

Healthy Operating performance; Stress formation on anticipated line

**CMP: INR 1,026**

**Rating: Accumulate**

**Target Price: INR 1,151**

**Stock Info**

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	756
Mkt Cap (INR Cr)	77,717
52w H/L (INR)	1,310/ 236
Avg Yearly Vol (in 000')	21,712

**Shareholding Pattern %**

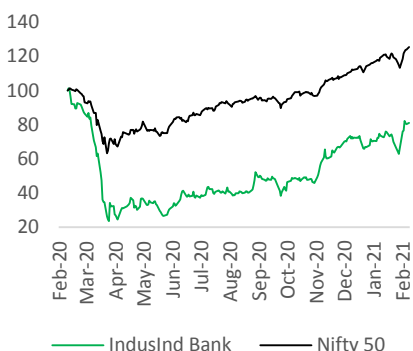
(As on December, 2020)

Promoters	14.67
FII	50.33
DII	14.83
Public & Others	20.17

**Stock Performance (%)**

	3m	6m	12m
IndusInd Bank	32.3	101.5	-21.0
Nifty	21.2	34.7	24.9

**IndusInd Bank Vs Nifty**



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IndusInd Bank has reported good performance during Q3FY21 with improvement in collection efficiency. NII for the quarter grew by 11% YoY/4% QoQ to INR 3,406 cr driven by 3% QoQ growth in advances. Operating profit of the bank increased by 8% YoY/5% QoQ to INR 2,973 cr. Prudential provisioning stance of the bank continues with total provision at INR 1,854 cr vs. INR 1,964 cr in the previous quarter. As of Q3FY21, the bank holds a covid provision of INR 3,261 cr and 3.31% of loan related provision. Total loan related provisions stood at 188% of GNPA and 111% of proforma GNPA. Proforma GNPA/NNPA of the bank inched up to 2.93%/0.7% (+61bps/+9bps QoQ) while restructuring book stood at 0.6% (with additional request of 1.2%). Profit for the quarter declined by 34% YoY to INR 853 cr and grew by 32% on a QoQ basis.

**Key Highlights of Q3FY21:**

**Credit growth remained lower while deposit growth was stable:** Overall loan book was flat YoY with continued decline in corporate segment (-7% YoY) in line with the bank's objective of increasing granularity in the book. Retail loan saw healthy traction at +5.8% YoY growth with disbursements near pre-covid level. Liability profile of the bank witnessed a healthy traction with total deposit growth at 10% YoY/5% QoQ with stable CASA at 40.4%. Despite having interest reversal impact on the margins to the tune of INR 185 cr, NIM was down by merely 4bps QoQ at 4.12%.

**Proforma NPA increased; Restructure book to be in low single digit:** Proforma slippages for the quarter came in at INR 2,508 cr (1.2% of loans) within that 20% comprises of vehicle and MFI each, secured retail at 15%, unsecured retail at 30% and corporate is at 15%. Proforma GNPA/NNPA for the quarter stood at 2.9%/0.7% while reported GNPA/NNPA stood lower at 1.7%/0.2%. Bank restructuring book stands at 1.8% of book (0.6% implemented in Q3FY21) within that major portion is from corporate banking (57%), vehicle is 30% and non-vehicle retail is 13%. PCR of the bank improved further to 87% from 77% QOQ.

**Planning Cycle-5' strategy:** With increasing visibility on the business front, the bank has unveiled "Planning cycle 5 strategy' to 1. Investment in new engines 2. Scaling up the domain expertise (like MFI, VF and diamond financing) 3. adopting conservative practices 4. Digital banking and 5. strengthening the liability book.

**Valuation & View:** Core operating performance of the bank remained healthy. The bank's high PCR (at 87%) is likely to safeguard the balance sheet from future credit stress. With high PCR, improvement in collection efficiency, healthy capital position and increased granularity in liability profile, we believe credit cost will normalize and return ratios to improve further (RoA of 1.5% and RoE at 14.2% by FY23E). We assign a P/adj. BV of 2x for FY23E ABVPS of INR 576 per share for a target price of INR 1,151 per share while upgrading our rating to Accumulate from Hold.

**Financial Summary**

Particulars (INR Crore)	FY19	FY20	FY21E	FY22E	FY23E
NII	8,846	12,059	13,698	14,686	15,727
PPOP	8,088	10,773	11,987	12,529	13,209
PAT	3,301	4,418	3,052	5,233	6,570
EPS (INR / Share)	54.8	63.7	40.3	69.2	86.9
BVPS (INR / Share)	442.6	500.3	492.4	542.3	609.9
NIM (%)	3.8%	4.4%	4.7%	4.7%	4.4%
RoA (%)	1.2%	1.4%	0.9%	1.4%	1.5%
RoE (%)	12.4%	12.7%	8.2%	12.8%	14.2%
P/ABV (x)	2.5	2.2	2.2	2.0	1.8

