

October 18, 2023

RESULT REPORT Q2 FY24 | Sector: Banks

Indusind Bank Ltd

Outcomes do not compel flagging as a top pick

Result Highlights (See "Our View" below for elaboration and insight)

- **Asset quality:** Gross slippages amounted to Rs 14.65bn (annualized slippage ratio of 1.9%) and recoveries and upgrades amounted to Rs 7.07bn
- **Margin picture:** NIM at 4.29% was flat QoQ, as lower borrowing cost and asset side management helped maintain margin
- **Asset growth:** Advances grew 4.7%/21.3% QoQ/YoY driven sequentially by Small corporates and select retail segments
- **Opex control:** Total opex rose 7.1%/24.5% QoQ/YoY, employee expenses rose 10.9%/30.2% QoQ/YoY and other expenses rose 5.7%/22.5% QoQ/YoY
- **Fee income:** Core fee income was flat QoQ but up 13.2% YoY, where Cards and distribution fees saw healthy sequential growth

Our view – Outcomes do not compel flagging as a top pick

Quarterly slippage was higher than the run rate guided for on account a chunky corporate account that slipped from SMA book: The base case for slippages is Rs 12-13bn per quarter. There was a largish corporate account worth Rs 1.68bn that slipped during the quarter from the SMA book. Provisions were Rs 9.74bn, down by -1.8% QoQ and -14.7% YoY, translating to annualised credit cost of 123bps. The all-inclusive provision coverage is 118% of GNPA.

Management has maintained its loan growth guidance, while calling for an improved second half: The management maintains its loan growth guidance of 18-23% range. The retail loan growth was 25% YoY and 6% QoQ. The corporate loan growth was 18% YoY and 3% QoQ. Corporate loan growth was driven by small corporates, which grew 8% QoQ. Microfinance loans have grown 16% YoY and 7% QoQ. Vehicle finance loans have grown 22% YoY and 5% QoQ. CV, cars, UVs, 3W saw sequential growth of 5% and above. Tractors, 2W and CE saw slower growth.

Net interest margin has displayed a stable trajectory for now and management has guided for further stability: Cost of deposits was up 23 bps QoQ to 6.35% but lower borrowing cost and asset side management helped maintain margin. Currently, the excess cash on the balance sheet amounts to Rs 370bn. Management is comfortable bringing this down further to Rs 200bn. Cost of deposits can rise further by 10-20 bps over the next 2 quarters. The ambition is to maintain margin between 4.2-4.3%.

We maintain 'Buy' rating on IIB with an unchanged price target of Rs 1750: We value the bank at 1.9x FY25 P/BV for an FY24E/25E/26E RoE profile of 14.4%/15.3%/15.6%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Interest Income	112,478	107,297	4.8	87,080	29.2
Interest expended	(61,711)	(58,625)	5.3	(44,060)	40.1
Net Interest Income	50,767	48,671	4.3	43,021	18.0
Other income	22,818	22,098	3.3	20,108	13.5
Total Income	73,585	70,769	4.0	63,129	16.6
Operating expenses	(34,776)	(32,468)	7.1	(27,932)	24.5
PPOP	38,809	38,301	1.3	35,197	10.3
Provisions	(9,738)	(9,916)	(1.8)	(11,411)	(14.7)
PBT	29,071	28,385	2.4	23,786	22.2
Tax	(7,256)	(7,149)	1.5	(5,919)	22.6
PAT	21,815	21,236	2.7	17,867	22.1

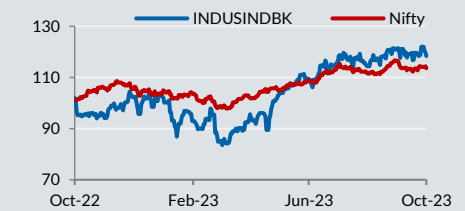
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 1,420
Target price	: Rs 1,750
Potential return	: 23%

Stock data (as on October 18, 2023)

Nifty	19,671
52 Week h/l (Rs)	1476 / 990
Market cap (Rs/USD mn)	1115851 / 13403
Outstanding Shares (mn)	777
6m Avg t/o (Rs mn):	4,138
Div yield (%):	1.0
Bloomberg code:	IIB IN
NSE code:	INDUSINDBK

