

IndusInd Bank

Profit momentum continues; maintain Overweight

Overweight

INBK.BO, IIB IN

Price: Rs226.80

Price Target: Rs350.00



- **Strong in-line 3Q FY11:** IndusInd Bank reported 3Q FY11 net profit of Rs1.54B, up 75% y/y, in line with our estimate and higher than consensus. Profit growth momentum remained robust, with strong revenue growth, improvement in the cost-to-income ratio, and stable asset quality and credit costs.
- **Strong revenue growth:** Revenue growth stayed strong, with robust loan growth, improving margins, and a very strong fee income trend. Loan growth was strong at 30% y/y, with +30% loan growth for both the corporate and CV book. Fee income momentum remains strong, with IB expected to contribute significantly to growth over the next two years.
- **Margins improve further:** Margins improved by another 20bp to 3.6% in 3Q FY11. Although margins were helped by the equity issue in Sep-10, increasing LDR and higher CASA led to margin improvement. We believe margins will moderate in the near term due to an increase in leverage and rising rates, but a steady CASA improvement should lead to increasing margins with management targeting 4.0% over the next two years.
- **Stable asset quality:** Gross NPA ratios remained stable at 1.2%, flat q/q, and credit costs were down to ~90bp from ~97bp in 2Q FY11. Some risks exist for the MFI book, but the telecom book is restricted to tower funding with no exposure to 2G/3G licenses.
- **Maintain Overweight:** Overall the result was positive, with strong growth in profitability and stable margins and asset quality. We believe current valuations at 2.4x FY12E book and 13.5x FY12E EPS look attractive given the high expected growth (~44% profit growth in FY11-13E) and high return ratios (>1.6% ROA in FY11-13E). We maintain our earnings estimates and PT. A key risk is the cyclical nature of the CV business, which can have an impact on credit growth.

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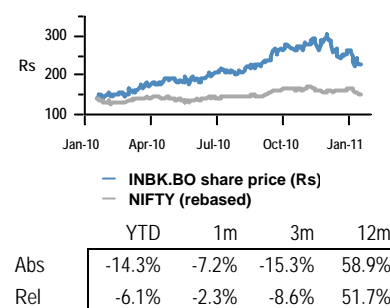
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Price Performance



IndusInd Bank (Reuters: INBK.BO, Bloomberg: IIB IN)

Year-end Mar (Rs in mn)	FY09A	FY10A	FY11E	FY12E	FY13E	52-wk range (Rs)	309.40 - 136.75
Operating Profit	2,773	6,268	10,299	13,841	17,729	Market cap (Rs mn)	105,545
Net Profit	1,484	3,503	5,698	8,016	10,422	Market cap (\$ mn)	2,327
Cash EPS (Rs)	4.16	8.49	12.33	17.34	22.55	Shares outstanding (mn)	465
Fully Diluted EPS (Rs)	2.50	7.26	11.19	16.20	21.12	Fiscal Year End	Mar
DPS (Rs)	1.20	1.80	2.93	4.12	5.12	Price (Rs)	226.80
EPS growth (%)	77.6%	103.8%	45.3%	40.7%	30.0%	Date Of Price	17 Jan 11
ROE	11.7%	19.5%	19.3%	19.9%	22.2%	Avg daily value (Rs mn)	120.0
P/E	54.5	26.7	18.4	13.1	10.1	Avg daily value (\$ mn)	2.6
BVPS (Rs)	40.10	52.46	80.79	93.31	109.87	Avg daily vol (mn)	0.6
P/BV	5.7	4.3	2.8	2.4	2.1	NIFTY	5,655
Div. Yield	0.5%	0.8%	1.3%	1.8%	2.3%	Exchange Rate	45.37

Source: Company data, Bloomberg, J.P. Morgan estimates.

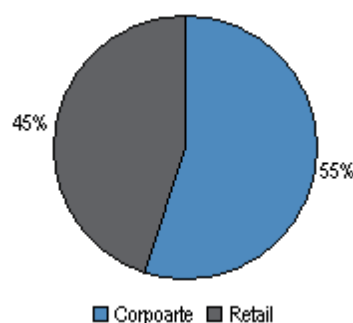
See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

IndusInd bank is a mid-cap private sector bank which started operations in 1994 and merged with Ashok Leyland Finance (an NBFC) in FY04. With a new management headed by Mr. Romesh Sobti from ABN Amro, the bank has turned around significantly in the past two years.

