

IndusInd Bank Limited

Industry	Financial
Bloomberg	IIB IN
BSE CODE	532187

Moderation in credit growth, high stressed assets and succession planning create headwinds for IIB

RATING	ACCUMULATE
CMP	1510
Price Target	1714
Potential Upside	13%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	2038/1359
Mkt Capital (Rs Cr)	104,631
Free float (%)	83%
Avg. Vol 1M (,000)	479
No. of Shares (Cr)	603
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	8846	12282	15612
PPP	8088	10931	13913
PAT	3301	5918	7470
NIM %	3.8	4.2	4.2
EPS (Rs)	55	99	125
EPS growth	-9	79	26
ROE (%)	13	19	18
ROA (%)	1.3	1.9	1.9
BV	445	609	757
P/B (X)	4.0	2.5	2.0
P/E (x)	32	15	12

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1QFY20 Result Update

- IIB reported 1Q FY20 numbers with the merger of Bharat Financial Inclusion. NII grew by 34% to Rs 2844 Cr, PAT grew by 38% YoY to Rs 1433 Cr. NIM improved to 4.05% vs 3.92% a year back. Fee income grew by 22% YoY. Advances grew by 28% while deposits grew by 26% YoY.
- GNPA stood at a 2.15% v/s 2.10 in Q4FY19 while the NNPA stood at 1.23% v/s 1.2% in Q4FY19. The Slippages during the quarter moderated to Rs 725 Cr v/s Rs 3688 Cr in Q4FY19.
- We maintain our target price of Rs 1714 at 2.3x BV FY21e with ACCUMULATE rating.

Margin to get benefit post-Merger

NII during the quarter grew by 34% YoY while the NIM grew strong at 4.05% v/s 3.59% in Q4FY19. The Improvement in NIM post-merger is a healthy sign for the bank, also bank said they are seeing a sharp decline in the cost of deposits with positive liquidity into the system. The yield on advance improved 75 bps YoY to 12%, the yield on the consumer finance book improved 52 bps to 14.57%, yield on corporate banking book stood 9.06% down from 9.29% QoQ mainly on account of change in grouping of business banking and microfinance portfolio into consumer finance division. Overall management stated that the yield in corporate book improved marginally. Management said that there could be 10-15 bps improvement in the NIM within 2-3 quarters with lower cost of deposits. C/I ratio is at 42.5% vs 44% a year back, further management plans to ramp up branch network to 2000 by the FY20 for current 1701.

Despite merger impact, Advances growth disappoints

The Consolidated advance growth of the Bank stood at 28%/3% on YoY/QoQ basis while on standalone basis the growth was just 2% QoQ. Now business banking and microfinance book being reported under consumer finance division, the composition of the book has change to 54:46 for consumer finance and corporate banking respectively from 61: 39 in previous quarter. Despite moderating auto sales industry growth, IIB managed to grow its vehicle book by 23% YoY vs 26% a quarter back. Deposit growth during the quarter was also healthy at 26%/3% on YoY/QOQ basis.

Stable asset quality

The Asset quality for the bank was largely stable with GNPA at 2.15% v/s 2.10 in Q4FY19 and NNPA at 1.23% v/s 1.20 in Q4FY19. The Slippages during the quarter stood at 725 Cr v/s the 3688 Cr in Q4FY19 and recoveries were Rs 725 Cr. The Stressed asset at the end of the quarter stood at 1.67% v/s 1.90% in Q4FY19.

View and Valuation

Post-merger with BFIL, NIM of IIB is likely to get boost, further with ease of interest rates in the market will also improve the margin due to fixed interest rate nature of consumer finance book. Credit growth is likely to face moderation, exposure of 1.67% towards stressed assets and progression towards succession planning creates headwinds for IIB in near term, we maintain our target price of Rs 1714 at 2.3x BV FY21E with ACCUMULATE rating.

Key Risks to our rating and target

- Materialization of latest stressed addition.
- Succession Planning with execution risk.

