



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. 1,007	
Price Target: Rs. 1,340	↔

↑ Upgrade
↔ Maintain
↓ Downgrade

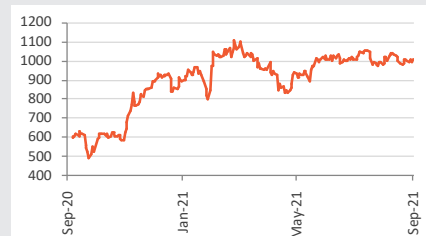
Company details

Market cap:	Rs. 77,526 cr
52-week high/low:	Rs. 1119/405
NSE volume: (No of shares)	54.8 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	64.6 cr

Shareholding (%)

Promoters	16.54
FII	52.1
DII	17.6
Others	13.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	-2.3	5.9	64.5
Relative to Sensex	-6.6	-13.7	-11.4	12.8

Sharekhan Research, Bloomberg

Summary

- IndusInd Bank reported mixed set of results with improving trend on the liability side (healthy deposit mobilization, reducing cost of funds etc) while the stress on the asset side persists with sharp spike in slippages at 5.4% of loan book and gross NPA rose by 21 bps qoq to 2.9% during Q1.
- Bulk of the elevated slippages are related to retail/SME loan book on account of the second wave of pandemic. Management indicated that the worst in NPA addition is behind, and normalization should begin in H2 of this year.
- Bank has healthy provision cover of 72% with covid provision buffer at 1% of loans to address any further stress on asset side. The capital adequacy at 17.6% (Tier-I capital at 16.9%) is comfortable and the bank aspires for 16-18% growth in advances over the medium term.
- We retain our Buy rating on the stock with unchanged price target of Rs. 1340, valuing the bank at 1.97x FY23 book value.

♦ **Mixed performance in Q1FY22:** Q1FY22 earnings increased by 11% y-o-y and 11% q-o-q led by a 19% y-o-y decline in credit costs. Margins decreased by 22 bps y-o-y and 7bps q-o-q to 4.06%. GNPA increased by 20 bps q-o-q to 2.88% for Q1FY22.

♦ **Focusing more on mobilising deposits:** The bank's deposits rose 26% y-o-y in Q1FY22, led by a 33% y-o-y rise in CASA deposits that formed 42% of total deposits. This led its cost of deposit to decrease by 74 bps y-o-y to 4.97%. Its liquidity coverage ratio remains healthy at 146%. It is well-capitalised post promoters' infusion with a CAR of 17.7%. We believe that this has strengthened the bank's balance sheet and would help it withstand shocks.

♦ **Elevated slippages:** Gross slippages were higher at Rs. 2762 crore. Recoveries and upgrades declined 49% q-o-q to Rs. 1434 crore. Fresh incremental slippages declined at 28% q-o-q to Rs. 2,782 crore. The provision coverage ratio (PCR) was stable at 72% with total loan-related provision at 3.6% of loans. The management has indicated gross NPA additions to moderate from H2FY22 onwards.

Our Call

Valuation – Maintain Buy with a unchanged PT of Rs. 1,340: IIB currently trades at 1.6x/1.4x/1.3x its FY2022E/FY2023E/FY2024E book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. We believe the growth outlook is improving. Moreover, improving corporate exposure and low expected restructuring pipeline indicate that credit cost is manageable, and business normalcy is expected to resume in FY2022E. We opine the bank is in an improved position vis-à-vis its balance sheet and valuations are reasonable. While near-term asset quality will be a key monitorable, we believe the outlook is improving for the bank. **We maintain Buy on the stock with an unchanged PT of Rs. 1,340.**

Key Risks

A slower recovery in the economy, higher slippages due to COVID-19 vulnerabilities and slippages from the corporate book (especially from the 'BB and below'-rated portfolio) could affect earnings.

