



## India

**HOLD** (previously ADD)

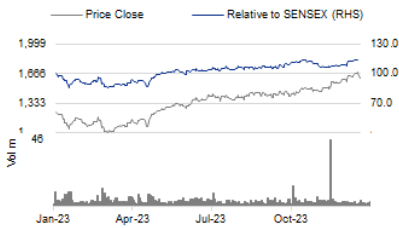
Consensus ratings\*: Buy 44 Hold 3 Sell 1

|                              |              |
|------------------------------|--------------|
| Current price:               | Rs1,613      |
| Target price:                | Rs1,750      |
| Previous target:             | Rs1,800      |
| Up/downside:                 | 8.5%         |
| InCred Research / Consensus: | -1.3%        |
| Reuters:                     | INBK.NS      |
| Bloomberg:                   | IIB IN       |
| Market cap:                  | US\$15,091m  |
|                              | Rs1,254,404m |
| Average daily turnover:      | US\$57.7m    |
|                              | Rs4799.6m    |
| 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 believe, will support margins in the coming quarters.



Source: Bloomberg

| Price performance | 1M  | 3M   | 12M  |
|-------------------|-----|------|------|
| Absolute (%)      | 3.6 | 13.6 | 31.9 |
| Relative (%)      | 4.0 | 4.7  | 12.7 |

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

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**IndusInd Bank****All that is good already priced in**

- We downgrade IIB to HOLD amid the absence of a favourable risk-reward as the current valuation (~1.9x FY25F ABV) factors in all the bank's achievements.
- IIB reported an in-line 3QFY24 PAT of Rs23bn as it managed sequentially flat margins (better asset mix) & lower provision (by using contingent provision).
- IIB has utilized a contingent provision of Rs2.2bn during the quarter to manage credit costs. However, any adversity in asset quality may impact profitability.

**Sequentially flat margins along with low credit costs aid profitability**

IndusInd Bank (IIB) reported 3QFY24 advances at Rs3.27tr (+19.9% yoy, +3.7% qoq) with a major momentum in non-vehicle retail and small corporate loans as well as the MFI book witnessing a favourable trend. The cost of funds (+9bp qoq) is well managed by the bank by keeping its overall borrowings flat sequentially as well as focusing on retail deposits. This, coupled with a favourable asset mix (rising mix of better-yield assets), resulted in flat margins sequentially at ~429bp. IIB has utilized its contingent provision of Rs2.2bn during the quarter. Accordingly, the annualized credit costs for the quarter improved further to ~121bp against ~126bp last quarter & ~180bp last year.

**IIB provides growth certainty amid favourable asset mix**

IIB operates in specific business segments which, we believe, may continue to witness a healthy growth momentum, which includes small corporate and MFI loans. The non-vehicle loan book of IIB can also witness a spurt amid a low base and the bank's rising presence. We are factoring in ~18% CAGR in advances over FY23-26F whereas the deposits are likely to grow at a relatively slower pace of ~16.4% CAGR over the same period, stretching the loan-to-deposit ratio to ~89% from 86% currently. We are building in flat margins at ~420bp for FY24F.

**Surge in operating expenses likely but credit costs to remain benign**

IIB's focus on increasing its retail presence through branch expansion as well as the rise in its MFI book will keep operating expenses elevated. We are building a rise in the cost-to-income ratio to ~47% for FY24F-26F. Additionally, considering the favourable asset quality cycle for the sector as well as improved aggression of the bank, we are not building credit cost volatility for FY24F but any adversity visible on the asset quality trend at the systemic level will be taken negatively by the market due to its risky asset exposure.

**Outlook & valuation**

We are factoring in ~16.2% CAGR in PAT over FY23-26F amid flat margins and steady credit costs. IIB is trading at ~1.8x FY25F BV with RoE of ~15.5% & RoA of ~1.8% for FY24F-26F, which prices in its healthy performance. We downgrade our rating on the stock to HOLD (ADD earlier) as we see a limited upside from the current levels. We have cut our target price to Rs1,750 (from Rs1,800 earlier) or ~2x FY25F ABV. Better-than-expected growth/margins is an upside risk while a surge in credit costs is a downside risk.

