Prabhudas Lilladher

HDFC Bank

Consistent Performer

Q4FY11 Result Update

April 18, 2011

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Rating	**BUY**
Price	Rs2,310
Target Price	Rs2,675
Implied Upside	15.8%
Sensex	19,091

(Prices as on April 18, 2011)

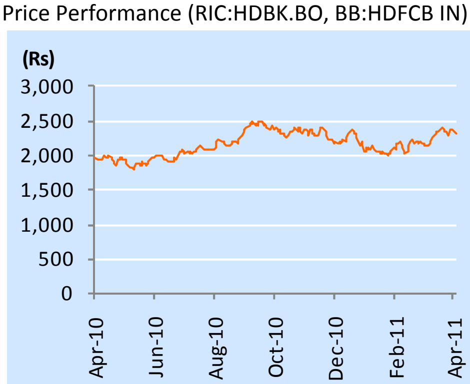
Trading data	
Market Cap. (Rs bn)	1,057.4
Shares o/s (m)	457.7
3M Avg. Daily value (Rs m)	2370.1

Major shareholders	
Promoters	23.35%
Foreign	28.53%
Domestic Inst.	11.61%
Public & Other	36.51%

Stock Performance

(%)	1M	6M	12M
Absolute	7.5	(3.7)	17.6
Relative	0.7	1.7	9.1

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



Source: Bloomberg

- **Healthy operating performance, margins sustained:** In Q4FY11, HDFC Bank reported PAT of Rs11.1bn, up 33.2% YoY and 2.5% QoQ, slightly ahead of our as well as street estimates of Rs10.9bn. Net Interest Income (NII) for the quarter grew by 20.8% YoY and 2.3% QoQ to Rs28.4bn, driven by healthy 27.1% YoY and 0.5% QoQ increase in advances, coupled with sequentially stable margins at 4.2%. During the quarter, the bank sold loans worth Rs15bn and there was a run-down in some of the short-term corporate loans, which resulted in lower loan growth during the quarter. However, strong growth was witnessed in retail home and commercial vehicle loans (up ~33% YoY each). Meanwhile, the deposits grew strongly by 24.6% YoY and 8.5% QoQ. Notably, CASA deposits grew much faster by 26.2% YoY and 13.2% QoQ, translating into a reported CASA ratio of 52.7%. However, adjusting for certain one-off CASA balances towards the end of the quarter, the CASA ratio stood at 51.0%. Core fee income continued to grow at a healthy pace by 23.2% YoY and 6.1% QoQ. Operating expenses increased by 9.1% QoQ on the back of 14.3% QoQ increase in other operating expenses and on expenses incurred towards new hiring, branch expansion and wage hikes. Staff expenses remained largely flattish on account of ~Rs400m worth of actuarial write-back. We expect staff expenses to rise, going forward, on account of rising wage inflation. Loan loss provisions increased by 12.7% QoQ as the bank made floating provisions of Rs2.3bn during the quarter.

- **Asset quality improves; higher provisions act as a cushion:** HDFC Bank's asset quality improved further, with gross and net NPAs declining by 4.9% and 10.4% QoQ, respectively. Net NPAs stood at near-zero levels at 0.2%.

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Key financials (Y/e March)	2010	2011E	2012E	2013E
Net interest income (Rs m)	83,866	105,431	123,898	162,272
Growth (%)	*13.0*	*25.7*	*17.5*	*31.0*
Operating profit (Rs m)	64,297	77,254	89,557	125,980
PAT (Rs m)	29,487	39,264	50,964	66,693
EPS (Rs)	64.4	85.8	111.3	145.7
Growth (%)	*22.1*	*33.2*	*29.8*	*30.9*
Net DPS (Rs)	12.0	13.5	13.5	16.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
*NIM (%) **	*4.13*	*4.32*	*4.16*	*4.38*
RoAE (%)	*17.3*	*17.8*	*19.7*	*21.6*
RoAA (%)	*1.45*	*1.61*	*1.71*	*1.80*
P / BV (x)	5.2	4.5	3.8	3.1
P / ABV (x)	5.2	4.4	3.8	3.1
PE (x)	35.9	26.9	20.7	15.9
Net dividend yield (%)	*0.5*	*0.6*	*0.6*	*0.7*

