

# IndusInd Bank

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	IIB IN
Equity Shares (m)	757
M.Cap.(INRb)/(USD\$)	757.8 / 9.9
52-Week Range (INR)	1242 / 812
1, 6, 12 Rel. Per (%)	7/-10/-10
12M Avg Val (INR M)	4828

## Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
NII	150.0	170.5	196.6
OP	131.0	144.9	166.2
NP	48.0	71.1	89.5
NIM (%)	3.9	4.0	4.1
EPS (INR)	62.1	91.8	115.6
EPS Gr. (%)	60.5	47.8	25.9
BV/Sh. (INR)	617.9	697.8	800.5
ABV/Sh. (INR)	603.6	685.0	787.4

## Ratios

RoE (%)	10.6	14.0	15.5
RoA (%)	1.3	1.7	1.9

## Valuations

P/E (X)	15.8	10.7	8.5
P/BV (X)	1.6	1.4	1.2
P/ABV (X)	1.6	1.4	1.2

## Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	15.2	15.2	15.2
DII	20.1	18.6	16.6
FII	50.7	52.0	55.0
Others	14.0	14.3	13.2

FII Includes depository receipts

**CMP: INR978**
**TP: INR1,300 (+33%)**
**Buy**

## In line performance; earnings outlook improving

### Restructured book moderates to 2.6%

- IIB reported an in line quarter, with a PAT of INR14b (+51% YoY, in line), aided by healthy NII growth and controlled provisions. Asset quality ratios improved sequentially as stress in the MFI/Vehicle portfolio subsided.
- Loan book grew 4.6% QoQ, led by a pick-up in both the Corporate and Consumer Finance book. The CV book too reported a sequential growth, led by Utility Vehicles. Its Tractor and Credit Card portfolio witnessed healthy sequential growth.
- Fresh slippages moderated 20% QoQ to INR20.9b (3.7% annualized), aided by a fall in MFI/Vehicle slippages, even as Corporate slippages grew due to its Retail exposure. Restructuring book declined to 2.6% v/s 3.3% in 3QFY22. The GNPA/NNPA ratio moderated by 21bp/7bp QoQ to 2.27%/0.64%.
- We expect PAT to grow at 37% CAGR over FY22-24, leading to 15.5% RoE in FY24. **We maintain our Buy rating.**

### Margin improves 10bp QoQ to 4.2%; PCR healthy ~72%

- IIB reported a PAT of INR14b (+51% YoY; in line) in 4QFY22, led by steady NII growth and controlled provisions.
- NII grew ~13% YoY to INR39.8b (in line), while other income grew 7% YoY, led by 8% QoQ growth in fee income. NIM improved by 10bp QoQ to 4.2%, aided by declining cost of funds, even as corporate yields fell 9bp QoQ.
- Operating expenses grew 15% YoY to INR25.1b (in line). C/I ratio stood at 42.6% v/s 41.1% in 4QFY21. PPOP grew 8% YoY to INR33.8b. NII/PPOP/PAT grew 11%/10%/64% YoY to INR150b/INR131b/INR48b in FY22.
- On the business front, advances grew 4.6% QoQ and 12.4% YoY, led by both Consumer Finance (+5.3% QoQ) and Corporate book (+3.8% QoQ). In the Consumer business, disbursement growth picked up in the Vehicle segment, with disbursements higher than pre-COVID levels. The Tractor and Utility Vehicle segment maintained its healthy momentum at 19% and 24% YoY, while the Credit Card book grew 4% QoQ. Retail to Wholesale mix stood at 54:46. Deposit growth stood at 15% YoY, with the CASA mix at 42.7% and Retail deposit mix at 41% as per LCR.
- On the asset quality front, fresh slippages moderated to INR20.9b, led by a decline in MFI/Vehicle slippages, even as corporate slippages rose due to its Retail exposure. GNPA/NNPA ratio moderated by 21bp/7bp QoQ to 2.27%/0.64%. PCR ratio stood stable ~72%. Outstanding restructured loans declined to 2.6% v/s 3.3% in 3QFY22, while the net SR book stood at 83bp of loans. The bank holds contingent provisions of INR33.28b (1.4% of loans).

### Highlights from the management commentary

- SMA1/2 book stands at 43bp/16bp. Total SMA1 and 2 book fell to 59bp QoQ v/s 84bp QoQ.

- A Construction account, which was earlier restructured and with an exposure of INR5.8b, was repaid in 4QFY22.
- Retail exposure worth INR1.2b slipped into NPA and is being 100% provided for. The bank has further exposure of INR4b to other group entities, which remains under the restructured book.
- Stressed Telecom exposure stood at INR30b as of Mar'22. The bank received payments worth INR11.5b in Apr'22. Thus, its total exposure stands at INR18.5b, including fund based exposure of INR10b.
- The management maintained its loan book growth guidance at 15-18% over FY21-23. NIM is likely to remain in the 4.1-4.25% range, while PPOP margin will stay above 5%. Its credit cost guidance remains in the 120-150bp range.

### Valuation and view

IIB's operating performance remains on track, led by healthy NII growth, lower slippages, and controlled provisions. Asset quality ratios improved sequentially as stress in the MFI/Vehicle portfolio subsided. The management guided at continued momentum in loan growth, led by steady trends across both Consumer and Corporate businesses. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 1.4% of loans will enable a sharp drop in credit cost, driving a sharp recovery in earnings. We expect 37% PAT CAGR over FY22-24, resulting in 15.5% RoE in FY24. We maintain our Buy rating with a TP of INR1,300 per share (1.7x FY24E ABV).

