

April 30, 2022

Q4FY22 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,297		1,297	
NII (Rs. m)	167,779	189,172	169,837	191,567
% Chng.	(1.2)	(1.3)		
Op. Profit (Rs. m)	141,910	161,006	145,443	159,039
% Chng.	(2.4)	1.2		
EPS (Rs.)	83.3	103.4	81.7	101.0
% Chng.	2.0	2.4		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
NII (Rs m)	135,279	150,008	167,779	189,172
Op. Profit (Rs m)	117,267	128,387	141,910	161,006
PAT (Rs m)	28,364	46,112	65,119	80,794
EPS (Rs.)	36.4	59.0	83.3	103.4
Gr. (%)	(42.0)	62.0	41.2	24.1
DPS (Rs.)	-	8.5	10.0	10.9
Yield (%)	-	0.9	1.0	1.1
NIM (%)	4.6	4.4	4.4	4.5
RoAE (%)	7.3	10.2	13.3	14.9
RoAA (%)	0.8	1.2	1.6	1.8
P/BV (x)	1.8	1.6	1.5	1.3
P/ABV (x)	1.8	1.7	1.6	1.4
PE (x)	26.9	16.6	11.7	9.5
CAR (%)	17.4	18.4	18.3	18.2

Key Data

INBK.BO | IIB IN

52-W High / Low	Rs.1,242 / Rs.812
Sensex / Nifty	57,061 / 17,103
Market Cap	Rs.758bn/ \$ 9,918m
Shares Outstanding	775m
3M Avg. Daily Value	Rs.3965.56m

Shareholding Pattern (%)

Promoter's	16.54
Foreign	52.05
Domestic Institution	17.74
Public & Others	13.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	(14.2)	4.2
Relative	6.9	(10.8)	(9.2)

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IndusInd Bank (IIB IN)

Rating: BUY | CMP: Rs979 | TP: Rs1,297

Strong earnings performance

Quick Pointers:

- Good quarter with PAT beat of 17%; all parameters were ahead of estimates.
- Credit momentum could sustain with CD ratio guided between 88-92%.

IIB's earnings at Rs13.6bn (PLe: Rs11.7bn) were a beat to estimates driven by higher loan growth of 12.4% YoY and the resultant fee income, better NII and lower provisions. While gross slippages were a bit higher at 3.7% of loans (bulk from retail), healthier recoveries as a result of enhancing collection efficiency across segments drove sequential asset quality improvement. We believe recovery trends could sustain while slippage run-rate should moderate in-line with management guidance as bulk of the stress has already been recognized. The telecom exposure has been fully provided for while real estate has been performing well. With a stronger balance sheet focus is back on credit growth. We expect a loan CAGR of ~15% over FY22-24E with declining provision costs, while expanding LDRs over the same time frame might drive uptick in margins. RoE may scale up from 10% in FY22 to 15% in FY24E. With most of the fundamental issues being addressed, valuation discount of IIB to its larger peers should narrow. We retain 'BUY' with TP of Rs1,297 based on 1.8x FY24E ABV.

- **All round performance:** NII growth of 12.7% YoY/5% QoQ was better, aided by loan growth of 12.4% YoY across segments. Tailwinds from lower CoF and stronger disbursements towards higher yielding segments, led to margin expansion of 10bps QoQ. Fee income was better as bank saw better credit off-take although higher opex led to lower PPOP growth of 8.7% YoY. Due to strong recoveries, asset quality improved with GNPA/NNPA being lower at 2.3%/0.6% (PLe 3%/0.9%). Led by better asset quality, provisions decreased QoQ leading to PAT beating estimates by 17%.
- **Business momentum to continue:** As MFI issues are being resolved, disbursements trend are ameliorating. VF is seeing robust traction despite fuel cost pressures, barring 2W/3W. Business Banking to pick-up as pricing pressure subsides. Corporate might gain traction due to increase in levels of WC utilization. Management continues to guide for a loan CAGR 15-18% over FY21-23. On deposits, CASA grew by 17% YoY/4.5% QoQ with CASA ratio improving by 100bps YoY to 43%.
- **Asset quality pressures easing:** Bank reported slippages of Rs20.9bn [PLe: Rs21.7bn] with 83% from consumer segment (MFI 40%). Improvement in collection efficiency across segments led to strong recoveries which coupled with elevated w/off led to a QoQ decline in GNPA to 2.3%. Bank holds a 140bps of contingent provisions and a PCR 72%. Restructuring book at 2.6% remains at manageable levels. As recoveries from restructuring book improves, credit cost would trend to 120-150bps.
- **Return ratios to move high post credit cost normalization:** We believe; ROEs could move towards 15% over FY22-24E driven by enhancing share of higher yielding segments (may lead to better NIM) and reduction in credit costs by 100bps from current levels of ~3%. Stock trades at 1.4x FY24 ABV and it warrants a re-rating due to its stronger balance sheet.

