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Rating	Accumulate
Price	Rs487
Target Price	Rs510
Implied Upside	4.7%
Sensex	16,644
Nifty	5,018

(Prices as on January 19, 2012)
Trading data

Market Cap. (Rs bn)	1,132.4
Shares o/s (m)	2,326.1
3M Avg. Daily value (Rs m)	1728.7

Major shareholders

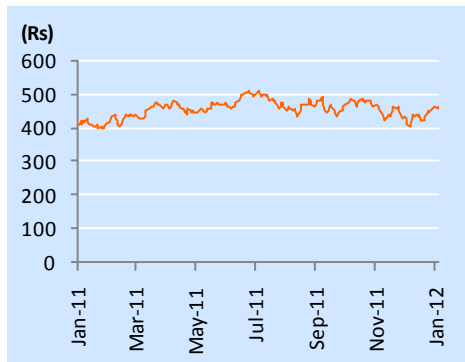
Promoters	23.20%
Foreign	29.67%
Domestic Inst.	10.87%
Public & Other	36.26%

Stock Performance

(%)	1M	6M	12M
Absolute	19.9	(4.7)	17.3
Relative	11.7	6.1	29.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	27.5	25.2	8.9
2014	33.2	NA	NA

Price Performance (RIC:HDBK.BO, BB:HDFCB IN)


Source: Bloomberg

HDFC Bank (HDFCB) continues to deliver consistent +30% PAT growth, with robust asset quality trend. Strong ROA improvement has aided HDFCB to deliver +30% PAT growth despite ~25% b/s growth over FY10-12. Though growth could remain <22-23% in FY13, HDFCB could potentially deliver +30% PAT growth with possible margin improvement and credit costs levers. We have increased our earnings by 2-3% and PT to Rs510/share and maintain our 'Accumulate' rating. We prefer HDFCB over Kotak Bank among defensives as we expect relatively better ROA resilience for HDFCB in a normalised credit cost scenario.

- Growth and margins stable:** Retail segment aided ~22% YoY growth, with HDFCB paring down growth (2% sequential contraction) in the bulk corporate book due to low spreads. Repricing and high proportion of retail-lending aided yields. With the rate cycle likely to reverse, we expect marginal improvement in margins, though management expects limited margin impact.
- Robust asset quality trend continues:** Slippages have remained stable sequentially and management is not seeing any significant stress points even now. Given low NPA accretion over the last 7-8 qtrs, management expects lower recoveries/write-offs, going forward, which could lead to marginally higher net accretion to NPAs; however they do not see any material negative surprises in the near term. HDFCB added ~Rs0.7bn to their floating provision book (~Rs11bn currently) which will provide a huge cushion when the cycle turns.
- Room for further ROA improvement:** With loan growth expected to remain <22-23% in FY13, delivering +30% PAT growth would be contingent on further ROA improvement (already at 1.9% in Q3FY12). Though we factor in ~25% PAT growth in FY13, we believe margin improvement due to falling rates and potential credit costs levers (floating provisions of Rs10.7bn) could aid +30% PAT growth even in FY13.

Key financials (Y/e March)

	2011	2012E	2013E	2014E
Net interest income (Rs m)	105,431	121,469	148,875	178,080
Growth (%)	25.7	15.2	22.6	19.6
Operating profit (Rs m)	77,254	90,088	114,046	139,605
PAT (Rs m)	39,264	51,492	63,858	77,299
EPS (Rs)	16.9	22.1	27.5	33.2
Growth (%)	—	31.1	24.0	21.0
Net DPS (Rs)	3.3	4.3	5.4	5.6

Profitability & Valuation

	2011	2012E	2013E	2014E
NIM (%)	4.22	3.96	4.03	3.98
RoAE (%)	16.7	18.8	20.1	20.7
RoAA (%)	1.57	1.68	1.73	1.73
P / BV (x)	4.5	3.9	3.3	2.8
P / ABV (x)	4.5	3.9	3.3	2.8
PE (x)	28.8	22.0	17.7	14.6
Net dividend yield (%)	0.7	0.9	1.1	1.1

