IndusInd Bank (INDBA)

ICICI direct Research

CMP: ₹ 1505 | Target: ₹ 1800 (20%) | Target Period: 12 months | BUY

December 6, 2023

Conviction Pick

Firing all cylinders with improvement in granularity

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 2631 branches (2903 ATMs) and a large customer base of ~3.7 crore.
- Focussed on building digital stack -launched "Indie" - a digital banking app offering personalized experience and ultra flexible products.

Investment Thesis

- **Focus on improving granularity on liabilities:** Structural enhancement has been undertaken by the bank with continued investment in distribution capacity, digital stacking and customer accretion. CASA has remained steady at ~40% in past 4-5 years while LCR ratio has remained comparable at ~117%. Continued scaling branch network (target to reach 3250 – 3750 branches by FY26E), digital initiatives and focus on affluent customers is expected to aid liabilities franchise. Impact of recent hike in risk weight is seen to remain minimal. Cost of funds are expected to increase in near term, however, levers including repricing of assets, change in asset mix, gradual utilization of excess liquidity and increase in CD ratio is expected to keep margin steady at 4.2-4.3%.
- **Retail segment to aid growth:** With continued focus on key segments – micro-finance & auto finance, the bank is scaling retail segments including housing and Bharat shop super adding growth with improved granularity. Expect overall credit growth at 18-20% in FY24-26E with continued tilt on business mix towards retail segment. Expect advance growth at ~18.5% CAGR in FY23-26E; microfinance and recently entered segment to deliver strong growth.
- **Asset quality steady; credit cost at 110-130 bps in FY24E:** Asset quality has remained steady (~0.5-0.7%) with adequate provision buffer in the past. Expect slippages at 1.5-1.6%, annualised credit cost at 110-130 bps for FY24E amid healthy coverage and contingent provision.

Rating and Target Price

- Improving granularity on both assets and liabilities provides confidence on sustained performance on earnings as well as asset quality.
- Continued traction in growth with focus on new age segments, granular liabilities franchise and lower credit cost is expected to keep RoA at 1.8-1.9% in FY24-26E.
- We assign BUY rating on the stock with target at ₹1800, assigning a PBV multiple of ~1.75x FY26E ABV .

IndusInd Bank

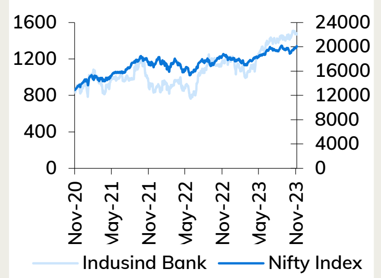
Particulars

Particulars	Amount
Market Capitalisation	₹ 117040 crore
52 week H/L	1538/990
Net worth	₹ 58394 Crore
Face Value	10.0
DII Holding (%)	28.2
FII Holding (%)	41.5

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	16.5	16.5	16.5	16.5	16.5
FII	46.3	45.8	47.0	44.8	42.2
DII	21.9	21.0	22.2	24.6	26.5
Others	15.3	16.6	14.3	14.1	14.8

Price Chart



Key Risks

- Slower liabilities accretion or hike in deposit rates could impact margins
- Moderation in growth in MFI segment to impact yields trajectory

Research Analyst

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
NII	12,059	13,528	15,001	17,592	13%	20,402	23,353	27,232	16%
PPP	10,773	11,727	12,839	14,346	10%	16,127	18,523	21,810	15%
PAT	4,418	2,836	4,611	7,390	19%	8,961	10,262	12,066	18%
ABV (₹)	473	542	592	677		775	888	1,022	
P/E	23.6	41.0	25.3	15.8		13.1	11.4	9.7	
P/ABV	3.2	2.8	2.5	2.2		1.9	1.7	1.5	
RoA	1.5	0.8	1.2	1.7		1.8	1.8	1.8	
RoE	14.4	7.3	10.1	14.5		15.3	15.3	15.7	

