Change in ☑ Estimates ☐ Rating ☐ Target

Q2 FY15

Indusind Bank

IIFL India Private Clients

- Sustained weakness in consumer financing moderates overall loan growth to 22% yoy
- CASA improves to 34%; NIM was flat at 3.63%
- Fee growth sustained at buoyant level; C/I ratio deteriorates on accelerated branch investments
- Asset quality was strong; stress in consumer segment was stable while it eased on corporate side
- Retain BUY and 24-month target price of Rs811

Result table

(Rs mn)	Q2 FY15	Q1 FY15	% qoq	Q2 FY14	% yoy
Total Interest Income	23,788	22,973	3.5	20,186	17.8
Interest expended	(15,457)	(14,967)	3.3	(13,186)	17.2
Net Interest Income	**8,331**	**8,007**	**4.1**	**6,999**	**19.0**
Other income	5,583	5,764	(3.1)	4,167	34.0
Total Income	**13,914**	**13,770**	**1.0**	**11,167**	**24.6**
Operating expenses	(6,667)	(6,278)	6.2	(5,287)	26.1
Provisions	(732)	(1,104)	(33.7)	(889)	(17.6)
PBT	6,515	6,388	2.0	4,991	30.5
Tax	(2,213)	(2,177)	1.6	(1,688)	31.1
Reported PAT	**4,302**	**4,211**	**2.2**	**3,303**	**30.3**
EPS	**32.6**	**32.0**	**1.7**	**25.2**	**29.3**

Business Mix (Rs mn)	Q2 FY15	Q1 FY15	% qoq	Q2 FY14	% yoy
Advances	599,310	586,640	2.2	489,680	22.4
Consumer Finance	*259,640*	*252,255*	*2.9*	*241,660*	*7.4*
% share	*43.3*	*43.0*	-	*49.4*	-
Corp & Comm Banking	*339,670*	*334,385*	*1.6*	*248,020*	*37.0*
% share	*56.7*	*57.0*	-	*50.6*	-
Deposits	659,960	638,930	3.3	530,580	24.4
Current	*109,710*	*107,280*	*2.3*	*82,640*	*32.8*
Savings	*113,920*	*105,770*	*7.7*	*85,860*	*32.7*
Term Deposits	*436,330*	*425,880*	*2.5*	*362,080*	*20.5*

Ratios	Q2 FY15	Q1 FY15	chg qoq	Q2 FY14	chg yoy
NIM (%)	**3.6**	**3.7**	**(0.0)**	**3.7**	**(0.0)**
Yield on Advances (%)	13.3	13.5	(0.2)	13.5	(0.2)
Cost of Deposits (%)	8.0	8.2	(0.2)	8.2	(0.2)
CASA (%)	**33.9**	**33.3**	**0.5**	**31.8**	**2.1**
C/D (x)	**0.91**	**0.92**	**(0.01)**	**0.92**	**(0.01)**
Non-interest income (%)	**40.1**	**41.9**	**(1.7)**	**37.3**	**2.8**
Cost to Income (%)	**47.9**	**45.6**	**2.3**	**47.3**	**0.6**
BV (Rs)	180.6	172.6	8.0	154.6	26.0
RoE (%)	**18.2**	**19.0**	**(0.8)**	**16.7**	**1.6**
RoA (%)	1.9	1.9	(0.0)	1.7	0.1
CAR (%)	**13.0**	**13.1**	**(0.1)**	**14.6**	**(1.6)**
Gross NPA (%)	**1.1**	**1.1**	**(0.0)**	**1.1**	**(0.0)**
Net NPA (%)	0.3	0.3	-	0.2	0.1

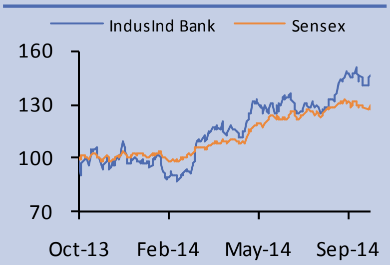
Source: Company, India Infoline Research

Rating:	BUY
Target (24-month):	Rs811
CMP:	Rs635
Upside:	27.7%

Sector:	**Financials**
Sector view:	**Positive**
Sensex:	26384
52 Week h/l (Rs):	648/369
Market cap (Rs cr) :	33,547
6m Avg vol ('000Nos):	1,181
Bloomberg code:	IIB IB
BSE code:	532187
NSE code:	INDUSINDBK
FV (Rs):	10

