

# Indusind Bank

Refer to important disclosures at the end of this report

## Rectification behind, resurgence to begin

- Overall growth remained subdued in Q4FY21 but reported PAT of Rs9.2bn was slightly higher than the estimate of Rs8.8bn mainly due to higher fees. Headline GNPA ratio declined to 2.7% (from 2.9% in Q3) mainly due to write-off, while restructuring remained elevated at 2% of loans. Given the second Covid-19 wave, the bank maintains healthy 75% specific PCR and contingent buffer at 1% of loans.
- As per management, the consolidation phase is over and IIB should start re-growing the corporate portfolio with clear focus on quality/granularization. It is cautious on unsecured loans but would focus on growing the secured retail portfolio. That said, recent lockdowns could affect the self-employed category the most where IIB has higher dependence.
- IIB recovered from the deposit scare in FY21 with clear focus on retailisation of the balance sheet while creating a reasonable provisioning buffer to limit the asset quality impact going forward. Recent confidence capital infusion by promoters adds to the comfort.
- We believe RoA decline that began in FY19 has largely bottomed out in FY21 (RoA/RoE at 0.9%/7%) and should gradually normalize by FY23E to 1.7-1.8%/15%-16%, led by better growth/lower LLP. Retain Buy and slightly cut the TP to Rs1,125 (from Rs1,175), based on 1.7x FY23E ABV (1.8x FY23E ABV).

**Subdued growth, but set to improve in FY22:** Overall loan book growth was muted at 2.8% yoy/2.6% qoq at Rs2.1trn due to the de-bulking of corporate book and slower momentum in retail. The consolidation phase is largely over in corporate, while retail credit growth on the back of secured loans should accelerate once lockdowns are lifted. Deposit growth remained healthy at 27% yoy/7% qoq despite a 50bps rate cut, with clear focus on retailisation and granularization of deposits, which should continue going forward. We believe that long-term retailisation of assets/liability will be NIM/fee positive for the bank.

**Second Covid-19 wave could pose risk to asset quality, and thus bank retains healthy provisioning buffer:** GNPA ratio improved by 26bps qoq to 2.7% mainly due to write-off of Rs12bn in consumer finance and Rs8.3bn sold to ARC. Fresh slippages are higher at Rs38bn (7%) comprising of consumer loan slippages at Rs16bn (5% of loans) and corporate slippages at Rs22bn (10% of loans). However, corporate slippages included technical slippages of Rs19bn, which were due for restructuring, out of which Rs16bn are already upgraded post restructuring. Overall restructuring pool stands at 2% of loans, including 1.8% related to the impact from Covid-19.

**Outlook and valuations:** We believe that the near-term asset quality risk persists but IIB is reasonably well covered, and thus should limit incremental provision cost. Current MD was part of the turnaround team in 2009 and has steered well the bank from deposit/asset quality scare in FY21 and now plans to take the bank back on a profitable & qualitative growth path. Retain Buy with a revised TP of Rs1,125 (based on 1.7x FY23 ABV). Key risks to our call/estimates: Prolonged and severe asset quality deterioration (mainly in retail portfolio) in the wake of the second Covid-19 wave, derailment in retail deposit mobilization.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-Banks

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	190,101	200,286	216,044	247,039	293,242
Net profit	44,179	29,297	49,274	73,623	92,722
EPS (Rs)	63.7	37.9	63.7	95.2	119.9
ABV (Rs)	469.8	540.6	591.9	663.0	764.1
RoA (%)	1.5	0.9	1.3	1.7	1.8
RoE (%)	14.6	7.6	10.9	14.6	16.3
PE (x)	14.7	24.7	14.7	9.8	7.8
P/ABV	1.8	1.6	1.4	1.3	1.1

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 935</b> as of (April 30, 2021)	<b>Rs 1,125 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>20.3 %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-(1.9)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	63.7	95.2
Consensus	72.5	91.7
Mean Consensus TP (12M)	Rs 1,101	

### Stock Details

Bloomberg Code	IIB IN
Face Value (Rs)	10
Shares outstanding (mn)	773
52 Week H/L	1,165 / 330
M Cap (Rs bn/USD bn)	723 / 9.76
Daily Avg Volume (nos.)	10,244,090
Daily Avg Turnover (US\$ mn)	136.6

### Shareholding Pattern Mar '21

Promoters	15.2%
FIIIs	46.7%
DIIIs	16.6%
Public and Others	21.4%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(2)	11	60	100
<b>Rel. to Nifty</b>	(2)	3	27	35

