

CMP: INR 400

Rating: BUY

Target Price: INR 491

Stock Info

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	12.45
Mkt Cap (INR Bn)	499
52w H/L (INR)	446 / 235

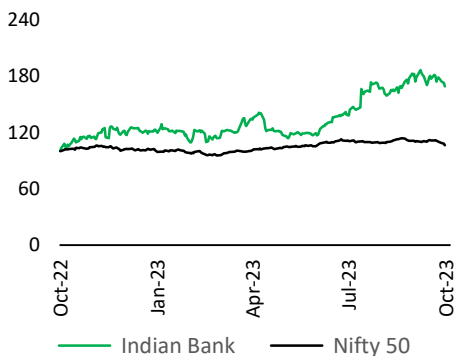
Shareholding Pattern %

(As on June, 2022)

Promoters	79.9
FII	2.0
DII	11.7
Public & Others	6.4

Stock Performance (%)	1m	3m	12m
Indian Bank	-7.2	16.2	68.9
Nifty 50	-4.3	-4.1	6.3

Indian Bank vs Nifty 50



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Indian Bank has posted profit steady performance during Q2FY24 with profit growth of 62% YoY/16% QoQ to INR 19.9 bn, led by NII growth for the quarter by 22.5% YoY/0.6% QoQ to INR 57.4 bn. Advances grew by 14.2% YoY/3% QoQ while NIM improved by 32bps YoY / down by 9 bps sequentially owing to interest reversal of INR 3.6 bn. Cost of funds at 4.97% increased by 92 bps YoY/22bps QoQ as the interest rates increased over the last year. Other income of the bank increased by 9% YoY/16% QoQ to INR 19.9 bn. Core fee income grew moderately by 11% YoY/20% QoQ. Operating expenses growth was steep at 19% YoY/4.6% QOQ, led by bank's investments in digital infrastructure creation over the years. The bank's Mobile banking users increased by a staggering 47% YoY while UPI users & transactions increased by 34% YoY & 65% YoY respectively. These have pushed the cost to income ratio marginally to 44.4% increasing by 9 bps YoY/14 bps QoQ, resulting in PPOP growth of 18.6% YoY/4.1% QoQ to INR 43 bn.

Loan growth improved, deposit growth stable: Total advances grew to INR 4,706 bn at 14.2% YoY/3% QoQ, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 12% YoY growth, driven largely by Agricultural and Retail segment at 14% YoY & 12% YoY respectively. On the other hand, the corporate loan book also grew by 11% YoY. The Management says they are open to lend more towards the corporates given that borrowers are ready to pay higher margins. Deposits growth was at 8.8% YoY/3.1% QoQ to INR 6,408 bn, dragged by slower growth in CASA deposits at 6.6% YoY/2.7% QoQ with decline in CASA ratio by 83 bps YoY/16 bps QoQ. Management reiterated their guidance of loan book growth of 10-12% YoY and deposits growth around 8-9% YoY in FY24E.

Asset quality improved sequentially: GNPA/NNPA ratio improved by 50bps/10bps QoQ at 4.97%/0.6% respectively. Total slippages for the quarter stood at INR 19.73 bn vs. INR 17.53 bn in the previous quarter. Consequently, Slippage ratio increased to 1.77% vs. 1.57% QoQ while higher recoveries helped bring down Credit Cost to 0.79 from 0.82 in the previous quarter. Recoveries for the first half stood at INR 43.02 bn and Management aims to achieve recoveries of INR 80 bn for the full year. PCR was healthy at 88.46%. SMA 1 & 2 as percentage of total standard advances improved sequentially by 6 bps from 0.70% to 0.64%. However, the the Corporate SMA book saw sequential increase of INR 1.82 bn over previous quarter to INR 3.81 bn.

Valuation and View: Indian Bank has reported steady quarter with healthy loan growth traction and improving profitability. Performance of the bank was strong primarily on margins side, driven by repricing of incremental advances in the retail side. Asset quality of the bank improved sequentially, and with the bank's focus on retail and digital infrastructure set up, we believe they will be able to outgrow their guidance. Hence, we maintain our positive stance on the bank, and on FY26E ABV of INR 491, ascertain a Target Price of INR 491 on 1.0x P/ABV.

