

Banks

July 11, 2012

Rating: Accumulate; CMP: Rs 343.6; Target: Rs 387; Upside: 13%; Time Horizon: 1 Yr

Basic Info

Bloomberg Code	IIB IN
Market Cap (Rs cr)	16080
Face Value (Rs)	10
Book Value (Rs)	101
EPS (Rs)	15.6
Dividend Yield	0.64%
52 week H/L (Rs)	351.9/221.75
Avg Weekly Vol (NSE+BSE)	299800
Listed At	BSE,NSE
Equity capital (Rs cr)	468.8

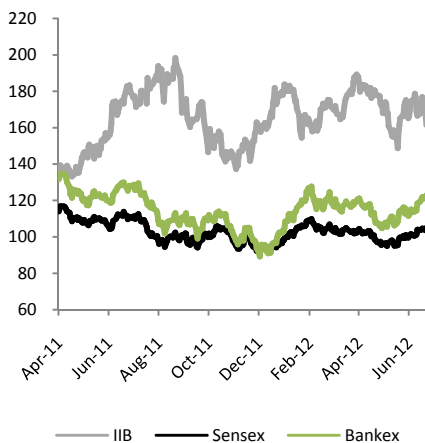
Share Holding Pattern (%) (30th June 2012)

Promoter	19.41
FII	34.22
DII	8.70
Others	37.67
Total	100.00

Price Performance %

	1M	3M	6M	12M
Absolute	4.6	2.7	31.5	22.0
Rel to Sensex	-1.1	0.5	22.5	27.9
Rel to Bankex	-3.2	-2.4	8.2	25

1 Year Price Performance



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Broad based Performance with stable Asset Quality

IndusInd Bank (IIB) continued to record strong numbers (in-line with expectations) in the first quarter of FY13 despite of deteriorating economic environment leading to overall tepid credit growth. IIB's performance was broad based, non-interest income remained robust with posting growth of 48% and outperforming loan growth. Asset quality remained strong and no threat was seen on this front with Net NPA at 0.27% in Q1FY13, unchanged from previous quarter.

Loan Book grows ahead of overall credit growth in the economy: Advances grew 31% (yoy) and 6% (qoq) to Rs 37245cr in Q1FY13. Corporate and Commercial Banking (CCB) and Consumer Finance Division (CFD) comprised 50:50 of the total loan which is in-line with the management guidance. Management expects 25-30% growth in loan book in FY13E.

CASA driven by SA: CASA has grown 26% (yoy) and 9% (qoq) in this quarter, led by higher growth in SA which posted a growth of ~60% (yoy) and 9% (qoq). Focus on government business is likely to push CASA upward in the coming quarters.

Strong Asset Quality Continues: Net NPA for the quarter under consideration stands at 0.27%, unchanged from previous quarter. Gross NPA at 0.97% declined marginally by 1 bps compared to previous quarter. IIB's diversified corporate loan book is not highly exposed to distressed sectors. There was no restructuring loan added in this quarter and consequently total restructured assets were down by 2 bps. PCR Ratio at 72.64% is comfortable as per RBI norms.

NIMs shrink by 6 bps; But no Worries: NIMs (reported) declined by 7 bps (qoq) and 19 bps (yoy) due to higher cost of fund. Going forward, management is anticipating some relief in cost of funding in the coming quarters due to short term deposits trending lower.

Robust growth in Core Fee Income: Other income which constitutes ~40% of the total income grew 48% (yoy) on the back of exponential growth of 44% (yoy) in core fee income driven by foreign exchange income, distribution fees and loan processing fees. Contribution from third party distribution income declined to Rs 56c from ~Rs 71cr in previous quarter due to seasonal effect and no extra commission on non-life arrangements.

Valuations

RoA and RoE of IIB continue to remain are one of the highest in the industry. We expect IIB to deliver an impressive 32% earnings CAGR during FY11-14E. At CMP of Rs 344, IIB trades at 14x FY13E and 11.2x FY14E EPS. On P/ABV, it trades at 2.9x FY13E and 2.4x FY14E ABV. We maintain BUY recommendation on IIB with unchanged target price of Rs 387, implying potential upside of 13%.

