

Focus back on earnings; IL&FS hangover over

IndusInd Bank reported robust business traction of ~29% YoY in advances & deposits to ₹ 186394 crore & ₹ 194868 crore, respectively. Credit growth was driven by uninterrupted healthy growth of 30% YoY & 27% YoY in corporate & consumer finance book to ₹ 113710 crore & ₹ 72684 crore, respectively. Within corporate book mid & small corporate book led the growth while within consumer finance book retail finance & vehicle finance aided growth. On the deposit front strong growth of ~29% YoY was aided by both CASA & term deposit with 26% YoY & 30.5% YoY, respectively.

Asset quality took a hit on back of fresh slippages worth ₹ 3688 crore of which ₹ 3000 crore was for exposure to IL&FS. Absolute GNPA & NNPA increased ~101% & 118% QoQ to ₹ 3947 & ₹ 2248 crore, respectively. Accordingly, GNPA & NNPA ratio were at 2.1% & 1.21%, respectively. The bank has maintained higher provisions for IL&FS at ₹ 1650 crore (55% of exposure) (holdco (70%) & SPV (25%)). The bank's exposure towards other stressed company was (ADAG, Essel & DHFL) at ~1.9% of the loan book.

On the back of classification of IL&FS as NPA, the bank reversed ₹ 153 crore of interest income that impacted NII growth. Other income growth continue to remain healthy led by strong traction of 27% YoY in core fee income at ₹ 1419 crore. Accordingly, operating profit was at ₹ 2068 crore, up 17% YoY, lower compared to previous run rate on the back of lower NII of ₹ 2232 crore. YoY. Margins for the quarter were at 3.59% (3.84% excluding IL&FS). Provisions were higher at ₹ 1561 crore is largely attributable to IL&FS impacted earnings as PAT slumped 63% QoQ to ₹ 360 crore.

Sharp earning rebound expected post IL&FS debacle

With adequate provisioning (55%) for stressed account (IL&FS), now focus shifts back to earnings. Going ahead, we expect 45% PAT CAGR in FY19-21E at ₹ 6953 crore. Credit, deposit growth continue to stay healthy at 27%, 26% CAGR in FY19-21E to ₹ 299303 crore, ₹ 307382 crore, respectively. RoA, RoE may stay steady at 1.8%, 20.1%, respectively, post one off due to IL&FS.

Valuation & Outlook

With a hangover of exposure to IL&FS over & lower residual stress currently from current loan book, the management's focus has returned towards earnings. The management has guided for normalised credit cost of 60 bps for FY20 and with lower exposure to stressed group provides comfort. Superior growth, strong liability franchise, stable margins and steady credit costs may lead to PAT growth at 45.1% CAGR in FY19-21E. The merger with Bharat Financial (BFIL) is expected to get through during Q1FY20 & merger is expected to add ~₹ 8/ share to standalone BV while warrant issuance to promoter can add ~₹ 25/share. We maintain our **BUY** rating on the stock with an unchanged target price of ₹ 1860. Incorporating FY21E. We value the stock at ~3.1x FY21E ABV. Lack of clarity over leadership succession needs to be watched.

Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	6,063	7,497	8,846	11,266	13,899	25%
PPP	5,451	6,656	8,088	10,083	12,516	24%
PAT	2,868	3,606	3,301	5,537	6,953	45%
ABV (₹)	338	385	407	497	599	
P/E	31.2	24.9	27.2	16.2	12.9	
P/ABV	4.4	3.9	3.7	3.0	2.5	
RoA	1.8	1.8	1.3	1.8	1.8	
RoE	15.0	16.2	13.1	19.0	20.1	

Source: Company, ICICI Direct Research

IndusInd Bank

Particulars

Particulars	Amount
Market Capitalisation	₹ 96048 Crore
GNPA (Q4FY19)	₹ 3947 Crore
NNPA (Q4FY19)	₹ 2248 Crore
NIM (%) (Q4FY19)	3.6
52 week H/L	2038 /1334
Net worth	₹ 26686 Crore
Face Value	₹ 10
DII Holding (%)	9.8
FII Holding (%)	53.5

Key Highlights

- Consistent credit growth of ~27% CAGR & stable margins of ~4% in FY21E to aid sharp rebound in earnings to ₹ 6953 crore in FY21E.
- Total provisions towards IL&FS stands at ₹ 1650 crore (Holdco- ₹ 1400 crore, SPV- ₹ 250 crore).
- The management expects ~90% recovery on exposure towards IL&FS SPV.
- Maintain **BUY** with unchanged target of ₹ 1860

