Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

IndusInd Bank
Steady Q2

Banks	Sharekhan code: INDUSINDBK
Reco/View: Buy ↔	CMP: Rs. 1,421
	Price Target: Rs. 1,650 ↔

↑ 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 30.24

Updated Aug 08, 2023

High Risk

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

Source: Morningstar

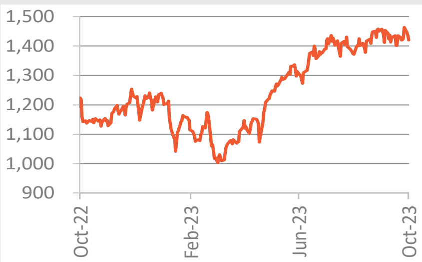
Company details

Market cap:	Rs. 1,10,404 cr
52-week high/low:	Rs. 1,476/ 990
NSE volume: (No of shares)	30.5 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	65.3 cr

Shareholding (%)

Promoters	16.5
FII	42.3
DII	26.7
Others	14.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	2.2	23.9	16.2
Relative to Sensex	0.4	2.5	14.9	2.5

Sharekhan Research, Bloomberg

Summary

- IndusInd Bank (IIB) reported in line PAT at Rs. 2,181 crore (up 22% y-o-y/3% q-o-q) / RoA at ~1.9% led by healthy credit growth/ NII and lower credit cost.
- The bank continued to utilise the contingent buffer of Rs 180 crore during Q2 also. The buffer now stands at Rs. 1,520 crore (48 bps of loans). The bank guided that it would build incremental buffer provisions going forward and would not draw down further on contingent buffers. The bank also maintained its guidance for credit cost at 110-130 bps in H2FY24.
- NIMs were stable q-o-q at 4.29%, despite decelerating margin trend across sector. The bank is focusing on accelerating its retailization strategy which could offset increase in cost of funds leading to stable margin profile.
- Overall, asset quality trends were broadly stable. At the CMP, the stock trades at 1.7x/1.5x its FY2024E/ FY2025E BV. We maintain a Buy on the stock with an unchanged PT of Rs. 1,650.

IndusInd Bank (IIB) reported steady in-line performance in Q2FY2024. Net interest income (NII) grew by 18% y-o-y/4% q-o-q, aided by healthy growth in advances and stable margins. Net interest margin (NIM) were stable q-o-q at 4.29%. Core fee income grew by 13% y-o-y/ flat q-o-q. Total operating expenses grew by 25% y-o-y/7% q-o-q. Opex is expected to remain elevated in near term as bank is into the investment phase. Opex-to-average assets stood at 2.9% vs. 2.8% q-o-q. This led to moderation in PPoP growth (10% y-o-y/ 1% q-o-q) despite strong NII growth. Total provisions fell by 15% y-o-y / 2% q-o-q. However, the bank has utilised contingent provisions of Rs. 180 crore. The bank continued to maintain contingent provisions of Rs. 1,520 crore (0.5% of advances). PBT grew by 22% y-o-y/2% q-o-q. Overall, asset quality trends remained broadly stable across the portfolio except slippages in corporate book were higher (70 bps annualized vs 15 bps qoq) due to one account amounting to Rs. 168 crore which slipped into NPA. Slippages in retail segment were lower at 3.6% annualised vs 4.0% q-o-q. Total net slippages were lower at Rs. 758 crore vs Rs. 835 crore q-o-q. GNPA and NNPA ratios were at 1.93% and 0.57%, respectively. Provisioning coverage ratio (PCR) was stable at ~71%. Restructured book declined to 0.54% vs. 0.66% q-o-q. Advances grew by 21% y-o-y/5% q-o-q, driven by higher growth in retail segment. Deposits grew by 14% y-o-y/4% q-o-q. CASA deposits grew by 6% y-o-y/2% q-o-q. Retail deposits as per the LCR grew by 21% y-o-y /4% q-o-q and constitute ~44% versus 43% q-o-q of the overall deposit base.

Key positives

- Strong business momentum along with healthy retail deposit growth.
- Stable NIMs profile despite decelerating margin trend across sector.

Key negatives

- Higher opex growth led to moderation in operating profit growth. Opex to average assets stood at 2.9% vs. 2.8% q-o-q.

Management Commentary

- The bank retained loan growth guidance of 18–23% along with stable NIMs and sustained lower credit cost. Additionally, focus is on garnering retail deposits at a faster pace.
- The bank expects a further improvement in retail slippages further led by Vehicle and MFI segment and would resume building buffer provisions in H2FY24.

