

# IndusInd Bank – Not Rated

## Steady performance excluding IL&FS impact

### Solid operating performance excluding the IL&FS impact

Excluding the hit of interest derecognition (Rs1.5bn) and accelerated provisioning (Rs11.2bn) coming from the downgrade of entire IL&FS exposure (Rs30bn) to sub-standard category, IndusInd Bank's core PPOP and earnings registered a strong growth of 24-25% yoy in Q4 FY19. It was enabled by sturdy loan book growth of 29% yoy which was pervasive in nature; corporate loans grew 20% yoy, vehicle portfolio grew 25% yoy and other retail products clocked 30% yoy growth. Within vehicle finance, except for CV loans, IndusInd Bank experienced a mild growth acceleration in all other products despite weak OEM sales. Growth in LAP (now the second largest retail product) has picked-up in recent quarters as risk-adjusted pricing is improving due to moderation in competition. There was a large sequential jump in MFI portfolio as the bank raised funding to Bharat Fin in anticipation of merger consummation.

Underpinned by a strong emphasis on granular deposit mobilization, overall deposits grew 11% qoq and 28.5% yoy. Retail TD mobilization has been Rs50-60bn in recent quarters. After a hiatus, IndusInd Bank's deposit growth matched its loan growth. CASA being sustained around 43% is commendable considering the robust accretion of retail deposits. NIM improved marginally on qoq basis, adjusted for interest derecognition. Both the cost of deposits (higher cost of retail TDs) and yield on advances (mix shift away from corporate loans) inched-up qoq. Acceleration in core fee growth to 27% yoy came as a pleasant surprise. Management reinforced that a dominant portion of fees is granular and sustainable in nature; about 50%+ being unrelated to balance sheet growth. Excluding the slippage of IL&FS exposure, the delinquency ratio and credit cost in the quarter were benign, and NPL ratios would improve qoq.

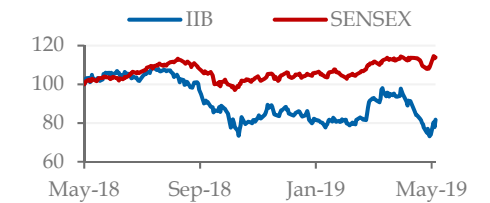
**CMP (Rs) 1,518**

**Stock data** (As on May 22, 2019)

**Sector: Financials**

Sensex:	39110
52 Week h/l (Rs)	2038/1334
Market cap (Rs bn)	915
Enterprise value (Rs bn)	-
6m Avg t/o (Rs mn):	4,000
FV (Rs):	10
Div yield (%):	-
Bloomberg code:	IIB IN
BSE code:	532187
NSE code:	INDUSIND

### Stock performance



### Shareholding pattern (As of Mar'19 end)

Promoter	16.8%
FII+DII	63.2%
Others	20.0%

### Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
Operating Income	59,915	57,635	4.0	46,501	28.8
Interest Expended	(37,591)	(34,754)	8.2	(26,425)	42.3
<b>Net Interest Income</b>	22,324	22,881	(2.4)	20,076	11.2
Other income	15,590	14,689	6.1	12,085	29.0
<b>Total Income</b>	37,914	37,569	0.9	32,161	17.9
Operating expenses	(17,236)	(16,400)	5.1	(14,467)	19.1
Provisions	(15,607)	(6,067)	157.3	(3,356)	365.1
<b>PBT</b>	5,071	15,103	(66.4)	14,338	(64.6)
Tax	(1,469)	(5,253)	(72.0)	(4,808)	(69.4)
<b>PAT</b>	3,602	9,850	(63.4)	9,531	(62.2)

