

IndusInd Bank (IIB)

BUY

Restructured assets at 2%; Asset quality improved QoQ

Summary

IndusInd's asset quality improved with GNPA at 2.67% vs 2.93% QoQ (2.45% YoY) as recoveries/upgrades were higher; while slippage ratio (annualized) increased to 7.2% vs 5.0% QoQ. Restructured book stood at 2% (vs earlier guided at 1.8%) which comprises of 65% Vehicle, 17% non-vehicle and rest from corporate book. Bank reported collection efficiency at 98% for March quarter vs 97% QoQ; however due to lockdown in specific states it declined by 1% in April month. Deposit reported strong growth of 27% YoY while advances grew by 3%YoY. NII grew by 9% YoY (up 4% QoQ) while NIMs remain stable QoQ. Non-interest income remains flat YoY (up 4% QoQ). PAT grew by 190% YoY due to decline in provisions (down 24% YoY). Bank maintains overall provision of Rs16bn against second wave of Covid impact and 3.33% of loan related provision. We adjusted the infusion of equity through warrants conversion and re-iterate 'BUY' rating with a new TP of Rs.1,140 (earlier Rs.1050) based on P/BV of 1.7x (earlier 1.6x) FY23E as liability risks have declined and focus shifted back on credit growth.

Key Highlights and Investment Rationale

- Deposit and Credit growth improved sequentially:** Deposits grew by 27% YoY (10% YoY Q3FY21) led by 24% YoY growth in term deposits and 31% YoY growth in CASA deposits. Liability franchise concern has largely abated which is the key positive. Cost of deposit seen reduction in Q4FY21 and reduced by 102bps YoY and 31bps QoQ. Credit growth improved to 3% YoY (up 3% QoQ) due to improvement in corporate book growth (flat YoY vs down 7% YoY Q3FY21) with fresh lending. Retail book now stands at 57% of the total loans with addition of Business Banking and MFI portfolio to it.
- Asset quality improved; 2.0% restructuring book:** Bank asset quality improved with GNPA at 2.67% vs 2.93% QoQ; NNPA remain stable at 0.7% with decline in PCR to 75% vs 77% QoQ. Bank restructuring book stands at 2.0% of book (earlier guided for 1.8%) however; within that major portion is from corporate banking (57%), vehicle is 30% and non-vehicle retail is 13%. Bank maintains 3.31% of loan related provision of total book and covid provision of Rs32.61bn which provided cushion on P&L impact.
- NIMs stable sequentially; collection efficiency at 98%:** NIMs remain stable at 4.1% although cost of funds declined. Yield on advances improved QoQ however; interest reversal impacted the margins during the quarter. Bank reported Collection efficiency at 98% vs 97% for December quarter while Collection efficiency declined by 1% in April month due to lockdown in several states. Impact of second wave needs to be watch our for MFI portfolio.
- Outlook:** Continuation of business strategy under the new CEO has resulted in navigating through asset quality concerns better. Also, with higher liquidity (LCR at 140%) and bigger concern on deposits growth which is the key ingredient for banking industry have largely abated.

Q4FY21 Result Review

TP	Rs1,140
CMP	Rs935
Potential upside / downside	22%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	80.5	96.7
Consensus	72.3	91.8
% difference	11.3	5.3

Shareholding Pattern (%)

Promoters	16.6
FII	50.9
DII	18.1
Public	14.5

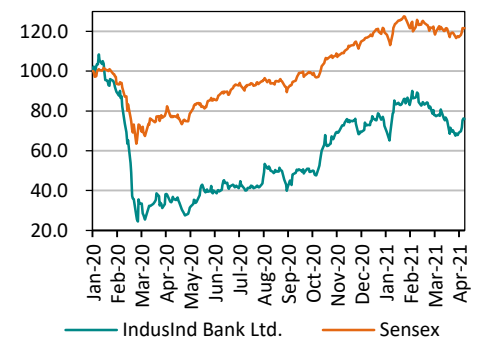
Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.9)	10.5	99.8
Rel to Sensex	(0.2)	5.1	55.1

