

IndusInd Bank Ltd.



IndusInd Bank Ltd.

Improvement on all fronts; Outlook remains healthy

CMP INR 1,018	Target INR 1,387	Potential Upside 36.2%	Market Cap (INR Mn) INR 7,87,852	Recommendation BUY	Sector Banking
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Result Highlights of Q4 FY22 & FY22:

- In Q4FY22, Net Interest Income (NII) increased 12.7% YoY to INR 39,852 Mn. NIMs stood at 4.4% for Q4FY22. For the full year FY22, NII stood at INR 1,50,008 Mn, a growth of 10.9% YoY.
- PPoP grew 8.7% YoY in Q4FY22 at INR 33,285 Mn. Other income at INR 19,050 Mn for the quarter as against INR 17,800 Mn for Q4FY21, grew by 7% YoY. Core Fee grew by 9% to INR 16,440 Mn. The operating profits for FY22 was reported at INR 1,28,386 Mn, an increase of 9.5% YoY.
- PAT for Q4FY22 stood at INR 13,614 Mn growing by 51% YoY led by decent operating performance and lower provisions. For the full year PAT stood at INR 46,111 Mn with provisions at INR 66,650 Mn. The increase in PAT for FY22 was 64% YoY.
- For Q4FY22, Advances grew at 12.4% YoY at INR 23,90,515 Mn, while deposits grew 14.6% YoY at INR 29,36,814 Mn. CASA ratio improved 106 bps YoY to 42.8%.

MARKET DATA

Shares outs (Mn)	775
Equity Cap (INR Mn)	4,76,812
Mkt Cap (INR Mn)	7,87,852
52 Wk H/L (INR)	1,242/812
Volume Avg (3m K)	3,787
Face Value (INR)	2
Bloomberg Code	IIB IN

KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
NII	1,20,587	1,35,279	1,50,008	1,79,458	2,07,202
PPOP	1,07,727	1,17,267	1,28,386	1,57,392	1,81,187
PAT	44,179	28,364	46,111	72,016	90,762
EPS (INR / Share)	63.7	38.8	59.5	93.0	117.2
NIM (%)	4.4%	4.6%	4.4%	4.6%	4.6%
Advances Growth YoY (%)	10.9%	2.8%	12.4%	16.0%	16.0%

Source: Company, KRChoksey Research

Advances grew with strong pick up in growth across all the segments: IIB saw further strengthening of the liability franchise with deposit mobilization driven by granular customers. In Q4FY22, IIB reported a healthy growth of 15% YoY in deposits at INR 29,36,814 Mn. CASA contribution was stable at 42.8% to the total deposits, improving by ~17% YoY growth. IIB remains focused on strengthening its granular liability franchise. This has helped the bank to build a stable, low-cost deposit franchise. It will continue with the liabilities-led growth strategy, emphasizing retail deposits. On the front of the advance, the loan book grew by 12.4% YoY at INR 23,90,515 Mn. The bank saw strong growth momentum across all the segments. The bank retains its guidance of growing the loan book 15-18% YoY CAGR over FY21-23E on the back of the Planning Cycle 5 strategy of the bank. We expect the deposits/advances to grow at a CAGR of 15% each over FY21-24E, with growth driven by the retail segment.

Improvement in the financial metrics: NII for Q4FY22 stood at INR 39,852 Mn, a growth of 12.7% YoY. This was led by a reduction in the cost of funds at 4.60% in Q4FY22. NIMs for Q4FY22 stood at 4.2% from 4.1% for Q3FY22 and 4.13% in Q4FY21. We expect NIMs to be stable with the deployment of liquidity and further cost of funds reduction. The PPOP grew 8.7% YoY in Q4FY22 with 9% YoY growth in core income fees. IIB to focus on transaction-based fee income for growth. The cost to income ratio stood at 42.6% in Q4FY22 against 41.1% in Q4FY21 and 41.6% in Q3FY22. The higher opex led to increased spending on digital initiatives and branch expansion. Overall, PAT grew by 51% YoY at INR 13,614 Mn, led by healthy operating profits and lower provisions for the quarter. We expect the bank to remain strong on all the financial metrics going forward, delivering a 47.3% CAGR growth in earnings over FY21-24E.

