

**BUY**  
TP: Rs 1,881 | ▲ 26%

**INDUSIND BANK**

| Banking

| 29 April 2024

### Stable performance

- **Healthy business growth supported by CFD aided 16% YoY rise in Q4 income, while higher opex led to flat PPOP (1% QoQ)**
- **Reported NIM down 3bps QoQ at 4.3% on higher borrowings cost which offset yield rise; asset quality improved sequentially**
- **Lower GGM-based TP to Rs 1,881, valuing it at 1.8x FY26E P/ABV, as we tweak growth estimates. Maintain Buy**

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**Healthy business growth:** IIB maintained healthy business growth with credit rising 18% YoY (+5% QoQ), while deposits rose 14% YoY (4% QoQ). Loan book was driven by the CFD book (+23% YoY/+6% QoQ), wherein non-vehicle retail outpaced vehicle book driven by unsecured and MFI loan. CCB growth was muted at 13% YoY, but rose 4% QoQ supported by small corporate (33%/7% YoY/QoQ). Deposit growth further accelerated to 14.4% YoY vs. 13.4% in Q3, driven by term deposits (TD) which led to 61bps decline in CASA ratio (37.9% in Q4).

#### **NIM backed by rise on yield; lower provision aided PAT despite cost rise:**

Continued recovery in asset yield (+10bps QoQ) backed stable NIM (4.3%) despite a 13bps QoQ rise in CoF (deposit cost rose 4bp). IIB continues to guide for NIM of 4.2-4.3% in FY25. NII growth was healthy at 15% YoY (1.5% QoQ) while non-interest income grew 16% YoY (5% QoQ). Opex stayed elevated on continued investment in human capital and technology that raised C/I ratio by 79bps QoQ to 48.2%. Despite strong topline, PPOP remained flat (9%/1% YoY/QoQ) on higher opex.

**Asset quality stable:** Slippages fell to Rs 14.2bn (44bps) vs. Rs 17.6bn (56bps) in Q3, where corporate slippages were Rs 1.6bn (vs. Rs 3.1bn) and CFD Rs 12.7bn (vs. Rs 14.5bn). Credit cost (calc.) stood at 113bps vs. 121bps in Q3, 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%. Continued decline in the restructured book (to 40bps of advances vs. 48bps in Q3) and SMA book (25bps vs. 19bps) and total provisions of 2.1% (108% of GNPA) provide confidence on asset health. IIB aims to keep 2%/0.5% extra provision on MFI/MHCV book as a buffer given expected volatility.

**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%/17% in FY26 vs. 1.7%/14% in FY23) though growth moderation is expected due to the business environment. We retain BUY and lower our TP to Rs 1,881 (from Rs 1,952) as we tweak estimates (cut EPS by 4%/1% for FY25/FY26) and value TP using the Gordon Growth Model at 1.8x FY26 P/ABV (earlier 1.9x).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IIB IN/Rs 1,487
Market cap	US\$ 14.1bn
Free float	84%
3M ADV	US\$ 61.4mn
52wk high/low	Rs 1,695/Rs 1,065
Promoter/FPI/DII	16%/40%/28%

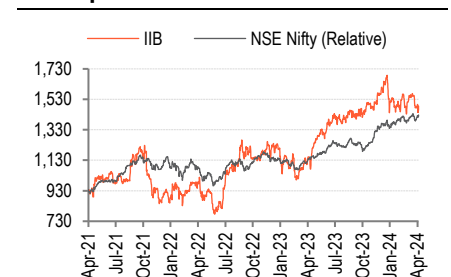
Source: NSE | Price as of 29 Apr 2024

### Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	206,159	236,319	286,062
NII growth (%)	17.2	14.6	21.0
Adj. net profit (Rs mn)	89,770	102,244	131,214
EPS (Rs)	115.5	131.4	168.6
Consensus EPS (Rs)	115.6	135.4	161.0
P/E (x)	12.9	11.3	8.8
P/BV (x)	1.8	1.6	1.4
ROA (%)	1.8	1.8	2.0
ROE (%)	15.2	15.1	16.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



