

Liquidity tightness to impinge on earnings

IIB held a conference call to discuss the impact on business in the aftermath of YES' reconstruction and the CoVid-19 related lock-downs. It indicated that ~10-11% of deposits (~Rs220bn) have run-off since 3QFY20. While this has been replaced by other sources, it highlights the bank's tight liquidity situation. This will force IIB to cut-back growth and impact NIMs. IIB is in the process of accelerating stressed-asset recognition and provisions too. Given this and the Covid-19 related impact, we downgrade profits by 6.5/26/14% for FY20/21/22ii respectively. We believe IIB would trade at 1x FY22ii BVPS due to uncertain growth and profitability outlook for now.

Tight liquidity position to impact growth, NIM: Given such a large outflow in deposits, IIB will have to build-up liquidity, offer more attractive TD rate offering versus large banks to attract more deposits and lower risk on their balance sheet as a result of recent asset quality issues in the corporate book. As a result, its NIM will also be impacted. We estimate 13% Cagr in loans over FY19-22ii (18% earlier) and reduce our NII estimates by 8.8/9.3% for FY21/22ii due to this.

Sharply slower earnings-growth ahead: We cut earnings by 6.5%/26%/14% for FY20/21/22ii, respectively, to build in i) slower growth due to tight liquidity and Covid-19 related impact; ii) margin pressures due to higher incremental cost of funds and higher slippages; and iii) loan loss provisions of 165/210bps in FY20/21ii (140/190bps earlier). Given subdued growth and uncertain earnings trajectory, the stock could trade at subdued multiples going forward.

Key takeaways from the call: IIB's deposits declined ~10-11% QoQ largely due to outflow of government and other wholesale deposits. The outflow has stabilised thereafter. In 4QFY20, credit costs will increase to ~210bps, as certain exposures are downgraded and PCR is increased to 60%. Management struck a positive note on its ability to manage the post-lockdown fall-out. However, it also cautioned that the environment is unprecedented and outcomes are uncertain.

CMP	Rs413
12-mth TP (Rs)	650 (57%)
Market cap (US\$m)	3,789
Bloomberg	IIB IN
Sector	Banking & Fin

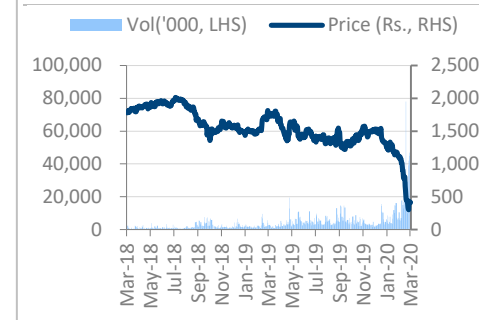
Shareholding pattern (%)

Promoters	16.8
Pledged (as % of promoter share)	26.3
FII	52.1
DII	17.2
52Wk High/Low (Rs)	1824/236
Shares o/s (m)	694
Daily volume (US\$ m)	131.6
Dividend yield FY21ii (%)	2.4
Free float (%)	83.0

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	-62.6	-73.0	-76.8
Absolute (US\$)	-64.2	-74.5	-78.6
Rel. to Sensex	-36.8	-41.4	-50.3
Cagr (%)	3 yrs	5 yrs	
EPS	15.3	17.1	

Stock performance



Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY18A	FY19A	FY20ii	FY21ii	FY22ii
Pre prov. operating inc. (Rs bn)	66.6	93.3	106.9	95.5	112.5
Pre-exceptional PAT (Rs bn)	36.1	40.8	51.2	33.5	65.1
Reported PAT (Rs bn)	36.1	40.8	51.2	33.5	65.1
Pre-exceptional EPS (Rs)	60.1	59.0	73.6	47.4	92.0
Growth (%)	25.3	(1.8)	24.9	(35.7)	94.3
IIFL vs consensus (%)			(7.4)	NM	NM
PER (x)	6.9	7.0	5.6	8.7	4.5
Book value (Rs)	391	437	509	567	649
PB (x)	1.1	0.9	0.8	0.7	0.6
CAR (%)	15.0	15.4	15.0	15.2	14.9
ROA (%)	1.8	1.6	1.7	1.1	1.8
ROE (%)	16.5	15.2	15.6	8.9	15.1

