

IndusInd Bank

12 January 2018

Reuters: INBK.BO; Bloomberg: IIB IN

Alive to all Opportunities

IndusInd Bank (IBL) reported its 3QFY18 results with the key strategic takeaways being that the bank is: (1) Leveraging digital technology gainfully to control opex (2) Mulling the addition of concomitant business lines including life insurance, asset management and broking (please see conference-call highlights). IBL delivered a reasonably robust set of numbers with net NII, PPOP and PAT growing 20%, 22% and 25% YoY to Rs18,948mn, Rs16,647mn and Rs9,362mn, respectively. We have marginally modified our legacy estimates for FY18/FY19 to reflect (compared with previous estimates) a slight NIM compression, better opex control and lower credit costs. We have retained Buy rating on IBL, raised our target price to Rs2,074, valuing IBL at 3.7x FY20E P/ABV.

Strong CV disbursement is key feature on the growth front: Vehicle finance disbursement was up 34% YoY and within this, CV finance disbursement was up 39% YoY. As such, loan book growth was largely balanced with 24% growth YoY in consumer finance (excluding business banking) and 26% growth YoY in corporate & commercial banking driving overall loan book growth of 25% YoY to Rs1,285bn. Importantly, risk-weighted assets linked to credit risk have grown slower at 17% YoY, reflecting an improvement in credit risk profile.

Rapid savings deposit balance traction brings CASA ratio target revision on the table: IBL achieved 68% YoY growth in savings deposit balance to Rs422.5bn. The management has mulled revising upward the CASA deposit ratio target to 45% (ratio is 43% currently) for Planning Cycle 4. Yield accretion due to loan mix transition will be nullified by hyper-competition in corporate lending resulting in pressure on corporate yield. However, rapid CASA deposit traction may still result in a mild NIM expansion from the current level.

Underlying loan book stress stays well under control: The management has stressed that SMA2 is well below 1% of loan book. Further, stressed asset pipeline in the form of quasi-recognised stress is minimal with Standard Restructured and Security Receipts at 0.15% and 0.34% (notionally), respectively, of loan book. Exposure to SDR, 5/25, and S4A remained nil.

Valuation and outlook: We have revised lower our legacy NII estimates by (3.2%)/(3.9%) for FY18/FY19 (slight NIM compression), respectively, and our PPOP estimates by a lower quantum (than NII) of (0.9%)/(0.4%) - opex control - while revising upward our PAT estimates by 0.4%/0.3% (lower credit costs), respectively. We have rolled forward our valuation of IBL based on 3.7x FY20E ABV and raised our target price to Rs2,074 from Rs2,065 earlier.

BUY

Sector: Banking

CMP: Rs1,700

Target Price: Rs2,074

Upside: 22%

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Key Data

Current Shares O/S (mn)	598.5
Mkt Cap (Rsbn/US\$bn)	1,043.7/16.0
52 Wk H / L (Rs)	1,818/1,037
Daily Vol. (3M NSE Avg.)	1,131,203

Price Performance (%)

	1 M	6 M	1 Yr
IndusInd Bank	0.1	21.2	42.7
Nifty Index	0.0	9.7	15.9

Source: Bloomberg

Y/E March (Rsmn)	3QFY18	3QFY17	2QFY18	YoY (%)	QoQ (%)
Interest income	42,868	36,993	42,083	-	-
Interest expenses	23,920	21,209	23,874	-	-
Net interest income	18,948	15,784	18,209	20.0	4.1
NIM (%)	3.99	4.00	4.00	(1bps)	(1bps)
Non-interest income	11,868	10,168	11,876	-	-
Operating income	30,816	25,952	30,085	18.7	2.4
Staff costs	4,600	3,940	4,450	-	-
Other operating expenses	9,569	8,378	9,300	-	-
Total operating expenses	14,169	12,318	13,750	-	-
Cost-to-income (%)	46.0	47.5	45.7	-	-
Operating profit	16,647	13,634	16,335	22.1	1.9
Provisions	2,362	2,169	2,937	-	-
PBT	14,285	11,465	13,398	24.6	6.6
Tax	4922.8	3959	4597	-	-
-Effective tax rate	34.5	34.5	34.3	-	-
PAT	9,362	7,506	8,801	24.7	6.4
EPS (Rs)	15.6	12.6	14.7	-	-
BV (Rs)	382.3	332.8	366.6	-	-
Deposits	14,60,860	11,92,180	14,14,406	22.5	3.3
Advances	12,85,420	10,27,700	12,31,808	25.1	4.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net interest income	45,166	60,626	74,650	93,424	1,18,730
Pre-provision profit	41,414	54,511	68,610	85,904	1,09,079
PAT	22,864	28,679	38,234	48,462	61,545
EPS (Rs)	38.4	48.0	63.9	81.0	102.9
ABV (Rs)	292.0	337.9	394.3	466.4	560.5
P/E (x)	44.2	35.5	26.6	21.0	16.5
P/ABV (x)	5.8	5.0	4.3	3.6	3.0
GNPAs (%)	0.9	0.9	1.0	1.2	1.3
NNPAs (%)	0.4	0.4	0.3	0.3	0.2
RoA (%)	1.8	1.8	1.9	2.0	2.0
RoE (%)	16.1	15.0	17.1	18.5	19.7

