

Stable Core performance; Liability profile progressing well

**CMP: Rs 586**

**Rating: Hold**

**Target Price: Rs 651**

**Stock Info**

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	756
Mkt Cap (Rs Cr)	44,299
52w H/L (Rs)	1,597/ 236
Avg Yearly Vol (in 000')	18,228

**Shareholding Pattern %**

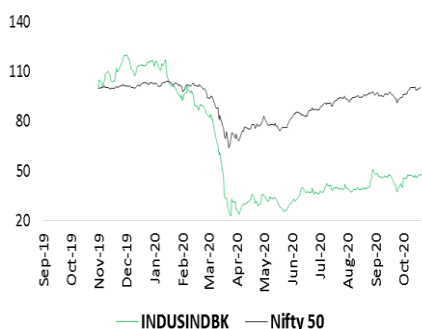
(As on September, 2020)

Promoters	14.68
FII	51.81
DII	17.24
Public & Others	16.27

**Stock Performance (%)**

	3m	6m	12m
IndusInd Bank	16.43	38.45	-54.9
Nifty	6.89	25.27	-1.70

**IndusInd Bank Vs Nifty**



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IndusInd Bank has reported steady operating performance during Q2FY21 with improvement in collection efficiency. NII for the quarter grew by 13% YoY/-1% QoQ to Rs 3,278 cr, despite a lower loan growth of 2% both on YoY/QoQ basis. NII growth was mainly driven by stable yield and YoY improvement in NIM. NIM of the bank declined by 12bps QoQ to 4.2%, largely due to excess liquidity of Rs 40,000 cr. Operating profit of the bank increased by 9% YoY/-1% QoQ to Rs 2,831 cr. Provision continued to remain higher at Rs 1,964 cr, which includes additional Covid provision of Rs 952 cr (Total Covid provision at 2,155 cr). Moreover, the bank holds specific, floating, standard asset and other provisions of Rs 2646 cr, Rs 70 cr, Rs 972 cr and Rs 150 cr respectively. The total provision stands at 130% of GNPA's and 3% of loans. Profit for the quarter fell by 53% YoY and grew by 41% QoQ to Rs 647 cr vs. our estimate of Rs 631 cr.

**Key Highlights of Q2FY21:**

**Stable core operating performance:** The bank's operating performance was largely stable in terms of NII and PPOP. Other income of the bank fell by 10% YoY to Rs 1,554 cr. However, on a sequential basis, other income grew by 2% driven by 56% QoQ jump in fee income at Rs 1,061 cr. Sequentially, NIMs declined by 12bps to 4.16% (~10bps excess liquidity impact) while the yields on average advances stood flat at 12.0%, despite fallen interest rates and decreased Cost of funds at 5.7%.

**Loan book growth was lower, Deposit growth has picked up well:** Total advances of the bank increased by 2% YoY/QoQ, primarily due to run-down in corporate portfolio. Corporate banking portfolio of the bank declined by 5% YoY while consumer finance portfolio grew by 8% YoY. Bank continue to gain strong traction in deposit growth at 10% YoY/8% QoQ with strong CASA growth at 9% QoQ. CASA ratio of the bank increased by 30bps QoQ to 40.3%. Liquidity coverage ratio of the bank improved to 140% from 124% QoQ.

**Asset quality improved:** Due to SC's interim order on asset classification, gross slippages of the bank declined to Rs 399 cr as against Rs 1,537 cr in the previous quarter. GNPA's/NNPA's ratio for the quarter fell to 2.21%/0.52% from 2.53%/0.86% in Q1FY21. The proforma GNPA's/NNPA's ratio would be 2.32% and 0.61% respectively. Management has stated that restructuring will be in low single digit.

**Valuation & View:** Core operating performance of the bank largely remained stable. Management's commentary over demand pick in some portfolio will drive the growth ahead. The bank has made higher provision (PCR at 77% vs 67% QoQ) to safeguard the balance sheet from future credit stress. With high PCR, improvement in collection efficiency (at ~95%), healthy capital position and increased granularity in liability profile, we believe credit cost will normalize in H2FY21 and return ratios to improve further. IndusInd Bank is currently trading at a P/adj. BV of 1.2x to its FY22E ABV. We assign P/adj. BV of 1.3x for FY22E ABVPS of Rs 501 per share for a target price of Rs 651 per share (Rs 557 earlier) while upgrading our rating to Hold from Neutral.

