

**BUY**

TP: Rs 1,952 | ▲ 25%

**INDUSIND BANK**

| Banking

| 19 January 2024

### Stable performance

- **Strong business growth aided a 10% YoY rise in Q3 PPOP despite higher opex; PAT increased 17% to Rs 23bn**
- **Reported NIM stayed stable QoQ at 4.3% as increased yield on advances offset rise in cost of deposits**
- **TP revised to Rs 1,952 (vs. Rs 1,755) as we tweak estimates and roll valuations over; retain BUY**

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**Loans up 20% YoY:** IIB continued its strong credit growth trajectory, with advances rising 20% YoY (+4% QoQ) in Q3FY24, driven by the CFD book (+24% YoY/+5% QoQ), wherein both vehicle and non-vehicle finance along with MFI beat expectations. CCB growth was muted at 15% YoY (2% QoQ) despite a healthy performance from small corporates which grew 43% YoY (5% QoQ). Deposit growth was subdued at 13% YoY (3% QoQ), wherein low-cost retail deposits as per LCR grew 20% YoY to 45% (vs. 43.7% in Q2) while the CASA ratio fell 85bps QoQ to 38.5%.

**NIM stable; PAT robust despite high C/I ratio:** Continued recovery in high-yield advances (+15bps QoQ) supported a stable reported NIM of 4.3% despite a 9bps QoQ rise in deposit cost. IIB continues to guide for NIM of 4.2-4.3% in FY24. NII growth was healthy at 18% yoY(4% QoQ) as was non-interest income growth at 15% YoY (5% QoQ). Opex stayed elevated due to the bank's continued investment in human capital, digital launches and marketing initiatives that raised the C/I ratio by 56bps QoQ to 47.4%, with guidance at 45-46% for FY25. Led by a strong topline, PPOP grew 10% YoY (+3% QoQ).

**Asset quality stable:** Slippages were high at Rs 17.6bn vs. Rs 14.6bn in the previous quarter, wherein corporate slippages were at Rs 3.1bn (vs. Rs 2.1bn) and CFD at Rs 14.5bn (vs. Rs 12.5bn). The latter was mainly from vehicle finance where the bank expects improvement in Q4. Credit cost (calc.) stood at 121bps vs. 126bps in Q2, which is within the guided range of 110-130bps over FY23-FY26. GNPA/NNPA were stable at 1.9%/0.57% with PCR of 70.6%. A continued decline in the restructured book (to 48bps of advances vs. 52bps in Q2) and SMA book (19bps vs. 26bps) and total provisions of 2.2% (114% of GNPA) provide confidence on asset health.

**Maintain BUY:** Strong growth momentum in retail, recovery in MFI and a favourable asset-liability mix led to stable margins despite higher costs. We expect IIB to deliver healthy return ratios (ROA/ROE to 2%/16.8% in FY26 vs. 1.7%/14.4% in FY23). We retain BUY and revise our TP from Rs 1,755 to Rs 1,952 as we tweak estimates and roll valuations forward to FY26E with an unchanged target P/ABV multiple of 1.9x (Gordon Growth Model).

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IIB IN/Rs 1,561
Market cap	US\$ 14.8bn
Free float	84%
3M ADV	US\$ 66.9mn
52wk high/low	Rs 1,695/Rs 990
Promoter/FPI/DII	16%/42%/26%

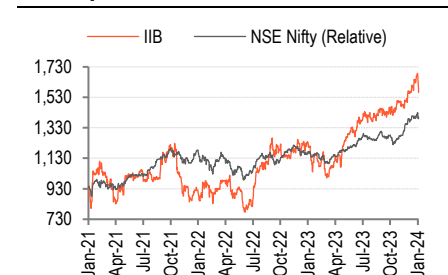
Source: NSE | Price as of 19 Jan 2024

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	175,921	207,577	246,215
NII growth (%)	17.3	18.0	18.6
Adj. net profit (Rs mn)	74,431	89,577	107,193
EPS (Rs)	96.0	115.3	137.8
Consensus EPS (Rs)	96.0	115.6	135.4
P/E (x)	16.3	13.5	11.3
P/BV (x)	2.2	2.0	1.7
ROA (%)	1.7	1.8	1.9
ROE (%)	14.4	15.5	16.4

