

HDFC Bank

Performance Highlights

HDFC Bank announced its 3QFY2010 results, reporting a Net Profit growth of 31.6% yoy to Rs818.5cr, in line with our estimates. Signs of improvement in business growth and asset quality, coupled with strong traction in CASA deposits on the back of sustained branch expansion, were the key positives from the results. **We maintain a Buy on the stock.**

Improving Business Growth and Profitability: Advances registered a yoy growth of 21.1% to reach Rs1,19,614cr. In FY2010, the bank's advances have grown by 21% (YTD), as against a growth of 9.1% for the banking system as a whole. Deposits reached Rs1,54,789cr in 3QFY2010, up by 7% from Rs1,44,863cr in 3QFY2009. The CASA ratio increased to 52% of total deposits during 3QFY2010, as against 40% as at 3QFY2009 and 50% as at 2QFY2010. Consequently, NIMs improved to 4.3% in 2QFY2010, as against 4.2% in 2QFY2010. The asset quality of the bank improved sequentially, with Gross NPAs at 1.6% (1.8% in 2QFY2010) and net NPAs at 0.4% (0.5% in 2QFY2010). The NPA coverage ratio based on specific provisions was at 73% in 3QFY2010, as compared to 68% as of 3QFY2009. The bank increased in branch network substantially, opening 219 branches and 325 ATMs during the quarter. Operating expenses remained flat yoy, with a cost-to-income ratio of 47% (from 50% in 3QFY2009). The total branch network of the bank stood at 1,725 branches and 3,898 ATMs at the end of 3QFY2010.

Outlook and Valuation: At the CMP, the stock is trading at 15.1x FY2012E EPS of Rs112.1 and 2.8x FY2012E ABV of Rs607.6. We believe that there are initial signs of the Bank returning to its high, qualitative growth trajectory, with both CASA and Cost-to-Income ratios returning to about pre-CBoP levels. In our view, with its strong capital adequacy and substantial branch expansion, the Bank is set to further gain CASA market share and achieve a strong growth in fee income, as the economic environment continues to improve. **We maintain a Buy on the stock, with a 15-month Target Price of Rs2,127, implying an annualised return of 20%.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
NII	7,421	8,191	10,434	13,331
% chg	42.0	10.4	27.4	27.8
Net Profit	2,245	2,915	3,761	5,061
% chg	41.2	29.9	29.0	34.5
NIM (%)	4.9	4.3	4.4	4.5
EPS (Rs)	52.8	64.6	83.3	112.1
P/E (x)	32.0	26.2	20.3	15.1
P/ABV (x)	4.8	3.7	3.2	2.8
RoA (%)	1.4	1.4	1.5	1.6
RoE (%)	16.9	16.2	16.8	19.7

Source: Company, Angel Research

BUY

CMP	Rs1,691
Target Price	Rs2,127

Investment Period	15 Months
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Stock Info

Sector	Banking
Market Cap (Rs cr)	77,130
Beta	0.8
52 WK High / Low	1836/774
Avg. Daily Volume	234426
Face Value (Rs)	10
BSE Sensex	17,554
Nifty	5,052
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB@IN

Shareholding Pattern (%)

