

India

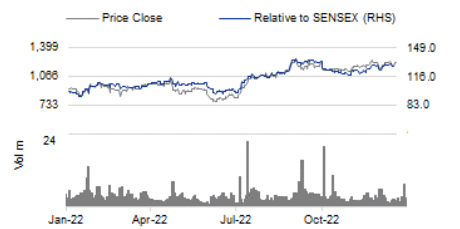
ADD (no change)

Consensus ratings*: Buy 44 Hold 6 Sell 1

Current price:	Rs1,209
Target price:	Rs1,400
Previous target:	Rs1,400
Up/downside:	15.8%
InCred Research / Consensus:	-0.3%

Reuters:	
Bloomberg:	IIB IN
Market cap:	US\$12,912m
	Rs937,593m
Average daily turnover:	US\$60.5m
	Rs4396.6m
Current shares o/s:	732.0m
Free float:	46.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.2	1.7	28.4
Relative (%)	3.8	(2.3)	31.0

Major shareholders	% held
IndusInd Int holdings	16.5
LIC	5.4
BoFA	4.5

IndusInd Bank

Margins & asset quality are areas of concern

- IIB posted an in-line 3QFY23 PAT of Rs19.6bn, despite flat margins & a surge in retail loan slippage, as credit cost fell due to usage of contingent provision.
- IIB's inability to command pricing (especially in consumer loans) is visible with ~24bp sequential surge in yields as against ~37bp rise in the cost of deposits.
- Retain ADD rating with a TP of Rs1,400 or ~1.8x P/FY24F ABV but remove it from high-conviction ideas, and monitor the margins, MFI book & asset quality.

Healthy growth in advances although the overall trend is sporadic

IndusInd Bank (IIB) reported 3QFY23 advances at Rs2.72tr (+19.3% yoy, +4.9% qoq) but the overall trend was sporadic as small corporate loans grew by ~10.7% in the wholesale segment and personal & merchant loans in the retail segment showed mid-teen growth sequentially. Vehicle finance book was healthy with ~6.7% sequential growth. We feel 4QFY23F may stay seasonally strong but further sustainability remains a question mark.

MFI portfolio struggle continues

The microfinance (MFI) book of IIB continues to struggle, remaining sequentially flattish. The bank witnessed sluggish disbursement in Oct/Nov 2022 coupled with elevated monthly repayments (~Rs30bn). Management highlighted the consistent problems faced in the eastern states of India where the focus remains more on recovery. Accordingly, we expect the growth in the MFI book of the bank to remain muted in the coming quarters.

Margin concerns rise as competitors exert pressure on loan pricing

IIB's inability to command pricing (especially in consumer loans) is visible with ~24bp sequential surge in yields as against ~37bp rise in the cost of deposits. Our channel check indicates pricing pressure for vehicle finance lenders, which was also visible from IIB's numbers. Also, IIB's retailization drive (~42% of retail deposits) comes at a cost, which is stickier. IIB has increased its savings deposit rates during the quarter to attract customers and we believe the incremental deposit growth for the bank will remain an expensive affair.

Fresh slippage in retail segment soars

IIB reported a sequential decline in fresh slippage to Rs13.5bn as against Rs13.9bn in the previous quarter but the retail segment, including vehicle as well as non-retail and MFI sub-segments, witnessed a sequential surge. Management attributed the same to a duty-related issue in the state of Odisha and it expects an improvement in 4QFY23F. IIB reported a decline in credit cost due to the utilization of contingent provision (Rs4.6bn).

Outlook & valuation

We retain ADD rating on IIB with an unchanged target price of Rs1,400, corresponding to ~1.8x P/ABV and ~12x Mar 2024F P/E, but remove the same from our high-conviction ideas list. We will monitor the bank's margin trend, momentum in MFI book and asset quality profile in the coming quarters. Key downside risks: Slowing consumption demand, and a hawkish monetary policy.

