BUY (Maintained)

CMP: **INR 1,446** Target Price: **INR 2,000** ▲ 38%

ICICI Securities

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17 July 2024

India | Equity Research | Company Update

IndusInd Bank

Banking

Analysing asset quality performance on standalone and relative basis

We analyse the asset quality performance of IndusInd Bank (IIB) in this report. Post a dual hit during FY18–22, first on the corporate side and later on the retail side, IIB has seen consistent improvement in gross/net slippages for the last 2–3 years. The bank delivered multi-years' low gross/net slippages of ~1.8%/1.0% in FY24. The consistent improvement in gross/net slippages at IIB on a standalone basis appears to be somewhat overshadowed by superior performance by peers. Due to the significant difference in loan mix (minimal share of home loans share and higher share of MFI/unsecured loans), relative comparison is less justified, in our view. Importantly, relative comparison on net slippages should be viewed in conjunction with higher assets / loans yields. IIB continues to deliver 180–250bps higher loans yields and 100–180bps higher asset yields vs. larger peers.

While it is tedious to calculate risk-adjusted yields / NIM due to the intricacies of apportioning opex, IIB ranks highest on risk adjusted yields and ranks second on risk-adjusted NIM within large private banks. Despite a potential rise in MFI stress over H1FY25E, we remain confident of FY24-26 gross slippages and credit costs estimates of ~1.8% and 1.2%, respectively. Maintain **BUY** with an unchanged target price of INR 2,000 based on ~1.9x FY26E ABV. Despite slower-than-expected Q1FY25 credit growth, as per provisional update, we keep our loan CAGR estimate for FY24–26E unchanged at ~18%. We see IIB delivering steady ~1.9% RoA and 16% RoE for FY25/26E. Key risks: moderation in loan growth and less than full-term extension for the incumbent MD&CEO.

Steady improvement in gross/net slippages in last 2–3 years

IIB's asset quality took a hit between FY18–22 on dual fronts – first, with tight liquidity conditions, post the IL&FS crisis (FY18-20); later, on the retail side due to pandemic (FY20–22). Positively, the bank has been showing healthy performance on asset quality with steady improvement in gross slippages. In FY24, gross slippages (<2.0%) were at its lowest in the last six years. Similarly, IIB has also been seeing steady improvement in net slippages for the last three years; FY24 net slippages, at 1%, are similar to FY18 levels. Gross NPA (%) has improved from the highs of 2.7% in FY21 to <2% in FY24. Net NPAs have been consistently low at ~0.6% while PCR has risen from 45–55% earlier to consistently above 70% in the last three years.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	175.9	206.2	240.5	284.9
Op. profit (INR bn)	143.5	157.4	187.1	224.6
Net Profit (INR bn)	73.9	89.5	107.4	126.8
EPS (INR)	95.2	115.0	137.9	162.9
EPS % change YoY	59.9	20.7	20.0	18.1
ABV (INR)	683.6	785.4	899.8	1,037.0
P/BV (x)	2.1	1.9	1.6	1.4
P/ABV (x)	2.2	1.9	1.7	1.4
Return on Assets (%)	1.7	1.8	1.9	1.9
Return on Equity (%)	14.5	15.3	16.0	16.4

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Market Data

Market Cap (INR)	1,126bn
Market Cap (USD)	13,480mn
Bloomberg Code	IIB IN
Reuters Code	INBK.BO
52-week Range (INR)	1,695 /1,354
Free Float (%)	85.0
ADTV-3M (mn) (USD)	73.3

Price Performance (%)	3m	6m	12m
Absolute	(3.0)	(13.3)	5.0
Relative to Sensex	(13.7)	(23.6)	(17.2)

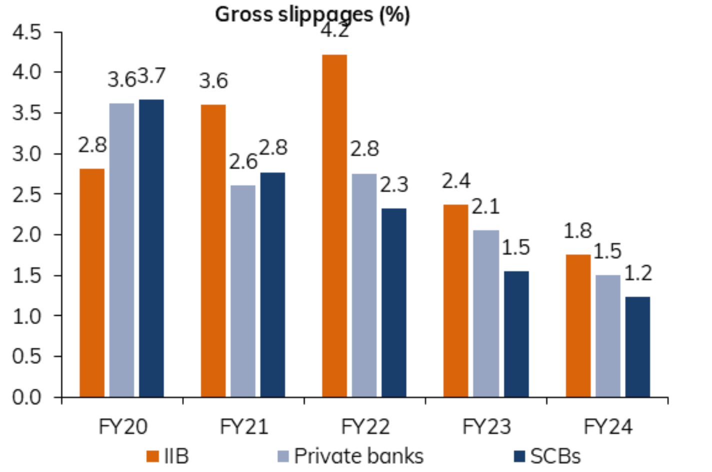
Earnings Revisions (%)	FY25E	FY26E
PAT	-	-

Previous Reports

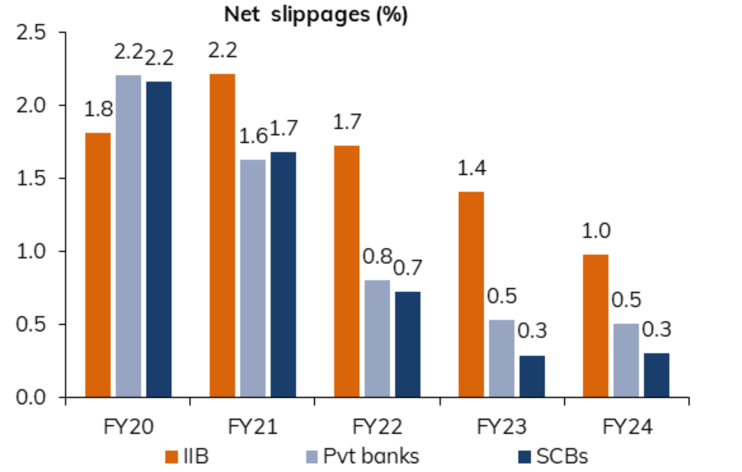
26-04-2024: Q4FY24 results review
22-03-2024: Company Update

