

Indusind Bank

Rs 261

Consistent operating performance in tough environment

BUY

Indusind Bank (IIB) delivered another strong operating performance with PAT of Rs 206crore (up 33.9% y-o-y and 6.7% q-o-q), in line with our expectation, but above street's expectation. NII grew modestly 18.6% y-o-y & 2.7% q-o-q driven by strong loan growth 7.6% q-o-q. Core fee income continued to show strong momentum growing by 45.7% y-o-y & 18.2% q-o-q led by strong growth in various fee generating segments. Loan growth was at 29.7% y-o-y and 7.6% q-o-q, outpacing sector growth aided by strong growth in retail loan book (48.4% y-o-y & 11.5% q-o-q). Deposits increased 32.3% y-o-y and 5.7% q-o-q, CASA ratio showed marginal dip q-o-q due to sharp contraction in current account deposits (-8% q-o-q). However, Saving bank deposits registered strong growth 54% y-o-y & 21% q-o-q largely benefiting from saving bank de-regulation during the quarter. Given tough macro environment, asset quality has been fairly strong during the quarter with Net NPAs at 0.29%. The stock ended 6.2% up post results. Maintain BUY.

NIM contraction led to modest NII growth: Net interest income grew modestly 18.6% y-o-y & 2.7% q-o-q led by strong loan growth 29.7% y-o-y. NIM contracted 10bps q-o-q to 3.25% due to higher incremental refinancing costs and decline in yield in corporate loan book (33bps q-o-q). The management has guided us that NIM has bottomed out and is likely to improve going forward. We believe higher proportion of fixed rate loan book (48%) would be immensely benefited from rate easing cycle, positively impact NIMs.

Core fee income continued to show strong momentum: Core fee income continued to show strong growth momentum (up 45.7% y-o-y and 18.2% q-o-q) driven by forex income, investment banking and distribution income contributing 79.0% to Non-interest income. Trading gains stands at 5% of non interest income, down 46% q-o-q to Rs13crore. The management expects core fee income continues to grow higher than balance sheet growth over FY11-13. We are factoring 35.2% CAGR in fee income over FY11-FY13e.

Fairly stable asset quality in tough macro environment: Broad asset quality held up well during the quarter as Gross NPA flat q-o-q to 1.0% in a challenging macro environment. Net NPAs has remained stable at 0.3% with provision coverage of 72% in Q3FY12. Restructured asset pool stood at 0.22% of loan book, which is one of the lowest in the industry. The management has guided us that the credit costs for FY12 would be lower than FY11 levels, reflecting superior underwriting standards.

Superior return ratio and healthy capital adequacy ratios - The bank reported 1.55% RoA & 19.1% RoE in Q3FY12. Capital adequacy stood at 13.4% while tier I stood at 10.7% excluding 9MFY12 profits. We expect the bank to raise equity in FY13 to support their asset growth and BASEL III norms.

Valuation & Recommendation

Indusind Bank delivered another strong quarterly earnings supported by modest NII growth, strong core fee income growth and stable credit costs. We expect IIB to deliver 28.2% CAGR in earnings over FY11-FY13. At Rs 261 the stock is trading at 2.3x FY13 ABV and 11.9x FY13 earnings. We expect RoA and RoE to remain at healthy level of 1.6% and 20.1% respectively in FY13. **Strong earnings growth visibility, NIM improvement led by rate easing cycle and superior asset quality are key value drivers for the stock. We reiterate our BUY rating on the stock with a target price of Rs 309 (Potential upside 18.4%).**

Key Financials

Rs in crore	FY10	FY11	FY12E	FY13E
Net Interest Income	886	1376	1700	2126
Pre-provision profit	704	1082	1389	1941
Net Profit	350	577	802	1022
EPS	8.5	12.4	17.2	21.9
BVPS	58.3	86.7	100.5	117.9
ABVPS	55.8	85.2	98.0	114.4
P/E	30.6	21.1	15.2	11.9
P/ABV	4.7	3.1	2.7	2.3