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	2,232	2,410	2,008	11.2	2,288	-2.4	Interest reversal of ₹ 153 crore for IL&FS impacted NII growth
NIM (%)	3.59	3.86	3.97	-38 bps	3.83	-24 bps	Margins steady at 3.84 QoQ excluding impact of IL&FS
Other Income	1,559	1,517	1,209	29.0	1,469	6.1	Robust core fee income aided other income growth. Within core fee, forex & loan fee led strong growth with 47% & 44% YoY
Net Total Income	3,791	3,927	3,216	17.9	3,757	0.9	
Staff cost	481	472	454	6.1	452	6.5	
Other Operating Expenses	1,242	1,271	993	25.1	1,188	4.6	
PPP	2,068	2,184	1,769	16.9	2,117	-2.3	
Provision	1,561	478	336	365.1	606.7	157.3	Classification of IL&FS as NPA & higher provisions on Holdco led to surge in provisioning. Overall provisions for IL&FS at ₹ 1650 crore
PBT	507	1,706	1,434	-64.6	1,510	-66.4	
Tax Outgo	147	569	481	-69.4	525.3	-72.0	
PAT	360	1,138	953	-62.2	985.0	-63.4	Higher provisions & interest reversal in lieu of IL&FS dented earnings
Key Metrics							
GNPA	3,947	2,224	1,705	131.5	1,968.2	100.6	Fresh slippages were at ₹ 3688 crore of which ₹ 3000 crore is attributable to IL&FS. Accordingly, GNPA ratio surged 97 bps QoQ to 2.1%
NNPA	2,248	1,112	746	201.5	1,029.3	118.4	
Total Restructured assets	168	190	188	-10.8	190.5	-11.9	Restructured loans as a percentage of total credit remained stable at 0.09%
Credit book	186,394	185,645	144,954	28.6	173,169	7.6	Credit traction was led by healthy growth in corporate book (up 30% YoY). Retail book also saw healthy growth at 27% YoY, led by traction in retail finance & vehicle finance portfolio
Deposit book	194,868	190,141	151,639	28.5	175,701	10.9	Strong deposit growth of ~29% YoY on back of growth in CASA & term deposit

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY20E			FY21E	
	Old	New	% Change	Introduced	
Net Interest Income	11,277	11,266	-0.1	13,899	
Pre Provision Profit	10,025	10,083	0.6	12,516	
NIM(%) (calculated)	3.9	4.0	6 bps	4.0	
PAT	5,392	5,537	2.7	6,953	
ABV per share (₹)	504.1	496.7	-1.5	598.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier	
	FY18	FY19	FY20E	FY21E	FY20E
Credit growth (%)	28.2	28.6	28.0	25.5	28.6
Deposit Growth (%)	19.8	28.5	27.4	23.8	28.1
CASA ratio (%)	44.0	43.1	45.6	46.5	48.2
NIM Calculated (%)	4.1	3.9	4.0	4.0	3.9
Cost to income ratio (%)	45.7	44.2	44.0	43.0	44.2
GNPA (₹ crore)	1,704.9	3,947.4	4,185.9	4,784.5	4,635.4
NNPA (₹ crore)	745.6	2,248.3	1,701.4	1,619.2	1,785.1
Slippage ratio (%)	2.9	3.7	1.0	0.6	2.1
Credit cost (%)	0.7	1.6	0.7	0.7	0.8

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Consumer finance book growth continue to remain healthy

Consumer Finance Book								
₹ crore	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	FY19
Comm. Vehicle	10,618	14,101	15,606	19,872	20,703	21,992	23,304	24,444
Utility Vehicle	2,017	2,058	2,342	2,866	3,026	3,201	3,383	3,597
Three Wheelers	1,843	2,045	2,374	2,528	2,732	2,886	3,034	3,135
Two Wheelers	2,808	3,045	3,262	3,589	3,754	3,867	4,322	4,482
Car loans	3,146	3,917	4,665	5,345	5,600	5,892	6,285	6,537
Equip. financing + Tracto	2,816	3,244	5,933	8,205	8,851	9,373	10,167	11,089
Credit card	698	1,204	1,704	2,696	2,983	3,185	3,546	4,382
Loan against prop.	3,705	5,248	7,051	8,009	8,180	8,324	8,557	8,925
Personal.others etc	761	1,687	2,592	4,130	4,435	4,922	5,435	6,095
Total	28,412	36,549	45,529	57,239	60,264	63,643	68,033	72,684
YoY Growth	15	29	25	26	28	29	28	27