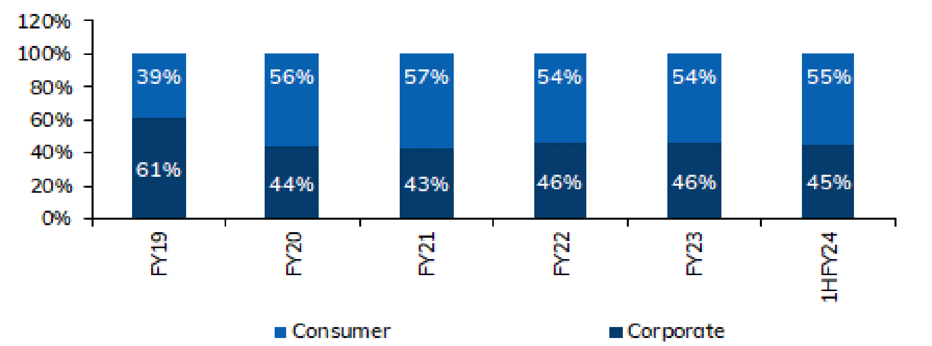
ICICI Securities – Retail Equity Research

Company Background

IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India. It has a strong presence with pan India branch network of 2631 branches (2903 ATMs) and a large customer base of ~3.7 crore. The bank has a full product suite with focus on small & mid corporate. Within retail, auto loans (26% of advances) and micro-finance segment (11% of advances) remained a focus area with gradual improvement in credit cards. Further, the bank has recently entered home loans segment with launch of prime (~₹1000 crore) and non-affordable loan products.

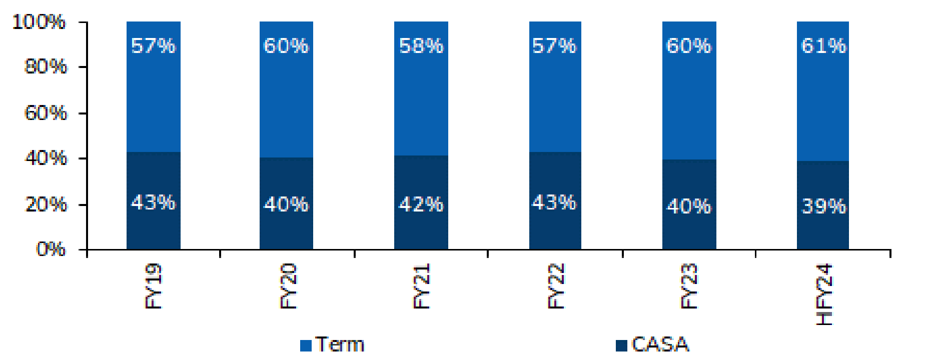
The bank is focussed on building digital stack across domain which could facilitates customers on transactions, assets and liabilities. The bank has launched “Indie” - a digital banking app that offers personalized experience and ultra flexible products. The app provides customers with an integrated experience across payments, lending, and deposits with a unified rewards program.

