Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# IndusInd Bank

## Asset Quality improves; Bank on the path to recovery

| Banking | Sharekhan code: INDUSINDBK |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 978 |
| | Price Target: Rs. 1,150 ↔ |

↑ 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 32.83

Updated Jan 08, 2022

High Risk

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

*Source: Morningstar*

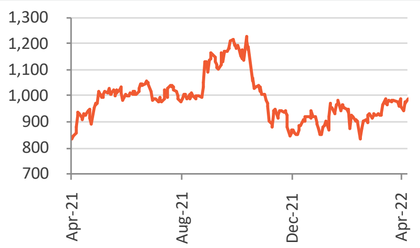
### Company details

| | |
|---|---|
| Market cap: | Rs. 75,779 cr |
| 52-week high/low: | Rs. 1,242 / 812 |
| NSE volume: (No of shares) | 47.9 lakh |
| BSE code: | 532187 |
| NSE code: | INDUSINDBK |
| Free float: (No of shares) | 65.1 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | 16.5 |
| FII | 46.3 |
| DII | 21.8 |
| Others | 15.4 |

### Price chart




### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 4.6 | 8.2 | -16.8 | 5.5 |
| Relative to Sensex | 3.7 | 8.1 | -11.8 | -14.1 |

*Sharekhan Research, Bloomberg*


### Summary

- IndusInd Bank reported a PAT of Rs.1,361 crore in line with the consensus estimates. PAT grew by 55% y-o-y / 17% q-o-q mainly due to lower provisions which were down by -22%y-o-y/ -12% q-o-q.
- Asset quality improved with GNPA and NNPA ratios declining by 21 bps q-o-q and 7 bps q-o-q to 2.27% to 0.64%, respectively. PCR now stands at 72%.
- Advances growth was backed by retail liability growth. Retail deposits grew by 26% y-o-y vs 12% advances growth, during the quarter. Bank stated that 15%-18% advance growth is achievable going forward backed by retail liability growth.
- The stock currently trades at 1.4x/ 1.2x of its FY23E and FY24E ABV. We believe valuations are reasonable given the ROA profile expected in FY23E/24E. We maintain a Buy rating with an unchanged PT of Rs. 1,150.


**IndusInd Bank reported in line operating performance. Net interest income grew by 13% y-o-y/ 5% q-o-q reported at Rs.3,985 crore, aided by advances growth and an improvement in margins. With a reduction in cost of deposits by 6bps q-o-q and higher retail mix, NIMs improved to 4.20% by 10bps q-o-q. Core fee income grew by 9% y-o-y / 8% q-o-q. Other income was lower by 5.5% y-o-y. Total Opex grew by 14% y-o-y and 4% q-o-q mainly due to higher business volumes and increased investments in technology and distribution. Provisions were down by 22% y-o-y and ~12% q-o-q to Rs. 1,464 crore. Bank stated that no provisions have been write back from contingent provisions pool. Its SMA 1 & 2 book reduced from 84 bps to 54 bps q-o-q. PAT grew by 55% y-o-y/ 17% q-o-q mainly due to lower credit cost. Asset quality improved with GNPA and NNPA ratios declining by 21 bps q-o-q and 7 bps q-o-q to 2.27% to 0.64%, respectively. PCR stable at 72%. Advances grew by 12% y-o-y and ~5% q-o-q, driven by healthy growth across loan portfolio. Deposits grew by 15% y-o-y/ 3.2% q-o-q. CASA ratio at 42.7% vs 41.7% in Q3FY22.**

### Key positives

- Asset quality improved with GNPA and NNPA ratio declining by 21 bps q-o-q and 7 bps q-o-q to 2.27% to 0.64% respectively. Its SMA 1 & 2 book reduced from ~84 bps to ~54 bps in Q4FY22.
- NIM improved from 4.10% to 4.20% in Q4FY22.

### Key negatives

- Higher operating expenses growth (14% y-o-y/4% q-o-q) led by digital tech spends and business volumes.

### Management Commentary

- Bank guided for credit growth of 15-18% going forward along with building granular retail liability franchise.
- Incremental Credit cost guidance in the range of 120 – 150 bps of assets going forward.

