

Navigating well in turbulent times; growth to revive

IndusInd Bank posted modest results in Q4FY21 on the business growth front while asset quality showed a sequential improvement. On the operating front, numbers were in line with our estimates.

Net interest income increased 9.4% YoY and 3.8% QoQ to ₹ 3535 crore with stable NIMs at 4.1% QoQ. Margins remained stable as excess liquidity had a drag on benefit of reduction in cost of funds. Other income was up 4.4% QoQ, driven by 9% QoQ uptick in core fee income. In turn, this was boosted by 24% QoQ rise in retail fees. Cost-to-income increased 56 bps QoQ to 42.4% as opex increased due to revival in business activity. The bank during the quarter made provisions worth ₹ 1866 crore and was flattish QoQ. Net profit came in at ₹ 876 crore and was in line with our estimates.

On the asset quality front, reported GNPA, NNPA numbers increased from 1.74%, 0.22% to 2.67%, 0.69%, respectively, as standstill classification norms were quashed recently leading to higher reported NPAs. However, compared to previous quarter proforma GNPA of 2.93% there was a sequential improvement of ~26 bps. Write-offs during the quarter were at ₹ 1350 crore while upgrades and recoveries came in at ₹ 1875 crore, ₹ 968 crore, respectively. Total restructured book is now at ~2.01% of which 1.8% is related to pandemic. The bank has specific provisions of ₹ 3488 crore, floating provisions of ₹ 70 crore, counter cyclical provisions worth ₹ 760 crore and standard contingent provisions of ₹ 1600 crore. Overall loan related provisions were at ~3.3% of advances. The bank sold bad loans worth ₹ 830 crore to ARC. Collection efficiency improved from 97% to 98% QoQ with secured book showing better than average collection efficiency.

Loan book showed modest growth of 2.6% QoQ, 2.8% YoY, which was a result of 0.3% de-growth in corporate book, as the management looks to granulise and re-align the same. The bank sold ₹ 3500 crore corporate book during Q4FY21 and ~₹ 9000 crore for FY21. The bank expects higher growth in FY22E with corporate book making positive contribution in incremental demand. Vehicle finance segment saw strong rise in disbursement, up 30% YoY, led by CV segment disbursement up 54% YoY, and tractor segment up 44% YoY. Deposit mobilisation was healthy at 27% YoY and 7.1% QoQ to ₹ 256205 crore, aided by strong 11% sequential growth in CASA deposits.

Valuation & Outlook

The management is geared to pedal growth ahead with focus on certain segments. Improvement in capitalisation levels post warrant subscription by management to aid strength for balance sheet expansion. We expect business momentum to pick up from here on with corporate re-alignment largely achieved. Asset quality is expected to improve in FY22E, though impact of second wave needs to be assessed. The bank has conservatively provided its unsecured, MFI loans and has ample provisions on books, which should reduce earnings volatility. Hence, we upgrade our target price at ₹ 1100 (earlier ₹ 1050), valuing the stock at ~1.9x FY23E ABV. We maintain **BUY** recommendation.



Particulars	
Particulars	Amount
Market Capitalisation	₹ 72286 crore
GNPA (Q4FY21)	₹ 5794 Crore
NNPA (Q4FY21)	₹ 1476 Crore
NIM (%) (Q4FY21)	4.1
52 week H/L	1119/330
Net worth	₹ 43365 Crore
Face Value	₹ 10
DII Holding (%)	18.3
FII Holding (%)	50.9

Key Highlights

- GNPA improved to 2.67% from 2.93% (proforma)
- Overall loan provisions at 3.3% of loans
- Maintain BUY with revised target price at ₹ 1100

Risk to our call

- Delay in pick-up in balance sheet growth could keep RoE lower
- Impact of second wave of pandemic may worsen MFI book asset quality

