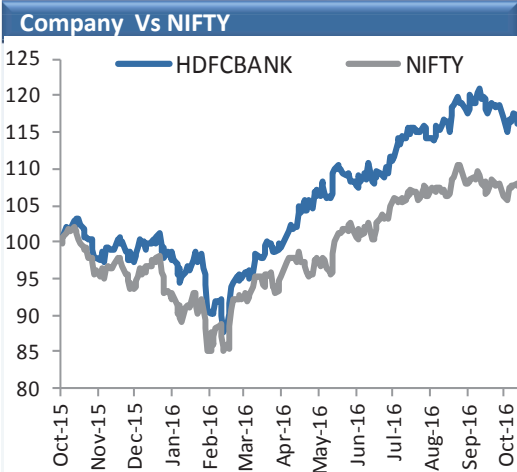


Result Update	
CMP	1250
Target Price	1400
Previous Target Price	1400
Upside	12%
Change from Previous	-

Market Data	
BSE Code	500180
NSE Symbol	HDFCBANK
52wk Range H/L	1312/928.
Mkt Capital (Rs Cr)	318306
Av. Volume (,000)	92
Nifty	8691

Stock Performance			
	1Month	3 Month	1Year
Absolute	(3.6)	14.1	15.5
Rel.to Nifty	(3.2)	9.0	6.1

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoters	26.2	26.3	26.4
Public	73.8	73.7	73.6
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0



Earnings Momentum Continued

HDFC BANK reported 20% YoY growth in its PAT to Rs 3455 Cr backed by 20% growth in NII. NIM was stable to 4.20% YoY. Non Fund based Income grew by 14% YoY due to surge in profit from sale of investment. Cost to Income ratio improved marginally to 44.7% against 45.4% a year back. Operating profit grew by 19% YoY. Provisions and contingencies grew by 10% YoY to Rs 749 Cr but sequentially it declined by 14%. Assets Quality stabilises with marginal improvement in GNPA at 1.02% against 1.04% QoQ. Advances grew by 18% YoY to Rs 494418 Cr. Deposits grew by 17% YoY led by 19% growth in CASA. SA grew by 22% whereas CA grew by 13% YoY. CASA was maintained at 40% level of the total deposits.

Healthy Retail Loan Growth

Advances in this quarter grew by 18% YoY led by strong growth on retail banking. As per the internal classification of the bank, retail loan portfolio grew by 21.7% and corporate loan portfolio grew by 14.3% YoY. Corporate loan growth was low due to some short term loan matured during the quarter which was lent in the March month. As per the Basel 2 classification retail loan and corporate loan mix is 54:46 of the portfolio. Under the retail loan personal loan grew by 39% YoY. Loan against securities grew by 35% YoY. The growth in vehicle loan segment was 19% YoY.

Assets Quality Stabilizes

GNPA declined marginally to 1.02% against 1.04% on 2Q FY17 but it increased by 11 bps YoY. NNPA was at 0.30% against 0.32% on 2Q FY16. Gross slippages during the quarter were Rs 1440 against Rs 1761 Cr QoQ. Recovery & Upgrades were Rs 764 Cr in this quarter. Restructured assets were maintained at 0.10% of the gross advances of the bank. Provisions for the quarter grew by 10% YoY. Specific provision was at 71% against 73% a year back. Floating provisions outstanding is Rs 1240 Cr. Management highlighted that the assets quality on retail book remained stable.

Stable NIM

NIM was stable at 4.2% YoY but sequentially NIM declined by 20 bps from 4.4%. This decline in NIM was resulted due to excess liquid investment which was kept for the FCNR redemption and some part of it may be attributed to the MCLR regime. However NIM remained within the guided range of 4%-4.3%. Going further management is confident to maintain the NIM within the guided range.

Moderate Core Fee Growth

Other Income grew by 14% YoY to Rs 2901 Cr backed by income from sale of investments which increased by 75% YoY to Rs 284 Cr. Fee & commission income grew by 13% YoY to Rs 2104 Cr. Barring FX& Derivatives, total other income grew by 17% YoY. FX & Derivatives income for the quarter was Rs 295 Cr registering negative growth of 8% YoY.

Concall Highlights

- >> Cost of FCNR deposits will be close to 8.5%.
- >> Sequentially NIM declined by 20 bps out of which close to 10 bps would be due to MCLR and some of it will be due to excess investment for redemption of FCNR deposits.
- >> Margin will broadly remain in the range of 4 to 4.3%
- >> Advances growth was lower due to lower corporate growth under which some of the short term loan which spiked in the March Quarter has matured in this quarter.
- >> In retail sector there is intensified competition on yields and processing fees.
- >> Floating provisions is Rs 1240 Cr.
- >> Assets Quality on retail side remained stable.
- >> RWA is Rs 576000 Cr.
- >> Number of employees increased in this quarter. Hiring has been done largely for business banking and retail business.
- >> Provision breakup for the quarter was- Rs 641 Cr of NPA provision, Rs 101 Cr for general provisions and rest are others.
- >> For Subsidiary HDB Financial- Total Advances was Rs 28000 Cr growth of 39% YoY, GNPA is 1.56%.

