

India

ADD (no change)

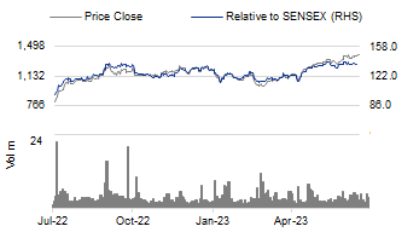
Consensus ratings*: Buy 42 Hold 6 Sell 1

Current price:	Rs1,390
Target price: ▲	Rs1,650
Previous target:	Rs1,300
Up/downside:	18.7%
InCred Research / Consensus:	13.2%
Reuters:	
Bloomberg:	IIB IN
Market cap:	US\$14,857m
	Rs1,078,866m
Average daily turnover:	US\$60.8m
	Rs4417.9m
Current shares o/s:	732.0m
Free float:	46.0%

*Source: Bloomberg

Key changes in this note

➤ Although a surge in the cost of funds is inevitable, the favourable asset mix (rising share of better-yield loans), we feel, will support margins in the coming quarters.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.8	21.2	63.4
Relative (%)	0.1	8.1	33.9

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

Brokers Poll 2023

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InCred Research

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IndusInd Bank

Riding on the favourable cycle

- IIB posted better-than-expected 1QFY24 PAT of Rs21.2bn (our est: Rs19.7bn), despite in-line operating profit, due to lower-than-expected credit cost.
- Although a surge in the cost of funds is inevitable, the favourable asset mix (rising share of better-yield loans) will support margins in the coming quarters.
- With RoE of ~15% & RoA of ~1.8% for FY24F-25F, IIB offers a favourable risk-reward ratio. Retain ADD rating with a new Rs1,650 TP or ~1.8x FY25F BV.

Low credit cost drives profit outperformance despite in-line margins

IndusInd Bank (IIB) reported 1QFY24 advances at Rs3tr (+21.5% yoy, +3.9% qoq) with major momentum in non-vehicle retail and small corporate loans while the MFI book is witnessing a cyclical slowdown. The cost of funds (calculated) witnessed a steep rise sequentially (+37bp) but the favourable asset mix (rising mix of better-yield assets) resulted in flat margins sequentially at ~429bp. IIB utilized the contingent provision of Rs2bn during the quarter. Accordingly, annualized credit cost for the quarter improved further to ~134bp against ~146bp in the previous quarter and ~205bp last year. This resulted in PAT outperformance for the bank.

IIB provides growth certainty with stable margins

IIB operates in specific business segments which, we feel, may continue to witness a healthy growth momentum, which includes small corporate, vehicle finance and MFI loans. Non-vehicle loans can also witness a spurt amid a low base and rising presence of IIB. We are factoring in ~19% CAGR in advances over FY23-26F while deposits may grow at a relatively slower pace of ~17.6% CAGR over the same period, stretching the loan-to-deposit ratio to ~89% from 86% now. Although a surge in cost of funds is likely, the favourable asset mix (rising share of small corporate, non-vehicle retail & MFI loans) may aid margins in the coming quarters. We are factoring in a flat margin of ~420bp for FY24F.

Surge in operating expenses likely but credit cost to remain benign

IIB's focus on increasing its retail presence via branch expansion will keep the operating cost 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% for FY24F. Also, considering the favourable asset quality cycle for the sector as well as improved aggression of IIB, we are not building in credit cost volatility for FY24F but any adversity visible on the asset quality trend at the system level will be taken negatively for IIB due to its riskier asset exposure.