Exhibit 1: Diversified advance mix with focus on consumer segment



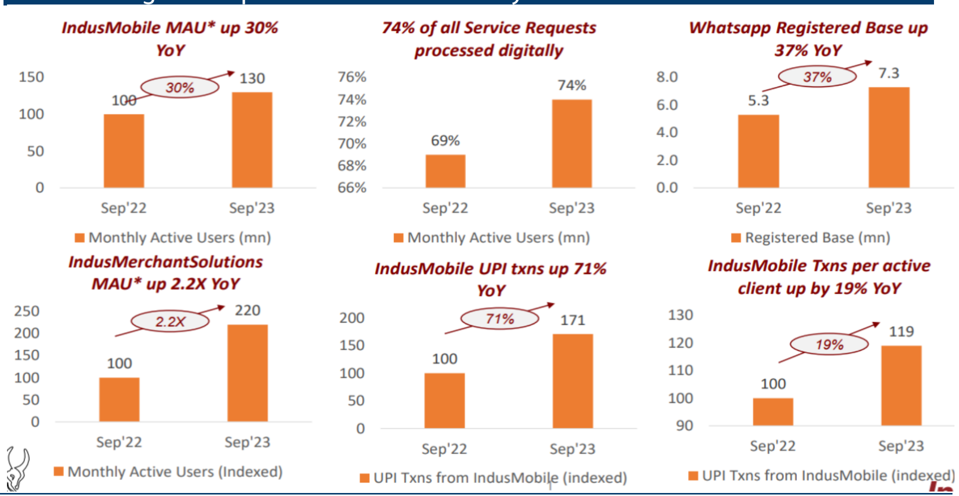
Source: Company, ICICI Direct Research

Exhibit 1: Healthy proportion of low cost liabilities



Source: Company, ICICI Direct Research

Exhibit 2: Digital adoption with focus on analytics



Source: Company, ICICI Direct Research

Whatsapp Monthly active clients up 122% YoY

Whatsapp Monthly conversations up 88% YoY

Investment Rationale

Gradually delivering on targeted business parameters

IndusInd Bank has targeted improvement across parameters including credit and deposit growth with focus on improving granularity across balance sheet in planning cycle from FY23-26E. Customer accretion remained the primary focus area with continuous investment in building distribution capabilities. Further, focus on improving profitability along with building of contingent buffer and higher provision coverage remained core to the plan.

Gradual and consistent delivery across parameters showcase the focus of the bank with expectation of sustained performance by FY26E. Performance of the bank, gradually achieving the targets, to enable sustained healthy return ratios ahead.

Exhibit 3: On track to achieve targeted goals (FY23-26E)

Resulting in	Planning Cycle 6 (FY 2023-26)	Q2FY24 Outcome
Loan Growth	18%-23%	21%
Retail Loan Mix	55%-60%	55%
Retail Deposits as per LCR	45%-50%	44%
PPOP / Loans	5.25% - 5.75%	5.2%
Branch Network	3,250 - 3,750	2,631
Customer Base	> 50mn	37mn

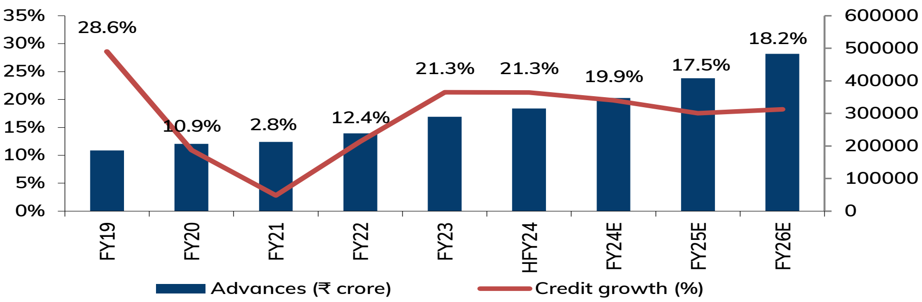
Source: Company, ICICI Direct Research

Retail growth momentum to remain buoyant; pick up in MFI

IndusInd Bank has adopted selective approach in lending with focus on mid & small corporates in wholesale segment and auto segment in consumer segment. Acquisition of Bharat Financial business aimed at focusing on high yield micro finance aided overall performance. The bank has focussed to enter in new segments in retail pie with balanced approach between growth and yields. Thus, the bank started credit cards and personal loans segment which remain accretive for yield while home business (started recently) is seen to aid growth as well as enhance customer relationship. Bharat Super Shop has witnessed strong traction and is further expected to continue robust momentum.

Expect overall credit growth at 18-20% in FY24-26E with continued tilt on business mix towards retail segment. Micro-finance segment is expected to grow at 18-20% with contribution of 8-9% from customer acquisition and similar contribution owing to increase in ticket size (currently at ₹ 41449). Led by continued 8-10% traction in volume, auto segment is expected to growth at 15-16%. Bank has started to focus on housing loans with plan to increase prime loans to ~₹10,000-15,000 crore in next 3 years (currently at ~₹1000 crore).

