

Buy

Indusind Bank

Industry: BFSI

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Indusind Bank Q3FY19 Result Highlights

Profitability of the bank was subdued (PAT +5% yoy and 7% qoq) during the quarter due to higher NPL provisioning while operating profit growth was healthy (27% yoy). Key highlights of the results were – 1) bank made additional provisions of ₹ 2.55 bn in Q3 on its IL&FS holdco exposure (₹ 2.75 in Q2) taking total cover to 27% of gross exposure. It also has exposure to SPV of IL&FS amounting to ₹ 10 bn, which is most likely to turn into NPL in Q4. IL&FS exposure is currently standard account in the books of the bank 2) corporate slippage risen on qoq basis from ₹ 0.9 bn to ₹ 4.6 bn due to 3 accounts turning into NPLs 3) RBI has completed the audit for FY18 fiscal for the bank and RBI RBS divergence is nil 4) BHAFIN merger is in the last leg of completion, is most likely to get finished in Q4 5) credit growth was healthy at 35% yoy driven by both corporate and retail advances 6) margins remained stable on sequential basis

We have revised our estimates – we expect FY19 PAT to grow by 5.3% in FY19E taking into consideration escalated provisions on IL&FS exposure. Both the exposure of the IL&FS including holdco and SPV is expected to turn into NPLs in next 2 quarters, in our view. Profitability for the next 1-2 quarters is expected to remain subdued. However, we are still bullish on the long term outlook of the bank. Currently, it is trading at 3.8x and 3.1x FY19E and FY20E ABV resp. We expect ROE & ROA of 14.8% and 1.5% in FY19E and 18.4% and 1.7% in FY20E. Retain BUY with revised TP of ₹ 1950 (discounting FY21E ABV by 3x).

NPL provisions escalated

Bank made additional provisions of ₹ 2.55 bn in Q3 on its IL&FS holdco exposure of Rs20 bn (Rs2.75 in Q2) taking total cover to 27% of gross exposure. Bank is expected to take PCR on this account to 40-50% by Q4FY19, while the account is still standard in the books of the bank. Bank expects realizable value in this account, hence provisions are made accordingly. Also, it has exposure to SPV of IL&FS amounting to ₹ 10 bn, which is most likely to turn into NPL in Q4. In our revised estimates, we have assumed both the above exposure to turn into NPLs in the next 2 quarters, hence, revised credit cost is 1.1% in FY19E and 0.7% in FY20E (mgmt. has guided for 0.6% in FY19 excluding holdco exposure). During the quarter, corporate slippage risen from ₹ 0.9 bn to ₹ 4.6 bn qoq due to 3 accounts turning into NPLs – these were largely mid-cap accounts from EPC sector. RBI has completed the audit for FY18 fiscal for the bank and RBI RBS divergence is absolutely nil.

Operating profit growth healthy

Credit grew at one of the fastest pace at 35% yoy and 6% qoq led by strong growth coming from both corporate and retail advances. Reported margins were stable qoq at 3.83%. There was marginal surge in both yields (8 bps qoq) and the cost (20 bps qoq) leading to stable margin profile. Core fee income grew was healthy too at 17.5% yoy. Operating profit growth was healthy at 27% yoy led by strong advances growth, stable margins and controlled opex cost. BHAFIN merger is in the last leg of completion, is most likely to get finished in Q4. During the quarter, the bank has introduced new wealth advisory vertical, which is expected to have AUMs of Rs160 bn and fee income of ₹ 3 bn by FY21.

Retain BUY with revised TP of Rs1950

The bank would realise BHAFIN merger synergies beginning next fiscal onwards. However, profitability for the next 1-2 quarters is expected to remain subdued. We are still bullish on the long term outlook of the bank. Currently, it is trading at 3.8x and 3.1x FY19E and FY20E ABV resp. We expect ROE & ROA of 14.8% and 1.5% in FY19E and 18.4% and 1.7% in FY20E. Retain BUY with revised TP of ₹ 1950 (discounting FY21E ABV by 3x).

