

India

ADD (no change)

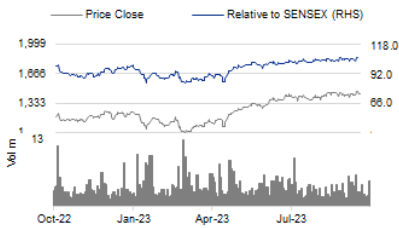
Consensus ratings*: Buy 44 Hold 3 Sell 1

Current price:	Rs1,436
Target price:	Rs1,800 ▲
Previous target:	Rs1,650
Up/downside:	25.3%
InCred Research / Consensus:	7.9%
Reuters:	INBK.NS
Bloomberg:	IIB IN
Market cap:	US\$13,402m
	Rs1,115,851m
Average daily turnover:	US\$50.1m
	Rs4174.2m
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, a favourable asset mix (rising share of better-yield loans) will support margins in the coming quarters.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.4)	3.3	17.4
Relative (%)	0.3	3.9	4.2

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

Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547

E jignesh.shial@incredcapital.com

IndusInd Bank

Riding on the favourable cycle

- IndusInd Bank (IIB) posted in-line 2Q PAT of Rs21.8bn (InCred estimate: Rs21.5bn), as it managed sequentially flat margins and lower credit costs.
- Although a surge in the cost of funds is inevitable, we feel a favourable asset mix (rising share of better-yield loans) will aid margins in the coming quarters.
- With RoE of ~15.5% & RoA of ~1.8% for FY24F-25F, IIB is offering a favourable risk-reward ratio. Retain ADD rating with a new TP of Rs1,800, ~2x FY25F BV.

Sequentially flat margins along with low credit costs support profits

IndusInd Bank (IIB) reported 2QFY24 advances at Rs3.15tr (+21.3% yoy, +4.7% qoq) with 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) was well managed by reducing overall borrowing during the quarter (-11.2% qoq), despite the cost of deposits rising by ~23bp qoq. This, coupled with a favourable asset mix (rising mix of better-yield assets), resulted in flat margin sequentially at ~429bp. The bank has utilized contingent provision of Rs1.8bn during the quarter. Accordingly, annualized credit costs for the quarter further improved to ~126bp against ~134bp last quarter and ~180bp last year.

IIB provides growth certainty amid a favourable asset mix

IIB operates in specific business segments which, we feel, may continue to witness a healthy growth that include small corporate loans, vehicle financing and MFI loans. Non-vehicle loan book of IIB can also witness a spurt amid a low base and rising presence of the bank. We are factoring in ~19% CAGR in advances over FY23-26F whereas deposits to grow at a relatively slower pace of ~17.8% CAGR over the same period, stretching the loan-to-deposit ratio to ~89% from 86% currently. Although a surge in the cost of funds is likely, a favourable asset mix (rising share of small corporate, non-vehicle retail & MFI loans) may aid margins going ahead. We are building in a flat FY24F margin of ~420bp.

Surge in operating expenses likely but credit costs to remain benign

IIB's focus on increasing its retail presence via branch expansion as well as a rise in MFI loans will keep operating expenses elevated. We are building in 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 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 due to its riskier asset exposure.

