

27 July 2021

IndusInd Bank

*Mixed quarter, earnings outlook remains strong; maintaining a Buy*Rating: **Buy**

Target Price: Rs1120

Share Price: Rs976

Indusind Bank's Q1 FY22 asset quality deteriorated on account of higher slippages from the retail book. Key positives from the results were 1) collection efficiency: 96% in Jun'21 (*improved in July*); 2) disbursements normalising; 3) strong retail deposit growth; 4) sturdy balance sheet with 72% coverage and Rs20.5bn provision buffer; (1% of loans) and 5) strong liquidity and capitalisation. With credit growth expected to pick up from the next quarter and normalising credit costs, earnings would improve. We maintain our positive view on the bank with a TP of Rs1120, valuing it at 1.6x P/ABV on its FY23e book.

Asset quality deteriorates. The bank's overall collection efficiency for Jun'21 was ~96%, which management said has improved in July. GNPA increased 21bps sequentially to 2.88%. Slippages were Rs27.6bn, of which Rs19.2bn stemmed from the retail book. With restrictions easing across the country and economic activities picking up, slippages are expected to normalise.

Earnings to be driven by lower credit cost. With slippages moderating, a healthy PCR of 72% and a Rs20.5bn provision buffer, the bank is in a position to absorb near-term uncertainty arising from the second wave of Covid-19. We expect credit costs to normalise in the medium term and profitably to sharply improve. Accordingly, we model ~16% RoE for FY23.

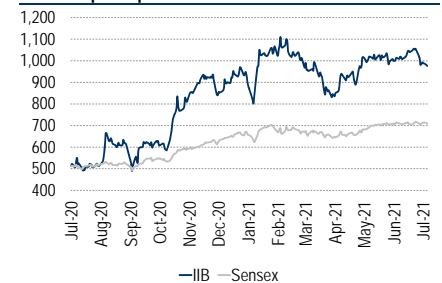
Valuation. Our Jul'22 Rs1120 target is based on the two-stage DDM model. This implies a ~1.6x P/BV multiple on its FY22e book. **Risks:** Lumpy slippage from the corporate book; volatility in asset quality from the MFI book.

Key data	IIB IN / INBK.BO
52-week high / low	Rs1165 / 483
Sensex / Nifty	52579 / 15746
3-m average volume	\$67.4m
Market cap	Rs755bn / \$10141m
Shares outstanding	774m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	16.5	16.6	14.7
- of which, Pledged	45.5	36.4	-
Free float	83.5	83.5	85.3
- Foreign institutions	52.1	50.9	54.9
- Domestic institutions	17.7	18.1	10.2
- Public	13.7	14.4	20.2

Estimates revision (%)	FY22e	FY23e
NII	1.3	5.8
Pre-provisioning profit	1.3	6.1
PAT	2.1	6.8

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Net interest income (Rs m)	88,462	120,587	135,279	154,829	182,009
Pre-provisioning profit (Rs m)	80,882	107,727	118,720	138,140	162,065
Provisions (Rs m)	31,077	46,521	79,425	54,402	51,632
PAT (Rs m)	33,011	44,179	29,299	62,636	82,604
EPS (Rs)	55	64	38	81	107
NIM (%)	3.8	4.5	4.4	4.2	4.3
Cost-income (%)	44	43	41	40	39
RoE (%)	13.1	14.6	7.6	13.5	15.7
RoA (%)	1.3	1.5	0.9	1.7	2.0
Advances growth (%)	28.6	10.9	2.8	14.0	16.0
GNPA (%)	2.1	2.5	2.7	2.3	2.0
CAR (%)	14.2	15.0	17.4	16.8	16.9
P / E (x)	17.8	15.3	25.7	12.0	9.1
P / BV (x)	2.2	2.0	1.7	1.5	1.3
P / ABV (x)	2.3	2.1	1.8	1.6	1.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net interest income	88,462	120,587	135,279	154,829	182,009
<i>NII growth (%)</i>	18.0	36.3	12.2	14.5	17.6
Non-interest income	56,467	69,513	65,009	75,077	84,146
Income	144,929	190,101	200,288	229,906	266,155
<i>Income growth (%)</i>	18.3	31.2	5.4	14.8	15.8
Operating expenses	64,047	82,373	81,568	91,766	104,089
PPOP	80,882	107,727	118,720	138,140	162,065
<i>PPOP growth (%)</i>	21.5	33.2	10.2	16.4	17.3
Provisions	31,077	46,521	79,425	54,402	51,632
PBT	49,806	61,206	39,294	83,738	110,433
Tax	16,795	17,027	9,995	21,102	27,829
PAT	33,011	44,179	29,299	62,636	82,604
<i>PAT growth (%)</i>	-8.5	33.8	-33.7	113.8	31.9
FDEPS (Rs /sh)	54.8	63.7	37.9	81.0	106.8
DPS (Rs /sh)	9.0	0.0	5.0	10.1	13.4