Key exhibits

Exhibit 1: IIB has delivered significant improvement in gross / net slippages in the last 2-3 years. However, the same seems bit overshadowed by peers. IIB slippages are still at elevated levels than private banks and system

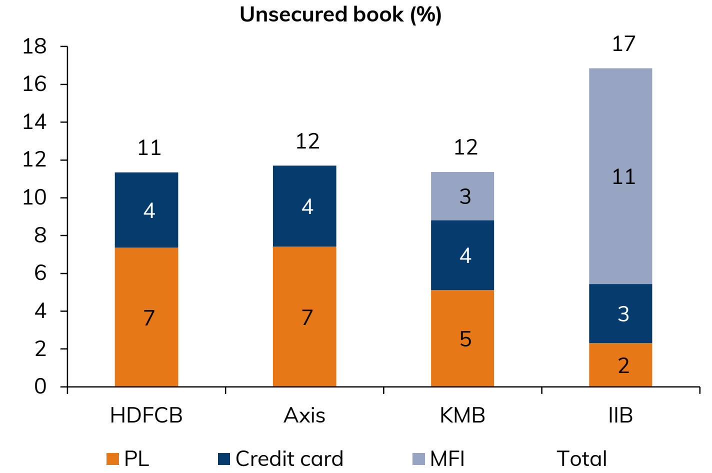


Source: Company data, I-Sec research

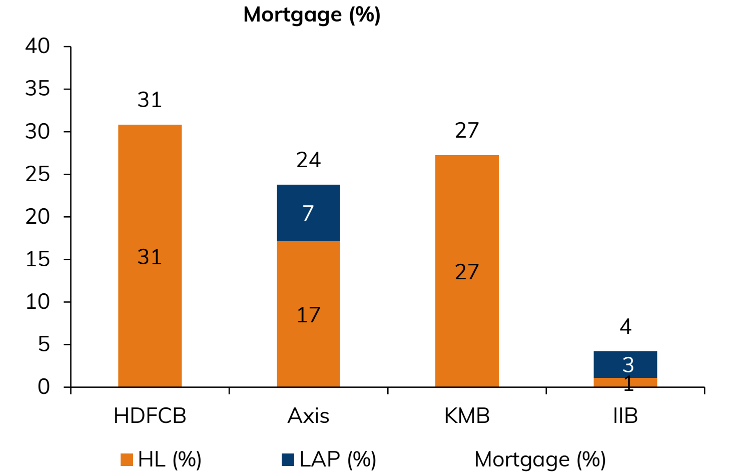


Source: Company data, I-Sec research

Exhibit 2: However, the relative comparison (on asset quality) may be less appropriate due to significant difference in loan / asset mix. IIB has relatively higher share of unsecured loans vs. peers and minimal share of mortgage loans



Source: Company data, I-Sec research



Source: Company data, I-Sec research

Exhibit 3: Higher net slippages at IIB should be seen in conjunction with higher yields

	Yields on loans (%)			Net slippages (%)			Yields on loans adj. for net slippages		
Banks	**FY22**	**FY23**	**FY24**	**FY22**	**FY23**	**FY24**	**FY22**	**FY23**	**FY24**
HDFCB	7.9	8.6	10.2	0.8	0.8	0.5	7.1	7.8	9.7
Axis	7.6	8.4	9.7	0.7	0.6	0.6	6.9	7.8	9.1
KMB	7.9	9.2	10.3	0.1	0.0	0.5	7.8	9.1	9.8
IIB	11.2	11.4	12.1	1.7	1.4	1.0	9.5	10.0	11.1

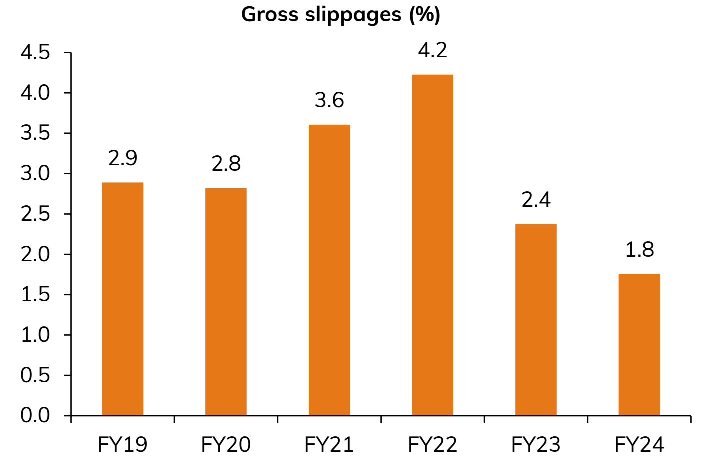
Source: Company data, I-Sec research

Exhibit 4: Summarily, IIB ranks better on risk-adjusted yields and NIM

	Yields - Provisions (% of avg assets)			NII - Provisions (% of avg assets)		
Banks	**FY22**	**FY23**	**FY24**	**FY22**	**FY23**	**FY24**
HDFCB	5.9	6.6	6.9	3.0	3.3	2.5
Axis	5.6	6.6	7.5	2.4	3.2	3.3
KMB	6.5	7.4	8.1	4.0	4.6	4.5
IIB	6.3	7.4	8.6	2.2	3.0	3.5

