

BUY

TP: Rs 700 | ▲ 20%

INDUSIND BANK

| Banking

| 31 October 2020

Credit buffer buildup nearly complete; growth in focus next

IndusInd Bank's (IIB) Q2FY21 PAT at Rs 6.6bn (-53% YoY) saw the impact of elevated provisions, as expected. PCR has risen to ~77% and initiatives to strengthen the balance sheet will be completed over the next couple of quarters. Slippages (ex-SC stay) declined to Rs 6bn with negligible fresh corporate NPAs. IIB expects the overall restructuring pool to be in low single digits. Collection efficiency has risen to ~96%, and management expects a growth pickup in H2. We raise FY22-FY23 EPS 5-8% and revise our Sep'21 TP to Rs 700 (vs. Rs 620).

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Provisioning buffer strengthens further: Fresh slippages reduced to ~Rs 4bn, leading to a lower GNPA ratio of 2.2% (2.3% ex-SC stay on loan classification, vs. 2.5% in Q1). IIB's overall collection efficiency stood at 94.7% in Sep'20 and has further improved to 95.5-96% currently (94% and 93% respectively in vehicle financing and MFI). Management expects the FY21 restructuring book to be in low single digits. PCR rose to 76.5% in Q2 while Covid-related provisions increased to 1.1% of loans. IIB aims to continue fortifying its credit buffers over the next couple of quarters and to renew its earnings growth focus in FY22.

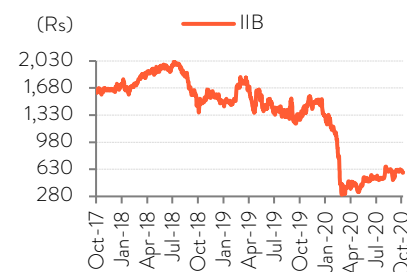
Growth likely to pick up in H2FY21; NIM to normalise: Loan growth remained muted at 2% YoY in Q2 as the corporate book declined 5% given that loans worth Rs 19bn were repaid. Management expects a better H2FY21 with vehicle finance, microfinance, secured retail and mid-corporates being the key growth drivers. Surplus liquidity had a 10bps impact on NIM which declined QoQ to 4.2% in Q2 but should normalise as demand revives.

Maintain BUY: We believe building high credit reserves is a step in the right direction. Profitability will be subdued in FY21-FY22 but we expect recovery by FY23. We raise FY22-FY23 EPS by 5-8% to factor in higher credit growth and now value IIB at 1.1x P/BV (1x earlier) for a revised Sep'21 TP of Rs 700.

Ticker/Price	IIB IN/Rs 586
Market cap	US\$ 5.9bn
Shares o/s	756mn
3M ADV	US\$ 146.9mn
52wk high/low	Rs 1,597/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	131,607	148,347	173,401
NII growth (%)	18.0	36.3	9.1	12.7	16.9
Adj. net profit (Rs mn)	33,011	44,579	28,635	57,452	68,951
EPS (Rs)	54.9	68.8	39.5	76.0	91.2
P/E (x)	10.7	8.5	14.8	7.7	6.4
P/BV (x)	1.3	1.2	1.1	1.0	0.9
ROA (%)	1.3	1.5	0.9	1.7	1.8
ROE (%)	13.1	14.5	7.5	13.0	14.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
Income Statement								
Interest income	71,772	71,504	71,617	0.4	0.2	143,389	141,117	1.6
Interest expense	38,992	42,410	38,525	(8.1)	1.2	77,518	83,584	(7.3)
Net interest income	32,780	29,094	33,092	12.7	(0.9)	65,872	57,533	14.5
Non-interest income	15,543	17,272	15,204	(10.0)	2.2	30,748	33,904	(9.3)
Net total income	48,323	46,365	48,296	4.2	0.1	96,619	91,438	5.7
Staff expenses	7,248	7,165	7,429	1.2	(2.4)	14,677	13,637	7.6
Other operating expenses	12,555	12,966	11,590	(3.2)	8.3	24,145	25,657	(5.9)
Operating expenses	19,803	20,131	19,019	(1.6)	4.1	38,822	39,294	(1.2)
Pre-provisioning profit	28,520	26,234	29,277	8.7	(2.6)	57,797	52,144	10.8
Total provisions	19,644	7,377	22,589	166.3	(13.0)	42,233	11,683	261.5
Profit before tax	8,875	18,857	6,689	(52.9)	32.7	15,564	40,461	(61.5)
Tax	2,245	4,848	1,585	(53.7)	41.6	3,830	12,126	(68.4)
Profit after tax	6,631	14,010	5,103	(52.7)	29.9	11,734	28,335	(58.6)
Balance Sheet								
Advances	2,012,468	1,971,126	1,980,690	2.1	1.6	2,012,468	1,971,126	2.1
Deposits	2,278,842	2,071,934	2,112,650	10.0	7.9	2,278,842	2,071,934	10.0
CASA ratio (%)	40.3	41.4	40.0	(113bps)	32bps	40.3	41.4	(113bps)
Yields and margins (%)								
Net interest margin	4.2	4.1	4.3	6bps	(12bps)	-	-	-
Yield on advances	12.0	12.0	11.9	(7bps)	12bps	-	-	-
Cost of funds	4.9	5.9	5.1	(96bps)	(16bps)	-	-	-
Key ratios (%)								
Cost/Income	41.0	43.4	39.4	(244bps)	160bps	40.2	43.0	(279bps)
Tax rate	25.3	25.7	23.7	(42bps)	159bps	24.6	30.0	(536bps)
Loan to Deposit ratio	88.3	95.1	93.8	(682bps)	(544bps)	88.3	95.1	(682bps)
Capital adequacy ratios (%)								
Tier 1	15.8	14.3	14.5	156bps	134bps	15.8	14.3	156bps
Total CAR	16.6	14.7	15.2	185bps	139bps	16.6	14.7	185bps
Asset quality (Rs mn)								
Gross NPAs	45,322	43,702	50,990	3.7	(11.1)	45,322	43,702	3.7
Net NPAs	10,558	22,026	17,034	(52.1)	(38.0)	10,558	22,026	(52.1)
Gross NPA ratio (%)	2.2	2.2	2.5	2bps	(32bps)	2.2	2.2	2bps
Net NPA ratio (%)	0.5	1.1	0.9	(60bps)	(34bps)	0.5	1.1	(60bps)
Coverage Ratio (%)	76.5	48.9	66.0	2761bps	1,046bps	76.5	48.9	2,761bps