Promoters	23.9
MF/Banks/Indian FIs	20.0
FII/NRIs/OCBs	46.4
Indian Public	9.7

Abs (%)	3m	1yr	3yr
Sensex	2.1	94.0	24.2
HDFCBK	(2.0)	82.9	54.9

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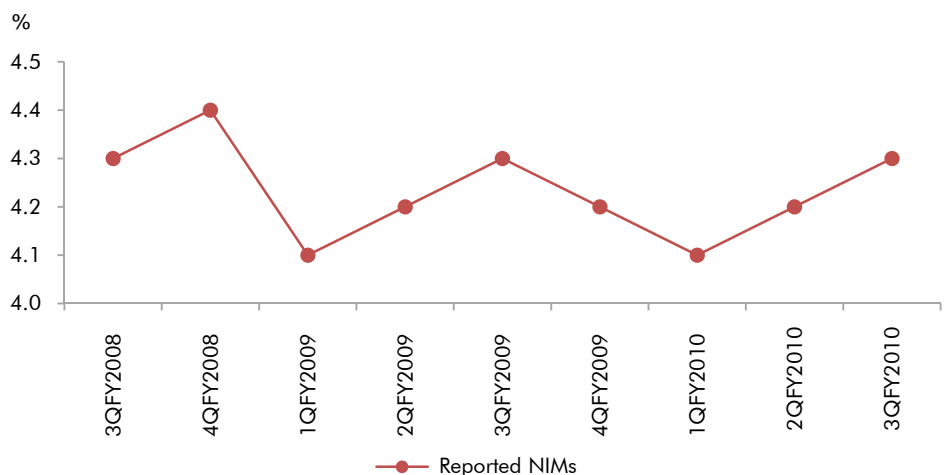
Exhibit 1: 3QFY2010 Performance

Y/E March (Rs cr)	3QFY2010	2QFY2010	% chg (qoq)	3QFY2009	% chg (yoy)	9MFY2010	9MFY2009	% chg
Interest Earned	4,035	3,992	1.1	4,469	(9.7)	12,120	12,081	0.3
Interest Expenses	1,811	2,036	(11.1)	2,489	(27.3)	6,085	6,512	(6.6)
Net Interest Income	2,224	1,956	13.7	1,979	12.4	6,035	5,569	8.4
Non-Interest Income	853	1,007	(15.3)	939	(9.2)	2,904	2,176	33.5
Total Income	3,077	2,963	3.8	2,919	5.4	8,939	7,745	15.4
Operating Expenses	1,453	1,370	6.1	1,461	(0.5)	4,204	4,137	1.6
Pre-Prov Profit	1,624	1,593	1.9	1,458	11.4	4,735	3,609	31.2
Provisions & Cont.	448	594	(24.6)	532	(15.8)	1,701	1,222	39.1
PBT	1,176	999	17.7	926	27.0	3,035	2,386	27.2
Prov. for Taxes	357	311	14.8	305	17.4	923	772	19.5
PAT	819	687	19.1	622	31.6	2,112	1,614	30.8
EPS (Rs)	18.0	16.1	11.8	14.6	22.9	46.4	38.0	22.2
Cost to Income (%)	47.2	46.2		50.0		47.0	53.4	
Effective Tax Rate (%)	30.4	31.2		32.9		30.4	32.4	
Net NPA (%)	0.5	0.5		0.6		0.5	0.6	

Source: Company, Angel Research

Improving Business Growth and Profitability

Advances registered a yoy growth of 21.1% to reach Rs1,19,614cr. In FY2010, the bank's advances have grown by 21% (YTD), as against a growth of 9.1% for the banking system as a whole. Deposits reached Rs1,54,789cr in 3QFY2010, up by 7% from Rs1,44,863cr in 3QFY2009. The CASA ratio increased to 52% of total deposits during 3QFY2010, as against 40% as at 3QFY2009 and 50% as at 2QFY2010. The credit-deposit ratio of the bank stood at 77.3%, increasing by 910bp yoy and 140bp sequentially. Consequently, NIMs improved to 4.3% in 2QFY2010, as against 4.2% in 3QFY2010.

