



## 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	✓	↔	✓

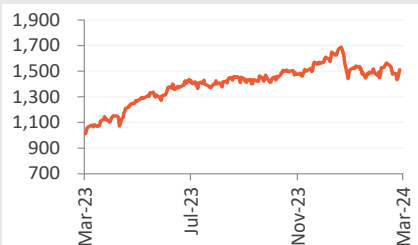
## Company details

Market cap:	Rs. 1,18,225 cr
52-week high/low:	Rs. 1,694/1,004
NSE volume: (No of shares)	35.5 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	66.2 cr

## Shareholding (%)

Promoters	16.5
FII	42.5
DII	26.7
Others	14.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	-2.8	4.5	47.3
Relative to Sensex	3.0	-4.7	-5.2	22.8

Sharekhan Research, Bloomberg

## IndusInd Bank

### Stable outlook, attractive valuation

Bank	Sharekhan code: INDUSINDBK			
Reco/View: Buy	↔	CMP: Rs. 1,519	Price Target: Rs. 1,850	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

## Summary

- ♦ We reiterate Buy on IndusInd Bank (IIB) with an unchanged PT of Rs. 1,850. The near-term business outlook remains comfortable except for the elevated cost ratios.
- ♦ The ability to manage NIMs in the current environment along with being a key beneficiary in the interest rate reversal cycle would keep the sentiment positive.
- ♦ Key focus is on strengthening the liability franchise and delivering sustained healthy growth. Return ratios have reasonable support from lower credit costs at this stage of the cycle.
- ♦ The stock trades at 1.6x/1.4x its BV estimates for FY2025E/FY2026E. Valuations are attractive given the RoA trajectory and stable outlook. Key monitorable – Promoters awaiting approval from the RBI to increase their stake.

**IndusInd Bank (IIB) has been progressing well on guided lines. There has been continuous improvement in the liability franchise. We are seeing more retail deposit mobilisation – Retail deposits as per the LCR are now at 45% versus 26% in FY2019. About ~87% of incremental deposits in the past three years have come from retail term deposits and retail CASA. LCR/LDR ratios appear to be comfortable. The near-term business outlook remains comfortable except for the elevated cost ratios. Cost ratios (as a % of average assets) have gradually inched up over the past few quarters from ~2.7% to ~3.1%, driven by employee additions, tech spending, and other marketing expenses. Overall, loan growth is expected to be healthy/broad-based with the retail and wholesale mix broadly stable. Net interest margin (NIM) is expected to remain stable at ~4.3% despite a rise in cost of funds in the near term, fully offset by increased yields and improvement in asset mix. Overall asset quality is expected to remain stable as there is no immediate risk evolving. Key monitorable in the near term – Promoters awaiting approval from the RBI to increase their stake.**

- ♦ **Margins trajectory:** Despite a sharp rise in cost of funds (up ~54bps in 9MFY2024 from FY2023), the bank has still managed to report stable NIM of ~4.3%, led by better yields and mix. Improvement in higher-yielding asset mix and increased disbursement yield in the fixed rate book would keep margins stable, thereby offsetting the increase in cost of funds, led by deposit repricing. Thus, the bank has guided for stable margins at ~4.3%. The ability to manage NIM in the current environment along with being a key beneficiary in the interest rate reversal cycle would keep the sentiment positive.
- ♦ **Healthy momentum to sustain:** Loan growth is expected to remain healthy/broad-based with the retail and wholesale mix broadly stable at 55:45, respectively. LCR (~122%/LDR, ~89% marginally elevated) ratios appear to be comfortable. It is seeing strong growth momentum across segments. In the vehicle finance segment, there was weakness in the MHCV segment being offset by other segments where demand continues to remain robust. The bank is aiming for higher growth in the small and mid-corporate book. The bank has also invested in new growth engines such as affluent banking, NRI banking, tractor finance, affordable housing, and merchant advances.
- ♦ **Stable asset quality:** Overall, asset-quality trends are expected to remain broadly stable across the portfolio segment as there is no immediate risk evolving. Key focus is on strengthening the liability franchise and delivering sustained healthy growth with lower RWA growth. Return ratios have reasonable support from lower credit costs at this stage of the cycle. The bank has contingent provisions of Rs. 1,300 crore (0.4% of advances). The bank is looking to recoup contingent provision buffers further in the coming quarters.

