

### Indusind Bank

#### Result Update

CMP	1404
Target Price	1480
Previous Target Price	1400
Upside	5%
Change from Previous	6%

#### Market Data

BSE Code	532187
NSE Symbol	INDUSINDBK
52wk Range H/L	1414/912
Mkt Capital (Rs Cr)	69444
Av. Volume (,000)	141
Nifty	9045

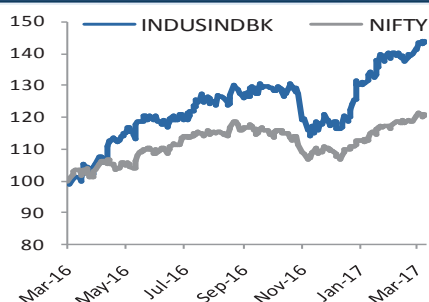
#### Stock Performance

	1Month	1Year	YTD
Absolute	3.7	49.0	27.8
Rel.to Nifty	1.9	18.2	11.4

#### Share Holding Pattern-%

	3QFY17	2QFY17	1QFY17
Promoters	16.7	16.7	16.7
Public	83.3	83.3	83.3
Others			
Total	100.0	100.0	100.0

#### Company Vs NIFTY



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#### Recent Development and Result Update

Recently there was news from management stating that Indusind Bank was in talks with multiple entities for business expansion. It also includes the widely speculated merger of Bharat Financial Inclusion. However we wait for the confirmation on any such deal. But any such development with Bharat Financial Inclusion would be synergistic and will boost earnings growth of Indusind Bank.

Indusind Bank posted the strong set of 3Q FY17 results. NII grew by 35% YoY backed by healthy loan growth as well as improvement in NIM. C/I ratio was well within control to 47.5%. Operating Profit remained healthy with 29% YoY growth. PAT grew by 29% YoY. NIM improved by 9 bps YoY to 4%, it remained flat QoQ. Sequentially assets quality saw marginal deterioration with GNPA at 94bps against 90bps. Advances increased by 25% YoY backed by growth in both consumer as well as corporate portfolio. Deposits Increased by 38% YoY, whereas CASA Increased by 46% YoY. CASA ratio increased by 50 bps QoQ to 37%.

#### Advances growth remained healthy, CASA Spiked

Advances grew by a healthy pace of 25% YoY despite the busy quarter (on liability side) backed by both Consumer Finance and Corporate Bank division. Both the segment registered 25% growth YoY. Overall vehicle finance grew by 20% YoY and Non Vehicle consumer portfolio grew by 38% YoY. Under Vehicle Finance, CV grew by 10%, SCV picked up to 18% and car loan grew by 22%. Equipment financing grew by 28% YoY, Credit card business grew by 51% YoY. Management highlighted that the IIB has gained the market share in overall vehicle financing except in 2 wheeler segment which remained flat QoQ.

Deposits grew by 38% YoY mainly due to demonetization effect. However growth was only 6% QoQ due to one off IPO deposits in 2Q FY17 got redeem in 3Q FY17. CASA grew by 46% YoY which led the CASA ratio to 37%. SA increased by 56% and CA increased by 35% YoY. Management highlighted that the increase in CASA can be attributed equally to both-customer acquisition as well as demonetization.

#### Operating Profit Remain Healthy.

Operating profit of the Indusind bank has shown a healthy growth of 29% YoY backed by strong NII and other income growth of 35% and 21% respectively. Other income growth was supported by 22% YoY growth in fee income. Fee from investment banking grew by 41% YoY but remain flat sequentially. Loan processing fees grew by 5% YoY. Distribution fee income grew by 44% YoY. C/I ratio increased marginally to 47.5% from 47.3% a year back due to 29% growth in operating expenses. Bank opened 40 new branches this quarter which led the total branches to 1075 and has the target of 1200 in FY17.