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

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	83,041	88,372	93,789	96,945	102,088	22.9	5.3
Income on investments	12,971	13,998	15,602	15,892	16,531	27.4	4.0
Int. on bal. with RBI & inter-bank funds & Others	4,194	4,927	3,088	2,886	3,367	(19.7)	16.7
<b>Interest income</b>	<b>100,207</b>	<b>107,297</b>	<b>112,478</b>	<b>115,723</b>	<b>121,985</b>	<b>21.7</b>	<b>5.4</b>
Interest expense	53,513	58,625	61,711	62,766	68,221	27.5	8.7
<b>Net interest income</b>	<b>46,695</b>	<b>48,671</b>	<b>50,767</b>	<b>52,956</b>	<b>53,765</b>	<b>15.1</b>	<b>1.5</b>
Growth YoY (%)	17.2	18.0	18.0	17.8	15.1	(203bps)	(266bps)
<b>Non-interest income</b>	<b>21,536</b>	<b>22,098</b>	<b>22,819</b>	<b>23,959</b>	<b>25,081</b>	<b>16.5</b>	<b>4.7</b>
Growth YoY (%)	13.0	14.4	13.5	15.4	16.5	341bps	108bps
<b>Total income</b>	<b>68,231</b>	<b>70,769</b>	<b>73,586</b>	<b>76,916</b>	<b>78,846</b>	<b>15.6</b>	<b>2.5</b>
Growth YoY (%)	15.8	16.8	16.6	17.0	15.6	(28bps)	(148bps)
Staff expenses	11,530	12,352	13,378	13,907	14,102	22.3	1.4
Other operating expenses	19,126	20,103	21,121	22,585	23,928	25.1	5.9
<b>Operating expenses</b>	<b>30,656</b>	<b>32,455</b>	<b>34,499</b>	<b>36,492</b>	<b>38,030</b>	<b>24.1</b>	<b>4.2</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>37,575</b>	<b>38,315</b>	<b>39,087</b>	<b>40,423</b>	<b>40,815</b>	<b>8.62</b>	<b>1.0</b>
Growth YoY (%)	11.1	11.7	10.3	9.7	8.6	(250bps)	(103bps)
<b>Provisions</b>	<b>10,301</b>	<b>9,916</b>	<b>9,738</b>	<b>9,693</b>	<b>9,502</b>	<b>(7.7)</b>	<b>(2.0)</b>
Growth YoY (%)	(29.6)	(20.7)	(14.7)	(9.0)	(7.7)	2187bps	122bps
<b>PBT</b>	<b>27,275</b>	<b>28,399</b>	<b>29,349</b>	<b>30,731</b>	<b>31,313</b>	<b>14.8</b>	<b>1.9</b>
Tax	6,841	7,155	7,329	7,717	7,822	14.3	1.4
<b>PAT</b>	<b>20,434</b>	<b>21,244</b>	<b>22,021</b>	<b>23,014</b>	<b>23,491</b>	<b>15.0</b>	<b>2.1</b>
Growth YoY (%)	45.9	30.3	22.0	17.2	15.0	(3,094bps)	(225bps)
<b>Per Share</b>							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	26	27	28	30	30	14.6	2.0
Book Value (Rs)	680	746	698	725	726	6.7	0.1

Source: Company, BOBCAPS Research

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

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Deposits	3,361,202	3,470,470	3,595,480	3,687,930	3,845,857	14.4	4.3
Growth YoY (%)	14.6	14.6	13.9	13.4	14.4	(16bps)	104bps
Advances	2,899,237	3,013,170	3,154,541	3,270,570	3,432,983	18.4	5.0
Growth YoY (%)	21.3	21.5	21.3	19.9	18.4	(287bps)	(150bps)
Investment	830,757	942,160	944,275	974,290	1,064,865	28.2	9.3
Equity	557,805	579,200	591,711	615,590	639,859	14.7	3.9
Assets	4,578,366	4,669,930	4,779,224	4,888,650	5,150,940	12.5	5.4
Growth YoY (%)	13.9	13.9	12.0	10.0	12.5	(139bps)	252bps
<b>Yield (%)</b>							
Yield on Funds	9.50	9.85	10.09	10.16	10.30	80bps	14bps
Cost of Funds	5.65	6.03	6.23	6.20	6.49	84bps	28bps
Spread	3.85	3.82	3.86	3.96	3.81	(3bps)	(14bps)
Net Interest Margin	<b>4.43</b>	<b>4.47</b>	<b>4.55</b>	<b>4.65</b>	<b>4.54</b>	<b>11bps</b>	<b>(11bps)</b>
<b>Ratios (%)</b>							
Other Income / Net Income	31.6	31.2	31.0	31.2	31.8	25bps	66bps
Cost to Income ratio	44.9	45.9	46.9	47.4	48.2	330bps	79bps
CASA ratio	40.1	39.9	39.3	38.5	37.9	(221bps)	(61bps)
C/D ratio	86.3	86.8	87.7	88.7	89.3	301bps	58bps
Investment to Assets	18.1	20.2	19.8	19.9	20.7	253bps	74bps
<b>Assets Quality</b>							
GNPA	58,263	59,411	61,642	63,771	66,934	14.9	4.96
NNPA	17,150	17,469	18,138	18,752	19,689	14.8	5.0
Provision	41,113	41,942	43,505	45,019	47,245	14.9	4.9
GNPA (%)	1.98	1.94	1.93	1.92	1.92	(6bps)	0bps
NNPA (%)	0.59	0.58	0.57	0.57	0.57	(2bps)	0bps
Provision (%)	70.2	70.1	70.5	70.6	0.0	(7,020bps)	(7,060bps)
<b>Others</b>							
Branches	5,909	6,000	6,123	6,305	6,604	695	299
ATMs	2,878	2,875	2,807	2,939	2,956	78	17

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. 18% in Q4FY24
- Retail loan mix of 55-60% vs. 56% in Q4FY24
- Retail deposits of 45-50% vs. 45% as per LCR in Q4FY24
- PPOP/Loans of 5.25-5.75% vs. 5.1% in Q4FY24
- Branch network of 3,250-3,750 vs. 2,984 in Q4FY24
- Customer base of >50mn vs. 39mn in Q4FY24

### Asset quality

- IIB's gross slippages during Q4FY24 stood at Rs 14.3bn vs. Rs 17.6bn, driven by delinquencies in the MFI book.
- Corporate slippages of Rs 1.6bn vs. Rs 3.1bn during Q3FY24, while CFD slippages stood at Rs 12.7bn vs. Rs 14.5bn in Q3.
- SMA-1 and SMA-2 loans collectively stood at 25bps vs. 19bps in Q3.
- IIB reported credit cost at 113bps vs. 121bps for Q3 and maintained guidance at 110-130bps for FY25.
- The restructured book declined to 40bps from 48bps of loans, largely due to upgrades and recoveries.
- IIB aspires to keep 2%/0.5% extra provision on MFI/MHCV book as a buffer considering expected volatility.
- The net security receipts book has reduced further to 34bps from 37bps of loans in Q3, and the bank made additional provisions of ~Rs 910mn towards this book during the quarter.
- Total loan-related provisions stood at 2.1% of loans (2.2% in Q3) or 108% of GNPA (114% in Q3).

