

Elevated provisions keep earnings muted...

Slippages for the quarter came in at ₹ 1537 crore, from ₹ 2058 crore in Q4FY20. Of the slippages, ₹ 1090 crore was pertaining to a coffee group and a healthcare provider. Write-off was at ₹ 1250 crore, which included ₹ 1220 crore related to large infrastructure NBFC classified as NPA in Q4FY19. Led by a lower loan base, GNPA ratio inched up 8 bps QoQ to 2.53% with absolute GNPA at ₹ 5099 crore. On account of standstill asset classification norms, NNPA ratio was down 5 bps to 0.86%.

The bank said 16% of the book (including MFI) was under moratorium as on June 2020 as compared to low single digits of morat book during March 2020. In addition, the bank said 90% of Moratorium 2.0 is derived from Moratorium 1.0 with 90% of the Morat 2.0 book being secured. In terms of morat breakup, 19% of retail book (~₹ 22200 crore) and 9% of corporate book (~₹ 7600 crore) opted for moratorium.

Provisioning for the quarter was at ₹ 2259 crore (~114 bps of advances). In the wake of Covid-19, the bank provided ₹ 500 crore as floating provisions during Q1FY21. As on June 30, 2020, total contingent provisions were at ₹ 2566 crore (~130 bps of advances), which includes total Covid provisions of ₹ 1203 crore. Total PCR was at 67%, which was 63% in Q4FY20. Surge in provision dented PAT growth at ₹ 461 crore, down 67.8% YoY.

Credit growth was subdued at ~2.4% YoY to ₹ 198069 crore (down 4.2% QoQ) mainly due to slump in corporate book at ~8.1% QoQ and slower growth in consumer book, down 1% QoQ. Muted growth within the consumer book is attributable to auto slowdown but disbursement in MFI book remained healthy at ~29% YoY.

NII was up 2.4% QoQ to ₹ 3309 crore, primarily on the back of improvement in margins. NIMs improved ~3 bps QoQ to 4.25%, primarily led by fall in cost of funds due to reduction of corporate deposit rates, lower borrowings. On the back of lower opex, PPP was at ₹ 2861 crore, up 1% QoQ.

The bank raised ~₹ 2495 crores via issuing 4.8 crore preferential shares to Route One Master Fund, ICICI Prudential Life, Tata Investment Corporation, AIA Company at price of ₹ 524 per share. In addition, the bank has also raised ~₹ 792 crore via issuing 1.5 crore preferential shares to the promoter companies including Hinduja Capital Ltd and IndusInd International Holdings at a price of ₹ 524 per share.

Valuation & Outlook

Business growth is expected to stay sluggish in FY21 but recover soon post Covid era. Strategy to tilt business mix towards retail and improve granularity will be gradual. We estimate credit growth at 7.1% CAGR from FY20-22E to ₹ 2.4 lakh crore. Capital raising worth ~₹ 3300 crore is positive as it would strengthen capital adequacy. Higher delinquencies post moratorium period is seen to keep earnings capped with pressure on return ratios. We estimate FY22E RoA, RoE at 1.1% and 9.4%, respectively. On account of limited upside, we value the stock at 1.1x FY22E ABV to arrive at target of ₹ 580 per share. 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	11,820	13,316	8%
PPP	6,656	9,358	10,773	9,360	10,528	4%
PAT	3,606	4,186	4,418	2,552	3,952	-2%
ABV (₹)	385	416	473	495	541	
P/E	20.0	5.9	5.7	10.7	6.9	
P/ABV	3.1	0.9	0.8	0.7	0.7	
RoA	1.8	1.6	1.5	0.8	1.1	
RoE	16.2	14.5	13.5	6.8	9.4	

Source: Company, ICICI Direct Research

IndusInd Bank

Particulars

Particulars	Amount
Market Capitalisation	₹36544 crore
GNPA (Q1FY21)	₹5147 C crore
NNPA (Q1FY21)	₹1887 C crore
NIM (%) (Q1FY21)	4.3
52 week H/L	1596/236
Net worth	₹34706 C crore
Face Value	₹10
DII Holding (%)	15.5
FII Holding (%)	53.6