### Relative price chart



Source: Bloomberg

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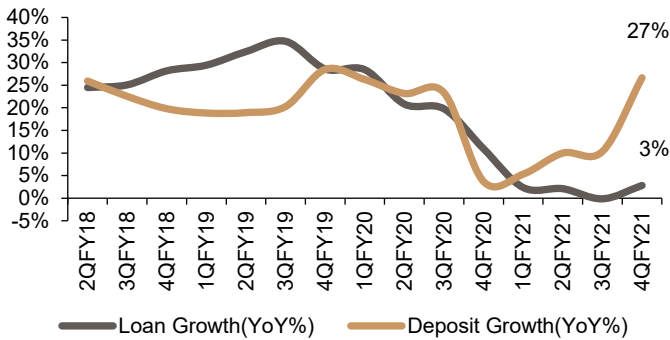
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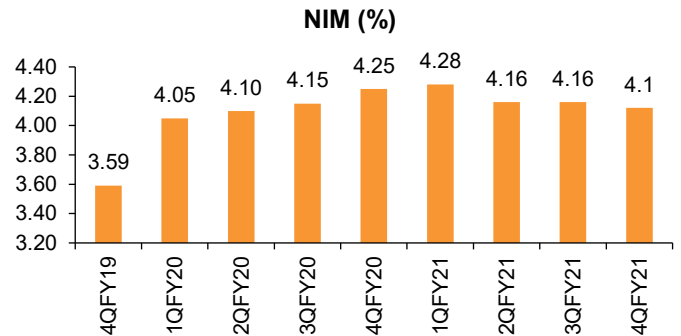
## Story in Charts

**Exhibit 1: Deposit growth is led by retailisation, but loan growth remains subdued due to de-bulking of corporate book**



