IndusInd Bank

Accumulate

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH, PRECISE, ACTIONABLE

Result Update

"Steady quarter"

- NII, in-line, albeit lower than loan growth (25% YoY) grew 20% YoY (at ₹ 18,948mn during Q3FY18 led by accelerating retail loan growth (24% YoY). Subsequently, NIM remained stable at 4% in Q3FY18.
- Advances during Q3FY18 grew 25% YoY at ₹ 1,285bn led by robust disbursement in Vehicle Finance at 34% YoY and Commercial Vehicle at 39% YoY. The bank continues to focus on non-vehicle loans (current share 18%; targeted share 20% by FY20).
- Other income grew 17% YoY at ₹ 11,868mn for the quarter driven by core fee income that reported 22% YoY growth. Treasury gains stood tepid for the quarter given the hardening of yields.
- Net profit grew 25% YoY (in-line with our expectation) driven by core fee income stood at ₹ 9,362mn and lower provisions which came down 20% QoQ; moderately up 9% YoY at ₹ 2,362mn.
- CASA stood strong at 42.9% during Q3FY18 compared to 37.1% in Q3FY17 and much ahead of targeted CASA of 40% by 2020 as per Planning Cycle 4 (FY17-FY20).
- GNPA abstemiously up at 1.16% (Q3FY18) vs 1.08% in Q2FY18; NNPA almost flat at 0.46%. For the quarter, slippages declined from 1.7% to 1.3% in Q3FY18 as corporate portfolio saw improvement QoQ. However, retail slippages showed slight improvement at 1.1% levels vs 1.2% in Q2FY18.This was followed by SMA 2 book standing negligible at <1% of the total book in Q3FY18.
- An astonishing performance in challenging environment prompt us to maintain premium valuation multiple of 4.3x P/ABV. However, the anticipated rapid progression of Planning Cycle 4 growth dynamics already stands captured in current premium valuations; moreover, the BHAFIN merger remains an overhang (until it crystallizes by Q2FY19) on the stock which is prompting us to maintain ACCUMULATE on the stock. Demonstration of stable asset quality, successful track record of growth with profitability and capital deployment efficiency reinforces northward bias.
- At CMP, the stock trades at 3.8x P/ABV FY19E. We introduce FY20E and envisage 29% earnings CAGR over FY18-FY20E.

Q3FY18 Result (₹ Mn)

Particulars	Q3FY18	Q3FY17	Q2FY18	QoQ (%)	YoY (%)
Interest earned	42,868	36,993	42,084	1.9	15.9
Interest expended	23,920	21,209	23,874	0.2	12.8
Net interest income	**18,948**	**15,784**	**18,210**	**4.1**	**20.0**
Other income	11,868	10,168	11,876	(0.1)	16.7
Total Net Income	**30,816**	**25,952**	**30,086**	**2.4**	**18.7**
Operating expenses	14,169	12,319	13,751	3.0	15.0
Pre-provision profits	**16,647**	**13,633**	**16,335**	**1.9**	**22.1**
Provisions	2,362	2,169	2,938	(19.6)	8.9
Tax expense	4,923	3,959	4,597	7.1	24.4
Reported Net Profit	**9,362**	**7,506**	**8,801**	**6.4**	**24.7**
Advances (₹ mn)	12,85,420	10,27,700	12,31,808	4.4	25.1
NIM (%)	4.0	4.0	4.0	(1.0)	(1.0)
CASA (%)	42.9	37.0	42.5	34.6	581.9
Gross NPA (%)	1.2	0.9	1.1	8.0	22.0

CMP	₹ 1,689
Target / Upside	₹ 1,900/13%
BSE Sensex	34,957
NSE Nifty	10,777
Scrip Details	
Equity / FV	₹ 5,982 mn/₹10/-
Market Cap	₹1,012bn
	USD 16bn
52-week High/Low	₹ 1,818/1,203
Avg. Volume (no)	1,435,482
NSE Symbol	INDUSINDBK
Bloomberg Code	IIB IN
Shareholding Pattern Dec'17(%)	
Promoters	15.0
MF/Banks/FIs	11.5
FIIs	44.5
Public / Others	29.0

Valuation (x)

	FY18E	FY19E	FY20E
P/E	27.7	21.4	16.3
P/ABV	4.5	3.8	3.2
ROAA	1.8	1.9	2.0
ROAE	16.8	18.8	20.5

Estimates (₹ mn)

