

IndusInd Bank

BSE SENSEX	S&P CNX
32,182	10,096
Bloomberg	IIB IN
Equity Shares (m)	595.8
M.Cap.(INRb)/(USDb)	1,037 / 15.9
52-Week Range (INR)	1818 / 1038
1, 6, 12 Rel. Per (%)	-4/12/28
Avg Val, INRm	1589
Free float (%)	85.0

CMP: INR1,743 TP: INR2,000 (+15%) Buy

Steady quarter; earnings visibility remains strong

- IndusInd Bank's (IIB) 2QFY18 PAT grew 25% YoY (in-line) to INR8.8b. Strong loan growth of 24% YoY (+26% YoY in corporate loans) and a steady NIM of 4% helped keep NII growth steady at 25% YoY.
- Robust NII, coupled with steady fee income growth of 22% YoY, enabled the bank to deliver impressive core PPOP growth of 28% YoY. Opex continues to trail total income growth, as IIB sees improving productivity at its branches.
- Both corporate (+26% YoY) and consumer (+22% YoY) loans exhibited healthy growth. Vehicle loan growth recovered to 17% YoY, and was well supported by ~40% YoY growth in retail non-vehicle loans.
- GNPA/NNPAs increased 6% sequentially; however NPA ratios remained stable. Fresh slippages declined to INR4.98b (1.7% annualized, INR6.08b in 1QFY18), led by relatively high slippages in the corporate segment. The bank indicated that the impact of demonetization and NCLT referrals has resulted in relatively high slippages over the past couple of quarters. Restructured book declined to 16bp of loans (INR1.94b), while O/s SR stood at INR4.07b. IIB mentioned that it has provided INR360m toward six accounts that appear on the second list from the RBI, and now carries ~65% provision on these accounts.
- **Other highlights:** (1) CASA ratio improved sharply to 42.3% (ahead of 40% target), led by 95% YoY growth in SA deposits. (2) IIB has total exposure of ~INR3.85b toward six accounts that appear on the RBI's second list. (3) IIB expects INR1.5/share impact on EPS from fee income recognition changes under Ind-AS.

Valuation and view: IIB's key focus is to scale up on its retail operations, led by a higher share of non-vehicle retail loans by FY20. The bank is targeting 25-30% loan growth, driven by continued branch expansion (by 800) and strong customer acquisition (+2x to 20m). Potential merger with BHAFIN will strengthen the bank's liability profile and further boost return ratios. Maintain **Buy** with a revised TP of INR2,000 (4.0x Sep'19 BV).

Quarterly Performance

	(INR million)									
	FY17				FY18E				FY17	FY18E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	32,917	34,857	36,993	38,300	41,355	42,084	46,571	48,472	1,44,057	1,78,481
Interest Expense	19,353	20,254	21,209	21,626	23,615	23,874	27,750	28,629	83,431	1,03,867
Net Interest Income	13,564	14,603	15,784	16,675	17,741	18,210	18,821	19,843	60,626	74,614
% Change (YoY)	38.3	33.4	34.5	31.5	30.8	24.7	19.2	19.0	34.2	23.1
Other Income	9,730	9,704	10,168	12,113	11,673	11,876	13,500	14,677	41,715	51,727
Net Income	23,294	24,307	25,952	28,788	29,413	30,086	32,321	34,519	1,02,341	1,26,341
Operating Expenses	10,956	11,491	12,319	13,065	13,528	13,751	15,869	16,517	47,831	59,664
Operating Profit	12,338	12,816	13,633	15,722	15,885	16,335	16,452	18,003	54,510	66,677
% Change (YoY)	33.7	27.3	28.5	36.6	28.8	27.5	20.7	14.5	31.6	22.3
Other Provisions	2,305	2,139	2,169	4,301	3,100	2,938	2,100	2,903	10,913	11,041
Profit before Tax	10,033	10,677	11,465	11,421	12,786	13,398	14,352	15,099	43,597	55,636
Tax Provisions	3,419	3,635	3,959	3,905	4,420	4,597	4,880	5,298	14,918	19,194
Net Profit	6,614	7,042	7,506	7,516	8,365	8,801	9,472	9,801	28,679	36,442
% Change (YoY)	26.0	25.7	29.2	21.2	26.5	25.0	26.2	30.4	25.4	27.1
Operating Parameters										
NIM (Reported,%)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0.0	4.0	
NIM (Cal, %)	3.8	3.8	3.9	3.9	3.8	4.0	4.0	3.9	3.8	3.9
Deposit Growth (%)	31.0	38.9	37.9	36.1	31.4	25.9	26.6	26.8	36.1	20.0
Loan Growth (%)	29.7	26.4	25.1	27.9	24.3	24.5	29.0	25.5	27.9	25.0
CD Ratio (%)	92.1	88.1	86.2	89.3	87.1	87.1	87.8	88.4	89.3	87.1
Tax Rate (%)	34.1	34.0	34.5	34.2	34.6	34.3	34.0	35.1	34.2	34.5
Asset Quality										
OSRL (INR b)	4.6	4.4	4.2	4.2	2.0	1.9	0.0	0.0	4.2	
OSRL (%)	0.5	0.4	0.4	0.4	0.2	0.2	0.0	0.0	0.4	
Gross NPA (INR b)	8.6	9.0	9.7	10.5	12.7	13.5	14.3	16.0	10.5	16.0
Gross NPA (%)	0.9	0.9	0.9	0.9	1.1	1.1	1.1	1.1	0.9	1.1

E: MOSL Estimates; Quarterly calculated margins based on total assets, yearly on interest earning assets

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Exhibit 1: Quarterly Performance v/s expectation

Y/E March	2QFY18E	2QFY18A	V/S our Est	Comments
Net Interest Income	18498	18,210	-2	
% Change (Y-o-Y)	27	25		
Other Income	12100	11,876	-2	
Net Income	30598	30,086	-2	
Operating Expenses	14219	13,751	-3	Opex under control
Operating Profit	16379	16,335	0	
% Change (Y-o-Y)	28	27		
Other Provisions	2800	2,938	5	Included INR360m towards NCLT referred cases
Profit before Tax	13579	13,398	-1	
Tax Provisions	4617	4,597	0	
Net Profit	8962	8,801	-2	Largely in line with estimates
% Change (Y-o-Y)	27	25		

