IDBI capital

IndusInd Bank (IIB) BUY

Robust credit growth; NIMs improved

Summary

IndusInd's credit growth improved to 19% YoY vs 18% YoY (Q2FY23) led by growth across the segments. Management guided for credit growth of 20-25%. MFI portfolio which was key concern area reported improvement in credit growth (up 8% YoY) however asset quality deteriorated (GNPA 3.75% vs 2.9% QoQ). Deposit growth stood at 14% YoY vs 15% YoY (Q2FY23). Asset quality remains stable as GNPA stood at 2.06% vs 2.11% QoQ led by lower slippages. Restructured book declined to 1.25% vs 1.5% QoQ. NII grew by 18.5% YoY (up 4.5% QoQ); NIMs improved by 17bps YoY. PAT grew by 69% YoY due to decline in provisions (down 36% YoY). Bank maintains overall provision of Rs21.9bn as standard contingent provisions. We have moved to FY25E estimates and maintained 'BUY' rating with a TP of Rs.1,630 (Rs.1,450) at P/ABV of 1.8x FY25.

Key Highlights and Investment Rationale

- **Robust Credit growth**: Credit growth improved to 19% YoY vs 18% YoY (Q2FY23) backed by growth across the segments. Retail book now stands at 53% of the total loans with addition of Business Banking and MFI portfolio to it. Deposits grew by 14% YoY led by 14% YoY growth in CASA.
- **Asset quality stable; 1.25% restructured book**: GNPA at 2.06% vs 2.11% QoQ; NNPA at 0.62% vs 0.61% QoQ with PCR at 71% (vs 72% QoQ). Bank restructured book stands at 1.25% of book vs 1.5% QoQ. Bank maintains 2.7% loan related provisions which provided cushion from adverse impact on P&L.
- **NIMs improved**: NIMs improved to 4.27% (4.24% QoQ) led by rise in yields (up 24bps QoQ). Cost to Income ratio remains stable at 43.9% due to higher operating expenses (up 3.5% QoQ).
- **Outlook:** Continuation of business strategy under the new CEO has resulted in navigating through asset quality concerns better. Bank's focus back to sustainable growth trajectory (PC 5 strategy) should support re-rating.

TP	Rs.1,630
CMP	**Rs.1,223**
Potential upside/downside	33%
Previous Rating	BUY

Key Stock Data

Bloomberg/Reuters	IIB IN / INBK.BO
Sector	Banking
Shares o/s (mn)	775
Market cap. (Rs mn)	947,945
3-m daily avg Trd value (Rs mn)	160.1
52-week high / low	Rs1,275 / 764
Sensex / Nifty	61,046 / 18,165

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.5)	1.9	32.8
Rel to Sensex	(0.0)	(1.6)	32.3

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	94.1	111.3	128.6
Consensus	94.8	115.9	135.2
% difference	*(0.7)*	*(3.9)*	*(4.9)*

Shareholding Pattern (%)

Promoters	15.2
FII	43.1
DII	18.7
Public	23.0

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023E	FY2024E	FY2025E
NII	1,35,279	1,50,008	1,75,735	1,99,687	2,27,709
Change (yoy, %)		*11%*	*17%*	*14%*	*14%*
Net Profit	28,364	46,111	72,869	86,258	99,637
Change (yoy, %)		*63%*	*58%*	*18%*	*16%*
EPS (Rs)	37	60	94	111	129
Change (yoy, %)		*62%*	*58%*	*18%*	*16%*
ABV (Rs)	535	606	688	794	921
PER (x)	33.3	20.5	13.0	11.0	9.5
P/ABV (x)	2.3	2.0	1.8	1.5	1.3
ROE (%)	7.3	10.1	14.2	14.6	14.7
ROA (%)	0.8	1.2	1.7	1.8	1.8
GNPA (%)	2.7	2.3	2.3	2.0	2.0
NNPA (%)	1.1	0.7	0.6	0.5	0.4
CAR (%)	17.4	18.4	16.8	16.7	16.9

Source: IDBI Capital Research

Conference Call Highlights

Asset Quality:

- Gross Slippages stood at 1,467Crs in Q3FY23 (vs. 1,572 Crs in Q2FY23).
- Restructured book reduced sequentially and stood at around 1.25% in Q3FY23 (down from 1.5% in Q2FY23).
- Contingent provisions stood at around 2,192 Crs (total loan related provisions at 130% of GNPA).
- Cumulative Slippages from restructured book in 9MFY23 stood at around 1,833 Crs.

