

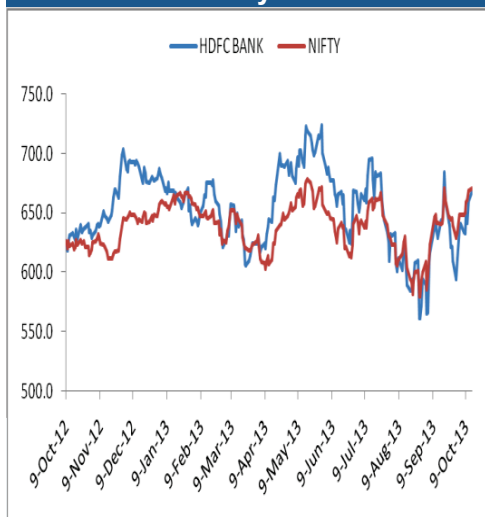
Result update	NUETRAL
CMP	667
Target Price	720
Previous Target Price	750
Upside	8
Change from Previous	4

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	727/528
Mkt Capital (Rs Cr)	155803
Average Daily Volume	3.84
Nifty	6089

Stock Performance			
	1M	1yr	YTD
Absolute	3.7	6.6	6.6
Rel.to Nifty	-0.9	-0.5	105.9

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	22.7	22.7	22.8
FII	33.6	34.5	37.1
DII	9.8	8.6	8.6
Others	33.8	34.2	34.5

## HDFC Bank Vs Nifty



*HDFC bank has started to see some earnings pressure and bank has also witnessed some deterioration in operating metrics and growth parameters as well. Although bank is well poised in most of operating parameters like CASA ratio of 45%+, higher than industry credit growth, best asset quality among peers, better utilization of cash in form of higher CAR ratio for further growth, consistent delivered margin above of 4%. Bank would still enjoy valuation premium but would not be trade at premium valuation that it witnessed in past. At the current price of Rs.667, stock is trading at 3.6 times of one year forward book and 19 times of one year forward earnings. We have neutral view on the stock with price target of Rs.730 (earlier Rs.750) which is 4 times of FY14's expected book value.*

### Healthy NII growth on the back of stable margin and higher CD ratio

HDFC Bank reported another good set of numbers with NII grew by 20% YoY to Rs.4477 cr in line with consensus expectation. Healthy NII growth was due to healthy loan growth, stable margin, higher credit deposits ratio and controlled cost of deposits. Total revenue of the bank grew by 21% YoY to Rs.11938 cr. Non- interest income registered growth of 37.1% YoY to Rs.1844 cr. Other income comprises fee and commission income of Rs. 1354.4 cr (Rs.1220.3 cr in 2QFY13), foreign exchange and derivative revenue of Rs.501.4 cr (Rs.235.9 cr in 2QFY13), sale of investment of Rs.173.3 cr(Rs.106 cr in 2QFY13) and miscellaneous income including recovery of Rs.162 cr (Rs.122 cr in previous quarter same year).

### CI ratio declined sequentially led higher than expected operating profit

Operating expenses during the quarter increased by 17.1% YoY to Rs.2934 cr on which employee cost increased by 7.6% to Rs. 1036 cr and other operating expenses increased by 23.1% YoY to Rs.1899 cr. Cost income ratio improved to 46.4% in 2QFY14 versus 47.9% in 1QFY14 and 49.4% in 2QFY13. Consequently operating profit reported growth of 31.7% YoY to Rs.3387 cr batter than consensus estimate of Rs.3266 cr.

### Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	10543	12885	15811	20936	27445
Total Income	14878	18668	22664	27788	34298
PPP	7725	9391	11428	14033	17320
Net Profit	3926	5167	6726	7375	10359
EPS	84.4	22.0	28.7	31.4	44.1

(Source: Company/Eastwind)

**Some stress seen in asset quality front but by and large stable**

In 2QFY14, HDFC Bank's gross NPA increased by 8% sequentially contributed by both retail and corporate. Provisions coverage ratio declined by 75bps QoQ to 74% but still above of regulatory requirement. Due to providing lower provisions, net NPA increased by 12% on sequential basis. In percentage of advances, GNPA and NPA stood at 1.1% and 0.3% respectively, by and large stable from previous quarter. HDFC bank made loan loss provisions of Rs. 386 cr as against Rs.527 cr in 1QFY14 and Rs.293 cr in 2QFY13.

**Lower provisions, controlled operating expenses and high NII led profit growth**

During quarter bank reported net profit of Rs.1982 cr up by 27% YoY as against expectation of Rs.1952 cr. Higher than expected profit was due to lower than expected provision which was the result of stable asset quality, higher NII, rise of other income. Consequently quarterly annualized ROA and ROE on the calculated basis stood at 1.8% and 18.9% respectively as against 1.6% and 17.9% in 2QFY13.

**Moderate deposits growth as compare to loan growth**

Total advance increased by 16% to Rs.2686 bn. Loan growth was driven by 25.5% increased of retail loan and 16.5% increased of corporate loan. Composition of retail and corporate loan stood at 54:43 ratios. Most of corporate loan was working capital loan. Deposits increased by 14% to Rs.33130 bn of which saving deposits increased by 18% and current deposits grew by 2% taking overall CASA ratio of 45%. Credit deposits ratio during quarter stood at 85.8% versus 84.5% in 2QFY13. Both in loan and deposits growth term, bank witnessed slowdown as loan and deposits grew by 21% and 18% in 1QFY14. Higher credit deposits ratio was also result of slower pace growth of deposits than loan.

**Sequentially marginal declined of NIM**

NIM (On calculated basis) declined 8bps on QoQ to 4.7 largely due to sequentially declined of yield on loan as compare to cost of deposits. On our calculated basis yield on loan declined to 11.2% from 11.3% in 1QFY14 whereas cost of deposits increased very marginally from 6.92% to 6.94%. Bank has started to see pressure on earnings front and would not enjoy the valuation premium that it witnessed in past in our view.

# HDFC BANK

## Valuation & View

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Quarterly Result( Rs Cr)	2QFY14	1QFY14	2QFY13	%YoY	%QoQ
Interest/discount on advances / bills	7692	7325	6449	19.3	5.0
Income on investments	2292	2218	1953	17.4	3.3
Interest on balances with Reserve Bank of India	84	110	85	-1.0	-23.7
Others	25	10	37	-32.4	150.2
Total Interest Income	10093	9663	8525	18.4	4.5
Others Income	1844	1926	1345	37.1	-4.2
Total Income	11938	11589	9870	21.0	3.0
Interest Expended	5617	5244	4793	17.2	7.1
NII	4477	4419	3732	20.0	1.3
Other Income	1844	1926	1345	37.1	-4.2
Total Income	6321	6344	5077	24.5	-0.4
Employee	1036	1109	963	7.6	-6.6
Other Expenses	1899	1929	1543	23.1	-1.6
Operating Expenses	2934	3038	2506	17.1	-3.4
PPP( Rs Cr)	3387	3306	2571	31.7	2.4
Provisions( Incl tax provision)	386	527	293	31.8	-26.8
PBT	3001	2779	2278	31.7	8.0
Tax	1018	935	718	41.8	8.9
Net Profit	1982	1844	1560	27.1	7.5

Source: Eastwind/ Company