

July 10, 2018

Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	2,075		2,075	
NII (Rs. m)	89,860	109,998	91,158	110,686
% Chng.			-1.4	-1.6
Op. Profit (Rs. m)	82,533	100,449	80,729	99,751
% Chng.			2.2	0.7
EPS (Rs.)	73.7	92.7	74.8	93.7
% Chng.			-1.5	-1.1

Key Financials

	FY17	FY18	FY19E	FY20E
NII	60,626	74,974	89,860	109,998
Op. Profit	54,510	66,561	82,533	100,449
PAT	28,679	36,060	44,221	55,641
EPS (Rs.)	48.1	60.2	73.7	92.7
Gr. (%)	18.2	25.2	22.4	25.8
DPS (Rs.)	0.0	6.0	7.5	9.0
Yield (%)	-	0.3	0.4	0.5
NIM (%)	3.8	3.7	3.7	3.8
RoAE (%)	15.0	16.2	17.2	18.4
RoAA (%)	1.8	1.8	1.8	1.9
P/BV (x)	5.8	5.0	4.3	3.6
P/ABV (x)	5.9	5.2	4.4	3.7
PE (x)	40.6	32.4	26.5	21.1

Key Data

INBK.BO | IIB IN

52-W High / Low	Rs.1,995 / Rs.1,472
Sensex / Nifty	35,379 / 10,700
Market Cap	Rs.1,172bn/ \$ 17,064m
Shares Outstanding	600m
3M Avg. Daily Value	Rs.3922.39m

Shareholding Pattern (%)

Promoter's	16.77
Foreign	51.00
Domestic Institution	12.00
Public & Others	20.23
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	1.9	19.7	30.9
Relative	1.4	14.3	15.5

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Strong business momentum continues

Quick pointers

- Strong momentum in loan book led by corporate loans with the mix remaining steady at 60:40.
- Margins declined 5bps as cost of funds rose sharply sequentially. We expect the yield catch up with a lag

IIBs reported earnings were broadly in-line with estimates with PAT at Rs10.3bn (PLe:10.2bn) and were led by slightly better other income and lower opex growth. NII growth of 20% YoY was slightly below expectations despite strong loan growth of 29.4% YoY as margins declined by 5bps QoQ to 3.92%. Yields will catch up mainly on the corporate book as MCLR increase effect catches up fully. Asset quality was steady with lower slippages from both corporate & consumer portfolios leading to lower NPA provisions. We continue to believe IIB remain on track to achieve scale, steady CASA ratio, improvement in margins led by equal mix of corporate & consumer finance and steady asset quality, which should lead it back to 19-20% ROEs by FY20 and BFIL merger should help expedite the same. Hence we retain our BUY stance with TP of Rs2,075 based on 3.9x Mar-20 P/ABV

- NII growth slower:** NII growth of 20% YoY has to catch up with loan growth of 29% YoY and was slower. NIMs came off by 5bps QoQ to 3.92% as cost of funds increased. Yields are yet to catch up with MCLR increases of 70bps in last 6M and expect it to happen by 2HFY19. PPOP was better on back of better fee income growth of 19% YoY, slightly better treasury gains and continued control on opex.
- Strong business momentum:** Loan growth was strong at 29.4% led by corporate loan growth of 30% YoY and consumer finance book growing at 28%. Segmental loan growth momentum remained similar to last quarter with lower focus on LAP, slower growth witnessed in Cars, 2W & 3W while unsecured and CVs continued to drive growth. In corporate loans bank increased exposure in microfinance/real estate/steel/roads sector and some of it was led from loans to NCLT based NPA bid by some good corporates.
- SA growth remains strong:** Overall deposit grew by 19% YoY with CASA growth at 36% YoY with CASA ratio of 43% (much ahead of PCIII) which has been mainly led by SA deposits. Bank has been able to add good base of Govt. SA balances and now focuses on retail SA addition by bringing in NTB accounts. While, bank expects CA growth to remain anemic for industry but the bank should be ahead of industry.
- Asset quality steady:** Trends in asset quality were steady with lower slippages run rate of 1.3% of loans. Both corporate & consumer finance book saw lower slippages with consumer finance book seeing improvement in gross NPA mainly in LAP/CV/CE segments. Lower slippages led to lower NPA provisions of 56bps (annualized) but bank had to provide on MTM hit on investments which added to overall provisions.