### Loan book

- Loans grew 18% YoY in Q4 with corporate loans up 13% (focus on mid-to-small accounts), vehicle loans up 17.5% (growth moderated due to migration from legacy system to Finacle) and non-vehicle finance rising 28%.
- The mix of retail to corporates stood at 56:44, in line with target.
- 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 18% YoY and formed 45% of total deposits in Q4 vs. 44% in Q3, 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 118% vs. 122% in Q3 (full-year guidance at 115-125%), with average surplus liquidity at Rs 394bn vs. Rs 395bn in Q3.

### Opex

- Sequential opex growth of 4% during Q4 was driven by investments in human capital, digital launches and marketing initiatives.
- IIB's employee base increased 2,100 during Q4 and 11,000 during the year.
- The bank added 256 branches during the quarter totalling 2,984 and plans to add 250-300 branches per year.

### Margins

- Reported NIM was flat QoQ at 4.26%, wherein cost of deposits increased by 4bps while yield on advances increased by 21bps on the back of a change in mix and loan repricing.
- CoF increased by 13bps, mainly driven by borrowing cost as the bank needed to manage liquidity as a one-off TD outflow.
- 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 2.7% QoQ and 17% YoY while disbursement stood at Rs 119.6bn QoQ.
- Disbursement growth picked up QoQ in MHCV and construction equipment whereas growth was sluggish in light commercial vehicles (LCV), Tractors and passenger vehicles (PV).
- Vehicle finance slippages increased to 57bps from 73bps in Q3 due to system transition to Finacle from the legacy system, which impacted business. The segment's restructured book reduced to Rs 5.47bn from Rs 7.05bn 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 447.5bn in Q4, rising 23% YoY.

- 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 3.7% QoQ in Q4 led by small corporates (+7% QoQ, +33% YoY).
- The proportion of A-and-above rated customers remained stable at 78% 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)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Large Corporates	743,400	770,650	792,330	809,720	840,270	13.0	3.8
Mid Corporates	463,740	476,240	479,710	488,450	501,010	8.0	2.6
Small Corporates	134,360	147,480	159,500	167,700	179,250	33.4	6.9
<b>Corporate and Commercial Banking</b>	<b>1,341,500</b>	<b>1,394,370</b>	<b>1,431,540</b>	<b>1,465,870</b>	<b>1,520,530</b>	<b>13.3</b>	<b>3.7</b>
Commercial Vehicle Loans	281,710	293,200	308,790	318,630	332,390	18.0	4.3
Utility Vehicle Loans	90,290	98,130	107,290	119,510	256,580	184.2	114.7
Small CV	34,590	35,610	37,730	39,400	40,180	16.2	2.0
Two-Wheeler Loans	47,740	47,780	48,040	51,840	51,030	6.9	(1.6)
Car Loans	105,710	111,100	117,840	126,710	-	(100.0)	(100.0)
Tractor	93,720	95,160	95,800	94,460	89,550	(4.4)	(5.2)
Equipment Financing	98,670	102,340	105,020	110,370	114,220	15.8	3.5
<b>Vehicle Finance</b>	<b>752,430</b>	<b>783,320</b>	<b>820,510</b>	<b>860,920</b>	<b>883,950</b>	<b>17.5</b>	<b>2.7</b>
Credit Card	83,950	89,780	94,620	102,390	107,310	27.8	4.8
LAP	96,400	99,530	101,810	104,700	108,110	12.1	3.3
BBG	138,450	148,070	153,640	158,940	167,320	20.9	5.3
Other (BL, PL, GL, AHL, Others)	164,360	178,290	208,790	220,140	253,840	54.4	15.3
Microfinance (incl. BHAFIN)	322,150	319,810	343,630	357,610	391,920	21.7	9.6
<b>Non- Vehicle Finance</b>	<b>805,310</b>	<b>835,480</b>	<b>902,490</b>	<b>943,780</b>	<b>1,028,500</b>	<b>27.7</b>	<b>9.0</b>
<b>Consumer Finance</b>	<b>1,557,740</b>	<b>1,618,800</b>	<b>1,723,000</b>	<b>1,804,700</b>	<b>1,912,450</b>	<b>22.8</b>	<b>6.0</b>
<b>Total</b>	<b>2,899,240</b>	<b>3,013,170</b>	<b>3,154,540</b>	<b>3,270,570</b>	<b>3,432,980</b>	<b>18.4</b>	<b>5.0</b>

