

India

HOLD (no change)

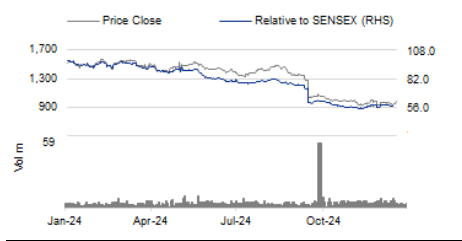
Consensus ratings*: Buy 37 Hold 12 Sell 1

| | |
|------------------------------|------------|
| Current price: | Rs991 |
| Target price: | Rs1,050 |
| Previous target: | Rs1,350 |
| Up/downside: | 6.0% |
| InCred Research / Consensus: | -20.4% |
| Reuters: | INBK.NS |
| Bloomberg: | IIB IN |
| Market cap: | US\$8,915m |
| | Rs772,196m |
| Average daily turnover: | US\$62.3m |
| | Rs5399.7m |
| Current shares o/s: | 732.0m |
| Free float: | 46.0% |

*Source: Bloomberg

Key changes in this note

- The MFI portfolio in the ~30-90 days maturity bucket remains elevated at ~4% against the comfort level of ~1%.



Source: Bloomberg

| | | | |
|--------------------------|-----|-------|--------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 3.2 | (6.1) | (35.4) |
| Relative (%) | 4.6 | (3.4) | (40.3) |

| | |
|---------------------------|--------|
| Major shareholders | % held |
| IndusInd Int holdings | 11.5 |
| LIC | 4.8 |
| ICICI PRU MF | 4.7 |

IndusInd Bank

Business uncertainty is here to stay

- IIB reported a lower-than-expected 3Q PAT of Rs13.3bn (InCred est: Rs16.3bn) amid weakness visible across growth, asset quality & margin fronts.
- Fresh slippage in corporate loans rose by ~2.4x. Bleeding of the retail portfolio intensified due to a surge in slippage of MFI, auto & unsecured retail loans.
- We have been raising our concerns over IIB's ability to manage quality growth, which remains uncertain. Maintain HOLD rating with a lower TP of Rs1,050.

Credit slowdown across segments; recovery to be gradual

IndusInd Bank (IIB) reported 3QFY25 advances at Rs3.67tr (+12.2% yoy, +2.7% qoq) with continued weakness in microfinance or MFI lending (-8.9% qoq); however, the sequential fall in retail (+2.9% qoq) and corporate loan (+0.5% qoq) segments indicate an intentional slowdown. Within retail, vehicle financing is already witnessing cyclicality, especially in the demand for commercial vehicles whereas the unsecured retail segment (personal loans/credit cards) has been affected by the macroeconomic slowdown and rising defaults. Though management remains optimistic about normalization of demand from 4QFY25F, considering the adverse macroeconomic trends, we remain skeptical of a quick recovery.

Deposit growth witnesses a hurdle; margin decline continues

Surprisingly, IIB reported ~0.8% sequential decline in deposits to RsRs4.09tr, which, its management states, is intentional. The bank has redeemed a sizable portion of wholesale deposits (~3% of total deposits) which were expensive and unrelated to LCR. The retailization of deposits continued, with the share of retail loans rising to ~46% (+200bp qoq). CASA deposits also witnessed ~3% sequential decline, with the CASA ratio reducing by ~100bp to ~35%. Margin during the quarter declined by ~15bp sequentially to ~393bp as high-yield segments like MFI, unsecured retail, etc. witnessed a sequential decline. Going ahead, with the elevated cost of funds and a declining share of better-yield retail lending portfolios like MFI/credit cards, margin sustainability will be a challenge.

We remain watchful of asset quality trend in the near term

Fresh slippage in 3QFY25 inched up further qoq to Rs22bn, against Rs18bn in the previous quarter, with the leakage visible across portfolios. The fresh addition to corporate loans grew by ~2.4x to Rs2.8bn (slippage ratio of ~70bp) while bleeding in the retail portfolio intensified with a surge in fresh slippage from vehicle loans as well as the unsecured retail lending book. The provision charges witnessed ~4% qoq decline as the company utilized contingent provisions worth Rs2bn during the quarter. The write-offs during the quarter were twice the recoveries & upgrades, which reiterates weak underlining asset quality.

