

Accumulate

Healthy operating metrics; Credit trends in line

- IB's operating metrics continued to strengthen with largely stable NIM despite impact of interest reversal (down by 4 bps to 4.12%), healthy sequential growth in fee lines (31% QoQ), and contained opex.
- Gross NPAs increased by 67 bps QoQ to 2.97% on a pro-forma basis. **Pro-forma slippages at 4.7% for the quarter and 3% for 9MFY21** were within expectations, with 30% of it from unsecured retail (PL/CC/BL), 20% each from vehicle and MFI portfolios, and 15% each from secured retail and corporate books. **Pro forma PCR at 76% is amongst the highest in industry.**
- The bank is expected to restructure ~1.8% of loans by Mar-20, ~60% of which is from corporate book and ~30% from vehicle.
- The bank currently holds Rs11 bn or 0.5% of standard provision buffers** (ex of general provisions and those utilized for pro forma PCR). This however includes Rs4bn made against restructured advances. **Provision buffers are lower than Rs21bn or 1.1% held as of Sep-20.**
- Collection efficiency improved meaningfully across MFI and vehicle portfolio from Sep-levels. **Lower exposure to impacted districts of Assam and WB** have ensured low incremental stress at 2% for the MFI book.
- High pro forma PCR (partly led by 100% provisions of unsecured loans), recalibration of corporate book towards granular WC exposures, and healthy core PPOP margin at ~3% are encouraging. Moreover, we see risks on the corporate book receding with improving economic recovery. Liability profile however will take time to strengthen with low share of retail deposits at 33% and limited traction in CASA despite high SA rates.
- Our earnings upgrade for FY21E is mainly driven by improved operational metrics including NIM, fee lines and opex. Credit costs have not been altered materially. Valuing the bank at 1.6x Dec-22 ABV against a RoA/RoE of 1.5%/12.5%, we maintain our ACCUMULATE rating with a TP of Rs940.**

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Net interest income	34,061	30,740	10.8	32,778	3.9
Other income	17,055	17,894	(4.7)	15,543	9.7
Total Net Income	51,116	48,634	5.1	48,321	5.8
Operating expenses	21,383	21,178	1.0	19,801	8.0
Pre-provision profits	29,733	27,456	8.3	28,520	4.3
Provisions	18,535	10,435	77.6	19,644	(5.6)
Tax expense	2,670	4,020	(33.6)	2,245	19.0
Reported Net Profit	8,528	13,002	(34.4)	6,631	28.6
			(bps)		(bps)
Advances Growth YoY (%)	(0.1)	19.8	(1,991)	2.1	(223)
NIM (%)	4.1	4.2	(3)	4.2	(4)
RoA (%)	1.1	1.8	(72)	0.8	22
RoE (%)	9.2	17.3	(806)	7.3	197
Gross NPA (%)	1.7	2.2	(44)	2.2	(47)

CMP	Rs 846
Target / Upside	Rs 940 / 11%
NIFTY	13,635

Scrip Details

Equity / FV	Rs 7,563mn / Rs 10
Market Cap	Rs 640bn
	USD 9bn
52-week High/Low	Rs 1,346/ 236
Avg. Volume (no)	1,63,73,800
Bloom Code	IIB IN

Price Performance

	1M	3M	12M
Absolute (%)	(6)	44	(31)
Rel to NIFTY (%)	(3)	28	(44)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	14.7	13.5	13.5
MF/Banks/FIs	14.7	15.8	15.8
FIIIs	52.1	47.5	47.5
Public / Others	18.6	23.3	23.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	20.5	12.5	10.4
P/ABV	1.7	1.5	1.4
ROAA	1.0	1.4	1.5
ROAE	8.5	12.2	13.2

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	1,36,147	1,43,052	1,61,942
PPOP	1,17,265	1,07,754	1,16,765
PAT	31,272	51,100	61,799
Adj BV	492.9	550.0	622.9

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Risks to our View: Higher than expected slippages and credit costs in the corporate book, lagged impact of COVID related stress.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	34,061	32,486	4.8	
Operating Profit	29,733	25,345	17.3	Higher core fees
PAT	8,528	3,246	162.7	Lower provisions