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly snapshot: Income statement**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	77,725	83,041	88,372	93,789	96,945	24.7	3.4
Income on investments	12,128	12,971	13,998	15,602	15,892	31.0	1.9
Int. on bal. with RBI & inter-bank funds & Others	4,721	4,194	4,927	3,088	2,886	(38.9)	(6.5)
<b>Interest income</b>	<b>94,574</b>	<b>100,207</b>	<b>107,297</b>	<b>112,478</b>	<b>115,723</b>	<b>22.4</b>	<b>2.9</b>
Interest expense	49,621	53,513	58,625	61,711	62,766	26.5	1.7
<b>Net interest income</b>	<b>44,954</b>	<b>46,695</b>	<b>48,671</b>	<b>50,767</b>	<b>52,956</b>	<b>17.8</b>	<b>4.3</b>
Growth YoY (%)	18.5	17.2	18.0	18.0	17.8	(70bps)	(20bps)
<b>Non-interest income</b>	<b>20,765</b>	<b>21,536</b>	<b>22,098</b>	<b>22,819</b>	<b>23,959</b>	<b>15.4</b>	<b>5.0</b>
Growth YoY (%)	10.6	13.0	14.4	13.5	15.4	475bps	192bps
<b>Total income</b>	<b>65,718</b>	<b>68,231</b>	<b>70,769</b>	<b>73,586</b>	<b>76,916</b>	<b>17.0</b>	<b>4.5</b>
Growth YoY (%)	15.9	15.8	16.8	16.6	17.0	114bps	48bps
Staff expenses	10,872	11,530	12,352	13,378	13,907	27.9	4.0
Other operating expenses	17,982	19,126	20,103	21,121	22,585	25.6	6.9
<b>Operating expenses</b>	<b>28,854</b>	<b>30,656</b>	<b>32,455</b>	<b>34,499</b>	<b>36,492</b>	<b>26.5</b>	<b>5.8</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>36,864</b>	<b>37,575</b>	<b>38,315</b>	<b>39,087</b>	<b>40,423</b>	<b>9.65</b>	<b>3.4</b>
Growth YoY (%)	11.3	11.1	11.7	10.3	9.7	(165bps)	(63bps)
<b>Provisions</b>	<b>10,647</b>	<b>10,301</b>	<b>9,916</b>	<b>9,738</b>	<b>9,693</b>	<b>(9.0)</b>	<b>(0.5)</b>
Growth YoY (%)	(35.6)	(29.6)	(20.7)	(14.7)	(9.0)	2,666bps	569bps
<b>PBT</b>	<b>26,217</b>	<b>27,275</b>	<b>28,399</b>	<b>29,349</b>	<b>30,731</b>	<b>17.2</b>	<b>4.7</b>
Tax	6,582	6,841	7,155	7,329	7,717	17.2	5.3
<b>PAT</b>	<b>19,635</b>	<b>20,434</b>	<b>21,244</b>	<b>22,021</b>	<b>23,014</b>	<b>17.2</b>	<b>4.5</b>
Growth YoY (%)	58.2	45.9	30.3	22.0	17.2	(4,096bps)	(477bps)
<b>Per Share</b>							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	25	26	27	28	30	16.9	4.4
Book Value (Rs)	692	680	746	698	725	4.7	3.9

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly snapshot: Balance sheet & other metrics**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Deposits	3,252,780	3,361,202	3,470,470	3,595,480	3,687,930	13.4	2.6
Growth YoY (%)	14.3	14.6	14.6	13.9	13.4	(96bps)	(57bps)
Advances	2,727,540	2,899,237	3,013,170	3,154,541	3,270,570	19.9	3.7
Growth YoY (%)	19.3	21.3	21.5	21.3	19.9	59bps	(136bps)
Investment	761,740	830,757	942,160	944,275	974,290	27.9	3.2
Equity	536,590	557,805	579,200	591,711	615,590	14.7	4.0
Assets	4,444,850	4,578,366	4,669,930	4,779,224	4,888,650	10.0	2.3
Growth YoY (%)	13.8	13.9	13.9	12.0	10.0	(382bps)	(205bps)
<b>Yield (%)</b>							
Yield on Funds	9.35	9.50	9.85	10.09	10.16	82bps	8bps
Cost of Funds	5.45	5.65	6.03	6.23	6.20	76bps	(2bps)
Spread	3.90	3.85	3.82	3.86	3.96	6bps	10bps
Net Interest Margin	4.44	4.43	4.47	4.55	4.65	21bps	10bps
<b>Ratios (%)</b>							
Other Income / Net Income	31.6	31.6	31.2	31.0	31.2	(45bps)	14bps
Cost to Income ratio	43.9	44.9	45.9	46.9	47.4	354bps	56bps
CASA ratio	41.9	40.1	39.9	39.3	38.5	(344bps)	(85bps)
C/D ratio	83.9	86.3	86.8	87.7	88.7	483bps	95bps
Investment to Assets	17.1	18.1	20.2	19.8	19.9	279bps	17bps
<b>Assets Quality</b>							
GNPA	57,108	58,263	59,411	61,642	63,771	11.7	3.45
NNPA	16,815	17,150	17,469	18,138	18,752	11.5	3.4
Provision	40,293	41,113	41,942	43,505	45,019	11.7	3.5
GNPA (%)	2.06	1.98	1.94	1.93	1.92	(14bps)	(1bps)
NNPA (%)	0.62	0.59	0.58	0.57	0.57	(5bps)	0bps
Provision (%)	69.9	70.2	70.1	70.5	70.6	41bps	13bps
<b>Others</b>							
Branches	5,560	5,909	6,000	6,123	6,305	745	182
ATMs	2,894	2,878	2,875	2,807	2,939	45	132

Source: Company, BOBCAPS Research

## Earnings call highlights

### Planning cycle 6 (PL-6)

IIB indicated that it has successfully accomplished its fifth planning cycle (PL-5) and is now targeting the following under PL-6 over FY23-FY26:

- Loan growth of 18-23% vs. 20% in Q3FY24
- Retail loan mix of 55-60% vs. 55% in Q3FY24
- Retail deposits of 45-50% vs. 45% as per LCR in Q3FY24
- PPOP/Loans of 5.25-5.75% vs. 5.2% in Q3FY24
- Branch network of 3,250-3,750 vs. 2,728 in Q3FY24
- Customer base of >50mn vs. 38mn in Q3FY24

### Asset quality

- IIB's gross slippages during Q3FY24 stood at Rs 17.6bn while net slippages were at Rs 12.4bn, driven by delinquencies in the vehicle finance (unseasonal weather) and corporate segments.
- Management sees the higher slippages as a one-off and expects the quarterly run-rate to reduce to Rs 11bn-12bn on the back of improvement in both the vehicle finance and MFI segments.
- Corporate slippages of Rs 3.1bn vs. Rs 2.1bn during Q2FY24 included Rs 1.4bn from a single account which has been under stress since last quarter.
- SMA-1 and SMA-2 loans collectively stood at 19bps.
- IIB reported credit cost at 121bps vs. 126bps for Q2 and maintained guidance at 110-130bps for FY24.
- The restructured book declined to 48bps from 52bps of loans, largely due to upgrades and recoveries.
- IIB used contingent provisions of Rs 22bn in Q3 vs. Rs 18.1bn cumulatively over the past six quarters but does not intend to use more of these going forward.
- The net security receipts book has reduced further to 37bps from 39bps of loans in Q2, and the bank made additional provisions of ~Rs 1.65bn towards this book during the quarter.
- Total loan-related provisions stood at 2.2% of loans (vs. 2.3% in Q2) or 114% of GNPA (vs. 118% in Q2).

