

July 08, 2011

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Rating	BUY
Price	Rs288
Target Price	Rs325
Implied Upside	12.8%
Sensex	18,858

(Prices as on July 08, 2011)
Trading data

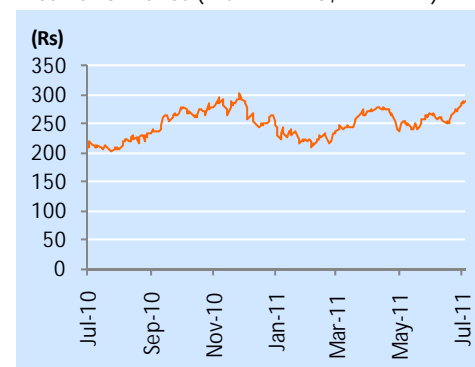
Market Cap. (Rs bn)	130.8
Shares o/s (m)	455.1
3M Avg. Daily value (Rs m)	205.8

Major shareholders

Promoters	19.53%
Foreign	34.72%
Domestic Inst.	8.09%
Public & Other	37.66%

Stock Performance

(%)	1M	6M	12M
Absolute	9.4	24.9	31.4
Relative	6.9	29.1	24.5

Price Performance (RIC: INBK.BO, BB: IIB IN)

Source: Bloomberg
Operating performance in line; robust fee income and business growth:

IndusInd Bank (IIB) reported Q1FY12 PAT of Rs1.80bn, up by 52.0% YoY and 4.9% QoQ, marginally ahead of our as well as street expectations. Net Interest Income (NII) for the quarter grew by 31.9% YoY and marginally by 0.5% QoQ as margins contracted by 9bps QoQ to 3.41%. Key positives during the quarter were: 1) robust 44.4% YoY and 13.5% QoQ increase in the core fee income driven by higher FX fees and distribution income during the quarter largely negating the impact of margin contraction 2) higher than industry business growth with advances (mainly on account of strong growth in UV, car and corporate loans) and deposits growing by 31.4% and 28.8% YoY respectively and 3) CASA balances growing by 49.3% YoY and 6.6% QoQ resulting into a 1% point QoQ improvement in CASA ratio to 28.2%. However, strong fee income growth could not translate into higher bottom line growth on account of 10.8% QoQ increase in provisioning expenses due to Rs50-60mn provisions made on the credit card portfolio acquired by the bank during the quarter.

Gross NPAs inch up QoQ; healthy provision cover maintained:

Gross NPAs during the quarter increased by 16.3% QoQ on account of certain accounts slipping into the NPA category technically. However, the management remains positive over the asset quality outlook for the bank. Notably, provision coverage remained steady at 72.9% v/s 72.6% in the previous quarter.

Outlook:

IIB has entered the second phase of its growth cycle and the management remains focussed on achieving scale with profitability. We believe the management continues to demonstrate their superior execution capabilities and will likely continue to deliver on various operating parameters chalked out by them in the second phase of growth. At CMP, the stock trades at 2.6x its FY13E ABV. We maintain **"BUY"** with a price target of Rs325.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Net interest income (Rs m)	8,864	13,765	17,027	22,962
Growth (%)	93.1	55.3	23.7	34.9
Operating profit (Rs m)	7,039	10,817	14,124	18,895
PAT (Rs m)	3,504	5,773	7,375	9,657
EPS (Rs)	8.5	12.7	16.2	21.2
Growth (%)	103.8	48.7	27.7	30.9
Net DPS (Rs)	1.8	2.3	2.8	3.3

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
NIM (%)*	2.81	3.52	3.51	3.74
RoAE (%)	17.3	18.5	17.8	20.0
RoAA (%)	1.12	1.48	1.52	1.57
P / BV (x)	5.5	3.6	3.1	2.6
P / ABV (x)	5.6	3.6	3.1	2.6
PE (x)	33.7	22.7	17.7	13.5
Net dividend yield (%)	0.6	0.8	1.0	1.1

