Sharekhan by BNP PARIBAS

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Stock Update

Company Update

IndusInd Bank

Sustained earnings progression & asset quality holds key

Banks	Sharekhan code: INDUSINDBK
Reco/View: Buy ↔	CMP: Rs. 1,437 / Price Target: Rs. 1,750 ↔

↑ 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		↔	

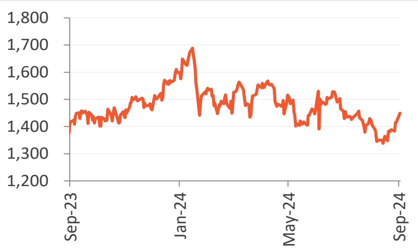
Company details

Market cap:	Rs. 1,11,952 cr
52-week high/low:	Rs. 1,694/1,329
NSE volume: (No of shares)	39.2 lakh
BSE code:	532187
NSE code:	INDUSINDBK
Free float: (No of shares)	66.2 cr

Shareholding (%)

Promoters	16.4
FII	38.4
DII	30.2
Others	15.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.8	-5.6	-5.4	1.9
Relative to Sensex	1.0	-13.5	-17.0	-23.8

Sharekhan Research, Bloomberg

Summary

- We reiterate a Buy on IndusInd Bank (IIB) with an unchanged PT of Rs. 1,750. Near-term business outlook remains comfortable except for the elevated slippages in the credit card and microfinance portfolios that would normalise by FY25.
- Bank does not anticipate risk to spill over and is reasonably confident on full year credit cost guidance of 110-130 bps in FY25E.
- Reports suggest that the board is likely to forward Mr. Sumant Kathpalia's name to the RBI this month, seeking approval for a fresh three-year term as MD & CEO.
- Stock trades at 1.6x/1.4x its BV estimates for FY2025E/FY2026E. We believe sustained earnings progression is key for outperformance along with better outcome on retail asset quality front. Risk reward looks favorable.

The near-term business outlook for IndusInd bank remains comfortable except for the elevated slippages in the credit card and MFI portfolio. Slippages are expected to normalise in these segments, led by recoveries in H2FY25. The bank does not anticipate risk to spill over and is reasonably confident on full year credit cost guidance of 110-130 bps in FY25E. Focus on diversification/granular growth, early risk assessment and primitive corrective risk measures will likely help bank to sustain better asset quality. The bank remains optimistic on the overall growth front as it was already vigilant of the potential risk in the unsecured segment. IIB's ability to deliver >15% y-o-y loan growth in the current challenging environment with moderation of growth in MFI, credit card segment would be a positive outcome- with medium term target remaining intact at 18-22% y-o-y. Moreover, the key focus is on strengthening the liability franchise and delivering sustained healthy growth.

Retail asset quality a key monitorable: Asset quality deteriorated in Q1FY25. Retail slippages were high amid stress in unsecured segment – credit card and MFI business. Although, the bank had a cautious stance since the last two quarters in these segments and adequate corrective measures were already in place to mitigate risks. The bank is guiding for slippages in the MFI segment to be at ~3.5% and credit cost around ~2.5% in FY25. With respect to the credit card segment, management expects stress is likely to remain higher for at least next 2 quarters. Slippages are expected to revert to normalized levels in H2FY25.

Credit cost to remain controlled: Given stress in cards business and lower collections efficiency in few geographies in the MFI business, bank had deliberately slowed down these segments in Q1FY25. The bank retained its guidance on credit cost guidance of 1.1-1.3% of advances for FY25E as it does not anticipate risk to spill over but Q2 is expected to see higher credit costs.

Loan growth to stay healthy: The bank remains optimistic on the overall growth front as it was already vigilant of the potential risk in the unsecured segment. The banks' ability to deliver a >15% y-o-y loan growth in the current challenging environment with moderation of growth in MFI, credit card segment would be a positive outcome, with a medium term target remaining intact at 18-22% y-o-y. The CD ratio for the bank stands at ~87%. The growth is expected to be broad based except in unsecured segment.

Our Call

Valuation – We maintain a Buy on the stock with an unchanged TP of Rs. 1,750: At CMP, IIB trades at 1.6x/1.4x its FY2025E/FY2026E BV estimates. The near-term business outlook remains comfortable except for high slippages in the credit card and MFI portfolio. Slippages are expected to revert to normalized levels in these segments led by recoveries in H2FY25. We expect stable RoA for the bank vs. decline for some of the peers, led by healthy loan growth and stable NIMs (versus contraction for peers when the rate cycle turns). We expect slower upward credit cost normalization than the peers, as credit cost is relatively higher vs peers.

