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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

25 April 2024

IndusInd Bank

Utilisation of contingency provisions remains a concern

RESULT UPDATE

Sector: Banks Rating: BUY

CMP: Rs 1,496 Target Price: Rs 1,875

Stock Info

Sensex/Nifty	74,339/22,570
Bloomberg	IIB IN
Equity shares	778mn
52-wk High/Low	Rs 1,694/ 1065
Face value	Rs 10
M-Cap	Rs 1,164bn / USD 14bn
3-m Avg value	USD 61mn

Financial Snapshot (Rs bn)

Y/E March	FY24	FY25E	FY26E
NII	206	236	272
PPP	157	186	219
PAT	89	105	125
EPS (Rs)	115	135	160
EPS Gr. (%)	21	18	18
BV/Sh (Rs)	802	923	1,068
Adj. BV/Sh (Rs)	783	900	1,041

Ratios

NIM (%)	4.5	4.5	4.5
C/I ratio (%)	47.5	45.8	44.6
RoA (%)	1.8	1.9	1.9
RoE (%)	15.3	15.7	16.1
Payout (%)	14.35	14.69	14.35

Valuations

P/E (x)	13.01	11.05	9.35
P/BV (x)	1.87	1.62	1.40
P/Adj. BV	1.91	1.66	1.44
Div. Yield (%)	1	1	2

Shareholding pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	16	16	16
-Pledged	-	-	-
FII	41	42	40
DII	29	26	29
Others	14	15	14

Stock Performance (1-year)



IndusInd bank reported 4QFY24 PAT of Rs 23.5bn which was largely in-line with estimates. However, the bank again dipped into contingent provision buffer by Rs 3bn which is now reduced to 29bps (% of net advances) vs 66bps as of Mar'23. Excluding the benefit from this, reported PAT would have been 5% lower vs our expectations.

Other key highlights were: 1) Net Advances growth of 5% qoq, 18% yoy was led by strong growth in retail (6% qoq, 23% yoy) with retail mix improving by to 55.7% (+200bps in FY24). This is in line with the bank's Planning Cycle 6 (PC-6) for FY23-26, of 18-23% loan growth and retail loan mix of 55-60%. 2) Deposit growth of 4.3% qoq, 14% yoy was also broadly in-line with our estimates. Going forward, the bank targets liability growth of 16-18% with higher share of re-finance in the funding mix due to tight market liquidity. Advances growth is likely to be in-line with liability growth given constraints on CDR 3) Computed NIM at 4.54% declined -11bps qoq as cost of funds increased by +28bps qoq while yield on funds increased by +14bps qoq. Funding cost were impacted by higher borrowings (+18% qoq) which were done to offset the impact of reduction in Rs 40 bn of individual retail deposits on exit of a large fintech partner. FY25 NIM to be in the range of 4.2-4.3% (vs 4.26% reported NIM in 4Q. 4) CIR increased to 49% (+91bps qoq) due to lower total income and higher branch additions. However, opex/Avg assets remained largely stable qoq at 3.1%. 5) Reported Credit costs declined to 111bps (-8bps qoq). However, the company again dipped into the contingent provision buffer by Rs 3bn. Excluding this, credit costs would have been 143bps. O/s contingent buffer is now reduced to 29bps (% of net advances) vs 66bps as of Mar'23 6) FY25 RoA guidance of 1.8-2.2% vs FY24 RoA of 1.84%.

We maintain our BUY rating and revise our TP to Rs 1,875 (from Rs 1,900 earlier) with target multiple of 1.8x Mar'26 adj BVPS. We factor CDR to remain around current levels of 89% over FY24-26E vs earlier estimate of 90%. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins in the near term.