Exhibit 4: Credit growth ahead of industry at 18-20% CAGR in FY24-25E



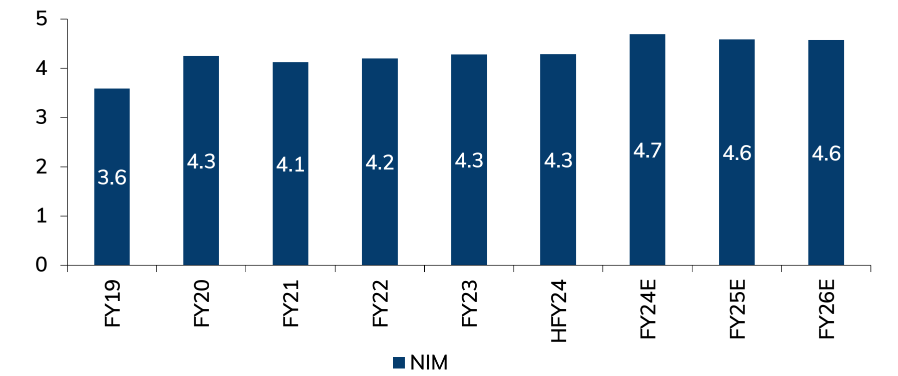
Source: Company, ICICI Direct Research

Improvement in liability franchise; management confident of maintaining margins

IndusInd Bank has maintained steady liabilities franchise with continued focus on deposits and especially on low-cost deposits. CASA ratio for the bank has remained broadly at ~40% in past 4-5 years while LCR (Liquidity Coverage Ratio) has remained at 116.9% as of September 2023. Going forward, competitive intensity for liabilities is expected to remain elevated, however, the bank is poised to maintain its liabilities profile. Increase in yield, owing to recent hike in risk weight by central bank, is expected to be passed on with minimal impact on NIMs. While cost of funds could increase in 2HFY24 to the extent of ~20 bps, levers including repricing of assets, change in asset mix, gradual utilization of excess liquidity and increase in CD ratio is expected to keep margin steady at 4.2-4.3%.

Guidance for margins to remain stable at 4.2-4.3% in FY24E

Exhibit 5: Levers available to keep margins steady



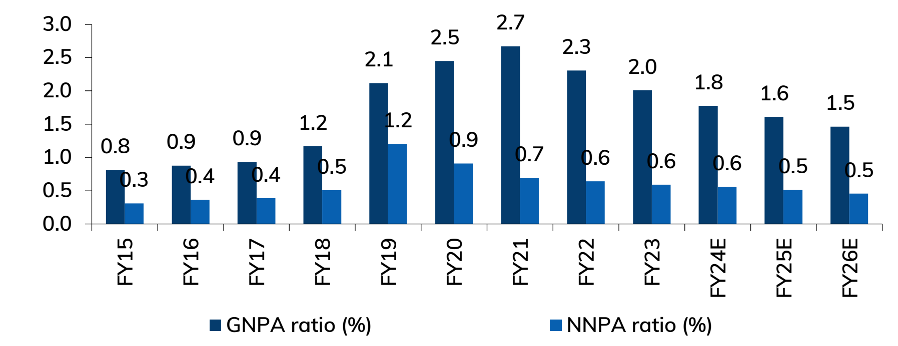
Source: Company, ICICI Direct Research

Asset quality to remain broadly steady; credit cost at 110-130 bps in FY24E

IndusInd Bank has focussed on maintaining asset quality with adequate provision buffer in the past. Excluding FY19-22, NNPA has been maintained at ~0.5-0.7%. Going ahead, exposure to telecom player stands at ~17000 crore (funded exposure - ₹1000 crore, non-fund exposure at ₹700 crore) expected to be repaid in Q1FY25E. Given anticipated slippages at 1.5-1.6% and contingent provision, annualised credit cost is expected to remain at 110-130 bps for FY24E. This is seen to keep RoA steady at ~1.8-1.9% ahead.

RoA seen at ~1.8-1.9% in FY24-26E

Exhibit 6: Asset quality steady; credit cost to remain stable



Source: Company, ICICI Direct Research

Risk & Concerns

Slower liabilities accretion or hike in deposit rates could impact margins

IndusInd Bank has witnessed moderation in proportion of low-cost deposits from ~42% in Q2FY23 to ~39% in Q2FY24, amid increased competitive intensity on deposits. Higher competitive intensity coupled with increased deposit rates could put pressure on margins. Though, the bank has indicated increase in LDR and repricing of asset to keep margins stable, however, trajectory of NIMs remains watchful in coming 2-3 quarters.

