

Stable Quarter; Growth Concerns Remain

- IIB's operating metrics were in-line, with NII and PPOP growing by 9%/10% YoY respectively and largely stable NIM. NIM was adversely impacted by higher liquidity during Q4FY21 with 7% QoQ rise in deposits vs less than 3% growth in advances.
- Asset quality trends were mixed with healthy PCR at 75%, rise in standard provision buffers (ex of general provisions) by Rs6.3bn to 0.8% of advances or Rs17.5bn, and superior asset quality trends in the MFI book (slippages at 3% for FY21). However, restructuring at 4% for the vehicle book seems higher than peers. ~65% of total restructuring (2% of loans) were from the vehicle portfolio. Moreover, GNPA reduction of 30 bps QoQ to 2.67% was largely owing to high write-offs.
- Trends on collection efficiency and disbursements remained healthy in Q4FY21 but were impacted in April month as per management.
- Rising share of granular corporate fee lines, which now constitutes more than 2/3rd of corporate fee, is encouraging. Core fee income grew at 9% YoY despite a sharp rundown in corporate book (Rs90bn in FY21).
- CET 1 ratio benefitted from share warrant conversion by promoters during the quarter. RWA/total assets has reduced to 75% from ~80% levels earlier owing to rundown in corporate book and reduced NFB exposures.
- Improved coverage ratio, recalibration of corporate book towards granular WC exposures, and healthy core PPOP margin at ~3% are encouraging. However, the second COVID wave could impact bank's retail disbursement trends (vehicle, MFI). Also, even as sequential growth in retail deposits was impressive (11% QoQ), share of retail deposits at 34% continues to remain low and will take time to strengthen.
- **Tweaking estimates for FY22E/23E, we maintain our Accumulate rating with a TP of Rs1060** (from Rs940 earlier), valuing the bank at 1.6x FY23E ABV against a RoA/RoE of 1.6%/12.3% for FY23E. We factor in credit costs of 175 bps for FY22E against 272 bps in FY21.

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net interest income	35,346	32,312	9.4	34,061	3.8
Other income	17,804	17,720	0.5	17,055	4.4
Total Net Income	53,150	50,032	6.2	51,116	4.0
Operating expenses	21,863	21,670	0.9	21,383	2.2
Pre-provision profits	31,287	28,362	10.3	29,733	5.2
Provisions	18,657	24,403	(23.5)	18,535	0.7
Tax expense	3,369	940	258.4	2,670	26.2
Reported Net Profit	9,261	3,018	206.8	8,528	8.6
			(bps)		(bps)
Advances Growth (%)	2.8	10.9	(813)	(0.1)	295
NIM (%)	4.1	4.3	(12)	4.1	1
RoA (%)	1.1	0.4	69	1.1	5
RoE (%)	9.6	4.0	558	9.2	32
Gross NPA (%)	2.7	2.5	22	1.7	93

CMP	Rs 935
Target / Upside	Rs 1,060 / 13%
NIFTY	14,631

Scrip Details

Equity / FV	Rs 7,734mn / Rs 10
Market Cap	Rs 723bn
	USD 10bn
52-week High/Low	Rs 1,120/ 330
Avg. Volume (no)	9,548,310
Bloom Code	IIB IN

Price Performance	1M	3M	12M
Absolute (%)	(6)	(4)	100
Rel to NIFTY (%)	(3)	(4)	55

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	13.5	13.5	16.6
MF/Banks/FIs	15.8	15.8	18.1
FIIIs	47.5	47.5	50.9
Public / Others	23.3	23.3	14.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	24.7	15.2	11.6
P/ABV	1.7	1.6	1.4
ROAA	0.9	1.3	1.6
ROAE	7.6	10.4	12.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	135,279	143,366	168,164
PPOP	118,720	110,659	126,338
PAT	29,299	47,625	62,351
Adj BV	538.9	591.2	661.6

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Risks to our View: Higher than expected slippages and credit costs owing to lagged impact of COVID related stress, materially adverse impact on growth from second wave of COVID.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	35,346	37,406	(5.5)	Higher liquidity impacted NIM
Operating Profit	31,287	30,521	2.5	
PAT	9,261	9,541	(2.9)	

