

Stress accretion modest, provision buffer adequate

IndusInd Bank posted a decent set of Q3FY21 numbers with a sequential improvement in some parameters. Rise in proforma NPA and restructuring came in-line with expectations. Provision buffer at ~3% of advances provides comfort limiting volatility in earnings.

In Q3FY21, NII increased 10.8% YoY, 3.9% QoQ to ₹ 3406 crore. Margins for the quarter declined a tad by 4 bps QoQ. Other income increased QoQ by 9.8% to ₹ 1705 crore. This was mainly on account of 31% QoQ rise in core fee income. Operating expenses were under control. As a result, the cost-to-income ratio was down ~171 bps YoY to 41.8% but was up sequentially by ~41 bps, attributable to a rise in business activity. Provisions remained elevated at ₹ 1854 crore but was down 5.6% QoQ. During the quarter, the bank made provisions worth ₹ 1106 crore for Covid related stress. Overall, led by a sequential decline in provisions and pick-up in topline, the bank posted a profit of ₹ 853 crore, up 31.8% QoQ, ahead of our estimates.

Headline asset quality numbers showed improvement on account of standstill classification norms. GNPA and NNPA declined 47 bps and 30 bps QoQ to 1.74% and 0.22%, respectively. However, on proforma basis, GNPA and NNPA were up 60 bps and 9 bps to 2.93% and 0.70%, respectively. The bank received a restructuring request for ~1.8% of advances, of which ~0.6% has been approved. IndusInd has total provisions worth ₹ 3261 crore for Covid-stress, of which contingent provisions worth ₹ 1535 crore are towards proforma GNPA while ₹ 760 crore is counter-cyclical towards reported GNPA. Total loan related provisions are now at 188% of GNPA and 111% of proforma GNPA. Collection efficiency in vehicle and micro finance remained on a positive trajectory at 96.9% and 95.5%, respectively.

Loan growth for the quarter showed some pick-up QoQ as it was up by 2.9% QoQ to ₹ 207128 crore, while on a yearly basis it remained flat. The management's cautious approach and focus on improving granularity led to incremental disbursement in medium corporate during the quarter. Going ahead, the management expects to rationalise corporate book and pedal better growth next fiscal. Disbursement in vehicle finance book was near pre-Covid levels. On the deposit front, traction was decent with deposit base increasing 4.9% QoQ and 10.3% YoY to ₹ 239135 crore. CASA deposits were up 5.2% QoQ. As a result, CASA ratio improved 11 bps to 40.4%.

Valuation & Outlook

The management is geared to pedal growth ahead with focus on certain segments. Thus, we expect business momentum to pick from here on with operational parameters expected to show improvement. We believe asset quality behaviours needs more assessment in the next quarter. However, improving collection efficiency and ample provision buffer is expected to arrest volatility in earnings. Therefore, we maintain our target price at ₹ 1050, valuing the stock at ~1.8x FY23E ABV. Given the recent price correction, we upgrade the rating from HOLD to **BUY**.

IndusInd Bank

Particulars

Particulars	Amount
Market Capitalisation	₹ 64084 crore
GNPA (Q3FY21)	₹ 3650 Crore
NNPA (Q3FY21)	₹ 464 Crore
NIM (%) (Q3FY21)	4.1
52 week H/L	1346/236
Net worth	₹ 40531 Crore
Face Value	₹ 10
DII Holding (%)	16.2
FII Holding (%)	54.9

Key Highlights

- Proforma GNPA increased 60 bps to 2.93%
- Outstanding provision at ~111% of proforma GNPA
- Maintain target price at ₹ 1050. Upgrade from HOLD to BUY

Risk to our call

- Traction in vehicle finance segment could boost overall performance
- Increase in stress accretion in MFI segment could weaken asset quality

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
Sameer.sawant@icicisecurities.com

Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	7,497	8,846	12,059	13,270	14,439	16,747	12%
PPP	6,656	8,088	10,773	11,865	12,565	14,424	10%
PAT	3,606	3,301	4,418	2,785	4,273	5,034	34%
ABV (₹)	385	405	473	495	520	536	
P/E	14.1	15.4	13.3	23.0	15.0	12.7	
P/ABV	2.2	2.1	1.8	1.7	1.6	1.6	
RoA	1.8	1.3	1.5	0.8	1.1	1.2	
RoE	16.2	13.1	14.4	7.4	10.3	11.7	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	3,406	3,383	3,074	10.8	3,278	3.9	Modest growth due to sequential loan growth
NIM (%)	4.12	3.20	4.15	-3 bps	4.16	-4 bps	Impacted by interest reversals due to proforma GNPA
Other Income	1,705	1,594	1,789	-4.7	1,554	9.8	
Net Total Income	5,112	4,977	4,863	5.1	4,832	5.8	
Staff cost	543	567	550	-1.3	524	3.5	
Other Operating Expenses	1,596	1,638	1,568	1.8	1,477	8.0	Slight rise due to variable business expenses
PPP	2,973	2,772	2,746	8.3	2,831	5.0	
Provision	1,854	2,181	1,043	77.6	1,964.4	-5.6	Elevated levels on account of Covid related provisions
PBT	1,120	592	1,702	-34.2	866	29.3	
Tax Outgo	267	150	402	-33.6	219.1	21.9	
PAT	853	442	1,300	-34.4	647.0	31.8	
Key Metrics							
GNPA	3,651	4,442	4,578	-20.3	4,532	-19.4	Proforma GNPA increased 60 bps to 2.93%
NNPA	466	1,087	2,173	-78.5	1,056	-55.8	
Credit book	2,07,128	2,07,691	2,07,413	-0.1	2,01,247	2.9	Moderate growth as management is cautious in corporate lending
Deposit book	2,39,135	2,39,600	2,16,713	10.3	2,27,884	4.9	Lead by 14.1% YoY uptick in term deposits, CASA up 5.2% QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY21E			FY22E			FY23
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	12720.16	13,270	4.3	13,873	14,439	4.1	16,747
Pre Provision Profit	11314.56	11,865	4.9	12,002	12,565	4.7	14,424
NIM(%) (calculated)	4.4	4.59	19 bps	4.3	4.52	18 bps	4.57
PAT	2461.107	2,785	13.2	3,854	4,273	10.9	5,034
ABV per share (₹)	493.8514	495	0.2	520.6	520	-0.1	536

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	28.6	10.9	3.2	14.4	14.6	2.5	12.0
Deposit Growth (%)	28.5	3.7	21.3	15.6	16.9	7.0	16.0
NIM Calculated (%)	3.8	4.5	10.0	8.8	16.0	4.2	4.2
Cost to income ratio (%)	44.2	43.3	40.2	41.8	41.3	47.4	47.6
GNPA (₹ crore)	3,947.4	5,146.7	7,495.0	7,983.3	8,542.8	6,721.7	7,057.8
NNPA (₹ crore)	2,248.2	1,886.6	2,494.9	2,772.6	2,443.8	2,837.5	2,922.6
Credit cost (%)	1.9	2.2	3.8	2.8	2.7	2.8	2.2

Source: Company, ICICI Direct Research

Key conference call highlights

- The bank has reduced FD rate by ~50 bps in Q3FY21. Its impact should be visible in coming quarters
- The bank will calibrate both FD and CASA rates
- Interest reversals during the quarter were at ₹ 185 crore, which impacted margins
- Unsecured retail segment saw higher slippages while corporate book did not see much incremental stress
- The bank intends to open 500 branches in the next two years
- Promoters have got extension till February 18, 2021, for exercising warrant. This could add ~75 bps to CET1
- Of proforma slippage of ₹ 2508 crore, ~19% came in from retail and MFI each, retail (secured + unsecured) contributed 45% and rest came from corporate
- Collection in vehicle finance is up from 94.3% to 96.9% QoQ. In the MFI segment, it is up from 87.2% to 95.5% sequentially
- Exposure to Assam is ₹ 45 crore while West Bengal exposure is at ~1.3% of loans
- Some lumpy recovery can be expected in coming quarters
- Margins are expected to remain in the range of 4.15-4.25%
- The bank under ECLGS has sanctioned ₹ 4400 crore and disbursement is to the tune of ₹ 2900 crore