Source: Company, BOBCAPS Research

**Fig 4 – Portfolio mix (% share)**

Segment (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Large Corporates	25.6	25.6	25.1	24.8	24.5	(116bps)	(28bps)
Mid Corporates	16.0	15.8	15.2	14.9	14.6	(140bps)	(34bps)
Small Corporates	4.6	4.9	5.1	5.1	5.2	59bps	9bps
<b>Corporate and Commercial Banking</b>	<b>46.3</b>	<b>46.3</b>	<b>45.4</b>	<b>44.8</b>	<b>44.3</b>	<b>(198bps)</b>	<b>(53bps)</b>
Commercial Vehicle Loans	9.7	9.7	9.8	9.7	9.7	(3bps)	(6bps)
Utility Vehicle Loans	3.1	3.3	3.4	3.7	7.5	436bps	382bps
Small CV	1.2	1.2	1.2	1.2	1.2	(2bps)	(3bps)
Two-Wheeler Loans	1.6	1.6	1.5	1.6	1.5	(16bps)	(10bps)
Car Loans	3.6	3.7	3.7	3.9	0.0	(365bps)	(387bps)
Tractor	3.2	3.2	3.0	2.9	2.6	(62bps)	(28bps)
Equipment Financing	3.4	3.4	3.3	3.4	3.3	(8bps)	(5bps)
<b>Vehicle Finance</b>	<b>26.0</b>	<b>26.0</b>	<b>26.0</b>	<b>26.3</b>	<b>25.7</b>	<b>(20bps)</b>	<b>(57bps)</b>
Credit Card	2.9	3.0	3.0	3.1	3.1	23bps	0bps
LAP	3.3	3.3	3.2	3.2	3.1	(18bps)	(5bps)
BBG	4.8	4.9	4.9	4.9	4.9	10bps	1bps
Other (BL, PL, GL, AHL, Others)	5.7	5.9	6.6	6.7	7.4	173bps	66bps
Microfinance (incl. BHAFIN)	11.1	10.6	10.9	10.9	11.4	30bps	48bps
<b>Non-Vehicle Finance</b>	<b>27.8</b>	<b>27.7</b>	<b>28.6</b>	<b>28.9</b>	<b>30.0</b>	<b>218bps</b>	<b>110bps</b>
<b>Consumer Finance</b>	<b>53.7</b>	<b>53.7</b>	<b>54.6</b>	<b>55.2</b>	<b>55.7</b>	<b>198bps</b>	<b>53bps</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>

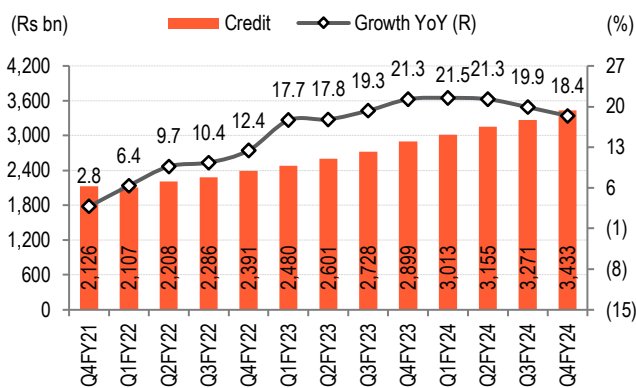
Source: Company, BOBCAPS Research

**Fig 5 – Yield profile**

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Corporate and Commercial Banking</b>	<b>1,341,500</b>	<b>1,394,370</b>	<b>1,431,540</b>	<b>1,465,870</b>	<b>1,520,530</b>	<b>13.3</b>	<b>3.7</b>
% of Loan	46.3	46.3	45.4	44.8	44.3	(198bps)	(53bps)
Yield (%)	8.9	9.0	9.0	9.1	9.0	12bps	(5bps)
<b>Consumer Finance</b>	<b>1,557,740</b>	<b>1,618,800</b>	<b>1,723,000</b>	<b>1,804,700</b>	<b>1,912,450</b>	<b>22.8</b>	<b>6.0</b>
% of Loan	53.7	53.7	54.6	55.2	55.7	198bps	53bps
Yield (%)	14.7	14.8	14.8	15.1	15.5	77bps	38bps
<b>Total Loan</b>	<b>2,899,240</b>	<b>3,013,170</b>	<b>3,154,540</b>	<b>3,270,570</b>	<b>3,432,980</b>	<b>18.4</b>	<b>5.0</b>
Yield (%)	12.0	12.2	12.3	12.5	12.7	64bps	21bps

