IndusInd Bank

Banking

Initiating Coverage

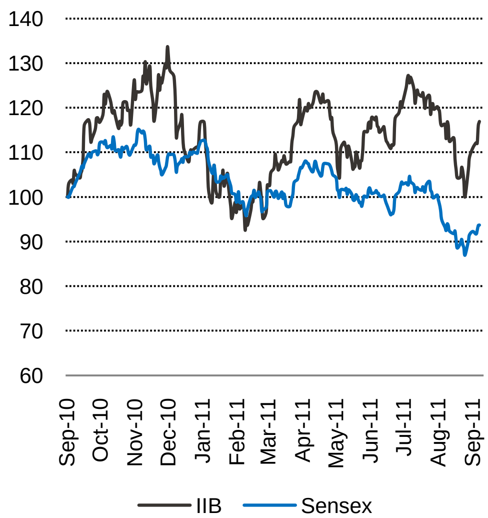
Rating: **Buy**

Current Price: Rs266

Target Price: Rs319

Stock Data	
Sensex/ Nifty	16,934/ 5084
52-week high/low	309/181
O/S shares (m)	466.5
Mkt Cap Rs (bn)	123.3
Avg Daily Vol	76702
Bloomberg Code	IIB IN
Reuters Code	INBK.BO

Shareholding (%)	**June-11**
Promoters	19.5
FIIs	34.7
DIIs	22.0
Public	23.8



Dolly Parmar
+91-22-43335136
dollyparmar@ifinltd.in

NEW LOOK, NEW INITIATIVES, NEW GROWTH PHASE

We initiate coverage on IndusInd Bank (IIB) with a BUY and a target price of Rs319. Over the past 3 years, Mr. Sobti and his team have delivered impressive results on most operating metrics and we expect this to continue. We believe higher margins, strong fee income, lower operating and credit cost would expand its RoA to 1.5% by FY13E.

- **Extension to ensure stellar performance:** In the past three years net profit exhibited a 97% CAGR, NIMs improved from 1.5% to 3.5%, net NPA down to 0.3% from 2.3% and RoA improving from 0.3% to 1.4%. With 3 year extension to Mr. Sobti, we expect a 30% CAGR in business and 29% CAGR in bottom-line during FY11-FY13E.
- **Strong loan growth to continue:** IIB's loan book recorded a 27% CAGR over FY08–11. Used CV sales, loans against property, and 2/3 wheelers segments would remain its core focus areas. Loan portfolio more broad based. CFD down from 56% in FY08 to 44% in FY11. We expect loan book to grow at a 31% CAGR during FY11-13E.
- **Liability franchise; CASA the key driver:** IIB plans to add 375 branches in the next three years. CASA ratio improved to 28% in June'11 from 16% in March'08. We expect bank to achieve CASA of 31.5% by FY13E.
- **Sustained improvement in NIM:** NIMs improved substantially to 3.5% in FY11, driven largely by decline in cost of deposits. A higher CASA ratio and greater exposure to higher yielding sectors (Used CV loans, credit cards and loans against property) would help the bank to sustain its margin. We expect NIM to be ~3.6% in FY12E.
- **Valuation:** We value IIB at 2.8x FY13E P/ABV to arrive at a TP of Rs319 (upside of 20%). We believe with the bricks now in place, the bank should be able to achieve RoA and RoE of 1.50% and 19.2% by FY13E. The stock trades at 2.8x FY12E and 2.3x FY13E ABV.

Y/E Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net Interest Income	8864	13765	17885	23997
Pre-provision Profit	7039	10817	13955	17975
PAT	3507	5773	7409	9604
EPS (Rs)	8.5	12.2	15.6	20.3
BV (Rs)	52	81	95	116
ABV (Rs)	51	80	94	114
Net NPA (%)	0.50	0.28	0.23	0.25
ROA (%)	1.1	1.4	1.5	1.5
ROE (%)	19.5	19.3	17.8	19.2
PER	31.2	21.8	17.0	13.1
P/ABV	5.2	3.3	2.8	2.3

Source : Company, IFIN Research

IndusInd Bank

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Investment Summary and Valuation

We initiate coverage on IndusInd Bank (IIB) with a BUY and a target price of Rs319. Over the past 3 years, Mr. Sobti and his team have delivered impressive results on most operating metrics and we expect this to continue. IIB's loan book is expected to grow at a 31% CAGR during FY11-14E. We believe higher margins, strong fee income, lower operating and credit cost would expand its RoA to 1.5% by FY13E.

We expect a 30% CAGR in business and 29% CAGR in profitability over the next two years.

- **Spectacular performance over the past three years:** In the past three years under managing director Romesh Sobti, IndusInd Bank has achieved spectacular performance. Net Profit exhibited a 97% CAGR, NIMs improved from 1.5% to 3.5%, net NPA down to 0.3% from 2.3% and RoA improving from 0.3% to 1.4%. With 3 year extension to Mr Sobti and his team, we expect a 30% CAGR in business and 29% CAGR in bottom-line during FY11-13E.

- **Strong loan growth to continue:** IIB's loan book recorded a healthy 27% CAGR over FY08–FY11. In FY06, loan growth was as low as 3.5%. However it improved steadily and the growth has been above 20% since FY09. The loan portfolio is now more broad-based with the share of consumer finance division (CFD) down from 56% of total loans in FY08 to 44% in FY11. We expect IIB's loan book to grow at a 31% CAGR during FY11-13E.

CASA to increase to ~32% by FY13E.

- **Liability franchise; CASA the key driver:** After a lull during FY08-09, IIB has revived its strategy to expand its branch network. During FY11 it added 90 branches compared to none between Mar-08 and Sep-09. The bank plans to add 375 branches in next three years to reach 675 by Mar 2014. A higher pace of growth in CASA (46% CAGR during FY08-FY11) led CASA ratio to jump from 16% in FY08 to 28% in June'11. CASA ratio is expected to be about 31.5% by Mar-13.

Net interest margin to be maintained at about 3.6%

- **Sustained improvement in NIM:** Over the last 3 years, NIM improved substantially from 1.6 in Mar-08 to 3.5% in Mar-11. This was driven largely by 165 bps decline in cost of deposit (higher proportion of CASA), while the yield on advances increased by 20 bps. A higher CASA ratio and greater exposure to higher yielding sectors (Used CV loans, credit cards and loans against property) would help the bank to sustain its margin. We expect NIM to be ~3.6% in FY12E.

- **Impeccable asset quality:** IIB has seen its gross NPL ratio come down over the last 3 years from 3% to 1.1%. The provision coverage ratio increased from 30% in Mar-09 to 73% in June-11. Another comforting factor for the control over asset quality is the lower exposure towards distressed sectors. We do not foresee much deterioration in asset and expect Net NPA at 0.23% by FY13.

The stock has outperformed the Sensex by 23% in last one year.

We have valued IIB at 2.8x its FY13E ABV and arrived at target price of Rs319.

Valuation

The stock has commanded premium valuation over the past one year. The average one-year forward P/ABV has soared from 2x in FY05-FY10 to 2.8x in FY11. This re-rating is mainly due to a visible change in IIB's operating metrics and healthy RoA and RoE. We expect IIB to deliver an impressive 29% earnings CAGR during FY11-13E. The stock trades at 2.8x FY12E and 2.3x FY13E ABV. We value the bank at 2.8x FY13E ABV, arriving at target price of Rs319. For arriving at the target P/ABV we have taken the historical and the estimated P/ABV and calculated the weighted average of it.

