Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

IndusInd Bank

Headwinds receding, fundamentals stay strong

Banks & Finance | Sharekhan code: INDUSINDBK | Company Update

Stock Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,058**	
Price Target: **Rs. 1,340**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

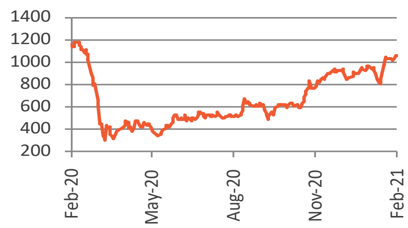
Company details

Market cap:	Rs. 80,175 cr
52-week high/low:	Rs. 1209/236
NSE volume: (No of shares)	176.7 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	65.5 cr

Shareholding (%)

Promoters	13.4
FII	60.2
DII	17.6
Others	8.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.4	35.0	106.2	-7.2
Relative to Sensex	6.2	16.4	69.3	-34.6

Sharekhan Research, Bloomberg

Summary

- IndusInd Bank has a strong asset quality position (with front-loaded provisions) that has led to an improved balance sheet; healthy capitalisation makes it well-placed to capture growth in FY22E and FY23E.
- Collections efficiency (CE) has been recovering; overall vehicle collection efficiency was at 96.9% and MFI CE was at 94.4%, which is encouraging.
- IIB has total provisions at 188% of GNPAs and 111% of proforma GNPA are a cushion in the present environment.
- At 1.8x/1.6x its FY2022E/FY2023E BVPS, we maintain a Buy rating on stock with a revised PT of Rs. 1,340.

IndusInd Bank has a strong asset quality position (with front-loaded provisions) that has led to an improved balance sheet. Healthy capitalisation places it well to capture growth in FY22E and FY23E. A sequential improvement in collection efficiency (CE) (overall vehicles CE is at 96.9%, while for MFIs it is at 94.4%) augurs well. A sharp rise in reported GNPA/NNPA numbers, which came at 1.74%/0.22%, down 47 bps/30 bps q-o-q. Even on a proforma basis, GNPA/ NNPA ratio is at 2.93%/0.70%, respectively, are well-contained, and is positive. The bank has strengthened its balance sheet by improving provision coverage ratio to 87% as of December 2020. Provisions and contingencies for Q3FY2021 comprising provisions for credit and other losses were Rs. 1,853 crore of provisions as compared to Rs. 1,448 crore in Q2FY2021. Total provisions (comprising specific, floating, general and standard asset provisions) stood at 188% of GNPAs and 111% of proforma GNPAs and are a cushion in the present environment. The bank's 'BBB and below-rated' exposures are well-collateralised with a five-year average slippage of 0.4%, which will help contain NPAs. The bank has strengthened its balance sheet by improving its provision coverage ratio and the recent capital raise has also helped. Going forward, we expect credit cost and advances growth for FY2022E to be normal and hence believe that the bank's improved position vis-à-vis its balance sheet. We have tweaked target multiples to pre-COVID levels, in light of an improved outlook. We maintain a Buy rating on the stock with a revised PT of Rs. 1,340.

Our Call

Valuation: IndusInd Bank currently trades at 1.8x/1.6x its FY2022E/FY2023E book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. We believe that the growth outlook is improving. Moreover, better collection efficiency and the expected low restructuring pipeline indicate that credit costs are manageable, and normalcy is set to return in FY2022. We believe that the bank's balance sheet has improved and valuations are reasonable. We have tweaked target multiples to pre–COVID levels, in light of the improved outlook. We maintain our Buy rating with a revised PT of Rs. 1,340.

Key Risks

Rise in slippages and delay in recoveries from stressed corporate loan book and slower growth in retail/MFI loan book may impact earnings.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	8846	12060	12781	15020	17022
PAT	3301	4460	2943	5456	6363
EPS	55.0	68.8	38.9	72.1	84.1
BVPS	438.4	498.0	522.8	586.9	661.7
ROE %	13.1	14.7	7.4	12.3	12.7
ROA %	1.2	1.4	0.7	1.1	1.1
P/E (x)	19.2	16.6	27.2	14.7	12.6
P/BV (x)	2.4	2.1	2.0	1.8	1.6

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Credit growth yet to pick up, private banks placed better

System-level credit offtake, which is still subdued, is now improving, with a credit growth of ~6% in the latest fortnight. On the other hand, deposits rose by ~12%, which indicate a relatively healthy economic scenario. Moreover, the RBI's accommodative stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financial services companies. The end of the loan moratorium is a relief. Going forward, collection efficiency is likely to be a function of book quality, client profile, as well as economic pick-up. At present, we believe the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe that private banks, with improved capitalisation and strong asset quality (with high coverage and provisions buffers) are structurally better-placed to take off once the situation normalises.

