

# IndusInd Bank

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↔ |
| Rating change   | ↔ |

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|                       |             |
|-----------------------|-------------|
| Bloomberg             | IIB IN      |
| Equity Shares (m)     | 757         |
| M.Cap.(INRb)/(USD\$)  | 681.2 / 8.5 |
| 52-Week Range (INR)   | 1242 / 764  |
| 1, 6, 12 Rel. Per (%) | 5/7/-17     |
| 12M Avg Val (INR M)   | 4246        |

## Financials & Valuations (INR b)

| Y/E MARCH     | FY22  | FY23E | FY24E |
|---------------|-------|-------|-------|
| NII           | 150.0 | 174.0 | 199.0 |
| OP            | 130.3 | 144.7 | 166.3 |
| NP            | 48.0  | 72.5  | 87.8  |
| NIM (%)       | 3.9   | 4.1   | 4.2   |
| EPS (INR)     | 62.1  | 93.6  | 113.3 |
| EPS Gr. (%)   | 60.5  | 50.8  | 21.1  |
| BV/Sh. (INR)  | 617.9 | 699.6 | 800.1 |
| ABV/Sh. (INR) | 603.6 | 684.3 | 786.6 |

## Ratios

|         |      |      |      |
|---------|------|------|------|
| RoE (%) | 10.6 | 14.2 | 15.2 |
| RoA (%) | 1.3  | 1.7  | 1.8  |

## Valuations

|           |      |     |     |
|-----------|------|-----|-----|
| P/E (X)   | 14.2 | 9.4 | 7.8 |
| P/BV (X)  | 1.4  | 1.3 | 1.1 |
| P/ABV (X) | 1.5  | 1.3 | 1.1 |

## Shareholding pattern (%)

| As On    | Jun-22 | Mar-22 | Jun-21 |
|----------|--------|--------|--------|
| Promoter | 15.2   | 15.2   | 15.2   |
| DII      | 19.3   | 20.1   | 16.3   |
| FII      | 50.3   | 50.7   | 56.0   |
| Others   | 15.3   | 14.0   | 12.5   |

FII Includes depository receipts

**CMP: INR879 TP: INR1,300 (+48%) Buy**

## Operating performance on track; earnings gaining traction

### Restructured book moderates to 2.1%

- IIB reported a stable quarter, with PAT of INR16.3b (+61% YoY, 11% beat) aided by higher other income as NII, Opex and provisions came in line in 1QFY23. Asset quality deteriorated QoQ due to slippages from the restructuring book.
- Loan growth remained steady across both Corporate and Consumer Finance books. The CV book and Credit Card portfolio too witnessed a robust sequential growth.
- However, fresh slippages remained elevated at INR22.5b (3.8% annualized) led by INR9b worth of slippages from the restructuring pool. As a result, restructuring book declined to 2.1% from 2.6% in 4QFY22. GNPA/NNPA ratio increased marginally by 8bp/3bp QoQ to 2.35%/0.67%, respectively.
- We estimate PAT to grow at 35% CAGR over FY22-24 leading to 15.2% RoE in FY24. **We maintain our BUY rating with a TP of INR1,300.**

### Margin improves to 4.21%; PCR healthy at ~72%

- IIB reported 1QFY23 PAT of INR16.3b (+61% YoY; 11% beat) aided by higher other income, healthy NII growth and controlled provisions.
- NII grew ~16% YoY to INR41.3b (in line) while other income rose 12% YoY as the bank reported treasury gains of INR1.5b. Core fee income grew strongly at 9% QoQ. NIM improved marginally to 4.21% in 1QFY23.
- Operating expenses grew 21% YoY to INR26.3b (in line). C/I ratio stood at 43.4% v/s 42.6% in 4QFY22. PPop grew 10% YoY to INR34.3b. Core PPop grew at healthy 26% YoY in 1QFY23.
- On the business front, loans grew 3.7% QoQ (+17.7% YoY), led by both Consumer Finance (+3.0% QoQ) and Corporate book (+4.5% QoQ). In the Consumer business, disbursement growth picked up in the Vehicle/MFI segments. The Tractor and Utility Vehicle segments maintained healthy momentum at 4% and 10% QoQ, respectively, while Credit Card book grew 17% QoQ. Retail-to-Wholesale mix stood at 54:46. Deposit growth was at 13% YoY with CASA mix at 43.1% and Retail deposit mix at 41% as per LCR.
- On the asset quality front, fresh slippages stood at INR22.5b led by INR9b worth of slippages from the restructuring book. As a result, restructuring book declined to 2.1% from 2.6% in 4QFY22. GNPA/NNPA ratio increased marginally by 8bp/3bp QoQ to 2.35%/0.67%, respectively. PCR ratio was stable at ~72%. IIB holds contingent provisions of INR30b (1.2% of loans).

### Highlights from the management commentary

- SMA 1 and 2 books stood at 10bp and 39bp, respectively.
- Overall stress from the restructured book is likely to be ~15-20%. ~70% of this book is forecasted to run down by 3QFY23.
- The 30-90dpd within MFI, including restructured book, moderated to 2.2% in 1QFY23 from 2.6% in Mar'22.
- The bank maintains its guidance of 15-18% loan growth, PPop margin of >5%, credit cost of 120-150bp and C/I ratio of ~41-43%.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

IIB's operating performance remains on track led by healthy NII growth and controlled provisions. Asset quality ratios increased marginally on higher slippages from restructured assets though credit cost outlook remains in control. The management is guiding for continued loan growth momentum driven by steady trends across both consumer and corporate businesses. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 1.2% of loans will enable a sharp decline in credit costs, thereby driving sharp recovery in earnings. We estimate PAT to grow at 35% CAGR over FY22-24 leading to 15.2% RoE in FY24. **We maintain our BUY rating with a TP of INR1,300 (premised on 1.7x FY24E ABV).**

