

October 16, 2018

IndusInd Bank

Q2FY19 Result Update

Robust growth in advances

Advances grew 32.4% YoY to 163,144cr on the back of corporate banking (grew 35% YoY; constitute 61% of advances) and consumer financing book (grew 29% YoY; constitute 39% of advances).

Corporate book driven by lending to large and small corporates

Within corporate book, large ticket size loans (namely large corporate book) grew 37% YoY to 49,471cr, small ticket business loans (namely small business loans) grew 42% YoY to 19,943cr and mid ticket business loans (namely commercial banking book) grew 28% YoY to 30,087cr. Large corporate book, commercial banking book and small business financing loan book contribute 49.7%, 30.2% and 20% towards corporate book.

Consolidating advances against deposits

Advance to deposit ratio improved from 87%/95% in Q2FY18/Q1FY19 to 97% in current quarter.

Improvement in yields; however compression in NIM due to high cost and augmenting leverage

Yield on advances improved from 10.9%/11.2% in Q2FY18/Q1FY19 to 11.4% in Q2FY19. Leverage increased from 9.1x/9.2x in Q2FY18/Q1FY19 to 9.8x in Q2FY19. Cost of funds increased from 6.2%/6.6% in Q2FY18/Q1FY19 to 6.7% in Q2FY19. Resultant, NIM came at 3.9% (vs 4%/4.02% in Q2FY18/Q1FY19).

Improved operational efficiency

Cost to income ratio came at 43.4% (vs 44.2%/45.7% in Q2FY18/Q1FY19) due to realization of economies of scale. Operating expenses grew 11% YoY while total operating income grew 17% YoY.

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 1627, stock is trading at 3.1x FY20E P/ABV, we assign multiple of 3.6x and arrive at target price of 1916.

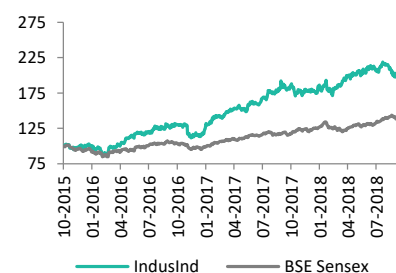
STRONG BUY*



Market Data	
Industry	BFSI
Sensex	34865
Nifty	10512
Bloomberg Code	IIB:IN
Eq. Cap. (INR Crores)	601
Face Value (INR)	10
52-w H/L	2038/1551
Market Cap (INR Crores)	97829

Valuation Data	FY18A	FY19E	FY20E
NIM	3.98%	3.85%	3.65%
Book value	397.0	464.2	548.5
P/E (x)	29.3	20.5	16.4
P/BV (x)	4.4	3.5	3.0
P/ABV (x)	4.6	3.6	3.1

IndusInd Bank Vs SENSEX



Shareholding Pattern

	Sept'18	Jun'18	Sept'17
Promoters	16.7	16.8	15.0
FIIs	52.2	52.6	43.8
MF	9.4	9.8	11.9
Retail	6.8	6.9	18.6
Others	14.8	13.9	10.8
	100.0	100.0	100.0

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	4,517	6,063	7,497	9,129	11,041
Growth%	32%	34%	24%	22%	21%
Pre-provisioning profit	4,141	5,451	6,656	8,491	10,566
Growth%	34%	32%	22%	28%	24%
Adjusted PAT	2,286	2,868	3,606	4,753	5,962
Growth%	27%	25%	26%	32%	25%
EPS (INR)	38.4	47.9	60.1	79.2	99.3
BVPS (INR)	297.2	344.9	397.0	464.2	548.5
ABVPS (INR)	291.8	337.6	384.5	449.2	532.2
P/E (x)	28.9	30.9	29.3	20.5	16.4
P/ABV (x)	3.8	4.4	4.6	3.6	3.1

