

IndusInd Bank

26 November, 2021

Reuters: INBK.BO; Bloomberg: IIB IN

MFI issues may weigh in near term; growth outlook maintained

IndusInd Bank remains confident about credit growth (aiming for 16-18% CAGR). While last quarter's growth was driven by the corporate segment, over the medium to long term, retail is expected to grow at a higher rate. Retail disbursements have returned to pre-covid levels and corporate growth is expected to pick up further post realignment and resolution of legacy issues. Work on building a granular liability franchise continues, as retail deposits have been growing (up 48% YoY) despite cutting rates. TD rates differential versus large banks has reduced and is now 40-50bps with scope for further reduction. Barring the lag in MFI collections in Kerala and West Bengal, overall asset quality seems under control. The bank has clearly stated that it would not shy away from taking necessary provisions. Slippage risks from the restructured book are low as the repayment behaviour so far seems comfortable. Despite this, the bank has created provisions, taking a conservative view on flow through to the NPA buckets. Anonymous allegations in the MFI book are being investigated and the review is expected to be completed in 4-6 weeks. We remain positive on the bank on account of: (1) it is building asset growth around a granular liability base (2) it is strengthening provisioning buffers to reduce earnings volatility during stressed times. Current investigation into the inadvertent MFI disbursements and the uncertainty around management exit/change at BFIL may keep the stock under pressure in the near term. We have trimmed our FY22E loan growth estimate (mainly in the retail segment), but have maintained our growth expectation over FY23-24E. We have also raised our FY22E provisioning estimate to reflect the management's view on credit costs. We maintain BUY with a target price (TP) of Rs1,395, based on 1.9x 1HFY24E ABVPS. Following are the key takeaways from our recent interaction:

FY22 credit costs to be elevated

- FY22 credit costs for MFI segment are expected at 6-8%. Overall credit costs would be 160-190bps, in addition to 50-60bps for the telecom exposure.
- Current PCR levels are comfortable.
- Kerala and West Bengal MFI collection efficiency rates continue to lag behind other states (mid-90s or better).

Retail will grow higher than corporate

- Corporate portfolio realignment is complete and the segment focus would now be on working capital and higher rated exposures.
- 3QFY22 growth is expected at 3-5% QoQ. For the next couple of quarters, corporate growth would be faster than retail, but over the long term, overall growth is expected in mid-teens with high-teens growth in the retail portfolio and early teens growth in the corporate portfolio.
- Vehicle Finance segment growth is expected in mid-teens, with higher growth in cars, CEs and tractors and lower for MHCVs. As people get comfortable with travelling, growth is expected to return in bus and 3-wheelers.
- Currently, Affordable Housing loans are primarily to in-house customers (primarily VF customers). The segment operates in 13-15 states across the country and would be scaled up to Rs40-50bn from Rs20bn currently. The bank is on-boarding new-to-bank (NTB) customers to scale up the business.

Scope for margin improvement

- TD rate difference in the 1-year bucket stands at 40-50bps with some banks. Rates would be further reduced.
- Surplus liquidity remains a drag on margins. Overall liquidity would be reduced to Rs200-250bn.
 - The bank expects to revert to normalised earnings rate from 4QFY22.

Fee and other income

- Consumer banking fee has witnessed growth on the back of affluent business, distribution franchise – from new life insurance partners and larger MF product offering and credit cards.
- Going forward, non-interest fee would grow in line with balance sheet growth and retail fee would constitute 50-55% while the rest would be equally distributed between corporate and treasury income.

Other

- Review of MFI loans is expected in 4-6 weeks.
- The bank is awaiting clarity from the regulator with regards to stake in para banking businesses and holding structure. There are opportunities available in the market, which the bank would look at once there is more clarity.

BUY

Sector: Banking

CMP: Rs900

Target Price: Rs1,395

Upside: 55%

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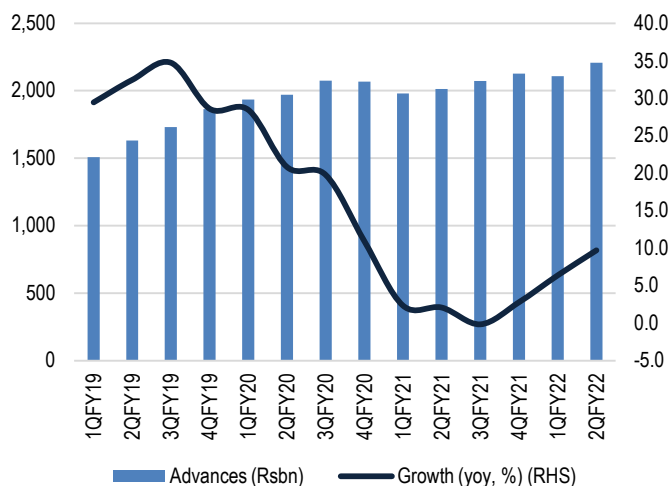
Key Data