Asset and Operational Performances:

- Non Vehicle and Non MFI book grew by around 23% YoY and 6% QoQ led by growth in credit card, personal loan and steady momentum in business banking.
- Disbursement in MFI book for Q3FY23 stood at around 8,928 Crs (up by 27% YoY). Expecting the disbursement to go upto 11,000 Crs.
- VF Disbursal for Q3FY23 stood at 12,713 Crs (up by 19% QoQ and 44% YoY) and for 9MFY23 stood at 33,450 Crs (up by 52% YoY). Already ahead of FY22 (full year) disbursals.
- Affluent banking net relationship value grew by around 5% QoQ and stood at 66,700 Crs (deposits grew by 8% QoQ and stood at around 41,950 Crs) while NRI deposit value grew by around 16% QoQ and stood at 32,900 Crs.
- Treasury income was positive and stable QoQ.
- Loan yield improved by around 24bps QoQ while yield on overall asset improved by around 34bps QoQ.
- Expecting advance growth to be in the range of 20-25% with a CD ratio in the range of 85-93%.
- Credit Card spends stood at around 20,000 Crs in Q3FY23 and credit card book grew by around 9% QoQ.
- Expecting corporate loan book growth journey to be led by higher rated granular and shorter duration loan book.

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q3FY23	Q3FY22	Q2FY23	*YoY (%)*	*QoQ (%)*
Interest Income	94,574	77,375	87,080	*22.2*	*8.6*
Interest Expenses	49,621	39,439	44,060	*25.8*	*12.6*
Net Interest Income	**44,953**	**37,936**	**43,021**	***18.5***	***4.5***
NIM (%)	***4.27***	***4.1***	***4.2***	***17 bps***	***3 bps***
Non-Interest Income	20,763	18,769	20,108	*10.6*	*3.3*
Operating Income	65,717	56,705	63,129	*15.9*	*4.1*
Staff Cost	7,992	6,200	7,347	*28.9*	*8.8*
Other Op Exp	20,921	18,453	20,585	*13.4*	*1.6*
Total Operating Expenses	28,913	24,653	27,932	*17.3*	*3.5*
Cost to Income (%)	*44.0*	*43.5*	*44.2*	*52 bps*	*-25 bps*
Operating Profit	**36,804**	**32,052**	**35,197**	***14.8***	***4.6***
Provisions	10,647	16,542	11,411	*(35.6)*	*(6.7)*
PBT	26,157	15,510	23,786	*68.6*	*10.0*
Tax	6,565	3,898	5,919	*68.4*	*10.9*
-effective tax rate	*25.1*	*25.1*	*24.9*	*-3 bps*	*21 bps*
PAT	**19,592**	**11,613**	**17,867**	***68.7***	***9.7***
EPS (Rs)	25.3	15.0	23.0	*68.7*	*9.7*
BV (Rs)	682.4	601.4	651.5	*13.5*	*4.7*
Deposits	32,52,780	28,44,840	31,55,320	*14.3*	*3.1*
Advances	27,27,540	22,85,830	26,01,288	*19.3*	*4.9*

