

IndusInd Bank

Rs142
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs58.2bn; US\$1.2bn

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Result: Q3FY10

Comment: Stellar performance; more in store!

Revision: Earnings estimates upgraded by 9% for FY10 and 14% for FY11

Key valuation metrics

Year to March 31 (Rs m)	NII	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	Adj. Book value (Rs/share)	P/ Adj.Bk (x)	PE (x)	RoE (%)
FY07	2,714	(13.9)	682	85.3	2.1	27.7	5.1	66.6	7.1
FY08	3,008	10.8	750	10.0	2.3	29.3	4.9	60.5	6.9
FY09	4,590	52.6	1,483	97.7	4.4	37.2	3.8	32.3	11.7
FY10E	8,714	89.8	3,403	129.4	8.7	51.6	2.7	16.2	19.1
FY11E	11,564	32.7	4,689	37.8	11.4	60.9	2.4	12.4	20.6

Highlights of Q3FY10 results

IndusInd reported a PAT of Rs880m – up 95% yoy – in Q3FY10 ahead of our estimate of Rs768m. The outperformance was led by a strong momentum in NII, in turn a function of expansion in margins and strong business volumes.

- **Strong NII growth; margins continue to expand:** NII was up by 104% yoy and 14% qoq to ~Rs2.4bn, driven by a steep 100bp yoy and 8bp qoq expansion in NIMs to 2.94%. Improvement in NIMs was driven by ~60bp qoq reduction in funding costs owing to stable wholesale borrowing rates and uptick in CASA. (exhibit 1 and 2)
- **Healthy core-fee income; treasury profits remain muted:** Core-fee income grew by 41%yoy to Rs1.1bn. However, total other income declined by 13% yoy primarily due to lower treasury profits and recoveries during the bank during the quarter. Treasury profits declined by 76% yoy (at Rs106m) while recoveries stood at Rs30m (against Rs178m in Q3FY09). The bank continues to see strong traction in income from third party distribution (insurance as well as MF products). Transaction banking and processing fee also continued to display strength on the back of management focus to gain meaningful contribution from these heads. (exhibit 3)
- **Credit growth remains strong; CD-ratio remains stable:** IndusInd's loan book grew by ~33% yoy and 9% qoq to ~Rs191bn. Corporate banking continued to lead overall growth (at 66% yoy). Growth in retail book also exhibited revival at 3% qoq. At the same time, deposits grew by a healthy ~20% yoy to Rs247bn, leading to ~700bp yoy (stable qoq) improvement in the CD ratio to 77%.
- **CASA continues to inch up:** CASA ratio improved by 400bp yoy and 130bp qoq to 22.5%. Over the quarter, savings deposits displayed healthy traction. (exhibit 2)
- **Gross NPAs decline qoq....:** IndusInd's asset quality remains high with gross NPAs declining by ~50bp yoy to 1.34%. More importantly, Gross NPAs declined even on an absolute basis to Rs2.5bn (against Rs2.6bn in Q2FY10). Net NPAs stood at 0.67% (against 1.3% in Q3FY09). The bank did not undertake any additional restructuring in the quarter, with total restructured advances being insignificant at 0.3% of the book. (exhibit 5)

- **...coverage improves sharply:** Despite declining NPAs, IndusInd has made higher provisions at Rs445m (up 15% qoq) to shore up its coverage ratio. This has led to a substantial improvement in coverage ratio to 50% (from 35% in Q2FY10). We believe this is a key positive. (exhibit 6)
- **CRAR comfortable:** IndusInd's CRAR remains comfortable with Tier-I CAR at 9.97%

Valuations and view

Past few quarters have symbolized a marked improvement in IndusInd Bank's operating metrics, as evident in a steep expansion in margins (now at a healthy 3%), increase in CASA ratio to 22.5% and steep drop in cost-to-income ratio – all converging into an impressive RoA expansion of 90bp to 1.1%. With a clear focus on fortifying the liability profile and augmenting fee-based revenue streams, we expect the bank to exhibit a 78% CAGR in earnings over FY09-11. Owing to outsized expansion in margins, persistence of strong loan growth and increased visibility on fee-based revenues, we are upgrading our earnings estimates by 9% for FY10 and 14% for FY11. Led by RoA expansion to 1.2% by FY11E, we see a strong case for re-rating of the stock. At 2.7x FY10E and 2.4x FY11E adjusted book, valuations appear attractive. Reiterate Outperformer. IndusInd Bank continues to be amongst our top midcap picks in the financials space.

