

October 13, 2017

IndusInd Bank (INDBA)

₹ 1747

Healthy performance; strategic deal on watch

- PAT increased 25% YoY to ₹ 880 crore, led by strong growth in NII (up 24.7% YoY to ₹ 1821 crore) and healthy other income growth of 22.4% YoY to ₹ 1188 crore (core fee income rose 23% YoY)
- Business growth remained healthy with 24.5%, 25.9% YoY growth in advances, deposits, respectively. CASA ratio surged ~420 bps QoQ, led by higher accretion in saving deposit led by new government relationship. Within advances, both corporate and consumer book witnessed healthy traction at 26% and 22% YoY, respectively
- Asset quality remained largely stable QoQ. GNPA, NNPA ratios came in flattish QoQ at 1.08% and 0.44%, respectively. RA also remained stable at 0.16% of advances
- The bank does not have any large exposure to accounts in the second list of RBI to be referred to NCLT. Though quantum of exposure is unknown, number of accounts in the list was at six for which the bank provided ~₹ 30 crore provision during the quarter

Turnaround done successfully; growth ahead of industry to sustain

After taking over in early 2008, current management transformed IIB from low, volatile balance sheet growth to steady, sustainable growth with strong profitability. We like the fact the transformation has been qualitative (RoA up from 0.3% to 1.9% as on FY17) despite a turbulent economic scenario. Loans, deposits, PAT traction improved to 27%, 23%, 50% CAGR in FY08-17 from 12%, 13%, -35% in FY05-08, respectively. Loan, deposit grew 24.5%, 26% to ₹ 123181 crore, ₹ 141441 crore, respectively, as on Q2FY18. IIB's loan mix was 40.2% consumer finance (CF), ~80% of which is high vehicle financing, 59.8% corporate banking (CB), working capital in nature & well diversified across industries. We factor in 25.2% loan CAGR in FY17-19E to ₹ 177168 crore.

Healthy NIMs to stay with focus on CF book ahead, decline in CoF

IIB maintained calculated NIM of over 3.7% in the past while H1FY18 NIM was maintained at strong levels of 4%. In the past six years, reported NIM improved from 1.7% to ~4% as on FY17. Such a structural improvement was led by an improvement in CASA franchise (doubled to >40% in the past six years), helping keep CoF under control across various cycles. Lower yield from incremental exposure to AAA rated corporate is seen setting off by strong liability franchise and rising CF proportion. Therefore, we expect calculated NIM to stay healthy at ~4% by FY19E.

Diversified asset book enables superior asset quality

IIB has fared well over the years in terms of asset quality with GNPA ratio improving from 3.1% in FY08 to 1% by FY11 and maintained at 1% now. Diversification led to a steady performance on the asset quality front. Exposure to stressed sector like telecom or accounts referred to NCLTs is low. We expect GNPA ratio to remain steady at 1.1% by FY19E.

Strong, consistent growth; strategic deal in focus; upgrade to BUY

IIB has continued to deliver a strong performance leading to continuous re-rating. Consistent return ratios of ~18% RoE & ~2% RoA provide comfort. We largely maintain our estimates and expect PAT CAGR of 25% to ₹ 4481 crore by FY19E. The bank is considering Bharat Financial inclusion for prospective amalgamation that is value accretive in terms of higher margin business. Also, warrant issuance to maintain promoter stake in case of merger of the said MFI business is on cards. Keeping in perspective the above strategic developments and fundamental strength, we upgrade our rating to **BUY**. We revise our target price to ₹ 1920 (valuing at 4.3x FY19E ABV and 25x FY19E EPS) vs. ₹ 1650 earlier.

Rating matrix		
Rating	:	Buy
Target	:	₹ 1920
Target Period	:	12 months
Potential Upside	:	10%

What's Changed?		
Target	Changed from ₹ 1650 to ₹ 1920	
EPS FY18E		Unchanged
EPS FY19E		Unchanged
Rating	Changed from Hold to Buy	

Quarterly Performance					
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
NII	1,821.0	1,460.3	24.7	1,774.1	2.6
Other income	1,187.6	970.4	22.4	1,167.3	1.7
PPP	1,633.5	1,281.7	27.5	1,588.5	2.8
PAT	880.1	704.3	25.0	836.5	5.2

Key Financials				
₹ Crore	FY16	FY17	FY18E	FY19E
NII	4,516.6	6,062.5	7,041.0	8,565.4
PPP	4,141.4	5,451.0	6,501.9	7,960.1
PAT	2,286.5	2,868.6	3,519.1	4,516.5

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	45.4	36.4	29.7	23.1
Target P/E	42.9	34.4	28.0	21.9
P/ABV	6.0	5.3	4.6	3.9
Target P/ABV	5.7	5.0	4.3	3.7
RoE	16.2	15.1	16.1	17.9
RoA	1.8	1.8	1.8	1.9

Stock data	
Market Capitalisation	₹ 103512 Crore
GNPA (Q2FY18)	₹ 1345 Crore
NNPA (Q2FY18)	₹ 537 Crore
NIM (%) (Q2FY18)	4.00
52 week H/L	1818 / 1038
Net worth	₹ 21501 Crore
Face Value	₹ 10
DII Holding (%)	12.6
FII Holding (%)	43.0

Price performance (%)				
Return %	1M	3M	6M	12M
Yes Bank	-1.3	20.6	12.0	42.8
Axis Bank	5.8	3.6	3.8	-1.2
IndusInd Bank	0.1	10.5	21.2	42.7

