

EPS beat on lower loan loss provisions

Quick Note

January 10, 2012

Rating Remains	Buy
Target price Remains	INR 325
Closing price January 9, 2012	INR 246

Key highlights:

- Sequential compression in NIM was a result of an increase in other borrowing costs on longer tenor refinancing at a higher cost to balance the book. CFD division yields were steady at 16.4% q-q.
- Loan book growth was driven by a 48% increase in consumer finance loans, while the corporate book increased at 11% y-y.
- Savings deposits increased by 20% q-q helped by a 10% increase in monthly customer volumes post the savings rate hike.
- Earnings beat driven by lower slippage in corporate book - INR50mn as compared to INR710mn in the last quarter. Consumer finance slippage stayed flat at INR630mn. Restructured book was 22bps. YTD loan loss provisions were 33bps of average loan book.

Takeaways from management call

- Asset quality - IIB hasn't witnessed any signs of stress on its CV portfolio, with freight rates holding up and robust operator earnings. Karnataka exposure is just INR50mn with INR10mn as NPL. There are no outstanding proposals for restructuring at present. They have also reduced exposure to the riskier NBFC and construction sector. Only 6% of their corporate exposure is below investment grade.
- Savings deposit traction - IIB currently has over 1.1mn total savings accounts with the monthly addition moving up to 50,000 from 25,000 in the corresponding quarter of the previous year.
- CV portfolio breakdown - INR16.2bn of loans towards used CVs out of total CV exposure of INR75bn. CVs added thus far in FY12: LCV – 12,000; M&HCV – 20,000. Small CV – 30,000 vehicles.

Outlook

- We expect IIB to maintain loan growth in the 25-30% range with the mix at 50:50 between corporate and consumer finance division.
- Management guided towards loan loss provisions to come in well below 60bps for FY11. Our current estimates factor in 71bps for FY12; we will be revisiting our estimates post discussion with IIB.
- Management expects NIMs to have bottomed out with the fixed-rate consumer book, benefiting them when the rate cycle turns.
- Fee income growth should be strong for Q4FY12F as well.
- IIB may look at raising capital in H2FY13F for their growth needs as well as for possible basel-3 requirements, according to management.

Valuation

We reiterate our BUY call on the stock. IIB currently trades at 2.4x our FY13F ABV and 14x our FY13F EPS. Our TP of INR325 implies 3x FY13F ABV and 17.4x FY13F EPS.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Earnings vs our forecast

- EPS beat of 17% on lower NPL provisions of INR430mn vs our estimate of INR645mn. GNPL stayed flat sequentially at INR3.3bn compared to our estimate of INR3.8bn on slippage of INR680mn (our est of INR1bn).
- NII was 5% lower than estimated on lower NIMs (3.25% vs est of 3.5%), while y-y loan growth was 2% higher than our estimate at 30%.
- Non-interest income growth was 35% y-y (11% q-q increase) and 18% higher than our estimate on stronger fee income from corporate and i-banking business.
- GNPL ratio was 1.02%; NNPL ratio was 29bps.

