

IndusInd Bank's (IndusInd) Q4FY21 results were better than expectations in terms of lower than expected credit cost leading to higher than expected PAT. Bank has done an impressive effort of reducing credit-to-deposit ratio from 102% in FY20 to 83% in FY21 (in just one year!). **Since Q4FY20, management has grown its deposits by INR 54,178cr whereas it prudently grew its loan book by only INR 5,812cr.** This enforces confidence that the bank will be able to participate healthily during growth phase (As its loan book predominately consists of high growth products). Over and above that, bank has now restricted its sell down in corporate book and even this book will now start participating in growth going forward. Overall Asset Quality has also improved marginally. All of the above factors bode well with our thesis that corporate stress has peaked for the bank, incremental growth will be ROA accretive and credit cost cycle has peaked. Only risk to our thesis remains the second COVID-19 wave led incremental macro-environment stress. We maintain our TACTICAL BUY rating on the stock with TP of INR 1,393.

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CMP: INR 935

Rating: BUY

Target price: INR 1,393

Upside: 49%

Moderation in cost led to healthy beat on PAT

The bank delivered pre-provisioning operating profit (PPoP) of INR 3,062cr, up +8% YoY, which is in-line with our estimates. This was achieved by 6% YoY growth in Net Revenue at INR 5,315cr and 92bps YoY improvement in cost-to-income ratio to 42.4%. However, Bank reported credit cost (calc.) of 3.5% vs our estimate of 3.8%, leading to bank reporting PAT of INR 8.8bn, higher than our estimate of 7.7bn. We believe that bank will continue to report robust profitability in the coming quarters on the back of strong loan book growth and lower credit cost.

Impressive Asset Quality improvement with no major addition from MFI book

Bank reported GNPA of 2.7% vs 2.9% Proforma GNPA in Q3FY21. Bank reported normal slippages of INR 1,930cr (INR 336cr from Corporate and INR 1,594cr from Retail+ MFI). Bank also reported technical slippages of INR 1,899cr from corporate out of which INR 1,602cr is upgraded as well and balance will be upgraded by Q1FY22. Within retail, major increase in GNPA is witnessed from 2w & 3w portfolio, Business Banking/LAP and other unsecured book. **However, MFI book continued to report GNPA of 1.5%, which is very impressive.** Bank's PCR ratio stands at 75% vs 63% in Q4FY20.

All segments of loan book to participate in Loan Book growth going forward.

As a prudent policy, management has been de-growing its loan book since last few quarter owing to asset quality concerns. Over and above scheduled repayments, bank is also selling down its corporate book. However, management guided that the book is at a very comfortable position now with major sell downs complete and book will henceforth participate in growth along with Retail & Micro Finance book. In Q4FY21, Retail/Microfinance/Corporate book grew by 4%/ 9%/ (0.3%) YoY respectively.

Outlook and valuation

At CMP, the stock is trading at 1.3x FY23E ABV. The bank is poised to re-commence healthily growing its loan book, given its current comfort on Capital/liquidity/buffer provisioning and expected improvement in return ratios. Based on 2.0x FY23E ABV, we arrive at a target price of INR 1,393/share, implying 49% upside.

Bloomberg:	IIB:IN
52-week range (INR):	1120/330
Share in issue (crore):	77
M-cap (INR crore):	72,341
Promoter holding (%)	16

Year to March (INR cr)	FY19	FY20	FY21E	FY22E	FY23E
Net revenue	14,493	19,010	20,086	22,040	24,971
PPoP	8,088	10,773	11,727	12,816	14,612
PAT	3,301	4,418	2,836	4,855	7,221
EPS	54.8	63.7	36.7	62.8	93.4
Adjusted book value	411.1	466.9	543.2	603.5	695.4
Return on Assets (%)	1.4	1.6	0.9	1.4	1.8
Return on Equity (%)	13.1	14.4	7.3	10.6	14.1
Price-to-Earnings (x)	17.1	14.7	25.5	14.9	10.0
Price-to-adjusted BV (x)	2.3	2.0	1.7	1.5	1.3

