

BUY IndusInd Bank

Your success is our success

Powering-up retail franchisee to deliver higher RaRoC

BFSI - Banks ▶ Visit Note ▶ December 19, 2023

TARGET PRICE (Rs): 2,000

We met Sumant Kathpalia, MD and CEO of IIB, to discuss the progress on the bank's Planning Cycle 6 and its strategy to deliver sustainable and profitable growth. He reiterated the bank's unwavering focus on building a strong retail liability franchisee (add more than 1,000 branches), balanced credit portfolio mix with a higher share of AHL/SME/Cards, micro-banking vs. micro-finance and, thereby, sustainable RoAs (1.8-2.2%). The bank is keen on building a strong wealth management business, including AMC, and remains open to the inorganic route. Sumant is keen on full-term extension beyond Mar-25, while the bank has appropriate succession planning in place across the top and middle management to avoid any business disruption.

We have raised our earnings estimates by 1-4% over FY24-26E, factoring better growth/lower LLP and expect the bank to deliver healthy RoA @ 1.9-2%/RoE @ 16-18% RoE. The bank carries healthy contingent provision (0.5% of loans) as well as capital buffers (CET 1 at 16.3%), while any infusion by promoters to increase stake should further boost capital levels. Factoring in better earnings/RoE trajectory and margin stability amid the risk of contraction among peers, we upgrade the TP to Rs2,000/share from Rs1,825/share, rolling forward its P/ABV on 2.1x Dec-25E ABV vs. 2x Sep-25E earlier.

IndusInd Bank: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	46,111	73,897	93,901	1,16,115	1,43,450
Loan growth (%)	12.4	21.3	20.7	23.1	23.0
NII growth (%)	10.9	17.3	18.2	19.8	21.0
NIM (%)	4.2	4.4	4.4	4.4	4.4
PPOP growth (%)	9.5	11.7	14.5	21.4	24.1
Adj. EPS (Rs)	59.5	95.2	120.8	149.4	184.6
Adj. EPS growth (%)	62.3	60.0	26.9	23.7	23.5
Adj. BV (INR)	584.8	646.6	718.3	831.7	973.3
Adj. BVPS growth (%)	8.6	10.6	11.1	15.8	17.0
RoA (%)	1.2	1.7	1.9	1.9	2.0
RoE (%)	10.2	14.5	16.1	17.3	18.3
P/E (x)	26.1	16.3	12.9	10.4	8.4
P/ABV (x)	2.7	2.4	2.2	1.9	1.6

Source: Company, Emkay Research

Unwavering focus on retailization of liability in Planning Cycle 6

Management re-emphasized that building a strong retail franchisee is going to be the topmost focus area for the bank over the next 2-3 years and, thus, it aims to reach retail LCR share of 50-52% from the current 44% and 26% a few years back. The key pillars of the liability strategy will be 1) Differentiated product and price offering (at least for the next two years); 2) Ramping up 'home market' share to 5% from ~3.7% currently and adding new geographies; 3) Focus on affluent, NRI, and community banking (for e.g.: Indus Solitaire Program for Gems and Jewelry community), 4) Digital leverage to tap Gen Z/Millennial customers (For e.g. customer agnostic INDIE app, and 5) Branch expansion (add another 1,000 branches/46% to the current network of 2,600).

Balanced credit portfolio mix to drive better risk-adjusted RoA

The bank has bounced back from sub-industry credit growth over FY22-23 due to asset-quality issues accentuated by liability saga post the Yes Bank debacle. The bank delivered 21% credit growth in Q2FY24 and believes that incremental growth will be guided by its strategy to deliver better RARoC (>2.5%) instead of just chasing growth. Although vehicle financing will continue to dominate the credit portfolio, mortgages (mainly affordable housing), SME/mid-corporates, and cards will emerge as key growth drivers. The bank plans to increase the share of credit cards with far better ARR to 5% from 3% currently, while gradually pruning relatively risky MFI share to 8-10% from 11% currently and, thus, retain the present share of unsecured loans.

Retain BUY with a revised TP of Rs2,000/share

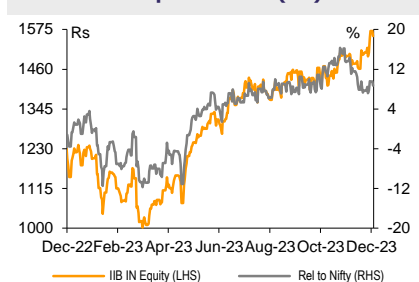
We expect the bank to deliver better RoA @ 1.9-2%, RoRWA @ 2.6-2.8%, and RoE @ 16-18% RoE over FY24-26E on the back of healthy growth, stable margins, and improving LLP. The bank carries healthy contingent provision (0.5% of loans) as well as capital buffers (CET 1 at 16.3%), while any infusion by promoters to increase the stake should further boost capital levels. Factoring in better earnings/RoE trajectory and margin stability amid the risk of contraction among peers, we upgrade the TP to Rs2,000 from Rs1,825, rolling forward its P/ABV on 2.1x Dec-25E ABV vs. 2x Sep-25E.

