

HDFC Bank

Performance Highlights

Particulars (₹ cr)	2QFY16	1FY16	% chg (qoq)	2QFY15	% chg (yoy)
NII	6,681	6,389	4.6	5,511	21.2
Pre-prov. profit	5,043	4,850	4.0	4,060	24.2
PAT	2,869	2,696	6.4	2,381	20.5

Source: Company, Angel Research

HDFC Bank continued its trend of delivering consistent earnings performance quarter after quarter. For 2QFY2016, it registered a net profit growth of 20.5% yoy which is in line with our expectation.

Advances grow strongly; Asset quality top-notch:

During 2QFY2016, the loan book grew at a rapid pace, ie by 27.9% yoy. Retail growth picked further traction; the growth in the retail book was at 29.3% yoy, which took the total contribution of retail as a proportion of total advances book to 49%. Corporate credit growth rate, at 23.4% yoy, stood well above that of the industry.

Current and Savings account deposits also saw fairly healthy growth, ie of 20.8% yoy and 18.7% yoy, respectively. Time deposits saw further stronger momentum, growing at 37.8% yoy, which continued to outshine the CASA deposits growth. Because of the spurt in fixed deposits and in-turn total deposits, the CASA ratio came in at 40%.

The NIM came off by 14bp qoq to 4.20%; the decline was on account of cuts in base rates to pass on policy rate reductions by the central bank and owing to higher fixed deposits growth. The bank's non-interest income (excluding treasury) grew by 22% yoy, with fee income growing by 21.6% yoy.

Asset quality continued to remain healthy with the Gross NPA rate at 0.91%, declining by 4bp qoq, in a challenging macro environment. The Net NPA ratio stood at 0.25% for the quarter, as against 0.27% in 1QFY2016. The Provision Coverage Ratio (PCR) stood at 72.9%.

Outlook and valuation: Credit and deposit growth beat the industry growth rate, driven by strong retail business, healthy CASA and continued network expansion. This provides strong visibility for a robust 20% earnings trajectory, coupled with high quality of earnings. This in our view justifies a premium valuation multiple. At the current market price, the bank is trading at 3.3x FY2017E ABV. **We recommend a Buy rating on the stock, with a target price of ₹1,265.**

Key financials (standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
NII	18,483	22,396	27,415	33,929
% chg	16.9	21.2	22.4	23.8
Net profit	8,478	10,216	12,363	15,302
% chg	26.0	20.5	21.0	23.8
NIM (%)	4.4	4.3	4.3	4.3
EPS (₹)	35.3	40.8	49.3	61.0
P/E (x)	31.0	26.9	22.2	17.9
P/ABV (x)	6.0	4.4	3.8	3.3
RoA (%)	1.9	1.9	1.9	1.9
RoE (%)	21.3	19.4	18.5	19.7

Source: Company, Angel Research; Note: CMP as of October 21, 2015

BUY

CMP	₹1,095
Target Price	₹1,265

Investment Period	12 Months
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Stock Info

Sector	Banking
Market Cap (₹ cr)	2,79,016
Beta	0.9
52 Week High / Low	1,127/888
Avg. Daily Volume	15,12,699
Face Value (₹)	2
BSE Sensex	27,288
Nifty	8,252
Reuters Code	HDBK.BO
Bloomberg Code	HDFCB@IN

Shareholding Pattern (%)

Promoters	21.6
MF / Banks / Indian FIs	32.4
FII / NRIs / OCBs	11.0
Indian Public / Others	35.1

Abs. (%)	3m	1yr	3yr
Sensex	(3.2)	2.7	46.1
HDFC Bank	(0.3)	22.2	74.3

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance (standalone)