Outlook & valuation

We maintain our HOLD rating on IIB with a lower target price of Rs1,050 (Rs1,350 earlier) or ~1.1X FY26F BV amid the uncertainty around growth, margin & asset quality remaining elevated. Superior growth is an upside risk while a surge in credit costs is a downside risk.

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Financial Summary

| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|----------|----------|----------|----------|----------|
| Net Interest Income (Rsm) | 175,921 | 206,159 | 215,198 | 249,267 | 295,077 |
| Total Non-Interest Income (Rsm) | 81,664 | 93,878 | 92,153 | 103,494 | 117,988 |
| Operating Revenue (Rsm) | 257,585 | 300,038 | 307,352 | 352,761 | 413,065 |
| Total Provision Charges (Rsm) | (44,868) | (37,987) | (63,161) | (54,479) | (64,760) |
| Net Profit (Rsm) | 73,897 | 89,498 | 62,458 | 90,551 | 107,609 |
| Core EPS (Rs) | 95.25 | 115.19 | 80.19 | 116.25 | 138.15 |
| Core EPS Growth | 57% | 13% | (32%) | 45% | 19% |
| FD Core P/E (x) | 10.41 | 8.60 | 12.36 | 8.53 | 7.17 |
| DPS (Rs) | 14.00 | 16.50 | 14.00 | 23.00 | 28.00 |
| Dividend Yield | 1.41% | 1.66% | 1.41% | 2.32% | 2.82% |
| BVPS (Rs) | 703.2 | 805.7 | 872.2 | 965.4 | 1,075.4 |
| P/BV (x) | 1.41 | 1.23 | 1.14 | 1.03 | 0.92 |
| ROE | 14.4% | 15.2% | 9.6% | 12.6% | 13.5% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

| Particulars (Rs m) | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 | YoY (%) | QoQ (%) |
|-------------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------|--------------|
| Net Interest Income | 50,767 | 52,956 | 53,765 | 54,076 | 53,473 | 52,281 | -1.3% | -2.2% |
| <i>NIM (calculated)</i> | 5.0% | 5.1% | 4.9% | 4.8% | 4.7% | 4.4% | | |
| Other Operating Income | 22,818 | 23,959 | 25,004 | 24,413 | 21,839 | 23,502 | -1.9% | 7.6% |
| Operating Expenses | 34,776 | 36,893 | 38,498 | 39,222 | 39,394 | 39,794 | 7.9% | 1.0% |
| Operating Profit | 38,809 | 40,023 | 40,270 | 39,267 | 35,918 | 35,989 | -10.1% | 0.2% |
| Provisions | 9,738 | 9,342 | 8,991 | 10,498 | 18,201 | 17,436 | 86.6% | -4.2% |
| Exceptional Items | - | - | - | - | - | - | | |
| PBT | 29,071 | 30,681 | 31,279 | 28,769 | 17,717 | 18,553 | -39.5% | 4.7% |
| Tax | -7,256 | -7,701 | -7,812 | -7,247 | -4,462 | -4,540 | -41.0% | 1.7% |
| <i>Tax Rate (%)</i> | 25.0% | 25.1% | 25.0% | 25.2% | 25.2% | 24.5% | | |
| PAT | 21,815 | 22,979 | 23,468 | 21,522 | 13,255 | 14,013 | -39.0% | 5.7% |
| Advances (Rs bn) | 31,54,541 | 32,70,570 | 34,32,983 | 34,78,980 | 35,71,586 | 36,68,890 | 12.2% | 2.7% |
| Deposits (Rs bn) | 35,97,865 | 36,87,930 | 38,47,929 | 39,85,130 | 41,26,792 | 40,94,380 | 11.0% | -0.8% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