Source: Company, KRChoksey Research

Target Price (Rs): 309

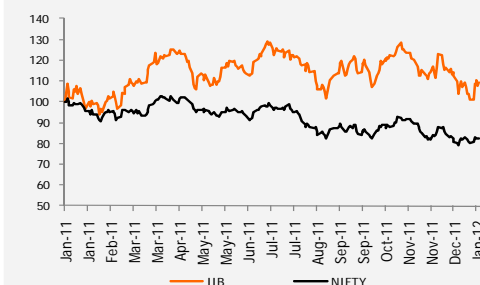
Potential Upside : 18.4%

Previous TP (Rs): 304

Market Data	
Equity sh. O/S (Cr)	46.7
MCAP (Rs crs)	12,174
52 Wk H/L (Rs)	292/181
Avg Vol (3m avg)	573473
Fee float (%)	75%
Face Value (Rs)	10
Bloomberg Code	IIB IN

Market Info:

SENSEX	16,165
NIFTY	4,850

Price Performance**Share Holding pattern (%)**

Particulars	Dec-11	Sep-11	Chg
Promoters	19.5	19.5	0.0
FII's	34.7	35.2	-0.5
Institutions	7.7	7.2	0.5
Others	38.1	38.1	0.0
Total	100	100	

Source: BSE

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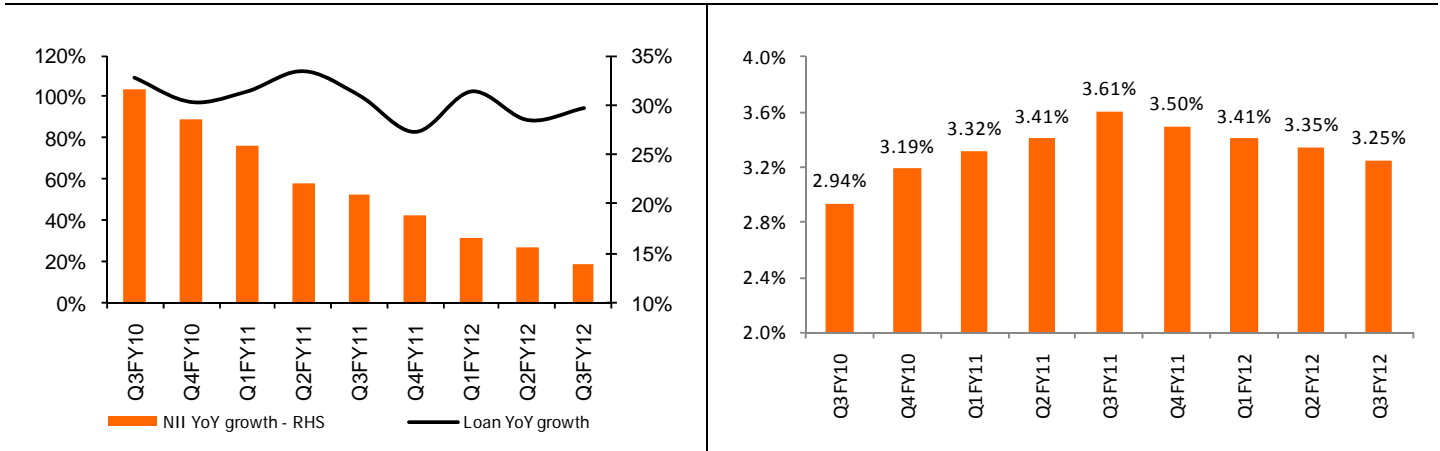
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NIM contracted led to modest NII growth

Net interest income grew modestly 18.6% y-o-y & 2.7% q-o-q led by strong loan growth 29.7% y-o-y. NIM contracted 10bps q-o-q to 3.25% due to higher incremental refinancing costs and decline in yield in corporate loan book (33bps q-o-q). The management has guided us that NIM has bottomed out and is likely to improve going forward. We believe higher proportion of fixed rate loan book (48%) would be immensely benefited from rate easing cycle, positively impact NIMs. We expect NII to grow 24.3% CAGR over FY12-FY13 led by strong growth in loan book and steady NIMs.

