

January 10, 2012

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Rating	BUY
Price	Rs261
Target Price	Rs315
Implied Upside	20.7%
Sensex	16,165
Nifty	4,850

(Prices as on January 10, 2012)

Trading data

Market Cap. (Rs bn)	121.5
Shares o/s (m)	465.8
3M Avg. Daily value (Rs m)	176.6

Major shareholders

Promoters	19.50%
Foreign	35.22%
Domestic Inst.	7.17%
Public & Other	38.11%

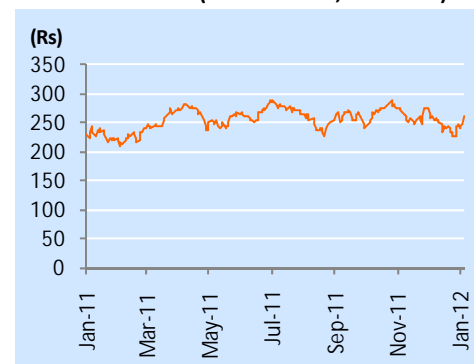
Stock Performance

(%)	1M	6M	12M
Absolute	0.2	(9.3)	16.7
Relative	0.5	5.0	32.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	20.8	19.7	5.5
2014	25.5	24.3	5.1

Price Performance (RIC: INBK.BO, BB: IIB IN)



Source: Bloomberg

IndusInd bank's (IIB's) Q3FY12 result was stronger than expected, with net profit of Rs2.06bn, up 34% YoY. Pick-up in SA deposits, stronger-than-expected fee income growth and stable asset quality were the key positives. **We maintain our positive view on IIB as asset quality continues to remain robust and delivery on fee income and liability franchise leaves room for upside surprise on ROAs.**

- **Strong SA growth; NIM upsides in FY13:** SA deposits jumped by ~21% in Q3FY12, with momentum building after the savings de-regulation. Margins did contract by ~10bps QoQ to 3.25% due to a spike in wholesale funding rate and higher SA rates offered. But we expect NIMs to bounce back from Q4FY12, given possible reversal in rate cycle (~48% retail fixed book) and higher SA ratio, aiding margins.
- **Continues to deliver on growth:** Loan growth has been robust at ~30% YoY, with the retail book largely driving growth at ~44% YoY growth. Fee income growth continues to remain higher than b/s growth, with very strong trends in third-party distribution and FX income. Fee/assets has crossed ~2.0% in Q3FY12 and with fees expected to be a key ROA driver, current trends are very encouraging.
- **Asset quality remains robust:** Asset quality continues to remain strong with NPAs remaining flat sequentially, leading to lower-than-expected credit costs. IIB's CV portfolio is holding up relatively better, with very limited mining exposure. Even the corporate portfolio remains robust, with ~95% of portfolio being >BBB rated and IIB having no restructuring proposals currently.
- **Potential ROA surprise:** We estimate ROAs at 1.55% in FY13 (in line with consensus) and we see possible upsides from better margins with falling rates and large fixed rate book, better-than-expected fee income growth and upside from stronger-than-expected SA improvement.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Net interest income (Rs m)	13,765	17,032	21,611	27,226
Growth (%)	55.3	23.7	26.9	26.0
Operating profit (Rs m)	10,817	13,398	17,849	22,288
PAT (Rs m)	5,773	7,685	9,673	11,894
EPS (Rs)	12.4	16.5	20.8	25.5
Growth (%)	46.1	33.1	25.9	23.0
Net DPS (Rs)	2.0	2.7	3.7	4.7

Profitability & Valuation	2011	2012E	2013E	2014E
NIM (%)	3.42	3.36	3.46	3.49
RoAE (%)	19.3	18.6	20.0	20.9
RoAA (%)	1.43	1.52	1.55	1.53
P / BV (x)	3.2	2.7	2.3	2.0
P / ABV (x)	3.2	2.7	2.3	2.0
PE (x)	21.0	15.8	12.6	10.2
Net dividend yield (%)	0.8	1.0	1.4	1.8

Source: Company Data; PL Research

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Exhibit 1: Q3FY12 Financials : Strong performance across most parameters

