3%</b>
<b>Small Private Banks</b>										
City Union Bank	8.3	6.9	5.5	2.0%	1.8	1.5	1.2	33.3%	19.6%	25.4%
Federal Bank	11.6	8.9	7.0	2.1%	1.3	1.2	1.1	12.5%	30.9%	26.3%
IndusInd Bank	21.1	16.0	13.3	0.7%	2.9	2.6	2.2	45.2%	31.6%	20.4%
ING Vysya Bank	12.2	9.5	7.1	0.9%	1.5	1.3	1.1	31.0%	28.8%	33.0%
Kotak Mah. Bank	22.9	19.7	16.3	2.1%	3.3	2.8	2.4	27.3%	16.5%	20.6%
Yes Bank	13.5	11.1	8.8	0.9%	2.6	2.1	1.8	42.0%	21.8%	25.0%
<b>Average</b>	<b>14.9</b>	<b>12.0</b>	<b>9.7</b>	<b>1.5%</b>	<b>2.2</b>	<b>1.9</b>	<b>1.6</b>	<b>31.9%</b>	<b>24.9%</b>	<b>25.1%</b>
<b>PSU Banks</b>										
Andhra Bank	5.3	4.5	3.9	4.6%	1.0	0.9	0.8	11.2%	16.4%	17.5%
Allahabad Bank	4.8	4.2	3.5	4.0%	0.9	0.8	0.7	12.6%	15.3%	18.8%
Bank of Baroda	6.5	5.9	4.9	2.2%	1.4	1.2	1.0	38.7%	8.9%	20.2%
Bank of India	7.1	7.4	5.4	2.1%	1.0	0.9	0.8	42.8%	-4.1%	35.4%
Canara Bank	4.7	5.3	4.1	2.4%	0.9	0.9	0.7	32.8%	-12.1%	28.3%
IDBI Ltd.	5.8	4.8	3.6	4.8%	0.7	0.6	0.6	27.1%	21.1%	32.9%
Indian Overseas Bank	5.8	4.2	3.5	5.1%	0.8	0.7	0.6	-3.9%	37.7%	19.6%
Punjab National Bank	7.0	6.5	5.2	2.2%	1.4	1.2	1.0	13.9%	7.3%	24.2%
SBI (Standalone)	14.9	12.3	10.1	1.6%	1.9	1.6	1.4	-9.9%	20.7%	21.9%
Oriental Bk of Com	5.6	4.8	3.9	3.5%	0.8	0.7	0.6	31.1%	15.4%	23.0%
Union Bank of India	6.6	5.5	4.6	3.2%	1.2	1.0	0.8	0.4%	19.8%	20.9%
Vijaya Bank	4.0	4.1	3.4	4.6%	0.7	0.6	0.5	41.7%	-2.0%	20.3%
<b>Average</b>	<b>6.5</b>	<b>5.8</b>	<b>4.7</b>	<b>3.4%</b>	<b>1.1</b>	<b>0.9</b>	<b>0.8</b>	<b>19.9%</b>	<b>12.0%</b>	<b>23.6%</b>

