

Growth moderates, but delivers healthy RoA

BFSI - Banks ▶ Result Update ▶ April 26, 2024

TARGET PRICE (Rs): 2,000

IndusInd Bank (IIB) posted a slight (4%) miss on earnings with Rs23.5bn PAT/1.9% RoA (reported), due to some moderation in growth (18% YoY), as also in margin (down by 3bps QoQ to 4.26%). Asset quality took a breather, with slippages down QoQ to Rs14.3bn/1.75% of loans, leading to nearly stable GNPA/NNPA ratio at 1.9%/0.6% of loans. Bank retains medium-term credit growth guidance at 18-22%, with clear focus on diversifying its portfolio, including mortgages and non-vehicle loans. Within Vehicle loans, Bank has gradually moved away from MHCVs and thus reduced cyclicality. Also, Bank would maintain focus on retailization of deposits and invest in the phygital infrastructure. Bank plans to maintain 1.5% of its MFI book and 0.5% of MHCV book as contingent buffer at any given point in time, with contingent buffer (Rs10bn/0.3% of loans) well ahead of the requirement.

We trim our earnings by ~3%/7% for FY25E/26E, factoring-in the moderate growth, while we expect the bank to report healthy RoA/RoE at 1.9-2%/16-17% over FY25-27E. We maintain BUY on IIB and our TP of Rs2,000/share, implying 2.2x FY26E ABV.

IndusInd Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	73,897	89,770	108,591	129,708	153,733
Loan growth (%)	21.3	18.4	18.0	19.9	22.0
NII growth (%)	17.3	17.2	15.7	18.0	19.4
NIM (%)	4.4	4.5	4.5	4.6	4.5
PPOP growth (%)	11.7	10.6	14.5	21.6	24.2
Adj. EPS (Rs)	95.2	115.3	139.5	166.7	197.5
Adj. EPS growth (%)	60.0	21.1	21.0	19.4	18.5
Adj. BV (INR)	646.6	686.1	786.2	904.7	1048.6
Adj. BVPS growth (%)	8.6	10.6	6.1	14.6	15.1
RoA (%)	1.7	1.8	1.9	2.0	1.9
RoE (%)	14.5	15.4	16.3	17.0	17.3
P/E (x)	24.8	15.5	12.8	10.6	8.8
P/ABV (x)	2.3	2.2	1.9	1.7	1.4

Source: Company, Emkay Research

Growth moderates, but margins largely hold-up; attrition rate also softens

The bank reported moderate credit growth at 18% YoY/5% QoQ, driven by good growth in the VF, mortgages (especially AHS), SME/BB, and cards portfolio. Deposits grew 14% YoY/4% QoQ, while CASA slipped by 61bps QoQ to 38%, leading to rise in CoD by 4bps QoQ to 6.5%. This led to some softness in NIM by 3bps QoQ to 4.3%. Bank retains broader credit growth guidance at 18-22%, with clear focus on diversifying the portfolio, including mortgages and non-vehicle loans. Within Vehicle loans, Bank has gradually moved away from MHCVs and thus reduced cyclicality. Bank would also continue to focus on retailization of deposits and invest in the phygital infrastructure. Currently, the bank logs nearly 9% of its opex towards technology and 18-20% towards branches. Separately, the attrition rate of employees has declined to the mid-30s from the high of 50%; this is positive for the bank and should slightly ease cost.

Headline asset quality stabilizes, but Bank needs to shore-up contingency buffer

Fresh slippages were down QoQ to Rs14.3bn/1.75% of loans, leading to nearly stable GNPA/NNPA ratio at 1.9%/0.6% of loans. Bank witnessed some stress in the MFI portfolio (mainly in the northern region), akin to a few peers. Bank maintains healthy specific PCR at 71%, but continues to run-down its contingency provisioning buffers (Rs3bn in 4Q) with o/s at Rs10bn (0.3% of loans). Bank plans to maintain 1.5% of its MFI book and 0.5% of the MHCV book as contingent buffer at any given point in time, although its contingent buffer is well ahead of the requirement. That said, Bank would be open to building further contingent buffer as & when it logs one-off gains in future.