	3Q11	2Q12	3Q12	YoY	QoQ
Interest income	9,149	13,239	13,897	51.9%	5.0%
Interest expenses	5,519	9,047	9,591	73.8%	6.0%
Net interest income	3,630	4,192	4,307	18.6%	2.7%
Other income	1,960	2,392	2,651	35.3%	10.8%
Operating expenses	2,678	3,254	3,465	29.4%	6.5%
PPOP	2,912	3,330	3,492	19.9%	4.9%
Provisions	562	470	428	-23.8%	-8.8%
Profit before tax	2,350	2,860	3,064	30.4%	7.1%
Provision for tax	811	929	1,005	23.8%	8.1%
Profit after tax	1,539	1,931	2,060	33.9%	6.7%
NIM	3.61%	3.35%	3.25%	-0.36%	-0.10%
NII/GII	39.7%	31.7%	31.0%	-8.7%	-0.7%
Cost to Income	47.9%	49.4%	49.8%	1.9%	0.4%
Provisions/PPOP	19.3%	14.1%	12.3%	-7.0%	-1.8%
Tax rate	34.5%	32.5%	32.8%	-1.7%	0.3%
Provisions/Loans (%)	0.90%	0.62%	0.53%	-0.37%	-0.10%
Balance sheet data					
Advances	250,010	301,355	324,260	29.7%	7.6%
Deposits	306,630	383,672	405,580	32.3%	5.7%
Credit to Deposit	81.5%	78.5%	79.9%	-1.6%	1.4%
CASA Ratio	26.8%	27.7%	26.5%	-0.3%	-1.2%
Asset Quality					
Gross NPA	3,060	3,326	3,342	9.2%	0.5%
Net NPA	910	931	937	2.9%	0.6%
Gross NPA (%)	1.21%	1.09%	1.02%	-0.2%	-0.1%
Net NPA(%)	0.36%	0.31%	0.29%	-0.1%	0.0%
LLP/Loans	0.90%	0.62%	0.53%	-0.4%	-0.1%

Source: Company Data, PL Research

Strong loan growth: The bank exhibited strong loan book growth at ~8% QoQ. Retail book dominated the growth, with ~11% QoQ growth, with strong trend across the board in most categories. We have factored in ~26% loan growth for FY12 and see upside risks to our loan growth assumption.

Exhibit 2: Loan growth strong across most retail categories

Loan composition	3Q11	2Q12	3Q12	YoY	QoQ
Vehicle Finance	104,120	135,140	150,250	44.3%	11.2%
CV Loan	51,860	67,550	74,620	43.9%	10.5%
Utility Loan	8,930	10,100	11,240	25.9%	11.3%
Car Loan	7,210	10,750	12,200	69.2%	13.5%
2/3 wheeler loan	22,430	29,680	32,540	45.1%	9.6%
Equipment Financing	13,690	17,060	19,650	43.5%	15.2%
Other Retail Loans	1,610	5,490	6,700	316.1%	22.0%
Total Retail Loans	104,120	135,140	150,250	44.3%	11.2%
Retail Traders	19,350	27,960	28,490	47.2%	1.9%
Corporate Advances	124,930	132,580	138,820	11.1%	4.7%

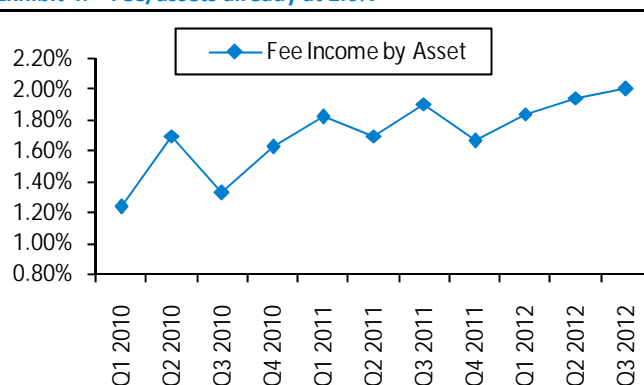
Source: Company Data, PL Research

Fee income growth very impressive: The bank posted strong growth in core fees income, up 18.2% QoQ. Distribution fees and FX fee income growth remained very strong. Fee income growth is expected to be a key driver for stage-2 growth for IIB and with fee/assets already at 2.0%, we see possible upsides to our FY13-14 ROAs

Exhibit 3: Strong and broad-based fee income show

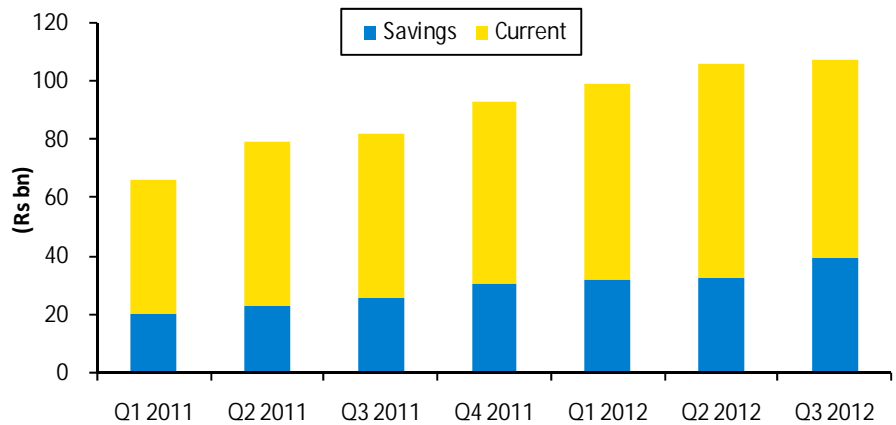
	3Q11	2Q12	3Q12	YoY	QoQ
Trade & Remittances	227	286	332	46.1%	16.3%
Foreign Exchange Income	327	523	601	84.2%	15.0%
Distribution Fees (Insurance, MF, Cr. Card)	402	571	663	65.1%	16.2%
General Banking Fees	184	269	278	51.0%	3.5%
Loan Processing fees	296	391	416	40.4%	6.3%
Investment Banking	283	80	213	-24.6%	167.7%
Total fee income	1,719	2,119	2,503	45.7%	18.2%

