

January 10, 2017

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Rating	BUY
Price	Rs1,162
Target Price	Rs1,352
Implied Upside	16.4%
Sensex	26,900
Nifty	8,289

(Prices as on January 10, 2017)

Trading data

Market Cap. (Rs bn)	691.3
Shares o/s (m)	595.0
3M Avg. Daily value (Rs m)	1450.4

Major shareholders

Promoters	16.66%
Foreign	49.14%
Domestic Inst.	13.01%
Public & Other	21.19%

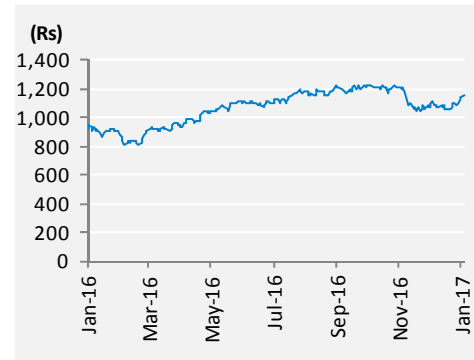
Stock Performance

(%)	1M	6M	12M
Absolute	4.5	3.1	22.7
Relative	3.9	4.0	14.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	61.5	61.2	0.5
2019	79.0	76.9	2.7

Price Performance (RIC: INBK.BO, BB: IIB IN)



Source: Bloomberg

IIB remained undeterred from the demonetisation effect and continued its robust growth in NII and earnings beating our expectations with PAT growth of 29% YoY at Rs7.51bn (PLe: Rs6.83bn). Loan growth continued at 25% YoY with stable margins of 4.0%, leading to NII growth of 34.5% YoY. Fee income was in-line with trends, while credit cost was under control though there was slight deterioration in asset quality. CASA profile improved on back of demonetisation and as new SA account addition continued. We believe IIB will continue to deliver earnings of 27% over FY17-FY19E on back of loan growth CAGR of 26%, controlled credit cost and stable margins (70% book fixed in nature). We have revised our earnings estimates upwards by 1-3% for FY17E/FY18E and introduce FY19E earnings. We retain "BUY" with increased PT of Rs1,325 (up from Rs1,302) based on 3.2x Sep-18 ABV (rolled over from Mar-18).

- **Core performance unhindered:** IIB's core PPOP growth of ~30% YoY remained strong and in fact was better than Q2FY17. Good performance was on back of strong NII growth of 34.5% YoY on back of strong loan growth & stable margins of 4%. Margins were resilient on back 25bps QoQ improvement in cost of funds, while yields drop of ~13bps QoQ was from corporate book rather than consumer book. Fee was very slightly softer than usual mainly from slower loan processing fees but TPP/remittance fees were strong, while opex was in-line with expectations.
- **Business growth contributing from all segments:** Loan growth was strong at 25% YoY contributed from both corporate & consumer. Vehicle book was slightly slower with ~20% YoY growth led by slight slowdown in 2W/CV/UVs, while non vehicle book was strong led by LAP/CC/Personal loans. On liabilities side, CASA profile improved to 37% from both demonetisation & strong addition of new customers and despite Rs80bn of CA outflow (IPO float). Bank continues to guide similar loan growth ahead, while hoping the deposit addition seen post demonetisation is retained with the bank.
- **Asset quality remains to notch:** Overall asset quality slightly deteriorated with GNPA at 0.94% v/s 0.90% QoQ & NNPA at 0.39% v/s 0.37% QoQ. Slippages were slightly higher at Rs2.81bn (but remained at 1.1% of loans) mainly from corporate book, while consumer book slippages remained stable. Bank used only Rs520mn of loans under the RBI 90day dispensation mainly in the vehicle book, while MFI book collections improved in ensuing period of demonetisation.