## Demonetization led huge decline in Cost of Fund.

NIM has improved by 9bps YoY to 4% but remain flat QoQ. Improvement in NIM was backed by decline in cost of fund. Cost of fund declined by 53bps YoY to 5.27%. Cost of deposits fall by 80 bps YoY to 6.35% as on 3Q FY17. This 80 bps fall in cost of deposits was the highest in last 18 quarters. Decline in cost of deposits was the result of spike in CASA ratio due to demonetization. Overall Yield of IIB declined by 44bps to 9.27%. Yield on advances declined by 34 bps YoY to 11.73%. Yield on consumer finance division declined by 53 YoY bps whereas corporate portfolio saw as decline of 22 bps YoY in its Yield. However sequentially yield on CFD decline marginally by 4 bps. Most of the CFD book is on fixed rate. In the declining interest rate scenario, Yields will further taper but with the strategy of management to shift to portfolio mix towards high yield CFD and decline in cost of fund will maintain the NIMs at current level.

## Assets Qaulity remains largely stable

Assets Quality of IIB saw marginal increase in its GNPA to 0.94% against 0.90% as on 2Q FY17. NNPA increased by 2 bps to 0.39%. Slippages were Rs 281 Cr, increased by 8% QoQ. However slippages in CFD improved to Rs 170 Cr against Rs 188 Cr on 2Q FY17. GNPA in vehicle segment improved except in Car segment. LAP also saw 10bps increase in GNPA. Management highlighted that delinquencies and slippages in the consumer bank have actually improved over the quarter because repayments came in faster before December 30. Bank also saw delinquent clients as well as written-off clients end with paying up. Restructured assets declined to 41 bps against 44 bps on 2Q FY17. The decline was due to slip of 2 small accounts into NPA. PCR remained flat at 59%. Credit cost was 15 bps for the quarter and it was 45 bps for 9 months. Management expects the credit cost to restrict to 60bps in FY17.

## Quarterly Performance

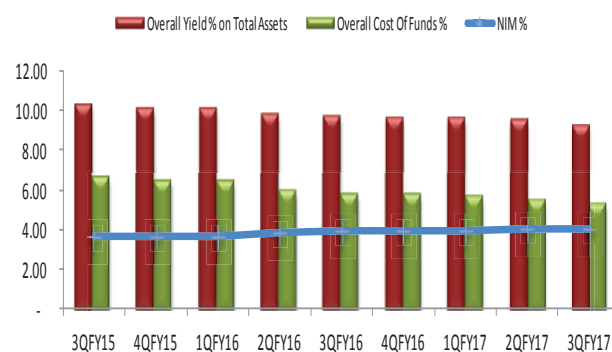
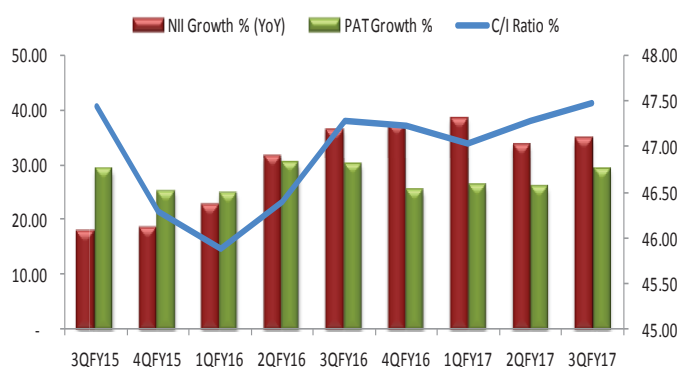
(Rs in Crore)

Financials	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%
Interest Inc.	2437	2579	2724	2798	2928	3132	3292	3469	3699	26%	7%
Interest Exp.	1576	1654	1743	1703	1754	1863	1935	2009	2121	21%	6%
NII	861	925	981	1094	1173	1268	1356	1460	1578	35%	8%
Other Income	611	658	724	784	839	913	973	970	1017	21%	5%
Total Income	1472	1584	1705	1878	2012	2181	2329	2431	2595	29%	7%
Ope Exp.	698	733	782	871	951	1030	1096	1149	1232	29%	7%
PPP	774	851	923	1007	1061	1151	1234	1282	1363	28%	6%
Provisions	98	107	123	158	177	214	230	214	217	22%	1%
PBT	676	743	799	848	884	938	1003	1068	1146	30%	7%
Tax	229	248	274	288	303	317	342	364	396	31%	9%
Net Profit	447	495	525	560	581	620	661	704	751	29%	7%

