

IndusInd Bank Ltd.



RESULT UPDATE

15th July, 2019

IndusInd Bank Ltd.

Exponential growth on the cards while synergies await

CMP INR 1,473	Target INR 1,861	Potential Upside 26.3%	Market Cap (INR Mn) INR 889,667	Recommendation Buy	Sector Banking
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Result Highlights of Q1 FY20

- IndusInd Bank completed the merger of Bharat Financial with its subsidiary IndusInd Financial Inclusion Limited on 4 July, 2019.
- Advances grew 28.4% YoY (+3.8% QoQ) in Q1 FY20. Deposit mobilization was robust with growth of 26.3% YoY (+2.9% QoQ). CASA fell by 38 bps YoY while savings deposit growing by 21% YoY in Q1 FY20.
- NII stood at INR 2,844 Cr increasing by 34.0% YoY/27.4% QoQ. NIMs stood at 4.05%, improving by 13 bps YoY/ 46 bps QoQ. This significant growth could be attributed to huge growth in retail lending business.
- Total Income at INR 4,507 Cr, up 31.6% YoY/18.9% QoQ which the bank attributed to the strong growth in their fee income (+22% YoY).
- PPOP at INR 2,591 Cr is up by 35.6% YoY/25.3% QoQ due to reduction in operating expenses and improvement in NIMs.
- Asset quality risks were mostly contained with GNPA at 2.15% (+5 bps QoQ/+100 bps YoY) while NNPA at 1.23% (down 2bps QoQ/+72 bps YoY) while PCR stood at 43.3%. PAT at INR 1,433 Cr increased 38.3% YoY (+298% QoQ) translating into annualized ROA/ROE of 2.05%/18.5%, respectively.

MARKET DATA

Shares outs (Mn)	693
Equity Cap (INR Mn)	320,580
Mkt Cap (INR Mn)	889,667
52 Wk H/L (INR)	2038/1333
Volume Avg (3m K)	4,344
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	11,497	14,735
PPOP	5,451	6,657	8,088	10,524	12,867
PAT	2,868	3,607	3,301	5,101	7,253
EPS	47.95	60.09	54.77	73.68	104.76
NIM	4.0%	4.0%	3.8%	4.0%	4.2%
Advances Growth	27.9%	28.2%	28.6%	25.0%	24.0%

Source: Company, KRChoksey Research

Robust growth in lending led by Consumer portfolio; Deposit mobilization remained buoyant

IndusInd Bank delivered yet another strong quarter with robust balance sheet growth in Q1 FY20. Advances increased 28.4% YoY while deposit mobilization remained buoyant at 26.3% YoY growth. The CASA ratio fell by 38 bps YoY (flat QoQ) to 43.4% in Q1FY20. Savings deposits increased by around 21% YoY. Loan book growth was seen across both the corporate (+20% YoY) and consumer finance segment (+20% YoY) in Q1 FY20. Within Corporate book, the large corporates loans accounted for 26% of total loan book in 1QFY20 while mid-corporates loans stood at 18%. Meanwhile, growth in Consumer finance segment (~54% of loan book in 1QFY20) was led by both the vehicle loan book which grew 24% YoY (~28% share of total loans) primarily driven by CV segment; and growth in Non-vehicle consumer loan book which grew above 20%+ YoY (~16% share of total loans). The microfinance lending business (mostly BFIL operations) accounted for 9% share in overall lending portfolio in Q1 FY20.

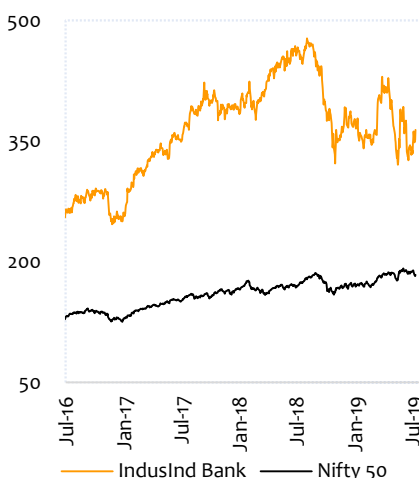
Double digit growth in PPOP; well supported by fee income, NIM expansion and cost efficiencies

