

July 12, 2018

## IndusInd Bank

### Q1FY19 Result Update

#### Robust growth in advances

Advances grew 29.4% YoY (from 116407cr) & 3.9% QoQ (from 144954cr) to 150675cr. Corporate loans grew by 30%YoY and consumer finance loans grew by 28% YoY. In corporate loans segment, loans to large corporates grew 36% YoY and loans to SME grew 39% YoY. In consumer finance segment, loans towards commercial vehicle, UV, equipment finance, credit card and tractor grew by 33%, 25%, 37%, 53% and 38% respectively.

#### Double-digit interest income growth

Interest income grew 27% YoY (from 3271cr) and 13%QoQ (from 3669cr) to 4147cr on back of strong advance growth and uptick in yields from 11.08% to 11.15%. Segment wise, yield on corporate book (60% of loan book) and consumer finance book (40% of loan book) improved from 9.07% and 13.87% in Q4FY18 to 9.16% and 13.91% in Q1FY19.

#### Margins contracted owing to higher cost of funds

NIM reduced from 3.97% in Q4FY18 to 3.92% in Q1FY19. Although, advance yield improved from 11.08% to 11.15%, reduction in investment yield from 6.63% to 6.54% and uptick in cost of funds from 5.09% to 5.44% resulted in 5 basis point deterioration.

#### Strong asset quality

Gross slippages and net slippages reduced from 2.7% and 0.6% in Q4FY18 to 1.3% and 0.1% in Q1FY19. Gross slippages in a) corporate book reduced from 2.9% to 1.0% and b) consumer finance book reduced from 2.4% to 1.9%. This resulted in reduction in GNPA from 1.17% in Q4FY18 to 1.15% in Q1FY19 while NNPA came in at similar level of 0.51%. Provision coverage ratio was 56%.

#### Valuations

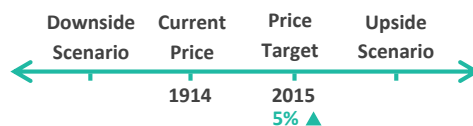
Bank is looking to grow a) organically by expanding to 2000 branches from current 1410 branches and b) inorganically by inking agreements with BFI and IL&FS. At LTP of INR 1935, stock is trading at 3.6x FY20E P/ABV, we assign multiple of 3.8x and arrive at target price of 2015 and assign neutral rating.

(INR CRORES)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	4,517	6,063	7,497	9,496	11,805
Growth%	32%	34%	24%	27%	24%
Pre-provisioning profit	4,141	5,451	6,656	8,635	10,782
Growth%	34%	32%	22%	30%	25%
Adjusted PAT	2,286	2,868	3,606	4,696	5,878
Growth%	27%	25%	26%	30%	25%
EPS (INR)	38	48	60	78	98
BVPS (INR)	297	345	397	463	547
ABVPS (INR)	292	338	385	448	530
P/E (x)	28.9	30.9	31.9	24.5	19.5
P/ABV (x)	3.8	4.4	5.0	4.3	3.6

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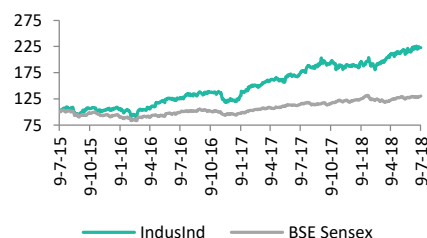
# NEUTRAL



Stock Details	
Industry	BFSI
Sensex	36265
Nifty	10648
Bloomberg Code	IIB:IN
Eq. Cap. (Rs. Crs.)	600
Face Value (Rs.)	10
52-w H/L	1995/1526
Market Cap (Cr.)	114882

Valuation Data			
	FY18A	FY19E	FY20E
NIM	4.0%	4.1%	4.1%
Book value	397	463	546
P/E (x)	31.9	24.5	19.5
P/BV (x)	4.8	4.1	3.5
P/ABV (x)	5.0	4.3	3.6

#### IndusInd Bank Vs SENSEX



Shareholding Pattern			
	Mar'18	Dec'17	Mar'17
Promoters	15.0	15.0	15.0
FII's	47.1	45.3	43.8
MF	9.3	11.0	11.9
Retail	17.8	18.0	18.6
Others	10.8	10.8	10.8
	100.0	100.0	100.0

