RESULT UPDATE

INDUSIND BANK

En-route to deliver Phase III targets

India Equity Research| Banking and Financial Services

IndusInd Bank's (IIB) Q1FY17 PAT of INR6.6bn (up 26% YoY) was in line with our estimates. Key highlights: 1) core operating profitability gathered pace on healthy NII (up >38% on above-industry loan growth, superior NIMs (benefit of capital raising); 2) focus on rebalancing of loan book continued with retail growth at ~29% YoY supported by CV segment; 3) asset quality was stable with credit costs contained at 15bps; and 4) sustained traction in SA deposits (up 11% QoQ) helped maintain CASA ratio at ~34%. Given superior RoAs, well-capitalised position and niche franchise in CV business, we anticipate execution risks to be minimal. Maintain 'BUY'.

Includes Q1FY17/ Q4FY16 earnings con-call highlights

Healthy revenue momentum aids operating profitability

NII benefitted from above-industry loan growth (~30% YoY/6% QoQ) and superior NIMs (cushioned by capital raising done in July 2015 and supported by lower deposit costs). While yields may taper given turning interest rates table, we expect continued tilt in favour of retail loans to likely support NIMs and in turn aid NII.

Asset quality stable; credit costs well within guidance

Asset quality continues to impress with slippages at 1.1% (versus 1.4% run rate in past 6 quarters). Credit cost was at 15bps (17bps for Q4FY16). IIB sees further improvement in credit cost going ahead with improvement in retail credit cost and lower impact of amortisation of loss due to sale to ARCs (done in FY15). Meanwhile, rising proportion of below-BBB rated corporate book (>46% versus 42% in FY15), elevated RWA/assets (83%) and higher concentration of stress segments (viz., gems, real estate, LRD) in corporate book (>12%) remain key monitorables.

Outlook and valuations: Superior profitability; maintain 'BUY'

Retail growth tailwinds in sight (which will help rebalance portfolio towards consumer finance division) and strengthened liability will help the bank maintain/improve NIMs. This, along with above-industry growth, higher fee income and stable credit costs will sustain > 25% earnings CAGR over FY16-18E, leading to superior RoA of 2.1%. The stock trades at 3.0x (post capital raising) FY18E P/ABV and we assign target multiple of 3.3x leading to TP of INR1,253 (earlier INR1,050). However, trends such as higher proportion of corporate assets below BBB, higher loan and deposit concentration and sustainability of higher-than-peers' fee profile need to be closely watched (fair valuations render limited scope for margin of error). We maintain **'BUY/SP'**.

Financials (INR mn)

Year to March	Q1FY17	Q1FY16	*Growth %*	Q4FY16	*Growth %*	FY16	FY17E	FY18E
Net revenue	23,294	17,423	*33.7*	21,810	*6.8*	78,135	95,424	1,17,811
Net profit	6,614	5,250	*26.0*	6,204	*6.6*	22,865	28,677	36,102
Dil. EPS (INR)	10.6	9.7	*9.2*	10.3	*3.0*	38.4	48.2	60.7
Adj. BV (INR)						293.6	331.3	379.7
Price/ Adj book (x)						3.8	3.4	3.0
Price/ Earnings (x)						29.3	23.3	18.5

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: INBK.BO, B: IIB IN)*

CMP	: INR 1,124
Target Price	: INR 1,253
52-week range (INR)	: 1,148 / 799
Share in issue (mn)	: 595.8
M cap (INR bn/USD mn)	: 670 / 9,980
Avg. Daily Vol.BSE/NSE('000)	: 1,358.3

SHARE HOLDING PATTERN (%)

	Current	Q4FY16	Q3FY16
Promoters *	14.9	14.9	14.9
MF's, FI's & BK's	11.4	11.4	11.2
FII's	43.3	43.3	42.9
Others	30.4	30.4	30.9

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	1.3	3.6	3.1
3 months	17.0	10.4	17.1
12 months	25.6	1.3	(1.9)

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Alok Shah
+91 22 6620 3040
alok.shah@edelweissfin.com

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Loan growth healthy, rebalancing towards consumer book continues

IIB's loan book, excluding RBS's outstanding acquired diamond portfolio (of INR45.4bn), registered above-industry growth of 23% YoY (up 29.7% including diamond portfolio). The growth was broad based supported by both consumer finance (CFD) and corporate and commercial (CCB) segments. While overall CFD division grew 28.6%, the spurt was driven by buildup in commercial vehicles (CV; grew 32.2% YoY/6.9% QoQ), cars (grew 23.8% YoY/4.1% QoQ) and LAP (grew 38.5% YoY/6.4% QoQ and now forms 6% of loans). Other segments, viz., credit cards, personal loans, etc., continued to grow at >80% YoY/8% QoQ (albeit on low base, currently forms 3% of loans with management targeting to take it to 5%). On the other hand, overall growth within CCB book sustained at 30.4% YoY, largely supported by growth in mid-corporate segment (up ~44% YoY growth). IIB has been focusing on re-balancing its portfolio towards CFD book (currently, the proportion of CFD, excluding acquired portfolio, is 43%). However, the pace has been slower than anticipated. Management is confident of rebalancing the book in favour of retail to the proportion of 50% over medium term.