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1QFY20 Results Above Expectation

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	5,068	5,438	5,763	5,991	6,961	37.4%	16.2%	17,281	22,261	28.8%
Interest Exp.	2,946	3,235	3,475	3,759	4,117	39.7%	9.5%	9,783	13,415	37.1%
NII	2,122	2,203	2,288	2,232	2,844	34.0%	27.4%	7,497	8,846	18.0%
Other Income	1,302	1,317	1,469	1,559	1,663	27.7%	6.7%	4,750	5,647	18.9%
Total Income	3,424	3,521	3,757	3,791	4,507	31.6%	18.9%	12,248	14,493	18.3%
Ope Exp.	1,513	1,528	1,640	1,724	1,916	26.6%	11.1%	5,591	6,405	14.5%
PPP	1,911	1,992	2,117	2,068	2,591	35.6%	25.3%	6,656	8,088	21.5%
Provisions	350	590	607	1,561	431	23.1%	-72.4%	1,175	3,108	164.4%
PBT	1,561	1,402	1,510	507	2,160	38.4%	326.0%	5,481	4,981	-9.1%
Tax	525	482	525	147	728	39%	395.2%	1,875	1,679	-10.4%
Net Profit	1,036	920	985	360	1,433	38.3%	298.1%	3,606	3,301	-8%

Concall Highlights:-

➤ Industry Update:

- The Deposit growth has been stable at around 10% with more liquidity into the system however the credit growth seems to have been affected coming down to 12% from the 15% level due to the NBFC and other liquidity issues and pre-election sentiments. The second half of June has seen positive liquidity which has resulted in the drop in cost of deposit. The CD rates in the 1 and 2 year band are 50 basis point lower than they were in month of April.

➤ Company Update:

- Banks drive towards retailisation of fixed deposit has continued to gather momentum growing 42% during Q1FY20.
- Management is seeing transmission of MCLR, the margin transmission is having at lower rates but bank hopes that its fixed rate book would be supportive of transmission.
- SMA 1 Book reduced from .32% in Q4FY19 to .18%, while the SMA 2 book has reduced from .34% in Q4FY19 to .17%.
- Corporate banking yield looks down on account of Net NPA from the infra group which has affected the net interest income to the tune of Rs 60-70 Cr.
- Commercial vehicle segment is likely to be sluggish till next quarter whereafter from September onwards market is expected to improve owing to BS 6 and sentiments on cars are also expected to improve.
- ILFS Provisioning: Bank believes at this point of time there is no need of more provisions in regards to IL&FS.
- Retail Slippages looks higher than the usual numbers as the bank has classified the MFI and business banking taking the base up.
- Banks exposure to the three groups in the media/Diversified/Housing Finance has reduced to 1.67% as compared to 1.90% in Q4FY19.
- The loan book growth on an standalone basis looks flat as the management had sold Rs 7500 Cr of Loans. Management expects loan growth on an consolidated basis to be in mid twenty and above going forward, there might be aberration on quarterly basis but management is confident on full year basis.
- On the NIM front management believes there might be certain improvement considering that the 50% of its book including Bharat Finance book is fixed priced.
- Customer base is now around 21 million; the growth has now been boosted by Bharat financial mergers.
- Bank is committed to reach 2000 branches by the end of FY20 from around 1700 currently.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	46.0	45.0	44.2	43.4	43.7	45.5	42.5	-1.70	-3.00
Empl. Cost/ Tot. Exp. %	32.5	31.3	30.5	30.0	27.6	27.9	33.8	3.30	5.90
Other Exp/Tot. Exp.%	67.5	68.7	69.5	70.0	72.4	72.1	66.2	-3.30	-5.90
Provision/PPP %	14.2	19.0	18.3	29.6	28.7	75.5	16.6	-1.70	-58.90
Tax Rate %	34.5	33.5	33.7	34.4	34.8	29.0	33.7	0.00	4.70
Int Exp./Int Inc. (%)	55.8	56.8	58.1	59.5	60.3	62.7	59.1	1.00	-3.60
Other Inc./Net Inc. %	38.5	37.6	38.0	37.4	39.1	41.1	36.9	-1.10	-4.20
PAT/ Net Income %	30.4	29.6	30.2	26.1	26.2	9.5	31.8	1.60	22.30
RoE %	17.0	16.6	17.3	17.6	18.0	17.8	18.5	1.20	0.70
RoA %	2.0	1.9	1.9	1.9	1.9	1.8	2.1	0.20	0.30

