

**October 12, 2012**

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Rating	Accumulate
Price	Rs631
Target Price	Rs660
Implied Upside	4.6%
Sensex	18,675
Nifty	5,676

**(Prices as on October 12, 2012)**
**Trading data**

Market Cap. (Rs bn)	1,481.1
Shares o/s (m)	2,346.7
3M Avg. Daily value (Rs m)	1696.2

**Major shareholders**

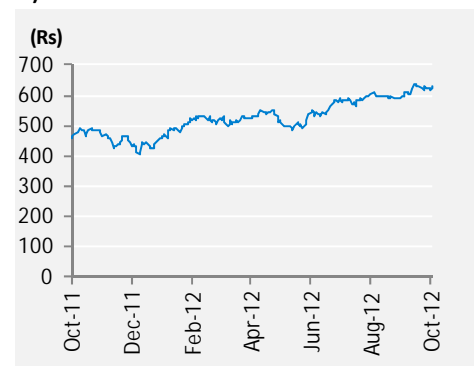
Promoters	23.00%
Foreign	32.17%
Domestic Inst.	10.07%
Public & Other	34.76%

**Stock Performance**

(%)	1M	6M	12M
Absolute	5.3	19.0	35.1
Relative	1.6	11.2	25.0

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	28.1	27.8	1.3
2014	33.6	34.6	-2.9

**Price Performance (RIC: HDBK.BO, BB: HDFCB IN)**


**HDFC Bank's (HDFCB's) Q2FY13 results highlight flexibility and levers that the bank has to deliver consistent +30% PAT growth. Growth continues to remain ~5% above industry levels and core fee trends remain relatively strong. Credit costs do not seem to normalize as against management's cautious stance and reversal of rate cycle will potentially be a positive for margins. We maintain our ACCUMULATE rating with a PT of Rs660/share as valuations adjusted for floating provisions are at historic averages.**

- Operating performance strong:** Loan growth at ~9% QoQ was strong even relative to HDFCB's H1 seasonality every year. Both retail and corporate segments recorded robust growth but HDFCB continues to deliver high growth in CV/CE, unsecured and gold portfolio. Reported fee income was weak but that was largely driven by one off MTM losses apart from which core fees grew at healthy ~22% YoY growth. Base rate cut in June end led to a sequential ~10bps fall in margins but we believe fixed rate loan book will be beneficial in a falling rate environment and management guidance of ~3.9-4.2% margin range seems conservative considering current margins at 4.2%.
- Asset quality also stable:** Asset quality continued to hold, with provisioning coming in lower than expected. HDFCB added Rs0.75bn to floating provisions which now stands at 0.8% of the loan book. Management noted some pick up in the credit costs from the lows in CVs/SME but absolute delinquencies remain very manageable. (Pls see attached note on sectoral feedback on asset quality).
- Valuations adjusted for floating provisions at historic levels:** We revise our PT to Rs660/share as we rollover to FY14 book v/s Sep-13 book earlier. Our PT implies ~3.75x FY14 book which is higher than 5/7 yr avg. valuations of ~3.5x 1 yr fwd book but adjusting for floating provisions (8% of FY13 networth) implied valuations are in line with historic averages at ~3.5x FY14 book.

**Key financials ( Y/e March)**

	2011	2012	2013E	2014E
Net interest income (Rs m)	105,431	122,968	152,369	184,406
Growth (%)	25.7	16.6	23.9	21.0
Operating profit (Rs m)	77,254	89,504	114,322	141,682
PAT (Rs m)	39,264	51,671	65,952	78,895
EPS (Rs)	16.9	22.0	28.1	33.6
Growth (%)	—	30.4	27.6	19.6
Net DPS (Rs)	3.3	4.3	5.5	5.7

