

IndusInd Bank

Banking and Financial Services

IndusInd Bank has delivered results marginally ahead of our estimates, though business growth was better than expected the stress in asset quality came in as a negative surprises during the quarter. However, we don't see much threat to the asset quality here onwards. Though credit cost will remain on a higher side the banks growth in fees income will more than compensate the same in the quarters to come.

Advances growth remained strong, strong growth came in from Commercial segments:

Advances grew by ~23.7% YoY, 7.1% QoQ. CFD which had been the growth driver so far saw slow down during the period growing by only 13.6% YoY, 2% QoQ, and its share in total loans stood at 47% vs 49.4% QoQ. The slow down in CFD was more than compensated by a strong 34.2% YoY, 12.2% QoQ growth in the commercial segment, the share of which in total loan went up to 53%. The management expects the growth in CFD to pick in the quarters to come.

Strong Traction in CASA: The management as earlier indicated focused aggressively on growing CASA, which grew by an impressive 23.5% YoY, 7.4% QoQ. SA growth has really been strong up 50% YoY. CASA ratio improved to 32.16% vs 31.76% QoQ. We expect the bank to achieve CASA % of 32.6% and 33% by FY14 and FY15 respectively.

Repricing of assets, with efficient mix of funds helped in maintaining NIM: Repricing of certain asset classes (backed by hike in base rate) helped in improving overall yield on advances as a result the NIM remained stable QoQ. However, further upward repricing seems difficult and growth in CASA will lead to stability in NIM going ahead.

Slippages remained higher, however still under control: Slippages remained high (1.5% annualized) with stress coming in from the commercial vehicle segment. Other segments within the CFD however remained stable with positive bias. The GNPA's in CV segment went up 20 bps QoQ to 1.28%. However, the management expects the NPAs level to remain in the range of 1.25%-1.30% in the segments going ahead. Overall GNPA's and NNPA's went up 7 bps and 9 bps QoQ. PCR declined to 74% vs 80% QoQ. We expect the bank to maintain a PCR of ~75% going ahead.

Despite higher provisions bottom-line growth remained strong: IIB took provisions of Rs 37 cr towards MTM loss of previous quarter & Rs27 cr on SWAP book, while it didn't adjust Rs 35 cr of net appreciation in AFS book and hence overall provisions is likely to remain lower in Q4. Despite higher provisions strong fees & forex income gave a fillip to bottom-line growing by 29.8% YoY, 5% QoQ. Traction on fee income will continue to be strong and we believe a marginal rise in credit cost will not materially impact the bottom-line growth going ahead.

Outlook & Valuations: IIB had so far managed to grow higher than the industry and we expect the trend to continue for the next couple of years. Though asset quality saw some stress during the quarter, we don't expect sharp deterioration going ahead, further a decent PCR of ~75% gives enough cushion. At the CMP of Rs 415 the stock is trading at 2.2x its FY15E Adj BV of Rs 185. We have valued the stock at 2.8x its FY15E Adj BV and arrived at a target price of Rs 520, implying a potential upside of 25% from current levels. We believe any correction should be taken as a buying opportunity on the stock.

Financial Performance

Particulars (Rs Cr)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Net Interest Income	1,376	1,704	2,233	2,886	3,534
Non Interest Income	714	1,012	1,363	1,838	2,146
Total Expenses	1,008	1,343	1,756	2,162	2,604
Net Profit	577	803	1,061	1,402	1,793
EPS	12.4	17.2	20.3	26.8	34.2
Adj Book Value	85.4	99.4	143.3	167.5	184.7
P/ABV			2.9	2.5	2.2

Source: Company, ULJK Research

Q3FY14 Result Update

Maintain BUY

INBK.BO, IIB IN

CMP: Rs 413

Price Target: Rs 520

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ULJK Financial Services Private Limited