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.0	9.1	11.2	11.4	11.5	11.3	12.0	0.80	0.70
Yield (Corp. Loan)	9.0	9.1	9.2	9.7	9.8	9.3	9.1	-0.10	-0.20
Yield (Ret. Loans)	14.0	13.9	13.9	14.1	14.1	14.1	14.6	0.70	0.50
Yield (Total Assets)	9.0	9.1	9.4	9.5	9.6	9.5	10.0	0.60	0.50
Cost of Deposits	5.9	6.0	6.2	6.5	6.7	6.8	6.9	0.70	0.10
Cost Of Funds	5.0	5.1	5.4	5.6	5.8	5.9	5.9	0.50	0.00
NIM	4.0	4.0	3.9	3.8	3.8	3.6	4.1	0.13	0.46

Exhibit: Yield and Cost

High cost of fund

■ Yield on Total Assets ■ Cost Of Funds

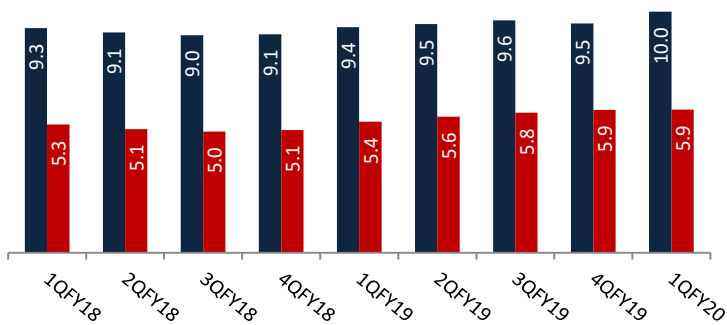
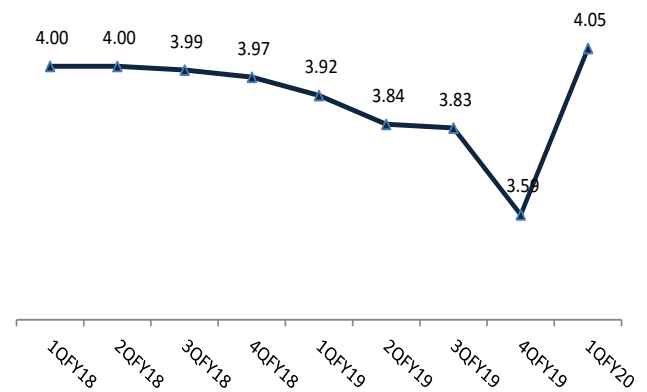


Exhibit: Net Interest Margin

Nim improves

▲ NIM



Other Income Break Up- Strong growth in Loan processing fee

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Trade and Remit.	131	128	127	153	141	151	155	189	164
Foreign Exchange Income	198	183	202	197	228	223	275	289	250
Distribution Fees	210	237	256	273	278	280	268	302	302
General Banking Fees	64	65	70	65	80	91	91	84	90
Loan Processing fees	196	214	242	228	230	260	276	328	337
Investment Banking	175	186	180	197	208	213	201	228	235
PSLC									43
Total Fee-Based In.	974	1013	1077	1113	1165	1218	1266	1420	1421
Growth YoY %	24.6	22.7	21.7	11.6	19.6	20.2	17.6	27.6	22.0
Securities/MM/FX	193	175	110	95	137	99	203	140	241
Total Other Income	1167	1188	1187	1208	1302	1317	1469	1560	1662
Growth YoY %	19.9	22.4	16.7	-0.3	11.6	10.9	23.8	29.1	27.7

