

BUY

TP: Rs 1,100 | ▲ 18%

INDUSIND BANK

| Banking

| 01 May 2021

Steady operating performance; growth to pick up

IndusInd Bank (IIB) reported in-line Q4FY21 PAT of Rs 9.3bn with a steady operating performance marked by 9%/10% YoY growth in NII/operating profit. GNPA ratio dipped 20bps QoQ to 2.7% and PCR stood at a healthy 75%. Loan growth was subdued at 3% YoY but should gradually start to recover as corporate portfolio rebalancing is complete. The bank remains cautious on unsecured lending and expects the segment's share of loan book to remain at <5%. NIM was healthy at 4.1%. Maintain BUY, Mar'22 TP Rs 1,100.

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GNPA ratio settles lower in Q4: IIB's GNPA ratio settled lower at 2.7% in Q4 (vs. proforma 2.9% in Q3), in line with the trend seen at larger peers. Business-as-usual slippages stood at ~Rs 19bn. The bank reported additional technical slippages worth Rs 19bn, of which accounts worth ~Rs 16bn were upgraded in Q4 while management expects to upgrade the balance in Q1FY22. Collection efficiency of the retail portfolio stood at 98% in Q4, before slipping marginally in Apr'21. The SMA-2 book was at 31bps of loans.

Ticker/Price	IIB IN/Rs 935
Market cap	US\$ 9.8bn
Shares o/s	773mn
3M ADV	US\$ 127.8mn
52wk high/low	Rs 1,120/Rs 330
Promoter/FPI/DII	15%/52%/33%

Source: NSE

Loan growth should improve gradually: IIB's loan book grew 3% YoY aided by a 5% uptick in retail loans while the corporate book stayed flat. Vehicle finance disbursements grew 30% YoY (8% QoQ) and the MFI and diamond portfolios were up 15% QoQ each. Management highlighted that 81% of the MFI portfolio has been originated post Covid and has 99% collection efficiency. Further, the diamond portfolio has no restructuring, slippages or SMA-2 loans.

STOCK PERFORMANCE



Source: NSE

Corporate portfolio rejig achieves objective: Over the past few quarters, IIB has been consciously striving to make its corporate portfolio more granular. In Q4, ~95% of incremental disbursements were made to clients rated A-and-above (vs. 81% in FY21). The bank has sold loans worth Rs 90bn in FY21 (Rs 35bn in Q4) and believes it has achieved its objective of selling down unwanted exposure.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	88,462	120,587	135,279	157,172	188,457
NII growth (%)	18.0	36.3	12.2	16.2	19.9
Adj. net profit (Rs mn)	33,011	44,579	29,299	59,859	76,173
EPS (Rs)	54.9	68.8	39.9	77.4	98.5
P/E (x)	17.0	13.6	23.4	12.1	9.5
P/BV (x)	2.1	1.9	1.7	1.6	1.4
ROA (%)	1.3	1.5	0.9	1.6	1.7
ROE (%)	13.1	14.5	7.7	13.5	15.3