During Q1 FY20, IndusInd Bank's PPOP increased 35.6% YoY/ 25.3% QoQ to INR 2,591 Cr. supported by 1) core NII growth (+34.0% YoY/+27.4% QoQ) on improved NIMs of 4.05% (increase of 46 bps YoY/ 13 bps QoQ); 2) Fee Income growth of 22% YoY (+1% QoQ) as 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); and 3) Improved cost discipline which saw C/I ratio decline to 42.5% level in Q1FY20. On a standalone basis, IndusInd Bank's NII grew 14% YoY (+8% QoQ) while Total Income advanced 17% YoY (6% QoQ).

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

The bank provided INR431 Cr provisions during Q1 FY20, a decline after significant amount of the infrastructure debt has been written off (around INR +1,000 Cr) and remaining stayed as NPAs. Management stated that the SMA 1 category NPA fell to 0.18% and SMA 2 category NPA at 0.17% of total loans while the total number of accounts in both categories stood at 48. Management plans to focus on retail lending business following the Bharat Financial merger and aims to add 7.5mn new savings accounts by end of FY20; which should support liquidity, support CASA and keep the funding costs low.

SHARE PRICE PERFORMANCE

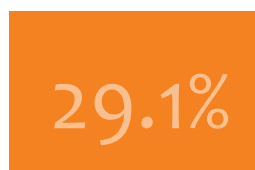


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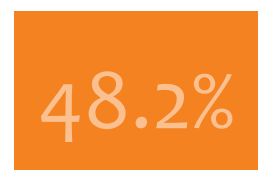
SENSEX	38,736
NIFTY	11,552

SHARE HOLDING PATTERN (%)

Particulars	Jun-19	Mar-19	Dec-18
Promoters	16.80	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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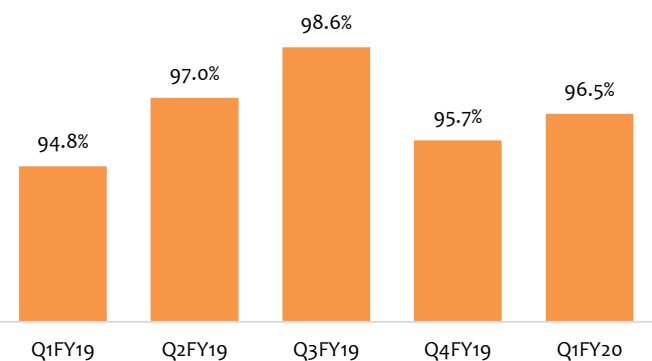
IndusInd Bank Ltd.

Key Concall Highlights: (i) The bank's management reiterated their stance of keeping their books clean and growing retail/consumer lending going forward. (ii) The bank stated that the bulk provision of infra sector which was provided for entirely as per RBI guideline and stood in the Net NPA's now and no other large accounts remain to be provided for (iii) The merger of BFIL will benefit the bank through providing savings account to around 7.5 million borrowers of BFIL by end of FY20. (iv) BFIL merger has provided around 35 bps to the net margins of the consolidated bank's net margin. Also, around 6,000 Cr of BFIL liabilities has been absorbed by the parent bank (vi) On the vehicle finance business front, the Management stated that despite some slowdown, they have been able to clock better growth than their peers as they are more into commercial vehicles and expect a major momentum from 3QFY20 due to festive season (v) **Guidance:** The management expects to maintain the advances growth at current levels of +25% YoY, deposits to grow by +20% YoY in FY20 and overall total income and earnings to grow annually by ~35% YoY. The management expects the C/I ratio to stay lower at 42% levels throughout FY20. NIM's are expected to remain at 3.85-3.90% in FY20 while the bank intends to strengthen its retail presence with a targeted number of branches at 2,000 by FY20.