Loan breakdown



Source: Company

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	12.3	12.0
FY12E	17.3	16.3
FY13E	22.5	

Source: Bloomberg, J.P.Morgan.

P&L sensitivity metrics

	PPOP impact (%)	EPS impact (%)
NIMs		
Impact of each 10bps	4.5%	5.0%
Cost to Income		
Impact of each 100bps	2.3%	2.5%
Provisions/Assets		
Impact of each 10bps	4.5%	5.0%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our Sep-11 price target of Rs350 is based on 17.3x Sep-12E EPS, in line with our valuation for other private banks. Out PT implies 3.45x Sep-12E book.

Sep-12 EPS	19.9
Multiple	17

Fair Value	345
Sep-11 PT (1 r frd Earnings)	350
Implied P/B (Sep-12 book)	3.45

Source: J.P. Morgan estimates

Normalized ROE

NIM/Assets	3.2%
Non- interest income/assets	1.7%
Revenues/Assets	4.9%
Costs/Assets	2.3%
Provisions/Assets	0.5%
Taxes/Assets	0.7%
ROA	1.4%
ROE	19.7%

Source: J.P. Morgan estimates

Key risks to our Overweight recommendation and price target include: (1) execution risk related to profitable branch expansion; and (2) the cyclical nature of the CV business can impact credit growth.

Table 1: IndusInd Bank: 3Q FY11 results review

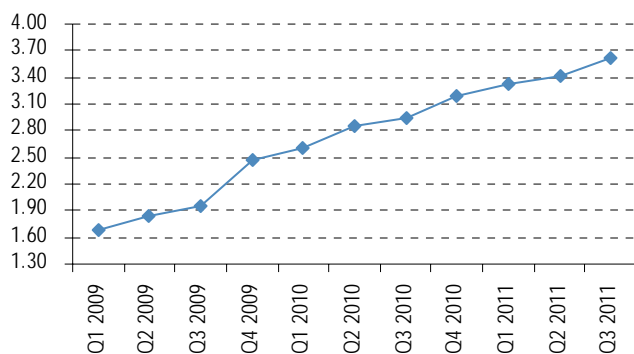
	Rs MM, YE Mar.	3Q10	2Q11	3Q11	YoY	QoQ
Margins rose ~20bp q/q to 3.6% mainly due to increase in LDRs and equity issue	Interest income	7,029	8,541	9,149	30.2%	7.1%
	Interest expenses	4,652	5,244	5,519	18.6%	5.3%
	Net interest income	2,377	3,297	3,630	52.7%	10.1%
	Other income	1,160	1,751	1,960	68.9%	11.9%
	Operating expenses	1,799	2,430	2,678	48.8%	10.2%
Strong PAT growth momentum continues	Pre prov profit	1,738	2,619	2,912	67.6%	11.2%
	Provisions	445	567	562	26.2%	-0.9%
	Profit before tax	1,293	2,051	2,350	81.8%	14.6%
	Provision for tax	412	720	811	96.8%	12.7%
	Profit after tax	880	1,332	1,539	74.8%	15.6%
LDRs inched up to 80% from 75%	NIM	2.94%	3.41%	3.61%	0.7%	0.2%
	NII/GII	33.8%	38.6%	39.7%	5.9%	1.1%
	Cost to Income	50.9%	48.1%	47.9%	-3.0%	-0.2%
	Provisions/PPOP	25.6%	21.7%	19.3%	-6.3%	-2.4%
	Tax rate	31.9%	35.1%	34.5%	2.6%	-0.6%
LLP/Loans were stable at ~90bp	Balance sheet data					
	Advances	190,900	234,525	246,251	29.0%	5.0%
	Deposits	247,550	312,903	306,630	23.9%	-2.0%
	Credit to Deposit	77.1%	75.0%	80.3%	3.2%	5.4%
	CASA Ratio	22.5%	25.4%	26.8%	4.3%	1.4%
	Asset Quality					
	Gross NPA	2,576	2,864	3,060	18.8%	6.9%
	Net NPA	1,287	837	910	-29.3%	8.7%
	Gross NPA (%)	1.34%	1.21%	1.21%	-0.1%	0.0%
	Net NPA(%)	0.67%	0.36%	0.36%	-0.3%	0.0%
	LLP/Loans	0.93%	0.97%	0.91%	0.0%	-0.1%

