

# IndusInd Bank (IIB)

## BUY

NIMs stable QoQ; MFI portfolio stable

### Summary

IndusInd's credit growth remain strong at 21.5% YoY vs 21.3% YoY (FY23) led by growth across the segments. Management remains confident of strong credit growth to continue (18-23%). MFI portfolio which was key concern area reported stable asset quality (GNPA 4.39% vs 4.32% QoQ). Deposit growth stood at 14.6% YoY vs 14.5% YoY (FY23). Asset quality remains stable as GNPA stood at 1.94% vs 1.98% QoQ led by higher write offs. Restructured book declined to 0.66% vs 0.84% QoQ. NII grew by 18% YoY while NIMs improved by 8bps YoY. PAT grew by 32.5% YoY due to decline in provisions (down 20% YoY). Bank maintains overall provision of Rs17bn as contingent provisions. We maintain 'BUY' rating with a TP of Rs.1,675 (Rs.1,530) at P/ABV of 1.9x FY25 (earlier 1.7x as MFI portfolio concern ease).

### Key Highlights and Investment Rationale

- Credit growth across the segments:** Credit growth remain strong at 21.5% YoY vs 21.3% YoY (FY23) backed by growth across the segments. Corporate & commercial book grew by 22% YoY while consumer finance portfolio grew by 21% YoY. Retail book now stands at 54% of the total loans with addition of Business Banking and MFI portfolio to it. Management guided for 18-23% credit growth in planning cycle 6. Deposits grew by 14.6% YoY led by 21% YoY growth in term deposits. CASA ratios stood at 40% vs 40% QoQ.
- Asset quality stable; 0.66% restructured book:** GNPA at 1.94% vs 1.98% QoQ; NNPA at 0.58% vs 0.59% QoQ with PCR at 71% (vs 71% QoQ). Slippage ratio stood at 1.8% vs 2.2% QoQ. Slippages were higher from VF portfolio on account of seasonal factors. MFI portfolio asset quality concerns seem to ease with respect to fresh slippages. Bank restructured book stands at 0.66% of book vs 0.84% QoQ. Bank maintains 2.4% loan related provisions which provided cushion from adverse impact on P&L.

<b>TP</b>	<b>Rs.1,675</b>
<b>CMP</b>	<b>Rs.1,390</b>
Potential upside/downside	20%
Previous Rating	BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	5.9	21.2	63.4
Rel to Sensex	0.5	9.4	40.9

### V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	108.1	129.7
Consensus	116.6	138.3
% difference	(7.3)	(6.2)

### Key Stock Data

Bloomberg/Reuters	IIB IN / INBK.BO
Sector	Banking
Shares o/s (mn)	776
Market cap. (Rs mn)	1,078,905
3-m daily avg Trd value (Rs mn)	117.8
52-week high / low	Rs1,414 / 840
Sensex / Nifty	66,795 / 19,749

### Shareholding Pattern (%)

Promoters	16.5
FII	42.3
DII	23.5
Public	17.7

### Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	135,279	150,008	175,921	199,265	232,968
Change (yoy, %)	12%	11%	17%	13%	17%
Net Profit	28,364	46,111	73,897	83,894	100,664
Change (yoy, %)	-36%	63%	60%	14%	20%
EPS (Rs)	36.7	59.5	95.2	108.1	129.7
Change (yoy, %)	-42%	62%	60%	14%	20%
ABV (Rs)	535.2	605.8	687.7	779.6	881.2
PER (x)	37.9	23.4	14.6	12.9	10.7
P/ABV (x)	2.6	2.3	2.0	1.8	1.6
ROE (%)	7.3	10.1	14.4	14.3	15.1
ROA (%)	0.8	1.2	1.7	1.7	1.7
GNPA (%)	2.7	2.3	2.0	1.9	2.0
NNPA (%)	1.1	0.7	0.6	0.5	0.6
CAR (%)	17.4	18.4	17.9	16.8	16.4

Source: IDBI Capital Research

- NIMs remain in guided range (4.2 - 4.3%):** NIMs remain stable at 4.29% (4.28% QoQ) due to upwards repricing of liability and assets. Increase in yields by 40bps QoQ while rise in cost of funds by 39bps QoQ. NIMs have remained largely in guided range of 4.2-4.3% in last five quarters. Management guided cost of deposits expected to peak out in Q2FY24; further expected to decline by 10-15bps by Q4FY24. Yields on corporate loans are expected to come down in Q3 and Q4 FY24 which would be compensated by decrease in cost of deposits. Thus, NIMs to remain in the range of 4.2-4.3%
- Cost to income ratio remains elevated:** Cost to Income ratio increased to 46% vs 45% QoQ due to higher operating expenses (up 6% QoQ). Employee expenses increased by 31% YoY led by increased distribution in the microfinance segment. Management guided for cost to income ratio to remain elevated at current levels for few more quarters as investment continues in physical and digital distribution model. Further, with leverage strong retail growth, ratio should come down to 41-43% levels from FY25 onwards.
- CAR at 18.4%; Promoter to increase shareholding to 26%:** Capital adequacy ratio (CAR) stood at 18.4% remains strong with Tier I at 16.44% as of Q1FY24; management said no need to raise capital in near future. IndusInd International Holdings Limited, the promoter got an in-principle approval to increase the stake (currently 15.16%) to 26%, while there is a due-diligence process which takes about 90 to 180 days to complete the process.
- Valuation & Outlook:** At CMP the stock is trading at an attractive valuation of 1.8x and 1.6x for F24E and FY25E P/ABV. We expect valuation should move towards the 10 year average (Exhibit 3) as asset quality concerns abate and strong growth continues. Continuation of business strategy under the new CEO has resulted in navigating through asset quality concerns better. Further, MD got approval of tenure for next 2 years gives the visibility of continuation of growth strategy unveiled in planning cycle 6 with stable asset quality. Bank's focus back to sustainable growth trajectory (PC 6 strategy) should support re-rating.