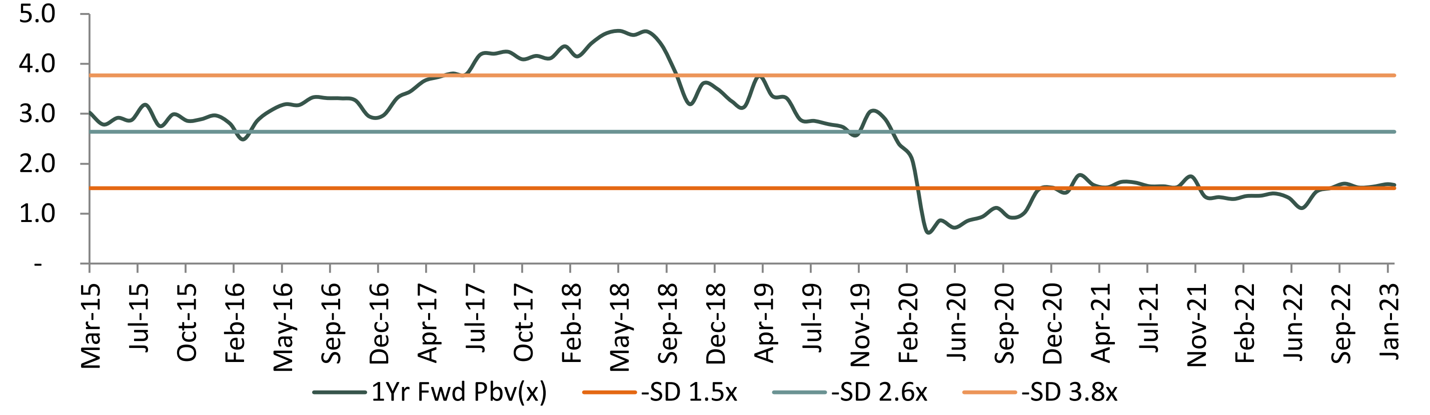
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23E	FY24E	FY25E
NII	4.0	3.9	4.1	4.2	4.2
Fees	1.5	1.8	1.7	1.8	1.8
Other Income	0.4	0.2	0.1	0.1	0.1
Net Revenue	6.0	5.9	6.0	6.1	6.1
Op.Exp	2.5	2.5	2.7	2.6	2.6
Op.Profit	3.5	3.4	3.3	3.5	3.5
Provisions	2.4	1.7	1.0	1.1	1.1
PBT	1.1	1.6	2.3	2.4	2.4
Tax	0.3	0.4	0.6	0.6	0.6
PAT	0.8	1.2	1.7	1.8	1.8
Leverage (x)	8.6	8.4	8.3	8.2	8.1
ROE	7.3	10.1	14.2	14.6	14.7

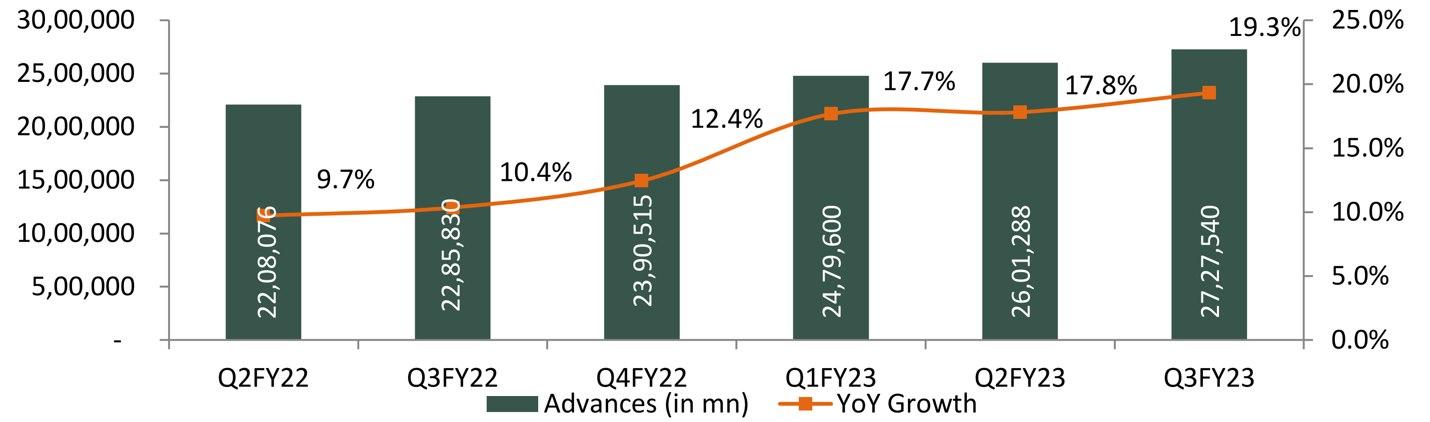
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



