

April 28, 2008

BUY

Price **Rs1,498** Target Price **Rs1,700**

Sensex **17,126**

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(1)	(3)	45
Rel. to Sensex	(2)	(0)	9	21

Source: Capitaline

Stock Details

Sector	Banks
Reuters	HDBK.BO
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	3544
Face Value	10
No. of shares (mn)	354
52 Week H/L	1825/976
Market Cap	Rs531bn/USD13.2bn
Daily Avg Volume (No of shares)	843923
Daily Avg Turnover (US\$)	29.5mn

Shareholding Pattern (%)

(31 st Mar.'08)	
Promoters	23.3
FII	50.3
Institutions	6.2
Private Corp.	8.1
Public	12.1

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HDFC BankResult
Update**Results inline with expectations**

HDFC Bank's reported net profit of Rs4.7bn inline with our expectation. However NII growth was much better than what we expected. The NII grew 55.7% yoy to Rs 16.4bn driven by stronger NIM's. The operating profit grew by 42.3% yoy to Rs10.9bn driven by higher other income which compensated for higher Opex. However net profit grew by only 37.1%, as the bank's made a higher provisioning of Rs4.7bn in the quarter as compared to Rs2.7bn in the corresponding quarter last year which was also compensated by lower tax rate of 24.4%

We continue to like robust business model of HDFC Bank and robust quality of its earnings as well as assets. At the current valuations of 19.5x its FY2010E EPS and 3.3x FY2010E P/ABV, the stock seems quite attractive. We retain BUY rating on the stock with a price target of Rs1,700.

NII grows 55.7%yoy led by NIM's expansion

HDFC Bank's NII (net of amortisation expenses) grew by 55.7% yoy to Rs16.4bn driven by 35.4% yoy growth in core customer assets to Rs704bn and NIM expansion of 30bps on yoy basis and 42bps sequentially.

NII reports strong growth

	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Reported NII	16,421	10,545	14,376	55.7	14.2
Add: Amortisation exp	1,010	632	719		
Adjusted NII	17,431	11,177	15,095	56.0	15.5

Higher yield on advances and investments drive margins

The NIM's expanded by 30bps yoy and 42bps qoq driven by higher yield on advances and investments. The yield on advances grew by 101bpsyoy to whereas yield on investment grew by 57bps yoy.

NIM analysis

(%)	Q4FY08	Q4FY07	Q3FY08	Change in bps	
				yoy	qoq
Yield on advances*	11.9	10.9	11.1	101.0	78.4
Yield on investments*	7.7	7.1	7.5	56.8	19.3
Yield on assets*	8.9	8.5	8.6	41.5	31.4
Cost of funds*	4.0	3.9	4.1	11.5	-10.4
NIM*	5.0	4.7	4.5	30.0	41.8
Core NIM (reported)	4.4	4.5	4.3	-10.0	10.0

Source: Company, Emkay Research * Calculated on basis of average quarterly balances

Business growth remains healthy.....

The bank registered a 42.5%yoy growth in the overall business. The advances have grown by 35.1% yoy to Rs634.2bn, whereas deposits grew by 47.5%yoy. The C/D ratio fall to 63% in the quarter from 69% in the same quarter last year as the bank seems to have sold down some loans to reduce priority sector lending requirement for FY09.

Balance sheet expansion

Rs bn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Advances	634	469	714	35.1	-11.2
Deposits	1008	683	994	47.5	1.4
C/D ratio	63%	69%	72%		

Source: Company, Emkay Research

Growth in retail assets continues to remain selective

The growth in the retail assets was led by personal loans, business banking loans and auto loans. Credit cards business has also seen significant expansion. 2-wheeler loans continued to decline as the bank has stayed away from the segment due to increasing instances of delinquencies.

Retail loan portfolio mix

	Rs mn	% yoy change	Proportion (%)	Change in bps	
				yoy	qoq
Auto Loans	96,000	37.1	24.4	-31	-292
Personal Loans	66,500	51.1	16.9	137	80
CVs	59,500	24.0	15.1	-182	47
Loan Against Securities	13,500	3.8	3.4	-116	13
2-Wheelers	15,000	-25.0	3.8	-325	-81
Business Banking	85,500	64.4	21.8	338	141
Credit Cards	31,500	57.5	8.0	95	62
Others	25,500	59.4	6.5	83	30
Total	393,000	38.9			

Source: Company, Emkay Research

CASA deposits remain stable

The CASA ratio has remained fairly stable on sequential basis as it improved by 360bps qoq. On yoy basis, the CASA mix has gone down primarily because in Q4FY08 the bank had significantly decelerated its balance sheet growth.

