

INDUSIND BANK | Banking

Sound Balance Sheet, gearing up for growth

LKP

Result and Price Analysis

Indusind Bank has reported better than expected numbers in 2QFY21, as its gross slippages declined at ₹3.9bn v/s ₹15.4bn in 1QFY21. The bank has reported provision expenses ₹19.6bn v/s ₹22.6bn in the previous quarter. The bank has made additional COVID provision of ₹9.55bn with addition to ₹11.9bn made in the previous two quarters. The total COVID provisioning stood at ₹21.55bn. The total contingent provision (excluding PCR) stood at 1.7% of loan book. Total loan loss provisions (cumulative, COVID and contingent) stood 130% of GNPLs and 3% of book. The bank's collection efficiencies have improved significantly (~95% as on Oct-20) and one of the best among large private banks. The capital infusion (post money CET 1: 14.5%) would provide further cushion. Furthermore the liquidity surplus of ₹400bn is likely to safeguard the balance sheet. We expect the credit cost to normalize in 2HFY21 and return ratios to reach the previous run rate. Hence, we have a positive outlook on the bank with a BUY rating.

Gazing the Core

Bulky provisioning expenses results in satisfactory PCR and COVID buffer: The bank's provisioning expenses (₹19.6bn) decreased 13% sequentially which includes COVID provisioning of ₹9.55bn. As of 2QFY21, the total COVID provision stood ₹21.55bn. Moreover, the bank held cumulative provisions, floating provision, standard asset provision and other provision of ₹34.8bn, 0.7bn, ₹9.7bn and ₹1.5bn respectively. The total provisions stand at 130% of GNPLs and 3% of loans. Excluding cumulative provision (PCR calculation) the contingent provision is 1.7% of the loan book. The PCR for non-performing loans increased 100bps to 77%. We believe the contingent provisions to be satisfactory for impending stress.

Decline in NPAs, restructured book to be low single digit: As a result of no asset classification, the bank's gross slippages declined to ₹3.9bn (0.76% annualized) against ₹15.4bn (2.98% annualized) in the previous quarter. Total GNPA reduction stood at ₹9.7bn v/s ₹15.9bn in 1QFY21. The pro-forma GNPA and NNPA ratio would be 2.32% and 0.61% respectively. A reduction in NPAs emphasizes our hypothesis of stability in asset quality but the management alluded that the restructuring is likely to be at low single digit when asset classification resumes. The SMA book (SMA1: 33bps and SMA2: 10bps) is under control. Although, the actual stress will be key a monitorable, we believe the bank has made adequate provisioning.

Stable NII growth & robust PAT growth sequentially: NII grew by 12.7% YoY and de-grew by 0.9% QoQ driven by sequentially lower NIMs at 4.16%. Bank's YOA remain sequentially stable at 11.97% because of fixed rate loan books and BHFIN MFI books. However, excess liquidity (₹400bn) has resulted in sequentially lower NIMs. As a result PPP sequentially decreased by 1.1%. A bulky but sequentially lower provisioning expenses have translated in 43.5% sequential jump in reported profit at ₹6.47bn. The bank's ROA and ROE for the quarter stood at 0.83% and 7.12% respectively.

Outlook & Valuation

Core operating performance of the bank remains healthy. A higher PCR is likely to safeguard the bank from credit disruption due to COVID. We retain our BUY rating with a raised price target of ₹730 (based on 1.2x FY22E Adj. BVPS of ₹608).

Key Financials (₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
NII	88,462	120,587	134,800	148,776	167,256
Operating Profit	80,882	107,727	122,158	134,074	150,022
Reported Profits	33,011	44,179	46,873	63,272	75,499
Net Worth	263,492	337,131	410,128	465,203	524,307
Loan & Advances	1,863,935	2,067,832	2,212,580	2,467,027	2,812,410
Int. Bearing Liabilities	2,421,890	2,627,934	2,822,122	3,152,673	3,574,673

Key Ratios (%)	FY19	FY20	FY21E	FY22E	FY23E
NIM's	3.8	4.4	4.6	4.6	4.6
C/I	44.2	43.3	41.7	42.5	42.9
Gross NPA	2.1	2.5	3.1	2.5	2.3
Tier 1	13.7	15.7	17.5	17.7	17.5
Adj. RoA	1.3	1.5	1.5	1.8	1.9
Adj. RoE	13.1	14.6	12.5	14.4	15.2

Rating	Buy
Current Market Price (₹)	585
12 M Price Target (₹)	730
Potential upside (%)	25

Stock Data

FV (₹) :	2
Market Cap Full (₹ bn) :	443
Market Cap Free Float (₹ bn) :	332
52-Week High / Low (₹) :	1,597 / 236
2-Year High / Low (₹) :	1,834 / 236
1 Year Avg. Dly Traded Volume (in lakh)	192
BSE Code / NSE Symbol :	532187 / INDUSINDBK
Bloomberg :	IIB IN

Shareholding Pattern (%)

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	14.68	14.65	14.34	14.38
FPIs	51.81	52.07	53.58	55.22
MFs	11.11	12.01	11.81	10.86
FI's / Banks	0.08	0.75	0.61	0.60
Insurance	6.02	1.15	2.92	3.20
Others	16.30	19.37	16.74	15.74

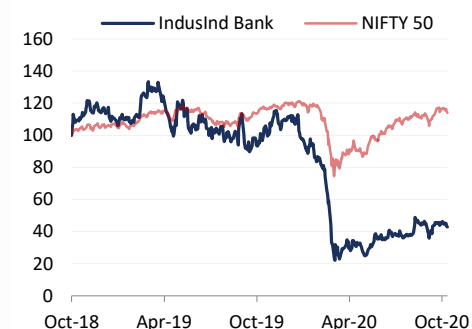
Source: BSE

Price Performance (%)

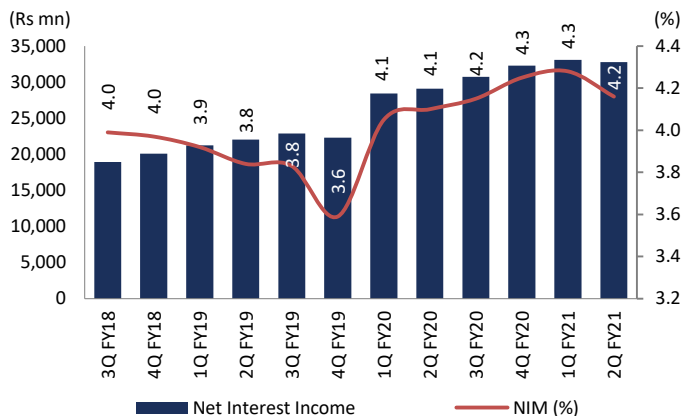
(%)	1M	3M	6M	1YR
Indusind Bank	11%	13%	25%	-55%
Nifty 50	4%	5%	18%	-2%

