

January 19, 2012

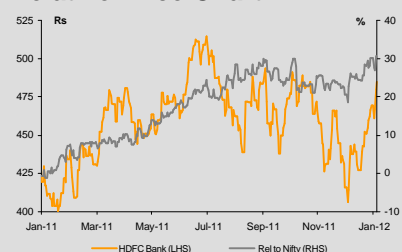
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs485	Rs510
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,018
Sensex	16,644

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	(1)	(2)	17
Rel. to Nifty	6	1	8	32

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	HDFCB@IN
Equity Capital (Rs mn)	4683
Face Value(Rs)	2
No of shares o/s (mn)	2341
52 Week H/L	520/396
Market Cap (Rs bn/USD mn)	1,136/22,546
Daily Avg Volume (No of sh)	3601673
Daily Avg Turnover (US\$m)	32.2

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	23.2	23.2	23.3
FII/NRI	48.1	47.7	47.7
Institutions	10.9	11.0	11.1
Private Corp	8.6	8.9	8.8
Public	9.2	9.3	9.1

Source: Capitaline

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- HDFC Bank's Q3FY12 NII at Rs31.1bn and profit at Rs14.2bn – broadly inline. Strong traction in fee income and forex gains compensated for treasury losses
- Key +ves: 21%+ yoy growth in loans and deposits, flat NIM, improvement in LDR and comfortable asset quality. C/Income remains largely stable despite significant branch addition
- Increasing footprint in tier-III to tier-VI cities aided higher growth in retail loans. Deregulation of SB interest rates has had minimal impact with SA deposits at 30% of total deposits
- Remain positive given superior operating matrix and stable asset quality. Valuations at 3.8/3.2x FY12E/FY13E ABV leave limited room for upside. Maintain HOLD with TP of Rs510

Yet another steady quarter of 30% yoy growth in bottomline

HDFC Bank's Q3FY12 NII at Rs31.1bn and net profit at Rs14.3bn was inline with our estimates. The key highlights during the quarter were a) 21%+ yoy growth in loans and deposits, b) flat NIM at 4.1%, c) sequential improvement in LDR and d) comfortable asset quality and restructured loan portfolio. NII growth at 12% yoy (6% qoq) was aided by healthy loan growth, largely being in the nature of retail loans. Growth in fee income too remained healthy at 20% yoy. NIM at 4.1% remained stable qoq aided by sequential uptick in LDR and stable CASA ratio. With improvement in asset quality, bank passed lower provisioning through the profit and loss. Resultant, net profit at Rs14.3bn was up 31% yoy and 19% qoq.

On the balance sheet front, deposits were up 21.0% yoy and 1.0% qoq. Unlike the previous quarter, a large part of the increase in deposits during Q3FY12 was in form of CASA deposits. **Deregulation of interest rates on savings deposits has had minimal impact on HDFC Banks' savings deposits, which continue to comprise ~30% of total deposits.** During the quarter, balance sheet expanded 34.3% yoy and 6.3% qoq. However, adjusting for other assets and liabilities, balance sheet actually grew 24% yoy and flat sequentially. Investments were up 27% yoy.

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.0	10.4	10.8	11.0	11.3	133	34
Yield on investments*	7.7	7.7	7.8	8.5	8.8	106	26
Yield on assets*	8.4	8.3	8.5	8.9	8.8	48	-8
Cost of funds*	3.9	4.0	4.4	5.0	5.0	109	0
NIM*	4.4	4.3	4.0	3.9	3.8	-62	-9
NIM (Reported)	4.2	4.2	4.2	4.1	4.1	-10	0

Source: Company, Emkay Research

Note: * Calculated on basis of average quarterly balances

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	123,697	29,489	12.9	90.3	1.5	16.3	38.7	5.4
FY2011	148,783	39,270	16.9	105.8	1.6	16.7	29.0	4.6
FY2012E	175,203	51,738	22.0	125.8	1.7	18.5	22.0	3.8
FY2013E	216,034	67,505	28.3	151.4	1.6	20.0	16.9	3.2