Superior NIMs support core profitability

The bank sustained superior NIMs profile at 3.97%, cushioned by capital support done in July 2015. Margin improvement came from lower funding cost (down 6bps QoQ), while lending yields were broadly stable (reflection of tilt rebalancing of loan book). Segment-wise, while yield on CFD dipped by 28bps QoQ (primarily on account of change in mix within consumer loan book), yield within CCB rose by 10bps (due to growth in higher yielding MFI book and lower contribution from lower foreign currency book). While yields may taper given turning interest rates table, we expect continued tilt in favour of retail loans and traction in low-cost deposits to support NIMs.

Core fee income lower than trend

Core fee income during the quarter came in at INR7.8bn, registering 23% YoY growth (albeit below its historical trend but still better than industry). Core fee was supported by healthy processing fees of INR2.2bn (up >50% YoY) and trade and remittance income of INR1bn (up > 95% YoY). On the other hand, forex income and investment banking (IB) fees showed volatile character registering decline of 5% and 7% YoY, respectively. Treasury profits came in at INR1.9bn (up >50% YoY/38% QoQ) versus average run-rate of INR1.1bn in past 6 quarters. Management is confident of its origination team, which along with advisory and project finance teams, will ensure that IB practices will continue to deliver healthy growth amidst rising competition. Management has guided for fee growth to exceed loan growth in FY17.

Key highlights

- During the quarter, provisions showed some rise as IIB made provision of INR350mn on account of Food Corporation of India (IIB has exposure of INR2.4bn, and made provision at 15%).
- The bank figures among the bottom 3 (on positive side) in SMA-II accounts when compared to other banks. On QoQ basis, SMA-II accounts have declined.
- Deposit composition: CASA – ~34% , wholesale – 40%, retail – 26%.
- Within distribution fees: Of overall distribution fees, 40% is contributed by third party (life insurance, health insurance, general insurance etc), 20% by home loans and brokers and 25-30% by credit cards and commercial segments.

Table 1: Higher-than-industry loan growth, focus on rebalancing towards consumer book persists

(INR mn)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Advances	5,86,640	5,99,313	6,38,470	6,87,882	7,22,430	7,82,939	8,21,670	8,84,193	9,36,780
YoY	23.7	22.4	21.7	24.8	23.1	30.6	28.7	28.5	29.7
QoQ	6.5	2.2	6.5	7.7	5.0	8.4	4.9	7.6	5.9
Deposits	6,38,930	6,59,961	6,93,760	7,41,344	7,76,930	8,08,405	8,64,230	9,30,003	10,17,680
YoY	14.8	24.4	23.3	22.5	21.6	22.5	24.6	25.4	31.0
QoQ	5.6	3.3	5.1	6.9	4.8	4.1	6.9	7.6	9.4
CD ratio	91.8	90.8	92.0	92.8	93.0	96.8	95.1	95.1	92.1
CASA	33.3	34.0	34.1	34.1	34.7	34.7	35.0	35.2	34.4

Table 2: Margins inched up by 3bps tracking lower funding costs

(%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Yield on Advances	13.5	13.3	13.0	12.8	12.7	12.4	12.1	12.0	12.1
Cost of deposits	8.2	8.0	7.8	7.7	7.6	7.4	7.2	7.1	6.9
NIMs	3.7	3.6	3.7	3.7	3.7	3.9	3.9	3.9	4.0

Table 3: Core fee income growth led by better processing fees **(INR mn)**

Core fees income	Q1FY17	Q1FY16	*YoY (%)*	Q4FY16	*QoQ (%)*
Trade Fees (LC, BG, Remittances)	1,093	562	*94.6*	973	*12.4*
Processing Fees & other charges	2,151	1,417	*51.8*	2,280	*(5.7)*
FX – Client	1,510	1,595	*(5.3)*	1,401	7.8
TPP (Insurance ,MF ,etc)	1,367	1,070	27.8	1,384	*(1.2)*
Investment Banking Income	1,143	1,229	*(7.0)*	1,222	*(6.4)*
Gen. Bkg. / Other Income	555	489	13.5	483	*14.9*

Table 4: Asset quality stable **(%)**

	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Opening gross NPA	1.1	1.1	1.1	1.1	0.8	0.8	0.8	0.8	0.9
CCB	0.9	1.0	0.9	0.8	0.6	0.5	0.5	0.6	0.7
CFD	1.2	1.2	1.2	1.2	1.1	1.1	1.0	1.0	1.0
Additions	0.3	0.2	0.3	0.7	0.2	0.2	0.3	0.3	0.3
CCB	0.2	0.0	0.1	0.8	0.0	0.2	0.2	0.2	0.2
CFD	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.4
Deductions	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.2
CCB	0.1	0.0	0.0	1.0	0.1	0.1	0.1	0.1	0.1
CFD	0.4	0.4	0.5	0.5	0.3	0.3	0.3	0.4	0.3
Closing gross NPA	1.1	1.1	1.1	0.8	0.8	0.8	0.8	0.9	0.9
CCB	1.0	1.0	0.9	0.6	0.5	0.5	0.6	0.7	0.8
CFD	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1