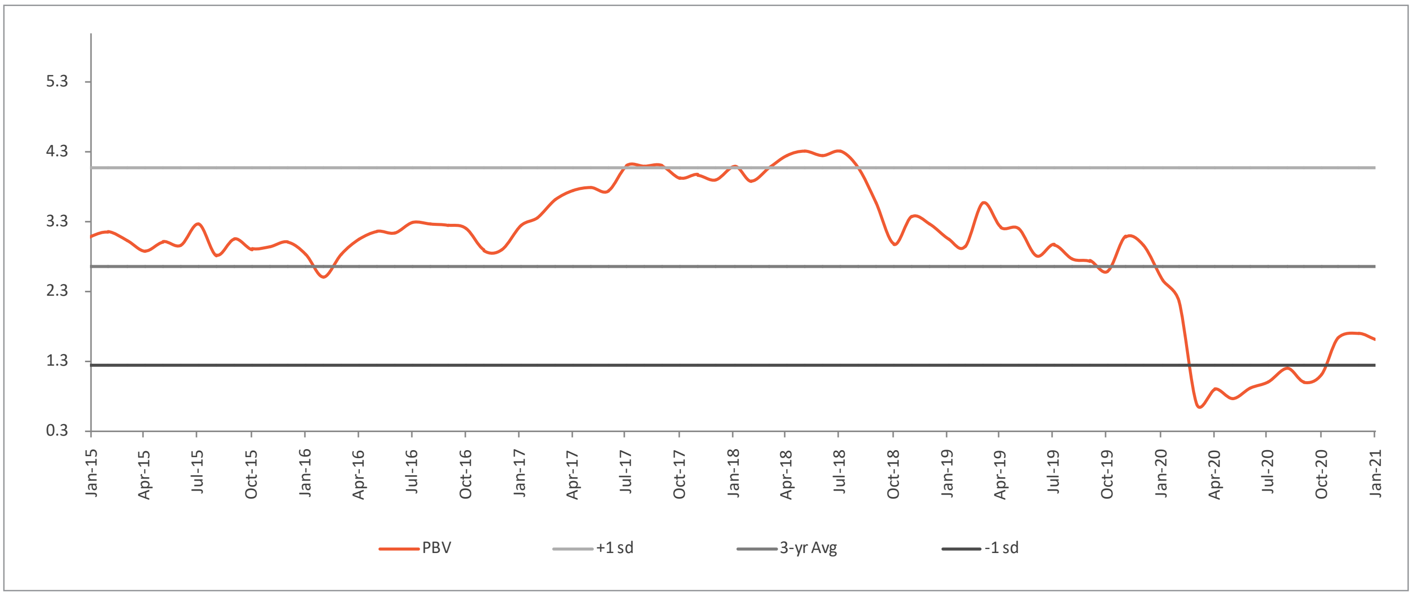
■ Company outlook - Promising outlook

We expect IIB to address challenges through a combination of better strategy and execution and prudent disclosure with a focus on reducing risk. While for the near term, asset quality will be a key monitorable, we expect pessimism to gradually ease over the medium term. Factors such as the bank's willingness to recognise stress upfront in any loan segment, before it becomes challenging and a strategy to build adequate provisions or counter-cyclical buffers if the business is risky will be long-term cushions. Our constructive view on IndusInd Bank is backed by its demonstrated strong asset-quality performance (for most period in recent years, except in the near past), along with improved capital levels (CET 1 at 14.3%). Near-term challenges continue, but we expect growth and credit cost to normalise in FY2022E, given improving macro conditions and the bank's stated stance to be front-load provisions. We expect NIM to be at 4.1-4.3% for the medium term, supported by its improving liability franchise.

■ Valuation - We maintain Buy on the stock with an unchanged PT of Rs. 1,340

IndusInd Bank currently trades at 1.8x/1.6x its FY2022E/FY2023E book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. We believe that the growth outlook is improving. Moreover, better collection efficiency and the expected low restructuring pipeline indicate that credit costs are manageable, and normalcy is set to return in FY2022. We believe that the bank's balance sheet has improved and valuations are reasonable. We have tweaked target multiples to pre–COVID levels, in light of the improved outlook. We maintain our Buy rating with a revised PT of Rs. 1,340.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
IndusInd Bank	858	1.6	1.5	22.1	11.9	0.7	1.1	7.4	12.3
RBL Bank	258	1.2	1.1	27.3	12.7	0.6	1.1	4.7	9.0
Federal Bank	85	1.1	1.0	11.3	8.7	0.8	1.0	9.6	11.5

Source: Bloomberg, Sharekhan research

About company

IIB is a private bank established in 1994, having a pan-India presence with 1,910 branches and 2,785 ATMs spread across 750+ 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 network also includes 2,144 branches of BFIL and 851 outlets of IMFS. IIB is well placed with CRAR at 16.3% with Tier-1 at 15.6%.

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. The bank has managed credit costs well and industry's best NIMs are key differentiators for the bank. The recent pandemic has impacted business across segments and the ensuing lockdown has not only impacted business operations but also collection and cashflows of borrowers. 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

Rise in slippages and delay in recoveries from stressed corporate loan book and slower growth in retail/MFI loan book may impact earnings.

Additional Data

Key management personnel

Mr Sumanth Kathpalia	Managing Director & CEO
Mr Arun Khurana	Deputy CEO
Mr Ramesh Ganesan	Head-Transaction banking
Mr S V Zaregaonkar	Chief Financial Officer
Mr Ramaswamy Meyyappan	Chief Risk Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Indusind International Holdings Lt	10.3
2	BNP PARIBAS ARBITRAGE	3.5
3	INDUSIND LTD	3.2
4	DRAGSA INDIA EQUITIES	2.8
5	JPMorgan Chase & Co	2.6
6	BRIDGE INDIA FUND	2.5
7	UBS AG/Singapore	2.5
8	SFSPVI LTD	2.3
9	SBI Funds Management Pvt Ltd	2.1
10	Route One Investment Co LP	1.8

Source: Bloomberg

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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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