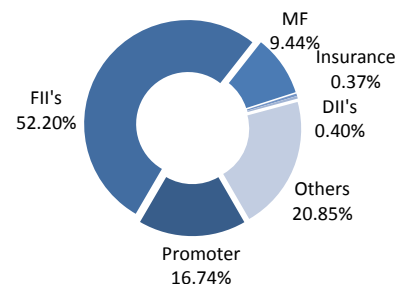
Stock Data

Rating	Buy
Current Market Price(₹)	1,570
12 M Price Target (₹)	1,950
Potential upside (%)	24
FV (₹)	10
Market Cap Full (₹ bn)	946
52-Week Range (₹)	2,038 / 1,333
BSE / NSE Code	532187 / INDUSINDBK
Reuters / Bloomberg	INBK.BO / IIB:IN

What's Changed

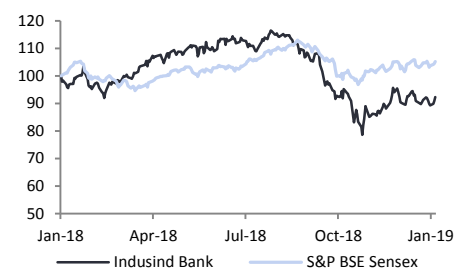
12 month Price Target (₹)	2,270 to 1,950
FY2019E EPS (₹)	From 73 to 63
FY2020E EPS (₹)	From 96 to 93

Shareholding Pattern (September 2019)



YE Mar	FY18	FY19E	FY20E	FY21E
PAT (₹ mn)	36,060	37,968	56,050	73,535
yoy (%)	25.7	5.3	47.6	31.2
BV (₹)	391.2	453.7	547.1	669.6
ABV (₹)	378.8	411.3	511.1	642.4
P/ABV (x)	4.7	3.8	3.1	2.4
ROE (%)	16.2	14.8	18.4	19.9
ROA (%)	1.8	1.5	1.7	1.8
Gross NPAs (%)	1.2	2.2	1.8	1.5
PCR (%)	56.3	38.9	51.4	63.7

Relative Price Performance



Q3FY19 Result Highlights

(₹.mn)	Q3FY19	Q3FY18	yoy (%)	Q2FY19	qoq (%)	9MFY19	9MFY18	yoy (%)
Interest earned	57,635	42,868	34.4	54,381	6.0	1,62,697	1,26,306	28.8
-Interest/discount on advances/bills	47,632	34,696	37.3	44,521	7.0	1,33,619	1,00,306	33.2
-Income on investments	9,186	7,495	22.6	9,183	0.0	26,979	22,439	20.2
-Interest on bal. with RBI	279	368	-24.1	274	1.8	741	2,461	-69.9
-Others	538	309	74.0	402	33.6	1,358	1,101	23.4
Interest expenses	34,754	23,920	45.3	32,348	7.4	96,559	71,408	35.2
Net Interest Income (NII)	22,881	18,948	20.8	22,033	3.8	66,138	54,899	20.5
Other Income	14,689	11,868	23.8	13,173	11.5	40,877	35,416	15.4
Total income	37,569	30,816	21.9	35,206	6.7	1,07,015	90,315	18.5
Operating expenses	16,400	14,169	15.7	15,281	7.3	46,810	41,447	12.9
-Employee cost	4,521	4,600	-1.7	4,582	-1.3	13,723	13,272	3.4
-Other operating expenses	11,879	9,569	24.1	10,699	11.0	33,087	28,176	17.4
Operating profit	21,170	16,647	27.2	19,924	6.2	60,205	48,867	23.2
Provision for contingencies	6,067	2,362	156.9	5,903	2.8	15,470	8,399	84.2
PBT	15,103	14,285	5.7	14,022	7.7	44,736	40,468	10.5
Provision for taxes	5,253	4,923	6.7	4,819	9.0	15,326	13,939	9.9
Net profit	9,850	9,362	5.2	9,203	7.0	29,410	26,529	10.9
Equity	6,021	5,997	0.4	6,013	0.1	6,021	5,997	0.4
EPS	16.36	15.61	4.8	15.30	6.9	48.85	44.23	10.4
Ratios (%)								
Int. exp/Int earned (%)	60.3	55.8	-	59.5	-	59.3	56.5	-
Cost/Income ratio (%)	43.7	46.0	-	43.4	-	43.7	45.9	-
Gross NPAs (Rs)	19,682	14,987	31.3	17,814	10.5	19,682	14,987	31.3
Net NPAs (Rs)	10,293	5,922	73.8	7,876	30.7	10,293	5,922	73.8
Gross NPAs (%)	1.13	1.16	-	1.09	-	1.1	1.2	-
Net NPAs (%)	0.59	0.5	-	0.5	-	0.6	0.5	-
ROA (%)	1.6	2.0	-	1.6	-	1.5	1.5	-
CAR (%)	14.2	15.8	-	14.3	-	14.2	15.8	-
Provision coverage (%)	47.7	60.5		55.8		47.7	60.5	
Balance Sheet (Rs.mn)								
Deposits	17,57,010	14,60,860	20.3	16,82,193	4.4	17,57,010	14,60,860	20.3
Advances	17,31,690	12,85,420	34.7	16,31,443	6.1	17,31,690	12,85,420	34.7

