

Corporate segment loan book growth gains traction, Retail and Vehicle Finance business already robust

CMP: INR 1,496

Rating: BUY

Target Price: INR 1,793

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')	3,341

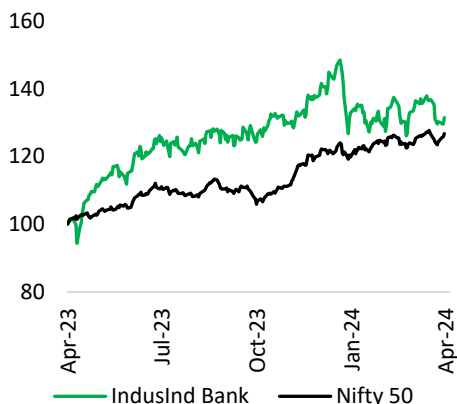
Shareholding Pattern %

(As on March 2024)

Promoters	16.4
Public & Others	83.6

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 2.1% QoQ/15% YoY to INR 23.47 bn. Increase in PAT was primarily due to better product pricing mixes, lower Provisions and stable Asset Quality. NII for the quarter increased by 1.5% QoQ/15.1% YoY to INR 53.76 bn, driven by uptick in loan book growth at 5.0% QoQ/18.4% YoY. Operating profit for the quarter grew by 0.6% QoQ / 7.3% YoY to INR 40.27 bn. Other income grew by 4.4% QoQ/16.3% YoY to INR 25 bn, led by core fee income growth of 6% QoQ/10% YoY. Bank has INR 10 bn of contingent provision apart from the PCR while the total loan related Provisions stood at INR 72.1 bn. GNPA/NNPA remained stable sequentially at 1.92%/0.57% respectively and while recoveries came down, the restructured advances came down during the quarter.

Loan book growth was strong: IIB's loan book grew strongly by 5% QoQ/18.4% YoY, driven by Credit Card growth of 27.8% YoY, Personal Loans at 48.6% and 21Business Banking at 20.9% YoY growth among non-vehicle retail financing. Among Non-Corporate credit, Vehicle Finance grew by 17.5% YoY growth as it was led by uptick in Passenger and Commercial vehicles load segments. The Micro Finance book grew by 22% YoY to INR 392 bn. The restructured book further declined to 0.4% against 0.48% in 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 4.3% QoQ/14.4% YoY. CASA ratio of the bank declined by 100 bps QoQ/ down 400 bps YoY to 38%.

Asset quality improved marginally: Overall asset quality remained flat same as previous quarter for GNPA/NNPA of the bank at 1.92%/0.57% respectively. Recoveries decreased by INR 2.1 bn in Q4FY24 sequentially while write-offs also declined by INR 2.88 bn sequentially.

Cost to Income increased while branch addition and growth had to be set up: Cost to Income ratio increased from 45.0% in Q4FY23 to 48.9% in Q4FY24 as the bank increased branch presence by opening 256 new branches during the quarter. The Management of the Bank had earlier stated that they may be adding 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 5.81% in Q4FY23 to 6.48% in Q4FY24. We maintain our positive outlook with revised Buy ratings (earlier Accumulate) for a target price of INR 1,793 (Previous TP 1,790) on 1.2x FY27E ABV.

Financial Performance

Particulars (Rs Bn)	FY23	FY24E	FY25E	FY26E	FY27E
NII	176	206	317	355	397
PPOP	143	157	264	298	336
PAT	74	89	167	189	214
EPS (INR / Share)	95.2	115.0	214.2	242.8	274.8
BVPS (INR / Share)	703.4	805.5	1,019.7	1,262.5	1,537.3
NIM (%)	4.4%	4.5%	6.0%	5.6%	5.3%
RoA (%)	1.6%	1.7%	2.7%	2.6%	2.5%
RoE (%)	13.5%	14.3%	21.0%	19.2%	17.9%
P/ABV (x)	2.0	1.8	1.4	1.1	0.9

Q4FY24 - Quarterly Performance (Standalone)

(in INR bn)

