

CMP: Rs 1649

Rating: HOLD

Target Price: Rs 1814

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

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

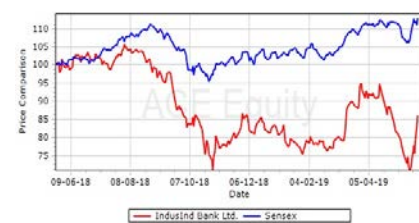
Source: NSE, Arihant Research

Stock Performance (%)

	3m	6m	12m
IndusInd Bank	12.7	7.9	-11.8
SENSEX	8.9	11.5	13.8

Source: ACE Equity, Arihant Research

IndusInd Bank v/s Sensex



Source: ACE Equity, Arihant Research

IndusInd Bank's (IIB) Q4FY19 performance was impacted primarily due to IL&FS exposure, which was declared as NPA. However operating performance & business growth of the bank remained strong. Bank has a total exposure of Rs 3000 cr towards IL&FS, out of which Rs 2000 cr is for holding company and Rs 1000 cr is for operating SPVs. It has made 70% provisioning towards holding company and 25% provisioning towards SPVs. Profit for the quarter fell by 62% YoY to Rs 360 cr, due to accelerated provisioning. Bank has also identified three groups, Media/Diversified/HFC one from each as stressed assets and its funded/non funded exposure to these groups is 1.9% of the loan book. These assets are standard in bank's book as of now. Management's disclosure towards stressed groups provides comfort due to which we believe the stock will reverse its current underperformance vis-a-vis Nifty. Maintain Hold with a revised target price of Rs 1814 (Rs 1720 earlier).

Underlying performance remained strong

Ex-IL&FS, the core performance of the banks remained strong with 19% growth in NII, +26% growth in pre-provisioning profit, 25% jump in PAT and 10bps/11bps decline in GNPA/NNPA to 1.03% and 0.48% respectively. NIM was stable at 3.84% and PCR ratio further strengthened to 54% from 48% in Q3FY19. Core fee income growth was strong 27% YoY.

Robust business momentum to continue

Business traction of the bank was robust with ~29% growth in advances and deposits. Advances growth was driven by corporate and consumer finance book. Deposit growth was aided by, ~26% growth in CASA and ~19% growth in term deposits. Total advances as on Q4FY19 stood at Rs 1,86,394 cr. We expect IIB's loan book to witness a CAGR of 20% over the period of FY19-21E.

Bharat Financial Inclusion (BFIL) Merger is on last stage

The IIB's merger with BFIL is on last stage and awaiting NCLT approval. The low cost of funding from IndusInd will support BFIL and similarly, IIB will explore rural opportunities by cross selling its products. BFIL's gross loan portfolio is Rs 17,394 cr and it has reported PAT of Rs 985 cr as on FY19. We believe this merger will provide huge rural opportunity and give synergy to more penetrate in MFI and consumer finance areas.

Valuation & Outlook; Maintain Hold

IL&FS hangover is behind now and focus shifted back to earnings. Management remains confident of >20% loan growth, strong liability franchise and visibility of improving trends. We believe IndusInd Bank will continue to show sustainable progress across operational parameters. Merger with BFIL will boost banks performance and margins will improve. We will factor in BFIL's financial performance in our model once NCLT approval is done. We expect NIM to be in a range of 3.8-4.0%. The current MD & CEO Mr. Ramesh Sobti's tenure is ending in March, 2020 so succession plan needs to be watched. We have a HOLD rating on the stock with a price target of Rs 1814, valuing the bank at 3.2x FY21E ABV.