Source: Company Data; PL Research   ** Calculated on average assets*

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Moreover, the bank has total floating provisions on the balance sheet to the tune of Rs7.3bn, which acts as a cushion for the bank. Provision coverage further improved to 82.5% v/s 81.4% in Q3FY11 due to the aggressive provisioning done by the bank. Restructured assets stood at 0.4% of advances. In terms of the MFI exposure, the bank has been proactively providing for the same and has restructured certain accounts during the quarter (0.1-0.2% of outstanding advances). The bank also provided Rs1.0bn for its exposure towards microfinance and for certain other contingent provisions.

- **Valuation & Outlook:** HDFC Bank continues to deliver consistent performance on various operating parameters. The bank continues to report healthy asset growth, while maintaining asset quality and continues to provide aggressively as a countercyclical measure, which acts as a cushion. Margins are likely to have a downward bias in the coming few quarters; however, should improve in the second half of the current fiscal. We expect margins to remain in the region of 4.0-4.2% on a full year basis. The stock trades at a premium to its peers and is likely to continue due to lower restructuring risks, visibility in growth and higher margins compared to the sector. At the CMP, the stock is quoting at 15.9x FY13E EPS and 3.1x FY13E ABV. We maintain **'BUY'** and our price target of Rs2,675 on the stock.

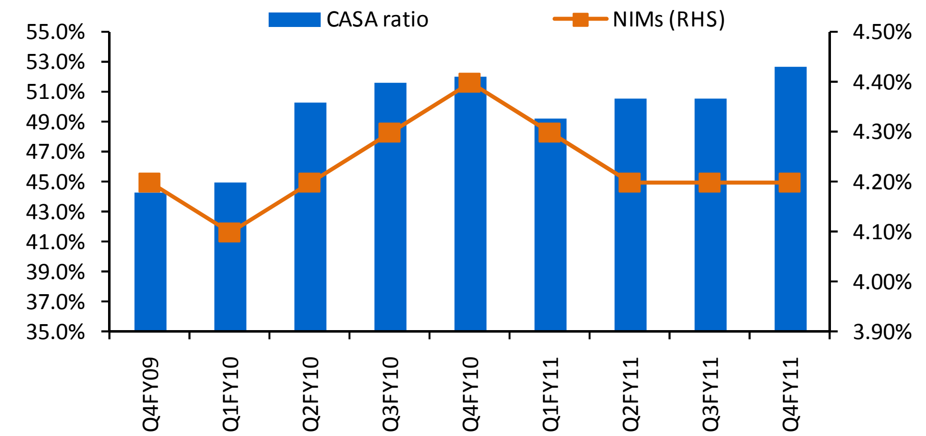
Exhibit 1: Q4FY11 Result Overview (Rs m)