**Financial Summary**

|                                 | Mar-22A  | Mar-23A  | Mar-24F  | Mar-25F  | Mar-26F  |
|---------------------------------|----------|----------|----------|----------|----------|
| Net Interest Income (Rsm)       | 150,010  | 175,921  | 207,074  | 248,307  | 291,552  |
| Total Non-Interest Income (Rsm) | 73,342   | 81,664   | 92,039   | 104,423  | 121,003  |
| Operating Revenue (Rsm)         | 223,352  | 257,585  | 299,114  | 352,730  | 412,555  |
| Total Provision Charges (Rsm)   | (66,649) | (44,868) | (39,884) | (50,990) | (62,917) |
| Net Profit (Rsm)                | 45,486   | 73,897   | 89,081   | 100,144  | 116,025  |
| Core EPS (Rs)                   | 59.57    | 95.25    | 114.75   | 129.00   | 149.45   |
| Core EPS Growth                 | 58%      | 57%      | 21%      | 15%      | 15%      |
| FD Core P/E (x)                 | 27.08    | 16.93    | 14.06    | 12.50    | 10.79    |
| DPS (Rs)                        | 8.50     | 14.00    | 18.00    | 23.00    | 30.00    |
| Dividend Yield                  | 0.53%    | 0.87%    | 1.12%    | 1.43%    | 1.86%    |
| BVPS (Rs)                       | 623.6    | 703.2    | 798.6    | 904.1    | 1,023.2  |
| P/BV (x)                        | 2.59     | 2.29     | 2.02     | 1.78     | 1.58     |
| ROE                             | 10.0%    | 14.4%    | 15.3%    | 15.1%    | 15.5%    |

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

| Particulars (Rs m)      | 1QFY23        | 2QFY23        | 3QFY23        | 4QFY23        | 1QFY24        | 2QFY24        | 3QFY24        | YoY (%)      | QoQ (%)     |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|
| Net Interest Income     | 41,253        | 43,021        | 44,953        | 46,695        | 48,671        | 50,767        | 52,956        | 17.8%        | 4.3%        |
| <i>NIM (calculated)</i> | 5.2%          | 5.2%          | 5.2%          | 5.2%          | 5.1%          | 5.0%          | 5.1%          |              |             |
| Other Operating Income  | 19,287        | 20,108        | 20,763        | 21,505        | 22,098        | 22,818        | 23,959        | 15.4%        | 5.0%        |
| Operating Expenses      | 26,603        | 27,932        | 28,913        | 30,672        | 32,468        | 34,776        | 36,492        | 26.2%        | 4.9%        |
| <b>Operating Profit</b> | <b>33,937</b> | <b>35,197</b> | <b>36,804</b> | <b>37,528</b> | <b>38,301</b> | <b>38,809</b> | <b>40,423</b> | <b>9.8%</b>  | <b>4.2%</b> |
| Provisions              | 12,510        | 11,411        | 10,647        | 10,301        | 9,916         | 9,738         | 9,693         | -9.0%        | -0.5%       |
| Exceptional Items       | -             | -             | -             | -             | -             | -             | -             |              |             |
| <b>PBT</b>              | <b>21,427</b> | <b>23,786</b> | <b>26,157</b> | <b>27,227</b> | <b>28,385</b> | <b>29,071</b> | <b>30,731</b> | <b>17.5%</b> | <b>5.7%</b> |
| Tax                     | -5,394        | -5,919        | -6,565        | -6,822        | -7,149        | -7,256        | -7,717        | 17.6%        | 6.3%        |
| <i>Tax Rate (%)</i>     | 25.2%         | 24.9%         | 25.1%         | 25.1%         | 25.2%         | 25.0%         | 25.1%         | 0.1%         | 0.6%        |
| <b>PAT</b>              | <b>16,033</b> | <b>17,867</b> | <b>19,592</b> | <b>20,405</b> | <b>21,236</b> | <b>21,815</b> | <b>23,014</b> | <b>17.5%</b> | <b>5.5%</b> |
| <b>Advances (Rs bn)</b> | 24,79,600     | 26,01,288     | 27,27,540     | 28,99,237     | 30,13,170     | 31,54,541     | 32,70,570     | <b>19.9%</b> | <b>3.7%</b> |
| <b>Deposits (Rs bn)</b> | 30,30,780     | 31,59,205     | 32,52,780     | 33,64,381     | 34,70,470     | 35,97,865     | 36,87,930     | <b>13.4%</b> | <b>2.5%</b> |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

