

Market Performer

Indusind Bank

Industry: BFSI



Since 1948
.....Downgrade to market performer !!!

We downgrade our rating on Indusind Bank from BUY to Market Performer with revised TP of ₹1693 on worries of higher credit cost than guided by the bank and likely change in the mgmt. For Q4FY19, the bank reported PAT of ₹3.6 bn which was down by 62% yoy led by higher provisioning on IL&FS exposure while operating profit growth was strong at 34%. Importantly, the bank has exposure to the troubled cos including names like Essel Group and Reliance ADAG Group. Jet Airways is 1.9% or ₹35.4 bn while these are yet to be recognized as NPAs. In our view, there is outsized possibility of these assets turning into NPAs leading to higher credit cost. In our view, credit cost estimate could be at 1.2% for FY20 vs. mgmt. guidance of 0.6%. Also, retirement of Mr.Romesh Sobti in FY2020 could add to the worries. There is possibility of slowdown in the retail assets growth given declining sales volumes of auto industry. All these factors put together makes us believe that improvement in the valuation multiples looks unlikely. Hence, we have downgraded our rating on Indusind Bank from BUY to Market Performer with revised TP of ₹ 1,693, upside of 5% from the current levels. At our target multiple, the bank would trade at 2.85x on FY21e ABV. Upside risk to our call could come if there is any positive resolution on any of the big loans where the bank has exposure to.

Credit cost estimated to higher at 1.2% for FY20 vs. mgmt. guidance of 0.6%

For FY19, the bank recognized its exposure to IL&FS as an NPA which amounted to ₹30 bn (₹20 bn exposure to Holdco and ₹10 bn to SPV). It has provided 70% on holdco and 25% on SPV while writing off ₹10 worth of loans. Hence, the incremental provisioning burden on this account going forward is not there. However, there is still some exposure to troubled companies which is yet to be recognized as an NPA (these include cos like Reliance ADAG group, Jet Airways, Essel Group). And in our view, there is possibility of these turning into NPAs in FY20. Apart from this there could be normalized slippages from the rest of the book. Hence, the credit cost guidance of 0.6% for FY20 looks to be on lower end. As per our estimation, credit cost would be at 1.2%/0.8% for FY20e/FY21e on the back of slippages numbers of 2.2%/1.8% for the same period. Currently, SMA 2 accounts are at 0.3% or ~₹6.4 bn

Profitability for FY20 will look better on the lower base

We expect PAT to grow by 39% for FY19e and by 34% for FY21e – growth looks better largely due to lower base. FY19 profitability was marred by higher provisioning on IL&FS loans that turned NPA. We expect credit to grow at slower pace at 22% in FY20 lower than FY19 levels of 29% largely led by slowdown in the auto industry sales volumes. Despite that, operating profit growth should be healthy at 23%. Taking into consideration, higher credit cost of 1.2%, PAT is likely to grow by 39% on the lower base of FY19.

NCLT approval pending for BHAFIN merger

The bank has received approvals from the respective boards, shareholders, creditors and RBI while NCLT approval is pending. Merger would give the bank direct access to >1lac villages in 381 districts with a customer base of 8.8 mn. This low cost rural focused unique distribution model will leapfrog the rural strategy of the bank by multiple years. Other benefits could be better cross-sell opportunities, lower cost of funds & lesser requirement of capital boosting return profile of the bank.

Valuations

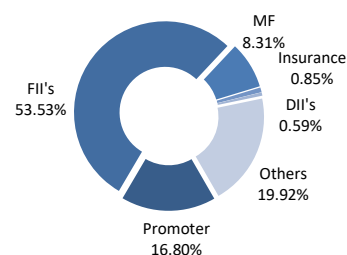
Exposure to troublesome companies accounts for 1.9% of the total loans. There is large possibility of these assets turning into NPAs in FY20. In addition to this, retirement of Mr.Romesh Sobti could add to the woes. In this backdrop, expansion in valuation multiples looks limited. Hence, we have downgraded our rating on Indusind Bank from BUY to Market Performer with revised TP of ₹1693, upside of 5% from the current levels. At our target multiple, the bank would trade at 2.85x on FY21e ABV. Upside risk to our call could come if there is any positive resolution on any of the big loans where the bank has exposure to.