Exhibit 1: Steady and broadly in-line performance

NII growth was 13% YoY on continued tailwinds from lower cost of Funds

Fee income growth was driven by Distn fee/Loan Processing Fee

Staff opex has been marginally higher

Continue to provide on prudent basis.

Deposits continue to grow with strong growth in SA

NIMs improve marginally, due to lower funding cost

Slippages come off; PCR maintained at 72%

CASA ratio steady with continued strong growth in savings.

Financial Statement (Rs mn)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Interest Income	78,599	61,210	5.9	77,375	1.6
Interest Expense	38,747	38,848	(0.3)	39,439	(1.8)
Net interest income (NII)	39,852	35,346	12.7	37,936	5.1
Treasury income	1,290	2,730	(52.7)	3,580	(64.0)
Fee income	16,440	15,080	9.0	15,190	8.2
Other income	19,020	17,801	6.8	18,769	1.3
Total income	58,872	53,147	10.8	56,704	3.8
Operating expenses	25,587	22,532	13.6	24,653	3.8
-Staff expenses	6,585	5,951	10.7	6,200	6.2
-Other expenses	19,001	16,581	14.6	18,453	3.0
Operating profit	33,285	30,615	8.7	32,051	3.8
Core operating profit	31,995	27,885	14.7	28,471	12.4
Total provisions	14,635	18,657	(21.6)	16,541	(11.5)
Profit before tax	18,650	11,958	56.0	15,511	20.2
Tax	5,036	3,199	57.4	3,898	29.2
Profit after tax	13,614	8,760	55.4	11,613	17.2
Deposits (Rs bn)	2,937	2,562	14.6	2,845	3.2
Advances (Rs bn)	2,390	2,125	12.4	2,286	4.6
Profitability ratios					
RoAA	1.5	1.1	30	1.4	9
RoAE	10.9	8.9	253	10.9	60
NIM	4.0	4.1	(2)	4.1	3
Yield on Advances	11.4	8.7	(31)	8.4	(30)
Cost of Deposits	4.7	5.0	(68)	4.7	(19)
Asset Quality ratios					
Gross NPL (Rs m)	55,172	57,950	(4.8)	57,793	(4.5)
Net NPL (Rs m)	15,298	14,766	3.6	16,332	(6.3)
Gross NPL ratio	2.3	2.7	(40)	2.5	(21)
Net NPL ratio	0.6	0.7	(5)	0.7	(7)
Coverage ratio	72.3	74.5	(225)	71.7	53
Business & Other Ratios					
Low-cost deposit mix	42.7	41.7	102	42.1	56
Cost-income ratio	43.5	42.4	(119)	43.5	(1)
Non int. inc / total income	32.3	33.5	(158)	33.1	(79)
Credit deposit ratio	81.4	83.0	104	80.4	105
CAR	18.4	17.4	(13)	18.1	36
Tier-I	16.8	16.9	107	16.4	43

Source: Company, PL

Q4FY22 Concall Highlights

Assets/Liabilities

- Disbursements have seen bounce back in segments like vehicle finance barring 2W & 3W, non-vehicle finance portfolio – good traction in Credit Card, LAP, MFI and improvement from Corporate. Management expects loan growth to be led by growth in Retail Liabilities, expect CAGR of 15-18% over FY21-FY23 in asset growth. C/D ratio would be between 88-92%.
- **Corporate Banking** segment grew by 20%YoY/4% QoQ on account of good disbursements and WC utilization by strategic customer group. Small Corporate grew on small base, majorly from SME & Supply Chain Finance. Average rating in the corporate segment improved to 2.69 while slippages were contained at Rs.3.5bn. Diamond Cutting & Manufacturing book growth improved due to exports and price increases.
- **In other retail assets**, saw recovery in disbursements. Credit Card spends have improved significantly. Business Banking and LAP has seen good traction, however remain cautious watchful on inflationary pressures on unsecured consumer segment. Endeavour to grow Tractors, Affordable Housing Segment to achieve loan growth target.
- **Deposits** growth has been strong at 15% YoY majorly driven by retail deposit growth which is the key focus of Bank. CASA remains improves to 43% driven by SA.
- Focus on Digital 2.0 initiatives with 92% transactions being handled digitally and launch of Individual and SME Apps in coming quarters.

