

Provisions surging, management sound confident...

Slippages run rate continued to remain elevated at ₹ 2058 crore in Q4FY20 vs. ₹ 1945 crore in Q3FY20. Of this, ₹ 1184 crore, was pertaining to three major accounts – a power/paper group, a tea group, a medical equipment group and a broking company. Write-off was at ₹ 843 crore, including ₹ 470 crore related to a large NBFC classified as NPA. Asset quality witnessed deterioration with GNPA ratio increasing ~27 bps QoQ to 2.45%.

The management had recognised exposure of ₹ 961 crore as fraud in Q3FY20, to be provided through P&L account in four quarters. Consequently, the bank has recognised ₹ 240 crore in Q3FY20, ₹ 240 crore in Q4FY20. Remaining, ₹ 480 crore is to be provided in next two quarters. The bank has provisioned ₹ 75 crore for a stressed telecom exposure. **To shore up provision coverage amid Covid-19 uncertainty, floating provision of ₹ 260 crore was been created. The bank said advances in low single digit opted for moratorium. Such exposure was at ~₹ 460 crore while 5% has been provided on the same i.e. ₹ 23 crore. Such high provisioning impacted profitability reported at ₹ 302 crore, a dip of 77% QoQ.**

The management expects credit cost of 120-130 bps in FY21E and additional ~50 bps related to Covid-19. Gross NPA may increase ~80 bps in FY21E.

Credit growth came sluggish at ~ 11% YoY to ₹ 206783 crore (flat QoQ) mainly due to a slump in corporate book and deceleration in consumer finance book at 2.9% QoQ. Deposit growth was muted at -6.8% QoQ to ₹ 202027 crore, led by withdrawal of bulk government deposits. Accordingly, CASA ratio fell ~200 bps QoQ to 40.4% vs. 42.4% in Q3FY20.

Improvement of ~10 bps QoQ in margins to 4.25%, was positive surprise, led by faster decline in cost of funds. Other income growth stayed broadly flattish QoQ to ₹ 1772 crore, mainly on account of sluggish growth of fee income. Accordingly, operating profit was at ₹ 2836 crore, up 3% QoQ.

Focus on granularity to tilt business mix towards retail segment

In a change in strategy to increase deposit base and improve granularity on asset side, the management has guided deposit growth to be higher relative to advances. They expects advance growth of 10-12% YoY in FY21E wherein corporate book may grow at 6-9% while consumer finance is expected to grow 10-15%. Within consumer book, focus will remain on micro finance lending (20-22%) and unsecured retail loans while commercial vehicle segment (12-15% in H2FY21E onwards) is expected to witness faster revival ahead as lockdown is lifted. With higher focus on retail, business mix is expected to be at 60:40 between retail: corporate in FY21E.

Valuation & Outlook

The Q4FY20 performance was mixed though better than what had been priced in by the market. Strategy to tilt business mix towards retail and improve granularity will be gradual. Higher delinquencies are seen keeping earnings volatile with pressure on return ratios. Hence, we value the stock at 0.9x FY22E ABV to arrive at a target price of ₹ 500. We maintain our **HOLD** rating on the stock.

Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	7,497	10,587	12,059	12,811	14,617	11%
PPP	6,656	9,358	10,773	10,899	12,412	10%
PAT	3,606	4,186	4,418	3,806	4,624	3%
ABV (₹)	385	416	473	508	581	
P/E	20.0	5.9	5.7	6.6	5.4	
P/ABV	3.1	0.9	0.8	0.7	0.6	
RoA	1.8	1.6	1.5	1.2	1.2	
RoE	16.2	14.5	13.5	10.5	11.4	

IndusInd Bank

Particulars

Particulars	Amount
Market Capitalisation	₹28252 crore
GNPA (Q4FY 20)	₹5147 Crore
NNPA (Q4FY 20)	₹1887 Crore
NIM (%) (Q4FY 20)	4.3
52 week H/L	1702/236
Net worth	₹34706 Crore
Face Value	₹10
DII Holding (%)	15.0
FII Holding (%)	55.2

Key Highlights

- Slippage of ₹ 1184 crore includes exposure to power/paper company, tea group, medical equipment group and a broking company
- Floating provision of ₹ 260 crore with ₹ 23 crore for moratorium in Q4FY20
- Retail book to grow at faster pace, thereby increasing its proportion from ~55% to 60%
- Maintain HOLD rating on stock with target price of ₹ 500 (earlier ₹ 400)

