

## Some stress and some prudence suppress earnings

BFSI - Banks ▶ Result Update ▶ October 25, 2024

TARGET PRICE (Rs): 1,650

IndusInd Bank (IIB) reported a sharp 42% earnings miss in 2Q with PAT/RoA at Rs13.3bn/1%, mainly due to slower credit growth (13% YoY), lower fees (partly due to lower penal fees), and higher LLP. Higher provisions in 2Q were primarily due to elevated MFI stress across players and partly to shore-up contingent provision buffer (Rs5.3bn in 2Q, though little later than guided) to Rs15.3bn/0.4% of loans. Gross slippages were higher at 2.1% (vs 1.8% in 1Q) largely due to stress in MFI and some slip-up in CE, Card, and TW, leading to 9bps QoQ uptick in GNPA ratio to 2%. Going forward, the bank guides for calibrated growth mostly led by secured loans, and expects asset quality relief by 4Q and so also on provisions. Factoring in slower growth, fees, and higher LLP, we cut earnings for FY25/26/27E by 17%/10%/3%. We cut our TP to Rs1,650 from Rs1,800, valuing the bank at 1.8x Sep-26E ABV. However, we retain BUY on the stock given its cheaper valuation and expected steady improvement in RoA to 1.8% in FY27E from 1.4% in FY25E, led by better margins benefiting from the rate-cut cycle and contained LLP.

## IndusInd Bank: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	74,431	89,770	79,091	99,862	128,945
Loan growth (%)	21.3	18.4	14.4	15.9	18.9
NII growth (%)	17.3	17.2	6.8	17.0	20.6
NIM (%)	4.4	4.5	4.3	4.4	4.5
PPOP growth (%)	12.3	10.0	0.1	17.4	26.0
Adj. EPS (Rs)	95.9	115.3	101.5	128.2	165.5
Adj. EPS growth (%)	61.2	20.2	(12.0)	26.3	29.1
Adj. BV (Rs)	651.3	696.7	746.5	834.7	951.7
Adj. BVPS growth (%)	11.4	7.0	7.1	11.8	14.0
RoA (%)	1.7	1.8	1.4	1.6	1.8
RoE (%)	14.6	15.3	11.9	13.5	15.4
P/E (x)	13.3	11.1	12.6	10.0	7.7
P/ABV (x)	2.0	1.8	1.7	1.5	1.3

Source: Company, Emkay Research

## Slower growth and lower margins, as unsecured loans face asset quality heat

The bank reported slower credit growth at 13.2% YoY/2.7% QoQ, mainly due to conscious slowdown in unsecured book and in select retail segments including TW, CV, and Cards. Bank disbursed MFI loans to the tune of Rs70bn in Q2, and Rs85bn in Q1 vs avg of Rs110-130bn run rate and expects it to remain slow in 3Q, before the pick-up in 4Q, once the asset quality pressure eases. Bank has held up its margins for a while, but it corrected by 17bps QoQ to 4.08% due to lower LDR and lower interest yields. Management expects the margins to remain range-bound in the near term, but should improve once the rate-cut cycle begins and growth normalizes.

## Asset quality further slips, led by deterioration in the unsecured segment

Fresh slippages were higher at Rs18bn/2% of loans vs 1.8% in 1Q, mainly due to accelerated stress in the MFI book coupled with some rise in Cards, CE, and TW NPAs. However, the rise in GNPA ratio was contained at 9bps QoQ to 2.1% due to higher recoveries/write offs. Management indicated 30-90dpd MFI PAR book at 4% of loans and hopes for meaningful relief by 4Q as disbursements pick-up. During Q2, the bank has created additional contingent provision buffer of Rs5.25bn (including Rs2.5bn for MFI), though it is a bit late in the cycle.