Research Analyst

Kajal Gandhi
 kajal.gandhi@icicisecurities.com

Vishal Namolia
 vishal.namolia@icicisecurities.com

Sameer Sawant
 Sameer.sawant@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII	8,846	12,059	13,528	14,506	16,796	11%
PPP	8,088	10,773	11,727	12,289	14,203	10%
PAT	3,301	4,418	2,836	4,919	5,904	44%
ABV (₹)	405	473	537	534	546	
P/E	17.1	14.7	25.5	14.7	12.2	
P/ABV	2.3	2.0	1.7	1.8	1.7	
RoA	1.3	1.5	0.8	1.3	1.4	
RoE	13.1	14.4	7.3	11.4	13.6	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	3,535	3,486	3,231	9.4	3,406	3.8	Modest growth on account of stable margin and tepid loan traction
NIM (%)	4.13	3.20	4.25	-12 bps	4.12	1 bps	Reduced cost of funds help margin to remain stable sequentially
Other Income	1,780	1,782	1,772	0.5	1,705	4.4	
Net Total Income	5,315	5,267	5,003	6.2	5,112	4.0	
Staff cost	595	511	496	20.0	543	9.6	QoQ rise on account of increased business activity
Other Operating Expenses	1,658	1,659	1,671	-0.8	1,596	3.9	
PPP	3,062	3,097	2,836	7.9	2,973	3.0	
Provision	1,866	1,917	2,440	-23.5	1,853.5	0.7	
PBT	1,196	1,180	396	202.1	1,120	6.8	
Tax Outgo	320	299	94	240.3	267.0	19.8	
PAT	875.95	881.41	301.84	190.20	852.76	2.72	In line with estimates
Key Metrics							
GNPA	5,795	6,178	5,147	12.6	3,651	58.7	Asset quality improved compared to proforma levels of previous quarter
NNPA	1,477	1,483	1,887	-21.8	466	216.7	
Credit book	212,595	213,049	206,783	2.8	207,128	2.6	Tepid loan growth due to cautious approach in corporate book
Deposit book	256,205	256,158	202,040	26.8	239,135	7.1	Strong growth lead by 10.5% QoQ rise in CASA

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	14,439	14,506	0.5	16,747.0	16,796	0.3
Pre Provision Profit	12,565	12,289	-2.2	14,424.4	14,203	-1.5
NIM(%) (calculated)	4.5	4.62	10 bps	4.6	4.76	19 bps
PAT	4,273	4,919	15.1	5,033.9	5,904	17.3
ABV per share (₹)	520.0	534	2.6	536.2	546	1.8

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	10.9	2.8	10.3	12.1	3.2	14.4	14.6
Deposit Growth (%)	3.7	26.8	11.4	12.0	21.3	15.6	16.9
NIM Calculated (%)	4.5	12.2	7.2	15.8	10.0	8.8	16.0
Cost to income ratio (%)	43.3	41.6	43.5	42.8	40.2	41.8	41.3
GNPA (₹ crore)	5,146.7	5,795.2	5,795.2	6,189.4	7,495.0	7,983.3	8,542.8
NNPA (₹ crore)	1,886.6	1,485.9	1,343.1	1,388.2	2,494.9	2,772.6	2,443.8
Credit cost (%)	2.2	3.7	2.4	2.4	3.8	2.8	2.7

Source: Company, ICICI Direct Research

Key conference call highlights

Asset quality

- Onset of second wave has led some MSME and vehicle customers to avail restructuring out of caution
- No restructuring in exposures to real estate, NBFC and gems & jewellery industry
- Slippages in Q4FY21– vehicle ₹ 618 crore, secured retail – ₹ 226 crore, unsecured retail – ₹ 383 crore, MFI – ₹ 298 crore
- Sold corporate loan worth ₹ 3500 crore coupled with normal repayment to align exposure to pre-defined risk profile of the bank
- Collection efficiency improved from 97% to 98% QoQ
- Credit card segment saw worse than expected slippage
- Collection efficiency in MFI lower by 1% in April vs. March
- SMA2 book at ~31 bps vs. 39 bps QoQ
- The bank has made 100% provision for unsecured retail and MFI stressed asset

Business

- Realignment objectives in corporate book largely achieved
- Remain cautious on unsecured lending
- Global diamond demand is back to pre-Covid levels
- Aim to add 250 branches during the year
- Strong disbursements in vehicle finance book seen especially in CV and tractor segment during the quarter

Other

- Cost of fund reduced led by 50 bps cut in interest rate undertaken last quarter. Deposit mobilisation continues to remain buoyant in spite of interest rate cut
- Interest rates on liabilities to be reduced in H1FY22
- The bank has surplus liquidity of ~₹40000 crore