Key Highlights

- Moratorium 2.0 book reported at 16%
- Total contingent provisions of ₹ 2566 crore (~130 bps of advances) which includes Covid Provisions of ₹ 1203 crore.
- Slippage of ₹1090 crore includes exposure to coffee group and a healthcare provider
- Maintain HOLD rating on stock with revised target price of ₹ 580

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q4FY19	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	3,309	3,150	2,844	16.4	3,231	2.4	NII was up 2.4% QoQ on the back of improvement in NIMs
NIM (%)	4.28	4.20	4.05	23 bps	4.25	3 bps	NIMs improved on account of decline in cost of funds due to reduction of corporate deposit rates and lower borrowings.
Other Income	1,519	1,414	1,663	-8.7	1,772	-14.3	Other income growth was slower due to sluggish growth of fee income
Net Total Income	4,828	4,564	4,507	7.1	5,003	-3.5	
Staff cost	552	475	647	-14.8	496	11.3	
Other Operating Expenses	1,415	1,267	1,269	11.5	1,671	-15.3	
PPP	2,861	2,822	2,591	10.4	2,836	0.9	
Provision	2,259	2,502	431	424.6	2,440.3	-7.4	Floating provisions of ₹5000 crore during Q1FY21.Total contingent provisions stands at ₹2566 crore which includes total Covid provisions of ₹1203 crore
PBT	602	320	2,160	-72.1	396	52.2	
Tax Outgo	142	83	728	-80.5	94.0	50.8	
PAT	461	237	1,433	-67.8	301.8	52.6	Higher provisions dented earnings
Key Metrics							
GNPA	5,099	5,198	3,947	29.2	4,578	11.4	Slippages came in at ₹1537 crore. Of the slippages, ₹1090 crore were pertaining to a coffee group and a healthcare provider.
NNPA	1,703	1,887	2,248	-24.2	2,173	-21.6	
Total Restructured assets	0	124	168	-100.0	124	-100.0	
Credit book	1,98,069	2,00,357	1,86,394	6.3	2,07,413	-4.5	Credit growth was subdued at ~2.4% YoY mainly due to slump in corporate book at ~8.1% QoQ and slower growth in consumer book, down 1% QoQ.
Deposit book	2,11,265	2,11,970	1,94,868	8.4	2,16,713	-2.5	CASA ratio declined ~39 bps QoQ to 39.98%

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹C crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	12810.8	11,820	-7.7	14,617	13,316	-8.9
Pre Provision Profit	10898.7	9,360	-14.1	12,412	10,528	-15.2
NIM(%) (calculated)	4.3	4.2	-5 bps	4.3	4.2	-6 bps
PAT	3806.05	2,552	-33.0	4,624	3,952	-14.5
ABV per share (₹)	507.812	495.0	-2.5	580.7	540.8	-6.9

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	28.6	10.9	2.5	12.0	12.0	14.0
Deposit Growth (%)	28.5	3.7	7.0	16.0	16.0	18.0
NIM C calculated (%)	3.9	4.5	4.2	4.2	4.3	4.3
Cost to income ratio (%)	44.2	43.3	47.2	47.4	44.9	45.2
GNPA (₹crore)	3,947.4	5,146.7	6,721.7	7,057.8	8,021.7	8,583.2
NNPA (₹crore)	2,248.3	1,886.6	2,837.5	2,922.6	2,837.5	3,036.1
Credit cost (%)	1.6	2.2	2.8	2.2	2.5	2.4

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: MFI segment continues to grow faster

Consumer Finance Book								
₹crore	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21
Comm. Vehicle	21,992	23,304	24,444	24,853	25,092	24,977	23,948	23,737
Utility Vehicle	3,201	3,383	3,597	3,846	4,009	4,264	4,377	4,360
Three Wheelers	2,886	3,034	3,135	3,248	3,386	3,560	3,524	3,606
Two Wheelers	3,867	4,322	4,482	4,661	4,799	5,296	5,204	5,774
Car loans	5,892	6,285	6,537	6,792	7,013	7,336	7,247	7,245
Equip. financing +Trac	9,373	10,167	11,089	11,646	12,173	8,238	12,753	12,784
Credit card	3,185	3,546	4,382	3,911	4,203	4,576	4,762	4,775
Loan against prop.	8,324	8,557	8,925	8,678	8,785	9,539	9,448	9,469
Personal.others etc	4,922	5,435	6,095	6,992	7,748	7,757	8,311	7,971
Business Banking				10,984	11,360	11,460	11,643	10,896
Microfinance				18,245	18,884	20,757	24,232	23,466
Total	63643	68033	72684	103856	107452	112160	115449	114083