Exhibit: Fee Income/Advances %

Fee income as a % of advance decreased

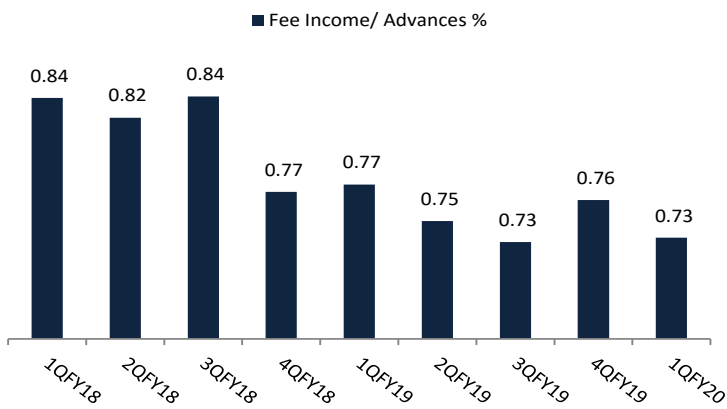
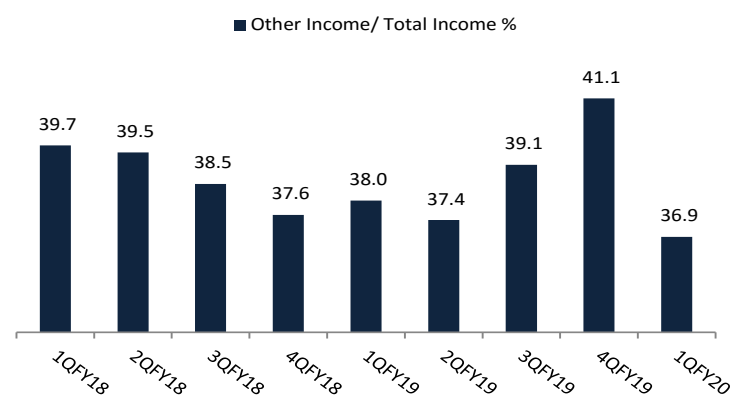


Exhibit: Other Income/ Total Income %

Other income as % of Total income decreased



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,499	1,705	1,741	1,781	1,968	3,947	4,200	141%	6%
GNPA %	1.16	1.17	1.15	1.09	1.13	2.10	2.15	1	0.05
NNPA (Rs in Cr)	592	746	762	788	1,029	2,248	2,381	212%	6%
NNPA %	0.46	0.51	0.51	0.48	0.59	1.21	1.23	0.72	0.02
Slippages (Rs in Cr)	408	860	475	419	806	3,688	725	53%	-80%
Restructured Assets %	0.15	0.05	0.05	0.11	0.11	0.09	0.08	0.03	-0.01
Net Stress Asts. (Rs in Cr)	786	819	838	969	1,221	2,417	2,381	184%	-1%
Specific PCR %	61	56	56	56	48	43	43	-13.00	0.00

GNPA Composition (%) – Consumer Finance Segment

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Comm Vehicle	1.12	1.02	0.93	0.99	0.91	0.93	1.05	1.16	1.30
Utility	1.42	1.37	1.25	1.28	1.38	1.32	1.32	1.29	1.23
Construction Equip	1.07	0.97	1.06	1.07	0.88	0.73	0.76	0.71	0.84
Small CV	1.33	1.10	1.22	1.27	1.09	1.27	1.32	1.38	1.38
TW	3.55	3.55	3.78	3.81	3.67	3.87	3.60	3.75	3.56
Cars	0.74	0.68	0.62	0.67	0.69	0.80	0.82	0.79	0.76
LAP/HL/PL	1.02	0.37	0.56	0.59	0.39	0.60	0.41	0.42	-
Tractor	0.85	1.06	1.15	1.29	1.20	1.72	1.46	1.76	1.49
Cards	1.21	1.48	1.65	1.61	1.77	1.78	1.90	1.87	2.22
Total	1.25	1.19	1.10	1.13	1.04	1.13	1.12	1.18	1.24

