



IndusInd Bank

IL&FS to saddle credit cost in near term

Net income above estimates due to non-reclassification of IL&FS

IndusInd Bank's (IIB) core performance was slightly below our estimates while operating profit was in line. Bottom line was ahead of our estimates, primarily due to non-reclassification of stressed IL&FS loans and lower credit cost (excl ILFS). Another result highlight was decline in provision coverage ratio (PCR) to 47.7% from 55.8% in Q2, since a set of fully provided loans worth INR 3.5bn were written-off. Overall, bottom line came in at INR 9.9bn, up 5.2% YoY & 7.0% QoQ.

Provisioning to witness a spike in FY19 given exposure to IL&FS

We consider IL&FS holding company exposure of ~INR 20bn as NPL in FY19E while exposure towards SPV of INR ~10bn has been considered as NPL in FY20E. Based on these assumptions, we expect credit cost of 104bp in FY19E while it is likely to normalize to 58bp in FY20E and 51bp in FY21E. Moreover, while calculating credit cost for FY19E, we assume provisions of INR 7.8bn towards IL&FS (INR 5.3bn up to in Q3FY19E and INR 2.5bn in Q4FY19E). We arrive at PCR of 52% in end-FY19E from 54% in FY18 and expect it to inch up to 56% in FY20E.

C-D ratio at a decade high; NIM to be range-bound

Credit growth in Q3 stood at 35% YoY (four-quarter average at 31% YoY) while deposits grew 20% YoY (four-quarter average at 20% YoY). As a result, credit-deposit ratio at 99% (from 88.6 in Q3FY18) was highest in past decade. This was due to higher borrowing, which partially funded credit growth. Funding cost went up 78bp YoY, while asset yield rose 62bp YoY wasn't commensurate, resulting in margin compression of 16bp YoY and 1bp QoQ. We expect margin to be under slight pressure over FY20-21.

Valuation: retain Accumulate with a revised TP of INR 1,760

IIB's credit growth consistency at 25% remains untouched, while IL&FS exposure has led to short-term pains in terms of elevated credit cost. However, a pro-active approach towards IL&FS bodes well, and, hence we believe this overhang will be a short term phenomenon. We expect a ROE at 13.9% in FY19E, 16.3% in FY20E and 17.5% in FY21E. We reiterate **Accumulate** with a revised TP of INR 1,760 from INR 1,564 on 3.7x (from 3.4x) FY20E P/ABV.

Rating: Accumulate

Target Price: INR 1,760

Upside: 10%

CMP: INR 1,602 (as on 9 January 2019)

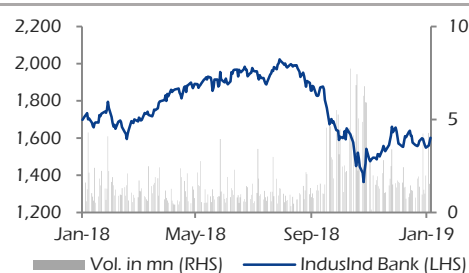
Key data

Bloomberg /Reuters Code	IIB IN/INBK.BO
Current /Dil. Shares O/S (mn)	601/601
Mkt Cap (INR bn/USD mn)	964/13,686
Daily Vol. (3M NSE Avg.)	2,456,103
Face Value (INR)	10

1 USD = INR 70.5

Note: *as on 9 January 2019; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Promoter	16.8	16.8	16.8	16.8
Institutional Investors	62.9	63.2	63.2	62.4
Other Investors	13.1	13.0	13.2	14.0
General Public	7.3	7.0	6.9	6.8

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	5.6	0.8	5.1
Bankex Index	13.7	5.1	7.3
IndusInd Bank	(0.4)	(18.2)	(7.1)

Source: Bloomberg

YE Mar (INR mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Q3FY19E	Variance (%)
NII	22,881	18,948	20.8	22,033	3.8	23,339	(2.0)
CXB	12,660	10,770	17.5	12,180	3.9	13,305	(4.8)
Treasury Income	1,100	1,100	-	990	11.1	1,293	(14.9)
Total Non-interest Income	14,689	11,868	23.8	13,173	11.5	14,597	0.6
Total Net Income	37,569	30,816	21.9	35,206	6.7	37,936	(1.0)
Payments to / Prov. for employees	4,521	4,600	(1.7)	4,582	(1.3)	5,035	(10.2)
Other operating expenses	11,879	9,569	24.1	10,699	11.0	11,599	2.4
Total Operating Exp.	16,400	14,169	15.7	15,281	7.3	16,634	(1.4)
Operating Profit	21,170	16,647	27.2	19,924	6.2	21,303	(0.6)
Total Provisions (Excl. Tax Prov.)	6,067	2,362	156.9	5,903	2.8	12,350	(50.9)
PBT	15,103	14,285	5.7	14,022	7.7	8,953	68.7
Tax Provision	5,253	4,923	6.7	4,819	9.0	3,044	72.5
Net Profit	9,850	9,362	5.2	9,203	7.0	5,908	66.7