Stock performance



	1M	3M	1Y
Absolute return	-2.5%	2.2%	16.1%

Shareholding pattern (As of Jun'23 end)

Promoter	15.1%
FII+DII	63.4%
Others	13.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,750	1,750

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	199,443	237,421	280,982
PPOP	159,990	190,632	225,861
Net Profit	84,058	101,374	119,478
Growth (%)	13.8	20.6	17.9
EPS (Rs)	108.3	130.7	154.0
BVPS (Rs)	798	915	1055
P/E (x)	13.1	10.9	9.2
P/BV (x)	1.8	1.6	1.3
ROE (%)	14.4	15.3	15.6
ROA (%)	1.7	1.8	1.8
Tier-1 (%)	15.5	14.4	13.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	108.3	130.7	154.0
EPS (Old)	108.0	130.5	153.9
% change	0.3%	0.1%	0.1%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 14.65bn for 2QFY24, translating to an annualized slippage ratio of 1.9% for the quarter. (Gross NPA additions had amounted to Rs 13.76bn during 1QFY24.)
 - There was a largish corporate account worth Rs 1.68bn that slipped during the quarter from the SMA book.
 - Slippages from restructured have amounted to Rs 24.07bn so far on cumulative basis.
 - **Slippage guidance**
 - The base case for slippages is Rs 12-13bn per quarter.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 7.07bn for 2QFY24, implying net NPA addition of Rs 7.58bn for the quarter.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 9.74bn, down by -1.8% QoQ and -14.7% YoY, translating to annualised credit cost of 123bps.
 - Contingent provisions worth Rs 18.08bn have been utilised so far on cumulative basis.
 - **Outstanding provisions**
 - The all-inclusive provision coverage is 118% of GNPA.
- **Restructured book**
 - Restructured advances were at 0.54% of total advances compared with 0.66% in the sequentially previous quarter.
- **SMA book**
 - SMA1 and SMA2 amount to 6 bps and 20 bps, respectively.
- **Security receipts**
 - The security receipts book amounts to 39 bps.
- **Segmental guidance**
 - Microfinance - Slippage ratio of 350 bps and credit cost of 200-250 bps.
 - Vehicle finance - Slippage ratio of 200 bps and credit cost of 100 bps.
 - Other retail - Slippage ratio of 300 bps and credit cost of 200 bps.
 - Overall retail - Slippage ratio of 275-300 bps and credit cost of 110-120 bps.

Loan growth

- The overall loan growth was 21% YoY and 5% QoQ.
- **Retail loans**
 - The retail loan growth was 25% YoY and 6% QoQ.
- **Corporate loans**
 - The corporate loan growth was 18% YoY and 3% QoQ.
 - Corporate loan growth was driven by small corporates, which grew 8% QoQ.
 - Large and mid-corporate loans have grown 2% QoQ.

(Con call takeaways continue on the next page)

- **Microfinance**
 - Microfinance loans have grown 16% YoY and 7% QoQ.
 - Loans in Bharat Financial's merchant acquiring business have grown 16% QoQ to Rs 49.04bn.
- **Vehicle finance**
 - Vehicle finance loans have grown 22% YoY and 5% QoQ.
 - CV, cars, UVs, 3W saw sequential growth of 5% and above.
 - Tractors, 2W and CE saw slower growth.
- **Loan growth guidance**
 - The management maintains its loan growth guidance of 18-23% range.
 - The second half will be better than the first half.

Deposits growth

- Total deposits were at Rs 3,598 bn, up by 3.7% QoQ and 13.9% YoY.
- CASA ratio stood at 39.3%.
- **Retail deposits**
 - Retail LCR deposits have grown 4% QoQ.
 - Share of retail LCR deposits has risen to 43.7%.
 - Share of CDs is 3% of total deposits.
- **Affluent segment**
 - Affluent segment deposits were up 24% YoY.
- **NRI segment**
 - NRI segment deposits were up 7% QoQ to Rs 400bn.
- **Borrowings**
 - Borrowings are down to 11% of deposits.

Fee income

- Client fee income has risen 13% YoY.
- Credit card spends have risen 7% QoQ.
- Share of retail fee is 74% of total fees.