Source: Company, Nirmal Bang Institutional Equities Research

3QFY18 results conference-call highlights (information incremental to Page 1) and our view

- The management clearly stated that an internal debate is currently on regarding the bank's foray into associated businesses such as life insurance, asset management and broking and that a "strong case" is being made that IBL should get into "manufacturing" these products and not remain only a distributor. The management also added that for "long-gestation" businesses, it will prefer the inorganic route. **We believe IBL may therefore seriously mull the acquisition of an existing mid-sized life insurer in the medium term.** We note that CEO Mr. Romesh Sobti's central tenet with regard to acquisitions is that they have to be return ratio-accretive from "Day 1" and hence, any acquisition will not be concerning for shareholders from a near-term perspective. A possible acquisition will be a key monitorable from an event perspective, given that IBL has displayed an appetite for inorganic growth.
- The management outlined particularly strong traction for its overall digital strategy. The management pointed out that 25% of incremental savings deposit customers have been acquired via tab banking. Further, 14% of incremental credit card customers were acquired online. 64% of incremental personal loan customers are from the "pre-approved" category. Mobile banking transactions are up 3x over the quarter and IBL is tracking 1.5mn mobile transactions per month. **The management further pointed out that full-time employees per branch have declined by 20% YoY.** We believe this augurs well, ceteris paribus, from an opex control perspective.
- The management clarified that IBL has not received any communication so far (it is awaited) with regard to any **Divergence** (as at FY17-end) with the RBI on asset quality front. The management stated that any Divergence would be "technical" in nature.
- **Status and timeline with regard to merger of Bharat Financial Inclusion:** Approval has been received from the Competition Commission of India. The RBI is currently carrying out processes to consider approval. Considerations for approval from Stock Exchanges and from the NCLT will follow. The management expects all approvals to be in place by the end of 2QFY19.
- The management pointed out that **asset quality of IBL's microfinance book is sound.** Collection efficiency of the 'new book' of MFI business (created from 1st January 2017 onwards) is a pristine 99.8%. There are encouraging recoveries as well from legacy stressed MFI loan book.
- The management clarified that there is **no one-off in commercial vehicle finance disbursement** for the quarter because of preponement or any other reason.
- There is ~5% differential in yields of corporate and consumer finance books with yields at ~9% and ~14%, respectively. The management reiterated that **corporate lending business is still attractive** if one considers the associated fee income pools, lower risk weight as well as lower opex profile.
- The management reiterated that **transition to IndAS** is on track and is effective 1 April 2018.
- The slight increase in **power generation loan exposure** is because of a single account which possesses international bank guarantees and is not a matter of concern.

Exhibit 2: Actual performance versus our estimates

(Rsmn)	3QFY18	3QFY17	2QFY18	YoY (%)	QoQ (%)	3QFY18E	Devi. (%)
Net interest income	18,948	15,784	18,209	20	4.1	20,597	(8.0)
Pre-provision profit	16,647	13,634	16,335	22	1.9	18,263	(8.8)
PAT	9,362	7,506	8,801	25	6.4	9,952	(5.9)