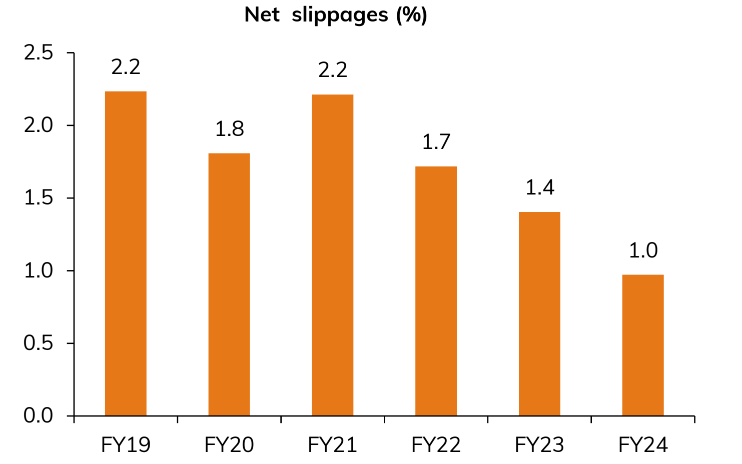
Source: Company data, I-Sec research

Exhibit 5: IIB has seen steady and sharp improvement in gross slippages over the last two years



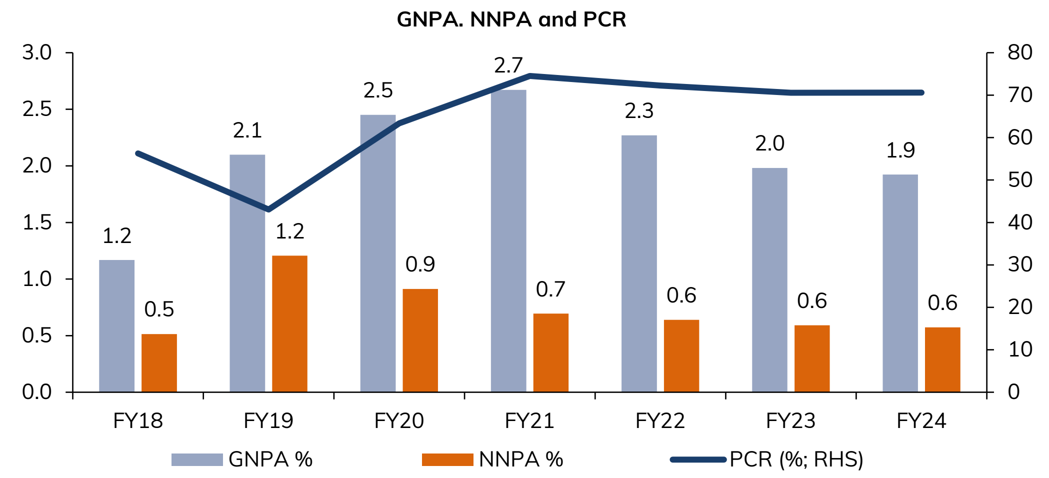
Source: Company data, I-Sec research

Exhibit 6: Similarly, net slippages over the last three years are markedly better



Source: Company data, I-Sec research

Exhibit 7: Gross NPA and net NPAs have been range-bound



Source: Company data, I-Sec research

Despite strong standalone showing, IIB seems to lag peers relatively

The consistent improvement in gross and net slippages at IIB on a standalone-basis seems to be overshadowed by superior performance by peers. While IIB has seen significant improvement in both gross and net slippages for the last 2–3 years, the levels are still elevated vs. private/system aggregate.

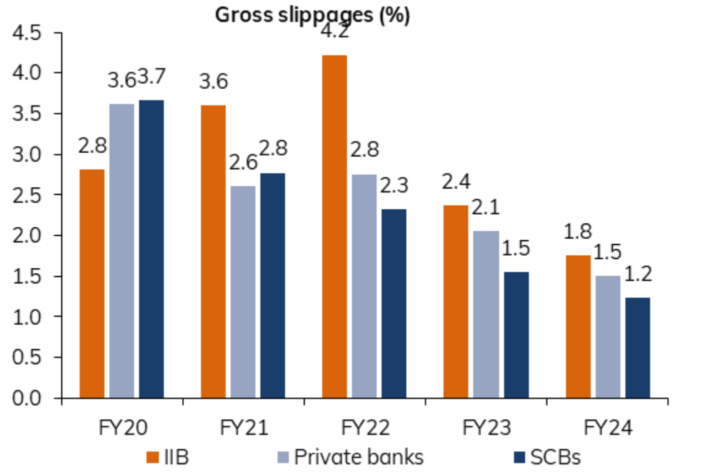
Exhibit 8: Despite significant improvement on standalone-basis, the performance is overshadowed by superior showing by peer banks on both gross/net slippages

Gross Slippages (%)	FY22	FY23	FY24
IIB	4.2	2.4	1.8
Axis	2.7	1.7	1.5
HDFCB	2.0	1.5	1.1
KMB	1.6	1.2	1.3

