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CMP: INR 976

Rating: Accumulate

Target Price: INR 1,095

Stock Info

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	773
Mkt Cap (INR Cr)	75,506
52w H/L (INR)	1,120 / 483
Avg Yearly Vol (in 000')	18,606

Shareholding Pattern %

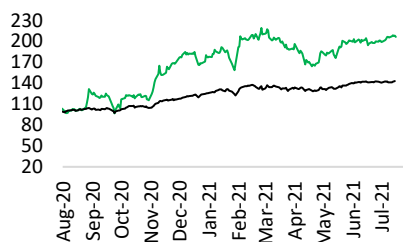
(As on June, 2021)

Promoters	16.5
FII	52.1
DII	17.7
Public & Others	13.7

Stock Performance (%)

	1m	3m	12m
IndusInd Bank	-3.7	10.6	92.6
Nifty 50	-0.7	7.46	41.4

IndusInd Bank Vs Nifty



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IndusInd Bank (IIB) has reported another quarter of steady operating performance during Q1FY22. While the business growth momentum and asset quality were slightly impacted by lockdowns in Apr and May'21, management stated that with gradual opening up of economy the things are trending back to near normal levels. Due to lower base of last year profit growth for the quarter was higher at INR 975 cr vs. our estimate of INR 1,075 cr, a 2.1x increase YoY. NII for the quarter grew by 8% YoY/1% QoQ to INR 3,564 cr vs. our estimate of INR 3,459 cr, driven by 6% YoY growth in advances. Operating profit of the bank increased by 9% YoY/2% QoQ to INR 3,131 cr vs our estimate of INR 3,121 cr. Prudential provisioning stance of the bank continues with total provision at INR 1,844 cr vs. INR 1,866 cr in the previous quarter. The bank kept building buffer against the stress assets and carries ~3.6% cumulative provisioning as of Q1FY22. GNPA's/NNPA's inched up slightly to 2.0%/0.8% (+21bps/+15bps QoQ) while restructuring book increased to 2.7% of loans (vs 2% in Mar'21).

Loan growth contracted sequentially: IIB's loan book grew by 6% YoY/-1% QoQ aided by corporate credit growth of 10% YoY while retail loan growth was at 3.7%. Since, the realignment and sell-down objectives on corporate side has achieved, the book will continue to register good growth going ahead. On the retail side, CV segment decreased by 3% YoY, 3W loan segment by -9% YoY and 2W segment by -11% YoY/-9% QoQ. Liability profile of the bank continued to witness a strong traction with total deposit growth at 26.5% YoY/4% QoQ, driven by CASA deposit growth of 33% YoY. CASA ratio of the bank improved marginally by 30bps QoQ at 42%. NIM of the bank decreased marginally by 6bps QoQ at 4.06%. Cost of funds of the bank declined marginally by 6bps QoQ at 4.97% while yield on advances stood largely stable QoQ at 11.8%.

Asset quality slips due to stress in retail: Gross slippages were higher at INR 2,762 cr, of which INR 421 cr was from Corporate and INR 2,342 cr was from Retail segment. Of the total retail slippages, INR 1,060 cr was from Vehicle finance, INR 674 cr from MFI, INR 248 cr from unsecured retail and INR 360 cr from secured retail business. Collection efficiency for the month of June was at ~96%. SMA 2 book was at 47bps vs 31 bps QoQ. Write-offs for the quarter was at INR 938 cr vs. INR 1,350 cr QoQ while recoveries stood at INR 589 cr vs INR 968 cr. In addition to PCR of 72% on NPA and standard asset provision of ~0.5% on advances, the bank has made additional covid provision buffer of INR 450 cr and now contingent covid provision buffer stood at INR 2,050 cr (~1% of advances).

Valuation & View: We cut our FY22/23E earnings estimates by 3% to factor in high provision buffer maintained by the bank. With strong capital ratio (CAR at 17.6%), granularity in its loan book, increasing deposit traction and prudent provisioning stance, we believe bank to achieve RoA/RoE of 1.5%/13% by FY23E. We maintain our Accumulate rating on the stock with a revised target price of INR 1,095 (earlier INR 1,103), valuing it at 1.6x FY23E ABV.

Financial Summary

Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
NII	8,846	12,059	13,528	14,903	16,664
PPOP	8,088	10,773	11,727	12,922	14,519
PAT	3,301	4,418	2,837	5,212	7,298
EPS (INR / Share)	54.8	63.7	36.7	67.4	94.4
BVPS (INR / Share)	442.6	500.3	560.7	623.1	712.5
RoA (%)	1.2%	1.4%	0.8%	1.2%	1.5%
RoE (%)	12.4%	12.7%	6.5%	10.8%	13.2%
P/ABV (x)	2.4	2.1	1.8	1.6	1.4