### Loan book

- Loans grew 20% YoY in Q3 with corporate loans up 15% (focus on mid-to-small accounts), vehicle loans up 20%, and non-vehicle finance rising 27%.
- The mix of retail to corporates stood at 55:45, in line with our expectations.

- Disbursement was strong in the vehicle, MFI and consumer businesses. Utility vehicles, cars and two-wheelers registered strong disbursals while commercial vehicles and tractors remained soft.

### Deposits

- Retail deposits as per LCR grew 20% YoY and formed 45% of total deposits in Q3 vs. 43.7% in Q2, progressing towards the bank's target of 45-50% in PL-6.
- IIB continues to steer clear of non-retail deposits such as share certificates in a bid to focus on granularity.
- LCR stood at 122% vs. 117% in Q2 (full-year guidance at 115-125%), with average surplus liquidity at Rs 395bn vs. Rs 370bn in Q2.

### Opex

- Sequential opex growth of 6% during Q3 was driven by investments in human capital, digital launches and marketing initiatives.
- IIB's employee base increased 5% QoQ.
- The bank added 97 branches during the quarter totalling to 2,728 and plans to add 250-300 branches per year.
- Management has guided for a C/I ratio of 43% and 41% respectively over the next two years, supported by operating leverage from the retail segment.

### Margins

- Reported NIM was flat QoQ at 4.29%, wherein cost of deposits increased by 9bps while yield on advances increased by 15bps on the back of a change in mix and loan repricing.
- The bank believes it has adequate levers to absorb any further rise in cost of deposits and hence NIM is guided to remain in the range of 4.2-4.3% for FY24.

### Vehicle finance

- Vehicle finance loans grew 5% QoQ and 20% YoY while disbursement increased 7% QoQ.
- Cars, utility vehicles, and construction equipment witnessed 15% QoQ growth in disbursals. The two-wheeler segment also saw healthy growth with demand picking up on the back of improving rural demand and the festive season. However, commercial vehicle and three-wheeler disbursement remained subdued due to lower industry volumes.
- Utility vehicles, equipment finance, two-wheelers and car loans saw sequential loan growth of 5% or above, while growth was slower in commercial vehicles, small CVs and tractors.
- The bank has doubled its auto loan book in the last two years and now has 4% market share.

- Vehicle finance slippages increased to 73bps from 64bps in Q2 due to unseasonal weather in December, which impacted collections to some extent. The segment's restructured book reduced to Rs 7.05bn from Rs 9.1bn in the previous quarter.
- The bank indicated that the vehicle finance book is well diversified between the commercial and passenger segments, which helps it to derisk the cyclical impact. Management has guided for 20% YoY growth in the segment next year.

### **Microfinance**

- MFI loan book outstanding stood at Rs 357.6bn in Q3, rising 20% YoY.
- New customers added during Q3 totalled ~3mn, leading to a total of 12mn.
- MFI standard net collection efficiency in Q3 was at 98.6% and the 30-90dpd book stood at 1.7% vs. 1.9% in the prior quarter.

### **Corporate banking portfolio**

- The corporate loan book grew 2.4% QoQ in Q3 led by small corporates (+5% QoQ, +42% YoY) and the agri portfolio.
- The proportion of A-and-above rated customers has remained stable at 77% QoQ.

### **Diamond portfolio**

- Gold & jewellery loans declined 8% QoQ on global macro challenges and now contribute 3% of the loan book. However, asset quality remained comfortable.
- IIB has no SMA-1 and SMA-2 loans in this business.

**Fig 3 – Portfolio mix (Absolute)**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Large Corporates	710,530	743,400	770,650	792,330	809,720	14.0	2.2
Mid Corporates	442,010	463,740	476,240	479,710	488,450	10.5	1.8
Small Corporates	117,560	134,360	147,480	159,500	167,700	42.7	5.1
<b>Corporate and Commercial Banking</b>	<b>1,270,100</b>	<b>1,341,500</b>	<b>1,394,370</b>	<b>1,431,540</b>	<b>1,465,870</b>	<b>15.4</b>	<b>2.4</b>
Commercial Vehicle Loans	268,190	281,710	293,200	308,790	318,630	18.8	3.2
Utility Vehicle Loans	83,110	90,290	98,130	107,290	119,510	43.8	11.4
Small CV	33,650	34,590	35,610	37,730	39,400	17.1	4.4
Two-Wheeler Loans	47,490	47,740	47,780	48,040	51,840	9.2	7.9
Car Loans	99,930	105,710	111,100	117,840	126,710	26.8	7.5
Tractor	91,590	93,720	95,160	95,800	94,460	3.1	(1.4)
Equipment Financing	92,690	98,670	102,340	105,020	110,370	19.1	5.1
<b>Vehicle Finance</b>	<b>716,650</b>	<b>752,430</b>	<b>783,320</b>	<b>820,510</b>	<b>860,920</b>	<b>20.1</b>	<b>4.9</b>
Credit Card	77,140	83,950	89,780	94,620	102,390	32.7	8.2
LAP	95,020	96,400	99,530	101,810	104,700	10.2	2.8
BBG	128,390	138,450	148,070	153,640	158,940	23.8	3.4
Other (BL, PL, GL, AHL, Others)	143,360	164,360	178,290	208,790	220,140	53.6	5.4
Microfinance (incl. BHAFIN)	296,880	322,150	319,810	343,630	357,610	20.5	4.1
<b>Non-Vehicle Finance</b>	<b>740,790</b>	<b>805,310</b>	<b>835,480</b>	<b>902,490</b>	<b>943,780</b>	<b>27.4</b>	<b>4.6</b>
<b>Consumer Finance</b>	<b>1,457,440</b>	<b>1,557,740</b>	<b>1,618,800</b>	<b>1,723,000</b>	<b>1,804,700</b>	<b>23.8</b>	<b>4.7</b>
<b>Total</b>	<b>2,727,540</b>	<b>2,899,240</b>	<b>3,013,170</b>	<b>3,154,540</b>	<b>3,270,570</b>	<b>19.9</b>	<b>3.7</b>

