

INDUSIND BANK

NEUTRAL

20-Apr-17

INDUSTRY - BANKING
BSE Code - 532187
NSE Code - INDUSINDBK
NIFTY - 8288

Company Data

CMP	1422
Target Price	1480
Previous Target Price	1480
Upside	4%
Change from Previous	0%
52wk Range H/L	1444/965
Mkt Capital (Rs Cr)	85108
Av. Volume (,000)	78.58

Share Holding Pattern %

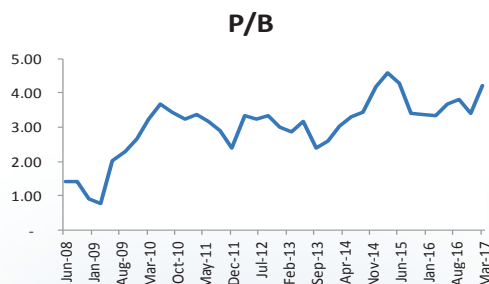
	4QFY17	3QFY17	2QFY17
Promoters	16.8	16.8	16.7
DII	13.3	13.4	12.5
FII	48.6	48.4	49.1
Others	21.3	21.4	21.7

Key Highlights of the report:

- ✓ Revenue is growing at a CAGR of 36%, boosting the overall profitability and return ratios.
- ✓ Indusind Bank is continuously gaining market share with above industry loan growth of 25%. Assets Quality continues to remain one of the best in the industry with GNPA at 94 bps.
- ✓ CASA is growing with the healthy pace of 43% YoY which will boost the margins significantly.
- ✓ Despite of aggressive growth, operating expenses are under stringent control with C/I ratio of 46%.
- ✓ **INDUSINDBK will continue to enjoy high premium in terms of P/B. The stock is trading at 3.1x P/B FY19 which leaves us with limited upside of 4%, so we are NEUTRAL with target price of Rs 1480.**

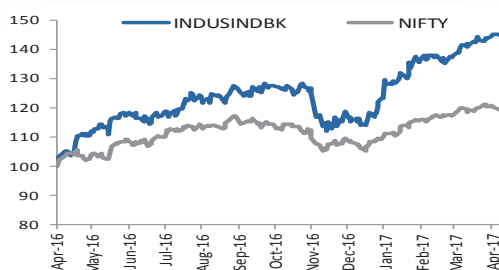
Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
NII	3,420	4,517	6,063	7,184	8,829
PPP	3,098	4,141	5,451	6,670	8,073
PAT	1,794	2,286	2,868	3,602	4,334
NIM %	3.7	3.8	4.1	3.9	3.8
EPS (Rs)	33.9	38.4	48.0	60.2	72.5
EPS growth (%)	26.4%	13.4%	24.8%	25.6%	20.3%
ROE (%)	19.0	16.6	15.3	16.5	17.2
ROA (%)	1.9	1.9	1.9	1.9	1.9
BV	193	291	339	390	451
P/B (X)	4.6	3.3	4.2	3.7	3.2
P/E (x)	26.2	25.1	29.7	23.6	19.6

INDUSINDBK is trading at its higher range of P/B



Stock Performance %

	1Mn	1Yr	YTD
Absolute	2.3	44.0	30.9
Rel.to Nifty	(0.2)	15.0	11.3



Recent Development : Key Highlights of Result Update

- ✓ Operating profit continued to buoyant with a healthy growth of 37% backed by overall strong growth in revenue and controlled operating expenses despite of aggressive branch expansion. NIM expanded due to decline in cost.
- ✓ Other Income continued to support the revenue with its strong growth of 33% YoY.
- ✓ However PAT got impacted by one off huge provisioning of Rs 122 Cr as per direction of RBI on one specific cement company.
- ✓ Once again advances growth was healthy at 28% YoY backed by strong growth in corporate loan book. CASA was maintained at 37% level with 6% QoQ growth after demonetization.
- ✓ Assets quality was stable, although there was spike in slippages but huge write off and ARC sale managed the GNPA to stabilize.
- ✓ CRAR remain healthy at 15.3% with Tier I of 14.7%.