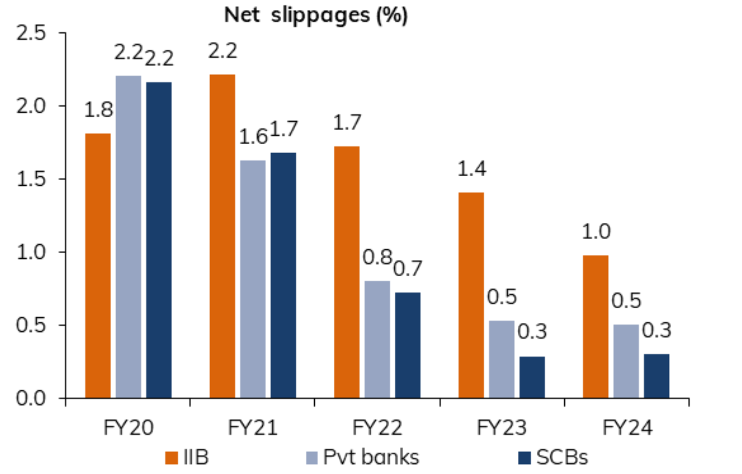
Net Slippages (%)	FY22	FY23	FY24
IIB	1.7	1.4	1.0
Axis	0.7	0.6	0.6
HDFCB	0.8	0.8	0.5
KMB	0.1	0.0	0.5

Source: Company data, I-Sec research

Exhibit 9: Similarly, despite improvement at standalone-basis, IIB's gross/net slippages are still at elevated levels than private banks and system aggregate



Source: Company data, I-Sec research



Source: Company data, I-Sec research

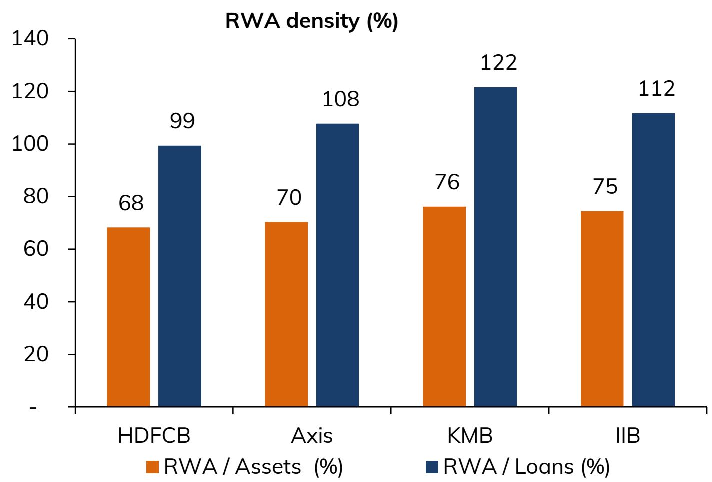
Due to significant difference in loan mix, we believe standalone performance is more meaningful than relative comparison

IIB's performance on asset quality presents an interesting phenomenon – on a standalone-basis, the bank has delivered steady improvement; on a relative-basis, it has lagged, as peers seem to have delivered even sharper improvement.

Between its standalone and relative performance, we would like to put more weightage on standalone performance, which is showing consistent improvement. IIB's relative performance may not be relevant beyond a point, due to the vast difference in asset profile of the banks; thus, evaluating relative comparison is unavailing, in our view. IIB has a higher share of unsecured loans (credit card, personal loans and MFI) at ~17% vs. 11–12% at Axis, HDFCB and KMB. More importantly, the share of the least risky home loans is <5% for IIB compared to 25–33% of overall loans at large private banks.

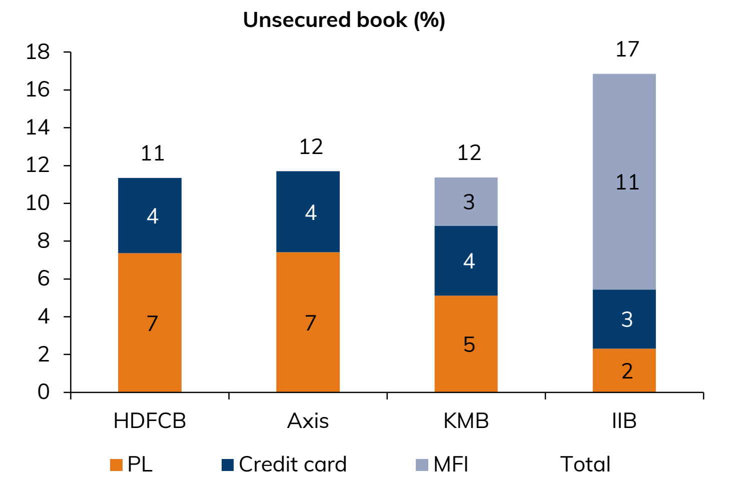
The relative lower share of less risky home loans and higher share of unsecured is also reflected in the higher yields at IIB. The loan yields (FY24) at IIB are 180–250bps higher than those of large private banks. Similarly, IIB's assets yield (FY24) is 100–180bps higher than that of large private peers.

Exhibit 10: However, the relative comparison (on asset quality) may be less appropriate due to significant difference in loan / asset mix. IIB has relatively higher share of unsecured loans vs. peers



