India I Equities

Financials
Company Update
Change in Estimates ☐ Target ☐ Reco ☐

10 July 2018

IndusInd Bank

Rating: **Buy**
Target Price: ₹2,248
Share Price: ₹1,930

Burly business momentum continues; retaining a Buy

Strong traction in IIB's balance sheet continues. We note better headline asset quality parameters and are sanguine about its loan-growth prospects over FY19-20. The strategic BHAFIN deal would be synergistic in the medium term. We maintain our Buy recommendation.

Asset quality improves. Slippages eased to ~1.26% of IIB's loan book (down 83bps y/y, 111bps q/q) and credit cost softened to 55bps (a many-quarter low). Ahead, we expect the bank to maintain its stable asset quality over FY19-20 due to overall improvement in the rating profile of its corporate book and declining risk weightings of its vehicle-finance book.

Credit growth maintained. The loan book grew 29.4% y/y, driven by secular growth across all segments, led by corporate (up 30% y/y), vehicle and retail (both up ~28% y/y). We expect ~26% loan growth in the medium term. Growth would be primarily driven through the focus on the retail portfolio, as management intends to rebalance the corporate- and retail-book ratio to 50:50 (from 60:40).

NIM to be resilient in the medium term. NIM was ~3.92%, down 5bps sequentially, on account of a sharp increase in the cost of funds (up 35bps sequentially). Nevertheless, we expect NIM to be resilient at current levels on the back of the strong CASA franchise (43.4%) and an increase in the share of the retail portfolio (not accounting for the BHAFIN synergies).

Valuation. Our Jul'19 target of ₹2,248 is based on the two-stage DDM model. This implies a ~4.15x P/ABV multiple on its FY20e book. **Risks:** Lumpy slippages from the corporate book; any significant negative surprises on asset quality from the microfinance book, post-merger.

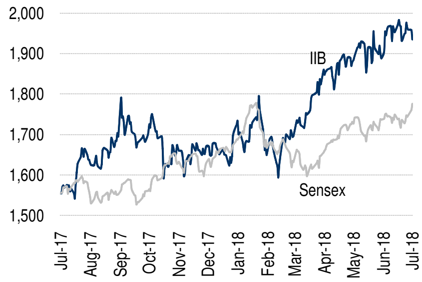
Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Net interest income (₹ m)	45,166	60,626	74,974	96,512	1,21,961
Pre-provisioning profit (₹ m)	41,414	54,510	66,561	83,548	1,03,419
Provisions (₹ m)	6,722	10,913	11,754	11,950	13,436
PAT (₹ m)	22,864	28,679	36,060	46,897	58,939
EPS (₹)	38	48	60	78	98
NIM (%)	3.9	4.1	4.0	4.0	4.0
Cost-Income (%)	47	47	46	45	45
RoE (%)	16.2	15.0	16.2	18.1	19.3
RoA (%)	1.8	1.8	1.8	1.9	1.9
Advances growth (%)	28.5	27.9	28.2	26.0	26.0
GNPA (%)	0.9	0.9	1.2	1.1	1.0
CAR (%)	15.5	15.3	15.0	14.7	14.2
P / E (x)	50.2	40.3	32.1	24.7	19.7
P / BV (x)	6.5	5.6	4.9	4.1	3.5
P / ABV (x)	6.6	5.7	5.0	4.2	3.6

Source: Company, Anand Rathi Research

Key data	IIB IN / INBK.BO
52-week high / low	₹1,995 / 1,526
Sensex / Nifty	36240 / 10947
3-m average volume	$29.4m
Market cap	₹1162bn / $16883m
Shares outstanding	600m

Shareholding pattern (%)	Mar '18	Dec '17	Sep '17
Promoters	16.8	16.8	16.8
- of which, Pledged	26.5	26.5	26.6
Free float	83.2	83.2	83.2
- Foreign institutions	52.1	49.9	48.3
- Domestic institutions	11.2	12.9	14.1
- Public	19.9	20.4	20.9

