

## Tepid business growth, NPA to be watched...

The overall asset quality performance was encouraging as GNPA and NNPA ratio declined by 32 bps and 34 bps to 2.21% and 0.52%, respectively. Even on a standstill asset classification, asset quality performance remained healthy as GNPA and NNPA were at 2.32% and 0.61%, respectively. Application for restructuring is minimal at ~5 bps of advances and is further expected to remain in low single digits at the end of December 2020.

The bank witnessed lower delinquencies in Q2FY21 as account of ₹ 399 crore slipped into NPA compared to ₹ 1537 crore in the previous quarter. Slippages from the corporate book were miniscule at ₹ 13 crore while remaining ₹ 386 crore came in from the consumer segment. SMA 1, 2 book were at ~23 bps, 10 bps, respectively. Collection efficiency for September 2020 was at 94.7% and 95-96%, respectively, in October 2020, which is further expected to improve further.

Provisioning was at ₹ 1964 crore, down 13% QoQ, of which Covid-19 related provisions were at ₹ 933 crore, taking outstanding Covid-19 provisions to ₹ 2155 crore. PCR was at 77% for Q2FY21 vs. 67% in Q1FY21. As of September 2020, the bank held specific provisions for NPAs amounting to ₹ 2646 crore and ₹ 70 crore floating provisions apart from Covid-19 provision, taking provisions at 132% of GNPA.

Loan growth remained flattish at 2.1% YoY, 1.6% QoQ as the bank looks to rebalance its loan portfolio. Hence, the corporate book fell 4.7% YoY. The management expects growth in MFI and auto finance book to rebound in coming quarters. Consumer finance segment grew 7.8% YoY, which was on account of 15.5% and 19.6% rise in credit card and two-wheeler loans, respectively. Deposits increased 10.2% YoY where term deposits jumped 12.4% YoY while CASA growth was 7% YoY. CASA ratio QoQ showed an improvement of ~25 bps to 40.3%.

On the operational front, performance was subdued with NII down 0.9% QoQ to ₹ 3278 crore, due to a decline in margin and flattish growth in advances. NIMs contracted ~12 bps to 4.16% as a result of a steeper decline in yield on assets (down 28 bps QoQ) compared to cost of funds (down 16 bps QoQ), led by excess liquidity. Other income saw tepid growth of 2.3% QoQ to ₹ 1554 crore. Cost-to-income ratio remained largely stable at 41.4% QoQ. Provisions declined 13% QoQ to ₹ 1964 crore, leading to net profit at ₹ 647 crore vs. ₹ 460 crore YoY.

## Valuation & Outlook

Post balance sheet realignment, the management is geared to pedal growth ahead with focus on certain segments. Thus, we expect business momentum to pick from here on with operational parameters expected to show improvement. Improving collection efficiency and ample provision buffer is expected to arrest volatility in earnings but return ratios are seen improving gradually to 9.3% in FY22E. Further, quantum of advances to be restructured remain key monitorable. Therefore, until clarity emerges on asset quality front, we maintain our **HOLD** rating with a revised target price of ₹ 625, valuing the stock at 1.2x FY22E ABV.

### Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
NII	7,497	8,846	12,059	12,720	13,873	7%
PPP	6,656	8,088	10,773	11,315	12,002	6%
PAT	3,606	3,301	4,418	2,461	3,854	-7%
ABV (₹)	385	405	473	494	521	
P/E	9.8	10.7	9.2	18.0	11.5	
P/ABV	1.5	1.4	1.2	1.2	1.1	
RoA	1.8	1.3	1.5	0.8	1.1	
RoE	16.2	13.1	14.4	6.6	9.3	

Source: Company, ICICI Direct Research

## IndusInd Bank

### Particulars

Particulars	Amount
Market Capitalisation	₹44298 crore
GNPA (Q2FY21)	₹4533 Crore
NNPA (Q2FY21)	₹1055 Crore
NIM (%) (Q2FY21)	4.2
52 week H/L	1596/236
Net worth	₹39566 Crore
Face Value	₹10
DII Holding (%)	17.1
FII Holding (%)	51.8

### Key Highlights

- Collection efficiency improved to 94.7% in Sep'20 and 95-96% in Oct'20
- Total provisions remain adequate at 132% of GNPA
- Post balance sheet realignment, management is geared to pedal balance sheet growth
- Maintain HOLD rating on stock with revised target price of ₹ 625