* To date / current date : October 30, 2020

Indusind Bank vs Nifty 50

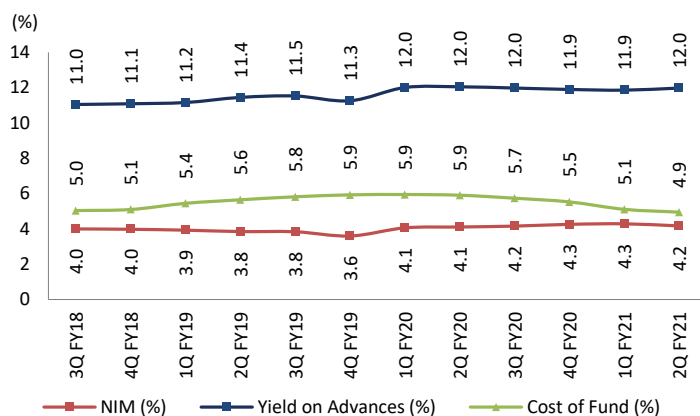


NII Trend

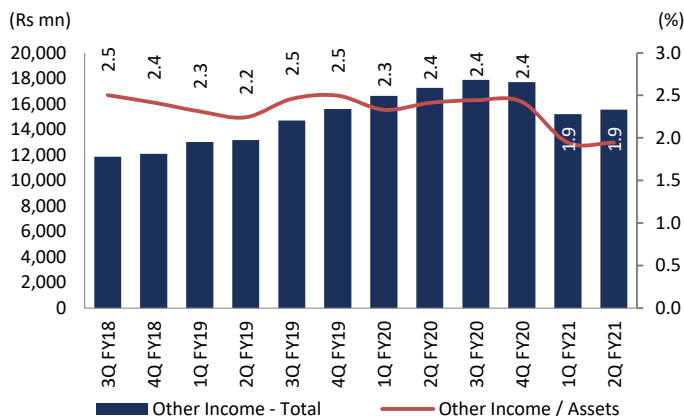


Source: Company, LKP Research

Yield & Margin's Trend

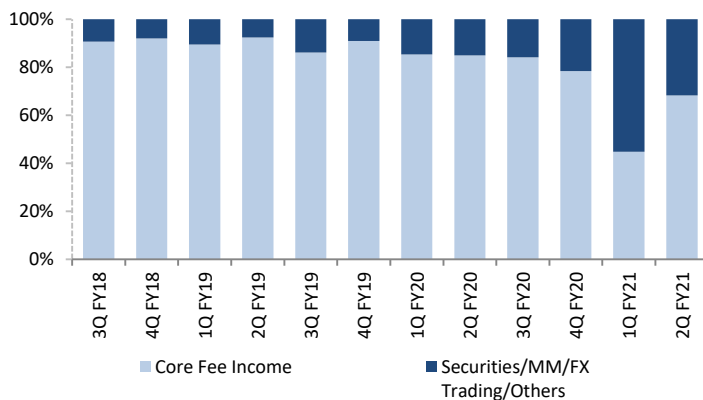


Other Income Trend

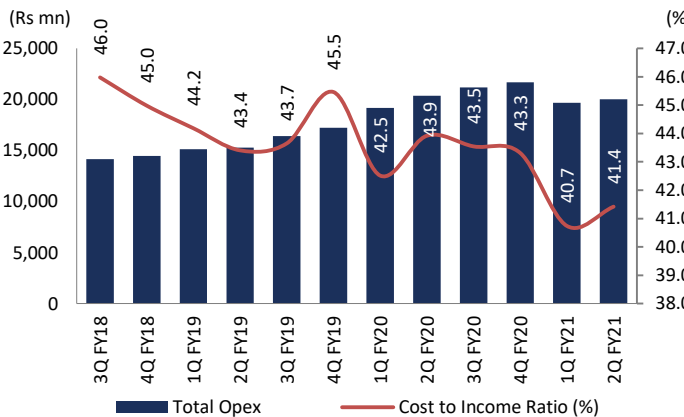


Source: Company, LKP Research

Other Income Mix Trend

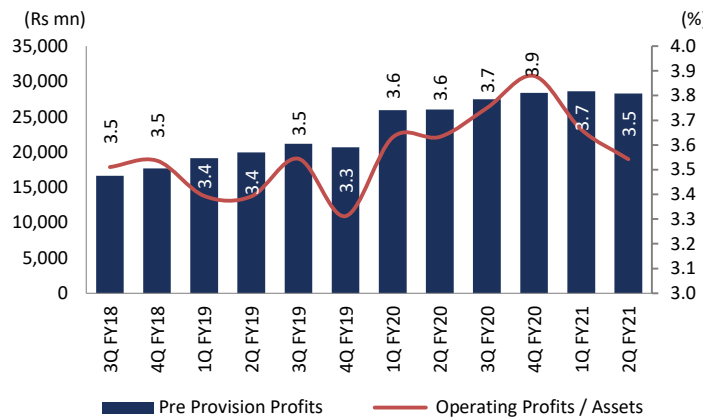


Total Opex Trend

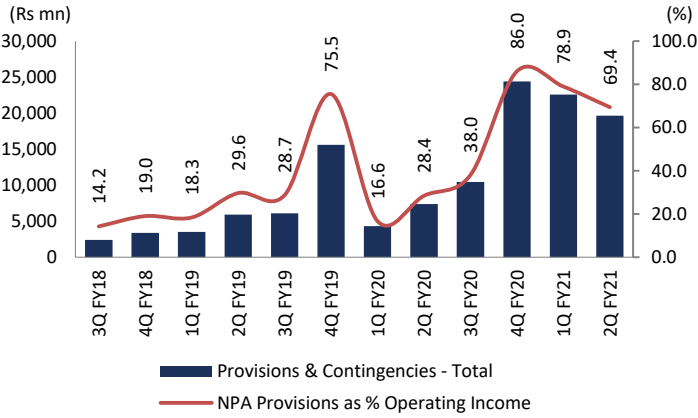


Source: Company, LKP Research

Pre Provision Profit Trend

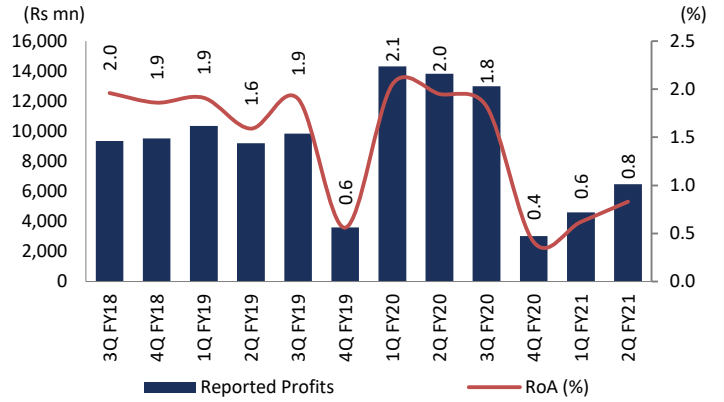


Provision Expenses Trend

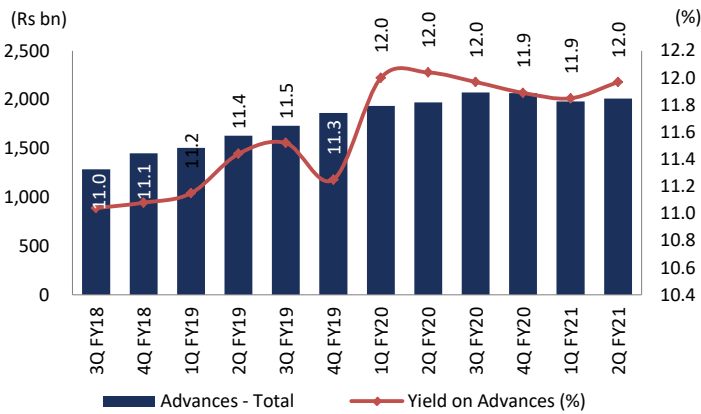


Source: Company, LKP Research

Reported Profit Trend

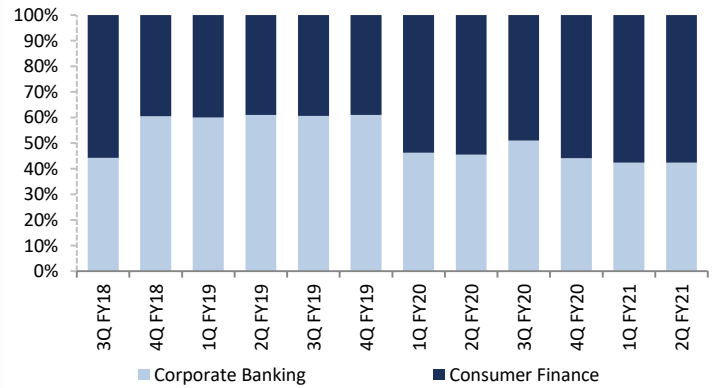


Loan Book Trend

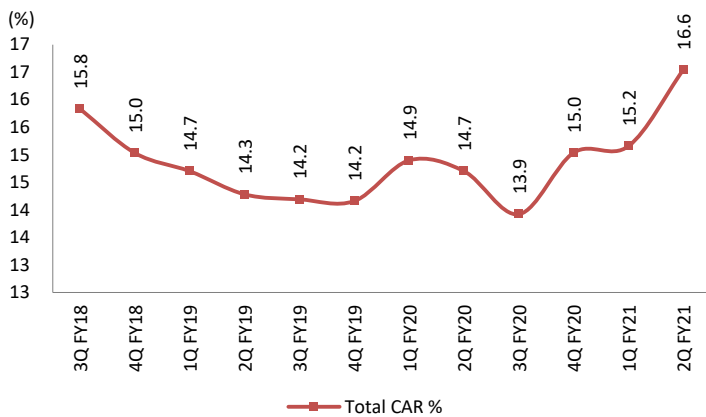


Source: Company, LKP Research

Loan Book Mix

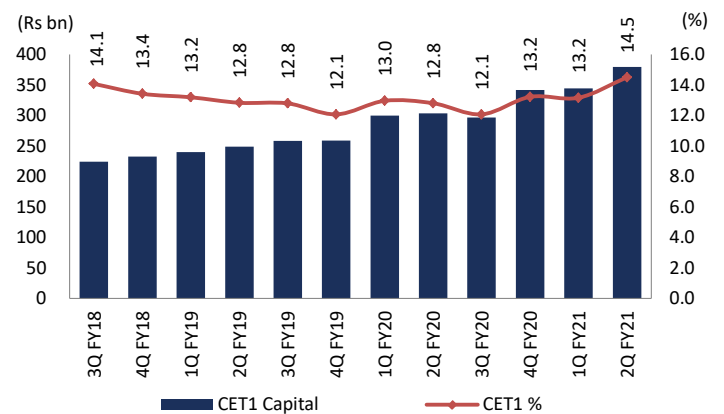


CRAR Ratio Trend

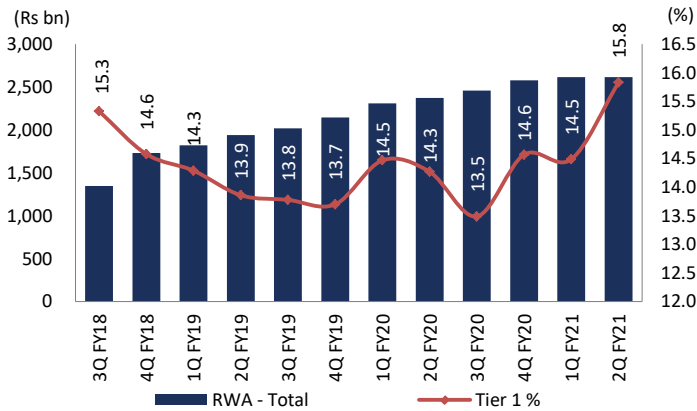


Source: Company, LKP Research

CET 1 Ratio Trend

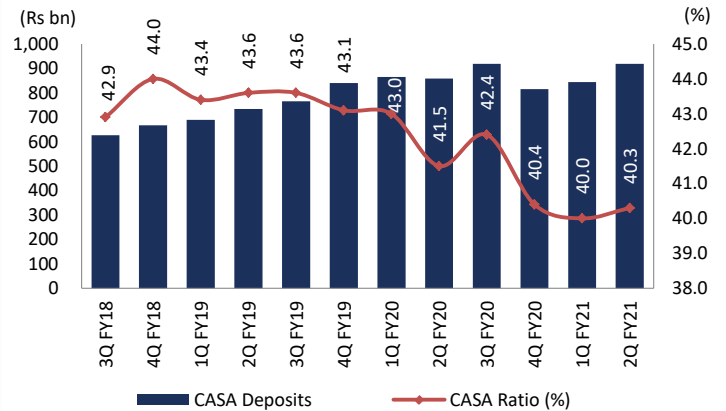


RWA Trend

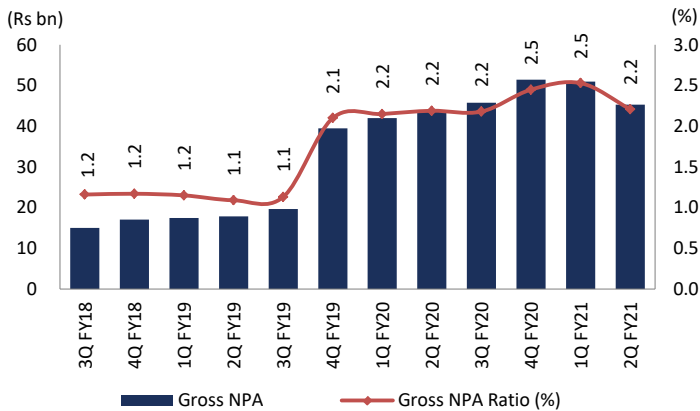


Source: Company, LKP Research

CASA Deposit Trend

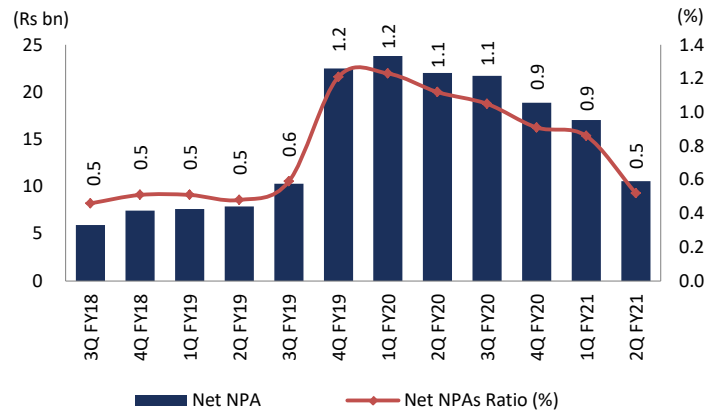


Gross NPA Trend

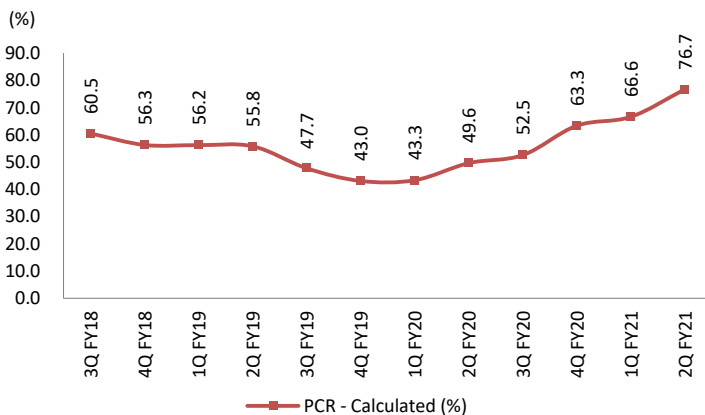


Source: Company, LKP Research

Net NPA Trend

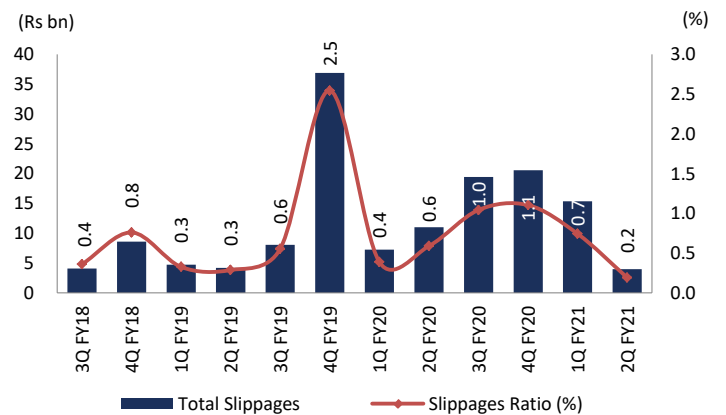


PCR Trend



Source: Company, LKP Research

