

INDUSIND BANK

BUY

CMP Rs846

Target Rs1,070

Upside 26.5%

Improving confidence around deposit franchise and credit cost trajectory

IIB Q3 FY21 earnings missed expectation on conservative provisioning and lower-than-estimated fee and treasury income. Loan growth of 3% qoq driven by revival in consumer finance segment (barring CV and LAP, most products recorded growth uptick) was in-line with expectations, while strong and granular deposit growth continue to surprise (5% qoq - CASA sustained at 40%). Despite funding cost benefits, the NIM was stable on account of interest reversals on proforma slippages. Overall asset quality performance was resilient with proforma slippages at Rs25bn (1.2% of adv.) and invoked restructuring at Rs12.5bn (60bps). Collection efficiency in the perceived vulnerable portfolios of Microfinance, Vehicle Finance and Gems & Jewellery has demonstrated encouraging recovery in recent months. Many of the weak accounts in Microfinance and Vehicle Finance portfolios slipped in Q3 (formed 40% of proforma slippages) and some more could slip in the current quarter. In other retail products, the overdues buckets have been coming down. The bank is carrying significant provisions on the recognized stress - 85% on reported GNPLs, 62% on proforma slippages and 32% on restructured portfolio, and in addition has provisions of 25-30 bps. In all likelihood, Q4 should be the last quarter of heady provisions.

We raise ABV estimates by 2-3% assuming better-than-earlier growth and credit cost outcomes. We believe that RoA delivery in FY22/23 could positively surprise on the current consensus estimates, and this could come from a strong recovery in vehicle finance (29% of adv.) and Microfinance (11%) portfolios. Based on increased confidence around the deposits franchise and credit cost trajectory, we upgrade rating to BUY (from ADD) and raise 12m PT to Rs1,070.

Management Commentary

Guidance (medium to long term)

- ✓ Loan mix: retail (55-60%) and wholesale (38-45%).
- ✓ PPOP to be >5%, NIMs within 415-425bps and RoA within 1.4-1.7%.
- ✓ Remain conservative on credit cost (shall provide in Q4FY21 as well).

CV portfolio

- ✓ Share of performa slippages and restructurings stood at Rs502crs and Rs10.2bn respectively.
- ✓ On demand side, CV segment is ridden with overcapacity currently, shall normalise in near term.

Exhibit 1: Financial Summary

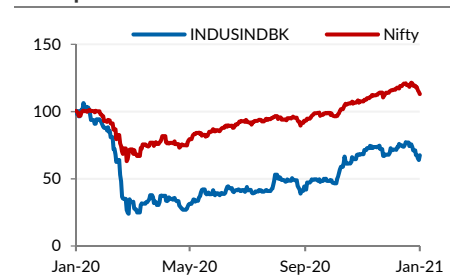
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	190,112	203,199	219,099	258,854
PPOP	108,285	120,554	121,579	143,779
Net profit	44,576	31,012	59,670	77,649
yoy growth (%)	31.1	(30.4)	92.4	30.1
EPS (Rs)	64.3	41.0	78.9	102.7
Adj. BVPS (Rs)	473.8	515.4	581.4	666.2
P/E (x)	13.2	20.7	10.8	8.3
P/adj.BV (x)	1.8	1.6	1.5	1.3
ROE (%)	14.5	8.2	13.7	15.6
ROA (%)	1.5	1.0	1.6	1.8
Tier-1 (%)	15.0	16.6	15.5	14.1

Source: Company, YES Sec - Research

Stock data (as on January 29, 2021)

Nifty	13,635
52 Week h/l (Rs)	1346 / 236
Market cap (Rs/USD mn)	640733 / 8783
Outstanding Shares (mn)	757
6m Avg t/o (Rs mn):	12,239
Div yield (%):	-
Bloomberg code:	IIB IN
NSE code:	INDUSINDBK

Stock performance



	1M	3M	1Y
Absolute return	-5.5%	44.5%	-32.8%

Shareholding pattern

Promoter	14.7%
FII+DII	71.1%
Others	13.4%

Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	41.0	78.9	102.7
EPS (Old)	41.0	78.3	102.4
% change	-	0.7%	0.3%

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- ✓ Disbursements barring CV portfolio at pre-covid levels. Stress largely evident in HCV and MHCV.
- ✓ Having CE of 96.9% and expect to improve further.