Research Analyst	
Kajal Gandhi	kajal.gandhi@icicisecurities.com
Vishal Narmolia	vishal.narmolia@icicisecurities.com
Vasant Lohiya	vasant.lohiya@icicisecurities.com

Variance analysis

	Q2FY18	Q2FY18E	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Comments
NII	1,821	1,840	1,460	24.7	1,774	2.6	NII traction led by healthy advance growth as well as steady margins. This has been the trend for the last several quarters
NIM (%)	4.00	3.90	4.00	0 bps	4.00	0 bps	Higher traction in CASA and incremental growth in consumer business kept margins steady
Other Income	1,188	1,167	970	22.4	1,167	1.7	Core fee income growth remained healthy at 23% YoY
Net Total Income	3,009	3,007	2,431	23.8	2,941	2.3	
Staff cost	445	443	376	18.4	422	5.4	
Other Operating Expenses	930	977	773	20.3	931	-0.1	
PPP	1,634	1,587	1,282	27.5	1,589	2.8	
Provision	294	270	214	37.3	310.0	-5.2	Stable asset quality; credit cost at 18 bps for the quarter
PBT	1,340	1,317	1,068	25.5	1,279	4.8	
Tax Outgo	460	444	364	26.4	442.0	4.0	
PAT	880	873	704	25.0	836.5	5.2	

Key Metrics							
GNPA	1,345	1,412	899	49.6	1,271.7	5.8	Slippages came down to ₹ 498 crore vs. ₹ 608 crore in Q1FY18
NNPA	537	585	369	45.5	508.3	5.6	PCR was maintained at 60%
Total Restructured assets	194	400	435	-55.4	197.9	-2.0	Restructured loans as a percentage of total credit remained steady at 0.16%
Credit book	123,181	123,836	98,949	24.5	116,407	5.8	Credit traction was led by healthy growth in corporate book (up 26% YoY). Even retail saw growth of 22% YoY
Deposit book	141,441	142,763	112,313	25.9	133,673	5.8	Robust uptick in saving deposit at 95% YoY and 27% QoQ

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	7,003	7,003	0.0	8,469	8,469	0.0
Pre Provision Profit	6,464	6,464	0.0	7,864	7,864	0.0
NIM(%) (calculated)	4.0	4.0	0 bps	4.0	4.0	0 bps
PAT	3,503	3,503	0.0	4,463	4,463	0.0
ABV per share (₹)	382.6	379.2	-0.9	441.7	441.6	0.0

Source: Company, ICICIdirect.com Research

Assumptions

	FY16		FY17		Current		Earlier	
	FY16	FY17	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Credit growth (%)	28.5	27.9	25.0	25.4	25.0	25.4	25.0	25.4
Deposit Growth (%)	25.4	36.1	24.5	24.2	24.5	24.2	24.5	24.2
CASA ratio (%)	35.2	36.9	38.2	39.3	38.2	39.3	38.2	39.3
NIM Calculated (%)	4.1	4.3	4.0	4.0	4.0	4.0	4.0	4.0
Cost to income ratio (%)	47.0	46.7	46.1	45.6	46.1	45.6	46.1	45.6
GNPA (₹ crore)	776.8	1,054.9	1,436.4	1,950.2	1,436.4	1,950.2	1,436.4	1,950.2
NNPA (₹ crore)	321.8	438.8	640.2	789.9	640.2	789.9	640.2	789.9
Slippage ratio (%)	1.2	1.6	0.9	0.8	0.9	0.8	0.9	0.8
Credit cost (%)	0.7	0.8	0.7	0.5	0.7	0.5	0.7	0.5

Source: Company, ICICIdirect.com Research

Company Analysis

Ideal mix of loan book; better than industry growth to stay...

IIB's total credit book grew 24.5% YoY as on Q1FY18 to ₹ 116407 crore led by CV loans and large corporate segment pickup growing 26% YoY. The composition/mix of the loan book is ideal with the consumer finance (CF) book and corporate banking book (CB book) accounting for 40.2% and 59.8%, respectively, as on Q1FY18. The bank has guided at maintaining 1:1 distribution of the total loan between CF and CB book, going ahead. Thus, the CF book could witness higher traction led by CV financing and non-vehicle loans. Credit traction has been strong at 27% CAGR in the past six years and way ahead of the industry, which grew at 18% CAGR.

We expect advances growth to stay well above the system at 25% CAGR in FY17-19E to ₹ 177168 crore

The CF book, amounting to ₹ 49465 crore as on Q1FY18, is well diversified (see exhibit 1) but remains largely vehicle finance focused (~60% of CF book). Going forward, we expect growth to be strong in both CF and corporate book. We factor in 31% CAGR in the CF book over FY17-19E to ₹ 78130 crore.

