

Banking

Company update

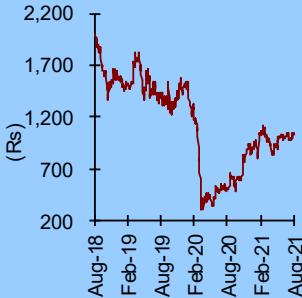
Target price: Rs1,260

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	14.7	16.6	16.5
Institutional investors	71.1	69.0	69.8
MFs and others	9.3	10.4	9.8
FIs/Banks	0.1	0.1	0.1
Insurance Cos.	6.7	7.6	7.8
FII	55.0	50.9	52.1
Others	14.2	14.4	13.7

Source: BSE

Price chart



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INDIA

IndusInd Bank

BUY

Maintain

Rs1,005

We hosted IndusInd Bank (IIB) at ICICI Securities Virtual ESG Conference '21, wherein the management articulated 'Sustainability' is the cornerstone of each of its triennial planning cycle strategy. Key *ESG achievements include*: 1) Only Indian bank to be included in the S&P DJSI Sustainability Yearbook 2021; retained its top position in Carbon Disclosure Project for 6th consecutive year; 2) ~43% of IIB's lending book constituted sustainable finance and 3) achieved emission reduction of 36% in FY21. *Critical ESG targets and goals*: 1) ESG-focused lending is targeted at 45% by FY23; 2) by FY25, it aims to achieve emission reduction of 50% over baseline year FY20; 3) bank targets DJSI score of >79 by FY23 (64 in FY20); 4) aims 80% vendors to have ESG policies in place; 5) increase women participation in workforce to 22% by FY23 (18.6% in FY21); and 6) expand ESMS to cover the entire corporate lending portfolio. [Read on further for details](#).

- **ESG approach:** IIB through its triennial planning cycle-5 strategy of 'Scale with Sustainability' has embedded sustainability as one of its strategic cornerstones. Through this, the bank aims at interlinking its strategic focus areas with its sustainability commitments, to emerge as a responsible organisation. It has adopted a comprehensive approach to improve its triple bottom line (i.e., People, Planet and Profit) performance by integrating sustainability considerations in its business practices, decision-making, operations and products. IIB has voluntarily committed targets on ESG aspects and continues to improve its performance to surpass ESG targets. It has forayed into financing sustainable projects as well as greening its operations.
- **ESG score and ranking:** 1) It is the only Indian bank to be included in the S&P DJSI Sustainability Yearbook for 2021. The yearbook includes 21 Indian companies and it is the only Indian bank amongst them. 2) For the 6th consecutive year, the bank retained its top position in Carbon Disclosure Project by securing the highest Band 'A' and being the only bank in India in band 'A' rankings. 3) IIB was also ranked 57th out of 914 Global Banking Services companies assessed by Refinitiv ESG Rankings. 4) FY21 was its 3rd year of integrated reporting and 12th year of sustainability reporting.
- **ESG targets and goals:** 1) ESG-focused lending is targeted at 45% by FY23 with green & climate financing constituting 3.5% and social, livelihood and inclusive financing accounted for 41.5%; 2) by FY25, it aims to achieve emission reduction of 50% over baseline year FY20; 3) it targets to achieve DJSI score of more than 79 by FY23 (64 in FY20); 4) to ensure sustainability procurement across supply chain, it aims 80% of vendors to have ESG policies in place; 5) women participation in workforce to be increased to 22% by FY23 (18.6% in FY21); and 6) expand ESMS to cover the entire corporate lending portfolio.

Market Cap	Rs778bn/US\$10.5bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	INBK.BO / IIB IN	NII (Rs bn)	120	135	146	168
Shares Outstanding (mn)	773.9	Net Profit (Rs bn)	44	29	62	78
52-week Range (Rs)	1110/490	EPS (Rs)	63.8	37.9	80.2	100.5
Free Float (%)	83.5	% Change YoY	2.5	-40.6	111.6	25.3
FII (%)	52.1	P/E (x)	15.7	26.5	12.5	10.0
Daily Volume (US\$'000)	77,214	P/BV (x)	2.0	1.8	1.6	1.4
Absolute Return 3m (%)	0.5	P/ABV (x)	2.1	1.8	1.6	1.4
Absolute Return 12m (%)	90.9	GNPA (%)	2.5	2.7	2.6	2.4
Sensex Return 3m (%)	11.2	RoA (%)	1.5	0.9	1.6	1.9
Sensex Return 12m (%)	45.7	RoE (%)	13.6	7.6	13.5	15.0

