

April 18, 2011

Reco Hold	Previous Reco Hold
CMP Rs2,052	Target Price Rs2,530
EPS change CY10E/11E (%)	NA
Target Price change (%)	21.2
Nifty	5,729
Sensex	19,091

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	13	(3)	18
Rel. to Nifty	1	11	2	9

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	4652
Face Value(Rs)	10
No of shares o/s (mn)	465
52 Week H/L	2,518/1,785
Market Cap (Rs bn/USD mn)	1,077/24,250
Daily Avg Volume (No of sh)	1008943
Daily Avg Turnover (US\$m)	49.2

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	23.4	23.4	23.5
FII/NRI	47.2	48.1	48.5
Institutions	11.6	10.9	10.2
Private Corp	8.7	8.5	8.6
Public	9.1	9.2	9.3

Source: Capitaline

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- HDFC bank results inline with expectations with NII at Rs28.4bn (up 20.8% yoy) and Net profit at Rs11.1bn (up 33.2% yoy)
- Other positive highlights of the quarter: (1) CASA maintained at 51% (52% in Q4FY10); (2) fee income growth of 7.6% qoq and (3) Slippage rate at <1% for FY11
- Slippage rate for FY11 at 0.9%, lowest since FY05. Asset quality remained robust with gross and net NPAs down by 5% and 10% qoq respectively with PCR of 82.5%
- Stability in parameters like NIMs, NII and asset quality as expected. Rolling over valuations to FY13E with strong earnings visibility. Maintain HOLD rating with TP of Rs2,530

NII growth in line with expectations

HDFC Bank's NII grew by 20.8% yoy to Rs28.4bn driven by 27% yoy growth in advances (0.5% qoq) and stable NIMs at 4.2%. The NIM's for the quarter remain stable at 4.2% despite the CDR contracting by 600bps qoq.

Expansion in yields helps NIMs

Despite a 600bps qoq contraction in CDR, the NIMs remained stable during the quarter. The NIMs benefited by yields on advances moving up more than increase in the cost of deposits.

Yield analysis

%	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (bps)	QoQ (bps)
Yield on advances*	9.9	9.7	9.7	10.0	10.4	52	41
Yield on investments*	6.6	7.1	7.1	7.7	7.7	117	0
Yield on assets*	7.6	7.8	8.0	8.4	8.3	71	-7
Cost of funds*	3.2	3.5	3.8	3.9	4.0	80	6
NIM*	4.4	4.2	4.2	4.4	4.3	-10	-14
NIM (Reported)	4.4	4.3	4.2	4.2	4.2	-20	0

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances

Valuation table

Y/E	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	121,942	29,487	64.4	451.6	1.5	16.3	38.1	5.3
FY2011E	148,277	39,264	84.4	529.1	1.6	16.7	27.7	4.4
FY2012E	187,655	53,266	113.3	624.9	1.6	19.0	21.1	3.8
FY2013E	231,720	69,278	145.5	753.8	1.6	20.3	16.2	3.1

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	23,514	24,011	25,263	27,767	28,395	20.8	2.3	105,436	83,866	25.7
Other Income	9,036	9,399	9,607	11,278	12,558	39.0	11.3	42,842	38,068	12.5
Fee Income	7,653	7,457	8,570	9,428	10,006	30.7	6.1	35,461	28,307	25.3
Net Income	32,550	33,410	34,870	39,045	40,952	25.8	4.9	148,278	121,934	21.6
Total Operating Expenses	15,605	15,923	16,799	18,318	19,984	28.1	9.1	71,024	57,645	23.2
As % Of Net Income	47.9	47.7	48.2	46.9	48.8			47.9	47.3	
Employee Expenses	5,972	6,671	7,106	7,251	7,334	22.8	1.1	28,360	22,892	23.9
As % Of Net Income	18.3	20.0	20.4	18.6	17.9			19.1	18.8	
Other Expenses	9,634	9,252	9,693	11,068	12,650	31.3	14.3	42,663	34,753	22.8
As % Of Net Income	29.6	27.7	27.8	28.3	30.9			28.8	28.5	
Operating Profit	16,944	17,487	18,071	20,727	20,969	23.8	1.2	77,254	64,289	20.2
As % Of Net Income	52.1	52.3	51.8	53.1	51.2			52.1	52.7	
Provisions	4,399	5,550	4,545	4,659	4,313	-1.9	-7.4	19,067	21,406	-10.9
PBT	12,545	11,937	13,526	16,068	16,655	32.8	3.7	58,187	42,884	35.7
Total Tax	4,178	3,820	4,405	5,190	5,508	31.8	6.1	18,923	13,404	41.2
Adjusted PAT	8,367	8,118	9,121	10,878	11,147	33.2	2.5	39,264	29,479	33.2
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	8,367	8,118	9,121	10,878	11,147	33.2	2.5	39,264	29,479	33.2
Reported EPS	18.3	17.7	19.7	23.4	24.0	31.3	2.5	84.8	66.3	28.0

