

Indusind Bank

Refer to important disclosures at the end of this report

Asset quality slips but within tolerable levels; set to resume growth

- Despite lower margins, higher opex and elevated provisions, IIB reported an in-line PAT of Rs10.2bn (up 99% yoy), mainly due to healthy fee growth. GNPA formation (up 21bps qoq to 2.9%) was largely in line with larger peers, while restructuring was below management's guidance (up 60bps qoq to 2.7%).
- As per management, the bulk of the retail/SME stress formation from the second Covid wave is behind, and normalization should start from H2. The bank carries a healthy Covid contingent provision of Rs20bn (incl. Rs12bn for restructuring)/1% of loans. Its specific provision stands at Rs1.5bn toward the risky telecom exposure (Vodafone: Rs34bn).
- Deposit growth (26% yoy) far outpaced credit growth (6% yoy), hurting margins in Q1. However, steady retailization of assets (55% vs. 52%)/liabilities (50% vs. 37%) and credit growth acceleration with a better grip on asset quality should drive NIMs up. This, coupled with moderating LLP, should increase RoA/RoE to 1.7-1.9%/15-16% over FY23-24E.
- We believe a resurgent Indusind with a better liability profile, higher retail orientation, and risk-guards in place should deliver sustainably higher return ratios, providing a good turnaround story to play on. Retain Buy with a revised TP of Rs1,375 (2x Jun'23E ABV).

Growth should accelerate with a better grip on asset quality and improving underlying demand: Overall credit growth remained subdued at 6% yoy, while deposit growth was far higher at 26%, hurting margins. According to management, the second Covid wave delayed the planned credit acceleration which otherwise was expected from Q1. That said, large corporate credit growth was healthy at 5% yoy in Q1 after continued de-bulking for a long period. IIB believes that underlying retail credit appetite remains strong, and thus it will look at accelerating growth, driven by both secured products (mortgages/VF) and unsecured PL/MFI. We believe better credit growth, some slowdown in deposits after recent rate cuts, and lower interest reversals will drive margins up in the near- medium term.

NPA/restructuring inch up but remain within tolerable levels and well-covered: Gross fresh slippages were higher at Rs27bn/5.6% of loans, mainly from retail (VF-38%/MFI-24%), leading to a 21bps qoq rise in GNPA to 2.9%. The bank also restructured 0.7% of loans in Q1 (lower than guidance), mainly from the CV/corporate book, with o/s pool at 2.7% of loans. As per management, the bulk of the retail/SME stress formation from the second Covid wave is behind, and normalization should start from H2. The bank believes that it carries a healthy Covid contingent provision of Rs20bn (incl. Rs12bn for restructuring) or 1% of loans, which should largely keep the overall LLP at around 1.9-2%, with +/-10% risk. IIB remains hopeful that the NFB (Rs24bn) exposure to Vodafone may not be invoked and carries a token specific provision of Rs1.5bn toward the FB exposure of Rs9.5bn.

Outlook and valuation: We believe that the worst in terms of asset quality could be behind us, subject to no severe third Covid wave, while the banks' healthy provision cover should cushion incremental LLP. We expect IIB's RoA/RoE to improve from 0.9%/8% to 1.7-1.9%/15-16% over FY23-24E. Retain Buy with a revised TP of Rs1,375 (2x Jun'23E ABV). **Key risks:** prolonged normalization of growth/asset quality trajectory and unfavorable outcome in Vodafone (8% of NW).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	190,101	200,286	220,200	250,461	298,937
Net profit	44,179	29,297	53,921	73,534	94,437
EPS (Rs)	63.7	37.9	69.7	95.0	122.0
ABV (Rs)	469.8	540.6	597.9	670.1	764.3
RoA (%)	1.5	0.9	1.4	1.7	1.9
RoE (%)	14.6	7.6	11.8	14.5	16.5
PE (x)	15.3	25.8	14.0	10.3	8.0
P/ABV	2.1	1.8	1.6	1.5	1.3

Source: Company, Emkay Research

CMP	Target Price
Rs 976 as of (July 27, 2021)	Rs 1,375 (■) 12 months
Rating	Upside
BUY (■)	40.9 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	22.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	69.7	95.0
Consensus	74.4	94.9
Mean Consensus TP (12M)	Rs 1,124	