Source: Company, ICICI Direct Research

Exhibit 5: Break-up of corporate book

Corporate Banking Book							
₹crore	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21
Large corporates	50,833	52,166	50,212	48,319	51,284	47,742	43,819
Mid corporates	32,312	33,369	35,221	37,194	39,677	39,559	36,649
Small business	21,991	28,175	4,231	4,148	4,292	4,033	3,518
Total	105136	113710	89664	89661	95253	91334	83986
YoY Growth	39.4	29.6	-0.8	-9.9	-9.4	-19.7	-6.3

Source: Company, ICICI Direct Research

Exhibit 6: Advances growth was sluggish

₹crore	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21
Total Advances	173169	186394	193520	197113	207413	206783	198069
YoY Growth	34.7	28.6	28.4	20.8	19.8	10.9	2.4

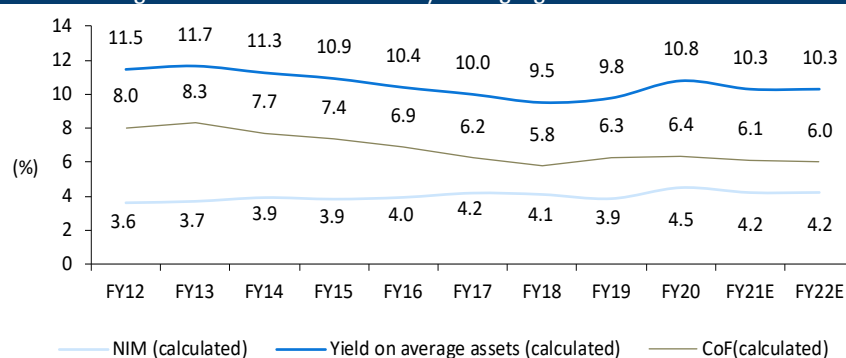
Source: Company, ICICI Direct Research

Exhibit 7: Deposit growth muted

₹Crore	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21
Savings	51106	50023	54486	57562	58117	64895	53130	52527
Current	22269	26526	29584	28779	27721	26970	28427	31946
Term	94844	99152	110798	114245	121355	124848	120470	126792
Total Deposits	168219	175701	194868	200586	207193	216713	202027	211265
YoY Growth	18.9	20.3	28.5	26.3	23.2	23.3	3.7	5.3
CASA Amount	73375	76549	84070	86341	85838	91865	81557	84473
CASA%	43.6	43.6	43.1	43.0	41.4	42.4	40.4	40.0

