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## Banking

### Company update and earnings revision

Target price Rs1,268

### Earnings revision

(%)	FY20E	FY21E
PAT	↓ 23	↓ 65

### Target price revision

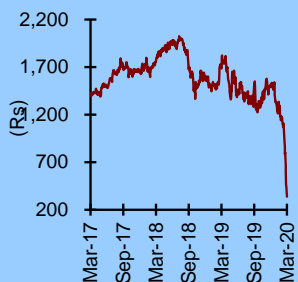
Rs1,268 from Rs1,796

### Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	16.8	14.4	14.4
Institutional investors	62.3	69.3	70.2
MFs and UTI	9.5	12.6	10.9
FIs/Banks	0.2	0.5	0.6
Insurance Cos.	1.0	3.8	3.2
FII	51.5	52.4	55.5
Others	20.9	16.3	15.4

Source: CMIE

### Price chart



# INDIA

## IndusInd Bank

### BUY

### Maintained

### Rs412

### Favourable Risk-Reward

We attended the conference call hosted by IndusInd Bank (IIB) wherein the management indicated slowdown in loan growth, comfortable liquidity position despite deposit outflows and possibility of deterioration in asset quality. We believe the impact on asset quality may be for a short term and that it will be important to track borrower behaviour after completion of moratorium period. Working capital loans and unsecured loans like PL and credit card are at higher risk of default. Despite some concerns on stressed telecom account, higher vehicle book and uncertainty around COVID-19, we believe IndusInd Bank is a good value proposition given it is trading at 0.9x P/ABV FY21E. Retain BUY with a target price of Rs1,268 (earlier: Rs1,796)

- ▶ **Slowdown in loan growth:** IIB guided that loan growth may be contained for a couple of quarters and revive thereafter as the situation improves to 8-10% for FY21E. We believe the countrywide lockdown may delay fresh credit demand while the bank may need to extend credit lines to affected businesses in the near term.
- ▶ **Liquidity management:** IIB said total deposits declined by 10-11% out of which almost 2/3<sup>rd</sup> pertained to government-related accounts. It added premature withdrawals of TDs were minimal while some were not rolled over. The bank also witnessed withdrawals from corporate deposits though withdrawal from retail accounts was relatively lower. The bank replaced the withdrawal of deposits by longer-duration refinance / FX borrowings, bank CDs, excess SLR and call money. LCR in Mar'20 was maintained at ~112% on daily basis.
- ▶ **Likely deterioration in asset quality:** IIB guided that credit cost for Q4FY20 may be as high as 200-210bps due to accelerated provisioning on existing NPAs and incremental slippages. The bank indicated that delinquencies in unsecured loans such as PL and credit cards may get elevated by 30-40bps, but is confident about recovery trends in microfinance when the lockdown is lifted. We believe entities with working capital loan facility will be restructured as they will be required to pay interest on 3-months outstanding at one shot after completion of the moratorium.
- ▶ **Earnings outlook:** We cut our estimates by 23%/65% for FY20E/FY21E due to lower growth, recognition of stressed telecom accounts and higher provisioning for NPLs.
- ▶ **Valuation and target price:** IIB trades at 0.9x P/ABV and 10x P/E FY21E. The opportunity of a bounce-back in earnings growth and RoA (in FY22E) is factored into our DDM-based target price of Rs1,268, meriting a **BUY** rating on the stock.

### Research Analysts:

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Market Cap	Rs285bn/US\$3.8bn	<b>Year to Mar</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Reuters/Bloomberg	INBK.BO / IIB IN	NII (Rs bn)	107	112	117	145
Shares Outstanding (mn)	693.1	Net Profit (Rs bn)	43	44	30	63
52-week Range (Rs)	1815/246	EPS (Rs)	62.4	63.8	43.5	90.8
Free Float (%)	85.6	% Change YoY	2.1	2.2	-31.7	108.6
FII (%)	55.5	P/E (x)	6.6	6.5	9.5	4.5
Daily Volume (US\$'000)	112,462	P/BV (x)	0.9	0.8	0.8	0.7
Absolute Return 3m (%)	(73.0)	P/ABV (x)	1.0	0.9	0.9	0.7
Absolute Return 12m (%)	(76.9)	GNPA (%)	2.1	2.9	4.8	3.7
Sensex Return 3m (%)	(31.6)	RoA (%)	1.6	1.4	0.9	1.5
Sensex Return 12m (%)	(26.5)	RoE (%)	15.0	13.4	8.3	15.5