**Profitability & Valuation**

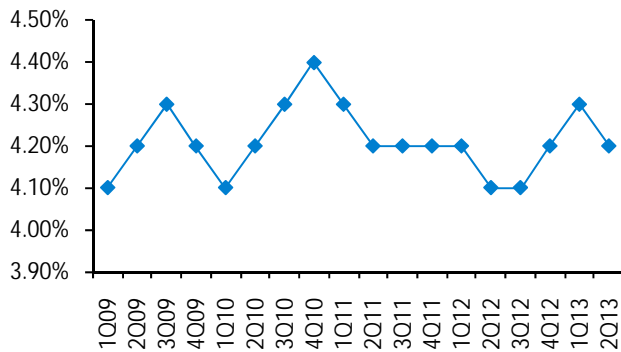
	2011	2012	2013E	2014E
NIM (%)	4.22	4.00	4.15	4.17
RoAE (%)	16.7	18.7	20.3	20.7
RoAA (%)	1.57	1.68	1.79	1.78
P / BV (x)	5.8	4.9	4.2	3.6
P / ABV (x)	5.8	5.0	4.3	3.6
PE (x)	37.4	28.7	22.5	18.8
Net dividend yield (%)	0.5	0.7	0.9	0.9

Source: Company Data; PL Research

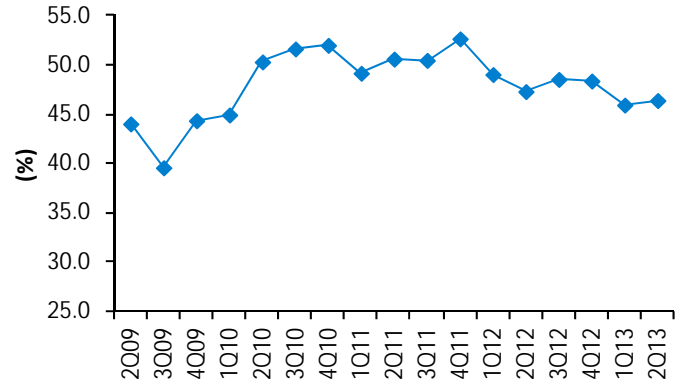
**Exhibit 1: Q2FY13 Results summary – Overall Strong performance**

	2Q12	1Q13	2Q13	YoY	QoQ
<b>Interest income</b>	<b>67,177</b>	<b>80,074</b>	<b>85,247</b>	<b>26.9%</b>	<b>6.5%</b>
<i>Robust loan growth and stable margin aides NII growth</i> Interest expenses	37,732	45,234	47,930	27.0%	6.0%
<b>Net interest income</b>	<b>29,445</b>	<b>34,841</b>	<b>37,317</b>	<b>26.7%</b>	<b>7.1%</b>
Non-interest income	12,117	15,295	13,451	11.0%	-12.1%
<i>Core fee remains strong; overall non- interest income impacted by 1) lower income from forex and derivative segment due to lower volatility 2) ~Rs 1.0 bn hit to investments going ex-dividend</i> Operating expenses	20,304	24,326	25,055	23.4%	3.0%
<b>Pre prov profit</b>	<b>21,258</b>	<b>25,809</b>	<b>25,713</b>	<b>21.0%</b>	<b>-0.4%</b>
Provisions	3,661	4,873	2,929	-20.0%	-39.9%
<b>Profit before tax</b>	<b>17,598</b>	<b>20,936</b>	<b>22,784</b>	<b>29.5%</b>	<b>8.8%</b>
Provision for tax	5,604	6,762	7,184	28.2%	6.2%
<b>Profit after tax</b>	<b>11,994</b>	<b>14,174</b>	<b>15,600</b>	<b>30.1%</b>	<b>10.1%</b>
<b>NIMs</b>	<b>4.10%</b>	<b>4.30%</b>	<b>4.20%</b>	<b>0.1%</b>	<b>-0.1%</b>
<i>NIMs remained stable; could inch up due to high proportion of fixed rate book in an environment of softening rates</i> NII / GII	43.8%	43.5%	43.8%	-0.1%	0.3%
Cost - Income	48.9%	48.5%	49.4%	0.5%	0.8%
Prov / PPP	17.2%	18.9%	11.4%	-5.8%	-7.5%
Tax rate	31.8%	32.3%	31.5%	-0.3%	-0.8%
<b>Balance sheet data</b>					
<i>Advances growth led by both the retail and corporate book</i> Advances	1,885,022	2,133,383	2,316,486	22.9%	8.6%
Deposits	2,306,764	2,575,310	2,741,300	18.8%	6.4%
Credit to Deposit	81.7%	82.8%	84.5%	2.8%	1.7%
<b>Asset Quality</b>					
<i>Asset quality continues to remain robust</i> Gross NPA	18,949	20,863	21,334	12.6%	2.3%
Net NPA	3,553	3,960	3,869	8.9%	-2.3%
Gross NPA (%)	1.00	0.97	0.91	-9.0%	-6.0%
Net NPA (%)	0.20	0.20	0.20	0.00	0.00
<i>CASA adjusted for one-off in CA at 45.9%</i> LLP/Loans	0.30	0.37	0.32	0.02	(0.05)
CASA Ratio	47.3	46.0	46.4	(0.91)	0.46
Tier-1	11.5%	10.9%	11.4%	-0.1%	0.5%

