

February 17, 2021

## Company Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,195		1,026	
NII (Rs. m)	1,54,802	1,76,567	1,49,813	1,72,982
% Chng.	3.3	2.1		
Op. Profit (Rs. m)	1,27,754	1,38,192	1,22,765	1,33,920
% Chng.	4.1	3.2		
EPS (Rs.)	77.0	98.8	71.1	96.2
% Chng.	8.3	2.7		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs m)	1,20,587	1,36,605	1,54,802	1,76,567
Op. Profit (Rs m)	1,07,727	1,18,984	1,27,754	1,38,192
PAT (Rs m)	44,179	32,762	59,178	75,930
EPS (Rs.)	63.8	44.8	77.0	98.8
Gr. (%)	1.6	(29.7)	71.8	28.3
DPS (Rs.)	7.5	-	11.0	15.0
Yield (%)	0.7	-	1.0	1.4
NIM (%)	4.4	4.5	4.6	4.6
RoAE (%)	13.5	8.4	12.9	14.7
RoAA (%)	1.5	1.0	1.6	1.8
P/BV (x)	2.1	1.9	1.7	1.5
P/ABV (x)	2.3	2.0	1.8	1.5
PE (x)	16.6	23.6	13.7	10.7
CAR (%)	15.0	17.2	17.9	18.5

### Key Data

INBK.BO | IIB IN

52-W High / Low	Rs.1,209 / Rs.236
Sensex / Nifty	52,104 / 15,313
Market Cap	Rs.801bn/ \$ 11,024m
Shares Outstanding	757m
3M Avg. Daily Value	Rs.25779.54m

### Shareholding Pattern (%)

Promoter's	13.44
Foreign	50.33
Domestic Institution	14.83
Public & Others	21.40
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	9.6	108.6	(10.0)
Relative	3.1	51.7	(28.7)

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## Promoter commitment coming through

### Quick Pointers:

- Infusion of Rs20.2bn will lift capital levels by 1-1.5% with CET-I moving to 16%
- Promoters pledges 5.64% stake of IIB, will look to list holding entity outside India by strategic investment/ acquisition

**IIB's promoter has taken a leap ahead to convert its due warrants of Rs20.2bn at premium of 62% from CMP, although warrants issued in Q1FY20 were also at 18% premium. Infusion of money will increase promoter stake to 15%, add 3% to BV, improve capital by 4-5% with CET-I moving to ~16% from 14.3% in Q3FY21. Promoter has pledged its holding in IIB of 5.64% (Rs40bn on Mcap) looking for acquisition/strategic investment to convert promoter holding entity (IIHL) into listed operating entity outside India by Sep'21 and provide exit to its shareholders. Promoters also intends to increase its stake to 26% if permitted by RBI and we need to see funding for the same. IIB should improve its ROEs to 14-15% and ROA towards 2% by FY23E with delta from normalizing credit cost in FY22/FY23E, while improving operationally with focus on granular retail assets & liabilities. We retain BUY with revised TP of Rs1,195 (from Rs1,026) based on 1.7x (from 1.5x) Mar-23 ABV.**