Restructurings / Asset quality / MFI stress

- ✓ DCCO extension in real estate is done selectively for 4-5 projects to the tune of single digit of residential portfolio.
- ✓ Break-up of proforma slippages (Rs25bn): vehicle and MFI piece at 20% each, secured retail 15%, unsecured retail 30% and corporate 15%.
- ✓ Break-up of restructuring (60 bps of adv.): Vehicle 30%, non-vehicle 13%, balance is Corporate, no restructurings done in MFI portfolio.
- ✓ Stress in MFI business at 2% only. Assam having exposure of Rs45crs (already provided) and WB exposure is at 13% (ticket sizes are much lower). Issue is limited to few districts in WB and not WB entirely.
- ✓ Retail overdue buckets have come off dramatically.
- ✓ Recovered Rs210crs in Q2FY21, working on 3-4 accounts (including IL&FS) and expect recoveries to come in Q4. Have no exposure in Dewan HF, already sold off.

Advances / Disbursements

- ✓ Sanctions and disbursements under ECLGS at Rs44bn and Rs29bn respectively. Pick-up is very slow in ECLGS.
- ✓ Corporate exposure is giving a lot of confidence, concentrated towards supply chains, logistics, working capital and gems & Jewellery. Most of the stress have been taken up in restructurings. 66bps already invoked and 120bps is pending approvals.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Interest Income	72,415	71,772	0.9	72,845	(0.6)
Interest expended	(38,354)	(38,992)	(1.6)	(42,103)	(8.9)
Net Interest Income	34,061	32,780	3.9	30,742	10.8
Other income	16,458	15,543	5.9	17,900	(8.1)
Total Income	50,519	48,323	4.5	48,642	3.9
Operating expenses	(20,883)	(19,803)	5.5	(21,065)	(0.9)
PPOP	29,636	28,520	3.9	27,577	7.5
Provisions	(18,535)	(19,644)	(5.6)	(10,435)	77.6
PBT	11,100	8,875	25.1	17,143	(35.2)
Tax	(2,797)	(2,245)	24.6	(4,050)	(31.0)
PAT	8,304	6,631	25.2	13,092	(36.6)

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Advances	2,071,280	2,012,468	2.9	2,074,130	(0.1)
Consumer Finance	1,186,460	1,158,198	2.4	1,121,600	5.8
% share	57.3	57.6	-	54.1	-
Corp. & Comm.	884,820	854,270	3.6	952,530	(7.1)
% share	42.7	42.4	-	45.9	-
Deposits	2,391,350	2,278,840	4.9	2,167,130	10.3
Current	323,130	347,730	(7.1)	269,700	19.8
Savings	643,330	570,730	12.7	648,950	(0.9)
Others	1,424,890	1,360,380	4.7	1,248,480	14.1
Investments	610,570	629,527	(3.0)	605,170	0.9
Borrowings	486,220	523,851	(7.2)	468,130	3.9

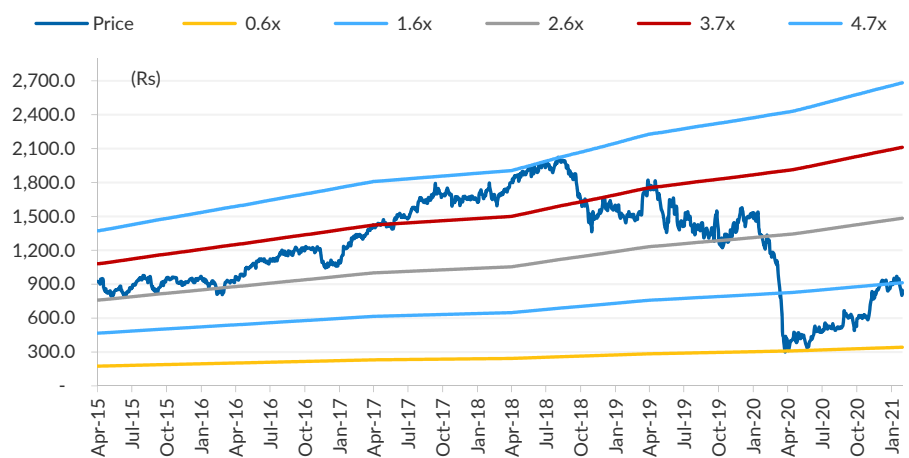
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	4.1	4.2	(0.0)	4.2	(0.0)
Yield on Advances	11.7	12.0	(0.3)	12.0	(0.3)
Cost of Deposits	5.3	5.6	(0.2)	6.5	(1.2)
CASA	40.4	40.3	0.1	42.4	(2.0)
C/D (x)	86.6	88.3	(1.7)	95.7	(9.1)
Cost to Income	41.3	41.0	0.4	43.3	(2.0)
Provisions/Avg. Adv. (Ann)	3.6	3.9	(0.30)	2.1	1.57
RoE	8.4	7.1	1.2	15.6	(7.3)
RoA	1.1	0.9	0.2	1.8	(0.8)
CAR	16.3	16.6	(0.2)	15.4	0.9
Gross NPA	1.7	2.2	(0.5)	2.2	(0.4)
Net NPA	0.2	0.5	(0.3)	1.1	(0.8)

