

July 20, 2022

RESULT REPORT Q1 FY23 | Sector: Banks

Indusind Bank Ltd

Rise in net slippages underlines crystallization of stress

Result Highlights

- ✓ **Asset quality:** Gross slippages amounted to Rs 22.50bn (annualized slippage ratio of 3.6%) and recoveries and upgrades amounted to Rs 6.04bn
- ✓ **Margin picture:** NIM at 4.21% inched up 1 bp QoQ aided by a slightly higher rise in yield on assets compared with that for cost of funds
- ✓ **Asset growth:** Advances grew 3.7%/17.7% QoQ/YoY driven sequentially by Mid and Small corporates and few retail segments
- ✓ **Opex control:** Total opex rose 4.0%/20.1% QoQ/YoY, employee expenses rose 0.3%/8.6% QoQ/YoY and other expenses rose 5.3%/24.5% QoQ/YoY
- ✓ **Fee income:** Core fee income rose 8.6%/47.1% QoQ/YoY driven sequentially by general banking fees

Our view – Rise in net slippages underlines crystallization of stress

Slippages rise sequentially driven by restructured book slippages while recoveries and upgrades decline: Gross NPA additions had amounted to Rs 20.88bn during 4QFY22, implying a sequential rise of Rs 1.6bn in 1QFY23. Recoveries and upgrades amounted to Rs 6.04bn in 1QFY23, implying a sequential decline of Rs 3.9bn. Credit costs for the quarter amounted to 50 bps on non-annualised basis but management stuck to a guidance of 120-150 bps annualised credit costs, which is a planning cycle 5 aspiration. The slippages from restructured book amounted to Rs 9.21bn for the quarter. The restructured book itself declined from 2.6% of loan book to 2.1% of loan book on sequential basis, with management stating that it would run down 70% of this book by the end of the current financial year.

NIM inched up 1bp as decline in cost of borrowings protected cost of funds from declining more than it did: Overall yield on assets rose 7 bps QoQ to 8.35% on the back of repricing of assets. While cost of deposits rose 19 bps QoQ to 4.79%, the rise in cost of funds was significantly lower at 6 bps, to 4.14%, due to decline in cost of borrowings. Management reiterated that NIM would be in the range of 415-425 bps.

Management reiterated planning cycle 5 growth intent, hoping to achieve it via vehicle finance and microfinance: The planning cycle 5 growth target is 15-18%. Management stated a growth of 16-18% is possible for vehicle finance whereas, microfinance book can grow at 25-30%. For the quarter, mid-corporate and small corporate loan growth was 4.7% and 11.0% QoQ, respectively. Among retail loans, commercial vehicle loans, utility vehicle loans, credit cards and the home+personal+gold loan bucket outperformed, growing 5.2%, 10.1%, 17.1% and 9.5% QoQ, respectively.

We maintain 'Buy' rating on IIB with a revised price target of Rs 1126: We value the bank at 1.5x FY24 P/BV for an FY23E/24E/25E RoE profile of 13.5/14.4%/15.5%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Interest Income	81,818	78,599	4.1	75,747	8.0
Interest expended	(40,565)	(38,747)	4.7	(40,110)	1.1
Net Interest Income	41,253	39,852	3.5	35,637	15.8
Other income	19,287	19,001	1.5	17,164	12.4
Total Income	60,540	58,853	2.9	52,801	14.7
Operating expenses	(26,603)	(25,587)	4.0	(22,142)	20.1
PPOP	33,937	33,266	2.0	30,659	10.7
Provisions	(12,510)	(14,616)	(14.4)	(17,793)	(29.7)
PBT	21,427	18,650	14.9	12,865	66.5
Tax	(5,394)	(5,036)	7.1	(3,116)	73.1
PAT	16,033	13,614	17.8	9,749	64.4

Source: Company, YES Sec-Research

Recommendation : **BUY**

Current price : Rs 879

Target price : Rs 1,126

Potential return : 28%

Stock data (as on July 20, 2022)

Nifty	16,521
52 Week h/l (Rs)	1242 / 763
Market cap (Rs/USD mn)	681548 / 8521
Outstanding Shares (mn)	775
6m Avg t/o (Rs mn):	3,230
Div yield (%):	1.0
Bloomberg code:	IIB IN
NSE code:	INDUSINDBK

Stock performance



Shareholding pattern (As of Jun'22 end)

Promoter	16.5%
FII+DII	68.2%
Others	15.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,126	1,150

