

Three year plan – focus on growth, gradual RoA uptick

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 2600 branches as on March 2022

Q4Y23 Results: IndusInd Bank reported an in line performance.

- Loan growth up 21.3% YoY. NII up 17.3% YoY, NIMs steady QoQ at 4.28%
- PPP up 12.7% YoY. Lower provision leads to ~50% YoY jump in PAT
- GNPA down 8 bps QoQ to 1.98%. Restructured book down 40 bps to 0.84%

What should investors do? IndusInd Bank's share price has gained ~30% in the past two years. Higher than industry credit growth, selective lending with emphasis on high yield segments and moderation in credit cost to aid improvement in RoA to ~1.9% over FY24-25E.

- Thus, we retain our **BUY** rating on the stock

Target Price and Valuation: We value the bank at ~1.7x FY25E ABV and maintain our target price at ₹ 1450 per share.

Key triggers for future price performance:

- The management has introduced planning cycle - 6 (FY23-26) wherein they have guided for 18-23% YoY credit growth, mainly driven by retail (55-60% proportion) and PPOP margins to be 5.25-5.75%
- Focus on new business verticals (home loan) to aid business growth and gain market share. Uptick in NIMs led by higher share of retail loans including micro-finance segment
- Ramping up phygital distribution channels to keep CI ratio elevated for couple of quarters. However, improvement in credit cost will boost earnings growth and return ratio

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 ₹ 1100

IndusInd Bank

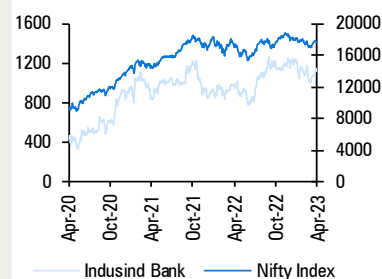
Particulars

Particulars	Amount
Market Capitalisation	₹ 85507 crore
52 week H/L	1275 / 763
Net worth	₹ 54229 Crore
Face Value	₹ 10
DII Holding (%)	26.5
FII Holding (%)	42.2

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



Recent Event & Key risks

- Loan growth at 21% YoY; margins steady at 4.28%
- **Key Risk:** 1) Credit cost trajectory given focus on unsecured retail segment 2) Deposit accretion at competitive rates

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	12,059	13,528	15,001	17,592	13%	20,323	24,664	18%
PPP	10,773	11,727	12,839	14,346	10%	16,637	19,740	17%
PAT	4,418	2,836	4,611	7,390	19%	8,823	10,549	19%
ABV (₹)	473	542	592	677		743	863	
P/E	17.6	30.5	18.8	11.8		9.8	8.2	
P/ABV	2.4	2.1	1.9	1.7		1.5	1.3	
RoA	1.5	0.8	1.2	1.7		1.8	1.9	
RoE	14.4	7.3	10.1	14.5		15.4	16.3	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Overall steady performance