Key Risks

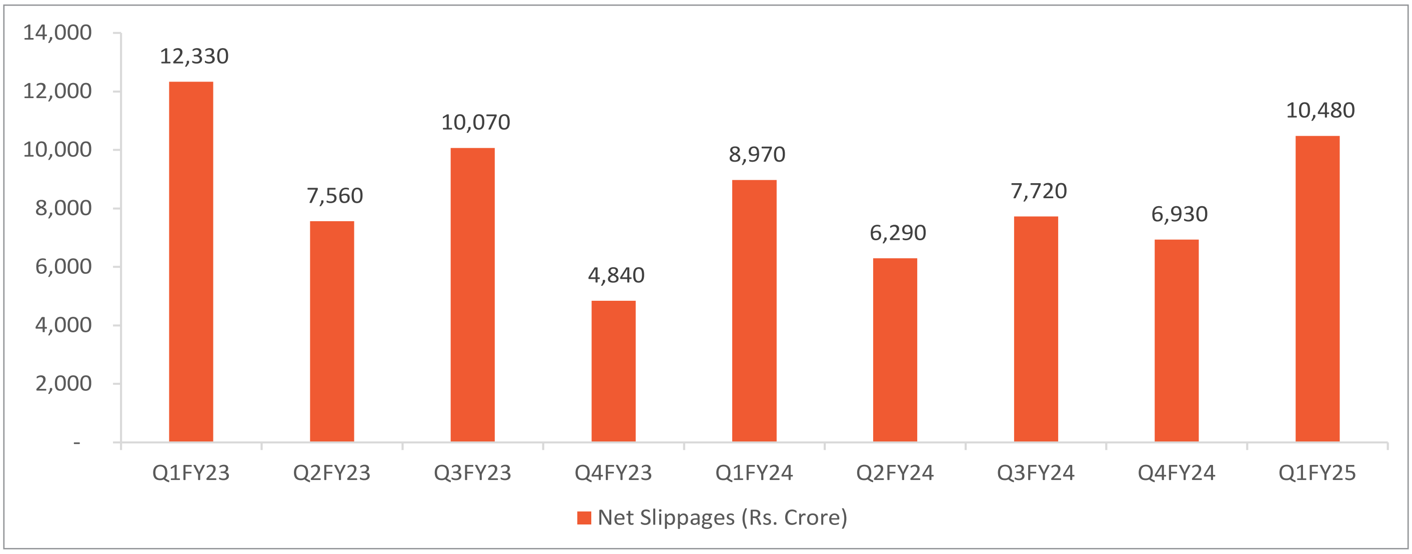
Economic slowdown that can slow down loan growth, higher-than-anticipated credit costs, and slower growth in the retail liability.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	15,001	17,592	20,616	23,471	26,167
Net profit	4,611	7,390	8,950	9,885	10,635
EPS (Rs.)	59.5	95.2	115.0	126.9	136.3
P/E (x)	24.4	15.2	12.6	11.4	10.6
P/BV (x)	2.4	2.1	1.8	1.6	1.4
RoE (%)	10.1	14.4	15.2	14.6	13.7
RoA (%)	1.2	1.7	1.8	1.8	1.7

