

Indusind Bank**Rs 267****Another Steady quarter****BUY****KRChoksey**
wealth enhancement solutions**Target Price (Rs): 331**

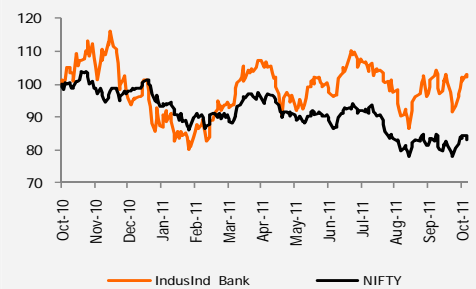
Potential Upside : 23.8%

Previous TP (Rs): 331

Market Data	
Equity sh. O/S (Cr)	46.6
MCAP (Rs crs)	12,474
52 Wk H/L (Rs)	309/200
Avg Vol (3m avg)	556,671
Fee float (%)	80%
Face Value (Rs)	10
Bloomberg Code	IIB IN

Market Info:

SENSEX	16748
NIFTY	5037

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

Particulars	Jun-11	Mar-11	Chg
Promoters	19.5	19.5	0.0
FIIIs	35.2	34.7	0.5
Institutions	7.2	8.1	-0.9
Others	38.1	37.7	0.5
Total	19.5	19.5	0.0

Source: BSE

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The bank reported excellent earnings of Rs193 crore (up 45% y-o-y and 7.1% q-o-q), in line with our expectation, but marginally above street's consensus. NII grew 27.1% y-o-y & 7.5% q-o-q aided by strong loan growth 6.2% q-o-q and resilient NIMs. NIM contracted 6bps q-o-q to 3.35% during the quarter. Core fee income went up 30% y-o-y & 13.3% q-o-q led by strong growth in various fee generating segments. Loan growth was at 28.5% y-o-y and 6.8% q-o-q, outpacing sector growth. Deposits increased 22.6% y-o-y and 8.8% q-o-q, CASA ratio showed marginal dip q-o-q due to slower CASA growth. Cost to income ratio increased marginally by 91bps q-o-q to 49.4%. Given tough macro environment, asset quality held up well during the quarter. **Maintain BUY.**

Healthy NII growth: Net interest income grew strongly 27.1% y-o-y & 7.5% q-o-q led by strong loan growth 28.5% y-o-y and relatively resilient net interest margins. The management has adopted "cope up strategy" to counter negative pressure on interest margin by increasing consumer loan book mix by ~ 200bps q-o-q to 47%, resulted into ~ marginal 6bps NIM contraction q-o-q to 3.35%. Margin contraction was largely attributable to decline in CD ratio, slower CASA growth.

Robust growth in core fee income: Core fee income showed strong growth momentum (up 30% y-o-y and 13.3% q-o-q) driven by trade fees, forex income, and distribution income and processing fees, contributing 74.0% to Non-interest income. Trading gains stands at 10% of non interest income, down 14% q-o-q to Rs23.9 crore. We are factoring 34% CAGR in fee income over FY11-FY13e.

Asset quality held up well: Broad asset quality held up well during the quarter as Gross NPA increased marginally 7.5% q-o-q to 1.1% in a challenging macro environment. Net NPAs has been remained stable at 0.3% with provision coverage of 72% in Q2FY12. Restructured asset pool stood at 0.30% 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 10bps lower than FY11 levels, reflecting superior asset quality.

Superior return ratio and healthy capital adequacy ratios - The bank reported 1.55% RoA & 18.81% RoE in Q2FY12. Capital adequacy stood at 14.3% while tier I stood at 11.4% excluding H1FY12 profits. We expect the bank to raise equity in FY13 to support their asset growth.

