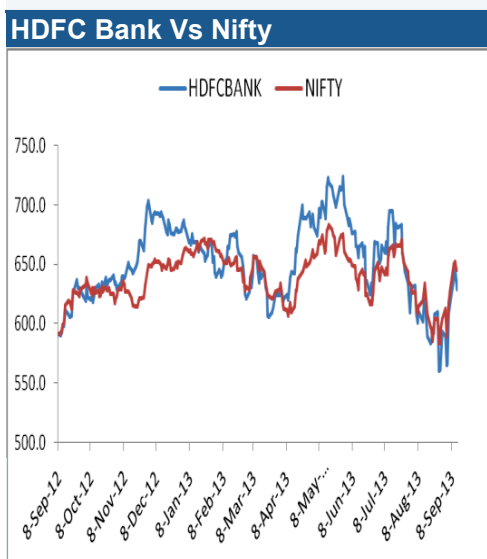


Result update	BUY
CMP	629
Target Price	735
Previous Target Price	735
Upside	17
Change from Previous	-

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	727/528
Mkt Capital (Rs Cr)	153376
Average Daily Volume	646
Nifty	5851

Stock Performance			
	1M	1yr	YTD
Absolute	1.5	6.4	6.4
Rel.to Nifty	-1.2	-2.8	-2.8

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	22.7	22.8	22.9
FII	34.5	34.1	33.7
DII	8.6	8.6	8.9
Others	34.2	34.5	34.5



After the recent fall, HDFC Bank is statically trading at cheaper valuation when compare to its historical trend. We recommend buy with price target of Rs.735 implying 4 times of one year forward book and 24 times of times of earnings for FY14E. HDFC bank is fundamentally very sound and we believe bank will outperform nifty and bank nifty as well. At the current valuation risk reward is favorable from long term perspective. Presently at the price of Rs.629, stock is trading at 3.4 times of one year forward book and 20 times of earnings for FY14E.

Treasury gain would not hurt the revenue growth

In 1QFY14, other income was Rs. 1926 cr in which treasury income contributed Rs.199.5 cr i.e 10% of other income. Like other banks treasury gain is likely to absent in 2QFY14 due to appreciation of government bond, bank would be impacted hardly on this front. Contribution of non interest income to total revenue was remained stable at 16-17% from last 8-9 quarters.

Asset quality best in industry and is likely to remain stable

During 1QFY14, bank's asset quality was marginally deteriorated as GNPA rose by 16.5% QoQ. About 55% of slippage came from retail segment especially from commercial vehicle, construction equipments and gold loan while rest of slippage came from corporate segment. The restructure advance to overall advance remain was stable at 0.2% in 1QFY14. GNPA and net NPA stood at 1.1% and 0.3% in 1QFY14. HDFC bank's asset quality remains best in the industry and according to management bank could not foresee any stress in that front. We model slippage ratio of 0.8% of net advance and GNPA and NNPA of 1.1% and 0.3% respectively.

Management foresee NIM at current level

Outlook of NIM is likely to remain positive due to bank has very limited borrowings fund from RBI as regulatory has increased the interest rate on short term borrowings to curb the rupees appreciation. More than 50% of bank's loan are floating in nature of which bank can easily transfer the cost of fund. HDFC bank is target of open 250 branches in FY14 as against 1076 branches in FY13 and FY14 means break even cost would be less and higher proportion of profitability braches would support stable NIM better return ratio.

Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	10543	12885	15811	22398	27445
Total Income	14878	18668	22664	29250	34298
PPP	7725	9391	11428	14771	17320
Net Profit	3926	5167	6726	7375	10359
EPS	84.4	22.0	28.7	31.4	44.1

(Source: Company/Eastwind)

HDFC BANK

PCR above of regulatory requirement

Provision coverage ratio increased by 75% QoQ in 1QFY14 largely due to stable asset quality and specific provisions. During quarter bank made floating provision of Rs.30 cr which is not added while calculating provision coverage ratio. If we add back the floating provision to total provision, coverage ratio will be well over to 144% (160% in 4QFY13). We model PCR at 77% in FY14 (with taking into account of floating provisions made by bank) above of regulatory requirement of 70%.