Slippages Trend



Financial Performance at a glance

Exhibit: Income Statement Analysis

(₹ mn)	2Q FY21	2Q FY20	% yoy / bps	1Q FY21	% qoq / bps	FY20	FY19	% yoy / bps
Int. on Loan	59,877	59,487	0.7	60,660	(1.3)	240,083	182,567	31.5
Int. on Investment	9,524	10,754	(11.4)	10,015	(4.9)	42,822	36,773	16.4
Int. on Balances	1,696	620	173.6	208	715.6	1,920	1,020	88.2
Int. Others	675	643	4.9	734	(8.1)	3,004	2,251	33.4
Interest Inc.	71,772	71,504	0.4	71,617	0.2	287,828	222,612	29.3
Yield on Advances (%)	12.0	12.0	(7)	11.9	12	-	-	-
Yield on Assets (%)	9.1	10.0	(90)	9.4	(28)	-	-	-
Interest Expenses	38,992	42,408	(8.1)	38,525	1.2	167,241	134,150	24.7
Cost of Dep. (%)	5.6	6.7	(112)	5.7	(15)	-	-	-
Cost of Fund (%)	4.9	5.9	(96)	5.1	(16)	-	-	-
Net Interest Income	32,780	29,095	12.7	33,092	(0.9)	120,587	88,462	36.3
NII to Net Operative Income	67.8	62.8	508	68.5	(69)	63.4	61.0	240
NIM (%)	4.16	4.1	6	4.3	(12)	-	3.8	-
Yield Corporate Bank (%)	8.4	9.0	(60)	8.6	(14)	-	-	-
Yield Consumer Finance (%)	14.6	14.7	(2)	14.5	14	-	-	-
Trade and Remittances	1,520	1,820	(16.5)	1,160	31.0	7,200	6,360	13.2
Foreign Exchange Income	2,280	2,770	(17.7)	1,550	47.1	10,160	10,150	0.1
Distribution Fees	3,230	3,220	0.3	1,740	85.6	13,380	11,280	18.6
General Banking Fees	1,230	900	36.7	700	75.7	3,450	3,440	0.3
Loan Processing fees	2,120	3,600	(41.1)	990	114.1	14,410	10,950	31.6
Investment Banking	230	2,010	(88.6)	290	(20.7)	7,880	8,500	(7.3)