Source: NSPL Research

* Read last page for disclaimer & rating rationale

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Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest on Advances/Bills	4,452.0	3,290.0	4,147.0	35%	7%
Interest on Investment	918.3	767.9	861.0	20%	7%
Interest on bal. with RBI & Others	27.4	110.8	18.7	-75%	47%
Other Interest	40.2	39.3	41.8	2%	-4%
INTEREST EARNED	5,438.0	4,208.0	5,068.0	29%	7%
Net-Interest Income (NII)	2,203.0	1,821.0	2,122.0	21%	4%
Other Income	1,317.0	1,188.0	1,302.0	11%	1%
Total Income	3,521.0	3,009.0	3,424.0	17%	3%
Operating Expenses	1,528.0	1,375.0	1,513.0	11%	1%
Pre-Provisional Profits	1,992.0	1,634.0	1,911.0	22%	4%
Provisions & Contingencies	590.3	293.8	350.0	101%	69%
PBT	1,402.0	1,340.0	1,561.0	5%	-10%
Provision for Taxes	481.9	459.7	525.4	5%	-8%
Adjusted Net Profit	920.0	880.1	1035.7	5%	-11%

Source: NSPL Research

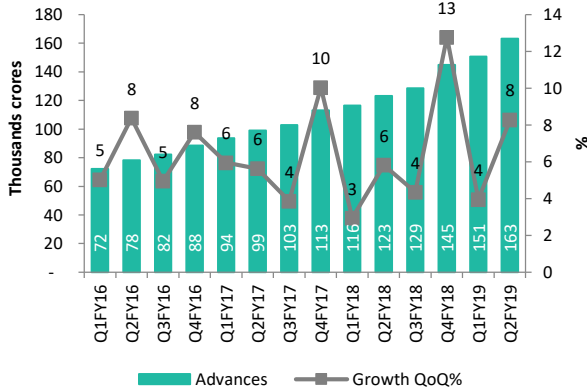
- Bank's total operating income grew 17% YoY & 3% QoQ from 3009cr in Q2FY18 & 3424cr in Q1FY19 to 3521cr in this quarter on the back of advance growth and improvement in yields on advances (from 11.15% in Q1FY19 to 11.4% in Q2FY19).
- Bank's Net Interest Income grew 21% YoY & 4% QoQ from 1821cr in Q2FY18 & 2122cr in Q1FY19 to 2203cr in this quarter. Although, cost of funds expanded from 5.44% in Q1FY19 to 5.64% in Q2FY19.
- Bank's quarterly cost to income ratio came at 43.4% from 45.7% in Q2FY18 and 44.2% in Q1FY19. Going forward, management expects ratio to hover in range of 43-44%.
- Bank's quarterly pre-provisioning profit grew 22% YoY & 4% QoQ to 1992cr in this quarter.
- Bank's net profits grew 5% YoY & de-grew 11% QoQ to 920cr in this quarter.
- Gross NPA ratio came at 1.09% (v/s 1.15% in previous quarter) and NNPA came at 0.48% (v/s 0.51% in previous year). Provision coverage ratio is 56% (v/s 56% in previous quarter).

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q	Comment
Deposits	168,219	141,441	158,862	19%	6%	CASA was nearly same at 44% v/s 43% in previous quarter
Borrowings	42,828	23,558	37,040	82%	16%	
Investments	50,088	42,146	52,673	19%	-5%	
Advances	163,144	123,181	150,675	32%	8%	Quarterly growth was driven mainly through SME loans (5% QoQ), commercial vehicle (6% QoQ), UV (6% QoQ), Credit card (7% QoQ)
Total Assets	248,320	195,032	228,879	27%	8%	

