

**Not all seems well; need to restore both investor as well as consumer confidence**

**CMP: Rs 408**

**Rating: NEUTRAL**

**Target Price: Rs 418**

**Stock Info**

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	694
Mkt Cap (Rs Cr)	28,235
52w H/L (Rs)	235 / 1,724
Avg Yearly Vol (in 000')	8,355

**Shareholding Pattern %**

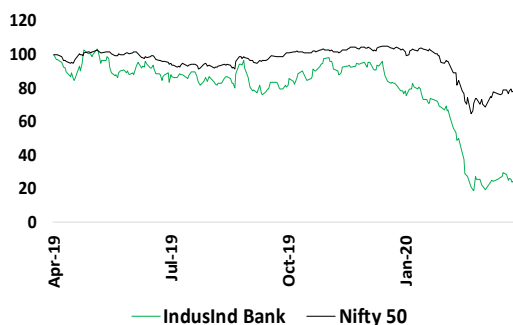
(As on March, 2020)

Promoters	14.38
FII	55.22
DII	14.95
Public & Others	15.45

**Stock Performance (%)**

	3m	6m	12m
IndusInd Bank	-68.0	-73.3	-74.6
Nifty	-25.3	-21.0	-21.9

**IndusInd Bank Vs Nifty**



**Anmol Das**

Email: [anmol.das@arihantcapital.com](mailto:anmol.das@arihantcapital.com)  
Ph- 02267114865

**Raju Barnawal**

Email: [raju.b@arihantcapital.com](mailto:raju.b@arihantcapital.com)  
Ph- 02267114870

IndusInd Bank's operational metrics exposed further in Q4FY20 with Net Interest Income increasing by 44.7% YoY/5.1% QoQ, PPOP increased by 37.2% YoY/3.3% QoQ and Net Income decreased by 16.2% YoY/76.8% QoQ. The bank's provisions increased significantly by 56.4% annually to Rs 2,440 Cr against Q4FY19 Rs 1,561 Cr which was caused by several key accounts been provided for in advance in addition to provisioning related to Covid-19. On the business front, the bank witnessed stagnation of advances book +10.9% YoY/-0.3% QoQ while deposits declined sequentially to Rs 2,020 bn +3.7% YoY/-6.8% QoQ in Q4FY20. The advances growth was driven primarily by the micro-finance business books while the large corporate book deteriorated both in size as well as quality during the quarter. The fleeing of deposits from the retail savings accounts continued on a QoQ basis (-18% QoQ) along with marginal fall in term deposits as well as was seen with other small/mid-sized private banks.

**Key Highlights of Q4 FY20:**

**NII and PPOP increased but will remain under severe stress:** The bank's NIMs increased to 4.25% while the yields on average advances stood flat at 12.0% despite fallen interest rates and decreased Cost of Funds 6.3%.

**Massive decrease in savings account along with term deposits:** The PMC Bank and Yes Bank scam impacted huge on the bank's saving deposit leading to depletion. Of course the absence of full-fledged retail banking (e.g. absence of segments like home loans, very small personal/consumer lending) leads to customer dissatisfaction/confidence on the bank.

**Asset Quality concerns posing huge challenge road ahead:** The bank's GNPA increased by 27 bps and NNPA improved by 14 bps sequentially (key defaults like telecom not yet fully accounted while March month moratorium helped). The bank has already provided for the Covid-19 impact by Rs 283 Cr during the quarter, however, questions on asset quality go way back Coronavirus.

**Valuation & View**

IndusInd Bank's over-dependence on the vehicle financing business has taken a toll on the overall growth of the bank for the next couple of years with not much respite in sight. The bank increased the branch outlets to 1,911 by adding 60 branches during the quarter while the micro-finance business of BFIL branches stood at 2,071. The micro-finance business remained the sole performer during the quarter. IndusInd Bank is currently trading at a P/adj. BV of 0.9 for FY20. **We assign a P/adj. BV of 0.75x for FY22E ABVPS of Rs 557 per share to a Target Price of Rs 418 per share with a NEUTRAL rating on the stock and possible further downgrade in future.**

Particulars (Rs Crores)	FY18	FY19	FY20	FY21E	FY22E
NII	7,498	8,846	12,059	14,416	16,101
PPOP	6,657	8,088	10,773	12,097	12,419
PAT	3,607	3,301	4,418	4,592	4,467
EPS (INR / Share)	60.1	54.8	63.7	66.2	64.4
BVPS (INR / Share)	397.0	442.6	500.3	559.0	604.1
NIM (%)	4.0%	3.8%	4.4%	4.9%	4.9%
Advances Growth (%)	28.2%	28.6%	10.9%	9.6%	13.0%
Deposits Growth (%)	19.8%	28.5%	3.7%	8.0%	10.0%
P/ABV (x)	4.7	1.0	0.9	0.8	0.7