Please refer to important disclosures at the end of this report

## Valuations, stock performance and target price

We value the stock using a 3-period DDM model with the following key assumptions:

Sustainable RoE: 16.1% (cycle average)

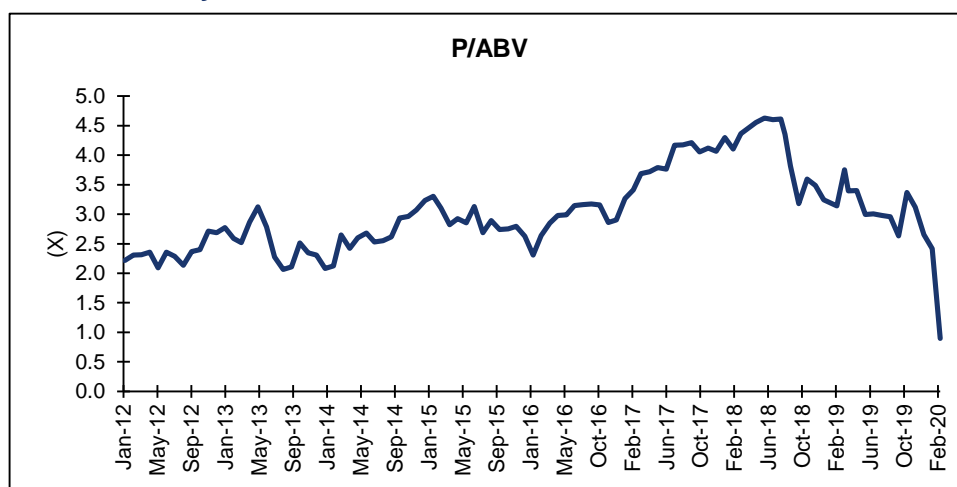
Cost of equity: 11.5%

Three growth periods for earnings:

- High growth FY21-FY26 : 14% with dividend payout at 12%
- Stable growth FY27-FY31: 8% with dividend payout increasing to 35%
- Terminal growth: 4.5% with dividend payout at 35%

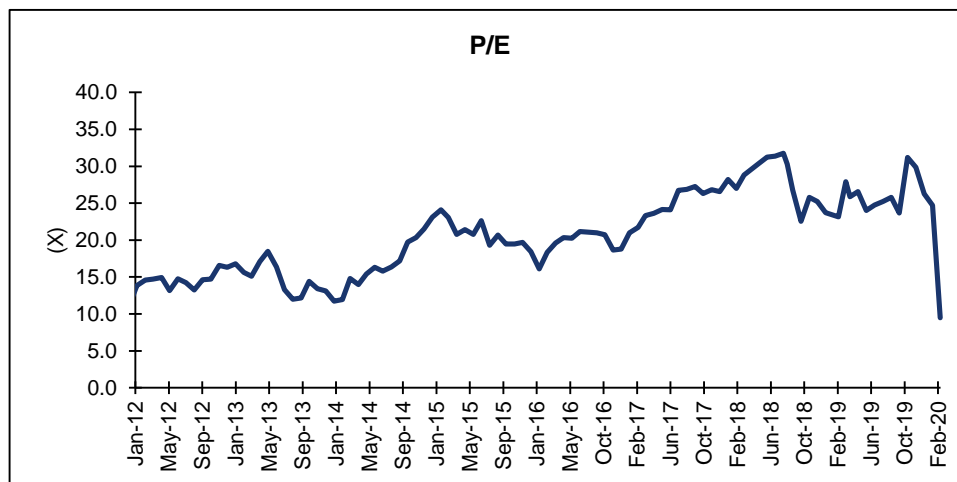
This implies a target P/B multiple of 2.7x P/ABV FY21E and a target price of Rs1,268.