PSLC	-	360	-	390	-	1,370	-	-
Core Fee Income	10,610	14,680	(27.7)	6,820	55.6	57,850	50,680	14.1
Securities/MM/FX Trading/Others"	4,928	2,587	90.5	8,372	(41.1)	11,663	5,786	101.6
Other Income - Total	15,538	17,267	(10.0)	15,192	2.3	69,513	56,467	23.1
Other Income to Net Operative Income	32.2	37.2	(508)	31.5	69	36.6	39.0	(240)
Net Operating Revenue	48,318	46,362	4.2	48,284	0.1	190,101	144,929	31.2
Employee Expenses	5,241	5,155	1.7	5,516	(5.0)	22,085	18,535	19.2
Empl. Cost/Oper. Exps.	10.8	11.1	(27)	11.4	(58)	11.6	12.8	(117)
Other Opex	14,772	15,208	(2.9)	14,154	4.4	60,289	45,512	32.5
Other Opex/ Assets	0.5	0.5	(7)	0.5	1	2.1	1.8	24
Total Opex	20,013	20,363	(1.7)	19,671	1.7	82,373	64,047	28.6
Cost to Income Ratio (%)	41.4	43.9	(250)	40.7	68	43.3	44.2	(86)
Pre Provision Profits	28,305	25,999	8.9	28,613	(1.1)	107,727	80,882	33.2
Provisions & Contingencies - Total	19,644	7,377	166.3	22,589	(13.0)	46,521	31,077	49.7
Credit Cost (%)	0.30	0.18	11.6	0.6	(28)	1.46	-	-
NPA Provisions as % Operating Income	69.4	28.4	4,103	78.9	(954)	43.2	38.4	476
Profit Before Tax	8,661	18,622	(53.5)	6,025	43.8	61,206	49,806	22.9
Tax	2,191	4,789	(54.3)	1,418	54.5	17,027	16,795	1.4
Effective Tax Rate (%)	25.3	25.7	(42)	23.5	175	27.8	33.7	(590)
Reported Profits	6,470	13,834	(53.2)	4,606	40.5	44,179	33,011	33.8
RoA (%)	0.8	2.0	(112)	0.6	21	-	1.4	-
RoE (%)	7.1	17.6	(1,044)	5.9	126	-	13.3	-

