

## In line performance; steady growth to drive valuation

**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 2384 branches as on December 2022

**Q3FY23 Results:** IndusInd Bank reported a largely in line performance

- Loan growth up 19.3% YoY. NII up 18.5% YoY, NIMs inch up 3 bps QoQ at 4.27%
- PPP up 14.8% YoY. Lower provision leads to ~69% YoY jump in PAT
- GNPA down 5 bps QoQ to 2.06%. Restructured book down 24 bps to 1.25%

**What should investors do?** IndusInd Bank's share price has gained ~32% in the past two years. Continued healthy business growth with focus on risk adjusted margin to enable improvement in RoA to ~1.8-1.9% in FY24-25E, which is positive.

- Thus, we retain our **BUY** rating on the stock

**Target Price and Valuation:** Rolling to FY25E, we value the bank at ~1.6x FY25E ABV and maintain our target price at ₹ 1450 per share.

**Key triggers for future price performance:**

- Continued strong guidance of 18-20% YoY credit growth, NIMs at 4.15-4.25% and PPOP margins to be >5%
- Focus on select segments to garner fee income & granular liabilities to aid better performance. Entry in home loans to aid growth but at lower yields
- Focus on distribution capabilities and tech spends to keep CI elevated
- Management indicated that restructured book to end by Q4FY23, Q1FY24. Adequate provision paves way for lower credit cost and thereby earnings

**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 ₹ 1000

## IndusInd Bank

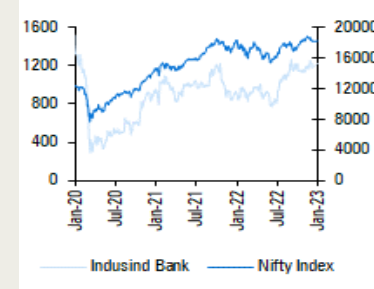
### Particulars

Particulars	Amount
Market Capitalisation	₹ 94794 crore
52 week H/L	1275 / 763
Net worth	₹ 50686 Crore
Face Value	₹ 10
DII Holding (%)	24.6
FII Holding (%)	44.8

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	16.5	16.5	16.5	16.5	16.5
FII	47.7	46.3	45.8	47.0	44.8
DII	20.2	21.9	21.0	22.2	24.6
Others	15.6	15.3	16.6	14.3	14.1

### Price chart



### Recent Event & Key risks

- Loan growth at 19.3% YoY; margins inched up 3 bps at 4.27%
- **Key Risk:** 1) Moderation in efficiency to impact PAT; 2) Slower pace of deposit accretion

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### Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	12,059	13,528	15,001	19%	17,378	20,555	23,892	17%
PPP	10,773	11,727	12,839	17%	14,319	16,861	19,668	15%
PAT	4,418	2,836	4,611	12%	7,213	8,600	10,001	29%
ABV (₹)	473	542	592		674	770	882	
P/E	19.0	33.0	20.3		13.0	10.9	9.4	
P/ABV	2.6	2.2	2.0		1.8	1.6	1.4	
RoA	1.5	0.8	1.2		1.7	1.8	1.8	
RoE	14.4	7.3	10.1		14.2	14.9	15.2	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: IndusInd Bank reports largely in line performance

- IndusInd Bank reported a steady set of numbers in line with our estimates. NII growth was at 18.5% YoY, 4.5% QoQ to ₹ 4495 crore, driven by strong business growth and steady margins (QoQ). Sequentially margins inched up by 3 bps to 4.27% (up 17 bps YoY). Other income was up 10.6% YoY to ₹ 2076 crore, driven by healthy growth of 28% YoY, 4% QoQ in core fee income at ₹ 1941 crore
- C/I ratio (calc) declined 25 bps QoQ at ~44% but YoY it increased by 52 bps. Provisions were down 6.7% QoQ and 35.6% YoY to ₹ 1065 crore. Thus, net profit was up 68.7% YoY and 9.7% QoQ to ₹ 1959 crore (vs. our estimate of ₹ 1915 crore)
- GNPA improved by 5 bps QoQ at 2.06% while NNPA was range bound at 0.62%. Restructured book further declined by 24 bps QoQ to 1.25%. Slippages were at ₹ 1467 crore vs. ₹ 1572 crore in Q2FY23, with slippages from restructured pool at ₹ 332 crore vs. ₹ 580 crore QoQ. GNPA's (in absolute terms) increased in consumer segment, while corporate segment witnessed a decline QoQ. Overall loan related provisions declined to 2.7% vs. 3.0% of loans in the previous quarter
- Loans registered growth of 19% YoY, 5% QoQ to ₹ 2.72 lakh crore, primarily led by the retail segment. Deposit growth came in at 14% YoY and 3% QoQ to ₹ 3.25 lakh crore, driven by 14% YoY uptick in CASA. CASA ratio was steady sequentially at 42%

