

IndusInd Bank (IIB)

BUY
Restructured assets at 2%; Asset quality improved QoQ

Summary

IndusInd's asset quality improved with GNPA at 2.67% vs 2.93% QoQ (2.45% YoY) as recoveries/upgrades were higher; while slippage ratio (annualized) increased to 7.2% vs 5.0% QoQ. Restructured book stood at 2% (vs earlier guided at 1.8%) which comprises of 65% Vehicle, 17% non-vehicle and rest from corporate book. Bank reported collection efficiency at 98% for March quarter vs 97% QoQ; however due to lockdown in specific states it declined by 1% in April month. Deposit reported strong growth of 27% YoY while advances grew by 3%YoY. NII grew by 9% YoY (up 4% QoQ) while NIMs remain stable QoQ. Non-interest income remains flat YoY (up 4% QoQ). PAT grew by 190% YoY due to decline in provisions (down 24% YoY). Bank maintains overall provision of Rs16bn against second wave of Covid impact and 3.33% of loan related provision. We adjusted the infusion of equity through warrants conversion and re-iterate 'BUY' rating with a new TP of Rs.1,140 (earlier Rs.1050) based on P/BV of 1.7x (earlier 1.6x) FY23E as liability risks have declined and focus shifted back on credit growth.

Key Highlights and Investment Rationale

- Deposit and Credit growth improved sequentially:** Deposits grew by 27% YoY (10% YoY Q3FY21) led by 24% YoY growth in term deposits and 31% YoY growth in CASA deposits. Liability franchise concern has largely abated which is the key positive. Cost of deposit seen reduction in Q4FY21 and reduced by 102bps YoY and 31bps QoQ. Credit growth improved to 3% YoY (up 3% QoQ) due to improvement in corporate book growth (flat YoY vs down 7% YoY Q3FY21) with fresh lending. Retail book now stands at 57% of the total loans with addition of Business Banking and MFI portfolio to it.
- Asset quality improved; 2.0% restructuring book:** Bank asset quality improved with GNPA at 2.67% vs 2.93% QoQ; NNPA remain stable at 0.7% with decline in PCR to 75% vs 77% QoQ. Bank restructuring book stands at 2.0% of book (earlier guided for 1.8%) however; within that major portion is from corporate banking (57%), vehicle is 30% and non-vehicle retail is 13%. Bank maintains 3.31% of loan related provision of total book and covid provision of Rs32.61bn which provided cushion on P&L impact.
- NIMs stable sequentially; collection efficiency at 98%:** NIMs remain stable at 4.1% although cost of funds declined. Yield on advances improved QoQ however; interest reversal impacted the margins during the quarter. Bank reported Collection efficiency at 98% vs 97% for December quarter while Collection efficiency declined by 1% in April month due to lockdown in several states. Impact of second wave needs to be watch our for MFI portfolio.
- Outlook:** Continuation of business strategy under the new CEO has resulted in navigating through asset quality concerns better. Also, with higher liquidity (LCR at 140%) and bigger concern on deposits growth which is the key ingredient for banking industry have largely abated.

TP	Rs1,140
CMP	Rs935
Potential upside / downside	22%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	80.5	96.7
Consensus	72.3	91.8
% difference	11.3	5.3

Shareholding Pattern (%)

Promoters	16.6
FII	50.9
DII	18.1
Public	14.5

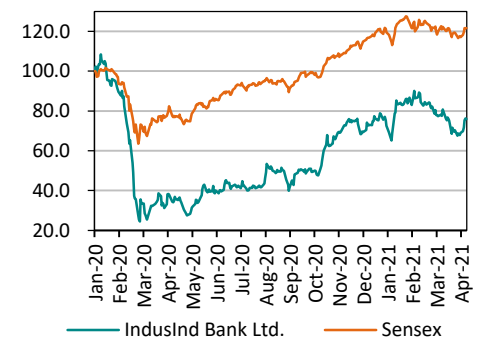
Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.9)	10.5	99.8
Rel to Sensex	(0.2)	5.1	55.1