**Quarterly performance****(INR b)**

|                             | FY22        |             |             |             | FY23E       |             |             |             | FY22         | FY23E        | FY23E       | V/S our    |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2QE         | 3QE         | 4QE         |              |              | 1QE         | Est        |
| <b>Net Interest Income</b>  | <b>35.6</b> | <b>36.6</b> | <b>37.9</b> | <b>39.9</b> | <b>41.3</b> | <b>42.5</b> | <b>44.2</b> | <b>46.1</b> | <b>150.0</b> | <b>174.0</b> | <b>41.2</b> | <b>0%</b>  |
| % Change (YoY)              | 7.7         | 11.6        | 11.4        | 12.7        | 15.8        | 16.1        | 16.5        | 15.7        | 10.9         | 16.0         | 15.5        |            |
| Other Income                | 17.2        | 18.4        | 18.8        | 19.0        | 19.3        | 19.5        | 20.3        | 20.9        | 73.4         | 80.0         | 16.9        | 14%        |
| <b>Total Income</b>         | <b>52.9</b> | <b>55.0</b> | <b>56.7</b> | <b>58.9</b> | <b>60.6</b> | <b>62.0</b> | <b>64.5</b> | <b>67.0</b> | <b>223.4</b> | <b>254.0</b> | <b>58.1</b> | <b>4%</b>  |
| Operating Expenses          | 21.7        | 22.8        | 23.6        | 25.1        | 26.3        | 27.2        | 27.6        | 28.3        | 93.1         | 109.3        | 25.8        | 2%         |
| <b>Operating Profit</b>     | <b>31.2</b> | <b>32.2</b> | <b>33.1</b> | <b>33.8</b> | <b>34.3</b> | <b>34.8</b> | <b>36.9</b> | <b>38.7</b> | <b>130.3</b> | <b>144.7</b> | <b>32.3</b> | <b>6%</b>  |
| % Change (YoY)              | 6.6         | 12.9        | 11.8        | 8.0         | 9.9         | 8.1         | 11.5        | 14.5        | 11.1         | 11.1         | 1.4         |            |
| Provisions                  | 17.8        | 17.0        | 16.5        | 14.6        | 12.5        | 11.9        | 11.8        | 11.6        | 66.0         | 47.8         | 12.6        | -1%        |
| <b>Profit before Tax</b>    | <b>13.4</b> | <b>15.2</b> | <b>16.6</b> | <b>19.2</b> | <b>21.8</b> | <b>22.9</b> | <b>25.2</b> | <b>27.1</b> | <b>64.3</b>  | <b>96.9</b>  | <b>19.7</b> | <b>11%</b> |
| Tax                         | 3.3         | 3.7         | 4.2         | 5.2         | 5.5         | 5.8         | 6.3         | 6.8         | 16.3         | 24.4         | 5.0         | 11%        |
| <b>Net Profit</b>           | <b>10.2</b> | <b>11.5</b> | <b>12.4</b> | <b>14.0</b> | <b>16.3</b> | <b>17.1</b> | <b>18.8</b> | <b>20.3</b> | <b>48.0</b>  | <b>72.5</b>  | <b>14.7</b> | <b>11%</b> |
| % Change (YoY)              | 99.1        | 72.9        | 49.5        | 51.2        | 60.5        | 49.3        | 51.6        | 44.6        | 69.4         | 50.9         | 44.7        |            |
| <b>Operating Parameters</b> |             |             |             |             |             |             |             |             |              |              |             |            |
| Deposit (INR b)             | 2,672       | 2,753       | 2,845       | 2,933       | 3,027       | 3,102       | 3,213       | 3,344       | 2,933        | 3,344        | 3,031       | 0%         |
| Loan (INR b)                | 2,107       | 2,208       | 2,286       | 2,391       | 2,480       | 2,568       | 2,651       | 2,785       | 2,391        | 2,785        | 2,495       | -1%        |
| Deposit Growth (%)          | 26.5        | 20.8        | 19.0        | 14.6        | 13.3        | 12.7        | 12.9        | 14.0        | 14.5         | 14.0         | 13.4        | -14        |
| Loan Growth (%)             | 6.4         | 9.7         | 10.4        | 12.4        | 17.7        | 16.3        | 16.0        | 16.5        | 12.4         | 16.5         | 18.4        | -75        |
| <b>Asset Quality</b>        |             |             |             |             |             |             |             |             |              |              |             |            |
| Gross NPA (%)               | 2.9         | 2.8         | 2.5         | 2.3         | 2.4         | 2.3         | 2.1         | 1.8         | 2.3          | 1.8          | 2.2         | 19         |
| Net NPA (%)                 | 0.8         | 0.8         | 0.7         | 0.6         | 0.7         | 0.6         | 0.6         | 0.6         | 0.6          | 0.6          | 0.6         | 7          |
| PCR (%)                     | 71.6        | 71.6        | 71.7        | 72.3        | 72.0        | 73.0        | 73.0        | 67.6        | 72.3         | 67.6         | 72.5        | -50        |

