

Q1FY15-In-line with expectations

CMP: Rs.543
Target Price: Rs.571
Recommendation: HOLD

Stock Info

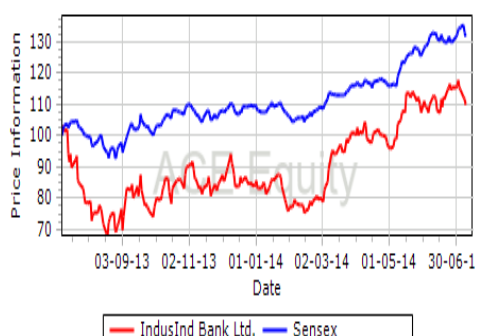
BSE Group	A
BSE Code	532187
NSE Symbol	INDUSINDBK
Bloomberg	IIB IN
Reuters	INBK.BO
BSE Sensex	25445
NSE Nifty	7585

Market Info

Market Capital	Rs 28591cr
Equity Capital	Rs526.3 cr
Avg. Trading Vol.	25,07,850
52 Wk High/ Low	587/318
Face Value	10

Shareholding Pattern (%) (30st Jun 2014)

Promoters	15.2
Domestic Institutions	7.5
Foreign Institutions	43.3
Public & Others	34.0
Govt. Holdings	NA



IndusInd Bank (IIB) posted healthy growth both on the top-line and bottom-line front. Net profit grew by 26% YoY and stood at Rs 421 crs this is slightly lower due to provisioning of Rs 20 crs provided for the un-hedged position of corporate clients in accordance to RBI guidelines. Loan book grew at healthy pace of 24% YoY. The ratio of corporate to retail loans stood at 57:42 compared with 51:49 a year ago. Although, with demand for vehicle financing increasing going forward, we expect retail loans to grow at a faster pace.

Healthy business growth: The loan book recorded a steady growth of 24% while deposits grew by 15%. Consumer finance growth of 9% was disappointing, however corporate loan book growth of 38% made up for it. On the deposits front, the CASA stood at 33.3% compared to 32.5% QoQ. In the current quarter bank added 36 branches, for FY15 it plans to add 150 branches.

Strong earnings growth: NII growth of 18% is lower than expected. This is due to the fact that Consumer finance which is high margin business grew at a slower pace of 9%, however with improved consumer sentiments this is expected to rise. The robust other income growth of 22% YoY backed by strong 38% growth in core fee income drove the operating profits of the bank. The fee income growth continues to outpace loan growth. Effectively, RoAs improved to 1.9% which is one of the best in industry; RoEs at 19% slightly lower on account of equity dilution, but having said that, going ahead RoE accretion stands imminent.

Margins surprised positively: The fixed-rate nature of loan book and appropriate loan pricing, rich loan mix coupled with CASA traction aided margin expansion for the quarter. Therefore, despite softening of yields, margins at 3.6% surprised positively.

Asset quality stable: Asset quality for the bank looks stable with GNPA's arrested at 1.11% levels and NNPA's at 0.33% for the quarter. Credit costs were sequentially higher at 15 bps. That said; provision sufficiency, diversified loan-mix and lower exposure to sensitive sectors will ensure stable asset quality for the bank.

Outlook: Strong loan traction, resilient asset book and superior liability franchise makes us positive on the bank and we reckon IIB as a value pick in the private sector space. We recommend to **HOLD** with a price target of Rs 571 based on 2.5x FY16E ABV of Rs 228.5.

Q1FY15 Earnings Summary

Particulars (Rs in Cr)	Reported Quarterly Results					Comments
	Q1FY15	Q1FY14	YoY	Q4FY14	QoQ	
Interest Earned	2,297	1,912	20%	2,179	5%	
Yield on Advances (%)	13	13		14		
Interest Expended	1,497	1,233	21%	1,398	7%	
Cost of Funds (%)	6.8	6.8		6.8		
Net Interest Income	801	679	18%	781	2%	NII growth at 18% YoY is lower than expectations
Other Income	576	471	22%	523	10%	38% robust growth in core fee income
Other income / Net Income (%)	42	41		40		
Total income	1377	1150	20%	1304	6%	
Employee Expenses	220	194	14%	208	6%	Added 36 branches
Non-Employee expenses	408	315	29%	377	8%	
Operating Expenses	628	508	23%	585	7%	
Cost-income Ratio (%)	46	44		45		
Pre-Prov Profits	749	642	17%	719	4%	
Provisions & Contingencies	110	132	-16%	121	-8%	
PBT	639	510	25%	599	7%	
Provisions for Tax	218	169	29%	202	8%	
Effective Tax Rate (%)	34	33		34		
PAT (reported)	421	341	24%	396	6%	
EPS Basic	8.0	6.4		7.5		
EPS Diluted	7.9	6.4		7.5		
BVPS	172.6	148.3		164.8		
GNPA	654.4	505.0		621.0		
NNPA	195.6	101.0		184.0		
GNPA (%)	1.11	1.06		1.12		GNPAs well under control
NNPA (%)	0.33	0.21		0.33		
Total CAR (%)	13.1	14.4		13.8		
Tier 1 (%)	12.1	13.0		12.7		
Tier 2 (%)	1.1	1.5		1.1		
NIM	3.7	3.7		3.8		
Advances	58,664	47,425	24%	55,102.0		
Deposits	63,893	55,660	15%	60,502.0		