## Our Call

**Valuation – We maintain our BUY rating on the stock with an unchanged TP of Rs. 1,850:** At the CMP, IIB trades at 1.6x/1.4x its FY2025E/FY2026E BV estimates. Healthy 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. The ability to manage NIMs in the current environment along with being a key beneficiary in the interest rate reversal cycle would keep the sentiment positive. Key monitorable in the near term – Promoters awaiting approval from the RBI to increase their stake.

## Key Risks

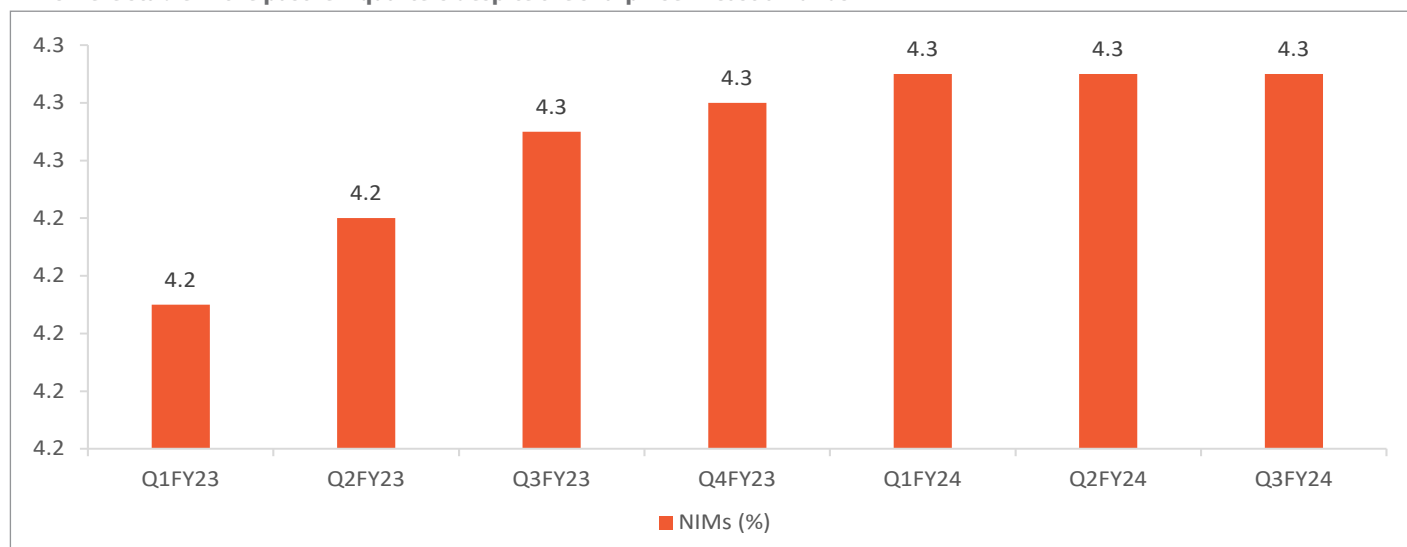
Economic slowdown that can lead to slower loan growth, higher-than-anticipated credit costs, and slower growth in the retail liability.

## Valuation (Standalone)

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)	25.5	16.0	12.9	11.5	9.3
P/BV (x)	2.5	2.2	1.8	1.6	1.4
RoE (%)	10.1	14.4	15.5	15.0	15.8
RoA (%)	1.2	1.7	1.9	1.9	2.0