Source: Company, MOSL

Stable NIM performance on the back of strong CASA mobilization

Strong loan growth and continued CASA traction enable healthy revenue growth

- Reported NIM was stable sequentially at 4%. This was aided by strong traction in CASA deposits even as yield on corporate advances declined by 38bp QoQ.
- CASA deposits grew 18% QoQ and 46% YoY led by strong mobilization of SA deposits (+95/27% YoY/QoQ). IIB indicated that 15% of SA comes from government business v/s earlier run-rate of 10-12%.
- Cost of funds declined by 19bp QoQ to 5.13% which was similar to the decline in Yield on Funds.
- Yields in the corporate book declined by 38bp QoQ while yields in consumer finance book declined by 8bp QoQ.
- C-D ratio remained stable at 87%. Risk-Weighted-Assets grew 7% QoQ, driving 57bp sequential decline in Tier-1.

CFD slippages declined both in absolute terms (17% QoQ decline) and % terms (annualized slippage ratio of 1.7% v/s 2.2% in 1Q)

Asset quality ratios held stable; expect slippages to decline going ahead

- GNPA ratio remained stable at 1.08% as fresh slippages declined to INR4.98b (1.7% annualized v/s 2.2% in 1QFY18). PCR ratio also held stable at 60%.
- Slippages in the corporate portfolio remained elevated at INR2.85b while consumer finance division reported 17% q-q decline in slippages at INR2.13b.
- Restructured book declined to 16bp (INR1.94b) while O/s SR stands at INR4.07b.
- IIB mentioned that it has provided INR360m towards six accounts that appear on second list from RBI and now carries ~65% provision on these accounts.
- Segmental GNPA's in CFD segment improved to 1.19% v/s 1.25% in 1QFY18. This was led by improvement across all business segments except tractors and credit cards.
- The bank indicated that impact of demonetization and NCLT cases (including potential referrals from second list) has played out fully and expect slippages to moderate over the medium term. IIB continues to hold floating provisions of INR0.7b which it made in 1QFY18.

Exhibit 2: GNPA's in the CFD segment declined to 1.19% v/s 1.25% in 1QFY18 (%)

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
CV	1.4	1.4	1.3	1.2	1.1	1.1	1.0	1.1	1.1	1.0	1.0	1.1	1.0
Utility	0.8	1.0	1.1	1.1	1.0	1.0	1.2	1.3	1.2	1.1	1.1	1.4	1.4
CE	1.6	1.6	1.4	1.5	1.6	1.5	1.3	1.4	1.4	1.2	1.2	1.1	1.0
3W	0.8	0.9	0.9	1.0	0.8	0.8	1.0	1.1	1.0	0.8	0.9	1.3	1.1
2W	2.5	2.4	2.5	2.7	2.8	3.0	3.0	3.2	3.6	3.6	3.5	3.6	3.6
Cars	0.5	0.5	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.8	0.7	0.7	0.7
LAP/HL/PL	0.5	0.3	0.3	0.5	0.4	0.6	0.7	0.7	0.7	0.8	0.9	1.0	0.4
Cards	1.5	1.5	1.2	1.3	1.4	1.5	1.5	1.7	1.7	1.6	1.3	1.2	1.5

Source: MOSL, Company

3rd party distribution fees (+52% YoY) continue to drive fee income growth

Other highlights

- Growth in fee income (+23% YoY) was broad based with strong growth in 3rd party distribution fees (+52% YoY), general banking fees (+32% YoY) and trade and remittance (+25% YoY). Processing fees growth picked up in the quarter (+6% YoY v/s 9% decline in 1QFY18)
- Operating expenses growth remained well under control at 20% YoY, trailing total income growth of 24% YoY. This was led by continued moderation in employee expenses (+18% YoY) led by robust digital initiatives taken by the bank
- RWA to total assets picked up from 76% in last quarter to 80% in 2QFY18. RoRWA came in at 2.3% for the quarter, well within reach of management's 2.4% target laid in its Vision 2020 agenda.

Exhibit 3: Fees grew 23% YoY led by strong traction in third party distribution, general banking and trade and remittance

	2QFY18	1QFY18	2QFY17	QoQ (%)	YoY (%)
Trade related	1,280	1,310	1,025	-2%	25%
Forex – Clients	1,830	1,980	1,556	-8%	18%
Third Party Product	2,370	2,100	1,558	13%	52%
General banking	650	640	494	2%	31%
Processing fees	2,140	1,960	2,015	9%	6%
Investment Banking	1,860	1,750	1,608	6%	16%
Fee income	10,130	9,740	8,256	4	23

Source: MOSL, Company

**2QFY18 conference call highlights****Asset quality related**

- **NCLT exposures:** Out of the second set of 28 accounts, they have exposure to six accounts (total 8 cases, one is being restructured and one is very small account with exposure in single-digit). Exposure to six remaining accounts is INR3.85b on which they have a PCR of 65%). Most were already recognized as NPA and provided for; net additional provision of INR360m made in 2QFY18.
- Corporate slippages have declined because the last few quarters had one-offs (INR180m from microfinance in 1Q and 2Q, NCLT accounts have played out fully, 1-2 older CDR cases have slipped).
- The bank has no exposure to RCom.
- Net SR book is at INR4.07b.

Balance-sheet related

- The bank has availed foreign funding (USD250m) for seven years from OPEC and ECB.
- 15% of SA is government business book (project accounts), last quarter's corresponding figure was 10-12%.
- Corporate book growth is a mix of business transfer from PSUs, as well as new business, with some contribution from GIFT City
- SA rates: 4% up to INR0.5m, 5% between INR0.5m and INR10m; 5.5% between INR10m and INR100m; 6% above INR100m. Most of the growth is coming from 5% and 5.5% buckets.
- SA growth is mostly related to maturing of branches, increase in productivity, and increase in average ticket size.
- Gems and jewellery portfolio is stable, and credit practices are robust; no stressed assets.

P/L related

- Expect INR1.5 impact on EPS from fee income recognition changes under IND-AS (not clear completely as fees on some products will not be amortized; some are mainly spent upfront on related expenses, etc.)
- NII sensitivity to interest rate is low because of better ALM in terms of maturity and fixed/floating (vehicle finance book funded through CASA, corporate book through floating rate deposits).