	NII (In Bn)		PPoP (In Bn)		PAT (In Bn)		Advances(In Bn)		Deposits (In Bn)		RoA (%)	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Indusind Bank	150	176	128	143	46	74	2,391	2,899	2,937	3,364	1.2	1.7

## Conference Call Highlights

- NIMs improved by 1bps QoQ and 8bps YoY and stood at ~4.29% in Q1FY24. NIMs improvement was led by re-pricing on asset side as well as active management of liabilities.
- NR Deposits was up by 39% YoY (up by 9% QoQ) and stood at ~37,200Cr in Q1FY24. Market Share (based on available data) stood in excess of 3%.
- Housing Loan portfolio pilot stood at around 665Cr as on 30th June'23. Expecting to end the year with book size of ~4,000-5,000Cr.
- Housing portfolio is expected to comprise of ~15,000Cr of mortgages and ~5,000-5,500Cr of affordable housing over next 3 years.
- Comfortable with a CD ratio in the range of 86-89%.
- Gross Slippages reduced from 1,603Cr in Q4FY23 to 1,376 Cr in Q1FY24 (down from 0.59% to 0.4% QoQ).
- Restructured loans was down by ~475Cr during Q1FY24 (down from 0.84% to 0.66% QoQ in Q1FY24).
- Slippage in the vehicle finance book was up QoQ from 383Cr to 581Cr on account of seasonal factors.
- Total slippages from restructured book over last 5 qtrs were ~2,324Cr.
- SRs net of provisions would be ~1,333Cr.
- Comfortable with credit cost of ~110-130bps (including contingent provision in the range of 400-500Cr/provisioning requirement of SR/net slippages).
- Cost of deposit are expected to peak out in Q2FY24. The same is expected to decline by 10-15bps by Q4FY24.
- Cost to Income for FY24 is expected to be at ~45% and is expected come down to 41-43% from FY25 onwards.
- NIMs to remain in the range of 4.2-4.3%. Yields on corporate loans are expected to come down in Q3 and Q4 FY24 which would be compensated by decrease in cost of deposits.

## Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
Interest Income	107,297	81,818	100,207	31.1	7.1
Interest Expenses	58,625	40,565	53,513	44.5	9.6
<b>Net Interest Income</b>	<b>48,671</b>	<b>41,253</b>	<b>46,695</b>	<b>18.0</b>	<b>4.2</b>
<b>NIM (%)</b>	<b>4.3</b>	<b>4.2</b>	<b>4.3</b>	<b>8 bps</b>	<b>1 bps</b>
Non-Interest Income	22,098	19,287	21,505	14.6	2.8
Operating Income	70,769	60,540	68,200	16.9	3.8
Staff Cost	8,629	6,604	8,363	30.7	3.2
Other Op Exp	23,839	19,999	22,310	19.2	6.9
Total Operating Expenses	32,468	26,603	30,672	22.0	5.9
<i>Cost to Income (%)</i>	<i>45.9</i>	<i>43.9</i>	<i>45.0</i>	<i>194 bps</i>	<i>91 bps</i>
<b>Operating Profit</b>	<b>38,301</b>	<b>33,937</b>	<b>37,528</b>	<b>12.9</b>	<b>2.1</b>
Provisions	9,916	12,510	10,301	(20.7)	(3.7)
PBT	28,385	21,427	27,227	32.5	4.3
Tax	7149	5394	6822	32.5	4.8
<i>-effective tax rate</i>	<i>25.2</i>	<i>25.2</i>	<i>25.1</i>	<i>1 bps</i>	<i>13 bps</i>
<b>PAT</b>	<b>21,236</b>	<b>16,033</b>	<b>20,405</b>	<b>32.5</b>	<b>4.1</b>
EPS (Rs)	27.4	20.7	26.3	32.3	4.1
BV (Rs)	736.5	641.4	708.9	14.8	3.9
Deposits	3,470,470	3,027,190	3,361,200	14.6	3.3
Advances	3,013,170	2,479,600	2,899,240	21.5	3.9

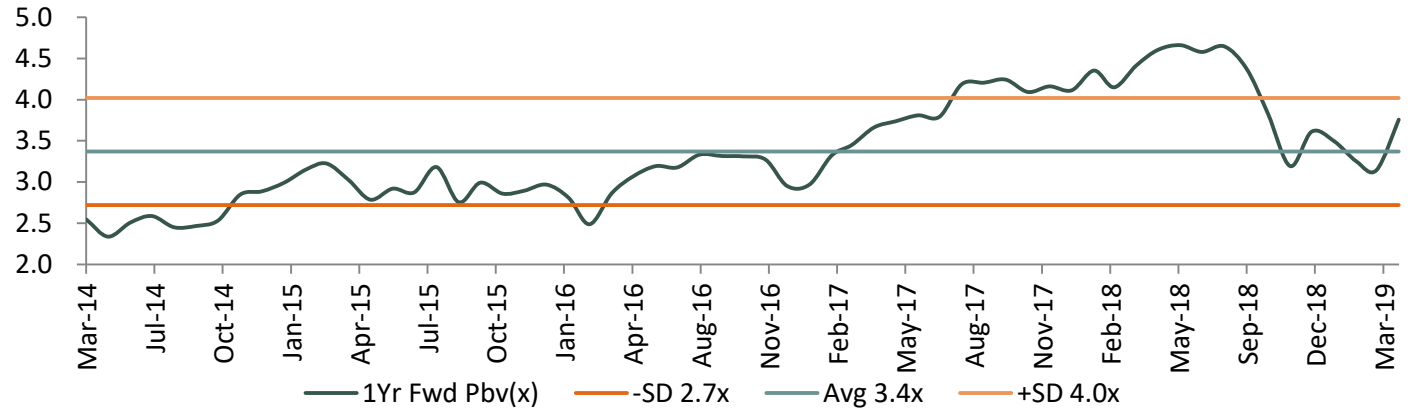
Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	4.0	3.9	4.1	4.0	4.0
Fees	1.5	1.8	1.8	1.8	1.9
Other Income	0.4	0.1	0.1	0.1	0.1
Net Revenue	6.0	5.8	6.0	6.0	5.9
Op.Exp	2.5	2.5	2.7	2.7	2.7
Op.Profit	3.5	3.3	3.3	3.3	3.3
Provisions	2.4	1.7	1.0	1.0	1.0
PBT	1.1	1.6	2.3	2.3	2.3
Tax	0.3	0.4	0.6	0.6	0.6
PAT	0.8	1.2	1.7	1.7	1.7
Leverage (x)	8.6	8.4	8.4	8.5	8.8
ROE	7.3	10.1	14.4	14.3	15.1