Source: Company reports, Bloomberg & FG estimates

\*NA – Not Available





**Comparative Key Ratios**

	Return on Assets			Leverage (X times)			Return on Equity			CAR			NIM		
	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
<b>Large Private Banks</b>															
Axis Bank	1.7%	1.6%	1.6%	11.4	12.2	13.3	19.2%	19.9%	20.9%	12.7%	11.7%	11.0%	3.4%	3.2%	3.3%
<b>HDFC Bank</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>10.4</b>	<b>10.9</b>	<b>10.7</b>	<b>16.6%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>16.2%</b>	<b>15.3%</b>	<b>14.3%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>4.1%</b>
ICICI Bank	1.3%	1.4%	1.4%	7.1	7.6	8.2	9.6%	10.4%	11.9%	19.5%	17.8%	16.3%	2.5%	2.6%	2.6%
<b>Average</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>9.6</b>	<b>10.2</b>	<b>10.8</b>	<b>15.1%</b>	<b>16.1%</b>	<b>16.9%</b>	<b>16.1%</b>	<b>14.9%</b>	<b>13.9%</b>	<b>3.4%</b>	<b>3.3%</b>	<b>3.3%</b>
<b>Small Pvt Banks</b>															
City Union Bank	1.6%	1.6%	1.4%	14.5	15.9	14.9	23.2%	25.5%	20.9%	12.8%	N/A	N/A	3.6%	N/A	N/A
Federal Bank	1.3%	1.4%	1.5%	9.8	10.4	10.4	12.4%	14.2%	15.6%	16.8%	N/A	N/A	4.2%	N/A	N/A
IndusInd Bank	1.5%	1.6%	1.6%	11.7	11.5	11.5	17.1%	18.1%	18.3%	15.9%	14.1%	13.0%	3.7%	3.7%	3.8%
ING Vysya Bank	0.8%	0.9%	0.9%	15.9	16.3	17.2	12.7%	14.7%	15.4%	12.9%	N/A	N/A	3.3%	N/A	N/A
Kotak Mah. Bank	2.6%	2.3%	2.2%	6.3	6.7	7.1	16.3%	15.1%	15.5%	19.9%	N/A	N/A	5.6%	N/A	N/A
Yes Bank	1.5%	1.4%	1.4%	13.8	15.8	16.3	21.1%	22.1%	23.0%	16.5%	N/A	N/A	2.9%	N/A	N/A
<b>Average</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>12.0</b>	<b>12.8</b>	<b>12.9</b>	<b>17.1%</b>	<b>18.3%</b>	<b>18.1%</b>	<b>15.8%</b>	<b>14.1%</b>	<b>13.0%</b>	<b>3.9%</b>	<b>3.7%</b>	<b>3.8%</b>
<b>PSU Banks</b>															
Andhra Bank	1.4%	1.2%	1.2%	16.9	17.6	17.8	23.3%	21.1%	21.4%	13.5%	N/A	N/A	3.9%	N/A	N/A
Allahabad Bank	1.1%	1.0%	1.1%	17.2	18.3	17.1	18.9%	18.3%	18.8%	13.0%	N/A	N/A	3.4%	N/A	N/A
Bank of Baroda	1.4%	1.3%	1.2%	18.2	17.0	17.8	24.6%	21.9%	22.3%	14.5%	12.6%	11.2%	2.9%	2.8%	2.8%
Bank of India	0.8%	0.7%	0.8%	19.1	19.6	20.4	16.1%	13.7%	15.9%	12.2%	11.7%	11.1%	2.7%	2.5%	2.6%
Canara Bank	1.4%	1.1%	1.1%	17.1	15.9	16.4	23.9%	17.5%	18.6%	15.4%	12.8%	11.5%	2.8%	2.5%	2.5%
IDBI Ltd.	0.7%	0.8%	0.9%	18.2	17.5	18.1	13.2%	14.0%	16.3%	13.6%	12.4%	11.6%	2.0%	2.0%	2.1%
Indian Overseas Bank	1.0%	1.0%	0.8%	13.2	16.2	22.0	13.2%	16.2%	17.6%	14.6%	N/A	N/A	3.1%	N/A	N/A
Punjab National Bank	1.3%	1.2%	1.2%	17.2	17.3	17.2	22.9%	20.2%	20.4%	12.4%	11.9%	11.4%	3.9%	3.5%	3.5%
SBI (Standalone)	0.7%	0.7%	0.8%	15.6	19.5	19.9	11.5%	14.4%	15.0%	12.0%	11.0%	10.7%	3.0%	3.1%	3.1%
Oriental Bk of Com	0.8%	0.8%	0.8%	21.3	20.4	22.4	17.8%	16.5%	17.5%	14.2%	N/A	N/A	3.2%	N/A	N/A
Union Bank of India	1.1%	1.2%	1.2%	21.5	19.2	19.0	23.7%	23.0%	22.8%	11.7%	N/A	N/A	3.3%	N/A	N/A
Vijaya Bank	0.8%	0.8%	0.8%	21.8	18.2	19.1	17.4%	14.6%	14.9%	13.9%	N/A	N/A	3.0%	N/A	N/A
<b>Average</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>18.1</b>	<b>18.1</b>	<b>18.9</b>	<b>18.9%</b>	<b>17.6%</b>	<b>18.5%</b>	<b>13.4%</b>	<b>12.1%</b>	<b>11.2%</b>	<b>3.1%</b>	<b>2.7%</b>	<b>2.8%</b>