Exhibit 1: Q1FY19 Financials – Steady performance in line with expectations

NII was slightly weaker on back of sharp increase in cost of funds

Fee income growth was decent at 20% YoY but lower than B/s growth being led by Fx and TPP fees

Opex cost remained under control as efficiency continues to improve

Overall provisions were slightly high despite lower NPA provisions on back of MTM provisions on investments

Loan growth was strong at 29.4% YoY led by corporate loan book

Margins came off by 5bps QoQ on rise in cost of funds

Asset quality remained broadly steady on lower slippages from both consumer & corporate segments

Bank was able to maintain stable CASA ratio led by strong SA growth

P&L	Q1FY19	Q1FY18	YoY chg. (%)	Q4FY18	QoQ chg. (%)
Interest Income	50,682	41,355	22.6	46,501	9.0
Interest Expense	29,457	23,615	24.7	26,425	11.5
Net interest income (NII)	21,224	17,741	19.6	20,076	5.7
Treasury income	1,370	1,930	(29.0)	950	44.2
Fee income	11,650	9,740	19.6	11,130	4.7
Other income	13,016	11,673	11.5	12,085	7.7
Total income	34,240	29,413	16.4	32,161	6.5
Operating expenses	15,129	13,528	11.8	14,467	4.6
-Staff expenses	4,620	4,222	9.4	4,535	1.9
-Other expenses	10,509	9,306	12.9	9,932	5.8
Operating profit	19,111	15,885	20.3	17,694	8.0
Core operating profit	17,741	13,955	27.1	16,744	6.0
Total provisions	3,500	3,100	12.9	3,356	4.3
Profit before tax	15,611	12,786	22.1	14,338	8.9
Tax	5,254	4,420	18.9	4,808	9.3
Profit after tax	10,357	8,365	23.8	9,531	8.7
Deposits	1,588,620	1,336,730	18.8	1,516,392	4.8
Advances	1,506,750	1,164,070	29.4	1,449,537	3.9
Profitability ratios					
RoAA	1.9	1.9	5	1.9	5
RoAE	17.3	16.2	108	16.6	69
NIM	3.9	4.0	(8)	4.0	(5)
Yield on Advances	11.2	11.5	(38)	11.1	7
Cost of Deposits	6.2	6.2	5	6.0	22
Asset Quality ratios					
Gross NPL (Rs m)	17,406	12,717	36.9	17,049	2.1
Net NPL (Rs m)	7,624	5,083	50.0	7,457	2.2
Gross NPL ratio	1.2	1.1	6	1.2	(2)
Net NPL ratio	0.5	0.4	7	0.5	-
Coverage ratio	56.3	60.0	(377)	56.3	-
Restructured adv. (Rs m)	753	1,979	(61.9)	760	(0.9)
% restructured adv.	0.1	0.2	(12)	0.1	(0)
Business & Other Ratios					
Low-cost deposit mix	43.4	37.8	564	44.0	(58)
Cost-income ratio	44.2	46.0	(181)	45.0	(80)
Non int. inc / total income	38.0	39.7	(167)	37.6	44
Credit deposit ratio	94.8	87.1	776	95.6	(74)
CAR	14.7	16.2	(148)	15.0	(33)
Tier-I	14.3	15.7	(137)	14.6	(29)

Source: Company, PL

Q1FY19 Conference Call Takeaways

Business growth and Outlook:

- **Loan book** – Corporate book growth was strong at 30% YoY as it took exposure to acquirers of NCLT referred NPAs. Bank has been selective in lending to these assets with selling down underwritten loans and retaining 20% only. Bank sold Rs80bn of loans in Q1FY19. Consumer finance loans continued to see better growth in both vehicle & non vehicle retail finance. 2W/3W loans remained slightly slower but CVs/CE/UVs saw good growth.
- **Liabilities** – CASA grew by 36% YoY led by 51% YoY growth in SA but grew only 4% QoQ. Bank was able to improve Govt CASA deposits to 20% from 10% earlier in the last few quarters, and now are focusing on improving retail NTB customer from current run rate of 100k to 150k per month and improve ATS to Rs65,000. Current a/c growth will be anaemic as efficiency remains high for CMS & a/c acquisition has to go up which will be built via the ILFS acquisition.
- **Customer acquisition** – bank reached the milestone of 12mn customers with addition of 1mn in Q1FY19. Management remained confident on reaching the +20.0mn target of customer by FY20

Margins:

- Margins came off by 5bps QoQ to 3.92% on back of sharp rise in Cost of funds & deposits while yields are yet to catch up on the MCLR increases done in last 3-6 months. **Outlook** – Margins should remain in range of 3.9-4.0% but yields should catch up going ahead and hence management remains optimistic.