### Q3FY23 Earnings Conference Call highlights

- Guidance** – Credit growth of 18-20% YoY to be primarily driven by retail disbursements. segments. Within corporate, the bank's focus will be on SME and MSME. CD ratio to be 85-93%. NIMs to be 4.15% to 4.25%. PPOP margins to be more than 5%
- Overall credit growth was driven by retail segment. Within retail, vehicle finance segment saw robust growth of 7% QoQ. Non-retail maintained steady growth of 6% QoQ
- Pilot completed on home loans. Product to be launched in Q4FY23 with focus on higher disbursement. Yields on housing loans was 8.95%
- Within vehicle segment, CV, utility, cars and construction equipment witnessed more than 40% YoY growth in disbursements
- MFI segment** - The pace of growth in rural economy may be slower than expected. Collection efficiency was at 99%. Gross slippages were down at ₹ 409 crore vs. ₹ 435 crore in Q2FY23. A 30-90 dpd in MFI book was at 2.4% of total book
- Monthly disbursement in MFI segment at ₹ 3000 crore per month. Plans to increase disbursement to ₹ 11000 crore per quarter ahead
- Corporate segment** – Loan growth was led by steel, services and petroleum segment. Yields in corporate segment improved 37 bps. Proportion of A and above rated customers was at 74% vs. 72% YoY
- Bulk of the corporate book is on floating rate. Hence, interest rate transmission happens quarterly. Also, ~40% book is linked to MCLR (ranging from three months to one year). Also, ~40% is linked to EBLR and ~20% is linked to short-term
- Credit cost reduced from 44 bps to 40 bps QoQ. Reduction in restructured book was driven by collections and lower slippages. The bank utilised ₹ 461 crore of contingent provisions. Cumulatively ₹ 1833 of slippages from restructured book out of which bank has utilised ₹ 1136 crore of contingent provisions. By the end of Q4FY23, Q1FY24 we may see end of the restructured book
- SA deposits contracted as customers are moving their deposits to term deposits. The management remains focused on retail deposit mobilisation (including garnering senior citizen deposits)

IndusInd Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	54.7	50.8	-
Social	58.6	58.6	-
Governance	87.4	87.4	-
<b>Overall ESG Score</b>	<b>66.9</b>	<b>65.6</b>	-

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

- SMA1 and SMA2 were at 8 bps and 24 bps, respectively. Increase in consumer segment NPA QoQ was mainly due to deterioration in vehicle financing portfolio
- Opened 64 branches during the quarter and is aiming is to open ~100 more branches before March 2023
- Focus on forex and real estate business enables to garner better current account relationship coupled with fee income
- The bank is still awaiting approval from RBI on extension of MD tenure

## 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)	930	1,000	Buy	2,859	21.5	42.4	66.1	72.9	43.2	21.9	14.1	12.8	3.0	2.7	2.3	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,636	1,920	Buy	9,124	93.7	93.7	93.7	93.7	17.5	17.5	17.5	17.5	2.5	2.5	2.5	2.5	17.7	17.7	17.7	17.7
IndusInd Bank (INDBA)	1,222	1,450	Buy	947	111.0	111.0	111.0	111.0	11.0	11.0	11.0	11.0	1.6	1.6	1.6	1.6	14.9	14.9	14.9	14.9
Kotak Bank (KOTMAH)	1,773	2,250	Buy	3,519	35.1	43.0	48.8	57.0	50.4	41.2	36.3	31.1	5.8	5.0	4.4	3.8	12.4	12.6	12.5	12.9
Bandhan (BANBAN)	240	300	Hold	387	-12.8	0.8	20.5	29.6	-18.7	307.3	11.7	8.1	3.8	2.5	2.1	1.7	-14.6	0.8	17.5	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	4,495	4,456	3,794	18.5	4,302	4.5	Driven by strong business growth
NIM (%)	4.27	4.35	4.10	17 bps	4.24	3 bps	
Other Income	2,076	2,101	1,877	10.6	2,011	3.3	Core fee grew 28% YoY
Net Total Income	6,572	6,557	5,670	15.9	6,313	4.1	
Staff cost	799	713	620	28.9	735	8.8	
Other Operating Expenses	2,092	2,168	1,845	13.4	2,058	1.6	CI ratio (calc) steady at ~44%
PPP	3,680	3,676	3,205	14.8	3,520	4.6	
Provision	1,065	1,115	1,654	-35.6	1,141	-6.7	Loan related provisions declined to 2.7% vs. 3% QoQ
PBT	2,616	2,561	1,551	68.6	2,379	10.0	
Tax Outgo	656	645	390	68.4	592	10.9	
PAT	1,959	1,915	1,161	68.7	1,787	9.7	Lower credit costs aided strong earnings growth
Key Metrics							
GNPA	5,711	5,595	5,779	-1.2	5,567	2.6	Corporate segment GNPA down 17% QoQ
NNPA	1,681	1,536	1,633	3.0	1,584	6.2	
Credit book	272,754	271,966	228,583	19.3	260,129	4.9	
Deposit book	325,278	325,491	284,484	14.3	315,532	3.1	CASA deposits up 14% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	16,932	17,378	2.6	19,753	20,555	4.1	23,892
Pre Provision Profit	14,340	14,319	-0.1	16,575	16,861	1.7	19,668
NIM(%) (calculated)	4.7	4.8	5 bps	4.7	4.8	6 bps	4.7
PAT	7,070	7,213	2.0	8,287	8,600	3.8	10,001
ABV per share (₹)	671.5	674	0.4	763	770	1.0	882

