

RESULTS

REVIEW

HDFC Bank Ltd.

Strong performance; priced in

HOLD

Analyst

Sandeep Jain

+91-22-4322 1185

sandeep.jain@idbicapital.com

Nifty: 5,676; Sensex: 18,675

CMP	Rs630
Target Price	Rs631
Potential Upside/Downside	0%

Key Stock Data

Sector	Banking
Bloomberg/Reuters	HDFCB IN/HDBK.BO
Shares o/s (mn)	2,362
Market cap. (Rs mn)	1,488,060
Market cap. (US\$ mn)	28,178
3-m daily average vol.	164,696

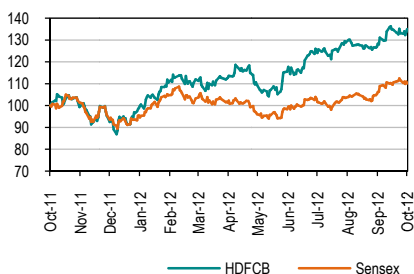
Price Performance

52-week high/low	Rs639/400		
	-1m	-3m	-12m
Absolute (%)	5	15	35
Rel to Sensex (%)	1	4	25

Shareholding Pattern (%)

Promoters	23.0
FII/NRI/OCBs/GDR	49.9
MFs/Banks/FIs	10.1
Non Promoter Corporate	8.5
Public & Others	8.5

Relative to Sensex



Source: Capitaline

Summary

HDFC Bank (HDFCB) reported PAT of Rs15.6 bn, up 30.1% YoY; largely in line with our estimate. Net Interest Income (NII) stood at Rs37.3 bn (IDBlest Rs35.8 bn), up 26.7%/7.1% YoY/QoQ. However, adjusting for interest from mutual funds, NII growth was around ~22% YoY. NII margin contracted 10bps sequentially attributed to reduction in base rate by 20bps implemented at the beginning of Q2FY13. Treasury loss of Rs1.1 bn led to lower than estimated other income of Rs13.4 bn (IDBlest Rs15.4 bn) despite robust fee income of Rs12.1 bn (22.4% YoY growth). Stable asset quality led to lower than estimated provisions at Rs2.9 bn (IDBlest Rs4 bn). GNPA ratio declined 6bps sequentially to 0.91% and NNPA stood flat at 0.2%.

We maintain our earnings estimate of 23% CAGR in PAT during FY12-14E driven by 19% CAGR in NII, 22.6% CAGR in loan book and stable margins of 4.3%/4.2% in FY13E/FY14E. We believe that better asset quality, adequate capital and stable margins will keep HDFCB at top of Indian banking sector's valuation pyramid. The current valuation of 4.4x/3.8x its FY13E/FY14E ABV reflects the premium but seems priced to perfection. We value the stock at 3.8x its FY14E adjusted book value of Rs166, translating to price target of Rs631. Maintain HOLD.

Key Highlights

- Retail loan book leads strong advances growth

32.7% YoY growth in retail loan book has led to overall loan growth of 23% YoY. Share of retail loan book has increased to 53% as against 49% in Q2FY12. Of the total retail book, auto sector made up 24%, business banking 17.4% and commercial vehicle, housing and personal loans ~13% each. However, Rs25 bn of housing loans came towards the end of Q2FY13.

- Reduction in base rate led to contraction in margins

The bank reduced its base rate by 20bps in beginning of Q2FY13 which impacted margin by 10bps sequentially. However, 216bps increase in CD ratio to 84.5% restricted the fall in margins. CASA remained stable sequentially at 45.9%.

- Provisioning lower than estimate

Total provisions stood at Rs2.9 bn against our estimate of Rs4.1 bn. This was on account of lower delinquencies than expected. NPA concerns remain modest as GNPA ratio declined 6bps to 0.91% and NNPA ratio remained flat at 0.2%. Provision coverage (excluding write off) stood at 82% as against 81% last quarter.

- Valuation and outlook

We estimate PAT of Rs78.2 bn in FY14E and adjusted book value of Rs166. Further, RoE and RoA is estimated at 19.5%-20.1% and 1.7% in FY13-FY14, respectively. The bank will continue to post strong operating performance in the coming quarters due to its stable margins and better NPA profile than peers. Further, we believe that strong operating performance has already been factored in current valuation (3.8x FY14E ABV). We value the bank at 3.8x its FY14E adjusted book value of Rs166 which translates to price target of Rs631. Maintain HOLD.

