

HDFC Bank

Performance Highlights

HDFC Bank reported a Net Profit growth of 32.6% yoy to Rs837cr, in line with our estimates. Strong Business growth, improvement in Profitability and asset quality, coupled with a strong traction in CASA deposits, were the key positives from the results. **We maintain a Buy on the stock.**

Robust performance on all parameters: Advances registered a growth of 28.7% yoy to reach Rs1,27,262cr. Deposits reached Rs1,67,404cr in 4QFY2010, up by 17.2% from Rs1,42,812cr in 4QFY2009. The CASA ratio increased to 52% of total deposits during 4QFY2010, as against 44.4% as at 4QFY2009 and 51.7% as at 3QFY2010. On account of the higher growth in advances, the credit-deposit ratio of the bank improved to 76.0%, increasing by 680bp yoy. Consequently, NIMs improved to 4.4% in 4QFY2010, as against 4.2% in 3QFY2010. The asset quality of the bank improved sequentially, with Gross NPAs at 1.4% (1.6% in 3QFY2010) and net NPAs at 0.3% (0.4% in 3QFY2010). The NPA coverage ratio based on specific provisions was at 78.4% in 4QFY2010, as compared to 72.4% in 3QFY2010 and 68.4% in 4QFY2009. During 4QFY2010, non-interest income stood Rs904cr, down 18.9% yoy due to a treasury loss of Rs47cr in 4QFY2010 (treasury gains of Rs243cr in 4QFY2009) and a muted fee income growth of 7.1% yoy. The Bank's total Capital Adequacy (as per Basel-2 guidelines) remained strong at 17.4%, with Tier-I forming 75% of the total CAR. The bank opened a substantial 313 branches and 937 ATMs during FY2010, to take its branch network to 1,725 branches and 4,232 ATMs at the end of FY2010.

Outlook and Valuation: At the CMP, the stock is trading at 16.3x FY2012E EPS of Rs119.4 and 3.1x FY2012E ABV of Rs632. We believe that HDFC Bank is once again positioned for a high qualitative growth trajectory, with both the 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 Target Price of Rs2,220.**

BUY

CMP	Rs1944
Target Price	Rs2,220

Investment Period	12 Months
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Stock Info

Sector	Banking
Market Cap (Rs cr)	89,001
Beta	0.8
52 WK High / Low	1986/1063
Avg. Daily Volume	174855
Face Value (Rs)	10
BSE Sensex	17694
Nifty	5,304
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	4.9	58.9	27.0
HDFCBK	62.5	78.0	96.9

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
NII	7,421	8,387	10,526	13,470
% chg	42.0	13.0	25.5	28.0
Net Profit	2,245	2,949	3,933	5,390
% chg	41.2	31.3	33.4	37.0
NIM (%)	4.9	4.3	4.4	4.5
EPS (Rs)	52.8	65.3	87.1	119.4
P/E (x)	36.8	29.8	22.3	16.3
P/ABV (x)	5.5	4.1	3.6	3.1
RoA (%)	1.4	1.5	1.6	1.7
RoE (%)	16.9	16.2	17.2	20.4

Source: Company, Angel Research

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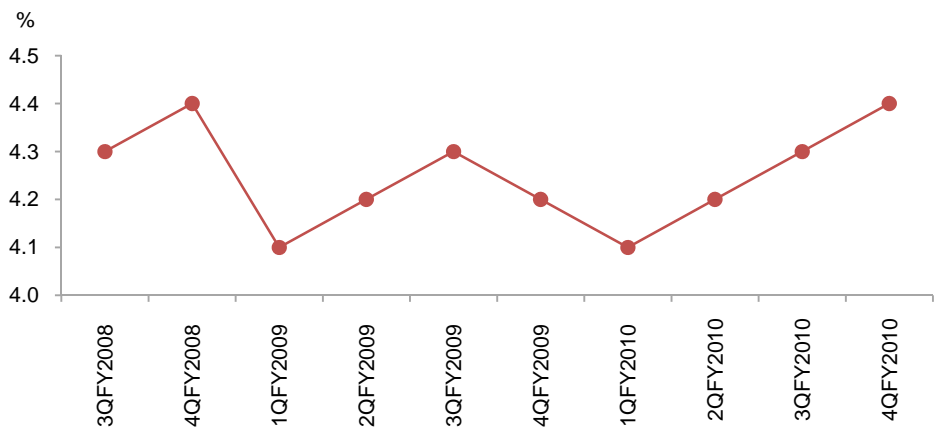
Exhibit 1: 4QFY2010 Performance