Date: May 01, 2021

Profit & Loss Statement (INR crs.)	Q4FY21	Q4FY20	Change (%)	Q3FY21	Change (%)	FY21	FY20	Change (%)
Interest Earned	7,419	7,387	0%	7,242	2%	29,000	28,783	1%
Interest Expended	3,885	4,155	-7%	3,835	1%	15,472	16,724	-7%
Net Interest Income	3,535	3,231	9%	3,406	4%	13,528	12,059	12%
Other Income	1,780	1,772	0%	1,705	4%	6,559	6,951	-6%
Net Revenue	5,315	5,003	6%	5,112	4%	20,086	19,010	6%
Operating Expense	2,253	2,167	4%	2,138	5%	8,360	8,237	1%
Employee Exp	595	496	20%	543	10%	2,213	2,209	0%
Other Expenditure	1,658	1,671	-1%	1,596	4%	6,146	6,029	2%
Operating Profit (PPOP)	3,062	2,836	8%	2,973	3%	11,727	10,773	9%
Provisions and Contingencies	1,866	2,440	-24%	1,854	1%	7,943	4,652	71%
Profit Before Tax	1,196	396	202%	1,120	7%	3,784	6,121	-38%
Taxes	320	94	240%	267	20%	948	1,703	-44%
Profit After Tax	876	302	190%	853	3%	2,836	4,418	-36%
No. of Equity Shares (In Crs)	77	69	12%	76	2%	77.3	69.4	12%
EPS (INR)	11.3	4.4	160%	11.3	1%	36.7	63.7	-42%

Ratios	Q4FY21	Q4FY20	Change (%)	Q3FY21	Change (%)	FY21	FY20	Change (%)
Cost/Income Ratio	42.4%	43.3%	-92 bps	41.8%	56 bps	41.6%	43.3%	-171 bps
Yield on Interest Earning Assets	8.7%	9.8%	-110 bps	8.9%	-19 bps	9.3%	10.6%	-126 bps
Cost of Funds	4.5%	5.5%	-98 bps	4.7%	-20 bps	5.4%	6.6%	-120 bps
NIM	4.1%	4.3%	-12 bps	4.1%	1 bps	4.4%	4.4%	-9 bps
ROA	1.0%	0.4%	61 bps	1.1%	-4 bps	0.9%	1.5%	-64 bps

Balance Sheet	Q4FY21	Q4FY20	Change (%)	Q3FY21	Change (%)	FY21	FY20	Change (%)
Advances	2,12,595	2,06,783	3%	2,07,128	3%	2,12,595	2,06,783	3%
Deposits	2,56,205	2,02,027	27%	2,39,135	7%	2,56,205	2,02,027	27%
CD Ratio (%)	83%	102%	-1,938bps	87%	-364bps	83%	102%	-1,938bps
CASA	1,06,791	81,557	31%	96,646	10%	1,06,791	81,557	31%
CASA Ratio	41.7%	40.4%	131bps	40.4%	127bps	41.7%	40.4%	131bps

Asset Quality	Q4FY21	Q4FY20	Change (%)	Q3FY21	Change (%)	FY21	FY20	Change (%)
Gross NPA	5,795	5,147	13%	3,651	59%	5,795	5,147	13%
Net NPA	1,477	1,887	-22%	464	218%	1,477	1,887	-22%
Gross NPA (%)	2.7	2.5	22bps	1.7	93bps	2.7	2.5	22bps
Net NPA (%)	0.7	0.9	-22bps	0.2	47bps	0.7	0.9	-22bps
PCR (Reported)	75%	63%	1,200bps	87%	-1,228bps	75%	63%	1,200bps

