KRChoksey | Institutional

IndusInd Bank Ltd.

RESULT UPDATE

20th January 2023

IndusInd Bank Ltd.

Earnings growth supported by healthy financial metrics; Outlook remains positive

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,201	**INR 1,550**	**19.0%**	**INR 9,31,273**	**BUY**	**Banking**

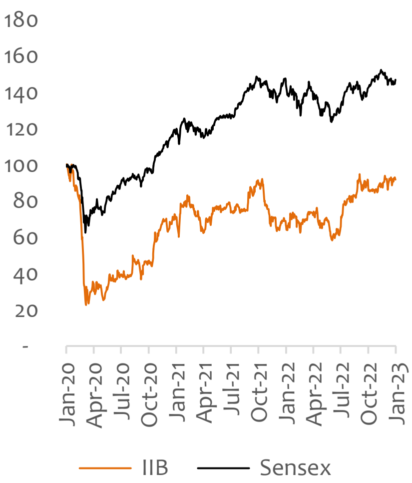
Result Highlights of Q3 FY23:

- In Q3FY23, Net Interest Income (NII) increased 18.5% YoY/ 4.5% QoQ to INR 44,954 Mn. NIMs stood at 4.27% for Q3FY23, an expansion of 17 bps YoY/ 3 bps QoQ.
- The Pre-Provision Operating Profits (PPOP) grew by 11.3% YoY/ 4.0% QoQ in Q3FY23 at INR 36,864 Mn.
- PAT for Q3FY23 stood at INR 19,636 Mn, an increase of 58.2% YoY and 8.8% QoQ led by healthy operating performance and declining provisions.
- As of December 31, 2022, GNPA/ NNPA were 2.06%/ 0.62%, respectively, which improved from 2.48% and 0.71% as of December 31, 2021, respectively.
- Advances grew at 19.0% YoY/ 4.6% QoQ at INR 27,19,660 Mn, while deposits grew 14.4% YoY/ 3.2% QoQ at INR 32,54,910 Mn.
- The Bank's Total Capital Adequacy Ratio as per Basel III guidelines improved to 18.01% as of December 31, 2022.

MARKET DATA

Shares outs (Mn)	775
Equity Cap (INR Mn)	5,28,640
Mkt Cap (INR Mn)	9,31,273
52 Wk H/L (INR)	1,276/763
Volume Avg (3m K)	2,857
Face Value (INR)	2
Bloomberg Code	IIB IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,858
NIFTY	18,108

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
NII	1,35,279	1,50,008	1,73,848	1,99,900	2,35,483
PPOP	1,17,267	1,28,386	1,45,473	1,73,518	2,02,792
PAT	28,364	46,111	74,991	91,367	1,07,725
EPS (INR / Share)	38.8	59.5	96.7	117.9	139.0
NIM (%)	4.6%	4.4%	4.5%	4.5%	4.5%
Advances Growth YoY (%)	2.8%	12.4%	19.0%	20.0%	20.0%

Source: Company, KRChoksey Research

Higher disbursements drives strong credit growth; deposit growth momentum improves: IIB reported loan book growth of 19.3% YoY/ 4.9% QoQ, led by the retail loan segment. The retail loan segment grew by 17.1% YoY/ 4.9% QoQ. The vehicle loan segment reported the highest disbursement for the third consecutive quarter. Within vehicle categories, Commercial Vehicles, Utility Vehicles, Cars and Construction Equipment saw more than 40% YoY growth in disbursements. In Q4FY24E, IIB expects a healthy operating environment for the freight industry and, thus, expects to maintain its disbursement momentum, also led by new year purchases and income tax benefits. The MFI segment saw strong disbursement growth of 27.0% YoY in Q3FY23. IIB to leverage BFIL franchise to diversify into allied businesses. The diamond portfolio reported an increase of 20% YoY, maintaining its global leadership. On the corporate & commercial loan book front, the bank saw a growth of 21.9% YoY/ 4.9% QoQ, driven by higher rated, granular & short duration loan book. IIB maintains its guidance of delivering a 20% plus growth in loan books by FY23E, supported by its PC-5 strategy. On the deposits' front, the growth was reported by 14.3% YoY/ 3.1% QoQ at INR 32,52,780 Mn. The retail deposits show substantial improvement during the quarter with 21.0% YoY growth. CASA ratio stood at 41.9% vs 42.4% as of September 30, 2022. The savings account saw a sequential decline due to customers moving towards fixed deposits. IIB continues to focus on retail deposit mobilisation by investing through its distribution capabilities & offering competitive rates. The bank expects a strong liability franchise to fund its acceleration in loan growth comfortably. We expect the deposits and advances to grow at a CAGR of 16.0% and 19.7%, respectively, over FY22-25E.

