

Beat on operating performance; Loan growth uptick continues

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CMP: INR 879

Rating: Buy

Target Price: INR 1,236

Stock Info

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	775
Mkt Cap (INR Cr)	68,504
52w H/L (INR)	1,242 / 764
Avg Yearly Vol (in 000')	4,152

Shareholding Pattern %

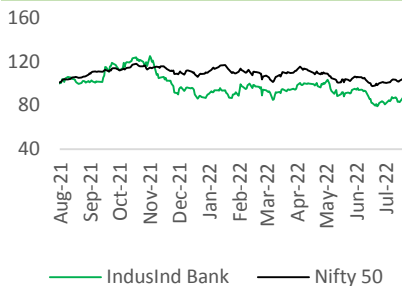
(As on June, 2022)

Promoters	16.5
FII	45.8
DII	21.0
Public & Others	16.7

Stock Performance (%)

	1m	3m	12m
IndusInd Bank	12.5	-9.3	-10.1
Nifty 50	8.0	-3.3	6.0

IndusInd Bank Vs Nifty



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IndusInd Bank (IIB) has posted good set of numbers during Q1FY23 with strong profit growth of 64% YoY/18% QoQ to INR 1,603 cr, was sharply higher than our estimate of INR 1,344 cr. Beat on PAT was primarily due to better income growth and decline in provision. Despite a sharp rise in bond yield, bank has managed its treasury book well and reported a securities/FX trading gain of INR 146 cr as compared to INR 259 cr in the previous quarter. NII for the quarter increased by 16% YoY/3.5% QoQ to INR 4,125 cr was ahead of our estimate of INR 4,029 cr, driven by strong uptick in credit growth at 18% YoY and stable margins. Operating profit for the quarter grew by 8% YoY/2% QoQ to INR 3,394 cr as compared to our estimate of INR 3,145 cr. Other income grew by 8% YoY/1.4% QoQ to INR 1,929 cr, led by core fee income growth of 47% YoY/9% QoQ. Bank has used INR 325 cr of contingent provision during the quarter and continue to hold INR 3,003 cr (121 bps of loans) of contingent provisions. IIB's GNPA ratio inched up marginally by 8bps QoQ at 2.35% as slippages ratio increased from 3.5% to 3.6% on QoQ basis. Restructuring pool of the bank have come off from 2.6% to 2.1% QoQ.

Loan book growth was strong: IIB's loan book grew strongly by 18% YoY/4% QoQ, driven by corporate credit growth of 24% YoY/5% QoQ and 13% YoY/3% QoQ growth in consumer segment which is Retail. Corporate credit growth was higher as it was driven by higher working capital demand by large and small corporates. Retail portfolio of the bank has increased by 13% YoY, driven by vehicle finance, business banking and credit card segment. Management has highlighted that within the vehicle finance portfolio disbursements remained strong in CV, utility vehicle, tractor and car segment while in the two and three wheelers it remained subdued. Liability profile of the bank continued to witness a good traction with total deposit growth of 13% YoY/3% QoQ, driven by CASA deposit growth of 16% YoY. CASA ratio of the bank remained stable at 43% QoQ.

Asset quality deteriorated marginally: Slippage of the bank increased from INR 2,088 cr to INR 2,250 cr (Slippage ratio at 3.6% vs 3.5% QoQ). The increase in slippages was mainly from the restructured book. Slippages from restructuring book increased from INR 390 cr to INR 921 cr. Slippages from the standard book was lower at INR 1,330 cr as compared to INR 1,698 cr QoQ. Out of the total INR 2,250 cr slippages, INR 603 cr was from Corporate and INR 1,647 cr was from retail portfolio. Recoveries /upgrades and write-offs for the quarter was at INR 1,834 cr vs. INR 2,350 cr QoQ. Management remained firm on credit cost guidance of 120-150 bps for FY23.

Valuation & View; Maintain Buy: IIB has reported better performance on most of the counts with beat on operating performance front. Momentum on growth is picking up, liability profile shaping up well, balance sheet positioned remained strong and margin was stable. With the increasing credit growth in the system and management's focus on PC 5 strategy, we believe loan growth of the bank to remain strong with focus remain on building granular liability profile. We maintain our positive view and Buy rating on the stock with a target price of INR 1,236, based on 1.6x FY24E ABV. Bank is expected to deliver 1.4%/13% RoA/RoE by FY24E.

