



## ACCUMULATE

<b>Price</b>	<b>Rs1,702</b>
<b>Target Price</b>	<b>Rs1,770</b>
<b>Investment Period</b>	<b>12 months</b>

### Stock Info

Sector	Banking
Market Cap (Rs cr)	72,760
Beta	0.8
52 WK High / Low	1727 / 774
Avg. Daily Volume	316609
Face Value (Rs)	10
BSE Sensex	17,231
Nifty	5,118

BSE Code	500180
NSE Code	HDFCBANK
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB@IN

### Shareholding Pattern (%)

Promoters	19.3
MF/Banks/Indian FIs	21.6
FII/ NRIs/ OCBs	48.5
Indian Public	10.6

Abs.	3m	1yr	3yr
Sensex (%)	24.4	50.1	35.3
HDFC Bank (%)	25.2	49.5	72.2

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## Performance Highlights

HDFC Bank recorded a Net Profit growth of 30% yoy to Rs687cr, in line with our estimates. The Slow balance sheet and NII growth was compensated by strong treasury gains and better cost control during the quarter. We believe that there are initial signs of the Bank returning to its high, qualitative growth trajectory, with both the CASA and the Cost-to-Income ratio 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 traction in multiple fee revenue streams, going forward, as the economic environment continues to improve. **We maintain an Accumulate on the stock, with a Target Price of Rs1,770, implying an upside of 4%.**

- **Low on growth, high on Profitability:** While the core Balance sheet growth was low on a yoy basis, reflective of sectoral trends, there were initial signs of improving growth on a sequential basis. Advances increased 10% sequentially to Rs1,13,672cr. On a YTD basis, the Bank's Advances grew 14.8% in 1HFY2010, as against a growth of 3.7% for the sector.
- **Strong growth in CASA:** Deposits reached Rs1,49,805cr in 2QFY2009, up 12% yoy, taking the credit-deposit ratio to 76%. However, the key positive from the results was the CASA deposits growth of 28% yoy and 15% sequentially, leading to a sequential improvement in the CASA ratio to 50% (from 45% in 1QFY2010). The management indicated that even in terms of core CASA deposits, the ratio improved from 44% to 47%. The improvement in CD and CASA ratios supported an increase in NIMs of 10bp, from 4.1% reported in 1QFY2010 to 4.2% in 2QFY2010, driving a moderate 5% sequential growth in Net Interest Income.
- **Healthy Fee Income:** The Bank's Fee income grew at a reasonably strong 18% yoy to Rs692cr. The Bank also booked large treasury gains of Rs163cr during 2QFY2010, compared to a loss of Rs15.6cr in 2QFY2010, as well as Forex and Derivative linked income of Rs151cr.
- **Focus on cost-control continues:** The Bank continued its focus on cost control, with operating expenses down 1% sequentially and the cost-to-income ratio declining to 46% in 2QFY2010, from a peak of 55% in 2QFY2009. The Bank added 90 branches (taking the total to 1,506) and 191 ATMs during the quarter. The management had earlier indicated that around 200-250 branch additions are planned for FY2010E.