Exhibit 1: Peer Valuation

	EPS CAGR	ROE		P/ABV		PER	
	FY11-13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Indusind Bank	29%	18%	19%	2.8	2.3	16.8	13.0
Axis Bank	34%	22%	24%	1.9	1.5	9.5	7.2
HDFC Bank	31%	19%	21%	3.7	3.1	21.1	16.2
ICICI Bank	25%	11%	13%	1.7	1.5	15.3	12.2
Yes Bank	27%	22%	22%	2.0	1.6	10.1	8.0
ING Vysya Bank	21%	13%	14%	1.1	1.0	9.3	7.5

Source: Bloomberg & IFIN Research

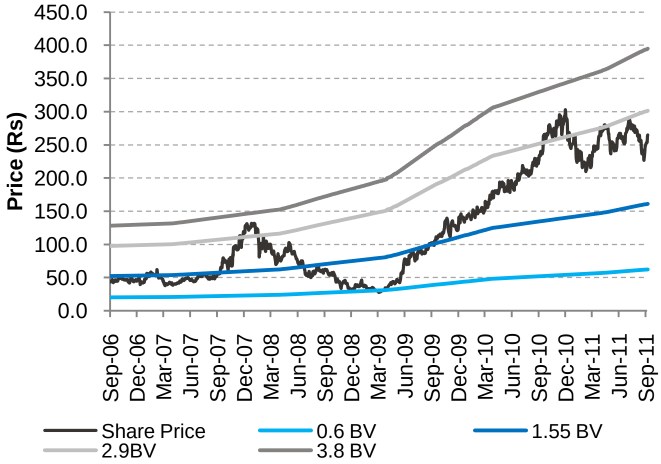
Key Investment Risks

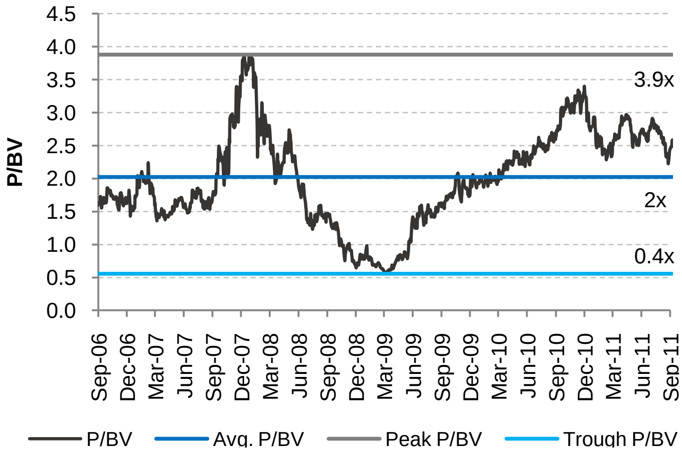
- **Slower-than-expected growth in financing of new CVs:** Growth in new CV financing is expected to be lower than in other segments. However, it would be offset by higher growth in used CV financing. A higher-than-expected decline in new CV sales would weigh on IIB's growth plans.

- **Higher delinquencies:** Higher-than-expected increase in delinquencies presents a downward risk to our estimates.

- **Senior management attrition:** Execution risk would arise if the bank observes significant attrition at the senior management level.

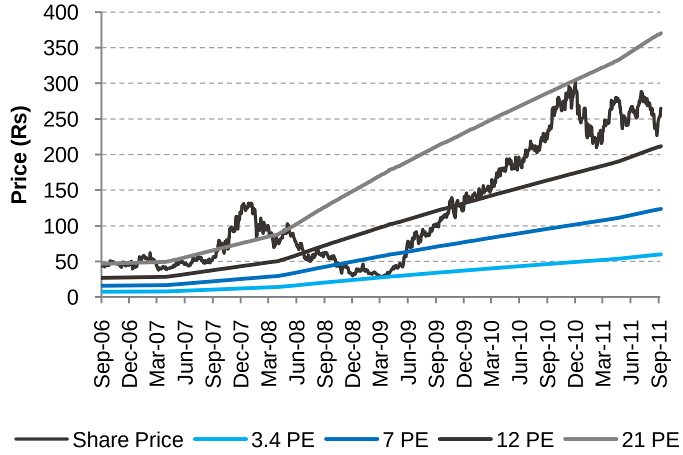
1 year forward rolling P/ABV band

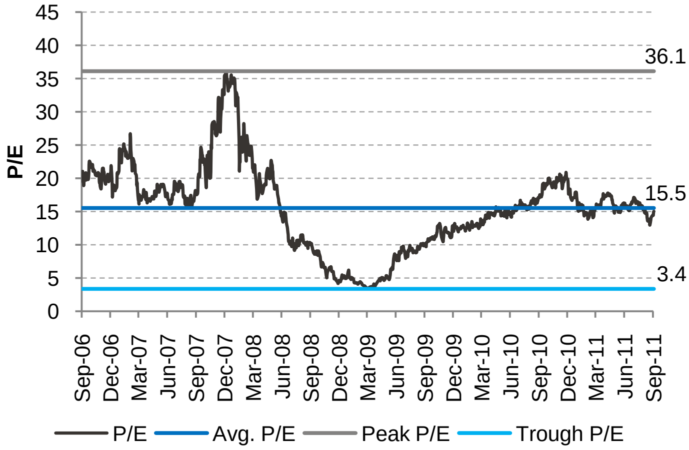




Source: Company, IFIN Research

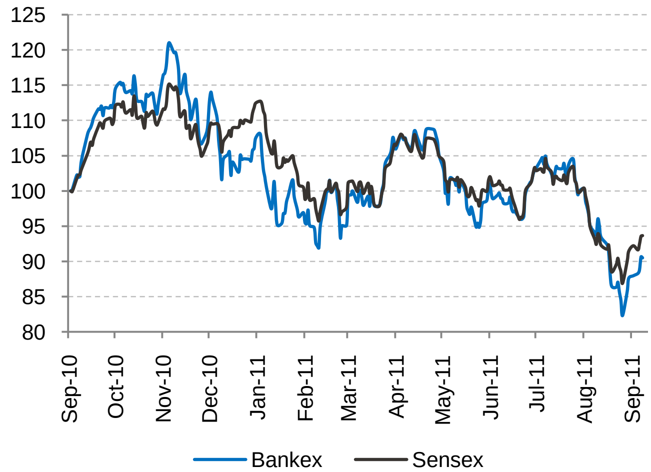
1 year forward rolling P/E band



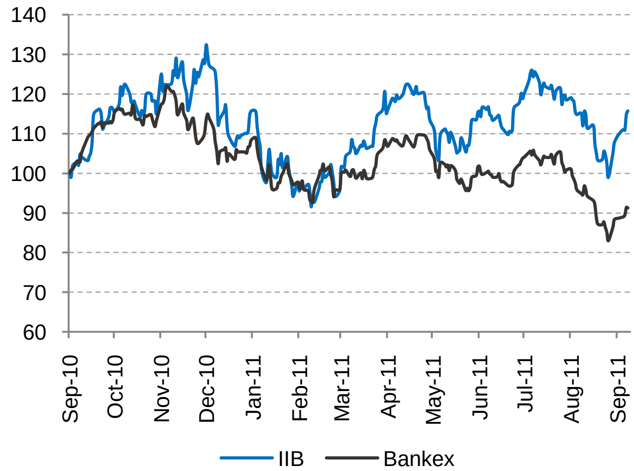


Source: Company, IFIN Research

Bankex Vs Sensex



Bankex Vs Indusind Bank



Source: Company, IFIN Research

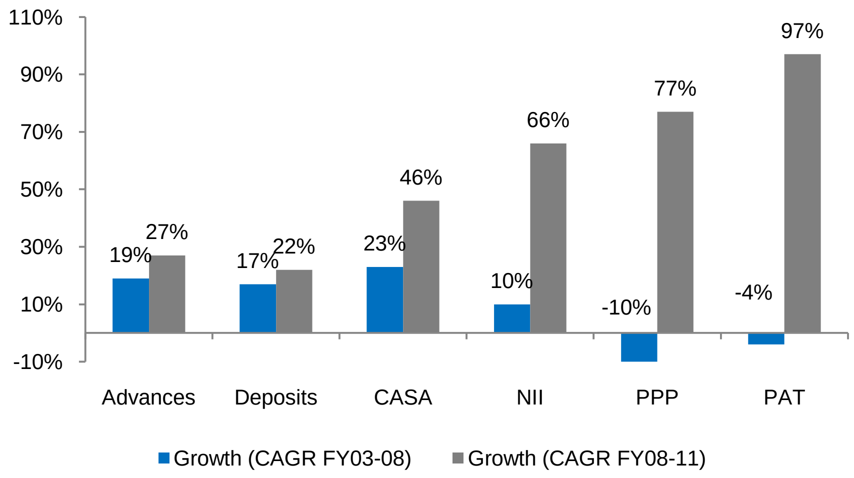
Spectacular performance over past three years:

In the past three years under managing director Romesh Sobti, IIB has achieved spectacular performance. Net Profit exhibited a 97% CAGR, NIMs improved from 1.5% to 3.5%, net NPA down to 0.3% from 2.3% and RoA improving from 0.3% to 1.4%. With 3 year extension to Mr Sobti and his team, we expect a 30% CAGR in business and 29% CAGR in bottom-line during FY11-FY13.

- **Noteworthy change in performance:**

Till FY08, IIB performed poorly on profitability, lower leverage of its branch network and weak loan growth. Profitability was poor on back of inadequate revenue generation capabilities. The branch network was not leveraged enough to ramp up low-cost deposits and distribution of third-party products. Moreover, since IIB was only a vehicle financer then, growth in its loan book was volatile, as its portfolio was concentrated and not broad-based. However, Mr Sobti and his team brought about remarkable turnaround. **NII, PPP, PAT recorded 66%, 77%, and 97% CAGR during FY08-11.**

Exhibit 2: Remarkable progress in performance



Source: Company, IFIN Research

Profitability, Productivity & Efficiency as measured by ROA, ROE, NIM, Efficiency, Net NPAs & Revenue per employee has improved significantly.

