

# Retail Equity Research

## IndusInd Bank Ltd.

Banking

BSE CODE: 532187

NSE CODE: INDUSINDBK

Bloomberg CODE: IIB:IN

SENSEX: 38,506

**BUY**

12M Investment period

Rating as per Large cap

**CMP** Rs 1,272 **TARGET** Rs 1,500 **RETURN** 18% 

(Closing: 15-10-19)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

### Modest performance amidst weak market

IndusInd Bank (IIB), a part of the Hinduja Group, provides loans for vehicles, property, etc. in its consumer finance division, while the corporate banking division offers a wide range of products to SMEs and large enterprises.

- Loans and advances grew 20.8% YoY and 1.9% QoQ, with consumer finance accounting for 55% of the loan book.
- In Q2FY20, the bank's deposit base increased 23.2% YoY and 3.3% QoQ with CASA up 17.0% YoY but down sequentially by 0.8%.
- Net interest margin (NIM) increased 26bps YoY and 5bps QoQ to 4.1%, due to falling interest rates.
- GNPA/NNPA ratio stands at 2.19%/1.12% in Q2FY20 compared with 2.15%/1.23% in Q1FY20.
- We expect that the bank will be affected by prevailing macro headwinds and reduce our target price to Rs. 1,500 based on 2.6x FY21E BVPS but maintain our BUY rating on the stock considering ~18% upside.

### Loan growth stable amidst challenging environment

Loans and advances grew 20.8% YoY and 1.9% sequentially, with the consumer finance sector contributing 55% of the total advances, of which, microfinance at 10% with the merger of Bharat Financial Inclusion Ltd. (BFIL). The bank's total corporate sector mix is at 45% with large, mid and small corporate exposure at 24.5%, 18.9% and 2.1%, respectively. Deposit base increased 23.2% YoY and 3.3% on a sequential basis. Similarly, CASA deposits grew 17.0% YoY but declined 0.8% QoQ, as CA declined 4.0% QoQ due to a large escrow account going down, while SA remained almost flat owing to temporary withdrawal from an account on the last reporting day.

### Declining interest rates to positively impact NIM

In Q2FY20, the net interest margin increased marginally by 5bps QoQ to reach 4.1% (~3.7% from IndusInd and ~0.4% from BFIL), as it benefitted from falling interest rates which lead to a decline in cost of deposits, whereas the yield remained stable. The bank expects the cost of funds to come down in the next few quarters. Net income grew 50.3% YoY, but declined 3.4% QoQ as provisions increased 71.3% QoQ to Rs. 738cr only partially offset by benefits from the recent corporate tax cuts (down 33% QoQ).

### Key concall highlights

- PCR ratio increased to 50% in Q2FY20 from 43% in Q1FY20 due to accelerated provisioning of Rs. 355cr, in line with bank's ambition to reach PCR ratio of 60%
- In line with its retailisation strategy, the bank acquired 1.3 lakh new accounts with average ticket size of Rs. 70,000. Management is focused on two new initiatives - Pioneer (wealth management platform) and non-resident Indian business

### Asset quality a mixed bag

The bank's gross NPA reached Rs. 4,370cr as the GNPA ratio increased 4bps QoQ to 2.19% in Q2FY20. On the other hand, the net NPA ratio decreased 11bps sequentially to 1.12%. Net slippage declined to 35bps in Q2FY20 from 54bps in Q1FY20.

### Outlook & Valuation

IIB reported Q2FY20 results well below market expectations as increased provisions dampened net profits. The operating and macroeconomic environment remains subdued and we reduce our target price to Rs. 1,500 based on ~2.6x FY21E BVPS but maintain our BUY recommendation on the stock on significant upside to current prices.

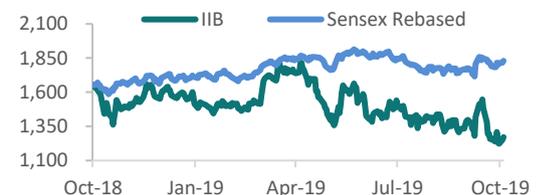
### Company Data

Market Cap (cr)	Rs. 88,151
Outstanding Shares (cr)	69.3
Free Float	83.0%
Dividend Yield	0.6%
52 week high	Rs. 1,835
52 week low	Rs. 1,192
6m average volume (cr)	0.2
Beta	1.7
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	15.0	15.0	13.0
FII's	47.8	45.9	47.2
MFs/Insti	8.7	9.7	15.6
Public	6.6	6.9	6.7
Others	21.9	22.5	17.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-13.7%	-27.2%	-21.8%
Absolute Sensex	-1.0%	-1.0%	10.4%
Relative Return*	-12.7%	-26.1%	-32.3%

