

Indusind Bank

Refer to important disclosures at the end of this report

Asset quality pain inevitable; building high credit reserves is a right step

CMP: Rs 536
as of (September 28, 2020)

TP: Rs 550 (■)
12 months

Rating: HOLD (■)

Upside: 2.6 %

- Due to corporate asset quality issues for the past two years and the recent deposit scare after the Yes Bank saga, new top management's long-term stance is to focus on building a granular retail credit/deposit book, increasing provisioning buffer and RoRWA (vs. RoA).
- The bank expects a credit growth rate in mid-single digit in FY21 and in mid-teens in FY22. NIMs may come under pressure in the near term due to low LDR and high impairment, but the planned high share of retail (65% vs. 52%) should be positive in the long run.
- IIB has raised LLP guidance from 225-250bps (ex-RSA) in FY21 to 350-400bps (incl. RSA) in FY21E, given its stance to accelerate specific PCR to ~70% (from 67% now) and 30% provision on RSA vs. regulatory requirement of 10%. Factoring in the provision up-fronting, we cut FY21E earnings by 22% but raise FY23 estimates by 5%.
- IIB has recovered from the deposit scare and the immediate risk of Vodafone default has eased. The Impact of Covid-19 on asset quality is inevitable but its stance to build high credit reserves even at the cost of near-term earnings is a right step. We retain Hold (TP Rs550) due to low valuations and reasonable capital position post recent capital raise.

Credit growth will take time to pick up and largely track deposit growth: As per management, its credit growth will be now calibrated to track deposit momentum and not vice-versa as happened in past, with a clear focus on building a granular retail credit/deposit profile. The bank expects mid-single digit growth rate in FY21 and mid-teens for FY22 against the earlier growth run-rate of 20-30%. Though NIMs may come under pressure in the near term due to high funding cost/NPAs and low LDR, the long-term prospects on margin should be positive led by the rising share of retail to 65% from 52%.

Building high, upfront credit reserves to shield future earnings against asset quality risk: IIB has seen a steady rise in the GNPA ratio for the past two years to 2.5% mainly due to high corporate NPAs and lately in CV/MFI. MFI collections, which were high at 80% in Jul'20, slipped to 70% in Aug'20 due to interim lockdowns but has now recovered to 80%. Given the high share of the vulnerable retail portfolio, including CV, PL, LAP and MFI, NPA formation/restructuring is expected to be elevated for the bank. As a strategy, the bank has accelerated specific PCR to 66% from 43% a year ago and plans to increase it up to 70%. Factoring in this coupled with upfront higher provisions at 30% on RSA vs. 10% regulatory requirement, the bank now guides for high LLP at 350-400bps.

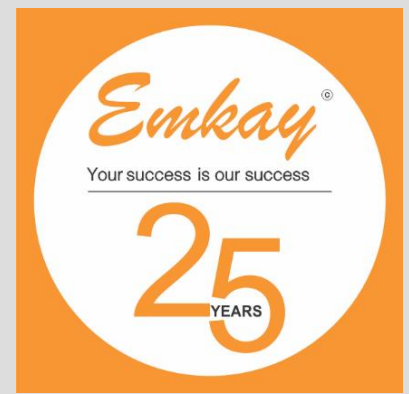
Outlook and valuations: We believe that the impact of Covid-19 on retail/SME asset quality is inevitable, but its stance to build high credit reserves even at the cost of near-term earnings is a right step. We trim FY21E earnings by 22% due to up-fronting of provisions factoring in high LLP and raise FY23 estimates by 5%. We have also factored in recent capital infusion of Rs32.8bn. We retain Hold with a TP of Rs550, rolling forward on 0.9x Sep'22E ABV.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	144,929	190,101	203,726	222,658	265,753
Net profit	33,011	44,179	31,757	54,855	81,173
EPS (Rs)	54.8	63.7	42.0	72.5	107.3
ABV (Rs)	405.2	469.8	511.5	571.8	667.5
RoA (%)	1.3	1.5	1.0	1.5	1.9
RoE (%)	13.4	14.6	8.4	12.5	16.2
PE (x)	9.8	8.4	12.8	7.4	5.0
P/ABV	1.3	1.1	1.0	0.9	0.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(26.5)/(5)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	42.0	72.5
Consensus	46.4	68.2
Mean Consensus TP (12M)	Rs 613	

