IndusInd Bank (INDBA)

CMP: ₹ 1422 | Target: ₹ 1800 (27%) | Target Period: 12 months

BUY

July 30, 2024

Elevated opex impacted earnings; guidance maintained

About the stock: IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India. The bank has full product suite with strong moat in vehicle and micro finance business

- The bank has a strong presence with pan India branch network of 3013 branches (2988 ATMs) and a large customer base of ~4.1 crore.

Q1FY25 performance: IndusInd Bank delivered on business growth, margins and asset quality, however, higher opex impacted earnings momentum. Advances growth came at 15.5% YoY to ~₹ 3.5 lakh crore, led by growth across segments. Deposit accretion remained healthy at 15% YoY to ₹ 3.98 lakh crore, primarily on account of 21% YoY growth in term deposit. Margins remained steady at 4.25% which led to 11% YoY growth in NII while other income grew 10% YoY. However, elevated opex growth at 20% YoY, impacted operational profit reporting at 3% YoY and earnings at 2% YoY to ₹ 2171 crore. GNPA and NNPA witnessed an increase of 10 bps and 3 bps QoQ to 2.02% and 0.6%, however, PCR was maintained at ~71%. Despite sequential moderation in high yield segment (MFI, credit cards and personal loans), bank managed to maintain margins. Growth outlook remains unchanged with credit growth of 18-23% and credit cost guidance at 110-130 bps.

Investment Rationale

- **Despite hiccups in few segments, management remain confident on growth:** Bank has reported 15% YoY growth in advances driven by focus on retail segment (excluding MFI) at 19% YoY. While MFI book grew 16% YoY, though declined 5% QoQ owing to seasonality, external hindrances and caution. Management remains confident and maintains guidance of credit growth at ~18-22% in FY25E, driven by new initiatives including home, affordable housing and merchant segment. Accretion of liabilities at competitive pricing remains crucial to aid business growth which is expected to follow credit off-take. Expect bank to report 18% CAGR in advances in FY25-26E.
- **Steady margins and asset quality to aid RoA:** Margin were maintained at 4.25%, on the back of alteration in asset mix coupled with increase in CD ratio. Slippages remained steady at 1.8% and credit cost at 1.2%. However, elevated opex impacted earnings momentum. The bank has levers to propel revenue including gradual revival in disbursement with focus on retail segment, fixed rate book (which can benefit on reversal in rate cycle) and elevated CD ratio, however, gradual decline in pace of opex and steady credit cost at ~120 bps is seen to keep RoA at 1.7-1.8% in FY25-26E.

Rating and Target Price

- Optimistic outlook on growth & credit cost coupled with continued focus on improving granularity, new retail segment and manageable credit cost provides comfort on RoA trajectory.
- Given lower valuation on a relative basis, we maintain our Buy rating on the stock with target of ₹ 1800 per share, valuing the stock at 1.8x FY26E ABV

Result Update

ICICI Securities – Retail Equity Research

IndusInd Bank

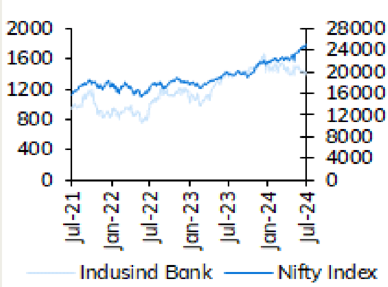
Particulars

Particulars	Amount
Market Capitalisation	₹ 112576 crore
52 week H/L	1694/ 1065
Net worth	₹ 63985 Crore
Face Value	10.0
DII Holding (%)	28.1
FII Holding (%)	40.2

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	16.5	16.5	16.5	16.5	16.4
FII	42.2	42.3	41.5	42.5	40.3
DII	26.5	26.2	28.2	26.2	28.09
Others	14.8	14.9	13.9	14.9	15.26

Price Chart



Key risks

(i) Pace of liabilities accretion crucial to maintain CD ratio

(ii) Less than 3-year extension for MD & CEO

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Key Financial Summary

₹ Crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	13,528	15,001	17,592	20,455	15%	23,895	28,019	17%
PPP	11,727	13,035	14,419	16,608	12%	17,921	21,393	13%
PAT	2,836	4,805	7,443	9,233	48%	9,815	11,969	14%
ABV (₹)	542	596	682	777		885	1,018	
P/E	38.8	22.9	14.8	13.0		11.3	9.2	
P/ABV	2.6	2.4	2.1	1.8		1.6	1.4	
RoA	0.8	1.3	1.7	1.9		1.8	1.8	
RoE	7.3	10.5	14.5	15.2		14.5	15.5	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Highlights & Guidance

