

BUY

TP: Rs 590 | ▲ 45%

INDUSIND BANK

| Banking

| 27 April 2020

No respite from asset quality challenges

IndusInd Bank's (IIB) Q4FY20 PAT at Rs 3bn (-16% YoY) was ahead of estimates due to an NII beat. The bank made Covid-19-related provisions worth Rs 2.8bn, which could potentially raise the GNPA ratio by 80bps under moderate stress. Asset quality was a miss with high corporate and retail slippages. PCR increased to 63% (52% in Q3). Credit cost is guided at ~180bps for FY21, including Covid-related provisioning at 50bps. Management has guided for a retail-corporate split of 65:35 in the medium term. Maintain BUY.

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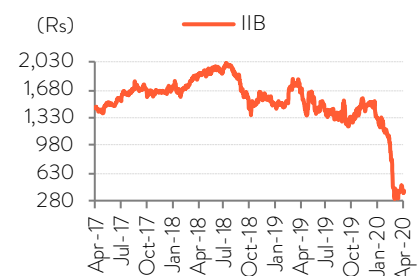
Covid-19 could have 80bps impact on GNPA: IIB has offered an 'opt-out' moratorium to all retail customers but continues to receive voluntary installments, with 95% of vehicle finance customers paying their March dues. The pandemic crisis could potentially drive an 80bps/50bps increase in GNPA ratio/credit cost under mild-to-moderate stress case scenarios. IIB has made floating provisions worth Rs 2.6bn and general provisions worth Rs 230mn for extending the asset classification benefit (at 5% on standstill accounts as mandated by RBI with another 5% required in Q1FY21). Hence, PCR rose to 63%; the bank's aim is to ramp this up to 70% over the next few quarters.

Ticker/Price	IIB IN/Rs 407
Market cap	US\$ 3.4bn
Shares o/s	628mn
3M ADV	US\$ 144.8mn
52wk high/low	Rs 1,703/Rs 236
Promoter/FPI/DII	17%/52%/31%

Source: NSE

Asset quality woes remain: IIB's slippage ratio at 4.2% of loans (4.1% in Q3FY20) remained high. Corporate slippages at Rs 12.5bn largely stemmed from IIB's exposure to three stressed groups – a power/paper group, a tea group, a medical equipment group – and a broking company. SMA-2 declined to 0.16% (0.5% in Q3) following prudent recognition of weak accounts as NPA. Management believes credit cost for FY21 could be ~180bps.

STOCK PERFORMANCE



Source: NSE

Deposit outflow appears to have halted: Over the last 15-20 days, IIB has garnered retail deposits worth Rs 0.5bn on a daily basis. It has also witnessed an inflow of government/corporate deposits worth Rs 6bn-7bn/Rs 60bn in April.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	74,974	88,462	120,587	132,105	152,996
NII growth (%)	23.7	18.0	36.3	9.6	15.8
Adj. net profit (Rs mn)	36,060	33,011	44,445	27,621	55,706
EPS (Rs)	60.2	54.9	68.6	39.8	80.3
P/E (x)	6.8	7.4	5.9	10.2	5.1
P/BV (x)	1.0	0.9	0.8	0.7	0.7
ROA (%)	1.8	1.3	1.5	0.8	1.5
ROE (%)	16.2	13.1	14.7	7.5	13.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Income Statement								
Interest income	73,866	59,914	72,845	23.3	1.4	287,828	222,612	29.3
Interest expense	41,554	37,591	42,103	10.5	(1.3)	167,241	134,150	24.7
Net interest income	32,312	22,324	30,742	44.7	5.1	120,587	88,462	36.3
Non-interest income	17,720	15,590	17,900	13.7	(1.0)	69,524	56,467	23.1
Net total income	50,032	37,914	48,642	32.0	2.9	190,112	144,929	31.2
Staff expenses	4,957	4,812	7,404	3.0	(33.1)	25,998	18,535	40.3
Other operating expenses	16,713	12,431	13,661	34.5	22.3	56,031	45,518	23.1
Operating expenses	21,670	17,243	21,065	25.7	2.9	82,029	64,053	28.1
Pre-provisioning profit	28,362	20,671	27,577	37.2	2.8	108,083	80,876	33.6
Total provisions	24,403	15,607	10,435	56.4	133.9	46,521	31,077	49.7
Profit before tax	3,959	5,064	17,143	(21.8)	(76.9)	61,562	49,800	23.6
Tax	940	1,469	4,050	(36.0)	(76.8)	17,117	16,795	1.9
Profit after tax	3,018	3,595	13,092	(16.0)	(76.9)	44,445	33,005	34.7
Balance Sheet								
Advances	2,067,832	1,863,935	2,074,130	10.9	(0.3)	2,067,832	1,863,935	10.9
Deposits	2,020,398	1,948,679	2,167,130	3.7	(6.8)	2,020,398	1,948,679	3.7
CASA ratio (%)	40.4	43.1	42.4	(277bps)	(202bps)	40.4	43.1	(277bps)
Yields and margins (%)								
Net interest margin	4.3	3.6	4.2	66bps	10bps	-	-	-
Yield on advances	11.9	11.3	12.0	64bps	(8bps)	-	-	-
Cost of funds	5.5	5.9	5.7	(40bps)	(21bps)	-	-	-
Key ratios (%)								
Cost/Income	43.3	45.5	43.3	(217bps)	1bps	43.1	44.2	(105bps)
Tax rate	23.7	29.0	23.6	(526bps)	12bps	27.8	33.7	(592bps)
Loan to Deposit ratio	102.3	95.7	95.7	670bps	664bps	102.3	95.7	670bps
Capital adequacy ratios (%)								
Tier 1	14.6	13.7	13.5	87bps	108bps	14.6	13.7	87bps
Total CAR	15.0	14.2	13.9	88bps	112bps	15.0	14.2	88bps
Asset quality (Rs mn)								
Gross NPAs	5,146,740	3,947,410	4,578,430	30.4	12.4	5,146,740	3,947,410	30.4
Net NPAs	1,886,580	2,248,280	2,173,290	(16.1)	(13.2)	1,886,580	2,248,280	(16.1)
Gross NPA ratio (%)	2.5	2.1	2.2	35bps	27bps	2.5	2.1	35bps
Net NPA ratio (%)	0.9	1.2	1.1	(30bps)	(14bps)	0.9	1.2	(30bps)
Coverage Ratio (%)	62.9	42.4	51.8	2,048bps	1,102bps	62.9	42.4	2,048bps