Exhibit: Asset Quality

Assets quality impacted

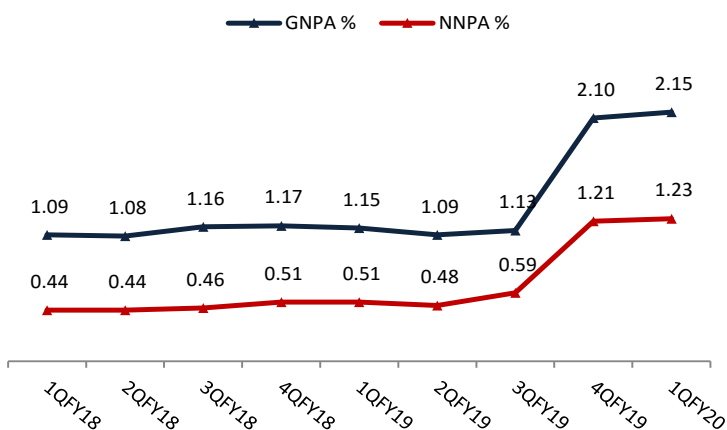


Exhibit: Provisions

Low PCR

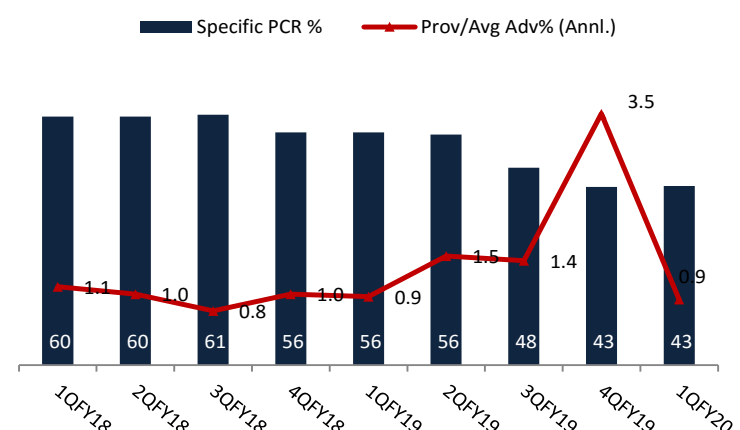


Exhibit: Advances Performance

Advance growth moderated

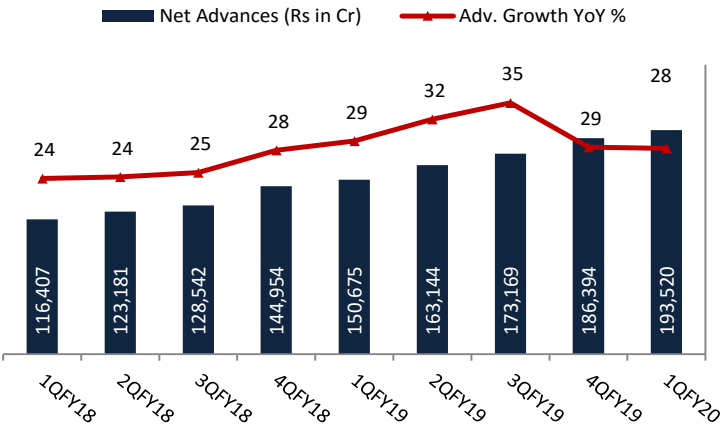


Exhibit: Advances Breakup%

Loanbook composition changed post merger