Fees/NIMs/Branches

- NIMs improved marginally by 10bps to 4.20% vs 4.10% in Q3FY22 as cost of deposits came down by 6 bps sequentially, though yield on advances come off sharply by 8bps sequentially, due to pick up in higher yielding segments Management reiterates NIM guidance in the range of 4.1% - 4.25% despite the rising rate scenario as bank has ability to alter loan mix.
- C/I ratio increased to 42.9 due to increase in business, distribution and continued tech expenses.

Asset Quality

- **Restructuring:** Restructuring book stood at Rs. 62bn or 2.6% of loans declining from Rs. 75bn or 3.3% of loans in Q2FY22. Of the restructured loans, CFD Rs.33bn, Secured – Rs.6.9bn, Unsecured – Rs.9.95bn and balance Rs.9.6bn from Corporates.
- Slippages stood at Rs21bn v/s slippages of Rs25bn in Q3. Retail Slippages were Rs.17bn, majorly from MFI of Rs.8.2Bn.
- Slippages have normalized, substantial recoveries seen in certain segments to continue. Management expects credit cost to be in the range of 120-150bps on

overall book, while MFI may be around 200-250 bps which is expected to trend downwards as activities bounce back.

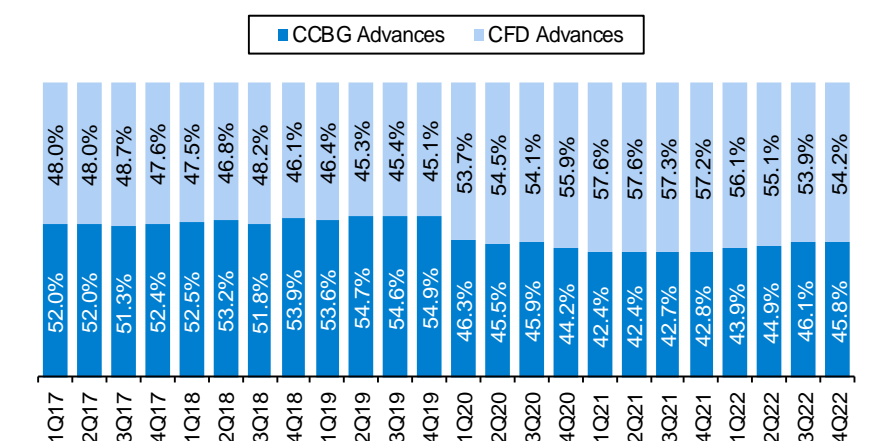
- **Provisions** – PCR stable at 72%. Bank continues to carry provisions at Rs33.28bn or 1.4% of the loans. Telco exposure continues to be at Rs.30bn as on March'22, of which rs.10bn is Fund Based.

Exhibit 2: Vehicle Finance improves from certain segment; corporate growth comes back

Loan Book mix	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
CV Loans	232,090	236,000	(1.7)	226,180	2.6
UV Loans	61,720	49,880	23.7	56,970	8.3
3W/Small CV	30,440	34,110	(10.8)	30,350	0.3
2W Loans	44,680	56,440	(20.8)	47,230	(5.4)
Car Loans	83,920	79,460	5.6	82,650	1.5
Tractors	79,070	66,530	18.8	76,660	3.1
Equipment Financing	87,310	90,710	(3.7)	86,040	1.5
Credit Card	55,200	45,360	21.7	53,010	4.1
LAP	88,170	90,030	(2.1)	86,640	1.8
Others	108,240	85,700	26.3	97,720	10.8
MFI	306,120	263,830	16.0	274,430	11.5
BBG	118,920	117,220	1.5	113,140	5.1
Consumer Finance (incl BBG)	1,295,880	1,215,270	6.6	1,231,020	5.3
Corporate Finance	1,094,630	910,180	20.3	1,054,810	3.8
Loan Mix					
Vehicle Finance	25.9%	28.8%	(2.9)	26.5%	(321)
Non-Vehicle Consumer	28.3%	28.3%	(0.5)	27.3%	(30)
Consumer Finance	54.2%	57.2%	(3.4)	53.9%	(351)
Corporate Finance	45.8%	42.8%	3.4	46.1%	251