Asset quality improves with moderation of slippages: The GNPA/NNPA improved to 2.27%/0.64% in Q3Y22 from 2.48%/0.77% in Q3FY22, respectively, employing a comfortable provision coverage ratio of 72%. The gross and the net slippages have declined QoQ, driven by stress reduction in MFI & vehicle segment. The exposure to stressed telco has come down from INR 30 bn to INR 18.5 bn with multiple positive developments in the telecom industry. IIB expects provisions to decline further with the lessening of the covid impact.

SHARE PRICE PERFORMANCE

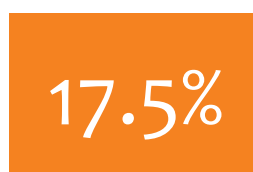


MARKET INFO

SENSEX	56,976
NIFTY	17,069

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	16.5	16.5	16.5
FIIs	46.3	47.7	51.4
DIIs	21.9	20.2	19.0
Others	15.3	15.6	13.1
Total	100.0	100.0	100



NII CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

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Key Concall Highlights:

Macro Updates

- The economy surpassed its pre-pandemic size by end of Q4FY22, with real GDP growth of 8.9% over FY22, as major components of GDP went past its pre-pandemic level. However, the pace of recovery got impacted by Russia-Ukraine conflict.
- India is much better positioned to deal with negative external spill-overs.
- An improved macro-economic stability profile, government's capex push, external sector buffers and a broadly supportive fiscal and monetary policy environment, would help sustain recovery momentum.
- The improved health of the banking sector, significant deleveraging by the corporate sector and gradually improving capacity utilization, reinforce the case for an investment cycle over the next 3-5 years.

Business updates & Asset Quality

- FY22 proved to be a challenging year due to internal as well as external factors. IIB faced whistleblower allegations in second half followed by a Covid third wave. The bank responded with measures to address these concerns comprehensively through 1) slower growth in first half, 2) focus on collections, 3) building conservative contingent provisions ahead of slippages, 4) conducting internal and external review of microfinance operations and 5) maintaining traction on consumer, corporate and digital initiatives.
- The strong retail disbursements and falling cost of deposits aided in improving its Net Interest Margin to 4.2%.
- IIB has resumed branch expansion after Covid-2 eased in second half of FY22 taking branch count to 2,265 from 2,015 from September. It plans to add another 200 to 250 branches during FY23E.
- IIB has built new capabilities and infused a lot of specific talent in digital. It has setup a Digital Factory which is currently, a 100-member team.

Deposits update

- The momentum on retail liabilities was maintained with share of retail as per LCR increasing from 37% to 41%, CASA ratio improved from 41.7% to 42.7%, and top 20 Deposit concentration fallen from 22% to 17%.
- The growth in retail deposits as per LCR accelerated to 6% QoQ and 26% YoY. The growth in deposits is achieved along with reduction in cost of deposits by 6bps QoQ and 43bps YoY.
- Deposits from NR segment have been holding up well at INR 2,68,000 Mn despite weak fresh NRI deposit inflows in the country.
- IIB has seen a sea-change in deposit franchise from deposit attrition in March-2020 to massive surplus in March-2022 coupled with strengthened deposit profile.
- The deposit mobilization is likely to see increasing competition due to tightening liquidity as well as potential pick up in credit growth.