Current Shares O/S (mn)	774.1
Mkt Cap (Rsbn/US\$bn)	698.1/9.3
52 Wk H / L (Rs)	1,242/789
Daily Vol. (3M NSE Avg.)	5,315,669

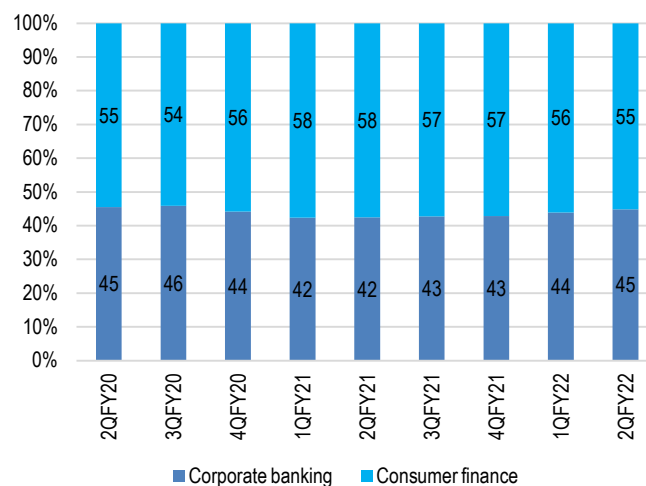
Price Performance (%)

	1 M	6 M	1 Yr
IndusInd Bank	(21.9)	(9.7)	6.0
Nifty Index	(6.8)	11.3	31.1

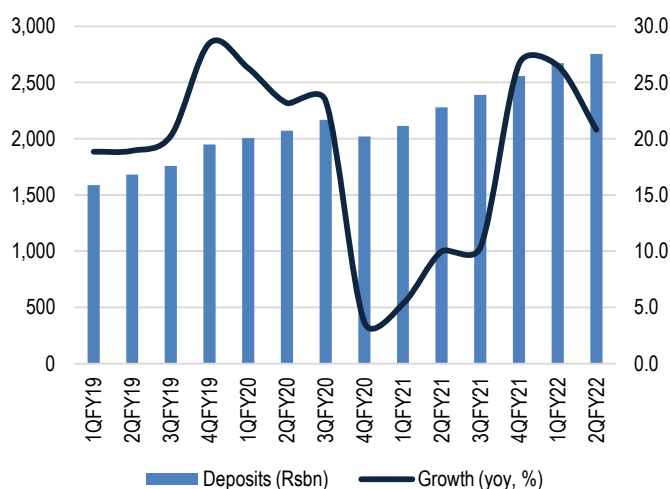
Source: Bloomberg

Exhibit 1: Advances (Rsbn), growth (YoY, %)


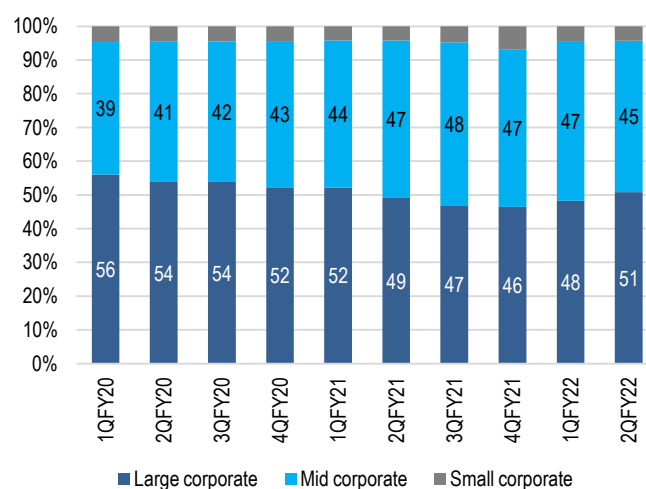
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Advances mix (%)