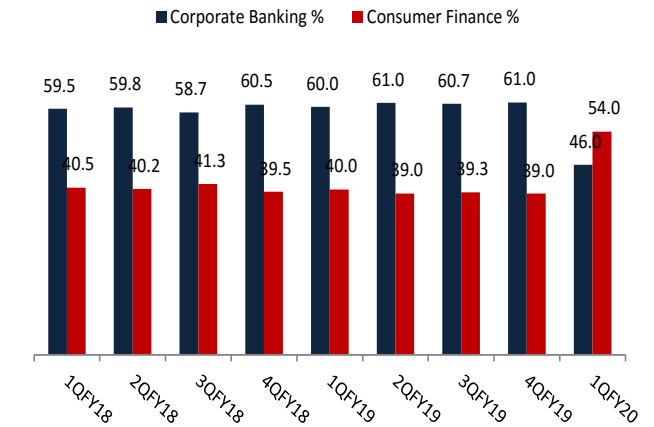


Exhibit: Deposits Performance

Healthy deposit growth

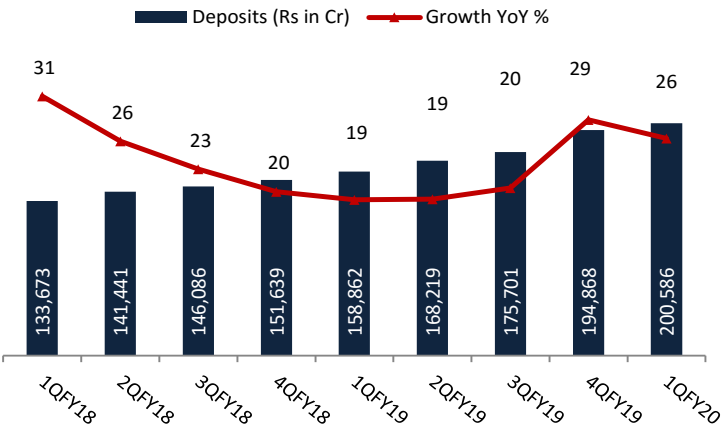


Exhibit: CASA Performance

CASA ratio declined

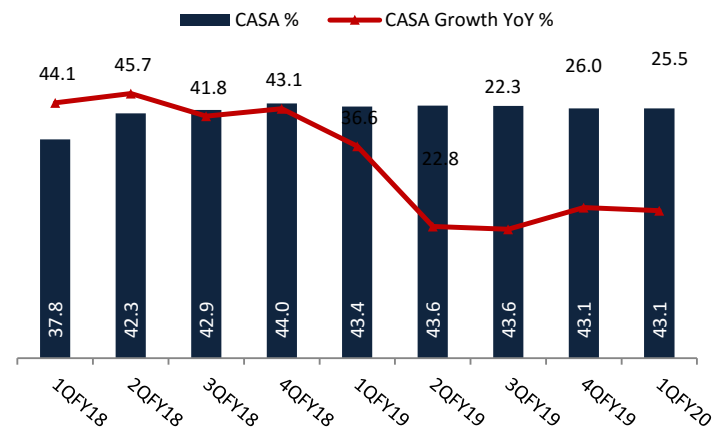


Exhibit: Credit Deposit Ratio

CD ratio improved

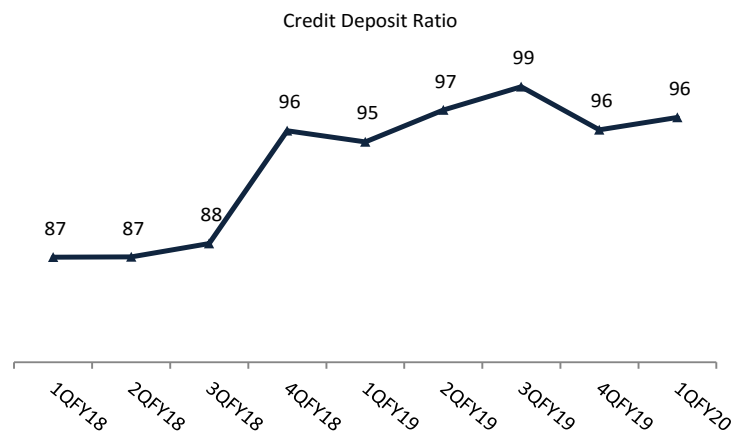
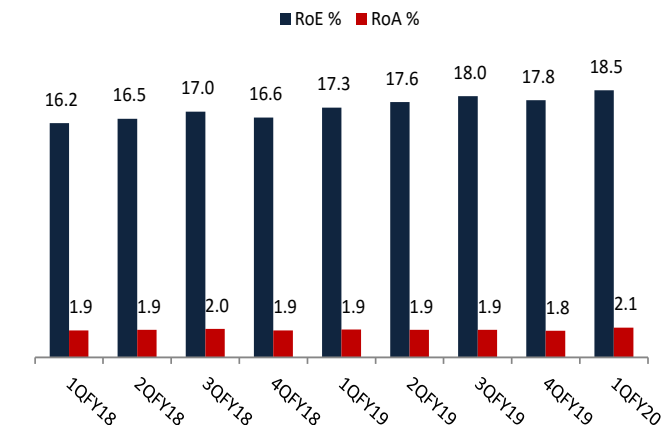


