

India

ADD (no change)

Consensus ratings*: Buy 44 Hold 6 Sell 1

Current price:	Rs1,116
Target price:	Rs1,300
Previous target:	Rs1,400
Up/downside:	16.5%
InCred Research / Consensus:	-9.8%

Reuters:	
Bloomberg:	IIB IN
Market cap:	US\$11,928m
	Rs866,171m
Average daily turnover:	US\$53.3m
	Rs3871.6m
Current shares o/s:	732.0m
Free float:	46.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.6	(7.3)	16.3
Relative (%)	5.7	(5.3)	11.5

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

IndusInd Bank

4Q mixed bag, but favourable risk-reward

- IndusInd Bank posted in-line 4QFY23 PAT of Rs20.4bn amid qoq flat margins & a fall in credit cost, but margin pressure & opex surge likely in the near term.
- ~51% of the fixed-rate book and the recent hike in yields in vehicle and MFI book to support yields, but cost of funds to surge amid a rise in cost of deposits.
- IIB, like HDFC Bank, is better placed on asset mix but vulnerable on deposit & opex fronts. Retain ADD with Rs1,300 TP as the risk-reward ratio is favourable.

Healthy growth in advances with stable margins & falling credit cost

IndusInd Bank (IIB) reported 4QFY23 advances at Rs2.9tr (+21.3% yoy, +6.3% qoq) with momentum across corporate, retail and MFI segments. IIB witnessed momentum in mid & small corporate loan demand (+7% qoq) and regained market share in the vehicle finance segment. However, a qoq spurt in the MFI book (+8.5% qoq) remains the key highlight. IIB increased its interest rates on vehicle and MFI loans last quarter, which supported sequential margins at ~428bp. The bank has witnessed one large loan slippage of Rs1.75bn from a restructured portfolio, but still credit cost eased sequentially.

Superior asset mix along with a low CD ratio to support margins

IIB's asset mix remains tilted towards its fixed-rate portfolio (~51% of loan book), which will provide the required yield support in a stagnant or declining monetary policy phase. However, the bank is likely to face a consistent surge in the cost of funds due to the rise in the cost of deposits as well as overall growth in the deposit base. IIB currently operates with a credit-deposit ratio (CD ratio) of ~86%, an improvement from ~102.3% in FY21. IIB is comfortable with a CD ratio up to ~95%, which may aid overall deposit augmentation. We are building in flat margins for FY24F at ~420bp amid steady yields and cost of funds.

Surge in operating expenses likely, but credit cost to remain benign

IIB's focus on increasing its retail presence through branch expansion will keep operating expenses elevated and as the operating leverage will kick in with a lag effect, we are building in a rise in the cost-to-income ratio to ~46% in FY24F as against ~44% currently. We also remain concerned over the asset quality trend of IIB due to a higher share of mid-small corporate portfolio with an elevated exposure towards riskier segments like gems & jewelry, real estate, tractor financing and MFI. However, considering the favourable asset quality cycle for the sector as well as a healthy buffer provision of Rs19bn, we are not building in any volatility on the credit cost front.

Outlook & valuation

We are factoring in ~13.3% PAT CAGR over FY23F-26F amid flat margins & a deteriorating cost-to-income ratio. However, IIB trades at ~1.3x FY25F ABV with RoE of ~14% & RoA of ~1.7% for FY24F, which provides a favourable risk-reward ratio. We retain ADD rating on IIB with a lower target price of Rs1,300 (Rs1,400 earlier), or ~1.5x FY25F ABV. Downside risk: Steep rise in the cost of funds and a surge in fresh loan slippage.