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
NII	165,109	189,140	226,835
PPOP	132,201	150,372	181,334
Net Profit	66,636	78,467	96,994
Growth (%)	44.5	17.8	23.6
EPS (Rs)	86.0	101.3	125.2
BVPS (Rs)	658	750	867
P/E (x)	10.2	8.7	7.0
P/BV (x)	1.3	1.2	1.0
ROE (%)	13.5	14.4	15.5
ROA (%)	1.6	1.7	1.8
Tier-1 (%)	15.6	14.6	13.6

Δ in earnings estimates

Rs.	FY23E	FY24E	FY25E
EPS (New)	86.0	101.3	125.2
EPS (Old)	87.3	104.2	126.9
% change	-1.4%	-2.8%	-1.4%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- ✓ **Slippages and other NPA movement**
 - **Slippages**
 - Gross NPA additions amounted to Rs 22.50bn in 1QFY23, translating to an annualized slippage ratio of 3.6% for the quarter. (Gross NPA additions had amounted to Rs 20.88bn during 4QFY22.)
 - The slippages from restructured book amounted to Rs 9.21bn for the quarter.
 - **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 6.04bn in 1QFY23, implying net NPA addition of Rs 16.46bn for the quarter.
 - **Write offs**
 - Write offs were higher due to a media and a real estate account being written off.
- ✓ **Provisions / credit costs**
 - **P&L provisions**
 - Provisions were Rs 12,510mn, down by -14.4% QoQ and -29.7% YoY.
 - Credit costs for the quarter amounted to 50 bps on non-annualised basis.
 - **Credit cost guidance**
 - Credit cost guidance is for 120-150 bps.
 - **Outstanding provisions**
 - Contingent standard asset provisions on the balance sheet amounted to Rs 30.03bn.
 - All loan-related provisions taken together amount to 3.38% of loan book.
- ✓ **Restructured book**
 - Restructured book declined from 2.6% of loan book to 2.1% of loan book on sequential basis.
 - The bank would run down 70% of the restructured book by the end of the current financial year.
- ✓ **Security receipts**
 - Net SR book declined from 83 bps to 72 bps.
- ✓ **SMA book**
 - SMA1 is 10 bps and SMA2 is 39 bps.

Loan growth

- **Disbursement**
 - There was sequential growth in overall disbursement in the first quarter of the financial year after a long time.
 - Disbursement has been strong in vehicle finance, corporate loans and other retail loans.
- **Credit cards**
 - The bank executed the highest ever card acquisitions of 75700.
- **Loan growth guidance**
 - The bank remains committed to PC5 loan growth CAGR guidance of 15-18%.

(Con call takeaways continue on the next page)

- **Segmental guidance**
 - **Vehicle finance**
 - A growth of 16-18% is possible for vehicle finance.
 - **Microfinance**
 - Microfinance book can grow at 25-30%.
 - **Merchant acquiring**
 - The merchant acquiring book is expected to grow from Rs 23bn to Rs 40bn.
 - **Corporate lending**
 - The pricing is still very fine in corporate lending but the bank would still grow this book.
- **More segmental colour**
 - **Microfinance**
 - Microfinance disbursement has improved but business was negatively impacted by RBI guidelines, which impacted new-to-bank customer addition.
 - New-to-bank clients additions used to be about 9000 per month but had declined to about 5000 per month.
 - **Vehicle finance**
 - The bank has moved into LCV segments and has an 8% market share in it.

Deposit accretion

- There has been healthy growth in CASA as well as retail LCR deposits.
- Share of LCR retail deposits is 41% and the first target is to take it to 45%.
- NRI flows have been stable and affluent piece is also a focus area.

Net interest margin

- **Yield on advances**
 - Overall yield on advances rose 10 bps QoQ to 11.39% on the back of repricing of assets.
 - Unlike recent trends, yield on corporate advances also rose sequentially by 7 bps to 7.80%.
- **Cost of funds**
 - While cost of deposits rose 19 bps QoQ to 4.79%, the rise in cost of funds was significantly lower at 6 bps to 4.14% due to decline in cost of borrowings.
- **NIM guidance**
 - NIM would be in the range of 415-425 bps.
- **Share of unsecured loans**
 - Share of unsecured loans is less than 30% of loan book.
 - Share of credit card and personal loans has been kept less than 5%.
 - Share of microfinance could rise to 15% of loan book.