Exhibit 1: Currently operating at 30 qtr low credit-to-deposit ratio

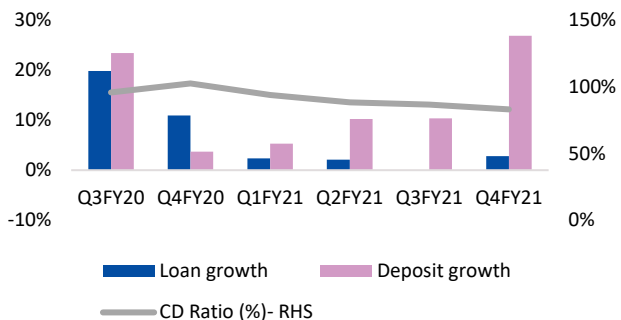


Exhibit 2: Healthy improvement in cost-to-income ratio

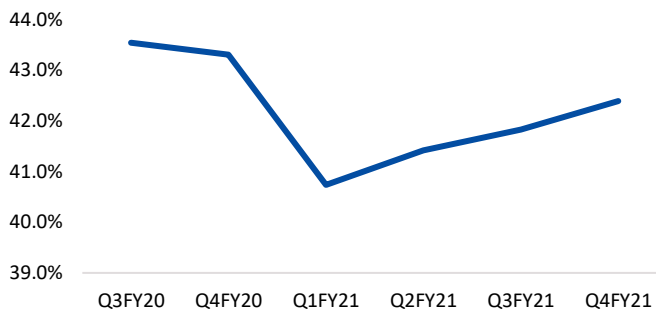


Exhibit 3: Aims to maintain NIM between 4.15%-4.25% going forward

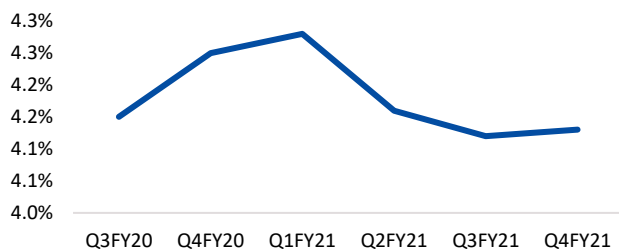


Exhibit 4: Operating at an optimum loan book mix

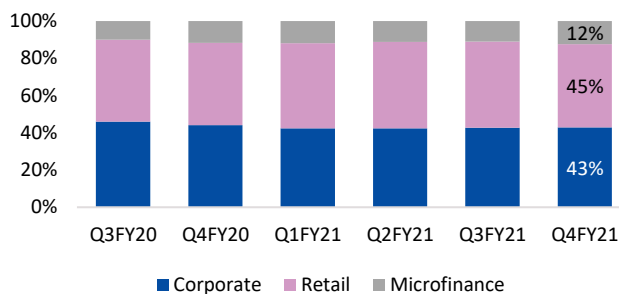
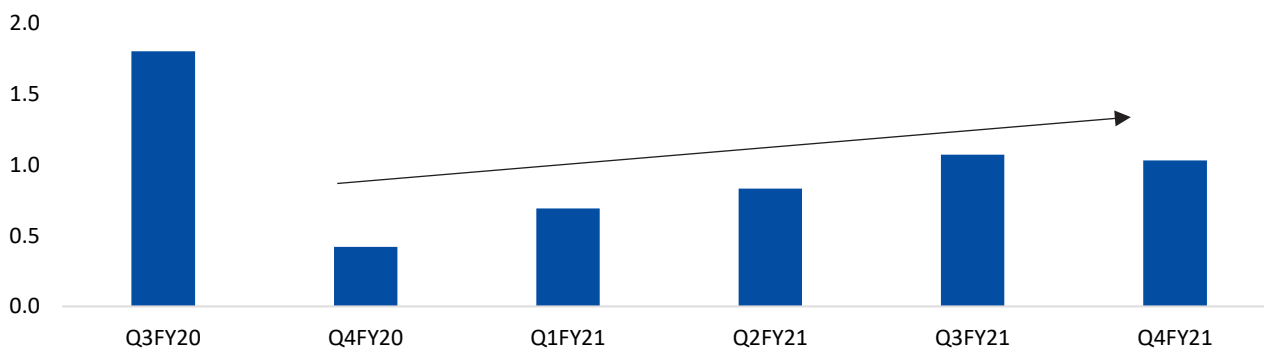