► **Key FY21 ESG performance highlights:**

- The bank achieved emission reduction of 36% in FY21 as against targeted reduction of 15%.
- With commitment to sustainable finance, ~43% of IIB's lending book constituted sustainable finance. green & climate financing constituted 2.9% (1.7% in FY18) and social, livelihood and inclusive financing accounted for 40.2% of the bank's loan book in FY21 (33.8% in FY18).
- Apart from livelihood and inclusive finance, the bank is also incrementally focusing on other social development sectors such as education, healthcare and social infrastructure.
- 91% of its corporate loans were covered under ESMS.
- As of FY21, the bank has financed renewable energy projects of 4,568MW capacity (vs target of 2,000MW).
- Bank served 8.83mn beneficiaries through micro-financing.
- 3 green buildings – LEED gold and platinum rates corporate offices.
- Average monthly used services increased from 4x to 6.3x for its active customers in FY21.
- It has 5,528 permanent women employees, 25 differently-abled staff-members and 2 women directors out of 9 Board members.
- It conducted 8,52,997 training man-hours for 5,05,132 participants through 1,593 programmes.

► **Key elements of its sustainability and ESG initiatives:**

- **Governance:** Framework to oversee implementation of sustainable strategies, practices and policies.
- **Responsible banking:** Environmental & social risk assessment incorporated in its lending practices.
- **Sustainable finance:** ESG integration into products. For example, prepaid card for Think Gas (an environment conscious company supplying clean fuel to consumers), partnership with Tata Group for fully digitised bill collection network in 300 semi-urban and rural regions of Odisha.
- **Sustainable operations:** Health, safety and environmental performance of operations & sustainable procurement practices in supply chain.
- **Human capital development:** Emphasis on employee diversity, development and engagement.
- **CSR:** Contributing to local communities and promoting the well-being of society and natural surrounds at large.

► **Governance framework and structure:**

- **Board level CSR and Sustainability Committee** that oversees bank's sustainability vision and strategies.
- **Sustainability Council** that reviews sustainability policies, strategies, performance and progress of ESG targets.
- **Sustainability Team** with dedicated head to drive the agenda and be responsible for management and implementation of strategies through business and functional coordination.
- **Sustainability SPOCs** are change agents and point of contacts within business units to implement policies and strategies.