### Quarterly performance

(INR b)

	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
<b>Net Interest Inc.</b>	<b>33.1</b>	<b>32.8</b>	<b>34.1</b>	<b>35.3</b>	<b>35.6</b>	<b>36.6</b>	<b>37.9</b>	<b>39.9</b>	<b>135.3</b>	<b>150.0</b>	<b>40.0</b>	<b>0</b>
Change (YoY %)	16.4	12.7	10.8	9.4	7.7	11.6	11.4	12.7	12.2	10.9	13.1	
Other Income	15.2	15.5	16.5	17.8	17.9	18.4	18.8	19.1	65.6	74.1	18.8	2
<b>Total Income</b>	<b>48.3</b>	<b>48.3</b>	<b>50.5</b>	<b>53.1</b>	<b>53.5</b>	<b>55.0</b>	<b>56.7</b>	<b>58.9</b>	<b>200.9</b>	<b>224.1</b>	<b>58.7</b>	<b>0</b>
Operating Exp.	19.0	19.8	20.9	21.9	21.7	22.8	23.6	25.1	83.6	93.1	25.2	0
<b>Operating Profit</b>	<b>29.3</b>	<b>28.5</b>	<b>29.6</b>	<b>31.3</b>	<b>31.9</b>	<b>32.2</b>	<b>33.1</b>	<b>33.8</b>	<b>117.3</b>	<b>131.0</b>	<b>33.5</b>	<b>1</b>
Change (YoY %)	13.0	8.7	7.5	9.5	8.8	12.9	11.8	8.1	8.9	11.7	7.1	
Provisions	22.6	19.6	18.5	18.7	18.4	17.0	16.5	14.6	79.4	66.6	14.4	2
<b>Profit before Tax</b>	<b>6.7</b>	<b>8.9</b>	<b>11.1</b>	<b>12.6</b>	<b>13.4</b>	<b>15.2</b>	<b>16.6</b>	<b>19.2</b>	<b>37.8</b>	<b>64.3</b>	<b>19.1</b>	<b>0</b>
Tax	1.6	2.2	2.8	3.4	3.3	3.7	4.2	5.2	9.5	16.3	5.1	2
<b>Net Profit</b>	<b>5.1</b>	<b>6.6</b>	<b>8.3</b>	<b>9.3</b>	<b>10.2</b>	<b>11.5</b>	<b>12.4</b>	<b>14.0</b>	<b>28.4</b>	<b>48.0</b>	<b>14.0</b>	<b>0</b>
Change (YoY %)	-64.4	-52.7	-36.6	193.8	99.1	72.9	49.5	51.2	-35.8	69.4	51.5	
<b>Operating Parameters</b>												
Deposit (INR b)	2,113	2,279	2,391	2,559	2,672	2,753	2,845	2,933	2,562	2,933	2,937	0
Loan (INR b)	1,981	2,012	2,071	2,126	2,107	2,208	2,286	2,391	2,126	2,391	2,393	0
Deposit Growth (%)	5.3	10.0	10.3	26.7	26.5	20.8	19.0	14.6	26.8	14.5	14.6	5
Loan Growth (%)	2.4	2.1	-0.1	2.8	6.4	9.7	10.4	12.4	2.8	12.4	12.6	-12
<b>Asset Quality</b>												
Gross NPA (%)	2.5	2.2	1.7	2.7	2.9	2.8	2.5	2.3	2.7	2.3	2.3	-2
Net NPA (%)	0.9	0.5	0.2	0.7	0.8	0.8	0.7	0.6	0.7	0.6	0.7	-2
PCR (%)	66.6	76.7	87.3	74.5	71.6	71.6	71.7	72.3	74.5	72.3	71.8	43

