

29 July 2020

IndusInd Bank

Strong quarter, asset quality stable; maintaining a Buy

Rating: **Buy**

Target Price: ₹615

Share Price: ₹527

Higher margins and Treasury income led to a 352bp sequential decrease in C/I, which improved to 39.4%. Asset quality and PCR improved. The portfolio under moratorium sharply declined from 50% in Q4 FY20 to 14% in Q1 FY21. The run on deposits last quarter reversed, with 5% sequential growth. SMA disclosures and management commentary suggest no major risk in asset quality due to the Covid'19-driven slowdown. With lower risk on asset quality than envisaged earlier and the arrest on run on deposits, we change our stance on the bank and accordingly upgrade it to a Buy, with a TP of ₹615.

Significant reduction seen in portfolio under moratorium. The portfolio under moratorium has come down from 50% to 14%. 9% of the corporate portfolio (down from 23% in Q4) and 14% of the retail portfolio (down from 75% in Q4) is under moratorium. However, given the weaker economic environment, we have built a base-case scenario where we've assumed that 20% of the book under moratorium would eventually turn delinquent. We have built in a 4% slippage rate for FY21.

Profitability to be subdued once the moratorium is lifted. With an expected higher slippage rate in H2 FY21, we have built in 2.3% credit costs for FY21. Higher credit costs combined with weaker operating performance (attributed to slower business growth) would keep the bank's earnings weak in FY21. We estimate a 1.2% RoA for FY21, and 1.5% for FY22.

Valuation. Our Jul'21 ₹615 target is based on the two-stage DDM model. This implies a ~1.1x P/BV multiple on its FY22e book. **Risks:** Lumpy slippage from the corporate book; volatility in asset quality from the MFI book.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Net interest income (₹ m)	74,974	88,462	1,20,587	1,31,292	1,48,926
Pre-provisioning profit (₹ m)	66,561	80,882	1,07,933	1,08,347	1,26,312
Provisions (₹ m)	11,754	31,077	46,521	53,573	56,412
PAT (₹ m)	36,060	33,011	44,313	40,970	52,285
EPS (₹)	60	55	64	59	75
NIM (%)	4.0	3.8	4.4	4.2	4.1
Cost-income (%)	46	44	43	45	44
RoE (%)	16.2	13.1	14.4	11.2	12.9
RoA (%)	1.8	1.3	1.5	1.2	1.5
Advances growth (%)	28.2	28.6	10.9	9.0	12.0
GNPA (%)	1.2	2.1	2.4	4.7	5.5
CAR (%)	15.0	14.2	15.0	14.6	14.6
P / E (x)	8.8	9.6	8.2	8.9	7.0
P / BV (x)	1.3	1.2	1.1	1.0	0.9
P / ABV (x)	1.4	1.3	1.1	1.0	0.9

Source: Company, Anand Rath Research

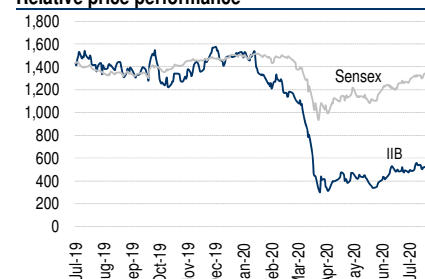
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Key data	IIB IN / INBK.BO
52-week high / low	₹1597 / 236
Sensex / Nifty	38493 / 11301
3-m average volume	\$199m
Market cap	₹365bn / \$4883.1m
Shares outstanding	694m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	14.7	14.3	14.4
- of which, Pledged	-	26.3	26.3
Free float	85.4	85.7	85.6
- Foreign institutions	52.1	53.6	55.2
- Domestic institutions	14.7	15.5	15.0
- Public	18.6	16.6	15.5

Estimates revision (%)	FY21e	FY22e
NII	0.8	0.8
Pre-provisioning profit	1.0	1.0
PAT	4.7	9.9

