

INDUSIND BANK

Growth moderates; few accounts portend challenges

India Equity Research | Banking and Financial Services

IndusInd Bank's (IIB) Q2FY20 was characterised by growth moderation and higher slippages outside the stressed pool. On the positive side, coverage rose 7ppt QoQ (utilising tax gains) and NIM improved a tad. Key highlights: a) Bharat Finance's (BhaFin) integration boosted Q2FY20 profitability metrics; b) headline asset quality was steady, albeit rise in SMA1/2 accounts to 96bps (35bps in Q1FY20), technical slippages (in corporate & MFI segment) and >3% of sub-investment grade exposure continued to cast a shadow on asset quality; c) business momentum was soft with growth being much lower than historical trend (sub 15%) following run-down of corporate loans even as vehicle finance held up (despite underlying slowdown); and d) better NIM (falling rate plus fixed rate book helping) and steady core fee bolstered core profitability. Earnings benefit from lower tax gets offset via lower revenue traction. Also, key risks having bearing on near-term valuations include exposure to a few stressed sectors (NBFCs, HFCs, telecom) and management transition. Hence, we revise down target multiple to 2.7x (3.1x P/BV earlier) leading to revised TP of INR1,793 (earlier INR2,060). Maintain 'BUY'.

Loan growth moderates given run-down in corporate book

IIB's Q2FY20 was characterised by much lower growth (sub-15%) following sell down and repayments in corporate book and soft growth in BhaFin (impact of floods, which management expects to normalise). Meanwhile, vehicle segment grew 20% despite underlying sales slowdown, indicating market share gains. Also, deposits jumped an impressive 23% YoY with >50% uptick in retail TD.

Asset quality reasonably steady; few accounts portend challenges

Asset quality clocked a mixed performance. Key positives: a) coverage rose 7ppt to 50% leading to NNPL falling to 1.12%; and b) stress pool fell to 1.1% (1.7% in Q1FY20) given repayments. Meanwhile: a) elevated corporate slippages (ex-stress accounts); b) rise in SMA1/2 accounts to 96bps (35bps in Q1FY20); and c) >3% of exposure to sub-investment, are concerning. Hence, we continue to factor >1% credit cost for FY20/21.

Outlook and valuation: Going steady; maintain 'BUY'

IIB continues to deliver reasonable and sustainable earnings growth (better mix) and strengthen its liability franchise. Despite concerns on exposure to stressed groups, we believe earnings accretion from the merger (yet to crystallise), superior growth and improved revenue traction will drive earnings. We maintain 'BUY/SO'.

Financials

(INR mn)

Year to March	Q2FY20	Q2FY19	Growth %	Q1FY20	Growth %	FY19	FY20E	FY21E
Net revenue	46,362	35,206	31.7	45,072	2.9	1,44,929	1,97,519	2,39,071
Net profit	13,834	9,203	50.3	14,325	(3.4)	33,011	65,098	85,239
Dil. EPS (INR)						54.8	93.5	120.4
Adj. BV (INR)						416.7	505.3	628.4
Price/ Adj book (x)						2.9	2.4	2.0
Price/ Earnings (x)						22.4	13.1	10.2

*All numbers except Q2FY19 and FY19 are consolidated numbers and not comparable with the rest

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 Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: INBK.BO, B: IIB IN)

CMP	: INR 1,228
Target Price	: INR 1,793
52-week range (INR)	: 1,835 / 1,188
Share in issue (mn)	: 693.0
M cap (INR bn/USD mn)	: 851 / 11,979
Avg. Daily Vol.BSE/NSE('000)	: 3,740.9

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	13.0	15.0	15.0
MF's, FI's & BK's	15.6	9.7	8.7
FII's	47.2	46.0	47.8
Others	24.2	29.3	28.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(6.4)	2.6	3.6
3 months	(14.5)	(5.0)	(8.6)
12 months	(23.2)	2.8	13.4

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Other key highlights

Asset quality

- Management highlighted that overall exposure (funded and non-funded) to three groups (in media / diversified / housing finance) has dipped to 1.1% (following repayments) and expects this to fall further to 0.8% over the next few days through further repayments.
- Over and above that, management highlighted exposure to HFC-RE Developer Group, 0.27% exposure to financing business and 0.45% exposure to real estate business (which management expects to dip to 0.2% during the quarter).
- Management highlighted that IIB's CRE exposure comprises 3.8% of real estate developer loans (diversified across 71 projects with average ticket size of INR1.08bn) and 3.8% of LRD (diversified across 122 projects with average ticket size of INR610mn).
- SMA-1/SMA-2 pool has risen to 0.38%/0.58% cumulating 96bps (35bps in Q1FY20). That said, there is an overlap of 15-20bps between stress pool of 1.1% and SMA-2 accounts.
- MFI book has seen some rise in GNPLs during the quarter largely due to slower recovery in few states following floods. The management highlighted that situation has already normalized with collection efficiencies reaching to > 98% levels

Growth momentum

- IIB sustained strong deposit growth (23% YoY) supported by strong retail-TD (>50% YoY). Meanwhile, SA balances grew 14% YoY (below trend as well as targeted >20% growth). This was on account of some repayment at the fag end of the quarter and management expects this to pick up henceforward.
- Core profitability was supported by better NIM at 4.1% (up 5bps QoQ, benefitting from fixed rate book and funding cost benefit) and steady core fee traction (up 3% QoQ supported by better remittances and forex fees).