Source: Company, LKP Research

Exhibit: Balance Sheet Analysis

(₹ mn)	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	QoQ % / bps	YoY % / bps
Net Worth	320,580	328,339	334,820	340,232	348,280	388,833	11.6	18.4
RoE (%)	18.5	17.6	15.6	3.7	5.9	7.1	126	(1,044)
CET1 %	13.0	12.8	12.1	13.2	13.2	14.5	134	170
Tier 1 %	14.5	14.3	13.5	14.6	14.5	15.8	134	156
Total CAR %	14.9	14.7	13.9	15.0	15.2	16.6	139	185
RWA - Total	2,310,940	2,372,230	2,458,520	2,580,650	2,617,220	2,616,830	(0.0)	10.3
Advances - Total	1,935,200	1,971,126	2,074,130	2,067,832	1,980,690	2,012,468	1.6	2.1
Investments	607,340	635,820	605,170	599,799	595,960	629,942	5.7	(0.9)
Total Assets	2,930,460	2,947,293	3,079,430	3,070,576	3,179,160	3,321,887	4.5	12.7
RoA (%)	2.05	1.95	1.82	0.41	0.62	0.83	21	(112)
Deposits	2,005,860	2,071,934	2,167,130	2,020,398	2,112,650	2,282,793	8.1	10.2
Saving Deposit	576,520	581,170	648,950	531,300	525,270	570,730	8.7	(1.8)
Current Deposit	288,870	277,210	269,700	284,400	319,460	347,730	8.8	25.4
CASA Deposits	865,390	858,380	918,650	815,700	844,730	918,460	8.7	7.0
CASA Ratio (%)	43.0	41.5	42.4	40.4	40.0	40.3	30	(120)
Term Deposits	1,140,470	1,213,554	1,248,480	1,204,698	1,267,920	1,364,333	7.6	12.4
Interest Bearing Liabilities - Total	2,503,500	2,517,512	2,635,260	2,627,934	2,704,610	2,806,644	3.8	11.5

Source: Company, LKP Research

Exhibit: Earning Assets Mix & Incremental Contribution

	As on (₹ mn)				As % of Working Assets	YoY/ YTD growth (% / bps)			Incremental Contribution in Working Assets (%)		
	FY18	FY19	FY20	2Q FY21		FY19	FY20	2Q FY21	FY19	FY20	2Q FY21
Corporate Banking	877,150	1,137,100	913,340	854,270	27.6	29.6	(19.7)	(6.5)	49.8	(100.2)	(21.9)
Large Corporates	442,890	521,660	477,420	419,270	13.5	17.8	(8.5)	(12.2)	15.1	(19.8)	(21.6)
Mid size Corporates	256,520	333,690	395,590	398,890	12.9	30.1	18.6	0.8	14.8	27.7	1.2
Small Corporates	177,740	281,750	40,330	36,110	1.2	58.5	(85.7)	(10.5)	19.9	(108.1)	(1.6)
Consumer Finance	572,390	726,840	1,154,490	1,158,200	37.4	27.0	58.8	0.3	29.6	191.6	1.4
Comm. Vehicle Loans	198,720	244,440	239,480	239,320	7.7	23.0	(2.0)	(0.1)	8.8	(2.2)	(0.1)
Utility Vehicle Loans	28,660	35,970	43,770	45,390	1.5	25.5	21.7	3.7	1.4	3.5	0.6
Small CV	25,280	31,350	35,240	36,910	1.2	24.0	12.4	4.7	1.2	1.7	0.6
Two Wheeler Loans	35,890	44,820	52,040	57,390	1.9	24.9	16.1	10.3	1.7	3.2	2.0
Car Loans	53,450	65,370	72,470	74,600	2.4	22.3	10.9	2.9	2.3	3.2	0.8
Tractor	27,260	35,200	46,700	54,840	1.8	29.1	32.7	17.4	1.5	5.2	3.0
Equipment Financing	54,790	75,690	80,830	83,690	2.7	38.1	6.8	3.5	4.0	2.3	1.1
Vehicle Loans	-	-	570,540	592,140	19.1	-	-	3.8	-	-	8.0
Non Vehicle loans	-	-	341,630	342,230	11.1	-	-	0.2	-	-	0.2
Credit Card	26,960	4,382	47,620	48,530	1.6	(83.7)	986.7	1.9	(4.3)	19.4	0.3
Loan Against Property	80,090	8,925	94,480	95,400	3.1	(88.9)	958.6	1.0	(13.6)	38.3	0.3
BBG + BL, PL, GL, Others	41,300	6,095	199,540	198,300	6.4	(85.2)	3,173.8	(0.6)	(6.7)	86.7	(0.5)
Advances - Total	1,449,537	1,863,935	2,067,832	2,012,468	65.0	28.6	10.9	(2.7)	79.4	91.3	(20.6)
Investments	500,767	592,662	599,799	629,942	20.3	18.4	1.2	5.0	17.6	3.2	11.2
Cash & Cash Equivalent	132,159	147,834	160,037	454,374	14.7	11.9	8.3	183.9	3.0	5.5	109.4
Working Assets	2,082,463	2,604,431	2,827,668	3,096,784	100.0	25.1	8.6	9.5	100.0	100.0	100.0

