

Earnings visibility priced in

CMP: Rs.343
Target Price: Rs.385
Recommendation: ACCUMULATE

Stock Info

BSE Group	A
BSE Code	532187
NSE Symbol	INDUSINDBK
Bloomberg	IIB IN
Reuters	INBK.BO
BSE Sensex	17618.4
NSE Nifty	5345.4

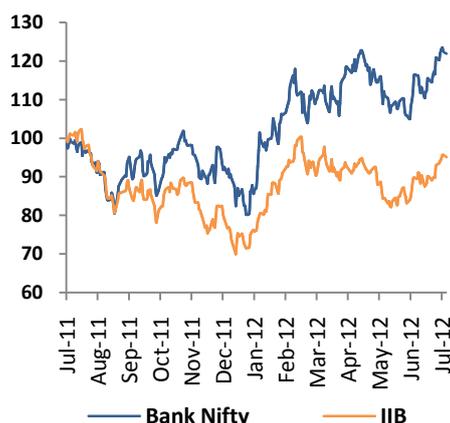
Market Info

Market Capital	16095cr
Equity Capital	469cr
Avg. Trading Vol. (NSE Qtly)	473383
52 Wk High/ Low	352/222
Face Value	10

Shareholding Pattern (%) (30th June 2012)

Promoters	19.4
Domestic Institutions	8.7
Foreign Institutions	34.2
Non Promoters Corp.	13.5
Public & Others	24.2
Govt. Holdings	NA

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	803	975	1173
EPS (in Rs)	17.2	20.8	25.0
PE (x)	20.0	16.5	13.7
PABV (x)	3.5	3.1	2.8



July 11, 2012

IndusInd Bank (IIB) posted healthy profitability with whopping 35% growth YoY driven by strong core income and robust non-interest income performance. While the loan book grew at healthy pace too, the asset quality demonstrated good show with no restructuring during the quarter. However, tightened spreads and not so encouraging CASA momentum offset the robust topline performance.

Healthy business growth: The loan book recorded healthy growth YoY of 31% at Rs 37245 crs followed by strong deposit growth of 28% at Rs 45076 crs. While the proportion of loan mix remains equally divided between corporate and consumer finance, the traction in loan book largely came from the consumer finance portfolio that recorded stupendous growth of 48% YoY. Also, the overall loan book expansion comes from the low base effect but the Management is confident to record 25-30% loan growth for FY13. On the deposits front, although the quantum of total deposits and CASA deposits improved by 28% and 26% YoY respectively, the CASA ratio moderated primarily due to lower traction in CA accounts.

Strong earnings growth: Sturdy interest income backed by strong vehicle finance portfolio drove the NII to record 24% growth YoY at Rs 484 crs. The robust other income performance at 48% growth YoY was backed by 44% growth in core fee income and 79% growth through trading gains. Both the above factors contributed to the robust PAT growth of 31% YoY at Rs 236 crs. While the RoEs improved, the RoAs remained stagnant.

Margin pressures: The steep spike in cost of deposits by ~ 60 bps QoQ and 115 bps YoY coupled with non-commensurate increase in loan yields that rose by mere 4 bps QoQ and ~ 40 bps YoY dragged the margins for the quarter. The NIMs stood at 3.2% down from 3.4% in the same period a year ago. The dip in margins was not major owing to healthy investment yields. Going forward, we expect the margin pressures to sustain and given the higher deposit rates and our expectation of delayed monetary easing.

Stable asset quality

The good show on asset quality came as a surprise especially given the tough environs. The net non-performing asset (NNPA) remained unchanged at 0.27% QoQ while the gross NPA (GNPA) improved a tad from 0.98% (Q4FY12) to 0.97% (Q1FY13). The restructured book fell by 24 bps with no restructuring in Q1. On conservative note, we estimate GNPA of 1.3-1.4% for FY13-14.

