Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

IndusInd Bank

Falling credit costs drives strong earnings growth

Banks	Sharekhan code: INDUSINDBK
Reco/View: Buy ↔	CMP: **Rs. 1,223**
	Price Target: **Rs. 1,500** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 28.24

Updated Oct 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

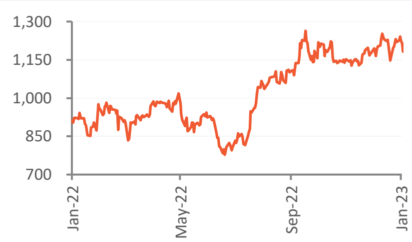
Company details

Market cap:	Rs. 94,794 cr
52-week high/low:	Rs. 1275 / 764
NSE volume: (No of shares)	36.7 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	65.1 cr

Shareholding (%)

Promoters	16.5
FII	44.8
DII	25.1
Others	13.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.7	-0.1	43.6	35.8
Relative to Sensex	0.6	-3.6	31.6	35.3

Sharekhan Research, Bloomberg

Summary

- IndusInd Bank reported solid earnings growth in Q3FY23 with PAT at Rs. 1,959 crore (up 69% Y-o-y/ 10% q-o-q) led by ~15% y-o-y growth in operating profit and 36% decline in provisions however bank has utilized contingent provisions to the tune of Rs.461 crore during the quarter.
- NII grew by 18% y-o-y and 4% q-o-q, aided by strong loan growth of 19% y-o-y/ 5% q-o-q with retail loans up 21% y-o-y; corporate loans increased by 20% y-o-y; while MFI loans rose by ~8% y-o-y. NIMs were stable, rising by 3 bps q-o-q at 4.27%.
- Total slippages were down by 7% q-o-q (2.6% annualized versus 2.8% q-o-q). Asset quality was stable with GNPA/NNPA ratios at 2.06%/0.62% respectively. PCR stable at ~71%. Restructured book declined to 1.25% from 1.5% in last quarter. The bank has guided that it is likely to see most of the restructured book run down by FY2023-end.
- The near to medium term outlook looks stable to positive for the bank, except for cost of deposits. At CMP, IIB trades at 1.7x/ 1.5x/ 1.3x its FY2023E/ 24E/ 25E BV. We maintain Buy with a revised PT of Rs. 1,500.

IndusInd Bank reported strong numbers in Q3FY23 with marginal beat compared to consensus and our estimates. Net interest income (NII) grew by 18% y-o-y/4% q-o-q aided by strong advances growth and marginal improvement in margins. Net interest margin (NIM) remained stable and marginally improved by 3 bps q-o-q at 4.27%. Core fee income grew by 28% y-o-y/4% q-o-q driven by strong cards and distribution fee and healthy disbursements. Total operating expenses grew by 17% y-o-y and 4% q-o-q led by higher business volumes, employee additions, increased investments in technology, branch, and distribution. Opex to average assets stood at 2.7% stable q-o-q. Provisions were down by 36% y-o-y and 7% q-o-q. However, the bank has utilized contingent provisions of Rs. 461 crore during the quarter. The bank maintained contingent provisions of Rs. 2,192 crore (0.8% of advances). PAT grew by 69% y-o-y/10% q-o-q mainly due to lower credit cost and healthy operating profits. Asset quality was stable, with GNPA and NNPA ratios at 2.06% and 0.62%, respectively. Provisioning coverage ratio (PCR) was stable at ~ 71%. Total slippages were down by 7% q-o-q (2.6% annualized vs 2.8% q-o-q). However, slippages from standard assets were higher at Rs. 1,135 crore vs Rs. 992 crore q-o-q (largely from retail plus MFI segment). Slippages from restructured book were lower at Rs. 332 crore versus Rs. 580 crore q-o-q. Restructured book declined to 1.25% from 1.5% in in last quarter. Its SMA-1 and SMA-2 book stood at 8 bps and 24 bps, respectively. Advances grew by 19% y-o-y and ~5% q-o-q, driven by healthy growth across portfolio. Deposits grew by 14% y-o-y/ 3% q-o-q. CASA deposits grew by 14% y-o-y/ 2% q-o-q. CASA ratio stood at ~42%. Retail deposits as per the LCR grew by 21% y-o-y /6% q-o-q and constitutes 42% of overall deposit base.

