

**CMP: INR 1,421**

**Rating: ACCUMULATE**

**Target Price: INR 1,678**

**Stock Info**

BSE	532187
NSE	IIB
Bloomberg	IIB IN
Reuters	INBK.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	7.8
Mkt Cap (INR Bn)	1,104
52w H/L (INR)	1,476 / 990
Avg Yearly Vol (in 000')	3,189

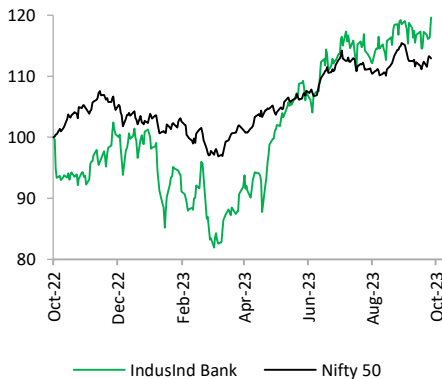
**Shareholding Pattern %**

(As on September, 2023)

Promoters	16.5
Public & Others	83.5

Stock Performance (%)	1m	6m	12m
IndusInd Bank	-2.02	24.5	16.7
Nifty 50	-2.2	11.5	12.6

**IndusInd Bank Vs Nifty**



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IndusInd Bank (IIB) has posted profit growth of 22.1% YoY/2.1% QoQ to INR 21.8 bn. Increase in PAT was primarily due to better income growth and decline in provision. NII for the quarter increased by 18% YoY/4.3% QoQ to INR 50.7 bn, driven by uptick in loan book growth at 21.3% YoY and marginal sequential expansion of margins. Operating profit for the quarter grew by 10.3% YoY/1.3% QoQ to INR 38.8 bn. Other income grew by 13.5% YoY/3.3% QoQ to INR 22.8 bn, led by core fee income growth of 13.5% YoY/3.3% QoQ. Bank has used INR 15.2 bn of contingent provision during the quarter. GNPA improved by 1bps QoQ at 1.93% (down 18 bps YoY) and NNPA came at 0.57% down 1 bps QoQ / 4 bps YoY.

**Loan book growth was strong:** IIB's loan book grew strongly by 21.3% YoY/4.7% QoQ, driven by consumer credit growth of 6.4% QoQ and 21% YoY/4% QoQ growth in vehicle loan, Credit Card and Personal loan segment. Corporate credit growth increased by 2.7% QoQ as it was led by small business loans segments. Retail portfolio of the bank has increased by 21.9% YoY, driven by vehicle finance, credit card and personal loans segment. The restructured book book further declined to 0.54% against 0.66% previous quarter, reflecting the strong Credit demand across the economy. Liability profile of the bank continued to witness a good traction with total deposit growth of 13.9% YoY/3.7% QoQ, driven by Time deposits growth of 20% YoY. CASA ratio of the bank declined by 300 bps on a YoY basis to 39%.

**Asset quality improved marginally:** Overall asset quality improved for the bank with the GNPA coming down by 18 bps YoY / 1 bps QoQ. Recoveries increased by INR 0.4 bn while write-offs declined by INR 1.85 bn sequentially.

**Cost to Income increased while branch addition and growth required it to:** Cost to Income ratio increased from 45.86% in Q1FY24 to 46.88% as the bank increased branch presence by opening 25 new branches. The allure of retail book has driven the Management to give future pathway of adding another 600-1,000 branches over the next 6 years.

**Valuation & View;** IIB has reported in line performance on most of the counts with a stable business growth. However, the post pandemic Automotive sector demand and new regulatory changes has also brought new challenges and competition from NBFCs in the Vehicle Financing business. Going forward, we expect the Vehicle financing business to follow industry trends while Microfinance business makes newer strides of growth across the industry. The rising cost of deposits from 6.12% to 6.35% sequentially concerns bottomline growth, we believe the ominous lending growth witnessed currently to continue in the medium term as well. We maintain positive outlook with rating downgrade for the time being to Accumulate for a target price of INR 1,678 on 1.5x FY26E ABV.

**Financial Performance**

Particulars (Rs Bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
NII	135	150	176	202	251	283
PPOP	117	128	143	169	215	244
PAT	28	46	74	89	120	138
EPS (INR / Share)	36.7	59.5	95.2	115.3	155.3	178.3
BVPS (INR / Share)	560.7	615.5	703.4	818.7	974.0	1,152.2
NIM (%)	4.4%	4.2%	4.4%	4.3%	4.6%	4.4%
RoA (%)	0.8%	1.1%	1.6%	1.7%	1.9%	1.9%
RoE (%)	6.5%	9.7%	13.5%	14.1%	15.9%	15.5%
P/ABV (x)	2.5	2.3	2.0	1.7	1.5	1.2

## Q2FY24 - Quarterly Performance (Standalone)

(in INR bn)