Outlook: In our opinion, clearly the earnings visibility stands captured in the valuations and hence we do not expect a major surprise to follow. Furthermore, two key factors to be watched out for this year for IIB and would remain as overhang on the stock momentum are- firstly, the capital raising plans i.e. the form and timing of capital raise and in turn the likely impact on RoEs and secondly, the dilution (form of dilution i.e. through primary issuance or a stake sale to a strategic partner) in promoter stake by the set deadline of December 2012. We maintain Accumulate Rating on the stock, valuing the bank at 3.1X P/ABV FY14E with a price target of Rs 385.

Table 1:- Loan Book Composition

Particulars	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Consumer Finance Division	45%	47%	48%	49%	50%
Corporate & Commercial Banking	55%	53%	52%	51%	50%

Source: - Company, Arianth Research

Table 2:- Total Loan Mix

Particulars	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Large corporate	30%	29%	28%	27%	27%
Mid size corporate	15%	15%	15%	15%	15%
Small corporate	10%	9%	9%	9%	8%
Comm. Vehicle Loans	22%	22%	23%	24%	24%
Utility Vehicle Loans	3%	3%	3%	4%	4%
Small CV	5%	6%	6%	5%	5%
Two Wheeler Loans	4%	4%	4%	4%	4%
Car Loans	3%	4%	4%	4%	4%
Equipment Financing	6%	6%	6%	6%	6%
Credit Card	1%	1%	1%	1%	1%
Loan Against Property	-	-	-	1%	2%
Others (Home, Personal)	1%	1%	1%	-	-
Total	100%	100%	100%	100%	100%

Source: - Company, Arianth Research

Table 3:- Consumer Finance Break-up

Particulars (Rs. cr)	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Comm. Vehicle Loans	6158	6755	7462	8263	8841
<i>% of Total Advances</i>	<i>22%</i>	<i>22%</i>	<i>23%</i>	<i>24%</i>	<i>24%</i>
Utility Vehicle Loans	910	1010	1124	1240	1432
<i>% of Total Advances</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>4%</i>	<i>4%</i>
Small CV	1501	1697	1842	1919	2007
<i>% of Total Advances</i>	<i>5%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>
Two Wheeler Loans	1199	1289	1412	1493	1570
<i>% of Total Advances</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
Car Loans	947	1075	1220	1395	1611
<i>% of Total Advances</i>	<i>3%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
Equipment Financing	1600	1706	1965	2134	2337
<i>% of Total Advances</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>
Credit Card	241	239	234	247	281
<i>% of Total Advances</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>
Others (Home, Personal, Loan Against Property)	147	310	436	546	682
<i>% of Total Advances</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>1%</i>	<i>2%</i>
Total Advances	12703	14081	15695	17237	18761
<i>% of Total Advances</i>	<i>45%</i>	<i>47%</i>	<i>48%</i>	<i>49%</i>	<i>50%</i>

Source: - Company, Arianth Research

Table 4:- Corporate Banking Break-up

Particulars (Rs.cr)	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Large corporate	8604	8750	9109	9502	9952
<i>% of Total Advances</i>	30%	29%	28%	27%	27%
Mid size corporate	4334	4508	4773	5338	5528
<i>% of Total Advances</i>	15%	15%	15%	15%	15%
Small corporate	2743	2796	2849	2987	3004
<i>% of Total Advances</i>	10%	9%	9%	9%	8%
Total Advances	15682	16054	16731	17827	18485
<i>% of Total Advances</i>	55%	53%	52%	51%	50%

Source: - Company, Arian Research

Table 5:- Diversified Corporate Loan Book

Particulars (% of Total Advances)	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
NBFC's (other than HFC's)	5%	5%	6%	5%	4%
Pharmaceutical	3%	3%	3%	3%	1%
Construction related to infra	4%	4%	2%	2%	2%
Lease Rental	-	-	2%	2%	3%
Power	2%	2%	2%	2%	3%
Fertilizers	-	-	-	2%	-
Gems and Jewellery	1%	1%	1%	1%	2%
Steel	1%	1%	1%	1%	1%
Auto Ancillaries	2%	1%	1%	1%	1%
Telecom -Cellular/Tower	3%	3%	3%	1%	-
Aluminum	1%	1%	1%	1%	-
Hosp. & Med. Serv.	1%	1%	1%	1%	1%
Real Estate	3%	3%	-	-	-
Paper	-	-	-	-	1%
Other Industry	28%	27%	28%	26%	30%
Total	55%	53%	52%	51%	50%