Key Risks: (1) Cyclicity in CV Business (2) execution risk (3) any substantial deterioration in economic environment may hamper the growth strategies (4) Increasing focus on CFD may lead higher NPAs.

Year	NII (Rs. Cr)	PAT (Rs. Cr)	ROE (%)	ROA (%)	ABVS (Rs.)	P/ABV (x)
FY12	1704.2	729.0	16.3%	1.4%	101.1	3.5
FY13E	2538.9	1148.8	21.7%	1.8%	120.8	2.9
FY14E	3087.1	1439.5	22.7%	1.8%	145.4	2.4

OUTLOOK & VALUATION

Last three year proved restructuring story with the joining of new management who addressed a whole host of issues inherited from the past. The challenge was to recapitalize, re-talent and re-organize the bank structure and also restructure the balance sheet. IndusInd Bank has witnessed commendable performance in last three years. By the end of Planning Cycle I, RoA and RoE improved to 1.4% 17.8% in FY2011 from mere 0.3% and 6% in FY2008 respectively. NIMs (after provisions) reached to 2.7% in FY2011 from only 1% in FY2008. Quality of the bank's assets improved with NPAs falling to 0.28% as on FY11 from 2.27% in FY08. Bottom-line of the bank grew at a CAGR (FY08-11) of 97%. For the Planning Cycle II, we expect the bottom-line growth of IIB at 37% CAGR (FY11-14). The transformation period of IIB can be summarized by the changes seen since FY08.

After achieving the set target for Planning Cycle I successfully, IIB moved further with aggressive plans and targets for second phase. With the improved performance parameters and consistent growth of business, strategy for the next phase is 'Scale with Profitability'. Guidance for FY11-14 remains aggressive like the previous phase of planning cycle. As a part of the Phase 2 strategy (spanning over FY11-14), management expects bank's loan book to grow at 25-30%. Consumer finance division is likely to reach at Rs 25000cr, entirely funded by CASA. Hence, to ramp up CASA, bank plans to leverage its branch network with expected 350 new branches in the period of FY11-14. We expect CASA to reach at ~33% of total deposits by FY14 from present levels of 27%. Management expects CD ratio in the range of 75-80%, for that deposits to be put to efficient use. Further, fee growth is expected to exceed the loan growth in coming years led by increased focus on fee enhancers.

RoA and RoE of IIB continue to remain are one of the highest in the industry. We expect IIB to deliver an impressive 32% earnings CAGR during FY11-14E. At CMP of Rs 344, IIB trades at 14x FY13E and 11.2x FY14E EPS. On P/ABV, it trades at 2.9x FY13E and 2.4x FY14E ABV. We recommend 'Accumulate' on IIB with the blended target price of Rs 387, implying potential upside of 13%.

Triangulated Valuation Approach			
Methodology		Weight	Value
FY13E Adjusted Book Value (Rs)	117.6		
P/ABV Multiple (x)	3.2		
Value per share (Rs)	376	40%	151
FY13E EPS (Rs)	24.6		
P/E Multiple (x)	16.7		
Value per share (Rs)	410	40%	164
Value per share by Residual Income Method (Rs)	362	20%	72
BLENDED VALUE PER SHARE (Rs)			387
CMP (Rs)			343.6
UPSIDE (%)			13%

