

Steady operating performance...

About the stock: IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India.

- Vehicle finance forms around 27% of overall loans
- Strong pan-India presence with 4964 branches as on December 2021

Q3FY22 Results: IndusInd Bank reported operationally steady results.

- GNPA down 29 bps QoQ to 2.48%. Restructured book down 30 bps to 3.3%
- Total loan related provisions of ₹ 8486 crore at 3.71% of loans
- Loan growth up 10% YoY while deposits were up 19% YoY
- NII up 11% YoY, NIMs flattish QoQ to 4.1%, PAT at ₹ 1242 crore

What should investors do? IndusInd Bank's share price has gained ~1.7x in the past 18 months. We believe the bank will show improved business traction with corporate book adding to the momentum.

- We retain our BUY rating on the stock

Target Price and Valuation: We value the bank at ~1.8x FY24E ABV with a revised target price of ₹ 1150 per share (earlier ₹ 1400).

Key triggers for future price performance:

- Improvisation in stressed asset pool, with reduction in 0-90 days past due (DPD) pool on a sequential basis, now at ₹ 2153 crore
- Comfortable capitalisation, with CRAR continuously improving to 18.06%
- Sufficient provisions, 3.7% of loans, to curb earnings volatility
- PCR on microfinance NPA is at 95%, which is well provided on existing as well as potential slippages

Alternate Stock Idea: Besides IndusInd, in our coverage we also like Axis Bank.

- Strong liability profile with healthy capitalisation makes the bank well placed to accrue earnings growth momentum. Healthy provision cover provides comfort on smoother earnings trajectory
- BUY with target price of ₹ 970

Key Financial Summary

₹ Crore	FY18	FY19	FY20	FY21	3 year CAGR (FY18-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
NII	7,497	8,846	12,059	13,528	22%	15,040	17,475	20,702	15%
PPP	6,656	8,088	10,773	11,727	21%	12,886	14,521	16,954	13%
PAT	3,606	3,301	4,418	2,836	-8%	4,487	5,593	6,638	33%
ABV (₹)	385	405	473	542		566	606	655	
P/E	15.0	16.5	14.2	24.6		15.6	12.5	10.5	
P/ABV	2.3	2.2	1.9	1.7		1.6	1.5	1.4	
RoA	1.8	1.3	1.5	0.8		1.2	1.3	1.4	
RoE	16.2	13.1	14.4	7.3		10.1	11.8	13.0	

Source: Company, ICICI Direct Research

IndusInd Bank

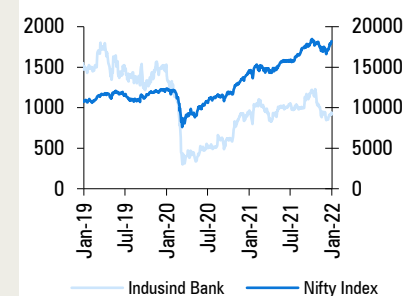
Particulars

Particulars	Amount
Market Capitalisation	₹ 69986 crore
52 week H/L	1242 / 789
Net worth	₹ 43833 Crore
Face Value	₹ 10
DII Holding (%)	20.2
FII Holding (%)	47.7

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	14.7	16.6	16.5	16.5	16.5
FII	54.9	50.9	52.1	51.4	47.7
DII	16.2	18.1	17.7	19.0	20.2
Others	14.2	14.4	13.7	13.1	15.6

Price chart



Recent Event & Key risks

- GNPA declines to 2.48%. Overall loan provisions at 3.71% of loans
- Key Risk:** Higher slippages in MFI segment could dent asset quality

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Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Steady performance

- NII was up 11.4% YoY, 3.7% QoQ to ₹ 3794 crore on the back of improvement in margins and sequential pick up in loan growth. NIMs improved 3 bps to 4.1% in Q3FY22. Other income was up 14% YoY to ₹ 1877 crore, driven by 9% YoY rise in core fee income at ₹ 1519 crore
- C/I ratio declined marginally 15 bps QoQ to 41.6% as a result of increase in income while provisions were down 11% YoY to ₹ 1654 crore. Thus, net profit for the quarter was up 36.2% YoY and 4% QoQ to ₹ 1161 crore
- GNPA and NNPA declined 29 bps and 9 bps QoQ to 2.48% and 0.71%, respectively. Restructured book declined 30 bps QoQ to 3.3%. However, slippages for the quarter remained elevated at ₹ 2598 crore. GNPA in MFI, cards and two wheeler segment continues to remain at an elevated level at 3.21%, 4.58% and 9.28%, respectively
- Overall loan related provisions were at 3.7% of loans against 3.9% in the previous quarter
- Loans increased by 4% QoQ to ₹ 2.28 lakh crore. Deposit growth was healthy at 19% YoY to ₹ 284434 crore, driven by 24% YoY uptick in CASA