Opex/Branches/Fees:

- Digital has been helping improve efficiency of employees & processes. Digital initiatives taken last year has helped the bank to save Rs1.0bn/annum of cost. **Outlook** – Bank expects C/I to come down to 44% in FY19 (44.2% in Q1FY19).
- Fees grew by 20% YoY mainly led by strong Fx fees as exchange rate was favourable and 3rd party distribution as momentum remained strong in insurance/MF & sourcing was good in home loans (from HDFC Ltd). Bank remained selective on trade fees as interest rate remained unfavourable globally. Other fee items also were decent but lower than loan growth.
- Bank opened 10 branches in Q1FY19 and has target of opening 200 branches in FY19. Most of the branches are getting ready and should operating from Q2FY19 end onwards

Asset quality:

- **Slippages & asset quality** – Slippages ratio came off to 1.3% of loans from both consumer & corporate segments. Vehicle finance asset quality is undergoing improvement based on behavioural score (acts as lead indicator). Asset quality also improved in LAP & CE.

- **Credit cost** – Lower slippages led to lower credit cost of 14bps (56bps annualized). Bank provided on some MTM losses of Rs860mn at end of quarter.

Capital efficiency:

- Bank consumed 33bps of Tier-1 in the quarter with 8bps impact from dividend and 25bps impact on loan growth especially on back of slight higher exposure taken on real estate and some corporate exposures.

Update on BFIL Merger & ILFS acquisition:

- Bank awaits approval for merger with BFIL from NCLT and some other approvals which are likely to be completed in next 3 months, while ILFS acquisition has been moved ahead by signing the terms sheet.

Exhibit 2: Strong growth overall led by corporate loans

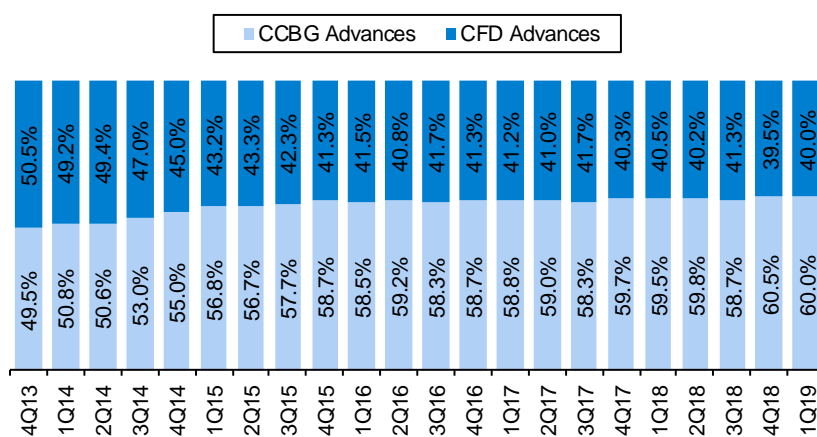
Corporate loans saw strong growth of 30% YoY led by some opportunities in exposure to sponsor in NCLT assets and some assets chase up

Consumer finance loans were slightly slower mainly on slow growth in LAP & 2W/3W loans. Other vehicle loans & Unsecured book growth remained strong

Loan Book mix	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	QoQ gr. (%)
CV Loans / Tractors	235,600	176,490	33.5	225,980	4.3
UV Loans	30,260	24,270	24.7	28,660	5.6
3W/Small CV	27,320	23,810	14.7	25,280	8.1
2W Loans	37,540	32,620	15.1	35,890	4.6
Car Loans	56,000	48,190	16.2	53,450	4.8
Equipment Financing	59,994	43,810	36.9	54,790	9.5
Credit Card	29,830	19,440	53.4	26,960	10.6
LAP	81,800	73,030	12.0	80,090	2.1
Others	44,350	29,290	51.4	41,300	7.4
Consumer Finance	602,694	470,950	28.0	572,400	5.3
Corporate Finance	904,110	693,120	30.4	877,150	3.1