Y/E March (Rs cr)	4QFY2010	3QFY2010	% chg	4QFY2009	% chg	FY2010	FY2009	% chg
Interest Earned	4,053	4,035	0.5	4,251	(4.7)	16,173	16,332	(1.0)
Interest Expenses	1,702	1,811	(6.0)	2,399	(29.1)	7,786	8,911	(12.6)
Net Interest Income	2,351	2,224	5.7	1,852	27.0	8,387	7,421	13.0
Non-Interest Income	904	853	5.9	1,115	(18.9)	3,808	3,291	15.7
Total Income	3,255	3,077	5.8	2,967	9.7	12,194	10,712	13.8
Operating Expenses	1,561	1,453	7.4	1,396	11.8	5,765	5,533	4.2
Pre-Prov Profit	1,694	1,624	4.4	1,571	7.9	6,430	5,179	24.1
Provisions & Cont.	440	448	(1.7)	657	(33.1)	2,141	1,880	13.9
PBT	1,254	1,176	6.7	913	37.4	4,289	3,299	30.0
Prov. for Taxes	418	357	16.9	282	48.0	1,340	1,054	27.1
PAT	837	819	2.2	631	32.6	2,949	2,245	31.3
EPS (Rs)	18.5	18.0	3.0	14.8	24.9	65.3	52.8	23.7
Cost to Income (%)	47.9	47.2		47.1		47.3	51.7	
Effective Tax Rate (%)	33.3	30.4		30.9		31.3	32.0	
Net NPA (%)	0.3	0.5		0.6		0.3	0.6	

Source: Company, Angel Research

Strong Business Growth with Profitability

Advances registered a robust growth of 28.7% yoy and 6.4% qoq to reach Rs1,27,262cr. Deposits reached Rs1,67,404cr in 4QFY2010, up by 17.2% from Rs1,42,812cr in 4QFY2009. The CASA ratio increased to 52% of total deposits during 4QFY2010, as against 44.4% as at 4QFY2009 and 51.7% as at 3QFY2010. On account of the higher growth in advances, the credit-deposit ratio of the bank improved to 76.0%, increasing by 680bp yoy. Consequently, NIMs improved to 4.4% in 4QFY2010, as against 4.2% in 3QFY2010. The NIMs are expected to be impacted by 20bp in 1QFY2011E as the bank starts paying interest on savings balances on a daily basis.

Exhibit 2: Trend in Quarterly Reported NIMs


Source: Company, Angel Research

Strong Capital adequacy and branch expansion to drive CASA and Credit market share gains, respectively

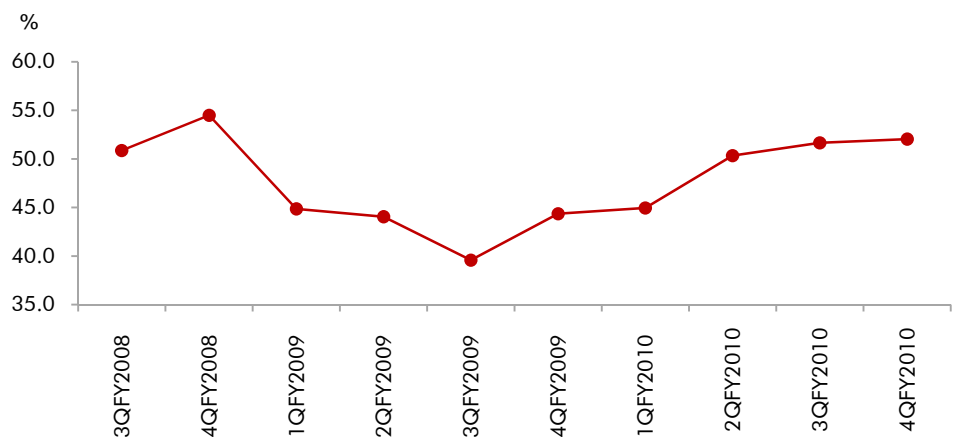
The key positive from the results was the CASA deposit growth of 37.5% yoy and 8.9% sequentially, driven by a 30.9% yoy growth in Current deposits and a 42.9% yoy growth in Savings deposits.

