

RESULT UPDATE

 Bloomberg: IIB IN
 Reuters: INBK.BO

HOLD
Visible pressure on core spreads, though amidst strong market share gain...

We assess the performance as largely mixed with a negative bias. While the headline number on margins were fairly flat (3.8% QoQ) we sense competitive pressure on the retail core spreads. On the asset quality, the quarter saw higher slippages from the corporate and the bank made additional provisioning towards IL&FS exposure (Rs 2.6 bn). Savings account growth too came in much lower than expected. On the positive the bank's loan growth numbers strongly outpaced the industry OEM sales suggesting strong market share gains. We estimate ROEs at 15.1%/19% FY19E/FY20E. The bank with its comprehensive strengths and reasonable valuations is our preferred pick among the retail banks. We maintain HOLD on the stock and ascribe Target Price of Rs 1800 valuing the stock at 3.4x FY20E P/B. The headline PAT at Rs 9.85 bn was lower than our estimate, Rs 11.3 bn, largely due to higher than estimated provisioning towards IL&FS.

Sense visible pressure on core spreads; outlook negative: While the headline NIMs showed only a marginal dip to 3.83% from 3.84% QoQ, we sense the visible competitive pressure on core spreads. The margins remained fairly despite the positives from favorable product mix, stable CASA, improvement in C/D ratio, higher other interest income, and continuing strong improvement in corporate yields. We sense the pressure on NIMs to continue for a couple of quarters. The IL&FS slippage in Q4FY19 shall also have negative impact on NIMs in the near term.

Strong loan growth suggesting impressive market share gains: Loan book (Rs 1.7 trillion) growth was at a strong 6.1%/34.7% QoQ/YoY (our estimate 5.5% QoQ). The same was led by both the retail (Rs 680 bn), 6.9%/28.1% QoQ/YoY, and corporate (Incl Business banking, Rs 1051 bn), 5.7%/39.4% QoQ/YoY. Within retail the growth was strong largely across the segments: CV 6%/30% QoQ/YoY, UV 6%/26% QoQ/YoY, SCV 5%/23% QoQ/YoY, Tractors 8%/32% QoQ/YoY and Cards 11%/51% QoQ/YoY. We rives up our loan growth estimate marginally to 27%/24% FY19E/FY20E (25%/23% earlier).

Some disappointment on asset quality; retail continues to be stable: The headline NPA ratios inched up (GNPA/NNPA/Coverage 1.1%/0.6%/48% vs 1.0%/0.5%/56% in 2QFY19). The disappointment came in from corporate with slippages at Rs 4.6 bn vs 0.9 bn in 2QFY19. Further while the IL&FS exposure did not slip during the quarter, the bank made additional Rs 2.6 bn towards the exposure. We expect the exposure to slip in 4QFY19. The coverage ratio was impacted due to high corporate slippages and higher write-offs. Nevertheless the retail book continues to remain stable. We estimate headline asset quality to weaken with GNPA/NNPA/PCR at 2.4%/1.4%/42% as of FY19E. The provisioning towards IL&FS would keep the credit cost elevated at 1.2% in FY19E.

Key Financials:

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	45,166	60,626	74,975	89,112	108,352
Pre-Provision Profit	41,414	54,510	66,561	80,203	99,473
PAT	22,865	28,679	36,060	38,453	55,525
EPS (Rs)	38.4	47.9	60.1	64.1	92.5
BV (Rs)	297	345	397	450	526
P/E (x)	41.7	33.4	26.7	25.0	17.3
P/BV (x)	5.4	4.6	4.0	3.6	3.0
Net NPA (%)	0.4	0.4	0.5	1.4	0.4
ROA (%)	2.0	1.9	1.9	1.6	1.9
ROE (%)	16.1	15.0	16.2	15.1	19.0
Tier I (%)	14.9	14.7	14.6	12.9	12.1

Source: Company, Karvy Stock Broking

Recommendation

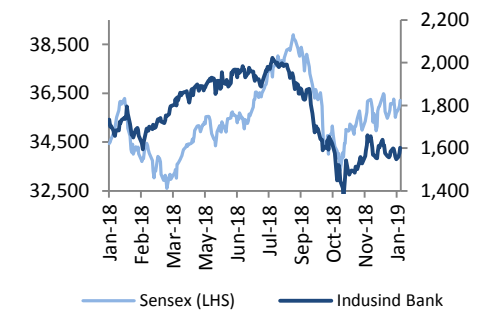
CMP:	Rs.1602
Target Price:	Rs.1800
Previous Target Price:	Rs.1800
Upside (%)	12%