Source: Company, IIFL Research. Priced as on 30 March 2020

Earnings revision summary

Figure 1: Earnings-revision summary

	FY20ii	FY21ii	FY22ii
Net profit (Rs m) - Old	54,797	45,382	75,583
Net profit (Rs m) - New	51,241	33,516	65,108
% change	(6.5)	(26.1)	(13.9)
EPS (Rs.) - Old	78.7	64.1	106.8
EPS (Rs.) - New	73.6	47.4	92.0
% change	(6.5)	(26.1)	(13.9)
RoE (%) - Old	16.6	11.7	16.8
RoE (%) - New	15.6	8.9	15.1
Change in bps	(99)	(285)	(163)

Source: Company, IIFL Research

Figure 2: Key earnings drivers

(%)	FY18	FY19	FY20ii	FY21ii	FY22ii
Loan growth	28.2	31.2	14.6	6.8	18.4
Net interest margin	4.0	4.4	4.4	4.2	4.4
Net int income growth	23.7	38.7	16.9	3.2	18.8
Core fee income growth	13.3	22.5	14.2	8.8	15.0
Non-int inc as % of total	38.8	36.3	36.6	35.9	35.3
Operating costs growth	16.9	24.9	21.2	18.3	17.7
Cost/income ratio	45.7	42.8	44.2	51.2	51.1
Gross NPLs as % of loans	1.2	2.1	3.1	3.9	3.2
Total prov as % of loans	0.8	1.8	1.7	2.2	1.0
Tax rate	34.2	33.9	27.7	25.2	25.2
Net NPL % of net worth	3.2	7.4	7.4	8.0	6.9

Source: Company, IIFL Research

Figure 3: RoE decomposition

(%)	FY18	FY19	FY20ii	FY21ii	FY22ii
Interest income	8.6	9.6	9.5	9.3	9.4
Interest expense	4.9	5.5	5.4	5.4	5.3
Net interest income	3.7	4.1	4.1	3.9	4.1
Fee Income	2.2	2.1	2.1	2.1	2.1
Non-interest income	2.4	2.3	2.4	2.2	2.3
Total operating income	6.1	6.5	6.5	6.1	6.4
Total operating expenses	2.8	2.8	2.9	3.1	3.3
Pre provision operating profit	3.3	3.7	3.6	3.0	3.1
Provisions for loan losses	0.5	1.1	1.1	1.5	0.6
Other provisions	0.1	0.1	0.1	0.1	0.1
Profit before tax	2.7	2.4	2.4	1.4	2.4
Taxes	0.9	0.8	0.7	0.4	0.6
RoA	1.8	1.6	1.7	1.1	1.8
Leverage	9.2	9.4	9.0	8.4	8.4
RoE	16.5	15.2	15.6	8.9	15.1

Source: Company, IIFL Research

Key takeaways from the conference call

Business update

- **Deposits:** Deposits declined 10-11% QoQ, with ~67% of this decline on account of government-related accounts. The balance reduction was mainly in the corporate segment, with retail deposits remaining largely stable QoQ. Retail deposits are expected to grow ~18-20% YoY in 4QFY20.
- **Borrowings:** Shortfall in deposits was offset by refinance, foreign exchange borrowings, CDs, term borrowings, repo of excess securities and call money. Refinance and foreign currency borrowings made up for 50% of the shortfall, while CDs accounted for 15%. The bank also conducted sold IBPCs, which accounted for a further 5-7%, with the balance coming from repo operations.
- **Credit costs:** IIB will classify certain exposures as GNPLs in 4QFY20 and make higher provisions, as it aims to reach the 60% PCR target. This would lead to credit costs (on total provisions) of up to 210bps in the quarter.
- **Loan growth:** While growth in loans has been at ~20-22% thus far, it would flatten out over the next 2 quarters, post which loan growth would stabilise at ~8-12%. This would arise due to a higher focus on retail loans and reduction of chunky exposures in the corporate segment.
- **Margin of safety:** The bank's PPOP (as a % of average assets) has ranged over 3.1-3.7% during FY15-19, while provisions ranged over 0.4-1.3%, indicating an adequate margin of safety to absorb an increase in provisions.
- **Promoter stake:** Promoters have applied to the RBI to increase their stake up to 26% from 14.38% as of 3QFY20; this is currently pending RBI approval.

