

January 18, 2024

RESULT REPORT Q3 FY24 | Sector: Banks

Indusind Bank Ltd

Continued utilisation of contingent provisions masks true credit cost figure

Our view – Rundown of contingent provision buffer in the face of rising slippages can only be a short-term approach

The reported annualised credit cost for 9MFY24 is ~125 bps whereas the underlying credit cost is higher at ~151 bps and breaches guidance: Provisions for the quarter were Rs 9.34bn, down by -4.1% QoQ and -12.3% YoY, translating to an annualised credit cost of 119bps. Contingent provision buffer has declined from Rs 15.2bn to Rs 13bn during the quarter. The cumulative rundown of contingent provision over 9MFY24 has amounted to Rs 6bn. Slippages were elevated due to slippages in the vehicle finance book, which was due to adverse weather conditions with floods in south India and fog in north India. Gross slippage ratio for the vehicle finance book was higher at 0.73% in 3Q vs 0.64% in 2Q on non-annualised basis. Gross slippage ratio for the microfinance book was sticky at 0.55% in 3Q vs 0.57% in 2Q on non-annualised basis.

Deposits growth lagged loan growth, margin was stable while opex rose faster: Wholesale deposits have been let go of, with share of CD declining from 3% to 2%. On the loan to deposit ratio front, management stated that the bank is within the guided range of 86-90%, which is in line with the rest of the industry and they have not received any nudge from the regulator. The employee count rose 5% QoQ whereas 97 branches were added during the quarter, taking the overall branch count to 2828. Margin would remain in a range of 4.2-4.3% till the goal of deposit retailisation is achieved after which there could be scope for rise.

We maintain less-than-bullish 'ADD' rating on IIB with a revised price target of Rs 1925: We value the bank at 2.1x FY25 P/BV for an FY24E/25E/26E RoE profile of 15.6%/14.9%/15.2%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See "Our View" above for elaboration and insight)

- **Asset quality:** Gross slippages amounted to Rs 17.65bn (annualized slippage ratio of 2.2%) and recoveries and upgrades amounted to Rs 8.38bn
- **Margin picture:** NIM at 4.29% was flat QoQ, as increase in cost of deposits was offset by increase in yield on advances
- **Asset growth:** Advances grew 3.7%/19.9% QoQ/YoY driven sequentially by Small corporates and select retail segments
- **Opex control:** Total opex rose 6.1%/27.6% QoQ/YoY, employee expenses rose 7.3%/28.5% QoQ/YoY and other expenses rose 5.6%/27.3% QoQ/YoY
- **Fee income:** Core fee income was up 2.1% QoQ and 11.5% YoY, where Forex, Cards and distribution fees and Loan processing saw healthy sequential growth

Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Interest Income	115,723	112,478	2.9	94,574	22.4
Interest expended	(62,766)	(61,711)	1.7	(49,621)	26.5
Net Interest Income	52,956	50,767	4.3	44,953	17.8
Other income	23,959	22,818	5.0	20,763	15.4
Total Income	76,915	73,585	4.5	65,717	17.0
Operating expenses	(36,893)	(34,776)	6.1	(28,913)	27.6
PPOP	40,022	38,809	3.1	36,804	8.7
Provisions	(9,342)	(9,738)	(4.1)	(10,647)	(12.3)
PBT	30,680	29,071	5.5	26,157	17.3
Tax	(7,701)	(7,256)	6.1	(6,565)	17.3
PAT	22,979	21,815	5.3	19,592	17.3

Source: Company, YES Sec-Research

Recommendation	: ADD
Current price	: Rs 1613
Target price	: Rs 1925
Potential return	: +19%

Stock data (as on January 18, 2024)

Nifty	21,462
52 Week h/l (Rs)	1695 / 990
Market cap (Rs/USD mn)	1278514 / 15383
Outstanding Shares (mn)	778
6m Avg t/o (Rs mn):	4,519
Div yield (%):	0.8
Bloomberg code:	IIB IN
NSE code:	INDUSINDBK