Table 5: GNPAs in CV, 2W and credit cards rise marginally

Gross NPA (%)	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
CV	1.4	1.5	1.4	1.3	1.2	1.1	1.1	1.0	1.1
Utlity	0.8	0.8	1.0	1.1	1.1	1.0	1.0	1.2	1.3
Const equip	1.6	1.6	1.6	1.4	1.5	1.6	1.5	1.3	1.4
Small CV	0.8	0.7	0.9	0.9	1.0	0.8	0.8	1.0	1.1
2W	2.5	2.4	2.4	2.5	2.7	2.8	3.0	3.0	3.2
Cars	0.5	0.4	0.5	0.6	0.6	0.4	0.4	0.5	0.5

Source: Company

Table 6: Signs emerging of rebalance towards consumer book (ex-acquired portfolio)

(%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
CFD	43	43	43	41	42	43	44	44	43
CCB	57	57	57	59	58	57	56	56	57

**Loan book mix between CFD and CCB for Q1FY17 including acquired portfolio is 41:59*

Table 7: Loan book composition (ex-acquired portfolio) tilts towards retail segment…

(%)	Q214	Q314	Q414	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Commercial vehicles	21.0	19.0	17.4	16.4	16.2	15.7	15.4	15.8	15.8	16.1	15.9	16.1
Utility vehicles	4.1	3.9	3.7	3.5	3.4	3.2	2.9	2.8	2.6	2.5	2.3	2.2
Cars	4.8	4.9	4.8	4.7	4.8	4.7	4.6	4.6	4.5	4.6	4.4	4.4
Small CV	8.8	8.6	8.1	7.7	7.6	7.4	6.8	6.5	6.1	6.1	5.8	5.6
Equipments	5.9	5.6	5.2	4.9	4.7	4.4	4.1	3.9	3.7	3.7	3.7	3.7
Others (home and personal)	4.8	5.0	5.8	6.0	6.7	7.0	7.5	8.0	8.1	8.7	9.2	9.3
Loan to large corporates	26.4	27.2	27.4	28.6	28.9	29.3	29.0	29.7	26.5	26.8	28.6	29.2
Loan to mid corporates	15.6	17.0	17.6	17.4	17.0	16.6	16.7	16.5	20.6	19.5	18.8	18.3
Loan to small businesses	8.7	8.9	10.1	10.8	10.7	11.8	13.0	12.3	12.0	12.0	11.3	11.4

Chart 1: … aided by growth (YoY) in vehicle finance segment

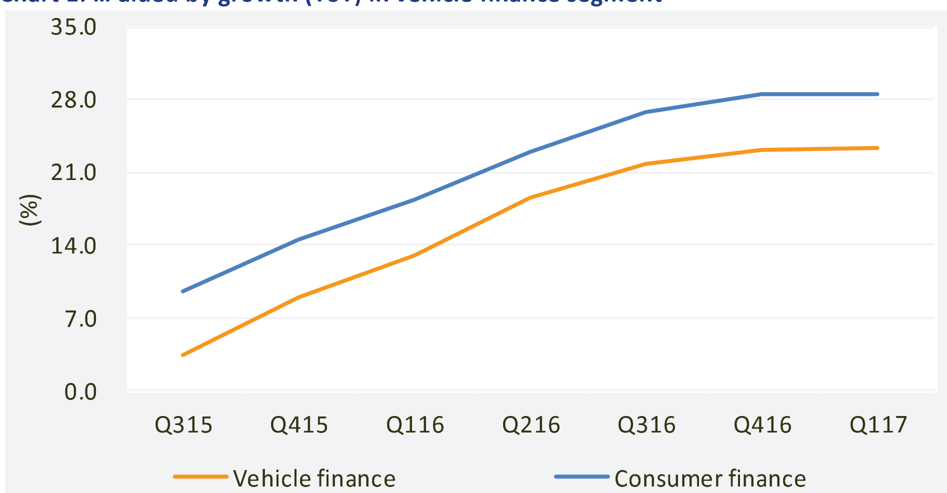


Table 8: Sustained SA momentum helped maintain CASA ratio at ~34%

(%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
CA	16.8	16.6	16.5	16.7	16.6	16.1	16.3	16.6	15.7
SA	16.6	17.3	17.6	17.5	18.0	18.6	18.7	18.5	18.8