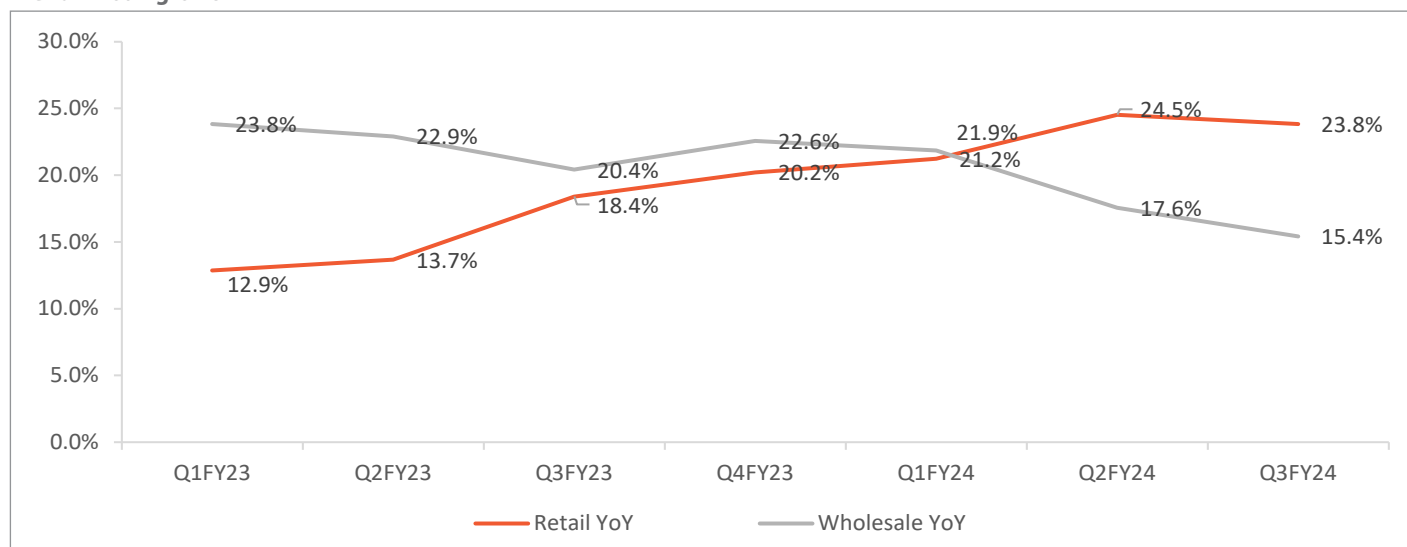
Source: Company; Sharekhan estimates

### NIMs were stable in the past few quarters despite the sharp rise in cost of funds



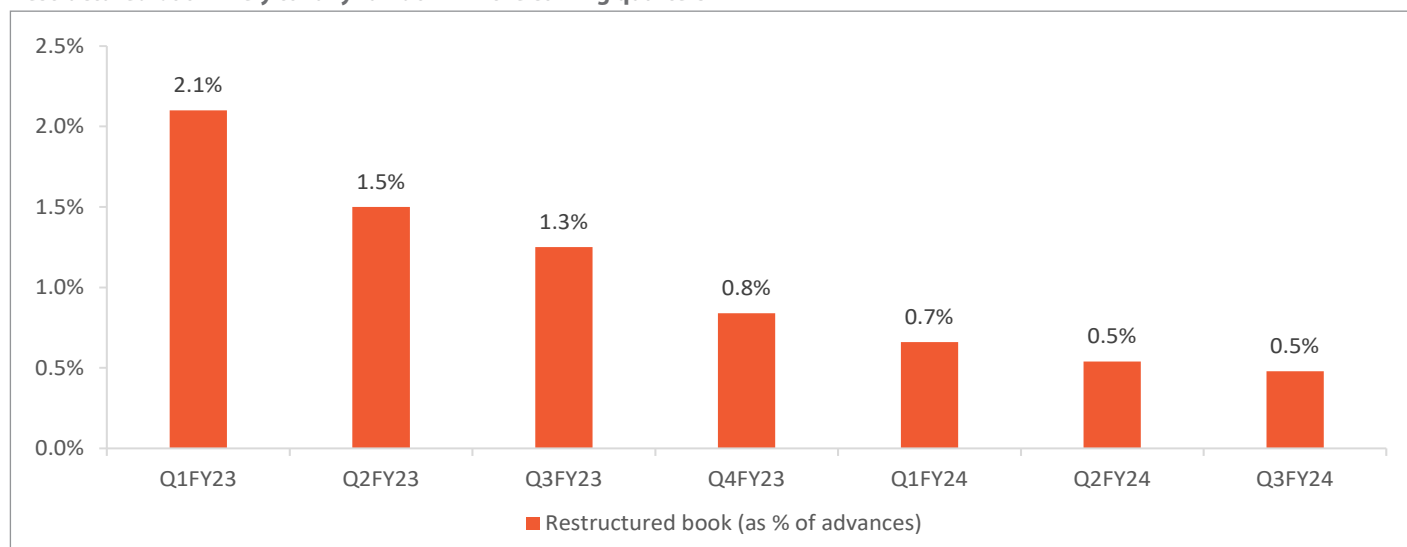
Source: Company, Sharekhan Research

### Trend in loan growth



Source: Company, Sharekhan Research

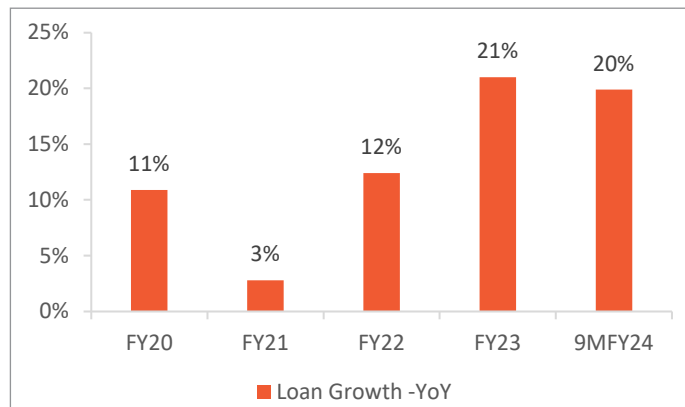
### Restructured book likely to fully run down in the coming quarters