Source: Company Data, PL Research

Exhibit 4: Fee/assets already at 2.0%


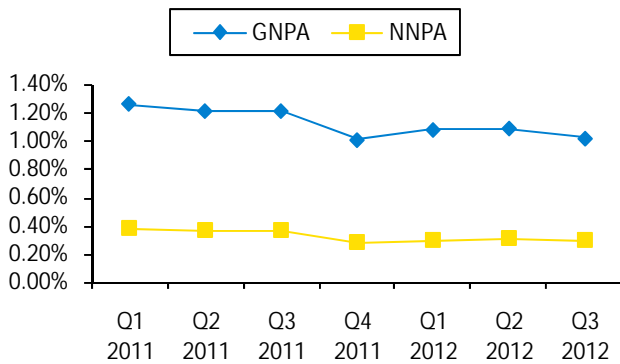
Source: Company Data, PL Research

Saving de-regulation having positive implications: SA deposits increased by ~21% YoY, largely driven by significant account accretion in this quarter. Management is seeing momentum across the board from retail and also corporate salary accounts. We have built in 2% annual accretion to SA ratio and with the current momentum, there could be possible upsides.

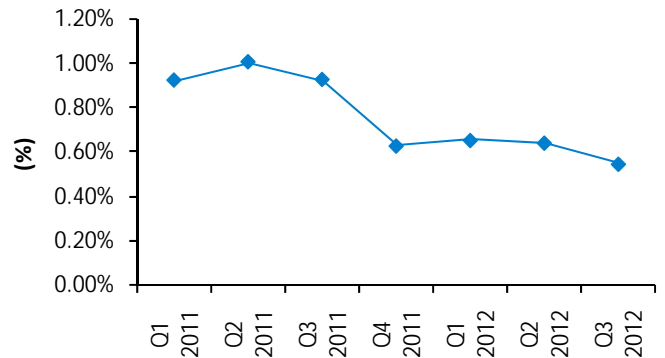
Exhibit 5: Strong savings growth in Q3FY12


Source: Company Data, PL Research

Asset quality remains robust: Asset quality continues to remain robust, with Gross NPAs remaining flat sequentially, leading to credit costs being lower at ~55bps annualized v/s ~70bps expected - IIB's CV portfolio seems to be holding up relatively better with very limited mining exposure. Even the corporate portfolio remains robust, with ~95% of portfolio being >BBB rated and IIB having no restructuring proposals currently.

Exhibit 6: High on asset quality...


Source: Company Data, PL Research

Exhibit 7: ...and low on credit cost


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Int. Earned from Adv.	28,346	41,425	50,481	62,768
Int. Earned from Inv.	7,333	10,611	12,679	15,344
Others	215	590	590	649
Total Interest Income	35,894	52,625	63,749	78,761
Interest expense	22,129	35,594	42,138	51,535
NII	13,765	17,032	21,611	27,226
<i>Growth (%)</i>	55.3	23.7	26.9	26.0
Treasury Income	376	200	800	800
NTNII	6,761	9,330	12,129	15,768
Non Interest Income	7,137	9,530	12,929	16,568
Total Income	43,030	62,156	76,679	95,329
<i>Growth (%)</i>	32.0	44.4	23.4	24.3
Operating Expense	10,085	13,164	16,691	21,506
Operating Profit	10,817	13,398	17,849	22,288
<i>Growth (%)</i>	53.7	23.9	33.2	24.9
NPA Provisions	1,841	1,928	3,412	4,536
Investment Provisions	76	—	—	—
Total Provisions	2,019	1,928	3,412	4,536
PBT	8,798	11,470	14,437	17,753
Tax Provisions	3,025	3,785	4,764	5,858
<i>Effective Tax Rate (%)</i>	34.4	33.0	33.0	33.0
PAT	5,773	7,685	9,673	11,894
<i>Growth (%)</i>	64.8	33.1	25.9	23.0