Stock Information

Market Cap. (Rs bn / US\$ mn)	964/13,669
52-week High/Low (Rs)	2,038/1,333
3m ADV (Rs mn /US\$ mn)	2,916/56
Beta	1.0
Sensex/ Nifty	36,213/10,855
Share outstanding (mn)	602

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.2	(0.4)	(7.1)	0.2
Rel. to Sensex	0.7	(5.6)	(11.7)	(0.2)

Performance


Source: Bloomberg

Earnings Revision

(%)	FY19E	FY20E
Loans	↑ 1.6	↑ 2.4
NII	↓ 0.01	↑ 1.5
Operating Profit	↑ 1.8	↑ 2.9
PAT	↓ 9.5	↑ 1.9

Source: Karvy Stock Broking

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Indusind Bank
Exhibit 1: Variance

Rs mn	Revised Estimates		Old Estimates		Variance %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Loan Book	1,840,911	2,282,730	1,811,921	2,228,663	1.60%	2.43%
NII	89,112	108,352	89,122	106,773	-0.01%	1.48%
Operating Profit	80,203	99,473	78,821	96,684	1.75%	2.88%
Credit Cost	21,764	15,089	14,250	13,923	52.73%	8.37%
PAT	38,453	55,525	42,488	54,457	-9.50%	1.96%

Source: Company, Karvy Stock Broking

Exhibit 2: Quarterly Summary

Rs mn	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY Growth	QoQ Growth
Net Interest Income	18,948	20,076	21,224	22,033	22,881	20.8%	3.8%
Non Interest Income	11,868	12,085	13,016	13,173	14,689	23.8%	11.5%
<i>Treasury Income</i>	<i>1100</i>	<i>950</i>	<i>1370</i>	<i>990</i>	<i>2030</i>	<i>84.5%</i>	<i>105.1%</i>
Operating Income	30,816	32,161	34,240	35,206	37,569	21.9%	6.7%
Operating Expenses	14,169	14,467	15,129	15,281	16,400	15.7%	7.3%
Pre provision Profits	16,647	17,694	19,111	19,924	21,170	27.2%	6.2%
Provisions and Contingencies	2,362	3,356	3,500	5,903	6,067	156.9%	2.8%
PBT	14,285	14,338	15,611	14,022	15,103	5.7%	7.7%
Provision for Tax	4,923	4,808	5,254	4,819	5,253	6.7%	9.0%
PAT	9,362	9,531	10,357	9,203	9,850	5.2%	7.0%
Balance Sheet items/ratios							
Deposits	1,461	1,516	1,589	1,682	1,757	20.3%	4.4%
<i>CASA Deposits</i>	<i>626</i>	<i>667</i>	<i>690</i>	<i>734</i>	<i>765</i>	<i>22.3%</i>	<i>4.3%</i>
Advances	1,285	1,450	1,507	1,631	1,732	34.7%	6.1%
CD Ratio (%)	88.0	95.6	94.8	97.0	98.6	1057 bps	158 bps
CAR (%)	15.83	15.03	14.70	14.28	14.19	-164 bps	-9 bps
Tier I (%)	15.33	14.58	14.29	13.86	13.78	-155 bps	-8 bps
NIM (%)	3.99	3.97	3.92	3.84	3.83	-16 bps	-1 bps
Cost-Income Ratio (%)	46.0	45.0	44.2	43.4	43.7	-233 bps	25 bps
Tax Rate (% PBT)	34.5	33.5	33.7	34.4	34.8	32 bps	41 bps
Asset quality							
Gross NPA (Rs bn)	15.0	17.0	17.4	17.8	19.7	31.3%	10.5%
Net NPA (Rs bn)	5.9	7.5	7.6	7.9	10.3	73.8%	30.7%
Gross NPAs (%)	1.16	1.17	1.15	1.09	1.14	-2 bps	5 bps
Net NPAs (%)	0.46	0.51	0.51	0.48	0.59	13 bps	11 bps
Delinquency Ratio (%)	1.3	2.5	1.3	1.1	1.9	62 bps	85 bps
Coverage Ratio (%)	60.5	56.3	56.2	55.8	47.7	-1278 bps	-808 bps