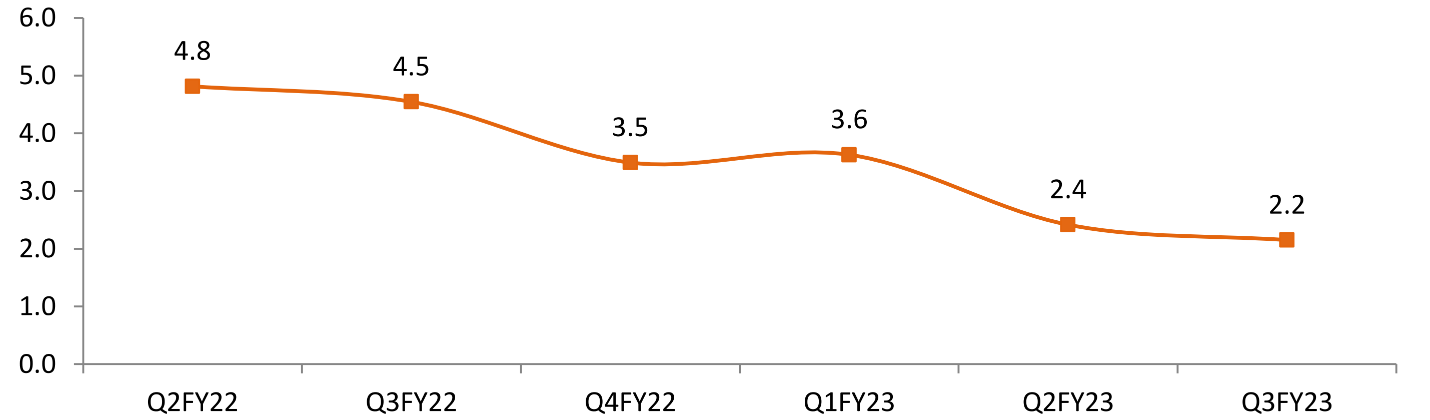
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth continued to show strong growth momentum



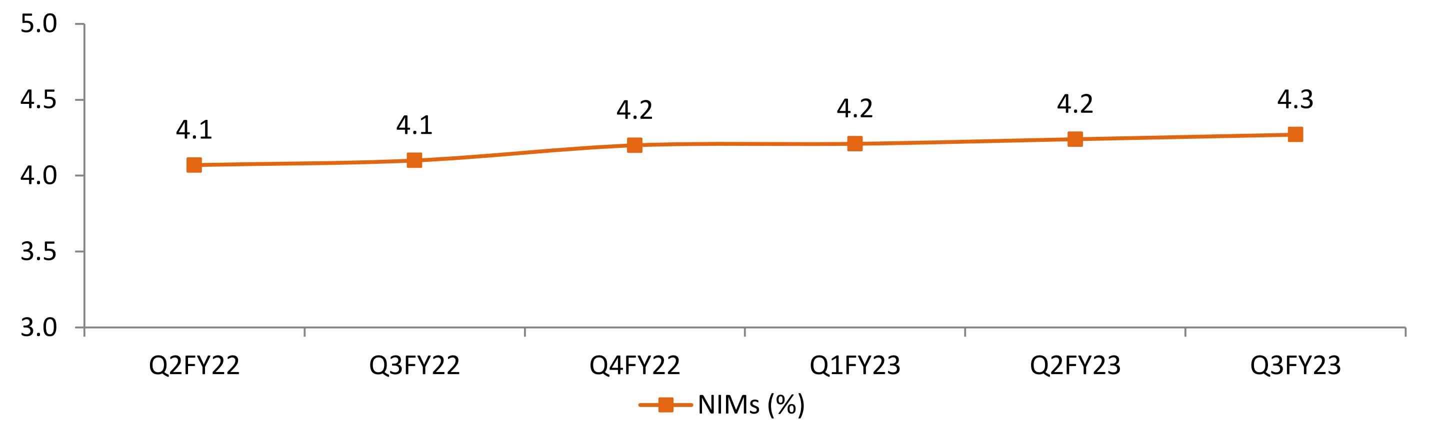
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio declined on a sequential basis