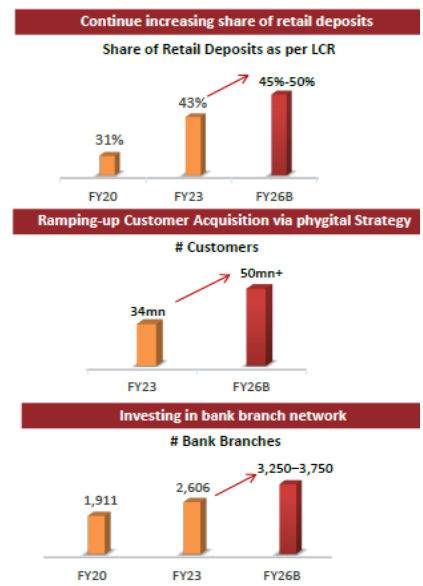
- IndusInd Bank reported a steady set of numbers in line with our estimates. NII growth was at 17.2% YoY, 3.9% QoQ to ₹ 4669 crore, driven by strong business growth and steady margins (QoQ). Margins were at 4.28% (expanded 8 bps YoY, steady QoQ). Other income was up 13% YoY to ₹ 2154 crore, driven by healthy growth of 27% YoY, 8% QoQ in core fee income at ₹ 2087 crore
- C/I ratio (calc) remained broadly steady at ~45% (vs. ~46% in Q4FY22 and 44% in Q3FY23). Provisions were down 3.3% QoQ and 29.6% YoY to ₹ 1030 crore. Thus, net profit was up 49.9% YoY and 4.2% QoQ to ₹ 2041 crore (vs. our estimate of ₹ 2015 crore)
- GNPA improved 8 bps QoQ at 1.98% while NNPA was range bound at 0.59%. Restructured book witnessed a meaningful decline of 41 bps QoQ to 0.84%. Slippages increased to ₹ 1603 crore vs. ₹ 1467 crore in Q3FY23. GNPA's (in absolute terms) declined in the consumer segment while corporate segment witnessed an increase QoQ. Overall loan related provisions declined to 2.5% vs. 2.7% of loans in the previous quarter
- Loans registered growth of 21.3% YoY, 6.3% QoQ to ₹ 2.89 lakh crore, primarily led by the retail segment. Deposit growth came in at 14.5% YoY and 3.3% QoQ to ₹ 3.36 lakh crore, driven by 7% YoY uptick in CASA. CASA ratio declined to 40% QoQ from 42%

Q4FY23 Earnings Conference Call highlights

- Guidance** – Credit growth of 18-23% YoY to be primarily driven by retail disbursements. NIMs guidance steady at 4.15% to 4.25%. PPOP margins to be 5.25-5.75%. Credit cost guidance at 110-130 bps and RoA target of 1.9-2.2% over PC – 6
- Advances** – Growth was across segments. Loan mix skewed towards consumer segment with ~54% of total loans
- Corporate:** Growth was driven by mid & small corporates. Segments like gems & jewellery, diamonds, petroleum, services witnessed strong growth
- MFI:** Asset quality deteriorated due to higher delinquencies in north east book. Stress is largely behind and expected to see improvement from here on
- Vehicle finance segment** - Disbursements in vehicle finance were up 25% YoY at ₹ 12500 crore. For FY23, growth was 44% YoY at ₹ 46000 crore. Gross slippages down 40% and outlook for VF segment continue to remain strong led by healthy demand for used vehicles. The bank has ~10% market share in tractor financing
- Out of ₹1600 crore total provisions, ₹ 1300 crore utilised by the bank
- Deposits** – Retail deposits were 43% of total deposits (as per LCR). SA balance declined due to outgo of one bulky account (government account) and migration to term deposits due to higher rates
- Out of total fee income, 72% came from consumer and balance came from corporate segment
- CI ratio to remain elevated for the next couple of quarters at ~45% levels
- Repricing of loans aided yield expansion thus improved NIMs. Total 51% of the book is at fixed rate
- Exposure to telecom company (non-funded) to the tune of ₹ 700 crore. The management said that it will not go into NPA
- Higher slippages were on account of ₹ 200 crore in MFI segment and one corporate account of ₹ 175 crore
- The bank is awaiting clarity from RBI on promoter stake increase