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	3,278	3,121	2,910	12.7	3,309	-0.9	Sequential decline on account of tepid business growth and contraction in NIMs
NIM (%)	4.16	4.20	4.10	6 bps	4.28	-12 bps	Faster decline in yield on assets as compared to CoF resulted in NIM decline
Other Income	1,554	1,564	1,727	-10.0	1,519	2.3	
Net Total Income	4,832	4,685	4,636	4.2	4,828	0.1	
Staff cost	524	576	515	1.7	552	-5.0	Modest growth in opex as a result of lower overall activity
Other Operating Expenses	1,477	1,514	1,521	-2.9	1,415	4.4	
PPP	2,831	2,594	2,600	8.9	2,861	-1.1	
Provision	1,964	2,002	738	166.3	2,258.9	-13.0	Sequential decline on account of lower slippages
PBT	866	592	1,862	-53.5	602	43.8	
Tax Outgo	219	151	479	-54.3	141.8	54.5	
PAT	647	441	1,383	-53.2	460.6	40.5	Lower provisions, cost control helped PAT sequentially
<b>Key Metrics</b>							
GNPA	4,532	5,150	4,370	3.7	5,099	-11.1	Healthy overall performance aided by lower slippages in corporate book
NNPA	1,056	1,618	2,203	-52.1	1,703	-38.0	
Total Restructured assets	0	0	217	-100.0	0	0.0	
Credit book	201,247	200,242	197,113	2.1	198,069	1.6	Miniscule growth as a result of cautious approach towards growth in corporate banking segment
Deposit book	228,279	228,460	207,193	10.2	211,265	8.1	lead by 12.4% growth in term deposits, CASA up 7% YoY

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	11820.24	12,720	7.6	13,316	13,873	4.2
Pre Provision Profit	9341.072	11,315	21.1	10,509	12,002	14.2
NIM(%) (calculated)	4.2	4.40	17 bps	4.2	4.34	11 bps
PAT	2537.768	2,461	-3.0	3,938	3,854	-2.1
ABV per share (₹)	528.0554	494	-6.5	573.8	521	-9.3

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	FY19		FY20		Current		Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	28.6	10.9	3.2	14.4	2.5	12.0		
Deposit Growth (%)	28.5	3.7	13.2	15.6	7.0	16.0		
NIM Calculated (%)	3.8	4.5	5.5	9.1	4.2	4.2		
Cost to income ratio (%)	44.2	43.3	41.3	42.9	47.4	47.6		
GNPA (₹ crore)	3,947.4	5,146.7	7,495.0	7,983.3	6,721.7	7,057.8		
NNPA (₹ crore)	2,248.2	1,886.6	2,610.1	2,743.8	2,837.5	2,922.6		
Credit cost (%)	1.9	2.2	3.8	2.8	2.8	2.2		

Source: Company, ICICI Direct Research

### Key conference call highlights

- September collection was at 94.7%. Collection efficiency has improved to 95-96% in October 2020. We expect collections to inch up further by December 2020
- MFI book collections were at 91% and reached ~93% by October end. Vehicle segment saw collections of 94.3%
- Restructuring application was lower at ~5 bps of advances as of now. Quantum of accounts that could turn up for restructuring is expected to be in lower single digits of loans. Mostly, they could come from luxury bus, hotels and educational segment
- Total 0.8% of the loan book constitutes customers that have not paid even a single instalment since moratorium
- Exposure to two real estate projects worth ~₹ 500 crore remained stressed and could be restructured
- The bank has indicated that there is some room for reduction in term deposit rates but would be very cautious while trimming the same
- Net interest margins are expected to remain range bound at 4.1% to 4.25%
- We have taken a cautious approach while lending to corporates and loan book mix to be in 60:40 ratio between retail and corporate
- Within the corporate segment, the bank is looking to focus on working capital loans and relatively more granularity
- In the vehicle finance business, except for CV segment, growth is returning to pre-Covid levels
- The management expects MHCV business is to show some recovery in the second half
- There was disbursement at 80% of pre-Covid level in auto finance. Credit growth should be faster with focus on granularity focusing on auto finance segment