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## Q1FY19 Result Analysis

(INR crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Interest on Advances/Bills	4,147	3,271	3,669	27%	13%
Interest on Investment	861	726	831	19%	4%
Interest on bal. with RBI & Others	19	99	75	-81%	-75%
Other Interest	42	40	75	5%	-44%
<b>INTEREST EARNED</b>	<b>5,068</b>	<b>4,136</b>	<b>4,650</b>	<b>23%</b>	<b>9%</b>
Net-Interest Income (NII)	2,122	1,774	2,008	20%	6%
Other Income	1,302	1,167	1,209	12%	8%
<b>Total Income</b>	<b>3,424</b>	<b>2,941</b>	<b>3,216</b>	<b>16%</b>	<b>6%</b>
Operating Expenses	1,513	1,353	1,447	12%	5%
Pre-Provisional Profits	1,911	1,589	1,770	20%	8%
Provisions & Contingencies	350	310	336	13%	4%
<b>PBT</b>	<b>1,561</b>	<b>1,279</b>	<b>1,434</b>	<b>22%</b>	<b>9%</b>
Provision for Taxes	525	442	481	19%	9%
<b>Adjusted Net Profit</b>	<b>1,036</b>	<b>837</b>	<b>953</b>	<b>24%</b>	<b>9%</b>

- Bank's total operating income grew 16% YoY & 6% QoQ from 2941cr in Q1FY18 & 3216cr in Q4FY18 to 3424cr in this quarter on back of advance growth and improvement in yields on advances (from 11.08% in Q4FY18 to 11.15% in Q1FY19). Consumer finance yield improved from 13.87% to 13.91%.
- Bank's Net Interest Income grew 20% YoY & 6% QoQ from 1774cr in Q1FY18 & 2008cr in Q4FY18 to 2122cr in this quarter. Although, cost of funds expanded from 5.09% in Q4FY18 to 5.44% in Q1FY19, bank was able to maintain growth because of higher disbursements (bank boarded 1million new clients during the quarter).
- Bank's quarterly cost to income ratio contracted by 180bps YoY and 80bps QoQ to 44.2% from 46.0% in Q1FY18 and 45.0% in Q4FY18. Going forward, management expects ratio to hover in range of 43-44%.
- Bank's quarterly pre-provisioning profit grew 20% YoY & 8% QoQ from 1589cr in Q1FY18 & 1770cr in Q4FY18 to 1911cr in this quarter.
- Bank's net profits grew 24% YoY & 9% QoQ from 837cr in Q1FY18 & 953cr in Q4FY18 to 1036cr in this quarter due to improvement in asset quality. However, provision coverage ratio in Q1FY19 and Q4FY18 is similar (~56%), GNPA in this quarter was slightly better.
- Gross NPA ratio came at 1.15% (v/s 1.17% in previous quarter) and NNPA came at 0.51% (v/s 0.51% in previous year). Provision coverage ratio is 56% (v/s 56% in previous quarter).

(INR crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q	Comment
Deposits	158,862	133,673	151,639	19%	5%	CASA was nearly same at 43% v/s 44% in previous quarter
Borrowings	37,040	27,404	38,289	35%	-3%	Cost of borrowing went up leading to 35bps expansion cost of funds (5.44%) v/s 5.09% in previous quarter
Investments	52,673	42,147	50,077	25%	5%	
Advances	150,675	116,407	144,954	29%	4%	Quarterly growth was driven mainly through SME loans (6% QoQ), commercial vehicle (4% QoQ), UV (6% QoQ), Credit card (11% QoQ)
<b>Total Assets</b>	<b>228,879</b>	<b>190,650</b>	<b>221,626</b>	<b>20%</b>	<b>3%</b>	