## Q3FY21 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Interest Income	7,242	7,177	7,285	0.9%	-0.6%
Interest Expense	3,835	3,899	4,211	-1.6%	-8.9%
Net Interest Income	3,406	3,278	3,074	3.9%	10.8%
Non Interest Income	1,705	1,554	1,789	9.8%	-4.7%
Total Income	5,112	4,832	4,863	5.8%	5.1%
Employee Costs	543	524	550	3.5%	-1.3%
Other Operating Expenses	1,596	1,477	1,568	8.0%	1.8%
Operating Expenses	2,138	2,001	2,118	6.8%	1.0%
Pre-Provision Profit	2,973	2,831	2,746	5.0%	8.3%
Provisions	1,854	1,964	1,043	-5.6%	77.6%
Profit Before Tax	1,120	866	1,702	29.3%	-34.2%
Tax Expense	267	219	402	21.9%	-33.6%
Net Profit	853	647	1,300	31.8%	-34.4%
<b>Balance Sheet Analysis</b>					
Deposits	239,135	227,884	216,713	4.9%	10.3%
CASA Deposits	96,646	91,846	91,865	5.2%	5.2%
CASA (%)	40.3%	40.3%	43.9%	0bps	-360bps
Advances	207,128	201,247	207,413	2.9%	-0.1%
Total Assets	341,446	331,996	307,943	2.8%	10.9%
Capital Adequacy Ratio (%)	16.34%	16.55%	13.92%	-21bps	242bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	11.6%	12.0%	12.0%	-42bps	-45bps
Yield on Avg Interest Earning Assets (%)	9.2%	9.5%	10.3%	-30bps	-111bps
Cost of Funds (%)	5.40%	5.66%	6.4%	-26bps	-104bps
NIM (%)	4.12%	4.2%	4.2%	-4bps	-3bps
<b>Asset Quality</b>					
Gross NPA	3,651	4,532	4,578	-19.4%	-20.3%
Net NPA	464	1,056	2,173	-56.0%	-78.6%
GNPA (%)	1.74%	2.21%	2.18%	-47bps	-44bps
NNPA (%)	0.22%	0.52%	1.05%	-30bps	-83bps
PCR (%)	87.3%	76.7%	52.5%	1058bps	3475bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	41.8%	41.4%	43.5%	41bps	-171bps
C/D Ratio (%)	86.6%	88.3%	95.7%	-170bps	-909bps
RoA (%) (Annualised)	1.05%	0.85%	1.80%	20bps	-75bps

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

**Q3FY21 – Key Concall Highlights****On Asset quality and collection efficiency front**

- Overall, collection efficiency stood at 97.1% in Dec'20 vs 94.97% in Sept'20.
- Restructuring requests came for 1.8% of the book, of which 0.6% has been implemented and the rest is awaiting for approval. Segment wise restructuring: 30% - Vehicle finance, 13% - Non-Vehicle retail and balance from Corporate banking.
- Proforma slippages stood at INR 2,508 cr (1.2% of loans) of which, 20% comprises of vehicle and MFI each, secured retail is 15% and unsecured retail is 30% and corporate is 15%.
- The bank has made significant provisioning on proforma GNPA's with PCR at 77%.
- Provision of INR 3,261 cr related to covid of which, counter-cyclical INR 760 cr (towards PCR for reported GNPA, contingent provisions of INR 1,535 cr (towards PCR for proforma GNPA) and balance standard provisions of INR 966 cr.

**On Microfinance**

- MFI collection efficiency improved from 87.2% in Q2FY21 to 95.5% as on 22nd Jan 21.
- Proforma slippages in MFI came in at 2% (entirely provided).
- Exposure to Assam is only INR 45 cr and reduces exposure for WB from 50% to 30% and stands at 1.3% of loan.
- Collection Efficiency in West Bengal portfolio has improved from 70% in Sep'20 to 90% in Q3FY21, and 93% in Jan'21.
- Fresh loan ticket size in West Bengal is at INR 12,600 which is half of Bharat financial average ticket size across the country.

**On Vehicle Finance (VF)**

- VF collection efficiency improved from 94.3% in Q2FY21 to 96.9% in Q3FY21.
- Overall disbursal is near to the pre-covid level.
- Restructuring request for the vehicle portfolio stood at 1.7%, predominantly from luxury bus segment.

**On Corporate Banking front**

- Bank is granularizing the book. It has reduced the exposure to the tune of INR 40 bn.
- Bank had pushed the disbursement in WC loans to higher rated customers.
- Book is growing in supply chain, logistics, working capital (MNC side), gems & jewellery side.

**Other Highlights**

- Maintain excess liquidity of INR 350 bn with an LCR of 150%.
- Deposit growth of 5% QoQ was driven by Savings Account growth of 13% QoQ, along side term deposit growth of 5% QoQ.
- SEBI had grant the permission to subscribe the warrants and same will done by promoters on or before 18th Feb 2021 amounting to INR 20 bn. This warrant conversion will increase CET 1 by 75bps.
- Bank is cautious on giving loan to the customers under ECLGS. It has Sanctioned INR 44 bn and disbursed INR 29 bn.
- Bank aims to open 500 branches in the next 2 years.
- Management intends to achieve RoA of around 1.4-1.7%.