Relative price performance



Source: Bloomberg

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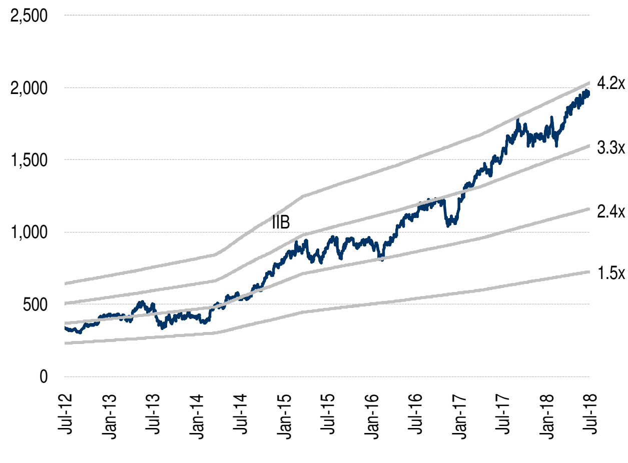
Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Net interest income	45,166	60,626	74,974	96,512	1,21,961
NII growth (%)	*32.1*	*34.2*	*23.7*	*28.7*	*26.4*
Non-interest income	32,969	41,715	47,501	55,429	65,762
Income	78,135	1,02,341	1,22,475	1,51,941	1,87,724
Income growth (%)	*34.2*	*31.0*	*19.7*	*24.1*	*23.6*
Operating expenses	36,721	47,831	55,914	68,393	84,305
PPOP	41,414	54,510	66,561	83,548	1,03,419
PPOP growth (%)	*33.7*	*31.6*	*22.1*	*25.5*	*23.8*
Provisions	6,722	10,913	11,754	11,950	13,436
PBT	34,693	43,597	54,807	71,598	89,983
Tax	11,828	14,918	18,747	24,701	31,044
PAT	22,864	28,679	36,060	46,897	58,939
PAT growth (%)	*27.5*	*25.4*	*25.7*	*30.1*	*25.7*
FDEPS (₹ /sh)	38.4	47.9	60.1	78.1	98.2
DPS (₹ /sh)	5.9	6.0	7.5	9.8	12.3

Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



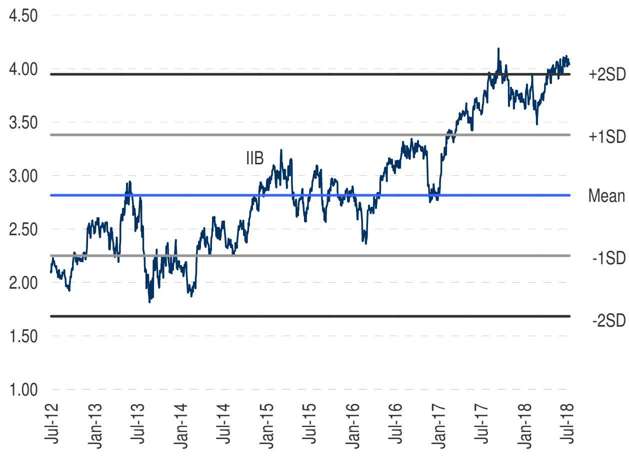
Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	5,950	5,981	6,002	6,002	6,002
Reserves & surplus	1,70,872	2,00,328	2,32,268	2,73,303	3,24,874
Deposits	9,30,003	12,65,722	15,16,392	18,65,162	22,94,149
Borrowings	2,21,559	2,24,537	3,82,891	4,59,469	5,39,876
Minority interests	0	0	0	0	0
Total liabilities	**14,00,570**	**17,86,484**	**22,16,262**	**27,15,615**	**33,37,426**
Advances	8,84,193	11,30,805	14,49,537	18,26,416	23,01,284
Investments	3,12,143	3,67,021	5,00,767	6,00,921	7,21,105
Cash & bank bal	45,210	77,487	1,09,624	1,22,779	1,37,512
Fixed & other assets	12,553	13,352	13,398	14,067	14,771
Total assets	**14,00,570**	**17,86,484**	**22,16,272**	**27,15,615**	**33,37,426**
No. of shares (m)	595	598	600	600	600
Deposits growth (%)	25.4	36.1	19.8	23.0	23.0
Advances growth (%)	28.5	27.9	28.2	26.0	26.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