\*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	8,846	12,117	15,315
Growth (%)	18.0	37.0	26.4
NIM (%)	3.8	4.5	4.7
Pre-Provision Profit	8,088	10,415	12,332
Net Profit	3,301	5,538	7,322
Growth (%)	(8.5)	67.8	32.2
Adj. EPS	54.5	79.9	105.7
Growth (%)	(8.6)	46.7	32.2
BVPS	440.1	485.3	588.1
P/E	33.4	15.9	12.0
P/B	4.1	2.6	2.2
P/ABV	4.1	2.6	2.2
ROE (%)	13.1	18.4	19.7
ROA (%)	1.3	1.8	2.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	7,150	5,438	31.5	6,961	2.7	14,112	10,506	34.3
Interest Expense	4,241	3,235	31.1	4,117	3.0	8,358	6,181	35.2
<b>Net Interest Income (NII)</b>	<b>2,910</b>	<b>2,203</b>	<b>32.1</b>	<b>2,844</b>	<b>2.3</b>	<b>5,754</b>	<b>4,326</b>	<b>33.0</b>
Non-Interest Income	1,727	1,317	31.1	1,663	3.8	3,390	2,619	29.4
<b>Total Net Income</b>	<b>4,636</b>	<b>3,521</b>	<b>31.7</b>	<b>4,507</b>	<b>2.9</b>	<b>9,143</b>	<b>6,945</b>	<b>31.7</b>
<b>Total Income</b>	<b>8,877</b>	<b>6,755</b>	<b>31.4</b>	<b>8,625</b>	<b>2.9</b>	<b>17,502</b>	<b>13,125</b>	<b>33.3</b>
Operating Expenses	2,036	1,528	33.3	1,916	6.3	3,953	3,041	30.0
<b>Total Expenditure</b>	<b>6,277</b>	<b>4,763</b>	<b>31.8</b>	<b>6,034</b>	<b>4.0</b>	<b>12,311</b>	<b>9,222</b>	<b>33.5</b>
<b>Pre-Provision profit</b>	<b>2,600</b>	<b>1,992</b>	<b>30.5</b>	<b>2,591</b>	<b>0.3</b>	<b>5,191</b>	<b>3,904</b>	<b>33.0</b>
Provisions	738	590	25.0	431	71.3	1,168	940	24.3
<b>Profit Before Tax</b>	<b>1,862</b>	<b>1,402</b>	<b>32.8</b>	<b>2,160</b>	<b>(13.8)</b>	<b>4,023</b>	<b>2,963</b>	<b>35.7</b>
Tax	479	482	(0.6)	728	(34.2)	1,207	1,007	19.8
<b>Net Profit</b>	<b>1,383</b>	<b>920</b>	<b>50.3</b>	<b>1,433</b>	<b>(3.4)</b>	<b>2,816</b>	<b>1,956</b>	<b>44.0</b>
EPS - Diluted (Rs)	19.9	15.2	31.1	20.6	(3.4)	40.5	32.3	25.5

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	12,217	15,043	12,117	15,315	(0.8)	1.8
Net Interest Margin (%)	4.5	4.9	4.5	4.7	(3.5bps)	(19.1bps)
Pre-Provision Profit	11,273	13,309	10,415	12,332	(7.6)	(7.3)
Net Profit	5,665	7,362	5,538	7,322	(2.2)	(0.5)
EPS (Rs)	81.4	105.8	79.9	105.7	(1.8)	(0.1)

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	14,406	17,281	22,261	29,580	35,785
Interest Expense	8,343	9,783	13,415	17,463	20,470
<b>Net Int. Income</b>	<b>6,063</b>	<b>7,497</b>	<b>8,846</b>	<b>12,117</b>	<b>15,315</b>
% Change	34.2	23.7	18.0	37.0	26.4
Non-Int. Income	4,171	4,750	5,647	6,437	6,759
<b>Net Income</b>	<b>10,234</b>	<b>12,248</b>	<b>14,493</b>	<b>18,555</b>	<b>22,074</b>
<b>Total Income</b>	<b>18,577</b>	<b>22,031</b>	<b>27,908</b>	<b>36,017</b>	<b>42,544</b>
Operating Exp.	4,783	5,591	6,405	8,140	9,743
<b>Total Exp.</b>	<b>13,126</b>	<b>15,375</b>	<b>19,820</b>	<b>25,602</b>	<b>30,212</b>
<b>Pre-Prov. Profit</b>	<b>5,451</b>	<b>6,656</b>	<b>8,088</b>	<b>10,415</b>	<b>12,332</b>
Provisions	1,091	1,175	3,108	2,723	2,547
<b>PBT</b>	<b>4,360</b>	<b>5,481</b>	<b>4,981</b>	<b>7,692</b>	<b>9,785</b>
Tax	1,492	1,875	1,679	2,154	2,463
Tax Rate (%)	34.2	34.2	33.7	28.0	25.2
<b>Net Profit</b>	<b>2,868</b>	<b>3,606</b>	<b>3,301</b>	<b>5,538</b>	<b>7,322</b>
% Change	25.4	25.7	(8.5)	67.8	32.2
No. of Shares (cr)	60	61	61	69	69
Adj. EPS (Rs)	47.6	59.6	54.5	79.9	105.7
% Change	21.1	25.2	(8.6)	46.7	32.2
DPS (Rs)	4.5	6.0	7.5	10.0	12.7

