

CMP: INR 935

Rating: Accumulate

Target Price: INR 1,103

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)	72,306
52w H/L (INR)	1,120 / 330
Avg Yearly Vol (in 000')	18,606

Shareholding Pattern %

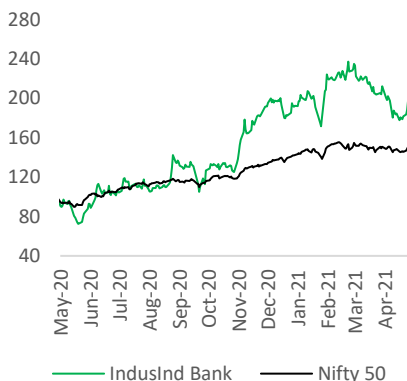
(As on March, 2021)

Promoters	16.6
FII	50.9
DII	18.1
Public & Others	14.4

Stock Performance (%)

	3m	6m	12m
IndusInd Bank	10.5	59.6	99.7
Nifty	7.3	25.7	48.4

IndusInd Bank Vs Nifty



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IndusInd Bank (IIB) has reported steady performance during Q4FY21 with decline in headline NPA ratio. NII for the quarter grew by 9% YoY/4% QoQ to INR 3,535 cr driven by 3% YoY growth in advances and decline in cost of funds. Operating profit of the bank increased by 8% YoY/3% QoQ to INR 3,062 cr. Prudential provisioning stance of the bank continues with total provision at INR 1,866 cr vs. INR 1,854 cr in the previous quarter. The bank kept building buffer against the stress assets and carries ~3.3% cumulative provisioning as of Q4FY21. GNPA ratio dipped by 26bps QoQ to 2.7% while coverage ratio stands comfortable at 75%. Profit for the quarter jumped by 2.9x YoY to INR 876 cr was lower than our estimate of INR 1,091 cr due to elevated provisioning and lower other income.

Loan growth improving gradually: IIB's loan book grew by 3% both on YoY/QoQ basis aided by a 5% YoY growth in retail loans while the corporate book growth was flat YoY (+3% QoQ). Vehicle finance disbursements grew by 30% YoY/ 8% QoQ and the MFI and diamond portfolios was up by 15% QoQ each. On the corporate portfolio, the bank's strategy would continue around granularizing the portfolio. The bank has largely achieved its sell-down objectives on Corporate book and the portfolio is likely to start growing hereon. Liability profile of the bank continued to witness a strong traction with total deposit growth at 27% YoY/7% QoQ vs. 10% YoY growth in the previous quarter. CASA ratio of the bank improved from 40.3% in Q3FY21 to 41.7% in Q4FY21. NIM was flat at 4.13% on QoQ basis.

Asset quality holding up well: GNPA of the bank stood at 2.7% in Q4FY21 vs. proforma GNPA of 2.9% in Q3FY21. Net NPA ratio was flat at 0.7% QoQ. The bank has reported slippages of INR 3,829 cr of which INR 1,930 cr was business as usual slippages and INR 1,899 cr of OTR/technical slippages (out of which INR 1600 cr was upgraded in the quarter). OTR/technical slippages include INR 1,067 cr of groups in retail and construction where the restructuring process was on as of Mar '21. Overall collection efficiency has moved up to 98% from ~97% in Dec' 20. Total restructured advances for the bank including approved restructuring stood at ~2% of advances (up from ~0.6% in 3QFY21). Out of this, ~1.8% is related to the Covid pandemic. SMA 2 book was at 31 bps in 4QFY21 against 39 bps in 3QFY21. In addition to PCR of 75% on NPA and standard asset provision of ~0.5% on advances, the bank holds a contingent Covid provision buffer of INR 1600 cr (~0.8% of advances).

Valuation & View: We increase our PAT estimates by 3%/14% for FY22/23E to factoring lower than the earlier forecasted credit cost and decline in cost of funds. FY21 was a year of consolidation for IIB while recovery is expected in FY22E with the expectation of increase in loan book growth (lower than the other top private sector banks) with focus on granularity. With strong capital ratio (CRAR of 17.4%), building up of liability franchise, high PCR and increasing granularity in its book, we expect return ratios to improve with RoA/RoE at 1.5%/13.5% by FY23E. We assign a P/adj. BV of 1.6x for FY23E ABVPS of INR 689 per share for a target price of INR 1,103 per share while maintaining our Accumulate rating.