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

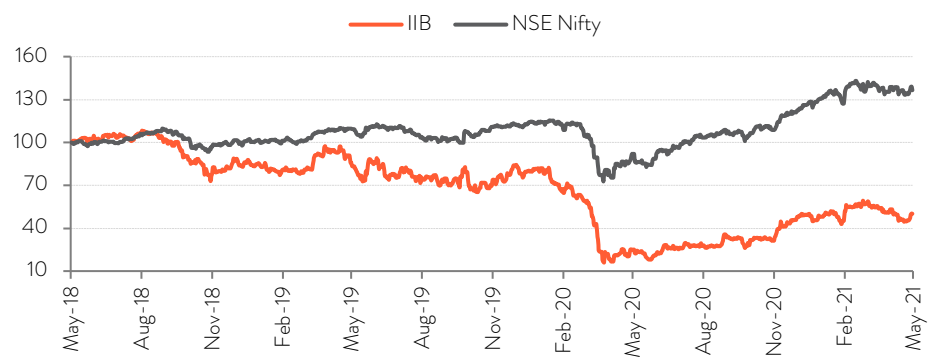
(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	74,194	73,866	72,415	0.4	2.5	289,998	287,828	0.8
Interest expense	38,848	41,554	38,354	(6.5)	1.3	154,719	167,241	(7.5)
Net interest income	35,346	32,312	34,061	9.4	3.8	135,279	120,587	12.2
Non-interest income	17,804	17,720	16,458	0.5	8.2	65,009	69,524	(6.5)
Net total income	53,150	50,032	50,519	6.2	5.2	200,288	190,112	5.4
Staff expenses	8,272	4,957	7,444	66.9	11.1	30,393	25,998	16.9
Other operating expenses	13,591	16,713	13,439	(18.7)	1.1	51,176	56,031	(8.7)
Operating expenses	21,863	21,670	20,883	0.9	4.7	81,568	82,029	(0.6)
Pre-provisioning profit	31,287	28,362	29,636	10.3	5.6	118,720	108,083	9.8
Total provisions	18,657	24,403	18,535	(23.5)	0.7	79,425	46,521	70.7
Profit before tax	12,630	3,959	11,100	219.1	13.8	39,294	61,562	(36.2)
Tax	3,369	940	2,797	258.4	20.5	9,995	17,117	(41.6)
Profit after tax	9,261	3,018	8,304	206.8	11.5	29,299	44,445	(34.1)
Balance Sheet								
Advances	2,125,954	2,067,832	2,071,280	2.8	2.6	2,125,954	2,067,832	2.8
Deposits	2,558,701	2,020,398	2,391,350	26.6	7.0	2,558,701	2,020,398	26.6
CASA ratio (%)	41.7	40.4	40.4	136bps	132bps	41.7	40.4	136bps
Yields and margins (%)								
Net interest margin	4.1	4.3	4.1	(12bps)	1bps			
Yield on advances	11.8	11.9	11.7	(11bps)	11bps			
Cost of funds	4.5	5.5	4.7	(98bps)	(20bps)			
Key ratios (%)								
Cost/Income	41.1	43.3	41.3	(218bps)	(20bps)	40.7	43.1	(242bps)
Tax rate	26.7	23.7	25.2	293bps	148bps	25.4	27.8	(237bps)
Loan to Deposit ratio	83.1	102.3	86.6	(1,926bps)	(353bps)	83.1	102.3	(1,926bps)
Capital adequacy ratios (%)								
Tier 1	16.8	14.6	15.6	226bps	121bps	16.8	14.6	226bps
Total CAR	17.4	15.0	16.3	234bps	104bps	17.4	15.0	234bps
Asset quality (Rs mn)								
Gross NPAs	57,950	51,467	36,507	12.6	58.7	57,950	51,467	12.6
Net NPAs	14,766	18,866	4,642	(21.7)	218.1	14,766	18,866	(21.7)
Gross NPA ratio (%)	2.7	2.5	1.7	22bps	93bps	2.7	2.5	22bps
Net NPA ratio (%)	0.7	0.9	0.2	(22bps)	47bps	0.7	0.9	(22bps)
Credit cost (%)	4.8	3.4	0.8	144bps	404bps	3.5	1.8	161bps
Coverage Ratio (%)	74.2	62.9	87.4	1,130bps	(1,320bps)	74.2	62.9	1,130bps

Source: Company, BOBCAPS Research

Valuation methodology

We like IIB given that it has shored up asset quality buffers over the past few quarters by strengthening PCR and building healthy Covid-related provisions. The bank would also benefit from ongoing corporate resolutions where it has substantial exposure. We continue to value the stock at 1.6x P/BV, yielding a Mar'22 target price of Rs 1,100. Maintain BUY.

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 could pose a risk to estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	88,462	120,587	135,279	157,172	188,457
NII growth (%)	18.0	36.3	12.2	16.2	19.9
Non-interest income	56,467	69,527	65,009	71,309	81,682
Total income	144,929	190,114	200,288	228,481	270,140
Operating expenses	(64,047)	(81,826)	(81,568)	(89,354)	(106,581)
Operating profit	80,882	108,288	118,720	139,127	163,559
Operating profit growth (%)	21.5	33.9	9.6	17.2	17.6
Provisions	(31,077)	(46,521)	(79,425)	(58,848)	(61,399)
PBT	49,806	61,767	39,294	80,280	102,160
Tax	(16,795)	(17,189)	(9,995)	(20,421)	(25,987)
Reported net profit	33,011	44,579	29,299	59,859	76,173
Adjustments	0	0	0	0	0
Adjusted net profit	33,011	44,579	29,299	59,859	76,173