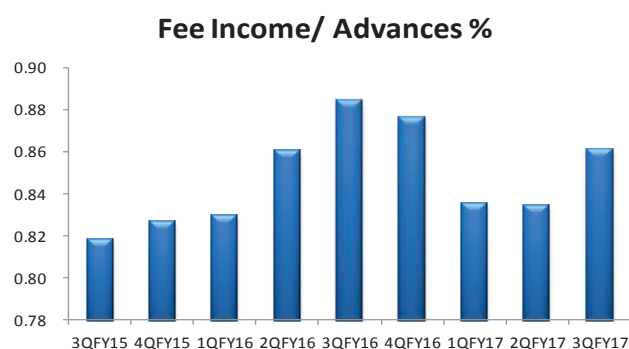
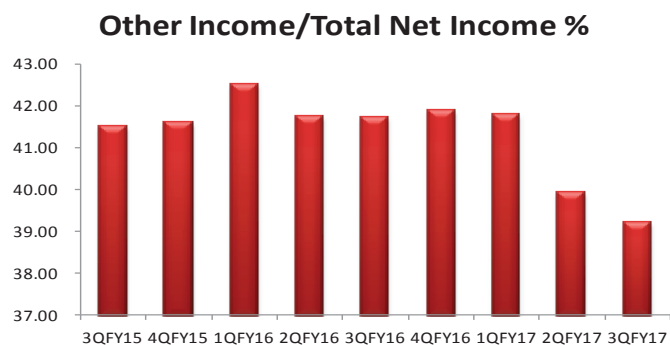
Financials	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)
NII Growth % (YoY)	18.0	18.4	22.5	31.3	36.2	37.1	38.3	33.4	34.5		
Other Inc./Net Inc. %	41.5	41.6	42.5	41.7	41.7	41.9	41.8	39.9	39.2	(2.51)	(0.74)
C/I Ratio %	47.4	46.3	45.9	46.4	47.3	47.2	47.0	47.3	47.5	0.19	0.19
Empl. Cost/ Tot. Exp. %	36.6	36.2	34.8	34.5	34.3	32.7	32.6	32.7	32.0	(2.35)	(0.72)
Other Exp/Tot. Exp.%	63.4	63.8	65.2	65.5	65.7	67.3	67.4	67.3	68.0	2.35	0.72
PPP Growth % (YoY)	(22.3)	(10.9)	11.7	116.0	80.7	98.9	86.9	35.3	22.5		
Provision/PPP %	12.7	12.6	13.4	15.7	16.7	18.6	18.7	16.7	15.9	(0.78)	(0.78)
Tax %	33.8	33.3	34.3	34.0	34.3	33.8	34.1	34.0	34.5	0.26	0.48
PAT Growth %	28.9	25.1	24.7	30.2	29.9	25.3	26.0	25.8	29.2		
RoE %	18.3	19.8	20.4	16.7	14.1	14.6	15.1	15.4	15.7	1.67	0.34
RoA %	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	(0.04)	(0.05)

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Margins Performance	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)
Yield % on Advances	13.0	12.8	12.7	12.4	12.1	12.0	12.1	11.9	11.7	(0.34)	(0.13)
Yield % on Corporate Bank	10.9	10.6	10.4	10.1	10.0	10.1	10.2	9.9	9.8	(0.22)	(0.16)
Yield % on Consumer Finance	15.8	15.8	15.7	15.4	15.1	14.9	14.6	14.6	14.5	(0.53)	(0.04)
Overall Yield % on Total Assets	10.3	10.1	10.1	9.8	9.7	9.7	9.6	9.5	9.3	(0.44)	(0.24)
Cost of Deposits %	7.8	7.7	7.6	7.4	7.2	7.1	6.9	6.6	6.4	(0.80)	(0.25)
Overall Cost Of Funds %	6.6	6.5	6.4	5.9	5.8	5.7	5.7	5.5	5.3	(0.53)	(0.24)
NIM %	3.7	3.7	3.7	3.9	3.9	3.9	4.0	4.0	4.0	0.09	-