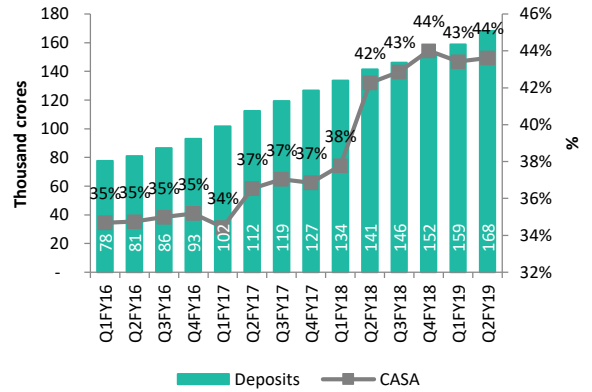
Source: NSPL Research



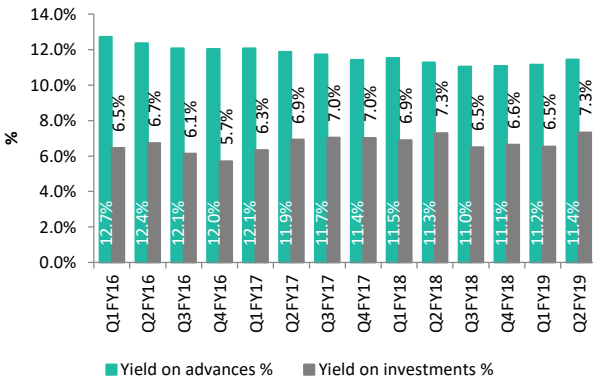
Advances Profile



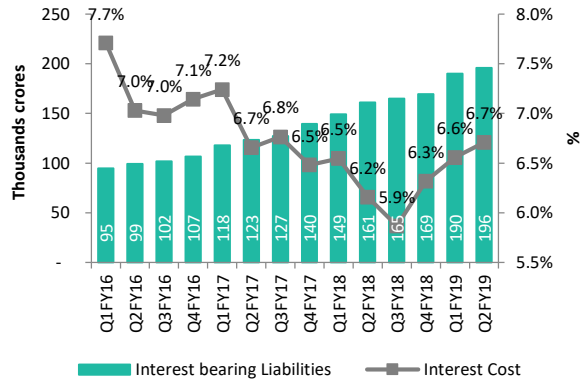
Deposits Profile



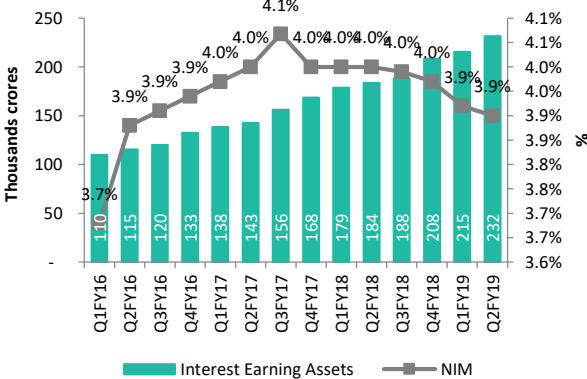
Yield Profile



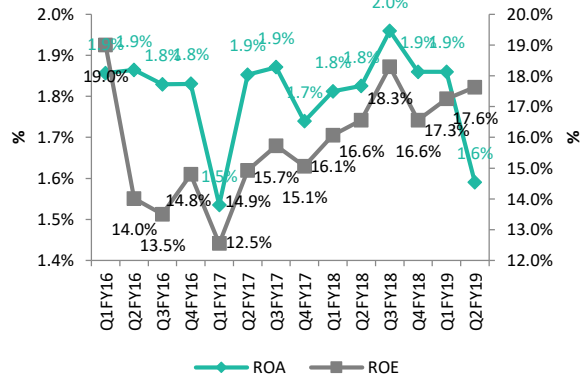
Interest Bearing Liabilities



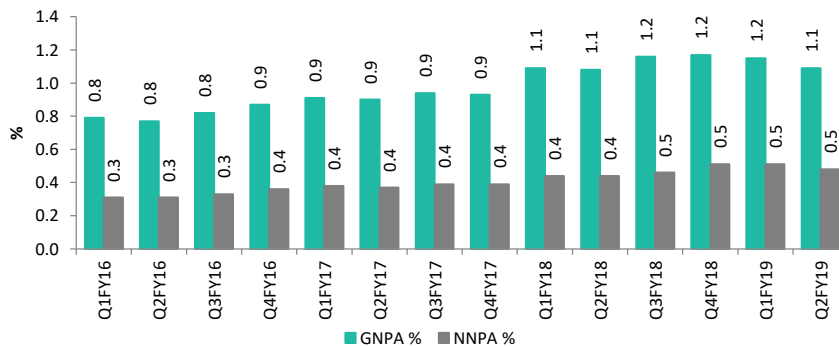
Interest Earning Assets



Return Ratios



Asset Quality



Source: Company, NSPL Research

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Concall highlights

- Company made provisions (namely accounting) of 275cr on exposure of IL&FS group. Account is still classified as 'standard'.
- Client count (current account + savings account) increased by ~1million to ~13million as of today.
- Branch count increased by 56 in current quarter to 1466.
- NIM came at 3.84% (drop of 8bps QoQ) largely on account of 20bps increase in cost of funds while yield on assets rose by 12bps to 9.48%.
- There are two accounts pertaining to IL&FS group exposure. One account of SPV associated with tunnel project (near completion) and tolling project. Second account to holding company.
- Bank has received interested buyers for above accounts.
- Bank has done review of exposure in NBFCs, prepared report and submitted to board. During the process, bank has halted lending to NBFC space. Board found all associated NBFCs to be of strong health with regard to liquidity issues.
- Exposure to real estate increased to 4.06% (higher side). Bank comments that exposure is more opportunistic, and granular in nature. Also bank expects sell down and guides to bring exposure to acceptable levels of 2-3%.
- On acquisition of IL&FS securities: although IL&FS Sec has ICDS, post acquisition, bank's exposure to IL&FS group as a whole would not change (increase).
- Average blended yield on vehicle finance book is ~14%.
- Merger with BFI in last stages. Very soon, shareholder meeting is expected to be held for approval of merger. Consolidated numbers would be presented from Jan 1, 2018.
- Strategy post merger: bank is looking to repay all outstanding borrowing of BFI. BFI would act as 100% wholly owned subsidiary of IndusInd Bank. Also, bank expects to continue BC model.



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	11,872	14,406	17,281	22,080	28,138
Interest expended	7,355	8,343	9,783	12,951	17,097