Q3FY22 Earnings Conference Call highlights

- Slippages were at 0.9% with bulk contribution from microfinance business. Credit cost for micro finance is expected to be at 6-8%. Corporate slippages lowest at ₹ 56 crore
- Collection efficiency in December 2021 was 93% on overall portfolio and 98% on standard book. Net slippages are at ₹ 1239 crore for Q3FY22, and ₹ 1851 crore for 9MFY22 i.e. 6.7% of the book
- Credit card spends continue to reach new highs every quarter with Q3 spends ₹ 14,256 crore, growing 28% QoQ
- Exposure towards stressed telecom account is ₹ 3000 crore; ₹ 1000 crore is funded (fully provided) and ₹ 2000 crore is non-funded (likely to come down ahead)
- Gross amount sold to ARC is ₹ 2487 crore, of which retail MFI is ₹ 1737 crore, and ₹ 750 crore is exposure is fully provided and written off. Net amount sold to ARC is ₹ 1213 crore, of which ₹ 980 crore received back to bank, ₹ 240 crore is ILFS net exposure
- SMA1 and SMA2 book is at 25 bps and 55 bps respectively
- Growth outside microfinance was 4.4% QoQ. Once microfinance is back to 5-6% then the bank may be able to grow at 16-18% CAGR
- Write-offs were at ₹ 1662 crore, of which ₹ 928 crore is MFI, ₹ 198 crore is corporate, ₹ 281 crore is vehicle, ₹ 41 crore is secured retail and ₹ 217 crore unsecured retail
- ECLGS portfolio is ₹ 5870 crore, and slippages are less in the portfolio
- Credit cost is expected to be at 120-130 bps ahead

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			ABV (₹)		
	₹	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Axis Bank (AXIBAN)	765	970	Buy	2306	21.5	45.1	53.9	35.6	17.0	14.2	2.5	2.2	1.9	0.7	1.3	1.4	7.1	12.8	13.5	309	348	400
Federal Bank (FEDBAN)	100	120	Buy	210	8.0	8.8	10.6	12.6	11.4	9.4	1.4	1.3	1.2	0.8	0.9	1.0	10.4	10.9	11.9	73	77	85
HDFC Bank (HDFBAN)	1,463	2,000	Buy	8111	56.4	65.7	77.6	25.9	22.3	18.9	4.0	3.5	3.0	1.9	2.0	2.0	16.6	16.5	16.8	361	418	480
IndusInd Bank (INDBA)	903	1,150	Buy	699	36.7	58.0	72.3	24.6	15.6	12.5	1.7	1.6	1.5	0.8	1.2	1.3	7.3	10.1	11.8	542	566	606
Kotak Bank (KOTMAH)	1,898	2,500	Buy	3765	26.9	35.1	40.0	70.7	54.0	47.4	7.7	6.2	5.4	1.5	1.9	1.9	11.2	12.4	11.7	248	308	349
CSB Bank (CSBBAN)	239	320	Buy	41	12.6	24.6	27.6	19.0	9.7	8.7	2.2	1.8	1.5	0.1	1.0	1.8	10.5	17.9	16.9	107	129	156
Bandhan (BANBAN)	317	300	Hold	510	16.4	18.1	13.7	19.4	17.5	23.2	3.4	3.4	3.5	3.9	3.9	2.1	19.0	22.1	13.5	92	92	90
IDFC First (IDFBAN)	47	60	Buy	289	0.8	0.1	1.1	59.0	491.2	42.3	1.5	1.2	1.2	0.3	0.0	0.4	2.7	0.3	2.9	31	38	39

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
NII	3,794	3,772	3,406	11.4	3,658	3.7	Growth aided by business momentum & stable margins
NIM (%)	4.10	4.10	4.12	-2 bps	4.07	3 bps	
Other Income	1,877	1,900	1,705	10.0	1,837	2.2	Core fee up 9% YoY
Net Total Income	5,670	5,672	5,112	10.9	5,496	3.2	
Staff cost	620	614	543	14.2	602	3.1	
Other Operating Expenses	1,845	1,754	1,596	15.6	1,720	7.3	Increase in business activity led to opex
PPP	3,205	3,304	2,973	7.8	3,174	1.0	
Provision	1,654	1,734	1,854	-10.8	1,703.4	-2.9	Slippages remained higher at ₹ 2598 crore
PBT	1,551	1,570	1,120	38.5	1,471	5.4	
Tax Outgo	390	385	267	46.0	357.6	9.0	
PAT	1,161.3	1,185.7	852.76	36.2	1,113.5	4.3	Lower credit costs aid profits
Key Metrics							
GNPA	5,779	6,120	3,651	58.3	6,245	-7.5	
NNPA	1,633	1,736	466	250.3	1,771	-7.8	
Credit book	228,583	228,127	207,128	10.4	220,808	3.5	Corporate book drives growth
Deposit book	284,484	284,836	239,135	19.0	275,473	3.3	CASA rises 24% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	15,664	15,040	-4.0	18,070	17,475	-3.3	20,702
Pre Provision Profit	13,476	12,886	-4.4	15,087	14,521	-3.8	16,954
NIM(%) (calculated)	4.9	4.68	-24 bps	5	4.70	-24 bps	4.84
PAT	4,439	4,487	1.1	5,642	5,593	-0.9	6,638
ABV per share (₹)	594.4	566	-4.8	587	606	3.2	655