Stock performance



Shareholding pattern (As of Sept'23 end)

Promoter	15.1%
FII+DII	64.4%
Others	12.3%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1925	1950

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	199,417	237,858	282,577
PPOP	159,951	191,040	227,422
Net Profit	91,408	99,924	116,790
Growth (%)	23.7	9.3	16.9
EPS (Rs)	117.8	128.8	150.5
BVPS (Rs)	808	923	1059
P/E (x)	13.7	12.5	10.7
P/BV (x)	2.0	1.7	1.5
ROE (%)	15.6	14.9	15.2
ROA (%)	1.9	1.7	1.7
Tier-1 (%)	15.6	14.4	13.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	117.8	128.8	150.5
EPS (Old)	108.3	130.7	154.0
% change	8.7%	-1.4%	-2.2%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 17.65bn for 3QFY24, translating to an annualized slippage ratio of 2.2% for the quarter. (Gross NPA additions had amounted to Rs 14.65bn during 2QFY24.)
 - Slippages were elevated due to slippages in the vehicle finance book, which was due to adverse weather conditions with floods in south India and fog in north India.
 - **Segmental slippages**
 - Gross slippage ratio for the vehicle finance book was 0.73% in 3Q vs 0.64% in 2Q on non-annualised basis.
 - Gross slippage ratio for the microfinance book was 0.55% in 3Q vs 0.57% in 2Q on non-annualised basis but the net slippages have been lower at Rs 1.89bn in 3Q vs Rs 1.82bn in 2Q.
 - Net slippages from the corporate book amounted to Rs 1.55bn in 3Q vs Rs 1.58bn in 2Q, which was contributed to by one large account worth Rs 1.4bn during the quarter, which took the gross corporate slippage to Rs 3.12bn.
 - There were “extra” slippages worth Rs 0.25bn, Rs 0.4bn and Rs 0.3bn from the agri, LAP (3 accounts) and merchant loan book, respectively.
 - Credit cards asset quality is close to the industry average.
 - **Slippage guidance**
 - Management stated that they were confident that the bank would come back to a Rs 11-12bn slippage range.
 - Corporate bank would go back to Rs 0.5-0.75bn.
 - Other retail book would be at Rs 3-3.5bn.
 - Microfinance would be at Rs 2.75-3bn.
 - Vehicle finance would remain steady.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 8.38bn for 3QFY24, implying net NPA addition of Rs 9.27bn for the quarter.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 9.34bn, down by -4.1% QoQ and -12.3% YoY, translating to annualised credit cost of 119bps.
 - There has been a utilisation of contingent provisions, which have declined from Rs 15.2bn to Rs 13bn.
 - There was a provision of Rs 1.65bn made on the security receipts book.
 - **Credit cost guidance**
 - The credit cost for the year would range between 110-130 bps.
 - The credit cost in the microfinance book would be 250-300 bps.
 - The credit cards book will also run at a credit cost of 250-300 bps.
 - **Outstanding provisions**
 - The total provisions amounted to 2.2% of loan book or 114% of GNPA.
- **Restructured book**
 - Restructured advances were at 0.48% of total advances.
- **Security receipts**
 - The net security receipts book has declined from 39 bps to 37 bps.
- **SMA book**
 - The SMA1 and SMA2 book amounted to 19 bps of loan book.

(Con call takeaways continue on the next page)

Net interest margin

- **NIM for the quarter**
 - NIM was stable QoQ at 4.29%.
 - NIM was supported by a moderate rise in cost of deposits, which was up 9 bps QoQ to 6.44%.
 - The yield on advances rose by 15 bps QoQ.
- **Margin guidance**
 - Margin would remain in a range of 4.2-4.3% till the goal of deposit retailisation is achieved after which there could be scope for rise.
 - The bank maintains a 50-75 bps premium over leading banks in terms of deposit rates.
 - There could be one more quarter of deposit cost rise.
 - The bank is not looking at raising lending rates.