Valuation & Recommendation

Indusind Bank delivered another strong quarterly earnings supported by steady NII growth, strong core fee income growth and superior asset quality. Robust growth in fee income, steady progress on network expansion, healthy loan growth and superior asset quality were key positives from the result. We expect earnings to grow 28.2% CAGR over FY11-FY13 driven by strong loan growth and robust growth in fee income reflecting superior earning quality. At Rs 267 the stock is trading at 2.4x FY13 book and 13.1x FY13 earnings. We expect RoA and RoE to remain at healthy level of 1.5% and 18.9% respectively in FY13. **Robust growth outlook, superior margins, diversified fee income profile, continuous improvement in liability franchise, best in class risk adjusted returns are key value drivers for the stock. We reiterate our BUY recommendation on the stock with a target price of Rs 331 (Potential upside 23.8%).**

Key Financials

Rs in crore	FY10	FY11	FY12E	FY13E
Net Interest Income	886	1376	1676	2111
Pre-provision profit	704	1082	1403	1843
Net Profit	350	577	764	949
EPS	8.5	12.4	16.4	20.4
BVPS	58.3	86.7	99.9	116.0
ABVPS	55.8	85.2	97.4	112.5
P/E	31.3	21.6	16.3	13.1
P/ABV	4.8	3.1	2.7	2.4

Source: Company, KRChoksey Research

Healthy NII growth led by loan growth

Net interest income grew strongly 27.1% y-o-y & 7.5% q-o-q led by strong loan growth 28.5% y-o-y and relatively resilient net interest margins. The management has adopted "cope up strategy" to counter negative pressure on interest margin by increasing consumer loan book mix by ~ 200bps q-o-q to 47%. The Change in loan mix in favour of consumer finance book contained margin pressure resulted into marginal ~ 6bps NIM contraction q-o-q to 3.35%. Margin contraction was largely attributable to decline in CD ratio, slower CASA growth. We are building 10bps NIM contraction in FY12 factoring CASA mobilization to pick up in H2FY12. We expect NII to grow 23.8% CAGR over FY12-FY13 led by strong growth in loan book and steady NIMs.

Exhibit :1 Loan and NII growth Trend

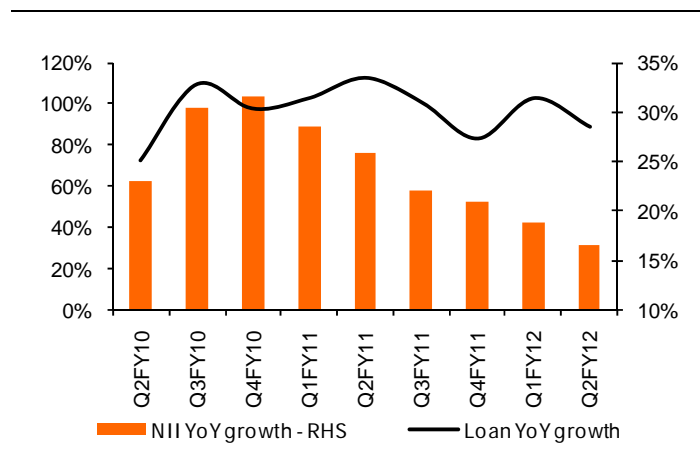
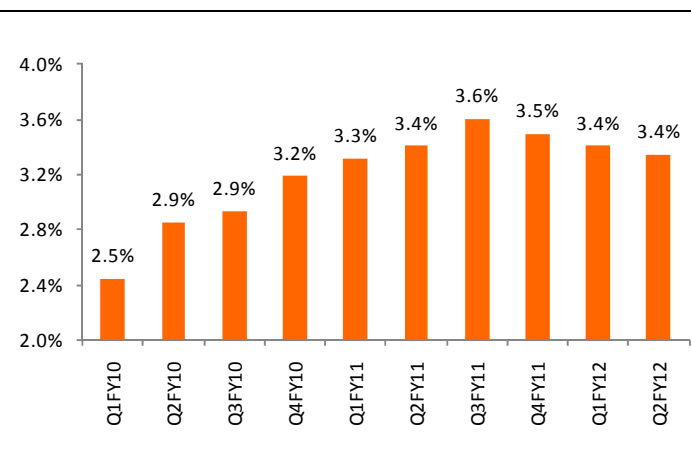


Exhibit : 2 NIM and Cost of Fund Trend



Source: Company, KRChoksey Research

Robust growth in core fee income driven by various business lines

Non-interest income showed strong momentum accelerating by 37% y-o-y and 13% q-o-q to Rs 239 crore, largely driven by core fee income which grew 30% y-o-y and 13% q-o-q. Core fee income constitutes 89% to the total non-interest income. Trading fees, Foreign exchange income and third party products distribution continuous to be the drivers for the growth in fee income. Given the subdued capital market activity, investment banking fees was muted to Rs8 crore, declining 20% q-o-q. 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 34% CAGR in core fee income for FY11-FY13e led by Insurance business, mutual funds & credit card business.

