

1Q: Exactly in-line; Buy for growth and risk-return

In-line 1Q12, +20% profit growth led by lower credit costs

IBFSL reported earnings of Rs2.7bn, a +20% yoy growth, *exactly in-line* with our estimates driven by lower credit costs, as asset quality held-up well. Topline grew ~9% yoy driven by AUM growth of 41% yoy (loan growth of 32% yoy), however spreads declined by over +150bps yoy to ~350bps (stable qoq) on changing loan mix. Moreover, disbursement growth also strong at 20% yoy. Fee growth +20% yoy. While gross / net NPLs are up ~6/7%, resp. qoq, asset quality remains very manageable, with gross / net at NPLs at only ~0.8 / 0.3%, resp. Total prov. cover is +140% (incl. +Rs1.2bn of floating prov.). Tier1 at +17.5%.

Tweak earnings by <1% for FY13/14E; Profit growth at ~25%

We have tweaked our earnings by <1% for FY13/14. We still estimate net profit growth of +25/20% in FY13/14 (EPS growth of ~17% in FY13 factoring in ~20.7mn warrants issued in March'12 to promoter group) driven by a) +24/19% AUM growth and b) spreads stabilizing from hereon, with marginal upward bias from any favorable down shift in funding costs.

Management guidance continues to be maintained for FY13

IBulls management maintains its guidance of ~30% AUM growth and spreads at +3.25-3.5% for FY13. The company has also maintained its net profit guidance of +20% in FY13, with manageable asset quality (net NPLs at <0.3-0.4%).

Risk return positive; 22% return potential (~6% div. yield)

We maintain our PO of Rs275 and a Buy rating as a) we expect net profit growth to remain strong (+25/20% in FY13/14E); b) RoEs at +23/24% in FY13/14E vs. ~21% in FY12 and; 3) manageable asset quality (net <1.0% in FY14E; currently at 0.3%) and high comfort on capital (Tier 1 at +16% in FY14E). Hence, the stock trading at 1.4x FY13 adj. book should be able to re-rate to at least 1.6x on Gordon theory model. Reiterate Buy for +22% return potential including ~6% prospective dividend yield.

Estimates (Mar)

(Rs)	2011A	2012A	2013E	2014E	2015E
Net Income (Adjusted - mn)	7,407	9,960	12,462	14,977	17,436
EPS	23.82	31.94	37.48	45.04	52.44
EPS Change (YoY)	139.6%	34.1%	17.3%	20.2%	16.4%
Dividend / Share	10.00	13.00	15.00	18.00	21.00
Free Cash Flow / Share	NA	NA	NA	NA	NA

Valuation (Mar)

	2011A	2012A	2013E	2014E	2015E
P/E	10.00x	7.46x	6.36x	5.29x	4.54x
Dividend Yield	4.20%	5.46%	6.30%	7.56%	8.82%

Bank of America Merrill Lynch

Veekesh Gandhi >> +91 22 6632 8677
Research Analyst
DSP Merrill Lynch (India)
veekesh.gandhi@baml.com

Rajeev Varma >> +91 22 6632 8666
Research Analyst
DSP Merrill Lynch (India)
rajeev.varma@baml.com

Stock Data

Price	Rs238.20
Price Objective	Rs275.00
Date Established	27-Apr-2012
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs116.80-Rs272.10
Mrkt Val / Shares Out (mn)	US\$1,338 / 309.9
Market Value (mn)	Rs73,817
Average Daily Volume	776,966
BofAML Ticker / Exchange	IBLFF / BSE
Bloomberg / Reuters	IBULL IN / IBUL.BO
ROE (2013E)	23.1%
Leverage (2012A)	NA
Est. 5-Yr EPS / DPS Growth	48.0% / 47.0%
Free Float	63.5%

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11185975

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iQprofileSM IndiaBulls Financial Services