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Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	3,132	3,292	3,469	3,699	3,830	22.3%	3.5%	11,581	14,406	24.4%
Interest Exp.	1,863	1,935	2,009	2,121	2,163	16.0%	2.0%	7,064	8,343	18.1%
NII	1,268	1,356	1,460	1,578	1,667	31.5%	5.6%	4,517	6,063	34.2%
Other Income	913	973	970	1,017	1,211	32.7%	19.1%	3,297	4,171	26.5%
Total Income	2,181	2,329	2,431	2,595	2,879	32.0%	10.9%	7,814	10,234	31.0%
Opex Exp.	1,030	1,096	1,149	1,232	1,307	26.9%	6.1%	3,672	4,783	30.3%
PPP	1,151	1,234	1,282	1,363	1,572	36.6%	15.3%	4,141	5,451	31.6%
Provisions	214	230	214	217	430	101.3%	98.4%	672	1,091	62.4%
PBT	938	1,003	1,068	1,146	1,142	21.8%	-0.4%	3,469	4,360	25.7%
Tax	317	342	364	396	390	23.1%	-1.4%	1,183	1,492	26.1%
Net Profit	620	661	704	751	752	21.2%	0.1%	2,286	2,868	25.4%

One-off provisioning impacted the PAT growth

Operating profit was in line with expectation, One-off provisioning hit bottom line.

- ✓ Net Interest income grew with a healthy rate of 32% YoY backed by robust NIM expansion and healthy loan growth.
- ✓ Other income grew by 33% YoY supported by both fee income and treasury income growth. Fee income remained healthy with 29% YoY growth whereas treasury income reported a growth of 55% YoY.
- ✓ Operating expenses grew by only 27% YoY which led the cost to income ratio decline to 45.4% against 47.2% a year back.
- ✓ Overall operating profit grew by a healthy rate of 36.65 YoY backed by all round strong performance in terms of NII, other income and C/I ratio.
- ✓ However despite robust operating profit, PAT grew by only 21% YoY hit by one off provisioning on standard assets of Rs 122 Cr on one of the exposure of bank in cement industry. Provisioning was done pursuant to specific RBI advice in this regard.

Profitability Metric	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	47.2	47.0	47.3	47.5	45.4	-1.83	-2.08	50.4	60.9	10.57
Empl. Cost/ Tot. Exp. %	32.7	32.6	32.7	32.0	30.2	-2.49	-1.81	33.7	31.8	-1.86
Other Exp/Tot. Exp.%	67.3	67.4	67.3	68.0	69.8	2.49	1.81	66.3	68.2	1.86
Provision/PPP %	18.6	18.7	16.7	15.9	27.4	8.80	11.45	16.2	20.0	3.79
Tax Rate %	33.8	34.1	34.0	34.5	34.2	0.36	-0.34	34.1	34.2	0.12
Int Exp./Int Inc. (%)	59.5	58.8	57.9	57.3	56.5	-3.04	-0.87	61.0	57.9	-3.08
Other Inc./Net Inc. %	41.9	41.8	39.9	39.2	42.1	0.23	2.90	42.2	40.8	-1.43
PAT/ Net Income %	28.4	28.4	29.0	28.9	26.1	-2.33	-2.82	29.3	28.0	-1.24
PAT Growth %	25.3	26.0	25.8	29.2	21.2	-4.10	-8.03	27.5	25.4	-2.04
NII Growth % (YoY)	37.1	38.3	33.4	34.5	31.5	-5.60	-3.03	32.1	34.2	2.18
Operating Profit Growth	35.4	33.7	27.3	28.5	36.6	1.22	8.08	33.7	31.6	-2.05
RoE %	14.6	15.1	15.4	15.7	15.1	0.56	-0.60	16.6	15.3	-1.33
RoA %	1.9	1.9	1.9	1.9	1.7	-0.16	-0.14	1.9	2.0	0.03

Continued healthy growth in NII

NIM expanded, benefitting from declining cost

NIM has improved by 6bps YoY to 4% but remain flat QoQ. Improvement in NIM was backed by decline in cost of fund.