Fee income

- Core fee income growth rose 9% QoQ to Rs 17.86bn driven by General Banking fee growth of 60% QoQ and Distribution Fee growth of 8% QoQ.
- General banking fee growth was driven by deposit processing fees, payments and PSLC fees, the latter increasing by Rs 0.5-0.6bn.

Operating expenses

- Cost to income ratio would be range-bound between 41-43%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Loan book	2,479,600	2,390,510	3.7	2,107,270	17.7
Corporate & Comm. Banking	1,144,290	1,094,630	4.5	924,070	23.8
Large Corporates	623,220	602,230	3.5	446,090	39.7
Mid size Corporates	422,100	403,220	4.7	437,540	(3.5)
Small Corporates	98,970	89,180	11.0	40,440	144.7
Consumer Finance	1,335,310	1,295,880	3.0	1,183,200	12.9
Commercial vehicle loans	244,150	232,090	5.2	228,530	6.8
Utility vehicle loans	67,970	61,720	10.1	49,620	37.0
Small CV	31,840	30,440	4.6	32,710	(2.7)
2Wheeler loans	43,580	44,680	(2.5)	51,150	(14.8)
Car loans	87,890	83,920	4.7	77,640	13.2
Tractor	82,500	79,070	4.3	68,490	20.5
Equipment financing	87,900	87,310	0.7	88,310	(0.5)
Credit cards	64,780	55,200	17.4	45,120	43.6
Loan against property	90,090	88,170	2.2	87,610	2.8
Home, Personal, Gold	118,550	108,240	9.5	77,880	52.2
Business Banking	122,030	118,920	2.6	112,230	8.7
Microfinance	294,030	306,120	(3.9)	263,910	11.4
Deposits	3,027,190	2,936,814	3.1	2,672,330	13.3
Current	352,650	365,070	(3.4)	324,210	8.8
Saving	952,430	888,260	7.2	799,280	19.2
Term	1,722,110	1,683,484	2.3	1,548,840	11.2

Source: Company, YES Sec – Research

Exhibit 3: Key quarterly ratios

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Net interest margin	4.21	4.20	1bps	4.06	15bps
Yield on advances	11.4	11.3	10bps	11.8	-36bps
Cost of deposits	4.79	4.60	19bps	4.97	-18bps
CASA ratio	43.2	42.8	40bps	42.1	110bps
C/D ratio	81.9	81.4	51bps	78.9	306bps
Non-int. income / Total income	31.9	32.3	-43bps	32.5	-65bps
Cost to Income ratio	43.9	43.5	47bps	41.9	201bps
RoA	1.7	1.5	23bps	1.1	58bps
Annualised Slippage Ratio	3.6	3.5	12bps	5.3	-167bps
Provision Coverage Ratio	72.0	72.0	0bps	72.0	0bps
Gross NPA	2.4	2.3	8bps	2.9	-53bps
Net NPA	0.7	0.6	3bps	0.8	-17bps
Capital adequacy ratio	18.1	18.4	-28bps	17.6	57bps
Tier I capital ratio	16.6	16.8	-25bps	16.9	-32bps
Common equity tier I capital ratio	16.1	16.0	10bps	15.6	47bps

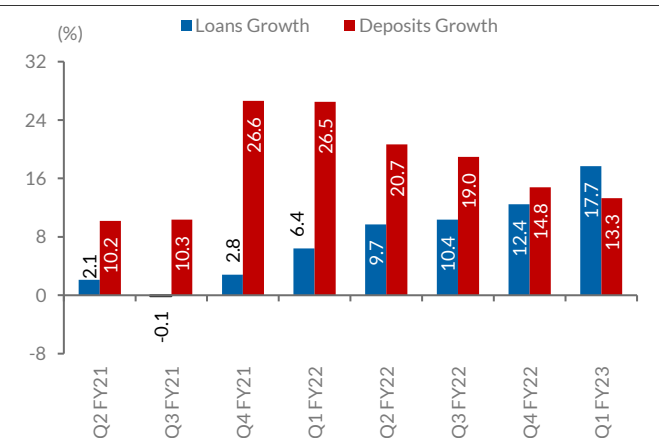
Source: Company, YES Sec – Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY23 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	41,253	41,833	(1.4)
Pre-Prov. Operating Profit	33,937	32,997	2.8
Profit After Tax	16,033	15,748	1.8