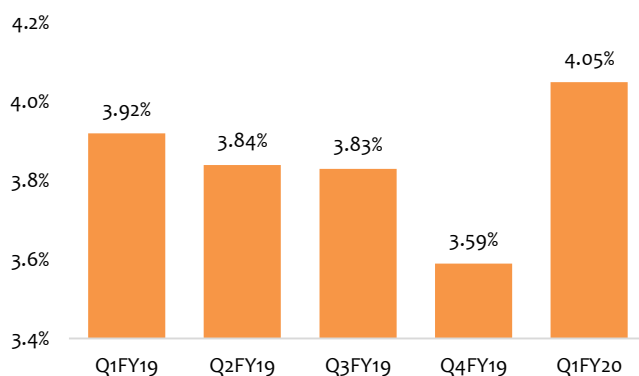
Valuation and view

We expect IndusInd Bank to deliver NII growth of average 29% YoY in FY20E/FY21E with focus shifting towards retail business. 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 while the microfinance business expands with growth of +10% in average ticket size of borrowing. The bank's deposits/source of funds are also expected to increase as new saving accounts will be added following the BFIL merger which will help expand CASA share and keep cost of funds lower. Asset quality risks are expected to trend down as the credit costs reach as low as 0.15%. Improvement on operational efficiencies as evident in lower C/I (in Q1FY20) should translate into overall earnings growth at a CAGR of 48% in FY19/21E. On valuation front, 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 to continue on back of its strong growth prospects, earnings accretive M&A activity (BFIL) and improving ROE outlook. **We apply a P/Adj.BV multiple of 3.3x to the FY21 adj. BVPS of INR 566 to arrive at a target price of INR 1,861 per share; an upside of 26.3% over the CMP. Accordingly, we reiterate "Buy" rating on the shares of IndusInd Bank.**

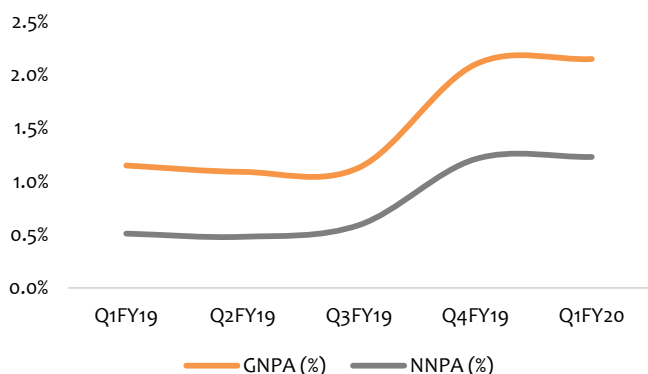
Advances/Deposits ratio: Liquidity situation easing



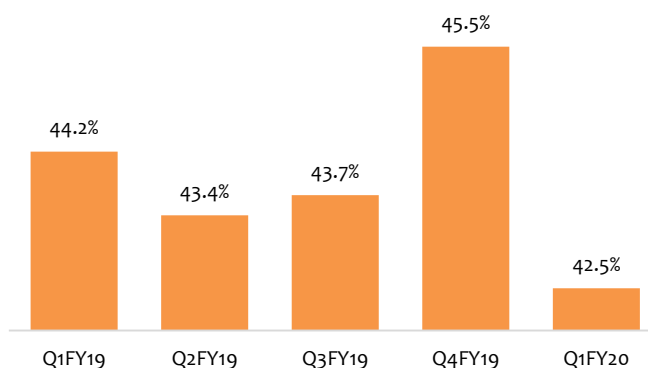
NIMs: Trend reversal post BFIL merger



Asset quality stabilising in recent quarters



C/I Ratio: Improvement in operational efficiencies



Source: Company, KRChoksey Research

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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	26,433	30,718
Interest Expense	8,343	9,783	13,415	14,937	15,982
Net Interest Income	6,063	7,498	8,846	11,497	14,735
Non interest income	4,171	4,750	5,647	7,028	7,731
Operating income	10,234	12,248	14,493	18,525	22,467
- Employee expense	1,521	1,781	1,854	2,679	2,947
- Other operating expense	3,262	3,810	4,551	5,322	6,652
Operating Expense	4,783	5,591	6,405	8,001	9,599
PPOP	5,451	6,657	8,088	10,524	12,867
Provisions	1,091	1,176	3,108	2,303	1,842
PBT	4,360	5,481	4,981	8,222	11,025
Tax Expense	1,492	1,875	1,679	3,121	3,773
PAT	2,868	3,607	3,301	5,101	7,253
Diluted EPS (INR)	47.95	60.09	54.77	73.68	104.76

Forecast is based on merged financials of BFIL; Historical numbers are not comparable
Source: Company, KRChoksey Research

IndusInd Bank Ltd.