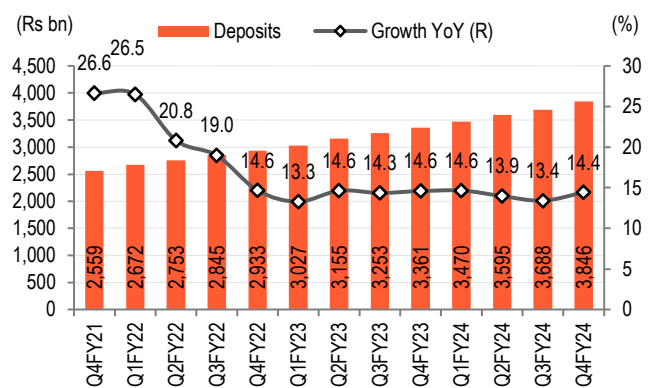
Source: Company, BOBCAPS Research

**Fig 6 – Loan growth remained healthy driven by CFD**



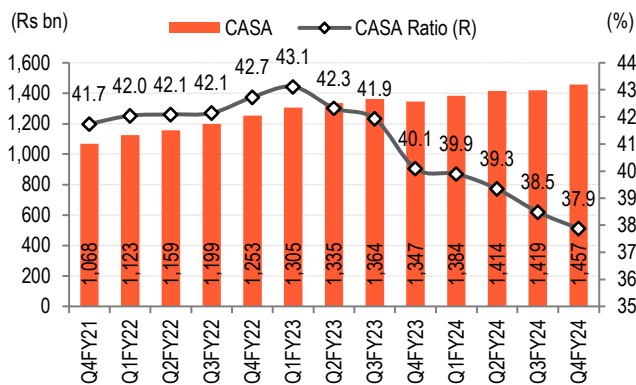
Source: Company, BOBCAPS Research

**Fig 7 – Deposit mobilisation further accelerated**



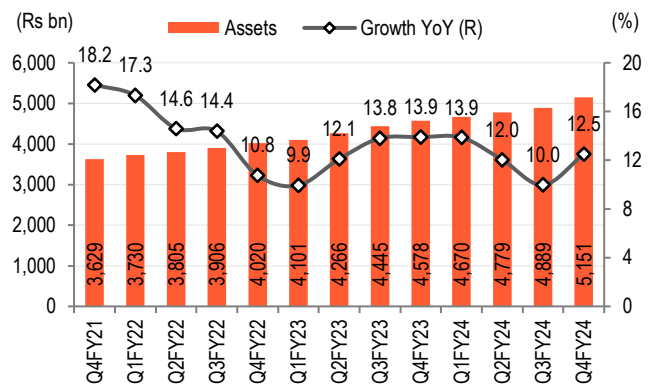
Source: Company, BOBCAPS Research

**Fig 8 – CASA continued to decline**



Source: Company, BOBCAPS Research

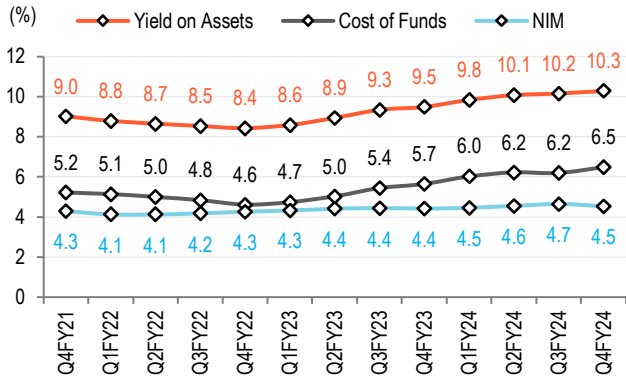
**Fig 9 – Assets grew 12% YoY**



Source: Company, BOBCAPS Research

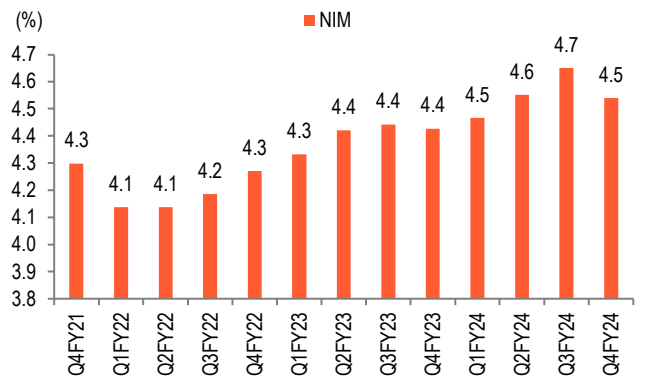


**Fig 10 – NIM flat QoQ despite higher cost of funds**



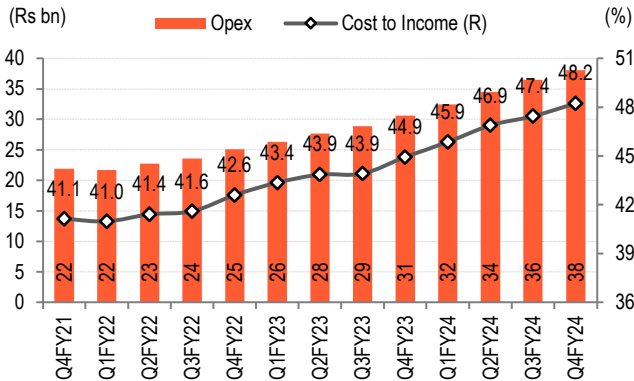
Source: Company, BOBCAPS Research

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



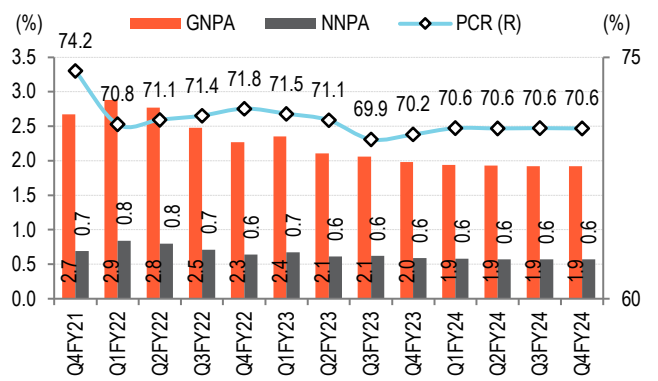
Source: Company, BOBCAPS Research

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



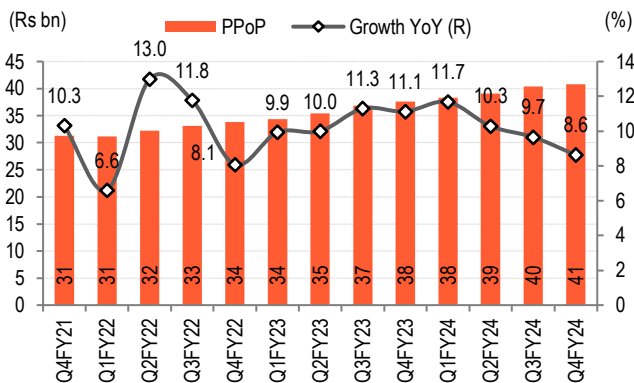
Source: Company, BOBCAPS Research

