

BUY

TP: Rs 590 | ▲ 43%

INDUSIND BANK

Banking

31 March 2020

Concerns priced in

IndusInd Bank (IIB) hosted an analyst call to address the implications of Covid-19 on its portfolio. The bank plans to recognise some weak accounts as NPA in Q4FY20 which would raise its PCR/credit costs for the quarter to +60%/2.1%. Deposits have declined 10-11% in Q4 due to outflow of government accounts. We trim estimates to build in higher credit cost and softer near-term earnings, but believe current valuations at 0.7x FY22E P/BV price in the concerns. Our Mar'21 TP reduces to Rs 590 (vs. Rs 1,700). Maintain BUY.

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Asset quality manageable: Management believes asset quality will be manageable if Covid-19 disruptions recede within the next three months and that the RBI's moratorium on loan repayment will lend support. IIB has not run a stress-test for a scenario where disruptions extend into Q2FY21, but management believes its loan portfolio is diversified with adequate cover and has a demonstrated ability to weather external shocks. A few weak accounts will be recognised as NPA in Q4 which should increase PCR to +60% (52% in Q3) and credit cost to 2.1%.

Ticker/Price	IIB IN/Rs 413
Market cap	US\$ 3.4bn
Shares o/s	628mn
3M ADV	US\$ 129.4mn
52wk high/low	Rs 1,824/Rs 236
Promoter/FPI/DII	17%/52%/31%

Source: NSE

Loan growth to moderate; focus on liabilities: As per management's IndusInd 2.0 strategy, IIB aims to (a) revitalise deposits and make liabilities more granular – deposits declined by 10-11% in Q4 largely due to outflow of government funds; (b) reduce risk concentration by doing away with chunky exposure; (c) ensure a high capital threshold by maintaining 15% CAR; (d) gradually increase PCR to 70%; (e) moderate asset growth and let liabilities lead growth over assets – IIB expects 8-12% YoY loan growth in H1FY21.

STOCK PERFORMANCE



Source: NSE

Valuations undemanding: We cut our FY20-FY22 EPS by 11-60% and also reset our target P/BV multiple from 2.1x to 1x to reflect loan growth and credit cost headwinds. At current valuations of 0.7x FY22E P/BV, we believe concerns surrounding the stock are priced in. BUY with a revised Mar'21 TP of Rs 590.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	74,974	88,462	117,866	125,426	148,370
NII growth (%)	23.7	18.0	33.2	6.4	18.3
Adj. net profit (Rs mn)	36,060	33,011	48,034	26,996	54,097
EPS (Rs)	60.2	54.9	73.3	38.1	76.4
P/E (x)	6.9	7.5	5.6	10.8	5.4
P/BV (x)	1.1	0.9	0.8	0.7	0.7
ROA (%)	1.8	1.3	1.5	0.7	1.3
ROE (%)	16.2	13.1	15.4	7.1	12.8

Source: Company, BOBCAPS Research

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Valuation methodology

We value IIB using the two-stage Gordon Growth Model. Factoring in loan growth and credit cost concerns, we cut our FY20-FY22 EPS estimates by 11-60% and lower our target FY22E P/BV multiple from 2.1x to 1x – this yields a reduced Mar'21 TP of Rs 590 (from Rs 1,700). Current valuations of 0.7x FY22E P/BV price in the negatives, in our view. Maintain BUY.

FIG 1 – REVISED ESTIMATES

Particulars	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net interest income (Rs mn)	119,966	141,726	174,579	117,866	125,426	148,370	(1.8)	(11.5)	(15.0)
Pre-provisioning profit (Rs mn)	107,444	125,317	150,742	105,874	104,557	118,950	(1.5)	(16.6)	(21.1)
Profit after tax (Rs mn)	53,898	70,001	87,699	48,034	26,996	54,097	(10.9)	(61.4)	(38.3)
EPS (Rs)	82	99	124	73	38	76	(10.9)	(61.4)	(38.3)

