

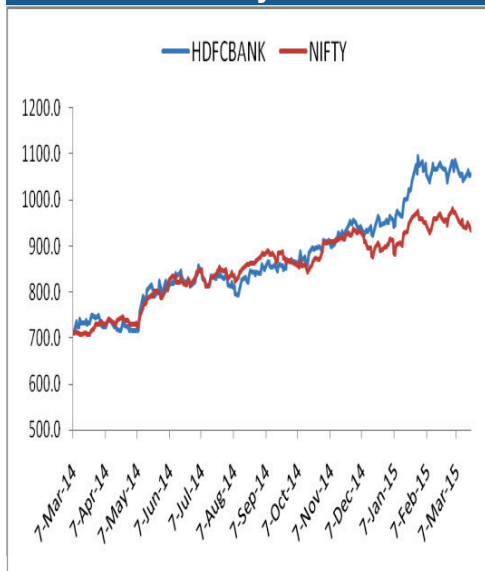
| Result update         | BUY  |
|-----------------------|------|
| CMP                   | 1157 |
| Target Price          | 1320 |
| Previous Target Price | 1100 |
| Upside                | 14   |
| Change from Previous  | 20   |

| 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 FY14, 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 |
| <b>Eastwind Calculation</b>                     |         |         |         |         |
| 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     |
| <b>Valuation</b>                                |         |         |         |         |
| 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