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	19.1	18.5	18.3	19.1	18.5
Deposit Growth (%)	14.5	15.8	16.7	14.5	15.8
NIM Calculated (%)	15.8	18.3	16.2	12.9	16.7
Cost to income ratio (%)	43.7	43.0	42.1	42.6	42.4
GNPA (₹ crore)	5,517.2	5,517.2	5,517.2	5,801.8	5,801.8
NNPA (₹ crore)	1,446.1	1,474.4	1,552.1	1,517.3	1,677.5
Credit cost (%)	1.6	1.6	1.6	1.7	1.6

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Interest Earned	30,822	36,900	42,806	49,497	
Interest Expended	15,822	19,522	22,251	25,605	
Net Interest Income	15,001	17,378	20,555	23,892	
Growth (%)	11	16	18	16	
Non Interest Income	7,397	8,069	9,015	10,079	
Net Income	22,398	25,446	29,569	33,971	
Employee cost	2,488	3,050	3,693	4,227	
Other operating Exp.	7,071	8,077	9,015	10,075	
Operating Income	12,839	14,319	16,861	19,668	
Provisions	6,665	4,636	5,317	6,245	
PBT	6,174	9,683	11,544	13,424	
Taxes	1,563	2,469	2,944	3,423	
Net Profit	4,611	7,213	8,600	10,001	
Growth (%)	62.6	56.4	19.2	16.3	
EPS (₹)	59.5	93.1	111.0	129.1	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Valuation					
No. of shares (crore)	77.5	77.5	77.5	77.5	
EPS (₹)	59.5	93.1	111.0	129.1	
DPS (₹)	8.9	10.4	12.4	14.4	
BV (₹)	611.5	692.7	789.4	901.9	
ABV (₹)	591.7	674.0	770.4	881.8	
P/E	20.3	13.0	10.9	9.4	
P/BV	2.0	1.7	1.5	1.3	
P/ABV	2.0	1.8	1.6	1.4	
Yields & Margins (%)					
Net Interest Margins	4.8	4.8	4.8	4.7	
Yield on assets	9.9	10.2	9.9	9.8	
Avg. cost on funds	4.9	5.4	5.4	5.4	
Yield on average advances	11.1	12.1	11.9	11.7	
Avg. Cost of Deposits	4.5	5.3	5.2	5.2	
Quality and Efficiency (%)					
Cost to income ratio	42.7	43.7	43.0	42.1	
Credit/Deposit ratio	81.4	84.7	86.7	87.9	
GNPA	2.3	1.9	1.6	1.4	
NNPA	0.6	0.5	0.4	0.4	
ROE	10.1	14.2	14.9	15.2	
ROA	1.2	1.7	1.8	1.8	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Sources of Funds					
Capital	775	775	775	775	
Employee Stock Options	16	16	16	16	
Reserves and Surplus	46,903	53,190	60,685	69,397	
Networth	47,693	53,981	61,476	70,188	
Deposits	2,93,681	3,36,147	3,89,181	4,54,155	
Borrowings	47,323	50,931	54,721	58,708	
Other Liabilities & Provisions	13,273	14,161	15,118	16,149	
Total	4,01,971	4,55,219	5,20,496	5,99,200	
Application of Funds					
Fixed Assets	1,849	2,407	2,544	2,707	
Investments	70,971	79,978	89,576	1,00,325	
Advances	2,39,052	2,84,692	3,37,366	3,99,092	
Other Assets	21,825	38,118	37,167	38,943	
Cash with RBI & call money	68,274	50,025	53,843	58,134	
Total	4,01,971	4,55,219	5,20,496	5,99,200	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios		(%)			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total assets	10.7	13.2	14.3	15.1	
Advances	12.4	19.1	18.5	18.3	
Deposit	14.6	14.5	15.8	16.7	
Total Income	7.5	17.7	15.2	15.0	
Net interest income	10.9	15.8	18.3	16.2	
Operating expenses	14.3	16.4	14.2	12.5	
Operating profit	9.5	11.5	17.8	16.6	
Net profit	62.6	56.4	19.2	16.3	
Net worth	9.2	13.3	14.0	14.2	
EPS	62.3	56.4	19.2	16.3	

Source: Company, ICICI Direct Research

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