- Promoter holding up commitment:** Promoters raise money to infuse Rs20.2bn of capital in IIB by converting 75% balance warrants at premium of 62% from CMP issued in Q1FY20 and due by 18<sup>th</sup> Feb'21. It has also created pledge of its IIB's shareholding of 5.64% intending to do M&A & list promoter entity, while looks further to raise shareholding in IIB to 26% if permitted by RBI. Capital infusion will lift capital levels to much strong levels with CET-I of ~16% providing strong pillar for growth. Operationally things are stabilizing especially as liability franchise is moving back on track and improving, while upfront provisioning is lowering pressure on asset quality with much better PCR levels of 70-75% adding comfort on balance sheet going ahead.
- Asset quality cautious in MFI/VF, otherwise normalizing:** Pro-forma GNPA/NNPA and slippages in Q3FY21 were slightly higher with mainly being from retail secured & unsecured. Collection efficiency has been improving in MFI but still lower than pre-COVID, while in vehicle finance has come back to normalized levels. Risks in VF, MFI and unsecured loans remain at medium to high levels, while few assets in corporate assets could add to volatility in asset quality. Bank has tried to resolve its perception on asset quality in Gems & jewellery, real estate and NBFC exposures and until now has held up well. It holds additional provisions of Rs10bn (50bps of loans) over and above the provisions in pro-forma PCR of 77% and adds comfort from lower restructured book of 60bps helping credit cost normalize towards 100-130bps by FY23 and maintain PCR between 70-75%.
- Planning Cycle 5 to reset business:** Though PC5 has similar targeted outcomes compared to last cycles but we believe it should reset business as aggression is lower but focus is to granularize assets from lowering exposure (sell downs), scale up existing businesses with focus on secured assets and grow in new areas, while improve retail liabilities in both term deposit and CASA. Important factor in PC5 will be high focus on improving technology and digital delivery which should help higher penetration & efficiency.

## Planning Cycle 5

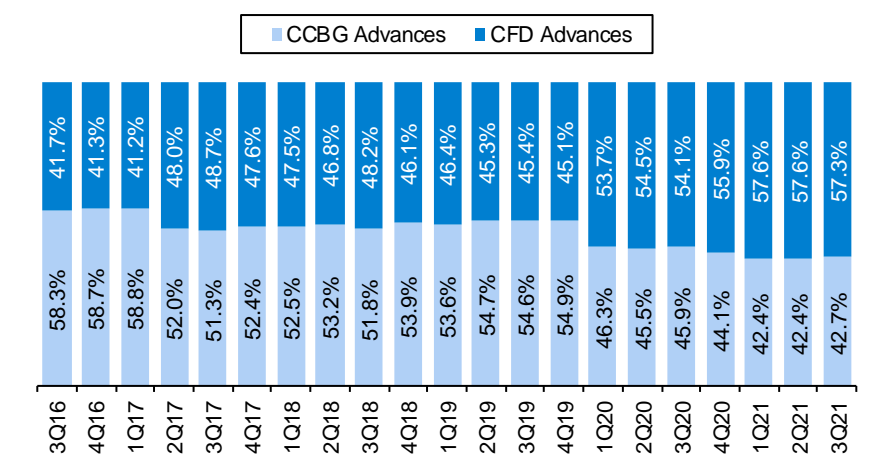
- Bank has built its PC5 based on conservative approach towards bringing down C-D ratio <95%, CD at 5-10% of deposits and retail LCR at 45-50% of deposits, keep unsecured retail at <5% of loans and PCR of >65%
- Immediate priorities are to improve retail liabilities, improve corporate approach, holistic rural banking, scale up existing areas of segments and new growth boosters
- PC5 outcome measurements are **(i)** Loan growth of 15-18% (more in FY22-23) **(ii)** CASA ratio of >40% **(iii)** PPOP/Loans of >5% **(iv)** branch network of 2500 and **(v)** double customer base >45mn.

**Exhibit 1: Most metrics remain aggressive compared to earlier PCs except for loan growth**

Planning Cycle Business Metrics	PC2	PC3	PC4	PC5	Current
	FY11-14	FY14-17	FY17-20	FY20-23	
Loan growth	25-30%	25-30%	25-30%	15-18% for FY22/FY23	Flat
CASA Ratio	>35%	Exceed Loan growth >35%	40%	>40%	40.4%
Revenue Growth			Exceed B/s growth	Exceed B/s growth	5.1%
PPOP/Loans				>5%	4.2%
Branch Network		1200	2000	2500	1,915
Customer base		Double to >9mn	Double to >20mn	Double to >45mn	26mn
RORWA			>2.4%		
Fee growth	Exceed loan growth	Exceed B/s growth			
Manage C-D ratio	>75 <80%			<95%	