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	27,767	28,395	28,480	29,445	31,160	12.2	5.8	89,085	77,037	15.6
Other Income	11,278	12,558	11,200	12,117	14,200	25.9	17.2	37,517	30,794	21.8
<i>Fee Income</i>	9,428	10,006	9,227	9,879	11,276	19.6	14.1	30,382	25,961	17.0
Net Income	39,045	40,952	39,680	41,562	45,360	16.2	9.1	126,602	107,831	17.4
Total Operating Expenses	18,318	19,984	19,346	20,304	21,580	17.8	6.3	61,230	51,546	18.8
<i>As % Of Net Income</i>	46.9	48.8	48.8	48.9	47.6			48.4	47.8	
Employee Expenses	7,251	7,334	7,810	8,231	8,674	19.6	5.4	24,715	21,027	17.5
<i>As % Of Net Income</i>	18.6	17.9	19.7	19.8	19.1			19.5	19.5	
Other Expenses	11,068	12,650	11,536	12,073	12,905	16.6	6.9	36,515	30,519	19.6
<i>As % Of Net Income</i>	28.3	30.9	29.1	29.0	28.5			28.8	28.3	
Operating Profit	20,727	20,969	20,334	21,258	23,780	14.7	11.9	65,372	56,285	16.1
<i>As % Of Net Income</i>	53.1	51.2	51.2	51.1	52.4			51.6	52.2	
Provisions	4,659	4,313	4,437	3,661	3,292	-29.3	-10.1	11,389	14,754	-22.8
PBT	16,068	16,655	15,897	17,598	20,488	27.5	16.4	53,983	41,532	30.0
Total Tax	5,190	5,508	5,047	5,604	6,191	19.3	10.5	16,843	13,415	25.6
Adjusted PAT	10,878	11,147	10,850	11,994	14,297	31.4	19.2	37,141	28,117	32.1
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	10,878	11,147	10,850	11,994	14,297	31.4	19.2	37,141	28,117	32.1
Reported EPS	23.4	24.0	23.2	25.6	30.5	30.3	19.1	79.4	60.8	30.6

Source: Company, Emkay Research

Increasing traction in retail book; Exposure to risky segments now at 11%

A balanced loan book in form of retail and corporate (~50:50 mix) has argued well in the case of HDFC Bank. During Q3FY12, loan growth at 22% yoy and 3% qoq was largely led by growth in retail loans. Retail book during the quarter expanded 30% yoy and 8% qoq and constituted 52% of the total loan portfolio. Amongst retail, growth was witnessed across the segments of: CV/CE (up 44% yoy and 11% qoq), Business banking (up 29% yoy), home loans (up 20% yoy) and credit cards (up 42% yoy). HDFC Bank continues to enjoy healthy market share in auto financing space (41% of retail loans). On a sequential basis, corporate loan declined 2% as the management consciously shed its low yielding corporate loans. On a yoy basis, the corporate book has witnessed 15% yoy growth rate.

On the flip side, exposure to risky segments of personal loans + loans against securities and credit cards now form 11% of total loans. However, strong credit appraisal mechanism and effective recovery in place has ensured comfortable asset quality.

Advances mix – Increasing share of retail loans

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Retail loans	775	801	839	929	1,003	29.5	8.0	51.6
Wholesale loans	817	799	917	956	940	15.0	-1.7	48.4
Total	1,592	1,600	1,755	1,885	1,943	22.1	3.1	100

Source: Company, Emkay Research

Retail advances mix – Largely towards secured loans

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Auto Loans	222	221	232	246	258	16.2	4.7	25.7
Personal Loans	98	103	110	120	131	33.3	9.2	13.1
CVs	87	82	91	113	126	44.1	11.1	12.6
Loan Against Securities	12	12	11	10	10	-11.0	5.5	1.0
2-Wheelers	19	20	21	22	24	24.3	10.7	2.4
Business Banking	134	150	154	168	174	29.1	3.0	17.3
Credit Cards	46	49	54	59	65	41.8	10.3	6.4
Home loans	109	115	110	123	131	20.1	6.4	13.1
Others	47	50	56	67	85	80.4	26.2	8.5
Total	775	801	839	929	1,003	29.5	8.0	100.0

Source: Company, Emkay Research

Improving footprint, cost / income yet remains reasonable...

Over the past 4-quarters, HDFC Bank has added 421 new branches or 19% of the existing network. It has also added ~2,000ATMs over the same period. Interestingly, despite increasing foot print, its cost-to-income ratio has remained stable at 47%-49% with corresponding increase in advances per branch. A higher ATM network would entitle bank to earn higher fee income via cross-banking transactions.