Exhibit :3 Non-interest income growth

(Rs in crore)	Q2FY12	Q1FY12	Q2FY11	q-o-q	y-o-y
Fee & FX	212	187	163	13%	30%
Securities / MM Market	24	28	13	-14%	84%
Misc income	-24	-28	-13	-14%	84%
Non Interest Income	239	215	175	11%	37%

Exhibit :4 Core Fee Income Growth

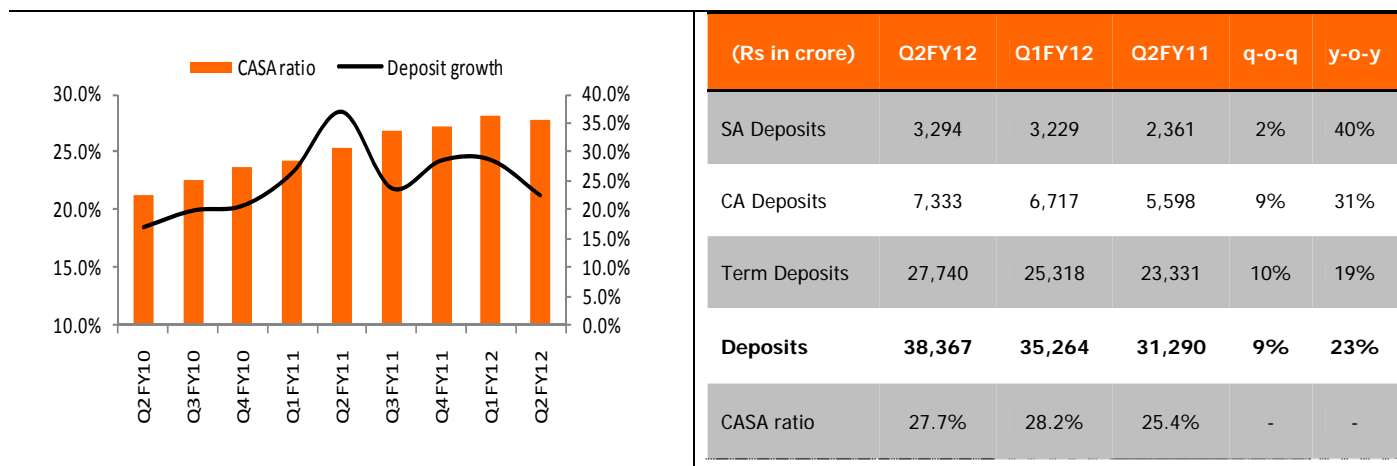
(Rs in crore)	Q2FY12	Q1FY12	Q2FY11	q-o-q	y-o-y
Trade Fees (LC, BG, Remittances)	29	25	22	12%	30%
Processing Fees & other charges	39	33	29	18%	35%
Foreign Exchange Income	52	42	30	24%	74%
TPP Distribution Income	57	51	40	13%	43%
Investment Banking Income	8	10	19	-20%	-58%
General Banking Fees	27	26	23	5%	17%
Total	212	187	163	13%	30%

Source: Company, KRChoksey Research

Rising interest rate environment impacted CASA mobilization

Deposits grew 23% y-o-y and 9% q-o-q against the industry's average growth of 18% y-o-y outpaced system deposit growth by wide margin. CASA ratio declined 50bps on the back of increase in term deposits resulting into decline in margins. Bulk deposits constitute 50% of the Total deposits. Going further, we expect deposits to grow at a CAGR of 24% between FY11-13E. 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 32.7% between FY11-13E on the back of aggressive branch expansion, innovative marketing strategies and superior liability products offering.