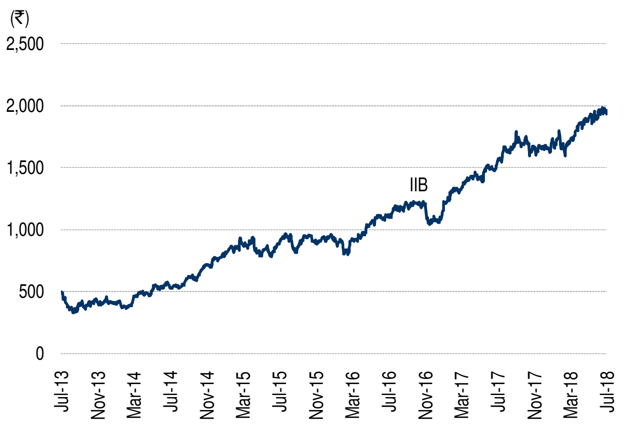
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
NIM	3.9	4.1	4.0	4.0	4.0
Other inc. / total inc.	42.2	40.8	38.8	36.5	35.0
Cost-income	47.0	46.7	45.7	45.0	44.9
Provision coverage	58.6	58.4	56.3	58.5	59.4
Dividend payout	15.4	12.5	12.5	12.5	12.5
Credit-deposit	95.1	89.3	95.6	97.9	100.3
Investment-deposit	33.6	29.0	33.0	32.2	31.4
Gross NPA	0.9	0.9	1.2	1.1	1.0
Net NPA	0.4	0.4	0.5	0.5	0.4
BV (₹)	297.2	344.9	397.0	465.3	551.3
Adj. BV (₹)	293.4	339.8	388.3	455.8	540.8
CAR (%)	15.5	15.3	15.0	14.7	14.2
- Tier 1	14.9	14.7	14.6	14.1	13.6
RoE	16.2	15.0	16.2	18.1	19.3
RoA	1.8	1.8	1.8	1.9	1.9

Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Asset quality

- We expect slippages to ease from current levels on account of the

  a) negligible restructured book (5bps of the total book),

  b) low SMA2 and

  c) downtick in the weighted-average risk score for the vehicle-finance portfolio (1.77 for Jun'18 down from 1.85 in Sep'16).

- Management expects credit cost for FY19 to come at ~50-60bps.

Fig 7 – Segment-wise results

	FY16	FY17				FY18				FY19
Break-up of GNPA (₹ m)	**Q4**	**Q1**	**Q2**	**Q4**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Opening balance	6,810	7,770	8,610	8,990	9,710	10,550	12,720	13,460	14,990	17,050
Slippages	2,740	2,530	2,610	2,810	6,340	6,080	4,980	4,080	8,600	4,750
Gross-slippage ratio (%)	*0.31*	*0.27*	*0.26*	*0.27*	*0.56*	*0.52*	*0.40*	*0.32*	*0.59*	0.32
Reductions	1,780	1,690	2,230	2,090	5,500	3,910	4,240	2,550	6,540	4,390
Closing balance	7,770	8,610	8,990	9,710	10,550	12,720	13,460	14,990	17,050	17,410
Total GNPA	**7,768**	**8,606**	**8,990**	**9,716**	**10,549**	**12,717**	**13,453**	**14,987**	**17,049**	17,406
GNPA (%)	*0.87*	*0.91*	*0.90*	*0.94*	*0.93*	*1.09*	*1.08*	*1.16*	*1.17*	1.15
NNPA (%)	*0.36*	*0.38*	*0.37*	*0.39*	*0.39*	*0.44*	*0.44*	*0.46*	*0.51*	0.51