Analyst(s)



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Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	150,010	175,921	200,710	232,763	268,991
Total Non-Interest Income (Rsm)	73,342	81,664	94,289	109,609	126,949
Operating Revenue (Rsm)	223,352	257,585	294,999	342,372	395,940
Total Provision Charges (Rsm)	(66,649)	(44,868)	(52,435)	(62,663)	(72,079)
Net Profit (Rsm)	45,486	73,897	81,130	92,415	107,486
Core EPS (Rs)	59.57	95.25	104.57	119.11	138.54
Core EPS Growth	58%	57%	10%	17%	16%
FD Core P/E (x)	18.74	11.72	10.68	9.37	8.06
DPS (Rs)	8.50	14.00	17.00	21.00	28.00
Dividend Yield	0.76%	1.25%	1.52%	1.88%	2.51%
BVPS (Rs)	623.6	703.2	790.7	888.4	998.8
P/BV (x)	1.79	1.59	1.41	1.26	1.12
ROE	10.0%	14.4%	14.0%	14.2%	14.7%

% 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	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	35,637	36,584	37,935	39,852	41,253	43,021	44,953	46,695	17.2%	3.9%
<i>NIM (calculated)</i>	5.1%	5.1%	5.1%	5.2%	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	21,505	13.1%	3.6%
Operating Expenses	22,142	23,211	24,653	25,587	26,603	27,932	28,913	30,672	19.9%	6.1%
Operating Profit	31,306	31,745	32,050	33,285	33,937	35,197	36,804	37,528	12.7%	2.0%
Provisions	18,440	17,034	16,541	14,635	12,510	11,411	10,647	10,301	-29.6%	-3.3%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	12,865	14,711	15,509	18,650	21,427	23,786	26,157	27,227	46.0%	4.1%
Tax	-3,116	-3,576	-3,898	-5,036	-5,394	-5,919	-6,565	-6,822	35.5%	3.9%
<i>Tax rate (%)</i>	24.2%	24.3%	25.1%	27.0%	25.2%	24.9%	25.1%	25.1%	-7.2%	-0.2%
PAT	9,750	11,135	11,612	13,614	16,033	17,867	19,592	20,405	68.7%	9.7%
Advances (Rs b)	2,107	2,208	2,286	2,391	2,480	2,601	2,728	2,899	21.3%	6.3%
Deposits (Rs b)	2,672	2,755	2,845	2,937	3,031	3,159	3,253	3,364	14.6%	3.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

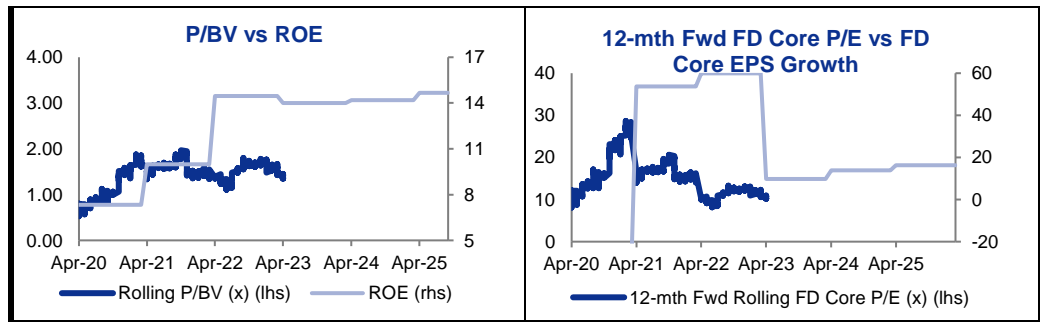
Y/e Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net Interest Income	203,362	200,710	-1.3%	239,011	232,763	-2.6%	268,991
Non-interest Income	101,753	94,289	-7.3%	118,278	109,609	-7.3%	126,949
PPOP	172,661	160,608	-7.0%	203,366	185,882	-8.6%	215,393
PAT	90,875	81,130	-10.7%	108,588	92,415	-14.9%	107,486
EPS (Rs)	117.0	104.4	-10.7%	139.8	119.0	-14.9%	138.4
BV (Rs)	800.8	790.7	-1.3%	923.7	888.4	-3.8%	998.8