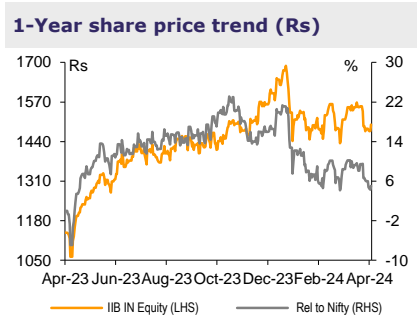
We retain BUY and our TP of Rs2,000/share

We believe the bank's balance-sheet retailization and diversification strategy should reduce cyclicality and help deliver healthy margin/RoA in the long run. We trim FY25E/26E earnings by ~3%/7%, factoring-in the moderate growth, while the bank is likely to report healthy RoA/RoE at 1.9-2%/16-17% over FY25-27E. We maintain BUY and our TP of Rs2,000/share, implying 2.2x FY26E ABV. Key Risks: Slower-than-expected credit growth, asset-quality deterioration in CFD, and KMP attrition.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.6
CMP (25-Apr-24) (Rs)	1,474.7

Stock Data	Ticker
52-week High (Rs)	1,695
52-week Low (Rs)	1,065
Shares outstanding (mn)	778.3
Market-cap (Rs bn)	1,148
Market-cap (USD mn)	13,775
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	5,495.1
ADTV-3M (USD mn)	66.0
Free float (%)	85.0
Nifty-50	22,402
INR/USD	83.3
Shareholding, Mar-24	
Promoters (%)	15.1
FPIs/MFs (%)	37.1/26.3

Price Performance			
(%)	1M	3M	12M
Absolute	(2.5)	(1.1)	33.8
Rel. to Nifty	(3.8)	(5.3)	6.0



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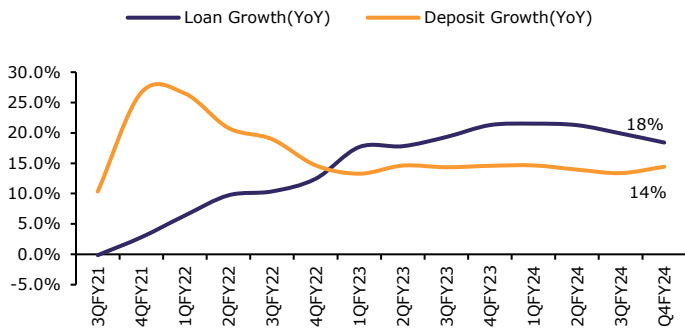
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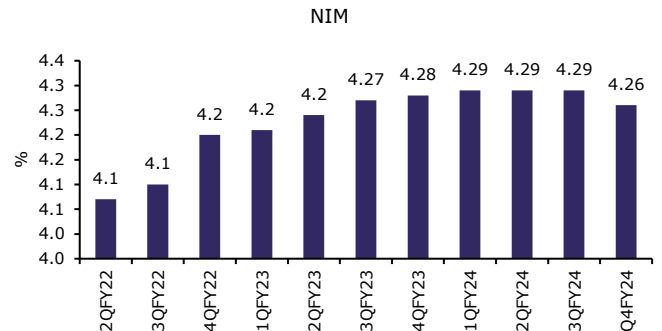
Story in Charts

Exhibit 1: Credit growth moderates a bit...