Quarterly Performance

(Rs in Crore)

Financials	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Interest Income	11848	12396	13006	14041	14773	15411	15997	16516	17070
NII	5511	5700	6013	6389	6681	7069	7453	7781	7994
Other Income	2047	2535	2564	2462	2552	2872	2866	2807	2901
Total Net Income	7558	8235	8577	8851	9233	9941	10319	10588	10895
Operating Exp.	3498	3456	3855	4001	4190	4205	4584	4769	4870
PPP	4060	4779	4722	4850	5043	5736	5735	5819	6025
Provisions	456	560	577	728	681	654	662	867	749
PBT	3604	4218	4145	4122	4362	5082	5072	4952	5276
Tax Provisions	1223	1424	1338	1426	1492	1725	1698	1714	1820
Net Profit	2381	2795	2807	2696	2869	3357	3374	3239	3455

Spread Metrix

Avg. Yield on Adv.%	11.72	11.84	11.63	11.76	11.58	11.47	11.24	11.15	11.06
Avg. Cost of fund%	5.73	5.86	5.86	6.04	6.01	5.84	5.71	5.58	5.54
NIM% (Reported)	4.50	4.40	4.40	4.30	4.20	4.30	4.30	4.40	4.20

Other Ratios	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
NII Growth% YoY	23.11	22.98	21.41	23.54	21.23	24.01	23.95	21.80	19.65
PAT Growth % YoY	20.13	20.16	20.65	20.72	20.49	20.12	20.21	20.15	20.42
Other Inc./Net Inc. %	27.08	30.78	29.89	27.82	27.64	28.89	27.77	26.51	26.63
C/I Ratio %	46.28	41.97	44.95	45.20	45.38	42.30	44.42	45.04	44.70
Tax Rate %	33.93	33.75	32.29	34.60	34.21	33.95	33.48	34.60	34.50

Outlook & Valuation:

We expect the HDFCBANK to continue the earning momentum further. With the CASA at 40% and focus on high yield products margins will stabilise at current level. Given the best in class of assets quality, credit cost will remain normal to support the bottom line growth. Non fund based Income growth will continue at current pace. We expect the loan growth of 20% plus backed by focus on retail products. With the improving macro scenario corporate loan portfolio will also picked up. Bank is well capitalized with the Tier 1 ratio of 13.3%. We expect the RoE of 20% and maintain 'BUY' rating on this stock with our previous target price of Rs 1400.

Other income Break Up

(Rs in Crore)

Other Income	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Fees & Commissions	1537	1807	1835	1713	1869	2005	2172	1978	2104
FX & Derivatives	222	253	329	348	320	277	283	315	295
Profit / (loss) on	95	266	196	126	162	328	116	277	284
Miscellaneous Income	194	210	204	275	201	262	295	237	219
Other Income	2047	2535	2564	2462	2552	2872	2866	2807	2901

