

**Asset quality improved, Adequately capitalized;  
trading at undemanding valuation**

**CMP: INR 145**

**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)	1,129
Mkt Cap (INR Cr)	15,800
52w H/L (INR)	157 / 53

**Shareholding Pattern %**

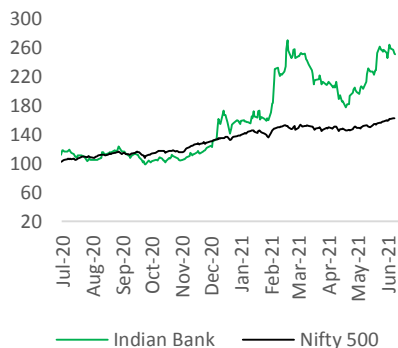
(As on Mar, 2021)

Promoters	88.1
FII	1.0
DII	4.4
Public & Others	6.5

**Stock Performance (%)**

	3m	6m	12m
Indian Bank	17.6	60.1	152.4
Nifty 500	10.0	17.9	61.6

**Indian Bank Vs Nifty 500**



Indian Bank is well placed PSU bank in the southern states and Central & Eastern states (after the amalgamation with Allahabad Bank) to revive at rapid pace given its relative strength of strong low cost deposit ratio (42%), generating a good margin (2.9%). Strong capital ratio (15.7%) and improving asset quality as on FY21. As on FY21, Bank has a total loan portfolio of INR 3.9 tn and deposit base of INR 5.4 tn. Allahabad Bank was merged with Indian Bank on Apr'20 and currently it operates through a strong network of 6004 domestic branches.

**Q4FY21 Performance**

**Advances growth was muted, Expected to grow by 10% in FY22E:** Gross advances growth of the bank was at 6% YoY/0.2% QoQ while deposit growth was healthy at 10% YoY/3% QoQ. Advances growth was supported by 12% YoY growth in RAM (Retail, Agri, MSME) segment with Retail book growth at 6% YoY, Agri at 14% YoY and MSME at 15% YoY while corporate lending has shown a decline of 2% owing to bank's cautious approach. Corporate book share of the bank declined consistently with 42% share as on Q4FY21 vs. 46% as on Q4FY20. Indian bank enjoys a higher CASA ratio compared to peers. Post amalgamation with Allahabad Bank the CASA ratio further improved from 41.5% to 42.3% YoY.

**Operating performance impacted due to NII reversal:** NII for the quarter declined by 23% YoY to INR 3,334 cr due to interest reversal of INR 1,000 cr. This led to decline in NIM to 2.3% (down 79bps QoQ). Yield on advances declined by 128bps QoQ at 6.3%. Operating profit for the quarter grew by 6% YoY to INR 2,548 cr. Cost of funds for the quarter improved by 27bps QoQ to 4.1% mainly due to increasing share of CASA. Profit for the quarter stood strong at INR 1,709 cr, supported by tax write back of INR 913 cr.

**Asset quality improved :** GNPA of the bank improved to 9.9% as compared to proforma GNPA of 10.4% in the previous quarter. Collection efficiency of the bank has been quite good at 90-92% till March, but in April the collection efficiency came down to about 86 to 87% and in May also it was lower. Slippage ratio for Q4FY21 stood at 9.36% and credit cost at 2.99%. Of the total slippages, 35% was contributed by MSME segment, 35% by corporate segment, 16% by Agriculture segment and ~14% by retail segment. Management expects recoveries worth INR 5000 cr in FY22. SMA1&2 book stood at INR 31,788 cr (SMA 1: INR 21,319 cr, SMA 2: INR 10,469 cr) or 8.4% of advances as on Q4FY21. Bank has restructured 0.72% of the advances.

**Valuation and View:** Indian Bank + Allahabad Bank merger has put the asset quality of the Indian Bank under pressure at the time of merger. However, Indian Bank has managed its asset quality reasonably well. The bank has started showing an improvement in key parameters post its merger. Good collection efficiency and lower restructuring have improved credit cost outlook but it will remain higher in H1FY22E. The bank has strong capital ratio with high share of CASA and expectation of improvement in loan book growth which enabled Indian Bank to benefit from anticipated economic revival in the coming quarters. Though in the near term asset quality pressure is there due to second Covid wave impact, the long term outlook of the bank stays intact. At CMP of INR 145, it is trading at cheaper valuation of 0.44x P/ABV to its FY23. We value the stock at 0.6x to its FY23E ABV of INR 316 per share for a target price of INR 190. We are working on the detail note and it will come out soon.

(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 are for Standalone entity (Indian Bank). Hence, numbers are not comparable.**

# INDIAN BANK CMP= 145

1-INDIANB - 21/06/21 15:58:44 145.45 3.93%



# INDIAN BANK

## CMP= 145

- On the weekly chart we are witnessing a Cup and handle formation in making which suggests upside momentum.
- Further, the momentum indicator viz the RSI has confirmed the uptrend and is now moving upward this suggests upside momentum.
- One can accumulate at current level or on a decline up to 130 for a target of 194 and 250 levels in 6-12months.

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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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