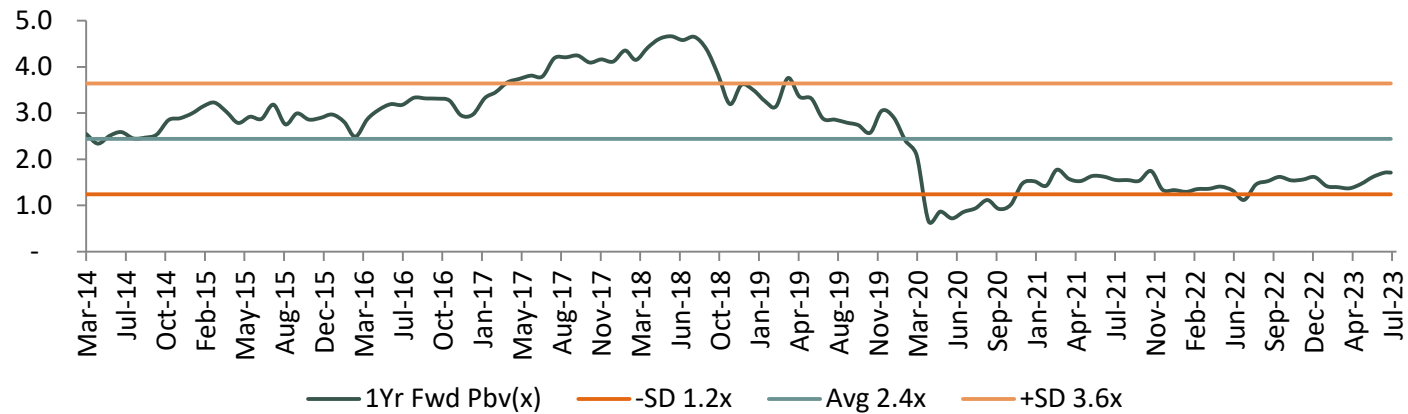
Source: Company; IDBI Capital Research

**Exhibit 3: One-year forward P/ABV (FY14-19)**



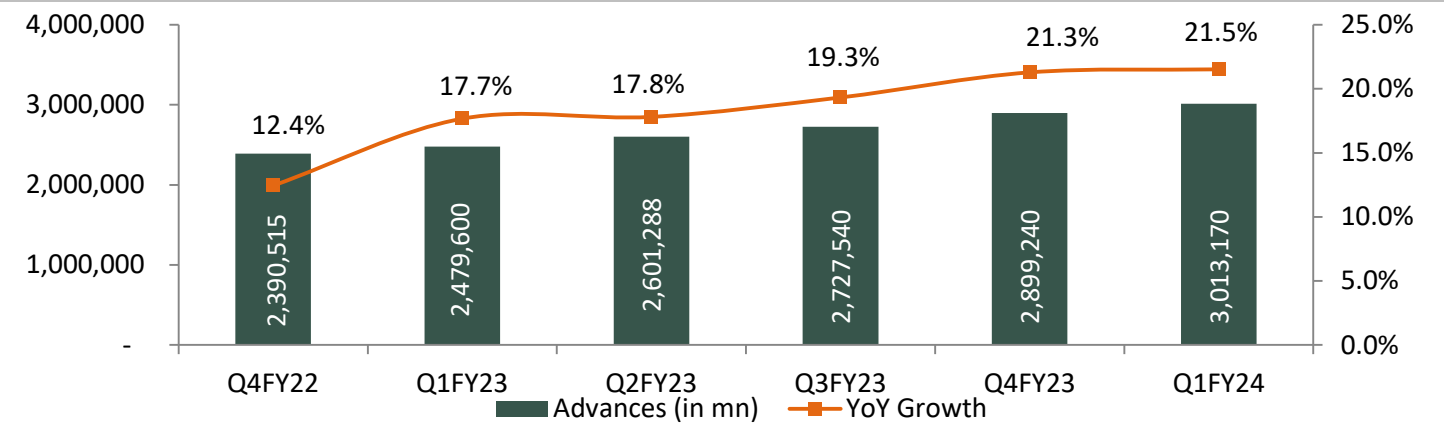
Source: Company; IDBI Capital Research

**Exhibit 4: One-year forward P/ABV (14-24)**



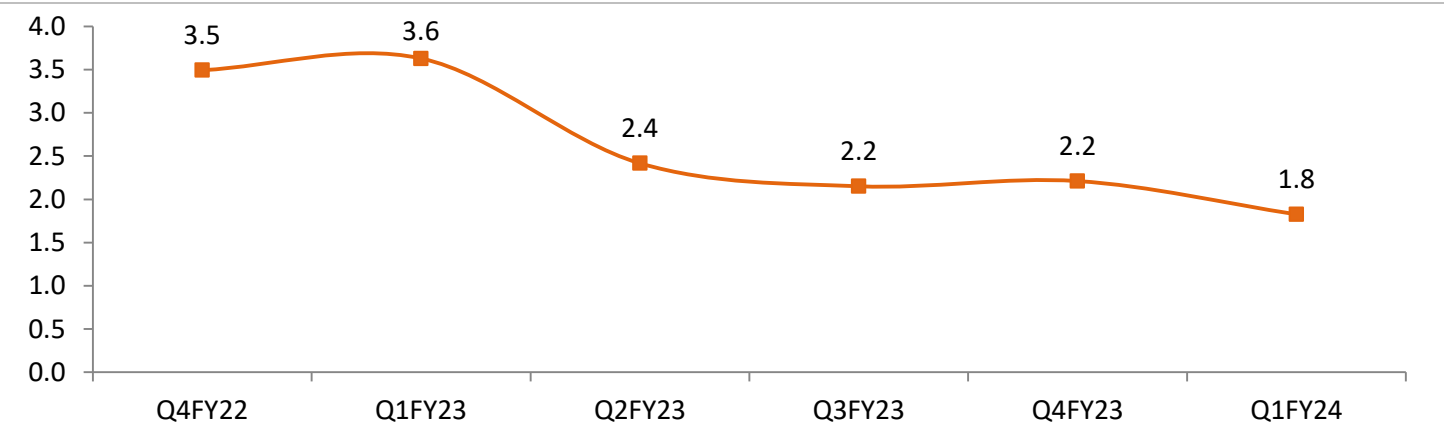
Source: Company; IDBI Capital Research

**Exhibit 5: Advances growth continued to show strong growth momentum**



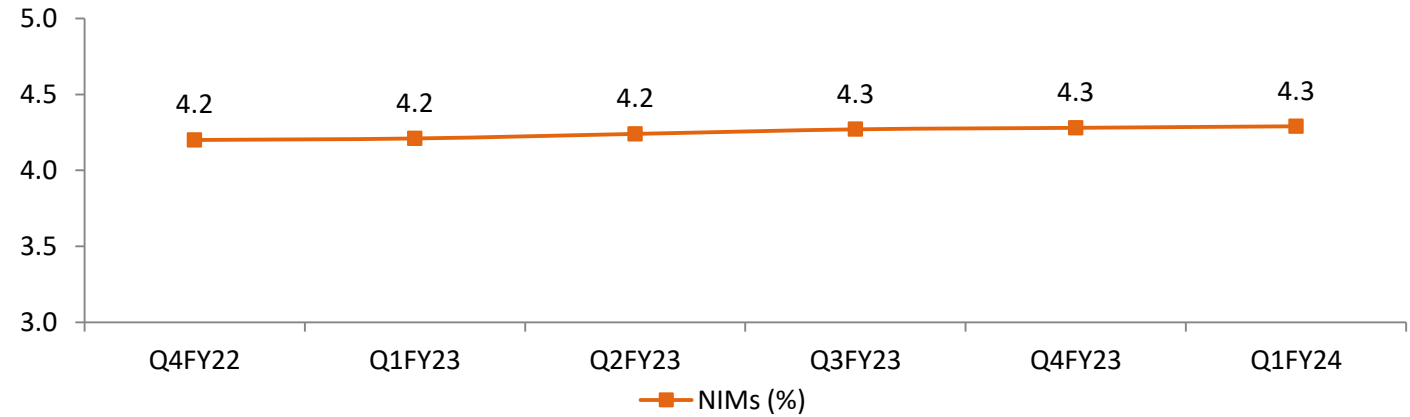
Source: Company; IDBI Capital Research

**Exhibit 6: Slippage ratio moderated on a sequential basis**



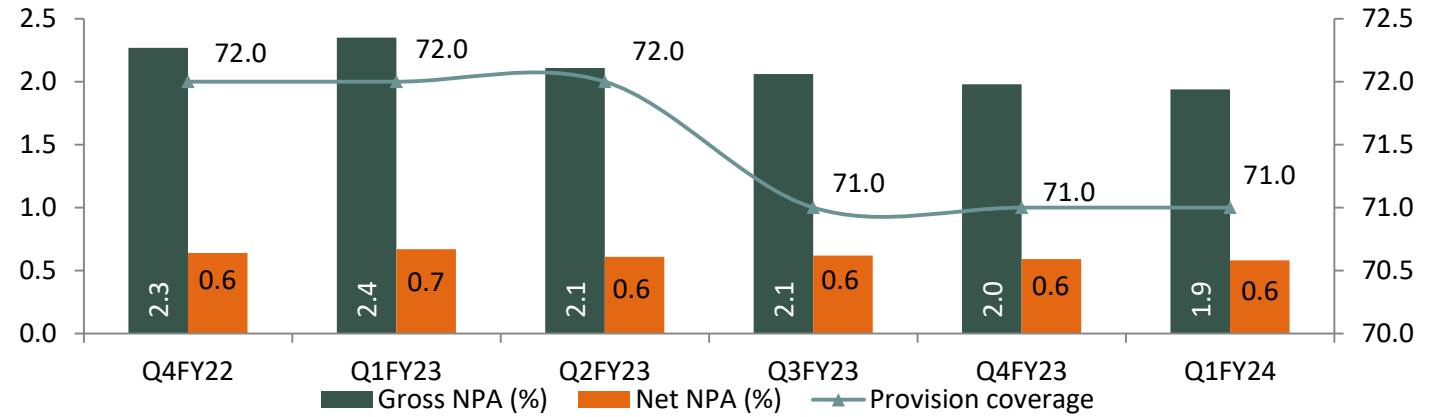
Source: Company; IDBI Capital Research

**Exhibit 7: Net Interest margin remained stable on a QoQ basis**



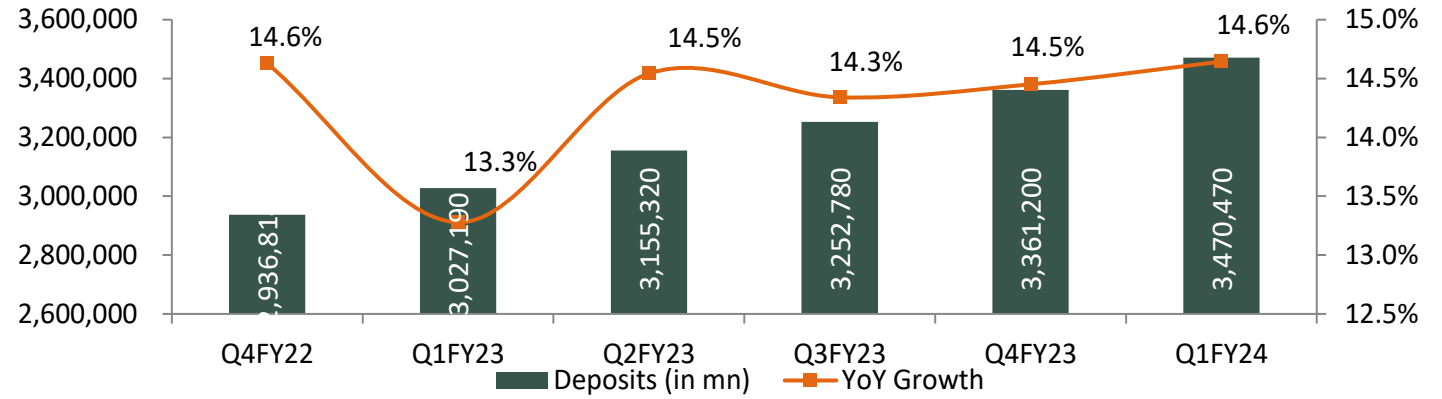
Source: Company; IDBI Capital Research

**Exhibit 8: Asset quality improved on a sequential basis**



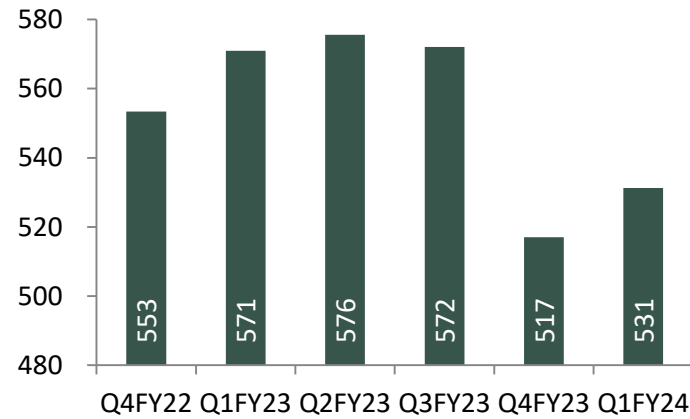