Y/e March	Q4FY11	Q4FY10	YoY Gr. (%)	Q3FY11	FY11	FY10	YoY Gr. (%)
Interest Income	54,686	40,531	34.9	52,300	199,282	161,727	23.2
Interest Expense	26,291	17,018	54.5	24,533	93,851	77,863	20.5
Net Interest Income	**28,395**	**23,514**	**20.8**	**27,767**	**105,431**	**83,864**	**25.7**
Non-Interest Income	12,558	9,508	32.1	11,278	43,352	39,831	8.8
Treasury Income	84	(473)	(117.8)	(307)	(529)	3,451	(115.3)
CEB	10,006	8,125	23.2	9,428	35,461	29,701	19.4
Net total Income	**40,952**	**33,021**	**24.0**	**39,045**	**148,783**	**123,695**	**20.3**
Operating Expenses	19,984	16,078	24.3	18,318	71,529	59,398	20.4
Employee	7,334	5,972	22.8	7,251	28,360	22,892	23.9
Other operating expenses	12,650	10,106	25.2	11,068	43,169	36,506	18.3
Operating profit	**20,969**	**16,944**	**23.8**	**20,727**	**77,254**	**64,297**	**20.2**
Core operating profits	20,885	17,417	19.9	21,034	77,783	60,846	27.8
Provisions	4,313	4,399	(1.9)	4,659	19,067	21,406	(10.9)
Loan loss provisions	3,301	3,228	2.3	2,929	14,331	20,137	(28.8)
Profit before tax	**16,655**	**12,545**	**32.8**	**16,068**	**58,187**	**42,891**	**35.7**
Tax	5,508	4,178	31.8	5,190	18,923	13,404	41.2
Tax Rate (%)	*33.1*	*33.3*		*32.3*	*32.5*	*31.3*	
Net Profit after tax	**11,147**	**8,366**	**33.2**	**10,878**	**39,264**	**29,487**	**33.2**
Asset Quality							
Gross NPA's	16,943	18,168	(6.7)	17,818	16,943	18,168	(6.7)
Gross NPA's %	*1.1*	*1.4*		*1.1*	*1.1*	*1.4*	
Net NPA's	2,964	3,921	(24.4)	3,307	2,964	3,921	(24.4)
Net NPA's %	*0.2*	*0.3*		*0.2*	*0.2*	*0.3*	
Provision Coverage	82.5	78.4		81.4	82.5	78.4	
Capital Adequacy (%)							
CAR	*16.2*	*17.4*		*16.3*	*16.2*	*17.4*	
Tier 1	*12.2*	*13.3*		*12.1*	*12.2*	*13.3*	
NIM – Calculated (%)	*4.31*	*4.41*		*4.44*	*4.22*	*4.13*	
NIM – Reported (%)	*4.20*	*4.40*		*4.20*	*4.22*	*4.32*	
Balance Sheet Items							
Deposits	2,085,864	1,674,044	24.6	1,922,016	2,085,864	1,674,044	24.6
CASA	1,099,080	871,040	26.2	970,618	1,099,080	871,040	26.2
CASA %	*52.7*	*52.0*		*50.5*	*52.7*	*52.0*	
Advances	1,599,827	1,258,306	27.1	1,591,836	1,599,827	1,258,306	27.1
Total Assets	**2,773,526**	**2,224,586**	**24.7**	**2,498,200**	**2,773,526**	**2,224,586**	**24.7**

Source: Company Data, PL Research

Reported NIM remained steady QoQ at 4.2% as CASA ratio improved to 52.7%. However, adjusting for certain one off CASA balances towards the end of the quarter, the CASA ratio stood at 51.0%.

Exhibit 2: Trend in CASA and NIM



Source: Company Data, PL Research

Banks retail loan book grew by 27.0% YoY. The retail and corporate book contribute equally in the loan mix.

Among retail advances, the growth is more broad based with highest growth seen in business banking segment (up 36.4% YoY) followed by CV loans, mortgages and two wheeler loans.

Exhibit 3: Retail portfolio mix (Rs bn)