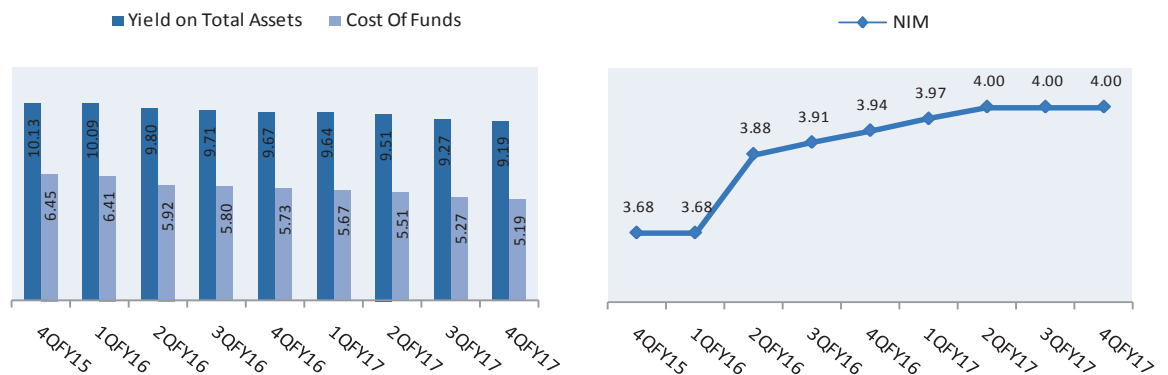
Cost of fund declined by 54bps YoY to 5.19%. Cost of deposits fall by 98 bps YoY to 6.08% as on 4Q FY17. Decline in cost of deposits may be attributed to higher CASA ratio which increased due to demonetization.

Overall Yield of Indusindbk declined by 48bps to 9.19%. Yield on advances declined by 41 bps YoY to 11.41%. Yield on consumer finance division declined by 98 YoY bps whereas corporate portfolio saw as decline of 98 bps YoY in its Yield.

Declining Cost of fund coupled with focus on higher yield product is helping NIM to expand.

Margin Performance

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
Yield on Advances	12.0	12.1	11.9	11.7	11.4	-0.63	-0.32	12.3	11.8	-0.53
Yield (Corp. Loan)	10.1	10.2	9.9	9.8	9.1	-0.98	-0.66	10.1	9.8	-0.39
Yield (Ret. Loans)	14.9	14.6	14.6	14.5	14.5	-0.41	-0.04	15.3	14.6	-0.72
Yield (Total Assets)	9.7	9.6	9.5	9.3	9.2	-0.48	-0.08	9.8	9.4	-0.42
Cost of Deposits	7.1	6.9	6.6	6.4	6.1	-0.98	-0.27	7.3	6.5	-0.81
Cost Of Funds	5.7	5.7	5.5	5.3	5.2	-0.54	-0.08	6.0	5.4	-0.56
NIM	3.9	4.0	4.0	4.0	4.0	0.06	0	3.9	4.0	0.14



Healthy Advances growth was backed by strong corporate loan book growth.

- ✓ Strong loan growth momentum continued in this quarter also with 28% YoY growth backed by healthy growth in corporate loan book.
- ✓ Corporate loan book grew by 30% YoY and consumer finance book grew by 25% YoY. Management highlighted that corporate book grew due to strong working capital demand as pricing of INDUSINDBK is now competitive and also they have added some new client.
- ✓ Vehicle finance book grew by 19% YoY whereas non vehicle book grew by 365 YoY. Credit card showed strong growth of 425 YoY, LAP grew by 54% YoY, car loan grew by 19% and equipment financing grew by 27%.
- ✓ Now management has shifted to PLANNING-4 stage from FY18 FY20 under which it intends loan mix between corporate and consumer to be 50:50 and within consumer loan book mix would be 50:50 between vehicle finance and other retail book. This strategy will support the NIM due to higher yield in consumer finance book.