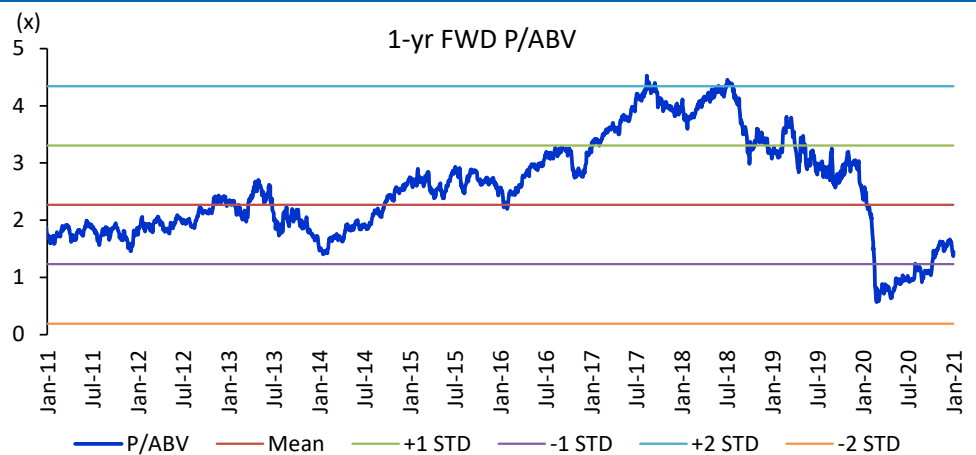
Source: Company, DART

Exhibit 2: Change in estimates

(Rs mn)	Previous			Revised			Change %		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Operating Revenue	192,636	203,918	228,645	202,832	207,760	233,949	5.3	1.9	2.3
Pre Provision Profits	104,980	105,871	117,284	117,265	107,754	116,765	11.7	1.8	(0.4)
PAT	24,004	50,154	61,278	31,272	51,100	61,799	30.3	1.9	0.9