	FY18E	FY19E	FY20E
NII	75,685	95,384	121,337
OPPAT	68,996	85,484	110,497
PAT	36,987	47,903	62,024
Adj. BV	374.8	439.9	528.6

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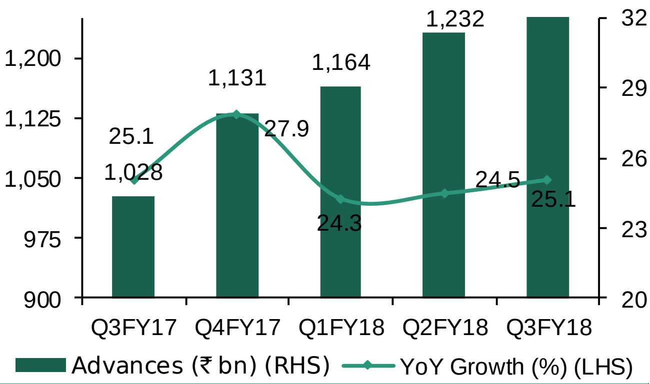
DOLAT CAPITAL

January 15, 2018

Q3FY18 – Key Concall Takeaways

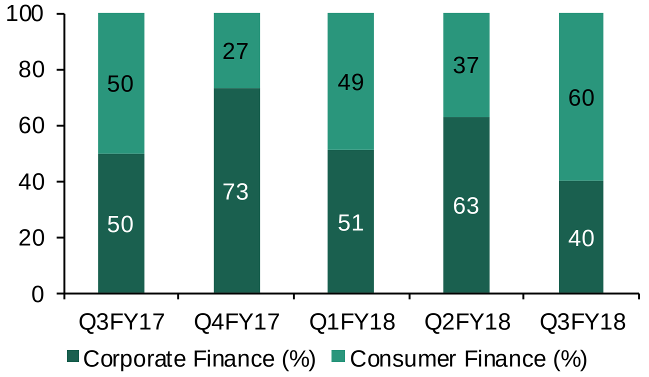
- A steady quarter in all business aspects. PAT grew by 25% YoY driven by 22% YoY core fee income growth. NIM remains stable at 4%, Cost of funds and yields were down in Q3FY18.
- If the Recap bonds qualify for SLR, then it will put more pressure on bond yields in Q4FY18.
- Opex in corporate banking business stood much lower than retail banking business.
- Strong loan growth of 25% YoY, where Corporate loan book grew by 26% YoY and Retail book grew by 24% YoY
- SA registered 65% YoY growth in Q3FY18. The management has given a CASA target of 45% by 2020
- Disbursement in Vehicle finance grew 34% YoY; Commercial vehicle disbursement grew 39% YoY
- Gross slippages have fallen from 1.7% to 1.3% in Q3FY18. GNPA & NNPA for Q3FY18 stood at 1.16% and 0.46% respectively.
- Restructured advances stood at 0.15%, restructured and GNPA to advances stood at 1.31%
- Outstanding SR in Q3FY18 stands at ₹ 4,400mn. During the quarter bank sold ₹ 400mn to ARC. Floating provisions stood at ₹ 700mn
- The return on risk-weighted assets during Q3FY18 was 2.37% (2.4% is the target by 2020)
- Digital platform showed good traction during the quarter. 35% of new customers are acquired via tab banking. 14% of the credit card business acquired through online channels.
- On BHAFIN merger, the reply from regulators is awaiting. The management expects the merger to be completed by Q2FY19.

Exhibit 1: Strong loan growth, driven by corporate and consumer finance loan book