Exhibit: 1 Loan and NII growth Trend

Exhibit: 2 NIM and Cost of Fund Trend



Source: Company, KRChoksey Research

Core fee income continued to show strong momentum

Non-interest income showed strong momentum accelerating by 35.8% y-o-y and 10.8% q-o-q to Rs 250.3 crore, largely driven by core fee income which grew 45.7% y-o-y and 18.2% q-o-q. Core fee income constitutes 94% to the total non-interest income. Foreign exchange income, investment banking and third party products distribution were key drivers for the growth in fee income. Investment banking fees saw strong sequential growth and has robust pipeline to grow fee income going forward. We believe superior transaction product offering, sharper management focus on fee income enhancer & best in class service delivery continue to drive fee income going forward. We are factoring 35.2% CAGR in core fee income for FY11-FY13e led by trade finance, forex income, distribution income and investment banking.

Exhibit :3 Non- interest income growth

(Rs in crore)	Q3FY12	Q2FY12	Q3FY11	y-o-y	q-o-q
Fee & FX	250.3	211.9	171.9	45.7%	18.2%
Securities / MM Market	13.1	23.9	24.0	-45.5%	-45.2%
Misc income	1.7	3.5	0.1	-	-
Non Interest Income	265.1	239.2	196.0	35.3%	10.8%

Exhibit: 4 Core Fee Income Growths

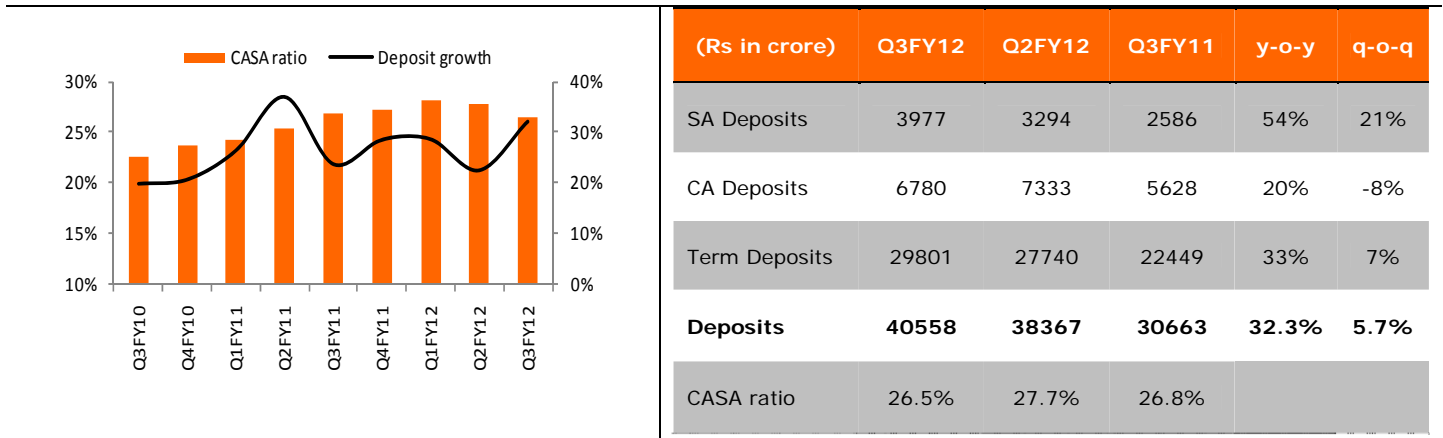
(Rs in crore)	Q3FY12	Q2FY12	Q3FY11	y-o-y	q-o-q
Trade Fees (LC, BG, Remittances)	33.2	28.6	22.7	46.1%	16.3%
Processing Fees & other charges	41.6	39.1	29.6	40.4%	6.3%
Foreign Exchange Income	60.1	52.3	32.7	84.2%	15.0%
TPP Distribution Income	66.3	57.1	40.2	65.1%	16.2%
Investment Banking Income	21.3	8.0	28.3	-24.6%	167.7%
General Banking Fees	27.8	26.9	18.4	51.0%	3.5%
Total	250.3	211.9	171.9	45.7%	18.2%