Source: Company, BOBCAPS Research

**Fig 4 – Portfolio mix (% share)**

Segment (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Large Corporates	26.1	25.6	25.6	25.1	24.8	(164bps)	(88bps)
Mid Corporates	16.2	16.0	15.8	15.2	14.9	(139bps)	(106bps)
Small Corporates	4.3	4.6	4.9	5.1	5.1	104bps	49bps
<b>Corporate and Commercial Banking</b>	<b>46.6</b>	<b>46.3</b>	<b>46.3</b>	<b>45.4</b>	<b>44.8</b>	<b>(199bps)</b>	<b>(145bps)</b>
Commercial Vehicle Loans	9.8	9.7	9.7	9.8	9.7	0bps	3bps
Utility Vehicle Loans	3.0	3.1	3.3	3.4	3.7	78bps	54bps
Small CV	1.2	1.2	1.2	1.2	1.2	(2bps)	1bps
Two-Wheeler Loans	1.7	1.6	1.6	1.5	1.6	(8bps)	(6bps)
Car Loans	3.7	3.6	3.7	3.7	3.9	29bps	23bps
Tractor	3.4	3.2	3.2	3.0	2.9	(42bps)	(34bps)
Equipment Financing	3.4	3.4	3.4	3.3	3.4	(4bps)	(3bps)
<b>Vehicle Finance</b>	<b>26.3</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.3</b>	<b>50bps</b>	<b>37bps</b>
Credit Card	2.8	2.9	3.0	3.0	3.1	40bps	24bps
LAP	3.5	3.3	3.3	3.2	3.2	(35bps)	(12bps)
BBG	4.7	4.8	4.9	4.9	4.9	5bps	8bps
Other (BL, PL, GL, AHL, Others)	5.3	5.7	5.9	6.6	6.7	184bps	106bps
Microfinance (incl. BHAFIN)	10.9	11.1	10.6	10.9	10.9	(45bps)	(18bps)
<b>Non-Vehicle Finance</b>	<b>27.2</b>	<b>27.8</b>	<b>27.7</b>	<b>28.6</b>	<b>28.9</b>	<b>149bps</b>	<b>108bps</b>
<b>Consumer Finance</b>	<b>53.4</b>	<b>53.7</b>	<b>53.7</b>	<b>54.6</b>	<b>55.2</b>	<b>199bps</b>	<b>145bps</b>
<b>Total Loan</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

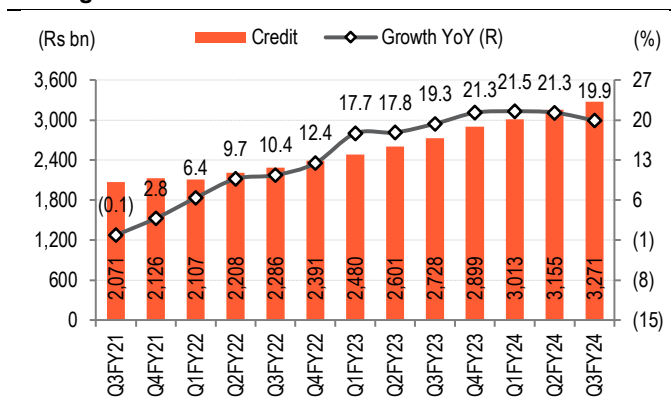
Source: Company, BOBCAPS Research

**Fig 5 – Yield profile**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
<b>Corporate and Commercial Banking</b>	<b>1,270,100</b>	<b>1,341,500</b>	<b>1,394,370</b>	<b>1,431,540</b>	<b>1,465,870</b>	<b>15.4</b>	<b>2.4</b>
% of Loan	46.6	46.3	46.3	45.4	44.8	(199bps)	(145bps)
Yield (%)	8.6	8.9	9.0	9.0	9.1	86bps	17bps
<b>Consumer Finance</b>	<b>1,457,440</b>	<b>1,557,740</b>	<b>1,618,800</b>	<b>1,723,000</b>	<b>1,804,700</b>	<b>23.8</b>	<b>4.7</b>
% of Loan	53.4	53.7	53.7	54.6	55.2	199bps	145bps
Yield (%)	14.5	14.7	14.8	14.8	15.1	73bps	39bps
<b>Total Loan</b>	<b>2,727,540</b>	<b>2,899,240</b>	<b>3,013,170</b>	<b>3,154,540</b>	<b>3,270,570</b>	<b>19.9</b>	<b>3.7</b>
Yield (%)	11.8	12.0	12.2	12.3	12.5	94bps	43bps