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	FY2015	FY2014	% chg
Interest earned	14,773	14,041	5.2	11,848	24.7	48,470	41,136	17.8
- on Advances / Bills	10,948	10,447	4.8	9,074	20.7	37,181	31,687	17.3
- on investments	3,398	3,281	3.5	2,614	30.0	10,277	9,037	13.7
- on balance with RBI & others	175	78	123.3	148	18.4	517	356	45.3
- on others	252	234	7.4	12	1,937.7	495	56	787.0
Interest Expended	8,092	7,652	5.7	6,337	27.7	26,074	22,653	15.1
Net Interest Income	6,681	6,389	4.6	5,511	21.2	22,396	18,483	21.2
Other income	2,552	2,462	3.6	2,047	24.7	8,996	7,920	13.6
Other income excl. treasury	2,389	2,336	2.3	1,952	22.4	8,415	7,809	7.8
- Fee & commission income	1,869	1,713	9.1	1,537	21.6	6,584	5,735	14.8
- Treasury income	162	126	29.0	95	70.8	582	110	426.9
- Forex & derivative income	320	348	(8.2)	222	44.2	1,028	1,401	(26.6)
Operating income	9,233	8,851	4.3	7,558	22.2	31,392	26,402	18.9
Operating expenses	4,190	4,001	4.7	3,498	19.8	13,988	12,042	16.2
- Employee expenses	1,414	1,359	4.0	1,167	21.2	4,751	4,179	13.7
- Other Opex	2,776	2,642	5.1	2,331	19.1	9,237	7,863	17.5
Pre-provision Profit	5,043	4,850	4.0	4,060	24.2	17,404	14,360	21.2
Provisions & Contingencies	681	728	(6.4)	456	49.4	2,076	1,588	30.7
PBT	4,362	4,122	5.8	3,604	21.0	15,329	12,772	20.0
Provision for Tax	1,492	1,426	4.6	1,223	22.0	5,113	4,294	19.1
PAT	2,869	2,696	6.4	2,381	20.5	10,216	8,478	20.5
Effective Tax Rate (%)	34.2	34.6	(39)bp	33.9	28bp	33.4	33.6	(26)bp

Source: Company, Angel Research

Exhibit 2: 2QFY2016 performance analysis

Particulars	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Balance sheet					
Advances (₹ cr)	4,18,541	3,82,010	9.6	3,27,273	27.9
Deposits (₹ cr)	5,06,909	4,84,174	4.7	3,90,682	29.7
Credit-to-Deposit Ratio (%)	82.6	78.9	367bp	83.8	(120)bp
Current deposits (₹ cr)	69,811	66,917	4.3	57,803	20.8
Saving deposits (₹ cr)	1,31,522	1,24,947	5.3	1,10,810	18.7
CASA deposits (₹ cr)	2,01,333	1,91,864	4.9	1,68,613	19.4
CASA ratio (%)	39.7	39.6	9bp	43.2	(344)bp
CAR (%)	15.5	15.7	(20)bp	15.7	(20)bp
Tier 1 CAR (%)	12.8	12.8	0bp	11.8	100bp
Profitability Ratios (%)					
Reported NIM	4.2	4.3	(14)bp	4.5	(30)bp
Cost-to-income ratio	45.4	45.2	18bp	46.3	(90)bp
Asset quality					
Gross NPAs (₹ cr)	3,828	3,652	4.8	3,362	13.9
Gross NPAs (%)	0.91	0.95	(4)bp	1.0	(11)bp
Net NPAs (₹ cr)	1,038	1,028	1.0	917	13.1
Net NPAs (%)	0.3	0.3	(2)bp	0.3	(3)bp
Provision Coverage Ratio (%)	72.9	71.9	103bp	72.7	18bp

Source: Company, Angel Research

Advances growth above Industry

During 2QFY2016, the loan book grew by 27.9% yoy as retail growth picked further traction and as corporate credit growth remained well above the industry growth rate. The growth in the retail book was of 29.3% yoy, which took the total contribution of retail to 49% of the total advances book of the bank. Within retail, Home loans and Personal loans grew by 45.6% and 37.8% yoy, respectively. Corporate credit grew 23.4%.

Both current and savings accounts also saw fairly healthy yoy growth, ie of 20.8% and 18.7% yoy, respectively. Time deposit grew by 37.8% yoy, which continued to outshine the CASA deposit growth. Because of the huge spurt in the fixed deposit and in turn total deposit, the CASA ratio came in at 40%. In a nutshell, savings and current deposits grew at healthy rates, way above the system growth rates.

