

# IndusInd Bank

14 January 2015

Reuters: INBK.BO; Bloomberg: IIB IN

## Yet Another Robust Performance

IndusInd Bank's 3QFY15 performance was in line with our expectations. Its bottom-line grew 29% YoY on the back of a healthy operating profit growth of 20% and reasonable credit costs. Net interest income grew 18%, driven by a credit growth of 22% and stable NIM (net interest margin) of 3.7%. Non-interest income grew 27%, with higher traction witnessed in distribution fees and foreign exchange income, up 41% and 29%, respectively. Cost-to-income ratio improved 50bps sequentially to 47.4%, despite setting up of 115 new branches to touch a total of 800 branches. Loan slippage for the quarter was at a healthy level of 1%. Annualised credit costs stood at 62bps for the quarter and 52bps for the nine-month period. The management retained its credit cost guidance of 60bps for FY15. We have rolled over our valuation to FY17 estimates, valuing IndusInd Bank stock at 3.7x P/ABV FY17E earnings with a target price of Rs975 and a Buy rating on it.

**Decent business growth:** Deposits and advances grew 24% and 22%, respectively, in 3QFY15. Loan growth was driven by a 32% rise in corporate loans as against a lower growth of 10% in consumer loans. Within the retail loan segment, non-automobile segment grew at a higher rate. Despite a 100bps reduction in interest rates on savings deposits, CASA (current account savings account) deposit ratio expanded 190bps YoY and 20bps QoQ to 34.1%.

**Valuation and outlook:** IndusInd Bank stock currently trades at P/E of 19.9x/16.2x and P/ABV of 3.7x/3.3x FY16E/FY17E earnings, respectively. The management is targeting credit growth of 25%-30% annually for the next three years, with higher incremental growth in the consumer segment. Loan composition rebalancing along with lowering of interest rates on savings deposits and also lower interest rates on bulk deposits, which account for 40% of total deposits, should lead to expansion in margins. Asset quality has been stable and with the improvement expected in the economy, the risk on its commercial vehicle loan book is likely to gradually fade away. We have valued IndusInd Bank stock at a 20% premium to its mean at 3.7x P/ABV FY17E earnings, setting a target price of Rs975 on it with a Buy rating.

## BUY

Sector: Banking

CMP: Rs821

Target Price: Rs975

Upside: 19%

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### Key Data

Current Shares O/S (mn)	529.1
Mkt Cap (Rsbn/US\$bn)	218.6/3.5
52 Wk H / L (Rs)	849/369
Daily Vol. (3M NSE Avg.)	955,684

### Price Performance (%)

	1 M	6 M	1 Yr
IndusInd Bank	6.0	54.0	97.1
Nifty Index	0.9	11.3	32.3

Source: Bloomberg

Y/E March (Rsmn)	3QFY15	3QFY14	2QFY15	YoY (%)	QoQ (%)
Interest income	24,369	21,435	23,788	-	-
Interest expenses	15,756	14,134	15,457	-	-
<b>Net interest income</b>	<b>8,613</b>	<b>7,301</b>	<b>8,331</b>	<b>18.0</b>	<b>3.4</b>
<b>NIM (%)</b>	<b>3.7</b>	<b>3.7</b>	<b>3.6</b>	<b>2bps</b>	<b>4bps</b>
Non-interest income	6,107	4,803	5,583	-	-
<b>Operating income</b>	<b>14,720</b>	<b>12,104</b>	<b>13,914</b>	<b>21.6</b>	<b>5.8</b>
Staff costs	2,555	2,058	2,393	-	-
Other operating expenses	4,427	3,572	4,274	-	-
Total operating expenses	6,982	5,630	6,667	-	-
Cost-to-income (%)	47.4	46.5	47.9	-	-
<b>Operating profit</b>	<b>7,738</b>	<b>6,474</b>	<b>7,247</b>	<b>19.5</b>	<b>6.8</b>
Provisions	980	1,262	732	-	-
<b>PBT</b>	<b>6,758</b>	<b>5,212</b>	<b>6,515</b>	<b>29.7</b>	<b>3.7</b>
Tax	2,286	1,743	2,213	-	-
-Effective tax rate	33.8	33.4	34.0	-	-
<b>PAT</b>	<b>4,472</b>	<b>3,469</b>	<b>4,302</b>	<b>28.9</b>	<b>4.0</b>
EPS (Rs)	8.5	6.6	8.1	-	-
BV (Rs)	196.6	165.2	187.8	-	-
Deposits	6,93,760	5,62,470	6,59,961	23.3	5.1
Advances	6,38,470	5,24,690	5,99,313	21.7	6.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	22,329	28,907	34,180	41,796	51,001
Pre-provision profit	18,395	25,960	30,481	37,739	46,130
PAT	10612	14080	17413	21703	26731
EPS (Rs)	20.3	26.8	33.1	41.3	50.9
ABV (Rs)	143.1	168.3	193.7	225.1	264.0
P/E (x)	40.5	30.7	24.8	19.9	16.2
P/ABV (x)	5.7	4.9	4.2	3.7	3.1
GNPAs (%)	1.0	1.1	1.0	1.1	1.2
NNPAs (%)	0.3	0.3	0.2	0.2	0.3
RoA (%)	1.6	1.8	1.8	1.9	2.0
RoE (%)	17.2	16.9	18.0	19.4	20.4