Loan growth

- The overall loan growth was 20% YoY driven by retail loan growth of 24% YoY.
- **Corporate lending**
 - The corporate loan growth was slower at 15% YoY, with focus on small and mid-corporate lending.
 - Mid and small corporate loan book rose 17% YoY and 3% QoQ.
 - Small corporate book rose 5% QoQ and large corporate book rose 2% QoQ.
- **Retail lending**
 - Home loan book was up 37% QoQ to more than Rs 13bn.
 - Vehicle finance book was up 20% YoY and 5% QoQ.
 - Microfinance book rose 20% YoY whereas the merchant book rose 55% YoY.
 - Other retail loans grew 30% YoY and 6% QoQ.
 - Business banking book rose 24% YoY and 3% QoQ.
 - LAP book rose 10% YoY and 3% QoQ.

Deposits accretion

- Total deposits have grown 13% YoY and 3% QoQ, driven by retail LCR deposits, which grew 20% YoY and 3% QoQ.
- More than 75% of incremental deposits are retail in nature.
- Wholesale deposits have been let go of, with share of CD declining from 3% to 2%.
- CASA ratio has remained stable at 38.5%, with accretion in SA book.
- **Liquidity**
 - The average LCR has increased from 117% to 122%.
 - **Loan to deposit ratio**
 - The bank is within the guided range of 86-90%.
 - The bank is in line with the rest of the industry and they have not received any nudge from the regulator.

Fee income

- Other income was up 15% YoY, driven granular retail fees.
- Core fee income was up 12% YoY.
- Credit card spends were up 15% QoQ to Rs 254.44bn, with spends market share improving to 5%.

(Con call takeaways continue on the next page)

Operating expenses

- **Total opex**
 - Total opex, at Rs. 36.89 bn, is up 6.1% QoQ and 27.6% YoY.
 - Consequently, cost/income ratio came in at 48%, up by 71bps QoQ and 397bps YoY.
 - **Cost to income ratio guidance**
 - Cost to income ratio would be 45-46% next year.
 - It would be 41-43% in the next 2 years.
- **Staff opex**
 - The staff opex is up by 7.3% QoQ and 28.5% YoY.
 - The employee count rose 5% QoQ.
- **Non-staff expenses**
 - Other opex in up by 5.6% QoQ and 27.3% YoY.
 - **Branch expansion**
 - 97 branches were added during the quarter, taking the overall branch count to 2828.
 - The intention is to add 1000 branches over the 3-year period (presumably, the planning cycle).

Return ratio

- The RoA and RoE for the quarter amounted to 1.93% and 15.45%, respectively.

