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Indusind Bank Ltd

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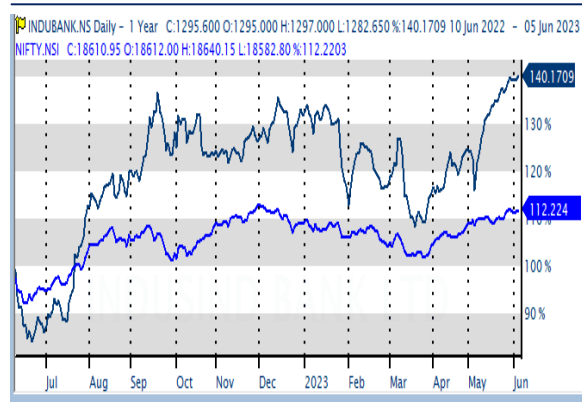
For Private Clients

IndusInd Bank Ltd.

Key Data

Recommendation	BUY
Entry (Rs.)	1276 – 1290
Target (Rs.)	1360 – 1380
Time Horizon	1 month
Market Cap (bn)	Rs.992.2 / US\$ 12.0
Share in issue (mn)	773.40
Diluted share (mn)	775.80
3-mon avg. daily val (mn)	Rs.4251.7/ US\$ 51.9
52 week range	Rs.1298 / 763.2
Sensex/Nifty	62871 / 18618
Rs./US\$	82.57
Bloomberg	IIB IN
Stop loss	1218.9

Relative Price Performance



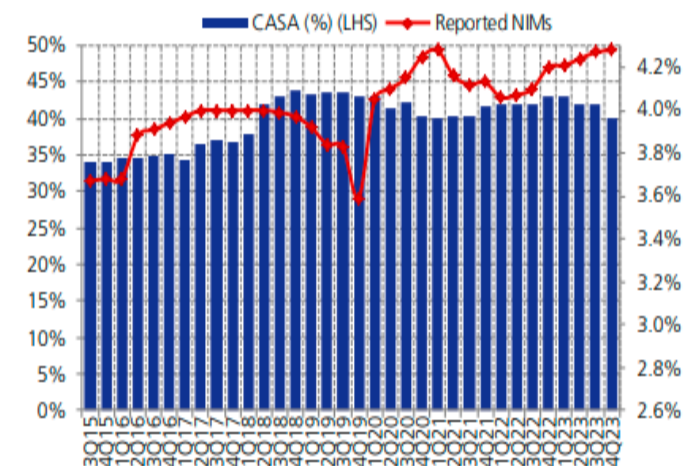
Source: Bloomberg, JMFS Research

We believe Indian banks expected to report another strong quarter with improvement in credit growth and Sustained healthy NIMs. Sector loan growth has continued to improve led by higher corporate demand and continued retail momentum. Slippages, credit costs will remain under control and opex ratios should elevated in our view. Larger pvt sector players continue to grow faster than smaller players and this has been a key underlying thesis for our preferred stance on larger banks through the cycle. We continue to prefer IndusInd Bank, as it has been experiencing improvements in its return on equity (ROE) and return on assets (ROA) over the past two years. Additionally, there has been consistent growth in its quarterly net profit, accompanied by an increasing profit margin year over year.

IndusInd Bank showcased the long strides it has taken on liability improvement, continued strength of its vehicle finance and microfinance businesses as well as efforts on digital banking. The bank also elaborated on its renewed strategy in corporate banking where focus on risk management and transaction-led solutions remain priority.

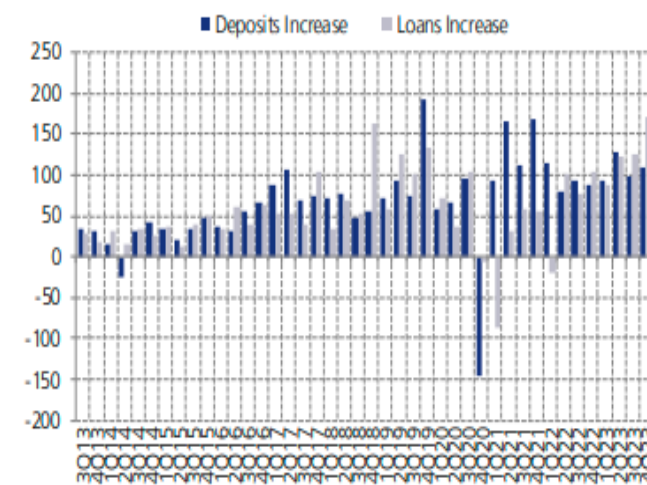
We believe the bank has delivered steady improvement in its liabilities base under the new leadership. IndusInd intends to accelerate the momentum further by scaling up a) its Affluent and NRI business and b) further consolidating on its strong position in identified “home markets”. Granularity of liabilities remains the mantra going ahead and should result into a smoother and predictable NIM profile for IIB, in our view. Also, scale of newer non-vehicle retail domains – affordable housing, MSME and merchant loans, will drive growth incrementally.