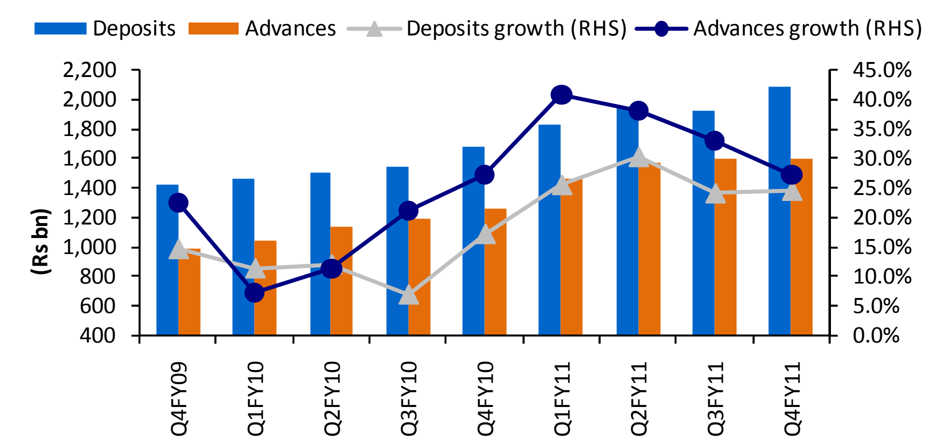
Particulars	Q4FY11	Q4FY10	YoY gr. (%)
Home loans	115.0	87.0	*32.2*
Auto Loans	221.0	180.0	*22.8*
Personal loans (PL)	102.0	87.0	*17.2*
CVs	80.0	60.0	*33.3*
Business banking	150.0	110.0	*36.4*
Two-Wheelers	20.0	16.0	*25.0*
Others	112.0	90.0	*24.4*
Total retail advances	**800.0**	**630.0**	***27.0***

Source: Company Data, PL Research *Based on revised classification*

Advances grew by healthy 27.1% YoY and 0.5% QoQ, driven by healthy growth seen in its retail as well as corporate loan portfolio.

Deposits grew by 24.6% YoY and 8.5% QoQ. The core CASA ratio improved marginally to 51.0% from 50.5% in Q3FY11.

Exhibit 4: Trend in advances and deposit growth

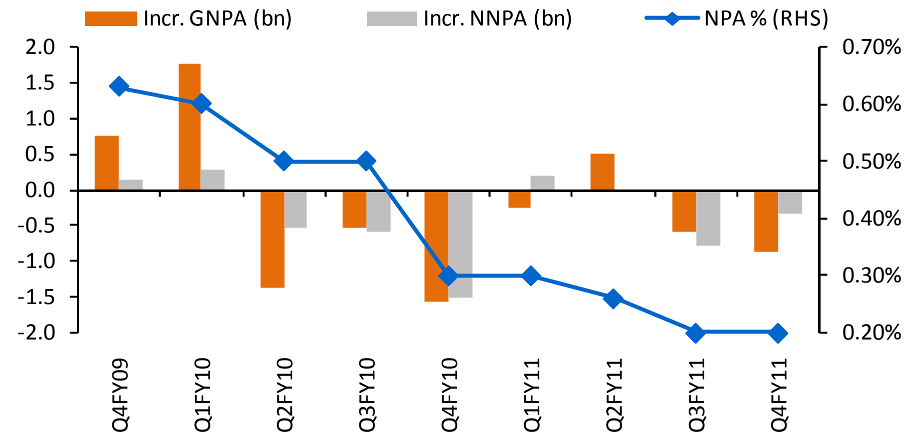


Source: Company Data, PL Research

GNPAs declined by 6.7% YoY and 4.9% QoQ as asset quality deterioration has peaked out for HDFC Bank.

Restructured assets increased marginally to 0.4% of gross advances v/s 0.3% due to certain microfinance loans being restructured during the quarter.