**Chart 1: IIB: 1-year forward P/ABV**



Source: Bloomberg, Company data, I-Sec research

**Chart 2: IIB: 1-year forward P/E**



Source: Bloomberg, Company data, I-Sec research

## Conference call takeaways:

### Business update

- **Diamond** – Very sustainable business across decades, Zero to negligible delinquency  
RoRWA of 5.18% on diamond business  
73% RWA based on external rating
- **Microfinance:** 70% rural, So far impact not seen in rural India  
Every day 0.9mn of customer are contacted
- **Corporate banking** - No industry concentration higher than 5%  
Lease rental discounting - Shut down shall not impact IIB as exposure is into office spaces and not malls.
- **Real Estate** – Project may not get delayed as enough cushion is available as per RERA guidelines
- **NBFC** - Well rated NBFC and limited HFC exposure
- No exposure to DISCOMs
- **Hotels** – Exposure to hotels is well secured
- **Solar business** – For 1 projects panels to come in from china which has a strong promoter
- **Vehicle** – 70% repeat customer, Vehicle portfolio running better than salaried employees  
As soon as economy kicks start – Vehicle portfolio should perform better
- **Business Banking** - Diversified exposure, Ticket size – 25mn, loans given based on cash flow, Collateral - self occupied marketable assets
- **LAP -60-70lakhs ticket** – LTV 50%, less than 5% is to retail – tours & travel, Granular portfolio, well distributed
- **Cards, PL** – Comfortable on this portfolio, The bank gives credit card to maximum 1 card holder not multiple account holder, delinquency may get elevated – march collection may get impacted, delinquency may increase by 30-40bps

### Liquidity

- **Deposits** - Seen some outflow from state government – especially from one state government
- **Retail deposits** – relatively stable – now inflows higher than outflow
- **Corporate deposits** – witnessed some outflows
- **Deposits** - Pre mature withdrawal of TDs were minimal, some was not rolled over, The bank has 15-20% of deposits as excess SLR, The bank has excess SLR of over \$1bn.

The Bank do not have clogged up maturities, Liquidity should be comfortable with excess SLR and CRR cut

Retail deposits –18-20% YoY growth on retail deposits

### **Asset quality**

- Have managed SMA2 portfolio better than any player in industry post Jan'20 – The bank has witness improvement in all dpd buckets
- CV has been going through stagnation in one year
- The Bank has guided credit cost of 200-210bps due to some additional NPAs in Q4FY20. The Bank intends to increase in PCR upto 60% in Q4FY20
- Working Capital© interest will accumulate, Don't expect AA and above rated to avail moratorium... will also revisit WC requirements of borrowers after 3mth of moratorium

### **Management update**

- Management team to consolidate profile or add more control governance in business, split business to get focus, not changing management team
- Splitting to get more focus to drive granularities to increase RoRWA

## Financial summary

**Table 1: Profit and Loss statement**
*(Rs mn, year ending Mar 31)*

	FY16	FY17	FY17 (Merged)	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	45,166	60,626	68,401	85,325	1,06,862	1,12,168	1,17,220	1,45,041
% Growth	32	34	51	25	25	5	5	24
Fee income	22,315	28,953	30,195	35,549	44,728	49,994	57,493	67,842
Add: Other income	10,655	12,762	14,800	15,522	15,831	18,288	19,506	21,432
<b>Total Net Income</b>	<b>78,136</b>	<b>1,02,342</b>	<b>1,13,396</b>	<b>1,36,396</b>	<b>1,67,421</b>	<b>1,80,449</b>	<b>1,94,220</b>	<b>2,34,315</b>
% Growth	31	31	45	20	23	8	8	21
Less: Operating Expenses	(36,721)	(47,831)	(53,363)	(62,924)	(72,843)	(81,811)	(94,063)	(1,10,243)
<b>Pre-provision operating profit</b>	<b>41,415</b>	<b>54,511</b>	<b>60,033</b>	<b>73,471</b>	<b>94,578</b>	<b>98,639</b>	<b>1,00,157</b>	<b>1,24,072</b>
<b>NPA Provisions</b>	<b>(5,015)</b>	<b>(7,048)</b>	<b>(7,048)</b>	<b>(9,010)</b>	<b>(27,050)</b>	<b>(24,070)</b>	<b>(53,070)</b>	<b>(34,920)</b>
Other provisions	(1,707)	(3,866)	(7,459)	(5,094)	(4,747)	(13,200)	(6,768)	(5,044)
<b>PBT</b>	<b>34,693</b>	<b>43,598</b>	<b>45,526</b>	<b>59,367</b>	<b>62,781</b>	<b>61,369</b>	<b>40,319</b>	<b>84,108</b>
Less: taxes	(11,828)	(14,918)	(13,949)	(18,764)	(19,929)	(17,189)	(10,148)	(21,170)
<b>PAT</b>	<b>22,865</b>	<b>28,680</b>	<b>31,577</b>	<b>40,603</b>	<b>42,853</b>	<b>44,179</b>	<b>30,171</b>	<b>62,938</b>
% Growth	27	25	38	28.6	5.5	3.1	-31.7	108.6