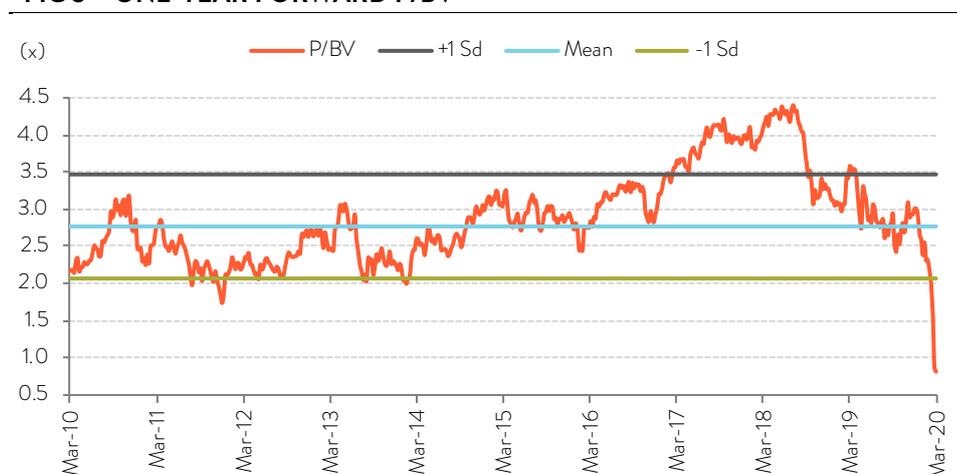
Source: Company, BOBCAPS Research

FIG 2 – VALUATION SNAPSHOT

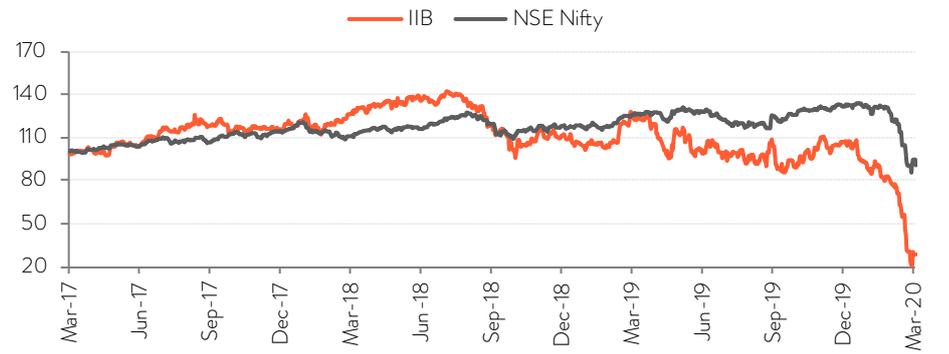
Components of Gordon growth model	Assumptions (%)
Cost of equity (%)	14.9
Blended ROE (%)	14.2
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	4
Long term dividend payout ratio (%)	75
Justified P/BV Multiple (x)	1.0
Implied BVPS (Rs)	620
Value per share (Rs)	590

Source: Bloomberg, BOBCAPS Research

FIG 3 – ONE-YEAR FORWARD P/BV



Source: Bloomberg, Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- IIB has seen a sharp outflow in deposits recently; an inability to maintain a steady deposit flow could be a risk to our call.
- We see some degree of execution risk as the bank has recently appointed a new MD and CEO at the helm.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	74,974	88,462	117,866	125,426	148,370
NII growth (%)	23.7	18.0	33.2	6.4	18.3
Non-interest income	47,501	56,467	70,701	75,415	85,201
Total income	122,475	144,929	188,567	200,842	233,571
Operating expenses	(55,914)	(64,047)	(82,693)	(96,284)	(114,621)
Operating profit	66,561	80,882	105,874	104,557	118,950
Operating profit growth (%)	22.1	21.5	30.9	(1.2)	13.8
Provisions	(11,754)	(31,077)	(38,725)	(68,272)	(46,239)
PBT	54,807	49,806	67,149	36,285	72,711
Tax	(18,747)	(16,795)	(19,115)	(9,289)	(18,614)
Reported net profit	36,060	33,011	48,034	26,996	54,097
Adjustments	0	0	0	0	0
Adjusted net profit	36,060	33,011	48,034	26,996	54,097

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	6,002	6,027	7,081	7,081	7,081
Reserves & surplus	232,414	260,833	349,700	393,004	439,506
Net worth	238,416	266,860	356,781	400,084	446,587
Deposits	1,516,392	1,948,679	2,313,914	2,619,706	3,103,498
Borrowings	382,891	473,211	686,752	798,931	926,746
Other liabilities & provisions	78,563	89,444	94,489	99,823	105,463
Total liabilities and equities	2,216,262	2,778,194	3,451,935	3,918,545	4,582,294
Cash & bank balance	132,159	147,834	158,267	169,636	182,033
Investments	500,767	592,662	736,843	924,040	1,136,435
Advances	1,449,537	1,863,935	2,087,607	2,275,492	2,628,193
Fixed & Other assets	133,799	173,764	469,218	549,377	635,633
Total assets	2,216,262	2,778,194	3,451,935	3,918,545	4,582,294
Deposit growth (%)	19.8	28.5	18.7	13.2	18.5
Advances growth (%)	28.2	28.6	12.0	9.0	15.5