Source: Company, ICICI Direct Research

Exhibit 5: Break-up of corporate book

Corporate Banking Book								
₹ crore	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Large corporates	19,964	25,258	31,477	44,289	44,957	49,471	50,833	52,166
Mid corporates	11,455	16,624	22,203	25,652	26,544	30,087	32,312	33,369
Small business	8,957	9,988	13,872	17,774	18,910	19,943	21,991	28,175
Total	40,376	51,870	67,552	87,715	90,411	99,501	105,136	113,710
YoY Growth	33.2	28.5	30.2	29.8	30.4	35.0	39.4	29.6

Source: Company, ICICI Direct Research

Exhibit 6: Overall advances growth to remain healthy

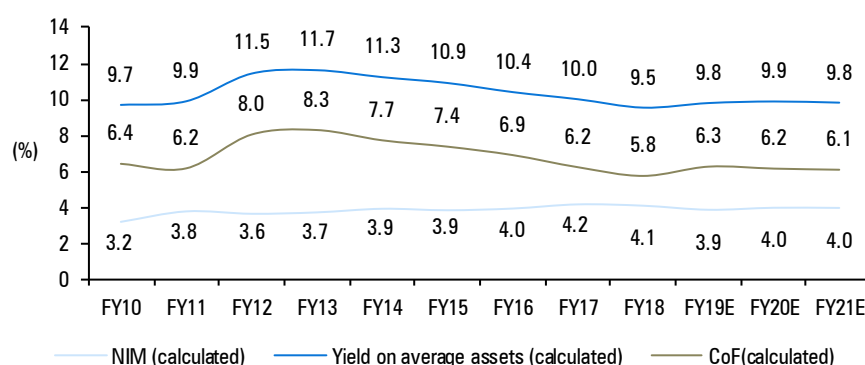
₹ crore	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Total Advances	68,788	88,419	113,081	144,954	150,675	163,144	173,169	186,394
YoY Growth	24.8	28.5	27.9	28.2	29.4	32.4	34.7	28.6

Source: Company, ICICI Direct Research

Exhibit 7: Deposit growth at six quarter high

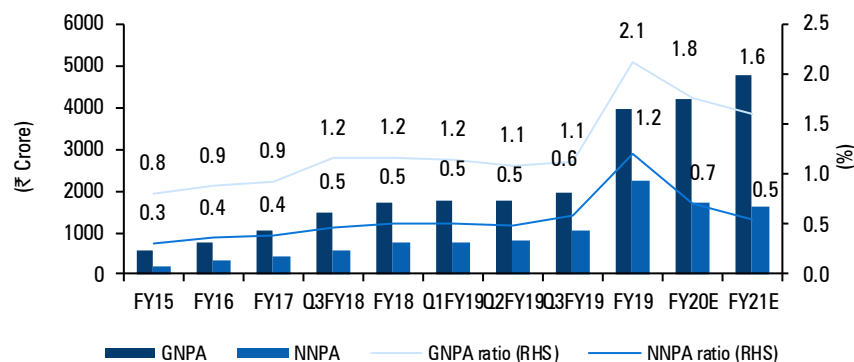
₹ Crore	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	FY19
Savings	12,944	17,246	27,037	45,888	47,711	51,106	50,023	54,486
Current	12,356	15,478	19,609	20,841	21,268	22,269	26,526	29,584
Term	48,834	60,276	79,926	84,910	89,883	94,844	99,152	110,798
Total Deposits	74,134	93,000	126,572	151,639	158,862	168,219	175,701	194,868
YoY Growth	22.5	25.4	36.1	19.8	18.8	18.9	20.3	28.5
CASA Amount	25,300	32,724	46,646	66,729	68,979	73,375	76,549	84,070
CASA%	34.1	35.2	36.9	44.0	43.4	43.6	43.6	43.1

Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain stable led by steady CASA growth & changing loan mix


