

BUY

TP: Rs 1,100 | ▲ 30%

INDUSIND BANK

| Banking

| 29 January 2021

Gearing for growth; asset quality outlook improving

IndusInd Bank (IIB) reported higher PAT of Rs 8.3bn (Rs 6.1bn est.) on below-estimated provisions. Proforma slippages stood at 1.2% of loans and the restructured pool was at 1.8%. IIB prudently carries excess provisions worth ~Rs 22bn (1.1% of loans) and is also expected to benefit from a few corporate resolutions. Management expects loan growth to pick up and NIM is guided at 4.15-4.25%. We raise FY21-FY23 EPS 3-12%, roll to Mar'23 valuations and reset our target P/BV higher to 1.6x – our TP thus rises to Rs 1,100 (vs. Rs 700).

Vikesh Mehta

research@bobcaps.in

Stress remains manageable across portfolios: IIB's proforma GNPA ratio increased ~60bps QoQ to 2.9% owing to slippages worth Rs 25bn (1.2% of loans). The vehicle finance (VF) and MFI portfolios contributed 20% each of the slippages while the secured retail, unsecured retail and corporate segments contributed 15%, 30% and 15% respectively. The total restructured portfolio, including invoked accounts, stood at 1.8% of loans which we believe is manageable. Collection efficiency improved across the VF (96.9%), MFI (95.5%) and gems & jewellery (99.9%) portfolios.

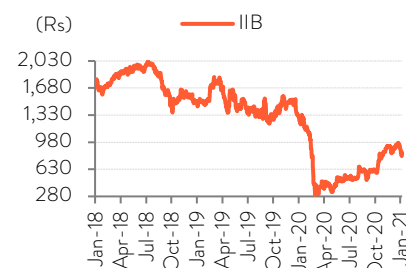
Gearing up for growth: IIB's loan book was flat in Q3 as corporate lending declined 7% YoY following a conscious reduction in exposure worth Rs 40bn. However, management expects 15-18% loan growth in FY22-FY23. VF is displaying strong traction with 73% QoQ growth in disbursements. IIB expects the MFI business to gather pace as exposure to stressed pockets is limited, even as the corporate book has bottomed and is guided to grow in FY22. Interest reversals had a 4bps impact on NIM which declined to ~4.1% in Q3.

Maintain BUY: We raise FY21-FY23 EPS by 3-12% to factor in higher loan growth and marginally lower credit costs. Valuing the bank at 1.6x P/BV (1.1x earlier), we roll forward to a new Mar'22 TP of Rs 1,100 (Rs 700 earlier).

Ticker/Price	IIB IN/Rs 846
Market cap	US\$ 8.8bn
Shares o/s	757mn
3M ADV	US\$ 186.6mn
52wk high/low	Rs 1,346/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	134,649	155,632	188,785
NII growth (%)	18.0	36.3	11.7	15.6	21.3
Adj. net profit (Rs mn)	33,011	44,579	29,554	59,552	77,213
EPS (Rs)	54.9	68.8	40.7	78.6	102.0
P/E (x)	15.4	12.3	20.8	10.8	8.3
P/BV (x)	1.9	1.7	1.5	1.4	1.2
ROA (%)	1.3	1.5	0.9	1.7	2.0
ROE (%)	13.1	14.5	7.7	13.5	15.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	72,415	72,845	71,772	(0.6)	0.9	215,804	213,963	0.9
Interest expense	38,354	42,103	38,992	(8.9)	(1.6)	115,872	125,687	(7.8)
Net interest income	34,061	30,742	32,780	10.8	3.9	99,933	88,276	13.2
Non-interest income	16,458	17,900	15,543	(8.1)	5.9	47,205	51,804	(8.9)
Net total income	50,519	48,642	48,323	3.9	4.5	147,138	140,080	5.0
Staff expenses	7,444	7,404	7,248	0.5	2.7	22,121	21,041	5.1
Other operating expenses	13,439	13,661	12,555	(1.6)	7.0	37,584	39,318	(4.4)
Operating expenses	20,883	21,065	19,803	(0.9)	5.5	59,705	60,359	(1.1)
Pre-provisioning profit	29,636	27,577	28,520	7.5	3.9	87,433	79,721	9.7
Total provisions	18,535	10,435	19,644	77.6	(5.6)	60,768	22,118	174.7
Profit before tax	11,100	17,143	8,875	(35.2)	25.1	26,664	57,603	(53.7)
Tax	2,797	4,050	2,245	(31.0)	24.6	6,626	16,176	(59.0)
Profit after tax	8,304	13,092	6,631	(36.6)	25.2	20,038	41,427	(51.6)
Balance Sheet								
Advances	2,071,280	2,074,130	2,012,468	(0.1)	2.9	2,071,280	2,074,130	(0.1)
Deposits	2,391,350	2,167,130	2,278,842	10.3	4.9	2,391,350	2,167,130	10.3
CASA ratio (%)	40.4	42.4	40.3	(198bps)	11bps	40.4	42.4	(198bps)
Yields and margins (%)								
Net interest margin	4.1	4.2	4.2	(3bps)	(4bps)	-	-	-
Yield on advances	11.7	12.0	12.0	(30bps)	(30bps)	-	-	-
Cost of funds	4.7	5.7	4.9	(99bps)	(20bps)	-	-	-
Key ratios (%)								
Cost/Income	41.3	43.3	41.0	(197bps)	36bps	40.6	43.1	(251bps)
Tax rate	25.2	23.6	25.3	157bps	(10bps)	24.9	28.1	(323bps)
Loan to Deposit ratio	86.6	95.7	88.3	(909bps)	(170bps)	86.6	95.7	(909bps)
Capital adequacy ratios (%)								
Tier 1	15.6	13.5	15.8	213bps	(21bps)	15.6	13.5	213bps
Total CAR	16.3	13.9	16.6	242bps	(21bps)	16.3	13.9	242bps
Asset quality (Rs mn)								
Gross NPAs	36,507	45,784	45,322	(20.3)	(19.4)	36,507	45,784	(20.3)
Net NPAs	4,642	21,733	10,558	(78.6)	(56.0)	4,642	21,733	(78.6)
Gross NPA ratio (%)	1.7	2.2	2.2	(44bps)	(47bps)	1.7	2.2	(44bps)
Net NPA ratio (%)	0.2	1.1	0.5	(83bps)	(30bps)	0.2	1.1	(83bps)
Coverage Ratio (%)	87.4	51.8	76.5	3,552bps	1,089bps	87.4	51.8	3,552bps