Advances growth led by growth in granular retail businesses: Net Advances growth of 5% qoq, 18% yoy was led by strong growth in retail (6% qoq, 23% yoy) with retail mix improving by to 55.7% (+200bps in FY24). This is in line with the bank's Planning Cycle 6 (PC-6) for FY23-26, of 18-23% loan growth and retail loan mix of 55-60%. Retail growth was led by MFI (+9% qoq) and BL/AHL/others (+22% qoq). Vehicle Finance growth was muted at 2.7% qoq, 17% yoy due to de-growth in 2W (-2% qoq) and tractors (-5% qoq) with tractor finance outlook improving in FY25. Rest of the vehicle finance sub-segments grew by 2-4% qoq. It has witnessed slowdown in CV book with LCV, tractors and PV slowing and pick up in MHCV and CE. The bank remains cautious in growing credit cards and personal loans given initial signs of stress. Credit card advances growth moderated to 5% qoq in 4Q vs 7-8% avg growth in last 4-5 qtrs. Wholesale loan growth was 4% qoq, 13% yoy with strong growth in granular loans to small business customers of 7% qoq, 33% yoy. Going forward, advances growth will be in-line with liability growth in FY25 and the bank will focus on maintaining market share in its target segments.

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Advances growth to be in-line with deposit growth with margins likely to be stable: Deposit growth of 4.3% qoq, 14% yoy was also broadly in-line with our estimates. Growth was led by TD growth of 5.4% qoq, 18% yoy while CASA growth was muted at 2.5% qoq. As a result, CASA ratio declined to 37.9% (-60bps qoq). Retail deposit growth was also muted at 2.7% qoq, also due to one-time net outflow of Rs 27.6bn following regulatory actions on a fin-tech partner of the Bank. Retail deposit mix declined to 44% (-81bps qoq) vs PC-6 target of 45-50% retail deposit mix. **Going forward, the bank targets liability growth of 16-18% with higher share of re-finance in the funding mix due to tight market liquidity. Advances growth is likely to be in-line with liability growth given constraints on CDR** which increased to 89% (+62bps qoq) and is now at the higher end of the bank's comfort zone of 86-90%. Computed NIM at 4.54% declined -11bps qoq as cost of funds increased by +28bps qoq while yield on funds increased by +14bps qoq. Funding costs were impacted by higher borrowings (+18% qoq) which were done to offset the impact of reduction in Rs 40 bn of individual retail deposits on exit of a large fintech partner. **Cost of deposits to increase by 3-4bps in the coming quarters with the bank guiding for FY25 NIM to be in the range of 4.2-4.3% (vs 4.26% reported NIM in 4Q).**

Opex to assets elevated due to business investments: CIR increased to 49% (+91bps qoq) due to lower total income and higher branch additions (out of the 378 branches add in FY24, 256 were in 4Q). However, opex/Avg assets remained largely stable qoq at 3.1%. Overall opex remains elevated due to higher people costs, tech investments and expansion of branch network. That said the bank has seen attrition moderating to mid 30's in FY24 vs 50% levels in FY23.

Overall asset quality stable with some signs of stress in credit cards: GNPA / NNPA / PCR at 1.9% / 0.6% / 70.6% was stable qoq. Reported Credit costs declined to 111bps (-8bps qoq). However, the company again dipped into the contingent provision buffer by Rs 3bn. Excluding this, credit costs would have been 143bps. O/s contingent buffer is now reduced to 29bps (% of net advances) vs 66bps as of Mar'23. **The bank will always keep contingent buffer upto 1.5-2% of MFI book and 0.5% on MHCV book. Going forward, any improvement in asset quality will be used to build contingent buffers which should be visible from 1QFY25.** FY24 credit costs of 113bps were in-line with guidance of 110-130bp. While overall asset quality in the consumer books remains stable, credit card segment is witnessing elevated slippages and will take 2 quarters for forward flows to reduce. The bank also recovered dues from Vodafone in 4Q. **FY25 RoA guidance of 1.8-2.2% vs FY24 RoA of 1.84%.**

Valuation and recommendations: We maintain our BUY rating and revise our TP to Rs 1,875 (from Rs 1,900 earlier) with target multiple of 1.8x Mar'26 adj BVPS. Given the increased regulatory focus to reduce CDR, we factor CDR to remain around current levels of 89% over FY24-26 vs earlier estimate of 90%. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins in the near term.

IIB's 4QFY24 results earnings concall key takeaways:**Guidance**

- FY25 NIM guidance of 4.2-4.3%
- Cost of deposits to further increase by 3-4bps in coming quarter
- Bank plans to maintain minimum LCR > 115% at any point of time.