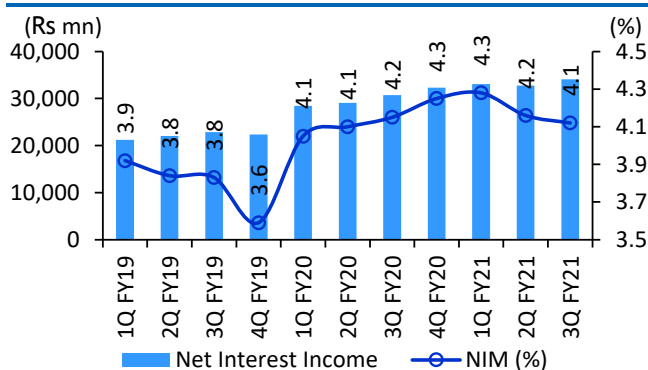
Source: Company, DART

Exhibit 3: The stock currently trades at 1.4x 1-year forward P/ABV



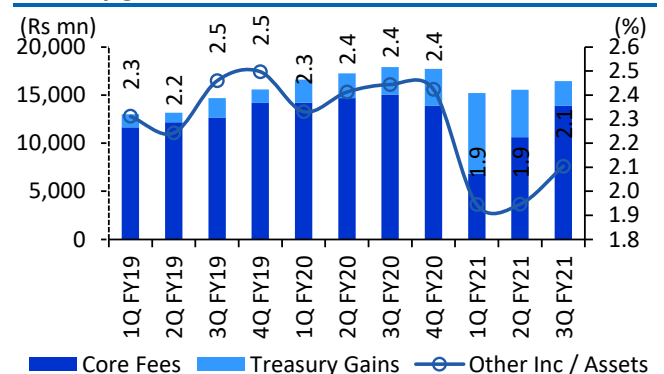
Source: Company, DART

Exhibit 4: Margins impacted by interest reversals of Rs 1.9bn



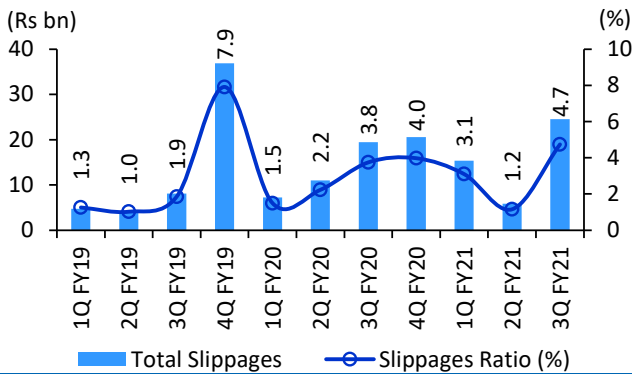
Source: Company, DART

Exhibit 5: Higher core fees aid PPOP in the absence of treasury gains



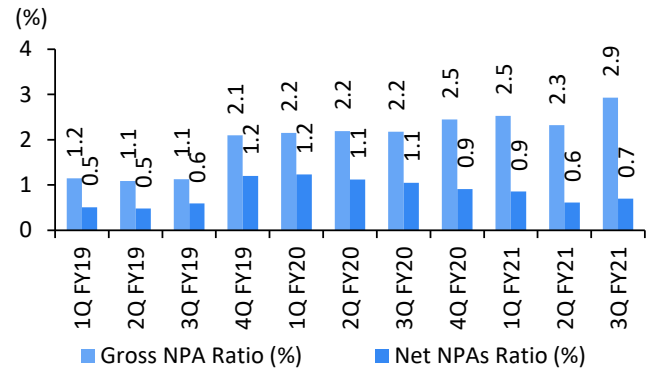
Source: Company, DART

Exhibit 6: Pro-forma slippages led by secured and unsecured consumer portfolios



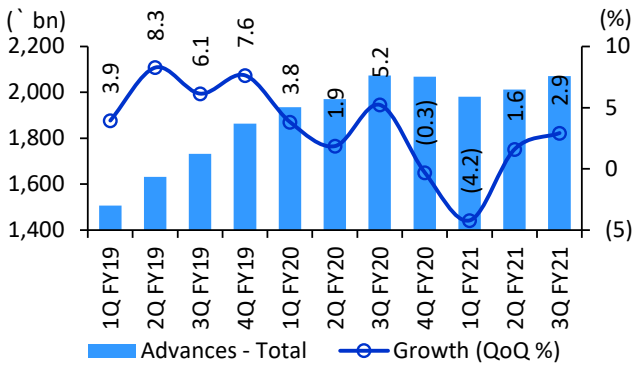
Source: Company, DART

Exhibit 7: Pro-forma GNPA see a sharp uptick



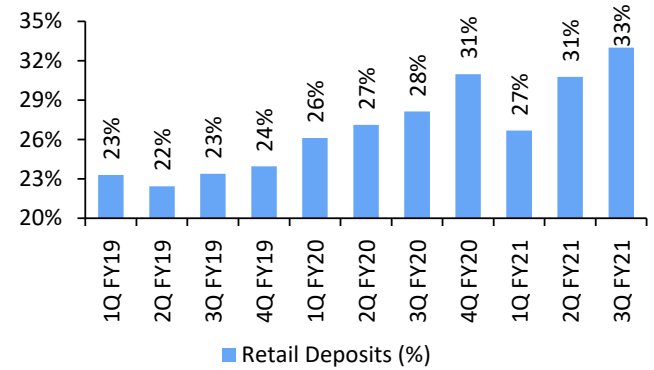
Source: Company, DART

Exhibit 8: Loan growth sluggish as the bank turns cautious



Source: Company, DART

Exhibit 9: Rising share of retail deposits



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q3 FY21	Q3 FY20	% yoy / bps	Q2 FY21	% qoq / bps	9M FY21	9M FY20	% yoy / bps
Interest Inc.	72,415	72,845	(0.6)	71,770	0.9	215,802	213,963	0.9
Yield on Advances (%)	11.7	12.0	(30)	12.0	(30)	11.8	11.8	4
Yield on Assets (%)	8.9	9.9	(102)	9.1	(24)	9.1	9.8	(68)
Interest Expenses	38,354	42,105	(8.9)	38,992	(1.6)	115,872	125,687	(7.8)
Cost of Dep. (%)	5.3	6.5	(115)	5.6	(24)	5.6	6.5	(96)
Cost of Fund (%)	4.7	5.7	(99)	4.9	(20)	4.9	5.8	(84)
Net Interest Income	34,061	30,740	10.8	32,778	3.9	99,931	88,276	13.2
NII to Net Operative Income	66.6	63.2	343	67.8	(120)	67.6	63.0	463
NIM (%)	4.12	4.2	(3)	4.2	(4)	4.2	4.1	9
Core Fee Income	13,890	15,060	(7.8)	10,610	30.9	31,900	43,950	(27.4)
Profit on Sale / Rev of Investments	2,570	2,840	(9.5)	4,930	(47.9)	15,880	7,840	102.6
Other Income - Total	17,055	17,894	(4.7)	15,543	9.7	47,790	51,793	(7.7)
Other Income to Net Operative Income	33.4	36.8	(343)	32.2	120	32.4	37.0	(463)
Net Operating Revenue	51,116	48,634	5.1	48,321	5.8	147,720	140,069	5.5
Employee Expenses	5,427	5,501	(1.3)	7,248	(25.1)	18,192	17,128	6.2
