



DOHA BROKERAGE

IndusInd Bank

Rating BUY
Target Rs 306

Key Highlights

- Q2 FY12 reported a net profit of Rs193.09crore compared to Rs133.15crore in Q2 FY11, an increase of 45.02 percentages. Interest Income grew 55%. Net Interest Margin was at 3.35% against 3.41% in the previous quarter.
- Indusind bank is expected to post 25% to 30% growth in credit this fiscal. In this current rising interest rate scenario IndusInd bank posted a 29% increase in the size of its loan book to Rs30136 crore in the last quarter. IndusInd bank has credit exposure in all most all industrial segments amounting to about Rs16000crore, of which nearly 95% are working capital funding and rest is term loans. The company is not into infrastructure or project financing as yet and the strategy of management is to continue to focus only on working capital till FY12. The company may scale down some of its exposure to corporate funding side. The Corporate funding business constituted around 60% of total advances in FY08 and which is now around 53% and the internal target is to bring it to around 50% by FY14.
- The RBI hiked repo and reverse repo rates by a cumulative of 175 basis points to 8.50% and 7.50% respectively between April-December 2011. this scenario will create some pressure on NIM but RBI has given a sign of reversing this trend in its last Credit policy review meet on 16th December 2011 and it is expected to maintain NIM around 3.48% in the current financial year.
- Recently RBI deregulated savings account interest rates, IndusInd bank is one of the first bank which increased Savings interest rate from 4% to 6% for attracting more CASA. Management expects its total deposit requirement to be around Rs.75000 crore by FY14 of which 1/3rd would be from CASA which is around 34% as compared to current 28%.

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Stock Data

| | |
|--------------------------|--------------|
| Price | 234 |
| Price objective | 306 |
| Data Established | 21-12-11 |
| Volatility and Risk | Medium |
| 52- Week High | 292 |
| 52-week Low | 181 |
| Shares out standing (mn) | 466.73 |
| Market Cap (mn) | Rs117,546.50 |
| Average Daily Volume | 757,510 |
| Bloomberg Code | IIB:IN |
| Reuters Code | INBK.NS |
| Beta | 1.16 |
| NIFTY | 4605 |
| Exchange rate | 53 |
| Fiscal Year End | March |

Estimates

| Rs (mn) | 2009A | 2010A | 2011A | 2012E | 2013E |
|---|--------|---------|--------|--------|--------|
| Net Interest income | 23095 | 27070 | 35894 | 48125 | 62934 |
| Net Income | 1483 | 3503 | 5773 | 6623 | 8074 |
| EPS | 4.28 | 9.01 | 13.16 | 14.57 | 17.52 |
| EPS Change | 82.13% | 110.51% | 46.06% | 10.73% | 20.22% |
| Net Interest Margin | 1.81% | 2.88% | 3.47% | 3.48% | 3.60% |
| Non-Interest Income to- Net Revenues | 16.50% | 16.98% | 16.59% | 16.37% | 17.01% |
| PE | 19.16 | 18.56 | 17.48 | 21.00 | 17.47 |
| CASA | 19.24% | 23.67% | 27.15% | 29.48% | 31.44% |

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Key Income Statement Data (Mar)

| Rs(mn) | 2009A | 2010A | 2011A | 2012E | 2013E |
|------------------------------------|-------|-------|-------|-------|-------|
| Interest Earned | 23095 | 27070 | 35894 | 48125 | 62934 |
| Commission, exchange and brokerage | 1391 | 1936 | 2570 | 3492 | 4691 |
| Profit on Sales of investment | 1216 | 1110 | 404 | 233 | 107 |
| Profit/(Loss) on sale of assets | -306 | -340 | -29 | -9 | -1 |
| Other Income | 2262 | 2829 | 4192 | 5706 | 8103 |
| Interest expended | 18504 | 18206 | 22129 | 29542 | 37740 |
| Payments to employees | 1871 | 2906 | 3826 | 5472 | 7509 |
| Depreciation on Bank's Property | 442 | 453 | 605 | 709 | 887 |
| Other Expenses | 3157 | 4002 | 5653 | 7564 | 10399 |
| Other provisions and contingencies | 2199 | 3536 | 5043 | 7285 | 10893 |
| Net Profit | 1483 | 3503 | 5773 | 6976 | 8406 |