Stock Details

Bloomberg Code	IIB IN
Face Value (Rs)	10
Shares outstanding (mn)	756
52 Week H/L	1,597 / 236
M Cap (Rs bn/USD bn)	406 / 5.49
Daily Avg Volume (nos.)	21,364,300
Daily Avg Turnover (US\$ mn)	160.2

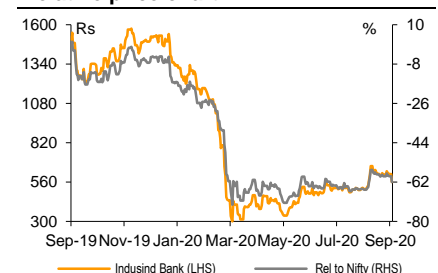
Shareholding Pattern Sep '20

Promoters	13.5%
FIIIs	47.8%
DIIIs	15.2%
Public and Others	23.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(19)	12	30	(64)
Rel. to Nifty	(16)	3	1	(63)

Relative price chart



Source: Bloomberg

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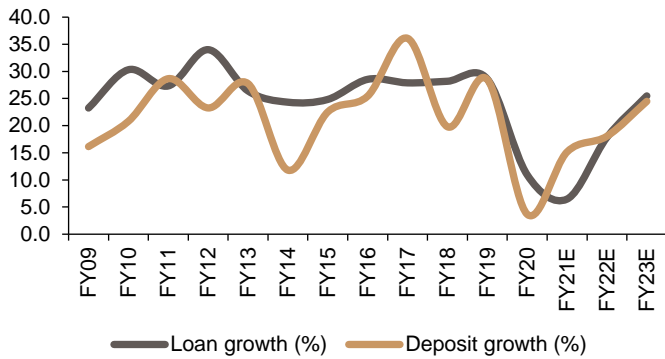
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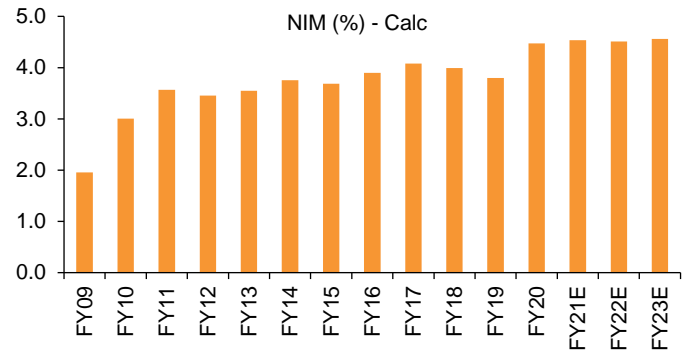
Story in Charts

Exhibit 1: Loan growth to largely track deposit growth



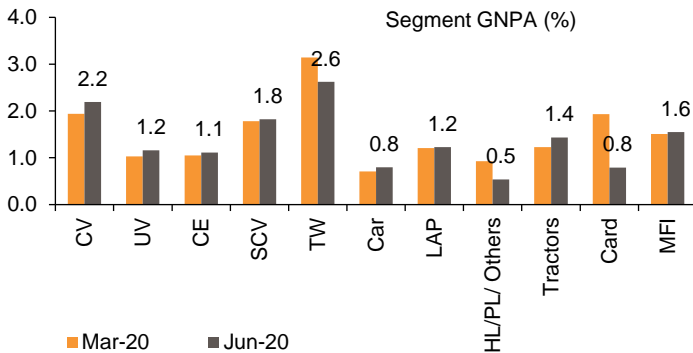
Source: Emkay Research, Company

Exhibit 2: NIM improvement trend to pause in FY21/22E, before resuming in FY23E aided by higher retail share



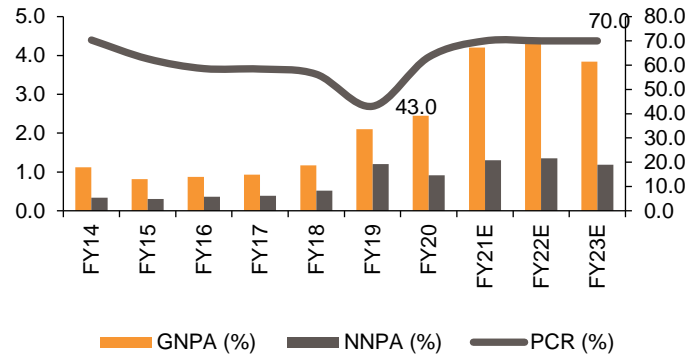
Source: Emkay Research, Company

Exhibit 3: Vehicle Financing segment, including CV, has seen elevated NPA formation in the recent past