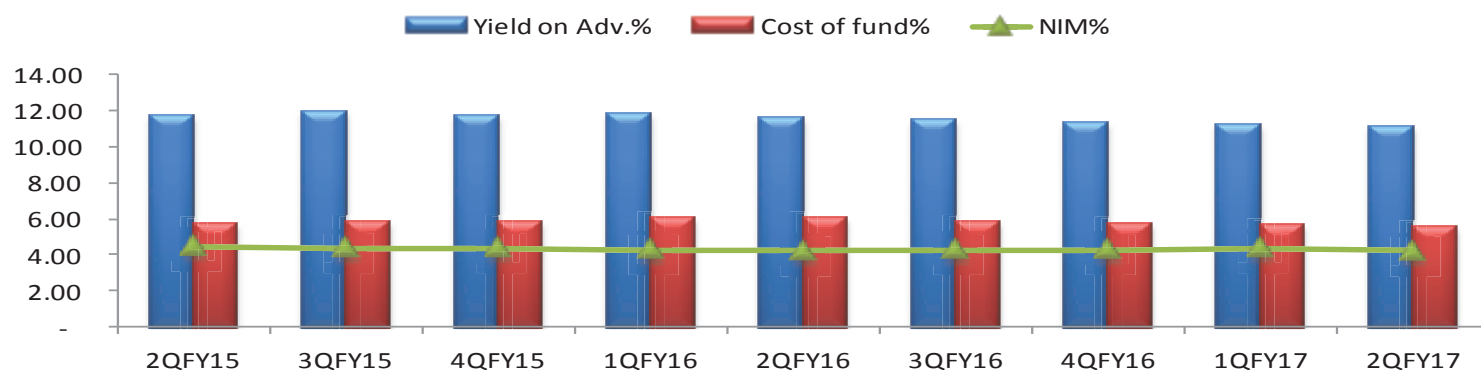
Operating Metrix

Operating Metrix	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Deposit Growth %	25	19	23	30	30	27	21	19	17
Loan Growth %	22	17	21	22	28	26	27	23	18
CASA Ratio %	43	41	44	40	40	40	43	40	40
CD Ratio%	84	84	81	79	83	83	85	82	84

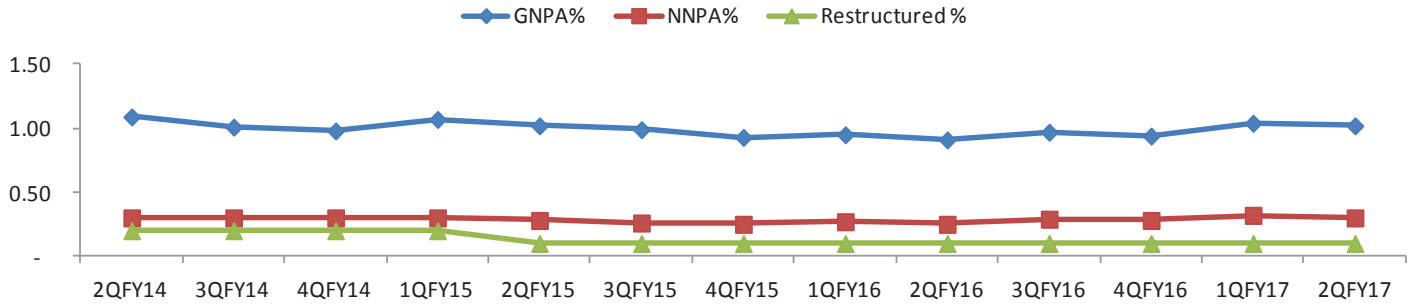
Assets Quality Metrix

GNPA (Rs in Cr)	3362	3468	3438	3652	3828	4255	4393	4921	5069
GNPA %	1.02	0.99	0.93	0.95	0.91	0.97	0.94	1.04	1.02
NNPA%	0.28	0.26	0.25	0.27	0.25	0.29	0.28	0.32	0.30
PCR%	73	74	74	72	73	70	70	70	71
OS Restructured %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

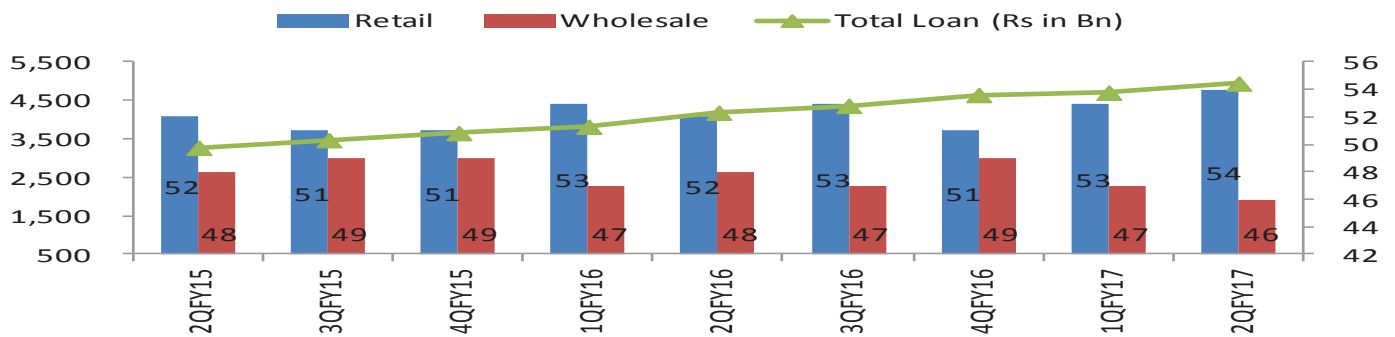
Stable NIM



Assets Quality



Loan Book Composition



Break-up of Domestic Retail Advances (As per internal business classification)