Other updates

- The bank is seeing credit offtake opportunities post de-stocking.
- Crossed client base of 10m for the first time, and 100K CASA customers every month.
- **MFI merger benefits:** a) Cost of funds falls substantially for the MFI from day 1. b) Capital is released in the books of the bank immediately. c) Entire portfolio is classified as priority sector which offers PSLC fee potential. d) Huge customer base to sell liability products to (in addition to tractor loans etc.). e) Rural distribution network expands.
- 2W business run-rate at 70K vehicles per month.
- Renewables (trading cautiously, book of INR10b) and power transmission (<1% of book) are sectors in which capacity utilization is building up.

Maintain Buy with a TP of INR2,000 (4.0x Sept 2019 BV)

Valuation and view

- Strong core profitability (3%+ of average assets v/s private banks average of 2.5% and HDFCB of 2.7%), improving CASA ratio (best amongst mid-sized private banks), healthy return ratios (ROA of 1.9%+ and ROE of 15-17% and capitalization (Tier 1 ratio of ~15.1%) are key positives. We expect IIB to report strong 26%+ loan CAGR driven by multi products, new product addition and market share gains
- Performance on the first three planning cycle under the leadership of Mr.Sobti has been extremely impressive. Bank communicated its next three years strategy in the 4th stage Planning Cycle (2017-20) today with the clear focus of strong growth with profitability and increasing the granularity of balance sheet. IIB is targeting strong growth (25-30%), higher share of non-vehicle retail

loans (25% by FY20 v/s 18% currently), strengthened liability franchise (CASA ratio of 40% v/s 38% currently), return on risk weighted assets >2.4%, continued branch expansion (2000 by FY20 v/s 1200 currently) and customer acquisition (2x increase to 20m+).

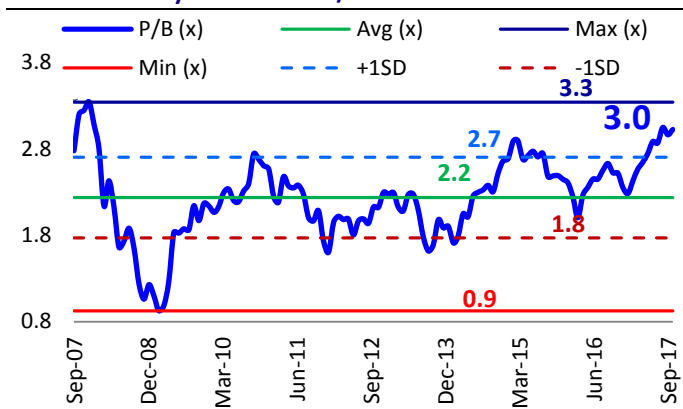
- Overall we expect underlying growth in consumer finance division product to show continued revival with broad-based growth in vehicle finance division and new product additions. IIB is already witnessing healthy growth in LAP and credit cards. Corporate loan growth is likely to be opportunistic (based on spreads available. IIB has levers like less sell down of loans, selectively doing project loan etc.
- NIMs are expected to largely stable to improving led by higher share of retail liabilities, expected improvement in loan mix towards high yielding CFD, benefit of falling interest rate cycle and higher share of fixed rate loans. Close-to-customer business model of CV financing helped the bank maintain strong asset quality performance, despite tough times. In our view, CV cycle has bottomed out which would help reduce concerns over asset quality.
- Overall superior margins, focused fee income strategy and control over C/I ratio will keep earnings momentum healthy (~23% CAGR over FY17-20). Capitalization remains one of the best in the industry at 15.1% Tier 1 ratio. Maintain Buy with a target price of INR 2,000 (4.0x Sept 2019 BV based on RI model). Key assumptions in our RI model are a) Cost of equity of 13.1%, b) extended forecast average growth of 17% for 17 years and c) Terminal growth of 5%.

Exhibit 4: We largely maintain our earnings estimates

INR B	Old Estimates			New estimates			Variation (%)		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	75.3	94.0	114.1	74.6	94.6	120.8	-0.9	0.7	5.9
Other Income	50.9	60.4	71.8	51.7	64.7	80.2	1.6	7.1	11.7
Total Income	126.2	154.3	185.8	126.3	159.2	201.0	0.1	3.2	8.2
Operating Expenses	58.7	70.8	85.4	59.7	74.5	92.3	1.6	5.2	8.0
Operating Profits	67.5	83.5	100.4	66.7	84.8	108.7	-1.2	1.5	8.3
Provisions	11.0	13.9	17.3	11.0	13.6	17.4	0.8	-2.4	0.2
PBT	56.5	69.6	83.1	55.6	71.2	91.4	-1.6	2.3	10.0
Tax	19.5	23.7	28.3	19.2	24.2	31.1	-1.6	2.3	10.0
PAT	37.0	45.9	54.8	36.4	47.0	60.3	-1.6	2.3	10.0
Margins (%)	1,414	1,767	2,209	1,419	1,791	2,266	0.4	1.4	2.6
Credit Cost (%)	1,519	1,944	2,469	1,605	2,029	2,572	5.7	4.3	4.2
RoA (%)	4.27	4.37	4.29	4.18	4.19	4.23			
RoE (%)	0.75	0.75	0.75	0.75	0.75	0.75			

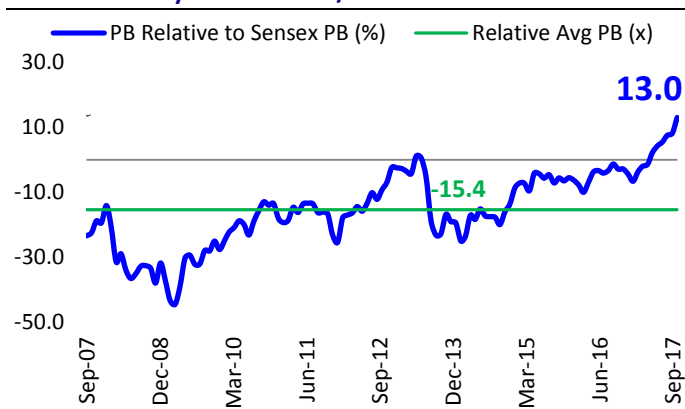
Source: Company, MOSL

Exhibit 5: One year forward P/B



Source: MOSL, Company

Exhibit 6: One year forward P/E



Source: MOSL, Company

Exhibit 7: DuPont Analysis: Improved profitability to continue to drive RoE higher