Source: Company Data, PL Research

**Exhibit 2: Margins remains stable**


Source: Company Data, PL Research

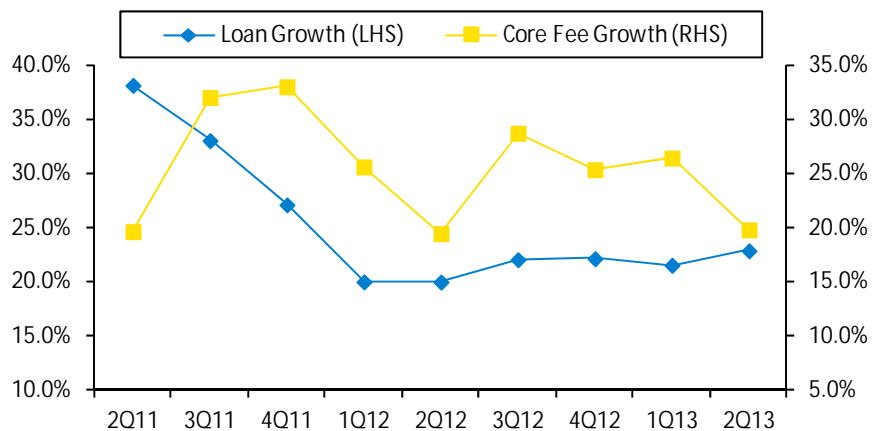
**Exhibit 3: CASA inch up marginally on one-off in CA balances**


Source: Company Data, PL Research

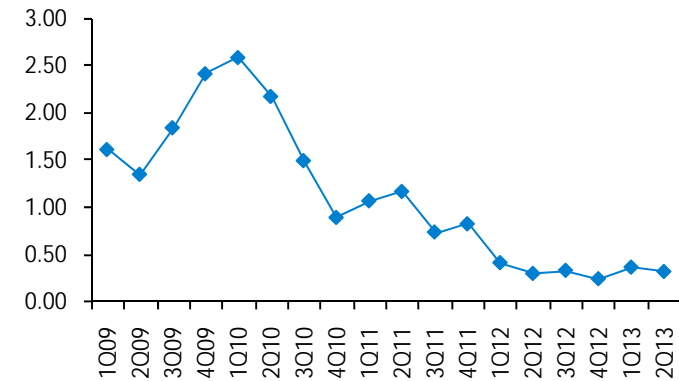
**Exhibit 4: Strong growth in corporate book + CV/unsecured book**