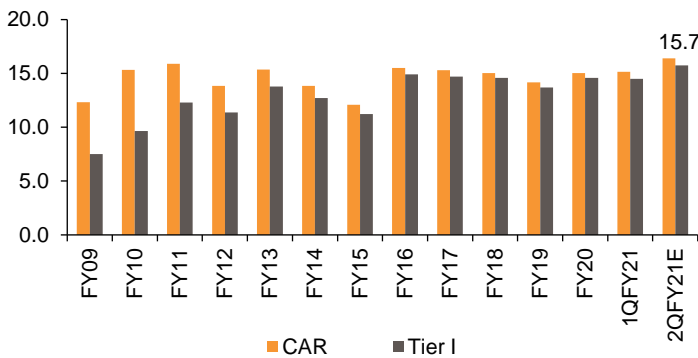
Source: Company, Emkay Research

Exhibit 4: Asset quality set to slip, but bank plans to accelerate specific PCR and upfront provisioning to secure future profits



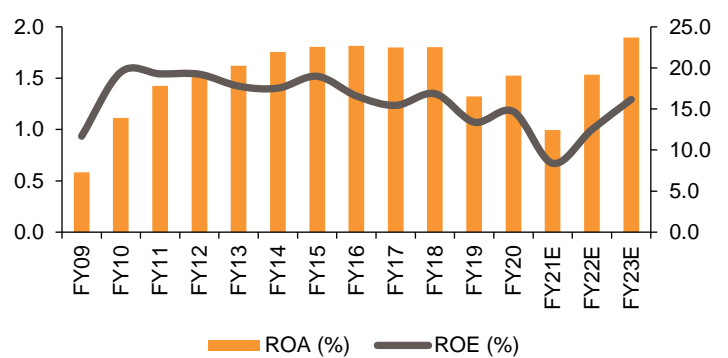
Source: Company, Emkay Research

Exhibit 5: Bank recently raised capital via preferred allotment to shore-up capital buffer



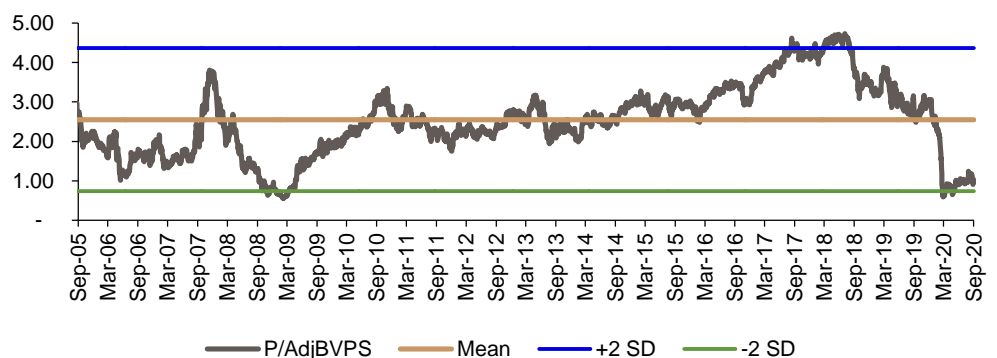
Source: Emkay Research

Exhibit 6: Higher NPA formation/LLP set to depress bank's otherwise strong return ratios trajectory



Source: Emkay Research

Exhibit 7: The stock currently trades at 1.0x – 1 year forward ABV



Source: Emkay Research, Bloomberg

Exhibit 8: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	209,327	203,726	-2.7%	230,563	222,658	-3.4%	277,583	265,753	-4.3%
PPOP	122,777	120,348	-2.0%	134,106	132,145	-1.5%	164,211	159,522	-2.9%
PAT	40,499	31,757	-21.6%	54,446	54,855	0.8%	77,246	81,173	5.1%
EPS (Rs)	57.1	42.0	-26.5%	76.7	72.5	-5.5%	108.8	107.3	-1.4%
BV (Rs)	586.1	539.4	-8.0%	657	606.1	-7.7%	757	705.1	-6.9%

Source: Emkay Research

Exhibit 9: Key Assumptions

	FY20A	FY21E	FY22E	FY23E
Loan Growth %	10.9	6.5	17.9	25.5
Deposit Growth %	3.7	15.2	18.1	24.5
NIM %	4.5	4.5	4.5	4.6
GNPA %	2.5	4.2	4.4	3.8
Credit Cost %	2.1	3.7	2.4	1.7