Deposit mix

Rs bn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Total Deposits	1,007.7	683.0	993.9	47.5	1.4
Savings	261.5	195.9	249.6	33.5	4.8
% of total	26.0	28.7	25.1		
Current	287.6	198.1	256.0	45.2	12.3
% of total	28.5	29.0	25.8		
Total CASA	549.1	394.0	505.6	39.4	8.6
% of total	54.5	57.7	50.9		

Source: Company, Emkay Research

Fee income growth slows down

The other income has grown by 39.3% yoy to Rs5.5bn driven mainly by treasury profits (treasury loss of Rs650mn last year). The fee income (CEB+derivatives/forex gains) grew by a bit slower 20% (34% for M9FY08)

Fee income

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Fee income	5,508	4,596	5,474	19.8	0.6
Other	-15	-652	1,315	-97.8	-101.1
Total	5,508	4,596	5,474	19.8	0.6

Source: Company, Emkay Research

Opex continues to remain high

During the quarter, the operating expenses have grown by 61.2% yoy (5% sequentially) to Rs11.0bn. Both, employee expenses as well as other opex grew by ~60%yoy to Rs3.5bn and Rs7.6bn respectively. The increase in expenses has been mainly driven by branch expansion.

Network

	Q4FY08	Q4FY07	Q3FY08
Branches	761	684	754
ATM	1,977	1,605	1,906

Source: Company, Emkay Research

Provisioning higher however asset quality remains robust

The provisioning requirement during the quarter has gone up substantially driven by Non Performing Assets and standard asset provisioning of Rs2.9bn. In addition the bank made a provision of Rs1.7bn during the quarter for legal and other contingent liabilities. However, the bank continues to enjoy robust asset quality as the GNPA as well as NNPA remained 1.3% and 0.5% respectively, broadly inline with last year.

Comfortable capital adequacy

The bank had Capital adequacy of 13.6% and tier I CAR at 10.3% at the end of Q4FY08. The bank has raised fresh equity capital of Rs37.8bn during the current year via preferential allotment to its promoter and ADS.

Valuations and view

We continue to like robust business model of HDFC Bank and robust quality of its earnings as well as assets. At the current valuations of 19.5x its FY2010E EPS and 33x FY2010E P/ABV, the stock seems quite attractive. We retain BUY rating on the stock with a 12m price target of Rs1,700.

Quarterly results

	FY08	FY07	% yoy chg	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Net interest income	52,279	34,685	50.7	16,421	10,545	14,376	55.7	14.2
Other Income	22,832	15,162	50.6	5,493	3,944	6,789	39.3	-19.1
<i>Fee income</i>	20,543	15,794	30.1	5,508	4,596	5,474	19.8	0.6
<i>Other</i>	2,289	-632	-462.3	-15	-652	1,315	-97.8	-101.1
Net Income	75,110	49,847	50.7	21,914	14,489	21,165	51.2	3.5
Operating Expenses	37,456	24,208	54.7	11,027	6,839	10,501	61.2	5.0
Operating Profit	37,654	25,639	46.9	10,887	7,650	10,664	42.3	2.1
Provisions & Contingencies	14,848	9,252	60.5	4,651	2,671	4,231	74.1	9.9
<i>Loan loss provision</i>	6,912	7,110	-2.8	2,930	1,398	3,501	109.6	-16.3
Profit before tax	22,806	16,387	39.2	6,236	4,979	6,432	25.2	-3.1
Provision for Taxes	6,905	4,973	38.8	1,525	1,544	2,139	-1.2	-28.7
Net Profit	15,902	11,414	39.3	4,711	3,436	4,294	37.1	9.7

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2007	52,258	11,419	35.8	187.3	1.4	19.5	48.2	8.0
FY2008E	75,622	15,646	43.5	315.7	1.4	17.0	35.2	4.7
FY2009E	99,139	21,911	59.6	374.2	1.4	16.8	25.1	4.0
FY2010E	122,045	28,196	76.7	456.4	1.5	18.3	19.5	3.3

Note: numbers are not adjusted for Centurion Bank of Punjab numbers

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