NIMs witness improvement; Asset quality remains stable: NII for Q3FY23 stood at INR 44,954 Mn, a growth of 18.5% YoY/ 4.5% QoQ led by robust growth in credit book & asset repricing. NIMs improved by 17 bps YoY/ 3 bps QoQ at 4.27%. The yield on overall assets improved by 34 bps QoQ, while the cost of funds increased by 31 bps QoQ. The core fee income reported strong traction growing at 27.8% YoY/ 3.7% QoQ. The cards & distribution and loan processing fees were the key growth drivers. The operating cost remained higher owing to increased spending on talent, which resulted in an elevated cost-to-income ratio of 43.9% for Q3FY23. On the provisions front, the bank reported a decline of 35.6% YoY/ 6.7% QoQ, led by reduction slippages, which eventually boosted the earnings for the quarter. Going ahead, we expect overall performance to remain healthy, with net profit growth of 32.7% CAGR over FY22-25E.

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	16.5	16.5	16.5
FIIs	44.8	46.9	45.8
DIIs	25.1	22.7	21.0
Others	13.6	13.9	16.6
Total	100.0	100.0	100.0

16.2%

NII CAGR between FY22 and FY25E

32.7%

PAT CAGR between FY22 and FY25E

ANALYST
Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

IndusInd Bank Ltd.

Key Concall Highlights:

Macro Updates:

- Domestic economic activity continued to strengthen over Q3FY23. Improving credit supply with resilient banking system is supporting the economic recovery. Gross NPAs fell to a 7- year low of 5% in September 2022 and net NPAs dropped to 10-year low of 1.3% of total assets.
- Monetary policy tightening is also likely to take a pause after another possible hike in February.
- On the fiscal front, the Budget for FY24E is likely to continue to support economic recovery and help buttress overall macro-economic stability through fiscal consolidation.
- India is likely to be the only major economy growing in excess of 5.5% per year over next couple of years.

Business updates & Asset Quality

- The vehicle business continues to achieve record disbursements every quarter and third quarter has been the best ever by a significant margin. The disbursements have been broad-based across all vehicle categories.
- The vehicle finance loan growth as a result continues to accelerate with a robust 7% QoQ growth and YoY growth improving from 13% to 18% during the quarter.
- Vehicle asset quality remains steady with gross slippages at 0.9% vs 1.0% QoQ. Standard book slippages were higher QoQ due to impact of mining duty in Orissa on freight availability. The duty has been rolled back and freight availability has started improving.
- The restructured book in vehicle finance reduced by INR 4.0 Bn to 18.68 Bn from INR 22.7 Bn QoQ. The reduction in restructured was broadly equally driven by collections and slippages. The collection efficiency of the remaining restructured customers was stable at 84%.
- The microfinance and merchant acquiring loans originated through BFIL grew by 16% YoY and 2% QoQ.
- MFI standard book net collection efficiency for Q3FY23 was strong at 99%. The gross slippages in Q3FY23 were down at INR 4.09 Bn vs INR 4.35 Bn in Q2FY23. The 30-90 DPD book including restructured customers was at 2.4% on Dec'22 compared to 2.0% at the end of Sep'22. The increase was largely contributed by the eastern states.
- The bank continues to expand its merchant acquiring business under the banner of Bharat Super Shop.
- The business continued to maintain its global leadership position of being the largest lender to this industry. Its diamond portfolio saw growth of 20% YoY. Asset quality remains pristine with no restructuring and SMA1 or SMA2 customers.
- IIB remains watchful on the implications of the prolonged Russia-Ukraine crisis and remain compliant with all the extant guidelines in facilitating cross border trade. The Covid restrictions relaxation in China is likely to help the overall demand.
- The growth was broad-based across segments with Large corporate growing 3% QoQ, mid corporates 4% QoQ and small corporates 11% QoQ resulting in overall growth of 4% QoQ. The segments driving loan book growth were steel, services, petroleum. Growth in small corporates was driven by continued scale of up of its SME segment and agri business seasonality resulting in ramp up of its commodity finance book.
- The gross slippages from corporate book saw reduction in both standard as well as restructured accounts. Overall slippages were down from INR 1.8 Bn to 1.2 Bn QoQ.
- The non-vehicle, non-microfinance retail loan book too saw growth momentum accelerating during the quarter to 23% YoY and 6% QoQ. The growth was driven by credit cards, personal loans as well as steady momentum in business banking.
- Credit Cards loan book grew by 9% QoQ. The bank has also announced world's first tri-partite cobranded card in partnership with Qatar Airways and British Airways.