Key Stock Data

Bloomberg / Reuters	IIB IN / INBK.BO
Sector	Banking
Shares o/s (mn)	773
Market cap. (Rs mn)	723,064
Market cap. (US\$ mn)	10,440
3-m daily avg Trd value (Rs mn)	2,823.6
52-week high / low	Rs1,119/330
Sensex / Nifty	48,782 / 14,631

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	88,462	120,587	135,280	145,546	157,897
Net Profit	33,010	44,179	28,364	62,294	74,801
EPS (Rs)	54.8	63.7	36.7	80.5	96.7
ABV (Rs)	406.6	474.3	542.5	621.3	712.3
PER (x)	17.1	14.7	25.5	11.6	9.7
P/ABV (x)	2.3	2.0	1.7	1.5	1.3
ROE (%)	13.1	14.4	7.3	13.4	14.0
ROA (%)	1.3	1.5	0.8	1.7	1.9
GNPA (%)	2.1	2.5	2.7	2.8	2.9
NNPA (%)	1.2	0.9	0.7	0.7	0.8
CAR (%)	14.2	15.0	17.4	21.2	22.1

Source: Company; IDBI Capital Research

Conference Call Highlights

■ Vehicle segment-

- Strong disbursement grew 30% YoY and 8% QoQ.
- CV bounce back during Q4 and disbursement was up 54% YoY and 44% QoQ and above pre-covid level.
- Disbursement- UV- 29% YoY, tractor- 44% YoY and CE 2x YoY.
- Cautious on 3W due low passenger trade and disbursement were much lower than historical rate.
- Currently disbursements are at pre-covid level will start reflecting in loan book from next quarter.
- 25% of GNPA customers are at less than 60dpd.
- Restructuring invoked for Rs24.46bn portfolio.

■ MFI segment-

- Incremental slippage Rs2.98bn (1.2% of loans); pro-forma slippages was Rs4.72bn (2% of loans).
- Loan book originated post lock down constitutes 81% of book and collection efficiency stood at 99%.
- Not able to disburse and do collection as some centers are closed but other areas continue to do business.
- Top 3 states are Bihar, Orissa and West Bengal constitutes 32%-33% of book.

■ Other retail Assets-

- Credit cards resolutions on rollover rates are better than pre-covid levels.
- Credit cards spend were 5% of market share against credit card market share of 2.4%.
- Affordable housing disbursement grew 10% QoQ and loan book grew to Rs18bn (36% YoY; 8% QoQ).
- Further would be scaling up gold loans in other branches.

■ Corporate banking-

- Sold down exposure amounting to Rs35bn during Q4FY21 and reduce exposure by Rs90bn.
- Corporate saw technical slippages and within that some are of them upgraded.
- During Q3FY21, Restructuring of Rs22bn was invoked and under implementation, however, reduces to Rs6.54bn till Mar'21.

■ **Other highlights-**

- Cautious on unsecured loans and registered a growth of 3% QoQ and YoY.
- Collection efficiency improved to 98% from 97% QoQ. Within that secured have higher collection efficiency and unsecured have lower.
- Cautious on unsecured loans (would remain 5% of book) while provided 100% on same incl. MFI.
- Restructured book were Rs37.77bn (1.8% of loan book), however, few corporate opted out and some MSME opting restructuring on cautious basis. Out of 1.8%, vehicles are 65%, Non vehicle- 17% and balance from corporate banking.
- Retail fees back to pre-covid level.
- Expect to add 250 branches in FY22.
- Maintain surplus liquidity of Rs400bn and LCR of 145%.
- SMA 2 book were 31bps vs 39bps in Dec'20.
- Cost of deposit reducing QoQ and would do further rate cut.
- **Incremental Slippages-** VF had pro-forma of Rs5.02bn and incremental slippages of Rs6.87bn, Secured business- Rs2.26bn (from BB and LAP portfolio), unsecured retail- Rs3.83bn (Card, PL, and BL).
- A & above rated book improve by 500bps from FY20, BB book decline by 5.8%-6%, BBB exposure reduce by 13%, top 20 exposure (funded and non-funded) decline by 16% and duration of book (below 3 years) decline by 24%.
- Disbursement to large corporate book had 81% of disbursement for A & above and during Q3 was 95%.

