Investor

MONDAY, JANUARY 20, 2020

EXPERT VIEW

The opportunity of bounce-back in IndusInd Bank's earnings growth and RoA is factored into our target price of ₹1,796, implying 21% upside

—ICICI Securities

● INDUSIND BANK RATING: **BUY**

Q3FY20 results represented a mixed bag

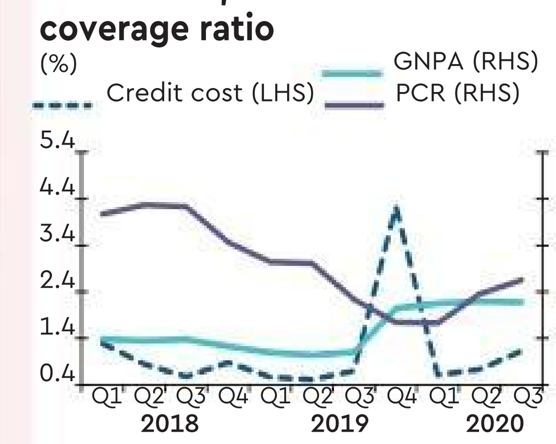
FY20e PAT cut by 16% to factor in higher provisions; RoA is expected to recover in FY21; 'Buy' maintained with TP revised to ₹1,796

INDUSIND BANK (IIB) continues to report a fairly divergent top half of its P&L vs bottom half with robust operating trends led by a strong retail franchise on both assets and liabilities. However, asset quality and credit costs continue to dog the bottomline. While the worst does seem to be behind it, the current weak credit environment can throw up further negative surprises. However, the end of chunky provisioning pertaining to known stressed accounts should likely help PAT and RoA to recover in FY21e. In fact, even in the current environment, the bank continues to report a superior 1.8% RoA despite 2% total provisioning costs. We maintain our **Buy** rating with a slightly lower target price of ₹1,796, implying a 21% upside.

Q3 summary: 15% lower-than-estimated PAT, led by higher provisioning, was offset at the operating level with operating profits coming in ~6% above our estimates. Loan book grew by mere 13% y-o-y led by muted growth in large corporates. The bank has been witnessing improvement in margins over the past few quarters led by repricing of BHAFIN's liabilities. Fee income declined 2% y-o-y on merged basis, led by lower foreign exchange and general banking fees. The headline GNPA number stood stable while slippages were higher at ₹19.5 bn vs ₹11 bn in Q2FY20. Net slippages were contained at ₹2.1 bn led by recoveries, sale to ARCs and write-offs.

Stressed list declined to 0.5% of loan book: Out of ₹11 bn of corporate slippages, ₹2.8 bn was HFC, ₹2.5 bn was diversified group from stressed list and ₹1.8 bn was from a travel company. Despite higher slippages, SMA 2 book stood at 0.53% (0.58% in Q2FY20). Stressed list declined to 0.47% from 1.1% in Q2FY20, led by recoveries, repayment and write-offs. The bank had classified one travel company and one diversified group as fraud account and has provided ₹2.4 bn in Q3FY20 while reserves are debited with remaining ₹7.2 bn. This

Credit cost, GNPA and coverage ratio



Source: Company data, I-Sec research

will be debited over the next three quarters. The bank guided to 70-80bps of credit cost for FY21 excluding provisioning on IL&FS. Total PCR on IL&FS now stands at ~73% post accelerated provisioning of ~₹6.1 bn over past two quarters vs expectations of a 70%-plus recovery rate.

Earnings outlook: We cut our PAT estimate for FY20e by 16% factoring in higher provisions but maintain FY21/22e estimates with RoA estimated to reach 2.3% by then.

Valuations: IIB trades at 2.6x P/ABV and 13x P/E 1-year forward. The opportunity of a bounce-back in earnings growth and RoA is factored into our DDM-based target price of ₹1,796, implying a 21% upside and meriting a **Buy** rating on the stock.

