

**CMP: Rs 1229**

**Rating: HOLD**

**Target Price: Rs 1373**

**Stock Info**

INDEX	
BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr.)	693
Mkt Cap (Rs cr.)	85,164
52w H/L (Rs)	1835/1215
Weekly Avg Vol (BSE+NSE)	11,559,620

**Shareholding Pattern**

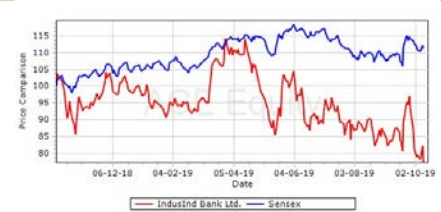
	%
<b>(As on March, 2019)</b>	
Promoters	16.8
DII	10.8
FII	51.5
Public & Others	20.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
IndusInd Bank	-17.4	-29.7	-25.0
SENSEX	-1.8	-1.8	9.0

Source: ACE Equity, Arihant Research

**IndusInd Bank v/s Sensex**



Source: ACE Equity, Arihant Research

**IndusInd Bank reported muted operating performance during Q2FY20 on a sequential basis (YoY numbers are not comparable due to Bharat Financial merger). Weak PPOP growth and higher provisions leading to sequential decline of 2% in consolidated (IIB + Bharat Financial) net profit to Rs 1,433 cr. NII of the bank grew marginally by 2% QoQ to Rs 2,844 cr vs. our estimate of Rs 2,952 cr. Soft growth in NII and other income leading to lower PPOP growth of 1% sequentially. Due to accelerated provisioning of Rs 355 cr, PCR of the bank jumped to 50% vs. 43% QoQ but still it is low as compared to other top private sector banks. Maintain Hold with a revised target price of Rs 1373.**

**Key Highlights:**

- Loan growth of the bank moderated to 21% YoY/2% QoQ led by slowdown in both consumer finance and corporate portfolio. Loan book reclassification between corporate and consumer banking segment stood at 45% and 55%. Vehicle loan portfolio grew by 20% YoY/3% QoQ.
- Total deposits of the bank increased by 23% YoY/3% QoQ.
- Fresh Slippages during the quarter increased to Rs 1102 cr vs. Rs 725 cr in previous quarter, resulting into 4% jump in GNPA to Rs 4370 cr. Higher slippages were seen in corporate banking segment which was increased substantially to Rs 479 cr vs. Rs 175 cr QoQ. GNPA/NNPA ratio at 2.19%/1.12% was largely stable on QoQ basis. Banks stressed loan pool (One each from Media, Housing and Diversified group) declined to 1.1% from 1.7% QoQ driven by cash repayments. Reported SMA1 & 2 book increased to 96bps from 38bps in Q1FY20. However, provision coverage ratio strengthened to 50% vs. 43% QoQ. We are cautious on banks corporate book amidst a weak operating environment and relatively exposure to stressed groups.
- IIB' overall NIM expanded by 5bps QoQ to 4.10% (IIB's core NIM at ~3.7%). Management has guided NIM to be in the range of +4%. Cost of funds during the quarter increased marginally by 4bps to 5.94% while yield on advances declined by 4bps QoQ to 12%.

**Key Management Commentary:**

- CASA ratio came down to 41.5% vs 43.1% QoQ largely, due to withdrawal from savings account and current account. Management would be focusing on retail deposits going forward.
- Of the Rs 170.5 cr increase in absolute GNPA, Rs 67 cr has come from MFI segment. NPA in the MFI portfolio has gone up due to flood impact and repayment has come back to 98%-99% levels.
- Company believes growth in Bharat Financial will back on track as there was some impact on disbursements during the quarter due to flood in several states.
- Overlap in the SMA 1 and SMA 2 would be ~15bps with disclosed stressed groups. In SMA 2 book, one account is near to the resolution.

**Valuation & Outlook; Maintain Hold**

Operating performance of the bank was largely stable during the quarter while business growth momentum seen moderation due to challenging macro condition and weak consumer demand. The bank has superior margin profile and relatively healthy fee income base; however, corporate segment asset quality stress will remain concern in our view. Decline in exposure towards stressed groups and high PCR provides some comfort. We cut our loan growth estimates for FY20-21E to 20% from 23-24% earlier and reduced our target multiple to 2.3x P/ABV (2.8x earlier). We have a HOLD rating on the stock with a price target of Rs 1373, valuing the bank at 2.3x FY21E ABV.

**Q2FY20 Financial Snapshot:**

Particulars (Rs in Cr)	Q2FY20	Q2FY19	YoY	Q1FY20	QoQ
Interest Earned	7,150	5,438	31%	6,961	3%
<i>Yield on Advances (%)</i>	12.0	11.4		12.0	
Interest Expended	4,241	3,235	31%	4,117	3%
<i>Cost of Funds (%)</i>	5.9	5.6		5.9	
<b>Net Interest Income</b>	<b>2909</b>	<b>2203</b>	<b>32%</b>	<b>2844</b>	<b>2%</b>
Other Income	1,727	1,317	31%	1,663	4%
<b>Total income</b>	<b>4637</b>	<b>3521</b>	<b>32%</b>	<b>4507</b>	<b>3%</b>
Employee Expenses	716	458	56%	647	11%
Non-Employee expenses	1,297	1,070	21%	1,269	2%
<b>Operating Expenses</b>	<b>2013</b>	<b>1528</b>	<b>32%</b>	<b>1916</b>	<b>5%</b>
<i>Cost-income Ratio (%)</i>	43.4	43.4		42.5	
<b>Pre-Prov Profits</b>	<b>2623</b>	<b>1992</b>	<b>32%</b>	<b>2591</b>	<b>1%</b>
Provisions & Contingencies	738	590	25%	431	71%
<b>PBT</b>	<b>1886</b>	<b>1402</b>	<b>34%</b>	<b>2160</b>	<b>-13%</b>
Provisions for Tax	485	482	1%	728	-33%
<i>Effective Tax Rate (%)</i>	25.7	34.4		33.7	
<b>PAT (reported)</b>	<b>1401</b>	<b>920</b>	<b>52%</b>	<b>1433</b>	<b>-2%</b>
EPS	20.2	15.3		20.7	
GNPA (%)	2.19	1.09		2.15	
NNPA (%)	1.12	0.48		1.23	
Advances	197,113	163,144	21%	193,520	2%
Deposits	207,193	168,219	23%	200,586	3%