Home loans saw the second highest growth, which was mainly due to some pick-up in housing demand and also on account of the bank taking a higher proportion of loan origination on its own books from HDFC.

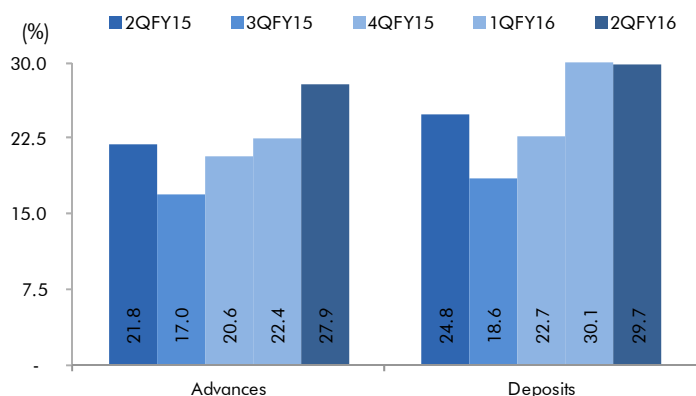
Exhibit 3: Home loans/Personal loans aid Retail loan book growth

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	% to total
Auto Loans	46,009	43,458	5.9	37,778	21.8	22.5
CVCE	14,799	13,389	10.5	13,857	6.8	7.2
Two Wheelers	4,730	4,393	7.7	3,624	30.5	2.3
Personal Loans	31,881	28,830	10.6	23,137	37.8	15.6
Business Banking	27,288	24,016	13.6	21,963	24.2	13.3
Loans Against Secu.	1,078	980	10.0	1,050	2.7	0.5
Credit Cards	18,000	16,865	6.7	14,005	28.5	8.8
Home loans	28,483	26,888	5.9	19,558	45.6	13.9
Others	32,187	28,446	13.2	23,154	39.0	15.7
Retail Advances	2,04,455	1,87,265	9.2	1,58,126	29.3	100.0

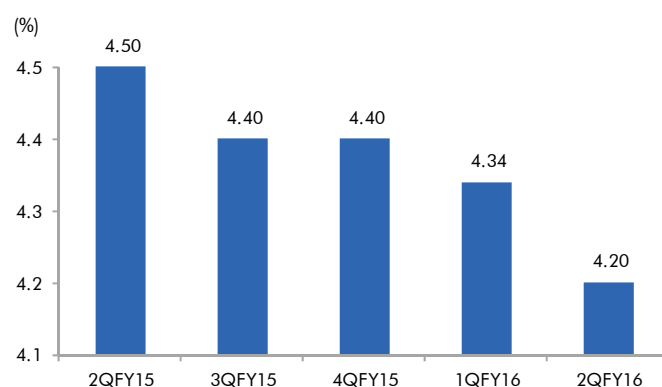
Source: Company, Angel Research

NIM at 4.20%

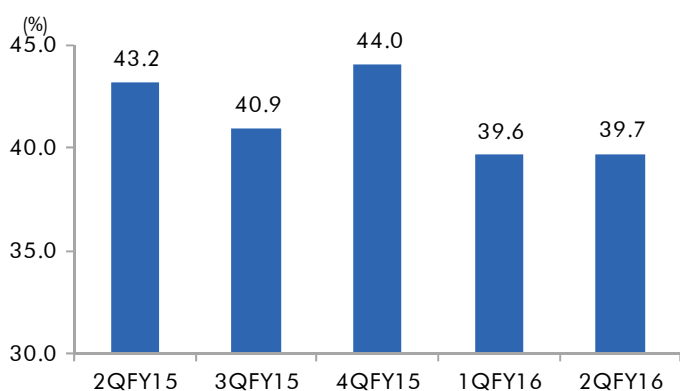
The NIM came off by 14bp qoq, to 4.20% since the bank initiated cuts in base rates to pass on policy rate reductions by the central bank and due to higher growth in fixed deposits.