Source: Company, YES Sec – Research

May 23, 2019

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## Exhibit 2: Business Data

(Rs mn)	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
<b>Advances</b>	<b>1,863,935</b>	<b>1,731,690</b>	<b>7.6</b>	<b>1,449,540</b>	<b>28.6</b>
Consumer Finance	726,835	680,330	6.8	572,390	27.0
% share	39.0	39.3	-	39.5	-
Corp. & Comm.	1,137,100	1,051,360	8.2	877,150	29.6
% share	61.0	60.7	-	60.5	-
<b>Deposits</b>	<b>1,948,679</b>	<b>1,757,010</b>	<b>10.9</b>	<b>1,516,390</b>	<b>28.5</b>
Current	295,840	265,260	11.5	208,410	42.0
Savings	544,860	500,230	8.9	458,880	18.7
Others	1,107,979	991,520	11.7	849,100	30.5
<b>Investments</b>	<b>592,662</b>	<b>536,810</b>	<b>10.4</b>	<b>500,767</b>	<b>18.4</b>
<b>Borrowings</b>	<b>473,211</b>	<b>445,360</b>	<b>6.3</b>	<b>382,891</b>	<b>23.6</b>

Source: Company, YES Sec - Research

## Exhibit 3: Key Ratios

Particulars	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
NIM (%)	3.6	3.8	(0.2)	4.0	(0.4)
Yield on Advances (%)	11.3	11.5	(0.3)	11.1	0.2
Cost of Deposits (%)	6.8	6.7	0.1	6.0	0.8
CASA (%)	43.1	43.6	(0.5)	44.0	(0.9)
C/D (x)	95.7	98.6	(2.91)	95.6	0.06
Cost to Income (%)	45.5	43.7	1.8	45.0	0.5
Prov./Avg. Adv. (%)	3.5	1.4	2.03	1.0	2.49
RoE (%)	5.5	15.4	(10.0)	16.6	(11.1)
RoA (%)	0.6	1.6	(1.1)	1.9	(1.3)
CAR (%)	14.2	14.2	(0.0)	15.0	(0.9)
Gross NPA (%)	2.1	1.1	1.0	1.2	0.9
Net NPA (%)	1.2	0.6	0.6	0.5	0.7

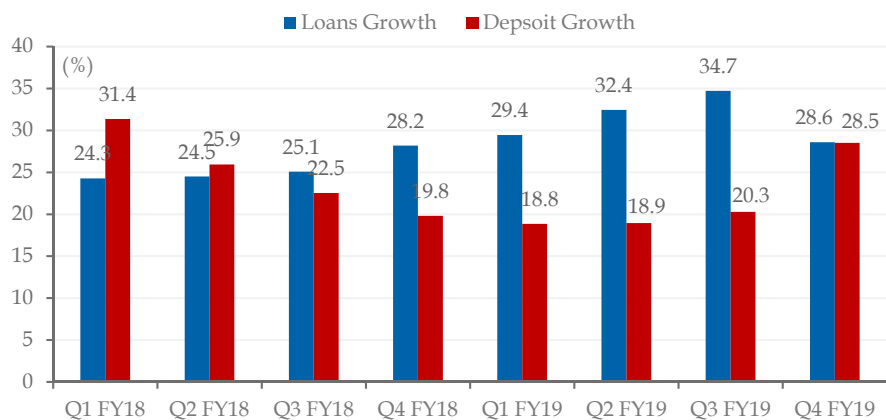
Source: Company, YES Sec - Research

## Reassuring guidance on key vectors for FY20; stock has underperformed in recent months

Management expects the bank to revert to trend profitability in FY20. With regards to IL&FS exposure, the bank has made 70% provision on the holdco exposure of Rs20bn and 25% provision on Rs10bn exposure to operating SPVs. On cumulative basis, the bank does not foresee any requirement of additional provisioning for IL&FS in FY20. IndusInd Bank disclosed an exposure (funded and non-funded) equivalent to 1.9% of loan portfolio to potentially stressed companies (including those rumored to be in trouble). All these accounts are standard and not even appearing in SMA 1 & 2 buckets. The bank has more than 140% security cover which includes 58% in the form of marketable securities. The management expects credit cost to be within 60bps in the current year (average 50-55 bps during FY15-18). Loan growth is expected to be sustained above 25% and margin will likely normalize back to 3.8-3.9%. Calibrated branch expansion and swift digitalization progress is estimated to drive a cost growth that would be much lower than the revenue growth.