Source: Company

Chart 2: Core fee growth slips below loan book growth

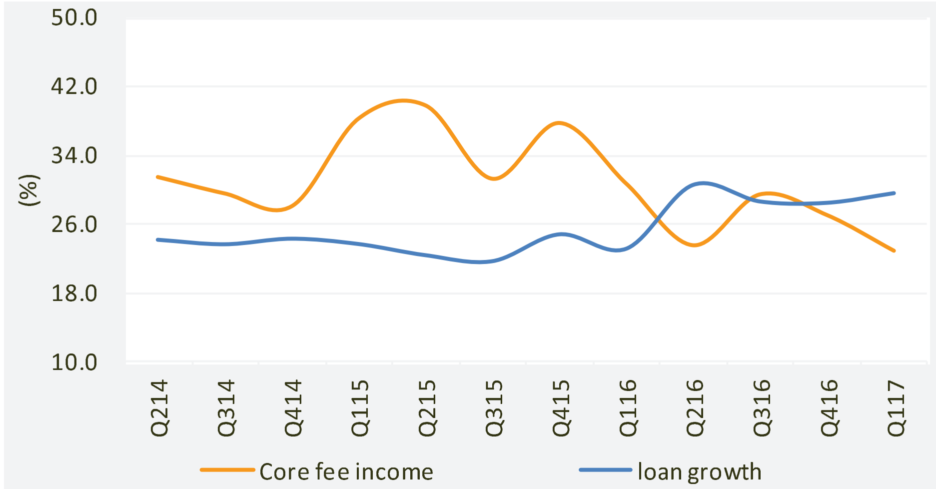
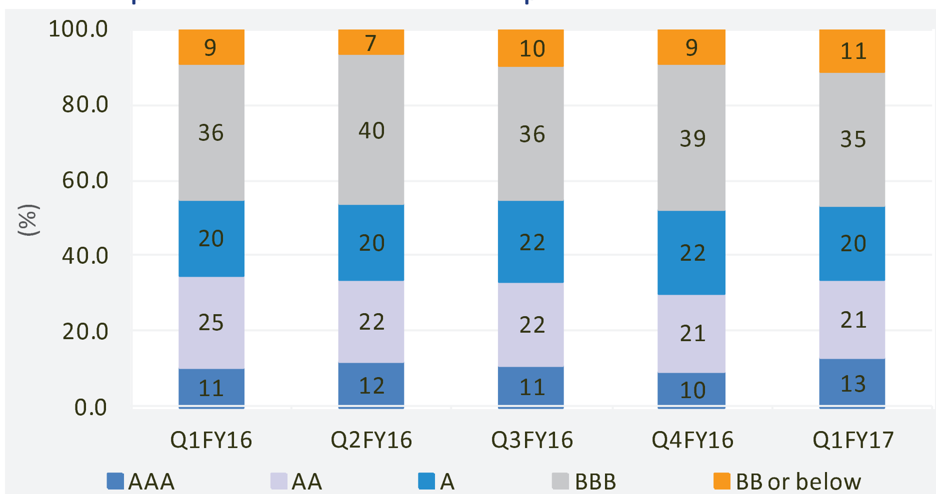


Chart 3: Proportion of BBB and below-rated corporates at >46%



Source: Company

Financial snapshot (INR mn)

Year to March	Q1FY17	Q1FY16	% change	Q4FY16	% change	FY16	FY17E	FY18E
Interest on advances	26,821	21,064	*27.3*	25,578	*4.9*	92,446	111,770	134,033
Interest on investments	5,271	4,139	*27.3*	4,849	*8.7*	7,333	10,782	12,825
Int. on other resources	529	1,572	*(66.3)*	573	*(7.6)*	5,555	3,625	4,182
Other interest income	296	460	*(35.7)*	317	*(6.8)*	-	-	-
Interest income	32,917	27,235	*20.9*	31,317	*5.1*	115,807	136,706	163,323
Interest exp	19,353	17,428	*11.0*	18,635	*3.9*	70,641	81,290	95,150
Net int. inc. (INR mn)	13,564	9,807	*38.3*	12,682	*7.0*	45,166	55,416	68,173
Other income	9,730	7,616	*27.8*	9,128	*6.6*	32,970	40,007	49,638
Net revenues	23,294	17,423	*33.7*	21,810	*6.8*	78,135	95,424	117,811
Operating expenses	10,956	8,196	*33.7*	10,298	*6.4*	36,721	44,863	54,444
Staff costs	3,569	2,723	*31.1*	3,364	*6.1*	12,361	15,379	18,430
Other opex	7,387	5,473	*35.0*	6,934	*6.5*	24,360	29,485	36,014
Pre prov op profit(ppop)	12,338	9,227	*33.7*	11,512	*7.2*	41,414	50,560	63,367
Provisions	2,305	1,233	*86.9*	2,137	*7.9*	6,717	7,546	9,217
Profit before tax	10,033	7,994	*25.5*	9,375	*7.0*	34,697	43,014	54,151
Provision for taxes	3,419	2,744	*24.6*	3,172	*7.8*	11,833	14,337	18,048
PAT	6,614	5,250	*26.0*	6,204	*6.6*	22,865	28,677	36,102
Diluted EPS (INR)	10.6	9.7	*9.2*	10.3	*3.0*	38.4	48.2	60.7
Ratios								
NII/GII (%)	41.2	36.0		40.5		39.0	40.5	41.7
Cost/income (%)	47.0	47.0		47.2		47.0	47.0	46.2
Provisions / PPOP	18.7	13.4		18.6		16.2	14.9	14.5
Tax rate (%)	34.1	34.3		33.8		34.1	33.3	33.3
Bal. sheet data (INRbn)								
Advances	937	722	*29.7*	884	*5.9*	884	1,105	1,382
Deposits	1,018	777	*31.0*	930	*9.4*	930	1,136	1,442
CD Ratio	92	93		95		95	97	96
Prov. coverage (%)	58.7	60.6		58.6		58.6	58.2	60.1
Asset quality								
Gross NPA	8,606	5,701	*51.0*	7,768	*10.8*	7,768	11,319	15,758
Gross NPA (%)	0.9	0.8		0.9		0.9	1.0	1.1
Net NPA	3,555	2,248	*58.1*	3,218	*10.5*	3,218	4,727	6,280
Net NPA (%)	0.4	0.3		0.4		0.4	0.4	0.5
Adj book value / share	-	-		-		293.6	331.3	379.7
Price/ Adj. book (x)	-	-		-		3.8	3.4	3.0
Price/ Earnings	-	-		-		29.3	23.3	18.5