Empl. Cost/Oper. Exps.	10.6	11.3	(69)	15.0	(438)	12.3	12.2	9
Other Opex	15,956	15,677	1.8	12,553	27.1	42,663	43,575	(2.1)
Other Opex/ Assets	0.5	0.5	(4)	0.4	10	1.3	1.5	(17)
Total Opex	21,383	21,178	1.0	19,801	8.0	60,855	60,703	0.2
Cost to Income Ratio (%)	41.8	43.5	(171)	41.0	85	41.2	43.3	(214)
Pre Provision Profits	29,733	27,456	8.3	28,520	4.3	86,866	79,365	9.5
Provisions & Contingencies - Total	18,535	10,435	77.6	19,644	(5.6)	60,768	22,118	174.7
NPA Provisions as % Operating Income	62.3	38.0	2,434	68.9	(654)	70.0	27.9	4,209
Profit Before Tax	11,198	17,022	(34.2)	8,875	26.2	26,098	57,248	(54.4)
Tax	2,670	4,020	(33.6)	2,245	19.0	6,500	16,087	(59.6)
Effective Tax Rate (%)	23.8	23.6	23	25.3	(144.6)	24.9	28.1	(319)
Reported Profits	8,528	13,002	(34.4)	6,631	28.6	19,598	41,161	(52.4)
RoA (%)	1.1	1.8	(73)	0.8	22.1	0.9	1.9	(108)
RoE (%)	8.4	15.6	(727)	7.1	123	7.1	17.1	(999)
Basic EPS	11.3	18.9	(40.3)	9.3	21.2	27.2	59.5	(54.3)

Source: Company, DART

Balance Sheet Analysis	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Net Worth	334,820	340,232	348,280	389,906	398,571	2.2	19.0
RoE (%)	15.6	3.7	5.9	7.1	-	-	-
CET1 (%)	12.1	13.2	13.2	14.5	14.3	(20)	223
Tier 1 (%)	13.5	14.6	14.5	15.8	15.6	(21)	213
Total CAR (%)	13.9	15.0	15.2	16.6	16.3	(21)	242
RWA - Total	2,458,520	2,586,050	2,617,220	2,616,830	2,654,530	1.4	8.0
Advances - Total	2,074,130	2,067,832	1,980,690	2,012,468	2,071,280	2.9	(0.1)
Investments	605,170	599,799	595,960	629,527	610,570	(3.0)	0.9
Total Assets	3,079,430	3,070,576	3,179,160	3,319,963	3,414,460	2.8	10.9
RoA (%)	1.80	0.41	0.62	0.85	1.07	22	(73)
Deposits	2,167,130	2,020,398	2,112,650	2,278,842	2,391,350	4.9	10.3
Saving Deposit	648,950	531,300	525,270	570,730	643,330	12.7	(0.9)
Current Deposit	269,700	284,270	319,460	347,730	323,130	(7.1)	19.8
CASA Deposits	918,650	815,570	844,730	918,460	966,460	5.2	5.2
CASA Ratio (%)	42.4	40.4	40.0	40.3	40.4	10	(200)
Term Deposits	1,248,480	1,204,828	1,267,920	1,360,382	1,424,890	4.7	14.1

