

CMP: Rs 1475

Rating: HOLD

Target Price: Rs 1646

**Stock Info**

INDEX	
BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr.)	603
Mkt Cap (Rs cr.)	99,479
52w H/L (Rs)	2038/1334
Weekly Avg Vol (BSE+NSE)	3,969,760

**Shareholding Pattern**

	%
<b>(As on March, 2019)</b>	
Promoters	16.8
DII	9.8
FII	53.5
Public & Others	19.9

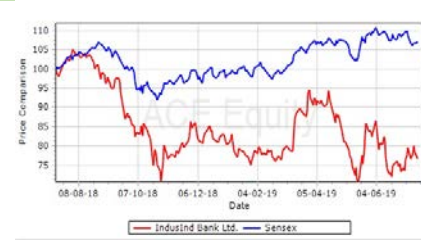
Source: NSE, Arihant Research

**Stock Performance (%)**

	3m	6m	12m
IndusInd Bank	-15.6	-1.5	-23.3
SENSEX	-	7.1	6.4

Source: ACE Equity, Arihant Research

**IndusInd Bank v/s Sensex**



Source: ACE Equity, Arihant Research

**IndusInd Bank's (IIB) Q4FY19 reported better performance during Q1FY20 driven by higher other income and lower provisioning. Core performance of the bank was slightly weaker due to lower sequential credit growth. Consolidated (IIB + Bharat Financial) profit for the quarter came in at Rs 1433 cr while NII stood at Rs 2844 cr. Asset quality of the bank was largely stable with GNPA ratio at 2.15%, while stressed pool asset (one from each - Media/ Diversified/ HFC group) declined to 1.67% (~1.9% in Q4FY19) due to repayments. Maintain Hold with a revised target price of Rs 1646.**

**Key Highlights:**

- On merged basis loan book growth was 28% YoY, while core IIB's loan book grew by 26%. Loan book reclassification between corporate banking segment and consumer book stood at 54% and 46%. Loan growth was strong on vehicle loan portfolio, which grew by 28%.
- GNPA/NNPA ratio at 2.15%/1.23% was largely stable on QoQ basis. Banks stressed loan ratio came off to 1.7% from 1.9% in Q4FY19 while SMA1 & 2 moderated to 0.18% & 0.17% respectively from 0.3% each in Q4FY19. However, provision coverage ratio at 43% continued to remain low.
- Core fees grew by 22% YoY led by loan & general banking fees growth of 47% & 13% respectively. Consumer fees were slightly weaker due to slower distribution & FX fees. Total other income for the quarter grew by 28% YoY to Rs 1663 cr.
- IIB' overall NIMs for the quarter came in at 4.05% (IIB's core NIM ~3.7%). Management mentioned cost of funds to ease further as Bharat financial merger have access to lower funding cost resulting into margin accretion.

**Key Management Commentary:**

- The bank stated it has maintained sufficient provisions against IL&FS exposure.
- Regarding the 1.67% exposure to stressed groups, the bank stated that all of the accounts are standard. While Stressed book registered reduction of Rs3bn due to repayments and MTM provision.
- Corporate yields reduced by 23bps QoQ to 9.06% as bank transferred business banking division to consumer business category, while Consumer banking yield increased by 52bps to 14.6% due to BFIN merger.
- Management stated that liquidity situation has improved in the market since June. CD rates have fallen since June resulting in lower cost of deposit.
- Management maintained its credit cost guidance of 60bps for FY20.
- The management stated that it plans to tap new rural customers and aims to open savings account for all the customers of Bharat Financial. During the quarter, 44000 savings bank accounts were opened for BFIN borrowers.

**Valuation & Outlook; Maintain Hold**

We expect merger with Bharat financial to play out gradually in terms of lower funding cost resulting in better margins going ahead. However, banks exposure towards stressed groups and lower PCR remains the concern. We believe return ratios i.e. RoAs/RoEs to improve going forward led by better margins and lower opex. We have a HOLD rating on the stock with a price target of Rs 1646, valuing the bank at 2.8x FY21E ABV.

