

Growth momentum continues to be healthy...

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 5876 branches as on March 2022

Q4FY22 Results: IndusInd Bank reported a healthy performance.

- GNPA down 21 bps QoQ to 2.27%. Restructured book down 70 bps to 2.6%
- Total loan related provisions declined to 3.5% vs. 3.7% QoQ
- Loan growth up 12.4% YoY and microfinance picked up with 18% YoY while deposits were up 15% YoY
- NII up 12.7% YoY, NIMs improved QoQ to 4.2%, PAT at ₹ 1361 crore

What should investors do? IndusInd Bank's share price has gained ~1.8x in the past 18 months. We believe the bank will show improved business traction with corporate book adding to the momentum.

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

Target Price and Valuation: We value the bank at ~1.6x FY24E ABV and maintain a target price of ₹ 1150 per share.

Key triggers for future price performance:

- Focus on domain segments & new launch to keep business growth healthy
- Healthy provision cover & lower slippages to aid earnings momentum
- Healthy NIM, control on opex, moderation in slippages with adequate capital adequacy to boost return ratios ahead

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 target price of ₹ 970

IndusInd Bank

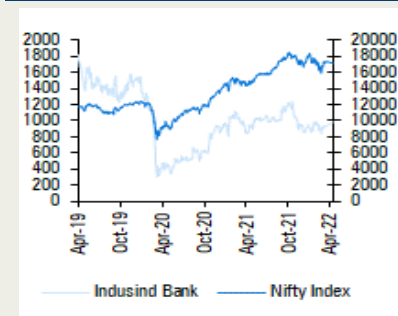
Particulars

Particulars	Amount
Market Capitalisation	₹ 75779 crore
52 week H/L	1242 / 812
Net worth	₹ 45817 Crore
Face Value	₹ 10
DII Holding (%)	21.9
FII Holding (%)	46.3

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	16.6	16.5	16.5	16.5	16.5
FII	50.9	52.1	51.4	47.7	46.3
DII	18.1	17.7	19.0	20.2	21.9
Others	14.4	13.7	13.1	15.6	15.3

Price chart



Recent Event & Key risks

- GNPA declines to 2.27%. Overall loan provisions at 3.5% of loans
- **Key Risk:** geo-political tension could hamper growth; higher slippages in MFI segment

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	8,846	12,059	13,528	15,001	19%	17,121	19,405	14%
PPP	8,088	10,773	11,727	12,839	17%	14,169	15,663	10%
PAT	3,301	4,418	2,836	4,611	12%	6,371	7,814	30%
ABV (₹)	405	473	542	589		612	699	
P/E	17.9	15.4	26.7	16.4		11.9	9.7	
P/ABV	2.4	2.1	1.8	1.7		1.6	1.4	
RoA	1.3	1.5	0.8	1.2		1.5	1.6	
RoE	13.1	14.4	7.3	10.1		13.1	15.1	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: In-line performance

- NII was up 12.7% YoY, 5.1% QoQ to ₹ 3985 crore on the back of improvement in margins and sequential pick-up in loan growth. NIMs improved 10 bps QoQ to 4.2% in Q4FY22. Other income was up 7% YoY to ₹ 1902 crore, driven by 9% YoY rise in core fee income at ₹ 1644 crore
- C/I ratio increased marginally by 10 bps QoQ to 42.6% as a result of increase in opex while provisions were down 21.6% YoY and 11.5% QoQ to ₹ 1464 crore. Thus, net profit for the quarter was up 55.4% YoY and 17.2% QoQ to ₹ 1361 crore
- GNPA and NNPA declined 21 bps and 7 bps QoQ to 2.27% and 0.64%, respectively. Restructured book declined 70 bps QoQ to 2.6%. Slippages for the quarter also declined at ₹ 2088 crore. GNPA in tractor segment continues to remain at an elevated level at 1.5% vs 1.4% QoQ
- Overall loan related provisions declined to 3.5% vs. 3.7% of loans in the previous quarter
- Loans increased 12.4% YoY and 4.6% QoQ to ₹ 2.39 lakh crore. Deposit growth was healthy at 15% YoY to ₹ 2.93 lakh crore, driven by 17% YoY uptick in CASA

