

IndusInd Bank Ltd.



IndusInd Bank Ltd.

Strong operational performance marred by heavy provisioning

CMP INR 1639	Target INR 2097	Potential Upside 27.9%	Market Cap (INR Mn) 993,178	Recommendation BUY	Sector BFSI
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Result highlights

IndusInd Bank (IIB) reported a strong operational performance with advances growth of 32% yoy/8% qoq, led by robust traction in both corporate banking (+35% yoy/10% qoq) and consumer finance (+29% yoy/+5.6% qoq). Despite the above-industry growth, IIB witnessed NIM compression; contracted by 6 bps qoq/8 bps yoy to 3.94% resulting in NII growth lagging at 21% yoy/4% qoq. 25 bps increase in cost of funds qoq was disproportionately larger, offsetting 13 bps increase in advances yield. However, as re-pricing of the back-book catches up, we expect NIM pressure to subside. Opex at INR 15.3 bn grew 11% yoy/1% qoq translating into C/I of 43.4% (-80 bps qoq, -230 bps yoy). Despite strong PPOP growth of 22% yoy/4% qoq to INR 20 bn, heavy provisioning weighed down on bottom-line profitability. Provisioning at INR 5.9 bn (including INR 2.8 bn towards ILFS) translated into credit costs of 102 bps (vs. 63 bps average for preceding 5 qtrs). The bank continued to improve on its asset quality with GNPA's at 1.09%, down 6 bps qoq / NNPA's at 0.48%, down 3 bps qoq. Net accretion to GNPA's during the quarter was INR 0.4 bn (11 bps net slippage). Capital adequacy stood at 14.28%, consuming ~40 bps since last quarter.

MARKET DATA

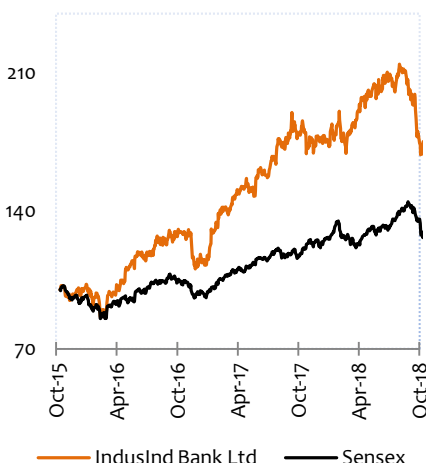
Shares outs (Mn)	601
EquityCap (INR Mn)	6014
Mkt Cap (INR Mn)	993178
52 Wk H/L (INR)	2038/1554
Volume Avg (3m K)	1614.3
Face Value (INR)	10
Bloomberg Code	IIB IN

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
NII	45,165.7	60,626.0	74,978.5	92,843.0	1,11,799.6	1,39,987.8
PPOP	41,414.2	54,510.2	66,569.5	82,126.5	99,517.0	1,26,250.4
PAT	22,864.5	28,678.9	36,066.0	42,835.5	52,815.3	67,238.5
EPS (₹)	38.4	47.9	60.1	71.4	88.0	112.0
BVPS (₹)	297.2	344.9	397.0	459.8	537.2	635.8
ABVPS (₹)	291.8	337.6	384.5	448.5	524.2	619.0
P/E (x)	25.2	29.7	29.9	23.0	18.6	14.6
P/ABV (x)	3.3	4.2	4.7	3.7	3.1	2.6

