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Rating	<b>BUY</b>
Price	Rs1,743
Target Price	Rs1,952
Implied Upside	12.0%
Sensex	32,182
Nifty	10,096

(Prices as on October 12, 2017)

#### Trading data

Market Cap. (Rs bn)	1,042.3
Shares o/s (m)	598.1
3M Avg. Daily value (Rs m)	1878.5

#### Major shareholders

Promoters	14.97%
Foreign	43.00%
Domestic Inst.	12.60%
Public & Other	29.43%

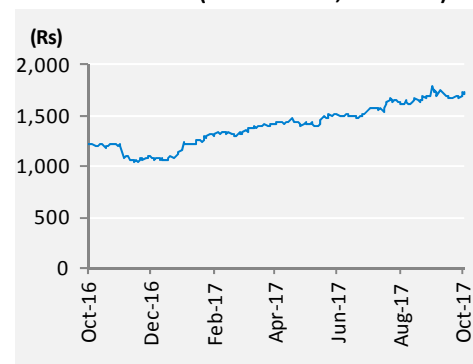
#### Stock Performance

(%)	1M	6M	12M
Absolute	0.1	21.2	42.7
Relative	0.0	12.7	28.1

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	62.5	61.4	1.7
2019	82.3	77.7	5.9

#### Price Performance (RIC: INBK.BO, BB: IIB IN)



Source: Bloomberg

**IIB continued its strong performance with PAT growth of 25% YoY at Rs8.80bn (PL: Rs8.81bn) on back of controlled opex and better top line with NII growing 25% YoY at Rs18.2bn (PL: Rs18.9bn). Margins remained steady at 4% along with loan growth of 25% YoY. Main highlight of the quarter was very strong SA accretion sequentially leading to CASA ratio of 42% (up 448bps QoQ). SA accretion was Rs86.0bn compared to Rs45.2bn in Q1FY18 and Rs46.1bn in Q3FY17 which was demonetisation period) and has been commendable. We believe, strong SA accretion to continue benefitting cost of funds which we have factored in our revised estimates. We remain positive and retain our "BUY" rating with revised TP of Rs1,952 (from Rs1,670) based on 3.9x Sep-19 ABV (rolled over from Mar-19).**

- **Steady set of performance continues:** Core performance remained on track with NII growth of ~25% YoY led by stable loan growth of 26% YoY and stable margins of 4.0%. Other income was slightly on the lower side on lower capital gains, while fee income remained better mainly contributed by TPD income and banking fees. Strong traction in PPOP of 28% YoY was also helped by controlled opex growth. Management expects steadiness in all parameters to continue going ahead.
- **Steady loan growth but strong SA traction on liabilities side:** Loans grew by ~25% YoY continued to be stronger from Corporate segment at 26% YoY, while was 22% YoY from non-corporate segment. Bank has seen traction in Vehicle portfolio and expect momentum to pick up in H2FY18 adding to consumer loan growth. On liabilities side, bank progressed commendably on CASA ratio touching 42% up 448bps QoQ on back of strong SA growth of 95% YoY & 27% QoQ led by multiple factors like maturity of branches and quality acquisition. This strong traction has helped bank lower cost of funds.
- **Asset quality stable:** Overall GNPA/NNPA were stable without large deterioration in line with estimates, while corporate slippage run-rate remained slightly on higher side, which bank expects to reduce. Bank saw improvement in asset quality of Vehicle loans and LAP book (partly asset sale) helping improve consumer segment asset quality. Bank has exposure to 8 a/c referred by RBI to NCLT worth Rs3.85bn with an overall PCR of 65% and has provided Rs360mn in Q2FY18. We continue to retain our BUY on continued stability in operating performance.

#### Key financials ( Y/e March)

	2016	2017	2018E	2019E
Net interest income	45,166	60,626	75,336	94,282
Growth (%)	32.1	34.2	24.3	25.1
Operating profit	41,414	54,510	69,191	86,058
PAT	22,865	28,679	37,370	49,200
EPS (Rs)	40.7	48.1	62.5	82.3
Growth (%)	19.6	18.2	30.0	31.7
Net DPS (Rs)	4.9	—	7.5	9.0

#### Profitability & Valuation

	2016	2017	2018E	2019E
NIM (%)	3.55	3.77	3.77	3.84
RoAE (%)	16.2	15.0	16.8	18.9
RoAA (%)	1.80	1.78	1.87	2.00
P / BV (x)	6.0	5.1	4.4	3.8
P / ABV (x)	6.1	5.3	4.5	3.8
PE (x)	42.8	36.2	27.9	21.2
Net dividend yield (%)	0.3	—	0.4	0.5