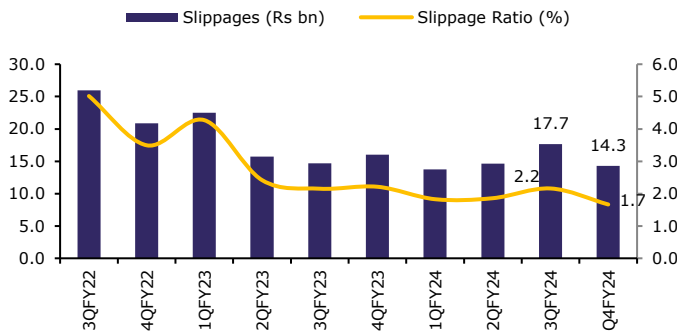
Source: Company, Emkay Research

Exhibit 2: ...and so does the NIM, due to rising CoF



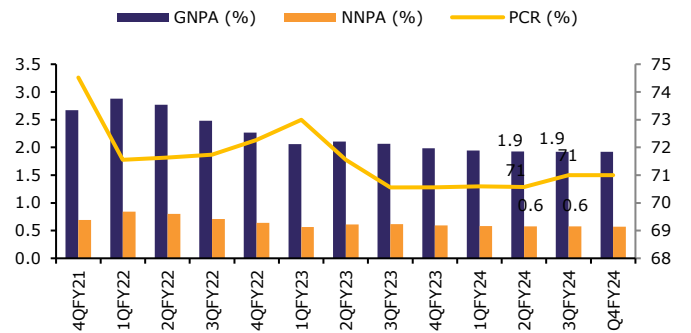
Source: Company, Emkay Research

Exhibit 3: Slippages took a breather in 4Q...



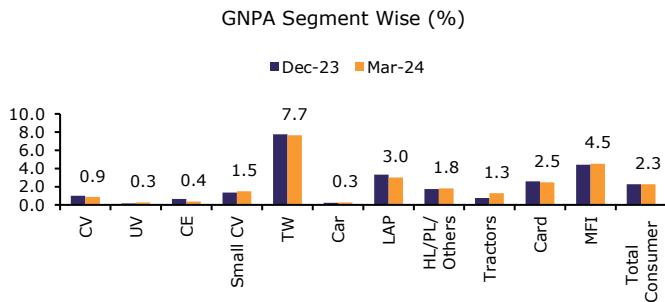
Source: Company, Emkay Research

Exhibit 4: ..but lower NPA sale led to a nearly flat GNPA ratio



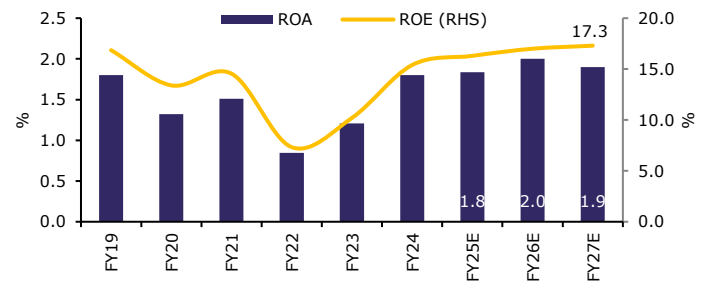
Source: Company, Emkay Research

Exhibit 5: MFI NPAs from northern India inch-up in 4Q



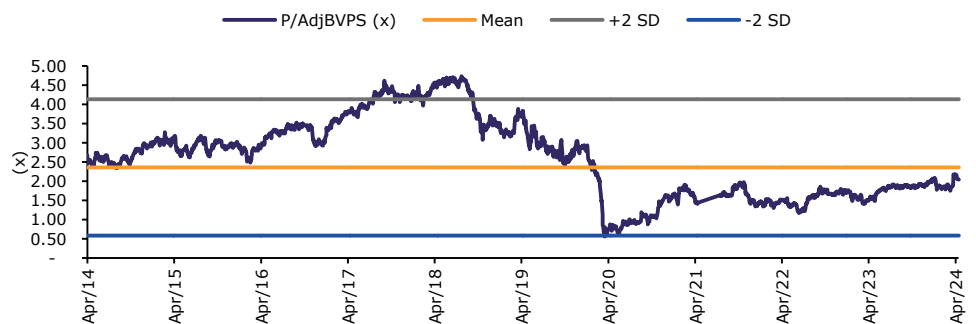
Source: Company, Emkay Research

Exhibit 6: Better margin/fee trajectory and some moderation in opex should lead to steady improvement in RoA