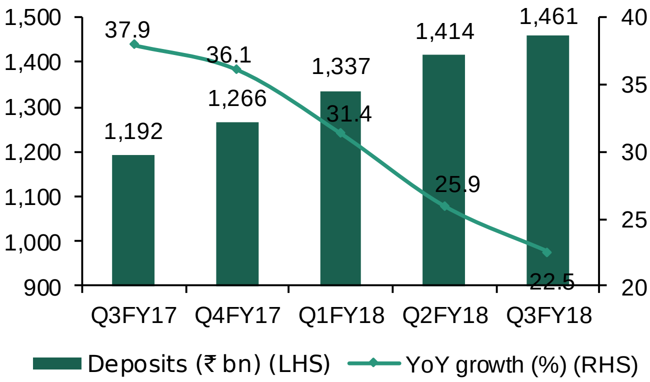
Source: Company, DART

Exhibit 2: Advances breakup – corporate



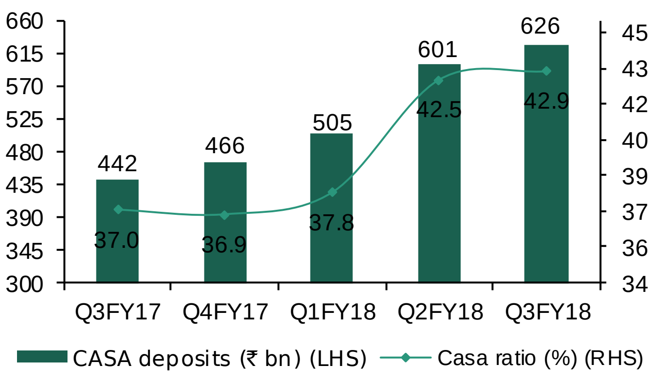
Source: Company, DART

Exhibit 3: Strong growth in deposits, driven by 68% YoY growth in SA



Source: Company, DART

Exhibit 4: CASA traction largely led by growth in SA



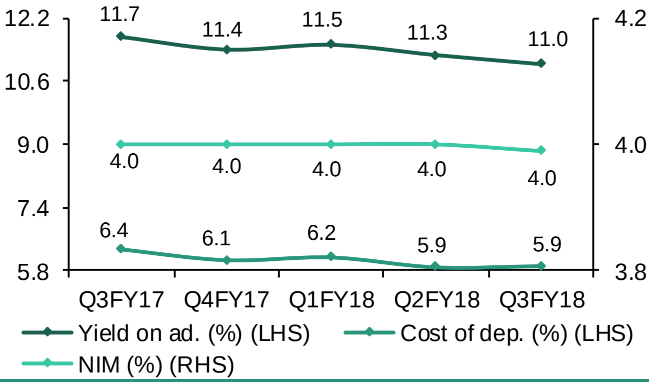
Source: Company, DART

Exhibit 5: Other income grew by 17% YoY; Core fee income grew by 22% YoY

Other income breakup	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Trade and remittances	1,061	1,210	1,310	1,280	1,270
Foreign exchange income	1,793	1,700	1,980	1,830	2,020
Distribution fees	1,812	2,410	2,100	2,370	2,560
General Banking fees	637	630	640	650	700
Loan processing fees	1,946	2,430	1,960	2,140	2,420
Investment banking	1,599	1,590	1,750	1,860	1,800
Total core fees	**8,848**	**9,970**	**9,740**	**10,130**	**10,770**
Securities/MM/FX trading/Others	1,320	2,150	1,930	1,750	1,100
Total other income	**10,168**	**12,120**	**11,670**	**11,880**	**11,870**