Segment-wise commentary

- **Business Banking – 6% of loans:** Impact on asset quality should be limited, given that <8% of the portfolio is in impacted sectors like retail, tourism and travel.
- **Loan Against Property (LAP) – 5% of loans:** The portfolio is well secured and granular and, of the total portfolio, <5% is in impacted sectors like retail, tourism and travel.
- **Commercial Vehicles (CVs) – 12% of loans:** Over the last decade, GNPLs have been at ~1.0%, with credit cost at ~70bps. Given the slowdown, credit cost in FY20ii will likely touch 80bps; however, this segment tends to bounce back quickly when the economy recovers.
- **Passenger Vehicles & Two Wheelers – 6% of loans:** Negligible impact expected on account of limited Covid impact in semi-urban and rural areas thus far.
- **Gems and jewellery – 3% of loans:** This segment is geographically diversified and also well collateralised and, hence, management expects negligible impact on the portfolio from Covid-19. The portfolio currently has nil SMA1/2 accounts and management does not expect any significant portfolio deterioration.
- **MFI – 10% of loans:** Of the total portfolio, ~70% is in rural areas where Covid cases have not been heard of and hence asset quality implications should be minimal. Loan officers are conducting virtual meetings with 0.8-0.9mn borrowers each day.
- **Cards & personal loans – 5% of loans:** IIB had extended facilities to borrowers with a maximum of 1 personal loan or credit card at the time of origination and, hence, delinquencies should not increase to a large extent, though some elevation is likely.
- **Real Estate Developers – 4% of loans:** Projects will likely face delays in completion on account of the lockdown and migration of labour; however, should get completed eventually.
- **NBFCs – 3% of loans:** IIB does not expect an increase in asset quality stress due to its strategy to focus on better rated NBFCs; however, there could be some uptick in stress if the disruption exceeds 3 months.

Background: IIB is the sixth-largest private-sector bank in India. The key customer segments of the bank include large corporates, SME and retail including commercial vehicle financing. Until FY08, IIB struggled to establish itself as a significant player in all spheres of the commercial banking business. A new management team, then headed by Romesh Sobti, the then CEO of the Royal Bank of Scotland, was inducted in February 2008. The new management undertook organisational restructuring to create strong client- and product-based business units. Since then, the bank reported a robust Cagr of 28% and 36% in loans and earnings, respectively over FY09-19. The company had a network of 1,665 branches and 2,545 ATMs as of March 2019.

Management

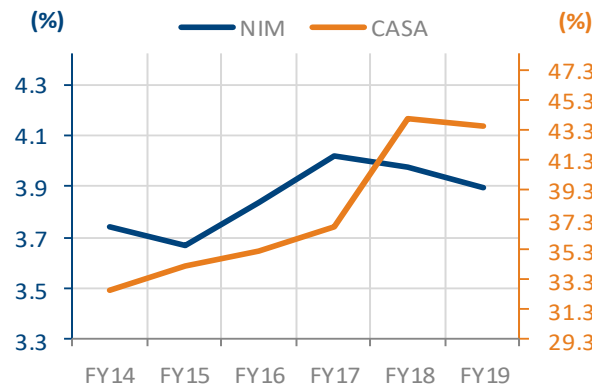
Name	Designation
R. Seshasayee	Chairman
Sumant Kathpalia	MD & CEO
Paul Abraham	COO