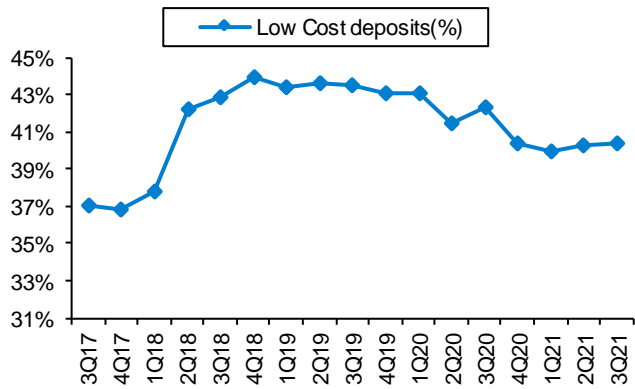
Source: Company, PL

**Exhibit 2: Retail mix improving gradually; mix to move towards 60% retail**



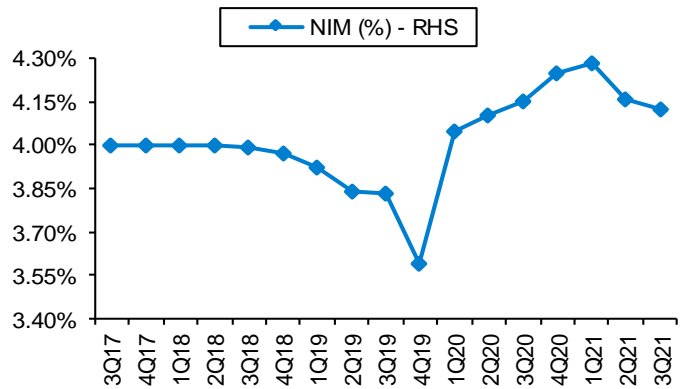
Source: Company, PL Research

**Exhibit 3: CASA ratio is gradually improving**



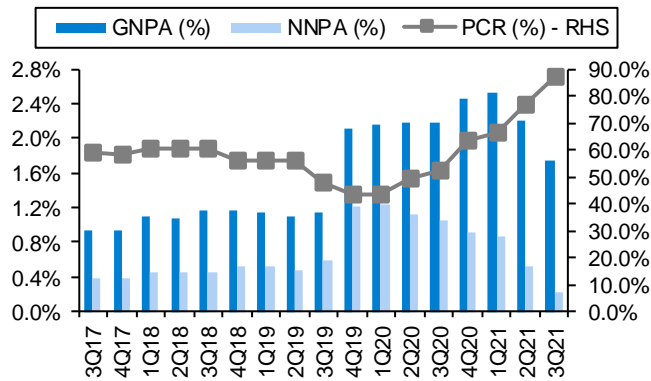
Source: Company, PL

**Exhibit 4: Margins have held up above +4%**



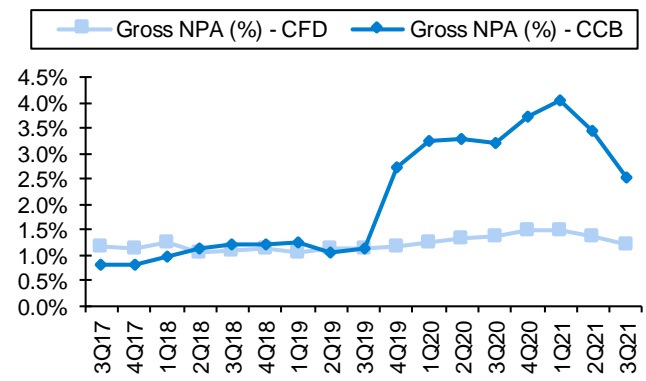
Source: Company, PL **Note** – Not comparable due to merger

