

October 19, 2011

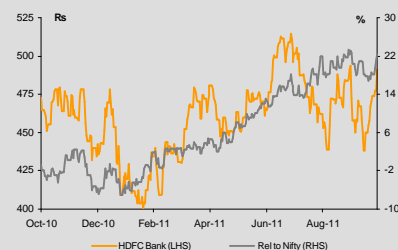
<b>Reco</b>	<b>Previous Reco</b>
Hold	Hold
<b>CMP</b>	<b>Target Price</b>
Rs491	Rs510
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,139
Sensex	17,085

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(7)	2	(1)
Rel. to Nifty	(1)	2	16	20

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	4677
Face Value(Rs)	2
No of shares o/s (mn)	2338
52 Week H/L	520/396
Market Cap (Rs bn/USD mn)	1,115/22,685
Daily Avg Volume (No of sh)	3717652
Daily Avg Turnover (US\$m)	35.6

### Shareholding Pattern (%)

	<b>Sep-11</b>	<b>Jun-11</b>	<b>Mar-11</b>
Promoters	23.2	23.3	23.4
FII/NRI	47.7	47.7	47.2
Institutions	11.0	11.1	11.6
Private Corp	8.9	8.8	8.7
Public	9.3	9.1	9.1

Source: Capitaline

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- **HDFC Bank's Q2FY12 results largely inline with NII at Rs29.4bn and net profit at Rs12bn. Reported NIM declined 10bps qoq due to higher interest cost**
- **Loan portfolio expanded 7.4% qoq aided by 11% sequential growth in retail loan portfolio. Term deposits were up 13% qoq and comprised 71% of the incremental total deposits**
- **Asset quality remains well within comfort zone. Annualised slippage rate still low at 0.8%. Restructured loan portfolio stands at 0.4% of gross advances**
- **Remain positive given superior operating matrix and stable asset quality. However valuations of 3.9x/3.2x FY12E/ FY13E ABV leave limited room for upside. HOLD with TP of Rs510**

### Results well inline with our estimates

HDFC Bank's Q2FY12 NII at Rs29.4bn and net profit at Rs12bn was largely inline with our estimates. The growth in NII was aided by healthy 20% yoy (7.4% qoq) growth in loan portfolio. NIM however contracted 10bps sequentially owing to higher proportion of term deposits and full-quarter impact of interest outflow on savings deposits. With 26% yoy growth in non-interest income and lower provisioning charges, net profit grew 31.5% yoy to Rs12bn.

On the balance sheet front, deposits were up 18.1% yoy and 9.2% qoq. A large part of the increase in deposits was in form of term deposits (comprised 71% of the incremental deposits during the quarter). During the quarter, balance sheet expanded 26.3% yoy and 10.4% qoq. However, excluding for the accounting adjustment under AS-30 towards other assets (up 52.5%yoy) and other liabilities (up 32.8%), it expanded 8% qoq. Investments were up 23% yoy and largely comprised of SLR investments, G-sec and high yield bonds.

### Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	9.7	10.0	10.4	10.8	11.0	129	21
Yield on investments*	7.1	7.7	7.7	7.8	8.5	147	70
Yield on assets*	8.0	8.4	8.3	8.5	8.9	97	44
Cost of funds*	3.8	3.9	4.0	4.4	5.0	124	57
NIM*	4.2	4.4	4.3	4.0	3.9	-27	-13
NIM (Reported)	4.2	4.2	4.2	4.2	4.1	-10	-10

Source: Company, Emkay Research

Note: \* Calculated on basis of average quarterly balances

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	123,697	29,489	12.9	90.3	1.5	16.3	39.2	5.4
FY2011	148,783	39,270	16.9	105.8	1.6	16.7	29.5	4.6
FY2012E	175,203	51,738	22.0	125.8	1.7	18.5	22.4	3.9
FY2013E	216,034	67,505	28.3	151.4	1.6	20.0	17.1	3.2