Growth

- Vehicle finance disbursements increased by 13% qoq, 4% yoy
- MFI loan growth was 10% qoq, 22% yoy. MFI book to be not more than 11-12% of overall portfolio going forward
- Within MFI, average loan o/s per borrower has increased by 7% qoq, 4% yoy
- MHCV as % of total loan book has reduced to 6% as of Mar'24 vs 9-10% pre-covid
- Affluent deposits: Rs 534 bn (up 24% yoy),
- NRI deposits: Rs 457bn (up 33% yoy)

Margins

- Consumer banking yields increased by +38bps qoq to 15.45% while corporate banking yields declined by -7bps qoq to 9.01%

Opex

- Branch cost as % of total opex is 18-22%
- Tech cost % total opex : 9.5%

Asset Quality

- Gems and Jewellery segment demand remains weak. However, asset quality remains stable qoq with zero NPA, zero SMA, zero restructuring.
- The bank has not faced any significant delinquencies in Punjab, Haryana and Orissa as they reduced exposure to that market ahead of time
- Restructured Advances (% of loan book) declined to 40bps vs 48 bps in 3QFY24
- As of Mar'24: o/s loan related provisions are Rs 72bn (2.1% of loans)

Other

- LCR was 118%, within target range of 115-125%
- Borrowings as a % of total liabilities increased to 9% vs 8% qoq. Refinance from development finance institutions contributed to 50% of the borrowing mix
- CRAR / CET – 1 ratio declined to 17.23%/15.82% from 17.86%/16.07% in 3QFY24

Exhibit 1: Quarterly performance

(INR, mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Interest income	1,21,985	1,00,207	22%	1,15,723	5.4%
Interest expenses	68,221	53,513	27%	62,766	8.7%
NII	53,764	46,695	15%	52,956	1.5%
Other income	25,005	21,505	16%	23,959	4.4%
Operating income	78,769	68,200	15%	76,915	2.4%
Operating expenses	38,498	30,672	26%	36,893	4.4%
- Staff expenses	10,491	8,363	25%	10,267	2.2%
PPOP	40,271	37,528	7%	40,022	0.6%
Provisions	8,991	10,301	-13%	9,342	-3.8%
Profit before tax	31,280	27,227	15%	30,680	2.0%
Taxes	7,812	6,822	15%	7,701	1.4%
Profit after tax	23,468	20,405	15%	22,979	2.1%
EPS	30.2	26.3	15%	29.5	2.1%
Key Ratios (%)	4QFY24	4QFY23	YoY (bps)	3QFY24	QoQ (bps)
Net Advances growth (YoY, %)	18.4%	21.3%	-287 bp	19.8%	-138 bp
Net Advances growth (QoQ, %)	5.1%	6.3%	-123 bp	3.8%	132 bp
Deposit growth (YoY, %)	14.4%	14.6%	-19 bp	13.4%	99 bp
Deposit growth (QoQ, %)	4.3%	3.4%	91 bp	2.5%	184 bp
CASA Ratio	37.9%	40.0%	-219 bp	38.5%	-63 bp
CD Ratio	89.2%	86.2%	304 bp	88.6%	62 bp
NIM (reported)	4.3%	4.3%	-2 bp	4.3%	-3 bp
Cost to Income	48.9%	45.0%	390 bp	48.0%	91 bp
Credit costs	1.1%	1.5%	-39 bp	1.2%	-9 bp
GNPA (%)	1.9%	2.0%	-6 bp	1.9%	0 bp
NNPA (%)	0.6%	0.6%	-2 bp	0.6%	0 bp
PCR (%)	70.6%	70.6%	2 bp	70.6%	-1 bp
CAR	17.2%	17.9%	-63 bp	17.9%	-63 bp
Tier-I	15.8%	15.9%	-11 bp	16.1%	-25 bp

Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

Du Pont (% of average assets)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Net interest income	4.1%	4.2%	4.3%	4.4%	4.3%
Other income	1.9%	1.9%	1.9%	2.0%	2.0%
Total income	6.0%	6.1%	6.2%	6.4%	6.3%
Operating expenses	2.7%	2.8%	2.9%	3.1%	3.1%
Employee expenses	0.7%	0.7%	0.8%	0.8%	0.8%
PPOP	3.3%	3.3%	3.3%	3.3%	3.2%
Provisions	0.9%	0.9%	0.8%	0.8%	0.7%
PBT	2.4%	2.5%	2.5%	2.5%	2.5%
PAT (RoAA)	1.8%	1.8%	1.8%	1.9%	1.9%
Leverage	8.40	8.28	8.18	8.12	8.13
ROE	15.2%	15.2%	15.1%	15.4%	15.2%

