

RESULTS REVIEW
Share Data

Market Cap	Rs. 729.3 bn
Price	Rs. 1,706.5
BSE Sensex	16,498.7
Reuters	HDBK.BO
Bloomberg	HDFCB IN
Avg. Volume (52 Week)	0.29 mn
52-Week High/Low	Rs.1,737.3 / Rs.774.0
Shares Outstanding	427.4 mn

Valuation Ratios

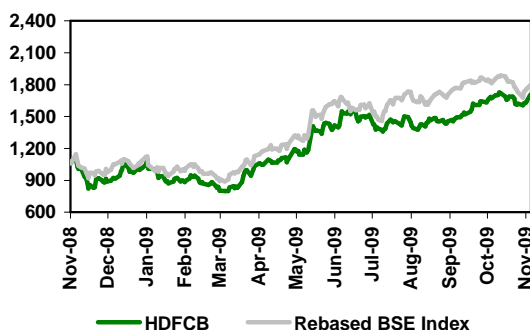
	2010E	2011E
EPS (Rs.)	69.7	85.7
+/- (%)	32.1%	23.0%
PER (x)	24.5x	19.9x
P / PPP (x)	11.5x	9.4x
P / ABV (x)	4.2x	3.6x

Shareholding Pattern (%)

Promoter	19
FII's	28
Institutions	12
Public & Others	40

Holding >1% (Non-Promoter)

Life Insurance Corporation of India	7.47
ICICI Prudential Life Insurance Company Ltd	4.02
Europacific Growth Fund	1.59
IVY Funds Inc Asset Strategy Fund	1.04
JP Morgan Asset Management Europe SARL A/c Flagship Indian Investment Company Mauritius Ltd	1.03

Relative Performance

HDFC Bank
Hold
Pick-up in the retail loans expected in near term

HDFC Bank's Q2'10 net profit at Rs. 6.9 bn, recorded an encouraging growth of 13.4% qoq and 30.2% yoy. During the quarter, the results importantly reported a healthy loan-book growth, improved CASA, stable NIMs, strong fee income growth, and decrease in cost-income ratio. At the current market price (CMP), a large part of this growth appears already priced in. Our DECF valuation suggests a fair value estimate of Rs. 1,738 which provides a potential upside of 2% from the CMP. Further, the stock currently trades at a P/B multiple of ~4.4x, which is in line with its historical average. Hence, we perceive the stock to be fairly valued, and maintain our rating to **Hold**.

NIMs to remain stable: HDFC's NIMs have continued to remain in the range of 4-4.3% over the last 3-4 quarters led by a continuous fall in cost of funds along with an improvement in CASA. Even during the quarter, NIMs were up 10 bps qoq to 4.2%. We do not expect NIMs to fall below this range led by an expected improvement in CASA, keeping in view the recent branch expansion (opened 90 branches in Q2'10), and the expected increase in interest rates due to upcoming monetary tightening.

Comfortable Capital Adequacy: The Bank is well capitalized with a CAR and Tier 1 ratio of 15.7% and 10.9%, respectively, as against the regulatory minimum of 9% and 6%. In addition, warrant conversion by HDFC Ltd. is likely to take place before its expiration in December 2009 which will further bolster the Bank's capital adequacy. A strong capital adequacy will increase the Bank's capability to lend at a higher pace keeping in view the expected betterment of the credit

Key Figures

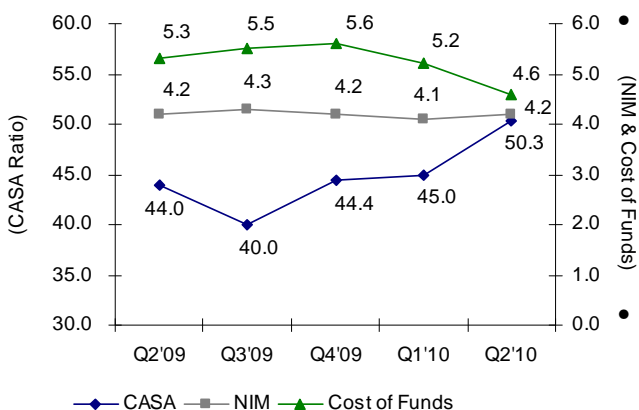
Quarterly Data	Q2'09	Q1'10	Q2'10 YoY %	QoQ%	H1'09	H1'10 YoY %		
(Figures in Rs. mn, except per share data)								
Net Interest Income	18,665	18,556	19,558	4.8%	5.4%	35,899	38,113	6.2%
Net Operating Income	25,096	28,992	29,632	18.1%	2.2%	48,265	58,624	21.5%
Pre-Prov Operating Profit	11,229	15,187	15,930	41.9%	4.9%	21,504	31,117	44.7%
Net Profit	5,280	6,061	6,875	30.2%	13.4%	9,923	12,936	30.4%
Cost to Income Ratio	55.3%	47.6%	46.2%	-	-	55.4%	46.9%	-
NIM	4.2%	4.1%	4.2%	-	-	4.2%	4.2%	-
NPA ratio	0.6%	0.6%	0.5%	-	-	0.6%	0.5%	-
Per Share Data (Rs.)								
PPP per share	26.2	35.3	36.8	40.8%	4.3%	50.3	72.6	44.5%
Diluted EPS	12.3	14.1	15.9	29.3%	12.8%	23.2	30.2	30.2%
BVPS	326.5	368.9	386.1	18.2%	4.7%	326.5	386.1	18.2%

