

India

**HOLD** (no change)

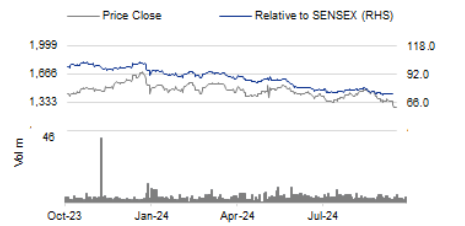
Consensus ratings\*: Buy 43 Hold 5 Sell 1

Current price:	Rs1,280
Target price:	Rs1,350
Previous target:	Rs1,500
Up/downside:	5.5%
InCred Research / Consensus:	-22.8%
Reuters:	INBK.NS
Bloomberg:	IIB IN
Market cap:	US\$11,860m
	Rs997,150m
Average daily turnover:	US\$67.5m
	Rs5677.8m
Current shares o/s:	732.0m
Free float:	46.0%

\*Source: Bloomberg

**Key changes in this note**

➤ Management has highlighted its preference for secured lending, but the growth in unsecured personal loans remains exceptionally high at +7% qoq.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(11.6)	(8.3)	(10.8)
Relative (%)	(6.0)	(8.4)	(28.6)

<b>Major shareholders</b>	% held
IndusInd Int holdings	16.5
LIC	5.4
BoFA	4.5

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# IndusInd Bank

## Uncertainty to weigh over valuation

- IIB posted a lower-than-expected 2Q PAT of Rs13.3bn (InCred est: Rs21.2bn) due to a contingent provision of Rs5.3bn made amid volatile asset quality.
- Though MFI and credit cards remain a pain point, management remains firm about recoveries in 2HFY25F, but we remain skeptical about the same.
- We have been raising our concerns over IIB's ability to manage quality growth, which remains uncertain. Retain our HOLD rating with a lower TP of Rs1,350.

### Credit momentum remains sporadic; we stay skeptical of recoveries

IndusInd Bank (IIB) reported 2QFY25 advances at Rs3.57tr (+13.2% yoy, +2.7% qoq) with a major momentum lost in microfinance or MFI lending (-11.7% qoq) along with vehicle financing (+0.9% qoq) whereas corporate loans (+5.6% qoq) and non-vehicle retail loans (+6.2% qoq) continued to grow aggressively. Interestingly, management has highlighted its preference for secured retail lending over unsecured, but growth in unsecured personal loans remains exceptionally high at +7% qoq. Management remains confident of recoveries in the MFI book in 2HFY25F, but considering the ground realities we prefer to remain cautious on the same. We have been highlighting our concerns over sustainability of growth quality for the past few quarters amid slowing vehicle demand, rising concerns over unsecured lending, including the MFI book, which is playing out on expected lines. We are building conservative advances growth of ~14.5% CAGR over FY24-27F.

### Deposit growth picks up, but savings accounts remain an issue

IIB reported ~3.6% sequential growth in deposits in 2Q, which is healthy, but CASA deposits remained flat sequentially, with the CASA share falling to ~36% for the quarter. Surprisingly, current account balances of IIB grew by ~9% qoq whereas savings account balances declined by ~2% qoq. Margin during the quarter dipped by ~17bp qoq to ~408bp as a high-yield segment like MFI witnessed a qoq decline. Going ahead, with the elevated cost of funds and a declining share of better-yield retail-lending portfolios like MFI and credit cards, margin sustainability will be a challenge.

### We remain watchful of the asset quality trend in the near term

Fresh slippage in 2Q rose to Rs17.9bn vs. Rs15.3bn last quarter, but the surge in provisioning was heavy (even adjusting for a contingent provision of Rs5.25bn) as the movement within buckets was elevated. We remain watchful of the MFI segment whereas within vehicle loans, cyclical affects loan growth, while unsecured non-vehicle retail lending including credit cards and personal loans also remain a cause of concern. We are equally watchful of small corporate loans in recent quarters which can witness adversity.

### Outlook & valuation

We retain our HOLD rating on IIB with a lower target price of Rs1,350 (Rs1,500 earlier) or ~1.4x FY26F BV amid uncertainty over growth, margin & asset quality remaining elevated. Better-than-expected growth/margins is an upside risk while a surge in credit costs is a downside risk.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	175,921	206,159	225,041	258,392	300,824
Total Non-Interest Income (Rsm)	81,664	93,878	89,162	105,124	129,775
Operating Revenue (Rsm)	257,585	300,038	314,203	363,516	430,599
Total Provision Charges (Rsm)	(44,868)	(37,987)	(54,383)	(54,800)	(57,838)
Net Profit (Rsm)	73,897	89,498	75,840	93,283	119,513
Core EPS (Rs)	95.25	115.19	97.39	119.78	153.47
Core EPS Growth	57%	13%	(8%)	22%	27%
FD Core P/E (x)	13.44	11.11	13.14	10.69	8.34
DPS (Rs)	14.00	16.50	18.00	24.00	31.00
Dividend Yield	1.09%	1.29%	1.41%	1.87%	2.42%
BVPS (Rs)	703.2	805.7	884.1	979.9	1,102.3
P/BV (x)	1.82	1.59	1.45	1.31	1.16
ROE	14.4%	15.2%	11.5%	12.8%	14.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly earnings summary**

