

INDUSIND BANK

BANKS & FINANCIAL SERVICES

19 JUL 2017

Quarterly Update

BUY

Target Price: Rs 1,720

Floating provisions to strengthen balance sheet

Q1FY18 PAT at ~Rs 8.4 bn (up 26% YoY) was broadly in line with our estimate. IndusInd Bank (IIB) chose not to write back the provisions (one-off provision of ~Rs 1.2 bn against Jaypee loan account in Q4FY17) after the cement asset deal fructified in Q1FY18. Instead, it opted to strengthen its balance sheet by creating floating provisions (~Rs 700 mn) and provide for MFI book/ SRs outstanding (~Rs 200 mn). Consequently, PCR improved 164 bps QoQ to 60%.

Operationally, loan growth was a little below expectations, as MHCV loan (+17% YoY) slowed down. Overall loan book grew 24% YoY, with retail (+22% YoY) clocking growth slower than corporate loans (+26% YoY). NIM was flat at 4% QoQ. CASA improved ~100 bps QoQ to 37.8%. **We maintain BUY with revised TP of Rs 1,720.**

CMP : Rs 1,559
Potential Upside : 10%

MARKET DATA

No. of Shares : 599 mn
Free Float : 85%
Market Cap : Rs 933 bn
52-week High / Low : Rs 1,572 / Rs 1,038
Avg. Daily vol. (6mth) : 1.2 mn shares
Bloomberg Code : IIB IB Equity
Promoters Holding : 15%
FII / DII : 43% / 12%

Q1FY18 highlights: (a) Retail loan growth was dragged down by the VF book (+17% YoY) due to BS-IV and GST related supply-side woes (volumes were down ~27%). Non-VF loans grew smartly, up 40% YoY. (b) IIB is adding ~85-90k new savings accounts every month, while older customers are now deepening balances. This, coupled with some stable government business from multiple projects has helped scale up SA materially. CASA stood at 37.8% as of Q1; (c) ~Rs 1.2 bn of provisions taken for Jaypee were retained: Rs 700 mn of floating provisions, Rs 300 mn of standard asset provisions on o/s loan amount remaining and Rs 200 mn of additional provisions for MFI & SR book.

Maintain BUY with revised TP of Rs 1,720 (3.9x FY19 P/ABV): We are enthused by IIB's aggressive 3-year target for FY20, as mgmt. has proven its caliber by meeting targets set in previous 3 planning cycles. With growing retail franchise and increasing market share in large corporate segment, IIB is one of few banks reporting robust growth when industry growth is down to single digit. We increase our target multiple for IIB, valuing it at 3.9x FY19 P/ABV (vs. 3.7x earlier) to factor in traction expected in retail loans ahead. Our revised TP of Rs 1,720 implies 10% upside from CMP.

Financial summary (Standalone)

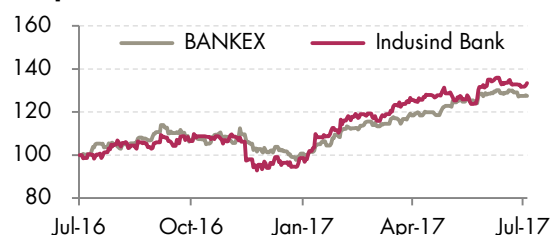
Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	22,864	28,679	35,766	44,075
EPS (Rs)	38	47	58	72
EPS chg (%)	13.8	24.5	24.7	23.2
Book value (Rs)	284	331	381	444
Adj. BV (Rs)	281	326	375	436
PE (x)	41.5	33.3	26.7	21.7
P/ABV (x)	5.5	4.8	4.2	3.6
RoE (%)	16.6	15.3	16.4	17.4
RoA (%)	1.8	1.8	1.8	1.8
Net NPA (%)	0.4	0.4	0.4	0.4

Source: Company, Axis Capital

Key drivers

	Q2'17	Q3'17	Q4'17	Q1'18
Loan growth (% YoY)	26	25	28	24
NIM (%)	4.0	4.0	4.0	4.0
CASA (%)	37	37	37	38
GNPA ratio (%)	0.9	0.9	0.9	1.1