- The management stated the that company posted relatively weak quarter owing to seasonality, heatwave throughout the country and general elections.
- The loan growth slowed down to 15% YoY standing at ₹ 3,47,898 crore and it was flat QoQ.
- Deposits grew at 15% YoY with focus on retail deposits. The retail deposit mobilization with the sale as per LCR deposits grew at 16% YoY.
- Increased collections and cautious disbursements were the key focus during the quarter.
- Slowdown in vehicle and microfinance was attributed to cautious approach taken by the management during the election phase and it has already picked up pace in the last month.
- Corporate growth was primarily driven by mid and small corporates. The headline loan growth would pick up pace going forward with seasonality benefits.
- This quarter saw focus on collections which resulted in gross slippages improving to 0.45% vs 0.47% YoY.
- Net interest margin stood at 4.25% and no contingent provision was used this quarter.
- The reason stated for lower quarterly disbursements were subdued demand during the election phase, extreme heat in most regions and quarter 1 being a generally weak quarter.
- Vehicle finance which constitutes 26% of the loan book grew by 15% YoY, 2-wheeler and tractor segments were weaker and degrew during the quarter.
- Restructured book in vehicle finance improved to ₹ 417 crores from ₹ 547 crores QoQ and major part of the reduction came from upgrades and recoveries.
- The management expects revival of vehicle segment due to timely onset of monsoon and increased government Capex
- Bharat Financial Inclusion Limited grew by 17% YoY driven by client acquisitions.
- Collection efficiency was negatively impacted during the quarter but the management stated that it was intentional as they prioritized collections over growth and were able to contain forward flows.
- Overall collection intensity continued in the quarter and the management expects to restore normalcy over the upcoming quarters.
- Outlook for microfinance credit for the entire year seems to relatively stable YoY.
- Growth in Corporate book (13% YoY) was led by mid and small corporates. Large corporates grew by 10% YoY, mid corporates by 14% YoY and small corporates by 22% YoY.
- SME book stood at ₹ 16,683 crores, growing 13% YoY, and LAP book maintained a steady traction with 12% YoY growth. The management expects MSMEs to become a meaningful growth driver
- The management expressed caution in maintaining share of unsecured credit cards and PL.
- The bank opened its milestone 3,000 branch in Mumbai taking the the total branch count of 3,013 as of June 2024.
- Cost of deposits increased by 5 bps and cost of funds increased by 3 bps QoQ. This increase was offset by a 2-bps increase in Yield on assets, keeping margins steady.
- The increase in cost to income can be attributed to the same reasons as given for slowdown in other parameters.
- The management is confident in terms of revenue, as they expect it to improve during the course of year.
- Disbursements have already started picking up the pace and the management remain committed to the growth guidance of 18-23% for the full year.
- Opex growth has started to normalise and its growth rate is slowly down. The management expects revenue growth to exceed opex growth due to improving operating leverage and other operations performing well.

- The management remains confident of achieving a full year credit cost of 110 to 130 bps without using any contingent provisions given the turbulence and seasonally weak quarter being in the past.
- Resolution to raise equity was merely an enabling clause and the bank is not in the need for raising any further capital as it is optimally capitalised.
- Slowdown in the unsecured business in PL and cards was intentional and the bank experienced stress in microfinance in various geographies such as Orissa, UP and certain parts of Punjab. The bank reduced exposure in such geographies to avoid overleveraging and stress.
- The management expects stress to be seen in the card segment for the next 2 quarters and remains watchful of the same.
- The high yielding unsecured business didn't grow during the quarter thus, it impacted the net interest income.
- Microfinance saw higher NPAs mainly due to the base effect. Disbursements were lower which led to a fall of ₹2,000 crores and thus resulting in a higher NPA number.
- Card fees saw a decline the quarter mainly due to regulator directive of not being able to charge on overlimit which led to a ₹24 crore impact, lower card issuances and interchange on rentals was eliminated which had a ₹ 10 crore impact.
- The bank launched a special 7.99% deposit scheme during the T20 world cup, which mobilised around ₹7,000 crore in terms of TD.
- The balance of the book going forward will be 55% to 56% retail and 44% to 45% corporate, Microfinance to grow by 20%-24%, vehicle business is expected to grow at 18%-20%, retail at 28%-30%, smaller business to grow at 18%-20%, mid corporates at 14%-16% and large corporates is expected to grow 10%-12%.

Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	5,408	4,867	11.1	5,376	0.6	Driven by healthy business growth
NIM (%)	4.25	4.29	-4 bps	4.26	-1 bps	Increase in CoF impacted margins
Other Income	2,442	2,210	10.5	2,508	-2.7	Core fee grew 11% YoY
Net Total Income	7,849	7,077	10.9	7,885	-0.4	
Staff cost	1,438	863	66.7	1,410	2.0	Investment in distribution & tech kept opex higher
Other Operating Expenses	2,459	2,384	3.1	2,393	2.8	CI ratio remain elevated at 49.6%
PPP	3,952	3,830	3.2	4,082	-3.2	
Provision	1,050	992	5.9	950	10.5	Loan related provisions in-line with guidance at ~121 bps
PBT	2,902	2,839	2.2	3,131	-7.3	
Tax Outgo	731	715	2.3	782	-6.5	
PAT	2,171	2,124	2.2	2,349	-7.6	Higher opex impact earnings momentum
Key Metrics						
GNPA	7,127	5,941	20.0	6,693	6.5	Slippages remained at 1.8% of advances
NNPA	2,095	1,747	20.0	1,969	6.4	
Credit book	3,47,898	3,01,317	15.5	3,43,298	1.3	
Deposit book	3,98,513	3,47,047	14.8	3,84,586	3.6	CASA ratio dipped to 37%

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	36,368	45,748	51,720	60,479
Interest Expended	18,776	25,132	27,825	32,459
Net Interest Income	17,592	20,616	23,895	28,019
Growth (%)	17.3	17.2	15.9	17.3
Non Interest Income	8,173	9,396	11,049	12,708
Net Income	25,765	30,012	34,944	40,727
Employee cost	4,179	5,374	6,056	7,066
Other operating Exp.	7,167	8,774	10,967	12,268
Operating Income	14,419	15,864	17,921	21,393
Provisions	4,487	3,885	4,921	5,540
PBT	9,932	11,979	13,000	15,853
Taxes	2,489	3,002	3,185	3,884
Net Profit	7,443	8,977	9,815	11,969
Growth (%)	54.9	24.0	6.3	21.9
EPS (₹)	95.9	115.3	126.1	153.8

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Valuation				
No. of shares (crore)	77.6	77.8	77.8	77.8
EPS (₹)	95.3	115.3	126.1	153.8
DPS (₹)	10.7	16.5	14.1	17.2
BV (₹)	704.5	807.7	918.5	1,053.4
ABV (₹)	682.4	776.8	884.6	1,017.6
P/E	14.8	13.0	11.3	9.2
P/BV	2.0	2.1	1.5	1.3
P/ABV	2.1	1.8	1.6	1.4
Yields & Margins (%)				
Net Interest Margins	4.9	4.8	4.7	4.7
Yield on assets	10.1	10.3	10.2	10.2
Avg. cost on funds	5.2	5.9	5.9	5.9
Yield on average advance	11.3	11.9	11.9	11.9
Avg. Cost of Deposits	5.0	5.8	5.8	5.8
Quality and Efficiency (%)				
Cost to income ratio	44.0	47.1	48.7	47.5
Credit/Deposit ratio	86.3	91.5	89.1	89.0
GNPA	2.0	1.9	2.0	1.9
NNPA	0.6	0.7	0.7	0.6
RoE	14.5	15.2	14.5	15.5
RoA	1.7	1.9	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Capital	776	778	778	778
Employee Stock Options	44	104	44	44
Reserves and Surplus	54,184	62,326	71,010	81,507
Networth	55,005	63,207	71,832	82,330
Deposits	336,120	384,586	454,850	536,137
Borrowings	49,011	47,611	54,109	58,377
Other Liabilities & Provisions	17,701	19,689	21,900	24,103
Total	457,837	515,094	602,691	700,948
Application of Funds				
Fixed Assets	2,079	2,324	2,558	2,930
Investments	83,076	106,486	125,366	138,068
Advances	289,924	343,298	405,469	477,069
Other Assets	25,982	26,078	26,922	36,056
Cash with RBI & call money	56,777	36,907	42,376	46,826
Total	457,837	515,094	602,691	700,948

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Total assets	13.9	12.5	16.4	16.3
Advances	21.3	18.4	18.1	17.7
Deposit	14.6	14.4	18.3	17.9
Total Income	16.7	16.5	16.1	16.6
Net interest income	17.3	17.2	16.8	17.3
Operating expenses	21.9	24.7	25.1	13.6
Operating profit	10.6	20.6	7.9	19.4
Net profit	54.9	20.6	6.3	21.9
Net worth	14.6	14.7	13.7	14.7
EPS	54.7	21.0	6.3	21.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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