Source: Company, Anand Rathi Research

Fig 8 – Segment-wise results

	FY16	FY17				FY18				FY19
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Gross NPA - Segment wise - Consumer Finance (%)										
Commercial Vehicles	1.00	1.08	1.07	1.02	0.97	1.12	1.02	0.93	0.99	0.91
Utility Vehicles	1.21	1.27	1.17	1.07	1.12	1.42	1.37	1.25	1.28	1.38
Construction Equipment	1.26	1.39	1.40	1.24	1.18	1.07	0.97	1.06	1.07	0.88
Small CVs	0.98	1.05	0.97	0.83	0.90	1.33	1.10	1.22	1.27	1.09
2-wheelers	3.02	3.15	3.62	3.60	3.52	3.55	3.55	3.78	3.81	3.67
Cars	0.50	0.49	0.49	0.75	0.66	0.74	0.68	0.62	0.67	0.69
LAP / HL/PL	0.65	0.68	0.71	0.81	0.87	1.02	0.37	0.56	0.59	0.39
Tractors	-	0.24	0.49	0.28	0.37	0.85	1.06	1.15	1.29	1.20
Cards	1.45	1.73	1.68	1.62	1.34	1.21	1.48	1.65	1.61	1.77
Total	**1.08**	**1.14**	**1.17**	**1.16**	**1.12**	**1.25**	**1.19**	**1.10**	**1.13**	**1.04**

Source: Company, Anand Rathi Research

Fig 9 – Segment-wise results

	FY16	FY17				FY18				FY19
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
NPA - Corporate (%)										
GNPA	0.74	0.76	0.73	0.79	0.81	0.98	1.12	1.21	1.20	1.23
Slippages	0.85	0.70	0.51	0.75	2.87	2.03	1.55	0.75	2.46	0.92
Credit cost	0.56	0.48	0.52	0.51	1.17	0.62	0.76	0.39	0.67	0.35

Source: Company, Anand Rathi Research

Core fee income

"Other income" clocked a strong ~32% CAGR over FY08-18; now, it constitutes ~38% of income. In the quarter, it rose ~12% y/y despite a ~29% drop in trading income. We expect the growth momentum in core fee income to be in line with balance-sheet growth over FY19-20.

Fig 10 – Segment-wise results

	FY16	FY17				FY18				FY19
Fee income (₹ m)	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
General banking fees	483	555	494	637	630	640	650	700	650	800
Processing Fee	2,280	2,151	2,015	1,946	2,430	1,960	2,140	2,420	2,280	2,300
FX	1,401	1,510	1,556	1,793	1,700	1,980	1,830	2,020	1,970	2,280
Insurance	1,384	1,367	1,558	1,812	2,410	2,100	2,370	2,560	2,730	2,780
Investment banking	1,222	1,143	1,608	1,599	1,590	1,750	1,860	1,800	1,970	2,080
Trade & remittances	973	1,093	1,025	1,061	1,200	1,310	1,280	1,270	1,530	1,410
Total	**7,742**	**7,819**	**8,256**	**8,848**	**9,960**	**9,740**	**10,130**	**10,770**	**11,130**	**11,650**

Source: Company, Anand Rathi Research

Loan book

- The corporate book was largely driven by capturing market-share from PSBs, refinancing four NCLT accounts and working-capital loans to better-rated corporate bodies.
- Although management intends to increase the proportion of the consumer book, it would not slow down growth in corporate loans and would pursue growth if opportunities in better-rated corporate bodies are available.
- ~45% of the book is under MCLR, and ~60% of corporate book is under MCLR.

Fig 11 – Break-up of advances

(₹ %)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Q1FY19
Corporate and commercial banking (CCB)	**55.0**	**59.6**	**55.6**	**50.8**	**49.5**	**55.0**	**58.7**	**58.7**	**59.7**	**60.5**	60.0
Corporate banking	42.5	50.7	45.5	42.3	41.3	45.0	45.7	47.4	47.5	48.3	47.5
Small Business	12.5	8.9	10.1	8.5	8.1	10.1	13.0	11.3	12.3	12.3	12.6
Consumer finance division (CFD)	**45.0**	**40.4**	**44.4**	**49.2**	**50.5**	**45.0**	**41.3**	**41.3**	**40.3**	**39.5**	40.0
Commercial vehicles	26.4	24.0	21.8	23.6	22.5	17.4	15.4	15.9	13.8	13.7	13.7
Equipment financing	5.9	5.5	5.7	6.1	6.1	5.2	4.1	3.7	3.6	3.8	4.0
Two wheelers	5.5	4.4	4.3	4.3	4.3	4.6	4.1	3.4	2.9	2.5	2.5
Car loans	3.2	2.3	3.2	4.0	4.6	4.8	4.6	4.4	4.1	3.7	3.7
Utility vehicles + 3W	2.7	3.4	8.5	9.0	8.8	7.2	5.6	6.5	5.8	5.6	5.7
Home loans + LAP	1.1	0.8	0.9	1.6	3.4	4.9	6.5	5.9	6.2	5.5	5.4
Personal loans + Credit cards	0.2	-	-	0.7	0.8	0.8	1.0	1.4	3.8	4.7	4.9
Total	100	100	100	100	100	100	100	100	100	100	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 12 – Income statement

