

# IndusInd Bank

## Diminishing “margin of safety”

IndusInd Bank (IIB) reported in-line earnings, led by strong loan growth (+21% YoY), stable margins and sustained traction in fee income. However, credit costs (123bps annualised) continued to trend higher on the back of elevated gross slippages (2%), primarily from a one-off corporate account, MFI and some early delinquencies in unsecured retail segments (PL/CC). We believe IIB is likely to face near-term sub-optimal cost ratios, as the bank frontloads its investments in digital, capacity building and distribution. More importantly, for a bank of its size, we believe that IIB needs to shore up its pace of deposit mobilisation and provisioning buffer. We raise our FY24E/FY25E estimates by 12% each to factor in higher loan growth; maintain REDUCE with a TP of INR1,280 (1.4x Mar-25 ABVPS) as we watch out for emerging evidence of margin of safety.

- **In-line operating performance:** IIB reported strong NII growth (+18% YoY), led by stable margins (4.3%) and healthy loan growth (+21% YoY). Consumer finance grew by 23% YoY, led by business banking, VF, MFI and PL/CC, while wholesale witnessed traction from high-yielding small corporate book (+50% YoY). NIMs were shored up by the MCLR-linked corporate loans, but with a continued scramble for deposits and lagged re-pricing catching up, NIMs may stay soft before reflatting on the back of a fixed-rate book (51% of loans).
- **Asset quality remains slippery:** Gross slippages at 2%, mainly stemming from the MFI and corporate book (one-off), in addition to early delinquencies cropping up in the retail unsecured book, are indicative of IIB operating at the higher end of the risk spectrum. However, the management has guided for credit costs to stay elevated (Q2FY24: 123bps) as IIB builds up its provisioning buffers, which is crucial for a bank that operates in such high-yield segments.
- **Deposit-side re-jig remains a key monitorable:** With a sub-optimal mix of retail deposits at 43%, we believe that IIB faces elevated competitive intensity, which is likely to impact medium-term return ratios, especially given that IIB has largely substituted the surplus liquidity on its balance sheet with loans (which now constitute 66% of total assets).

### Financial summary

(INR bn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	FY24E	FY25E	FY26E
NII	50.8	43.0	18.0%	48.7	4.3%	206.2	230.9	261.5
PPOP	39.1	35.4	10.3%	38.3	2.0%	165.7	186.3	213.2
PAT	22.0	18.1	22.0%	21.2	3.7%	92.2	103.7	116.9
EPS (INR)	28.4	23.3	22.1%	27.3	3.9%	118.8	133.7	150.6
ROAE (%)						15.6	15.1	14.8
ROAA (%)						1.9	1.8	1.7
ABVPS (INR)						796.0	918.8	1,054.8
P/ABV (x)						1.8	1.5	1.3
P/E (x)						12.0	10.6	9.4

Source: Company, HSIE Research

### Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
Net advances	3,309	3,447	4.2%	3,788	4,024	6.2%
NIM (%)	4.4	4.5	5 bps	4.4	4.3	-4 bps
NII	203.5	206.2	1.3%	231.2	230.9	-0.1%
PPOP	160.9	165.7	3.0%	182.2	186.3	2.2%
PAT	81.2	92.2	13.5%	90.6	103.7	14.4%
Adj. BVPS (INR)	774.7	796.0	2.8%	880.8	918.8	4.3%

Source: Company, HSIE Research

## REDUCE

CMP (as on 18 Oct 2023) INR 1,420

Target Price INR 1,280

NIFTY 19,671

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR1,140	INR1,280
EPS %	FY24E	FY25E
	11.9%	12.6%

### KEY STOCK DATA

Bloomberg code	IIB IN
No. of Shares (mn)	777
MCap (INR bn) / (\$ mn)	1,104/13,495
6m avg traded value (INR mn)	4,174
52 Week high / low	INR 1,476/990

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.2	23.8	16.1
Relative (%)	3.5	13.5	4.4

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	16.5	16.5
FIs & Local MFs	27.0	25.7
FPIs	42.5	46.9
Public & Others	7.1	7.0
Pledged Shares	6.9	6.4

Source : BSE

Pledged shares as % of total shares

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