

# Retail Equity Research

## IndusInd Bank Ltd.

Banking

BSE CODE: 532187

NSE CODE: INDUSINDBK

Bloomberg CODE: IIB:IN

SENSEX: 59,307

**BUY**

 12Months Investment period Rating as per Large cap  
**CMP** Rs. 1,140 **TARGET** Rs. 1,352 **RETURN** 19% ↑  
 (Closing: 29-10-21)

**KEY CHANGES:**
**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

### Recoveries on track to achieve pre-covid levels

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.

- **Standalone NII this quarter reached Rs. 3,658cr (+11.6% YoY) with NIM at 4.07% (vs. 4.06% in Q1FY22). PBT jumped 69.9% YoY to Rs. 1,471cr as provisions dipped 13.3% YoY.**
- **GNPA/NNPA improved to 2.7%/0.80% (vs. 2.88%/0.84% in Q1FY22) respectively. Restructured advances reached 3.6% this quarter as compared to 2.7% in Q1FY22.**
- **Decline in cost of deposits, coupled with the expected increase on yields from advances in the long run will result in improving interest spreads. The bank is well positioned to protect its balance sheet. We remain positive on the stock and retain our BUY rating with a revised target price of Rs. 1,352 using 1.9x FY23E BVPS.**

### PAT momentum continues with conservative provisioning

Interest income saw a moderate growth of 6.6% YoY to Rs. 7,650cr driven by 8.24%/14.32% yields on advances for corporate/retail banking respectively. Interest expense inched up slightly this quarter to Rs. 3,992cr (+2.4% YoY) leading to net interest income of Rs. 3,658cr (+11.6% YoY) with NIM at 4.07% (-9bps YoY, +1bps QoQ). Non-interest income recorded a healthy growth this quarter to Rs. 1,837cr (+18.2% YoY) pushed up by incomes from General Banking (+90.2%), Loan Processing fees (+100.0% YoY) and Investment Banking (+195.7% YoY). Pre-provisioning profit for the quarter was at Rs. 3,174cr (+12.2% YoY) as PBT jumped 69.9% YoY to Rs. 1,471cr on account of lower provisioning in the quarter of Rs. 1,703cr (-13.3% YoY).

### Loan loss provisions well provided for as asset quality improves

Granular retail deposits drove the overall deposits growth to Rs. 275,288cr (+20.6% YoY) with cost of deposits declining 73bps YoY to 4.85%. CASA ratio remained intact at 42.0% in line with last quarter. Loan book remains well diversified across consumer and corporate products as total advances grew 9.7% YoY to Rs. 220,808cr in Q2FY22. GNPA/NNPA improved to 2.77% / 0.80% respectively (vs. 2.88% / 0.84% in Q1FY22). Total loan loss provisions were at 138.0% of GNPA (3.9% of total loans vs. 3.6% in the last quarter). Liquidity Coverage Ratio (LCR) remains healthy at 148%.

### Key concall highlights

- Customers opted for restructuring being cautious during 2<sup>nd</sup> wave of COVID-19. The vehicle finance restructured book increased to Rs. 3,696cr (vs. Rs. 3,089cr in Q1FY22). In Microfinance, 55% of the restructured customers have completed at least 3 loan cycles and 81% have completed at least 2 loan cycles.
- Collection efficiency excluding Kerala and West Bengal is close to pre-Covid levels, as collection efficiency for the quarter was at 94.7%.

### Outlook & Valuation

Increase in deposits with low cost of deposits is expected to enhance the yield on advances in the coming quarters. The bank is well positioned to cover any loan losses and keep the balance sheet intact. With collections returning to pre-covid levels, we remain positive on the stock. Hence we retain our rating to BUY with a revised target price of Rs. 1,352 using 1.9x FY23E BVPS.