Source: Company, LKP Research

Exhibit: Funding Profile Analysis

(₹ mn)	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	2,503,500	2,517,512	2,635,260	2,627,934	2,704,610	2,806,644	3.8	11.5
Deposits	2,005,860	2,071,934	2,167,130	2,020,398	2,112,650	2,282,793	8.1	10.2
CASA Deposits	865,390	858,380	918,650	815,700	844,730	918,460	8.7	7.0
Saving Deposit	576,520	581,170	648,950	531,300	525,270	570,730	8.7	(1.8)
Current Deposit	288,870	277,210	269,700	284,400	319,460	347,730	8.8	25.4
Term Deposits	1,140,470	1,213,554	1,248,480	1,204,698	1,267,920	1,364,333	7.6	12.4
Borrowings	497,640	445,578	468,130	607,536	591,960	523,851	(11.5)	17.6
Interest Bearing Liabilities - Total	2,503,500	2,517,512	2,635,260	2,627,934	2,704,610	2,806,644	3.8	11.5

Source: Company, LKP Research

Exhibit: Funding mix and Incremental Contribution

	As on (₹ mn)				As % of Total Working Fund	YoY/ YTD growth			Incremental Contribution YoY/ YTD Growth (%)		
	FY18	FY19	FY20	2Q FY21		FY19	FY20	2Q FY21	FY19	FY20	2Q FY21
Deposits	1,516,392	1,948,679	2,020,398	2,282,793	71.4	28.5	3.7	13.0	78.4	25.7	115.4
Saving Deposit	458,883	544,857	531,300	570,730	17.9	18.7	(2.5)	7.4	15.6	(4.8)	17.3
Current Deposit	208,410	295,845	284,400	347,730	10.9	42.0	(3.9)	22.3	15.9	(4.1)	27.9
CASA Deposits	667,293	840,701	815,700	918,460	28.7	26.0	(3.0)	12.6	31.5	(8.9)	45.2
Term Deposits	849,099	1,107,978	1,204,698	1,364,333	42.7	30.5	8.7	13.3	47.0	34.6	70.2
Borrowings	382,891	473,211	607,536	523,851	16.4	23.6	28.4	(13.8)	16.4	48.1	(36.8)
Interest Bearing Liabilities - Total	1,899,283	2,421,890	2,627,934	2,806,644	87.8	27.5	8.5	6.8	94.8	73.7	78.6
Net Worth	238,271	266,748	340,232	388,833	12.2	12.0	27.5	14.3	5.2	26.3	21.4
Working Fund	2,137,553	2,688,638	2,968,166	3,195,476	100.0	25.8	10.4	7.7	100.0	100.0	100.0
<i>Interest Exp. / Assets</i>	<i>4.89</i>	<i>5.37</i>	<i>5.72</i>	<i>4.9</i>		<i>48</i>	<i>35</i>	<i>(84)</i>			

Source: Company, LKP Research

Exhibit: Asset Quality Analysis

(₹ mn)	1Q FY20	2Q FY20	3Q FY20	4Q FY20	1Q FY21	2Q FY21	QoQ % / bps	YoY % / bps
Total Slippages	7,250	11,020	19,450	20,580	15,370	3,990	(74.0)	(63.8)
<i>Slippages Ratio (%)</i>	<i>0.39</i>	<i>0.59</i>	<i>1.04</i>	<i>1.10</i>	<i>0.74</i>	<i>0.19</i>	<i>(55)</i>	<i>(40)</i>
Gross NPA	41,997	43,702	45,784	51,467	50,990	45,322	(11.1)	3.7
<i>Gross NPAs Ratio (%)</i>	<i>2.15</i>	<i>2.19</i>	<i>2.18</i>	<i>2.45</i>	<i>2.53</i>	<i>2.21</i>	<i>(32)</i>	<i>2</i>
<i>PCR - Calculated (%)</i>	<i>43.3</i>	<i>49.6</i>	<i>52.5</i>	<i>63.3</i>	<i>66.6</i>	<i>76.7</i>	<i>1,011</i>	<i>2,710</i>
<i>PCR - Inc. Tech w/o (%)</i>	<i>43.0</i>	<i>50.0</i>	<i>53.0</i>	<i>63.0</i>	<i>67.0</i>	<i>77.0</i>	<i>1,000</i>	<i>2,700</i>
Net NPA	23,805	22,026	21,733	18,866	17,034	10,558	(38.0)	(52.1)
<i>Net NPAs Ratio (%)</i>	<i>1.23</i>	<i>1.12</i>	<i>1.05</i>	<i>0.91</i>	<i>0.86</i>	<i>0.52</i>	<i>(34)</i>	<i>(60)</i>
<i>Std. Rest. Adv. as % of Advances</i>	<i>0.1</i>	<i>0.1</i>	<i>0.06</i>	<i>0.04</i>	<i>0.05</i>	<i>0.05</i>	-	<i>(6)</i>
Corporate Bank - Credit Cost	670	1,010	2,830	14,420	9,070	4,190	(53.8)	314.9
Consumer Finance - Credit Cost	2,370	2,620	2,930	3,440	2,590	2,010	(22.4)	(23.3)
Gross Credit Costs	3,040	3,630	5,760	17,860	11,660	6,200	(46.8)	70.8
<i>Gross Credit Costs (bps)</i>	<i>16</i>	<i>18</i>	<i>28</i>	<i>86</i>	<i>59</i>	<i>31</i>	<i>(2,800)</i>	<i>1,300</i>
Net Credit Cost	2,930	3,480	5,750	17,570	11,570	6,020	(48.0)	73.0
<i>Net Credit Costs (BPS)</i>	<i>15</i>	<i>18</i>	<i>28</i>	<i>85</i>	<i>58</i>	<i>30</i>	<i>(2,800)</i>	<i>1,200</i>

Source: Company, LKP Research

2QFY21 Results and Con-Call Review

Collection Efficiencies: The bank's collection efficiencies have improved month-on-month basis. As of Oct-20, the collection efficiencies of micro finance and vehicle finance book stood at 93% and 94.3% respectively. In MFI book, the collection efficiencies of new loans (In FY21) is 99.9%. The collection efficiencies of overall book is more than 95% as on Oct-20. The management expects the collection efficiencies to improve further. However, the management didn't provide a clear picture of 30 plus DPD amount.

Slippages: As a result of RBI's guideline of no asset classification, the bank's gross slippages declined to ₹3.9bn (0.76% annualized) against ₹15.4bn (2.98% annualized) in the previous quarter. Total GNPA reduction stood at ₹9.7bn v/s ₹15.9bn in 1QFY21.

GNPA/NNPA/PCR/SMA1/SMA2: 2.21%/0.52%/77%/0.33%/0.10% v/s 2.53%/0.86%/67% in previous quarter. The pro-forma GNPA/NNPA ratio would be 2.32%/0.61%. The reported restructured assets stood at 0.05% of the book. The management expects a low single digit number of restructured book when asset classification resumes.