Operating expenses

- **Total opex**
 - Opex, at Rs. 34.78 bn, is up 7.1% QoQ and 24.5% YoY.
 - Consequently, cost/income ratio came in at 47.3%, up by 138bps QoQ and 301bps YoY.
- **Staff opex**
 - The staff opex is up by 10.9% QoQ and 30.2% YoY.
 - 3500 employees were added during the quarter and 7500 in the first half.
 - Now, a stabilisation in employee cost will be witnessed.
- **Other opex**
 - Other opex is up by 5.7% QoQ and 22.5% YoY.

(Con call takeaways continue on the next page)

Net interest margin

- **NIM for the quarter**
 - NIM was at 4.29%, flat QoQ but up 5bps YoY.
 - Cost of deposits was up 23 bps QoQ to 6.35%.
 - Lower borrowing cost and asset side management helped maintain margin.
- **Excess liquidity**
 - Currently, the excess cash on the balance sheet amounts to Rs 370bn.
 - Management is comfortable bringing this down further to Rs 200bn.
 - The LCR is 115% and the bank wants to maintain 115-125%.
- **NIM guidance**
 - Cost of deposits can rise further by 10-20 bps over the next 2 quarters.
 - The ambition is to maintain margin between 4.2-4.3%.
- **Corporate book**
 - Two third of the corporate book is EBLR-linked, while the remaining is MCLR-linked.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy	Q2FY24*	chg qoq*	chg yoy*
Loan book	3,154,540	3,013,170	4.7	2,601,290	21.3	100.0	0bps	0bps
Corporate & Comm. Banking	1,431,540	1,394,370	2.7	1,217,660	17.6	45.4	-90bps	-143bps
Large Corporates	792,330	770,650	2.8	686,680	15.4	25.1	-46bps	-128bps
Mid size Corporates	479,710	476,240	0.7	424,780	12.9	15.2	-60bps	-112bps
Small Corporates	159,500	147,480	8.2	106,200	50.2	5.1	16bps	97bps
Consumer Finance	1,723,000	1,618,800	6.4	1,383,630	24.5	54.6	90bps	143bps
Commercial vehicle loans	308,790	293,200	5.3	253,400	21.9	9.8	6bps	5bps
Utility vehicle loans	107,290	98,130	9.3	74,670	43.7	3.4	14bps	53bps
Small CV	37,730	35,610	6.0	31,960	18.1	1.2	1bps	-3bps
2Wheeler loans	48,040	47,780	0.5	43,340	10.8	1.5	-6bps	-14bps
Car loans	117,840	111,100	6.1	93,260	26.4	3.7	5bps	15bps
Tractor	95,800	95,160	0.7	86,110	11.3	3.0	-12bps	-27bps
Equipment financing	105,020	102,340	2.6	88,930	18.1	3.3	-7bps	-9bps
Credit cards	94,620	89,780	5.4	70,980	33.3	3.0	2bps	27bps
Loan against property	101,810	99,530	2.3	92,480	10.1	3.2	-8bps	-33bps
Home, Personal, Gold	208,790	178,290	17.1	127,210	64.1	6.6	70bps	173bps
Business Banking	153,640	148,070	3.8	125,120	22.8	4.9	-4bps	6bps
Microfinance	343,630	319,810	7.4	296,170	16.0	10.9	28bps	-49bps
Deposits	3,597,865	3,470,470	3.7	3,159,205	13.9	100.0	0bps	0bps
Current	499,100	493,430	1.1	441,570	13.0	13.9	-35bps	-11bps
Saving	915,270	890,970	2.7	893,680	2.4	25.4	-23bps	-285bps
Term	2,183,495	2,086,070	4.7	1,823,955	19.7	60.7	58bps	295bps
Investments	944,678	942,160	0.3	760,342	24.2	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	23.0	23.8	-77bps	22.6	43bps	NA	NA	NA
Borrowings	405,305	456,220	(11.2)	406,731	(0.4)	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	10.1	11.6	-149bps	11.4	-128bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
Net Interest Margin	4.29	4.29	0bps	4.24	5bps
Yield on Advances	12.3	12.2	6bps	11.5	79bps
Cost of Deposits	6.35	6.12	23bps	5.10	125bps
CASA ratio	39.0	40.0	-100bps	42.0	-300bps
Loan to Deposit Ratio	87.7	86.8	86bps	82.3	534bps
Non-int. income / Total income	31.0	31.2	-22bps	31.9	-84bps
Fee Income to Avg. Total Assets	1.8	1.8	-4bps	1.8	1bps
Cost to Income ratio	47.3	45.9	138bps	44.2	301bps
Opex to Avg. Total Assets	2.9	2.8	14bps	2.7	27bps
RoA	1.9	1.9	-1bps	1.8	10bps
Annualised Slippage Ratio*	1.9	1.8	4bps	2.4	-56bps
Provision Coverage Ratio	71.0	71.0	0bps	72.0	-100bps
Gross NPA	1.9	1.9	-1bps	2.1	-18bps
Net NPA	0.6	0.6	-1bps	0.6	-4bps
Capital adequacy ratio	18.2	18.4	-19bps	18.0	20bps
Tier I capital ratio	16.8	16.9	-14bps	16.4	31bps
Common equity tier I capital ratio	16.3	16.4	-11bps	16.0	36bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	50,767	50,861	(0.2)
Pre-Prov. Operating Profit	38,809	40,294	(3.7)
Profit After Tax	21,815	21,912	(0.4)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Employee Expense	9,566	8,629	10.9	7,347	30.2
Other Operating Expense	25,210	23,839	5.7	20,585	22.5
Total Operating Expense	34,776	32,468	7.1	27,932	24.5