Exhibit 4: Advances growth above Industry


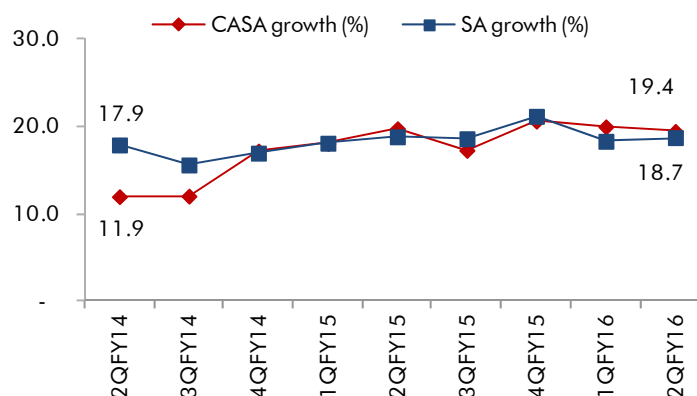
Source: Company, Angel Research

Exhibit 5: Reported NIM at 4.2%


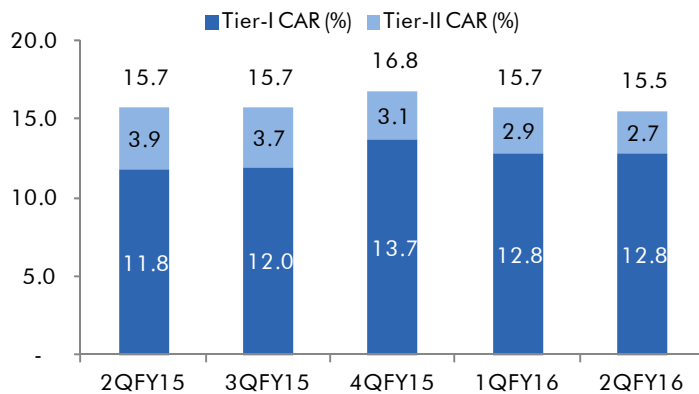
Source: Company, Angel Research

Exhibit 6: CASA ratio increases marginally qoq


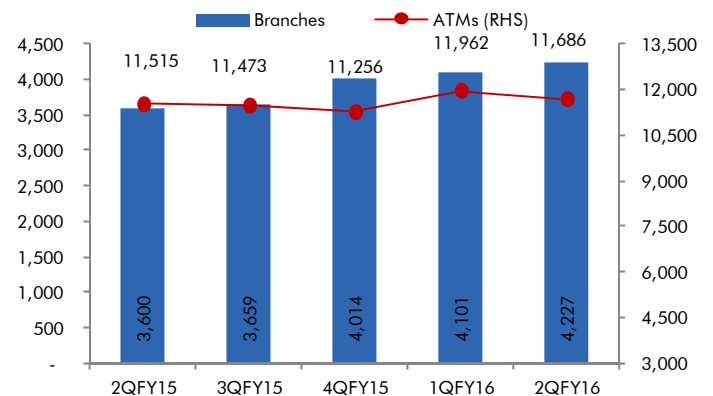
Source: Company, Angel Research, Note: *adjusting for FCNR (B) deposits

Exhibit 7: Trends in CASA growth


Source: Company, Angel Research

Exhibit 8: Capital adequacy remains healthy


Source: Company, Angel Research Note *as per Basel III **including profits

Exhibit 9: Branch expansion continues


Source: Company, Angel Research

Non-interest income shows strong momentum

The bank's non-interest income (excluding treasury) grew by 22% yoy, with fee income growing by 21.6% yoy. Third party distribution of mutual funds and insurance products, credit card upgrades, and transaction fees formed a large chunk of the total retail fee income. Despite healthy growth in other income, the cost to income ratio was at 45.4%, due to continued network expansion.