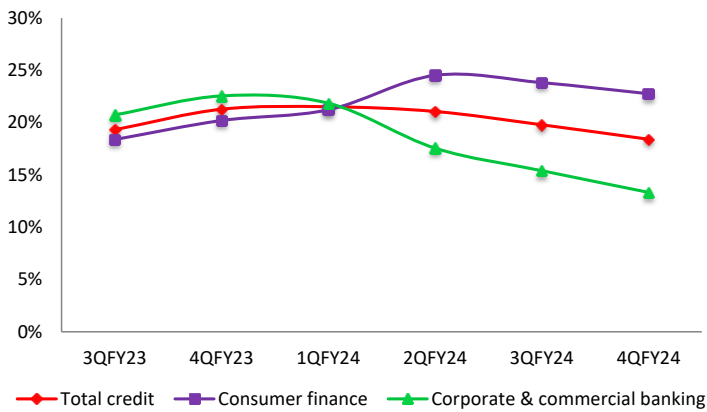
Source: Company, Systematix Institutional Research

Exhibit 3: Q4FY24 Outcome Against PC-6 Ambitions

Planning Cycle 6 (FY 2023-26)			FY24 Outcome
Resulting in	Loan Growth	18%-23%	18%
	Retail Loan Mix	55%-60%	56%
	Retail Deposits as per LCR	45%-50%	44%
	PPOP / Loans	5.25% - 5.75%	5.2%
	Branch Network	3,250 - 3,750	2,984
	Customer Base	> 50mn	39mn

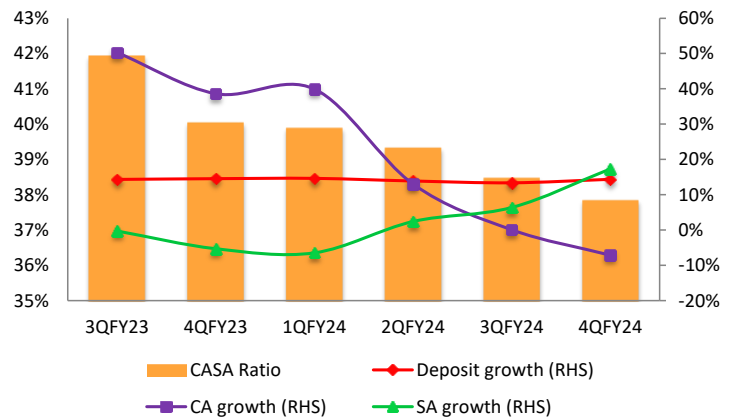
Source: Company

Exhibit 4: Credit growth led by growth in consumer finance



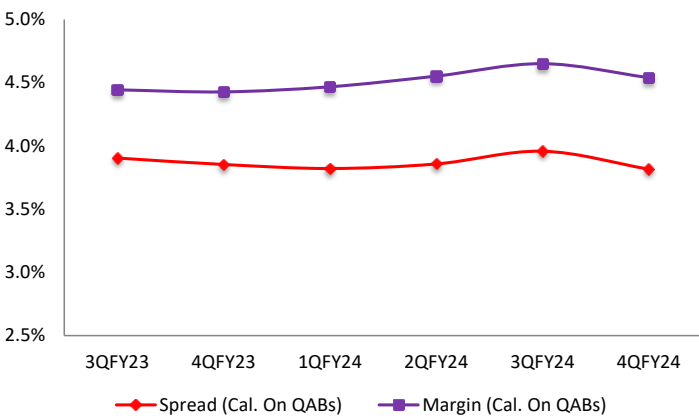
Source: Company, Systematix Institutional Research