- **Substantial improvement in key parameters:**
  IIB exceeded the targets set for NIM, ROA, ROE, and NPAs. 4QFY11 marks the end of 12 quarters of planning cycle I set by the management: a) ROA improved from 0.58 % in FY09 to 1.4% in FY11; b) NIM exceeded the target of 3%, touching 3.5% in FY11; and c) Net NPA came down to below 1% (at 0.3%) in FY11. We believe with the bricks now in place, the bank should be able to build on this and achieve ROA and ROE of 1.50% and 19.2%, respectively, by FY13E.

Exhibit 3:

Key Parameters	FY08	FY11	1QFY12
CASA %	16	27	28
NIM %	1.5	3.5	3.4
GNPA %	3.0	1.0	1.1
NNPA %	2.3	0.3	0.3
Branches	180	300	326
ROA %	0.3	1.4	1.6
ROE %	6.9	19.3	18.4
PCR %	26	73	73

Source: Company, IFIN Research

- **Favorable changes brought in the working structure:**
  The management brought about cultural and structural changes in the working of the bank. Some of the initiatives included: 1) The change was brought in terms of the functioning of the activities as realigning the responsibilities of managers and making them more accountable for achieving targets; 2) creating customer-oriented functions; 3) changing the geographic structure; 4) improving branch infrastructure; and 5) centralizing back office activities to rein in costs.

Change in geographical structure & realignment of responsibilities of managers is done in order to improve the branch revenue model.

Exhibit 4: Change in structure

Earlier Geographic Structure:

- Non-uniform definitions of zones
- Seperate Regional Offices

Current Geographic Structure:

- Standardization of Zones
- Common Regional Office for all Businesses

Earlier Responsibilities for Branch Managers:

- Retail Liability sales
- OR Corporate RMs
- 10% Operations

Current Key Result Areas for Branch Managers:

- Retail sales targets
- Service Standards
- Operational KPIs/ Direct Costs
- Audit/Compliance
- Employee Engagement
- Administration Head for Biz. Corrs outlets

Source: Company, IFIN Research

- **Acquired Deutsche Bank credit card business; completes the product mix:**

  IIB entered into an agreement with Deutsche Bank to buy its credit card business in India. As per the agreement, IIB will get access to ~200,000 card customers and the entire operating platform of the cards franchise including technology. Entry into the credit card business would significantly enhance IIB's product offerings. With this acquisition, IIB gets access to a strong customer base and a wide range of customer-centric financial products, enabling it to emerge as a full-service bank.

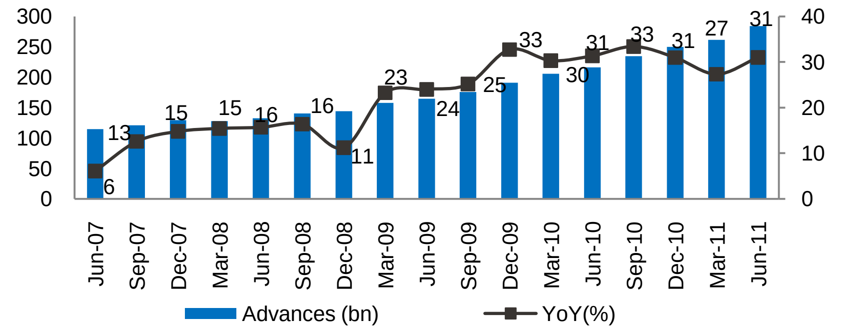
We expect calibrated loan book expansion at a 31% CAGR during FY11-13E.

Strong loan growth to continue

IIB's loan book recorded a healthy 23% CAGR over FY06–FY11. In FY06, loan growth was as low as 3.5%. However it improved steadily and the growth has been above 20% since FY09. The loan portfolio is now more broad-based with the share of consumer finance division (CFD) down from 56% of total loans in FY08 to 44% in FY11. Over the past three years, management focused on improving the corporate and commercial banking segment (CCB) to create a more balanced portfolio. We expect IIB's loan book to grow at a 31% CAGR during FY11-13E.

- **IIB's Loan book growth above industry average:**
  IIB increased its loan book at the robust pace since March 09; the growth has been above industry average over the past three years. Non food credit grew by 18%, 17% and 21% (yoy) in FY09, FY10 and FY11 respectively whereas IIB loan book grew by 23%, 30% and 27% during the same period.

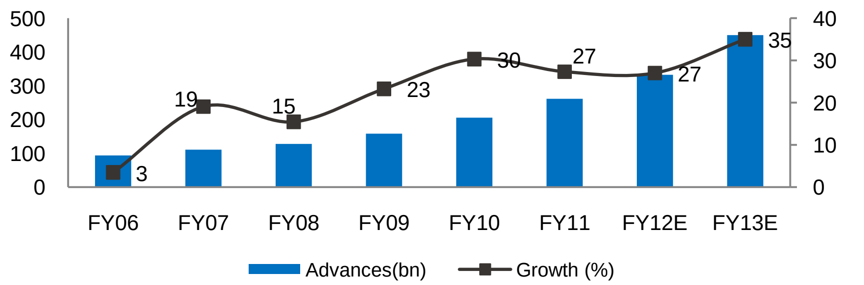
Exhibit 5: Loan growth – quarterly trend



Source: Company, IFIN Research

We expect growth would moderate as management has set the base and wants to maintain margins and not compromise on RoA at the expense of aggressive growth. We assume loan growth would fall in line with that of peers and achieve 31% CAGR during FY11-13E.

Exhibit 6: Loan growth – annual trend

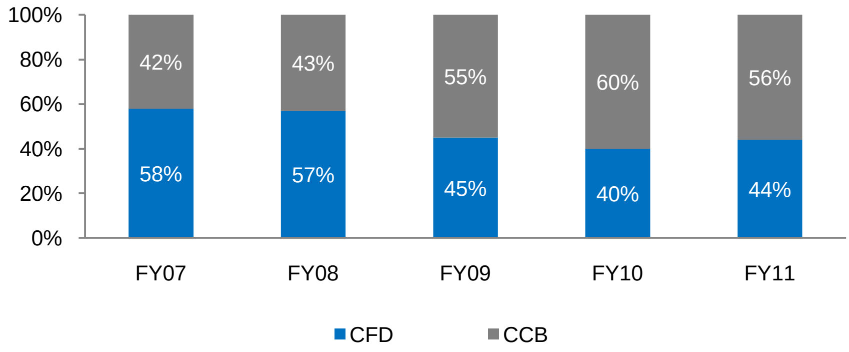


Source: Company, IFIN Research

Corporate loans has been the focus area over the last couple of years.

- **Rebalancing of loan mix has been beneficial:**
  Over the past five years, IIB's loan mix changed significantly with the focus being on increasing the share of CCB. The share of CCB increased to 56% in FY11 from 42% in FY07. With the share of the CF division reduced to 44% of the loan portfolio, IIB's loan portfolio is now more balanced and less vulnerable to asset quality pressures as NPAs in the CF were higher than in CCB.

Exhibit 7: Loan Book inclined towards corporate loans



Source: Company, IFIN Research

Used CV book would improve to 15% of total consumer finance book by FY14E.

- **Dominance of vehicle loans despite decline in CV loans:**
  Consumer finance accounts for 44% of its total loan book. The composition of the CF division has changed as high-yielding commercial vehicle financing, which constituted 59% of CFD in FY08 has come down to 49% in FY11. However, the 10% decline in CV the segment was offset by increasing the proportion of two-wheeler and three-wheeler loans to 21.82%. We believe going forward the slowdown in New CV sales would be compensated by increasing the proportion of Used CV sales and loan against property. Yield on Used CV financing is higher than yield on New CV financing and even two-wheeler and three-wheeler loans command higher yields. Hence these businesses will offset the threat from slowdown of new CV loans financing.