Particulars (INR Crore)	FY19	FY20	FY21	FY22E	FY23E
NII	8,846	12,059	13,528	15,375	17,391
PPOP	8,088	10,773	11,727	13,140	14,795
PAT	3,301	4,418	2,837	5,375	7,505
EPS (INR / Share)	54.8	63.7	36.7	69.5	97.0
BVPS (INR / Share)	442.6	500.3	560.7	625.2	717.3
NIM (%)	3.8%	4.4%	4.4%	4.6%	4.8%
RoA (%)	1.2%	1.4%	0.8%	1.3%	1.5%
RoE (%)	12.4%	12.7%	6.5%	11.1%	13.5%
P/ABV (x)	2.3	2.0	1.7	1.6	1.4

Q4FY21 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Interest Income	7,419	7,242	7,387	2.5%	0.4%
Interest Expense	3,885	3,835	4,155	1.3%	-6.5%
Net Interest Income	3,535	3,406	3,231	3.8%	9.4%
Non Interest Income	1,780	1,705	1,772	4.4%	0.5%
Total Income	5,315	5,112	5,003	4.0%	6.2%
Employee Costs	595	543	496	9.6%	20.0%
Other Operating Expenses	1,658	1,596	1,671	3.9%	-0.8%
Operating Expenses	2,253	2,138	2,167	5.4%	4.0%
Pre-Provision Profit	3,062	2,973	2,836	3.0%	8.0%
Provisions	1,866	1,854	2,440	0.7%	-23.5%
Profit Before Tax	1,196	1,120	396	6.8%	202.2%
Tax Expense	320	267	94	19.8%	240.3%
Net Profit	876	853	302	2.7%	190.3%
Balance Sheet Analysis					
Deposits	2,56,205	2,39,135	2,02,040	7.1%	26.8%
CASA Deposits	1,06,791	96,646	81,557	10.5%	30.9%
CASA (%)	41.7%	40.3%	40.4%	140bps	130bps
Advances	2,12,595	2,07,128	2,06,783	2.6%	2.8%
Total Assets	3,62,973	3,41,446	3,07,058	6.3%	18.2%
Capital Adequacy Ratio (%)	17.38%	16.34%	15.04%	104bps	234bps
Spread Analysis					
Yield on Avg Advances (%)	11.7%	11.6%	12.0%	9bps	-35bps
Yield on Avg Interest Earning Assets (%)	9.0%	9.2%	10.3%	-18bps	-131bps
Cost of Funds (%)	5.22%	5.40%	6.4%	-18bps	-123bps
NIM (%)	4.12%	4.1%	4.3%	0bps	-13bps
Asset Quality					
Gross NPA	5,795	3,651	5,147	58.7%	12.6%
Net NPA	1,477	464	1,887	218.1%	-21.7%
GNPA (%)	2.67%	1.74%	2.45%	93bps	22bps
NNPA (%)	0.69%	0.22%	0.91%	47bps	-22bps
PCR (%)	74.5%	87.3%	63.3%	-1276bps	1118bps
Key Ratios					
Cost to Income Ratio (%)	42.4%	41.8%	43.3%	56bps	-92bps
C/D Ratio (%)	83.0%	86.6%	102.3%	-364bps	-1937bps
RoA (%) (Annualised)	1.09%	1.05%	0.41%	4bps	68bps

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

Q4FY21 – Key Concall Highlights

On Asset quality and collection efficiency front

- Overall, collection efficiency stood at 98% in Mar'21 vs 97% in Dec'20 with unsecured book has lower than the average.
- Restructuring book was at 2% (1.8% covid-related) of the loans. Within this 1) vehicle loans constituted ~65%, 2) non-vehicle retail at 17%, and 3) balance 18% from corporate book. No restructuring was invoked in MFI segment.
- Slippages for the quarter stood at INR 3,829 cr v/s pro-forma slippages of INR 2,508 cr in Q3FY21. Corporate slippages were slightly higher at INR 2,235 cr with INR 1,899 cr of slippages which are invoked for restructuring and saw upgrades of INR 1,602 cr. Excluding this, business as usual slippages was at INR 1,930 cr (lower than Q3FY21 slippages).
- Microfinance book slippages for the quarter was at INR 298 cr. vs INR 473 cr in Q3FY21.
- In Vehicle Finance collections is still lower than pre-pandemic levels.
- IIB carries specific provision of INR 3,488 cr (towards PCR), floating provisions of INR 70 cr other than related to COVID-19 (towards PCR), Counter-cyclical provision of INR 760 cr (towards PCR), standard contingent provisions of INR 1600 cr surplus outside PCR, standard asset provision of INR 1,009 cr other than related to COVID-19 and Other provisions of INR 150 cr on standard assets. Total loan loss related provisions stood at 3.33% of the loans.