## Q4 FY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement	Q4 FY20	Q3 FY20	Q4 FY19	Q-o-Q	Y-o-Y
Interest Income	7,387	7,285	5,991	1.4%	23.3%
Interest Expense	4,155	4,211	3,759	-1.3%	10.5%
Net Interest Income	3,231	3,074	2,232	5.1%	44.7%
Non Interest Income	1,772	1,789	1,559	-1.0%	13.7%
Total Income	5,003	4,863	3,791	2.9%	32.0%
Employee Costs	496	550	481	-9.9%	3.0%
Other Operating Expenses	1,671	1,568	1,242	6.6%	34.5%
Operating Expenses	2,167	2,118	1,724	2.3%	25.7%
Pre-Provision Profit	2,836	2,746	2,068	3.3%	37.2%
Provisions	2,440	1,043	1,561	133.9%	56.4%
Profit Before Tax	396	1,702	507	-76.7%	-21.9%
Tax Expense	94	402	147	-76.6%	-36.0%
Net Profit	302	1,300	360	-76.8%	-16.2%
<b>Balance Sheet Analysis</b>					
Deposits	202,040	216,713	194,868	-6.8%	3.7%
CASA Deposits	81,557	91,865	84,070	-11.2%	-3.0%
CASA (%)	44.1%	43.9%	43.1%	20bps	96bps
Advances	206,783	207,413	186,394	-0.3%	10.9%
Total Assets	307,058	307,943	277,819	-0.3%	10.5%
Capital Adequacy Ratio (%)	15.04%	13.92%	14.16%	112bps	88bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	12.0%	12.0%	10.9%	-1bps	113bps
Yield on Avg Interest Earning Assets (%)	10.3%	10.3%	9.6%	2bps	75bps
Cost of Funds (%)	6.3%	6.5%	6.1%	-22bps	21bps
NIM (%)	4.3%	4.2%	3.6%	10bps	66bps
<b>Asset Quality</b>					
Gross NPA	5,147	4,578	3,947	12.4%	30.4%
Net NPA	1,887	2,173	2,248	-13.2%	-16.1%
GNPA (%)	2.45%	2.18%	2.10%	27bps	35bps
NNPA (%)	0.91%	1.05%	1.21%	-14bps	-30bps
PCR (%)	63.3%	52.5%	43.0%	1081bps	2030bps
Credit Costs (%)	0.85%	0.28%	1.44%	57bps	-59bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	43.3%	43.5%	45.5%	-23bps	-215bps
C/D Ratio (%)	102.3%	95.7%	95.7%	664bps	670bps
RoA (%) (Annualised)	0.41%	1.80%	0.56%	-139bps	-15bps

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

## Q4 FY20 – Key Concall Highlights

- The bank's management acknowledged these as unprecedented times for the bank as well as the economy.
- The bank's management attributed the increased provisioning of Rs 2,440 Cr majorly towards Covid-19 Rs 283 Cr, telecom Rs 75 Cr, broking fraud of Rs 240 Cr and 3 other stressed groups (paper, tea and medical equipment) comprising of Rs 1,184 Cr.
- Operationally, the bank stated that, 96% of retail (excl. auto finance), 95% of vehicle finance and 99% of micro-finance borrowers have paid their March instalment and maintains that the customers are more willing to repay than to opt for moratorium considering the increase in interest costs for the period.
- The bank provided Rs 283 Cr for Covid-19, of which Rs 23 Cr provisioning done as per RBI mandate and another Rs 260 Cr advance provisioning as normalization as perceived by the bank's risk measures.
- SLR in excess of 5% and LCR in excess of 110-120%.
- The bank's retail:wholesale advances stood 56%:44% at the end of FY20. However, the management stated of their intent to further increase it to 60%:40% and 65%:35% in the future.
- The management mentioned of internal stress tests conducted on a fortnightly basis and expressed expectation of increase in GNPA by up to 80 bps due to Covid-19.
- Management to focus on increasing deposits faster than advances in the coming future along with checking cost expenses.
- Corporate book growth to moderate as bank keen on granularization with decreasing ticket sizes.
- Management aims to see corporate book grow by 6-8% and retail by 10-15% during FY21.
- The management however has increased PCR to 63.3% by March 2020.