## Exhibit 1: Quarterly snapshot

| Profit and Loss INR b           | FY21        |             |             |             | FY22        |             |             |             | FY23        | Variation (%)   |           |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|-----------|
|                                 | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | YoY             | QoQ       |
| <b>Interest Income</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>81.8</b> | <b>8</b>        | <b>4</b>  |
| Loans                           | 60.7        | 59.9        | 59.1        | 61.2        | 61.8        | 62.4        | 63.3        | 63.9        | 67.2        | 9               | 5         |
| Investment                      | 10.0        | 9.5         | 9.3         | 9.6         | 10.0        | 9.9         | 10.2        | 10.4        | 10.5        | 6               | 1         |
| <b>Interest Expenses</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>40.6</b> | <b>1</b>        | <b>5</b>  |
| <b>Net Interest Income</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>41.3</b> | <b>16</b>       | <b>4</b>  |
| Other Income                    | 15.2        | 15.5        | 16.5        | 17.8        | 17.2        | 18.4        | 18.8        | 19.0        | 19.3        | 12              | 1         |
| Trading profits                 | 8.4         | 4.9         | 2.6         | 2.7         | 5.1         | 3.3         | 3.6         | 2.6         | 1.5         | -71             | -44       |
| Others (Ex non-core)            | 6.8         | 10.6        | 13.9        | 15.1        | 12.1        | 15.1        | 15.2        | 16.4        | 17.9        | 47              | 9         |
| <b>Total Income</b>             | <b>48.3</b> | <b>48.3</b> | <b>50.5</b> | <b>53.1</b> | <b>52.9</b> | <b>55.0</b> | <b>56.7</b> | <b>58.9</b> | <b>60.6</b> | <b>15</b>       | <b>3</b>  |
| Operating Expenses              | 19.0        | 19.8        | 20.9        | 21.9        | 21.7        | 22.8        | 23.6        | 25.1        | 26.3        | 21              | 5         |
| Employee                        | 7.4         | 7.2         | 7.4         | 8.3         | 8.4         | 8.5         | 8.7         | 9.2         | 9.3         | 10              | 1         |
| Others                          | 11.6        | 12.6        | 13.4        | 13.6        | 13.2        | 14.3        | 14.9        | 15.9        | 17.0        | 28              | 7         |
| <b>Operating Profits</b>        | <b>29.3</b> | <b>28.5</b> | <b>29.6</b> | <b>31.3</b> | <b>31.2</b> | <b>32.2</b> | <b>33.1</b> | <b>33.8</b> | <b>34.3</b> | <b>10</b>       | <b>2</b>  |
| <b>Core Operating Profits</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>32.8</b> | <b>26</b>       | <b>5</b>  |
| Provisions                      | 22.6        | 19.6        | 18.5        | 18.7        | 17.8        | 17.0        | 16.5        | 14.6        | 12.5        | -30             | -14       |
| <b>PBT</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>21.8</b> | <b>62</b>       | <b>14</b> |
| Taxes                           | 1.6         | 2.2         | 2.8         | 3.4         | 3.3         | 3.7         | 4.2         | 5.2         | 5.5         | 69              | 6         |
| <b>PAT</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>16.3</b> | <b>61</b>       | <b>16</b> |
| <b>Balance Sheet (INR b)</b>    |             |             |             |             |             |             |             |             |             |                 |           |
| Loans                           | 1,981       | 2,012       | 2,071       | 2,126       | 2,107       | 2,208       | 2,286       | 2,391       | 2,480       | 18              | 4         |
| Investments                     | 596         | 630         | 611         | 697         | 687         | 692         | 727         | 709         | 725         | 6               | 2         |
| Deposits                        | 2,113       | 2,279       | 2,391       | 2,559       | 2,672       | 2,753       | 2,845       | 2,933       | 3,027       | 13              | 3         |
| CASA Deposits                   | 845         | 918         | 966         | 1,068       | 1,123       | 1,159       | 1,199       | 1,253       | 1,305       | 16              | 4         |
| of which Savings                | 525         | 571         | 643         | 711         | 799         | 833         | 866         | 888         | 952         | 19              | 7         |
| Current                         | 319         | 348         | 323         | 357         | 324         | 326         | 333         | 365         | 353         | 9               | -3        |
| Borrowings                      | 592         | 524         | 486         | 513         | 493         | 463         | 457         | 473         | 418         | -15             | -12       |
| Total Assets                    | 3,179       | 3,320       | 3,414       | 3,629       | 3,730       | 3,805       | 3,906       | 4,020       | 4,101       | 10              | 2         |
| Risk Weighted Assets            | 2,617       | 2,617       | 2,655       | 2,729       | 2,724       | 2,756       | 2,811       | 2,951       | 3,031       | 11              | 3         |
| <b>Asset Quality (INR b)</b>    |             |             |             |             |             |             |             |             |             |                 |           |
| GNPA                            | 51.0        | 45.3        | 36.5        | 57.9        | 61.9        | 62.5        | 57.8        | 55.2        | 59.3        | -4              | 8         |
| NNPA                            | 17.0        | 10.6        | 4.6         | 14.8        | 17.6        | 17.7        | 16.3        | 15.3        | 16.6        | -6              | 9         |
| <b>Ratios</b>                   |             |             |             |             |             |             |             |             |             |                 |           |
| Asset Quality (%)               | FY21        |             |             |             | FY22        |             |             |             | FY23        | Variation (bps) |           |
|                                 | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | YoY             | QoQ       |
| GNPA                            | 2.5         | 2.2         | 1.7         | 2.7         | 2.9         | 2.8         | 2.5         | 2.3         | 2.4         | -53             | 8         |
| NNPA                            | 0.9         | 0.5         | 0.2         | 0.7         | 0.8         | 0.8         | 0.7         | 0.6         | 0.7         | -17             | 3         |
| PCR (Cal.)                      | 66.6        | 76.7        | 87.3        | 74.5        | 71.6        | 71.6        | 71.7        | 72.3        | 72.0        | 45              | -27       |
| <b>Business Ratios (%)</b>      |             |             |             |             |             |             |             |             |             |                 |           |
| Fees to Total Income            | 14.1        | 22.0        | 27.5        | 28.4        | 23.0        | 27.4        | 26.8        | 27.9        | 29.5        | 651             | 156       |
| Cost to Core Income             | 47.6        | 45.6        | 43.6        | 43.4        | 45.3        | 44.1        | 44.4        | 44.6        | 44.4        | -91             | -14       |
| Tax Rate                        | 23.7        | 25.3        | 25.2        | 26.7        | 24.3        | 24.3        | 25.1        | 27.0        | 25.2        | 92              | -180      |
| CASA (Reported)                 | 40.0        | 40.3        | 40.4        | 41.7        | 42.1        | 42.1        | 42.2        | 42.7        | 43.1        | 101             | 41        |
| Loan/Deposit                    | 93.8        | 88.3        | 86.6        | 83.1        | 78.9        | 80.2        | 80.4        | 81.5        | 81.9        | 306             | 42        |
| CAR                             | 15.2        | 16.6        | 16.3        | 17.4        | 17.6        | 17.4        | 18.1        | 18.4        | 18.1        | 57              | -28       |
| Tier I                          | 14.5        | 15.8        | 15.6        | 16.8        | 16.9        | 16.7        | 16.4        | 16.8        | 16.6        | -32             | -25       |
| <b>Profitability Ratios (%)</b> |             |             |             |             |             |             |             |             |             |                 |           |
| Yield on loans                  | 11.9        | 12.0        | 11.7        | 11.8        | 11.8        | 11.7        | 11.4        | 11.3        | 11.4        | -36             | 10        |
| Yield On Investments            | 6.7         | 6.2         | 6.0         | 5.9         | 5.8         | 5.8         | 5.8         | 5.8         | 5.9         | 10              | 9         |
| Yield on funds                  | 9.4         | 9.1         | 8.9         | 8.7         | 8.6         | 8.4         | 8.4         | 8.3         | 8.4         | -24             | 7         |
| Cost of deposits                | 5.7         | 5.6         | 5.3         | 5.0         | 5.0         | 4.9         | 4.7         | 4.6         | 4.8         | -18             | 19        |
| Cost of funds                   | 5.1         | 4.9         | 4.7         | 4.5         | 4.5         | 4.4         | 4.3         | 4.1         | 4.1         | -39             | 6         |
| Spreads                         | 4.3         | 4.2         | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         | 4.2         | 4.2         | 15              | 1         |
| Margins                         | 4.3         | 4.2         | 4.1         | 4.1         | 4.1         | 4.1         | 4.1         | 4.2         | 4.2         | 15              | 1         |
| RoA                             | 0.7         | 0.9         | 1.1         | 1.1         | 1.2         | 1.3         | 1.4         | 1.5         | 1.7         | 56              | 22        |
| RoE                             | 5.9         | 7.1         | 8.4         | 8.9         | 9.3         | 10.3        | 10.9        | 11.9        | 13.4        | 414             | 152       |

Source: MOFSL, Company



## Highlights from the management commentary

### Asset quality

- Standard slippages ratio moderated to 0.57% from 0.75% in 4QFY22
- Restructured book moderated to 2.1% in 1QFY23 from 2.6% in 4QFY22
- Net SR moderated to 72bp of loans in 1QFY23 from 83bp in 4QFY22
- Standard slippages declined for MFI and Corporate segments while they stood stable in Vehicle and other Retail segments
- MFI and Retail group in corporate banking saw the bulk of slippages from the restructuring book
- SMA 1 and 2 book stood at 10bp and 39bp, respectively
- Overall stress from restructured book is likely to be ~15-20%. ~70% of the book is likely to run down by 3QFY23

