

Steady performance; outlook encouraging...

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

- Vehicle finance forms around 26% of overall loans
- Strong pan-India presence with 6103 touch points as on September 2022

Q2FY23 Results: IndusInd Bank reported a largely in line performance

- Loan growth up 17.8% YoY. NII up 17.6% YoY, NIMs inch up 3 bps QoQ at 4.24%
- PPP up 10% YoY. Lower provision leads to 57% YoY jump in PAT
- GNPA down 24 bps QoQ to 2.11%. Restructured book down 60 bps to 1.5%

What should investors do? IndusInd Bank's share price has gained ~2x in the past two years. Robust business growth, uptick in NIM and moderation in provision seen enabling the bank to generate RoA of 1.6-1.7% in FY23-24E that seems to be positive.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value the bank at ~1.8x FY24E ABV and revise our target price from ₹ 1330 to ₹ 1350 per share.

Key triggers for future price performance:

- Revival in corporate lending and steady disbursement in retail portfolio to aid business growth. Management guidance is at 18-20%
- Gradual transmission of rate hike, fixed rate book & deposition accretion to keep NIM 4.1-4.25% level
- Moderation in slippages and reduction in r/s book paves way for lower credit cost. The management expects credit cost at 1.2-1.5% for FY23E
- Focus on distribution capabilities and tech spends to keep opex elevated

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

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

IndusInd Bank

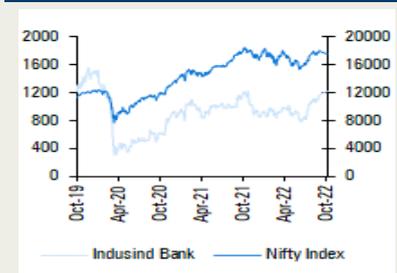
Particulars

Particulars	Amount
Market Capitalisation	₹ 90823 crore
52 week H/L	1275 / 763
Net worth	₹ 50884 Crore
Face Value	₹ 10
DII Holding (%)	45.8
FII Holding (%)	21.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	16.5	16.5	16.5	16.5	16.5
FII	51.4	47.7	46.3	45.8	46.9
DII	19.0	20.2	21.9	21.0	20.6
Others	13.1	15.6	15.3	16.6	16.0

Price chart



Recent Event & Key risks

- Loan growth at 17.6% YoY; margins inched up 3 bps at 4.24%
- **Key Risk:** 1) Elevated opex; 2) pace of liabilities growth and mix

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	12,059	13,528	15,001	19%	16,932	19,753	15%
PPP	10,773	11,727	12,839	17%	14,340	16,575	14%
PAT	4,418	2,836	4,611	12%	7,070	8,287	34%
ABV (₹)	473	542	592		671	763	
P/E	18.4	31.9	19.7		12.8	11.0	
P/ABV	2.5	2.2	2.0		1.7	1.5	
RoA	1.5	0.8	1.2		1.6	1.7	
RoE	14.4	7.3	10.1		13.9	14.4	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: IndusInd Bank reports largely in line performance. Restructured book continues to decline further.

- NII was up 17.6% YoY, 4.3% QoQ to ₹ 4302 crore, driven by healthy business growth. Sequentially margins inched up by 3 bps to 4.24% (up 17 bps YoY). Other income was up 9.5% YoY to ₹ 2011 crore, driven by healthy growth of 24% YoY, 5% QoQ in core fee income at ₹ 1872 crore
- C/I ratio largely steady QoQ at 43.9% but YoY it has increased 250 bps. Provisions were down 8.8% QoQ 33.0% YoY to ₹ 1141 crore. Thus, net profit was up 60.5% YoY and 11.4% QoQ to ₹ 1787 crore
- GNPA, NNPA declined 24 bps, 6 bps QoQ to 2.11%, 0.61%, respectively. Restructured book declined ~60 bps QoQ to 1.5%. Slippages were at ₹ 1572 crore vs. ₹ 2250 crore in Q1FY23, with slippage from restructured pool at ₹ 580 crore vs. ₹ 921 crore QoQ. GNPA's in both consumer and corporate segments declined on a QoQ basis. Overall loan related provisions declined to 3.0% vs. 3.38% of loans in the previous quarter
- Loans increased 17.8% YoY, 4.9% QoQ to ₹ 2.60 lakh crore. Deposit growth was healthy at 14.6% YoY and 4.2% QoQ to ₹ 3.15 lakh crore, driven by 15% YoY uptick in CASA. Though CASA ratio moderated to 42% vs. 43% QoQ