Other Income Break Up	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%
Trade and Remittances	62	80	56	84	85	97	109	103	106	25%	4%
Foreign Exchange Income	169	110	159	170	170	140	151	156	179	5%	15%
Distribution Fees	98	127	107	119	126	138	137	156	181	44%	16%
General Banking Fees	42	45	49	41	46	48	56	49	64	38%	29%
Loan Processing fees	91	111	104	145	185	228	215	201	195	5%	-3%
Investment Banking	59	96	123	114	113	122	114	161	160	41%	-1%
<b>Total Fee-Based Income</b>	<b>522</b>	<b>569</b>	<b>599</b>	<b>673</b>	<b>726</b>	<b>774</b>	<b>782</b>	<b>826</b>	<b>885</b>	<b>22%</b>	<b>7%</b>
Securities/MM/FX	88	90	125	110	113	139	191	145	132	17%	-9%
<b>Total Other Income</b>	<b>611</b>	<b>658</b>	<b>724</b>	<b>784</b>	<b>839</b>	<b>913</b>	<b>973</b>	<b>970</b>	<b>1017</b>	<b>21%</b>	<b>5%</b>



## Outlook & Valuation:

Among the mid size private bank, Indusind bank remains one of the consistent performers in growth and profitability parameter. Superior loan book growth, diversified fee income profile and low credit cost are the key drivers of the bank. We expect the IIB to maintain 25%+ loan growth in near to mid-term backed by revival in economic environment and declining interest rate. We expect the consumer loan demand to pick up with improving vehicle financing and card business giving the boost. Spike in CASA ratio and focus on consumer finance segment will help to maintain the NIM at 4%. With healthy capitalization of Tier 1 at 14.7% we expect the RoA of 1.9%+, RoE of 16%-17%. Since Indusind Bank has achieved our target price and valuation has got little stretched but based on strong fundamentals we think investors should hold the stock in their portfolio. We recommend part book profit and hold the rest with the target price of Rs 1480.

## Concall Highlights:

- >> Bond book will do well as the rate goes down. But the issue lies in the reinvestment risk in the book of banks.
- >> Credit cost is well within the guidance. May come up slightly better than the guidance of 60 Bps of full year.
- >> Security Receipts is Rs 223 Cr.
- >> 2 small accounts slipped from restructured book.
- >> RWA to total assets declined to 79% from 83% previous quarter. Quality of book has improved.
- >> Assets quality in vehicle book has improved except for Car.
- >> CASA increased can be attributed 50% to demonetization effect and 50% for the customer acquisition.
- >> Gained market share in vehicle finance in all segment except in 2 wheeler segment.
- >> LAP was slow in the month of Nov, but the business came back in Dec.
- >> MFI book is flat QoQ with Rs 3000 Cr. MFI loan book target is Rs 10000 Cr in 3 years.

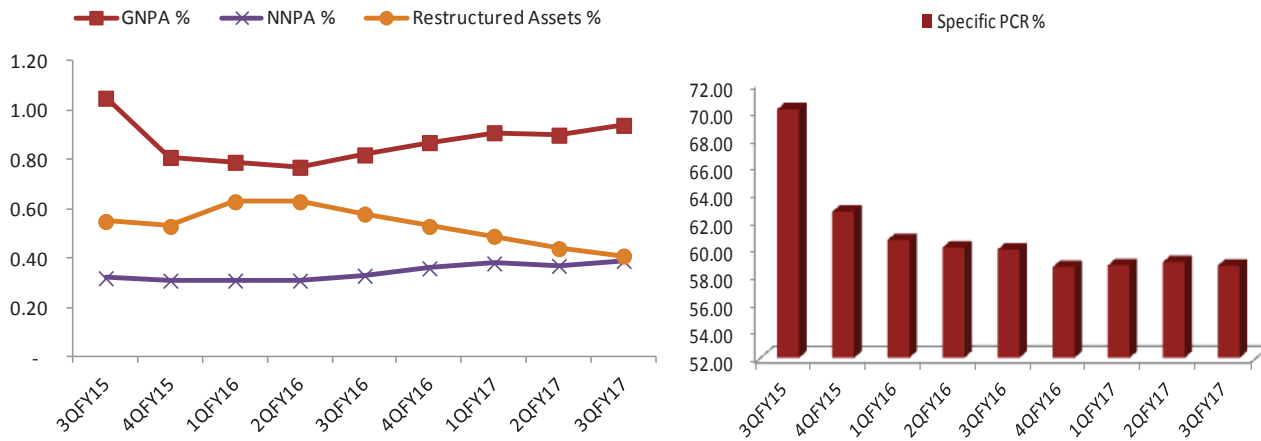
## Assets Quality

(Rs in Crore)