Source: Company, DART

Asset Quality (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Gross Advances	1,995,525	2,100,183	2,100,710	2,015,395	2,050,747	2,098,080	2.3
Gross NPA	43,702	45,784	51,467	50,990	45,322	36,507	(19.4)
Gross NPA Ratio (%)	2.19	2.18	2.45	2.53	2.21	1.74	(47)
PCR - Calculated (%)	49.6	52.5	63.3	66.6	76.7	87.3	1,058
Net Advances	1,966,580	2,069,800	2,073,165	1,980,663	2,030,404	2,110,000	3.9
Net NPA	22,026	21,733	18,866	17,034	10,558	4,642	(56.0)
Net NPAs Ratio (%)	1.12	1.05	0.91	0.86	0.52	0.22	(30)

Source: Company, DART

Loan Book Analysis (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	QoQ % / bps	YoY % / bps
Corporate Banking	952,530	913,340	896,610	854,270	884,820	3.6	(7.1)
Large Corporates	512,840	477,420	483,190	419,270	415,510	(0.9)	(19.0)
Mid-size Corporates	396,770	395,590	371,940	398,890	427,110	7.1	7.6
Small Corporates	42,920	40,330	41,480	36,110	42,200	16.9	(1.7)
Consumer Finance	1,121,600	1,154,490	1,074,520	1,158,200	1,186,460	2.4	5.8
Comm. Vehicle Loans	249,770	239,480	250,920	239,320	238,120	(0.5)	(4.7)
Utility Vehicle Loans	42,640	43,770	40,090	45,390	47,660	5.0	11.8
Small CV	35,600	35,240	33,860	36,910	35,900	(2.7)	0.8
Two-Wheeler Loans	52,960	52,040	47,990	57,390	60,310	5.1	13.9
Car Loans	73,360	72,470	70,130	74,600	78,790	5.6	7.4
Tractor	44,000	46,700	41,320	54,840	61,910	12.9	40.7
Equipment Financing	82,380	80,830	80,410	83,690	87,340	4.4	6.0
Credit Card	45,760	47,620	42,030	48,530	52,250	7.7	14.2
Loan Against Property	95,390	94,480	87,850	95,400	93,620	(1.9)	(1.9)
BL, PL, GL, Others	77,570	83,110	77,480	82,990	84,730	2.1	9.2
MFI	207,570	242,320	188,840	223,830	230,080	2.8	10.8
BBG	114,600	116,430	113,600	115,310	115,750	0.4	1.0
Advances - Total	2,074,130	2,067,832	1,971,126	2,012,468	2,071,280	2.9	(0.1)

Source: Company, DART

Conference Call Highlights

- Rs 1.85bn of **interest reversals** during the quarter
- The bank made Rs 11bn of additional COVID-19 related provisions with the total COVID provisions now at 1.6%; ~Rs 1bn of excess COVID provisions are not included in PCR. Overall provisions now stand at 3.3% of loan book
- **CASA growth** was driven by retail segment, aiding in reducing cost of deposits. TD rates were lowered in Dec'20 and benefits are expected to flow in the current quarter. Sequential **CA** decline was in part due to dividend pay-outs by corporates and few accounts moving into CC/OD limits. **NRI** liabilities now stand at Rs 235bn
- The bank sanctioned ~Rs 42bn but has disbursed ~Rs 29bn under **ECLGS** primarily to CV, MSME (~Rs 22bn) and business banking segments.
- Management guided for ~1.4-1.7% of long term RoA.
- Yields are expected to be range bound and were lower by 20bps in the quarter due to interest reversals. The bank is willing to undercut margins in order to on grow its corporate book. Margins are expected to be range bound at 4.15% - 4.25%
- Credit costs are expected to remain elevated in Q4FY21 as the bank provides additional cushions to mitigate stress.