Exhibit 1: Non vehicle portfolio witnessing strong growth

Consumer Finance Book									
₹ crore	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Comm. Vehicle	9,614	10,618	14,101	13,847	14,208	14,569	15,606	15,573	16,383
Utility Vehicle	2,050	2,017	2,058	2,097	2,157	2,237	2,342	2,427	2,514
Three Wheelers	1,932	1,843	2,045	2,133	2,274	2,381	2,374	2,381	2,391
Two Wheelers	2,512	2,808	3,045	3,076	3,134	3,323	3,262	3,262	3,288
Car loans	2,642	3,146	3,917	4,076	4,324	4,570	4,665	4,819	5,042
Equip. financing	2,854	2,816	3,244	3,435	5,057	5,639	5,933	6,457	4,603
Credit card	457	698	1,204	1,258	1,408	1,519	1,704	1,944	2,160
Loan against prop.	2,473	3,705	5,248	5,585	5,872	6,429	7,051	7,303	7,549
Personal.others etc	251	761	1,687	1,855	2,124	2,198	2,592	2,929	3,264
Total	24,785	28,412	36,549	38,591	40,558	42,865	45,529	47,095	49,465
YoY Growth	11	15	29	29	27	25	25	22	22

Source: Company, ICICIdirect.com Research

Large corporate segment saw 10% Q-Q surge. Hence, IIB's CB book grew at 26% YoY to ₹ 73716 crore as on Q1FY18. It is largely inclined towards working capital finance. Further, the book is broadly diversified into three major categories (see exhibit 1) such as large corporate, mid-corporate and loans to small business. Again, in terms of sectors, the CB portfolio is well diversified among 13-14 sectors. We expect the CB book to post a CAGR of 21.1% in FY17-19E to ₹ 99039 crore.

During Q2FY16, traction in the mid-corporate segment looks higher at 58% YoY as the bank incorporated the gems & jewellery portfolio of ₹ 4100 crore that was acquired from RBS. IIB already has such a portfolio around ₹ 1500 crore. With this acquisition, the bank becomes one of the largest financiers in this segment across industry.

Exhibit 2: Break-up of corporate book

Corporate Banking Book									
₹ crore	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Large corporates	15,086	19,964	25,258	27,323	27,588	28,244	31,477	33,045	36,128
Mid corporates	9,693	11,455	16,624	17,119	19,284	19,766	22,203	22,649	23,569
Small business	5,538	8,957	9,988	10,645	11,519	11,895	13,872	13,618	14,019
Total	30,317	40,376	51,870	55,087	58,391	59,905	67,552	69,312	73,716
YoY Growth	38.3	33.2	28.5	30.4	26.0	25.0	30.2	25.8	26.2

Source: Company, ICICIdirect.com Research

We expect the loan book traction to stay ahead of industry at 25% CAGR in FY17-19E.

The bank's FY17 loan growth of 27.8% YoY is >5x the industry's loan growth

Exhibit 3: Overall advances growth expected to be ahead of industry

₹ crore	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total Advances	55102	68788	88419	93678	98949	102770	113081	116407	123181
YoY Growth (%)	24.3	24.8	28.5	29.7	26.4	25.1	27.9	24.3	24.5

Source: Company, ICICIdirect.com Research

Impressive improvement in liability franchise over the years, crosses 40%

A sharp surge in savings deposits was led by one new government account in Q2FY18. CASA ratio at 42% has crossed 40% for the first time led by growth in savings at 95% YoY while the bank reported a muted performance in CA. The high base was due to IPO float in Q2 last year. IIB's deposits also witnessed a sharp traction of 23% CAGR in FY08-17 to ₹ 126573 crore. More notable is the improvement in quality of the liability franchise. The CASA ratio in the period has doubled to 36.9% of deposits currently owing to a rising branch presence (up from 210 in FY10 to over 1200 as on FY17), innovative services & SA deregulation in Q2FY12.

Going ahead, we expect the deposit base to increase at 24% CAGR in FY17-19E to ₹ 195692 crore. We have raised our CASA ratio to 41.1% from ~39-40% by FY19E. A major upside to our CASA ratio estimates could be the opening up of the agency business of the RBI, which would lead to a sharp increase in CA balances for the bank. Currently, it is restricted to only a few large banks.

High growth in deposits of 37.9% YoY in Q3FY17 was mainly due to demonetisation. Savings deposits grew 56% YoY and 22% QoQ (~50% of QoQ increase is attributed to demonetisation). In Q4FY17 and Q1FY18 also, savings deposits grew at strong pace of 57% YoY and 65% YoY.

Exhibit 4: Deposit traction remains strong; surge in SA balance

₹ Crore	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Savings	9,915	12,944	17,246	19,091	20,567	25,175	27,037	31,556	40,157
Current	9,776	12,356	15,478	15,952	20,467	18,987	19,609	18,945	19,618
Term	40,811	48,835	60,276	66,725	71,279	75,056	79,926	83,172	81,666
Total Deposits	60,502	74,134	93,000	101,768	112,313	119,218	126,572	133,673	141,441
YoY Growth	11.8	22.5	25.4	31.0	38.9	37.9	36.1	31.4	25.9
CASA Amount	19,691	25,300	32,724	35,043	41,034	44,162	46,646	50,501	59,775
CASA%	32.5	34.1	35.2	34.4	36.5	37.0	36.9	37.8	42.3

Source: Company quarterly presentation, ICICIdirect.com Research

Margins to stay among best in class

IIB's FY17 calculated NIM of ~4% is highest after HDFC Bank and Kotak Mahindra Bank. The trend continued in Q2FY18 also at 4%. We expect calculated NIMs to be maintained over FY17-19E owing to enhanced growth in the CF book led by CV financing and a further improvement in the CASA franchise. The high yielding nature of the loan book as well as healthy CASA franchise has enabled IIB to maintain such strong margins of ~3.7-4% for the past four years.