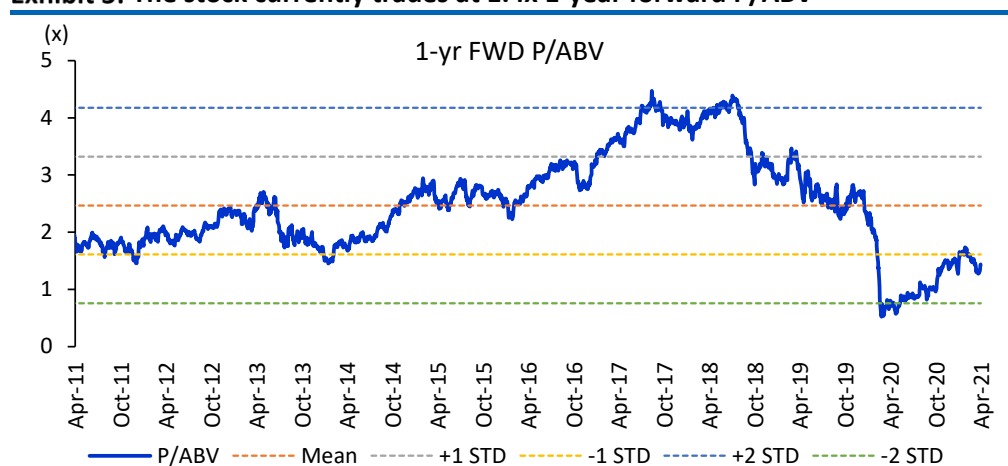
Source: Company, DART

Exhibit 2: Change in Estimates

	Previous		Revised		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Oper. Revenues	207,760	233,949	205,694	237,440	(1.0)	1.5
Pre Provision Profits	107,754	116,765	110,659	126,338	2.7	8.2
PAT	51,100	61,799	47,625	62,351	(6.8)	0.9

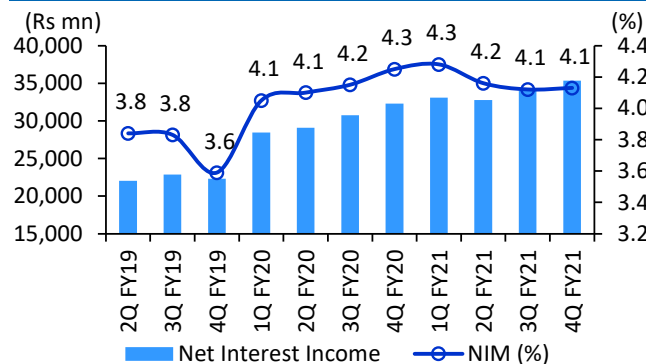
Source: Company, DART

Exhibit 3: The stock currently trades at 1.4x 1-year forward P/ABV



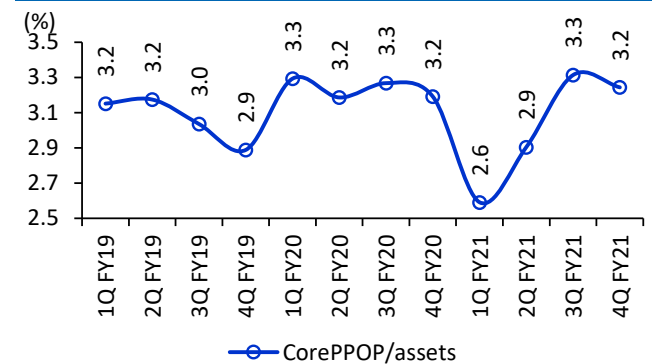
Source: Company, DART

Exhibit 4: Higher liquidity limits margin expansion despite improvement in lending spreads



