

IndusInd Bank Ltd.



RESULT UPDATE

23rd May, 2019

IndusInd Bank Ltd.

Robust balance sheet growth

CMP INR 1,597	Target INR 1,861	Potential Upside 16.5%	Market Cap (INR Mn) 963,975	Recommendation Buy	Sector Banking
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Result highlights

- Advances grew 28.6% YoY/7.6% QoQ in Q4FY19, driven by both consumer finance loans and corporate sector lending which grew by 27% YoY and 20% YoY, respectively in Q4 FY19.
- Deposit mobilization remained robust with growth of 28.5% YoY/10.9% QoQ. CASA grew a healthy 26% YoY in Q4 FY19.
- NII stood at INR 2,232 Cr recording a growth of 11.2% YoY/ down 2.4% QoQ while NIMs stood at 3.57%, a decline of 48 bps YoY/ 31 bps QoQ.
- The bank has provided for INR 1,561 Cr of net provisions during the quarter, up 365% YoY/ 157% QoQ; impacted due to a one-off de-recognition of interest & provisioning of INR1,273 Cr with respect to exposure to infrastructure sector
- In terms of Asset quality, GNPA at 2.1%, increased by 93 bps YoY / +97 bps QoQ; while NNPA at 1.21% was 70/62 bps higher on YoY/QoQ basis
- Overall, PAT at INR 360 Cr was down by 62.2% YoY/down 63.4% QoQ in Q4FY19. Excluding the one-off impact, PAT grew by 25% YoY/+3% QoQ.
- The Board declared a dividend of INR 7.50 per equity share of face value of INR10 for FY19.

MARKET DATA

Shares outs (Mn)	603
Equity Cap (INR Mn)	266,750
Mkt Cap (INR Mn)	963,975
52 Wk H/L (INR)	2038/1333
Volume Avg (3m K)	3,044
Face Value (INR)	10
Bloomberg Code	IIB IN

KEY FINANCIALS

Particulars (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
NII	6,063	7,498	8,846	10,391	12,042
PPOP	5,451	6,657	8,088	9,444	11,001
PAT	2,868	3,607	3,301	4,698	6,025
EPS	47.95	60.09	54.77	77.95	99.97
NIM	4.0%	4.0%	3.8%	3.6%	3.3%
Advances Growth	27.9%	28.2%	28.6%	25.0%	25.0%

Source: Company, KRChoksey Research

Robust growth in both lending and deposit mobilization

IndusInd Bank's core business reflected robust balance sheet growth with advances increasing by 28.6% YoY in Q4FY19 while the deposit mobilization remained strong growing 28.5% YoY. With CASA growing 26% YoY in Q4FY19 and its share at ~43%. The growth in loan book was seen across both the corporate (+20% YoY) and consumer finance segment (+27% YoY) in Q4FY19. The microfinance lending business saw a much faster growth of 227% YoY in Q4 FY19 (+80% QoQ; but currently accounts for only ~7% of total advances). The bank is gradually shifting its focus towards the high margin retail/consumer lending which offer higher yields (~14% in Q4 FY19) and less riskier (INR585 Cr provisions) compared to corporate lending segment with yields (~9.0% in Q4 FY19) and carries higher risk (INR 2134 Cr provisions).

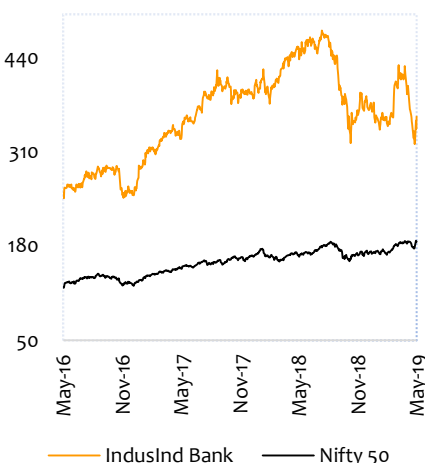
Double digit growth in PPOP; well supported by fee income; NIMs under pressure

During Q4FY19, PPOP increased 16.9% YoY/ (down 2.3% QoQ) to INR 2,068 Cr. NII stood at INR 2,232 Cr recording a growth of 11.2% YoY/ down 2.4% QoQ while NIMs stood at 3.57%, a decline of 48 bps YoY/ 31 bps QoQ. Fee Income grew 29% YoY (+6% QoQ) and the bank generated significant fee income from both consumer lending (especially loan processing & forex income) and the corporate side (investment banking fees from loan syndication and structured finance).