Key positives

- Strong loan growth acceleration and stable margins.
- Net slippages (including slippages from restructured book) in corporate segment were negative.
- Strong retail deposits growth.

Key negatives

- GNPA for retail assets increased to 2.60% vs 2.36% q-o-q mainly due to higher slippages from standard vehicle & MFI portfolio (excluding slippages from restructured retail book).
- SA balances declining sequentially for the past two consecutive quarters.

Management Commentary

- The bank expects credit growth to surpass 20% mark going forward along with stable margin outlook in the range of 4.15-4.25%.
- Prioritizing on rapid retail deposits mobilization through focus on affluent/ NRI deposits, branch expansion along with segmentation based on sectors, increasing digital ecosystem penetration, increase share in the current account and lastly pricing retail term deposits competitively.

Our Call

Valuation – We maintain our Buy rating on the stock with a revised PT of Rs. 1,500: At CMP, IndusInd Bank trades at 1.7x/ 1.5x / 1.3x its FY2023E/ 24E/ 25E BV estimates. The near-term outlook looks stable to positive for the bank, except for cost of deposits. Retail book is showing a strong momentum, while the MFI business is expected to pick up. The corporate book is growing at a healthy pace. Higher retail assets growth along with balanced growth in other segment augurs well for yield. We also expect credit costs to decline sharply over the next few quarters as restructured book is fully run down in the next two quarters, collection efficiency improves in MFI and near-term issues resolves in the vehicle loan segment. Loan growth acceleration and lower credit cost over the medium-term augurs well for earnings growth and this should keep RoEs at ~15%.

Key Risks

Economic slowdown which could push to slower loan growth, higher-than-anticipated credit costs, slow growth in retail liability franchise and lower than expected margins.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	15,001	17,750	21,423	26,098
Net profit	4,611	7,539	9,402	11,075
EPS (Rs.)	59.5	97.3	121.4	143.0
P/E (x)	20.6	12.6	10.1	8.6
P/BV (x)	2.0	1.7	1.5	1.3
RoE (%)	10.1	14.6	15.7	15.8
RoA (%)	1.2	1.7	1.9	1.9