Key Financials		YoY	PPoP	YoY	NP	YoY	FDEPS	YoY	RoAE	RoAA	P/E	P/ABV
YE	NII	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR)	(%)	(%)	(%)	(x)	(x)
March	(INR mn)	(%)	(INR mn)	(%)	(INR mn)	(%)	(INR)	(%)	(%)	(%)	(x)	(x)
FY18	87,043	43.6	71,612	31.4	41,117	43.4	59.0	23.0	17.4	1.97	27.2	4.3
FY19E	94,718	8.8	79,615	11.2	39,190	(4.7)	56.9	(3.5)	13.9	1.52	28.2	3.9
FY20E	112,600	18.9	93,841	17.9	52,202	33.2	75.8	33.2	16.3	1.65	21.1	3.4
FY21E	136,361	21.1	113,720	21.2	64,887	24.3	94.2	24.3	17.5	1.67	17.0	2.9

Note: pricing as on 9 January 2019; Source: Company, Elara Securities Estimate

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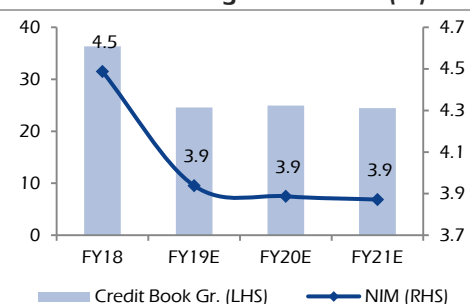
Elara Securities (India) Private Limited

Standalone Financials (YE March)

Income Statement (INR mn)	FY18	FY19E	FY20E	FY21E
Net Interest Income	87,043	94,718	112,600	136,361
Commission, Exchange & Brokerage Inc.	34,119	41,967	51,409	62,976
Add: Other income	13,382	14,255	15,488	17,051
Total Net Income	134,544	150,939	179,497	216,388
Less: Operating Expenses	(62,932)	(71,324)	(85,655)	(102,668)
Pre-provision operating profit	71,612	79,615	93,841	113,720
Loan Loss Provisions	(9,009)	(18,252)	(12,755)	(13,820)
Less: provisions	(2,745)	(2,611)	(3,140)	(3,584)
PBT	59,857	58,751	77,947	96,317
Less: taxes	(18,740)	(19,561)	(25,745)	(31,430)
Reported PAT	41,117	39,190	52,202	64,887
Balance Sheet (INR mn)	FY18	FY19E	FY20E	FY21E
Networth	268,399	301,702	346,256	401,637
Deposits	1,516,392	1,880,326	2,341,006	2,914,552
CASA %	44.0	44.0	44.0	44.0
Borrowings	412,813	484,069	584,637	701,939
Other liabilities	133,960	167,450	209,313	261,641
Total liabilities	2,331,563	2,833,547	3,481,212	4,279,769
Cash & Bank Balances	152,623	138,187	161,634	194,158
Advances	1,541,844	1,920,656	2,399,789	2,986,695
Investments	500,769	555,854	616,998	684,867
Fixed Assets	13,605	12,682	12,262	11,742
Other Assets	122,722	206,168	290,529	402,306
Total assets	2,331,563	2,833,547	3,481,212	4,279,769
Ratios	FY18	FY19E	FY20E	FY21E
Per Share data & Valuation Ratios				
EPS – Diluted (INR)	59.0	56.9	75.8	94.2
DPS (INR)	7.50	7.11	9.47	11.78
Book Value per share (BVPS) (INR)	384.2	433.5	498.4	579.0
Adjusted BVPS (INR)	374.3	414.3	477.1	561.7
ROAA (%)	1.97	1.52	1.65	1.67
ROAE (%)	17.39	13.92	16.27	17.49
Price / Earnings (x)	27.2	28.2	21.1	17.0
Price / Book (x)	4.2	3.7	3.2	2.8
Price / Adjusted BV (x)	4.3	3.9	3.4	2.9
Dividend Yield (%)	0.5	0.4	0.6	0.7
Yields and Costs (%)				
Yield on Advances	10.3	10.2	10.1	10.1
Yield on Earning Assets	9.9	9.1	9.2	9.3
Cost of Deposits	5.78	5.62	5.57	5.58
Cost of Funds	6.14	5.79	5.82	5.81
NIM	4.49	3.94	3.89	3.87
Asset Quality				
Gross NPA (INR mn)	21,608	41,070	49,431	52,957
Gross NPA (%)	1.39	2.11	2.04	1.75
Net NPA (INR mn)	9,987	19,895	21,932	17,678
Net NPA (%)	0.65	1.04	0.91	0.59
NPA Coverage ratio (%)	53.8	51.6	55.6	66.6
Gross Slippages (%)	3.03	2.74	2.03	1.57
Credit Cost (%)	0.67	1.04	0.58	0.51
Capital Adequacy (%)				
Tier I	14.58	13.45	12.32	11.48
CAR	15.03	14.88	13.80	12.96
Operational Growth Rates & Ratios (%)				
Growth in Credit Book (%)	36.3	24.6	24.9	24.5
Growth in Deposits (%)	19.8	24.0	24.5	24.5
Credit / Deposit Ratio	101.7	102.1	102.5	102.5
Cost-Income ratio	46.1	47.3	47.7	47.4
Operating Cost / Avr. Assets	3.06	2.76	2.71	2.65
Fee Income / Avr. Assets	1.66	1.63	1.63	1.62
Stated prov/Avr. Assets (Excl. Tax Prov.)	0.69	0.81	0.50	0.45