Source: - Company, Arian Research

Table 6:- Snapshot of Yields

Particulars (Outstanding Rs. crs)	Q1FY12	Q2FY12	Q3FY12	FY12	Q1FY13
Corporate Bank	15683	16054	16731	17827	18484
Yield (%)	11%	12%	11%	12%	12%
Consumer Finance	12701	14081	15695	17237	18761
Yield (%)	16%	16%	16%	16%	16%
Total	28384	30135	32426	35064	37245
Yield (%)	14%	14%	14%	14%	14%

Source: - Company, Arian Research

Table 7:- Credit Cost breakup loan category-wise

Particulars (Rs. cr)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	FY12	Q1FY13
Corporate Bank	15.8	20.1	10.1	15.1	61.1	21.4
Consumer Finance	22.9	19.9	18.4	20.4	81.5	23.9
Total Credit Costs	38.7	39.9	28.5	35.5	142.6	45.3
Credit Costs (Basis point on Advances)	14	13	9	10	41	12
PCR (%)	73%	72%	72%	73%	73%	73%

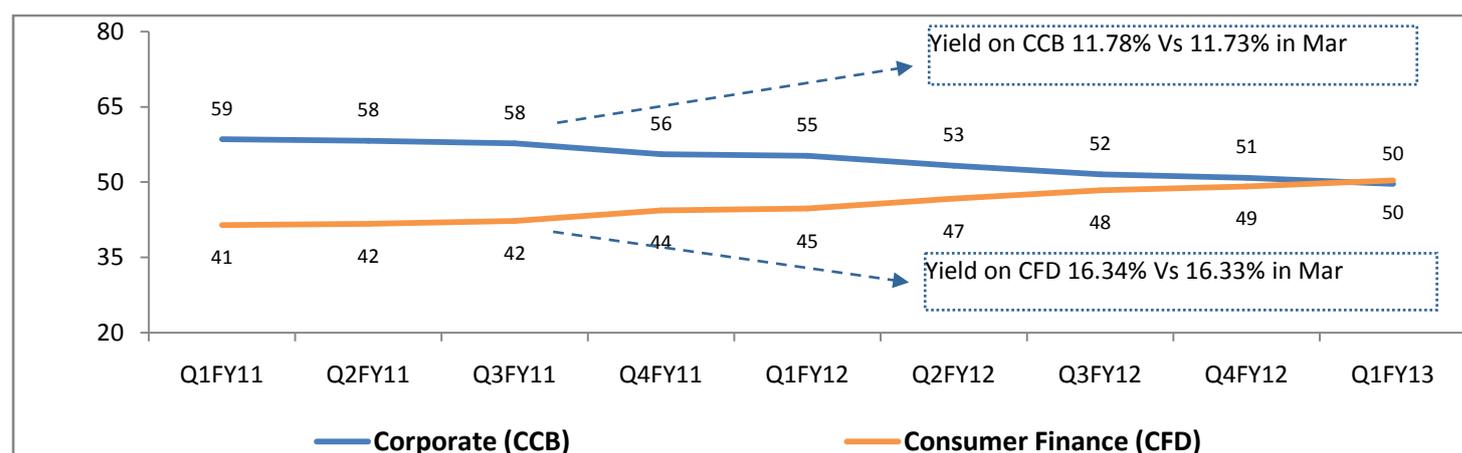
Source: - Company, Arian Research

Table 8:- Spreads matrix (Downward movement in Spreads)

Particulars	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Yield on Advances	13.5%	13.8%	13.8%	13.9%	14.0%
Cost of Deposits	7.7%	8.2%	8.2%	8.3%	8.9%
Spreads	5.8%	5.7%	5.6%	5.6%	5.1%