	FY17		FY18				FY19
(₹ m)	Q3	Q4	Q3	Q4	Q3	Q4	Q1
Interest income	36,993	38,300	41,355	42,084	42,868	46,501	50,682
Interest expense	21,209	21,626	23,615	23,874	23,920	26,425	29,457
NII	**15,784**	**16,675**	**17,741**	**18,210**	**18,948**	**20,076**	21,224
Y/Y growth (%)	*34.5*	*31.5*	*30.8*	*24.7*	*20.0*	*20.4*	19.6
Non-interest income	10,168	12,113	11,673	11,876	11,868	12,085	13,016
Trading profits	1,320	2,150	1,930	1,750	1,100	950	1,370
Total Income	**25,952**	**28,788**	**29,413**	**30,086**	**30,816**	**32,161**	34,240
Y/Y growth (%)	*29.0*	*32.0*	*26.3*	*23.8*	*18.7*	*11.7*	16.4
Operating expenses	12,319	13,065	13,528	13,751	14,169	14,467	15,129
Of which staff cost	3,940	3,943	4,222	4,450	4,600	4,535	4,620
PPOP	13,633	15,722	15,885	16,335	16,647	17,694	19,111
Y/Y growth (%)	*28.5*	*36.6*	*28.8*	*27.5*	*22.1*	*12.5*	20.3
Total provisions	2,169	4,301	3,100	2,938	2,362	3,356	3,500
PBT	11,465	11,421	12,786	13,398	14,285	14,338	15,611
Tax	3,959	3,905	4,420	4,597	4,923	4,808	5,254
PAT	**7,506**	**7,516**	**8,365**	**8,801**	**9,363**	**9,531**	10,357
Y/Y growth (%)	*29.2*	*21.2*	*26.5*	*25.0*	*24.7*	*26.8*	23.8

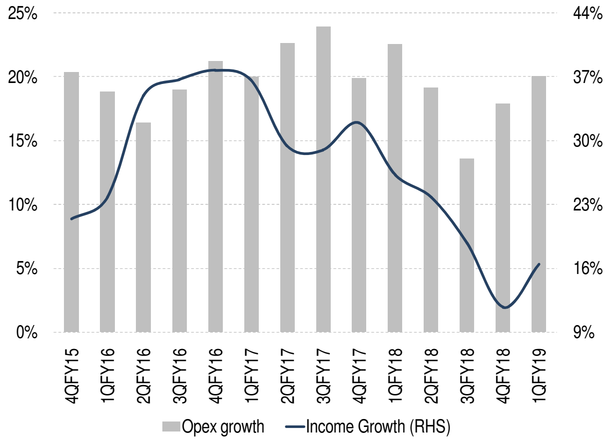
Source: Company, Anand Rathi Research

Fig 13 – Balance sheet

	FY17		FY18				FY19
(₹ m)	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Equity capital	5,970	5,982	5,990	5,989	6,000	6,002	6,002
Reserves & Surplus	1,92,860	2,00,480	2,09,020	2,13,727	2,23,400	2,32,414	2,43,210
Deposits	11,92,180	12,65,722	13,36,730	14,14,406	14,60,860	15,16,392	15,88,620
Borrowings	2,03,030	2,24,537	2,74,040	2,35,577	2,33,670	3,82,891	3,70,400
Other Liabilities	76,980	89,764	80,720	80,619	83,090	78,563	80,560
Equity and Liabilities	**16,71,020**	**17,86,484**	**19,06,500**	**19,50,317**	**20,07,020**	**22,16,262**	22,88,792
Deposits y/y growth (%)	*37.9*	*36.1*	*31.4*	*25.9*	*22.5*	*19.8*	18.8
Deposits q/q growth (%)	*6.1*	*6.2*	*5.6*	*5.8*	*3.3*	*3.8*	4.8
Assets							
Cash and cash balances	1,81,400	1,86,283	2,01,690	1,83,087	1,35,880	1,32,159	1,19,900
Advances	10,27,700	11,30,805	11,64,070	12,31,808	12,85,420	14,49,537	15,06,750
Investments	3,52,740	3,67,021	4,21,470	4,21,459	4,61,710	5,00,767	5,26,730
Other assets	1,09,180	1,02,375	1,19,270	1,13,962	1,24,020	1,33,809	1,35,410
Total Assets	**16,71,020**	**17,86,484**	**19,06,500**	**19,50,317**	**20,07,020**	**22,16,262**	22,88,790
Advances y/y growth (%)	*25.1*	*27.9*	*24.3*	*24.5*	*25.1*	*28.2*	29.4
Advances q/q growth (%)	*3.9*	*10.0*	*2.9*	*5.8*	*4.4*	*12.8*	3.9