## Retain BUY with cut in TP to Rs1,650

Factoring in slower growth, fees, and higher LLP, we cut earnings estimates for FY25/26/27 by 17%/10%/3%. We cut our TP to Rs1,650 from Rs1,800, valuing the bank at 1.8x Sep-26E ABV. However, we retain BUY given its cheaper valuation and expected steady improvement in RoA to 1.8% in FY27E from 1.4% in FY25E, led by better margins benefiting from the rate-cut cycle and contained LLP. We believe 4QFY25 should be an eventful quarter for IIB with possible clarity emerging on the MD's term extension, relief in MFI, and the rate-cut cycle.

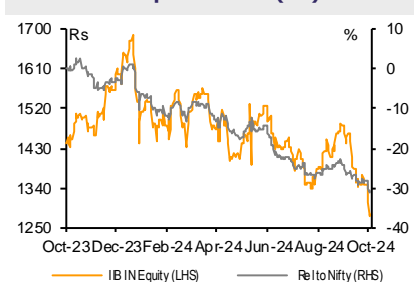
Target Price – 12M	Sep-25
Change in TP (%)	(8.3)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	28.9
CMP (24-Oct-24) (Rs)	1,280.1

Stock Data	Ticker
52-week High (Rs)	1,695
52-week Low (Rs)	1,258
Shares outstanding (mn)	779.0
Market-cap (Rs bn)	997
Market-cap (USD mn)	11,860
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	5,257.0
ADTV-3M (USD mn)	62.5
Free float (%)	85.0
Nifty-50	24,399
INR/USD	84.1
<b>Shareholding, Sep-24</b>	
Promoters (%)	15.1
FPIs/MFs (%)	31.5/32.4

## Price Performance

(%)	1M	3M	12M
Absolute	(11.6)	(8.3)	(10.8)
Rel. to Nifty	(6.0)	(8.3)	(29.5)

## 1-Year share price trend (Rs)



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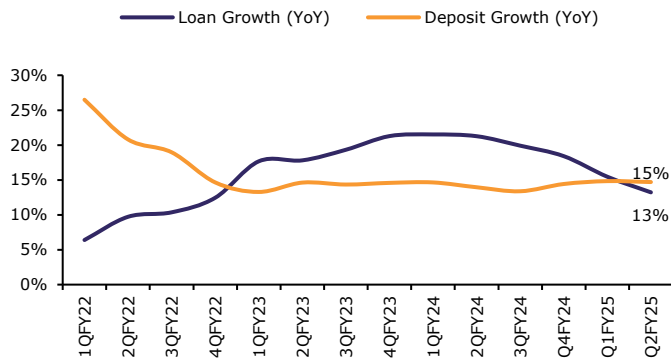
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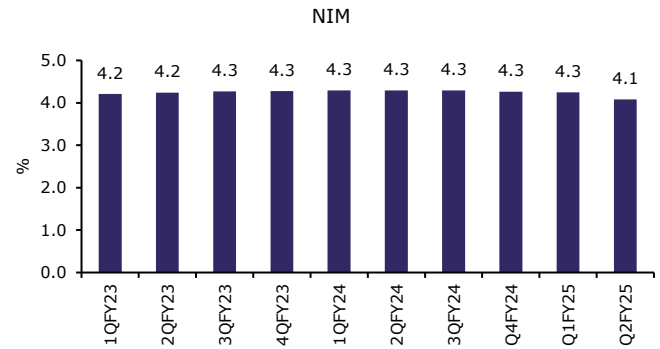
## Story in Charts