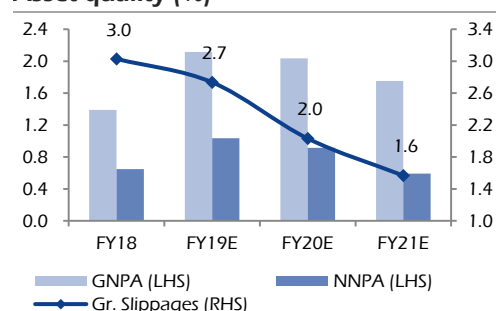
Note: Including Bharat Financial estimates;; pricing as on 9 January 2019; Source: Company, Elara Securities Estimate

NIM vs credit book growth trend (%)



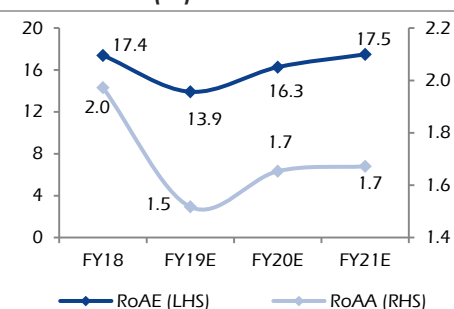
Source: Company, Elara Securities Estimate

Asset quality (%)



Source: Company, Elara Securities Estimate

Return ratios (%)



Source: Company, Elara Securities Estimate

Conference call - key highlights

Asset quality

- Provisions for IL&FS are for the holding company exposure of INR 20bn, (~30% PCR now). The bank would make provisions for the same in Q4 as well to raise provision up to 40-50% of total exposure to the holding company
- There would not be any haircuts at SPV-level companies (with exposures at INR 10bn). In the tunnel project, there would be no haircut
- INR 3.45bn corporate loan was written off, a part of NCLT loan account, which was fully provided and hence PCR fell by ~800bp in Q3FY19
- The rise in corporate slippages was due to three loan midcap accounts; two are from the EPC segment
- Guidance of 60bp credit cost for FY19 does not include provisions towards IL&FS holding company
- The bank has a PCR target at 60% and would like to gradually scale up to that level
- The bank had financed one NCLT steel account, which was finally repaid and refinanced by other banks

Net interest margin

- The bank's NIM would be stable with an upward bias
- Corporate yield has moved up by 13bp during the quarter
- Margin outlook** stable with an upward tendency; moderation in participation of NBFC and relief in pricing will help aid margin

Advances & deposits

- Underlying credit growth in the power sector; there was a draw-down in the segment
- The bank's NIM would be stable with an upward bias
- No loan buyouts from NBFC
- The market share shift in CV financing from NBFC to banks has been gradual, and it continues. January-March has been good period for CV financing
- The bank has lost some government SA deposits
- Some additions to CA deposits were transitory and hence could taper off
- Gems & jewellery book is in USD; hence, slowdown in the book also was due to INR appreciation of 3.8% during the quarter

- Bank is focusing on retail CASA in terms of sourcing liabilities

Fee income

- The retail segment contributes to 40% of total loan processing fees while 60% is earned from the corporate segment
- There has been some change in distribution income
- The bank believes the investment banking fees run-rate of INR 2.0bn can be sustainable