Source: Company Data; PL Research

**Exhibit 1: PAT performance on track supported by core operating profit**

	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	QoQ gr. (%)
<b>P&amp;L</b>					
Interest Income	42,084	34,693	21.3	41,355	1.8
Interest Expense	23,874	20,090	18.8	23,615	1.1
<b>Net interest income (NII)</b>	<b>18,210</b>	<b>14,603</b>	<b>24.7</b>	<b>17,741</b>	<b>2.6</b>
Treasury income	1,750	1,449	20.8	1,930	(9.3)
Fee income	10,130	8,256	22.7	9,740	4.0
<b>Other income</b>	<b>11,876</b>	<b>9,704</b>	<b>22.4</b>	<b>11,673</b>	<b>1.7</b>
<b>Total income</b>	<b>30,086</b>	<b>24,307</b>	<b>23.8</b>	<b>29,413</b>	<b>2.3</b>
Operating expenses	13,751	11,491	19.7	13,528	1.6
-Staff expenses	4,450	3,758	18.4	4,222	5.4
-Other expenses	9,300	7,733	20.3	9,306	(0.1)
<b>Operating profit</b>	<b>16,335</b>	<b>12,817</b>	<b>27.5</b>	<b>15,885</b>	<b>2.8</b>
<b>Core operating profit</b>	<b>14,585</b>	<b>11,368</b>	<b>28.3</b>	<b>13,955</b>	<b>4.5</b>
Total provisions	2,938	2,139	37.3	3,100	(5.2)
<b>Profit before tax</b>	<b>13,398</b>	<b>10,678</b>	<b>25.5</b>	<b>12,786</b>	<b>4.8</b>
Tax	4,597	3,635	26.4	4,420	4.0
<b>Profit after tax</b>	<b>8,801</b>	<b>7,043</b>	<b>25.0</b>	<b>8,365</b>	<b>5.2</b>
<b>Deposits</b>	<b>14,14,406</b>	<b>11,23,133</b>	<b>25.9</b>	<b>13,36,730</b>	<b>5.8</b>
<b>Advances</b>	<b>12,31,808</b>	<b>9,89,491</b>	<b>24.5</b>	<b>11,64,070</b>	<b>5.8</b>
<b>Profitability ratios</b>					
RoAA	1.9	1.9	(3)	1.9	4
RoAE	16.5	15.4	110	16.2	31
<b>NIM</b>	<b>4.0</b>	<b>4.0</b>	<b>-</b>	<b>4.0</b>	<b>-</b>
Yield on Advances	11.3	11.9	(59)	11.5	(26)
Cost of Deposits	5.9	6.6	(70)	6.2	(25)
<b>Asset Quality ratios</b>					
Gross NPL (Rs m)	13,453	8,990	49.6	12,717	5.8
Net NPL (Rs m)	5,369	3,692	45.4	5,083	5.6
Gross NPL ratio	1.1	0.9	18	1.1	(1)
Net NPL ratio	0.4	0.4	7	0.4	-
Coverage ratio	60.1	58.9	115	60.0	6
Restructured adv. (Rs m)	1,971	4,354	(54.7)	1,979	(0.4)
% restructured adv.	0.2	0.4	(28)	0.2	(1)
<b>Business &amp; Other Ratios</b>					
Low-cost deposit mix	42.3	36.5	573	37.8	448
Cost-income ratio	45.7	47.3	(157)	46.0	(29)
Non int. inc / total income	39.5	39.9	(45)	39.7	(21)
Credit deposit ratio	87.1	88.1	(101)	87.1	1
CAR	15.6	15.3	31	16.2	(55)
Tier-I	15.1	14.7	41	15.7	(57)

Source: Company Data, PL Research

## Q2FY18 Concall Takeaways

### Balance sheet growth and Outlook:

- **Loan book** – Loan book growth of ~25% YoY was contributed from **corporate** (26% YoY) via working capital refinancing and also overseas funding from GIFT city. **Retail** book (22% YoY) also contributed better to overall growth as vehicle finance book (17% YoY) saw improvement on supply side. Strong disbursements were seen this quarter mainly in CV (25% YoY) and tractor segment. **Outlook:** Management expects its vehicle finance to grow further in H2FY18, while continue to grow in better rated corporate.
- **Liabilities** – CASA growth has been strong mainly led by 95% YoY SA growth as **i)** 75% of branch network has matured by more than 2 years which has aided to bring in more business, **ii)** acquisition quality has improved which has led to ATS also increasing, **iii)** deepening of household relationship and home market strategy and **iv)** gaining access to government business at panchayat level mainly project and retail A/cs. Client base for the bank has crossed 10mn with 100,000 customers being gained every month. Bank is garnering customers within slab of 0.1mn to 1mn (SA rate 4%), 1mn to 10mn (SA rate 5%) and 10mn to 100mn (SA rate 5.5%).