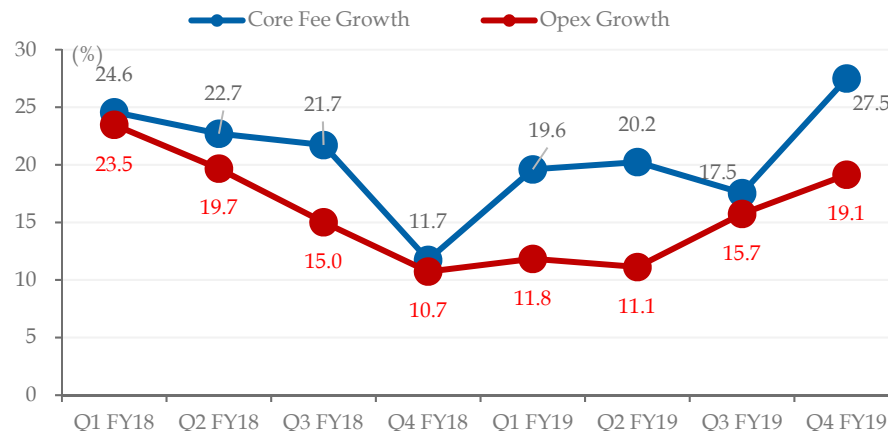
Despite factoring a much higher than guided credit cost (driven by a combination of risks playing out and the need for augmenting PCR), we believe IndusInd Bank can still deliver a significant RoA improvement in FY20. FY21 will be even better as credit cost should normalize. There is a credible possibility of the bank returning to 1.8% RoA in the next two years. After having witnessed a steep price correction, the stock trades at 2.7x P/ABV and 13x P/E on our FY21 estimates.