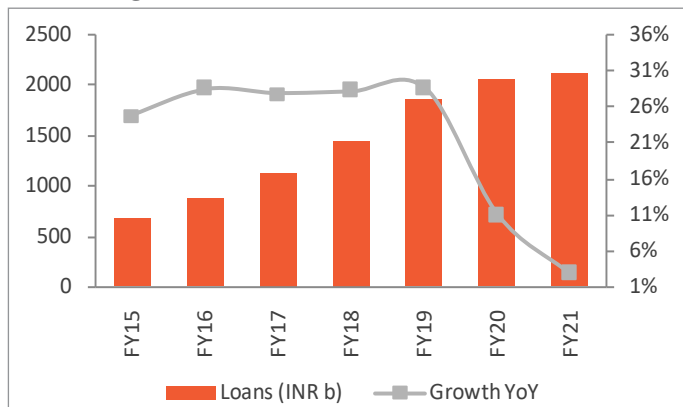
Valuation

	Rs crore			
Particulars	FY21	FY22E	FY23E	FY24E
Net Interest Income (NII)	13,528	13,943	13,984	14,357
Net profit (Rs cr)	2,836	5,384	6,027	5,851
EPS (Rs)	36.7	69.6	77.9	75.7
P/E (x)	27.2	14.3	12.8	13.2
BVPS (Rs)	537.3	604.6	680.9	753.3
P/BV (x)	1.8	1.6	1.4	1.3
RoE (%)	7.33%	11.78%	11.74%	10.23%
RoA (%)	0.84%	1.36%	1.29%	1.05%

Source: Company; Sharekhan estimates

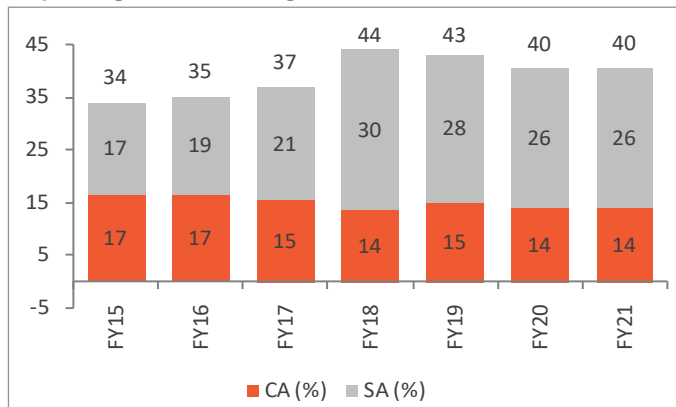
Financials in charts

Loan book growth



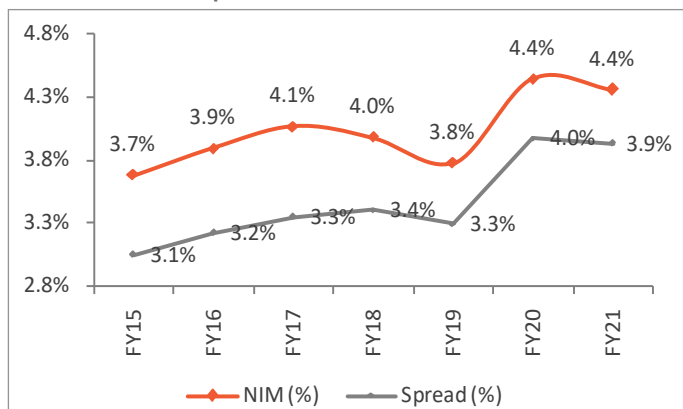
Source: Company, Sharekhan Research

Deposits growth driven by CASA



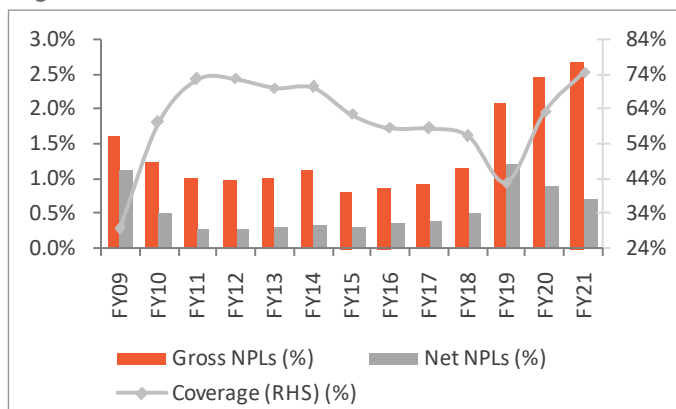
Source: Company, Sharekhan Research

Trend in NIM and spread



Source: Company, Sharekhan Research

High Gross NPA addition



Source: Company, Sharekhan Research

Outlook and Valuation

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

System-level credit offtake remains sedate, growing by 6.5% y-o-y in the fortnight ending August 13, 2021. On the other hand, deposits rose by 10.6%, which indicate a healthier economic scenario. Moreover, the RBI's accommodative monetary policy stance, resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, corporate exposure is likely to be a function of asset quality, client profile, as well as economic recovery. At present, we believe that banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with a strong capital base and strong asset quality (with high coverage and provision buffers), are structurally better placed to take off once the situation normalises.