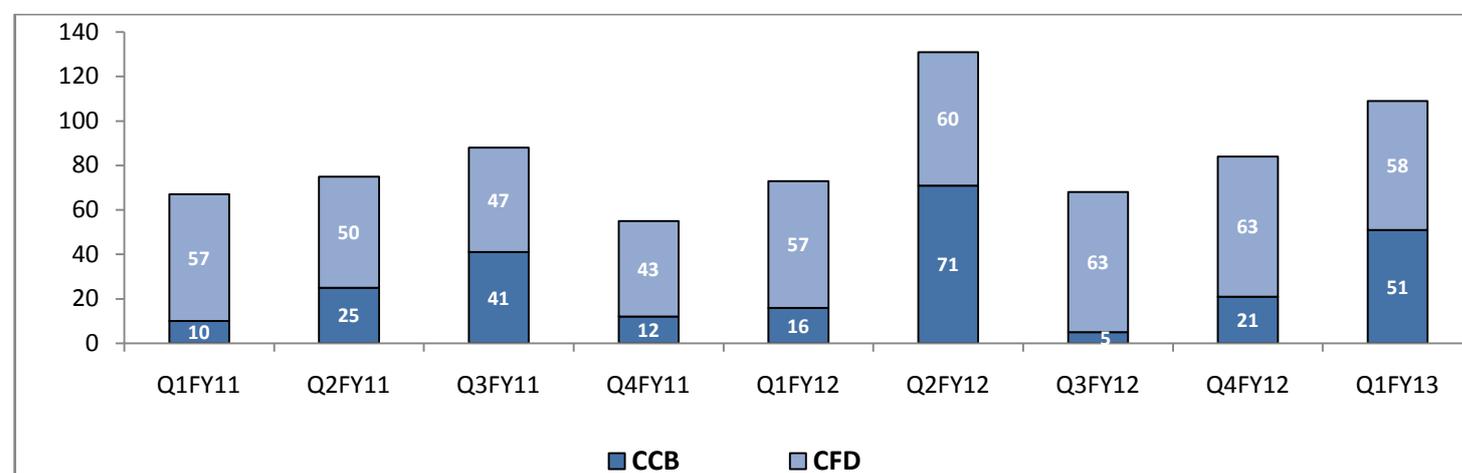
Source: - Company, Arian Research

Chart 1:- Segment-wise Proportion of Yield (%)