Source: Company, KRChoksey Research

Deposit up 32% y-o-y; saving bank deposits growth gaining strong momentum post deregulation

Deposits grew 32% y-o-y and 6% q-o-q against the industry's average growth of 19% y-o-y. CASA ratio declined 118bps largely attributable to sharp decline (-8% q-o-q) in current account deposits. However, saving bank deposits registered strong growth 54% y-o-y and 21% q-o-q largely benefiting from saving bank rate de-regulation. The bank saw strong traction in saving account customer acquisition through branches and cross selling by leveraging corporate relationships. We expect CASA ratio to improve from 27.2% to 29.8% between FY11-13E on the back of aggressive branch expansion, innovative marketing strategies and superior liability products offering. Going forward, we expect deposits to grow at a CAGR of 24.8% between FY11-13E.

Exhibit: 5 CASA ratio and Growth in term deposits trend

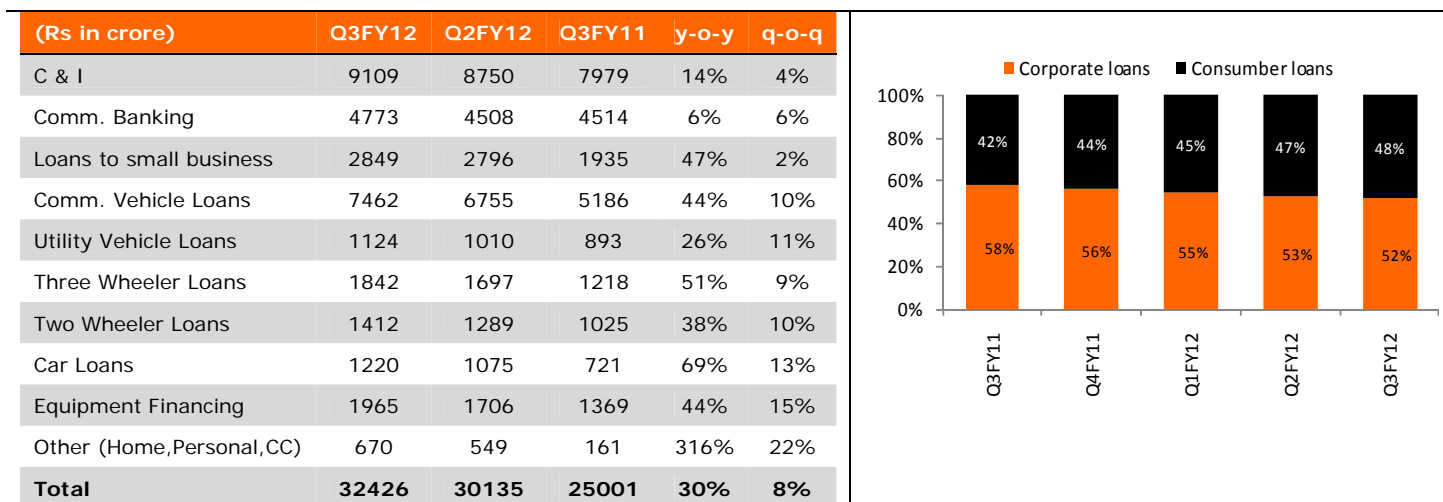


Source: Company, KRChoksey Research

Loan growth 30% y-o-y led by strong growth retail loan book

Advances grew 29.7% y-o-y and 7.6% q-o-q to Rs 32,426 crore driven by strong consumer loan book (48.4%y-o-y & 11.5% q-o-q) and modest growth in corporate loan book (4.2% q-o-q). In term of segmental growth, Consumer loan book