**Fig 13 – Asset quality remained stable**



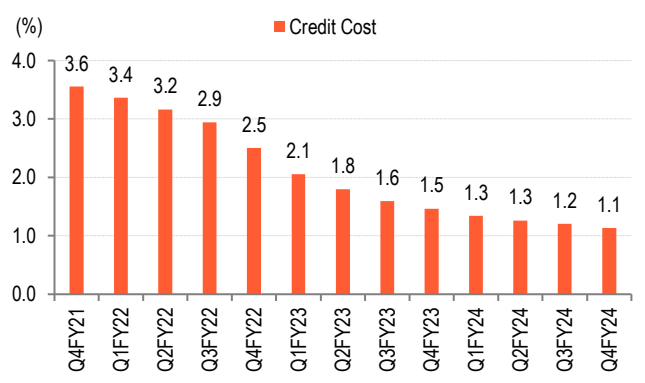
Source: Company, BOBCAPS Research

**Fig 14 – Higher Opex led to muted PPOP**



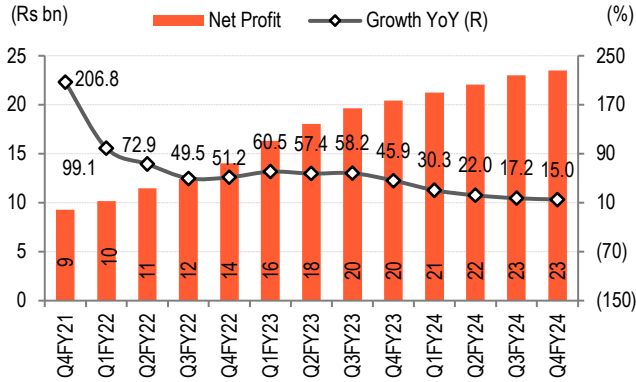
Source: Company, BOBCAPS Research

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



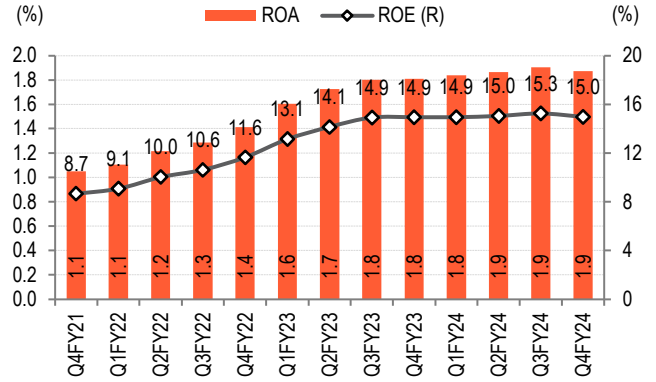
Source: Company, BOBCAPS Research

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



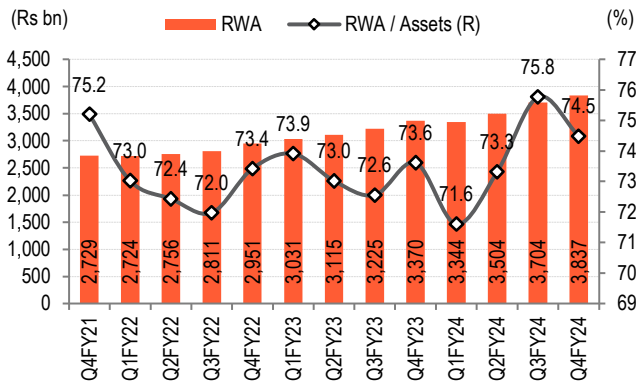
Source: Company, BOBCAPS Research

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



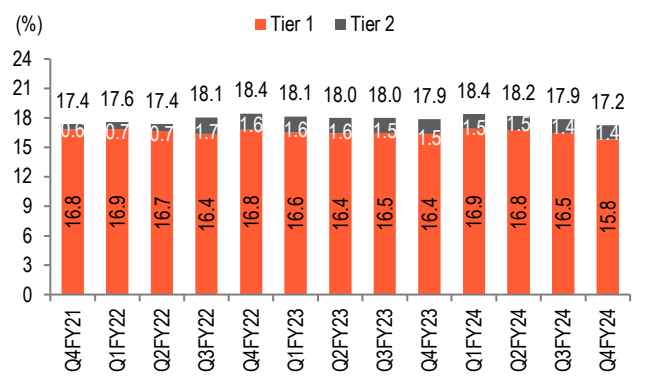
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

**Fig 19 – Well capitalised with Tier-1 at 17.2%**



Source: Company, BOBCAPS Research

## Valuation methodology

Following the Q4FY24 results wherein challenging deposit mobilization became major hinderance for credit growth, we lower our FY25/FY26 credit growth by 1.6% each in FY25/FY26 while increase our deposit forecasts by 1.2%/1.4% for same period.

