

Hiccup in asset quality - long term story intact...

IndusInd Bank reported a steady operational performance led by sturdy growth in NII & other income of 34% YoY & 22% YoY to ₹ 3074 crore & ₹ 1789 crore, respectively. Improvement in margins of 5 bps QoQ was witnessed led by lower cost of fund due to higher SA accretion. Provisions surged during the quarter to ₹ 1043 crore, up 41% QoQ on the back of accelerated provisions of ₹ 251 crore and partial provisioning of ₹ 240 crore on account of fraud in two accounts. Accordingly, PAT came in lower compared to our estimates at ₹ 1300 crore, up 32% YoY.

Credit growth was at ~20% YoY (5.2% QoQ) to ₹ 2.07 lakh crore led by higher growth in corporate book (6.2% QoQ) compared to consumer book (4.4% QoQ). Slower growth within the consumer book is attributable to auto slowdown. Deposit growth continued to remain healthy at ~23% YoY to ₹ 2.17 lakh crore led by healthy traction of 12% QoQ in savings deposits. Accordingly, CASA ratio improved 96 bps QoQ to 42.39% vs. 41.43% in Q2FY20.

Slippages during the quarter increased to ₹ 1945 crore against ₹ 1102 crore in Q2FY20. Slippages worth ₹ 710 crore are attributable to travel company, diversified group & paper company. HFC classified as fraud was from investment book. However, due to robust recoveries & write-off of ₹ 1737 crore GNPA ratio for quarter was stable at 2.18% vs 2.19% in Q2FY20. The management has said that exposure to recent added stressed assets (media, diversified and housing finance sector) has been reduced to 0.47% of total advances. The exposure has pared down due repayment & 100% provision for its exposure to HFC (0.3% of book). 25% has been recognised during the quarter while remaining 75% will be recognised in the next three quarters.

Decline in exposure to stressed account

Exposure to stressed account declined to 0.47% from 1.1% in Q2FY20, led by recoveries, repayment and write-offs. The bank had classified Travel Company and one diversified group as fraud account and provided ₹ 240 crore in Q3FY20. Further, the bank guided to 70-80 bps of credit cost for FY21 excluding provisioning on IL&FS. Total PCR on IL&FS was at ~73%.

Valuation & Outlook

With exposure to stressed account within control & lumpy provisions for it already done, earnings trajectory is seen reviving ahead. The bank has submitted a name for successor to Ramesh Sobti with approval from RBI pending. The bank aims to increase retail asset & liability though building a sustainable retail franchise. Return ratios at ~1.8-2.1% RoA and ~16-19% RoE & growth ~20% are reasonably strong numbers with major pain on stressed asset behind. We continue to maintain **BUY** rating on the stock with a revised price target of ₹ 1700 (earlier ₹ 1400), valuing it at 2.4x FY22E ABV.

Key Financial Summary

₹ Crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
NII	7,497	10,587	12,081	14,285	17,333	18%
PPP	6,656	9,358	10,736	12,738	15,119	17%
PAT	3,606	4,186	5,639	7,543	8,952	29%
ABV (₹)	385	416	508	600	712	
P/E	20.1	19.9	15.1	11.3	9.5	
P/ABV	3.1	2.9	2.4	2.0	1.7	
RoA	1.8	1.6	1.8	2.1	2.1	
RoE	16.2	14.5	16.4	18.4	18.5	

Source: Company, ICICI Direct Research

IndusInd Bank

Particulars

Particulars	Amount
Market Capitalisation	₹ 96960 Crore
GNPA (Q3FY20)	₹ 4578 Crore
NNPA (Q3FY20)	₹ 2173 Crore
NIM (%) (Q3FY20)	4.2
52 week H/L	1835/1192
Net worth	₹ 34156 Crore
Face Value	₹ 10
DII Holding (%)	15.0
FII Holding (%)	55.2