### Our Call

**Valuation – Maintain Buy with an unchanged PT of Rs. 1,150:** The stock currently trades at 1.4x/1.2x of its FY23E /FY24E ABV. A well-capitalized balance sheet, improvement in collection efficiencies in MFI business, reduction in fresh slippages/ restructured book and high PCR levels, credit cost seems to be manageable and business normalcy is expected to resume in FY2023E. Given the improvement in demand in its vehicle portfolio, MFI business and corporate book, the bank is on upward trajectory path in terms of ROA & ROE profile going forward. Bank guided for credit growth of 15-18% going forward along with building granular retail liability franchise. We believe valuations are reasonable. Hence we maintain a Buy rating on the stock with an unchanged PT of Rs. 1,150.

### Key Risks

Economic slowdown and the resultant slower loan growth and higher than anticipated credit cost especially from the lower rated corporate portfolio and MFI book could affect earnings.

**Valuation** Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|
| Net Interest Income (NII) | 13,528 | 15,001 | 17,932 | 21,054 |
| Net profit (Rs cr) | 2,836 | 4,611 | 8,134 | 10,027 |
| EPS (Rs) | 38.8 | 59.6 | 105.2 | 129.6 |
| P/E (x) | 25.2 | 16.6 | 9.3 | 7.6 |
| P/ABV (x) | 1.8 | 1.6 | 1.4 | 1.2 |
| RoE (%) | 8.9 | 11.5 | 15.9 | 17.2 |
| RoA (%) | 0.9 | 1.3 | 2.0 | 2.2 |

*Source: Company; Sharekhan estimates*

## Key result highlights

**Advances growth & higher margins boost NII:** Net interest income grew by 13% y-o-y/ 5% q-o-q reported at Rs.3,985 crore, aided by advances growth and margin improvement. With reduction in cost of deposits by 6 bps q-o-q and a higher retail mix, NIMs improved to 4.20% by 10 bps q-o-q. Core fee income grew by 9% y-o-y / 8% q-o-q. Other income was lower by 5.5% y-o-y. Bank expects to maintain NIMs in the range of 4.10 – 4.25%.

**Higher opex growth due to rise in tech spends:** Total operating expenses grew by 14% y-o-y on account of increased business volumes and accelerated investments in technology. Focus is to build higher digital value proposition stacks along with more digital products suite for the bank. Cost-to-income ratio remained stable at 43.5%.

**Lower credit cost a positive surprise:** Provisions declined by ~22% y-o-y/~12% q-o-q reported at Rs. 1,464 crore on the back of reduction in fresh slippages/ restructured book and improvement in collection efficiencies in the MFI business. Bank stated that no provisions have been write back from contingent provisions pool. Going forward credit cost to be in the range of 120-150 bps of assets as stated by bank.

**Higher advances growth expected going ahead:** Advances grew by 12% y-o-y and 5% q-o-q. The share of retail loans was ~ 54%, with vehicle loans comprising 26%, Non vehicle finance book (mainly business banking, PL, CC, LAP) comprising 15% and microfinance loans at 13%. Vehicle book grew by 1% y-o-y. Secured non vehicle book remained flat on y-o-y. Unsecured personal loans and credit card advances grew 21% y-o-y and 22% y-o-y respectively. MFI book grew by 18% y-o-y. SME and wholesale corporate book grew by 20% y-o-y. Robust growth in retail and SME portfolio can be fully attributed to digital initiatives. Bank stated that 15-18% advance growth is sustainable going forward. Disbursements in vehicle portfolio picked up after subdued performance in 9MFY22 growing 13% q-o-q & 19% y-o-y led by CV, tractor, CE , Cars. Two-wheeler loans were still subdued. The bank was cautious on the MFI business in Q3FY22 due to third wave concerns; but in Q4FY22 MFI business has bounced back strongly as collection efficiency in MFI book excluding restructured book was above ~99%; Bank expects credit cost would normalize in MFI business going ahead. Guidance for credit cost in MFI business at 2.5% and 27% - 28% growth in MFI book.

**Continues to garner retail liability franchise:** Deposits grew by 15% y-o-y. CA & SA grew by 2% y-o-y / 25% y-o-y respectively. CASA ratio stands at 43%. Retail term deposits growth was at 26% y-o-y. Focus on granular retail liability franchise.

