

IndusInd Bank

NEUTRAL

INDUSTRY	BANKS
CMP (as on 20 Sep 2013)	Rs 412
Target Price	Rs 454
Nifty	6,012
Sensex	20,264

KEY STOCK DATA

Bloomberg/Reuters	IIB IN / INBK.BO
No. of Shares (mn)	524
MCap (Rs bn) / (\$ mn)	216 / 3,463
6m avg traded value (Rs mn)	1,116

STOCK PERFORMANCE (%)

52 Week high / low	Rs 532 / 312		
	3M	6M	12M
Absolute (%)	(8.4)	1.9	24.2
Relative (%)	(16.7)	(5.4)	13.8

SHAREHOLDING PATTERN (%)

Promoters	15.27
FIs & Local MFs	7.02
FIIIs	42.28
Public & Others	35.43

Source : BSE

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Our recent interaction with IndusInd Bank (IIB) suggests that management has turned cautious in the current economic environment. Key highlights from the interaction are (a) loan growth has slowed down in both corporate and vehicle financing segment (b) margins to come under pressure owing to spike in interest rates and (c) asset quality will deteriorate mildly, especially in the mid corporate book. We have revised our earnings downwards by 10/8% for FY14/15E to factor in lower growth and margin compression. We lower our target multiple to 2.5x vs 2.8x to factor in the changed dynamics. Maintain NEUTRAL with a revised TP of Rs 454/sh (2.5x FY15E ABV).

- **Loan growth to slow down:** Given the challenging macro scenario, loan growth is expected to slow down in the medium term, in both corporate and vehicle financing book. However, segments like LAP and 3Ws within the retail book are witnessing strong growth. We have revised our loan growth estimates to 25% CAGR over FY13-15E from 28%.
- **Margins to compress:** Margins are likely to compress owing to increase in interest rates. Short term interest rates have inched up by 200-220bps since 15th July 2013. 50% of deposits being wholesale in nature will get impacted due to high interest rate environment. 40% of loan book being fixed will get impacted as rates remain elevated. On the other hand, 85% of corporate loans being floating in nature will get repriced upwards by 50-100bps. IIB has increased its base rate in the current quarter by 25bps to 11%. As a result, the net impact on margins will be 30-40bps. We have revised

our margin estimates downwards by 20/10bps for FY14/15E to 3.5/3.7%.

- **Asset quality to witness mild deterioration:** The management sounded cautious on asset quality front, especially in the mid corporate segment. Management indicated a few cases coming up for restructuring. Vehicle financing business is expected to witness slippages in the range of 1.2-1.8%. Credit costs are expected to spike up on asset quality deterioration. We have factored in 70bps LLP for FY14/15E vs 55bps in FY13.
- We continue to like IIB's diversified loan book, improving liability franchise, healthy non-interest income stream and stable asset quality. However, we feel that in the medium term it may face headwinds on margin and asset quality front. We have revised our earnings downwards by 10/8% to factor in lower growth and margin compression. **Maintain NEUTRAL with revised TP of Rs 454/sh (2.5x FY15E ABV).**

FINANCIAL SUMMARY

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	13,765	17,043	22,329	26,696	34,893
PPOP	10,816	13,730	18,394	22,460	29,273
PAT	5,773	8,026	10,611	12,176	15,997
EPS (Rs)	12.4	17.2	20.3	23.3	30.6
Earnings Growth (%)	64.8	39.0	32.2	14.7	31.4
ROAE (%) (ex reval)	19.3	19.3	17.8	15.4	17.6
ROAA (%)	1.4	1.6	1.6	1.5	1.6
Adj. BVPS (Rs)	80.3	94.4	139.0	157.6	181.5
P/E (x)	33.2	24.0	20.3	17.6	13.4
P/ABV (x)	5.1	4.4	3.0	2.6	2.3

Source: Company, HDFC sec Inst Research

CHANGE IN ESTIMATES

(Rs mn)	FY14E			FY15E		
	Old	New	Change	Old	New	Change
NII	29,430	26,696	-9.3%	37,866	34,893	-7.9%
PPOP	24,776	22,460	-9.3%	31,479	29,273	-7.0%
PAT	13,493	12,176	-9.8%	17,294	15,997	-7.5%
Adj. BVPS (Rs)	161.1	157.6	-2.2%	188.4	181.5	-3.7%

Source : Company, HDFC sec Inst Research

INCOME STATEMENT

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Earned	35,894	53,592	69,832	86,009	106,572
Interest Expended	22,129	36,549	47,504	59,314	71,679
Net Interest Income	13,765	17,043	22,329	26,696	34,893
Other Income	7,137	10,118	13,630	17,935	22,735
<i>Fee Income (CEB)</i>	<i>2,570</i>	<i>2,837</i>	<i>4,324</i>	<i>5,435</i>	<i>6,886</i>
<i>Treasury Income</i>	<i>404</i>	<i>577</i>	<i>644</i>	<i>1,536</i>	<i>2,034</i>
Total Income	20,901	27,160	35,958	44,631	57,628
Total Operating Exp	10,085	13,430	17,564	22,171	28,356
<i>Employee Expense</i>	<i>3,826</i>	<i>4,855</i>	<i>6,615</i>	<i>8,599</i>	<i>11,179</i>
PPOP	10,816	13,730	18,394	22,460	29,273
Provisions & Contingencies	2,019	1,804	2,631	4,100	5,150
<i>Prov. for NPAs (incl. std prov.)</i>	<i>1,587</i>	<i>1,783</i>	<i>2,551</i>	<i>4,033</i>	<i>5,083</i>
PBT	8,797	11,926	15,763	18,361	24,123
Provision for Tax	3,025	3,900	5,152	6,184	8,125
PAT	5,773	8,026	10,611	12,176	15,997