Asset quality concerns addressed after the one-off provisioning; renewed focus on Retail business

The bank provided INR1,561 Cr provisions during Q4 FY19 and a total of INR3,947 Cr in FY19. Out of these the infra sector exposure which was entirely taken into NPA accounts constituted INR 3,000 Cr for FY19 and INR 1,273 Cr in Q4 FY19. The bank's exposure to all other industries in the corporate loan segment remained at standard levels. According to the company, the SMA 1 category NPA stood at 0.32% and SMA 2 category NPA at 0.34% of total loans (excl. the infra sector exposure). The management showed good resolve in containing corporate loan exposures and has renewed its focus towards consumer lending. In fact, retail franchisee expanded with 107 new branches being opened in Q4 FY19 alone. This shift towards retail/consumer lending is expected to help improve its overall asset quality as the GNPA for consumer finance lending stood at a mere 1.18% at the end of Q4 FY19.

SHARE PRICE PERFORMANCE

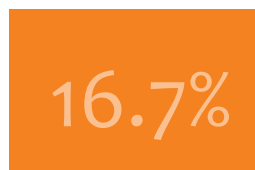


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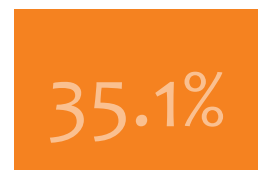
SENSEX	39,110
NIFTY	11,737

SHARE HOLDING PATTERN (%)

Particulars	Mar-19	Dec 18	Sep 18
Promoters	16.8	16.79	16.74
FIIIs	53.53	53.65	52.2
DIIIs	9.75	10.03	10.21
Others	19.92	19.53	20.85
Total	100	100	100



NII CAGR between FY19 and FY21E



PAT CAGR between FY19 and FY21E

ANALYST

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IndusInd Bank Ltd.

Key Con-call Highlights: (i) The bank remains confident of maintaining income from different sources as per current year, i.e. retail 45%, corporate 45% and the rest 10% from fee & trading income in FY20. (ii) The bank stated that the bulk provision of infra sector which was provided for entirely as per RBI guideline, there are no new slippages during the year into the SMA1 and SMA 2 category of NPAs. (iii) The bank has provided 1.9% of their loan book which are their total exposure towards the housing, diversified and media sector, apart from the infra sector NPA. However, the bank also stated that the accounts in these 3 sectors remain in the standard asset category in the books as of date. (iv) The Management attributed the IL&FS NPA for the higher provisioning that led to shrinking of the bottom-line in Q4 FY19. The bank stated that the GNPA excl. the IL&FS would have been at 1.03% and the NNPA excl. IL&FS would have been 0.48%. (v) **Guidance:** The management expects to maintain the advances growth at current 28% YoY, and deposits to grow by +20% YoY in FY20. The management intends to bring the C/I ratio down to 42% in FY20 from current levels of 43-44% while maintaining the Cost of Funds low (below 6% in Q4 FY19). Management expects NIM's to remain at 3.85-3.90% in FY20 while the bank intends to strengthen its retail presence with a target number of branches of 2,000 by FY20. Management also stated that the acquisition of Bharat Financial remains on course to be completed in FY20.

Valuation and view

We expect IndusInd Bank to deliver NII growth of average 17% YoY in FY20E/FY21E on back of its renewed focus towards retail business (network of 1,665 branches and 2,545 ATMs with 107 new branches opened in Q4 FY19). The bank is expected to grow its core business at 20-25% in the next few years and higher fee income growth of +20% annually is expected to continue. The bank's deposits/source of funds are also expected to keep pace with lending on back of its expanding retail franchisee, there by limiting any material NIM contraction. While Asset quality risks remain high, the renewed focus on high margin retail lending and improvement in Cost/Income side should support overall earnings growth; expected CAGR of 35% for FY19/21. IndusInd Bank is currently trading at a P/Adj.BV multiple of 3.2x/2.7x on FY20E/FY21E adj. book value and we expect the premium valuation of the bank on the back of its strong growth prospects and improving ROE outlook. **We apply a P/Adj.BV multiple of 3.35x to the FY21 adj. BVPS of INR 556 to arrive at a target price of INR 1,861 per share, an upside of 16.5% over the CMP. Accordingly, we assign a "Buy" rating on the shares of IndusInd Bank.**