Key Stock Data

Bloomberg / Reuters	IIB IN / INBK.BO
Sector	Banking
Shares o/s (mn)	773
Market cap. (Rs mn)	723,064
Market cap. (US\$ mn)	10,440
3-m daily avg Trd value (Rs mn)	2,823.6
52-week high / low	Rs1,119/330
Sensex / Nifty	48,782 / 14,631

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	88,462	120,587	135,280	145,546	157,897
Net Profit	33,010	44,179	28,364	62,294	74,801
EPS (Rs)	54.8	63.7	36.7	80.5	96.7
ABV (Rs)	406.6	474.3	542.5	621.3	712.3
PER (x)	17.1	14.7	25.5	11.6	9.7
P/ABV (x)	2.3	2.0	1.7	1.5	1.3
ROE (%)	13.1	14.4	7.3	13.4	14.0
ROA (%)	1.3	1.5	0.8	1.7	1.9
GNPA (%)	2.1	2.5	2.7	2.8	2.9
NNPA (%)	1.2	0.9	0.7	0.7	0.8
CAR (%)	14.2	15.0	17.4	21.2	22.1

Source: Company; IDBI Capital Research

Conference Call Highlights

■ Vehicle segment-

- Strong disbursement grew 30% YoY and 8% QoQ.
- CV bounce back during Q4 and disbursement was up 54% YoY and 44% QoQ and above pre-covid level.
- Disbursement- UV- 29% YoY, tractor- 44% YoY and CE 2x YoY.
- Cautious on 3W due low passenger trade and disbursement were much lower than historical rate.
- Currently disbursements are at pre-covid level will start reflecting in loan book from next quarter.
- 25% of GNPA customers are at less than 60dpd.
- Restructuring invoked for Rs24.46bn portfolio.

■ MFI segment-

- Incremental slippage Rs2.98bn (1.2% of loans); pro-forma slippages was Rs4.72bn (2% of loans).
- Loan book originated post lock down constitutes 81% of book and collection efficiency stood at 99%.
- Not able to disburse and do collection as some centers are closed but other areas continue to do business.
- Top 3 states are Bihar, Orissa and West Bengal constitutes 32%-33% of book.

■ Other retail Assets-

- Credit cards resolutions on rollover rates are better than pre-covid levels.
- Credit cards spend were 5% of market share against credit card market share of 2.4%.
- Affordable housing disbursement grew 10% QoQ and loan book grew to Rs18bn (36% YoY; 8% QoQ).
- Further would be scaling up gold loans in other branches.

■ Corporate banking-

- Sold down exposure amounting to Rs35bn during Q4FY21 and reduce exposure by Rs90bn.
- Corporate saw technical slippages and within that some are of them upgraded.
- During Q3FY21, Restructuring of Rs22bn was invoked and under implementation, however, reduces to Rs6.54bn till Mar'21.

■ **Other highlights-**

- Cautious on unsecured loans and registered a growth of 3% QoQ and YoY.
- Collection efficiency improved to 98% from 97% QoQ. Within that secured have higher collection efficiency and unsecured have lower.
- Cautious on unsecured loans (would remain 5% of book) while provided 100% on same incl. MFI.
- Restructured book were Rs37.77bn (1.8% of loan book), however, few corporate opted out and some MSME opting restructuring on cautious basis. Out of 1.8%, vehicles are 65%, Non vehicle- 17% and balance from corporate banking.
- Retail fees back to pre-covid level.
- Expect to add 250 branches in FY22.
- Maintain surplus liquidity of Rs400bn and LCR of 145%.
- SMA 2 book were 31bps vs 39bps in Dec'20.
- Cost of deposit reducing QoQ and would do further rate cut.
- **Incremental Slippages-** VF had pro-forma of Rs5.02bn and incremental slippages of Rs6.87bn, Secured business- Rs2.26bn (from BB and LAP portfolio), unsecured retail- Rs3.83bn (Card, PL, and BL).
- A & above rated book improve by 500bps from FY20, BB book decline by 5.8%-6%, BBB exposure reduce by 13%, top 20 exposure (funded and non-funded) decline by 16% and duration of book (below 3 years) decline by 24%.
- Disbursement to large corporate book had 81% of disbursement for A & above and during Q3 was 95%.