Stock Data

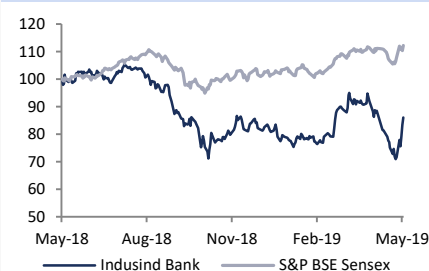
Current Market Price (₹)	1,619
12 M Price Target (₹)	1,693
Potential upside (%)	5
FV (₹)	10
Market Cap Full (₹ bn)	97,594
52-Week Range (₹)	2,038 / 1,334
BSE Code / NSE Symbol	532187 / INDUSINDBK
Reuters / Bloomberg	INBK.BO / IIB:IN

What's Changed

12 M Price Target (₹)	From 1,950 to 1,693
FY2020E EPS (₹)	From 93 to 76
FY2021E EPS (₹)	From 123 to 102

Shareholding Pattern

YE Mar	FY18	FY19	FY20e	FY21e
PAT (₹ bn)	36,060	33,011	45,763	61,387
yoy (%)	25.7	(8.5)	38.6	34.1
BV (₹)	391.2	436.8	519.6	621.4
ABV (₹)	378.8	419.7	490.8	594.1
P/ABV (x)	4.7	3.8	3.3	2.7
ROE (%)	16.2	13.1	15.7	17.7
ROA (%)	1.8	1.3	1.5	1.7
Gross NPAs (%)	1.2	2.1	2.2	1.8
PCR (%)	56.3	73.9	66.2	66.9

Relative Price Performance

Q4FY19 Result Highlights

(in Mn)	Q4FY19	Q4FY18	yoy (%)	Q3FY19	qoq (%)	FY19	FY18	yoy (%)
Interest earned	59,914	46,501	28.8	57,635	4.0	2,22,612	1,72,808	28.8
-Interest/discount on advances/bills	48,947	36,693	33.4	47,632	2.8	1,82,567	1,36,999	33.3
-Income on investments	9,795	8,305	17.9	9,186	6.6	36,773	30,744	19.6
-Interest on bal. with RBI	280	754	-62.9	279	0.2	1,020	3,215	-68.3
-Others	893	749	19.2	538	66.0	2,251	1,850	21.7
Interest expenses	37,591	26,425	42.3	34,754	8.2	1,34,150	97,833	37.1
Net Interest Income (NII)	22,324	20,076	11.2	22,881	-2.4	88,462	74,975	18.0
Other Income	15,590	12,085	29.0	14,689	6.1	56,467	47,501	18.9
Total income	37,914	32,161	17.9	37,569	0.9	1,44,929	1,22,476	18.3
Operating expenses	17,237	14,467	19.1	16,400	5.1	64,047	55,914	14.5
-Employee cost	4,812	4,535	6.1	4,521	6.5	18,535	17,807	4.1
-Other operating expenses	12,424	9,932	25.1	11,879	4.6	45,512	38,108	19.4
Operating profit	20,677	17,694	16.9	21,170	-2.3	80,882	66,561	21.5
Provision for contingencies	15,607	3,356	365.1	6,067	157.3	31,077	11,754	164.4
PBT	5,070	14,338	-64.6	15,103	-66.4	49,806	54,807	-9.1
Provision for taxes	1,469	4,808	-69.4	5,253	-72.0	16,795	18,747	-10.4
Net profit	3,601	9,531	-62.2	9,850	-63.4	33,011	36,060	-8.5
Equity	6,021	5,997	0.4			6,021	5,997	0.4
EPS	6	16	-62.4			55	60	-8.8
Ratios (%)								
Int. exp/Int earned (%)	62.7	56.8	-	60.3	-	60.3	56.6	-
Cost/Income ratio (%)	45.5	45.0	-	43.7	-	44.2	45.7	-
Gross NPAs (₹)	19,682	14,987	31.3	19,682	0.0	19,682	14,987	31.3
Net NPAs (₹)	10,293	5,922	73.8	10,293	0.0	10,293	5,922	73.8
Gross NPAs (%)	1.1	1.2	-	1.1	-	1.1	1.2	-
Net NPAs (%)	0.6	0.5	-	0.6	-	0.6	0.5	-
ROA (%)	1.6	2.0	-	1.6	-	1.5	1.5	-
CAR (%)	14.2	15.8	-	6020.8	-	14.2	15.8	-
Provision coverage (%)	47.7	60.5		47.7		47.7	60.5	
Balance Sheet (₹.mn)								
Deposits	19,48,679	15,16,392	29	17,57,010	11	19,48,679	15,16,392	29
Advances	18,63,935	14,49,537	29	17,31,690	8	18,63,935	14,49,537	29