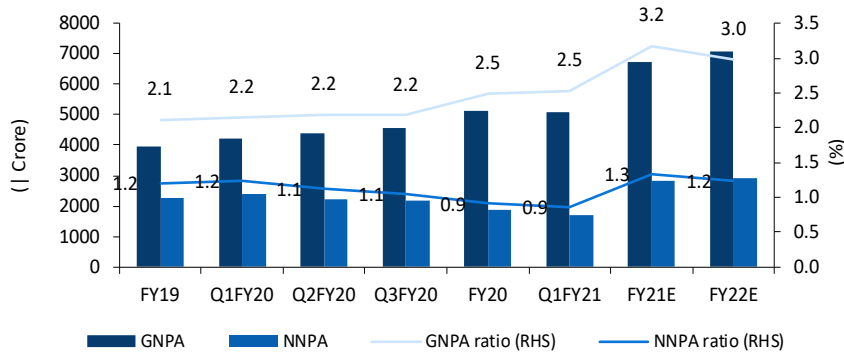
Source: Company, ICICI Direct Research

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

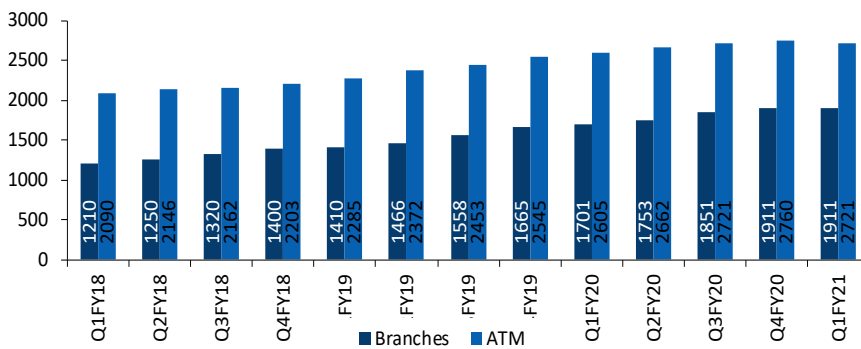
Exhibit 10: Sluggish growth of core fee income

Other income break up (₹ Crore)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Core fee income	1,422	1,468	1,506	1,390	682
Securities/FX trading/others	241	259	284	383	838

Break up of fee income (₹ Crore)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Trade & Remittances	164	182	185	189	116
Foreing Exchange Income	250	277	241	248	155
Distribution Fees	302	322	347	367	174
General Banking	90	90	85	80	70
Loan Processing Fees	337	360	388	356	99
Investment Banking	235	201	209	143	29
Total	1,378	1,432	1,455	1,383	643

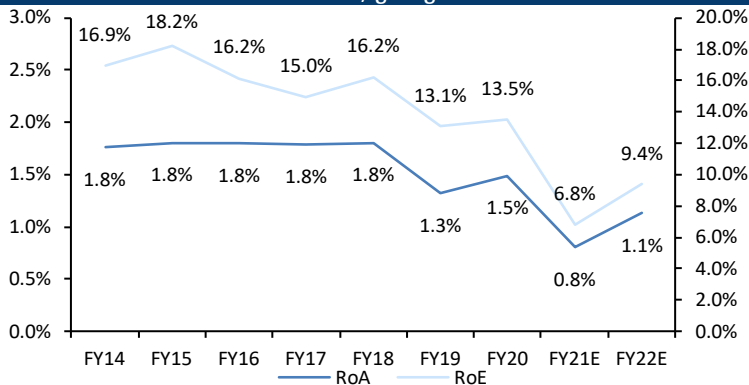
Source: Company, ICICI Direct Research

Exhibit 11: Expanding branch & ATM network



Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to remain flattish, going ahead



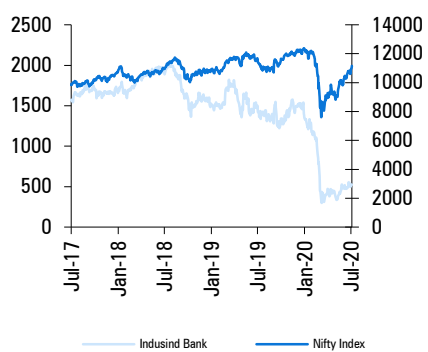
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	15.0	14.4	14.4	14.3	14.7
FII	56.7	52.5	55.2	53.6	52.1
DII	9.7	12.4	15.0	15.5	14.7
Others	18.7	20.7	15.5	16.6	18.6

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	28,750	32,339
Interest Expended	11002.5	16724.1	16930.2	19022.5
Net Interest Income	10,587	12,059	11,820	13,316
% growth	24.1	13.9	-2.0	12.7
Non Interest Income	6055.9	6951.3	5905.0	6692.7
Net Income	16642.5	19010.1	17725.2	20009.1
Employee cost				
Operating Exp.	7284.3	8237.3	8365.4	9481.4
Operating Income	9358.2	10772.7	9359.8	10527.7
Provisions	3179.7	4652.1	5934.7	5222.5
PBT	6178.5	6120.6	3425.1	5305.2
Taxes	1992.9	1702.7	873.4	1352.8
Net Profit	4,186	4,418	2,552	3,952
% growth	3.1	5.6	-42.2	54.9
EPS	60.9	63.7	33.7	52.2