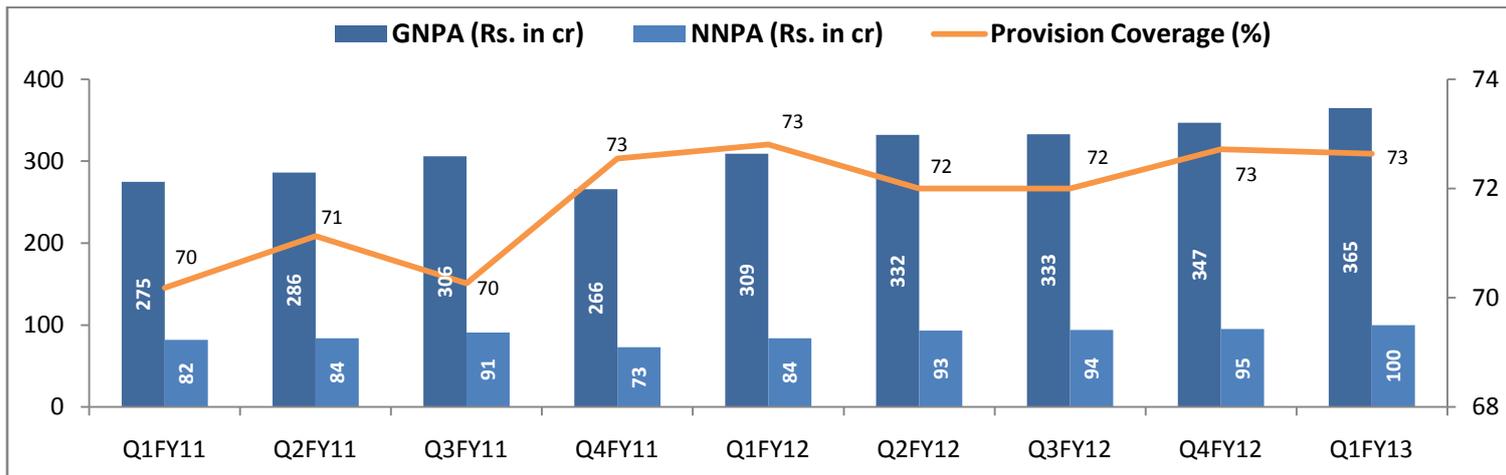
Source: - Company, Arian Research

Chart 2:- Addition to GNPA (Rs. in cr)



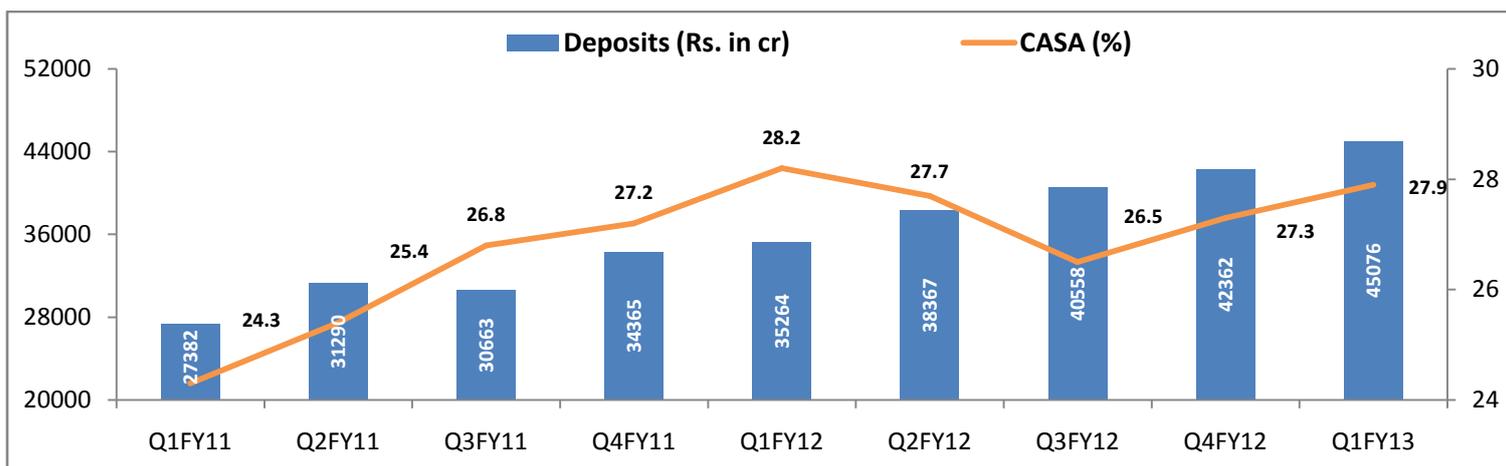
Source: - Company, Arian Research

Chart 3:- Asset quality status (Though quantum in GNPLs increased, in percentage terms GNPLs were down)