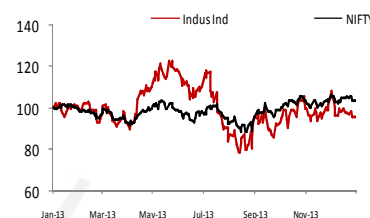
Market Data

Market Cap. (Rs Bn)	218
Outstanding Shares (Mn)	525
52 Week High/Low (Rs)	531 / 318
Avg. Volume (Mn)	1.0
Face Value	10.0

Shareholding %

Promoter	15.24
MF/ Banks/ Indian FIIs	7.27
FII/ NRIs/ OCB	41.13
India Public/ Others	36.39

Nifty and Stock Movement



Please refer to the important disclosures and analyst certifications at the end of the document

Result Analysis

Rs Cr

Particulars	Q3FY14	Q3FY13	Growth (YoY)	Q2FY14	Growth (QoQ)
Interest Income	2,143	1,800	19.1%	2,018	6.2%
Interest Expenses	1,413	1,222	15.6%	1,318	7.2%
Net Interest Income	730	578	26.4%	700	4.3%
Non-Interest Income	480	356	35.0%	417	15.2%
Total Income	2,624	2,156	21.7%	2,435	7.7%
Total Operating Expenses	563	461	22.0%	529	6.5%
Operating Profit	647	472	37.1%	588	10.1%
Provision and Contingencies	126	79	60.0%	89	42.0%
Profit Before Tax	521	394	32.5%	499	4.4%
Tax	174	126	38.1%	169	3.2%
Profit After Tax	347	267	29.8%	330	5.0%
EPS	6.6	5.1	29.2%	6.3	4.8%

Particulars (Reported)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
NIM	3.46%	3.70%	3.72%	3.65%	3.65%
RoA	1.60%	1.77%	1.80%	1.74%	1.74%
RoE	17.37%	16.70%	17.62%	16.66%	16.76%
Net NPA	0.33%	0.31%	0.21%	0.22%	0.31%
Cost Income ratio	49.4%	47.2%	44.2%	47.4%	46.5%

Source: Company, ULJK Research

Financial Statements

Rs Cr

Earning Statement	FY2011	FY2012	FY2013	FY2014E	FY2015E
Interest Income	3,589	5,359	6,983	8,350	9,962
Interest Expenses	2,213	3,655	4,750	5,464	6,428
Net Interest Income	1,376	1,704	2,233	2,886	3,534
Net Fees & Commission	629	913	1,239	1,603	1,665
Trading Income	87	92	107	212	385
Other operating Revenue	0	7	17	28	45
Total other Income	714	1,012	1,363	1,838	2,146
Net Income	2,090	2,716	3,596	4,724	5,681
Employee Expenses	383	485	661	816	980
Operating Exp Excl. Employee Exp.	626	858	1,095	1,346	1,625
Operating Expenses	1,008	1,343	1,756	2,162	2,604
Pre Provisioning Profits	1,082	1,373	1,839	2,562	3,076
Total Provision	202	180	263	449	400
Pre tax Profit	880	1,193	1,576	2,112	2,676
Provisions For Tax	302	390	515	710	883
Profit After Tax	577	803	1,061	1,402	1,793
Balance Sheet	FY2011	FY2012	FY2013	FY2014E	FY2015E
Equity Share Capital	466	468	523	524	525
Reserves and Surplus	3,576	4,274	7,107	8,407	9,307
Net Worth	4,050	4,742	7,630	8,931	9,832
Deposits	34,365	42,362	54,117	59,903	70,073
Borrowings & Subordinate Debt	5,525	8,682	9,460	15,096	19,270
Other Liabilities & provisions	1,695	1,811	2,100	2,396	3,328
Total Liabilities	45,636	57,596	73,307	86,326	102,504
Cash & Balance with RBI	2,456	2,904	3,250	3,325	3,679
Bal. With Banks/short notices	1,569	2,636	3,599	2,546	3,328
Investments	13,551	14,572	19,654	21,000	24,123
Advances	26,166	35,064	44,321	55,879	68,886
Fixed Assets	597	657	756	869	995
Other Assets	1,298	1,764	1,727	2,708	1,493
Total Assets	45,636	57,596	73,307	86,326	102,504
Growth (%)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Net Interest Income	55.3%	23.8%	31.0%	29.2%	22.5%
Non Interest Income	28.9%	41.8%	34.7%	34.8%	16.8%
PPP	53.7%	26.9%	34.0%	39.3%	20.1%
Net Profit	64.8%	39.0%	32.2%	32.1%	27.8%
EPS	64.8%	38.5%	18.3%	32.0%	27.8%
Book Value	69.0%	16.6%	43.9%	16.9%	10.1%
Adj Book Value	73.3%	16.4%	44.2%	16.9%	10.3%
Total Assets	29.0%	26.2%	27.3%	17.8%	18.7%
Advances	27.3%	34.0%	26.4%	26.1%	23.3%
Deposits	28.7%	23.3%	27.7%	10.69%	17.0%
CASA	47.6%	23.9%	37.2%	23.1%	18.4%