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	6,027	6,935	7,734	7,734	7,734
Reserves & surplus	260,833	340,545	409,635	458,990	521,796
Net worth	266,860	347,480	417,369	466,723	529,529
Deposits	1,948,679	2,020,270	2,558,701	2,942,506	3,472,157
Borrowings	473,211	607,535	513,228	527,563	545,784
Other liabilities & provisions	89,444	97,000	122,097	129,098	136,505
Total liabilities and equities	2,778,194	3,072,286	3,611,396	4,065,890	4,683,975
Cash & bank balance	147,834	160,541	566,099	590,758	617,235
Investments	592,662	599,384	696,534	774,241	882,557
Advances	1,863,935	2,067,832	2,125,954	2,444,847	2,884,920
Fixed & Other assets	173,764	244,529	222,808	256,044	299,263
Total assets	2,778,194	3,072,286	3,611,396	4,065,890	4,683,975
Deposit growth (%)	28.5	3.7	26.7	15.0	18.0
Advances growth (%)	28.6	10.9	2.8	15.0	18.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	54.9	68.8	39.9	77.4	98.5
Dividend per share	9.0	9.0	5.7	11.6	14.8
Book value per share	437.4	496.4	535.5	599.4	680.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	17.0	13.6	23.4	12.1	9.5
P/BV	2.1	1.9	1.7	1.6	1.4
Dividend yield (%)	1.0	1.0	0.6	1.2	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	3.5	4.1	4.0	4.1	4.3
Non-interest income	2.3	2.4	1.9	1.9	1.9
Operating expenses	2.6	2.8	2.4	2.3	2.4
Pre-provisioning profit	3.2	3.7	3.6	3.6	3.7
Provisions	1.2	1.6	2.4	1.5	1.4
PBT	2.0	2.1	1.2	2.1	2.3
Tax	0.7	0.6	0.3	0.5	0.6
ROA	1.3	1.5	0.9	1.6	1.7
Leverage (x)	9.9	9.5	8.7	8.7	8.8
ROE	13.1	14.5	7.7	13.5	15.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	36.3	12.2	16.2	19.9
Pre-provisioning profit	21.5	33.9	9.6	17.2	17.6
EPS	(8.8)	25.3	(41.9)	93.8	27.3
Profitability & Return ratios (%)					
Net interest margin	3.8	4.4	4.4	4.4	4.6
Fees / Avg. assets	1.6	1.6	1.2	1.2	1.2
Cost-Income	44.2	43.0	40.7	39.1	39.5
ROE	13.1	14.5	7.7	13.5	15.3
ROA	1.3	1.5	0.9	1.6	1.7
Asset quality (%)					
GNPA	2.1	2.5	2.7	3.1	2.9
NNPA	1.2	0.9	0.7	1.2	1.3
Credit cost	1.6	1.8	3.5	2.3	2.0
Provision coverage	43.0	63.3	74.5	62.1	54.7
Ratios (%)					
Credit-Deposit	95.7	102.4	83.1	83.1	83.1
Investment-Deposit	30.4	29.7	27.2	26.3	25.4
CAR	14.2	15.0	17.4	15.8	15.4
Tier-1	13.7	14.6	16.8	15.3	14.7

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

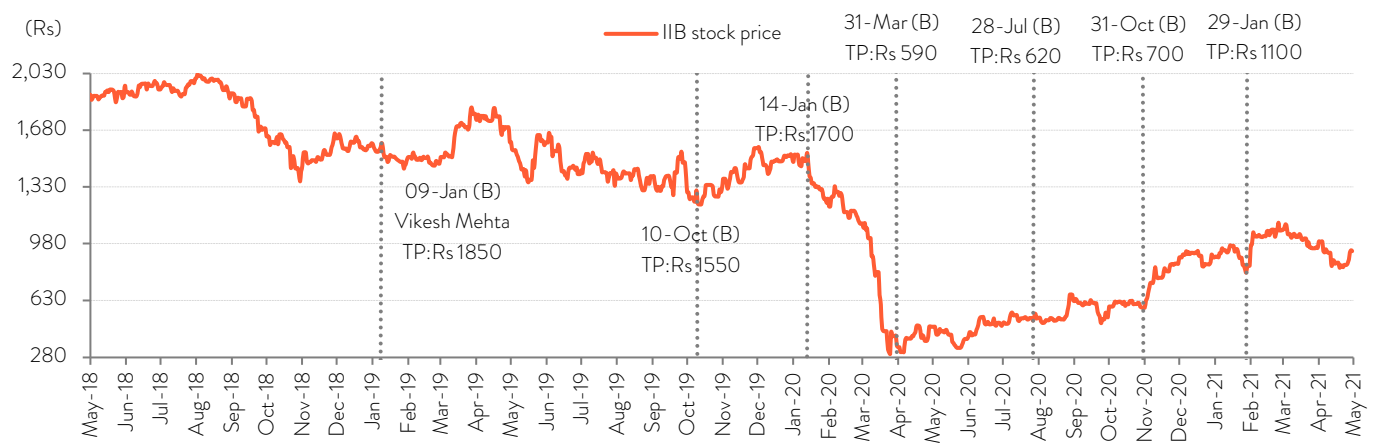
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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