Source: Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	132,323	147,438	179,119
Other income	56,467	69,513	71,402	75,220	86,634
Fee income	40,730	46,150	50,765	56,857	65,954
Net income	144,929	190,101	203,726	222,658	265,753
Operating expenses	64,047	82,373	83,377	90,513	106,231
Pre provision profit	80,882	107,727	120,348	132,145	159,522
PPP excl treasury	79,731	102,201	115,375	127,420	155,034
Provisions	31,077	46,521	78,006	59,005	51,292
Profit before tax	49,806	61,206	42,343	73,139	108,230
Tax	16,795	17,027	10,586	18,285	27,058
Tax rate	34	28	25	25	25
Profit after tax	33,011	44,179	31,757	54,855	81,173

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	6,027	6,935	7,567	7,567	7,567
Reserves	260,721	340,035	408,779	459,698	535,430
Net worth	266,748	346,970	416,347	467,266	542,997
Deposits	1,948,679	2,020,398	2,326,456	2,746,502	3,418,967
Borrowings	418,312	552,636	455,652	501,217	601,461
Total liabilities	2,778,194	3,070,481	3,319,143	3,826,660	4,735,868
Cash and bank	99,612	136,753	164,103	196,924	236,308
Investments	592,662	599,799	639,993	724,817	861,417
Loans	1,863,935	2,067,832	2,201,714	2,594,861	3,256,172
Others	156,663	224,707	247,506	259,128	335,248
Total assets	2,778,194	3,070,576	3,319,143	3,826,660	4,735,868

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.8	4.5	4.5	4.5	4.6
Non-II/avg assets	2.3	2.4	2.2	2.1	2.0
Fee income/avg assets	1.6	1.6	1.6	1.6	1.5
Opex/avg assets	2.6	2.8	2.6	2.5	2.5
Provisions/avg assets	1.2	1.6	2.4	1.7	1.2
PBT/avg assets	2.0	2.1	1.3	2.0	2.5
Tax/avg assets	0.7	0.6	0.3	0.5	0.6
RoA	1.3	1.5	1.0	1.5	1.9
RoAE	13.4	14.6	8.4	12.5	16.2
GNPA (%)	2.1	2.5	4.2	4.4	3.8
NNPA (%)	1.2	0.9	1.3	1.4	1.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	54.8	63.7	42.0	72.5	107.3
BVPS	429.4	489.1	539.4	606.1	705.1
ABVPS	405.2	469.8	511.5	571.8	667.5
DPS	7.5	0.0	0.0	5.0	7.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	9.8	8.4	12.8	7.4	5.0
P/BV	1.3	1.1	1.0	0.9	0.8
P/ABV	1.3	1.1	1.0	0.9	0.8
P/PPOP	4.0	3.5	3.4	3.1	2.5
Dividend Yield (%)	1.4	0.0	0.0	0.9	1.3

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	18.0	36.3	9.7	11.4	21.5
PPOP	21.5	33.2	11.7	9.8	20.7
PAT	(8.5)	33.8	(28.1)	72.7	48.0
Loans	28.6	10.9	6.5	17.9	25.5

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	28,440	29,094	30,742	32,311	33,092
NIM(%)	4.1	4.1	4.2	4.3	4.3
PPOP	25,910	26,234	27,577	28,567	29,277
PAT	14,325	14,010	13,092	3,152	5,103
EPS (Rs)	20.67	20.22	18.89	4.54	7.36

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Aug-20	Sep-20
Promoters	13.0	13.0	13.3	12.5	13.5
FII	50.1	48.7	47.3	47.7	47.8
DII	13.6	14.1	13.4	16.3	15.2
Public and Others	23.3	24.2	26.0	23.5	23.6