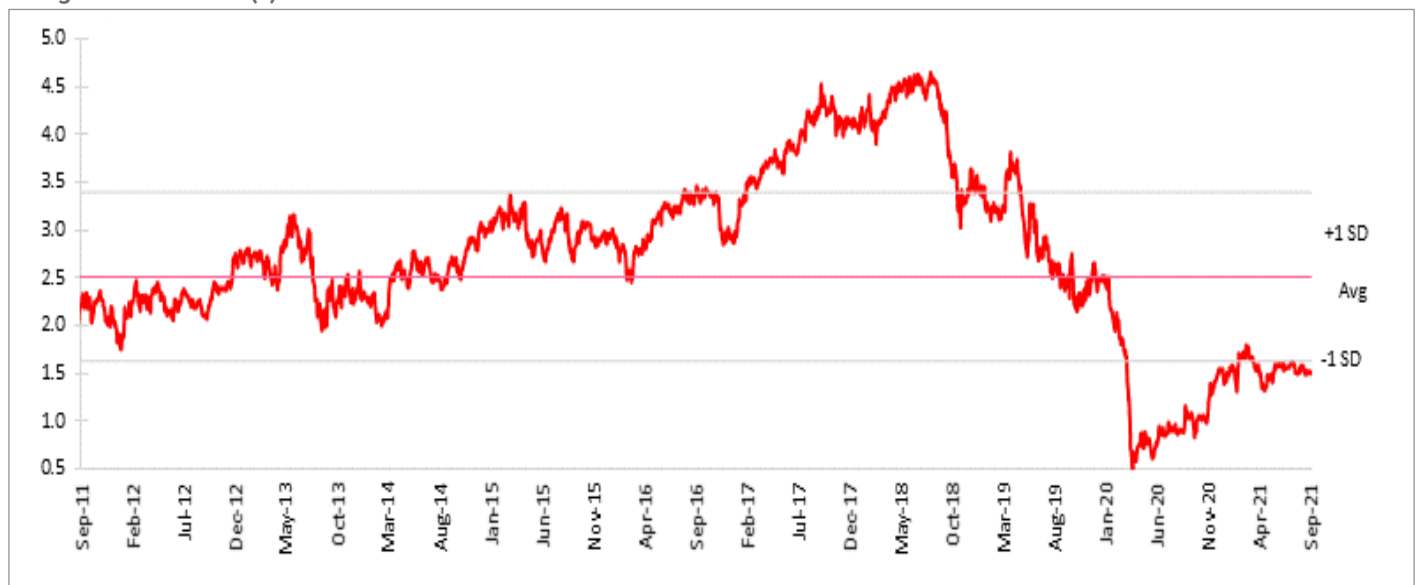
■ Company outlook - retail to be the driving force

We expect IIB to address challenges through a combination of better strategy and execution and prudent disclosure with focus on reducing risk, etc. While for the near term, asset quality will be a 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 to manage and its strategy to build adequate provisions or counter cyclical buffers if the business is risky will be cushions for the long term. Our constructive view on IIB 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 (Tier-1 at 16.9%). Near-term challenges continue, but we expect advances growth and credit cost to normalise in FY2023E, given improving macro conditions and the bank's stated stance to front-load provisions. We expect NIM to be at 4.0-4.1% for the medium term, supported by its improving liability franchise.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 1,340

IIB currently trades at 1.6x/1.4x/1.3x its FY2022E/FY2023E/FY2024 book value, which is reasonable. The bank's well-capitalised balance sheet and provision buffer are cushions for profitability. We believe the growth outlook is improving. Moreover, improving corporate exposure and low expected restructuring pipeline indicate that credit cost is manageable, and business normalcy is expected to resume in FY2022E. We opine the bank is in an improved position vis-à-vis its balance sheet and valuations are reasonable. While near-term asset quality will be a key monitorable, we believe the outlook is improving for the bank. **We maintain Buy on the stock with an unchanged PT of Rs. 1,340.**

One-year forward P/B (x) band



Source: 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 Tier 1 at %.

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 affected 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 affect earnings.

Additional Data

Key management personnel

Sumant Kathpalia	CEO/Managing Director
Arun Khurana	Deputy CEO and head Global markets
S V Zaregaonkar	Chief Financial Officer & head corporate services
S V Parthasarthy	Head - Consumer Finance

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	IndusInd International Holdings Lt	12.60
2	INDUSIND LTD	3.94
3	Bank of America ML Europe	4.7
4	Route One Offshore Fund	4.38
5	Morgan Stanley	2.7
6	SBI ETF	2.21
7	Goldman Sachs	1.45
8	Bridge India	2.69
9	DIA AFRIN	1.28
10	BNP Paribas Arbitrage	1.35

Source: BSE

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 deteriorating 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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.