**Asset quality gets better:** Asset quality has been continuously improving for the bank with both GNPA and NNPA ratios falling by 21 bps q-o-q and 7 bps q-o-q to 2.27% and 0.64% in Q4FY22. PCR at 72%. Gross slippages were reported at Rs.2,088 crore versus Rs 2,598 crore in Q3FY22. Recoveries & upgrades stood at Rs. 997 cr vs Rs. 1,402 cr in Q3FY22. Write offs were at Rs.1,353 crore vs Rs.1,662 crore in Q3FY22. Restructured book stands at 2.6% vs 3.3% of advances in Q3FY22. Total contingent provisions stood at Rs.3,398 crore (1.4% of Advances). SMA 1 & 2 book reduced from 84 bps to 54 bps q-o-q. Retail assets saw higher recovery.

**Others:** Digital sourcing continues to gain momentum. Digital products like Indus Easy credit (for PL & cards), Indus Merchant Solutions ( for SME, business banking & mid small corporate) are growing well.

**Dividend:** The bank has also recommended a dividend of Rs. 8.5 per share.

**Results** Rs cr

| Particulars | Q4FY22 | Q4FY21 | Q3FY22 | y-o-y % | q-o-q % |
|---|---|---|---|---|---|
| Interest Income | 7,860 | 7,419 | 7,737 | 5.9% | 1.6% |
| Interest Expenses | 3,875 | 3,885 | 3,944 | -0.3% | -1.8% |
| **Net Interest Income** | **3,985** | **3,535** | **3,794** | **12.7%** | **5.1%** |
| NIM (%) | 4.2 | 4.13 | 4.10 | - | - |
| Core Fee Income | 1,644 | 1,508 | 1,519 | 9.0% | 8.2% |
| Other Income | 1,902 | 273 | 358 | 596.7% | 431.6% |
| **Net Operating Revenue** | **5,887** | **5,316** | **5,670** | **10.8%** | **3.8%** |
| Employee Expenses | 659 | 595 | 620 | 10.7% | 6.2% |
| Other Opex | 1,900 | 1,658 | 1,845 | 14.6% | 3.0% |
| **Total Opex** | **2,559** | **2,253** | **2,465** | **13.6%** | **3.8%** |
| Cost to Income Ratio (%) | 43% | 42% | 43% | - | - |
| **Pre Provision Profits** | **3,329** | **3,062** | **3,205** | **8.7%** | **3.9%** |
| Provisions & Contingencies - Total | 1,464 | 1,866 | 1,654 | -21.6% | -11.5% |
| **Profit Before Tax** | **1,865** | **1,197** | **1,551** | **55.8%** | **20.2%** |
| Tax | 504 | 320 | 390 | 57.4% | 29.2% |
| Effective Tax Rate (%) | 27% | 27% | 25% | - | - |
| **Reported Profits** | **1,361** | **877** | **1,161** | **55.3%** | **17.2%** |
| Basic EPS | 17.6 | 12.1 | 15.0 | 45.1% | 17.1% |
| Diluted EPS | 17.6 | 12.1 | 15.0 | 45.3% | 17.4% |
| RoA (%) | 1.5 | 1.1 | 1.3 | - | - |
| ROE (%) | 11.5 | 8.9 | 10.9 | - | - |
| Advances | 2,39,052 | 2,12,595 | 2,28,583 | 12.4% | 4.6% |
| Deposits | 2,93,681 | 2,56,205 | 2,84,484 | 14.6% | 3.2% |
| Gross NPA | 5,517 | 5,795 | 5,779 | -4.8% | -4.5% |
| Gross NPA Ratio (%) | 2.27 | 2.67 | 2.48 | - | - |
| PCR - Calculated (%) | 72.3% | 74.5% | 71.7% | - | - |
| Net NPA | 1,530 | 1,477 | 1,633 | 3.6% | -6.3% |
| Net NPAs Ratio (%) | 0.64 | 0.69 | 0.71 | - | - |

*Source: Company, Sharekhan Research*

## Outlook and Valuation

### ■ Sector view - Green shoots of credit growth, stronger banks placed better

System-level credit offtake grew by ~10% y-o-y in the fortnight ending April 8, 2022, indicating a gradual pick-up in loans given the distinct signs of an improvement in the economy and a revival of investments and loan demand. On the other hand, deposits rose by ~9%, which reflect a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succor in terms of easy availability of funds. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as an economic recovery. At present, we believe the banking sector is likely to see higher risk-off behavior, with tactical market share gains for well-placed players. We believe that large banks, with a strong capital base and asset quality (with high coverage and provision buffers), are well placed to capture growth opportunities.