Source: Company data, I-Sec research

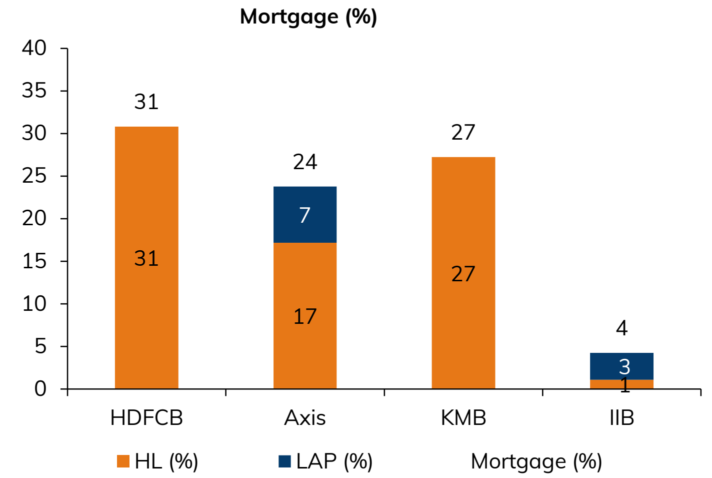
Note: Data as of Q4FY24



Source: Company data, I-Sec research

Note: Data as of Q4FY24

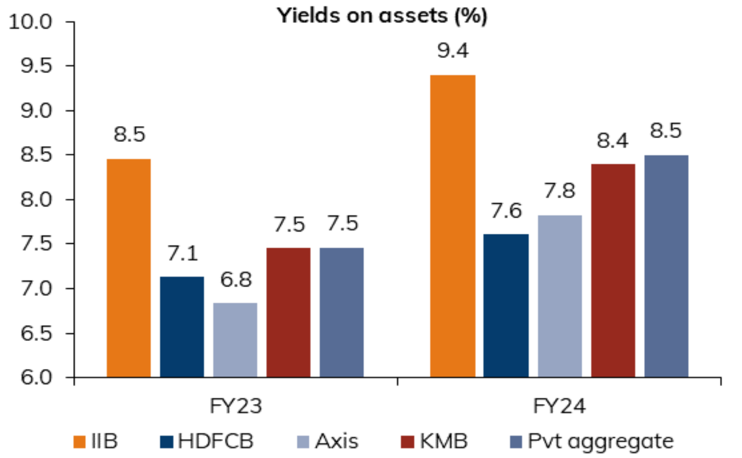
Exhibit 11: More importantly, the share of less risky mortgage is <5% vs. 25–33% share at peers...



Source: Company data, I-Sec research

Note: Data as of Q4FY24

Exhibit 12: The difference in asset mix is evident in superior asset yields at IIB vs. peers



Source: Company data, I-Sec research

Higher net slippages should be seen in conjunction with higher yields

We believe that balance sheet quality parameters (slippages/NPA) should take precedence over P&L flow (yields). In our view, lending entities should ideally refrain from trading yields for asset quality. At the same time, we are confident that despite marginal upward movement, overall asset quality in terms of gross slippages is likely to remain comfortable in the near to medium term. Thus, we believe it is important to look at net slippages in conjunction with yields or alternatively, risk-adjusted yields/NIM.

While it is tedious to calculate risk-adjusted yields or NIM due to the intricacies of apportioning higher opex, we believe yields or NIM reduced by provisioning is a reasonable work-around. On a risk-adjusted basis, IIB ranks highest within large private banks on yields and ranks second (after Kotak) on risk-adjusted NIM.

Overall, IIB has been improving its net slippages metric for the last three years on a standalone-basis. On a relative-basis, the higher net slippages at IIB should be seen in conjunction with higher yields, in our view.

Exhibit 13: Alternatively, higher net slippages at IIB should be seen in conjunction with higher yields

	Yields on loans (%)			Net slippages (%)			Yields on loans adj. for net slippages		
Banks	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
HDFCB	7.9	8.6	10.2	0.8	0.8	0.5	7.1	7.8	9.7
Axis	7.6	8.4	9.7	0.7	0.6	0.6	6.9	7.8	9.1
KMB	7.9	9.2	10.3	0.1	0.0	0.5	7.8	9.1	9.8
IIB	11.2	11.4	12.1	1.7	1.4	1.0	9.5	10.0	11.1

Source: Company data, I-Sec research

Exhibit 14: Summarily, IIB ranks better on risk-adjusted yields and NIM

	Yields - Provisions (% of avg assets)			NII - Provisions (% of avg assets)		
Banks	FY22	FY23	FY24	FY22	FY23	FY24
HDFCB	5.9	6.6	6.9	3.0	3.3	2.5
Axis	5.6	6.6	7.5	2.4	3.2	3.3
KMB	6.5	7.4	8.1	4.0	4.6	4.5
IIB	6.3	7.4	8.6	2.2	3.0	3.5

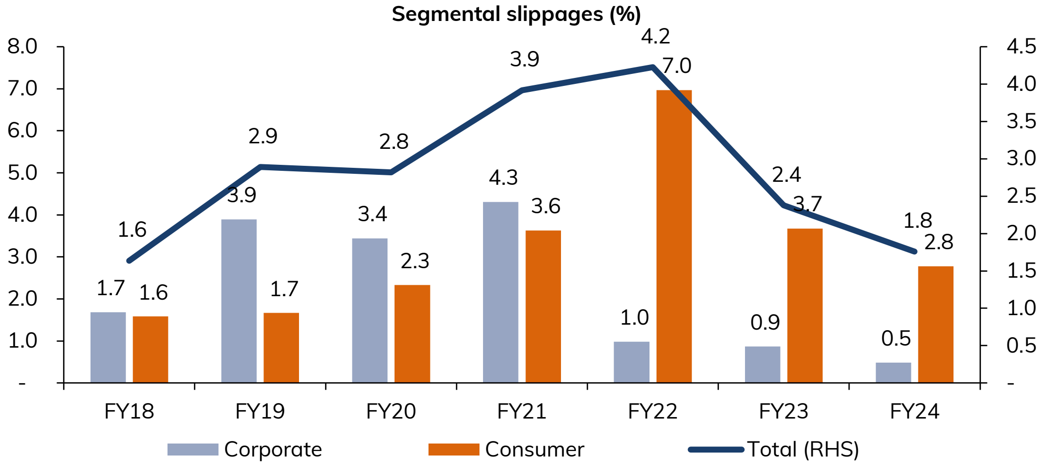
Source: Company data, I-Sec research

IIB hit by both corporate and retail slippages earlier; estimate broadly stable FY24–26 gross/net slippages

IIB saw consecutive hits – first on the corporate side during the later phase of the asset quality cycle, and then on the retail side due to Covid-19. While it managed the initial phase (FY16–18) of the corporate asset quality cycle during the asset quality review (AQR), IIB was caught in the later stage (FY18–20) on a few large corporate exposures, beginning with IL&FS. Later on, the bank saw slippages rising during the pandemic phase (FY20–22) due to a higher share of impacted segments such as CV/ MFI etc.