Source: Company, J.P.Morgan

Margins improve further

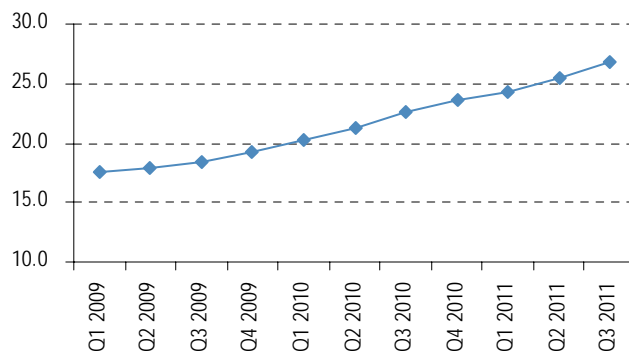
Margins for IndusInd improved by ~20bp in the quarter, primarily due to the equity issue, higher LDR, and improvement in CASA ratios. Management expects to maintain or improve margins going forward. Although the impact of the equity issue would be leveraged off and limited upside is expected from LDRs, the improvement in CASA ratios is expected to aid further margin improvement.

Figure 1: IndusInd : Margins



Source: Company data.

Figure 2: IndusInd: CASA



Source: Company data.

Strong overall loan growth

Overall loan book growth was strong at ~30% y/y with strong growth both from the retail book and corporate loan book. The CV loan book was up 36% y/y with very strong disbursements. Management did indicate that it would now also concentrate on old vehicle financing. Corporate loan book growth was ~30% y/y. Management expects the growth momentum to continue, with a similar loan mix to be sustained.

Table 2: IndusInd: Loan growth breakdown

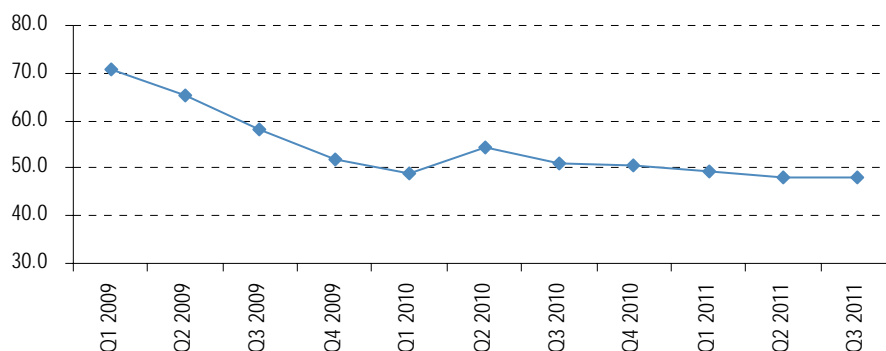
Rs MM, YE Mar.	3Q10	2Q11	3Q11	YoY	QoQ
Vehicle Finance	76460	96510	104120	36.2%	7.9%
CV Loan	37360	49180	51860	38.8%	5.4%
Equipment Financing	10860	12680	13690	26.1%	8.0%
Other Retail Loans	1780	1380	1610	-9.6%	16.7%
Retail Traders	16570	18520	19350	16.8%	4.5%
Corporate Advances	96090	118110	124930	30.0%	5.8%

Source: Company data

Cost-to-income ratio to show gradual improvement

Cost to income has been improving over the past two quarters, and management expects the gradual improvement to continue. Management maintains its target of a 45% cost-to-income ratio by FY13, with the current ratio at ~48%, implying a 300bp improvement over the next nine quarters.

Figure 3: IndusInd Bank: Cost to income



Source: Company data.

Fee income growth remains robust

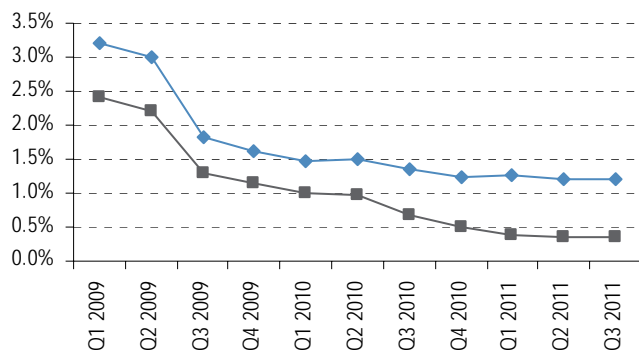
Fee income growth was also strong, with a ~54% y/y increase in core fees. Trade and remittances are riding on corporate lending, new client-based platforms and products are aiding forex income, and third-party income is still seeing growth. Also, investment banking has started contributing in a significant manner with management expecting ~Rs2.5B of revenues from IB over the next 2-3 years.