## Key Financials

Profit & Loss Statement (INR Crores)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	22,261	28,783	31,800	35,142	38,843
Interest Expense	13,415	16,724	18,103	20,456	23,115
<b>Net Interest Income</b>	<b>8,846</b>	<b>12,059</b>	<b>13,698</b>	<b>14,686</b>	<b>15,727</b>
Non interest income	5,647	6,951	7,229	7,808	8,588
Operating income	14,493	19,010	20,927	22,494	24,316
- Employee expense	1,854	2,208	2,429	2,672	2,939
- Other operating expense	4,551	6,029	6,511	7,293	8,168
Operating Expense	6,405	8,237	8,940	9,965	11,107
<b>PPOP</b>	<b>8,088</b>	<b>10,773</b>	<b>11,987</b>	<b>12,529</b>	<b>13,209</b>
Provisions	3,108	4,652	7,909	5,536	4,429
PBT	4,981	6,121	4,078	6,993	8,780
Tax Expense	1,679	1,703	1,026	1,760	2,210
<b>PAT</b>	<b>3,301</b>	<b>4,418</b>	<b>3,052</b>	<b>5,233</b>	<b>6,570</b>
<b>Diluted EPS (INR)</b>	<b>54.8</b>	<b>63.7</b>	<b>40.3</b>	<b>69.2</b>	<b>86.9</b>

Balance Sheet (INR Crores)	FY19	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>					
Share capital	603	694	756	756	756
Reserves & Surplus	26,072	34,003	36,488	40,264	45,378
Networth	26,675	34,697	37,244	41,021	46,135
ESOP	11	9	16	16	16
Borrowings	47,321	60,754	68,044	76,209	85,354
Deposits	194,868	202,040	226,285	255,702	288,943
Other liabilities & provisions	8,944	9,558	11,469	13,763	16,516
<b>Total Equity &amp; Liabilities</b>	<b>277,819</b>	<b>307,058</b>	<b>343,058</b>	<b>386,710</b>	<b>436,963</b>
<b>Uses of Funds</b>					
Cash & Balances w/ RBI	9,961	13,675	12,215	13,673	15,357
Balances w/ banks & others	4,822	2,328	2,678	3,080	3,542
Investments	59,266	59,980	65,978	72,576	79,833
Loans & advances	186,394	206,783	214,848	241,704	279,168
Fixed assets	1,710	1,820	2,093	2,407	2,768
Other assets	15,666	22,471	45,246	53,271	56,295
<b>Total Assets</b>	<b>277,819</b>	<b>307,058</b>	<b>343,058</b>	<b>386,710</b>	<b>436,963</b>

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

Key Ratio	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth Rates</b>					
Advances (%)	28.6%	10.9%	3.9%	12.5%	15.5%
Deposits (%)	28.5%	3.7%	12.0%	13.0%	13.0%
Total assets (%)	25.4%	10.5%	11.7%	12.7%	13.0%
NII (%)	18.0%	36.3%	13.6%	7.2%	7.1%
Pre-provisioning profit (%)	21.5%	33.2%	11.3%	4.5%	5.4%
PAT (%)	-8.5%	33.8%	-30.9%	71.5%	25.6%
<b>B/S Ratios</b>					
Credit/Deposit (%)	95.7%	102.3%	94.9%	94.5%	96.6%
CASA (%)	44.0%	40.4%	39.7%	39.7%	39.7%
Advances/Total assets (%)	67.1%	67.3%	62.6%	62.5%	63.9%
Leverage - Total Assets to Equity	10.4	8.8	9.2	9.4	9.5
<b>Operating efficiency</b>					
Cost/income (%)	44.2%	43.3%	42.7%	44.3%	45.7%
Opex/total assets (%)	2.3%	2.7%	2.6%	2.6%	2.6%
Opex/total interest earning assets	2.8%	3.1%	3.1%	3.2%	3.2%
<b>Profitability</b>					
NIM (%)	3.8%	4.4%	4.7%	4.7%	4.4%
RoA (%)	1.2%	1.4%	0.9%	1.4%	1.5%
RoE (%)	12.4%	12.7%	8.2%	12.8%	14.2%
<b>Asset Quality</b>					
Gross NPA (%)	2.1%	2.2%	3.5%	3.1%	3.0%
Net NPA (%)	1.2%	1.2%	1.2%	1.0%	0.9%
PCR (%)	43.0%	45.0%	65.0%	70.0%	70.0%
Slippage (%)	1.2%	1.2%	2.2%	1.0%	1.0%
Credit cost (%)	1.9%	2.4%	3.8%	2.4%	1.7%
<b>Per Share Data / Valuation</b>					
EPS (INR)	54.8	63.7	40.3	69.2	86.9
BVPS (INR)	442.6	500.3	492.4	542.3	609.9
ABVPS (INR)	405.3	463.4	457.0	511.5	575.5
P/E (x)	18.7	16.1	25.4	14.8	11.8
P/BV (x)	2.3	2.1	2.1	1.9	1.7
<b>P/ABV (x)</b>	<b>2.5</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>

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

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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