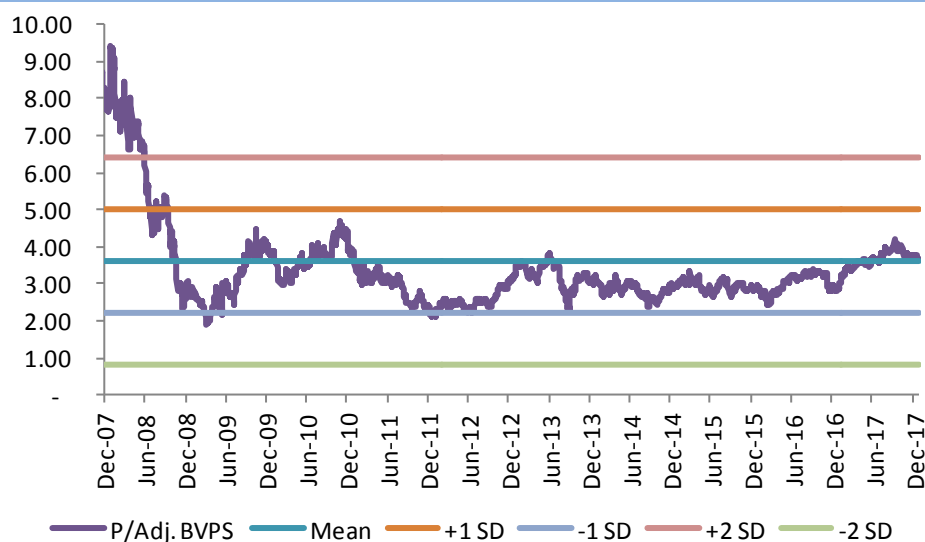
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	Revised estimate		Earlier estimate		% Revision	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net interest income (Rsmn)	74,650	93,424	77,080	97,180	(3.2)	(3.9)
NIM (%)	4.15	4.16	4.25	4.27	(10bps)	(10bps)
Operating profit (Rsmn)	68,610	85,904	69,267	86,242	(0.9)	(0.4)
Profit after tax (Rsmn)	38,234	48,462	38,093	48,339	0.4	0.3
EPS (Rs)	63.9	81.0	63.7	80.8	0.4	0.3
ABV (Rs)	394.3	466.4	395.0	467.3	(0.2)	(0.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Interest income	115,807	144,057	1,71,909	2,11,888	2,66,963
Interest expenses	70,641	83,431	97,259	1,18,465	1,48,232
Net interest income	45,166	60,626	74,650	93,424	1,18,730
Fee income	31,447	38,914	49,196	62,261	80,098
Other income	1,522	2,801	2,428	2,486	3,164
Net revenues	78,135	102,341	1,26,274	1,58,171	2,01,992
Operating expenses	36,721	47,831	57,665	72,266	92,913
-Employee expenses	12,361	15,210	16,775	20,517	27,191
-Other expenses	24,360	32,621	40,890	51,749	65,722
Operating profit	41,414	54,511	68,610	85,904	1,09,079
Provisions	6,722	10,913	10,679	12,477	15,829
-Loan loss provision	6,141	10,506	9,625	12,072	15,332
-Provision for investment	295	314	354	405	497
-Other provisions	286	94	700	-	-
PBT	34,692	43,597	57,930	73,427	93,250
Tax	11,828	14,918	19,696	24,965	31,705
PAT	22,864	28,679	38,234	48,462	61,545

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	5,950	5,981	5,981	5,981	5,981
Reserves & surplus	171,010	200,478	2,34,388	2,77,806	3,33,587
Shareholders' funds	176,960	206,459	2,40,369	2,83,787	3,39,568
Deposits	930,003	1,265,722	15,74,432	19,78,367	24,91,364
-Current deposits	154,780	196,088	2,44,037	3,06,647	3,86,161
-Savings deposits	172,462	270,372	3,46,375	4,35,241	5,60,557
-Term deposits	602,761	799,262	9,84,020	12,36,479	15,44,646
Borrowings	249,959	224,537	2,66,163	3,68,345	5,18,524
Other liabilities	72,048	89,764	98,384	1,08,311	1,19,958
Total liabilities	1,428,970	1,786,481	21,79,348	27,38,811	34,69,413
Cash/equivalent	101,119	186,282	1,99,474	2,53,332	3,21,732
Advances	884,193	1,130,805	14,24,814	18,09,514	22,98,083
Investments	340,543	367,021	4,42,447	5,52,091	7,13,338
Fixed assets	12,553	13,352	14,687	16,156	17,772
Other assets	90,562	89,023	97,925	1,07,718	1,18,490
Total assets	1,428,970	1,786,483	21,79,348	27,38,811	34,69,413