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares (Cr)	68.7	69.4	75.7	75.7
BV (₹)	449.2	500.4	532.5	579.4
ABV (₹)	416.4	473.2	495.0	540.8
P/BV	0.8	0.7	0.7	0.6
P/ABV	0.9	0.8	0.7	0.7
GNPA	2.1	2.5	3.2	3.0
NNPA	1.2	0.9	1.3	1.2
RoE	14.5	13.5	6.8	9.4
RoA	1.6	1.5	0.8	1.1

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	756.50	756.50
Reserves and Surplus	30167.3	34013.0	39528.4	43077.1
Networth	30854.2	34706.5	40284.9	43833.6
Deposits	194867.9	202039.8	216182.6	250771.8
Borrowings	52099.1	60753.6	61361.1	66270.0
Other Liabilities & Provi	10226.1	9557.7	10226.7	10942.6
Total	2,88,047	3,07,058	3,28,055	3,71,818
Application of Funds				
Fixed Assets	1527.9	1820.1	2002.1	2202.3
Advances	186393.5	206783.0	211952.6	237386.9
Investments	59266.4	59979.9	67177.5	76582.4
Cash and balances with	16791.4	16003.7	16803.8	17644.0
Money at call, balance at bank				
Other Assets	24068.3	22470.7	30119.2	38002.3
Total assets	2,88,048	3,07,057	3,28,055	3,71,818

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	(%)			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	23.6	6.6	6.8	13.3
Advances	21.2	10.9	2.5	12.0
Deposits	28.5	3.7	7.0	16.0
Total Income	22.0	14.2	-6.8	12.9
Net interest income	24.1	13.9	-2.0	12.7
Operating expenses	15.8	13.1	1.6	13.3
Operating profit	27.4	15.1	-13.1	12.5
Net profit	NA	5.6	-42.2	54.9
Book value	15.2	11.4	6.4	8.8
EPS (₹)	NA	4.5	(47.0)	54.9

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)	50	65	Hold	22,756.3	-0.4	-1.9	-4.3	-113.4	NA	NA	0.7	0.6	0.5	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	193	250	Buy	1,66,310	16.8	24.2	33.7	11.5	8.0	5.7	1.1	1.0	0.9	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	46	50	Hold	2,810	-27.2	8.5	13.0	-1.7	5.4	3.5	0.3	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	460	530	Buy	1,10,439	5.8	23.7	38.0	79.8	19.4	12.1	1.8	1.7	1.5	0.2	0.7	1.0	2.2	7.5	11.1
City Union Bank (CITUNI)	133	171	Buy	8,711	8.7	10.1	11.4	15.3	13.2	11.6	2.1	1.8	1.6	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	102	92	Hold	2,524	13.0	13.5	15.0	7.9	7.5	6.8	1.1	1.0	0.9	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	52	55	Hold	8,355	7.7	7.9	12.5	6.7	6.6	4.2	0.8	0.8	0.7	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	1,103	1,320	Buy	6,03,467	47.9	48.5	66.3	23.0	22.8	16.6	3.6	3.4	3.1	1.9	1.6	1.9	16.4	14.6	17.9
Indusind Bank (INDBA)	527	580	Hold	36,544	69.5	55.8	82.0	7.6	9.4	6.4	1.1	1.0	0.9	1.6	1.2	1.6	14.4	10.1	13.4
Jammu & Kashmir Bank (JAMKAS)	14	12	Sell	671	-12.7	-0.1	-6.1	-1.1	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,322	1,600	Buy	2,61,686	31.1	26.0	32.1	42.5	50.8	41.1	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	220	400	Hold	30,740	18.1	23.1	29.1	12.2	9.5	7.6	2.4	2.1	1.7	3.9	3.6	3.6	22.1	22.6	23.5
IDFC First (IDFBAN)	26	30	Buy	10,221	-4.6	0.0	1.4	NA	NA	19.2	0.9	0.9	0.9	-1.3	0.0	0.4	-13.1	-0.1	4.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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