ICICI SECURITIES

● METALS & MINING: Q3FY20 PREVIEW

Numbers are expected to be soft

Margins are likely to be range-bound for steel firms; expected margin rise in Q4 priced in by recent rally

IN Q3, MARGINS at Indian steel companies should be range-bound q-o-q vs. weak Q2 margins, despite recent hikes in domestic steel prices from Q3 lows. We expect steel margins to expand in Q4, but this appears priced in the recent steel stock price rally. Momentum may sustain near term, but risk reward appears negative across India steel coverage, as we expect a reversal. We expect steady Ebitda at Hindalco q-o-q and stay positive on the stock.

Q3: range bound margins vs. weak Q2

In steel, despite price hikes (+₹2,000/ton vs. Dec Q lows) avg domestic HRC prices in Q3 were down ₹2,100/ton q-o-q (long products down ₹1,700/ton q-o-q). ASP decline should be cushioned by lower input costs (coking coal -$21/ton q-o-q) and lower fixed cost/ton due to higher volumes, at steel companies. Volume has improved q-o-q, which should drive higher Ebitda q-o-q. In non-ferrous, avg Al LME prices fell 1% q-o-q to $1,756/ton, but weaker INR should offset this. At Coal India, profit should dip y-o-y due to lower volume.

Looking beyond results

(i) Higher regional steel prices due to usual seasonal restock before Chinese New Year, positive sentiment around China stimulus, trade deal, stabilising global macro; (ii) rally in iron ore prices (restock, seasonal supply factors); (iii) restocking in domestic market and (iv) narrowing of domestic prices' discount to import parity has lifted domestic steel prices from Q3 lows. With domestic HRC prices at ₹37,250/ton (+₹2,000/ton vs. Q3 avg) still at 3-6% discount vs. FTA import parity, we expect more hikes (₹1,500-2,000/ton).

Momentum may sustain near term, but risk reward appears negative across India steel coverage, as we expect a reversal. We expect steady Ebitda at Hindalco q-o-q and stay positive on stock

Steel margins should rise q-o-q in Q4. Indian steel stocks have rallied too reflecting this. But these could reverse as (i) restocking demand should fade; (ii) Chinese mill margins are above average; and (iii) iron ore prices should ease as seasonal supply factors fade. Steel stocks should reflect this earlier, as seen historically.

Tata Steel (TATA IN, UPF): We forecast group Ebitda of ₹42.9 bn (8% q-o-q). We expect India Ebitda to rise 13% q-o-q (₹36.8 bn). Tata BSL reported 58% q-o-q decline in Ebitda (Ebitda/ton fell by ₹2,500/ton q-o-q). At TSE, weak EU spreads would weigh on margins (JEFe $7/ton).

JSW Steel (JSTL IN, UPF): We expect group Ebitda of ₹28.9 bn (+30% q-o-q). We expect volume to rise 11% q-o-q and Ebitda/ton of ₹6,800/ton.

SAIL (SAIL IN, UPF): We expect Ebitda of ₹9.4 bn (Q2 ₹1.8 bn). We forecast volumes to rise 32% q-o-q and Ebitda/ton of ₹2,200/ton (Q2 ₹579/ton).

Hindalco (HNDL IN, Buy): We forecast India Ebitda of ₹10.5 bn (-1% q-o-q). We expect Al Ebitda (including Utkal) to rise 2% q-o-q, but Cu TCRC to decline 9% q-o-q.

Coal India (COAL IN, Buy): We forecast Ebitda ex OBR of ₹64 bn (-20% y-o-y) and PAT of ₹40 bn (-12% y-o-y).