Source: Company Data; PL Research

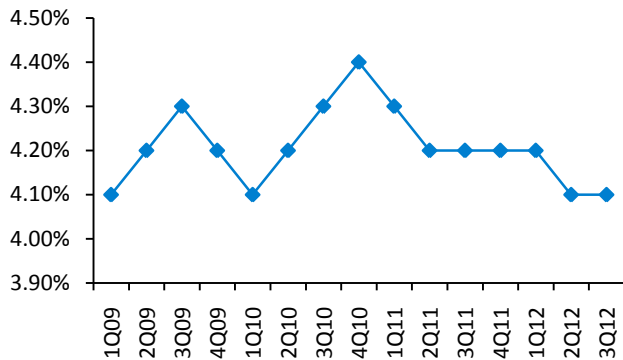
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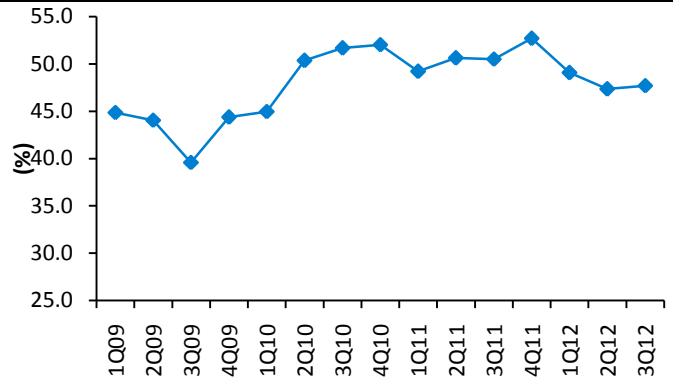
Exhibit 1: Q3FY12 Financials

	3Q11	2Q12	3Q12	YoY	QoQ	
<i>NII and yields aided by growth in retail loans</i>	Interest income	52,300	67,177	72,026	37.7%	7.2%
	Interest expenses	24,533	37,732	40,867	66.6%	8.3%
	Net interest income	27,767	29,445	31,160	12.2%	5.8%
	Non-interest income	11,278	12,117	14,200	25.9%	17.2%
	Operating expenses	18,318	20,304	21,580	17.8%	6.3%
	Pre prov profit	20,727	21,258	23,780	14.7%	11.9%
	Provisions	4,659	3,661	3,292	-29.3%	-10.1%
	Profit before tax	16,068	17,598	20,488	27.5%	16.4%
<i>~1-2% above trend growth in fees income helped by one-off activities in the forex market and festivities-related products, namely bullions and cars</i>	Provision for tax	5,190	5,604	6,191	19.3%	10.5%
	Profit after tax	10,878	11,994	14,297	31.4%	19.2%
	NIMs	4.20%	4.10%	4.10%	-0.1%	0.0%
	NII / GII	53.1%	43.8%	43.3%	-9.8%	-0.6%
	Cost - Income	46.9%	48.9%	47.6%	0.7%	-1.3%
	Prov / PPP	22.5%	17.2%	13.8%	-8.6%	-3.4%
	Tax rate	32.3%	31.8%	30.2%	-2.1%	-1.6%
	Balance sheet data					
<i>Run-off of lower yield corporate loans, and retail loan filling the gap, keeps NIM stable</i>	Advances	1,591,836	1,885,022	1,943,027	22.1%	3.1%
	Deposits	1,922,016	2,306,764	2,325,082	21.0%	0.8%
	Credit to Deposit	82.8%	81.7%	83.6%	0.7%	1.9%
	Asset Quality					
	Gross NPA	17,818	18,949	20,206	13.4%	6.6%
	Net NPA	3,307	3,553	3,980	20.3%	12.0%
	Gross NPA (%)	1.11	1.00	1.03	-0.08	0.03
	Net NPA(%)	0.20	0.20	0.20	0.00	0.00
	CASA Ratio	50.5	47.3	47.7	-2.80	0.37
	Tier-1	12.1%	11.5%	11.2%	-0.9%	-0.3%
	CAR	16.3%	16.5%	16.3%	0.0%	-0.2%