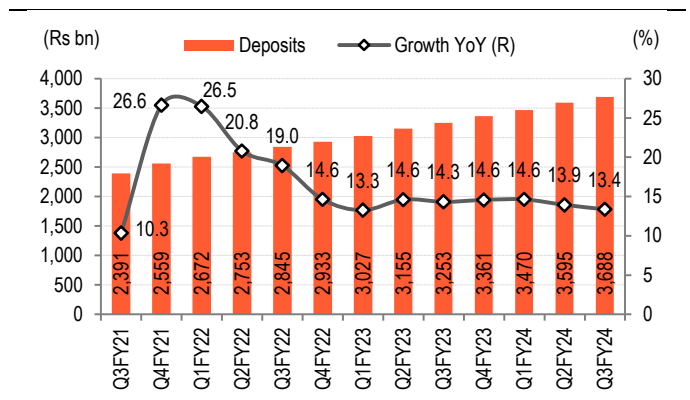
Source: Company, BOBCAPS Research

**Fig 6 – Recovery in vehicle finance and MFI led to strong loan growth in Q3FY24**



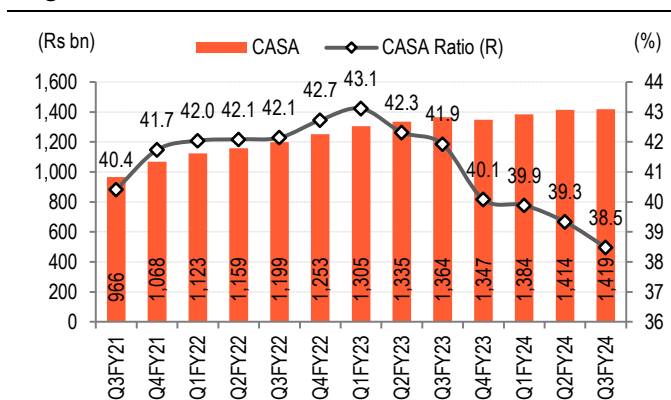
Source: Company, BOBCAPS Research

**Fig 7 – Deposit mobilisation remained subdued**



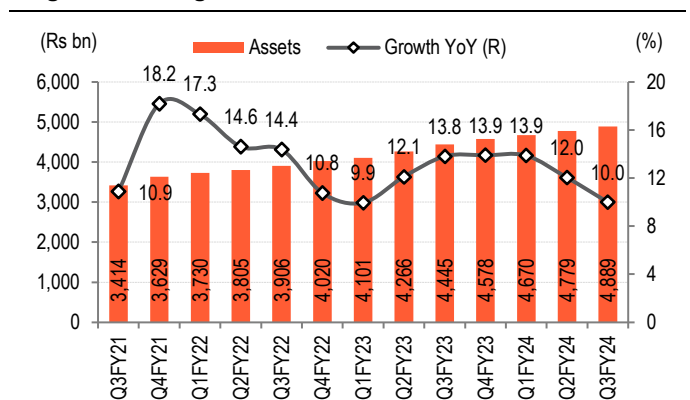
Source: Company, BOBCAPS Research

**Fig 8 – CASA continued to decline**



Source: Company, BOBCAPS Research

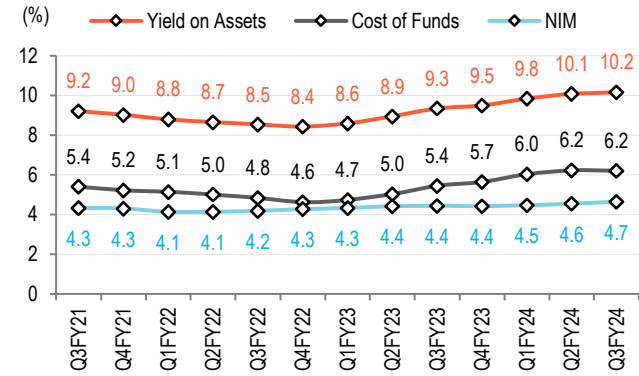
**Fig 9 – Assets grew 10% YoY**



Source: Company, BOBCAPS Research

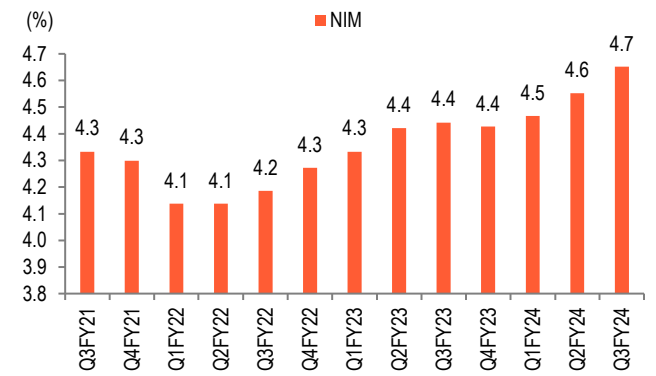


**Fig 10 – NIM flat QoQ despite higher cost of funds**



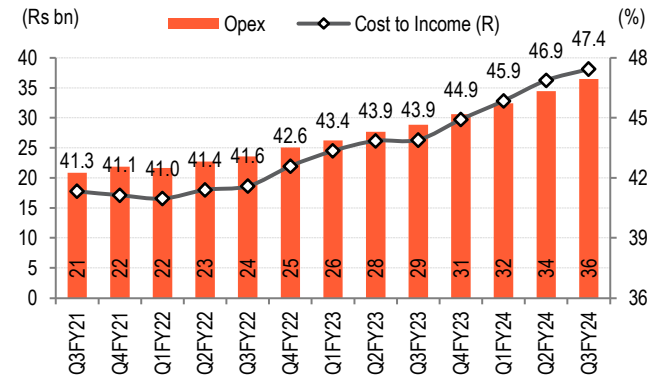
Source: Company, BOBCAPS Research

**Fig 11 – NIM (calc.) likely to remain stable at current level**



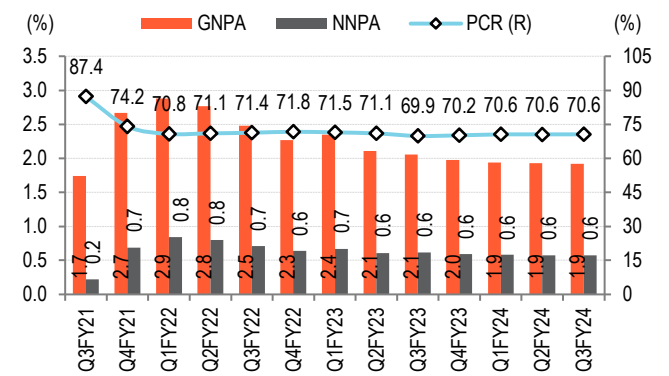
Source: Company, BOBCAPS Research

**Fig 12 – C/I to remain elevated with continued investment**



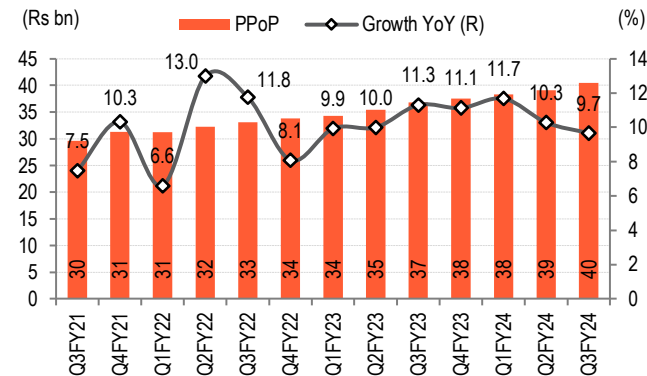
Source: Company, BOBCAPS Research