Key Balance Sheet Data

| Rs(mn) | 2009A | 2010A | 2011A | 2012E | 2013E |
|---|--------|--------|--------|--------|--------|
| Assets | | | | | |
| Cash and Balances with RBI | 11908 | 20992 | 24560 | 30946 | 37574 |
| Balances with Banks, Money at Call and Short Notice | 7329 | 5040 | 15686 | 22147 | 32321 |
| Investments | 80834 | 104018 | 135508 | 172423 | 217949 |
| Advances | 157706 | 205506 | 261656 | 340153 | 449003 |
| Fixed Assets | 6232 | 6448 | 5965 | 5835 | 5777 |
| Other assets | 12138 | 11691 | 12983 | 13429 | 14393 |
| Total | 276147 | 353695 | 456358 | 584934 | 757015 |

Capital & Liabilities

| | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|
| Capital | 3563 | 4128 | 4739 | 4787 | 4798 |
| Reserves and surplus | 13081 | 19844 | 35763 | 50415 | 69573 |
| Deposits | 221103 | 267102 | 343654 | 429134 | 550966 |
| Borrowings | 28170 | 49343 | 55254 | 78616 | 103394 |
| Other liabilities and provisions | 10231 | 13278 | 16948 | 21982 | 28283 |
| Total | 276147 | 353695 | 456358 | 584934 | 757015 |

Key Metrics

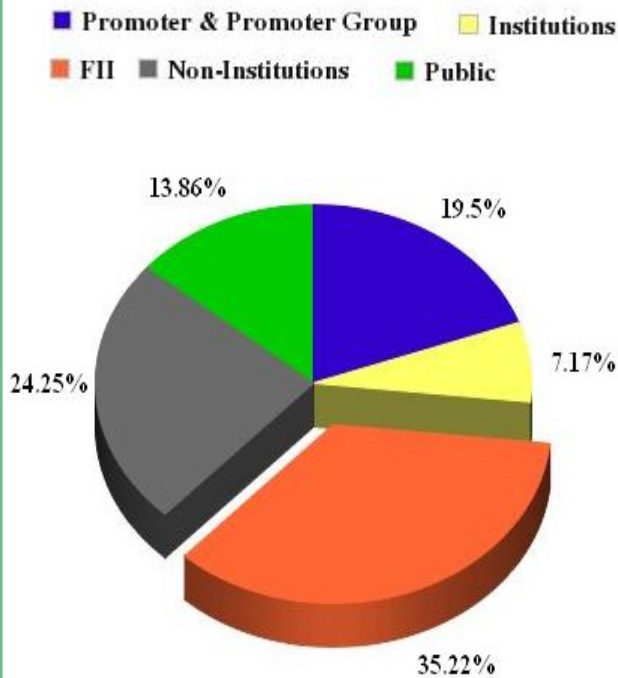
| Rs(mn) | 2009A | 2010A | 2011A | 2012E | 2013E |
|---------------------------------|---------|---------|---------|---------|---------|
| Total Assets | 276147 | 353695 | 456358 | 584934 | 757015 |
| Average Interest Earning Assets | 245869 | 314564 | 412850 | 534723 | 699272 |
| NPA to Net Advances | 1.14% | 0.50% | 0.28% | 0.31% | 0.29% |
| Total Gross Customer Loans | 157629 | 205485 | 261639 | 340137 | 448987 |
| Total Customer Deposits | 196,918 | 243,760 | 327,874 | 417,184 | 542,262 |
| Tier 1 Capital | 1426.23 | 2139.99 | 3774.06 | 5220 | 7102 |
| Share Holders Equity | 16644 | 23972 | 40502 | 55202 | 74371 |
| Tier-1 CAR | 7.65% | 9.65% | 12.29% | 13.04% | 13.77% |
| CAR | 12.55% | 15.33% | 15.89% | 16.09% | 16.17% |