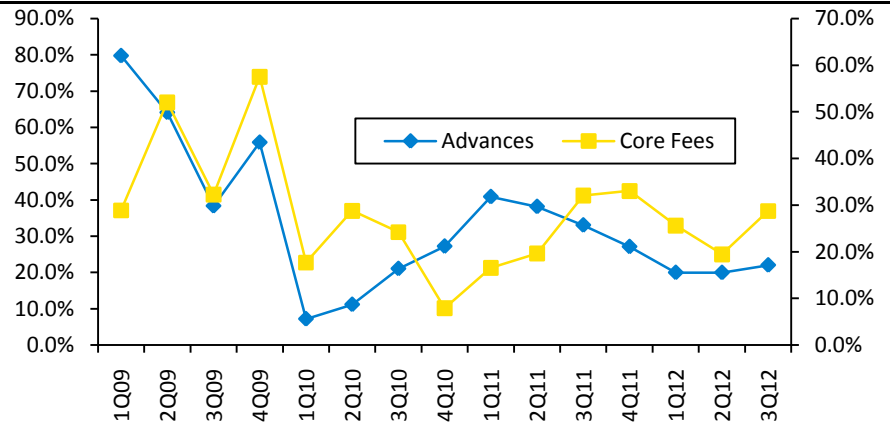
Source: Company Data, PL Research

Exhibit 2: Margins stable QoQ at ~4.1% levels


Source: Company Data, PL Research

Exhibit 3: CASA levels remain stable


Source: Company Data, PL Research

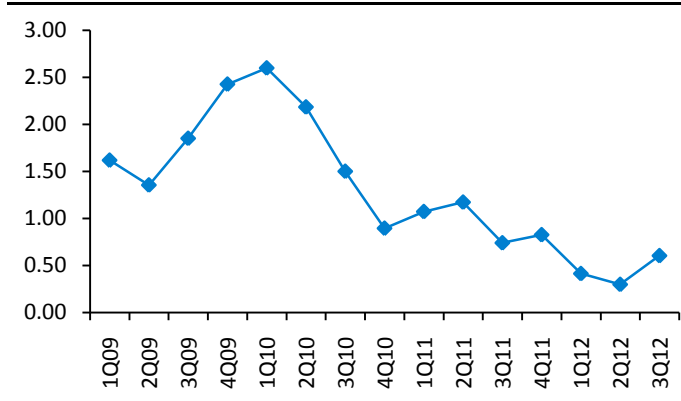
Exhibit 4: Advances and fees growth hitting the stable growth trajectory


Source: Company Data, PL Research

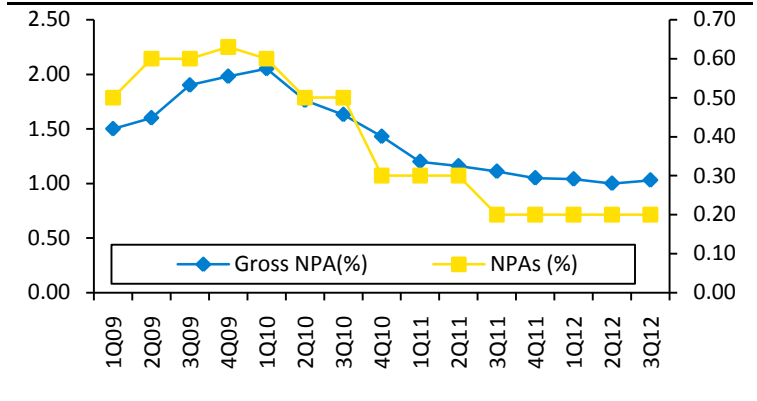
Exhibit 5: A well-spread out growth in retail makes up for sequential fall in corporate loans

(Rs m)	3Q11	2Q12	3Q12	YoY gr.	QoQ gr.
Car Loans	221,670	246,060	257,620	16.2%	4.7%
2 wheeler loans	19,350	21,730	24,050	24.3%	10.7%
CV/CE Loans	87,480	113,480	126,040	44.1%	11.1%
Total Auto loans	328,500	381,270	407,710	24.1%	6.9%
Personal loans	98,330	120,040	131,120	33.3%	9.2%
Credit Cards	45,540	58,550	64,590	41.8%	10.3%
SME	134,430	168,470	173,580	29.1%	3.0%
Home Loans	109,330	123,440	131,280	20.1%	6.4%
LASS	11,620	9,800	10,340	-11.0%	5.5%
Other Retail	47,040	67,210	84,850	80.4%	26.2%
Retail Total	774,790	928,780	1,003,470	29.5%	8.0%
Non-Retail Loans	831,400	973,239	957,078	15.1%	-1.7%
Total Loan book	1,606,190	1,902,019	1,960,548	22.1%	3.1%

