

BUY

TP: Rs 620 | ▲ 18%

INDUSIND BANK

| Banking

| 28 July 2020

Profit beats estimates; moratorium share drops

IndusInd Bank's (IIB) Q1FY21 PAT of Rs 5.1bn beat our estimate of Rs 3.8bn on better NII growth, stable NIMs and higher treasury gains. Moratorium share stood at 14% under phase-2 with the corporate/retail share at 9%/19%. Slippages totalled Rs 15.4bn with 90% turning NPA given conservatism. The board has approved a Rs 32.8bn preferential issue to long-term investors (incl. promoter so as to maintain 15% stake) that will add 125bps to CRAR, taking it to 16.5% (15.2% in Q1). We roll forward to a Sep'21 TP of Rs 620 (vs. Rs 590).

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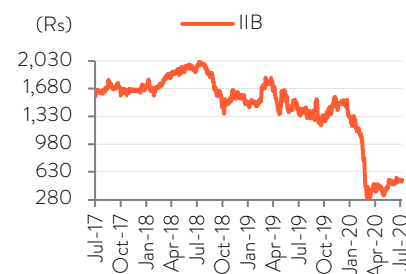
Covid could have 92bps/65bps impact on slippages/credit costs: IIB offered an opt-in moratorium option to all retail (barring MFI) and corporate customers under phase-2. The overall share of loans under moratorium, including MFI, stood at 14% as of Jun'20. Corporate loans under moratorium declined to 9% (vs. 23% earlier) while retail loans dropped to 19% (vs. 75% earlier). All overdue corporate loans that exited moratorium are paying their dues. In retail, out of the 56% decline in moratorium share, 46% of customers are paying. Based on its recent stress test, management expects Covid-19 to have an incremental impact of 92bps/65bps on slippages/credit costs.

Ticker/Price	IIB IN/Rs 527
Market cap	US\$ 4.9bn
Shares o/s	694mn
3M ADV	US\$ 185.4mn
52wk high/low	Rs 1,597/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

Prudence drives higher corporate slippages: Overall slippages remained elevated at Rs 15.4bn (vs. Rs 20.6bn in Q4) given that a coffee group and a healthcare provider account worth ~Rs 11bn (earlier classified as stressed) were transited to NPAs as a prudent measure. PCR improved to ~67% while the total Covid-related provision buffer increased to Rs 12bn (0.6% of loans).

STOCK PERFORMANCE



Source: NSE

Loan book slows down sharply: Advances grew just 2.4% YoY despite 10% growth in consumer loans, as the corporate segment declined 6% due to loans worth Rs 36bn being sold by the bank. Collection efficiency in CVs has recovered from lows of 30-35% to 70%; in the MFI portfolio, collections are tracking at >80%.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	132,105	152,996	181,667
NII growth (%)	18.0	36.3	9.6	15.8	18.7
Adj. net profit (Rs mn)	33,011	44,445	27,621	55,706	66,346
EPS (Rs)	54.9	68.6	37.7	72.2	85.9
P/E (x)	9.6	7.7	14.0	7.3	6.1
P/BV (x)	1.2	1.1	1.0	0.9	0.8
ROA (%)	1.3	1.5	0.8	1.5	1.5
ROE (%)	13.1	14.7	7.2	12.4	13.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