Positively, IIB has taken commendable measures on the corporate side with better customer selection and loan portioning. There is sharp improvement in the riskiness of its overall corporate book with the proportion of BBB-and-lower rated corporate proportion declining from ~37% (of the corporate book), as of FY20, to ~22%, as of FY24. At the same time, there is significant focus on the granularity and diversification of the corporate book. As a testament, corporate slippages in the last three years have been ≤1% – in fact, it was ~0.5% in FY24. With structural improvement and our view of a benign corporate cycle, we believe corporate slippages for IIB would remain below 1% in the medium term.

Exhibit 15: IIB saw higher corporate slippages in the later part of the corporate asset quality cycle (FY18–20) and higher retail slippages during Covid-19



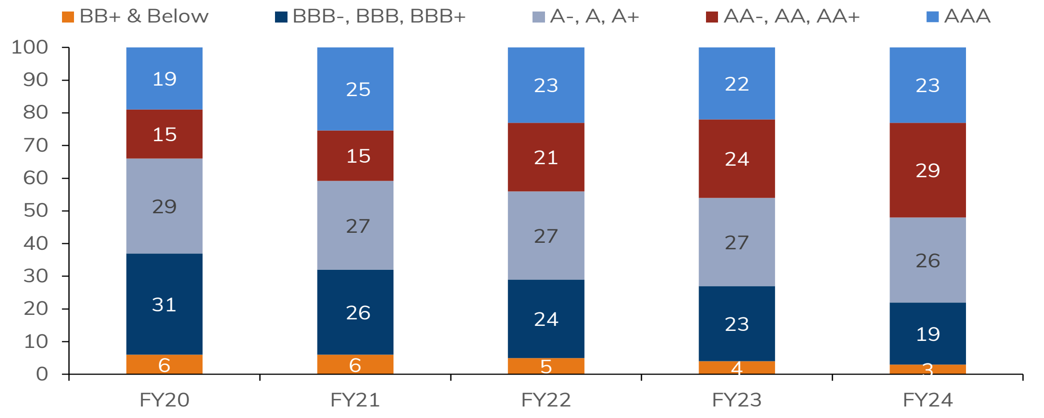
Source: Company data, I-Sec research

Exhibit 16: Segmental gross slippages – corporate slippages <1% for last two years; retail slippages improved too

Segmental Slippages %	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Corporate	**1.7**	**3.9**	**3.4**	**4.3**	**1.0**	**0.9**	**0.5**
Consumer	**1.6**	**1.7**	**2.3**	**3.6**	**7.0**	**3.7**	**2.8**
Vehicle				2.6	4.8	3.1	2.5
Non-Vehicle				4.7	8.9	4.2	3.0
Unsecured				8.9	5.7	NA	NA
MFI				3.0	12.7	6.2	3.6
Other retail				4.1	5.9	NA	NA
Total	**1.6**	**2.9**	**2.8**	**3.9**	**4.2**	**2.4**	**1.8**

Source: Company data, I-Sec research

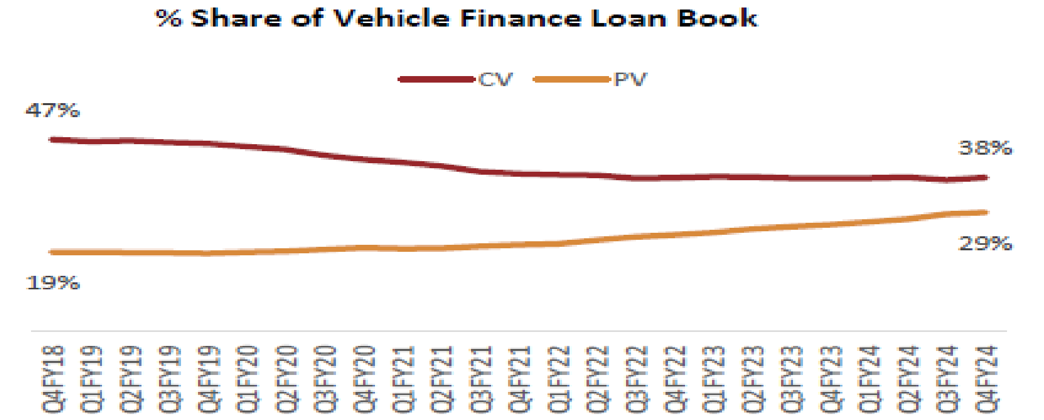
Exhibit 17: Significant improvement in the corporate book quality coupled with benign corporate outlook suggest that corporate slippages should remain <1%



Source: Company data, I-Sec research

On the retail side, slippages for IIB grew copiously during Covid-19, rising to ~7% in FY22 vs. 3.6% in FY21. With the pandemic's impact receding, retail slippages moderated to 3.7% in FY23 and subsequently to 2.8% in FY24.