Income Statement (INR Mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	1,21,985	1,15,723	1,00,207	5.4%	21.7%
Interest Expense	68,221	62,766	53,513	8.7%	27.5%
Net Interest Income	53,764	52,956	46,695	1.5%	15.1%
Non Interest Income	25,005	23,959	21,505	4.4%	16.3%
Total Income	78,769	76,915	68,200	2.4%	15.5%
Employee Costs	10,491	10,267	8,363	2.2%	25.5%
Other Operating Expenses	28,007	26,626	22,310	5.2%	25.5%
Operating Expenses	38,498	36,893	30,672	4.4%	25.5%
Pre-Provision Profit	40,271	40,022	37,528	0.6%	7.3%
Provisions	8,991	9,342	10,301	-3.8%	-12.7%
Profit Before Tax	31,280	30,680	27,227	2.0%	14.9%
Tax Expense	7,812	7,701	6822	1.4%	14.5%
Net Profit	23,468	22,979	20,405	2.1%	15.0%
Balance Sheet Analysis					
Deposits	38,47,929	36,87,930	33,64,381	4.3%	14.4%
CASA Deposits	14,56,660	14,19,240	13,47,280	2.6%	8.1%
CASA (%)	38.0%	39.0%	42.0%	-100bps	-400bps
Advances	34,32,983	32,70,570	28,99,237	5.0%	18.4%
Total Assets	51,49,352	48,88,650	45,78,041	5.3%	12.5%
Capital Adequacy Ratio (%)	17.23%	17.86%	17.86%	-63bps	-63bps
Spread Analysis					
Yield on Avg Advances (%)	12.9%	12.1%	11.8%	83bps	109bps
Yield on Avg Interest Earning Assets (%)	9.9%	9.8%	9.5%	10bps	35bps
Cost of Funds (%)	5.59%	5.46%	5.65%	13bps	-6bps
NIM (%)	4.26%	4.29%	4.43%	-3bps	-17bps
Asset Quality					
Gross NPA	66,934	63,771	58,263	5.0%	14.9%
Net NPA	19,689	18,752	17,150	5.0%	14.8%
GNPA (%)	1.92%	1.92%	1.98%	0bps	-6bps
NNPA (%)	0.57%	0.57%	0.59%	0bps	-2bps
PCR (%)	71.0%	71.0%	70.6%	0bps	43bps
Key Ratios					
Cost to Income Ratio (%)	48.9%	48.0%	45.0%	91bps	390bps
C/D Ratio (%)	89.2%	88.7%	86.2%	53bps	304bps
RoA (%) (Annualised)	1.90%	1.93%	1.90%	-3bps	0bps

Source: Arianth Research, Company Filings

Q4FY24 – Key Concall Highlights**Guidance:**

- The Management believes the bank will be able to grow between 18-22% as they operate in those segments which have a higher return.
- The Bank also believes the Liabilities side growth in Deposits will be 16-18% in FY25. Hence, the Management believes that the LCR ratio is in the range of 116-118%, and with Refinancing as their go to option, the Bank is confident enough of their growth in the medium term.
- The Management intends to maintain NIMs in the range of 4.2-4.3% and the Return on Assets between 1.8-2.2% in the future as well.
- The Management says that the Cost to Income ratio is currently inflated due to the bank making several expansionary and digital initiatives and executing them over the last couple of years. They expect the Cost to Income ratio to come down from 48.9% in Q4FY24 to 45% levels like Q4FY23 over the next few quarters.

Key Highlights:

- The Corporate advances jumped by 13.3% YoY while the non-corporate book increased by 22.8% YoY and formed 56% of total loans.
- Within the Non-Corporate space, vehicle finance portfolio was up by 17.5% YoY and was driven by healthy uptick in commercial and passenger vehicle loan segments.
- In non-vehicle finance segment, credit cards book saw sharp uptick of 27.8% YoY, personal loans were up 48.6% while Business banking credit increased by 20.9% YoY.
- Micro finance portfolio growth was also respectable at 22% YoY while Merchant and home loan book continue to show strong momentum.
- Growth in Corporate book was mostly fuelled by small corporate loans which were up 33.4% YoY.
- Deposit growth for the bank stood at 14.4% YoY and 4.3% sequentially and thus total deposits for the bank stood at INR 3,847 bn.
- CASA deposits in Q4FY24 increased by 8.1% YoY/2.6% QoQ, as a result of slower than overall deposit growth, CASA ratio for the bank declined 219 bps to 37.9%.
- Retail deposits defined by LCR were up 18% YoY and its share in total deposits increased by 151 bps on YoY basis to 44.1%.
- Affluent deposits jumped by 24% YoY and stood at INR 534.45 bn, while NRI deposits stood at INR 456.28 bn showing a rise of 33% YoY.
- In Q4FY24, the overall asset quality saw improvement on a yearly basis as GNPA and NNPA ratio stabilized at exactly previous quarter's levels, 1.92%/0.57% respectively. Sequentially the NPA ratios were stable.
- Restructured book also declined from 0.48% of loans to 0.4% on QoQ basis.
- Fresh stress addition during the quarter declined 10.9% YoY and 19.1% QoQ to INR 14.28 bn.
- Upgrades and recoveries during the quarter stood at INR 2.57 bn and INR 3.53 bn respectively while write-offs stood at INR 5.02 bn.
- Accounts worth INR 1.82 bn were sold to ARC in Q4FY24 v/s INR 3.10 bn in the previous quarter.
- Within the consumer banking space Tractor, Small CV and MFI segment saw rise in GNPA levels on a QoQ basis.
- The bank has contingent provisions worth INR 10.0 bn which is outside PCR and total loan related provisions stand at INR 72.1 bn forming 2.1% of total loans.
- Annualized credit cost for Q4FY24 is at 111 bps versus 119 bps in the Q3FY24.
- Gems and Jewellery book has no NPA and no restructuring as well.
- A & above rated Corporate loans form 78% of total corporate book versus 76% a year ago.
- Average LCR during the quarter stood at 118% for the bank.
- The Bank covers 1.57 lakh villages across 23 states for its Micro finance business.
- Around 2 million new clients were acquired digitally during FY24.
- The bank added 256 branches and ~2,100 employees during the quarter.