Capital adequacy

- CET1 ratio stood at 16.07%.
- The bank will not look to raise capital till it reaches a CET1 of 14%, which means they will not need to raise capital for the next 6-8 quarters.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy	Q3FY24*	chg qoq*	chg yoy*
Loan book	3,270,570	3,154,540	3.7	2,727,540	19.9	100.0	0bps	0bps
Corporate & Comm. Banking	1,465,870	1,431,540	2.4	1,270,100	15.4	44.8	-56bps	-175bps
Large Corporates	809,720	792,330	2.2	710,530	14.0	24.8	-36bps	-129bps
Mid size Corporates	488,450	479,710	1.8	442,010	10.5	14.9	-27bps	-127bps
Small Corporates	167,700	159,500	5.1	117,560	42.7	5.1	7bps	82bps
Consumer Finance	1,804,700	1,723,000	4.7	1,457,440	23.8	55.2	56bps	175bps
Commercial vehicle loans	318,630	308,790	3.2	268,190	18.8	9.7	-5bps	-9bps
Utility vehicle loans	119,510	107,290	11.4	83,110	43.8	3.7	25bps	61bps
Small CV	39,400	37,730	4.4	33,650	17.1	1.2	1bps	-3bps
2Wheeler loans	51,840	48,040	7.9	47,490	9.2	1.6	6bps	-16bps
Car loans	126,710	117,840	7.5	99,930	26.8	3.9	14bps	21bps
Tractor	94,460	95,800	(1.4)	91,590	3.1	2.9	-15bps	-47bps
Equipment financing	110,370	105,020	5.1	92,690	19.1	3.4	5bps	-2bps
Business Banking	158,940	153,640	3.4	128,390	23.8	4.9	-1bps	15bps
Loan against property	104,700	101,810	2.8	95,020	10.2	3.2	-3bps	-28bps
Credit cards	102,390	94,620	8.2	77,140	32.7	3.1	13bps	30bps
Personal Loans	74,910	67,950	10.2	47,560	57.5	2.3	14bps	55bps
Merchant Advances	47,830	49,040	(2.5)	30,940	54.6	1.5	-9bps	33bps
BL, AHL, Others	97,400	91,800	6.1	64,860	50.2	3.0	7bps	60bps
Microfinance	357,610	343,630	4.1	296,880	20.5	10.9	4bps	5bps
Deposits	3,687,930	3,597,865	2.5	3,252,780	13.4	100.0	0bps	0bps
Current	500,440	499,100	0.3	500,070	0.1	13.6	-30bps	-180bps
Saving	918,800	915,270	0.4	863,720	6.4	24.9	-53bps	-164bps
Term	2,268,690	2,183,495	3.9	1,888,990	20.1	61.5	83bps	344bps
Investments	974,290	944,678	3.1	761,740	27.9	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	23.0	23.0	-9bps	21.8	112bps	NA	NA	NA
Borrowings	404,730	405,305	(0.1)	472,840	(14.4)	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	9.9	10.1	-24bps	12.7	-280bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Net Interest Margin	4.29	4.29	0bps	4.27	2bps
Yield on Advances	12.5	12.3	15bps	11.8	70bps
Cost of Deposits	6.44	6.35	9bps	5.47	97bps
CASA ratio	38.0	39.0	-100bps	42.0	-400bps
Loan to Deposit Ratio	88.7	87.7	100bps	83.9	483bps
Non-int. income / Total income	31.1	31.0	14bps	31.6	-45bps
Fee Income to Avg. Total Assets	1.8	1.8	0bps	1.8	1bps
Cost to Income ratio	48.0	47.3	71bps	44.0	397bps
Opex to Avg. Total Assets	3.1	2.9	11bps	2.7	40bps
RoA	1.9	1.9	5bps	1.9	7bps
Annualised Slippage Ratio*	2.2	1.9	29bps	2.2	0bps
Provision Coverage Ratio	71.0	71.0	0bps	71.0	0bps
Gross NPA	1.9	1.9	-1bps	2.1	-14bps
Net NPA	0.6	0.6	0bps	0.6	-5bps
Capital adequacy ratio	17.9	18.2	-35bps	18.0	-15bps
Tier I capital ratio	16.5	16.8	-28bps	16.5	0bps
Common equity tier I capital ratio	16.1	16.3	-26bps	16.0	6bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	52,956	53,052	(0.2)
Pre-Prov. Operating Profit	40,022	40,251	(0.6)
Profit After Tax	22,979	21,880	5.0

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Employee Expense	10,267	9,566	7.3	7,992	28.5
Other Operating Expense	26,626	25,210	5.6	20,921	27.3
Total Operating Expense	36,893	34,776	6.1	28,913	27.6