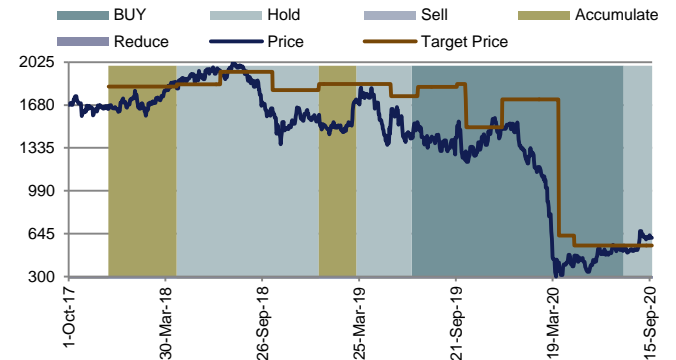
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jul-20	551	550	12m	Hold	Anand Dama
28-Apr-20	468	550	12m	Buy	Anand Dama
11-Apr-20	395	630	12m	Buy	Anand Dama
30-Mar-20	413	630	12m	Buy	Anand Dama
14-Jan-20	1,482	1,725	12m	Buy	Anand Dama
16-Dec-19	1,493	1,725	12m	Buy	Anand Dama
10-Oct-19	1,229	1,500	12m	Buy	Anand Dama
9-Oct-19	1,309	1,725	12m	Buy	Anand Dama
23-Sep-19	1,512	1,850	12m	Buy	Anand Dama
12-Jul-19	1,510	1,825	12m	Buy	Anand Dama
1-Jul-19	1,434	1,750	12m	Buy	Anand Dama
23-May-19	1,599	1,750	12m	Hold	Anand Dama
20-Mar-19	1,713	1,850	12m	Hold	Anand Dama
9-Jan-19	1,602	1,850	12m	Accumulate	Anand Dama
15-Oct-18	1,627	1,799	12m	Hold	Jignesh Shial
10-Jul-18	1,935	1,947	12m	Hold	Jignesh Shial
21-May-18	1,925	1,845	12m	Hold	Ravikant Bhat
20-Apr-18	1,813	1,845	12m	Hold	Ravikant Bhat
11-Jan-18	1,700	1,827	12m	Accumulate	Ravikant Bhat
14-Dec-17	1,650	1,827	12m	Accumulate	Ravikant Bhat

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.26	18.26	0.0%	0	100.00
Axis Bank	1.85	1.97	7%	12	10.78
AU Small Finance Bank	0.22	0.02	-93%	-20	0.09
Bandhan Bank	0.32	0.44	34%	11	2.39
Bank of Baroda	0.09	0.00	-100%	-9	0.00
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.16	0.16	0%	0	0.87
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.16	0.16	0%	0	0.88
HDFC Bank	6.85	7.27	6%	42	39.82
ICICI Bank	4.00	4.15	4%	16	22.75
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.53	0.59	11%	6	3.25
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.67	2.13	-20%	-54	11.69
Punjab National Bank	0.06	0.00	-100%	-6	0.00
RBL Bank	0.12	0.14	19%	2	0.77
State Bank of India	1.15	1.23	7%	8	6.71
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

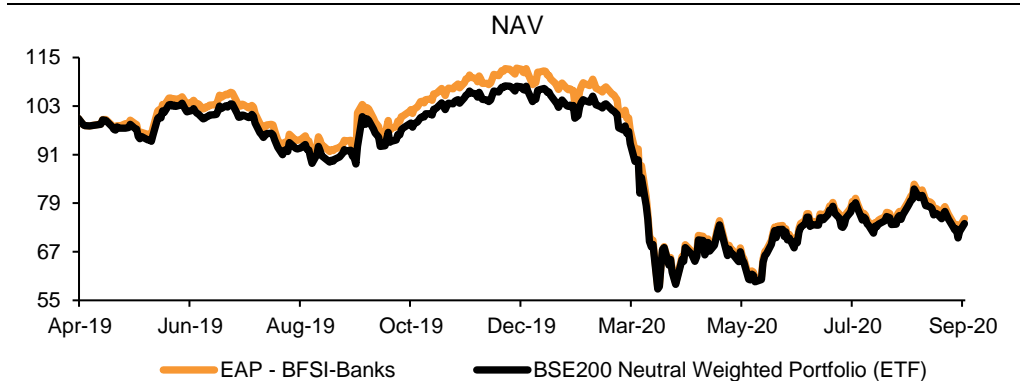
Sector portfolio NAV

	Base					Latest
	01-Apr-19	27-Dec-19	30-Mar-20	29-Jun-20	28-Aug-20	28-Sep-20
EAP - BFSI-Banks	100.0	112.4	63.9	74.4	83.7	75.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	107.9	63.7	73.6	82.5	74.0

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 30 Sep 2020 02:21:35 (SGT)

Dissemination Date: 30 Sep 2020 02:22:35 (SGT)

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