Source: Company, BOBCAPS Research

Valuation methodology

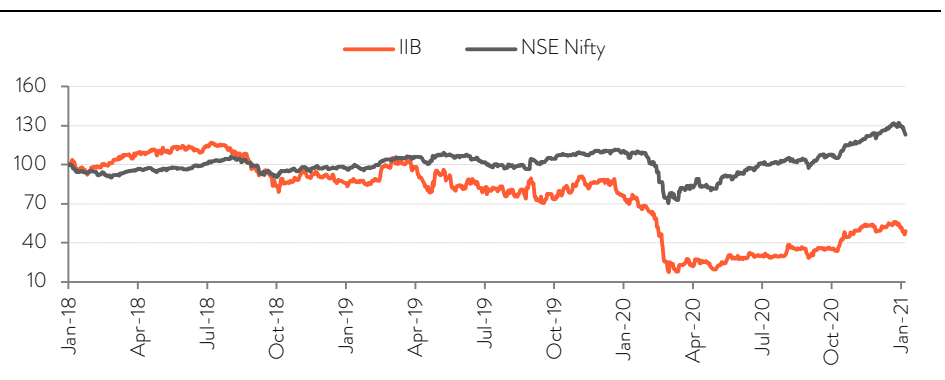
We like IIB's approach towards shoring up provisioning buffers by strengthening PCR and building reasonable levels of Covid-related provisions. The bank would also benefit from ongoing corporate resolutions where it has substantial exposure. We raise FY21-FY23 EPS estimates by 3-12% to factor in higher loan growth and marginally lower credit costs. Valuing the bank at 1.6x P/BV (1.1x earlier), we roll forward to a new Mar'22 target price of Rs 1,100 (Rs 700 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)	134,649	155,632	188,785	131,607	148,347	173,401	2.3	4.9	8.9
Pre-provisioning profit	118,578	138,642	167,911	113,029	126,545	148,815	4.9	9.6	12.8
Net Profit (Rs mn)	29,554	59,552	77,213	28,635	57,452	68,951	3.2	3.7	12.0
EPS (Rs)	41	79	102	40	76	91	3.1	3.5	11.8

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 could pose a risk to estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	134,649	155,632	188,785
NII growth (%)	18.0	36.3	11.7	15.6	21.3
Non-interest income	56,467	69,527	64,974	71,309	81,682
Total income	144,929	190,114	199,623	226,941	270,468
Operating expenses	(64,047)	(81,826)	(81,045)	(88,299)	(102,557)
Operating profit	80,882	108,288	118,578	138,642	167,911
Operating profit growth (%)	21.5	33.9	9.5	16.9	21.1
Provisions	(31,077)	(46,521)	(77,630)	(56,128)	(60,926)
PBT	49,806	61,767	40,949	82,514	106,984
Tax	(16,795)	(17,189)	(11,395)	(22,962)	(29,772)
Reported net profit	33,011	44,579	29,554	59,552	77,213
Adjustments	0	0	0	0	0
Adjusted net profit	33,011	44,579	29,554	59,552	77,213

