

Retail Equity Research

IndusInd Bank Ltd.

Banking

BSE CODE: 532187

NSE CODE: INDUSINDBK

Bloomberg CODE: IIB:IN

SENSEX: 48,253

BUY

12M Investment period Rating as per Large cap
CMP Rs. 910 **TARGET** Rs. 1,072 **RETURN** 18%
 (Closing: 04-05-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Positive Outlook: Risk-return metrics in place

IndusInd Bank (IIB), a part of the Hinduja Group, provides loans for vehicles, property, etc. in its consumer finance division, while the corporate banking division offers a wide range of products to SMEs and large enterprises.

- NII grew 9.4% YoY as NIM was up 31bps YoY to 5.14%. Core fee income also improved 8.4% YoY.
- Loan book expanded 2.6% QoQ to Rs. 212,595cr, whereas deposits climbed 7.1% QoQ to Rs. 256,205cr.
- GNPA/NNPA jumped to 2.67%/0.69% (vs 1.74%/0.22% in Q3FY21) due to higher amount of restructured advances.
- NRI and affluent banking, tractor financing have acted as growth catalysts for this fiscal. The bank's yield margins are expected to improve due to exposure to relatively risky assets. However the overall asset quality stress is well in-line with the risk-return expectations of the investors. Hence we upgrade our rating to BUY with a revised target price of Rs. 1,072 using 1.5x FY23E BVPS.

Net profit spikes due to lower provisioning

For Q4FY21, NII reached Rs. 3,535cr (9.4% YoY) with NIM of 5.14% (+31bps YoY). Yield on assets for the quarter was 8.67% (-110bps YoY), while cost of deposits was 5.03% (-98bps YoY). Core Fee income improved to Rs. 1,508cr (8.4% YoY). Growth in remittance (15.9% YoY) and General banking fees (130.0% YoY) were partially offset by decline in Investment Banking (-55.2% YoY). Cost to income ratio was 41.13% (vs 42.90% in Q4FY20). PAT almost tripled to Rs. 876cr (190.2% YoY). In addition to cost efficiencies, lower provisions this quarter (-23.5% YoY) also caused this jump.

Slippages higher due to restructuring

Loan book stood at Rs. 212,595cr (2.6% QoQ, 11.78% yields) as Corporate lending reached Rs. 91,018cr (2.8% QoQ, 8.42% yield) and Consumer Finance at Rs. 121,577 (2.4% QoQ, 14.27% yield). About 30% of the consumer loan portfolio (comprising MIF and C.V loans) could again come under stress over upcoming quarter due to lockdown implications. As slippages were Rs. 3,829cr, GNPA/NNPA climbed to 2.67%/0.69% (vs. 1.74%/0.22% in Q3FY21) respectively. Proportion of advances restructured were 2.0% (vs 0.8% in Q3FY21) of which 1.8% were pandemic related. Total deposits surged 26.8% YoY to Rs. 256,205cr; CASA ratio stood at 41.7% (vs. 40.4% in Q3FY21).

Key concall highlights

- Gross NPA concentration has been high in C.V and LAP segments. Sales to ARC has been Rs. 830cr and Net SR outstanding at 52bps.
- Gross credit costs of Rs. 2,586cr for Q4FY21 includes Rs. 1,535cr of standard provisions reclassified as credit costs towards pro-forma NPA. Standard asset provisions has been Rs. 1,009cr (other than COVID related).
- With risk buffers in place, Capital adequacy/CET1 ratio has been increased to 17.38%/15.55% (vs. 16.93%/14.89% in Q3FY21)

Outlook & Valuation

NRI and affluent banking, tractor financing have acted as growth catalysts for this fiscal. The bank's yield margins are expected to improve due to exposure to relatively risky assets. However the overall asset quality stress is well in-line with the risk-return expectations of the investors. Hence we upgrade our rating to BUY with a revised target price of Rs. 1,072 using 1.5x FY23E BVPS.