## Story in Charts

**Exhibit 4: 2W and MFI show healthy growth**

<b>Consumer Finance Book</b>								
₹crore	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21
Comm. Vehicle	23,304	24,444	24,853	25,092	24,977	23,948	23,737	23,932
Utility Vehicle	3,383	3,597	3,846	4,009	4,264	4,377	4,360	4,539
Three Wheelers	3,034	3,135	3,248	3,386	3,560	3,524	3,606	3,691
Two Wheelers	4,322	4,482	4,661	4,799	5,296	5,204	5,774	5,739
Car loans	6,285	6,537	6,792	7,013	7,336	7,247	7,245	7,460
Equip. financing + Trac	10,167	11,089	11,646	12,173	8,238	12,753	12,784	13,853
Credit card	3,546	4,382	3,911	4,203	4,576	4,762	4,775	4,853
Loan against prop.	8,557	8,925	8,678	8,785	9,539	9,448	9,469	9,540
Personal.others etc	5,435	6,095	6,992	7,748	7,757	8,311	7,971	8,299
Business Banking			10,984	11,360	11,460	11,643	10,896	11,531
Microfinance			18,245	18,884	20,757	24,232	23,466	22,383
<b>Total</b>	<b>68033</b>	<b>72684</b>	<b>103856</b>	<b>107452</b>	<b>112160</b>	<b>115449</b>	<b>114083</b>	<b>115820</b>

Source: Company, ICICI Direct Research

**Exhibit 5: Break-up of corporate book**

<b>Corporate Banking Book</b>							
₹crore	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21
Large corporates	52,166	50,212	48,319	51,284	47,742	43,819	41,927
Mid corporates	33,369	35,221	37,194	39,677	39,559	36,649	39,889
Small business	28,175	4,231	4,148	4,292	4,033	3,518	3,611
<b>Total</b>	<b>113710</b>	<b>89664</b>	<b>89661</b>	<b>95253</b>	<b>91334</b>	<b>83986</b>	<b>85427</b>
YoY Growth	29.6	-0.8	-9.9	-9.4	-19.7	-6.3	-4.7

Source: Company, ICICI Direct Research

**Exhibit 6: Tepid loan growth**

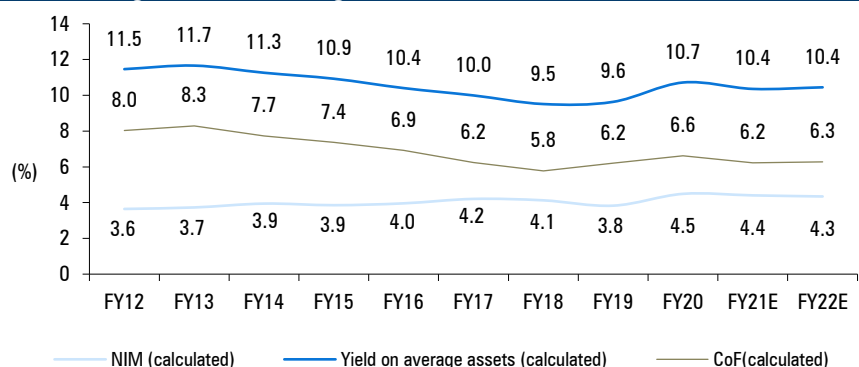
₹crore	Q4FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21
Total Advances	186394	193520	197113	207413	206783	198069	201247
YoY Growth	28.6	28.4	20.8	19.8	10.9	2.4	2.1

Source: Company, ICICI Direct Research

**Exhibit 7: Deposit profile**

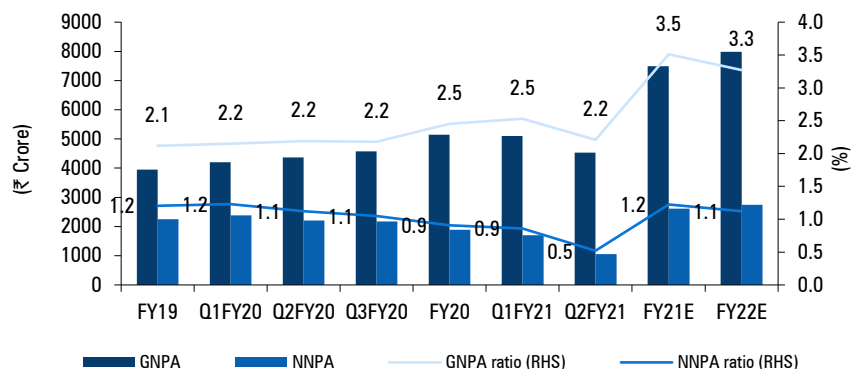
₹Crore	Q3FY19	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21
Savings	50023	54486	57562	58117	64895	53130	52527	57073
Current	26526	29584	28779	27721	26970	28427	31946	34773
Term	99152	110798	114245	121355	124848	120470	126792	136433
Total Deposits	175701	194868	200586	207193	216713	202027	211265	228279
YoY Growth	20.3	28.5	26.3	23.2	23.3	3.7	5.3	10.2
CASA Amount	76549	84070	86341	85838	91865	81557	84473	91846
CASA%	43.6	43.1	43.0	41.4	42.4	40.4	40.0	40.2