Exhibit 5: CASA ratio declined 60bps qoq



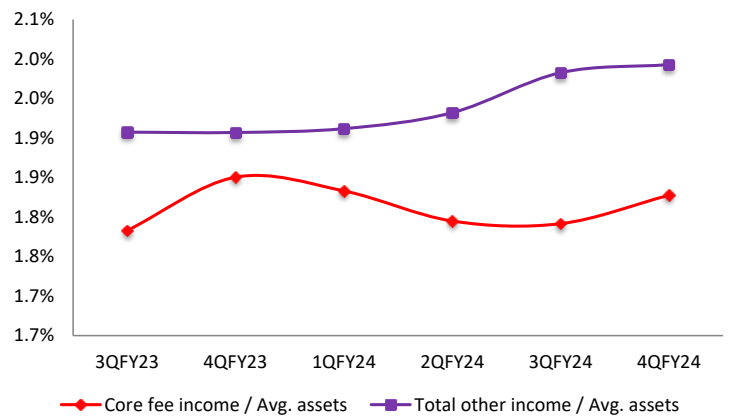
Source: Company, Systematix Institutional Research

Exhibit 6: Calculated spreads declined due to higher funding costs

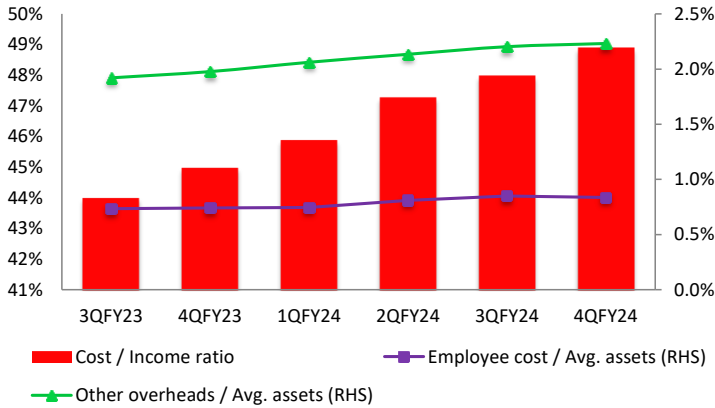


Source: Company, Systematix Institutional Research

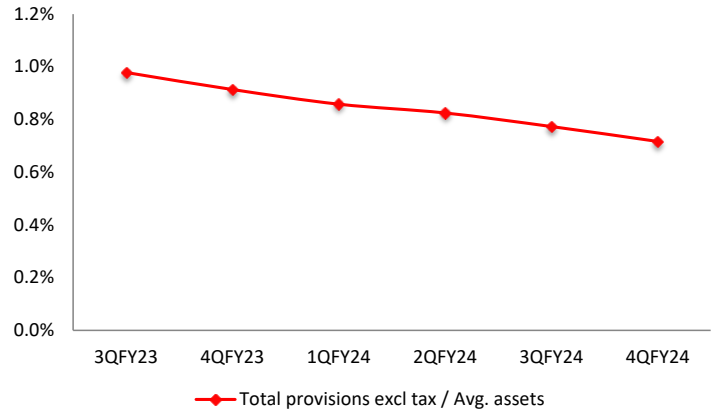
Exhibit 7: Core fee income stable qoq



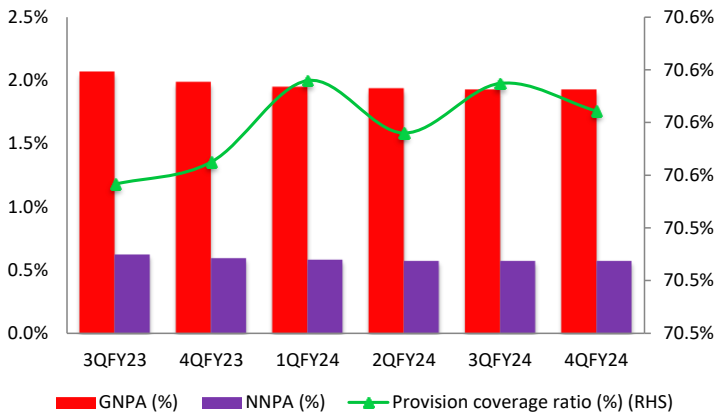
Source: Company, Systematix Institutional Research