Key Highlights

- Credit growth came at 20% YoY led by growth in corporate book. Traction in deposit remained healthy at 23% YoY
- Exposure to stressed account has reduced further to 0.47%
- The bank declared exposure to travel company & HFC as fraud during quarter with appropriate provisions being made
- Maintain BUY rating on stock with target price of ₹ 1700 (earlier ₹ 1400)

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Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
NII	3,074	3,050	2,288	34.3	2,910	5.7	Stable credit growth & improvement in margins led to healthy growth
NIM (%)	4.15	4.11	3.83	32 bps	4.10	5 bps	Reduction in cost of fund led to improvement in margin
Other Income	1,789	1,814	1,469	21.8	1,727	3.6	Core fee income trajectory moderated to 22% YoY
Net Total Income	4,863	4,864	3,757	29.5	4,636	4.9	
Staff cost	550	538	452	21.7	515	6.7	
Other Operating Expenses	1,568	1,627	1,188	32.0	1,521	3.1	
PPP	2,746	2,721	2,117	29.7	2,600	5.6	
Provision	1,043	620	607	72.0	737.7	41.4	Accelerated provisions of ₹ 251 crore & partial provision on fraud led to surge in provisions
PBT	1,702	2,101	1,510	12.7	1,862	-8.6	
Tax Outgo	402	535	525	-23.5	478.9	-16.1	
PAT	1,300	1,566	985	32.0	1,383.4	-6.0	Higher provisions dented earnings
Key Metrics							
GNPA	4,578	4,538	1,968	132.6	4,370	4.8	Slippages came in higher at ₹ 1945 crore on the back of higher slippages in corporate book. Exposure to travel company & HFCs were declared fraud during the quarter. However, higher recoveries & writeoff led to stable asset quality
NNPA	2,173	2,287	1,029	111.1	2,203	-1.3	
Total Restructured assets	124	217	190	-34.7	217	-42.6	Restructured loans as a percentage of total credit was at 0.06%
Credit book	207,413	206,717	173,169	19.8	197,113	5.2	Advances growth was healthy on sequential basis led by higher growth within corporate book compared to consumer
Deposit book	216,713	219,082	175,701	23.3	207,193	4.6	Strong deposit growth of ~23% YoY continued with traction in savings & term deposits, CASA ratio improved 96 bps QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY20E			FY21E			FY22E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	11,711	12,081	3.2	14,606	14,285	-2.2	17,333
Pre Provision Profit	10,679	10,736	0.5	12,945	12,738	-1.6	15,119
NIM(%) (calculated)	4.0	4.3	31 bps	4.1	4.2	8 bps	4.1
PAT	5,855	5,639	-3.7	7,769	7,543	-2.9	8,952
ABV per share (₹)	514.3	507.7	-1.3	612.1	599.8	-2.0	712.3

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current		Introduced		Earlier	
	FY19	FY20E	FY21E	FY22E	FY20E	FY21E
Credit growth (%)	28.6	20.0	23.0	25.0	21.0	24.0
Deposit Growth (%)	28.5	20.0	21.0	25.0	22.0	20.0
NIM Calculated (%)	3.9	4.5	6.0	6.0	4.4	4.5
Cost to income ratio (%)	44.2	43.5	43.1	43.8	43.6	44.1
GNPA (₹ crore)	3,947.4	4,855.3	5,195.2	5,714.7	4,934.3	5,279.7
NNPA (₹ crore)	2,248.3	2,135.9	2,242.7	2,399.6	2,585.5	2,714.8
Credit cost (%)	1.6	1.4	1.0	0.9	1.3	0.9

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: MFI & credit card segments continue to grow faster