contributed 70% to increase in overall loan book on sequential basis. CD ratio improved 140bps q-o-q to 79.9% largely due to sharp spike borrowings in the balance sheet. The management has guided 25-30% CAGR growth in loan book for next two years led by balanced growth in corporate and consumer loan book. Corporate loan book and consumer loan book stand at 52% and 48% (up 100bps q-o-q) respectively. We expect loan book to grow at 26.5% CAGR over FY11-13e supporting NII growth.

Exhibit: 6 Segment wise loan book growth & CD Ratio Trend

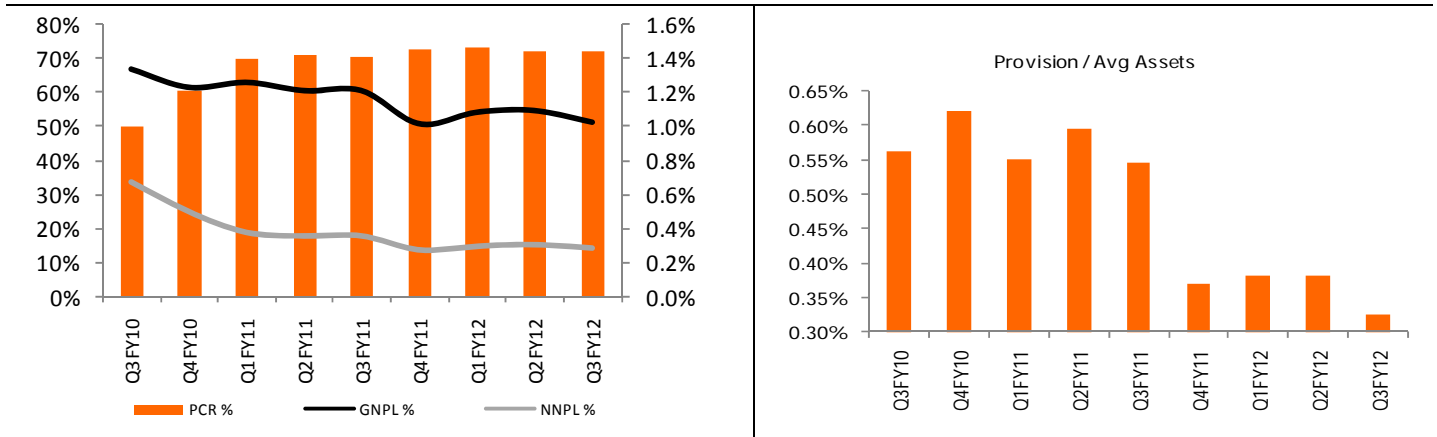


Source: Company, KRChoksey Research

Fairly stable asset quality in tough macro environment

Broad asset quality held up well during the quarter as Gross NPA flat q-o-q to 1.0% in a challenging macro environment. Net NPAs has been remained stable at 0.3% with provision coverage of 72% in Q3FY12. Restructured asset pool stood at 0.22% of loan book, which is one of the lowest in the industry. Credit costs declined significantly to 33bps in 9MFY12 vs. 69bps in FY11. The management has guided us that the credit costs for FY12 would be lower than FY11 levels, reflecting superior underwriting standards. We are building in 39bps and 75bps credit costs in FY12 and FY13 respectively against 69bps credit costs in FY11.