Table 1: Key takeaways from Q2FY20 earnings

(INR mn)	Q2FY20	Q2FY19	Growth (%)	Q1FY20	Growth (%)	Comments
Net interest income	29,095	22,033	32.1	28,440	2.3	Revenue momentum supported by better NIMs while loan growth momentum was slower than estimate
Other income	17,267	13,173	31.1	16,633	3.8	
Operating expenses	20,363	15,281	33.3	19,163	6.3	
Staff expense	5,155	4,582	12.5	6,472	(20.4)	
Other opex	15,208	10,699	42.1	12,691	19.8	
Pre prov Op profit (PPP)	25,999	19,925	30.5	25,910	0.3	
Provisions	7,377	5,903	25.0	4,306	71.3	Accelerated provisions in a bid to raise coverage (up 7ppt QoQ) kept credit cost higher
Profit before tax	18,622	14,022	32.8	21,603	(13.8)	
Provision for tax	4,789	4,819	(0.6)	7,278	(34.2)	
Profit after tax	13,834	9,203	50.3	14,325	(3.4)	
EPS (INR)	20.1	15.2	32.8	20.6	(2.1)	
Balance sheet (INR bn)						
Advances	1,971	1,631	20.8	1,935	1.9	Growth came below trend following lower corporate growth (following repayment and sell downs during the quarter)
Deposits	2,072	1,682	23.2	2,006	3.3	Deposit maintain momentum, sustainability holds key
CD Ratio (%)	95.1	97.0		96.5		
Asset quality						
Gross NPA	43,702	17,814	145.3	41,997	4.1	Slippages came in higher at >INR11bn, with corporate slippages being higher despite no slippage in stress accounts- a key monitorable
Net NPA	22,026	7,876	179.7	23,805	(7.5)	
Gross NPA (%)	2.2	1.1		2.2		
Net NPA (%)	1.1	0.5		1.2		
Provision coverage (%)	49.6	55.8		43.3		

Source: Company, Edelweiss research

*Note: Q2/Q1FY20 are consolidated numbers and not comparable with others

Table 2: Loan growth softens, buildup in deposit base encouraging

(INR mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Advances	1,164,070	1,231,808	1,285,400	1,449,537	1,506,750	1,631,443	1,731,690	1,863,935	1,935,200	1,971,126
YoY (%)	24.3	24.5	25.1	28.2	29.4	32.4	34.7	28.6	28.4	20.8
QoQ (%)	2.9	5.8	4.4	12.8	3.9	8.3	6.1	7.6	3.8	3.8
Deposits	1,336,730	1,414,406	1,460,860	1,516,392	1,588,620	1,682,193	1,757,010	1,948,680	2,005,860	2,071,934
YoY (%)	31.4	25.9	22.5	19.8	18.8	18.9	20.3	28.5	26.3	23.2
QoQ (%)	5.6	5.8	3.3	3.8	4.8	5.9	4.4	10.9	2.9	3.3
CD ratio (%)	87.1	87.1	88.0	95.6	94.8	97.0	98.6	95.7	96.5	95.1
CASA (%)	37.8	42.0	43.0	44.0	43.4	43.6	43.6	43.1	43.1	41.5

Source: Company

*Note: Q2/Q1FY20 are consolidated numbers and not comparable with others

Table 3: Loan book composition: Market share gains helping growth in vehicle finance book

(%)	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220
Commercial vehicles	15.2	15.1	15.9	15.6	15.6	15.4	15.4	15.0	14.8	14.8
Utility vehicles	2.1	2.0	2.1	2.0	2.0	2.0	2.0	1.9	2.0	2.0
Cars	4.1	4.1	4.1	3.7	3.7	3.6	3.6	3.5	3.5	3.6
Small CV	4.8	4.6	4.6	4.2	4.3	4.1	4.2	4.1	4.1	4.2
Equipments	3.8	3.7	3.9	3.8	4.0	3.9	4.0	4.1	4.1	4.1
Others (home and personal)	10.5	10.5	10.7	10.2	10.4	10.1	10.1	10.4	15.8	16.3
Loan to large corporates	28.4	29.3	28.5	30.6	29.8	30.3	29.4	28.0	25.9	24.5
Loan to mid corporates	19.5	19.1	18.7	17.7	17.6	18.4	18.7	17.9	18.2	18.9
Loan to small businesses	11.7	11.4	11.5	12.3	12.6	12.2	12.7	15.1	2.2	2.1
Microfinance									9.4	9.6