Exhibit: Return Ratios

Improving return ratio profile.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	526	529	595	598	600	603	693	709
>> Equity Capital	526	529	595	598	600	603	693	709
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	8517	10115	17101	20048	23241	26083	35850	44730
Networth	9043	10645	17696	20646	23842	26686	36543	45439
Deposits	60502	74134	93000	126572	151639	194868	248525	313927
Change (%)	12	23	25	36	20	29	28	26
>> CASA Deposits	19691	25300	32724	46646	66729	84070	106866	134988
Change (%)	24	29	29	43	43	26	27	26
Borrowings	14762	20618	22156	22454	38289	47321	52600	66336
Other Liabilities & Provisions	2719	6390	7205	8976	7856	8944	9320	11772
Total Liabilities	87026	111787	140057	178648	221626	277819	346989	437473
Cash & Bank	6769	10779	10112	18628	13215	14783	17800	23372
Investments	21563	22878	31214	36702	50077	59266	70830	91981
Change (%)	10	6	36	18	36	18	20	30
Advances	55102	68788	88419	113081	144954	186394	238584	298230
Change (%)	24	25	29	28	28	29	28	25
Fixed Assets	1016	1158	1255	1335	1339	1710	1881	2069
Other Assets	2575	8184	9057	8902	12041	15666	17894	21822
Total Assets	87026	111787	140057	178648	221626	277819	346989	437473

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	8,254	9,692	11,581	14,406	17,281	22,261	29,669	36,843
Interest expended	5,363	6,272	7,064	8,343	9,783	13,415	17,387	21,231
Net Interest Income	2,891	3,420	4,517	6,063	7,497	8,846	12,282	15,612
Change (%)	30	18	32	34	24	18	39	27
Other Income	1,891	2,404	3,297	4,171	4,750	5,647	7,210	8,862
Change (%)	39	27	37	27	14	19	28	23
>> Core Fee Income	1,610	2,087	2,772	3,489	4,177	5,069	6,376	8,007
>> Treasury Income	263	317	487	683	573	579	833	854
>> Others	18	-	37	(1)	-	(1)	1	-
Total Net Income	4,781	5,824	7,814	10,234	12,248	14,493	19,492	24,474
Operating Expenses	2,185	2,726	3,672	4,783	5,591	6,405	8,561	10,561
Change (%)	24	25	35	30	17	15	34	23
>> Employee Expenses	809	980	1,236	1,521	1,781	1,854	2,745	3,182
Pre-provisioning Profit	2,596	3,098	4,141	5,451	6,656	8,088	10,931	13,913
Change (%)	41	19	34	32	22	22	35	27
Provisions	468	389	672	1,091	1,175	3,108	1,974	2,595
Change (%)	78	(17)	73	62	8	164	(37)	31
PBT	2,128	2,709	3,469	4,360	5,481	4,981	8,956	11,319
Tax	720	915	1,183	1,492	1,875	1,679	3,038	3,848
Profit After Tax	1,408	1,794	2,286	2,868	3,606	3,301	5,918	7,470
Change (%)	33	27	28	25	26	(9)	79	26

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	24	25	29	28	28	29	28	25
Deposit Growth (%)	12	23	25	36	20	29	28	26
C/D Ratio (%)	91.1	92.8	95.1	89.3	95.6	95.7	96.0	95.0
CASA (%)	32.5	34.1	35.2	36.9	44.0	43.1	43.0	43.0
Investment/Deposit (%)	35.6	30.9	33.6	29.0	33.0	30.4	28.5	29.3
CRAR (%)	14	12	16	15	15	14	16	15
>> Tier 1 (%)	12.7	11.2	14.9	14.7	14.6	12.1	13.6	13.4
>> Tier 2 (%)	1.1	0.9	0.6	0.6	0.4	0.5	0.4	0.4

Assets Quality Metrics

Gross NPA (Rs)	621	563	777	1,055	1,705	3,947	4,826	5,550
Gross NPA (%)	1.1	0.8	0.9	0.9	1.2	2.1	2.0	1.8
Net NPA(Rs)	184	210	322	439	746	2,248	2,510	2,497
Net NPA (%)	0.3	0.3	0.4	0.4	0.5	1.2	1.1	0.8
Slippages (%)	1	1	1	1	2	3	1	1
Provision Coverage (%)	70	63	59	58	56	43	48	55
Provision/Average Advances (%)	0.9	0.6	0.9	1.1	0.9	1.9	0.9	1.0

