

April 18, 2011

 Abhijit Majumder
 abhijitmajumder@plindia.com
 +91-22-66322236

 Umang Shah
 umangshah@plindia.com
 +91-22-66322242

Rating	BUY
Price	Rs274
Target Price	Rs325
Implied Upside	18.6%
Sensex	19,091

(Prices as on April 18, 2011)
Trading data

Market Cap. (Rs bn)	127.8
Shares o/s (m)	455.1
3M Avg. Daily value (Rs m)	380.9

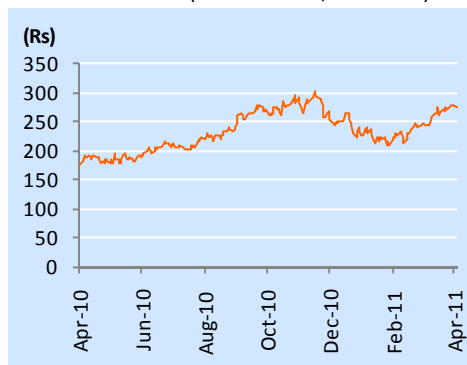
Major shareholders

Promoters	19.50%
Foreign	48.70%
Domestic Inst.	8.30%
Public & Other	23.50%

Stock Performance

(%)	1M	6M	12M
Absolute	12.6	4.8	55.4
Relative	5.9	10.1	46.8

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



Source: Bloomberg

■ **Operating performance in line, margins decline sequentially:** IndusInd Bank (IIB) reported Q4FY11 PAT of Rs1.72bn, up by 75.3% YoY and 11.6% QoQ, in line with our expectations. Net Interest Income (NII) for the quarter grew by 42.3% YoY and 6.9% QoQ on account of a healthy 27.3% YoY and 4.7% QoQ advances growth. However, reported margins contracted by 11bps QoQ to 3.50%, restricting the NII growth. Advances growth was mainly driven by strong 40.0% YoY and 9.9% QoQ growth in the consumer loans. Steep increase was witnessed in the CV and auto loans segment, while corporate loans grew slightly slower by 18.8% YoY and 0.8% QoQ (due to ~Rs16bn worth loan sell downs). Deposits grew strongly by 28.7% YoY and 12.1% QoQ and CASA ratio improved to 27.2% from 26.8% in the previous quarter. Non-interest income declined by 7.3% QoQ on account of a steep 19.9% QoQ dip in the trading income. Meanwhile, the core fee income grew by healthy 46.9% YoY, though declined by 4.1% QoQ due to lower investment banking fees.

■ **Asset quality improves sequentially:** IIB's asset quality improved further, with GNPA's declining by 13.1% QoQ on account of lower slippages and higher up-gradations in the corporate segment. Fresh slippages were down to Rs550m v/s Rs880m in Q3FY11. Provision coverage improved to 72.6% v/s 70.3% in the previous quarter.

■ **Outlook - Entering the second phase of growth:** The management successfully completed its first growth cycle (FY08-11), in which it turned around the bank putting it back on the growth path. The management has chalked out a strategy for the next growth cycle (FY11-14), in which it plans to achieve scale with profitability. We expect IIB's earnings to grow at a CAGR of 29.2% during FY11-13E and expect RoA's to further improve to ~1.6% levels. We maintain "BUY" with a revised price target of Rs325.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Net interest income (Rs m)	8,864	13,765	17,008	22,940
Growth (%)	93.1	55.3	23.6	34.9
Operating profit (Rs m)	7,039	10,817	14,104	18,873
PAT (Rs m)	3,504	5,773	7,362	9,642
EPS (Rs)	8.5	12.7	16.2	21.2
Growth (%)	103.8	48.7	27.5	31.0
Net DPS (Rs)	1.8	2.3	2.8	3.3