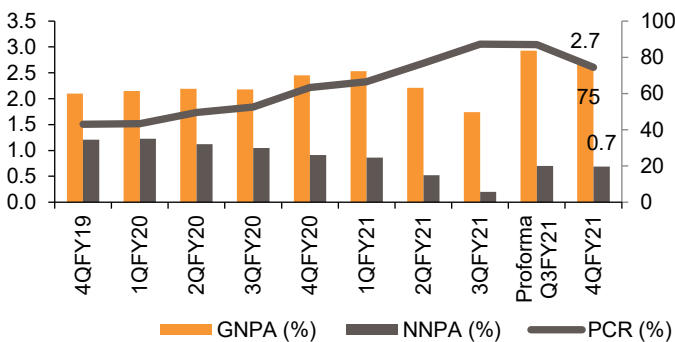
Source: Company, Emkay Research

**Exhibit 2: NIM remains stable despite lower LDR due to lower CoF**



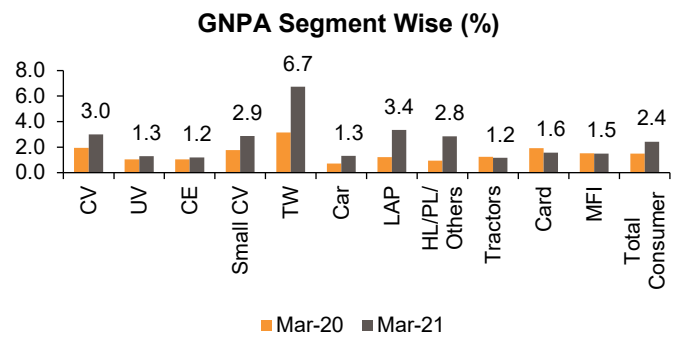
Source: Company, Emkay Research

**Exhibit 3: GNPA ratio improves qoq due to write-offs of Rs13bn and Rs8bn NPA sale to ARC**



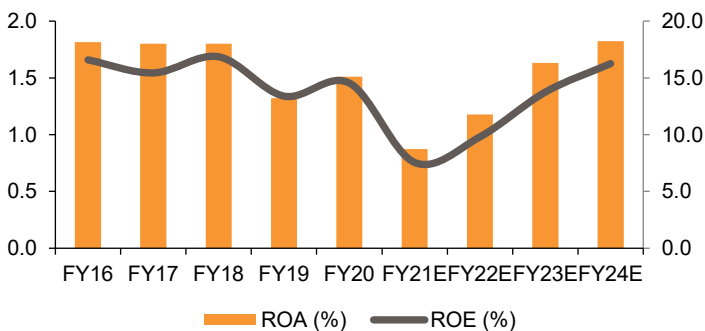
Source: Company, Emkay Research

**Exhibit 4: NPA increase due to disruption in FY21 remains manageable across product segments**



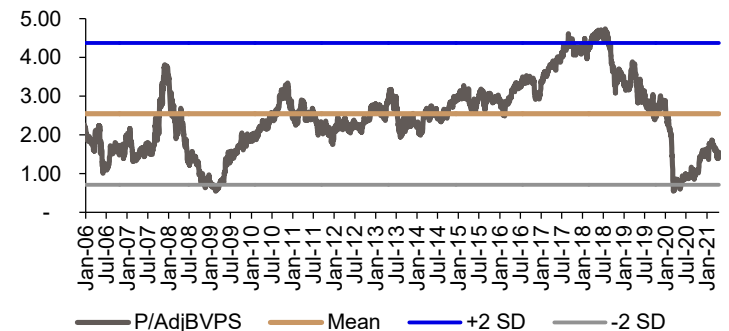
Source: Company, Emkay Research

**Exhibit 5: ROA to normalize by FY23E**



Source: Company, Emkay Research

**Exhibit 6: The stock trades at 1.5x -1 year forward ABV**



Source: Company, Emkay Research

**Exhibit 7: Actual vs. Estimates – Q4FY21**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	53,150	51,751	52,974	3%	0%	Higher fee lead to a beat
PPOP	31,287	30,228	31,451	4%	-1%	Higher net income leads to a beat
PAT	9,261	8,851	9,514	5%	-3%	PPOP supports PAT beat

Source: Company, Emkay Research

**Exhibit 8: Quarterly Summary**

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	73,865	71,617	71,772	72,414	74,194	0	2	289,997	321,703	11
Interest Exp	41,554	38,525	38,992	38,354	38,848	-7	1	154,719	171,719	11
Net Interest Income	32,311	33,092	32,780	34,060	35,346	9	4	135,278	149,984	11
Global NIMs (reported)	4.25	4.28	4.16	4.12	4.13	-12bps	1bps	4.37	4.31	-6bps
Non-interest Income	17,722	15,204	15,543	16,458	17,804	0	8	65,009	66,060	2
Operating Expenses	21,467	19,019	19,803	20,883	21,863	2	5	81,568	91,928	13
Pre Provisioning Profit	28,567	29,277	28,520	29,634	31,287	10	6	118,718	124,116	5
Provision & Contingencies	24,403	22,589	19,644	18,535	18,657	-24	1	79,425	58,241	-27
PBT	4,164	6,689	8,875	11,099	12,630	203	14	39,293	65,874	68
Income Tax Expense	1,012	1,585	2,245	2,797	3,369	233	20	9,995	16,600	66
Net Profit/(Loss)	3,154	5,104	6,631	8,303	9,261	194	12	29,297	49,274	68
Gross NPA (%)	2.45	2.53	2.21	1.74	2.67	22bps	93bps	2.67	2.72	5bps
Net NPA (%)	0.91	0.86	0.52	0.20	0.69	-22bps	49bps	0.69	0.69	0bps
Deposits (Rs in bn)	2,020	2,113	2,279	2,391	2,559	27	7	2,559	2,889	13
Net Advances (Rs in bn)	2,068	1,981	2,012	2,071	2,126	3	2.6	2,126	2,422	14

Source: Company, Emkay Research

**Exhibit 9: Revision in Estimates**

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	213,884	216,044	1.0%	245,641	247,039	0.6%	293,242
PPOP	120,027	124,116	3.4%	136,127	140,783	3.4%	169,863
PAT	49,660	49,274	-0.8%	74,961	73,623	-1.8%	92,722
EPS (Rs)	64.3	63.7	-0.9%	97.0	95.2	-1.9%	119.9
BV (Rs)	616	608.1	-1.3%	692	682.8	-1.4%	782.0

Source: Emkay Research

**Exhibit 10: Key Assumptions**

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	2.8	13.9	20.5	25.6
Deposit Growth %	26.7	12.9	18.5	26.4
NIM %	4.4	4.3	4.4	4.3
GNPA %	2.7	2.7	2.3	1.7
Credit Cost %	3.8	2.4	1.5	1.2