Price performance

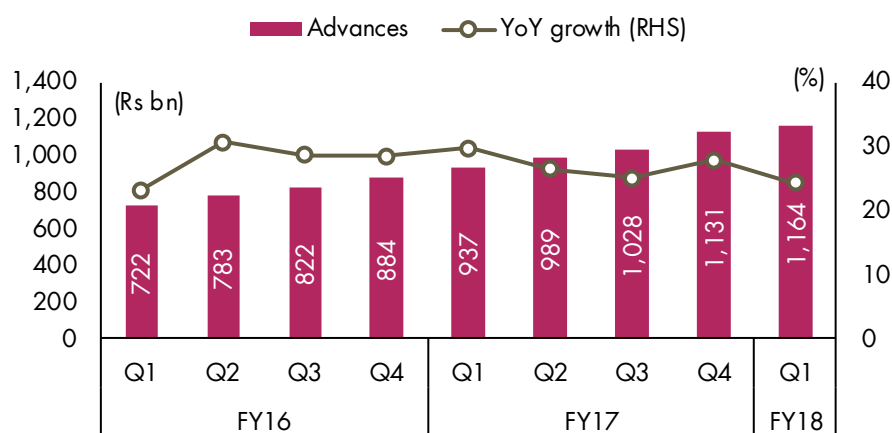


Conference call highlights

Loan growth & outlook on CV industry

- Overall loan book grew 24% YoY, wherein retail loans grew a somber 22% YoY vs. corporate loan growth of 26% YoY
- Retail loan growth was dragged down by the VF book (+17% YoY) due to BS-IV and GST related supply side woes (volumes were down ~27%). Non-VF loans grew smartly, up 40% YoY
- However, the management stated that these issues seem to be waning, with June being better than April and May, and Q2 expected to be slightly better or equal to Q1FY18
- Q3 onwards, IIB should be back to trend rates in the MHCV book
- Increase in power sector exposure QoQ represents increase in renewable power generation to strong promoter groups