Chart 1: Proportion of BBB & below-rated corporates at sub 10% levels

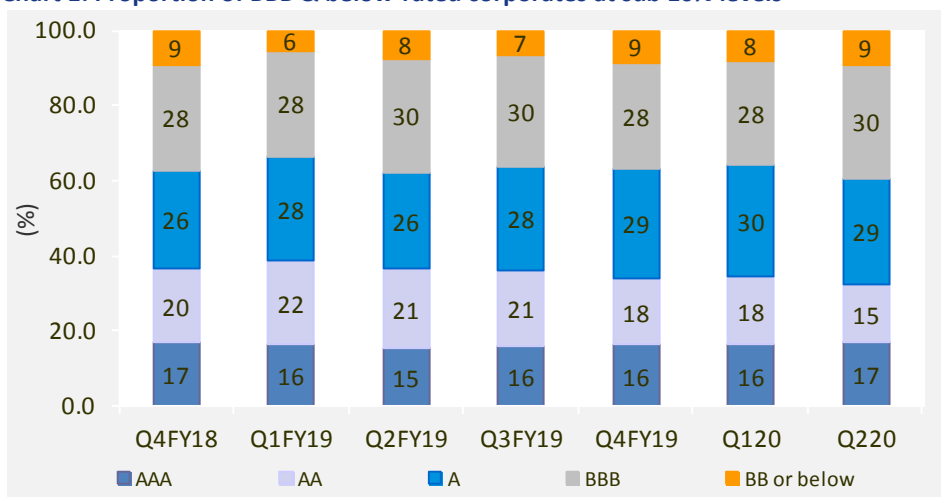


Table 4: CASA growth softer, management expects momentum to build up in ensuing quarters

(%)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q120	Q220
CA	14.2	13.9	13.9	13.7	13.4	13.2	15.1	15.2	14.3	13.4
SA	23.6	28.4	28.9	30.3	30.0	30.4	28.5	28.0	28.7	28.0

Table 5: Headline asset quality broadly stable, but corporate slippages were higher outside of stress pool- key monitorable

(%)	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220
Opening gross NPA	0.9	1.1	1.1	1.2	1.2	1.2	1.1	1.1	2.1	2.2
CCB	0.8	0.9	1.1	1.0	1.2	1.1	1.0	1.1	3.2	3.2
CFD	1.1	1.2	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.2
Additions	0.5	0.4	0.3	0.6	0.3	0.3	0.5	2.0	0.4	0.6
CCB	0.5	0.4	0.2	0.6	0.2	0.1	0.4	2.8	0.2	0.5
CFD	0.5	0.4	0.5	0.6	0.4	0.5	0.5	0.6	0.5	0.6
Deductions	0.3	0.3	0.2	0.5	0.3	0.2	0.4	0.9	0.2	0.5
CCB	0.3	0.2	0.1	0.5	0.2	0.1	0.3	1.2	0.1	0.5
CFD	0.4	0.6	0.4	0.4	0.5	0.4	0.4	0.5	0.3	0.4
Closing gross NPA	1.1	1.1	1.2	1.2	1.2	1.1	1.1	2.1	2.2	2.2
CCB	1.0	1.1	1.2	1.2	1.2	1.1	1.1	2.7	3.2	3.3
CFD	1.3	1.1	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.3

Source: Company

Table 6: GNPA's rise marginally in MFI segment

(%)	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220
CV	1.0	0.9	1.0	0.9	0.9	1.1	1.2	1.3	1.4
Utility	1.4	1.3	1.3	1.4	1.3	1.3	1.3	1.2	1.2
Const equip	1.0	1.1	1.1	0.9	0.7	0.8	0.7	0.8	1.0
Small CV	1.1	1.2	1.3	1.1	1.3	1.3	1.4	1.4	1.7
2W	3.6	3.8	3.8	3.7	3.9	3.6	3.8	3.6	3.2
Cars	0.7	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.7
HL/PL/Others	0.4	0.6	0.6	0.4	0.6	0.4	0.4	1.0	1.0
Cards	1.5	1.7	1.6	1.8	1.8	1.5	1.9	2.2	2.4
Tractor	1.1	1.2	1.3	1.2	1.7	1.9	1.8	1.5	1.6
MFI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.9
BBG	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

Table 7: Exposure to three stressed accounts coming down further

% of loans	Q4FY19	Q1FY20	Q2FY20
Media group	0.4	0.4	0.3
Diversified group	1.0	1.0	0.5
HFC	0.4	0.3	0.3
Total	1.8	1.7	1.1

Table 8: Proportion of lending to corporate segments and respective SMA-2 accounts

	as a % of loan book	SMA-2 (INR mn)
Real estate	3.8	280
Lease rental	3.8	480
Gems and Jewellery	3.7	
NBFCs (other than HFCs)	3.7	2,570
Power generation	2.9	
Steel	2.5	
Services	2.0	160
HFCs	1.5	
Telecom-Cellular	1.3	
Other Industry	20.4	7,940
Corporate banking		10,820
Consumer banking		610
Total		11,430