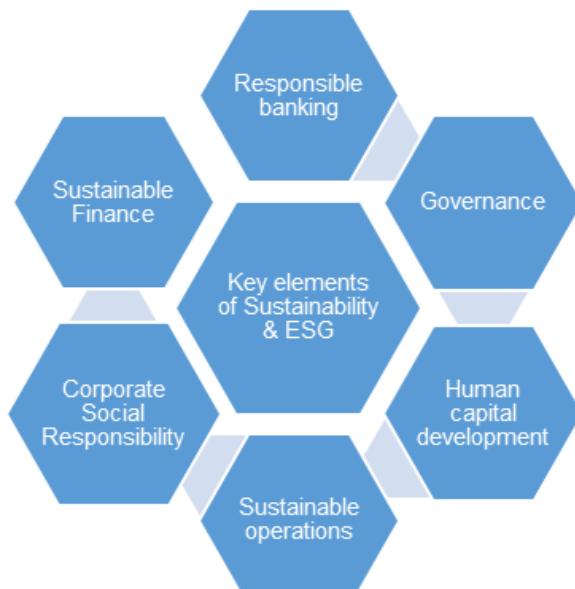
- ▶ The bank is deeply embedded with the community at district and village level through its various corporate social responsibility centric initiatives. During the year, '*IndusInd Sattvam*' was launched as the umbrella brand for all social responsibility initiatives. Through its CSR initiatives, it has:
 - reached out to 64,000 villages and towns, thereby, impacting the lives of over 19 lakh beneficiaries;
 - provided accessible and affordable healthcare services to over 6.6 lakh people;
 - groomed nearly 640 sportspersons to compete at national and international platforms across several disciplines;
 - created water storage capacity of over 6,680 crore litres;
 - planted around 2.2 lakh trees;
 - implemented educational programmes that have benefited 92,770 students;
 - imparted employable & entrepreneurial skill training to 1,209 young adults and entrepreneurs to generate income;
 - mitigated 16 lakh kilograms of carbon dioxide emission through clean energy solutions.
- ▶ To promote environment and social considerations into its business activities and to safeguard lending from reputational risk, a department-wide Environmental and Social Management System (ESMS) was instituted across the corporate banking unit in FY18. The bank built internal capabilities to assess and mitigate environment and social risks by identifying high negative impact industries and also screening proposals against exclusion lists. It hired an external agency for ESMS Implementation Review and conducted several stakeholder discussions to identify gaps and strengthen the implementation strategy. ESMS has helped its corporate banking department foster new partnerships with several development financial institutions such as ADB and OPIC; and international development agencies like USAID, among others. The bank aims to expand ESMS to entire corporate lending portfolio from 91% in FY21.
- ▶ The aim of sustainable finance is to facilitate funding of specific sectors that contribute directly to the SDGs or allow businesses to align with SDGs. The sustainable finance portfolio is further divided into green and climate finance and social, livelihood and inclusive finance.
- ▶ '*IndusInd For Sports*' - A non-banking sports vertical was launched in 2016 with an objective to inspire communities inside and outside the bank using the unique power of sports. It has kept the spirit of sportsmanship alive by adapting to the new normal through virtual engagement with external and internal stakeholders. Through various initiatives across platforms including Get Set Run, #SportsChangesLife, Para Champions, Cricket for Blind, Girl Power, Hockey for Her excellence programmes, the bank has ensured continued support to athletes and also promoted health and fitness within the organisation.

Chart 1: ESG achievements and targets

	Aspects	Baseline	Performance dashboard for FY21	Target FY23
Environment	Green & Climate Finance portfolio	FY18: 1.72% (Audited by E&Y)	FY21: 2.91% (Audit by E&Y underway)	Green & climate finance @ 3.5%
	GHG Emissions intensity	6.2 CO2/Revenue Cr	FY21: 36% Reduction over baseline (2.93MT CO2/Revenue Cr)	Target year: FY25 50% reduction over baseline (1.09MT CO2/Revenue Cr) Baseline Year: FY20 (3.8MT CO2/Revenue Cr)
	Participation in ESG indices	Carbon disclosure project rating FY18: A- Rating DowJones Sustainability Index Score FY18: 50 Score	FY20: A Rating FY21: Submission underway FY20: 64 score FY21: Submission underway	Maintain highest rating Achieve DJSI score >79
	Sustainable procurement in supply chain	Some vendors exhibit sustainability practices	FY21: 45% of vendors by procurement spent ESG compliant	80% of vendors have ESG policies in place
Social	Social, Livelihood & Inclusive Finance Portfolio	FY18: 33.8% (Audited by E&Y)	FY21: 40.2% (Audit by E&Y underway)	Social, Livelihood and Inclusive Finance @41.5%
	Women's participation in workforce	FY18: 18.68%	FY21: 18.64% (Audit by Deloitte underway)	Women's participation in workforce @22%
	Employee engagement	FY18: Internal initiatives	Employee engagement score survey exercise planned	Achieving employee engagement score with external benchmarking
	Participation in community and utreath activity	FY18: Green champions program	FY21: 1,470 hours of volunteering by 213 employees	Target setting under progress
Governance	Corporate governance score rating	FY18: Did not participate	FY20: Conducted internal evaluation FY21: External evaluation for rating underway	Corporate governance score in a leadership category
	ESMS lending filters	FY18: ESMS filters implemented	FY20: Conducted external assurance by third party FY21: 91% corporate loans covered under ESMS	Expand ESMS to cover all corporate loans
	ESG disclosure and integrated reporting	FY18: Integrated report published but no external assurance	FY21: External assurance of integrated report and ESG KPIs	Integrated Annual Report with external assurance