**Exhibit 5: PCR at better levels, NPs on Pro-forma slightly up**



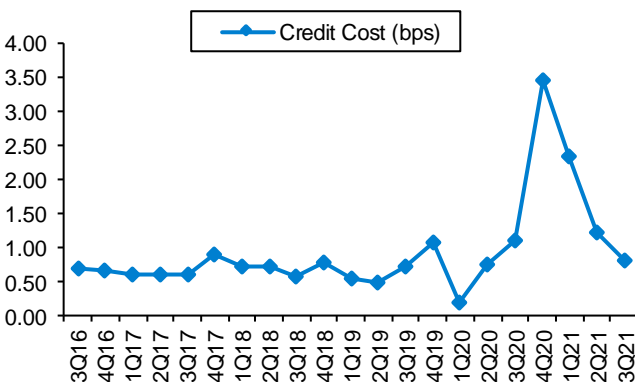
Source: Company, PL

**Exhibit 6: CFD Asset quality need to be watched**



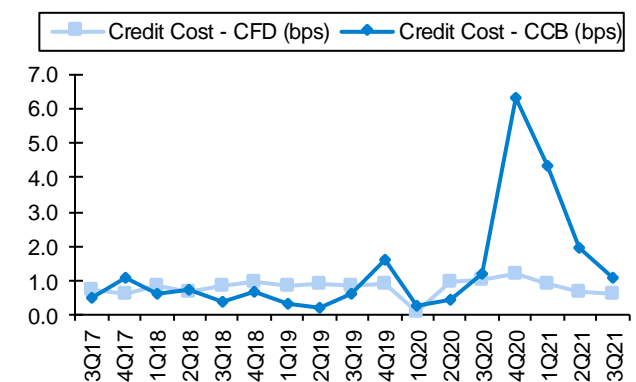
Source: Company, PL

**Exhibit 7: Credit cost normalizing post ILFS provisions**



Source: Company, PL

**Exhibit 8: Corporate credit cost reducing significantly**



Source: Company, PL

**Exhibit 10: Return ratio should improve post frontloading provisions in FY21**

RoE decomposition (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest income	8.96	8.63	9.56	9.67	8.92	8.95	9.05
Interest expenses	5.19	4.89	5.48	5.62	4.73	4.72	4.78
<b>Net interest income</b>	<b>3.77</b>	<b>3.75</b>	<b>4.08</b>	<b>4.05</b>	<b>4.19</b>	<b>4.23</b>	<b>4.28</b>
Treasury income	0.74	0.65	0.58	0.72	0.79	0.45	0.43
Other Inc. from operations	1.85	1.73	1.75	1.62	1.24	1.42	1.37
<b>Total income</b>	<b>6.37</b>	<b>6.12</b>	<b>6.41</b>	<b>6.39</b>	<b>6.22</b>	<b>6.11</b>	<b>6.07</b>
Employee expenses	0.95	0.89	0.90	0.74	0.73	0.72	0.73
Other operating expenses	2.03	1.90	1.86	2.03	1.84	1.90	1.99
<b>Operating profit</b>	<b>3.39</b>	<b>3.33</b>	<b>3.65</b>	<b>3.62</b>	<b>3.65</b>	<b>3.49</b>	<b>3.35</b>
Tax	0.93	0.94	0.82	0.57	0.35	0.57	0.65
Loan loss provisions	0.68	0.59	1.24	1.56	2.29	1.31	0.86
<b>RoAA</b>	<b>1.78</b>	<b>1.80</b>	<b>1.59</b>	<b>1.48</b>	<b>1.01</b>	<b>1.62</b>	<b>1.84</b>
<b>RoAE</b>	<b>14.96</b>	<b>16.21</b>	<b>14.81</b>	<b>13.47</b>	<b>8.40</b>	<b>12.92</b>	<b>14.72</b>

Source: Company, PL Research

**Exhibit 11: We add capital tweak topline & raise provisioning, while adjust capital raising & warrants**

Earnings Estimates Change (Rs mn)	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	134,894	149,813	172,982	136,605	154,802	176,567	1.3	3.3	2.1
Operating profit	117,272	122,765	133,920	118,984	127,754	138,192	1.5	4.1	3.2
Net profit	31,495	53,767	72,768	32,762	59,178	75,930	4.0	10.1	4.3
Loan Growth (%)	6.0	12.2	13.2	5.9	12.3	13.2	(0.1)	0.1	(0.0)
Credit Cost (bps)	350.0	210.0	130.0	350.0	200.0	130.0	-	(10.0)	-
EPS (Rs)	43.4	71.0	96.1	44.8	77.0	98.8	3.2	8.4	2.7
ABVPS (Rs)	518.7	577.3	664.7	538.7	601.1	695.2	3.9	4.1	4.6
<b>Price target (Rs)</b>		<b>1026</b>			<b>1195</b>			<b>16.5%</b>	
<b>Recommendation</b>		<b>BUY</b>			<b>BUY</b>				