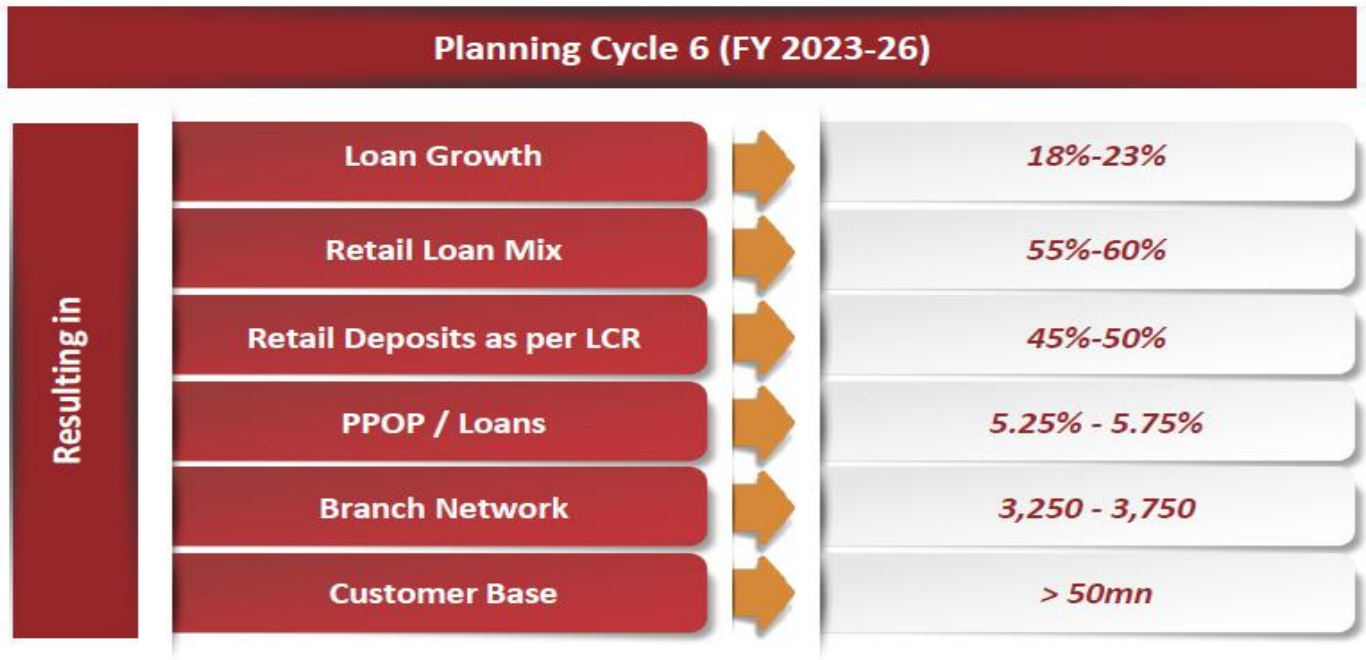
IndusInd Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	53.0	49.1	49.1
Social	58.6	58.6	55.4
Governance	87.4	87.4	87.4
Overall ESG Score	66.3	65.0	64.0

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure



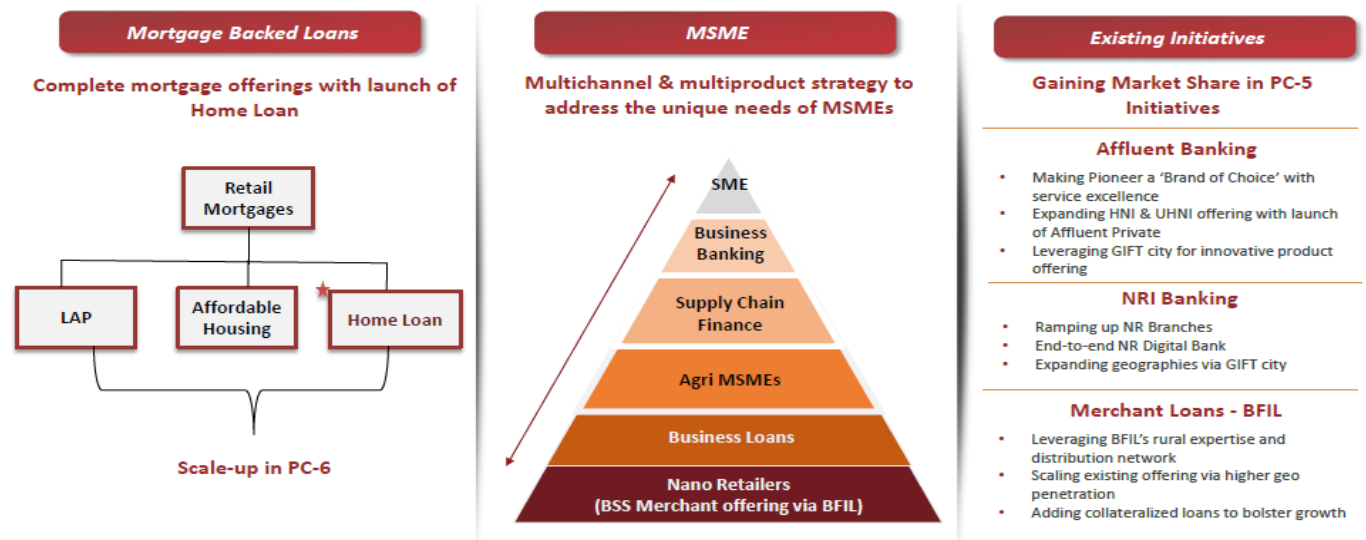
Source: Company, ICICI Direct Research

Exhibit 1: PC – 6 expected outcome...