### Margins:

- Margins have remained stable at 4% on account of decline in cost of funds whereas yields have slightly declined as bank grows in better rate corporate book. **Outlook** – Bank expects going forward margins to remain at this level.

### Asset quality:

- **Slippages** – Slippages were lower comparatively in both corporate and consumer book. Within consumer book, LAP segment saw good recoveries and also part sale. O/s SR stand at Rs4bn as on Q2FY18 (0.3% of loans).
- **Other stress assets** – Bank has exposure to 6 A/cs out of 28 A/cs for which it made an additional provision of Rs360mn. Bank now has exposure to total 8 A/cs out of total 40 A/cs. Overall stressed assets i.e. Restructured assets + GNPA's in 1QFY18 stood at 1.24% vs 1.26% in 1QFY18.

### Update on Bharat Financial:

- Bank conveyed the positives behind the merger with Bharat Financial, **i)** immediate releasing of capital as RWA for bank is 75% whereas for MFI it is 100%, **ii)** cost of funds will be lower than the MFI player giving it an immediate spread of 3-4% and **iii)** entire portfolio will be classified as PSL and help the bank sell PSL certificates.

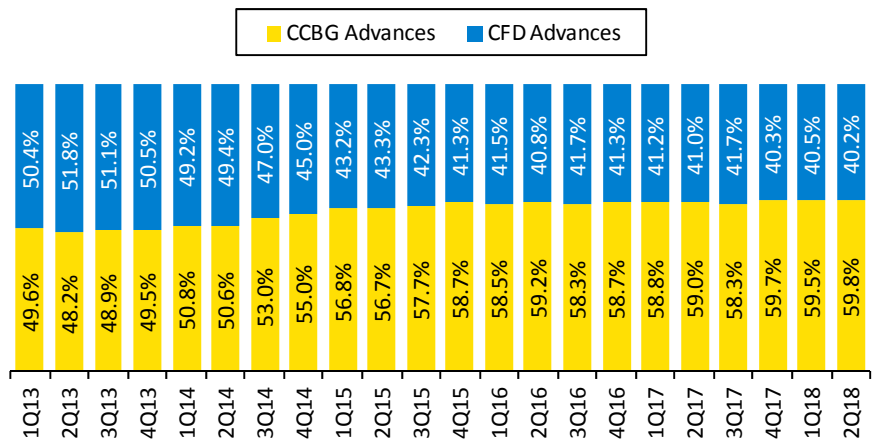
**Exhibit 2: Both corporate and consumer book showcasing strong growth**

Retail book saw return in growth in vehicle finance book with strong growth in CV and tractor segments as supply picks up

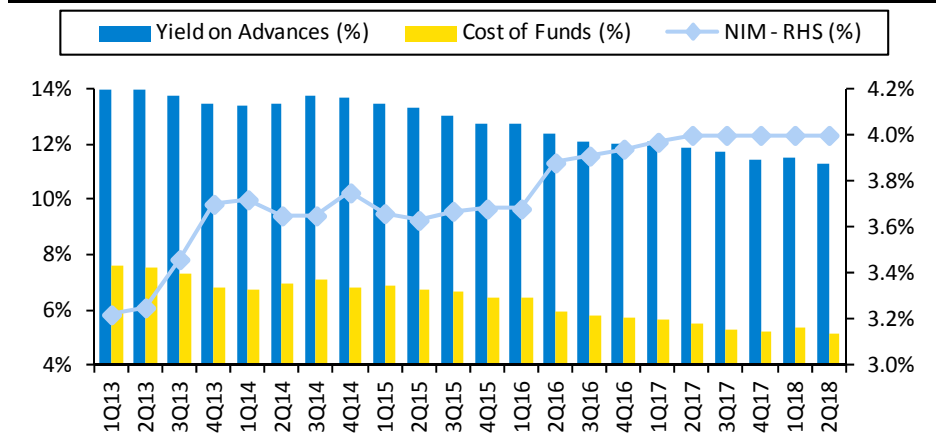
Corporate book saw strong growth on working capital financing and also overseas funding