Story in Charts

Exhibit 4: Consumer finance book profile

Consumer Finance Book							
₹ crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21
Comm. Vehicle	24,853	25,092	24,977	23,948	23,737	23,932	23,812
Utility Vehicle	3,846	4,009	4,264	4,377	4,360	4,539	4,766
Three Wheelers	3,248	3,386	3,560	3,524	3,606	3,691	3,590
Two Wheelers	4,661	4,799	5,296	5,204	5,774	5,739	6,031
Car loans	6,792	7,013	7,336	7,247	7,245	7,460	7,879
Equip. financing + Tractor	11,646	12,173	8,238	12,753	12,784	13,853	14,925
Credit card	3,911	4,203	4,576	4,762	4,775	4,853	5,225
Loan against prop.	8,678	8,785	9,539	9,448	9,469	9,540	9,362
Personal.others etc	6,992	7,748	7,757	8,311	7,971	8,299	8,473
Business Banking	10,984	11,360	11,460	11,643	10,896	11,531	11,575
Microfinance	18,245	18,884	20,757	24,232	23,466	22,383	23,008
Total	103856	107452	112160	115449	114083	115820	118646

Source: Company, ICICI Direct Research

Exhibit 5: Break-up of corporate book

Corporate Banking Book							
₹ crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21
Large corporates	50,212	48,319	51,284	47,742	43,819	41,927	41,551
Mid corporates	35,221	37,194	39,677	39,559	36,649	39,889	42,711
Small business	4,231	4,148	4,292	4,033	3,518	3,611	4,220
Total	89664	89661	95253	91334	83986	85427	88482
YoY Growth	-0.8	-9.9	-9.4	-19.7	-6.3	-4.7	-7.1

Source: Company, ICICI Direct Research

Exhibit 6: Muted loan growth

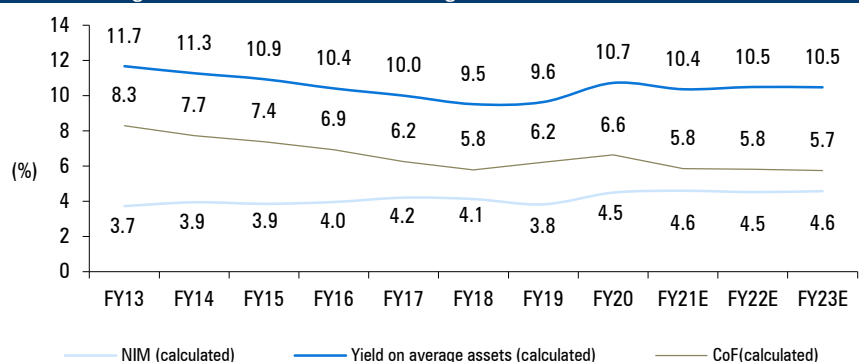
₹ crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21
Total Advances	193520	197113	207413	206783	198069	201247	207128
YoY Growth	28.4	20.8	19.8	10.9	2.4	2.1	-0.1

Source: Company, ICICI Direct Research

Exhibit 7: Deposit profile

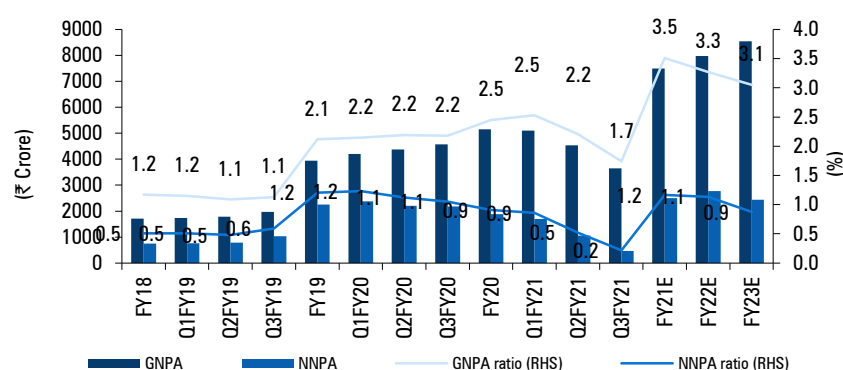
₹ Crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21
Savings	57562	58117	64895	53130	52527	57073	64333
Current	28779	27721	26970	28427	31946	34773	32313
Term	114245	121355	124848	120470	126792	136038	142489
Total Deposits	200586	207193	216713	202027	211265	227884	239135
YoY Growth	26.3	23.2	23.3	3.7	5.3	10.0	10.3
CASA Amount	86341	85838	91865	81557	84473	91846	96646
CASA%	43.0	41.4	42.4	40.4	40.0	40.3	40.4

Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain in narrow range


Source: Company, ICICI Direct Research

Exhibit 9: Asset quality key to watch



Source: Company, ICICI Direct Research

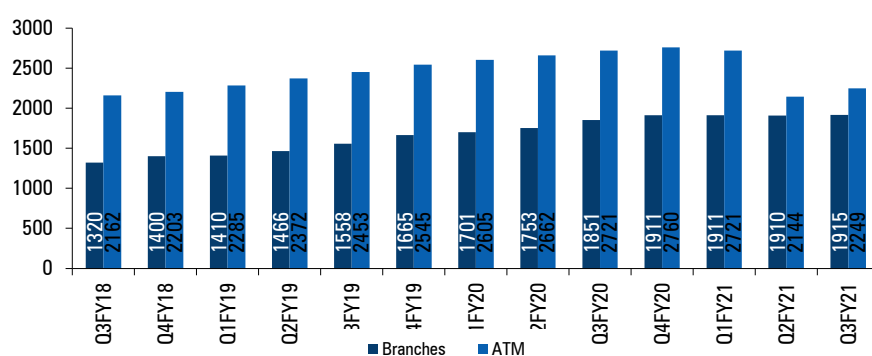
Exhibit 10: Fee income break-up

Other income break up (₹ Crore)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Core fee income	1,419	1,422	1,468	1,506	1,390	682	1,061	1,389
Securities/FX trading others	140	241	259	284	383	838	493	257

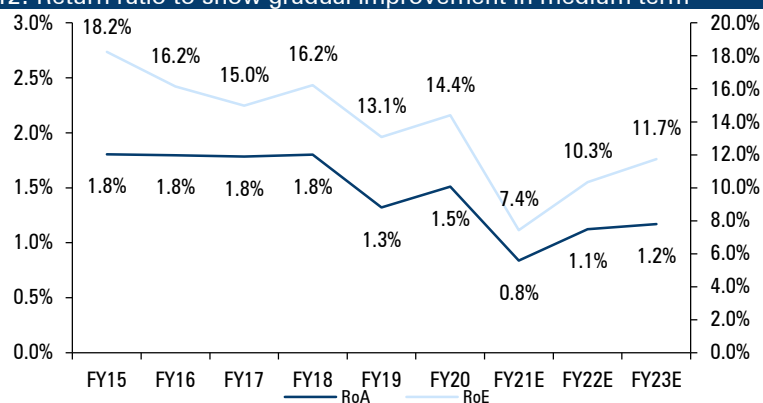
Break up of fee income (₹ Crore)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Trade & Remittances	189	164	182	185	189	116	152	183
Foreign Exchange Income	289	250	277	241	248	155	228	268
Distribution Fees	302	302	322	347	367	174	323	370
General Banking	84	90	126	85	80	109	123	188
Loan Processing Fees	328	337	360	388	356	99	212	301
Investment Banking	228	235	201	209	143	29	23	79
Total	1,420	1,378	1,468	1,455	1,383	682	1,061	1,389

Source: Company, ICICI Direct Research

Exhibit 11: Branch and ATM network



Source: Company, ICICI Direct Research

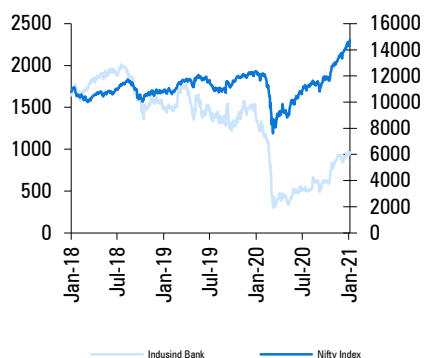
Exhibit 12: Return ratio to show gradual improvement in medium term


Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	14.4	14.3	14.7	14.7	14.7
FII	55.2	53.6	52.1	52.1	54.9
DII	15.0	15.5	14.7	14.7	16.2
Others	15.5	16.6	18.6	18.6	14.2

Source: Company, ICICI Direct Research

Exhibit 14: Price Performance


Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement

₹ Crore

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	22,261.2	28,782.8	29,913.9	33,484.5	38,321.7
Interest Expended	13,415.1	16,724.1	16,643.5	19,045.5	21,574.7
Net Interest Income	8,846.1	12,058.8	13,270.4	14,439.0	16,747.0
Growth (%)	18.0	36.3	10.0	8.8	16.0
Non Interest Income	5,646.7	6,951.3	6,567.7	7,162.9	7,838.3
Other income	1,458.6	1,783.8	1,491.9	1,662.3	1,854.0
Net Income	14,492.8	19,010.1	19,838.1	21,601.8	24,585.4
Employee cost	1,853.5	2,208.5	2,279.2	2,561.3	2,899.8
Other operating Exp.	4,551.2	6,028.9	5,694.2	6,475.4	7,261.2
Operating Income	8,088.1	10,772.7	11,864.8	12,565.1	14,424.4
Provisions	3,107.7	4,652.1	8,126.3	6,829.3	7,667.5
PBT	4,980.5	6,120.6	3,738.5	5,735.8	6,756.9
Taxes	1,679.5	1,702.7	953.3	1,462.6	1,723.0
Net Profit	3,301.0	4,417.9	2,785.1	4,273.2	5,033.9
Growth (%)	(8.5)	33.8	(37.0)	53.4	17.8
EPS (₹)	54.8	63.7	36.8	56.5	66.5