Key earnings drivers

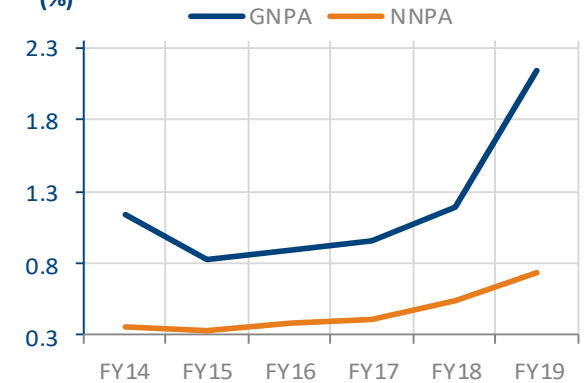
Y/e 31 Mar, Parent	FY15	FY16	FY17	FY18	FY19
Loan Growth (%)	24.8	28.5	27.9	28.2	31.2
Net Interest Margin (%)	3.7	3.8	4.0	4.0	4.4
Net int income growth (%)	18.3	32.1	34.2	23.7	38.7
Core fee income growth (%)	41.1	27.2	24.3	13.3	22.5
Non-int inc/total inc (%)	42.7	42.2	40.8	38.8	36.3
Operating costs growth (%)	31.3	27.9	30.3	16.9	24.9
Cost/income ratio (%)	48.1	47.0	46.7	45.7	42.8
Gross NPLs ratio (%)	0.8	0.9	0.9	1.2	2.1
Total Prov/avg loans (%)	0.7	0.8	1.1	0.8	1.8

Source: Company data, IIFL Research

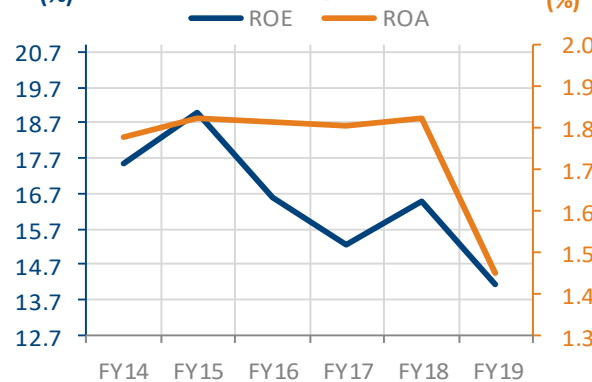
Trend in CASA and margins



Asset quality trends



Profitability trends



PB Chart



Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY18A	FY19A	FY20ii	FY21ii	FY22ii
Net interest income	75.0	104.0	121.5	125.4	148.9
Fee Income	43.2	53.0	60.5	65.8	75.7
Portfolio gains	3.6	5.8	9.0	3.9	5.1
Others	0.6	0.4	0.5	0.5	0.6
Non-interest income	47.5	59.2	70.0	70.2	81.4
Total operating income	122.5	163.2	191.6	195.6	230.3
Total operating expenses	55.9	69.8	84.7	100.1	117.8
Pre provision operating profit	66.6	93.3	106.9	95.5	112.5
Provisions for loan losses	10.5	29.7	35.4	50.1	24.8
Other provisions	1.2	1.9	0.6	0.5	0.7
Profit before tax	54.8	61.7	70.9	44.8	87.0
Taxes	18.7	20.9	19.6	11.3	21.9
Net profit-pre exceptional	36.1	40.8	51.2	33.5	65.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.1	40.8	51.2	33.5	65.1

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY18A	FY19A	FY20ii	FY21ii	FY22ii
Net loans & advances	1,449.5	1,901.1	2,178.3	2,325.8	2,754.8
Placements to other banks	22.5	66.6	73.3	77.0	84.7
Cash & equivalents	109.6	99.6	79.3	89.4	120.6
Other interest-earning assets	500.8	592.7	522.1	588.2	699.3
Total interest-earning assets	2,082.5	2,660.0	2,852.9	3,080.4	3,659.3
Fixed assets	13.4	17.1	20.0	23.0	26.5
Other assets	120.4	159.5	180.2	215.3	227.3
Total assets	2,216.3	2,836.6	3,053.1	3,318.7	3,913.1
Customer deposits	1,516.4	1,947.2	1,849.8	2,192.0	2,674.2
Other interest-bearing liabilities	382.9	481.3	721.9	577.5	589.7
Total interest-bearing liabilities	1,899.3	2,428.4	2,571.7	2,769.6	3,263.9
Non-interest-bearing liabilities	78.6	102.4	123.9	144.9	186.9
Total liabilities	1,977.8	2,530.8	2,695.6	2,914.5	3,450.9
Total Shareholder's equity	238.4	305.8	357.5	404.2	462.2
Total liabilities & equity	2,216.3	2,836.6	3,053.1	3,318.7	3,913.1