Table 9: NIMs improved marginally, sustenance key

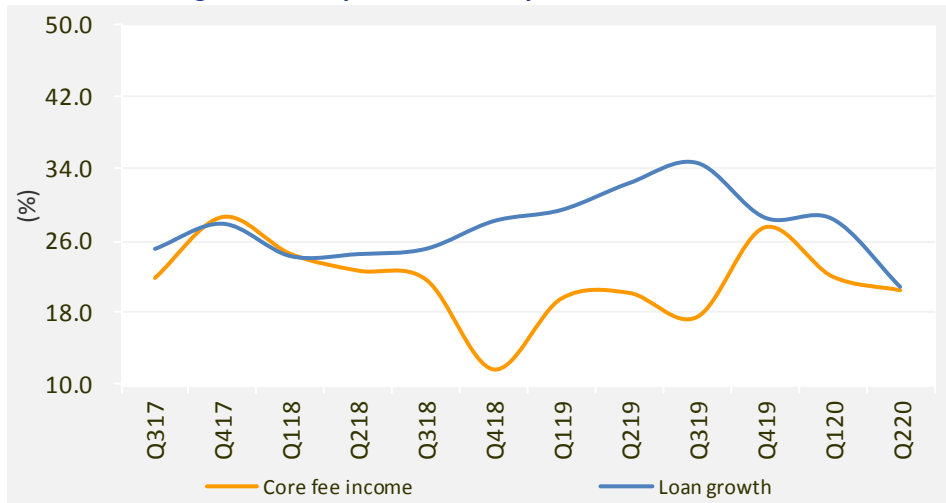
(%)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Yield on Advances	11.5	11.3	11.0	11.1	11.2	11.4	11.5	11.3	12.0	12.0
Cost of deposits	6.2	5.9	5.9	6.0	6.2	6.5	6.7	6.8	6.8	6.7
NIMs	4.0	4.0	4.0	4.0	3.9	3.8	3.8	3.6	4.1	4.1

Table 10: Core fee income showed sustained traction

(INR mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Trade Fees (LC, BG, Remittances)	1,820	1,510	20.5	1,640	11.0
Processing Fees & other charges	3,600	2,600	38.5	3,380	6.5
FX – Client	2,770	2,230	24.2	2,500	10.8
TPP (Insurance ,MF ,etc)	3,220	2,800	15.0	3,020	6.6
Investment Banking Income	2,010	2,130	(5.6)	2,350	(14.5)
Gen. Bkg. / Other Income	900	910	(1.1)	900	0.0

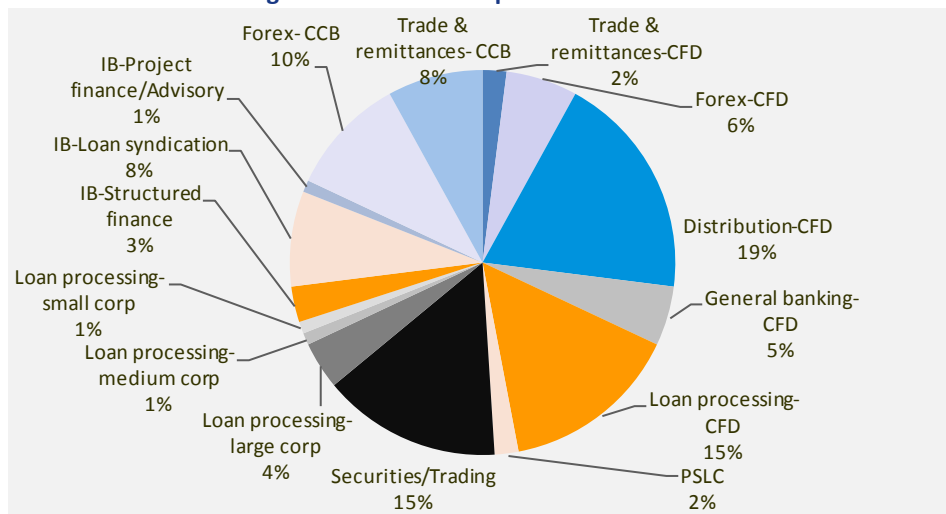
Source: Company

Chart 2: Core fee growth steady, sustenance key



Source: Company

Chart 3: Diversified and granular fee income profile



Source: Company

*Note: For all charts/tables Q2/Q1FY20 are consolidated numbers and not comparable with others

Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Interest income	71,504	54,381	31.5	69,614	2.7	141,117	293,953	349,907
Interest exp	42,408	32,348	31.1	41,174	3.0	83,582	171,136	199,174
Net int. inc. (INR mn)	29,095	22,033	32.1	28,440	2.3	57,535	122,816	150,733
Other income	17,267	13,173	31.1	16,633	3.8	33,899	74,702	88,338
Net revenues	46,362	35,206	31.7	45,072	2.9	91,434	197,519	239,071
Operating expenses	20,363	15,281	33.3	19,163	6.3	39,525	85,186	98,509
Staff costs	5,155	4,582	12.5	6,472	(20.4)	11,627	30,058	33,691
Other opex	15,208	10,699	42.1	12,691	19.8	27,899	55,129	64,817
Pre prov op profit(ppop)	25,999	19,925	30.5	25,910	0.3	51,909	112,332	140,562
Provisions	7,377	5,903	25.0	4,306	71.3	11,683	26,468	27,111
Profit before tax	18,622	14,022	32.8	21,603	(13.8)	40,226	85,864	113,451
Provision for taxes	4,789	4,819	(0.6)	7,278	(34.2)	12,067	20,766	28,213
PAT	13,834	9,203	50.3	14,325	(3.4)	28,159	65,098	85,239
Diluted EPS (INR)	20.1	15.2	32.8	20.6	(2.1)	40.7	93.5	120.6