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
NIM (%)	2.81	3.52	3.50	3.74
RoAE (%)	17.3	18.5	17.8	20.0
RoAA (%)	1.12	1.48	1.52	1.57
P / BV (x)	5.2	3.4	3.0	2.5
P / ABV (x)	5.3	3.5	3.0	2.5
PE (x)	32.1	21.6	16.9	12.9
Net dividend yield (%)	0.7	0.8	1.0	1.2

Source: Company Data; PL Research

Prabhudas Lilladher Pvt. Ltd. and/or its associates (the 'Firm') does and/or seeks to do business with companies covered in its research reports. As a result investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

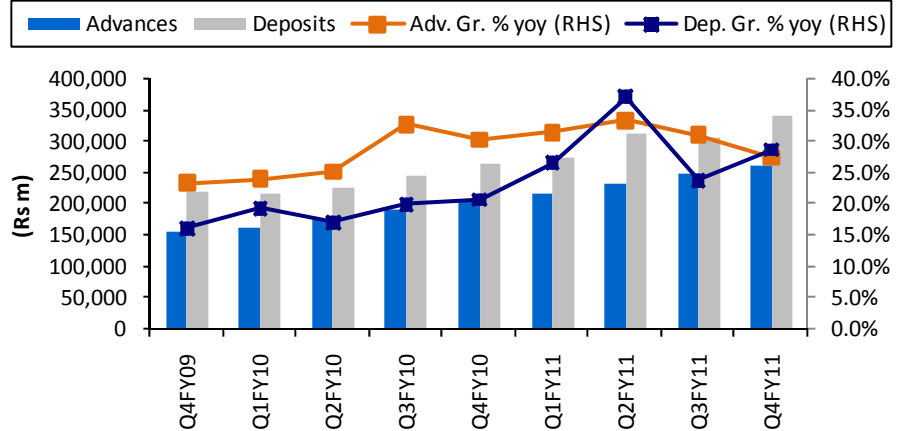
Please refer to important disclosures and disclaimers at the end of the report

Exhibit 1: Q4FY11 Result Overview (Rs m)

Y/e March	Q4FY11	Q4FY10	YoY gr. (%)	Q3FY11	FY11	FY10	YoY gr. (%)
Interest Income	10,488	7,202	45.6	9,149	35,894	27,070	32.6
Interest Expense	6,608	4,474	47.7	5,519	22,129	18,206	21.5
Net Interest Income	3,881	2,728	42.3	3,630	13,765	8,864	55.3
Non-Interest Income	1,816	1,324	37.2	1,960	7,137	5,535	28.9
Fees & FX	1,649	1,122	46.9	1,719	6,294	4,323	45.6
Securities / MM Market / FX Trading	192	94	104.1	240	872	1,342	(35.1)
Net total Income	5,697	4,052	40.6	5,590	20,902	14,399	45.2
Operating Expenses	2,717	2,047	32.7	2,678	10,085	7,360	37.0
Employee	1,002	779	28.6	980	3,827	2,906	31.7
Other operating expenses	1,715	1,267	35.3	1,698	6,258	4,454	40.5
Operating profit	2,980	2,005	48.7	2,912	10,817	7,039	53.7
Core operating profits	2,788	1,911	45.9	2,672	9,945	5,697	74.6
Provisions	403	531	(24.3)	562	2,019	1,708	18.2
Loan loss provisions	339	422	(19.6)	446	1,587	1,313	20.9
Profit before tax	2,578	1,473	75.0	2,350	8,798	5,331	65.0
Tax	860	494	74.2	811	3,025	1,827	65.5
<i>Tax Rate (%)</i>	<i>33.4</i>	<i>33.5</i>		<i>34.5</i>	<i>34.4</i>	<i>34.3</i>	
Net Profit after tax	1,718	980	75.3	1,539	5,773	3,503	64.8
Asset Quality							
Gross NPA's	2,659	2,550	4.3	3,060	2,659	2,550	4.3
<i>% Gross NPA's</i>	<i>1.01</i>	<i>1.23</i>		<i>1.21</i>	<i>1.01</i>	<i>1.23</i>	
Net NPA's	728	1,010	(27.9)	910	728	1,010	(27.9)
<i>% Net NPA's</i>	<i>0.28</i>	<i>0.50</i>		<i>0.36</i>	<i>0.28</i>	<i>0.50</i>	
Provision Coverage	72.61	60.39		70.26	72.61	60.39	
Capital Adequacy (%)							
<i>CAR</i>	<i>15.9</i>	<i>15.3</i>		<i>15.6</i>	<i>15.9</i>	<i>15.3</i>	
<i>Tier 1</i>	<i>12.3</i>	<i>9.7</i>		<i>11.7</i>	<i>12.3</i>	<i>9.7</i>	
Yield Measurement ratios (%)							
<i>NIM – reported</i>	<i>3.50</i>	<i>3.19</i>		<i>3.61</i>	<i>3.47</i>	<i>2.88</i>	
<i>NIM – calculated</i>	<i>3.56</i>	<i>3.18</i>		<i>3.53</i>	<i>3.53</i>	<i>2.82</i>	
Balance Sheet Items							
Deposits	343,654	267,100	28.7	306,630	343,654	267,100	28.7
CASA	93,310	63,220	47.6	82,140	93,310	63,220	47.6
<i>CASA (%)</i>	<i>27.2</i>	<i>23.7</i>		<i>26.8</i>	<i>27.2</i>	<i>23.7</i>	
Advances	261,657	205,510	27.3	250,010	261,657	205,510	27.3
Total Assets	456,358	353,695	29.0	415,000	456,358	353,695	29.0