Particulars (in Cr.)	FY20	FY21	FY22	FY23E	FY24E
NII	12,059	13,528	15,001	16,115	17,228
PPOP	10,773	11,727	12,839	13,976	15,062
PAT	4,418	2,837	4,611	6,718	7,904
EPS (INR / Share)	63.7	36.7	59.6	86.9	102.2
BVPS (INR / Share)	500.3	560.7	616.7	698.6	795.8
NIM (%)	4.4%	4.4%	4.2%	4.2%	4.0%
RoA (%)	1.4%	0.8%	1.1%	1.4%	1.4%
RoE (%)	12.7%	6.5%	9.7%	12.4%	12.8%
P/ABV (x)	1.9	1.6	1.5	1.3	1.1

Q1FY23 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Interest Income	8,182	7,860	7,575	4.1%	8.0%
Interest Expense	4,057	3,875	4,011	4.7%	1.1%
Net Interest Income	4,125	3,985	3,564	3.5%	15.8%
Non Interest Income	1,929	1,902	1,781	1.4%	8.3%
Total Income	6,054	5,887	5,345	2.8%	13.3%
Employee Costs	660	659	608	0.3%	8.6%
Other Operating Expenses	2,000	1,900	1,606	5.3%	24.5%
Operating Expenses	2,660	2,559	2,214	4.0%	20.1%
Pre-Provision Profit	3,394	3,329	3,131	2.0%	8.4%
Provisions	1,251	1,464	1,844	-14.5%	-32.2%
Profit Before Tax	2,143	1,865	1,287	14.9%	66.5%
Tax Expense	539	504	312	7.1%	73.1%
Net Profit	1,603	1,361	975	17.8%	64.4%
Balance Sheet Analysis					
Deposits	3,02,719	2,93,681	2,67,233	3.1%	13.3%
CASA Deposits	1,30,508	1,25,333	1,12,349	4.1%	16.2%
CASA (%)	43.0%	43.0%	42.0%	0bps	100bps
Advances	2,47,960	2,39,052	2,10,727	3.7%	17.7%
Total Assets	4,10,100	4,01,975	3,72,996	2.0%	9.9%
Capital Adequacy Ratio (%)	18.14%	18.42%	17.57%	-28bps	57bps
Spread Analysis					
Yield on Avg Advances (%)	11.0%	10.9%	11.7%	11bps	-64bps
Yield on Avg Interest Earning Assets (%)	8.6%	8.6%	8.8%	4bps	-20bps
Cost of Funds (%)	4.73%	4.68%	6.4%	6bps	-171bps
NIM (%)	4.2%	4.2%	4.1%	1bps	15bps
Asset Quality					
Gross NPA	5,933	5,517	6,186	7.5%	-4.1%
Net NPA	1,661	1,530	1,760	8.6%	-5.6%
GNPA (%)	2.35%	2.27%	2.88%	8bps	-53bps
NNPA (%)	0.67%	0.64%	0.84%	3bps	-17bps
PCR (%)	72.0%	72.3%	71.6%	-27bps	45bps
Key Ratios					
Cost to Income Ratio (%)	43.9%	43.5%	41.4%	48bps	252bps
C/D Ratio (%)	81.9%	81.4%	78.9%	51bps	306bps
RoA (%) (Annualised)	1.70%	1.47%	1.17%	23bps	53bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 – Key Concall Highlights**On Asset quality and collection efficiency front**

- The bank has reported slippages of INR 2,250 cr during Q1FY23 vs. INR 2,088 cr in Q4FY22. Out of the total slippages, INR 1330 cr (vs. INR 1,698 cr in Q4FY22) was from standard book and INR 921 cr (vs. INR 390 cr in Q4FY22) was from restructuring book.
- Credit cost of the bank reduced from 61bps to 50bps QoQ.
- Corporate delinquencies included one large account that contributed over half of the slippages. Standard slippages declined for MFI and Corporate segments.
- Restructuring book reduced by INR 1,013 cr to 2.1% (vs. 2.6% in Q4FY22).
- SMA 1 & 2 book was at 10bps & 39 bps respectively.

On Vehicle Finance

- Vehicle finance business accelerated during the quarter to 8% YoY/4% QoQ.
- Seen highest ever disbursement at 10,078 cr, which saw a QoQ growth for the first time. Higher disbursement seen in CV, utility vehicles, cars and tractors while muted disbursements seen in 2W and 3W segment.
- Fresh disbursements in this portfolio are at higher rate and in-line with benchmark rate movement.
- Collection efficiency of the standard customers was at pre-covid levels.
- Restructuring book reduced from INR 3,298 cr to INR 3,131 cr QoQ. Collection efficiency in this book was in the range of 80%, in line with expectations.

On MFI

- Highest quarterly disbursements seen at 7,531 cr during Q1FY23. MFI book was at INR 29,403 cr, +13% YoY.
- MFI standard book collection efficiency was at 99.1% same as previous quarter.
- 30-90 dpd book including restructuring book was moderated at 2.2% vs 2.6% QoQ.
- Gross slippages moderated to INR 560 cr as compared to INR 815 cr QoQ.
- Outstanding restructuring book reduced to INR 644 cr from INR 995 cr QoQ. Restructuring book saw slippages of INR 283 cr.

On Corporate

- Majority of the corporate book is floating in nature and the bank was able to pass the rate hike to customers. A and above rated corporates share increased from 70.7% to 73.5% on QoQ basis.
- Exposure of the bank on the telecom side was at INR 1,850 cr including fund based exposure of INR 1,000 cr.