Table: Financial snapshot

Y/E:	NII	PAT	EPS	P/E	Div. yield	ABV	P/ABV	ROAA	ROAE	CAR	GNPA	NNPA
March	(Rs bn)	(Rs bn)	(Rs)	(x)	(%)	(Rs)	(x)	(%)	(%)	(%)	(%)	(%)
FY11	105.4	39.3	16.9	37.3	0.4	102.6	6.1	1.6	16.7	16.2	1.1	0.2
FY12	123.0	51.7	22.0	28.6	0.5	119.9	5.3	1.7	18.7	16.5	1.0	0.2
FY13E	147.4	64.1	26.9	23.4	0.7	141.9	4.4	1.7	19.5	15.1	1.2	0.2
FY14E	174.8	78.2	32.8	19.2	0.8	160.0	3.8	1.7	20.1	14.4	1.1	0.2

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs bn)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Interest Earned	85.2	67.2	26.9	80.1	6.5
- Interest/Discount on Advance/Bills	64.5	49.9	29.1	60.6	6.4
- Income on Investments	19.5	16.2	20.7	18.8	3.9
- Int on RBI bal	0.8	0.3	158.0	0.5	66.3
Interest Expense	47.9	37.7	27.0	45.2	6.0
Net Interest income	37.3	29.4	26.7	34.8	7.1
Other Income	13.5	12.1	11.0	15.3	(12.1)
- Fee and Other Income	12.1	9.9	22.4	11.4	5.8
- Trading Income	2.4	2.2	8.2	3.1	(25.1)
- Treasury Profit	(1.1)	0.0	-	0.7	-
Net Operating Income (NOI)	50.8	41.6	22.2	50.1	1.3
Operating Expenses	25.1	20.3	23.4	24.3	3.0
- Employee cost	9.6	8.2	17.0	9.9	(3.0)
- Other Costs	15.4	12.1	27.8	14.4	7.2
Operating Profit	25.7	21.3	21.0	25.8	(0.4)
Prov for Contingencies	2.9	3.7	(20.0)	4.9	(39.9)
PBT	22.8	17.6	29.5	20.9	8.8
Tax	7.2	5.6	28.2	6.8	6.2
PAT	15.6	12.0	30.1	14.2	10.1
Equity	4.7	4.7	-	4.7	-
EPS (Rs)	6.6	5.1	-	6.0	-
CAR (%)	17.0	16.5	-	15.5	-

Source: Company; IDBI Capital Research

Table: Balance Sheet

(Rs bn)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Advances	2,316.5	1,885.0	22.9	2,133.4	8.6
Deposit	2,741.3	2,306.8	18.8	2,575.3	6.4
CASA (%)	46.4	47.3	-	46.0	-
CD Ratio (%)	84.5	81.7	-	82.8	-
ID Ratio (%)	33.5	34.1	-	35.0	-

Source: Company; IDBI Capital Research

Table: Ratios

(%)

Year-end: March	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
NIMs	4.2	4.1	-	4.3	-
Int. exp/Int earned	56.2	56.2	-	56.5	-
Cost/income ratio	49.4	48.9	-	48.5	-
Gross NPA	0.9	1.0	-	0.97	-
Net NPA	0.2	0.2	-	0.2	-
Provision Coverage	82.0	81.3	-	81.0	-

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Interest earned	199.3	272.9	332.2	393.5
Interest expended	93.9	149.9	184.8	218.7
NII	105.4	123.0	147.4	174.8
Other Income	43.4	52.4	62.5	75.1
Fee Based	36.0	42.8	51.3	62.1
Trading & Forex	9.2	12.7	10.1	10.6
Treasury Profit	(0.8)	(1.1)	1.0	2.4
Net Opt. Inc. (NOI)	148.8	175.4	209.8	249.9
Employee Cost	28.4	34.0	39.7	45.5
Opt. Expenses	43.2	51.9	59.7	69.8
Opt. Profit	77.3	89.5	110.5	134.6
Provisions	19.1	14.4	14.8	17.5
Profit before tax	58.2	75.1	95.7	117.1
Net Profit	39.3	51.7	64.1	78.2

Balance Sheet

(Rs bn)

Year-end: March	FY11	FY12	FY13E	FY14E
Capital	4.7	4.7	4.8	4.8
Net Worth	253.8	299.2	358.7	419.0
Deposit	2,085.9	2,467.1	3,139.5	3,816.4
Total Liab. & Equity	2,773.5	3,379.1	4,121.8	4,870.1
Investments	709.3	974.8	1,119.8	1,302.8
Advances	1,599.8	1,954.2	2,448.8	2,938.6
Total Assets	2,773.5	3,379.1	4,121.8	4,870.1