Source: Company, BOBCAPS Research

Valuation methodology

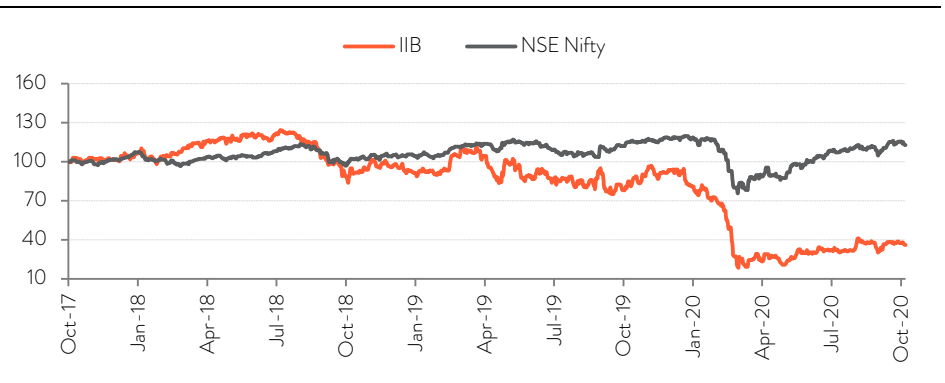
We like IIB’s aggressive stance of front-loading provisions which may depress FY21-FY22 profitability but allow for a rebound by FY23 on the back of better growth and contained provisions. We raise FY22-FY23 EPS estimates by 5-8% to factor in higher credit growth and now value IIB at 1.1x P/BV (1x earlier) for a revised Sep’21 target price of Rs 700 (Rs 620 earlier). Maintain BUY.

FIG 2 – REVISED ESTIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	131,607	148,347	173,401	131,607	145,362	164,475	-	2.1	5.4
Pre-provisioning profit	113,029	126,545	148,815	112,481	120,877	138,943	0.5	4.7	7.1
Net Profit (Rs mn)	28,635	57,452	68,951	28,239	54,496	64,067	1.4	5.4	7.6
EPS (Rs)	40	76	91	39	72	85	1.4	5.4	7.6

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Higher funding costs can impact our NIM assumptions.
- An above-anticipated rise in credit cost from the corporate/retail book poses a risk to estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	131,607	148,347	173,401
NII growth (%)	18.0	36.3	9.1	12.7	16.9
Non-interest income	56,467	69,527	64,974	71,309	81,682
Total income	144,929	190,114	196,581	219,656	255,083
Operating expenses	(64,047)	(81,826)	(83,551)	(93,111)	(106,268)
Operating profit	80,882	108,288	113,029	126,545	148,815
Operating profit growth (%)	21.5	33.9	4.4	12.0	17.6
Provisions	(31,077)	(46,521)	(73,354)	(46,941)	(53,278)
PBT	49,806	61,767	39,676	79,604	95,537
Tax	(16,795)	(17,189)	(11,041)	(22,152)	(26,586)
Reported net profit	33,011	44,579	28,635	57,452	68,951
Adjustments	0	0	0	0	0
Adjusted net profit	33,011	44,579	28,635	57,452	68,951