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	3,231	3,051	2,232	44.7	3,074	5.1	Stable credit growth & improvement in margins led to healthy growth
NIM (%)	4.25	4.08	3.59	66 bps	4.15	10 bps	Margins improved due to faster decline in cost of funds compared to reduction in yields
Other Income	1,772	1,521	1,559	13.7	1,789	-1.0	Other income growth was flattish due to sluggish growth of fee income
Net Total Income	5,003	4,572	3,791	32.0	4,863	2.9	
Staff cost	496	575	481	3.0	550	-9.9	
Other Operating Expenses	1,671	1,677	1,242	34.5	1,568	6.6	
PPP	2,836	2,055	2,068	37.2	2,746	3.3	
Provision	2,440	1,737	1,561	56.4	1,043.5	133.9	Floating provisions of ₹ 260 crore and provisions for moratorium at ₹ 23 crore. Further, recognised ₹ 240 crore this quarter and provided ₹ 75 crore for a telecom company
PBT	396	318	507	-21.9	1,702	-76.7	
Tax Outgo	94	81	147	-36.0	402.0	-76.6	
PAT	302	237	360	-16.2	1,300.2	-76.8	Higher provisions dented earnings

Key Metrics

GNPA	5,147	4,538	3,947	30.4	4,578	12.4	Slippages continued to remain elevated at ₹ 2058 crore. Of the slippages, ₹ 1184 crore was pertaining to three major accounts – a power/paper group, a tea group, a medical equipment group and a broking company
NNPA	1,887	2,287	2,248	-16.1	2,173	-13.2	
Total Restructured assets	83	124	168	-50.7	124	-33.5	Restructured loans as a percentage of total credit was at 0.04%
Credit book	206,783	206,783	186,394	10.9	207,413	-0.3	Credit growth was sluggish due to slump in corporate book at ~-4.1% QoQ and deceleration in consumer finance book at 2.9% QoQ
Deposit book	202,027	202,040	194,868	3.7	216,713	-6.8	Deposit growth muted due to withdrawal of bulk government deposits

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	11351.2	12,811	12.9	12,979	14,617	12.6
Pre Provision Profit	9288.08	10,899	17.3	11,141	12,412	11.4
NIM(%) (calculated)	3.98245	4.3	255474 bps	4.0	4.3	041583 bps
PAT	3918.57	3,806	-2.9	5,757	4,624	-19.7
ABV per share (₹)	528.126	507.8	-3.8	599.8	580.7	-3.2

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	28.6	10.9	12.0	14.0	1.0	15.0
Deposit Growth (%)	28.5	3.7	16.0	18.0	11.0	15.0
NIM Calculated (%)	3.9	4.5	4.3	4.3	4.0	4.0
Cost to income ratio (%)	44.2	43.3	44.9	45.2	47.8	46.3
GNPA (₹crore)	3,947.4	5,146.7	8,021.7	8,583.2	7,674.4	8,441.8
NNPA (₹crore)	2,248.3	1,886.6	2,837.5	3,036.1	3,228.1	3,454.1
Credit cost (%)	1.6	2.2	2.5	2.4	1.9	1.4

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: MFI & unsecured retail segments continue to grow faster

Consumer Finance Book									
₹crore	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20
Comm. Vehicle	19,872	20,703	21,992	23,304	24,444	24,853	25,092	24,977	23,948
Utility Vehicle	2,866	3,026	3,201	3,383	3,597	3,846	4,009	4,264	4,377
Three Wheelers	2,528	2,732	2,886	3,034	3,135	3,248	3,386	3,560	3,524
Two Wheelers	3,589	3,754	3,867	4,322	4,482	4,661	4,799	5,296	5,204
Car loans	5,345	5,600	5,892	6,285	6,537	6,792	7,013	7,336	7,247
Equip. financing +Tra	8,205	8,851	9,373	10,167	11,089	11,646	12,173	8,238	12,753
Credit card	2,696	2,983	3,185	3,546	4,382	3,911	4,203	4,576	4,762
Loan against prop.	8,009	8,180	8,324	8,557	8,925	8,678	8,785	9,539	9,448
Personal.others etc	4,130	4,435	4,922	5,435	6,095	6,992	7,748	7,757	8,311
Business Banking						10,984	11,360	11,460	11,643
Microfinance						18,245	18,884	20,757	24,232
Total	57239	60264	63643	68033	72684	103856	107452	112160	115449