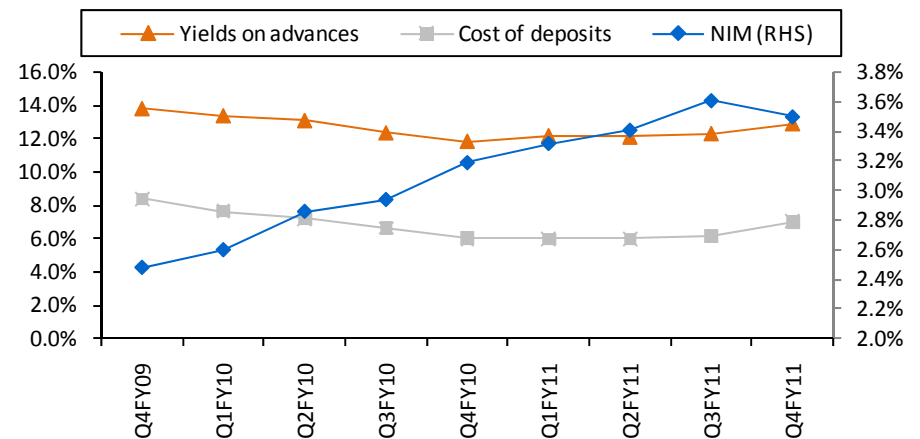
Source: Company Data, PL Research

In Q4FY11, advances grew by 27.3% YoY and 4.7% QoQ. The YoY rate of growth slowed down marginally as compared to the average rate of growth for past five quarters stood at 30%+ levels. Meanwhile, deposits grew much faster than industry at 28.7% YoY and 12.1% QoQ.