### Balance Sheet and P&L related

- The focus was on accelerating loan growth. Vehicle, corporate and other retail segments saw healthy growth in 1QFY23
- MFI disbursement too reached normalcy after witnessing some blip post the implementation of new RBI guidelines
- The bank added ~425k customers through branch banking – the highest ever addition in a quarter
- Retail LCR grew 17% YoY – in line with the bank's target
- Several banks increased their deposit rates, thus narrowing the gap with peers
- Certificate of Deposits formed mere 3% of total deposits
- The bank is targeting to reach a branch count of 2,500 by FY23E
- Retail fees formed 70% in 1QFY23 v/s 64% earlier

### MFI business

- Disbursements accelerated from May'22 and was at INR75.31b – the highest ever 1Q
- CE in the standard book stood at MFT 99.1% - stable QoQ. For new clients acquired post Covid-19, CE was at 99.2% - close to the pre-Covid levels
- The 30-90dpd within MFI, including restructured book, moderated to 2.2% in 1QFY23 from 2.6% in Mar'22
- Gross slippages moderated to INR5.6b in 1QFY23 from INR8.15b QoQ. Slippages from standard book moderated to INR2.78b from INR7.79b QoQ
- Restructured book moderated to INR6.44b in 1QFY23 from INR9.95b. Slippages from this book came in at INR2.81b

### Vehicle segment

- Disbursements in vehicle segment came in at INR100.8b, which saw a QoQ growth over 4QFY22 for the first time ever
- CV, Utility, Cards and Tractor segments are witnessing healthy growth while 3W and 2W continue to witness pressure
- CE at Standard book stood at Pre-Covid levels
- Slippages stood at INR4.5b – stable QoQ
- Restructured book declined to INR31.31b from INR32.98b QoQ. CE was at 80% in line with expectations

- Fresh disbursement are at higher rates thus yields are improving and is expected to improve further

#### Other segments

- Gems and Jewelry business grew 28% YoY/1% QoQ and formed 4.3% of total loans. Despite the disruption in industry due to Russia-Ukraine war, the asset quality did not see any deterioration and the bank has no SMA in this book
- Spends grew strongly and IIB witnessed the highest card addition in a quarter

#### Corporate

- Majority of the corporate book is floating in nature and the bank was able to pass the rate hike to customers. Thus, yields witnessed a QoQ improvement thereby reversing the declining trends
- Corporates rated A and above increased to 73.5% from 70.7% QoQ
- Net slippages stood at INR4.1b (INR2.5b pertained to the account of a Retail group, which was earlier declared NPA)
- Telecom exposure was at INR18.5b including fund-based exposure of INR10b

#### Guidance

- The bank maintains its guidance of 15-18% loan growth, PPop margin of >5%, credit cost of 120-150bp and C/I ratio of ~41-43%

## Key exhibits

**Exhibit 2: GNPA in CFD increased to 2.5%**

| Segmental GNPA                  | 1QFY21     | 2QFY21     | 3QFY21     | 4QFY21     | 1QFY22     | 2QFY22     | 3QFY22     | 4QFY22     | 1QFY23     |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| CV                              | 2.2        | 1.8        | 1.6        | 3.0        | 2.9        | 2.6        | 2.4        | 1.7        | 2.0        |
| Utility                         | 1.2        | 1.2        | 1.0        | 1.3        | 1.4        | 0.9        | 0.7        | 0.4        | 0.6        |
| CE                              | 1.1        | 0.9        | 0.8        | 1.2        | 1.5        | 1.2        | 1.4        | 1.1        | 1.6        |
| 3W                              | 1.8        | 1.8        | 1.6        | 2.9        | 7.6        | 4.7        | 3.6        | 2.1        | 2.1        |
| 2W                              | 2.6        | 3.8        | 3.1        | 6.7        | 9.8        | 9.2        | 9.3        | 9.2        | 7.9        |
| Cars                            | 0.8        | 0.9        | 0.7        | 1.3        | 1.8        | 1.2        | 1.0        | 0.7        | 0.8        |
| LAP/HL/PL                       | 0.5        | 0.4        | 0.4        | 2.8        | 2.8        | 2.6        | 2.2        | 3.1        | 1.7        |
| Cards                           | 0.8        | 0.6        | 0.2        | 1.6        | 4.4        | 5.1        | 4.6        | 3.3        | 2.3        |
| BBG/LAP                         | 1.2        | 0.9        | 0.9        | 3.4        | 3.3        | 3.9        | 3.4        | 3.1        | 3.5        |
| MFI                             | 1.6        | 1.6        | 1.5        | 1.5        | 1.7        | 3.0        | 3.2        | 2.5        | 3.4        |
| <b>GNPA in Consumer Finance</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> | <b>2.5</b> |

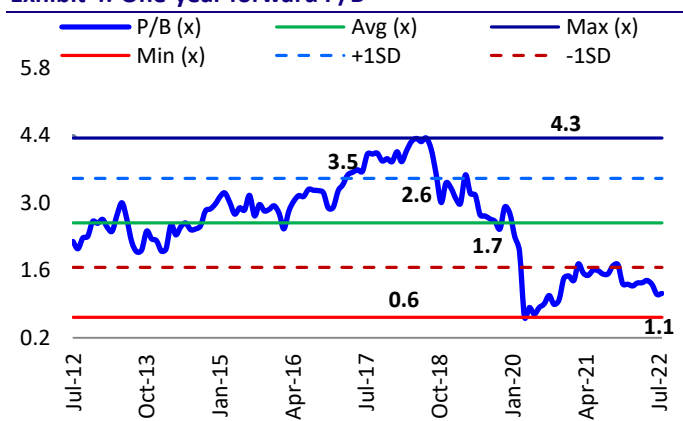
**Exhibit 3: Fees grew 47% YoY (9% QoQ) on a healthy pick up across general banking and third-party distribution**

|                                      | 1QFY21       | 2QFY21        | 3QFY21        | 4QFY21        | 1QFY22        | 2QFY22        | 3QFY22        | 4QFY22        | 1QFY23        | YoY        | QoQ       |
|--------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|-----------|
| <b>Fee based income</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>17,860</b> | <b>47%</b> | <b>9%</b> |
| Trade fees (LC, BG, and remittances) | 1,160        | 1,520         | 1,830         | 2,190         | 1,700         | 2,000         | 1,880         | 1,990         | 1,890         | 11%        | -5%       |
| Processing fees and other charges    | 990          | 2,120         | 3,010         | 3,570         | 2,860         | 4,240         | 3,820         | 5,040         | 5,110         | 51%        | 1%        |
| FX clients                           | 1,550        | 2,280         | 2,680         | 2,690         | 1,920         | 2,210         | 2,280         | 2,340         | 2,200         | 15%        | -6%       |
| Third-party distribution fees        | 1,740        | 3,230         | 3,700         | 3,990         | 3,110         | 3,600         | 3,880         | 4,700         | 5,070         | 63%        | 8%        |
| Investment banking fees              | 290          | 230           | 790           | 640           | 670           | 680           | 940           | 280           | 250           | 79%        | -11%      |
| General banking/other income         | 1,090        | 1,230         | 1,880         | 2,000         | 1,880         | 2,330         | 2,390         | 2,090         | 3,340         | 78%        | 60%       |

