Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

IndusInd Bank

Possible promoter stake hike bodes well

Banking	Sharekhan code: INDUSINDBK
Reco/View: Buy ↔	CMP: **Rs. 896** / Price Target: **Rs. 1,340** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 36.18

Updated Oct 08, 2021

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

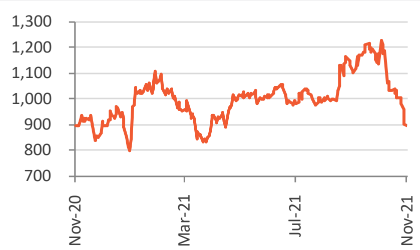
Company details

Market cap:	Rs. 69,334 cr
52-week high/low:	Rs. 1,242/789
NSE volume: (No of shares)	119.1 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	64.6 cr

Shareholding (%)

Promoters	16.5
FII	51.4
DII	19.0
Others	13.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-21.4	-10.9	-11.5	0.1
Relative to Sensex	-18.0	-10.3	-21.8	-28.2

Sharekhan Research, Bloomberg

Summary

- IndusInd Bank's promoters may look forward to increase its stake to 26% from currently at 16.54% (as September 2021).
- The bank continued its Digital 2.0 strategy and Q2 witnessed launch of new initiatives.
- Management is confident of clocking a 16-18% loan growth as the COVID-19 scenario normalises.
- Bank trades at 1.4x/1.3x/1.1x its FY2022E/FY2023E/FY2024 book value, which is reasonable. We maintain a Buy on the stock with an unchanged PT ofRs. 1,340.

The Reserve Bank of India (RBI) paved way to increase the promoters' shareholding to 26% from 15% earlier through its circular in November 2020. It is long-term positive for the private banks as promoters would have adequate skin in the game. It would be positive for the IndusInd Bank's investors with enhanced capital adequacy. As of September 2021, the bank's capital adequacy ratio (CAR) stood at 17.37%. The bank continued well its Digital 2.0 strategy, with Q2 witnessing new launches. The management seemed to be confident about the asset quality barring small pockets in MFI book.

- **Promoters eyeing larger stake:** IndusInd Bank's (IIB) promoters as per the media reports would increase their stake up to 26% from 16.5% as on September 2021. IndusInd International Holdings Ltd currently holds 12.6% and IndusInd Ltd holds 3.94%. The promoters are waiting for operational guidelines and would raise stake in tranches that would be positive for investors and would lead to enhanced capital adequacy to deliver on growth. As of September 2021, capital adequacy ratio (CAR) stood at 17.37%. The Reserve Bank of India (RBI) last week on November, 2021, has accepted 21 out of the 33 recommendations submitted by a central bank working group on ownership and corporate structure for Indian private sector banks. Among the recommendations accepted through its circular allowed the cap on promoters stake in the long run of 15 years to be raised from 15% currently to 26% of the paid-up voting equity share capital.
- **IIB continue to execute Digital 2.0 strategy:** The bank continued well its Digital 2.0 strategy and for Q2 it witnessed new launches in terms of Indus Merchant Solutions' app, Indus Easy Credit stack for Business and Debit Card EMI on IndusInd Bank debit cards. In Q2FY22, the digital transactions contributed to ~91% of the total customer transactions. The management plans to continue investing in technology.
- **Loan book growth:** The management plans to grow its loan book at 16% to 18% going ahead. In Q2, the overall loan book grew by 10% y-o-y and 5% q-o-q led by corporate portfolio (16% y-o-y and ~7% q-o-q). Retail book which constitutes ~45% of the loan book is expected to grow at a higher rate going ahead. With the collections getting back to normalcy across the segments barring MFI, the asset quality of the bank improved during the quarter. Overall collection efficiency for Sep stood at 98% versus 96% in June. GNPA and NNPA declined by 11 bps and 4 bps q-o-q to 2.77% and 0.80% respectively. The management seemed to be confident about the asset quality barring small pockets in MFI book, which witnessed slower collections in Kerala and West Bengal. It continued to follow conservative provisioning approach. Further, the bank said that certain transactions related to microfinance subsidiary Bharat Financial Inclusion Limited (BFIL) are under review.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,340: IIB currently trades at 1.4x/1.3x/1.1x its FY2022E/FY2023E/FY2024 book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. Further, the intention of promoters' to increase their shareholding in the bank would be positive for the investors and would lead to enhanced adequacy to deliver on growth. Moreover, with the improvement in collections and recoveries, credit cost seems to be manageable and business normalcy is expected to resume in FY2022E. We opine that the bank is in an improved position vis-à-vis its balance sheet and valuations are reasonable. While near-term asset quality will be a key monitorable, we believe the outlook is improving for the bank. We maintain Buy on the stock with an unchanged PT of Rs. 1,340.