Q1FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Interest Income	7,575	7,419	7,162	2.1%	5.8%
Interest Expense	4,011	3,885	3,853	3.2%	4.1%
Net Interest Income	3,564	3,535	3,309	0.8%	7.7%
Non Interest Income	1,781	1,780	1,519	0.0%	17.2%
Total Income	5,345	5,315	4,828	0.6%	10.7%
Employee Costs	608	595	552	2.2%	10.2%
Other Operating Expenses	1,606	1,658	1,415	-3.1%	13.5%
Operating Expenses	2,214	2,253	1,967	-1.7%	12.6%
Pre-Provision Profit	3,131	3,062	2,861	2.2%	9.4%
Provisions	1,844	1,866	2,259	-1.2%	-18.4%
Profit Before Tax	1,287	1,196	602	7.6%	113.6%
Tax Expense	312	320	142	-2.6%	119.7%
Net Profit	975	876	461	11.3%	111.7%
Balance Sheet Analysis					
Deposits	2,67,233	2,56,205	2,11,265	4.3%	26.5%
CASA Deposits	1,12,349	1,06,791	84,473	5.2%	33.0%
CASA (%)	42.0%	41.7%	40.0%	30bps	200bps
Advances	2,10,727	2,12,595	1,98,069	-0.9%	6.4%
Total Assets	3,72,996	3,62,973	3,17,916	2.8%	17.3%
Capital Adequacy Ratio (%)	17.57%	17.38%	15.16%	19bps	241bps
Spread Analysis					
Yield on Avg Advances (%)	11.7%	11.7%	12.0%	1bps	-31bps
Yield on Avg Interest Earning Assets (%)	8.8%	9.0%	9.9%	-23bps	-114bps
Cost of Funds (%)	5.14%	5.22%	6.4%	-8bps	-130bps
NIM (%)	4.06%	4.1%	4.3%	-6bps	-22bps
Asset Quality					
Gross NPA	6,186	5,795	5,099	6.7%	21.3%
Net NPA	1,760	1,477	1,703	19.2%	3.3%
GNPA (%)	2.88%	2.67%	2.53%	21bps	35bps
NNPA (%)	0.84%	0.69%	0.86%	15bps	-2bps
PCR (%)	71.6%	74.5%	66.6%	-297bps	496bps
Key Ratios					
Cost to Income Ratio (%)	41.4%	42.4%	40.7%	-97bps	69bps
C/D Ratio (%)	78.9%	83.0%	93.8%	-412bps	-1490bps
RoA (%) (Annualised)	1.17%	1.09%	0.69%	8bps	48bps

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

Q1FY22 – Key Concall Highlights

On Asset quality and collection efficiency front

- The bank has reported slippages of INR 2,762 cr during Q1FY22. ~85% of the slippages came from the retail book, with ~38% coming from vehicle finance portfolio, ~24% from MFI portfolio and ~22% from other retail. Within retail, the two wheeler portfolio, small CV portfolio (three-wheelers) and credit cards portfolio saw sharpest jumps in GNPA ratios.
- Collections efficiency in June stood at 96%, showing an improvement over Apr/May'21. However, it remains lower than ~98% in March 2021 and ~97% in December 2020. The management indicated that collection efficiency had further improved in July.
- Total restructured advances for the bank stood at INR 5,650 cr (~2.7% of advances), out of which INR 3,090 cr is from the vehicle finance portfolio, INR 330 cr is from the secured retail, INR 380 cr is from the unsecured retail portfolio, INR 70 cr is from the microfinance portfolio and the balance INR 1,780 cr is from the corporate book.

On MFI

- Collection efficiency in MFI business stood at 89% in June and climbed up to mid-90s in the month of July 2021.
- The bank is watchful on growth in this portfolio.
- The management stated that the states of Bihar, Odisha and Maharashtra have shown above average collection efficiencies, while the states of Kerala, West Bengal and Karnataka have seen below average collection efficiency of ~83-84%
- The bank has taken a conservative stance on unsecured MFI delinquencies by fully providing for NPA.

On Vehicle Finance

- Management indicated a positive outlook on growth in this segment as dealerships started opening in June and demand seems to be picking up driving a pickup in volumes.
- VF reported ~97% collection efficiency in the month of June.
- This portfolio saw INR 650 cr of fresh restructuring during the quarter. ~80% of it came from the MHCV and 3-wheeler portfolios.
- The management stated that further restructuring requests have been declining and in Q2FY22 should see lower amount of restructuring. The contact intensive segments like buses and auto-rickshaws have been most impacted.

On Corporate Banking

- Bank has reported slippages of INR 421 in this portfolio. This included one real estate account of INR 270 cr. Slippages outside of this were spread across multiple accounts.
- The bank completed an additional INR 1,100 cr of restructuring in this quarter where restructuring was invoked earlier.
- The bank is confident of recoveries from this restructured book and expects very little flow from here into NPAs.