Source: Company, ICICI Direct Research

Exhibit 5: Break-up of corporate book

Corporate Banking Book								
₹crore	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20
Large corporates	44,957	49,471	50,833	52,166	50,212	48,319	51,284	47,742
Mid corporates	26,544	30,087	32,312	33,369	35,221	37,194	39,677	39,559
Small business	18,910	19,943	21,991	28,175	4,231	4,148	4,292	4,033
Total	90411	99501	105136	113710	89664	89661	95253	91334
YoY Growth	30.4	35.0	39.4	29.6	-0.8	-9.9	-9.4	-19.7

Source: Company, ICICI Direct Research

Exhibit 6: Advances growth sluggish

₹crore	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20
Total Advances	150675	163144	173169	186394	193520	197113	207413	206783
YoY Growth	29.4	32.4	34.7	28.6	28.4	20.8	19.8	10.9

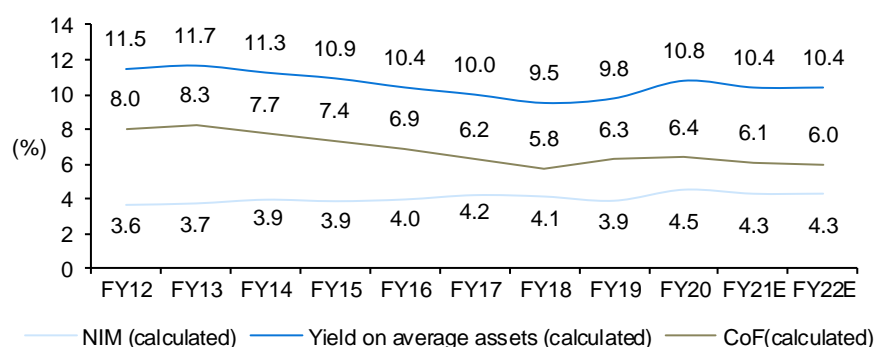
Source: Company, ICICI Direct Research

Exhibit 7: Deposit growth muted

₹Crore	FY18	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20
Savings	45888	47711	51106	50023	54486	57562	58117	64895	53130
Current	20841	21268	22269	26526	29584	28779	27721	26970	28427
Term	84910	89883	94844	99152	110798	114245	121355	124848	120470
Total Deposits	151639	158862	168219	175701	194868	200586	207193	216713	202027
YoY Growth	19.8	18.8	18.9	20.3	28.5	26.3	23.2	23.3	3.7
CASA Amount	66729	68979	73375	76549	84070	86341	85838	91865	81557
CASA%	44.0	43.4	43.6	43.6	43.1	43.0	41.4	42.4	40.4

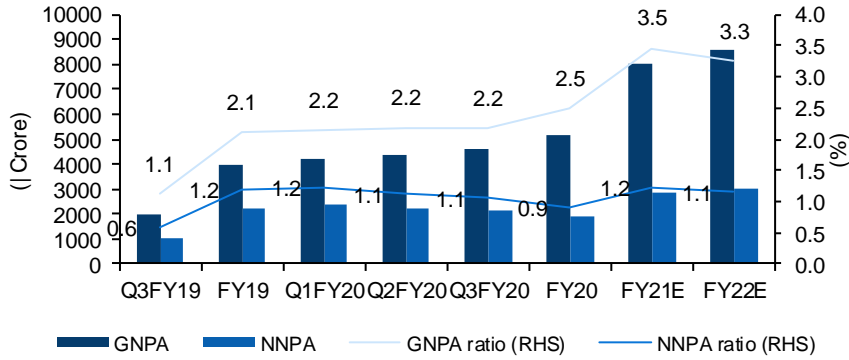
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain stable led by changing loan mix