- ✓ Deposits grew by 36% YoY mainly due to demonetization effect. CASA grew by 43% YoY which led the CASA ratio to 37%. SA increased by 57% and CA increased by 27% YoY.
- ✓ Management highlighted that the increase in CASA can be attributed equally to both- customer acquisition as well as demonetization.
- ✓ Under PLANNING-4 stage management intends to reach CASA ratio of 40%.

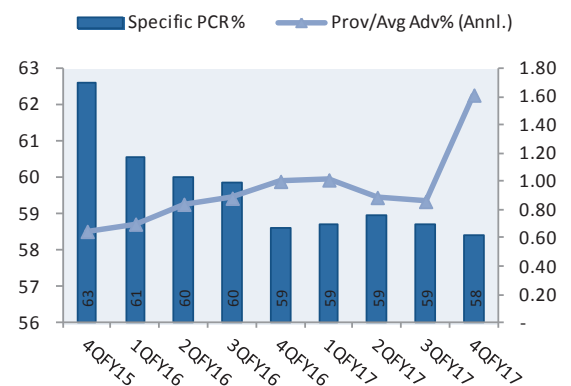
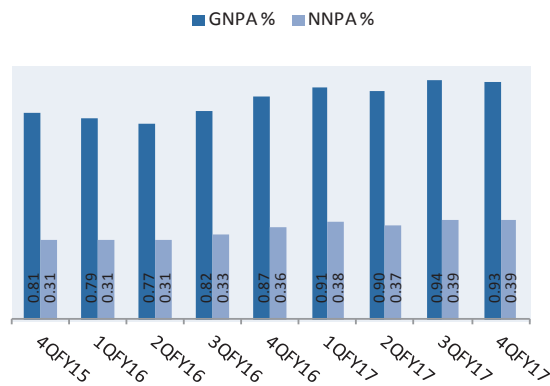
Higher write offs led the stable assets quality

- ✓ Slippages increased by 126% QoQ led to two large corporate accounts. However management wrote off huge chunk of it and sold Rs 192 of it to ARC and provided the loss fully in current quarter itself and decided not to amortize it. Slippage in corporate book was Rs 457 Cr against Rs 111 Cr in 3Q FY17. While slippage in Consumer book was Rs 177 Cr against Rs 170 Cr on 3Q FY17.
- ✓ Due to huge write off GNPA declined by 1 bps to 93 bps and NNPA remained stable at 39 bps QoQ. Restructured assets declined to 37 bps against 41 bps on 3Q FY17. The decline was due to slip of some accounts into NPA.
- ✓ PCR decline to 58% from 59% a quarter back. Credit cost was 23 bps for the quarter and it was 68 bps for FY17
- ✓ Due to specific RBI advice in one of the Cement company which is in process of Merger & Acquisition, Indusindbk has made standard assets provisioning of Rs 122 Cr on it. However management is hopeful for full repayment from this account in june quarter and will write back some part of provisioning on it.

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs)	777	861	899	971	1,055	35.8%	8.7%	777	1,055	35.8%
GNPA %	0.9	0.9	0.9	0.9	0.9	0.06	-0.01	0.9	0.9	0.06
NNPA (Rs)	322	356	369	401	439	36.4%	9.5%	322	439	36.4%
NNPA %	0.4	0.4	0.4	0.4	0.4	0.03	0.00	0.4	0.4	0.03
Slippages (Rs)	274	253	261	281	634	131.4%	125.6%	848	1,429	68.5%
Restructured Assets %	0.5	0.5	0.4	0.4	0.4	-0.16	-0.04	0.5	0.4	-0.16
Total Stress Assets (Rs)	471	461	438	424	421	-10.7%	-0.7%	471	421	-10.7%
Specific PCR %	58.6	58.7	59.0	58.7	58.4	-0.20	-0.31	58.6	58.4	-0.20