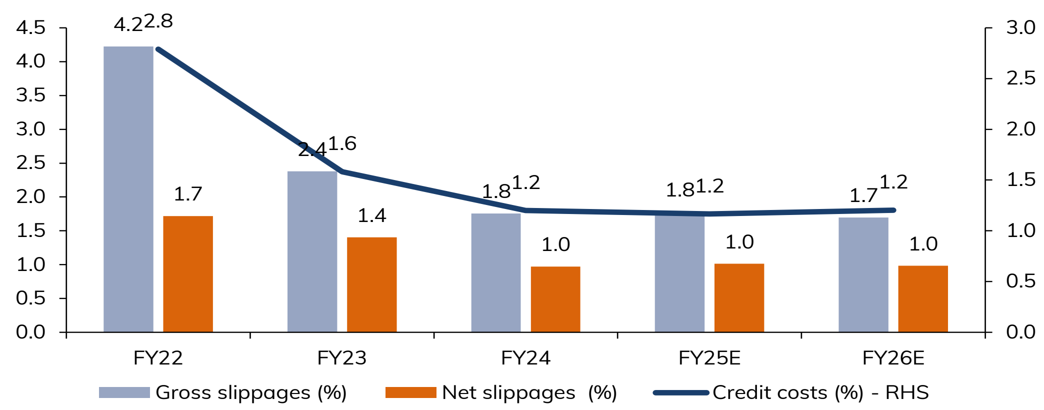
Exhibit 18: Within retail, IIB also diversified its vehicle finance business



Source: Company data, I-Sec research

Due to the general elections-related disturbance, harsh weather conditions and news-flows around waiver, MFI stress could see an uptick in H1FY25. That said, it should likely see steady normalisation thereafter. IIB also appears prudent in terms of the geographical presence. Overall, despite a possible rise in MFI slippages, we are confident on our FY25/26 gross slippages estimates of ~1.8% and credit costs of ~1.2%.

Exhibit 19: Overall, we believe standalone performance is more relevant (vs. relative) and remain confident on our slippages assumptions for FY25/26



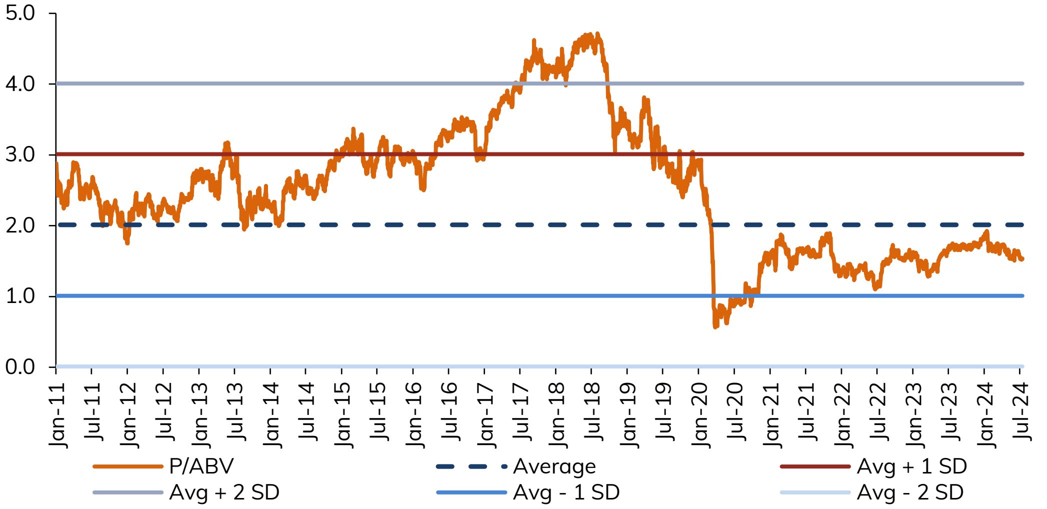
Source: Company data, I-Sec research

Maintain BUY; TP unchanged at INR 2,000

We believe that IIB is well placed on growth and NIM. Despite slower-than-expected Q1FY25 credit growth, as per its provisional business update, we estimate ~18% loan CAGR for FY24–26E. The bank is also well placed on the interest rate cycle with higher share of fixed-rate loans. Overall, we see the bank delivering amongst highest NII and PPOP growth driven by steady NIMs and superior growth. We estimate FY25–26 RoA at ~1.9%, which is significantly higher than its last ten-years average (~1.6%) while valuations at ~1.4x FY26E ABV are much more attractive. Maintain **BUY** and target price of INR 2,000, based on ~1.9x FY26E ABV.

Key risks: Any moderation in loan growth; and less-than-full-term extension for the incumbent MD&CEO.

Exhibit 20: Risk-reward attractive with stock trading at ~1.4x FY26E ABV and <9x FY26E EPS



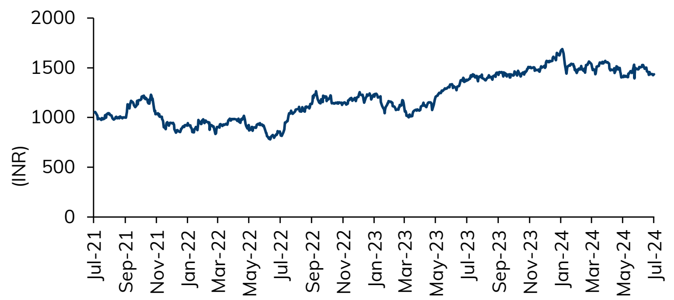
Source: Company data, I-Sec research

Exhibit 21: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	16.5	16.5	16.4
Institutional investors	69.6	68.9	68.8
MFs and others	16.4	15.6	17.8
FIs/Banks	3.2	3.7	0.1
Insurance	8.5	7.1	7.1
FIIs	41.5	42.5	43.8
Others	13.9	14.6	14.8