**Loan Book Break-up:**

Loan Portfolio (in Cr.)	Q2FY20	Q2FY19	Q1FY20	YoY	QoQ
<b>Corporate Banking</b>	<b>89661</b>	<b>99501</b>	<b>89664</b>	<b>-10%</b>	<b>0%</b>
- Large Corporates	48319	49471	50212	-2%	-4%
- Mid Size Corporates	37194	30087	35221	24%	6%
- Small Corporates	4148	19943	4231	-79%	-2%
<b>Consumer Finance</b>	<b>107452</b>	<b>63642</b>	<b>103856</b>	<b>69%</b>	<b>3%</b>
<b>- Vehicle Loans</b>	<b>56472</b>	<b>47211</b>	<b>55046</b>	<b>20%</b>	<b>3%</b>
Comm. vehicles	25092	21992	24853	14%	1%
Utility vehicles	4009	3201	3846	25%	4%
Small CV	3386	2886	3248	17%	4%
Two wheeler loans	4799	3867	4661	24%	3%
Car loans	7013	5892	6792	19%	3%
Tractor	4132	3083	3770	34%	10%
Equipment financing	8041	6290	7876	28%	2%
<b>- Non-Vehicle Portfolio</b>	<b>50980</b>	<b>16431</b>	<b>48810</b>	<b>210%</b>	<b>4%</b>
Credit card	4203	3185	3911	32%	7%
LAP	8785	8324	8678	6%	1%
BL,PL, GL, others	7748	4922	6992	57%	11%
Business Banking	11360	-	10984	-	3%
Microfinance incl. BHAFIN	18884	-	18245	-	4%
<b>Total Advances</b>	<b>197113</b>	<b>163143</b>	<b>193520</b>	<b>21%</b>	<b>2%</b>

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	22,261	27,683	33,081
Interest Expenses	13,415	15,703	18,298
<b>Net Interest Income</b>	<b>8,846</b>	<b>11,980</b>	<b>14,783</b>
- growth %	18	35	23
Other Income	5,647	6,670	8,184
<b>Operating Income</b>	<b>14,493</b>	<b>18,650</b>	<b>22,968</b>
- growth %	18	29	23
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>10,949</b>	<b>13,727</b>
- growth %	22	35	25
Provisions	3,108	3,184	3,683
Profit Before Taxes	4,981	7,766	10,044
Taxes	1,679	1,996	2,581
<b>Profit After Taxes</b>	<b>3,301</b>	<b>5,770</b>	<b>7,463</b>
- growth %	(8)	75	29

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
<b>LIABILITIES</b>			
Capital	603	693	693
Reserves & Surplus	26,072	35,504	43,121
Deposits	194,868	228,237	271,118
Borrowings	47,321	54,760	63,439
Other liabilities & provisions	8,944	10,733	12,880
<b>Total Liabilities</b>	<b>277,819</b>	<b>329,939</b>	<b>391,262</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	223,672	268,407
Investments	59,266	68,471	81,335
Fixed assets	1,710	2,734	2,953
Other assets	15,666	18,800	20,680
<b>Total Assets</b>	<b>277,819</b>	<b>329,939</b>	<b>391,262</b>

Ratio Analysis			
Year to 31st March	FY19	FY20E	FY21E
<b>Basic Ratio (Rs.)</b>			
EPS	54.8	95.7	123.8
Book Value per share	443	522	632
Adjusted Book Value	405	492	597
Dividend per share	7.5	7.5	7.5
<b>Asset Quality (%)</b>			
Gross NPAs	2.1%	2.0%	2.0%
Net NPAs	1.2%	0.8%	0.8%
NPA Coverage	43.0%	60.0%	60.0%
<b>Profitability ratios (%)</b>			
RoAE	13.1%	18.4%	18.7%
RoAA	1.3%	1.9%	2.1%
NIMs (Calculated)	3.8%	4.2%	4.4%
Cost to Income	44.2%	41.3%	40.2%

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%
<b>Interest Income to AWF</b>	<b>9.2%</b>	<b>9.4%</b>	<b>9.5%</b>
<b>Net Interest Income to AWF</b>	<b>3.7%</b>	<b>4.1%</b>	<b>4.2%</b>
<b>Non Interest Income to AWF</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.3%</b>
<b>Operating Expense to AWF</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.6%</b>
<b>Operating Profit to AWF</b>	<b>3.4%</b>	<b>3.7%</b>	<b>3.9%</b>
<b>Net Profit to AWF</b>	<b>2.1%</b>	<b>2.9%</b>	<b>3.2%</b>
<b>Valuation ratios (x)</b>			
P/E	22.4	12.8	9.9
P/BV	2.8	2.4	1.9
P/ABV	3.0	2.5	2.1

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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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