### ■ Company outlook - Operating performance to improve going ahead

We expect that with IIB addressing the challenges on its microfinance book, the overhang has been done away. Additionally, factors such as the bank's willingness to recognize 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. Near-term challenges continue, but we expect loan growth and credit costs to normalize in FY2023E, given improving macroeconomic conditions and the bank's stated stance to front-load provisions.

### ■ Valuation - Maintain Buy with an unchanged PT of Rs. 1,150

The stock currently trades at 1.4x/1.2x of its FY23E /FY24E ABV. A well-capitalized balance sheet, improvement in collection efficiencies in MFI business, reduction in fresh slippages/ restructured book and high PCR levels, credit cost seems to be manageable and business normalcy is expected to resume in FY2023E. Given the improvement in demand in its vehicle portfolio, MFI business and corporate book, the bank is on upward trajectory path in terms of ROA & ROE profile going forward. Bank guided for credit growth of 15-18% going forward along with building granular retail liability franchise. We believe valuations are reasonable. Hence we maintain a Buy rating on the stock with an unchanged PT of Rs. 1,150.

**Peer Comparison**

| Companies | CMP (Rs / Share) | MCAP (Rs Cr) | P/E (x) | | P/B (x) | | RoE (%) | | RoA (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E |
| IndusInd Bank | 978 | 75,779 | 9.3 | 7.6 | 1.4 | 1.2 | 15.9 | 17.2 | 2.0 | 2.2 |
| ICICI Bank | 744 | 5,16,762 | 17.0 | 15.1 | 2.6 | 2.2 | 14.7 | 15.5 | 1.8 | 2.0 |
| Kotak Mahindra Bank | 1,789 | 3,55,046 | 43.3 | 37.7 | 4.5 | 4.0 | 10.7 | 11.3 | 1.7 | 1.8 |
| Axis Bank | 729 | 2,23,744 | 13.0 | 11.5 | 1.6 | 1.4 | 13.7 | 13.1 | 1.4 | 1.4 |

*Source: Company, Sharekhan Research*

## About company

IIB is a private bank established in 1994, having a pan-India presence with 2,265 branches/banking outlets and 2,767 ATMs spread across 769 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. The extended network of the bank includes branches of BFIL and outlets of IMFS. IIB is well placed with adequate capital levels.

## Investment theme

IIB has emerged as a strong player, which has been able to post healthy NIMs/low NPAs across interest rate and asset-quality cycles consistently for several years. The bank has transformed itself, not only developing strong business verticals such as vehicle finance, retail loans, credit cards, and business banking, etc., but has also successfully established fee-generating verticals, which diversify its income and lead to better return ratios. We believe though the medium term may see challenges, banks with strong capitalisation and a prudent and cautious stance with a strong balance sheet will likely be able to withstand the challenges better.

## Key Risks

Economic slowdown due to which slower loan growth and higher than anticipated credit cost especially from the lower rated corporate portfolio and MFI book could affect earnings.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Mr. Sumant Kathpalia | CEO and Managing Director |
| Mr. Arun Khurana | Deputy CEO |
| Mr. S V Zaregaonkar | Chief Financial Officer |
| Mr. A. G. Sriram | Head - Consumer Finance |

*Source: Company*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Bank of New York Mellon Corp | 8.2 |
| 2 | LIC | 4.9 |
| 3 | SFSPVI | 4.0 |
| 4 | BOFA Securities Europe SA | 3.7 |
| 5 | SBI Funds Management | 2.9 |
| 6 | Route one Investment Co LP | 2.5 |
| 7 | Dragsa India | 2.6 |
| 8 | Bridge India Fund | 2.5 |
| 9 | Morgan Stanley | 2.0 |
| 10 | ICICI Prudential | 1.7 |

*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*

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