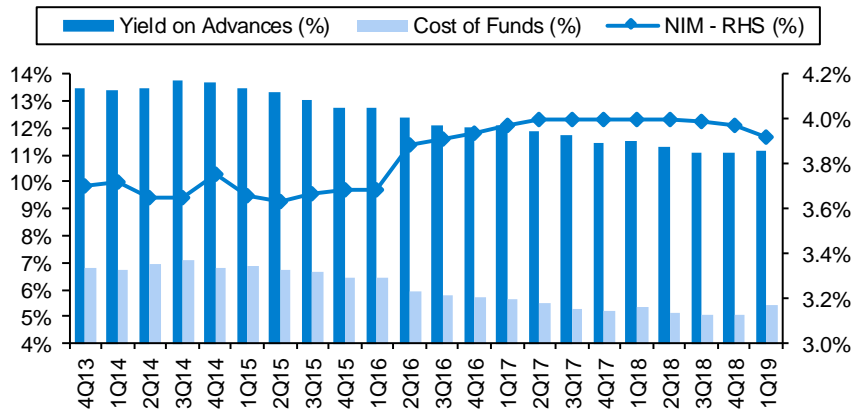
Source: Company, PL Research

Exhibit 3: Steady mix in corporate and consumer loan book



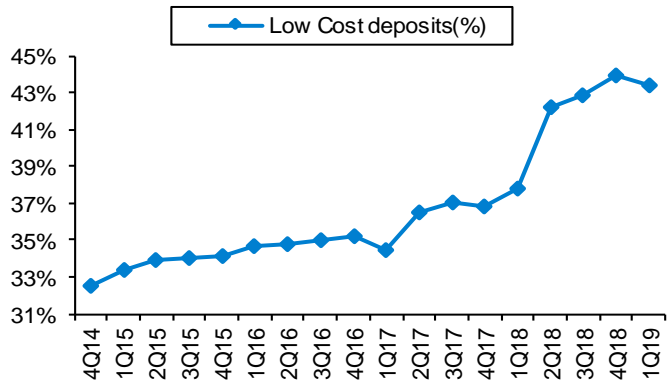
Source: Company, PL Research

Exhibit 4: Cost of funds saw sharp 20-25bps inch up while yields still have to catch up