Exhibit 2: Trend in advances and deposit growth


Source: Company Data, PL Research

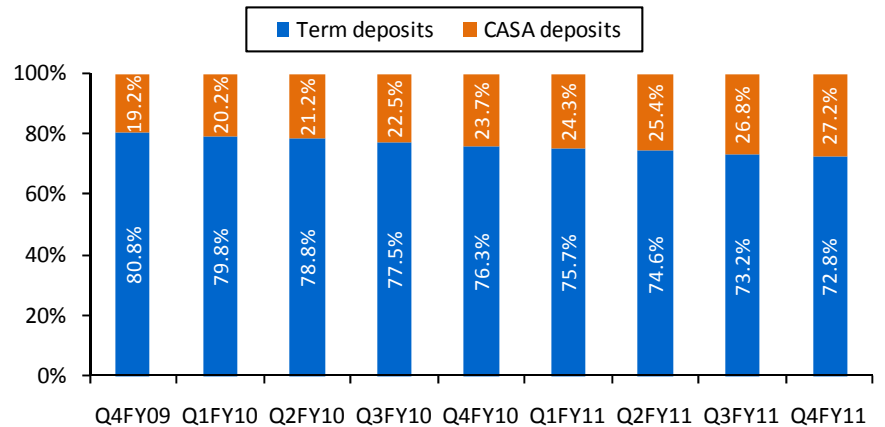
Net interest margins for the quarter declined by 11bps QoQ to 3.50%. Despite a 59bps QoQ increase in yield on advances, a steep 86bps QoQ increase in the cost of deposits adversely affected the margins.

Exhibit 3: Trend in yields, costs and margins


Source: Company Data, PL Research

As evident in the chart alongside, there has been a consistent increase in the share of CASA deposits on a QoQ basis. In Q4FY11, the CASA deposits grew at a much faster pace by 47.6% YoY and 13.6% QoQ.

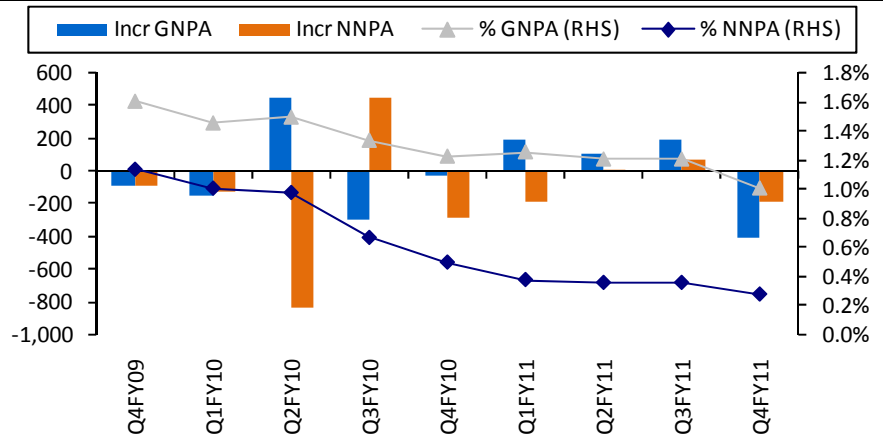
As a result the CASA ratio of the bank improved to 27.2% v/s 26.8% in Q3FY11 and 23.7% during the year ago period.

Exhibit 4: Trend in CASA and term deposits


Source: Company Data, PL Research

IIB's asset quality improved on a QoQ basis as the gross NPAs declined by 13.1% QoQ on the back of lower slippages from the corporate segment. Provision coverage improved on a sequential basis to 72.6% v/s 70.3% in previous quarter. As a result the net NPAs declined by 20.0% QoQ.