**Fig 13 – Asset quality remained stable**



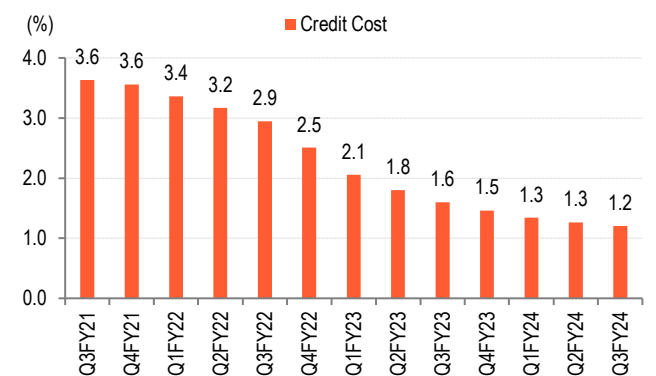
Source: Company, BOBCAPS Research

**Fig 14 – Strong topline supported PPOP growth YoY**



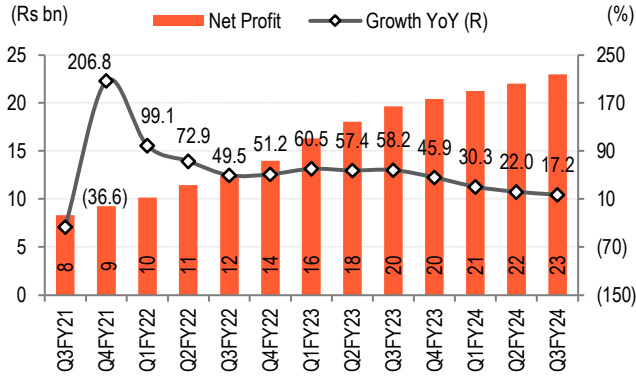
Source: Company, BOBCAPS Research

**Fig 15 – Credit cost continues to decline**



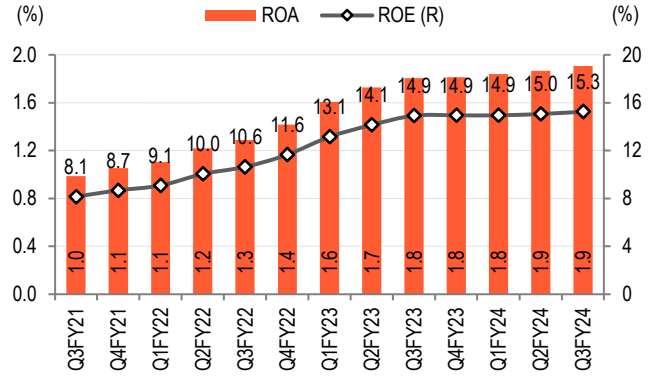
Source: Company, BOBCAPS Research

**Fig 16 – Lower provisions supported PAT growth**



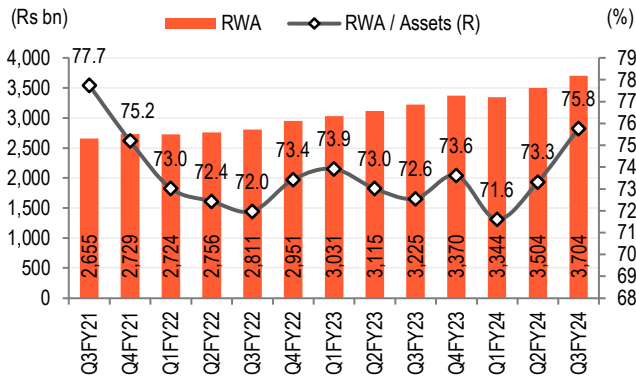
Source: Company, BOBCAPS Research

**Fig 17 – Return ratios likely to improve as NIM rises**



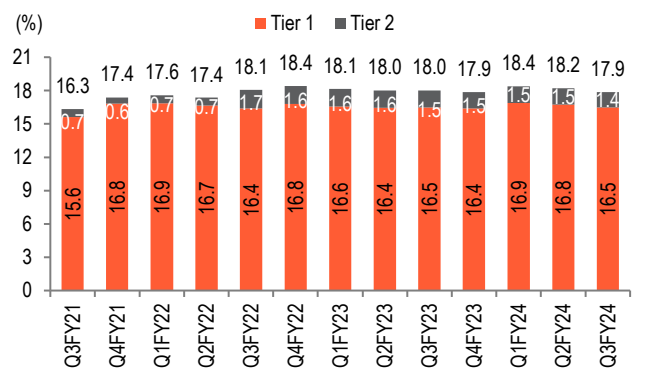
Source: Company, BOBCAPS Research

**Fig 18 – RWA/Assets rose on regulatory changes**



Source: Company, BOBCAPS Research

**Fig 19 – Well capitalised with tier-1 at 16.5%**



Source: Company, BOBCAPS Research

## Valuation methodology

Following the Q3FY24 results, we lower our FY24/FY25 deposit forecasts by 4%/6% considering systemic challenges to deposit mobilisation, while cutting credit estimates by 1% each. We also introduce FY26 estimates for the bank.