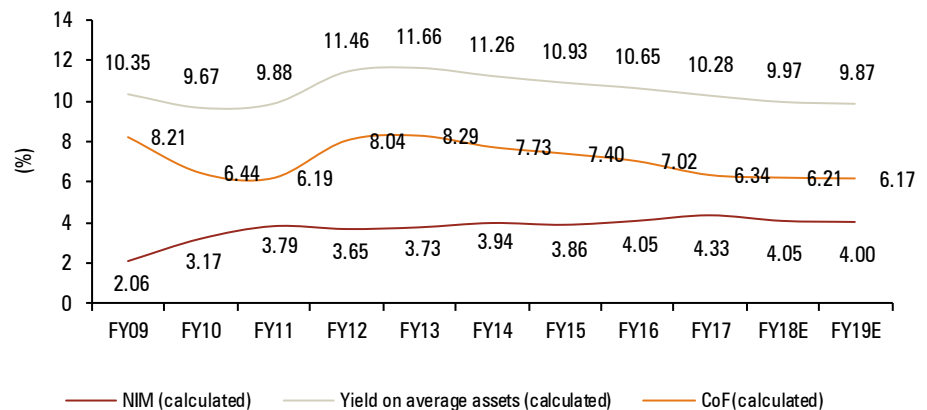
In consumer financing, blended yields are ~14% while in the corporate space yields are at ~10%. In the past four or five years, strong growth in the CASA franchise has helped manage to keep CoF (calculated) in the range of 7.0-8.0% across cycles. In Q2FY18, NIMs have stayed steady at ~4%.

The management remains confident of maintaining quarterly NIMs at healthy levels. In a falling interest rate scenario, having ~72% of the loan book on fixed rate augurs well for IndusInd Bank's margins. Further, with an expected improvement in the traction of retail book, margins would be maintained at strong levels.

We expect CASA ratio to improve to ~41.1% by FY19E led by strong surge in FY17 and FY18 both

We have factored in calculated NIMs of ~4% over FY17E & FY19E

Exhibit 5: Margins to stay healthy supported by improving CASA franchise and changing loan mix



Source: Company quarterly presentation, ICICIdirect.com Research * YoA = yield on assets, CoF = cost of funds

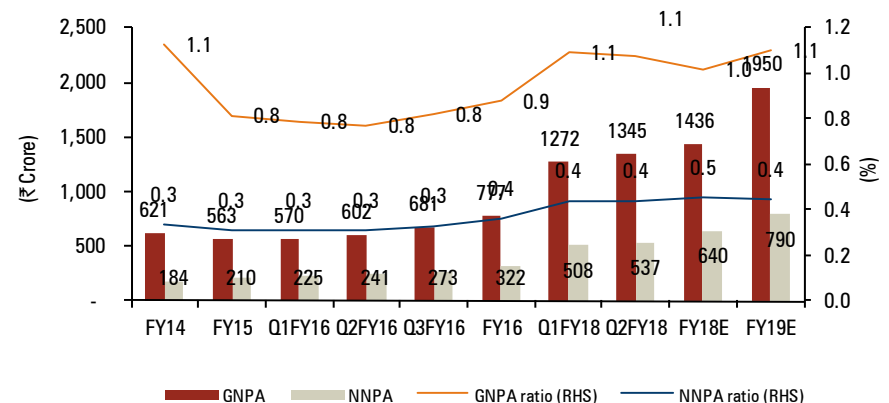
Diversified book enables superior asset quality

The asset quality of IIB has fared well over the years. GNPA and NNPA ratios have declined from 3.1% and 2.3% in FY08 to 1% and 0.3% by FY11, respectively. They remain at these levels currently. The steady performance is owing to IIB's peculiar loan mix. The CB book mainly consists of loans towards working capital, which is less risky than term loans. Further, the CB book is well diversified with exposure to stressed sectors such as iron & steel, commercial real estate (CRE), power, etc, at lower levels of ~1-2%. Also, the asset quality has been manageable in the CF book, which constitutes the balance half.

During Q2FY18, total slippages remained ₹ 460 crore lower than ₹ 608 crore in Q1FY18. In Q1FY18, it was mainly led by higher slippages from the consumer segment at ₹ 257 crore.

IIB has indicated that it has exposure to three accounts in the initial 12 accounts. Six of the total 40 accounts directed to NCLT. Provision levels remain high at >60% on these loans. A provision of ₹ 36 crore was parked in relation to exposure to the second list by the RBI in Q2FY18. Going ahead, we expect absolute GNPA and NNPA of ₹ 1950 crore and ₹ 790 crore, respectively, as on FY19E. Overall, IIB's asset quality remains manageable and appears better than the system.

Exhibit 6: Asset quality remains acceptable



Source: Company quarterly press release and annual report, ICICIdirect.com Research

Credit cost is also expected to be in the guided range of 60-70 bps in FY16-19E. We expect GNPA and NNPA ratios of 1.1% and 0.4%, respectively, by FY19E

Fee income: well diversified & growing at strong pace

IIB's other income constitutes ~40% of its operating income. In other income, the major component is the fee income that accounts for ~90%. Various sources of fee income include trade & remittances, forex income, distribution fees, general banking, processing fees & investment banking (IB). The bank also has a tie-up with HDFC Ltd for sourcing home loans on its behalf for which it gets a commission of ~1% and additional 0.2% in insurance.