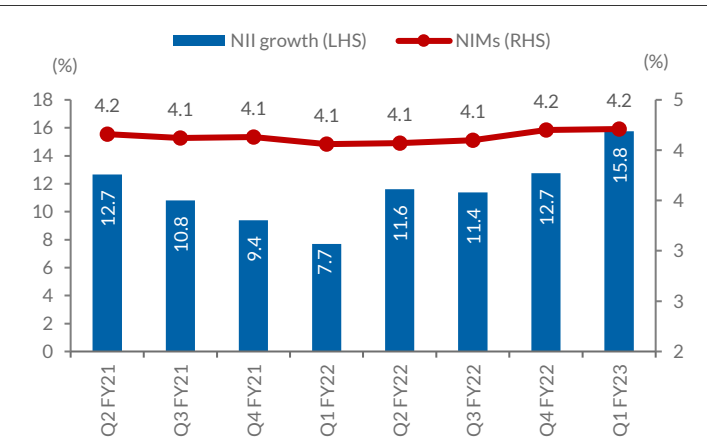
Source: Company, YES Sec – Research

Exhibit 5: Loans and Deposits growth (YoY %)



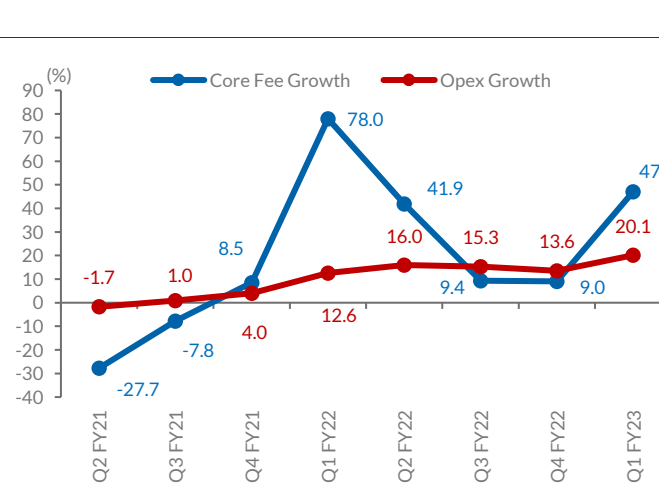
Source: Company, YES Sec – Research

Exhibit 6: NII growth (YoY %) and NIM



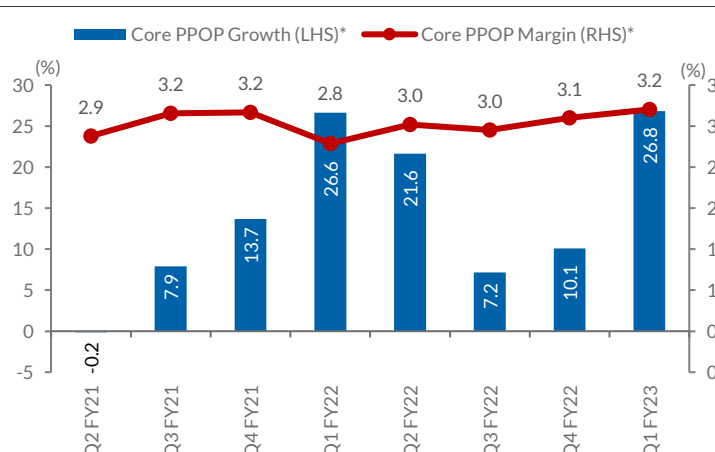
Source: Company, YES Sec – Research

Exhibit 7: Core Fee and Opex growth (YoY %)