Source: Company; Sharekhan estimates

Key result highlights

- **Healthy NII growth:** NII grew by 18% y-o-y/4% q-o-q aided by strong advances growth of 19% y-o-y / 5% q-o-qq. NIM remained stable and improved marginally by 3 bps q-o-q at 4.27%. Core fee income grew by 28% y-o-y/4% q-o-q. The bank expects to maintain NIM of 4.15%–4.25%.
- **Credit growth to surpass 20% going ahead:** Advances grew by 19% y-o-y and 5% q-o-q. The share of retail loans was ~53%, with vehicle loans comprising 26%, non-vehicle finance book (mainly business banking, PL, CC, LAP) comprising 16%, and microfinance loans at 11%. The vehicle loan book grew by 18% y-o-y/ 7% q-o-q. The non-vehicle book grew by 27% y-o-y/ 7% q-o-q. The MFI book grew by 8% y-o-y/ flat q-o-q. The wholesale corporate book grew by 20% y-o-y /4% q-o-q. Vehicle finance disbursements continues to remain robust driven by strong demand environment. Retail book (excluding MFI & vehicle finance) continues to do well led by strong consumption trends. The MFI book is expected to pick up gradually. MSME & SME are showing robust credit offtake. The corporate book's growth remains solid with no negative asset quality surprises. Share of higher rated corporate loans also improved. NBFC, real estate, power generation, Petroleum sector saw strong growth. Bank is confident of credit growth around 20-25% with credit to deposit ratio in the range of 85-93% going forward. LCR during the quarter was 117%.
- **Focus on building strong retail liability franchise:** Deposits grew by 14% y-o-y /3% q-o-q. CA & SA grew by 50% y-o-y/ flat y-o-y, respectively. CASA ratio stands at ~42%. Retail deposits as per LCR grew by 21% y-o-y / 6% q-o-q. SA balances have declined sequentially in last two quarters. CA balances growth continues to remain very strong led by increasing pace of opening of escrow account for real estate developers, cash management & trade finance business and dividend mandate received from government. Bank is prioritizing on rapid retail deposits mobilization through - Focus on affluent/ NRI deposits, branch expansion along with segmentation based on sectors, increasing digital ecosystem penetration, increase share in current account and lastly pricing retail term deposits competitively. There could be 50-75 bps gap in deposit rate versus top banks.
- **Asset quality trends stable:** Asset quality was stable with both GNPA and NNPA ratios reported at 2.06% and 0.62%, respectively. PCR stable at ~71%. Total slippages were down by 7% q-o-q (2.6% annualized vs 2.8% q-o-q). However, slippages from standard assets were higher at Rs. 1,135 crore vs Rs. 992 crore q-o-q (largely from retail plus MFI segment). Slippages from restructured book were lower at Rs.332 crore vs 580 crore q-o-q. Restructured book declined to 1.25% from 1.5% in in last quarter. Its SMA-1 and SMA-2 book stood at 8 bps and 24 bps, respectively. Recoveries and upgrades stood at Rs. 528 crore versus Rs. 770 crore in Q2FY2023. Write-offs were at Rs. 795 crore versus Rs. 1,168 crore in Q2FY2023. Net SR reduced to 56 bps from 67 bps q-o-q. In vehicle finance segment especially CVs, slippages were higher q-o-q due to imposition of freight duty in Orissa but now the duty has been rolled back and bank expects slippages to reverse in Q4FY23. In MFI segment also, slippages were higher q-o-q as collection activity was affected in eastern parts during festive and holiday period. Here, also bank expects slippages to reverse in next quarter. In the corporate segment, net slippages were negative. The bank has also guided that it is likely to see majority of the restructured book run down by FY2023-end. On ECL provisioning discussion paper rolled out by RBI, bank do not foresee major impact. Bank also alluded to the stressed telco exposure which stands at Rs.10 billion as Fund based exposure (Rs. 9.9 billion already provided for) & Rs.7.3 billion as non-fund-based exposure not provided for.
- **Others:** The bank plans to expand branch count to 2,500 by FY23 and 3,500 in next three-year. There has been no communication from RBI till now on reappointment approved for existing MD & CEO for three years from March 2023 to March 2026.

Result Table Rs cr

Particulars	3QFY23	3QFY22	2QFY23	Y-o-Y	Q-o-Q
Interest Inc.	9,457	7,737	8,708	22%	9%
Interest Expenses	4,962	3,944	4,406	26%	13%
Net Interest Income	**4,495**	**3,794**	**4,302**	**18%**	**4%**
NIM (%)	4.27	4.10	4.24	4%	1%
Core Fee Income	1,941	1,519	1,872	28%	4%
Other Income	135	358	139	-62%	-3%
Net Income	**6,572**	**5,670**	**6,313**	**16%**	**4%**
Employee Expenses	799	620	735	29%	9%
Other Opex	2,092	1,845	2,058	13%	2%
Total Opex	**2,891**	**2,465**	**2,793**	**17%**	**4%**
Cost to Income Ratio	44.0%	43.5%	44.2%		
Pre Provision Profits	**3,680**	**3,205**	**3,520**	**15%**	**5%**
Provisions & Contingencies – Total	1,065	1,654	1,141	-36%	-7%
Profit Before Tax	**2,616**	**1,551**	**2,379**	**69%**	**10%**
Tax	656	390	592	68%	11%
Effective Tax Rate	25%	25%	25%		
Reported Profits	**1,959**	**1,161**	**1,787**	**69%**	**10%**
Basic EPS (Rs)	25.3	15.0	23.1	68%	10%
Diluted EPS (Rs)	25.2	15.0	23.0	69%	10%
RoA (%)	1.86	1.26	1.78		
Advances	2,72,754	2,28,583	2,60,129	19%	5%
Deposits	3,25,278	2,84,484	3,15,921	14%	3%
Gross NPA	**5,711**	**5,779**	**5,567**	**-1%**	**3%**
Gross NPA Ratio (%)	2.06	2.48	2.11		
Net NPA	**1,681**	**1,633**	**1,584**	**3%**	**6%**
Net NPAs Ratio (%)	0.62	0.71	0.61		
PCR – Calculated	70.6%	71.7%	71.5%		

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Deposit mobilisation to be in focus; Banks with strong deposit franchise placed better