Exhibit 1: Quarterly Snapshot

(Rs mn)

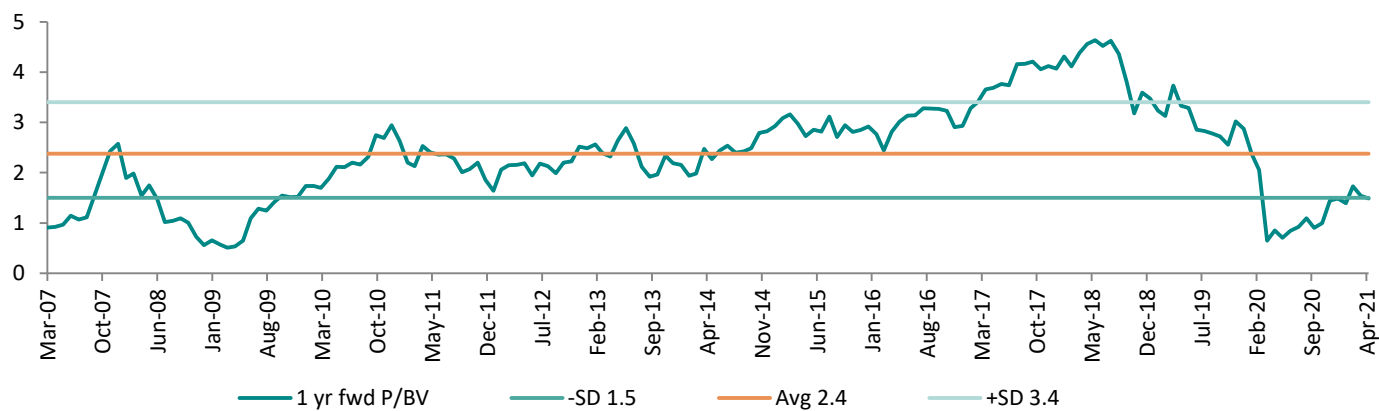
Year-end: March	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Interest Income	74,194	73,866	72,415	0.4	2.5
Interest Expenses	38,847	41,554	38,354	(6.5)	1.3
Net Interest Income	35,347	32,312	34,061	9.4	3.8
NIM (%)	4.1	4.3	4.1	(12 bps)	1 bps
Non-Interest Income	17,801	17,720	17,055	0.5	4.4
Operating Income	53,148	50,032	51,116	6.2	4.0
Staff Cost	5,951	4,957	5,427	20.1	9.7
Other Op Exp	16,581	16,713	15,956	(0.8)	3.9
Total Operating Expenses	22,532	21,670	21,383	4.0	5.4
<i>Cost to Income (%)</i>	<i>42.4</i>	<i>43.3</i>	<i>41.8</i>	<i>(92 bps)</i>	<i>56 bps</i>
Operating Profit	30,616	28,362	29,733	7.9	3.0
Provisions	18,657	24,403	18,535	(23.5)	0.7
PBT	11,959	3,959	11,198	202.1	6.8
Tax	3199	940	2,670	240.3	19.8
<i>-effective tax rate</i>	<i>26.7</i>	<i>23.7</i>	<i>23.8</i>	<i>301 bps</i>	<i>291 bps</i>
PAT	8,760	3,019	8,528	190.2	2.7
EPS (Rs)	11.3	4.4	11.3	697 bps	6 bps
BV (Rs)	560.6	490.6	526.5	7004 bps	3413 bps
Deposits	2,562,050	2,020,398	2,391,350	26.8	7.1
Advances	2,125,954	2,067,832	2,071,280	2.8	2.6