Source: Company, Emkay Research

Exhibit 7: IIB continues to trend well below its mean level



Source: Bloomberg, Emkay Research

Exhibit 8: Actuals vs. Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		(%)		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	78,846	79,902	79,076	-1%	0%	Flattish margins and in-line other income led in-line numbers
PPOP	40,815	42,536	41,813	-4%	-2%	Slightly higher staff cost led to a marginal miss in PPOP
PAT	23,491	24,467	23,837	-4%	-1%	In-line provisions led to largely in-line PAT

Source: Company, Emkay Research

Exhibit 9: Quarterly summary (Q4FY24)

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	94,574	100,207	107,297	112,478	121,985	22	5	363,679	457,482	26
Interest Exp.	49,621	53,513	58,625	61,711	68,221	27	9	187,758	251,323	34
Net Interest Income	44,954	46,695	48,671	50,767	53,765	15	2	175,921	206,159	17
Global NIMs (Reported)	4.27	4.28	4.29	4.29	4.26	-2bps	-3bps	4.37	4.52	14bps
Non-interest Income	20,765	21,536	22,098	22,819	25,081	16	5	81,664	93,958	15
Operating Expenses	28,854	30,656	32,455	34,499	38,030	24	4	114,120	141,476	24
Pre Provisioning Profit	36,864	37,575	38,315	39,087	40,815	9	1	143,465	158,641	11
Provision & Contingencies	10,647	10,301	9,916	9,738	9,502	-8	-2	44,868	38,849	-13
PBT	26,217	27,275	28,399	29,349	31,313	15	2	98,596	119,792	21
Income Tax Expense	6,582	6,841	7,155	7,329	7,822	14	1	24,699	30,022	22
Net Profit/(Loss)	19,635	20,434	21,244	22,021	23,492	15	2	73,897	89,770	21
Gross NPA (%)	2.06	1.98	1.94	1.93	1.92	-6bps	0bps	1.98	1.92	-6bps
Net NPA (%)	0.62	0.59	0.58	0.57	0.57	-2bps	0bps	0.59	0.57	-3bps
Deposits (Rs bn)	3,253	3,361	3,470	3,595	3,846	14	4	3,364	3,846	14
Net Advances (Rs bn)	2,728	2,899	3,013	3,155	3,433	18	5	2,899	3,433	18

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E March (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	360,812	347,595	-3.7%	436,817	412,865	-5.5%
PPOP	199,439	181,638	-8.9%	247,527	220,919	-10.7%
PAT	116,115	108,591	-6.5%	143,450	129,708	-9.6%
EPS (Rs)	149.4	139.5	-6.6%	184.6	166.7	-9.7%
BV (Rs)	851.6	805.9	-5.4%	997.8	929.6	-6.8%

Source: Emkay Research

Exhibit 11: Key assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	18.4	18.0	19.9	22.0
Deposit Growth (%)	14.3	19.4	23.4	26.4
NIM (%)	4.5	4.5	4.6	4.5
GNPA (%)	1.9	1.9	2.0	2.0
Credit Cost (%)	1.4	1.0	1.1	1.3