IndusInd Bank – Q1FY17 earnings call takeaways

With respect to Asset quality

- ***During the quarter the provisions showed some rise as bank made provisions of INR350mn on account of Food corporation of India (bank has exposure of INR2.4bn, bank made provisions @ 15%).***
- The restructured book decreased from 53bps in Q4FY16 to 49bps in Q1FY17 as 2 accounts slipped from restructured book.
- ***Bank is at the bottom 3 (on positive side) in SMA-II accounts when compared to other banks. On QoQ basis the SMA-II accounts has come down.***
- Cannot read much into rise in NPLs in CV, 2 W or cards segment as a) fourth quarter is generally best on NPL side and b) the rise itself is very small.
- S4A scheme should encourage banks to go for one time settlements but that is yet to play out.

With respect to growth

- ***Loan growth during the quarter was broad board loan growth driven by both corporate and consumer division. Growth in CV segment continues and is becoming more broad based (now finding LCV segment to grow at double digits). Further slowdown in the auto industry in June was due to seasonal trend.***
- The mix in the CV segment between Used and new remains broadly same (Used forming 20% of the disbursement and 15% on portfolio basis).
- Expect CV industry to grow at 20% and bank is likely to match/outpace the growth.
- ***The cost to income ratio will steadily slide downward due to a) increasing proportion of matured branches and b) productivity improvement through various digital initiative (likely to kick in from next year or so)***
- Growth in the saving accounts continues to be robust 30% YoY growth which helped bank sustain CASA (@34%)
- Aspiration to take CASA ratio to 40% over next 3 years supported by a) better product proposition b) linear relationship between branch and c) quality of sales force.
- ***Credit card portfolio will grow at 35% CAGR***

With respect to Margins

- Consumer yields is falling due to change in mix CV and cars are on lower end of the yield.
- **Improvement in corporate yields:** a) Foreign currency component has fallen (by ~2 percentage points shift) which contributed to 8bps improvement in yields, Foreign currency book was approx 20% of the corporate book (which has fallen by 2 percentage points) and b) Further there has been good growth in MFI book which has contributed to yield improvement (MFI book at – INR31bn MFI is included in CCF book as these are done through correspondent business, aims to have MFI book to INR100bn over next 3 years).

- **Deposit composition:** CASA – 35% , wholesale – 40%, retail – 25%. The market in liquidity neutral at this point in time and thus expect wholesale to go down.
- Wholesale deposits rates coming down , foreign currency borrowing is going down and room for saving bank rates cut will be key levers for improvement in deposit costs
- Aspirationally sought to have NIMs of 4% and ROAs of > 2% and bank is now in that segment

With respect to fee income

- **Within the distribution fees :** Of the overall distribution fees 40% is contributed by third party distribution fees (life insurance, health insurance, general insurance etc), 20% (home loan and broker) and 25-30% (credit card and commercial segment)
- ***Forex is optically declined YoY due to base effect, however QoQ base is still strong***. Investment banking fees is more of the bulky fee and thus drawing the trend may not be warranted.
- General banking in-charge fees has gone up nicely that let to increase in fee income.