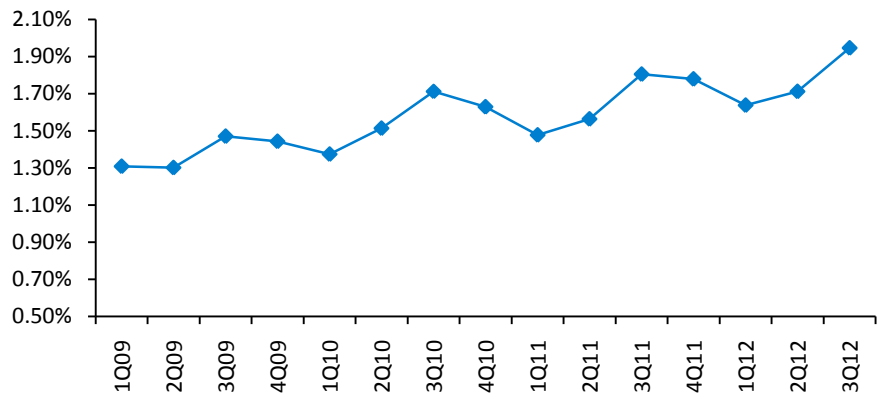
Source: Company Data, PL Research

Exhibit 6: Credit costs remain below expected trend levels


Source: Company Data, PL Research

Exhibit 7: Stable asset quality continues


Source: Company Data, PL Research

Exhibit 8: ROAs have steadily been trending up (~30bps accretion over last 2-3 yrs)


Source: Company Data, PL Research

Exhibit 9: Qtrly ROA tree – Return ratios seeing a steady improvement

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Net Interest Income/Assets	4.37%	4.33%	4.60%	4.53%	4.30%	4.20%	4.24%
Fees/Assets	1.67%	1.74%	1.92%	1.99%	1.75%	1.73%	2.04%
Investment profits/Assets	0.04%	-0.09%	-0.05%	0.01%	-0.06%	0.00%	-0.11%
Net revenues/Assets	6.08%	5.97%	6.47%	6.54%	5.99%	5.93%	6.17%
Operating Expense/Assets	-2.90%	-2.88%	-3.04%	-3.19%	-2.92%	-2.90%	-2.94%
Provisions/Assets	-1.01%	-0.78%	-0.77%	-0.69%	-0.67%	-0.52%	-0.45%
Taxes/Assets	-0.70%	-0.75%	-0.86%	-0.88%	-0.76%	-0.80%	-0.84%
Total Costs/Assets	-4.60%	-4.41%	-4.67%	-4.76%	-4.35%	-4.22%	-4.23%
ROA	1.48%	1.56%	1.80%	1.78%	1.64%	1.71%	1.95%
Equity/Assets	10.0%	9.9%	10.1%	10.1%	9.8%	9.7%	9.8%
ROE	14.7%	15.8%	17.8%	17.7%	16.7%	17.6%	19.9%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Int. Earned from Adv.	150,850	205,718	249,427	302,708
Int. Earned from Inv.	46,754	64,947	78,636	93,006
Others	1,678	2,959	3,049	3,137
Total Interest Income	199,282	273,624	331,112	398,851
Interest expense	93,851	152,155	182,237	220,771
NII	105,431	121,469	148,875	178,080
Growth (%)	25.7	15.2	22.6	19.6
Treasury Income	(534)	—	3,000	3,500
NTNII	43,886	52,540	64,133	79,577
Non Interest Income	43,352	52,540	67,133	83,077
Total Income	242,634	326,163	398,245	481,928
Growth (%)	21.4	34.4	22.1	21.0
Operating Expense	71,529	83,920	101,962	121,552
Operating Profit	77,254	90,088	114,046	139,605
Growth (%)	20.2	16.6	26.6	22.4
NPA Provisions	14,430	6,861	19,534	24,975
Investment Provisions	—	—	—	—
Total Provisions	19,061	14,917	20,822	26,760
PBT	58,193	75,171	93,224	112,845
Tax Provisions	18,929	23,679	29,365	35,546
Effective Tax Rate (%)	32.5	31.5	31.5	31.5
PAT	39,264	51,492	63,858	77,299
Growth (%)	33.1	31.1	24.0	21.0

Balance Sheet (Rs m)