Key Income Statement Data (Mar)	2011A	2012A	2013E	2014E	2015E
(Rs Millions)					
Net Interest Income	12,252	13,035	16,122	19,696	22,780
Net Fee Income	0	0	0	0	0
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	3,481	5,583	6,284	7,140	8,180
Total Non-Interest Income	3,481	5,583	6,284	7,140	8,180
Total Operating Income	15,733	18,617	22,406	26,836	30,961
Operating Expenses	(3,630)	(3,803)	(4,374)	(5,025)	(5,775)
Pre-Provision Profit	12,103	14,814	18,032	21,810	25,186
Provisions Expense	(2,560)	(2,240)	(1,780)	(1,980)	(2,110)
Operating Profit	9,543	12,575	16,252	19,831	23,076
Non-Operating Income	372.47	645.40	709.94	816.43	938.89
Pre-Tax Income	9,915	13,220	16,962	20,647	24,015
Net Income to Comm S/Hold.	7,407	9,960	12,462	14,977	17,436
Adjusted Net Income (Operating)	7,407	9,960	12,462	14,977	17,436

Key Balance Sheet Data

Total Assets	252,272	322,274	369,594	428,708	502,962
Average Interest Earning Assets	190,996	281,769	337,328	387,393	448,528
Weighted Risk Assets	213,711	268,416	329,954	393,565	476,473
Total Gross Customer Loans	197,956	255,944	312,573	369,299	436,173
Total Customer Deposits	NA	NA	NA	NA	NA
Tier 1 Capital	45,401	49,055	58,751	65,345	74,460
Tangible Equity	45,401	49,055	58,751	65,345	74,460
Common Shareholders' Equity	45,401	49,055	58,751	65,345	74,460

Key Metrics

Net Interest Margin	6.41%	4.63%	4.78%	5.08%	5.08%
Tier 1 Ratio	21.2%	18.3%	17.8%	16.6%	15.6%
Effective Tax Rate	24.3%	23.9%	26.0%	27.0%	27.0%
Loan / Assets Ratio	77.9%	79.0%	84.1%	85.5%	86.0%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Oper Leverage (Inc Growth - Cost Growth)	18.8%	13.6%	5.3%	4.9%	0.5%
Gearing (Assets / Equity)	5.6x	6.6x	6.3x	6.6x	6.8x
Tangible Common Equity / Assets	18.0%	15.2%	15.9%	15.2%	14.8%
Tangible Common Equity / WRAs	21.2%	18.3%	17.8%	16.6%	15.6%
Revenue Growth	53.1%	18.3%	20.3%	19.8%	15.4%
Operating Expense Growth	34.3%	4.8%	15.0%	14.9%	14.9%
Provisions Expense Growth	-17.3%	-12.5%	-20.5%	11.2%	6.6%
Operating Revenue / Average Assets	8.1%	6.5%	6.5%	6.7%	6.6%
Operating Expenses / Average Assets	1.9%	1.3%	1.3%	1.3%	1.2%
Pre-Provision ROA	6.2%	5.2%	5.2%	5.5%	5.4%
ROA	3.8%	3.5%	3.6%	3.8%	3.7%
Pre-Provision ROE	27.4%	31.4%	33.5%	35.2%	36.0%
ROE	16.7%	21.1%	23.1%	24.1%	24.9%
RoTE	16.3%	20.3%	21.2%	22.9%	23.4%
RoWRAs	3.5%	3.7%	3.8%	3.8%	3.7%
Dividend Payout Ratio	42.0%	40.7%	40.0%	40.0%	40.0%
Efficiency Ratio	23.1%	20.4%	19.5%	18.7%	18.7%
Headline Cost/Income Ratio	23.1%	20.4%	19.5%	18.7%	18.7%
Total Non-Interest Inc / Operating Inc	22%	30%	28%	27%	26%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	21.2%	15.1%	9.9%	9.1%	8.4%
NPLs plus Foreclosed Real Estate / Loans	1.0%	0.9%	1.2%	1.6%	1.8%
Loan Loss Reserves / NPLs	64.2%	58.0%	48.8%	46.5%	45.8%
Loan Loss Reserves / Total Loans	0.7%	0.5%	0.6%	0.7%	0.8%
Provisions Expense / Average Loans	1.7%	1.0%	0.6%	0.6%	0.5%

Other Metrics

Income / Employee	2.51	2.71	3.00	3.33	3.57
(Operating Expenses) / Employee	(0.580)	(0.554)	(0.586)	(0.623)	(0.667)
Pre-Provision Profit / Employee	1.93	2.16	2.42	2.71	2.91
Net Profit / Employee	1.18	1.45	1.67	1.86	2.01

Company Description

Indiabulls is a one of largest non-banking financial companies, with total loan assets on a managed basis of \$5.5bn as on FY12. IBFSL offers a broad suite of lending and other financial products to target client base of middle and upper-middle income individuals and small- and medium-sized enterprises, or SMEs. It has presence across +185 locations across India.