Other Highlights

- ***Continued the march on digitalization front, created first ever services of finger print banking (creating strong traction). Mobile app download is up 50% and is 1500 per day.***
- Seeing some capex signal across few sectors.
- Home loan sourcing is done only for HDFC and is ~INR2-2.5bn / month
- Revolving rate in credit card is 48.2% (fluctuates between 46-50%)
- The growth in Micro finance is 8% QoQ.
- ***Sold INR16bn of corporate loans during the quarter.***

IndusInd Bank – Q4FY16 earnings call takeaways

With respect to growth

- ***Management estimates that loan growth for FY17 should be in the range of 25-30% with growth coming in equally from retail as well as corporate book.***
- ***Retail book has seen healthy traction with growth coming at ~29%.*** Overall system level pie of retail banking is expanding and so with new players coming in, management believes there is not much to worry and more and more players are welcome. Further, management does not see irrational pricing done by competition and hence they are not much worried.
- Industry wise, MHCV has seen ~30% growth whereas LCV growth was more or less flat. ***Within CV segment, IIB's MHCV book grew by ~45%, has gained market share – a trend which management believes shall continue going forward.***
- Management is confident that the bank's gems and jewellery book is perfectly poised to grow when the market revives. Currently, ~55% of the sanctioned credit is drawn by the customers.
- IIB has started developer financing 2 years back, proportion of which now stands at ~2.9%. Within developer financing, proportion of commercial real estate and residential is 60:40. This business is more like an extension of LRD business. IIB's developer finance business is primarily spread over 4 metros.
- ***Consumption in CRAR is higher which is a typical Q4 phenomenon since in Q4, capital for operations risk is accounted for (impact of which is ~30-40bps). Further, with dividend payout also factored in, overall CRAR has come down to 15.5% from 16.43%.***
- Overall disbursement within retail segment for FY16 was INR200bn, of which disbursement for CV book was INR98.5bn. Disbursement within CV for Q4FY16 was INR27.5bn vs INR20bn in Q4FY15.
- Ticket size growth within microfinance business has increased very steadily. Management is evaluating the ground situation before increasing the ticket size. IIB currently has 11 partners for selecting microfinance.

With respect to asset quality

- ***There was no follow on impact on account of AQR. Credit cost for Q4 came in at 17 bps, credit cost for Q3FY16 too was 17bps. Management is confident that the quality of overall loan book has stabilized and expects overall credit cost to dip in FY17.***
- ***Sale to ARC during the quarter was INR400mn and recoveries from sale to ARC was INR300mn.***
- Management is internally targeting to shore up their floating provision and then gradually raising their PCR to 70%. This would be done in the quarter in which bank earns a bumper treasury gains.
- Credit quality within gems and jewellery portfolio is holding good and hence management is not worried from an asset quality perspective.

With respect to deposits and margins

- ***Last year, since deposit rates were high, management relied more on borrowings. Now with deposit rate also going down, bank will incrementally look at raising funds through deposits as well.***
- ***Management believes that MCLR is just another benchmark rate. On positive note, with MCLR, management sees more flexibility coming in with respect to pricing of loans for different clients. There would be negligible impact on account of shift to MCLR (max 3-4 bps)***
- Owing to stickiness of SA account balances, SA rates have been cut to 4% for balances below INR100,000. Inspite, the traction within SA has remained strong with SA growth coming at 33%
- 72% of book was fixed rate and balance floating
- CV is a fixed rate book with an average tenor of atleast 2 years. Thus, in a declining interest rate scenario, CV book is helping IIB generate better margins.

Other highlights

- ***Third party fee income was steady since in Q4FY15, there was a bump up in commissions received from sale of MF and hence the growth of ~9% is on a higher base.***
- ***New tie up TATA AIA, started from Oct 2015, has been faring well. This has boosted the overall fee income. Management estimates fee growth to exceed loan growth in FY17.***
- Investment banking fees should continue to see growth as was seen in FY16. During the quarter, IB team closed 23 deals.
- Cost of origination of personal loan through online mode (using Direct/aggregators, etc) is about 2/3rd of cost of generating a loan through an offline model (DSA) . However, if it is generated through cross-sale model, than cost is almost negligible.

Company Description

IndusInd Bank is one of the new-generation private-sector banks in India which commenced its operations way back in 1994. It was founded by Srichand P. Hinduja, a leading non-resident Indian businessman and head of the Hinduja Group. In 2004, the bank merged with Ashok Leyland Finance, a commercial-vehicle-finance focused NBFC.

Currently bank caters to the needs of both consumer and corporate customers. It has a robust technology platform supporting multi-channel delivery capabilities. IndusInd Bank has 1,004 branches, and 1,885 ATMs spread across geographic locations of the country.

Investment Theme

Since management change, market has consistently rewarded IIB for its delivery on improvement in profitability metrics – ROA, ROE. IIB has a successful track record of growth and has raised capital at every stage at richer valuations to fund its expansion. Over the years, the bank has garnered support from strategic investors to prop up its ambitious growth plans. Given improving retail liabilities, high RoAs and well-capitalized position (Tier 1 at ~14.8% - post capital raising) we expect execution risk to be minimal. Improving liability franchise and above average earnings growth at strong return ratios will ensure that IIB will sustain premium valuations.

Key Risks

The bank plans to achieve the desired CASA growth by expanding its branch network. Risk emanates from the fact that if the bank is not able to achieve the desired level of integration among branches then cost may shoot up.