The other income witnessed a strong CAGR of 35% in past. Even in Q2FY18, growth was healthy led by distribution and loan processing fees. The management has guided that fee income growth is likely to normalise in line with loan growth. We have factored in total other income CAGR of 20% to ₹ 5976 crore in FY17-19E.

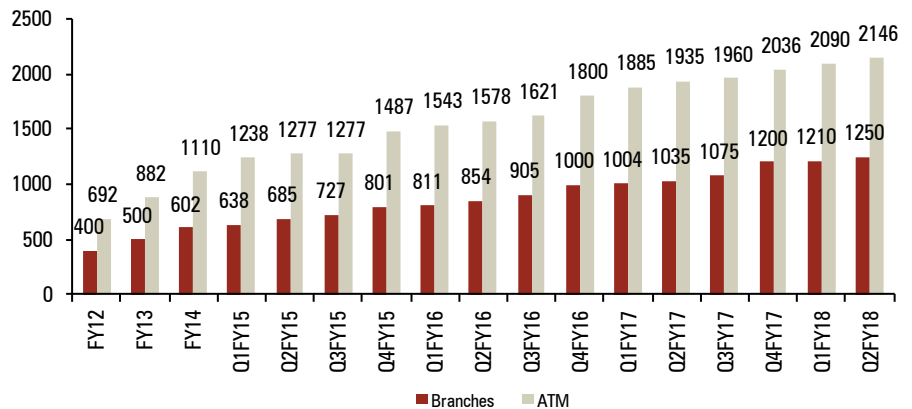
Exhibit 7: Core fee income trend continues to be strong

Other income break up (₹ Crore)	FY12	FY13	FY14	FY16	Q1FY17	Q2FY17	Q3FY17	FY17	Q1FY18	Q2FY18
Core fee income	913	1,239	1,610	774	782	826	885	996	974	1,013
Securities/FX trading others	92	107	263	139	191	145	132	215	193	175

Break up of fee income (₹ Crore)	FY12	FY13	FY14	FY16	Q1FY17	Q2FY17	Q3FY17	FY17	Q1FY18	Q2FY18
Trade & Remittances	118	169	214	97	109	103	107	121	131	128
Foreing Exchange Income	201	285	435	140	151	156	179	170	198	183
Distribution Fees	245	270	281	138	137	156	181	241	210	237
General Banking	110	139	145	48	56	49	64	63	64	65
Loan Processing Fees	161	233	291	228	215	201	195	243	196	214
Investment Banking	79	143	242	122	114	161	160	159	175	186
Total	913	1,239	1,610	774	782	826	885	997	974	1,013

Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 8: Expanding branch and ATM network



Source: Company quarterly presentation, ICICIdirect.com Research

The bank added 200 new branches in FY17. Under Planning Cycle 4, in FY18-20, the bank plans to double its branch network to ~2000

Outlook and valuation

In the past three or four years, IIB has traded at premium valuations compared to its private sector counterparts, except HDFC Bank and Kotak Mahindra Bank. This is due to a sustained and structural improvement in earnings (up 3x in the last four years) and best in class return ratios with RoE of ~18-19% and RoA of 1.6% in the past four years.

Further, the major factor on the back of which the stock got re-rated from time to time was that such a strong performance has been accomplished in a strained economic environment wherein the banking system has been plagued by declining growth and increasing deterioration in asset quality. IIB, owing to its ideal mix of the loan book (niche presence in vehicle finance), improving CASA franchise and lower exposure to stressed sectors was able to ring fence itself from major systemic concerns and deliver strong results.

IIB has continued to deliver a strong performance leading to continuous re-rating. Consistent return ratios of ~18% RoE & ~2% RoA provide comfort. We largely maintain our estimates and expect PAT CAGR of 25% to ₹ 4481 crore by FY19E. The bank is considering Bharat Financial inclusion for prospective amalgamation, which is value accretive in terms of higher margin business. In addition, warrant issuance to maintain promoter stake in case of merger of the said MFI business is on the cards. Keeping in perspective the above strategic developments and fundamental strength, we upgrade our rating to BUY. We revise our target price to ₹ 1920 (valuing at 4.3x FY19E ABV and 25x FY19E EPS) vs. ₹ 1650 earlier.

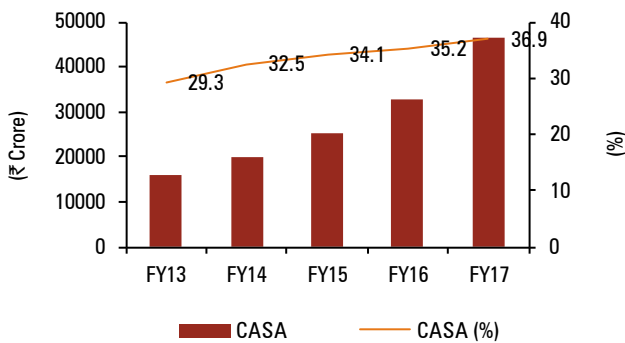
Exhibit 9: Valuation

	NII (₹ cr)	Growth (%)	PAT (₹ cr)	Growth (%)	P/E (x)	ABV (₹)	P/ABV (x)	RoA (%)	RoE (%)
FY16	4,517	32.1	2,286.5	27.4	45.4	291.8	6.0	1.8	16.2
FY17	6,063	34.2	2,868.6	25.5	36.4	331.6	5.3	1.8	15.1
FY18E	7,041	16.1	3,510.0	22.4	29.8	379.3	4.6	1.8	16.1
FY19E	8,565	21.7	4,481.2	27.7	23.3	441.9	4.0	1.9	17.7