Provisioning: The bank's provision expenses stood at ₹19.6bn v/s ₹22.6bn and decreased to 0.58% vs. 0.86% in previous quarter. The bank has made additional COVID provision of ₹9.55bn in 2QFY20 and the total COVID provisioning stood at ₹21.55bn. The bank held NPA/NPI provisions, COVID provision, floating provision, standard asset provision and other provision of ₹34.7bn, ₹21.6bn, ₹0.7bn, ₹9.7bn and ₹1.5bn respectively. The total contingent provisions (excluding PCR) stood at 150% of GNPLs and 1.7% of loans.

Credit: The bank's net advances stood at ₹2.0tn; 2.1% YOY and 1.6% qoq. Corporate Banking (42.4% of loan book) grew by 1.7% qoq and Retail (57.6% of book) grew by 1.5% qoq. Vehicle loan (29.4% of loan book) grew by 3% sequentially and Micro loan (11.1% of loan book) de-grew by 5% qoq. The bank disbursed ₹16bn through ECGS.

Deposits: The bank's deposit stood at ₹2.28tn and grew by 10.2% yoy and 8% qoq; CASA ratio improved 30bps to 40.3%. The bank is holding ample liquidity (LCR: 140%) with ₹400bn as liquidity buffer.

CRAR: The bank raised ₹25bn (@₹524) through preferential allotment. As a result of capital infusion, the CET 1 improved 134bps to 14.5%. The CRAR stood at 16.55% vs. 15.16% in 1QFY21 with CET 1 of 14.5%. RWA to assets declined to 79% v/s 82% in the last quarter due to risk migration of few assets.

NII/NIMs: The YoA improved 12bps (11.97%) owing to fixed rate book and COF (4.94% vs. 5.10% in previous quarter) have resulted in a spike in interest spread. However, NIMs declined sequentially by 12bps to 4.16% owing to excess liquidity (₹400bn) reserve. NII stood at ₹32.8bn; de-grew by 0.9% qoq. Other Income grew by 2.3% qoq.

Bottom Line: PPop (₹28.3bn) declined by 1.1% sequentially on the back of higher Opex (Cost to income: 41.4% v/s 40.7% in the previous quarter). However, sequentially lower provisioning expenses (₹19.6bn v/s ₹22.5bn in 1QFY21) have resulted in 43.5% sequential jump in profit at ₹6.47bn. The bank's ROA and ROE stood at 0.83% and 7.12% respectively.

Other Matters: Indusind Bank has denied any merger with a peer Bank.

Annual Projections

Exhibit: Profit and Loss Statement

(₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	222,612	287,828	304,177	327,818	364,310
Interest Expenses	134,150	167,241	169,376	179,042	197,054
Net Interest Income	88,462	120,587	134,800	148,776	167,256
<i>NIM (%)</i>	3.77	4.44	4.58	4.62	4.63
Core Fee Income	50,680	57,850	61,321	68,986	77,609
Securities/MM/FX Trading/Others	5,787	11,663	13,413	15,559	17,892
Other Income - Total	56,467	69,513	74,734	84,545	95,502
Net Operating Revenue	144,929	190,101	209,534	233,321	262,758
Employee Exp.	18,535	22,085	24,072	27,081	30,467
Other Opex	45,512	60,289	63,303	72,165	82,269
Total Opex	64,047	82,373	87,375	99,247	112,735
<i>C/I Ratio</i>	44.19	43.33	41.70	42.54	42.90
<i>Pre Provision Profits</i>	80,882	107,727	122,158	134,074	150,022
<i>PPP Growth (yoy %)</i>	21.5	33.2	13.4	9.8	11.9
Core PPP	78,631	104,723	122,158	134,074	150,022
PPP ex Except. Items	80,882	107,727	122,158	134,074	150,022
<i>PPP ex Except Items Growth (yoy %)</i>	21.5	33.2	13.4	9.8	11.9
Provisions & Contingencies - Total	31,077	46,521	59,661	49,711	49,357
<i>Credit Cost (As % of Op. AUM)</i>	1.88	2.18	2.50	2.00	2.00
Profit Before Tax	49,806	61,206	62,497	84,362	100,666
Tax	16,795	17,027	15,624	21,091	25,166
<i>Effective Tax Rate</i>	33.7	27.8	25.0	25.0	25.0
Reported Profits	33,011	44,179	46,873	63,272	75,499
<i>PAT Growth (yoy %)</i>	(8.5)	33.8	6.1	35.0	19.3

Source: Company, LKP Research

Exhibit: Balance Sheet

(₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	6,027	6,935	7,565	7,565	7,565
Reserves (ex Revel. Reserve)	257,465	330,196	402,563	457,638	516,742
Net Worth - Ex Revaluation	263,492	337,131	410,128	465,203	524,307
Revaluation Reserve	3,256	3,101	2,582	2,297	-
Equity Warrant & Other	112	6,833	127	133	6,833
Minority Interest	-	-	-	-	-
Deposits	1,948,679	2,020,398	2,356,472	2,632,482	2,984,852
Borrowings	473,211	607,536	465,650	520,191	589,821
Interest Bearing Liabilities	2,421,890	2,627,934	2,822,122	3,152,673	3,574,673
Other Lia. & Prov.	89,444	95,577	85,219	48,418	35,730
Total Liabilities	2,778,194	3,070,576	3,320,177	3,668,724	4,141,543
Assets					
Cash & Cash Equivalent	147,834	160,037	179,772	191,699	216,843
Investments	592,662	599,799	663,773	727,951	801,633
AUM/ Credit Exposure	2,828,983	2,828,984	2,828,984	2,828,984	2,828,984
Off Book AUM	965,048	761,152	-	-	-
Credit Equivalent	52,979	53,537	56,750	60,722	64,973
Loan & Advances	1,863,935	2,067,832	2,212,580	2,467,027	2,812,410
<i>Growth (yoy %)</i>	<i>28.6</i>	<i>10.9</i>	<i>7.0</i>	<i>11.5</i>	<i>14.0</i>
Fixed Assets	17,100	18,201	19,122	19,973	22,374
Other Assets	156,663	224,707	244,930	262,075	288,283
Total Assets	2,778,194	3,070,576	3,320,177	3,668,724	4,141,543