Source: Company Data; PL Research * Calculated on average assets

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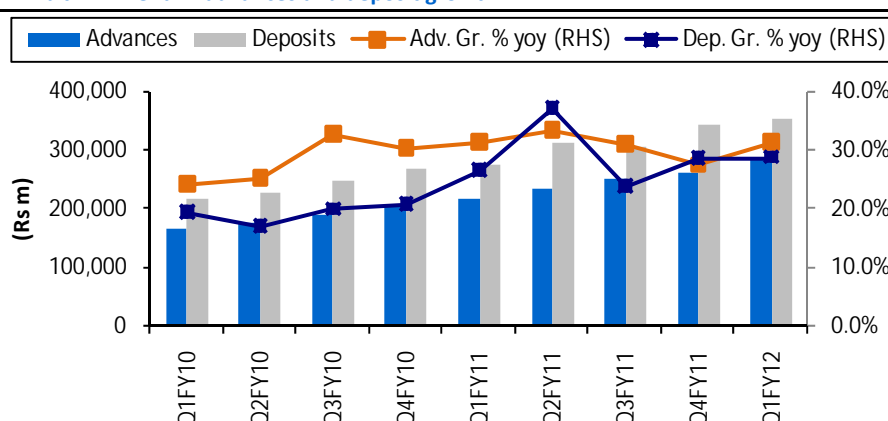
Please refer to important disclosures and disclaimers at the end of the report

Exhibit 1: Q1FY12 Result Overview (Rs m)

Y/e March	Q1FY12	Q1FY11	YoY gr. (%)	Q4FY11	QoQ gr. (%)
Interest Income	11,646	7,715	50.9	10,488	11.0
Interest Expense	7,746	4,759	62.8	6,608	17.2
Net Interest Income	3,900	2,957	31.9	3,881	0.5
Non-Interest Income	2,154	1,610	33.8	1,816	18.6
Fees & FX	1,871	1,296	44.4	1,649	13.5
Securities / MM Market Trading	278	286	(3.0)	192	44.5
Net total Income	6,054	4,566	32.6	5,697	6.3
Operating Expenses	2,937	2,260	29.9	2,717	8.1
Employee	1,107	890	24.3	1,002	10.5
Other operating expenses	1,830	1,370	33.6	1,715	6.7
Operating profit	3,117	2,306	35.2	2,980	4.6
Core operating profits	2,839	2,020	40.6	2,788	1.8
Provisions	446	487	(8.5)	403	10.8
Profit before tax	2,671	1,819	46.9	2,578	3.6
Tax	870	633	37.3	860	1.1
<i>Tax Rate (%)</i>	<i>32.5</i>	<i>34.8</i>		<i>33.4</i>	
Net Profit after tax	1,802	1,186	52.0	1,718	4.9
Asset Quality					
Gross NPA's	3,093	2,752	12.4	2,659	16.3
<i>% Gross NPA's</i>	<i>1.08</i>	<i>1.26</i>		<i>1.01</i>	
Net NPA's	838	825	1.6	728	15.1
<i>% Net NPA's</i>	<i>0.30</i>	<i>0.38</i>		<i>0.28</i>	
<i>Provision Coverage (%)</i>	<i>72.91</i>	<i>70.03</i>		<i>72.61</i>	
Capital Adequacy (%)					
<i>CAR</i>	<i>15.0</i>	<i>13.7</i>		<i>15.9</i>	
<i>Tier 1</i>	<i>11.7</i>	<i>8.7</i>		<i>12.3</i>	
Yield Measurement ratios (%)					
<i>NIM - reported</i>	<i>3.41</i>	<i>3.32</i>		<i>3.50</i>	
<i>NIM - calculated</i>	<i>3.34</i>	<i>3.34</i>		<i>3.56</i>	
Balance Sheet Items					
Deposits	352,641	273,820	28.8	343,654	2.6
CASA	99,460	66,630	49.3	93,310	6.6
<i>CASA (%)</i>	<i>28.2</i>	<i>24.3</i>		<i>27.2</i>	
Advances	283,844	216,080	31.4	261,657	8.5
Total Assets	478,380	355,050	34.7	456,358	4.8