Exhibit 2: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Source of Funds					
Share capital	598	600	603	692	692
Reserves & Surplus	20,033	23,227	26,072	34,738	41,471
Networth	20,631	23,827	26,675	35,430	42,164
ESOP	15	15	11	14	16
Borrowings	22,454	38,289	47,321	64,695	81,515
Deposits	1,26,572	1,51,639	1,94,868	2,45,534	3,06,917
Other liabilities & provisions	8,976	7,856	8,944	10,733	15,027
Total Equity & Liabilities	1,78,648	2,21,626	2,77,819	3,56,406	4,45,638
Uses of Funds					
Cash & Balances w/ RBI	7,749	10,962	9,961	14,118	14,125
Balances w/ banks & others	10,880	2,253	4,822	3,864	4,444
Investments	36,702	50,077	59,266	68,750	73,660
Loans & advances	1,13,081	1,44,953	1,86,394	2,32,992	2,88,910
Fixed assets	1,335	1,339	1,710	1,908	2,194
Other assets	8,902	12,041	15,666	34,774	62,305
Total Assets	1,78,648	2,21,625	2,77,819	3,56,406	4,45,638

Forecast is based on merged financials of BFIL; Historical numbers are not comparable
Source: Company, KRChoksey Research

IndusInd Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
Growth Rates					
Advances (%)	27.9%	28.2%	28.6%	25.0%	24.0%
Deposits (%)	36.1%	19.8%	28.5%	26.0%	25.0%
Total assets (%)	25.0%	24.1%	25.4%	28.3%	25.0%
NII (%)	34.2%	23.7%	18.0%	30.0%	28.2%
Pre-provisioning profit (%)	31.6%	22.1%	21.5%	30.1%	22.3%
PAT (%)	25.4%	25.8%	-8.5%	54.5%	42.2%
B/S Ratios					
Credit/Deposit (%)	89.3%	95.6%	95.7%	94.9%	94.1%
CASA (%)	36.9%	44.0%	44.0%	43.1%	43.0%
Advances/Total assets (%)	63.3%	65.4%	67.1%	65.4%	64.8%
Leverage - Total Assets to Equity	8.66	9.30	10.42	10.06	10.57
Operating efficiency					
Cost/income (%)	46.7%	45.6%	44.2%	43.2%	42.7%
Opex/total assets (%)	2.9%	2.5%	2.3%	2.3%	2.2%
Opex/total interest earning assets	3.4%	3.1%	2.8%	2.8%	2.8%
Profitability					
NIM (%)	4.0%	4.0%	3.8%	4.0%	4.2%
RoA (%)	1.6%	1.6%	1.2%	1.4%	1.6%
RoE (%)	13.9%	15.1%	12.4%	14.4%	17.2%
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)	47.9	60.1	54.8	73.7	104.8
BVPS (INR)	344.9	397.0	442.6	511.8	609.1
ABVPS (INR)	337.6	384.5	405.3	474.8	565.7
P/E (x)	29.7	29.9	26.9	20.0	14.1
P/BV (x)	4.13	4.53	3.33	2.88	2.42
P/ABV (x)	4.22	4.67	3.64	3.10	2.60

Source: Company, KRChoksey Research

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IndusInd Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
15-Jul-19	1473	1861	BUY	Buy	More than 15%
23-May-19	1597	1861	BUY		
16-Oct-18	1639	2097	BUY	Accumulate	5% – 15%
11-Jul-18	1935	2033	ACCUMULATE		
21-Apr-18	1821	2033	ACCUMULATE	Hold	0 – 5%
12-Jan-18	1700	1998	BUY		
13-Oct-17	1747	1889	ACCUMULATE	Reduce	-5% – 0
12-July-17	1500	1681	ACCUMULATE		
11-Jan-17	1,222	1,500	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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