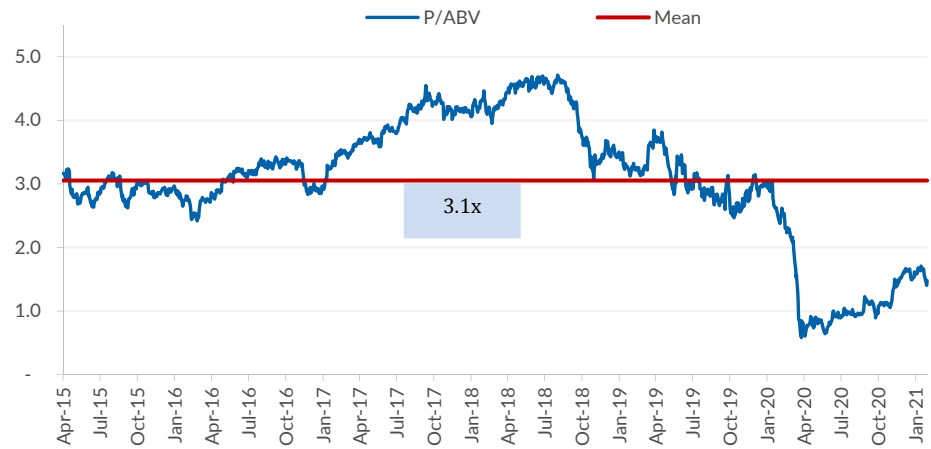
Source: Company, YES Sec - Research

Exhibit 5: 1-year rolling P/ABV band



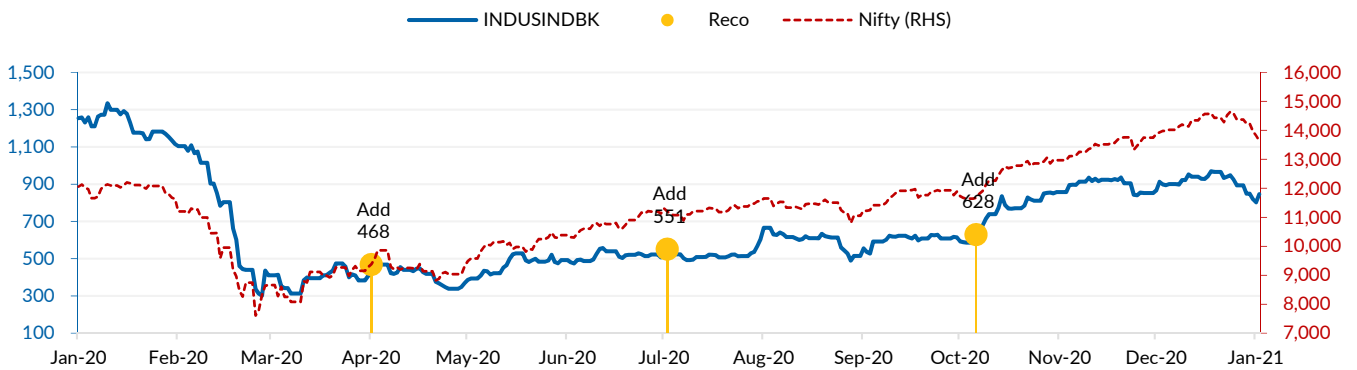
Source: Company, YES Sec - Research

Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

Recommendation Tracker



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