Investment Thesis

We believe that Indiabulls will focus on improving its B/S through maintaining adequate liquidity, high Tier I and high NPL coverage. Growth focus will be secondary. Potentially high-return, high-risk ventures, these businesses are in their infancy. Although these businesses could generate a substantial portion of incremental value, they do not come without risks.

Stock Data

Price to Book Value 1.3x

1QFY13 Results Summary

Table 1: 1QFY13 Results Summary

Rs Mn	1Q13	1Q12	4Q12	yoy	Remarks
Interest income	9,740	7,599	9,676	28%	
Interest Expenses	5,740	3,927	5,606	46%	
Net Interest Income	4,000	3,672	4,070	9%	~5% below estimates. Spreads declined by over 150bps yoy (stable qoq) to ~3.5%. AUM growth strong at 41% yoy.
Other income	824	803	1,541	3%	
-Fee income	655	540	1,410	21%	Fee growth strong at +20% yoy on strong disbursement (20% yoy)
Total Income	4,824	4,475	5,611	8%	
a) Operating Expenses	97	83	73	17%	
b) Employees Cost	559	458	531	22%	Partly higher owing to bonuses paid out
c) Administrative & Other Exp.	435	258	517	69%	
e) Depreciation / Amortization	22	22	24	2%	
Total expenses	1,114	821	1,145	36%	
Pre Provision Profit	3,710	3,654	4,466	2%	Lower Top-line (expected)
Provisions	191	648	715	-71%	Gross NPLs up 6% qoq at 80bps and Net up 7% at 33bps. Cover (incl. floating prov.) at +140%
Profit before tax	3,519	3,006	3,751	17%	
Tax expense	843	787	721	7%	
Net Profit	2,677	2,220	3,030	21%	Earnings exactly in-line owing to lower provisioning

Source: BofA Merrill Lynch Global Research Estimates

Price objective basis & risk

IndiaBulls Financial Services (IBLFF)

We set our PO at Rs275. We believe the shares can re-rate to at least 1.6x FY13E adj. book driven by 1) sustaining net profit growth at +25/20% for FY13/14E, 2) RoEs at +23% in FY13E/14E vs. 21% in FY12 and, 3) manageable asset quality (net <0.5%) and high comfort on capital (Tier 1 at +17%). Our PO implies target P/E of 7.3x. We are pegging the PO at 10% premium to Gordon theory multiples (normalized RoE at 20% and CoE at 13.5%), factoring in a strong earnings trajectory and business momentum. Risks are a very strong business growth leading to a spike in NPLs, which could hurt earnings momentum, and a sharp rise in wholesale borrowing costs can lead to spread compression.

Link to Definitions

Financials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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Address – Mafatlal Centre, 8th Floor, Nariman Point, Mumbai, India. 400021