On MFI

- MFI book has outperformed the industry. Loan book growth was at 9% YoY/15% QoQ.
- In MFI, 81% of book is newly originated and have reduced ticket sizes. 100 districts have been affected from state lockdown and other districts still doing business though growth could be lower.
- Collection efficiency in April was 1% lower than that in March.
- The bank has conservatively fully provided for all the losses.

On Vehicle Finance

- Overall disbursement grew by 30% YoY/8% QoQ. Within Vehicle finance, CV disbursements grew by 54% YoY/44% QoQ – crossed pre-Covid level; Utility Vehicle up by 29% YoY; Tractors by 44% YoY.
- Collection efficiency is lower than pre-Covid level in Vehicle finance.

On Corporate Banking

- Average rating profile of corporates has improved during the year. A & above rated book have gone up by 5% in FY21.
- In Q4FY21, 95% of disbursements was to A & above rated corporates.

Other Highlights

- Maintain excess liquidity of INR 100 bn with an LCR of 145%.
- The bank aims to add 250 branches in FY22.
- Reported NIM for the bank was flat sequentially at ~4.1%. The bank managed to further cut the interest rate offered on fixed deposits during 4QFY21 to bring down the cost of funds and deposits. Management guided that it would look at further calibrated cut to deposit rates in the future, but would maintain a premium of 50-75 bps on deposit rates offered by the other private sector banks.
- Good momentum seen in distribution fees.
- Gems and jewelry book has no NPA, restructuring or SMA2 customers.
- The bank will be watchful of Covid second wave but not everything is going wrong and will come out of it. Will have to wait and watch to assess the exact impact.

Key Financials

Profit & Loss Statement (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	22,261	28,783	29,000	31,877	35,057
Interest Expense	13,415	16,724	15,472	16,502	17,666
Net Interest Income	8,846	12,059	13,528	15,375	17,391
Non interest income	5,647	6,951	6,559	7,084	7,792
Operating income	14,493	19,010	20,087	22,459	25,183
- Employee expense	1,854	2,208	2,214	2,435	2,678
- Other operating expense	4,551	6,029	6,146	6,884	7,710
Operating Expense	6,405	8,237	8,360	9,319	10,388
PPOP	8,088	10,773	11,727	13,140	14,795
Provisions	3,108	4,652	7,943	5,957	4,766
PBT	4,981	6,121	3,784	7,183	10,029
Tax Expense	1,679	1,703	948	1,808	2,524
PAT	3,301	4,418	2,837	5,375	7,505
Diluted EPS (INR)	54.8	63.7	36.7	69.5	97.0

Balance Sheet (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Source of Funds					
Share capital	603	694	773	773	773
Reserves & Surplus	26,072	34,003	42,592	47,581	54,699
Networth	26,675	34,697	43,365	48,354	55,472
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	4,28,586	4,85,385
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	44,225	49,542
Total Assets	2,77,819	3,07,058	3,62,973	4,28,586	4,85,385

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%	18.1%	13.3%
NII (%)	18.0%	36.3%	12.2%	13.7%	13.1%
Pre-provisioning profit (%)	21.5%	33.2%	8.9%	12.1%	12.6%
PAT (%)	-8.5%	33.8%	-35.8%	89.5%	39.6%
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%	55.9%
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%	41.5%	41.3%
Opex/total assets (%)	2.3%	2.7%	2.6%	2.2%	2.2%
Opex/total interest earning assets	2.8%	3.1%	2.9%	3.0%	2.9%
Profitability					
NIM (%)	3.8%	4.4%	4.4%	4.6%	4.8%
RoA (%)	1.2%	1.4%	0.8%	1.3%	1.5%
RoE (%)	12.4%	12.7%	6.5%	11.1%	13.5%
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	69.5	97.0
BVPS (INR)	442.6	500.3	560.7	625.2	717.3
ABVPS (INR)	405.3	463.4	544.2	600.7	689.4
P/E (x)	17.1	14.7	25.5	13.5	9.6
P/BV (x)	2.1	1.9	1.7	1.5	1.3
P/ABV (x)	2.3	2.0	1.7	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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