Exhibit 10: Non-interest income (excl. treasury)

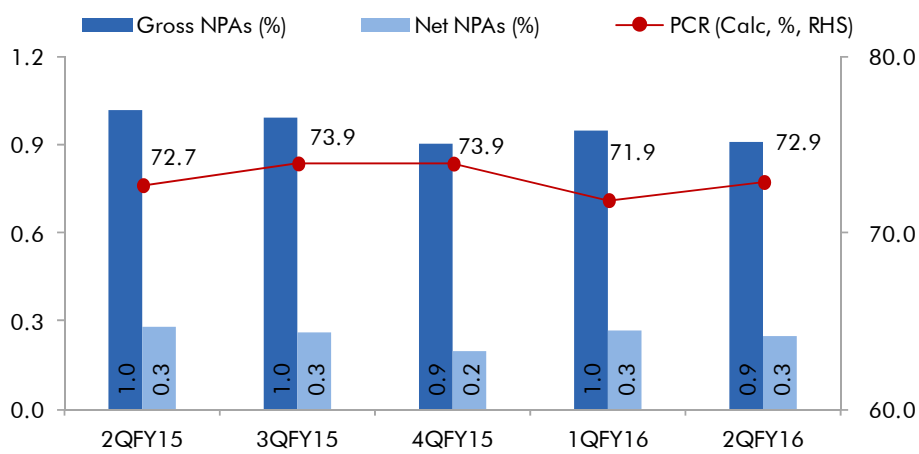
Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)
Fees & Commission	1,869	1,713	9.1	1,537	21.6
Treasury Income	162	126	29.0	95	70.8
Forex Income & Others	320	348	(8.2)	222	44.2
Other	201	275	(27.0)	194	3.6
Other income	2,552	2,462	3.6	2,047	24.7
Other income excl. treasury	2,389	2,336	2.3	1,952	22.4

Source: Company, Angel Research

Asset quality remains top-notch

Asset quality continued to remain healthy with the Gross NPA ratio declining by 4bp qoq to 0.91%, in a challenging macro environment. The Net NPA ratio came in at 0.25% as against 0.27% in 1QFY2016. The bank created a floating provision of ₹50cr, thus taking the total floating provisions to ₹1,638cr. The Provision Coverage Ratio (PCR) stood at 72.9%. Total restructured loans stood at 0.1% of gross advances as of September 30, 2015.

Exhibit 11: Asset quality remains top-notch



Source: Company, Angel Research

Outlook & Valuation

We believe HDFC Bank is among the most competitive banks in the sector, with an A-list Management at the helm of affairs, which has one of the best track records in the industry. We believe the bank is well positioned for high qualitative growth, with strong CAR, and top-notch asset quality. The bank's credit and deposit growth for the quarter under review was above industry (driven by strong retail business), and enjoys healthy CASA. The bank is continuously expanding its branch network. This provides strong visibility for a robust 20% earnings trajectory, matched with high quality of earnings. This in our view justifies a premium valuation multiple. At the current market price, the bank is trading at 3.3x FY2017E ABV. **We recommend a Buy rating on the stock, with a target price of ₹1,265.**

Exhibit 12: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2017E P/ABV (x)	FY2017E Tgt. P/ABV (x)	FY2017E P/E (x)	FY15-17E EPS CAGR (%)	FY2017E RoA (%)	FY2017E RoE (%)
HDFCBk	Buy	1,095	1,262	15.3	3.3	3.8	17.9	22.4	1.9	19.7
ICICIBk*	Buy	282	352	24.7	1.9	2.1	11.2	15.3	1.6	15.2
YesBk	Buy	765	914	19.4	2.0	2.4	11.0	20.2	1.6	19.6
AxisBk	Buy	511	673	31.7	2.1	2.7	11.3	20.9	1.9	19.6
SBI*	Buy	250	295	18.0	1.2	1.2	10.2	17.8	0.7	12.8
FedBk	Neutral	58	-	-	1.0	1.1	9.2	3.1	1.0	11.9
SIB	Neutral	22	-	-	0.8	0.8	6.7	21.6	0.7	11.6
BOB	Neutral	174	-	-	0.8	0.9	7.0	27.1	0.7	12.1
PNB	Neutral	136	-	-	0.6	0.6	5.0	28.5	0.7	12.0
BOI	Neutral	139	-	-	0.4	1.0	4.2	14.0	0.3	7.6
IndBk	Neutral	136	-	-	0.4	0.4	4.6	19.4	0.7	9.3
Vijaya Bank	Neutral	37	-	-	0.5	0.5	5.6	14.1	0.4	8.8
OBC	Neutral	142	-	-	0.3	0.5	3.1	65.5	0.5	9.4
Allahabad Bank	Neutral	78	-	-	0.3	0.3	3.0	53.5	0.6	10.9
UnionBk	Neutral	170	-	-	0.5	0.4	4.3	18.1	0.6	11.4
CanBk	Neutral	294	-	-	0.5	0.3	4.3	9.8	0.5	10.7
AllBk	Neutral	78	-	-	0.3	0.4	3.0	53.5	0.6	10.9
IDBI#	Neutral	84	-	-	0.6	0.6	5.9	61.6	0.6	9.3