Stock Details

Bloomberg Code	IIB IN
Face Value (Rs)	10
Shares outstanding (mn)	774
52 Week H/L	1,165 / 483
M Cap (Rs bn/USD bn)	755 / 10.14
Daily Avg Volume (nos.)	5,145,300
Daily Avg Turnover (US\$ mn)	67.6

Shareholding Pattern Jun '21

Promoters	15.2%
FII	47.8%
DII	16.3%
Public and Others	20.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	11	19	93
Rel. to Nifty	(3)	3	6	36

Relative price chart



Source: Bloomberg

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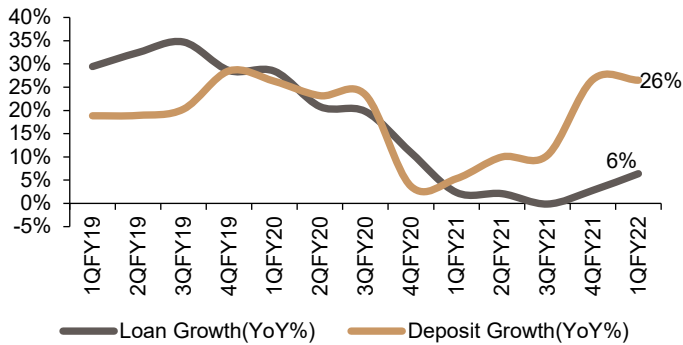
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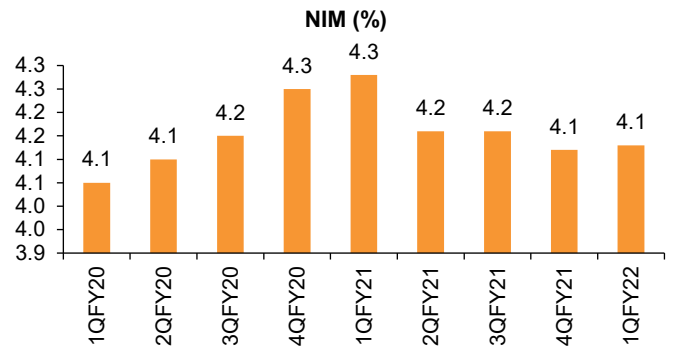
Story in Charts

Exhibit 1: Deposit growth continues to outpace credit growth after the last year's deposit scare and Covid-led disruption