Ratios

NII/GII (%)	40.7	40.5		40.9		40.8	41.8	43.1
Cost/income (%)	43.9	43.4		42.5		43.2	43.1	41.2
Tax rate (%)	25.7	34.4		33.7		30.0	24.2	24.9

Bal. sheet data (INRbn)

Advances	1,971	1,631	20.8	1,935	1.9	1,971	2,269	2,797
Deposits	2,072	1,682	23.2	2,006	3.3	2,072	2,325	2,787
CD Ratio	95.1	97.0		96.5		95.1	97.6	100.4
Prov. coverage (%)	49.6	55.8		43.3		49.6	54.6	60.1

Asset quality

Gross NPA	43,702	17,814	145.3	41,997	4.1	43,702	68,539	90,748
Gross NPA (%)	2.2	1.1		2.1		2.2	3.0	3.2
Net NPA	22,026	7,876	179.7	23,805	(7.5)	22,026	31,149	36,203
Net NPA (%)	1.1	0.5		1.2		1.1	1.4	1.3
Adj book value / share							505.3	628.4
Price/ Adj. book (x)							2.4	2.0
Price/ Earnings							13.1	10.2

Q2FY20 conference call takeaways

With respect to asset quality

- The management expects the fund and non fund based exposure to 3 stressed groups to come down to 0.8% in the next week to 15 days vs 1.1% as at Sept 2019 (3 stressed groups- Media, HFC1, Diversified group)
 - This reduction during this quarter in the stressed exposures has happened due to cash repayments and not due to slippages.
- Have done MTM provisioning on exposure to HFC1 (dewan housing) and there should not be any major write down
- Exposure to a stressed HFC2 (Indiabulls) has come down from 0.35% to 0.27% (as on date), and exposure to RE is 0.45% and is expected to reduce to 0.2% in this quarter. This exposure is fully collateralized and has no overdues
- The **overlap between SMA-1/2 and the three stressed accounts is 15-20bps** (One account is about to be resolved and excluding this, SMA -2 comes to 0.45%)
- **Sub investment grade book is broadly steady QoQ at 3.1%**
- Corporate slippages includes technical slippages of INR1.42bn (it was due to IRAC norms as a few accounts' credit renewal got delayed). **On the net basis the additions to corporate NPAs is mere INR1.75bn**
- The bank highlighted that they Have moved to daily basis based recognition of NPA except for the vehicle book
- MFI book has seen some rise in GNPLs during the quarter largely due to slower recovery in few states following floods. The management highlighted that situation has already normalized with collection efficiencies reaching to > 98% levels.

With respect to growth metrics:

- **Indusind bank's credit growth on a standalone basis comes to 14% YoY. This was largely pertaining to lower corporate book growth (following run-down, repayments and sell-downs during the quarter)**
- **Credit growth on an overall basis came at 21%, breakup is :**
 - Vehicle finance by 21% YoY growth, Non Vehicle finance retail growth of 18%, and MFI growth of 32%
 - Corporate book on an average basis grew by 14%, but on terminal figures it grew by 7% (due to higher repayments)
- SA balances grew by 14% YoY (albeit below trend and targeted levels of >20% growth, this was following some re-payment at fag end of the quarter, management expects this to pick up henceforth). Retail TD has grown by 51% YoY (on LCR basis)
- Slower growth in Bhafin operations due to floods in Orissa, Maha, Bihar and parts of MP

With respect to operating performance:

- **NIM expansion of 5bps (up from 4.05% to 4.1% QoQ) is attributable entirely to IndusInd bank (standalone).** This is due to reduction in cost of deposits and having a fixed rate book
- Actual profit would have been of a PAT of INR16.67bn due to tax benefit, however have chosen to go for accelerated provisioning of INR3.55bn and taken the PCR to 50% from 43% QoQ
- **Have had tax benefit (net of MTM on DTA) of INR1.86bn in this quarter**
- USD450mn of borrowings prepaid in the quarter and the benefit of reduced costs should show up going ahead
- Targeting margins > 4.25%
- Floating provisions of INR700mn

Other highlights:

- Bids of IL&FS should be allotted by Q4FY20, one strategic asset to which the bank has exposure should get a good demand
- **ICAs have been signed for 0.18% of the loan book**

Q1FY20 conference call takeaways

With respect to asset quality

- SMA-2 at 17bps, SMA-1 at 18bps (spread across 45-48 accounts so no concentration risk) – showing definitive improvement.
- Net credit cost of 15bps (aims to keep it in 60-65bps for FY20)
- With respect to stressed group exposure
 - **Bank's funded and non-funded exposure to groups speculated to be stressed is 1.67% of the loan book.**
 - **Consolidated security cover of 147% for the exposures held, of which marketable security in the form of listed shares covers 61% of the total exposure** as on date.
- Slippages came in at INR7.25bn and re-structured book is 8bps
- With respect to IL&FS the bank don't expect to make any additional provisions. The bids will be open for SPV, which according to bank will be sufficient to have further upside to bank in terms of provisions.