Story in Charts

Exhibit 4: Consumer finance book profile

Consumer Finance Book							
₹ crore	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Comm. Vehicle	25,092	24,977	23,948	23,737	23,932	23,812	23,600
Utility Vehicle	4,009	4,264	4,377	4,360	4,539	4,766	4,988
Three Wheelers/Small C	3,386	3,560	3,524	3,606	3,691	3,590	3,411
Two Wheelers	4,799	5,296	5,204	5,774	5,739	6,031	5,644
Car loans	7,013	7,336	7,247	7,245	7,460	7,879	7,946
Equip. financing + Tract	12,173	8,238	12,753	12,784	13,853	14,925	15,724
Credit card	4,203	4,576	4,762	4,775	4,853	5,225	4,536
Loan against prop.	8,785	9,539	9,448	9,469	9,540	9,362	9,003
Personal.others etc	7,748	7,757	8,311	7,971	8,299	8,473	8,570
Business Banking	11,360	11,460	11,643	10,896	11,531	11,575	11,772
Microfinance	18,884	20,757	24,232	23,466	22,383	23,008	26,383
Total	107452	112160	115449	114083	115820	118646	121577

Source: Company, ICICI Direct Research

Exhibit 5: Break-up of corporate book

Corporate Banking Book								
₹ crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Large corporates	50,212	48,319	51,284	47,742	43,819	41,927	41,551	42,297
Mid corporates	35,221	37,194	39,677	39,559	36,649	39,889	42,711	42,424
Small business	4,231	4,148	4,292	4,033	3,518	3,611	4,220	6,297
Total	89664	89661	95253	91334	83986	85427	88482	91018
YoY Growth	-0.8	-9.9	-9.4	-19.7	-6.3	-4.7	-7.1	-0.3

Source: Company, ICICI Direct Research

Exhibit 6: Muted loan growth

₹ crore	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Total Advances	193520	197113	207413	206783	198069	201247	207128	212595
YoY Growth	28.4	20.8	19.8	10.9	2.4	2.1	-0.1	2.8

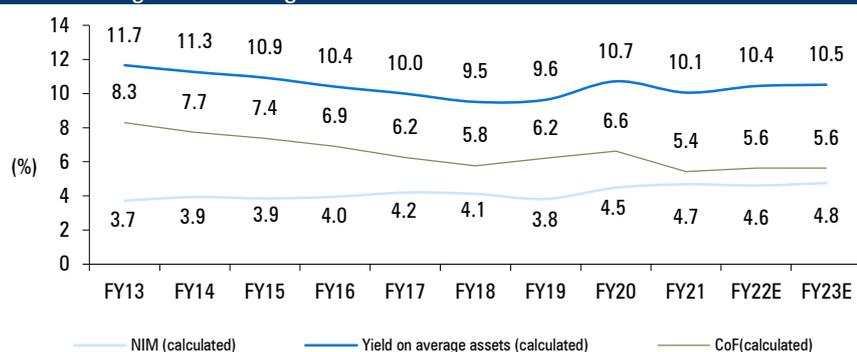
Source: Company, ICICI Direct Research

Exhibit 7: Deposit profile

₹ Crore	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Savings	58117	64895	53130	52527	57073	64333	71066
Current	27721	26970	28427	31946	34773	32313	35725
Term	121355	124848	120483	126792	136038	142489	149414
Total Deposits	207193	216713	202040	211265	227884	239135	256205
YoY Growth	23.2	23.3	3.7	5.3	10.0	10.3	26.8
CASA Amount	85838	91865	81557	84473	91846	96646	106791
CASA%	41.4	42.4	40.4	40.0	40.3	40.4	41.7