Profit & Loss Statement

(₹. Mn)	FY18	FY19	FY20e	FY21e
INTEREST EARNED	1,72,807	2,22,612	2,75,387	3,29,968
Interest/Discount on advances/Bills	1,36,999	1,82,567	2,27,616	2,75,387
Income from Investment	30,744	36,773	44,327	51,115
Interest on Balances with RBI & Others	3,215	1,020	1,144	1,266
Others	1,850	2,251	2,300	2,200
INTEREST EXPENDED	97,833	1,34,150	1,67,303	2,03,745
Net Interest Income (NII)	74,974	88,462	1,08,084	1,26,223
OTHER INCOME	47,501	56,467	64,915	75,317
TOTAL INCOME	1,22,475	1,44,929	1,72,999	2,01,540
Employee Expenses	17,807	18,535	20,688	23,009
Other operating expenses	38,108	45,512	52,805	60,199
Total Opex	55,914	64,047	73,492	83,208
OPERATING PROFIT	66,561	80,882	99,507	1,18,332
PROVISIONS	11,754	31,077	29,957	25,038
Provision for Non-Performing Assets	9,009	27,045	27,494	22,290
Profit Before Tax (PBT)	54,807	49,806	69,549	93,293
Tax Provisions	18,747	16,795	23,786	31,906
PAT	36,060	33,011	45,763	61,387
(% change)	25.7	(8.5)	38.6	34.1
EPS	60	55	76	102
Total Paid-Up Capital	6,002	6,027	6,027	6,027

Source: Company, LKP Research

Balance Sheet

(₹.mn)	FY18	FY19	FY20e	FY21e
Application of funds				
Cash & bank balances	1,09,624	99,612	1,29,944	1,52,461
Bal. with banks and money at call & short notice	22,535	48,222	30,682	56,621
Advances	14,49,537	18,63,935	22,74,536	27,32,507
Investments	5,00,767	5,92,662	7,14,954	8,24,431
Fixed Assets	13,388	17,100	21,392	26,355
Other Assets	1,20,412	1,56,664	2,05,386	2,57,348
TOTAL ASSETS	22,16,262	27,78,194	33,76,893	40,49,724
Sources of funds				
Total Paid-Up Capital	6,002	6,027	6,027	6,027
ESoPs	146	112	112	112
Reserves & Surplus	2,32,268	2,60,708	3,10,628	3,72,015
Deposits	15,16,392	19,48,679	23,76,735	28,55,284
Borrowings	3,82,891	4,73,211	5,80,352	6,96,244
Other Liabilities & Provisions	78,563	89,457	1,03,040	1,20,041
TOTAL LIABILITIES	22,16,262	27,78,194	33,76,893	40,49,724