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)
GNPA (Rs)	673	563	570	602	681	777	861	899	971	43%	8%
GNPA %	1.05	0.81	0.79	0.77	0.82	0.87	0.91	0.90	0.94	0.12	0.04
NNPA (Rs)	202	210	225	241	273	322	356	369	401	47%	9%
NNPA %	0.32	0.31	0.31	0.31	0.33	0.36	0.38	0.37	0.39	0.06	0.02
Slippages (Rs)	161	449	133	189	252	274	253	261	281	12%	8%
Restructured Assets %	0.55	0.53	0.63	0.63	0.58	0.53	0.49	0.44	0.41	-0.17	-0.03
Total Stress Assets (Rs)	353	368	455	493	482	473	464	440	424	-12%	-4%
Specific PCR %	70.1	62.6	60.6	60.0	59.9	58.6	58.7	59.0	58.7	-1.16	-0.25

## GNPA Composition – Consumer Finance %

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)
Commercial Vehicle	1.44	1.27	1.18	1.10	1.05	1.00	1.08	1.07	1.02	-0.03	-0.05
Utility	0.97	1.08	1.06	1.03	1.00	1.21	1.27	1.17	1.07	0.07	-0.10
Construction Equipment	1.64	1.44	1.46	1.57	1.45	1.26	1.39	1.40	1.24	-0.21	-0.16
Small CV	0.90	0.92	1.04	0.84	0.81	0.98	1.05	0.97	0.83	0.02	-0.14
TW	2.36	2.53	2.65	2.83	2.95	3.02	3.15	3.62	3.60	0.65	-0.02
Cars	0.48	0.56	0.58	0.41	0.39	0.50	0.49	0.49	0.75	0.36	0.26
LAP/HL/PL	0.32	0.33	0.48	0.41	0.57	0.65	0.68	0.71	0.81	0.24	0.10
Tractor	-	-	-	-	-	-	0.24	0.49	0.28	N/A	-0.21
Cards	1.53	1.24	1.32	1.35	1.48	1.45	1.73	1.68	1.62	0.14	-0.06
Total	1.22	1.15	1.14	1.09	1.08	1.08	1.14	1.17	1.16	0.08	-0.01



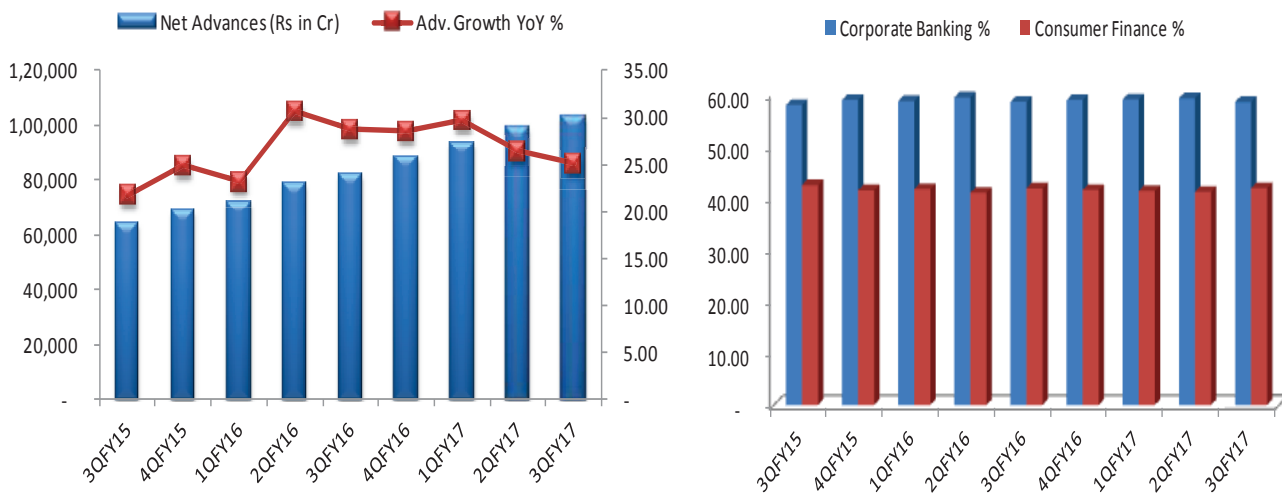
## Advances

(Rs in Crore)