Source: Company, ICICI Direct Research

**Exhibit 8: Margins to remain range bound**


Source: Company, ICICI Direct Research

Exhibit 9: Asset quality performance would be key monitorable



Source: Company, ICICI Direct Research

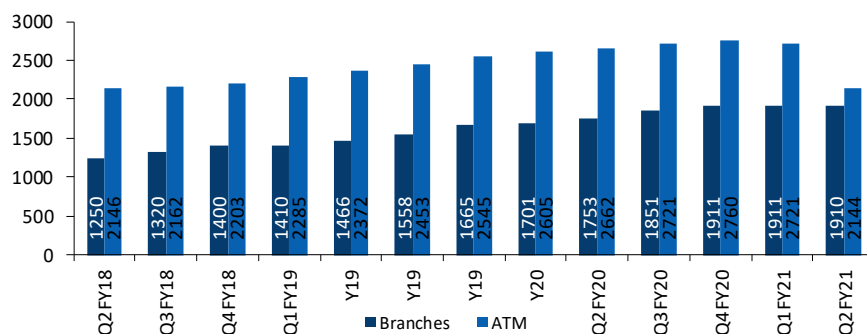
Exhibit 10: Subdued growth in fee

Other income break up (₹Crore)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Core fee income	1,468	1,506	1,390	682	1,061
Securities/FX tradingothers	259	284	383	838	493

Break up of fee income (₹Crore)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Trade & Remittances	182	185	189	116	152
Foreing Exchange Income	277	241	248	155	228
Distribution Fees	322	347	367	174	323
General Banking	126	85	80	109	123
Loan Processing Fees	360	388	356	99	212
Investment Banking	201	209	143	29	23
Total	1,468	1,455	1,383	682	1,061

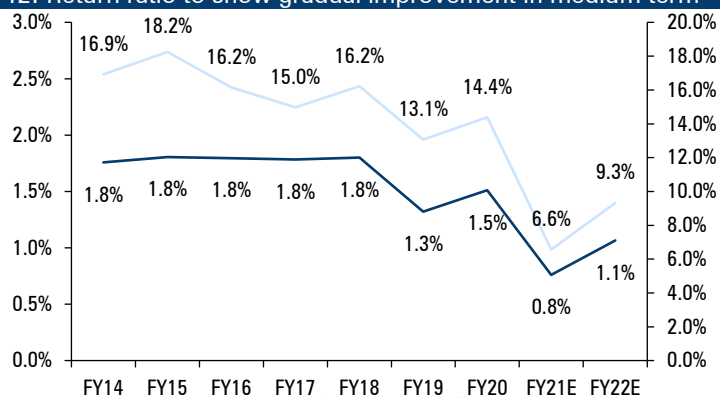
Source: Company, ICICI Direct Research

Exhibit 11: Branch and ATM network



Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to show gradual improvement in medium term



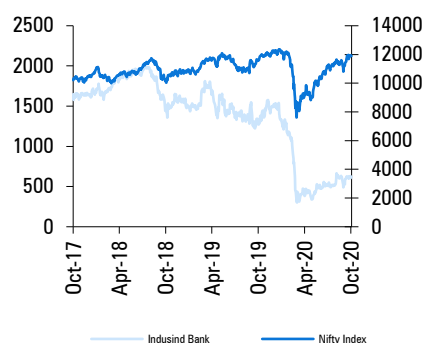
Source: Company, ICICI Direct Research

**Exhibit 13: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	14.4	14.4	14.3	14.7	14.7
FII	52.5	55.2	53.6	52.1	51.8
DII	12.4	15.0	15.5	14.7	17.1
Others	20.7	15.5	16.6	18.6	16.4

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	22,261.2	28,782.8	29,913.9	33,365.1
Interest Expended	13,415.1	16,724.1	17,193.7	19,492.4
Net Interest Income	8,846.1	12,058.8	12,720.2	13,872.7
Growth (%)	18.0	36.3	5.5	9.1
Non Interest Income	5,646.7	6,951.3	6,567.7	7,162.9
Net Income	14,492.8	19,010.1	19,287.9	21,035.5
Employee cost	1,853.5	2,208.5	2,279.2	2,561.3
Other operating Exp.	4,551.2	6,028.9	5,694.2	6,471.7
Operating Income	8,088.1	10,772.7	11,314.6	12,002.5
Provisions	3,107.7	4,652.1	8,011.1	6,829.3
PBT	4,980.5	6,120.6	3,303.5	5,173.2
Taxes	1,679.5	1,702.7	842.4	1,319.2
Net Profit	3,301.0	4,417.9	2,461.1	3,854.0
Growth (%)	(8.5)	33.8	(44.3)	56.6
EPS (₹)	54.8	63.7	32.5	50.9