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	6,027	6,935	7,573	7,573	7,573
Reserves & surplus	260,833	340,545	409,846	458,947	522,610
Net worth	266,860	347,480	417,418	466,520	530,183
Deposits	1,948,679	2,020,270	2,242,500	2,578,875	3,043,072
Borrowings	473,211	607,535	469,186	483,521	501,742
Other liabilities & provisions	89,444	97,000	102,508	108,333	114,494
Total liabilities and equities	2,778,194	3,072,286	3,231,612	3,637,248	4,189,490
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	2,109,188	2,425,567	2,862,168
Fixed & Other assets	173,764	244,529	294,481	296,710	295,370
Total assets	2,778,194	3,072,286	3,231,612	3,637,248	4,189,490
Deposit growth (%)	28.5	3.7	11.0	15.0	18.0
Advances growth (%)	28.6	10.9	2.0	15.0	18.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	54.9	68.8	40.7	78.6	102.0
Dividend per share	9.0	9.0	5.9	11.8	15.3
Book value per share	437.4	496.4	547.0	611.8	695.9

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	15.4	12.3	20.8	10.8	8.3
P/BV	1.9	1.7	1.5	1.4	1.2
Dividend yield (%)	1.1	1.1	0.7	1.4	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.5	4.1	4.3	4.5	4.8
Non-interest income	2.3	2.4	2.1	2.1	2.1
Operating expenses	2.6	2.8	2.6	2.6	2.6
Pre-provisioning profit	3.2	3.7	3.8	4.0	4.3
Provisions	1.2	1.6	2.5	1.6	1.6
PBT	2.0	2.1	1.3	2.4	2.7
Tax	0.7	0.6	0.4	0.7	0.8
ROA	1.3	1.5	0.9	1.7	2.0
Leverage (x)	9.9	9.5	8.2	7.8	7.9
ROE	13.1	14.5	7.7	13.5	15.5

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	18.0	36.3	11.7	15.6	21.3
Pre-provisioning profit	21.5	33.9	9.5	16.9	21.1
EPS	(8.8)	25.3	(40.8)	93.0	29.7
Profitability & Return ratios (%)					
Net interest margin	3.8	4.4	4.7	5.0	5.2
Fees / Avg. assets	1.6	1.6	1.3	1.3	1.3
Cost-Income	44.2	43.0	40.6	38.9	37.9
ROE	13.1	14.5	7.7	13.5	15.5
ROA	1.3	1.5	0.9	1.7	2.0
Asset quality (%)					
GNPA	2.1	2.5	3.8	3.4	2.9
NNPA	1.2	0.9	0.9	0.7	0.7
Provision coverage	43.0	63.3	78.2	79.3	75.0
Ratios (%)					
Credit-Deposit	95.7	102.4	94.1	94.1	94.1
Investment-Deposit	30.4	29.7	29.2	28.2	27.2
CAR	14.2	15.0	18.2	17.5	17.1
Tier-1	13.7	14.6	17.5	16.9	16.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

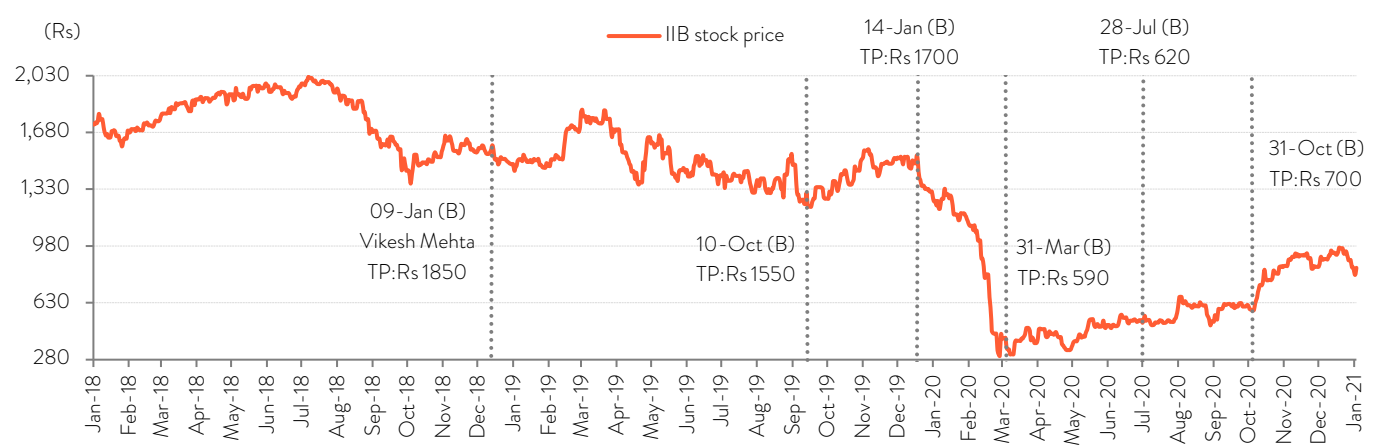
ADD – Expected return from >+5% to +15%

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

Rating distribution

As of 31 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.