demand in coming quarters. Particularly, we expect a healthy growth in the Bank's retail loan book led by a strong demand for the auto and housing loans. In Oct'09, HDFC disbursed ~ Rs. 30 bn of retail loans.

NPA's unlikely to show strong inclines: The quarter witnessed a sequential decline in the Bank's Gross NPAs (down 6% qoq). As a result, the Bank's gross NPA ratio decreased by 29 bps sequentially and net NPA ratio decreased marginally by 10 bps qoq due to a slight increase in provisioning. We do not expect NPAs to rise from the current levels as we observe slight signs of economic growth revival and improving credit health. Our base case estimate for FY10 assumes a gross NPA ratio of ~2.2%.

Result Highlights

HDFC Bank reported a net profit growth of 30.2% yoy and 13.4% qoq to Rs. 6.9 bn. The profit growth was primarily driven by higher non-interest income, especially treasury and foreign exchange incomes during the quarter. Further, a healthy growth in the fee and commission income and better cost control contributed well to the bottom line upsurge.



- Net Interest Income (NII) recorded a subdued growth of 4.8% yoy and 5.4% qoq to Rs. 19.6 bn, as loan growth stood at 11.2% yoy vs. a 12.0% yoy growth in deposits. However, cost of deposits dipped to 4.6% from 5.3% in Q2'09 and CASA ratio improved from 44.0% in Q2'09 to 50.3% in Q2'10 which provided a push to the NII and NIMs (up 10 bps sequentially to 4.2%).
- The Bank maintained its robust growth in non-interest income which reported an increase of 56.6% yoy to Rs. 10.1 bn mainly due to treasury income of Rs. 1.6 bn.
- Cost control measures taken by the Bank led to a 1.2% yoy decline in operating expenses to Rs. 13.7 bn. This was mainly driven on the back of a 9.4% yoy decrease in the employee costs. Consequently, cost-to-income ratio declined from 55.3% in Q2'09 to 46.2% in Q2'10.
- Gross NPA ratio decreased from 2.1% to 1.8% sequentially. The Net NPA ratio decreased from 0.6% to 0.5% sequentially, due to a slight increase in provisioning. The coverage ratio improved to 70.3% as compared to 69.7% in Q1'10.

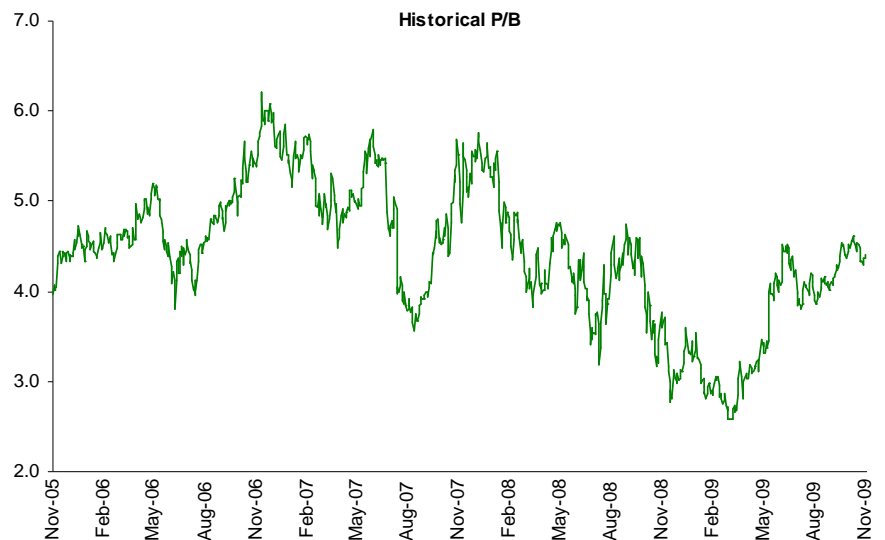
Valuation

We have valued HDFC Bank using the three-stage Discounted Equity Cash Flow model. Our model assumes a cost of equity of 16.16% and a terminal growth of 12.55% which results in a fair value estimate of Rs. 1,738, indicating an upside of 2% over the CMP. Further, the Bank currently trades at a P/B of ~4.4x, which is in line with its historical average. We see limited potential upside from current levels and therefore, maintain the stock to **Hold**.

