



IndusInd Bank IIB IN

INDIA / BANKS

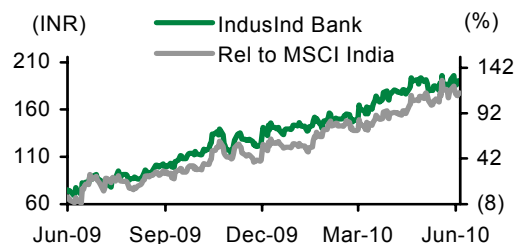
TARGET
PRIOR TP
CLOSE
UP/DOWNSIDE
INR200.00
INR200.00
INR186.25
+7.4%
BUY
UNCHANGED

HOW WE DIFFER FROM THE STREET

	BNP	Consensus	% Diff
Target Price (INR)	200.00	205.00	(2.40)
EPS 2010 (INR)	8.97	8.08	11.01
EPS 2011 (INR)	9.78	11.16	(12.37)
	Positive	Neutral	Negative
Market Recs.	12	2	1

KEY STOCK DATA

	2010E	2011E	2012E
YE Mar (INR m)	2010E	2011E	2012E
Operating Profit	5,331	6,567	9,000
Rec. net profit	3,503	4,268	5,850
Recurring EPS (INR)	8.97	9.78	12.54
Prior rec. EPS (INR)	8.35	9.24	12.86
Chg. In EPS est. (%)	7.5	5.8	(2.5)
EPS growth (%)	110.2	9.0	28.2
Recurring P/E (x)	20.8	19.0	14.9
Dividend yield (%)	1.0	1.3	1.7
Price/book (x)	3.2	2.5	2.2
ROE (%)	17.3	15.4	16.4
ROA (%)	1.11	1.10	1.25



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.6)	19.2	157.4
Relative to country (%)	0.6	19.4	139.9

Next results/event	July 2010
Mkt cap (USD m)	1,632
3m avg daily turnover (USD m)	5.3
Free float (%)	50
Major shareholder	Indusind International Holding (22%)
12m high/low (INR)	196.20/69.35
3m historic vol. (%)	43.8
ADR ticker	-
ADR closing price (USD)	-

Sources: Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

The juggernaut rolls on	16 Apr 2010
More steam left	18 Feb 2010
Releasing the brakes	1 Jun 2010
Stay on the sidelines.....	26 May 2010

INDUSTRY OUTLOOK ↑

We met the management

- Loan growth of 30% for FY11 versus our estimate of 28%.
- LLPs are likely to inch down to 58bps versus 81bps in FY10.
- Upside risk likely to our FY11 NIM estimate of 3.25%.
- IIB trades at 2.8x FY11E ABV for FY11E adj RoE of 16.8%.

Loan growth of 30% in FY11

IndusInd Bank's management is confident of clocking a loan growth of 30% for FY11 and expects to maintain this growth momentum for the next few years as well on account of the small base. The bank is seeing good traction on the corporate loan book due to a more complete product range and enhanced sales distribution. IndusInd Bank is leveraging cross sell opportunities significantly and internal employee goals are aligned with the cross-sell effort. Our current FY11 loan growth estimate is 28%. IndusInd Bank has one of the strongest fee income franchises per branch in the Indian banking sector and we are budgeting for a core fee income growth of 34% for FY11. The commercial vehicle and allied loan book, which comprises 40% of the loan book, is tracking very strongly on the back of the strong distribution franchise consisting of 497 distribution outlets. IndusInd Bank has an 8% market share in CV loans and a 10% market share in 3-Wheeler loans.


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Margins and cost/income

Branch network expansion and CASA accretion will be a key theme for FY11. IndusInd Bank is looking to add 125 new branches in FY11 and we are currently budgeting for a deposit growth of 22% for FY11 and a CASA ratio of 27% at the end of FY11. The cost/income ratio will largely stay flat at 52% for FY11 on account of the branch expansion. Management is aiming to bring cost/income ratio down to the 45% level by FY14 and a branch network of 700.

Credit costs and capital

IIB expects to keep loan loss provisions in the range of 50bps for FY11 from the 81bps seen in FY10. We are currently factoring in 58bps in LLPs for FY11. The bank is looking to raise capital toward the later half of FY11 and that capital base should fuel the expected loan growth for 18 months after that. We are currently budgeting for a 6% equity dilution in FY11.