GNPA

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
Commercial Vehicle	1.0	1.1	1.1	1.0	1.0	-0.03	-0.05	1.0	1.0	-0.03
Utility	1.2	1.3	1.2	1.1	1.1	-0.09	0.05	1.2	1.1	-0.09
Construction Equipment	1.3	1.4	1.4	1.2	1.2	-0.08	-0.06	1.3	1.2	-0.08
Small CV	1.0	1.1	1.0	0.8	0.9	-0.08	0.07	1.0	0.9	-0.08
TW	3.0	3.2	3.6	3.6	3.5	0.50	-0.08	3.0	3.5	0.5
Cars	0.5	0.5	0.5	0.8	0.7	0.16	-0.09	0.5	0.7	0.16
LAP/HL/PL	0.7	0.7	0.7	0.8	0.9	0.22	0.06	0.7	0.9	0.22
Tractor	-	0.2	0.5	0.3	0.4	0.37	0.09	-	0.4	0.37
Cards	1.5	1.7	1.7	1.6	1.3	-0.11	-0.28	1.5	1.3	-0.11
Total	1.1	1.1	1.2	1.2	1.1	0.04	-0.04	1.1	1.1	0.04

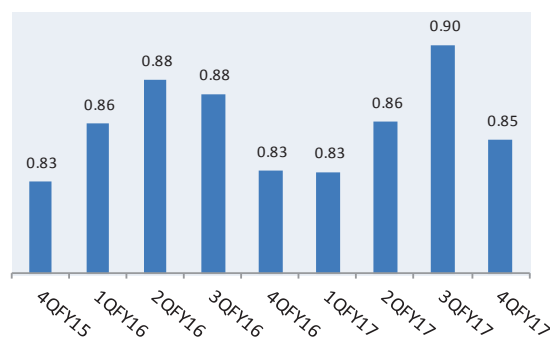


Granular fee income and treasury income remain healthy.

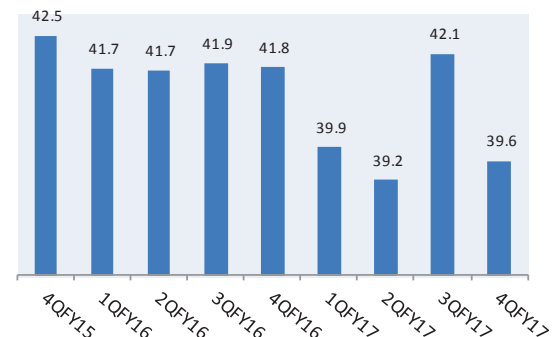
- ✓ Other income grew by 33% YoY supported by both fee income and treasury income growth. Fee income remained healthy with 29% YoY growth whereas treasury income reported a growth of 55% YoY.
- ✓ Under the fee income distribution fees has grown by 74% YoY as management said that they earned a good income from mutual fund distribution due to flow of excess fund from banks to mutual fund industry. Investment banking fee grew by 30% YoY.

Other Income Break Up	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Trade and Remit.	97	109	103	106	121	24.4%	14.0%	323	439	36.0%
Foreign Exchange Income	140	151	156	179	170	21.4%	-5.2%	639	656	2.6%
Distribution Fees	138	137	156	181	241	74.2%	33.0%	491	715	45.7%
General Banking Fees	48	56	49	64	63	30.4%	-1.1%	185	232	25.3%
Loan Processing fees	228	215	201	195	243	6.6%	24.9%	663	854	28.9%
Investment Banking	122	114	161	160	159	30.1%	-0.5%	472	594	25.8%
Total Fee-Based In.	774	782	826	885	997	28.8%	12.7%	2,772	3,489	25.9%
Securities/MM/FX	139	191	145	132	215	55.1%	62.9%	487	683	40.1%
Total Other Income	913	973	970	1,017	1,212	32.8%	19.2%	3,260	4,172	28.0%

Fee Income/ Advances %



Other Income/ Total Income %



View and 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 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%. The stock trades at 3.1x FY19E P/BV which gives us limited upside of 4% at target price of 1480, hence we are 'NUETRAL'.