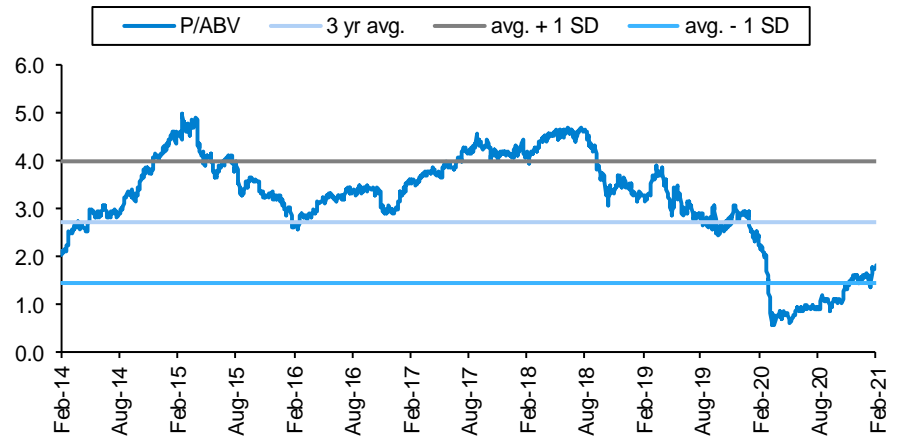
Source: Company Data, PL

**Exhibit 12: We revise our TP to Rs1195 (from Rs1,026) based on 1.7x (from 1.5x) Mar-23 ABV**

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	7.0%
Risk-free rate	6.3%
Adjusted beta	1.13
<b>Cost of equity</b>	<b>14.2%</b>
<b>Fair price - P/ABV, Rs</b>	<b>1,195</b>
<b>Target P/ABV (x)</b>	<b>1.7</b>
<b>Target P/E (x)</b>	<b>12.1</b>
Current price, Rs	1,058
<b>Upside (%)</b>	<b>13%</b>

Source: Company, PL Research

Exhibit 13: One year forward valuation chart



Source: Company, PL Research

**Income Statement (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Earned from Adv.	2,40,082	2,40,675	2,67,193	3,03,282
Int. Earned from invt.	42,822	37,377	45,482	60,638
Others	4,924	12,604	14,775	10,029
<b>Total Interest Income</b>	<b>2,87,828</b>	<b>2,90,656</b>	<b>3,27,450</b>	<b>3,73,950</b>
Interest Expenses	1,67,241	1,54,050	1,72,648	1,97,382
<b>Net Interest Income</b>	<b>1,20,587</b>	<b>1,36,605</b>	<b>1,54,802</b>	<b>1,76,567</b>
Growth(%)	16.0	13.3	13.3	14.1
Non Interest Income	69,513	66,037	68,679	74,173
<b>Net Total Income</b>	<b>1,90,100</b>	<b>2,02,643</b>	<b>2,23,481</b>	<b>2,50,741</b>
Growth(%)	17.9	(0.2)	11.1	13.1
Employee Expenses	22,085	23,852	26,237	30,172
Other Expenses	57,509	56,934	66,613	79,269
Operating Expenses	82,373	83,659	95,727	1,12,549
<b>Operating Profit</b>	<b>1,07,727</b>	<b>1,18,984</b>	<b>1,27,754</b>	<b>1,38,192</b>
Growth(%)	15.8	10.4	7.4	8.2
NPA Provision	36,353	49,545	46,468	33,989
Total Provisions	46,521	74,711	47,783	35,584
<b>PBT</b>	<b>61,206</b>	<b>44,273</b>	<b>79,971</b>	<b>1,02,608</b>
Tax Provision	17,027	11,511	20,792	26,678
Effective tax rate (%)	27.8	26.0	26.0	26.0
<b>PAT</b>	<b>44,179</b>	<b>32,762</b>	<b>59,178</b>	<b>75,930</b>
Growth(%)	9.0	(25.8)	80.6	28.3

