

Mixed Quarter; Asset quality risk to remain

CMP: Rs 551

Rating: NEUTRAL

Target Price: Rs 557

Stock Info

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	694
Mkt Cap (Rs Cr)	38,181
52w H/L (Rs)	1,596/ 236
Avg Yearly Vol (in 000')	14,949

Shareholding Pattern %

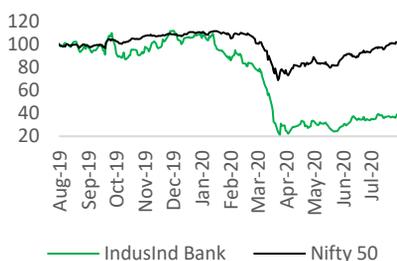
(As on June, 2020)

Promoters	14.65
FII	52.07
DII	14.72
Public & Others	18.56

Stock Performance (%)

	3m	6m	12m
IndusInd Bank	30.1	-54.5	-61.6
Nifty	20.6	-3.9	0.1

IndusInd Bank Vs Nifty



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IndusInd Bank reported steady operating performance during Q1FY21. NII for the quarter grew by 16% YoY/2% QoQ to Rs 3,309 cr, despite a lower loan growth of 2% YoY/-4% QoQ. NII growth was mainly driven by NIM improvement of 3bps QoQ/23bps YoY at 4.28%. Operating profit of the bank increased by 10% YoY/1% QoQ to Rs 2,861 cr. Lower operating profit growth was mainly due to 9% YoY/14% QoQ fall in other income. Provision remained higher at Rs 2,259 cr, which includes additional Covid provision of Rs 920 cr (Total Covid provision at 1,203 cr). Profit for the quarter fell by 68% YoY to Rs 461 cr, primarily, due to higher provisioning. On a sequential basis, PAT grew by 53%. On the business front, the bank has witnessed de-growth in advances at 4.2% on QoQ basis while on YoY basis it grew by 2.4%. Bank has gained strong traction in deposit growth at 5% QoQ vs. 7% QoQ fall in Q4FY20. Liquidity coverage ratio of the bank improved to 124% vs. 112% QoQ.

Key Highlights of Q1FY21:

Steady Operating Performance: The bank's operating performance was largely steady in terms of NII and PPOP. Other income of the bank fell to 9% YoY to Rs 1,519 cr, largely due to 52% decline in core fee income. NIMs increased to 4.28% while the yields on average advances stood flat at 12.0% despite fallen interest rates and decreased Cost of Funds at 5.8%.

Loan book growth was weak, Deposit growth picked up: Total advances of the bank declined by 4% QoQ, primarily due to run-down in corporate portfolio. Deposit growth of the bank witnessed strong traction and grown at 4.6% QoQ/5.3% YoY with CASA deposit growth of 4% QoQ. CASA ratio fell by 40bps QoQ to 40%.

Slippages remained elevated: Slippages during the quarter remained elevated at 3.1% of loans as bank has recognized corporate NPA of Rs 1,090 cr (From identified stressed groups, healthcare and coffee group), leading to higher fresh slippages at Rs 1,537 cr. The bank's GNPA increased by 8 bps and NNPA improved by 5 bps sequentially to 2.53%/0.86%. However, in absolute term GNPA decreased by 1% QoQ to Rs 5,099 cr.

Valuation & View: IndusInd Bank's higher proportion of loans (~29%) is in vehicle financing segment which is challenging in the current scenario. So, the growth is likely to remain muted. Bank's performance on asset quality front and strengthening of liability franchise will remain under watch. The bank's recent move to increase its capital buffer is comforting. The board has approved capital raising of Rs 3,288 cr through preferential shares which should add 125 bps in its CET 1 ratio (13.16% as on Jun' 20). IndusInd Bank is currently trading at a P/adj. BV of 1.0x to its FY22E ABV. **We assign a P/adj. BV of 1x for FY22E ABVPS of Rs 557 per share for a target price of Rs 557 per share while maintaining our Neutral rating.**

Particulars (Rs Crores)	FY18	FY19	FY20	FY21E	FY22E
NII	7,498	8,846	12,059	14,416	16,101
PPOP	6,657	8,088	10,773	12,097	12,419
PAT	3,607	3,301	4,418	4,592	4,467
EPS (INR / Share)	60.1	54.8	63.7	66.2	64.4
BVPS (INR / Share)	397.0	442.6	500.3	559.0	604.1
NIM (%)	4.0%	3.8%	4.4%	4.9%	5.0%
Advances Growth (%)	28.2%	28.6%	10.9%	8.0%	13.0%
Deposits Growth (%)	19.8%	28.5%	3.7%	8.0%	10.0%
P/ABV (x)	4.7	1.4	1.2	1.1	1.0