Exhibit 8: Composition of CFD

Consumer Finance Division	FY08	FY09	FY10	FY11
Commercial Vehicle	59.21	57.99	48.34	49.09
2 Wheelers	10.72	12.03	10.85	9.76
3 wheelers	0.00	0.00	11.11	12.06
Car loan	8.23	7.12	5.77	7.14
Equipment Finance	14.42	14.00	13.61	12.88
Utility Vehicle	4.48	5.97	8.31	7.11
Others	2.94	2.88	2.00	1.95
Total	100	100	100	100

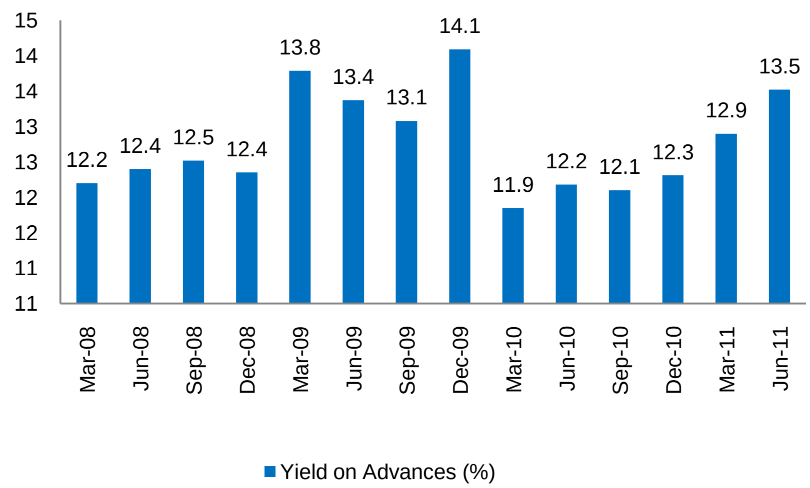
Source: Company, IFIN Research

Expansion of 2/3 wheeler segment in the past couple of years to an extent offset the decline in CV loans.

- **Distinctly placed in the vehicle finance market:**
  Due to its strong hold in the vehicle finance segment, IIB is placed well and operates profitably in vehicle and equipment finance markets compared with peers. After taking over Ashok Leyland Finance, IIB secured access to its strong infrastructure and wide distribution network. Other than 300 branches of the bank, IIB utilises the distribution network of its associate company Indusind Marketing and Financial Services, which handles vehicle finance and operates a network of 580 marketing outlets. This distribution network gives IIB a distinct competitive edge in the CV segment.

- **A change in Loan composition led to stabilization in yields:**
  Earlier IIB had higher exposure towards CFD and yields on CFD loans are higher but being riskier asset profile bank had to suffer from higher NPAs. After the realignment of loan mix towards CCB, yields on advances had come down however bank had lesser riskier asset profile and asset quality also improved. Since last couple of quarters yields have seen a steady improvement and it increased by 130 bps to 13.5% in June'11 from 12.2% in June'10.

Exhibit 9: Rebalancing of portfolio led to stabilization in yields



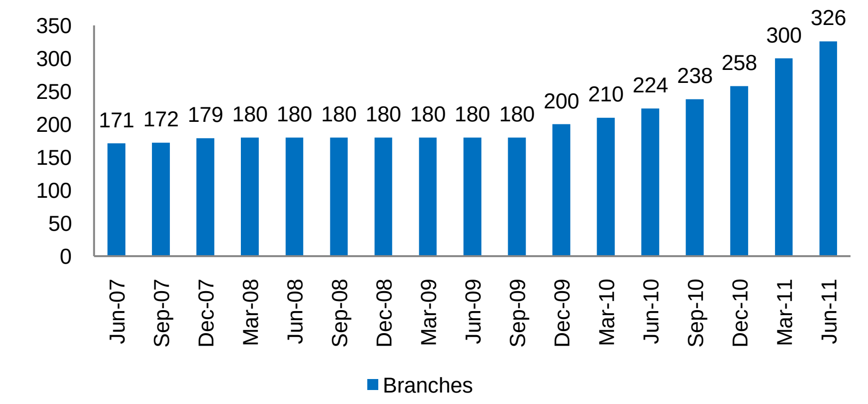
Source: Company, IFIN Research

Liability Franchise: CASA the key driver

After a lull in branch expansion during FY08-09, IIB has revived its strategy to expand the branch network. During FY11 it added 90 branches compared to none between Mar-08 and Sep-09. The bank plans to add 375 branches in next three years to reach 675 by Mar 2014. A higher pace of growth in CASA (46% CAGR during FY08-FY11) led CASA ratio to jump from 16% in FY08 to 28% in June'11. CASA ratio is expected to be about 31.5% by Mar-13.

- **Expansion of branch network; improvement in productivity:**
  For the first three years i.e FY08-FY11, the management focused on improving productivity of existing branches and soft-pedaled expansion of new branches. IIB added only 30 new branches during FY08-FY10. From FY11 onwards, the bank has scaled up its branch expansion plans and added 90 branches in a year. The bank plans to add 125 branches each year and establish 675 branches by March-14. IIB follows the strategy of cluster approach. It concentrates on fewer cities and increases visibility. We believe IIB will benefit from expansion of branch network and increased visibility.

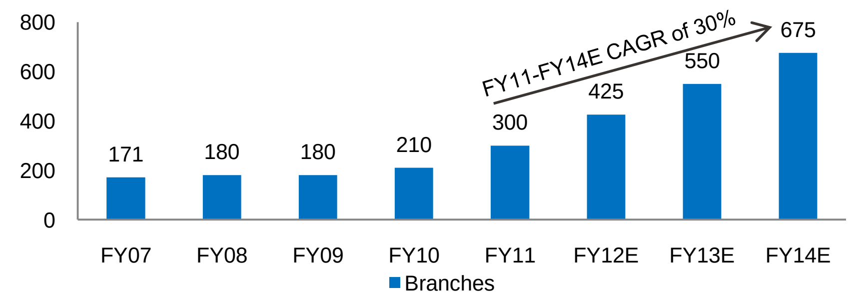
Exhibit 10: Stagnant growth in branches till Sep'09



Source: Company, IFIN Research

Going forward bank has set aggressive targets for branch expansion and will add 125 branches each year till FY14E

Exhibit 11: Rapid growth of branches in future



Source: Company IFIN Research

Deposits grew 29% YoY and 3% QoQ in June 11

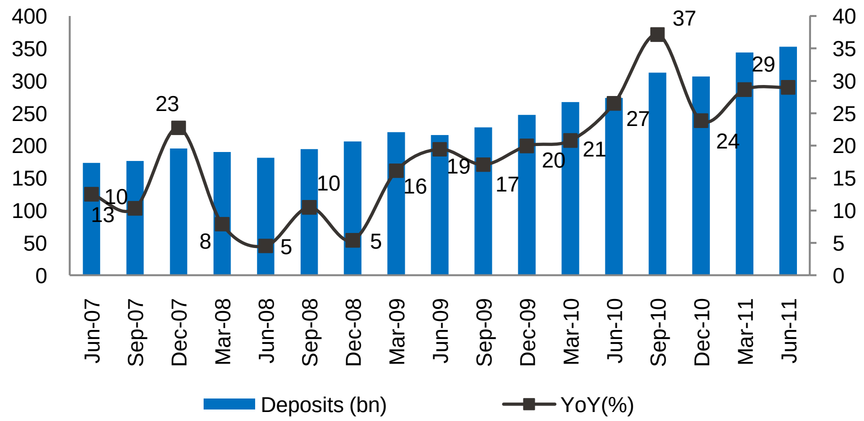
We expect a 29% CAGR in deposits during FY11-13E

Under the recent model of opening a new branch, typically breakeven is achieved within twelve months. The span for achieving breakeven is now almost in line with industry average and IIB achieved this by realigning its revenue generation model. Profit per employee improved to Rs 0.8 mn in FY11 from Rs 0.2 mn in FY07.

- **Branch Expansion led deposit growth:**

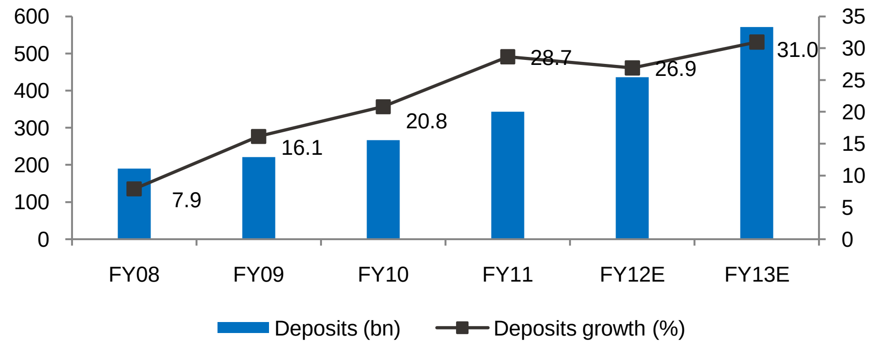
  Average quarterly growth in deposits from June'07-March'09 was 11% which has scaled upto 25% for June'09-June'11. Branch addition has direct bearing on the increase in deposit mobilization. Increase on number of branches from 180 in March'08 to 326 in June'11, customer acquisition, and penetration into semi urban and metro regions has led the deposits growth up from 8% in FY08 to 29% in FY11. We estimate deposits to grow at a CAGR of 28.9% over FY11-13E.

Exhibit 12: Deposits growth – quarterly trend



Source: Company, IFIN Research

Exhibit 13: Deposits growth – annual trend



Source: Company, IFIN Research

Over the next three years, the management intends to scale up their CASA ratio to 35%.