Exhibit 8: Cost-Income ratio likely to remain elevated

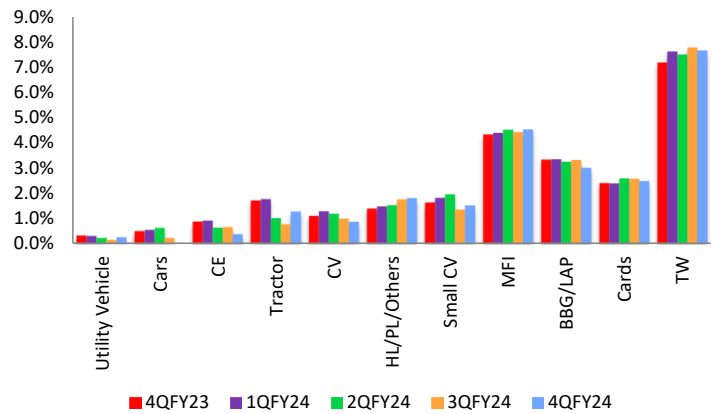
Source: Company, Systematix Institutional Research

Exhibit 9: Credit costs largely stable qoq due to utilization of contingent provision buffer

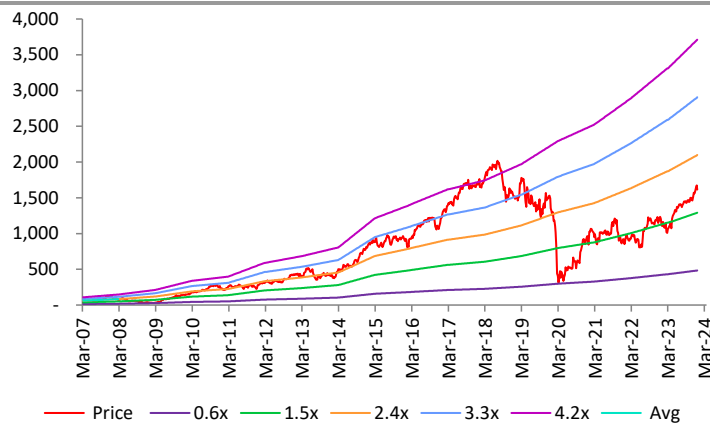
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA also stable QoQ

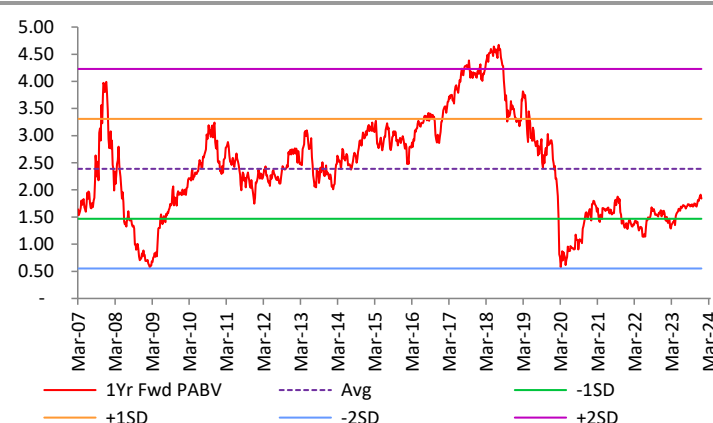
Source: Company, Systematix Institutional Research

Exhibit 11: Signs of deterioration in asset quality in credit cards

Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/ABV (x) multiple trajectory

Source: Company, Systematix Institutional Research

Exhibit 13: 1-year forward P/ABV (x) multiple trades near -1SD

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	308	364	457	531	607
Interest Expenses	158	188	251	295	335
Net Interest Income	150	176	206	236	272
Change (%)	10.9	17.3	17.2	14.3	15.3
Commission, Exc. & Br. Inc.	45	56	71	85	100
Add: Other income	28	25	23	24	24
Net Income	223	258	300	344	396
Change (%)	11.2	15.3	16.5	14.6	15.0
Operating Expenses	96	114	143	157	176
Operating Profit	128	143	157	186	219
Change (%)	8.9	12.3	9.7	18.5	17.6
Provisions	66	45	38	46	53
PBT	62	99	119	140	166
Tax	16	25	30	35	42
Tax Rate (%)	25.3	25.1	25.1	25.0	25.0
PAT	46	74	89	105	125
Change (%)	62.6	60.3	21.1	17.7	18.2
Proposed Dividend	7	11	13	15	18