Exhibit 5: QoQ change in GNPAs and NNPAs

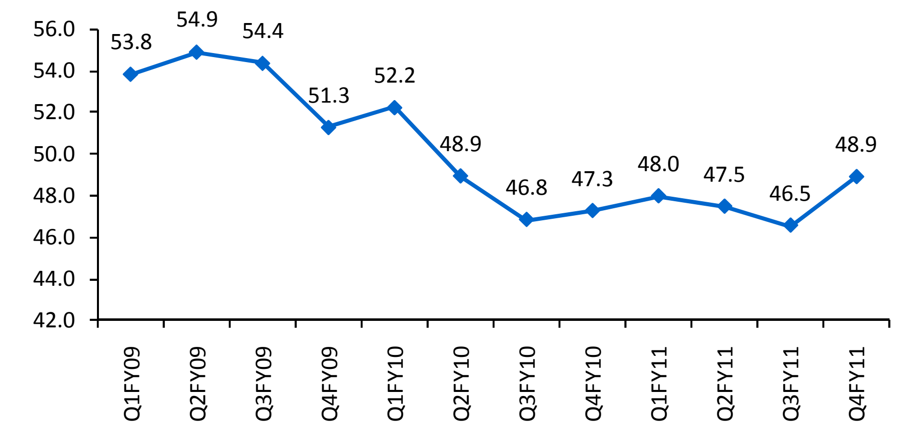


Source: Company Data, PL Research

Post completion of the CBoP merger, the cost-to-income ratio (excl. treasury) had improved significantly.

However, with aggressive branch addition, increase in headcount and wage hikes due to increasing competitive pressures resulted into a steep increase in cost to income ratio on a QoQ basis.

Exhibit 6: Trend in core cost-to-income ratio (%) (excl. treasury)



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011E	2012E	2013
Int. Earned from Adv.	120,983	150,850	200,360	252,92
Int. Earned from Invt.	39,813	46,754	53,599	67,51
Others	933	1,678	5,574	7,17
Total Interest Income	161,729	199,282	259,533	327,60
Interest expense	77,863	93,851	135,635	165,33
NII	**83,866**	**105,431**	**123,898**	**162,27**
Growth (%)	*13.0*	*25.7*	*17.5*	*31.*
Treasury Income	3,451	(400)	500	1,00
NTNII	34,625	43,752	47,602	60,53
Non Interest Income	38,076	43,352	48,102	61,53
Total Income	199,805	242,634	307,635	389,14
Growth (%)	*1.8*	*21.4*	*26.8*	*26.*
Operating Expense	57,645	71,529	82,443	97,82
Operating Profit	**64,297**	**77,254**	**89,557**	**125,98**
Growth (%)	*24.1*	*20.2*	*15.9*	*40.*
NPA Provisions	19,389	16,466	14,099	24,09
Total Provisions	21,406	19,067	13,491	26,43
PBT	**42,891**	**58,187**	**76,065**	**99,54**
Tax Provisions	13,404	18,923	25,102	32,84
Effective Tax Rate (%)	*31.3*	*32.5*	*33.0*	*33.*
PAT	**29,487**	**39,264**	**50,964**	**66,69**
Growth (%)	*31.3*	*33.2*	*29.8*	*30.*

Balance Sheet (Rs m)

Y/e March	2010	2011E	2012E	2013E
Par Value	10	10	10	10
No. of equity shares	458	458	458	458
Equity	4,577	4,577	4,577	4,577
Networth	215,225	247,248	290,971	348,816
Adj. Networth	211,304	244,576	283,723	342,558
Deposits	1,674,044	2,085,864	2,430,378	2,965,061
Growth (%)	*17.2*	*24.6*	*20.0*	*22.0*
Low Cost deposits	871,039	1,099,080	1,117,974	1,393,579
% of total deposits	*52.0*	*52.7*	*46.0*	*47.0*
Total Liabilities	**2,225,569**	**2,652,782**	**3,297,879**	**4,112,543**
Net Advances	1,258,306	1,599,827	1,996,272	2,582,291
Growth (%)	*27.3*	*27.1*	*24.5*	*29.4*
Investments	586,076	657,397	826,328	978,470
Total Assets	**2,225,569**	**2,652,782**	**3,297,879**	**4,112,543**