Key financials (Y/e March)

	2016	2017	2018E	2019E
Net interest income	45,166	60,541	74,881	94,405
Growth (%)	32.1	34.0	23.7	26.1
Operating profit	41,414	53,203	66,331	83,412
PAT	22,865	29,299	36,593	46,981
EPS (Rs)	40.7	49.2	61.5	79.0
Growth (%)	19.6	21.1	24.9	28.4
Net DPS (Rs)	4.9	5.3	5.5	6.0

Profitability & Valuation

	2016	2017	2018E	2019E
NIM (%)	3.59	3.85	3.84	3.90
RoAE (%)	16.2	15.5	16.7	18.3
RoAA (%)	1.82	1.86	1.88	1.94
P / BV (x)	4.0	3.5	3.0	2.5
P / ABV (x)	4.1	3.6	3.0	2.6
PE (x)	28.6	23.6	18.9	14.7
Net dividend yield (%)	0.4	0.5	0.5	0.5

Source: Company Data; PL Research

Exhibit 1: Q3FY17 Results – Performance remains upbeat in an perceived difficult quarter

NII growth beat estimates as robust growth of ~34% YoY continued supported by both loan growth & stable margins

Fee income growth trajectory was slightly softer but better than expectation mainly on TPP fees, trade/remittances

Credit cost continued to remain at 15bps (60bps annualized) which is well within guidance

Loan growth continues to remain robust at ~25% YoY led by both corporate & consumer

Margins remained resilient with yield holding up (70% loan book fixed), while benefit of cost of funds benefit flowed in

Asset quality saw slightly higher deterioration mainly in corporate, while consumer book remained stable QoQ

CASA momentum continued led by both demonetisation effect and normal new customer growth, despite Rs80bn of outflow from CA (Q2FY17 had IPO float)

P&L	Q3FY17	Q3FY16	YoY gr. (%)	Q2FY17	QoQ gr. (%)
Interest Income	36,993	29,277	26.4	34,693	6.6
Interest Expense	21,209	17,543	20.9	20,090	5.6
Net interest income (NII)	15,784	11,734	34.5	14,603	8.1
Treasury income	1,320	1,131	16.7	1,449	(8.9)
Fee income	8,848	7,259	21.9	8,256	7.2
Other income	10,168	8,390	21.2	9,704	4.8
Total income	25,952	20,124	29.0	24,307	6.8
Operating expenses	12,319	9,514	29.5	11,491	7.2
-Staff expenses	3,940	3,267	20.6	3,758	4.9
-Other expenses	8,378	6,247	34.1	7,733	8.3
Operating profit	13,633	10,610	28.5	12,817	6.4
Core operating profit	12,314	9,479	29.9	11,368	8.3
Total provisions	2,169	1,771	22.5	2,139	1.4
Profit before tax	11,465	8,839	29.7	10,678	7.4
Tax	3,959	3,029	30.7	3,635	8.9
Profit after tax	7,506	5,810	29.2	7,043	6.6
Deposits	1,192,180	864,230	37.9	1,123,133	6.1
Advances	1,027,700	821,670	25.1	989,491	3.9
Profitability ratios					
RoAA	1.9	1.9	(4)	1.9	(5)
RoAE	15.7	14.1	167	15.4	34
NIM	4.0	3.9	9	4.0	-
Yield on Advances	11.7	12.1	(34)	11.9	(13)
Cost of Deposits	6.4	7.2	(80)	6.6	(25)
Asset Quality ratios					
Gross NPL (Rs m)	9,716	6,811	42.6	8,990	8.1
Net NPL (Rs m)	4,007	2,733	46.6	3,692	8.5
Gross NPL ratio	0.9	0.8	12	0.9	4
Net NPL ratio	0.4	0.3	6	0.4	2
Coverage ratio	58.8	59.9	(111)	58.9	(18)
Restructured adv. (Rs m)	4,214	4,766	(11.6)	4,354	(3.2)
% restructured adv.	0.4	0.6	(17)	0.4	(3)
Business & Other Ratios					
Low-cost deposit mix	37.0	35.0	206	36.5	51
Cost-income ratio	47.5	47.3	19	47.3	19
Non int. inc / total income	39.2	41.7	(251)	39.9	(74)
Credit deposit ratio	86.2	95.1	(887)	88.1	(190)
CAR	15.3	16.4	(112)	15.3	(1)
Tier-I	14.7	15.6	(90)	14.7	6

Source: Company Data, PL Research

Q3FY17 Concall Takeaways

Management Commentary:

- Balance sheet management was crucial in the quarter especially the liquidity flow which IIB managed well.
- **Demonetisation paves positive way** – Only 20% of the 2W were financed with the rest in cash, which will be opportunity to gain market share. Mortgages will be attractive on the tax incentives, lowering interest rates (incl subvention) and affordability. Cards have seen 2.5x-3x with credit cards spend seeing a sharp jump.
- Deposits outflow has to be gauged; retained deposits is expected to make their way into financial savings which will help IIB which is a strong distributor in Third party products.