Exhibit 1: Strong Advances growth continues in Q1FY13

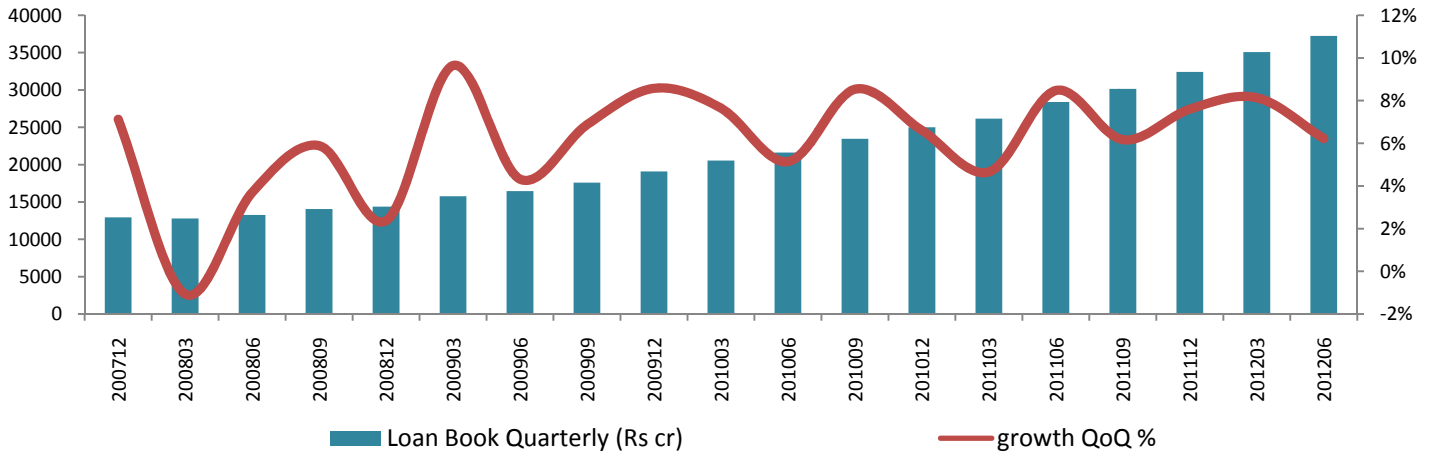


Exhibit 2: Break-up of Total Loan Portfolio

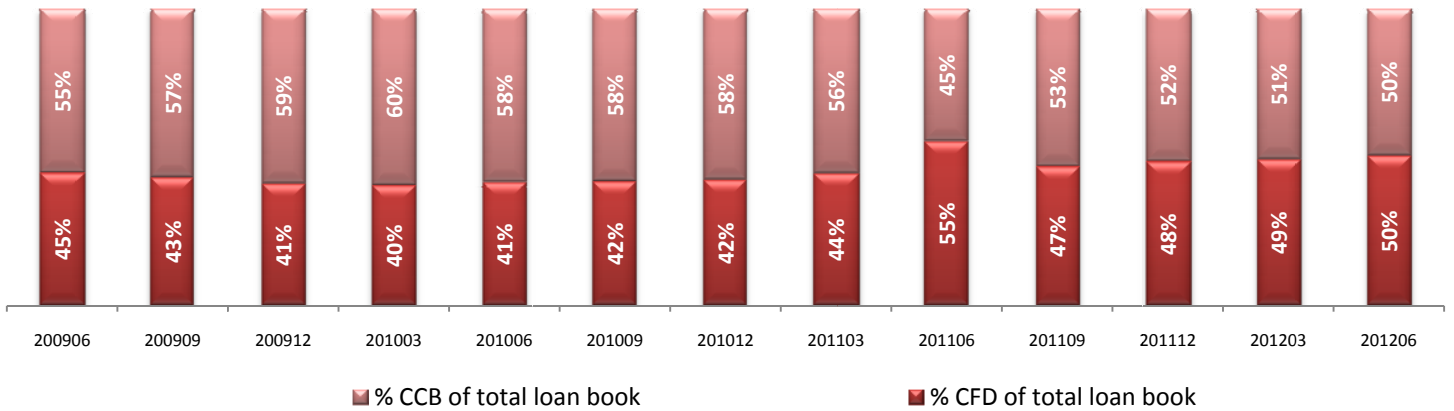
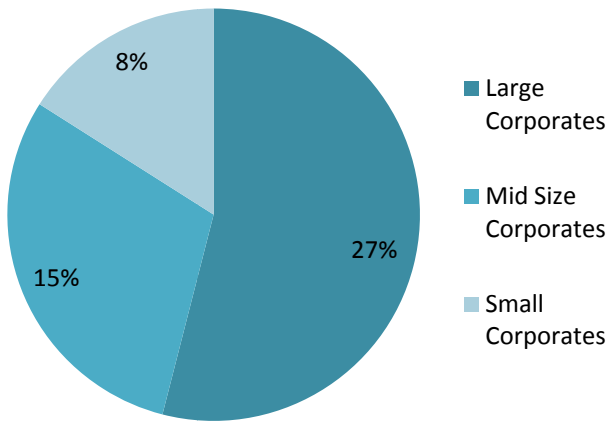
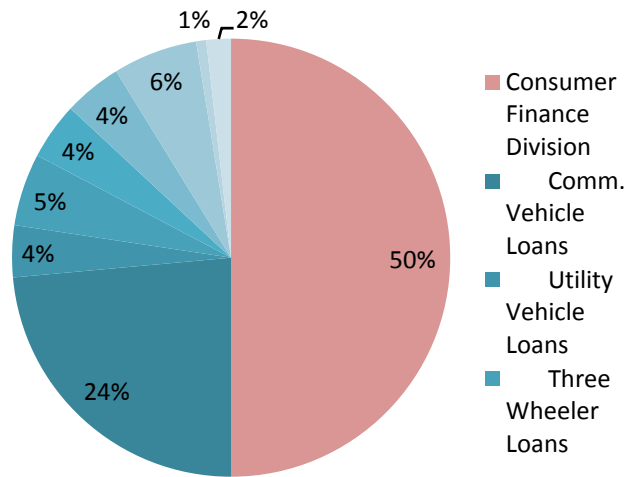