Price as on Oct 13, 2014

Share price trend



Share holding pattern

(%)	Mar-14	Jun-14	Sep-14
Promoter	15.2	15.2	15.1
Insti	50.8	52.1	51.8
Others	34.0	32.7	33.1

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Result Update

Sustained weakness in consumer financing moderates overall loan growth to 22% yoy

IndusInd Bank's loan growth moderated in-line with our expectation to 22% yoy driven by sustained slowdown in Consumer Financing (CF) segment which grew by muted 7% yoy. While the pace of sequential accretion in the Corporate and Commercial Banking (CCB) segment came-off materially to 1.6% qoq (v/s 8.8 CQGR in the preceding five quarters), the annual growth still remained robust at 37% yoy. As compared to the previous quarter, the segmental mix was stable but as compared to Q2 FY14, the mix has moved 700bps towards the CCB segment.

Within CF segment, the growth decline continues to be led by vehicle financing portfolio (just 1% growth yoy - segmental contribution at 74%) and within that more prominently by CV (-6% yoy), 3W (-13% yoy) and UV (0% yoy) financing. On the positive side, 2w loans and car loans continue to display resilient growth of 26% yoy and 23% yoy respectively aided by revival witnessed in the underlying industry volumes. Growth in construction equipment portfolio (segmental contribution at 10%) also continued to fall (-2% yoy v/s 1.4% yoy in Q1 FY15) thereby contributing to moderation of the segmental growth. CF book sans vehicle loans and CE portfolio grew at robust pace of 70% yoy (albeit, on a low base) driven by products such as credit cards (36% yoy), LAP (70%+ yoy), personal loans, etc. Within CCB segment, growth was strong across sub-segments of large corporate (34% yoy), mid corporate (34% yoy) and small corporate (51% yoy).

From H2 FY15, we expect growth in vehicle financing portfolio to pick-up on the back of improving disbursement trends in CV/UV & 3W financing (bank has already seen revival signs in recent months). Through FY16 and FY17, bank's loan mix is expected to move incrementally towards the CF segment. Firing on both cylinders, IndusInd's loan growth is expected to strengthen to 27-28% by FY17.

Deposit franchise continues to improve; CASA at 34%

Deposit growth accelerated further to 24% yoy (v/s 15% yoy in the previous quarter) and surpassed loan growth after many quarters. With availability of deposits at benign rates (particularly wholesale deposits) on the back of abundant system liquidity, the bank preferred to raise deposits over borrowings (declined 6% qoq). More importantly, the mix improved with CASA ratio reaching 34% aided by robust 8% qoq accretion in savings deposits; SA contribution at 17.3% was higher than CA share of 16.6%. Robust pace of branch addition has been the key driver of bank's impressive SA growth performance. Effective September, IndusInd Bank has lowered savings rate for deposits below Rs1lac to 4.5% which is unlikely to impact the SA momentum as per the management. We expect CASA ratio to continue to improve over the longer term driven by sustained investment in network expansion.

NIM was flat at 3.63%; longer term outlook is robust

IndusInd Bank's NIM was largely unchanged at 3.63% in Q2 FY15. Blended lending yield for the quarter was 17bps lower as compared to the previous quarter on account of 22bps yield decline in CCB segment and shift in loan mix away from better yielding CF segment. The decline in average lending yield within CCB segment is attributable to higher share of large corporate (better rated) loans and foreign currency loans in segmental growth during the quarter. Other factor could be a benign pricing environment driven by softening of bulk funding rates and muted credit demand. As Indusind Bank has pre-dominantly short-cycle working capital book, rate dynamics of wholesale market are transmitted immediately. The average lending yield in the CF segment was stable at 15.8%; the product mix changes have been non-disturbing so far. Aided by improvement in CASA franchise, the average cost of deposits declined by 20bps qoq.

With outlook for wholesale rates benign, CASA improvement to continue, tailwind from impending portfolio rebalancing (shift towards CF segment) and structural resistance in lending yield (due to fixed-rate nature of CF book), the medium-to-longer term margin outlook for IndusInd Bank is robust. We estimate the bank to deliver NIM in an elevated range of 3.6-3.8% over FY15-17.