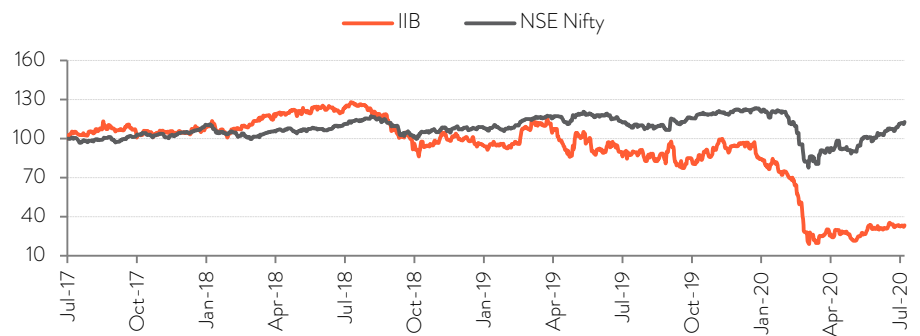
(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Income Statement					
Interest income	71,617	69,614	73,866	2.9	(3.0)
Interest expense	38,525	41,174	41,554	(6.4)	(7.3)
Net interest income	33,092	28,440	32,312	16.4	2.4
Non-interest income	15,204	16,633	17,720	(8.6)	(14.2)
Net total income	48,296	45,072	50,032	7.2	(3.5)
Staff expenses	7,429	6,472	4,957	14.8	49.9
Other operating expenses	11,590	12,691	16,713	(8.7)	(30.7)
Operating expenses	19,019	19,163	21,670	(0.8)	(12.2)
Pre-provisioning profit	29,277	25,910	28,362	13.0	3.2
Total provisions	22,589	4,306	24,403	424.6	(7.4)
Profit before tax	6,689	21,603	3,959	(69.0)	69.0
Tax	1,585	7,278	940	(78.2)	68.6
Profit after tax	5,103	14,325	3,018	(64.4)	69.1
Balance Sheet					
Advances	1,980,690	1,935,200	2,067,832	2.4	(4.2)
Deposits	2,112,650	2,005,860	2,020,398	5.3	4.6
CASA ratio (%)	40.0	43.1	40.4	(316bps)	(39bps)
Yields and margins (%)					
Net interest margin	4.3	4.1	4.3	23bps	3bps
Yield on advances	11.9	12.0	11.9	(15bps)	(4bps)
Cost of funds	5.1	5.9	5.5	(84bps)	(42bps)
Key ratios (%)					
Cost/Income	39.4	42.5	43.3	(314bps)	(393bps)
Tax rate	23.7	33.7	23.7	(999bps)	(5bps)
Loan to Deposit ratio	93.8	96.5	102.3	(272bps)	(859bps)
Capital adequacy ratios (%)					
Tier 1	14.5	14.5	14.6	2bps	(8bps)
Total CAR	15.2	14.9	15.0	26bps	12bps
Asset quality (Rs mn)					
Gross NPAs	50,990	41,997	51,467	21.4	(0.9)
Net NPAs	17,034	23,805	18,866	(28.4)	(9.7)
Gross NPA ratio (%)	2.5	2.2	2.5	38bps	8bps
Net NPA ratio (%)	0.9	1.2	0.9	(37bps)	(5bps)
Coverage Ratio (%)	66.0	42.8	62.9	2,322bps	315bps

Source: Company, BOBCAPS Research

Valuation methodology

We broadly maintain our estimates for FY21-FY22 and introduce FY23 forecasts. Retain BUY on IIB as we derive comfort from the reduction in moratorium share, sequential accretion in deposits and recent preferential equity issuance (factored into estimates). We continue to value the bank at 1x forward P/BV using the two-stage Gordon Growth Model and roll over to a Sep'21 TP of Rs 620 (vs. Rs 590).

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Higher funding costs can impact our NIM assumptions.
- An above-anticipated rise in credit cost from the corporate/retail book poses a risk to estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	132,105	152,996	181,667
NII growth (%)	18.0	36.3	9.6	15.8	18.7
Non-interest income	56,467	69,524	74,052	83,587	95,708
Total income	144,929	190,112	206,157	236,583	277,375
Operating expenses	(64,047)	(82,029)	(98,695)	(116,813)	(136,247)
Operating profit	80,882	108,083	107,462	119,770	141,128
Operating profit growth (%)	21.5	33.6	(0.6)	11.5	17.8
Provisions	(31,077)	(46,521)	(70,793)	(45,815)	(53,047)
PBT	49,806	61,562	36,670	73,956	88,082
Tax	(16,795)	(17,117)	(9,049)	(18,250)	(21,736)
Reported net profit	33,011	44,445	27,621	55,706	66,346
Adjustments	0	0	0	0	0
Adjusted net profit	33,011	44,445	27,621	55,706	66,346

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Equity capital	6,027	6,935	7,721	7,721	7,721
Reserves & surplus	260,833	332,329	418,562	461,234	512,056
Net worth	266,860	339,265	426,283	468,954	519,777
Deposits	1,948,679	2,020,398	2,285,244	2,705,389	3,243,845
Borrowings	473,211	607,536	697,535	800,000	927,322
Other liabilities & provisions	89,444	95,577	100,976	106,685	112,721
Total liabilities and equities	2,778,194	3,062,775	3,510,038	4,081,028	4,803,665
Cash & bank balance	147,834	160,037	173,502	188,254	204,423
Investments	592,662	599,799	779,370	973,903	1,168,436
Advances	1,863,935	2,067,832	2,253,937	2,603,297	3,032,841
Fixed & Other assets	173,764	235,108	303,230	315,575	397,965
Total assets	2,778,194	3,062,775	3,510,038	4,081,028	4,803,665
Deposit growth (%)	28.5	3.7	13.1	18.4	19.9
Advances growth (%)	28.6	10.9	9.0	15.5	16.5