## Valuation and view

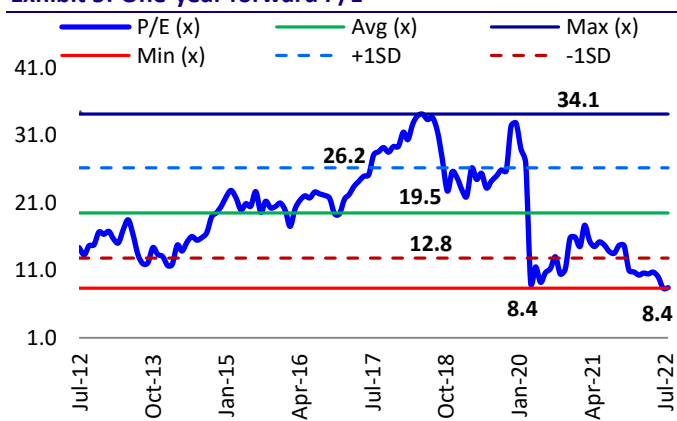
- Asset quality remains steady with GNPA/NNPA increasing marginally by 8bp/3bp QoQ to 2.35%/0.67%, respectively, as of Jun'22 largely due to slippages from the restructuring book. CE for the bank remained healthy. Restructured book moderated to 2.1% from 2.6% in 4QFY22. A healthy PCR of 72% and contingent provisions provide comfort. We estimate credit cost to moderate to 1.6%/1.4% in FY23/FY24, respectively.
- Loan growth is witnessing healthy traction across segments. Retail disbursements continue to remain strong and we expect the momentum to sustain. Deposit traction continues to remain healthy, with a focus on building a stable and granular liability franchise. IIB is working according to 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 estimate loan book to grow at 17% over FY22-24E.
- **Margins to remain stable:** Rising interest rate is likely to drive yields which along with pick up in loan growth will likely to support margin despite the bank having a higher proportion of fixed rate loans.
- **Buy with a TP of INR1,300:** IIB's operating performance remains on track led by healthy NII growth and controlled provisions. Asset quality ratios increased marginally on higher slippages from restructured assets though credit cost outlook remains in control. The management is guiding for continued loan growth momentum driven by steady trends across both consumer and corporate businesses. Healthy provisioning in the MFI portfolio and contingent provisioning buffer of 1.2% of loans will enable a sharp decline in credit costs, thereby driving sharp recovery in earnings. We estimate PAT to grow at 35% CAGR over FY22-24 leading to 15.2% RoE in FY24. **We maintain our BUY rating with a TP of INR1,300 (premised on 1.7x FY24E ABV).**