Source: Company, Emkay Research

## Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	25,263	27,767	28,395	28,480	29,445	16.6	3.4	57,925	49,270	17.6
Other Income	9,607	11,278	12,558	11,200	12,117	26.1	8.2	23,317	19,516	19.5
<i>Fee Income</i>	8,570	9,428	10,006	9,227	9,879	15.3	7.1	19,106	16,533	15.6
Net Income	34,870	39,045	40,952	39,680	41,562	19.2	4.7	81,242	68,785	18.1
Total Operating Expenses	16,799	18,318	19,984	19,346	20,304	20.9	4.9	39,650	33,227	19.3
<i>As % Of Net Income</i>	48.2	46.9	48.8	48.8	48.9			48.8	48.3	
Employee Expenses	7,106	7,251	7,334	7,810	8,231	15.8	5.4	16,041	13,776	16.4
<i>As % Of Net Income</i>	20.4	18.6	17.9	19.7	19.8			19.7	20.0	
Other Expenses	9,693	11,068	12,650	11,536	12,073	24.6	4.7	23,609	19,451	21.4
<i>As % Of Net Income</i>	27.8	28.3	30.9	29.1	29.0			29.1	28.3	
Operating Profit	18,071	20,727	20,969	20,334	21,258	17.6	4.5	41,592	35,558	17.0
<i>As % Of Net Income</i>	51.8	53.1	51.2	51.2	51.1			51.2	51.7	
Provisions	4,545	4,659	4,313	4,437	3,661	-19.5	-17.5	8,097	10,095	-19.8
PBT	13,526	16,068	16,655	15,897	17,598	30.1	10.7	33,495	25,463	31.5
Total Tax	4,405	5,190	5,508	5,047	5,604	27.2	11.0	10,651	8,225	29.5
Adjusted PAT	9,121	10,878	11,147	10,850	11,994	31.5	10.5	22,844	17,239	32.5
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	9,121	10,878	11,147	10,850	11,994	31.5	10.5	22,844	17,239	32.5
Reported EPS	19.7	23.4	24.0	23.2	25.6	30.1	10.3	48.9	37.4	30.8

Source: Company, Emkay Research

## Strong traction in retail loan portfolio; overall loan portfolio grew 7.4% qoq

Loan growth at 20% yoy and 7.4% qoq was led by strong traction in retail loan portfolio. Retail book during the quarter expanded 34% yoy and 10.8% qoq and constituted 49% of the total loan portfolio. Amongst retail, growth was witnessed across the segments of: CV/CE (up 63% yoy and 25% qoq), Business banking (up 46.6% yoy), home loans (up 34.5% yoy) and credit cards (up 41.6% yoy). Exposure to risky asset class of personal loans and credit cards stood at 19% of the total retail loan portfolio (9% of overall book). Growth in corporate loan portfolio remained lower at 8% yoy and 4% qoq.

## Advances mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Retail loans	692	775	801	839	929	34.2	10.7	49.3
Wholesale loans	879	817	799	917	956	8.8	4.3	50.7
<b>Total</b>	<b>1,571</b>	<b>1,592</b>	<b>1,600</b>	<b>1,755</b>	<b>1,885</b>	<b>20.0</b>	<b>7.4</b>	<b>100.0</b>

Source: Company, Emkay Research

## Retail advances mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Auto Loans	208	222	221	232	246	18.5	6.0	26.5
Personal Loans	93	98	103	110	120	28.7	9.3	12.9
CVs	70	87	82	91	113	63.1	25.3	12.2
Loan Against Securities	10	12	12	11	10	-4.2	-8.2	1.1
2-Wheelers	18	19	20	21	22	22.1	5.1	2.3
Business Banking	115	134	150	154	168	46.6	9.5	18.1
Credit Cards	41	46	49	54	59	41.6	8.3	6.3
Home loans	92	109	115	110	123	34.5	11.8	13.3
Others	46	47	50	56	67	47.4	19.2	7.2
<b>Total</b>	<b>692</b>	<b>775</b>	<b>801</b>	<b>839</b>	<b>929</b>	<b>34.2</b>	<b>10.7</b>	<b>100.0</b>

Source: Company, Emkay Research

### Higher term deposits and full impact of SB deposits dragged margins

Term deposits during the quarter were up 26% yoy and 13% qoq and constituted 71% of the incremental total deposits. As a result, CASA ratio declined by 173bps qoq to 47.3%. Also, with full-quarter impact of interest outflow towards savings deposits, cost of funds inched upwards to 5% (up 57bps qoq against 44bps increase in yield on assets) resulting in 10bps contraction in net interest margin to 4.1%