Source: Company, Karvy Stock Broking

Indusind Bank
Exhibit 3: Income Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	45,166	60,626	74,975	89,112	108,352
Fees	31,517	38,946	43,863	54,593	65,931
Investment Profit	1,453	2,769	3,638	937	1,543
Net Revenue	78,135	102,341	122,476	144,642	175,826
Operating Expense	36,721	47,831	55,914	64,438	76,353
-Employee Exp	12,361	15,210	17,807	18,697	22,250
-Other Exp	24,360	32,621	38,108	45,741	54,103
Pre-provision Profit	41,414	54,510	66,561	80,203	99,473
Provisions	6,722	10,913	11,754	21,764	15,089
PBT	34,693	43,597	54,807	58,440	84,384
Taxes	11,828	14,918	18,747	19,986	28,859
PAT	22,865	28,679	36,060	38,453	55,525

Source: Company, Karvy Stock Broking

Exhibit 4: Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	5,950	5,982	6,002	6,002	6,002
Reserves & Surplus	171,010	200,480	232,414	263,946	309,476
Shareholder's Funds	176,960	206,461	238,416	269,948	315,478
Deposits	930,004	1,265,722	1,516,398	1,897,492	2,344,536
-Current deposits	154,780	196,088	208,440	252,212	310,221
-Saving deposits	172,463	270,372	458,880	541,478	687,678
-Term deposit	602,761	799,262	849,078	1,103,801	1,346,637
Borrowings	221,559	224,537	382,891	486,271	607,839
Other liabilities	73,758	91,877	78,563	128,864	159,791
Total liabilities	1,402,280	1,788,597	2,216,268	2,782,575	3,427,645
Cash/Equivalent	101,119	186,283	132,159	166,863	206,666
Advances	884,193	1,130,805	1,449,537	1,840,911	2,282,730
Investments	312,143	367,021	500,767	624,912	771,512
Fixed Assets	12,553	13,352	13,388	15,396	17,705
Other assets	92,271	91,135	120,418	134,493	149,031
Total assets	1,402,280	1,788,597	2,216,268	2,782,575	3,427,645

Source: Company, Karvy Stock Broking

Indusind Bank
Exhibit 5: Ratio's

<i>Ratio's</i>	FY16	FY17	FY18	FY19E	FY20E
Growth (%)					
NII growth	32.1	34.2	23.7	18.9	21.6
Pre-provision profit growth	33.7	31.6	22.1	20.5	24.0
PAT growth	27.5	25.4	25.7	6.6	44.4
Business (%)					
Advance growth	28.5	27.9	28.2	27.0	24.0
Balance Sheet growth	25.2	27.5	23.9	25.6	23.2
Credit/Outsider's Liabilities	76.8	75.9	76.3	77.2	77.3
CASA	35.2	36.9	44.0	41.8	42.6
Operating efficiency (%)					
Cost-to-income	47.0	46.7	45.7	44.6	43.4
Cost-to-income (Ex Treasury)	47.9	48.0	47.1	44.8	43.8
Cost-to-advances	4.2	4.2	3.9	3.5	3.3
Spreads (%)					
Spreads	3.2	3.3	3.4	3.2	3.1
NIMs	3.9	4.1	4.0	3.8	3.7
Capital adequacy (%)					
Tier I	14.9	14.7	14.6	12.9	12.1
Asset Quality (%)					
Gross NPA	0.9	0.9	1.2	2.4	0.8
Net NPA	0.4	0.4	0.5	1.4	0.4
Provision coverage	58.6	58.4	56.3	42.1	48.9
Slippage	1.2	1.6	2.9	3.2	1.5
Credit-cost	0.8	1.0	0.8	1.2	0.7
Return (%)					
ROE	16.1	15.0	16.2	15.1	19.0
ROA	2.0	1.9	1.9	1.6	1.9
Per share (Rs)					
EPS	38.4	47.9	60.1	64.1	92.5
BV	297	345	397	450	526
ABV	292	338	385	407	510
Valuation (x)					
P/E	41.7	33.4	26.7	25.0	17.3
P/BV	5.4	4.6	4.0	3.6	3.0
P/ABV	5.5	4.7	4.2	3.9	3.1

Source: Company, Karvy Stock Broking

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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