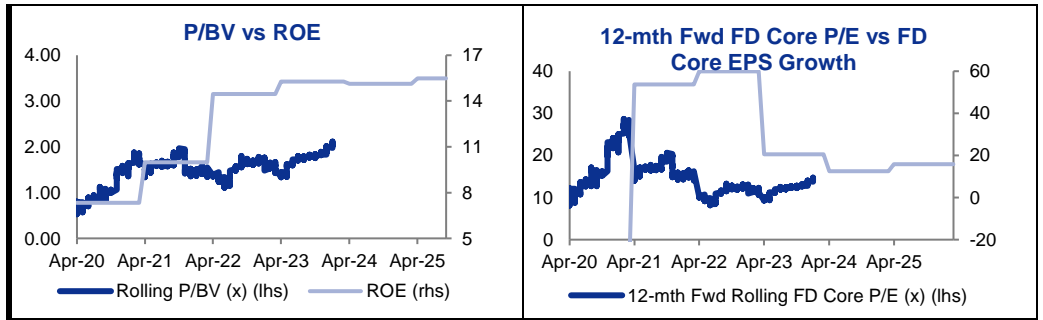
| Y/E Mar (Rs m)      | FY24F    |          |          | FY25F    |          |          | FY26F    |          |          |
|---------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                     | Earlier  | Revised  | % change | Earlier  | Revised  | % change | Earlier  | Revised  | % change |
| Net Interest Income | 2,04,634 | 2,07,074 | 1.2%     | 2,50,744 | 2,48,307 | -1.0%    | 2,91,636 | 2,91,552 | 0.0%     |
| Non-Interest Income | 92,652   | 92,039   | -0.7%    | 1,05,917 | 1,04,423 | -1.4%    | 1,22,978 | 1,21,003 | -1.6%    |
| PPOP                | 1,56,830 | 1,58,659 | 1.2%     | 1,88,447 | 1,84,515 | -2.1%    | 2,19,675 | 2,17,617 | -0.9%    |
| PAT                 | 86,718   | 89,081   | 2.7%     | 1,02,745 | 1,00,144 | -2.5%    | 1,18,057 | 1,16,025 | -1.7%    |
| EPS (Rs)            | 111.5    | 114.5    | 2.7%     | 132.1    | 128.7    | -2.5%    | 151.7    | 149.1    | -1.7%    |
| BV (Rs)             | 795.6    | 798.6    | 0.4%     | 903.4    | 904.1    | 0.1%     | 1,025.1  | 1,023.2  | -0.2%    |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 3QFY24 earnings call - key takeaways

- The credit growth remained steady at around 16% while the growth in deposits picked up to around 12% to 14%, reducing the gap between them.
- Retail loans witnessed a healthy momentum across vehicles, microfinance, and consumer segments with the loan growth at 24% YoY, which helped to maintain the overall growth at 20%.
- IIB was selective in corporate loans, focusing on mid and small corporates. Small corporate loans grew by 5% QoQ, driven by the seasonal uplift in the agri-portfolio during the quarter.
- The proportion of 'A' and above-rated corporate loans improved to 77% versus 74% YoY, with the weighted average rating improving to 2.54 from 2.64 YoY.
- Net slippage in the corporate loan book stood at Rs1.55bn versus Rs1.58bn QoQ. The slippage was mainly due to one stressed account of Rs1.4bn.
- The deposit growth also came along with a moderate increase in the cost of deposits by 9bp. The CASA ratio remains stable at 38.5% QoQ.
- Asset quality, gross and net NPAs remain steady at 1.92% and 0.57%, respectively. Gross slippage stood at Rs17.7bn and net slippage at Rs12.4bn (consolidated).
- Yield on assets stands at 9.75% for the quarter ended 31 Dec 2023 as against 8.99% for the corresponding quarter of the previous year. The cost of funds stands at 5.46% against 4.72% for the corresponding quarter of the previous year (consolidated).
- Commercial vehicle and three-wheeler loan disbursements were slower QoQ due to lower industry volume. However, the bank managed to maintain its market share across segments.
- The gross slippage in vehicle finance stood at 0.73% versus 0.93% YoY and 0.64% QoQ. The slippage moved up due to floods in some parts of the country. The situation has improved in the current month.
- In the global diamond and jewellery business, due to global macroeconomic challenges, the portfolio declined by 8% QoQ and now contributes 3% to the overall loan book. The asset quality, nevertheless, remains healthy with no SMA1, SMA2 or restructured accounts.