Source: Company, Nirmal Bang Institutional Equities Research

### Flattish NIM with northward movement likely

NIM at 3.67% is flattish as against 3.63% in 2QFY15 and 3.65% in 3QFY14. We expect the NIM to expand as the bank intends to rebalance corporate and consumer loan books to 50:50 from 58:42 earlier. The bank also recently cut its interest rate on savings deposit less than Rs100,000 by 100bps to 4.5%. The management does not believe that this will significantly impact the bank's hold on savings deposits, but we have factored in a slight compression in the CASA deposit ratio going forward. Also, 40% of its deposits are bulk deposits and with a significant reduction in bulk deposit interest rates, it will benefit the bank.

### Superior traction in non-interest income

Non-interest income grew 27%, with higher traction witnessed in distribution fees and foreign exchange income, up 41% and 29%, respectively. Loan processing fees were up 18%. Treasury income grew 65% on a lower base. Trade and remittances and general banking fee income grew 12% and 22%, respectively. Investment banking fees were flattish as some deals spilled over to the next quarter.

### Stable asset quality

GNPAs (gross non-performing assets) as well as NNPAs (net non-performing assets) were flattish at 1.05% and 0.32%, respectively. Loan slippage during the quarter was at 1.0% against 0.8% in 2QFY15 and 1.4% in 3QFY14. GNPAs in all consumer segments were stable on a sequential basis. With a likely uptick in the economy, its commercial vehicle, construction equipment and two-wheeler loan segments are expected to witness a recovery. GNPAs in these segments in 3QFY15 stood at 1.4%, 1.6% and 2.4%, respectively. Annualised credit costs inched up to 62bps from 38bps in the previous quarter. Restructured loan book inched up slightly to 0.55% from 0.52% in the previous quarter.

### Aims at aggressive growth going forward

The management has targeted annual loan growth of 25%-30% for the next three years. We have conservatively factored in lower credit growth of ~22%. The management plans to double the branch network and customer base over the next three years, with the nine-month run-rate being on track. IndusInd Bank is targeting fee income growth in excess of its loan growth, with contribution from all segments. Despite cutting interest rates on savings deposits, the management expects to maintain CASA deposit ratio above 35%. We have factored in compression in the CASA deposit ratio to 33% on a conservative basis.

## Financials

### Exhibit 2: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Interest income	69,832	82,535	97,328	1,14,944	1,36,401
Interest expenses	47,504	53,628	63,148	73,148	85,399
<b>Net interest income</b>	<b>22,329</b>	<b>28,907</b>	<b>34,180</b>	<b>41,796</b>	<b>51,001</b>
Fee income	9,470	11,706	14,749	18,437	22,124
Other Income	3,515	6,681	7,491	8,915	10,617
Net revenue	35,314	47,294	56,421	69,148	83,743
Operating expenses	17,564	21,853	27,068	32,410	38,744
-Employee expenses	6,615	8,093	9,730	11,258	12,939
-Other expenses	10,949	13,760	17,337	21,152	25,805
<b>Operating profit</b>	<b>17,750</b>	<b>25,441</b>	<b>29,353</b>	<b>36,738</b>	<b>44,999</b>
Investment profit	644	518	1,128	1,001	1,131
<b>Pre-provision profit</b>	<b>18,395</b>	<b>25,960</b>	<b>30,481</b>	<b>37,739</b>	<b>46,130</b>
Provisions	2,631	4,676	4,162	4,936	5,726
-Loan loss provision	2,551	3,785	3,993	4,733	5,482
-Provision for investment	13	876	169	203	244
-Other provisions	67	16	-	-	-
PBT	15,764	21,283	26,319	32,803	40,404
Tax	5,152	7,203	8,906	11,101	13,673
<b>PAT</b>	<b>10,612</b>	<b>14,080</b>	<b>17,413</b>	<b>21,703</b>	<b>26,731</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Balance Sheet