Source: Company, AnandRathi Research

Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	6,027	6,935	7,734	7,734	7,734
Reserves & surplus	260,721	333,297	427,273	482,079	554,357
Deposits	1,948,679	2,020,398	2,558,701	2,968,093	3,324,264
Borrowings	473,211	607,535	513,228	307,937	215,556
Total liabilities	2,778,194	3,070,576	3,629,033	3,961,519	4,469,973
Advances	1,863,935	2,067,832	2,125,954	2,423,588	2,811,362
Investments	592,662	599,799	696,534	821,910	920,540
Cash & bank bal	99,612	136,753	179,574	188,553	197,980
Fixed & other assets	17,100	18,201	18,757	19,695	20,680
Total assets	2,778,194	3,070,576	3,629,033	3,961,519	4,469,973
No. of shares (m)	603	694	773	773	773
<i>Deposits growth (%)</i>	28.5	3.7	26.6	16.0	12.0
<i>Advances growth (%)</i>	28.6	10.9	2.8	14.0	16.0

Source: Company, AnandRathi Research

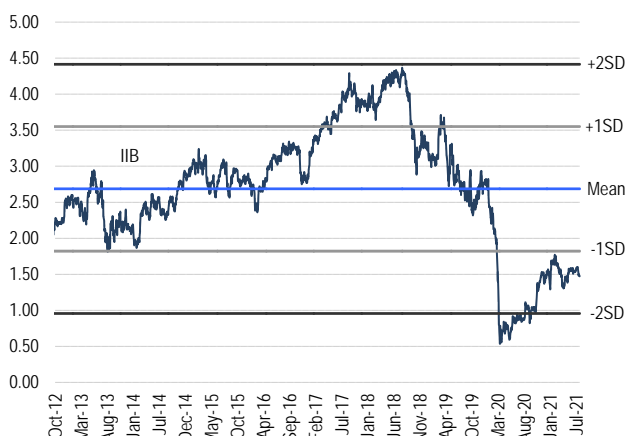
Fig 3 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
NIM	3.8	4.5	4.4	4.2	4.3
Other income / Total income	39.0	36.6	32.5	32.7	31.6
Cost-Income	44.2	43.3	40.7	39.9	39.1
Provision coverage	43.0	63.3	74.5	71.5	70.5
Dividend payout	16.5	0.0	13.2	12.5	12.5
Credit-deposit	95.7	102.3	83.1	81.7	84.6
Investment-deposit	30.4	29.7	27.2	27.7	27.7
Gross NPA	2.1	2.5	2.7	2.3	2.0
Net NPA	1.2	0.9	0.7	0.7	0.6
BV (Rs)	442.6	490.6	562.5	633.3	726.8
Adj. BV (Rs)	416.5	471.5	549.1	618.4	711.3
CAR	14.2	15.0	17.4	16.8	16.9
- Tier 1	13.7	14.6	16.8	16.3	16.3
RoE	13.1	14.6	7.6	13.5	15.7
RoA	1.3	1.5	0.9	1.7	2.0