Source: Company, ICICI Direct Research

Exhibit 2: Scaling up sub scale businesses...



Source: Company, ICICI Direct Research

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)							
	₹	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
Axis Bank (AXIBAN)	864	1,100	Buy	2,660	42.4	31.7	78.2	90.5	20.4	27.3	11.0	9.5	2.5	2.3	1.9	1.6	1.2	0.8	1.7	1.7	12.0	8.2	17.9	17.5
HDFC Bank (HDFBAN)	1,684	1,970	Buy	9,448	66.7	79.1	93.3	108.3	25.3	21.3	18.0	15.6	4.0	3.4	3.0	2.6	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1
IndusInd Bank (INDBA)	1,138	1,450	Buy	855	59.5	95.3	113.9	136.2	19.1	11.9	10.0	8.4	1.9	1.7	1.5	1.3	1.2	1.7	1.8	1.9	10.1	14.5	15.4	16.3
Kotak Bank (KOTMAH)	1,869	2,175	Buy	3,714	43.0	51.5	56.3	64.3	43.4	36.3	33.2	29.1	5.2	4.6	4.1	3.7	2.1	2.2	2.1	2.1	12.6	13.2	12.6	13.0
Bandhan (BANBAN)	230	265	Hold	370	0.8	12.9	15.9	20.2	294.5	17.9	14.5	11.4	2.4	2.1	1.9	1.7	3.9	-2.0	0.1	1.4	0.8	11.3	12.6	14.3

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	4,669	4,694	3,985	17.2	4,495	3.9	Driven by strong business growth
NIM (%)	4.28	4.20	4.20	8 bps	4.27	1 bps	
Other Income	2,151	2,114	1,902	13.1	2,076	3.6	Core fee grew 27% YoY
Net Total Income	6,820	6,808	5,887	15.8	6,572	3.8	
Staff cost	836	823	659	27.0	799	4.6	
Other Operating Expenses	2,231	2,280	1,900	17.4	2,092	6.6	CI ratio (calc) inched up at ~45%
PPP	3,753	3,705	3,329	12.7	3,680	2.0	
Provision	1,030	1,015	1,464	-29.6	1,065	-3.3	Loan related provisions were at 2.5% vs. 2.7% QoQ
PBT	2,723	2,690	1,865	46.0	2,616	4.1	
Tax Outgo	682	675	504	35.5	656	3.9	
PAT	2,041	2,015	1,361	49.9	1,959	4.2	Lower credit costs aided strong earnings growth
Key Metrics							
GNPA	5,826	5,963	5,517	5.6	5,711	2.0	Increase led by slippages in corporate segment
NNPA	1,715	1,611	1,530	12.1	1,681	2.0	
Credit book	289,924	289,965	239,052	21.3	272,754	6.3	
Deposit book	336,120	336,443	293,681	14.5	325,278	3.3	CASA deposits up 7% YoY

Source: Company, ICICI Direct Research

Exhibit 5: Change in Estimates

₹ Crore	Y2e	FY24E			FY25E		
		Old	New	% Change	Old	New	% Change
Net Interest Income		20,555	20,323	-1.1	23,892	24,664	3.2
Pre Provision Profit		16,861	16,637	-1.3	19,668	19,740	0.4
NIM(%) (calculated)	is	4.8	4.7	-9 bps	4.7	4.8	11 bps
PAT		8,600	8,823	2.6	10,001	10,549	5.5
ABV per share (₹)		770.4	743	-3.6	882	863	-2.2