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong credit growth

Advances at 1,631 bn grew 32% yoy/8% qoq, backed by 35% yoy growth in corporate banking and 29% yoy growth in consumer finance. Within the corporate banking segment, large corporate book grew 37% yoy to INR 494.7 bn while mid-size grew 27.7% yoy to INR 300.9 bn and small corporate grew 42.3% yoy to INR 199.4 bn. Despite the growing aversion of banks towards corporate exposures on account of potential asset quality issues and the current system-wide NPA situation, the bank continued to display strong traction in underwriting corporate exposures. Corporate banking book forms 61% of the total advances vs. 39% consumer finance. On the consumer finance front, CV loans maintained strong momentum with the book growing 34.2% yoy. Other segments too continued to witness strong traction with UVs growing at 27.3% yoy, 3W at 20.7% yoy, 2Ws at 17.6% yoy car loans at 17% yoy and equipment finance at 36.7% yoy. The higher yielding unsecured consumer loans – PL and CC – witnessed 50.8% and 47.5% growth yoy respectively. For FY20/21E, we are factoring in 25% CAGR in advances.

NIMs will restore on back of back-book re-pricing and higher incremental yields

The bank reported NII of INR 22 bn, growing 21% yoy/4% qoq. On the pricing front, the bank's asset yield was 9.73% while advances yield was 11.35% (+13 bps qoq). However, the increase in CoF of 25 bps negates the positive traction in yields, leading to 6 bps/8 bps compression in NIMs on qoq/yoy basis. Segment wise, corporate banking yields were 9.69% (+53 bps qoq) and consumer finance yields were 14.08% (+14 bps qoq; driven by higher growth in unsecured lending). Cost of deposits at 6.54% increased by 34 bps qoq despite strong traction in SA deposits (+27% yoy).

Further, vehicle loans, which are fixed rate in nature and form a substantial part of the total book, were also instrumental in NIM compression. However, with re-pricing underway on the variable rate book along with higher yields on incremental loans, we expect IIB to deliver NIMs of 3.9-4% over FY20/21E. With sustenance of the current risk profile on the incremental book (10-qtr avg of 79.4% for RWA/total assets), we expect credit costs to revert back to normalized level of 60 bps FY20 onwards, resulting in risk-adjusted NIMs of 3.3%.

Q2FY19 witnessed INR 2.8 bn worth of provisioning towards ILFS which resulted in total credit costs of 102 bps. Considering the bank's exposure to ILFS and the lingering uncertainty around its debt-repaying capability, we have revised our credit costs expectation upwards for FY19.

MARKET INFO

SENSEX	34734
NIFTY	10473

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	14.96	14.97	14.98
FII's	46.97	46.45	44.55
DII's	9.43	9.96	11.52
Others	28.64	28.63	28.95
Total	100	100	100

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Asset quality continues to hold strong

GNPAs at INR17.8 bn increased by mere INR 0.4 bn, translating into net slippage of 11 bps. While GNPAs reduced 6 bps to 1.09%, NNPAAs saw reduction of 3 bps to 0.48%. Segment wise, consumer finance saw asset quality deteriorate by 8 bps to 1.13% (slippage at 2.2% vs. 1.9% last qtr) while corporate book saw asset quality improve by 16 bps qoq to 1.07% with slippage coming down sharply to 42 bps (vs. 96 bps alst qtr). Given the stable risk profile of the bank, we expect GNPAs/NNPAs at 1.06%/0.37% for FY19E and 1.14%/0.34% for FY20E.

Other management commentary:

-The bank has not disclosed its exposure to the ILFS group however in worst case scenario they may need to provide an additional INR 0.5-0.7 bn for the exposure.

-Their exposure to the infra group is on two accounts – Chenani Nashri Tunnel and the second exposure is at the group level.

- The bank has reviewed its exposure towards NBFCs on various parameters including ALM and the management is comfortable with the quality of the book. As per the management, the current NBFC situation will only lead to better and more rationale pricing and business conduct by NBFCs across the segments.

- The increase in gem/jewelry expoure is backed by AIG, hence considered quality and safe.

- Regarding the Bharat Financial Inclusion merger – all regulatory approvals have been secured and the transaction should conclude in the next 3 months.

- Bharat Financial will continue as it is without any change in the management.
- The bank plans to repay all of the Bharat Financial lender on Day 1 of the merger.
- The MFI is witnessing 99.5% repayment rates on its book which signifies good asset quality.