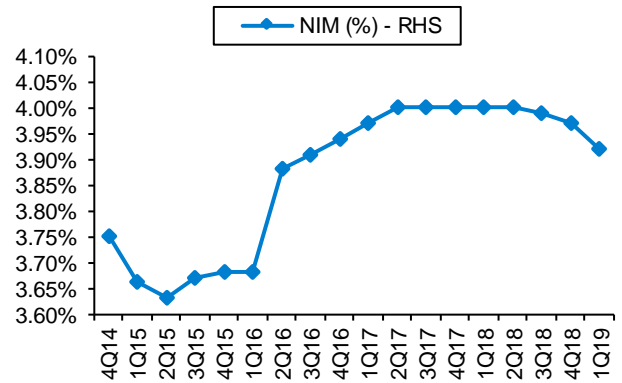
Source: Company, PL Research

Exhibit 5: CASA ratio remains steady led by SA



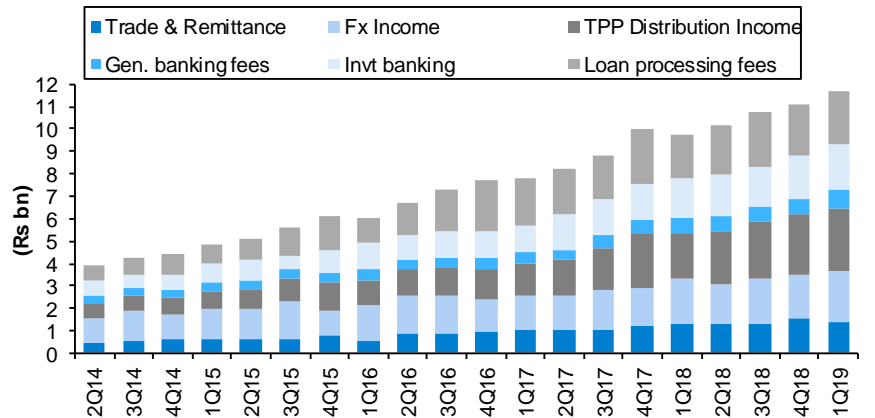
Source: Company, PL Research

Exhibit 6: Margins fell on back of increase in cost of funds



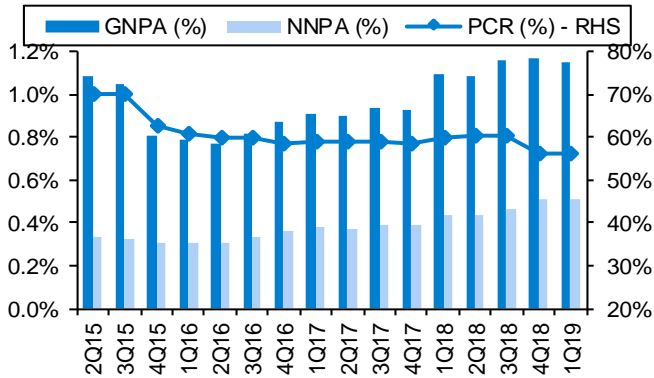
Source: Company, PL Research

Exhibit 7: Core fees: Strong growth in FX, Third party fees



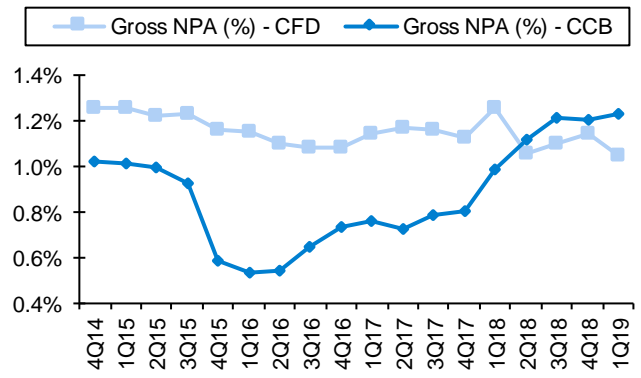
Source: Company, PL Research

Exhibit 8: Asset quality remained steady on lower slippages



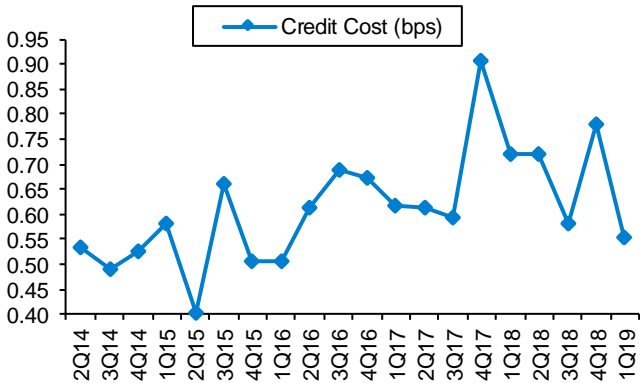
Source: Company, PL Research

Exhibit 9: Asset quality in consumer biz improved



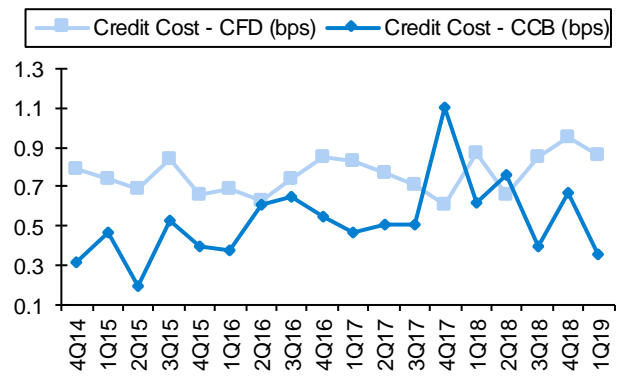
Source: Company, PL Research

Exhibit 10: Credit cost came off on NPAs on lower slippages



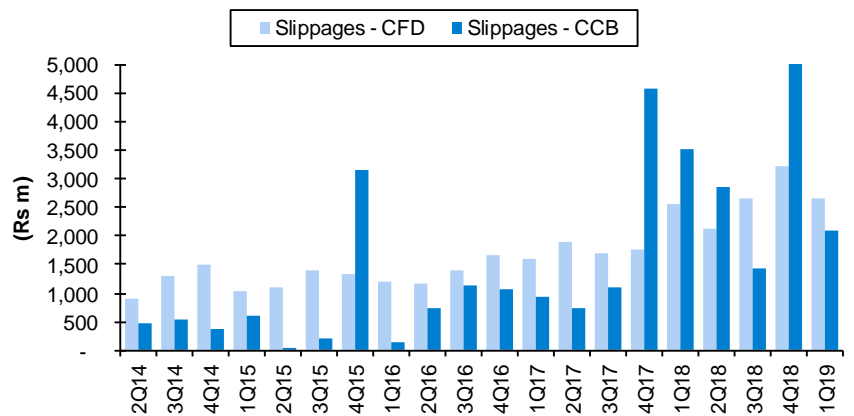
Source: Company, PL Research

Exhibit 11: Consumer book drove lower credit cost



Source: Company, PL Research

Exhibit 12: Slippages came off in both consumer & corporate book



Source: Company, PL Research

We tweak our estimates to factor in pressure in margins where yields improvement will come with lag

Exhibit 13: Estimates change table

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NII	91,158	110,686	89,860	109,998	(1.4)	(0.6)
Operating profit	80,729	99,751	82,533	100,449	2.2	0.7
Net profit	44,891	56,228	44,221	55,641	(1.5)	(1.0)
EPS (Rs)	74.8	93.7	73.7	92.7	(1.5)	(1.0)
ABVPS (Rs)	445.4	528.5	444.1	526.2	(0.3)	(0.4)
Price target (Rs)	2,075		2,075		0.0%	
Recommendation	BUY		BUY			

Source: Company, PL Research

Exhibit 14: Valuation Table – Retain TP at Rs2,075 based on 3.9x FY20E ABV

PT calculation and upside

Fair price - EVA, Rs	2,080
Fair price - P/ABV, Rs	2,067
Average of the two, Rs	2,075
Target P/ABV (x)	3.9
Target P/E (x)	22.4
Current price, Rs	1,934
Upside (%)	7%
Dividend yield (%)	0%
Total return (%)	8%

