

Gradual uptick in RoA encouraging...

About the stock: IndusInd Bank is a Hinduja group promoted newer age private sector bank and is the fifth largest private bank in India.

- Vehicle finance forms around 26% of overall loans
- Strong pan-India presence with 6103 touch points as on September 2022

Key Highlights

- Well placed to benefit from continued traction in credit demand from across segments – corporate as well as retail
- Entry in housing loans & focus on high yielding retail segment emphasise focus on maintaining yields while driving business growth
- Continued investment in physical & digital capabilities to aid healthy business growth while gradual improvement in efficiency to aid return ratios

What should investors do? IndusInd Bank's share price has gained ~2x in the past two years. Structural levers - robust business growth, uptick in NIM and moderation in provision are seen enabling the bank to generate RoA of 1.6-1.7% in FY23-25E, thereby aiding valuation.

- We retain our **BUY** rating on the stock

Target Price and Valuation: Rolling over our valuation, we now value the bank at ~1.65x FY25E ABV and revise our target price from ₹ 1350 to ₹ 1450 per share.

Key triggers for future price performance:

- Revival in corporate lending and steady disbursement in retail portfolio to aid business growth. Management guidance is at 18-20%
- Gradual transmission of rate hike, fixed rate book and deposit accretion to keep NIM 4.1-4.25% level
- Moderation in slippages and reduction in R/s book paves way for lower credit cost. The management expects credit cost at 1.2-1.5% for FY23E
- Focus on distribution capabilities and tech spends to keep opex elevated

Alternate Stock Idea: Besides IndusInd, in our coverage we also like Axis Bank.

- Strong liability profile with healthy capitalisation makes the bank well placed to accrue earnings growth momentum. Healthy provision cover provides comfort on smoother earnings trajectory
- BUY with a target price of ₹ 1000

IndusInd Bank

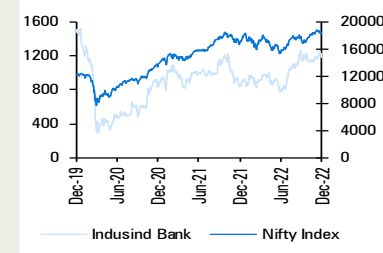
Particulars

Particulars	Amount
Market Capitalisation	₹ 91501 crore
52 week H/L	1275 / 763
Net worth	₹ 50884 Crore
Face Value	₹ 10
DII Holding (%)	22.2
FII Holding (%)	47.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	16.5	16.5	16.5	16.5	16.5
FII	51.4	47.7	46.3	45.8	47.0
DII	19.0	20.2	21.9	21.0	22.2
Others	13.1	15.6	15.3	16.6	14.3

Price chart



Recent Event & Key risks

- Resolution of stressed loans to aid profitability
- **Key Risk:** 1) Elevated opex; 2) Pace of liabilities growth and mix

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	12,059	13,528	15,001	19%	16,932	19,753	15%
PPP	10,773	11,727	12,839	17%	14,340	16,575	14%
PAT	4,418	2,836	4,611	12%	7,070	8,287	34%
ABV (₹)	473	542	592		671	763	
P/E	18.5	32.2	19.8		12.9	11.0	
P/ABV	2.5	2.2	2.0		1.8	1.5	
RoA	1.5	0.8	1.2		1.6	1.7	
RoE	14.4	7.3	10.1		13.9	14.4	

Financial summary

Exhibit 1: Profit and loss statement						
	₹ crore					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Earned	28,783	29,000	30,822	36,916	42,728	49,920
Interest Expended	16,724	15,472	15,822	19,984	22,975	26,575
Net Interest Income	12,059	13,528	15,001	16,932	19,753	23,346
Growth (%)	36	12	11	13	17	18
Non Interest Income	6,951	6,559	7,397	8,069	9,015	10,079
Net Income	19,010	20,087	22,398	25,001	28,768	33,425
Employee cost	2,208	2,214	2,488	3,050	3,693	4,227
Other operating Exp.	6,029	6,146	7,071	7,611	8,499	9,837
Operating Income	10,773	11,727	12,839	14,340	16,575	19,360
Provisions	4,652	7,943	6,665	4,850	5,452	6,404
PBT	6,121	3,784	6,174	9,490	11,123	12,956
Taxes	1,703	948	1,563	2,420	2,836	3,304
Net Profit	4,418	2,836	4,611	7,070	8,287	9,652
Growth (%)	33.8	(35.8)	62.6	53.3	17.2	16.5
EPS (₹)	63.7	36.7	59.5	91.3	107.0	124.6