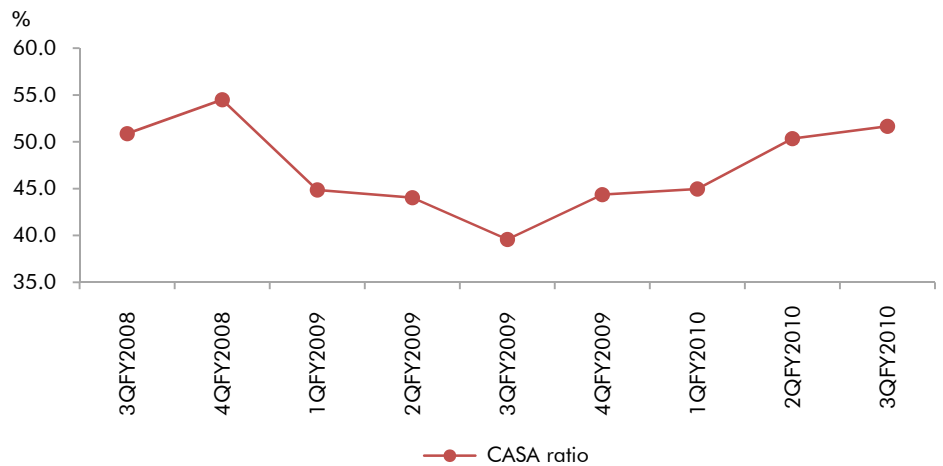
Exhibit 2: Trend in Quarterly NIMs


Source: Company, Angel Research

Strong growth in CASA

The key positive from the results was the CASA deposits growth of 39% yoy and 6% sequentially, leading to a 200bp sequential improvement in the CASA ratio to 52% (from 50% in 2QFY2010). The management has indicated a continuation of its strategy to expand the branch network in Tier-II and Tier-III cities. The bank has also started to leverage its brand name through the branch network of CBOP (which was taken over by the bank at the end of FY2008). Against this backdrop, we expect the CASA of the bank to remain stable in the range of 49 to 52%, going forward.

Exhibit 3: Trend in CASA

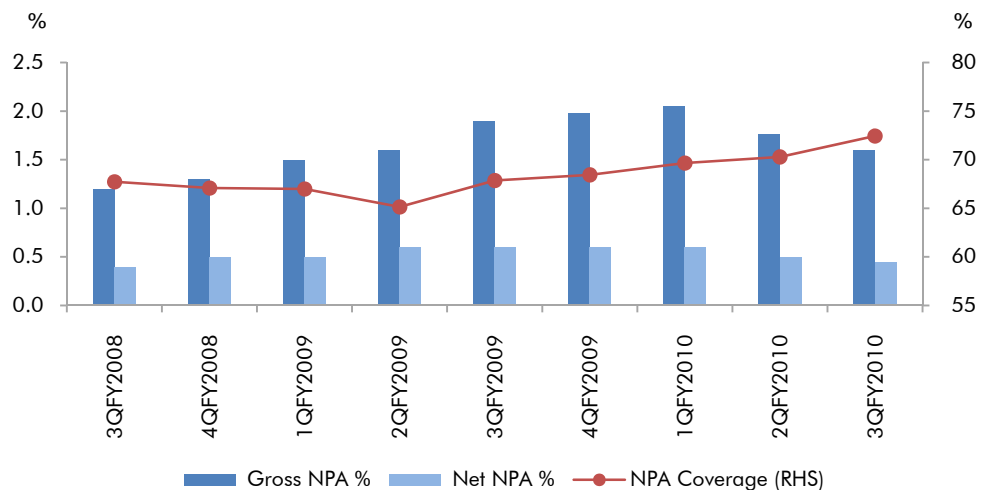


Source: Company, Angel Research

Robust Asset Quality and Capital Adequacy

The asset quality of the bank improved sequentially, with Gross NPAs at 1.6% (1.8% in 2QFY2010) and net NPAs at 0.4% (0.5% in 2QFY2010). The NPA coverage ratio based on specific provisions was at 73% in 3QFY2010, as compared to 68% in 3QFY2009. Total restructured assets, including applications received for loan restructuring, which were yet to be approved or implemented, were 0.4% of the advances, which is very low as compared to the industry average, attributable primarily to differences in the bank's credit mix vis-à-vis PSU Banks.