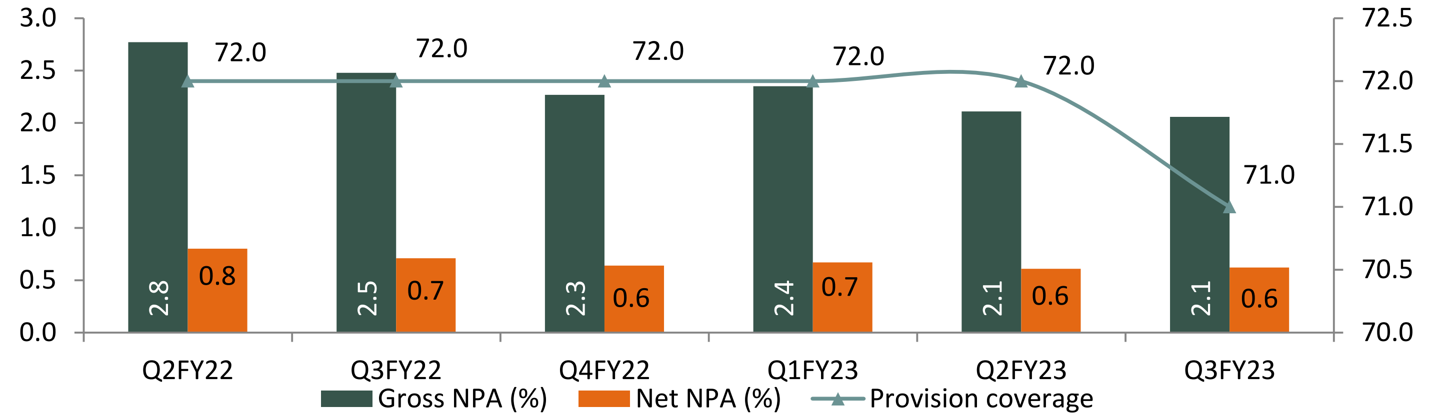
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margin continued to witness uptrend



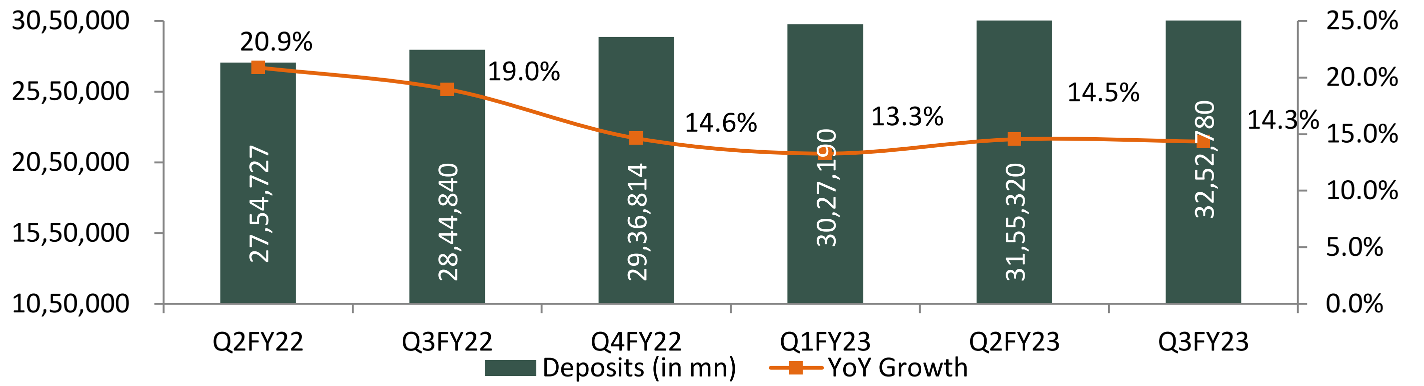
Source: Company; IDBI Capital Research

Exhibit 7: Asset quality remained stable on a sequential basis



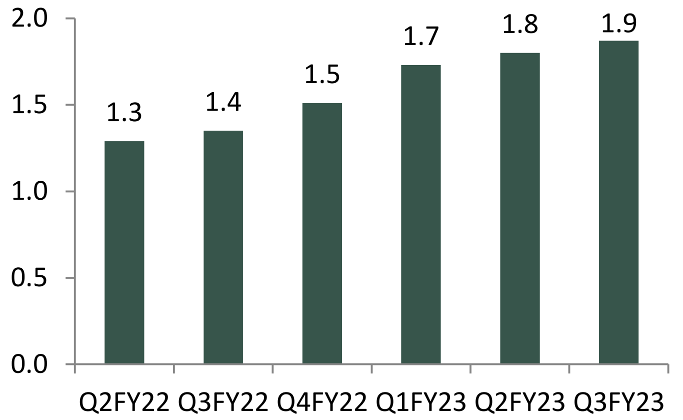
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth moderated during the qtr



