

IndusInd Bank (INDBA)

CMP: ₹ 1446

Target: ₹ 1850 (28%)

Target Period: 12 months

April 27, 2024

Resilient on growth, asset quality....

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 2984 branches (2956 ATMs) and a large customer base of ~3.9 crore.
- Focussed on building digital stack -launched "Indie"- a digital banking app offering personalized experience and ultra flexible products

Q4FY24 performance: IndusInd Bank reported Q4FY24 PAT of ₹2,349 crores, up 15% YoY mainly driven by NII growth and lower provisioning, up 15% YoY and down 13% respectively. Elevated CD ratio at 89% and focus on retail segment partially offset pressure on cost of funds amid higher term deposit accretion resulting in NIM at 4.26%; down 2 bps YoY and 3 bps QoQ. Advances grew by 18% YoY, with higher growth in retail loan (comprising 56% of book). Deposits grew by 14% YoY, share of CASA came down to 38%. Moderation in slippages and utilization of contingent provision of ₹300 crore kept credit cost at ~110-120 bps. RoA remained strong at 1.9% for Q4FY24 and the managements expects it to be in the range of 1.8-2.2%.

Investment Rationale

- Continued focus on growth to aid earnings:** Bank has reported 18% YoY growth in advances with focus on retail segment (23% YoY) and especially non-vehicle book (32% YoY). Going ahead, the bank expects to keep the pace with 18-22% growth in FY25E, driven by new initiatives including home, affordable housing and merchant segment. With completion of migration of auto loans, recovery should be witnessed in the 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 to aid RoA:** Gradual increase in proportion of retail loans (supported by new segments) and continued elevated CD ratio at ~89% has kept margins stable at 4.26%. While the bank has levers including continued focus on retail loans, focussing on garnering CASA to support margins, elevated CD remains a challenge. Investment in distribution and technology is expected to continue, however, prudent asset quality is seen to keep RoA at 1.8-1.9% in FY25-26E.

Rating and Target Price

- While growth trajectory continues to remain healthy, focus on garnering liabilities at competitive price remains crucial to support margins and bring CD ratio at comfortable level.
- Improving granularity on asset & liabilities, focus on new retail & SMSE segment and prudent asset quality bodes well. We assign multiple of 1.8x FY26E ABV, we revise our target price from ₹1800 to ₹1850 and maintain our BUY rating.

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%	18,475	21,708	14%
PAT	2,836	4,805	7,443	9,233	48%	10,233	11,811	13%
ABV (₹)	542	596	682	777		889	1,018	
P/E	39.4	23.3	15.1	13.0		11.0	9.5	
P/ABV	2.7	2.4	2.1	1.9		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		15.1	15.3	

Source: Company, ICICI Direct Research

BUY

IndusInd Bank

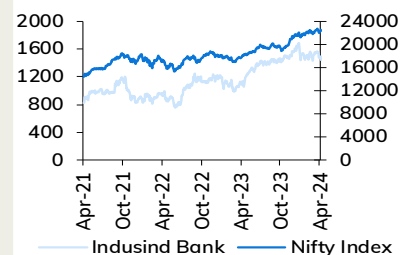
Particulars

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

- Pace of liabilities accretion remains crucial to maintain CD ratio
- Less than 3-year extension for MD & CEO

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Concall highlights and outlook

Highlights & Guidance

- Advances growth expected to remain steady at 18-22% in FY25E, with recovery in vehicle finance at 18-20% mainly due to diversification
- Focus on liabilities growth to continue at 16-18% in FY25E.
- Cost of funds could increase further by ~3-4 bps every quarter; however, margin should remain at 4.2-4.3% with levers on potential to benefit of a reversal
- Investment in enhancing distribution to continue resulting in cost to income ratio in a range and improve ahead in next few quarter
- Attrition to be between 28-32%
- RoA target to remain in the range of 1.8-2.2%
- Higher cost to income ratio of 48.23% (up 330bps YoY and 79bps QoQ) due to increase in employee expenses and branch expansion
- Retail deposits up 18% YoY, with share of retail deposit now 44.1% up 151 bps
- The balance sheet has crossed the mark of Rs 5 trillion
- Cost of Deposit is up 4bps QoQ

Advances

- Retailization of the advances book is on track, the retail to corporate book ratio is 56:44 which also provides comfort for repricing
- The bank continues to scale up its new initiatives - Merchant loans at ₹5,565 crores (up 38% YoY), Home loans at ₹1,792 crores (up 368% YoY), KCC at ₹2966 crore and affordable home loans at ₹1988 crore.