Target Price – 12M	Sep-24
Change in TP (%)	9.6
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	28.5
CMP (18-Dec-23) (Rs)	1,556.4

Stock Data	Ticker
52-week High (Rs)	1,578
52-week Low (Rs)	990
Shares outstanding (mn)	777.7
Market-cap (Rs bn)	1,210
Market-cap (USD mn)	14,572
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	5,772.5
ADTV-3M (USD mn)	69.5
Free float (%)	84.0
Nifty-50	21,419
INR/USD	83.1
Shareholding, Sep-23	
Promoters (%)	15.1
FPIs/MFs (%)	38.1/26.3

Price Performance

(%)	1M	3M	12M
Absolute	3.9	6.8	26.6
Rel. to Nifty	(4.3)	0.4	8.0

1-Year share price trend (Rs)**Anand Dama**

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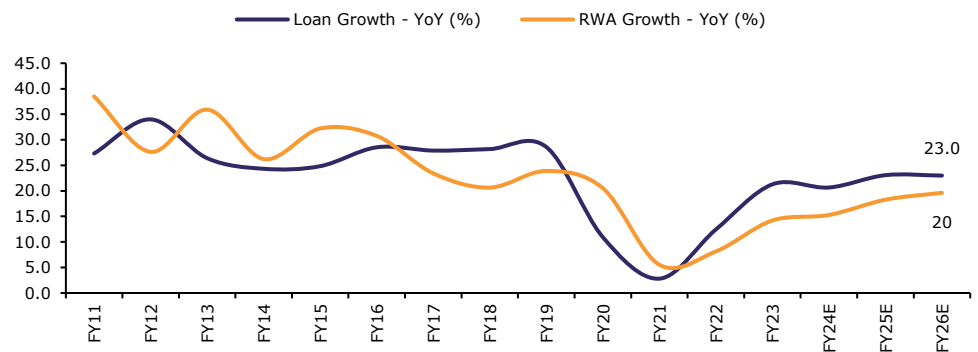
Story in Charts

Exhibit 1: Planning Cycle 6 – Higher focus on the retailization of liability

Planning Cycle 6 (FY 2023-26)		Q2FY24 Outcome	
Resulting In	Loan Growth	18%-23%	21%
	Retail Loan Mix	55%-60%	55%
	Retail Deposits as per LCR	45%-50%	44%
	PPOP / Loans	5.25% - 5.75%	5.2%
	Branch Network	3,250 - 3,750	2,631
	Customer Base	> 50mn	37mn