## Exhibit 1: Quarterly snapshot

Profit & Loss	FY20				FY21				FY22				Variation (%)	
INR b	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Interest Income</b>	<b>69.6</b>	<b>71.5</b>	<b>72.8</b>	<b>73.9</b>	<b>71.6</b>	<b>71.8</b>	<b>72.4</b>	<b>74.2</b>	<b>75.7</b>	<b>76.5</b>	<b>77.4</b>	<b>78.6</b>	<b>6</b>	<b>2</b>
Loans	57.5	59.5	60.8	62.2	60.7	59.9	59.1	61.2	61.8	62.4	63.3	63.9	4	1
Investment	10.7	10.8	11.1	10.3	10.0	9.5	9.3	9.6	10.0	9.9	10.2	10.4	8	1
<b>Interest Expenses</b>	<b>41.2</b>	<b>42.4</b>	<b>42.1</b>	<b>41.6</b>	<b>38.5</b>	<b>39.0</b>	<b>38.4</b>	<b>38.8</b>	<b>40.1</b>	<b>39.9</b>	<b>39.4</b>	<b>38.7</b>	<b>0</b>	<b>-2</b>
<b>Net Interest Income</b>	<b>28.4</b>	<b>29.1</b>	<b>30.7</b>	<b>32.3</b>	<b>33.1</b>	<b>32.8</b>	<b>34.1</b>	<b>35.3</b>	<b>35.6</b>	<b>36.6</b>	<b>37.9</b>	<b>39.9</b>	<b>13</b>	<b>5</b>
Other Income	16.6	17.3	17.9	17.7	15.2	15.5	16.5	17.8	17.9	18.4	18.8	19.1	7	2
Trading profits	2.4	2.6	2.8	3.8	8.4	4.9	2.6	2.7	5.7	3.3	3.6	2.6	-4	-27
Others (ex. non-core)	14.2	14.7	15.1	13.9	6.8	10.6	13.9	15.1	12.1	15.1	15.2	16.4	9	8
<b>Total Income</b>	<b>45.1</b>	<b>46.4</b>	<b>48.6</b>	<b>50.0</b>	<b>48.3</b>	<b>48.3</b>	<b>50.5</b>	<b>53.1</b>	<b>53.5</b>	<b>55.0</b>	<b>56.7</b>	<b>58.9</b>	<b>11</b>	<b>4</b>
Operating Expenses	19.2	20.1	21.1	21.5	19.0	19.8	20.9	21.9	21.7	22.8	23.6	25.1	15	6
Employee	6.5	7.2	7.4	7.2	7.4	7.2	7.4	8.3	8.4	8.5	8.7	9.2	11	6
Others	12.7	13.0	13.7	14.3	11.6	12.6	13.4	13.6	13.2	14.3	14.9	15.9	17	7
<b>Operating Profit</b>	<b>25.9</b>	<b>26.2</b>	<b>27.6</b>	<b>28.6</b>	<b>29.3</b>	<b>28.5</b>	<b>29.6</b>	<b>31.3</b>	<b>31.9</b>	<b>32.2</b>	<b>33.1</b>	<b>33.8</b>	<b>8</b>	<b>2</b>
<b>Core Operating Profit</b>	<b>23.5</b>	<b>23.6</b>	<b>24.7</b>	<b>24.7</b>	<b>20.9</b>	<b>23.6</b>	<b>27.1</b>	<b>28.6</b>	<b>26.1</b>	<b>28.9</b>	<b>29.5</b>	<b>31.2</b>	<b>9</b>	<b>6</b>
Provisions	4.3	7.4	10.4	24.4	22.6	19.6	18.5	18.7	18.4	17.0	16.5	14.6	-22	-12
<b>PBT</b>	<b>21.6</b>	<b>18.9</b>	<b>17.1</b>	<b>4.2</b>	<b>6.7</b>	<b>8.9</b>	<b>11.1</b>	<b>12.6</b>	<b>13.4</b>	<b>15.2</b>	<b>16.6</b>	<b>19.2</b>	<b>52</b>	<b>16</b>
Taxes	7.3	4.8	4.1	1.0	1.6	2.2	2.8	3.4	3.3	3.7	4.2	5.2	54	24
<b>PAT</b>	<b>14.3</b>	<b>14.0</b>	<b>13.1</b>	<b>3.2</b>	<b>5.1</b>	<b>6.6</b>	<b>8.3</b>	<b>9.3</b>	<b>10.2</b>	<b>11.5</b>	<b>12.4</b>	<b>14.0</b>	<b>51</b>	<b>13</b>
<b>Balance Sheet (INR b)</b>														
Loans	1,935	1,971	2,074	2,068	1,981	2,012	2,071	2,126	2,107	2,208	2,286	2,391	12	5
Investments	607	635	605	599	596	630	611	697	687	692	727	709	2	-2
Deposits	2,006	2,072	2,167	2,020	2,113	2,279	2,391	2,559	2,672	2,753	2,845	2,933	15	3
CASA Deposits	865	858	919	816	845	918	966	1,068	1,123	1,159	1,199	1,253	17	5
of which Savings	577	581	649	531	525	571	643	711	799	833	866	888	25	3
Current	289	277	270	284	319	348	323	357	324	326	333	365	2	10
Borrowings	498	446	468	608	592	524	486	513	493	463	457	473	-8	4
Total Assets	2,930	2,949	3,079	3,072	3,179	3,320	3,414	3,629	3,730	3,805	3,906	4,020	11	3
Risk Weighted Assets	2,311	2,372	2,459	2,586	2,617	2,617	2,655	2,729	2,724	2,756	2,811	2,951	8	5
<b>Asset Quality (INR b)</b>														
GNPA	42.0	43.7	45.8	51.5	51.0	45.3	36.5	57.9	61.9	62.5	57.8	55.2	-5	-5
NNPA	23.8	22.0	21.7	18.9	17.0	10.6	4.6	14.8	17.6	17.7	16.3	15.3	4	-6
<b>Ratios</b>														
<b>Asset Quality (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	2.2	2.2	2.2	2.5	2.5	2.2	1.7	2.7	2.9	2.8	2.5	2.3	-40	-21
NNPA	1.2	1.1	1.1	0.9	0.9	0.5	0.2	0.7	0.8	0.8	0.7	0.6	-5	-7
PCR (Cal.)	43.3	49.6	52.5	63.3	66.6	76.7	87.3	74.5	71.6	71.6	71.7	72.3	-225	53
<b>Business Ratios (%)</b>														
Fees-to-Total Income	31.6	31.7	31.0	27.8	14.1	22.0	27.5	28.4	22.7	27.4	26.8	27.9	-45	113
Cost-to-Core Income	44.9	46.0	46.0	46.5	47.6	45.6	43.6	43.4	45.3	44.1	44.4	44.6	121	18
Tax Rate	33.7	25.7	23.6	24.3	23.7	25.3	25.2	26.7	24.3	24.3	25.1	27.0	30	184
CASA (Reported)	43.1	41.4	42.4	40.4	40.0	40.3	40.4	41.7	42.1	42.1	42.2	42.7	100	50
Loan/Deposit	96.5	95.1	95.7	102.4	93.8	88.3	86.6	83.1	78.9	80.2	80.4	81.5	-160	114
CAR	14.9	14.7	13.9	15.0	15.2	16.6	16.3	17.4	17.6	17.4	18.1	18.4	104	36
Tier I	14.5	14.3	13.5	14.6	14.5	15.8	15.6	16.8	16.9	16.7	16.4	16.8	-3	43
<b>Profitability Ratios (%)</b>														
Yield on loans	12.0	12.0	12.0	11.9	11.9	12.0	11.7	11.8	11.8	11.7	11.4	11.3	-49	-7
Yield on investments	7.1	6.9	7.1	6.8	6.7	6.2	6.0	5.9	5.8	5.8	5.8	5.8	-10	2
Yield on funds	10.0	10.0	9.9	9.8	9.4	9.1	8.9	8.7	8.6	8.4	8.4	8.3	-39	-8
Cost of deposits	6.9	6.7	6.5	6.1	5.7	5.6	5.3	5.0	5.0	4.9	4.7	4.6	-43	-6
Cost of funds	5.9	5.9	5.7	5.5	5.1	4.9	4.7	4.5	4.5	4.4	4.3	4.1	-46	-18
Spreads	4.1	4.1	4.2	4.3	4.3	4.2	4.1	4.1	4.1	4.1	4.1	4.2	7	10
Margin	4.1	4.1	4.2	4.3	4.3	4.2	4.1	4.1	4.1	4.1	4.1	4.2	7	10
RoA	2.1	2.0	1.8	0.4	0.7	0.9	1.1	1.1	1.2	1.3	1.4	1.5	42	16
RoE	18.5	17.3	15.6	3.7	5.9	7.1	8.4	8.9	9.3	10.3	10.9	11.9	304	104

Source: MOFSL, Company



## Highlights from the management commentary

### Asset quality

- The restructured book declined to 2.6% v/s 3.3% in 3QFY22.
- Slippages saw a decline, led by moderation in MFI and Vehicle slippages.
- Net slippage ratio moderated to 0.46% v/s 0.9% QoQ.
- Gross slippages breakup: CFD (INR5.53b), Secured Retail (INR2.12b), Unsecured Retail (INR1.62b), and MFI (INR8.15b).
- Net slippages breakup: CFD (INR2.39b), Secured Retail (INR1.48b), Unsecured Retail (INR1.16b), and MFI (INR6.96b).
- Total restructured book stands at INR61.72b. Breakup: CFD (INR32.98b), Secured Retail (INR2.33b), Unsecured Retail (INR9.95b), and Corporate (INR9.61b).
- The Vehicle segment comprises ~53% of the total restructured book.
- SMA1/2 book stands at 43bp/16bp. Total SMA1 and 2 book fell to 59bp QoQ v/s 84bp QoQ.
- A Construction account, which was earlier restructured and with an exposure of INR5.8b, was repaid in 4QFY22.
- Retail exposure worth INR1.2b slipped into NPA and is being 100% provided for. The bank has further exposure of INR4b to other group entities, which remains under the restructured book.
- Stressed Telecom exposure stood at INR30b as of Mar'22. The bank received payments worth INR11.5b in Apr'22. Thus, its total exposure stands at INR18.5b, including fund based exposure of INR10b.