Source: Company data, I-Sec research

**Table 2: Balance sheet**
*(Rs mn, year ending Mar 31)*

	FY16	FY17	FY17 (Merged)	FY18	FY19	FY20E	FY21E	FY22E
Capital	5,950	5,981	5,981	6,869	6,869	6,930	6,930	6,930
Reserve & Surplus	1,71,010	2,00,480	2,23,567	2,61,004	3,01,673	3,48,380	3,73,772	4,28,146
Deposits	9,30,003	12,65,722	12,65,722	15,16,392	19,48,679	21,02,625	24,18,018	30,22,523
Borrowings	2,21,559	2,24,537	2,57,860	4,69,061	5,20,991	7,14,081	7,14,081	9,25,305
Other liabilities	72,048	89,764	1,36,149	77,723	1,01,714	1,29,694	1,81,572	1,99,729
<b>Total liabilities</b>	<b>14,00,570</b>	<b>17,86,484</b>	<b>18,89,280</b>	<b>23,31,049</b>	<b>28,79,927</b>	<b>33,01,709</b>	<b>36,94,373</b>	<b>45,82,632</b>
Cash & Bank Balances	1,01,119	1,86,283	2,14,346	1,53,758	1,67,914	2,18,126	2,43,892	2,84,918
Investment	3,12,143	3,67,021	3,67,023	5,00,769	5,92,664	5,87,328	6,75,427	8,57,792
Advances	8,84,193	11,30,805	12,01,635	15,44,727	19,41,015	21,17,655	23,16,176	29,03,857
Fixed Assets	12,553	13,352	13,573	14,183	15,279	16,121	17,308	18,600
Other Assets	90,561	89,023	92,702	1,17,613	1,63,056	3,62,480	4,41,570	5,17,466
<b>Total Assets</b>	<b>14,00,570</b>	<b>17,86,484</b>	<b>18,89,280</b>	<b>23,31,049</b>	<b>28,79,927</b>	<b>33,01,709</b>	<b>36,94,373</b>	<b>45,82,632</b>
% Growth	25.3	27.6	34.9	23.4	23.5	14.6	11.9	24.0

Source: Company data, I-Sec research

**Table 3: Dupont analysis**
*(%, year ending Mar 31)*

	FY16	FY17	FY17 (Merged)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	9.4	9.0	NM	9.0	9.6	9.3	8.9	9.0
Interest expense	(5.8)	(5.2)	NM	-5.0	-5.5	-5.7	-5.5	-5.5
<b>NII</b>	<b>3.6</b>	<b>3.8</b>	<b>NM</b>	<b>4.0</b>	<b>4.1</b>	<b>3.6</b>	<b>3.4</b>	<b>3.5</b>
Other income	0.8	0.8	NM	0.7	0.6	0.6	0.6	0.5
Fee income	1.8	1.8	NM	1.7	1.7	1.6	1.6	1.6
<b>Total income</b>	<b>6.2</b>	<b>6.4</b>	<b>NM</b>	<b>6.5</b>	<b>6.4</b>	<b>5.8</b>	<b>5.6</b>	<b>5.7</b>
Operating expenses	(2.9)	(3.0)	NM	-3.0	-2.8	-2.6	-2.7	-2.7
<b>Operating profit</b>	<b>3.3</b>	<b>3.4</b>	<b>NM</b>	<b>3.5</b>	<b>3.6</b>	<b>3.2</b>	<b>2.9</b>	<b>3.0</b>
<b>NPA provision</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>NM</b>	<b>-0.4</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-1.5</b>	<b>-0.8</b>
Total provisions	(0.5)	(0.7)	NM	-0.7	-1.2	-1.2	-1.7	-1.0
PBT	2.4	2.3	NM	2.4	1.4	1.2	-0.4	1.2
Tax	(0.9)	(0.9)	NM	-0.9	-0.8	-0.6	-0.3	-0.5
<b>PAT</b>	<b>1.8</b>	<b>1.8</b>	<b>NM</b>	<b>1.9</b>	<b>1.6</b>	<b>1.4</b>	<b>0.9</b>	<b>1.5</b>

