IndusInd Bank (INDBA)

ICICI direct Research

CMP: ₹ 1055 | Target: ₹ 1350 (28%) | Target Period: 12 months | BUY

November 8, 2024

Result Update

Contingent provisions 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 3040 branches (3011 ATMs) and a large customer base of ~4.1 crore

Q2FY25 performance: IndusInd Bank reported weak Q2FY25 results, wherein advances rose 13.2% YoY (2.7% QoQ) to ₹ 3,57,159 crore led by a 16% YoY rise in corporate loans. Slowdown in MFI segment (12% QoQ de-growth) led to muted NII growth at 5.3% YoY (1.1% QoQ decline), causing NIM to contract by 21 bps YoY (17bps QoQ) to 4.08%. Absence of PSLC fees, lower treasury and loan processing fees as well as higher provisions (including contingent buffer of ₹ 525 crore) declined PAT to ₹ 1,331 crore (~40% YoY & QoQ), with RoA falling 70 bps QoQ to ~1%. Asset quality deteriorated with GNPA & NNPA rising by 9bps/4bps QOQ to 2.11% & 0.64% respectively. Deposit accretion came at 14.7% YoY (3.5% QoQ) to ₹ 4,12,397 crore, supported by 16% YoY retail deposit gains, with CASA ratio at 36%.

Investment Rationale

- **Surge in slippages and contingent provisions impact earnings:** Slippages surged 17% in Q2FY25 (2.1% annualised) led by stress accretion in MFI and credit cards business resulting in 9 bps QoQ increase in GNPA ratio to 2.11% and 87% YoY jump in credit cost i.e. 2% of advances (higher than normal run rate). Excluding contingent provision of ₹525 crore, credit cost still remains elevated at ~131 bps. GNPA in MFI segment rose 138 bps QoQ at 5.16% and 20 bps QoQ in credit cards at 3.3%. While management expects credit cost to remain in guided range of 110-130 bps for FY25E. However, we have factored in credit cost of 140 bps in FY25E before normalizing ahead.

- **Calibration anticipated amid caution on unsecured retail book:** IndusInd Bank has reported 13% YoY (3% QoQ) growth in advances, despite 16% YoY traction in corporate segment, owing to weaker retail segment. Moderation in retail book at 11% YoY, was primarily led by de-growth of 5% YoY & 12% QoQ in MFI segment. While management remains comfortable on corporate segment, caution in retail segment, especially unsecured retail segment seems to limit credit off-take run rate. Vehicle segment is anticipated to witness uptick due to festival season. Expect bank to report ~14% CAGR in advances in FY26-27E. Accretion of liabilities remain healthy at 15% YoY, with increase in retail deposits, however, inferior asset-mix impacted margins which declined 17 bps QoQ at 4.08%.

Rating and Target Price

- While extent of stress formation in unsecured retail book remains watchful, healthy PCR at ~70% and contingent buffer at ~43 bps of loans provides confidence on ability to absorb asset quality hiccups. Improving retail mix in liabilities and relatively higher fixed rate book could aid margins and thus support earnings trajectory.

- Factoring higher slippages and credit cost, we lower our target price to ₹1350, valuing the stock at 1.3x FY27E BV. Anticipating RoA to recover at ~1.5% and steady credit growth, we maintain our Buy rating on the stock.

IndusInd Bank

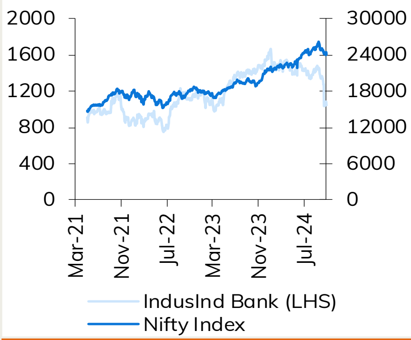
Particulars

Particulars	Amount
Market Capitalisation	₹ 82,234 crore
52 week H/L	1694 / 1018
Net worth	₹ 62797 Crore
Face Value	10.0

Shareholding Pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	16.5	16.4	16.4	16.4
FII	42.5	40.3	38.4	34.1
DII	26.2	28.1	29.7	34.6
Others	14.9	15.3	15.5	14.9

Price Chart



Key Risks

(i) Higher slippages in MFI & credit card segments

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

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Harshvardhan Giri
harshvardhan.giri@icicisecurities.com