JEFFERIES

Metals: Summary of Results Expectation – Q3FY20

Grwth %	Revenue		Ebitda		PAT	
	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q
Tata Consol	0	9	-41	9	-89	304
Tata-Standalone	-5	9	-24	13	-35	25
JSW	-10	8	-36	30	73	-492
SAIL	6	25	-63	418	NA	NA
Coal India	-9	12	-23	44	-12	14
HNDL-India	-14	2	-38	-1	73	-1

Source: Company data, Jefferies Estimates

● MINDTREE RATING: **NEUTRAL**

Performance in quarter was good

Despite multiple positives, valuations leave no margin of safety; 'Neutral' retained

STRONG GROWTH AT top account (+26% y-o-y) and better-than-expected operational optimisation assuage concerns about ownership and management transition. Early signs of success related to strategy refresh (e.g. increasing revenue share from fixed-price contracts) are now visible. As mix incrementally shifts toward annuity revenue, we see headroom for further (i) utilisation improvement, (ii) pyramid correction and (iii) reduction in sales intensity. However, the impact of this should be offset by correction in higher yields (vs. peers). The recent sharp rally in the stock price and rich multiples (19x one year forward P/E) already factor in the key positives, in our view. Given the softness in deal wins this quarter and increasing client concentration, we await a better entry point. Maintain **Neutral**.

Surprise on margins, top account growth: Revenue was up 9.4% y-o-y to $275 m (marginal miss). Ebit declined 2.4% y-o-y and PAT increased ~14% y-o-y to ₹1,970 m. This was led by sharp growth acceleration at top account (26% y-o-y/s 12% y-o-y in Q2). Share of revenue from fixed-price contracts increased ~280bp q-o-q to ~59%. Strong beat on Ebit margin was driven by better-than-expected operational optimisation and projects moving from transition to steady state.

Company is optimistic on deal closures: Softness in deal signings is due to deferrals in decision-making driven by furloughs. However, MTCL continues to see positive deal momentum and is optimistic about deal closures in Q4FY20. Current Ebit margins (12%) are sustainable. More importantly, MTCL re-iterated its emphasis on further margin improvement in a gradual manner. We build in 120bp margin expansion over FY20-22.

MOTILAL OSWAL

Revisions to our estimates

	Revised		
	FY20E	FY21E	FY22E
₹/$	70.7	71.4	71.4
$ revenue (m)	1,091	1,211	1,365
$ rev growth (%)	9.0	11.0	12.7
Ebitda margin (%)	14.4	15.4	15.6
Ebit margin (%)	10.8	11.7	12.0
EPS (₹)	38.4	48.7	56.8

Source: Motilal Oswal

Personal Finance

● LIFE INSURANCE

Why life insurance companies are missing women customers

If women start accepting life insurance as an effective savings and protection tool, it can benefit crores of Indian families and the women themselves

NIRJHAR MAJUMDAR

ARE WOMEN ADEQUATELY insured in India? The answer is a clear 'No'. Although 48% of the citizens are women, less than 30% of insurance policies are owned by them. That too, for inadequate sum assured. The risk cover purchased by women is 22% less than what men have purchased on an average. This is not good news for the life insurers and the insurable women of the country. Insurers are not able to reach out to the female population effectively, resulting in lower insurance penetration of the industry. Also, women are not able to see enough value in life insurance.

The role of women in society has undergone a sea change in India. They are better educated now and are earning fairly well. In many situations, they are the primary breadwinners of the family. Unless, women use life insurance as protection and savings tool, they are not likely to meet many of their financial goals.

ILLUSTRATION: SHYAM KUMAR PRASAD

Now, women have to support aged and disabled parents for a pretty long time. If something happens to the earning women, there will be no one to look after their parents. If there are life insurance policies with the provision of providing a lump sum or an annuity to the dependent parents, that can be a great help to the parents in the event of premature death (or disablement) of their earning daughters.

Insurance for protection

Women should be made to understand that they need to buy life insurance not just to provide financial protection to their families, but primarily to make adequate future provision for themselves. How are women managing their finances now? Most of them let the male members of the family handle their finances.

Even our society does not always believe that women should be heavily insured. The result is there for all of us to see. According to an Irdai survey, 277 out of 10,000 males purchased life insurance in 2017-18. The corresponding figure for women is only 138. In other words, life insurance penetration is 50% less in women than in men! And this is happening when the participation of women in the regular workforce is on the rise everywhere in the country.