Source: Company, Angel Research; Note: *Target multiples=SOTP Target Price/ABV (including subsidiaries), #Without adjusting for SASF

Company Background

HDFC Bank is the second-largest private sector bank in India with a pan-India network of over 4100 branches and nearly 11,900 ATMs. The bank is promoted and 21.6% owned by HDFC, India's largest housing finance company. HDFC Bank has been at the forefront of modern retail banking in India. The bank has pioneered the transaction banking model in India, which has enabled it to garner substantial CASA deposits as well as fee income, while the focus on retail lending (which forms ~52% of total loans) has further helped the bank in consistently maintaining above-industry margins.

Income statement

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Interest Income	10,543	12,885	15,811	18,483	22,396	27,415	33,929
- YoY Growth (%)	25.7	22.2	22.7	16.9	21.2	22.4	23.8
Other Income	4,335	5,784	6,853	7,920	8,996	10,894	13,373
- YoY Growth (%)	8.8	33.4	18.5	15.6	13.6	21.1	22.8
Operating Income	14,878	18,668	22,664	26,402	31,392	38,309	47,302
- YoY Growth (%)	20.3	25.5	21.4	16.5	18.9	22.0	23.5
Operating Expenses	7,153	9,278	11,236	12,042	13,988	17,087	21,103
- YoY Growth (%)	20.4	29.7	21.1	7.2	16.2	22.2	23.5
Pre - Provision Profit	7,725	9,391	11,428	14,360	17,404	21,222	26,199
- YoY Growth (%)	20.2	21.6	21.7	25.7	21.2	21.9	23.5
Prov. & Cont.	1,907	1,877	1,677	1,588	2,076	2,315	2,799
- YoY Growth (%)	(10.9)	(1.5)	(10.7)	(5.3)	30.7	11.5	20.9
Profit Before Tax	5,819	7,513	9,751	12,772	15,329	18,906	23,400
- YoY Growth (%)	35.7	29.1	29.8	31.0	20.0	23.3	23.8
Prov. for Taxation	1,892	2,346	3,024	4,294	5,113	6,543	8,098
- as a % of PBT	32.5	31.2	31.0	33.6	33.4	34.6	34.6
PAT	3,926	5,167	6,726	8,478	10,216	12,363	15,302
- YoY Growth (%)	33.2	31.6	30.2	26.0	20.5	21.0	23.8