Outlook & valuation

We are factoring in ~16.9% CAGR in PAT over FY23-26F amid flat margins, deteriorating cost-to-income ratio and steady credit costs. IIB trades at ~1.6x FY25F BV with a RoE of ~15.5% & RoA of ~1.8% for FY24F-26F, which provides a favourable risk-reward ratio. Retain ADD rating on IIB with a higher target price of Rs1,800 (Rs1,650 earlier), or ~2x FY25F BV. Downside risks: Steep rise in the cost of funds and 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	204,634	250,744	291,636
Total Non-Interest Income (Rsm)	73,342	81,664	92,652	105,917	122,978
Operating Revenue (Rsm)	223,352	257,585	297,285	356,661	414,613
Total Provision Charges (Rsm)	(66,649)	(44,868)	(41,206)	(51,453)	(62,266)
Net Profit (Rsm)	45,486	73,897	86,718	102,745	118,057
Core EPS (Rs)	59.57	95.25	111.70	132.35	152.07
Core EPS Growth	58%	57%	17%	22%	14%
FD Core P/E (x)	24.11	15.08	12.86	10.85	9.44
DPS (Rs)	8.50	14.00	18.00	24.00	30.00
Dividend Yield	0.59%	0.97%	1.25%	1.67%	2.09%
BVPS (Rs)	623.6	703.2	795.6	903.4	1,025.1
P/BV (x)	2.30	2.04	1.81	1.59	1.40
ROE	10.0%	14.4%	14.9%	15.5%	15.7%

% 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	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	41,253	43,021	44,953	46,695	48,671	50,767	18.0%	4.3%
<i>NIM (calculated)</i>	5.2%	5.2%	5.2%	5.2%	5.1%	5.0%		
Other Operating Income	19,287	20,108	20,763	21,505	22,098	22,818	13.5%	3.3%
Operating Expenses	26,603	27,932	28,913	30,672	32,468	34,776	24.5%	7.1%
Operating Profit	33,937	35,197	36,804	37,528	38,301	38,809	10.3%	1.3%
Provisions	12,510	11,411	10,647	10,301	9,916	9,738	-14.7%	-1.8%
Exceptional Items	-	-	-	-	-	-		
PBT	21,427	23,786	26,157	27,227	28,385	29,071	22.2%	2.4%
Tax	-5,394	-5,919	-6,565	-6,822	-7,149	-7,256	22.6%	1.5%
<i>Tax rate (%)</i>	25.2%	24.9%	25.1%	25.1%	25.2%	25.0%	0.3%	-0.9%
PAT	16,033	17,867	19,592	20,405	21,236	21,815	22.1%	2.7%
Advances (Rs bn)	2,479,600	2,601,288	2,727,540	2,899,237	3,013,170	3,154,541	21.3%	4.7%
Deposits (Rs bn)	3,030,780	3,159,205	3,252,780	3,364,381	3,470,470	3,597,865	13.9%	3.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