Endowment policies

Most endowment type policies have borrowing facility to the tune of 90% of the surrender value, while protecting the risk cover. Money back policies are equally useful as these give a portion of the sum assured at pre-determined points of time, while the risk cover remains the same. This is an ideal way to reach the financial goals in time. Many life insurance policies offer critical illness riders at moderate cost. Such riders can help a woman meet expenses associated with medical treatment.

There should be more women-specific products in the country. The risks of a women's life are different from men. Life insurers should launch products that can immediately appeal to women. If women customers start accepting life insurance as an effective savings and protection tool, that can benefit crores of Indian families and the women themselves.

That can benefit insurance industry, too. As on March 31, 2018, 27.8% of the agency force comprised women. That's a big number since total number of insurance agents is more than 2 million now. The women customers can discuss their financial and health matters more freely with the women agents. So, insurers need to train their women agents specially, so that better penetration into the women's segment becomes possible.

The writer is assistant secretary, Kolkata Audit Centre, LIC of India. All views expressed here are personal

● GENERAL INSURANCE

Motor third party premium growth falls

Premium collections growth of general insurers down to 6% in December

GENERAL INSURANCE COMPANIES reported weak growth (6%) in premiums (ex-crop business) in December 2019, down from 11-18% during the past five months. Two key reasons: (1) fire business finally slowed down (down 10% year-on-year (y-o-y) vs 34% growth in YTD FY2020) and (2) further slowdown in motor third-party (TP) (up 3% y-o-y vs 10-38% y-o-y growth in the past five months).

Motor third-party down

The motor segment reported premium growth of 6% y-o-y in December 2019, moderating from the 15-20% growth seen in September-October 2019. The immediate reaction to new traffic penalties on motor TP premiums seems to have completely faded out. Motor TP moderated to 3% y-o-y, all the way down from 40% in September 2019, now translating to 15% in YTD growth. On the other hand, the own damage (OD) business witnessed best monthly performance FYTD, still modest at 11% yoy during the month. Private sector continued to gain market share, registering 10% y-o-y growth while PSUs reported flat numbers.

OD business growth picked up to 11% y-o-y compared to 1% growth in YTD FY2020, the best y-o-y performance in the past 12 months. Most large private players posted weaker-than-industry numbers.

Retail and group health strong

Overall growth in health business moderated to 12% y-o-y, compared to

ILLUSTRATION: SHYAM KUMAR PRASAD

YTD run-rate of 17% mainly due to weakness in government and overseas businesses. Retail health maintained strong momentum at 18% y-o-y growth in December 2019 (13% in YTD 2020) while group health business was up 34% y-o-y (17% in YTD 2020). Market share movement trends continued, with standalone insurers gaining (health premiums up 25% y-o-y) compared to single-digit growth at both PSU and private general insurers.

Fire cools off

Fire insurance premiums declined 10% y-o-y in December 2019 after 10-11 months of strong (25-60%) growth. Large private players including ICICI Lombard (down 40% y-o-y), HDFC Ergo (down 50% y-o-y) and Bajaj (flat y-o-y) posted sharp declines in growth rates, except SBI General, which grew at 30% y-o-y. GIC had increased reinsurance rates (average rise of 2X) in eight occupancies (comprising 35% of industry volumes), which has likely driven higher volumes in the past few months; nevertheless, such high growth was anyway not sustainable. YTD growth remains healthy at 38% y-o-y.

Private players registered 1% y-o-y decline in overall premiums (up 7% ex crop) in December 2019, significantly lower compared to YTD run-rate of 17% (20% ex-crop) led by weakness in most segments. PSU general insurers reported a better 12% y-o-y growth mainly led by crop insurance (3% growth ex-crop). Standalone health insurers continue to post stronger growth rates (up 25% y-o-y) in December 2019).

Edited excerpts from Kotak Institutional Equities Research report