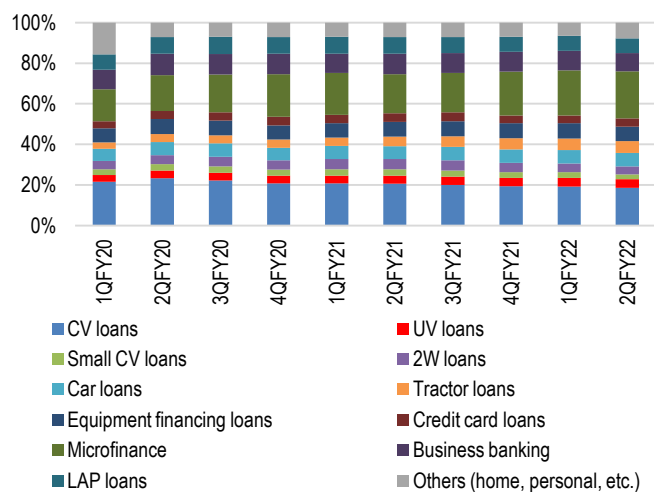
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deposits (Rsbn), growth (YoY, %)


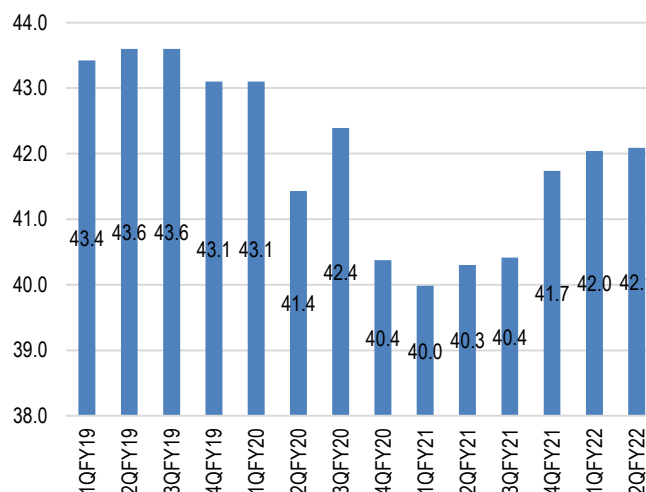
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Corporate portfolio mix (%)


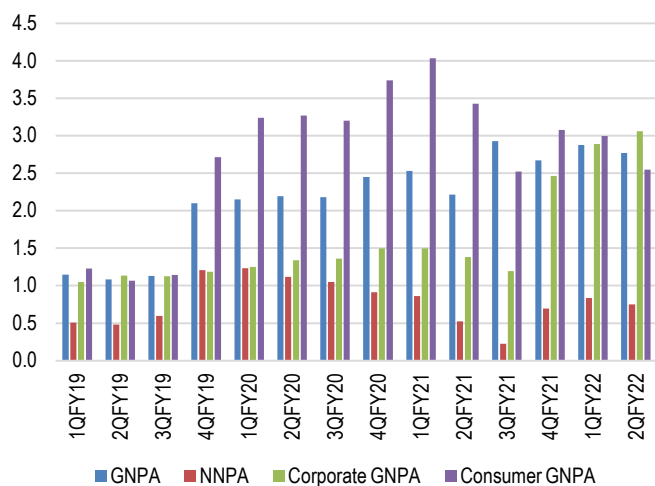
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consumer portfolio mix (%)


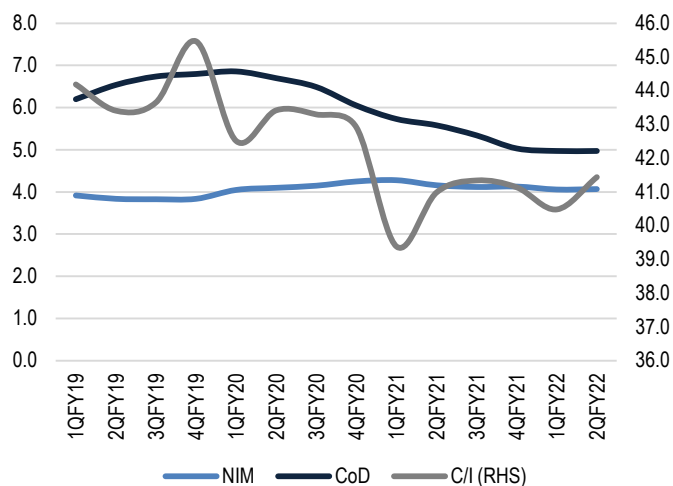
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: CASA ratio (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Asset quality metrics (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key financial metrics (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Earnings revision

