HDFC Bank

"BUY "
8th Apr,2015

Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Result update	BUY
CMP	1157
Target Price	1320
Previous Target Price	1100
Upside	14
Change from Previous	20

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	1109/707
Mkt Capital (Rs Cr)	205091
Average Daily Volume	1620809
Nifty	8571

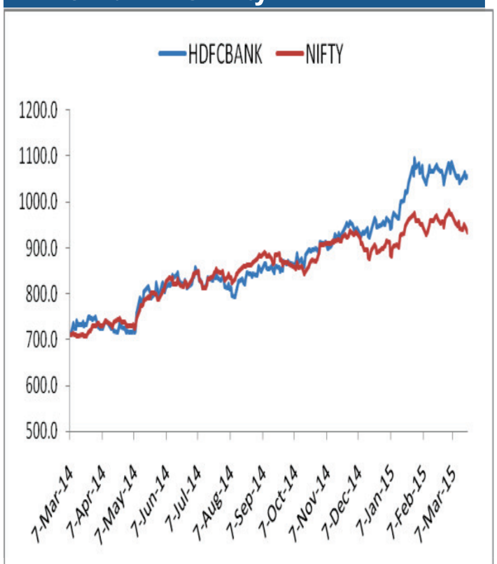
Stock Performance

	1M	1yr	YTD
Absolute	-1.0	48.4	48.4
Rel.to Nifty	1.1	17.1	17.1

Share Holding Pattern-%

	Current	4QFY13	3QFY1
Promoters	22.6	22.7	22.7
FII	34.1	34.9	33.6
DII	9.9	9.3	9.9
Others	33.4	33.1	33.8

HDFC Bank Vs Nifty



HDFC Bank is one of most preferred stock in our banking universe. Although it is trading at the highest valuation among all banking stocks which are covered by us but still we believe that the current level is well justified. Presently bank is trading at 4+ times FY16E book value which is obvious in our sense as its peers are struggling for improving asset quality and progressive return ratio while bank keep itself distinguish with sustainable superior return ratio and almost negligible asset quality. We have increased our target price to Rs.1320/share which would be 4.5 times of one year forward book.

Tremendous wealth creator in last 10 years on the back of impressive loan growth

HDFC Bank's typically runs with 50:50 exposures in retail and corporate and has shorter duration and non project loan book that provide relatively safer and better yield. Over the last two years i.e. from FY10 to FT14, bank's profitability was grown by 28% CAGR while its loan asset has grown by 25% of CAGR. In past 10 years bank's book value has grown by 25% of CAGR which is very impressive and created tremendous wealth to the shareholders. We believe that bank would work in similar growth trend and exhibit superior return ratio in coming years. Although we have make very conservative approach while considering loan book and assume loan growth of 18% CAGR over FY14-16.

HDFC Bank would be well protected from being trapped in slippage due to superior quality book

From past few days, HDFC Bank has corrected and now giving good opportunity for investor to add the stock in their portfolio. There may be some pressure in economy for next one year more where restructure pool and slippages could be seen. In that case banking stocks would face higher credit cost and resultant of poorer earnings. We believe that banks with lower credit cost and superior book would have edge in that context. In previous quarter result bank had credit cost of 46 bps and restructure book was 0.1% of loan which give us sense that bank is well protected from possible delinquencies.

Quarterly highlights

In December quarter bank's profitability was grown by 20% YoY on the back of healthy loan growth of 22% and margin expansion of 22 bps YoY. Operating performance was remained robust with NII grew by 23% and fee income grew by 18%. Asset quality was remained stable with GNPA and net NPA at 0.99% and 0.26% with PCR at 74%. Bank is well capitalized with CAR at 15.7% in which tier 1 at 11.9%. Management guided loan growth of 4-5% higher than industry average while NIM would be stable at current level. As per management CI ratio to remain at 44-45% and credit cost is likely to be 50-60 bps.

Financials Rs, Cr

	2011	2012	2013	2014	2015E
NII	10543	12885	15811	18483	22145
Total Income	14878	18668	22664	26402	31189
PPP	7725	9391	11428	14360	17542
Net Profit	3926	5167	6726	8478	10305
EPS	84.4	22.0	28.7	35.3	42.8

(Source: Company/Eastwind)

HDFC BANK

P/L	2013	2014	2015E	2016E
Interest/discount on advances / bills	26822	31687	37324	44121
Income on investments	7820	9037	10284	12802
Interest on balances with Reserve Bank of India	282	356	547	695
Others	141	56	81	123
Total Interest Income	35065	41136	48235	57740
Others Income	6853	7920	9044	11620
Total Income	41917	49055	57278	69360
Interest Expended	19254	22653	26089	31188
NII	15811	18483	22145	26553
NII Growth(%)	22.7	16.9	19.8	19.9
Other Income	6853	7920	9044	11620
Total Income	22664	26402	31189	38173
Total Income Growth(%)	21.4	16.5	18.1	22.4
Employee	3965	4179	4656	5729
Other Expenses	7271	7863	8992	10640
Operating Expenses	11236	12042	13647	16369
PPP(Rs Cr)	11428	14360	17542	21803
Provisions(Incl tax provision)	1388	1588	2035	2387
Net Profit	6726	8479	10305	13009
Net Profit Growth(%)	30.2	26.1	21.5	26.2
Equity Capital	476	480	483	483
Reserve & Surplus	35,738	42,999	45,566	63,243
Net Worth	36,214	43,479	46,048	63,726
Deposits	296,247	367,337	433,458	511,481
Borrowings	33,007	39,439	45,906	60,006
Other Liabilities & Provisions	34,864	41,344	35,517	20,167
Total Liability	400,332	491,600	560,929	655,380
Cash in hand & balance with RBI	14,627	25,346	21,961	26,181
Money at Call	12,653	14,238	12,620	16,639
Investment	111,614	120,951	143,809	152,323
Loan	239,721	303,000	357,540	421,898
Fixed Assets	2,703	2,940	3,072	4,051
Others Assets	19,014	25,125	28,762	34,289
Total Assets	400,332	491,600	567,765	655,380
Eastwind Calculation				
Yield on Advances	11.2	11.7	11.3	11.3
Yield on Investments	7.0	7.5	7.2	8.4
Yield on Funds	9.3	9.7	9.6	10.1
Cost of deposits	6.0	6.2	6.0	6.1
Cost of Borrowings	8.9	9.1	9.0	9.0
Valuation				
Book Value	152.2	181.2	219.6	264.7
P/BV	4.1	4.3	4.9	4.1
P/E	22.1	22.0	25.2	20.0

Source: Eastwind/ Company