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares (crore)	60.3	69.4	75.7	75.7
EPS (₹)	54.8	63.7	32.5	50.9
DPS (₹)	7.7	7.8	2.4	3.7
BV (₹)	442.6	500.3	528.4	556.8
ABV (₹)	405.3	473.1	493.9	520.6
P/E	10.7	9.2	18.0	11.5
P/BV	1.3	1.2	1.1	1.1
P/ABV	1.4	1.2	1.2	1.1
Yields & Margins (%)				
Net Interest Margins	3.8	4.5	4.4	4.3
Yield on assets	9.6	10.7	10.4	10.4
Avg. cost on funds	6.2	6.6	6.2	6.3
Yield on average advances	11.0	12.2	12.0	12.3
Avg. Cost of Deposits	6.1	6.5	6.2	6.2
Quality and Efficiency (%)				
Cost to income ratio	44.2	43.3	41.3	42.9
Credit/Deposit ratio	95.7	102.3	93.4	92.4
GNPA	2.1	2.5	3.5	3.3
NNPA	1.2	0.9	1.2	1.1
ROE	13.1	14.4	6.6	9.3
ROA	1.3	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	603	694	757	757
Employee Stock Options	11	9	9	9
Reserves and Surplus	26,072	34,003	39,533	41,688
Networth	26,686	34,706	40,299	42,454
Deposits	1,94,868	2,02,040	2,28,680	2,64,260
Borrowings	47,321	60,754	61,361	66,270
Other Liabilities & Provisions	8,944	9,558	10,227	10,943
Total	2,77,819	3,07,058	3,40,567	3,83,927
Application of Funds				
Fixed Assets	1,710	1,820	2,002	2,202
Investments	59,266	59,980	67,177	76,584
Advances	1,86,394	2,06,783	2,13,477	2,44,170
Other Assets	15,666	22,471	25,401	25,118
Cash with RBI & call money	14,783	16,004	16,804	17,644
Total	2,77,819	3,07,058	3,24,861	3,65,718

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	25.4	10.5	10.9	12.7
Advances	28.6	10.9	3.2	14.4
Deposit	28.5	3.7	13.2	15.6
Total Income	26.7	28.0	2.1	11.1
Net interest income	18.0	36.3	5.5	9.1
Operating expenses	14.5	28.6	(3.2)	13.3
Operating profit	21.5	33.2	5.0	6.1
Net profit	(8.5)	33.8	(44.3)	56.6
Net worth	12.0	30.1	15.2	5.4
EPS	(8.8)	16.3	(48.9)	56.6

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)	42	52	Hold	19,244.0	1.2	1.8	5.8	35.6	NA	NA	0.5	0.5	0.4	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	1,68,701	16.2	15.3	26.1	11.8	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	58	70	Hold	6,765	-27.2	8.5	13.0	-2.1	6.8	4.4	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	453	530	Buy	1,33,804	5.8	10.6	25.6	78.5	42.7	17.7	1.7	1.7	1.6	0.2	0.3	0.7	2.1	3.5	8.0
City Union Bank (CITUNI)	143	130	Hold	10,400	6.5	7.5	9.7	22.1	19.0	14.7	2.4	2.2	1.9	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	80	90	Hold	2,484	10.9	9.8	13.5	7.3	8.2	5.9	0.9	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,417	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,199	1,450	Buy	6,59,894	47.9	52.3	63.3	25.0	22.9	18.9	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	585	625	Hold	44,299	63.7	36.4	60.5	9.2	16.1	9.7	1.2	1.2	1.1	1.5	0.9	1.3	14.4	7.4	11.1
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,070	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,329	1,600	Buy	2,59,771	31.1	26.0	32.1	42.8	51.0	41.4	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	311	400	Hold	50,202	18.1	17.7	25.2	17.2	17.5	12.3	3.4	3.1	2.6	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	32	34	Buy	18,066	-4.6	0.7	2.1	NA	46.1	14.7	1.0	1.1	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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## ANALYST CERTIFICATION

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