Exhibit: 7 Gross NPA and Net NPA Trend

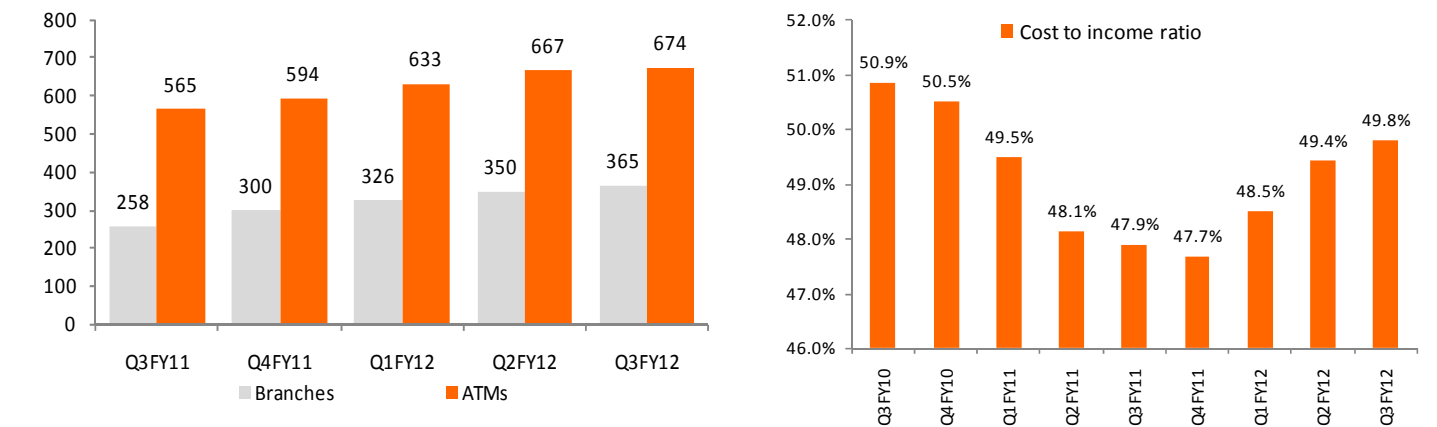


Source: Company, KRChoksey Research

Cost to income ratio marginally up to 49.4%

Operating costs increased 29.4% y-o-y and 6.5% q-o-q due to increase in branches and ATMs. Employee's costs increased by 28.8% y-o-y and 9.5% q-o-q. Cost to income ratio increased by 38bps q-o-q to 49.8% due to the increase in branch network. We expect cost to income ratio to remain in the range of 47%-49% in FY11-13E.

Exhibit :8 Cost to income ratio



Source: Company, KRChoksey Research

Other Highlights

- The bank opened 15 branches and 7 ATMs since Sept, 2010 taking its network to 365 and 6674ATMs in Q3FY12. The management has indicated that the bank will add 35 branches in Q4FY12 to reach 400 branches by FY12. The management expects break even of newly open branches to start kicking in next two quarters.
- Capital Adequacy Ratio stands at 13.43% in Q3FY12 with tier I at 10.7 without 9MFY12 profits. With inclusion 9MFY12 profits, tier I would increase to 12.35% from 10.70%.
- AFS book stood at Rs 1700 crore with modified duration of ~ 0.5 yrs.
- Real estate exposure stands ~ 2.45%, largely attributable to lease rental discounting portfolio. The management doesn't foresee any asset quality pressure on this book in near term.
- Construction exposure declined 100bps to 3.3% q-o-q largely attributable to repayments and no rollover credit to this sector. The management has highlighted majority of construction exposure is related to top players in construction sector and don't expect significant asset quality pressure building up in the portfolio.
- 94% of wholesale loan book is investment grade and balance book is also secured, so we don't see significant asset quality pressure in wholesale loan book building up due to slowdown in the economy.