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	10.7	10.3	9.7	9.2	9.1	9.0	8.8	8.8
Interest Expended	7.3	6.7	6.3	5.6	5.3	5.2	5.0	4.9
Net Interest Income	3.41	3.61	3.44	3.59	3.84	3.77	3.80	3.85
Core Fee Income	2.0	2.2	2.4	2.5	2.5	2.4	2.43	2.40
Trading and others	0.10	0.16	0.12	0.12	0.18	0.17	0.17	0.2
Non Interest income	2.08	2.36	2.56	2.62	2.64	2.61	2.60	2.6
Total Income	5.49	5.96	6.00	6.21	6.49	6.38	6.39	6.41
Operating Expenses	2.68	2.73	2.89	2.92	3.03	3.01	2.99	2.94
Employee cost	1.01	1.01	0.99	0.98	0.96	0.93	0.91	0.9
Others	1.67	1.72	1.90	1.93	2.07	2.08	2.08	2.1
Operating Profit	2.81	3.24	3.12	3.29	3.46	3.37	3.40	3.46
Core operating Profits	2.71	3.08	3.00	3.17	3.28	3.19	3.24	3.3
Provisions	0.40	0.58	0.39	0.53	0.69	0.56	0.54	0.55
PBT	2.41	2.65	2.73	2.76	2.76	2.81	2.86	2.91
Tax	0.79	0.90	0.92	0.94	0.95	0.97	0.97	1.0
RoA	1.62	1.76	1.80	1.82	1.82	1.84	1.89	1.92
Leverage (x)	11.0	10.0	10.5	9.1	8.4	9.2	10.1	10.7
RoE	17.8	17.5	19.0	16.6	15.3	16.9	19.0	20.6

Source: MOSL, Company

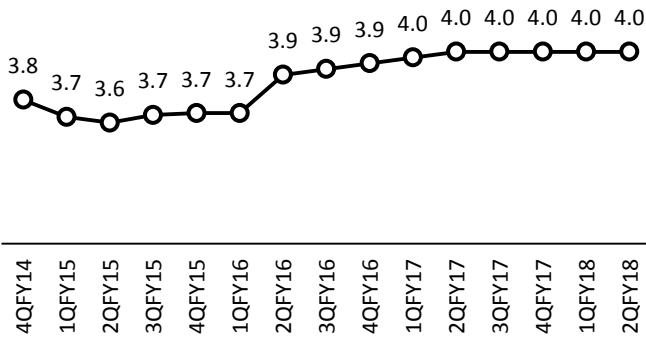
Exhibit 8: DuPont Analysis: RoA remained healthy at ~1.9%

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
NII	3.65	3.58	3.54	3.51	3.68	3.69	3.74	3.80	3.85	3.89	3.86	3.84	3.78
Fee income	2.39	2.33	2.33	2.28	2.27	2.28	2.29	2.19	2.18	2.18	2.30	2.11	2.10
Trading and others	0.21	0.37	0.34	0.45	0.37	0.36	0.41	0.53	0.38	0.32	0.50	0.42	0.36
Non interest income	2.60	2.70	2.67	2.73	2.64	2.64	2.69	2.72	2.56	2.50	2.80	2.53	2.46
Total Income	6.25	6.28	6.21	6.24	6.32	6.33	6.44	6.52	6.41	6.39	6.66	6.37	6.24
Operating costs	3.08	3.06	2.96	2.93	2.93	2.99	3.04	3.07	3.03	3.03	3.02	2.93	2.85
- Emp Costs	1.05	1.06	1.02	0.97	1.01	1.03	0.99	1.00	0.99	0.97	0.91	0.91	0.92
- Other Expenses	2.03	2.00	1.94	1.96	1.92	1.97	2.05	2.07	2.04	2.06	2.11	2.02	1.93
Operating Profit	3.17	3.22	3.25	3.30	3.39	3.34	3.40	3.45	3.38	3.36	3.64	3.44	3.39
Core Operating Profit	2.96	2.85	2.91	2.85	3.02	2.98	2.99	2.92	3.00	3.03	3.14	3.02	3.03
Provisions	0.32	0.41	0.41	0.44	0.53	0.56	0.63	0.65	0.56	0.53	1.00	0.67	0.61
Tax	0.97	0.95	0.95	0.98	0.97	0.95	0.94	0.96	0.96	0.97	0.90	0.96	0.95
ROAA	1.88	1.86	1.89	1.88	1.88	1.83	1.83	1.85	1.86	1.85	1.74	1.81	1.83
Leverage (x)	9.4	9.5	9.9	10.2	8.5	7.4	7.7	7.9	8.1	8.3	8.5	8.8	8.9
ROAE	17.7	17.6	18.8	19.3	16.0	13.6	14.2	14.7	15.0	15.4	14.8	15.9	16.2

Source: MOSL, Company

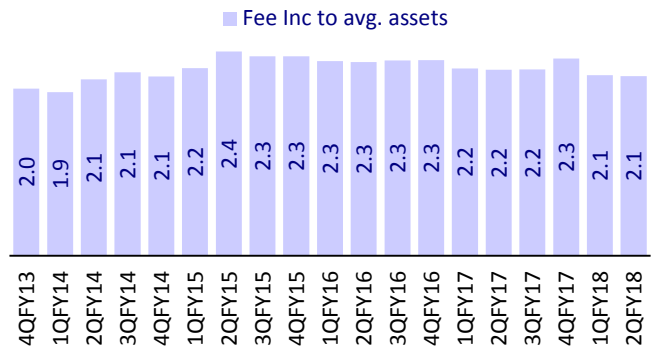
Story in charts

Exhibit 9: NIMs stable QoQ at 4% (+3bp YoY)