Income Statement	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Interest Income	1,12,478	1,07,297	87,080	4.8%	29.2%
Interest Expense	61,711	58,625	44,060	5.3%	40.1%
<b>Net Interest Income</b>	<b>50,767</b>	<b>48,671</b>	<b>43,021</b>	<b>4.3%</b>	<b>18.0%</b>
Non Interest Income	22,818	22,098	20,108	3.3%	13.5%
Total Income	73,585	70,769	63,129	4.0%	16.6%
Employee Costs	9,566	8,629	7,347	10.9%	30.2%
Other Operating Expenses	25,210	23,839	20,585	5.7%	22.5%
Operating Expenses	34,776	32,468	27,932	7.1%	24.5%
<b>Pre-Provision Profit</b>	<b>38,809</b>	<b>38,301</b>	<b>35,197</b>	<b>1.3%</b>	<b>10.3%</b>
Provisions	9,738	9,916	11,411	-1.8%	-14.7%
Profit Before Tax	29,071	28,385	23,786	2.4%	22.2%
Tax Expense	7,256	7,149	5919	1.5%	22.6%
<b>Net Profit</b>	<b>21,815</b>	<b>21,236</b>	<b>17,867</b>	<b>2.7%</b>	<b>22.1%</b>
<b>Balance Sheet Analysis</b>					
Deposits	35,97,865	34,70,470	31,59,205	3.7%	13.9%
CASA Deposits	14,14,370	13,84,400	13,35,250	2.2%	5.9%
CASA (%)	39.0%	40.0%	42.0%	-100bps	-300bps
Advances	31,54,541	30,13,170	26,01,288	4.7%	21.3%
Total Assets	47,77,574	46,69,929	42,64,882	2.3%	12.0%
Capital Adequacy Ratio (%)	18.21%	18.40%	18.06%	-19bps	15bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	12.2%	12.0%	11.3%	21bps	91bps
Yield on Avg Interest Earning Assets (%)	9.7%	9.6%	9.0%	9bps	74bps
Cost of Funds (%)	5.40%	5.31%	5.03%	9bps	37bps
NIM (%)	4.3%	4.2%	4.4%	5bps	-13bps
<b>Asset Quality</b>					
Gross NPA	61,642	59,411	55,671	3.8%	10.7%
Net NPA	18,138	17,469	15,840	3.8%	14.5%
GNPA (%)	1.93%	1.94%	2.11%	-1bps	-18bps
NNPA (%)	0.57%	0.58%	0.61%	-1bps	-4bps
PCR (%)	71.0%	71.0%	71.5%	0bps	-55bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	46.9%	45.9%	44.2%	100bps	263bps
C/D Ratio (%)	87.7%	86.8%	82.3%	86bps	534bps
RoA (%) (Annualised)	1.90%	1.90%	1.78%	0bps	12bps

Source: Arian Research, Company Filings

**• Q2FY24 – Key Concall Highlights**

- Key Highlights:
- The portion of A and above rated customers have increased over 77% for the bank.
- Only one SMA slipped into NPA from last quarter, thereby increasing the NPA.
- INR 1.68 bn was one SME account that slipped from SMA to NPA.
- The Management does not see much further increase in the Cost of Funds.
- The Bank has put a minimum of INR 15,000 of loan to be taken by any retail customer in order to avoid the cumbersomeness of loan processing, and is allowing customers with an eligibility to avail loans of up to a certain limit for availing per customer.
- The deposit growth was slower than the advance growth over last couple of quarters.
- The Bank used the excess liquidity for improving the margins.
- An incentive payout that was done in Q1 based on Performance based assessment, along with 3,500 employees were added, which is why the employees cost increased by 30% YoY.
- Slippages will be always at 350 and Credit cost to be around 200-250 bps in MFI business is how the Bank sees the risk of the business.
- The Credit cost to be around 100-120 bps for the overall bank, and the Management expects to see that number by the H2FY24.
- The Bank has 2.2% market share in Cards and the 1.1% market share in the Personal Loan business, and the bank Management doesn't want to push growth in those business as the bank already has unsecured book in the form of MFI business, which after the Bharat Financial merger increased. Pushing more growth in the Cards & PL business, will increase the unsecured book beyond the Bank's Management's risk appetite.
- The Management were earlier focussed to diversify the MHCV and overall Vehicle Finance business, as the market was dominated by NBFCs. So, with the bank and other's increasing their Vehicle Finance business, the Tata Finance, an NBFC lost the market share to them and other players.
- The Bank has been focussing on affluent customer acquisition.
- In the long run, the Management sees the Cost to Income Ratio going to 45-46% first and later coming to 41-43% in the long run.
- The Bank's Credit Card customer acquisition when digital was launched was INR 6,000 per customer, which has now come down to INR 1,800 per customers. Hence, the bank has been focussing for the digital expansion of their business, the bank's Management believes they will be able to improvement their cost efficiencies in a similar manner in the future.