Source: Bank, HDFC sec Inst Research

BALANCE SHEET

(Rs mn)	FY11	FY12	FY13	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	4,660	4,677	5,229	5,229	5,229
Reserves	35,763	42,631	70,967	80,966	94,154
Shareholders' Funds	40,422	47,308	76,195	86,194	99,382
Savings	30,588	46,941	70,328	109,008	163,513
Current	62,721	68,689	88,346	107,782	131,494
Term Deposit	250,345	307,985	382,494	460,905	557,695
Total Deposits	343,654	423,615	541,167	677,695	852,701
Borrowings	55,254	86,820	94,596	111,277	133,296
Other Liabilities & Provisions	17,028	18,217	21,107	25,307	27,827
Total Liabilities	456,358	575,961	733,065	900,473	1,113,206
APPLICATION OF FUNDS					
Cash & Bank Balance	40,246	55,396	68,487	78,000	87,988
Investments	135,508	145,719	196,542	242,437	299,880
<i>G-Secs</i>	<i>100,219</i>	<i>119,019</i>	<i>141,083</i>	<i>166,478</i>	<i>196,443</i>
Advances	261,656	350,640	443,206	553,964	697,964
Fixed Assets	5,965	6,568	7,561	7,939	8,336
Other Assets	12,983	17,638	17,269	18,132	19,039
Total Assets	456,358	575,961	733,065	900,473	1,113,206

Source: Bank, HDFC sec Inst Research

KEY RATIOS

	FY11	FY12	FY13	FY14E	FY15E
VALUATION RATIOS					
EPS	12.4	17.2	20.3	23.3	30.6
Earnings Growth (%)	64.8	39.0	32.2	14.7	31.4
BVPS (ex reval.)	81.9	96.5	141.7	160.9	186.2
Adj. BVPS	80.3	94.4	139.0	157.6	181.5
ROAA (%)	1.4	1.6	1.6	1.5	1.6
ROAE (%) (ex reval.)	19.3	19.3	17.8	15.4	17.6
P/E (x)	33.2	24.0	20.3	17.6	13.4
P/ABV (x)	5.1	4.4	3.0	2.6	2.3
P/PPOP (x)	17.7	14.0	11.7	9.6	7.3
Dividend Yield (%)	0.5	0.5	0.7	0.8	1.1
PROFITABILITY					
Yield on Advances (%)	12.1	13.8	14.1	13.8	13.7
Yield on Investment (%)	6.1	7.7	7.5	7.4	7.2
Cost of Funds (%)	6.2	8.0	8.3	8.3	8.1
Cost of Deposits (%)	6.0	8.0	8.3	8.2	7.9
Core Spread (%)	6.1	5.8	5.8	5.6	5.8
NIM (%)	3.8	3.6	3.7	3.5	3.7
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	2.5	2.6	2.7	2.7	2.8
Cost-Income Ratio (Excl Treasury)	49.2	50.5	49.7	51.4	51.0
BALANCE SHEET STRUCTURE RATIOS					
Loan Growth (%)	27.3	34.0	26.4	25.0	26.0
Deposit Growth (%)	28.7	23.3	27.7	25.2	25.8
C/D Ratio (%)	76.1	82.8	81.9	81.7	81.9
Equity/Assets (%)	8.9	8.2	9.4	10.9	12.5
Equity/Advances (%)	15.4	13.5	17.2	15.6	14.2
CASA (%)	27.2	27.3	29.3	32.0	34.6
Total Capital Adequacy Ratio (CAR)	15.9	13.8	15.4	13.7	12.5
Tier I CAR	12.3	11.4	13.8	12.4	11.4

	FY11	FY12	FY13	FY14E	FY15E
ASSET QUALITY					
Gross NPLs (Rsm)	2,659	3,471	4,578	6,697	9,264
Net NPLs (Rsm)	728	947	1,368	1,728	2,467
Gross NPLs (%)	1.0	1.0	1.0	1.2	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3	0.4
Coverage Ratio (%)	72.6	72.7	70.1	74.2	73.4
Provision/Avg. Loans (%)	0.7	0.5	0.6	0.7	0.7
ROAA TREE					
Net Interest Income	3.40%	3.30%	3.41%	3.27%	3.47%
Non Interest Income	1.76%	1.96%	2.08%	2.20%	2.26%
Treasury Income	0.10%	0.11%	0.10%	0.19%	0.20%
Operating Cost	2.49%	2.60%	2.68%	2.71%	2.82%
Provisions	0.50%	0.28%	0.35%	0.45%	0.45%
Provisions for NPAs	0.39%	0.28%	0.34%	0.44%	0.45%
Tax	0.75%	0.76%	0.79%	0.76%	0.81%
ROAA	1.43%	1.62%	1.68%	1.55%	1.65%
Leverage (x)	12.58	11.77	10.60	10.06	10.85
ROAE	17.93%	19.11%	17.76%	15.54%	17.86%

Source: Bank, HDFC sec Inst Research

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL	:	Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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