(Rs m)	2Q12	1Q13	2Q13	y/y	q/q
Car Loans	246,060	275,130	290,040	17.9%	5.4%
2 wheeler loans	21,730	26,530	27,490	26.5%	3.6%
CV/CE Loans	113,480	144,400	164,690	45.1%	14.1%
<b>Total Auto loans</b>	<b>381,270</b>	<b>446,060</b>	<b>482,220</b>	<b>26.5%</b>	<b>8.1%</b>
Personal loans	120,040	147,760	158,530	32.1%	7.3%
Credit Cards	58,550	76,860	86,100	47.1%	12.0%
SME	168,470	195,410	214,860	27.5%	10.0%
Home Loans	123,440	136,040	155,460	25.9%	14.3%
LASS	9,800	9,650	9,680	-1.2%	0.3%
Other Retail	67,210	72,240	84,720	26.1%	17.3%
Gold Loans	NA	34,740	39,930	NA	14.9%
<b>Retail Total</b>	<b>928,780</b>	<b>1,118,760</b>	<b>1,231,500</b>	<b>32.6%</b>	<b>10.1%</b>
Non-Retail Loans	973,239	1,014,623	1,084,986	11.5%	6.9%
<b>Total Loan book</b>	<b>1,902,019</b>	<b>2,133,383</b>	<b>2,316,486</b>	<b>21.8%</b>	<b>8.6%</b>