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	48,671	50,767	52,956	53,765	54,076	53,473	5.3%	-1.1%
<i>NIM (calculated)</i>	5.1%	5.0%	5.1%	4.9%	4.8%	4.7%		
Other Operating Income	22,098	22,818	23,959	25,004	24,413	21,839	-4.3%	-10.5%
Operating Expenses	32,468	34,776	36,893	38,498	39,222	39,394	13.3%	0.4%
<b>Operating Profit</b>	<b>38,301</b>	<b>38,809</b>	<b>40,023</b>	<b>40,270</b>	<b>39,267</b>	<b>35,918</b>	<b>-7.4%</b>	<b>-8.5%</b>
Provisions	9,916	9,738	9,342	8,991	10,498	18,201	86.9%	73.4%
Exceptional Items	-	-	-	-	-	-		
<b>PBT</b>	<b>28,385</b>	<b>29,071</b>	<b>30,681</b>	<b>31,279</b>	<b>28,769</b>	<b>17,717</b>	<b>-39.1%</b>	<b>-38.4%</b>
Tax	-7,149	-7,256	-7,701	-7,812	-7,247	-4,462	-38.5%	-38.4%
<i>Tax rate (%)</i>	25.2%	25.0%	25.1%	25.0%	25.2%	25.2%	0.9%	0.0%
<b>PAT</b>	<b>21,236</b>	<b>21,815</b>	<b>22,979</b>	<b>23,468</b>	<b>21,522</b>	<b>13,255</b>	<b>-39.2%</b>	<b>-38.4%</b>
<b>Advances (Rs bn)</b>	30,13,170	31,54,541	32,70,570	34,32,983	34,78,980	35,71,586	13.2%	2.7%
<b>Deposits (Rs bn)</b>	34,70,470	35,97,865	36,87,930	38,47,929	39,85,130	41,26,792	14.7%	3.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

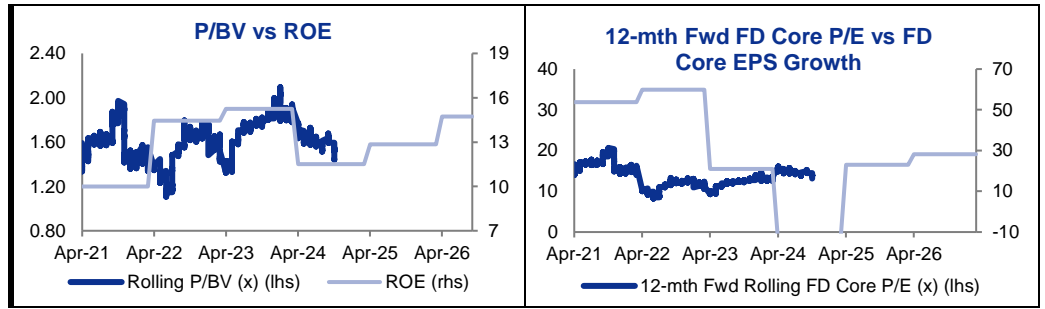
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	2,31,206	2,25,041	-2.7%	2,75,578	2,58,392	-6.2%	3,21,352	3,00,824	-6.4%
Non-Interest Income	1,06,720	89,162	-16.5%	1,22,564	1,05,124	-14.2%	1,41,601	1,29,775	-8.4%
PPOP	1,70,163	1,55,502	-8.6%	2,02,029	1,79,178	-11.3%	2,36,004	2,17,189	-8.0%
PAT	91,655	75,840	-17.3%	1,05,779	93,283	-11.8%	1,22,869	1,19,513	-2.7%
EPS (Rs)	117.6	97.3	-17.3%	135.7	119.7	-11.8%	157.6	153.3	-2.7%
BV (Rs)	901.4	884.1	-1.9%	1,010.2	979.9	-3.0%	1,136.0	1,102.3	-3.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY25 earnings conference-call highlights