Key Risks

A slower economic recovery, higher slippages due to COVID-19 vulnerabilities, slippages from the corporate book (especially from the 'BB and below'-rated portfolio) could affect earnings and risks arising from the MFI book of BFIL.

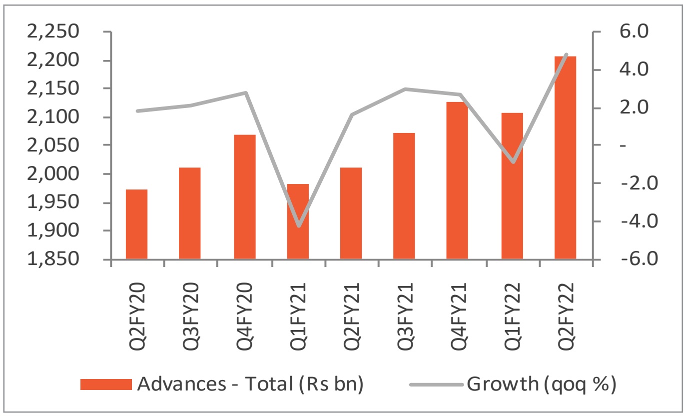
Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Interest Income (NII)	13,528	15,123	17,932	21,054
Net profit (Rs cr)	2,930	5,186	8,134	10,027
EPS (Rs)	37.9	67.1	105.2	129.6
P/E (x)	23.5	13.3	8.5	6.9
BVPS (Rs)	556.6	614.6	698.1	806.1
P/BV (x)	1.6	1.4	1.3	1.1
RoE (%)	7.6	11.4	15.9	17.2
RoA (%)	0.9	1.4	2.0	2.2

Source: Company; Sharekhan estimates

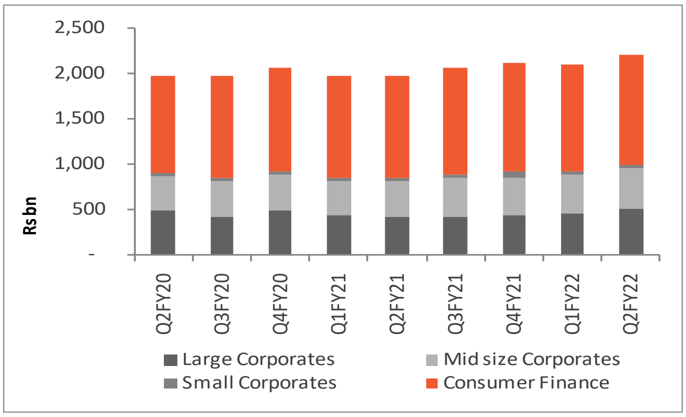
Financials in charts

Loan book growth



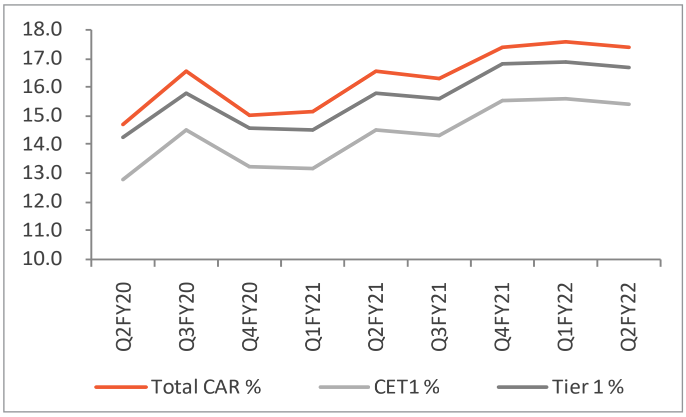
Source: Company, Sharekhan Research

Loan Book Mix



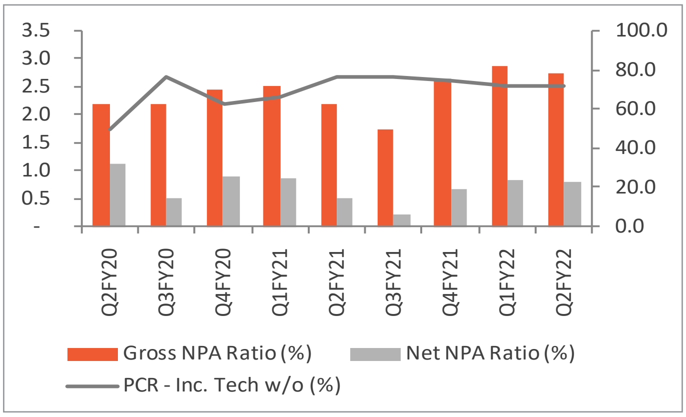
Source: Company, Sharekhan Research

Capital Adequacy (%)



Source: Company, Sharekhan Research

Asset Quality



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Credit growth is picking up gradually, private banks placed better

System-level credit offtake remains sedate, growing by 6.8% y-o-y in the fortnight ending October 22, 2021. On the other hand, deposits rose by 10.16% y-o-y, which indicate a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe that banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with a strong capital baseand strong asset quality (with high coverage and provision buffers), are structurally better placed to take off once the situation normalises.