Exhibit 5: Trend in asset quality

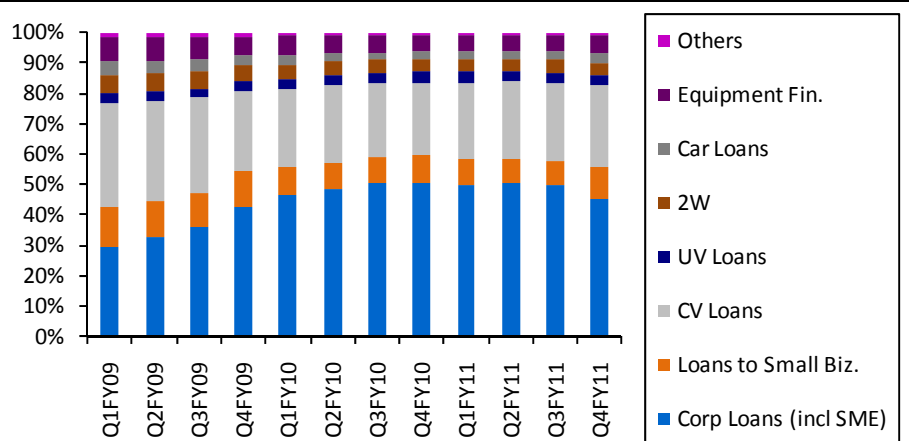


Source: Company Data, PL Research

In line with management's strategy to increase the proportion of high yielding consumer loans, the proportion of corporate loans in Q4FY11 declined marginally 55.6% v/s 57.7% in Q3FY11.

Strong increase witnessed in CV loans which grew by 42.1% YoY and 10.0% QoQ. Besides, two wheeler, three wheeler and equipment loans too grew at a rapid pace during the quarter.

Exhibit 6: Trend in loan mix



Source: Company Data, PL Research


Income Statement (Rs m)

Y/e March	2010	2011E	2012E	2013E
Int. Earned from Adv.	21,130	28,346	37,497	46,117
Int. Earned from Inv.	5,592	7,333	8,814	11,171
Others	349	215	123	160
Total Interest Income	27,070	35,894	46,433	57,448
Interest expense	18,206	22,129	29,426	34,508
NII	8,864	13,765	17,008	22,940
<i>Growth (%)</i>	<i>93.1</i>	<i>55.3</i>	<i>23.6</i>	<i>34.9</i>
Treasury Income	1,110	1,000	1,250	1,500
NTNII	4,424	6,137	8,265	10,675
Non Interest Income	5,535	7,137	9,515	12,175
Total Income	32,605	43,030	55,948	69,622
<i>Growth (%)</i>	<i>17.9</i>	<i>32.0</i>	<i>30.0</i>	<i>24.4</i>
Operating Expense	7,360	10,085	12,418	16,242
Operating Profit	7,039	10,817	14,104	18,873
<i>Growth (%)</i>	<i>91.1</i>	<i>53.7</i>	<i>30.4</i>	<i>33.8</i>
NPA Provisions	1,313	1,906	2,733	3,944
Total Provisions	1,711	2,019	3,116	4,481
PBT	5,328	8,798	10,988	14,391
Tax Provisions	1,823	3,025	3,626	4,749
<i>Effective Tax Rate (%)</i>	<i>34.2</i>	<i>34.4</i>	<i>33.0</i>	<i>33.0</i>
PAT	3,504	5,773	7,362	9,642
<i>Growth (%)</i>	<i>135.7</i>	<i>64.8</i>	<i>27.5</i>	<i>31.0</i>

Balance Sheet (Rs m)

Y/e March	2010	2011E	2012E	2013E
Par Value	10	10	10	10
No. of equity shares	411	455	455	455
Equity	4,107	4,551	4,551	4,551
Networth	23,940	38,489	44,361	52,247
Adj. Networth	22,922	37,505	42,854	50,096
Deposits	267,102	343,654	416,679	533,349
<i>Growth (%)</i>	<i>20.8</i>	<i>28.7</i>	<i>21.2</i>	<i>28.0</i>
Low Cost deposits	63,217	93,310	118,411	172,901
<i>% of total deposits</i>	<i>23.7</i>	<i>27.2</i>	<i>28.4</i>	<i>32.4</i>
Total Liabilities	351,463	427,785	543,571	683,900
Net Advances	205,506	261,657	331,394	416,694
<i>Growth (%)</i>	<i>30.3</i>	<i>27.3</i>	<i>26.7</i>	<i>25.7</i>
Investments	104,018	135,508	154,171	197,339
Total Assets	353,695	427,785	543,571	683,900