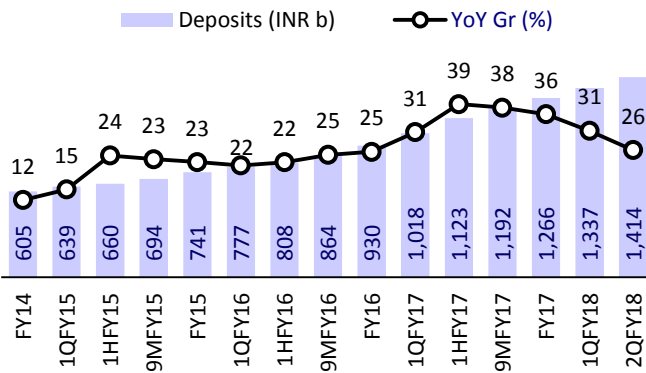
Source: MOSL, Company

Exhibit 10: Fee income to average assets remains strong



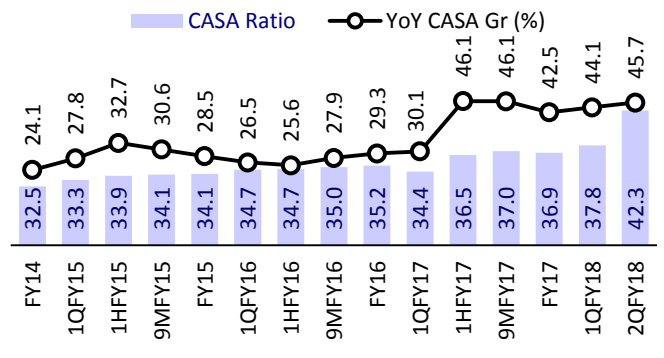
Source: MOSL, Company

Exhibit 11: Deposit growth remains strong, led by CASA



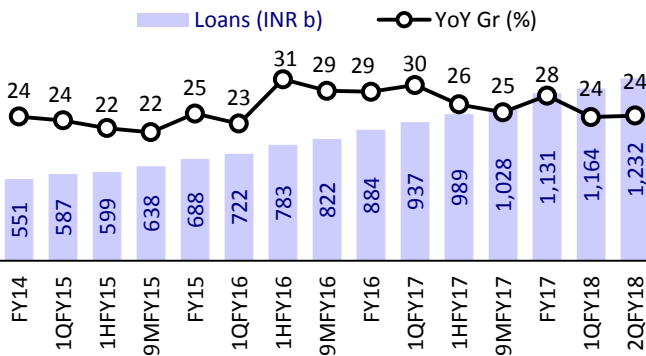
Source: MOSL, Company

Exhibit 12: SA deposits grew by 95% YoY



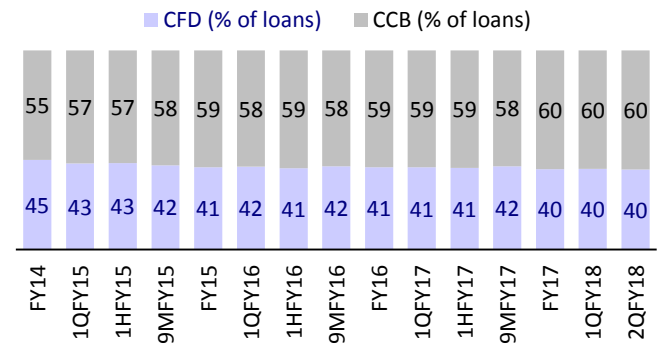
Source: MOSL, Company

Exhibit 13: Loan growth strong at ~24% (%)



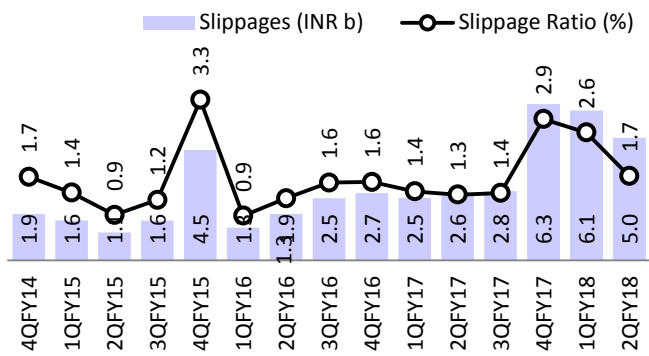
Source: MOSL, Company

Exhibit 14: Share of CCB remains largely stable QoQ



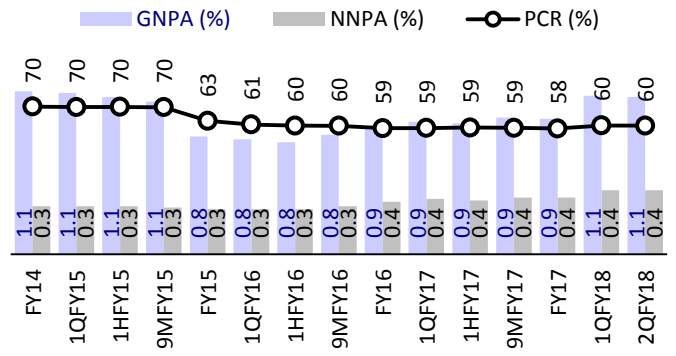
Source: MOSL, Company

Exhibit 15: Slippage ratio declined in the quarter (%)