### Balance Sheet related

- Loan growth is seeing a gradual increase and will continue to improve going forward.
- The management's focus remains on: 1) growing its granular deposits as the Retail mix as per LCR rose to 41% v/s 37% YoY, 2) an increase in the CASA mix, and 3) a decline in the concentration of top 20 depositors to 17% v/s 22% YoY.
- Disbursements have picked up across all segments, especially Vehicle and MFI, while the Diamond business too saw a healthy growth.
- Share of retail fees improved to 64% v/s 58% in key business segments.

### MFI business

- The MFI business bounced back and grew at 16% YoY. It is expected to pick up and post a steady performance going forward.
- Collection efficiency in the standard book, excluding restructuring, improved to 99.1%.
- Collection efficiency in the new sourced book stands at 99.5%.
- Net slippages stood at INR6.96b/INR25.47b in 4Q/FY22, in line with the management's expectation.
- The bank is carrying a PCR of 90% in the MFI business.
- The 30-90 DPD book declined to 2.6% v/s 5% in 3QFY22 (INR8b).
- Credit cost is likely to remain ~2.5%.

### Vehicle segment

- Disbursements stood at INR99.86b (+13% QoQ/+19% YoY) in 4QFY22. The same in FY22 stood at INR320b and surpassed pre-COVID levels.

- Within segments – CVs, CE, Utility Vehicles, Tractors, and Cars – are witnessing strong traction, while growth in 2Ws and 3Ws remains subdued.
- The bank has gained market share in the LCV, CE, Tractor, and Cars business.
- The Road Transporters segment has witnessed a healthy growth over the past few quarters.
- Capacity utilization has peaked among transporters and an increase is expected after a decline in fuel prices.
- The Bus and 3W segment is recovering well. 3Ws are seeing a strong come back, while demand in Bus segment will take a few more quarters to pick up.
- The restructured book declined to INR32.98b v/s INR37.69b in 3QFY22.
- Collection efficiency improved to 90%.

### Corporate

- The bank is witnessing one of the best quarters with respect to growth and asset quality in the recent past.
- Mid and Small Corporate grew 20% YoY, led by working capital loans, while Small businesses grew 26% YoY.
- Corporates rated A and above improved to 71% v/s 68% YoY.
- Restructured book declined to INR9.6b v/s INR17b in 3QFY22.

### Guidance

- The management maintained its loan book growth guidance at 15-18% over FY21-23.
- NIM is likely to remain in the 4.1-4.25% range, while PPOP margin will stay above 5%.
- Its credit cost guidance remains in the 120-150bp range.

## Key exhibits

**Exhibit 2: GNPA in CFD moderates to 2.3%**

Segmental GNPA	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
CV	1.9	2.2	1.8	1.6	3.0	2.9	2.6	2.4	1.7
Utility	1.0	1.2	1.2	1.0	1.3	1.4	0.9	0.7	0.4
CE	1.1	1.1	0.9	0.8	1.2	1.5	1.2	1.4	1.1
3W	1.8	1.8	1.8	1.6	2.9	7.6	4.7	3.6	2.1
2W	3.1	2.6	3.8	3.1	6.7	9.8	9.2	9.3	9.2
Cars	0.7	0.8	0.9	0.7	1.3	1.8	1.2	1.0	0.7
LAP/HL/PL	0.9	0.5	0.4	0.4	2.8	2.8	2.6	2.2	3.1
Cards	1.9	0.8	0.6	0.2	1.6	4.4	5.1	4.6	3.3
BBG/LAP	1.2	1.2	0.9	0.9	3.4	3.3	3.9	3.4	3.1
MFI	1.5	1.6	1.6	1.5	1.5	1.7	3.0	3.2	2.5
<b>GNPA in Consumer Finance</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>	<b>2.4</b>	<b>2.9</b>	<b>3.0</b>	<b>2.8</b>	<b>2.3</b>

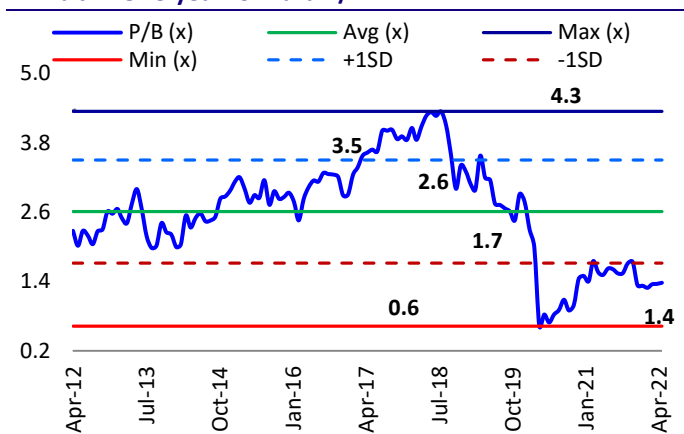
**Exhibit 3: Fees grew 9% YoY and 8% QoQ on a healthy pick-up across processing and third party distribution**

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY	QoQ
<b>Fee-based income</b>	<b>13,900</b>	<b>6,820</b>	<b>10,610</b>	<b>13,890</b>	<b>15,080</b>	<b>12,140</b>	<b>15,060</b>	<b>15,190</b>	<b>16,440</b>	<b>9%</b>	<b>8%</b>
Trade fees (LC, BG, and remittances)	1,890	1,160	1,520	1,830	2,190	1,700	2,000	1,880	1,990	-9%	6%
Processing fees and other charges	3,560	990	2,120	3,010	3,570	2,860	4,240	3,820	5,040	41%	32%
FX clients	2,480	1,550	2,280	2,680	2,690	1,920	2,210	2,280	2,340	-13%	3%
Third-party distribution fees	3,670	1,740	3,230	3,700	3,990	3,110	3,600	3,880	4,700	18%	21%
Investment Banking fees	1,430	290	230	790	640	670	680	940	280	-56%	-70%
General Banking/other income	870	1,090	1,230	1,880	2,000	1,880	2,330	2,390	2,090	4%	-13%