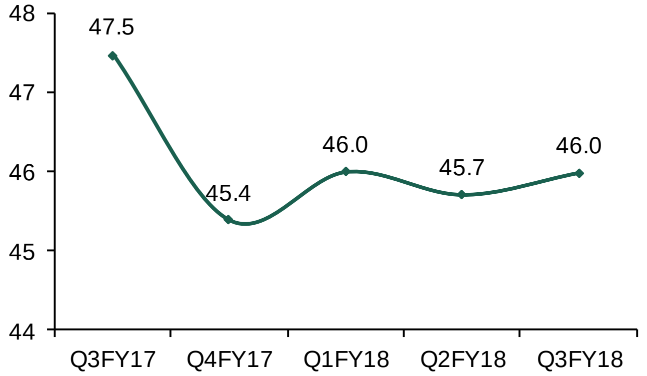
Source: DART, Company

Exhibit 6: NIM remains stable



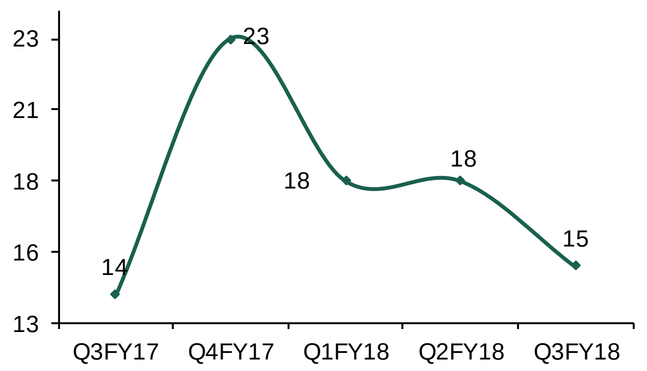
Source: Company, DART

Exhibit 7: Cost to income improvement on gradual mode



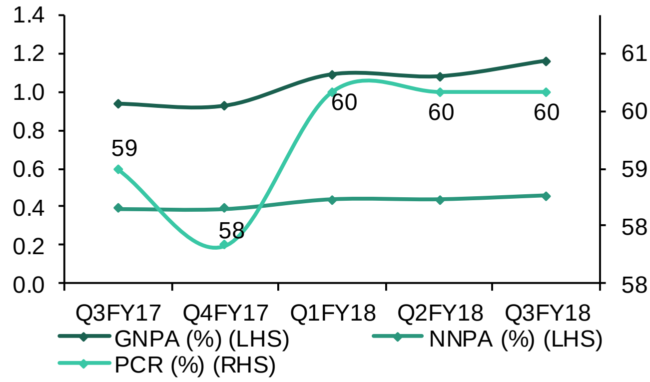
Source: Company, DART

Exhibit 8: Credit cost declined on QoQ basis



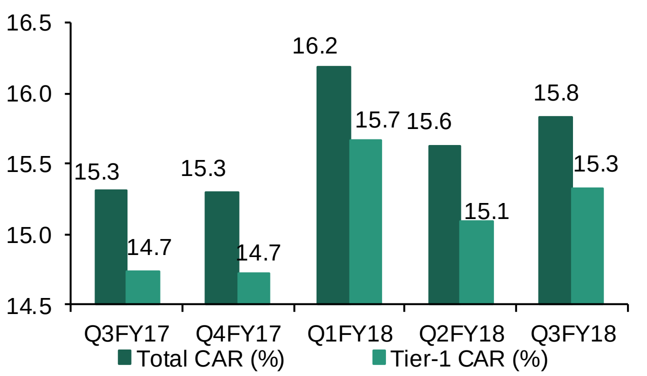
Source: Company, DART

Exhibit 9: Asset Quality remains stable on QoQ basis



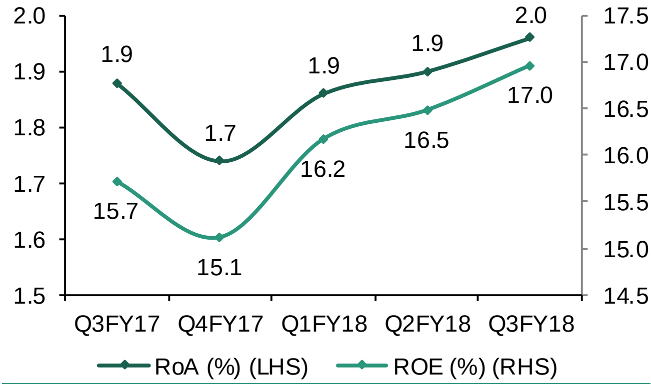
Source: Company, DART

Exhibit 10: Capital adequacy remains strong



Source: Company, DART

Exhibit 11: Return ratios continue to strengthen



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Interest income	144,057	174,155	219,434	276,354
Interest expense	(83,431)	(98,470)	(124,050)	(155,017)
Net interest income	**60,626**	**75,685**	**95,384**	**121,337**
growth (%)	*34.2*	*24.8*	*26.0*	*27.2*
Non-interest income	41,715	51,681	64,368	80,756
Operating income	**102,341**	**127,367**	**159,753**	**202,093**
Operating expenses	(47,831)	(58,371)	(74,269)	(91,596)
- Staff expenses	*(16,075)*	*(20,546)*	*(26,990)*	*(35,563)*
Pre-provisions profit	**54,510**	**68,996**	**85,484**	**110,497**
Prov. & Contingencies	(10,913)	(12,743)	(12,350)	(16,207)
Pre-tax profit	**43,597**	**56,254**	**73,134**	**94,290**
Tax (current + deferred)	(14,918)	(19,267)	(25,231)	(32,266)
Net profit	**28,679**	**36,987**	**47,903**	**62,024**
growth (%)	*25.4*	*29.0*	*29.5*	*29.5*

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Cash and balance with RBI/Banks	186,283	192,249	195,180	228,051
Investments	367,021	469,633	562,471	712,980
Advances	1,130,805	1,424,814	1,809,514	2,298,083
Interest earning assets	**1,684,109**	**2,086,696**	**2,567,165**	**3,239,114**
Fixed assets (Net block)	13,352	16,709	16,880	18,262
Other assets	89,023	144,675	147,669	207,021
Total assets	**1,786,484**	**2,248,080**	**2,731,714**	**3,464,398**
Deposits	1,265,722	1,634,325	2,002,367	2,568,711
Other interest-bearing liabilities	224,537	288,162	349,194	471,962
Total Interest-bearing liabilities	**1,490,259**	**2,010,035**	**2,452,748**	**3,131,179**
Other liabilities and provisions	89,764	87,549	101,187	90,506
Share capital	5,982	5,982	5,982	5,982
Reserves & surplus	200,480	231,911	272,833	327,237
Total equity & liabilities	**1,786,484**	**2,248,080**	**2,731,714**	**3,464,398**