The strong traction in CASA growth is attributable to the bank’s aggressive branch expansion during the year and to the increasing productivity of the branch network of CBOP. The bank opened a substantial 313 branches and 937 ATMs during FY2010, to take its branch network to 1,725 branches and 4,232 ATMs at the end of FY2010 (incidentally, the cost-to-income ratio of the bank remained healthy during FY2010 at 48%).

The bank plans to open another 150 branches during FY2011E. Against this backdrop, we expect the bank to sustain a CASA ratio in the range of 49-52%, going forward.

The Bank’s total Capital Adequacy (as per Basel-2 guidelines) remained strong at 17.4%, 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.

Exhibit 3: Trend in CASA

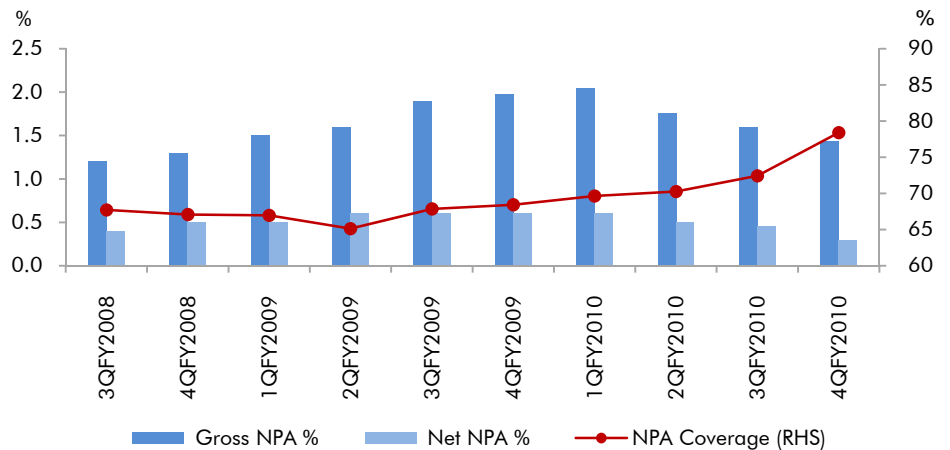


Source: Company, Angel Research

Robust Asset Quality

The asset quality of the bank improved sequentially, with Gross NPAs at 1.4% (1.6% in 3QFY2010) and net NPAs at 0.3% (0.4% in 3QFY2010). The NPA coverage ratio based on specific provisions was at 78.4% in 4QFY2010, as compared to 72.4% in 3QFY2010 and 68.4% in 4QFY2009. The total restructured assets were 0.3% of the advances, which is among the lowest in the sector. The bank has witnessed a reduction in slippages from the retail segment in the last couple of quarters.