Asset quality remains stable

Gross NPAs remained stable at 1.2%, flat q/q, and credit costs dipped marginally to 90bp in 3Q FY11. Currently management is not seeing any stress in the MFI exposure (Rs2.6B - 1% of advances). Although over the long term management is sanguine about the prospects of the MFI sector, there could be some near-term

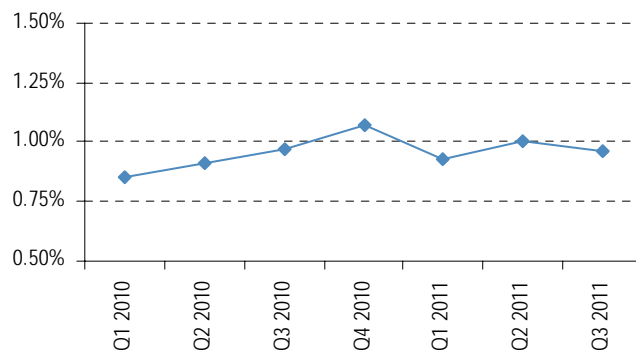
pressure, especially in the Andhra book. IndusInd has just 1.2% exposure to the telecom sector, with no exposure to 2G/3G license funding.

Figure 4: Indusind : Stable asset quality



Source: Company data.

Figure 5: Indusind: Stable credit costs



Source: Company data.

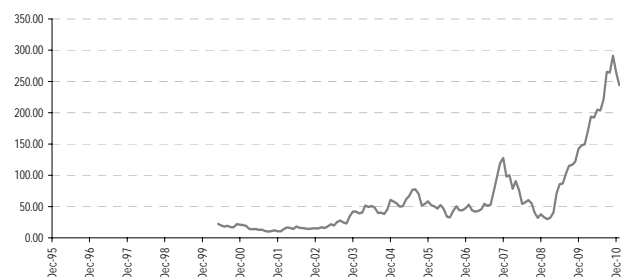
JPM Q-Profile
IndusInd Bank Ltd. (INDIA / Financials)

As Of: 07-Jan-2011

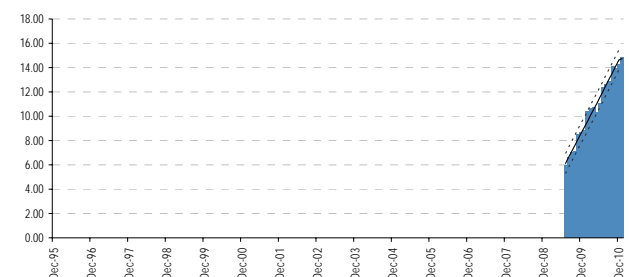
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