Balance sheet growth and Outlook:

- **Loan book** – Loan book growth contributed from both corporate & consumer book with 25% growth. **Outlook:** Bank would continue its loan growth trajectory at +25% growth.
 - **Retail loan book – Vehicle loan book growth** continues to be with trends with CV showing strong disbursements of Rs60bn, beating our estimates, gained market share in all segments except for 2W. Used vehicle book was 20% in disbursement and contributes 15% of vehicle book. **Non vehicle book** continues strong growth with **LAP/CC/Personal loans** continued strong growth. **MFI book** remained flattish QoQ at Rs30bn (incl in investment book) and continue to target Rs100bn book (5% of book internal cap) over the next three years.
 - **Corporate loan book** – Corporate book continued to see refinancing opportunities as rates have become very competitive.
- **Liabilities** –
 - CASA growth has been strong despite Rs80bn of outflow from CA received from IPO proceeds in Q2FY17. In the CASA profile, 50% growth was contributed from the demonetisation exercise, while 50% contribution is from normal growth. In CASA, added 208k new accounts with average ticket size of Rs42,000-45,000 and hence added Rs14bn on new account acquisition.
 - 38% of deposits are wholesale nature where bank have seen sharp drop in rates in last 1 year from 7.5% to 6.3-6.4%.

Margins:

- Margins have held up at 4% on back of 25bps QoQ decline in cost of funds, while yields have seen smaller impact as 70% loan book is of fixed nature. **Outlook** –

Bank expects higher room to reduce cost of funds further which will keep margins strong.

Fees, Opex and Branch expansion:

- **Fees** – Fee income has been strong from trade & remittance, TPP & gen banking fees. IB fees also sustained in the quarter. Loan processing fee was tepid despite better loan growth mainly on renewal fee was lower. **Outlook:** Fee income should sustain going ahead especially from the TPP, trade/remittances front.
- **Branches** – Added 40 new branches in Q3FY16 to take count to 1,075. Remain on track to reach branch count at 1200 by FY17 end.

Asset quality:

- **Slippages** – Slippages were largely in the corporate book mainly on two small a/c slipping from restructured book. Consumer finance slippages were under control with improvement in most of the vehicle book except for cars, while in non vehicle book LAP saw some slippages.
- **Demonetisation effect & RBI dispensation** - Bank (customers) opted for RBI dispensation of 90day non-recognition was mainly in retail at Rs520mn with Rs470mn in the vehicle book. MFI book didn't see any dispensation, while cumulative collections were at 98-99%.
- **Other stress assets** – Bank sold Rs410mn of loans to ARC during the quarter, but recovered Rs140mn from the SRs (ARC book) taking the SRs to Rs2.23bn (23bps of loan book).
- **Credit cost** – Credit cost continued to be at 15bps for the quarter (non-annualized), so will remain well within guidance of 60bps for FY17, may even improve in Q4FY17.

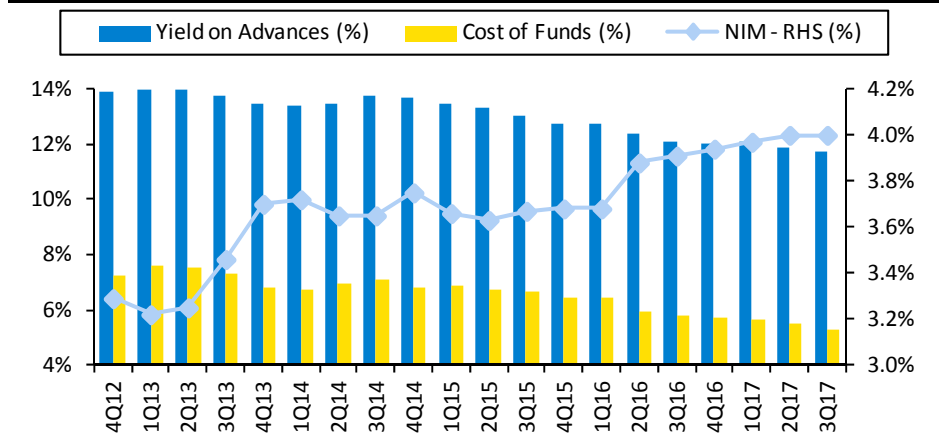
Exhibit 2: Both corporate and consumer book showcasing strong growth