Other Highlights

- The bank indicated facing no impact from RBI restrictions on Mastercard.
- Management reiterated its guidance of 16-18% CAGR in advances over next few years with a CD ratio of 85-90%.
- Reported NIM for the bank was marginally lower QoQ at ~4.1%. During the quarter, the bank has reduced SA & FD rates by 50bps which will support margins.
- ECLGS book for the bank stood at INR 4,640 cr.
- The management guided that credit cost to remain below 2% in a normalized environment.
- In addition to PCR of 72% on NPA, the bank holds a contingent provision buffer of INR 2,050 cr (~1.0% of advances).

Key Financials

Profit & Loss Statement (INR Crores)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	22,261	28,783	29,000	31,694	34,657
Interest Expense	13,415	16,724	15,472	16,792	17,993
Net Interest Income	8,846	12,059	13,528	14,903	16,664
Non interest income	5,647	6,951	6,559	7,215	7,936
Operating income	14,493	19,010	20,087	22,118	24,600
- Employee expense	1,854	2,208	2,214	2,435	2,678
- Other operating expense	4,551	6,029	6,146	6,761	7,403
Operating Expense	6,405	8,237	8,360	9,196	10,082
PPOP	8,088	10,773	11,727	12,922	14,519
Provisions	3,108	4,652	7,943	5,957	4,766
PBT	4,981	6,121	3,784	6,965	9,753
Tax Expense	1,679	1,703	948	1,753	2,455
PAT	3,301	4,418	2,837	5,212	7,298
Diluted EPS (INR)	54.8	63.7	36.7	67.4	94.4

Balance Sheet (INR Crores)	FY19	FY20	FY21	FY22E	FY23E
Source of Funds					
Share capital	603	694	773	773	773
Reserves & Surplus	26,072	34,003	42,592	47,417	54,329
Networth	26,675	34,697	43,365	48,191	55,102
ESOP	11	9	0	16	16
Borrowings	47,321	60,754	51,323	76,209	85,354
Deposits	1,94,868	2,02,040	2,56,205	2,89,512	3,27,148
Other liabilities & provisions	8,944	9,558	12,080	14,495	17,395
Total Equity & Liabilities	2,77,819	3,07,058	3,62,973	4,28,423	4,85,015
Uses of Funds					
Cash & bank balance	14,783	16,004	56,327	65,000	67,000
Investments	59,266	59,980	69,695	79,174	95,008
Loans & advances	1,86,394	2,06,783	2,12,595	2,38,107	2,71,442
Fixed assets	1,710	1,820	1,809	2,081	2,393
Other assets	15,666	22,471	22,546	44,061	49,172
Total Assets	2,77,819	3,07,058	3,62,973	4,28,423	4,85,015

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

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
Growth Rates					
Advances (%)	28.6%	10.9%	2.8%	12.0%	14.0%
Deposits (%)	28.5%	3.7%	26.8%	13.0%	13.0%
Total assets (%)	25.4%	10.5%	18.2%	18.0%	13.2%
NII (%)	18.0%	36.3%	12.2%	10.2%	11.8%
Pre-provisioning profit (%)	21.5%	33.2%	8.9%	10.2%	12.4%
PAT (%)	-8.5%	33.8%	-35.8%	83.7%	40.0%
B/S Ratios					
Credit/Deposit (%)	95.7%	102.3%	83.0%	82.2%	83.0%
CASA (%)	44.0%	40.4%	41.7%	41.7%	41.7%
Advances/Total assets (%)	67.1%	67.3%	58.6%	55.6%	56.0%
Leverage - Total Assets to Equity	10.4	8.8	8.4	8.9	8.8
Operating efficiency					
Cost/income (%)	44.2%	43.3%	41.6%	41.6%	41.0%
Opex/total assets (%)	2.3%	2.7%	2.6%	2.2%	2.1%
Opex/total interest earning assets	2.8%	3.1%	2.9%	2.9%	2.8%
Profitability					
NIM (%)	3.8%	4.4%	4.4%	4.4%	4.6%
RoA (%)	1.2%	1.4%	0.8%	1.2%	1.5%
RoE (%)	12.4%	12.7%	6.5%	10.8%	13.2%
Asset Quality					
Gross NPA (%)	2.1%	2.5%	2.7%	2.6%	2.6%
Net NPA (%)	1.2%	0.9%	0.7%	0.8%	0.8%
PCR (%)	43.0%	45.0%	74.2%	70.0%	70.0%
Slippage (%)	1.2%	1.2%	2.2%	1.6%	1.0%
Credit cost (%)	1.9%	2.4%	3.8%	2.6%	1.9%
Per Share Data / Valuation					
EPS (INR)	54.8	63.7	36.7	67.4	94.4
BVPS (INR)	442.6	500.3	560.7	623.1	712.5
ABVPS (INR)	405.3	463.4	544.2	598.5	684.6
P/E (x)	17.8	15.3	26.6	14.5	10.3
P/BV (x)	2.2	2.0	1.7	1.6	1.4
P/ABV (x)	2.4	2.1	1.8	1.6	1.4

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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