Exhibit 1: Trend in loan growth

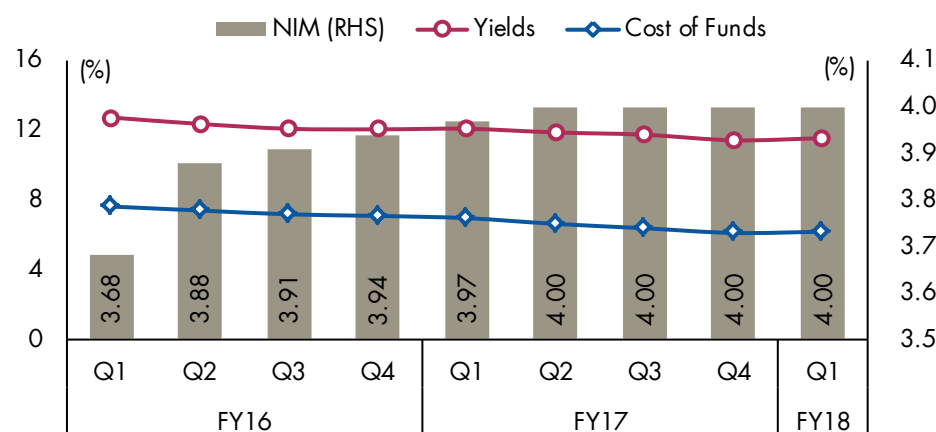


Source: Company, Axis Capital

Yields, CASA strategy and NIM

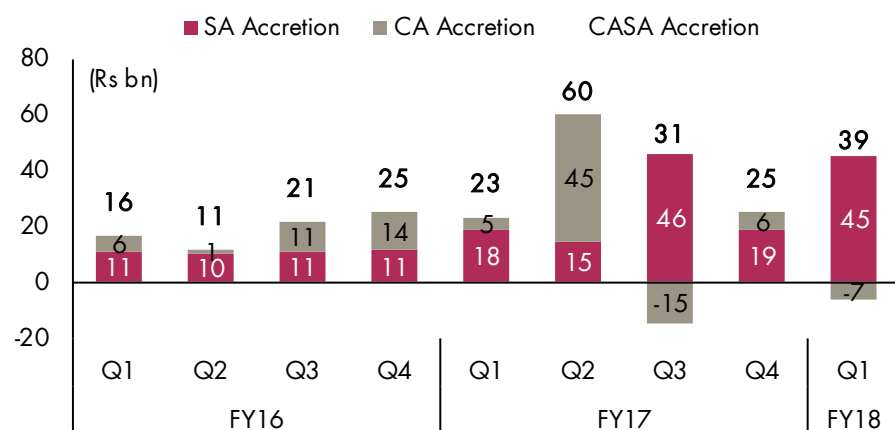
- Corporate yields were up QoQ despite less riskier lending (better rated companies) due to write-back of interest reversals on Jaypee loans last quarter. There is no riskier lending, incrementally
- NII to RWA has trended up in the last few quarters due to (1) CASA mix improvement, (2) fixed rate book in vehicle finance
- IIB is now adding ~85-90k new savings accounts every month, while older customers are now deepening balances. This, coupled with some stable government business from multiple projects has helped scale up SA materially
- CA/branch (retail) at ~Rs 70 mn is only slightly below that of large private banks of ~Rs 90 mn/branch. ~50% of IIB's CA balances are retail, ~25% is float money from IPOs and the balance represents corporate balances
- LRD business is witnessing extreme competition, with yields ~8%. The management stated that it has taken a call to go slow in this segment

Exhibit 2: Trend in yields, costs and NIM



Source: Company, Axis Capital

Exhibit 3: SA accretion aided by government business



Source: Company, Axis Capital

Miscellaneous

- ♦ **Comments on inorganic acquisitions:** IIB has no growth compulsions, and will only pursue strategic acquisitions, which are value accretive from day 1
- ♦ **Asset quality:** ~Rs 1.2 bn of provisions taken for Jaypee account were not fully reversed during the quarter; instead, the bank made ~Rs 700 mn of floating provisions, ~Rs 300 mn of standard asset provisions on o/s loan amount and ~Rs 200 mn of additional provisions for MFI & SR book (SR book o/s: Rs 3.6 bn)
- ♦ **Fees:** Loan processing fees are linked to loan assessments and renewals as well; hence, can get lumpy if renewals are bunched up in any quarter
- ♦ **Cost to Income:** Branch costs and staff/branch is reducing, as IIB expands to other geographies from metros. Expect C/I to trend down ahead