Exhibit 1: Quarterly Snapshot

(Rs mn)

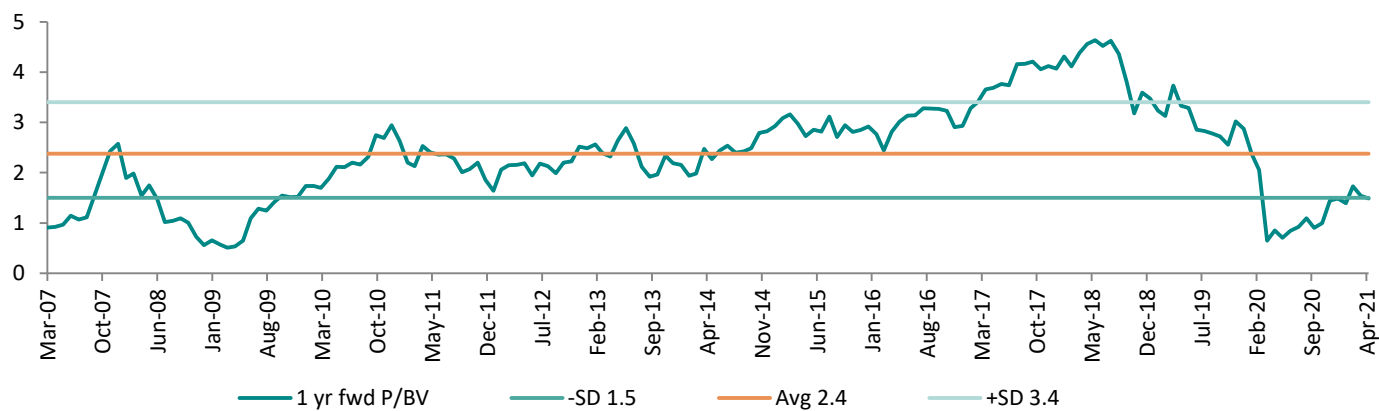
Year-end: March	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Interest Income	74,194	73,866	72,415	0.4	2.5
Interest Expenses	38,847	41,554	38,354	(6.5)	1.3
Net Interest Income	35,347	32,312	34,061	9.4	3.8
NIM (%)	4.1	4.3	4.1	(12 bps)	1 bps
Non-Interest Income	17,801	17,720	17,055	0.5	4.4
Operating Income	53,148	50,032	51,116	6.2	4.0
Staff Cost	5,951	4,957	5,427	20.1	9.7
Other Op Exp	16,581	16,713	15,956	(0.8)	3.9
Total Operating Expenses	22,532	21,670	21,383	4.0	5.4
<i>Cost to Income (%)</i>	<i>42.4</i>	<i>43.3</i>	<i>41.8</i>	<i>(92 bps)</i>	<i>56 bps</i>
Operating Profit	30,616	28,362	29,733	7.9	3.0
Provisions	18,657	24,403	18,535	(23.5)	0.7
PBT	11,959	3,959	11,198	202.1	6.8
Tax	3199	940	2,670	240.3	19.8
<i>-effective tax rate</i>	<i>26.7</i>	<i>23.7</i>	<i>23.8</i>	<i>301 bps</i>	<i>291 bps</i>
PAT	8,760	3,019	8,528	190.2	2.7
EPS (Rs)	11.3	4.4	11.3	697 bps	6 bps
BV (Rs)	560.6	490.6	526.5	7004 bps	3413 bps
Deposits	2,562,050	2,020,398	2,391,350	26.8	7.1
Advances	2,125,954	2,067,832	2,071,280	2.8	2.6