VALUATION

Though the bank continued to deliver impressive growth on both sides of the balance sheet without diluting on the quality parameters, high provisioning on account of ILFS exposure resulted in depressed profitability and return ratios. INR 2.8 bn of provisioning towards the infra group was 1.1% of net worth. However, overall asset quality continued to stay robust and improved further during the quarter given the bank's focus on lending to better rated corporate. We expect 6-8 bps of NIMs lost during the quarter to replenish as re-pricing of back-book picks up coupled with higher incremental yields. Strong traction on CASA should provide support on the funding side. We continue to remain positive on IIB however exposure to ILFS and the uncertainty regarding the same are seen as key risks. Based on 4x FY20E ABVPS of INR 524 per share, we value the bank at 2,097 per share. We maintain BUY.

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Advances break-up (INR Mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Corporate Banking	6,93,120	7,37,160	7,54,180	8,77,150	9,04,110	9,95,010
% of total loans	60%	60%	59%	61%	60%	61%
yoy growth	26%	26%	26%	30%	30%	35%
qoq growth	3%	6%	2%	16%	3%	10%
Consumer Finance	4,70,950	4,94,650	5,31,240	5,72,390	6,02,640	6,36,430
% of total loans	40%	40%	41%	39%	40%	39%
yoy growth	22%	22%	24%	26%	28%	29%
qoq growth	3%	5%	7%	8%	5%	6%

Segment wise asset quality (INR Mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Corporate						
Opening Balance	5,440	6,820	8,230	9,140	10,530	11,100
Additions	3,510	2,850	1,420	5,390	2,090	930
Deduction	2,130	1,440	510	4,000	1,520	1,420
Gross NPA	6,820	8,230	9,140	10,530	11,100	10,610
Gross NPA (%)	1%	1%	1%	1%	1%	1.1%
Slippages (%)	2%	2%	1%	3%	1%	0.4%
Consumer Finance						
Opening Balance	5,110	5,900	5,230	5,850	6,520	6,310
Additions	2,570	2,130	2,660	3,210	2,660	3,260
Deduction	1,780	2,800	2,040	2,540	2,870	2,370
Gross NPA	5,900	5,230	5,850	6,520	6,310	7,200
Gross NPA (%)	1%	1%	1%	1%	1%	1.1%
Slippages (%)	2%	2%	2%	2%	2%	2.2%

Source: Company, KRChoksey Research

Spread Analysis (%) - calculated	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Yield on avg advances (annualized)	11.4%	11.0%	11.0%	10.7%	11.2%	11.3%
Yield on avg investments	7.4%	7.3%	6.8%	6.9%	6.7%	7.1%
Yield on interest earning assets	9.5%	9.3%	9.2%	9.4%	9.6%	9.7%
Cost of funds	6.1%	5.9%	5.7%	5.9%	6.1%	6.4%
NIM	4.1%	4.0%	4.1%	4.1%	4.0%	3.9%

Source: Company, KRChoksey Research

Segment yields (%) - reported	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Corporate & Commercial Banking	9.5%	9.1%	9.0%	9.1%	9.2%	9.7%
Consumer Finance	14.5%	14.4%	14.0%	13.9%	13.9%	14.1%