Exhibit :5 CASA ratio and Growth in term deposits trend

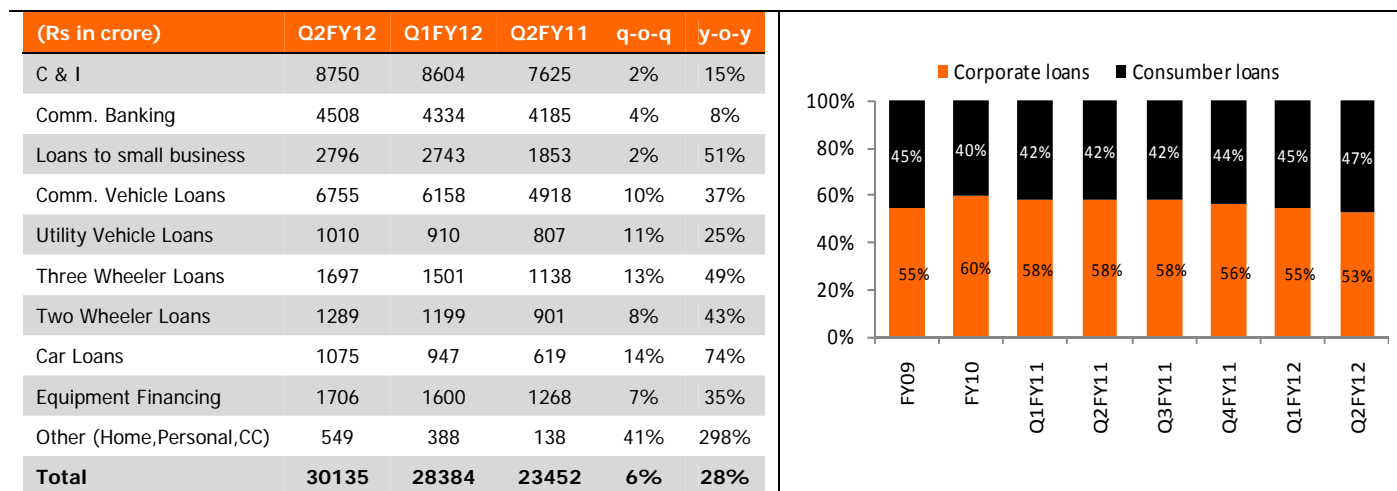


Source: Company, KRChoksey Research

Loan growth 28% y-o-y; Loan mix changed in consumer finance book

Advances grew 28% y-o-y and 6% q-o-q to Rs 30,135 crore driven by strong consumer loan book (10.9% q-o-q) and modest growth in corporate loan book (2.3% q-o-q). In term of segmental growth, Consumer loan book contributed 79.4% to increase in overall loan book on sequential basis. The management has adopted a well thought out “Cope up strategy” to counter negative pressures on interest margin by increasing high asset yield book (consumer loan book) faster than corporate loan book. CD ratio showed marginal dip of 194bps q-o-q to 78.5% during the quarter. The management has highlighted that the bank witnessed strong growth in loan against property loan product during the quarter. The bank plans to expand LAP product offering to 175-200 branches to generate Rs 125-175 crore loan origination on monthly basis. Yield on LAP product stands at ~ 15.2%, one of the highest within the consumer product portfolio. Corporate loan book and consumer loan book stand at 53% and 47% (up 200bps 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