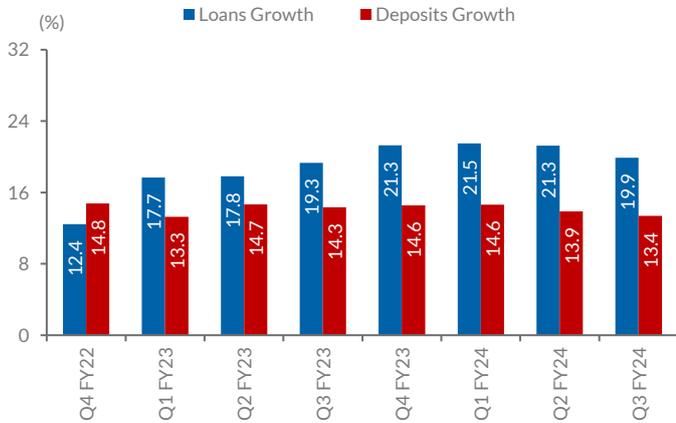
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Total Fee Income (A)	21,650	21,200	2.1	19,410	11.5
Trade and remittances	2,270	2,340	(3.0)	2,010	12.9
Foreign exchange	2,760	2,270	21.6	2,490	10.8
Cards and Distribution Fees	7,430	6,810	9.1	6,190	20.0
General banking fees	2,860	3,670	(22.1)	2,480	15.3
Loan processing fees	6,260	5,930	5.6	6,040	3.6
Investment banking	70	180	(61.1)	200	(65.0)
Total Other Income (B)	2,310	1,620	42.6	1,360	69.9
Securities/MM/FX Trading/Others	2,310	1,620	42.6	1,360	69.9
Total Non-Interest Income (A+B)	23,960	22,820	5.0	20,770	15.4

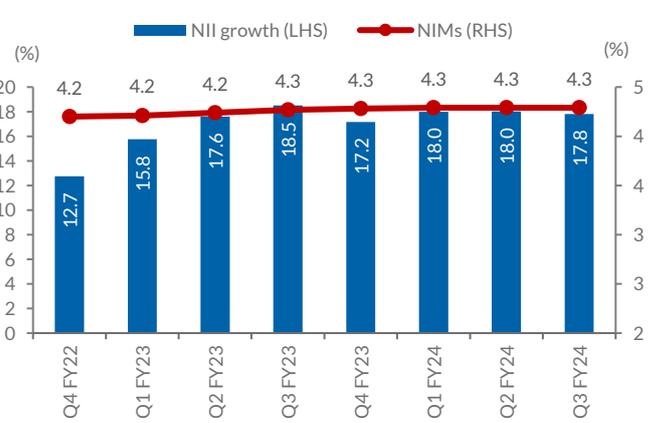
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



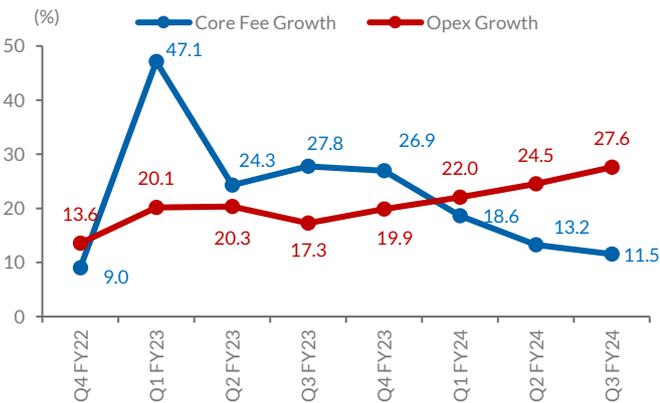
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



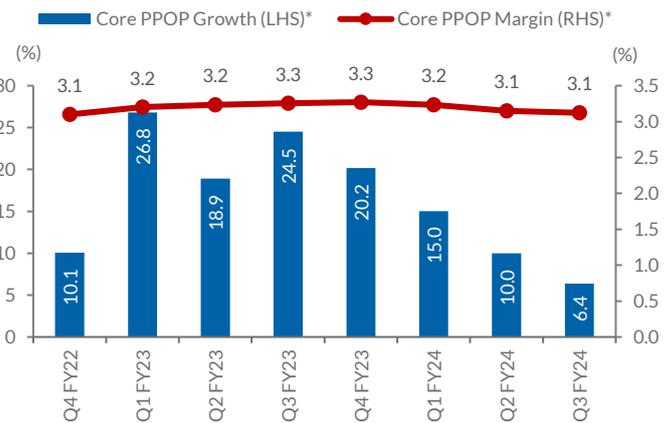
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