- **Improvement in composition of CASA; higher pace of growth:** In the past, a lower proportion of CASA deposits made IIB's margins vulnerable to a rise in cost of deposits. However, the new management formulated focused strategies to mobilize CASA deposits. It launched various new products and services; a special team was set up with the sole target of CASA mobilization and focus on self-employed and small business segment. All these efforts led to CASA ratio improving to 27.2% in FY11 from a low of 15.7% in FY08. We expect IIB to achieve CASA of 31.5% by FY13E.

Exhibit 14: Quarterly trend of CASA ratio

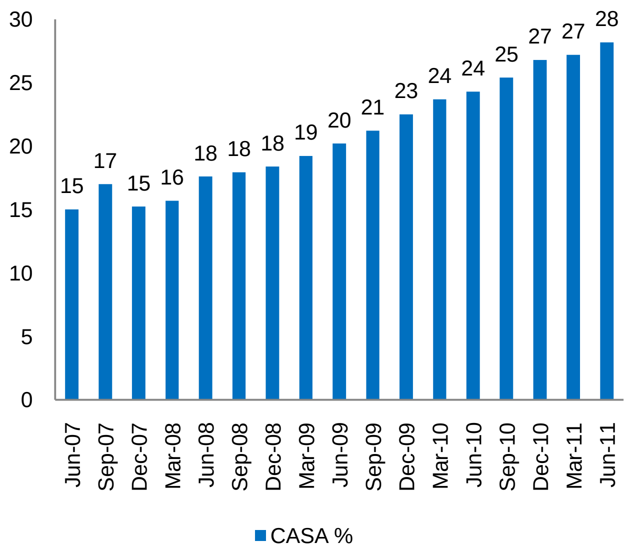
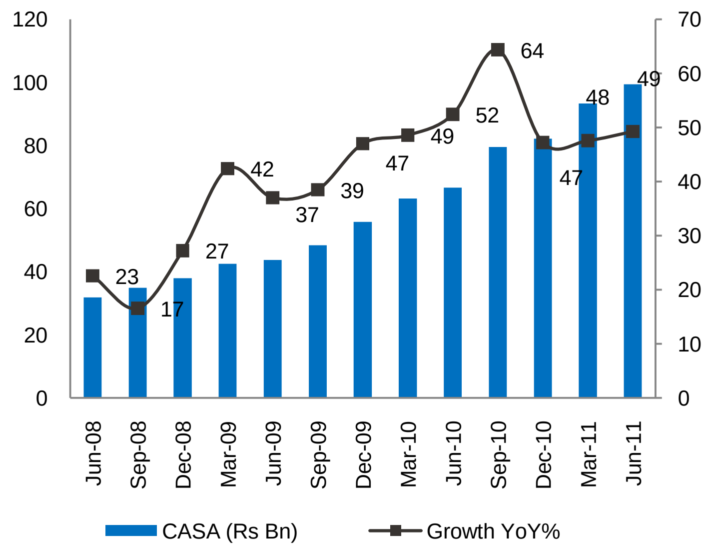


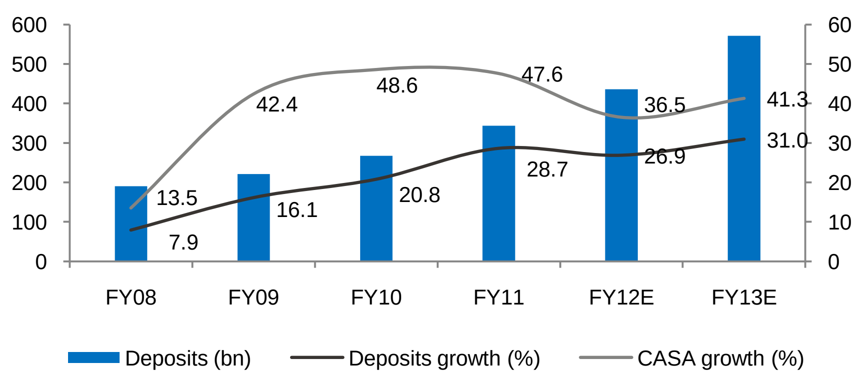
Exhibit 15: Growth in CASA >45% since last six quarters



Source: Company, IFIN Research

Over the past four years, the pace of growth in CASA deposits has been way ahead of the overall deposits growth. In FY11, total deposits grew 29% whereas CASA deposits grew 48% at a CAGR of 37% over FY06-FY11.

Exhibit 16: Pace of CASA growth faster

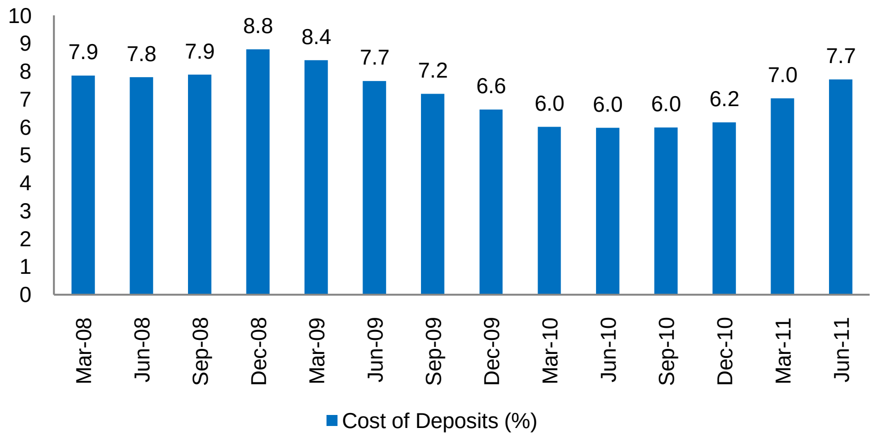


Source: Company, IFIN Research

Improvement in CASA deposits led to decline in cost of deposits.

- **Rise in CASA led to decline in cost of deposits:**
  Improvement in CASA ratio from 15% in FY07 to 28% in June'11, expansion of branch network, improvement in branch productivity led to stabilization of cost of deposits. With CASA ratio expected to move upto 31.5% in FY13, bank would benefit in maintaining its cost under control. On the liabilities side, the emphasis continued to be on broad-basing the deposit franchise and reducing the overall cost of deposits. The bank accomplished this task by leveraging branch network and its pan-India marketing set-up, offering innovative products and services, devising sustained promotional campaigns, and enabling customers with alternate channels like ATMs, Internet banking. Cost of deposits has been controlled and brought down from its peak of 8.8% however in last couple of quarters it has risen on account of rise in interest rates.

Exhibit 17: Cost of deposits



Source: Company, IFIN Research

Sustained improvement in NIM

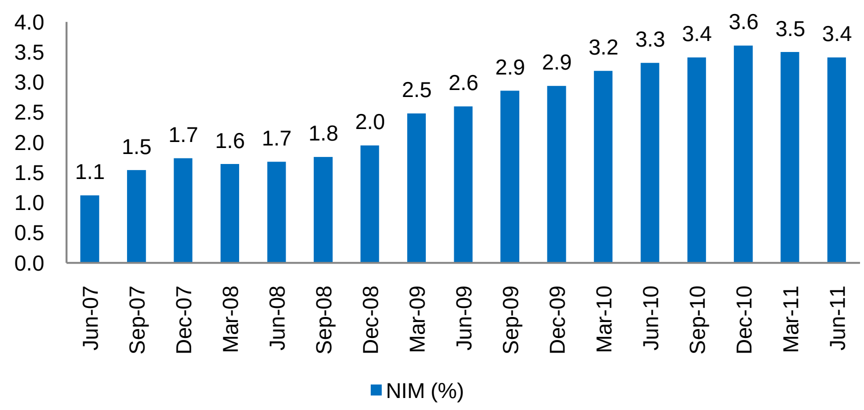
Over the last 3 years, NIM improved substantially from 1.6 in Mar-08 to 3.5% in Mar-11. This was driven primarily by 165 bps decline in cost of deposit (led by higher proportion of CASA), while the yield on advances increased by a meager 20 bps. A higher CASA ratio and greater exposure to higher yielding sectors (Used CV loans, credit cards and loans against property) would help the bank to sustain its margin. We expect NIM to be ~3.6% for FY12E.

We think that higher share of high yielding loans and improvement in liability franchise will facilitate the bank to sustain NIMs.