Increased risk weight on unsecured retail and NBFCs to result in higher capital consumption

RBI has recently announced 25% increase in risk weight for lenders exposure towards unsecured retail loans and NBFCs (excluding HFCs). Given bank's exposure at ~5% to unsecured retail segment (credit cards and personal loans) and ~5.01% credit to NBFCs (excluding HFCs), impact of higher risk weight is estimated at ~35-40 bps. Management do not expect material Thus, higher capital consumption could result in higher yields which could hamper credit growth. Further, higher capital consumption could trigger equity issuance earlier than expected, though management has indicated no capital required for next 4-6 quarters.

Slower growth in MFI segment to impact yields trajectory

Post stagnant growth in MFI portfolio, the bank has again started to focus on pedalling growth in micro finance segment. Management targets growth in advances at 18-20% in FY24E led by both customer accretion and increase in ticket size. However, slowdown in business growth could impact both business growth as well as margin trajectory of the bank.

Financial summary

Exhibit 7: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Interest Earned	36,368	44,262	50,615	58,913
Interest Expended	18,776	23,860	27,261	31,681
Net Interest Income	17,592	20,402	23,353	27,232
Growth (%)	17	16	14	17
Non Interest Income	8,166	9,543	11,035	12,779
Net Income	25,758	29,945	34,389	40,011
Employee cost	3,050	3,833	4,429	4,965
Other operating Exp.	8,362	9,985	11,437	13,236
Operating Income	14,346	16,127	18,523	21,810
Provisions	4,487	4,099	4,749	5,614
PBT	9,860	12,028	13,775	16,196
Taxes	2,470	3,067	3,513	4,130
Net Profit	7,390	8,961	10,262	12,066
Growth (%)	60.3	21.3	14.5	17.6

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Valuation				
No. of shares (crore)	77.6	77.7	77.7	77.7
EPS (₹)	95.3	115.3	132.1	155.3
DPS (₹)	8.0	12.9	14.7	17.3
BV (₹)	699.5	800.1	915.1	1,050.4
ABV (₹)	677.4	775.1	888.2	1,022.0
P/E	15.8	13.1	11.4	9.7
P/BV	2.2	1.9	1.6	1.4
P/ABV	2.2	1.9	1.7	1.5
Yields & Margins (%)				
Net Interest Margins	4.8	4.7	4.6	4.6
Yield on assets	10.0	10.2	9.9	9.9
Avg. cost on funds	5.4	5.7	5.6	5.5
Yield on average advances	11.3	11.9	11.7	11.6
Avg. Cost of Deposits	5.3	5.6	5.5	5.4
Quality and Efficiency (%)				
Cost to income ratio	46.4	46.1	46.1	45.5
Credit/Deposit ratio	86.2	87.9	87.6	86.7
GNPA	2.0	1.8	1.6	1.5
NNPA	0.6	0.6	0.5	0.5
ROE	14.5	15.3	15.3	15.7
ROA	1.7	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹crore

(Year-end March)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Capital	776	777	777	777
Employee Stock Options	44	71	71	71
Reserves and Surplus	53,801	61,693	70,633	81,142
Networth	54,622	62,540	71,481	81,990
Deposits	3,36,438	3,95,485	4,66,462	5,56,788
Borrowings	49,011	54,721	58,708	62,907
Other Liabilities & Provision:	17,733	15,118	16,149	17,260
Total	4,57,804	5,27,864	6,12,800	7,18,946
Application of Funds				
Fixed Assets	1,993	2,459	2,717	3,025
Investments	83,116	89,576	1,00,325	1,12,364
Advances	2,89,924	3,47,513	4,08,466	4,82,976
Other Assets	26,260	39,069	47,449	61,614
Cash with RBI & call money	56,511	49,248	53,844	58,968
Total	4,57,804	5,27,864	6,12,800	7,18,946

Source: Company, ICICI Direct Research

Exhibit 10: Growth ratios

(Year-end March)	FY23	FY24E	FY25E	FY26E
Total assets	13.9	15.3	16.1	17.3
Advances	21.3	19.9	17.5	18.2
Deposit	14.6	17.6	17.9	19.4
Total Income	13.5	24.0	14.6	16.3
Net interest income	17.3	16.0	14.5	16.6
Operating expenses	19.4	21.1	14.8	14.7
Operating profit	11.7	12.4	14.9	17.7
Net profit	60.3	21.3	14.5	17.6
Net worth	14.6	14.5	14.4	14.8
EPS	60.0	21.1	14.5	17.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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