- In 2QFY25, IIB created a buffer provision of Rs5.3bn on a prudent basis, having a 131bp impact on credit costs.
- Disbursement of microfinance or MFI loans declined to ~Rs70.5bn from a run rate of Rs120-130bn while repayments were to the tune of Rs96bn, which is in line with the regular run rate of Rs90-100bn. The 30-90 dpd was at 4% vs. 2% qoq, although the same is guided to be <1% in 3Q or 4Q, 40-50% vs. 60-70% historically and rollback of 10-20%, with loans worth Rs730m written off. Credit costs at 3-3.5% will be maintained for the MFI segment.
- For the microfinance business, IIB is focusing on adding new customers while keeping the exposure limit customer-wise.
- Yields for the quarter were lower as MFI contribution in advances was lower.
- In the MFI segment, there were 44% customers who were exclusive to IIB, whereas clients with IIB +1 lender were ~27% and clients with IIB +2 lenders were ~20% while the remaining have more than two lenders other than IIB.
- The credit card segment accounted for 7-8% of GNPA's, with credit costs at 2.8-3%.
- Management gave guidance regarding recovery in loan processing fees.
- Loan growth may be lower than the guided range of 18-23% yoy in FY25F as management has a cautious stance on unsecured loan growth and its focus on secured assets, mainly retail secured lending (home loans), leading to retail disbursement growth picking up.
- IIB was able to maintain its market share in the vehicle finance segment, except two-wheelers, as it has decided to consolidate the segment.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	175,921	206,159	225,041	258,392	300,824
<b>Total Non-Interest Income</b>	<b>81,664</b>	<b>93,878</b>	<b>89,162</b>	<b>105,124</b>	<b>129,775</b>
Operating Revenue	257,585	300,038	314,203	363,516	430,599
<b>Total Non-Interest Expenses</b>	<b>(114,120)</b>	<b>(142,635)</b>	<b>(158,701)</b>	<b>(184,338)</b>	<b>(213,410)</b>
Pre-provision Operating Profit	143,465	157,403	155,502	179,178	217,189
<b>Total Provision Charges</b>	<b>(44,868)</b>	<b>(37,987)</b>	<b>(54,383)</b>	<b>(54,800)</b>	<b>(57,838)</b>
Operating Profit After Provisions	98,596	119,415	101,120	124,377	159,351
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	98,596	119,415	101,120	124,377	159,351
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	98,596	119,415	101,120	124,377	159,351
<b>Exceptional Items</b>					
Pre-tax Profit	98,596	119,415	101,120	124,377	159,351
Taxation	(24,699)	(29,918)	(25,280)	(31,094)	(39,838)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	73,897	89,498	75,840	93,283	119,513
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	73,897	89,498	75,840	93,283	119,513
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	83.9%	87.8%	87.8%	85.3%	83.1%
Avg Liquid Assets/Avg Assets	76.0%	74.7%	74.5%	75.7%	77.0%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>123.6%</b>	<b>114.7%</b>	<b>112.3%</b>	<b>115.3%</b>	<b>118.1%</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-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>2,899,244</b>	<b>3,432,983</b>	<b>3,872,910</b>	<b>4,454,722</b>	<b>5,160,082</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,899,244	3,432,983	3,872,910	4,454,722	5,160,082
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	2,899,244	3,432,983	3,872,910	4,454,722	5,160,082
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>262,604</b>	<b>261,108</b>	<b>280,919</b>	<b>297,597</b>	<b>315,622</b>
<b>Total Non-Interest Earning Assets</b>	<b>282,530</b>	<b>283,086</b>	<b>304,748</b>	<b>323,520</b>	<b>343,877</b>
Cash And Marketable Securities	565,112	368,016	533,176	737,625	1,005,433
<b>Long-term Investments</b>	<b>831,162</b>	<b>1,065,267</b>	<b>1,161,532</b>	<b>1,286,651</b>	<b>1,433,255</b>
Total Assets	4,578,048	5,149,352	5,872,366	6,802,518	7,942,647
Customer Interest-Bearing Liabilities	3,364,382	3,847,929	4,473,625	5,286,681	6,282,138
Bank Deposits					
Interest Bearing Liabilities: Others	490,112	476,114	485,259	496,592	510,215
Total Interest-Bearing Liabilities	3,854,494	4,324,044	4,958,884	5,783,273	6,792,354
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	177,330	197,337	224,378	255,511	291,136
Total Liabilities	4,031,824	4,521,381	5,183,262	6,038,784	7,083,490
Shareholders Equity	546,217	627,971	689,104	763,734	859,157
<b>Minority Interests</b>					
Total Equity	546,217	627,971	689,104	763,734	859,157

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	17.3%	17.2%	9.2%	14.8%	16.4%
Operating Profit Growth	12.3%	9.7%	(1.2%)	15.2%	21.2%
Pretax Profit Growth	61%	21%	(15%)	23%	28%
Net Interest To Total Income	68.3%	68.7%	71.6%	71.1%	69.9%
Cost Of Funds	5.17%	6.15%	6.34%	5.86%	5.48%
Return On Interest Earning Assets	13.8%	14.4%	14.2%	13.8%	13.4%
Net Interest Spread	8.58%	8.30%	7.88%	7.91%	7.94%
Net Interest Margin (Avg Deposits)	5.58%	5.72%	5.41%	5.29%	5.20%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	31%	24%	35%	31%	27%
Interest Return On Average Assets	4.09%	4.24%	4.08%	4.08%	4.08%
Effective Tax Rate	25.1%	25.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Return On Average Assets	1.72%	1.84%	1.38%	1.47%	1.62%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.