Financial Performance

Particulars (Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	167	202	215	234	256
PPOP	127	153	154	175	200
PAT	39	53	53	58	69
Advances	3,892	4,493	4,942	5,436	5,980
Deposits	5,936	6,212	6,770	7,447	8,192
RoA	0.6	0.8	0.7	0.7	0.8

Source: Company, Arihant Research

Q2FY24 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (Rs bn)	Q2FY24	Q1FY24	Q2FY24	QoQ	YoY
Interest Income	137.43	130.49	107.10	5.3%	28.3%
Interest Expended	80.03	73.46	60.26	8.9%	32.8%
Net Interest Income	57.40	57.04	46.84	0.6%	22.5%
Other Income	19.93	17.10	18.28	16.6%	9.0%
Operating Income	77.33	74.13	65.12	4.3%	18.8%
Employee Expenses	21.77	21.19	17.77	2.8%	22.5%
Other Operating Expenses	12.54	11.60	11.06	8.1%	13.3%
Total Expenses	34.30	32.78	28.83	4.6%	19.0%
PPOP	43.03	41.35	36.29	4.1%	18.6%
Provisions	15.51	17.41	20.59	-10.9%	-24.7%
PBT	27.52	23.94	15.71	15.0%	75.2%
Tax Expenses	7.64	6.85	3.45	11.6%	121.2%
Net Income	19.88	17.09	12.25	16.3%	62.2%
Balance Sheet Analysis					
Advances	4,706	4,568	4,121	3.0%	14.2%
Deposits	6,408	6,215	5,889	3.1%	8.8%
CASA Deposits	2,570	2,502	2,411	2.7%	6.6%
CASA (%)	40.11%	40.26%	40.94%	-15bps	-83bps
CAR (%)	15.53	15.78	16.15	-25bps	-62bps
Spreads					
NIMs (%)	3.52%	3.61%	3.20%	-9bps	32bps
Cost of Funds	4.97%	4.75%	4.05%	22bps	92bps
Yield on Average Advances	8.75%	8.53%	6.98%	22bps	177bps
Asset Quality					
GNPA	245	262	320	-17.9%	-99.1%
NNPA	28	32	62	-48.2%	-99.2%
GNPA (%)	4.97%	5.47%	7.30%	-50bps	-233bps
NNPA (%)	0.60%	0.70%	1.50%	-10bps	-90bps
Returns & Expenses					
RoA	1.06	0.95	0.71	11bps	35bps
RoE	19.90	17.88	13.83	202bps	607bps
Cost / Income Ratio	44.4%	44.2%	44.3%	14bps	9bps

Concall Highlights

Management Guidance:

- The deposits to grow 8-9% and Advances at 10-12% going in the future. The Bank Management says they will maintain a conservative guidance but are already achieving over the annual growth guidance.
- The Management says they are open to lending to all corporates of any rating, given that the Bank gets a higher margin.
- Management guides of achieving INR 80 bn of recovery for the quarter of which they have recovered INR 43.02 bn in H1FY24.
- Management maintains that they will be able to maintain the average RoA at 1% and above on a sustainable basis.
- The Management says that the Credit Cost will come down further in the future as the Net NPA is itself less than 1% and the recoveries are more than the Provisioning.

Key Highlights:

- Slippage was INR 19.73 bn and recovery was INR 22.65 bn. Restructure is INR 99 bn.
- Opened 38 branches in the H1FY24.
- All the RRBs are having NPAs at zero levels.
- This year they have done a business of INR 270 bn of business through the digital lending platform. Last quarter, INR 90 bn of business was done through digital banking.
- Domestic NIMs stood at 3.52 vs 3.61 was impacted by an interest reversal of INR 3.6 bn which impacted margins by 12 bps for the Q2FY24.
- Majority of the book is already repriced over the last 1 & half years.
- The Bank will come out with a QIP for Rs 40 bn by August 2024 after an extension from SEBI for reducing the Government stake.
- The Bank aims to maintain a margin of 3.4-3.5% as given at the beginning of the year.
- The Bank is having a 60% Provision for the ongoing quarter. MCLR is at 8.70% for the bank.
- Earlier all the bank branches needed to have their own servers, which are now under server centralization, etc, which are the different kinds of things that the bank has done over the years, and now they are seeing the benefits of digitization.
- The bank sold some low yielding asset long back and have been getting higher yielding loans since the interest rates started climbing since last year.
- The Management says that the Corporates are asking loans at a very low rate just around the MCLR, and that's why they are not growing the corporate loans across the banking sector, while the retail is paying higher interest rates, and thus all banks are growing their retail loan books at faster pace.
- Gold loan book is INR 700 bn of loans. And the Management says that the bank has been doing gold loan for decades now, and it has been a good return generating loan book for the bank over time.
- The banks has INR 6.89 bn of wage revision Provision, and INR 2.7 bn for the quarter Q2FY24, and that part of the employee expenses is still due. So, excluding the salary & PLI scheme of Provision, the Salary expenses growth is at 5% YoY.