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of shares (crore)	60.3	69.4	75.7	75.7	75.7
EPS (₹)	54.8	63.7	36.8	56.5	66.5
DPS (₹)	7.7	7.8	2.7	4.1	4.9
BV (₹)	442.6	500.3	527.6	556.6	568.5
ABV (₹)	405.3	473.1	494.6	520.0	536.2
P/E	15.4	13.3	23.0	15.0	12.7
P/BV	1.9	1.7	1.6	1.5	1.5
P/ABV	2.1	1.8	1.7	1.6	1.6
Yields & Margins (%)					
Net Interest Margins	3.8	4.5	4.6	4.5	4.6
Yield on assets	9.6	10.7	10.4	10.5	10.5
Avg. cost on funds	6.2	6.6	5.8	5.8	5.7
Yield on average advances	11.0	12.2	12.0	12.3	12.3
Avg. Cost of Deposits	6.1	6.5	5.8	5.7	5.7
Quality and Efficiency (%)					
Cost to income ratio	44.2	43.3	40.2	41.8	41.3
Credit/Deposit ratio	95.7	102.3	87.1	86.1	84.4
GNPA	2.1	2.5	3.5	3.3	3.1
NNPA	1.2	0.9	1.2	1.1	0.9
ROE	13.1	14.4	7.4	10.3	11.7
ROA	1.3	1.5	0.8	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet

₹ Crore

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital	603	694	757	757	757
Employee Stock Options	11	9	9	9	9
Reserves and Surplus	26,072	34,003	39,478	41,670	42,570
Networth	26,686	34,706	40,244	42,436	43,336
Deposits	1,94,868	2,02,040	2,45,122	2,83,467	3,31,415
Borrowings	47,321	60,754	61,361	66,270	70,965
Other Liabilities & Provisions	8,944	9,558	10,227	10,943	11,022
Total	2,77,819	3,07,058	3,56,953	4,03,116	4,56,737
Application of Funds					
Fixed Assets	1,710	1,820	2,002	2,202	2,314
Investments	59,266	59,980	67,177	76,584	87,308
Advances	1,86,394	2,06,783	2,13,477	2,44,170	2,79,729
Other Assets	15,666	22,471	41,787	44,307	48,548
Cash with RBI & call money	14,783	16,004	16,804	17,644	17,721
Total	2,77,819	3,07,058	3,41,248	3,84,907	4,35,620

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios

(%)

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	25.4	10.5	16.2	12.9	13.3
Advances	28.6	10.9	3.2	14.4	14.6
Deposit	28.5	3.7	21.3	15.6	16.9
Total Income	26.7	28.0	2.1	11.4	13.6
Net interest income	18.0	36.3	10.0	8.8	16.0
Operating expenses	14.5	28.6	(3.2)	13.3	12.4
Operating profit	21.5	33.2	10.1	5.9	14.8
Net profit	(8.5)	33.8	(37.0)	53.4	17.8
Net worth	12.0	30.1	15.0	5.5	2.1
EPS	(8.8)	16.3	(42.2)	53.4	17.8

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector/ Company	CMP		M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
BoB (BANBAR)	67	70	Hold	311	1.6	1.2	6.2	41.0	56.7	10.8	0.8	0.6	0.6	0.4	0.1	0.2	0.9	0.9	3.9
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	645	800	Buy	2042	5.8	25.2	47.7	112	25.6	13.5	2.4	2.3	1.9	0.2	0.8	1.3	2.1	8.1	13.8
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	846	1,050	Buy	641	63.7	36.8	56.5	13.3	23.0	15.0	1.8	1.7	1.6	1.5	0.8	1.1	14.4	7.4	10.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3527	20.4	23.5	27.2	86.2	75.0	64.6	10.8	8.8	7.8	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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