Source: Company Data, PL Research

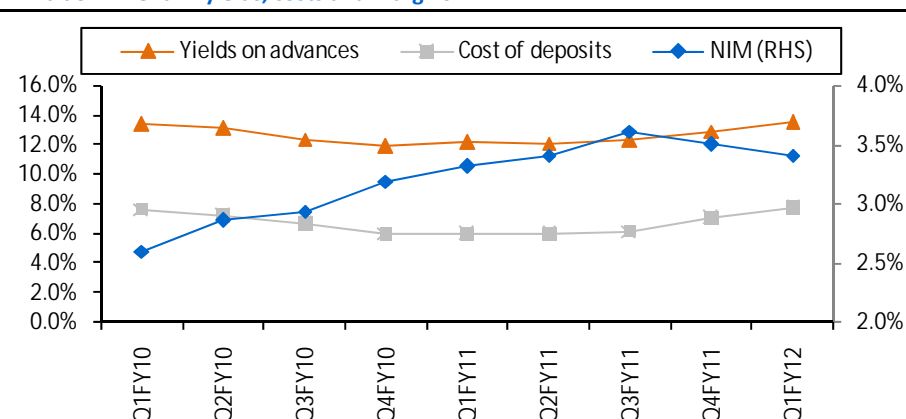
In Q1FY12, advances grew by 31.4% YoY and 8.5% QoQ on account of strong increase witnessed in the consumer finance loans. Among segments, car, UV and CV loans grew faster than others. Meanwhile, deposits too grew much faster than industry at 28.8% YoY and 2.6% QoQ.

Exhibit 2: Trend in advances and deposit growth


Source: Company Data, PL Research

Net interest margins for the quarter declined by 9bps QoQ to 3.41% as a 68bps QoQ increase in the cost of deposits outpaced the 62bps QoQ increase in the yield on advances.

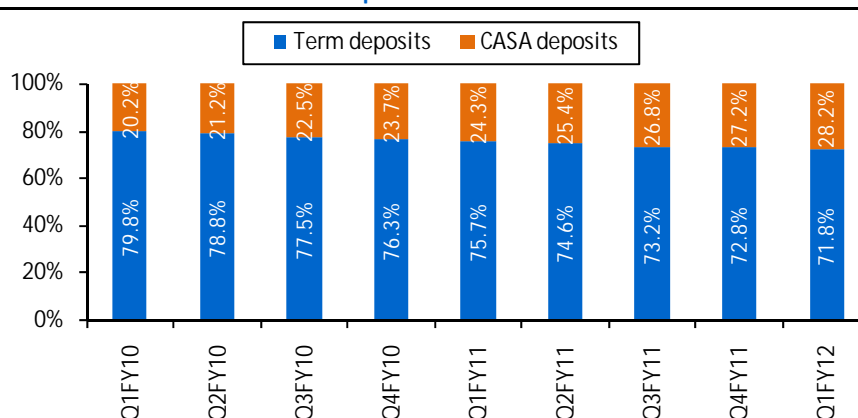
Notably the increase in the yield on advances was driven by a 90bps QoQ increase in yields on corporate loans while the yields on consumer loans remained largely flattish in a QoQ basis.

Exhibit 3: Trend in yields, costs and margins


Source: Company Data, PL Research

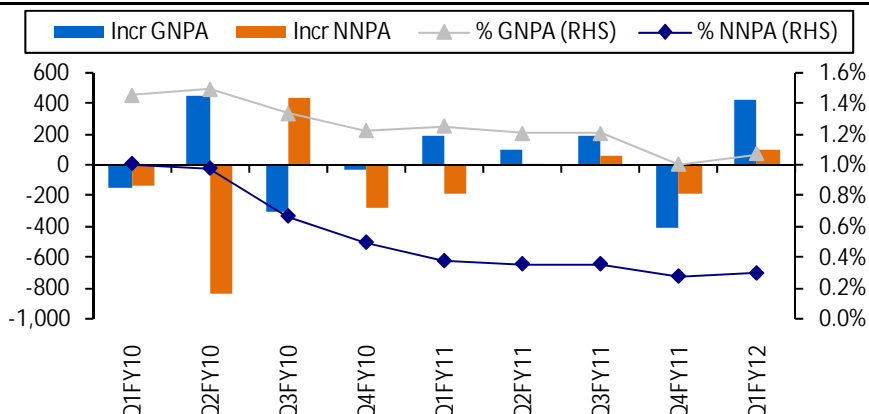
As evident in the chart alongside, there has been a consistent increase in the share of CASA deposits on a QoQ basis. In Q1FY12, the CASA deposits grew at a much faster pace by 49.3% YoY and 6.6% QoQ.