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 remain stable at 4.2%-4.3% over FY25/ FY26. Given the improving asset quality, we also cut our provision estimates by 9%/2% for FY25/FY26 which is within the guidance range of 1.1%-1.3%. Overall, the tweak in business growth and change in PPOP led to 5%/1% decline in PAT over FY25/FY26. In terms of asset quality, we model for credit cost at 111bps/120bps for FY25/FY26 vs. previous estimates of 120bps each for FY25/FY26.

**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%/17% in FY26 vs. 1.7%/14% in FY23) though growth moderation is expected due to the business environment. We retain BUY and lower our TP to Rs 1,881 (from Rs 1,952) as we tweak estimates (cut EPS by 5%/1% for FY25/FY26) and value TP using the Gordon Growth Model at 1.8x FY26 P/ABV (earlier 1.9x).

**Fig 20 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Loan	4,078,383	4,816,571	4,143,630	4,893,627	(1.6)	(1.6)
Deposits	4,441,964	5,139,353	4,387,209	5,067,226	1.2	1.4
Assets	6,065,119	7,073,097	6,013,034	6,956,069	0.9	1.7
NII	236,319	286,062	246,215	290,992	(4.0)	(1.7)
PPOP	179,113	229,732	189,779	232,340	(5.6)	(1.1)
Provisions	41,688	53,370	45,701	54,224	(8.8)	(1.6)
PAT	102,244	131,214	107,193	132,519	(4.6)	(1.0)

Source: Company, BOBCAPS Research

**Fig 21 – Key valuation assumptions**

Components of Gordon growth model	Assumptions (%)
Cost of equity (%)	12.4
Blended ROE (%)	15.4
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6
Long-term dividend payout ratio (%)	60
Justified P/BV (x)	1.8

Source: Company, BOBCAPS Research

**Fig 22 – Key operational assumptions**

Parameter (%)	FY23	FY24P	FY25E	FY26E
Advances growth	21.3	18.4	18.8	18.1
NII growth	17.3	17.2	14.6	21.0
PPoP growth	10.6	10.0	12.9	28.3
PAT growth	54.9	20.6	13.9	28.3
NIM	4.1	4.1	4.2	4.3
GNPA	2.0	1.9	1.8	1.7
CAR	17.9	17.0	16.6	16.6

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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	43.5	1,159	1,252	HOLD
Bandhan Bank	BANDHAN IN	3.6	184	270	BUY
DCB Bank	DCBB IN	0.5	141	172	BUY
Federal Bank	FB IN	4.8	160	189	BUY
HDFC Bank	HDFCB IN	140.3	1,530	1,872	BUY
ICICI Bank	ICICIB IN	99.1	1,160	1,189	BUY
IDFC First Bank	IDFCBK IN	6.7	82	96	BUY
Indusind Bank	IIB IN	14.1	1,487	1,881	BUY
Kotak Mahindra Bank	KMB IN	42.8	1,640	2,100	BUY
RBL Bank	RBK IN	1.9	263	309	BUY
State Bank of India	SBIN IN	89.8	827	842	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Apr 2024

## 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>MFI</b>	Micro Finance Institutions
<b>CASA</b>	Current Account and Savings Account	<b>MHCV</b>	Medium and Heavy Commercial Vehicle
<b>CAR</b>	Capital Adequacy Ratio	<b>MTM</b>	Mark to Market
<b>CCB</b>	Corporate & Commercial Banking	<b>NII</b>	Net Interest Income
<b>CET1</b>	Common Equity Tier 1	<b>NIM</b>	Net Interest Margin
<b>CD</b>	Credit-Deposit Ratio	<b>NNPA</b>	Net Non-Performing Assets
<b>CFD</b>	Consumer Finance Division	<b>PCR</b>	Provision Coverage Ratio
<b>C/I</b>	Cost-Income Ratio	<b>PPOP</b>	Pre-Provision Operating Profit
<b>CoF</b>	Cost of Funds	<b>PSU</b>	Public Sector Unit
<b>CRB</b>	Commercial and Rural Banking	<b>RWA</b>	Risk-weighted Assets
<b>DPD</b>	Days Past Due	<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	FY24P	FY25E	FY26E
<b>Net interest income</b>	<b>150,008</b>	<b>175,921</b>	<b>206,159</b>	<b>236,319</b>	<b>286,062</b>
NilI growth (%)	10.9	17.3	17.2	14.6	21.0
Non-interest income	73,448	81,728	93,958	107,674	126,127
Total income	223,456	257,649	300,117	343,993	412,188
Operating expenses	93,107	113,459	141,476	164,880	182,456
PPOP	130,349	144,190	158,641	179,113	229,732
PPOP growth (%)	9.8	10.6	10.0	12.9	28.3
Provisions	66,650	44,868	38,849	41,688	53,370
PBT	63,700	99,322	119,792	137,425	176,363
Tax	16,282	24,891	30,022	35,181	45,149
<b>Reported net profit</b>	<b>47,418</b>	<b>74,431</b>	<b>89,770</b>	<b>102,244</b>	<b>131,214</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>47,418</b>	<b>74,431</b>	<b>89,770</b>	<b>102,244</b>	<b>131,214</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	7,747	7,759	7,783	7,783	7,783
Reserves & surplus	472,517	542,287	624,292	711,200	822,732
Net worth	480,264	550,046	632,076	718,983	830,515
Deposits	2,933,495	3,361,202	3,845,857	4,441,964	5,139,353
Borrowings	473,232	490,112	476,114	523,249	575,051
Other liab. & provisions	132,683	177,006	196,893	380,922	528,178
<b>Total liab. &amp; equities</b>	<b>4,019,674</b>	<b>4,578,366</b>	<b>5,150,940</b>	<b>6,065,119</b>	<b>7,073,097</b>
Cash & bank balance	685,847	567,768	369,074	447,542	517,391
Investments	709,299	830,757	1,064,865	1,207,334	1,345,632
Advances	2,390,515	2,899,237	3,432,983	4,078,383	4,816,571
Fixed & Other assets	234,012	280,605	284,018	331,859	393,503
<b>Total assets</b>	<b>4,019,674</b>	<b>4,578,366</b>	<b>5,150,940</b>	<b>6,065,119</b>	<b>7,073,097</b>
Deposit growth (%)	14.6	14.6	14.4	15.5	15.7
Advances growth (%)	12.4	21.3	18.4	18.8	18.1