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	11.7	14.8	15.2	14.2	14.8
Deposit Growth (%)	16.1	11.9	12.2	12.3	13.0
NIM Calculated (%)	11.2	16.2	18.5	15.8	15.4
Cost to income ratio (%)	43.0	42.8	41.8	42.5	42.4
GNPA (₹ crore)	5,795.0	6,203.9	6,674.9	5,795.0	6,212.9
NNPA (₹ crore)	1,736.5	1,823.4	1,892.0	-840.2	557.8
Credit cost (%)	2.9	2.6	2.6	3.1	2.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ Crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	28,783	29,000	33,122	38,007	43,542
Interest Expended	16,724	15,472	18,082	20,532	22,840
Net Interest Income	12,059	13,528	15,040	17,475	20,702
Growth (%)	36	12	11	16	18
Non Interest Income	6,951	6,559	7,555	7,910	8,417
Treasury Income	553	1,486	1,694	1,355	1,084
Other income	1,784	1,594	1,861	2,074	2,315
Net Income	19,010	20,087	22,595	25,385	29,119
Employee cost	2,208	2,214	2,577	2,916	3,295
Other operating Exp.	6,029	6,146	7,132	7,948	8,870
Operating Income	10,773	11,727	12,886	14,521	16,954
Provisions	4,652	7,943	6,863	7,013	8,043
PBT	6,121	3,784	6,023	7,508	8,911
Taxes	1,703	948	1,536	1,915	2,272
Net Profit	4,418	2,836	4,487	5,593	6,638
Growth (%)	33.8	(35.8)	58.2	24.7	18.7
EPS (₹)	63.7	36.7	58.0	72.3	85.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No. of shares (crore)	69.4	77.3	77.3	77.3	77.3
EPS (₹)	63.7	36.7	58.0	72.3	85.8
DPS (₹)	7.8	-	4.3	5.3	6.3
BV (₹)	500.3	560.7	588.4	629.9	679.2
ABV (₹)	473.1	541.6	565.9	606.3	654.7
P/E	14.2	24.6	15.6	12.5	10.5
P/BV	1.8	1.6	1.5	1.4	1.3
P/ABV	1.9	1.7	1.6	1.5	1.4
Yields & Margins (%)					
Net Interest Margins	4.5	4.7	4.7	4.7	4.8
Yield on assets	10.7	10.0	10.3	10.2	10.2
Avg. cost on funds	6.6	5.4	5.5	5.6	5.6
Yield on average advances	12.2	11.5	12.4	12.4	12.4
Avg. Cost of Deposits	6.5	5.0	5.4	5.4	5.4
Quality and Efficiency (%)					
Cost to income ratio	43.3	41.6	43.0	42.8	41.8
Credit/Deposit ratio	102.3	83.0	79.9	81.9	84.1
GNPA	2.5	2.7	2.4	2.3	2.1
NNPA	0.9	0.7	0.7	0.7	0.6
ROE	14.4	7.3	10.1	11.8	13.0
ROA	1.5	0.8	1.2	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ Crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Capital	694	773	773	773	773
Employee Stock Options	9	5	5	5	5
Reserves and Surplus	34,003	42,587	45,044	48,257	52,067
Networth	34,706	43,365	45,823	49,035	52,846
Deposits	202,040	256,205	297,356	332,715	373,388
Borrowings	60,754	51,323	51,423	55,638	60,093
Other Liabilities & Provisions	9,558	12,080	12,645	13,473	14,366
Total	307,058	362,973	407,246	450,862	500,693
Application of Funds					
Fixed Assets	1,820	1,809	2,134	2,273	2,438
Investments	59,980	69,695	77,649	86,967	97,402
Advances	206,783	212,595	237,484	272,623	313,970
Other Assets	22,471	22,546	43,392	37,759	30,255
Cash with RBI & call money	16,004	56,327	46,587	51,240	56,628
Total	307,058	362,973	407,246	450,862	500,693

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
	(%)				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	10.5	18.2	12.2	10.7	11.1
Advances	10.9	2.8	11.7	14.8	15.2
Deposit	3.7	26.8	16.1	11.9	12.2
Total Income	28.0	(0.5)	14.4	12.9	13.2
Net interest income	36.3	12.2	11.2	16.2	18.5
Operating expenses	28.6	1.5	16.1	11.9	12.0
Operating profit	33.2	8.9	9.9	12.7	16.8
Net profit	33.8	(35.8)	58.2	24.7	18.7
Net worth	30.1	25.0	4.9	7.1	7.8
EPS	16.3	(42.4)	58.2	24.7	18.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

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Sell: < -15%



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