Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

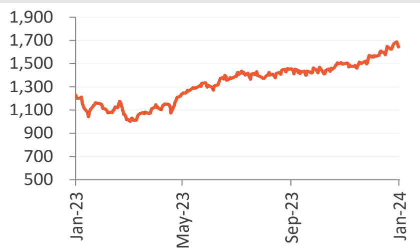
Company details

Market cap:	Rs. 1,25,460 cr
52-week high/low:	Rs. 1694/990
NSE volume: (No of shares)	31.6 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	66.1 cr

Shareholding (%)

Promoters	16.5
FII	42.5
DII	26.7
Others	14.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	13.6	16.0	31.9
Relative to Sensex	3.8	5.5	9.5	15.3

Sharekhan Research, Bloomberg

Stock Update

Result Update

IndusInd Bank

Steady Q3 with stable NIMs, higher slippages to normalise

Bank		Sharekhan code: INDUSINDBK		
Reco/View: Buy	↔	CMP: Rs. 1,613	Price Target: Rs. 1,850	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- IndusInd Bank (IIB) reported in-line performance with 17% y-o-y earnings growth, led by 9% y-o-y operating profit growth and a 12% y-o-y decline in provisions with RoA at 1.9%.
- NIMs were stable q-o-q at 4.3%. Repricing of loans along with the incremental loan mix skewed towards higher-yielding retail assets supported NIM despite increased COF, led by higher cost of deposits.
- Headline asset-quality ratios were stable q-o-q despite higher slippages (2.6% vs 2.3% q-o-q Higher slippages were from a one-off in corporate account, vehicle, MFI, and some other retail assets including Agri, LAP & merchant acquiring business.
- Management expects slippages trends to normalise going ahead. At the CMP, the stock trades at 1.7x/1.4x its FY2025E/FY2026E BV. We maintain Buy rating on the stock with an unchanged PT of Rs. 1,850.

IndusInd Bank (IIB) reported steady in-line performance in Q3FY2024. Net interest income (NII) grew 18% y-o-y/4% q-o-q, aided by healthy growth in advances and stable margins. NIMs were stable q-o-q at 4.3%. Core fee income grew 12% y-o-y/2% q-o-q. Non-core fee income was higher at Rs. 231 crore vs. Rs. 162 crore q-o-q and Rs. 136 crore y-o-y. Total operating expenses grew 28% y-o-y/6% q-o-q. Opex is expected to remain elevated in the near term as the bank frontloads its investments in digital, capacity building, and distribution. Opex-to-average assets stood at 3.1% vs. 2.9% q-o-q. PPoP grew 9% y-o-y/3% q-o-q. Total provisions fell 12% y-o-y/4% q-o-q. However, the bank has utilised contingent provisions of Rs. 220 crore. The bank continued to maintain contingent provisions of Rs. 1,300 crore (0.4% of advances). PBT grew 17% y-o-y/6% q-o-q. Headline asset-quality ratio remained stable q-o-q despite higher slippages (2.6% vs. 2.3% q-o-q), led by higher write-offs. Higher slippages were from a one-off corporate account (~Rs. 140 crore), vehicle, MFI, and some other retail assets, including agri, LAP, and merchant-acquiring business. Slippages in the retail segment stood at 4% annualised vs. 3.6% q-o-q. Net slippages were at Rs. 927 crore vs. Rs. 758 crore q-o-q. GNPA and NNPA ratios were at 1.92% and 0.57%, respectively. Provisioning coverage ratio (PCR) was stable at ~71%. Restructured book declined to 0.48% vs. 0.54% q-o-q. Advances grew 20% y-o-y/4% q-o-q, driven by higher growth in the retail segment (~24% y-o-y). Deposits grew 13% y-o-y/3% q-o-q. CASA deposits grew 4% y-o-y/flat q-o-q. Retail deposits as per the LCR grew 20% y-o-y/5% q-o-q and constitute ~45% vs. 43% q-o-q of the overall deposit base.

Key positives

- Stable NIM profile despite decelerating margin trend across the sector.
- Retail deposits growth (as per LCR) remained strong (+5% q-o-q).