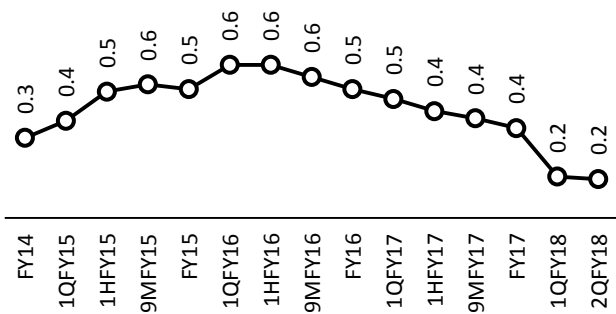
Source: MOSL, Company

Exhibit 16: PCR ratio stayed stable QoQ at 60%



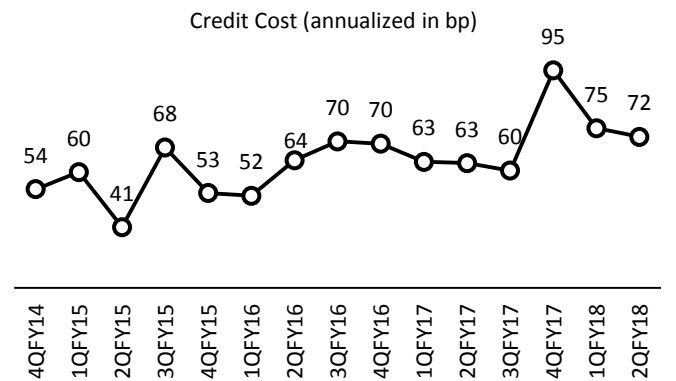
Source: MOSL, Company

Exhibit 17: Restructured book declined to 16bp of advances



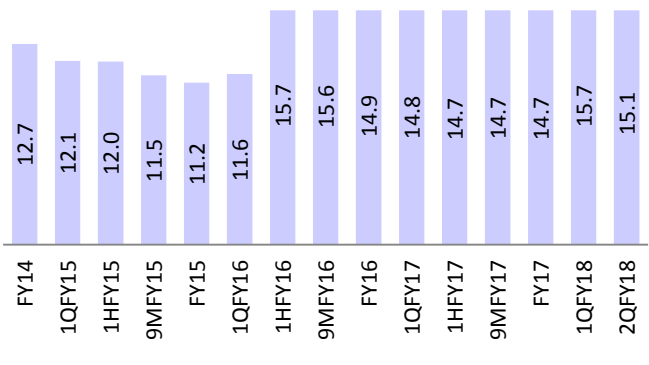
Source: MOSL, Company

Exhibit 18: Credit costs declined slightly during the quarter



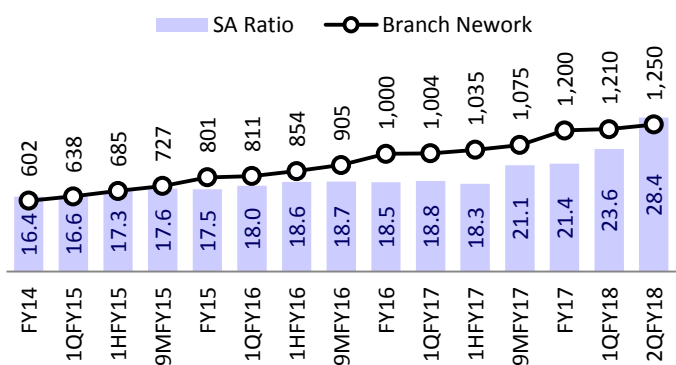
Source: MOSL, Company

Exhibit 19: Strong tier 1 capital ratio (%)



Source: MOSL, Company

Exhibit 20: The bank added 40 branches during the quarter



Source: MOSL, Company

Exhibit 21: Quarterly Snapshot (INR b)

	FY16				FY17				FY18		Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	QoQ	YoY
Profit and Loss												
Net Interest Income	9,807	10,943	11,734	12,682	13,564	14,603	15,784	16,675	17,741	18,210	3	25
Other Income	7,616	7,835	8,390	9,128	9,730	9,704	10,168	12,113	11,673	11,876	2	22
Trading profits	1,254	1,102	1,131	1,386	1,911	1,449	1,320	2,150	1,930	1,750	-9	21
Others (Ex non core)	6,362	6,733	7,259	7,742	7,819	8,256	8,848	9,963	9,743	10,126	4	23
Total Income	17,423	18,778	20,124	21,810	23,294	24,307	25,952	28,788	29,413	30,086	2	24
Operating Expenses	8,196	8,713	9,514	10,298	10,956	11,491	12,319	13,065	13,528	13,751	2	20
Employee	2,723	3,007	3,267	3,364	3,569	3,758	3,940	3,943	4,222	4,450	5	18
Others	5,473	5,706	6,247	6,934	7,387	7,733	8,378	9,122	9,306	9,300	0	20
Operating Profits	9,227	10,065	10,610	11,512	12,338	12,816	13,633	15,722	15,885	16,335	3	27
Provisions	1,233	1,581	1,771	2,137	2,305	2,139	2,169	4,301	3,100	2,938	-5	37
PBT	7,994	8,484	8,839	9,375	10,033	10,677	11,465	11,421	12,786	13,398	5	25
Taxes	2,744	2,884	3,029	3,172	3,419	3,635	3,959	3,905	4,420	4,597	4	26
PAT	5,250	5,600	5,810	6,204	6,614	7,042	7,506	7,516	8,365	8,801	5	25
Asset Quality												
GNPA	5,701	6,021	6,811	7,768	8,606	8,990	9,716	10,549	12,717	13,453	6	50
NNPA	2,248	2,408	2,733	3,218	3,555	3,692	4,007	4,389	5,083	5,369	6	45
GNPA (%)	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.1	1.1	-1	18
NNPA (%)	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0	7
PCR (Calculated, %)	60.6	60.0	59.9	58.6	58.7	58.9	58.8	58.4	60.0	60.1	6	115
Ratios (%)												
Fees to Total Income	36.5	35.9	36.1	35.5	33.6	34.0	34.1	34.6	33.1	33.7		
Cost to Core Income	50.7	49.3	50.1	50.4	51.2	50.3	50.0	49.0	49.2	48.5		
Tax Rate	34.3	34.0	34.3	33.8	34.1	34.0	34.5	34.2	34.6	34.3		
CASA (Reported)	34.7	34.7	35.0	35.2	34.4	36.5	37.0	36.9	37.8	42.3		
Loan/Deposit	93.0	96.8	95.1	95.1	92.1	88.1	86.2	89.3	87.1	87.1		
CAR	12.4	16.5	16.4	15.5	15.4	15.3	15.3	1,531.0	16.2	15.6		
Tier I	11.6	15.7	15.6	14.9	14.8	14.7	14.7	1,472.0	15.7	15.1		
RoA	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.7	1.9	1.9		
RoE	20.4	16.7	14.1	14.6	15.1	15.4	15.7	15.1	16.2	16.5		
Margins (%) - Calculated												
Yield on loans	11.9	11.8	11.8	12.0	11.8	11.7	11.9	11.1	11.4	11.0	-42	-71
Yield On Investments	7.1	7.1	6.3	6.6	7.0	7.1	6.9	7.2	7.4	7.3	-8	22
Yield on funds	11.2	10.7	10.5	10.5	10.5	10.4	10.4	10.2	10.3	9.1	-113	-124
Cost of funds	7.2	6.8	6.7	6.7	6.6	6.5	6.3	6.0	6.1	6.1	-1	-39
Spreads	4.0	3.9	3.8	3.8	3.8	3.9	4.1	4.2	4.2	3.0	-112	-85
Margins	3.9	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.0	-24	-31
Margins (%) - Reported												
Yield on loans	12.7	12.4	12.1	12.0	12.1	11.9	11.7	11.4	11.5	11.3	-26	-59
Cost of deposits	7.6	7.4	7.2	7.1	6.9	6.6	6.4	6.1	6.2	5.9	-25	-70
Margins	3.7	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.0	0	0
Balance Sheet (INR b)												
Loans	722	783	822	884	937	989	1,028	1,131	1,164	1,232	6	24
Investments	236	268	277	312	287	365	353	367	421	421	0	15
Deposits	777	808	864	930	1,018	1,123	1,192	1,266	1,337	1,414	6	26
CASA Deposits	269	281	302	327	350	410	442	466	505	598	18	46
of which Savings	140	150	161	172	191	206	252	270	316	402	27	95
Current	129	130	141	155	160	205	190	196	189	196	4	-4
Borrowings	214	211	205	222	172	191	203	225	274	236	-14	23
Total Assets	1,144	1,233	1,309	1,401	1,458	1,578	1,671	1,786	1,907	1,950	2	24
Risk Weighted Assets	906	1,016	1,064	1,163	1,216	1,274	1,318	1,435	1,452	1,561	7	23