Particulars (Rs Crore)	FY18	FY19	FY20	FY21E	FY22E
NII	7,498	8,846	12,059	14,344	15,940
PPOP	6,657	8,088	10,773	12,025	12,259
PAT	3,607	3,301	4,418	3,932	4,484
EPS (INR / Share)	60.1	54.8	63.7	52.0	59.3
BVPS (INR / Share)	397.0	442.6	500.3	504.0	544.0
NIM (%)	4.0%	3.8%	4.4%	4.9%	4.9%
Advances Growth YoY (%)	28.2%	28.6%	10.9%	8.0%	13.0%
Deposits Growth	19.8%	28.5%	3.7%	8.0%	10.0%
P/ABV (x)	4.7	1.4	1.3	1.3	1.2

## Q2FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Interest Income	7,177	7,162	7,150	0.2%	0.4%
Interest Expense	3,899	3,853	4,241	1.2%	-8.1%
Net Interest Income	3,278	3,309	2,910	-0.9%	12.7%
Non Interest Income	1,554	1,519	1,727	2.3%	-10.0%
Total Income	4,832	4,828	4,636	0.1%	4.2%
Employee Costs	524	552	515	-5.0%	1.7%
Other Operating Expenses	1,477	1,415	1,521	4.4%	-2.9%
Operating Expenses	2,001	1,967	2,036	1.7%	-1.7%
Pre-Provision Profit	2,831	2,861	2,600	-1.1%	8.9%
Provisions	1,964	2,259	738	-13.0%	166.3%
Profit Before Tax	866	602	1,862	43.8%	-53.5%
Tax Expense	219	142	479	54.5%	-54.3%
Net Profit	647	461	1,383	40.5%	-53.2%
<b>Balance Sheet Analysis</b>					
Deposits	2,28,279	2,11,265	2,07,193	8.1%	10.2%
CASA Deposits	91,846	84,473	85,838	8.7%	7.0%
CASA (%)	40.3%	40.0%	41.4%	30bps	-113bps
Advances	2,01,247	1,98,069	1,97,113	1.6%	2.1%
Total Assets	3,32,189	3,17,916	2,94,933	4.5%	12.6%
Capital Adequacy Ratio (%)	16.55%	15.16%	14.70%	139bps	185bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	12.0%	12.0%	12.2%	1bps	-19bps
Yield on Avg Interest Earning Assets (%)	9.5%	9.9%	10.4%	-42bps	-86bps
Cost of Funds (%)	5.66%	5.78%	6.4%	-12bps	-79bps
NIM (%)	4.16%	4.3%	4.1%	-12bps	6bps
<b>Asset Quality</b>					
Gross NPA	4,532	5,099	4,370	-11.1%	3.7%
Net NPA	1,056	1,703	2,203	-38.0%	-52.1%
GNPA (%)	2.21%	2.53%	2.19%	-32bps	2bps
NNPA (%)	0.52%	0.86%	1.12%	-34bps	-60bps
PCR (%)	76.7%	66.6%	49.6%	1011bps	2710bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	41.4%	40.7%	43.9%	68bps	-250bps
C/D Ratio (%)	88.2%	93.8%	95.1%	-560bps	-698bps
RoA (%) (Annualised)	0.85%	0.69%	1.95%	16bps	-110bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Q2FY21 – Key Concall Highlights