Earnings Revision

(Rs crore)	FY12e		Change (%)	FY13e		Change (%)
	Old	New		Old	New	
Net Interest Income	1,745	1,700	-2.6%	2,126	2,126	0.0%
Pre Provision Profit	1,393	1,389	-0.3%	1,900	1,941	2.2%
Net Profit	799	802	0.4%	994	1,022	2.8%

Source: KRChoksey Research

Q3FY12 : Quarterly Result Analysis

Rs in crore	Q3FY12	Q2FY12	Q3FY11	y-o-y	q-o-q
Income Statement					
Interest income	1390	1324	915	51.9%	5.0%
Interest expense	959	905	552	73.8%	6.0%
Net interest income (NII)	431	419	363	18.6%	2.7%
Non interest income	265	239	196	35.3%	10.8%
Operating income	696	658	559	24.5%	5.7%
- Employee costs	126	115	98	28.8%	9.5%
- Other operating expenses	220	210	170	29.8%	4.9%
Operating expenses	347	325	268	29.4%	6.5%
Pre-provision profit	349	333	291	19.9%	4.9%
Provisions	43	47	56	-23.8%	-8.8%
Profit before tax	306	286	235	30.4%	7.1%
Tax expense	100	93	81	23.8%	8.0%
Net profit	206	193	154	33.9%	6.7%
Balance Sheet items					
Deposits	40558	38367	30663	32.3%	5.7%
CASA deposits	10757	10627	8214	31.0%	1.2%
Borrowings	8137	5985	4981	63.4%	35.9%
Investments	15362	14286	11868	29.4%	7.5%
Advances	32426	30136	25001	29.7%	7.6%
Total Assets	55133	50456	41500	32.9%	9.3%
Spread Analysis					
Yield on avg advances	14.3%	14.2%	11.9%	236bps	12bps
Yield on avg investments	7.6%	7.5%	6.3%	132bps	10bps
Yield on avg interest bearing assets	11.1%	11.3%	9.3%	181bps	-12bps
Cost of funds	8.4%	8.4%	6.3%	215bps	2bps
NIM	3.4%	3.56%	3.70%	-25bps	-11bps
Others					
Yield on advances*	13.8%	13.8%	12.3%	148bps	-2bps
Cost of deposits*	8.2%	8.2%	6.2%	199bps	0bps
NIM*	3.3%	3.4%	3.6%	-36bps	-10bps
Cost to income ratio	49.8%	49.4%	47.9%	190bps	38bps
Effective tax rate	32.8%	32.5%	34.5%	-174bps	28bps
Gross NPAs	334	333	306	9.2%	0.5%
Net NPAs	94	93	91	2.8%	0.5%
GNPA %	1.0%	1.1%	1.2%	-19bps	-7bps
NNPA %	0.3%	0.3%	0.4%	-7bps	-2bps
Provision coverage %	72.0%	72.0%	70.3%	174bps	0bps
CD ratio	79.9%	78.5%	81.5%	-159bps	140bps
Capital adequacy ratio	13.43%	14.32%	15.6%	-218bps	-89bps
Tier I	10.70%	11.43%	11.7%	-97bps	-73bps

Source: Company, KRChoksey Research * reported basis

NII increased 18.6% y-o-y and 2.7% q-o-q. Margin contraction of 10bps during the quarter.

Robust fee income growth boosted non-interest income; leads to the healthy profitability.

Deposits grew 32% y-o-y. CD ratio stands at 79.9%

Advances grew 29.7% y-o-y and 7.6% q-o-q driven by retail loan book

NIMs contracted by 10bps sequentially.

Asset quality continuous to held up well, provision coverage ratio stood 72%

Financials

Income Statement

Rs in crore	FY10	FY11	FY12E	FY13E
Interest earned	2707	3589	5331	6232
Interest expenses	1821	2213	3631	4107
Net Interest Income	886	1376	1700	2126
-- Core fee Income	432	629	888	1151
Non interest income	553	714	1003	1271
Operating income	1440	2090	2704	3397
Operating expenses	736	1008	1315	1456
-Employee costs	291	383	482	616
-Other operating expenses	445	626	833	840
Pre-provision profits	704	1082	1389	1941
Provisions	171	202	192	416
PBT	533	880	1197	1526
Provision for taxes	183	302	395	503
Net profit	350	577	802	1022
Dividend (Inc. tax)	86	109	160	215