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	8.1	8.5	9.4	9.6	9.5
Interest Expended	4.1	4.4	5.2	5.3	5.2
Net Interest Income	3.9	4.1	4.2	4.2	4.2
Commission, Exc. & Br. Inc.	1.2	1.3	1.5	1.5	1.6
Other Fee Income	0.6	0.6	0.5	0.4	0.4
Net Operating Income	5.7	6.0	6.1	6.2	6.2
Profit on sale of investment	0.2	0.0	0.0	0.0	0.0
Net Income	5.8	6.0	6.2	6.2	6.2
Operating Expenses	2.5	2.7	2.9	2.8	2.7
Operating Income	3.3	3.3	3.2	3.4	3.4
Provisions	1.7	1.0	0.8	0.8	0.8
PBT	1.6	2.3	2.5	2.5	2.6
Tax	0.4	0.6	0.6	0.6	0.6
PAT	1.2	1.7	1.8	1.9	1.9
Leverage	8.5	8.5	8.3	8.3	8.3
RoE	10.2	14.5	15.3	15.7	16.1

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Capital	8	8	8	8	8
Reserves & Surplus	469	538	619	713	826
Net Worth	477	546	628	721	834
Change (%)	10.0	14.5	15.0	14.8	15.7
Deposits	2,937	3,364	3,848	4,496	5,251
Change (%)	14.6	14.6	14.4	16.8	16.8
CASA Ratio (%)	42.8	40.1	37.9	37.9	37.9
Borrowings	473	490	519	538	553
Other Liabilities	133	177	154	208	228
Total Liabilities	4,020	4,578	5,149	5,963	6,866
Change (%)	10.7	13.9	12.5	15.8	15.1
Investments	710	831	1,065	1,214	1,409
Cash & Bank balance	683	565	368	417	458
Loans	2,391	2,899	3,433	4,007	4,677
Change (%)	12.4	21.3	18.4	16.7	16.7
Fixed Assets	18	20	22	25	26
Other Assets	218	263	261	300	296
Total Assets	4,020	4,578	5,149	5,963	6,866

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Yield on Advances	11.1	11.3	12.0	12.0	11.9
Yield on Earning Assets	8.6	9.0	10.0	10.1	10.0
Cost of Deposits	4.5	5.0	5.8	6.0	6.0
Cost of Funds	4.9	5.2	6.1	6.3	6.2
NIM	4.2	4.4	4.5	4.5	4.5
Profitability Ratios (%)					
Cost/Income	42.8	44.3	47.5	45.8	44.6
PPOP / Avg. assets	3.3	3.3	3.2	3.4	3.4
RoE	10.2	14.5	15.3	15.7	16.1
RoA	1.2	1.7	1.8	1.9	1.9
Asset Quality (%)					
GNPA (Rs bn)	55	58	67	81	96
NNPA (Rs bn)	15	17	20	24	28
GNPA	2.3	2.0	1.9	2.0	2.0
NNPA	0.6	0.6	0.6	0.6	0.6
PCR	72.3	70.6	70.6	70.6	70.6
Capitalisation (%)					
CAR	18.4	17.9	16.5	16.1	16.1
Tier I	16.8	16.4	16.0	15.7	15.6
Tier II	1.6	1.5	0.5	0.5	0.5
Average Leverage on Assets (x)	8.5	8.5	8.3	8.3	8.3
Valuations					
Book Value (Rs)	612	700	802	923	1,068
Adj. Book Value (Rs)	597	684	783	900	1,041
Price-BV (x)	2.45	2.14	1.87	1.62	1.40
Price-Adj. BV (x)	2.51	2.31	1.91	1.66	1.44
EPS (Rs)	60	95	115	135	160
EPS Growth (%)	55	60	21	18	18
Price-Earnings (x)	25.11	15.69	13.01	11.05	9.35
Dividend (Rs)	9	14	17	20	23
Dividend Yield (%)	1	1	1	1	2

Source: Company, Systematix Institutional Research

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