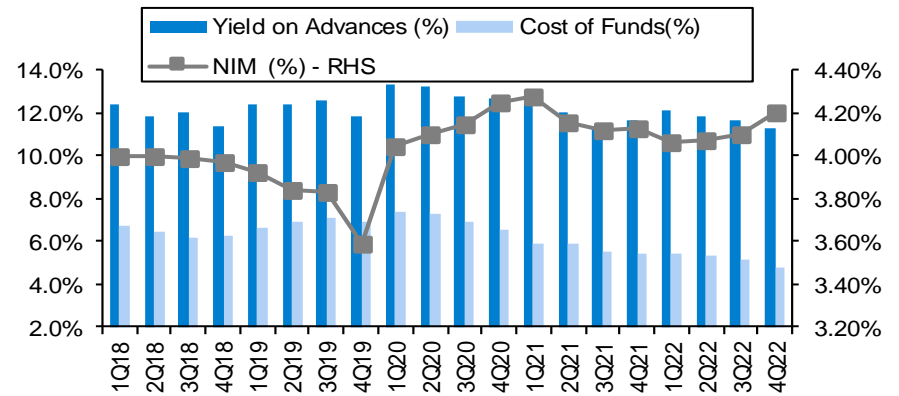
Source: Company, PL Research; Note – BBG reclassified in Consumer Fin

Exhibit 3: Corporate: Consumer mix remains steady



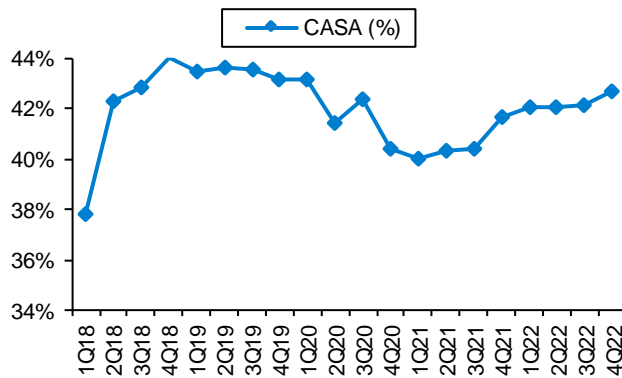
Source: Company, PL Research

Exhibit 4: Lower cost of funding below 5% lead to margin expansion



Source: Company, PL Research

Exhibit 5: CASA improves to 43%



Source: Company, PL

Exhibit 6: NIM expands to 4.20%

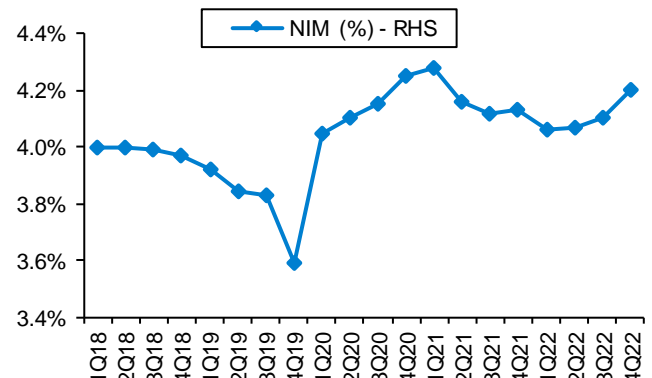
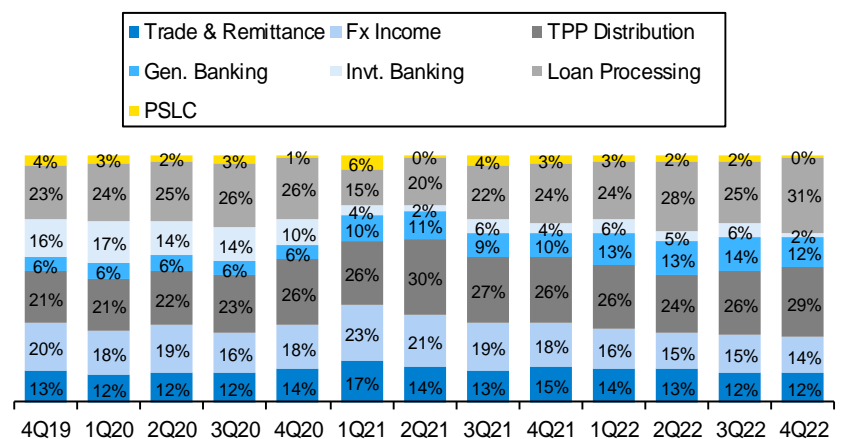
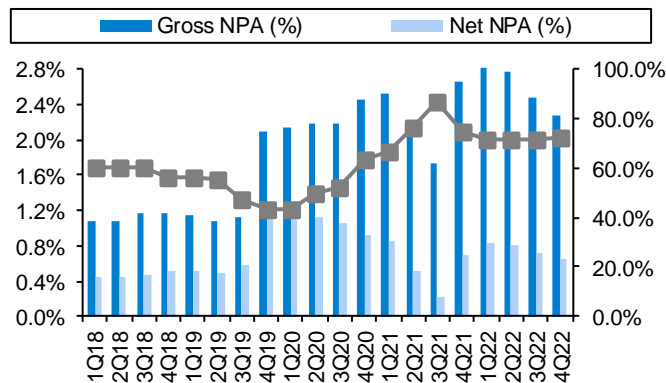