Source: Company, AnandRathi Research

Fig 4 – Price-to-Book band


Source: Bloomberg

Fig 5 – One-year-forward price-to-book value


Source: Company, Anand Rathi Research

Fig 6 – Price movement


Source: Bloomberg

Key Highlights

Key conference-call takeaways

Guidance

- NIM – expects to maintain NIM between 4.15% and 4.25%
- Credit cost – expects 160-190bp credit cost in the normal course of business
- Loan growth – targeting a 16-18% CARG over the next two years.
- C/D ratio – aiming to maintain it between 85% and-90%

Vehicle Finance (~28% of loans)

- Within the VF book, the CV segment was affected the most. PV book did reasonably well over other segments.
- Tractors and CE segments continued with strong traction throughout the pandemic period.
- Expects disbursements to reach pre-Covid'19 levels in all segments other than M&H CVs in July.
- Expects disbursements in M&H CVs to normalize by the festival season.
- Collection efficiency: 97% in June.
- Fresh restructuring was implemented; portfolio amounting to Rs6.5bn. Restructuring post-first wave was Rs24.5bn. Of the Rs6.5bn restructuring done in the quarter, 80% stemmed from M&H CVs and 3Ws. Management says sub-segments (luxury buses, auto-rikshas) require further support.
- Management expects slippages in this overall VF portfolio to be range-bound, citing the portfolio's long vintage and strong collateral.

MFI (~13% of loans)

- Collection efficiency was 89% in June. It improved to mid-90s in July. Collections in Bihar, Odisha and Maharashtra were above average. Collections in Kerala, Karnataka and West Bengal lagged.
- Slippages were Rs6.74bn for the quarter. Higher slippages were on account of the accessibility issue. Post easing on restrictions, the subsequent upgrades were Rs4.43bn.
- Fresh restructuring during the quarter was Rs5bn (2% of loans), which would be implemented in Q2 FY22. Negligible restructuring was done after the first wave as the moratorium was available.
- Expects to reach 50-75% acquisition run-rate in Q2 FY22.

Other retail (~17% of loans)

- Collection efficiency: 95% in June.
- Slippages in the unsecured portfolio were 2.8% (8% post first wave). Slippages in the secured portfolio were 1.4%. Overall slippages from this were ~2%.
- Incremental restructuring was negligible in this segment.
- Delinquencies in the cards vertical were half of what they were after

the first wave.

Corporate (~42% of loans)

- With underwriting realignment and sell-down of large loans completed for the vertical, growth has started returning.
- The focus would be on improving the ratings profiles, shorter durations and granular exposures.
- Slippages for the quarter were Rs4.21bn, of which Rs2.7bn stemmed from a real estate account.
- Restructuring during the quarter was Rs.11.2bn.

Asset quality

- Overall slippages were Rs27.6bn (5.2% of loans). Slippages mix was:
 - Vehicle finance – 38%
 - MFI – 24%
 - Other retail – 22%
 - Corporate – 15%
- The impact of the second wave of Covid-19 has been much less than at the time of the first wave.
- Q1 FY21 collection efficiency sequentially declined to 96%, from 98%. Management said CE has picked up in July.
- Incremental slippages: VF Rs6.87bn, secured business Rs2.26bn (BB and LAP book), unsecured retail Rs3.83bn (cards, PL and BL) and Rs2.98bn MFI.
- Standard contingent provisions were Rs20.5bn (Rs16bn in Q4 FY21), which is outside the PCR.
- SMA-2 book increased 16bps sequentially to 47bps.
- Corporate book saw technical slippage of Rs18.9bn, of which Rs16bn has already been upgraded; the rest would be upgraded in this quarter. Technical slippages occurred due to closing the restructuring by the consortium and technical operational issues, which have now been addressed.
- The restructured book was Rs56.5bn (2.7% of the loan book). Of 1.8%, vehicles are 65%, non-vehicles 17%, and the balance from corporate banking. Management is confident regarding the quality of the book and doesn't expect large delinquencies from this book.