Source: Company, ICICI Direct Research

Exhibit 9: Asset quality impacted due to classification of IL&FS as NPA



Source: Company, ICICI Direct Research

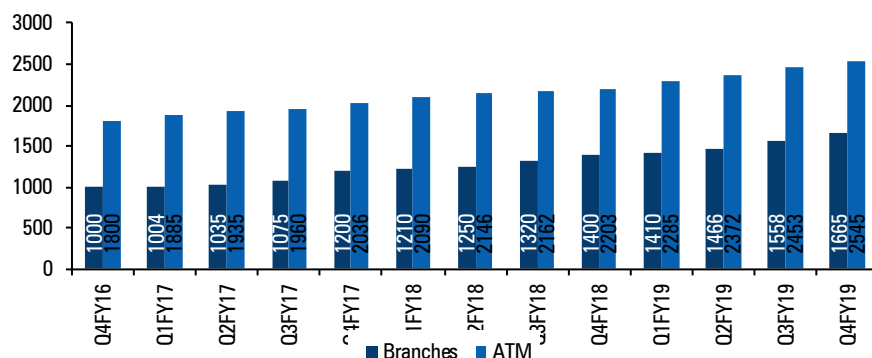
Exhibit 10: Strong core fee income to keep other income growth robust

Other income break up (₹ Crore)		Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Core fee income		1,013	1,077	1,113	1,165	1,218	1,266	1,419
Securities/FX trading others		175	110	95	137	99	203	140

Break up of fee income (₹ Crore)		Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Trade & Remittances		128	127	153	141	151	155	189
Foreing Exchange Income		183	202	197	228	223	275	289
Distribution Fees		237	256	273	278	280	268	302
General Banking		65	70	65	80	91	91	84
Loan Processing Fees		214	242	228	230	260	276	328
Investment Banking		186	180	197	208	213	201	228
Total		1,013	1,077	1,113	1,165	1,218	1,266	1,420