Trend in CASA



Source: Company, JM Financial

Trend in Balance Sheet Growth Momentum (INR Bln)



Source: Company, JM Financial

The opportunity w.r.t to BFIL remains large and we believe successful scale up of newer products (2W, Merchant loans, individual loans) will drive next leg of RoA-accretive growth.

Corporate banking has moved from being balance sheet led to solution/ transaction-driven and quality improvement of the portfolio is underway.

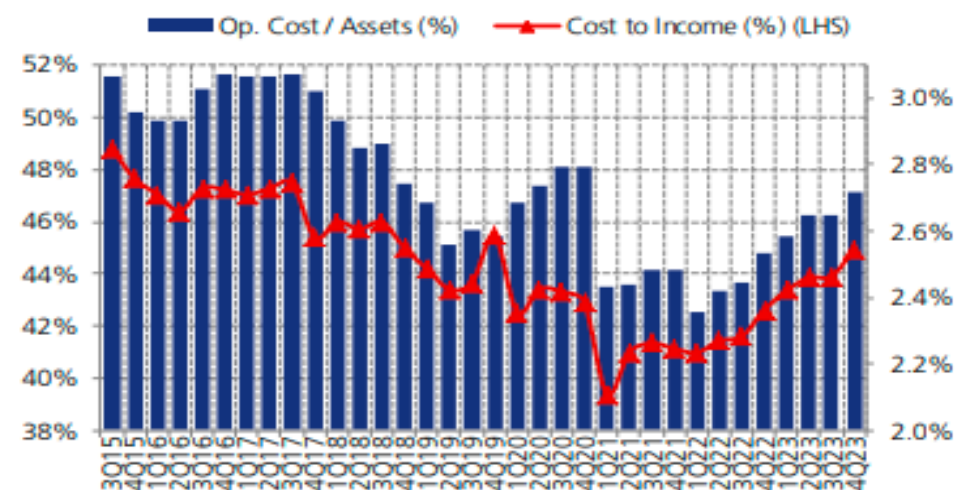
Recent earnings of IndusInd Bank remained steady, in-line quarter with profits at INR 20.4bn (46% YoY). NIMs came in at 4.28% with deposit growth at 14.6% YoY and retail deposits (as per LCR) now at 43% of deposits. IIB's cost of funds increased +20bps on quarter. Slippages were a tad higher sequentially led by microfinance delinquencies and one-off corporate slippage. IIB has kept surplus contingent provisions in addition to PCR and its PCR stands stable at 71% which should keep credit costs under control.

IIB previously laid out its PC (Planning Cycle 1,2,3,4 & 5) strategy and has successfully delivered on the metrics. Similarly, mgmt. has outlaid its PC6 strategy for FY23-26 with focus on a) continued retailisation by working towards increasing share of retail deposits, ramping-up customer acquisition and expanding branch network b) diversifying domain which aims to maintain or improve market leadership with special focus on these products (vehicle finance, two-wheeler, affordable housing, gems & jewellery) c) scaling sub-scale businesses like mortgages, MSME, etc. d) accelerating digital initiatives by building efficient/profitable digital bank catering to individual and MSME clients e) imbibing ESG into business.

Management has put out its next 3-yr targets with respect to growth, profitability and asset quality and is targeting 18-23% loan growth with 1.9-2.2% RoA. We believe core performance for the bank continues to trend in the right direction.

Key Risks: Any change in Regulatory Landscape – Any sharp slowdown in credit growth.

Trend in Operating Costs and cost to income



Financial snapshot – Income Statement and Balance sheet

Profit & Loss	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Interest Income	1,35,279	1,50,008	1,75,921	2,16,654	2,52,522
Profit on Investments	14,862	5,932	4,880	4,880	4,880
Exchange Income	13,212	17,308	10,060	19,912	22,111
Fee & Other Income	36,935	50,836	66,788	73,265	89,013
Non-Interest Income	65,009	74,076	81,728	98,057	1,16,004
Total Income	2,00,288	2,24,085	2,57,649	3,14,711	3,68,526
Operating Expenses	81,568	93,107	1,13,459	1,38,085	1,64,427
Pre-provisioning Profits	1,18,719	1,30,978	1,44,190	1,76,627	2,04,098
Loan-Loss Provisions	62,918	37,539	42,712	43,610	52,590
Provisions on Investments	6,088	3,664	800	800	300
Others Provisions	10,420	25,447	1,357	1,500	500
Total Provisions	79,425	66,649	44,868	45,910	53,390
PBT	39,294	64,328	99,322	1,30,717	1,50,708
Tax	9,995	16,282	24,891	32,758	37,768
PAT (Pre-Extraordinaries)	29,299	48,046	74,431	97,959	1,12,940
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	29,299	48,046	74,431	97,959	1,12,940
Dividend paid	3,867	6,585	10,863	15,184	17,506
Retained Profits	25,432	41,462	63,569	82,775	95,434