Loan book update

- All retail products including vehicle, microfinance and consumer saw one of the healthiest disbursements ever during Q4.
- The corporate book has maintained steady momentum driven by small corporates. This broad-based disbursement growth was a key outcome for the quarter.
- Within vehicle financing, the bank saw healthy disbursements across commercial vehicles, Construction Equipment, Utility Vehicles, Tractors and Cars. Disbursements in two and three wheelers remain subdued.
- The bank has gained market share in light commercial vehicles, construction equipment, tractors and cars FY22.
- IIB remains optimistic about the vehicle finance business outlook for FY23E. The segment has withstood increased fuel prices. The bank continues to add to its distribution, invest in its digital ecosystem and maintain rationale pricing to ensure growth with risk adjusted returns across the cycle.
- IIB was cautious on the microfinance disbursements in Q3 due to potential third Covid wave, focus on collections and completion of business reviews. With these issues getting behind, its microfinance disbursements bounced back nicely during Q4FY22.
- IIB believes microfinance business is steadily coming back to normalcy after a severe second wave. The activity levels are consistently improving and with expectation of another year of good monsoon, the business is expected to show steady performance in coming year.
- The bank had realigned the stock as well as flow of the corporate book towards revised underwriting framework. This has played out well during FY22.
- IIB remains confident on the outlook for corporate banking credit growth. Its interactions with corporates do indicate rekindling interest in private capex. Government spending on infrastructure, manufacturing boost through Production Linked Incentives, rising new economy companies, stronger balance sheets etc – all point towards likelihood of fresh capex cycle across the economy. The bank, having weathered challenging times over last 1- 2 years, but is now well positioned to capitalize the market opportunity.
- The bank expects growth momentum in retail business to continue in the FY23E. It remains watchful of inflationary economic conditions particularly on the unsecured consumption spends.

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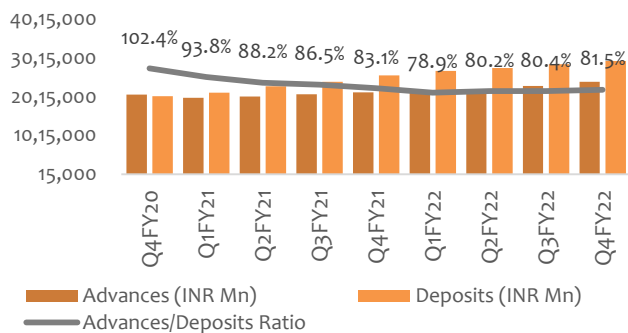
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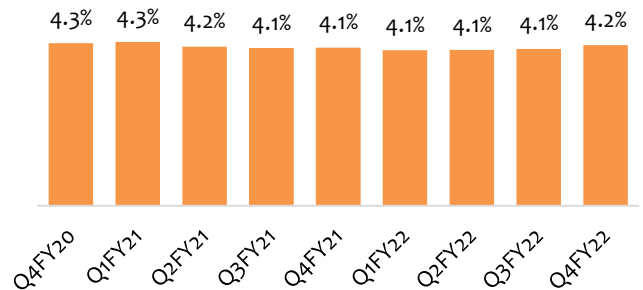
IndusInd Bank Ltd.

Valuation and view: IndusInd Bank's Q4FY22 results were in-line with the expectations. The strengthening of the balance sheet has started reflecting the bank's business growth. IIB reported a 12% growth in loan books led by recovery and a strong pickup in almost all the segments. The earnings were strong on the back of healthy growth in the NII, and lower provisions led by asset quality improvement. We expect the business growth trajectory to continue for IIB. We see the loan book to grow at 15% CAGR, with recovery in the MFI & vehicle financing segments, traction in the retail segment and a strong pick up in the corporate loan book in coming quarters. We remain watchful on the growth trend of the retail loans considering the overall inflationary situation impacting the consumer sentiments. Overall, we expect PAT growth of CAGR of 47.4% between FY21 to FY24E on strong growth in a healthy operating performance and gradually reducing credit cost. We expect the ROE/ROA to reach 15.3%/ 1.8% in FY24E from 6.5%/0.8% in FY21, respectively. Since our last update, the share price of IIB has appreciated by ~17%. **IndusInd Bank shares are currently trading at a P/B multiple of 1.3x on adj. FY24E book value and we expect the valuation to re-rate with performance improvement. We continue to apply a P/B multiple of 1.9x to the FY24E adj. BVPS of INR 744 to maintain our target price of INR 1,387 per share (unchanged), an upside of 36.2% over the CMP. Accordingly, we maintain our rating on the shares of IndusInd Bank to "BUY."**