**Balance Sheet (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Face value	10	10	10	10
No. of equity shares	694	769	769	769
Equity	6,935	7,688	7,688	7,688
Networth	3,46,970	4,32,833	4,83,555	5,47,952
Growth(%)	12.3	24.7	11.7	13.3
Adj. Networth to NNPA's	18,866	15,052	17,607	9,509
Deposits	20,20,398	23,43,662	26,95,211	30,99,493
Growth(%)	3.7	16.0	15.0	15.0
CASA Deposits	8,15,698	9,67,932	11,15,817	12,95,588
% of total deposits	40.4	41.3	41.4	41.8
<b>Total Liabilities</b>	<b>30,70,481</b>	<b>34,46,012</b>	<b>38,73,346</b>	<b>43,86,528</b>
Net Advances	20,67,832	21,91,902	24,54,930	27,74,071
Growth(%)	6.5	6.0	12.0	13.0
Investments	5,99,362	5,93,869	8,20,146	10,36,508
<b>Total Assets</b>	<b>30,70,138</b>	<b>34,45,579</b>	<b>38,72,748</b>	<b>43,85,773</b>
Growth (%)	6.6	12.2	12.4	13.2

**Asset Quality**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs (Rs m)	51,467	60,879	60,409	39,218
Net NPAs (Rs m)	18,866	15,052	17,607	9,509
Gr. NPAs to Gross Adv.(%)	2.5	2.8	2.5	1.4
Net NPAs to Net Adv. (%)	0.9	0.7	0.7	0.3
NPA Coverage %	63.3	75.3	70.9	75.8

**Profitability (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	4.4	4.5	4.6	4.6
RoAA	1.5	1.0	1.6	1.8
RoAE	13.5	8.4	12.9	14.7
Tier I	14.6	16.4	17.1	17.8
CRAR	15.0	17.2	17.9	18.5

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Interest Income	73,866	71,617	71,772	72,415
Interest Expenses	41,554	38,525	38,992	38,354
<b>Net Interest Income</b>	<b>32,312</b>	<b>33,092</b>	<b>32,780</b>	<b>34,061</b>
YoY growth (%)	44.7	16.4	12.7	10.8
CEB	13,900	6,820	10,610	13,890
Treasury	-	-	-	-
Non Interest Income	17,720	15,192	15,543	17,055
<b>Total Income</b>	<b>91,586</b>	<b>86,809</b>	<b>87,315</b>	<b>89,470</b>
Employee Expenses	4,957	5,516	7,248	5,427
Other expenses	16,713	14,154	12,555	15,956
Operating Expenses	21,670	19,671	19,803	21,383
<b>Operating Profit</b>	<b>28,362</b>	<b>28,613</b>	<b>28,520</b>	<b>29,733</b>
YoY growth (%)	37.2	10.4	9.7	8.3
Core Operating Profits	24,532	20,233	23,590	27,163
NPA Provision	17,860	11,660	6,200	4,250
Others Provisions	24,403	22,589	19,644	18,535
Total Provisions	24,403	22,589	19,644	18,535
<b>Profit Before Tax</b>	<b>3,959</b>	<b>6,025</b>	<b>8,875</b>	<b>11,198</b>
Tax	940	1,418	2,245	2,670
<b>PAT</b>	<b>3,018</b>	<b>4,606</b>	<b>6,631</b>	<b>8,528</b>
YoY growth (%)	(16.2)	(67.8)	(52.1)	(34.4)
<b>Deposits</b>	<b>20,20,398</b>	<b>21,12,650</b>	<b>22,78,842</b>	<b>23,91,350</b>
YoY growth (%)	3.7	5.3	10.0	10.3
<b>Advances</b>	<b>20,67,832</b>	<b>19,80,690</b>	<b>20,12,468</b>	<b>20,71,280</b>
YoY growth (%)	10.9	2.4	2.1	(0.1)