Loan Book mix	Q3FY17	Q3FY16	YoY gr. (%)	Q2FY17	QoQ gr. (%)
CV Loans / Tractors	163,330	132,040	23.7	156,680	4.2
UV Loans	22,370	20,410	9.6	21,570	3.7
3W/Small CV	23,810	20,190	17.9	22,740	4.7
2W Loans	33,230	30,340	9.5	31,340	6.0
Car Loans	45,700	37,540	21.7	43,240	5.7
Equipment Financing	38,750	30,360	27.6	35,970	7.7
Credit Card	15,190	10,080	50.7	14,080	7.9
LAP	64,290	47,590	35.1	58,720	9.5
Others	21,980	13,930	57.8	21,240	3.5
Consumer Finance	428,650	342,480	25.2	405,580	5.7
Corporate Finance	599,050	479,180	25.0	583,910	2.6

Source: Company Data, PL Research

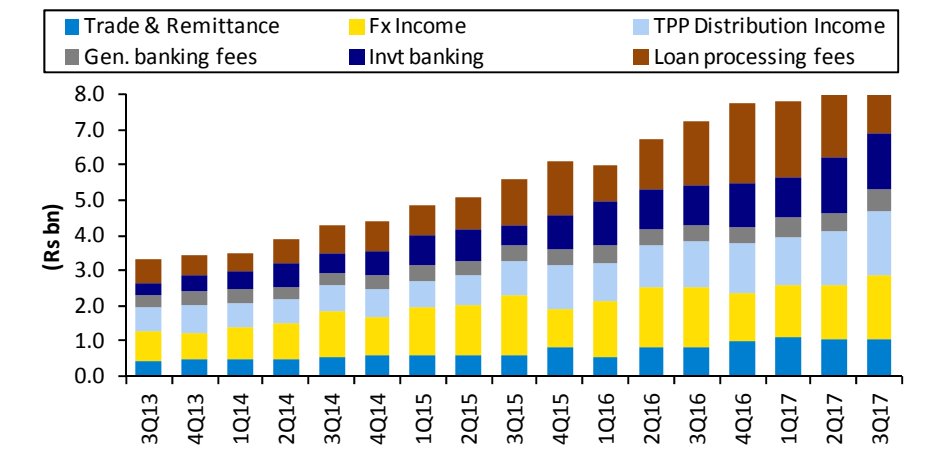
Margins remained resilient at 4% mostly benefiting from lower cost of funds by 25bps QoQ and yields coming off by 13bps QoQ which was impacted in corporate book

Exhibit 3: Margins stable sequentially on lowering cost of funds



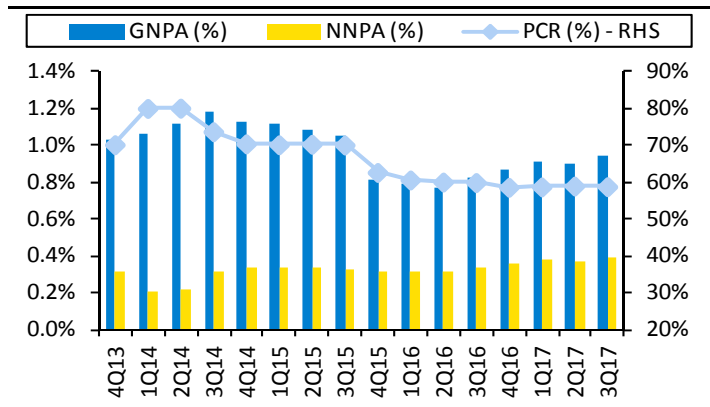
Source: Company Data, PL Research

Exhibit 4: Core fees: Strong TPP fees, general banking fees & trade/remit fees continue to lead fee growth, while loan processing fees was slower on lower renewals