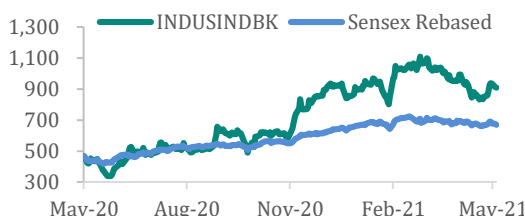
Company Data

Market Cap (cr)	Rs. 66,741
Outstanding Shares (cr)	73.3
Free Float	74.0%
Dividend Yield	0.6%
52 week high	Rs. 1,119
52 week low	Rs. 330
6m average volume (lac)	7.1
Beta	1.5
Face value	Rs. 10

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	14.7	14.7	16.6
FII's	51.8	54.9	50.9
MFs/Insti	17.2	16.2	18.1
Public	10.6	8.9	9.2
Others	5.7	5.3	5.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.8%	34.2%	115.1%
Absolute Sensex	-4.7%	18.8%	52.1%
Relative Return*	-7.1%	15.4%	62.9%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Net Interest Income	13,528	15,168	17,467
Growth (%)	12.2	12.1	15.2
NIM (%)	4.9	5.1	5.1
Pre-Provision Profit	11,727	12,982	14,758
Net Profit	2,836	5,877	7,483
Growth (%)	(35.8)	107.2	27.3
Adj. EPS	38.7	76.7	97.6
Growth (%)	(39.1)	98.3	27.3
BVPS	591.3	631.0	714.5
P/E	24.7	11.9	9.3
P/B	1.6	1.4	1.3
P/ABV	1.6	1.4	1.3
ROE (%)	7.3	12.8	14.5
ROA (%)	0.8	1.6	1.8

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY2021	FY2020	YoY Growth %
Interest Income	7,419	7,387	0.4	7,242	2.5	29,000	28,783	0.8
Interest Expense	3,885	4,155	(6.5)	3,835	1.3	15,472	16,724	(7.5)
Net Int. Income (NII)	3,535	3,231	9.4	3,406	3.8	13,528	12,059	12.2
Non-Interest Income	1,780	1,772	0.5	1,705	4.4	6,559	6,951	(5.6)
Total Net Income	5,315	5,003	6.2	5,112	4.0	20,087	19,010	5.7
Total Income	9,199	9,159	0.4	8,947	2.8	35,558	35,734	(0.5)
Operating Expenses	2,253	2,167	4.0	2,138	5.4	8,360	8,237	1.5
Total Expenditure	6,138	6,322	(2.9)	5,974	2.7	23,832	24,961	(4.5)
Pre-Provision profit	3,062	2,836	7.9	2,973	3.0	11,727	10,773	8.9
Provisions	1,866	2,440	(23.5)	1,854	0.7	7,943	4,652	70.7
Profit Before Tax	1,196	396	202.1	1,120	6.8	3,784	6,121	(38.2)
Tax	320	94	240.3	267	19.8	948	1,703	(44.3)
Net Profit	876	302	190.2	853	2.7	2,836	4,418	(35.8)
EPS - Diluted (Rs.)	11.5	4.3	163.4	11.3	1.6	38.7	63.5	(39.1)

Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	14,994	17,197	15,168	17,467	1.2	1.6
Net Interest Margin (%)	5.0	5.1	5.1	5.1	5.1bps	0.6bps
Pre-Provisioning Profit	12,563	14,362	12,982	14,758	3.3	2.8
Net Profit	5,549	7,225	5,877	7,483	5.9	3.6
EPS (Rs.)	73.2	95.3	76.7	97.6	4.8	2.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	22,261	28,783	29,000	32,898	37,485
Interest Expense	13,415	16,724	15,472	17,729	20,018
Net Int. Income	8,846	12,059	13,528	15,168	17,467
% Change	18.0	36.3	12.2	12.1	15.2
Non-Int. Income	5,647	6,951	6,559	7,214	7,936
Net Income	14,493	19,010	20,087	22,383	25,403
Total Income	27,908	35,734	35,558	40,112	45,421
Operating Exp.	6,405	8,237	8,360	9,400	10,644
Total Exp.	19,820	24,961	23,832	27,130	30,663
Pre-Prov. Profit	8,088	10,773	11,727	12,982	14,758
Provisions	3,108	4,652	7,943	5,142	4,775
PBT	4,981	6,121	3,784	7,840	9,984
Tax	1,679	1,703	948	1,964	2,500
Tax Rate (%)	33.7	27.8	25.0	25.0	25.0
Net Profit	3,301	4,418	2,836	5,877	7,483
% Change	(8.5)	33.8	(35.8)	107.2	27.3
No. of Shares (cr)	61	70	73	77	77
Adj. EPS (Rs.)	54.5	63.5	38.7	76.7	97.6
% Change	(8.6)	16.6	(39.1)	98.3	27.3
DPS (Rs.)	7.5	0.0	5.0	11.5	14.2