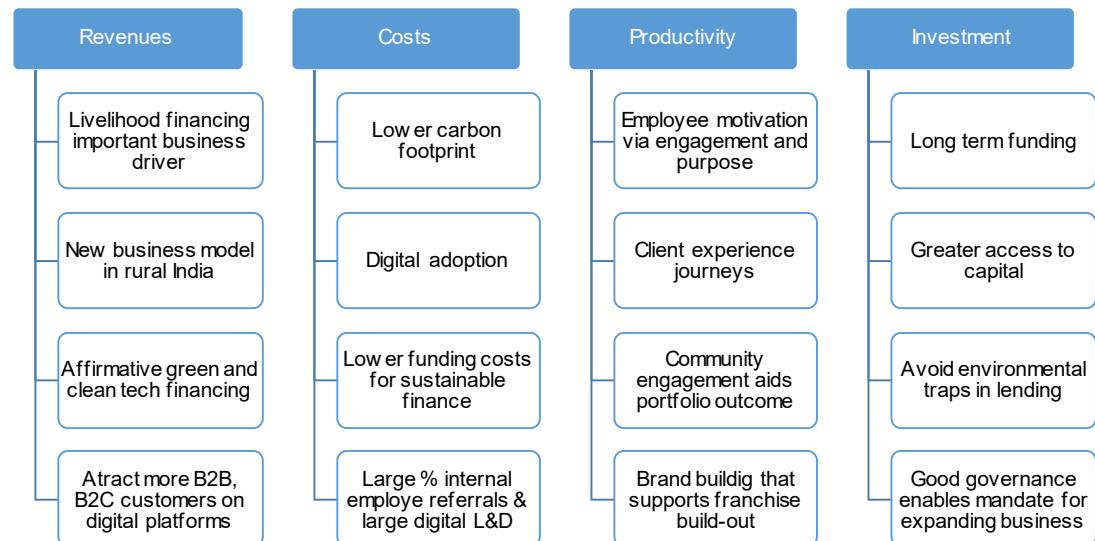
Source: Company data, I-Sec research.

Chart 2: Key elements of Sustainability & ESG



Source: Company data, I-Sec research.

Chart 3: Business impact of good ecology



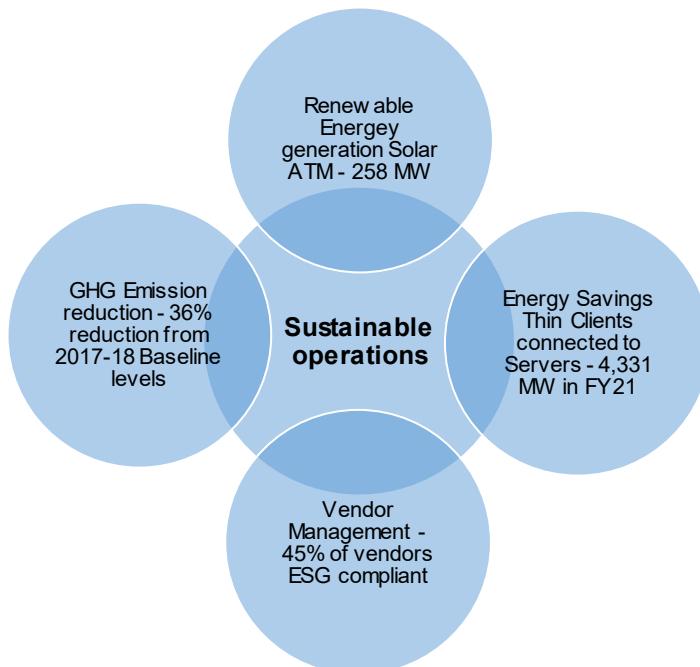
Source: Company data, I-Sec research.

Table 1: Implementation of Environment, Health and Safety systems (ISO 140001 & 45001 Standards)

Phase	Locations	Timelines
Phase-I	8 office locations in Mumbai	FY 2020-22
Phase-II	37 office locations in all other cities	FY 2022-23
Phase-III	All branches PAN India	FY 2023-35

Source: Company data, I-Sec research

Chart 4: Sustainable operations



Source: Company data, I-Sec research.