Source: Emkay Research

Exhibit 12: Key ratios and trends

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs bn)	2,391	2,480	2,601	2,728	2,899	3,013	3,155	3,271	3,433
Growth YoY (%)	12.4	17.7	17.8	19.3	21.3	21.5	21.3	19.9	18.4
Growth QoQ (%)	4.6	3.7	4.9	4.9	6.3	3.9	4.7	3.7	5.0
Composition (%)									
- Large Corporate	25.2	25.1	26.4	26.1	25.6	25.6	25.1	24.8	24.5
- SME/Business Banking	25.6	25.9	25.2	25.2	25.4	25.6	25.1	24.9	24.7
- Retail	49.2	48.9	48.4	48.7	49.0	48.8	49.7	50.3	50.8
Liability Profile									
Deposits (Rs bn)	2,933	3,027	3,155	3,253	3,361	3,470	3,595	3,688	3,846
Growth YoY (%)	14.6	13.3	14.6	14.3	14.6	14.6	13.9	13.4	14.4
Growth QoQ (%)	3.1	3.2	4.2	3.1	3.3	3.3	3.6	2.6	4.3
CASA (%)	42.7	43.1	42.3	41.9	40.1	39.9	39.3	38.5	37.9
CA (%)	12.4	11.6	14.0	15.4	15.1	14.2	13.9	13.6	12.2
SA (%)	30.3	31.5	28.3	26.6	25.0	25.7	25.5	24.9	25.7
No. of Branches	2,265	2,286	2,320	2,384	2,606	2,606	2,631	2,728	2,984
Yield on Advances (%)	11.29	11.39	11.51	11.75	12.02	12.24	12.30	12.45	12.66
Cost of Deposits (%)	4.60	4.79	5.10	5.47	5.81	6.12	6.35	6.44	6.48
NIM (%)	4.20	4.21	4.24	4.27	4.28	4.29	4.29	4.29	4.26
Asset Quality									
GNPA (%)	2.3	2.4	2.1	2.1	2.0	2.0	2.0	1.9	1.9
NNPA (%)	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
PCR (%)	72.3	72.0	71.5	70.6	70.6	70.6	70.6	70.6	70.6
Slippages (Rs mn)	20,880	22,500	15,720	14,670	16,030	13,760	14,650	17,650	14,280
Corporate (Rs mn)	3,460	6,020	1,790	1,190	2,640	430	2,140	3,120	1,620
Consumer (Rs mn)	17,420	16,480	13,930	13,480	13,390	13,330	12,510	14,530	12,660
Slippages (%)	3.9	4.3	2.8	2.6	2.7	2.2	2.3	2.6	2.0
CAR (%)	18.4	18.1	18.0	18.0	17.9	18.4	18.2	17.9	17.2
Tier I (%)	16.8	16.6	16.4	16.5	16.4	16.9	16.9	16.5	15.8
ROE Decomposition (%)									
NII	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.4	4.3
Other Income	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.8
Opex	2.5	2.6	2.6	2.7	2.7	2.8	2.9	3.0	3.0
PPOP	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3
Provisioning Cost	1.5	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8
PBT	1.9	2.1	2.3	2.4	2.4	2.5	2.5	2.5	2.5
Tax	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
ROA	1.4	1.6	1.7	1.8	1.8	1.8	1.9	1.9	1.9
Leverage (x)	8.4	8.3	8.3	8.4	8.4	8.2	8.2	8.1	8.1
ROE	11.8	13.4	14.4	15.1	15.2	15.2	15.2	15.4	15.2

Source: Company, Emkay Research

IndusInd Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	363,679	457,482	532,784	618,439	733,778
Interest Expense	187,758	251,323	294,325	337,054	397,840
Net interest income	175,921	206,159	238,459	281,385	335,938
NII growth (%)	17.3	17.2	15.7	18.0	19.4
Other income	81,664	93,958	109,136	131,480	158,986
Total Income	257,585	300,117	347,595	412,865	494,924
Operating expenses	114,120	141,476	165,956	191,946	220,630
PPOP	143,465	158,641	181,638	220,919	274,294
PPOP growth (%)	11.7	10.6	14.5	21.6	24.2
Core PPOP	143,631	152,601	174,088	212,614	265,574
Provisions & contingencies	44,868	38,849	36,462	47,512	68,768
PBT	98,596	119,792	145,176	173,407	205,526
Extraordinary items	0	0	0	0	0
Tax expense	24,699	30,022	36,585	43,699	51,793
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	73,897	89,770	108,591	129,708	153,733
PAT growth (%)	60.3	21.5	21.0	19.4	18.5
Adjusted PAT	73,897	89,770	108,591	129,708	153,733
Diluted EPS (Rs)	95.2	115.2	139.4	166.5	197.3
Diluted EPS growth (%)	53.5	21.1	21.0	19.4	18.5
DPS (Rs)	14.0	18.0	22.5	26.5	26.5
Dividend payout (%)	14.7	15.6	16.1	15.9	13.4
Effective tax rate (%)	25.1	25.1	25.2	25.2	25.2
Net interest margins (%)	4.4	4.5	4.5	4.6	4.5
Cost-income ratio (%)	44.3	47.1	47.7	46.5	44.6
Shares outstanding (mn)	775.9	778.3	778.3	778.3	778.3