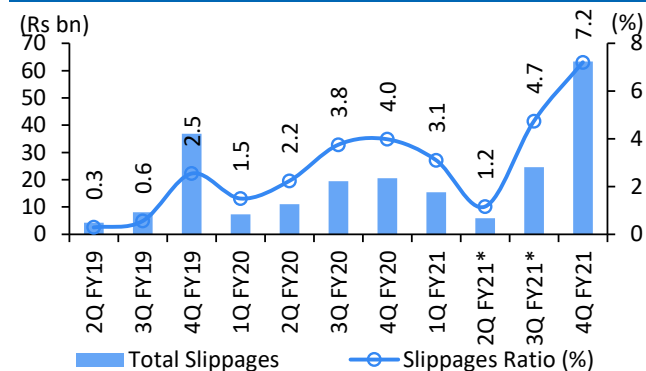
Source: Company, DART

Exhibit 5: Core PPOP/assets remains over 3%



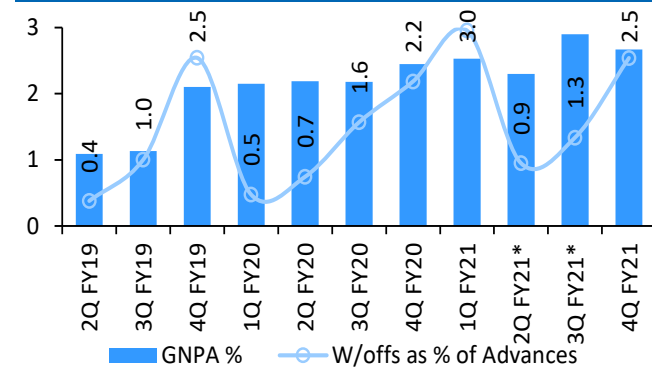
Source: Company, DART

Exhibit 6: Gross slippages were sharply higher; but stable QoQ net of Rs16bn RSA upgrades