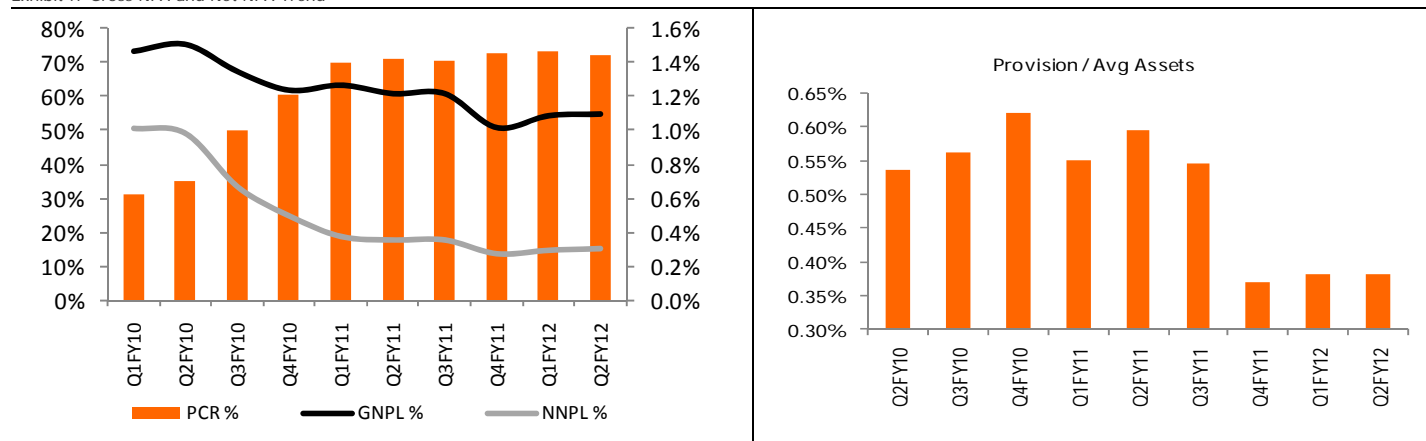


Source: Company, KRChoksey Research

Asset quality held up well

Broad asset quality has held up well during the quarter as Gross NPA stood flat sequentially to 1.1% in Q2FY12 despite sluggishness in the macro economy. Net NPAs has remained stable at 0.3% in Q2FY12 with provision coverage of 72%. In terms of movement of Gross NPAs, Rs131 were added to gross NPAs on gross basis whereas reduction (out of which write off Rs23 crore) was Rs108 crore during the quarter. Restructured asset pool stood at 0.30% of loan book, which is one of the lowest in the industry. We are building 60bps and 75bps credit costs in FY12 and FY13 respectively against 69bps credit costs in FY11.

Exhibit :7 Gross NPA and Net NPA Trend

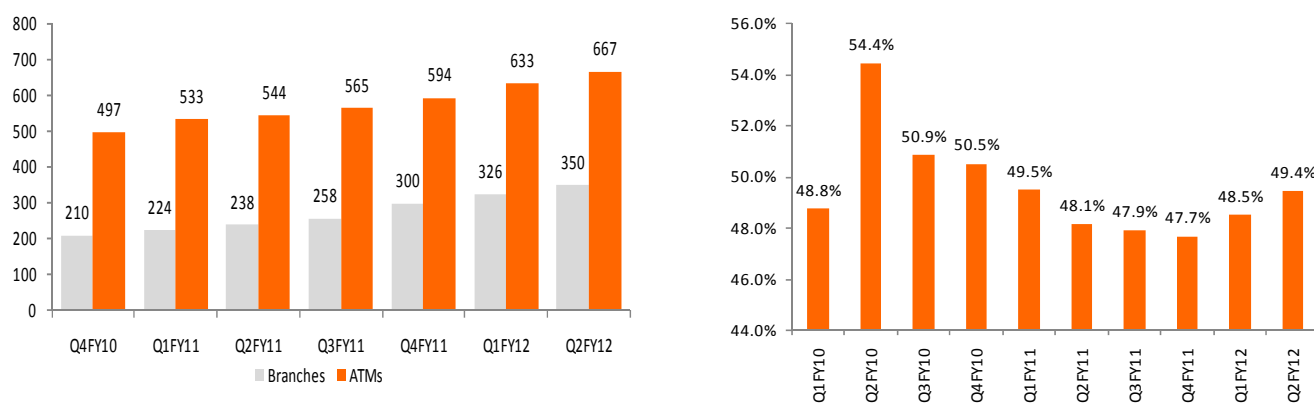


Source: Company, KRChoksey Research

Cost to income ratio marginally up to 49.4%

Operating costs increased 34% y-o-y and 11% q-o-q due to the surge in hiring of employees. Employee costs increased by 11% q-o-q and 21% y-o-y. Cost to Income ratio improved by 92bps to 49.4% due to the increase in branch network. We expect cost to income ratio to remain stable between 47%-49% in FY11-13E.