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Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	135,279	150,010	175,934	203,362	239,011
Total Non-Interest Income (Rsm)	65,586	73,969	82,072	101,753	118,278
Operating Revenue (Rsm)	200,865	223,979	258,006	305,115	357,289
Total Provision Charges (Rsm)	(79,425)	(66,649)	(45,758)	(51,089)	(57,610)
Net Profit (Rsm)	28,364	46,112	73,483	90,875	108,588
Core EPS (Rs)	38.75	59.57	94.78	117.21	140.06
Core EPS Growth	(50%)	60%	60%	24%	20%
FD Core P/E (x)	31.20	20.30	12.76	10.32	8.63
DPS (Rs)	5.00	8.50	11.00	14.00	17.00
Dividend Yield	0.41%	0.70%	0.91%	1.16%	1.41%
BVPS (Rs)	591.4	615.1	697.8	800.8	923.7
P/BV (x)	2.04	1.97	1.73	1.51	1.31
ROE	7.3%	10.1%	14.4%	15.6%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Net Interest Income	35,637	36,584	37,935	39,852	41,253	43,021	44,953	18.5%	4.5%
<i>NIM (calculated)</i>	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%	5.2%		
Other Operating Income	17,811	18,372	18,768	19,020	19,287	20,108	20,763	10.6%	3.3%
Operating Expenses	22,142	23,211	24,653	25,587	26,603	27,932	28,913	17.3%	3.5%
Operating Profit	31,306	31,745	32,050	33,285	33,937	35,197	36,804	14.8%	4.6%
Provisions	18,440	17,034	16,541	14,635	12,510	11,411	10,647	-35.6%	-6.7%
Exceptional Items	-	-	-	-	-	-	-		
PBT	12,865	14,711	15,509	18,650	21,427	23,786	26,157	68.6%	10.0%
Tax	-3,116	-3,576	-3,898	-5,036	-5,394	-5,919	-6,565	68.4%	10.9%
<i>Tax rate (%)</i>	24.2%	24.3%	25.1%	27.0%	25.2%	24.9%	25.1%		
PAT	9,750	11,135	11,612	13,614	16,033	17,867	19,592	68.7%	9.7%
Advances (Rs bn)	2,107	2,208	2,286	2,391	2,480	2,601	2,728	19.3%	4.9%
Deposits (Rs bn)	2,672	2,755	2,845	2,937	3,031	3,159	3,253	14.3%	3.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Revision in our estimates

Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Introduced	% change
Net Interest Income	176,522	175,934	-0.3%	205,383	203,362	-1.0%	240,068	239,011	-0.4%
Non-interest Income	82,197	82,072	-0.2%	101,660	101,753	0.1%	117,108	118,278	1.0%
PPOP	144,595	143,735	-0.6%	174,937	172,661	-1.3%	205,358	203,366	-1.0%
PAT	72,384	73,483	1.5%	92,530	90,875	-1.8%	113,216	108,588	-4.1%
EPS (Rs)	93.3	94.6	1.5%	119.2	117.0	-1.8%	145.9	139.8	-4.1%
BV (Rs)	696.7	697.8	0.2%	801.9	800.8	-0.1%	929.8	923.7	-0.7%

SOURCE: INCRED RESEARCH

Conference-call highlights

Growth

- IIB expects its loan growth to continue in 4QFY23F because of seasonality. 1Q remains seasonally weak and if this is not the case, then the growth trend is likely to continue.
- IIB expects 20-25% loan growth. The bank will announce its PC-6 strategy next quarter.
- The bank has started its housing loan business. It has disbursed Rs2bn of housing loans at 8.95% yield, which it plans to scale up.

Margins

- IIB had increased its savings deposit rates rate in Oct 2022.
- It targets margins in the range of 4.15-4.25%.
- Most corporate loans have a variable rate, and they will be repriced every time there is a hike in the repo rate.
- ~40% of corporate loans have external benchmark, 20% are short-term loans and the remaining 40% loans get repriced yearly.
- Investment in G-secs in excess of the statutory liquidity ratio is declining.
- 25-30bp deposit rate hike is likely next quarter.

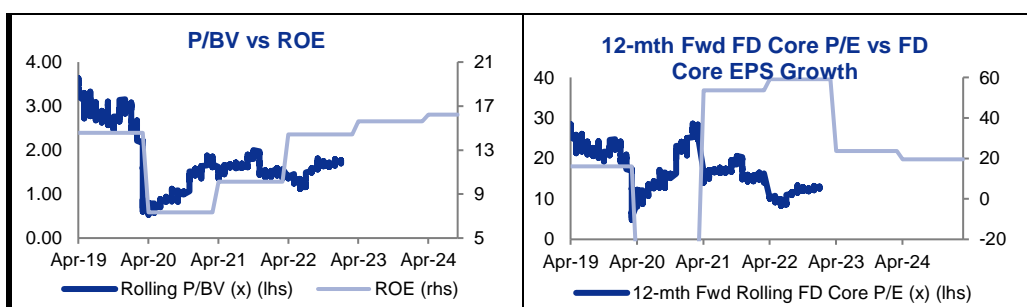
Asset quality

- The surge in non-performing assets or NPAs in vehicle finance was because of a problem in Odisha which, IIB feels, will be resolved next quarter.
- IIB has utilized Rs4.6bn from its contingent provision and now has a Rs21.9bn balance in the contingent provision.
- There were no asset sales to asset reconstruction companies or ARCs during the quarter.
- Rs17bn is the bank's total exposure to the telecom sector out of which Rs9.9bn is the funded exposure, which has been fully provided for.
- Restructured loan book reduced by Rs4bn to Rs18.6bn, and the collection efficiency of the remaining book was stable at 84%.