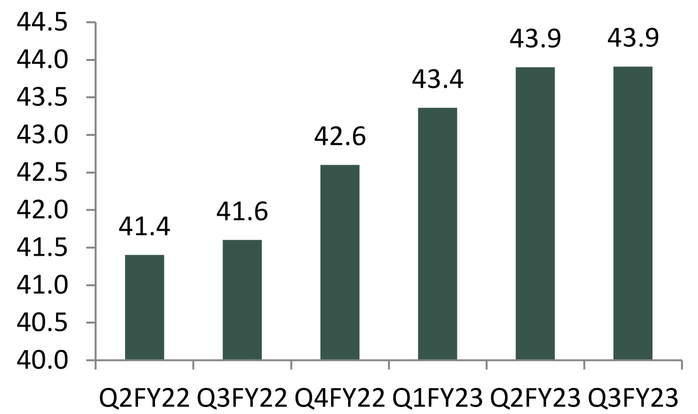
Source: Company; IDBI Capital Research

Exhibit 9: Return on Assets continued to trend upward



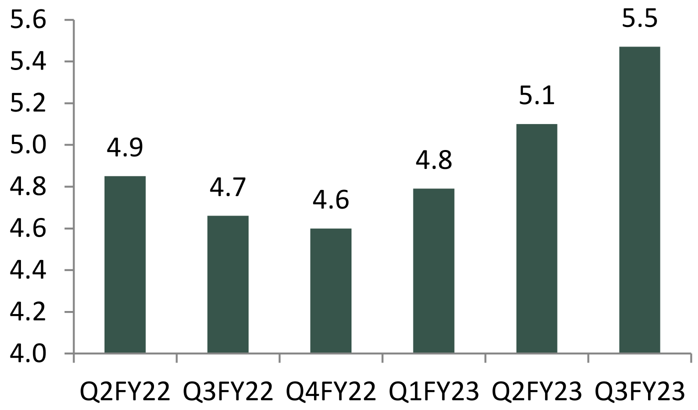
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio remained stable QoQ



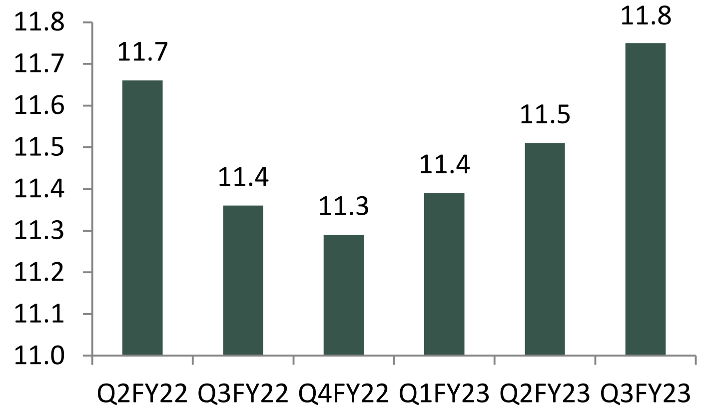
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Deposits increased sequentially