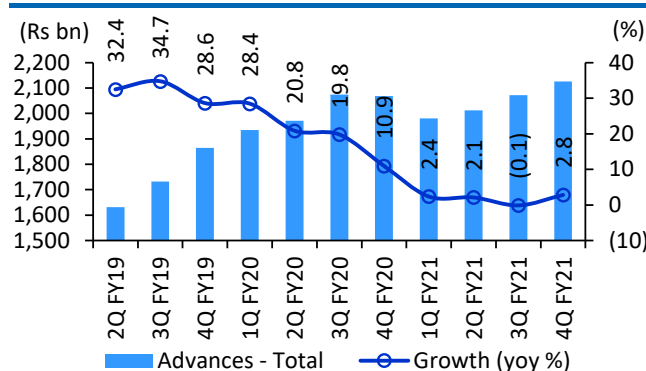
Source: Company, DART; *pro forma

Exhibit 7: Pro forma GNPA ratio improved by 26bps partly led by high write-offs



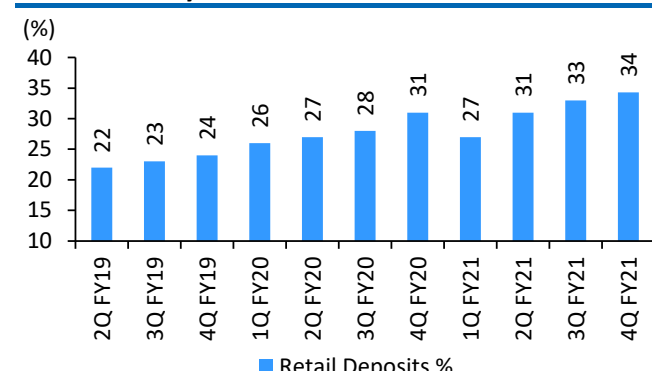
Source: Company, DART; *pro forma

Exhibit 8: Loan growth revival led by retail segment



Source: Company, DART

Exhibit 9: Rising share of retail deposits; but remains below industry



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4 FY21	Q4 FY20	% yoy / bps	Q3 FY21	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc.	74,194	73,866	0.4	72,415	2.5	289,998	287,828	0.8
Yield on Advances (%)	11.8	11.9	(11)	11.7	11	11.8	11.8	3
Yield on Assets (%)	8.7	9.8	(110)	8.9	(19)	9.0	9.8	(79)
Interest Expenses	38,848	41,554	(6.5)	38,354	1.3	154,719	167,241	(7.5)
Cost of Dep. (%)	5.0	6.1	(102)	5.3	(31)	5.4	6.5	(109)
Cost of Fund (%)	4.5	5.5	(98)	4.7	(20)	4.8	5.8	(94)
Net Interest Income	35,346	32,312	9.4	34,061	3.8	135,279	120,587	12.2
NII to Net Operative Income	66.5	64.6	192	66.6	(13)	67.5	63.4	411
NIM (%)	4.13	4.3	(12)	4.1	1	4.2	4.1	3
Core Fee Income	15,080	13,900	8.5	13,890	8.6	47,450	57,850	(18.0)
Profit on Sale / Rev of Investments	2,730	3,828	(28.7)	2,570	6.2	18,610	11,668	59.5
Other Income - Total	17,804	17,720	0.5	17,055	4.4	65,009	69,513	(6.5)
Other Income to Net Operative Income	33.5	35.4	(192)	33.4	13	32.5	36.6	(411)
Net Operating Revenue	53,150	50,032	6.2	51,116	4.0	200,288	190,101	5.4
Employee Expenses	8,272	4,957	66.9	5,427	52.4	30,392	22,085	37.6
Empl. Cost/Oper. Exps.	15.6	9.9	566	10.6	495	15.2	11.6	356
Other Opex	13,591	16,713	(18.7)	15,956	(14.8)	51,176	60,289	(15.1)
Other Opex/ Assets	0.4	0.6	(17)	0.5	(9)	1.5	2.1	(53)
Total Opex	21,863	21,670	0.9	21,383	2.2	81,568	82,373	(1.0)
Cost to Income Ratio (%)	41.1	43.3	(218)	41.8	(70)	40.7	43.3	(261)
Pre Provision Profits	31,287	28,362	10.3	29,733	5.2	118,720	107,727	10.2
Provisions & Contingencies - Total	18,657	24,403	(23.5)	18,535	0.7	79,425	46,521	70.7
NPA Provisions as % Operating Income	59.6	86.0	(2,641)	62.3	(271)	66.9	43.2	2,372
Profit Before Tax	12,630	3,959	219.1	11,198	12.8	39,294	61,206	(35.8)
Tax	3,369	940	258.4	2,670	26.2	9,995	17,027	(41.3)
Effective Tax Rate (%)	26.7	23.7	293	23.8	283.1	25.4	27.8	(238)
Reported Profits	9,261	3,018	206.8	8,528	8.6	29,299	44,179	(33.7)
RoA (%)	1.1	0.4	68	1.1	2.0	0.9	1.6	(63)
RoE (%)	8.9	3.7	519	8.4	53	6.7	13.1	(638)
Basic EPS	12.1	4.4	178.4	11.3	7.5	40.0	64.3	(37.8)

Source: Company, DART

Balance Sheet Analysis	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Net Worth	340,232	348,280	389,906	398,571	434,952	9.1	27.8
RoE (%)	3.7	5.9	7.1	8.4	8.9	53	519
CET1 (%)	13.2	13.2	14.5	14.3	15.6	125	233
Tier 1 (%)	14.6	14.5	15.8	15.6	16.8	121	226
Total CAR (%)	15.0	15.2	16.6	16.3	17.4	104	234
RWA - Total	2,586,050	2,617,220	2,616,830	2,654,530	2,729,120	2.8	5.5
Advances - Total	2,067,832	1,980,690	2,012,468	2,071,280	2,125,954	2.6	2.8
Investments	599,799	595,960	629,527	610,570	696,534	14.1	16.1
Total Assets	3,070,576	3,179,160	3,319,963	3,414,460	3,629,033	6.3	18.2
RoA (%)	0.41	0.62	0.85	1.07	1.09	2	68
Deposits	2,020,398	2,112,650	2,278,842	2,391,350	2,558,701	7.0	26.6
Saving Deposit	531,300	525,270	570,730	643,330	710,660	10.5	33.8
Current Deposit	284,270	319,460	347,730	323,130	357,250	10.6	25.7
CASA Deposits	815,570	844,730	918,460	966,460	1,067,910	10.5	30.9
CASA Ratio (%)	40.4	40.0	40.3	42.4	41.7	(70)	133
Term Deposits	1,204,828	1,267,920	1,360,382	1,424,890	1,490,791	4.6	23.7