Q4FY22 Earnings Conference Call highlights

- Increase in costs due to business revival as well as investments in technology and distribution resulted in higher opex
- The momentum on retail liabilities was maintained. Top 20 deposit concentration down from 22% to 17%. Cost of deposits at 4.6% is at the lowest level ever
- Disbursements in vehicle finance and MFI have picked. Diamond portfolio has also shown growth traction. The bank has gained market share in LCV, CE, tractors and cars. The management is optimistic about VF in FY23
- Diamond loan portfolio grew 29% YoY on the back of strengthening exports and diamond prices
- Across retail products (VF, MFI, consumer) disbursements were healthy during the quarter. The corporate book maintained steady momentum driven by small corporates
- The share of A & above rated corporate customers has improved from 68% to 71% YoY with weighted average rating improving from 2.76 to 2.69 YoY
- Exposure to stressed telco was at ~₹ 3000 crore. As on date was at ₹ 1850 crore including fund based exposure of ₹ 1000 crore and balance non fund based exposure
- Net slippages down from 0.9% to 0.6% QoQ. Restructured book reduced from 3.3% to 2.6% QoQ. Net Security Receipts reduced marginally from 85 bps to 83 bps QoQ
- The management expects the growth momentum in the retail business to continue in FY23. Margins to be in the range of 4.10% to 4.25%, credit cost 120-150 bps. CD ratio to be 88-92%
- Aim to add 200 to 250 branches in FY23

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			ABV (₹)		
	(₹)	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Axis Bank (AXIBAN)	729	970	Buy	2237	42.4	52.7	63.7	17.2	13.8	11.4	2.1	1.8	1.7	1.2	1.4	1.5	12.0	13.3	14.8	309	350	397
Federal Bank (FEDBAN)	96	120	Buy	201	8.8	10.6	13.1	10.9	9.1	7.3	1.3	1.1	1.0	0.9	1.0	1.1	10.9	11.9	13.3	73	77	85
IndusInd Bank (INDBA)	978	1,150	Buy	758	59.5	72.0	84.7	16.4	13.6	11.5	1.7	1.6	1.5	1.2	1.3	1.4	10.1	11.5	12.9	542	589	606
Kotak Bank (KOTMAH)	1,789	2,500	Buy	3550	40.0	46.8	55.3	44.7	38.2	32.3	5.1	4.5	3.9	1.9	2.0	2.1	11.7	12.2	12.7	308	349	396
CSB Bank (CSBBAN)	215	320	Buy	37	24.6	27.6	33.8	8.7	7.8	6.4	1.7	1.4	1.1	1.8	1.8	1.8	17.9	16.9	17.5	107	129	156
Bandhan (BANBAN)	334	300	Hold	538	-5.0	21.1	31.3	-66.1	15.8	10.7	4.0	3.2	2.5	-0.7	2.5	3.1	-4.8	19.0	23.1	90	84	105

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	3,985	3,878	3,535	12.7	3,794	5.1	Growth aided by business traction
NIM (%)	4.20	4.15	4.13	7 bps	4.10	10 bps	Margins improvement due to reduction in CoD
Other Income	1,902	2,032	1,780	6.8	1,877	1.3	Core fee up 9% YoY
Net Total Income	5,887	5,911	5,315	10.8	5,670	3.8	
Staff cost	659	632	595	10.7	620	6.2	
Other Operating Expenses	1,900	1,882	1,658	14.6	1,845	3.0	uptick in business activities and investment increased opex
PPP	3,329	3,396	3,062	8.7	3,205	3.9	
Provision	1,464	1,603	1,866	-21.6	1,654.1	-11.5	12% QoQ decline in gross credit cost
PBT	1,865	1,793	1,196	56.0	1,551	20.2	
Tax Outgo	504	439	320	57.4	389.8	29.2	
PAT	1,361	1,353	875.95	55.4	1,161	17.2	Lower credit costs aid profits
Key Metrics							
GNPA	5,517	5,664	5,795	-4.8	5,779	-4.5	
NNPA	1,530	1,601	1,477	3.6	1,633	-6.3	
Credit book	2,39,052	2,39,307	2,12,595	12.4	2,28,583	4.6	
Deposit book	2,93,349	2,93,685	2,56,205	14.5	2,84,484	3.1	CASA rises 17% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	17,475	17,121	-2.0	20,702	19,405	-6.3
Pre Provision Profit	14,521	14,169	-2.4	16,954	15,663	-7.6
NIM(%) (calculated)	4.7	4.6	-9 bps	4.8	4.6	-28 bps
PAT	5,593	6,371	13.9	6,638	7,814	17.7
ABV per share (₹)	606.3	612	0.9	655	699	6.7