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY17	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Interest Income	60,626	68,401	85,325	1,06,862	1,20,284	1,35,279	1,46,150	1,68,277
% Growth	34	51	25	25	13	12	8	15
Fee income	28,953	30,195	35,549	43,900	46,288	37,120	48,998	57,818
Add: Other income	12,762	14,800	15,522	16,660	23,236	27,894	24,156	24,829
Total Net Income	1,02,342	1,13,396	1,36,396	1,67,421	1,89,808	2,00,293	2,19,304	2,50,924
% Growth	31	45	20	23	13	6	9	14
Less: Operating Expenses	(47,831)	(53,363)	(62,924)	(72,930)	(81,826)	(81,568)	(93,292)	(1,06,702)
Pre-provision operating profit	54,511	60,033	73,471	94,491	1,07,982	1,18,725	1,26,012	1,44,222
NPA Provisions	(7,048)	(7,048)	(9,010)	(27,050)	(30,290)	(47,970)	(40,393)	(36,673)
Other provisions	(3,866)	(7,459)	(5,094)	(4,747)	(16,229)	(31,455)	(2,738)	(3,716)
PBT	43,598	45,526	59,367	62,694	61,462	39,300	82,881	1,03,833
Less: taxes	(14,918)	(13,949)	(18,764)	(19,929)	(17,198)	(9,995)	(20,861)	(26,135)
PAT	28,680	31,577	40,603	42,766	44,265	29,304	62,020	77,698
% Growth	25	38	29	5	4	(34)	112	25

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22E	FY23E
Capital	5,981	5,981	6,869	6,869	6,935	7,734	7,734	7,734
Reserve & Surplus	2,00,480	2,23,567	2,61,004	3,01,673	3,40,130	4,27,273	4,80,887	5,48,197
Deposits	12,65,722	12,65,722	15,16,392	19,48,679	20,20,398	25,58,701	27,88,984	30,95,772
Borrowings	2,24,537	2,57,860	4,69,061	5,20,991	6,07,536	5,13,228	4,94,632	4,70,401
Other liabilities	89,764	1,36,149	77,723	1,01,714	95,577	1,22,097	1,34,307	1,47,738
Total liabilities	17,86,484	18,89,280	23,31,049	28,79,927	30,70,576	36,29,033	39,06,544	42,69,842
Cash & Bank Balances	1,86,283	2,14,346	1,53,758	1,67,914	1,60,037	5,66,099	4,28,181	3,87,630
Investment	3,67,021	3,67,023	5,00,769	5,92,664	5,99,799	6,96,534	7,73,153	7,73,153
Advances	11,30,805	12,01,635	15,44,727	19,41,015	20,67,832	21,25,954	24,00,376	28,11,103
Fixed Assets	13,352	13,573	14,183	15,279	18,201	18,757	21,067	22,641
Other Assets	89,023	92,702	1,17,613	1,63,056	2,24,707	2,21,688	2,83,767	2,75,314
Total Assets	17,86,484	18,89,280	23,31,049	28,79,927	30,70,576	36,29,033	39,06,544	42,69,842
% Growth	27.6	34.9	(58.4)	266.3	6.6	18.2	7.6	9.3

Source: Company data, I-Sec research

Table 4: DuPont analysis

(%, year ending Mar 31)

	FY17	FY17 (Merged)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest income	9.0	9.6	9.0	9.6	9.7	8.7	8.4	8.7
Interest expense	(5.2)	(5.5)	(5.0)	(5.5)	(5.6)	(4.6)	(4.5)	(4.6)
NII	3.8	4.2	4.0	4.1	4.0	4.0	3.9	4.1
Other income	0.8	0.9	0.7	0.6	0.8	0.8	0.6	0.6
Fee income	1.8	1.8	1.7	1.7	1.6	1.1	1.3	1.4
Total income	6.4	6.9	6.5	6.4	6.4	6.0	5.8	6.1
Operating expenses	(3.0)	(3.2)	(3.0)	(2.8)	(2.8)	(2.4)	(2.5)	(2.6)
Operating profit	3.4	3.6	3.5	3.6	3.6	3.5	3.3	3.5
NPA provision	(0.4)	(0.4)	(0.4)	(1.0)	(1.0)	(1.4)	(1.1)	(0.9)
Total provisions	(0.7)	(0.9)	(0.7)	(1.2)	(1.6)	(2.4)	(1.1)	(1.0)
PBT	2.7	2.8	2.8	2.4	2.1	1.2	2.2	2.5
Tax	(0.9)	(0.8)	(0.9)	(0.8)	(0.6)	(0.3)	(0.6)	(0.6)
PAT	1.8	1.9	1.9	1.6	1.5	0.9	1.6	1.9