Deposits update

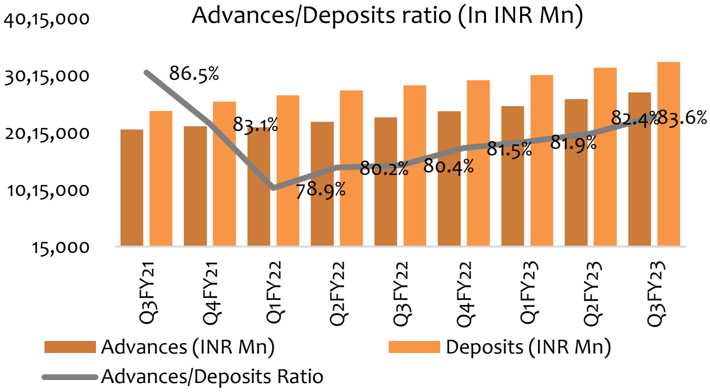
- IIB saw healthy acceleration in the retail deposit mobilisation during the quarter. The retail deposits as per LCR growth accelerated to 21% YoY from 16% previous quarter. The share of Retail Deposits as a result increased from 41.2% to 42.4% during the quarter.
- Affluent segment Net Relationship Value grew 5% QoQ to INR 667 Bn of which deposits grew by 8% QoQ to INR 420 Bn. Its NR segment too maintained the momentum with deposits growing by 16% QoQ to INR 329 Bn.
- The CASA deposits saw growth in current accounts whereas savings accounts contracted sequentially. The savings account contraction was due to customers moving deposits towards fixed deposits and letting go some of the expensive and bulky accounts.
- It opened 64 branches during the quarter taking the total branch count to 2,384 and aiming towards closing the year between 2,450 to 2,500 branches.

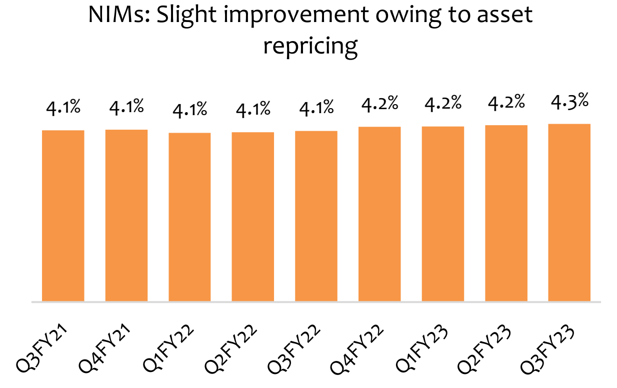
Other Updates:

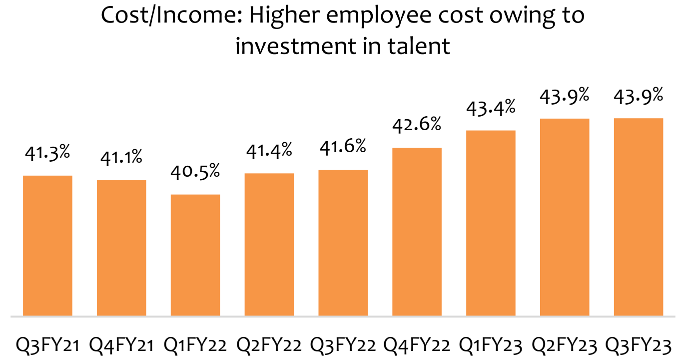
- The easycredit direct platform marketing led business in PL and cards has grown ~6x YoY and 75% QoQ.
- The partnerships business continued to grow strongly and grew 5x YoY and 17% QoQ.
- Digital transaction intensity continued to grow with 93% of transactions processed digitally and 74% of service requests processed digitally.
- To promote greater thrust on ESG linked products, IIB is launching a series of ESG linked products. It has already launched 2 such products including (a) EV finance for passenger cars and (b) Green fixed deposits.

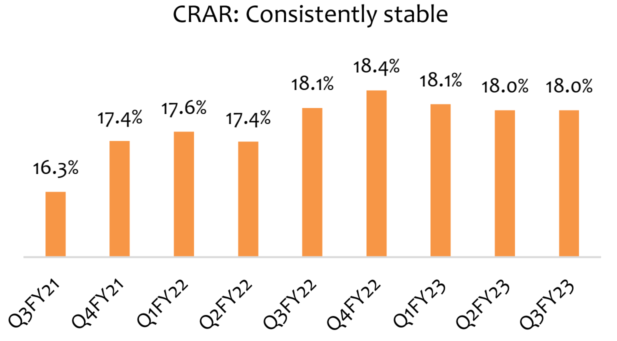
IndusInd Bank Ltd.