SOURCE: INCRED RESEARCH

Conference-call highlights

- IIB has 51% floating-rate loans and 49% fixed-rate loans.
- The cost-to-income ratio is expected to remain elevated at 45% in 1HFY24F and later improve to 41%.
- Corporate loan growth was driven by gems & jewellery, services and petroleum sectors.
- The rise in gross non-performing assets or GNPA's in the MFI book was due to slippage in eastern states. IIB believes the worst is over in the MFI space and asset quality will improve from now on.
- Loan slippage for the quarter stood at Rs1.6bn (slippage ratio 2.21 % vs. 2.15% qoq). IIB has given guidance of the slippage declining to 1.7% in the coming quarters.
- Overall slippage increased due to slippage of Rs2bn from the MFI book and one corporate account worth Rs1.7bn.
- Non-funded exposure to Vodafone stands at Rs7.3bn.
- IIB has given loan growth guidance of 18-23% over FY23F-26F.
- IIB has given credit cost guidance of 1.1-1.3% over FY23F-26F.
- The bank expects pre-provisioning operating profit(PPOP)/loan ratio at 5.25-5.75% and ROA at 1.9-2.2% over FY23F-26F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	150,010	175,921	200,710	232,763	268,991
Total Non-Interest Income	73,342	81,664	94,289	109,609	126,949
Operating Revenue	223,352	257,585	294,999	342,372	395,940
Total Non-Interest Expenses	(95,593)	(114,120)	(134,391)	(156,490)	(180,547)
Pre-provision Operating Profit	127,760	143,465	160,608	185,882	215,393
Total Provision Charges	(66,649)	(44,868)	(52,435)	(62,663)	(72,079)
Operating Profit After Provisions	61,111	98,597	108,173	123,220	143,314
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	61,111	98,597	108,173	123,220	143,314
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	61,111	98,597	108,173	123,220	143,314
Exceptional Items					
Pre-tax Profit	61,111	98,597	108,173	123,220	143,314
Taxation	(15,625)	(24,699)	(27,043)	(30,805)	(35,829)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	45,486	73,897	81,130	92,415	107,486
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	45,486	73,897	81,130	92,415	107,486
Recurring Net Profit					

Balance Sheet

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	82.1%	83.9%	87.4%	89.3%	90.2%
Avg Liquid Assets/Avg Assets	75.3%	76.0%	76.1%	76.8%	77.5%
Avg Liquid Assets/Avg IEAs	127.6%	123.6%	117.2%	113.9%	112.0%
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-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	2,390,514	2,899,237	3,454,665	4,061,674	4,767,386
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,390,514	2,899,237	3,454,665	4,061,674	4,767,386
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,390,514	2,899,237	3,454,665	4,061,674	4,767,386
Intangible Assets					
Other Non-Interest Earning Assets	218,289	262,604	292,344	309,516	329,783
Total Non-Interest Earning Assets	236,777	282,530	314,409	333,362	355,653
Cash And Marketable Securities	682,744	565,112	530,457	517,796	539,461
Long-term Investments	709,706	831,162	915,807	1,022,448	1,155,395
Total Assets	4,019,741	4,578,041	5,215,338	5,935,281	6,817,895
Customer Interest-Bearing Liabilities	2,936,811	3,364,382	3,904,190	4,516,138	5,274,497
Bank Deposits					
Interest Bearing Liabilities: Others	473,232	490,112	495,096	498,898	504,793
Total Interest-Bearing Liabilities	3,410,043	3,854,494	4,399,287	5,015,036	5,779,290
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	132,727	177,330	201,909	230,212	262,804
Total Liabilities	3,542,770	4,031,824	4,601,196	5,245,247	6,042,095
Shareholders Equity	476,972	546,217	614,142	690,034	775,800
Minority Interests					
Total Equity	476,972	546,217	614,142	690,034	775,800

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	10.9%	17.3%	14.1%	16.0%	15.6%
Operating Profit Growth	8.9%	12.3%	11.9%	15.7%	15.9%
Pretax Profit Growth	61%	61%	10%	14%	16%
Net Interest To Total Income	67.2%	68.3%	68.0%	68.0%	67.9%
Cost Of Funds	4.88%	5.17%	5.68%	5.44%	5.31%
Return On Interest Earning Assets	13.6%	13.8%	13.7%	13.0%	12.6%
Net Interest Spread	8.77%	8.58%	8.02%	7.57%	7.27%
Net Interest Margin (Avg Deposits)	5.46%	5.58%	5.52%	5.53%	5.49%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	52%	31%	33%	34%	33%
Interest Return On Average Assets	3.92%	4.09%	4.10%	4.17%	4.22%
Effective Tax Rate	25.6%	25.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	1.19%	1.72%	1.66%	1.66%	1.69%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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