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Interest Income	7,715	8,541	9,149	10,488
Interest Expense	4,759	5,244	5,519	6,608
Net Interest Income	2,957	3,297	3,630	3,881
Non Interest Income	1,610	1,751	1,960	1,816
CEB	1,296	1,630	1,719	1,649
Treasury	286	130	240	192
Net Total Income	4,566	5,049	5,590	5,697
Operating Expenses	2,260	2,430	2,678	2,717
Employee Expenses	890	954	980	1,002
Other Expenses	1,370	1,476	1,698	1,715
Operating Profit	2,306	2,619	2,912	2,980
Core Operating Profit	2,020	2,489	2,672	2,788
Provisions	487	567	562	403
Profit before tax	1,819	2,051	2,350	2,578
Tax	633	720	811	860
PAT before EO	1,186	1,332	1,539	1,718
Extraordinary item	—	—	—	—
PAT	1,186	1,332	1,539	1,718

Key Ratios

Y/e March	2010	2011E	2012E	2013E
CMP (Rs)	274	274	274	274
Equity Shrs. Os. (m)	411	455	455	455
Market Cap (Rs m)	127,880	127,880	127,880	127,880
<i>M/Cap to AUM (%)</i>	<i>32.5</i>	<i>29.8</i>	<i>23.4</i>	<i>18.6</i>
EPS (Rs)	8.5	12.7	16.2	21.2
Book Value (Rs)	53	79	92	110
Adj. BV (75%) (Rs)	52	79	92	109
P/E (x)	32.1	21.6	16.9	12.9
P/BV (x)	5.2	3.4	3.0	2.5
P/ABV (x)	5.3	3.5	3.0	2.5
DPS (Rs)	1.8	2.3	2.8	3.3
<i>Dividend Yield (%)</i>	<i>0.7</i>	<i>0.8</i>	<i>1.0</i>	<i>1.2</i>

Profitability (%)

Y/e March	2010	2011E	2012E	2013E
NIM	2.8	3.5	3.5	3.7
RoAA	1.1	1.5	1.5	1.6
RoAE	17.3	18.5	17.8	20.0

Efficiency

Y/e March	2010	2011E	2012E	2013E
<i>Cost-Income Ratio (%)</i>	<i>51.1</i>	<i>48.2</i>	<i>46.8</i>	<i>46.3</i>
<i>C-D Ratio (%)</i>	<i>76.9</i>	<i>81.2</i>	<i>79.5</i>	<i>78.1</i>
Business per Emp. (Rs m)	88	80	83	89
Profit per Emp. (Rs m)	7	8	8	9
Business per Branch (Rs m)	2,251	1,873	1,825	1,863
Profit per Branch (Rs m)	17	19	18	19

Asset Quality

Y/e March	2010	2011E	2012E	2013E
Gross NPAs (Rs m)	2,555	2,659	5,024	7,169
Net NPAs (Rs m)	1,018	728	1,507	2,151
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>1.2</i>	<i>1.0</i>	<i>1.5</i>	<i>1.7</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>0.5</i>	<i>0.3</i>	<i>0.5</i>	<i>0.5</i>
<i>NPA Coverage (%)</i>	<i>60.1</i>	<i>72.6</i>	<i>70.0</i>	<i>70.0</i>

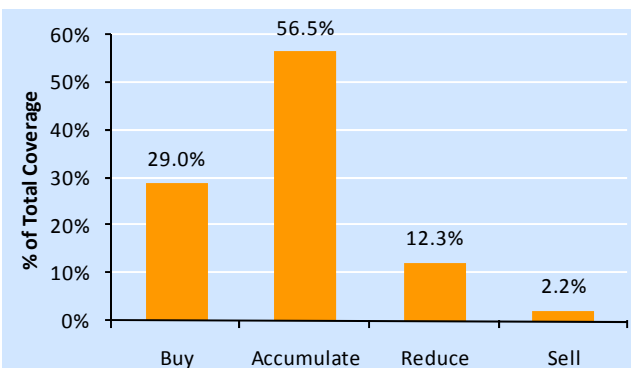
Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.