- **Current NIM sustainable in long term:**

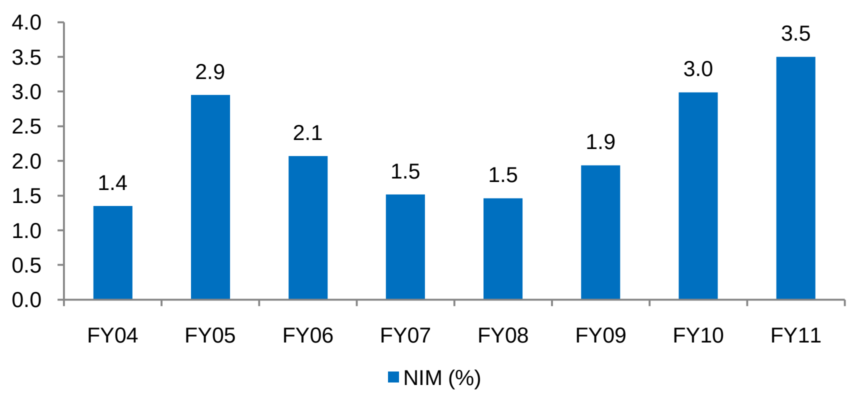
IIB's NIM has shown swift improvement of 160 bps in the past two years to 3.5% in FY11, driven by 66% CAGR in Net Interest Income (NII) over FY08-11 and better CASA base. IIB's strategy of focusing on high-yield products such as Used CV loans, loan against property and initiatives on liability side such as increasing CASA ratio to 35% would help it sustain margins in the long term.

Exhibit 18: NIM scaled from low of 1.1% to >3.5%



Source: Company, IFIN Research

Exhibit 19: NIM improved by 200bps in last 3 years



Source: Company, IFIN Research

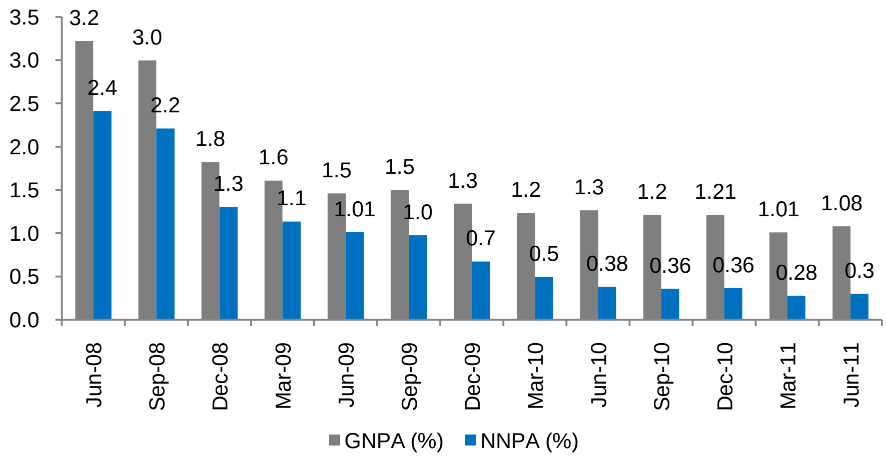
Change in advance mix helped IIB reduce NNPA to 0.3% in FY11.

Impeccable asset quality

IIB has seen its gross NPL ratio come down over the last 3 years from 3% in to 1.1%. The provision coverage ratio increased from 30% in Mar-09 to 73% in June-11. Another comforting factor for the control over asset quality is the lower exposure towards distressed sectors. We do not foresee much deterioration in asset and expect NNPA at 0.23% by FY13

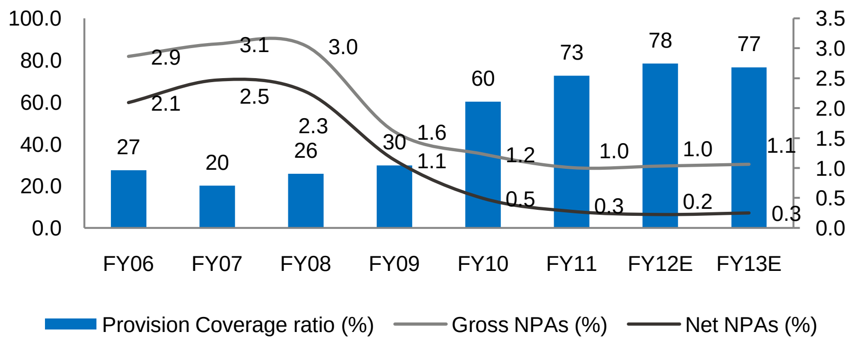
- **Declining Gross NPA and rising coverage ratio:**
  IIB's asset quality is healthy with GNPA improved from 3.1% in FY07 to 1% and NNPA at 0.3% in FY11. Firm management efforts on recoveries, up-gradation of accounts and write offs led to the reduction in NPAs. Also, the bank's provision coverage ratio improved from just 20% at end Mar'07 to 73% at end Mar'11. Slippages too have been reduced to 0.9% in FY11 due to meticulous lending norms, and cautious risk management approach.

Exhibit 20: Quarterly trend in asset quality



Source: Company, IFIN Research

Exhibit 21: Low Net NPA and high PCR ratio



Source: Company, IFIN Research

Restructured loans at 0.37% is much lower than its peers.

- **Limited exposure to distressed sectors:**
  IIB does not have concentrated exposure to sectors showing sign of distress such as Telecom (<3%), Power generation (1.84%). Under telecom sector exposure towards sticky accounts like 2G/3G spectrum is nil. Exposure towards direct lending to micro finance institutions has also come down to Rs 1.5 bn from Rs 4 bn in past. Restructured loans, at 0.37% of loans at end June'11 are lower than that for peers.

Exhibit 22: Diversified Corporate Loan Book

Sectors	June '11
NBFC	5.37%
Construction	3.88%
Real Estate	3.28%
Pharmaceuticals	3.13%
Telecom & Related	2.64%
Power Generation	1.89%
Automobiles Ancillaries	1.61%
Gem & Jewellery	1.48%
Hospital & Medical Services	1.29%
Steel	1.28%
Aluminum	1.17%
Other Industries	28.23%

Source: Company, IFIN Research

Exhibit 23: IIB's asset quality vs. peers

1QFY12	Gross NPA	Net NPA	PCR
IndusInd Bank	**1.08%**	**0.30%**	**73%**
Axis Bank	1.06%	0.31%	70%
HDFC Bank	1.04%	0.18%	83%
ICICI Bank	4.40%	1.04%	77%
Yes Bank	0.17%	0.01%	95%
ING Vysya Bank	2.15%	0.35%	84%

Source: Company, IFIN Research

PAT expected to grow at CAGR of 29% over FY11-FY13E.

Expect Net interest income growth to remain firm at 34% in FY13E.

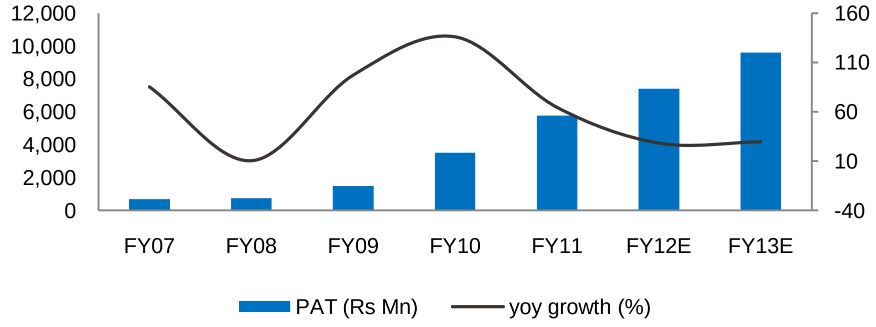
Financial Analysis

IIB recorded commendable performance in the past few years. We expect PAT to grow at 29% CAGR over FY11–13E driven by 30% CAGR in business, 32% CAGR in NII and 30% CAGR in fee income. RoA and RoE would remain healthy at 1.5% and 19.2% in FY13E.

- **PAT CAGR of 29% over FY11-FY13E:**

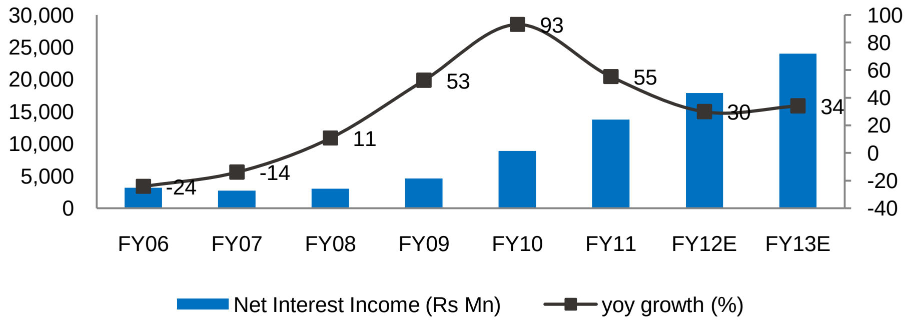
  IIB's PAT grew at 97% CAGR over FY09-FY11 driven by 73% CAGR in NII, 29% CAGR in asset size, and lower provisions during the same period.