Exhibit 3: Loan Mix of CCB Division in 1QFY13



Source: Company, Fairwealth Research

Exhibit 4: Loan Mix of CFD Division in 1QFY13



Source: Company, Fairwealth Research

Exhibit 5: CASA in 1QFY13

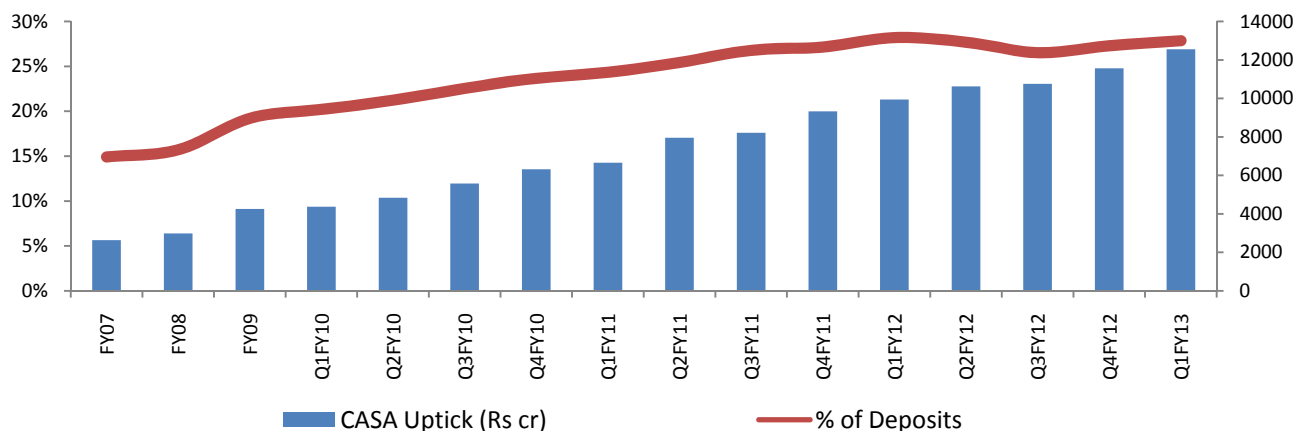