Fee growth sustained at buoyant level; C/I ratio deteriorates on accelerated branch investments

Fee income growth remained robust at 31% yoy; much ahead of growth in balance sheet. Key fee streams that grew at strong pace were Forex (36% yoy), Investment Banking (41% yoy) and Loan Processing (31% yoy). Impressive growth in loan processing fees was driven by substantial expansion in corporate book, significant fees on loan renewals and reasonable disbursements in retail segment. Opex growth increased from 23.5% yoy in Q1 FY15 to 26% yoy as the bank accelerated investments in network expansion (added 47 branches as compared to average 26 over the past nine quarters). Impacted by higher opex growth and muted treasury income, the cost/income ratio deteriorated sequentially from 45.6% to 47.9%. With aggressive investments in network expansion to continue, the cost/income ratio is estimated to be in an elevated range of 46-47% in the medium term.

Asset quality was strong; stress in consumer segment was stable while it eased in corporate book

For the bank as a whole, slippages were much lower than expected at annualized 0.8% of advances (our expectation was 1.2-1.3%). Sequentially, delinquencies (Rs1.1bn v/s 1.04bn) in the CF segment were stable and the annualized ratio stood at four-quarter low of 1.7%. Amongst products, slippages were largely contributed by CV financing and CE financing where GNPL levels rose marginally on sequential basis. In the remaining products, delinquencies were likely benign. In CCB segment, slippages declined substantially (Rs30mn v/s Rs590mn) as compared to the previous quarter but restructuring was higher (for second successive quarter) comprising of 4-5 accounts. With a diversified book and low exposure to sensitive sectors, stress in CCB segment has been modest over the past many quarters. During the quarter, the bank sold NPLs worth Rs170mn to ARCs which mitigated the increase in Gross NPL block. With lower delinquencies overall, gross credit cost stood at annualized 40bps; the lowest in the past many quarters. PCR was sustained at 70%. Both Gross NPLs and Net NPLs were stable sequentially in absolute terms which was heartening.

Retain BUY and 24-month target price of Rs811

Aided by margin uptick, robust fee growth, operating leverage and moderation in credit cost, IndusInd Bank is poised to deliver average RoA of 2% and average RoE of 20% over FY15-17. We believe the bank would witness industry-best earnings growth of near 30% pa over the aforesaid period. Given superior growth-profitability matrix and waning concerns around its retail asset quality, current valuation of 2.3x FY17 P/Adj.BV is reasonably attractive. Retain BUY with a 24-month price target of Rs811.

Financial Summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	47,636	59,275	74,946	95,119
yoy growth (%)	32.5	24.4	26.4	26.9
Operating profit (pre-prov)	25,783	31,522	39,977	51,058
Net profit	13,904	17,965	23,184	30,103
yoy growth (%)	31.0	29.2	29.0	29.8
EPS (Rs)	26.4	34.2	44.1	57.2
Adj. BVPS (Rs)	168.4	196.4	233.2	280.4
P/E (x)	24.0	18.6	14.4	11.1
P/BV (x)	3.8	3.2	2.7	2.3
ROE (%)	16.7	18.3	20.1	21.8
ROA (%)	1.7	1.9	2.0	2.0
Dividend yield (%)	0.6	0.7	0.9	1.2
CAR (%)	13.8	13.0	12.6	12.1

Source: Company, India Infoline Research

IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

D&B Decide with Confidence 2012	2009 & 2012	D&B Decide with Confidence 2009	ASIAMONEY BROKERS POLL 2009	FinanceAsia COUNTRY AWARDS FOR ACHIEVEMENT 2008	ASIAMONEY BROKERS POLL 2008
BEST BROKING HOUSE WITH GLOBAL PRESENCE	BEST MARKET ANALYST	FASTEST GROWING LARGE BROKING HOUSE	BEST BROKERAGE, INDIA	BEST BROKER, INDIA	MOST IMPROVED, INDIA

Recommendation parameters for fundamental reports:

Buy - Absolute return of over +15%

Accumulate - Absolute return between 0% to +15%

Reduce - Absolute return between 0% to -10%

Sell - Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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