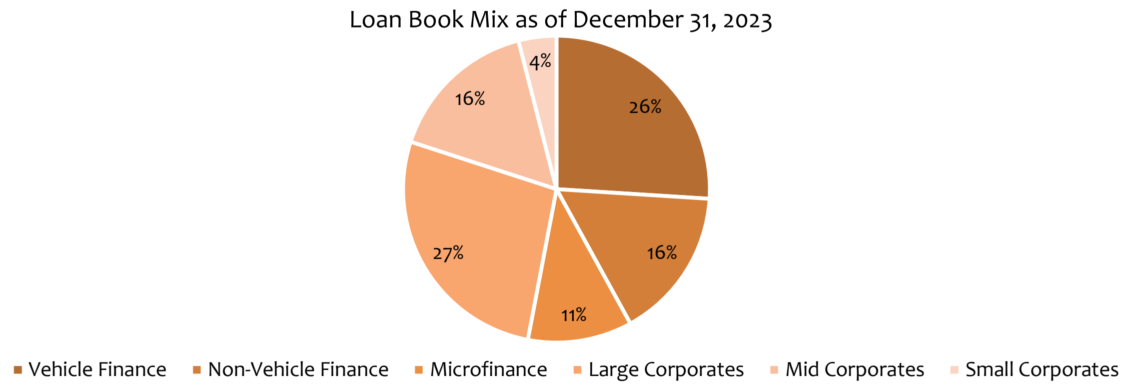
Valuation and view: IndusInd Bank's Q3FY23 performance demonstrated a strong set of numbers led by a robust growth trajectory & lower provisions. The results were in-line with our expectations. IIB reported a 19.3% YoY growth in advances led by strong pickup across all segments, including MFI & gem and jewellery. The overall disbursements remained healthy for the bank during the quarter. IIB remains optimistic about achieving its PC-5 strategy target by the end of FY23E and is formulating its PC-6 strategy. The PC-6 strategy will continue to revolve around deposit retailsation with, further accelerating the loan growth in a normalized macro environment. IIB will continue to invest in expanding its branches, digital initiatives & manpower to build new avenues of revenue growth. Loan book growth is expected to remain resilient given healthy systemic credit offtake. We expect the loan book to grow at 19.7% CAGR over FY22-25E, driven by higher disbursements and improving growth momentum across all segments. Deposit growth will see healthy traction growing at a CAGR of 16.0% over FY22-25E with a focus on granularity & retailisation. Asset Quality for the quarter improved, led by a reduction in slippages & restructured books, except for vehicle loans, where asset quality was slightly under pressure which has started to show improvement in Q4FY23E. We expect NII/PPOP/PAT to grow at a CAGR of 16.2%/ 16.5%/ 32.7% over FY22-25E, led by healthy growth in operating performance and lower provisions. We expect the ROE/ROA to reach 15.6%/ 1.8% in FY25E from 9.7%/1.1% in FY22. Since our last update, the share price of IIB has appreciated by ~3.5%. IndusInd Bank shares are currently trading at a P/Adj. BV multiple of 1.6x/1.4x on FY24E/FY25E adjusted book value. We are rolling over our target price to FY25E. **We assign a P/B multiple of 1.8x to the FY25E adj. BVPS of INR 860.7 to maintain our target price of INR 1,550 per share (earlier INR 1,387), an upside of 29.0% over the CMP. Accordingly, we maintain our rating on the shares of IndusInd Bank to "BUY."**











Source: Company, KRChoksey Research

IndusInd Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	2,89,998	3,08,224	3,63,376	4,34,400	5,16,857
Interest Expense	1,54,719	1,58,216	1,89,528	2,34,501	2,81,374
Net Interest Income	**1,35,279**	**1,50,008**	**1,73,848**	**1,99,900**	**2,35,483**
Non interest income	65,586	73,971	81,368	99,268	1,14,159
Operating income	**2,00,865**	**2,23,979**	**2,55,216**	**2,99,168**	**3,49,641**
- Employee expense	22,135	24,883	31,902	37,396	43,705
- Other operating expense	61,463	70,710	77,841	88,255	1,03,144
Operating Expense	83,598	95,593	1,09,743	1,25,651	1,46,849
PPOP	**1,17,267**	**1,28,386**	**1,45,473**	**1,73,518**	**2,02,792**
Provisions	79,425	66,650	45,486	51,695	59,159
PBT	**37,841**	**61,737**	**99,987**	**1,21,822**	**1,43,633**
Tax Expense	9,478	15,625	24,997	30,456	35,908
PAT	**28,364**	**46,111**	**74,991**	**91,367**	**1,07,725**
Diluted EPS (INR)	38.8	59.5	96.7	117.9	139.0

