

## RETAIL EQUITY RESEARCH

### Indusind Bank Ltd.

#### Banking

BSE CODE: 532187

NSE CODE: INDUSINDBK

Bloomberg CODE: IIB:IN

SENSEX: 36,107

## Hold

Rating as per Large cap

12months investment period

CMP Rs 1,566 TARGET Rs. 1,693 RETURN 8% 

11<sup>th</sup> January, 2019

#### Strong operating performance impaired by provisioning...

- Reported strong credit growth of 35% YoY and deposits grown by 20% YoY.
- Net Interest Income (NII) has grown by 21% supported by the credit growth.
- Net Interest Margin (NIM) remained almost stable at 3.83% compared to previous quarter on account of higher cost of funds.
- CASA ratio of IIB remained stable at 44%, with a YoY growth of 22% & QoQ growth of 4%.
- The GNPA/NNPA ratios are increased marginally to 1.13%/0.59% on YoY basis due to higher slippages from corporate and an additional contingent provisioning for IL&FS exposure.
- We value the bank at 2.7x BV of FY21 and maintain our Hold rating with a revised target price of Rs1,693.

#### Strong loan growth...

Loan growth of 35%YoY in Q3FY19 was mainly driven by the growth in corporate advances (34%), consumer finance (28%). Expanding retail franchise, reliable corporate client base and a well-diversified portfolio are key strengths of IIB's loan book. The total number of branches as of Q3FY19 stands at 1,558 and 2,453 ATMs. Retail expansion would be a major push for growing the retail loan book and CASA.

#### The asset quality to dip marginally...

Bank's GNPA/NNPA ratios slipped to 1.13%/0.59% on account of higher slippages from corporate segment and with an additional contingent provisioning of Rs255 Cr (Rs 275 Cr in Q2 FY19) for IL&FS exposure, which still falls under standard assets. In coming quarter, it is expected to slip into the NPA category, leading to further reduction in asset quality. Provision coverage ratio (PCR) fell to 48% in the current quarter compared to 56% in the previous quarter, which is attributed to write off of loans carrying around 100% provisions and the bank expects to bring PCR to around 60% going forward.

#### Strong operating performance...

Net Interest Income was at Rs2,288cr as against Rs1,895cr in Q3FY18, which shows a robust growth of 21%. Operating Profit has increased to Rs2,117cr from Rs1,665cr with a remarkable growth of 27% YoY. Net Profit for Q3FY19 was at Rs985cr as against Rs936cr in Q3FY18, which resulted a sluggish growth of 5% in PAT due to 157% increase in provisioning, with fresh additions in corporate portfolio. In Q3FY19, provision made was at Rs607cr against Rs236cr in Q3FY18. It includes a contingent provision worth Rs255cr which was made on account of exposure to IL&FS Group, making a total of Rs 600 Cr for the last 2 quarters. Non-interest income increased to Rs1,469cr in Q3FY19 from Rs1,187cr in Q3FY18 which grew by 24%YoY. Net Interest Margin (NIM) of Q3FY19 was almost stable at 3.83% against 3.84%. CASA grew by around 22% YoY, with savings account growth of 18%. Advances maintained strong growth traction with 35% YoY, while deposits/borrowings grew by 20%/91%YoY.

#### Outlook & Valuations

The bank maintained notable traction of loan growth fuelled by deposit growth. However, IL&FS exposure resulted in lowering profitability due to higher provisioning and uncertainty over IL&FS exposure brings risks in valuation. We value the bank at 2.7x of BV of FY21E per share and maintain our Hold rating with a revised target price of Rs1,693.

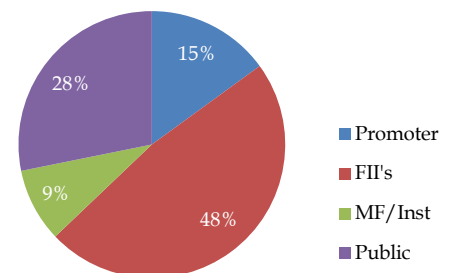
#### Company Background...