Source: Company, DART

Asset Quality (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Gross NPA	51,467	50,990	45,322	36,507	57,950	58.7	12.6
Gross NPA Ratio (%)	2.45	2.53	2.21	1.74	2.67	93	22
PCR - Calculated (%)	63.3	66.6	76.7	87.3	74.5	(1,276)	1,118
Net NPA	18,866	17,034	10,558	4,642	14,766	218.1	(21.7)
Net NPAs Ratio (%)	0.91	0.86	0.52	0.22	0.69	47	(22)

Source: Company, DART

Loan Book Analysis (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Corporate Banking	913,340	839,860	896,610	884,820	910,180	2.9	(0.3)
Large Corporates	477,420	438,190	483,190	415,510	422,970	1.8	(11.4)
Mid-size Corporates	395,590	366,490	371,940	427,110	424,240	(0.7)	7.2
Small Corporates	40,330	35,180	41,480	42,200	62,970	49.2	56.1
Consumer Finance	1,154,490	1,140,830	1,074,520	1,186,460	1,215,770	2.5	5.3
Comm. Vehicle Loans	239,480	237,370	250,920	238,120	236,000	(0.9)	(1.5)
Utility Vehicle Loans	43,770	43,600	40,090	47,660	49,880	4.7	14.0
Small CV	35,240	36,060	33,860	35,900	34,110	(5.0)	(3.2)
Two-Wheeler Loans	52,040	57,740	47,990	60,310	56,440	(6.4)	8.5
Car Loans	72,470	72,450	70,130	78,790	79,460	0.9	9.6
Tractor	46,700	46,730	41,320	61,910	66,530	7.5	42.5
Equipment Financing	80,830	81,110	80,410	87,340	90,710	3.9	12.2
Credit Card	47,620	47,750	42,030	52,250	45,360	(13.2)	(4.7)
Loan Against Property	94,480	94,690	87,850	93,620	90,030	(3.8)	(4.7)
BL, PL, GL, Others	83,110	79,710	77,480	84,730	85,700	1.1	3.1
MFI	242,320	234,660	188,840	230,080	263,830	14.7	8.9
BBG	116,430	108,960	113,600	115,750	117,720	1.7	1.1
Advances - Total	2,067,832	1,980,690	1,971,126	2,071,280	2,125,954	2.6	2.8

Source: Company, DART

Conference Call Highlights

Asset Quality

- **BAU slippages** of Rs 19.3bn were lower than pro forma slippages.
- **Technical slippages** for the quarter were ~Rs 19bn of which ~Rs 16bn were subsequently upgraded to standard. Such slippages were due to delay in closing restructuring and other operational issues. Bulk of the slippages were from construction (under resolution) and retail segments.
- Retail slippages –
 - **Vehicle** – proforma Rs 5bn & incremental slippages of Rs 6.87bn (due to lifting of SC embargo). ~25% of the portfolio is <60DPD. No restructuring was offered in the Personal vehicle side and bank has decided to take a hit and eventually recover the same
 - **Secured retail** – Rs 2.23bn incremental slippages were largely from LAP and BB portfolio
 - **Unsecured retail** – ~Rs 3.83bn largely from Cards, PL, and BL
 - **MFI** – Rs 2.98bn. The bank has fully provided for the exposures. While collections in April were lower than Sept levels, they are expected to bounce back.
- The Restructured book stood at Rs 37.37bn of which Rs 24.5bn has already been invoked. The book is skewed towards long vintage vehicle finance customers.
- None of the restructured book is sub investment grade.
- Breakup of the RSA book – Vehicle 65%, Non vehicle retail 17%, Corporate banking 18%. ~Rs 3bn of restructured corporate loans is awaiting implementation of OTR.
- Although many customers did not avail restructuring earlier, the 2nd wave of the pandemic has led to higher demand for restructuring under the MSME scheme
- Overall retail collections remain below pre-COVID levels. Secured retail assets continue to perform, while collections have improved in the unsecured book
- The bank has fully provided for unsecured retail and MFI loans
- **SMA book** stood at 31bps
- Bank remains watchful of COVID 2nd wave but remains confident on domain specialized businesses – vehicle, diamond and MFI. The bank is also confident on corporate book performance where incremental slippages were limited to Rs 3.36bn
- AA and above rated exposure improved by 500bps over the last year. 95% of incremental disbursements in Q4 were rated AA and above
- ~5.8% of rated corporate exposure is in the BB and below book (vs 6% in the last year) of which ~1/3rd is towards a telecom account. Bulky exposures in have reduced by 15% (indexed). Diamond business is expected to contribute to the BBB rated book