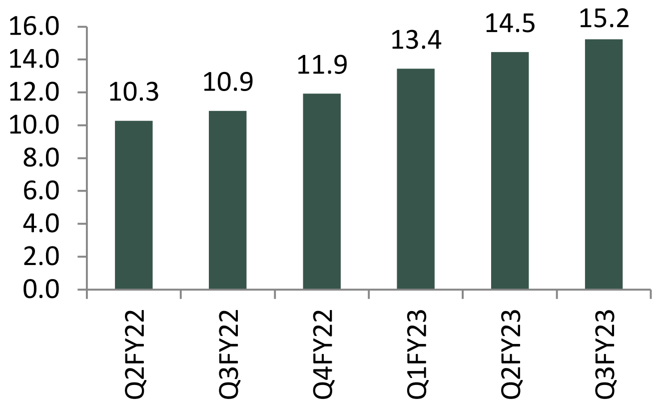
Source: Company; IDBI Capital Research

Exhibit 12: Yield on Advance increased sequentially



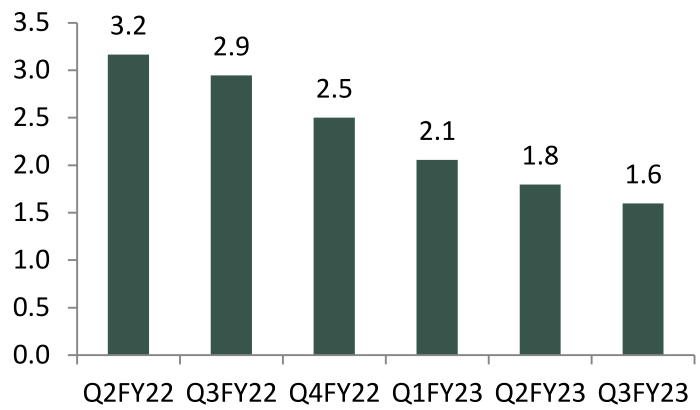
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity gaining strength on a sequential basis



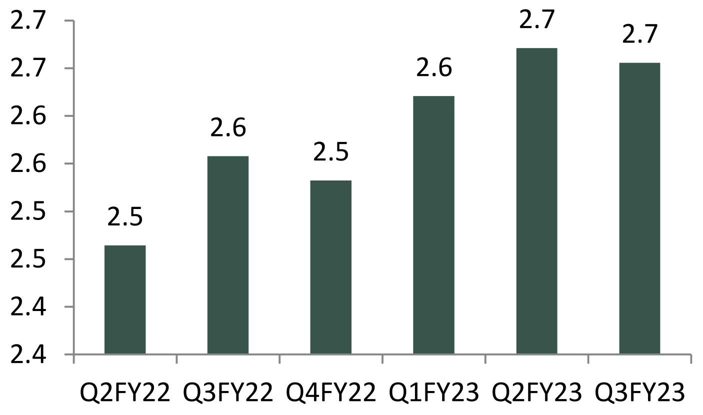
Source: Company; IDBI Capital Research

Exhibit 14: Credit Cost at lowest levels and expects to be in the range of 120-150 bps for FY23



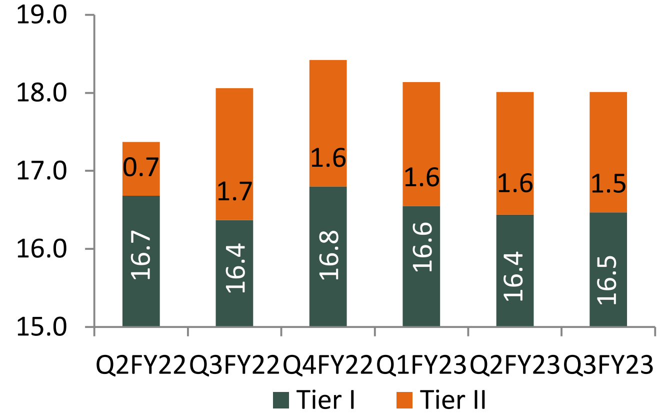
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Assets remained stable QoQ



Source: Company; IDBI Capital Research

Exhibit 16: CAR remains comfortable



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	**1,20,587**	**1,35,279**	**1,50,008**	**1,75,735**	**1,99,687**	**2,27,709**
Change (yoy, %)	*36%*	*12%*	*11%*	*17%*	*14%*	*14%*
Fees	64,073	50,710	68,049	73,293	85,626	98,470
Other Income	5,440	14,876	5,921	6,052	6,570	7,195
Net Revenue	1,90,100	2,00,865	2,23,979	2,55,080	2,91,882	3,33,373
Operating expenses	82,373	83,598	95,593	1,13,573	1,25,628	1,41,813
Employee expenses	22,085	22,135	24,883	31,611	33,886	36,309
Other expenses	60,288	61,463	70,709	81,962	91,742	1,05,503
Pre-Provision Profit	**1,07,727**	**1,17,267**	**1,28,386**	**1,41,506**	**1,66,254**	**1,91,561**
Change (yoy, %)	*33%*	*9%*	*9%*	*10%*	*17%*	*15%*
Provision	46,521	79,425	66,650	44,127	50,982	58,410
PBT	61,206	37,841	61,736	97,380	1,15,272	1,33,151
Taxes	17,027	9,478	15,625	24,510	29,014	33,514
Effective tax rate (%)	*28%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net profit	**44,179**	**28,364**	**46,111**	**72,869**	**86,258**	**99,637**
Change (yoy, %)	*34%*	*-36%*	*63%*	*58%*	*18%*	*16%*
EPS	63.7	36.7	59.5	94.1	111.3	128.6
Return on Equity (%)	14.4	7.3	10.1	14.2	14.6	14.7
Return on Assets (%)	1.5	0.8	1.2	1.7	1.8	1.8