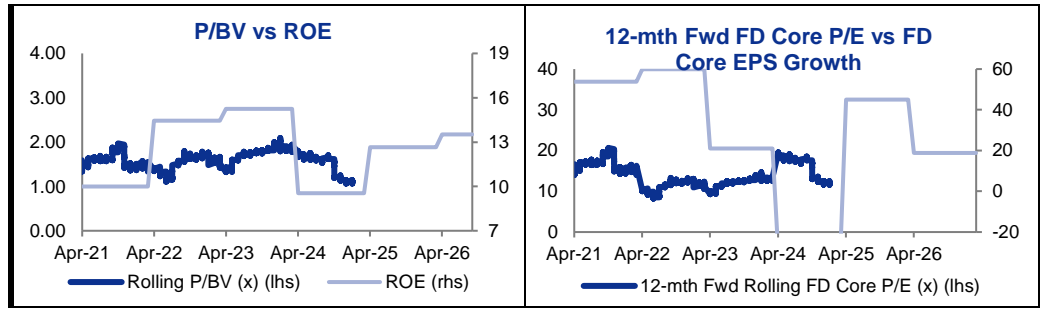
| Y/e Mar (Rs m) | FY25F | | | FY26F | | | FY27F | | |
|---------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | Earlier | Revised | % change |
| Net Interest Income | 2,25,041 | 2,15,198 | -4.4% | 2,58,392 | 2,49,267 | -3.5% | 3,00,824 | 2,95,077 | -1.9% |
| Non-Interest Income | 89,162 | 92,153 | 3.4% | 1,05,124 | 1,03,494 | -1.5% | 1,29,775 | 1,17,988 | -9.1% |
| PPOP | 1,62,008 | 1,46,439 | -9.6% | 1,87,603 | 1,75,214 | -6.6% | 2,27,883 | 2,08,238 | -8.6% |
| PAT | 80,719 | 62,458 | -22.6% | 99,602 | 90,551 | -9.1% | 1,27,534 | 1,07,609 | -15.6% |
| EPS (Rs) | 103.6 | 80.1 | -22.6% | 127.8 | 116.2 | -9.1% | 163.6 | 138.1 | -15.6% |
| BV (Rs) | 890.3 | 872.2 | -2.0% | 992.1 | 965.4 | -2.7% | 1,122.7 | 1,075.4 | -4.2% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights from 3QFY25 earnings call

- Repaid 3% deposits which were not related to LCR. The share of the top 10 depositors witnessed a decline, resulting in a fall in deposits, which stretched LDR to 88-90%.
- Contingent provision was utilized against one corporate account which slipped from the restructured account and MFI book, with the MFI book witnessing a Rs3.44m write-off.
- MFI - DPD from 30-90 days had been elevated at 4%, which indicates further stress and elevated provisioning in 4QFY25F. Incremental flows declined whereas collection efficiency improved in Dec 2024. Growth will come back only when DPD comes back to 1%. MFIN 2.0 guardrails will also slow down growth.
- Corporate loan yield declined sequentially. Floating rate loans and EBLR-linked loans have been repriced.
- NPAs have increased even in tractor, two-wheeler and other vehicle loans whereas delinquency from the credit card business also remain elevated.
- MFI book comprises ~86% customers having Bharat Financial plus two other MFI lenders. Management wants to take this to 95%-98%.
- The tractor loan book witnessed a rise in delinquency in the 90-360 dpd bucket. It may stay elevated for the next one or two quarters.
- Karnataka, which accounts for 13% of the MFI book, witnessed a 4% decline sequentially, with the collection efficiency reducing by 100bp.
- The MFI book saw gross slippage of ~Rs7bn for the quarter.
- Regarding MFI loans, management highlighted that the default portfolio in the ~30-90 days maturity bucket remains elevated at ~4% against the comfort level of ~1-1.5%. Therefore, till this matter is resolved, incremental growth in the MFI book is unlikely.