Exhibit 24: PAT growth trend



Source: Company, IFIN Research

Exhibit 25: Trend in Net Interest Income



Source: Company, IFIN Research

- **Fee income recorded 45% CAGR during FY08-11:**

  The Bank kept up its focus on broad basing as well as strengthening the fee-based income streams, resulting in a smart growth in non-interest income. Moving forward, the Bank plans to upscale the growth momentum through further enhancements in diverse revenue streams such as foreign exchange business, investment banking, structured trade and treasury products, distribution of third party products like mutual funds and insurance, international remittances, bullion operations and transaction banking activities, including the depository business and the commodity market business.

Exhibit 26: NII trend

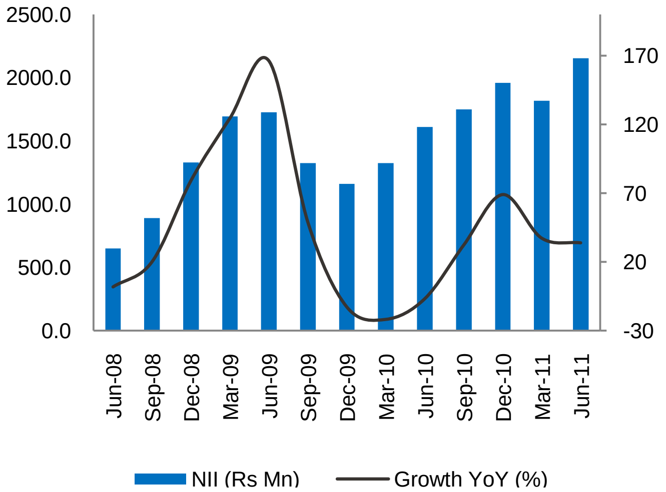
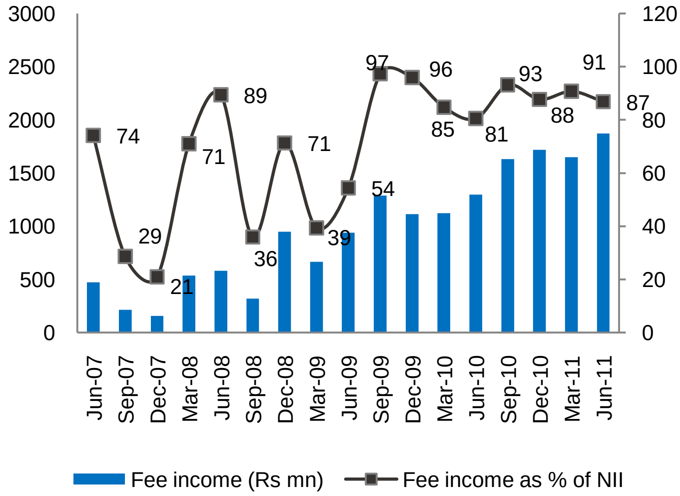


Exhibit 27: Growing Fee income



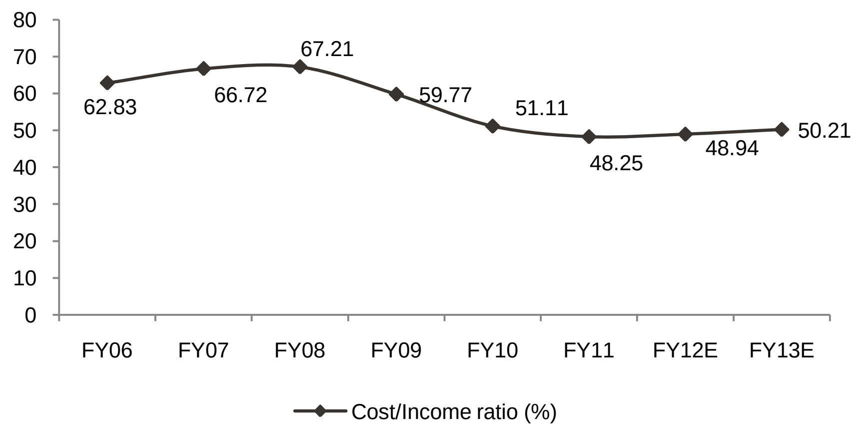
Source: Company, IFIN Research

Modest increase in branches along with improvement in productivity led to cost to income ratio fall below 50% in FY11.

- **Improvement in Cost to income ratio:**

  Limited addition to branch network while increasing productivity and efficiency of existing network, along with stronger growth in revenue helped IIB reduce cost-to-income ratio below 50% in three years. Aggressive branch expansion plans would lead to increase in cost for the bank. However, increased employee productivity and focus on technology would offset this to a great extent. Thus, we expect cost-to-income ratio to be 50% in FY13 compared with 48% in FY011. For 90% of its new branches, IIB achieves breakeven within twelve months, which would help the bank offset cost increases.

Exhibit 28: Cost to income ratio to stabilize ~50%



Source: Company, IFIN Research

- **Du-Pont Analysis: RoE expansion led by RoA rather than leverage**

  NII has improved from 1.36% in FY08 to 3.40% in FY11. Interest expenses have come off from 7.15% in FY08 to 5.46% in FY11. This denotes that core performance had improved for the bank over the years as bank focused improving the revenue from core business.

  Substantial increase in NII and improvement in income from fee income has been vital as operating income rose to 5.16% in FY11.

  It is a healthy sign that leverage has reduced from 20.39% in FY08 to 13.52% in FY11 whereas ROE has improved from 7% to 19.3% over the same period.

Exhibit 29: RoA-RoE Decomposition

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Interest Income/Avg assets (%)	8.51	9.08	8.60	8.86	8.89	9.04
Interest Expenses/Avg assets (%)	7.15	7.27	5.78	5.46	5.38	5.34
Net Interest Income/Avg assets (%)	**1.36**	**1.80**	**2.81**	**3.40**	**3.52**	**3.71**
Other Income/Avg assets (%)	**1.35**	**1.79**	**1.76**	**1.76**	**1.86**	**1.87**
- Fee Income/Avg assets (%)	0.46	0.55	0.61	0.63	0.63	0.63
- Treasury Income/Avg assets (%)	0.09	0.49	0.36	0.11	0.16	0.17
- Others/Avg assets (%)	0.80	0.76	0.78	1.02	1.07	1.07
Operating Income/Avg assets (%)	**2.71**	**3.60**	**4.57**	**5.16**	**5.37**	**5.58**
Operating Expenses/Avg assets (%)	**1.82**	**2.15**	**2.34**	**2.49**	**2.63**	**2.80**
- Staff Cost/Avg assets (%)	0.55	0.74	0.92	0.94	0.98	1.10
- Other Operating Cost/Avg assets (%)	1.27	1.41	1.41	1.55	1.65	1.70
Operating Profits/Avg assets (%)	**0.89**	**1.45**	**2.24**	**2.67**	**2.74**	**2.78**
Provisions/Avg assets (%)	**0.37**	**0.55**	**0.54**	**0.50**	**0.54**	**0.53**
- Provision for NPAs/Avg assets (%)	0.28	0.49	0.42	0.40	0.50	0.50
- Others/Avg assets (%)	0.08	0.07	0.13	0.08	0.04	0.03
PBT/Avg assets (%)	**0.52**	**0.89**	**1.69**	**2.17**	**2.21**	**2.25**
Taxes/Avg assets (%)	0.18	0.31	0.58	0.75	0.75	0.76
RoA (%)	**0.34**	**0.58**	**1.11**	**1.43**	**1.46**	**1.48**
Leverage(x)	20.39	20.04	17.52	13.52	12.22	12.97
RoE(%)	**7.0**	**11.7**	**19.5**	**19.3**	**17.8**	**19.2**

Source: Company, IFIN Research

Financials

Income Statement (Rs Million)

Y/E March	FY10	FY11	FY12E	FY13E
Interest Income	27070	35894	45232	58541
Interest Expense	18206	22129	27347	34544
Net Interest Income	**8864**	**13765**	**17885**	**23997**
Change (%)	*93*	*55*	*30*	*34*
Non Interest Income	5535	7137	9445	12107
Net Income	**14399**	**20902**	**27330**	**36104**
Change (%)	*57*	*45*	*31*	*32*
Operating Expenses	7360	10085	13374	18129
Pre Provision Profits	**7039**	**10817**	**13955**	**17975**
Change (%)	*91*	*54*	*29*	*29*
Provisions	1708	2019	2730	3423
PBT	**5331**	**8798**	**11225**	**14552**
Tax	1823	3025	3817	4948
PAT	**3507**	**5773**	**7409**	**9604**
Change (%)	*136*	*65*	*28*	*30*

Balance Sheet (Rs Million)