Source: Company, PL **Note – Not comparable due to merger**

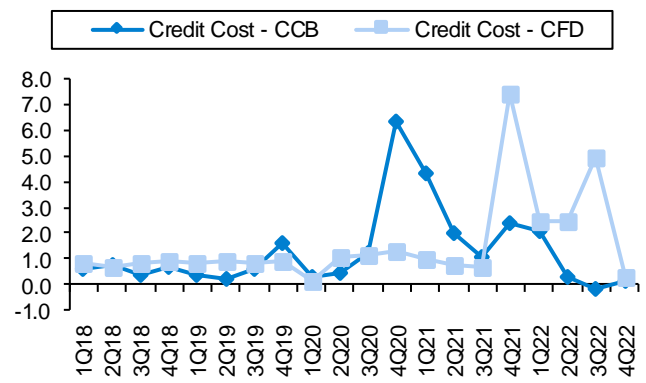
Exhibit 7: Certain fee items see improvement



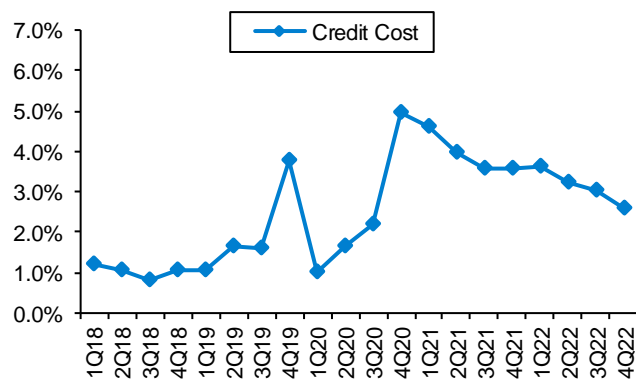
Source: Company, PL Research

Exhibit 8: Asset quality pressures easing off


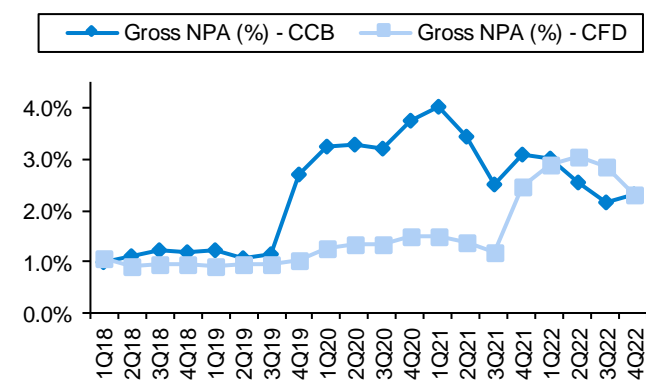
Source: Company, PL **Note-2Q/3Q21 on reported basis**

Exhibit 9: Slippages higher in retail (mainly from MFI)