Deposits

- Reduced 50bps on saving and term-deposit rates.
- NRI deposit book was Rs275bn.

Other

- ECLGS exposure is Rs46bn, of which Rs30bn was from ECLGS.1 and Rs16bn from ECLGS.2.

Fig 7 – Asset quality

Break-up ofGNPA(Rsm)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
Opening balance	45,780	51,450	50,970	45,300	36,490	57,930
Slippages	20,570	15,370	3,990	590	63,370	27,630
<i>Gross-slippage ratio (%)</i>	<i>3.98</i>	<i>3.10</i>	<i>0.79</i>	<i>0.11</i>	<i>11.92</i>	<i>5.24</i>
Reductions	14,900	15,850	9,660	9,400	41,930	23,710
Closing balance	51,450	50,970	45,300	36,490	57,930	61,850
Total GNPA	51,467	50,990	45,322	36,507	57,950	61,858
<i>GNPA (%)</i>	<i>2.45</i>	<i>2.53</i>	<i>2.21</i>	<i>1.74</i>	<i>2.67</i>	<i>2.88</i>
<i>NNPA (%)</i>	<i>0.91</i>	<i>0.86</i>	<i>0.52</i>	<i>0.22</i>	<i>0.69</i>	<i>0.84</i>

Source: Company, Anand Rathi Research

Fig 8–Gross NPA,by segment- Consumer Finance, %

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
Commercial vehicles	1.94	2.19	1.82	1.58	3.00	2.93
Utility vehicles	1.03	1.16	1.17	0.97	1.34	1.40
Construction equipment	1.05	1.11	0.90	0.78	1.18	1.47
Small CVs	1.78	1.82	1.78	1.60	2.88	7.62
Two-wheelers	3.14	2.62	3.80	3.08	6.73	9.78
Cars	0.71	0.80	0.87	0.71	1.31	1.82
BBG / LAP	1.21	1.23	0.89	0.90	3.36	3.34
HL / PL / others	0.93	0.54	0.40	0.37	2.84	2.75
LAP / HL / PL	-	-	-	-	-	-
Tractors	1.23	1.43	1.27	0.70	1.17	1.28
Cards	1.93	0.79	0.57	0.18	1.58	4.37
MFI	1.51	1.55	1.58	1.51	1.49	1.69
Total	1.49	1.48	1.36	1.18	2.43	2.85

Source: Company

Fig 9–NPA –Corporate,%

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
GNPA	3.32	3.57	3.02	2.32	2.72	2.67
Slippages	4.85	5.16	0.05	0.15	10.30	1.63
Credit cost	5.60	3.82	1.73	0.99	2.11	1.83

Source: Company, Anand Rathi Research

Fig 10– Results, by segment

Fee income (Rsm)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
General banking fees	800	700	1,230	1,290	1,480	1,560
Processing fees	3,560	990	2,120	3,010	3,570	2,860
FX	2,480	1,550	2,280	2,680	2,690	1,920
Insurance	3,670	1,740	3,230	3,700	3,990	3,110
Investment banking	1,430	290	230	790	640	670
Trade & remittances	1,890	1,160	1,520	1,830	2,190	1,700
Total	13,830	6,430	10,610	13,300	14,560	11,820