Exhibit 6: Asset Quality continues to be one of the best in the industry

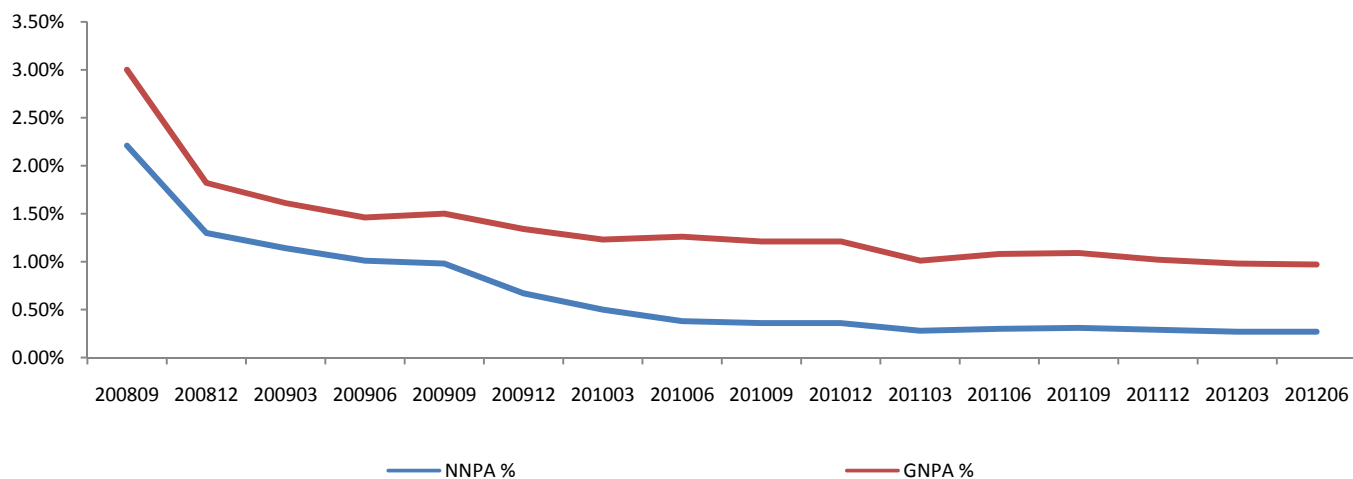
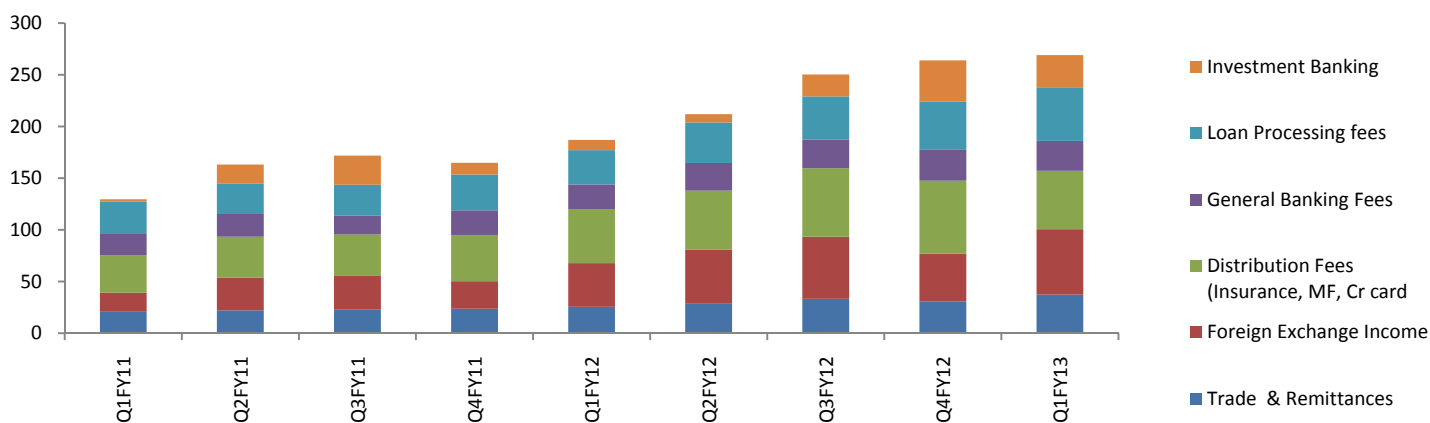


Exhibit 7: Diversified Core fee Income (Rs cr)