As a result the CASA ratio of the bank improved to 28.2% v/s 27.3% in Q4FY11 and 24.3% during the year ago period.

Exhibit 4: Trend in CASA and term deposits


Source: Company Data, PL Research

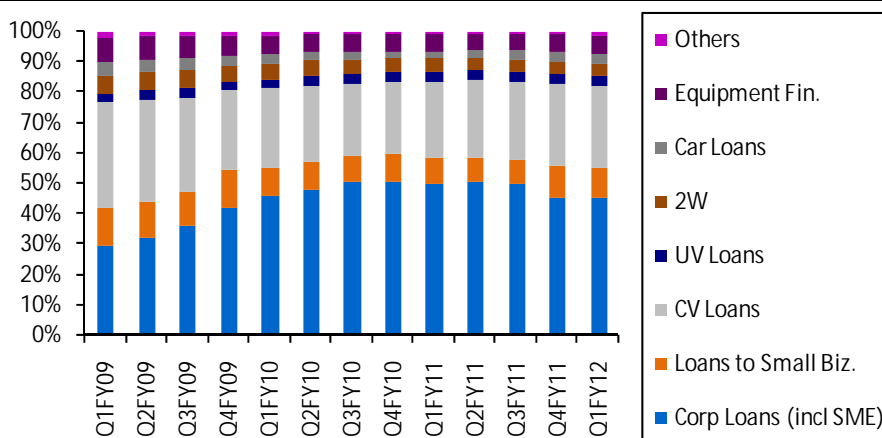
IIB's gross NPAs increased by 16.3% QoQ due to certain accounts turning NPAs technically. Notably, provision coverage remained stable on a sequential basis at 72.9% v/s 72.6% in previous quarter.

Exhibit 5: Trend in asset quality


Source: Company Data, PL Research

The loan mix during the quarter remained largely steady with proportions of the corporate and consumer loans remaining largely stable on a QoQ basis.

During the quarter the bank acquired Rs2.4bn worth credit card portfolio from Deutsche Bank as a result of which the proportion of the consumer loans increased marginally to 44.7% v/s 44.4% in Q4FY11.

Exhibit 6: Trend in loan mix


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2010	2011E	2012E	2013E
Int. Earned from Adv.	21,130	28,346	37,498	46,120
Int. Earned from Inv.	5,592	7,333	8,814	11,171
Others	349	215	141	178
Total Interest Income	27,070	35,894	46,453	57,470
Interest expense	18,206	22,129	29,426	34,508
NII	8,864	13,765	17,027	22,962
Growth (%)	93.1	55.3	23.7	34.9
Treasury Income	1,110	1,000	1,250	1,500
NTNII	4,424	6,137	8,265	10,675
Non Interest Income	5,535	7,137	9,515	12,175
Total Income	32,605	43,030	55,968	69,645
Growth (%)	17.9	32.0	30.1	24.4
Operating Expense	7,360	10,085	12,418	16,242
Operating Profit	7,039	10,817	14,124	18,895
Growth (%)	91.1	53.7	30.6	33.8
NPA Provisions	1,313	1,906	2,733	3,944
Total Provisions	1,711	2,019	3,116	4,481
PBT	5,328	8,798	11,008	14,413
Tax Provisions	1,823	3,025	3,633	4,756
Effective Tax Rate (%)	34.2	34.4	33.0	33.0
PAT	3,504	5,773	7,375	9,657
Growth (%)	135.7	64.8	27.7	30.9

Balance Sheet (Rs m)