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	3.5	4.1	4.0	3.9	4.1
Fees	2.2	2.2	1.6	1.5	1.6
Other Income	0.0	0.2	0.3	0.1	0.1
Net Revenue	5.8	6.5	6.0	5.5	5.7
Op.Exp	2.6	2.8	2.5	2.4	2.5
Op.Profit	3.2	3.7	3.5	3.1	3.3
Provisions	1.2	1.6	2.4	0.9	0.7
PBT	2.0	2.1	1.1	2.3	2.6
Tax	0.7	0.6	0.3	0.6	0.6
PAT	1.3	1.5	0.8	1.7	1.9
Leverage (x)	9.9	9.5	8.6	8.0	7.3
ROE	13.1	14.4	7.3	13.4	14.0

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	120,587	135,280	145,546	157,897
Fee Income	64,073	54,074	55,806	61,387
Treasury Gains	5,440	11,511	2,189	2,413
Operating Income	190,100	200,865	203,541	221,697
Operating expenses	(82,373)	(83,598)	(87,786)	(95,301)
Employee expenses	(22,085)	(22,135)	(25,283)	(26,547)
Other expenses	(60,288)	(61,463)	(62,503)	(68,753)
Pre-Provision Profit	107,727	117,267	115,755	126,396
Provision	(46,521)	(79,425)	(32,508)	(26,435)
Loan loss Provisions	(36,353)	(67,835)	(24,555)	(24,555)
Other Provisions	(10,168)	(11,590)	(7,953)	(1,880)
PBT	61,206	37,842	83,247	99,961
Taxes	(17,027)	(9,478)	(20,953)	(25,160)
Net profit	44,179	28,364	62,294	74,801

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	6,935	7,734	7,734	7,734
Reserves	340,130	425,866	488,160	562,961
Networth	347,065	433,600	495,894	570,695
Deposits	2,020,398	2,562,050	2,732,126	2,919,210
Borrowings	607,535	513,228	431,614	437,942
Total Liab. & Equity	3,070,575	3,629,728	3,765,333	4,009,341
Cash & Bank with RBI	160,036	563,272	374,168	257,240
Investments	599,799	696,947	762,159	846,666
Advances	2,067,832	2,125,954	2,338,549	2,572,404
Other Assets	224,707	225,461	270,553	311,136
Total assets	3,070,575	3,629,728	3,765,333	4,009,341

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
Growth				
Deposits	3.7	26.8	6.6	6.8
Advances	10.9	2.8	10.0	10.0
NII	36.3	12.2	7.6	8.5
Pre-Provision Profit	33.2	8.9	(1.3)	9.2
Net Profit	33.8	(35.8)	119.6	20.1
Spreads				
Yield on Assets	11.1	9.7	9.5	9.8
Cost of Funds	6.4	5.2	5.2	5.4
NIM	4.4	4.4	4.2	4.4
CASA	40.4	43.0	42.0	42.0
Operating Efficiency				
Cost-to-Income	43.3	41.6	43.1	43.0
Cost-to-Assets	2.8	2.5	2.4	2.5
Asset Quality				
GNPA	2.5	2.7	2.8	2.9
NNPA	0.9	0.7	0.7	0.8
Provision Coverage	63.3	74.5	75.6	73.2
Credit Cost	2.4	3.8	1.5	1.1
Capital Adequacy				
CAR	15.0	17.4	21.2	22.1
Tier I	14.6	16.8	20.8	21.8
Valuation				
EPS	63.7	36.7	80.5	96.7
ABV	474.3	542.5	621.3	712.3
P/E	14.7	25.5	11.6	9.7
P/ABV	2.0	1.7	1.5	1.3
ROE	14.4	7.3	13.4	14.0
ROA	1.5	0.8	1.7	1.9
RORWA	1.9	1.1	2.3	2.7

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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