**Q4FY19 Financial Snapshot:**

Reported Quarterly Results					
Particulars (Rs in Cr)	Q1FY20	Q1FY19	YoY	Q4FY19	QoQ
Interest Earned	6,961	5,068	37%	5,991	16%
<i>Yield on Advances (%)</i>	12.0	10.2		10.5	
Interest Expended	4,117	2,946	40%	3,759	10%
<i>Cost of Funds (%)</i>	5.9	6.6		6.6	
<b>Net Interest Income</b>	<b>2844</b>	<b>2122</b>	<b>34%</b>	<b>2232</b>	<b>27%</b>
Other Income	1,663	1,302	28%	1,559	7%
<i>Other income / Net Income (%)</i>	37	38		41	
<b>Total income</b>	<b>4507</b>	<b>3424</b>	<b>32%</b>	<b>3791</b>	<b>19%</b>
Employee Expenses	647	462	40%	481	34%
Non-Employee expenses	1,269	1,051	21%	1,242	2%
<b>Operating Expenses</b>	<b>1916</b>	<b>1513</b>	<b>27%</b>	<b>1724</b>	<b>11%</b>
<i>Cost-income Ratio (%)</i>	42.5	44.2		45.5	
<b>Pre-Prov Profits</b>	<b>2591</b>	<b>1911</b>	<b>36%</b>	<b>2068</b>	<b>25%</b>
Provisions & Contingencies	431	350	23%	1,561	-72%
<b>PBT</b>	<b>2160</b>	<b>1561</b>	<b>38%</b>	<b>507</b>	<b>326%</b>
Provisions for Tax	728	525	39%	147	395%
<i>Effective Tax Rate (%)</i>	33.7	33.7		29.0	
<b>PAT (reported)</b>	<b>1433</b>	<b>1036</b>	<b>38%</b>	<b>360</b>	<b>298%</b>
EPS Basic	20.7	17.3		6.0	
EPS Diluted	0.0	17.1		5.9	
GNPA	4,200	1,741		3,947	
NNPA	2,381	762		2,248	
GNPA (%)	2.15	1.15		2.10	
NNPA (%)	1.23	0.51		1.21	
Total CAR (%)	14.90%	14.70%		14.16%	
Tier 1 (%)	14.47%	14.29%		13.70%	
Tier 2 (%)	0.43%	0.41%		0.45%	
NIM	4.05%	3.92%		3.84%	
Advances	193,520	150,675	28%	186,394	4%
Deposits	200,586	158,862	26%	194,868	3%

**Note: The numbers are not comparable to past data as the June quarter result includes the earnings of Bharat Financial Inclusion Ltd, which formally merged on Jul 4.**

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	22,261	28,196	34,707
Interest Expenses	13,415	16,029	19,388
<b>Net Interest Income</b>	<b>8,846</b>	<b>12,166</b>	<b>15,319</b>
- growth %	18	38	26
Other Income	5,647	6,834	8,550
<b>Operating Income</b>	<b>14,493</b>	<b>19,000</b>	<b>23,869</b>
- growth %	18	31	26
Operating Expenses	6,405	7,701	9,240
- Staff Cost	1,854	2,330	2,903
- Other Operating Exp.	4,551	5,370	6,337
<b>Gross Profits</b>	<b>8,088</b>	<b>11,300</b>	<b>14,629</b>
- growth %	22	40	29
Provisions	3,108	3,195	3,707
Profit Before Taxes	4,981	8,105	10,922
Taxes	1,679	2,756	3,713
<b>Profit After Taxes</b>	<b>3,301</b>	<b>5,349</b>	<b>7,208</b>
- growth %	(8)	62	35

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
<b>LIABILITIES</b>			
Capital	603	693	693
Reserves & Surplus	26,072	35,083	42,446
Deposits	194,868	238,276	294,598
Borrowings	47,321	54,760	63,582
Other liabilities & provisions	8,944	10,733	12,880
<b>Total Liabilities</b>	<b>277,819</b>	<b>339,557</b>	<b>414,210</b>
<b>ASSETS</b>			
Cash on hand & with RBI	14,783	16,262	17,888
Money at call and short notice	4,822	5,304	5,835
Advances	186,394	231,128	284,287
Investments	59,266	71,483	88,379
Fixed assets	1,710	1,885	2,036
Other assets	15,666	18,800	21,620
<b>Total Assets</b>	<b>277,819</b>	<b>339,557</b>	<b>414,210</b>

Ratio Analysis			
Year to 31st March	FY19	FY20E	FY21E
<b>Basic Ratio (Rs.)</b>			
EPS	54.8	88.8	119.6
Book Value per share	443	516	622
Adjusted Book Value	405	486	588
Dividend per share	7.5	7.5	7.5
<b>Asset Quality (%)</b>			
Gross NPAs	2.1%	2.0%	1.8%
Net NPAs	1.2%	0.8%	0.7%
NPA Coverage	43.0%	60.0%	60.0%
<b>Profitability ratios (%)</b>			
RoAE	13.1%	17.1%	18.3%
RoAA	1.3%	1.7%	1.9%
NIMs (Calculated)	3.8%	4.2%	4.3%
Cost to Income	44.2%	40.5%	38.7%

Spread Analysis			
	FY19	FY20E	FY21E
<b>Spread analysis (%)</b>			
Yield on advances	11.0%	11.0%	11.0%
Yield on investments	6.7%	6.8%	6.8%
Cost of deposits	6.2%	6.5%	6.5%
Spread	4.8%	4.5%	4.5%
Interest Income to AWF	9.2%	9.4%	9.5%
Net Interest Income to AWF	3.7%	4.1%	4.2%
Non Interest Income to AWF	2.3%	2.3%	2.3%
Operating Expense to AWF	2.7%	2.6%	2.5%
Operating Profit to AWF	3.4%	3.8%	4.0%
Net Profit to AWF	2.1%	2.7%	3.0%
<b>Valuation ratios (x)</b>			
P/E	26.9	16.6	12.3
P/BV	3.3	2.9	2.4
P/ABV	3.6	3.0	2.5

**Note: Estimated numbers are for merged entity. However, it is provisional and subject to change as we are awaiting for the annual report.**

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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