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Financial Statements

Key Assumptions

Year to March	FY15	FY16	FY17E	FY18E
Macro				
GDP(Y-o-Y %)	7.2	7.4	7.9	8.3
Inflation (Avg)	5.9	4.8	5.0	5.2
Repo rate (exit rate)	7.5	6.8	6.0	6.0
USD/INR (Avg)	61.1	65.0	67.5	67.0
Sector				
Credit growth	11.0	14.0	16.0	16.0
Deposit growth	12.0	15.0	15.0	15.0
CRR	4.3	4.3	4.3	4.3
SLR	21.5	21.0	20.0	20.0
G-sec yield	7.8	7.3	7.0	7.0
Company				
Balance sheet assumption (%)				
Op. metric assump. (%)				
Yield on advances	12.5	11.8	11.2	10.8
Yield on investments	6.9	6.4	6.3	6.3
Yield on asset	10.3	9.9	9.6	9.4
Net interest margins	3.6	3.9	3.9	3.9
Cost of funds	7.1	6.4	6.0	5.8
Cost of deposits	7.7	6.8	6.3	5.9
Cost of borrowings	7.0	6.7	6.7	6.7
Spread	3.2	3.5	3.5	3.5
Credit growth	24.6	28.1	24.9	24.9
Deposit growth	22.5	25.4	22.1	26.9
SLR ratio	18.9	21.9	20.7	20.0
Low-cost deposits	34.1	35.2	36.4	37.3
Net NPA ratio	0.3	0.4	0.4	0.5
Provision coverage	62.6	58.6	58.2	60.1
Incremental slippage	1.6	1.2	1.4	1.4
Net NPA / Equity	2.0	1.8	2.4	2.7
Capital adequacy	13.6	14.6	14.5	13.5

Income statement (INR mn)

Year to March	FY15	FY16	FY17E	FY18E
Interest income	96,920	115,807	136,706	163,323
Interest expended	62,717	70,641	81,290	95,150
Net interest income	34,203	45,166	55,416	68,173
Non interest income	25,480	32,970	40,007	49,638
- Fee & forex income	24,130	30,685	38,356	47,945
- Misc. income	192	762	252	294
- Investment profits	1,158	1,523	1,400	1,400
Net revenue	59,683	78,135	95,424	117,811
Operating expense	28,701	36,721	44,863	54,444
- Employee exp	9,805	12,361	15,379	18,430
- Other opex	18,896	24,360	29,485	36,014
Preprovision profit	30,982	41,414	50,560	63,367
Provisions	3,891	6,717	7,546	9,217
Loan loss provisions	4,425	6,137	7,546	9,217
Investment depreciation	(664)	295	-	-
Other provisions	130	286	-	-
Profit Before Tax	27,092	34,697	43,014	54,151
Less: Provision for Tax	9,155	11,833	14,337	18,048
Profit After Tax	17,937	22,865	28,677	36,102
Reported Profit	17,937	22,865	28,677	36,102
Adj. Diluted EPS (INR)	33.9	38.4	48.2	60.7
Dividend per share (DPS)	4.0	4.5	7.5	9.0
Dividend Payout Ratio(%)	14.2	15.4	18.1	17.2

Growth ratios (%)

Year to March	FY15	FY16	FY17E	FY18E
NII growth	18.3	32.1	22.7	23.0
Fees growth	35.0	27.2	25.0	25.0
Opex growth	31.3	27.9	22.2	21.4
PPOP growth	17.2	33.8	23.2	26.1
PPP growth	19.3	33.7	22.1	25.3
Provisions growth	(16.9)	72.7	12.3	22.1
Adjusted Profit	27.4	27.5	25.4	25.9

Operating ratios

Year to March	FY15	FY16	FY17E	FY18E
Yield on advances	12.5	11.8	11.2	10.8
Yield on investments	6.9	6.4	6.3	6.3
Yield on assets	10.3	9.9	9.6	9.4
Net interest margins	3.6	3.9	3.9	3.9
Cost of funds	7.1	6.4	6.0	5.8
Cost of deposits	7.7	6.8	6.3	5.9
Cost of borrowings	7.0	6.7	6.7	6.7
Spread	3.2	3.5	3.5	3.5
Cost-income	48.1	47.0	47.0	46.2
Tax rate	33.8	34.1	33.3	33.3