Q1 FY21 - Quarterly Performance (Standalone)

(in Rs Cr)

Income Statement	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Interest Income	7,162	7,387	6,961	-3.0%	2.9%
Interest Expense	3,853	4,155	4,117	-7.3%	-6.4%
Net Interest Income	3,309	3,231	2,844	2.4%	16.4%
Non Interest Income	1,519	1,772	1,663	-14.3%	-8.7%
Total Income	4,828	5,003	4,507	-3.5%	7.1%
Employee Costs	552	496	647	11.3%	-14.8%
Other Operating Expenses	1,415	1,671	1,269	-15.3%	11.5%
Operating Expenses	1,967	2,167	1,916	-9.2%	2.6%
Pre-Provision Profit	2,861	2,836	2,591	0.9%	10.4%
Provisions	2,259	2,440	431	-7.4%	424.6%
Profit Before Tax	602	396	2,160	52.2%	-72.1%
Tax Expense	142	94	728	50.8%	-80.5%
Net Profit	461	302	1,433	52.6%	-67.8%
Balance Sheet Analysis					
Deposits	2,11,265	2,02,040	2,00,586	4.6%	5.3%
CASA Deposits	84,473	81,557	86,341	3.6%	-2.2%
CASA (%)	40.0%	40.4%	43.1%	-40bps	-310bps
Advances	1,98,069	2,06,783	1,93,520	-4.2%	2.4%
Total Assets	3,17,916	3,07,058	2,93,046	3.5%	8.5%
Capital Adequacy Ratio (%)	15.16%	15.04%	14.90%	12bps	26bps
Spread Analysis					
Yield on Avg Advances (%)	12.0%	12.0%	12.1%	-3bps	-13bps
Yield on Avg Interest Earning Assets (%)	9.9%	10.3%	10.4%	-40bps	-45bps
Cost of Funds (%)	5.78%	6.32%	6.4%	-54bps	-67bps
NIM (%)	4.3%	4.3%	4.1%	3bps	23bps
Asset Quality					
Gross NPA	5,099	5,147	4,200	-0.9%	21.4%
Net NPA	1,703	1,887	2,381	-9.7%	-28.4%
GNPA (%)	2.53%	2.45%	2.15%	8bps	38bps
NNPA (%)	0.86%	0.91%	1.23%	-5bps	-37bps
PCR (%)	66.6%	63.3%	43.3%	325bps	2328bps
Credit Costs (%)	0.85%	0.28%	1.44%	57bps	-59bps
Key Ratios					
Cost to Income Ratio (%)	40.7%	43.3%	42.5%	-257bps	-178bps
C/D Ratio (%)	93.8%	102.3%	96.5%	-859bps	-272bps
RoA (%) (Annualised)	0.69%	0.41%	2.05%	28bps	-136bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1FY21 – Key Concall Highlights

Moratorium Update

- Overall, 16% of the book is under moratorium while ex-MFI it stood at 14% as on Jun'20. 92% of book is from moratorium 1.0. 90% of moratorium 2.0 book is secured.
- Corporate book moratorium came down to 9% from 23% in phase 1. There are no overdues in Corporate book and entire decrease of 14% is due to restarting of payments by Corporates.
- Retail moratorium is down from 75% to 19%; out of which 46% have started paying while 10% are not paying.
- CV moratorium book is 20% by volume and 10% by value.
- Under NBFC/HFCs segment, there is no moratorium and also no overdues are pending.
- In credit card, 15% have opted for moratorium.
- Real estate moratorium is 10% and 92 projects out of 98 have started construction activity.
- **Microfinance:** Collection efficiency is improving. 82% customers have started paying EMIs. Disbursements have also picked up to 85% of pre-Covid levels and bank is focusing on low ticket size and in rural areas.

Other Update

- 90% branches were operational during the quarter. Bank holds excess liquidity of Rs 30,000 cr.
- **Deposits:** In June, Customers acquisition was higher as compared to pre-Covid level. Bulk of the increase in deposits came in June month. Bank plans to expand its retail liability franchise.
- **Vehicle Finance:** Bank's focus is on small road transport operators who are not impacted by lack of driver. Collections have improved from 30% in April to 75% in June. 70% Customers are repeat in nature.