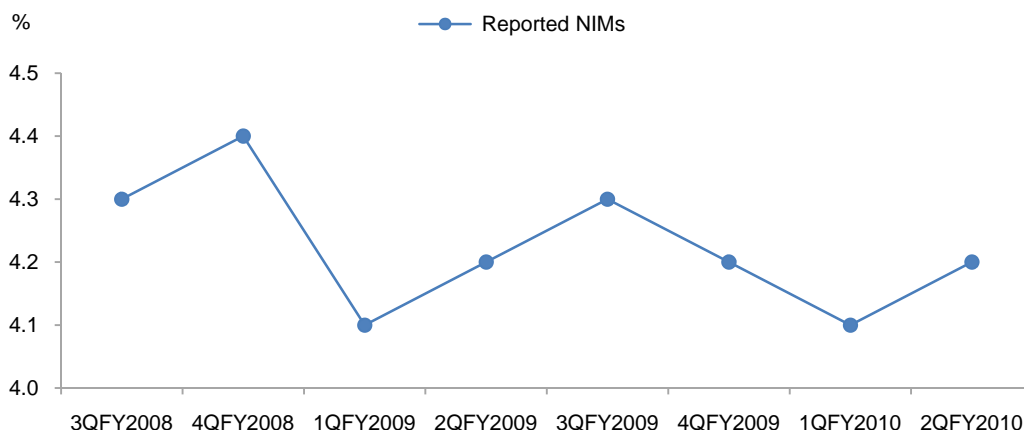
## Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>NII</b>	<b>5,228</b>	<b>7,421</b>	<b>8,347</b>	<b>10,662</b>
% chg	40.9	42.0	12.5	27.7
<b>Net Profit</b>	<b>1,590</b>	<b>2,245</b>	<b>2,928</b>	<b>3,678</b>
% chg	39.3	41.2	30.4	25.6
NIM (%)	4.9	4.9	4.3	4.5
<b>EPS (Rs)</b>	<b>44.9</b>	<b>52.8</b>	<b>64.8</b>	<b>81.4</b>
P/E (x)	37.9	32.3	26.3	20.9
P/ABV (x)	5.3	5.0	3.8	3.4
RoA (%)	1.4	1.4	1.5	1.5
RoE (%)	17.7	17.2	16.7	16.8

Source: Company, Angel Research

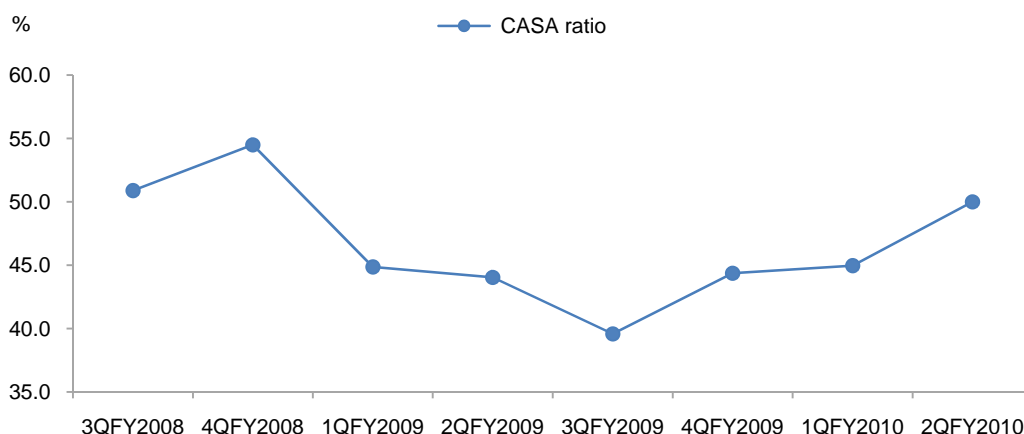
- Robust Asset Quality:** Total restructured assets, including applications received for loan restructuring which were yet to be approved or implemented, were 0.56% of the bank's gross advances at the end of 2QFY2010. Of this, amounts categorised as standard assets were 0.25% of the bank's gross advances. As compared to other private and PSU banks, the magnitude of restructuring has been lower for HDFC Bank, to a large extent on account of its credit mix. Gross NPAs have increased by 21% on a yoy basis; however, on a year-to-date basis, it has increased marginally by 2%, and in fact declined by 6% sequentially. The Gross and Net NPA ratios of the bank stood at 1.76% and 0.5%, respectively. The Bank's total Capital Adequacy (as per Basel 2 guidelines) remained strong at 15.7%, with Tier-I CAR at 10.9%.