Source: ULJK Research

Financial Statements

Rs Cr

Per Share Data	FY2011	FY2012	FY2013	FY2014E	FY2015E
Basic EPS	12.4	17.2	20.3	26.8	34.2
BVPS	86.9	101.4	145.9	170.6	187.8
ABVPS	85.4	99.4	143.3	167.5	184.7
DPS	2.00	2.20	3.00	3.20	3.50

Asset Quality	FY2011	FY2012	FY2013	FY2014E	FY2015E
Slippage Ratio %	0.9%	1.1%	1.3%	1.37%	1.42%
GNPAs (Rs Cr)	265.9	347.1	457.8	651.8	930.3
NNPAs (Rs Cr)	72.8	94.7	136.8	163.0	163.0
GNPA %	1.01%	0.98%	1.03%	1.15%	1.33%
NNPA %	0.28%	0.27%	0.31%	0.29%	0.29%
PCR %	73.0%	73.0%	70.1%	75.0%	75.0%
NNPA/ Share	1.6	2.0	2.6	3.1	3.1
Credit Cost %	0.61%	0.41%	0.50%	0.79%	0.57%

Profitability Ratio	FY2011	FY2012	FY2013	FY2014E	FY2015E
Cost / Income	48.2%	49.4%	48.8%	45.8%	45.8%
Net Interest Margin	3.56%	3.45%	3.54%	3.76%	3.87%
ROAA%	1.43%	1.55%	1.62%	1.76%	1.90%
ROANW%	17.91%	18.26%	17.15%	16.94%	19.11%
CASA %	27.2%	27.3%	29.3%	32.6%	33.0%
Loan / Deposits %	76.1%	82.8%	81.9%	93.3%	98.3%

Valuations Ratio	FY2011	FY2012	FY2013	FY2014E	FY2015E
P/E			20.3	15.4	12.0
P/BV			2.8	2.4	2.2
P/ABV			2.9	2.5	2.2
Dividend Yield			0.73%	0.78%	0.85%

Source: ULJK Research

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Disclosure Appendix**ULJK Financial Services Pvt Ltd: (Time range– 12 months)**

BUY (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks and 30% or more for High-Risk stocks); **ACCUMULATE** (expected total return of 5%-15% for Low- Risk stocks, 10%-20% for Medium-Risk stocks and 15%-30% for High-Risk stocks,); **REDUCE** (expected total return of less than 5% for Low Risk stocks, less than 10% for Medium Risk stocks and less than 15% for High Risk stocks) and **SELL** (expected total return of -5% or less for Low-Risk stocks, -10% or less for Medium-Risk stocks, -15% or less for High-Risk stocks, and -20% or less for Speculative stocks).

Analyst(s) holding in the Stock : Nil

Analyst Certification

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