Y/e March	2011	2012E	2013E	2014E
Par Value	2	2	2	2
No. of equity shares	2,326	2,326	2,326	2,326
Equity	4,652	4,652	4,652	4,652
Networth	253,793	293,507	342,759	404,906
Adj. Networth	250,829	290,160	338,074	397,973
Deposits	2,085,864	2,471,922	3,013,239	3,773,646
Growth (%)	24.6	18.5	21.9	25.2
Low Cost deposits	1,099,083	1,161,804	1,440,328	1,815,124
% of total deposits	52.7	47.0	47.8	48.1
Total Liabilities	2,773,517	3,363,074	4,021,711	4,931,700
Net Advances	1,599,827	1,951,788	2,381,182	2,976,477
Growth (%)	27.1	22.0	22.0	25.0
Investments	709,293	859,178	1,000,355	1,198,375
Total Assets	2,773,517	3,363,074	4,021,711	4,931,700

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Interest Income	54,686	59,780	67,177	72,026
Interest Expense	26,291	31,300	37,732	40,867
Net Interest Income	28,395	28,480	29,445	31,160
Non Interest Income	12,558	11,200	12,117	14,200
CEB	12,460	11,528	12,059	14,932
Treasury	86	(413)	(13)	(818)
Net Total Income	40,952	39,680	41,562	45,360
Operating Expenses	19,984	19,346	20,304	21,580
Employee Expenses	7,334	7,810	8,231	8,674
Other Expenses	12,650	11,536	12,073	12,905
Operating Profit	20,969	20,334	21,258	23,780
Core Operating Profit	20,883	20,747	21,271	24,598
Provisions	4,313	4,437	3,661	3,292
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	16,655	15,897	17,598	20,488
Tax	5,508	5,047	5,604	6,191
PAT before EO	11,147	10,850	11,994	14,297
Extraordinary item	—	—	—	—
PAT	11,147	10,850	11,994	14,297

Key Ratios

Y/e March	2011	2012E	2013E	2014E
CMP (Rs)	487	487	487	487
Equity Shrs. Os. (m)	2,326	2,326	2,326	2,326
Market Cap (Rs m)	1,132,358	1,132,358	1,132,358	1,132,358
M/Cap to AUM (%)	40.8	33.7	28.2	23.0
EPS (Rs)	16.9	22.1	27.5	33.2
Book Value (Rs)	109	126	147	174
Adj. BV (75%) (Rs)	108	125	146	172
P/E (x)	28.8	22.0	17.7	14.6
P/BV (x)	4.5	3.9	3.3	2.8
P/ABV (x)	4.5	3.9	3.3	2.8
DPS (Rs)	3.3	4.3	5.4	5.6
Dividend Yield (%)	0.7	0.9	1.1	1.1

Profitability (%)

Y/e March	2011	2012E	2013E	2014E
NIM	4.2	4.0	4.0	4.0
RoAA	1.6	1.7	1.7	1.7
RoAE	16.7	18.8	20.1	20.7

Efficiency

Y/e March	2011	2012E	2013E	2014E
Cost-Income Ratio (%)	48.1	48.2	47.2	46.5
C-D Ratio (%)	76.7	79.0	79.0	78.9
Business per Emp. (Rs m)	66	69	73	80
Profit per Emp. (Rs m)	7	8	9	9
Business per Branch (Rs m)	1,856	1,937	2,054	2,235
Profit per Branch (Rs m)	20	23	24	26

Asset Quality

Y/e March	2011	2012E	2013E	2014E
Gross NPAs (Rs m)	16,943	19,687	27,559	40,782
Net NPAs (Rs m)	2,964	3,347	4,685	6,933
Gr. NPAs to Gross Adv. (%)	1.1	1.0	1.2	1.4
Net NPAs to Net Adv. (%)	0.2	0.2	0.2	0.2
NPA Coverage (%)	82.5	83.0	83.0	83.0

Source: Company Data, PL Research.

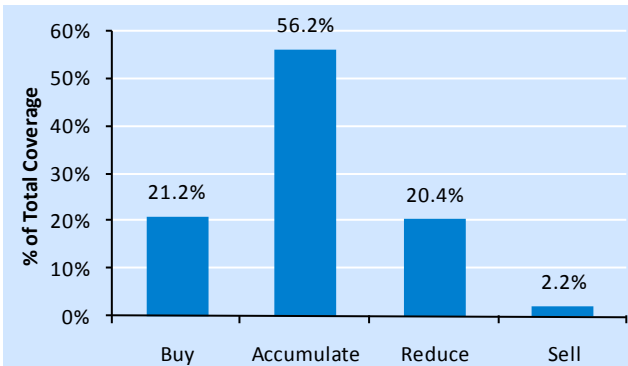


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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