Q2FY23 Earnings Conference Call highlights

- **Guidance** – Loan growth to be 18-20% YoY in FY23E (earlier guidance at 16-18%) Credit cost guidance maintained at 120-150 bps. CI ratio could inch up to ~44% in the near term but settle at 41-43% levels (tech and marketing cost to go up). Aim to increase branch to 3500 over next three years
- Repricing of corporate book at external benchmark rate. Transmission of rate hikes undertaken in consumer book but not reflected in yields on book basis due to slower transmission and fixed rate component. Yields in MFI book up 35 bps
- Nearly 37% of slippages (₹ 580 crore) is contributed by restructured book
- Utilised ₹ 350 crore of contingent provision in Q2FY23. Thus, outstanding contingent provision reduced to ₹ 2650 crore. Credit cost guidance maintained at 120-150 bps
- The bank plans to focus on the home loan segment. Plans to reach a sizeable book in the next two to three years
- Credit card customer acquisition robust at ~80,000. Revolver rate muted at 27-29%. Yield on credit cards at 16-18%
- Visibility in capex demand seen from cement, steel, power and real estate sector
- Share of retail fee income at ~70% of overall fee income. Similar proportion should continue ahead
- Headcount addition, tech spends and appraisals have kept opex elevated. The management expects CI ratio at ~44% at peak. Then it is expected to settle at 41-43% level
- Surge in current deposit is led by dividend mandate of ~₹ 5000 crore. Saving deposit declined sequentially due to exit of central allocation account, which has now undertaken allocation without intermediaries
- Has increased saving deposit rates, effective from October 1, 2022. Rate at 4% for balance less than ₹ 1 lakh, 5% for ₹ 1 -10 lakh and 6% for ₹ 10 lakh plus

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	821	970	Buy	2,523	21.5	42.4	53.2	65.4	38	19.3	15.4	12.5	2.7	2.4	2.1	2.0	7.1	12.0	13.3	15.1
Federal Bank (FEDBAN)	130	155	Buy	274	8.0	9.0	12.0	14.6	16	14.5	10.8	8.9	1.8	1.6	1.4	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,444	1,750	Buy	8,039	56.4	66.7	76.9	94.1	26	21.7	18.8	15.4	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,171	1,350	Buy	907	36.7	59.5	91.3	107.0	32	19.7	12.8	10.9	2.2	2.0	1.7	1.5	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,859	2,200	Buy	3,692	35.1	43.0	50.7	58.8	52.9	43.2	36.6	31.6	6.0	5.2	4.5	3.9	12.4	12.6	13.0	13.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	4,302	4,264	3,658	17.6	4,125	4.3	Led by strong business growth
NIM (%)	4.24	4.23	4.07	17 bps	4.21	3 bps	Margins inch up on account of repricing assets
Other Income	2,011	2,041	1,837	9.5	1,929	4.3	Core fee up 24% YoY
Net Total Income	6,313	6,306	5,496	14.9	6,054	4.3	
Staff cost	735	722	602	22.1	660	11.3	
Other Operating Expenses	2,058	2,063	1,720	19.7	2,000	2.9	CI ratio up 245 bps YoY to 43.86%
PPP	3,520	3,520	3,174	10.9	3,394	3.7	
Provision	1,141	1,168	1,703	-33.0	1,251	-8.8	Loan related provisions declined to 3%
PBT	2,379	2,352	1,471	61.7	2,143	11.0	
Tax Outgo	592	593	358	65.5	539	9.7	
PAT	1,787	1,759	1,114	60.5	1,603	11.4	Lower credit costs result in strong growth in PAT
Key Metrics							
GNPA	5,567	5,623	6,245	-10.9	5,933	-6.2	GNPAs decline across segments
NNPA	1,584	1,600	1,771	-10.6	1,661	-4.7	
Credit book	260,129	259,647	220,808	17.8	247,960	4.9	
Deposit book	315,532	315,824	275,288	14.6	302,719	4.2	CASA deposits up 15% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Net Interest Income	17,121	16,932	-1.1	19,405	19,753	1.8
Pre Provision Profit	14,169	14,340	1.2	15,663	16,575	5.8
NIM(%) (calculated)	4.6	4.7	14 bps	4.6	4.7	15 bps
PAT	6,371	7,070	11.0	7,814	8,287	6.1
ABV per share (₹)	611.7	671	9.8	699	763	9.2