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Equity capital	5,229	5,256	5,256	5,256	5,256
Reserves & surplus	70,967	85,063	98,161	1,14,944	1,36,141
<b>Shareholders' funds</b>	<b>76,196</b>	<b>90,320</b>	<b>1,03,418</b>	<b>1,20,200</b>	<b>1,41,397</b>
<b>Deposits</b>	<b>5,41,167</b>	<b>6,05,023</b>	<b>7,38,128</b>	<b>8,85,753</b>	<b>10,62,904</b>
-Current deposits	88,346	97,757	1,17,722	1,39,866	1,66,439
-Savings deposits	70,328	99,152	1,25,774	1,47,917	1,83,347
-Term deposits	3,82,494	4,08,114	4,94,632	5,97,970	7,13,118
Borrowings	94,596	1,47,620	1,62,061	1,92,915	2,29,993
-Subordinate debt	11,190	10,690	12,134	15,220	18,927
Other liabilities	21,107	27,297	31,948	35,239	37,482
<b>Total liabilities</b>	<b>7,33,066</b>	<b>8,70,260</b>	<b>10,35,555</b>	<b>12,34,108</b>	<b>14,71,776</b>
Cash/equivalent	68,487	67,694	82,311	98,772	1,18,400
Advances	4,43,206	5,51,018	6,77,468	8,25,094	10,02,244
Investments	1,96,542	2,15,630	2,35,595	2,65,120	3,00,551
Fixed assets	7,561	10,164	10,564	11,064	11,414
Other assets	17,269	25,753	29,615	34,058	39,166
<b>Total assets</b>	<b>7,33,065</b>	<b>8,70,259</b>	<b>10,35,555</b>	<b>12,34,108</b>	<b>14,71,776</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Key ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
<b>Growth (%)</b>					
NII growth	31.0	29.5	18.2	22.3	22.0
Pre-provision profit growth	34.0	41.1	17.4	23.8	22.2
PAT growth	32.2	32.7	23.7	24.6	23.2
<b>Business (%)</b>					
Deposit growth	27.7	11.8	22.0	20.0	20.0
Advances growth	26.4	24.3	22.9	21.8	21.5
Business growth	27.1	17.4	22.5	20.9	20.7
CD	81.9	91.1	91.8	93.2	94.3
CASA deposit	29.3	32.5	33.0	32.5	32.9
<b>Operating efficiency (%)</b>					
Cost-to-income	49.7	46.2	48.0	46.9	46.3
Cost-to-assets	2.9	3.0	3.1	3.1	3.1
<b>Productivity (Rsmn)</b>					
Business per branch	1,816.2	2,075.5	2,222.3	2,321.4	2,559.0
Business per employee	100.4	114.9	133.4	153.3	177.1
Profit per branch	19.6	25.3	27.3	29.4	33.1
Profit per employee	1.1	1.4	1.6	1.9	2.3
<b>Spreads (%)</b>					
Yield on advances	14.1	13.3	13.1	12.8	12.6
Yield on investments	7.5	7.2	7.3	7.3	7.3
Cost of deposits	8.3	7.6	7.4	7.2	7.0
Yield on assets	11.6	11.2	11.2	11.0	10.9
Cost of funds	8.0	7.5	7.4	7.2	7.0
NIMs	3.7	3.9	3.9	4.0	4.1
<b>Capital adequacy (%)</b>					
Tier I	13.8	12.7	11.8	10.8	10.1
Tier II	1.6	1.1	1.0	1.0	1.0
Total CAR	15.4	13.8	12.9	11.9	11.1
<b>Asset quality (%)</b>					
Gross NPAs	1.0	1.1	1.0	1.1	1.2
Net NPAs	0.3	0.3	0.2	0.2	0.3
Provision coverage	70.1	70.4	77.7	79.2	78.6
Slippage	1.3	1.3	1.0	1.1	1.1
Credit-cost	0.6	0.6	0.5	0.5	0.5
<b>Return (%)</b>					
RoE	17.2	16.9	18.0	19.4	20.4
RoA	1.6	1.8	1.8	1.9	2.0
<b>Per share (Rs)</b>					
EPS	20.3	26.8	33.1	41.3	50.9
BV	145.7	171.8	196.7	228.7	269.0
ABV	143.1	168.3	193.7	225.1	264.0
<b>Valuation (x)</b>					
P/E	40.5	30.7	24.8	19.9	16.2
P/BV	5.6	4.8	4.2	3.6	3.1
P/ABV	5.7	4.9	4.2	3.7	3.1

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
14 October 2014	Buy	636	800
8 January 2015	UR	793	-
14 January 2015	Buy	821	975

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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