Other Highlights

- Management reiterated its guidance of 15-18% on the credit growth.
- NIM is expected to be in the range of 4-4.2%.
- Credit cost guidance remains same at 120-150bps.
- On the treasury side, bank had started unwinding its portfolio from January onwards. By April, most of the position was closed.
- In addition to PCR of 72% on NPA, the bank holds a contingent provision buffer of INR 3,003 cr.
- Key focus areas: i) Maintaining credit cost in the guided range, ii) Maintaining NIM and iii) Watchful on operating cost front.
- Yield of the bank improved by 10 bps while cost of funds increased by 6bps on QoQ basis.

Key Financials

Profit & Loss Statement (INR Crores)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	28,783	29,000	30,822	33,677	36,817
Interest Expense	16,724	15,472	15,822	17,562	19,589
Net Interest Income	12,059	13,528	15,001	16,115	17,228
Non interest income	6,951	6,559	7,397	8,211	9,114
Operating income	19,010	20,087	22,398	24,325	26,342
- Employee expense	2,208	2,214	2,488	2,712	2,956
- Other operating expense	6,029	6,146	7,071	7,637	8,324
Operating Expense	8,237	8,360	9,559	10,349	11,280
PPOP	10,773	11,727	12,839	13,976	15,062
Provisions	4,652	7,943	6,665	4,999	4,499
PBT	6,121	3,784	6,174	8,978	10,563
Tax Expense	1,703	948	1,563	2,260	2,659
PAT	4,418	2,837	4,611	6,718	7,904
Diluted EPS (INR)	63.7	36.7	59.6	86.9	102.2

Balance Sheet (INR Crores)	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	694	773	773	773	773
Reserves & Surplus	34,003	42,592	46,923	53,254	60,771
Networth	34,697	43,365	47,696	54,027	61,545
ESOP	9	0	0	16	16
Borrowings	60,754	51,323	47,323	85,354	95,597
Deposits	2,02,040	2,56,205	2,93,681	3,37,734	3,91,771
Other liabilities & provisions	9,558	12,080	13,273	15,927	19,113
Total Equity & Liabilities	3,07,058	3,62,973	4,01,973	4,93,058	5,68,041
Uses of Funds					
Cash & bank balance	16,004	56,327	1,16,236	67,000	70,028
Investments	59,980	69,695	70,971	95,008	1,14,010
Loans & advances	2,06,783	2,12,595	2,39,052	2,78,585	3,31,516
Fixed assets	1,820	1,809	1,876	2,157	2,481
Other assets	22,471	22,546	-27,028	50,307	50,006
Total Assets	3,07,058	3,62,973	4,01,973	4,93,058	5,68,041

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
Growth Rates					
Advances (%)	10.9%	2.8%	12.4%	16.5%	19.0%
Deposits (%)	3.7%	26.8%	14.6%	15.0%	16.0%
Total assets (%)	10.5%	18.2%	10.7%	22.7%	15.2%
NII (%)	36.3%	12.2%	10.9%	7.4%	6.9%
Pre-provisioning profit (%)	33.2%	8.9%	9.5%	8.9%	7.8%
PAT (%)	33.8%	-35.8%	62.6%	45.7%	17.7%
B/S Ratios					
Credit/Deposit (%)	102.3%	83.0%	81.4%	82.5%	84.6%
CASA (%)	40.4%	41.7%	42.7%	43.3%	44.3%
Advances/Total assets (%)	67.3%	58.6%	59.5%	56.5%	58.4%
Leverage - Total Assets to Equity	8.8	8.4	8.4	9.1	9.2
Operating efficiency					
Cost/income (%)	43.3%	41.6%	42.7%	42.5%	42.8%
Opex/total assets (%)	2.7%	2.6%	2.7%	2.1%	2.0%
Opex/total interest earning assets	3.1%	2.9%	3.1%	2.9%	2.6%
Profitability					
NIM (%)	4.4%	4.4%	4.2%	4.2%	4.0%
RoA (%)	1.4%	0.8%	1.1%	1.4%	1.4%
RoE (%)	12.7%	6.5%	9.7%	12.4%	12.8%
Asset Quality					
Gross NPA (%)	2.5%	2.7%	2.3%	2.0%	1.8%
Net NPA (%)	0.9%	0.7%	0.6%	0.6%	0.5%
PCR (%)	45.0%	74.2%	70.0%	70.0%	70.0%
Slippage (%)	1.2%	2.2%	1.6%	1.0%	1.0%
Credit cost (%)	2.4%	3.8%	3.0%	1.9%	1.5%
Per Share Data / Valuation					
EPS (INR)	63.7	36.7	59.6	86.9	102.2
BVPS (INR)	500.3	560.7	616.7	698.6	795.8
ABVPS (INR)	463.4	544.2	592.1	676.4	772.6
P/E (x)	13.8	24.0	14.7	10.1	8.6
P/BV (x)	1.8	1.6	1.4	1.3	1.1
P/ABV (x)	1.9	1.6	1.5	1.3	1.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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