**Exhibit 1: Trend in reported NIMs**

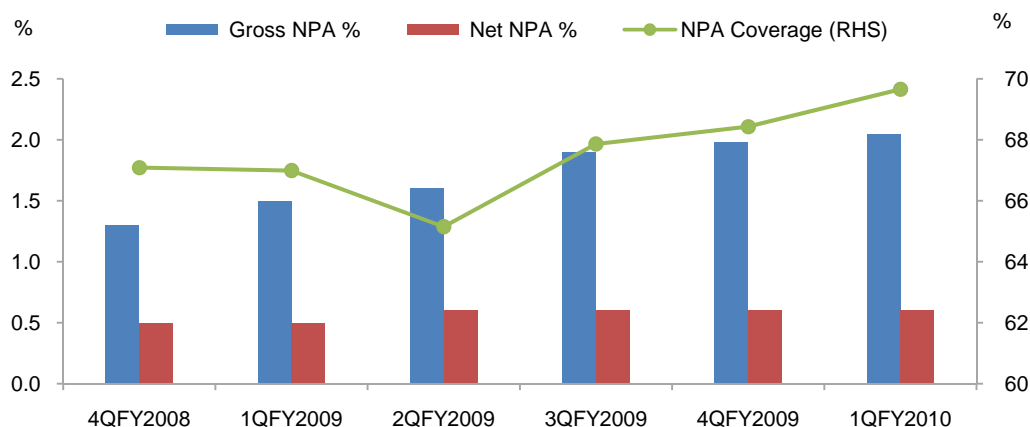


Source: Company, Angel Research

**Exhibit 2: Trend in CASA Ratio**



Source: Company, Angel Research

**Exhibit 3: Trend in Asset quality**


Source: Company, Angel Research

**Exhibit 4: 2QFY2010 Performance**

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	H1FY2010	H1FY2009	% chg
Interest Earned	3,992	3,991	0.0	8,085	7,613	6.2
Interest Expenses	2,036	2,125	(4.2)	4,274	4,023	6.2
<b>Net Interest Income</b>	<b>1,956</b>	<b>1,866</b>	<b>4.8</b>	<b>3,811</b>	<b>3,590</b>	<b>6.2</b>
Non-Interest Income	1,007	643	56.6	2,051	1,237	65.9
Total Income	2,963	2,510	18.1	5,862	4,826	21.5
Operating Expenses	1,370	1,387	(1.2)	2,751	2,676	2.8
Pre-Prov Profit	1,593	1,123	41.9	3,112	2,150	44.7
Provisions & Cont.	594	346	71.7	1,253	691	81.5
PBT	999	777	28.6	1,859	1,460	27.3
Prov. for Taxes	311	249	25.1	565	468	20.9
<b>PAT</b>	<b>687</b>	<b>528</b>	<b>30.2</b>	<b>1,294</b>	<b>992</b>	<b>30.3</b>
EPS (Rs)	16	12	29.5	30	23	29.6
Cost to Income (%)	46.2	55.3		46.9	55.4	
Effective Tax Rate (%)	31.2	32.0		30.4	32.0	
Net NPA (%)	0.5	0.6				

Source: Company, Angel Research

**Outlook and Valuation**

We believe that HDFC Bank is among the most competitive banks in the sector, and is poised to maintain its profitable growth over the long term. With its strong capital adequacy and substantial branch expansion, the Bank is well-placed to take advantage of the imminent revival in GDP growth. We believe that the bank's competitive advantages are set to drive further gains in CASA market share and traction in multiple fee revenue streams, going forward, as the economic environment continues to improve. However, at current valuations, a large part of this growth appears already priced in. At the CMP, the stock is trading at 20.9x its FY2011E EPS of Rs81.4 and 3.4x its FY2011E ABV of Rs505.8. **We maintain an Accumulate on the stock, with a 12-month Target Price of Rs1,770, implying an upside of 4%.**


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**Ratings (Returns) :**
**Buy (Upside > 15%)**
**Reduce (Downside upto 15%)**
**Accumulate (Upside upto 15%)**
**Sell (Downside > 15%)**
**Neutral (5 to -5%)**