Exhibit 4: One-year forward P/B



Source: MOFSL, Company

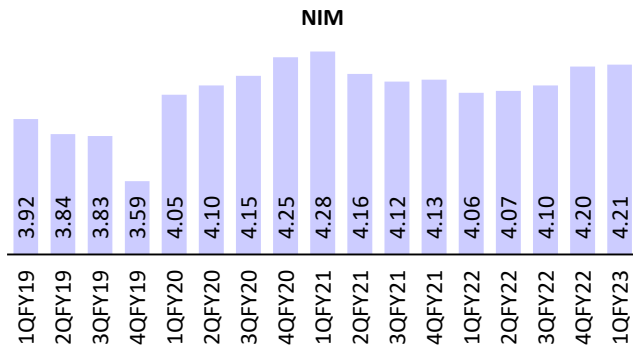
Exhibit 5: One-year forward P/E



Source: MOFSL, Company

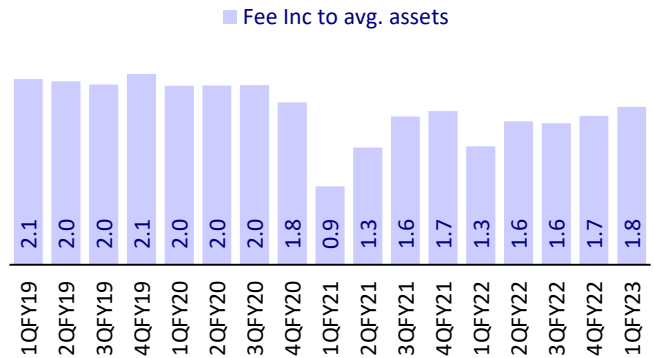
## Story in charts

**Exhibit 1: NIM improved marginally by 1bp QoQ to 4.21%**



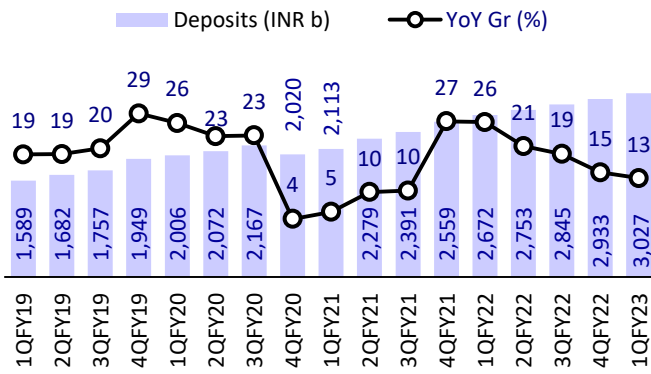
Source: MOFSL, Company

**Exhibit 2: Fee income to average assets improved to 1.8%**



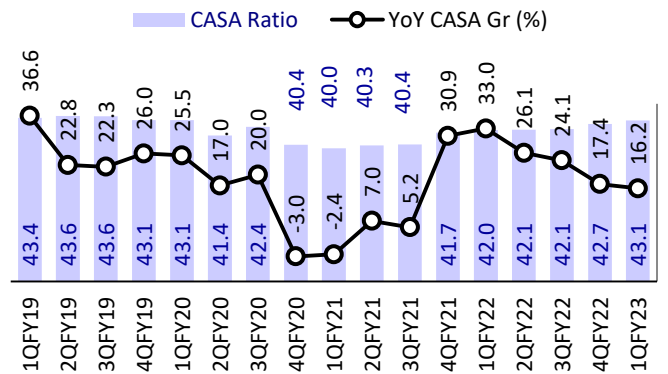
Source: MOFSL, Company

**Exhibit 3: Deposit growth healthy at 13% YoY (+3.2% QoQ)**



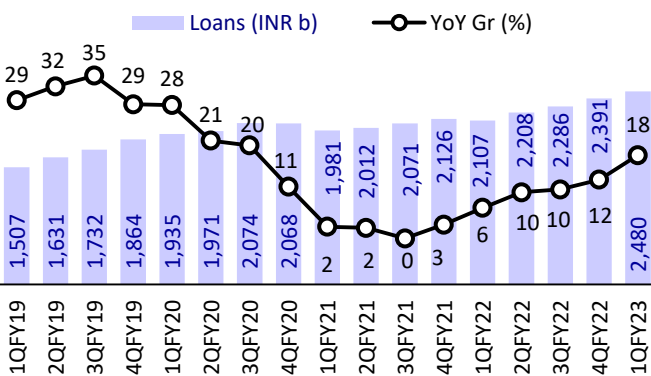
Source: MOFSL, Company

**Exhibit 4: CASA deposits grew 16% YoY to 43.71%**



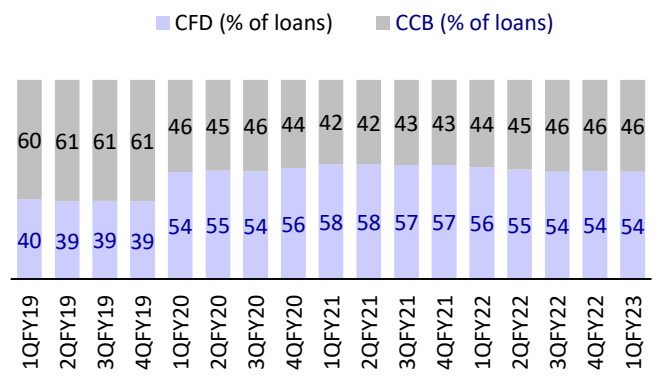
Source: MOFSL, Company

**Exhibit 5: Loan book grew ~18% YoY (+3.7% QoQ)**



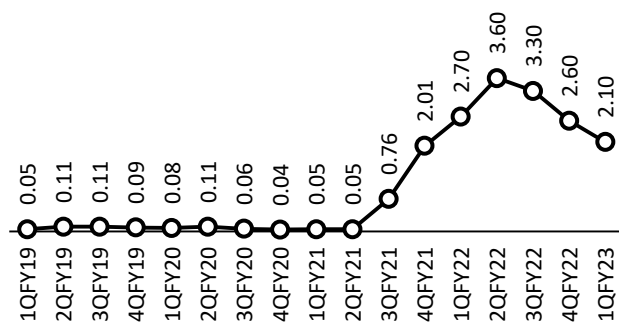
Source: MOFSL, Company

**Exhibit 6: CFD mix stood at 54% as the bank reclassified BBG and MFI in CFD post 1QFY20**



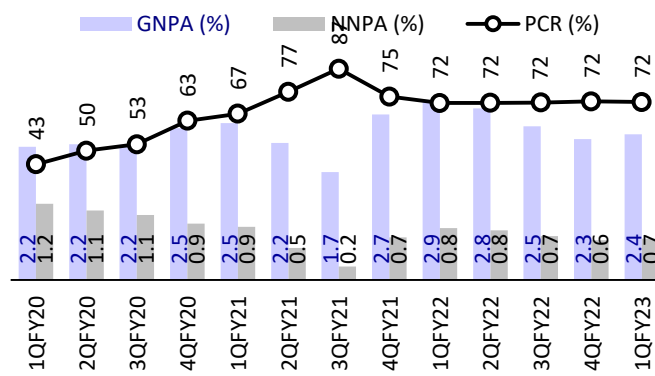
Source: MOFSL, Company

Exhibit 7: Restructured book moderated to 2.1%



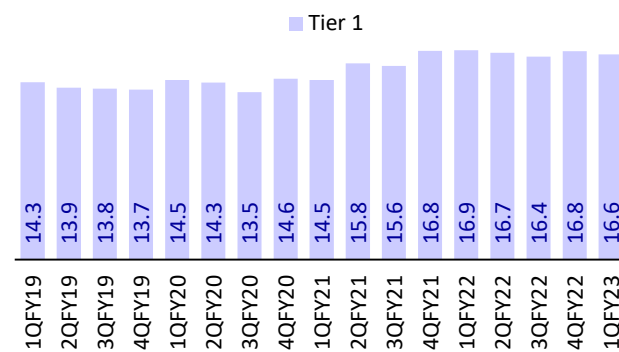
Source: MOFSL, Company

Exhibit 8: GNPA/NNPA ratio increased 8bp/3bp QoQ to 2.35%/0.67% in Jun'22, PCR was strong at 72%