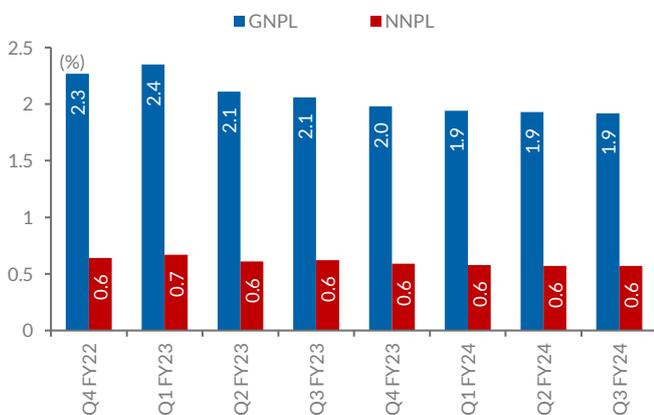
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



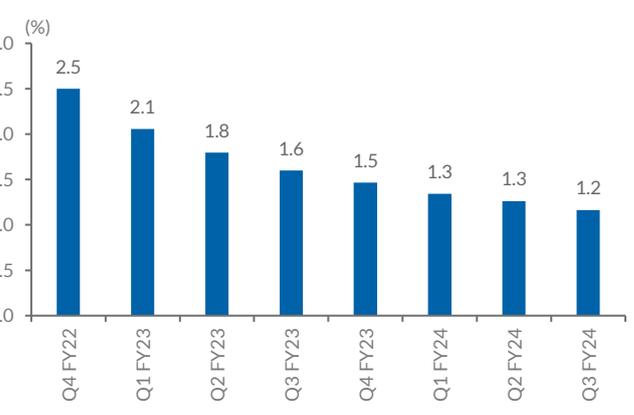
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



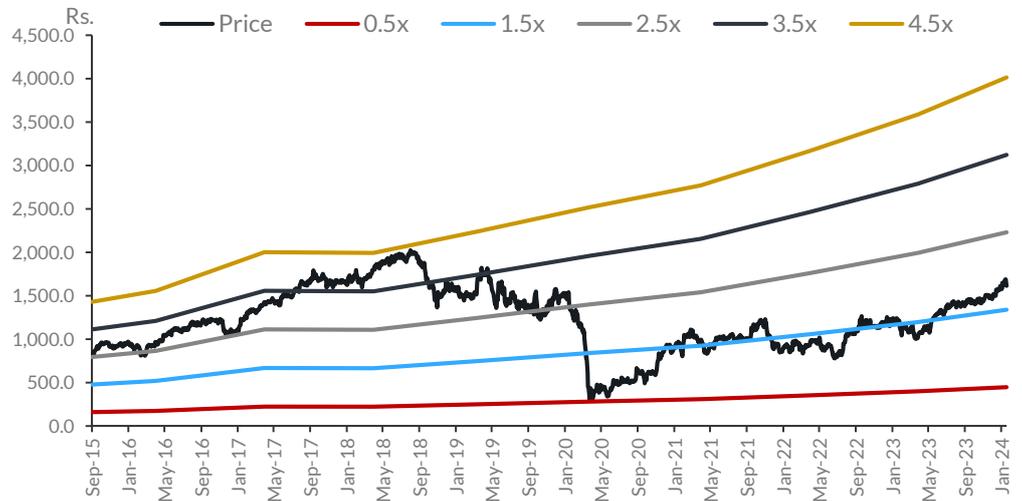
Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