Source: Emkay Research

**Exhibit 11: Quarterly Summary**

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs bn	1,864	1,935	1,971	2,074	2,068	1,981	2,012	2,071	2,126
growth YoY %	28.6	28.4	20.8	19.8	10.9	2.4	2.1	(0.1)	2.8
growth QoQ %	7.6	3.8	1.9	5.2	(0.3)	(4.2)	1.6	2.9	2.6
Composition (%)									
- Large Corporate	28.0	25.9	24.5	24.7	23.1	22.1	20.8	20.1	19.9
- SME/Business Banking	33.0	26.1	26.7	26.7	26.7	25.8	27.3	28.2	28.5
- Retail	39.0	48.0	48.7	48.6	50.2	52.1	51.8	51.7	51.6
Liability Profile									
Deposits (Rs bn)	1,949	2,006	2,072	2,167	2,020	2,113	2,279	2,391	2,559
growth YoY %	28.5	26.3	23.2	23.3	3.7	5.3	10.0	10.3	26.7
growth QoQ %	10.9	2.9	3.3	4.6	(6.8)	4.6	7.9	4.9	7.0
CASA %	43.1	43.1	41.4	42.4	40.4	40.0	40.3	40.4	41.7
CA %	15.2	14.4	13.4	12.4	14.1	15.1	15.3	13.5	14.0
SA %	28.0	28.7	28.0	29.9	26.3	24.9	25.0	26.9	27.8
Branches	1,665	1,701	1,753	1,851	1,911	1,911	1,910	1,915	2,015
Yield on Advances %	11.25	12.00	12.04	11.97	11.89	11.85	11.97	11.67	11.78
Cost of Deposits %	6.80	6.86	6.70	6.49	6.05	5.73	5.58	5.34	5.03
NIM %	3.59	4.05	4.10	4.15	4.25	4.28	4.16	4.12	4.13
Asset Quality									
GNPA %	2.1	2.2	2.2	2.2	2.5	2.6	2.3	1.8	2.7
NNPA %	1.2	1.2	1.1	1.0	0.9	0.9	0.5	0.2	0.7
PCR %	43.0	43.3	49.6	52.5	63.3	66.6	76.7	87.3	74.5
Slippages (Rs mn)	36,880	7,250	11,020	19,450	20,580	15,370	3,990	590	63,370
Corporate (Rs mn)	32,300	1,750	4,790	12,370	12,490	12,250	130	360	26,480
Consumer (Rs mn)	4,580	5,500	6,230	7,080	8,080	3,120	3,860	230	36,890
Slippages %	10.2	1.9	2.7	4.5	4.4	3.2	0.8	0.1	12.3
CAR %	14.2	14.9	14.7	13.9	15.0	15.2	16.6	16.3	17.4
Tier I %	13.7	14.5	14.3	13.5	14.6	14.5	15.8	15.6	16.8
ROE Decomposition									
NII	3.3	4.0	4.0	4.1	4.2	4.2	4.0	4.0	4.0
Other Income	2.3	2.3	2.3	2.4	2.3	1.9	1.9	2.0	2.0
Opex	2.6	2.7	2.7	2.8	2.8	2.4	2.4	2.5	2.5
PPOP	3.1	3.6	3.6	3.7	3.7	3.7	3.5	3.5	3.6
Provisioning Cost	2.3	0.6	1.0	1.4	3.2	2.9	2.4	2.2	2.1
PBT	0.8	3.0	2.6	2.3	0.5	0.9	1.1	1.3	1.4
Tax	0.2	1.0	0.7	0.5	0.1	0.2	0.3	0.3	0.4
ROA	0.5	2.0	1.9	1.7	0.4	0.7	0.8	1.0	1.1
Leverage (x)	10.1	9.7	9.0	8.9	8.9	8.9	8.6	8.4	8.4
ROE	5.4	19.5	17.1	15.5	3.7	5.8	7.1	8.3	8.8