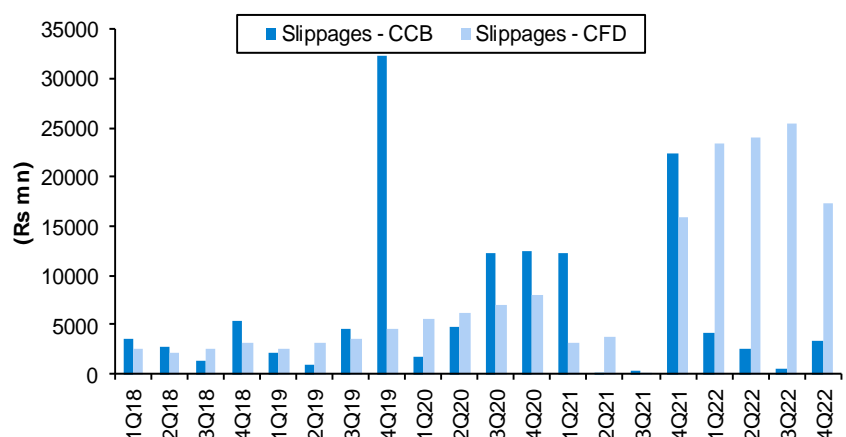
Source: Company, PL **Note-2Q/3Q21 on reported basis**

Exhibit 10: Credit cost to remain range bound


Source: Company, PL

Exhibit 11: NPAs reduce with better recoceries/w.off


Source: Company, PL

Exhibit 12: Slippages higher in Retail led by especially MFI; albeit collection and recovery trends remain strong


Source: Company, PL Research

Exhibit 13: ROEs to improve on lower provision

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	8.6	9.6	9.7	8.7	8.1	8.4	8.9
Interest expenses	4.9	5.5	5.6	4.6	4.1	4.4	4.7
Net interest income	3.7	4.1	4.1	4.0	3.9	4.0	4.1
Other Inc. from operations	2.4	2.3	2.3	2.0	1.9	2.0	2.0
Total income	6.1	6.4	6.4	6.0	5.9	6.0	6.1
Employee expenses	2.8	2.8	2.8	2.5	2.5	2.6	2.6
Other operating expenses	0.9	0.9	0.7	0.7	0.7	0.7	0.7
Operating profit	1.9	1.9	2.0	1.8	1.8	1.9	2.0
Tax	0.9	0.8	0.6	0.3	0.4	0.5	0.6
Loan loss provisions	0.6	1.2	1.6	2.4	1.7	1.3	1.2
RoAA	1.8	1.6	1.5	0.8	1.2	1.6	1.8
RoAE	16.5	15.0	13.6	7.3	10.2	13.3	14.9

Source: Company, PL Research

Exhibit 14: We slightly tweak estimates and credit cost assumptions

Estimates Change Table Rs (mn)	Old		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	169,837	191,567	167,779	189,172	(1.2)	(1.3)
Operating profit	145,443	159,039	141,910	161,006	(2.4)	1.2
Net profit	63,204	78,109	65,119	80,794	3.0	3.4
Loan Growth (%)	13.5	14.5	14.0	15.0	0.5	0.5
Credit Cost (bps)	230.0	180.0	203.2	172.1	(26.8)	(7.9)
EPS, Rs.	81.7	101.0	83.3	103.4	2.0	2.4
ABV per share, Rs.	656.6	743.2	627.9	718.3	(4.4)	(3.3)
Price target, Rs.	1,297		1,297			
Recommendation	BUY		BUY			