Exhibit 5: Healthy ROA performance post sluggish performance in Q4FY20



Source: Edelweiss Wealth Research

Profit & Loss Statement (INR crs.)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Interest Earned	7,285	7,387	7,162	7,177	7,242	7,419
Interest Expended	4,211	4,155	3,853	3,899	3,835	3,885
Net Interest Income	3,074	3,231	3,309	3,278	3,406	3,535
Other Income	1,789	1,772	1,519	1,554	1,705	1,780
Net Revenue	4,863	5,003	4,828	4,832	5,112	5,315
Operating Expense	2,118	2,167	1,967	2,001	2,138	2,253
Employee Exp	550	496	552	524	543	595
Other Expenditure	1,568	1,671	1,415	1,477	1,596	1,658
Operating Profit (PPoP)	2,746	2,836	2,861	2,831	2,973	3,062
Provisions and Contingencies	1,044	2,440	2,259	1,964	1,854	1,866
Profit Before Tax	1,702	396	603	866	1,120	1,196
Taxes	402	94	142	219	267	320
Profit After Tax	1,300	302	461	647	853	876
No. of Equity Shares (In Crs)	69	69	69	76	76	77
EPS (INR)	18.8	4.4	6.6	8.6	11.3	11.3

Ratios	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Cost/Income Ratio	43.5%	43.3%	40.7%	41.4%	41.8%	42.4%
Yield on Interest Earning Assets	9.9%	9.8%	9.4%	9.1%	8.9%	8.7%
Cost of Funds	5.7%	5.5%	5.1%	4.9%	4.7%	4.5%
Spread	4.2%	4.3%	4.3%	4.2%	4.1%	4.1%
NIM	4.2%	4.3%	4.3%	4.2%	4.1%	4.1%
ROA	1.8%	0.4%	0.7%	0.8%	1.1%	1.0%

Balance Sheet	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Advances	2,07,413	2,06,783	1,98,069	2,01,247	2,07,128	2,12,595
Deposits	2,16,713	2,02,027	2,11,265	2,27,884	2,39,135	2,56,205
CD Ratio (%)	96%	102%	94%	88%	87%	83%
CASA	91,865	81,557	84,473	91,846	96,646	1,06,791
CASA Ratio	42.4%	40.4%	40.0%	40.3%	40.4%	41.7%

Asset Quality	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Gross NPA	4,578	5,147	5,099	4,532	3,651	5,795
Net NPA	2,173	1,887	1,703	1,056	464	1,477
Gross NPA (%)	2.2	2.5	2.5	2.2	1.7	2.7
Net NPA (%)	1.1	0.9	0.9	0.5	0.2	0.7
PCR (Reported)	53%	63%	67%	77%	87%	75%

Key takeaways from the conference call

- Focus remains on investing in growth avenues- existing as well as new. Targeted markets are- Affluent banking, NRI Banking, Tractor Finance and Affordable housing.
- Focus will remain on growing domain specialist businesses such as vehicle finance, MFI and Diamond finance.
- Resumed branch expansion +100 branches opened in Q4FY21. 250 branches to be opened in FY22.
- SMA 2 book at 31bps vs 39bps QoQ.
- **Vehicle Finance:** CV bounced back strongly with +54% YoY disbursements. Bank has reached pre-COVID levels in this book. Bank remains cautious in 2W and 3W book as business still remains disrupted in this segment and bank is witnessing higher than expected delinquencies.
- **MFI:** Incremental slippages of INR 298cr over and above Q3FY21 proforma slippages of INR 476cr. Current loan book consists of 81% of book which originated post COVID led lockdown and it has CE of 99%. Top-up loan book is max INR 500-600cr and bank does not do ever-greening of its MFI book. Bihar, Odisha and WB combined contributed 32-33% of the MFI book.
- **Corporate Book:** INR 3,500cr book sold down; INR 9,000cr exposure reduced beyond scheduled repayment. Granularity in corporate fee was focused via annuity fee. Bulk of realignment of corporate book is complete. Growth should be witnessed from this book going forward. In FY21, incremental disbursements to A rated and above were 81% of the disbursement and in Q4FY21 91% disbursement were to A and above.
- **Gems & Jewelry:** No NPA or even SMA 2 witnessed in this book. No restructuring. Global demand at pre-covid level. Diamond book disbursement +15% QoQ. This book to witness decent growth going forward as well.
- NIM to be maintained between 4.15%-4.25%.
- Bank maintains 100% PCR in its unsecured and MFI book.
- COVID 19 provisioning now stands at INR 1,600cr.

