

**BUY**

TP: Rs 1,700 | ▲ 52%

**INDUSIND BANK**

| Banking

| 28 February 2020

## Leadership overhang recedes

**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.

**Vikesh Mehta**

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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%

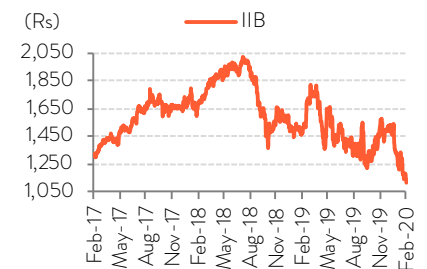
Source: NSE

## 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%

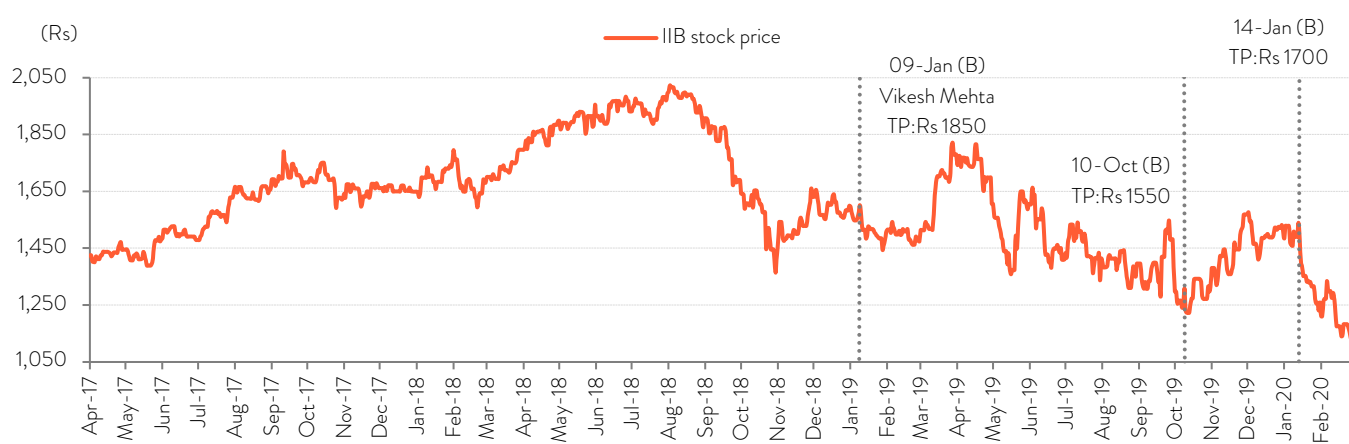
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: INDUSIND BANK (IIB IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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