

Retail Equity Research IndusInd Bank Limited

Banking

BSE CODE: 532187

NSE CODE: INDUSINDBK

Bloomberg CODE: IIB:IN

SENSEX: 71,942

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 1,527 TARGET Rs. 1,791 RETURN 17% ↑
(Closing: 29-01-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Stable performance; positive outlook

IndusInd Bank (IIB), a part of the Hinduja Group, provides loans for vehicles and property in its Consumer Finance division, while the Corporate Banking division offers a wide range of products to SMEs and large enterprises.

- Net interest income (NII) rose 4.3% in Q3FY24 owing to the increased loan book. Net interest margin (NIM) remained flat at 4.29% sequentially owing to the revaluation of loans and deposits.
- Gross and net non-performing assets (GNPA/NNPA) remained flat sequentially at 1.92%/0.57% in Q3FY24, while fresh slippages increased 20.5% QoQ.
- The bank showcased steady operational performance during the quarter and is expected to perform even better in the upcoming period with a focus on digitalisation, branch network expansion, and effective marketing campaigns. Overall asset quality remained stable despite higher slippages owing to bad weather in the southern and northern regions. Hence, we remain positive on the stock and reiterate our BUY rating, with a target price of Rs. 1,791, based on 1.7x FY26E BVPS.

NIM remained flat on account of revaluation of loans and deposits.

In Q3FY24, NII rose 4.3% QoQ to Rs. 5,296cr (+17.8% YoY), while NIM remained stable at 4.29%. Sequentially, deposit costs were up 9bps owing to the final stage of deposit revaluation. On the other hand, the yield on advances increased by 15bps QoQ because of loan repricing and a strong yield contribution from the retail business (+23bps QoQ). Opex grew 6.1% QoQ owing to constant investment in human capital, distribution network and marketing initiatives. Resultantly, cost-to-income ratio rose 50bps QoQ to 47.4%. In addition, net income increased 5.3% QoQ because of low provisioning (-4.1% QoQ) and partly offset by higher tax expense (+6.1% QoQ).

Soft balance sheet growth

In Q3FY24, the company's loan book grew 3.7% QoQ, driven by robust disbursement from its retail loan book (+4.7% QoQ). Utility vehicle loans showcased a remarkable growth of 11.4% QoQ, while commercial vehicles registered stable growth of 3.2% QoQ, despite lower industry volumes. GNPA/NNPA remained flat at 1.92%/0.57% in Q3FY24 vs. 1.93%/0.57% in Q2FY24. However, fresh slippages increased considerably to Rs. 1,765cr (+20.5% QoQ) due to high slippages in Vehicle finance, caused by adverse weather conditions in some parts of the country. The management has indicated that slippages would get normalised in Q4FY24. The restructured book was down to 0.48% vs 0.54% in Q2FY24 owing to upgrades and recoveries in Vehicle finance. Deposits logged a subdued 2.6% growth QoQ to Rs. 368,793cr, with 0.3% QoQ growth in CASA deposits and 4% QoQ growth in term deposits. However, the capital adequacy ratio (CAR) fell to 17.9% in Q3FY24 vs 18.2% in Q2FY24.

Key concall highlights

- IndusInd Bank opened 97 branches, taking its total branches to 2,728 at end-Q3FY24, in line with its target of opening 1,000 branches by FY26.
- The bank expects its cost-to-income ratio to be 45 - 46% by FY25 and stabilise between 41% and 43% thereafter.

Outlook and valuation

The company's sustained emphasis on digitalisation, branch network expansion, and effective marketing campaigns is anticipated to significantly enhance its balance sheet and operational performance. Asset quality is expected to improve with a reduction in slippages. Further, the company has successfully delivered its Planning Cycle 6 (FY23-26) targets and is exhibiting significant ambition to further refine its performance in the upcoming period. Hence, we reiterate our BUY rating on the stock with a rolled over target price of Rs. 1,791, based on 1.7x FY26E BVPS.

