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<http://www.asiamoney.com/brokers>

CMP: INR 139

Outlook: Positive

Target Price: INR 190

Stock Info

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,245
Mkt Cap (INR Cr)	17,343
52w H/L (INR)	157 / 53

Shareholding Pattern %

(As on June, 2021)

Promoters	79.9
FII	2.9
DII	10.5
Public & Others	6.7

Stock Performance (%)	1m	3m	12m
Indian Bank	-0.5	41.3	126.3
Nifty 500	1.7	12.8	53.1

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Indian Bank has posted good performance during Q1FY22 with strong operating growth and slight improvement in GNPA. The bank has reported NII growth of 3% YoY/20% QoQ to INR 3,994 cr. Strong sequential growth in NII was driven by yield improvement. Other income for the quarter grew strongly by 41% YoY/8% QoQ to INR 1,877 cr driven by treasury income and recovery from bad debts. Core fee income during the quarter grew by 5% YoY. Operating profit for the quarter grew strongly by 26% YoY/36% QoQ to INR 3,472 cr, mainly due to strong operating income growth and 2% YoY decline in total expenses. Profit for the quarter increased by 3.2x YoY to INR 1,182 cr, partly supported by tax write back of INR 324 cr. Provisions during the quarter remained elevated at INR 2,615 cr (+22% YoY/+49% QoQ). NIM of the bank improved by 51 bps QoQ at 2.9% driven by increase in yield on advances due to higher growth in RAM segment. Yield on advances increased by 79bps QoQ at 7.1% while cost of funds stood stable at 4.1% QoQ.

Advances growth was steady, retained 10% FY22E growth guidance: Advances growth of the bank was at 7% YoY/0.1% QoQ while deposit growth was healthy at 10.4% YoY/0.4% QoQ. Advances growth was supported by 13% YoY growth in RAM (Retail, Agri and MSME) segment with Retail book growth at 9% YoY, Agri at 17% YoY and MSME at 12% YoY while corporate lending has shown a decline of 3% owing to bank's cautious approach. Corporate book share of the bank declined marginally to 42.1% from 42.3% QoQ. CASA ratio of the bank declined to 40.9% from 41.5% on QoQ basis.

Asset quality stood stable: GNPA of the bank improved by 16 bps QoQ to 9.7% while NNPA increased by 10 bps QoQ at 3.5%. Slippages for the quarter stood at INR 4,204 cr, of which Retail slippage was at INR 712 cr, Agri at INR 379 cr, MSME at INR 2,472 cr and Corporate at INR 641 cr. Collection efficiency (CE) of the MSME portfolio has come down significantly to 78% in Jun'21 vs. 90% in Mar'21. Management stated that, in the first half of July, CE in MSME was trending better and expected to pick up. Corporate book's CE was higher at 97% in Jun'21 vs. 92% in Apr'21. Management stated that recoveries and upgrades to be higher and expect recovery worth INR 5000 cr and upgrades worth of INR 2,500 cr in FY22E. SMA1&2 book stood at INR 26,833 cr or 7.6% of advances (SMA 1: INR 17,540 cr, SMA 2: INR 9,293 cr) as on Q1FY22 vs INR 31,788 cr. Bank has restructured 1.4% of the advances as per RP 1.0 and 1.05% under RP 2.0.

Key concall highlights:

- As Corporate advances are expected to pick up from Q2FY22, Total advances are expected to grow by 10% in FY22E.
- DHFL recovery expected by Q2/Q3. Bank has INR 1,300cr exposure towards DHFL.
- Margins are expected to be in the range of ~3%.
- Slippage ratio expected to be at <3% and credit cost to be at <2% in FY22E.
- The long term vision of the bank is to bring down NNPA to below ~2%.
- PCR is likely to remain at the same level.
- Bank has disbursed INR5,330 cr and INR 741 cr under ECLGS 1.0 & 2.0.