**Key Ratios**

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	1,058	1,058	1,058	1,058
EPS (Rs)	63.8	44.8	77.0	98.8
Book Value (Rs)	496	559	625	709
Adj. BV (70%)(Rs)	468	539	601	695
P/E (x)	16.6	23.6	13.7	10.7
P/BV (x)	2.1	1.9	1.7	1.5
P/ABV (x)	2.3	2.0	1.8	1.5
DPS (Rs)	7.5	-	11.0	15.0
Dividend Payout Ratio (%)	11.8	-	14.3	15.2
Dividend Yield (%)	0.7	-	1.0	1.4

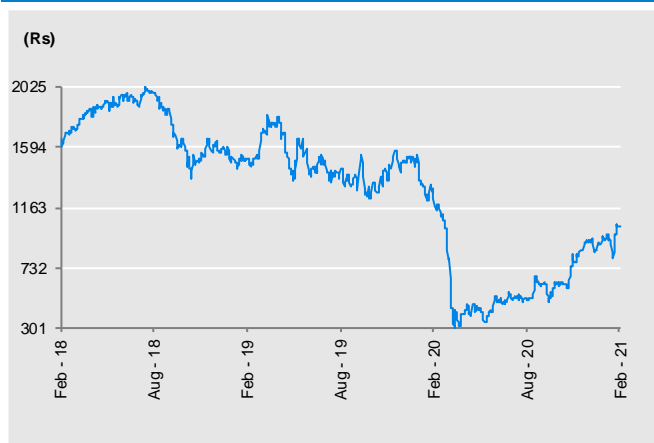
**Efficiency**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Cost-Income Ratio (%)	43.3	41.3	42.8	44.9
C-D Ratio (%)	102.3	93.5	91.1	89.5
Business per Emp. (Rs m)	133	137	144	152
Profit per Emp. (Rs lacs)	14	10	17	20
Business per Branch (Rs m)	2,139	1,978	1,872	1,779
Profit per Branch (Rs m)	23	14	22	23

**Du-Pont**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	4.05	4.19	4.23	4.28
Total Income	6.39	6.22	6.11	6.07
Operating Expenses	2.77	2.57	2.62	2.73
PPoP	3.62	3.65	3.49	3.35
Total provisions	1.56	2.29	1.31	0.86
RoAA	1.48	1.01	1.62	1.84
RoAE	13.47	8.40	12.92	14.72

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	31-Jan-21	BUY	1,026	846
2	11-Jan-21	Accumulate	1,026	940
3	31-Oct-20	BUY	720	586
4	09-Oct-20	BUY	680	623
5	29-Jul-20	BUY	680	527
6	08-Jul-20	BUY	720	553
7	28-Apr-20	BUY	720	407
8	14-Apr-20	BUY	785	410
9	31-Mar-20	BUY	785	413

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	725	632
2	Bank of Baroda	BUY	82	74
3	Federal Bank	Accumulate	88	77
4	HDFC Bank	BUY	1,690	1,467
5	HDFC Life Insurance Company	Reduce	650	687
6	ICICI Bank	BUY	630	537
7	IDFC First Bank	Sell	32	47
8	IndusInd Bank	BUY	1,026	846
9	Kotak Mahindra Bank	Hold	1,912	1,794
10	Max Financial Services	Accumulate	760	727
11	Punjab National Bank	Accumulate	43	38
12	SBI Life Insurance Company	BUY	1,080	858
13	South Indian Bank	BUY	10	9
14	State Bank of India	BUY	445	355

**PL's Recommendation Nomenclature (Absolute Performance)**

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

## ANALYST CERTIFICATION

### (Indian Clients)

We/I, Mr. Pritesh Bumb- MBA, M.com, Mr. Anmol Das- PGPM (Finance), B. Tech. (Electronics and Communications Engineering) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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