Y/e March	2010	2011E	2012E	2013E
Par Value	10	10	10	10
No. of equity shares	411	455	455	455
Equity	4,107	4,551	4,551	4,551
Networth	23,940	38,489	44,374	52,274
Adj. Networth	22,922	37,505	42,867	50,123
Deposits	267,102	320,522	416,679	533,349
Growth (%)	20.8	20.0	30.0	28.0
Low Cost deposits	63,217	84,675	118,411	172,901
% of total deposits	23.7	27.2	28.4	32.4
Total Liabilities	353,695	427,785	543,585	683,930
Net Advances	205,506	260,248	331,407	416,723
Growth (%)	30.3	26.6	27.3	25.7
Investments	104,018	118,593	154,171	197,339
Total Assets	353,695	427,785	543,585	683,930

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Interest Income	8,541	9,149	10,488	11,646
Interest Expense	5,244	5,519	6,608	7,746
Net Interest Income	3,297	3,630	3,881	3,900
Non Interest Income	1,751	1,960	1,816	2,154
CEB	1,630	1,719	1,649	1,871
Treasury	130	240	192	278
Net Total Income	5,049	5,590	5,697	6,054
Operating Expenses	2,430	2,678	2,717	2,937
Employee Expenses	954	980	1,002	1,107
Other Expenses	1,476	1,698	1,715	1,830
Operating Profit	2,619	2,912	2,980	3,117
Core Operating Profit	2,489	2,672	2,788	2,839
Provisions	567	562	403	446
Profit before tax	2,051	2,350	2,578	2,671
Tax	720	811	860	870
PAT before EO	1,332	1,539	1,718	1,802
Extraordinary item	—	—	—	—
PAT	1,332	1,539	1,718	1,802

Key Ratios

Y/e March	2010	2011E	2012E	2013E
CMP (Rs)	288	288	288	288
Equity Shrs. Os. (m)	411	455	455	455
Market Cap (Rs m)	130,840	130,840	130,840	130,843
M/Cap to AUM (%)	33.4	30.6	24.1	19.1
EPS (Rs)	8.5	12.7	16.2	21.2
Book Value (Rs)	53	79	92	110
Adj. BV (75%) (Rs)	52	79	92	109
P/E (x)	33.7	22.7	17.7	13.5
P/BV (x)	5.5	3.6	3.1	2.6
P/ABV (x)	5.6	3.6	3.1	2.6
DPS (Rs)	1.8	2.3	2.8	3.3
Dividend Yield (%)	0.6	0.8	1.0	1.1

Profitability (%)

Y/e March	2010	2011E	2012E	2013E
NIM	2.8	3.5	3.5	3.7
RoAA	1.1	1.5	1.5	1.6
RoAE	17.3	18.5	17.8	20.0

Efficiency

Y/e March	2010	2011E	2012E	2013E
Cost-Income Ratio (%)	51.1	48.2	46.8	46.2
C-D Ratio (%)	76.9	81.2	79.5	78.1
Business per Emp. (Rs m)	88	80	83	89
Profit per Emp. (Rs m)	7	8	8	9
Business per Branch (Rs m)	2,251	1,873	1,825	1,863
Profit per Branch (Rs m)	17	19	18	19

Asset Quality

Y/e March	2010	2011E	2012E	2013E
Gross NPAs (Rs m)	2,555	2,656	5,024	7,170
Net NPAs (Rs m)	1,018	728	1,507	2,151
Gr. NPAs to Gross Adv. (%)	1.2	1.0	1.5	1.7
Net NPAs to Net Adv. (%)	0.5	0.3	0.5	0.5
NPA Coverage (%)	60.1	72.6	70.0	70.0

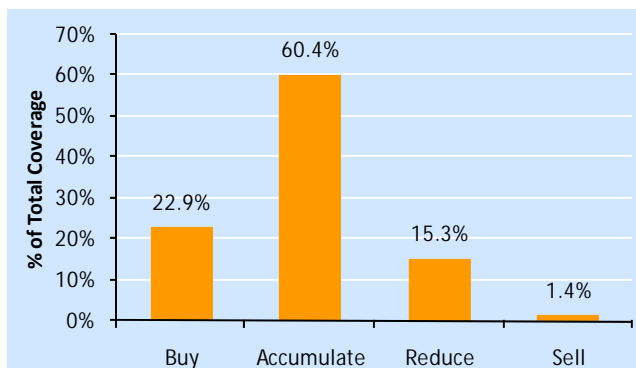
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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