

Core business intact with fresh slippages attracting concern

CMP: Rs 1,399

Rating: ACCUMULATE

Target Price: Rs 1,673

Stock Info

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	692
Mkt Cap (Rs Cr)	97,064
52w H/L (Rs)	1,188 / 1,834
Avg Yearly Vol (in 000')	4,070

Shareholding Pattern %

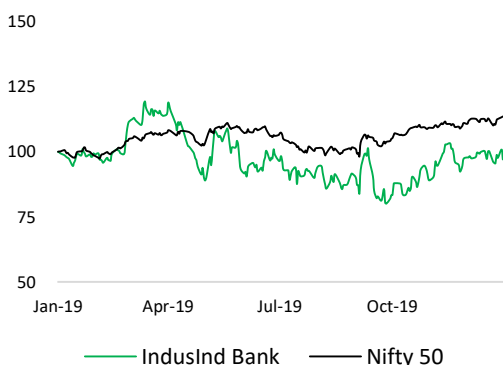
(As on Dec, 2019)

Promoters	14.38
FII	55.22
DII	14.95
Public & Others	15.45

Stock Performance (%)

	3m	6m	12m
IndusInd Bank	18.5	-1.8	0.2
Nifty	9.0	6.7	15.1

IndusInd Bank Vs Nifty



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IndusInd Bank's operational metrics improved further in Q3FY20 with Net Interest Income increasing by 34.3% YoY/5.7% QoQ, PPOP increasing by 29.7% YoY/5.6% QoQ and Net Income increasing by 32.0% YoY/(down) 6% QoQ, alongside benefit of corporate tax rate boosting its profitability. However, provisions increased significantly by 72% annually to Rs 1,043 Cr against last year's Rs 607 Cr which was caused by several key accounts been provided for in advance of being actually turning into 100% bad asset. On the business front, the bank did well with 19.8% YoY/5.2% QoQ growth in the loan book and 23.3% YoY/4.6% QoQ in the deposits. The advances growth was driven primarily by the large corporate segment books and among the retail segment, all grew positively during the quarter but the commercial auto books which degrew as it happened in the sectoral sales. The deposit growth was robust with the massive growth in the savings (+30% YoY) and term deposits(+26% YoY).

Key Highlights of Q3 FY20:

NIMs and yields increased to new highs annually: The bank's NIMs increased to 4.15% while the overall yields stood at 11.97% (yield on average advances 12.03%) despite huge competition among the banks during the festive season growth. The bank's operating expenses increased by only 4.0% for the quarter despite the festival season good growth reflecting good management.

Improvement in CASA brought down the Cost of Funds: Cost of Funds came down as the bank's savings deposits grew robustly during Q3 FY20. Of the other income part, the core fee income grew by 19% YoY in the quarter while overall other income grew by 22% YoY.

Marginal improvement in the asset quality but increased slippages: The bank's GNPA/NNPA improved by 1 bps/7 bps sequentially while the slippages increased drastically owing to the three stressed accounts contributing to provisioning of Rs 741 Cr out of total provisioning of Rs1,043 Cr, of which 2 slippages came from the sub-investment grade.

Valuation & View

IndusInd Bank's core banking business overall improved during the quarter with overall robust growth of books while the industry kept reeling. The bank increased the branch outlets to 1,851 by adding 98 branches during the quarter while the micro-finance business of BFIL added 135 new branches taking the total to 2,163 outlets. The micro-finance business grew by 9.9% with marginal slowdown in the eastern states. IndusInd Bank is currently trading at a P/adj. BV of 3.5 for FY19. Moving forward, **we assign a P/adj. BV of 2.5x for FY22E ABVPS of Rs 669 per share to arrive at a Target Price of Rs 1,673 per share and maintain our ACCUMULATE rating with an upside of 20% over CMP.**

Particulars (Rs Crores)	FY18	FY19	FY20E	FY21E	FY22E
NII	7,498	8,846	11,497	14,735	18,638
PPOP	6,657	8,088	10,524	12,867	15,585
PAT	3,607	3,301	5,101	7,253	9,283
EPS (Rs per share)	60.09	54.77	73.68	104.76	134.09
NIM	4.0%	3.8%	4.0%	4.1%	4.2%
Advances Growth	28.2%	28.6%	25.0%	26.0%	27.0%