Bharat Finance

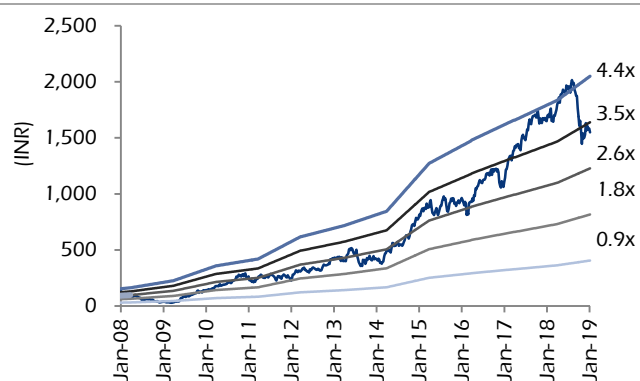
- Around ~30% of MFI loans are from Bharat Finance while there are other 6-7 Business Correspondents (BC) partners. Other than BHAFIN, the bank would cap MFI loan book at INR 100bn
- Management expects consolidation to happen in Q4FY19 post pending regularity approvals

Exhibit 1: Valuation assumptions (FY20E)

Risk free rate (%)	7.6
Beta	0.9
Market Risk Premium (%)	2.8
Cost of equity (%)	10.5
Terminal Growth (%)	5.0
Common equity (mn)	6,021
CMP (INR)	1,602
P/ABV (x)	3.4
IIB IN fundamental value (INR)	1,760
Target price (INR)	1,760
Upside (%)	9.8

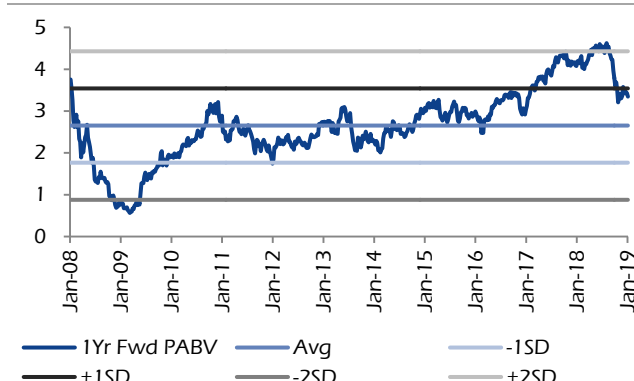
Note: pricing as on 9 January 2019; Source: Elara Securities Estimate

Exhibit 2: One-year forward P/B



Source: Elara Securities Estimate

Exhibit 3: One-year forward P/ABV



Source: Elara Securities Estimate

Exhibit 4: IIB DuPont analysis

(%)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total interest income earned	10.3	9.7	9.4	9.0	9.3	8.5	8.4	8.4
Other income	2.4	2.6	2.6	2.6	2.4	2.2	2.1	2.1
Commission, Exchange & Brokerage	1.5	1.7	1.8	1.8	1.7	1.6	1.6	1.6
Profit on sale of investment	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Other fee income	0.7	0.7	0.7	0.6	0.5	0.4	0.4	0.4
Total interest expenses	(6.7)	(6.3)	(5.8)	(5.2)	(5.1)	(4.8)	(4.9)	(4.9)
NII	3.6	3.4	3.6	3.8	4.2	3.7	3.6	3.5
Pay to / Prov for Employees	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.0)	(1.0)	(1.0)
Op. Exps & Admin Exps	(1.7)	(1.9)	(1.9)	(2.0)	(1.9)	(1.7)	(1.7)	(1.7)
Total Oper. Exps.	(2.7)	(2.9)	(2.9)	(3.0)	(3.1)	(2.8)	(2.7)	(2.6)
Provisions & Cont and Taxes	(1.5)	(1.3)	(1.5)	(1.6)	(1.6)	(1.6)	(1.3)	(1.3)
Prov for NPAs	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)	(0.7)	(0.4)	(0.4)
Prov for income tax	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)
Other Provisions	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit (RoAA)	1.76	1.80	1.82	1.80	1.97	1.52	1.65	1.67
RoAE	17.6	19.0	16.6	15.3	17.4	13.9	16.3	17.5

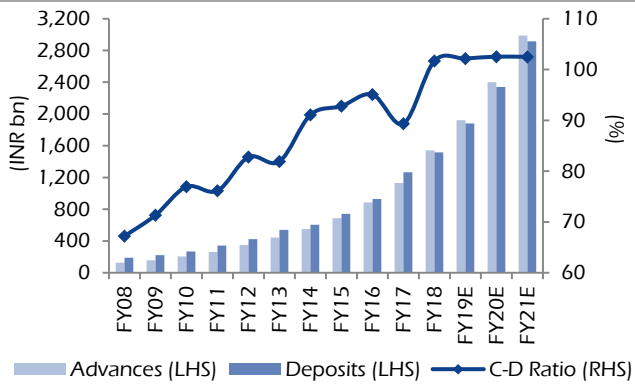
Source: Company, Elara Securities Estimate

Exhibit 5: Change in estimates

(INR mn)	Earlier		Revised		New	Change (%)	
	FY19E	FY20E	FY19E	FY20E		FY19E	FY20E
Revenue	152,868	183,991	150,939	179,497	216,388	(1.3)	(2.4)
PAT	38,626	49,113	39,190	52,202	64,887	1.5	6.3
Target Price (INR)		1,564		1,760			13