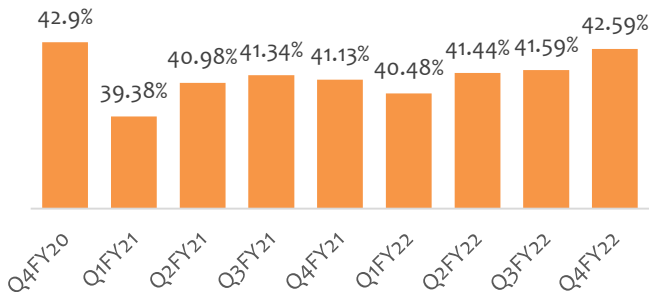
Advances/Deposits ratio (In INR Mn)



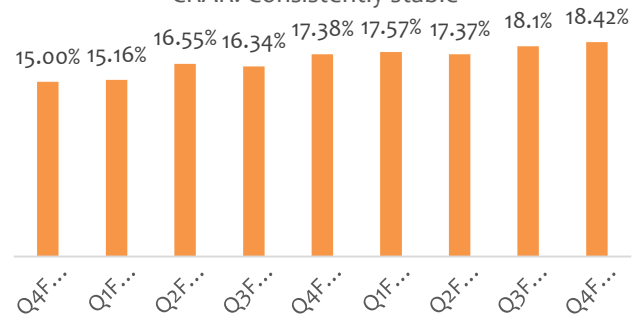
NIMs: Stable NIMs in uncertain Macro Environment



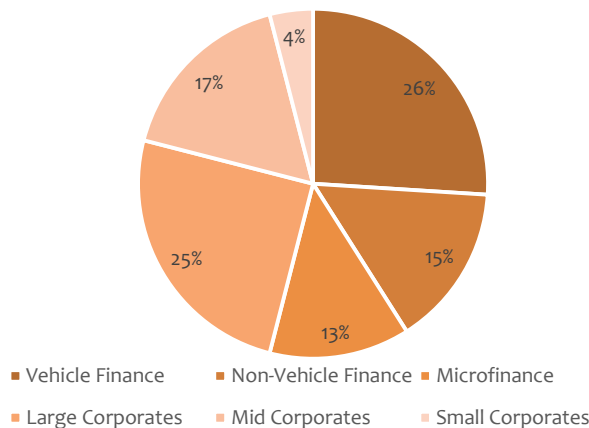
Cost/Income: Higher Opex in Q4FY22



CRAR: Consistently stable



Loan Book Mix



Source: Company, KRChoksey Research

IndusInd Bank Ltd.

KEY FINANCIALS
Exhibit 1: Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	2,87,828	2,89,998	3,08,224	3,66,280	4,19,915
Interest Expense	1,67,241	1,54,719	1,58,216	1,86,823	2,12,713
Net Interest Income	1,20,587	1,35,279	1,50,008	1,79,458	2,07,202
Non interest income	69,513	65,586	73,971	85,066	97,826
Operating income	1,90,101	2,00,865	2,23,979	2,64,524	3,05,028
- Employee expense	22,085	22,135	24,883	33,065	38,128
- Other operating expense	60,289	61,463	70,710	74,067	85,713
Operating Expense	82,373	83,598	95,593	1,07,132	1,23,841
PPOP	1,07,727	1,17,267	1,28,386	1,57,392	1,81,187
Provisions	46,521	79,425	66,650	61,370	60,171
PBT	61,206	37,841	61,737	96,022	1,21,015
Tax Expense	17,027	9,478	15,625	24,005	30,254
PAT	44,179	28,364	46,111	72,016	90,762
Diluted EPS (INR)	63.7	38.8	59.5	93.0	117.2