**Exhibit 1: Credit growth moderates further as growth in unsecured retail loans slows down**



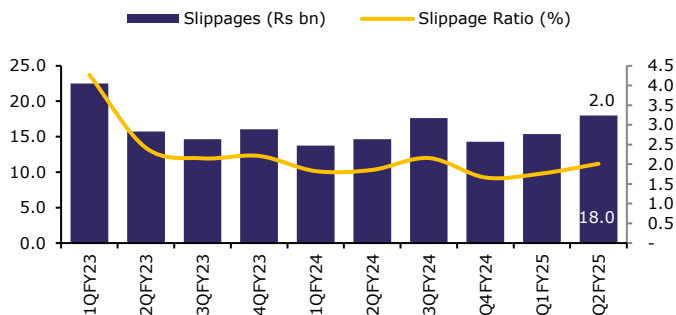
Source: Company, Emkay Research

**Exhibit 2: Lower LDR and fall in yield on loans led to contraction in NIMs**



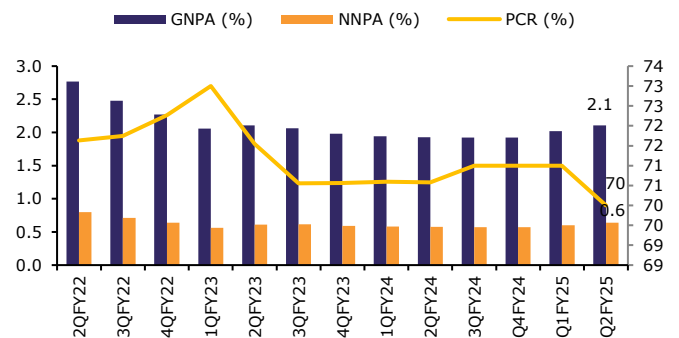
Source: Company, Emkay Research

**Exhibit 3: Slippages inch up again, due to higher stress in MFI, Cards, TW, and CE...**



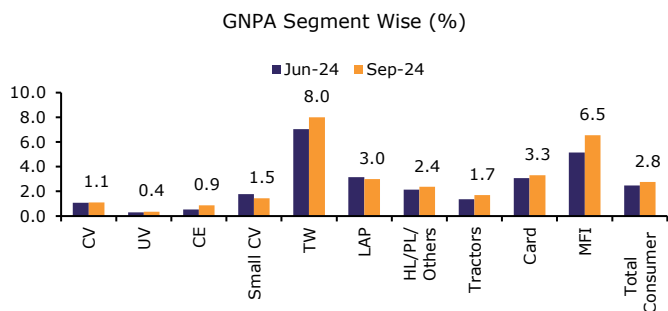
Source: Company, Emkay Research

**Exhibit 4: ...which further led to a 9bps increase in GNPA ratio**



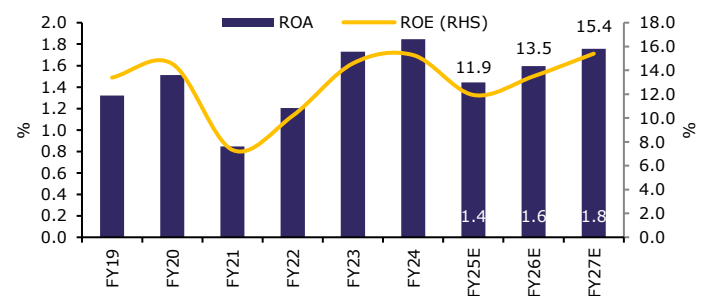
Source: Company, Emkay Research

**Exhibit 5: MFI, Cards, TW, and CE book continues to deteriorate QoQ**



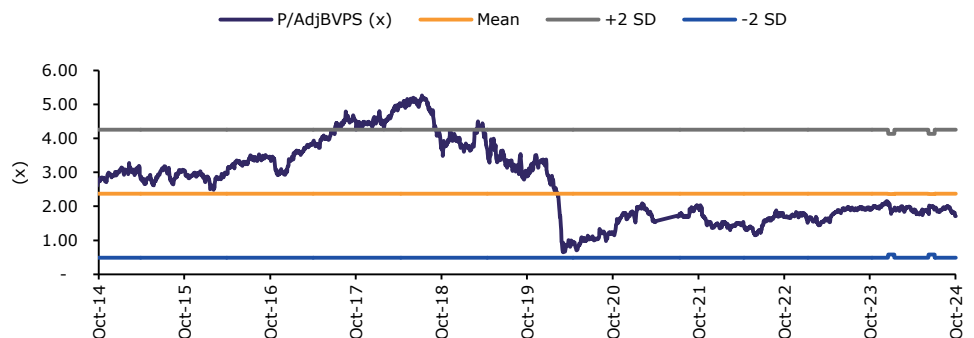
Source: Company, Emkay Research

**Exhibit 6: We expect RoA to dip in FY25 at 1.4%, but recover gradually, benefiting from margin expansion and contained LLP**



Source: Company, Emkay Research

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



Source: Bloomberg, Emkay Research

**Exhibit 8: Actuals vs Estimates (Q2FY25)**

(Rs mn)	Actuals	Estimates				Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	75,322	81,871	81,505	-8%	-8%	Net income reduces due to lower NIM and muted other income
PPOP	35,998	41,331	41,505	-13%	-13%	Muted PPOP led by muted net income, but aided by stable opex
PAT	13,313	23,124	22,633	-42%	-41%	Sharp rise in provisions led to miss in PAT

Source: Company, Emkay Research

**Exhibit 9: Quarterly summary (Q2FY25)**

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	112,478	115,723	121,985	125,468	126,863	13	1	457,482	522,601	14
Interest Exp.	61,711	62,766	68,221	71,391	73,390	19	3	251,323	302,340	20