Source: Company

Fig 11–Break-up of advances

(%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
Corporate and commercial banking (CCB)	49.8	47.9	48.2	48.3	48.4	48.7
Corporate banking	42.2	40.6	40.7	40.7	39.9	41.6
Small business	7.6	7.3	7.5	7.6	8.5	7.2
Consumer finance division (CFD)	50.2	52.1	51.8	51.7	51.6	50.4
Commercial vehicles	11.6	12.0	11.9	11.5	11.1	10.7
Equipment financing	3.9	4.1	4.2	4.2	4.3	4.2
Two-wheelers	2.5	2.9	2.9	2.9	2.7	2.4
Car loans	3.5	3.7	3.7	3.8	3.7	3.7
Utility vehicles + 3W	6.1	6.4	6.8	7.0	7.1	7.1
Home loans + LAP	4.6	4.8	4.7	4.5	4.2	4.1
Personal loans + credit cards	6.3	6.4	6.5	6.6	6.2	5.8
MFI	11.7	11.8	11.1	11.1	12.4	12.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 12–Income statement

(Rs m)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
Interest income	73,866	71,617	71,772	72,415	74,194	75,747
Interest expense	41,554	38,525	38,992	38,354	38,848	40,110
NII	32,312	33,092	32,780	34,061	35,346	35,637
Y/Y growth (%)	44.7	16.4	12.7	10.8	9.4	7.7
Non-interest income	17,722	15,204	15,543	16,458	17,804	17,881
Trading profits	3,830	8,380	4,930	2,570	2,730	5,740
Total Income	50,034	48,296	48,323	50,519	53,150	53,518
Y/Y growth (%)	32.0	7.2	4.2	3.9	6.2	10.8
Operating expenses	21,467	19,019	19,803	20,883	21,863	21,663
Of which, staff costs	7,155	7,429	7,248	7,444	8,272	8,429
PPOP	28,567	29,277	28,520	29,636	31,287	31,855
Y/Y growth (%)	38.2	13.0	9.7	7.9	9.5	8.8
Total provisions	24,403	22,589	19,644	18,535	18,657	18,440
PBT	4,164	6,689	8,875	11,100	12,630	13,415
Tax	1,012	1,585	2,245	2,797	3,369	3,254
PAT	3,152	5,103	6,631	8,304	9,261	10,161
Y/Y growth (%)	(12.5)	(64.4)	(52.1)	(36.1)	193.8	99.1

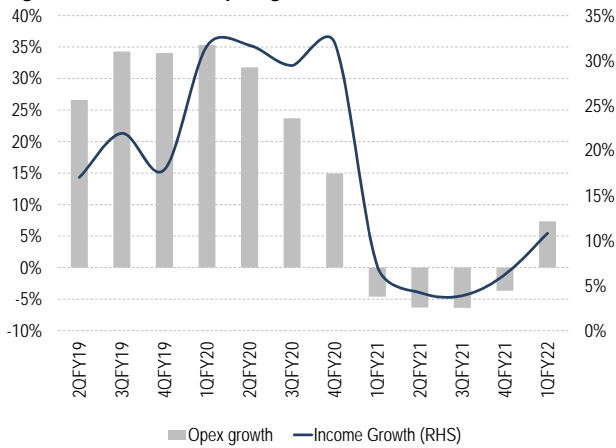
Source: Company, Anand Rathi Research

Fig 13–Balance sheet

(Rs m)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1 FY22
Equity capital	6,935	6,940	7,565	7,570	7,734	7,740
Reserves & Surplus	340,130	348,080	389,176	397,740	427,273	437,740
Deposits	2,020,398	2,112,650	2,278,842	2,391,350	2,558,701	2,672,330
Borrowings	607,536	591,960	523,851	486,220	513,228	492,940
Other Liabilities	95,577	119,530	120,531	131,580	122,097	119,210
Equity and Liabilities	3,070,576	3,179,160	3,319,963	3,414,460	3,629,033	3,729,960
Deposits y/y growth (%)	3.7	5.3	10.0	10.3	26.6	26.5
Deposits q/q growth (%)	(6.8)	4.6	7.9	4.9	7.0	4.4
Assets						
Cash and cash balances	160,037	361,180	458,446	507,770	566,099	707,600
Advances	2,067,832	1,980,690	2,012,468	2,071,280	2,125,954	2,107,270
Investments	599,799	595,960	629,527	610,570	696,534	686,990
Other assets	242,908	241,330	219,521	224,840	240,446	228,100
Total Assets	3,070,576	3,179,160	3,319,963	3,414,460	3,629,033	3,729,960
Advances y/y growth (%)	10.9	2.4	2.1	(0.1)	2.8	6.4
Advances q/q growth (%)	(0.3)	(4.2)	1.6	2.9	2.6	(0.9)