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

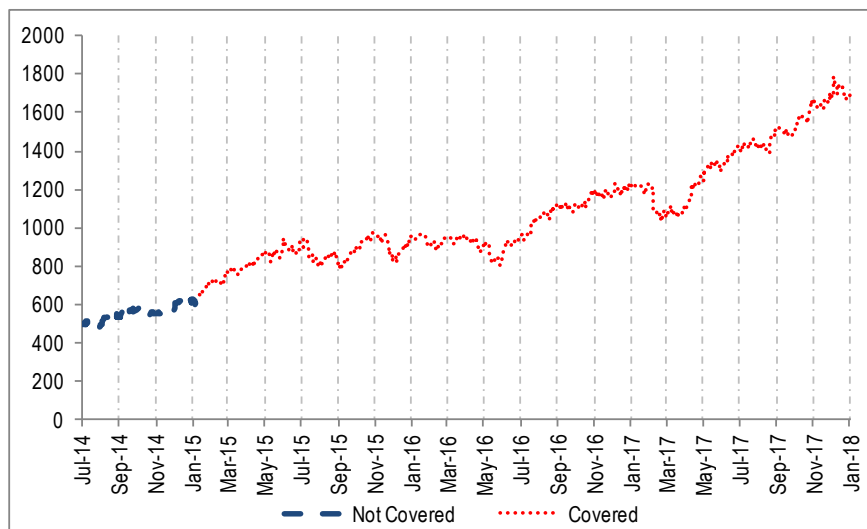
Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)					
NII growth	32.1	34.2	23.1	25.1	27.1
Pre-provision profit growth	33.7	31.6	25.9	25.2	27.0
PAT growth	27.5	25.4	33.3	26.8	27.0
Business (%)					
Deposit growth	25.4	36.1	24.4	25.7	25.9
Advances growth	28.5	27.9	26.0	27.0	27.0
Business growth	26.9	32.1	25.1	26.3	26.4
CD	95.1	89.3	90.5	91.5	92.2
CASA deposits	35.2	36.9	37.5	37.5	38.0
Operating efficiency (%)					
Cost-to-income	47.0	46.7	45.7	45.7	46.0
Cost-to-assets	2.9	3.0	2.9	2.9	3.0
Productivity (Rsmn)					
Business per branch	1,814.2	1,980.6	2127.1	2281.9	2394.7
Business per employee	78.7	94.7	118.2	134.2	140.9
Profit per branch	22.9	23.7	27.1	29.2	30.8
Profit per employee	1.0	1.1	1.5	1.7	1.8
Spread (%)					
Yield on advances	11.8	11.4	10.7	10.6	10.5
Yield on investments	6.0	7.0	7.2	7.0	7.0
Cost of deposits	6.8	6.3	5.9	5.7	5.6
Yield on assets	10.2	10.0	9.6	9.4	9.4
Cost of funds	6.3	5.9	5.5	5.4	5.3
NIM	4.0	4.2	4.2	4.2	4.2
Capital adequacy (%)					
Tier I	14.9	14.7	13.0	12.1	11.4
Tier II	0.6	0.6	0.7	0.8	0.9
Total CAR	15.5	15.3	13.7	12.8	12.2
Asset quality (%)					
Gross NPAs	0.9	0.9	1.0	1.2	1.3
Net NPAs	0.4	0.4	0.3	0.3	0.2
Provision coverage	58.6	58.4	69.7	74.7	82.8
Slippage	1.1	1.4	1.4	1.3	1.3
Credit-cost	0.6	0.7	0.6	0.6	0.6
Return ratios (%)					
RoE	16.1	15.0	17.1	18.5	19.7
RoA	1.8	1.8	1.9	2.0	2.0
RoRWA	2.2	2.2	2.3	2.3	2.3
Per share (Rs)					
EPS	38.4	48.0	63.9	81.0	102.9
BV	297.4	345.2	401.9	474.5	567.7
ABV	292.0	337.9	394.3	466.4	560.5
Valuation (x)					
P/E	45.5	36.4	26.6	21.0	16.5
P/BV	5.9	5.1	4.2	3.6	3.0
P/ABV	6.0	5.2	4.3	3.6	3.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
14 October 2014	Buy	636	800
14 January 2015	Buy	821	975
17 April 2015	Buy	933	1,075
14 July 2015	Buy	927	1,150
12 October 2015	Buy	937	1,150
13 January 2016	Buy	908	1,335
22 April 2016	Buy	971	1,335
12 July 2016	Buy	1,124	1,340
13 October 2016	Buy	1,220	1,470
10 January 2017	Buy	1,162	1,470
14 February 2017	Buy	1,340	1,600
20 April 2017	Buy	1,420	1,700
12 July 2017	Buy	1,560	1,790
13 October 2017	Buy	1,747	2,065
12 January 2018	Buy	1,700	2,018

Rating track graph



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SELL < -5%

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