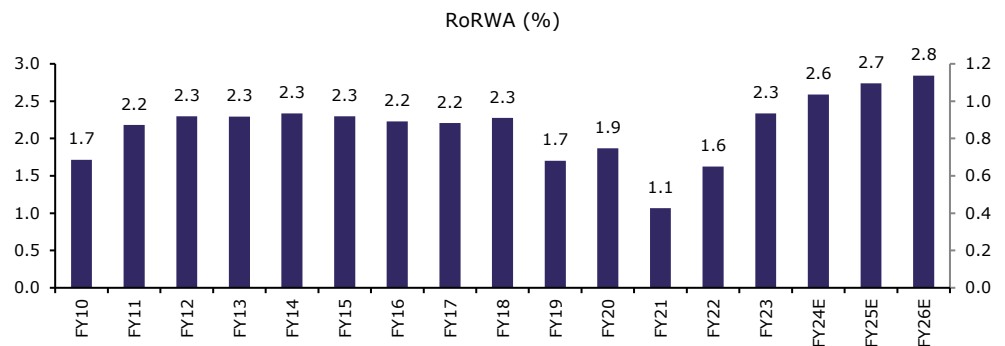
Source: Company

Exhibit 2: The bank’s aim to contain RWA growth and, thus, deliver better RaRoC



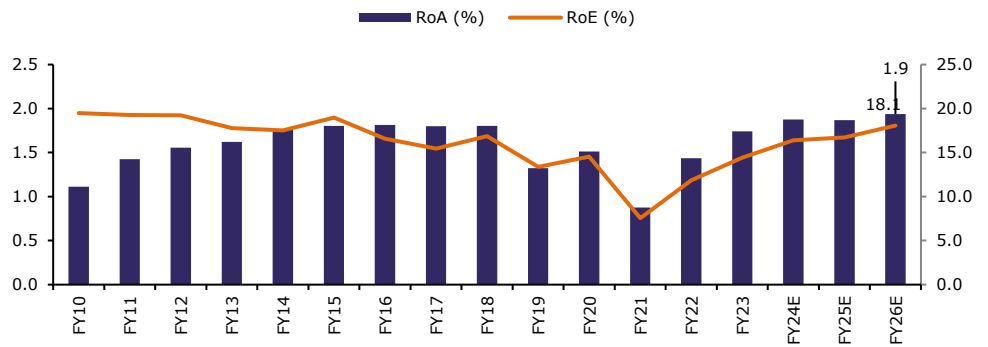
Source: Emkay Research

Exhibit 3: IIB to deliver higher RoRWA due to steady improvement in RoA as well as lower RWA as the bank increases the share of secured loans



Source: Emkay Research

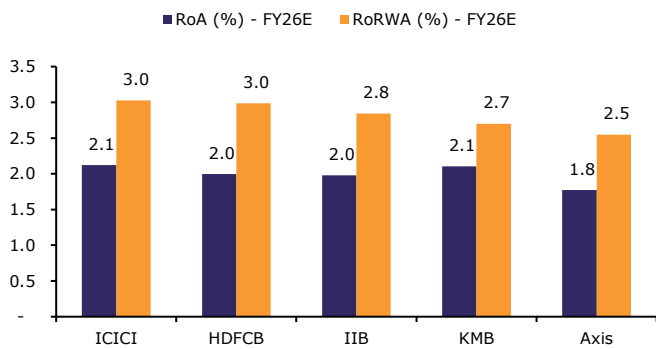
Exhibit 4: IIB set to deliver healthy RoA/RoE because of better growth, margins, and lower LLP



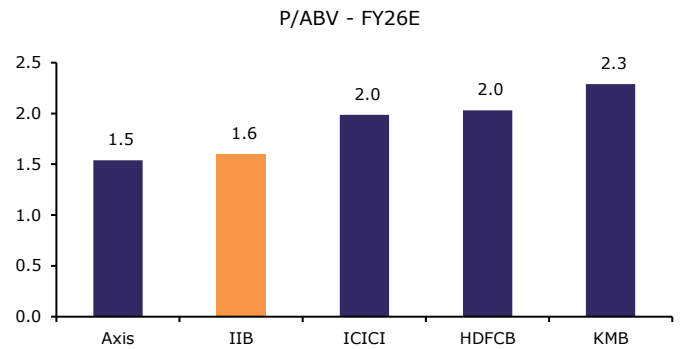
Source: Emkay Research

Exhibit 5: IIB expected to deliver higher RoA/RoRWA over peers like KMB and Axis Bank

Exhibit 6: IIB trades at lower valuations vs. peers, though slightly at a premium vs. Axis Bank due to sustainably higher RoAs

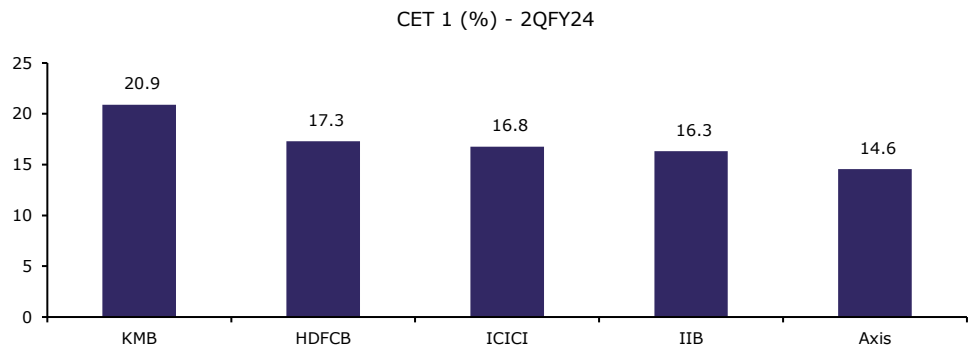


Source: Emkay Research



Source: Emkay Research

Exhibit 7: IIB has healthy CET 1, which could inch up post capital infusion by promoters once RBI's approval is in place