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	61.3	96.0	115.5	131.4	168.6
Dividend per share	5.0	14.0	0.0	19.7	25.3
Book value per share	615.8	708.9	812.1	923.8	1,067.1

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	24.3	15.5	12.9	11.3	8.8
P/BV	2.4	2.1	1.8	1.6	1.4
Dividend yield (%)	0.3	0.9	0.0	1.3	1.7

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Net interest income	3.9	4.1	4.2	4.2	4.4
Non-interest income	1.9	1.9	1.9	1.9	1.9
Operating expenses	2.4	2.6	2.9	2.9	2.8
Pre-provisioning profit	3.4	3.4	3.3	3.2	3.5
Provisions	1.7	1.0	0.8	0.7	0.8
PBT	1.7	2.3	2.5	2.5	2.7
Tax	0.4	0.6	0.6	0.6	0.7
ROA	1.2	1.7	1.8	1.8	2.0
Leverage (x)	8.4	8.3	8.2	8.3	8.5
ROE	10.4	14.4	15.2	15.1	16.9

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Net interest income	10.9	17.3	17.2	14.6	21.0
Pre-provisioning profit	9.8	10.6	10.0	12.9	28.3
EPS	53.4	56.7	20.3	13.7	28.3
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	4.1	4.1	4.2	4.3
Fees / Avg. assets	0.3	0.3	0.0	0.4	0.4
Cost-Income	41.7	44.0	47.1	47.9	44.3
ROE	10.4	14.4	15.2	15.1	16.9
ROA	1.2	1.7	1.8	1.8	2.0
<b>Asset quality (%)</b>					
GNPA	2.3	2.0	1.9	1.8	1.7
NNPA	0.6	0.6	0.6	0.5	0.5
Slippage ratio	4.8	2.9	2.1	2.1	2.0
Credit cost	3.0	1.7	1.2	1.1	1.2
Provision coverage	71.6	70.0	70.4	71.5	71.5
<b>Ratios (%)</b>					
Credit-Deposit	81.5	86.3	89.3	91.8	93.7
Investment-Deposit	24.2	24.7	27.7	27.2	26.2
CAR	18.4	17.9	17.0	16.6	16.6
Tier-1	16.8	16.4	15.6	15.2	15.2

Source: Company, BOBCAPS Research

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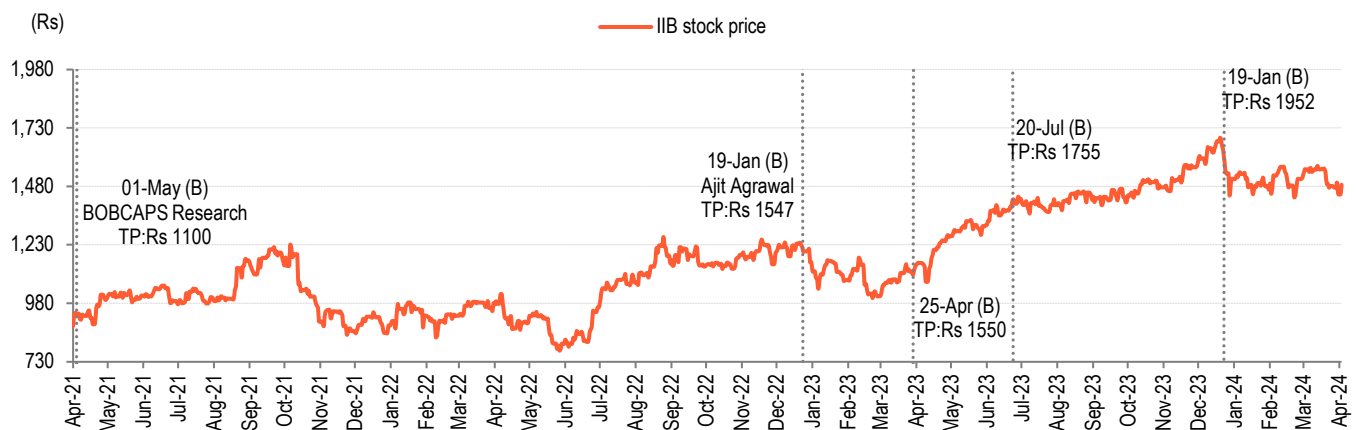
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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