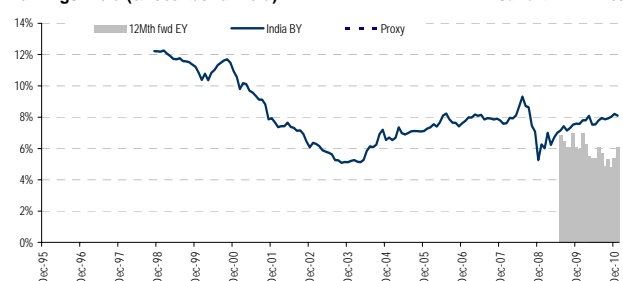
Local Share Price **Current: 244.35**



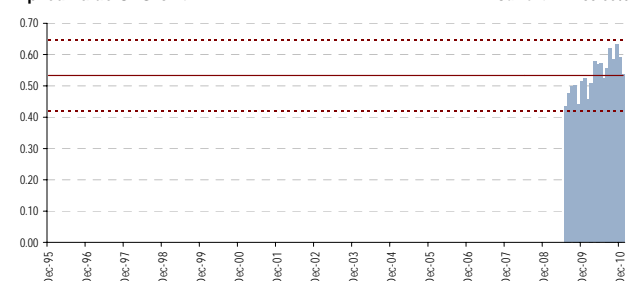
12 Mth Forward EPS **Current: 14.83**



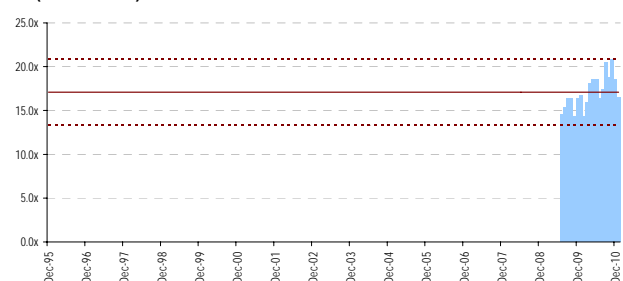
Earnings Yield (& local bond Yield) **Current: 6%**



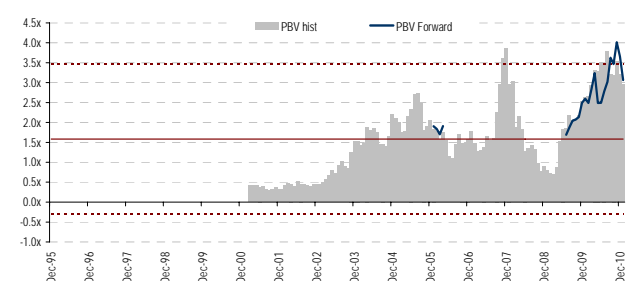
Implied Value Of Growth* **Current: 53.66%**



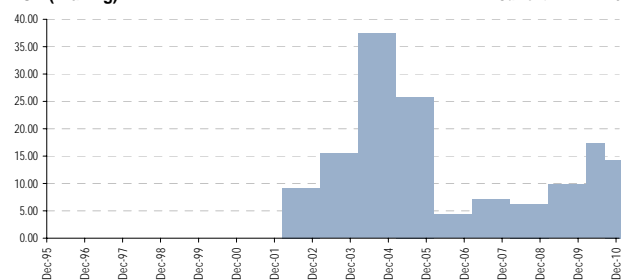
PE (1Yr Forward) **Current: 16.5x**



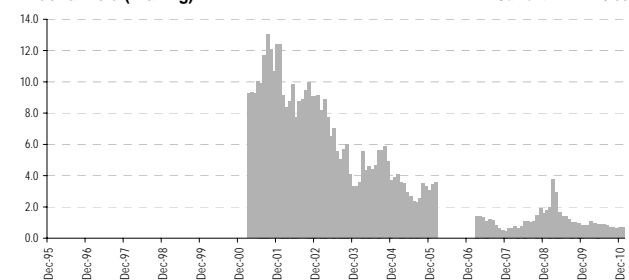
Price/Book Value **Current: 3.0x**



ROE (Trailing) **Current: 14.30**



Dividend Yield (Trailing) **Current: 0.68**



Summary

IndusInd Bank Ltd.										As Of:		7-Jan-11	
INDIA										Local Price:		244.35	
SEDOL 6100454										EPS:		14.83	
Financials	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg		
12mth Forward PE	16.48x	14.32	20.84	16.48	17.09	20.88	13.31	-13%	26%	0%	4%		
P/BV (Trailing)	2.96x	0.29	3.87	1.54	1.58	3.46	-0.29	-90%	31%	-48%	-46%		
Dividend Yield (Trailing)	0.68	0.00	13.07	2.54	3.79	11.04	-3.47	-100%	1822%	274%	457%		
ROE (Trailing)	14.30	4.34	37.37	9.84	14.57	35.11	-5.97	-70%	161%	-31%	2%		
Implied Value of Growth	53.7%	0.44	0.63	0.52	0.53	0.65	0.42	-19%	18%	-2%	-1%		