### Exhibit 4: Deposits growth catches-up with loan growth



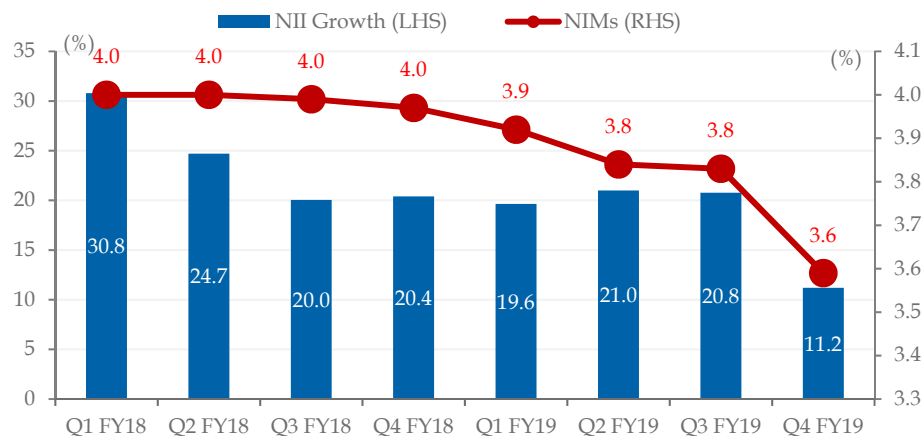
Source: Company, YES Sec - Research

### Exhibit 6: Sharp improvement in core fee growth



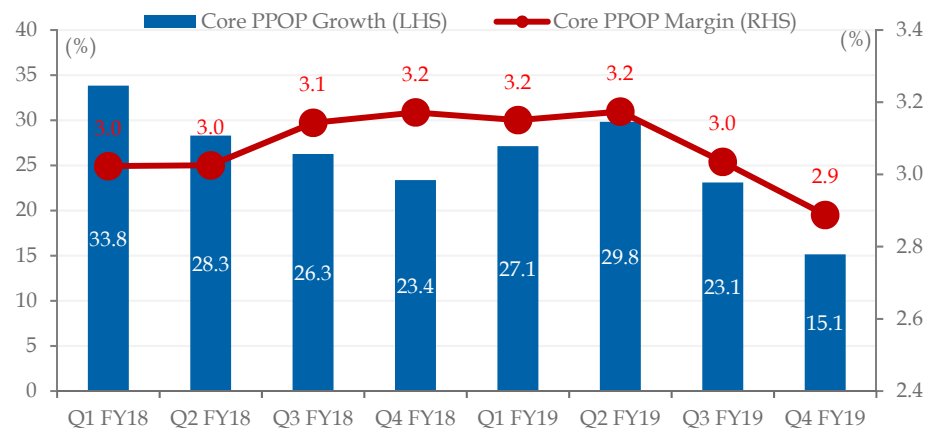
Source: Company, YES Sec - Research

### Exhibit 5: NII impacted by interest reversal on IL&FS



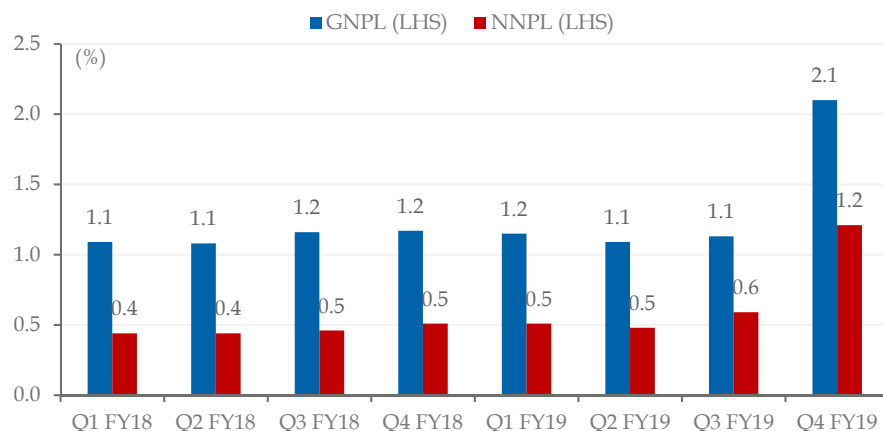
Source: Company, YES Sec - Research

### Exhibit 7: Suppressed NIM had an impact on core PPOP



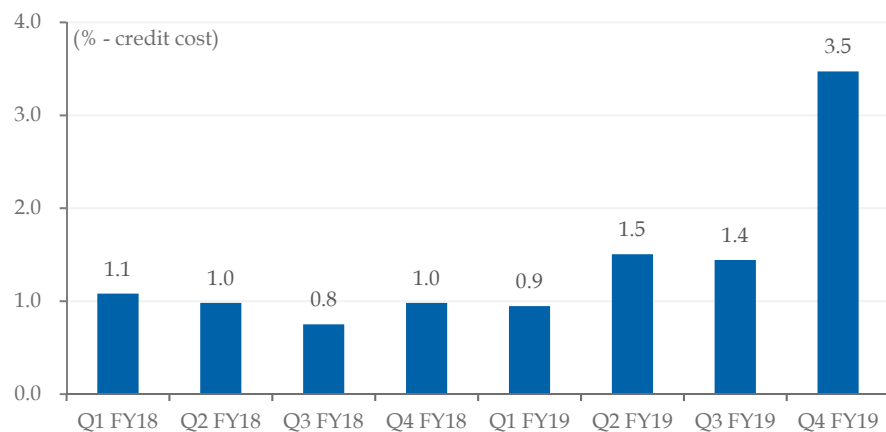
Source: Company, YES Sec - Research

**Exhibit 8: Recognition of entire IL&FS exposure as NPL**



Source: Company, YES Sec - Research

**Exhibit 9: Substantially higher provisions taken on IL&FS**



Source: Company, YES Sec - Research

**Exhibit 10: Valuation Summary (Standalone Bank)**

Y/e 31 Mar (Rs. mn)	FY18	FY19	FY20E	FY21E
Total income	122,476	145,928	182,750	227,979
yoy growth (%)	19.7	19.1	25.2	24.7
Operating profit (pre-provisions)	66,561	81,881	104,613	132,651
Net profit	36,060	34,009	50,625	70,910
yoy growth (%)	25.7	(5.7)	48.9	40.1
EPS (Rs)	60.1	56.4	84.0	117.6
Adj.BVPS (Rs)	384.9	405.3	475.6	572.2
P/E (x)	25.3	26.9	18.1	12.9
P/Adj.BV (x)	3.9	3.7	3.2	2.7
ROE (%)	16.2	13.5	17.6	20.9
ROA (%)	1.8	1.4	1.6	1.8
CAR (%)	15.0	14.2	12.9	12.2

Source: Company, YES Sec - Research

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**BUY > 15%**

**ADD 5% to 15%**

**HOLD -15% to +5%**

**SELL > - 15%**

**NOT RATED**

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**NEGATIVE:** Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

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