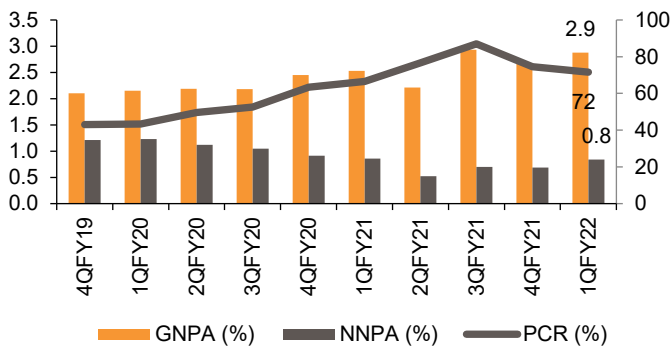
Source: Company, Emkay Research

Exhibit 2: Slow growth and NPA formation hurt margins



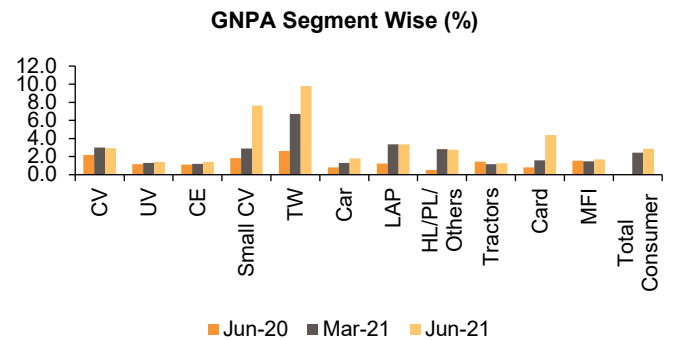
Source: Company, Emkay Research

Exhibit 3: NPAs inch up but the bank remains well-covered



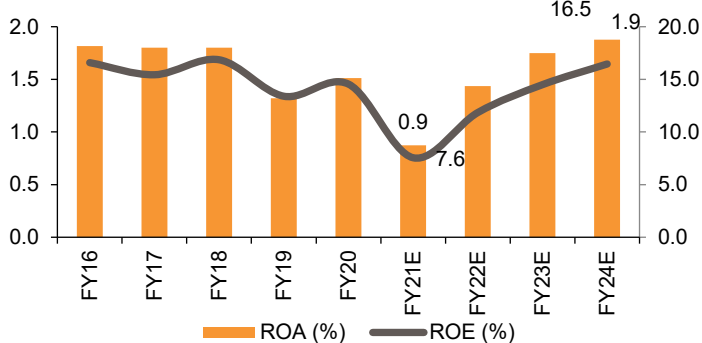
Source: Emkay Research, Company

Exhibit 4: Small CV, Card, and TW remain stressed; lower impairment in MFI is surprisingly positive



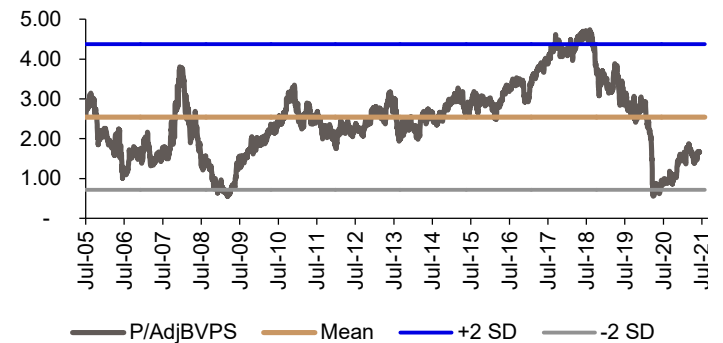
Source: Emkay Research, Company

Exhibit 5: RoA/RoEs set to improve on better margins and lower LLP



Source: Emkay Research, Company

Exhibit 6: The stock trades at 1.5x – 1-year forward ABV



Source: Emkay Research, Company

Exhibit 7: Actual vs. Estimates (Q1FY22)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	53,518	52,860	52,974	1%	1%	Higher other income led to beat
PPOP	31,855	31,865	29,450	0%	8%	In-line PPOP
PAT	10,161	10,093	8,020	1%	27%	In-line PAT

Source: Company, Emkay Research

Exhibit 8: Quarterly summary

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	71,617	71,772	72,414	74,194	75,747	6	2	289,997	323,069	11
Interest Exp	38,525	38,992	38,354	38,848	40,110	4	3	154,719	171,928	11
Net Interest Income	33,092	32,780	34,060	35,346	35,637	8	1	135,278	151,141	12
Global NIMs (reported)	4.28	4.16	4.12	4.13	4.06	-22bps	-7bps	4.37	4.31	-6bps
Non-interest Income	15,204	15,543	16,458	17,804	17,881	18	0	65,009	69,059	6
Operating Expenses	19,019	19,803	20,883	21,863	21,663	14	-1	81,568	94,828	16
Pre Provisioning Profit	29,277	28,520	29,634	31,287	31,855	9	2	118,718	125,372	6
Provision & Contingencies	22,589	19,644	18,535	18,657	18,440	-18	-1	79,425	53,285	-33
PBT	6,689	8,875	11,099	12,630	13,415	101	6	39,293	72,087	83
Income Tax Expense	1,585	2,245	2,797	3,369	3,254	105	-3	9,995	18,166	82
Net Profit/(Loss)	5,104	6,631	8,303	9,261	10,161	99	10	29,297	53,921	84
Gross NPA (%)	2.53	2.21	1.74	2.67	2.88	35bps	21bps	2.67	2.64	-3bps
Net NPA (%)	0.86	0.52	0.20	0.69	0.84	-2bps	15bps	0.69	0.67	-2bps
Deposits (Rs bn)	2,113	2,279	2,391	2,559	2,672	26	4	2,559	2,933	15
Net Advances (Rs bn)	1,981	2,012	2,071	2,126	2,107	6	-0.9	2,126	2,424	14