Source: - Company, Arianth Research

Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	6,983	8,254	9,739	11,906
Interest Expenses	4,750	5,363	6,254	7,516
Net Interest Income	2,233	2,891	3,484	4,390
- growth %	31	29	21	26
Other Income	1,363	1,891	2,323	2,930
Fee-based Income	962	1,219	1,702	2,212
Treasury Income	70	52	62	75
Other non interest income	3	3	4	5
Operating Income	3,596	4,781	5,807	7,320
- growth %	32	33	21	26
Operating Expenses	1,756	2,185	2,602	3,175
- Staff Cost	661	809	977	1,180
- Other Operating Exp.	1,095	1,376	1,625	1,995
Gross Profits	1,839	2,596	3,205	4,145
- growth %	34	41	23	29
Provisions	263	468	485	539
Profit Before Taxes	1,576	2,128	2,720	3,605
Taxes	515	720	925	1,226
Profit After Taxes	1,061	1,408	1,795	2,379
- growth %	32	33	27	33

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	21.4	26.9	34.2	45.3
Book Value per share	149	165	194	233
Adjusted Book Value	147	161	190	228
Dividend per share	3.0	3.5	4.0	5.0
Asset Quality (%)				
Gross NPAs	1.0	1.1	1.1	1.0
Net NPAs	0.31	0.34	0.29	0.28
NPA Coverage	70.1	70.4	73.0	71.2
Profitability ratios (%)				
RoAE	17.8	17.6	19.1	21.2
RoAA	1.6	1.8	1.9	2.0
NIM	3.6	3.8	3.8	3.9
Operating Profit Margin	22.0	25.6	26.6	27.9
Net Profit Margin	12.7	13.9	14.9	16.0
Cost to Income	48.8	48.0	47.0	45.5

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	523	526	526	526
Reserves & Surplus	7,097	8,506	10,056	12,127
Deposits	54,117	60,502	71,393	89,241
Borrowings	9,460	14,762	19,191	23,988
Other liabilities & provisions	2,111	2,730	3,702	4,150
Total Liabilities	73,306	87,026	1,04,866	1,30,032
ASSETS				
Cash on hand & with RBI	3,250	4,414	4,763	5,924
Money at call and short notice	3,599	2,356	2,591	2,850
Advances	44,321	55,102	68,877	87,474
Investments	19,654	21,563	24,546	29,144
Fixed assets	756	1,016	1,220	1,464
Other assets	1,727	2,575	2,936	3,347
Total Assets	73,306	87,026	1,04,933	1,30,203

Spread analysis (%)	FY13	FY14	FY15E	FY16E
Yield on advances	14.1	13.3	12.9	12.7
Yield on investments	7.5	7.2	7.0	6.8
Cost of deposits	8.3	7.6	7.7	7.6
Cost of funds	8.3	7.7	7.5	7.4
Spread	3.0	3.1	3.1	3.3
Interest Income to AWF	11.0	10.7	10.5	10.5
Net Interest Income to AWF	3.5	3.7	3.8	3.9
Non Interest Income to AWF	2.2	2.4	2.5	2.6
Operating Expense to AWF	2.8	2.8	2.8	2.8
Operating Profit to AWF	2.9	3.4	3.5	3.7
Net Profit to AWF	1.7	1.8	1.9	2.1
Valuation ratios (x)				
P/E	25.4	20.2	15.9	12.0
P/BV	3.6	3.3	2.8	2.3
P/ABV	3.7	3.4	2.9	2.4

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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Source: - Company, Arihant Research