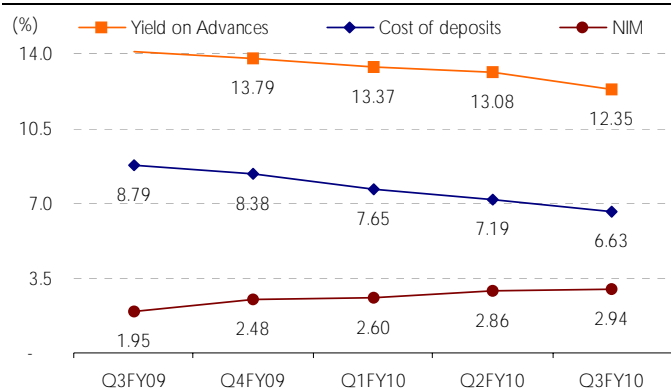
Quarterly results

P&L (Rs m)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	FY09	FY10E	FY11E	Comments
Interest income	6,275	6,138	6,288	6,550	7,029	23,095	27,826	35,145	
Interest expense	5,109	4,695	4,615	4,465	4,652	18,504	19,112	23,581	
NII	1,166	1,443	1,674	2,086	2,377	4,590	8,714	11,564	Strong growth of 15% qoq owing to NIM expansion and strong volumes
<i>yoy growth (%)</i>	29.9	65.9	80.1	98.2	103.9	52.6	89.8	32.7	
Non-intt income	1,331	1,693	1,728	1,324	1,160	4,563	5,548	6,792	On a high base
<i>yoy growth (%)</i>	79.1	124.4	166.1	48.8	(12.8)	53.3	21.6	22.4	
Trading profits	447	795	868	91	110	1,216	1,250	1,200	Low owing to volatile G-sec yields
Non-trading income	884	898	860	1,232	1,050	3,347	4,298	5,592	Strong traction in CEB, third-party as well as forex income
<i>yoy growth (%)</i>	19.0	21.7	22.8	42.5	18.8	28.4	42.0	30.1	
Net revenue	2,497	3,136	3,401	3,409	3,537	9,153	14,263	18,356	
Operating expense	1,457	1,623	1,658	1,856	1,799	5,470	7,327	9,135	Branch expansion continues
Staff	536	516	608	789	730	1,871	2,923	3,507	
Other operating expenses	921	1,107	1,050	1,067	1,070	3,599	4,405	5,628	
Operating profit	1,040	1,513	1,743	1,553	1,738	3,682	6,935	9,221	
Provisions	299	788	343	389	445	1,408	1,700	2,007	Coverage ratio shored up to 50% (from 35% in Q2FY10)
<i>yoy growth (%)</i>	5.5	183.2	123.1	132.9	48.9	71.8	20.8	18.1	
PBT	741	725	1,400	1,165	1,293	2,275	5,236	7,214	
Tax	291	220	535	387	412	792	1,832	2,525	
PAT	451	505	865	778	880	1,483	3,403	4,689	Bouyed by strong NII and fee income
<i>yoy growth (%)</i>	80.0	249.6	352.9	131.2	95.4	97.7	129.4	37.8	

Quarterly results

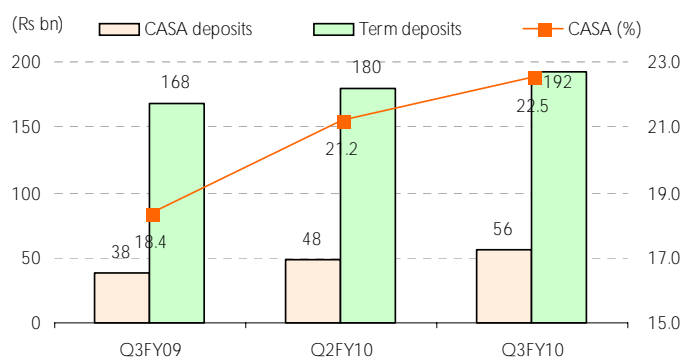
Ratios (%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	FY09	FY10E	FY11E	Comments
NIM (reported)	1.95	2.48	2.60	2.86	2.94				Rapid re-pricing of liabilities more than offsets the decline in yields
NIM (calc)*	1.83	2.15	2.42	2.88	3.00	1.80	2.81	2.98	
NFR/Avg assets	2.08	2.52	2.49	1.83	1.47	1.79	1.79	1.75	
Fee income/avg assets	1.05	1.24	1.36	1.98	1.41	0.83	1.06	1.12	
Op exp/avg assets	2.28	2.42	2.39	2.56	2.27	2.15	2.36	2.35	
Cost/Net rev.	58.34	51.76	48.75	54.44	50.87	59.77	51.37	49.77	
Prov/avg assets	0.47	1.17	0.50	0.54	0.56	0.55	0.55	0.52	
PBT/Avg assets	1.16	1.08	2.02	1.61	1.63	0.89	1.69	1.86	
Tax/PBT	39.20	30.31	38.21	33.18	31.89	35.26	35.00	35.00	
RoA	0.71	0.75	1.25	1.07	1.11	0.58	1.10	1.21	Stupendous yoy improvement witnessed
RoE	12.87	14.15	23.50	17.34	16.98	11.69	19.14	20.55	
CRAR	12.40	12.55	13.14	14.91	13.84				Comfortable CRAR position
Tier-I CRAR		7.65	8.26	10.64	9.97				
CD ratio	69.71	71.33	76.03	77.07	77.12				Uptick in CD ratio supports margins
CASA Ratio	18.39	19.24	20.20	21.22	22.54				Traction led by growth in savings accounts
Balance sheet (Rs bn)									
Credit	144	158	165	176	191	158	212	281	Corporate book continues to be growth driver; consumer finance picking up
yoy change (%)	11.2	23.3	24.0	25.2	32.7	23.3	34.3	32.9	
Deposits	206	221	216	228	248	221	278	360	
yoy change (%)	5.4	16.1	19.4	17.1	20.0	16.1	25.8	29.6	