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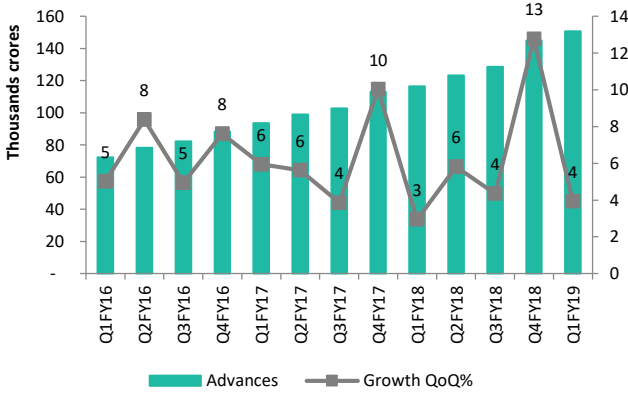
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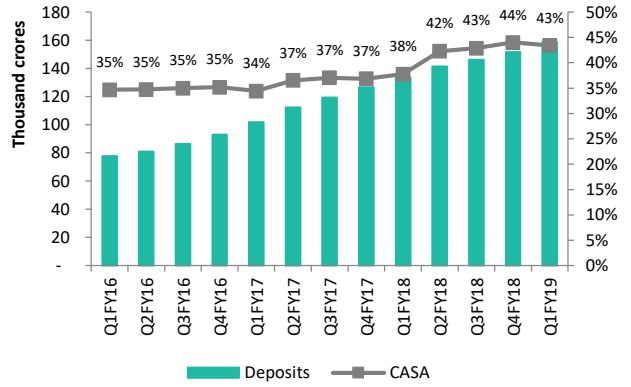
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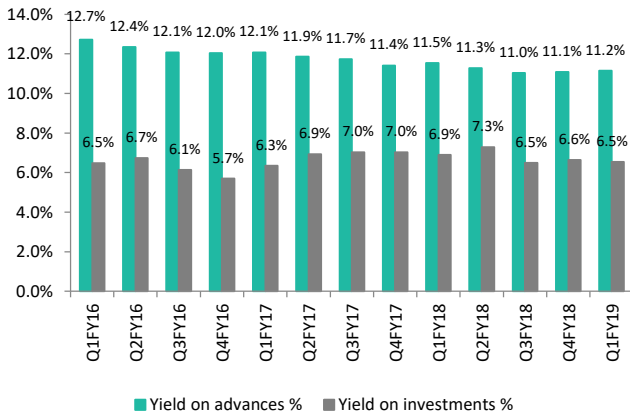
### Advances Profile