Source: Company, Sharekhan Research

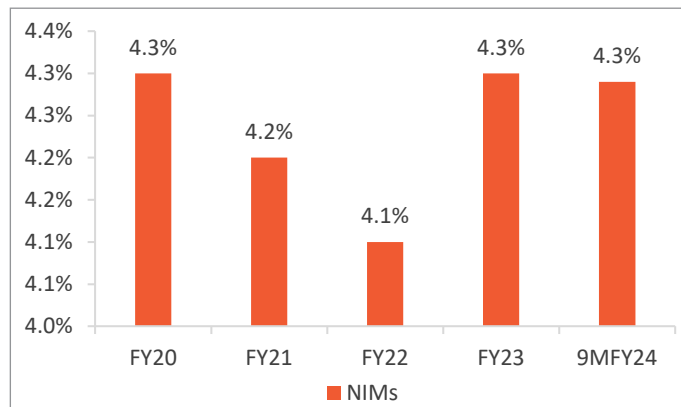
## Financials in charts

### Trend in Loan Growth



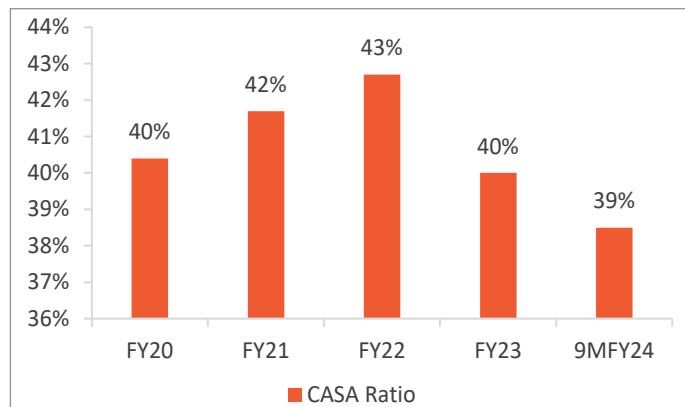
Source: Company, Sharekhan Research

### Trend in NIMs



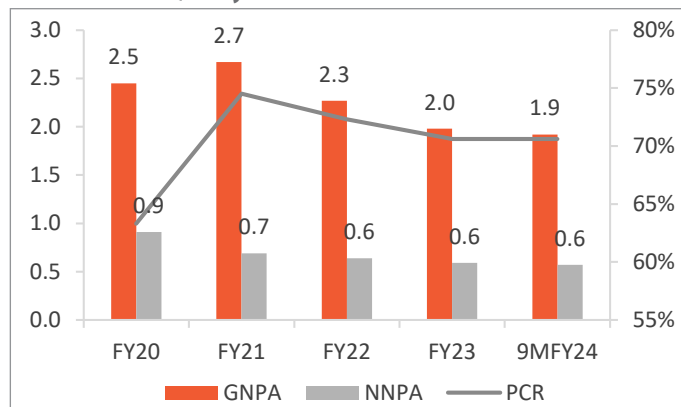
Source: Company, Sharekhan Research

### Trend in CASA



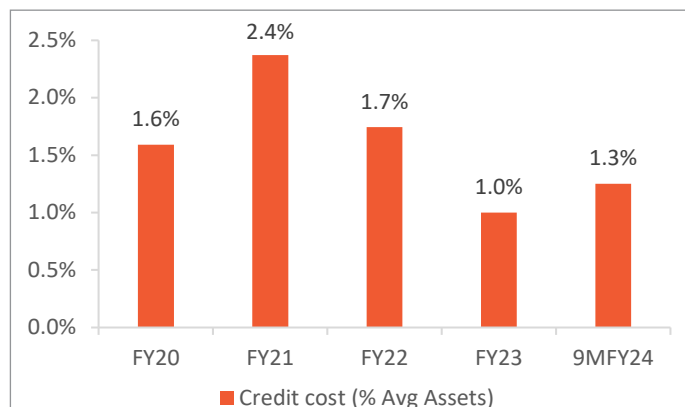
Source: Company, Sharekhan Research

### Trend in Asset Quality



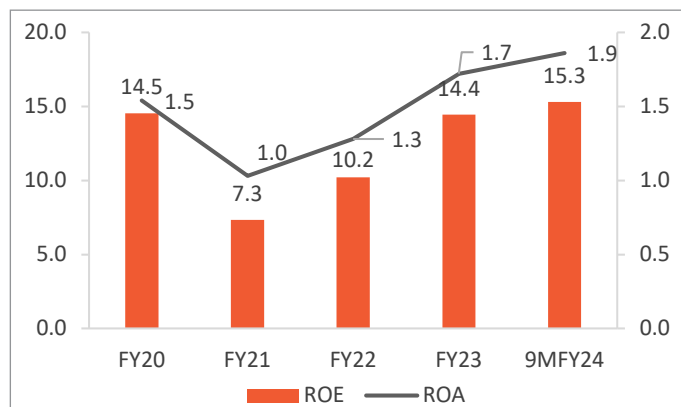
Source: Company, Sharekhan Research

### Trend in Credit Cost



Source: Company, Sharekhan Research

### Trend in Return Ratios



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 by ~20% y-o-y in the fortnight ending February 23, 2024, 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% y-o-y. The gap between advances and deposit growth is large. 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 that banks with a robust capital base and strong retail deposit franchise are well-placed to capture growth opportunities.

### ■ Company outlook - Sustained earnings progression likely

Focus on 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 TP of Rs. 1,850

At the CMP, IIB trades at 1.6x/1.4x its FY2025E/FY2026E BV estimates. Healthy 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. The ability to manage NIMs in the current environment along with being a key beneficiary in the interest rate reversal cycle would keep the sentiment positive. Key monitorable in the near term – Promoters awaiting approval from the RBI to increase their stake.

#### 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	1,519	1,18,225	11.5	9.3	1.6	1.4	15.0	15.8	1.9	2.0
Federal Bank	150	36,475	8.4	7.2	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 a 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 slower 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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	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	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	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
<b>Negative</b>	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 deteriorating balance sheet
Right Valuation	
<b>Positive</b>	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.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	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

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 SHAREKHAN 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 themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200 / 022-69920600