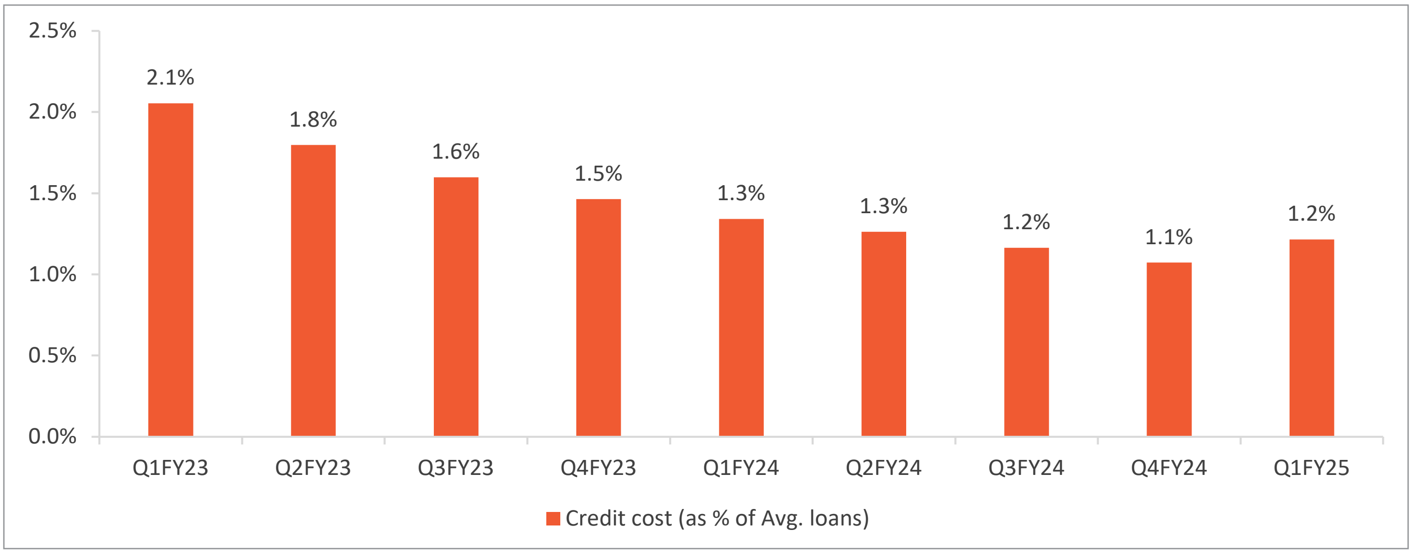
Source: Company; Sharekhan estimates

Trend in net slippages for retail segment



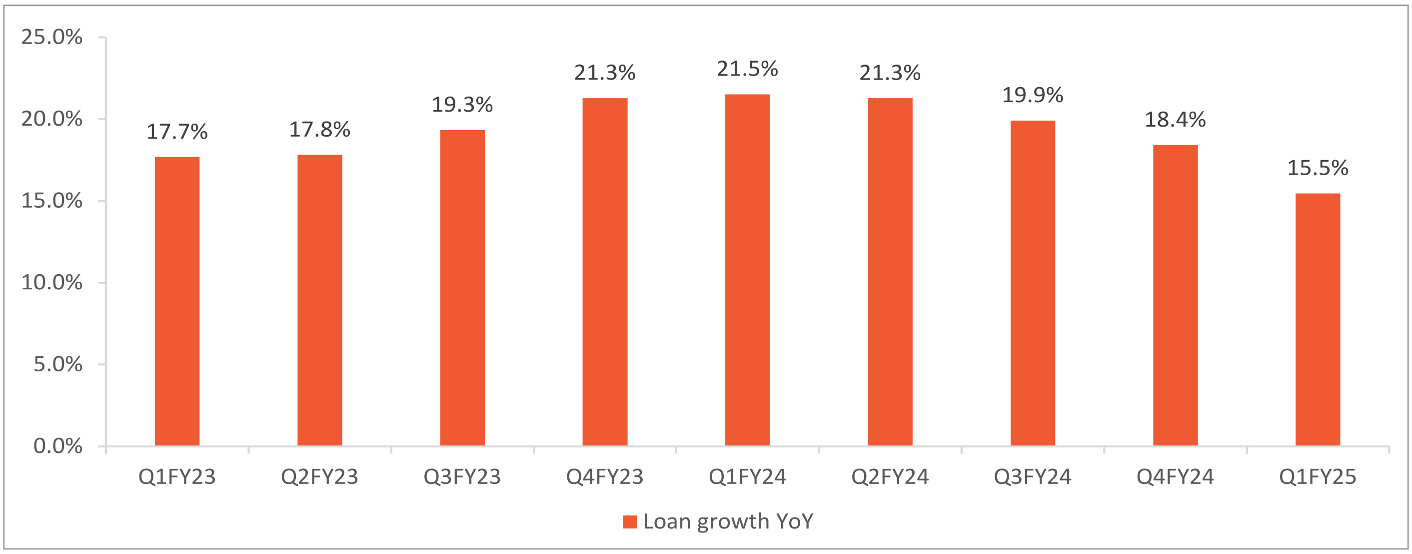
Source: Company, Sharekhan Research

Trend in Credit cost



Source: Company, Sharekhan Research

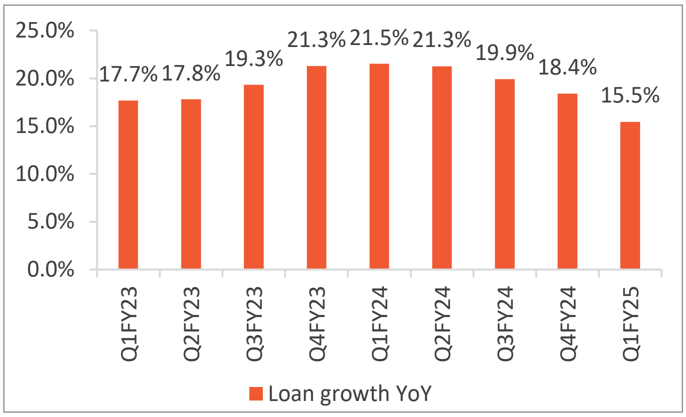
Trend in Loan growth



Source: Company, Sharekhan Research

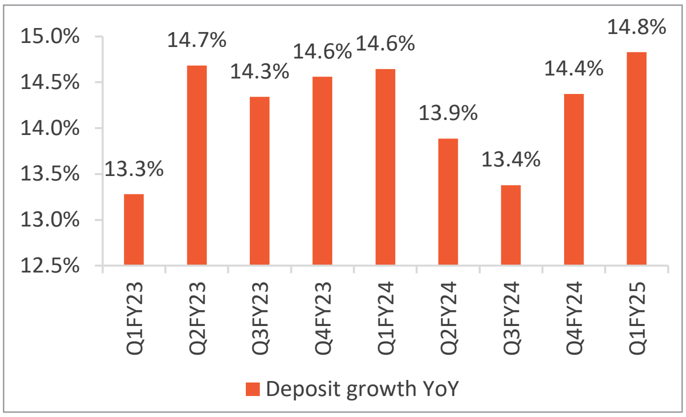
Financials in charts

Trend in Loan growth



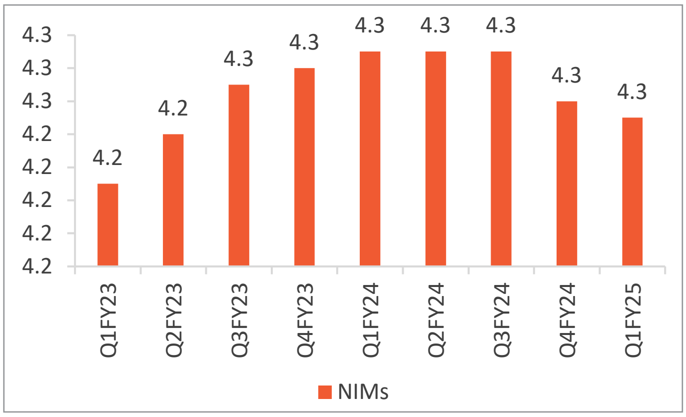
Source: Company, Sharekhan Research

Trend in Deposit growth



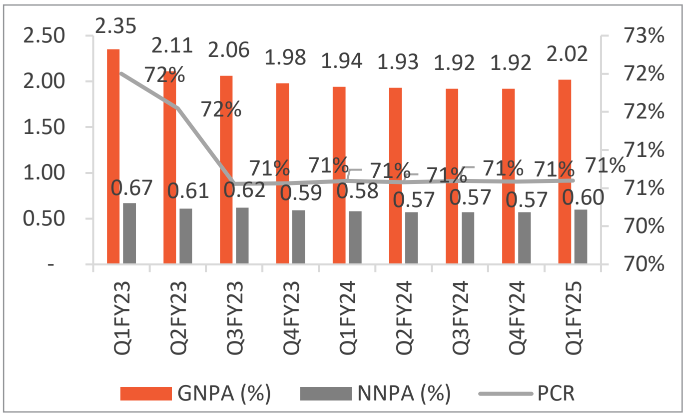
Source: Company, Sharekhan Research

Trend in NIMs



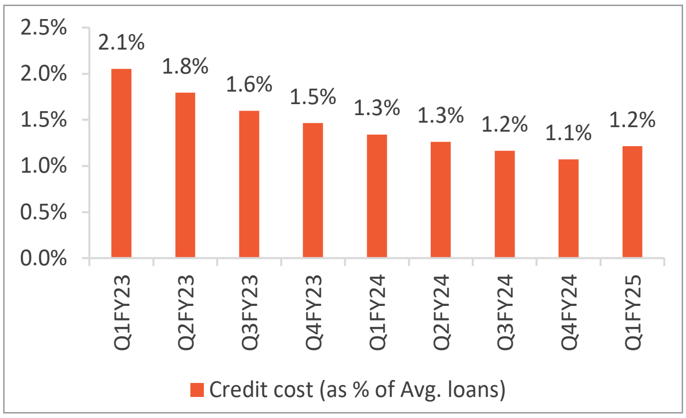
Source: Company, Sharekhan Research

Trend in Asset Quality



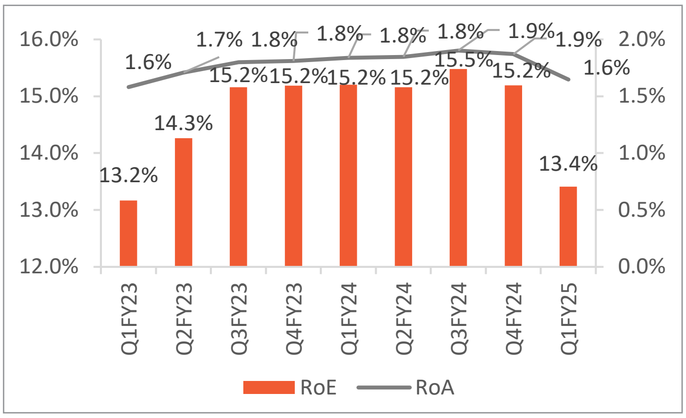
Source: Company, Sharekhan Research

Trend in Credit cost



Source: Company, Sharekhan Research

Trend in Return ratio



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 (ex-HDFC Ltd) grew by ~13.5% y-o-y in the fortnight ending August 09, 2024, indicating loan growth has been healthy although moderated. On the other hand, deposits rose by ~10.9%. The gap between advances and deposits growth has been reducing gradually. We are seeing healthy traction in loan growth and but deposit growth remains a constraint. Margins are expected to stay stressed due to a lower CASA ratio, higher