Concall Highlights :

- ✓ Rs 122 Cr provisions have been made as per RBI directory on standard assets, management is hopeful of reversal in 1Q FY18.
- ✓ There was surge in working capital loan demand due to competitive pricing and acquisition of new
- ✓ Guidance for Planning Phase-4 till FY20- Loan growth of 25%, CASA to reach 40%, double the client base, Branch target of 2000.
- ✓ Looking option for inorganic growth.
- ✓ Two large accounts slipped into NPA. Management wrote off it and sold Rs 192 Cr to ARC.
- ✓ Will reduce C/I ratio by 2% in next 3 years.
- ✓ Will reach 20% RoE in 3 years.
- ✓ Moving to new concept of RORWA and has a benchmark of 2.4%.
- ✓ Distribution income surged due to higher fee income from mutual funds.

Advances Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Net Advances (Rs in Cr)	68,788	72,243	78,294	82,167	88,419	93,678	98,949	102,770	113,081
Adv. Growth YoY %	24.8	23.1	30.6	28.7	28.5	29.7	26.4	25.1	27.9
>> Growth QoQ %	7.7	5.0	8.4	4.9	7.6	5.9	5.6	3.9	10.0

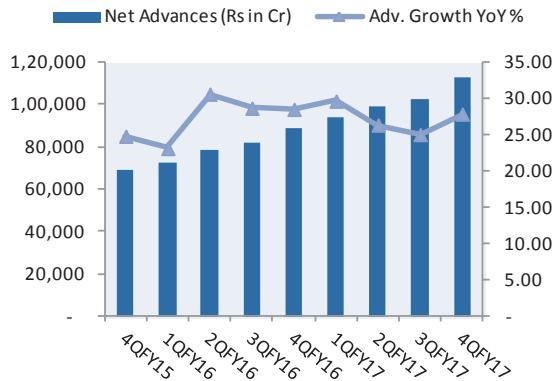
Sectoral Breakup %

Corporate Banking%	58.7	58.5	59.2	58.3	58.7	58.8	59.0	58.3	59.7
Consumer Finance%	41.3	41.5	40.8	41.7	41.3	41.2	41.0	41.7	40.3

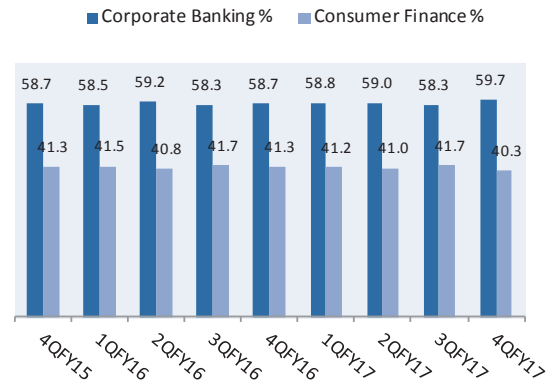
Deposits Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Deposits (Rs in Cr)	74,134	77,693	80,841	86,423	93,000	101,768	112,313	119,218	126,572
>> Growth YoY %	22.5	21.6	22.5	24.6	25.4	31.0	38.9	37.9	36.1
>> Growth QoQ %	6.9	4.8	4.1	6.9	7.6	9.4	10.4	6.1	6.2
CASA (Rs)	25,300	26,945	28,085	30,232	32,724	35,043	41,034	44,162	46,646
>>CASA Growth YoY %	28.5	26.5	25.6	27.9	29.3	30.1	46.1	46.1	42.5
>> Growth QoQ %	7.0	6.5	4.2	7.6	8.2	7.1	17.1	7.6	5.6
CASA %	34.1	34.7	34.7	35.0	35.2	34.4	36.5	37.0	36.9
CA %	16.7	16.6	16.1	16.3	16.6	15.7	18.2	15.9	15.5
SA %	17.5	18.0	18.6	18.7	18.5	18.8	18.3	21.1	21.4
Credit Deposit Ratio	92.8	93.0	96.8	95.1	95.1	92.1	88.1	86.2	89.3