Source: Company, Fairwealth Research

Particulars	QUARTELY						Growth YoY	Growth QoQ
	Rs Crore	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13		
Interest income	1165	1324	1390	1481	1632	40%	10%	
Interest on advances	901	1037	1083	1196	1312	46%	10%	
Interest on investments	247	267	294	270	303	22%	12%	
Interest on other resources	17	20	13	15	17	4%	15%	
Interest expenses	775	905	959	1017	1148	48%	13%	
Net interest income	390	419	431	464	484	24%	4%	
Operating expenses	294	325	347	377	399	36%	6%	
Staff expense	111	115	126	133	153	38%	14%	
Other Opex	183	210	220	244	246	35%	1%	
Other income	215	239	265	292	319	48%	9%	
Operating profit	312	333	349	379	404	30%	7%	
Provisions	45	47	43	46	54	20%	16%	
Profit before tax	267	286	306	333	351	31%	5%	
Provision for tax	87	93	100	110	114	31%	4%	
Profit after tax	180	193	206	223	236	31%	6%	
EPS (Rs)	3.9	4.1	4.4	4.8	5.0	30%	5%	
Gross NPA	1.1%	1.1%	1.0%	1.0%	1.0%	-11 BPS	-1 BPS	
Net NPA	0.3%	0.3%	0.3%	0.3%	0.3%	-3 BPS	0 BPS	
NIM (Reported)	3.4%	3.4%	3.3%	3.3%	3.2%	-19 BPS	-7 BPS	
ROA (Reported)	1.6%	1.6%	1.6%	1.6%	1.6%	-2 BPS	-3 BPS	
ROE (Reported)	18.4%	18.8%	19.1%	20.0%	20.4%	+194 BPS	+35 BPS	
Cash & Bank Balances	3236	3835	3836	5540	4733	46%	-15%	
Investments	14233	14286	15362	14572	16308	15%	12%	
Advances	28384	30135	32426	35064	37245	31%	6%	
Fixed Assets	613	624	635	657	671	9%	2%	
Other Assets	1372	1576	2874	1840	1755	28%	-5%	
Deposits	35264	38367	40558	42362	45076	28%	6%	
CASA	9946	10627	10757	11563	12557	26%	9%	
Borrowings	6642	5985	8137	9054	8705	31%	-4%	
Other Liabilities	1701	1675	1803	1515	1947	14%	29%	
Net worth	4231	4429	4635	4731	4984	18%	5%	
Balance sheet	47838.2	50455.8	55132.9	57672.5	60712	27%	5%	
CASA As % of total deposits	28.2%	27.7%	26.5%	27.3%	27.9%			
CD ratio	80%	79%	80%	83%	83%			

ANNUAL FINANCIALS

Profit & Loss A/c							
Rs.cr	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Interest Income	1881	2309	2707	3589	5359	6300	7413
Interest Expense	1580	1850	1821	2213	3655	3761	4326
Net Interest Income	301	459	886	1377	1704	2539	3087
Change (%)		53%	93%	55%	24%	49%	22%
Non Interest Income	298	490	553	714	1012	1310	1769
Total Income	599	949	1440	2090	2716	3849	4856
Change (%)		58%	52%	45%	30%	42%	26%
Operating Expenses	403	578	736	1009	1417	1873	2396
Pre Provision Profits	196	371	703	1081	1299	1976	2460
Change (%)		89%	90%	54%	20%	52%	25%
Provisions (excl tax)	82	144	171	202	180	213	251
PBT	114	227	533	879	1119	1763	2209
Tax	39	79	182	302	390	614	769
PAT	75	148	350	577	729	1149	1439

Balance Sheet							
Rs.cr	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Share Capital	320	355	411	466	467.7	468	468
Equity Application money	0	0	2	8	11.0	11	11
Reserves	1030	1309	1984	3576	4263.1	5182	6334
Net Worth	1350	1664	2395	4042	4730.8	5650	6801
Deposits	19037	22110	26710	34365	42361.6	52952	66190
Borrowings & Bills Payable	1413	3092	5317	5885	9054.2	9696	12027
Other Liabilities	1519	748	1005	1390	1515.0	1894	2273
Total Liabilities	23319	27615	35430	45691	57672.5	70203	87302
Current Assets	2178	1924	2603	4025	5539.6	5560	6950
Investment	6630	8083	10402	13551	14572	20348	24553
Loans & Advances	12795	15771	20551	26166	35064	42778	53473
Fixed Assets	625	623	645	596	657	1031	1287
Other Assets	1091	1214	1230	1353	1840	487	1040
Total Assets	23319	27615	35430	45691	57672	70203	87302