Consumer Finance Book								
₹ crore	FY17	FY18	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20
Comm. Vehicle	15,606	19,872	21,992	23,304	24,444	24,853	25,092	24,977
Utility Vehicle	2,342	2,866	3,201	3,383	3,597	3,846	4,009	4,264
Three Wheelers	2,374	2,528	2,886	3,034	3,135	3,248	3,386	3,560
Two Wheelers	3,262	3,589	3,867	4,322	4,482	4,661	4,799	5,296
Car loans	4,665	5,345	5,892	6,285	6,537	6,792	7,013	7,336
Equip. financing + Tract	5,933	8,205	9,373	10,167	11,089	11,646	12,173	8,238
Credit card	1,704	2,696	3,185	3,546	4,382	3,911	4,203	4,576
Loan against prop.	7,051	8,009	8,324	8,557	8,925	8,678	8,785	9,539
Personal.others etc	2,592	4,130	4,922	5,435	6,095	6,992	7,748	7,757
Business Banking						10,984	11,360	11,460
Microfinance						18,245	18,884	20,757
Total	45529	57239	63643	68033	72684	103856	107452	112160
YoY Growth	25	26	29	28	27	72	69	65

Source: Company, ICICI Direct Research, from Q1FY20 merged numbers

Exhibit 5: Break-up of corporate book

Corporate Banking Book									
₹ crore	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Large corporates	31,477	44,289	44,957	49,471	50,833	52,166	50,212	48,319	51,284
Mid corporates	22,203	25,652	26,544	30,087	32,312	33,369	35,221	37,194	39,677
Small business	13,872	17,774	18,910	19,943	21,991	28,175	4,231	4,148	4,292
Total	67552	87715	90411	99501	105136	113710	89664	89661	95253
YoY Growth	30.2	29.8	30.4	35.0	39.4	29.6	-0.8	-9.9	-9.4

Source: Company, ICICI Direct Research

Exhibit 6: Advances growth stable

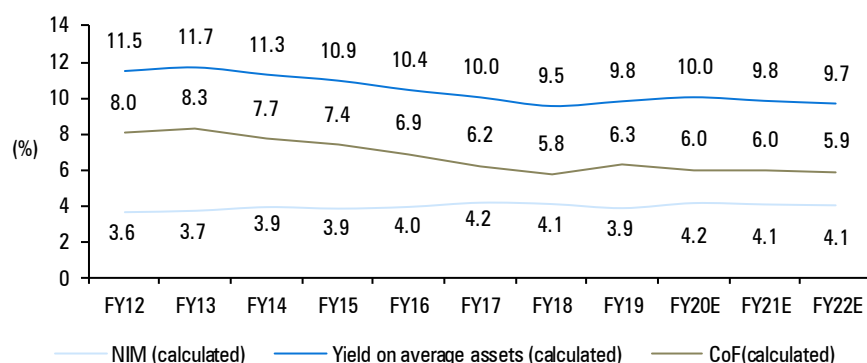
₹ crore	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Total Advances	113081	144954	150675	163144	173169	186394	193520	197113	207413
YoY Growth	27.9	28.2	29.4	32.4	34.7	28.6	28.4	20.8	19.8

Source: Company, ICICI Direct Research

Exhibit 7: Deposit growth continue to remain on higher side

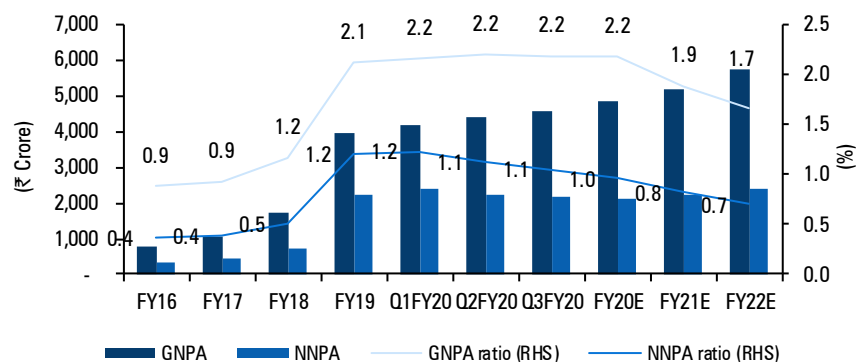
₹ Crore	FY17	FY18	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20
Savings	27037	45888	51106	50023	54486	57562	58117	64895
Current	19609	20841	22269	26526	29584	28779	27721	26970
Term	79926	84910	94844	99152	110798	114245	121355	124848
Total Deposits	126572	151639	168219	175701	194868	200586	207193	216713
YoY Growth	36.1	19.8	18.9	20.3	28.5	26.3	23.2	23.3
CASA Amount	46646	66729	73375	76549	84070	86341	85838	91865
CASA%	36.9	44.0	43.6	43.6	43.1	43.0	41.4	42.4