Source: Company, LKP Research

Exhibit: Per share data

Y/E Mar	FY19	FY20	FY21E	FY22E	FY23E
Face Value	10	10	10	10	10
Adjusted Share O/S - For Calculation	603	694	756	756	756
Earnings Per Share	54.8	63.7	62.0	83.6	99.8
<i>EPS (% YoY)</i>	<i>(8.8)</i>	<i>16.3</i>	<i>(2.7)</i>	<i>35.0</i>	<i>19.3</i>
<i>P/E (x)</i>	<i>10.7</i>	<i>9.2</i>	<i>9.5</i>	<i>7.0</i>	<i>5.9</i>
Book Value	437.2	486.1	542.1	615.0	693.1
<i>BVPS (% YoY)</i>	<i>11.8</i>	<i>11.2</i>	<i>11.5</i>	<i>13.4</i>	<i>12.7</i>
<i>P/BV (x)</i>	<i>1.3</i>	<i>1.2</i>	<i>1.1</i>	<i>1.0</i>	<i>0.8</i>
Adj. BV	418.5	476.6	535.2	608.0	686.1
<i>Adj. BV (% YoY)</i>	<i>7.1</i>	<i>13.9</i>	<i>12.3</i>	<i>13.6</i>	<i>12.9</i>
<i>P/ABV (x)</i>	<i>1.4</i>	<i>1.2</i>	<i>1.1</i>	<i>1.0</i>	<i>0.9</i>

Source: Company, LKP Research

Exhibit: Detailed ROA Tree

Y/E Mar	FY19	FY20	FY21E	FY22E	FY23E
Yields / Margins					
Yield on Advance	11.0	12.2	11.9	11.8	11.7
Yield on Funds	9.5	10.6	10.3	10.2	10.1
Cost of Funds (CoF)	6.2	6.6	6.2	6.0	5.9
Interest Spread	3.3	4.0	4.1	4.2	4.2
NIM's	3.8	4.4	4.6	4.6	4.6
Interest Income / Assets	8.9	9.8	9.5	9.4	9.3
Interest Exp. / Assets	5.4	5.7	5.3	5.1	5.0
NII / Assets	3.5	4.1	4.2	4.3	4.3
Fee Income / Assets	2.0	2.0	1.9	2.0	2.0
Other Income / Assets	2.3	2.4	2.3	2.4	2.4
Net Operating Income / Assets	5.8	6.5	6.6	6.7	6.7
Operating Ratios					
NII to Net Operative Income	61.0	63.4	64.3	63.8	63.7
Other Income to Net Operative Income	39.0	36.6	35.7	36.2	36.3
Empl. Cost/Oper. Exps.	28.9	26.8	27.6	27.3	27.0
Other Op. Exps./Oper. Exps.	71.1	73.2	72.4	72.7	73.0
C/I Ratio	44.2	43.3	41.7	42.5	42.9
Provisions as % PPP	21.4	24.5	28.5	21.3	18.8
Credit Cost (As % of Op. AUM)	1.9	2.2	2.5	2.0	2.0
Effective Tax Rate	33.7	27.8	25.0	25.0	25.0
Employee Exp. / Assets	0.7	0.8	0.8	0.8	0.8
Other Opex/ Assets	1.8	2.1	2.0	2.1	2.1
Total Opex / Assets	2.6	2.8	2.7	2.8	2.9
Operating Profits / Assets	3.2	3.7	3.8	3.8	3.8
Op Profit ex Except Items / Assets	3.2	3.7	3.8	3.8	3.8
Provisions / Assets	1.2	1.6	1.9	1.4	1.3
Profit Before Tax / Assets	2.0	2.1	2.0	2.4	2.6
Tax Expenses / Assets	0.7	0.6	0.5	0.6	0.6
RoA	1.3	1.5	1.5	1.8	1.9
Leverage (x)	10.5	9.1	8.1	7.9	7.9
RoE	13.1	14.6	12.5	14.4	15.2
Adj. RoA	1.3	1.5	1.5	1.8	1.9
Adj. RoE	13.1	14.6	12.5	14.4	15.2

Source: Company, LKP Research

Exhibit: Balance Sheet Ratio

Y/E Mar	FY19	FY20	FY21E	FY22E	FY23E
Credit / Deposit Ratio	95.7	102.3	93.9	93.7	94.2
Incremental C/D Ratio	95.9	284.3	43.1	92.2	98.0
Investment Deposit Ratio	30.4	29.7	28.2	27.7	26.9
Dom. SLR Investment / Deposits	24.5	24.4	23.4	23.1	22.7
CASA Ratio	43.1	40.4	41.0	40.5	41.0

Source: Company, LKP Research

Exhibit: Asset Quality

(₹ mn)	FY19	FY20	FY21E	FY22E	FY23E
Slippage Ratio	3.7	3.1	3.0	2.2	1.8
Gross NPA (Cl Bal)	39,474	51,467	69,250	62,419	64,639
Gross NPAs Ratio (%)	2.1	2.5	3.1	2.5	2.3
PCR (%)	43.0	63.3	63.8	62.9	62.6
Net NPA (Cl. Bal.)	22,483	18,866	25,073	23,182	24,153
Net NPAs Ratio (%)	1.2	0.9	1.1	0.9	0.9
Total Impaired Loans	39,869	52,496	69,250	62,419	64,639
Impaired Loan as % of Loan / AUM	2.1	2.5	3.1	2.5	2.2
Total Risk Reserves	16,991	32,601	44,177	39,237	40,486
Total Risk As % of Loan Book	0.9	1.5	1.9	1.6	1.4

Source: Company, LKP Research

Exhibit: Key Assumptions & Forecasts

Y/E Mar	FY19	FY20	FY21E	FY22E	FY23E
Credit Exposure	2,828,983	2,828,984	2,828,984	2,828,984	2,828,984
Growth (yoy %)	28.6	10.9	7.0	11.5	14.0
Loan & Advances	1,863,935	2,067,832	2,212,580	2,467,027	2,812,410
Growth (yoy %)	28.6	10.9	7.0	11.5	14.0
Interest Bearing Liabilities	2,421,890	2,627,934	2,822,122	3,152,673	3,574,673
Growth (yoy %)	28.6	10.9	7.0	11.5	14.0
Yield on Funds	9.5	10.6	10.3	10.2	10.1
Cost of Funds (CoF)	6.2	6.6	6.2	6.0	5.9
Interest Spread	3.3	4.0	4.1	4.2	4.2
NIM's	3.8	4.4	4.6	4.6	4.6
Other Income Growth	18.9	23.1	7.5	13.1	13.0
C/I Ratio	44.2	43.3	41.7	42.5	42.9
Effective Tax Rate	33.7	27.8	25.0	25.0	25.0

Return Ratios

Adj. RoA	1.3	1.5	1.5	1.8	1.9
Adj. RoE	13.1	14.6	12.5	14.4	15.2

Asset Quality Metrics

Credit Cost (As % of Op. AUM)	1.9	2.2	2.5	2.0	2.0
Gross NPAs Ratio (%)	2.1	2.5	3.1	2.5	2.3
Net NPAs Ratio (%)	1.2	0.9	1.1	0.9	0.9

Source: Company, LKP Research

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