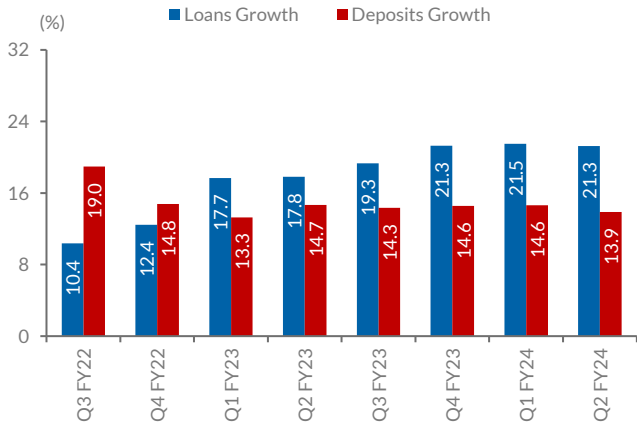
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Total Fee Income (A)	21,200	21,190	0.0	18,720	13.2
Trade and remittances	2,340	2,330	0.4	1,890	23.8
Foreign exchange	2,270	2,620	(13.4)	2,680	(15.3)
Cards and Distribution Fees	6,810	6,370	6.9	5,590	21.8
General banking fees	3,670	3,820	(3.9)	3,070	19.5
Loan processing fees	5,930	5,880	0.9	5,320	11.5
Investment banking	180	170	5.9	170	5.9
Total Other Income (B)	1,620	910	78.0	1,390	16.5
Securities/MM/FX Trading/Others	1,620	910	78.0	1,390	16.5
Total Non-Interest Income (A+B)	22,820	22,100	3.3	20,110	13.5

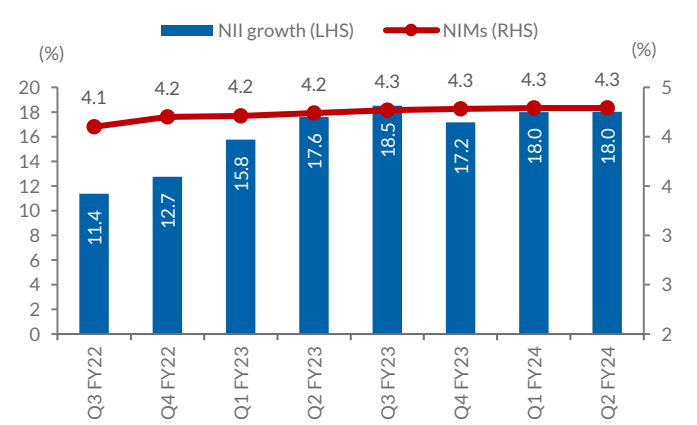
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