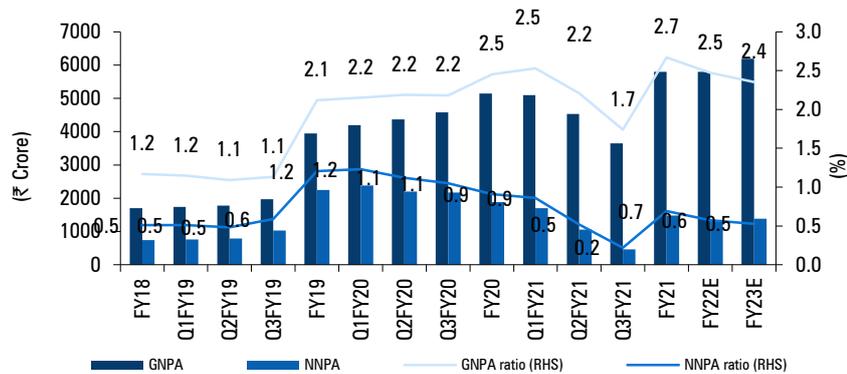
Source: Company, ICICI Direct Research

Exhibit 8: Margins to be range-bound



Source: Company, ICICI Direct Research

Exhibit 9: Asset quality to show improving trend



Source: Company, ICICI Direct Research

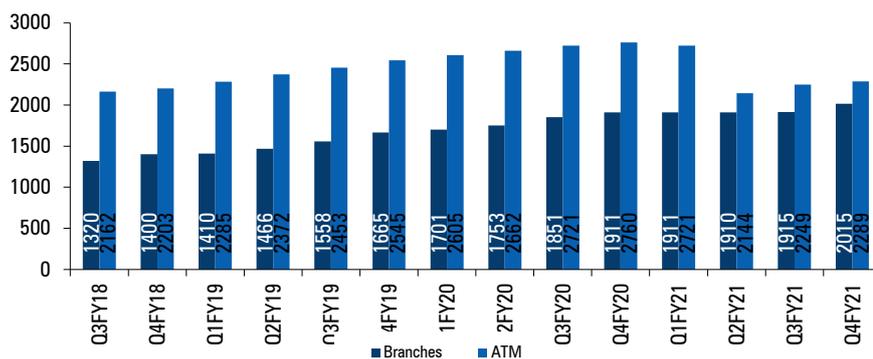
Exhibit 10: Fee income break-up

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
Foreing 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

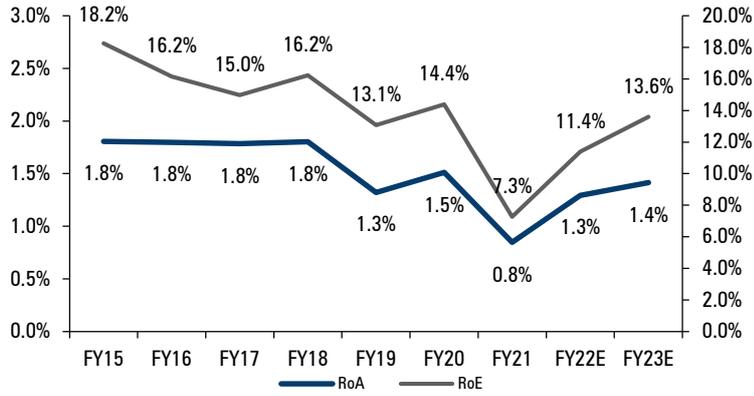
Source: Company, ICICI Direct Research

Exhibit 11: Branch and ATM network



Source: Company, ICICI Direct Research

Exhibit 12: Return ratio to show meaningful improvement



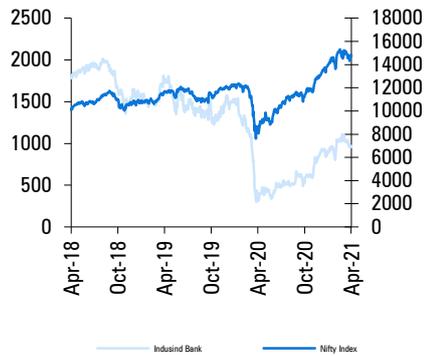
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	14.3	14.7	14.7	14.7	16.55
FII	53.6	52.1	52.1	54.9	50.91
DII	15.5	14.7	14.7	16.2	18.11
Others	16.6	18.6	18.6	14.2	14.4

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	FY21	FY22E	FY23E
Interest Earned	22,261	28,783	29,000	32,785	37,105
Interest Expended	13,415	16,724	15,472	18,279	20,309
Net Interest Income	8,846	12,059	13,528	14,506	16,796
Growth (%)	18	36	12	7	16
Non Interest Income	5,647	6,951	6,559	7,247	8,037
Other income	1,459	1,784	1,483	1,650	1,840
Net Income	14,493	19,010	20,087	21,753	24,833
Employee cost	1,854	2,208	2,214	2,488	2,816
Other operating Exp.	4,551	6,029	6,146	6,976	7,814
Operating Income	8,088	10,773	11,727	12,289	14,203
Provisions	3,108	4,652	7,943	5,687	6,279
PBT	4,980	6,121	3,784	6,603	7,924
Taxes	1,679	1,703	948	1,684	2,021
Net Profit	3,301	4,418	2,836	4,919	5,904
Growth (%)	(8.5)	33.8	(35.8)	73.4	20.0
EPS (₹)	54.8	63.7	36.7	63.6	76.3