Trend in branch addition and its impact on Cost/income ratio, advances / deposits and CASA per branch

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Cost / Income ratio (%)	46.9	48.8	48.8	48.9	47.6
Branches (nos)	1,780	1,986	2,111	2,150	2,201
ATM's (nos)	5,121	5,471	5,998	6,520	7,110
Advances per branch (Rs mn)	894	806	831	877	883
Deposits per branch (Rs mn)	1,080	1,050	1,000	1,073	1,056
CASA deposits per branch (Rs mn)	545	553	491	508	522
- SA deposits per branch (Rs mn)	343	319	307	321	320

Source: Company, Emkay Research

... and has aided higher share of CASA deposits, particularly SA deposits

During Q3FY12, the sequential growth in total deposits was largely aided by higher share of CASA deposits. Adjusting for one-off items in current deposits, CASA deposit formed 48% of total deposits. Penetration into new areas and more into tier-II and smaller cities has aided increasing share of retail loan portfolio and CASA deposits. The bank has been adding an average of ~0.6mn CASA accounts per quarter. Further, while there has been migration of savings deposits to term deposits given higher interest rates, we do not expect any material change in deposit mix. Also, despite deregulation of savings rate, SA deposits formed healthy 30% of total deposits. During the quarter, the bank has also consciously shed ~Rs50-60bn of wholesale deposits / CD's. It also ran-off some of its short term corporate bond portfolio. Following RBI regulation, the bank has recently raised its NRE deposits. We however expect minimal impact on cost of deposits, as yields on NRE deposits are inline with domestic term deposits rates.

Deposit breakdown –CASA share continues to remain constant at 47%+ levels

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	360	465	388	402	446	23.7	11.0
Saving	610	634	648	690	703	15.2	1.9
CASA	971	1,099	1,036	1,092	1,149	18.4	5.2
Term deposits	951	987	1,076	1,215	1,176	23.6	-3.2
Total Deposits	1,922	2,086	2,112	2,307	2,325	21.0	0.8
CASA (%)	50.5	52.7	49.1	47.3	49.4	-108	209

Source: Company, Emkay Research

Festive season and forex transactions lifted non-interest income

Other income at Rs14.2bn was up 26% yoy (17% qoq). Against the average growth rate of 14-18% yoy in fee income, Q3FY12 fee income at Rs11.3bn was up 20% yoy (14% qoq). The management attributed festive season as one of the reason for higher fee income. Also currency movement attributed for higher forex gains. Trading losses at Rs818mn were largely towards bond portfolio and for shorter tenure bonds. The share of non-int income to total income improved to 31% against 29% in Q2FY12 and Q3FY11 each.

Trend in non-interest income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Fee/Commission income	9,428	10,006	9,227	9,879	11,276	19.6	14.1	30,382	25,961	17.0
Trading gains/(losses)	-307	86	-413	-13	-818	-	-	-1,244	-613	102.9
Others	2,168	2,466	2,301	2,180	3,656	68.6	67.7	8,137	5,444	49.5
Total	11,278	12,558	11,200	12,117	14,200	25.9	17.2	37,517	30,794	21.8

Source: Company, Emkay Research

Asset quality remains comfortable; LLP at mere 60bps a bit worrisome

Despite higher share of retail advances (~50% of loan portfolio), HDFC Bank has been operating on comfortable asset quality for past several quarters. GNPA / NNPA at Rs20.2bn /Rs3.9bn respectively continue to remain lowest in the private banking space. The bank has not witnessed any major slippages across industries and expects asset quality to remain largely stable at 1% GNPA levels. Restructured loan portfolio stands at 0.4% of gross advances. However, in our view, a mere 60bps of credit cost is a bit worrisome. This is against its average credit cost at 150bps over FY07-11.