Indusind Bank, a part of the transnational conglomerate Hinduja Group, was incorporated in 1994. It was set up particularly to mobilize funds of the NRI community. Apart from the regular deposit generating activities, it provides a variety of loans for housing, vehicles, shares, property, rent receivables etc. It also offers personalized investment options in instruments. The corporate banking division offers a varied range of products to large, small and medium business enterprises like working capital finance, term loans, trade and transactional services.

#### Company Data

Market Cap (cr)	Rs.94,361
Outstanding Shares (cr)	60.2
Free Float	85.0
Dividend Yield	0.5%
52 week high	Rs.2,038
52 week low	Rs.1,334
6m average volume (mn)	0.21
Beta	1
Face value	Rs.10

#### Shareholding Pattern as on Dec-2018



Standalone (Rs.cr)	FY19E	FY20E	FY21E
Net Interest Income	9,629	12,269	15,760
Growth (%)	28.4	27.4	28.4
NIM	4.0	4.1	4.1
Pre Pro Profit	8,291	10,597	13,254
Net Profit	4,064	5,777	7,406
Growth (%)	13	42	28
BVPS (Rs)	447	528	627
Adj.EPS (Rs)	65	90	114
Growth (%)	7	40	27
P/E (x)	24	17	14
P/B (x)	3.5	3.0	2.5
ROE (%)	15	18	19.5
ROA (%)	1.6	1.8	1.9

Source: Bloomberg

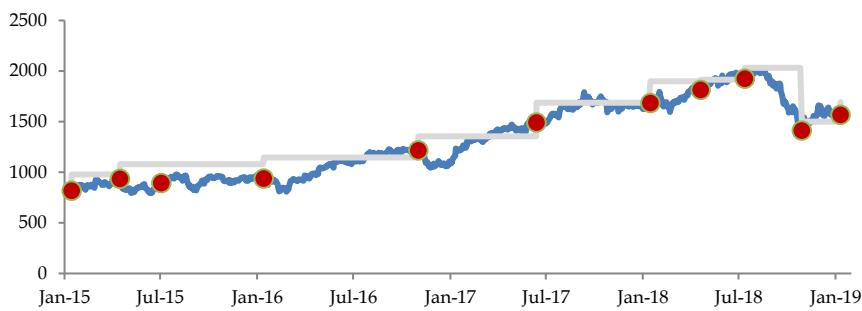
## Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %	Comments
Interest Income	5,763	4,287	34	5,438	6	
Interest Expense	3,475	2,392	45	3,235	7	
Net Interest Income (NII)	2,288	1,895	21	2,023	13	NII growth mainly driven by 35% credit growth
Fee and Other Income	1,469	1,187	24	1,317	12	
<b>Total Income</b>	<b>3,757</b>	<b>3,082</b>	<b>22</b>	<b>3,520</b>	<b>7</b>	
Expenditure	1,640	1,417	16	1,528	7	
Provisions	607	236	157	590	3	On account of Rs255 Cr contingent provision for IL&FS exposure
<b>Profit Before Tax</b>	<b>1,510</b>	<b>1,429</b>	<b>6</b>	<b>1,402</b>	<b>8</b>	
Tax	525	492	7	482	9	
<b>Reported PAT</b>	<b>985</b>	<b>936</b>	<b>5</b>	<b>920</b>	<b>7</b>	Higher provisioning lowered the PAT growth YoY & QoQ
Adjustment	-	-	-	-	-	
<b>Adjusted PAT</b>	<b>985</b>	<b>936</b>	<b>5</b>	<b>920</b>	<b>7</b>	
<b>Diluted EPS (Rs)</b>	<b>16.26</b>	<b>15.47</b>	<b>5</b>	<b>15.17</b>	<b>7</b>	

Source: Company

## Price History



Source: Bloomberg, Geojit Research

Dates	Rating	Target
20-May-14	BUY	657
12-Aug-14	BUY	653
14-Oct-14	BUY	722
25-Nov-14	BUY	857
14-Jan-15	BUY	980
16-Apr-15	BUY	1081
3-Jul-15	BUY	1079
13-Jan-16	BUY	1145
1-Nov-16	BUY	1356
13-Jun-17	BUY	1686
18-Jan-18	BUY	1900
20-Apr-18	HOLD	1915
13-Jul-18	HOLD	2032
29-Oct-18	HOLD	1500
11-Jan-19	HOLD	1693

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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