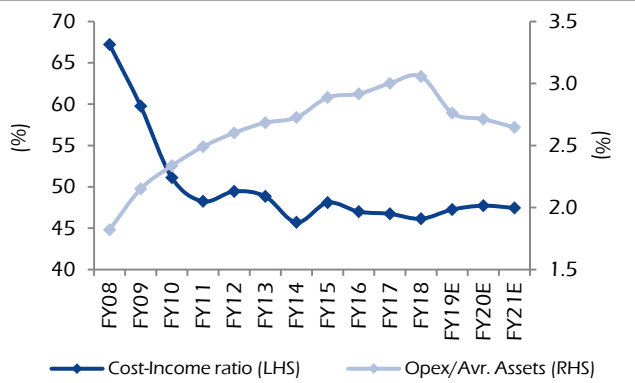
Source: Elara Securities Estimate

Exhibit 6: Business and C-D ratio



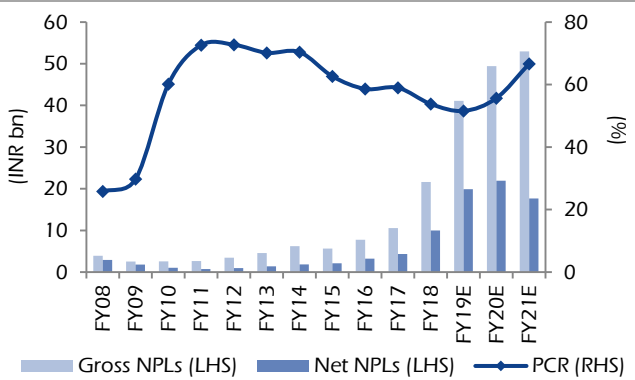
Source: Company, Elara Securities Estimate

Exhibit 7: Operating cost structure



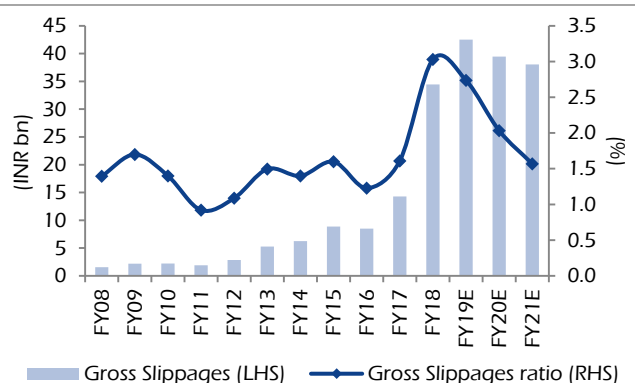
Source: Company, Elara Securities Estimate

Exhibit 8: NPLs & provision coverage ratio



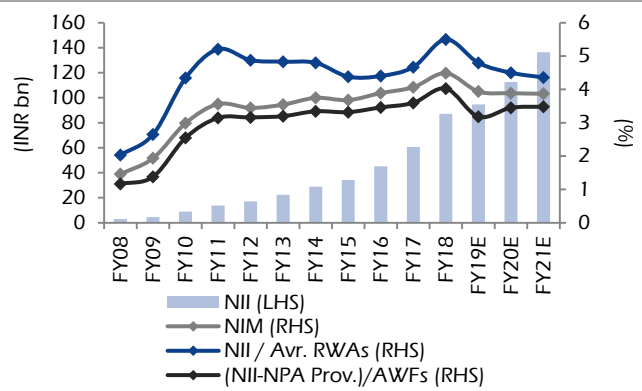
Source: Company, Elara Securities Estimate

Exhibit 9: Gross slippages & ratio



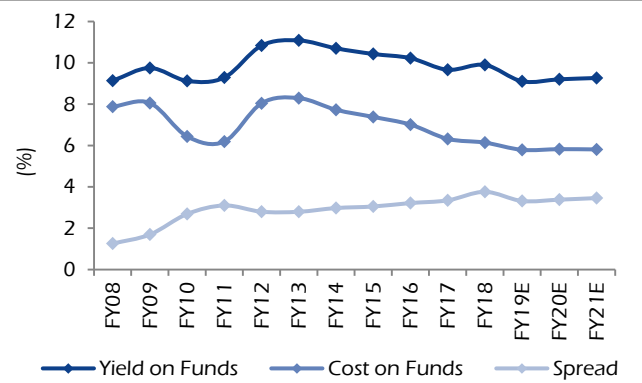
Source: Company, Elara Securities Estimate