Source: MOSL, Company

Financials and Valuations

Income Statement		(INR Million)						
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	69,832	82,535	96,920	1,15,807	1,44,057	1,78,481	2,20,045	2,76,130
Interest Expense	47,504	53,628	62,717	70,641	83,431	1,03,867	1,25,456	1,55,285
Net Interest Income	22,329	28,907	34,203	45,166	60,626	74,614	94,590	1,20,845
Change (%)	31.0	29.5	18.3	32.1	34.2	23.1	26.8	27.8
Non Interest Income	13,630	18,905	25,480	32,969	41,715	51,727	64,658	80,176
Net Income	35,958	47,812	59,683	78,135	1,02,341	1,26,341	1,59,248	2,01,022
Change (%)	32.4	33.0	24.8	30.9	31.0	23.5	26.0	26.2
Operating Expenses	17,564	21,853	28,701	36,721	47,831	59,664	74,481	92,293
Pre Provision Profits	18,395	25,960	30,982	41,414	54,510	66,677	84,767	1,08,728
Change (%)	34.0	41.1	19.3	33.7	31.6	22.3	27.1	28.3
Provisions (excl tax)	2,631	4,676	3,891	6,722	10,913	11,041	13,560	17,356
PBT	15,764	21,283	27,092	34,693	43,597	55,636	71,207	91,373
Tax	5,152	7,203	9,155	11,828	14,918	19,194	24,210	31,067
Tax Rate (%)	32.7	33.8	33.8	34.1	34.2	34.5	34.0	34.0
PAT	10,612	14,080	17,937	22,864	28,679	36,442	46,997	60,306
Change (%)	32.2	32.7	27.4	27.5	25.4	27.1	29.0	28.3
Prof. Dividend (Incl tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profits for Equity SH	10,612	14,080	17,937	22,864	28,679	36,442	46,997	60,306
Change (%)	32.2	32.7	27.4	27.5	25.4	27.1	29.0	28.3
Equity Dividend (Incl tax)	1,838	2,154	2,552	3,522	4,320	4,926	7,037	8,796
Core PPP*	17,750	24,676	29,824	39,892	51,741	63,215	80,613	1,03,744
Change (%)	35.0	39.0	20.9	33.8	29.7	22.2	27.5	28.7

*Core PPP is (NII+Fee income-Opex)

Balance Sheet								
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	5,229	5,256	5,295	5,950	5,982	5,982	5,982	5,982
Equity Share Capital	5,229	5,256	5,295	5,950	5,982	5,982	5,982	5,982
Preference Share Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	70,967	85,063	1,01,010	1,70,872	2,00,328	2,25,255	2,65,215	3,16,724
Net Worth	76,195	90,319	1,06,305	1,76,822	2,06,309	2,31,236	2,71,196	3,22,706
Deposits	5,41,167	6,05,023	7,41,344	9,30,001	12,65,722	16,04,936	20,28,639	25,72,314
Change (%)	27.7	11.8	22.5	25.4	36.1	26.8	26.4	26.8
of which CASA Dep	1,58,674	1,96,909	2,52,996	3,27,240	4,66,460	6,51,604	8,54,057	11,16,384
Change (%)	37.2	24.1	28.5	29.3	42.5	39.7	31.1	30.7
Borrowings	94,596	1,47,620	2,06,181	2,21,559	2,24,537	2,54,964	3,20,520	4,03,679
Other Liabilities & Prov.	21,000	27,187	63,900	72,050	89,764	1,16,693	1,54,035	2,03,326
Total Liabilities	7,33,065	8,70,259	11,17,869	14,00,570	17,54,798	22,07,829	27,74,389	35,02,025
Current Assets	68,487	67,694	1,07,791	1,01,119	1,54,596	1,84,130	2,32,567	2,94,623
Investments	1,96,542	2,15,630	2,28,780	3,12,143	3,67,021	4,78,573	6,01,152	7,63,798
Change (%)	34.9	9.7	6.1	36.4	17.6	30.4	25.6	27.1
Loans	4,43,206	5,51,018	6,87,882	8,84,193	11,30,805	14,19,160	17,90,980	22,65,590
Change (%)	26.4	24.3	24.8	28.5	27.9	25.5	26.2	26.5
Fixed Assets	7,561	10,164	11,576	12,553	13,352	14,688	16,156	17,772
Other Assets	17,269	25,753	81,840	90,561	89,023	1,11,279	1,33,534	1,60,241
Total Assets	7,33,065	8,70,259	11,17,869	14,00,570	17,54,798	22,07,829	27,74,389	35,02,025