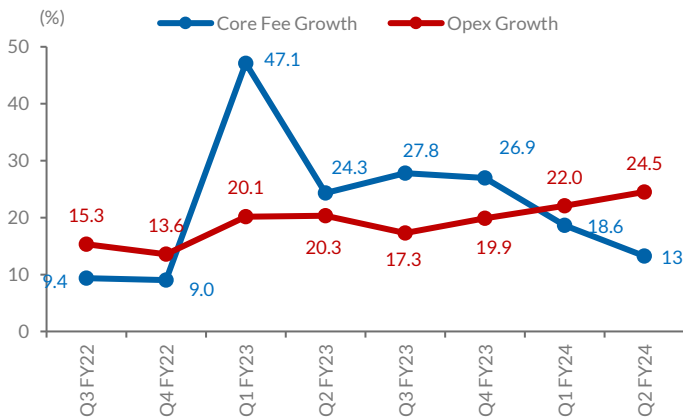
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



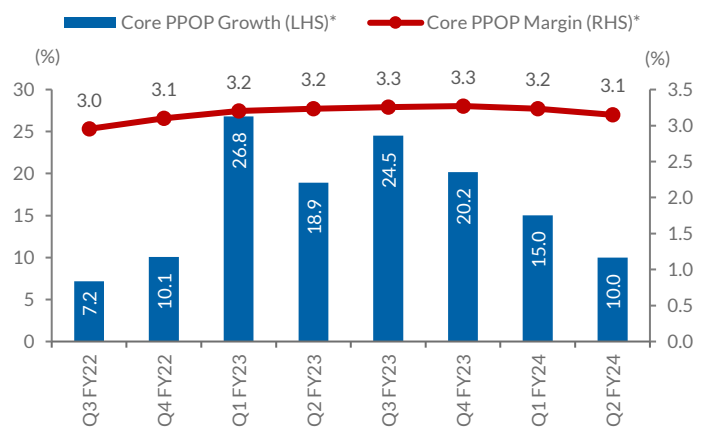
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



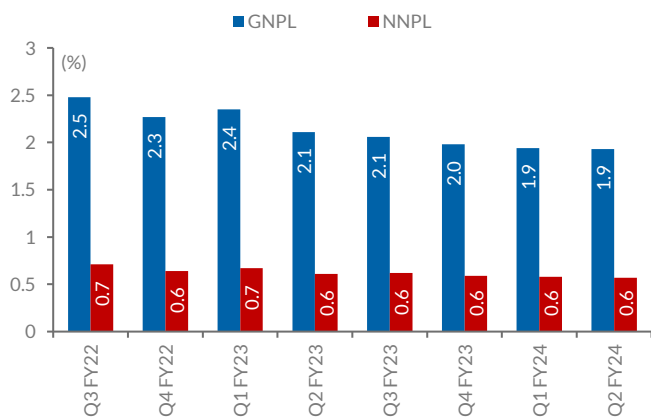
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



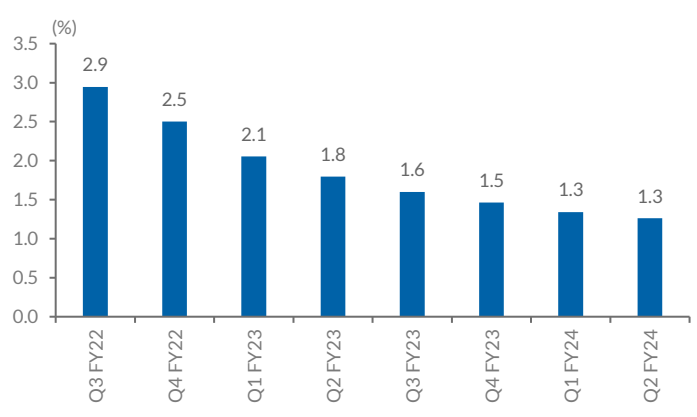
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