BY THE NUMBERS



Profit & Loss

| (Rsm)                                   | Mar-22A         | Mar-23A          | Mar-24F          | Mar-25F          | Mar-26F          |
|---|-----------------|------------------|------------------|------------------|------------------|
| Net Interest Income                     | 150,010         | 175,921          | 207,074          | 248,307          | 291,552          |
| <b>Total Non-Interest Income</b>        | <b>73,342</b>   | <b>81,664</b>    | <b>92,039</b>    | <b>104,423</b>   | <b>121,003</b>   |
| Operating Revenue                       | 223,352         | 257,585          | 299,114          | 352,730          | 412,555          |
| <b>Total Non-Interest Expenses</b>      | <b>(95,593)</b> | <b>(114,120)</b> | <b>(140,455)</b> | <b>(168,215)</b> | <b>(194,938)</b> |
| Pre-provision Operating Profit          | 127,760         | 143,465          | 158,659          | 184,515          | 217,617          |
| <b>Total Provision Charges</b>          | <b>(66,649)</b> | <b>(44,868)</b>  | <b>(39,884)</b>  | <b>(50,990)</b>  | <b>(62,917)</b>  |
| Operating Profit After Provisions       | 61,111          | 98,596           | 118,775          | 133,525          | 154,700          |
| <b>Pretax Income/(Loss) from Assoc.</b> |                 |                  |                  |                  |                  |
| Operating EBIT (incl Associates)        | 61,111          | 98,596           | 118,775          | 133,525          | 154,700          |
| <b>Non-Operating Income/(Expense)</b>   |                 |                  |                  |                  |                  |
| Profit Before Tax (pre-EI)              | 61,111          | 98,596           | 118,775          | 133,525          | 154,700          |
| <b>Exceptional Items</b>                |                 |                  |                  |                  |                  |
| Pre-tax Profit                          | 61,111          | 98,596           | 118,775          | 133,525          | 154,700          |
| Taxation                                | (15,625)        | (24,699)         | (29,694)         | (33,381)         | (38,675)         |
| Consolidation Adjustments & Others      |                 |                  |                  |                  |                  |
| <b>Exceptional Income - post-tax</b>    |                 |                  |                  |                  |                  |
| Profit After Tax                        | 45,486          | 73,897           | 89,081           | 100,144          | 116,025          |
| Minority Interests                      |                 |                  |                  |                  |                  |
| Pref. & Special Div                     |                 |                  |                  |                  |                  |
| <b>FX And Other Adj.</b>                |                 |                  |                  |                  |                  |
| Net Profit                              | 45,486          | 73,897           | 89,081           | 100,144          | 116,025          |
| 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%         | 87.9%         | 89.7%         | 89.8%         |
| Avg Liquid Assets/Avg Assets           | 75.3%         | 76.0%         | 75.4%         | 75.8%         | 77.0%         |
| <b>Avg Liquid Assets/Avg IEAs</b>      | <b>127.6%</b> | <b>123.6%</b> | <b>115.3%</b> | <b>111.2%</b> | <b>110.8%</b> |
| Net Cust Loans/Assets                  |               |               |               |               |               |
| <b>Net Cust Loans/Broad Deposits</b>   |               |               |               |               |               |
| Equity & Provns/Gross Cust Loans       |               |               |               |               |               |
| Asset Risk Weighting                   |               |               |               |               |               |
| <b>Provision Charge/Avg Cust Loans</b> |               |               |               |               |               |
| <b>Provision Charge/Avg Assets</b>     |               |               |               |               |               |
| Total Write Offs/Average Assets        |               |               |               |               |               |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