Exhibit 4: Trend in Asset Quality



Source: Company, Angel Research

Healthy Fee Income

The Bank's Fee income grew at a reasonably strong 12% yoy to Rs724cr. The Bank also booked an MTM loss of Rs26cr on its investment book. Forex and Derivative linked income at Rs154cr was up by a strong 145% yoy.

Focus on cost-control continues

The management has clearly delineated cost control as a key focus area during the current fiscal, and this has been reflected in the flat operating cost yoy, and in the cost-to-income ratio of 47.2% (from 50% in 3QFY2009). The bank opened a substantial 219 branches and 325 ATMs during the quarter, to take its branch network to 1,725 branches and 3,898 ATMs at the end of 3QFY2010.

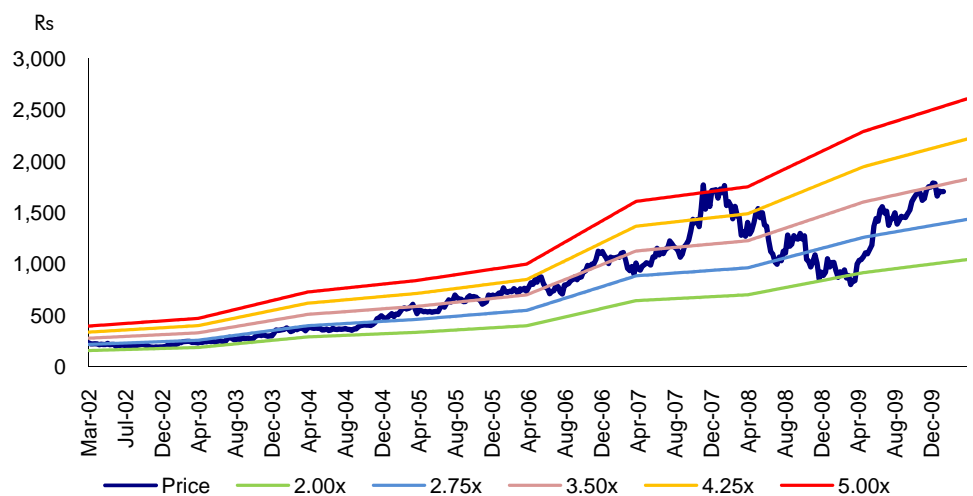
Adequately Capitalised to grow

The bank had to issue 2.6cr warrants at Rs1530 to HDFC in June 2008 during the merger of HDFC Bank with Centurion Bank of Punjab, to allow HDFC to maintain its shareholding in the merged entity. HDFC converted these warrants in December 2009 thereby increasing its stake to 23.8% from 19.3% before conversion. Thus, the tier-I capital of the bank increased by Rs3600cr taking tier-I CAR to 13.8% from 10.9% in 2QFY2010. The Bank's total Capital Adequacy (as per Basel-2 guidelines) thus remained strong at 18.3%, with Tier-I forming 75% of the total CAR. The bank has sufficient CAR to grow its advances 5-8% above the industry growth over FY2010-12E.

Outlook and Valuation

We believe that HDFC Bank is among the most competitive banks in the sector, with an A-list management that has one of the best track records in the sector. We believe that the bank's competitive advantages, driving gains in CASA market share and traction in multiple fee revenue streams, can support up to 5% higher core sustainable RoEs (vis-à-vis sectoral averages) over the long-term, creating a material margin of safety in our target valuation multiples. At the CMP, the stock is trading at 15.1x FY2012E EPS of Rs112.1 and 2.8x FY2012E ABV of Rs607.6. **We maintain a Buy on the stock, with a 15-month Target Price of Rs2,127, implying an annualised return of 20%.**