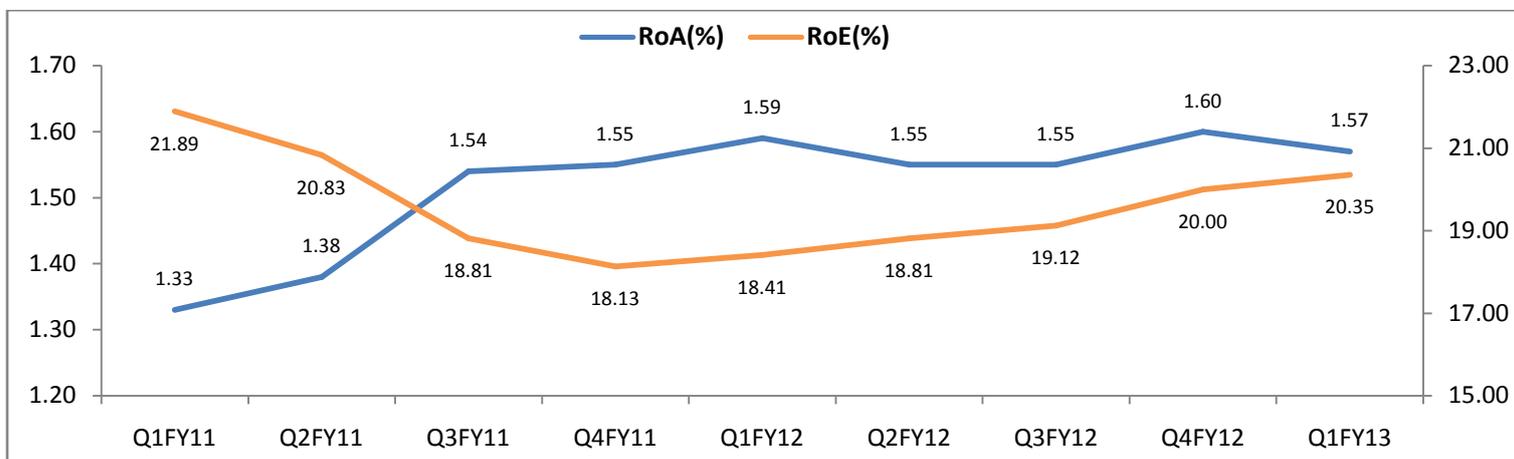
Source: - Company, Arianth Research

Chart 4:- CASA momentum not very encouraging; deposits growth remain strong



Source: - Company, Arianth Research

Chart 5:- Though RoAs dropped, RoEs inched upwards



Source: - Company, Arianth Research

Q1FY13 Earnings Summary

Reported Quarterly Results						
Particulars (Rs in Cr)	Q1FY13	Q1FY12	YoY	Q4FY12	QoQ	Comments
Interest Earned	1,632.0	1,164.6	40%	1,481.0	10%	
Yield on Advances (%)	14.0	13.5		13.9		
Interest Expended	1,147.9	774.6	48%	1,016.6	13%	Steep increase in Cost of deposits weighed higher on margins
Cost of Funds (%)	7.6	6.6		7.3		
Net Interest Income	484.1	390.0	24%	464.4	4%	Robust NII growth backed by core income and growth in vehicle finance portfolio
Other Income	318.78	215.4	48%	292.1	9%	Healthy non-interest income backed by growth in fees and higher trading gains
Other income / Net Income (%)	40	35.6		38.6		
Total income	802.9	605.4	33%	756.5	6%	
Employee Expenses	152.56	110.7	38%	133.4	14%	
Non-Employee expenses	246.29	183.0	35%	243.9	1%	
Operating Expenses	398.9	293.7	36%	377.4	6%	
Cost-income Ratio (%)	49.7	48.5		49.9		Higher opex kept the C/I ratio on higher side
Pre-Prov Profits	404.0	311.7	30%	379.1	7%	
Provisions & Contingencies	53.50	44.6	20%	46.0	16%	Credit costs went up
PBT	350.5	267.1	31%	333.1	5%	
Provisions for Tax	114.27	87.0	31%	109.7	4%	
Effective Tax Rate (%)	32.6	32.5		32.9		
PAT (reported)	236	180	31%	223.4	6%	Robust bottom-line growth backed by core income and non-interest income
EPS Basic	5.1	3.9		4.8		
EPS Diluted	5.0	3.9		4.7		
BVPS	101.7	86.0		96.7		
GNPA	365.1	309.3		347.1		Quantum in GNPLs stood higher given the tough environs, yet manageable
NNPA	99.9	83.8		94.7		
GNPA (%)	0.97	1.08		0.98		GNPLs fell, with no restructured account reported this quarter
NNPA (%)	0.27	0.30		0.27		
Total CAR (%)	12.9	15.0		13.9		
Tier 1 (%)	10.6	11.7		11.4		
Tier 2 (%)	2.2	3.3		2.5		
NIM (%)	3.2	3.4		3.3		High cost of deposits dragged the margins down
Advances	37,245.0	28,384.4	31%	35,064.0		Healthy loan book growth backed by traction in consumer finance portfolio
Deposits	45,076.0	35,264.1	28%	42,362.0		