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Interest Income	44,202	48,100	52,300	54,686
Interest Expense	20,190	22,837	24,533	26,291
Net Interest Income	**24,011**	**25,263**	**27,767**	**28,395**
Non Interest Income	9,399	9,607	11,278	12,558
CEB	7,457	8,570	9,428	10,006
Treasury	215	(521)	(307)	84
Net Total Income	**33,410**	**34,870**	**39,045**	**40,952**
Operating Expenses	15,923	16,799	18,318	19,984
Employee Expenses	6,671	7,106	7,251	7,334
Other Expenses	9,252	9,693	11,068	12,650
Operating Profit	**17,487**	**18,071**	**20,727**	**20,969**
Core Operating Profit	17,272	18,592	21,034	20,885
Provisions	5,550	4,545	4,659	4,313
Loan loss provisions	3,651	4,450	2,929	3,301
Profit before tax	**11,937**	**13,526**	**16,068**	**16,655**
Tax	3,820	4,405	5,190	5,508
PAT before EO	**8,117**	**9,121**	**10,878**	**11,147**
Extraordinary item	—	—	—	—
PAT	**8,117**	**9,121**	**10,878**	**11,147**

Key Ratios

Y/e March	2010	2011E	2012E	2013E
CMP (Rs)	2,310	2,310	2,310	2,310
Equity Shrs. Os. (m)	458	458	458	458
Market Cap (Rs m)	1,057,448	1,057,448	1,057,448	1,057,448
M/Cap to AUM (%)	*47.5*	*39.9*	*32.1*	*25.7*
EPS (Rs)	64.4	85.8	111.3	145.7
Book Value (Rs)	447	517	612	739
Adj. BV (75%) (Rs)	448	521	610	742
P/E (x)	35.9	26.9	20.7	15.9
P/BV (x)	5.2	4.5	3.8	3.1
P/ABV (x)	5.2	4.4	3.8	3.1
DPS (Rs)	12.0	13.5	13.5	16.5
Dividend Yield (%)	*0.5*	*0.6*	*0.6*	*0.7*

Profitability (%)

Y/e March	2010	2011E	2012E	2013E
NIM	4.1	4.3	4.2	4.4
RoAA	1.5	1.6	1.7	1.8
RoAE	17.3	17.8	19.7	21.6

Efficiency

Y/e March	2010	2011E	2012E	2013E
Cost-Income Ratio (%)	*47.3*	*48.1*	*47.9*	*43.7*
C-D Ratio (%)	*75.2*	*80.5*	*82.1*	*87.1*
Business per Emp. (Rs m)	57	62	75	89
Profit per Emp. (Rs m)	6	7	9	11
Business per Branch (Rs m)	1,700	1,821	2,035	2,336
Profit per Branch (Rs m)	17	20	23	28

Asset Quality

Y/e March	2010	2011E	2012E	2013E
Gross NPAs (Rs m)	18,168	17,809	24,158	31,288
Net NPAs (Rs m)	3,921	2,671	7,247	6,258
Gr. NPAs to Gross Adv. (%)	*1.4*	*1.1*	*1.2*	*1.2*
Net NPAs to Net Adv. (%)	*0.3*	*0.2*	*0.4*	*0.2*
NPA Coverage (%)	*78.4*	*85.0*	*70.0*	*80.0*

Source: Company Data, PL Research.

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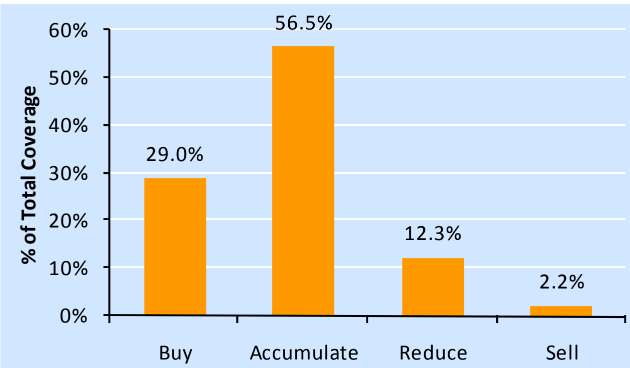

PL's Recommendation Nomenclature

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

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