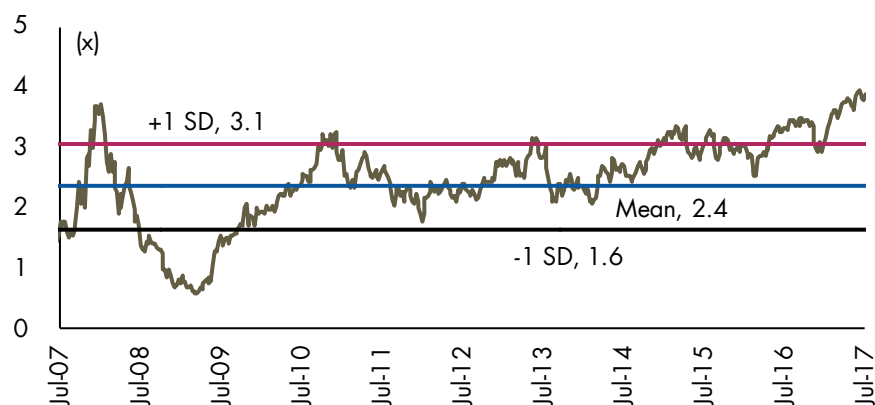
Exhibit 4: Results update

(Rs mn)	Quarter ended					12 month ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	Mar-18E	Mar-17	% Chg
Interest income	41,355	33,906	22	38,300	8	176,419	144,057	22
Interest expended	23,615	20,342	16	21,626	9	99,673	83,431	19
Net interest income	17,741	13,564	31	16,675	6	76,746	60,626	27
Non-interest income	11,673	9,730	20	12,113	(4)	53,440	41,715	28
Net income	29,413	23,294	26	28,788	2	130,186	102,341	27
Operating expenses	13,528	10,956	23	13,065	4	59,859	47,831	25
Operating profit	15,885	12,338	29	15,722	1	70,327	54,510	29
Provision & contingencies	3,100	2,305	34	4,301	(28)	16,135	10,913	48
PBT	12,786	10,033	27	11,421	12	54,192	43,597	24
Tax	4,420	3,419	29	3,905	13	18,425	14,918	24
Net profit	8,365	6,614	26	7,516	11	35,766	28,679	25
Asset quality								
Gross NPAs (Rs mn)	12,717	8,606	48	10,549	21	15,665	10,549	49
Gross NPAs (%)	1.09	0.91	18 bps	0.93	16 bps	1.09	0.93	17 bps
Net NPAs (Rs mn)	5,083	3,555	43	4,389	16	5,796	4,389	32
Net NPAs (%)	0.44	0.38	6 bps	0.39	5 bps	0.41	0.39	2 bps
Provisioning coverage (%)	60	59	134 bps	58	164 bps	63	58	460 bps
Capital (%)								
Tier-I	15.7	14.8	85 bps	14.7	94 bps	13.3	14.7	(146)bps
CAR	16.2	15.4	76 bps	15.3	87 bps	13.7	15.3	(164)bps
Balance sheet (Rs bn)								
Advances	1,164	937	24	1,131	3	1,423	1,131	26
Deposits	1,337	1,018	31	1,266	6	1,593	1,266	26
CASA (%)	38	34	335 bps	37	93 bps	38	37	144 bps

Source: Company, Axis Capital

Note: Full year yields and margin are on calculated basis

Exhibit 5: 10 years P/ABV movement



Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	118,717	144,057	176,419	215,701
Interest expended	(73,552)	(83,431)	(99,673)	(120,786)
Net interest income	45,166	60,626	76,746	94,914
Non interest income	32,969	41,715	53,440	62,534
Net income	78,135	102,341	130,186	157,448
Operating expenses	(36,721)	(47,831)	(59,859)	(70,701)
Staff expenses	(12,361)	(15,210)	(18,211)	(21,261)
Other operating expenses	(24,360)	(32,621)	(41,648)	(49,440)
Operating profit	41,414	54,510	70,327	86,747
Provisions & contingencies	(6,722)	(10,913)	(16,135)	(19,967)
Pre-tax profit	34,692	43,597	54,192	66,781
Tax expense	(11,828)	(14,918)	(18,425)	(22,705)
Profit after tax	22,864	28,679	35,766	44,075
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	22,864	28,679	35,766	44,075

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	1,428,970	1,786,484	2,170,481	2,652,070
Cash & Balances with RBI	101,119	186,283	202,091	238,366
Investments	340,543	367,021	433,436	514,638
Advances	884,193	1,130,805	1,422,707	1,776,906
Fixed assets	12,553	13,352	13,462	13,701
Other assets	90,561	89,023	98,785	108,460
Total liabilities	1,428,970	1,786,484	2,170,481	2,652,070
Equity capital	5,950	5,981	5,981	5,981
Preference capital	-	-	-	-
Reserves & surplus	167,065	196,582	227,491	266,016
Networth	173,152	202,715	233,625	272,149
Borrowings	249,959	224,537	243,991	282,509
Deposits	930,003	1,265,722	1,593,205	1,987,643
Other liabilities & prov.	72,048	89,764	95,915	106,023

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	38	47	58	72
BV (Rs.)	284	331	381	444
Adj. BV (Rs.)	281	326	375	436
DPS (Rs.)	4	6	7	8
Dividend payout (%)	12	13	12	11
Yields & Margins (%)				
Yield on advances	11.8	11.4	11.2	11.1
Cost of deposit	6.8	6.3	6.0	5.9
Net interest margin	3.8	4.0	4.1	4.1
Asset quality (%)				
Gross NPAs	0.9	0.9	1.1	1.2
Net NPAs	0.4	0.4	0.4	0.4
Credit cost	0.8	1.0	0.9	0.8
Provisioning coverage	58.6	58.4	63.0	65.0
Capital (%)				
Tier-I	14.9	14.7	13.3	12.5
CAR	15.5	15.3	13.7	12.9
Efficiency (%)				
ROA	1.8	1.8	1.8	1.8
ROE	16.6	15.3	16.4	17.4
Cost to income	47	47	46	45
CASA	35	37	38	39
Effective tax rate	34	34	34	34
Growth (%)				
Net interest income	32	34	27	24
Fee income	27	24	29	17
Operating expenses	28	30	25	18
Profit after tax	27	25	25	23
Advances	29	28	26	25
Deposits	25	36	26	25
Total assets	28	25	21	22

Source: Company, Axis Capital

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