Fig. 1: Earnings summary

Earnings summary (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q	3QFY12F	Variance
Interest Income	13,897	13,239	9,149	51.9	5.0	13,081	6.2
Interest on advances	10,827	10,371	7,231	49.7	4.4	10,340	4.7
Income on investments	2,936	2,672	1,874	56.6	9.9	2,548	15.2
Interest on balances with RBI	35	45	43	(20.4)	(22.5)	44	(21.4)
Others	100	151	1	-	(33.6)	149	(32.8)
Interest expended	9,591	9,047	5,519	73.8	6.0	8,549	12.2
Net Interest Income	4,307	4,192	3,630	18.6	2.7	4,532	(5.0)
Non-interest income	2,651	2,392	1,960	35.3	10.8	2,232	18.8
Fees	2,503	2,119	1,719	45.7	18.2	-	
Trading gains	131	239	240	(45.5)	(45.2)		
Others	17	35	1	-	(51.0)		
Total Operating expenses	3,465	3,254	2,678	29.4	6.5	3,407	1.7
Employee expenses	1,261	1,152	979	28.8	9.5	1,320	(4.5)
Other Operating expenses	2,204	2,102	1,698	29.8	4.9	2,087	5.6
Operating Profit	3,492	3,330	2,912	19.9	4.9	3,357	4.0
Core operating profit	3,362	3,091	2,672	25.8	8.8		
Total Provisions	428	470	562	(23.8)	(8.8)	645	(33.6)
Loan loss Provisions	285	399	446	(36.1)	(28.7)	-	
PBT	3,064	2,860	2,350	30.4	7.1	2,711	13.0
Core PBT	2,933	2,621	2,110	39.0	11.9		
Tax	1,005	929	811	23.8	8.1	949	5.8
Net profit	2,060	1,931	1,539	33.9	6.7	1,762	16.9
EPS	4.3	4.1	3.3	33.2	6.7	3.7	16.8

Source: Company data, Nomura estimates

Fig. 2: Key Ratios

Key Ratios	3QFY12	2QFY12	3QFY11	y/y bps	q/q bps
Net Interest Margin, %	3.25	3.35	3.61	(36)	(10)
Cost of Funds, %	7.23	7.15	5.53	170	8
Trading gains/PBT, %	4.27	8.35	10.21	(594)	(408)
Total CAR, %	13.43	14.32	15.61	(218)	(89)
Tier I, %	10.70	11.43	11.67	(97)	(73)
Cost/Income ratio, %	49.81	49.43	47.91	190	38

Source: Company data, Nomura research

Fig. 3: Breakup of loans

Breakup of loans (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q
Large and Mid corporate	138,820	132,580	124,930	11.1	4.7
SME	28,490	27,960	19,350	47.2	1.9
Retail advances	156,950	140,810	105,730	48.4	11.5
Total Loans	324,260	301,355	250,010	29.7	7.6

Source: Company data, Nomura research

Fig. 4: Fee Income Composition

Fee Income Composition (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q
Trade Fees (LC/BG/Remittances)	332	286	227	46.1	16.3
Processing Fees & other charges	416	391	296	40.4	6.3
FX - Client	601	523	327	84.2	15.0
3rd Party Products (Ins./MF/FX)	663	571	402	65.1	16.2
Investment Banking Income	213	80	283	(24.6)	167.7
General Banking/Other Income	278	269	184	51.0	3.5

Source: Company data, Nomura research

Fig. 5: Movement in NPLs

Movement in NPLs (INRmn)	3QFY12	2QFY12	3QFY11
Opening NPLs	3,326	3,093	2,864
Add new NPLs	680	1,310	880
Total reduction	670	1,080	680
Closing NPLs	3,342	3,326	3,060

Source: Company data, Nomura research

Fig. 6: Loans & Deposits

Loans & Deposits (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q
Advances	324,260	301,355	250,010	29.7	7.6
Total Deposits	405,580	383,672	306,630	32.3	5.7
Savings Account Deposits	39,770	32,940	25,860	53.8	20.7
Current Account Deposits	67,800	73,330	56,280	20.5	(7.5)
CASA Deposits	107,570	106,270	82,140	31.0	1.2
Term Deposits	298,010	277,402	224,490	32.7	7.4
CASA, %	26.52	27.70	26.79	(27)	(118)
Investments	153,620	142,855	118,680	29.4	7.5
Total Assets	551,330	504,562	415,000	32.9	9.3

Source: Company data, Nomura research

Fig. 7: Asset Quality

Asset Quality (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q
Gross NPL	3,342	3,326	3,060	9.2	0.5
Net NPL	937	931	910	2.9	0.6
Gross NPL, %	1.02	1.09	1.21	(19.4)	(7.0)
Net NPL, %	0.29	0.31	0.36	(7.4)	(2.0)
Provision cover, %	72.0	72.0	70.3	170.7	(2.6)
CD ratio	79.9	78.5	81.5	(158.5)	140.5