Source: Company reports, Bloomberg & FG estimates

\*NA – Not Available

\* Leverage equals total assets divided by net worth



## Quarterly Result Analysis

YE March (Rs mn)	Q2 FY12	Q2 FY11	Y-o-Y % Change	Q1 FY12	Seq. Q-o-Q %	H1 FY12	H1 FY11	Y-o-Y % Change	Q2 FY12E	Deviation
Interest Earned	67,177	48,100	39.7%	59,780	12.4%	126,957	92,297	37.6%	65,884	2.0%
Interest Expended	37,732	22,837	65.2%	31,300	20.5%	69,032	43,027	60.4%	36,591	3.1%
<b>Net Interest Income</b>	<b>29,445</b>	<b>25,263</b>	<b>16.6%</b>	<b>28,480</b>	<b>3.4%</b>	<b>57,925</b>	<b>49,270</b>	<b>17.6%</b>	<b>29,292</b>	<b>0.5%</b>
Non Interest Income	12,117	9,607	26.1%	11,200	8.2%	23,317	19,516	19.5%	13,062	-7.2%
<b>Operating Income</b>	<b>41,562</b>	<b>34,870</b>	<b>19.2%</b>	<b>39,680</b>	<b>4.7%</b>	<b>81,242</b>	<b>68,785</b>	<b>18.1%</b>	<b>42,354</b>	<b>-1.9%</b>
Operating Expenses	20,304	16,799	20.9%	19,346	4.9%	39,650	33,227	19.3%	19,700	3.1%
<b>Operating Profit</b>	<b>21,258</b>	<b>18,071</b>	<b>17.6%</b>	<b>20,334</b>	<b>4.5%</b>	<b>41,592</b>	<b>35,558</b>	<b>17.0%</b>	<b>22,654</b>	<b>-6.2%</b>
Provisions & Contingencies	3,661	4,545	-19.5%	4,437	-17.5%	8,097	10,095	-19.8%	4,578	-20.0%
<b>Profit Before Tax</b>	<b>17,598</b>	<b>13,526</b>	<b>30.1%</b>	<b>15,897</b>	<b>10.7%</b>	<b>33,495</b>	<b>25,463</b>	<b>31.5%</b>	<b>18,076</b>	<b>-2.6%</b>
Provision for tax	5,604	4,405	27.2%	5,047	11.0%	10,651	8,225	29.5%	5,604	0.0%
<b>Reported Net Profit</b>	<b>11,994</b>	<b>9,121</b>	<b>31.5%</b>	<b>10,850</b>	<b>10.5%</b>	<b>22,843</b>	<b>17,239</b>	<b>32.5%</b>	<b>12,473</b>	<b>-3.8%</b>
<b>Diluted EPS (in Rs)</b>	<b>5.1</b>	<b>3.9</b>	<b>30.1%</b>	<b>4.6</b>	<b>10.7%</b>	<b>9.7</b>	<b>7.4</b>	<b>30.7%</b>	<b>5.3</b>	<b>-3.7%</b>
<b>Annualised EPS (in Rs)</b>	<b>20.4</b>	<b>15.7</b>	<b>30.1%</b>	<b>18.4</b>	<b>10.7%</b>	<b>19.4</b>	<b>14.8</b>		<b>21.2</b>	<b>-3.7%</b>
<b>No of shares (mn)</b>	<b>2,356</b>	<b>2,331</b>	<b>1.1%</b>	<b>2,358</b>		<b>2,356</b>	<b>2,331</b>	<b>1.1%</b>	<b>2,358</b>	<b>-0.1%</b>
Net Int. Income / Op. Income	70.8%	72.4%		71.8%		71.3%	71.6%		69.2%	
Non Int. Income / Op. Income	29.2%	27.6%		28.2%		28.7%	28.4%		30.8%	
Operating Exp / Op. Income	48.9%	48.2%		48.8%		48.8%	48.3%		46.5%	
Capital Adequacy Ratio	16.5%	17.0%		16.9%		16.5%	17.0%		15.5%	