Loan Book mix	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	QoQ gr. (%)
CV Loans / Tractors	1,86,540	1,56,680	19.1	1,76,490	5.7
UV Loans	25,140	21,570	16.6	24,270	3.6
3W/Small CV	23,910	22,740	5.1	23,810	0.4
2W Loans	32,880	31,340	4.9	32,620	0.8
Car Loans	50,420	43,240	16.6	48,190	4.6
Equipment Financing	46,030	35,970	28.0	43,810	5.1
Credit Card	21,600	14,080	53.4	19,440	11.1
LAP	75,490	58,720	28.6	73,030	3.4
Others	32,640	21,240	53.7	29,290	11.4
<b>Consumer Finance</b>	<b>4,94,650</b>	<b>4,05,580</b>	<b>22.0</b>	<b>4,70,950</b>	<b>5.0</b>
<b>Corporate Finance</b>	<b>7,37,160</b>	<b>5,83,910</b>	<b>26.2</b>	<b>6,93,120</b>	<b>6.4</b>

Source: Company Data, PL Research

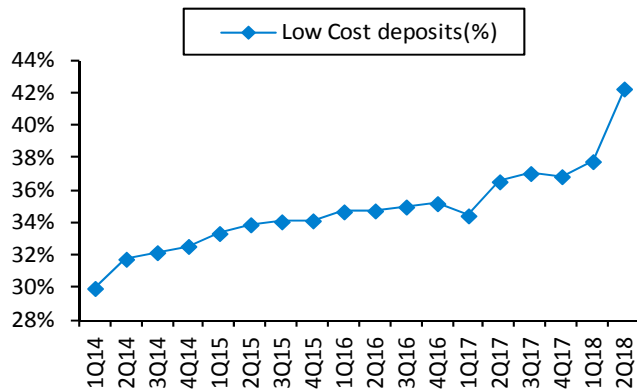
**Exhibit 3: Loan mix continues to remain same with Corporate and Consumer at 60:40**


Source: Company Data, PL Research

**Exhibit 4: Yields have marginally come down on growing in corporate book however decline in cost of funds help keep spreads intact**