The change in mix towards retail lending, more specifically vehicle loans and MFI which are relatively high yielding in nature, is likely to aid margins and offset some cost pressure. We thus expect NIM (calc.) to improve by 15-20bps each year over FY24/FY25 to 4.7%/4.8%. Given the improving asset quality, we also cut our provision estimates by 5%/6% for FY24/FY25. Overall tweak in business growth and change in PPOP led to a minor 2% decline in PAT in each of these years. In terms of asset quality, we model for credit cost at 124bps/120bps for FY24/FY25 vs. 130bps/126bps earlier, within management's guided range.

We expect strong growth momentum in retail, recovery in MFI and a favourable asset-liability mix to continue to support stable margins despite higher costs. Further, IIB is projected to deliver healthy return ratios with ROA/ROE of 2%/16.8% in FY26 vs. 1.7%/14.4% in FY23. We retain BUY and revise our TP from Rs 1,755 to Rs 1,952 as we adjust estimates and roll valuations forward to FY26E with an unchanged target P/ABV multiple of 1.9x (Gordon Growth Model).

**Fig 20 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	3,473,286	4,143,630	3,508,077	4,202,676	(1.0)	(1.4)
Deposits	3,814,964	4,387,209	3,966,218	4,680,138	(3.8)	(6.3)
Assets	5,109,881	6,013,034	5,235,350	6,174,411	(2.4)	(2.6)
NII	207,577	246,215	206,754	244,507	0.4	0.7
PPOP	159,599	189,779	164,340	195,780	(2.9)	(3.1)
Provisions	39,462	45,701	41,648	48,578	(5.2)	(5.9)
PAT	89,577	107,193	91,483	109,519	(2.1)	(2.1)

Source: Company, BOBCAPS Research

**Fig 21 – Key valuation assumptions**

Components of Gordon growth model	Assumptions (%)
Cost of equity (%)	12.4
Blended ROE (%)	15.6
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6.2
Long term dividend payout ratio (%)	60
Justified P/BV Multiple (x)	1.9

Source: Company, BOBCAPS Research

**Fig 22 – Key operational assumptions**

Parameter (%)	FY23A	FY24E	FY25E	FY26E
Advances growth	21.3	19.8	19.3	18.1
NII growth	17.3	18.0	18.6	18.2
PPoP growth	10.1	10.7	18.9	22.4
PAT growth	129.8	20.3	19.7	23.6
NIM	4.4	4.6	4.7	4.8
GNPA	2.0	1.8	1.7	1.7
CAR	17.9	16.9	16.2	16.3

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- inability to sustain business growth, mainly in the vehicle finance book, and
- further deterioration in asset quality, which may lead to higher provisioning.

## Glossary

Glossary of Abbreviations			
<b>AUCA</b>	Advance Under Collection Account	<b>LCR</b>	Liquidity Coverage Ratio
<b>ARC</b>	Asset Reconstruction Company	<b>MCLR</b>	Marginal Cost of Funds-based Lending Rate
<b>BRDS</b>	Bills Rediscounting Scheme	<b>MTM</b>	Mark to Market
<b>CASA</b>	Current Account and Savings Account	<b>NII</b>	Net Interest Income
<b>CAR</b>	Capital Adequacy Ratio	<b>NIM</b>	Net Interest Margin
<b>CCB</b>	Corporate & Commercial Banking	<b>NNPA</b>	Net Non-Performing Assets
<b>CET1</b>	Common Equity Tier 1	<b>PCR</b>	Provision Coverage Ratio
<b>CD</b>	Credit-Deposit Ratio	<b>PPOP</b>	Pre-Provision Operating Profit
<b>CFD</b>	Consumer Finance Division	<b>PSU</b>	Public Sector Unit
<b>C/I</b>	Cost-Income Ratio	<b>RWA</b>	Risk-weighted Assets
<b>CRB</b>	Commercial and Rural Banking	<b>SLR</b>	Statutory Liquidity Ratio
<b>EBLR</b>	External Benchmark-based Lending Rate	<b>SMA</b>	Special Mention Account
<b>ECL</b>	Expected Credit Loss	<b>SME</b>	Small and Medium-sized Enterprises
<b>GNPA</b>	Gross Non-Performing Assets	<b>SR</b>	Security Receipts
<b>IBPC</b>	Interbank Participation Certificate		

