

**Sluggish growth beyond Seasonality factors
and rise in NPAs drag bottomline**

CMP: INR 1,280

Rating: BUY

Target Price: INR 1,575

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)	1,085
52w H/L (INR)	1,694 / 1,258
Avg Yearly Vol (in 000')	3,688

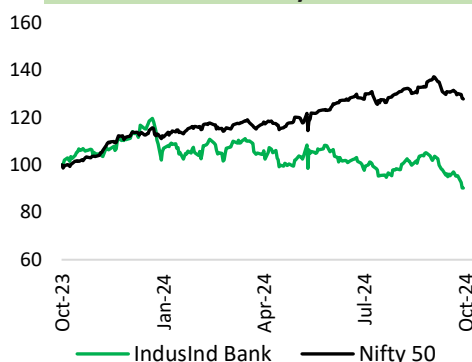
Shareholding Pattern %

(As on Sept 2024)

Promoter	16.36
Public & Others	83.64

Stock Performance (%)	1m	6m	12m
IndusInd Bank	-11.7	-13.3	-9.5
Nifty 50	-6.0	8.9	27.6

IndusInd Bank Vs Nifty



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IndusInd Bank (IIB) has posted Net Profit of INR 13.25 bn for Q2FY25, down 38.4% QoQ / down 39.2% YoY. Muted numbers in PAT was primarily due to increase in slippages for the bank along with sequential rise in NPA levels. NII for the quarter decreased by 1.1% QoQ / up 5.3% YoY to INR 53.4 bn, as loan book growth stalled at 2.7% QoQ / 13.2% YoY on account of seasonality factors and stress in the Micro Finance industry. Operating profit for the quarter fell by 8.5% QoQ / down 7.4% YoY to INR 35.18 bn. Other income also fell by 10.5% QoQ / down 4.3% YoY to INR 21.84 bn, led by core fee income fall 9% QoQ/flat YoY. GNPA/NNPA increased marginally at 2.11%/ 0.64% respectively increasing by 9 bps & 4 bps sequentially while recoveries increased sequentially to INR 4.71 bn as the restructured advances came down during the quarter.

Loan book growth slowed on account of seasonality: IIB's loan book grew by 2.7% QoQ/13.2% YoY, driven by Other Retail Loans growth of 11% QoQ, and Business Banking at 5% QoQ growth among non-vehicle retail financing. The LAP book and Credit Cards book grew by 2% QoQ and 1% QoQ respectively. Among Non-Corporate credit, Vehicle Finance grew by 10% YoY growth but 1% QoQ as Passenger and Commercial vehicles loan segments saw sluggish growth during Q2FY25 sequentially. The Micro Finance book degrew by 11.7% QoQ to INR 32.72 bn. The restructured book further declined to 0.34% against 0.40% in previous quarter, reflecting the improvements in collections and recoveries. The Corporate book instead grew well by 4% QoQ to INR 1,661 bn in Q2FY25, making up 47% of the total loan book of the bank.

Asset quality improved marginally: Overall asset quality deteriorated over previous quarter as GNPA/NNPA of the bank at 2.11%/0.64% respectively. Recoveries though increased to INR 4.71 bn in Q2FY25 while write-offs also increased to INR 6.67 bn over INR 6.14 bn in Q1FY25.

Cost to Income increased while branch addition and growth roadmaps are laid for the future: Cost to Income ratio increased to 52.3% from 50.0% in Q1FY25 as branch presence increased by 27 new branches during the quarter. The Management of the Bank had stated that they may be adding 600-1,000 branches over the next 6 years as per their previous quarter guidance.

Valuation & View: IIB has reported slightly muted performance on most of the counts on account of both Seasonality and degrowth in the Micro Finance segment. Going forward, we expect the Vehicle financing business to follow industry trends while Microfinance business gains growth from Q4FY25. The Cost of Funds 5.61% was seen stable during the quarter. We maintain our positive outlook with BUY ratings for a downgraded target price of INR 1,575 (Previous TP 1,701) on 1.2x FY27E ABV.

Financial Performance

Particulars (Rs Crores)	FY23	FY24	FY25E	FY26E	FY27E
NII	176	202	251	283	319
PPOP	143	169	215	244	277
PAT	74	89	120	138	158
EPS (INR / Share)	95.2	115.3	155.3	178.3	204.1
BVPS (INR / Share)	703.4	818.7	974.0	1,152.2	1,356.3
NIM (%)	4.4%	4.3%	4.6%	4.4%	4.1%
RoA (%)	1.6%	1.7%	1.9%	1.9%	1.8%
RoE (%)	13.5%	14.1%	15.9%	15.5%	15.0%
P/ABV (x)	2.0	1.7	1.5	1.2	1.1

Q2FY25 - Quarterly Performance (Standalone)