Source: Company, BOBCAPS Research

Valuation methodology

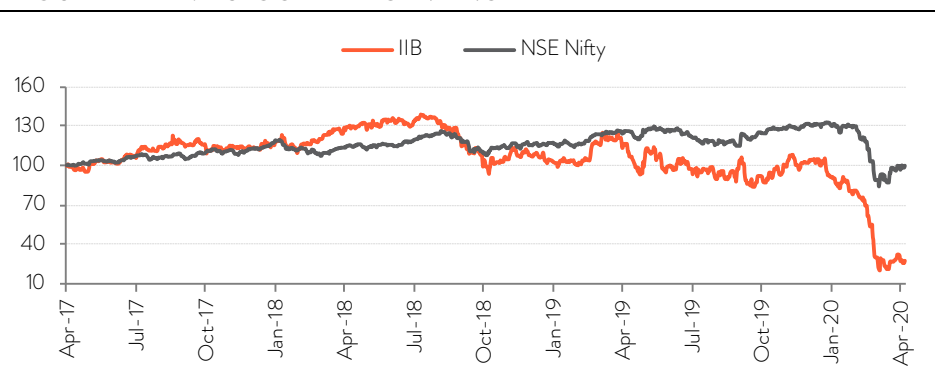
We expect IIB to continue growing much higher than the industry for the next few years and hence use the two-stage Gordon Growth Model to set our target price, as it captures valuations in a high-growth stage. We continue to value the stock at 1x FY22E P/BV. Maintain BUY with a Mar'21 target price of Rs 590.

FIG 2 – VALUATION SUMMARY

Components of Gordon growth model	Assumptions (%)
Cost of equity (%)	15.4
Blended ROE (%)	14.7
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	4
Long term dividend payout ratio (%)	75
Justified P/BV Multiple (x)	1.0
Implied BVPS (Rs)	617
Value per share (Rs)	590

Source: Bloomberg, BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- IIB has seen a sharp outflow in deposits recently; an inability to maintain a steady deposit flow could be a risk to our call.
- An above-anticipated rise in credit cost from the corporate/retail book could hit the bank for short periods of time.
- We see some degree of execution risk as IIB has recently appointed a new MD and CEO at the helm.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	74,974	88,462	120,587	132,105	152,996
NII growth (%)	23.7	18.0	36.3	9.6	15.8
Non-interest income	47,501	56,467	69,524	74,052	83,587
Total income	122,475	144,929	190,112	206,157	236,583
Operating expenses	(55,914)	(64,047)	(82,029)	(98,695)	(116,813)
Operating profit	66,561	80,882	108,083	107,462	119,770
Operating profit growth (%)	22.1	21.5	33.6	(0.6)	11.5
Provisions	(11,754)	(31,077)	(46,521)	(70,793)	(45,815)
PBT	54,807	49,806	61,562	36,670	73,956
Tax	(18,747)	(16,795)	(17,117)	(9,049)	(18,250)
Reported net profit	36,060	33,011	44,445	27,621	55,706
Adjustments	0	0	0	0	0
Adjusted net profit	36,060	33,011	44,445	27,621	55,706