With respect to balance sheet growth

- **Growth in Vehicle finance book has been encouraging as bank has been gaining market share – CV growth of 20%, UV growth of 27%. On YoY basis the bank on the consolidated basis (including Bhafin) aims to continue 25% plus growth levels.**
 - The bank expects similar sort of trend in vehicle finance till next quarter, and expects momentum to gain traction
- The bank has been cautious on LAP segment over last few quarter as risk reward at this point in time is stretched
- **Drive to go about retail TD gained traction – reflected in 42% YoY growth, (INR56bn of absolute accretion)**
- Seeing the transition of MCLR, NIMs transition happening in lower rate but Fixed rate book will provide cushion to margins. Promoter money has come in for the bank which will provide further cushion to margins.
 - NIMs on the standalone basis has gone up marginally, benefitting from generally softening of the lower funding cost.

Commentary with respect to banking Industry

- System deposit growth has been stable, but credit growth has softened (tighter credit environment in general).
- Overall the market was liquidity deficit for long time but now has turned positive , and thus have seen sharp drop In June in cost of deposits . CD rates in 1-2 years band is coming 50bps lower than in month of April and May.

With respect to Bhafin performance

- 26% AUM growth in BhaFin (QoQ growth has been flat) – have slowed down in couple of states cautiously (some overheating in WB and Odisha). **The credit screens has been**

tightened from INR80k indebtedness to INR60K and from 3 lender criteria to 2 lender criteria. Confidence of 35% growth in full year basis of this 20-25% growth in borrower base and 10-12% growth in value (transition in cycle)

- Customer acquisition is good – 8lk customer acquired in Q1 (despite seasonally weak quarter).
- By the end of FY20 all customer of BhaFin at 7.5mn will have saving accounts. Currently the bank is seeing the traction of 40-50K accounts opening per day for BhaFin customers.
 - The whole process is paperless and is taking 30sec – to – 1 min time. The scheme of recurring deposits is being launched and 50% of customers are opting for this small saving product. This make the management confident of strong growth in this segment.
 - With the analytics on the customer behavior (saving bank account and disbursement pattern), the management aims to choose customer for housing, 2W , education loans.
- Entire liability of BhaFin has been taken out, That said there is INR18.11bn of assigned asset sitting out which will come to bank book in next 6-9 months.
 - Last quarter there was INR40bn of BhaFin liability re-pricing which will be re-priced in coming quarters.

With respect to fee income

- Standalone fee growth at 23% on consol basis the growth was 28%
- 39% fee is corporate banking, 45% consumer banking & 16% trading related.
- Structured finance is only 6% of the fee pool.
- Large corporate processing fee is 5% which was 2% in FY19. The rise in Q1 is generally a seasonally phenomenon and this will normalize henceforth.

Other highlights

- Cost/income has fallen to 42% (down 200bps QoQ)
- On target to have branch network of 2000 by end of FY20

Company Description

IndusInd Bank commenced its operations in 1994 and had transformational management change in 2008. Since management change, the bank has successfully completed three phases of planning cycle and is currently undergoing fourth phase of planning cycle. The market has consistently rewarded IIB for its delivery on improvement in profitability metrics – ROA, ROE.

Currently bank caters to the needs of both consumer and corporate customers. It has a robust technology platform supporting multi-channel delivery capabilities. IndusInd Bank has 1,753 branches, and 2,662 ATMs spread across geographic locations of the country.

Investment Theme

The bank continues to deliver sustainable earnings growth (a better mix) and strengthen its liability franchise. In spite of concerns around stressed groups, we believe earnings accretion from the merger and superior growth and improved revenue traction post-consummation of the merger will drive earnings trajectory. Maintain **'BUY/SO'**.

Key Risks

The bank is seeing below trend growth in fee income profile, any sustenance of the same may have impact on its profitability.

The bank has merged with Bharat Financial Inclusion, how the synergies of the same play out will be a key monitorable.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Deposit growth	12.0	13.0	14.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	19.5	19.0	19.0
G-sec yield	6.5	7.0	7.1	7.1
Company				
Op. metric assumpt. (%)				
Yield on advances	10.6	11.0	11.7	11.7
Yield on investments	7.1	6.8	6.6	6.5
Yield on asset	9.2	9.5	10.0	10.1
Cost of funds	5.5	6.0	6.1	6.1
Net interest margins	4.0	3.8	4.2	4.3
Cost of deposits	5.8	6.1	6.1	6.1
Cost of borrowings	6.6	6.8	6.9	6.9
Spread	3.7	3.5	3.9	4.0
Balance sheet assumption (%)				
Credit growth	29.3	28.3	17.0	23.2
Deposit growth	19.8	28.5	19.3	19.9
SLR ratio	21.3	20.1	20.0	19.0
Low-cost deposits	44.0	43.1	43.8	44.4
Net NPA ratio	0.5	1.2	1.4	1.3
Net NPA / Equity	3.1	8.4	8.3	7.7
Capital adequacy	15.0	14.2	15.0	14.7
Incremental slippage	2.9	3.7	3.4	3.1
Provision coverage	56.3	43.0	54.6	60.1

