

**RESEARCH**
**BOB Economics Research | Weekly Wrap**

Fed, ECB meet in focus

**IndusInd Bank | Target: Rs 590 | +45% | BUY**

No respite from asset quality challenges

**SUMMARY**
**India Economics: Weekly Wrap**

The week saw negative oil prices, a first as global supply outran storage due to demand compression. Global yields and equity markets fell and DXY strengthened. Flash manufacturing and services PMI of major economies point towards a deep contraction. Amidst the above backdrop, Fed and ECB policy meets are due this week. India's 10Y yield fell as RBI announced special OMOs and also announced SLF of Rs 500bn for MFs. Decision on extension of Indian lockdown is also awaited as are details of next fiscal stimulus.

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**IndusInd Bank**

IndusInd Bank's (IIB) Q4FY20 PAT at Rs 3bn (-16% YoY) was ahead of estimates due to an NII beat. The bank made Covid-19-related provisions worth Rs 2.8bn, which could potentially raise the GNPA ratio by 80bps under moderate stress. Asset quality was a miss with high corporate and retail slippages. PCR increased to 63% (52% in Q3). Credit cost is guided at ~180bps for FY21, including Covid-related provisioning at 50bps. Management has guided for a retail-corporate split of 65:35 in the medium term. Maintain BUY.

[Click here for the full report.](#)

**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	570
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">Reliance Industries</a>	Buy	1,550

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	510
<a href="#">Transport Corp</a>	Buy	255
<a href="#">Ashok Leyland</a>	Reduce	43

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.60	0bps	(25bps)	(190bps)
India 10Y yield (%)	6.17	12bps	(14bps)	(124bps)
USD/INR	76.45	(0.5)	(0.5)	(9.2)
Brent Crude (US\$/bbl)	21.44	0.5	(21.0)	(70.3)
Dow	23,775	1.1	14.8	(10.4)
Shanghai	2,809	(1.1)	3.2	(9.0)
Sensex	31,327	(1.7)	17.4	(19.8)
India FII (US\$ mn)	23 Apr	MTD	CYTD	FYTD
FII-D	115.9	(628.1)	(10,387.6)	(628.1)
FII-E	63.4	(392.2)	(6,995.1)	(392.2)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

research@bobcaps.in



## WEEKLY WRAP

27 April 2020

**Fed, ECB meet in focus**

The week saw negative oil prices, a first as global supply outran storage due to demand compression. Global yields and equity markets fell and DXY strengthened. Flash manufacturing and services PMI of major economies point towards a deep contraction. Amidst the above backdrop, Fed and ECB policy meets are due this week. India's 10Y yield fell as RBI announced special OMOs and also announced SLF of Rs 500bn for MFs. Decision on extension of Indian lockdown is also awaited as are details of next fiscal stimulus.

Sameer Narang | Aditi Gupta

chief.economist@bankofbaroda.com

**Markets**

- **Bonds:** Global yields closed lower amidst weak macro prints in US, Germany and Japan. US 10Y yield fell by 4bps (0.6%) as Senate passed another US\$ 484bn stimulus. Oil prices fell by 24% (US\$ 21/bbl) as US inventories touched a record high amid concerns of muted demand. India's 10Y yield fell by 18bps (6.17%) supported by RBI's Operation Twist. System liquidity surplus was at Rs 4.8tn as on 24 Apr 2020, same as in the previous week.
- **Currency:** DXY rose by 0.6% in the week as risk sentiment remained muted amidst a sharp plunge in oil prices. GBP depreciated by 1.1% as UK's flash manufacturing and services PMI plunged to a record low in Apr'20. EUR fell by 0.5% as uncertainty remains over the EU stimulus package. INR ended the week lower by 0.1% after depreciating to a record low as equities see lower outflows and debt segment sees inflows.
- **Equity:** Global indices ended the week lower as oil prices plummeted on the back of cratering demand. Nikkei (3.2%) slumped the most followed by Dax (2.7%). Dow slipped by 1.9% despite a US\$ 484bn relief package to counter the impact of COVID-19. Sensex also fell by 0.8% following global cues and liquidity freeze in certain debt mutual fund schemes. However, RBI's Rs 500bn SLF announcement will ease concerns.
- **Upcoming key events:** Global COVID-19 cases increased by 740k from 564k last week. This week Q1CY20 GDP of US, France, Italy and Taiwan and US, China and Japanese manufacturing ISM/PMI will be released. Fed and ECB policy meet is also awaited. On the domestic front, core output data, decision on extension of lockdown and fiscal stimulus details are due.