Margin Metrics

Yield On Advances (%)	13.3	12.5	11.8	11.4	10.6	11.0	11.8	11.7
Yield On Investment (%)	7.2	7.6	6.6	7.3	7.1	6.7	6.6	6.3
Yield on Earning Assets (%)	11.0	10.5	9.8	9.6	9.3	9.5	10.0	9.9
Cost Of Deposits (%)	7.6	7.7	6.8	6.3	5.8	6.1	6.4	6.3
Cost Of Funds (%)	7.6	7.2	6.5	6.1	5.6	6.1	6.3	6.1
Spread (%)	3.5	3.3	3.3	3.5	3.7	3.5	3.8	3.8
NIM (%)	3.9	3.7	3.8	4.1	4.0	3.8	4.2	4.2

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	65.0	64.7	61.0	57.9	56.6	60.3	58.6	57.6
Fee Income/NII (%)	55.7	61.0	61.4	57.6	55.7	57.3	51.9	51.3
Cost to Income (%)	45.7	46.8	47.0	46.7	45.7	44.2	43.9	43.2
Cost on Average Assets (%)	2.9	2.9	3.1	3.2	3.0	2.7	2.9	2.8
Tax Rate (%)	33.8	33.8	34.1	34.2	34.2	33.7	33.9	34.0

Valuation Ratio Metrics

EPS (Rs)	26.8	33.9	38.4	47.9	60.1	55.0	98.6	124.5
Change (%)	32.0	26.4	13.4	24.8	25.3	(9)	79.3	26.2
ROAE (%)	16.9	18.2	16.1	15.0	16.2	13.1	18.7	18.2
ROAA (%)	1.8	1.8	1.8	1.8	1.8	1.3	1.9	1.9
Dividend Payout (%)	13.1	11.8	11.7	12.5	12.5	13.6	8.6	8.4
Dividend yield (%)	0.7	0.5	0.5	0.4	0.4	0.4	0.6	0.7
Book Value (Rs)	172.0	201.0	297.0	345.0	397.0	445.0	609.0	757.0
Change (%)	18	17	48	16	15	12	37	24
ABVPS (Rs)	169	197	292	338	385	407	567	715
P/B (X)	2.9	4.4	3.2	4.1	4.5	4.0	2.5	2.0
P/E (X)	18.7	26.2	25.1	29.4	29.9	32.4	15.3	12.1

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.7	9.2	9.0	8.6	8.9	9.5	9.4
<i>Interest expended</i>	6.3	5.6	5.2	4.9	5.4	5.6	5.4
<i>Net Interest Income</i>	3.4	3.6	3.8	3.7	3.5	3.9	4.0
<i>Non-Fund Based Income</i>	2.4	2.6	2.6	2.4	2.3	2.3	2.3
>> Core Fee Income	2.1	2.2	2.2	2.1	2.0	2.0	2.0
>> Trading and Other Income	0.3	0.4	0.4	0.3	0.2	0.3	0.2
Core Operating Income	5.5	5.8	6.0	5.8	5.6	6.0	6.0
<i>Total Income</i>	5.9	6.2	6.4	6.1	5.8	6.2	6.2
Total Operating Expenses	2.7	2.9	3.0	2.8	2.6	2.7	2.7
>> Employee Expenses	1.0	1.0	1.0	0.9	0.7	0.9	0.8
>> Other Expenses	1.8	1.9	2.0	1.9	1.8	1.9	1.9
<i>Operating Profit</i>	3.1	3.3	3.4	3.3	3.2	3.5	3.5
Provisions	0.4	0.5	0.7	0.6	1.2	0.6	0.7
Others	-	-	-	-	-	-	-
PBT	2.7	2.8	2.7	2.7	2.0	2.9	2.9
Tax	0.9	0.9	0.9	0.9	0.7	1.0	1.0
<i>PAT/RoAA</i>	1.8	1.8	1.8	1.8	1.3	1.9	1.9
<i>Equity Multiplier (x)</i>	10.1	8.9	8.3	9.0	9.9	9.9	9.6
<i>ROAE</i>	18.2	16.1	15.0	16.2	13.1	18.7	18.2

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