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of shares (crore)	60.3	69.4	77.3	77.3	77.3
EPS (₹)	54.8	63.7	36.7	63.6	76.3
DPS (₹)	7.7	7.8	2.7	4.7	5.6
BV (₹)	442.6	500.3	556.5	551.1	563.6
ABV (₹)	405.3	473.1	537.3	533.7	545.6
P/E	17.1	14.7	25.5	14.7	12.2
P/BV	2.1	1.9	1.7	1.7	1.7
P/ABV	2.3	2.0	1.7	1.8	1.7
Yields & Margins (%)					
Net Interest Margins	3.8	4.5	4.7	4.6	4.8
Yield on assets	9.6	10.7	10.1	10.4	10.5
Avg. cost on funds	6.2	6.6	5.4	5.6	5.6
Yield on average advance:	11.0	12.2	11.8	12.4	12.5
Avg. Cost of Deposits	6.1	6.5	5.3	5.4	5.4
Quality and Efficiency (%)					
Cost to income ratio	44.2	43.3	41.6	43.5	42.8
Credit/Deposit ratio	95.7	102.3	83.0	82.1	82.2
GNPA	2.1	2.5	2.7	2.5	2.4
NNPA	1.2	0.9	0.7	0.6	0.5
ROE	13.1	14.4	7.3	11.4	13.6
ROA	1.3	1.5	0.8	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					
	₹ Crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	603	694	773	773	773
Employee Stock Options	11	9	5	5	5
Reserves and Surplus	26,072	34,003	42,587	42,164	43,132
Networth	26,686	34,706	43,365	42,943	43,911
Deposits	1,94,868	2,02,040	2,56,205	2,85,398	3,19,679
Borrowings	47,321	60,754	51,323	56,259	60,051
Other Liabilities & Provisio	8,944	9,558	12,080	12,857	13,694
Total	2,77,819	3,07,058	3,62,972	3,97,457	4,37,334
Application of Funds					
Fixed Assets	1,710	1,820	1,809	1,974	2,078
Investments	59,266	59,980	69,695	79,454	90,580
Advances	1,86,394	2,06,783	2,12,595	2,34,409	2,62,856
Other Assets	15,666	22,471	6,840	45,767	42,982
Cash with RBI & call mor	14,783	16,004	72,033	35,853	38,838
Total	2,77,819	3,07,058	3,62,972	3,97,457	4,37,334

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	25.4	10.5	18.2	9.5	10.0
Advances	28.6	10.9	2.8	10.3	12.1
Deposit	28.5	3.7	26.8	11.4	12.0
Total Income	26.7	28.0	(0.5)	12.6	12.8
Net interest income	18.0	36.3	12.2	7.2	15.8
Operating expenses	14.5	28.6	1.5	13.2	12.3
Operating profit	21.5	33.2	8.9	4.8	15.6
Net profit	(8.5)	33.8	(35.8)	73.4	20.0
Net worth	12.0	30.1	24.0	(1.0)	2.3
EPS	(8.8)	16.3	(42.4)	73.4	20.0

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)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
SBI (STABAN)	353	410	Buy	3236	20.0	28.1	30.5	18	12.6	11.6	1.6	1.4	1.3	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	110	180	Buy	129	16.9	29.1	45.5	6.5	3.8	2.4	0.7	0.6	0.5	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	714	900	Buy	2148	25.2	47.7	58.7	28.3	15.0	12.2	2.5	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	166	200	Buy	125	10.0	10.0	10.0	16.6	16.6	16.6	2.5	2.1	2.1	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	91	130	Hold	28	11.0	14.0	16.0	8.2	6.5	5.7	0.9	0.8	0.7	0.9	1.1	1.1	10.4	11.8	12.0
Federal Bank (FEDBAN)	80	90	Buy	154	7.7	7.9	10.0	10.3	10.2	8.0	1.2	1.2	1.1	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1,412	1,700	Buy	8085	56.4	66.4	77.8	25.0	21.3	18.2	3.9	3.5	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	935	1,100	Buy	722	36.8	56.5	66.5	25.4	16.6	14.1	1.9	1.8	1.7	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	24	25	Hold	17	7.5	10.4	0.0	3.2	2.3		0.3	0.3	1.0	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,748	2,040	Buy	3585	23.5	27.2	33.7	74.5	64.2	51.9	8.7	7.8	6.8	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	329	370	Hold	525	14.7	24.7	31.4	22.3	13.3	10.5	3.8	3.0	2.3	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	54	52	Buy	338	NA	100.5	103.2	NA	0.5	0.5	2.0	1.8	1.5	0.3	0.5	0.9	2.7	4.8	8.3

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, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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