Our Call

Valuation – We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,650: At CMP, IIB trades at 1.7x/1.5x its FY2024E/FY2025E BV estimates. Strong loan growth momentum, stable NIMs and lower credit cost are likely to support return ratios and earnings trajectory, and this should keep RoEs at ~15% in the near term. We believe for a meaningful re rating from here on, the bank should see faster improvement in its retail liability franchise.

Key Risks

Economic slowdown that can lead to slower loan growth, higher-than-anticipated credit costs, slow growth in the retail liability franchise.

Valuation (Standalone) Rs cr

Particulars	FY2	FY23	FY24E	FY25E
Net Interest Income	15,001	17,592	19,770	23,946
Net profit	4,611	7,390	9,102	10,606
EPS (Rs.)	59.5	95.2	116.7	136.0
P/E (x)	23.9	14.9	12.2	10.5
P/BV (x)	2.3	2.0	1.7	1.5
RoE (%)	10.1	14.4	15.4	15.4
RoA (%)	1.2	1.7	1.9	1.9

Source: Sharekhan Research

Key result highlights

- **Healthy growth, steady margins drives NII growth:** NII grew by 18% y-o-y/4% q-o-q, aided by strong growth in advances and stable margins. Net interest margin (NIM) were stable q-o-q at 4.29%. Cost of deposits increased by 23-bps q-o-q to 6.35% and company expects further ~20 bps increase in cost of deposits in H2FY24. Increasing retail mix, repricing of corporate book, and higher disbursement yield in the fixed rate book would keep margins stable, thereby offsetting the increase in cost of funds, led by deposit repricing. The bank is guiding for 4.2-4.3% NIM going forward.
- **Sustaining strong loan growth momentum:** Advances grew by 21% y-o-y/5% q-o-q. The share of retail loans stood at ~55%, with vehicle loans comprising 26%, non-vehicle finance book (mainly business banking, PL, CC, LAP) comprising 18%, and microfinance loans at 11%. The vehicle loan book grew by 22% y-o-y/ 5% q-o-q (slow down seen in tractor, Commercial equipment and two-wheeler segments, while the remaining segments continued to grow at a healthy pace). The non-vehicle book grew by 34% y-o-y/8% q-o-q. The MFI book grew by 16% y-o-y/7% q-o-q. The wholesale corporate book grew by 18% y-o-y/3% q-o-q, led by higher growth in the small corporate book. LCR during the quarter was 117% versus 132% q-o-q. The bank retained loan growth guidance of 18–23%. It is also scaling up new product lines such as affluent banking, NRI banking, tractor finance, affordable housing, and merchant advances.
- **Retail deposit growth was strong:** Overall deposits grew by 14% y-o-y/4% q-o-q. CASA deposits grew by 6% y-o-y/2% q-o-q. CA balances grew by 13% y-o-y/ 1% q-o-q, while SA balances grew by 2% y-o-y/ 3% q-o-q. Retail deposits as per LCR grew by 21% y-o-y/4% q-o-q and now constitute 44% of the overall deposits base. The bank is prioritising on rapid retail deposits mobilisation through – Focus on affluent/NRI deposits, branch expansion along with segmentation based on sectors, increasing digital ecosystem penetration, increased share in current accounts and lastly pricing retail term deposits competitively.
- **Asset quality is holding up well:** Overall asset quality trends remained broadly stable across the portfolio except slippages in corporate book were higher (70 bps annualized vs 15 bps qoq) due to one account amounting to Rs. 168 crore which slipped into NPA. Slippages in retail segment were lower at 3.6% annualised vs 4.0% q-o-q. Total net slippages were lower at Rs. 758 crore vs Rs. 835 crore q-o-q. GNPA and NNPA ratios were at 1.93% and 0.57%, respectively. Provisioning coverage ratio (PCR) was stable at ~71%. Restructured book declined to 0.54% vs. 0.66% q-o-q. The bank expect improvement in retail slippages further led by Vehicle and MFI segment and would resume building buffer provisions in H2FY24. Security receipts were at 39 bps of loans vs 44 bps q-o-q.