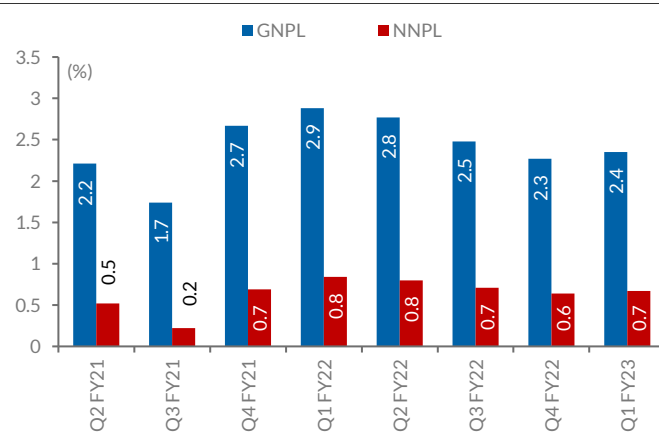
Source: Company, YES Sec – Research

Exhibit 8: Core PPOP growth (YoY %) and Core PPOP margin



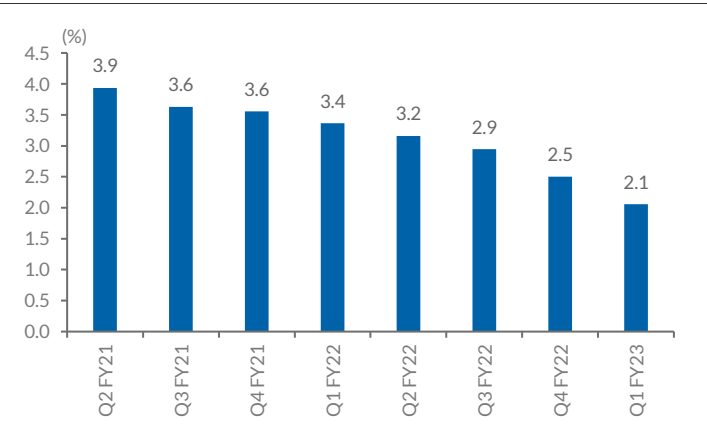
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 9: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 10: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Indusind Bank Ltd

Exhibit 11: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 12: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total cash & equivalents	563,272	682,745	305,030	359,935	424,723
Investments	696,947	709,708	803,367	943,600	1,108,639
Advances	2,125,954	2,390,515	2,772,998	3,272,137	3,861,122
Fixed assets	18,094	18,487	20,336	22,369	24,606
Other assets	225,461	218,291	261,949	314,339	377,207
Total assets	3,629,727	4,019,746	4,163,679	4,912,381	5,796,297
Net worth	433,654	476,972	509,398	581,280	671,689
Deposits	2,562,050	2,936,814	3,357,544	3,906,598	4,554,481
Borrowings	513,228	473,232	115,401	222,929	350,268
Other liabilities	120,796	132,728	181,336	201,574	219,858
Total liabilities incl. Equity	3,629,727	4,019,746	4,163,679	4,912,381	5,796,297

Source: Company, YES Sec – Research

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	289,998	308,224	342,319	392,330	467,450
Interest expense	(154,719)	(158,216)	(177,209)	(203,190)	(240,615)
Net interest income	135,279	150,008	165,109	189,140	226,835
Non-interest income	65,586	73,971	76,828	89,873	106,022
Total income	200,865	223,979	241,938	279,012	332,857
Operating expenses	(83,598)	(95,593)	(109,737)	(128,640)	(151,523)
PPoP	117,267	128,386	132,201	150,372	181,334
Provisions	(79,425)	(66,650)	(43,353)	(45,750)	(52,009)
Profit before tax	37,841	61,737	88,848	104,622	129,325
Taxes	(9,478)	(15,625)	(22,212)	(26,156)	(32,331)
Net profit	28,364	46,111	66,636	78,467	96,994

Source: Company, YES Sec – Research

Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	8.7	8.1	8.4	8.6	8.7
Interest expense	-4.6	-4.1	-4.3	-4.5	-4.5
Net interest income	4.0	3.9	4.0	4.2	4.2
Non-interest income	2.0	1.9	1.9	2.0	2.0
Total income	6.0	5.9	5.9	6.1	6.2
Operating expenses	-2.5	-2.5	-2.7	-2.8	-2.8
PPoP	3.5	3.4	3.2	3.3	3.4
Provisions	-2.4	-1.7	-1.1	-1.0	-1.0
Profit before tax	1.1	1.6	2.2	2.3	2.4
Taxes	-0.3	-0.4	-0.5	-0.6	-0.6
Net profit	0.8	1.2	1.6	1.7	1.8

Source: Company, YES Sec – Research

Exhibit 16: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	165,109	189,140	226,835	165,109	189,140	226,835	0.0	0.0	0.0
Pre-Prov. Operating Profit	132,201	150,372	181,334	132,201	150,372	181,334	0.0	0.0	0.0
Profit after tax	66,636	78,467	96,994	67,604	80,734	98,331	(1.4)	(2.8)	(1.4)