Exhibit 5: P/ABV Band – HDFC Bank



Source: Company, Angel Research

Income Statement (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Net Interest Income	7,421	8,191	10,434	13,331
YoY Growth (%)	42.0	10.4	27.4	27.8
Other Income	3,471	4,275	4,966	6,364
YoY Growth (%)	57.4	23.2	16.2	28.2
Operating Income	10,892	12,466	15,400	19,695
YoY Growth (%)	46.5	14.5	23.5	27.9
Operating Expenses	5,685	5,685	7,220	9,516
YoY Growth (%)	51.8	0.0	27.0	31.8
Pre - Provision Profit	5,207	6,781	8,180	10,180
YoY Growth (%)	41.2	30.2	20.6	24.4
Prov. & Cont.	1,908	2,497	2,653	2,743
YoY Growth (%)	35.6	30.9	6.2	3.4
Profit Before Tax	3,299	4,284	5,528	7,437
YoY Growth (%)	44.6	29.9	29.0	34.5
Prov. for Taxation	1,054	1,369	1,766	2,377
as a % of PBT	32.0	32.0	32.0	32.0
PAT	2,245	2,915	3,761	5,061
YoY Growth (%)	41.2	29.9	29.0	34.5

Balance Sheet (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Share Capital	425	452	452	452
Reserve & Surplus	14,627	20,437	23,327	27,225
Deposits	142,812	167,090	208,862	261,077
Growth (%)	41.7	17.0	25.0	25.0
Borrowings	2,686	6,596	8,245	10,306
Tier 2 Capital	16,474	16,474	22,076	29,802
Other Liab. & Prov.	6,246	8,806	11,858	14,661
Total Liabilities	183,271	219,855	274,818	343,523
Cash balances	13,527	8,354	10,443	13,054
Bank balances	3,979	5,496	6,870	8,588
Investments	58,818	74,738	94,711	118,478
Advances	98,883	121,626	150,816	188,521
Growth (%)	55.9	23.0	24.0	25.0
Fixed Assets	1,707	1,945	2,358	2,860
Other Assets	6,357	7,695	9,619	12,023
Total Assets	183,271	219,855	274,818	343,523
Growth (%)	37.6	20.0	25.0	25.0

Ratio Analysis

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Profitability ratios (%)				
NIMs	4.9	4.3	4.4	4.5
Cost to Income ratio	52.2	45.6	46.9	48.3
RoA	1.4	1.4	1.5	1.6
RoE	16.9	16.2	16.8	19.7
B/S ratios (%)				
CASA ratio	44.4	47.9	48.6	49.2
Credit/Deposit ratio	69.2	72.8	72.2	72.2
CAR	14.3	13.7	12.9	12.9
- Tier I	9.6	10.3	8.7	7.8
Asset Quality (%)				
Gross NPAs	2.0	3.3	2.8	2.3
Net NPAs	0.6	1.0	0.9	0.7
Slippages	5.3	4.0	3.7	3.0
NPA prov. / avg. assets	1.0	1.0	0.8	0.7
Provision coverage	68.4	70.7	70.0	69.5
Per Share Data (Rs)				
EPS	52.8	64.6	83.3	112.1
ABVPS (75% Cover.)	350.8	458.6	521.9	607.6
DPS	8.5	13.0	16.5	22.0
Valuation Ratios				
P/E (x)	32.0	26.2	20.3	15.1
P/ABVPS (x)	4.8	3.7	3.2	2.8
Dividend Yield	0.5	0.8	1.0	1.3
DuPont Analysis				
NII	4.7	4.1	4.2	4.3
(-) Prov. Exp.	1.2	1.2	1.1	0.9
Adj. NII	3.5	2.8	3.1	3.4
Treasury	0.3	0.2	0.0	0.0
Int. Sens. Inc.	3.7	3.0	3.2	3.5
Other Inc.	1.9	1.9	2.0	2.0
Op. Inc.	5.7	4.9	5.2	5.5
Opex	3.6	2.8	2.9	3.1
PBT	2.1	2.1	2.2	2.4
Taxes	0.7	0.7	0.7	0.8
RoA	1.4	1.4	1.5	1.6
Leverage	11.9	11.2	11.1	12.0
RoE	16.9	16.2	16.8	19.7

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Disclosure of Interest Statement	HDFC Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Broking relationship with company covered	No

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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