

India

ADD (no change)

Consensus ratings*: Buy 44 Hold 4 Sell 1

Current price:	Rs1,218
Target price: ▲	Rs1,400
Previous target:	Rs1,250
Up/downside:	14.9%
InCred Research / Consensus:	8.5%
Reuters:	
Bloomberg:	IIB IN
Market cap:	US\$13,008m Rs944,557m
Average daily turnover:	US\$53.9m Rs3914.3m
Current shares o/s:	732.0m
Free float:	46.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.6)	40.4	2.0
Relative (%)	0.4	31.5	5.8

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

IndusInd Bank

Healthy performance; favourable risk-reward

- IndusInd Bank (IIB) delivered in-line 2QFY23 PAT of Rs17.9bn, +60.5% yoy, despite high operating cost, amid steady margins and declining credit cost.
- IIB is well prepared for the current rate hike cycle with its focus on retail deposits via digital upgrade, healthy CASA, and focus on better-yield assets.
- IIB is in a sweet spot as ideal lending mix, steady margin & falling credit cost to drive valuation premium. Retain ADD with TP of Rs1,400, ~1.8x FY24F ABV.

Loan book picking up across segments - momentum to continue

IIB reported advances at Rs2.6tr (+17.8% yoy, +4.9% qoq) with corporate loan book growing by ~6.4% sequentially, mainly driven by large corporate lending which grew ~10.2% qoq and formed ~26.4% of total advances. Retail loans, driven by vehicle as well as non-vehicle book, grew by ~3.6% sequentially. However, IIB continued witnessing consolidation in its microfinance or MFI book. Management remains confident of a healthy traction in 2HFY23F, which we also believe considering the bank's unique lending mix (small/mid corporate finance, vehicle loans, unsecured lending and microfinance). We are factoring in ~19% growth in advances in FY23F, which is a feasible target for now.

Retailization of deposit franchise on cards; margins to remain stable

IIB's management is focused on improving overall customer experience to increase retail deposit share to ~45% in coming years as against ~41% currently. The bank is upgrading its digital platform more importantly towards the payments mechanism which will encourage retail customers to park more deposits with it. The bank will offer ~75-150bp higher deposit rates compared to industry average, but with the reshuffle in its existing portfolio (inclined towards superior-yield unsecured loans), margins, we feel, are likely to remain stable in the range of ~415-425bp in coming quarters.

Cost-to-income ratio along with fresh slippage to moderate gradually

IIB intends to have 2,500 branches in coming years which will keep overall operating expenses elevated, but with the proportionate rise in income, management maintained its guidance on cost-to-income ratio in the range of ~41-43%. The bank is attaining normalization in fresh slippage, which improved to Rs13.9bn in 2QFY23, as against Rs16.5bn last quarter, with superior underwriting and further retailization of its portfolio. Current restructured loan book stands at ~1.5% of advances, and most of it should get sorted out by Mar 2023F, in our view. Contingent provision of Rs30bn provides comfort.

Outlook & valuation

IIB is our only pick from the mid-cap banking space as we feel it is well poised for managing profitable growth across retail and corporate segments. We are increasing our estimates by ~9.3%/~6.4% for FY24F/25F, respectively, to arrive at a revised target price of Rs1,400 (Rs1,250 earlier) or ~1.8x P/ABV and ~11.7x Mar 2024F P/E. Retain ADD rating. Downside risks: High inflation hurting consumption demand, and a hawkish monetary policy.