Source: Company, ICICIdirect.com Research

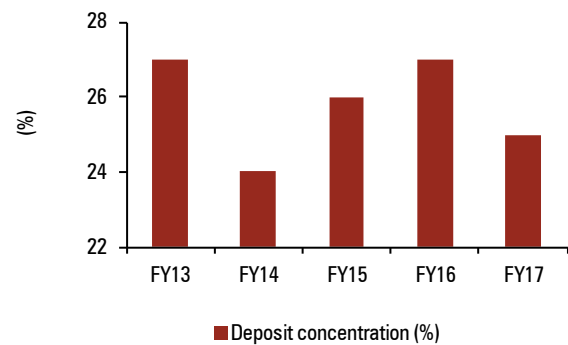
Annual Report Analysis

Exhibit 10: CASA ratio continues above 35% mark...



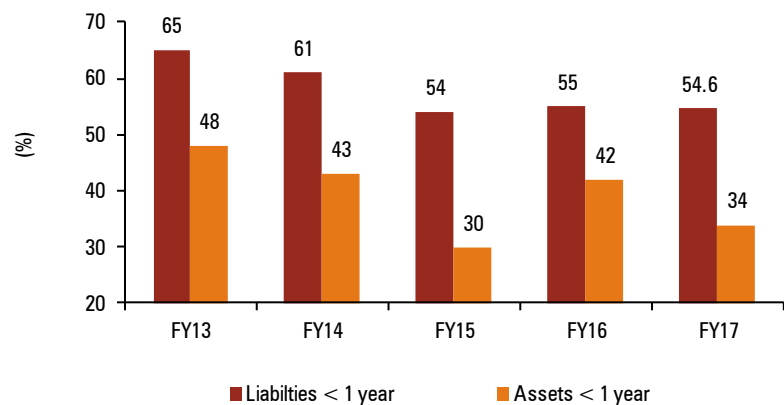
Source: Company, ICICIdirect.com, Research

Exhibit 11: ...with decline in concentration of deposits



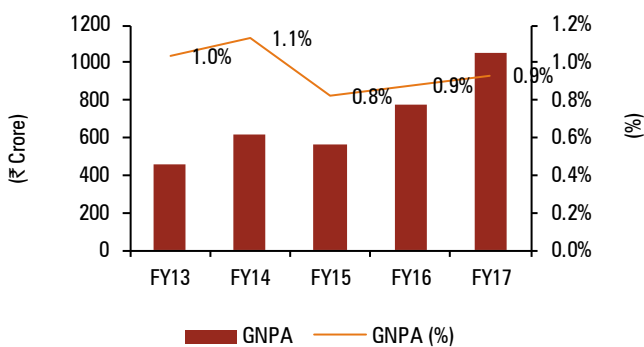
Source: Company, ICICIdirect.com, Research, * Top 20 depositors

Exhibit 12: Asset-liability maturity (ALM) gap remains high



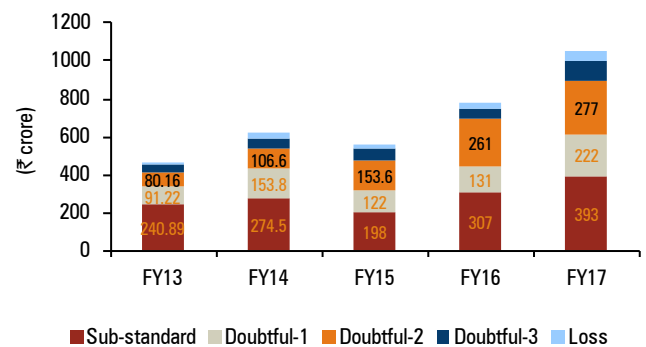
Source: Company, ICICIdirect.com, Research

Exhibit 13: Asset quality continues to remain robust



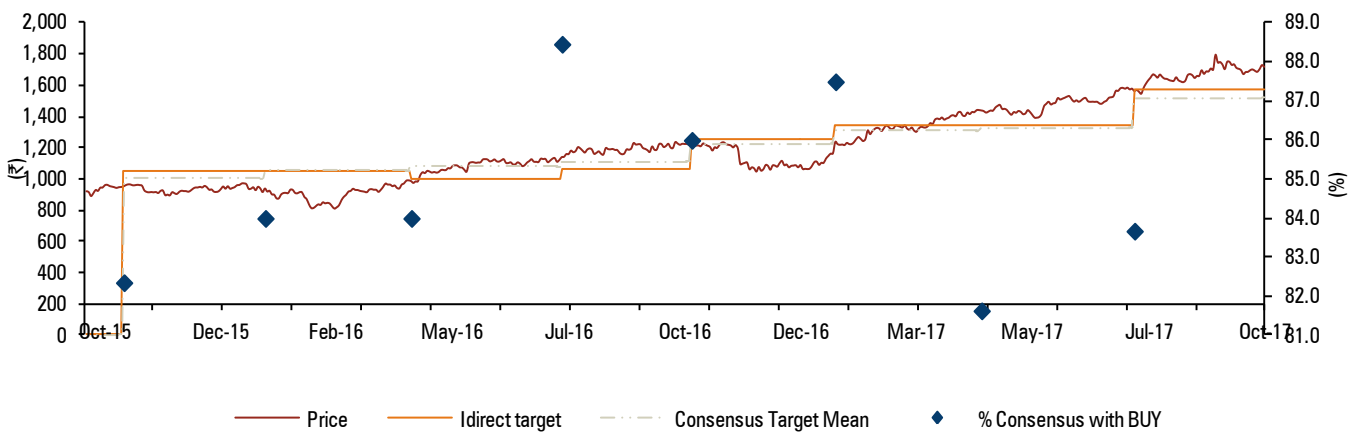
Source: Company, ICICIdirect.com, Research