Source: Company, KRChoksey Research

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Retail book composition (INR Mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Commercial Vehicle Loans	1,55,730	1,63,830	1,79,410	1,98,720	2,07,030	2,19,920
% of retail book	33%	33%	34%	35%	34%	35%
yoy growth	12%	15%	23%	27%	33%	34%
Utility Vehicle Loans	24,270	25,140	26,860	28,660	30,260	32,010
% of retail book	5%	5%	5%	5%	5%	5%
yoy growth	16%	17%	20%	22%	25%	27%
Three Wheeler Loans	23,810	23,910	24,670	25,280	27,320	28,860
% of retail book	5%	5%	5%	4%	5%	5%
yoy growth	12%	5%	4%	6%	15%	21%
Two Wheeler Loans	32,620	32,880	34,950	25,890	37,540	38,670
% of retail book	7%	7%	7%	5%	6%	6%
yoy growth	6%	5%	5%	-21%	15%	18%
Car Loans	48,190	50,420	52,550	53,450	56,000	58,920
% of retail book	10%	10%	10%	10%	9%	9%
yoy growth	18%	17%	15%	15%	16%	17%
Equipment Financing	43,810	46,030	49,830	54,790	59,940	62,900
% of retail book	9%	9%	9%	10%	10%	10%
yoy growth	28%	28%	29%	33%	37%	37%
Other (Home,Personal)	29,290	32,640	36,100	41,300	44,350	49,220
% of retail book	6%	7%	7%	7%	7%	8%
yoy growth	58%	54%	64%	59%	51%	51%
Credit Card	19,440	21,600	23,540	26,960	29,830	31,850
% of retail book	4%	4%	4%	5%	5%	5%
yoy growth	55%	53%	55%	58%	53%	47%
LAP	73,030	75,490	78,240	80,090	81,800	83,240
% of retail book	16%	15%	15%	14%	14%	13%
yoy growth	31%	29%	22%	14%	12%	10%
Tractor	20,760	22,710	25,090	27,260	28,570	30,830
% of retail book	4%	5%	5%	5%	5%	5%
yoy growth	0%	56%	42%	50%	38%	36%
Total retail book	4,70,950	4,94,650	5,31,240	5,62,400	6,02,640	6,36,420
yoy growth	22%	22%	24%	24%	28%	29%

Source: Company, KRChoksey Research

Segment wise gross NPAs (%)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Commercial Vehicle	1.12%	1.02%	0.93%	0.99%	0.91%	0.93%
Utility	1.42%	1.37%	1.25%	1.28%	1.38%	1.32%
Construction Equipment	1.07%	0.97%	1.06%	1.07%	0.88%	0.73%
3W	1.33%	1.10%	1.22%	1.27%	1.09%	1.27%
TW	3.55%	3.55%	3.78%	3.81%	3.67%	3.87%
Cars	0.74%	0.68%	0.62%	0.67%	0.69%	0.80%
LAP/ HL/ PL	1.02%	0.37%	0.56%	0.59%	0.39%	0.60%
Cards	1.21%	1.48%	1.65%	1.61%	1.77%	1.78%
Others	0.85%	1.06%	1.15%	1.29%	1.20%	1.72%
Total	1.25%	1.19%	1.10%	1.13%	1.04%	1.13%