Source: Company; IDBI Capital Research

**Exhibit 9: Deposits growth inched up moderately during the qtr**



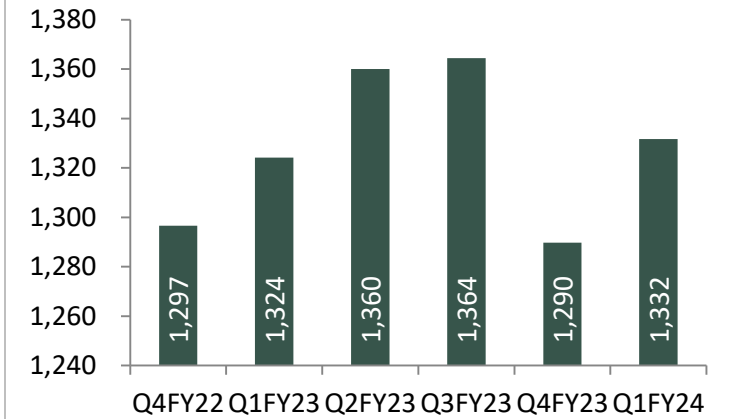
Source: Company; IDBI Capital Research

**Exhibit 10: CASA per Branch**



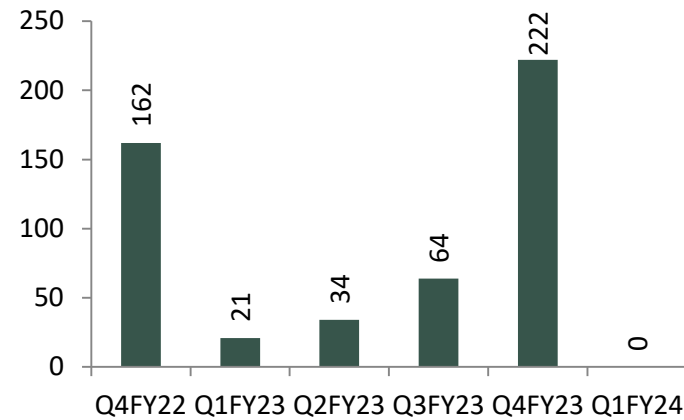
Source: Company; IDBI Capital Research

**Exhibit 11: Deposit per Branch**



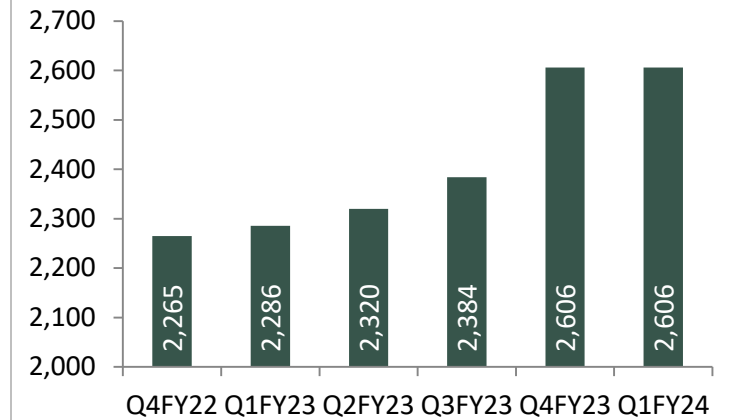
Source: Company; IDBI Capital Research

**Exhibit 12: ~250-300 incremental new branches to be added during FY24**



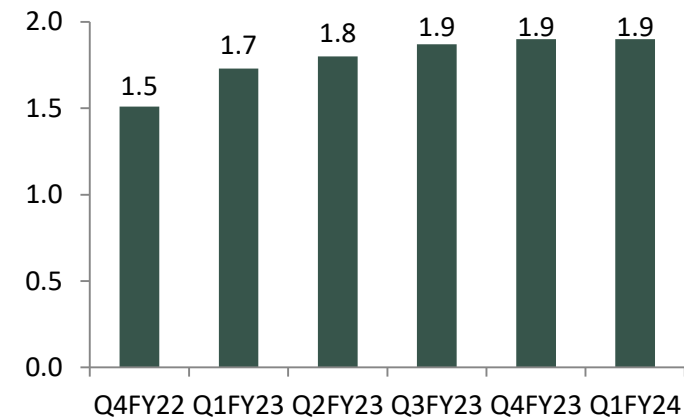
Source: Company; IDBI Capital Research

**Exhibit 13: Branch addition remained muted during the qtr**



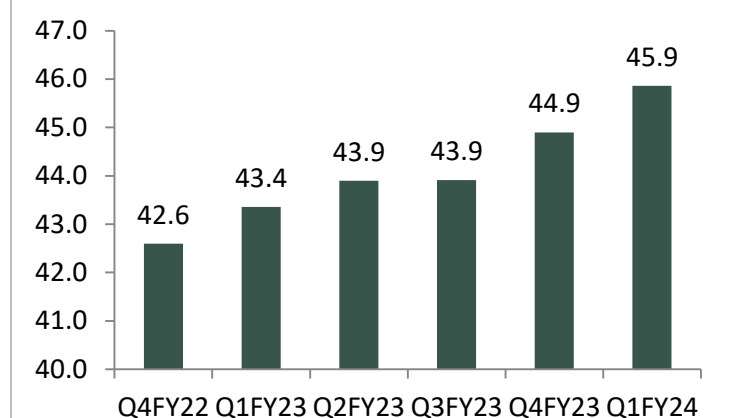
Source: Company; IDBI Capital Research

**Exhibit 14: Return on Assets remained stable on a sequential basis**



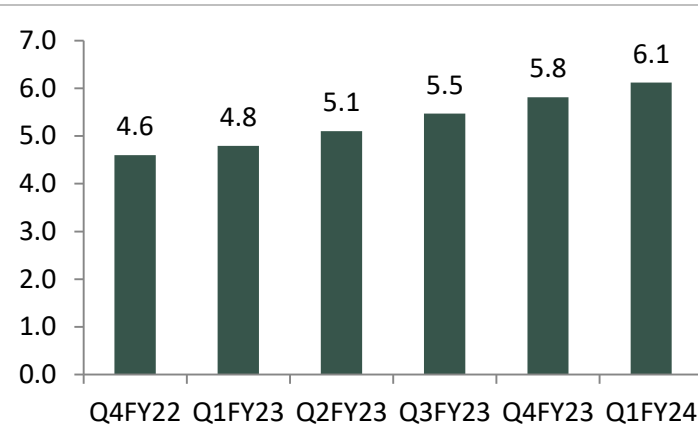