Profit & Loss Statement (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	389	449	531	581	638
Interest Expense	221	247	316	346	381
Net Interest Income	167	202	215	234	256
YoY change (%)	7	21	6	9	9
Non Interest Income	69	71	79	86	95
Total Net Income	236	274	294	321	352
Total Operating Expenses	109	121	140	146	152
Pre Provision profit	127	153	154	175	200
YoY change (%)	16	20	1	14	14
Provisions	95	94	82	98	108
Profit Before Tax	32	59	71	77	92
YoY change (%)	10	85	21	8	20
Taxes	-7	6	18	19	23
Net profit	39	53	53	58	69
YoY change (%)	31.3	33.9	1.1	8.1	19.7

Balance Sheet (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash & Balances with RBI	241	327	229	252	277
Inter bank borrowing	559	174	190	209	230
Investments	1,746	1,860	2,009	2,169	2,343
Loan and Advances	3,892	4,493	4,942	5,436	5,980
Other Assets	203	176	194	213	235
Total Assets	6,717	7,105	7,646	8,370	9,164
Deposits	5,936	6,212	6,770	7,447	8,192
Borrowings	171	221	240	207	226
Other Liability	172	193	103	125	86
Equity	12	12	12	12	12
Reserves	425	467	521	578	647
Total Liabilities	6,717	7,105	7,646	8,370	9,164

Dupont Analysis (% of Average Assets)	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income	2.6	2.9	2.9	2.9	2.9
Non Interest Income	1.1	1.0	1.1	1.1	1.1
Net Income	3.6	4.0	4.0	4.0	4.0
Operating Expenses	1.7	1.8	1.9	1.8	1.7
Operating Profit	2.0	2.2	2.1	2.2	2.3
Provisions & Contingencies	1.5	1.4	1.1	1.2	1.2
Taxes	-0.1	0.1	0.2	0.2	0.3
ROAA	0.6	0.8	0.7	0.7	0.8

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
Efficiency Ratio (%)					
Int Expended / Int Earned	56.9	55.0	59.5	59.6	59.8
Int Income / Total Assets	5.8	6.3	6.9	6.9	7.0
NII / Total Income	36.5	38.8	35.3	35.1	35.0
Other Inc. / Total Income	15.1	13.7	12.9	13.0	13.0
Ope. Exp. / Total Income	23.9	23.2	22.9	21.9	20.7
Net Profit / Total Assets	0.6	0.7	0.7	0.7	0.8
Credit / Deposit	65.6	72.3	73.0	73.0	73.0
Investment / Deposit	29.4	29.9	29.7	29.1	28.6
NIM	2.9	3.2	3.1	3.1	3.1
Solvency					
Gross NPA (Rs. Cr)	352	282	272	299	329
Net NPA (Rs. Cr)	88	40	40	43	48
Gross NPA (%)	8.5	6.0	5.5	5.5	5.5
Net NPA (%)	2.3	0.9	0.8	0.8	0.8
Capital Adequacy Ratio (%)	16.5	16.5	17.3	17.6	17.9
Tier I Capital (%)	13.2	13.5	14.0	14.3	14.6
Tier II Capital (%)	3.4	3.0	3.3	3.3	3.3
Growth Ratio (%)					
Interest Income	-0.6	15.7	18.2	9.3	9.8
Interest Expenses	-5.6	11.7	27.9	9.6	10.1
Other Income	22.4	3.3	10.0	10.0	10.0
Total Income	2.3	13.8	17.0	9.4	9.8
Net profit	31.3	33.9	1.1	8.1	19.7
Deposits	10.3	4.6	9.0	10.0	10.0
Advances	6.9	15.4	10.0	10.0	10.0
Return Ratio					
RoAA (%)	0.6	0.8	0.7	0.7	0.8
RoAE (%)	9.6	11.5	10.5	10.3	11.0
Per Share Data (INR)					
EPS	32	42	43	46	55
Book Value	351	385	428	474	530
Adj Book Value of Share	280	353	396	439	491
Valuation Ratio					
P/E (x)	12.6	9.4	9.3	8.6	7.2
P/BV (x)	1.1	1.0	0.9	0.8	0.8
P/ABV (x)	1.4	1.1	1.0	0.9	0.8

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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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