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

IndusInd Bank: Summary of Financials

Income Statement						Growth Rates									
Rs in millions, year end Mar	FY09	FY10	FY11E	FY12E	FY13E		FY09	FY10	FY11E	FY12E	FY13E				
NIM (as % of avg. assets)	1.9%	3.0%	3.6%	3.6%	3.6%	Loans	23.7%	29.5%	32.4%	30.8%	30.0%				
Earning assets/assets	94.0%	94.9%	95.7%	96.0%	96.2%	Deposits	42.2%	65.3%	46.4%	32.4%	29.2%				
Margins (% of earning assets)	1.8%	2.8%	3.4%	3.5%	3.5%	Assets	18.9%	28.3%	29.8%	30.7%	28.8%				
						Equity	28.8%	51.6%	72.4%	15.5%	17.7%				
Net Interest Income	4,590	8,864	13,765	18,374	23,675	RWA	12.6%	19.0%	31.7%	30.7%	30.0%				
Total Non-Interest Income	3,653	4,763	6,192	8,050	10,465	Net Interest Income	34.9%	93.1%	55.3%	33.5%	28.9%				
Fee Income	2,110	2,780	3,613	4,697	6,107	Non-Interest Income	52.7%	30.4%	30.0%	30.0%	30.0%				
						of which Fee Grth	87.2%	31.7%	30.0%	30.0%	30.0%				
Other Operating Income	1,543	1,984	2,579	3,353	4,359	Revenues	16.1%	20.8%	27.5%	35.1%	32.1%				
Total operating revenues	8,243	13,628	19,957	26,424	34,140	Costs	36.0%	34.5%	31.2%	30.3%	30.4%				
						Pre-Provision Profits	56.3%	126.0%	64.3%	34.4%	28.1%				
Operating costs	-5,470	-7,360	-9,659	-12,582	-16,411	Loan Loss Provisions	71.8%	21.4%	42.2%	0.6%	17.5%				
						Pre-Tax	-	-	-	-	-				
Pre-Prov. Profits	2,773	6,268	10,299	13,841	17,729	Attributable Income	97.7%	136.1%	62.6%	40.7%	30.0%				
Provisions	-1,408	-1,708	-2,429	-2,444	-2,871	EPS	77.6%	103.8%	45.3%	40.7%	30.0%				
Other Inc/Exp. (treasury Income)	910	771	800	800	1,000	DPS	100.0%	50.0%	62.6%	40.7%	24.3%				
Exceptionals	0	0	0	0	0										
						Balance Sheet Gearing					FY09	FY10	FY11E	FY12E	FY13E
Pre-tax	2,275	5,331	8,670	12,198	15,858	Loan/deposit	72.1%	77.3%	80.3%	77.7%	76.5%				
Tax	792	1,827	2,972	4,182	5,436	Investment/assets	6.5%	5.4%	4.3%	3.5%	2.7%				
Minorities	-	-	-	-	-	Loan/Assets	57.6%	58.5%	59.5%	59.6%	60.2%				
Other Distbn.	-	-	-	-	-	Customer deposits/liab.	80.8%	76.0%	74.7%	77.2%	79.2%				
Attributable Income	1,484	3,503	5,698	8,016	10,422	LT debt/liabilities	6.8%	10.3%	10.5%	9.7%	8.9%				
Per Share Data Rs						Asset Quality/Capital					FY09	FY10	FY11E	FY12E	FY13E
EPS	4.16	8.49	12.33	17.34	22.55	Loan loss reserves/loans	-1.1%	-0.5%	-0.8%	-0.7%	-0.7%				
DPS	1.20	1.80	2.93	4.12	5.12	NPLs/loans	1.6%	1.2%	1.1%	0.9%	0.9%				
Payout	28.8%	21.2%	23.8%	23.8%	22.7%	Specific loan loss reserves/NPLs	-70.2%	-39.9%	-70.0%	-70.0%	-70.0%				
Book value	40.10	52.46	80.79	93.31	109.87	Growth in NPLs	-35.0%	0.2%	20.2%	8.9%	32.1%				
Fully Diluted Shares	356.34	412.83	462.25	462.25	462.25	Tier 1 Ratio	7.6%	9.6%	12.4%	11.3%	10.2%				
						Total CAR	12.6%	15.3%	17.4%	15.8%	14.3%				
Key Balance sheet Rs in millions						Du-Pont Analysis					FY09	FY10	FY11E	FY12E	FY13E
Net Loans	161,289	207,542	275,566	360,042	468,152	NIM (as % of avg. assets)	1.9%	3.0%	3.6%	3.6%	3.6%				
LLR	1,791	1,018	2,150	2,341	3,092	Earning assets/assets	94.0%	94.9%	95.7%	96.0%	96.2%				
Gross Loans	159,498	206,523	273,417	357,701	465,060	Margins (as % of Avg. Assets)	1.8%	2.8%	3.4%	3.5%	3.5%				
NPLs	2,550	2,555	3,071	3,345	4,418	Non-Int. Rev./ Revenues	37.3%	30.5%	27.5%	27.0%	27.2%				
Investments	17,890	18,803	19,780	20,815	20,885	Non IR/Avg. Assets	1.4%	1.5%	1.5%	1.5%	1.5%				
Other earning assets	12,138	11,691	14,614	18,267	22,834	Revenue/Assets	3.0%	3.9%	4.4%	4.4%	4.4%				
Avg. IEA	236,904	296,666	386,231	504,898	656,075	Cost/Income	66.4%	54.0%	48.4%	47.6%	48.1%				
Goodwill	-	-	-	-	-	Cost/Assets	-2.2%	-2.4%	-2.4%	-2.4%	-2.4%				
Assets	273,790	351,378	455,972	596,009	767,446	Pre-Provision ROA	0.8%	1.5%	2.0%	2.0%	2.0%				
						LLP/Loans	-0.9%	-0.8%	-0.9%	-0.7%	-0.6%				
Deposits	221,102	267,101	340,552	460,129	607,901	Loan/Assets	57.2%	58.5%	59.4%	60.0%	60.3%				
Long-term bond funding	18,564	36,202	47,665	57,546	67,989	Other Prov. Income/ Assets	0.4%	0.2%	0.2%	0.2%	0.1%				
Other Borrowings	-	-	-	-	-	Operating ROA	1.1%	2.0%	2.6%	2.6%	2.6%				
Avg. IBL	220,491	271,485	345,760	452,946	596,782	Pre-Tax ROA	0.7%	1.3%	1.7%	1.8%	1.8%				
Avg. Assets	251,996	312,584	403,675	525,990	681,727	Tax rate	-	-	-	-	-				
Common Equity	14,288	21,656	37,345	43,134	50,787	Minorities & Outside Distbn.	0.0%	0.0%	0.0%	0.0%	0.0%				
RWA	186,438	221,796	292,061	381,694	496,203	ROA	0.6%	1.1%	1.4%	1.5%	1.5%				
Avg. RWA	175,991	204,117	256,928	336,878	438,949	RORWA	0.8%	1.7%	2.2%	2.4%	2.4%				
						Equity/Assets	5.0%	5.7%	7.3%	7.7%	6.9%				
						ROE	11.7%	19.5%	19.3%	19.9%	22.2%				