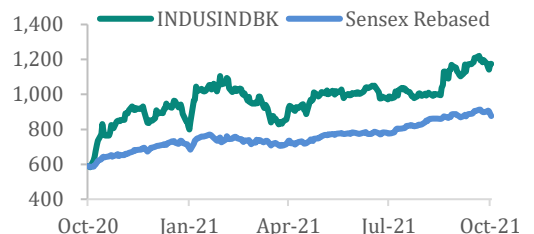
#### Company Data

Market Cap (cr)	Rs. 91,149
Outstanding Shares (cr)	77.5
Free Float	78.0%
Dividend Yield	0.4%
52 week high	Rs. 1,242
52 week low	Rs. 577
6m average volume (lac)	2.7
Beta	1.1
Face value	Rs. 10

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	16.6	16.5	16.5
FII's	50.9	52.1	51.4
MFs/Insti	18.1	17.8	19.0
Public	9.2	8.7	7.7
Others	5.3	4.9	5.4
Total	100.0	100.0	100.0
Promoters' pledge	5.5	6.9	6.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	19.1%	25.8%	100.7%
Absolute Sensex	12.6%	19.2%	49.2%
Relative Return*	6.4%	6.6%	51.5%

\*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Net Interest Income	13,528	15,176	17,462
Growth (%)	12.2	12.2	15.1
NIM (%)	4.9	5.1	5.1
Pre-Provision Profit	11,727	12,868	14,617
Net Profit	2,836	5,705	7,377
Growth (%)	(35.8)	101.1	29.3
Adj. EPS	38.7	74.4	96.3
Growth (%)	(39.1)	92.5	29.3
BVPS	591.3	629.1	711.4
P/E	24.7	15.8	12.2
P/B	1.6	1.9	1.7
P/ABV	1.6	1.9	1.7
ROE (%)	7.3	12.5	14.4
ROA (%)	0.8	1.5	1.8

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Interest Income	7,650	7,177	6.6	7,575	1.0	15,225	14,339	6.2
Interest Expense	3,992	3,899	2.4	4,011	(0.5)	8,003	7,752	3.2
<b>Net Int. Income (NII)</b>	<b>3,658</b>	<b>3,278</b>	<b>11.6</b>	<b>3,564</b>	<b>2.7</b>	<b>7,222</b>	<b>6,587</b>	<b>9.6</b>
Non-Interest Income	1,837	1,554	18.2	1,781	3.2	3,618	3,073	17.7
<b>Total Net Income</b>	<b>5,496</b>	<b>4,832</b>	<b>13.7</b>	<b>5,345</b>	<b>2.8</b>	<b>10,840</b>	<b>9,660</b>	<b>12.2</b>
<b>Total Income</b>	<b>9,488</b>	<b>8,731</b>	<b>8.7</b>	<b>9,356</b>	<b>1.4</b>	<b>18,843</b>	<b>17,412</b>	<b>8.2</b>
Operating Expenses	2,321	2,001	16.0	2,214	4.8	4,535	3,968	14.3
<b>Total Expenditure</b>	<b>6,313</b>	<b>5,901</b>	<b>7.0</b>	<b>6,225</b>	<b>1.4</b>	<b>12,538</b>	<b>11,720</b>	<b>7.0</b>
<b>Pre-Provision profit</b>	<b>3,174</b>	<b>2,831</b>	<b>12.2</b>	<b>3,131</b>	<b>1.4</b>	<b>6,305</b>	<b>5,692</b>	<b>10.8</b>
Provisions	1,703	1,964	(13.3)	1,844	(7.6)	3,547	4,223	(16.0)
<b>Profit Before Tax</b>	<b>1,471</b>	<b>866</b>	<b>69.9</b>	<b>1,287</b>	<b>14.3</b>	<b>2,758</b>	<b>1,469</b>	<b>87.8</b>
Tax	358	219	63.2	312	14.8	669	361	85.4
<b>Net Profit</b>	<b>1,114</b>	<b>647</b>	<b>72.1</b>	<b>975</b>	<b>14.2</b>	<b>2,088</b>	<b>1,108</b>	<b>88.5</b>
EPS - Diluted (Rs.)	14.4	9.1	58.3	12.6	14.1	26.9	15.7	71.5

### Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	15,086	17,366	15,176	17,462	0.6	0.6
Net Interest Margin (%)	5.0	5.1	5.1	5.1	3.0bps	2.8bps
Pre-Provisioning Profit	12,779	14,522	12,868	14,617	0.7	0.7
Net Profit	5,724	7,306	5,705	7,377	(0.3)	1.0
EPS (Rs.)	74.7	95.3	74.4	96.3	(0.3)	1.0