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	58,262.6	66,932.6	77,404.6	98,003.7	122,052.3
Net NPLs	17,149.5	19,410.5	23,221.4	29,401.1	36,615.7
GNPA ratio (%)	2.0	1.9	1.9	2.0	2.0
NNPA ratio (%)	0.6	0.6	0.6	0.6	0.6
Provision coverage (%)	70.6	71.0	70.0	70.0	70.0
Gross slippages	68,920.0	60,340.0	69,813.4	93,632.0	120,243.3
Gross slippage ratio (%)	2.3	1.7	1.7	1.9	2.0
LLP ratio (%)	2.7	1.6	1.4	1.0	1.1
NNPA to networth (%)	3.0	2.9	2.9	3.0	3.3
Capital adequacy					
Total CAR (%)	17.9	17.2	17.0	16.7	16.1
Tier-1 (%)	16.4	15.8	15.7	15.5	15.1
CET-1 (%)	16.4	15.8	15.7	15.5	15.1
RWA-to-Total Assets (%)	78.4	78.9	79.5	78.2	77.3
Miscellaneous					
Total income growth (%)	16.5	23.8	16.4	16.8	19.0
Opex growth (%)	19.4	24.0	17.3	15.7	14.9
Core PPOP growth (%)	17.3	6.2	14.1	22.1	24.9
PPOP margin (%)	3.3	3.3	3.2	3.3	3.4
PAT/PPOP (%)	51.5	56.6	59.8	58.7	56.0
LLP-to-Core PPOP (%)	31.2	25.5	20.9	22.3	25.9
Yield on advances (%)	11.4	12.1	12.1	11.8	11.6
Cost of funds (%)	5.2	6.1	6.3	6.1	5.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	7,759	7,783	7,783	7,783	7,783
Reserves & surplus	538,015	624,292	716,514	823,963	955,633
Net worth	545,773	632,075	724,297	831,746	963,416
Deposits	3,364,381	3,845,857	4,593,124	5,667,139	7,165,599
Borrowings	490,112	476,114	437,593	403,223	372,591
Interest bearing liab.	3,854,494	4,321,971	5,030,716	6,070,362	7,538,189
Other liabilities & prov.	174,757	196,893	307,953	327,527	328,754
Total liabilities & equity	4,578,041	5,150,940	6,062,966	7,229,635	8,830,359
Net advances	2,899,237	3,432,983	4,052,485	4,859,400	5,926,726
Investments	831,162	1,064,865	1,228,943	1,464,164	1,800,213
Cash, other balances	565,111	369,074	377,304	424,925	527,673
Interest earning assets	4,295,510	4,866,922	5,658,732	6,748,489	8,254,612
Fixed assets	19,926	23,240	26,078	29,208	32,713
Other assets	262,604	260,778	378,156	451,938	543,034
Total assets	4,578,041	5,150,940	6,062,966	7,229,635	8,830,359
BVPS (Rs)	662.3	702.6	805.9	929.6	1081.2
Adj. BVPS (INR)	646.6	686.1	786.2	904.7	1,049
Gross advances	2,940,350	3,480,228	4,106,668	4,928,002	6,012,163
Credit to deposit (%)	86.2	89.3	88.2	85.7	82.7
CASA ratio (%)	42.8	40.0	37.9	35.5	35.2
Cost of deposits (%)	5.0	6.1	6.3	6.1	5.8
Loans-to-Assets (%)	63.3	66.6	66.8	67.2	67.1
Net advances growth (%)	21.3	18.4	18.0	19.9	22.0
Deposit growth (%)	14.6	14.3	19.4	23.4	26.4
Book value growth (%)	8.4	10.5	6.1	14.7	15.3