Key Financials

Profit & Loss Statement (INR Bn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	364	457	500	548	600
Interest Expense	188	251	184	193	202
Net Interest Income	176	206	317	355	397
Non interest income	82	94	104	116	128
Operating income	258	300	421	471	526
- Employee expense	30	33	36	39	43
- Other operating expense	84	110	121	133	147
Operating Expense	114	143	157	173	190
PPOP	143	157	264	298	336
Provisions	45	38	42	46	51
PBT	99	119	222	252	285
Tax Expense	25	30	56	63	71
PAT	74	89	167	189	214
Diluted EPS (INR)	95.2	115.0	214.2	242.8	274.8

Balance Sheet (INR Bn)	FY23	FY24	FY25E	FY26E	FY27E
Source of Funds					
Share capital	8	8	8	8	8
Reserves & Surplus	538	619	786	975	1,189
Networth	546	627	794	983	1,196
ESOP	0	1	0	0	0
Borrowings	490	476	533	597	669
Deposits	3,364	3,848	4,502	5,312	6,322
Other liabilities & provisions	177	197	237	284	341
Total Equity & Liabilities	4,578	5,149	6,066	7,177	8,528
Uses of Funds					
Cash & bank balance	1,039	842	965	1,099	829
Investments	831	1,065	1,128	1,134	1,441
Loans & advances	2,899	3,433	4,154	5,109	6,387
Fixed assets	20	22	25	29	33
Other assets	263	261	268	279	313
Total Assets	4,578	5,149	6,066	7,177	8,528

Source: Arianth Research, Company Filings.

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
Advances (%)	21.3%	18.4%	21.0%	23.0%	25.0%
Deposits (%)	14.6%	14.4%	17.0%	18.0%	19.0%
Total assets (%)	13.9%	12.5%	17.8%	18.3%	18.8%
NII (%)	17.3%	17.2%	53.7%	12.0%	11.9%
Pre-provisioning profit (%)	11.7%	9.7%	67.9%	12.8%	12.7%
PAT (%)	60.3%	21.1%	86.3%	13.3%	13.2%
B/S Ratios					
Credit/Deposit (%)	86.2%	89.2%	92.3%	96.2%	101.0%
CASA (%)	43.6%	45.2%	45.8%	46.2%	46.3%
Advances/Total assets (%)	63.3%	66.7%	68.5%	71.2%	74.9%
Leverage - Total Assets to Equity	8.4	8.2	7.6	7.3	7.1
Operating efficiency					
Cost/income (%)	44.3%	47.5%	37.3%	36.7%	36.1%
Opex/total assets (%)	2.6%	2.9%	2.6%	2.4%	2.2%
Opex/total interest earning assets	3.1%	3.2%	3.0%	2.8%	2.5%
Profitability					
NIM (%)	4.4%	4.5%	6.0%	5.6%	5.3%
RoA (%)	1.6%	1.7%	2.7%	2.6%	2.5%
RoE (%)	13.5%	14.3%	21.0%	19.2%	17.9%
Asset Quality					
Gross NPA (%)	2.0%	1.7%	1.7%	1.7%	1.7%
Net NPA (%)	0.6%	0.5%	0.5%	0.5%	0.5%
PCR (%)	70.0%	70.0%	70.0%	70.0%	70.0%
Slippage (%)	1.0%	1.0%	1.0%	1.0%	1.0%
Credit cost (%)	1.7%	1.2%	1.1%	1.0%	0.9%
Per Share Data / Valuation					
EPS (INR)	95.2	115.0	214.2	242.8	274.8
BVPS (INR)	703.4	805.5	1,019.7	1,262.5	1,537.3
ABVPS (INR)	681.5	782.2	992.9	1,229.3	1,494.2
P/E (x)	14.6	12.1	6.5	5.7	5.0
P/BV (x)	2.0	1.7	1.4	1.1	0.9
P/ABV (x)	2.0	1.8	1.4	1.1	0.9

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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