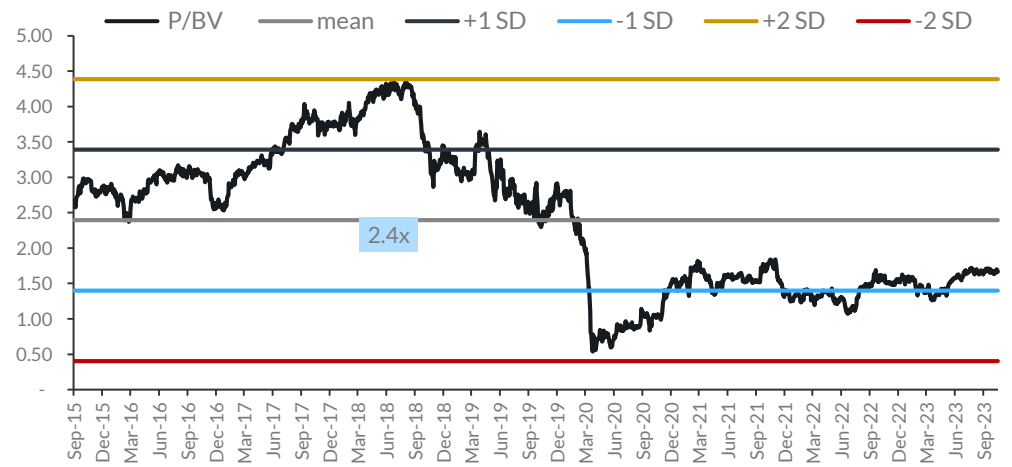
Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	682,745	565,111	379,510	455,412	546,495
Investments	709,708	831,162	1,004,175	1,197,744	1,429,302
Advances	2,390,515	2,899,237	3,450,092	4,140,110	4,968,132
Fixed assets	18,487	19,926	21,919	24,111	26,522
Other assets	218,291	262,604	315,125	378,150	453,780
Total assets	4,019,746	4,578,041	5,170,820	6,195,527	7,424,230
Net worth	476,972	546,217	619,412	709,924	818,540
Deposits	2,936,813	3,364,381	3,997,865	4,756,885	5,667,709
Borrowings	473,232	490,112	350,018	498,390	675,660
Other liabilities	132,728	177,330	203,525	230,328	262,321
Total liabilities incl. Equity	4,019,746	4,578,041	5,170,820	6,195,527	7,424,230

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	308,224	363,679	422,744	501,735	601,625
Interest expense	(158,216)	(187,758)	(223,301)	(264,314)	(320,642)
Net interest income	150,008	175,921	199,443	237,421	280,982
Non-interest income	73,970	81,664	97,571	116,664	139,951
Total income	223,979	257,585	297,014	354,085	420,933
Operating expenses	(95,593)	(114,120)	(137,024)	(163,453)	(195,072)
PPoP	128,386	143,465	159,990	190,632	225,861
Provisions	(66,650)	(44,868)	(47,912)	(55,466)	(66,557)
Profit before tax	61,736	98,596	112,078	135,166	159,304
Taxes	(15,625)	(24,699)	(28,019)	(33,791)	(39,826)
Net profit	46,111	73,897	84,058	101,374	119,478

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	8.1	8.5	8.7	8.8	8.8
Interest expense	-4.1	-4.4	-4.6	-4.7	-4.7
Net interest income	3.9	4.1	4.1	4.2	4.1
Non-interest income	1.9	1.9	2.0	2.1	2.1
Total income	5.9	6.0	6.1	6.2	6.2
Operating expenses	-2.5	-2.7	-2.8	-2.9	-2.9
PPoP	3.4	3.3	3.3	3.4	3.3
Provisions	-1.7	-1.0	-1.0	-1.0	-1.0
Profit before tax	1.6	2.3	2.3	2.4	2.3
Taxes	-0.4	-0.6	-0.6	-0.6	-0.6
Net profit	1.2	1.7	1.7	1.8	1.8

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	199,443	237,421	280,982	199,468	237,678	281,239	(0.0)	(0.1)	(0.1)
Pre-Prov. Operating Profit	159,990	190,632	225,861	159,650	190,399	225,552	0.2	0.1	0.1
Profit after tax	84,058	101,374	119,478	83,804	101,278	119,410	0.3	0.1	0.1