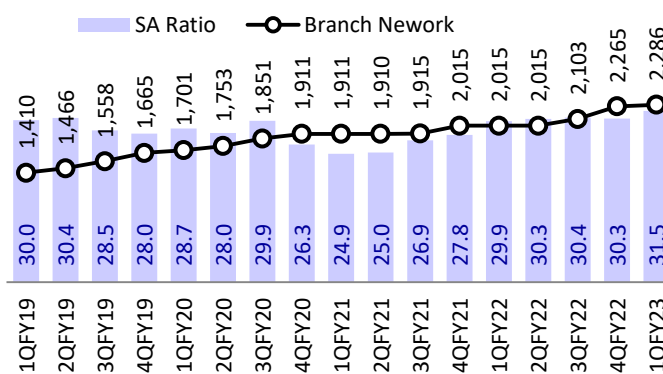
Source: MOFSL, Company

Exhibit 9: Tier I capital remained healthy at 16.6%



Source: MOFSL, Company

Exhibit 10: Bank branch count stood at 2,286



Source: MOFSL, Company

Exhibit 11: DuPont Analysis: Return ratios to witness continuous pick up

| Y/E March                  | FY18        | FY19        | FY20        | FY21        | FY22        | FY23E       | FY24E       |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income            | 8.63        | 8.91        | 9.84        | 8.66        | 8.06        | 8.69        | 9.03        |
| Interest Expense           | 4.89        | 5.37        | 5.72        | 4.62        | 4.14        | 4.59        | 4.87        |
| <b>Net Interest Income</b> | <b>3.75</b> | <b>3.54</b> | <b>4.12</b> | <b>4.04</b> | <b>3.92</b> | <b>4.10</b> | <b>4.16</b> |
| Core Fee Income            | 2.19        | 2.22        | 2.19        | 1.51        | 1.52        | 1.71        | 1.79        |
| Trading and others         | 0.18        | 0.05        | 0.19        | 0.44        | 0.40        | 0.18        | 0.18        |
| <b>Non-Interest income</b> | <b>2.37</b> | <b>2.26</b> | <b>2.38</b> | <b>1.96</b> | <b>1.92</b> | <b>1.89</b> | <b>1.97</b> |
| <b>Total Income</b>        | <b>6.12</b> | <b>5.80</b> | <b>6.50</b> | <b>6.00</b> | <b>5.84</b> | <b>5.99</b> | <b>6.13</b> |
| <b>Operating Expenses</b>  | <b>2.79</b> | <b>2.56</b> | <b>2.82</b> | <b>2.50</b> | <b>2.43</b> | <b>2.58</b> | <b>2.66</b> |
| Employee cost              | 0.89        | 0.74        | 0.76        | 0.66        | 0.91        | 0.94        | 0.96        |
| Others                     | 1.90        | 1.82        | 2.06        | 1.83        | 1.53        | 1.64        | 1.70        |
| <b>Operating Profit</b>    | <b>3.33</b> | <b>3.24</b> | <b>3.68</b> | <b>3.50</b> | <b>3.41</b> | <b>3.41</b> | <b>3.48</b> |
| Core operating Profits     | 3.14        | 3.19        | 3.49        | 3.06        | 3.01        | 3.23        | 3.29        |
| <b>Provisions</b>          | <b>0.59</b> | <b>1.24</b> | <b>1.59</b> | <b>2.37</b> | <b>1.73</b> | <b>1.13</b> | <b>1.02</b> |
| NPA                        | 0.45        | 1.09        | 1.24        | 1.51        | 1.73        | 1.00        | 0.91        |
| Others                     | 0.14        | 0.16        | 0.35        | 0.86        | 0.00        | 0.13        | 0.11        |
| <b>PBT</b>                 | <b>2.74</b> | <b>1.99</b> | <b>2.09</b> | <b>1.13</b> | <b>1.68</b> | <b>2.29</b> | <b>2.45</b> |
| Tax                        | 0.94        | 0.67        | 0.58        | 0.28        | 0.43        | 0.58        | 0.62        |
| <b>RoA</b>                 | <b>1.80</b> | <b>1.32</b> | <b>1.51</b> | <b>0.85</b> | <b>1.26</b> | <b>1.71</b> | <b>1.84</b> |
| Leverage (x)               | 9.1         | 10.0        | 9.6         | 8.7         | 8.4         | 8.3         | 8.3         |
| <b>RoE</b>                 | <b>16.5</b> | <b>13.2</b> | <b>14.5</b> | <b>7.3</b>  | <b>10.6</b> | <b>14.2</b> | <b>15.2</b> |

## Financials and valuations

| Income Statement             |              |              |              |              |              | (INR b)      |              |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E March                    | FY18         | FY19         | FY20         | FY21         | FY22         | FY23E        | FY24E        |
| Interest Income              | 172.8        | 222.6        | 287.8        | 290.0        | 308.2        | 368.5        | 431.9        |
| Interest Expense             | 97.8         | 134.1        | 167.2        | 154.7        | 158.2        | 194.5        | 232.9        |
| <b>Net Interest Income</b>   | <b>75.0</b>  | <b>88.5</b>  | <b>120.6</b> | <b>135.3</b> | <b>150.0</b> | <b>174.0</b> | <b>199.0</b> |
| Growth (%)                   | 23.7         | 18.0         | 36.3         | 12.2         | 10.9         | 16.0         | 14.3         |
| Non-Interest Income          | 47.5         | 56.5         | 69.5         | 65.6         | 73.4         | 80.0         | 94.4         |
| <b>Total Income</b>          | <b>122.5</b> | <b>144.9</b> | <b>190.1</b> | <b>200.9</b> | <b>223.4</b> | <b>254.0</b> | <b>293.4</b> |
| Growth (%)                   | 19.7         | 18.3         | 31.2         | 5.7          | 11.2         | 13.7         | 15.5         |
| Operating Expenses           | 55.9         | 64.0         | 82.4         | 83.6         | 93.1         | 109.3        | 127.1        |
| <b>Pre Provision Profits</b> | <b>66.6</b>  | <b>80.9</b>  | <b>107.7</b> | <b>117.3</b> | <b>130.3</b> | <b>144.7</b> | <b>166.3</b> |
| Growth (%)                   | 22.1         | 21.5         | 33.2         | 8.9          | 11.1         | 11.1         | 14.9         |
| <b>Core PPP</b>              | <b>62.9</b>  | <b>79.7</b>  | <b>102.2</b> | <b>102.4</b> | <b>115.0</b> | <b>137.1</b> | <b>157.5</b> |
| Growth (%)                   | 21.6         | 26.7         | 28.2         | 0.2          | 12.3         | 19.2         | 14.9         |
| Provisions (excl. tax)       | 11.8         | 31.1         | 46.5         | 79.4         | 66.0         | 47.8         | 48.9         |
| <b>PBT</b>                   | <b>54.8</b>  | <b>49.8</b>  | <b>61.2</b>  | <b>37.8</b>  | <b>64.3</b>  | <b>96.9</b>  | <b>117.4</b> |
| Tax                          | 18.7         | 16.8         | 17.0         | 9.5          | 16.3         | 24.4         | 29.6         |
| Tax Rate (%)                 | 34.2         | 33.7         | 27.8         | 25.0         | 25.3         | 25.2         | 25.2         |
| <b>PAT</b>                   | <b>36.1</b>  | <b>33.0</b>  | <b>44.2</b>  | <b>28.4</b>  | <b>48.0</b>  | <b>72.5</b>  | <b>87.8</b>  |
| Growth (%)                   | 25.7         | -8.5         | 33.8         | -35.8        | 69.4         | 50.9         | 21.1         |

| Balance Sheet                 |                |                |                |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Y/E March                     | FY18           | FY19           | FY20           | FY21           | FY22           | FY23E          | FY24E          |
| Equity Share Capital          | 6.0            | 6.0            | 6.9            | 7.7            | 7.7            | 7.7            | 7.7            |
| Reserves & Surplus            | 232.3          | 260.7          | 340.0          | 425.9          | 472.5          | 536.0          | 613.8          |
| <b>Net Worth</b>              | <b>238.3</b>   | <b>266.7</b>   | <b>347.0</b>   | <b>433.6</b>   | <b>480.3</b>   | <b>543.7</b>   | <b>621.5</b>   |
| <b>Deposits</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>3,879.3</b> |
| Growth (%)                    | 19.8           | 28.5           | 3.7            | 26.8           | 14.5           | 14.0           | 16.0           |
| <b>of which CASA Deposits</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>1,679.7</b> |
| Growth (%)                    | 43.1           | 26.0           | -3.0           | 31.3           | 17.0           | 14.2           | 17.4           |
| Borrowings                    | 382.9          | 473.2          | 607.5          | 513.2          | 473.2          | 433.3          | 455.1          |
| Other Liabilities & Prov.     | 78.6           | 89.4           | 95.6           | 120.8          | 132.7          | 139.3          | 149.1          |
| <b>Total Liabilities</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>4,460.5</b> | <b>5,104.9</b> |
| Current Assets                | 132.2          | 147.8          | 160.0          | 563.3          | 685.8          | 608.2          | 632.8          |
| <b>Investments</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 (%)                    | 36.4           | 18.4           | 1.2            | 16.2           | 1.8            | 13.0           | 14.0           |
| <b>Loans</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>2,785.0</b> | <b>3,286.2</b> |
| Growth (%)                    | 28.2           | 28.6           | 10.9           | 2.8            | 12.4           | 16.5           | 18.0           |
| Fixed Assets                  | 13.4           | 17.1           | 18.2           | 18.1           | 19.3           | 21.2           | 23.3           |
| <b>Total Assets</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>4,460.5</b> | <b>5,104.9</b> |