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net interest income	74,974	88,462	1,20,587	1,31,292	1,48,926
NII growth (%)	23.7	18.0	36.3	8.9	13.4
Non-interest income	47,501	56,467	69,515	66,134	77,935
Income	1,22,475	1,44,929	1,90,103	1,97,426	2,26,861
Income growth (%)	19.7	18.3	31.2	3.9	14.9
Operating expenses	55,914	64,047	82,170	89,080	1,00,549
PPOP	66,561	80,882	1,07,933	1,08,347	1,26,312
PPOP growth (%)	22.1	21.5	33.4	0.4	16.6
Provisions	11,754	31,077	46,521	53,573	56,412
PBT	54,807	49,806	61,412	54,773	69,900
Tax	18,747	16,795	17,099	13,803	17,615
PAT	36,060	33,011	44,313	40,970	52,285
PAT growth (%)	25.7	-8.5	34.2	-7.5	27.6
FDEPS (₹ /sh)	60.1	54.8	63.9	59.1	75.4
DPS (₹ / sh)	7.5	9.0	0.0	7.4	9.4

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	6,002	6,027	6,935	6,935	6,935
Reserves & surplus	2,32,268	2,60,721	3,40,035	3,75,884	4,21,634
Deposits	15,16,392	19,48,679	20,20,398	23,03,254	26,71,774
Borrowings	3,82,891	4,73,211	6,07,536	5,77,159	5,30,986
	0	0	0	0	0
Total liabilities	22,16,262	27,78,194	30,70,576	33,93,031	37,85,458
Advances	14,49,537	18,63,935	20,67,832	22,53,937	25,24,409
Investments	5,00,767	5,92,662	5,99,799	6,71,775	7,52,388
Cash & bank bal	1,09,624	99,612	1,36,753	1,57,265	1,80,855
Fixed & other assets	13,398	17,100	18,201	19,111	20,067
Total assets	22,16,272	27,78,194	30,70,576	33,93,031	37,85,458
No. of shares (m)	600	603	694	694	694
Deposits growth (%)	19.8	28.5	3.7	14.0	16.0
Advances growth (%)	28.2	28.6	10.9	9.0	12.0

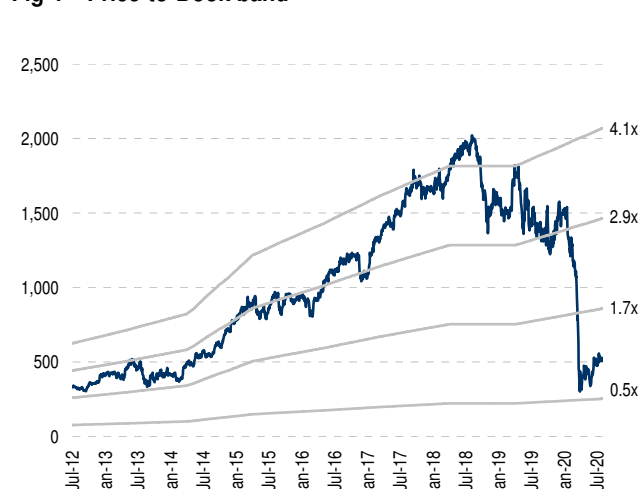
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
NIM	4.0	3.8	4.4	4.2	4.1
Other income / Total income	38.8	39.0	36.6	33.5	34.4
Cost-Income	45.7	44.2	43.2	45.1	44.3
Provision coverage	56.3	43.0	63.3	64.3	64.3
Dividend payout	12.5	16.5	0.0	12.5	12.5
Credit-deposit	95.6	95.7	102.3	97.9	94.5
Investment-deposit	33.0	30.4	29.7	29.2	28.2
Gross NPA	1.2	2.1	2.4	4.7	5.5
Net NPA	0.5	1.2	0.9	1.7	2.0
BV (₹)	397.0	442.6	500.3	552.0	617.9
Adj. BV (₹)	388.3	416.5	481.2	512.8	566.8
CAR	15.0	14.2	15.0	14.6	14.6
- Tier 1	14.6	13.7	14.6	14.1	14.2
RoE	16.2	13.1	14.4	11.2	12.9
RoA	1.8	1.3	1.5	1.2	1.5