Source: Company, Emkay Research

Exhibit 9: Estimate revision

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	219,466	220,200	0.3%	250,581	250,461	0.0%	299,676	298,937	-0.2%
PPOP	126,243	125,372	-0.7%	142,772	142,810	0.0%	171,527	171,577	0.0%
PAT	53,921	53,921	0.0%	73,534	73,534	0.0%	94,437	94,437	0.0%
EPS (Rs)	69.7	69.7	-0.1%	95.1	95.0	-0.1%	122.1	122.0	-0.1%
BV (Rs)	614	613.6	-0.1%	689	688.0	-0.1%	785.0	784.4	-0.1%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	2.8	14.0	20.5	25.4
Deposit Growth %	26.7	14.6	18.5	25.3
NIM %	4.4	4.3	4.4	4.4
GNPA %	2.7	2.6	2.2	1.9
Credit Cost %	3.8	2.2	1.5	1.2

Source: Company

Exhibit 11: Key ratios and trends

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Loans (Rs bn)	1,935	1,971	2,074	2,068	1,981	2,012	2,071	2,126	2,107
growth YoY %	28.4	20.8	19.8	10.9	2.4	2.1	(0.1)	2.8	6.4
growth QoQ %	3.8	1.9	5.2	(0.3)	(4.2)	1.6	2.9	2.6	(0.9)
Composition (%)									
- Large Corporate	25.9	24.5	24.7	23.1	22.1	20.8	20.1	19.9	21.2
- SME/Business Banking	26.1	26.7	26.7	26.7	25.8	27.3	28.2	28.5	28.0
- Retail	48.0	48.7	48.6	50.2	52.1	51.8	51.7	51.6	50.8
Liability Profile									
Deposits (Rs bn)	2,006	2,072	2,167	2,020	2,113	2,279	2,391	2,559	2,672
growth YoY %	26.3	23.2	23.3	3.7	5.3	10.0	10.3	26.7	26.5
growth QoQ %	2.9	3.3	4.6	(6.8)	4.6	7.9	4.9	7.0	4.4
CASA %	43.1	41.4	42.4	40.4	40.0	40.3	40.4	41.7	42.0
CA %	14.4	13.4	12.4	14.1	15.1	15.3	13.5	14.0	12.1
SA %	28.7	28.0	29.9	26.3	24.9	25.0	26.9	27.8	29.9
Branches	1,701	1,753	1,851	1,911	1,911	1,910	1,915	2,015	2,015
Yield on Advances %	12.00	12.04	11.97	11.89	11.85	11.97	11.67	11.78	8.59
Cost of Deposits %	6.86	6.70	6.49	6.05	5.73	5.58	5.34	5.03	4.97
NIM %	4.05	4.10	4.15	4.25	4.28	4.16	4.12	4.13	4.06
Asset Quality									
GNPA %	2.2	2.2	2.2	2.5	2.6	2.3	1.8	2.7	2.9
NNPA %	1.2	1.1	1.0	0.9	0.9	0.5	0.2	0.7	0.8
PCR %	43.3	49.6	52.5	63.3	66.6	76.7	87.3	74.5	71.6
Slippages (Rs mn)	7,250	11,020	19,450	20,580	15,370	3,990	590	63,370	27,620
Corporate (Rs mn)	1,750	4,790	12,370	12,490	12,250	130	360	26,480	4,210
Consumer (Rs mn)	5,500	6,230	7,080	8,080	3,120	3,860	230	36,890	23,420
Slippages %	1.9	2.7	4.5	4.4	3.2	0.8	0.1	12.3	5.6
CAR %	14.9	14.7	13.9	15.0	15.2	16.6	16.3	17.4	17.6
Tier I %	14.5	14.3	13.5	14.6	14.5	15.8	15.6	16.8	16.9
ROE Decomposition									
NII	4.0	4.0	4.1	4.2	4.2	4.0	4.0	4.0	3.9
Other Income	2.3	2.3	2.4	2.3	1.9	1.9	2.0	2.0	1.9
Opex	2.7	2.7	2.8	2.8	2.4	2.4	2.5	2.5	2.4
PPOP	3.6	3.6	3.7	3.7	3.7	3.5	3.5	3.6	3.5
Provisioning Cost	0.6	1.0	1.4	3.2	2.9	2.4	2.2	2.1	2.0
PBT	3.0	2.6	2.3	0.5	0.9	1.1	1.3	1.4	1.5
Tax	1.0	0.7	0.5	0.1	0.2	0.3	0.3	0.4	0.4
ROA	2.0	1.9	1.7	0.4	0.7	0.8	1.0	1.1	1.1
Leverage (x)	9.7	9.0	8.9	8.9	8.9	8.6	8.4	8.4	8.4
ROE	19.5	17.1	15.5	3.7	5.8	7.1	8.3	8.8	9.2