Q3 FY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement	Q3 GY20	Q2 FY20	Q3 FY19	Q-o-Q	Y-o-Y
Interest income	7,285	7,150	5,763	1.9%	26.4%
Interest expense	4,211	4,241	3,475	-0.7%	21.2%
Net interest income	3,074	2,910	2,288	5.7%	34.3%
Non interest income	1,789	1,727	1,469	3.6%	21.8%
Total income	4,863	4,636	3,757	4.9%	29.5%
Employee costs	550	515	452	6.7%	21.7%
Other operating expenses	1,568	1,521	1,188	3.1%	32.0%
Operating expenses	2,118	2,036	1,640	4.0%	29.1%
Pre-provision profit	2,746	2,600	2,117	5.6%	29.7%
Provisions	1,043	738	607	41.4%	72.0%
Profit before tax	1,702	1,862	1,510	-8.6%	12.7%
Tax expense	402	479	525	-16.1%	-23.5%
Net profit	1,300	1,383	985	-6.0%	32.0%
Balance Sheet Analysis					
Deposits	2,16,713	2,07,193	1,75,701	4.6%	23.3%
CASA Deposits	91,865	85,838	76,549	7.0%	20.0%
CASA (%)	43.9%	41.4%	43.6%	247bps	33bps
Advances	2,07,413	1,97,113	1,73,169	5.2%	19.8%
Total Assets	3,07,943	2,94,933	2,56,199	4.4%	20.2%
Capital adequacy ratio (%)	13.92%	14.70%	14.19%	-78bps	-27bps
Spread Analysis					
Yield on avg advances (%)	12.03%	12.18%	11.33%	-15bps	70bps
Yield on avg interest earning assets (%)	10.32%	10.37%	9.79%	-5bps	53bps
Cost of funds (%)	6.54%	6.76%	6.11%	-22bps	43bps
NIM (%)	4.15%	4.10%	3.83%	5bps	32bps
Asset Quality					
Gross NPA	4,578	4,370	1,968	4.8%	132.6%
Net NPA	2,173	2,203	1,029	-1.3%	111.2%
GNPA (%)	2.18%	2.19%	1.13%	-1bps	105bps
NNPA (%)	1.05%	1.12%	0.59%	-7bps	46bps
PCR (%)	53%	50%	48%	293bps	482bps
Credit Costs (%) (annualised)	1.12%	0.72%	1.46%	40bps	-34bps
Key Ratios					
Cost to Income ratio (%)	43.5%	43.9%	43.7%	-38bps	-11bps
C/D ratio (%)	95.7%	95.1%	98.6%	57bps	-285bps
RoA (%) (annualised)	1.80%	1.95%	1.62%	-15bps	18bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 – Key Concall Highlights

- The banks incremental slippages came from 3 major accounts constituting Rs 741 Cr.
- The robust growth in Credit Card business is backed with management confidence as the overall gross slippage in the credit card business had only Rs 16 Cr of fresh slippage during the quarter.
- On the business front:
 - a) The 2 wheeler loan growth was robust in the Oct 2019 festive season which fell in Nov before again picking up in Dec.
 - b) The retail advances grew by 48% YoY for the bank with 10% QoQ growth.
 - c) The Micro-finance business grew robustly by 9.9% sequentially with secular growth across the nation except, the state of Assam where the bank observed some slowdown and West Bengal where tough competition with local lender led to very low yields.
 - d) On the slowdown in the commercial vehicle segment, the bank reiterated its confidence claiming qualitative improvement on a QoQ basis.
- The bank has already provided 75% of IL&FS exposure and expects to recover somewhere around 75% of it by this quarter end.
- The management also stated of providing the RBI with the successor of the bank's MD for their approval and expects RBI response by the next quarter.
- The bank's management provided credit cost guidance of 0.8% for FY20 and 0.6-0.65% for FY21.

Key Financials

Profit & Loss Statement (Rs Crores)	FY 17	FY 18	FY 19	FY 20E	FY 21E	FY 22E
Interest Income	14,406	17,281	22,261	26,433	30,718	35,740
Interest Expense	8,343	9,783	13,415	14,937	15,982	17,102
Net Interest Income	6,063	7,498	8,846	11,497	14,735	18,638
Non interest income	4,171	4,750	5,647	7,028	7,731	8,504
Operating income	10,234	12,248	14,493	18,525	22,467	27,142
- Employee expense	1,521	1,781	1,854	2,679	2,947	3,242
- Other operating expense	3,262	3,810	4,551	5,322	6,652	8,315
Operating Expense	4,783	5,591	6,405	8,001	9,599	11,557
PPOP	5,451	6,657	8,088	10,524	12,867	15,585
Provisions	1,091	1,176	3,108	2,303	1,842	1,474
PBT	4,360	5,481	4,981	8,222	11,025	14,112
Tax Expense	1,492	1,875	1,679	3,121	3,773	4,829
PAT	2,868	3,607	3,301	5,101	7,253	9,283