Source: Company, LKP Research

Profit & Loss Statement

(₹.mn)	FY18	FY19e	FY20e	FY21e
INTEREST EARNED	172,807	225,920	295,146	371,962
Interest/Discount on advances/Bills	136,999	185,600	242,953	310,359
Income from Investment	30,744	37,321	49,255	58,216
Interest on Balances with RBI & Others	3,215	1,041	937	1,287
Others	1,850	1,958	2,000	2,100
INTEREST EXPENDED	97,833	134,723	177,265	222,137
Net Interest Income (NII)	74,974	91,197	117,881	149,826
OTHER INCOME	47,501	56,004	65,012	75,502
TOTAL INCOME	122,475	147,201	182,893	225,328
Employee Expenses	17,807	20,336	24,212	28,214
Other operating expenses	38,108	44,118	52,737	60,132
Total Opex	55,914	64,454	76,950	88,345
OPERATING PROFIT	66,561	82,747	105,943	136,983
PROVISIONS	11,754	25,045	20,760	25,227
Provision for Non Performing Assets	9,009	21,545	17,369	21,600
Profit Before Tax (PBT)	54,807	57,702	85,183	111,756
Tax Provisions	18,747	19,734	29,133	38,220
PAT	36,060	37,968	56,050	73,535
(% change)	25.7	5.3	47.6	31.2
EPS (₹)	60	63	93	123
Total Paid-Up Capital	6,002	6,002	6,002	6,002

Source: Company, LKP Research

Balance Sheet

(₹.mn)	FY18	FY19e	FY20e	FY21e
Application of funds				
Cash & bank balances	109,624	134,246	155,927	188,284
Bal. with banks and money at call & short notice	22,535	18,723	23,503	34,483
Advances	1,449,537	1,916,078	2,481,264	3,085,712
Investments	500,767	645,172	757,775	895,630
Fixed Assets	13,388	23,978	28,991	34,446
Other Assets	120,412	154,247	185,405	224,340
TOTAL ASSETS	2,216,262	2,892,444	3,632,865	4,462,896
Sources of funds				
Total Paid-Up Capital	6,002	6,002	6,002	6,002
ESoPs	146	146	146	146
Reserves & Surplus	232,268	269,821	325,872	399,407
Deposits	1,516,392	1,995,914	2,544,886	3,148,686
Borrowings	382,891	521,964	637,545	765,374
Other Liabilities & Provisions	78,563	98,596	118,414	143,281
TOTAL LIABILITIES	2,216,262	2,892,444	3,632,865	4,462,896