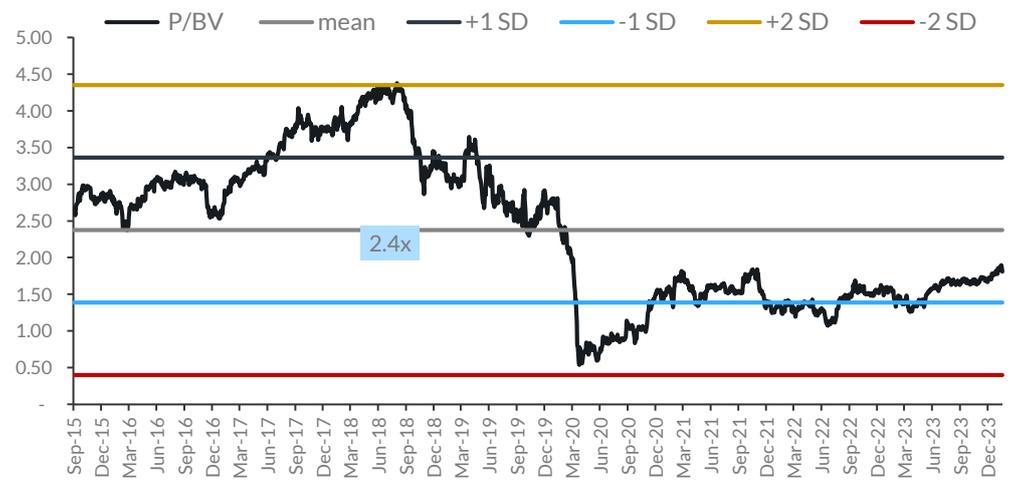
Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec - Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	682,745	565,111	382,699	459,239	551,087
Investments	709,708	831,162	1,012,002	1,207,138	1,440,574
Advances	2,390,515	2,899,237	3,479,084	4,174,901	5,009,881
Fixed assets	18,487	19,926	21,919	24,111	26,522
Other assets	218,291	262,604	315,125	378,150	453,780
Total assets	4,019,746	4,578,041	5,210,830	6,243,539	7,481,844
Net worth	476,972	546,217	626,762	715,824	821,751
Deposits	2,936,813	3,364,381	3,944,229	4,744,418	5,704,645
Borrowings	473,232	490,112	442,453	556,736	693,099
Other liabilities	132,728	177,330	197,386	226,561	262,348
Total liabilities incl. Equity	4,019,746	4,578,041	5,210,830	6,243,539	7,481,844

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	308,224	363,679	424,638	505,913	606,638
Interest expense	(158,216)	(187,758)	(225,221)	(268,055)	(324,060)
Net interest income	150,008	175,921	199,417	237,858	282,577
Non-interest income	73,970	81,664	98,015	117,640	141,122
Total income	223,979	257,585	297,432	355,498	423,700
Operating expenses	(95,593)	(114,120)	(137,481)	(164,458)	(196,278)
PPoP	128,386	143,465	159,951	191,040	227,422
Provisions	(66,650)	(44,868)	(38,074)	(57,807)	(71,702)
Profit before tax	61,736	98,596	121,877	133,232	155,720
Taxes	(15,625)	(24,699)	(30,469)	(33,308)	(38,930)
Net profit	46,111	73,897	91,408	99,924	116,790

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	8.1	8.5	8.7	8.8	8.8
Interest expense	-4.1	-4.4	-4.6	-4.7	-4.7
Net interest income	3.9	4.1	4.1	4.2	4.1
Non-interest income	1.9	1.9	2.0	2.1	2.1
Total income	5.9	6.0	6.1	6.2	6.2
Operating expenses	-2.5	-2.7	-2.8	-2.9	-2.9
PPoP	3.4	3.3	3.3	3.3	3.3
Provisions	-1.7	-1.0	-0.8	-1.0	-1.0
Profit before tax	1.6	2.3	2.5	2.3	2.3
Taxes	-0.4	-0.6	-0.6	-0.6	-0.6
Net profit	1.2	1.7	1.9	1.7	1.7

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	199,417	237,858	282,577	199,443	237,421	280,982	(0.0)	0.2	0.6
Pre-Prov. Operating Profit	159,951	191,040	227,422	159,990	190,632	225,861	(0.0)	0.2	0.7
Profit after tax	91,408	99,924	116,790	84,058	101,374	119,478	8.7	(1.4)	(2.2)