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Interest income	172,808	222,612	293,953	349,907
Interest expended	97,833	134,150	171,136	199,174
Net interest income	74,975	88,462	122,816	150,733
Non interest income	47,501	56,467	74,702	88,338
- Fee & forex income	43,329	54,323	67,325	80,982
- Misc. income	454	1,005	3,864	4,342
- Investment profits	3,718	1,139	3,513	3,015
Net revenue	122,476	144,929	197,519	239,071
Operating expense	55,915	64,047	85,186	98,509
- Employee exp	17,807	18,535	30,058	33,691
- Other opex	38,108	45,512	55,129	64,817
Preprovision profit	66,561	80,882	112,332	140,562
Provisions	11,750	31,072	26,468	27,111
Loan loss provisions	10,541	27,186	26,468	27,111
Investment depreciation	1,209	1,735	0	0
Other provisions	-	2,152	0	0
Profit Before Tax	54,811	49,810	85,864	113,451
Less: Provision for Tax	18,751	16,799	20,766	28,213
Profit After Tax	36,060	33,011	65,098	85,239
Reported Profit	36,060	33,011	65,098	85,239
Adj. Diluted EPS (INR)	60.1	54.8	93.5	120.4
Dividend per share (DPS)	7.5	7.5	11.6	13.9
Dividend Payout Ratio(%)	14.5	15.9	12.4	11.6

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
NII growth	23.7	18.0	NA	22.7
Fees growth	13.6	25.4	NA	20.3
Opex growth	16.9	14.5	NA	15.6
PPOP growth	21.5	26.9	NA	26.4
PPP growth	22.1	21.5	NA	25.1
Provisions growth	7.7	164.4	NA	2.4
Adjusted Profit	25.7	(8.5)	NA	30.9

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Yield on advances	10.6	11.0	11.7	11.7
Yield on investments	7.1	6.8	6.6	6.5
Yield on assets	9.2	9.5	10.0	10.1
Cost of funds	5.5	6.0	6.1	6.1
Net interest margins	4.0	3.8	4.2	4.3
Cost of deposits	5.8	6.1	6.1	6.1
Cost of borrowings	6.6	6.8	6.9	6.9
Spread	3.7	3.5	3.9	4.0
Cost-income	45.7	44.2	43.1	41.2
Tax rate	34.2	33.7	24.2	24.9

Balance sheet				
(INR mn)				
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	6,002	6,027	6,962	7,080
Reserves & Surplus	232,414	260,833	366,654	463,204
Net worth	238,416	266,860	373,616	470,284
Sub bonds/pref cap	-	-	500	1,000
Deposits	1,516,392	1,948,679	2,325,192	2,787,159
Total Borrowings	382,891	473,211	552,734	611,655
Other liabilities	81,258	93,056	122,764	147,038
Total liabilities	2,218,957	2,781,807	3,374,806	4,017,136
Loans	1,449,537	1,863,935	2,269,078	2,797,378
Cash and Equivalents	132,159	147,834	166,826	195,669
Gilts	403,660	486,448	605,755	631,972
Others	97,107	106,214	127,200	152,382
Fixed assets	13,388	17,100	16,408	15,374
Other Assets	123,107	160,276	189,539	224,361
Total assets	2,218,957	2,781,807	3,374,806	4,017,136
BVPS (INR)	397.2	442.8	536.6	664.2
Credit growth	29.3	28.3	17.0	23.2
Deposit growth	19.8	28.5	19.3	19.9
EA growth	23.7	25.1	17.3	19.2
SLR ratio	21.3	20.1	20.0	19.0
C-D ratio	98.5	98.4	100.3	103.1
Low-cost deposits	44.0	43.1	43.8	44.4
Provision coverage	56.3	43.0	54.6	60.1
Gross NPA ratio	1.2	2.1	3.0	3.2
Net NPA ratio	0.5	1.2	1.4	1.3
Incremental slippage	2.9	3.7	3.4	3.1
Net NPA / Equity	3.1	8.4	8.3	7.7
Capital adequacy	15.0	14.2	15.0	14.7
- Tier 1	14.6	13.7	14.5	14.2

RoE decomposition (%)				
Year to March	FY18	FY19	FY20E	FY21E
Net int. income/assets	4.0	3.8	4.2	4.3
Fees/Assets	2.3	2.4	2.4	2.5
Invst. profits/Assets	0.2	-	0.1	0.1
Net revenues/assets	6.5	6.2	6.7	6.9
Operating expense/assets	(3.0)	(2.7)	(2.9)	(2.8)
Provisions/assets	(0.6)	(1.3)	(0.9)	(0.8)
Taxes/assets	(1.0)	(0.7)	(0.7)	(0.8)
Total costs/assets	(4.6)	(4.8)	(4.5)	(4.4)
ROA	1.9	1.4	2.2	2.5
Equity/assets	11.8	10.8	11.6	12.1
ROAE (%)	16.2	13.1	19.1	20.2

Valuation parameters				
Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	60.1	54.8	93.5	120.4
Y-o-Y growth (%)	25.3	(8.8)	40.7	28.8
BV per share (INR)	397.2	442.8	536.6	664.2
Adj. BV per share (INR)	388.5	416.7	505.3	628.4
Diluted P/E (x)	20.4	22.4	13.1	10.2
P/B (x)	3.1	2.8	2.3	1.8
Price/ Adj. BV (x)	3.2	2.9	2.4	2.0
Dividend Yield (%)	0.6	0.6	0.9	1.1