#### CASA Mix

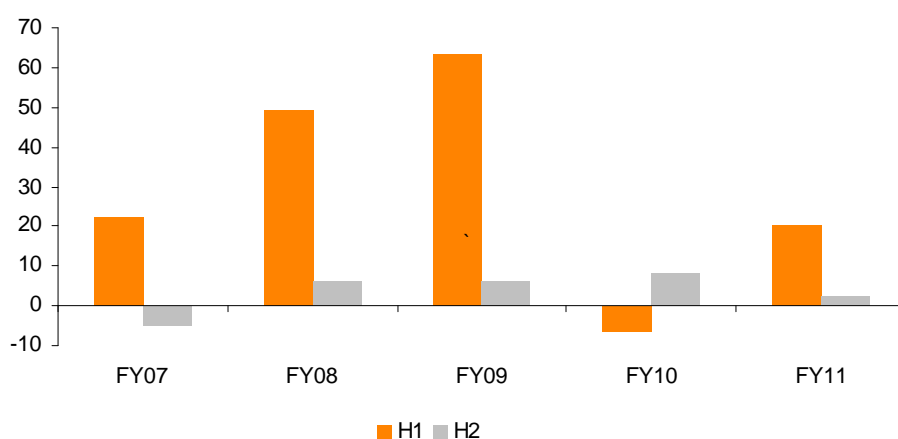
Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Current Deposits	394	360	465	388	402	2.0	3.5
Saving	595	610	634	648	690	15.9	6.5
CASA	989	971	1,099	1,036	1,092	10.4	5.4
Term deposits	964	951	987	1,076	1,215	26.0	13.0
Total Deposits	1,953	1,922	2,086	2,112	2,307	18.1	9.2
CASA (%)	50.6	50.5	52.7	49.1	47.3	-330	-173

Source: Company, Emkay Research

### We expect NIMs to come back to 4.2% levels in H2FY12

We expect the margins to bounce back to Q1FY12 levels driven by two factors (1) historically, the term deposits growth is bunched up for HDFC Bank in H1 with very mediocre growth in H2 and (2) seasonally CASA growth remains strong in H2. We believe that with the incremental deposit costs easing, the margins are likely to bounce back to 4.2%.

#### Term deposit growth (% yoy)



Source: Company, Emkay Research

### Lower fee income and treasury losses hurt other income

Other income at Rs12.1bn (up 26.1% yoy) was lower than our estimates of Rs13bn. The growth in non-interest income was dragged by lower fee income (up 15.3% yoy) and treasury losses (Rs13mn). With ~80% of fee income being retail in nature, the growth has remained lower due to muted income from sale of third party products.

#### Fee income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Fee/Commission income	8,570	9,428	10,006	9,227	9,879	15.3	7.1	19,106	16,533	15.6
Trading gains/(losses)	-521	-307	86	-413	-13	-97.5	-96.9	-426	-306	39.2
Others	1,558	2,168	2,466	2,301	2,180	39.9	-5.3	4,637	3,289	41.0
<b>Total</b>	<b>9,607</b>	<b>11,278</b>	<b>12,558</b>	<b>11,200</b>	<b>12,117</b>	<b>26.1</b>	<b>8.2</b>	<b>23,317</b>	<b>19,516</b>	<b>19.5</b>

Source: Company, Emkay Research

### Asset quality remains well within comfort zone

Asset quality remained strong with GNPA at Rs18.9bn nearly flat yoy. However, given the nature of loan portfolio (50% being retail in nature) GNPA/NNPA at 1.0%/0.19% continues to remain amongst the lowest in the private banking space. Cumulative slippages during H1FY12 stood at Rs7.5bn or 0.8% of total loans. ~33% of slippages are from the MFI segment. Restructured loan portfolio stands at comfortable 0.4% of gross advances.

### Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPAs	18,412	17,818	16,943	18,331	18,949	2.9	3.4
Net NPAs	4,085	3,307	2,964	3,185	3,553	-13.0	11.5
Gross NPAs (%)	1.2	1.1	1.1	1.0	1.0		
Net NPAs (%)	0.3	0.2	0.2	0.2	0.2		
Net NPAs/Net worth (%)	1.7	1.3	1.2	1.2	1.3		
Provision cover (%)	77.8	81.4	82.5	82.6	81.3		

Source: Company, Emkay Research

### Adequate capital; Maintain HOLD with target price of Rs510

Capital adequacy remains comfortable with CAR at 16.5% (including Tier I CAR of 11.4%). We now expect bank to report 23% CAGR in loan portfolio and balance sheet over FY11-13E.