Company Description

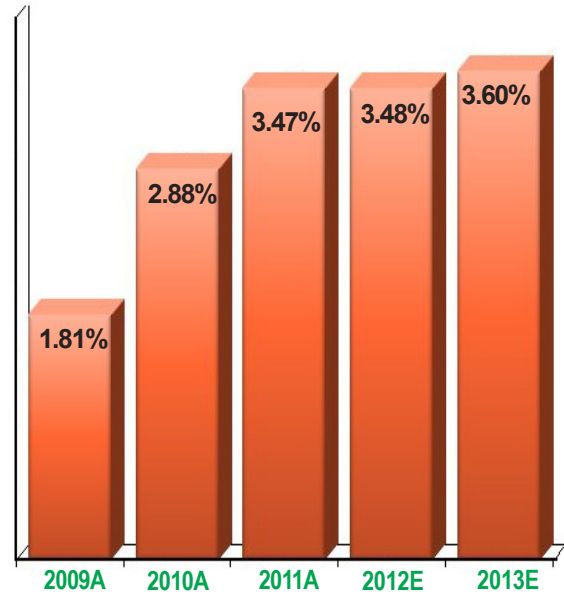
IndusInd Bank commenced its operations in 1994 and it caters both consumer and corporate customers. During the first half of FY12, the bank opened 12 new branches and 122 ATMs. Now Indusind Bank has a total of 350 branches and 666 ATMs spread across 212 geographical locations. Indusind bank working as clearing bank status for both major stock exchanges - BSE and NSE - and three major commodity exchanges in the country - MCX, NCDEX, and NMCE. It also offers DP facilities for stock and commodity segments. CRISIL has reaffirmed its P1+ rating of IndusInd Bank's fixed deposits and certificates of deposit program. Credit rating agency ICRA Ltd. has upgraded Lower Tier II Bonds rating of the Bank to LAA- (pronounced L double A minus) rating with stable outlook from LA+ (pronounced LA plus) rating with stable outlook. ICRA has also upgraded the Upper Tier II Bonds rating of IBL to LA+ rating with stable outlook from LA (pronounced LA) rating with stable outlook.

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Shareholding pattern(%)



Net Interest Margin(%)



Q2 Analysis

| Rs(Cr) | 2010Q2 | 2011Q1 | 2011Q2 | Q on Q | Y on Y |
|--|---------------|----------------|----------------|---------------|---------------|
| Interest Earned | 854.08 | 1164.58 | 1323.86 | 13.68% | 55.00% |
| Interest/discount on advances/bills | 677.06 | 900.69 | 1037.1 | 15.15% | 53.18% |
| Income on investments | 175.19 | 247.38 | 267.22 | 8.02% | 52.53% |
| Interest on balances RBI& other Banks | 1.78 | 4.24 | 4.45 | 4.95% | 150.0% |
| Others | 0.05 | 12.27 | 15.09 | 22.98% | 30080% |
| Other Income | 175.12 | 215.4 | 239.21 | 11.05% | 36.60% |
| Total Income | 1029.2 | 1379.98 | 1563.07 | 13.27% | 51.87% |
| Interest Expended | 524.35 | 774.57 | 904.67 | 16.80% | 72.53% |
| Operating Expenses | 243 | 293.69 | 325.42 | 10.80% | 33.92% |
| Payments to and provisions for employees | 95.44 | 110.71 | 115.22 | 4.07% | 20.73% |
| Other operating expenses | 147.56 | 182.98 | 210.2 | 14.88% | 42.45% |
| Total Expenditure | 767.35 | 1068.26 | 1230.09 | 15.15% | 60.30% |
| Operating Profit | 261.85 | 311.72 | 332.98 | 6.82% | 27.16% |
| Provisions and Contingencies | 56.71 | 44.59 | 46.97 | 5.34% | -17.18% |
| Profit before tax | 205.14 | 267.13 | 286.01 | 7.07% | 39.42% |
| Tax Expense | 71.99 | 86.95 | 92.92 | 6.87% | 29.07% |
| Net profit | 133.15 | 180.18 | 193.09 | 7.17% | 45.02% |