Source: Company, KRChoksey Research

IndusInd Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Source of Funds					
Share capital	7,734	7,747	7,752	7,752	7,752
Reserves & Surplus	4,25,866	4,69,065	5,15,176	5,90,167	6,81,533
Networth	4,33,600	4,76,812	5,22,929	5,97,919	6,89,286
ESOP	54	161	256	256	256
Borrowings	5,13,228	4,73,232	4,82,697	5,06,832	5,32,173
Deposits	25,62,050	29,36,814	33,77,336	39,17,709	45,83,720
Other liabilities & provisions	1,20,796	1,32,728	1,39,364	1,46,333	1,53,649
Total Equity & Liabilities	**36,29,728**	**40,19,746**	**45,22,581**	**51,69,048**	**59,59,084**
Uses of Funds					
Balances w/ banks & others	5,63,272	6,82,745	4,32,700	4,85,384	5,48,847
Investments	6,96,947	7,09,708	7,93,674	9,01,073	10,54,256
Loans & advances	21,25,954	23,90,515	28,44,713	34,13,656	40,96,387
Fixed assets	18,094	18,487	21,260	24,449	28,116
Other assets	2,25,461	2,18,291	2,61,368	2,26,955	93,967
Total Assets	**36,29,728**	**40,19,746**	**45,22,581**	**51,69,048**	**59,59,084**

Source: Company, KRChoksey Research

IndusInd Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
Growth Rates					
Advances (%)	2.8%	12.4%	19.0%	20.0%	20.0%
Deposits (%)	26.8%	14.6%	15.0%	16.0%	17.0%
Total assets (%)	18.2%	10.7%	12.5%	14.3%	15.3%
NII (%)	12.2%	10.9%	15.9%	15.0%	17.8%
Pre-provisioning profit (%)	8.9%	9.5%	13.3%	19.3%	16.9%
PAT (%)	-35.8%	62.6%	62.6%	21.8%	17.9%
B/S Ratios					
Credit/Deposit (%)	83.0%	81.4%	84.2%	87.1%	89.4%
CASA (%)	41.8%	38.7%	35.7%	32.6%	29.5%
Advances/Total assets (%)	58.6%	59.5%	62.9%	66.0%	68.7%
Leverage - Total Assets to Equity	8.37	8.43	8.65	8.65	8.65
Operating efficiency					
Cost/income (%)	41.6%	42.7%	43.0%	42.0%	42.0%
Opex/total assets (%)	2.7%	2.4%	2.4%	2.4%	2.5%
Opex/total interest earning assets	3.0%	3.2%	3.3%	3.2%	3.1%
Profitability					
NIM (%)	4.6%	4.4%	4.5%	4.5%	4.5%
RoA (%)	0.8%	1.1%	1.7%	1.8%	1.8%
RoE (%)	6.5%	9.7%	14.3%	15.3%	15.6%
Asset quality					
Gross NPA (%)	2.7%	2.3%	2.0%	2.0%	1.9%
Net NPA (%)	0.7%	0.6%	0.6%	0.6%	0.5%
PCR (%)	75.0%	71.7%	71.5%	72.0%	72.0%
Slippage (%)	1.9%	1.0%	1.0%	1.0%	1.0%
Credit cost (%)	2.9%	2.3%	1.4%	1.3%	1.3%
Per share data / Valuation					
EPS (INR)	36.7	59.5	96.7	117.9	139.0
BVPS (INR)	560.7	615.5	674.7	771.4	889.3
ABVPS (INR)	527.9	595.8	652.9	746.4	860.7
P/E (x)	32.5	20.0	12.3	10.1	8.6
P/BV (x)	2.1	1.9	1.8	1.5	1.3
P/ABV (x)	2.3	2.0	1.8	1.6	1.4

Source: Company, KRChoksey Research

IndusInd Bank Ltd.

IndusInd Bank			
Date	CMP (INR)	TP (INR)	Recommendation
20-Jan-23	1,201	1,550	BUY
20-Oct-22	1,160	1,387	BUY
21-Jul-22	951	1,387	BUY
02-May-22	1,018	1,387	BUY
31-Jan-22	872	1,387	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.
The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the 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 KRCSSPL 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 them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.