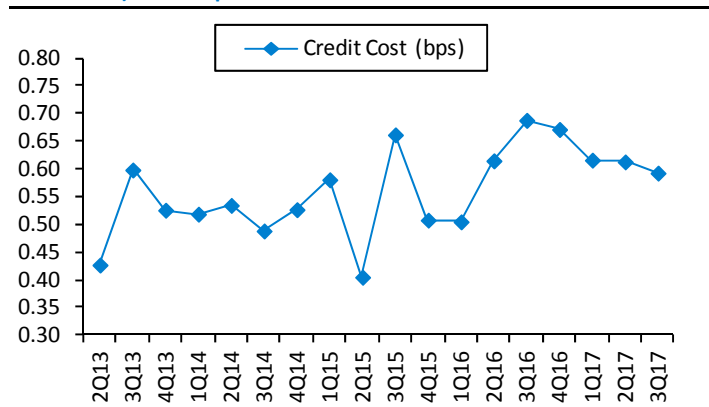
Source: Company Data, PL Research

Exhibit 5: Asset quality slight deterioration led by corporate book, but consumer was stable



Source: Company Data, PL Research

Exhibit 6: But credit cost remained stable at 15bps (60bps annualized) for the quarter



Source: Company Data, PL Research

Exhibit 7: Estimates change table – We slightly tweak our estimates upwards as demonetisation impact is largely not seen on IIB

(Rs mn)	Old		Revised		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net interest income	58,301	74,129	60,541	74,881	3.8	1.0
Operating profit	51,154	66,060	53,203	66,331	4.0	0.4
Net profit	28,342	36,861	29,299	36,593	3.4	(0.7)
EPS (Rs)	47.6	62.0	49.2	61.5	3.4	(0.7)
ABVPS (Rs)	325.7	382.0	325.4	382.4	(0.1)	0.1
Price target (Rs)	1302		1352		3.8	
Recommendation	BUY		BUY			

Source: Company Data, PL Research

Exhibit 8: We increase our TP to Rs1,352 (from Rs1,302) as we move our valuations to Sep-18 ABV from Mar-18 ABV

PT calculation and upside	
Fair price - EVA, Rs	1,326
Fair price - P/ABV, Rs	1,379
Average of the two, Rs	1,352
Target P/ABV (x)	3.2
Target P/E (x)	19.3
Current price, Rs	1,162
Upside (%)	16%
Dividend yield (%)	0%
Total return (%)	17%