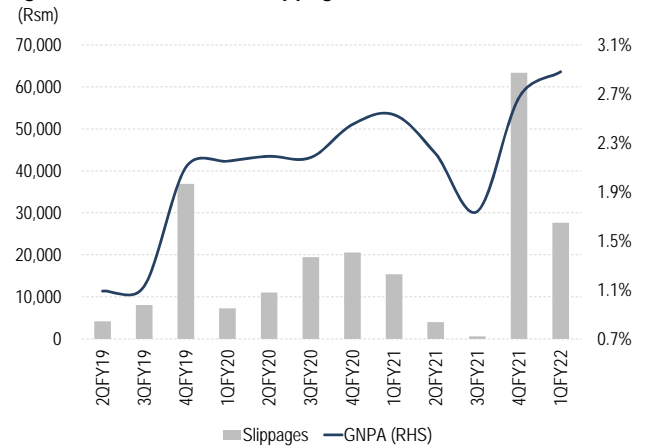
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



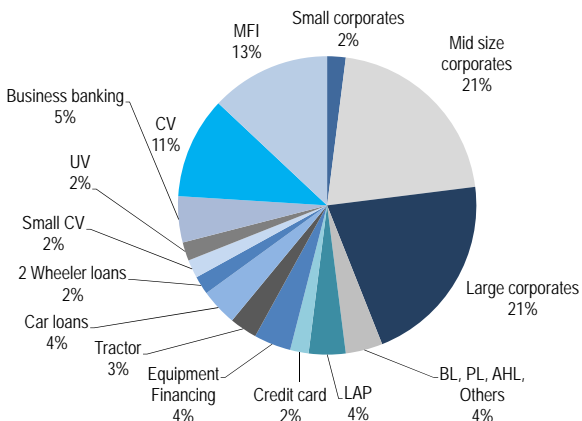
Source: Company, Anand Rathi Research

Fig 15 – Gross NPA and slippages



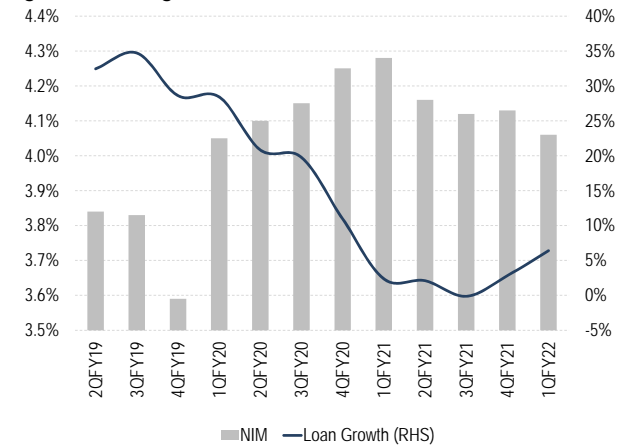
Source: Company, Anand Rathi Research

Fig 16 – Loan break-up



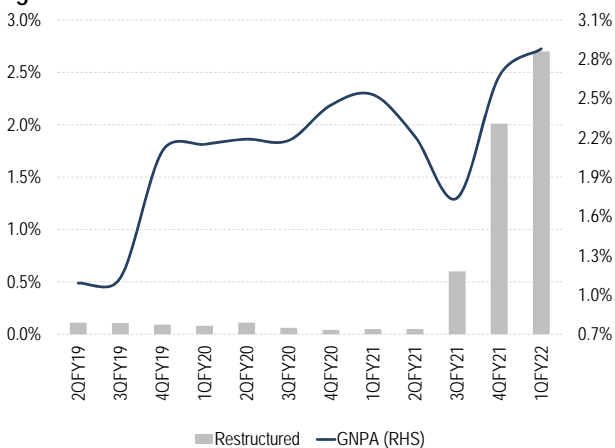
Source: Company, Anand Rathi Research

Fig 17 – Credit growth vs. NIM (%)