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>120,587</b>	<b>135,278</b>	<b>149,984</b>	<b>169,770</b>	<b>201,663</b>
<b>Other income</b>	<b>69,513</b>	<b>65,009</b>	<b>66,060</b>	<b>77,269</b>	<b>91,579</b>
Fee income	46,150	40,150	44,166	52,999	63,598
<b>Net income</b>	<b>190,101</b>	<b>200,286</b>	<b>216,044</b>	<b>247,039</b>	<b>293,242</b>
Operating expenses	82,373	81,568	91,928	106,256	123,380
<b>Pre provision profit</b>	<b>107,727</b>	<b>118,718</b>	<b>124,116</b>	<b>140,783</b>	<b>169,863</b>
<b>PPP excl treasury</b>	<b>102,201</b>	<b>114,298</b>	<b>119,916</b>	<b>136,793</b>	<b>166,073</b>
Provisions	46,521	79,425	58,241	42,356	45,903
<b>Profit before tax</b>	<b>61,206</b>	<b>39,293</b>	<b>65,874</b>	<b>98,427</b>	<b>123,960</b>
Tax	17,027	9,995	16,600	24,804	31,238
Tax rate	28	25	25	25	25
<b>Profit after tax</b>	<b>44,179</b>	<b>29,297</b>	<b>49,274</b>	<b>73,623</b>	<b>92,722</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	6,935	7,734	7,734	7,734	7,734
Reserves	340,035	427,272	468,715	526,726	603,844
<b>Net worth</b>	<b>346,970</b>	<b>435,006</b>	<b>476,449</b>	<b>534,460</b>	<b>611,578</b>
Deposits	2,020,398	2,558,701	2,888,592	3,423,409	4,326,263
Borrowings	552,636	471,228	424,105	466,516	513,167
<b>Total liabilities</b>	<b>3,070,481</b>	<b>3,629,032</b>	<b>3,906,718</b>	<b>4,561,742</b>	<b>5,603,985</b>
Cash and bank	136,753	179,574	215,489	258,587	310,304
Investments	599,799	696,534	736,013	835,951	1,022,958
Loans	2,067,832	2,125,954	2,422,402	2,919,496	3,665,755
Others	224,707	221,688	296,440	355,918	431,411
<b>Total assets</b>	<b>3,070,481</b>	<b>3,629,032</b>	<b>3,906,718</b>	<b>4,561,742</b>	<b>5,603,985</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.5	4.4	4.3	4.4	4.3
Non-ll/avg assets	2.4	1.9	1.8	1.8	1.8
Fee income/avg assets	1.6	1.2	1.2	1.3	1.3
Opex/avg assets	2.8	2.4	2.4	2.5	2.4
Provisions/avg assets	1.6	2.4	1.5	1.0	0.9
PBT/avg assets	2.1	1.2	1.7	2.3	2.4
Tax/avg assets	0.6	0.3	0.4	0.6	0.6
RoA	1.5	0.9	1.3	1.7	1.8
RoAE	14.6	7.6	10.9	14.6	16.3
GNPA (%)	2.5	2.7	2.7	2.3	1.7
NNPA (%)	0.9	0.7	0.7	0.7	0.5

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	63.7	37.9	63.7	95.2	119.9
BVPS	489.1	554.7	608.1	682.8	782.0
ABVPS	469.8	540.6	591.9	663.0	764.1
DPS	0.0	0.0	10.0	20.0	20.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	14.7	24.7	14.7	9.8	7.8
P/BV	2.0	1.7	1.6	1.4	1.2
P/ABV	1.8	1.6	1.4	1.3	1.1
P/PPOP	5.4	5.5	5.3	4.6	3.9
Dividend Yield (%)	0.0	0.0	1.1	2.1	2.1

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
NII	36.3	12.2	10.9	13.2	18.8
PPOP	33.2	10.2	4.5	13.4	20.7
PAT	33.8	(33.7)	68.2	49.4	25.9
Loans	10.9	2.8	13.9	20.5	25.6

<b>Quarterly (Rs mn)</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>
NII	32,311	33,092	32,780	34,060	35,346
NIM (%)	4.3	4.3	4.2	4.1	4.1
PPOP	28,567	29,277	28,520	29,634	31,287
PAT	3,152	5,103	6,631	8,303	9,261
EPS (Rs)	4.54	7.35	8.77	10.97	11.97

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Feb-21</b>	<b>Mar-21</b>
Promoters	13.5	13.5	13.4	15.2	15.2
FII	47.5	47.8	50.3	48.0	46.7
DII	15.8	15.2	14.8	15.9	16.6
Public and Others	23.3	23.6	21.4	20.8	21.4