deposits rates and an inability to pass on rates on asset book. Overall, asset-quality outlook is stable to positive for the sector except for unsecured segment. We believe banks with a robust capital base and strong retail deposit franchises are well-placed to capture growth opportunities.

■ **Company outlook - Outlook still remain stable, retail asset quality remains key monitorable**

Focus on granular growth, early risk assessment and primitive corrective risk measures will likely help bank to sustain better asset quality than peers. Business growth was deliberately slowed down given asset quality spikes in some of the business segment. We believe this is the right strategy. The bank is confident of delivering healthy growth and stable RoA in FY25 thus outlook remains stable.

■ **Valuation - We maintain our BUY rating on the stock with an unchanged TP of Rs. 1,750**

At CMP, IIB trades at 1.6x/1.4x its FY2025E/FY2026E BV estimates. The near-term business outlook remains comfortable except for high slippages in the credit card and MFI portfolio. Slippages are expected to revert to normalized levels in these segments led by recoveries in H2FY25. We expect stable RoA for the bank vs. decline for some of the peers, led by healthy loan growth and stable NIMs (versus contraction for peers when the rate cycle turns). We expect slower upward credit cost normalization than the peers, as credit cost is relatively higher vs peers.

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	1,437	1,11,952	11.4	10.6	1.6	1.4	14.6	13.7	1.8	1.7
Federal Bank	196	47,895	11.4	9.5	1.4	1.2	12.8	13.7	1.2	1.2

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 2,984 branches as of June 2024. The bank is a market leader in most of the product categories in the vehicle finance segment, which forms ~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 17.23%.

Investment theme

Focus on granular growth, early risk assessment and primitive corrective risk measures will likely help bank to sustain better asset quality than peers. Business growth was deliberately slowed down given asset quality spikes in some of the business segment. We believe this is the right strategy. The bank is confident of delivering healthy growth and stable RoA in FY25 thus outlook remains stable.

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	IndusInd International Holdings Lt	11.50
2	IndusInd Ltd	3.59
3	SBI Funds Management Ltd	3.39
4	Blackrock Inc	3.13
5	HDFC Asset Management Co Ltd	2.94
6	DF International Partners	2.88
7	Route One Offshore Master Fund Lp	2.53
8	Bridge India Fund	2.45
9	UTI AMC Ltd	2.34
10	Life Insurance Corporation Of India	2.24

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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