Net Interest Income	50,767	52,956	53,765	54,076	53,473	5	-1	206,159	220,261	7
Global NIMs (Reported)	4.29	4.29	4.26	4.25	4.08	-21bps	-17bps	4.52	4.26	-437bps
Non-interest Income	22,819	23,959	25,081	24,416	21,850	-4	-11	93,958	100,640	7
Operating Expenses	34,499	36,492	38,030	38,974	39,324	14	1	141,476	162,055	15
Pre Provisioning Profit	39,087	40,423	40,815	39,518	35,998	-8	-9	158,641	158,845	0
Provision & Contingencies	9,738	9,693	9,502	10,498	18,201	87	73	38,849	53,249	37
PBT	29,349	30,731	31,313	29,020	17,797	-39	-39	119,792	105,596	-12
Income Tax Expense	7,329	7,717	7,822	7,312	4,485	-39	-39	30,022	26,505	-12
Net Profit/(Loss)	22,021	23,015	23,492	21,707	13,313	-40	-39	89,770	79,091	-12
Gross NPA (%)	1.93	1.92	1.92	2.02	2.11	18bps	9bps	1.92	2.10	18bps
Net NPA (%)	0.57	0.57	0.57	0.60	0.64	6bps	4bps	0.57	0.64	7bps
Deposits (Rs bn)	3,595	3,688	3,846	3,985	4,124	15	3	3,846	4,478	16
Net Advances (Rs bn)	3,155	3,271	3,433	3,479	3,572	13	3	3,433	3,926	14

Source: Company, Emkay Research

**Exhibit 10: Revision in estimates**

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	335,142	320,900	-4.2%	392,362	371,319	-5.4%	467,767	445,754	-4.7%
PPOP	170,244	158,845	-6.7%	202,790	186,526	-8.0%	249,600	235,044	-5.8%
PAT	95,361	79,091	-17.1%	110,492	99,862	-9.6%	132,441	128,945	-2.6%
EPS (Rs)	122.4	101.5	-17.1%	141.8	128.2	-9.6%	170.0	165.5	-2.6%
BV (Rs)	804.5	767.2	-4.6%	906.3	859.9	-5.1%	1033.0	982.6	-4.9%

Source: Company, Emkay Research

**Exhibit 11: Key assumptions**

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	18.4	14.4	15.9	18.9
Deposit Growth	14.4	16.4	19.5	21.3
NIM	4.5	4.3	4.4	4.5
GNPA	1.9	2.1	2.2	2.3
Credit Cost	1.0	1.3	1.3	1.4