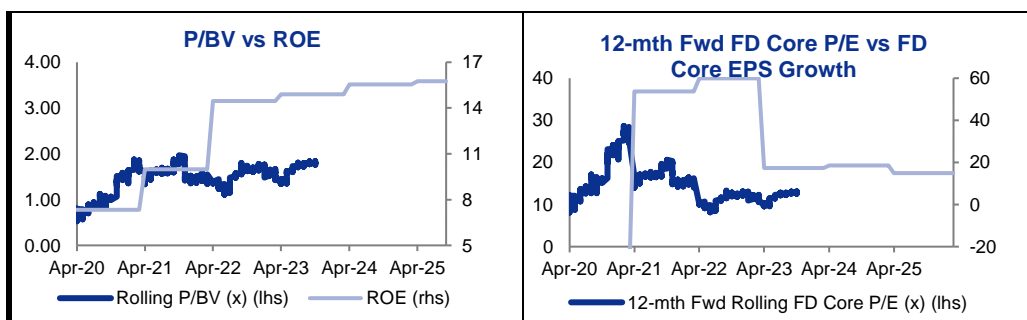
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	191,614	204,634	6.8%	226,131	250,744	10.9%	264,108	291,636	10.4%
Non-Interest Income	103,795	92,652	-10.7%	121,086	105,917	-12.5%	140,972	122,978	-12.8%
PPOP	161,975	156,830	-3.2%	191,022	188,447	-1.3%	224,694	219,675	-2.2%
PAT	92,561	86,718	-6.3%	104,677	102,745	-1.8%	120,399	118,057	-1.9%
EPS (Rs)	119.0	111.5	-6.3%	134.5	132.1	-1.8%	154.8	151.7	-1.9%
BV (Rs)	802.1	795.6	-0.8%	912.4	903.4	-1.0%	1,036.1	1,025.1	-1.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- IIB is diversifying from its vehicle loan business. It has achieved a market share of 10% in light commercial vehicle or LCV financing from 5% earlier.
- The bank has gained market share from non-banking finance companies or NBFCs in financing Tata Motors' vehicles.
- The subdued global macroeconomic scenario has impacted the demand for diamonds in the international market, but that has not impacted the asset quality of IIB.
- Ticket size of less than Rs50,000 in unsecured loans is witnessing stress.
- Two-thirds of the corporate loan book is EBLR-linked, and one-third is MCLR-linked.
- IIB expects to build a loan book worth Rs2.5bn over three years in partnership with Poonawalla Fincorp.
- Mortgage business currently has a negative impact on operating leverage, but management expects the same to improve from here on.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	150,010	175,921	204,634	250,744	291,636
Total Non-Interest Income	73,342	81,664	92,652	105,917	122,978
Operating Revenue	223,352	257,585	297,285	356,661	414,613
Total Non-Interest Expenses	(95,593)	(114,120)	(140,455)	(168,215)	(194,938)
Pre-provision Operating Profit	127,760	143,465	156,830	188,447	219,675
Total Provision Charges	(66,649)	(44,868)	(41,206)	(51,453)	(62,266)
Operating Profit After Provisions	61,111	98,596	115,624	136,993	157,409
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	61,111	98,596	115,624	136,993	157,409
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	61,111	98,596	115,624	136,993	157,409
Exceptional Items					
Pre-tax Profit	61,111	98,596	115,624	136,993	157,409
Taxation	(15,625)	(24,699)	(28,906)	(34,248)	(39,352)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	45,486	73,897	86,718	102,745	118,057
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	45,486	73,897	86,718	102,745	118,057
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%	89.1%	89.0%
Avg Liquid Assets/Avg Assets	75.3%	76.0%	75.8%	76.5%	77.7%
Avg Liquid Assets/Avg IEAs	127.6%	123.6%	116.4%	113.3%	113.1%
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	294,790	311,826	331,946
Total Non-Interest Earning Assets	236,777	282,530	316,706	335,534	357,700
Cash And Marketable Securities	682,744	565,112	477,604	528,257	647,463
Long-term Investments	709,706	831,162	933,842	1,047,562	1,170,639
Total Assets	4,019,741	4,578,048	5,196,253	6,027,405	7,056,702
Customer Interest-Bearing Liabilities	2,936,811	3,364,382	3,903,777	4,610,449	5,497,894
Bank Deposits					
Interest Bearing Liabilities: Others	473,232	490,112	472,042	484,814	499,858
Total Interest-Bearing Liabilities	3,410,043	3,854,494	4,375,819	5,095,263	5,997,752
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	4,577,322	5,324,604	6,259,155
Shareholders Equity	476,972	546,217	618,931	702,800	797,547
Minority Interests					
Total Equity	476,972	546,217	618,931	702,800	797,547

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	10.9%	17.3%	16.3%	22.5%	16.3%
Operating Profit Growth	8.9%	12.3%	9.3%	20.2%	16.6%
Pretax Profit Growth	61%	61%	17%	18%	15%
Net Interest To Total Income	67.2%	68.3%	68.8%	70.3%	70.3%
Cost Of Funds	4.88%	5.17%	6.14%	5.83%	5.64%
Return On Interest Earning Assets	13.6%	13.8%	14.4%	13.9%	13.4%
Net Interest Spread	8.77%	8.58%	8.22%	8.06%	7.80%
Net Interest Margin (Avg Deposits)	5.46%	5.58%	5.63%	5.89%	5.77%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	52%	31%	26%	27%	28%
Interest Return On Average Assets	3.92%	4.09%	4.19%	4.47%	4.46%
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%	1.77%	1.83%	1.80%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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