Source: Emkay Research

IndusInd Bank : Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	3,08,224	3,63,679	4,62,450	5,45,058	6,46,063
Interest Expense	1,58,216	1,87,758	2,54,423	2,95,917	3,44,651
Net interest income	1,50,008	1,75,921	2,08,026	2,49,141	3,01,412
NII growth (%)	10.9	17.3	18.2	19.8	21.0
Other income	73,970	81,664	93,910	1,11,672	1,35,404
Total Income	2,23,979	2,57,585	3,01,936	3,60,812	4,36,817
Operating expenses	95,593	1,14,120	1,37,626	1,61,373	1,89,290
PPOP	1,28,386	1,43,465	1,64,311	1,99,439	2,47,527
PPOP growth (%)	9.5	11.7	14.5	21.4	24.1
Core PPOP	1,22,454	1,43,631	1,59,862	1,93,655	2,42,032
Provisions & contingencies	66,650	44,868	38,775	44,204	55,749
PBT	61,736	98,596	1,25,536	1,55,235	1,91,778
Extraordinary items	0	0	0	0	0
Tax expense	15,625	24,699	31,635	39,119	48,328
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	46,111	73,897	93,901	1,16,115	1,43,450
PAT growth (%)	62.6	60.3	27.1	23.7	23.5
Adjusted PAT	46,111	73,897	93,901	1,16,115	1,43,450
Diluted EPS (Rs)	62.0	95.2	120.7	149.3	184.4
Diluted EPS growth (%)	55.1	53.5	26.9	23.7	23.5
DPS (Rs)	8.5	14.0	18.0	22.5	25.0
Dividend payout (%)	14.3	14.7	14.9	15.1	13.5
Effective tax rate (%)	25.3	25.1	25.2	25.2	25.2
Net interest margins (%)	4.2	4.4	4.4	4.4	4.4
Cost-income ratio (%)	42.7	44.3	45.6	44.7	43.3
Shares outstanding (mn)	774.7	775.9	777.1	777.1	777.1

Source: Company, Emkay Research

Asset Quality and Other Metrics					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	55,171.5	58,262.6	64,108.8	74,894.9	92,584.2
Net NPLs	15,298.3	17,149.5	19,232.6	22,468.5	27,775.3
GNPA ratio (%)	2.3	2.0	1.8	1.7	1.7
NNPA ratio (%)	0.6	0.6	0.5	0.5	0.5
Provision coverage (%)	72.3	70.6	70.0	70.0	70.0
Gross slippages	1,01,028.7	68,920.0	58,461.5	71,907.7	88,446.4
Gross slippage ratio (%)	4.2	2.3	1.7	1.7	1.7
LLP ratio (%)	2.7	1.6	1.2	1.1	1.2
NNPA to net worth (%)	3.0	2.9	2.9	2.9	3.1
Capital adequacy					
Total CAR (%)	18.4	17.9	18.1	17.5	16.9
Tier-1 (%)	16.8	16.4	16.4	16.0	15.6
CET-1 (%)	16.8	16.4	16.4	16.0	15.6
RWA-to-Total Assets (%)	73.4	78.4	77.6	76.7	75.8
Miscellaneous					
Total income growth (%)	7.5	16.5	24.9	18.0	19.0
Opex growth (%)	14.3	19.4	20.6	17.3	17.3
Core PPOP growth (%)	19.6	17.3	11.3	21.1	25.0
PPOP margin (%)	3.4	3.3	3.3	3.3	3.4
PAT/PPOP (%)	35.9	51.5	57.1	58.2	58.0
LLP-to-Core PPOP (%)	54.4	31.2	24.3	22.8	23.0
Yield on advances (%)	11.2	11.4	12.1	11.9	11.6
Cost of funds (%)	4.9	5.2	6.1	5.9	5.7

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	7,747	7,759	7,771	7,771	7,771
Reserves & surplus	4,69,065	5,38,015	6,22,325	7,21,569	8,44,716
Net worth	4,76,812	5,45,773	6,30,095	7,29,339	8,52,486
Deposits	29,36,813	33,64,381	39,81,052	48,99,346	60,00,124
Borrowings	4,73,232	4,90,112	5,35,033	5,84,146	6,63,234
Interest bearing liab.	34,10,046	38,54,494	45,16,085	54,83,492	66,63,357
Other liabilities & prov.	1,32,889	1,77,773	2,90,632	3,33,932	4,37,287
Total liabilities & equity	40,19,746	45,78,040	54,36,812	65,46,763	79,53,130
Net advances	23,90,515	28,99,237	34,98,246	43,05,613	52,95,580
Investments	7,09,708	8,31,162	9,68,146	11,24,187	13,71,323
Cash, other balances	6,82,745	5,65,111	6,32,252	7,12,854	7,99,603
Interest earning assets	37,82,968	42,95,510	50,98,643	61,42,654	74,66,506
Fixed assets	18,487	19,926	23,284	26,078	29,208
Other assets	2,18,291	2,62,603	3,14,884	3,78,031	4,57,417
Total assets	40,19,746	45,78,040	54,36,812	65,46,763	79,53,130
BVPS (Rs)	599.3	662.3	735.2	851.6	997.8
Adj. BVPS (INR)	584.8	646.6	718.3	831.7	973.3
Gross advances	24,30,389	29,40,350	35,43,122	43,58,040	53,60,389
Credit to deposit (%)	81.4	86.2	87.9	87.9	88.3
CASA ratio (%)	42.8	40.0	38.3	38.3	38.6
Cost of deposits (%)	4.5	5.0	6.0	5.9	5.6
Loans-to-Assets (%)	59.5	63.3	64.3	65.8	66.6
Net advances growth (%)	12.4	21.3	20.7	23.1	23.0
Deposit growth (%)	14.6	14.6	18.3	23.1	22.5
Book value growth (%)	8.4	10.5	11.0	15.8	17.2