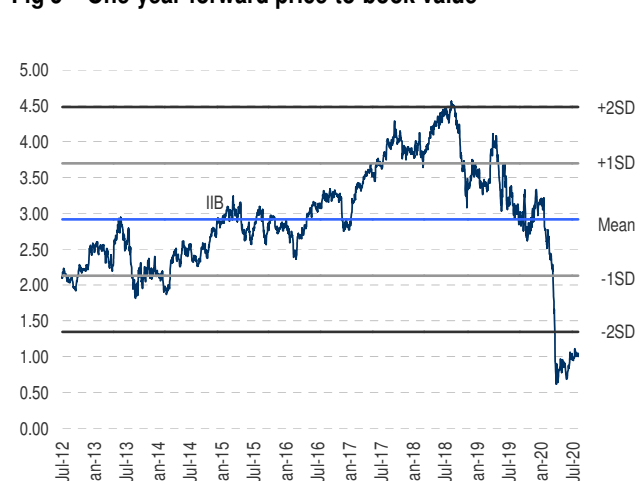
Source: Company, Anand Rathi Research

Fig 4 – Price-to-Book band



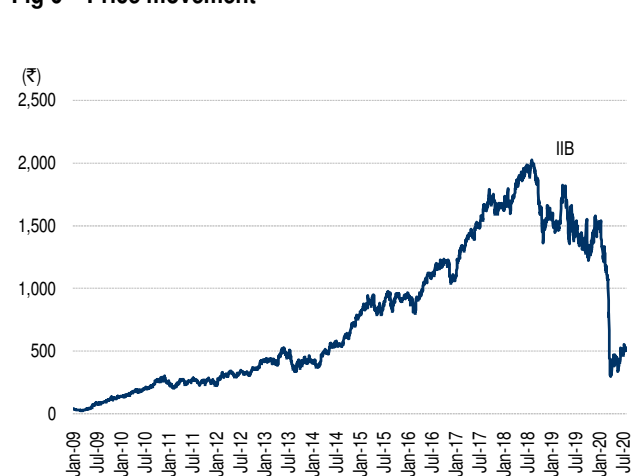
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Key conference-call takeaways

Capital

- Plans to raise ₹32.88bn through a preferential issue.
- The capital raise would add 125bps to the CRAR.
- Promoters would be participating in the issue to maintain their holding at 15%.
- Shares would be issued to
 - Group -1 – Tata, ICICI Pru and AIA with a lock-in of a year.
 - Group – 2 – Promoters with a lock-in of three years.

Deposits / Liquidity

- ₹50bn retail deposits were added during the quarter
- Acquisition levels in June were higher than pre-Covid levels.
- Average LCR of 124% and quarter-end LCR of 139%.
- Bank carries 300bn excess liquidity on its balance sheet.

Moratorium

- Following an opt-in for all corporate and retail customers except MFI customers.
- During moratorium-1, 50% of the bank's portfolio was under moratorium with 75% retail and 23% corporate book under moratorium.
- At end-Jun, 14% of the total portfolio by value (excl. the MFI book) was under moratorium, of which 96% is secure. 16% of the book's portfolio is under moratorium including the MFI book.
- 92% of customers availing of moratorium-2 have also availed of moratorium.
- By value 19% of the retail portfolio and 9% of the corporate portfolio is under moratorium.
- **Vehicle finance** - collection efficiency has improved from 30-35% in Apr to 75% currently.
- **MFI** - collection efficiency is steadily increasing and currently is 92%. The disbursements are at 80% pre-covid levels.
- **LAP/business banking** - the activity at customer level is around 80-85%.
- **Credit card** - 15% of customers have applied for the moratorium. Card spends are around 80% pre-Covid levels.
- **Corporate banking** - 9% of customers have applied for the moratorium. Large corporates have lower and mid/small corporate have a higher proportion under moratorium. Most corporates opted to conserve liquidity.