MFI book

- Rs89bn disbursement in the MFI segment during the quarter can reach Rs110bn.
- Rs30bn is the run-off each month, being short-tenure loans.
- IIB added 0.5m customers during the quarter, posting 20% yoy growth.
- India's rural economy is growing slower-than-expected. IIB is focusing on asset quality and collection.
- 30-90dpd (day past dues) in MFI book stood at 2.4%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	135,279	150,010	175,934	203,362	239,011
Total Non-Interest Income	65,586	73,969	82,072	101,753	118,278
Operating Revenue	200,865	223,979	258,006	305,115	357,289
Total Non-Interest Expenses	(83,598)	(95,593)	(114,270)	(132,454)	(153,923)
Pre-provision Operating Profit	117,267	128,386	143,735	172,661	203,366
Total Provision Charges	(79,425)	(66,649)	(45,758)	(51,089)	(57,610)
Operating Profit After Provisions	37,841	61,737	97,977	121,572	145,756
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	37,841	61,737	97,977	121,572	145,756
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	37,841	61,737	97,977	121,572	145,756
Exceptional Items					
Pre-tax Profit	37,841	61,737	97,977	121,572	145,756
Taxation	(9,477)	(15,625)	(24,494)	(30,697)	(37,168)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	28,364	46,112	73,483	90,875	108,588
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	28,364	46,112	73,483	90,875	108,588
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	91.5%	82.1%	82.9%	84.6%	85.8%
Avg Liquid Assets/Avg Assets	73.4%	75.3%	76.6%	77.3%	78.5%
Avg Liquid Assets/Avg IEAs	117.2%	127.6%	125.5%	122.3%	120.9%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Gross Loans	2,125,954	2,390,514	2,861,102	3,395,948	4,063,110
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,125,954	2,390,514	2,861,102	3,395,948	4,063,110
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,125,954	2,390,514	2,861,102	3,395,948	4,063,110
Intangible Assets					
Other Non-Interest Earning Assets	225,461	218,289	275,140	291,757	309,531
Total Non-Interest Earning Assets	243,554	236,777	295,493	313,929	333,510
Cash And Marketable Securities	563,272	682,744	657,174	740,861	816,925
Long-term Investments	696,947	709,706	771,274	863,136	954,720
Total Assets	3,629,728	4,019,741	4,585,042	5,313,874	6,168,265
Customer Interest-Bearing Liabilities	2,562,050	2,936,811	3,401,708	3,994,825	4,701,704
Bank Deposits					
Interest Bearing Liabilities: Others	513,228	473,232	488,696	522,658	549,097
Total Interest-Bearing Liabilities	3,075,278	3,410,043	3,890,404	4,517,483	5,250,801
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	120,796	132,727	152,772	174,528	200,215
Total Liabilities	3,196,074	3,542,770	4,043,176	4,692,011	5,451,016
Shareholders' Equity	433,654	476,972	541,866	621,863	717,249
Minority Interests					
Total Equity	433,654	476,972	541,866	621,863	717,249

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	12.2%	10.9%	17.3%	15.6%	17.5%
Operating Profit Growth	8.9%	9.5%	12.0%	20.1%	17.8%
Pretax Profit Growth	(38%)	63%	59%	24%	20%
Net Interest To Total Income	67.3%	67.0%	68.2%	66.7%	66.9%
Cost Of Funds	5.43%	4.88%	5.14%	5.58%	5.93%
Return On Interest Earning Assets	13.8%	13.6%	13.8%	14.0%	14.2%
Net Interest Spread	8.40%	8.77%	8.71%	8.42%	8.24%
Net Interest Margin (Avg Deposits)	5.90%	5.46%	5.55%	5.50%	5.50%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	68%	52%	32%	30%	28%
Interest Return On Average Assets	4.04%	3.92%	4.09%	4.11%	4.16%
Effective Tax Rate	25.0%	25.3%	25.0%	25.2%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.85%	1.21%	1.71%	1.84%	1.89%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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