Source: Company, ICICI Direct Research

Exhibit 9: Asset quality issues seen rising in near term



Source: Company, ICICI Direct Research

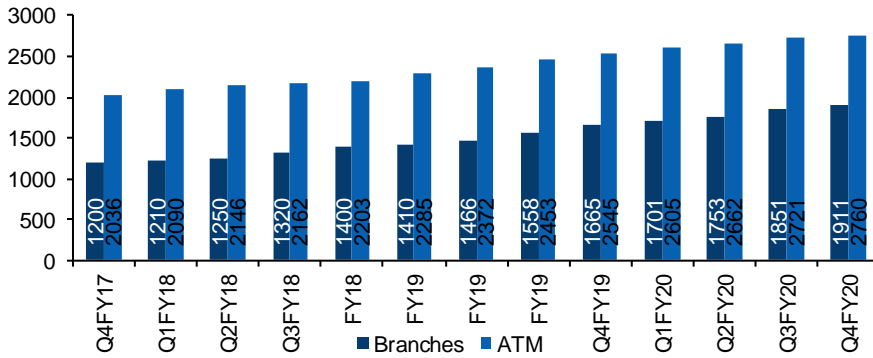
Exhibit 10: Sluggish growth of core fee income

Other income break up (₹Cr)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Core fee income	1,419	1,422	1,468	1,506	1,390
Securities/FX trading others	140	241	259	284	383

Break up of fee income (₹Crore)	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20
Trade & Remittances	189	164	182	185	189
Foreing Exchange Income	289	250	277	241	248
Distribution Fees	302	302	322	347	367
General Banking	84	90	90	85	80
Loan Processing Fees	328	337	360	388	356
Investment Banking	228	235	201	209	143
Total	1,420	1,378	1,432	1,455	1,383

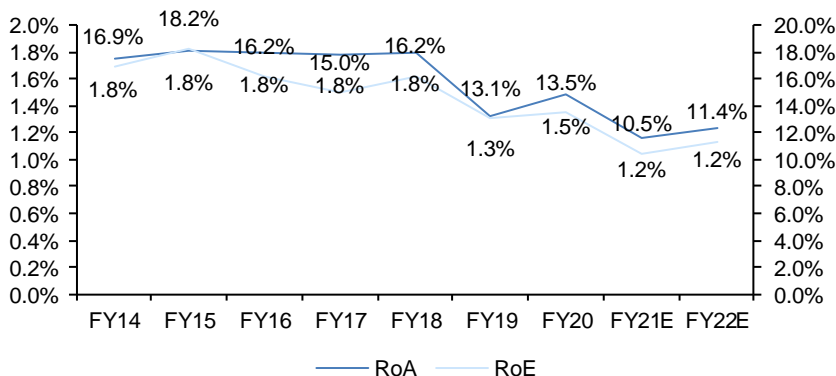
Source: Company, ICICI Direct Research

Exhibit 11: Expanding branch & ATM network



Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to remain flattish, going ahead



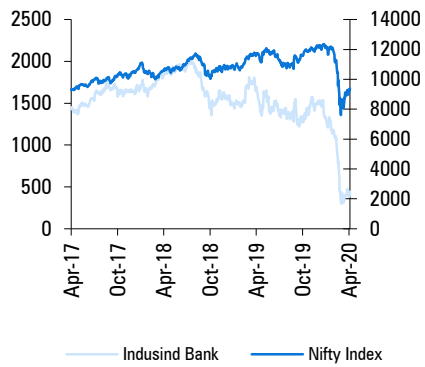
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	15.0	16.8	15.0	14.4	14.4
FII	47.9	53.5	56.7	52.5	55.2
DII	9.0	9.8	9.7	12.4	15.0
Others	28.2	19.9	18.7	20.7	15.5

Source: Company, ICICI Direct Research

Exhibit 14: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	21,589	28,783	31,073	35,423
Interest Expended	11002.5	16724.1	18261.7	20805.5
Net Interest Income	10,587	12,059	12,811	14,617
% growth	24.1	13.9	6.2	14.1
Non Interest Income	6055.9	6951.3	6953.1	8020.3
Net Income	16642.5	19010.1	19763.9	22637.4
Employee cost				
Operating Exp.	7284.3	8237.3	8865.2	10225.9
Operating Income	9358.2	10772.7	10898.7	12411.6
Provisions	3179.7	4652.1	5789.9	6204.5
PBT	6178.5	6120.6	5108.8	6207.1
Taxes	1992.9	1702.7	1302.7	1582.8
Net Profit	4,186	4,418	3,806	4,624
% growth	3.1	5.6	-13.8	21.5
EPS	60.9	63.7	54.9	66.7