Growth

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Deposits	24.6	18.3	27.3	21.6
Advances	27.1	22.2	25.3	20.0
Total Assets	24.7	21.8	22.0	18.2
NII	25.7	16.6	19.9	18.6
Other Income	8.8	21.0	19.1	20.3
Net Profit	33.2	31.6	24.1	22.0

Productivity

Year-end: March	FY11	FY12	FY13E	FY14E
Bus./Employee (mn)	94.5	66.9	74.5	84.4
Profit/Employee ('000)	1,006.8	782.0	855.3	978.0
Bus./Branch (mn)	1,855.8	1,737.9	1,995.8	2,251.7
NP/Branch (mn)	19.8	20.3	22.9	26.1
CASA Per Branch	553.4	469.4	503.6	593.3

Source: Company; IDBI Capital Research

Opt. Ratio

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Int Exp/Int Earned	47.1	54.9	55.6	55.6
Cost/NOI	48.1	49.0	47.3	46.1
Cost/NOI (Ex. treasury inc.)	47.9	48.4	47.6	46.6
Other Income/NOI	29.1	29.9	29.8	30.1
Ot. Inc. (ex. treasury)/NOI	29.7	30.5	29.3	29.1
NPM	26.4	29.5	30.6	31.3

Spreads

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
NII/Avg Total Assets	4.2	4.0	3.9	3.9
NII/Avg Int Earning Assets	4.7	4.7	4.5	4.4
NIMs	4.4	4.4	4.3	4.2
CASA	52.7	48.4	44.9	46.6
Avg Int earnings assets	2,223.5	2,642.9	3,243.5	3,966.0
Avg Int bearing liabilities	2,074.5	2,521.9	3,113.5	3,833.9

Solvency

(%)

Year-end: March	FY11	FY12	FY13E	FY14E
Credit-Deposit Ratio	76.7	79.2	78.0	77.0
Incremental CD Ratio	82.9	93.0	73.6	72.4
Investment/Deposit Ratio	34.0	39.5	35.7	34.1
GNPA Ratio	1.1	1.0	1.2	1.1
Prov. Cover	82.5	82.4	85.8	85.7
NNPA Ratio	0.2	0.2	0.2	0.2
CAR	16.2	16.5	15.1	14.4
Tier 1	12.2	11.6	11.4	11.7
Tier 2	4.0	4.9	3.7	2.7

Return

Year-end: March	FY11	FY12	FY13E	FY14E
ATA (Avg. Total Assets)	2,499.1	3,076.3	3,750.4	4,495.9
Total Busi. (Dep+Adv)	3,685.7	4,421.3	5,588.4	6,755.0
Interest Income / ATA	8.0	8.9	8.9	8.8
PBT / ATA	2.3	2.4	2.6	2.6
PAT / ATA	1.6	1.7	1.7	1.7
ROAA %	1.6	1.7	1.7	1.7
ROAE %	16.7	18.7	19.5	20.1
Assets / Equity	10.7	11.1	11.4	11.6

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
P/E	37.3	28.6	23.4	19.2
P/BV	5.8	4.9	4.2	3.6
Price / Adj Bk Value	6.1	5.3	4.4	3.8
Book Value/share	108.9	127.4	150.4	175.7
Adj. Book Value/Share	102.6	119.9	141.9	166.0



Notes

Sonam H. Udasi – Head Research	(91-22) 4322 1375	sonam.udasi@idbicapital.com
Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)

Equity Research Desk

3rd Floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

SEBI Registration: NSE CM – INB230706631, NSE F&O – INF230706631, BSE CM – INB010706639, BSE F&O – INF010706639, NSDL – IN-DP-NSDL-12-96

Compliance Officer: Christina Fernandes; Email: compliance@idbicapital.com; Telephone: (91-22) 4322-1212

Disclaimer

This document has been prepared by IDBI Capital Market Services Ltd (IDBI Capital) and is meant for the recipient only for use as intended and not for circulation. This document should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behaviour of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

IDBI Capital, its directors or employees or affiliates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its affiliates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/affiliate companies or have other potential conflict of interest.

This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk.

E-mail is not a secure method of communication. IDBI Capital Market Services Limited cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s). This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrive late. IDBI Capital, its directors or employees or affiliates accept no liability for any damage caused, directly or indirectly, by this email.