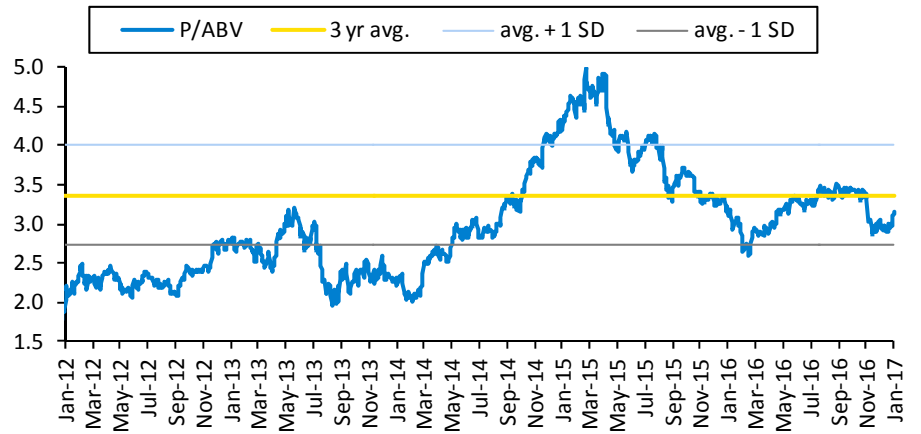
Source: Company Data, PL Research

Exhibit 9: ROAs on track for ~2% in FY19

RoE decomposition (%)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Interest income	10.38	10.67	10.30	9.75	9.20	9.13	8.99	9.02
Interest expenses	7.08	7.26	6.69	6.31	5.61	5.27	5.15	5.12
Net interest income	3.30	3.41	3.61	3.44	3.59	3.85	3.84	3.90
Treasury income	0.57	0.60	0.83	0.84	0.78	0.76	0.74	0.76
Other Inc. from operations	1.39	1.48	1.52	1.58	1.84	1.86	1.94	1.93
Total income	5.26	5.49	5.96	5.86	6.21	6.46	6.52	6.59
Employee expenses	0.94	1.01	1.01	0.99	0.98	0.99	1.00	0.99
Other operating expenses	1.66	1.67	1.72	1.76	1.93	2.09	2.12	2.15
Operating profit	2.66	2.81	3.24	3.12	3.29	3.39	3.41	3.45
Tax	0.76	0.79	0.90	0.92	0.94	0.98	0.99	1.02
Loan loss provisions	0.35	0.40	0.58	0.39	0.53	0.54	0.54	0.48
RoAA	1.55	1.62	1.76	1.80	1.82	1.86	1.88	1.94
RoAE	18.26	17.15	16.89	18.22	16.14	15.45	16.74	18.33

Source: Company Data, PL Research

Exhibit 10: Valuations have come-off below 3yr average post demonetisation



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Int. Earned from Adv.	92,446	116,382	143,007	180,819
Int. Earned from Inv.	17,806	23,443	27,345	31,280
Others	5,555	3,569	4,766	6,311
Total Interest Income	115,807	143,394	175,118	218,410
Interest expense	70,641	82,852	100,237	124,005
NII	45,166	60,541	74,881	94,405
<i>Growth (%)</i>	<i>32.1</i>	<i>34.0</i>	<i>23.7</i>	<i>26.1</i>
Treasury Income	1,453	1,900	1,000	1,100
NTNII	31,517	39,147	51,130	64,062
Non Interest Income	32,969	41,047	52,130	65,162
Total Income	148,776	184,441	227,248	283,572
<i>Growth (%)</i>	<i>23.0</i>	<i>24.0</i>	<i>23.2</i>	<i>24.8</i>
Operating Expense	36,721	48,385	60,680	76,155
Operating Profit	41,414	53,203	66,331	83,412
<i>Growth (%)</i>	<i>33.7</i>	<i>28.5</i>	<i>24.7</i>	<i>25.8</i>
NPA Provisions	5,015	6,167	8,154	8,801
Investment Provisions	295	354	—	—
Total Provisions	6,722	8,472	10,463	11,683
PBT	34,693	44,731	55,867	71,728
Tax Provisions	11,828	15,432	19,274	24,747
<i>Effective Tax Rate (%)</i>	<i>34.1</i>	<i>34.5</i>	<i>34.5</i>	<i>34.5</i>
PAT	22,865	29,299	36,593	46,981
<i>Growth (%)</i>	<i>27.5</i>	<i>28.1</i>	<i>24.9</i>	<i>28.4</i>

Balance Sheet (Rs m)

Y/e March	2016	2017	2018E	2019E
Par Value	10	10	10	11
No. of equity shares	595	595	595	541
Equity	5,950	5,950	5,950	5,950
Networth	176,822	202,325	234,980	277,665
Adj. Networth	173,605	197,402	231,315	272,323
Deposits	930,003	1,236,904	1,583,238	2,026,544
<i>Growth (%)</i>	<i>25.4</i>	<i>33.0</i>	<i>28.0</i>	<i>28.0</i>
Low Cost deposits	327,242	452,707	585,798	755,901
<i>% of total deposits</i>	<i>35.2</i>	<i>36.6</i>	<i>37.0</i>	<i>37.3</i>
Total Liabilities	1,400,432	1,742,164	2,153,484	2,688,609
Net Advances	884,193	1,105,242	1,403,657	1,796,681
<i>Growth (%)</i>	<i>28.5</i>	<i>25.0</i>	<i>27.0</i>	<i>28.0</i>
Investments	312,143	399,191	456,475	530,033
Total Assets	1,400,570	1,742,164	2,153,484	2,688,609