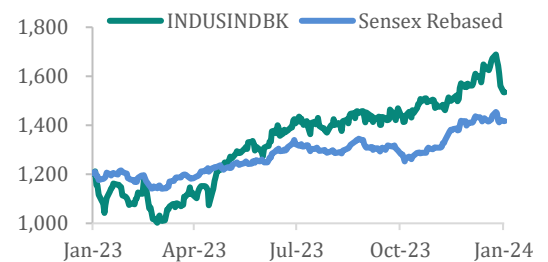
Company Data

Market Cap (cr)	Rs. 118,783
Outstanding Shares (cr)	77.6
Free Float	85.0%
Dividend Yield	6.2%
52 week high	Rs. 1,694
52 week low	Rs. 990
6m average volume (lacs)	1.2
Beta	1.2
Face value	Rs.10

Shareholding %	Q1FY24	Q2FY24	Q3FY24
Promoters	16.5	16.5	16.5
FII's	42.3	41.5	42.5
MFs/Insti	26.7	28.7	26.7
Public	13.5	12.5	13.3
Others	0.9	0.9	1.1
Total	100.0	100.0	100.0
Promoters' pledge	45.5	47.3	45.5

Price Performance	3 Month	6 Month	1 Year
Absolute Return	4.4%	7.6%	27.6%
Absolute Sensex	9.2%	5.7%	17.8%
Relative Return*	-4.8%	1.9%	9.8%

*Over or under performance to benchmark index



Standalone (cr)	FY24E	FY25E	FY26E
Net Interest Income	20,892	24,222	27,835
Growth (%)	18.8	15.9	14.9
NIM (%)	5.3	5.4	5.4
Pre-Provision Profit	15,962	19,467	21,957
Net Profit	9,036	10,514	11,717
Growth (%)	22.3	16.4	11.4
Adj.EPS	116.4	135.4	150.9
Growth (%)	22.3	16.4	11.4
BVPS	804.4	922.2	1053.5
P/E	13.2	11.3	10.2
P/B	1.9	1.7	1.5
RoE (%)	15.4	15.7	15.3
RoA (%)	1.8	1.9	1.8

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q3FY24	Q3FY23	YoY Growth %	Q2FY24	QoQ Growth %	9MFY24	9MFY23	YoY Growth %
Interest Income	11,572	9,457	22.4	11,248	2.9	33,550	26,347	27.3
Interest Expense	6,277	4,962	26.5	6,171	1.7	18,310	13,425	36.4
Net Interest Income (NII)	5,296	4,495	17.8	5,077	4.3	15,239	12,923	17.9
Non-Interest Income	2,396	2,076	15.4	2,282	5.0	6,887	6,016	14.5
Total Net Income	7,691	6,572	17.0	7,358	4.5	22,127	18,939	16.8
Total Income	13,968	11,534	21.1	13,530	3.2	40,437	32,363	24.9
Operating Expenses	3,689	2,891	27.6	3,478	6.1	10,414	8,345	24.8
Total Expenditure	9,966	7,853	26.9	9,649	3.3	28,724	21,769	31.9
Pre-Provision Profit	4,002	3,680	8.7	3,881	3.1	11,713	10,594	10.6
Provisions	934	1,065	(12.3)	974	(4.1)	2,900	3,457	(16.1)
Profit Before Tax	3,068	2,616	17.3	2,907	5.5	8,814	7,137	23.5
Tax	770	656	17.3	726	6.1	2,211	1,788	23.7
Minority Interests	0	0	n.m.	0	n.m.	0	0	n.m.
Net Profit	2,298	1,959	17.3	2,181	5.3	6,603	5,349	23.4
Adj.	0	0	n.m.	0	n.m.	0	0	n.m.
Adj. PAT	2,298	1,959	17.3	2,181	5.3	6,603	5,349	23.4
Adj. EPS (Rs.)	29.5	25.2	16.9	28.0	5.2	84.9	68.9	23.1