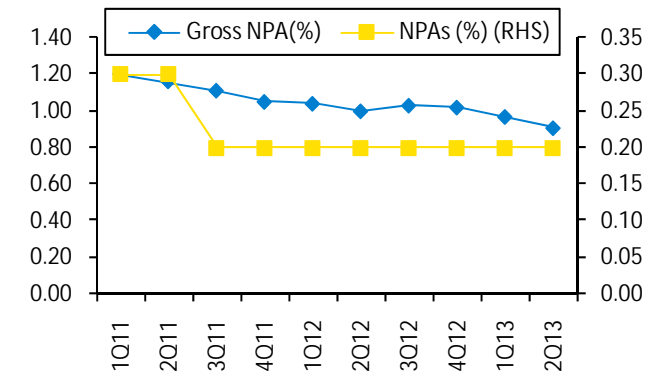
Source: Company Data, PL Research

**Exhibit 5: Core fee gr. remain strong; impacted by lower inc. from forex/derivative segment**


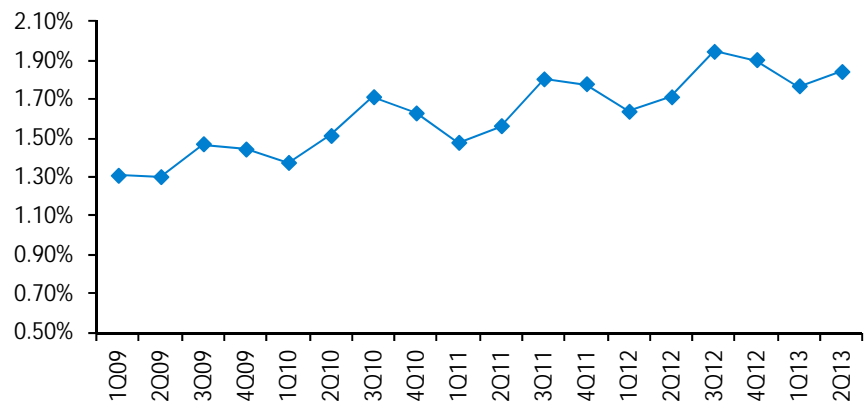
Source: Company Data, PL Research

**Exhibit 6: NPA provisioning continue to remain low**


Source: Company Data, PL Research

**Exhibit 7: Gross NPAs continues to inch lower**


Source: Company Data, PL Research

**Exhibit 8: ROAs at a robust ~1.84% level**


Source: Company Data, PL Research

**Exhibit 9: Qtrly ROA tree: ROEs steadily inching up**

	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
<b>Net Interest Income/Assets</b>	<b>4.53%</b>	<b>4.30%</b>	<b>4.20%</b>	<b>4.24%</b>	<b>4.44%</b>	<b>4.35%</b>	<b>4.41%</b>
Fees/Assets	1.99%	1.75%	1.73%	2.04%	2.05%	1.83%	1.71%
Investment profits/Assets	0.01%	-0.06%	0.00%	-0.11%	-0.09%	0.08%	-0.13%
Net revenues/Assets	6.54%	5.99%	5.93%	6.17%	6.39%	6.25%	5.99%
Operating Expense/Assets	-3.19%	-2.92%	-2.90%	-2.94%	-3.23%	-3.03%	-2.96%
Provisions/Assets	-0.69%	-0.67%	-0.52%	-0.45%	-0.39%	-0.61%	-0.35%
Taxes/Assets	-0.88%	-0.76%	-0.80%	-0.84%	-0.87%	-0.84%	-0.85%
Total Costs/Assets	-4.76%	-4.35%	-4.22%	-4.23%	-4.49%	-4.49%	-4.15%
<b>ROA</b>	<b>1.78%</b>	<b>1.64%</b>	<b>1.71%</b>	<b>1.95%</b>	<b>1.90%</b>	<b>1.77%</b>	<b>1.84%</b>
Equity/Assets	10.1%	9.8%	9.7%	9.8%	9.7%	9.6%	9.6%
<b>ROE</b>	<b>17.7%</b>	<b>16.7%</b>	<b>17.6%</b>	<b>19.9%</b>	<b>19.6%</b>	<b>18.4%</b>	<b>19.2%</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	150,850	205,366	243,405	294,714
Int. Earned from Inv.	46,754	65,046	82,541	95,421
Others	1,678	2,452	2,319	2,481
Total Interest Income	199,282	272,864	328,264	392,615
Interest expense	93,851	149,896	175,895	208,209
<b>NII</b>	<b>105,431</b>	<b>122,968</b>	<b>152,369</b>	<b>184,406</b>
<i>Growth (%)</i>	25.7	16.6	23.9	21.0
Treasury Income	(534)	(1,944)	2,000	3,000
NTNII	43,886	54,381	66,163	80,802
Non Interest Income	43,352	52,437	68,163	83,802
Total Income	242,634	325,300	396,427	476,417
<i>Growth (%)</i>	21.4	34.1	21.9	20.2
Operating Expense	71,529	85,901	106,210	126,526
<b>Operating Profit</b>	<b>77,254</b>	<b>89,504</b>	<b>114,322</b>	<b>141,682</b>
<i>Growth (%)</i>	20.2	15.9	27.7	23.9
NPA Provisions	14,430	8,021	16,870	24,747
Investment Provisions	—	—	—	—
Total Provisions	19,061	14,367	18,043	26,506
<b>PBT</b>	<b>58,193</b>	<b>75,137</b>	<b>96,280</b>	<b>115,176</b>
Tax Provisions	18,929	23,466	30,328	36,280
<i>Effective Tax Rate (%)</i>	32.5	31.2	31.5	31.5
<b>PAT</b>	<b>39,264</b>	<b>51,671</b>	<b>65,952</b>	<b>78,895</b>
<i>Growth (%)</i>	33.1	31.6	27.6	19.6