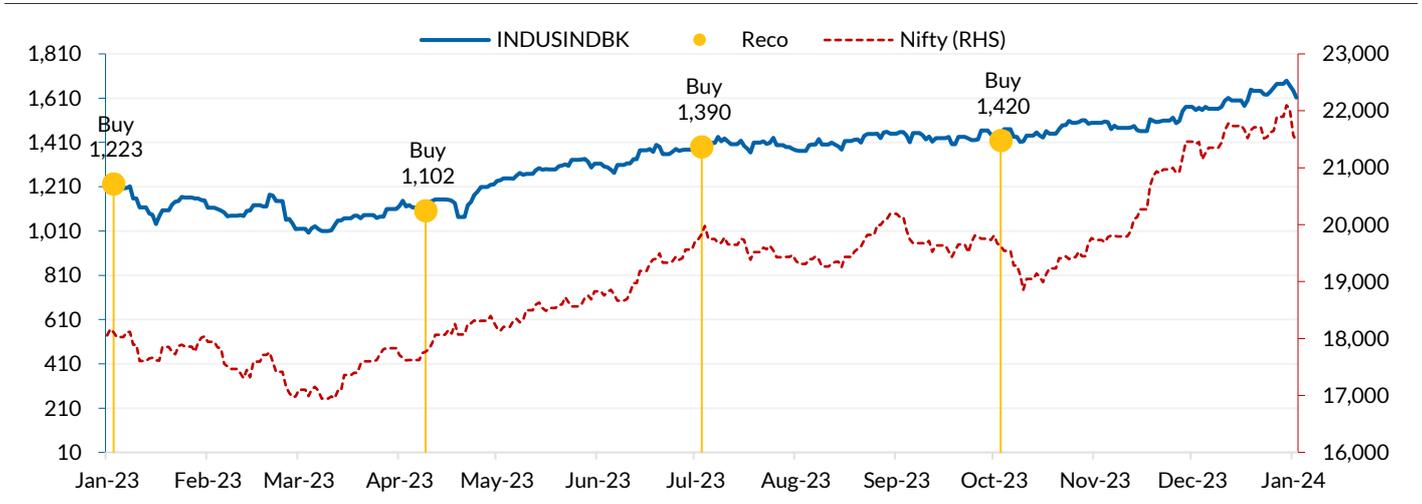
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	10.9	17.3	13.4	19.3	18.8
PPoP	9.5	11.7	11.5	19.4	19.0
Net profit	62.6	60.3	23.7	9.3	16.9
Loans	12.4	21.3	20.0	20.0	20.0
Deposits	14.6	14.6	17.2	20.3	20.2
Profitability Ratios (%)					
Net interest margin	4.1	4.3	4.3	4.4	4.3
Return on Average Equity	10.1	14.4	15.6	14.9	15.2
Return on Average Assets	1.2	1.7	1.9	1.7	1.7
Per share figures (Rs)					
EPS	59.5	95.2	117.8	128.8	150.5
BVPS	616	704	808	923	1059
ABVPS	596	682	778	882	1007
Valuation multiples					
P/E	27	17	13.7	12.5	10.7
P/BV	2.6	2.3	2.0	1.7	1.5
P/ABV	2.7	2.4	2.1	1.8	1.6
NIM internals (%)					
Yield on loans	11.1	11.3	11.3	11.3	11.3
Cost of deposits	4.5	5.0	5.2	5.3	5.3
Loan-deposit ratio	81.4	86.2	88.2	88.0	87.8
CASA ratio	42.8	40.1	40.3	40.5	40.5
Opex control (%)					
Cost/Income ratio	42.7	44.3	46.2	46.3	46.3
Cost to average assets	2.5	2.7	2.8	2.9	2.9
Capital adequacy (%)					
Tier 1 capital ratio	16.8	16.4	15.6	14.4	13.6
Asset quality (%)					
Slippage ratio	4.5	2.6	2.0	2.1	2.2
Gross NPL ratio	2.3	2.0	1.9	2.1	2.3
Credit cost	1.8	1.5	1.1	1.2	1.3
Net NPL ratio	0.6	0.6	0.7	0.8	0.8

Source: Company, YES Sec – Research

Recommendation Tracker



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