Key Financial Summary

₹ Crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	13,528	15,001	17,592	20,616	15%	22,135	25,167	28,812	12%
PPP	11,727	13,035	14,419	15,864	11%	15,263	17,125	19,454	7%
PAT	2,836	4,805	7,443	8,977	47%	7,475	9,968	11,046	7%
ABV (₹)	542	596	682	782		856	960	1,069	
P/E	28.8	17.0	11.0	13.0		11.0	8.2	7.4	
P/ABV	1.9	1.8	1.5	1.3		1.2	1.1	1.0	
RoA	0.8	1.3	1.7	1.9		1.4	1.6	1.6	
RoE	7.3	10.5	14.5	15.2		11.3	13.5	13.3	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Concall Highlights and Outlook

- IndusInd Bank's Q2FY25 results were characterized by healthy retail deposit mobilization, cautious loan growth and significantly diminished profitability due to higher provisions.
- Credit growth rate slowed to 13.2% YoY at ₹ 3,57,159 crore, while deposits grew at 15% YoY to ₹ 4,12,397 with focus on retail deposit mobilization.
- NIM saw sequential moderation of 17 bps to 4.08% due to reduction in loan yields caused by a slowdown in microfinance segment and higher cost of funds along with reduced LDR ratio.
- Management believes that current RoA contraction to 1% is a transitory impact and expects return to a normalized RoA as retail growth accelerates.
- Provisions saw a sharp rise including contingent buffer of ₹ 525 crore, of which ₹ 250 crore, could be used for MFI. Management reiterates contingent provision is only a prudent measure to fortify the balance sheet.
- Vehicle finance which constitutes 25% of loan book grew by 10% YoY. Market share in 2-wheeler and tractor segments declined due to seasonality, tighter underwriting.
- Gross slippages in vehicle finance book rose marginally to 0.77% due to lower activity levels during monsoon. Restructured book in vehicle finance improved to ₹ 309 crores from ₹ 417 crores QoQ and major part of the reduction came from upgrades and recoveries.
- Management expects vehicle segment to gain momentum in H2FY25 driven by festival season boost, resumption of extra government capex, improvement in overall economic activity and relatively better weather conditions. Additionally, the bank is focussed on driving back demand for the segment comprising used vehicles less than two years old.
- Growth in corporate book (16% YoY) was led by granular mid and small corporates (both 18% YoY) while large corporates grew by 14% YoY.
- With focus on collection, MFI portfolio saw de-growth of 5% YoY & 12% QoQ & its share in total loan book reduced to 9% vs 11% in Q1FY25.
- Regulatory framework impacted credit card business fees, specifically overlimit charges, late fees and penal charges, resulting in a ₹ 100 - ₹ 150 crore decline per year.
- Capital charges also inched up as regulator increased risk weight on MFI exposure from 75 bps to 125 bps, resulting in an impact of 78-80 basis points on CET1 (currently at 15.1%).
- Key segment-wise gross slippages were as follows - ₹ 692 crore for vehicle finance, ₹ 398 crore for MFI, ₹ 118 crore for corporate & ₹ 590 crores for other retail. Overall gross slippage ratio increased 3 bps YoY to 0.52% (non-annualised).
- The bank experienced stress in microfinance in various geographies such as Bihar, Maharashtra, Odisha, and certain parts in the north. Management is cautiously optimistic with MFI, expecting improvement once disbursements pick up with the festive season.
- Fee income included large PSLC fees in base quarter (₹ 280 crore QoQ; ₹ 110 crore YoY) which was absent in Q2FY25, thus reducing other income.
- Credit cost ex-contingent provisions stood at ~131 bps for Q2FY25. Management expects credit costs to remain in the broad range of 110-130 bps for FY25E.
- Operating expense growth further moderated to 14% YoY vs 20% in Q1FY25 and 1% QoQ even after factoring in annual appraisal actions.
- Management aims to raise LDR ratio to 89-90% to support growth and margins. Average LCR stood at 118% in Q2FY25.
- The bank continued to scale their initiatives for the affluent & NRI segment through the launch of PIONEER Private, a curated offering for HNIs and ultra-HNIs with over 3 crore net relationship value.

Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	5,347	5,077	5.3	5,408	-1.1	Slowdown in high-yielding MFI segment
NIM (%)	4.08	4.29	-21 bps	4.25	-17 bps	Higher cost of funds impacted margins
Other Income	2,185	2,282	-4.3	2,442	-10.5	Decline due to lower PSLC & loan processing fees
Net Total Income	7,532	7,359	2.4	7,849	-4.0	
Staff cost	1,505	1,338	12.5	1,438	4.6	
Other Operating Expenses	2,427	2,112	14.9	2,459	-1.3	CI ratio elevated to 52.21% by 256 bps QoQ
PPP	3,600	3,909	-7.9	3,952	-8.9	
Provision	1,820	974	86.9	1,050	73.4	Includes contingent buffer provision of ₹ 525 crore
PBT	1,780	2,935	-39.4	2,902	-38.7	
Tax Outgo	448	733	-38.8	731	-38.7	
PAT	1,331	2,202	-39.5	2,171	-38.7	Higher provisions impacted earnings momentum
Key Metrics						
GNPA	7,639	6,164	23.9	7,127	7.2	Slippages witnessed in unsecured retail segment in certain geographies
NNPA	2,282	1,814	25.8	2,095	8.9	
Credit book	3,57,159	3,15,454	13.2	3,47,898	2.7	Corporate book increased 16% YoY while MFI saw a de-growth 5% YoY
Deposit book	4,12,397	3,59,548	14.7	3,98,513	3.5	CASA ratio fell to 36%