Balance Sheet (Rs m)

Y/e March	2011	2012E	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	466	466	466	466
Equity	4,658	4,658	4,658	4,658
Networth	38,247	44,481	52,158	61,511
Adj. Networth	37,518	43,536	50,849	59,577
Deposits	343,654	428,411	532,249	676,135
<i>Growth (%)</i>	28.7	24.7	24.2	27.0
Low Cost deposits	93,309	124,891	171,129	231,590
<i>% of total deposits</i>	27.2	29.2	32.2	34.3
Total Liabilities	454,104	559,570	689,471	870,370
Net Advances	261,656	329,687	412,109	527,499
<i>Growth (%)</i>	27.3	26.0	25.0	28.0
Investments	135,508	164,989	196,963	241,330
Total Assets	454,104	559,570	689,471	870,370

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Interest Income	10,488	11,646	13,239	13,897
Interest Expense	6,608	7,746	9,047	9,591
Net Interest Income	3,881	3,900	4,192	4,307
Non Interest Income	1,816	2,154	2,392	2,651
CEB	1,649	1,808	2,119	2,503
Treasury	—	—	—	—
Net Total Income	5,697	6,054	6,584	6,958
Operating Expenses	2,717	2,937	3,254	3,465
Employee Expenses	1,002	1,107	1,152	1,261
Other Expenses	1,715	1,830	2,102	2,204
Operating Profit	2,980	3,117	3,330	3,492
Core Operating Profit	2,980	3,117	3,330	3,492
Provisions	403	446	470	428
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	2,578	2,671	2,860	3,064
Tax	850	870	929	1,005
PAT before EO	1,728	1,802	1,931	2,060
Extraordinary item	—	—	—	—
PAT	1,728	1,802	1,931	2,060

Key Ratios

Y/e March	2011	2012E	2013E	2014E
CMP (Rs)	261	261	261	261
Equity Shrs. Os. (m)	466	466	466	466
Market Cap (Rs m)	121,520	121,520	121,520	121,520
<i>M/Cap to AUM (%)</i>	26.8	21.7	17.6	14.0
EPS (Rs)	12.4	16.5	20.8	25.5
Book Value (Rs)	82	95	112	132
Adj. BV (75%) (Rs)	82	95	112	132
P/E (x)	21.0	15.8	12.6	10.2
P/BV (x)	3.2	2.7	2.3	2.0
P/ABV (x)	3.2	2.7	2.3	2.0
DPS (Rs)	2.0	2.7	3.7	4.7
<i>Dividend Yield (%)</i>	0.8	1.0	1.4	1.8

Profitability (%)

Y/e March	2011	2012E	2013E	2014E
NIM	3.4	3.4	3.5	3.5
RoAA	1.4	1.5	1.5	1.5
RoAE	19.3	18.6	20.0	20.9

Efficiency

Y/e March	2011	2012E	2013E	2014E
<i>Cost-Income Ratio (%)</i>	48.2	49.6	48.3	49.1
<i>C-D Ratio (%)</i>	76.1	77.0	77.4	78.0
Business per Emp. (Rs m)	86	87	86	88
Profit per Emp. (Rs m)	8	9	9	9
Business per Branch (Rs m)	2,018	1,805	1,606	1,575
Profit per Branch (Rs m)	19	18	16	16

Asset Quality

Y/e March	2011	2012E	2013E	2014E
Gross NPAs (Rs m)	2,659	3,449	4,778	7,064
Net NPAs (Rs m)	728	945	1,309	1,935
<i>Gr. NPAs to Gross Adv. (%)</i>	1.0	1.0	1.2	1.3
<i>Net NPAs to Net Adv. (%)</i>	0.3	0.3	0.3	0.4
<i>NPA Coverage (%)</i>	72.6	72.6	72.6	72.6

Source: Company Data, PL Research.

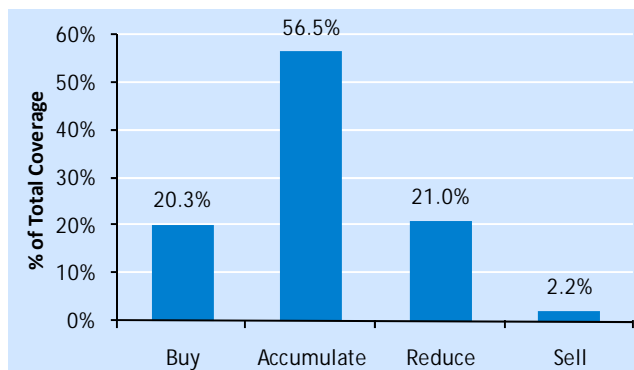


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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