E – Estimates

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Valuation ratios				
Adjusted EPS (₹)	47.2	60.9	78.9	103.7
BVPS (₹)	338.9	381.7	448.1	536.3
Adj. Book NAV/share (₹)	334.1	374.8	439.9	528.6
PER (x)	35.8	27.7	21.4	16.3
Price/Book (x)	5.0	4.4	3.8	3.1
Price/Adjusted book (x)	5.1	4.5	3.8	3.2
Dividend Yield (%)	0.3	0.5	0.6	0.7
Du-Pont ratios				
NII/Avg. Assets (%)	3.8	3.8	3.8	3.9
Non-int. income/Avg Assets	2.6	2.6	2.6	2.6
- Fee income / Avg Assets	*2.5*	*2.5*	*2.5*	*2.6*
- Trading gains / Avg Asst.	*0.1*	*0.1*	*0.1*	*0.0*
Cost / Avg Assets	3.0	2.9	3.0	3.0
Non-tax Provi. / Avg Assets	0.7	0.6	0.5	0.5
Tax Provisions / Avg Assets	0.9	1.0	1.0	1.0
ROA (%)	1.8	1.8	1.9	2.0
Leverage	7.9	9.2	9.8	10.3
ROE (%)	14.3	16.8	18.8	20.5
Balance Sheet ratios				
Loan growth (%)	27.9	26.0	27.0	27.0
Deposit growth (%)	36.1	29.1	22.5	28.3
Loans/Deposits (%)	89.3	87.2	90.4	89.5
Investments/Deposits (%)	29.0	28.7	28.1	27.8
CASA ratio (%)	36.9	39.4	41.1	42.6
Profitability ratios				
NIMs (%)	4.1	4.0	4.1	4.2
Interest spread (%)	3.3	3.5	3.7	3.8
Yield on advances (%)	11.4	11.2	11.4	11.1
Cost of deposits (%)	6.8	6.2	6.1	6.0
Efficiency/other P/L ratios				
Non-int. inc./Net inc. (%)	68.8	40.6	40.3	40.0
Trading inc./Net inc. (%)	1.4	1.1	0.9	0.7
Cost/Income (%)	46.7	45.8	46.5	45.3
Asset quality ratios				
Gross NPLs (%)	0.9	1.1	1.1	1.0
Net NPLs (%)	0.4	0.4	0.4	0.3
Net NPLs/Net worth (%)	2.2	2.6	2.7	2.1
Loan provi./Avg loans (%)	1.1	0.9	0.7	0.8
Provisions cover (%)	58.0	60.0	62.0	70.0
Capitalisation ratios				
Tier I cap.adequacy (%)	15.3	13.4	12.8	12.3
Total cap.adequacy (%)	14.7	13.3	12.9	12.5

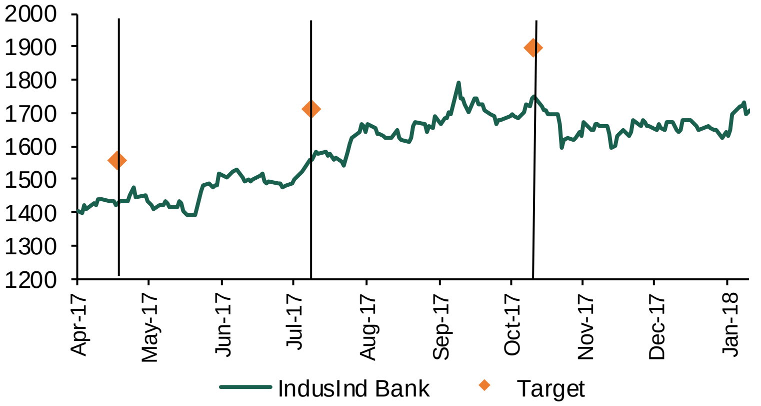
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Apr-17	Accumulate	1,561	1,436
Jul-17	Accumulate	1,713	1,560
Oct-17	Accumulate	1900	1750

*** As on Recommended Dated**

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DART

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