

**IndusInd Bank Ltd. – “SELL”**

**11th July, 2013**

**Overvalued Bank; rerating on cards soon....**

Industry	Banking
BSE Code	532187
NSE Code	INDUSINDBK
Bloomberg Code	IIB:IN
Beta of stock	1.15
FV	Rs. 10
Market Capitalization	Rs. 26,896 cr
52 Week High/Low	Rs. 530.6 (27 <sup>th</sup> May, 2013) /Rs. 308 (11 <sup>th</sup> Sep, 2012)
Book Value as on June 2013	Rs. 148
CMP	Rs. 514
P/E (x) on annualized EPS (x)	20x on annualized Q1FY14EPS (Sensex trading at 15x)
P/BV (x)	3.5x
Target Price	Not rated

#### IndusInd Bank – Q1FY14 result update, “SELL”

IndusInd Bank posted Q1FY14 numbers above analyst expectations. Net Profit registered 42 percent year-on-year growth to touch Rs. 335 crore (as compared to street expectation of 34 percent growth in bottom line. Strong growth in other income helped by treasury gains and net interest income (NII) helped the Bank to post robust performance. NII was seen going up by 41 percent to Rs. 682 crore in the first quarter. During the quarter, other income surged 48 percent y-o-y to Rs. 471 crore while NII increased 40 percent to Rs 680 crore. Other income has increased owing to significant gains in treasury income. The Bank's treasury income has witnessed qoq growth of whopping 486 percent to touch Rs. 104.5 crores. Foreign exchange income also witnessed qoq growth of 26 percent to Rs. 92 crores in Q1FY14. The bank expanded its loan book by 27 percent to Rs. 47,425 crore. The recent promotional campaign of the Bank helped it to grow public deposits on a low base. As on June 30, 2013; total deposits spiked by 23 percent on yoy basis to Rs. 55,660 crore. The share of current and savings account deposits (CASA) improved from 28 percent to 30 percent.

The bank has shown consistent and healthy results in stressed operating environment. IndusInd Bank's gross and net NPA percentage have shrunk, which is a testimony to the quality of the bank's loan book. The growth in core fee income at 31 percent and NIM at 3.72 percent has yet again showcased our consistent performance.

Asset quality was stable. Gross non-performing asset (NPA) ratio rose to 1.06 percent as against 0.97 percent a year ago. Net NPA ratio however, improved from 0.27 percent to 0.21 percent suggesting that the lender has made higher provisions for bad loans.

Provisions and contingencies shot up nearly three-fold from Rs. 53 crore to Rs. 132 crore during the quarter. In line with the policy framework approved by the Board of Directors of the bank for creation of floating provision, the bank has created floating provision of Rs 50 crore during the quarter ended June 30, 2013. This provision is made in excess of minimum requirements prescribed by RBI.

## Ajcon's view

At CMP, we believe, the stock already discounts structural key factors like strong deposit and advances growth on low base, high CASA ratio and NIMs and improved asset quality as compared to PSU Banks. According to us, the stock is overrated by the street in terms of valuation. The Bank does have certain limitations and faces constraints. The Bank is not well diversified as compared to peers like HDFC Bank, ICICI Bank and Axis Bank. With due consideration to factors like concentration of Bank on vehicle and equipment loan financing (vehicle and equipment loans segment under stress as witnessed by other NBFC's performance owing to economic slowdown, 52 percent of Q1FY14 Gross NPAs consists of Consumer Finance – Vehicles segment which is under tremendous pressure, high cost of funds which would impact its future margins and size too small as compared to HDFC Bank but still demanding higher valuation (33 percent premium to Sensex valuation at current levels) at CMP, we recommend investors to "Sell" the stock.