Source: Company; IDBI Capital Research

**Exhibit 15: Cost to Income Ratio inched up QoQ on account of retailization of book**



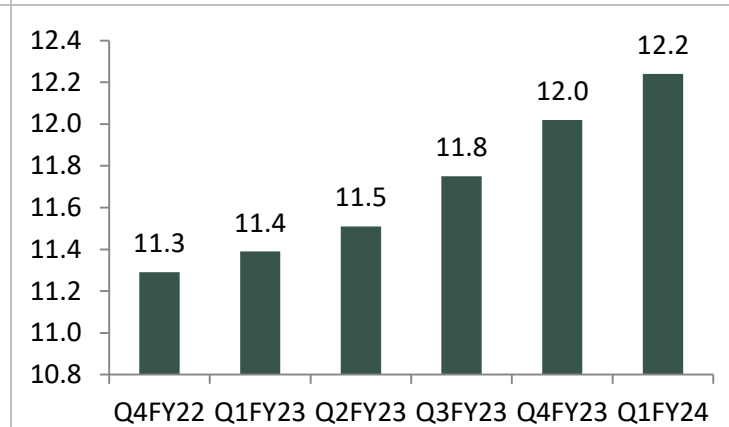
Source: Company; IDBI Capital Research

**Exhibit 16: Cost of Deposits increased sequentially**



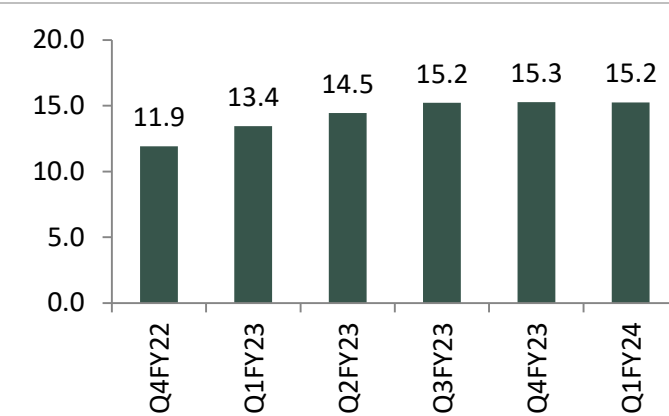
Source: Company; IDBI Capital Research

**Exhibit 17: Yield on Advance increased sequentially led by re-pricing of loan book**



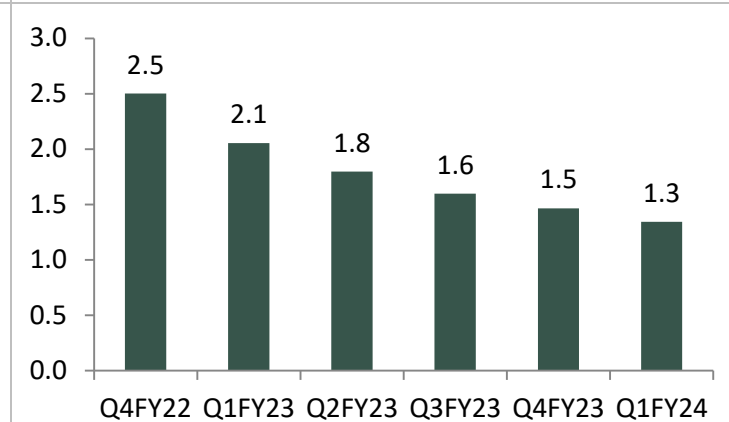
Source: Company; IDBI Capital Research

**Exhibit 18: Return on Equity remained stable on a sequential basis**



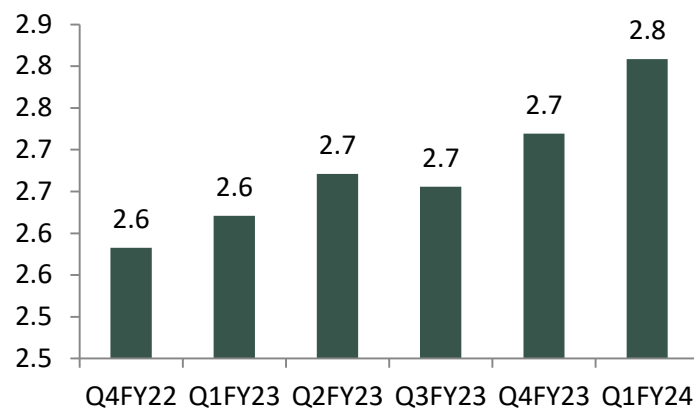
Source: Company; IDBI Capital Research

**Exhibit 19: Credit Cost to remain in the range of 1.1-1.3% in FY24**



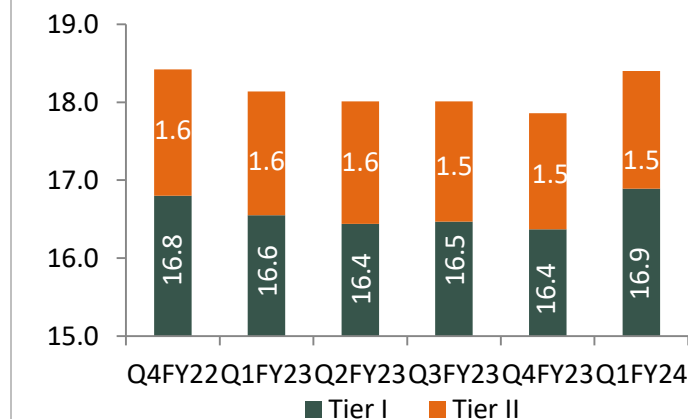
Source: Company; IDBI Capital Research

