

20TH August 2018

Indusind bank -Buy

CMP : 1990
Target Price : 2376
Upside : 19+
Stop Loss : 1810 (closing basis)

About the Company

IndusInd Bank Ltd is one of the new generation private sector banks in India. The Bank's business lines include corporate banking, retail banking, treasury and foreign exchange, investment banking, capital markets, non-resident Indian/high-net-worth individual banking, and information technology. The Bank business divisions include Retail/ Consumer Banking, Consumer Finance, Global Markets Group, Corporate & Commercial Banking, Transaction Banking Group and Investment Banking. As on 30th June 2018, the bank had 1,410 branches and 2285 automated teller machines (ATMs) spread across 702 geographical locations of the country. The bank also has representative offices in London, Doha, Dubai and Abu Dhabi.

The bank provides multi-channel facilities, which includes automated teller machines (ATMs), net banking, mobile banking, phone banking, multi-city banking and international debit cards. The Bank has multi-lateral tie-ups with other banks providing access to more than 18000 ATMs for their customers. They enjoy clearing bank status for both major stock exchanges - BSE and NSE - and three major commodity exchanges in the country - MCX, NCDEX, and NMCE. They also offer DP facilities for stock and commodity segments.

Investment Thesis

Loan growth accelerated further

Loan book grew by at 29.4% YoY, compared to 28.4% in Q4FY18. Corporates loan grew by 30.4%, driven by large corporates, 36%+, mid corporates 17%+ and small corporates 39%+, this indicates IIB's ability to find gaps & grow despite competition from large banks. In consumer financing the momentum picked up further, growing by 28%, backed by 33% growth in CV. Vehicle financing as a whole grew by an impressive 35.9%. With strong upturn in the CV sales by most OEM, together with healthy PV growth, feel the growth momentum in the consumer financing is here to stay for the bank. Expect 26% loan growth in the medium term. Growth would be primarily driven through the focus on the retail portfolio, as management intends to rebalance the corporate- and retail-book ratio to 50:50 (from 60:40).

NIM to be flexible in the medium term.

NIM was ~3.92%, down 5bps sequentially, on account of a sharp increase in the cost of funds (up 35bps sequentially). Nevertheless, we expect NIM to be flexible at current levels on the back of the strong CASA franchise (43.4%) and an increase in the share of the retail portfolio (not accounting for the BHAFIN synergies). IIB maintained calculated NIM of over 3.7% in past while FY18 NIM was maintained at strong levels of 4%. In the past seven years, reported NIM improved from 1.7% to 4% as on FY18.

Slippages were under control

In Q4FY18 IIB's gross slippages had spiked up to Rs 860 Cr due to divergence & one of the jewellery account falling into NPAs. However, during Q1FY19 slippages were again normalized with Rs 475 Cr worth of loans falling as NPAs. GNPA's were marginally down to 1.15% vs 1.17% QoQ while NNPA percentage remained flat at 0.51%. The last multiple quarters of results have proved the balance sheet strength of IIB and we don't expect asset quality to turn bitter in the years to come.

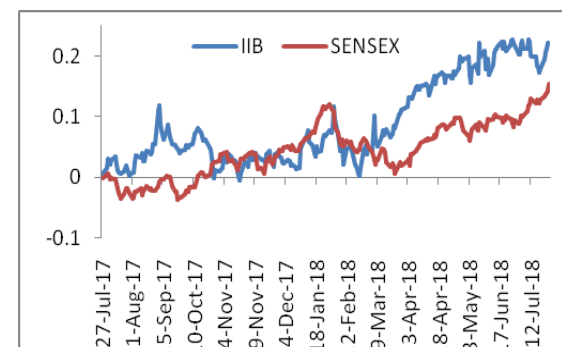
Financials (consolidated)

Year to March (Rs Cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Net Interest Income	11580.66	14405.67	17280.75	22871.28	28662.26
PPoP	4141.42	5451.01	6656.11	8353.22	10459.23
PAT	2286.45	2867.89	3605.99	4605.09	5952.99
EPS (Rs)	38.43	47.96	60.10	76.75	99.22
BVPS (Rs)	297.41	345.25	397.37	448.43	516.50
P/E (x)	51.79	41.49	33.11	25.93	20.06
P/BV (x)	3.25	4.08	5.01	4.44	3.85

Stock Details	
Market Cap(Cr)	1,19,834
BSE Code	532187
NSE Code	INDUSINDBK
Sector/Index	Bank /S&P BSE SENSEX
Year End	March
52 w.High/Low	2038/1572
Shares in Issue (cr)	53.57
BSE Sensex	37,495
NSE Nifty	11,320

Shareholding Pattern	
Indian Promoters	16.80%
Foreign Promoters	11.2%
DII's	52.10%
FII's	11.2%

Key Ratios	
Div Yield	2.08%
TTM PE	60.05
ROE	15.9%
TTM EPS (INR)	30.90



Assets quality

Gross NPAs and NNPA remained stable, with GNPA declining marginally by 2bps QoQ to 1.15% and NNPA at 0.51%. In absolute terms, GNPA increased to Rs.1741 Cr up by Rs.36 Cr QoQ and NNPA increased to Rs.762 Cr up by Rs.17 Cr QoQ. Fresh slippages were lower both in corporate at 1.2% vs. 3.2% in Q4FY18 and consumer financing 2.3% vs. 2.8% in Q4FY18. The management has stated that the bank has recognized MTM provisioning of Rs86 Cr upfront for its government securities. Also, as informed bank has not taken any dispensation and have recognized entire MTM loss in the quarter. Further, the provisioning coverage ratio remained unchanged at 56%.