Source: Company data, I-Sec research

NM – Not meaningful

**Note: All numbers represent the merged entity from FY18 onwards**

**Table 4: Key ratios**

(Year ending Mar 31)

	FY16	FY17	FY17 (Merged)	FY18	FY19	FY20E	FY21E	FY22E
EPS – Diluted (Rs)	38.4	47.9	52.8	61.1	62.4	63.8	43.5	90.8
% Growth	13.4	24.8	37.4	15.7	2.1	2.2	-31.7	108.6
DPS (Rs)	4.5	6.0	6.0	7.5	7.5	7.7	5.2	10.9
Book Value per share (BVPS) (Rs)	291	339	377	398	445	508	545	624
% Growth	50.4	16.5	29.7	5.5	11.7	14.3	7.2	14.4
Adjusted BVPS (Rs)	285	331	367	387	412	474	462	555
% Growth	50.7	16.1	28.5	5.4	6.5	15.1	-2.6	20.1
<b>Valuations</b>								
Price / Earnings (x)	10.7	8.6	7.8	6.8	6.6	6.5	9.5	4.5
Price / Book (x)	1.4	1.2	1.1	1.0	0.9	0.8	0.8	0.7
Price / Adjusted BV (x)	1.4	1.2	1.1	1.1	1.0	0.9	0.9	0.7
<b>Asset Quality</b>								
Gross NPA (Rs mn)	7,810	10,590	14,871	19,199	41,583	63,373	1,14,373	1,09,373
Gross NPA (%)	0.9	0.9	1.2	1.2	2.1	2.9	4.8	3.7
Net NPA (Rs mn)	3,236	4,408	6,261	7,537	22,533	23,743	57,743	47,743
Net NPA (%)	0.4	0.39	0.5	0.5	1.2	1.1	2.5	1.6
NPA Coverage ratio (%)	59	58	58	60.7	45.8	62.5	49.5	56.3
Gross Slippages (%)	1.3	1.6	1.6	2.0	3.5	3.2	4.6	1.7
Credit Cost (%)	0.6	0.7	0.7	0.7	1.5	1.2	2.3	1.3
Net NPL/Networth	1.8	2.1	2.7	2.8	7.3	6.7	15.2	11.0
<b>Business ratios (%)</b>								
ROAA	1.8	1.8	NM	1.9	1.6	1.4	0.9	1.5
ROAE	16.6	15.3	NM	16.6	15.0	13.4	8.3	15.5
Credit Growth	28.5	27.9	NM	28.6	25.7	9.1	9.4	25.4
Deposits Growth	25.4	36.1	NM	19.8	28.5	7.9	15.0	25.0
CASA	35.2	36.9	NM	44.0	43.1	42.5	43.0	44.0
Credit / Deposit Ratio	95.1	89.3	NM	101.9	99.6	100.7	95.8	96.1
Cost-Income ratio	47.0	46.7	NM	46.1	43.5	45.3	48.4	47.0
Operating Cost / Avg. Assets	2.9	3.0	NM	3.0	2.8	2.6	2.7	2.7
Fee Income / Total Income	1.8	1.8	NM	1.7	1.7	1.6	1.6	1.6
<b>Earning ratios</b>								
Yield on Advances	11.8	11.4	NM	11.1	11.6	11.8	11.7	11.8
Yield on Earning Assets	10.2	9.7	NM	9.6	10.2	10.2	10.1	10.2
Cost of Deposits	6.8	6.3	NM	5.8	6.1	6.3	6.4	6.3
Cost of Funds	7.0	6.3	NM	6.0	6.4	6.6	6.5	6.4
NIM	3.9	4.1	NM	4.3	4.4	4.0	3.8	4.0
<b>Capital Adequacy (%)</b>								
RWA (Rs)	11,62,875	14,35,288	NM	18,59,290	23,41,297	29,33,318	32,64,817	42,01,461
Tier I	14.9	14.7	NM	14.4	13.2	12.1	11.7	10.4
CAR	15.5	15.3	NM	15.2	14.0	12.8	12.3	10.9

Source: Company data, I-Sec research

<b>Note: All numbers represent the merged entity from FY18 onwards</b>
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