**Exhibit 20: Cost to Assets inched up QoQ**



Source: Company; IDBI Capital Research

**Exhibit 21: CAR remains comfortable**



Source: Company; IDBI Capital Research

**Exhibit 22: Composition of Advances-In Mn**

Product Wise Advances (In Mn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
Commercial Vehicle Loans	293,200	244,150	281,710	20.1	4.1
Utility Vehicle Loans	98,130	67,970	90,290	44.4	8.7
Small CV	35,610	31,840	34,590	11.8	2.9
2Wheeler Loans	47,780	43,580	47,740	9.6	0.1
Car Loans	111,100	87,890	105,710	26.4	5.1
Tractor	95,160	82,500	93,720	15.3	1.5
Equipment Financing	102,340	87,900	98,670	16.4	3.7
Credit Cards	89,780	64,780	83,950	38.6	6.9
LAP	99,530	90,090	96,400	10.5	3.2
PL/MA/BL/AHL/Others	178,290	118,550	164,360	50.4	8.5
Business Banking	148,070	122,030	138,450	21.3	6.9
Micro Finance	319,810	294,030	322,150	8.8	(0.7)
Corporate Banking	1,394,370	1,144,290	1,341,500	21.9	3.9
<b>Total</b>	<b>3,013,170</b>	<b>2,479,600</b>	<b>2,899,240</b>	<b>21.5</b>	<b>3.9</b>

Source: Company; IDBI Capital Research

**Exhibit 23: Composition of Advances-In Mn**

Product Wise Advances (In Mn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
Commercial vehicle loans	9.7	9.8	9.7	-12 bps	1 bps
Utility vehicle loans	3.3	2.7	3.1	52 bps	14 bps
Small CV	1.2	1.3	1.2	-10 bps	-1 bps
2Wheeler loans	1.6	1.8	1.6	-17 bps	-6 bps
Car loans	3.7	3.5	3.6	14 bps	4 bps
Tractor	3.2	3.3	3.2	-17 bps	-7 bps
Equipment financing	3.4	3.5	3.4	-15 bps	-1 bps
Credit Cards	3.0	2.6	2.9	37 bps	8 bps
LAP	3.3	3.6	3.3	-33 bps	-2 bps
PL/MA/BL/AHL/Others	5.9	4.8	5.7	114 bps	25 bps
Business Banking	4.9	4.9	4.8	-1 bps	14 bps
Micro Finance	10.6	11.9	11.1	-124 bps	-50 bps
Corporate Banking	46.3	46.1	46.3	13 bps	1 bps
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