Exhibit :8 Cost to income ratio



Source: Company, KRChoksey Research

Other highlights

- The bank opened 24 branches and 34 ATMs since June, 2010 taking its network to 350 and 667 ATMs in Q2FY12. The management has indicated that the bank will add 400 branches over FY11-FY14. The management expects break even of newly open branches to start kicking in next two quarters.
- Capital Adequacy Ratio stands at 14.32% in Q2FY12 against 14.99 % in Q1FY12. Tier I is healthy at 11.4%.
- AFS book stood at Rs 3,000 crore with modified duration of ~ 0.5 yrs.
- Real estate exposure stands ~ 2.95%, largely attributable to lease rental discounting portfolio. The management doesn't foresee any asset quality pressure on this book in near term.
- The management has guided us that credit card business will grow gradually in next two years. As far as credit origination is concerned, majority of origination would come through branch levels which will ensure quality acquisition. Currently, the bank is offering only premium credit product to customers, not moving to low pyramid credit card loan product.

Earnings Revision

(Rs crore)	FY12e		Change (%)	FY13e		Change (%)
	Old	New		Old	New	
Net Interest Income	1,745	1,676	-4.0%	2,196	2,111	-3.9%
Pre Provision Profit	1,413	1,403	-0.7%	1,844	1,843	-0.1%
Net Profit	741	764	3.0%	942	949	0.7%

Source: KRChoksey Research

KRChoksey Estimates Vs Bloomberg Consensus

	FY12			FY13			FY14		
	KRC	Bloomberg	Vari (%)	KRC	Bloomberg	Vari (%)	KRC	Bloomberg	Vari (%)
EPS (Rs)	16.4	16.0	2.6%	20.4	20.2	0.6%	16.4	16.0	2.6%
DPS (Rs)	3	3	14.8%	4	4	17.4%	3	3	14.8%
BVPS (Rs)	100	96	4.3%	116	114	1.8%	100	96	4.3%
Net Profits (Rs in crs)	764	744	2.7%	949	948	0.1%	764	744	2.7%
RoA (%)	1.5%	1.5%	-5 bps	1.5%	1.5%	-6 bps	1.5%	1.5%	-5 bps
RoE (%)	17.6%	17.6%	7 bps	18.9%	19.2%	29 bps	17.6%	17.6%	7 bps

Source: Bloomberg, KRChoksey Research

Q2FY12 : Quarterly Result Analysis

Rs in crore	Q1FY12	Q4FY11	Q1FY11	q-o-q	y-o-y
Income Statement					
Interest income	1324	1165	854	13.7%	55.0%
Interest expense	905	775	524	16.8%	72.5%
Net interest income (NII)	419	390	330	7.5%	27.1%
Non-interest income	239	215	175	11.1%	36.6%
Operating income	658	605	505	8.8%	30.4%
- Employee costs	115	111	95	4.1%	20.7%
- Other operating expenses	210	183	148	14.9%	42.5%
Operating expenses	325	294	243	10.8%	33.9%
Pre-provision profit	333	312	262	6.8%	27.2%
Provisions	47	45	57	5.3%	-17.2%
Profit before tax	286	267	205	7.1%	39.4%
Tax expense	93	87	72	6.9%	29.1%
Net profit	193	180	133	7.1%	45.0%
Balance Sheet items					
Deposits	38367	35264	31290	22.6%	8.8%
CASA deposits	10627	9946	7959	33.5%	6.8%
Borrowings	5985	6642	3632	64.8%	-9.9%
Investments	14286	14233	12000	19.0%	0.4%
Advances	30136	28384	23452	28.5%	6.2%
Total Assets	50456	47838	40748	23.8%	5.5%
Spread Analysis					
Yield on avg advances	14.2%	13.2%	12.0%	97bps	216bps
Yield on avg investments	7.5%	7.1%	6.5%	37bps	95bps
Yield on avg interest bearing assets	11.3%	10.4%	9.4%	86bps	182bps
Cost of funds	8.4%	7.6%	6.3%	81bps	208bps
NIM	3.6%	3.48%	3.64%	8bps	-8bps
Others					
Yield on advances #	13.8%	13.5%	12.1%	29bps	171bps
Cost of funds #	8.2%	7.7%	6.0%	45bps	217bps
NIM #	3.4%	3.4%	3.4%	-6bps	-6bps
Cost to income ratio	49.4%	48.5%	48.1%	91bps	129bps
Effective tax rate	32.5%	32.5%	35.1%	-4bps	-259bps
Gross NPAs	333	309	286	7.5%	16.1%
Net NPAs	93	84	84	11.1%	11.2%
GNPA %	1.1%	1.1%	1.2%	1bps	-12bps
NNPA %	0.3%	0.3%	0.4%	1bps	-5bps
Provision coverage %	72.0%	72.9%	70.8%	-91bps	123bps
CD ratio	78.5%	80.5%	75.0%	-194bps	359bps
Capital adequacy ratio	14.3%	15.0%	16.2%	-67bps	-190bps
Tier I	11.4%	11.7%	12.2%	-27bps	-74bps

Source: Company, KRChoksey Research # reported basis

NII increased 27% y-o-y and 7.5% q-o-q. Margin contraction of 6bps during the quarter.