| <b>Balance Sheet</b>                      |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
| <b>(Rsm)</b>                              | <b>Mar-22A</b>   | <b>Mar-23A</b>   | <b>Mar-24F</b>   | <b>Mar-25F</b>   | <b>Mar-26F</b>   |
| <b>Total Gross Loans</b>                  | <b>2,390,514</b> | <b>2,899,244</b> | <b>3,401,911</b> | <b>4,016,198</b> | <b>4,761,332</b> |
| Liquid Assets & Invst. (Current)          |                  |                  |                  |                  |                  |
| Other Int. Earning Assets                 |                  |                  |                  |                  |                  |
| Total Gross Int. Earning Assets           | 2,390,514        | 2,899,244        | 3,401,911        | 4,016,198        | 4,761,332        |
| <b>Total Provisions/Loan Loss Reserve</b> |                  |                  |                  |                  |                  |
| Total Net Interest Earning Assets         | 2,390,514        | 2,899,244        | 3,401,911        | 4,016,198        | 4,761,332        |
| Intangible Assets                         |                  |                  |                  |                  |                  |
| <b>Other Non-Interest Earning Assets</b>  | <b>218,289</b>   | <b>262,604</b>   | <b>294,128</b>   | <b>310,827</b>   | <b>330,750</b>   |
| <b>Total Non-Interest Earning Assets</b>  | <b>236,777</b>   | <b>282,530</b>   | <b>316,044</b>   | <b>334,536</b>   | <b>356,504</b>   |
| Cash And Marketable Securities            | 682,744          | 565,112          | 396,838          | 433,064          | 519,280          |
| <b>Long-term Investments</b>              | <b>709,706</b>   | <b>831,162</b>   | <b>933,842</b>   | <b>1,047,562</b> | <b>1,170,639</b> |
| Total Assets                              | 4,019,741        | 4,578,048        | 5,048,635        | 5,831,360        | 6,807,755        |
| Customer Interest-Bearing Liabilities     | 2,936,811        | 3,364,382        | 3,806,151        | 4,467,431        | 5,305,463        |
| Bank Deposits                             |                  |                  |                  |                  |                  |
| Interest Bearing Liabilities: Others      | 473,232          | 490,112          | 419,686          | 431,247          | 444,834          |
| Total Interest-Bearing Liabilities        | 3,410,043        | 3,854,494        | 4,225,838        | 4,898,678        | 5,750,297        |
| Banks Liabilities Under Acceptances       |                  |                  |                  |                  |                  |
| Total Non-Interest Bearing Liabilities    | 132,727          | 177,330          | 201,504          | 229,342          | 261,404          |
| Total Liabilities                         | 3,542,770        | 4,031,824        | 4,427,342        | 5,128,020        | 6,011,701        |
| Shareholders Equity                       | 476,972          | 546,217          | 621,294          | 703,340          | 796,055          |
| <b>Minority Interests</b>                 |                  |                  |                  |                  |                  |
| Total Equity                              | 476,972          | 546,217          | 621,294          | 703,340          | 796,055          |

| <b>Key Ratios</b>                        |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|
|  | <b>Mar-22A</b> | <b>Mar-23A</b> | <b>Mar-24F</b> | <b>Mar-25F</b> | <b>Mar-26F</b> |
| Total Income Growth                      | 10.9%          | 17.3%          | 17.7%          | 19.9%          | 17.4%          |
| Operating Profit Growth                  | 8.9%           | 12.3%          | 10.6%          | 16.3%          | 17.9%          |
| Pretax Profit Growth                     | 61%            | 61%            | 20%            | 12%            | 16%            |
| Net Interest To Total Income             | 67.2%          | 68.3%          | 69.2%          | 70.4%          | 70.7%          |
| Cost Of Funds                            | 4.88%          | 5.17%          | 6.14%          | 5.89%          | 5.64%          |
| Return On Interest Earning Assets        | 13.6%          | 13.8%          | 14.4%          | 13.9%          | 13.5%          |
| Net Interest Spread                      | 8.77%          | 8.58%          | 8.31%          | 8.05%          | 7.85%          |
| Net Interest Margin (Avg Deposits)       | 5.46%          | 5.58%          | 5.78%          | 6.00%          | 5.97%          |
| Net Interest Margin (Avg RWA)            |                |                |                |                |                |
| Provisions to Pre Prov. Operating Profit | 52%            | 31%            | 25%            | 28%            | 29%            |
| Interest Return On Average Assets        | 3.92%          | 4.09%          | 4.30%          | 4.56%          | 4.61%          |
| 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%          | 1.85%          | 1.84%          | 1.84%          |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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