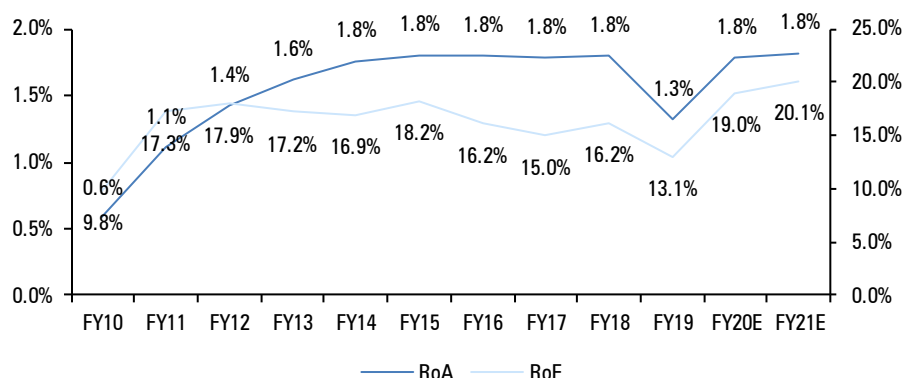
Source: Company, ICICI Direct Research

Exhibit 11: Expanding branch & ATM network



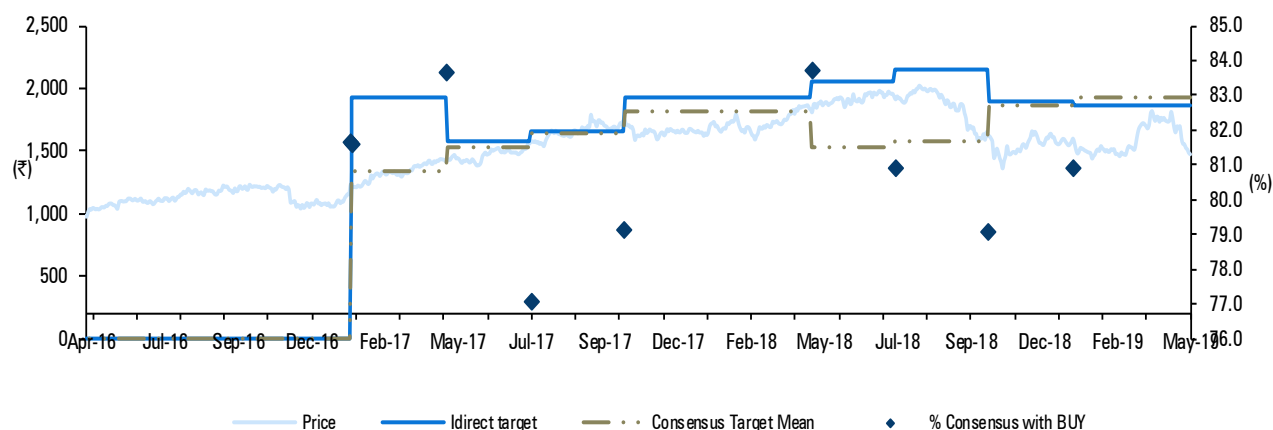
Source: Company, ICICI Direct Research

Exhibit 12: One-time blip in return ratios due to IL&FS



Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 14: Top 10 Shareholders

Rank	Name	Latest Filing	% OS	Position (m)	Change (m)
1	Hinduja Group Ltd.	31-12-2018	14.97%	90.23M	+0.40M
2	Prans Asset Management, Ltd.	31-12-2018	3.37%	20.30M	-0.71M
3	Capital Research Global Investors	31-03-2019	2.51%	15.11M	-6.51M
4	JPMorgan Asset Management U.K. Limited	31-03-2019	2.49%	15.04M	+0.15M
5	Capital International, Inc.	31-12-2018	2.25%	13.59M	+5.20M
6	UTI Asset Management Co. Ltd.	31-03-2019	1.64%	9.89M	-0.21M
7	ICICI Prudential Life Insurance Company Ltd.	31-12-2018	1.63%	9.82M	-1.63M
8	Icon Capital Limited	31-12-2018	1.51%	9.10M	0
9	GIC Private Limited	31-12-2018	1.49%	9.01M	-0.45M
10	Rogers Asset Management Ltd	31-12-2018	1.43%	8.65M	+8.65M

Source: Reuters, ICICI Direct Research

Exhibit 15: Recent Activity

Investor name			Investor name		
Buys			Sells		
	Value	Shares		Value	Shares
Rogers Asset Management Ltd	+198.77M	+8.65M	Capital Research Global Investors	-167.38M	-6.51M
BNP Paribas Asset Management India Pvt. Ltd.	+134.73M	+5.86M	ICICI Prudential Life Insurance Company Ltd.	-37.49M	-1.63M
Capital International, Inc.	+119.62M	+5.20M	Norges Bank Investment Management (NBIM)	-25.87M	-1.13M
Caisse de Depot et Placement du Quebec	+18.39M	+0.80M	Grantham Mayo Van Otterloo & Co LLC	-25.36M	-1.08M
Athena Capital Partners LLP	+18.32M	+0.80M	Fidelity Management & Research Company	-22.86M	-0.89M

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	16.77	16.77	14.94	14.99	16.80
FII	52.06	52.06	46.58	47.89	53.53
DII	11.17	11.17	9.12	8.95	9.75
Others	20.00	20.00	29.36	28.17	19.92

Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement ₹ Crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	17,280.7	22,261.1	27,750	34,089
Interest Expended	9,783.3	13,414.9	16,484.7	20,190.3
Net Interest Income	7,497.4	8,846.2	11,266	13,899
Growth (%)	23.7	18.0	27.3	23.4
Non Interest Income	4,750.1	5,646.7	6,739.5	8,060.3
Fees and advisory	3,411.9	4,162.5	5,078.3	6,195.5
Treasury Income	363.8	436.5	523.8	628.6
Other income	974.4	1,047.7	1,137.4	1,236.2
Net Income	12,247.5	14,492.9	18,005.1	21,959.1
Employee cost	1,780.7	1,962.9	2,231.3	2,532.2
Other operating Exp.	3,810.8	4,441.8	5,691.1	6,911.0
Operating Income	6,656.1	8,088.3	10,082.6	12,515.9
Provisions	1,175.4	3,107.7	1,705.6	1,997.5
PBT	5,480.7	4,980.6	8,377.0	10,518.3
Taxes	1,874.7	1,679.5	2,839.8	3,565.7
Net Profit	3,606.0	3,301.1	5,537	6,953
Growth (%)	25.7	(8.5)	67.7	25.6
EPS (₹)	60.1	55.0	92	116