Tel : +91 22 6632 8000

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India - Financials Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Axis Bank	XAXSF	AXSB IN	Rajeev Varma
	Axis Bank - GDR	XBKSF	AXB LI	Rajeev Varma
	Bajaj Finserv Limited	XBVJF	BJFIN IN	Anubhav Adlakha
	Corporation Bank	XCRRF	CRPBK IN	Veekesh Gandhi
	Federal Bank	XFDRF	FB IN	Veekesh Gandhi
	HDFC	HGDF	HDFC IN	Rajeev Varma
	HDFC Bank	XHDF	HDFCB IN	Rajeev Varma
	HDFC Bank	HDB	HDB US	Rajeev Varma
	ICICI Bank	ICIJF	ICICBC IN	Rajeev Varma
	ICICI Bank - A	IBN	IBN US	Rajeev Varma
	IndiaBulls Financial Services	IBLFF	IBULL IN	Veekesh Gandhi
	Indian Bank	INDIF	INBK IN	Rajeev Varma
	LIC Housing Finance, Ltd.	LHFLF	LICHF IN	Veekesh Gandhi
	Manappuram	XMGPF	MGFL IN	Veekesh Gandhi
	Max India	XMJIF	MAX IN	Anubhav Adlakha
	Power finance corporation Ltd	PWFEE	POWF IN	Veekesh Gandhi
	Punjab	PUJBF	PNB IN	Rajeev Varma
	Reliance Capital	RLCCF	RCAPT IN	Veekesh Gandhi
	Rural Electrification Corporation Ltd	XULEF	RECL IB	Veekesh Gandhi
	SBI	SBINF	SBIN IN	Rajeev Varma
	SBI -G	SBKFF	SBID LI	Rajeev Varma
	Shriram Transport Finance	SHTFF	SHTF IN	Veekesh Gandhi
	Yes Bank Ltd	YESBF	YES IN	Veekesh Gandhi
NEUTRAL				
	Bank of Baroda	BKBAF	BOB IN	Rajeev Varma
UNDERPERFORM				
	Bank of India	XDIIF	BOI IN	Rajeev Varma
	Canara Bank	CNRKF	CBK IN	Rajeev Varma
	IDBI	XDBIF	IDBI IN	Veekesh Gandhi
	Indusind Bank	IDUBF	IIB IN	Veekesh Gandhi
	Infrastruct Dev	IFDFF	IDFC IN	Rajeev Varma
	Kotak Mahindra Bank	XXRVF	KMB IN	Rajeev Varma
	ORBC	ORBCF	OBC IN	Rajeev Varma
	Union Bank India	UBOIF	UNBK IN	Rajeev Varma

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

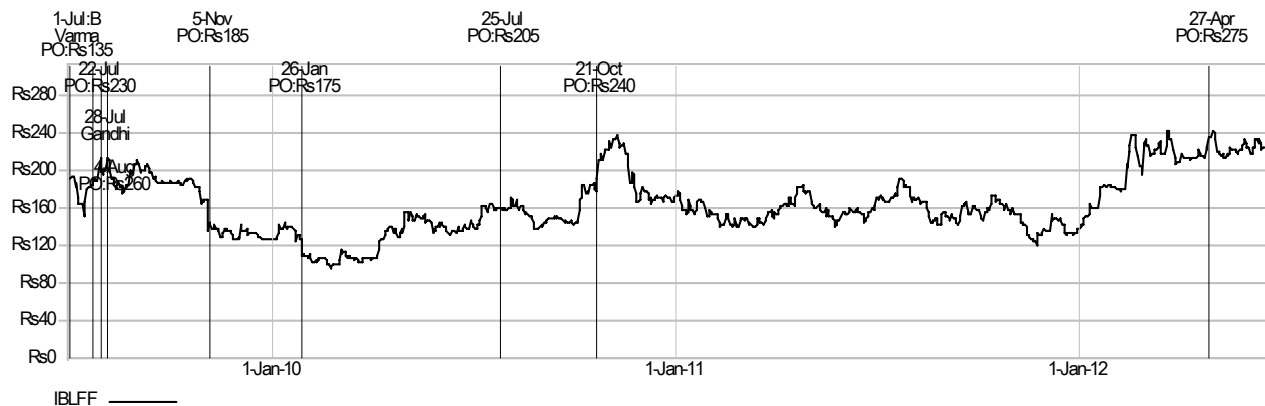
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IBLFF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR : No Rating

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Investment Rating Distribution: Financial Services Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	175	50.29%	Buy	115	68.86%
Neutral	107	30.75%	Neutral	61	57.55%
Sell	66	18.97%	Sell	34	52.31%

Investment Rating Distribution: Global Group (as of 01 Jul 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1913	50.14%	Buy	1294	73.40%
Neutral	994	26.06%	Neutral	628	70.09%
Sell	908	23.80%	Sell	513	60.71%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Underperform	N/A	≥ 20%

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20 July 2012

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