Exhibit 14: Doubtful assets remain high



Source: Company, ICICIdirect.com, Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
FY04	Ashok Leyland Finance (ALF), an NBFC, merged with IndusInd Bank, which enabled it to have a niche presence in the vehicle financing space
Jan-07	Aviva Life Insurance and IndusInd Bank announce their tie-up as bancassurance partners
Feb-08	A new management team headed by Romesh Sobti inducted from ABN Amro Bank NV, leading to a sharp turnaround of the bank
Mar-09	The new management focused on improving liability franchise as low cost CASA ratio improved from 15.7% in FY08 to 29.3% in FY13. On the lending side, it reduced exposure to risky segments like unsecured loans and focused on high yielding-relatively less risky segments like CV, car loans, UV, three-wheelers, LAP, etc.
FY11	IndusInd Bank enters into an agreement with Deutsche Bank to acquire its credit card business in India
FY11	IndusInd Bank signs an MoU with HDFC Ltd for home loans
FY11	Planning Cycle I (FY08-FY11) successfully achieved; launches Planning Cycle II (FY11-14)
Dec-11	Savings rate deregulation in Q3FY12 wherein IIB offers higher rates (6% above ₹ 1 lakh and 5.5% up to ₹ 1 lakh)
FY13	Branch network touches 500 and launches Planning Cycle III (FY14-FY16)
Apr-13	On April 1, 2013, the bank included in the Nifty 50 benchmark index
May-13	IndusInd was the best performing stock in the banking industry as it rose from ₹ 45 in FY09 to all-time high of ₹ 523.
Jul-13	RBI tightens liquidity by raising MSF rate by 3% and various other measures. IndusInd impacted due to its high reliance on wholesale deposits (50%)
Sep-13	Arrival of new RBI Governor changes sentiment, eases a few of the tight liquidity measures due to which the stock of IndusInd bounces back
Jun-15	Raises around ₹ 5000 crore via QIP (including allotment to promoters)

Source: Company, ICICIdirect.com Research

Top 10 shareholders

Rank	Name	Latest Filing	% OS	Position (m)	Change (m)
1	Hinduja Group	30-Jun-2017	14.96%	89.60M	0
2	Prans Asset Management, Ltd.	30-Jun-2017	3.51%	21.01M	0
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Dec-2016	1.63%	9.79M	-0.63M
4	Icon Capital Limited	30-Jun-2017	1.52%	9.10M	0
5	UTI Asset Management Co. Ltd.	31-Aug-2017	1.45%	8.70M	-0.04M
6	Aditya Birla Sun Life AMC Limited	31-Aug-2017	1.41%	8.47M	+0.10M
7	J.P. Morgan Asset Management (Hong Kong) Ltd.	31-Aug-2017	1.32%	7.88M	-0.22M
8	ICICI Prudential Life Insurance Company Ltd.	30-Jun-2017	1.22%	7.28M	-0.20M
9	Schroder Investment Management (Hong Kong) Ltd.	30-Jun-2017	1.18%	7.07M	+0.09M
10	SBI Funds Management Pvt. Ltd.	31-Aug-2017	1.16%	6.93M	+0.16M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Promoter	14.86	14.99	15.00	14.97	15.00
FII	43.81	43.14	43.00	43.10	43.00
DII	11.59	12.44	13.00	12.68	12.60
Others	29.74	29.43	29.00	29.25	29.40