Key Financials

Profit & Loss Statement (INR Crores)	FY 18	FY 19	FY 20	FY 21E	FY 22E
Interest Income	17,281	22,261	28,783	31,872	35,302
Interest Expense	9,783	13,415	16,724	17,456	19,202
Net Interest Income	7,498	8,846	12,059	14,416	16,101
Non interest income	4,750	5,647	6,951	7,646	8,411
Operating income	12,248	14,493	19,010	22,063	24,512
- Employee expense	1,781	1,854	2,208	2,429	2,672
- Other operating expense	3,810	4,551	6,029	7,536	9,420
Operating Expense	5,591	6,405	8,237	9,965	12,092
PPOP	6,657	8,088	10,773	12,097	12,419
Provisions	1,176	3,108	4,652	5,117	5,629
PBT	5,481	4,981	6,121	6,980	6,790
Tax Expense	1,875	1,679	1,703	2,388	2,323
PAT	3,607	3,301	4,418	4,592	4,467
Diluted EPS (INR)	60.1	54.8	63.7	66.2	64.4

Balance Sheet (INR Crores)	FY18	FY19	FY20	FY21E	FY 22E
Source of Funds					
Share capital	600	603	694	694	694
Reserves & Surplus	23,227	26,072	34,003	38,075	41,207
Networth	23,827	26,675	34,697	38,768	41,900
ESOP	15	11	9	16	16
Borrowings	38,289	47,321	60,754	68,044	76,209
Deposits	1,51,639	1,94,868	2,02,040	2,18,203	2,40,023
Other liabilities & provisions	7,856	8,944	9,558	11,469	13,763
Total Equity & Liabilities	2,21,626	2,77,819	3,07,058	3,36,500	3,71,911
Uses of Funds					
Cash & Balances w/ RBI	10,962	9,961	13,675	12,215	13,673
Balances w/ banks & others	2,253	4,822	2,328	2,678	3,080
Investments	50,077	59,266	59,980	65,978	72,576
Loans & advances	1,44,953	1,86,394	2,06,783	2,23,326	2,52,358
Fixed assets	1,339	1,710	1,820	2,093	2,407
Other assets	12,042	15,666	22,471	30,211	27,818
Total Assets	2,21,626	2,77,819	3,07,058	3,36,500	3,71,911

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY18	FY19	FY20	FY21E	FY 22E
Growth Rates					
Advances (%)	28.2%	28.6%	10.9%	8.0%	13.0%
Deposits (%)	19.8%	28.5%	3.7%	8.0%	10.0%
Total assets (%)	24.1%	25.4%	10.5%	9.6%	10.5%
NII (%)	23.7%	18.0%	36.3%	19.5%	11.7%
Pre-provisioning profit (%)	22.1%	21.5%	33.2%	12.3%	2.7%
PAT (%)	25.8%	-8.5%	33.8%	3.9%	-2.7%
B/S Ratios					
Credit/Deposit (%)	95.6%	95.7%	102.3%	102.3%	105.1%
CASA (%)	44.0%	44.0%	40.4%	41.2%	41.3%
Advances/Total assets (%)	65.4%	67.1%	67.3%	66.4%	67.9%
Leverage - Total Assets to Equity	9.3	10.4	8.8	8.7	8.9
Operating efficiency					
Cost/income (%)	45.6%	44.2%	43.3%	45.2%	49.3%
Opex/total assets (%)	2.5%	2.3%	2.7%	3.0%	3.3%
Opex/total interest earning assets	3.1%	2.8%	3.1%	3.4%	3.8%
Profitability					
NIM (%)	4.0%	3.8%	4.4%	4.9%	5.0%
RoA (%)	1.6%	1.2%	1.4%	1.4%	1.2%
RoE (%)	15.1%	12.4%	12.7%	11.8%	10.7%
Asset Quality					
Gross NPA (%)	1.2%	2.1%	2.2%	2.3%	2.3%
Net NPA (%)	0.5%	1.2%	1.2%	1.3%	1.3%
PCR (%)	56.3%	43.0%	45.0%	45.0%	45.0%
Slippage (%)	3.0%	1.2%	1.2%	1.0%	1.0%
Credit cost (%)	0.7%	1.0%	0.9%	0.7%	0.5%
Per Share Data / Valuation					
EPS (INR)	60.1	54.8	63.7	66.2	64.4
BVPS (INR)	397.0	442.6	500.3	559.0	604.1
ABVPS (INR)	384.5	405.3	463.4	517.8	557.3
P/E (x)	29.9	10.1	8.6	8.3	8.5
P/BV (x)	4.5	1.2	1.1	1.0	0.9
P/ABV (x)	4.7	1.4	1.2	1.1	1.0

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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