Sensitivity Analysis of the Fair Value Estimate:

		Sensitivity Analysis				
		Cost of Equity				
Terminal growth		15.86%	16.01%	16.16%	16.31%	16.46%
	12.25%	1,760	1,684	1,615	1,551	1,491
	12.40%	1,830	1,749	1,674	1,605	1,541
	12.55%	1,907	1,819	1,738	1,664	1,595
	12.70%	1,992	1,896	1,808	1,728	1,654
	12.85%	2,084	1,979	1,884	1,797	1,717

Historical P/B average ~4.4x:



Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09	FY10E	FY11E
Interest Income	101,170	163,140	166,920	203,525	Per share data (Rs.)				
Interest Expense	48,874	89,034	89,154	114,819	Shares outstanding (mn)	354	425	427	427
Net Interest Income	52,297	74,107	77,765	88,707	Basic EPS	44.9	52.9	69.7	85.7
YoY Growth (%)	50.8%	41.7%	4.9%	14.1%	Diluted EPS	44.9	52.8	69.7	85.7
Other Income	23,758	34,365	43,294	54,914	Book value per share	325.5	354.8	406.8	471.8
Operating Income	76,054	108,472	121,059	143,621	Adj. book value per share	325.5	354.8	406.8	471.8
YoY Growth (%)	50.8%	42.6%	11.6%	18.6%	Valuation ratios (x)				
Operating Expense	38,264	56,493	57,602	65,975	P/PPP	12.4x	7.9x	11.5x	9.4x
Pre-Provisioning Profit	37,791	51,979	63,458	77,646	P/E	29.4x	18.3x	24.5x	19.9x
Provisions and Contingencies	14,844	18,798	21,750	23,756	P/B	4.1x	2.7x	4.2x	3.6x
Profit Before Tax	22,946	33,181	41,708	53,891	P/ABV	4.1x	2.7x	4.2x	3.6x
Tax	7,020	10,659	11,918	17,245	Performance ratio (%)				
Net Profit	15,927	22,521	29,791	36,646	Return on avg. assets	1.3%	1.3%	1.5%	1.6%
YoY Growth (%)	39.2%	41.4%	32.3%	23.0%	Return on avg. net worth	17.7%	16.9%	18.3%	19.5%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY08	FY09	FY10E	FY11E	Advances to deposits	63.0%	69.4%	72.6%	74.8%
Cash and balances with RBI	148,280	175,372	226,217	226,583	Borrowings to advances	7.1%	2.8%	4.4%	4.1%
Investments	492,880	587,151	611,093	721,767	Investments to assets	37.0%	32.0%	28.8%	28.7%
YoY Growth (%)	61.2%	19.1%	4.1%	18.1%	Investments to deposits	49.0%	41.2%	37.0%	37.0%
Advances	634,269	990,274	1,199,747	1,458,854	Net Worth to assets	8.7%	8.2%	8.2%	8.0%
YoY Growth (%)	35.1%	56.1%	21.2%	21.6%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	11,963	17,323	21,204	24,607	Opt. expense per employee	1.0	1.1	1.1	1.2
Other Assets	44,539	63,908	66,578	81,689	Net profit per employee	0.4	0.4	0.5	0.7
Total Assets	1,331,931	1,834,028	2,124,839	2,513,499	Asset per employee	35.2	34.8	38.9	44.7
Deposits	1,006,314	1,426,448	1,651,604	1,950,721	Operating ratios (%)				
YoY Growth (%)	47.4%	41.7%	15.8%	18.1%	Operating cost to operating income	50.3%	52.1%	47.6%	45.9%
Borrowings	44,789	27,758	52,559	59,111	Operating cost to avg. assets	3.4%	3.6%	2.9%	2.8%
YoY Growth (%)	59.1%	-38.0%	89.3%	12.5%					
Other Liabilities & Provisions	165,477	228,876	246,833	302,053					
Total Liabilities	1,216,579	1,683,082	1,950,995	2,311,885					
Share Capital	3,544	4,254	4,274	4,274					
Reserves & Surplus	111,807	146,691	169,571	197,340					
Total Equity & Liabilities	1,331,931	1,834,028	2,124,839	2,513,499					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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