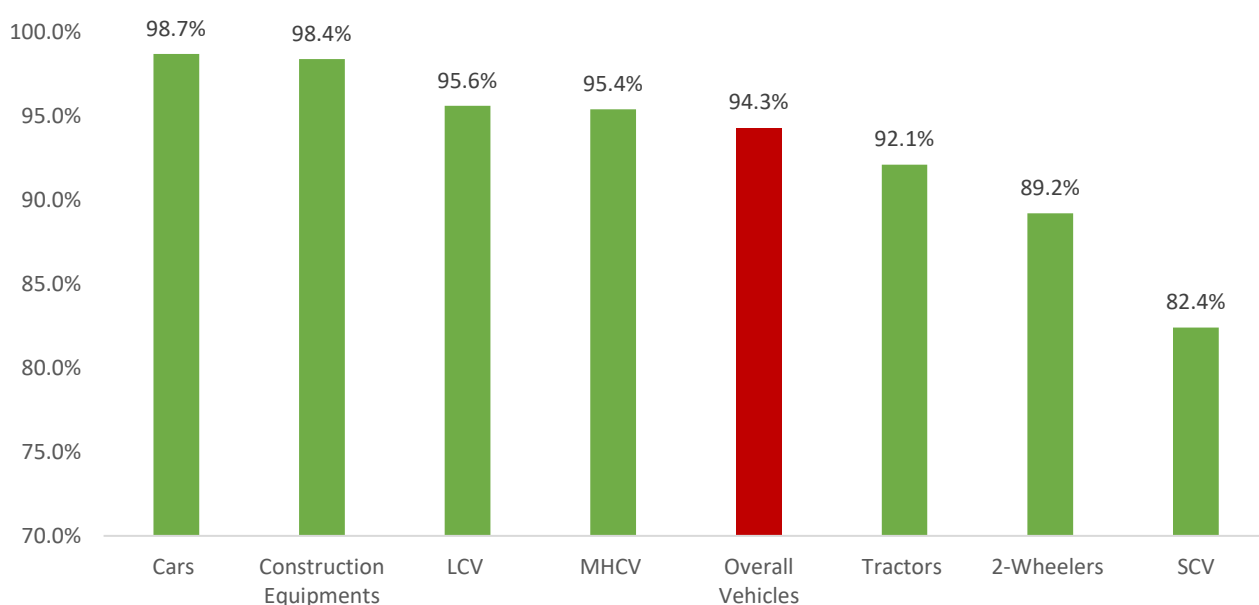
### On Asset quality and collection efficiency front

- Collection efficiency of the bank is improving on MoM basis. As of Sep'20, the collection efficiencies in vehicle finance and micro finance book stood at 94.3% and 91% respectively. Collection efficiency of overall book stood at ~95% for the month of Oct' 2020.
- Collection efficiency is lower in small CV (82.4%) and 2W (89.2%) which constitute ~5% of the book. Small CV is most impacted by Covid and is slowly getting back on track.
- In MFI portfolio, collection efficiency in fresh disbursements is at 99%. Overall MFI collection efficiency is expected to cross 95% soon.
- Collection efficiency in Mid and Small corporates stood at 95% for Sep'20, but lower in sectors such as food processing, education and auto ancillaries.
- Slippages without considering SC order was at Rs 618 cr, lower than normal run rate. There was NIL slippages in the corporate book.
- Proforma GNPA at 2.32% is still lower than Q1FY21 GNPA number (at 2.53%).
- Management expects restructuring will be in low single digit, primarily from Luxury bus, Hotels and education sector.

### Other Highlights

- Management sound optimistic about future growth (mainly from Q4FY21 onwards). Management has indicated that there is some demand revival seen in core CV book especially LCV where it is gaining market share.
- Other vehicle segments 2W, cars, tractors, CE and affordable housing are nearly back to pre-Covid levels and it will drive growth in coming quarter.
- Deposits:** Bank is continuously focusing to make its liability profile more granular in nature. Deposit growth of the bank has picked up quite well.
- Capital position:** The bank has strengthened its capital position by raising Rs 3,288 cr. Capital adequacy ratio of the bank improved by 139bps QoQ to 16.55%.
- Bank has denied on recent merger news (IndusInd + Kotak) .

## Vehicle Finance Segment Wise Collection Update (For the month of September 2020)



## Key Financials

Profit & Loss Statement (INR Crores)	FY 18	FY 19	FY 20	FY 21E	FY 22E
Interest Income	17,281	22,261	28,783	31,800	35,142
Interest Expense	9,783	13,415	16,724	17,456	19,202
<b>Net Interest Income</b>	<b>7,498</b>	<b>8,846</b>	<b>12,059</b>	<b>14,344</b>	<b>15,940</b>
Non interest income	4,750	5,647	6,951	7,646	8,411
Operating income	12,248	14,493	19,010	21,991	24,351
- Employee expense	1,781	1,854	2,208	2,429	2,672
- Other operating expense	3,810	4,551	6,029	7,536	9,420
Operating Expense	5,591	6,405	8,237	9,965	12,092
<b>PPOP</b>	<b>6,657</b>	<b>8,088</b>	<b>10,773</b>	<b>12,025</b>	<b>12,259</b>
Provisions	1,176	3,108	4,652	6,048	5,443
PBT	5,481	4,981	6,121	5,977	6,816
Tax Expense	1,875	1,679	1,703	2,045	2,332
<b>PAT</b>	<b>3,607</b>	<b>3,301</b>	<b>4,418</b>	<b>3,932</b>	<b>4,484</b>
<b>Diluted EPS (INR)</b>	<b>60.1</b>	<b>54.8</b>	<b>63.7</b>	<b>52.0</b>	<b>59.3</b>