	Revised Estimate			Earlier Estimate			% Revision		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Interest Income (Rs mn)	1,50,251	1,69,730	1,94,372	1,51,635	1,76,034	2,02,245	(0.9)	(3.6)	(3.9)
NIM	4.3	4.3	4.4	4.2	4.4	4.5	2 bps	-5 bps	-7 bps
Operating Profit (Rs mn)	1,29,270	1,42,609	1,60,568	1,30,757	1,49,330	1,66,058	(1.1)	(4.5)	(3.3)
Profit after tax (Rs mn)	53,134	72,413	86,988	56,470	76,078	90,004	(5.9)	(4.8)	(3.4)
Loan Book (Rs bn)	2,343	2,721	3,096	2,413	2,806	3,194	(2.9)	(3.0)	(3.0)
ABVPS (Rs)	604	698	810	610	708	825	(0.9)	(1.5)	(1.7)

Exhibit 10: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	2,87,828	2,89,998	3,13,255	3,46,848	3,92,630
Interest expense	1,67,241	1,54,719	1,63,004	1,77,119	1,98,258
Net interest income	1,20,587	1,35,279	1,50,251	1,69,730	1,94,372
Fees & Other Income	69,513	65,009	71,915	81,089	88,087
Net Revenue	1,90,101	2,00,288	2,22,167	2,50,819	2,82,460
Operating Expense	22,085	30,392	34,409	37,131	40,192
-Employee Exp	60,289	51,176	58,487	71,079	81,699
-Other Exp	82,373	81,568	92,896	1,08,210	1,21,891
Operating Profit	1,07,727	1,18,720	1,29,270	1,42,609	1,60,568
Provisions	46,521	79,425	58,751	46,058	44,585
PBT	61,206	39,294	70,519	96,551	1,15,984
Taxes	17,027	9,995	17,385	24,138	28,996
PAT	44,179	29,299	53,134	72,413	86,988

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Equity Capital	6,935	7,734	7,741	7,741	7,741
Reserves & Surplus	3,40,035	4,27,219	4,76,760	5,49,173	6,36,161
Shareholder's Funds	3,46,970	4,34,952	4,84,501	5,56,914	6,43,902
Deposits	20,20,398	25,58,701	29,01,800	33,83,478	38,88,112
Borrowings	6,07,535	5,13,228	3,66,660	3,33,800	2,87,106
Other liabilities	95,577	1,22,097	1,46,738	1,50,457	1,55,999
Total liabilities	30,70,576	36,29,033	38,99,789	44,24,739	49,75,210
Cash/Equivalent	1,60,037	5,66,099	5,58,907	5,61,309	5,84,531
Advances	20,67,830	21,25,954	23,43,073	27,21,160	30,96,468
Investments	5,99,799	6,96,534	7,54,468	8,79,704	10,10,909
Fixed Assets	18,203	18,757	20,595	21,457	22,319
Other assets	2,24,707	2,21,688	2,22,746	2,41,108	2,60,983
Total assets	30,70,576	36,29,033	38,99,789	44,24,739	49,75,210