- **Real estate** - 10% of the book is under moratorium. 92 of 98 projects have started construction substantially; the others are expected to resume construction shortly.
- **NBFC/HFC** - no clients under moratorium and no overdues.
- **Gems & jewellery** - entire portfolio is paying instalments except a `50m account.
- **Mid-corporate** - portfolio churn at 85-90% indicating business activity has significantly improved. Exposure to sectors worst affected by the lockdown is very small and is being monitored closely.

Stress test

- Mild – moderate impact
- GNPA: incremental slippages would be 92bps from Covid-related stress vs 83bps communicated in stress test-1.
- Provision cost estimated at 65bps for the year vs. 53bps communicated in stress test-1.

Fig 7 – Asset quality

Break-up of GNPA (₹ m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Opening balance	19,680	39,470	42,000	43,700	45,780	51,450
Slippages	36,880	7,250	11,020	19,450	20,570	15,370
Gross-slippage ratio (%)	7.91	1.50	2.24	3.75	3.98	3.10
Reductions	17,090	4,720	9,320	17,370	14,900	15,850
Closing balance	39,470	42,000	43,700	45,780	51,450	50,970
Total GNPA	39,474	41,997	43,702	45,784	51,467	50,990
GNPA (%)	2.10	2.15	2.19	2.18	2.45	2.53
NNPA (%)	1.21	1.23	1.95	1.05	0.91	0.86

Source: Company, Anand Rathi Research

Fig 8 – Gross NPA – segment-wise - consumer finance, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Commercial vehicles	1.16	1.30	1.43	1.65	1.94	2.19
Utility vehicles	1.29	1.23	1.20	1.08	1.03	1.16
Construction equipment	0.71	0.84	0.97	1.00	1.05	1.11
Small CVs	1.38	1.38	1.72	1.66	1.78	1.82
Two-wheelers	3.75	3.56	3.16	2.88	3.14	2.62
Cars	0.79	0.76	0.73	0.70	0.71	0.80
BBG / LAP	-	1.35	1.27	1.03	1.21	1.23
HL / PL / others	-	1.02	1.04	1.12	0.93	0.54
LAP / HL / PL	0.42	-	-	-	-	-
Tractors	1.76	1.49	1.57	1.56	1.23	1.43
Cards	1.87	2.22	2.40	2.57	1.93	0.79
MFI	-	0.61	0.94	1.08	1.51	1.55
Total	1.18	1.24	1.34	1.35	1.49	1.48

Source: Company

Fig 9 – NPA – Corporate, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
GNPA	2.72	2.88	2.90	2.86	3.32	3.57
Slippages	11.36	0.70	1.90	4.64	4.85	5.16
Credit cost	6.46	0.27	0.40	1.06	5.60	3.82

Source: Company, Anand Rathi Research

Fig 10 – Segment-wise results

Fee income (₹ m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
General banking fees	840	900	900	850	800	700
Processing fees	3,280	3,370	3,600	3,880	3,560	990
FX	2,890	2,500	2,770	2,410	2,480	1,550
Insurance	3,020	3,020	3,220	3,470	3,670	1,740
Investment banking	2,280	2,350	2,010	2,090	1,430	290
Trade & remittances	1,890	1,640	1,820	1,850	1,890	1,160
Total	14,200	13,780	14,320	14,550	13,830	6,430

Source: Company

Fig 11 – Break-up of advances

(%)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Corporate and commercial banking (CCB)	61.0	52.0	51.3	51.4	49.8	47.9
Corporate banking	45.9	44.1	43.4	43.9	42.2	40.6
Small business	15.1	7.9	7.9	7.6	7.6	7.3
Consumer finance division (CFD)	39.0	48.0	48.7	48.6	50.2	52.1
Commercial vehicles	13.1	12.8	12.7	12.0	11.6	12.0
Equipment financing	4.1	4.1	4.1	4.0	3.9	4.1
Two-wheelers	2.4	2.4	2.4	2.6	2.5	2.9
Car loans	3.5	3.5	3.6	3.5	3.5	3.7
Utility vehicles + 3W	5.5	5.6	5.8	5.9	6.1	6.4
Home loans + LAP	4.8	4.5	4.5	4.6	4.6	4.8
Personal loans + credit cards	5.6	5.6	6.1	5.9	6.3	6.4
MFI		9.4	9.6	10.0	11.7	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot**Fig 12 – Income statement**