Q4FY19 Financial Snapshot:

Reported Quarterly Results					
Particulars (Rs in Cr)	Q4FY19	Q4FY18	YoY	Q3FY19	QoQ
Interest Earned	5,991	4,650	29%	5,763	4%
Yield on Advances (%)	10.5	10.0		10.4	
Interest Expended	3,759	2,643	42%	3,475	8%
Cost of Funds (%)	6.6	6.6		6.6	
Net Interest Income	2232	2008	11%	2288	-2%
Other Income	1,559	1,209	29%	1,469	6%
Other income / Net Income (%)	41	38		39	
Total income	3791	3216	18%	3757	1%
Employee Expenses	481	454	6%	452	6%
Non-Employee expenses	1,242	993	25%	1,188	5%
Operating Expenses	1724	1447	19%	1640	5%
Cost-income Ratio (%)	45.5	45.0		43.7	
Pre-Prov Profits	2068	1769	17%	2117	-2%
Provisions & Contingencies	1,561	336	365%	607	157%
PBT	507	1434	-65%	1510	-66%
Provisions for Tax	147	481	-69%	525	-72%
Effective Tax Rate (%)	29.0	33.5		34.8	
PAT (reported)	360	953	-62%	985	-63%
EPS Basic	6.0	15.9		16.4	
EPS Diluted	5.9	15.7		16.3	
GNPA	3,947	1,705		1,907	
NNPA	2,248	746		480	
GNPA (%)	2.10	1.17		1.13	
NNPA (%)	1.21	0.51		0.59	
Total CAR (%)	14.16%	15.03%		14.19%	
Tier 1 (%)	13.70%	14.58%		13.78%	
Tier 2 (%)	0.45%	0.45%		0.41%	
NIM	3.84%	3.97%		3.83%	
Advances	186,394	144,954	29%	173,169	8%
Deposits	194,868	151,639	29%	175,701	11%

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	22,261	26,849	32,300
Interest Expenses	13,415	16,001	19,044
Net Interest Income	8,846	10,848	13,257
- growth %	18	23	22
Other Income	5,647	6,711	8,236
Operating Income	14,493	17,559	21,492
- growth %	18	21	22
Operating Expenses	6,405	7,507	8,794
- Staff Cost	1,854	2,136	2,457
- Other Operating Exp.	4,551	5,370	6,337
Gross Profits	8,088	10,053	12,699
- growth %	22	24	26
Provisions	3,108	3,187	3,686
Profit Before Taxes	4,981	6,866	9,013
Taxes	1,679	2,334	3,064
Profit After Taxes	3,301	4,532	5,948
- growth %	(8)	37	31

Ratio Analysis			
Year to 31st March	FY19	FY20E	FY21E
Basic Ratio (Rs.)			
EPS	54.8	75.2	98.7
Book Value per share	443	510	601
Adjusted Book Value	405	480	567
Dividend per share	7.5	7.5	7.5
Asset Quality (%)			
Gross NPAs	2.1%	2.0%	1.9%
Net NPAs	1.2%	0.8%	0.8%
NPA Coverage	43.0%	60.0%	60.0%
Profitability ratios (%)			
RoAE	13.1%	15.8%	17.8%
RoAA	1.3%	1.5%	1.6%
NIMs (Calculated)	3.8%	3.8%	3.9%
Cost to Income	44.2%	42.7%	40.9%

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
LIABILITIES			
Capital	603	603	603
Reserves & Surplus	26,072	30,152	35,648
Deposits	194,868	237,406	284,888
Borrowings	47,321	54,760	63,582
Other liabilities & provisions	8,944	10,733	12,880
Total Liabilities	277,819	333,666	397,612
ASSETS			
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	225,536	270,643
Investments	59,266	71,222	85,466
Fixed assets	1,710	1,847	1,995
Other assets	15,666	18,800	21,620
Total Assets	277,819	333,666	397,612

Spread Analysis			
	FY19	FY20E	FY21E
Spread analysis (%)			
Yield on advances	11.0%	10.5%	10.5%
Yield on investments	6.7%	6.8%	6.8%
Cost of deposits	6.2%	6.5%	6.5%
Spread	4.8%	4.0%	4.0%
Interest Income to AWF	9.2%	9.1%	9.1%
Net Interest Income to AWF	3.7%	3.7%	3.7%
Non Interest Income to AWF	2.3%	2.3%	2.3%
Operating Expense to AWF	2.7%	2.5%	2.5%
Operating Profit to AWF	3.4%	3.4%	3.6%
Net Profit to AWF	2.1%	2.3%	2.5%
Valuation ratios (x)			
P/E	30.1	21.9	16.7
P/BV	3.7	3.2	2.7
P/ABV	4.1	3.4	2.9

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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%

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