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Net Advances (Rs in Cr)	63,847	68,788	72,243	78,294	82,167	88,419	93,678	98,949	1,02,770
Adv. Growth YoY %	21.69	24.84	23.15	30.64	28.69	28.54	29.67	26.38	25.07
>> Growth QoQ %	6.53	7.74	5.02	8.38	4.95	7.61	5.95	5.63	3.86

## Sectoral Breakup %

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Corporate Banking%	57.7	58.7	58.5	59.2	58.3	58.7	58.8	59.0	58.3
Consumer Finance%	42.3	41.3	41.5	40.8	41.7	41.3	41.2	41.0	41.7



## Consumer Finance Book Break Up

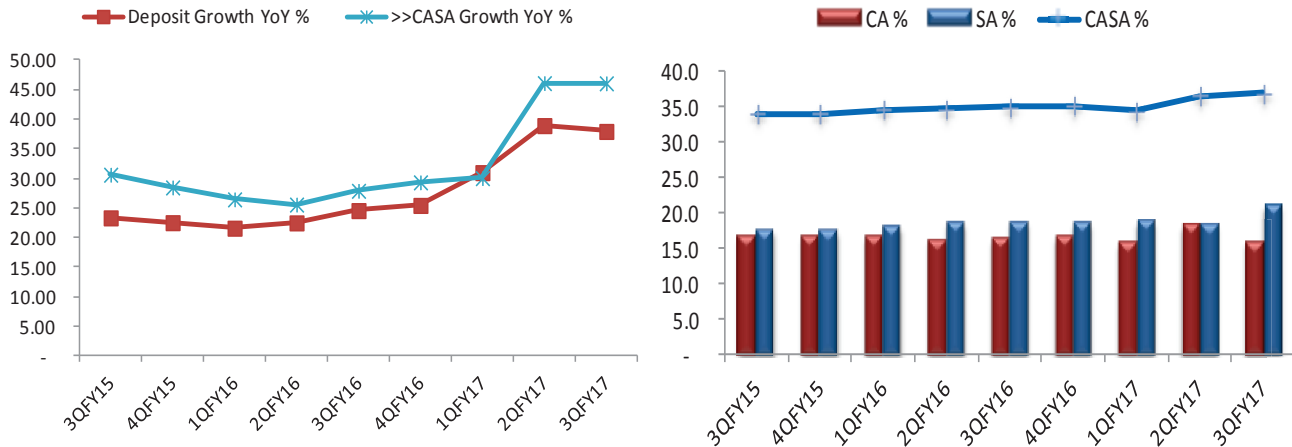
(Rs in Crore)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)
Comm. Vehicle Loans	11,405	12,360	13,204	14,101	13,847	14,208	14,569	10%	3%
>>Tractor	-	-	-	-	1,229	1,460	1,764	N/A	21%
Utility Vehicle Loans	2,043	2,037	2,041	2,058	2,097	2,157	2,237	10%	4%
Small CV	1,860	1,938	2,019	2,045	2,133	2,274	2,381	18%	5%
Two Wheeler Loans	2,829	2,857	3,034	3,045	3,076	3,134	3,323	10%	6%
Car Loans	3,293	3,539	3,754	3,917	4,076	4,324	4,570	22%	6%
Equipment Financing	2,827	2,861	3,036	3,244	3,435	3,597	3,875	28%	8%
Credit Card	786	885	1,008	1,204	1,258	1,408	1,519	51%	8%
Loan Against Property	4,032	4,331	4,759	5,248	5,585	5,872	6,429	35%	9%
Others-BL,PL,GL,etc	932	1,147	1,393	1,687	1,855	2,124	2,198	58%	3%

## DEPOSITS

(Rs in Crore)