## Valuation and view

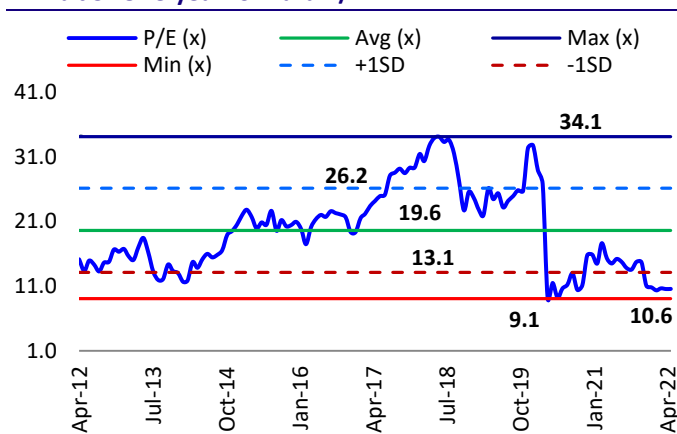
- Asset quality continues to improve, with GNPA/NNPA declining by 21bp/7bp QoQ to 2.27%/0.64% as of Mar'22. CE for the bank remains healthy. Restructured book moderated to 2.6% v/s 3.3% in 3QFY22. A healthy PCR of 72% and contingent provisions provide comfort. We expect credit cost to moderate to 1.7%/1.4% in FY23/FY24.
- Loan growth has recovered and is witnessing strong traction across segments. Retail disbursements have crossed pre-COVID levels across most segments. We expect the momentum to continue. Deposit traction continues to remain healthy, with a focus on building a stable and granular liability franchise. IIB is working as per its 'Planning Cycle 5' (CY20-23) strategy, wherein the focus remains on fortifying liabilities, scaling up its key focus businesses, and investing on new growth engines. It expects the loan book to grow at 15-18% over FY22-23 (Unsecured Retail less than 5%) and a CD ratio of sub-95%, with CASA ratio in excess of 40% by FY23. We expect the loan book to grow at 16% over FY22-24.
- **Margin to remain stable:** Reduction in the cost of deposits and deployment of liquidity is likely to aid margin. The bank has a higher proportion of a fixed rate loan book. Thus, its margin trajectory is expected to be stable.
- **Buy with a TP of INR1,300/share:** IIB's operating performance remains on track, led by healthy NII growth, lower slippages, and controlled provisions. Asset quality ratios improved sequentially as stress in the MFI/Vehicle portfolio subsided. The management guided at continued momentum in loan growth, led by steady trends across both Consumer and Corporate businesses. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 1.4% of loans will enable a sharp drop in credit cost, driving a sharp recovery in earnings. We expect 37% PAT CAGR over FY22-24, resulting in 15.5% RoE in FY24. **We maintain our Buy rating with a TP of INR1,300 per share (1.7x FY24E ABV).**

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

Exhibit 5: One-year forward P/E

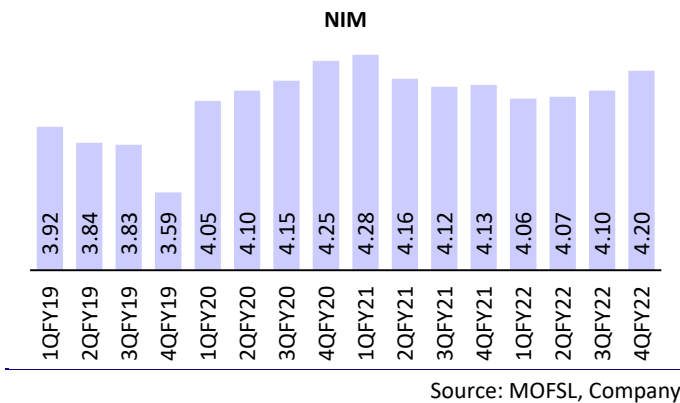


Source: MOFSL, Company

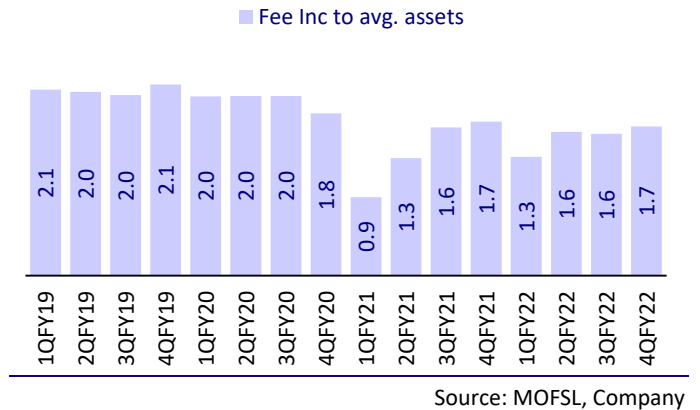


## Story in charts

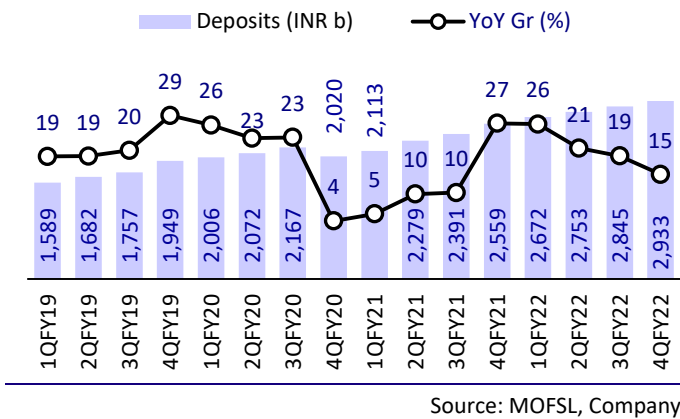
**Exhibit 6: NIM improves by 10bp QoQ to 4.2%**



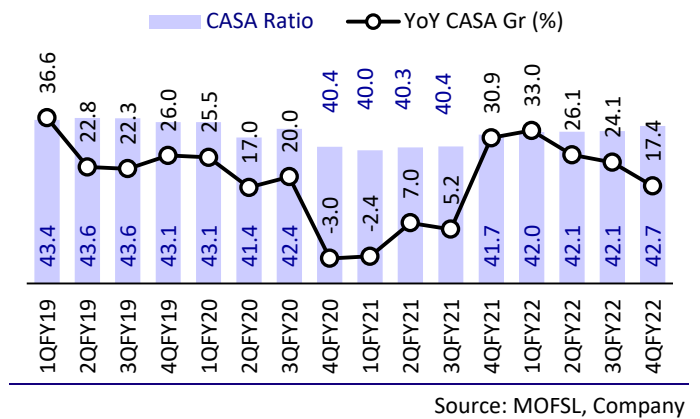
**Exhibit 7: Fee income to average assets improves to 1.7%**