Key Metrics							
	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Operational & Financial Ratio							
EPS (Rs)	2.3	4.2	8.5	12.4	15.6	24.6	30.8
DPS (Rs)	0.6	1.3	1.8	2.0	2.2	4.9	6.2
Book Value / Share (Rs)	42.2	46.9	58.3	86.7	101.1	120.8	145.4
Adj Book Value / Share (Rs)	33.1	41.8	55.8	85.2	99.1	117.6	142.0
Dividend Payout %	25.6%	30.1%	21.1%	16.1%	14.1%	20.0%	20.0%
Growth Ratio							
ABV per share (%)	35%	26%	34%	53%	16%	19%	21%
Advances (%)	15%	23%	30%	27%	34%	22%	25%
Deposits (%)	8%	16%	21%	29%	23%	25%	25%
PAT (%)	10%	98%	136%	65%	26%	58%	25%
EPS (%)	10%	78%	104%	45%	26%	58%	25%
Asset Quality							
Gross NPA (Rs cr)	392	255	255	266	347	513	599
Gross NPA %	3.07%	1.62%	1.24%	1.02%	0.98%	1.20%	1.12%
Net NPA %	2.27%	1.14%	0.50%	0.28%	0.27%	0.35%	0.30%
Slippage %	1.22%	1.39%	1.08%	0.73%	NA	NA	NA
Coverage %	26%	30%	60%	73%	73%	71%	73%
Asset-Liability Profile							
Leverage (x)	15	15	13	10	11	11	12
CD ratio (%)	67%	71%	77%	76%	83%	81%	81%
CASA (%)	16%	19%	24%	27%	27%	30%	33%
Profitability & Efficiency							
Net Interest Margin (%)	1.5%	1.9%	2.8%	3.4%	3.2%	3.9%	3.8%
Net Interest Income/EA (after prov.) (%)	1.0%	1.2%	2.1%	2.7%	2.8%	3.4%	3.3%
ROA (%)	0.3%	0.6%	1.1%	1.4%	1.4%	1.8%	1.8%
ROAE (%)	6.0%	9.8%	17.3%	17.8%	16.3%	21.7%	22.7%
Valuation							
P/ABV (x)					3.46	2.91	2.41
P/E (x)					22.0	13.9	11.1

Du Pont Analysis							
% of Average Assets	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Net interest income	1.4%	1.8%	2.8%	3.4%	3.3%	4.0%	3.9%
Other income	1.3%	1.9%	1.8%	1.8%	2.0%	2.0%	2.2%
Total income	2.7%	3.7%	4.6%	5.1%	5.3%	6.0%	6.2%
Operating expenses	1.8%	2.3%	2.3%	2.5%	2.7%	2.9%	3.0%
Pre provision income	0.9%	1.5%	2.2%	2.6%	2.5%	3.1%	3.1%
Loan loss provisions	0.4%	0.6%	0.5%	0.5%	0.3%	0.3%	0.3%
Pre -tax pre extraordinary income	0.5%	0.9%	1.7%	2.1%	2.2%	2.8%	2.8%
(1- tax rate)	65.8%	65.3%	65.8%	65.7%	64.0%	64.0%	64.0%
ROA	0.3%	0.6%	1.1%	1.4%	1.4%	1.8%	1.8%
Avg assets/avg equity	18.4	16.9	15.5	12.6	11.8	12.3	12.6
ROAE	6.0%	9.8%	17.3%	17.8%	16.3%	21.7%	22.7%

Stock Ratings			
BUY	The stock's total return is expected to exceed 15% over the next 12 months		
ACCUMULATE	The stock's total return is expected to be within 10-15% over the next 12 months		
HOLD	The stock's total return is expected to be within 0-10% over the next 12 months		
SELL	The stock's total return is expected to give negative returns over the next 12 months		
NOT RATED	The Analyst has no recommendation on the stock under review		
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