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of shares (crore)	60.0	60.0	60.0	60.0
EPS (₹)	60.1	55.0	92.3	115.8
DPS (₹)	7.5	6.1	10.3	12.9
BV (₹)	397.0	444.8	525.1	625.8
ABV (₹)	384.6	407.4	496.7	598.9
P/E	24.9	27.2	16.2	12.9
P/BV	3.8	3.4	2.8	2.4
P/ABV	3.9	3.7	3.0	2.5
Yields & Margins (%)				
Net Interest Margins	4.1	3.9	4.0	4.0
Yield on assets	9.5	9.8	9.9	9.8
Avg. cost on funds	5.8	6.3	6.2	6.1
Yield on average advance:	10.6	11.2	11.2	11.0
Avg. Cost of Deposits	5.8	6.3	6.1	6.1
Quality and Efficiency (%)				
Cost to income ratio	45.7	44.2	44.0	43.0
Credit/Deposit ratio	95.6	95.7	96.1	97.4
GNPA	1.2	2.1	1.8	1.6
NNPA	0.5	1.2	0.7	0.5
ROE	16.2	13.1	19.0	20.1
ROA	1.8	1.3	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet ₹ Crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	600	600	600	600
Reserves and Surplus	23,227	26,098	30,915	36,963
Networth	23,827	26,699	31,515	37,563
Deposits	151,639	194,868	248,280	307,382
Borrowings	38,289	47,321	54,617	63,439
Other Liabilities & Provisio	7,856	8,944	9,879	11,234
Total	221,612	277,832	344,292	419,618
Application of Funds				
Fixed Assets	1,339	1,710	1,805	1,916
Investments	50,077	59,266	67,910	77,893
Advances	144,954	186,396	238,511	299,303
Other Assets	12,041	15,676	22,181	26,315
Cash with RBI & call mor	13,216	14,783	13,885	14,191
Total	221,626	277,832	344,292	419,618

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios (%)				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	24.1	25.4	23.9	21.9
Advances	28.2	28.6	28.0	25.5
Deposit	19.8	28.5	27.4	23.8
Total Income	18.6	26.7	23.6	22.2
Net interest income	23.7	18.0	27.3	23.4
Operating expenses	16.9	14.5	23.7	19.2
Operating profit	22.1	21.5	24.7	24.1
Net profit	25.7	(8.5)	67.7	25.6
Net worth	15.5	12.1	18.0	19.2
EPS	25.3	(8.5)	68	26

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)		FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E
Bank of Baroda (BANBAR)	128	140	Buy	43,599																
State Bank of India (STABAN)	342	400	Buy	305,400	-7.3	1.0	27.2	-46.9	353	12.6	2.8	2.4	1.8	-0.2	0.0	0.7	-3.0	0.5	12.3	
Indian Bank (INDIBA)	253	300	Buy	12,166	26.2	6.7	25.2	9.7	37.8	10.0	1.0	1.1	1.0	0.5	0.1	0.4	7.1	1.7	6.1	
Axis Bank (AXIBAN)	776	880	Buy	199,747	-1.0	22.2	37.5	-758.4	35.0	20.7	4.3	3.5	3.0	0.0	0.8	1.1	0.0	0.8	1.1	
City Union Bank (CITUNI)	213	240	Buy	15,634	8.9	9.3	10.3	23.9	22.9	20.6	3.8	3.6	3.1	1.6	1.6	1.6	15.5	15.3	14.7	
DCB Bank (DCB)	228	250	Buy	7,057	7.8	10.5	13.5	29.0	21.6	16.9	2.9	2.6	2.3	0.9	1.0	1.1	10.9	12.1	13.8	
Federal Bank (FEDBAN)	103	125	Buy	20,370	4.5	6.3	7.7	23.0	16.4	13.3	1.9	1.7	1.6	0.7	0.8	0.9	8.2	9.8	11.0	
HDFC Bank (HDFBAN)	2,332	2,700	Buy	635,508	67.4	77.4	97.9	34.6	30.1	23.8	5.8	4.4	3.8	1.8	1.8	2.0	17.9	16.5	16.7	
IndusInd Bank (INDBA)	1,599	1,860	Buy	96,398	60.1	55.0	92.3	26.6	29.1	17.3	4.2	3.9	3.2	1.8	1.3	1.8	16.2	13.1	19.0	
Jammu & Kashmir Bk(JAMKAS)	58	65	Buy	3,241	3.6	8.3	14.7	16.0	7.0	4.0	1.0	1.0	0.9	0.2	0.5	0.7	3.4	7.3	11.8	
Kotak Mahindra Bank (KOTMAH)	1,500	1,500	Hold	286,278	21.4	25.5	30.4	70.0	58.8	49.4	8.0	7.0	6.2	1.7	1.7	1.7	12.5	12.1	12.7	
Yes Bank (YESBAN)	140	180	Hold	32,372	18.3	8.4	13.3	7.6	16.6	10.5	1.8	1.4	6.8	1.6	0.6	1.0	17.6	7.3	18.4	
Bandhan Bank (BANBAN)	613	725	Buy	73,154	11.3	16.4	22.0	12.4	8.5	6.4	1.8	1.5	1.3	3.6	3.9	4.0	19.5	19.0	21.1	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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