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

Deposits grew 23% y-o-y. CD ratio stands at 79%

Advances grew 28.5% y-o-y and 6% q-o-q driven by SME loan book Commercial vehicle loans.

NIMs contracted by 6bps 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	4554	5580
Interest expenses	1821	2213	2878	3469
Net Interest Income (NII)	886	1376	1676	2111
-- Core fee Income	432	629	864	1131
Non interest income	553	714	979	1251
Operating income	1440	2090	2655	3361
Operating expenses	736	1008	1252	1519
-Employee costs	291	383	532	679
-Other operating expenses	445	626	720	840
Pre-provision profits	704	1082	1403	1843
Provisions	171	202	254	416
PBT	533	880	1149	1427
Provision for taxes	183	302	385	478
Net profit	350	577	764	949
Dividend (Inc. tax)	86	109	152	200

Spread Analysis

Spread Analysis	FY10	FY11	FY12E	FY13E
Avg Yield On Advances	11.6%	12.1%	12.1%	11.9%
Avg Yield On Investments	6.0%	6.1%	6.3%	6.4%
Avg Yield On IBA	9.1%	9.3%	9.4%	9.5%
Avg Cost Of Deposits	6.4%	6.3%	6.4%	6.3%
Avg Cost of Funds	6.4%	6.2%	6.5%	6.4%
Spread	2.7%	3.1%	2.9%	3.0%
NIM	3.0%	3.6%	3.5%	3.6%

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%	0.60%	0.75%

Per Share Data

(Rs)	FY10	FY11	FY12E	FY13E
EPS	8.5	12.4	16.4	20.4
DPS	2.1	2.3	3.3	4.3
BVPS	58.3	86.7	99.9	116.0
ABVPS	55.8	85.2	97.4	112.5
P/E	31.5	21.7	16.4	13.2
P/ABV	4.8	3.2	2.8	2.4
Dividend Yield	0.78%	0.87%	1.21%	1.59%

Source: KRChoksey Research

Balance Sheet

Rs in crore	FY10	FY11	FY12E	FY13E
Equity capital	411	466	466	466
Reserve and Surplus	1987	3584	4196	4945
Net worth	2397	4050	4662	5411
Deposits	26710	34365	42443	52666
Borrowings	4934	5525	6128	6478
CL and provisions	1328	1695	2169	2733
Total	35370	45636	55403	67288
Cash and Bal. with RBI	2099	2456	2961	3674
Balances with RBI	504	1569	985	1199
Investments	10402	13551	15662	17748
Advances	20551	26166	33492	41865
Fixed assets	645	596	746	932
Other assets	1169	1298	1558	1870
Total	35370	45636	55403	67288

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%	1.5%	1.5%
RoAE	17.3%	17.9%	17.6%	18.9%

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	42,443	52,666
CASA Deposits	6,322	9,331	12,903	17,217
CASA Ratio	23.7%	27.2%	30.4%	32.7%

Growth ratios

	FY10	FY11	FY12E	FY13E
Net interest income	93.1%	55.3%	21.8%	25.9%
Fee income	44.0%	45.6%	37.2%	30.9%
Pre-provision Profits	85.0%	47.0%	29.4%	31.3%
Net Profits	136.1%	64.8%	32.3%	24.2%
Advances	30.3%	27.3%	28.0%	25.0%
Deposits	20.8%	28.7%	23.5%	24.1%
Total Assets	28.1%	29.0%	21.4%	21.5%

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Indusind Bank			
Date	Recommendation	CMP	Target
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	15% - 25%
Hold	10% - 15%
Reduce	Nil – 10%
Sell	Less than 0%

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