Portfolio performance:

- Retail disbursement growth was strong. CV book witnessed a bounce back, with disbursements growing 44% QoQ
- The bank remains cautious on 3W as freight volumes remain muted and disbursements witnessed a decline.
- Affordable Housing book stood at Rs 18bn
- Reduced corporate banking exposure of Rs 35bn/ 95bn during Q4 / FY21
- RE and NBFC book continues to perform and none of the accounts are under restructuring.
- The bank is accelerating exposures towards MNC, education, healthcare and NBFCs, where the bank possesses domain expertise.
- Diamond loan book shrunk in H1FY21 due to weak global demand, however Q4 saw improvement in WCL utilization
- **Credit Cards:**
 - Resolution and rollover rates are better than pre-COVID levels.
 - Spends share improved to 5% vs overall mkt share of 2.5%. Overall share of corporate spends remains low (~Rs 150-200crs)
 - Premium cards share is higher mostly to the self-employed segment.
 - All cards are fee based with ~54-56% of revolve rates
 - BAU portfolio RoA is ~6-7% vs ~3.5% in the last year

Others:

- 0.1mn new merchants added from the MFI customer base by leveraging presence in all tier cities.
- CRAR uplifted by capital infusion by promoters (via share warrants)
- Bank is also driving CASA deposit penetration in the MFI customer base
- Corporate fees have also been granulized, however IB fees remain subdued
- COD reduced by ~100bps in the year and the bank will undertake further cuts in the next few quarters.
- Share of RTD improved to 38% of deposits
- Margins were stable at 4.13% for the quarter due to a 19bps fall in yields and 20bps fall in CoD. Margins were impacted by excess liquidity of Rs 10,000crs.
- Digital traction led to 2 lakh digital acquisitions during the year. 15% of liability account acquisitions were via digital

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	287,828	289,998	322,561	359,939
Interest expenses	167,241	154,719	179,195	191,775
Net interest income	120,587	135,279	143,366	168,164
Other incomes	69,513	65,009	62,328	69,276
Total expenses	82,373	81,568	95,035	111,102
- Employee cost	22,085	30,392	34,647	39,844
- Other	60,289	51,176	60,387	71,257
Pre provisioning profit	107,727	118,720	110,659	126,338
Provisions	46,521	79,425	47,015	43,015
Profit before taxes	61,206	39,294	63,645	83,324
Tax provision	17,027	9,995	16,019	20,973
Profit after tax	44,179	29,299	47,625	62,351
Adjusted profit	44,179	29,299	47,625	62,351

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	6,935	7,734	7,734	7,734
Reserves & Surplus	340,130	427,273	471,475	525,629
Minority Interest	0	0	0	0
Net worth	347,065	435,006	479,209	533,363
Borrowings	607,536	513,228	522,510	607,164
- Deposits	2,020,398	2,558,701	2,551,077	2,964,389
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	95,577	122,097	115,117	105,196
Total Liabilities	3,070,575	3,629,033	3,667,912	4,210,112
Application of Funds				
Cash and balances with RBI	160,037	566,099	191,902	220,373
Investments	599,799	696,534	796,032	910,208
Advances	2,067,832	2,125,954	2,402,328	2,762,677
Fixed assets	18,201	18,757	22,709	23,671
Other current assets, loans and advances	224,707	221,688	254,942	293,183
Total Assets	3,070,575	3,629,033	3,667,912	4,210,112