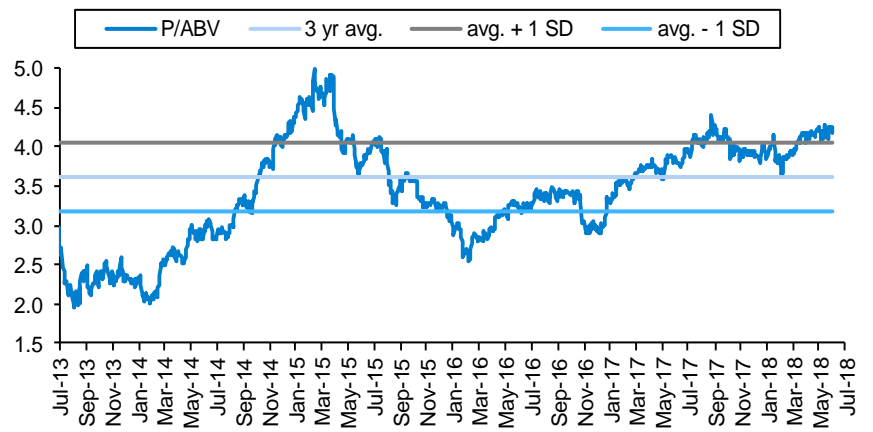
Source: Company, PL Research

Exhibit 15: Return ratios gradually improving but margins remain key

RoE decomposition (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	10.38	10.67	10.30	9.75	9.09	8.96	8.63	8.97	9.20
Interest expenses	7.08	7.26	6.69	6.31	5.55	5.19	4.89	5.27	5.41
Net interest income	3.30	3.41	3.61	3.44	3.55	3.77	3.75	3.71	3.80
Treasury income	0.57	0.60	0.83	0.84	0.77	0.74	0.65	0.61	0.56
Other Inc. from operations	1.39	1.48	1.52	1.58	1.82	1.85	1.73	1.74	1.81
Total income	5.26	5.49	5.96	5.86	6.14	6.37	6.12	6.06	6.16
Employee expenses	0.94	1.01	1.01	0.99	0.97	0.95	0.89	0.87	0.86
Other operating expenses	1.66	1.67	1.72	1.76	1.91	2.03	1.90	1.79	1.83
Operating profit	2.66	2.81	3.24	3.12	3.25	3.39	3.33	3.40	3.47
Tax	0.76	0.79	0.90	0.92	0.93	0.93	0.94	0.95	1.00
Loan loss provisions	0.35	0.40	0.58	0.39	0.53	0.68	0.59	0.63	0.54
RoAA	1.55	1.62	1.76	1.80	1.80	1.78	1.80	1.82	1.92
RoAE	18.26	17.15	16.89	18.22	16.14	14.96	16.21	17.16	18.45

Source: Company, PL Research

Exhibit 16: One year forward valuation chart



Source: Company, PL Research



Income Statement (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Int. Earned from Adv.	114,791	136,999	177,641	227,937
Int. Earned from invt.	24,669	30,744	35,998	34,007
Others	4,597	5,065	3,997	4,604
Total Interest Income	144,057	172,807	217,635	266,548
Interest Expenses	83,431	97,833	127,775	156,550
Net Interest Income	60,626	74,974	89,860	109,998
Growth(%)	31.0	19.7	19.9	21.5
Non Interest Income	41,715	47,501	57,001	68,401
Net Total Income	102,341	122,475	146,861	178,399
Growth(%)	24.9	18.6	24.7	22.0
Employee Expenses	15,210	17,807	21,012	25,004
Other Expenses	30,714	35,991	43,189	52,691
Operating Expenses	47,831	55,914	64,328	77,950
Operating Profit	54,510	66,561	82,533	100,449
Growth(%)	31.6	22.1	24.0	21.7
NPA Provision	7,048	9,009	12,394	13,718
Total Provisions	10,913	11,754	15,226	15,759
PBT	43,597	54,807	67,307	84,690
Tax Provision	14,918	18,747	23,086	29,049
Effective tax rate (%)	34.2	34.2	34.3	34.3
PAT	28,679	36,060	44,221	55,641
Growth(%)	25.4	25.7	22.6	25.8

Balance Sheet (Rs. m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Face value	10	10	10	10
No. of equity shares	598	600	600	600
Equity	5,981	6,002	6,002	6,002
Networth	206,309	238,271	277,073	326,213
Growth(%)	16.7	15.5	16.3	17.7
Adj. Networth to NNPA's	4,388	7,456	6,911	6,761
Deposits	1,265,722	1,516,392	1,834,834	2,238,497
Growth(%)	36.1	19.8	21.0	22.0
CASA Deposits	466,460	667,293	801,822	984,939
% of total deposits	36.9	44.0	43.7	44.0
Total Liabilities	1,786,332	2,216,116	2,634,020	3,158,560
Net Advances	1,130,805	1,449,537	1,855,407	2,365,644
Growth(%)	27.9	28.2	28.0	27.5
Investments	367,021	500,767	505,030	438,600
Total Assets	1,786,484	2,216,262	2,634,020	3,158,560
Growth (%)	25.0	24.1	18.8	19.9

Asset Quality

Y/e Mar	FY17	FY18	FY19E	FY20E
Gross NPAs (Rs m)	10,549	17,049	18,125	19,293
Net NPAs (Rs m)	4,388	7,456	6,911	6,761
Gr. NPAs to Gross Adv.(%)	0.9	1.2	1.0	0.8
Net NPAs to Net Adv. (%)	0.4	0.5	0.4	0.3
NPA Coverage %	58.4	56.3	61.9	65.0

Profitability (%)