Results | Rs cr

Particulars	2QFY24	2QFY23	1QFY24	Y-o-Y	Q-o-Q
Interest Inc.	11,248	8,708	10,730	29%	5%
Interest Expenses	6,171	4,406	5,863	40%	5%
Net Interest Income	**5,077**	**4,302**	**4,867**	**18%**	**4%**
NIM (%)	4.29	4.24	4.29	1%	0%
Core Fee Income	2,120	1,872	2,119	13%	0%
Other Income	162	139	91	17%	78%
Net Income	**7,358**	**6,313**	**7,077**	**17%**	**4%**
Employee Expenses	957	735	863	30%	11%
Other Opex	2,521	2,058	2,384	22%	6%
Total Opex	**3,478**	**2,793**	**3,247**	**25%**	**7%**
Cost to Income Ratio	47.3%	44.2%	45.9%		
Pre-Provision Profit	**3,881**	**3,520**	**3,830**	**10%**	**1%**
Provisions & Contingencies - Total	974	1,141	992	-15%	-2%
Profit Before Tax	**2,907**	**2,379**	**2,838**	**22%**	**2%**
Tax	726	592	715	23%	1%
Effective Tax Rate	25%	25%	25%		
Reported Profits	**2,181**	**1,787**	**2,124**	**22%**	**3%**
Basic EPS (Rs.)	28.1	23.1	27.4	22%	3%
Diluted EPS (Rs.)	28.0	23.0	27.3	22%	3%
RoA (%)	1.9	1.8	1.9		
Advances	3,15,454	2,60,129	3,01,317	21%	5%
Deposits	3,59,786	3,15,921	3,47,047	14%	4%
Gross NPA	**6,164**	**5,567**	**5,941**	**11%**	**4%**
Gross NPA Ratio (%)	1.93	2.11	1.94		
Net NPA	**1,814**	**1,584**	**1,747**	**15%**	**4%**
Net NPAs Ratio (%)	0.57	0.61	0.58		
PCR – Calculated	70.6%	71.5%	70.6%		

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~20% y-o-y in the fortnight ending September 22, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13%. The gap between advances and deposits growth has again widened. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. Overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

■ Company Outlook – Near term business trends looks comfortable

Focus on strong granular growth, risk management framework, and its strategy to create counter-cyclical buffers will strengthen the franchise. Asset-quality outlook is expected to be stable in near term. Near-term business trends look comfortable for the bank and the franchise is looking towards a more predictable performance. Strong loan growth momentum, stable NIMs and lower credit cost in the near term augur well for earnings growth.

■ Valuation – We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,650

At CMP, IIB trades at 1.7x/1.5x its FY2024E/FY2025E BV estimates. Strong loan growth momentum, stable NIMs and lower credit cost are likely to support return ratios and earnings trajectory, and this should keep RoEs at ~15% in the near term. We believe for a meaningful re rating from here on, the bank should see faster improvement in its retail liability franchise.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
IndusInd Bank	1,421	1,10,404	12.2	10.5	1.7	1.5	15.4	15.4	1.9	1.9
Federal Bank	148	34,903	9.6	8.4	1.2	1.1	14.6	13.7	1.3	1.3

Source: Company, Sharekhan estimates

About the company

IIB is the fifth largest private bank promoted by Hinduja Group in India. It has a strong pan-India presence with 2,631 branches as of Sep 2023. The bank is a market leader in most of the product categories in the vehicle finance segment, which forms around 26% of overall loans. Overall, the retail-to-wholesale mix stands at 55:45. The bank is well-placed with adequate capital levels. Capital adequacy ratio (CAR) stands at 18.2%.

Investment theme

IIB is focusing on broad based granular growth with robust risk management framework, and its strategy to create counter-cyclical buffers will strengthen the franchise. Asset-quality outlook is expected to be stable in near term. Near-term business trends look comfortable for the bank and the franchise is looking towards a more predictable performance. Strong loan growth momentum, stable NIMs and lower credit cost in the near term augur well for earnings growth.

Key Risks

Economic slowdown that can lead to slower loan growth, higher-than-anticipated credit costs, slow growth in the retail liability franchise.

Additional Data

Key management personnel

Mr. Sumant Kathpalia	CEO and Managing Director
Mr. Arun Khurana	Deputy CEO
Mr. Gobind Jain	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	IndusInd International Holdings Ltd.	11.5
2	AIA Co Ltd	8.2
3	INDUSIND Ltd	3.6
4	Route One Offshore Master Fund	3.3
5	SBI FUNDS MANAGEMENT LTD.	3.0
6	DF International Partners	2.8
7	LIFE INSURANCE CORP OF INDIA	2.8
8	BRIDGE INDIA FUND	2.5
9	DRAGSA INDIA EQUITIES III LP	2.1
10	HDFC AMC Co. Ltd	2.1

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

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