**Balance Sheet (Rs m)**

Y/e March	2011	2012	2013E	2014E
Par Value	2	2	2	2
No. of equity shares	2,326	2,347	2,347	2,347
Equity	4,652	4,693	4,693	4,693
Networth	253,793	299,244	350,126	413,403
Adj. Networth	250,829	295,720	345,561	406,753
Deposits	2,085,864	2,467,064	2,937,985	3,685,759
<i>Growth (%)</i>	24.6	18.3	19.1	25.5
Low Cost deposits	1,099,083	1,194,059	1,445,488	1,824,450
<i>% of total deposits</i>	52.7	48.4	49.2	49.5
<b>Total Liabilities</b>	<b>2,773,517</b>	<b>3,379,093</b>	<b>3,969,988</b>	<b>4,869,849</b>
Net Advances	1,599,827	1,954,200	2,345,040	2,931,300
<i>Growth (%)</i>	27.1	22.2	20.0	25.0
Investments	709,293	974,829	1,081,949	1,300,544
<b>Total Assets</b>	<b>2,773,517</b>	<b>3,379,098</b>	<b>3,969,988</b>	<b>4,869,849</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Interest Income	72,026	73,880	80,074	85,247
Interest Expense	40,867	39,997	45,234	47,930
<b>Net Interest Income</b>	<b>31,160</b>	<b>33,883</b>	<b>34,841</b>	<b>37,317</b>
Non Interest Income	14,200	14,920	15,295	13,451
CEB	14,932	15,625	14,581	14,450
Treasury	(818)	(715)	665	(1,060)
<b>Net Total Income</b>	<b>45,360</b>	<b>48,803</b>	<b>50,135</b>	<b>50,768</b>
Operating Expenses	21,580	24,671	24,326	25,055
Employee Expenses	8,674	9,284	9,932	9,629
Other Expenses	12,905	15,387	14,394	15,426
<b>Operating Profit</b>	<b>23,780</b>	<b>24,132</b>	<b>25,809</b>	<b>25,713</b>
Core Operating Profit	24,598	24,847	25,144	26,773
Provisions	3,292	2,983	4,873	2,929
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
<b>Profit before tax</b>	<b>20,488</b>	<b>21,149</b>	<b>20,936</b>	<b>22,784</b>
Tax	6,191	6,618	6,762	7,184
<b>PAT before EO</b>	<b>14,297</b>	<b>14,531</b>	<b>14,174</b>	<b>15,600</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>14,297</b>	<b>14,531</b>	<b>14,174</b>	<b>15,600</b>

**Key Ratios**

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	631	631	631	631
Equity Shrs. Os. (m)	2,326	2,347	2,347	2,347
Market Cap (Rs m)	1,468,134	1,481,112	1,481,112	1,481,112
<i>M/Cap to AUM (%)</i>	52.9	43.8	37.3	30.4
EPS (Rs)	16.9	22.0	28.1	33.6
Book Value (Rs)	109	128	149	176
Adj. BV (75%) (Rs)	108	126	148	174
P/E (x)	37.4	28.7	22.5	18.8
P/BV (x)	5.8	4.9	4.2	3.6
P/ABV (x)	5.8	5.0	4.3	3.6
DPS (Rs)	3.3	4.3	5.5	5.7
<i>Dividend Yield (%)</i>	0.5	0.7	0.9	0.9

**Profitability (%)**

Y/e March	2011	2012	2013E	2014E
NIM	4.2	4.0	4.1	4.2
RoAA	1.6	1.7	1.8	1.8
RoAE	16.7	18.7	20.3	20.7

**Efficiency**

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	48.1	49.0	48.2	47.2
<i>C-D Ratio (%)</i>	76.7	79.2	79.8	79.5
Business per Emp. (Rs m)	66	69	72	78
Profit per Emp. (Rs m)	7	8	9	9
Business per Branch (Rs m)	1,856	1,936	2,011	2,191
Profit per Branch (Rs m)	20	23	25	26

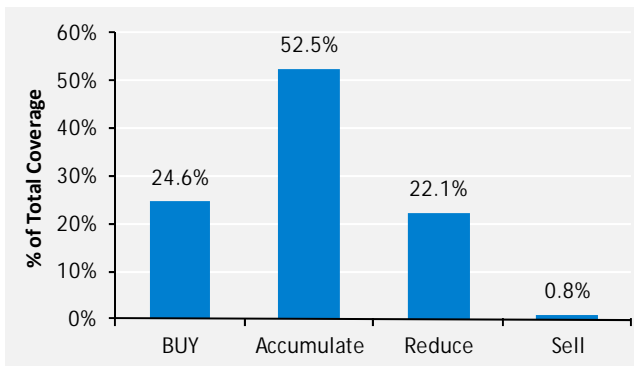
**Asset Quality**

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	16,943	19,994	25,906	37,738
Net NPAs (Rs m)	2,964	3,523	4,565	6,650
<i>Gr. NPAs to Gross Adv. (%)</i>	1.1	1.0	1.1	1.3
<i>Net NPAs to Net Adv. (%)</i>	0.2	0.2	0.2	0.2
<i>NPA Coverage (%)</i>	82.5	82.4	82.4	82.4

Source: Company Data, PL Research.

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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