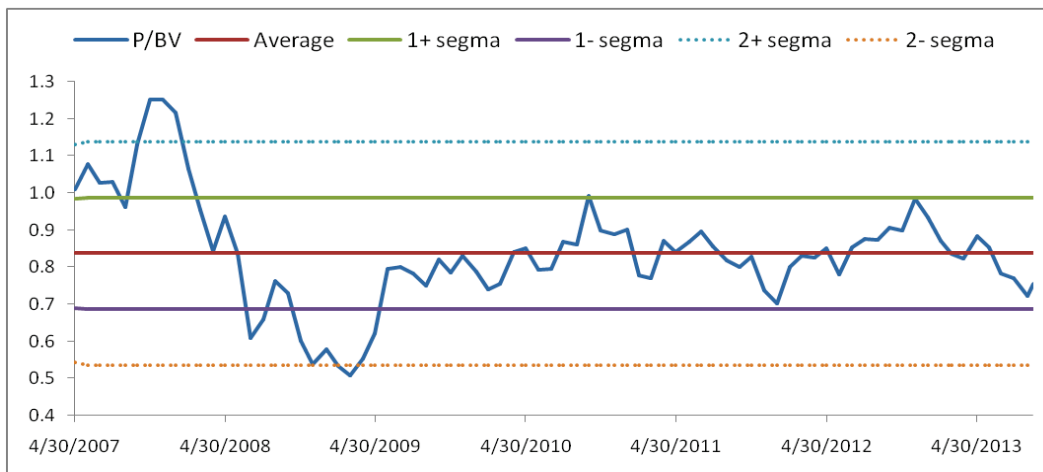
Advance growth support by corporate loan

HDFC bank reported 8% growth in advance in sequential basis led by 20% growth in corporate advance. Deposits grew by 2% sequentially largely due to 12% de-growth in current account whereas saving account grew by 2% on QoQ basis. Term deposits increased by 7% to Rs.1674 bn. CASA declined by 262 bps on QoQ to 44.8% from 47.4% in 4QFY13. We model loan and deposits growth of 22% and 20% respectively for FY14E.

Valuation & View

HDFC Bank is well poised in most of parameters and going ahead bank expects to sustain NIM. Cost income ratio is likely to decline as break even of newer braches. The asset quality remains best in the industry and management don't foresee any stress in that front. Bank continues to focus on high yield retail segment and has very limited exposure in trouble sector. Currently stock is trading at 3.4 times of one year forward book and 20 times of earning for FY14. WE recommend buy with price target of Rs.735, valuing the bank 4 times of book and 24 times of EPS for FY14E.

Valuation Band



Source: Company/Eastwind

HDFC BANK

P/L	2011	2012	2013	2014E	2015E
Interest/discount on advances / bills	15085	21124	26822	32171	39248
Income on investments	4675	6505	7820	9127	10952
Interest on balances with Reserve Bank of India	148	137	282	282	282
Others	20	108	141	141	141
Total Interest Income	19928	27874	35065	41720	50623
Others Income	4335	5784	6853	6853	6853
Total Income	24263	33658	41917	48572	57475
Interest on deposits	8028	12690	16321	15713	18856
Interest on RBI/Inter bank borrowings	1336	2253	2889	3565	4278
Others	20	47	44	44	44
Interest Expended	9385	14990	19254	19322	23177
NII	10543	12885	15811	22398	27445
NII Growth(%)	25.7	22.2	22.7	41.7	22.5
Other Income	4335	5784	6853	6853	6853
Total Income	14878	18668	22664	29250	34298
Total Income Growth(%)	20.3	25.5	21.4	29.1	17.3
Employee	2836	3400	3965	5068	5942
Other Expenses	4317	5878	7271	9411	11035
Operating Expenses	7153	9278	11236	14479	16977
PPP(Rs Cr)	7725	9391	11428	14771	17320
Provisions(Incl tax provision)	3799	4224	4701	5918	6962
Net Profit	3926	5167	6726	7375	10359
Net Profit Growth(%)	33.2	31.6	30.2	9.7	40.5

Key Balance Sheet Data

Deposits	208586	246706	296247	355496	426596
Deposits Growth(%)	24.6	18.3	20.1	20	20
Borrowings	14394	23847	33007	39608	47529
Borrowings Growth(%)	11.4	65.7	38.4	20	20
Loan	159983	195420	239721	292459	356800
Loan Growth(%)	27.1	22.2	22.7	22	22
Investment	70929	97483	111614	130384	156461
Investment Growth(%)	21.0	37.4	14.5	17	20

Eastwind Calculation

Yield on Advances	9.4	10.8	11.2	11.0	11.0
Yield on Investments	6.6	6.7	7.0	7.0	7.0
Yield on Funds	7.7	8.9	9.3	9.9	9.9
Cost of deposits	4.3	5.6	6.0	6.0	6.0
Cost of Borrowings	9.4	9.6	8.9	9.0	9.0
Cost of fund	4.2	5.5	5.8	4.9	4.9

Valuation

Book Value	545.5	127.5	154.3	184.0	222.1
P/BV	4.3	4.1	4.5	3.4	2.8
P/E	27.8	23.6	24.0	20.0	14.2

Source: Eastwind/Company