Asset Quality								
GNPA (INR m)	4,578	6,208	5,629	7,768	10,549	15,960	19,265	23,224
NNPA (INR m)	1,368	1,841	2,104	3,216	4,388	5,446	6,421	7,295
GNPA Ratio	1.0	1.1	0.8	0.9	0.9	1.1	1.1	1.0
NNPA Ratio	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3
Slippage Ratio	1.33	1.26	1.43	1.08	1.42	1.50	1.25	1.05
Credit Cost	0.55	0.63	0.55	0.64	0.70	0.75	0.75	0.75
PCR (Excl Tech. write off)	70.1	70.4	62.6	58.6	58.4	62.0	68.3	73.9

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	11.1	10.7	10.4	10.0	9.8	9.6	9.4	9.3
Avg. Yield on loans	14.1	13.3	12.5	11.8	11.4	11.2	10.9	10.8
Avg. Yield on Investments	6.1	7.7	7.5	7.2	7.2	6.6	7.3	7.1
Avg. Cost-Int. Bear. Liab.	6.8	6.3	6.0	1.0	1.3	1.9	2.8	4.6
Avg. Cost of Deposits	8.3	7.6	7.7	6.8	6.3	6.1	5.9	5.7
Interest Spread	2.7	3.1	2.7	3.1	3.5	3.4	3.5	3.6
Net Interest Margin	3.7	3.9	3.9	4.0	4.3	4.2	4.2	4.2

Profitability Ratios (%)

RoE	17.8	17.5	19.0	16.6	15.3	16.9	19.0	20.6
RoA	1.6	1.8	1.8	1.8	1.8	1.8	1.9	1.9
Int. Expense/Int.Income	68.0	65.0	64.7	61.0	57.9	58.2	57.0	56.2
Fee Income/Net Income	25.8	29.7	30.7	29.5	30.3	29.9	29.7	29.2
Non Int. Inc./Net Income	37.9	39.5	42.7	42.2	40.8	40.9	40.6	39.9

Efficiency Ratios (%)

Cost/Income*	49.7	47.0	49.0	47.9	48.0	48.6	48.0	47.1
Empl. Cost/Op. Exps.	37.7	37.0	34.2	33.7	31.8	31.0	30.3	30.1

* ex treasury and RWO

Asset-Liability Profile (%)

Loans/Deposit Ratio	81.9	91.1	92.8	95.1	89.3	88.4	88.3	88.1
CASA Ratio	29.3	32.5	34.1	35.2	36.9	40.6	42.1	43.4
Investment/Deposit Ratio	36.3	35.6	30.9	33.6	29.0	29.8	29.6	29.7
G-Sec/Investment Ratio	71.8	71.3	78.3	81.0	85.7	85.7	85.7	85.7
CAR	15.4	13.8	12.1	15.5	15.3	15.4	14.4	13.6
Tier 1	13.8	12.7	11.2	14.9	14.7	14.5	13.6	12.9

Valuations

Book Value (INR)	145.7	171.8	200.8	297.2	344.9	386.6	453.4	539.5
Change (%)		17.9	16.9	48.0	16.1	12.1	17.3	19.0
Price-BV (x)					5.1	4.5	3.8	3.2
Adjusted BV (INR)	139.0	160.8	189.4	285.4	331.3	371.2	436.4	521.0
Price-ABV (x)					5.3	4.7	4.0	3.3
EPS (INR)	21.4	26.9	34.0	40.7	48.1	60.9	78.6	100.8
Change (%)		25.4	26.6	19.6	18.2	26.7	29.0	28.3
Price-Earnings (x)					36.2	28.6	22.2	17.3
Dividend Per Share (INR)	3.5	4.1	4.8	5.9	7.2	8.2	11.8	14.7
Dividend Yield (%)					0.4	0.5	0.7	0.8

E: MOSL Estimates

Corporate profile

Company description

IndusInd Bank (IIB) is one of the ten new private sector banks which were awarded license in 1994. The bank has pan-India presence with 1,004 branches and 1,885 ATMs as on June 20, 2016. It also has one representative office each in Dubai and London. Current management team, led by Managing Director Mr Romesh Sobti, took charge in February 2008 and has since been effecting structural and operational changes to improve productivity and efficiency, leading to strong improvement in core operating performance.

Exhibit 1: Sensex rebased

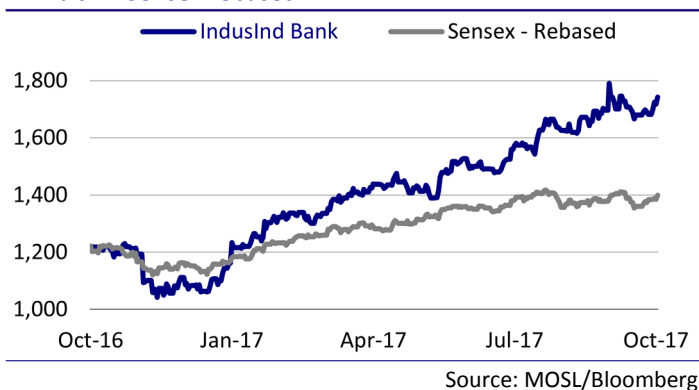


Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	15.0	15.0	14.9
DII	12.7	12.3	11.8
FII	53.9	54.2	54.3
Others	18.4	18.6	19.0

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Bridge India Fund	3.5
Afrin Dia	1.5
ICICI Prudential Life Insurance Company Limited	1.2
Tybourne Equity Master Fund	1.2
Asia Corporation LLP	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
R Seshasayee	Part Time Chairman
Romesh Sobti	Managing Director & CEO
Haresh Gajwani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
R Seshasayee	Kanchan Chitale*
Romesh Sobti	Yashodhan M Kale
Vijay Vaid*	Ranbir Singh Butola
Ashok Kini*	T Anantha Narayanan

*Independent

Exhibit 6: Auditors

Name	Type
Bhandari & Associates	Secretarial Audit
BSR & Co LLP	Independent
BSR & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	60.9	61.5	-0.9
FY19	78.6	77.8	1.0
FY20	100.8	96.3	4.7

Source: Bloomberg

NOTES

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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