Net interest income	4,517	6,063	7,497	9,129	11,041
Non-interest income	3,297	4,171	4,750	6,170	7,827
Total income	7,814	10,234	12,248	15,299	18,869
Operating expenses	3,672	4,783	5,591	6,808	8,302
Pre-provisioning profit	4,141	5,451	6,656	8,491	10,566
Provisions	672.16	1,091	1,175	1,289	1,533
Profit before tax (PBT)	3,469	4,360	5,481	7,202	9,033
Tax expense	1,183	1,492	1,875	2,449	3,071
Adjusted PAT	2,286	2,868	3,606	4,753	5,962
Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	595	598	600	601	601
Reserves & Surplus	17087	20033	23227	27262	32323
Shareholder's Fund	17682	20631	23827	27862	32923
Deposits	93000	126572	151639	199316	253131
Borrowings	24996	22454	38289	40824	51846
Other Liabilities	7205	8976	7856	4837	8609
Cash & Balances with RBI	10112	18628	13216	16916	21484
Investments	34054	36702	50077	64098	81405
Advances	88419	113081	144954	185541	235637
Fixed Assets	1255	1335	1339	6299	7999
Other Assets	9056	8902	12041		
Total Assets	142897	178648	221626	272854	346525
RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	28.5%	27.9%	28.2%	28.0%	27.0%
Deposits (%)	25.4%	36.1%	19.8%	31.4%	27.0%
Total assets (%)	31.0%	25.0%	24.1%	23.1%	27.0%
NII (%)	32.1%	34.2%	23.7%	21.8%	20.9%
Pre-provisioning profit (%)	33.7%	31.6%	22.1%	27.6%	24.4%
PAT (%)	27.5%	25.4%	25.7%	31.8%	25.4%
Balance sheet ratios					
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)	6.7	7.2	8.0	8.6	9.3
Operating efficiency					
Cost/income (%)	47.0%	46.7%	45.7%	44.5%	44.0%
Opex/total assets (%)	2.9%	3.0%	2.8%	2.8%	2.7%
Opex/total interest earning assets (%)	2.8%	2.8%	2.7%	2.6%	2.5%
Profitability					
NIM (%)	3.8%	4.0%	4.0%	3.8%	3.6%
RoA (%)	1.8%	1.8%	1.8%	1.9%	1.9%
RoE (%)	14.7%	15.4%	16.8%	18.8%	20.3%
Asset quality					
Gross NPA (%)	0.9%	0.9%	1.0%	1.0%	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%
Per share data / Valuation					
EPS (Rs.)	38.4	47.9	60.1	79.2	99.3
BV (Rs.)	297.2	344.9	397.0	464.2	548.5
ABV (Rs.)	291.8	337.6	384.5	449.2	532.2
P/BV (x)	3.7	4.3	4.4	3.5	3.0
P/ABV (x)	3.8	4.4	4.6	3.6	3.1

Source: Company, NSPL Research

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IndusInd Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 16, 2018	1627	1916	Strong Buy	Buy	5% - 15%
July 12 2018	1914	2015	Buy	Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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