Source: Company, Emkay Research

Advances growth low at 0.5% qoq but in line with historical average

The advance growth during the quarter was lower at 0.5%qoq (1.4% qoq adjusted for sale down) as HDFC Bank had done most of its PSL target loans in Q3FY11. Historically, HDFC Bank's loan book growth has been low in fourth quarter. The Retail advances have grown at 27% yoy with a very broadbased growth across all categories .

Advances mix

Rs bn	Q4FY10	Q4FY11	% yoy chg	% of total
Wholesale	628	800	27.3	49.9
Retail	630	800	27.0	50.1
Total	1,258	1,600	27.1	100.0

Source: Company, Emkay Research

Note: qoq comparison not available due to reclassification

Retail advances mix

Rs bn	Q4FY10	Q4FY11	% yoy chg	% of total
Auto	180	221	22.8	27.6
Personal Loans	87	102	17.2	12.8
Commercial Vehicles	60	80	33.3	10.0
2-wheelers	16	20	25.0	2.5
Business Banking	110	150	36.4	18.8
Home loans	87	115	32.2	14.4
Others	90	112	24.4	14.0
Total	630	800	27.0	100.0

Source: Company, Emkay Research

Note: qoq comparison not available due to reclassification

CASA profile expands qoq despite strong growth in term deposits

The CASA expanded by 50bps qoq (adjusted for quarter end one-time float) despite the fact that HDFC Bank grew its term deposits by 3.5% qoq and even as the interest rates have risen significantly in last two quarters.

Towards the end of the quarter, there were some one-time floats in current account from fertilizers companies as the government bought back some fertilizer subsidy bonds from the companies with cash lying in current account.

CASA Mix

Rs bn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)
Current Deposits	372	362	394	360	465	24.8	29.0
Saving	499	539	595	610	634	27.2	3.9
CASA	871	900	989	971	1,099	26.2	13.2
Term deposits	803	930	964	951	987	22.9	3.7
Total Deposits	1,674	1,830	1,953	1,922	2,086	24.6	8.5
CASA (%)	52.0	49.2	50.6	50.5	52.7	66	219

Source: Company, Emkay Research

Fee income growth robust at 7.6% qoq

The fee income (including the forex and derivatives income) has grown by strong 7.6% qoq and 31% yoy.

Fee income

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Fee/Commission income	7,653	7,457	8,570	9,428	10,006	30.7	6.1	35,461	28,307	25.3
Trading gains/(losses)	-473	224	-521	-307	86	-118.2	-128.0	-518	3,451	-115.0
Others	1,856	1,718	1,558	2,168	2,466	32.8	13.7	7,910	6,310	25.4
Total	9,036	9,399	9,607	11,278	12,558	39.0	11.3	42,842	38,068	12.5

Source: Company, Emkay Research

Note: During the quarter the total fees were gross of charges paid to other banks for use of their ATMs whereas earlier it was netted off from fee income. To that extent the fee income growth is overstated.

Slippage rate lowest since 2005

For FY11, the slippage rate stood at 0.9% of advances, lowest since FY05. The asset quality improved as the gross NPAs declined by 4.9%qoq, while Net NPA declined by a higher 10.4%qoq. The provision coverage also improved by 90bps qoq to 82.5%.

Asset quality

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)
Gross NPAs	18,168	17,912	18,412	17,818	16,943	-6.7	-4.9
Net NPAs	3,921	4,125	4,085	3,307	2,964	-24.4	-10.4
Gross NPAs (%)	1.4	1.2	1.2	1.1	1.1		
Net NPAs (%)	0.3	0.3	0.3	0.2	0.2		
Net NPAs/Net worth (%)	1.8	1.8	1.7	1.3	1.2		
Provision cover (%)	78.4	77.0	77.8	81.4	82.5		

Source: Company, Emkay Research

Provisions continue to trend down

The pressure on credit costs have also moderated (which rose sharply post CBOP merger) as the provisions for Q4FY11 were Rs3.3bn. The credit cost at 0.9% of advances is back to pre-CBOP merger level. Even out of the total provisions, the specific loan loss provisions were just Rs1.0bn.