Asset Quality

- **SMA-2** stood at 39bps
- **Pro-forma slippages** were Rs 25.1bn or ~1.2% of loans. Slippages were split as follows: Vehicles 20%; MFI 20%; Secured Retail 30%; Unsecured Retail 30%, and the balance from corporates and other loans. The bank holds 77% PCR on the same.
- **Slippages** in the MFI book stood at Rs 4.7bn, and the bank expects another ~Rs 1-1.2bn of NPAs in Q4. Vehicle book slippages stood at ~80bps (vs 50bps on BAU basis)
- **Restructuring** stood at 0.6% of loans, while another 1.2% are in the process. Within the restructured book 30% are in the secured vehicle book, another 13% in the non-vehicle retail book, while the balance is to corporates.
- **Corporate restructured book** including 2 large accounts (where recovery is awaited) stood at ~Rs 22bn largely towards travel, retail, construction, hospitality.
- **RE book** has been stressed, however there were no restructuring. Out of the 2 developer projects that were stressed, one is out of the stress book, while the bank is evaluating multiple recovery options for the second.
- The bank expects few lumpy **recoveries** in the next 2 quarters (ex-ILFS).
- The management expects 20-30bps of slippages from the **SME book** in Q4FY21

Portfolio Performance

- **Vehicle** disbursements were back to pre-covid levels. Vehicle portfolio has outperformed the market. ~80bps of slippages in Q3 were marginally higher than normalised levels of ~50bps per quarter. **Restructuring** was invoked in ~1.7% of the book, pre-dominantly to the luxury bus segment which have been of excellent quality and are expected to bounce back as the economy stabilizes.

- **Unsecured retail** (4% of overall book) pro-forma slippages were ~9% (vs 5% BAU levels). Collection efficiency in the portfolio is back to pre-covid levels of 97%. Maintaining 100% PCR.
- The bank had turned cautious on **MFI** in 2020 itself which has helped contain stress. Exposure to Assam is ~Rs 45crs while exposure to West Bengal has reduced from 15% to 13%. **Collection efficiency** in WB has improved from 70% Q2 to 90% in Q3 and 93% as of last week. WB **ticket sizes** have reduced to Rs 12,600, much lower than industry average. **Slippages** in the MFI book stood at Rs 4.7bn, and the bank expects another ~Rs 1-1.2bn of NPAs in Q4. Overall MFI NPAs are expected to be below 3%. Future growth in the book is expected to be calibrated and driven by geographic expansion and new customer acquisitions
- **LAP and BB book** is expected to pivot towards growth.
- **Corporate book** is strengthening and becoming increasingly granular. Growth is largely from supply chain finance, logistics, WCL (in MNCs), and gems and jewellery

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	2,87,828	2,90,007	3,16,700	3,61,126
Interest expenses	1,67,241	1,53,860	1,73,649	1,99,184
Net interest income	1,20,587	1,36,147	1,43,052	1,61,942
Other incomes	69,528	66,684	64,709	72,007
Total expenses	82,373	85,567	1,00,006	1,17,184
- Employee cost	22,085	24,072	27,443	31,559
- Other	60,289	61,494	72,563	85,625
Pre provisioning profit	1,07,742	1,17,265	1,07,754	1,16,765
Provisions	46,521	76,118	39,467	34,179
Profit before taxes	61,221	41,147	68,288	82,586
Tax provision	17,027	9,875	17,188	20,787
Profit after tax	44,194	31,272	51,100	61,799
Adjusted profit	44,194	31,272	51,100	61,799

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	6,935	7,563	7,563	7,563
Reserves & Surplus	3,40,130	3,97,334	4,40,440	4,94,480
Minority Interest	0	0	0	0
Net worth	3,47,065	4,04,897	4,48,003	5,02,043
Borrowings	6,07,536	5,61,180	5,44,229	6,29,087
- Deposits	20,20,398	22,44,718	26,57,119	30,71,425
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	95,577	1,07,373	1,13,138	1,16,826
Total Liabilities	30,70,575	33,18,167	37,62,489	43,19,382
Application of Funds				
Cash and balances with RBI	1,60,037	1,70,130	1,92,740	2,21,280
Investments	5,99,799	7,05,635	8,05,587	9,20,241
Advances	20,67,832	21,29,867	24,06,749	27,67,762
Fixed assets	18,201	20,417	21,476	23,772
Other current assets, loans and advances	2,24,707	2,92,119	3,35,937	3,86,327
Total Assets	30,70,575	33,18,167	37,62,489	43,19,382