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	68.7	69.4	69.4	69.4
BV (₹)	449.2	500.4	548.7	624.5
ABV (₹)	416.4	473.2	507.8	580.7
P/BV	0.8	0.7	0.7	0.6
P/ABV	0.9	0.8	0.7	0.6
GNPA	2.1	2.5	3.5	3.3
NNPA	1.2	0.9	1.2	1.1
RoE	14.5	13.5	10.5	11.4
RoA	1.6	1.5	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	686.90	693.54	693.54	693.54
Reserves and Surplu:	30167.3	34013.0	37362.8	42618.8
Networth	30854.2	34706.5	38056.3	43312.3
Deposits	194867.9	202039.8	234366.2	276552.1
Borrowings	52099.1	60753.6	65006.3	70206.8
Other Liabilities & Pro	10226.1	9557.7	10226.7	10942.6
Total	2,88,047	3,07,058	3,47,656	4,01,014
Application of Funds				
Fixed Assets	1527.9	1820.1	2002.1	2202.3
Advances	186393.5	206783.0	231597.0	264020.5
Investments	59266.4	59979.9	67177.5	76582.4
Cash and balances w	16791.4	16003.7	16803.8	17644.0
Money at call, balance at bank				
Other Assets	24068.3	22470.7	30075.0	40564.5
Total assets	2,88,048	3,07,057	3,47,656	4,01,014

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets				
	23.6	6.6	13.2	15.3
Advances				
	21.2	10.9	12.0	14.0
Deposits				
	28.5	3.7	16.0	18.0
Total Income				
	22.0	14.2	4.0	14.5
Net interest income				
	24.1	13.9	6.2	14.1
Operating expenses				
	15.8	13.1	7.6	15.3
Operating profit				
	27.4	15.1	1.2	13.9
Net profit				
	NA	5.6	-13.8	21.5
Book value				
	15.2	11.4	9.7	13.8
EPS (₹)				
	NA	4.5	(13.8)	21.5

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	47	65	Hold	22,756.3	-0.4	-1.9	-4.3	NA	NA	NA	0.6	0.6	0.5	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	183	250	Buy	1,66,310	16.8	24.2	33.7	10.9	7.5	5.4	1.1	1.0	0.9	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	49	50	Hold	2,810	-27.2	8.5	13.0	-1.8	5.7	3.8	0.4	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	442	500	Buy	1,10,439	18.2	32.1	32.9	24.3	13.8	13.4	1.6	1.5	1.4	0.6	0.9	0.9	6.5	9.8	9.2
City Union Bank (CITUNI)	123	171	Buy	8,711	8.7	10.1	11.4	14.2	12.2	10.7	1.9	1.7	1.5	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	82	92	Hold	2,524	13.0	13.5	15.0	6.3	6.0	5.5	0.9	0.8	0.7	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	45	47	Hold	8,355	7.7	7.9	12.5	5.8	5.7	3.6	0.7	0.7	0.6	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	932	1,100	Buy	4,99,198	47.9	57.1	69.6	19.5	16.3	13.4	3.1	2.8	2.5	1.9	1.9	2.0	16.4	17.1	18.4
IndusInd Bank (INDBA)	444	400	Hold	27,461	63.7	54.9	66.7	7.0	8.1	6.7	0.9	0.9	0.8	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	15	12	Sell	671	-12.7	-0.1	-6.1	-1.2	NA	NA	0.2	0.3	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,322	1,700	Buy	2,28,664	29.9	29.0	31.3	44.3	45.6	42.2	5.5	4.9	4.4	1.7	1.4	1.3	12.5	10.8	10.5
Bandhan Bank (BANBAN)	217	260	Buy	30,740	18.6	23.3	29.3	11.6	9.3	7.4	2.6	2.1	1.7	4.1	3.7	3.6	23.5	23.3	23.5
IDFC First (IDFBAN)	22	29	Buy	10,221	-5.7	1	2	NA	NA	9.3	0.7	0.7	0.7	-1.6	0.3	0.6	-15.9	3.4	7.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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