Valuation and View: Indian bank has reported strong operating performance with steady improvement in asset quality. With expectation of higher recovery & upgrades, we believe, asset quality of the bank to improve further. However, MSME remains a concern area as collection efficiency is quite lower in the book and SMA 1&2 stood higher at 3.5% of the advances. We maintain our positive outlook on the stock due to steady improvement in key business parameters of the bank. At CMP of INR 139, it is trading at cheaper valuation of 0.4x P/ABV to its FY23E. We continue to value the stock at 0.6x to its FY23E ABV of INR 316 per share for a target price of INR 190 (unchanged).

(in INR Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
NII	7,018	7,606	15,666	18,076	20,493
Operating profit	4,881	6,498	11,396	12,262	12,773
Net profit	322	753	3,005	3,769	6,052
EPS	6.7	12.4	26.6	33.4	53.6
RoA (%)	0.1	0.3	0.6	0.6	0.8
RoE (%)	1.7	3.6	9.9	9.4	13.4
P/BV(x)	0.3	0.4	0.4	0.4	0.3
P/ABV(x)	0.5	0.5	0.6	0.5	0.4

Note: Financials for FY19 and FY20 is for Standalone entity (Indian Bank). Hence, numbers are not comparable.

Q1FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q1FY22	Q1FY21	Q4FY21	YoY	QoQ
Interest Income	9,624	10,120	8,904	-4.9%	8.1%
Interest Expended	5,629	6,246	5,570	-9.9%	1.1%
Net Interest Income	3,994	3,874	3,334	3.1%	19.8%
Other Income	1,877	1,327	1,744	41.4%	7.6%
Operating Income	5,871	5,201	5,078	12.9%	15.6%
Employee Expenses	1,466	1,654	1,402	-11.4%	4.6%
Other Operating Expenses	933	794	1,128	17.5%	-17.3%
Total Expenses	2,399	2,448	2,530	-2.0%	-5.2%
PPOP	3,472	2,753	2,548	26.1%	36.2%
Provisions	2,615	2,139	1,752	22.2%	49.2%
PBT	857	614	796	39.6%	7.7%
Tax Expenses	-324	245	-913	NA	-64.5%
Net Income	1,182	369	1,709	220.0%	-30.9%
Balance Sheet Analysis	Q1FY22	Q1FY21	Q4FY21	YoY	QoQ
Advances	3,64,371	3,39,482	3,64,010	7.3%	0.1%
Deposits	5,40,082	4,89,109	5,38,071	10.4%	0.4%
CASA Deposits	2,20,873	2,03,106	2,27,595	8.7%	-3.0%
CASA (%)	40.9%	41.5%	42.3%	-63bps	-140bps
CAR (%)	15.9%	13.5%	15.7%	247bps	21bps
Spreads	Q1FY22	Q1FY21	Q4FY21	YoY	QoQ
NIMs (%)	2.9%	2.8%	2.3%	2bps	51bps
Cost of Funds	4.1%	4.9%	4.1%	-81bps	0bps
Yield on Average Advances	7.1%	7.6%	6.3%	-53bps	79bps
Asset Quality	Q1FY22	Q1FY21	Q4FY21	YoY	QoQ
GNPA	37,759	39,965	38,455	-5.5%	-1.8%
NNPA	12,653	12,755	12,271	-0.8%	3.1%
GNPA (%)	9.7%	10.9%	9.9%	-121bps	-16bps
NNPA (%)	3.5%	3.8%	3.4%	-29bps	10bps
Provision Coverage Ratio	66.5%	68.1%	68.1%	-160bps	-160bps
Returns & Expenses	Q1FY22	Q1FY21	Q4FY21	YoY	QoQ
RoA	0.8%	0.3%	1.1%	50bps	-34bps
RoE	5.5%	15.2%	23.1%	-971bps	-1765bps
Cost / Income Ratio	40.9%	47.1%	49.8%	-620bps	-896bps

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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