Exhibit 10: Core business margin



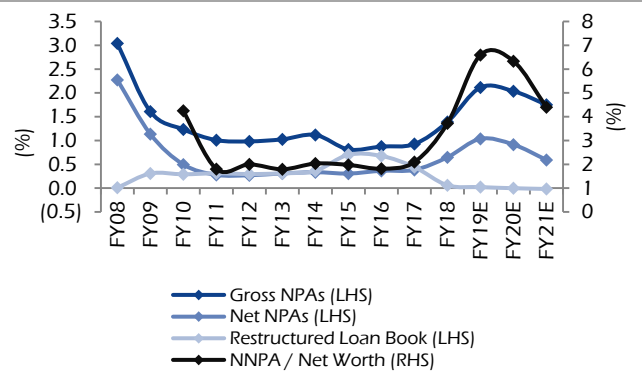
Source: Company, Elara Securities Estimate

Exhibit 11: IIB's profitability



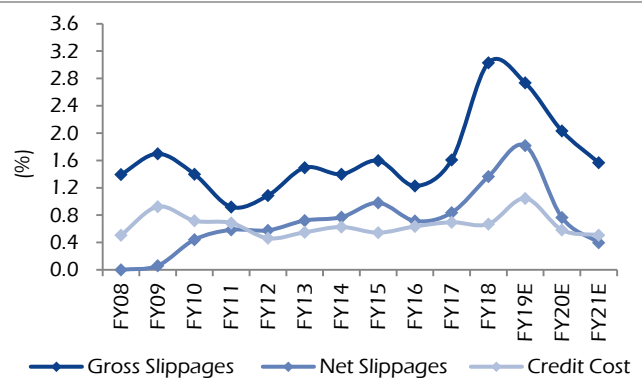
Source: Company, Elara Securities Estimate

Exhibit 12: NPL & restructured loan book ratios



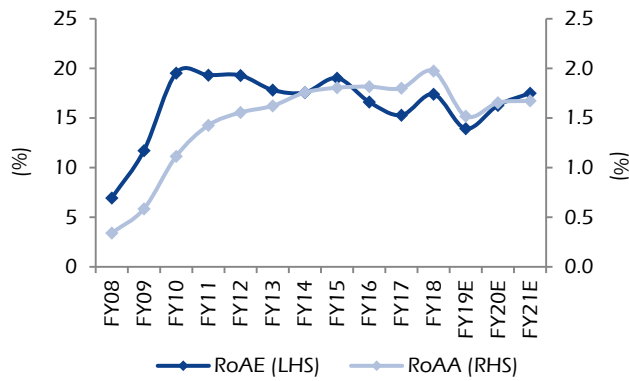
Source: Company, Elara Securities Estimate

Exhibit 13: Slippages ratios and credit cost



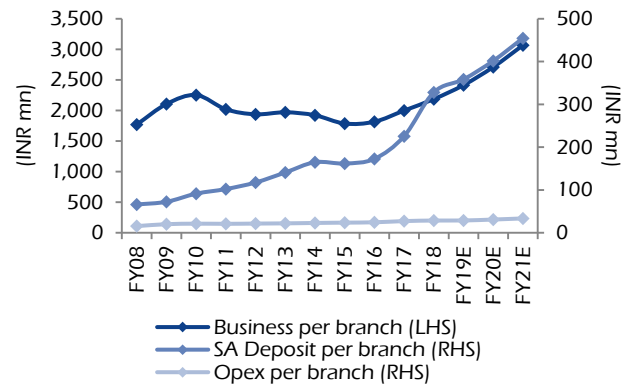
Source: Company, Elara Securities Estimate

Exhibit 14: Return ratios



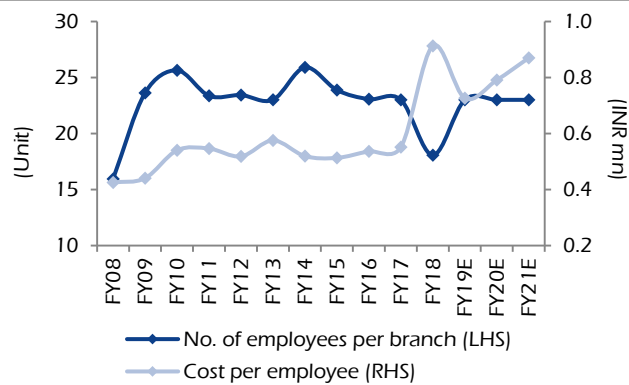
Source: Company, Elara Securities Estimate