Key negatives

- Higher opex growth led to moderation in operating profit growth. Opex-to-average assets stood at 3.1% vs. 2.9% q-o-q.
- Total gross slippages were higher at 2.6% vs. 2.3% q-o-q.

Management Commentary

- The bank is comfortable with CD ratio in the range of 86-90% and has retained its earlier guidance on loan growth and deposit growth.
- The bank expects higher slippages trends to normalise in the coming quarters and has retained its credit cost guidance of 110-130 bps.

Our Call

We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,850: At the CMP, IIB trades at 1.7x/1.4x its FY2025E/FY2026E BV estimates. Healthy loan growth momentum, stable NIM, and lower credit cost are likely to support return ratios and earnings trajectory, and this should keep RoEs at ~15% in the near to medium term. Additionally, there is a scope of RoA expansion, driven by NIM as the cost of deposits peaks out over the next couple of quarters. Key monitorable remains faster improvement in its liability franchise.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	15,001	17,592	20,887	24,428	28,974
Net profit	4,611	7,390	9,183	10,336	12,721
EPS (Rs.)	59.5	95.2	118.2	132.7	163.1
P/E (x)	27.1	16.9	13.6	12.2	9.9
P/BV (x)	2.6	2.3	2.0	1.7	1.4
RoE (%)	10.1	14.4	15.5	15.0	15.8
RoA (%)	1.2	1.7	1.9	1.9	2.0

Source: Company; Sharekhan estimates

Key result highlights

Healthy growth along with steady margins drives NII growth: NII grew 18% y-o-y/4% q-o-q, aided by healthy growth in advances and stable margins. NIM) were stable q-o-q at 4.29%. Cost of deposits increased by 9-bps q-o-q to 6.44%, while yield on advances improved 15bps q-o-q. Higher retail mix, repricing of the 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 has guided for 4.2-4.3% NIM going forward.

Cost ratios remained elevated: Total operating expenses grew 28% y-o-y/6% q-o-q. Opex is expected to remain elevated in the near term as the bank frontloads its investments in digital, capacity building, and distribution mode. Opex-to-average assets stood at 3.1% vs. 2.9% q-o-q. The bank guided that cost ratio should remain elevated in FY2025E and should moderate thereafter.

Loan growth was broad-based: Advances grew 20% y-o-y/4% 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 20% y-o-y/5% q-o-q (slow down seen in the tractor, CV, and three-wheeler segments, while the remaining segments continued to grow at a healthy pace). The non-vehicle book grew 32% y-o-y/5% q-o-q. The MFI book grew 20% y-o-y/4% q-o-q. The wholesale corporate book grew 15% y-o-y/2% q-o-q, led by higher growth in the small corporate book. LCR during the quarter was 122% versus 117% q-o-q.

Retail deposit growth was strong: Overall deposits grew 13% y-o-y/3% q-o-q. CASA deposits grew 4% y-o-y/flat q-o-q. CA balances grew by flat y-o-y/flat q-o-q, while SA balances grew 6% y-o-y/flat q-o-q. Retail deposits as per LCR grew 20% y-o-y/5% q-o-q and now constitute 45% of the overall deposit base. Retail deposits accounted for 75% of incremental deposits during the quarter. The bank is prioritising rapid retail deposits mobilisation.

Asset-quality outlook stable: Headline asset-quality ratio remained stable q-o-q despite higher slippages (2.6% vs. 2.3% q-o-q), led by higher write-offs. Higher slippages were from a one-off corporate account (~Rs. 140 crore), vehicle, MFI, and some other retail assets, including agri, LAP, and merchant acquiring business. Slippages in the retail segment stood at 4% annualised vs. 3.6% q-o-q. Net slippages were at Rs. 927 crore vs. Rs. 758 crore q-o-q. GNPA and NNPA ratios were at 1.92% and 0.57%, respectively. Provisioning coverage ratio (PCR) was stable at ~71%. Restructured book declined to 0.48% vs. 0.54% q-o-q. The bank expects higher slippages trends to normalise in the coming quarters. Security receipts were at 37bps of loans vs. 39 bps q-o-q. SMA1 and SMA2 book collectively are now at 19bps vs. 26bps q-o-q.