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	120,587	135,278	151,141	172,390	206,343
Other income	69,513	65,009	69,059	78,071	92,594
Fee income	46,150	40,150	45,772	54,010	64,813
Net income	190,101	200,286	220,200	250,461	298,937
Operating expenses	82,373	81,568	94,828	107,650	127,360
Pre provision profit	107,727	118,718	125,372	142,810	171,577
PPP excl treasury	102,201	114,298	121,173	139,031	167,986
Provisions	46,521	79,425	53,285	44,503	45,324
Profit before tax	61,206	39,293	72,087	98,307	126,253
Tax	17,027	9,995	18,166	24,773	31,816
Tax rate	28	25	25	25	25
Profit after tax	44,179	29,297	53,921	73,534	94,437

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	6,935	7,734	7,740	7,740	7,740
Reserves	340,035	427,272	473,356	531,265	606,215
Net worth	346,970	435,006	481,096	539,005	613,955
Deposits	2,020,398	2,558,701	2,933,315	3,475,289	4,354,970
Borrowings	552,636	471,228	400,544	420,571	462,628
Total liabilities	3,070,481	3,629,032	3,930,884	4,577,036	5,585,589
Cash and bank	136,753	179,574	215,489	258,587	310,304
Investments	599,799	696,534	746,791	837,049	1,018,919
Loans	2,067,832	2,125,954	2,423,793	2,919,463	3,660,432
Others	224,707	221,688	271,897	330,055	400,108
Total assets	3,070,576	3,629,032	3,930,884	4,577,036	5,585,589

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.5	4.4	4.3	4.4	4.4
Non-II/avg assets	2.4	1.9	1.8	1.8	1.8
Fee income/avg assets	1.6	1.2	1.2	1.3	1.3
Opex/avg assets	2.8	2.4	2.5	2.5	2.5
Provisions/avg assets	1.6	2.4	1.4	1.0	0.9
PBT/avg assets	2.1	1.2	1.9	2.3	2.5
Tax/avg assets	0.6	0.3	0.5	0.6	0.6
RoA	1.5	0.9	1.4	1.7	1.9
RoAE	14.6	7.6	11.8	14.5	16.5
GNPA (%)	2.5	2.7	2.6	2.2	1.9
NNPA (%)	0.9	0.7	0.7	0.6	0.6

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	63.7	37.9	69.7	95.0	122.0
BVPS	489.1	554.7	613.6	688.0	784.4
ABVPS	469.8	540.6	597.9	670.1	764.3
DPS	0.0	0.0	10.0	20.0	25.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	15.3	25.8	14.0	10.3	8.0
P/BV	2.1	1.8	1.6	1.5	1.3
P/ABV	2.1	1.8	1.6	1.5	1.3
P/PPOP	6.3	6.4	6.0	5.3	4.4
Dividend Yield (%)	0.0	0.0	1.0	2.0	2.6

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	36.3	12.2	11.7	14.1	19.7
PPOP	33.2	10.2	5.6	13.9	20.1
PAT	33.8	(33.7)	84.0	36.4	28.4
Loans	10.9	2.8	14.0	20.5	25.4

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	33,092	32,780	34,060	35,346	35,637
NIM(%)	4.3	4.2	4.1	4.1	4.1
PPOP	29,277	28,520	29,634	31,287	31,855
PAT	5,103	6,631	8,303	9,261	10,046
EPS (Rs)	7.35	8.77	10.97	11.97	12.99