Source: Company, KRChoksey Research

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Particulars (INR Mn)					
Income Statement	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest income	54,381	42,084	50,682	29.2%	7.3%
Interest expense	32,348	23,874	29,457	35.5%	9.8%
Net interest income	22,033	18,210	21,224	21.0%	3.8%
Noninterest income	13,173	11,876	13,016	10.9%	1.2%
Total income	35,206	30,086	34,240	17.0%	2.8%
- Employee costs	4,582	4,450	4,620	3.0%	-0.8%
- Other operating expenses	10,699	9,300	10,509	15.0%	1.8%
Operating expenses	15,281	13,751	15,129	11.1%	1.0%
Pre-provision profit	19,924	16,335	19,111	22.0%	4.3%
Provisions	5,903	2,938	3,500	100.9%	68.6%
Profit before tax	14,022	13,398	15,611	4.7%	-10.2%
Tax expense	4,819	4,597	5,254	4.8%	-8.3%
Net profit	9,202	8,801	10,357	4.6%	-11.1%
Balance Sheet items	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Deposits	16,82,193	14,14,406	15,88,620	18.9%	5.9%
Borrowings	4,28,281	2,35,577	3,70,400	81.8%	15.6%
Investments	5,00,885	4,21,459	5,26,730	18.8%	-4.9%
Advances	16,31,443	12,31,808	15,06,750	32.4%	8.3%
Total Assets	24,83,199	19,50,317	22,88,790	27.3%	8.5%
Capital adequacy ratio (%)	14.28%	16.19%	14.70%	-191 bps	-42 bps
Asset quality	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Gross NPA	17,814	13,453	17,406	32.4%	2.3%
Net NPA	7,876	5,369	7,624	46.7%	3.3%
GNPA (%)	1.09%	1.08%	1.15%	1 bps	-6 bps
NNPA (%)	0.48%	0.44%	0.51%	4 bps	-3 bps
Provision coverage (%)	56%	60%	56%	-430 bps	-41 bps
Credit cost (%)	1.1%	0.7%	0.7%	40 bps	42 bps
Key ratios	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Cost to income ratio (%)	43.4%	45.7%	44.2%	-230 bps	-78 bps
C/D ratio (%)	97%	87%	95%	989 bps	214 bps
RoA (%)	1.5%	1.8%	1.8%	-28 bps	-30 bps
Leverage (x)	9.8	8.9	9.2	-	-
RoE (%)	15.1%	16.2%	16.9%	-110 bps	-179 bps

Source: Company, KRChoksey Research

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Amounts in INR Million

Income Statement	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest income	1,18,717	1,44,057	1,72,808	2,19,480	2,74,813	3,46,299
Interest expense	73,552	83,431	97,829	1,26,637	1,63,014	2,06,311
Net interest income	45,166	60,626	74,979	92,843	1,11,800	1,39,988
Non interest income	32,969	41,715	47,501	58,530	72,271	89,834
Total income	78,135	1,02,341	1,22,479	1,51,373	1,84,070	2,29,821
Operating expenses	36,721	47,831	55,910	69,247	84,553	1,03,571
Employee costs	12,361	15,210	17,807	21,247	26,753	33,271
Other operating expenses	24,360	32,621	38,103	48,000	57,800	70,300
Pre-provision profit	41,414	54,510	66,570	82,127	99,517	1,26,250
Provisions	6,722	10,913	11,757	17,009	19,229	24,037
Profit before tax	34,693	43,597	54,813	65,117	80,288	1,02,214
Tax expense	11,828	14,918	18,747	22,282	27,473	34,975
Net profit	22,864	28,679	36,066	42,836	52,815	67,238

Source: Company, KRChoksey Research

Balance sheet

SOURCES OF FUNDS						
Shareholders' funds	1,76,822	2,06,309	2,38,271	2,75,966	3,22,443	3,81,613
Borrowings	2,49,959	2,24,537	3,82,890	4,67,126	5,69,893	6,95,270
Deposits	9,30,003	12,65,722	15,16,390	19,10,651	23,97,868	30,09,324
Other liabilities & provisions	72,048	89,764	78,560	62,005	83,750	1,09,509
TOTAL LIABILITIES & EQUITY	14,28,970	17,86,484	22,16,256	27,15,894	33,74,101	41,95,862
USES OF FUNDS						
Cash and cash equivalent	1,01,119	1,86,283	1,32,154	1,86,289	2,33,792	2,93,409
Investments	3,40,543	3,67,021	5,00,768	5,73,195	7,19,360	9,02,797
Advances	8,84,193	11,30,805	14,49,530	18,11,913	22,64,891	28,31,113
Fixed & other assets	1,03,115	1,02,375	1,33,794	1,44,498	1,56,058	1,68,542
TOTAL ASSETS	14,28,970	17,86,484	22,16,257	27,15,894	33,74,101	41,95,862