(in INR bn)

Income Statement (INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	1,26,863	1,25,468	1,12,478	1.1%	12.8%
Interest Expense	73,390	71,391	61,711	2.8%	18.9%
Net Interest Income	53,473	54,076	50,767	-1.1%	5.3%
Non Interest Income	21,839	24,413	22,818	-10.5%	-4.3%
Total Income	75,312	78,489	73,585	-4.0%	2.3%
Employee Costs	10,927	10,397	9,566	5.1%	14.2%
Other Operating Expenses	28,467	28,825	25,210	-1.2%	12.9%
Operating Expenses	39,394	39,222	34,776	0.4%	13.3%
Pre-Provision Profit	35,918	39,267	38,809	-8.5%	-7.4%
Provisions	18,201	10,498	9,738	73.4%	86.9%
Profit Before Tax	17,717	28,769	29,071	-38.4%	-39.1%
Tax Expense	4,462	7,247	7256	-38.4%	-38.5%
Net Profit	13,255	21,522	21,815	-38.4%	-39.2%
Balance Sheet Analysis					
Deposits	41,26,792	39,85,130	35,97,865	3.6%	14.7%
CASA Deposits	14,79,440	14,61,340	14,14,370	1.2%	4.6%
CASA (%)	36.0%	39.0%	42.0%	-300bps	-600bps
Advances	35,71,586	34,78,980	31,54,541	2.7%	13.2%
Total Assets	54,32,864	53,01,650	47,77,574	2.5%	13.7%
Capital Adequacy Ratio (%)	16.51%	17.55%	18.21%	-104bps	-170bps
Spread Analysis					
Yield on Avg Advances (%)	11.9%	12.3%	12.2%	-38bps	-28bps
Yield on Avg Interest Earning Assets (%)	9.7%	9.9%	9.7%	-18bps	0bps
Cost of Funds (%)	5.61%	5.62%	5.40%	-1bps	21bps
NIM (%)	4.08%	4.25%	4.29%	-17bps	-21bps
Asset Quality					
Gross NPA	76,385	71,268	61,642	7.2%	23.9%
Net NPA	22,820	20,955	18,138	8.9%	25.8%
GNPA (%)	2.11%	2.02%	1.93%	9bps	18bps
NNPA (%)	0.64%	0.60%	0.57%	4bps	7bps
PCR (%)	70.0%	71.0%	71.0%	-100bps	-100bps
Key Ratios					
Cost to Income Ratio (%)	52.3%	50.0%	46.9%	234bps	543bps
C/D Ratio (%)	86.5%	87.3%	87.7%	-75bps	-113bps
RoA (%) (Annualised)	0.99%	1.68%	1.90%	-69bps	-91bps

Source: Arianth Research, Company Filings

Key Concall Highlights**Guidance:**

- The Bank expects the loan growth in corporate segment to be around 16% for FY25.
- The Management expects the pace of disbursements to increase in vehicle finance segment in H2FY25.
- The Credit cost is expected to be in the range of 110-130 bps for FY25.

Key Highlights:

- Non-interest income declined 4.3% YoY in which core-fee income growth was flattish.
- The Bank has posted a loan growth of 13.2% YoY and 2.7% QoQ to INR 3.57 trillion.
- The Vehicle finance portfolio was up by 10% YoY but disbursements in this segment were down 16% YoY.
- In the non-vehicle finance segment, credit cards book saw uptick of 16% YoY, Personal loans jumped 28.5% YoY while Business banking segment's loan book increased by 14% YoY.
- The Micro finance (MFI) portfolio declined by 5% YoY and 12% QoQ as the bank remained watchful in this segment during Q2FY25.
- Average loan outstanding per borrower also declined by 4% YoY and 6% QoQ in MFI.
- The Corporate book was up 16% YoY, within which large corporates were up 14.5% YoY, mid-corporate loans were up 18.1% YoY and small corporates were up 17.6% YoY.
- Disbursements in vehicle finance was down 16% YoY and 5% QoQ to INR 106.93 bn, while for MFI book disbursements were at INR 70.5 bn. Market share declined in two wheelers.
- CASA deposits in Q2FY25 increased by 4.6% YoY as a result of slower than overall deposit growth. CASA ratio for the bank declined by 346 bps YoY to 36%.
- Retail deposits defined by LCR were up 16% YoY and 4% QoQ and its share in total deposits was at 44% as on September 2024.
- The Bank added retail deposits worth INR 77 bn during the quarter.
- NRI deposits were up 37% YoY in Q2FY25.
- In Q2FY25, the overall asset quality deteriorated as GNPA and NNPA ratio was up 9 bps YoY and 4 bps QoQ to 2.11% and 0.64%, respectively.
- Restructured book also declined from 0.34% of loans to 0.29% on QoQ basis.
- Fresh stress addition during the quarter increased by 17% sequentially to INR 17.98 bn.
- Gross slippage in the MFI book stood at INR 3.98 bn in Q2FY25, slippages in corporate book was at INR 1.18 bn. Gross slippages in Vehicle finance segment stood at INR 6.92 bn.
- Credit cost ex-contingent provisions stood at 131 bps in Q2FY25.
- Upgrades and recoveries during the quarter stood at INR 1.48 bn and INR 4.71 bn respectively while write-offs stood at INR 6.67 bn versus INR 6.14 bn QoQ.
- Accounts worth INR 2.36 bn were sold to ARC in Q2FY25 versus INR 2.0 bn in the previous quarter.
- Within the consumer banking space most of the segments like CV/CE, Tractor, Credit cards, Micro loans etc. saw rise in GNPA levels on a sequential basis.
- The Bank has Standard contingent provisions worth INR 15.25 bn which is outside PCR and total loan related provisions stand at INR 84.12 bn forming 2.4% of total loans.
- Gems and Jewellery book has no NPA and no restructuring as well during the Q2FY25.
- Average LCR (Liquidity coverage ratio) for the quarter was at 118%.