Exhibit 4: Trend in Asset Quality



Source: Company, Angel Research

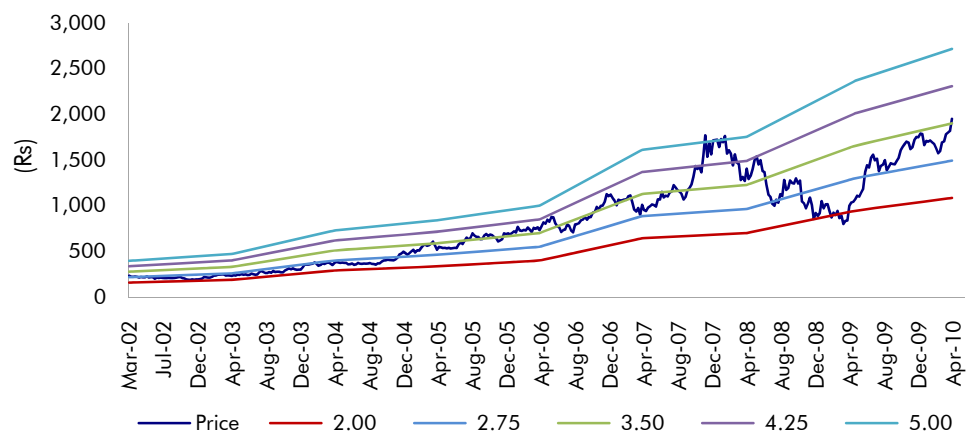
Non-interest Income declines

During 4QFY2010, the non-interest income stood at Rs904cr, down 18.9% yoy, due to a treasury loss of Rs47cr in 4QFY2010 (treasury gains of Rs243cr in 4QFY2009) and a muted fee income growth of 7.1% yoy. The Management attributed the muted growth in fee income to the presence of one-offs in 4QFY2009 and lower commission rates on third party products. Going forward, the management expects higher volumes to compensate for low commission rates. Income from forex and derivatives increased by a healthy 17.9% yoy to Rs180cr.

Outlook and Valuation

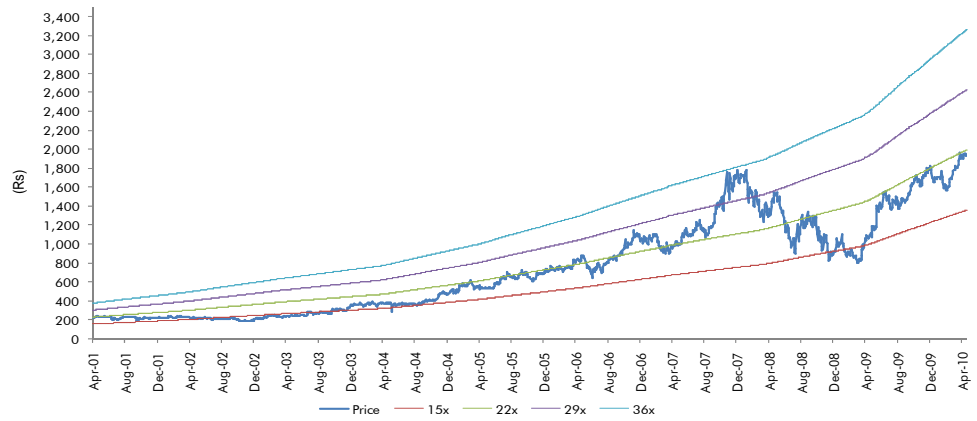
We believe that HDFC Bank is among the most competitive banks in the sector, with an A-list management that has one of the best track records in the sector. At the CMP, the stock is trading at 16.3x FY2012E EPS of Rs119.4 and 3.1x FY2012E ABV of Rs632. We believe that HDFC Bank is once again positioned for a high qualitative growth trajectory, with both the 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 Target Price of Rs2,220.**