| Asset Quality               |      |      |      |      |      |      |      |
|-----------------------------|------|------|------|------|------|------|------|
| GNPA                        | 17.0 | 39.5 | 51.5 | 57.9 | 55.2 | 50.0 | 55.9 |
| NNPA                        | 7.5  | 22.5 | 18.9 | 14.8 | 15.3 | 16.2 | 14.2 |
| GNPA Ratio                  | 1.2  | 2.1  | 2.5  | 2.7  | 2.3  | 1.8  | 1.7  |
| NNPA Ratio                  | 0.5  | 1.2  | 0.9  | 0.7  | 0.6  | 0.6  | 0.4  |
| Slippage Ratio              | 2.58 | 3.25 | 2.97 | 3.65 | 4.48 | 3.0  | 2.5  |
| Credit Cost                 | 0.91 | 1.88 | 2.37 | 3.79 | 2.92 | 1.6  | 1.4  |
| PCR (Excl. Tech. write off) | 56.3 | 43.0 | 63.3 | 74.5 | 72.3 | 67.6 | 74.6 |

## Financials and valuations

### Ratios

| Y/E March                         | FY18       | FY19       | FY20        | FY21       | FY22       | FY23E      | FY24E      |
|-----------------------------------|------------|------------|-------------|------------|------------|------------|------------|
| <b>Yield and Cost Ratios (%)</b>  |            |            |             |            |            |            |            |
| <b>Avg. Yield-Earning Assets</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               | 10.6       | 11.0       | 12.2        | 11.5       | 11.1       | 11.7       | 11.9       |
| Avg. Yield on Investments         | 6.6        | 7.3        | 7.1         | 6.8        | 7.2        | 6.0        | 5.8        |
| <b>Avg. Cost-Int. Bear. Liab.</b> | <b>5.8</b> | <b>6.2</b> | <b>6.6</b>  | <b>5.4</b> | <b>4.9</b> | <b>5.4</b> | <b>5.7</b> |
| Avg. Cost of Deposits             | 5.8        | 6.1        | 6.5         | 5.0        | 5.0        | 5.1        | 5.3        |
| <b>Interest Spread</b>            | <b>3.4</b> | <b>3.4</b> | <b>4.1</b>  | <b>4.3</b> | <b>3.6</b> | <b>4.1</b> | <b>4.2</b> |
| <b>Net Interest Margin</b>        | <b>4.2</b> | <b>4.0</b> | <b>4.6</b>  | <b>4.6</b> | <b>4.4</b> | <b>4.6</b> | <b>4.6</b> |

### Capitalisation Ratios (%)

|         |      |      |      |      |      |      |      |
|---------|------|------|------|------|------|------|------|
| CAR     | 15.0 | 14.2 | 15.0 | 17.4 | 18.4 | 17.8 | 16.5 |
| Tier I  | 14.6 | 13.7 | 14.6 | 16.8 | 16.8 | 16.4 | 15.3 |
| Tier II | 0.5  | 0.5  | 0.5  | 0.6  | 1.6  | 1.4  | 1.2  |

### Business and Efficiency Ratios (%)

|                            |      |      |       |      |      |      |      |
|----------------------------|------|------|-------|------|------|------|------|
| Loans/Deposit Ratio        | 95.6 | 95.7 | 102.3 | 83.0 | 81.5 | 83.3 | 84.7 |
| CASA Ratio                 | 44.0 | 43.1 | 40.4  | 41.8 | 42.7 | 42.8 | 43.3 |
| Cost/Assets                | 2.5  | 2.3  | 2.7   | 2.3  | 2.3  | 2.5  | 2.5  |
| Cost/Total Income          | 45.7 | 44.2 | 43.3  | 41.6 | 41.7 | 43.0 | 43.3 |
| Cost/Core Income           | 47.1 | 44.5 | 44.6  | 44.9 | 44.7 | 44.4 | 44.6 |
| Int. Expense/Int. Income   | 56.6 | 60.3 | 58.1  | 53.4 | 51.3 | 52.8 | 53.9 |
| Fee Income/Total Income    | 35.8 | 38.2 | 33.7  | 25.3 | 26.0 | 28.5 | 29.2 |
| Non Int. Inc./Total Income | 38.8 | 39.0 | 36.6  | 32.7 | 32.9 | 31.5 | 32.2 |
| Emp. Cost/Total Expense    | 31.8 | 28.9 | 26.8  | 26.5 | 37.3 | 36.5 | 36.2 |
| Investment/Deposit Ratio   | 33.0 | 30.4 | 29.7  | 27.2 | 24.2 | 24.0 | 23.6 |

### Profitability Ratios and Valuations

|                           |             |             |             |             |             |            |            |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| RoE                       | 16.5        | 13.2        | 14.5        | 7.3         | 10.6        | 14.2       | 15.2       |
| RoA                       | 1.8         | 1.3         | 1.5         | 0.8         | 1.3         | 1.7        | 1.8        |
| RoRWA                     | 2.1         | 1.5         | 1.7         | 1.0         | 1.6         | 2.1        | 2.2        |
| Book Value (INR)          | 393.9       | 439.8       | 497.9       | 558.5       | 617.9       | 699.6      | 800.1      |
| Growth (%)                | 15.3        | 11.7        | 13.2        | 12.2        | 10.6        | 13.2       | 14.4       |
| <b>Price-BV (x)</b>       | <b>2.2</b>  | <b>2.0</b>  | <b>1.8</b>  | <b>1.6</b>  | <b>1.4</b>  | <b>1.3</b> | <b>1.1</b> |
| Adjusted BV (INR)         | 385.2       | 413.7       | 478.2       | 544.6       | 603.6       | 684.3      | 786.6      |
| <b>Price-ABV (x)</b>      | <b>2.3</b>  | <b>2.1</b>  | <b>1.8</b>  | <b>1.6</b>  | <b>1.5</b>  | <b>1.3</b> | <b>1.1</b> |
| EPS (INR)                 | 60.2        | 54.9        | 68.2        | 38.7        | 62.1        | 93.6       | 113.3      |
| Growth (%)                | 25.2        | -8.8        | 24.2        | -43.3       | 60.5        | 50.8       | 21.1       |
| <b>Price-Earnings (x)</b> | <b>14.6</b> | <b>16.0</b> | <b>12.9</b> | <b>22.7</b> | <b>14.2</b> | <b>9.4</b> | <b>7.8</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 |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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