Source: Company reports, FG Estimates

- In Q2 FY12, HDFC Bank's Net Interest Income (NII) grew 16.6% Y-o-Y and 3.4% sequentially to Rs.29.4 bn, driven by a strong growth in loans. The reported Net Interest Margin (NIM) declined 10 bps Y-o-Y and sequentially to 4.1%.
- Non Interest Income rose 26.1% Y-o-Y and 8.2% sequentially to Rs.12.1 bn, primarily on account of a rise of 15.3% Y-o-Y in fees & commissions to Rs.9.9 bn and an increase of 43.1% Y-o-Y in foreign exchange & derivatives income to Rs.2.2 bn.
- Operating expenses increased 20.9% Y-o-Y and 4.9% sequentially to Rs.20.3 bn, due to higher investments towards expansion of bank branches and ATMs, thus resulting in the operating profit increasing 17.6% Y-o-Y and 4.5% sequentially to Rs.21.3 bn.
- A significant decline of 19.5% Y-o-Y in provisions, due to an improvement in asset quality, resulted in an increase of 31.5% Y-o-Y and 10.5% sequentially in the net profit to Rs.12 bn.
- Gross advances grew 25.6% Y-o-Y and 7.3% sequentially to Rs.1899.2 bn, while retail advances were up 34.2% Y-o-Y to Rs.928.8 bn.
- Deposits grew 18.1% Y-o-Y and 9.2% sequentially to Rs.2306.8 bn. The ratio of CASA to total deposits declined to 47.3% as on September 2011 from 49.1% as on June 2011, due to some movement in term deposits as a result of higher interest rates on term deposits.
- HDFC Bank's asset quality remained healthy, with the Gross NPA and Net NPA declining 20 bps Y-o-Y and 10 bps Y-o-Y to 1% and 0.20% respectively. The provision coverage ratio (excluding write-offs) stood at 81.3%, as on September 2011.
- The capital adequacy ratio stood at 16.5%, with the Tier-I ratio at 11.4%, as on September 2011.



## ***HDFC Bank - Earnings Model***

(YE Mar 31) (Rs mn)	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	FY11	Q1 FY12	Q2 FY12	Q3 FY12E	Q4 FY12E	FY12E	FY13E
Interest Earned	44,197	48,100	52,300	54,686	199,282	59,780	67,177	70,606	73,342	270,905	306,751
Interest Expended	20,190	22,837	24,533	26,291	93,851	31,300	37,732	39,832	41,469	150,333	166,613
Net Interest Income	24,007	25,263	27,767	28,395	105,431	28,480	29,445	30,774	31,873	120,572	140,138
Non Interest Income	9,909	9,607	11,278	12,558	43,352	11,200	12,117	13,924	14,351	51,592	59,248
Total Income	54,106	57,707	63,578	67,243	242,634	70,980	79,294	84,530	87,693	322,497	365,999
Operating Income	33,916	34,870	39,045	40,952	148,783	39,680	41,562	44,698	46,224	172,164	199,386
Operating Expenses	16,429	16,799	18,318	19,984	71,529	19,346	20,304	21,071	21,718	82,439	91,505
Operating Profit	17,487	18,071	20,727	20,969	77,254	20,334	21,258	23,627	24,506	89,725	107,881
Provisions and Contingencies	5,550	4,545	4,659	4,313	19,067	4,437	3,661	4,079	4,217	16,392	19,870
Profit Before Tax	11,937	13,526	16,068	16,655	58,187	15,897	17,598	19,549	20,290	73,333	88,012
Provision for tax	3,820	4,405	5,190	5,508	18,923	5,047	5,604	6,060	6,290	23,001	27,284
Profit After Tax	8,117	9,121	10,878	11,147	39,264	10,850	11,994	13,489	14,000	50,332	60,728
Diluted EPS (Rs)	3.5	3.9	4.7	4.7	16.8	4.6	5.1	5.7	5.9	21.4	25.8
Wgted. Avg. no. of shares (mn)	2,318	2,331	2,339	2,354	2,335	2,358	2,356	2,356	2,356	2,356	2,356
Net Interest Margin	4.4%	4.3%	4.6%	4.5%	4.5%	4.3%	4.2%	4.2%	4.2%	4.2%	4.1%
Non Intt Income / Op. Inc.	29.2%	27.6%	28.9%	30.7%	29.1%	28.2%	29.2%	31.2%	31.0%	30.0%	29.7%
Cost to Income Ratio	48.4%	48.2%	46.9%	48.8%	48.1%	48.8%	48.9%	47.1%	47.0%	47.9%	45.9%