Source: Company data, I-Sec research

Note: All numbers represent the merged entity from FY18 onwards

Table 5: Key ratios

(Year ending Mar 31)

	FY17	FY17 (Merged)	FY18	FY19	FY20	FY21	FY22E	FY23E
EPS – Diluted (Rs)	47.9	52.8	61.1	62.3	63.8	37.9	80.2	100.5
% Growth	24.8	37.4	15.7	1.9	2.5	-40.6	111.6	25.3
DPS (Rs)	6.0	6.0	7.5	7.5	-	4.5	9.6	12.1
Book Value per share (BVPS) (Rs)	339	377	398	445	496	559	628	715
% Growth	16.5	29.7	5.5	11.7	11.6	12.6	12.4	13.9
Adjusted BVPS (Rs)	331	370	391	423	476	544	612	700
% Growth	16.1	29.8	5.4	8.4	12.4	14.4	12.5	14.2
Valuations								
Price / Earnings (x)	21.0	19.0	16.5	16.1	15.7	26.5	12.5	10.0
Price / Book (x)	3.0	2.7	2.5	2.3	2.0	1.8	1.6	1.4
Price / Adjusted BV (x)	3.0	2.7	2.6	2.4	2.1	1.8	1.6	1.4
Asset Quality								
Gross NPA (Rs mn)	10,590	14,871	19,199	41,583	51,464	58,514	62,846	67,743
Gross NPA (%)	0.9	1.2	1.2	2.1	2.5	2.7	2.6	2.4
Net NPA (Rs mn)	4,408	6,261	7,537	22,533	18,866	14,766	16,296	16,296
Net NPA (%)	0.4	0.5	0.5	1.2	0.9	0.7	0.7	0.6
NPA Coverage ratio (%)	58	58	61	46	63	75	74	76
Gross Slippages (%)	1.6	1.6	2.0	3.5	3.0	4.0	3.7	2.0
Credit Cost (%)	0.7	1.4	1.0	1.8	2.3	3.7	1.9	1.5
Net NPL/Networth	2.1	2.7	2.8	7.3	5.4	3.4	3.3	2.9
Business ratios (%)								
ROAA	1.8	1.9	1.9	1.6	1.5	0.9	1.6	1.9
ROAE	15.3	15.8	16.6	15.0	13.6	7.6	13.5	15.0
Credit Growth	27.9	35.9	28.6	25.7	6.5	2.8	12.9	17.1
Deposits Growth	36.1	36.1	19.8	28.5	3.7	26.6	9.0	11.0
CASA	36.9	36.9	44.0	43.1	40.4	41.7	44.5	47.0
Credit / Deposit Ratio	89.3	94.9	101.9	99.6	102.3	83.1	86.1	90.8
Cost-Income ratio	46.7	47.1	46.1	43.6	43.1	40.7	42.5	42.5
Operating Cost / Avg. Assets	3.0	3.2	3.0	2.8	2.8	2.4	2.5	2.6
Fee Income / Total Income	1.8	1.8	1.7	1.7	1.6	1.1	1.3	1.4
Earning ratios								
Yield on Advances	11.4	12.2	11.1	11.6	12.0	11.5	11.5	11.2
Yield on Earning Assets	9.7	10.3	9.6	10.2	10.4	9.3	9.1	9.4
Cost of Deposits	6.3	6.3	5.8	6.1	6.7	5.7	5.4	5.4
Cost of Funds	6.3	6.7	6.0	6.4	6.6	5.4	5.4	5.4
NIM	4.1	4.4	4.3	4.4	4.35	4.35	4.18	4.44
Capital Adequacy (%)								
RWA (Rs)	14,35,288	14,28,355	18,59,290	23,41,297	25,86,050	27,29,120	33,48,216	38,34,210
Tier I	14.7	16.1	14.4	13.2	14.6	16.8	14.6	14.5
CAR	15.3	17.0	15.2	14.0	15.0	17.4	15.2	15.0

Source: Company data, I-Sec research

Note: All numbers represent the merged entity from FY18 onwards

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