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
EPS	54.9	68.6	37.7	72.2	85.9
Dividend per share	9.0	9.6	7.2	14.4	17.2
Book value per share	437.4	484.5	547.9	603.2	669.0

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
P/E	9.6	7.7	14.0	7.3	6.1
P/BV	1.2	1.1	1.0	0.9	0.8
Dividend yield (%)	1.7	1.8	1.4	2.7	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	3.5	4.1	4.0	4.0	4.1
Non-interest income	2.3	2.4	2.3	2.2	2.2
Operating expenses	2.6	2.8	3.0	3.1	3.1
Pre-provisioning profit	3.2	3.7	3.3	3.2	3.2
Provisions	1.2	1.6	2.2	1.2	1.2
PBT	2.0	2.1	1.1	1.9	2.0
Tax	0.7	0.6	0.3	0.5	0.5
ROA	1.3	1.5	0.8	1.5	1.5
Leverage (x)	9.9	9.6	8.6	8.5	9.0
ROE	13.1	14.7	7.2	12.4	13.4

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	36.3	9.6	15.8	18.7
Pre-provisioning profit	21.5	33.6	(0.6)	11.5	17.8
EPS	(8.8)	24.9	(45.0)	91.4	19.1
Profitability & Return ratios (%)					
Net interest margin	3.8	4.4	4.4	4.4	4.4
Fees / Avg. assets	1.6	1.7	1.6	1.6	1.6
Cost-Income	44.2	43.1	47.9	49.4	49.1
ROE	13.1	14.7	7.2	12.4	13.4
ROA	1.3	1.5	0.8	1.5	1.5
Asset quality (%)					
GNPA	2.1	2.4	3.6	3.3	3.0
NNPA	1.2	0.9	1.1	1.0	0.8
Provision coverage	43.0	63.3	70.7	71.6	73.5
Ratios (%)					
Credit-Deposit	95.7	102.3	98.6	96.2	93.5
Investment-Deposit	30.4	29.7	34.1	36.0	36.0
CAR	14.2	14.8	16.3	15.1	14.1
Tier-1	13.7	14.3	15.8	14.5	13.5

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

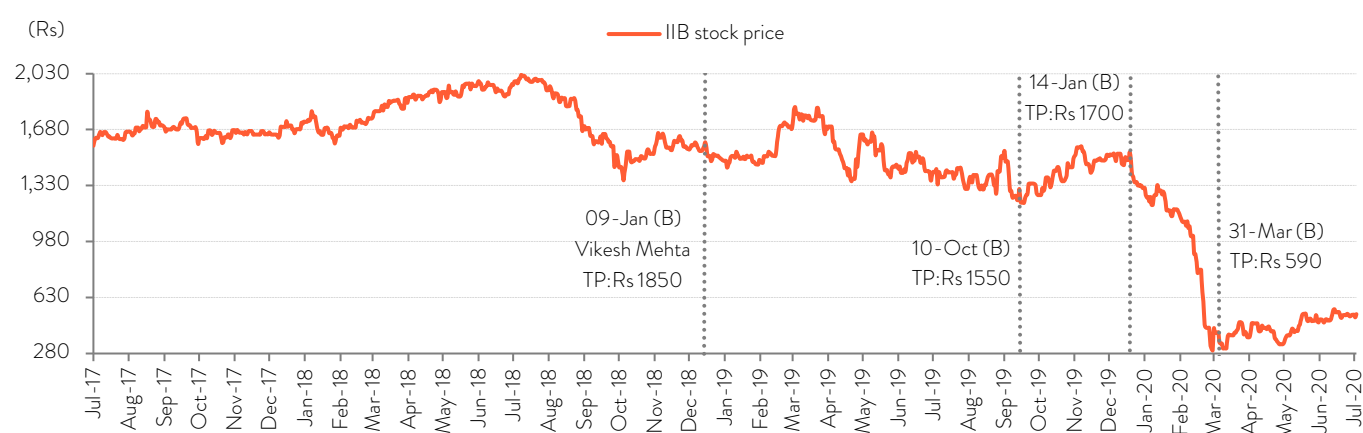
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INDUSIND BANK (IIB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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