Source: Emkay Research

## Exhibit 12: Key ratios and trends

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs bn)	2,601	2,728	2,899	3,013	3,155	3,271	3,433	3,479	3,572
Growth YoY (%)	17.8	19.3	21.3	21.5	21.3	19.9	18.4	15.5	13.2
Growth QoQ (%)	4.9	4.9	6.3	3.9	4.7	3.7	5.0	1.3	2.7
<b>Composition (%)</b>									
- Large Corporate	26.4	26.1	25.6	25.6	25.1	24.8	24.5	24.4	25.4
- SME/Business Banking	25.2	25.2	25.4	25.6	25.1	24.9	24.7	25.6	26.0
- Retail	48.4	48.7	49.0	48.8	49.7	50.3	50.8	50.0	48.6
<b>Liability Profile</b>									
Deposits (Rs bn)	3,155	3,253	3,361	3,470	3,595	3,688	3,846	3,985	4,124
Growth YoY (%)	14.6	14.3	14.6	14.6	13.9	13.4	14.4	14.8	14.7
Growth QoQ (%)	4.2	3.1	3.3	3.3	3.6	2.6	4.3	3.6	3.5
CASA (%)	42.3	41.9	40.1	39.9	39.3	38.5	37.9	36.7	35.9
CA (%)	14.0	15.4	15.1	14.2	13.9	13.6	12.2	12.2	12.8
SA (%)	28.3	26.6	25.0	25.7	25.5	24.9	25.7	24.5	23.1
No. of Branches	2,320	2,384	2,606	2,606	2,631	2,728	2,984	3,013	3,040
Yield on Advances (%)	11.5	11.8	12.0	12.2	12.3	12.5	12.7	12.6	12.3
Cost of Deposits (%)	5.1	5.5	5.8	6.1	6.4	6.4	6.5	6.5	6.6
NIM (%)	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.1
<b>Asset Quality</b>									
GNPA (%)	2.1	2.1	2.0	2.0	2.0	1.9	1.9	2.0	2.1
NNPA (%)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
PCR (%)	71.5	70.6	70.6	70.6	70.6	70.6	70.6	70.6	70.1
Slippages (Rs mn)	15,720	14,670	16,030	13,760	14,650	17,650	14,280	15,360	17,980
Corporate (Rs mn)	1,790	1,190	2,640	430	2,140	3,120	1,620	480	1,180
Consumer (Rs mn)	13,930	13,480	13,390	13,330	12,510	14,530	12,660	14,880	16,800
Slippages (%)	2.8	2.6	2.7	2.2	2.3	2.6	2.0	2.0	2.3
CAR (%)	18.0	18.0	17.9	18.4	18.2	17.9	17.2	17.6	16.5
Tier I (%)	16.4	16.5	16.4	16.9	16.9	16.5	15.8	16.2	15.2
<b>ROE Decomposition (%)</b>									
NII	4.1	4.1	4.1	4.2	4.3	4.4	4.3	4.1	4.0
Other Income	1.8	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.6
Opex	2.6	2.7	2.7	2.8	2.9	3.0	3.0	3.0	2.9
PPOP	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.0	2.7
Provisioning Cost	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.8	1.4
PBT	2.3	2.4	2.4	2.5	2.5	2.5	2.5	2.2	1.3
Tax	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.3
ROA	1.7	1.8	1.8	1.8	1.9	1.9	1.9	1.7	1.0
Leverage (x)	8.3	8.4	8.4	8.2	8.2	8.1	8.1	8.1	8.2
ROE	14.4	15.1	15.2	15.2	15.2	15.4	15.2	13.5	8.1