Balance Sheet

Rs in crore	FY10	FY11	FY12E	FY13E
Equity capital	411	466	466	466
Reserve and Surplus	1987	3584	4227	5034
Net worth	2397	4050	4693	5500
Deposits	26710	34365	43228	53540
Borrowings	4934	5525	6128	6478
CL and provisions	1328	1695	2169	2733
Total	35370	45636	56219	68251
Cash and Bal. with RBI	2099	2456	3016	3735
Balances with RBI	504	1569	1456	1806
Investments	10402	13551	15951	18043
Advances	20551	26166	33492	41865
Fixed assets	645	596	746	932
Other assets	1169	1298	1558	1870
Total	35370	45636	56219	68251

Spread Analysis

Spread Analysis	FY10	FY11	FY12E	FY13E
Yield On Advances	11.6%	12.1%	14.0%	13.3%
Yield On Investments	6.0%	6.1%	7.4%	7.0%
Yield On IBA	9.1%	9.3%	10.9%	10.4%
Cost Of Deposits	6.4%	6.3%	7.7%	7.1%
Cost of Funds	6.4%	6.2%	8.1%	7.5%
Spread	2.7%	3.1%	2.8%	2.9%
NIM	3.0%	3.6%	3.5%	3.6%

DuPont Analysis

(As % Average assets)	FY10	FY11	FY12E	FY13E
NII	2.8%	3.1%	3.0%	3.1%
Fee Income	1.4%	1.6%	1.5%	1.5%
Treasury Income	0.4%	0.2%	0.1%	0.1%
Employee Cost	0.9%	0.8%	0.8%	0.8%
Operating Costs	2.3%	2.3%	2.2%	2.1%
Provisions	0.5%	0.6%	0.6%	0.6%
Tax	0.6%	0.8%	0.8%	0.8%
ROAA	1.1%	1.4%	1.6%	1.6%
RoAE	17.3%	17.9%	18.4%	20.1%

Asset Quality Profile

	FY10	FY11	FY12E	FY13E
Gross NPA	255	266	393	532
Net NPA	102	73	118	160
Gross NPA %	1.23%	1.01%	1.16%	1.26%
Net NPA %	0.50%	0.28%	0.35%	0.38%
Credit Costs	0.72%	0.69%	0.39%	0.75%

Business Profile

	FY10	FY11	FY12E	FY13E
Advances	20,551	142,408	178,010	222,512
CD ratio	77%	75%	76%	78%
Deposits	26,710	34,365	43,228	53,540
CASA Deposits	6,322	9,331	12,436	15,973
CASA Ratio	23.7%	27.2%	28.8%	29.8%

Per Share Data

(Rs)	FY10	FY11	FY12E	FY13E
EPS	8.5	12.4	17.2	21.9
DPS	2.1	2.3	3.4	4.6
BVPS	58.3	86.7	100.5	117.9
ABVPS	55.8	85.2	98.0	114.4
P/E	30.6	21.1	15.2	11.9
P/ABV	4.7	3.1	2.7	2.3
Dividend Yield	0.8%	0.9%	1.3%	1.8%

Growth ratios

	FY10	FY11	FY12E	FY13E
Net interest income	93.1%	55.3%	23.5%	25.0%
Fee income	44.0%	45.6%	41.1%	29.6%
Pre-provision Profits	85.0%	47.0%	28.1%	39.8%
Net Profits	136.1%	64.8%	38.9%	27.4%
Advances	30.3%	27.3%	28.0%	25.0%
Deposits	20.8%	28.7%	25.8%	23.9%
Total Assets	28.1%	29.0%	23.2%	21.4%

Source: KRChoksey Research

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Indusind Bank			
Date	Recommendation	CMP	Target
11-Jan-12	BUY	261	309
5-Jan-12	BUY	240	304
18-Oct-11	BUY	267	331
4 -Oct -11	BUY	280	331
11-July-11	BUY	286	331
4 -July -11	BUY	280	315

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 – 5%
Sell	Less than 0%

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