Balance Sheet (INR Crores)	FY18	FY19	FY20	FY21E	FY 22E
<b>Source of Funds</b>					
Share capital	600	603	694	756	756
Reserves & Surplus	23,227	26,072	34,003	37,368	40,396
Networth	23,827	26,675	34,697	38,125	41,152
ESOP	15	11	9	16	16
Borrowings	38,289	47,321	60,754	68,044	76,209
Deposits	1,51,639	1,94,868	2,02,040	2,18,203	2,40,023
Other liabilities & provisions	7,856	8,944	9,558	11,469	13,763
<b>Total Equity &amp; Liabilities</b>	<b>2,21,626</b>	<b>2,77,819</b>	<b>3,07,058</b>	<b>3,35,857</b>	<b>3,71,164</b>
<b>Uses of Funds</b>					
Cash & Balances w/ RBI	10,962	9,961	13,675	12,215	13,673
Balances w/ banks & others	2,253	4,822	2,328	2,678	3,080
Investments	50,077	59,266	59,980	65,978	72,576
Loans & advances	1,44,953	1,86,394	2,06,783	2,23,326	2,52,358
Fixed assets	1,339	1,710	1,820	2,093	2,407
Other assets	12,042	15,666	22,471	29,567	27,070
<b>Total Assets</b>	<b>2,21,626</b>	<b>2,77,819</b>	<b>3,07,058</b>	<b>3,35,857</b>	<b>3,71,164</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY18	FY19	FY20	FY21E	FY 22E
<b>Growth Rates</b>					
Advances (%)	28.2%	28.6%	10.9%	8.0%	13.0%
Deposits (%)	19.8%	28.5%	3.7%	8.0%	10.0%
Total assets (%)	24.1%	25.4%	10.5%	9.4%	10.5%
NII (%)	23.7%	18.0%	36.3%	19.0%	11.1%
Pre-provisioning profit (%)	22.1%	21.5%	33.2%	11.6%	1.9%
PAT (%)	25.8%	-8.5%	33.8%	-11.0%	14.0%
<b>B/S Ratios</b>					
Credit/Deposit (%)	95.6%	95.7%	102.3%	102.3%	105.1%
CASA (%)	44.0%	44.0%	40.4%	41.2%	41.3%
Advances/Total assets (%)	65.4%	67.1%	67.3%	66.5%	68.0%
Leverage - Total Assets to Equity	9.3	10.4	8.8	8.8	9.0
<b>Operating efficiency</b>					
Cost/income (%)	45.6%	44.2%	43.3%	45.3%	49.7%
Opex/total assets (%)	2.5%	2.3%	2.7%	3.0%	3.3%
Opex/total interest earning assets	3.1%	2.8%	3.1%	3.4%	3.8%
<b>Profitability</b>					
NIM (%)	4.0%	3.8%	4.4%	4.9%	4.9%
RoA (%)	1.6%	1.2%	1.4%	1.2%	1.2%
RoE (%)	15.1%	12.4%	12.7%	10.3%	10.9%
<b>Asset Quality</b>					
Gross NPA (%)	1.2%	2.1%	2.2%	2.3%	2.3%
Net NPA (%)	0.5%	1.2%	1.2%	1.3%	1.3%
Credit cost (%)	0.9%	1.9%	2.4%	2.8%	2.3%
<b>Per Share Data / Valuation</b>					
EPS (INR)	60.1	54.8	63.7	52.0	59.3
BVPS (INR)	397.0	442.6	500.3	504.0	544.0
ABVPS (INR)	384.5	405.3	463.4	466.2	501.1
P/E (x)	29.9	10.7	9.2	11.3	9.9
P/BV (x)	4.5	1.3	1.2	1.2	1.1
<b>P/ABV (x)</b>	<b>4.7</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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