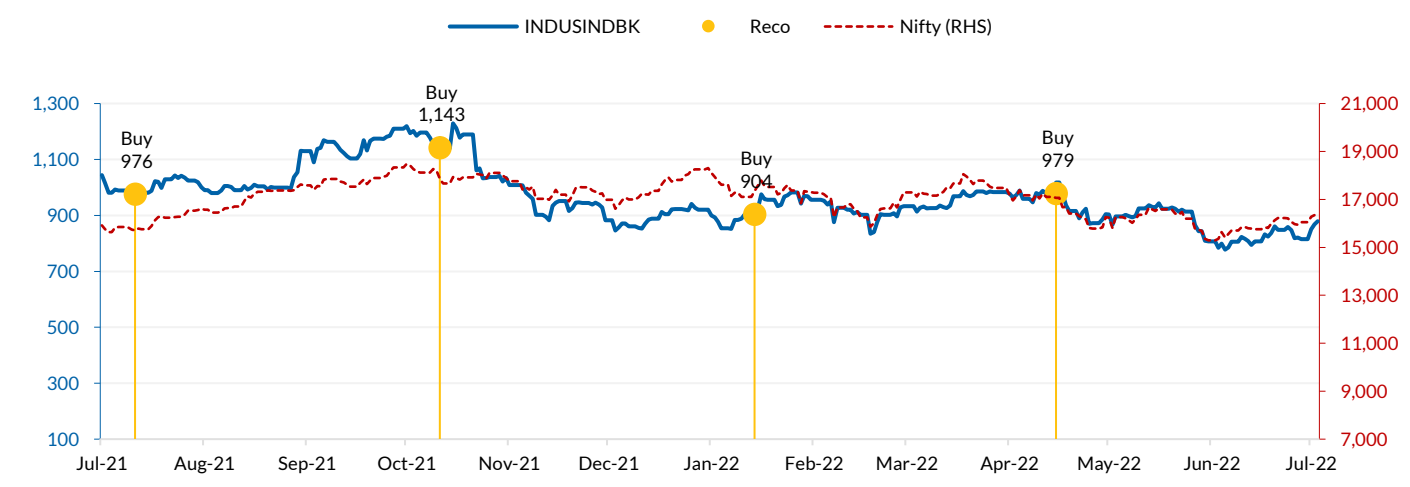
Source: Company, YES Sec – Research

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Net interest income	12.2	10.9	10.1	14.6	19.9
PPoP	8.9	9.5	3.0	13.7	20.6
Net profit	-35.8	62.6	44.5	17.8	23.6
Loans	2.8	12.4	16.0	18.0	18.0
Deposits	26.8	14.6	14.3	16.4	16.6
Profitability Ratios (%)					
Net interest margin	4.2	4.1	4.2	4.4	4.5
Return on Average Equity	7.3	10.1	13.5	14.4	15.5
Return on Average Assets	0.8	1.2	1.6	1.7	1.8
Per share figures (Rs)					
EPS	36.7	59.5	86.0	101.3	125.2
BVPS	561	616	658	750	867
ABVPS	542	596	619	717	829
Valuation multiples					
P/E	24	15	10	8.7	7.0
P/BV	1.6	1.4	1.3	1.2	1.0
P/ABV	1.6	1.5	1.4	1.2	1.1
NIM internals (%)					
Yield on loans	11.5	11.1	11.1	11.1	11.2
Cost of deposits	5.0	4.9	5.0	5.3	5.2
Loan-deposit ratio	83.0	81.4	82.6	83.8	84.8
CASA ratio	41.6	42.7	43.5	43.5	44.0
Opex control (%)					
Cost/Income ratio	41.6	42.7	45.4	46.1	45.5
Cost to average assets	2.5	2.5	2.7	2.8	2.8
Capital adequacy (%)					
Tier 1 capital ratio	16.8	16.8	15.6	14.6	13.6
Asset quality (%)					
Slippage ratio	4.0	4.5	3.0	2.5	2.5
Gross NPL ratio	2.7	2.3	3.0	2.7	2.6
Credit cost	3.6	2.6	1.4	1.2	1.2
Net NPL ratio	0.7	0.6	1.1	0.8	0.8

Source: Company, YES Sec – Research

Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit

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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |
MERCHANT BANKER: INM000012227 | **RESEARCH ANALYST:** INH000002376 | **INVESTMENT ADVISER:** INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY - Upside greater than 20% over 12 months

ADD - Upside between 10% to 20% over 12 months

NEUTRAL - Upside between 0% to 10% over 12 months

REDUCE - Downside between 0% to -10% over 12 months

SELL - Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

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