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 issues seen subsiding



Source: Company, ICICI Direct Research

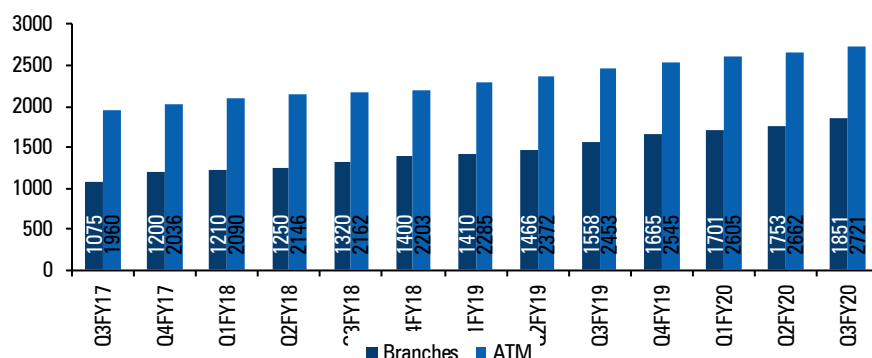
Exhibit 10: Strong core fee income to keep other income growth robust

Other income break up (₹ Crore)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Core fee income	1,218	1,266	1,419	1,422	1,468	1,506
Securities/FX trading/others	99	203	140	241	259	284

Break up of fee income (₹ Crore)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Trade & Remittances	151	155	189	164	182	185
Foreing Exchange Income	223	275	289	250	277	241
Distribution Fees	280	268	302	302	322	347
General Banking	91	91	84	90	90	85
Loan Processing Fees	260	276	328	337	360	388
Investment Banking	213	201	228	235	201	209
Total	1,218	1,266	1,420	1,378	1,432	1,455