## Financial Summary

Particulars (Rs in Crore)	Q1FY14	Q4FY13	QoQ (%)	Q1FY13	YoY (%)
<b>Interest Earned (A)</b>	<b>1912</b>	<b>1823</b>	<b>4.9</b>	<b>1632</b>	<b>17.2</b>
a) Interest-Discount on Advances/ Bills	1512	1462	3.4	1312	15.2
b) Income on Investments	367	331	10.9	303	21.3
c) Interest on Balances with RBI and other inter bank funds	33	30	11.0	17	98.3
d) Others	0	0	13.6	0	(43.2)
<b>Other Income (B)*</b>	<b>471</b>	<b>368</b>	<b>27.9</b>	<b>319</b>	<b>47.6</b>
<b>Total Income (A+B)</b>	<b>2383</b>	<b>2191</b>	<b>8.8</b>	<b>1951</b>	<b>22.1</b>
Interest Expended	1233	1162	6.1	1148	7.4
<b>Net Interest Income</b>	<b>679</b>	<b>661</b>	<b>2.8</b>	<b>484</b>	<b>40.4</b>
Operating Expenses	508	486	4.7	399	27.5
Employee Cost	194	178	8.5	153	26.9
Other Operating Expenses	315	307	2.5	246	27.8
<b>Total Expenditure</b>	<b>1741</b>	<b>1647</b>	<b>5.7</b>	<b>1547</b>	<b>12.6</b>
<b>Operating Profit</b>	<b>642</b>	<b>543</b>	<b>18.1</b>	<b>404</b>	<b>58.8</b>
Provisions(other than tax) and contingencies	132	82	61.3	54	146.8
Profit and Loss from Ordinary Activities before tax	510	462	10.4	351	45.4
Tax Expenses	175	154	13.3	114	52.9
<b>Net Profit/Loss from Ordinary Activities after tax</b>	<b>335</b>	<b>307</b>	<b>8.9</b>	<b>236</b>	<b>41.7</b>
No. of shares (cr)	52.34	52.28	0.1	46.89	17.4
EPS (Rs.)	6.4	5.9	8.5	5.03	27.2

Top Line Momentum (Rs in Crore)	Q1FY14	Q4FY13	QoQ (%)	Q1FY13	YoY (%)
Advances	47425	44321	7.0	37245	27.3
Corporate Advances	24070	21920	9.8	18484	30.2
Consumer Finance Advances	23355	22401	4.3	18761	24.5
Deposits	55660	54117	2.9	45076	23.5

CASA	16673	15868	5.1	12557.00	32.8
<b>Key Financial Indicators</b>	<b>Q1FY14</b>	<b>Q4FY13</b>	<b>QoQ (%)</b>	<b>Q1FY13</b>	<b>YoY (%)</b>
ROA	1.8	1.77	3.4	1.57	16.6
ROE	17.6	16.70	5.5	20.35	(13.4)
CASA (%)	30.0	29.3	2.4	27.9	7.5
Cost/Income %	44.2	47.19	(6.3)	49.68	(11.0)
Net Interest Margin	3.7	3.70	0.5	3.22	15.5
Net NPA	0.2	0.31	(32.3)	0.27	(22.2)
Net Worth (Cr)	7758	7418	4.6	4766	62.8
Book Value per share	148	142.49	4.0	101.69	45.8

Gross NPA (Cr)	505	459.00	10.1	365.00	38.4
Net NPA (Cr)	101	137.00	(26.0)	100.00	1.4
% of Gross NPA	1.1	1.03	2.9	0.97	9.3
% of Net NPA	0.2	0.31	(32.3)	0.27	(22.2)
Provision Coverage Ratio %	79.9	70.13	14.0	72.64	10.0
Restructured Advances %	0.3	0.28	0.0	0.24	16.7

<b>CRAR (%)</b>	<b>14.9 **</b>	15.36	(3.3)	12.86	15.5
Tier I	13.5	13.78	(2.1)	10.62	27.0
Tier II	1.4	1.58	(13.9)	2.24	(39.3)

Source: Company, Ajcon Research, \*\* denotes as per BASEL III norms

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