Exhibit 1: Margins expand...



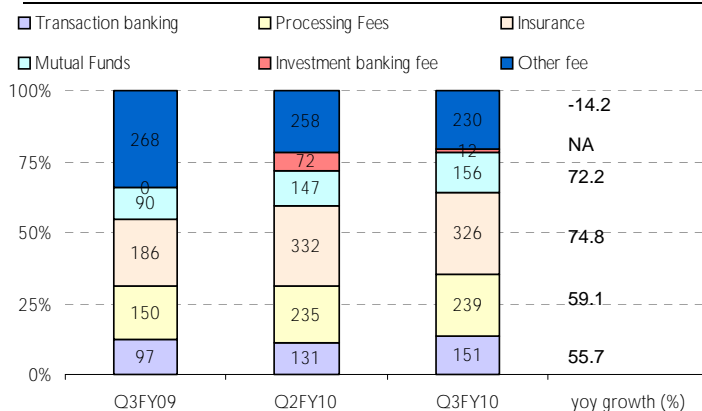
- NIMs expand significantly with lower wholesale borrowing costs (yoy) and uptick in CASA
- Cost of funds declined by 60bp qoq

Exhibit 2: ...aided by uptick in CASA



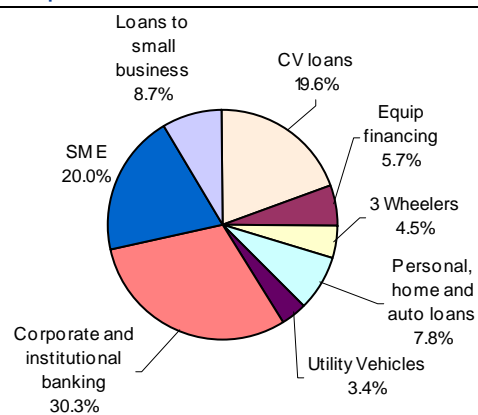
- CASA deposits (as a proportion of total) inched up by 130bp qoq to 22.5%
- Savings deposits witnessed strong traction during the quarter

Exhibit 3: Fee income break up (Rs m)



- Core-fee income continues to witness strength, led by traction in processing fees, third-party fees
- Treasury profits were lower and dragged down overall other income

Exhibit 4: Composition of advances book



- Advances growth of ~33% yoy led by strong growth in Corporate & Commercial Banking (66% yoy)
- Consumer finance seeing uptick with 3% qoq growth

Exhibit 5: Gross NPAs decline

	Q3FY09	Q2FY10	Q3FY10	incremental qoq (Rs m/ bp)
Gross NPAs (Rs m)	2,636	2,651	2,576	(75)
Net NPAs (Rs m)	1,874	1,718	1,287	(430)
Gross NPAs (%)	1.82	1.50	1.34	(16)
Net NPAs (%)	1.30	0.98	0.67	(31)
Loan loss coverage (%)	28.89	35.21	50.03	1,482

- Asset quality remains comfortable as Gross NPAs declined sequentially; even on absolute basis
- Provision coverage increases sharply as the bank made higher provisions

Exhibit 6: Segmental NPAs

Rs m	Q3FY09	Q2FY10	Q3FY10	Incremental qoq (Rs m/ bp)
Corporate & commercial banking				
Gross NPA	535	861	687	(174)
Net NPA	315	265	0	(264)
Coverage (%)	41.1	69.2	99.9	3,068
Consumer Finance				
Gross NPA	2,101	1,790	1,889	98
Net NPA	1,559	1,453	1,283	(171)
Coverage (%)	25.8	18.8	32.1	1,326

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