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY22	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	12.4	13.6	14.8	14.8	15.2
Deposit Growth (%)	14.6	16.2	16.3	11.9	12.2
NIM Calculated (%)	10.9	14.1	13.3	16.2	18.5
Cost to income ratio (%)	38.5	43.4	43.7	42.8	41.8
GNPA (₹ crore)	5,795.0	4,844.7	2,507.7	6,203.9	6,674.9
NNPA (₹ crore)	1,736.5	1,849.6	-381.3	1,823.4	1,892.0
Credit cost (%)	2.8	2.1	1.7	2.6	2.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement						
	₹ Crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	22,261	28,783	29,000	30,822	37,938	43,327
Interest Expended	13,415	16,724	15,472	15,822	20,817	23,922
Net Interest Income	8,846	12,059	13,528	15,001	17,121	19,405
Growth (%)	18	36	12	11	14	13
Non Interest Income	5,647	6,951	6,559	7,397	7,910	8,417
Treasury Income	115	553	1,486	1,694	1,355	1,084
Other income	1,459	1,784	1,594	1,703	2,074	2,315
Net Income	14,493	19,010	20,087	22,398	25,031	27,821
Employee cost	1,854	2,208	2,214	2,577	2,916	3,295
Other operating Exp.	4,551	6,029	6,146	6,982	7,946	8,863
Operating Income	8,088	10,773	11,727	12,839	14,169	15,663
Provisions	3,108	4,652	7,943	6,665	5,617	5,175
PBT	4,980	6,121	3,784	6,174	8,552	10,489
Taxes	1,679	1,703	948	1,563	2,181	2,675
Net Profit	3,301	4,418	2,836	4,611	6,371	7,814
Growth (%)	(8.5)	33.8	(35.8)	62.6	38.2	22.6
EPS (₹)	54.8	63.7	36.7	59.5	82.4	101.0

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of shares (crore)	60.3	69.4	77.3	77.5	77.3	77.3
EPS (₹)	54.8	63.7	36.7	59.5	82.4	101.0
DPS (₹)	7.7	7.8	-	4.3	6.0	7.4
BV (₹)	442.6	500.3	560.7	611.5	635.7	693.6
ABV (₹)	405.3	473.1	541.6	589.0	611.7	698.6
P/E	17.9	15.4	26.7	16.4	11.9	9.7
P/BV	2.2	2.0	1.7	1.6	1.5	1.4
P/ABV	2.4	2.1	1.8	1.7	1.6	1.4
Yields & Margins (%)						
Net Interest Margins	3.8	4.5	4.7	4.7	4.6	4.6
Yield on assets	9.6	10.7	10.0	9.6	10.2	10.2
Avg. cost on funds	6.2	6.6	5.4	5.5	5.6	5.6
Yield on average advances	11.0	12.2	11.5	12.4	12.4	12.4
Avg. Cost of Deposits	6.1	6.5	5.0	5.4	5.4	5.5
Quality and Efficiency (%)						
Cost to income ratio	44.2	43.3	41.6	38.5	43.4	43.7
Credit/Deposit ratio	95.7	102.3	83.0	81.4	79.6	78.5
GNPA	2.1	2.5	2.7	2.4	1.8	0.8
NNPA	1.2	0.9	0.7	0.7	0.7	(0.1)
ROE	13.1	14.4	7.3	10.1	13.1	15.1
ROA	1.3	1.5	0.8	1.2	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet						
	₹ Crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	603	694	773	775	773	773
Employee Stock Options	11	9	5	16	16	16
Reserves and Surplus	26,072	34,003	42,587	46,906	48,700	53,184
Networth	26,686	34,706	43,365	47,697	49,490	53,973
Deposits	1,94,868	2,02,040	2,56,205	2,93,681	3,41,231	3,96,725
Borrowings	47,321	60,754	51,323	47,323	55,638	60,093
Other Liabilities & Provisions	8,944	9,558	12,080	13,273	13,473	14,366
Total	2,77,819	3,07,058	3,62,973	4,01,975	4,59,833	5,25,157
Application of Funds						
Fixed Assets	1,710	1,820	1,809	1,849	2,273	2,438
Investments	59,266	59,980	69,695	70,971	86,967	97,402
Advances	1,86,394	2,06,783	2,12,595	2,39,052	2,71,510	3,11,601
Other Assets	15,666	22,471	22,546	21,829	47,843	57,087
Cash with RBI & call money	14,783	16,004	56,327	68,274	51,240	56,628
Total	2,77,819	3,07,058	3,62,973	4,01,975	4,59,833	5,25,157

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	25.4	10.5	18.2	10.7	14.4	14.2
Advances	28.6	10.9	2.8	12.4	13.6	14.8
Deposit	28.5	3.7	26.8	14.6	16.2	16.3
Total Income	26.7	28.0	(0.5)	14.4	12.7	12.9
Net interest income	18.0	36.3	12.2	10.9	14.1	13.3
Operating expenses	14.5	28.6	1.5	14.3	13.6	11.9
Operating profit	21.5	33.2	8.9	9.5	10.4	10.5
Net profit	(8.5)	33.8	(35.8)	62.6	38.2	22.6
Net worth	12.0	30.1	25.0	9.2	3.8	9.1
EPS	(8.8)	16.3	(42.4)	62.3	38.4	22.6

Source: Company, ICICI Direct Research

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