Source: Bloomberg, I-Sec research

Exhibit 22: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 23: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	363,679	457,482	542,126	636,549
Interest expense	187,758	251,323	301,672	351,660
Net interest income	**175,921**	**206,159**	**240,454**	**284,889**
Non-interest income	81,664	93,879	112,294	130,651
Operating income	**257,585**	**300,038**	**352,747**	**415,540**
Operating expense	114,120	142,635	165,669	190,956
Staff expense	30,305	38,953	43,944	48,959
Operating profit	**143,465**	**157,403**	**187,079**	**224,584**
Core operating profit	**142,811**	**154,903**	**181,079**	**217,584**
Provisions & Contingencies	44,868	37,987	43,605	55,126
Pre-tax profit	**98,596**	**119,415**	**143,474**	**169,458**
Tax (current + deferred)	24,699	29,918	36,112	42,653
Net Profit	**73,897**	**89,498**	**107,362**	**126,806**
Adjusted net profit	**73,897**	**89,498**	**107,362**	**126,806**

Source Company data, I-Sec research

Exhibit 24: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Cash and balance with RBI/Banks	565,111	368,016	443,594	520,486
Investments	831,162	1,065,267	1,216,882	1,384,105
Advances	2,899,237	3,432,983	4,048,396	4,773,919
Fixed assets	19,926	21,978	25,111	28,324
Other assets	262,604	261,108	323,356	400,623
Total assets	**4,578,041**	**5,149,352**	**6,057,339**	**7,107,457**
Deposits	3,364,381	3,847,929	4,574,286	5,403,905
Borrowings	490,112	476,114	524,500	578,692
Other liabilities and provisions	177,330	197,337	239,325	297,847
Share capital	7,759	7,783	7,783	7,783
Reserve & surplus	538,458	620,188	711,445	819,230
Total equity & liabilities	**4,578,041**	**5,149,352**	**6,057,339**	**7,107,457**
% Growth	13.9	12.5	17.6	17.3

Source Company data, I-Sec research

Exhibit 25: Growth ratios

(%, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Interest Income	17.3	17.2	16.6	18.5
Operating profit	11.7	9.7	18.9	20.0
Core operating profit	16.6	8.5	16.9	20.2
Profit after tax	60.3	21.1	20.0	18.1
EPS	59.9	20.7	20.0	18.1
Advances	21.3	18.4	17.9	17.9
Deposits	14.6	14.4	18.9	18.1
Book value per share	14.4	14.9	14.6	15.0
Adj Book value per share	14.5	14.9	14.6	15.2

Source Company data, I-Sec research

Exhibit 26: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
No. of shares (mn)	776	778	778	778
Adjusted EPS	95.2	115.0	137.9	162.9
Book Value per share	700	804	922	1,060
Adjusted BVPS	684	785	900	1,037
Valuation ratio				
PER (x)	15.2	12.6	10.5	8.9
Price/ Book (x)	2.1	1.8	1.6	1.4
Price/ Adjusted book (x)	2.2	1.9	1.7	1.4
Dividend Yield (%)	1.0	1.1	1.4	1.7
Profitability ratios (%)				
Yield on advances	11.3	12.0	12.1	12.1
Yields on Assets	8.5	9.4	9.7	9.7
Cost of deposits	5.0	6.1	6.4	6.3
Cost of funds	4.4	5.2	5.4	5.3
NIMs	4.4	4.5	4.6	4.6
Cost/Income	44.3	47.5	47.0	46.0
Dupont Analysis (as % of Avg Assets)				
Interest Income	8.5	9.4	9.7	9.7
Interest expended	4.4	5.2	5.4	5.3
Net Interest Income	**4.1**	**4.2**	**4.3**	**4.3**
Non-interest income	1.9	1.9	2.0	2.0
Trading gains	0.0	0.1	0.1	0.1
Fee income	1.9	1.9	1.9	1.9
Total Income	**6.0**	**6.2**	**6.3**	**6.3**
Total Cost	**2.7**	**2.9**	**3.0**	**2.9**
Staff costs	0.7	0.8	0.8	0.7
Non-staff costs	1.9	2.1	2.2	2.2
Operating Profit	**3.3**	**3.2**	**3.3**	**3.4**
Core Operating Profit	3.3	3.2	3.2	3.3
Non-tax Provisions	1.0	0.8	0.8	0.8
PBT	**2.3**	**2.5**	**2.6**	**2.6**
Tax Provisions	0.6	0.6	0.6	0.6
Return on Assets (%)	**1.7**	**1.8**	**1.9**	**1.9**
Leverage (x)	8.5	8.3	8.3	8.5
Return on Equity (%)	**14.5**	**15.3**	**16.0**	**16.4**
Asset quality ratios (%)				
Gross NPA	2.0	1.9	2.0	2.0
Net NPA	0.6	0.6	0.6	0.5
PCR	70.6	70.6	72.0	75.0
Gross Slippages	2.9	2.1	2.1	2.0
LLP / Avg loans	1.5	1.0	1.1	1.1
Total provisions / Avg loans	1.7	1.2	1.2	1.2
Net NPA / Networth	3.1	3.1	3.2	2.9
Capitalisation ratios (%)				
Core Equity Tier 1	15.9	15.8	15.4	14.9
Tier 1 cap. adequacy	16.4	15.8	15.4	14.9
Total cap. adequacy	17.9	17.2	16.6	15.9

Source Company data, I-Sec research

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