Valuation

Our current TP of INR200.00 is based on a 3-stage residual income model, which assumes 8.25% risk free rate, 6% equity risk premium, 1.0 beta, 4% terminal growth rate and 10% terminal CoE. At our TP, the stock would trade at 3.0x FY11E ABV of INR66.5 per share for adjusted ROE of 16.8%.

FINANCIAL STATEMENTS

IndusInd Bank

Profit and Loss (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Interest income	18,807	23,095	27,070	34,008	41,938
Interest expense	(15,799)	(18,504)	(18,206)	(22,749)	(27,073)
Net interest income	3,008	4,590	8,864	11,259	14,865
Net fees & commission	1,890	2,509	3,691	4,941	5,759
Foreign exchange trading income	289	719	815	1,000	1,100
Securities trading income	194	1,215	1,083	0	470
Dividend income	0	0	0	0	0
Other income	602	120	(54)	120	180
Non interest income	2,976	4,563	5,535	6,061	7,509
Total income	5,984	9,153	14,399	17,320	22,374
Staff costs	(1,219)	(1,871)	(2,906)	(3,332)	(4,131)
Other operating costs	(2,803)	(3,599)	(4,454)	(5,676)	(7,265)
Operating costs	(4,022)	(5,470)	(7,360)	(9,008)	(11,396)
Pre provision operating profit	1,962	3,683	7,039	8,313	10,978
Provisions for bad and doubtful debts	(609)	(1,253)	(1,469)	(1,355)	(1,534)
Other provisions	(210)	(155)	(239)	(391)	(444)
Operating profit	1,143	2,275	5,331	6,567	9,000
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	1,143	2,275	5,331	6,567	9,000
Tax	(392)	(792)	(1,827)	(2,298)	(3,150)
Profit after tax	751	1,483	3,503	4,268	5,850
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	751	1,483	3,503	4,268	5,850
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	751	1,483	3,503	4,268	5,850

We expect 27% increase in NII for FY11 driven by 28% loan growth

Increasing diversification of fee income streams to drive growth of 34% for FY11

Per share (INR)

Recurring EPS *	2.35	4.27	8.97	9.78	12.54
Reported EPS	2.35	4.28	9.02	10.00	12.87
DPS	0.60	1.26	1.80	2.50	3.14

Growth

Net interest income (%)	30.1	52.6	93.1	27.0	32.0
Non interest income (%)	4.7	53.3	21.3	9.5	23.9
Pre provision operating profit (%)	14.3	87.7	91.1	18.1	32.1
Operating profit (%)	6.4	99.1	134.3	23.2	37.0
Reported net profit (%)	10.0	97.6	136.2	21.8	37.0
Recurring EPS (%)	1.6	81.9	110.2	9.0	28.2
Reported EPS (%)	1.6	82.4	110.8	10.9	28.7

Income breakdown

Net interest income (%)	50.3	50.2	61.6	65.0	66.4
Net fees & commission (%)	31.6	27.4	25.6	28.5	25.7
Foreign exchange trading income (%)	4.8	7.9	5.7	5.8	4.9
Securities trading income (%)	3.2	13.3	7.5	0.0	2.1
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	10.1	1.3	(0.4)	0.7	0.8

Operating performance

Gross interest yield (%)	9.74	10.34	9.66	9.81	10.00
Cost of funds (%)	7.88	8.05	6.45	6.62	6.56
Net interest spread (%)	1.86	2.29	3.21	3.19	3.43
Net interest margin (%)	1.56	2.06	3.16	3.25	3.54
Cost/income (%)	67.2	59.8	51.1	52.0	50.9
Cost/assets (%)	1.82	2.15	2.34	2.32	2.43
Effective tax rate (%)	34.3	34.8	34.3	35.0	35.0
Dividend payout on recurring profit (%)	25.6	29.5	20.1	25.6	25.0
ROE (%)	6.2	9.8	17.3	15.4	16.4
ROE – COE (%)	(12.9)	(9.3)	(1.9)	(3.7)	(2.8)
ROA (%)	0.34	0.58	1.11	1.10	1.25
RORWA (%)	0.51	0.86	1.72	1.75	1.99