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	15.7	13.0	10.7	9.0	7.6
P/B (x)	2.3	2.1	1.9	1.6	1.4
P/ABV (x)	2.3	2.2	1.9	1.7	1.4
P/PPOP (x)	8.1	7.3	6.4	5.3	4.2
Dividend yield (%)	0.9	1.2	1.5	1.8	1.8
DuPont-RoE split (%)					
NII/avg assets	3.9	4.1	4.2	4.3	4.2
Other income	1.9	1.9	1.9	2.0	2.0
Fee income	1.8	1.9	1.8	1.8	1.9
Opex	2.7	2.9	3.0	2.9	2.7
PPOP	3.3	3.3	3.2	3.3	3.4
Core PPOP	3.3	3.1	3.1	3.2	3.3
Provisions	1.0	0.8	0.7	0.7	0.9
Tax expense	0.6	0.6	0.7	0.7	0.6
RoA (%)	1.7	1.8	1.9	2.0	1.9
Leverage ratio (x)	8.5	8.5	8.4	8.4	8.7
RoE (%)	14.5	15.4	16.3	17.0	17.3

Quarterly data

Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	46,695	48,671	50,767	52,956	53,765
NIM(%)	4.3	4.3	4.3	4.3	4.3
PPOP	37,575	38,315	39,087	40,423	40,815
PAT	20,434	21,244	22,021	23,014	23,491
EPS (Rs)	26.34	27.38	28.38	29.66	30.27

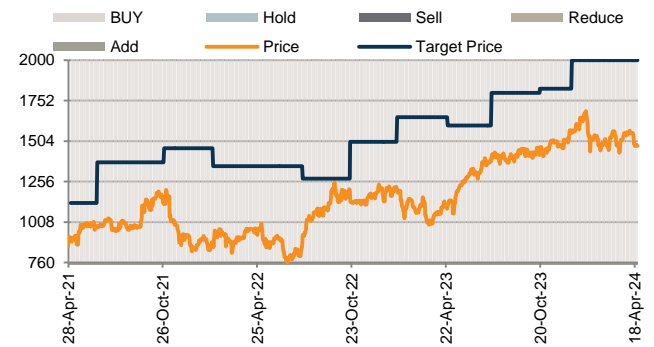
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
19-Jan-24	1,561	2,000	Buy	Anand Dama
19-Dec-23	1,567	2,000	Buy	Anand Dama
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	1,110	1,600	Buy	Anand dama
09-Mar-23	1,157	1,650	Buy	Anand dama
18-Jan-23	1,210	1,650	Buy	Anand dama
20-Oct-22	1,147	1,500	Buy	Anand dama
04-Oct-22	1,206	1,275	Buy	Anand dama
28-Jul-22	999	1,275	Buy	Anand dama
21-Jul-22	930	1,275	Buy	Anand dama
01-May-22	960	1,350	Buy	Anand dama
30-Jan-22	887	1,350	Buy	Anand dama
07-Nov-21	1,167	1,460	Buy	Anand dama
28-Oct-21	1,154	1,460	Buy	Anand dama
05-Oct-21	1,147	1,375	Buy	Anand dama
28-Jul-21	969	1,375	Buy	Anand dama
22-Jun-21	977	1,375	Buy	Anand dama
02-May-21	913	1,125	Buy	Anand dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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