Outlook & valuation

We are factoring in ~15.7% PAT CAGR over FY23-26F amid flat margins, deteriorating cost-to-income ratio & a steady credit cost range of ~140-150bp. IIB trades at ~1.5x FY25F ABV with RoE of ~15% & RoA of ~1.8% for FY24F-25F, which provides a favourable risk-reward ratio. Retain ADD rating on it with a new target price of Rs1,650 (Rs1,300 earlier), or ~1.8x FY25F BV. Downside risks: Steep rise in cost of funds & a surge in fresh slippage.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	150,010	175,921	200,988	234,452	273,647
Total Non-Interest Income (Rsm)	73,342	81,664	94,530	110,591	129,058
Operating Revenue (Rsm)	223,352	257,585	295,519	345,042	402,705
Total Provision Charges (Rsm)	(66,649)	(44,868)	(43,685)	(55,581)	(67,905)
Net Profit (Rsm)	45,486	73,897	87,250	98,801	114,491
Core EPS (Rs)	59.57	95.25	112.29	127.15	147.34
Core EPS Growth	58%	57%	18%	16%	15%
FD Core P/E (x)	23.34	14.60	12.38	10.93	9.44
DPS (Rs)	8.50	14.00	18.00	23.00	30.00
Dividend Yield	0.61%	1.01%	1.29%	1.65%	2.16%
BVPS (Rs)	623.6	703.2	798.4	902.5	1,020.1
P/BV (x)	2.23	1.98	1.74	1.54	1.36
ROE	10.0%	14.4%	15.0%	15.0%	15.4%

% Change In Core EPS Estimates
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	41,253	43,021	44,953	46,695	48,671	18.0%	4.2%
<i>NIM (calculated)</i>	5.2%	5.2%	5.2%	5.2%	5.1%		
Other Operating Income	19,287	20,108	20,763	21,505	22,098	14.6%	2.8%
Operating Expenses	26,603	27,932	28,913	30,672	32,468	22.0%	5.9%
Operating Profit	33,937	35,197	36,804	37,528	38,301	12.9%	2.1%
Provisions	12,510	11,411	10,647	10,301	9,916	-20.7%	-3.7%
Exceptional Items	-	-	-	-	-		
PBT	21,427	23,786	26,157	27,227	28,385	32.5%	4.3%
Tax	-5,394	-5,919	-6,565	-6,822	-7,149	32.5%	4.8%
<i>Tax rate (%)</i>	25.2%	24.9%	25.1%	25.1%	25.2%	0.0%	0.5%
PAT	16,033	17,867	19,592	20,405	21,236	32.5%	4.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