Change in Estimates

Year / Rs. cr	Old estimates			New estimates			Change %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income (NII)	20,690	23,415	-	20,892	24,222	27,835	1	3.4	-
Net Interest Margin (%)	5.3	5.3	-	5.3	5.4	5.4	(0.1)	0.7	-
Pre-Provision Profit	16,919	19,001	-	15,962	19,467	21,957	(5.7)	2.4	-
Net Profit	8,978	10,300	-	9,036	10,514	11,717	0.7	2.1	-
EPS (Rs)	115.7	132.7	-	116.4	135.4	150.9	0.7	2.1	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	30,822	36,368	44,935	50,966	58,702
Interest Exp.	15822	18776	24043	26745	30867
Net Int. Income	15,001	17,592	20,892	24,222	27,835
% Change	10.9	17.3	18.8	15.9	14.9
Non-Int. Income	7,334	8,166	9,310	10,241	11,265
Net Income	22,335	25,758	30,201	34,462	39,099
Total Income	38,157	44,534	54,244	61,207	69,966
Operating Exp.	9,559	11,412	14,239	14,996	17,142
Total Exp.	25,381	30,188	38,282	41,740	48,009
Pre-Prov. Profit	12,776	14,346	15,962	19,467	21,957
Provisions	6,602	4,487	3,914	5,448	6,335
PBT	6,174	9,860	12,048	14,018	15,623
Tax	1,563	2,470	3,012	3,505	3,906
Tax Rate (%)	25.3	25.1	25.0	25.0	25.0
Minority Interests	-	-	-	-	-
Net Profit	4,611	7,390	9,036	10,514	11,717
% Change	62.6	60.3	22.3	16.4	11.4
Adj.	-	-	-	-	-
Adj. Net Profit	4,611	7,390	9,036	10,514	11,717
No. of Shares (cr)	77.5	77.6	77.6	77.6	77.6
Adj. EPS (Rs.)	59.5	95.2	116.4	135.4	150.9
% Change	53.7	60.1	22.3	16.4	11.4
DPS (Rs.)	8.5	14.0	15.1	17.6	19.6

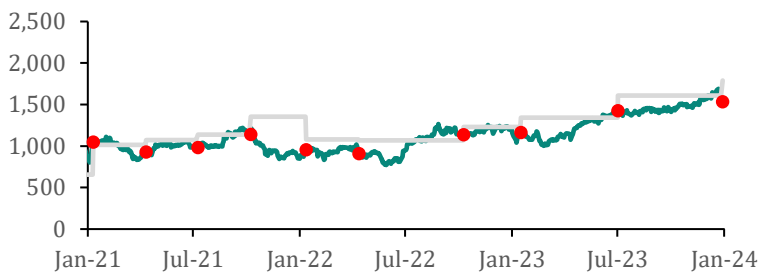
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & Balances	60,141	42,961	57,390	75,083	93,847
Investments	70,971	83,116	85,610	88,178	91,264
Advances	239,052	289,924	336,311	390,121	454,491
Fixed Assets	1,849	1,993	2,092	2,197	2,307
Other Assets	29,962	39,810	42,436	45,325	48,502
Total Assets	401,975	457,804	523,840	600,905	690,412
Capital	775	776	776	776	776
Reserves & Surplus	46,906	53,801	61,663	70,810	81,004
Deposits	293,681	336,438	393,633	460,550	538,844
Borrowings	47,323	49,011	49,991	50,991	52,011
Other Liabilities	13,289	17,777	17,777	17,777	17,777
Total Liabilities	401,975	457,804	523,840	600,905	690,412
BVPS (Rs.)	614.9	703.1	804.4	922.2	1,053.5
Adj. BVPS (Rs.)	595.2	681.0	784.9	902.1	1,033.1
% Change	4.0	14.3	14.4	14.6	14.2

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Valuation					
P/E (x)	15.7	16.1	13.2	11.3	10.2
P/BV (x)	1.5	2.2	1.9	1.7	1.5
Div. Yield (%)	0.9	0.9	1.0	1.1	1.3
Profitability & Return (%)					
Yield on Advances	11.1	11.3	12.0	11.8	11.7
Cost of Deposits	4.9	5.2	5.8	5.6	5.6
Spread	6.3	6.2	6.2	6.2	6.1
NIM - calculated	5.1	5.2	5.3	5.4	5.4
ROE	10.1	14.5	15.4	15.7	15.3
ROA	1.2	1.7	1.8	1.9	1.8
Capital Adequacy (%)					
CAR	18.0	17.9	17.7	17.5	17.3
Tier I	16.5	16.4	16.4	16.4	16.3
Tier II	1.5	1.5	1.3	1.1	1.0
Asset Quality (%)					
GNPA	2.3	2.0	1.8	1.8	1.8
NNPA	0.6	0.6	0.5	0.4	0.4
Operating Ratios (%)					
Credit/Deposit	81.4	86.2	85.4	84.7	84.3
Cost/Income	42.8	44.3	47.1	43.5	43.8
CASA	42.7	40.0	39.0	39.5	40.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
2-Aug-21	BUY	1,137
1-Nov-21	BUY	1,352
4-Feb-22	BUY	1,078
6-May-22	BUY	1,070
2-Nov-22	HOLD	1,230
9-Feb-23	BUY	1,343
26-Jul-23	BUY	1,609
30-Jan-24	BUY	1,791

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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