Balance Sheet (Rs Crores)	FY17	FY18	FY19	FY20E	FY21E	FY 22E
Source of Funds						
Share capital	598	600	603	692	692	692
Reserves & Surplus	20,033	23,227	26,072	34,738	41,471	49,422
Networth	20,631	23,827	26,675	35,430	42,164	50,114
ESOP	15	15	11	14	16	16
Borrowings	22,454	38,289	47,321	64,695	81,515	1,02,709
Deposits	1,26,572	1,51,639	1,94,868	2,45,534	3,04,462	3,77,532
Other liabilities & provisions	8,976	7,856	8,944	10,733	15,027	21,037
Total Equity & Liabilities	1,78,648	2,21,626	2,77,819	3,56,406	4,43,183	5,51,409
Uses of Funds						
Cash & Balances w/ RBI	7,749	10,962	9,961	14,118	14,125	15,879
Balances w/ banks & others	10,880	2,253	4,822	3,864	4,444	5,111
Investments	36,702	50,077	59,266	68,750	85,249	1,05,709
Loans & advances	1,13,081	1,44,953	1,86,394	2,32,992	2,93,570	3,72,834
Fixed assets	1,335	1,339	1,710	1,908	2,194	2,524
Other assets	8,902	12,042	15,666	34,774	43,601	49,352
Total Assets	1,78,648	2,21,626	2,77,819	3,56,406	4,43,183	5,51,409

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY17	FY18	FY19	FY20E	FY21E	FY 22E
Growth Rates						
Advances (%)	27.9%	28.2%	28.6%	25.0%	26.0%	27.0%
Deposits (%)	36.1%	19.8%	28.5%	26.0%	24.0%	24.0%
Total assets (%)	25.0%	24.1%	25.4%	28.3%	24.3%	24.4%
NII (%)	34.2%	23.7%	18.0%	30.0%	28.2%	26.5%
Pre-provisioning profit (%)	31.6%	22.1%	21.5%	30.1%	22.3%	21.1%
PAT (%)	25.4%	25.8%	-8.5%	54.5%	42.2%	28.0%
B/S Ratios						
Credit/Deposit (%)	89.3%	95.6%	95.7%	94.9%	96.4%	98.8%
CASA (%)	36.9%	44.0%	44.0%	43.1%	43.4%	43.9%
Advances/Total assets (%)	63.3%	65.4%	67.1%	65.4%	66.2%	67.6%
Leverage - Total Assets to Equity	8.7	9.3	10.4	10.1	10.5	11.0
Operating efficiency						
Cost/income (%)	46.7%	45.6%	44.2%	43.2%	42.7%	42.6%
Opex/total assets (%)	2.9%	2.5%	2.3%	2.3%	2.2%	2.1%
Opex/total interest earning assets	3.4%	3.1%	2.8%	2.8%	2.7%	2.6%
Profitability						
NIM (%)	4.0%	4.0%	3.8%	4.0%	4.1%	4.2%
RoA (%)	1.6%	1.6%	1.2%	1.4%	1.6%	1.7%
RoE (%)	13.9%	15.1%	12.4%	14.4%	17.2%	18.5%
Asset Quality						
Gross NPA (%)	0.9%	1.2%	2.1%	2.0%	1.8%	1.8%
Net NPA (%)	0.4%	0.5%	1.2%	1.1%	1.0%	1.0%
PCR (%)	58.4%	56.3%	43.0%	45.0%	45.0%	45.0%
Slippage (%)	1.6%	3.0%	1.2%	1.2%	1.0%	1.0%
Credit cost (%)	0.7%	0.7%	1.0%	0.8%	0.5%	0.3%
Per Share Data / Valuation						
EPS (Rs)	47.9	60.1	54.8	73.7	104.8	134.1
BVPS (Rs)	344.9	397.0	442.6	511.8	609.1	723.9
ABVPS (Rs)	337.6	384.5	405.3	474.8	565.7	669.3
P/E (x)	29.7	29.9	25.5	19.0	13.4	10.4
P/BV (x)	4.1	4.5	3.2	2.7	2.3	1.9
P/ABV (x)	4.2	4.7	3.5	2.9	2.5	2.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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