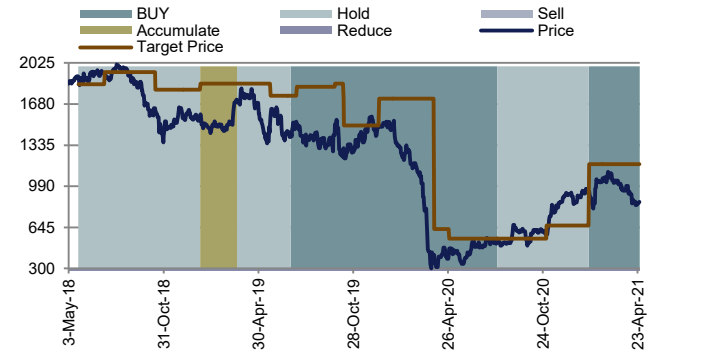
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-Jan-21	846	1,175	12m	Buy	Anand dama
20-Jan-21	948	1,175	12m	Buy	Anand dama
31-Oct-20	586	660	12m	Hold	Anand dama
29-Sep-20	536	550	12m	Hold	Anand dama
29-Jul-20	551	550	12m	Hold	Anand dama
28-Apr-20	468	550	12m	Buy	Anand dama
11-Apr-20	395	630	12m	Buy	Anand dama
30-Mar-20	413	630	12m	Buy	Anand dama
14-Jan-20	1,482	1,725	12m	Buy	Anand dama
16-Dec-19	1,493	1,725	12m	Buy	Anand dama
10-Oct-19	1,229	1,500	12m	Buy	Anand dama
9-Oct-19	1,309	1,725	12m	Buy	Anand dama
23-Sep-19	1,512	1,850	12m	Buy	Anand dama
12-Jul-19	1,502	1,825	12m	Buy	Anand dama
1-Jul-19	1,426	1,750	12m	Buy	Anand dama
23-May-19	1,590	1,750	12m	Hold	Anand dama
20-Mar-19	1,704	1,850	12m	Hold	Anand dama
9-Jan-19	1,593	1,850	12m	Accumulate	Anand dama
15-Oct-18	1,618	1,799	12m	Hold	Jignesh Shial
10-Jul-18	1,917	1,947	12m	Hold	Jignesh Shial
21-May-18	1,907	1,845	12m	Hold	Ravikant Bhat

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>20.98</b>	<b>20.95</b>	<b>-0.1%</b>	<b>-3</b>	<b>100.00</b>
Axis Bank	2.22	2.31	4%	9	11.00
AU Small Finance Bank	0.29	0.25	-13%	-4	1.19
Bandhan Bank	0.28	0.33	18%	5	1.59
Bank of Baroda	0.15	0.10	-31%	-5	0.50
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.05
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	23%	4	1.09
HDFC Bank	7.16	7.29	2%	13	34.73
ICICI Bank	5.11	5.26	3%	15	25.08
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.71	13%	8	3.38
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.82	2.32	-18%	-50	11.08
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.12	0.12	0%	0	0.55
State Bank of India	1.66	1.81	9%	15	8.62
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.03</b>	<b>NA</b>	<b>3</b>	<b>0.15</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	01-Apr-19	29-Apr-20	28-Oct-20	27-Jan-21	26-Mar-21	28-Apr-21
EAP - BFSI-Banks	100.0	72.9	84.7	104.1	113.8	115.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	72.0	83.4	102.4	111.6	113.5

\*Performance measurement base date 1<sup>st</sup> April 2019

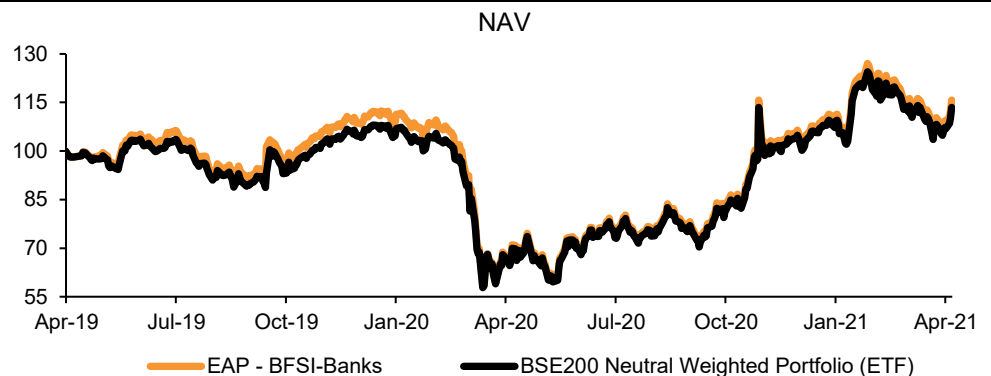
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	1.7%	11.1%	36.7%	58.7%
BSE200 Neutral Weighted Portfolio (ETF)	1.7%	10.8%	36.0%	57.6%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 02 May 2021 21:26:50 (SGT)

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