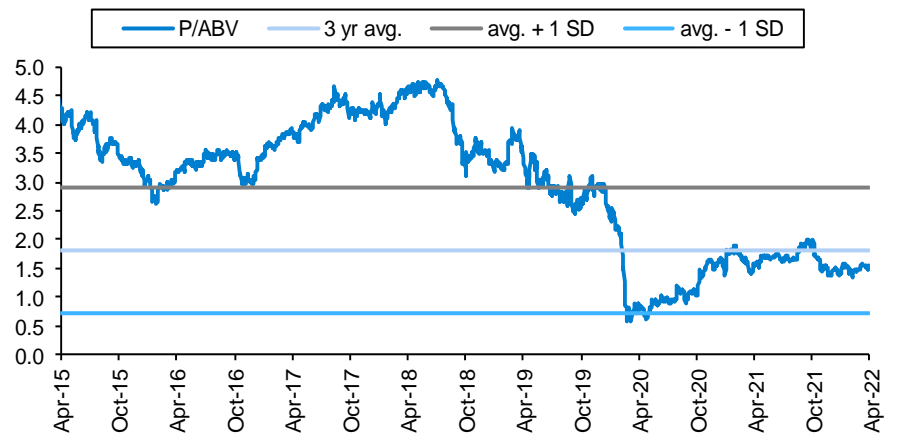
Source: Company, PL

Exhibit 15: We retain our TP to Rs1,297 based on 1.8x Mar-24 ABV

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	7.0%
Risk-free rate	6.3%
Adjusted beta	1.14
Cost of equity	14.2%
Fair price - P/ABV, Rs	1,297
Target P/ABV (x)	1.8
Target P/E (x)	12.4
Current price, Rs	979
Upside (%)	34%

Source: Company, PL Research

Exhibit 16: One year forward P/ABV valuation chart



Source: Company, PL Research

Income Statement (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Earned from Adv.	240,853	251,434	289,094	336,969
Int. Earned from invt.	38,461	40,529	43,852	50,687
Others	3,910	3,378	3,787	4,174
Total Interest Income	289,998	308,224	351,286	406,750
Interest Expenses	154,719	158,216	183,507	217,578
Net Interest Income	135,279	150,008	167,779	189,172
Growth(%)	12.2	10.9	11.8	12.8
Non Interest Income	65,586	73,971	83,749	92,580
Net Total Income	200,865	223,980	251,528	281,752
Growth(%)	(0.5)	7.5	13.8	14.8
Employee Expenses	22,135	24,883	28,404	31,090
Other Expenses	58,409	70,710	81,214	89,655
Operating Expenses	83,598	95,593	109,618	120,746
Operating Profit	117,267	128,387	141,910	161,006
Growth(%)	8.9	9.5	10.5	13.5
NPA Provision	50,598	49,987	42,171	41,024
Total Provisions	79,425	66,650	56,228	54,699
PBT	37,841	61,737	85,683	106,308
Tax Provision	9,478	15,625	20,564	25,514
Effective tax rate (%)	25.0	25.3	24.0	24.0
PAT	28,364	46,112	65,119	80,794
Growth(%)	(35.8)	62.6	41.2	24.1

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Face value	10	10	10	10
No. of equity shares	779	781	781	781
Equity	7,788	7,814	7,814	7,814
Networth	433,654	476,972	509,558	581,868
Growth(%)	24.9	10.0	6.8	14.2
Adj. Networth to NNPA's	14,766	15,298	15,777	17,482
Deposits	2,562,050	2,936,814	3,244,821	3,649,000
Growth(%)	26.8	14.6	10.5	12.5
CASA Deposits	1,071,256	1,253,330	1,340,301	1,434,145
% of total deposits	41.8	42.7	41.3	39.3
Total Liabilities	3,629,727	4,019,746	4,352,918	4,828,136
Net Advances	2,125,954	2,390,515	2,726,193	3,134,137
Growth(%)	2.8	12.4	14.0	15.0
Investments	696,947	709,708	776,810	858,245
Total Assets	3,629,727	4,019,746	4,352,918	4,828,136
Growth (%)	18.2	10.7	8.3	10.9

Asset Quality

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs (Rs m)	57,950	55,190	56,442	62,319
Net NPAs (Rs m)	14,766	15,298	15,777	17,482
Gr. NPAs to Gross Adv.(%)	2.6	2.2	2.0	1.9
Net NPAs to Net Adv. (%)	0.7	0.6	0.6	0.5
NPA Coverage %	74.5	72.3	72.0	71.9

Profitability (%)

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	4.6	4.4	4.4	4.5
RoAA	0.8	1.2	1.6	1.8
RoAE	7.3	10.2	13.3	14.9
Tier I	16.8	16.8	16.8	16.9
CRAR	17.4	18.4	18.3	18.2