## Reasons for Downgrading and rising further concerns

- The bank's over dependence on vehicle financing and corporate lending took bite on its returns with current stressful times over and above the pre-covid slowdown causing the stress. It requires other segments to grow in line. The absence of home loans segment and a very small consumer services lending business, adding to the reasons of loss of consumer confidence and deposit depletion. Also, most other banks have a home loan segment of approximately 50% of their retail book, which used to provide growth with phase-wise disbursement of existing loan accounts, thereby satisfying asset quality as well.
- Of the advances book of Rs 2,020 bn, 56% comprised of retail business. However, 28% of it came from vehicle financing and 12% from the micro-financing business, leaving approx. 10-15% of book actually coming from financing retail customer personal requirements, e.g. home loans, personal loans, credit cards, education loans, all these are too small a segment in IndusInd's book. Without the aforesaid segments, the bank is not able to carve the image of a retail lender among customers leading to fleeing of customers from saving deposits. Hence, we don't expect the deposits to grow as per the management's expectation in coming future.
- Finally, the corona crisis and RBI moratorium of 3 months has just saved the bank's last quarter (since March month slippages were not accounted on moratorium). However, we expect the real stress to build up in the ongoing Q1FY21 and will keenly watch if it requires further downgrading.

## 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	31,872	35,302
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>14,416</b>	<b>16,101</b>
Non interest income	4,750	5,647	6,951	7,646	8,411
Operating income	12,248	14,493	19,010	22,063	24,512
- 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>12,097</b>	<b>12,419</b>
Provisions	1,176	3,108	4,652	5,117	5,629
PBT	5,481	4,981	6,121	6,980	6,790
Tax Expense	1,875	1,679	1,703	2,388	2,323
<b>PAT</b>	<b>3,607</b>	<b>3,301</b>	<b>4,418</b>	<b>4,592</b>	<b>4,467</b>

Balance Sheet (INR Crores)	FY18	FY19	FY20	FY21E	FY 22E
<b>Source of Funds</b>					
Share capital	600	603	694	694	694
Reserves & Surplus	23,227	26,072	34,003	38,075	41,207
Net-worth	23,827	26,675	34,697	38,768	41,900
ESOP	15	11	9	16	16
Borrowings	38,289	47,321	60,754	68,044	76,209
Deposits	151,639	194,868	202,040	218,203	240,023
Other liabilities & provisions	7,856	8,944	9,558	11,469	13,763
<b>Total Equity &amp; Liabilities</b>	<b>221,626</b>	<b>277,819</b>	<b>307,058</b>	<b>336,500</b>	<b>371,911</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	144,953	186,394	206,783	226,707	256,179
Fixed assets	1,339	1,710	1,820	2,093	2,407
Other assets	12,042	15,666	22,471	26,829	23,997
<b>Total Assets</b>	<b>221,626</b>	<b>277,819</b>	<b>307,058</b>	<b>336,500</b>	<b>371,911</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%	9.6%	13.0%
Deposits (%)	19.8%	28.5%	3.7%	8.0%	10.0%
Total assets (%)	24.1%	25.4%	10.5%	9.6%	10.5%
NII (%)	23.7%	18.0%	36.3%	19.5%	11.7%
Pre-provisioning profit (%)	22.1%	21.5%	33.2%	12.3%	2.7%
PAT (%)	25.8%	-8.5%	33.8%	3.9%	-2.7%
<b>B/S Ratios</b>					
Credit/Deposit (%)	95.6%	95.7%	102.3%	103.9%	106.7%
CASA (%)	44.0%	44.0%	40.4%	41.2%	41.3%
Advances/Total assets (%)	65.4%	67.1%	67.3%	67.4%	68.9%
Leverage - Total Assets to Equity	9.3	10.4	8.8	8.7	8.9
<b>Operating efficiency</b>					
Cost/income (%)	45.6%	44.2%	43.3%	45.2%	49.3%
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%	3.7%
<b>Profitability</b>					
NIM (%)	4.0%	3.8%	4.4%	4.9%	4.9%
RoA (%)	1.6%	1.2%	1.4%	1.4%	1.2%
RoE (%)	15.1%	12.4%	12.7%	11.8%	10.7%
<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%
PCR (%)	56.3%	43.0%	45.0%	45.0%	45.0%
Slippage (%)	3.0%	1.2%	1.2%	1.0%	1.0%
Credit cost (%)	0.7%	1.0%	0.9%	0.7%	0.5%
<b>Per Share Data / Valuation</b>					
EPS (INR)	60.1	54.8	63.7	66.2	64.4
BVPS (INR)	397.0	442.6	500.3	559.0	604.1
ABVPS (INR)	384.5	405.3	463.4	517.8	557.1
P/E (x)	29.9	7.4	6.4	6.2	6.3
P/BV (x)	4.5	0.9	0.8	0.7	0.7
<b>P/ABV (x)</b>	<b>4.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>

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

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880