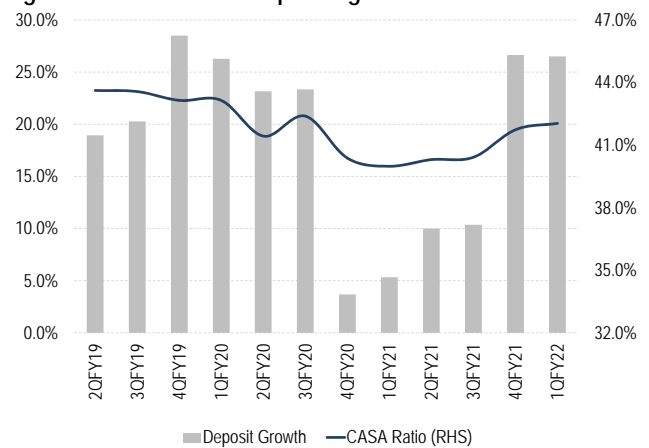
Source: Company, Anand Rathi Research

Fig 18 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 19 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

Our July'22 target of Rs1120 is based on the two-stage DDM model. This implies a ~1.6x P/BV multiple on its FY22e book

Fig 20 – Change in estimates

(Rs m)	FY22e			FY23e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	154,829	152,898	1.3	182,009	172,064	5.8
Pre-provisioning profit	138,140	136,420	1.3	162,065	152,770	6.1
PAT	62,636	61,350	2.1	82,604	77,371	6.8

Source: Anand Rathi Research

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts.
- Any significant negative surprises on asset quality from the micro-finance book.

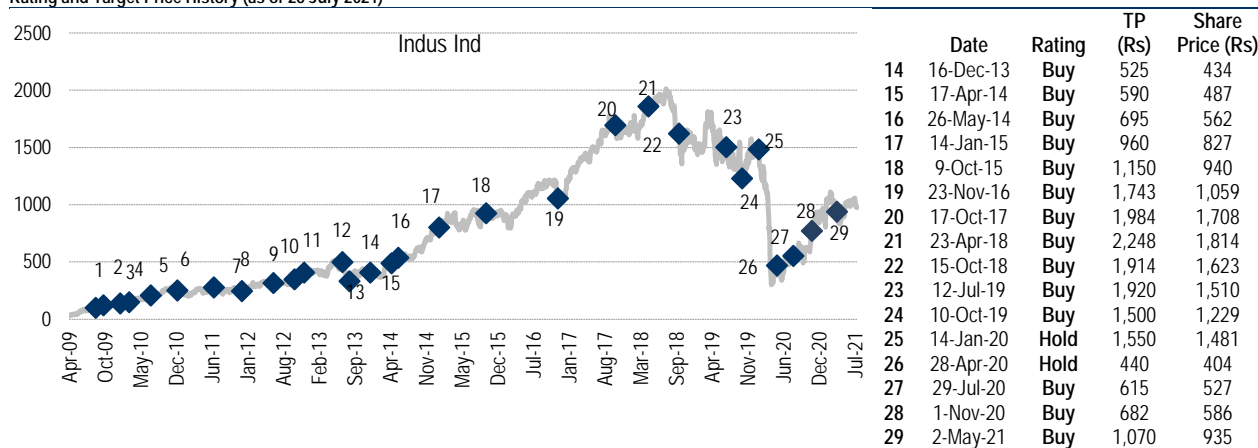
Appendix

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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