Source: Company reports and J.P. Morgan estimates.

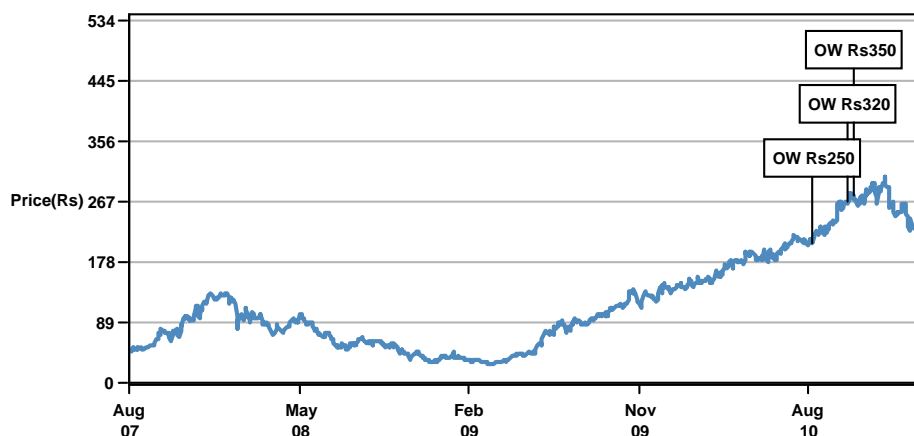
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IndusInd Bank (INBK.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
06-Aug-10	OW	206.10	250.00
02-Oct-10	OW	265.90	320.00
11-Oct-10	OW	274.80	350.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 06, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	53%	50%	38%
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IB clients*	71%	63%	59%

*Percentage of investment banking clients in each rating category.

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