Capital Raise: The threshold CET-1 ratio is 14% for raising equity capital. Currently, the bank is in a comfortable position.

Results

Rs cr

Particulars	Q3FY24	Q3FY23	Q2FY24	Y-o-Y %	Q-o-Q %
Interest Inc.	11,572	9,457	11,248	22%	3%
Interest Expenses	6,277	4,962	6,171	26%	2%
Net Interest Income	**5,296**	**4,495**	**5,077**	**18%**	**4%**
NIM (%)	4.29	4.27	4.29	0%	0%
Core Fee Income	2,165	1,941	2,120	12%	2%
Other Income	231	135	162	71%	43%
Net Income	**7,691**	**6,572**	**7,358**	**17%**	**5%**
Employee Expenses	1,027	799	957	28%	7%
Other Opex	2,663	2,092	2,521	27%	6%
Total Opex	**3,689**	**2,891**	**3,478**	**28%**	**6%**
Cost to Income Ratio	48.0%	44.0%	47.3%	-	-
Pre-Provision Profit	**4,002**	**3,680**	**3,881**	**9%**	**3%**
Provisions & Contingencies – Total	934	1,065	974	-12%	-4%
Profit Before Tax	**3,068**	**2,616**	**2,907**	**17%**	**6%**
Tax	770	656	726	17%	6%
Effective Tax Rate	25%	25%	25%	-	-
Reported Profits	**2,298**	**1,959**	**2,181**	**17%**	**5%**
Basic EPS (Rs.)	29.6	25.3	28.1	17%	5%
Diluted EPS (Rs.)	29.5	25.2	28.0	17%	5%
RoA (%)	1.9	1.9	1.9	-	-
Advances	3,27,057	2,72,754	3,15,454	20%	4%
Deposits	3,68,793	3,25,278	3,59,786	13%	3%
Gross NPA	**6,377**	**5,711**	**6,164**	**12%**	**3%**
Gross NPA Ratio (%)	1.92	2.06	1.93	-	-
Net NPA	**1,875**	**1,681**	**1,814**	**12%**	**3%**
Net NPAs Ratio (%)	0.57	0.62	0.57	-	-
PCR – Calculated	70.6%	70.6%	70.6%	-	-

Source: Company, Sharekhan Research

Outlook and Valuation

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

System-level credit offtake grew ~20% y-o-y in the fortnight ending December 29, 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 ~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 look 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 the near term. Near-term business trends look comfortable for the bank and the franchise is looking towards a more predictable performance. Healthy 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. 1,850

At the CMP, IIB trades at 1.7x/1.4x its FY2025E/FY2026E BV estimates. Healthy loan growth momentum, stable NIM, and lower credit cost are likely to support return ratios and earnings trajectory, and this should keep RoEs at ~15% in the near to medium term. Additionally, there is a scope of RoA expansion, driven by NIM as the cost of deposits peaks out over the next couple of quarters. Key monitorable remains faster improvement in its liability franchise.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
IndusInd Bank	1,613	1,25,460	12.2	9.9	1.7	1.4	15.0	15.8	1.9	2.0
Federal Bank	147	35,737	8.2	7.0	1.1	1.0	14.3	14.5	1.3	1.3

Source: Company; Sharekhan Research

About company

IIB is the fifth largest private bank promoted by Hinduja Group in India. The bank has a strong pan-India presence with 2,728 branches as of December 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 17.9%.

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 the 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, and slow growth in retail deposits.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	IndusInd International Holdings Ltd.	11.51
2	AIA Co Ltd	8.16
3	INDUSIND Ltd	3.60
4	Route One Offshore Master Fund	3.27
5	SBI FUNDS MANAGEMENT LTD.	3.07
6	DF International Partners	2.77
7	BRIDGE INDIA FUND	2.46
8	HDFC AMC Co. Ltd	2.23
9	Life Insurance Corporation of India	2.22
10	DRAGSA INDIA EQUITIES III LP	2.03

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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