Adjusted ROE to be higher at 16.8% for FY11

* Pre exceptional, pre-goodwill and fully diluted

Sources: IndusInd Bank; BNP Paribas estimates

IndusInd Bank

Balance Sheet (INR m)					
Year Ending Mar	2008A	2009A	2010E	2011E	2012E
Gross customer loans	128,966	158,465	207,046	265,362	324,029
Total provisions	(1,013)	(759)	(1,536)	(2,511)	(3,684)
Interest in suspense	0	0	0	0	0
Net customer loans	127,953	157,706	205,510	262,851	320,345
Bank loans	6,518	7,329	5,040	6,728	8,235
Government securities	54,395	62,981	85,250	87,670	107,138
Trading securities	0	0	0	0	0
Investment securities	11,902	17,853	18,768	21,490	24,498
Cash & equivalents	15,263	11,908	20,984	20,985	27,462
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	6,252	6,232	6,450	7,125	7,425
Associates	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other assets	10,337	12,138	11,690	15,950	19,304
Total assets	232,619	276,147	353,693	422,799	514,407
Customer deposits	190,374	221,103	267,100	324,705	404,295
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	19,914	28,170	47,945	47,945	47,945
Non interest bearing liabilities	8,833	10,231	14,675	18,766	22,255
Total liabilities	219,122	259,503	329,720	391,416	474,495
Share capital	3,205	3,563	4,129	4,409	4,689
Reserves	10,292	13,081	19,844	26,974	35,224
Total equity	13,497	16,644	23,972	31,383	39,912
Minority interests	0	0	0	0	0
Total liabilities & equity	232,619	276,147	353,692	422,799	514,407
Supplementary items					
Risk weighted assets (RWA)	160,170	186,510	221,800	265,137	322,584
Average interest earning assets	193,134	223,319	280,219	346,654	419,478
Average interest bearing liabilities	200,561	229,780	282,159	343,848	412,445
Tier 1 capital	10,730	14,262	21,718	29,128	37,657
Total capital	19,070	23,399	34,308	42,388	51,124
Gross non performing loans (NPL)	3,923	2,550	2,555	3,387	4,640
Per share (INR)					
Book value per share	42.20	46.88	58.40	73.54	85.56
Tangible book value per share	42.20	46.88	58.40	73.54	85.56
Growth					
Gross customer loans (%)	15.6	22.9	30.7	28.2	22.1
Average interest earning assets (%)	13.1	15.6	25.5	23.7	21.0
Total assets (%)	11.2	18.7	28.1	19.5	21.7
Risk weighted assets (%)	17.7	16.4	18.9	19.5	21.7
Customer deposits (%)	7.9	16.1	20.8	21.6	24.5
Leverage & capital measures					
Customer loans/deposits (%)	67.2	71.3	76.9	81.0	79.2
Equity/assets (%)	5.8	6.0	6.8	7.4	7.8
Tangible equity/assets (%)	5.8	6.0	6.8	7.4	7.8
RWA/assets (%)	68.9	67.5	62.7	62.7	62.7
Tier 1 CAR (%)	6.7	7.6	9.8	11.0	11.7
Total CAR (%)	11.9	12.5	15.5	16.0	15.8
Asset quality					
Change in NPL (%)	14.5	(35.0)	0.2	32.6	37.0
NPL/gross loans (%)	3.0	1.6	1.2	1.3	1.4
Total provisions/gross loans (%)	0.8	0.5	0.7	0.9	1.1
Total provisions/NPL (%)	25.8	29.8	60.1	74.1	79.4
Valuation					
Recurring P/E (x) *	79.4	43.6	20.8	19.0	14.9
Recurring P/E @ target price (x) *	85.2	46.8	22.3	20.4	16.0
Reported P/E (x)	79.4	43.5	20.6	18.6	14.5
Dividend yield (%)	0.3	0.7	1.0	1.3	1.7
Price/book (x)	4.4	4.0	3.2	2.5	2.2
Price/tangible book (x)	4.4	4.0	3.2	2.5	2.2
Price/tangible book @ target price (x)	4.7	4.3	3.4	2.7	2.3

* Pre exceptional, pre-goodwill and fully diluted

Sources: IndusInd Bank; BNP Paribas estimates

28% increase in loan book for FY11 driven by 28% growth in corporate and commercial loans

Budgeting for 33% increase in gross NPLs for FY11

Adjusted BVPS for FY11 will be INR66.5 after excluding revaluation reserves

DISCLAIMERS & DISCLOSURES**ANALYST(S)**

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All share prices are as at market close on 7 June 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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