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

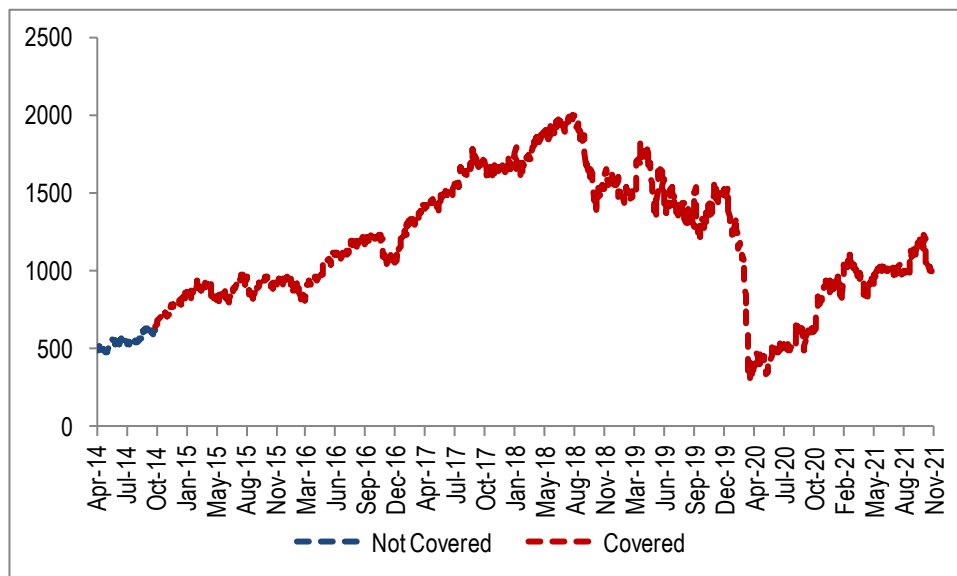
Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)					
NII growth	36.3	12.2	11.1	13.0	14.5
Pre-provision profit growth	33.2	10.2	8.9	10.3	12.6
PAT growth	33.8	-33.7	81.4	36.3	20.1
Business (%)					
Deposit growth	3.7	26.6	13.4	16.6	14.9
Advance growth	10.9	2.8	10.2	16.1	13.8
CD	102.3	83.1	80.7	80.4	79.6
CASA	40.4	41.7	41.8	42.2	41.5
Operating efficiency (%)					
Cost-to-income	43.3	40.7	41.8	43.1	43.2
Cost-to-assets	2.8	2.4	2.4	2.6	2.6
Spreads (%)					
Yield on advances	12.2	11.5	11.5	11.6	11.5
Yield on investments	7.2	5.9	5.6	5.6	5.6
Cost of deposits	6.5	5.4	5.0	4.9	4.9
Yield on assets	9.7	8.6	8.2	8.3	8.3
Cost of funds	6.6	5.4	5.1	5.1	5.0
NIMs	4.4	4.4	4.3	4.3	4.4
Capital adequacy (%)					
Tier I	14.6	16.8	16.8	16.4	16.1
Tier II	0.5	0.6	0.7	0.7	0.7
Total CAR	15.0	17.4	17.5	17.1	16.8
Asset Quality (%)					
Gross NPA	2.5	2.7	2.6	2.3	2.1
Net NPA	0.9	0.7	0.7	0.6	0.5
PCR	63.3	74.5	73.6	73.6	75.2
Slippage	3.2	3.7	3.6	2.2	2.2
Credit cost	1.8	2.9	2.0	1.4	1.2
Return (%)					
ROE	13.0	7.4	11.9	15.2	15.0
ROA	1.5	0.9	1.4	1.7	1.9
RORWA	1.9	1.1	1.9	2.3	2.4
Per share					
EPS	64	38	69	94	112
BV	500	562	626	719	832
ABV	473	543	604	698	810
Valuation					
P/E	14.7	24.7	13.1	9.6	8.0
P/BV	1.9	1.7	1.4	1.3	1.1
P/ABV	2.0	1.7	1.5	1.3	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
14 October 2014	Buy	636	800
14 January 2015	Buy	821	975
17 April 2015	Buy	933	1,075
14 July 2015	Buy	927	1,150
12 October 2015	Buy	937	1,150
13 January 2016	Buy	908	1,335
22 April 2016	Buy	971	1,335
12 July 2016	Buy	1,124	1,340
13 October 2016	Buy	1,220	1,470
10 January 2017	Buy	1,162	1,470
14 February 2017	Buy	1,340	1,600
20 April 2017	Buy	1,420	1,700
12 July 2017	Buy	1,560	1,790
13 October 2017	Buy	1,747	2,065
12 January 2018	Buy	1,700	2,018
20 April 2018	Buy	1,834	2,165
11 July 2018	Buy	1,934	2,288
9 October 2018	Buy	1,600	2,274
16 October 2018	Buy	1,627	2,235
13 December 2018	Buy	1,582	2,139
10 January 2019	Buy	1,599	2,107
8 April 2019	Buy	1,768	2,109
23 May 2019	Buy	1,519	2,066
8 July 2019	Buy	1,533	1,846
15 July 2019	Buy	1,510	1,880
7 October 2019	Buy	1,241	1,768
11 October 2019	Buy	1,229	1,733
1 November 2019	Buy	1,313	1,733
8 January 2020	Buy	1,459	1,729
15 January 2020	Buy	1,482	1,736
27 March 2020	Buy	413	623
9 April 2020	Buy	399	623
28 April 2020	Buy	407	595
9 July 2020	Buy	553	655
29 July 2020	Buy	527	651
23 September 2020	Buy	545	749
7 October 2020	Buy	623	749
2 November 2020	Buy	585	743
26 November 2020	Accumulate	855	897
08 January 2021	Accumulate	952	990
30 January 2021	Buy	846	997
21 February 2021	Buy	1,067	1,236
3 May 2021	Buy	935	1,289
28 July 2021	Buy	976	1,269
26 September 2021	Buy	1,163	1,397
28 October 2021	Buy	1,136	1,418
26 November 2021	Buy	900	1,395

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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