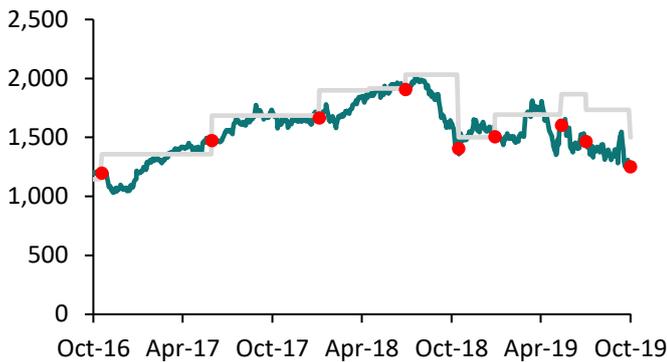
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	7,749	10,962	9,961	10,931	10,912
Investments	36,702	50,077	59,266	65,785	72,364
Advances	113,081	144,954	186,394	2,27,400	2,81,976
Fixed Assets	1,335	1,339	1,710	1,745	1,755
Other Assets	19,782	14,295	20,489	24,222	26,162
<b>Total Assets</b>	<b>178,648</b>	<b>221,626</b>	<b>277,819</b>	<b>3,30,084</b>	<b>3,93,169</b>
Capital	598	600	603	693	693
Reserves & Surplus	20,033	23,227	26,072	32,939	40,061
Deposits	126,572	151,639	194,868	2,38,713	2,93,617
Borrowings	22,454	38,289	47,321	48,268	49,233
Other Liabilities	8,992	7,871	8,956	9,470	9,565
<b>Total Liabilities</b>	<b>178,648</b>	<b>221,626</b>	<b>277,819</b>	<b>3,30,084</b>	<b>3,93,169</b>
<b>BVPS (Rs)</b>	<b>342.1</b>	<b>393.6</b>	<b>440.1</b>	<b>485.3</b>	<b>588.1</b>
% Change	12.7	15.0	11.8	10.3	21.2

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Valuation</b>					
P/E (x)	29.6	29.9	33.4	15.9	12.0
P/BV (x)	4.1	4.5	4.1	2.6	2.2
Div. Yield (%)	0.3	0.3	0.4	0.8	1.0
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	11.4	10.6	11.0	12.0	12.0
Cost of Deposits	6.3	5.8	6.2	6.6	6.5
Spread	5.1	4.8	4.8	5.4	5.5
NIM	4.0	4.0	3.8	4.5	4.7
ROE	15.0	16.2	13.1	18.4	19.7
ROA	1.8	1.8	1.3	1.8	2.0
<b>Capital Adequacy (%)</b>					
CAR	15.3	15.0	14.2	13.9	13.4
Tier I	14.7	14.6	13.7	13.5	13.1
Tier II	0.6	0.4	0.5	0.4	0.3
<b>Asset Quality (%)</b>					
GNPA	0.9	1.2	2.1	2.2	2.3
NNPA	0.4	0.5	1.2	1.1	1.2
<b>Operating Ratios (%)</b>					
Credit/ Deposit	89.3	95.6	95.7	95.3	96.0
Cost/ Income	46.7	45.7	44.2	43.9	44.1
CASA	36.9	44.0	43.1	41.4	40.0

## Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
13-Jan-16	BUY	1,145
1-Nov-16	BUY	1,356
13-Jun-17	BUY	1,686
18-Jan-18	BUY	1,900
29-Apr-18	HOLD	1,915
13-Jul-18	HOLD	2,032
29-Oct-18	HOLD	1,500
11-Jan-19	HOLD	1,693
27-May-19	BUY	1,866
16-Jul-19	BUY	1,735
16-Oct-19	BUY	1,500

## 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.

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

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