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Auto	21.7	21.4	20.7	21.0	20.5	20.5	19.8	20.0	20.2
Personal Loans	11.5	11.7	11.5	12.2	12.4	12.9	13.0	13.8	14.1
Home Loans	9.6	9.4	10.7	11.3	10.9	10.3	11.0	11.3	10.5
Business Banking	22.9	22.9	22.1	21.3	21.9	21.7	21.1	20.3	20.6
Kisan Gold Card	6.4	6.4	7.2	7.1	7.5	7.3	7.9	7.5	7.8
Credit Cards	6.9	7.2	7.2	7.1	6.9	7.2	7.1	7.1	6.7
CV/CE	12.1	11.7	11.1	11.1	11.0	10.8	10.7	10.5	10.5
Others	4.2	4.5	4.9	4.5	4.6	4.9	5.1	5.1	5.1
Two Wheelers	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Gold Loans	1.9	1.8	1.8	1.8	1.7	1.6	1.6	1.6	1.6
Loans against securities	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6
Retail Adv (Rs in Bn)	2,028	2,129	2,257	2,389	2,622	2,749	2,898	2,983	3,191

Financials Snap Shot

INCOME STATEMENT (Standalone)

(Rs in Crore)

	FY14	FY15	FY16	FY17E
Interest / discount on advances / bills	31,687	37,181	44,828	54,070
Income on Investments	9,037	10,706	14,120	16,035
Intt. on bal.with RBI & other inter-bank Funds	356	517	362	237
Others	56	66	912	947
Total Interest Income	41,136	48,470	60,221	71,289
Total Interest expended	22,653	26,074	32,630	38,042
Net Interest Income	18,483	22,396	27,592	33,246
Other Income	7,920	8,996	10,752	12,777
Total Income	26,402	31,392	38,343	46,023
Total Operating Expenses	12,042	13,988	16,980	20,729
Pre Provisioning Profit	14,360	17,404	21,364	25,294
Provisions (other than tax) and Contingencies	1,588	2,076	2,726	3,353
Profit Before Tax	12,772	15,329	18,638	21,941
Tax	4,294	5,113	6,342	7,592
Net Profit attributable to the group	8,478	10,216	12,296	14,350

Source: Eastwind/Company

BALANCE SHEET

(Rs in Crore)

	FY14	FY15	FY16	FY17E
Capital	480	501	506	506
Reserves & Surplus	42999	61508	72172	83556
Deposits	367337	450796	546424	661363
Borrowings	39439	45214	53018	60971
Other Liabilities & Provisions	41344	32484	36725	38561
Total Capital & Liabilities	491600	590503	708846	844957
Cash & Balances with Reserve Bank of India	25346	27510	30058	36221
Balances with Banks and Money at Call & Short No	14238	8821	8861	13768
Investments	120951	166460	163886	180274
Advances	303000	365495	464594	562159
Fixed Assets	2940	3122	3343	3677
Other Assets	25125	19095	38104	48858
Total Assets	491600	590503	708846	844957

Source: Eastwind/Company

RATIOS

	FY14	FY15	FY16	FY17E
Business Ratios				
Credit-Deposit(%)	82.5	81.1	85.0	85.0
CASA %	45.0	44.0	43.0	42.0
Efficiency Ratios				
Employ. Cost as a % of Total exp. (%)	34.7	34.0	33.6	33.0
Other Exp./Total exp. (%)	65.3	66.0	66.4	67.0
Cost Income Ratio (%)	45.6	44.6	44.3	45.0
Spread Analysis As Calculated				
Yield on Advances (%)	12.2	11.8	11.5	11.2
Yield on Investments (%)	8.6	8.7	8.9	8.7
Yield on Earning Assets (%)	10.4	10.4	10.3	10.0
Cost of Deposits (%)	5.7	5.7	5.9	5.4
Cost of Funnd (%)	6.0	5.8	5.9	5.7
Interest Spread (%)	4.5	4.6	4.4	4.4
NIM (%)	4.4	4.4	4.3	4.3
Profitability Ratio				
RoE %	21.3	19.4	18.3	18.9
RoA %	1.9	1.9	1.9	1.9
Interest Expended / Interest Earned (%)	55.1	53.8	54.2	53.4
Provisions/PPP (%)	11.1	11.9	12.8	13.3
Other Income/Net Income (%)	30.0	28.7	28.0	27.8
Tax Rate (%)	33.6	33.4	34.0	34.6
Asset Quality Ratio				
GNPA (%)	0.98	0.93	0.94	
NNPA (%)	0.30	0.25	0.28	
PCR (%)	73	74	70	
Os. Restr. Assets (%)	0.20	0.10	0.10	
Capital Adequacy Ratio				
Capital Adequacy Ratio (%)	16.1	16.8	15.5	
Tier I Capital (%)	11.8	13.7	13.2	
Tier II Capital (%)	4.3	3.1	2.3	

Source: Eastwind/Company