(₹ m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Interest income	59,914	69,614	71,504	72,845	73,866	71,617
Interest expense	37,591	41,174	42,408	42,105	41,554	38,525
NII	22,324	28,440	29,095	30,740	32,312	33,092
Y/Y growth (%)	11.2	34.0	32.1	34.3	44.7	16.4
Non-interest income	15,590	16,633	17,267	17,894	17,722	15,204
Trading profits	1,400	2,410	2,590	2,840	3,830	8,380
Total Income	37,914	45,072	46,362	48,634	50,034	48,296
Y/Y growth (%)	17.9	31.6	31.7	29.5	32.0	7.2
Operating expenses	17,237	19,163	20,363	21,178	21,467	19,019
Of which, staff costs	4,812	6,472	5,155	5,501	7,155	7,429
PPOP	20,677	25,910	25,999	27,456	28,567	29,277
Y/Y growth (%)	16.9	35.6	30.5	29.7	38.2	13.0
Total provisions	15,607	4,306	7,377	10,435	24,403	22,589
PBT	5,070	21,603	18,622	17,022	4,164	6,689
Tax	1,469	7,278	4,789	4,020	1,012	1,585
PAT	3,601	14,325	13,834	13,002	3,152	5,103
Y/Y growth (%)	(62.2)	38.3	50.3	32.0	(12.5)	(64.4)

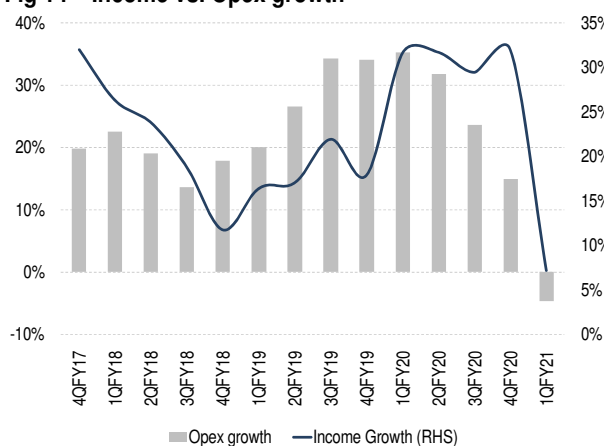
Source: Company, Anand Rathi Research

Fig 13 – Balance sheet

(₹ m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Equity capital	6,027	6,930	6,930	6,930	6,935	6,940
Reserves & Surplus	2,60,833	3,13,650	3,28,262	3,34,630	3,40,130	3,48,080
Deposits	19,48,679	20,05,860	20,71,934	21,67,130	20,20,398	21,12,650
Borrowings	4,73,211	4,97,640	4,45,578	4,68,130	6,07,536	5,91,960
Other Liabilities	89,444	1,06,380	94,589	1,02,610	95,577	1,19,530
Equity and Liabilities	27,78,194	29,30,460	29,47,293	30,79,430	30,70,576	31,79,160
Deposits y/y growth (%)	28.5	26.3	23.2	23.3	3.7	5.3
Deposits q/q growth (%)	10.9	2.9	3.3	4.6	(6.8)	4.6
Assets						
Cash and cash balances	1,47,834	2,14,420	1,46,482	2,07,880	1,60,037	3,61,180
Advances	18,63,935	19,35,200	19,71,126	20,74,130	20,67,832	19,80,690
Investments	5,92,662	6,07,340	6,35,820	6,05,170	5,99,799	5,95,960
Other assets	1,73,764	1,73,500	1,93,865	1,92,250	2,42,908	2,41,330
Total Assets	27,78,195	29,30,460	29,47,293	30,79,430	30,70,576	31,79,160
Advances y/y growth (%)	28.6	28.4	20.8	19.8	10.9	2.4
Advances q/q growth (%)	7.6	3.8	1.9	5.2	(0.3)	(4.2)