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Equity capital	6,027	6,935	7,563	7,563	7,563
Reserves & surplus	260,833	340,545	409,088	456,458	513,309
Net worth	266,860	347,480	416,651	464,021	520,871
Deposits	1,948,679	2,020,270	2,135,125	2,424,203	2,784,214
Borrowings	473,211	607,535	611,204	628,532	655,375
Other liabilities & provisions	89,444	97,000	102,508	108,333	114,494
Total liabilities and equities	2,778,194	3,072,286	3,265,487	3,625,089	4,074,954
Cash & bank balance	147,834	160,541	173,688	188,083	203,850
Investments	592,662	599,384	654,255	726,889	828,102
Advances	1,863,935	2,067,832	2,207,206	2,494,143	2,893,205
Fixed & Other assets	173,764	244,529	230,338	215,974	149,796
Total assets	2,778,194	3,072,286	3,265,487	3,625,089	4,074,954
Deposit growth (%)	28.5	3.7	5.7	13.5	14.9
Advances growth (%)	28.6	10.9	6.7	13.0	16.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
EPS	54.9	68.8	39.5	76.0	91.2
Dividend per share	9.0	9.0	5.7	11.4	13.7
Book value per share	437.4	496.4	546.7	609.3	684.5

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
P/E	10.7	8.5	14.8	7.7	6.4
P/BV	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	1.5	1.5	1.0	1.9	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	3.5	4.1	4.2	4.3	4.5
Non-interest income	2.3	2.4	2.1	2.1	2.1
Operating expenses	2.6	2.8	2.6	2.7	2.8
Pre-provisioning profit	3.2	3.7	3.6	3.7	3.9
Provisions	1.2	1.6	2.3	1.4	1.4
PBT	2.0	2.1	1.3	2.3	2.5
Tax	0.7	0.6	0.3	0.6	0.7
ROA	1.3	1.5	0.9	1.7	1.8
Leverage (x)	9.9	9.5	8.3	7.8	7.8
ROE	13.1	14.5	7.5	13.0	14.0

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	36.3	9.1	12.7	16.9
Pre-provisioning profit	21.5	33.9	4.4	12.0	17.6
EPS	(8.8)	25.3	(42.6)	92.3	20.0
Profitability & Return ratios (%)					
Net interest margin	3.8	4.4	4.5	4.6	4.7
Fees / Avg. assets	1.6	1.6	1.3	1.3	1.4
Cost-Income	44.2	43.0	42.5	42.4	41.7
ROE	13.1	14.5	7.5	13.0	14.0
ROA	1.3	1.5	0.9	1.7	1.8
Asset quality (%)					
GNPA	2.1	2.5	3.6	3.4	3.0
NNPA	1.2	0.9	1.0	0.9	0.8
Provision coverage	43.0	63.3	72.4	72.7	72.2
Ratios (%)					
Credit-Deposit	95.7	102.4	103.4	102.9	103.9
Investment-Deposit	30.4	29.7	30.6	30.0	29.7
CAR	14.2	15.0	17.9	17.5	17.3
Tier-1	13.7	14.6	17.3	16.8	16.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

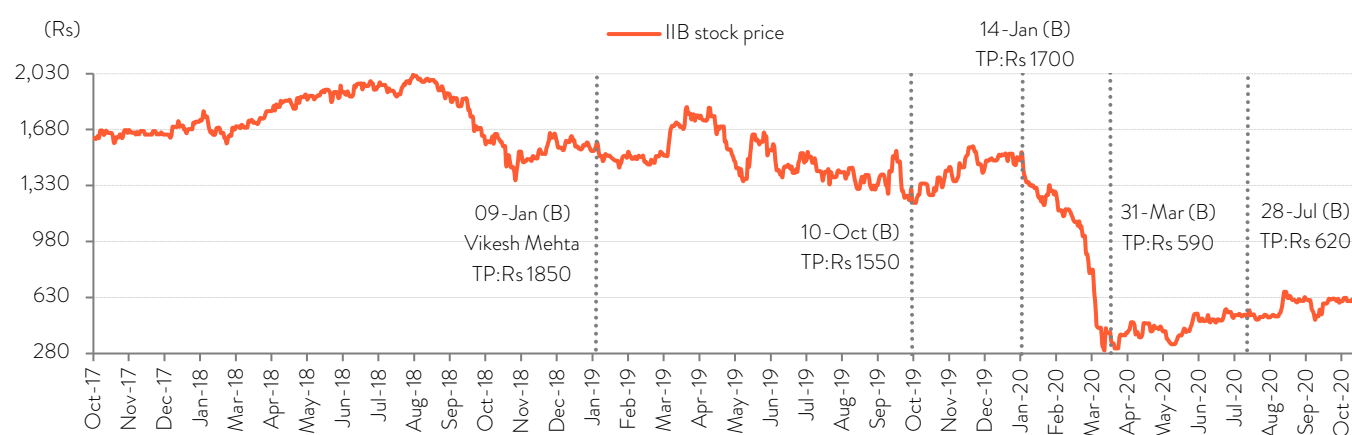
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): INDUSIND BANK (IIB IN)



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

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