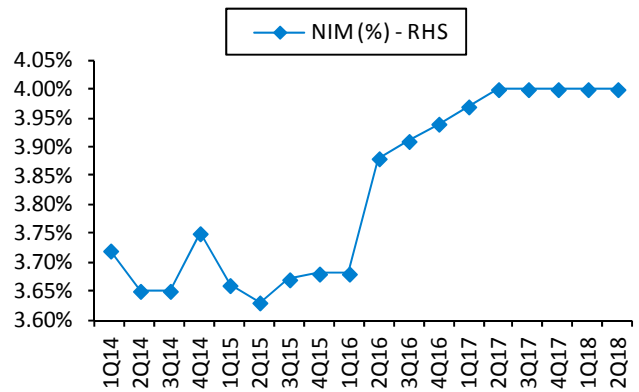
Source: Company Data, PL Research

**Exhibit 5: CASA growth saw sharp surge on 95% YoY SA growth**



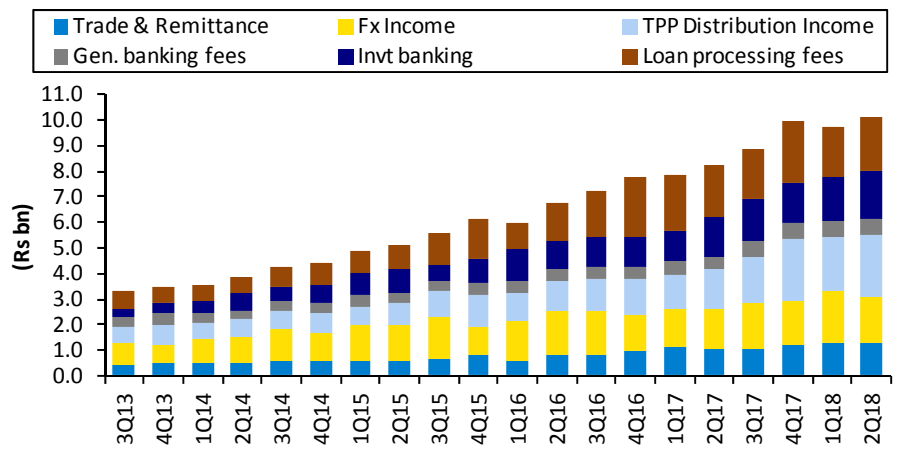
Source: Company Data, PL Research

**Exhibit 6: Margins continue to remain stable at 4%**



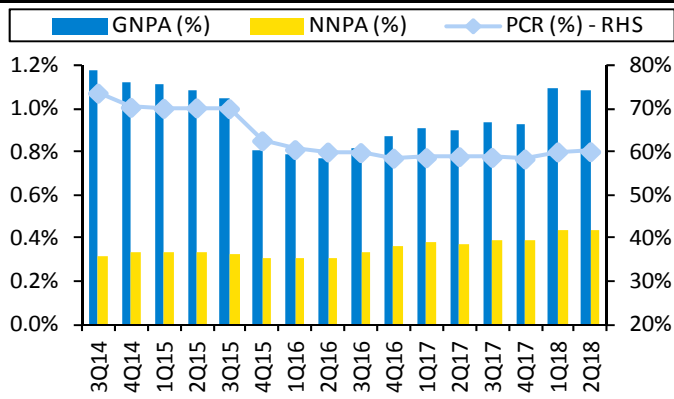
Source: Company Data, PL Research

**Exhibit 7: Core fees: Strong TPP fees, Fx fees & trade/remit fees lead fee growth**



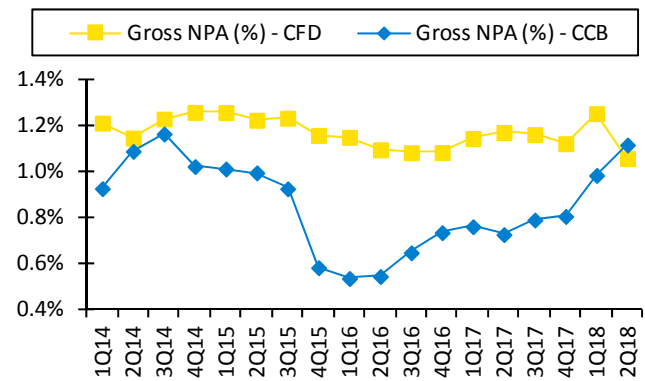
Source: Company Data, PL Research

**Exhibit 8: Asset quality was stable on overall lower slippages**

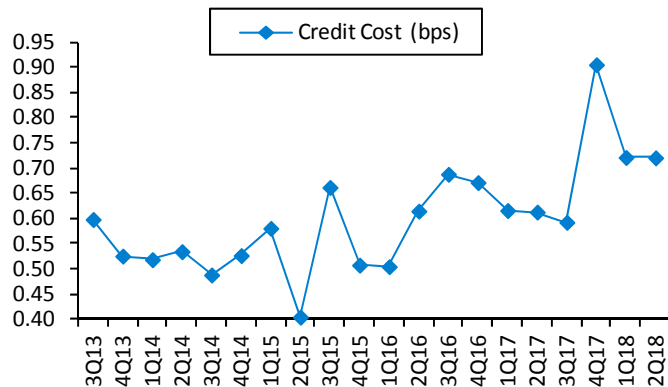


Source: Company Data, PL Research

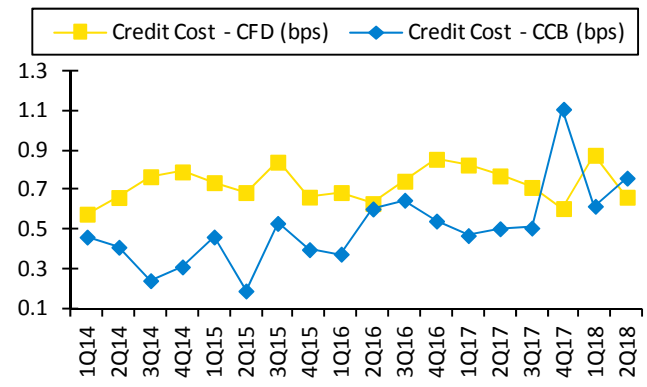
**Exhibit 9: GNPA's inched-up in corporate book whereas improved in consumer book particularly in LAP segment**