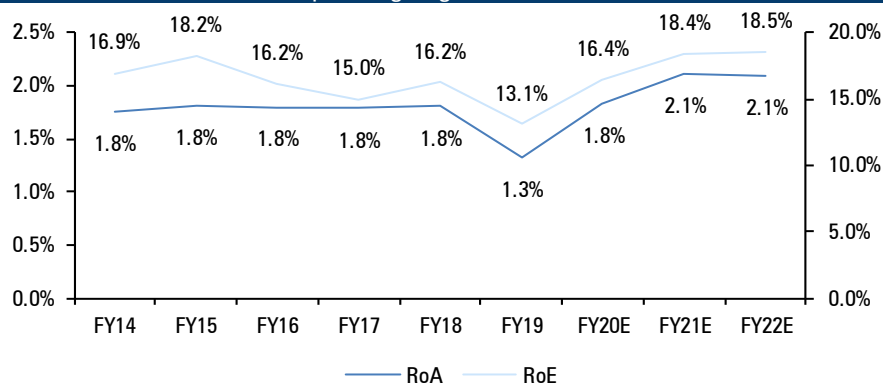
Source: Company, ICICI Direct Research

Exhibit 11: Expanding branch & ATM network



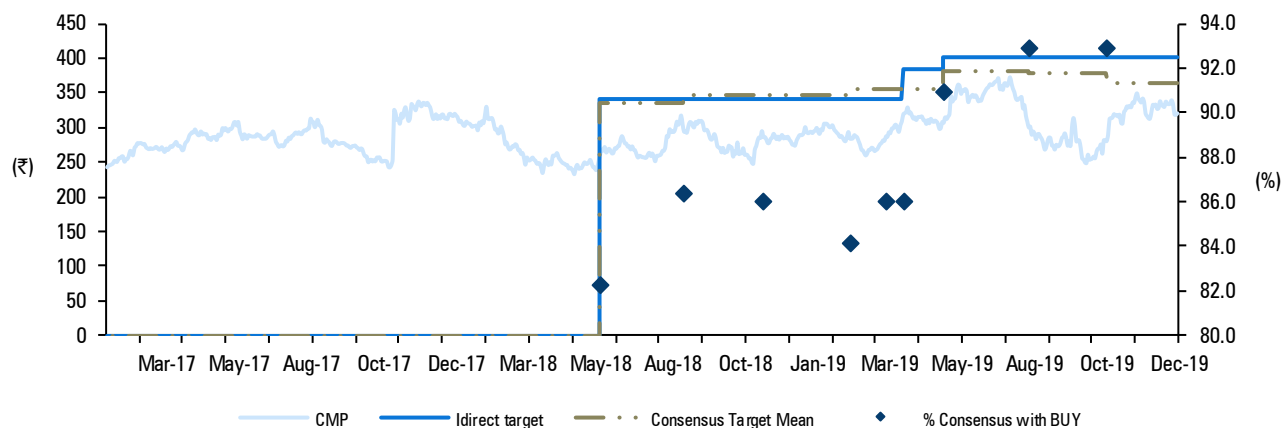
Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to improve, going ahead



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	INDUSIND INTL HLDGS	06-07-2019	9.61	66.58M	0
2	CAPITAL GROUP COMPAN	31-10-2019	5.56	38.51M	+20.22M
3	INDUSIND LTD	06-07-2019	3.43	23.80M	0
4	JPMORGAN CHASE & CO	30-11-2019	3.31	22.96M	+0.15M
5	BRIDGE INDIA FUND	06-07-2019	2.91	20.16M	-0.14M
6	ARBITRAGE BNP PARIBA	06-07-2019	2.37	16.45M	+10.38M
7	SBI FUNDS MANAGEMENT	31-12-2019	1.95	13.53M	+0.31M
8	ICICI PRUDENTIAL LIF	06-07-2019	1.9	13.17M	+3.35M
9	TYBOURNE EQUITY MAST	06-07-2019	1.78	12.37M	+3.53M
10	ADITYA BIRLA SUN LIF	06-07-2019	1.67	11.54M	+4.41M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	14.99	16.80	14.98	14.39	14.38
FII	47.89	53.53	56.67	52.53	55.22
DII	8.95	9.75	9.69	12.39	14.95
Others	28.17	19.92	18.66	20.69	15.45

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Interest Earned	21,589	28,887	34,117	41,289
Interest Expended	11002.5	16805.9	19832.4	23956.2
Net Interest Income	10,587	12,081	14,285	17,333
% growth	24.1	14.1	18.2	21.3
Non Interest Income	6055.9	6918.3	8118.4	9560.5
Net Income	16642.5	18998.9	22403.0	26893.3
Employee cost				
Operating Exp.	7284.3	8262.6	9664.7	11774.0
Operating Income	9358.2	10736.3	12738.2	15119.2
Provisions	3179.7	3064.3	2613.6	3095.1
PBT	6178.5	7672.0	10124.6	12024.2
Taxes	1992.9	2033.1	2581.8	3066.2
Net Profit	4,186	5,639	7,543	8,952
% growth	3.1	34.7	33.8	18.7
EPS	60.9	80.3	107.5	127.5