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Feb-21	Mar-21	Jun-21
Promoters	13.5	13.4	15.2	15.2	15.2
FIIIs	47.5	50.3	48.0	46.7	47.8
DIIIs	15.8	14.8	15.9	16.6	16.3
Public and Others	23.3	21.4	20.8	21.4	20.7

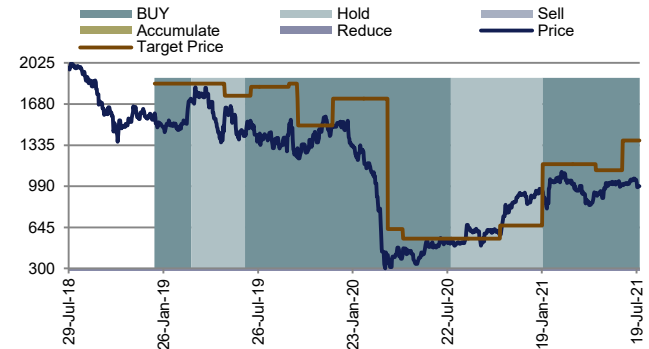
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Jun-21	1,000	1,375	12m	Buy	Anand dama
2-May-21	935	1,125	12m	Buy	Anand dama
30-Jan-21	846	1,175	12m	Buy	Anand dama
20-Jan-21	948	1,175	12m	Buy	Anand dama
31-Oct-20	586	660	12m	Hold	Anand dama
29-Sep-20	536	550	12m	Hold	Anand dama
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	Buy	Anand dama

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 13 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	20.07	20.07	0.0%	0	100.00
Axis Bank	2.19	2.30	5%	11	11.46
AU Small Finance Bank	0.28	0.20	-29%	-8	0.97
Bandhan Bank	0.24	0.24	0%	0	1.18
Bank of Baroda	0.16	0.14	-14%	-2	0.70
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.12	0.13	0%	0	0.62
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.11
Federal Bank	0.19	0.19	0%	0	0.96
HDFC Bank	6.44	6.54	1%	10	32.58
ICICI Bank	5.15	5.34	4%	19	26.61
Indian Bank	0.00	0.04	NA	4	0.20
Indusind Bank	0.63	0.74	18%	12	3.70
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.51	2.16	-14%	-35	10.76
Punjab National Bank	0.13	0.00	-100%	-13	0.00
RBL Bank	0.11	0.08	-27%	-3	0.40
State Bank of India	1.79	1.96	9%	17	9.74
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.05	0.00	-100%	-5	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 1-Apr-19	27-Jul-20	25-Jan-21	26-Apr-21	25-Jun-21	Latest 26-Jul-21
EAP - BFSI-Banks	100.0	75.9	107.5	110.7	120.9	119.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	74.9	105.6	108.6	118.3	117.0

*Performance measurement base date 1st April 2019

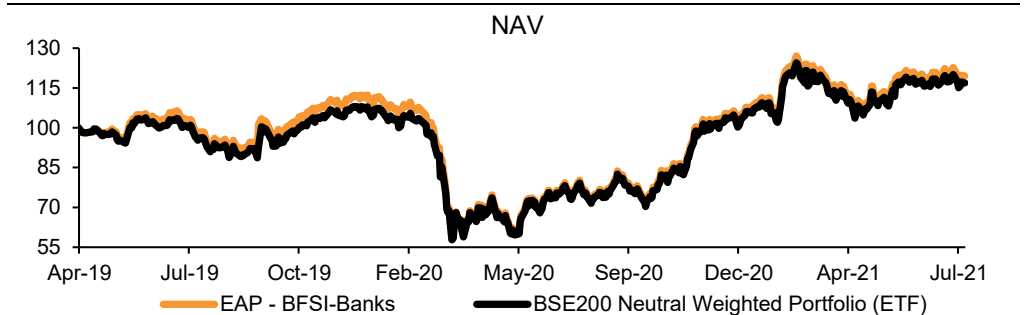
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-1.1%	8.0%	11.2%	57.5%
BSE200 Neutral Weighted Portfolio (ETF)	-1.1%	7.7%	10.7%	56.2%

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%

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