Capital adequacy ratio comfortable

The bank's CAR stood at comfortable 16.2% as at March 31, 2010, with tier I at 12.2% which is very comfortable for at least next 18-24 month's growth.

Valuations and view

Stability in HDFC Bank's operating parameters like NIMs, NII and asset quality is in line with our expectations. With strong earnings visibility, we are rolling over our valuation multiple to FY13E. Maintain HOLD with TP of Rs2,530 (P/ABV 3.3x).

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11E	FY12E	FY13E
Net interest income	83,866	105,436	133,324	164,929
Other income	38,076	42,842	54,331	66,790
Net income	121,942	148,277	187,655	231,720
Operating expenses	57,645	71,023	85,469	102,608
Pre provision profit	64,297	77,254	102,186	129,112
PPP excl treasury	67,778	76,736	103,586	130,512
Provisions	21,406	19,067	21,479	24,145
Profit before tax	42,891	58,187	80,706	104,967
Tax	13,404	18,923	27,440	35,689
Tax rate	31.3%	32.5%	34.0%	34.0%
Profit after tax	29,487	39,264	53,266	69,278

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11E	FY12E	FY13E
NIM	4.1	4.2	4.2	4.2
Non-ll/avg assets	1.9	1.7	1.8	1.7
Fee income/avg assets	2.5	2.6	2.6	2.6
Opex/avg assets	2.8	2.8	2.8	2.7
Provisions/avg assets	1.7	1.0	1.0	0.9
PBT/avg assets	2.4	2.3	2.5	2.5
Tax/avg assets	0.8	0.8	0.9	0.9
RoA	1.5	1.6	1.6	1.6
RoAE	16.3	16.7	19.0	20.3
GNPA (%)	1.4	1.0	0.8	0.7
NNPA (%)	0.3	0.2	0.1	0.1

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11E	FY12E	FY13E
Liabilities				
Equity	4,577	4,652	4,701	4,762
Reserves	210,648	249,113	302,351	370,386
Net worth	215,225	253,765	307,052	375,148
Deposits	1,674,044	2,085,864	2,759,268	3,532,279
Borrowings	336,300	433,853	360,636	372,978
Total liabilities	2,225,569	2,773,482	3,426,956	4,280,405
Assets				
Cash and bank	299,424	296,688	302,270	386,951
Investments	574,683	648,226	836,779	1,053,222
Customer assets	1,269,699	1,660,895	2,184,820	2,728,014
Others	81,763	167,702	103,087	112,218
Total assets	2,225,569	2,773,511	3,426,956	4,280,405

Valuations Table

(Year Ending Mar 31)	FY10	FY11E	FY12E	FY13E
Net profit (Rs mn)	29,487	39,264	53,266	69,278
Shares in issue (mn)	458	465	470	476
EPS (Rs)	64.4	84.4	113.3	145.5
PER (x)	37.1	27.4	21.1	16.2
FDEPS(Rs)	62.7	83.3	113.3	145.5
FDPER (x)	38.1	27.7	21.1	16.2
Book value (Rs)	460.2	535.5	631.3	760.2
P/BV (x)	5.2	4.3	3.7	3.1
Adj book value (Rs)	451.6	529.1	624.8	753.7
P/ABV (x)	5.3	4.4	3.8	3.1
P/PPP (x)	17.0	13.9	11.0	8.8
Dividend yield (%)	0.5	0.7	0.5	0.5

Recommendation History: HDFC Bank – HDFCB IN

Date	Reports	Reco	CMP	Target
28/01/2011	HDFC Bank Q3FY11 Result Update	Hold	2,052	2,100
19/10/2010	HDFC Bank Q2FY11 Result Update	Reduce	2,366	2,100
20/07/2010	HDFC Bank Q1FY11 Result Update	Hold	2,050	1,950
26/04/2010	HDFC Bank Q4FY10 Result Update	Accumulate	1,944	1,950

Recent Research Reports

Date	Reports	Reco	CMP	Target
15/04/2011	SBI Management Meet Update	Accumulate	2,819	3,000
13/04/2011	ICICI Bank Management Meet Update	Hold	1,099	1,200
05/04/2011	Future Capital Holding Management Meet Update	Not Rated	157	NA
17/03/2011	Banking Sector Update			

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