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Deposits (Rs in Cr)	69,376	74,134	77,693	80,841	86,423	93,000	1,01,768	1,12,313	1,19,218
>> Growth YoY %	23.3	22.5	21.6	22.5	24.6	25.4	31.0	38.9	37.9
>> Growth QoQ %	5.1	6.9	4.8	4.1	6.9	7.6	9.4	10.4	6.1
CASA (Rs)	23,634	25,300	26,945	28,085	30,232	32,724	35,043	41,034	44,162
>>CASA Growth YoY %	30.6	28.5	26.5	25.6	27.9	29.3	30.1	46.1	46.1
>> Growth QoQ %	5.7	7.0	6.5	4.2	7.6	8.2	7.1	17.1	7.6
CASA %	34.1	34.1	34.7	34.7	35.0	35.2	34.4	36.5	37.0
CA %	16.5	16.7	16.6	16.1	16.3	16.6	15.7	18.2	15.9
SA %	17.6	17.5	18.0	18.6	18.7	18.5	18.8	18.3	21.1
Credit Deposit Ratio	92.0	92.8	93.0	96.8	95.1	95.1	92.1	88.1	86.2



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## Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
(Rs in Crore)					Business Ratios				
Int./disc. on advances / bills	6,627	7,717	9,245	11,643	Credit-Deposit(%)	91.1	92.8	95.1	95.0
Income on Investments	1,477	1,680	1,781	2,201	CASA %	32.5	34.1	35.2	35.5
Int. on bal.with RBI	149	277	409	341	Efficiency Ratios				
Others	1	17	147	137	Emp. Cost as a % of Total Inco. (%)	16.9	16.8	15.8	15.9
Total Interest Income	8,254	9,692	11,581	14,323	Other Exp./Total Inco. (%)	28.8	30.0	31.2	32.0
Total Interest expended	5,363	6,272	7,064	8,470	Cost Income Ratio (%)	45.7	46.8	47.0	47.9
Net Interest Income	2,891	3,420	4,517	5,853	Spread Analysis As Calculated				
Other Income	1,891	2,404	3,297	4,184	Yield on Advances (%)	13.6	13.2	12.3	12.2
Total Income	4,781	5,824	7,814	10,036	Yield on Investments (%)	7.9	8.0	7.3	7.1
Total Operating Expenses	2,185	2,726	3,672	4,809	Yield on Earning Assets (%)	11.5	11.2	10.7	10.6
Pre Provisioning Profit	2,596	3,098	4,141	5,228	Cost of Deposits (%)	8.2	7.9	7.3	6.9
Provisions and Contingencies	468	389	672	803	Cost of Fund (%)	8.1	7.8	7.0	6.7
Profit Before Tax	2,128	2,709	3,469	4,425	Interest Spread (%)	3.5	3.5	3.8	4.0
Tax	720	915	1,183	1,497	NIM (%)	4.0	4.0	4.2	4.3
PAT	1,408	1,794	2,286	2,928	Profitability Ratio				
					RoE %	17.5	19.0	16.6	16.2
					RoA %	1.8	1.8	1.8	1.9
					Int. Expended / Int. Earned (%)	65.0	64.7	61.0	59.1
BALANCE SHEET					Provisions/PPP (%)	18.0	12.6	16.2	15.4
	FY14	FY15	FY16	FY17E	Other Income/Net Income (%)	39.5	41.3	42.2	41.7
(Rs in Crore)					Tax Rate (%)	33.8	33.8	34.1	33.8
Capital	526	529	595	595	Asset Quality Ratio				
Reserves & Surplus	8517	10115	17101	19625	GNPA (%)	1.12	0.81	0.87	0.96
Deposits	60502	74134	93000	116341	GNPA(Rs)	621	563	777	
Borrowings	14762	20618	22156	25179	NNPA (%)	0.33	0.31	0.36	0.41
Other Liabilities & Provisions	2719	3719	7205	8758	NNPA (Rs)	184	210	322	
Total Capital & Liabilities	87026	109116	140057	170498	PCR (%)	70	63	59	59.0
					Os. Std. Restr. Assets (%)	0.33	0.53	0.53	0.40
Cash & Balances with RBI	4414	4035	4521	7161					
Bal. with Bank&Money at Call	2356	6744	5591	6112	Capital Adequacy Ratio				
Investments	21563	22878	31214	35368	Capital Adequacy Ratio (%)	13.8	12.1	15.5	15.3
Advances	55102	68788	88419	110524	Tier I Capital (%)	12.7	11.2	14.9	14.6
Fixed Assets	1016	1158	1255	1386	Tier II Capital (%)	1.1	0.9	0.6	0.7
Other Assets	2575	5513	9057	9947					
Total Assets	87026	109116	140057	170498					