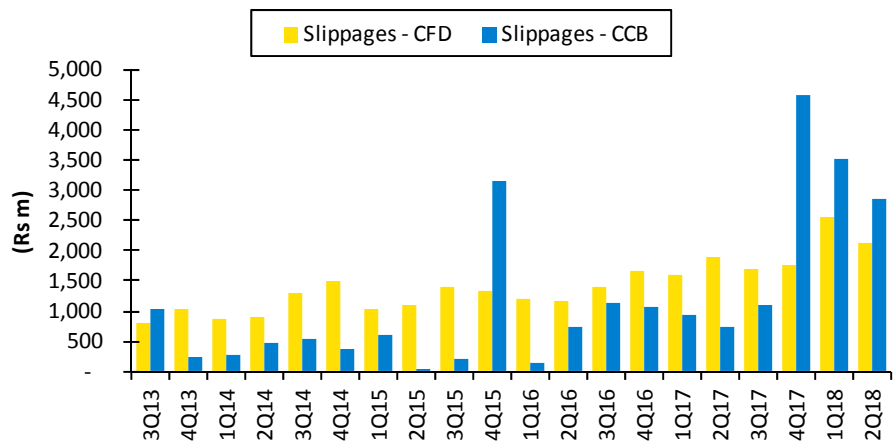
Source: Company Data, PL Research

**Exhibit 10: Credit cost was stable yet slightly high....**


Source: Company Data, PL Research

**Exhibit 11: on additional provisioning on NCLT cases in corporate book**


Source: Company Data, PL Research

**Exhibit 12: Slippages were comparatively lower in both corporate and consumer book**


Source: Company Data, PL Research

**Exhibit 13: Estimates change table – We slightly tweak our estimates to factor in reduced cost of funds and opex**

(Rs mn)	Old		Revised		% Change		Introducing
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	
Net interest income	73,491	92,881	75,336	94,282	2.5	1.5	1,19,884
Operating profit	66,394	83,549	69,191	86,058	4.2	3.0	1,09,130
Net profit	36,796	47,083	37,370	49,200	1.6	4.5	62,548
EPS (Rs)	61.5	78.7	62.5	82.3	1.6	4.5	104.6
ABVPS (Rs)	383.7	450.6	387.6	455.4	1.0	1.1	542.9
<b>Price target (Rs)</b>	<b>1,670</b>		<b>1,952</b>		<b>16.9%</b>		
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>				

Source: Company Data, PL Research

**Exhibit 14: We revise our TP to Rs1,952 (from Rs1,670) on 3.9x P/ABV Sep-19 rolled over from Mar-19**

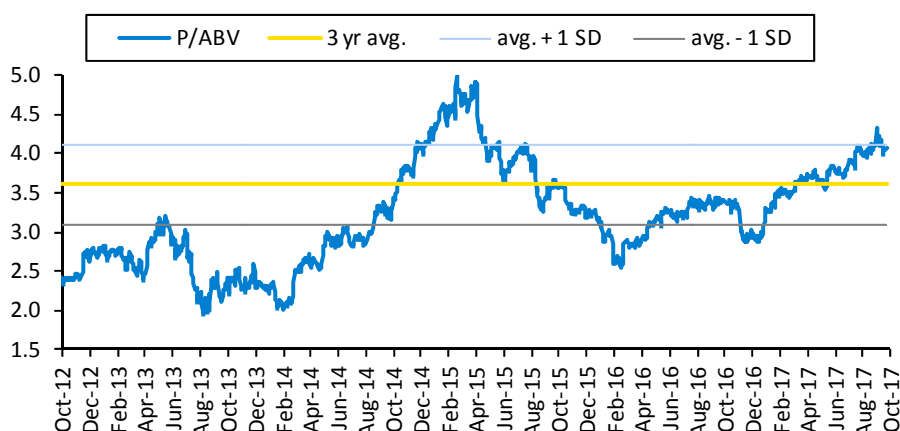
<b>PT calculation and upside</b>	
Fair price - EVA, Rs	1,949
Fair price - P/ABV, Rs	1,954
<b>Average of the two, Rs</b>	<b>1,952</b>
Target P/ABV (x)	<b>3.9</b>
Target P/E (x)	<b>20.9</b>
Current price, Rs	1,743
<b>Upside (%)</b>	<b>12%</b>
Dividend yield (%)	1%
<b>Total return (%)</b>	<b>13%</b>