Asset quality

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPAs	17,818	16,943	18,331	18,949	20,206	13.4	6.6
Net NPAs	3,307	2,964	3,185	3,553	3,980	20.3	12.0
Gross NPAs (%)	1.1	1.1	1.0	1.0	1.0		
Net NPAs (%)	0.2	0.2	0.2	0.2	0.2		
Net NPAs/Net worth (%)	1.3	1.2	1.2	1.3	1.3		
Provision cover (%)	81.4	82.5	82.6	81.3	80.3		

Source: Company, Emkay Research

Well capitalized; Maintain HOLD with target price of Rs510

HDFC Bank continues to operate with healthy capital. Q3FY12 CAR stood at 16.3% including Tier I CAR of 11.2%. We expect HDFC bank to report 23% CAGR in loan portfolio and balance sheet over FY11-13E. We drive comfort in the bank given a) superior operating matrix b) stable asset quality c) healthy capital and d) decent return ratios. However, current valuations at 3.8x FY12E and 3.2x FY13E ABV leave limited room for upside. Maintain HOLD rating with TP of Rs510.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	83,866	105,431	125,912	154,818
Other income	39,831	43,352	49,291	61,216
Net income	123,697	148,783	175,203	216,034
Operating expenses	59,398	71,529	82,661	100,017
Pre provision profit	64,299	77,254	92,542	116,017
PPP excl treasury	67,780	76,417	91,705	115,180
Provisions	21,406	19,061	16,456	16,744
Profit before tax	42,893	58,193	76,086	99,273
Tax	13,404	18,923	24,348	31,767
Tax rate	31.3%	32.5%	32.0%	32.0%
Profit after tax	29,489	39,270	51,738	67,505

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	4.1	4.2	4.0	4.1
Non-ll/avg assets	2.0	1.7	1.6	1.6
Fee income/avg assets	2.7	2.6	2.4	2.4
Opex/avg assets	2.9	2.9	2.7	2.6
Provisions/avg assets	1.7	0.53	0.67	0.55
PBT/avg assets	2.4	2.3	2.4	2.6
Tax/avg assets	0.8	0.8	0.8	0.8
RoA	1.5	1.6	1.7	1.6
RoAE	16.3	16.7	18.5	20.0
GNPA (%)	1.4	1.1	0.9	0.7
NNPA (%)	0.3	0.2	0.2	0.2

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	4,577	4,652	4,714	4,775
Reserves	210,648	249,140	299,900	366,141
Net worth	215,225	253,793	304,614	370,917
Deposits	1,674,044	2,085,864	2,709,328	3,378,625
Borrowings	336,300	434,631	431,112	442,625
Total liabilities	2,225,569	2,774,288	3,445,053	4,192,167
Assets				
Cash and bank	299,424	296,688	267,319	366,413
Investments	574,683	703,946	984,316	1,192,089
Customer assets	1,269,699	1,605,174	2,008,314	2,439,458
Others	81,763	168,479	185,104	194,207
Total assets	2,225,569	2,774,288	3,445,053	4,192,167

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	29,489	39,270	51,738	67,505
Shares in issue (mn)	2,289	2,326	2,357	2,388
EPS (Rs)	12.9	16.9	22.0	28.3
PER (x)	37.6	28.7	22.0	17.1
FDEPS(Rs)	12.5	16.7	22.0	28.6
FDPER (x)	38.7	29.0	22.0	16.9
Book value (Rs)	92.0	107.1	127.2	153.3
P/BV (x)	5.3	4.5	3.8	3.2
Adj book value (Rs)	90.3	105.8	125.8	151.4
P/ABV (x)	5.4	4.6	3.8	3.2
P/PPP (x)	17.2	14.6	12.3	10.0
Dividend yield (%)	0.5	0.7	0.5	0.5

Recommendation History: HDFC Bank – HDFCB IN

Date	Reports	Reco	CMP	Target
19/10/2011	HDFC Bank Q2FY12 Result Update	Hold	491	510
19/07/2011	HDFC Bank Q1FY12 Result Update	Hold	511	510
18/04/2011	HDFC Bank Q4FY11 Result Update	Hold	2,316	2,530
28/01/2011	HDFC Bank Q3FY11 Result Update	Hold	2,052	2,100

Recent Research Reports

Date	Reports	Reco	CMP	Target
16/01/2012	Banking Sector Update			
16/01/2012	Dewan Housing Q3FY12 Result Update	Buy	205	275
16/01/2012	South Indian Bank Q3FY12 Result Update	Hold	23	25
12/01/2012	HDFC Q3FY12 Result Update	Hold	688	700

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