Source: Company, Emkay Research

IndusInd Bank: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	363,679	457,482	522,601	587,492	678,490
Interest Expense	187,758	251,323	302,340	329,895	367,848
Net interest income	175,921	206,159	220,261	257,597	310,643
NII growth (%)	17.3	17.2	6.8	17.0	20.6
Other income	81,728	93,958	100,640	113,722	135,111
Total Income	257,649	300,117	320,900	371,319	445,754
Operating expenses	113,459	141,476	162,055	184,793	210,710
PPOP	144,190	158,641	158,845	186,526	235,044
PPOP growth (%)	12.3	10.0	0.1	17.4	26.0
Core PPOP	144,357	153,586	152,779	179,247	227,037
Provisions & contingencies	44,868	38,849	53,249	53,199	62,887
PBT	99,322	119,792	105,596	133,327	172,157
Extraordinary items	0	0	0	0	0
Tax expense	24,891	30,022	26,505	33,465	43,211
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	74,431	89,770	79,091	99,862	128,945
PAT growth (%)	61.4	20.6	(11.9)	26.3	29.1
Adjusted PAT	74,431	89,770	79,091	99,862	128,945
Diluted EPS (Rs)	95.8	115.2	101.4	128.1	165.4
Diluted EPS growth (%)	54.7	20.2	(12.0)	26.3	29.1
DPS (Rs)	14.0	16.5	18.5	20.0	22.5
Dividend payout (%)	14.6	14.3	18.2	15.6	13.6
Effective tax rate (%)	25.1	25.1	25.1	25.1	25.1
Net interest margins (%)	4.4	4.5	4.3	4.4	4.5
Cost-income ratio (%)	44.0	47.1	50.5	49.8	47.3
Shares outstanding (mn)	775.9	778.3	779.0	779.0	779.0