Asset quality	FY18				FY19
	Q1	Q2	Q3	Q4	Q1
Break-up of GNPA					
Opening balance	1,055	1,272	1,346	1,499	1,705
Slippages	608	498	408	860	475
Gross-slippage ratio(%)	0.52	0.40	0.32	0.59	0.32
Reductions	391	424	255	654	439
Closing balance	1,272	1,346	1,499	1,705	1,741
Total GNPA	1,272	1,345	1,499	1,705	1,741
GNPA (%)	1.09	1.08	1.16	1.17	1.15
NNPA (%)	0.44	0.44	0.46	0.51	0.51

Concall update Q1FY19

- The Bharat Financial merger will take an additional three months to fully complete. The IL&FS securities and services business acquisition should close in 2Q19. This acquisition should help IIB scale up its capital markets business and this company has an almost 30% share in clearing.
- Decline in NIM was due to increase in cost of funds, while improvement in yield comes with a lag. Indusind bank has undertaken 70bps hike in MCLR since Nov' 2017 and around 45% of loan book is linked to MCLR. Management expects yield to catch up MCLR over the next six months.
- Strong corporate advances growth was also driven by consortium refinancing opportunity in four NCLT cases. In corporate segment, the bank is seizing growth opportunity from the weak PSBs.
- Indusind bank has been acquiring 125,000 SB deposits account per month and this number is expected to go up to 150,000 per month.

Valuation

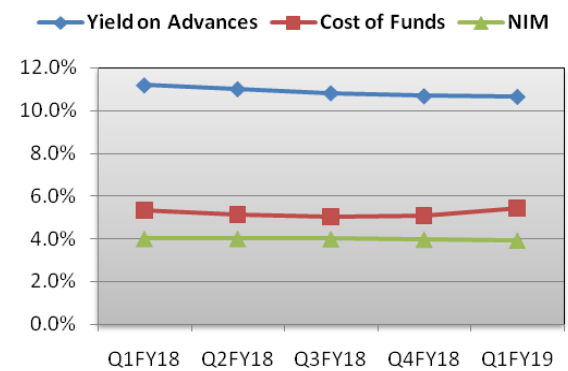
- Acquisition of BFIL has placed IndusInd Bank in a best place for action with access to best-in-class microfinance business model network along with scale and profitability, we predict significant upside potential in terms of loan growth, fee income generation and CASA mobilization, going forward. Further, recent changes in branch licensing and PSL certificate trading norms by the RBI ('priority' loans which Indian banks are required to disburse to the extent of 40% of their overall loan book) will also help the Bank to achieve the synergy at a faster pace. Believe the Bank's premium multiples are likely to continue considering the strong growth and operating leverage across businesses. **Maintaining our earnings estimates (21.09% CAGR through FY16-20E), we maintain our BUY recommendation on the stock with Target Price of Rs 2376 based on 4.6x FY20E book value.**

Risk & Concern

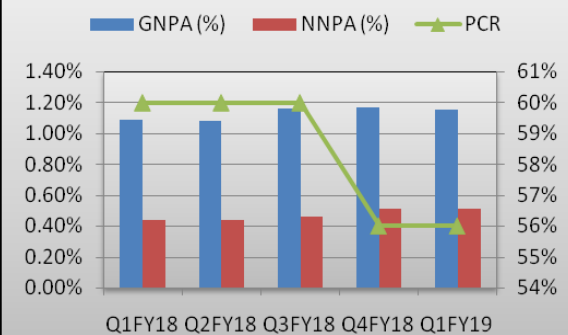
- Any major slowdown in economic activities.
- Credit cost risk from the corporate book, which could hit the bank for short periods of time
- Margin pressures if the CV cycle slips and starts to hurt retail growth.

Graphs & Charts

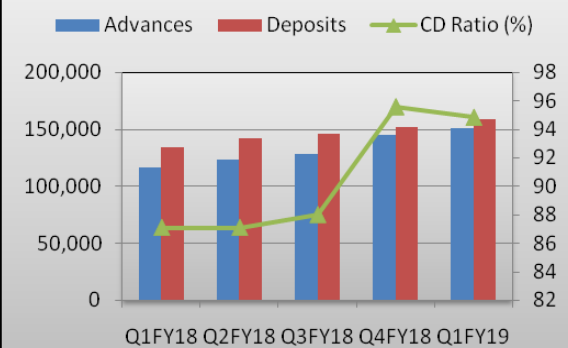
NIM Margin trends



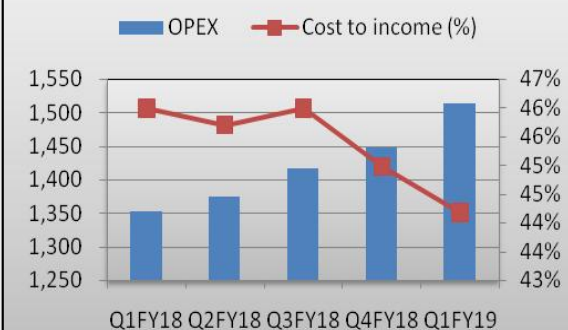
Assets quality Trend



Strong Balance sheet growth



Cost to income ratio improved



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