Source: Company, LKP Research

Ratios

(A) Efficiency Ratios (%)	FY18	FY19	FY20e	FY21e
Int. exp/Int. earned	56.6	60.3	60.8	61.7
NII / Total Income	61.2	61.0	62.5	62.6
Other income / Total Income	38.8	39.0	37.5	37.4
Fee income / Other income	71.8	71.8	74.8	77.1
Fee income / Total Income	27.9	28.0	28.1	28.8
Cost / Income	45.7	44.2	42.5	41.3
Cost/Income (excluding trading gains)	47.1	46.0	43.7	42.2
C-D ratio	95.6	95.7	95.7	95.7
I-D ratio	33.0	30.4	30.1	28.9
Loan / Assets ratio	65.4	67.1	67.4	67.5
Deposits / Assets ratio	68.4	70.1	70.4	70.5
CASA / Total Deposits	44.0	43.1	43.5	44.8
B) Spreads (%)	FY18	FY19	FY20e	FY21e
Yield on Assets	9.2	9.5	9.6	9.6
Yield on Advances	10.6	11.0	11.0	11.0
Yield on Investments	7.1	6.7	6.8	6.6
Cost of Funds	5.8	6.2	6.2	6.3
Cost of Deposits	5.8	6.2	6.3	6.3
Cost of Earning Assets	5.2	5.7	5.8	5.9
Net Interest Spread	3.4	3.3	3.4	3.3
Net Interest Margin	3.99	3.78	3.77	3.66
C) Solvency	FY18	FY19	FY20e	FY21e
Gross NPAs (₹)	17,049	39,469	51,175	49,811
Net NPAs (₹)	7,457	10,293	17,316	16,498
Provisions (₹ mn)	9,592	29,176	33,859	33,313
Gross NPAs / Gross Advances (%)	1.2	2.1	2.2	1.8
Net NPAs / Net Advances (%)	0.5	0.6	0.8	0.6
Provision Coverage Ratio (%)	56.3	73.9	66.2	66.9
Delinquency rate(%)	2.9	3.7	2.5	1.4
Credit Cost (%)	0.62	1.45	1.21	0.82
Credit Cost (%) (NPA Prov + SA / Gross Advances)	0.62	1.65	1.32	0.92
D) Measures of Investment	FY18	FY19	FY20e	FY21e
EPS (₹)	60.1	54.8	75.9	101.9
BV (₹) (adjusted for revaluation reserve)	391.2	436.8	519.6	621.4
Adjusted BV (₹) (adjusted for revaluation reserve)	378.8	419.7	490.8	594.1
DPS (₹)	7.5	7.5	8.5	9.5
Avg. ROE (%)	16.2	13.1	15.7	17.7
Avg. ROA (%)	1.80	1.32	1.49	1.7
Pre-tax ROA (%)	2.7	2.0	2.3	2.5
Pre-provisioning operating ROA (%)	3.3	3.2	3.2	3.2
Pre-provisioning operating ROE (%)	29.9	32.0	34.1	34.1
P/E (x)	29.9	29.4	21.2	15.8
P/BV (x)	4.6	3.7	3.1	2.6
P/ABV (x)	4.7	3.8	3.3	2.7
Dividend yield (x)	0.4	0.5	0.5	0.6
Dividend Payout ratio (%)	12.5	13.7	11.2	9.3
Effective tax rate (%)	34.2	33.7	34.2	34.2

Ratios

E) Breakdown of ROA (%)	FY18	FY19	FY20e	FY21e
Interest Income	8.6	8.9	8.9	8.9
Interest expenses	4.9	5.4	5.4	5.5
NII/avg assets	3.7	3.5	3.5	3.4
Non-NII/avg. assets	2.4	2.3	2.1	2.0
Total Income	6.1	5.8	5.6	5.4
Operating exp/avg. assets	2.8	2.6	2.4	2.2
Operating profit/avg assets	3.3	3.2	3.2	3.2
Provisions/avg. assets	0.6	1.2	1.0	0.7
PBT/avg. assets	2.7	2.0	2.3	2.5
Tax/avg. assets	0.9	0.7	0.8	0.9
PAT/avg. assets	1.8	1.3	1.5	1.7
Leverage	9.4	10.6	10.8	10.8

F) Growth Rates (%)	FY18	FY19	FY20e	FY21e
Interest Income	20.0	28.8	23.7	19.8
Interest Expenses	17.3	37.1	24.7	21.8
NII	23.7	18.0	22.2	16.8
Other Income	13.9	18.9	15.0	16.0
Total Income	19.7	18.3	19.4	16.5
Operating Income	22.1	21.5	23.0	18.9
Net Profit	25.7	(8.5)	38.6	34.1
Deposits	19.8	28.5	22.0	20.1
Advances	28.2	28.6	22.0	20.1

H) Other performance parameters	FY18	FY19	FY20e	FY21e
No. of branches (No.)	1,400	1,655	1,905	2,155
No. of employees (No.)	26,000	27,785	29,535	31,285
Business per branch (₹)	2,119	2,304	2,442	2,593
Profit per branch (₹)	25.8	19.9	24.0	28.5
Business per employee (₹)	114.1	137.2	157.5	178.6
Profit per employee (₹)	1.4	1.2	1.5	2.0

Source: Company, LKP Research

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