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	66,933.7	83,697.6	102,002.4	124,995.4
Net NPLs	17,149.5	19,688.9	25,109.3	30,600.7	37,498.6
GNPA ratio (%)	2.0	1.9	2.1	2.2	2.3
NNPA ratio (%)	0.6	0.6	0.6	0.7	0.7
Provision coverage (%)	70.6	70.6	70.0	70.0	70.0
Gross slippages	68,920.0	60,330.5	67,055.5	83,203.9	104,513.3
Gross slippage ratio (%)	2.3	1.7	1.7	1.8	1.9
LLP ratio (%)	1.4	1.0	1.3	1.3	1.4
NNPA to networth (%)	2.9	2.9	3.4	3.7	4.0
Capital adequacy					
Total CAR (%)	17.9	17.2	16.3	16.1	15.8
Tier-1 (%)	16.4	15.8	15.0	14.9	14.7
CET-1 (%)	16.4	15.8	15.0	14.9	14.7
RWA-to-Total Assets (%)	78.4	78.9	82.1	81.4	80.8
Miscellaneous					
Total income growth (%)	16.5	23.8	13.0	12.5	16.0
Opex growth (%)	18.7	24.7	14.5	14.0	14.0
Core PPOP growth (%)	17.9	6.4	(0.5)	17.3	26.7
PPOP margin (%)	3.4	3.3	2.9	3.0	3.2
PAT/PPOP (%)	51.6	56.6	49.8	53.5	54.9
LLP-to-Core PPOP (%)	31.1	25.3	34.9	29.7	27.7
Yield on advances (%)	11.4	12.1	11.8	11.7	11.6
Cost of funds (%)	5.2	6.1	6.5	6.2	5.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	7,759	7,783	7,790	7,790	7,790
Reserves & surplus	541,844	623,257	692,503	776,399	887,477
Net worth	549,603	631,040	700,293	784,189	895,267
Deposits	3,361,202	3,845,857	4,477,821	5,351,943	6,492,053
Borrowings	490,112	476,114	456,708	438,423	400,981
Interest bearing liab.	3,851,314	4,321,971	4,934,529	5,790,366	6,893,034
Other liabilities & prov.	177,449	197,928	174,698	144,052	163,057
Total liabilities & equity	4,578,366	5,150,940	5,809,520	6,718,607	7,951,358
Net advances	2,899,237	3,432,983	3,926,272	4,551,036	5,413,205
Investments	830,757	1,064,865	1,169,405	1,347,167	1,599,212
Cash, other balances	567,768	369,074	407,099	492,181	585,908
Interest earning assets	4,297,761	4,866,922	5,502,776	6,390,385	7,598,324
Fixed assets	20,789	23,240	29,952	33,546	37,572
Other assets	259,816	260,778	276,793	294,676	315,462
Total assets	4,578,366	5,150,940	5,809,520	6,718,607	7,951,358
BVPS (Rs)	666.9	713.4	767.2	859.9	982.6
Adj. BVPS (INR)	651.3	696.7	746.5	834.7	951.7
Gross advances	2,940,350	3,480,228	3,984,860	4,622,438	5,500,701
Credit to deposit (%)	86.3	89.3	87.7	85.0	83.4
CASA ratio (%)	40.1	37.9	36.0	36.8	39.0
Cost of deposits (%)	5.0	6.0	6.4	6.1	5.8
Loans-to-Assets (%)	63.3	66.6	67.6	67.7	68.1
Net advances growth (%)	21.3	18.4	14.4	15.9	18.9
Deposit growth (%)	14.5	14.4	16.4	19.5	21.3
Book value growth (%)	11.3	7.0	7.5	12.1	14.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	13.3	11.1	12.6	10.0	7.7
P/B (x)	2.0	1.8	1.7	1.5	1.3
P/ABV (x)	2.0	1.8	1.7	1.5	1.3
P/PPOP (x)	6.9	6.3	6.3	5.3	4.2
Dividend yield (%)	1.1	1.3	1.4	1.6	1.8
DuPont-RoE split (%)					
NII/avg assets	4.1	4.2	4.0	4.1	4.2
Other income	1.9	1.9	1.8	1.8	1.8
Fee income	1.9	1.8	1.7	1.7	1.7
Opex	2.6	2.9	3.0	3.0	2.9
PPOP	3.4	3.3	2.9	3.0	3.2
Core PPOP	3.4	3.2	2.8	2.9	3.1
Provisions	1.0	0.8	1.0	0.8	0.9
Tax expense	0.6	0.6	0.5	0.5	0.6
RoA (%)	1.7	1.8	1.4	1.6	1.8
Leverage ratio (x)	8.4	8.3	8.3	8.5	8.8
RoE (%)	14.6	15.3	11.9	13.5	15.4
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	48,671	50,767	52,956	53,765	54,076
NIM(%)	4.3	4.3	4.3	4.3	4.3
PPOP	38,315	39,087	40,423	40,815	39,518
PAT	21,244	22,021	23,014	23,491	21,707
EPS (Rs)	27.38	28.38	29.66	30.27	27.97

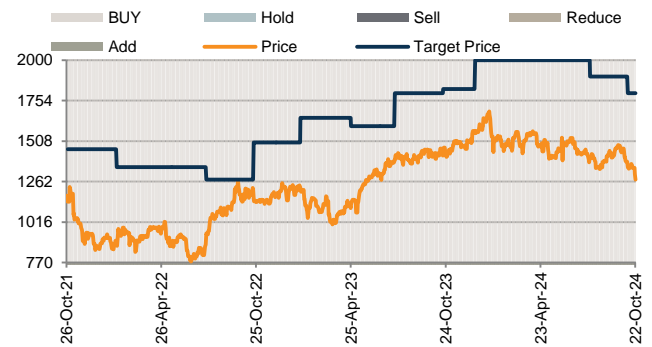
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	1,351	1,800	Buy	Anand Dama
27-Jul-24	1,404	1,900	Buy	Anand Dama
26-Apr-24	1,446	2,000	Buy	Anand Dama
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	1,122	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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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