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	3.5	4.1	4.0	3.9	4.1
Fees	2.2	2.2	1.6	1.5	1.6
Other Income	0.0	0.2	0.3	0.1	0.1
Net Revenue	5.8	6.5	6.0	5.5	5.7
Op.Exp	2.6	2.8	2.5	2.4	2.5
Op.Profit	3.2	3.7	3.5	3.1	3.3
Provisions	1.2	1.6	2.4	0.9	0.7
PBT	2.0	2.1	1.1	2.3	2.6
Tax	0.7	0.6	0.3	0.6	0.6
PAT	1.3	1.5	0.8	1.7	1.9
Leverage (x)	9.9	9.5	8.6	8.0	7.3
ROE	13.1	14.4	7.3	13.4	14.0

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	120,587	135,280	145,546	157,897
Fee Income	64,073	54,074	55,806	61,387
Treasury Gains	5,440	11,511	2,189	2,413
Operating Income	190,100	200,865	203,541	221,697
Operating expenses	(82,373)	(83,598)	(87,786)	(95,301)
Employee expenses	(22,085)	(22,135)	(25,283)	(26,547)
Other expenses	(60,288)	(61,463)	(62,503)	(68,753)
Pre-Provision Profit	107,727	117,267	115,755	126,396
Provision	(46,521)	(79,425)	(32,508)	(26,435)
Loan loss Provisions	(36,353)	(67,835)	(24,555)	(24,555)
Other Provisions	(10,168)	(11,590)	(7,953)	(1,880)
PBT	61,206	37,842	83,247	99,961
Taxes	(17,027)	(9,478)	(20,953)	(25,160)
Net profit	44,179	28,364	62,294	74,801

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	6,935	7,734	7,734	7,734
Reserves	340,130	425,866	488,160	562,961
Networth	347,065	433,600	495,894	570,695
Deposits	2,020,398	2,562,050	2,732,126	2,919,210
Borrowings	607,535	513,228	431,614	437,942
Total Liab. & Equity	3,070,575	3,629,728	3,765,333	4,009,341
Cash & Bank with RBI	160,036	563,272	374,168	257,240
Investments	599,799	696,947	762,159	846,666
Advances	2,067,832	2,125,954	2,338,549	2,572,404
Other Assets	224,707	225,461	270,553	311,136
Total assets	3,070,575	3,629,728	3,765,333	4,009,341

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
Growth				
Deposits	3.7	26.8	6.6	6.8
Advances	10.9	2.8	10.0	10.0
NII	36.3	12.2	7.6	8.5
Pre-Provision Profit	33.2	8.9	(1.3)	9.2
Net Profit	33.8	(35.8)	119.6	20.1
Spreads				
Yield on Assets	11.1	9.7	9.5	9.8
Cost of Funds	6.4	5.2	5.2	5.4
NIM	4.4	4.4	4.2	4.4
CASA	40.4	43.0	42.0	42.0
Operating Efficiency				
Cost-to-Income	43.3	41.6	43.1	43.0
Cost-to-Assets	2.8	2.5	2.4	2.5
Asset Quality				
GNPA	2.5	2.7	2.8	2.9
NNPA	0.9	0.7	0.7	0.8
Provision Coverage	63.3	74.5	75.6	73.2
Credit Cost	2.4	3.8	1.5	1.1
Capital Adequacy				
CAR	15.0	17.4	21.2	22.1
Tier I	14.6	16.8	20.8	21.8
Valuation				
EPS	63.7	36.7	80.5	96.7
ABV	474.3	542.5	621.3	712.3
P/E	14.7	25.5	11.6	9.7
P/ABV	2.0	1.7	1.5	1.3
ROE	14.4	7.3	13.4	14.0
ROA	1.5	0.8	1.7	1.9
RORWA	1.9	1.1	2.3	2.7

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.
Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Bunty Chawla and Nikhil Vaishnav, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, we will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd. (hereinafter referred to as "IDBI Capital") was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India's leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.