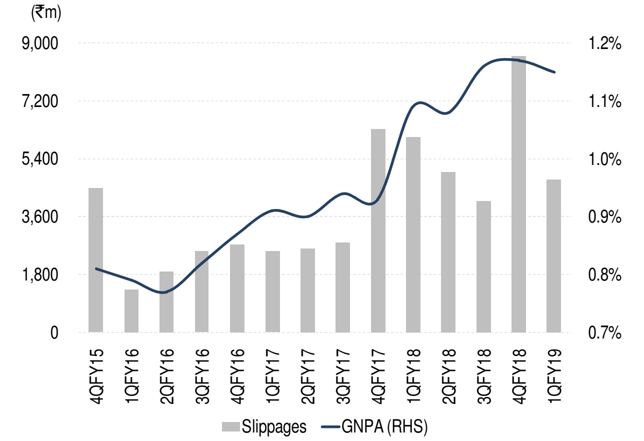
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



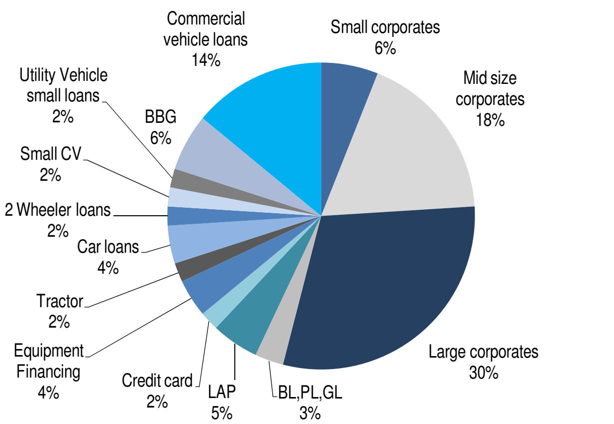
Source: Company, Anand Rathi Research

Fig 15 – Gross NPA and slippages



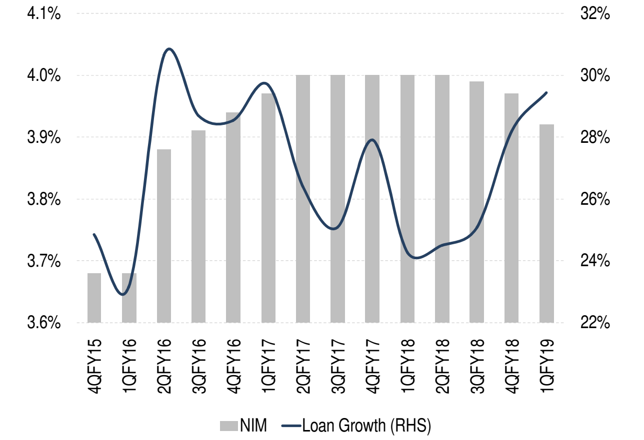
Source: Company, Anand Rathi Research

Fig 16 – Loan break-up



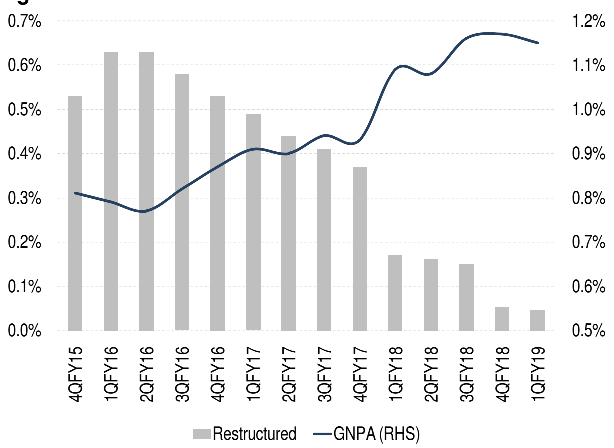
Source: Company, Anand Rathi Research

Fig 17 – Credit growth vs. NIM (%)



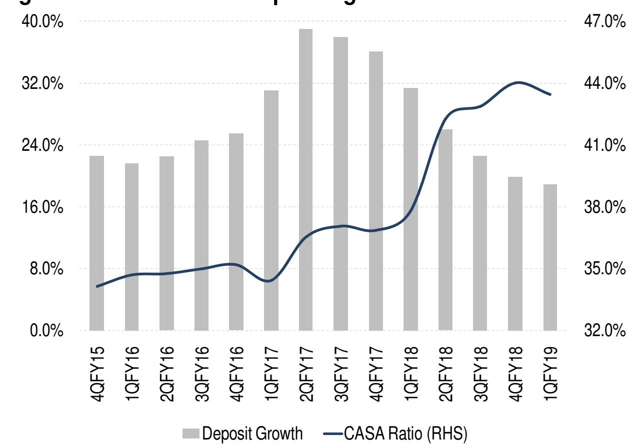
Source: Company, Anand Rathi Research

Fig 18 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 19 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

- Our Jul'19 target of ₹2,248 is based on the two-stage DDM model. This implies a ~4.15x P/ABV multiple on its FY20e book.
- On the maturing of branches, CASA is likely to get a fillip, leading to lower cost of funding. Thus, there is further headroom for NIM expansion.