Source: Company, JM Financial

Balance Sheet	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Equity Capital	7,734	7,747	7,759	7,759	7,759
Reserves & Surplus	4,24,083	4,69,280	5,39,271	6,22,046	7,17,480
Deposits	25,58,701	29,33,495	33,61,202	39,32,606	46,01,149
Borrowings	5,13,228	4,73,232	4,90,112	5,33,834	5,81,927
Other Liabilities	1,22,097	1,32,683	1,77,006	1,94,706	2,14,177
Total Liabilities	36,25,897	40,16,597	45,75,793	52,91,394	61,22,936
Investments	6,96,534	7,09,299	8,30,757	9,77,624	11,61,626
Net Advances	21,25,954	23,90,515	28,99,237	34,21,099	40,36,897
Cash & Equivalents	5,66,099	6,85,847	5,67,768	5,42,468	6,29,091
Fixed Assets	15,621	16,211	18,216	19,477	20,701
Other Assets	2,21,688	2,14,725	2,59,816	3,30,726	2,74,620
Total Assets	36,25,897	40,16,598	45,75,793	52,91,394	61,22,936

Source: Company, JM Financial

Financial snapshot – Cash Flow Statement, Dupont Analysis & Key Ratios

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY) (%)					
Deposits	26.7%	14.6%	14.6%	17.0%	17.0%
Advances	2.8%	12.4%	21.3%	18.0%	18.0%
Total Assets	18.1%	10.8%	13.9%	15.6%	15.7%
NII	12.2%	10.9%	17.3%	23.2%	16.6%
Non-interest Income	-6.5%	13.9%	10.3%	20.0%	18.3%
Operating Expenses	-0.3%	14.1%	21.9%	21.7%	19.1%
Operating Profits	9.6%	10.3%	10.1%	22.5%	15.6%
Core Operating profit	1.1%	20.4%	11.4%	23.3%	16.0%
Provisions	70.7%	-16.1%	-32.7%	2.3%	16.3%
Reported PAT	-34.3%	64.0%	54.9%	31.6%	15.3%
Yields / Margins (%)					
Interest Spread	3.90%	3.71%	3.82%	4.13%	4.08%
NIM	4.35%	4.18%	4.35%	4.69%	4.69%
Profitability (%)					
Non-IR to Income	32.5%	33.1%	31.7%	31.2%	31.5%
Cost to Income	40.7%	41.5%	44.0%	43.9%	44.6%
ROA	0.88%	1.26%	1.73%	1.99%	1.98%
ROE	7.6%	10.6%	14.5%	16.6%	16.7%
Assets Quality (%)					
Slippages	3.74%	4.79%	2.90%	2.00%	1.90%
Gross NPA	2.67%	2.27%	1.98%	1.53%	1.58%
Net NPAs	0.69%	0.64%	0.59%	0.46%	0.48%
Provision Coverage	74.5%	72.3%	70.6%	70.0%	70.0%
Specific LLP	2.41%	1.84%	1.47%	1.26%	1.29%
Net NPAs / Networth	3.4%	3.2%	3.1%	2.5%	2.7%
Capital Adequacy (%)					
Tier I	16.83%	16.80%	16.37%	16.28%	16.19%
CAR	17.38%	18.42%	17.86%	17.57%	17.30%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	4.04%	3.93%	4.09%	4.39%	4.42%
Other Income / Assets	1.94%	1.94%	1.90%	1.99%	2.03%
Total Income / Assets	5.98%	5.86%	6.00%	6.38%	6.46%
Cost / Assets	2.44%	2.44%	2.64%	2.80%	2.88%
PBP / Assets	3.55%	3.43%	3.36%	3.58%	3.58%
Provisions / Assets	2.37%	1.74%	1.04%	0.93%	0.94%
PBT / Assets	1.17%	1.68%	2.31%	2.65%	2.64%
Tax rate	25.4%	25.3%	25.1%	25.1%	25.1%
ROA	0.88%	1.26%	1.73%	1.99%	1.98%
RoRWAs	1.10%	1.69%	2.35%	2.70%	2.69%
Leverage	8.4	8.4	8.4	8.4	8.4
ROE	7.6%	10.6%	14.5%	16.6%	16.7%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	773.4	774.7	775.9	775.9	775.9
EPS (INR)	37.9	62.0	95.9	126.3	145.6
EPS (YoY) (%)	-41.1%	63.7%	54.7%	31.6%	15.3%
PER (x)	29.1	17.8	11.5	8.7	7.6
BV (INR)	558	616	705	812	935
BV (YoY) (%)	12.5%	10.3%	14.5%	15.1%	15.2%
ABV (INR)	562	617	705	812	935
ABV (YoY) (%)	14.3%	9.9%	14.3%	15.1%	15.2%
P/BV (x)	1.97	1.79	1.56	1.36	1.18
P/ABV (x)	1.96	1.78	1.56	1.36	1.18
DPS (INR)	5.0	8.5	14.0	19.6	22.6
Div. yield (%)	0.5%	0.8%	1.3%	1.8%	2.0%

Source: Company, JM Financial

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Definition of ratings

Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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