Source: Company, KRChoksey Research

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Key ratios	FY16	FY17	FY18	FY19E	FY20E	FY21E
Growth rates						
Advances (%)	28.5%	27.9%	28.2%	25.0%	25.0%	25.0%
Deposits (%)	25.4%	36.1%	19.8%	26.0%	25.5%	25.5%
Total assets (%)	31.0%	25.0%	24.1%	22.5%	24.2%	24.4%
NII (%)	32.1%	34.2%	23.7%	23.8%	20.4%	25.2%
Pre-provisioning profit (%)	33.7%	31.6%	22.1%	23.4%	21.2%	26.9%
PAT (%)	27.5%	25.4%	25.8%	18.8%	23.3%	27.3%
Balance sheet ratios						
Credit/Deposit (%)	95.1%	89.3%	95.6%	94.8%	94.5%	94.1%
CASA (%)	35.2%	36.9%	44.0%	44.9%	46.4%	47.7%
Advances/Total assets (%)	61.9%	63.3%	65.4%	66.7%	67.1%	67.5%
Leverage (x)	8.1	8.7	9.3	9.8	10.5	11.0
CAR (%)	15.5%	15.3%	15.0%	13.9%	13.4%	12.7%
Tier 1 (%)	14.9%	14.7%	14.6%	13.5%	13.0%	12.4%
Operating efficiency						
Cost/income (%)	47.0%	46.7%	45.6%	45.7%	45.9%	45.1%
Opex/total assets (%)	2.6%	2.7%	2.5%	2.5%	2.5%	2.5%
Opex/total interest earning assets (%)	3.1%	3.2%	3.0%	3.0%	2.9%	2.9%
Profitability						
NIM (%)	3.8%	4.0%	4.0%	4.0%	3.9%	3.9%
RoA (%)	1.8%	1.8%	1.8%	1.7%	1.7%	1.8%
RoE (%)	16.2%	15.0%	16.2%	16.7%	17.7%	19.1%
Asset quality						
Gross NPA (%)	0.9%	0.9%	1.2%	1.1%	1.1%	1.2%
Net NPA (%)	0.4%	0.4%	0.5%	0.4%	0.3%	0.4%
PCR (%)	58.6%	58.4%	56.3%	65.0%	70.0%	70.0%
Slippage (%)	1.2%	1.6%	3.0%	1.2%	1.2%	1.0%
Credit cost (%)	0.6%	0.7%	0.7%	0.7%	0.6%	0.6%
Per share data / Valuation						
EPS (INR)	38.4	47.9	60.1	71.4	88.0	112.0
BVPS (INR)	297.2	344.9	397.0	459.8	537.2	635.8
ABVPS (INR)	291.8	337.6	384.5	448.5	524.2	619.0
P/E (x)	25.2	29.7	29.9	23.0	18.6	14.6
P/BV (x)	3.3	4.1	4.5	3.6	3.1	2.6
P/ABV (x)	3.3	4.2	4.7	3.7	3.1	2.6

Source: Company, KRChoksey Research

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IndusInd Bank Ltd.

IndusInd Bank Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Oct-18	1639	2097	BUY	Buy	More than 15%
11-Jul-18	1935	2033	ACCUMULATE		
21-Apr-18	1821	2033	ACCUMULATE		
12-Jan-18	1700	1998	BUY		
13-Oct-17	1747	1889	ACCUMULATE	Accumulate	5% – 15%
12-July-17	1500	1681	ACCUMULATE		
11-Jan-17	1,222	1,500	BUY	Hold	0 – 5%
14-Oct-16	1,213	1,500	BUY		
12-Jul-16	1,143	1,352	BUY		
13-Jan-16	920	1,203	BUY		
01-July-15	940	1,203	BUY	Reduce	-5% – 0
08-July-15	898	1,011	ACCUMULATE		
18-Apr-15	876	1,011	BUY	Sell	Less than – 5%
13-Apr-15	945	955	HOLD		
14-Jan-15	825	927	ACCUMULATE		
07-Jan-15	798	850	ACCUMULATE		

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