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Interest Income	31,317	32,917	34,693	36,993
Interest Expense	18,635	19,353	20,090	21,209
Net Interest Income	12,682	13,564	14,603	15,784
Non Interest Income	9,128	9,730	9,704	10,168
CEB	7,742	7,819	8,256	8,848
Treasury	1,386	1,911	1,449	1,320
Net Total Income	21,810	23,294	24,307	25,952
Operating Expenses	10,298	10,956	11,491	12,319
Employee Expenses	3,364	3,569	3,758	3,940
Other Expenses	6,934	7,387	7,733	8,378
Operating Profit	11,512	12,338	12,817	13,633
Core Operating Profit	10,126	10,427	11,368	12,314
Provisions	2,137	2,305	2,139	2,169
Loan loss provisions	1,485	1,444	1,517	1,524
Investment Depreciation	—	—	—	—
Profit before tax	9,375	10,033	10,678	11,465
Tax	3,172	3,419	3,635	3,959
PAT before EO	6,204	6,614	7,043	7,506
Extraordinary item	—	—	—	—
PAT	6,204	6,614	7,043	7,506

Key Ratios

Y/e March	2016	2017	2018E	2019E
CMP (Rs)	1,162	1,162	1,162	1,162
Equity Shrs. Os. (m)	595	595	595	541
Market Cap (Rs m)	691,285	691,285	691,285	628,441
<i>M/Cap to AUM (%)</i>	<i>49.4</i>	<i>39.7</i>	<i>32.1</i>	<i>23.4</i>
EPS (Rs)	40.7	49.2	61.5	79.0
Book Value (Rs)	291	334	389	460
Adj. BV (100%) (Rs)	286	325	382	451
P/E (x)	28.6	23.6	18.9	14.7
P/BV (x)	4.0	3.5	3.0	2.5
P/ABV (x)	4.1	3.6	3.0	2.6
DPS (Rs)	4.9	5.3	5.5	6.0
<i>Dividend Yield (%)</i>	<i>0.4</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>

Profitability (%)

Y/e March	2016	2017	2018E	2019E
NIM	3.6	3.9	3.8	3.9
RoAA	1.8	1.9	1.9	1.9
RoAE	16.2	15.5	16.7	18.3

Efficiency

Y/e March	2016	2017	2018E	2019E
<i>Cost-Income Ratio (%)</i>	<i>47.0</i>	<i>47.6</i>	<i>47.8</i>	<i>47.7</i>
<i>C-D Ratio (%)</i>	<i>95.1</i>	<i>89.4</i>	<i>88.7</i>	<i>88.7</i>
Business per Emp. (Rs m)	88	99	110	122
Profit per Emp. (Rs lacs)	11.1	12.4	13.4	15.0
Business per Branch (Rs m)	2,134	2,342	2,987	3,819
Profit per Branch (Rs m)	27	29	37	47

Asset Quality

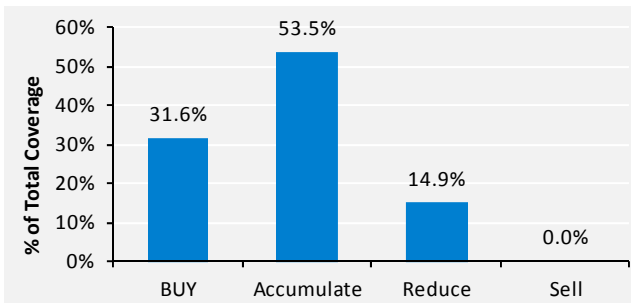
Y/e March	2016	2017	2018E	2019E
Gross NPAs (Rs m)	7,768	10,165	11,528	14,049
Net NPAs (Rs m)	3,217	4,923	3,665	5,342
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>	<i>0.8</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>
<i>NPA Coverage (%)</i>	<i>58.6</i>	<i>51.6</i>	<i>68.2</i>	<i>62.0</i>

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

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Rating Distribution of Research Coverage**PL's Recommendation Nomenclature**

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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