

Buy

Price	Rs1,446
Target Price	Rs1,885
Investment Period	12 months

Stock Info

Sector	Banking
Market Cap (Rs cr)	51,267
Beta	1.0
52 WK High / Low	1825/980
Avg Daily Volume	112730
Face Value (Rs)	10
BSE Sensex	16,721
Nifty	5,000
BSE Code	500180
NSE Code	HDFCBANK
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB IN

Shareholding Pattern (%)

Promoters	23.3
MF/Banks/Indian FIs	49.3
FII/ NRIs/ OCBs	7.4
Indian Public	20.0

Abs.	3m	1yr	3yr
Sensex (%)	(8.9)	17.6	162.2
HDFC Bank (%)	(9.7)	40.3	167.8

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Performance Highlights

- Robust Net Interest Income:** The Bank's Advances grew 35% yoy to Rs63,427cr, with Retail Advances growing 39% yoy and Wholesale Advances growing 30% yoy. Deposits grew 48% yoy to Rs1,00,769cr, with the CASA ratio remaining strong at around 54.5%. The Bank continued to manage its Balance Sheet growth and Profitability astutely, once again going slow in the fourth quarter of the financial year, unlike most other banks. As a result, in spite of the Credit/Deposit ratio declining to 63%, NIMs (as reported by the Bank) improved by about 10bp sequentially, allowing the Bank to post 47% yoy growth in Net Interest Income (NII).
- Robust Non-Interest Income...** Non-Interest Income grew 39% yoy, though sequentially it declined due to lower Treasury gains in 4QFY2008. Core Fee Income comprising 89% of Non-Interest Income, grew 38% yoy to Rs490cr. Income from the Forex Business came in 19% lower sequentially. The Bank refrained from disclosing specific details about its Forex Business.
- ...and Robust Net Profits:** The Bank delivered a yoy Net Profit growth of 37% to Rs471cr (Rs344cr) in line with estimates and driven by robust core performance. Return on Equity (RoE) was lower at 17.7% for FY2008 and is expected to further decline due to the Merger with Centurion Bank of Punjab and further Equity dilution pursuant to preferential allotment to HDFC. Pertinently, the Bank's Return on Assets (RoA) continues to be superior at 1.4% and is expected to remain at those levels going ahead also. RoE should revert to 17%+ in the longer term as the Bank leverages the additional capital raised.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
NII	3,710	5,285	7,019	8,803
<i>% chg</i>	45.7	42.5	32.8	25.4
Net Profit	1,142	1,590	2,030	2,586
<i>% chg</i>	31.1	39.3	27.7	27.4
NIM (%)	4.7	4.9	4.9	4.9
EPS (Rs)	35.7	44.9	53.3	67.9
P/E (x)	40.5	32.2	27.1	21.3
P/ABV (x)	7.2	4.5	3.2	2.9
P/ABV (x) *	7.2	4.5	3.3	2.9
RoAA (%)	1.4	1.4	1.4	1.4
RoANW (%)	19.5	17.7	14.2	14.3

Source: Company, Angel Research. Note: * After factoring CBoP Merger

Operating Expenses, Provisions and Taxes

- **Operating Expenses:** Operating expenses increased 61% yoy, in line with expectations. While the Bank added only 77 branches and 372 ATMs in FY2008, around 150 new branches are likely to be opened by 1QFY2009. Combined with the 394 branches of Centurion Bank of Punjab, this represents a significant ramp up in its distribution channel and should help the Bank maintain its recent higher growth trajectory. While our explicit forecasts up to FY2010E factor in 30% CAGR in Advances for the standalone Bank (still above Industry growth rate), as a combined entity, the Bank may be able to leverage the additional Capital raised (and to be raised) at a faster rate.
- **NPAs:** NPA provisioning expenses were lower sequentially, with Gross and Net NPAs inching up by 10bp. The Bank's Retail Credit portfolio (growing 39% yoy) has not seen a slowdown commensurate with the slowdown in the sector as a whole. Personal loans and Credit Cards comprise around 23% and Small Business loans around 18% of total Retail Credit portfolio, while Vehicle loans comprise around 50%.
- **Forex Derivatives:** The Bank did not make any specific disclosures regards the Forex Derivative MTM losses of its clients, though it did make a general Contingency of Rs173cr (16% of Pre-Provisioning Profits) without specifying the nature of the anticipated contingencies.
- **Taxes:** Effective Tax Rate was lower than expected at 24% in 4QFY2008, though, at 30.3% for FY2008, the Effective Tax Rate was at FY2007 levels.

Outlook and Valuation

The Bank approved the merger of Centurion Bank of Punjab (CBoP) with itself during the quarter and also allotted warrants to HDFC (Rs4,000cr of Equity capital infusion on conversion, at a premium of Rs1,520 per share). At the CMP, the stock is trading at 2.9x FY2010E Adjusted Book Value of Rs495 (factors in the merger with Centurion Bank of Punjab and conversion of warrants allotted to HDFC). Based on enhanced growth visibility post the merger, with RoE and EPS impact not a major concern in the longer term, and with all other things remaining the same (in terms of existing operational and management strengths and market leadership on key parameters), we believe the stock is attractively priced. Downside risks include tight Monetary Policy stance prevailing longer than anticipated, unfavourable developments on the Forex Derivative front and credit losses increasing especially on the Personal Loan portfolio. **We maintain a Buy on the stock, with a 12-month Target Price of Rs1,885.**

Exhibit 1: 4QFY2008 Performance

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Interest Earned	2,956.1	1,989.8	48.6	10,171.7	6,771.0	50.2
Interest Expenses	1,314.1	872.1	50.7	4,887.1	3,179.5	53.7
Net Interest Income	1,642.0	1,117.7	46.9	5,284.5	3,591.5	47.1
Non-Interest Income	549.3	394.4	39.3	2,226.5	1,516.2	46.8
Total Income	2,191.3	1,512.1	44.9	7,511.0	5,107.8	47.0
Operating Expenses	1,102.7	683.9	61.2	3,745.5	2,420.8	54.7
Pre-Prov Profit	1,088.6	828.2	31.4	3,765.4	2,687.0	40.1
Provisions & Cont.	465.1	330.3	40.8	1,484.8	1,048.3	41.6
PBT	623.5	497.9	25.2	2,280.6	1,638.7	39.2
Prov. for Taxes	152.5	154.4	(1.2)	690.5	497.3	38.9
PAT	471.0	343.6	37.1	1,590.1	1,141.4	39.3
EPS (Rs)	13.3	10.8	23.5	44.9	35.7	25.5
Cost to Income (%)	50.3	45.2		49.9	47.4	
Effective Tax Rate (%)	24.5	31.0		30.3	30.3	
Net NPA	0.5	0.4				

Source: Company, Angel Research



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