Source: Company, ICICI Direct Research

Exhibit 6: Assumptions

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	19.9	17.8	18.5	18.3
Deposit Growth (%)	17.0	15.3	15.8	16.7
NIM Calculated (%)	15.5	21.4	18.3	16.2
Cost to income ratio (%)	43.3	43.2	43.0	42.1
GNPA (₹ crore)	5,826.3	5,826.3	5,517.2	5,517.2
NNPA (₹ crore)	2,346.0	2,245.0	1,474.4	1,552.1
Credit cost (%)	1.4	1.4	1.6	1.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Interest Earned	30,822	36,368	42,574	50,198	
Interest Expended	15,822	18,776	22,251	25,535	
Net Interest Income	15,001	17,592	20,323	24,664	
Growth (%)	11	17	16	21	
Non Interest Income	7,397	8,166	9,015	10,079	
Net Income	22,398	25,758	29,338	34,743	
Employee cost	2,488	3,050	3,693	4,227	
Other operating Exp.	7,071	8,362	9,008	10,776	
Operating Income	12,839	14,346	16,637	19,740	
Provisions	6,665	4,487	4,794	5,580	
PBT	6,174	9,860	11,843	14,159	
Taxes	1,563	2,470	3,020	3,611	
Net Profit	4,611	7,390	8,823	10,549	
Growth (%)	62.6	60.3	19.4	19.6	
EPS (₹)	59.5	95.2	113.9	136.2	

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Valuation					
No. of shares (crore)	77.5	77.6	77.5	77.5	
EPS (₹)	59.5	95.3	113.9	136.2	
DPS (₹)	8.9	8.0	12.7	15.2	
BV (₹)	611.5	699.4	773.2	891.8	
ABV (₹)	591.7	677.3	742.9	862.8	
P/E	18.8	11.8	9.8	8.2	
P/BV	1.8	1.6	1.4	1.3	
P/ABV	1.9	1.7	1.5	1.3	
Yields & Margins (%)					
Net Interest Margins	4.8	4.8	4.7	4.8	
Yield on assets	9.9	10.0	9.8	9.9	
Avg. cost on funds	4.9	5.4	5.3	5.3	
Yield on average advances	11.1	11.3	11.5	11.6	
Avg. Cost of Deposits	4.5	5.3	5.2	5.2	
Quality and Efficiency (%)					
Cost to income ratio	42.7	46.4	43.3	43.2	
Credit/Deposit ratio	81.4	86.2	88.3	90.1	
GNPA	2.3	2.0	1.7	1.4	
NNPA	0.6	0.6	0.7	0.5	
ROE	10.1	14.5	15.4	16.3	
ROA	1.2	1.7	1.8	1.9	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Sources of Funds					
Capital	775	776	775	775	
Employee Stock Options	16	44	44	44	
Reserves and Surplus	46,903	53,801	59,429	68,618	
Networth	47,693	54,622	60,248	69,437	
Deposits	2,93,681	3,36,438	3,93,724	4,54,142	
Borrowings	47,323	49,011	54,721	58,708	
Other Liabilities & Provisions	13,273	17,733	15,118	16,149	
Total	4,01,971	4,57,804	5,23,810	5,98,437	
Application of Funds					
Fixed Assets	1,849	1,993	2,544	2,707	
Investments	70,971	83,116	89,576	1,00,325	
Advances	2,39,052	2,89,924	3,47,513	4,09,339	
Other Assets	21,825	26,260	35,735	33,871	
Cash with RBI & call money	68,274	56,511	48,443	52,194	
Total	4,01,971	4,57,804	5,23,810	5,98,437	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		(%)			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total assets	10.7	13.9	14.4	14.2	
Advances	12.4	21.3	19.9	17.8	
Deposit	14.6	14.6	17.0	15.3	
Total Income	7.5	13.5	18.9	16.8	
Net interest income	10.9	17.3	15.5	21.4	
Operating expenses	14.3	19.4	11.3	18.1	
Operating profit	9.5	11.7	16.0	18.7	
Net profit	62.6	60.3	19.4	19.6	
Net worth	9.2	14.6	10.4	15.3	
EPS	62.3	60.0	19.6	19.6	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA, and Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.