Key Financials

Profit & Loss Statement (INR Bn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	364	398	435	476	521
Interest Expense	188	195	184	193	202
Net Interest Income	176	202	251	283	319
Non interest income	82	91	101	112	124
Operating income	258	293	352	395	443
- Employee expense	30	33	36	39	43
- Other operating expense	84	91	101	111	123
Operating Expense	114	124	137	151	166
PPOP	143	169	215	244	277
Provisions	45	49	54	60	66
PBT	99	119	161	185	211
Tax Expense	25	30	40	46	53
PAT	74	89	120	138	158
Diluted EPS (INR)	95.2	115.3	155.3	178.3	204.1

Balance Sheet (INR Bn)	FY23	FY24	FY25E	FY26E	FY27E
Source of Funds					
Share capital	8	8	8	8	8
Reserves & Surplus	538	627	748	886	1,045
Networth	546	635	756	894	1,052
ESOP	0	0	0	0	0
Borrowings	490	549	615	689	771
Deposits	3,364	3,903	4,566	5,388	6,412
Other liabilities & provisions	177	213	255	306	368
Total Equity & Liabilities	4,578	5,300	6,192	7,277	8,603
Uses of Funds					
Cash & bank balance	1,039	1,048	1,156	1,287	1,442
Investments	831	997	1,047	1,036	1,323
Loans & advances	2,899	3,450	4,175	5,135	6,418
Fixed assets	20	23	26	30	35
Other assets	-212	-218	-212	-211	-616
Total Assets	4,578	5,300	6,192	7,277	8,603

Source: Arianth Research, Company Filings.

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
Advances (%)	21.3%	19.0%	21.0%	23.0%	25.0%
Deposits (%)	14.6%	16.0%	17.0%	18.0%	19.0%
Total assets (%)	13.9%	15.8%	16.8%	17.5%	18.2%
NII (%)	17.3%	15.1%	24.1%	12.7%	12.5%
Pre-provisioning profit (%)	11.7%	17.6%	27.5%	13.6%	13.4%
PAT (%)	60.3%	21.0%	34.7%	14.8%	14.5%
B/S Ratios					
Credit/Deposit (%)	86.2%	88.4%	91.4%	95.3%	100.1%
CASA (%)	43.6%	44.5%	45.2%	45.6%	45.7%
Advances/Total assets (%)	63.3%	65.1%	67.4%	70.6%	74.6%
Leverage - Total Assets to Equity	8.4	8.3	8.2	8.1	8.2
Operating efficiency					
Cost/income (%)	44.3%	42.4%	38.9%	38.1%	37.4%
Opex/total assets (%)	2.6%	2.4%	2.2%	2.1%	1.9%
Opex/total interest earning assets	3.1%	2.7%	2.5%	2.4%	2.1%
Profitability					
NIM (%)	4.4%	4.3%	4.6%	4.4%	4.1%
RoA (%)	1.6%	1.7%	1.9%	1.9%	1.8%
RoE (%)	13.5%	14.1%	15.9%	15.5%	15.0%
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%	1.6%	1.4%	1.3%	1.1%
Per Share Data / Valuation					
EPS (INR)	95.2	115.3	155.3	178.3	204.1
BVPS (INR)	703.4	818.7	974.0	1,152.2	1,356.3
ABVPS (INR)	681.5	795.3	947.0	1,118.9	1,312.9
P/E (x)	14.6	12.0	8.9	7.8	6.8
P/BV (x)	2.0	1.7	1.4	1.2	1.0
P/ABV (x)	2.0	1.7	1.5	1.2	1.1

Source: Arianth Research, Company Filings,

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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