*Note: NIM numbers may differ from those given by the bank due to difference in method of calculation.*

*Source: Company reports, FG Estimates*



## **IMPORTANT DISCLOSURES**

### ***Price Target***

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Book, Dividend Yield, earnings growth, Dividend Discount Model and its stock price history.

***The risks that may impede achievement of the price target/investment thesis are –***

- 1) The future profitability and revenue growth of Indian banks is dependent on the country's macro economic factors. Hence, any slowdown in the growth rate of the Indian economy or the major change in the economic factor may change our recommendations.
- 2) The competition in Indian banking space has increased of late and this has resulted in more aggressive pricing of the products by the banks however this may result in lower margins and higher level of NPAs in the future also.
- 3) The interest rates changes may affect the profitability of the bank.
- 4) Market share changes in deposits & advances.
- 5) Increase in bad loans as the cycle turns for borrowers



## ***First Global's Rating System***

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

**Rating in this report is relative to: Bank Nifty Index**

### **Positive Ratings**

*(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

*(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

*(ii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

### **Neutral Ratings**

*(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.*

*(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

### **Negative Ratings**

*(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

*(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

*(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

*(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*



**FIRST GLOBAL**  
Nirmal, 6th Floor, Nariman Point,  
Mumbai - 400 021, India.  
**Dealing Desk (India):**  
Tel. No.: +91-22-400 12 400  
Email: fgiasales@bloomberg.net

**FIRST GLOBAL (UK) Ltd.**  
13, Regent Street, London SW1Y 4LR,  
United Kingdom  
**Dealing Desk (UK & Europe):**  
Tel. No.: +44-203-189 0057  
Email: uk@fglobal.com

The information and opinions in this report are based on information from recognized statistical services and have not been verified by us, and we do not warrant only current opinions, which are subject to change.

First Global and others associated with this report are mentioned and may also perform other services.

Whilst all reasonable care has been taken, First Global Markets, Inc. nor any of their affiliates or agents (including without limitation losses) are liable for any errors or omissions.

First Global (or one of its affiliates) or its employees, analyst, officer, agent or director for companies mentioned in this report.

First Global and its affiliates may have positions in securities mentioned in this memorandum following its publication, provided that this memorandum is based on information and is not an offer to buy or sell or a recommendation.

The investments discussed or recommended in this report are based on their specific investment objectives. If an investment is denominated in a currency other than the price of, or income derived from, the investment, the investment is denominated in a different currency.

Past performance is not necessarily a guide to future performance, which this report relates, either directly or indirectly, to investments, which may make a profit or incur a loss due to rate fluctuations, and limited availability.

The value of investments and the income thereon may fluctuate and used to pay that income. In the event of a significant loss, a large loss equal to the amount invested or obtaining reliable information other than sterling (for UK investments) and the income thereon. The investment service may not be available.

While First Global has prepared this report, it does not accept responsibility for its contents. A representative of First Global is available for consultation with a representative of First Global.

First Global (UK) Limited is registered in England.

Additional information on request.

This report may not be resold or distributed without the prior written consent of First Global.