Previous outlook

IIB has bounced back sharply from tough times, aided by sound fundamentals and promoters’ confidence. We expect the bank to report healthy improvement in return ratios by H2FY22 with mid-teens credit growth. At CMP, the stock is trading at an attractive level (v/s last five years’ average P/ABV). Therefore, we initiate Tactical ‘BUY’ on the stock with a target price of INR1,393/share, implying 34% upside

Private Banking Sector - Bound to Rebound- II



Company description

IndusInd Bank (IIB) is India's fourth largest private bank with an asset size of ~INR 3.63 lakh crore. The bank operates 2,015 domestic branches with 2,872 ATMs.

Bank focuses predominately towards vehicle finance and large corporate finance. However, post-merger with Bharat Financial Inclusion Ltd., bank has also become an active player in the Microfinance lending market. The last decade saw IIB emerge as one of India's fastest growing (26% Advances CAGR) large private banks with healthy net revenue/PPoP/net profit of 29%/31%/29% CAGR.

Key risks

- Extension of the lockdown due to COVID-19 could have a negative impact on the overall macroeconomic environment and can lead to higher delinquencies, which in turn may result in a deterioration in IndusInd Bank's assets.

Income statement
(INR Cr)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Interest income	22,261	28,783	29,000	32,306	37,104
Interest charges	13,415	16,724	15,472	17,417	20,348
Net interest income	8,846	12,059	13,528	14,888	16,755
Non-interest income	5,647	6,951	6,559	7,152	8,216
Net revenues	14,493	19,010	20,086	22,040	24,971
Operating expense	6,405	8,237	8,360	9,224	10,359
- Employee exp	1,854	2,209	2,213	2,559	2,848
- Other opex	4,551	6,029	6,146	6,665	7,511
Preprovision profit	8,088	10,773	11,727	12,816	14,612
Provisions	3,108	4,652	7,943	6,299	4,919
PBT	4,980	6,121	3,784	6,517	9,693
Taxes	1,680	1,703	948	1,662	2,472
PAT	3,301	4,418	2,836	4,855	7,221
Extraordinaries	0	0	0	0	0
Reported PAT	3,301	4,418	2,836	4,855	7,221
Basic number of shares (crs)	60.3	69.4	77.3	77.3	77.3
Basic EPS (INR)	54.8	63.7	36.7	62.8	93.4
Diluted number of shares (mn)	60.3	69.4	77.3	77.3	77.3
Diluted EPS (INR)	54.8	63.7	36.7	62.8	93.4
DPS (INR)	7.5	0	0	3	4
Payout ratio (%)	12.4	0.0	0.0	3.9	5.2

Balance Sheet

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Paid Capital	603	694	773	773	773
Share Warrants & Outstandings	11	683	-	-	-
Reserve & Surplus	26,072	33,330	42,592	47,168	54,018
Shareholder's Fund	26,686	34,706	43,365	47,941	54,791
Deposits	1,94,868	2,02,040	2,56,205	2,98,661	3,43,425
Borrowings	47,321	60,754	51,323	41,813	44,645
Other Liabilities	8,944	9,558	12,080	13,978	13,103
Total Liabilities	2,77,819	3,07,058	3,62,973	4,02,393	4,55,964
Cash & Bank Balance	14,783	16,004	56,327	42,559	44,645
Investment	59,266	59,980	69,695	85,971	98,833
Loan & Advances	1,86,394	2,06,783	2,12,595	2,43,645	2,80,604
Net Fixed Assets	1,710	1,820	1,809	2,036	2,290
Other assets	15,666	22,471	22,546	28,183	29,592
Total Assets	2,77,819	3,07,058	3,62,973	4,02,393	4,55,964

Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
NII growth	18.0	36.3	12.2	10.1	12.5
Net revenues growth	18.3	31.2	5.7	9.7	13.3
Opex growth	14.5	28.6	1.5	10.3	12.3
PPP growth	21.5	33.2	8.9	9.3	14.0
Provisions growth	164.4	49.7	70.7	(20.7)	(21.9)
PAT growth	(8.5)	33.8	(35.8)	71.2	48.7

Operating ratios (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Yield on advances	11.0	12.2	11.5	11.5	11.5
Yield on Investments	6.7	7.2	5.9	6.4	6.4
Yield on Interest Earning Assets	9.5	10.6	9.3	9.1	9.3
Cost of Deposits	6.1	6.5	5.3	5.3	5.5
Cost of funds	6.2	6.6	5.4	5.4	5.6
Spread	3.3	4.0	3.9	3.7	3.7
Net interest margins	3.8	4.4	4.4	4.2	4.2
Cost-to-income	44.2	43.3	41.6	41.9	41.5
Tax rate	33.7	27.8	25.0	25.5	25.5

Balance sheet ratios (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Loan growth	29	11	3	15	15
IEA growth	25	9	20	10	14
Deposits growth	28.5	3.7	26.8	16.6	15.0
IBL growth	27.5	8.5	17.0	10.7	14.0
Gross NPA ratio	2.1	2.5	2.7	2.7	2.2
Net NPA ratio	1.2	0.9	0.7	0.6	0.4
Provision coverage	42.4	62.9	73.9	79.3	84.2
CAR	14.2	15.0	18.4	18.2	18.1

RoE decomposition (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Net interest income/Assets	3.8	4.4	4.4	4.2	4.2
Other Income/Assets	2.4	2.6	2.1	2.0	2.1
Net revenues/Assets	6.2	7.0	6.5	6.2	6.3
Operating expense/Assets	2.7	3.0	2.7	2.6	2.6
Provisions/Assets	1.3	1.7	2.6	1.8	1.2
Taxes/Assets	0.7	0.6	0.3	0.5	0.6
Total costs/Assets	4.8	5.4	5.6	4.8	4.5
ROA	1.4	1.6	0.9	1.4	1.8
Equity/Assets	11.4	10.2	12.3	12.8	12.9
ROAE	13.1	14.4	7.3	10.6	14.1

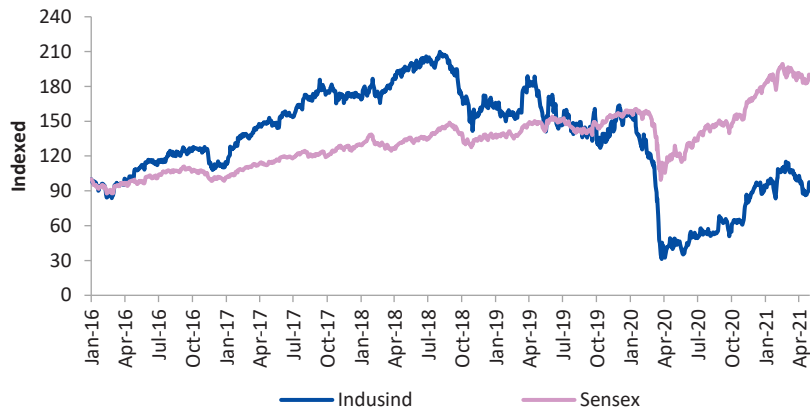
Valuation metrics

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Basic EPS (INR)	54.8	63.7	36.7	62.8	93.4
Diluted EPS (INR)	54.8	63.7	36.7	62.8	93.4
Book Value per Share(INR)	437.2	486.0	556.6	615.8	704.3
Adjusted BV per share (INR)	411.1	466.9	543.2	603.5	695.4
Price/ Earning (x)	17.1	14.7	25.5	14.9	10.0
Diluted P/E (x)	17.1	14.7	25.5	14.9	10.0
Price/Book Value (x)	2.1	1.9	1.68	1.52	1.33
Price/Adj. Book Value(x)	2.3	2.0	1.7	1.5	1.3

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Rating	Expected to
BUY	appreciate more than 15% over a 12-month period
HOLD	appreciate between 5-15% over a 12-month period
REDUCE	return below 5% over a 12-month period



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