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Carmignac Gestion	+67.0M	+2.93M	Goldman Sachs Asset Management International	-198.80M	-7.67M
APG Asset Management	+59.6M	+2.71M	Grantham Mayo Van Otterloo & Co LLC	-24.51M	-1.07M
Reliance Nippon Life Asset Management Limited	+35.99M	+1.39M	DSP BlackRock Investment Managers Pvt. Ltd.	-18.25M	-0.70M
Florida State Board of Administration	+15.70M	+0.71M	ICICI Prudential Asset Management Co. Ltd.	-11.49M	-0.44M
Asia Corporation L.L.P.	+8.24M	+0.36M	Nordea Funds Oy	-8.19M	-0.36M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Interest Earned	11,871.7	14,405.6	17,234.0	20,924.1
Interest Expended	7355.2	8343.1	10193.0	12358.7
Net Interest Income	4,516.6	6,062.5	7,041.0	8,565.4
Growth (%)	32.1	34.2	16.1	21.7
Non Interest Income	3296.9	4171.5	4984.2	5975.9
Fees and advisory	2231.5	2895.3	3567.1	4394.6
Treasury Income	145.3	276.9	332.3	398.8
Other income	920.2	999.2	1084.8	1182.5
Net Income	7813.5	10234.0	12025.1	14541.3
Employee cost	1235.7	1520.7	1735.3	1976.3
Other operating Exp.	2436.4	3262.4	3787.9	4604.9
Operating Income	4141.4	5451.0	6501.9	7960.1
Provisions	672.2	1090.6	1188.6	1170.4
PBT	3469.3	4360.4	5313.3	6789.6
Taxes	1182.8	1491.8	1803.3	2308.5
Net Profit	2,286.5	2,868.6	3,510.0	4,481.2
Growth (%)	27.4	25.5	22.4	27.7
EPS (₹)	38.4	48.0	58.7	74.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Valuation				
No. of shares (crore)	59.5	59.8	59.8	59.8
EPS (₹)	38.4	48.0	58.7	74.9
DPS (₹)	5.1	5.2	6.5	8.4
BV (₹)	297.2	338.9	390.0	455.1
ABV (₹)	291.8	331.6	379.3	441.9
P/E	45.4	36.4	29.8	23.3
P/BV	5.9	5.2	4.5	3.8
P/ABV	6.0	5.3	4.6	4.0
Yields & Margins (%)				
Net Interest Margins	4.1	4.3	4.1	4.0
Yield on assets	10.6	10.3	10.0	9.9
Avg. cost on funds	7.0	6.3	6.2	6.1
Yield on average advances	11.8	11.4	11.3	11.3
Avg. Cost of Deposits	7.0	6.5	6.3	6.3
Quality and Efficiency (%)				
Cost to income ratio	47.0	46.7	45.9	45.3
Credit/Deposit ratio	95.1	89.3	89.8	90.5
GNPA	0.9	0.9	1.0	1.1
NNPA	0.4	0.4	0.5	0.4
ROE	16.2	15.1	16.1	17.7
ROA	1.8	1.8	1.8	1.9

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Sources of Funds				
Capital	595.0	598.2	598.2	598.2
Reserves and Surplus	17087.2	19674.0	22727.1	26625.2
Networth	17682.2	20272.1	23325.3	27223.4
Deposits	93000.3	126572.2	157426.8	195696.2
Borrowings	24995.9	22453.7	24875.0	27582.6
Other Liabilities & Provisions	7204.8	8976.4	9213.3	9727.8
Total	142,883.2	178,274.4	214,840.4	260,229.9
Application of Funds				
Fixed Assets	1255.3	1335.3	1519.2	1731.1
Investments	33998.0	36614.4	38885.1	44719.8
Advances	88419.3	113080.5	141298.2	177168.4
Other Assets	9056.1	8902.3	14973.2	16510.9
Cash with RBI & call money	10111.9	21543.0	18164.7	20099.7
Total	142,840.6	181,475.5	214,840.4	260,229.9

Source: Company, ICICIdirect.com Research

Growth ratios (% growth)				
(Year-end March)	FY16	FY17	FY18E	FY19E
Total assets	27.8	27.0	18.4	21.1
Advances	28.5	27.9	25.0	25.4
Deposit	25.4	36.1	24.4	24.3
Total Income	23.9	22.5	19.6	21.1
Net interest income	32.1	34.2	16.1	21.7
Operating expenses	27.9	30.3	15.5	19.2
Operating profit	33.7	31.6	19.3	22.4
Net profit	27.4	25.5	22.4	27.7
Net worth	66.3	14.6	15.1	16.7
EPS	13.4	24.8	22.4	27.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Bank of Baroda (BANBAR)	140	200	Buy	31,875	6	10	19	23.5	13.8	7.4	1.5	1.2	0.9	0.2	0.3	0.6	3	6	10
Punjab National Bank (PUNBAN)	135	180	Buy	29,190	6	14	21	21.6	9.3	6.3	-0.7	2.7	1.7	0.2	0.4	0.5	3	7	10
Axis Bank (AXIBAN)	530	585	Buy	125,712	15	23	40	34.5	22.7	13.2	2.7	2.4	2.0	0.7	0.9	1.3	7	10	15
City Union Bank (CITUNI)	159	180	Buy	10,470	8	9	11	20.9	17.5	15.1	3.3	2.8	2.4	1.5	1.6	1.6	15	16	16
DCB Bank (DCB)	189	200	Hold	5,800	7	9	11	26.9	21.7	17.3	3.0	2.4	2.1	0.9	1.0	1.1	11	12	12
Federal Bank (FEDBAN)	117	140	Buy	23,078	5	6	8	24.2	20.3	15.0	2.5	2.0	1.8	0.8	0.9	1.0	10	11	12
HDFC Bank (HDFBAN)	1,842	1,840	Hold	555,151	57	68	84	32.4	27.0	21.8	5.4	4.9	4.3	1.9	1.9	2.0	18	19	20
IndusInd Bank (INDBA)	1,747	1,920	Buy	104,241	48	59	75	36.4	29.8	23.3	5.3	4.6	4.0	1.8	1.8	1.9	15	16	18
Jammu & Kashmir Bk(JAMKAS)	74	105	Buy	4,062	-31	8	12	-2.4	9.5	6.2	1.2	1.0	1.0	-2.0	0.5	0.7	-27	7	10
Kotak Mahindra Bank (KOTMAH)	1,058	970	Hold	201,058	19	23	30	57.1	45.2	35.6	7.5	6.5	5.7	1.7	1.8	2.0	13	14	16
Yes Bank (YESBAN)	370	360	Hold	83,574	74	99	128	5.0	3.7	2.9	0.8	0.7	0.6	1.8	1.8	1.9	19	19	20

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.