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would affect our forecasts.
- Any significant negative surprises on asset quality from the microfinance book, post-merger.

Appendix

Analyst Certification

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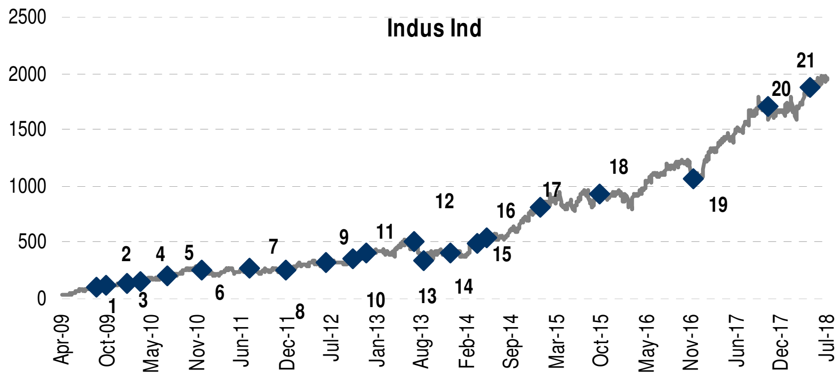
Rating and Target Price History (as of 10 July 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Aug-09	Buy	130	92
2	15-Oct-09	Buy	165	124
3	18-Jan-10	Buy	175	142
4	11-Mar-10	Buy	198	163
5	12-Jul-10	Buy	255	215
6	10-Dec-10	Buy	305	256
7	08-Jul-11	Buy	345	288
8	14-Dec-11	Buy	327	259
9	12-Jun-12	Buy	391	327
10	10-Oct-12	Buy	432	358
11	04-Dec-12	Buy	486	419
12	11-Jul-13	Hold	532	496
13	20-Sep-13	Hold	452	412
14	16-Dec-13	Buy	525	434
15	17-Apr-14	Buy	590	487
16	26-May-14	Buy	695	562
17	14-Jan-15	Buy	960	827
18	09-Oct-15	Buy	1,150	940
19	23-Nov-16	Buy	1,743	1,059
20	17-Oct-17	Buy	1,984	1,708
21	23-Apr-18	Buy	2,248	1,814

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