We drive comfort in HDFC Bank's given a) superior operating matrix b) stable asset quality and c) healthy capital with decent return ratios. However, valuations at 3.9x FY12E and 3.2x FY13E ABV leave limited room for upside. Maintain HOLD rating with TP of Rs510.

## Key Financials

### Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	83,866	105,431	125,912	154,818
Other income	39,831	43,352	49,291	61,216
Net income	123,697	148,783	175,203	216,034
Operating expenses	59,398	71,529	82,661	100,017
Pre provision profit	64,299	77,254	92,542	116,017
PPP excl treasury	67,780	76,417	91,705	115,180
Provisions	21,406	19,061	16,456	16,744
Profit before tax	42,893	58,193	76,086	99,273
Tax	13,404	18,923	24,348	31,767
Tax rate	31.3%	32.5%	32.0%	32.0%
Profit after tax	29,489	39,270	51,738	67,505

### Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	4.1	4.2	4.0	4.1
Non-ll/avg assets	2.0	1.7	1.6	1.6
Fee income/avg assets	2.7	2.6	2.4	2.4
Opex/avg assets	2.9	2.9	2.7	2.6
Provisions/avg assets	1.7	0.5	0.7	0.5
PBT/avg assets	2.4	2.3	2.4	2.6
Tax/avg assets	0.8	0.8	0.8	0.8
RoA	1.5	1.6	1.7	1.6
RoAE	16.3	16.7	18.5	20.0
GNPA (%)	1.4	1.1	0.9	0.7
NNPA (%)	0.3	0.2	0.2	0.2

### Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity	4,577	4,652	4,714	4,775
Reserves	210,648	249,140	299,900	366,141
Net worth	215,225	253,793	304,614	370,917
Deposits	1,674,044	2,085,864	2,709,328	3,378,625
Borrowings	336,300	434,631	431,112	442,625
Total liabilities	2,225,569	2,774,288	3,445,053	4,192,167
<b>Assets</b>				
Cash and bank	299,424	296,688	267,319	366,413
Investments	574,683	703,946	984,316	1,192,089
Customer assets	1,269,699	1,605,174	2,008,314	2,439,458
Others	81,763	168,479	185,104	194,207
Total assets	2,225,569	2,774,288	3,445,053	4,192,167

### Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	29,489	39,270	51,738	67,505
Shares in issue (mn)	2,289	2,326	2,357	2,388
EPS (Rs)	12.9	16.9	22.0	28.3
PER (x)	38.1	29.1	22.4	17.4
FDEPS(Rs)	12.5	16.7	22.0	28.6
FDPER (x)	39.2	29.5	22.4	17.1
Book value (Rs)	92.0	107.1	127.2	153.3
P/BV (x)	5.3	4.6	3.9	3.2
Adj book value (Rs)	90.3	105.8	125.8	151.4
P/ABV (x)	5.4	4.6	3.9	3.2
P/PPP (x)	17.5	14.8	12.5	10.1
Dividend yield (%)	0.5	0.7	0.5	0.5

**Recommendation History: HDFC Bank – HDFCB IN**

Date	Reports	Reco	CMP	Target
19/07/2011	<a href="#">HDFC Bank Q1FY12 Result Update</a>	Hold	511	510
18/04/2011	<a href="#">HDFC Bank Q4FY11 Result Update</a>	Hold	2,316	2,530
28/01/2011	<a href="#">HDFC Bank Q3FY11 Result Update</a>	Hold	2,052	2,100
19/10/2010	<a href="#">HDFC Bank Q2FY11 Result Update</a>	Reduce	2,366	2,100

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
18/10/2011	<a href="#">CRISIL Q3CY11 Result Update</a>	Accumulate	839	1,050
18/10/2011	<a href="#">Federal Bank Initiating Coverage</a>	Accumulate	377	425
17/10/2011	<a href="#">South Indian Bank Q2FY12 Result Update</a>	Accumulate	23	27
16/09/2011	<a href="#">Banking Sector Update</a>			

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