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Interest Income	72,415	74,194	75,747	76,504
Interest Expenses	38,354	38,848	40,110	39,920
Net Interest Income	34,061	35,346	35,637	36,584
YoY growth (%)	10.8	9.4	7.7	11.6
CEB	13,890	15,080	12,140	15,060
Treasury	-	-	-	-
Non Interest Income	17,055	17,801	17,811	18,372
Total Income	89,470	91,995	93,558	94,876
Employee Expenses	5,427	5,951	6,082	6,016
Other expenses	15,956	16,581	16,061	17,195
Operating Expenses	21,383	22,532	22,142	23,211
Operating Profit	29,733	30,615	31,306	31,745
YoY growth (%)	8.3	7.9	9.4	12.1
Core Operating Profits	27,163	27,885	25,566	28,425
NPA Provision	4,250	-	-	-
Others Provisions	18,535	18,657	18,440	17,034
Total Provisions	18,535	18,657	18,440	17,034
Profit Before Tax	11,198	11,958	12,865	14,711
Tax	2,670	3,199	3,116	3,576
PAT	8,528	8,760	9,750	11,135
YoY growth (%)	(34.4)	190.2	111.7	72.0
Deposits	2,391,350	2,562,050	2,672,330	2,754,727
YoY growth (%)	10.3	26.8	26.5	20.9
Advances	2,071,280	2,125,954	2,107,270	2,208,076
YoY growth (%)	(0.1)	2.8	6.4	9.7

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	979	979	979	979
EPS (Rs)	36.4	59.0	83.3	103.4
Book Value (Rs)	553	606	648	741
Adj. BV (Rs)	534	587	628	718
P/E (x)	26.9	16.6	11.7	9.5
P/BV (x)	1.8	1.6	1.5	1.3
P/ABV (x)	1.8	1.7	1.6	1.4
DPS (Rs)	-	8.5	10.0	10.9
Dividend Payout Ratio (%)	-	14.4	12.0	10.5
Dividend Yield (%)	-	0.9	1.0	1.1

Efficiency

Y/e Mar	FY21	FY22	FY23E	FY24E
Cost-Income Ratio (%)	41.6	42.7	43.6	42.9
C-D Ratio (%)	83.0	81.4	84.0	85.9
Business per Emp. (Rs m)	158	50	55	61
Profit per Emp. (Rs lacs)	10	4	6	7
Business per Branch (Rs m)	2,327	2,352	2,525	2,780
Profit per Branch (Rs m)	14	20	28	33

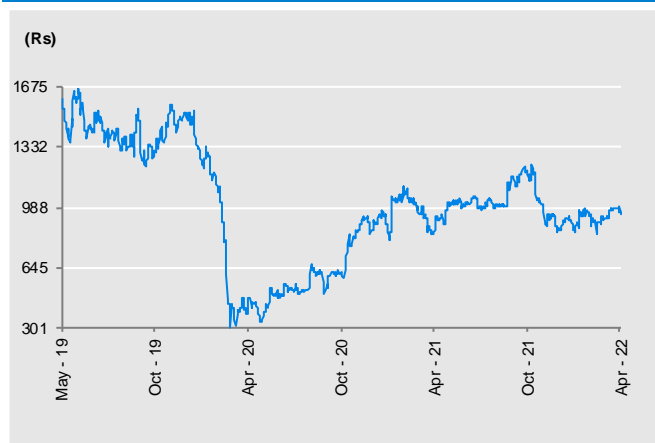
Du-Pont

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	4.04	3.92	4.01	4.12
Total Income	6.00	5.86	6.01	6.14
Operating Expenses	2.50	2.50	2.62	2.63
PPoP	3.50	3.36	3.39	3.51
Total provisions	2.37	1.74	1.34	1.19
RoAA	0.85	1.21	1.56	1.76
RoAE	7.33	10.20	13.29	14.89

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-22	BUY	1,297	986
2	31-Jan-22	BUY	1,297	904
3	12-Jan-22	BUY	1,297	918
4	06-Oct-21	UR	-	1,280
5	28-Jul-21	BUY	1,280	976
6	06-Jul-21	BUY	1,195	1,031
7	01-May-21	BUY	1,195	935

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	3,500	2,485
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	150	120
4	Can Fin Homes	BUY	800	661
5	City Union Bank	BUY	180	140
6	DCB Bank	BUY	120	86
7	Federal Bank	BUY	135	100
8	HDFC	BUY	3,272	2,445
9	HDFC Bank	BUY	1,740	1,465
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	986
13	Kotak Mahindra Bank	Accumulate	1,925	1,785
14	LIC Housing Finance	Accumulate	420	393
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	610	516

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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