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	60.2	54.9	73.3	38.1	76.4
Dividend per share	7.2	9.0	8.1	4.6	9.2
Book value per share	391.2	437.4	499.3	560.4	626.1

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	6.9	7.5	5.6	10.8	5.4
P/BV	1.1	0.9	0.8	0.7	0.7
Dividend yield (%)	1.7	2.2	2.0	1.1	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	3.7	3.5	3.8	3.4	3.5
Non-interest income	2.4	2.3	2.3	2.0	2.0
Operating expenses	2.8	2.6	2.7	2.6	2.7
Pre-provisioning profit	3.3	3.2	3.4	2.8	2.8
Provisions	0.6	1.2	1.2	1.9	1.1
PBT	2.7	2.0	2.2	1.0	1.7
Tax	0.9	0.7	0.6	0.3	0.4
ROA	1.8	1.3	1.5	0.7	1.3
Leverage (x)	9.0	9.9	10.0	9.7	10.0
ROE	16.2	13.1	15.4	7.1	12.8

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	23.7	18.0	33.2	6.4	18.3
Pre-provisioning profit	22.1	21.5	30.9	(1.2)	13.8
EPS	25.2	(8.8)	33.5	(48.0)	100.4
Profitability & Return ratios (%)					
Net interest margin	4.0	3.8	4.2	3.9	4.1
Fees / Avg. assets	1.7	1.6	1.6	1.4	1.4
Cost-Income	45.7	44.2	43.9	47.9	49.1
ROE	16.2	13.1	15.4	7.1	12.8
ROA	1.8	1.3	1.5	0.7	1.3
Asset quality (%)					
GNPA	1.2	2.1	3.0	3.7	4.0
NNPA	0.5	1.2	1.2	1.4	1.4
Provision coverage	56.3	43.0	61.7	63.7	65.2
Ratios (%)					
Credit-Deposit	95.6	95.7	90.2	86.9	84.7
Investment-Deposit	33.0	30.4	31.8	35.3	36.6
CAR	15.0	14.2	14.7	14.5	13.9
Tier-1	14.6	13.7	14.3	14.0	13.3

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

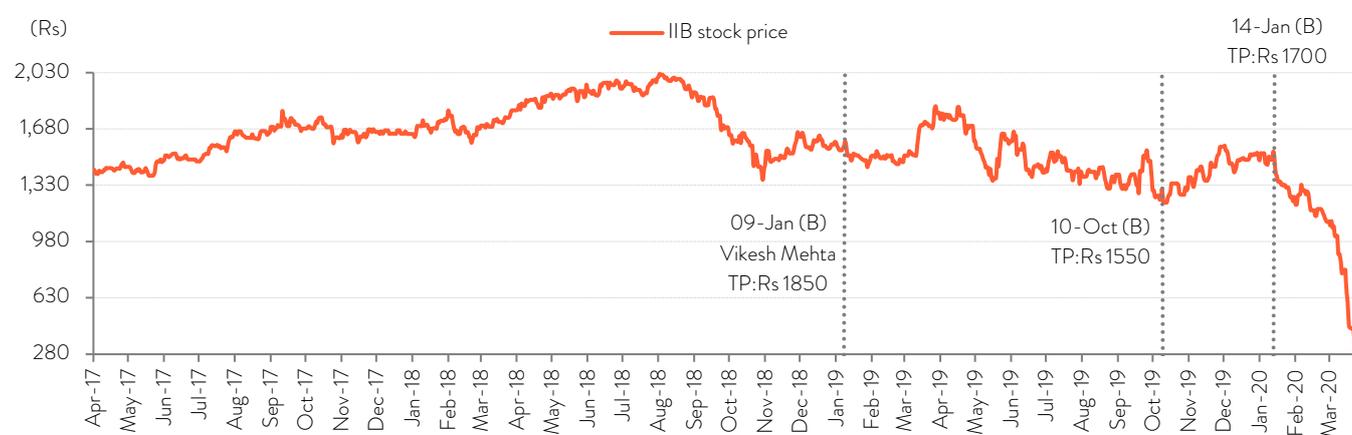
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: INDUSIND BANK (IIB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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