Digital - INDIE

- The bank is scaling up its D2C business
- 2 million clients added via DIY segment which saw a total loan disbursement of ₹1000 crores
- INDIE is off to a strong start with transaction nearly doubling every month, ~9 million transaction per month and ~1.2 million accounts opened
- Scaling existing initiatives with multiple new launches/upgrades in pipeline - Plan to launch INDIE for business and INDIE for NRI
- Opex related to digital and technology stood at ~9.5% of total opex

Asset Quality

- Asset quality remained steady with flattish GNPA and credit cost at ~113 bps, in line with guidance. Going ahead, credit cost retained at 110-130 bps for FY25E
- SMA 1 & 2 constitute 0.25% of the total advances
- The bank has used ₹ 300 crores worth of contingent provision
- Outstanding provision buffer stands at ₹1000 crore, which is ~2% of microfinance and 0.5% of MHCV book to ensure absorption capabilities in case of volatility in quality

Opex

- Branch addition (256 branches in Q4FY24), employee addition (2100 in Q4FY24), investment in technology and elevated attrition at 35-36% has led to increase in opex
- Investment in tech to continue to shore up business growth and improve efficiency ahead
- Payments (UPI) business cost has gone up

Vehicle Finance

- Vehicle finance book is up 17% YoY; total disbursement of ₹ 11,987 in Q4FY24 which is now a well-diversified book
- MHCV now constitutes ~6% of total loan book, the bank is reducing dependency on MHCV segment with focus on other segments viz LCV, car, utility and tractor
- Tractor segment is expected to grow in coming quarter due to the expectation of a good monsoon
- Levers available giving confidence of 18-22% growth in vehicle finance ahead

BFIL

- The BFIL book grew up handsomely, 22% YoY and 10% QoQ with total outstanding loan at ₹ 43,755 crores
- Bharat Super Shop business scaled up with book at ₹5565 crores
- Management guide that microfinance segment should remain at 11-13% of total book
- 18 million SA and RD accounts with total deposit worth ₹2,912 crores
- The bank will look to launch 2 new products under BFIL - Home improvement loans and Two-wheeler loans

Corporate

- Gems and Jewellery constitutes 3% of the total loan book and this segment has zero NPA, zero SMA 1 & 2 and zero restructuring. However, demand has remained weak amid global slowdown
- Bank has recovered full exposure from telecom account in February 2024
- The bank will look to grow the corporate book in a risk calibrated manner in-line with industry growth

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	5,376	4,669	15.1	5,296	1.5	Driven by healthy business growth
NIM (%)	4.26	4.28	-2 bps	4.29	-3 bps	Increase in CoF impacted margins
Other Income	2,508	2,154	16.5	2,396	4.7	Core fee grew 10% YoY
Net Total Income	7,885	6,823	15.6	7,692	2.5	
Staff cost	1,410	1,153	22.3	1,391	1.4	
Other Operating Expenses	2,393	1,913	25.1	2,258	5.9	CI ratio remain elevated at 48.23%
PPP	4,082	3,758	8.6	4,042	1.0	
Provision	950	1,030	-7.7	969	-2.0	Loan related provisions in-line with guidance at ~112 bps after utilizing ₹300 crore of contingent provision
PBT	3,131	2,727	14.8	3,073	1.9	
Tax Outgo	782	684	14.3	772	1.4	
PAT	2,349	2,043	15.0	2,301	2.1	Lower credit costs aided earnings

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	11,184	12,946
Net Income	25,765	30,012	35,080	40,965
Employee cost	4,179	5,374	6,056	7,066
Other operating Exp.	7,167	8,774	10,549	12,190
Operating Income	14,419	15,864	18,475	21,708
Provisions	4,487	3,885	4,921	6,065
PBT	9,932	11,979	13,554	15,643
Taxes	2,489	3,002	3,321	3,833
Net Profit	7,443	8,977	10,233	11,811
Growth (%)	54.9	24.0	10.8	15.4

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	131.5	151.8
DPS (₹)	10.7	16.5	14.7	16.9
BV (₹)	704.5	807.7	923.2	1,056.3
ABV (₹)	682.4	776.8	888.6	1,018.0
P/E	15.1	13.0	11.0	9.5
P/BV	2.1	2.1	1.6	1.4
P/ABV	2.1	1.9	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 advances	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	47.3	47.0
Credit/Deposit ratio	86.3	91.5	89.1	89.0
GNPA	2.0	1.9	1.8	1.7
NNPA	0.6	0.7	0.7	0.6
ROE	14.5	15.2	15.1	15.3
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	71,374	81,734
Networth	55,005	63,207	72,196	82,556
Deposits	3,36,120	3,84,586	4,54,850	5,36,137
Borrowings	49,011	47,611	54,109	58,377
Other Liabilities & Provision:	17,701	19,689	21,954	24,083
Total	4,57,837	5,15,094	6,03,109	7,01,154
Application of Funds				
Fixed Assets	2,079	2,324	2,558	2,930
Investments	83,076	1,06,486	1,25,366	1,38,068
Advances	2,89,924	3,43,298	4,05,469	4,77,069
Other Assets	25,982	26,078	27,340	36,262
Cash with RBI & call money	56,777	36,907	42,376	46,826
Total	4,57,837	5,15,094	6,03,109	7,01,154

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	16.4	16.7
Net interest income	17.3	17.2	16.8	17.3
Operating expenses	21.9	24.7	22.0	16.0
Operating profit	10.6	20.6	11.2	17.5
Net profit	54.9	20.6	10.8	15.4
Net worth	14.6	14.7	14.3	14.4
EPS	54.7	21.0	10.8	15.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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