Balance sheet

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Share Capital	465	469	476	480	501	501	501
Reserves & Surplus	24,914	29,455	35,738	42,999	61,508	71,087	82,930
Deposits	2,08,586	2,46,706	2,96,247	3,67,337	4,50,796	5,63,495	7,04,368
- Growth (%)	24.6	18.3	20.1	24.0	22.7	25.0	25.0
Borrowings	7,447	13,250	16,963	23,395	29,571	36,354	44,864
Tier 2 Capital	6,947	10,597	16,044	16,044	15,642.80	15,252	14,870
Other Liab. & Prov.	28,993	37,432	34,864	41,344	32,484	40,401	49,750
Total Liabilities	2,77,353	3,37,910	4,00,332	4,91,600	5,90,503	7,27,090	8,97,284
Cash Balances	25,101	14,991	14,627	25,346	27,511	28,175	35,218
Bank Balances	4,568	5,947	12,653	14,238	8,821	14,542	17,946
Investments	70,929	97,483	1,11,614	1,20,951	1,66,460	2,03,919	2,48,657
Advances	1,59,983	1,95,420	2,39,721	3,03,000	3,65,495	4,53,214	5,61,985
- Growth (%)	27.1	22.2	22.7	26.4	20.6	24.0	24.0
Fixed Assets	2,171	2,347	2,703	3,028	3,122	3,728	4,463
Other Assets	14,601	21,722	19,014	25,036	19,095	23,512	29,015
Total Assets	2,77,353	3,37,910	4,00,332	4,91,600	5,90,503	7,27,090	8,97,284
- Growth (%)	24.7	21.8	18.5	22.8	20.1	23.1	23.4

Ratio Analysis (standalone)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Profitability ratios (%)							
NIMs	4.4	4.5	4.6	4.4	4.3	4.3	4.3
Cost to Income Ratio	48.1	49.7	49.6	45.6	44.6	44.6	44.6
RoA	1.6	1.7	1.8	1.9	1.9	1.9	1.9
RoE	16.7	18.7	20.3	21.3	19.4	18.5	19.7
B/S ratios (%)							
CASA Ratio	52.7	48.4	47.4	44.8	44.0	42.6	41.9
Credit/Deposit Ratio	76.7	79.2	80.9	82.5	81.1	80.4	79.8
CAR	16.2	16.5	16.8	16.1	17.1	15.6	14.3
- Tier I	12.2	11.6	11.1	11.8	13.6	12.8	12.0
Asset Quality (%)							
Gross NPAs	1.0	1.0	1.0	1.0	0.9	0.8	0.7
Net NPAs	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Slippages	1.1	1.0	1.0	2.0	1.9	1.7	1.7
Loan Loss Prov. /Avg. Assets	0.3	0.4	0.3	0.4	0.4	0.3	0.3
Provision Coverage	82.5	82.3	79.3	73.6	73.9	73.4	70.3
Per Share Data (₹)							
EPS	16.9	22.0	28.3	35.3	40.8	49.3	61.0
ABVPS (75% cover.)	109.1	127.5	152.2	181.0	247.2	285.4	332.2
DPS	3.3	4.3	5.5	6.9	6.9	9.5	11.8
Valuation Ratios							
PER (x)	64.9	49.7	38.7	31.0	26.9	22.2	17.9
P/ABVPS (x)	10.0	8.6	7.2	6.0	4.4	3.8	3.3
Dividend Yield	0.3	0.4	0.5	0.6	0.6	0.9	1.1
DuPont Analysis							
NII	4.2	4.2	4.3	4.1	4.1	4.2	4.2
(-) Prov. Exp.	0.8	0.6	0.5	0.4	0.4	0.4	0.3
Adj. NII	3.5	3.6	3.8	3.8	3.8	3.8	3.8
Treasury	(0.0)	(0.0)	0.0	0.0	0.1	0.1	0.1
Int. Sens. Inc.	3.4	3.5	3.9	3.8	3.9	3.9	3.9
Other Inc.	1.8	1.9	1.8	1.8	1.5	1.5	1.5
Op. Inc.	5.2	5.5	5.7	5.6	5.4	5.5	5.5
Opex	2.9	3.0	3.0	2.7	2.6	2.6	2.6
PBT	2.3	2.4	2.6	2.9	2.8	2.9	2.9
Taxes	0.8	0.8	0.8	1.0	0.9	1.0	1.0
RoA	1.6	1.7	1.8	1.9	1.9	1.9	1.9
Leverage	10.7	11.1	11.2	11.2	10.3	9.9	10.5
RoE	16.7	18.7	20.3	21.3	19.4	18.5	19.7

Note: FY2013 onwards ratios reflect revised accounting practices

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Disclosure of Interest Statement	HDFC Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)