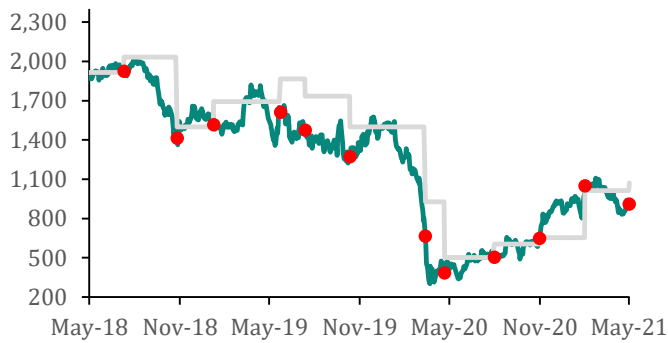
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	9,961	13,675	17,871	11,298	11,054
Investments	59,266	59,980	69,695	73,876	79,787
Advances	186,394	206,783	212,595	244,485	286,047
Fixed Assets	1,710	1,820	1,809	1,819	1,829
Other Assets	20,489	24,799	61,003	63,257	65,737
Total Assets	277,819	307,058	362,973	394,736	444,455
Capital	603	694	773	773	773
Reserves & Surplus	26,072	34,003	42,587	47,582	53,980
Deposits	194,868	202,040	256,205	281,825	324,099
Borrowings	47,321	60,754	51,323	52,349	53,396
Other Liabilities	8,956	9,567	12,085	12,206	12,206
Total Liabilities	277,819	307,058	362,973	394,736	444,455
BVPS (Rs.)	440.1	498.9	591.3	631.0	714.5
% Change	11.8	13.4	18.5	6.7	13.2

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Valuation					
P/E (x)	33.4	5.5	24.7	11.9	9.3
P/BV (x)	4.1	0.7	1.6	1.4	1.3
Div. Yield (%)	0.4	0.0	0.5	1.3	1.6
Profitab. & Return (%)					
Yield on Advances	11.0	12.2	11.5	11.6	11.7
Cost of Deposits	6.2	6.6	5.4	5.5	5.6
Spread	4.8	5.6	6.1	6.1	6.1
NIM	4.0	4.7	4.9	5.1	5.1
ROE	13.1	14.4	7.3	12.8	14.5
ROA	1.3	1.5	0.8	1.6	1.8
Capital Adequacy (%)					
CAR	14.2	15.0	17.4	17.7	17.7
Tier I	13.7	14.6	16.8	17.2	17.2
Tier II	0.5	0.5	0.6	0.5	0.5
Asset Quality (%)					
GNPA	2.1	2.5	2.7	3.2	3.2
NNPA	1.2	0.9	0.7	1.0	1.2
Operating Ratios (%)					
Credit/ Deposit	95.7	102.3	83.0	86.8	88.3
Cost/ Income	44.2	43.3	41.6	42.0	41.9
CASA	43.1	40.4	41.7	41.9	41.9

Recommendation Summary



Dates	Rating	Target
13-Jul-18	HOLD	2,032
29-Oct-18	HOLD	1,500
11-Jan-19	HOLD	1,693
27-May-19	BUY	1,866
16-Jul-19	BUY	1,735
15-Oct-19	BUY	1,500
16-Mar-20	BUY	927
24-Apr-20	BUY	503
03-Aug-20	BUY	604
03-Nov-20	HOLD	655
03-Feb-21	HOLD	1,013
05-May-21	BUY	1,072

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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