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios						
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Valuation						
No. of shares (crore)	69.4	77.3	77.5	77.5	77.5	77.5
EPS (₹)	63.7	36.7	59.5	91.3	107.0	124.6
DPS (₹)	7.8	-	8.9	10.2	11.9	13.9
BV (₹)	500.3	560.7	611.5	691.0	784.3	892.8
ABV (₹)	473.1	541.6	591.7	671.5	762.6	870.6
P/E	18.5	32.2	19.8	12.9	11.0	9.5
P/BV	2.4	2.1	1.9	1.7	1.5	1.3
P/ABV	2.5	2.2	2.0	1.8	1.5	1.4
Yields & Margins (%)						
Net Interest Margins	4.5	4.7	4.8	4.7	4.7	4.7
Yield on assets	10.7	10.0	9.9	10.4	10.2	10.1
Avg. cost on funds	6.6	5.4	4.9	5.5	5.5	5.6
Yield on average advances	12.2	11.5	11.1	12.1	11.9	11.8
Avg. Cost of Deposits	6.5	5.0	4.5	5.4	5.4	5.5
Quality and Efficiency (%)						
Cost to income ratio	43.3	41.6	42.7	42.6	42.4	42.1
Credit/Deposit ratio	102.3	83.0	81.4	84.7	86.7	87.9
GNPA	2.5	2.7	2.3	2.0	1.7	1.5
NNPA	0.9	0.7	0.6	0.5	0.5	0.4
ROE	14.4	7.3	10.1	13.9	14.4	14.8
ROA	1.5	0.8	1.2	1.6	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet						
	₹ crore					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds						
Capital	694	773	775	775	775	775
Employee Stock Options	9	5	16	16	16	16
Reserves and Surplus	34,003	42,587	46,903	53,066	60,287	68,697
Networth	34,706	43,365	47,693	53,857	61,078	69,487
Deposits	2,02,040	2,56,205	2,93,681	3,36,147	3,89,181	4,54,155
Borrowings	60,754	51,323	47,323	50,931	54,721	58,708
Other Liabilities & Provisions	9,558	12,080	13,273	14,161	15,118	16,149
Total	3,07,058	3,62,973	4,01,971	4,55,094	5,20,098	5,98,500
Application of Funds						
Fixed Assets	1,820	1,809	1,849	2,407	2,544	2,707
Investments	59,980	69,695	70,971	86,967	97,402	1,09,091
Advances	2,06,783	2,12,595	2,39,052	2,84,692	3,37,366	3,99,092
Other Assets	22,471	22,546	21,825	42,480	40,790	41,614
Cash with RBI & call money	16,004	56,327	68,274	38,550	41,996	45,996
Total	3,07,058	3,62,973	4,01,971	4,55,094	5,20,098	5,98,500

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios						
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total assets						
Total assets	10.5	18.2	10.7	13.2	14.3	15.1
Advances	10.9	2.8	12.4	19.1	18.5	18.3
Deposit	3.7	26.8	14.6	14.5	15.8	16.7
Total Income	28.0	(0.5)	7.5	17.7	15.0	16.0
Net interest income	36.3	12.2	10.9	12.9	16.7	18.2
Operating expenses	28.6	1.5	14.3	11.5	14.4	15.4
Operating profit	33.2	8.9	9.5	11.7	15.6	16.8
Net profit	33.8	(35.8)	62.6	53.3	17.2	16.5
Net worth	30.1	25.0	9.2	13.0	13.5	13.8
EPS	16.3	(42.4)	62.3	53.3	17.2	16.5

Source: Company, ICICI Direct Research

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Sell: < -15%



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