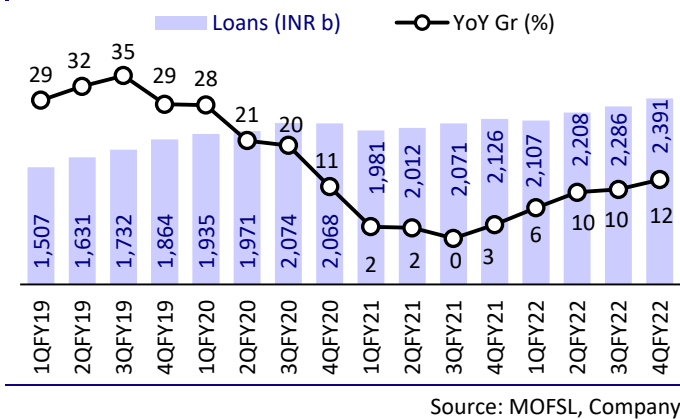
**Exhibit 8: Deposit grew a healthy 15% YoY and 3.1% QoQ**



**Exhibit 9: CASA deposits grew 17% YoY to 42.7%**



**Exhibit 10: Loan book grew by ~12% YoY and 4.6% QoQ**



**Exhibit 11: CFD mix stands at 54% as the bank reclassified BBG and MFI in CFD post 1QFY20**

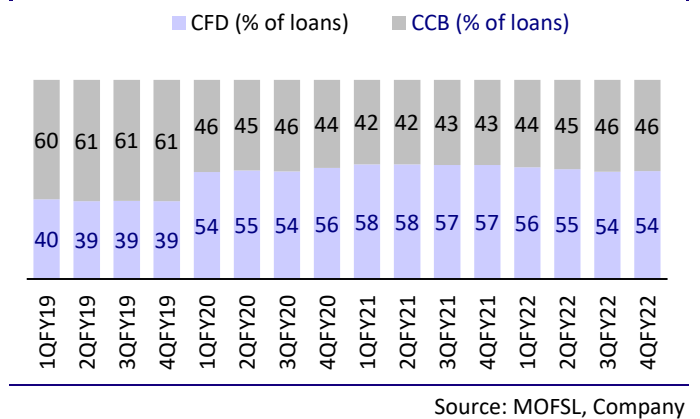
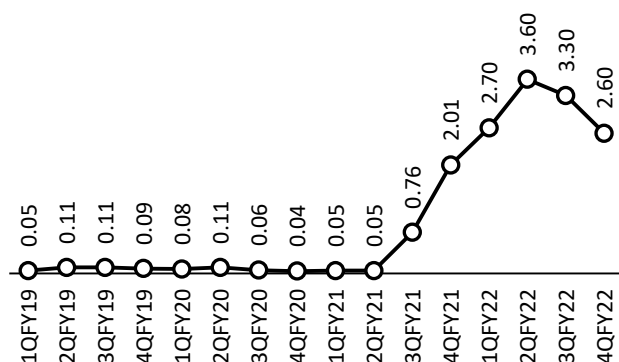
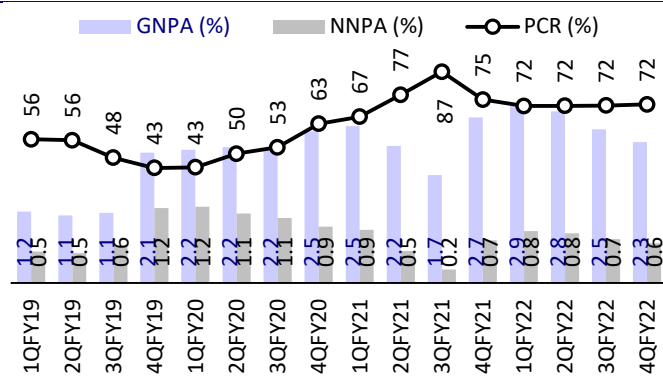


Exhibit 12: Restructured book moderates to 2.6%



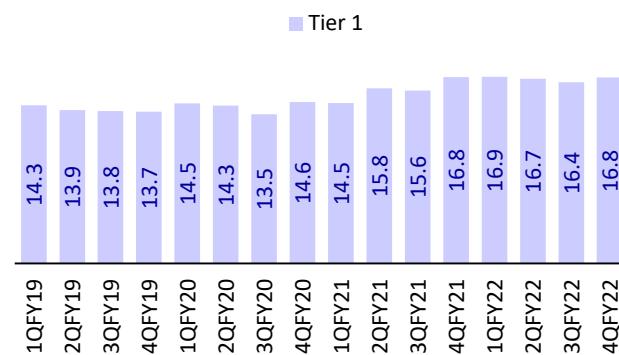
Source: MOFSL, Company

Exhibit 13: GNPA/NNPA ratio moderates by 21bp/7bp QoQ to 2.27%/0.64% in Mar'22, PCR stands strong at 72%