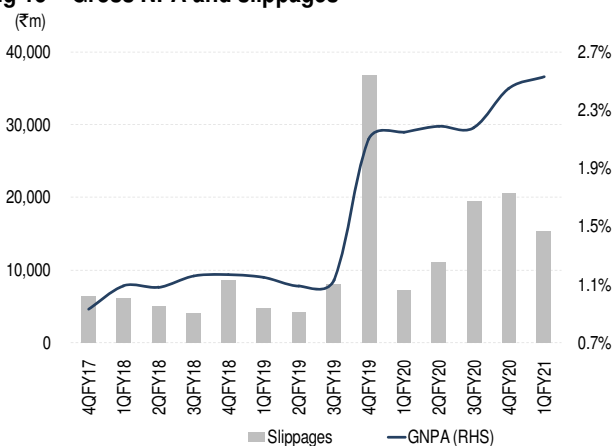
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



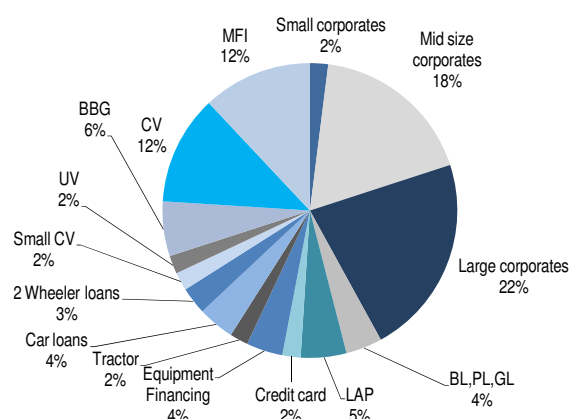
Source: Company, Anand Rathi Research

Fig 15 – Gross NPA and slippages



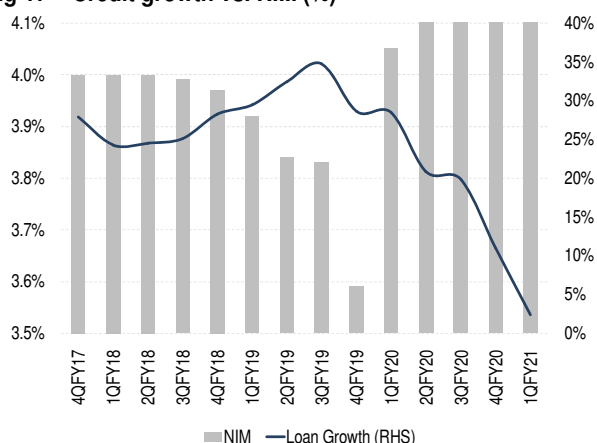
Source: Company, Anand Rathi Research

Fig 16 – Loan break-up



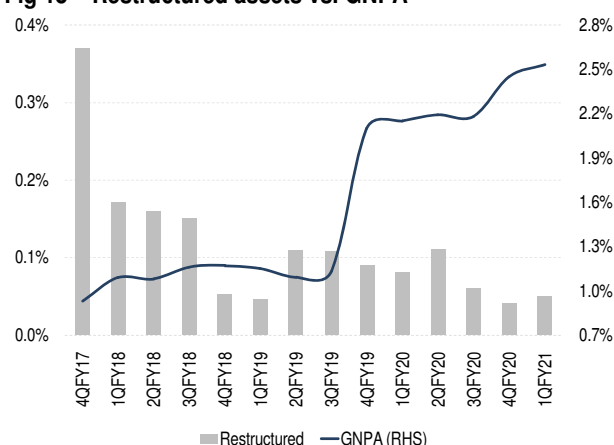
Source: Company, Anand Rathi Research

Fig 17 – Credit growth vs. NIM (%)