Balance sheet				(INR mn)
As on 31st March	FY15	FY16	FY17E	FY18E
Share capital	5,295	5,950	5,950	5,950
Reserves & Surplus	101,151	171,010	194,501	224,380
Net worth	106,445	176,960	200,451	230,330
Sub bonds/pref cap	-	-	500	1,000
Deposits	741,344	930,004	1,135,837	1,441,708
Total Borrowings	206,181	221,559	259,705	289,895
Other liabilities	39,964	73,758	67,107	74,016
Total liabilities	**1,093,934**	**1,402,280**	**1,663,600**	**2,036,949**
Loans	687,882	884,194	1,105,242	1,381,552
Cash and Equivalents	107,791	101,119	97,350	113,985
Gilts	179,061	252,680	288,877	346,321
Others	69,532	59,463	71,273	85,445
Fixed assets	11,576	12,553	12,306	11,979
Other Assets	38,091	92,271	88,552	97,668
Total assets	**1,093,934**	**1,402,280**	**1,663,600**	**2,036,949**
BVPS (INR)	201.0	297.4	336.9	387.1
Credit growth	24.6	28.1	24.9	24.9
Deposit growth	22.5	25.4	22.1	26.9
EA growth	25.2	24.2	20.4	23.3
SLR ratio	18.9	21.9	20.7	20.0
C-D ratio	95.0	97.0	99.2	97.6
Low-cost deposits	34.1	35.2	36.4	37.3
Provision coverage	62.6	58.6	58.2	60.1
Gross NPA ratio	0.8	0.9	1.0	1.1
Net NPA ratio	0.3	0.4	0.4	0.5
Incremental slippage	1.6	1.2	1.4	1.4
Net NPA / Equity	2.0	1.8	2.4	2.7
Capital adequacy	13.6	14.6	14.5	13.5
- Tier 1	11.2	14.9	13.9	13.1

RoE decomposition (%)

Year to March	FY15	FY16	FY17E	FY18E
Net int. income/assets	3.6	3.9	3.9	3.9
Fees/Assets	2.6	2.7	2.7	2.8
Invst. profits/Assets	0.1	0.1	0.1	0.1
Net revenues/assets	6.4	6.7	6.7	6.8
Operating expense/assets	(3.1)	(3.1)	(3.1)	(3.1)
Provisions/assets	(0.4)	(0.6)	(0.5)	(0.5)
Taxes/assets	(1.0)	(1.0)	(1.0)	(1.0)
Total costs/assets	(4.4)	(4.7)	(4.7)	(4.7)
ROA	1.9	2.0	2.0	2.1
Equity/assets	10.5	12.1	13.2	12.3
ROAE (%)	18.2	16.1	15.2	16.8

Valuation parameters

Year to March	FY15	FY16	FY17E	FY18E
Adj. Diluted EPS (INR)	33.9	38.4	48.2	60.7
Y-o-Y growth (%)	*26.5*	*13.4*	*25.4*	*25.9*
BV per share (INR)	201.0	297.4	336.9	387.1
Adj. BV per share (INR)	198.3	293.6	331.3	379.7
Diluted P/E (x)	33.2	29.3	23.3	18.5
P/B (x)	5.6	3.8	3.3	2.9
Price/ Adj. BV (x)	5.7	3.8	3.4	3.0
Dividend Yield (%)	0.4	0.4	0.7	0.8

Peer comparison valuation

	Market cap	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
Name	(USD mn)	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
IndusInd Bank	9,980	23.3	18.5	3.4	3.0	15.2	16.8
Axis Bank	19,354	15.0	11.9	2.8	2.2	15.3	16.8
DCB Bank	442	17.9	13.1	1.6	1.4	9.1	11.2
Federal Bank	1,571	11.7	8.0	1.4	1.2	10.7	14.2
HDFC Bank	45,244	20.6	16.4	3.6	3.1	18.7	20.1
ICICI Bank	21,648	13.1	10.1	2.3	1.9	11.9	13.9
Karnataka Bank	425	5.4	4.5	0.8	0.7	13.6	14.7
Kotak Mahindra Bank	20,790	31.8	26.3	4.1	3.6	13.4	14.4
South Indian Bank	459	8.0	6.9	0.9	0.8	10.0	10.8
Yes Bank	7,171	15.4	11.9	3.0	2.5	20.8	22.6
Median	-	15.2	11.9	2.6	2.0	13.5	14.5
AVERAGE	-	16.2	12.8	2.4	2.0	13.9	15.5

Source: Edelweiss research

Additional Data

Directors Data

R. Seshasayee	Chairman	Romesh Sobti	Managing Director
T. Anantha Narayanan	Director	Kanchan Chitale	Director
Vijay Vaid	Director	Ranbir Singh Butola	Director
Y M Kale	Director	Shanker Annaswamy	Director
T. T. Ram Mohan	Director		

Auditors - Price Waterhouse Chartered Accountants LLP

Holding - Top10

	Perc. Holding		Perc. Holding
Bank Of New York Mellon Corp	10.86	Bridge India Fund	3.53
GA Global Invsts	1.97	JP Morgan Chase & Co	1.86
Dia Afrin	1.61	Templeton Asset Mgmt	1.61
UTI Asset Management	1.60	Goldman Sachs Inv Maur	1.47
Hinduja Group	1.46	Franklin Temp Intl Service Sarl	1.43

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
28 Mar 2016	Ashok Leyland Ltd	Sell	3263923	915.96

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
30 Jun 2016	ROOPA SATISH	Sell	16500.00
23 Jun 2016	SUHAIL CHANDER	Sell	46000.00
20 Jun 2016	SUHAIL CHANDER	Sell	65000.00
16 Jun 2016	PRADEEP SHARMA	Sell	22300.00
30 May 2016	ROMESH SOBTI	Sell	30944.00

**in last one year*