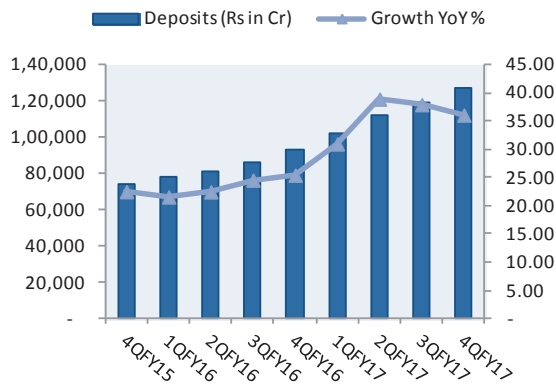
Advances Growth remained healthy



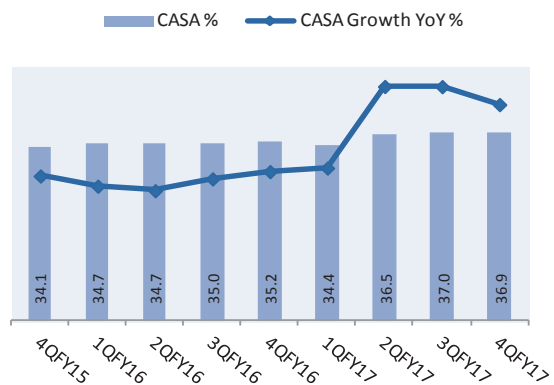
Mix remained balanced



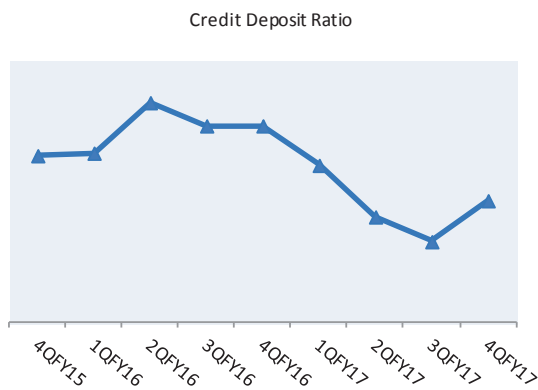
Healthy deposit growth



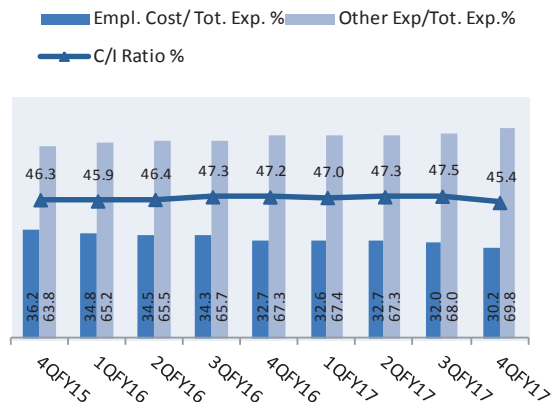
CASA spiked led by demonetization



CD Ratio remained in higher range



Stringent control on C/I ratio



Financials Snap Shot

Balance Sheet

	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	595	598	598	598
>> <i>Equity Capital</i>	595	598	598	598
>> <i>Preference Capital</i>	-	-	-	-
Reserves & Surplus	17,101	20,048	23,110	26,793
Networth	17,301	20,250	23,311	26,994
Deposits	93,000	126,572	153,506	191,882
<i>Change (%)</i>	25.4	36.1	21.3	25.0
>> <i>CASA Deposits</i>	88,097	112,642	140,699	175,785
<i>Change (%)</i>	29.3	27.9	24.9	24.9
Borrowings	22,156	22,454	29,407	36,759
Other Liabilities & Provisions	7,205	8,976	11,329	14,161
Total Liabilities	140,057	178,648	217,950	270,193
Cash & Bank	10,112	18,628	18,044	21,771
Investments	31,214	36,702	47,562	59,452
<i>Change (%)</i>	36.4	17.6	29.6	25.0
Advances	88,419	113,081	138,155	172,694
<i>Change (%)</i>	28.5	27.9	22.2	25.0
Fixed Assets	1,255	1,335	1,384	1,453
Other Assets	9,057	8,902	12,805	14,823
Total Assets	140,057	178,648	217,950	270,193