■ Company outlook - Look beyond near-term challenges

We expect IIB to address challenges through a combination of better strategy and execution and prudentdisclosure with focus on reducing risk, etc. While for the near term, asset quality will be a monitorable,we expect pessimism to gradually ease over the medium term. Factors such as the bank's willingness to recognise stress upfront in any loan segment before it becomes challenging to manage and its strategy to create adequate provisions or counter cyclical buffers if the business is risky will be cushions for the long term. Our constructive view on IIB is backed by its strong asset quality performance (demonstrated for a large part in recent years, except in the near past) and improved capital levels (Tier-1 at 16.7%). Near-term challenges continue, but we expect loan growth and credit costs to normalise in FY2023E, given improving macro conditions and the bank's stated stance to front-load provisions. We expect NIM to be at 4-4.1% for the medium term, supported by its improving liability franchise.

■ Valuation - Maintain Buy with a unchanged PT of Rs. 1,340.

IIB currently trades at 1.4x/1.3x/1.1x its FY2022E/FY2023E/FY2024 book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. Further, the intention of promoters' to increase their shareholding in the bank would be positive for the investors and would lead to enhanced adequacy to deliver on growth. Moreover, with the improvement in collections and recoveries, credit cost seems to be manageable and business normalcy is expected to resume in FY2022E. We opine that the bank is in an improved position vis-à-vis its balance sheet and valuations are reasonable. While near-term asset quality will be a key monitorable, we believe the outlook is improving for the bank. We maintain Buy on the stock with an unchanged PT of Rs. 1,340.

Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
IndusInd Bank	896	69,334	13.4	8.5	1.5	1.3	11.4	15.9	1.4	2.0
ICICI Bank	718	4,98,437	21.8	17.1	3.1	2.7	16.7	17.8	1.7	1.9
Kotak Mahindra Bank*	2,020	4,00,658	51.1	42.9	5.8	5.2	12.3	13.9	2.0	2.3
Axis Bank	651	1,99,629	15.1	12.5	1.8	1.6	12.3	13.5	1.3	1.4

*Source: Company; Sharekhan Research; * Consolidated numbers*

About company

IIB is a private bank established in 1994, having a pan-India presence with 1,910 branches and 2,785 ATMsspread across 750+ geographical locations of the country. The bank also has representative offices in London,Dubai, and Abu Dhabi. IIB has a strong retail loan franchise, along with its subsidiary in microfinance. Thenetwork also includes 2,144 branches of BFIL and 851 outlets of IMFS. IIB is well placed with Tier 1 at %.

Investment theme

IIB has emerged as a strong player, which has been able to post healthy NIMs/low NPAs across interest rateand asset-quality cycles consistently for several years. The bank has transformed itself, not only developingstrong business verticals such as vehicle finance, retail loans, credit cards, and business banking, etc., buthas also successfully established fee-generating verticals, which diversify its income and lead to betterreturn ratios. The bank has managed credit costs well and industry's best NIMs are key differentiators for thebank. The recent pandemic has affected business across segments and the ensuing lockdown has not onlyimpacted business operations but also collection and cashflows of borrowers. We believe though the mediumterm may see challenges, banks with strong capitalisation and a prudent and cautious stance with a strongbalance sheet will likely be able to withstand the challenges better.

Key Risks

A slower recovery in the economy, higher slippages due to COVID-19 vulnerabilities, slippages from the corporate book (especially from the 'BB and below'-rated portfolio) could affect earnings and risks arising from the MFI book of BFIL.

Additional Data

Key management personnel

Mr. Sumant Kathpalia	CEO/Managing Director
Mr. Arun Khurana	Deputy CEO and head Global markets
Mr. S V Zaregaonkar	Chief Financial Officer & head corporate services
Mr. S V Parthasarthy	Head - Consumer Finance

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bank of New York Mellon Corp	8.2
2	LIC	5.0
3	SFSPVI	3.4
4	DRAGSA India	2.9
5	Route One Offshore Fund	2.7
6	Bridge India	2.5
7	SBI Funds Management	2.4
8	Morgan Stanley	2.2
9	ICICI Prudential	2.1
10	FMR LLC	1.9

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

---

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;