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	26.1	16.3	12.9	10.4	8.4
P/B (x)	2.6	2.4	2.1	1.8	1.6
P/ABV (x)	2.7	2.4	2.2	1.9	1.6
P/PPOP (x)	9.4	8.4	7.4	6.1	4.9
Dividend yield (%)	0.5	0.9	1.2	1.4	1.6
DuPont-RoE split (%)					
NII/avg assets	3.9	4.1	4.2	4.2	4.2
Other income	1.9	1.9	1.9	1.9	1.9
Fee income	1.2	1.3	1.3	1.3	1.4
Opex	2.5	2.7	2.7	2.7	2.6
PPOP	3.4	3.3	3.3	3.3	3.4
Core PPOP	3.2	3.3	3.2	3.2	3.3
Provisions	1.7	1.0	0.8	0.7	0.8
Tax expense	0.4	0.6	0.6	0.7	0.7
RoA (%)	1.2	1.7	1.9	1.9	2.0
Leverage ratio (x)	8.5	8.5	8.6	8.9	9.2
RoE (%)	10.2	14.5	16.1	17.3	18.3

Quarterly data					
Rs mn, Y/E March	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	43,021	44,954	46,695	48,671	50,767
NIM (%)	4.2	4.3	4.3	4.3	4.3
PPOP	35,444	36,864	37,575	38,315	39,087
PAT	18,052	19,635	20,434	21,244	22,012
EPS (Rs)	23.29	25.34	26.34	27.38	28.37

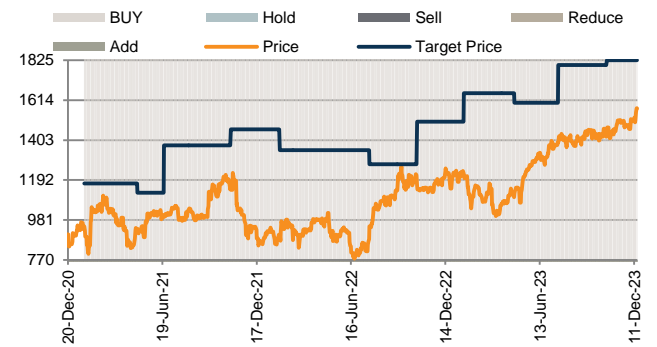
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	1,466	1,825	Buy	Anand Dama
19-Oct-23	1,450	1,825	Buy	Anand Dama
18-Jul-23	1,390	1,800	Buy	Anand Dama
25-Apr-23	1,122	1,600	Buy	Anand Dama
09-Mar-23	1,170	1,650	Buy	Anand Dama
18-Jan-23	1,223	1,650	Buy	Anand Dama
20-Oct-22	1,160	1,500	Buy	Anand Dama
04-Oct-22	1,219	1,275	Buy	Anand Dama
28-Jul-22	1,018	1,275	Buy	Anand Dama
21-Jul-22	948	1,275	Buy	Anand Dama
01-May-22	979	1,350	Buy	Anand Dama
30-Jan-22	904	1,350	Buy	Anand Dama
07-Nov-21	1,189	1,460	Buy	Anand Dama
28-Oct-21	1,176	1,460	Buy	Anand Dama
05-Oct-21	1,169	1,375	Buy	Anand Dama
28-Jul-21	993	1,375	Buy	Anand Dama
22-Jun-21	1,000	1,375	Buy	Anand Dama
02-May-21	935	1,125	Buy	Anand Dama
30-Jan-21	846	1,175	Buy	Anand Dama
20-Jan-21	948	1,175	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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