**Exhibit 24: Statement of Standard Assets & Other Provisions**

Product Wise Advances (In Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Specific Provision	39,170	42,020	39,130	39,590	40,410	41,240
Floating Provisions	700	700	700	700	700	700
Standard Contingent Provisions	33,280	30,030	26,530	21,920	19,000	17,000
Standard Asset Provisions	10,470	10,950	11,550	12,140	13,130	13,450
Loan Related Provisions	83,620	83,700	77,910	74,350	73,240	72,390
Provision Coverage Ratio (%)	72	72	72	71%	71	71
Total loan related Provisions (% of GNPA)	152	141	140	130%	126	121

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net interest income</b>	<b>120,587</b>	<b>135,279</b>	<b>150,008</b>	<b>175,921</b>	<b>199,265</b>	<b>232,968</b>
<i>Change (yoy, %)</i>	36%	12%	11%	17%	13%	17%
Fees	64,073	50,710	68,049	76,860	91,841	108,380
Other Income	5,440	14,876	5,292	4,804	5,602	6,519
Net Revenue	190,100	200,865	223,350	257,585	296,709	347,866
Operating expenses	82,373	83,598	95,593	114,120	133,227	156,506
Employee expenses	22,085	22,135	24,883	30,305	35,255	40,891
Other expenses	60,288	61,463	70,709	83,815	97,973	115,615
<b>Pre-Provision Profit</b>	<b>107,727</b>	<b>117,267</b>	<b>127,757</b>	<b>143,465</b>	<b>163,481</b>	<b>191,360</b>
<i>Change (yoy, %)</i>	33%	9%	9%	12%	14%	17%
Provision	46,521	79,425	66,021	44,868	51,368	56,837
PBT	61,206	37,841	61,736	98,596	112,113	134,523
Taxes	17,027	9,478	15,625	24,699	28,219	33,859
<i>Effective tax rate (%)</i>	28%	25%	25%	25%	25%	25%
<b>Net profit</b>	<b>44,179</b>	<b>28,364</b>	<b>46,111</b>	<b>73,897</b>	<b>83,894</b>	<b>100,664</b>
<i>Change (yoy, %)</i>	34%	-36%	63%	60%	14%	20%
EPS	63.7	36.7	59.5	95.2	108.1	129.7
Return on Equity (%)	14.4	7.3	10.1	14.4	14.3	15.1
Return on Assets (%)	1.5	0.8	1.2	1.7	1.7	1.7

## Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	6,935	7,734	7,747	7,759	7,759	7,759
Reserves	340,130	425,920	469,225	542,290	614,906	700,051
<b>Networth</b>	<b>347,065</b>	<b>433,654</b>	<b>476,972</b>	<b>550,049</b>	<b>622,665</b>	<b>707,810</b>
<b>Deposits</b>	<b>2,020,398</b>	<b>2,562,050</b>	<b>2,936,813</b>	<b>3,361,200</b>	<b>3,935,782</b>	<b>4,613,256</b>
Current deposits	284,400	360,601	368,389	506,000	590,367	691,988
Saving deposits	531,298	710,654	888,256	841,280	1,062,661	1,245,579
Term deposit	1,204,700	1,490,794	1,680,168	2,013,920	2,282,753	2,675,688
Borrowings	607,535	513,228	473,232	490,112	660,489	837,471
Other liabilities	95,577	120,796	132,728	177,010	165,380	151,960
<b>Total Liab. &amp; Equity</b>	<b>3,070,575</b>	<b>3,629,727</b>	<b>4,019,746</b>	<b>4,578,371</b>	<b>5,384,315</b>	<b>6,310,498</b>
Cash	160,036	563,272	682,745	567,771	690,348	813,217
Advances	2,067,832	2,125,954	2,390,515	2,899,240	3,421,587	4,037,473
Investments	599,799	696,947	709,708	830,760	965,798	1,124,645
Fixed Assets	18,201	18,094	18,487	20,780	20,780	20,780
Other Assets	224,707	225,461	218,291	259,820	285,802	314,382
<b>Total assets</b>	<b>3,070,575</b>	<b>3,629,727</b>	<b>4,019,746</b>	<b>4,578,371</b>	<b>5,384,315</b>	<b>6,310,498</b>

## Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Growth</b>						
Deposits	3.7	26.8	14.6	14.5	17.1	17.2
Advances	10.9	2.8	12.4	21.3	18.0	18.0
NII	36.3	12.2	10.9	17.3	13.3	16.9
Pre-Provision Profit	33.2	8.9	8.9	12.3	14.0	17.1
Net Profit	33.8	(35.8)	62.6	60.3	13.5	20.0
<b>Spreads</b>						
Yield on Assets	11.1	9.7	8.9	9.3	9.2	9.2
Cost of Funds	6.4	5.2	4.7	5.0	4.9	5.0
NIM	4.4	4.4	4.2	4.4	4.3	4.2
CASA	40.4	41.8	42.8	40.1	42.0	42.0
<b>Operating Efficiency</b>						
Cost-to-Income	43.3	41.6	42.8	44.3	44.9	45.0
Cost-to-Assets	2.8	2.5	2.5	2.7	2.7	2.7
<b>Asset Quality</b>						
GNPA	2.5	2.7	2.3	2.0	1.9	2.0
NNPA	0.9	1.1	0.7	0.6	0.5	0.6
Provision Coverage	63.3	60.2	71.0	70.6	72.3	70.2
Credit Cost	2.4	3.8	2.9	1.7	1.6	1.5
<b>Capital Adequacy</b>						
CAR	15.0	17.4	18.4	17.9	16.8	16.4
Tier I	14.6	16.8	16.8	16.4	15.6	15.1
<b>Valuation</b>						
EPS	64	37	60	95	108	130
ABV	474	535	606	688	780	881
P/E	21.8	37.9	23.4	14.6	12.9	10.7
P/ABV	2.9	2.6	2.3	2.0	1.8	1.6
ROE	14.4	7.3	10.1	14.4	14.3	15.1
ROA	1.5	0.8	1.2	1.7	1.7	1.7
RORWA	1.9	1.1	1.6	2.3	2.2	2.1

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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