*FY18/FY19 are standalone numbers while FY20/FY21 are consolidated post merger of IIB and BhaFin

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
IndusInd Bank	11,979	13.1	10.2	2.4	2.0	19.1	20.2
Axis Bank	26,695	18.2	12.8	2.5	2.1	13.4	16.4
DCB Bank	794	14.3	11.5	1.8	1.6	12.9	14.2
Federal Bank	2,358	9.3	7.4	1.2	1.1	12.9	14.2
HDFC Bank	92,406	12.9	10.2	2.0	1.7	15.9	17.4
ICICI Bank	38,504	16.9	13.6	2.0	1.8	14.5	16.1
Kotak Mahindra Bank	42,592	36.7	30.7	4.5	4.0	14.0	14.7
Punjab National Bank	3,657	5.4	4.5	1.0	0.8	11.1	12.1
State Bank of India	31,918	10.3	7.1	1.3	1.1	11.0	13.9
Yes Bank	1,470	26.1	7.2	0.5	0.5	1.5	5.2
Median	-	14.3	10.2	1.8	1.6	12.9	14.2
AVERAGE	-	14.4	10.1	1.8	1.6	12.6	14.4

Source: Edelweiss research

Additional Data

Directors Data

Romesh Sobti	Managing Director & CEO	Shanker Annaswamy	Director
T. T. Ram Mohan	Director	Akila Krishnakumar	Director
Arun Tiwari	Director	Rajiv Agarwal	Director
Kanchan Chitale	Director		

Auditors - Haribhakti and Co LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
JPMorgan Chase & Co	3.21	Bridge India Fund	2.91
Capital Group	2.68	Arbitrage BNP Paribas	2.37
ICICI Prudential Life Insurance Co	1.90	Tybourne Equity Master Fund	1.78
SBI Funds Management	1.67	Aditya Birla Sun Life Trusee Company	1.67
Kotak Mahindra Asset Management Company	1.59	UTI Asset Management Company	1.51

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
26 Mar 2019	Paul Abraham	Sell	40000.00
25 Mar 2019	Paul Abraham	Sell	30000.00
22 Mar 2019	Paul Abraham	Sell	40000.00
15 Mar 2019	Romesh Sobti	Sell	100000.00
15 Mar 2019	Zubin D Mody	Sell	20000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	HOLD	SP	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SP	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	REDUCE	SU	M	DCB Bank	HOLD	SP	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	BUY	SO	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC First Bank	BUY	SP	L
Indiabulls Housing Finance	HOLD	SU	M	IndusInd Bank	BUY	SO	L
Kotak Mahindra Bank	BUY	SP	M	L&T Finance Holdings	HOLD	SU	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram Finance	BUY	SP	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SP	M
Punjab National Bank	REDUCE	SU	M	Rural Electrification Corporation	HOLD	SU	M
Repco Home Finance	BUY	SP	M	Shriram Transport Finance	BUY	SO	M
Shriram City Union Finance	BUY	SP	M	State Bank of India	BUY	SO	L
South Indian Bank	BUY	SP	M	Yes Bank	HOLD	SU	M
Union Bank Of India	HOLD	SU	M				

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
10-Oct-19	IndiaBulls Housing Finance	Merger uncertainty ends, but operational challenges persist; <i>Event Update</i>	240	Hold
27-Sep-19	IFCI	Down, but inching up; <i>Visit Note</i>	8	Not Rated
13-Sep-19	Axis Bank	Risk-reward turning favourable; <i>Company Update</i>	674	Buy

Distribution of Ratings / Market Cap

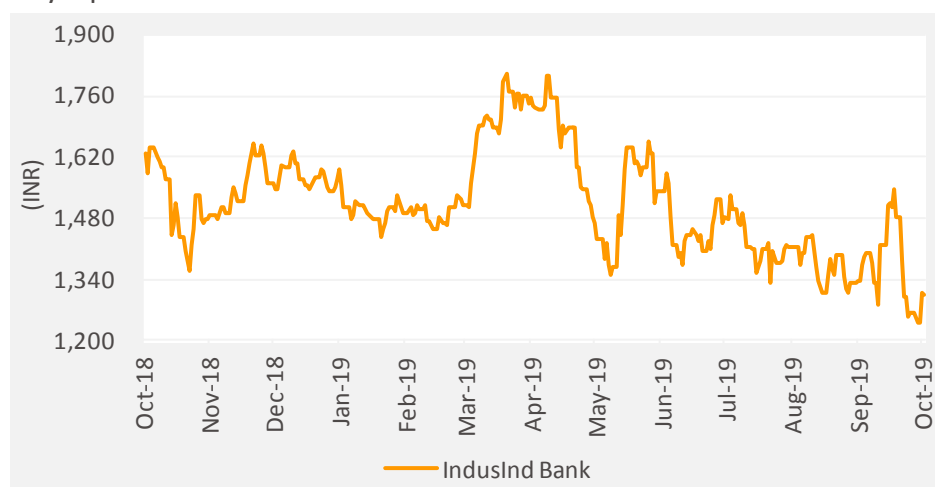
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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