Financial Summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	36,368	45,748	51,070	57,917	66,322
Interest Expended	18,776	25,132	28,934	32,749	37,510
Net Interest Income	17,592	20,616	22,135	25,167	28,812
Growth (%)	17.3	17.2	7.4	13.7	14.5
Non Interest Income	8,173	9,396	10,067	11,090	12,214
Net Income	25,765	30,012	32,203	36,257	41,025
Employee cost	4,179	5,374	6,536	7,581	8,740
Other operating Exp.	7,167	8,774	10,403	11,551	12,831
Operating Income	14,419	15,864	15,263	17,125	19,454
Provisions	4,487	3,885	5,362	3,923	4,824
PBT	9,932	11,979	9,901	13,202	14,630
Taxes	2,489	3,002	2,426	3,235	3,584
Net Profit	7,443	8,977	7,475	9,968	11,046
Growth (%)	54.9	20.6	(16.7)	33.3	10.8
EPS (₹)	95.9	115.3	96.0	128.1	141.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Valuation					
No. of shares (crore)	77.6	77.8	77.8	77.8	77.8
EPS (₹)	95.3	115.3	96.0	128.1	141.9
DPS (₹)	7.3	16.5	10.7	14.3	15.8
BV (₹)	704.5	807.0	890.7	1,002.3	1,125.9
ABV (₹)	682.4	781.7	855.9	960.2	1,069.2
P/E	11.0	13.0	11.0	8.2	7.4
P/BV	1.5	2.1	1.2	1.1	0.9
P/ABV	1.5	1.3	1.2	1.1	1.0
Yields & Margins (%)					
Net Interest Margins	4.9	4.8	4.4	4.4	4.4
Yield on assets	10.1	10.5	10.1	10.2	10.2
Avg. cost on funds	5.2	6.2	6.2	6.2	6.2
Yield on average advances	11.3	12.0	11.9	11.9	11.9
Avg. Cost of Deposits	5.0	6.0	6.0	5.9	6.0
Quality and Efficiency (%)					
Cost to income ratio	44.0	47.1	52.6	52.8	52.6
Credit/Deposit ratio	86.3	89.3	85.7	86.4	87.1
GNPA	2.0	1.9	2.2	1.8	1.9
NNPA	0.6	0.6	0.7	0.7	0.9
RoE	14.5	15.2	11.3	13.5	13.3
RoA	1.7	1.9	1.4	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	776	778	778	778	778
Employee Stock Options	44	104	104	104	104
Reserves and Surplus	54,184	62,326	68,842	77,528	87,150
Networth	55,005	63,207	69,724	78,409	88,032
Deposits	3,36,120	3,84,586	4,48,127	5,12,155	5,85,561
Borrowings	49,011	47,611	48,517	52,411	56,507
Other Liabilities & Provisions	17,701	19,689	22,478	24,805	27,155
Total	4,57,837	5,15,094	5,88,846	6,67,780	7,57,256
Application of Funds					
Fixed Assets	2,079	2,324	2,688	3,033	3,447
Investments	83,076	1,06,486	1,26,327	1,39,090	1,53,146
Advances	2,89,924	3,43,298	3,84,153	4,42,714	5,10,248
Other Assets	25,982	26,078	34,585	38,056	41,278
Cash with RBI & call money	56,777	36,907	41,094	44,887	49,136
Total	4,57,837	5,15,094	5,88,846	6,67,780	7,57,256

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	13.9	12.5	14.3	13.4	13.4
Advances	21.3	18.4	11.9	15.2	15.3
Deposit	14.6	14.4	16.5	14.3	14.3
Total Income	16.7	16.5	10.9	12.9	13.8
Net interest income	17.3	17.2	7.4	13.7	14.5
Operating expenses	21.9	24.7	19.7	12.9	12.7
Operating profit	10.6	20.6	(3.8)	12.2	13.6
Net profit	54.9	20.6	(16.7)	33.3	10.8
Net worth	14.6	14.6	10.4	12.5	12.3
EPS	54.7	21.0	(16.7)	33.3	10.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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