Source: Company, LKP Research

Ratios

(A) Efficiency Ratios (%)	FY18	FY19e	FY20e	FY21e
Int. exp/Int. earned	56.6	59.6	60.1	59.7
NII / Total Income	61.2	62.0	64.5	66.5
Other income / Total Income	38.8	38.0	35.5	33.5
Fee income / Other income	71.8	74.8	77.1	78.8
Fee income / Total Income	27.9	28.5	27.4	26.4
Cost / Income	45.7	43.8	42.1	39.2
Cost/Income (excluding trading gains)	47.1	44.9	42.8	39.7
C-D ratio	95.6	96.0	97.5	98.0
I-D ratio	33.0	32.3	29.8	28.4
Loan / Assets ratio	65.4	66.2	68.3	69.1
Deposits / Assets ratio	68.4	69.0	70.1	70.6
CASA / Total Deposits	44.0	43.6	43.4	42.9
B) Spreads (%)	FY18	FY19e	FY20e	FY21e
Yield on Assets	9.2	9.4	9.7	9.8
Yield on Advances	10.6	11.0	11.1	11.2
Yield on Investments	7.1	6.5	7.0	7.0
Cost of Funds	5.8	6.1	6.2	6.3
Cost of Deposits	5.8	6.1	6.3	6.3
Cost of Earning Assets	5.2	5.6	5.8	5.8
Net Interest Spread	3.4	3.3	3.4	3.5
Net Interest Margin	3.99	3.81	3.85	3.94
C) Solvency	FY18	FY19e	FY20e	FY21e
Gross NPAs (Rs)	17,049	41,679	44,551	44,974
Net NPAs (Rs)	7,457	25,453	21,643	16,341
Provisions (Rs mn)	9,592	16,226	22,908	28,632
Gross NPAs / Gross Advances (%)	1.2	2.2	1.8	1.5
Net NPAs / Net Advances (%)	0.5	1.3	0.9	0.5
Provision Coverage Ratio (%)	56.3	38.9	51.4	63.7
Delinquency rate(%)	2.9	2.9	1.7	1.5
Credit Cost (%)	0.62	1.12	0.70	0.70
Credit Cost (%) (NPA Prov + SA / Gross Advances)	0.62	1.31	0.84	0.82
D) Measures of Investment	FY18	FY19e	FY20e	FY21e
EPS (₹)	60.1	63.3	93.4	122.5
BV (Rs) (adjusted for revaluation reserve)	391.2	453.7	547.1	669.6
Adjusted BV (Rs) (adjusted for revaluation reserve)	378.8	411.3	511.1	642.4
DPS (₹)	7.5	8.5	9.5	10.5
Avg. ROE (%)	16.2	14.8	18.4	19.9
Avg. ROA (%)	1.80	1.49	1.72	1.8
Pre-tax ROA (%)	2.7	2.3	2.6	2.8
Pre-provisioning operating ROA (%)	3.3	3.2	3.2	3.4
Pre-provisioning operating ROE (%)	29.9	32.2	34.9	37.1
P/E (x)	29.9	25.7	17.4	13.3
P/BV (x)	4.6	3.6	3.0	2.4
P/ABV (x)	4.7	4.0	3.2	2.5
Dividend yield (x)	0.4	0.5	0.6	0.6
Dividend Payout ratio (%)	12.5	13.4	10.2	8.6
Effective tax rate (%)	34.2	34.2	34.2	34.2

Source: Company, LKP Research

Ratios

E) Breakdown of ROA (%)	FY18	FY19e	FY20e	FY21e
Interest Income	8.6	8.8	9.0	9.2
Interest expenses	4.9	5.3	5.4	5.5
NII/avg assets	3.7	3.6	3.6	3.7
Non-NII/avg. assets	2.4	2.2	2.0	1.9
Total Income	6.1	5.8	5.6	5.6
Operating exp/avg. assets	2.8	2.5	2.4	2.2
Operating profit/avg assets	3.3	3.2	3.2	3.4
Provisions/avg. assets	0.6	1.0	0.6	0.6
PBT/avg. assets	2.7	2.3	2.6	2.8
Tax/avg. assets	0.9	0.8	0.9	0.9
PAT/avg. assets	1.8	1.5	1.7	1.8
Leverage	9.4	10.6	11.1	11.1
F) Growth Rates (%)	FY18	FY19e	FY20e	FY21e
Interest Income	20.0	30.7	30.6	26.0
Interest Expenses	17.3	37.7	31.6	25.3
NII	23.7	21.6	29.3	27.1
Other Income	13.9	17.9	16.1	16.1
Total Income	19.7	20.2	24.2	23.2
Operating Income	22.1	24.3	28.0	29.3
Net Profit	25.7	5.3	47.6	31.2
Deposits	19.8	31.6	27.5	23.7
Advances	28.2	32.2	29.5	24.4
G) Other performance parameters	FY18	FY19e	FY20e	FY21e
No. of branches (No.)	1,400	1,650	1,900	2,150
No. of employees (No.)	26,000	27,750	29,500	31,250
Business per branch (₹)	2,119	2,371	2,645	2,900
Profit per branch (₹)	25.8	23.0	29.5	34.2
Business per employee (₹)	114.1	141.0	170.4	199.5
Profit per employee (₹)	1.4	1.4	1.9	2.4

Source: Company, LKP Research

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