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Valuation				
No. of Equity Shares	68.7	70.2	70.2	70.2
BV (₹)	449.2	538.2	631.7	746.5
ABV (₹)	416.4	507.7	599.8	712.3
P/BV	2.7	2.2	1.9	1.6
P/ABV	2.9	2.4	2.0	1.7
GNPA	2.1	2.2	1.9	1.7
NNPA	1.2	1.0	0.8	0.7
RoE	14.5	16.4	18.4	18.5
RoA	1.6	1.8	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ Crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Sources of Funds				
Capital	686.90	701.90	701.90	701.90
Reserves and Surplus	30167.3	37070.9	43638.2	51695.0
Networth	30854.2	37772.8	44340.1	52396.9
Deposits	194867.9	233841.5	282948.2	353685.2
Borrowings	52099.1	45326.2	47592.5	52351.8
Other Liabilities & Provisi	10226.1	10941.9	11707.9	12527.4
Total	2,88,047	3,27,882	3,86,589	4,70,961
Application of Funds				
Fixed Assets	1527.9	1527.9	1527.9	1527.9
Advances	186393.5	223672.2	275116.8	343896.0
Investments	59266.4	65193.0	73016.2	83968.6
Cash and balances with	16791.4	17631.0	18512.5	19438.1
Money at call, balance at bank				
Other Assets	24068.3	19858.3	18415.3	22130.6
Total assets	2,88,048	3,27,882	3,86,589	4,70,961

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	(%)			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total assets	23.6	13.8	17.9	21.8
Advances	21.2	20.0	23.0	25.0
Deposits	28.5	20.0	21.0	25.0
Total Income	22.0	14.2	17.9	20.0
Net interest income	24.1	14.1	18.2	21.3
Operating expenses	15.8	13.4	17.0	21.8
Operating profit	27.4	14.7	18.6	18.7
Net profit	NA	34.7	33.8	18.7
Book value	15.2	19.8	17.4	18.2
EPS (₹)	NA	31.8	33.8	18.7

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
BoB (BANBAR)	98	130	Buy	453	1.8	5.0	18.0	54.8	19.6	5.5	1.2	1.0	0.8	0.1	0.2	0.6	0.9	2.9	9.4
SBI (STABAN)	324	400	Buy	2892	1.0	18.4	31.1	334.0	18	10.4	2.3	1.8	1.5	0.0	0.5	0.7	0.5	8.5	12.5
Indian Bank (INDIBA)	99	130	Buy	60	6.7	21.7	40.1	14.7	4.6	2.5	0.4	0.4	0.4	0.1	0.3	0.6	1.7	5.3	9.3
Axis Bank (AXIBAN)	745	865	Buy	2101	18.2	21.3	49.0	41	35.0	15.2	3.5	2.7	2.3	0.6	0.7	1.4	0.6	0.7	1.4
City Union (CITUNI)	243	240	Buy	179	9.3	10.4	12.0	26.1	23.4	20.2	4.1	3.5	3.1	1.6	1.6	1.6	15.3	14.8	14.8
DCB Bank (DCB)	193	220	Buy	60	10.5	12.6	16.7	18.4	15.3	11.6	2.2	2.0	1.7	1.0	1.0	1.2	12.2	12.9	14.8
IndusInd Bank (INDBA)	1,399	1,700	Buy	970	60.9	80.3	107.5	23.0	17.4	13.0	3.4	2.8	2.3	1.6	1.8	2.1	14.5	16.4	18.4
J&K (JAMKAS)	30	48	Hold	17	8.3	9.4	14.5	3.6	3.2	2.1	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0
Kotak Bank (KOTMAH)	1,682	1,700	Hold	3214	25.5	33.7	39.8	66.0	49.9	42.3	7.8	6.9	6.0	1.7	1.9	1.9	12.1	14.0	14.4
Yes Bank (YESBAN)	40	UR	Reduce	102	6.4	-1.4	5.6	6.2	-29.2	7.1	0.4	0.6	0.6	0.4	-0.2	0.6	5.6	-1.7	5.8
Bandhan (BANBAN)	491	650	Buy	791	16.4	21.4	27.1	2.4	1.9	1.5	0.4	0.5	0.4	3.9	4.6	4.1	19.0	26.5	25.9
IDFC First (IDFBAN)	45	54	Buy	216	-3.4	-2.3	1.1	-13.1	-19.6	39.9	1.3	1.4	1.3	-1.1	-0.6	0.3	-9.8	-6.2	3.1

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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