Y/E MARCH	FY10	FY11	FY12E	FY13E
Equity Share Capital	4128	4739	4740	4740
Reserves & Surplus	19844	35763	42509	52335
Net Worth	**21656**	**38249**	**44995**	**54821**
Deposits	**267102**	**343654**	**436114**	**571222**
Change (%)	*21*	*29*	*27*	*31*
of which CASA Deposits	63217	93309	127345	179935
Change (%)	*49*	*48*	*36*	*41*
Borrowings	49343	55254	57715	80225
Other Liabilities & Prov.	13278	16948	19625	25698
Total Liabilities	**353695**	**456358**	**560702**	**734218**
Advances	**205506**	**261656**	**332338**	**450081**
Change (%)	*30*	*27*	*27*	*35*
Investments	104018	135508	158836	210715
Cash with RBI & Other Banks	20992	24560	33081	34508
Fixed Assets	6448	5965	5607	9545
Other Assets	11691	12983	11214	14684
Total Assets	**353695**	**456358**	**560702**	**734218**

Asset Quality (%)

GNPA (Rs M)	2555	2659	3467	4831
NNPA (Rs M)	1018	728	749	1133
GNPA Ratio	1.2	1.0	1.0	1.1
NNPA Ratio	**0.5**	**0.3**	**0.2**	**0.3**
Provision Coverage Ratio (%)	60.1	72.6	78.4	76.5
E:IFIN Estimates				

Source: Company, IFIN Research

Ratios and Valuation

Ratios

Y/E MARCH	FY10	FY11	FY12E	FY13E
Spreads Analysis (%)				
Yield on Earning Assets	9.1	9.3	9.2	9.3
Cost of Funds	6.4	6.2	6.1	6.0
Interest Spread	**2.7**	**3.1**	**3.1**	**3.3**
Net Interest Margin	**3.0**	**3.5**	**3.6**	**3.8**
ROE Tree (%)				
NII	2.8	3.4	3.5	3.7
Non-Interest Income	1.8	1.8	1.9	1.9
Operating Cost	2.3	2.5	2.6	2.8
ROA	1.1	1.4	1.5	1.5
ROE	19.5	19.3	17.8	19.2
Efficiency Ratios (%)				
Cost/Income	51.1	48.2	48.9	50.2
Cost/Assets	2.3	2.5	2.6	2.8
Business Per Employee (Rs m)	87.8	86.4	87.7	93.3
Net Profit Per Employee (Rs m)	0.7	0.8	0.8	0.9
Asset-Liability Profile (%)				
Loans/Deposit Ratio	77	76	76	79
CASA Ratio	23.7	27.2	29.2	31.5
Investment/Deposit Ratio	39	39	36	37
CAR	13	14	14	12
Tier 1	8	11	10	10
Valuation				
Book Value (Rs)	52	81	95	116
Change (%)	31	54	18	22
PBV (x)	**5.1**	**3.3**	**2.8**	**2.3**
Adjusted BV (Rs)	51	80	94	114
PABV (x)	**5.2**	**3.3**	**2.8**	**2.3**
EPS (Rs)	8	12	16	20
Change (%)	104	43	28	30
PER (x)	**31.2**	**21.8**	**17.0**	**13.1**
Dividend Per Share (Rs)	2	2	3	3
Dividend Yield (%)	**1**	**1**	**1**	**1**
E: IFIN Estimates				

Source: Company, IFIN Research

Company Profile

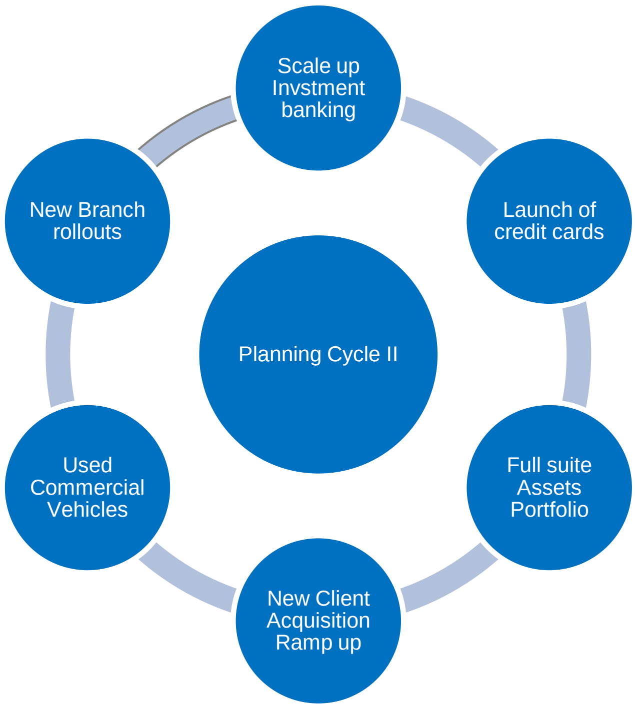
IndusInd bank was founded by Mr. Srichand P. Hinduja, a leading Non-Resident Indian businessman and head of the Hinduja Group. IndusInd Bank Limited is a new age commercial bank, incorporated on 31st January 1994. It began operation with a capital of Rs 1 bn and with focus on commercial vehicle financing and increased its presence in corporate and SME lending as well.

Following its merger with Ashok Leyland Finance Ltd in 2004, IIB increased emphasis on retail banking and has grown into a bank with assets of around Rs 456 bn. IIB has a customer base in excess of 2 mn and a network of 300 branches and 594 ATMs (as on March 31, 2011). It has significant presence in the vehicle financing industry and it finances a wide range of vehicles including heavy commercial vehicles, cars, three-wheelers, and two-wheelers, etc. The bank also finances construction equipment such as tippers, cranes, excavators and loaders.

- **Business strategy**

The Planning Cycle I of restructuring the bank undertaken by the entailed improving profitability, productivity and efficiency of the bank. Planning Cycle I was completed by March 2011 and bank entered Planning Cycle II in 2011-2014 — the “Invest to grow” phase.

Exhibit 32: Key Initiatives during Planning Cycle II



Source: Company, IFIN Research

About the Management

Mr Romesh Sobti

Managing Director & CEO – IndusInd Bank

Mr. Romesh Sobti joined IIB as Managing Director and CEO in 2008. In a banking career spanning 33 years, Sobti has been associated with ANZ Grindlays Bank Plc, ABN AMRO Bank and State Bank of India. He holds a Bachelors Degree (Honours) in Electrical Engineering and has also done his Diploma in Corporate Laws and Practice and Secretarial Practice.

Mr R. Seshasayee

Chairman – IndusInd Bank

Mr. R. Seshasayee, a Chartered Accountant, has been Managing Director of Ashok Leyland Ltd. since 1998 and is now the Executive Vice Chairman of Ashok Leyland. Seshasayee has also been member of various Committees of the Society of Indian Automobile Industries. Seshasayee is Past President of the Confederation of Indian Industry.

Mr Y. M Kale

Alternate Director – IndusInd Bank

Mr. Y. M. Kale, FCA (England & Wales) and FCA (India), was President of the Institute of Chartered Accountants of India (ICAI) during 1995–1996 and Chairman of ICAI's Accounting Standards Board as well as Audit Practices Committee in earlier years, having been on the apex ICAI Council for 16 years. Since 2002, Kale has been Group President, Corporate Governance & Development at Hinduja Group India Ltd. and is Director in several Group Companies. He was also Chairman of a Committee for setting Accounting Norms for trading members of the National Stock Exchange.

Mr Paul Abraham

Chief Operating Officer – IndusInd Bank

Mr. Paul Abraham is the Chief Operating Officer (COO), at IndusInd Bank. A Post Graduate Degree holder in Business Management (Finance) from IIM Ahmedabad, Mr. Abraham started his career with ANZ Grindlays Bank, way back in 1982. He joined ABN AMRO Bank in January 1993 and since then has been associated with the Bank in various capacities, both in India and abroad. Before joining IndusInd Bank, Mr. Abraham held the position of Managing Director, ABN AMRO Central Enterprise Services (ACES), for about 3 years. His strength lies in establishing and managing complex businesses to deliver aggressive results by effortlessly managing the internal as well as external business environment.

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Key ratings:

Rating	LARGE CAP Market Cap >= Rs 100 bn	MID CAP Market Cap < Rs 100 bn
BUY (B)	> 15%	> 25%
Hold (H)	5-15%	10-25%
SELL (S)	< 5%	< 8%
Not Rated (NR)	Not initiated coverage on the stock	

IFIN: IFCI Financial Services Limited

Corporate Office: 'Continental Chambers', III Floor| 142, Mahatma Gandhi Road |Nungambakkam | Chennai - 600 034 | Tel: +91-44-2830 6600 | Fax: +91-44-2830 6650

Mumbai Office: 2B (1), Gr. Floor, Filmcentre | 68, Tardeo Road |Mumbai Central I Mumbai - 400 034 | Tel: +91-22-4333 5111

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