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	12.2	11.5	11.7	11.7
Yields on interest earning assets	10.6	9.3	9.5	9.9
Yield on investments	6.7	7.2	1.0	6.1
Costs of funds	6.6	5.4	5.8	5.8
Cost of deposits	6.1	6.5	5.2	6.0
NIMs	4.4	4.4	4.2	4.6
(B) Asset quality and capital ratios (%)				
GNPA	2.5	2.7	2.9	2.7
NNPA	0.9	0.7	0.7	0.6
PCR	63.3	74.5	75.0	77.0
Slippages	3.1	4.1	3.0	2.5
NNPA to NW	5.6	3.4	3.7	3.2
CASA	40.4	41.7	43.0	43.0
CAR	15.0	17.4	18.7	17.9
Tier 1	14.6	16.8	18.1	17.4
Credit - Deposit	102.3	83.1	94.2	93.2
(C) Dupont as a percentage of average assets				
Interest income	9.8	8.7	8.8	9.1
Interest expenses	5.7	4.6	4.9	4.9
Net interest income	4.1	4.0	3.9	4.3
Non interest Income	2.4	1.9	1.7	1.8
Total expenses	2.8	2.4	2.6	2.8
- cost to income	43.3	40.7	46.2	46.8
Provisions	1.6	2.4	1.3	1.1
Tax	0.6	0.3	0.4	0.5
RoA	1.5	0.9	1.3	1.6
Leverage	9.1	8.4	7.7	8.0
RoE	14.6	7.6	10.4	12.3
RoRwa	1.5	1.7	1.1	1.7
(D) Measures of Investments				
EPS - adjusted	63.7	37.9	61.6	80.6
BV	486.1	558.4	614.0	683.8
ABV	458.4	538.9	591.2	661.6
DPS	0.0	5.0	9.0	9.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	36.3	12.2	6.0	17.3
PPoP	33.2	10.2	(6.8)	14.2
Adj PAT	33.8	(33.7)	62.6	30.9
Advances	10.9	2.8	13.0	15.0
Total borrowings	28.4	(15.5)	1.8	16.2
Total assets	10.5	18.2	1.1	14.8
(F) Valuation Ratios				
Market Cap (Rs. mn)	723,062	723,062	723,062	723,062
CMP (Rs.)	935	935	935	935
P/E (x)	14.7	24.7	15.2	11.6
P/BV (x)	1.9	1.7	1.5	1.4
P/ABV (x)	2.0	1.7	1.6	1.4
Div Yield (%)	0.0	0.5	1.0	1.0

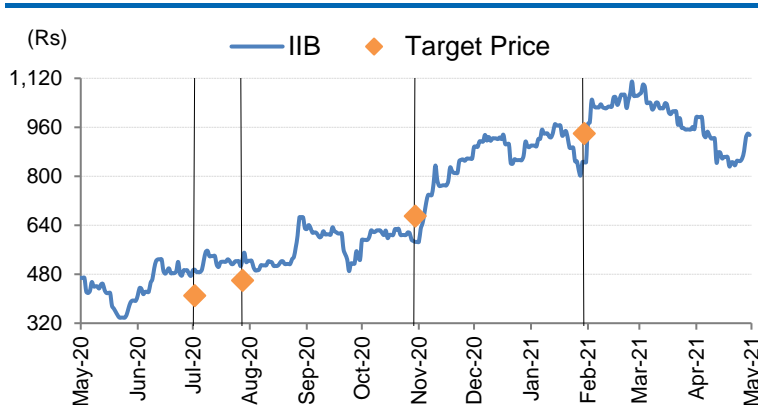
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Sell	410	495
Jul-20	SELL	460	527
Oct-20	Accumulate	670	586
Jan-21	Accumulate	940	846

*Price as on recommendation date

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