FIRST LIGHT

02 March 2020

RESEARCH

BOB Economics Research | Q3FY20 GDP

Growth to recover in FY21

IndusInd Bank | Target: Rs 1,700 | +52% | BUY

Leadership overhang recedes

SUMMARY

India Economics: Q3FY20 GDP

India's GDP and GVA growth moderated to 4.7% and 4.5% in Q3FY20 from a revised growth of 5.1% and 4.9% in Q2. Investment spending has led the dip at (-) 5.2%. Private consumption held up. On the supply side, electricity output declined the most on account of manufacturing slowdown. Growth is likely to recover to 5.5% and 6.2% in FY21 and FY22 respectively on the back of recovery in rural demand and disinvestment led government capex. The recent COVID-19 outbreak remains a significant downside risk in Q4FY20.

Click here for the full report.

IndusInd Bank

As per a press release on the exchanges, IndusInd Bank (IIB) has received RBI approval to appoint Sumant Kathpalia as MD & CEO for three years beginning 24 March. At 1.5x FY22E P/BV, IIB's stock is trading at three-year lows and has corrected ~25% over the last one year on concerns surrounding asset quality and management transition. This appointment assuages one of the key investor concerns.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.26	(8bps)	(35bps)	(145bps)
India 10Y yield (%)	6.38	3bps	(18bps)	(103bps)
USD/INR	71.57	0.1	(0.2)	(1.2)
Brent Crude (US$/bbl)	52.18	(2.3)	(12.0)	(21.0)
Dow	25,767	(4.4)	(9.7)	(0.6)
Shanghai	2,991	0.1	0.5	1.7
Sensex	39,746	(0.4)	(3.4)	10.8
India FII (US$ mn)	**26 Feb**	**MTD**	**CYTD**	**FYTD**
FII-D	(309.1)	586.5	(982.4)	2,279.2
FII-E	(436.7)	1,305.1	2,677.7	10,503.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Q3FY20 GDP

28 February 2020

Growth to recover in FY21

India's GDP and GVA growth moderated to 4.7% and 4.5% in Q3FY20 from a revised growth of 5.1% and 4.9% in Q2. Investment spending has led the dip at (-) 5.2%. Private consumption held up. On the supply side, electricity output declined the most on account of manufacturing slowdown. Growth is likely to recover to 5.5% and 6.2% in FY21 and FY22 respectively on the back of recovery in rural demand and disinvestment led government capex. The recent COVID-19 outbreak remains a significant downside risk in Q4FY20.

Sameer Narang
Dipanwita Mazumdar | Aditi Gupta
chief.economist@bankofbaroda.com

GVA growth moderates: India's Q3FY20 GVA growth slowed down to 4.5% from 4.8% in Q2FY20 led by slowdown in electricity, gas and water supply (-0.7% in Q3 vs 3.9% in Q2) and construction (0.3% versus 2.9% in Q2). Manufacturing growth was muted at (-) 0.2% in Q3 versus (-) 0.4% in Q2). However, growth in agriculture (3.5% in Q3 versus 3.1% in Q2) and services sector (7.4% in Q3 versus 7.3% in Q2) held up. In services, improvement was seen in financial, real estate and professional services (7.3% in Q3 versus 7.1% in Q2) and trade, hotels & communication services (5.9% in Q3 versus 5.8% in Q2). Outlook for agriculture is relatively well placed with improved Rabi sowing.

Investment spending falters: GDP growth fell to 4.7% in Q3FY20 from 5.1% in Q2FY20 (revised upwards by 60bps). This was led by a sharp contraction in investment spending growth to the lowest in the current series at (-) 5.2% in Q3 versus (-) 4.1% in Q2. Exports also contracted at the fastest pace in 16-quarters by (-) 5.5% compared with (-) 2.1% in Q2. Government spending too slowed to 11.8% in Q3 from 13.2% in Q2. On the positive side, private consumption picked up to 5.9% in Q3 versus 5.3% in H1FY20.

GVA/GDP growth forecasts retained: Both GVA and GDP growth projections for FY20 were unchanged at 4.9% and 5% respectively. Only projections for agriculture and mining have been revised upward to 3.7% (2.8% 1st A.E.) and 2.8% (1.5% 1st A.E.) respectively. However, projections for manufacturing and electricity, gas, water supply and other utility services have been revised downward to 0.9% (2% 1st A.E.) & 4.6% (5.4% 1st A.E.). Investment demand is also set to decline by (-) 0.6% versus an increase of 1% earlier. We expect GDP growth to bottom out in FY20, before seeing a revival to 5.5% in FY21 and 6.2% in FY22, on the back of government divestment led spending and rural recovery.

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BUY
TP: Rs 1,700 | ⮝ 52%

INDUSIND BANK | Banking | 28 February 2020

Leadership overhang recedes

Vikesh Mehta
research@bobcaps.in

RBI approves new MD & CEO: As per a **press release** on the exchanges, IndusInd Bank (IIB) has received RBI approval to appoint Sumant Kathpalia as MD & CEO for three years beginning 24 March. At 1.5x FY22E P/BV, IIB's stock is trading at three-year lows and has corrected ~25% over the last one year on concerns surrounding asset quality and management transition. This appointment assuages one of the key investor concerns.

Promoting an internal candidate a positive move: Kathpalia is a chartered accountant and currently heads IIB's consumer banking business. He was part of the ABN Amro team that joined IIB when Romesh Sobti took the helm in 2008. We believe the appointment of an internal candidate is a sensible move – not only is Kathpalia credited with building the bank's consumer loan portfolio from scratch, but his elevation from within could mean no drastic changes in IIB's existing strategies, especially regarding retail. The bank's consumer finance portfolio is well diversified and currently forms ~54% of the loan book.

Concerns over asset quality to stay: The leadership change comes at a time when asset quality is taking a toll on IIB. Slippages from the retail and corporate portfolios (even outside of stressed groups) have increased. Uncertainty persists over when these slippages will peak given that the SMA book remains sticky at ~1% of advances. Also, material exposure to troubled telecom player Vodafone Idea remains an overhang.

Over the last few quarters, IIB has raised coverage on its Rs 30bn IL&FS exposure to 73% while its exposure to potential stressed groups is down to 0.5% (1.9% in Q4FY19). Nonetheless, we believe concerns over asset quality are likely to stay, posing a key challenge for the new management.

Maintain BUY: We remain positive on the stock as it is trading at 1.5x FY22E P/BV which is cheap for a bank with an expected ROA/ROE profile of 1.8%/19% by FY22.

Ticker/Price	IIB IN/Rs 1,116
Market cap	US$ 9.4bn
Shares o/s	603mn
3M ADV	US$ 98.9mn
52wk high/low	Rs 1,834/Rs 1,101
Promoter/FPI/DII	17%/52%/31%

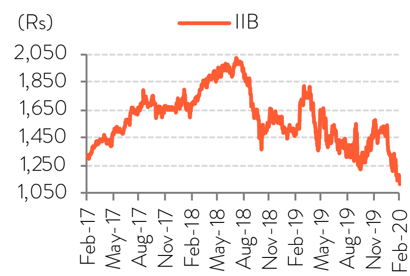
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Net interest income	121,131	141,941	177,991
NII growth (%)	36.9	17.2	25.4
Adj. net profit (Rs mn)	54,079	69,042	89,751
EPS (Rs)	82.5	97.5	126.8
P/E (x)	13.5	11.4	8.8
P/BV (x)	2.2	1.8	1.5
ROA (%)	1.7	1.7	1.8
ROE (%)	17.2	17.2	18.7

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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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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