Source: Company data, Nomura research

Appendix A-1

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Indusind Bank	IIB IN	INR 246	09-1-2012	Buy	Not rated	

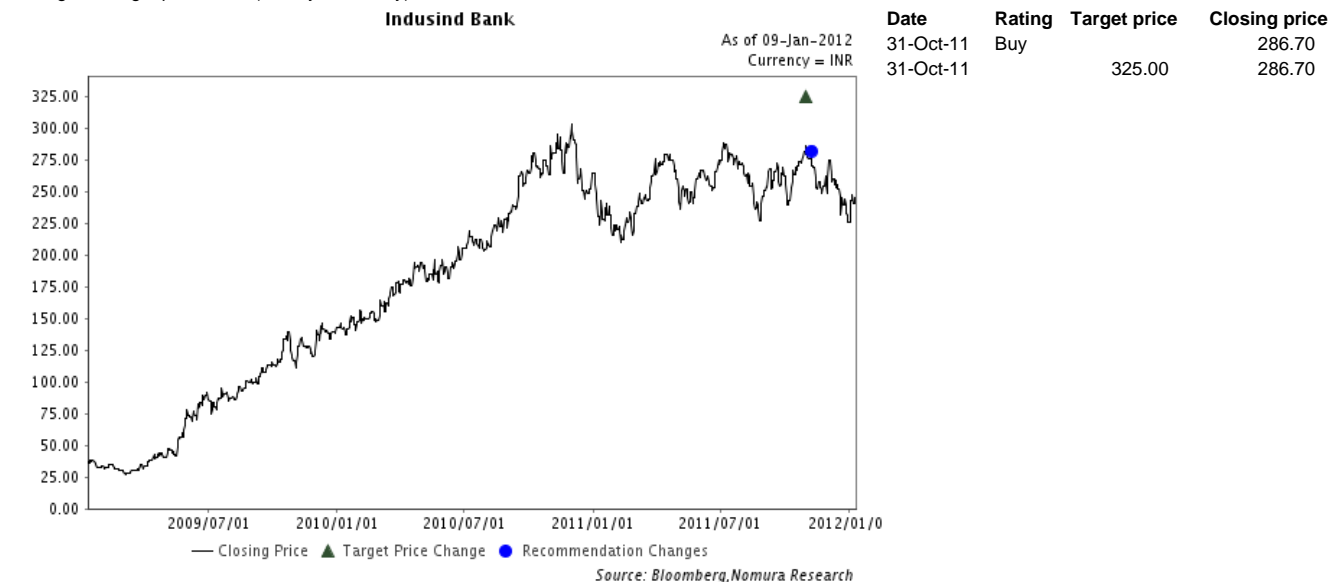
Previous Rating

Issuer name	Previous Rating	Date of change
Indusind Bank	Not Rated	31-10-2011

Indusind Bank (IIB IN)

INR 246 (09-1-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We arrive at our target price of INR325 using a three-stage residual-income valuation method, assuming the following: We estimate loan book growth of 26.6% and 26.2% for FY12E and FY13E, respectively. We expect fee income to grow at 26.7% in FY12E and by 27.7% in FY13E. We expect NIM to stay flat at 3.4-3.5% for FY12E and FY13E from 3.35% for 2QFY12. Our target price of INR325 implies 3x our FY13 adjusted BV (adjusted ROE of 18.8% for FY13E) and 17.5x our FY13E EPS.

Risks that may impede the achievement of the target price Upside risks: Accelerated monetary policy easing, uptick in the CV cycle and new fee income streams kicking in strongly are the key upside catalysts. Downside risks: The Reserve Bank of India persisting with a tight money policy, slower than expected CASA traction and continued global macro uncertainty.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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