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	12.2	11.6	11.7	11.7
Yields on interest earning assets	10.6	9.9	9.9	9.9
Yield on investments	6.7	7.2	5.9	6.1
Costs of funds	6.6	5.7	5.8	5.8
Cost of deposits	6.1	6.5	5.8	6.0
NIMs	4.4	4.7	4.5	4.4
(B) Asset quality and capital ratios (%)				
GNPA	2.5	3.2	2.7	2.0
NNPA	0.9	0.8	0.7	0.5
PCR	63.3	75.0	74.0	73.0
Slippages	3.1	3.0	2.5	2.0
NNPA to NW	5.6	4.3	3.8	3.1
CASA	40.4	43.0	43.0	43.0
CAR	15.0	15.9	15.4	14.9
Tier 1	14.6	15.4	15.0	14.5
Credit - Deposit	102.3	94.9	90.6	90.1
(C) Dupont as a percentage of average assets				
Interest income	9.8	9.1	8.9	8.9
Interest expenses	5.7	4.8	4.9	4.9
Net interest income	4.1	4.3	4.0	4.0
Non interest Income	2.4	2.1	1.8	1.8
Total expenses	2.8	2.7	2.8	2.9
- cost to income	43.3	42.2	48.1	50.1
Provisions	1.6	2.4	1.1	0.8
Tax	0.6	0.3	0.5	0.5
RoA	1.5	1.0	1.4	1.5
Leverage	9.1	8.4	8.6	8.8
RoE	14.6	8.5	12.2	13.2
RoRwa	1.5	1.7	1.1	1.6
(D) Measures of Investments				
EPS - adjusted	63.7	41.3	67.6	81.7
BV	486.1	521.2	577.9	648.8
ABV	451.8	492.9	550.0	622.9
DPS	8.5	9.0	9.0	9.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	36.3	12.9	5.1	13.2
PPoP	33.2	8.8	(8.1)	8.4
Adj PAT	33.9	(29.2)	63.4	20.9
Advances	10.9	3.0	13.0	15.0
Total borrowings	28.4	(7.6)	(3.0)	15.6
Total assets	10.5	8.1	13.4	14.8
(F) Valuation Ratios				
Market Cap (Rs. mn)	6,39,894	6,39,894	6,39,894	6,39,894
CMP (Rs.)	846	846	846	846
P/E (x)	13.3	20.5	12.5	10.4
P/BV (x)	1.7	1.6	1.5	1.3
P/ABV (x)	1.9	1.7	1.5	1.4
Div Yield (%)	1.0	1.1	1.1	1.1

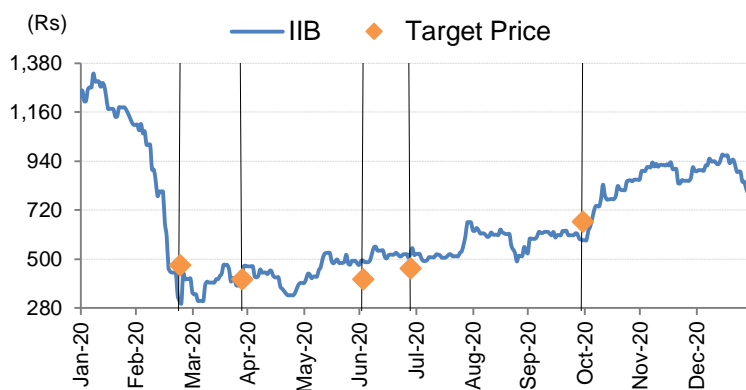
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Reduce	474	312
Apr-20	Accumulate	410	407
Jul-20	Sell	410	495
Jul-20	SELL	460	527
Oct-20	Accumulate	670	586

*Price as on recommendation date

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