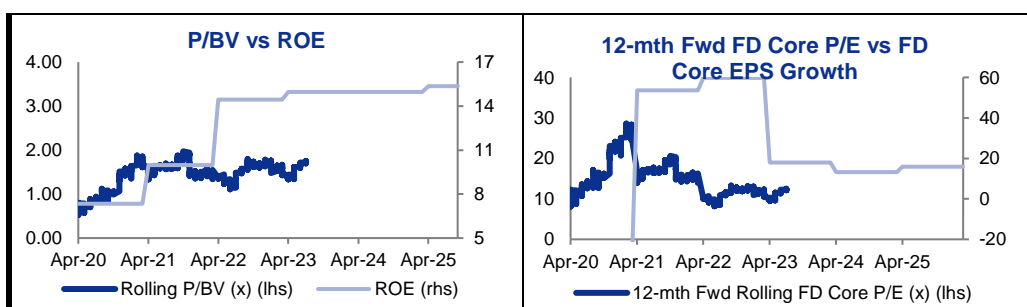
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net-Interest income	200,710	200,988	0.1%	232,763	234,452	0.7%	268,991	273,647	1.7%
Non-Interest Income	94,289	94,530	0.3%	109,609	110,591	0.9%	126,949	129,058	1.7%
PPOP	160,608	160,019	-0.4%	185,882	187,315	0.8%	215,393	220,559	2.4%
PAT	81,130	87,250	7.5%	92,415	98,801	6.9%	107,486	114,491	6.5%
EPS (Rs)	104.4	112.5	7.7%	119.0	127.3	7.0%	138.4	147.6	6.6%
BV (Rs)	790.7	798.4	1.0%	888.4	902.5	1.6%	998.8	1,020.1	2.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- The merchant loan book of Bharat Financial (BFIN) increased by 89% yoy to Rs40bn.
- Vehicle finance disbursement grew by 18% yoy. Disbursement for commercial vehicles, utility vehicles and cars remained strong while the disbursement for two-wheelers and tractors was weak.
- A seasonally weak quarter led to higher slippage in the vehicle finance book.
- BFIN's non-micro loans grew from 7% to 12% of the loan book. BFIN's disbursement stood at Rs84bn while the new-to-bank customers grew 19%.
- Management expects the disbursement in MFI loans to pick up in the coming quarters.
- IIB expects the share of small business loans to increase from 10% currently to 20%. The bank wants to become a micro banker to its micro-finance customers.
- IIB expects its cost of deposits to rise in 2QFY24F and thereafter to remain stable in 3QFY24F, while it sees the cost of deposits declining from 4QFY24F.
- IIB expects to build a Rs50bn-strong affordable housing loan book and Rs150bn-strong home loan book in the next three years. It expects the housing loan book to grow to Rs50bn by the end of this year from Rs6bn currently.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	150,010	175,921	200,988	234,452	273,647
Total Non-Interest Income	73,342	81,664	94,530	110,591	129,058
Operating Revenue	223,352	257,585	295,519	345,042	402,705
Total Non-Interest Expenses	(95,593)	(114,120)	(135,500)	(157,727)	(182,146)
Pre-provision Operating Profit	127,760	143,465	160,019	187,315	220,559
Total Provision Charges	(66,649)	(44,868)	(43,685)	(55,581)	(67,905)
Operating Profit After Provisions	61,111	98,597	116,334	131,735	152,655
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	61,111	98,597	116,334	131,735	152,655
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	61,111	98,597	116,334	131,735	152,655
Exceptional Items					
Pre-tax Profit	61,111	98,597	116,334	131,735	152,655
Taxation	(15,625)	(24,699)	(29,083)	(32,934)	(38,164)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	45,486	73,897	87,250	98,801	114,491
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	45,486	73,897	87,250	98,801	114,491
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	82.1%	83.9%	87.6%	89.3%	89.4%
Avg Liquid Assets/Avg Assets	75.3%	76.0%	75.8%	76.5%	77.5%
Avg Liquid Assets/Avg IEAs	127.6%	123.6%	116.7%	113.3%	112.4%
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	2,899,244	3,468,101	4,116,051	4,880,900
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,390,514	2,899,244	3,468,101	4,116,051	4,880,900
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,390,514	2,899,244	3,468,101	4,116,051	4,880,900
Intangible Assets					
Other Non-Interest Earning Assets	218,289	262,604	292,479	310,060	330,918
Total Non-Interest Earning Assets	236,777	282,530	314,544	333,906	356,788
Cash And Marketable Securities	682,744	565,112	498,843	509,077	606,481
Long-term Investments	709,706	831,162	939,209	1,057,864	1,185,542
Total Assets	4,019,741	4,578,048	5,220,697	6,016,898	7,029,710
Customer Interest-Bearing Liabilities	2,936,811	3,364,382	3,904,190	4,587,543	5,470,624
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	5,086,441	5,975,417
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	5,316,653	6,238,221
Shareholders Equity	476,972	546,217	619,501	700,245	791,489
Minority Interests					
Total Equity	476,972	546,217	619,501	700,245	791,489

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	10.9%	17.3%	14.2%	16.6%	16.7%
Operating Profit Growth	8.9%	12.3%	11.5%	17.1%	17.7%
Pretax Profit Growth	61%	61%	18%	13%	16%
Net Interest To Total Income	67.2%	68.3%	68.0%	67.9%	68.0%
Cost Of Funds	4.88%	5.17%	5.94%	5.70%	5.53%
Return On Interest Earning Assets	13.6%	13.8%	14.0%	13.3%	12.9%
Net Interest Spread	8.77%	8.58%	8.07%	7.61%	7.35%
Net Interest Margin (Avg Deposits)	5.46%	5.58%	5.53%	5.52%	5.44%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	52%	31%	27%	30%	31%
Interest Return On Average Assets	3.92%	4.09%	4.10%	4.17%	4.19%
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%	1.78%	1.76%	1.76%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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