Analyst(s)



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Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income (Rsm)	135,279	150,010	176,522	205,383	240,068
Total Non-Interest Income (Rsm)	65,586	73,969	82,197	101,660	117,108
Operating Revenue (Rsm)	200,865	223,979	258,719	307,044	357,176
Total Provision Charges (Rsm)	(79,425)	(66,649)	(48,083)	(51,151)	(53,390)
Net Profit (Rsm)	28,364	46,112	72,384	92,530	113,216
Core EPS (Rs)	38.75	59.57	93.38	119.37	146.06
Core EPS Growth	(50%)	60%	58%	28%	22%
FD Core P/E (x)	31.44	20.45	13.05	10.21	8.34
DPS (Rs)	5.00	8.50	11.00	14.00	18.00
Dividend Yield	0.41%	0.70%	0.90%	1.15%	1.48%
BVPS (Rs)	591.4	615.1	696.7	801.9	929.8
P/BV (x)	2.06	1.98	1.75	1.52	1.31
ROE	7.3%	10.1%	14.2%	15.9%	16.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Particulars (Rs m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Net Interest Income	36,584	37,935	39,852	41,253	43,021	17.6%	4.3%
<i>NIM (calculated)</i>	5.1%	5.1%	5.2%	5.2%	5.2%		
Other Operating Income	18,372	18,768	19,020	19,287	20,108	9.5%	4.3%
Operating Expenses	23,211	24,653	25,587	26,603	27,932	20.3%	5.0%
Operating Profit	31,745	32,050	33,285	33,937	35,197	10.9%	3.7%
Provisions	17,034	16,541	14,635	12,510	11,411	-33.0%	-8.8%
Exceptional Items	-	-	-	-	-		
PBT	14,711	15,509	18,650	21,427	23,786	61.7%	11.0%
Tax	-3,576	-3,898	-5,036	-5,394	-5,919	65.5%	9.7%
<i>Tax rate (%)</i>	24.3%	25.1%	27.0%	25.2%	24.9%		
PAT	11,135	11,612	13,614	16,033	17,867	60.5%	11.4%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 2: Revision in our estimates

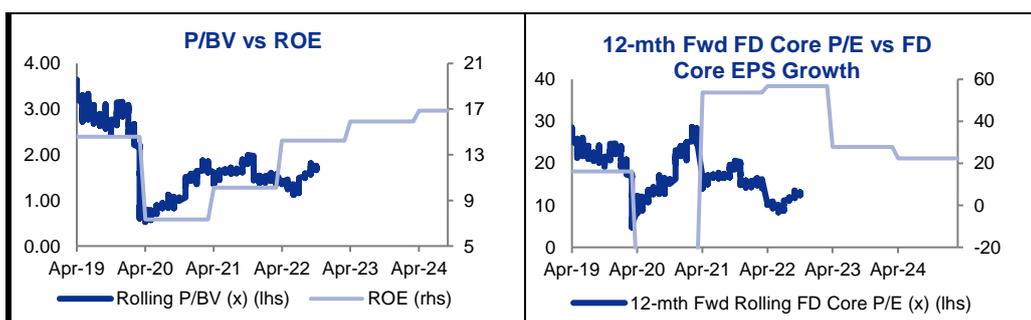
Y/e Mar (Rs m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Introduced	% change
Net Interest Income	1,74,646	1,76,522	1.1%	1,95,029	2,05,383	5.3%	2,28,020	2,40,068	5.3%
Non-Interest Income	81,121	82,197	1.3%	93,830	1,01,660	8.3%	1,07,586	1,17,108	8.9%
PPOP	1,43,555	1,44,595	0.7%	1,63,363	1,74,937	7.1%	1,95,332	2,05,358	5.1%
PAT	69,388	72,384	4.3%	84,641	92,530	9.3%	1,06,366	1,13,216	6.4%
EPS (Rs)	89.4	93.3	4.3%	109.1	119.2	9.3%	137.0	145.9	6.4%
BV (Rs)	697.1	696.7	-0.1%	793.1	801.9	1.1%	914.2	929.8	1.7%