BY THE NUMBERS



Profit & Loss

| (Rsm) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income | 175,921 | 206,159 | 215,198 | 249,267 | 295,077 |
| Total Non-Interest Income | 81,664 | 93,878 | 92,153 | 103,494 | 117,988 |
| Operating Revenue | 257,585 | 300,038 | 307,352 | 352,761 | 413,065 |
| Total Non-Interest Expenses | (114,120) | (142,635) | (160,913) | (177,547) | (204,826) |
| Pre-provision Operating Profit | 143,465 | 157,403 | 146,439 | 175,214 | 208,238 |
| Total Provision Charges | (44,868) | (37,987) | (63,161) | (54,479) | (64,760) |
| Operating Profit After Provisions | 98,596 | 119,415 | 83,278 | 120,735 | 143,479 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Operating EBIT (incl Associates) | 98,596 | 119,415 | 83,278 | 120,735 | 143,479 |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 98,596 | 119,415 | 83,278 | 120,735 | 143,479 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 98,596 | 119,415 | 83,278 | 120,735 | 143,479 |
| Taxation | (24,699) | (29,918) | (20,819) | (30,184) | (35,870) |
| Consolidation Adjustments & Others | | | | | |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 73,897 | 89,498 | 62,458 | 90,551 | 107,609 |
| Minority Interests | | | | | |
| Prof. & Special Div | | | | | |
| FX And Other Adj. | | | | | |
| Net Profit | 73,897 | 89,498 | 62,458 | 90,551 | 107,609 |
| 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% | 89.4% | 89.9% | 90.3% |
| Avg Liquid Assets/Avg Assets | 76.0% | 74.7% | 73.3% | 73.1% | 73.9% |
| Avg Liquid Assets/Avg IEAs | 123.6% | 114.7% | 109.5% | 108.0% | 107.7% |
| 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-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Total Gross Loans | 2,899,244 | 3,432,983 | 3,770,980 | 4,306,306 | 4,985,065 |
| Liquid Assets & Invst. (Current) | | | | | |
| Other Int. Earning Assets | | | | | |
| Total Gross Int. Earning Assets | 2,899,244 | 3,432,983 | 3,770,980 | 4,306,306 | 4,985,065 |
| Total Provisions/Loan Loss Reserve | | | | | |
| Total Net Interest Earning Assets | 2,899,244 | 3,432,983 | 3,770,980 | 4,306,306 | 4,985,065 |
| Intangible Assets | | | | | |
| Other Non-Interest Earning Assets | 262,604 | 261,108 | 279,900 | 296,113 | 313,872 |
| Total Non-Interest Earning Assets | 282,530 | 283,086 | 304,400 | 323,586 | 344,814 |
| Cash And Marketable Securities | 565,112 | 368,016 | 316,286 | 327,323 | 388,104 |
| Long-term Investments | 831,162 | 1,065,267 | 1,224,140 | 1,360,661 | 1,497,789 |
| Total Assets | 4,578,048 | 5,149,352 | 5,615,806 | 6,317,876 | 7,215,772 |
| Customer Interest-Bearing Liabilities | 3,364,382 | 3,847,929 | 4,206,872 | 4,774,340 | 5,517,642 |
| Bank Deposits | | | | | |
| Interest Bearing Liabilities: Others | 490,112 | 476,114 | 504,770 | 535,614 | 568,797 |
| Total Interest-Bearing Liabilities | 3,854,494 | 4,324,044 | 4,711,642 | 5,309,954 | 6,086,439 |
| 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 | 4,936,020 | 5,565,466 | 6,377,575 |
| Shareholders Equity | 546,217 | 627,971 | 679,786 | 752,411 | 838,197 |
| Minority Interests | | | | | |
| Total Equity | 546,217 | 627,971 | 679,786 | 752,411 | 838,197 |

| Key Ratios | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Total Income Growth | 17.3% | 17.2% | 4.4% | 15.8% | 18.4% |
| Operating Profit Growth | 12.3% | 9.7% | (7.0%) | 19.7% | 18.8% |
| Pretax Profit Growth | 61% | 21% | (30%) | 45% | 19% |
| Net Interest To Total Income | 68.3% | 68.7% | 70.0% | 70.7% | 71.4% |
| Cost Of Funds | 5.17% | 6.15% | 6.55% | 6.05% | 5.47% |
| Return On Interest Earning Assets | 13.8% | 14.4% | 14.2% | 13.7% | 13.1% |
| Net Interest Spread | 8.58% | 8.30% | 7.64% | 7.63% | 7.59% |
| Net Interest Margin (Avg Deposits) | 5.58% | 5.72% | 5.34% | 5.55% | 5.73% |
| Net Interest Margin (Avg RWA) | | | | | |
| Provisions to Pre Prov. Operating Profit | 31% | 24% | 43% | 31% | 31% |
| Interest Return On Average Assets | 4.09% | 4.24% | 4.00% | 4.18% | 4.36% |
| 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% | 1.16% | 1.52% | 1.59% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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CIN: U74999MH2016PTC287535

Recommendation Framework**Stock Ratings**

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.