Source: - Company, Arianth Research

Income Statement

Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	3,589	5,359	6,612	8,184
Interest Expenses	2,213	3,655	4,482	5,450
Net Interest Income	1,377	1,705	2,130	2,734
- growth %	55	24	25	28
Other Income	714	1,012	1,294	1,668
Operating Income	2,090	2,716	3,424	4,402
- growth %	45	30	26	29
Operating Expenses	1,008	1,343	1,680	2,143
- Staff Cost	383	485	641	845
- Other Operating Exp.	626	858	1,039	1,298
Gross Profits	1,082	1,373	1,744	2,260
- growth %	54	27	27	30
Provisions	202	180	288	510
Profit Before Taxes	880	1,193	1,455	1,750
Taxes	302	390	480	578
Profit After Taxes	577	803	975	1,173
- growth %	65	39	21	20

Balance sheet

As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
Capital	466	468	469	470
Reserves & Surplus	3,584	4,274	5,105	6,086
Deposits	34,365	42,362	52,317	64,611
- growth %	29	23	24	24
Borrowings	5,525	8,682	12,155	15,801
Other liabilities & provisions	1,695	1,811	2,274	2,929
TOTAL LIABILITIES	45,636	57,596	72,319	89,898
Cash, Inter-bank, etc	2,456	2,904	4,221	5,212
Money at call and short notice	1,569	2,636	3,603	4,632
Advances	26,166	35,064	44,181	55,668
- growth %	27	34	26	26
Investments	13,551	14,572	17,019	20,555
Fixed assets	596	657	685	816
Other assets	1,298	1,764	2,611	3,015
TOTAL ASSETS	45,636	57,596	72,319	89,898

Ratio Analysis

	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	13.2	17.2	20.3	25.8
Book Value per share	87	97	113	134
Adjusted Book Value	87	97	113	127
Dividend per share	2.0	2.2	2.5	3.5
Asset Quality (%)				
Gross NPAs	1.0	1.0	1.1	1.4
Net NPAs	0.3	0.2	0.3	0.4
NPA Coverage	72.6	79.0	71.0	71.0
Profitability ratios (%)				
RoAE	19.3	19.3	19.8	20.1
RoAA	1.4	1.6	1.5	1.5
NIM	3.6	3.5	3.5	3.6
Operating Profit Margin	25.1	21.6	22.1	22.9
Net Profit Margin	13.4	12.6	12.3	11.9
Cost to Income	48.2	49.4	49.1	48.7

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	12.1	13.8	13.5	13.4
Yield on investments	6.1	7.7	7.4	7.3
Cost of deposits	6.0	8.0	7.8	7.8
Cost of funds	6.2	8.0	7.8	7.5
Spread	3.3	3.6	3.1	3.4
Interest Income to AWF	9.3	10.8	10.5	10.5
Net Interest Income to AWF	3.6	3.4	3.4	3.5
Non Interest Income to AWF	1.8	2.0	2.1	2.1
Operating Expense to AWF	2.6	2.7	2.7	2.7
Operating Profit to AWF	2.8	2.8	2.8	2.9
Net Profit to AWF	1.5	1.6	1.6	1.5

Valuation ratios (x)				
P/E	26.1	20.0	16.5	13.7
P/BV	3.9	3.6	3.0	2.5
P/ABV	3.9	3.5	3.1	2.8

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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