Source: Company Data, PL Research

**Exhibit 15: ROAs should improve towards 2% by FY19**

<b>RoE decomposition (%)</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Interest income	10.38	10.67	10.30	9.75	9.09	8.96	8.79	8.77	8.85
Interest expenses	7.08	7.26	6.69	6.31	5.55	5.19	5.02	4.93	4.87
<b>Net interest income</b>	<b>3.30</b>	<b>3.41</b>	<b>3.61</b>	<b>3.44</b>	<b>3.55</b>	<b>3.77</b>	<b>3.77</b>	<b>3.84</b>	<b>3.98</b>
Treasury income	0.57	0.60	0.83	0.84	0.77	0.74	0.70	0.73	0.74
Other Inc. from operations	1.39	1.48	1.52	1.58	1.82	1.85	1.91	1.92	1.96
<b>Total income</b>	<b>5.26</b>	<b>5.49</b>	<b>5.96</b>	<b>5.86</b>	<b>6.14</b>	<b>6.37</b>	<b>6.38</b>	<b>6.49</b>	<b>6.68</b>
Employee expenses	0.94	1.01	1.01	0.99	0.97	0.95	0.92	0.93	0.92
Other operating expenses	1.66	1.67	1.72	1.76	1.91	2.03	2.00	2.06	2.14
<b>Operating profit</b>	<b>2.66</b>	<b>2.81</b>	<b>3.24</b>	<b>3.12</b>	<b>3.25</b>	<b>3.39</b>	<b>3.46</b>	<b>3.50</b>	<b>3.62</b>
Tax	0.76	0.79	0.90	0.92	0.93	0.93	0.99	1.05	1.09
Loan loss provisions	0.35	0.40	0.58	0.39	0.53	0.68	0.61	0.45	0.45
<b>RoAA</b>	<b>1.55</b>	<b>1.62</b>	<b>1.76</b>	<b>1.80</b>	<b>1.80</b>	<b>1.78</b>	<b>1.87</b>	<b>2.00</b>	<b>2.08</b>
<b>RoAE</b>	<b>18.26</b>	<b>17.15</b>	<b>16.89</b>	<b>18.22</b>	<b>16.14</b>	<b>14.96</b>	<b>16.81</b>	<b>18.95</b>	<b>20.29</b>

Source: Company Data, PL Research

**Exhibit 16: Valuations continue to be at premium and above mean levels**


Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
Int. Earned from Adv.	92,446	114,791	141,510	175,733
Int. Earned from Inv.	17,806	24,669	28,390	33,149
Others	5,555	4,597	5,691	6,492
Total Interest Income	115,807	144,057	175,591	215,374
Interest expense	70,641	83,431	100,255	121,092
<b>NII</b>	<b>45,166</b>	<b>60,626</b>	<b>75,336</b>	<b>94,282</b>
<i>Growth (%)</i>	32.1	34.2	24.3	25.1
Treasury Income	1,453	2,769	1,000	1,100
NTNII	31,517	38,946	51,144	64,080
Non Interest Income	32,969	41,715	52,144	65,180
Total Income	148,776	185,772	227,734	280,554
<i>Growth (%)</i>	23.0	24.9	22.6	23.2
Operating Expense	36,721	47,831	58,289	73,404
<b>Operating Profit</b>	<b>41,414</b>	<b>54,510</b>	<b>69,191</b>	<b>86,058</b>
<i>Growth (%)</i>	33.7	31.6	26.9	24.4
NPA Provisions	5,015	7,048	10,245	9,275
Investment Provisions	295	314	—	—
Total Provisions	6,722	10,913	12,138	10,944
<b>PBT</b>	<b>34,693</b>	<b>43,597</b>	<b>57,053</b>	<b>75,114</b>
Tax Provisions	11,828	14,918	19,683	25,914
<i>Effective Tax Rate (%)</i>	34.1	34.2	34.5	34.5
<b>PAT</b>	<b>22,865</b>	<b>28,679</b>	<b>37,370</b>	<b>49,200</b>
<i>Growth (%)</i>	27.5	25.4	30.3	31.7