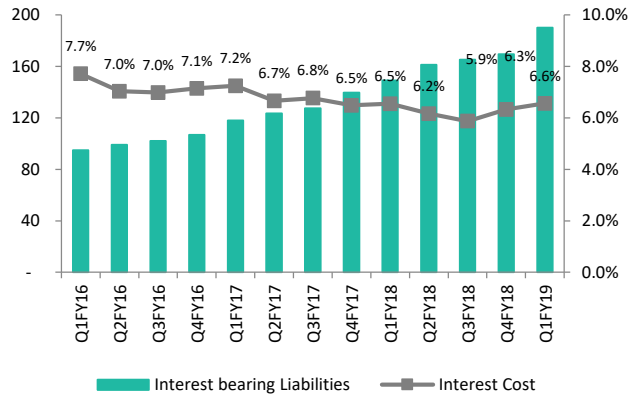
### Deposits Profile



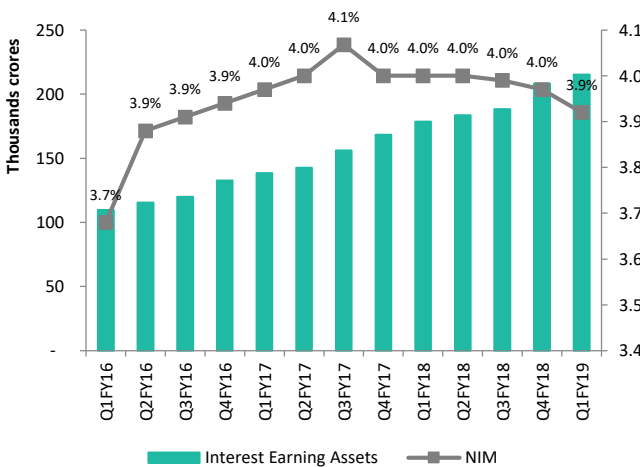
### Yield Profile



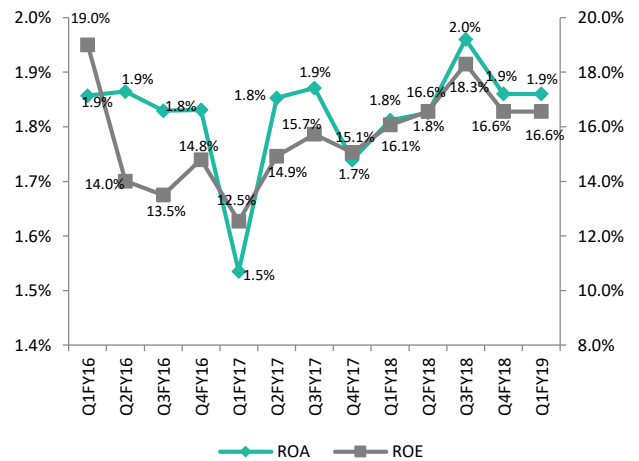
### Interest Bearing Liabilities



### Interest Earning Assets



### Return Ratios



Source: Company, NSPL Research

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Profit & Loss (INR crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	11,872	14,406	17,281	21,442	26,870
Interest expended	7,355	8,343	9,783	12,228	15,192
Net interest income	4,517	6,063	7,497	9,214	11,678
Non-interest income	3,297	4,171	4,750	6,130	7,668
Total income	7,814	10,234	12,248	15,343	19,346
Operating expenses	3,672	4,783	5,591	6,928	8,705
Pre-provisioning profit	4,141	5,451	6,656	8,415	10,640
Provisions	672	1,091	1,175	1,538	1,923
Profit before tax (PBT)	3,469	4,360	5,481	6,877	8,717
Tax expense	1,183	1,492	1,875	2,338	2,964
Adjusted PAT	2,286	2,868	3,606	4,539	5,753
Balance Sheet (INR crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	595	598	600	600	600
Reserves & Surplus	17,087	20,033	23,227	27,080	31,964
Shareholder's Fund	17,682	20,631	23,827	27,680	32,565
Deposits	93,000	126,572	151,639	186,615	233,616
Borrowings	24,996	22,454	38,289	47,121	58,988
Other Liabilities	7,205	8,976	7,856	17,326	23,263
Cash & Balances with RBI	10,112	18,628	13,216	21,192	24,643
Investments	34,054	36,702	50,077	64,075	79,509
Advances	88,419	113,081	144,954	181,192	226,490
Fixed Assets	1,255	1,335	1,339		
Other Assets	9,056	8,902	12,041	12,298	17,804
Total Assets	142,897	178,648	221,626	278,757	348,446
RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Growth rates</b>					
Advances (%)	28.5%	27.9%	28.2%	24.0%	23.0%
Deposits (%)	25.4%	36.1%	19.8%	27.3%	23.0%
Total assets (%)	31.0%	25.0%	24.1%	19.3%	23.0%
NII (%)	32.1%	34.2%	23.7%	26.7%	24.3%
Pre-provisioning profit (%)	33.7%	31.6%	22.1%	29.7%	24.9%
PAT (%)	27.5%	25.4%	25.7%	30.2%	25.2%
<b>Balance sheet ratios</b>					
Credit/Deposit (%)	95.1%	89.3%	95.6%	93.1%	93.1%
CASA (%)	35.2%	36.9%	44.0%	44.0%	44.0%
Advances/Total assets (%)	61.9%	63.3%	65.4%	68.0%	68.0%
Leverage (x)	6.7x	7.2x	8.0x	8.4x	8.7x
<b>Operating efficiency</b>					
Cost/income (%)	47.0%	46.7%	45.7%	44.5%	44.0%
Opex/total assets (%)	2.9%	3.0%	2.8%	2.8%	2.9%
Opex/total interest earning assets (%)	2.8%	2.8%	2.7%	2.7%	2.7%
<b>Profitability</b>					
NIM (%)	3.8%	4.0%	4.0%	4.1%	4.1%
RoA (%)	1.8%	1.8%	1.8%	1.9%	2.0%
RoE (%)	14.7%	15.4%	16.8%	18.4%	19.8%
<b>Asset quality</b>					
Gross NPA (%)	0.9%	0.9%	1.0%	1.1%	1.0%
Net NPA (%)	0.4%	0.4%	0.5%	0.5%	0.4%
PCR (%)	58.6%	58.4%	50.3%	65.0%	70.0%
Slippage (%)	0.3%	0.3%	0.4%	0.3%	0.2%
<b>Per share data / Valuation</b>					
EPS (Rs.)	38.4	47.9	60.1	78.2	97.9
BV (Rs.)	297.2	344.9	397.0	463.4	546.5
ABV (Rs.)	291.8	337.6	384.5	448.4	530.2
P/BV (x)	3.7x	4.3x	4.8x	4.1x	3.5x
P/ABV (x)	3.8x	4.4x	5.0x	4.3x	3.6x

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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