Y/e Mar	FY17	FY18	FY19E	FY20E
NIM	3.8	3.7	3.7	3.8
RoAA	1.8	1.8	1.8	1.9
RoAE	15.0	16.2	17.2	18.4
Tier I	14.7	14.6	14.9	14.9
CRAR	15.3	15.0	15.6	15.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Interest Income	42,084	42,868	46,501	50,682
Interest Expenses	23,874	23,920	26,425	29,457
Net Interest Income	18,210	18,948	20,076	21,224
YoY growth (%)	18.8	12.8	22.2	24.7
CEB	10,130	10,770	11,130	11,650
Treasury	-	-	-	-
Non Interest Income	11,876	11,868	12,085	13,016
Total Income	53,959	54,735	58,586	63,698
Employee Expenses	4,450	4,600	4,535	4,620
Other expenses	9,300	9,569	9,932	10,509
Operating Expenses	13,751	14,169	14,467	15,129
Operating Profit	16,335	16,647	17,694	19,111
YoY growth (%)	27.5	22.1	12.5	20.3
Core Operating Profits	14,585	15,547	16,744	17,741
NPA Provision	2,220	1,870	2,820	2,090
Others Provisions	2,938	2,362	3,356	3,500
Total Provisions	2,938	2,362	3,356	3,500
Profit Before Tax	13,398	14,285	14,338	15,611
Tax	4,597	4,923	4,808	5,254
PAT	8,801	9,362	9,531	10,357
YoY growth (%)	25.0	24.7	26.8	23.8
Deposits	1,414,406	1,460,860	1,516,392	1,588,620
YoY growth (%)	25.9	22.5	19.8	18.8
Advances	1,231,808	1,285,420	1,449,537	1,506,750
YoY growth (%)	24.5	25.1	28.2	29.4

Key Ratios

Y/e Mar	FY17	FY18	FY19E	FY20E
CMP (Rs)	1,952	1,952	1,952	1,952
EPS (Rs)	48.1	60.2	73.7	92.7
Book Value (Rs)	339	391	456	537
Adj. BV (70%)(Rs)	332	379	444	526
P/E (x)	40.6	32.4	26.5	21.1
P/BV (x)	5.8	5.0	4.3	3.6
P/ABV (x)	5.9	5.2	4.4	3.7
DPS (Rs)	0.0	6.0	7.5	9.0
Dividend Payout Ratio (%)	0.0	10.0	10.2	9.7
Dividend Yield (%)	-	0.3	0.4	0.5

Efficiency

Y/e Mar	FY17	FY18	FY19E	FY20E
Cost-Income Ratio (%)	46.7	45.7	43.8	43.7
C-D Ratio (%)	89.3	95.6	101.1	105.7
Business per Emp. (Rs m)	95	108	125	144
Profit per Emp. (Rs lacs)	11	13	15	17
Business per Branch (Rs m)	1,997	2,119	2,197	2,284
Profit per Branch (Rs m)	24	26	26	28

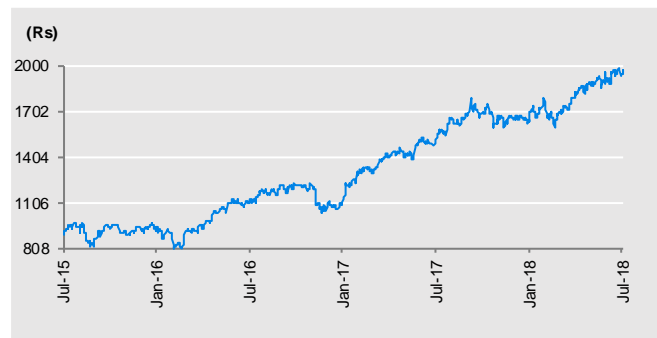
Du-Pont

Y/e Mar	FY17	FY18	FY19E	FY20E
NII	3.77	3.75	3.71	3.80
Total Income	6.37	6.12	6.06	6.16
Operating Expenses	2.98	2.79	2.65	2.69
PPoP	3.39	3.33	3.40	3.47
Total provisions	0.68	0.59	0.63	0.54
RoAA	1.78	1.80	1.82	1.92
RoAE	14.96	16.21	17.16	18.45

Source: Company Data, PL Research



Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-17	BUY	797.5	780
2	11-Jul-17	BUY	835	779.5
3	09-Oct-17	BUY	835	841
4	12-Oct-17	BUY	976	871.5
5	16-Oct-17	BUY	976	875
6	10-Jan-18	BUY	1952	1723
7	11-Jan-18	BUY	1915	1699
8	13-Apr-18	BUY	1915	1860
9	19-Apr-18	BUY	2075	1834
10	23-May-18	BUY	2075	1910
11	21-Jun-18	BUY	2075	1955

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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