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	12.4	19.1	18.5	14.7	16.1
Deposit Growth (%)	14.6	14.5	15.8	16.2	17.1
NIM Calculated (%)	10.9	12.9	16.7	12.9	16.0
Cost to income ratio (%)	42.7	42.6	42.4	43.4	42.6
GNPA (₹ crore)	5,517.2	5,801.8	5,801.8	6,069.2	5,750.9
NNPA (₹ crore)	1,529.8	1,517.3	1,677.5	1,666.9	1,757.8
Credit cost (%)	2.8	1.7	1.6	1.8	1.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement						
	₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	22,261	28,783	29,000	30,822	36,916	42,728
Interest Expended	13,415	16,724	15,472	15,822	19,984	22,975
Net Interest Income	8,846	12,059	13,528	15,001	16,932	19,753
Growth (%)	18	36	12	11	13	17
Non Interest Income	5,647	6,951	6,559	7,397	8,069	9,015
Net Income	14,493	19,010	20,087	22,398	25,001	28,768
Employee cost	1,854	2,208	2,214	2,488	3,050	3,693
Other operating Exp.	4,551	6,029	6,146	7,071	7,611	8,499
Operating Income	8,088	10,773	11,727	12,839	14,340	16,575
Provisions	3,108	4,652	7,943	6,665	4,850	5,452
PBT	4,980	6,121	3,784	6,174	9,490	11,123
Taxes	1,679	1,703	948	1,563	2,420	2,836
Net Profit	3,301	4,418	2,836	4,611	7,070	8,287
Growth (%)	(8.5)	33.8	(35.8)	62.6	53.3	17.2
EPS (₹)	54.8	63.7	36.7	59.5	91.3	107.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of shares (crore)	60.3	69.4	77.3	77.5	77.5	77.5
EPS (₹)	54.8	63.7	36.7	59.5	91.3	107.0
DPS (₹)	7.7	7.8	-	8.9	10.2	11.9
BV (₹)	442.6	500.3	560.7	611.5	691.0	784.3
ABV (₹)	405.3	473.1	541.6	591.7	671.5	762.6
P/E	21.4	18.4	31.9	19.7	12.8	11.0
P/BV	2.6	2.3	2.1	1.9	1.7	1.5
P/ABV	2.9	2.5	2.2	2.0	1.7	1.5
Yields & Margins (%)						
Net Interest Margins	3.8	4.5	4.7	4.8	4.7	4.7
Yield on assets	9.6	10.7	10.0	9.9	10.4	10.2
Avg. cost on funds	6.2	6.6	5.4	4.9	5.5	5.5
Yield on average advances	11.0	12.2	11.5	11.1	12.1	11.9
Avg. Cost of Deposits	6.1	6.5	5.0	4.5	5.4	5.4
Quality and Efficiency (%)						
Cost to income ratio	44.2	43.3	41.6	42.7	42.6	42.4
Credit/Deposit ratio	95.7	102.3	83.0	81.4	84.7	86.7
GNPA	2.1	2.5	2.7	2.3	2.0	1.7
NNPA	1.2	0.9	0.7	0.6	0.5	0.5
ROE	13.1	14.4	7.3	10.1	13.9	14.4
ROA	1.3	1.5	0.8	1.2	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet						
	₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	603	694	773	775	775	775
Employee Stock Options	11	9	5	16	16	16
Reserves and Surplus	26,072	34,003	42,587	46,903	53,066	60,287
Networth	26,686	34,706	43,365	47,693	53,857	61,078
Deposits	1,94,868	2,02,040	2,56,205	2,93,681	3,36,147	3,89,181
Borrowings	47,321	60,754	51,323	47,323	50,931	54,721
Other Liabilities & Provisions	8,944	9,558	12,080	13,273	14,161	15,118
Total	2,77,819	3,07,058	3,62,973	4,01,971	4,55,094	5,20,098
Application of Funds						
Fixed Assets	1,710	1,820	1,809	1,849	2,407	2,544
Investments	59,266	59,980	69,695	70,971	86,967	97,402
Advances	1,86,394	2,06,783	2,12,595	2,39,052	2,84,692	3,37,366
Other Assets	15,666	22,471	22,546	21,825	42,480	40,790
Cash with RBI & call money	14,783	16,004	56,327	68,274	38,550	41,996
Total	2,77,819	3,07,058	3,62,973	4,01,971	4,55,094	5,20,098

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	25.4	10.5	18.2	10.7	13.2	14.3
Advances	28.6	10.9	2.8	12.4	19.1	18.5
Deposit	28.5	3.7	26.8	14.6	14.5	15.8
Total Income	26.7	28.0	(0.5)	7.5	17.7	15.0
Net interest income	18.0	36.3	12.2	10.9	12.9	16.7
Operating expenses	14.5	28.6	1.5	14.3	11.5	14.4
Operating profit	21.5	33.2	8.9	9.5	11.7	15.6
Net profit	(8.5)	33.8	(35.8)	62.6	53.3	17.2
Net worth	12.0	30.1	25.0	9.2	13.0	13.5
EPS	(8.8)	16.3	(42.4)	62.3	53.3	17.2

Source: Company, ICICI Direct Research

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