**BUY**

TP: Rs 590 | ▲ 45%

**INDUSIND BANK**

| Banking

| 27 April 2020

## No respite from asset quality challenges

IndusInd Bank's (IIB) Q4FY20 PAT at Rs 3bn (-16% YoY) was ahead of estimates due to an NII beat. The bank made Covid-19-related provisions worth Rs 2.8bn, which could potentially raise the GNPA ratio by 80bps under moderate stress. Asset quality was a miss with high corporate and retail slippages. PCR increased to 63% (52% in Q3). Credit cost is guided at ~180bps for FY21, including Covid-related provisioning at 50bps. Management has guided for a retail-corporate split of 65:35 in the medium term. Maintain BUY.

Vikesh Mehta

research@bobcaps.in

**Covid-19 could have 80bps impact on GNPA:** IIB has offered an 'opt-out' moratorium to all retail customers but continues to receive voluntary installments, with 95% of vehicle finance customers paying their March dues. The pandemic crisis could potentially drive an 80bps/50bps increase in GNPA ratio/credit cost under mild-to-moderate stress case scenarios. IIB has made floating provisions worth Rs 2.6bn and general provisions worth Rs 230mn for extending the asset classification benefit (at 5% on standstill accounts as mandated by RBI with another 5% required in Q1FY21). Hence, PCR rose to 63%; the bank's aim is to ramp this up to 70% over the next few quarters.

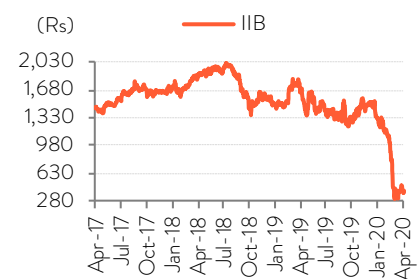
**Asset quality woes remain:** IIB's slippage ratio at 4.2% of loans (4.1% in Q3FY20) remained high. Corporate slippages at Rs 12.5bn largely stemmed from IIB's exposure to three stressed groups – a power/paper group, a tea group, a medical equipment group – and a broking company. SMA-2 declined to 0.16% (0.5% in Q3) following prudent recognition of weak accounts as NPA. Management believes credit cost for FY21 could be ~180bps.

**Deposit outflow appears to have halted:** Over the last 15-20 days, IIB has garnered retail deposits worth Rs 0.5bn on a daily basis. It has also witnessed an inflow of government/corporate deposits worth Rs 6bn-7bn/Rs 60bn in April.

Ticker/Price	IIB IN/Rs 407
Market cap	US\$ 3.4bn
Shares o/s	628mn
3M ADV	US\$ 144.8mn
52wk high/low	Rs 1,703/Rs 236
Promoter/FPI/DII	17%/52%/31%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	74,974	88,462	120,587	132,105	152,996
NII growth (%)	23.7	18.0	36.3	9.6	15.8
Adj. net profit (Rs mn)	36,060	33,011	44,445	27,621	55,706
EPS (Rs)	60.2	54.9	68.6	39.8	80.3
P/E (x)	6.8	7.4	5.9	10.2	5.1
P/BV (x)	1.0	0.9	0.8	0.7	0.7
ROA (%)	1.8	1.3	1.5	0.8	1.5
ROE (%)	16.2	13.1	14.7	7.5	13.4

Source: Company, BOBCAPS Research



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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