SOURCE: INCRED RESEARCH

Conference-call summary

- Vehicle loan segment recorded its highest-ever disbursement of Rs106bn.
- Restructured loan book has reduced from 2.1% of loans in 1QFY23 to 1.5% now.
- Construction equipment, two-wheelers and tractors witnessed lower loan growth when compared with other products.
- Collection efficiency in restructured loan book stood at 83%, in line with management's expectation.
- Household income assessment for MFI customers, as per RBI norms, has been completed for 70% of its customers and for the remaining customers it will be completed when they approach the bank for new loan.
- IIB acquired 81,000 credit card customers in Sep 2022.
- IIB opened 34 branches during the quarter, and it aims to have a network of 2,500 branches by FY23F and 3,500 branches by next three years.
- IIB received Rs50bn in its current account as dividend mandate.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Net Interest Income	135,279	150,010	176,522	205,383	240,068
Total Non-Interest Income	65,586	73,969	82,197	101,660	117,108
Operating Revenue	200,865	223,979	258,719	307,044	357,176
Total Non-Interest Expenses	(83,598)	(95,593)	(114,125)	(132,106)	(151,818)
Pre-provision Operating Profit	117,267	128,386	144,595	174,937	205,358
Total Provision Charges	(79,425)	(66,649)	(48,083)	(51,151)	(53,390)
Operating Profit After Provisions	37,841	61,737	96,512	123,786	151,968
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	37,841	61,737	96,512	123,786	151,968
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	37,841	61,737	96,512	123,786	151,968
Exceptional Items					
Pre-tax Profit	37,841	61,737	96,512	123,786	151,968
Taxation	(9,477)	(15,625)	(24,128)	(31,256)	(38,752)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	28,364	46,112	72,384	92,530	113,216
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	28,364	46,112	72,384	92,530	113,216
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	91.5%	82.1%	82.6%	84.1%	84.3%
Avg Liquid Assets/Avg Assets	73.4%	75.3%	76.6%	77.3%	78.4%
Avg Liquid Assets/Avg IEAs	117.2%	127.6%	125.0%	121.6%	121.7%
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-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Gross Loans	2,125,954	2,390,514	2,847,584	3,357,412	3,936,352
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,125,954	2,390,514	2,847,584	3,357,412	3,936,352
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,125,954	2,390,514	2,847,584	3,357,412	3,936,352
Intangible Assets					
Other Non-Interest Earning Assets	225,461	218,289	237,934	252,448	267,393
Total Non-Interest Earning Assets	243,554	236,777	256,167	271,998	288,296
Cash And Marketable Securities	563,272	682,744	626,658	711,957	872,836
Long-term Investments	696,947	709,706	797,947	893,544	988,777
Total Assets	3,629,728	4,019,741	4,528,356	5,234,912	6,086,261
Customer Interest-Bearing Liabilities	2,562,050	2,936,811	3,401,708	3,975,335	4,678,316
Bank Deposits					
Interest Bearing Liabilities: Others	513,228	473,232	433,105	462,620	486,057
Total Interest-Bearing Liabilities	3,075,278	3,410,043	3,834,813	4,437,955	5,164,373
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	120,796	132,727	152,772	174,528	200,215
Total Liabilities	3,196,074	3,542,770	3,987,586	4,612,483	5,364,588
Shareholders Equity	433,654	476,972	540,771	622,428	721,673
Minority Interests					
Total Equity	433,654	476,972	540,771	622,428	721,673

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Income Growth	12.2%	10.9%	17.7%	16.3%	16.9%
Operating Profit Growth	8.9%	9.5%	12.6%	21.0%	17.4%
Pretax Profit Growth	(38%)	63%	56%	28%	23%
Net Interest To Total Income	67.3%	67.0%	68.2%	66.9%	67.2%
Cost Of Funds	5.43%	4.88%	5.01%	5.48%	5.74%
Return On Interest Earning Assets	13.8%	13.6%	13.7%	13.9%	14.1%
Net Interest Spread	8.40%	8.77%	8.66%	8.45%	8.40%
Net Interest Margin (Avg Deposits)	5.90%	5.46%	5.57%	5.57%	5.55%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	68%	52%	33%	29%	26%
Interest Return On Average Assets	4.04%	3.92%	4.13%	4.21%	4.24%
Effective Tax Rate	25.0%	25.3%	25.0%	25.2%	25.5%
Net Dividend Payout Ratio					
Return On Average Assets	0.85%	1.21%	1.69%	1.90%	2.00%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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