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	22,261	28,783	29,000	32,823	37,389
Interest Expense	13,415	16,724	15,472	17,647	19,927
<b>Net Int. Income</b>	<b>8,846</b>	<b>12,059</b>	<b>13,528</b>	<b>15,176</b>	<b>17,462</b>
% Change	18.0	36.3	12.2	12.2	15.1
Non-Int. Income	5,647	6,951	6,559	7,214	7,936
<b>Net Income</b>	<b>14,493</b>	<b>19,010</b>	<b>20,087</b>	<b>22,391</b>	<b>25,398</b>
<b>Total Income</b>	<b>27,908</b>	<b>35,734</b>	<b>35,558</b>	<b>40,038</b>	<b>45,324</b>
Operating Exp.	6,405	8,237	8,360	9,523	10,780
<b>Total Exp.</b>	<b>19,820</b>	<b>24,961</b>	<b>23,832</b>	<b>27,170</b>	<b>30,707</b>
<b>Pre-Prov. Profit</b>	<b>8,088</b>	<b>10,773</b>	<b>11,727</b>	<b>12,868</b>	<b>14,617</b>
Provisions	3,108	4,652	7,943	5,256	4,775
<b>PBT</b>	<b>4,981</b>	<b>6,121</b>	<b>3,784</b>	<b>7,611</b>	<b>9,842</b>
Tax	1,679	1,703	948	1,906	2,465
Tax Rate (%)	33.7	27.8	25.0	25.0	25.0
<b>Net Profit</b>	<b>3,301</b>	<b>4,418</b>	<b>2,836</b>	<b>5,705</b>	<b>7,377</b>
% Change	(8.5)	33.8	(35.8)	101.1	29.3
No. of Shares (cr)	61	70	73	77	77
Adj. EPS (Rs.)	54.5	63.5	38.7	74.4	96.3
% Change	(8.6)	16.6	(39.1)	92.5	29.3
DPS (Rs.)	7.5	0.0	5.0	11.2	14.0

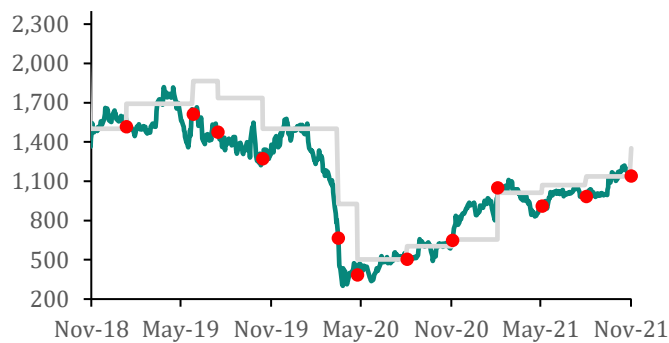
## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash & Balances	9,961	13,675	17,871	11,152	10,818
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
<b>Total Assets</b>	<b>277,819</b>	<b>307,058</b>	<b>362,973</b>	<b>394,590</b>	<b>444,218</b>
Capital	603	694	773	773	773
Reserves & Surplus	26,072	34,003	42,587	47,436	53,744
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
<b>Total Liabilities</b>	<b>277,819</b>	<b>307,058</b>	<b>362,973</b>	<b>394,590</b>	<b>444,218</b>
<b>BVPS (Rs.)</b>	<b>440.1</b>	<b>498.9</b>	<b>591.3</b>	<b>629.1</b>	<b>711.4</b>
% Change	11.8	13.4	18.5	6.4	13.1

## RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Valuation</b>					
P/E (x)	33.4	5.5	24.7	15.8	12.2
P/BV (x)	4.1	0.7	1.6	1.9	1.7
Div. Yield (%)	0.4	0.0	0.5	0.9	1.2
<b>Profitab. &amp; Return (%)</b>					
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	12.5	14.4
ROA	1.3	1.5	0.8	1.5	1.8
<b>Capital Adequacy (%)</b>					
CAR	14.2	15.0	17.4	17.6	17.6
Tier I	13.7	14.6	16.8	17.1	17.2
Tier II	0.5	0.5	0.6	0.5	0.5
<b>Asset Quality (%)</b>					
GNPA	2.1	2.5	2.7	2.5	2.3
NNPA	1.2	0.9	0.7	0.6	0.6
<b>Operating Ratios (%)</b>					
Credit/ Deposit	95.7	102.3	83.0	86.8	88.3
Cost/ Income	44.2	43.3	41.6	42.5	42.4
CASA	43.1	40.4	41.7	41.9	41.9

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
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
3-Aug-20	BUY	604
3-Nov-20	HOLD	655
3-Feb-21	HOLD	1,013
5-May-21	BUY	1,072
02-Aug-21	BUY	1,137
01-Nov-21	BUY	1,352

## 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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