**Balance Sheet (Rs m)**

Y/e March	2016	2017	2018E	2019E
Par Value	10	10	10	10
No. of equity shares	595	598	598	598
Equity	5,950	5,981	5,981	5,981
Networth	176,822	206,309	238,279	281,000
Adj. Networth	173,606	201,921	235,581	276,126
Deposits	930,003	1,265,722	1,601,139	2,001,423
<i>Growth (%)</i>	25.4	36.1	26.5	25.0
Low Cost deposits	327,243	466,460	680,484	850,605
<i>% of total deposits</i>	35.2	36.9	42.5	42.5
<b>Total Liabilities</b>	<b>1,428,832</b>	<b>1,786,332</b>	<b>2,208,744</b>	<b>2,704,139</b>
Net Advances	884,193	1,130,805	1,430,468	1,823,847
<i>Growth (%)</i>	28.5	27.9	26.5	27.5
Investments	340,543	367,021	459,498	534,399
<b>Total Assets</b>	<b>1,428,970</b>	<b>1,786,484</b>	<b>2,208,744</b>	<b>2,704,139</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Interest Income	36,993	38,300	41,355	42,084
Interest Expense	21,209	21,626	23,615	23,874
<b>Net Interest Income</b>	<b>15,784</b>	<b>16,675</b>	<b>17,741</b>	<b>18,210</b>
Non Interest Income	10,168	12,113	11,673	11,876
CEB	8,848	9,960	9,740	10,130
Treasury	1,320	2,150	1,930	1,750
<b>Net Total Income</b>	<b>25,952</b>	<b>28,788</b>	<b>29,413</b>	<b>30,086</b>
Operating Expenses	12,319	13,065	13,528	13,751
Employee Expenses	3,940	3,943	4,222	4,450
Other Expenses	8,378	9,122	9,306	9,300
<b>Operating Profit</b>	<b>13,633</b>	<b>15,722</b>	<b>15,885</b>	<b>16,335</b>
Core Operating Profit	12,314	13,572	13,955	14,585
Provisions	2,169	4,301	3,100	2,938
Loan loss provisions	1,524	2,560	—	—
Investment Depreciation	—	—	—	—
<b>Profit before tax</b>	<b>11,465</b>	<b>11,421</b>	<b>12,786</b>	<b>13,398</b>
Tax	3,959	3,905	4,420	4,597
<b>PAT before EO</b>	<b>7,506</b>	<b>7,516</b>	<b>8,365</b>	<b>8,801</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>7,506</b>	<b>7,516</b>	<b>8,365</b>	<b>8,801</b>

**Key Ratios**

Y/e March	2016	2017	2018E	2019E
CMP (Rs)	1,743	1,743	1,743	1,743
Equity Shrs. Os. (m)	595	598	598	598
Market Cap (Rs m)	1,036,823	1,042,334	1,042,334	1,042,334
<i>M/Cap to AUM (%)</i>	72.6	58.3	47.2	38.5
EPS (Rs)	40.7	48.1	62.5	82.3
Book Value (Rs)	291	339	392	464
Adj. BV (100%) (Rs)	286	332	388	455
P/E (x)	42.8	36.2	27.9	21.2
P/BV (x)	6.0	5.1	4.4	3.8
P/ABV (x)	6.1	5.3	4.5	3.8
DPS (Rs)	4.9	—	7.5	9.0
<i>Dividend Yield (%)</i>	0.3	—	0.4	0.5

**Profitability (%)**

Y/e March	2016	2017	2018E	2019E
NIM	3.5	3.8	3.8	3.8
RoAA	1.8	1.8	1.9	2.0
RoAE	16.2	15.0	16.8	18.9

**Efficiency**

Y/e March	2016	2017	2018E	2019E
<i>Cost-Income Ratio (%)</i>	47.0	46.7	45.7	46.0
<i>C-D Ratio (%)</i>	95.1	89.3	89.3	91.1
Business per Emp. (Rs m)	88	101	111	122
Profit per Emp. (Rs lacs)	11.1	12.1	13.7	15.7
Business per Branch (Rs m)	2,134	2,397	3,032	3,821
Profit per Branch (Rs m)	27	29	37	49

**Asset Quality**

Y/e March	2016	2017	2018E	2019E
Gross NPAs (Rs m)	7,768	10,549	12,535	14,204
Net NPAs (Rs m)	3,216	4,388	2,698	4,874
<i>Gr. NPAs to Gross Adv. (%)</i>	0.9	0.9	0.9	0.8
<i>Net NPAs to Net Adv. (%)</i>	0.4	0.4	0.2	0.3
<i>NPA Coverage (%)</i>	58.6	58.4	78.5	65.7

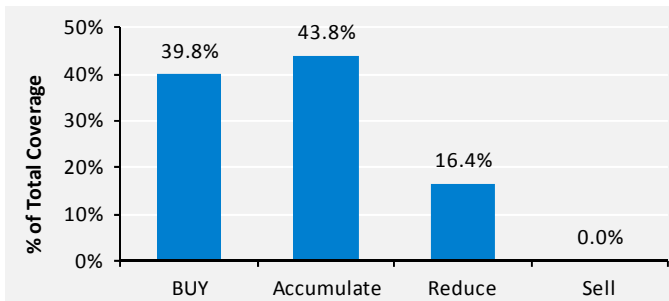
Source: Company Data, PL Research.



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