Exhibit 5: P/ABV Band – HDFC Bank



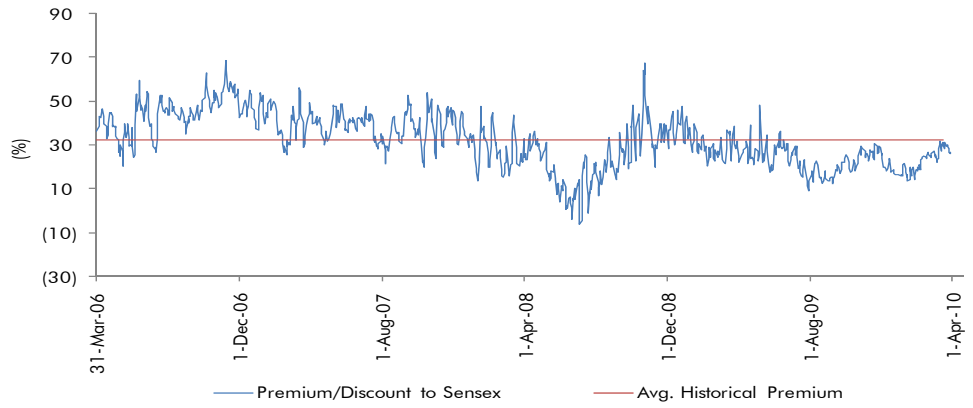
Source: Company, Angel Research

Exhibit 6: P/E Band – HDFC Bank



Source: Company, Angel Research

Exhibit 7: Premium/Discount to Sensex – HDFC Bank



Source: Company, Angel Research

Income Statement (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Net Interest Income	7,421	8,387	10,526	13,470
YoY Growth (%)	42.0	13.0	25.5	28.0
Other Income	3,471	3,808	4,497	5,763
YoY Growth (%)	57.4	9.7	18.1	28.2
Operating Income	10,892	12,194	15,023	19,233
YoY Growth (%)	46.5	12.0	23.2	28.0
Operating Expenses	5,685	5,765	7,243	9,354
YoY Growth (%)	51.8	1.4	25.7	29.2
Pre - Provision Profit	5,207	6,430	7,780	9,879
YoY Growth (%)	41.2	23.5	21.0	27.0
Prov. & Cont.	1,908	2,141	2,059	2,039
YoY Growth (%)	35.6	12.2	(3.8)	(1.0)
Profit Before Tax	3,299	4,289	5,721	7,840
YoY Growth (%)	44.6	30.0	33.4	37.0
Prov. for Taxation	1,054	1,340	1,788	2,450
as a % of PBT	32.0	31.3	31.3	31.3
PAT	2,245	2,949	3,933	5,390
YoY Growth (%)	41.2	31.3	33.4	37.0

Balance Sheet (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Share Capital	425	452	452	452
Reserve & Surplus	14,627	20,925	23,933	28,082
Deposits	142,812	167,404	212,603	267,880
Growth (%)	41.7	17.2	27.0	26.0
Borrowings	2,686	6,608	8,392	10,574
Tier 2 Capital	16,474	16,474	22,076	29,802
Other Liab. & Prov.	6,246	8,405	12,285	15,684
Total Liabilities	183,271	220,268	279,741	352,474
Cash balances	13,527	8,370	14,882	20,091
Bank balances	3,979	5,507	6,994	8,812
Investments	58,818	69,471	87,869	111,044
Advances	98,883	127,262	157,805	197,256
Growth (%)	55.9	28.7	24.0	25.0
Fixed Assets	1,707	1,949	2,401	2,934
Other Assets	6,357	7,709	9,791	12,337
Total Assets	183,271	220,268	279,741	352,474
Growth (%)	37.6	20.2	27.0	26.0

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	47.3	48.2	48.6
RoA	1.4	1.5	1.6	1.7
RoE	16.9	16.2	17.2	20.4
B/S ratios (%)				
CASA ratio	44.4	52.0	52.0	52.2
Credit/Deposit ratio	69.2	76.0	74.2	73.6
CAR	14.3	17.4	16.1	16.0
- Tier I	9.6	13.4	11.1	9.9
Asset Quality (%)				
Gross NPAs	2.0	1.3	1.0	0.8
Net NPAs	0.6	0.3	0.2	0.2
Slippages	5.3	2.6	2.0	1.8
NPA prov. / avg. assets	1.0	1.0	0.6	0.5
Provision coverage	68.4	75.1	77.9	77.5
Per Share Data (Rs)				
EPS	52.8	65.3	87.1	119.4
ABVPS (75% Cover.)	350.8	473.4	540.0	631.9
DPS	8.5	12.0	17.5	23.5
Valuation Ratios				
P/E (x)	36.8	29.8	22.3	16.3
P/ABVPS (x)	5.5	4.1	3.6	3.1
Dividend Yield	0.4	0.6	0.9	1.2
DuPont Analysis				
NII	4.7	4.2	4.2	4.3
(-) Prov. Exp.	1.2	1.1	0.8	0.6
Adj. NII	3.5	3.1	3.4	3.6
Treasury	0.3	0.2	0.0	0.0
Int. Sens. Inc.	3.7	3.3	3.4	3.6
Other Inc.	1.9	1.7	1.8	1.8
Op. Inc.	5.7	5.0	5.2	5.4
Opex	3.6	2.9	2.9	3.0
PBT	2.1	2.1	2.3	2.5
Taxes	0.7	0.7	0.7	0.8
RoA	1.4	1.5	1.6	1.7
Leverage	11.9	11.1	10.9	11.9
RoE	16.9	16.2	17.2	20.4

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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	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

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