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net interest income</b>	<b>150,008</b>	<b>175,921</b>	<b>207,577</b>	<b>246,215</b>	<b>290,992</b>
NilI growth (%)	10.9	17.3	18.0	18.6	18.2
Non-interest income	73,448	81,728	93,876	108,448	126,449
Total income	223,456	257,649	301,453	354,663	417,441
Operating expenses	93,107	113,459	141,854	164,885	185,101
PPOP	130,349	144,190	159,599	189,779	232,340
PPOP growth (%)	9.8	10.6	10.7	18.9	22.4
Provisions	66,021	44,868	39,462	45,701	54,224
PBT	64,328	99,322	120,137	144,077	178,117
Tax	16,282	24,891	30,560	36,884	45,598
<b>Reported net profit</b>	<b>48,046</b>	<b>74,431</b>	<b>89,577</b>	<b>107,193</b>	<b>132,519</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>48,046</b>	<b>74,431</b>	<b>89,577</b>	<b>107,193</b>	<b>132,519</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	7,747	7,759	7,780	7,780	7,780
Reserves & surplus	472,517	542,287	600,682	691,796	804,437
Net worth	480,264	550,046	608,462	699,576	812,217
Deposits	2,933,495	3,361,202	3,814,964	4,387,209	5,067,226
Borrowings	473,232	490,112	431,299	470,116	512,426
Other liab. & provisions	132,683	177,006	255,157	456,134	564,200
<b>Total liab. &amp; equities</b>	<b>4,019,674</b>	<b>4,578,366</b>	<b>5,109,881</b>	<b>6,013,034</b>	<b>6,956,069</b>
Cash & bank balance	685,847	567,768	360,139	492,130	567,266
Investments	709,299	830,757	979,823	983,187	1,095,883
Advances	2,390,515	2,899,237	3,473,286	4,143,630	4,893,627
Fixed & Other assets	234,012	280,605	296,633	394,086	399,294
<b>Total assets</b>	<b>4,019,674</b>	<b>4,578,366</b>	<b>5,109,881</b>	<b>6,013,034</b>	<b>6,956,069</b>
Deposit growth (%)	14.6	14.6	13.5	15.0	15.5
Advances growth (%)	12.4	21.3	19.8	19.3	18.1

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	62.1	96.0	115.3	137.8	170.3
Dividend per share	5.0	14.0	17.3	20.7	25.5
Book value per share	615.8	708.9	782.1	899.2	1,044.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	25.1	16.3	13.5	11.3	9.2
P/BV	2.5	2.2	2.0	1.7	1.5
Dividend yield (%)	0.3	0.9	1.1	1.3	1.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	3.9	4.1	4.3	4.4	4.5
Non-interest income	1.9	1.9	1.9	2.0	2.0
Operating expenses	2.4	2.6	2.9	3.0	2.9
Pre-provisioning profit	3.4	3.4	3.3	3.4	3.6
Provisions	1.7	1.0	0.8	0.8	0.8
PBT	1.7	2.3	2.5	2.6	2.7
Tax	0.4	0.6	0.6	0.7	0.7
ROA	1.3	1.7	1.8	1.9	2.0
Leverage (x)	8.4	8.3	8.4	8.5	8.6
ROE	10.5	14.4	15.5	16.4	17.5

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Net interest income	10.9	17.3	18.0	18.6	18.2
Pre-provisioning profit	9.8	10.6	10.7	18.9	22.4
EPS	55.4	54.7	20.1	19.5	23.6
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	4.1	4.4	4.5	4.6
Fees / Avg. assets	0.3	0.3	0.4	0.4	0.4
Cost-Income	41.7	44.0	47.1	46.5	44.3
ROE	10.5	14.4	15.5	16.4	17.5
ROA	1.3	1.7	1.8	1.9	2.0
<b>Asset quality (%)</b>					
GNPA	2.3	2.0	1.8	1.7	1.7
NNPA	0.6	0.6	0.5	0.5	0.5
Slippage ratio	4.8	2.9	2.1	2.1	2.0
Credit cost	2.9	1.7	1.2	1.2	1.2
Provision coverage	71.6	70.0	70.5	71.5	71.5
<b>Ratios (%)</b>					
Credit-Deposit	81.5	86.3	91.0	94.4	96.6
Investment-Deposit	24.2	24.7	25.7	22.4	21.6
CAR	18.4	17.9	16.9	16.2	16.3
Tier-1	16.8	16.4	15.5	14.9	15.1

Source: Company, BOBCAPS Research

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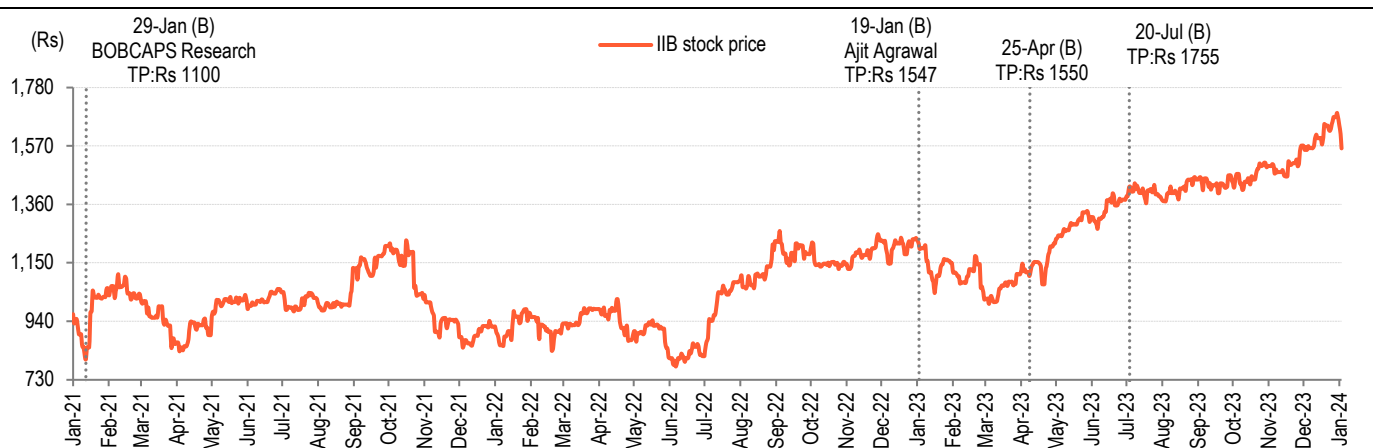
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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**Ratings and Target Price (3-year history): INDUSIND BANK (IIB IN)**



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