Source: Company, KRChoksey Research

IndusInd Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	6,935	7,734	7,747	7,747	7,747
Reserves & Surplus	3,33,297	4,25,866	4,69,065	5,15,176	5,87,192
Networth	3,40,232	4,33,600	4,76,812	5,22,923	5,94,939
ESOP	95	54	161	161	161
Borrowings	6,07,536	5,13,228	4,73,232	4,35,374	4,57,142
Deposits	20,20,398	25,62,050	29,36,814	33,77,336	38,83,936
Other liabilities & provisions	1,02,315	1,20,796	1,32,728	76,939	1,39,789
Total Equity & Liabilities	30,70,576	36,29,728	40,19,746	44,12,731	50,75,967
Uses of Funds					
Balances w/ banks & others	23,284	3,84,565	5,26,333	4,32,700	4,83,206
Investments	5,99,799	6,96,947	7,09,708	9,45,654	10,87,502
Loans & advances	20,67,832	21,25,954	23,90,515	27,72,998	32,16,677
Fixed assets	18,201	18,094	18,487	21,260	24,449
Other assets	2,24,707	2,25,462	2,18,291	2,40,120	2,64,132
Total Assets	30,70,576	36,29,728	40,19,746	44,12,731	50,75,967

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
Growth Rates					
Advances (%)	10.9%	2.8%	12.4%	16.0%	16.0%
Deposits (%)	3.7%	26.8%	14.6%	15.0%	15.0%
Total assets (%)	10.5%	18.2%	10.7%	9.8%	15.0%
NII (%)	36.3%	12.2%	10.9%	19.6%	15.5%
Pre-provisioning profit (%)	33.2%	8.9%	9.5%	22.6%	15.1%
PAT (%)	33.8%	-35.8%	62.6%	56.2%	26.0%
B/S Ratios					
Credit/Deposit (%)	102.3%	83.0%	81.4%	82.1%	82.8%
CASA (%)	40.4%	41.8%	38.7%	35.7%	32.9%
Advances/Total assets (%)	67.3%	58.6%	59.5%	62.8%	63.4%
Leverage - Total Assets to Equity	9.02	8.37	8.43	8.44	8.53
Operating efficiency					
Cost/income (%)	43.3%	41.6%	42.7%	40.5%	40.6%
Opex/total assets (%)	2.8%	2.7%	2.4%	2.4%	2.4%
Opex/total interest earning assets	3.2%	3.0%	3.2%	3.1%	3.1%
Profitability					
NIM (%)	4.4%	4.6%	4.4%	4.6%	4.6%
RoA (%)	1.4%	0.8%	1.1%	1.6%	1.8%
RoE (%)	13.0%	6.5%	9.7%	13.8%	15.3%
Asset quality					
Gross NPA (%)	2.5%	2.7%	2.3%	2.1%	1.9%
Net NPA (%)	0.9%	0.7%	0.6%	0.6%	0.6%
PCR (%)	63.0%	75.0%	71.7%	70.0%	70.0%
Slippage (%)	1.1%	1.9%	1.0%	1.0%	1.0%
Credit cost (%)	1.8%	2.9%	2.3%	1.8%	1.5%
Per share data / Valuation					
EPS (INR)	63.7	36.7	59.5	93.0	117.2
BVPS (INR)	490.6	560.7	615.5	675.0	768.0
ABVPS (INR)	463.4	527.9	595.8	652.5	744.3
P/E (x)	15.9	27.7	17.0	10.9	8.7
P/BV (x)	2.1	1.8	1.6	1.5	1.3
P/ABV (x)	2.2	1.9	1.7	1.6	1.4

Source: Company, KRChoksey Research

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IndusInd Bank			
Date	CMP (INR)	TP (INR)	Recommendation
03-May-22	1,018	1,387	BUY
31-Jan-22	872	1,387	BUY
28-Jul-21	1,172	1,387	BUY
30-Jul-21	992	1,160	BUY
Apr-21		1,100	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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