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	6,002	6,027	6,935	6,935	6,935
Reserves & surplus	232,414	260,833	332,329	386,310	428,982
Net worth	238,416	266,860	339,265	393,246	435,917
Deposits	1,516,392	1,948,679	2,020,398	2,285,244	2,705,389
Borrowings	382,891	473,211	607,536	697,535	800,000
Other liabilities & provisions	78,563	89,444	95,577	100,976	106,685
Total liabilities and equities	2,216,262	2,778,194	3,062,775	3,477,001	4,047,991
Cash & bank balance	132,159	147,834	160,037	173,502	188,254
Investments	500,767	592,662	599,799	779,370	973,903
Advances	1,449,537	1,863,935	2,067,832	2,253,937	2,603,297
Fixed & Other assets	133,799	173,764	235,108	270,193	282,537
Total assets	2,216,262	2,778,194	3,062,775	3,477,001	4,047,991
Deposit growth (%)	19.8	28.5	3.7	13.1	18.4
Advances growth (%)	28.2	28.6	10.9	9.0	15.5

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	60.2	54.9	68.6	39.8	80.3
Dividend per share	7.2	9.0	9.6	8.0	16.1
Book value per share	391.2	437.4	484.5	562.3	623.8

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	6.8	7.4	5.9	10.2	5.1
P/BV	1.0	0.9	0.8	0.7	0.7
Dividend yield (%)	1.8	2.2	2.4	2.0	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	3.7	3.5	4.1	4.0	4.1
Non-interest income	2.4	2.3	2.4	2.3	2.2
Operating expenses	2.8	2.6	2.8	3.0	3.1
Pre-provisioning profit	3.3	3.2	3.7	3.3	3.2
Provisions	0.6	1.2	1.6	2.2	1.2
PBT	2.7	2.0	2.1	1.1	2.0
Tax	0.9	0.7	0.6	0.3	0.5
ROA	1.8	1.3	1.5	0.8	1.5
Leverage (x)	9.0	9.9	9.6	8.9	9.1
ROE	16.2	13.1	14.7	7.5	13.4

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Net interest income	23.7	18.0	36.3	9.6	15.8
Pre-provisioning profit	22.1	21.5	33.6	(0.6)	11.5
EPS	25.2	(8.8)	24.9	(41.9)	101.7
Profitability & Return ratios (%)					
Net interest margin	4.0	3.8	4.4	4.4	4.4
Fees / Avg. assets	1.7	1.6	1.7	1.6	1.6
Cost-Income	45.7	44.2	43.1	47.9	49.4
ROE	16.2	13.1	14.7	7.5	13.4
ROA	1.8	1.3	1.5	0.8	1.5
Asset quality (%)					
GNPA	1.2	2.1	2.4	3.6	3.9
NNPA	0.5	1.2	0.9	1.1	1.1
Provision coverage	56.3	43.0	63.3	70.7	72.7
Ratios (%)					
Credit-Deposit	95.6	95.7	102.3	98.6	96.2
Investment-Deposit	33.0	30.4	29.7	34.1	36.0
CAR	15.0	14.2	14.8	14.4	13.8
Tier-1	14.6	13.7	14.3	13.9	13.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

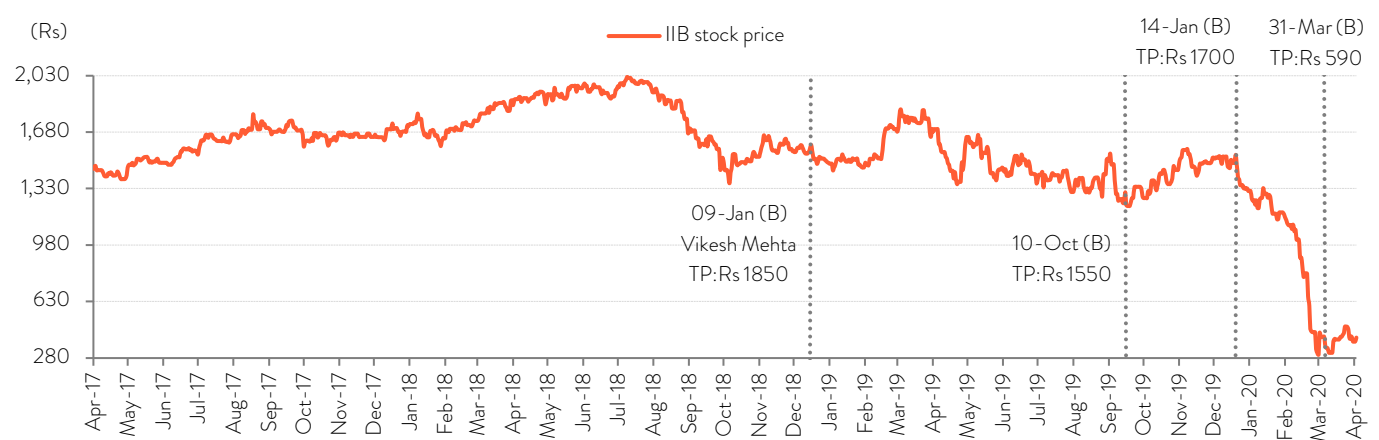
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: INDUSIND BANK (IIB IN)



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

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