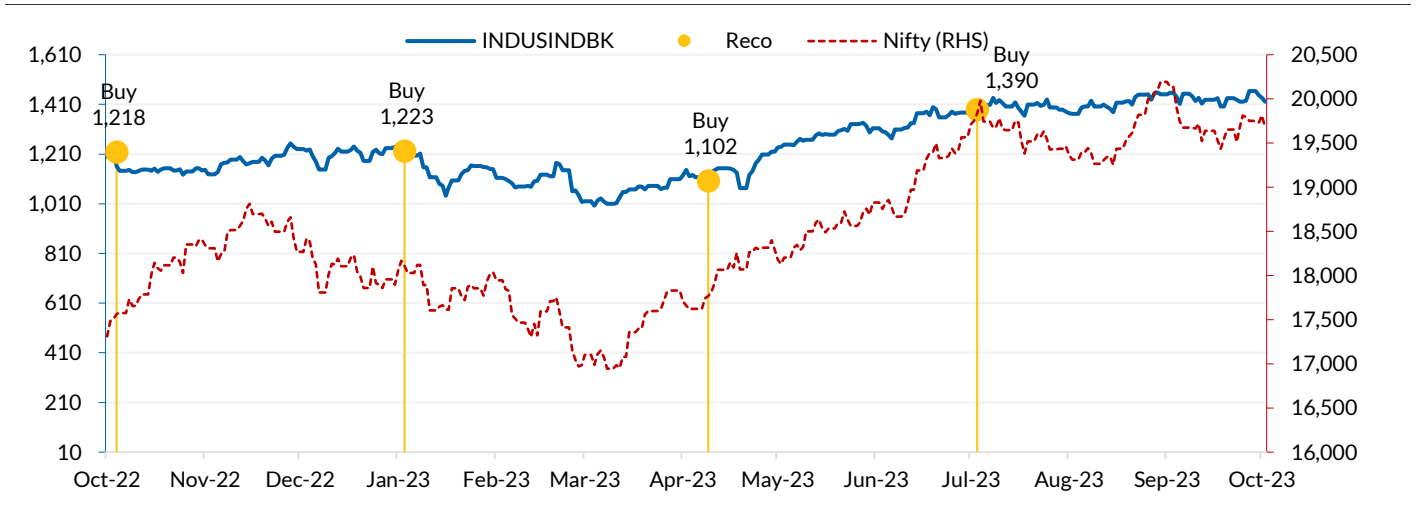
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	10.9	17.3	13.4	19.0	18.3
PPoP	9.5	11.7	11.5	19.2	18.5
Net profit	62.6	60.3	13.8	20.6	17.9
Loans	12.4	21.3	19.0	20.0	20.0
Deposits	14.6	14.6	18.8	19.0	19.1
Profitability Ratios (%)					
Net interest margin	4.1	4.3	4.3	4.4	4.3
Return on Average Equity	10.1	14.4	14.4	15.3	15.6
Return on Average Assets	1.2	1.7	1.7	1.8	1.8
Per share figures (Rs)					
EPS	59.5	95.2	108.3	130.7	154.0
BVPS	616	704	798	915	1055
ABVPS	596	682	757	862	986
Valuation multiples					
P/E	24	15	13.1	10.9	9.2
P/BV	2.3	2.0	1.8	1.6	1.3
P/ABV	2.4	2.1	1.9	1.6	1.4
NIM internals (%)					
Yield on loans	11.1	11.3	11.3	11.3	11.3
Cost of deposits	4.5	5.0	5.2	5.3	5.3
Loan-deposit ratio	81.4	86.2	86.3	87.0	87.7
CASA ratio	42.8	40.1	40.3	40.5	40.5
Opex control (%)					
Cost/Income ratio	42.7	44.3	46.1	46.2	46.3
Cost to average assets	2.5	2.7	2.8	2.9	2.9
Capital adequacy (%)					
Tier 1 capital ratio	16.8	16.4	15.5	14.4	13.6
Asset quality (%)					
Slippage ratio	4.5	2.6	2.5	2.4	2.4
Gross NPL ratio	2.3	2.0	2.4	2.4	2.4
Credit cost	1.8	1.5	1.2	1.2	1.2
Net NPL ratio	0.6	0.6	0.9	1.0	1.1

Source: Company, YES Sec – Research

Recommendation Tracker



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