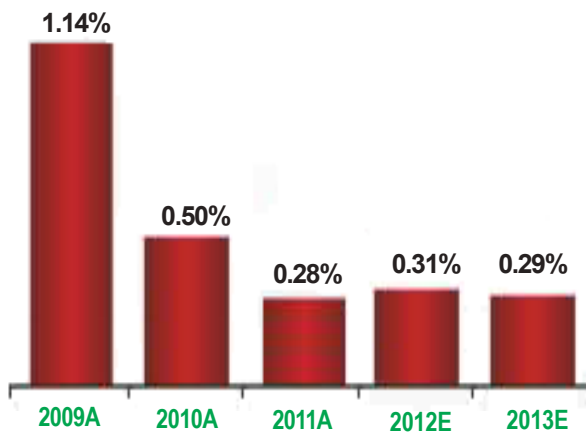
Operating Profit for the half year period ended September 30, 2011 was increased 30.91% to Rs.644.70 crore as against Rs.492.46 crore in the corresponding period of the previous year. And the CASA ratio improved to 27.70% against 25.44%

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Movement of NPL forecast

| Rs (Cr) | 2009A | 2010A | 2011A | 2012E | 2013E |
|---|--------|--------|--------|--------|--------|
| (i) Net NPA to Net Advances | 1.14% | 0.50% | 0.28% | 0.31% | 0.29% |
| (ii) Movement of NPAs (Gross) | | | | | |
| (a) Opening balance | 392.31 | 255.02 | 255.47 | 265.86 | 328.38 |
| (b) Additions | 219.00 | 221.60 | 190.38 | 204.16 | 199.44 |
| Sub total (A) | 611.31 | 476.62 | 445.85 | 470.02 | 527.82 |
| (i) Upgradations | 66.31 | 81.65 | 30.71 | 17.83 | 8.33 |
| (ii) Recoveries | 144.90 | 69.99 | 38.55 | 27.07 | 22.68 |
| (iii) Write-offs | 145.08 | 69.51 | 110.73 | 96.74 | 93.31 |
| Sub-total (B) | 356.29 | 221.15 | 179.99 | 141.63 | 124.32 |
| Gross NPAs (A-B) | 255.02 | 255.47 | 265.86 | 328.38 | 403.50 |
| (iii) Movement of Net NPAs | | | | | |
| (a) Opening Balance | 291.02 | 179.13 | 101.83 | 72.82 | 105.34 |
| (b) Additions during the year | 81.04 | 48.66 | 17.97 | 47.08 | 37.67 |
| (c) Reductions during the year | 192.93 | 125.96 | 46.98 | 14.56 | 11.65 |
| (d) Closing balance | 179.13 | 101.83 | 72.82 | 105.34 | 131.35 |
| (iv) Movement of provisions for NPAs | | | | | |
| (a) Opening balance | 101.29 | 75.89 | 153.64 | 193.04 | 223.05 |
| (b) Additions during the year | 137.96 | 172.94 | 172.41 | 176.32 | 188.61 |
| (c) Write off/write back of excess provisions | 163.36 | 95.19 | 133.01 | 146.31 | 139.51 |
| (d) Closing balance | 75.89 | 153.64 | 193.04 | 223.05 | 272.15 |

NPA (%)



During the July-September quarter, IndusInd bank has managed to maintain its asset quality. Its net non-performing asset (NPA) ratio stood at 0.31%, little changed from the previous quarter. Its gross NPA ratio also remained almost unchanged at 1.09%. It is expected to maintain its asset quality at current level in this fiscal.

Investment Thesis

For boosting low cost savings deposit, bank increased its rate to 6% from 4%. IndusInd bank reduced its credit exposure to 53% from 60% in 2008 and plans to reduce unto 50% by FY14. Now the corporate loan book stands at Rs.16000 crore but it is of less risk, because 95% is working capital funding. Currently the banking industry is facing asset quality issues due to rise in interest rates. However IndusInd bank which is having good loan book quality with less Net Non Performing Assets (0.31 percent) and expecting the current interest scenario to reverse in the coming period, we initiate a "BUY" rating with a target of Rs.306 which gives an appreciation of 30 percent from the current level.

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