System-level credit offtake grew by ~17.4% y-o-y in the fortnight ending December 16, 2022, indicating loan growth has been sustaining, given distinct signs of an improving economy and revival of investments and loan demand. On the other hand, deposits rose by ~9.4% but are trailing advances growth. We should see sustained acceleration in loan growth. Margins are likely to improve but momentum is expected to moderate, and margins are expected to peak out by H1FY2024. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable in the medium term. Banks are in a sweet spot in terms of fundamentals. In the past few years, lenders have been cautious about lending to the 'BB & below' category, thus the general risk, which they are carrying on the corporate loan portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe that the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks with a strong capital base, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company Outlook – Improving with each passing quarter

We believe that IndusInd Bank is coming out of tough cycle and concerns about asset quality is fading away. Focus on strong risk management framework and its strategy to create counter-cyclical buffers will act as cushions in future. Asset-quality outlook is expected to be stable over the medium term which should lead to lower slippages. The near-term outlook looks stable to positive for the bank, except for cost of deposits. Retail book is showing a strong momentum, while the MFI business is expected to pick up. Corporate book is growing at a healthy pace. Higher retail assets growth along with balanced growth in other segment augurs well for yield. Loan growth acceleration (shifting to growth pedal again) and credit costs normalization over the medium term, given revival in macro environment augurs well for earnings growth going forward.

■ Valuation – We maintain our Buy rating on the stock with a revised PT of Rs. 1,500

At CMP, IndusInd Bank trades at 1.7x/ 1.5x / 1.3x its FY2023E/ 24E/ 25E BV estimates. The near-term outlook looks stable to positive for the bank, except for cost of deposits. Retail book is showing a strong momentum, while the MFI business is expected to pick up. The corporate book is growing at a healthy pace. Higher retail assets growth along with balanced growth in other segment augurs well for yield. We also expect credit costs to decline sharply over the next few quarters as restructured book is fully run down in the next two quarters, collection efficiency improves in MFI and near-term issues resolves in the vehicle loan segment. Loan growth acceleration and lower credit cost over the medium-term augurs well for earnings growth and this should keep RoEs at ~15%.

Peer Comparison

Companies	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			F23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
IndusInd Bank	1223	94,794	12.6	10.1	1.7	1.5	14.6	15.7	1.7	1.9
Federal Bank	137	28,895	9.6	8.4	1.3	1.1	14.8	14.6	1.3	1.3

Source: Company, Sharekhan Research

About company

IIB is a private bank established in 1994, is promoted by Hinduja group is the fifth largest private bank in India. having strong pan-India presence with 6,352 touch points as at December, 2022. The bank is a market leader in most of the products category in vehicle finance segment which forms around 26% of overall loans. Overall retail to wholesale mix stands at 53:47 respectively. The bank is well placed with adequate capital levels. Capital Adequacy Ratio (CAR) stands at 18.01%.

Investment theme

IIB has addressed the past challenges related to asset quality and internal control issues. Additionally, its strategy to create counter cyclical buffers would act as cushion in future. Asset-quality outlook is expected to be stable over the medium term which should lead to lower slippages. Loan growth acceleration (shifting to growth pedal again) and credit costs normalization over the medium term, given revival in macro environment augurs well for earnings growth going forward.

Key Risks

- Economic slowdown due to which slower loan growth, higher-than-anticipated credit costs, slow growth in retail liability franchise and lower than expected margins.

Additional Data

Key management personnel

Mr. Sumant Kathpalia	CEO and Managing Director
Mr. Arun Khurana	Deputy CEO
Mr. S V Zaregaonkar	Chief Operating Officer
Mr. Gobind Jain	Chief Financial Officer
Mr. Ramaswamy Meyyappan	Chief Risk Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Indusind International Holdings Ltd	11.55
2	Bank of New York MELLON CORP	8.19
3	BofA Securities Europe SA	3.93
4	LIFE INSURANCE CORP OF INDIA	3.74
5	INDUSIND LTD	3.61
6	SBI FUNDS MANAGEMENT LTD	2.99
7	SFSPVI LTD	2.57
8	Route One Investment Co	2.53
9	BRIDGE INDIA FUND	2.46
10	DRAGSA INDIA EQUITIES III LP	2.05

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan
by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.