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY 17	FY 18	FY 19	FY 20E	FY 21E
Interest Income	14,406	17,281	22,261	24,529	27,053
Interest Expense	8,343	9,783	13,415	14,138	15,010
Net Interest Income	6,063	7,498	8,846	10,391	12,042
Non interest income	4,171	4,750	5,647	6,098	6,708
Operating income	10,234	12,248	14,493	16,489	18,751
- Employee expense	1,521	1,781	1,854	2,039	2,243
- Other operating expense	3,262	3,810	4,551	5,006	5,507
Operating Expense	4,783	5,591	6,405	7,045	7,750
PPOP	5,451	6,657	8,088	9,444	11,001
Provisions	1,091	1,176	3,108	2,303	1,842
PBT	4,360	5,481	4,981	7,141	9,159
Tax Expense	1,492	1,875	1,679	2,444	3,134
PAT	2,868	3,607	3,301	4,698	6,025
Diluted EPS (INR)	47.95	60.09	54.77	77.95	99.97

Source: Company, KRChoksey Research

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Exhibit 2: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Source of Funds					
Share capital	598	600	603	603	603
Reserves & Surplus	20,033	23,227	26,072	30,318	35,891
Networth	20,631	23,827	26,675	30,921	36,493
ESOP	15	15	11	14	16
Borrowings	22,454	38,289	47,321	58,761	74,039
Deposits	1,26,572	1,51,639	1,94,868	2,40,166	2,97,806
Other liabilities & provisions	8,976	7,856	8,944	10,064	11,071
Total Equity & Liabilities	1,78,648	2,21,626	2,77,819	3,39,926	4,19,425
Uses of Funds					
Cash & Balances w/ RBI	7,749	10,962	9,961	11,905	13,373
Balances w/ banks & others	10,880	2,253	4,822	3,865	4,445
Investments	36,702	50,077	59,266	72,050	89,342
Loans & advances	1,13,081	1,44,953	1,86,394	2,32,992	2,91,240
Fixed assets	1,335	1,339	1,710	1,881	2,069
Other assets	8,902	12,041	15,666	17,233	18,956
Total Assets	1,78,648	2,21,625	2,77,819	3,39,926	4,19,425

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
Growth Rates					
Advances (%)	27.9%	28.2%	28.6%	25.0%	25.0%
Deposits (%)	36.1%	19.8%	28.5%	23.2%	24.0%
Total assets (%)	25.0%	24.1%	25.4%	22.4%	23.4%
NII (%)	34.2%	23.7%	18.0%	17.5%	15.9%
Pre-provisioning profit (%)	31.6%	22.1%	21.5%	16.8%	16.5%
PAT (%)	25.4%	25.8%	-8.5%	42.3%	28.3%
B/S Ratios					
Credit/Deposit (%)	89.3%	95.6%	95.7%	97.0%	97.8%
CASA (%)	36.9%	44.0%	44.0%	46.4%	48.2%
Advances/Total assets (%)	63.3%	65.4%	67.1%	68.5%	69.4%
Leverage - Total Assets to Equity	8.66	9.30	10.42	10.99	11.49
Operating efficiency					
Cost/income (%)	46.7%	45.6%	44.2%	42.7%	41.3%
Opex/total assets (%)	2.9%	2.5%	2.3%	2.1%	1.9%
Opex/total interest earning assets	3.4%	3.1%	2.8%	2.5%	2.2%
Profitability					
NIM (%)	4.0%	4.0%	3.8%	3.6%	3.3%
RoA (%)	1.6%	1.6%	1.2%	1.4%	1.4%
RoE (%)	13.9%	15.1%	12.4%	15.2%	16.5%
Asset quality					
Gross NPA (%)	0.9%	1.2%	2.1%	2.0%	1.9%
Net NPA (%)	0.4%	0.5%	1.2%	1.1%	1.0%
PCR (%)	58.4%	56.3%	43.0%	45.0%	45.0%
Slippage (%)	1.6%	3.0%	1.2%	1.2%	1.0%
Credit cost (%)	0.7%	0.7%	1.0%	0.8%	0.5%
Per share data / Valuation					
EPS (INR)	47.95	60.09	54.77	77.95	99.97
BVPS (INR)	344.91	396.97	442.60	513.04	605.51
ABVPS (INR)	337.58	384.55	405.29	470.54	555.67
P/E (x)	29.72	29.90	27.73	19.49	15.19
P/BV (x)	4.13	4.53	3.43	2.96	2.51
P/ABV (x)	4.22	4.67	3.75	3.23	2.73

Source: Company, KRChoksey Research

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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