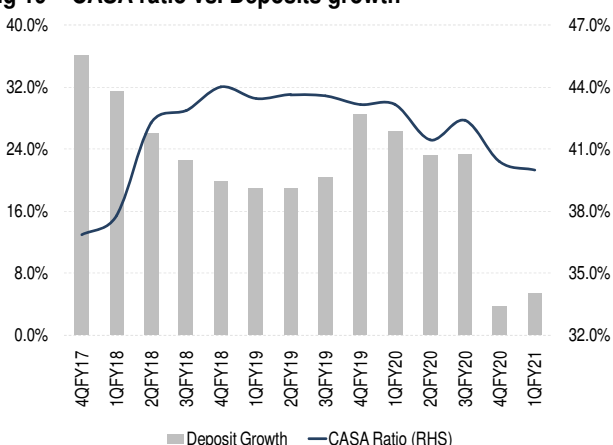
Source: Company, Anand Rathi Research

Fig 18 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 19 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

Our Jul'21 target of ₹615 is based on the two-stage DDM model. This implies a ~1.1x P/BV multiple on its FY22e book.

Fig 20 – Change in estimates

(₹ m)	FY21			FY22		
	New	Old	Chg %	New	Old	Chg %
Net interest income	1,31,292	1,30,212	0.8	1,48,926	1,47,731	0.8
Pre-provisioning profit	1,08,347	1,07,266	1.0	1,26,312	1,25,118	1.0
PAT	40,970	39,135	4.7	52,285	47,556	9.9

Source: Anand Rathi Research

Risks

- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts.
- Any significant negative surprises on asset quality from the micro-finance book.

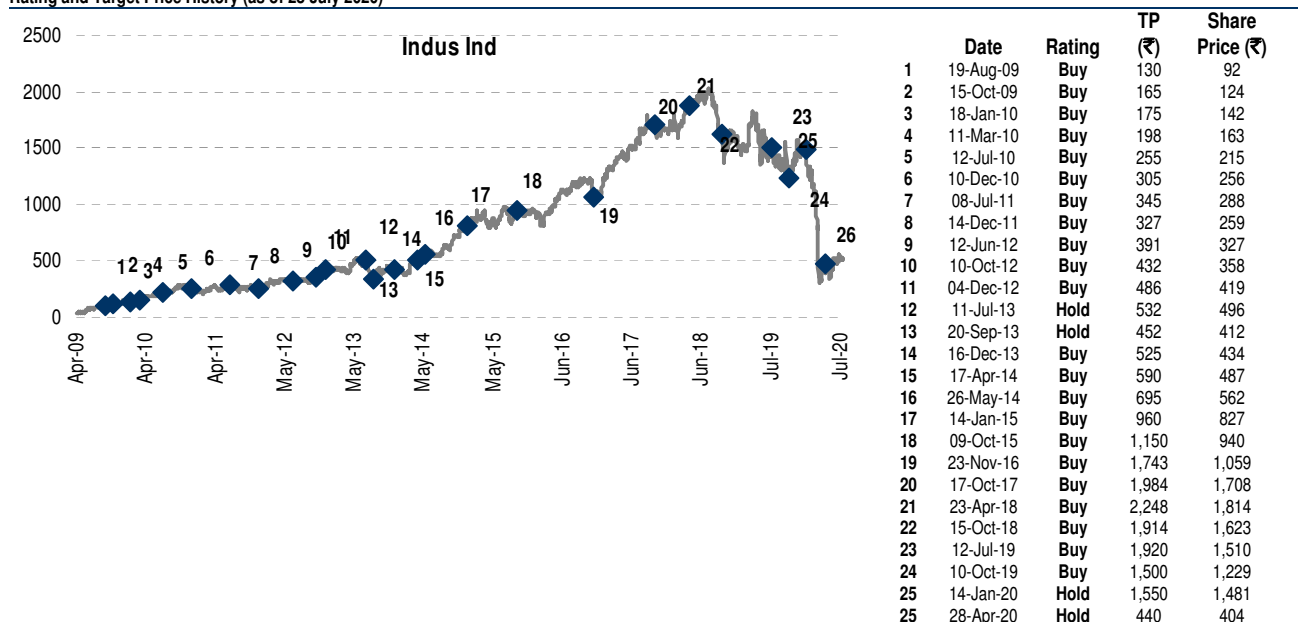
Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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