Income Statement

	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Interest income	11,581	14,406	16,896	20,489
Interest expended	7,064	8,343	9,712	11,661
Net Interest Income	4,517	6,063	7,184	8,829
<i>Change (%)</i>	32.1	34.2	18.5	22.9
Other Income	3,297	4,171	5,350	6,343
<i>Change (%)</i>	24.3	26.5	28.3	18.5
>> <i>Core Fee Income</i>	2,772	3,489	4,577	5,721
>> <i>Treasury Income</i>	487	683	773	621
>> <i>Others</i>	37	(1)	-	(0)
Total Net Income	7,814	10,234	12,534	15,171
Operating Expenses	3,672	4,783	5,865	7,099
<i>Change (%)</i>	34.7	30.3	22.6	21.0
>> <i>Employee Expenses</i>	1,236	1,521	1,870	2,263
Pre-provisioning Profit	4,141	5,451	6,670	8,073
<i>Change (%)</i>	33.6	31.6	22.4	21.0
Provisions	672	1,091	1,127	1,406
<i>Change (%)</i>	72.7	62.4	3.3	24.7
PBT	3,469	4,360	5,542	6,667
Tax	1,183	1,492	1,940	2,333
Profit After Tax	2,286	2,868	3,602	4,334
<i>Change (%)</i>	27.4	25.4	25.6	20.3

Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Balance Sheet Metrics				
Loan Growth (%)	28.5	27.9	22.2	25.0
Deposit Growth (%)	25.4	36.1	21.3	25.0
C/D Ratio (%)	95.1	89.3	90.0	90.0
CASA (%)	35.2	36.9	37.0	38.0
Investment/Deposit (%)	33.6	29.0	31.0	31.0
CRAR (%)	15.5	15.3	13.5	12.6
>> <i>Tier 1 (%)</i>	14.9	14.7	13.1	12.2
>> <i>Tier 2 (%)</i>	0.6	0.6	0.4	0.3

Assets Quality Metrics

Gross NPA	777	1,055	1,421	1,865
Gross NAP (%)	0.87	0.93	1.00	1.05
Net NPA	322	439	583	765
Net NPA (%)	0.36	0.39	0.42	0.44
Slippages (%)	0.95	1.26	1.07	1.07
Provision Coverage (%)	58.6	58.4	59.0	59.0
Provision/Average Advances (%)	0.86	1.08	0.90	0.90

Margin Metrics

Yield On Advances (%)	11.8	11.4	10.7	10.4
Yield On Investment (%)	6.6	7.3	7.0	6.9
Yield on Earning Assets (%)	9.8	9.7	9.1	8.9
Cost Of Deposits (%)	6.8	6.5	5.8	5.6
Cost Of Funds (%)	6.5	6.1	5.7	5.5
Spread (%)	3.3	3.5	3.4	3.5
NIM (%)	3.8	4.1	3.9	3.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	61.0	57.9	57.5	56.9
Fee Income/NII (%)	61.4	57.6	63.7	64.8
Cost to Income (%)	50.4	50.1	49.9	48.8
Cost on Average Assets (%)	3.1	3.2	3.2	3.1
Tax Rate (%)	34.1	34.2	35.0	35.0

Valuation Ratio Metrics

EPS (Rs)	38.4	48.0	60.2	72.5
<i>Change (%)</i>	13.4	24.8	25.6	20.3
ROAE (%)	16.6	15.3	16.5	17.2
ROAA (%)	1.9	1.9	1.9	1.9
Dividend Payout (%)	14.1	15.0	15.0	15.0
Dividend yield (%)	0.5	0.4	0.5	0.6
Book Value (Rs)	291	339	390	451
<i>Change (%)</i>	50.3	16.5	15.1	15.8
P/B (X)	3.32	4.20	3.65	3.15
P/E (X)	25.11	29.67	23.62	19.64