Balance Sheet (Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capital	6,935	7,734	7,747	7,747	7,747	7,747
Reserves	3,40,130	4,25,920	4,69,225	5,42,095	6,21,768	7,21,405
Networth	**3,47,065**	**4,33,654**	**4,76,972**	**5,49,841**	**6,29,515**	**7,29,151**
Deposits	**20,20,398**	**25,62,050**	**29,36,813**	**34,36,431**	**39,48,480**	**45,37,335**
Current deposits	2,84,400	3,60,601	3,68,389	5,15,465	5,92,272	6,80,600
Saving deposits	5,31,298	7,10,654	8,88,256	9,27,836	10,66,089	12,25,081
Term deposit	12,04,700	14,90,794	16,80,168	19,93,130	22,90,118	26,31,654
Borrowings	6,07,535	5,13,228	4,73,232	3,91,343	4,01,367	4,90,769
Other liabilities	95,577	1,20,796	1,32,728	1,44,258	1,19,593	82,779
Total Liab. & Equity	**30,70,575**	**36,29,727**	**40,19,746**	**45,21,874**	**50,98,954**	**58,40,035**
Cash	1,60,036	5,63,272	6,82,745	5,81,346	6,68,395	7,68,500
Advances	20,67,832	21,25,954	23,90,515	28,44,713	32,71,420	37,62,133
Investments	5,99,799	6,96,947	7,09,708	8,03,170	8,39,208	9,59,455
Fixed Assets	18,201	18,094	18,487	19,781	19,781	19,781
Other Assets	2,24,707	2,25,461	2,18,291	2,72,864	3,00,150	3,30,165
Total assets	**30,70,575**	**36,29,727**	**40,19,746**	**45,21,874**	**50,98,954**	**58,40,035**

Financial Ratios (%)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
Deposits	3.7	26.8	14.6	17.0	14.9	14.9
Advances	10.9	2.8	12.4	19.0	15.0	15.0
NII	36.3	12.2	10.9	17.2	13.6	14.0
Pre-Provision Profit	33.2	8.9	9.5	10.2	17.5	15.2
Net Profit	33.8	(35.8)	62.6	58.0	18.4	15.5
Spreads						
Yield on Assets	11.1	9.7	8.9	9.2	9.4	9.5
Cost of Funds	6.4	5.2	4.7	4.8	5.0	5.0
NIM	4.4	4.4	4.2	4.4	4.4	4.4
CASA	40.4	41.8	42.8	42.0	42.0	42.0
Operating Efficiency						
Cost-to-Income	43.3	41.6	42.7	44.5	43.0	42.5
Cost-to-Assets	2.8	2.5	2.5	2.7	2.6	2.6
Asset Quality						
GNPA	2.5	2.7	2.3	2.3	2.0	2.0
NNPA	0.9	1.1	0.7	0.6	0.5	0.4
Provision Coverage	63.3	60.2	71.0	72.8	77.3	78.9
Credit Cost	2.4	3.8	3.0	1.7	1.7	1.7
Capital Adequacy						
CAR	15.0	17.4	18.4	16.8	16.7	16.9
Tier I	14.6	16.8	16.8	16.6	16.5	16.7
Valuation						
EPS	64	37	60	94	111	129
ABV	474	535	606	688	794	921
P/E	19.2	33.3	20.5	13.0	11.0	9.5
P/ABV	2.6	2.3	2.0	1.8	1.5	1.3
ROE	14.4	7.3	10.1	14.2	14.6	14.7
ROA	1.5	0.8	1.2	1.7	1.8	1.8
RORWA	1.9	1.1	1.6	2.2	2.2	2.2

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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Analyst Disclosures

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