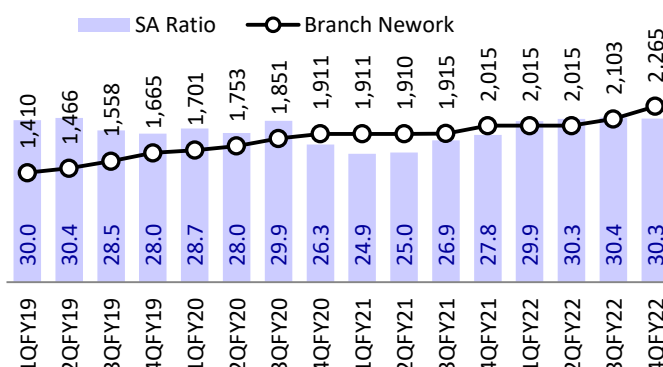
Source: MOFSL, Company

Exhibit 14: Tier I capital remains healthy at 16.8%



Source: MOFSL, Company

Exhibit 15: IIB's branch count stood at 2,265



Source: MOFSL, Company

Exhibit 16: DuPont Analysis: Return ratios to pick up from FY23E

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	9.04	8.63	8.91	9.84	8.66	8.06	8.65	9.00
Interest Expense	5.24	4.89	5.37	5.72	4.62	4.14	4.63	4.87
<b>Net Interest Income</b>	<b>3.80</b>	<b>3.75</b>	<b>3.54</b>	<b>4.12</b>	<b>4.04</b>	<b>3.92</b>	<b>4.02</b>	<b>4.13</b>
Core Fee Income	2.44	2.19	2.22	2.19	1.51	1.54	1.70	1.73
Trading and others	0.17	0.18	0.05	0.19	0.44	0.40	0.25	0.26
<b>Non-Interest income</b>	<b>2.62</b>	<b>2.37</b>	<b>2.26</b>	<b>2.38</b>	<b>1.96</b>	<b>1.94</b>	<b>1.96</b>	<b>1.98</b>
<b>Total Income</b>	<b>6.42</b>	<b>6.12</b>	<b>5.80</b>	<b>6.50</b>	<b>6.00</b>	<b>5.86</b>	<b>5.98</b>	<b>6.11</b>
<b>Operating Expenses</b>	<b>3.00</b>	<b>2.79</b>	<b>2.56</b>	<b>2.82</b>	<b>2.50</b>	<b>2.43</b>	<b>2.56</b>	<b>2.62</b>
Employee cost	0.95	0.89	0.74	0.76	0.66	0.91	0.93	0.95
Others	2.05	1.90	1.82	2.06	1.83	1.53	1.64	1.67
<b>Operating Profit</b>	<b>3.42</b>	<b>3.33</b>	<b>3.24</b>	<b>3.68</b>	<b>3.50</b>	<b>3.42</b>	<b>3.42</b>	<b>3.49</b>
Core operating Profit	3.25	3.14	3.19	3.49	3.06	3.03	3.16	3.23
<b>Provisions</b>	<b>0.68</b>	<b>0.59</b>	<b>1.24</b>	<b>1.59</b>	<b>2.37</b>	<b>1.74</b>	<b>1.18</b>	<b>0.98</b>
NPA	0.44	0.45	1.09	1.24	1.51	1.74	1.06	0.88
Others	0.24	0.14	0.16	0.35	0.86	0.00	0.12	0.09
<b>PBT</b>	<b>2.74</b>	<b>2.74</b>	<b>1.99</b>	<b>2.09</b>	<b>1.13</b>	<b>1.68</b>	<b>2.24</b>	<b>2.51</b>
Tax	0.94	0.94	0.67	0.58	0.28	0.43	0.56	0.63
<b>RoA</b>	<b>1.80</b>	<b>1.80</b>	<b>1.32</b>	<b>1.51</b>	<b>0.85</b>	<b>1.26</b>	<b>1.68</b>	<b>1.88</b>
Leverage (x)	8.5	9.1	10.0	9.6	8.7	8.4	8.3	8.2
<b>RoE</b>	<b>15.3</b>	<b>16.5</b>	<b>13.2</b>	<b>14.5</b>	<b>7.3</b>	<b>10.6</b>	<b>14.0</b>	<b>15.5</b>



## Financials and valuations

### Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	144.1	172.8	222.6	287.8	290.0	308.2	366.8	428.7
Interest Expense	83.4	97.8	134.1	167.2	154.7	158.2	196.3	232.0
<b>Net Interest Income</b>	<b>60.6</b>	<b>75.0</b>	<b>88.5</b>	<b>120.6</b>	<b>135.3</b>	<b>150.0</b>	<b>170.5</b>	<b>196.6</b>
Growth (%)	34.2	23.7	18.0	36.3	12.2	10.9	13.7	15.3
Non-Interest Income	41.7	47.5	56.5	69.5	65.6	74.1	83.0	94.6
<b>Total Income</b>	<b>102.3</b>	<b>122.5</b>	<b>144.9</b>	<b>190.1</b>	<b>200.9</b>	<b>224.1</b>	<b>253.5</b>	<b>291.2</b>
Growth (%)	31.0	19.7	18.3	31.2	5.7	11.6	13.1	14.9
Operating Expenses	47.8	55.9	64.0	82.4	83.6	93.1	108.6	124.9
<b>Pre Provision Profit</b>	<b>54.5</b>	<b>66.6</b>	<b>80.9</b>	<b>107.7</b>	<b>117.3</b>	<b>131.0</b>	<b>144.9</b>	<b>166.2</b>
Growth (%)	31.6	22.1	21.5	33.2	8.9	11.7	10.6	14.8
<b>Core PPP</b>	<b>51.7</b>	<b>62.9</b>	<b>79.7</b>	<b>102.2</b>	<b>102.4</b>	<b>115.7</b>	<b>134.2</b>	<b>153.9</b>
Growth (%)	29.7	21.6	26.7	28.2	0.2	13.0	16.0	14.7
Provisions (excl. tax)	10.9	11.8	31.1	46.5	79.4	66.6	49.8	46.6
<b>PBT</b>	<b>43.6</b>	<b>54.8</b>	<b>49.8</b>	<b>61.2</b>	<b>37.8</b>	<b>64.3</b>	<b>95.0</b>	<b>119.7</b>
Tax	14.9	18.7	16.8	17.0	9.5	16.3	23.9	30.2
Tax Rate (%)	34.2	34.2	33.7	27.8	25.0	25.3	25.2	25.2
<b>PAT</b>	<b>28.7</b>	<b>36.1</b>	<b>33.0</b>	<b>44.2</b>	<b>28.4</b>	<b>48.0</b>	<b>71.1</b>	<b>89.5</b>
Growth (%)	25.4	25.7	-8.5	33.8	-35.8	69.4	48.0	25.9