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY18A	FY19A	FY20ii	FY21ii	FY22ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	95.6	97.6	117.8	106.1	103.0
Loan Growth	28.2	31.2	14.6	6.8	18.4
Growth in Deposits	19.8	28.4	(5.0)	18.5	22.0
Growth in Total Assets (%)	24.1	28.0	7.6	8.7	17.9
Profitability Ratios					
Net Interest Margin	4.0	4.4	4.4	4.2	4.4
ROA	1.8	1.6	1.7	1.1	1.8
ROE	16.5	15.2	15.6	8.9	15.1
Non-Int Income as % of Total Income	38.8	36.3	36.6	35.9	35.3
Net Profit Growth	25.7	13.2	25.6	(34.6)	94.3
FDEPS Growth	25.3	(1.8)	24.9	(35.7)	94.3
Efficiency Ratios (%)					
Cost to Income Ratio	45.7	42.8	44.2	51.2	51.1
Salaries as % of Non-Interest costs	31.8	35.7	35.3	35.0	34.8

Ratio analysis - II

Y/e 31 Mar, Parent	FY18A	FY19A	FY20ii	FY21ii	FY22ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	1.2	2.1	3.1	3.9	3.2
NPL coverage ratio	56.3	43.0	60.7	64.7	63.9
Total prov charges as % avg loans	0.8	1.8	1.7	2.2	1.0
Net NPLs as % of net loans	0.5	1.2	1.2	1.4	1.2
Capital Adequacy Ratios (%)					
Total CAR	15.0	15.4	15.0	15.2	14.9
Tier I capital ratio	14.6	14.9	14.6	14.9	14.6

Source: Company data, IIFL Research

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Key to our recommendation structure

BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

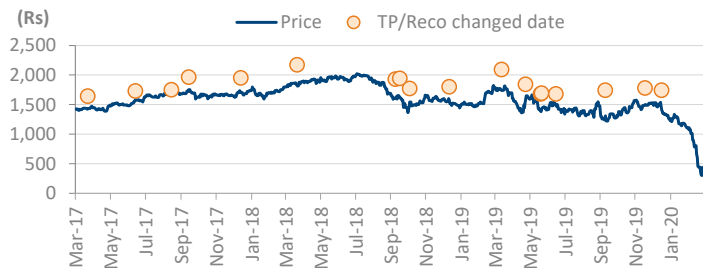
SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

Distribution of Ratings: Out of 230 stocks rated in the IIFL coverage universe, 103 have BUY ratings, 11 have SELL ratings, 86 have ADD ratings and 29 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

Indusind Bank: 3 year price and rating history


Date	Close price (Rs)	Target price (Rs)	Rating	Date	Close price (Rs)	Target price (Rs)	Rating
15 Jan 2020	1482	1740	BUY	20 Apr 2018	1834	2170	BUY
17 Dec 2019	1493	1780	BUY	12 Jan 2018	1700	1950	BUY
09 Oct 2019	1242	1740	BUY	13 Oct 2017	1743	1960	BUY
15 Jul 2019	1510	1680	BUY	13 Sep 2017	1742	1750	BUY
20 Jun 2019	1381	1690	BUY	12 Jul 2017	1561	1730	BUY
18 Jun 2019	1400	1680	BUY	20 Apr 2017	1422	1640	BUY
23 May 2019	1519	1840	BUY				
11 Apr 2019	1767	2090	BUY				
10 Jan 2019	1602	1800	BUY				
02 Nov 2018	1464	1770	BUY				
16 Oct 2018	1627	1940	BUY				
08 Oct 2018	1607	1930	BUY				