Exhibit 16: Branch efficiency



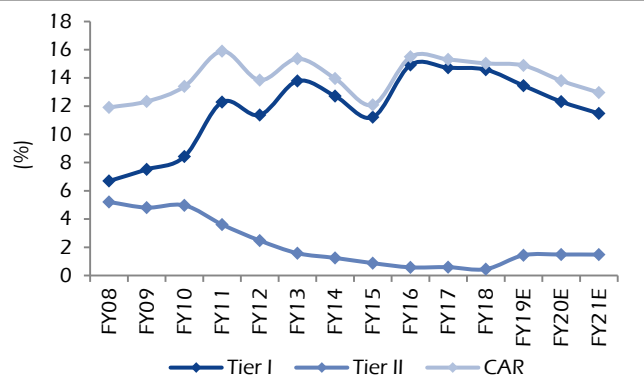
Source: Company, Elara Securities Estimate

Exhibit 15: Employee efficiency



Source: Company, Elara Securities Estimate

Exhibit 17: Capital adequacy



Source: Company, Elara Securities Estimate

Exhibit 18: Income statement

YE Mar (INR mn)	Q3FY19	Q2FY19	Q1FY19	Q4FY18	Q3FY18	YoY (%)	QoQ (%)
Interest Inc. on Advances	47,632	44,521	41,466	36,693	34,696	37.3	7.0
Interest Inc. on Investments	9,186	9,183	8,610	8,305	7,495	22.6	0.0
Others	817	677	605	1,503	677	20.7	20.7
Total Interest Inc.	57,635	54,381	50,682	46,501	42,868	34.4	6.0
Interest Expended	34,754	32,348	29,457	26,426	23,920	45.3	7.4
NII	22,881	22,033	21,224	20,076	18,948	20.8	3.8
Total Non-interest Income	14,689	13,173	13,016	12,085	11,868	23.8	11.5
Total Net Income	37,569	35,206	34,240	32,161	30,816	21.9	6.7
Payments to / Prov. for employees	4,521	4,582	4,620	4,535	4,600	(1.7)	(1.3)
Other operating expenses	11,879	10,699	10,509	9,932	9,569	24.1	11.0
Total Operating Exp.	16,400	15,281	15,129	14,467	14,169	15.7	7.3
Operating Profit	21,170	19,924	19,111	17,694	16,647	27.2	6.2
Total Provisions	6,067	5,903	3,500	3,356	2,362	156.9	2.8
PBT	15,103	14,022	15,611	14,338	14,285	5.7	7.7
Tax Provision	5,253	4,819	5,254	4,808	4,923	6.7	9.0
Net Profit	9,850	9,203	10,357	9,531	9,362	5.2	7.0
EPS (INR)	16.36	15.30	17.25	15.88	15.61	4.8	6.9

Source: Company, Elara Securities Research

Exhibit 19: Key ratios

(%)	Q3FY19	Q2FY19	Q1FY19	Q4FY18	Q3FY18	YoY (bps)	QoQ (bps)
Trading gains/PBT (%)	7.3	7.1	8.8	6.6	7.7	-	-
NIM	3.8	3.8	3.9	4.0	4.0	(16)	(1)
CAR	14.2	14.3	14.7	15.0	15.8	(164)	(9)
Tier I	13.8	13.9	13.2	13.4	15.3	(155)	(8)
ROA	1.6	1.5	1.8	1.8	1.9	(33)	2
CD Ratio	99.1	97.6	95.5	96.2	88.6	1,048	152

Source: Company, Elara Securities Research

Exhibit 20: Asset quality

(INR mn)	Q3FY19	Q2FY19	Q1FY19	Q4FY18	Q3FY18	YoY (%)	QoQ (%)
GNPA	19,682	17,814	17,406	17,049	14,987	31.3	10.5
NNPA	10,293	7,876	7,624	7,457	5,922	73.8	30.7
						YoY (bps)	QoQ (bps)
GNPA (in %)	1.1	1.1	1.2	1.2	1.2	(3)	4
NNPA (in %)	0.6	0.5	0.5	0.5	0.5	13	11
PCR (%) (Excl. Technical Write-offs)	47.7	55.8	56.2	56.3	60.5	(1,278)	(808)