### Balance Sheet

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	6.0	6.0	6.0	6.9	7.7	7.7	7.7	7.7
Reserves and Surplus	200.3	232.3	260.7	340.0	425.9	472.5	534.5	614.1
<b>Net Worth</b>	<b>206.3</b>	<b>238.3</b>	<b>266.7</b>	<b>347.0</b>	<b>433.6</b>	<b>480.3</b>	<b>542.3</b>	<b>621.8</b>
<b>Deposits</b>	<b>1,265.7</b>	<b>1,516.4</b>	<b>1,948.7</b>	<b>2,020.4</b>	<b>2,562.0</b>	<b>2,933.5</b>	<b>3,344.2</b>	<b>3,845.8</b>
Growth (%)	36.1	19.8	28.5	3.7	26.8	14.5	14.0	15.0
<b>of which CASA Dep.</b>	<b>466.5</b>	<b>667.3</b>	<b>840.7</b>	<b>815.7</b>	<b>1,071.3</b>	<b>1,253.3</b>	<b>1,431.3</b>	<b>1,665.2</b>
Growth (%)	42.5	43.1	26.0	-3.0	31.3	17.0	14.2	16.3
Borrowings	224.5	382.9	473.2	607.5	513.2	473.2	433.3	455.1
Other Liabilities and Prov.	89.8	78.6	89.4	95.6	120.8	132.7	139.3	149.1
<b>Total Liabilities</b>	<b>1,786.5</b>	<b>2,216.3</b>	<b>2,778.2</b>	<b>3,070.6</b>	<b>3,629.7</b>	<b>4,019.7</b>	<b>4,459.1</b>	<b>5,071.8</b>
Current Assets	186.3	132.2	147.8	160.0	563.3	685.8	608.2	627.9
<b>Investments</b>	<b>367.0</b>	<b>500.8</b>	<b>592.7</b>	<b>599.8</b>	<b>696.9</b>	<b>709.3</b>	<b>801.5</b>	<b>913.7</b>
Growth (%)	17.6	36.4	18.4	1.2	16.2	1.8	13.0	14.0
<b>Loans</b>	<b>1,130.8</b>	<b>1,449.5</b>	<b>1,863.9</b>	<b>2,067.8</b>	<b>2,126.0</b>	<b>2,390.5</b>	<b>2,773.0</b>	<b>3,244.4</b>
Growth (%)	27.9	28.2	28.6	10.9	2.8	12.4	16.0	17.0
Fixed Assets	13.4	13.4	17.1	18.2	18.1	19.3	21.2	23.3
<b>Total Assets</b>	<b>1,786.5</b>	<b>2,216.3</b>	<b>2,778.2</b>	<b>3,070.6</b>	<b>3,629.7</b>	<b>4,019.7</b>	<b>4,459.1</b>	<b>5,071.8</b>

### Asset Quality

GNPA	10.5	17.0	39.5	51.5	57.9	55.2	49.9	55.3
NNPA	4.4	7.5	22.5	18.9	14.8	15.3	13.4	13.7
GNPA Ratio	0.9	1.2	2.1	2.5	2.7	2.3	1.8	1.7
NNPA Ratio	0.4	0.5	1.2	0.9	0.7	0.6	0.5	0.4
Slippage Ratio	1.42	2.58	3.25	2.97	3.65	4.48	3.0	2.5
Credit Cost	0.70	0.91	1.88	2.37	3.79	2.95	1.7	1.4
PCR (Excl. Tech. write-off)	58.4	56.3	43.0	63.3	74.5	72.3	73.1	75.2

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield on Earning Assets</b>	<b>9.7</b>	<b>9.2</b>	<b>9.5</b>	<b>10.6</b>	<b>9.3</b>	<b>8.6</b>	<b>9.2</b>	<b>9.6</b>
Avg. Yield on loans	11.4	10.6	11.0	12.2	11.5	11.1	11.7	11.9
Avg. Yield on Investments	7.2	6.6	7.3	7.1	6.8	7.2	6.0	5.8
<b>Avg. Cost on Int. Bear. Liab.</b>	<b>6.3</b>	<b>5.8</b>	<b>6.2</b>	<b>6.6</b>	<b>5.4</b>	<b>4.9</b>	<b>5.5</b>	<b>5.7</b>
Avg. Cost of Deposits	6.3	5.8	6.1	6.5	5.0	5.0	5.2	5.3
<b>Interest Spread</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>4.1</b>	<b>4.3</b>	<b>3.6</b>	<b>4.0</b>	<b>4.2</b>
<b>Net Interest Margin</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>4.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.5</b>	<b>4.6</b>

### Capitalization Ratios (%)

CAR	15.3	15.0	14.2	15.0	17.4	18.4	17.8	16.7
Tier I	14.7	14.6	13.7	14.6	16.8	16.8	16.4	15.5
Tier II	0.6	0.5	0.5	0.5	0.6	1.6	1.4	1.2

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	89.3	95.6	95.7	102.3	83.0	81.5	82.9	84.4
CASA Ratio	36.9	44.0	43.1	40.4	41.8	42.7	42.8	43.3
Cost/Assets	2.7	2.5	2.3	2.7	2.3	2.3	2.4	2.5
Cost/Total Income	46.74	45.7	44.2	43.3	41.6	41.5	42.8	42.9
Cost/Core Income	48.0	47.1	44.5	44.6	44.9	44.6	44.7	44.8
Int. Expense/Int. Income	57.9	56.6	60.3	58.1	53.4	51.3	53.5	54.1
Fee Income/Total Income	38.1	35.8	38.2	33.7	25.3	26.2	28.5	28.3
Non-Int. Inc./Total Income	40.8	38.8	39.0	36.6	32.7	33.1	32.7	32.5
Empl. Cost/Total Expense	31.8	31.8	28.9	26.8	26.5	37.3	36.1	36.1
Investment/Deposit Ratio	29.0	33.0	30.4	29.7	27.2	24.2	24.0	23.8

### Profitability Ratios and Valuations

RoE	15.3	16.5	13.2	14.5	7.3	10.6	14.0	15.5
RoA	1.8	1.8	1.3	1.5	0.8	1.3	1.7	1.9
RoRWA	2.0	2.1	1.5	1.7	1.0	1.6	2.1	2.3
Book Value (INR)	341.7	393.9	439.8	497.9	558.5	617.9	697.8	800.5
Growth (%)	16.3	15.3	11.7	13.2	12.2	10.6	12.9	14.7
<b>Price-to-BV (x)</b>	<b>2.9</b>	<b>2.5</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>
Adjusted BV (INR)	336.6	385.2	413.7	478.2	544.6	603.6	685.0	787.4
<b>Price-to-ABV (x)</b>	<b>2.9</b>	<b>2.5</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>
EPS (INR)	48.1	60.2	54.9	68.2	38.7	62.1	91.8	115.6
Growth (%)	18.2	25.2	-8.8	24.2	-43.3	60.5	47.8	25.9
<b>Price-to-Earnings (x)</b>	<b>20.3</b>	<b>16.3</b>	<b>17.8</b>	<b>14.4</b>	<b>25.3</b>	<b>15.8</b>	<b>10.7</b>	<b>8.5</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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