## Key Financials

Profit & Loss Statement (INR Bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	290	308	364	398	435	476
Interest Expense	155	158	188	195	184	193
<b>Net Interest Income</b>	<b>135</b>	<b>150</b>	<b>176</b>	<b>202</b>	<b>251</b>	<b>283</b>
Non interest income	66	74	82	91	101	112
Operating income	201	224	258	293	352	395
- Employee expense	22	25	30	33	36	39
- Other operating expense	61	71	84	91	101	111
Operating Expense	84	96	114	124	137	151
<b>PPOP</b>	<b>117</b>	<b>128</b>	<b>143</b>	<b>169</b>	<b>215</b>	<b>244</b>
Provisions	79	67	45	49	54	60
PBT	38	62	99	119	161	185
Tax Expense	9	16	25	30	40	46
<b>PAT</b>	<b>28</b>	<b>46</b>	<b>74</b>	<b>89</b>	<b>120</b>	<b>138</b>
<b>Diluted EPS (INR)</b>	<b>36.7</b>	<b>59.5</b>	<b>95.2</b>	<b>115.3</b>	<b>155.3</b>	<b>178.3</b>

Balance Sheet (INR Bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Source of Funds</b>						
Share capital	8	8	8	8	8	8
Reserves & Surplus	426	469	538	627	748	886
Networth	434	477	546	635	756	894
ESOP	0	0	0	0	0	0
Borrowings	513	473	490	549	615	689
Deposits	2,562	2,937	3,364	3,903	4,566	5,388
Other liabilities & provisions	121	133	177	213	255	306
<b>Total Equity &amp; Liabilities</b>	<b>3,630</b>	<b>4,020</b>	<b>4,578</b>	<b>5,300</b>	<b>6,192</b>	<b>7,277</b>
Uses of Funds	0	0	0	0	0	0
Cash & bank balance	563	1,162	1,039	1,048	1,156	1,287
Investments	697	710	831	997	1,047	1,036
Loans & advances	2,096	2,391	2,899	3,450	4,175	5,135
Fixed assets	18	18	20	23	26	30
Other assets	225	218	-212	-218	-212	-211
<b>Total Assets</b>	<b>3,600</b>	<b>4,020</b>	<b>4,578</b>	<b>5,300</b>	<b>6,192</b>	<b>7,277</b>

Source: Arianth Research, Company Filings.

Key Ratio	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Rates</b>						
Advances (%)	1.4%	14.1%	21.3%	19.0%	21.0%	23.0%
Deposits (%)	26.8%	14.6%	14.6%	16.0%	17.0%	18.0%
Total assets (%)	17.2%	11.7%	13.9%	15.8%	16.8%	17.5%
NII (%)	12.2%	10.9%	17.3%	15.1%	24.1%	12.7%
Pre-provisioning profit (%)	8.9%	9.5%	11.7%	17.6%	27.5%	13.6%
PAT (%)	-35.8%	62.6%	60.3%	21.0%	34.7%	14.8%
<b>B/S Ratios</b>						
Credit/Deposit (%)	81.8%	81.4%	86.2%	88.4%	91.4%	95.3%
CASA (%)	41.8%	42.8%	43.6%	44.5%	45.2%	45.6%
Advances/Total assets (%)	58.2%	59.5%	63.3%	65.1%	67.4%	70.6%
Leverage - Total Assets to Equity	8.3	8.4	8.4	8.3	8.2	8.1
<b>Operating efficiency</b>						
Cost/income (%)	41.6%	42.7%	44.3%	42.4%	38.9%	38.1%
Opex/total assets (%)	2.6%	2.7%	2.6%	2.4%	2.2%	2.1%
Opex/total interest earning assets	2.9%	3.1%	3.1%	2.7%	2.5%	2.4%
<b>Profitability</b>						
NIM (%)	4.4%	4.2%	4.4%	4.3%	4.6%	4.4%
RoA (%)	0.8%	1.1%	1.6%	1.7%	1.9%	1.9%
RoE (%)	6.5%	9.7%	13.5%	14.1%	15.9%	15.5%
<b>Asset Quality</b>						
Gross NPA (%)	2.7%	2.3%	2.0%	1.7%	1.7%	1.7%
Net NPA (%)	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%
PCR (%)	74.2%	70.0%	70.0%	70.0%	70.0%	70.0%
Slippage (%)	2.2%	1.6%	1.0%	1.0%	1.0%	1.0%
Credit cost (%)	3.8%	3.0%	1.7%	1.6%	1.4%	1.3%
<b>Per Share Data / Valuation</b>						
EPS (INR)	36.7	59.5	95.2	115.3	155.3	178.3
BVPS (INR)	560.7	615.5	703.4	818.7	974.0	1,152.2
ABVPS (INR)	544.1	591.1	681.5	795.3	947.0	1,118.9
P/E (x)	37.8	23.3	14.6	12.0	8.9	7.8
P/BV (x)	2.5	2.3	2.0	1.7	1.4	1.2
<b>P/ABV (x)</b>	<b>2.5</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.2</b>

Source: Arianth Research, Company Filings,

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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