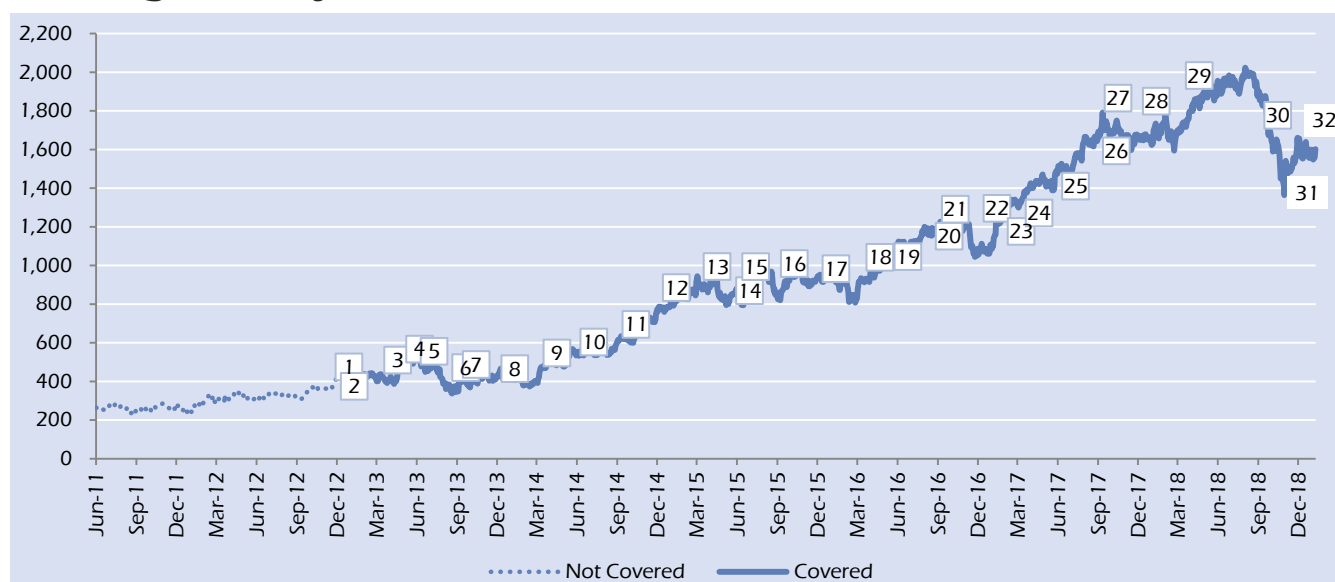
Source: Company, Elara Securities Research

Exhibit 21: Balance sheet details

(INR mn)	Q3FY19	Q2FY19	Q1FY19	Q4FY18	Q3FY18	YoY (%)	QoQ (%)
Net Advances	1,731,690	1,631,443	1,506,750	1,449,537	1,285,420	34.7	6.1
Savings Deposits	500,230	511,060	477,110	458,880	422,460	18.4	-2.1
Current Deposits	265,260	222,690	212,680	208,410	203,690	30.2	19.1
CASA Deposits	765,490	733,750	689,790	667,290	626,150	22.3	4.3
Term Deposits	991,520	948,443	898,830	849,102	834,710	18.8	4.5
Total Deposits	1,757,010	1,682,193	1,588,620	1,516,392	1,460,860	20.3	4.4
CASA (%)	43.6	43.6	43.4	44.0	42.9		

Source: Company, Elara Securities Research

Coverage History



Date	Rating	Target Price	Closing Price	Date	Rating	Target Price	Closing Price		
1	28-Dec-2012	Sell	INR388	INR415	21	10-Oct-2016	Accumulate	INR1,343	INR1,221
2	09-Jan-2013	Accumulate	INR465	INR435	22	13-Jan-2017	Accumulate	INR1,303	INR1,216
3	18-Apr-2013	Accumulate	INR475	INR450	23	9-Mar-2017	Accumulate	INR1,392	INR1,326
4	07-Jun-2013	Sell	INR475	INR507	24	19-Apr-2017	Accumulate	INR1,502	INR1,422
5	10-Jul-2013	Reduce	INR487	INR496	25	11-July-2017	Accumulate	INR1,670	INR1,561
6	20-Sep-2013	Reduce	INR419	INR412	26	12-Oct-2017	Accumulate	INR1,822	INR1,743
7	14-Oct-2013	Reduce	INR435	INR428	27	13-Oct-2017	Accumulate	INR1,947	INR1,750
8	10-Jan-2014	Accumulate	INR477	INR406	28	11-Jan-2018	Accumulate	INR1,944	INR1,700
9	16-Apr-2014	Reduce	INR498	INR487	29	19-Apr-2018	Buy	INR2,339	INR1,834
10	09-Jul-2014	Accumulate	INR638	INR544	30	15-Oct-2018	Accumulate	INR1,790	INR1,627
11	13-Oct-2014	Accumulate	INR690	INR635	31	1-Nov-2018	Accumulate	INR1,564	INR1,464
12	13-Jan-2015	Reduce	INR786	INR826	32	9-Jan-2019	Accumulate	INR1,760	INR1,602
13	16-Apr-2015	Reduce	INR953	INR934					
14	29-Jun-2015	Reduce	INR819	INR860					
15	13-Jul-2015	Sell	INR843	INR924					
16	09-Oct-2015	Sell	INR823	INR940					
17	12-Jan-2016	Sell	INR806	INR913					
18	21-Apr-2016	Accumulate	INR1,110	INR972					
19	24-Jun-2016	Accumulate	INR1,281	INR1,096					
20	26-Sep-2016	Accumulate	INR1,333	INR1,202					

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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