

**Robust recoveries and decline in SMA 1 & 2;  
Expecting returns to increase subsequent quarters.**

**CMP: INR 442**

**Rating: BUY**

**Target Price: INR 531**

**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)	594
52w H/L (INR)	472 / 252

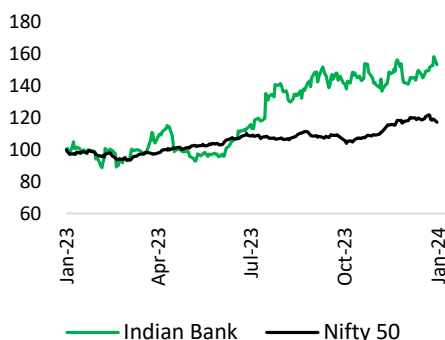
**Shareholding Pattern %**

(As on Dec, 2022)

Promoters	73.84
FII	15.84
DII	5.89
Public & Others	4.43

Stock Performance (%)	1m	6m	12m
Indian Bank	8.4	34.9	52.0
Nifty 50	0.1	9.0	19.9

**Indian Bank vs Nifty 50**



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Indian Bank has posted profit steady performance during Q3FY24 with profit growth of 51.8% YoY/6.6% QoQ to INR 21.2 bn, led by NII growth for the quarter by 5.7% YoY/1.3% QoQ to INR 58.1 bn. Advances grew by 12.9% YoY/8.3% QoQ while NIM fell by 33bps YoY/11 bps sequentially. Cost of funds at 5.09% increased by 83 bps YoY/12bps QoQ as the interest rates increased over the last year. Other income of the bank increased by 10.8% YoY/ down 4.6% QoQ to INR 19.0 bn. Core fee income grew by 21% YoY/6% QoQ to INR 8.5 bn. Operating expenses growth was steep at 14.7% YoY/% 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 38% YoY & 72% YoY respectively. These have pushed the cost to income ratio to 46.9% increasing by 319 bps YoY/254 bps QoQ and PPOP growth moderately by 0.9% YoY/down 4.8% QoQ to INR 41 bn.

**Loan growth improved, deposit growth stable:** Total advances grew to INR 5,098 bn at 12.9% YoY/8.3% QoQ, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 13% YoY growth to INR 2.97 tn, driven largely by Agricultural and Retail segment at 16% YoY & 14% YoY respectively. On the other hand, the corporate loan book also grew by 10% YoY to INR 1.77 tn. 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 9.6% YoY/2.1% QoQ to INR 6,542 bn, dragged by slower growth in CASA deposits at 7.6% YoY/1% QoQ with decline in CASA ratio by 73 bps YoY/44 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/7bps QoQ at 4.47%/0.53% respectively. Total slippages for the quarter stood at INR 14.29 bn vs. INR 19.73 bn in the previous quarter. Consequently, Slippage ratio decreased to 1.28% vs. 1.77% QoQ while higher recoveries helped bring down Credit Cost to 0.76 from 0.79 in the previous quarter. Recoveries for the quarter stood at INR 25.09 bn and 9MFY24 recoveries stood at INR 67.80. Management aims to achieve recoveries of INR 80 bn for the full year. PCR was healthy at 95.9%. SMA 1 & 2 as percentage of total standard advances improved sequentially by 8 bps from 0.64% to 0.56%, which is significant considering 6 bps improvement in previous quarter as well. Also, the Corporate SMA book saw sequential decrease of INR 1.3 bn over Q2FY24 to INR 2.51 bn.

**Valuation and View:** Indian Bank has reported steady quarter with healthy loan growth traction and better than expected NIMs in Q3FY24. Performance of the bank was strong on both the margins side, as well as the recoveries coming in for the bank. Also, the SMA1 & 2 fall in proportion to loan growth, is a good signal of the Management's effort to resolve delinquencies. Hence, we maintain our positive stance on the bank, and revise our FY26E ABV to INR 483, we assign a Target Price of INR 531 on 1.1x 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

## Q3FY24 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (INR bn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Interest Income	141.98	137.43	118.34	3.3%	20.0%
Interest Expended	83.83	80.03	63.35	4.8%	32.3%
<b>Net Interest Income</b>	<b>58.14</b>	<b>57.40</b>	<b>54.99</b>	<b>1.3%</b>	<b>5.7%</b>
Other Income	19.02	19.93	17.16	-4.6%	10.8%
<b>Operating Income</b>	<b>77.16</b>	<b>77.33</b>	<b>72.16</b>	<b>-0.2%</b>	<b>6.9%</b>
Employee Expenses	23.36	21.77	19.91	7.3%	17.3%
Other Operating Expenses	12.83	12.54	11.63	2.3%	10.3%
<b>Operating Expenses</b>	<b>36.19</b>	<b>34.30</b>	<b>31.54</b>	<b>5.5%</b>	<b>14.7%</b>
<b>PPOP</b>	<b>40.97</b>	<b>43.03</b>	<b>40.61</b>	<b>-4.8%</b>	<b>0.9%</b>
Provisions	13.49	15.51	25.16	-13.0%	-46.4%
<b>PBT</b>	<b>27.48</b>	<b>27.52</b>	<b>15.46</b>	<b>-0.2%</b>	<b>77.8%</b>
Tax Expenses	6.28	7.64	1.50	-17.8%	319.2%
<b>Net Income</b>	<b>21.19</b>	<b>19.88</b>	<b>13.96</b>	<b>6.6%</b>	<b>51.8%</b>
<b>Balance Sheet Analysis</b>					
Advances	5,098	4,706	4,517	8.3%	12.9%
Deposits	6,542	6,408	5,971	2.1%	9.6%
CASA Deposits	2,595	2,570	2,412	1.0%	7.6%
CASA (%)	39.67%	40.11%	40.40%	-44bps	-73bps
CAR (%)	15.58	15.53	15.74	5bps	-16bps
<b>Spreads</b>					
NIMs (%)	3.41%	3.52%	3.74%	-11bps	-33bps
Cost of Funds	5.09%	4.97%	4.26%	12bps	83bps
Yield on Average Advances	8.78%	8.75%	7.19%	3bps	159bps
<b>Asset Quality</b>					
GNPA	228	245	295	-16.9%	-99.1%
NNPA	26	28	43	-33.8%	-99.3%
GNPA (%)	4.47%	4.97%	6.53%	-50bps	-206bps
NNPA (%)	0.53%	0.60%	1.00%	-7bps	-47bps
<b>Returns &amp; Expenses</b>					
RoA	1.11	1.06	0.86	5bps	25bps
RoE	19.92	19.90	15.21	2bps	471bps
Cost / Income Ratio	46.9%	44.4%	43.7%	254bps	319bps

Source: Company, Arianth Research

## Concall Highlights

### Management Guidance:

- Management expects CASA ratio to be maintained above 41% on sequential basis.
- Downward trend in Slippage and Credit cost expected to continue.
- Digital business target is INR 700 bn.
- The management expects 10-year G-sec to remain within 7.1 to 7.25% range.
- With GDP growth of 7% expected in FY25, the management is positive of advances growth with increase in income level. So they expect to maintain Retail, MSME and Agriculture share.
- Provisions in FY25 are expected to be lower than FY24 due to decrease in net NPA, slippage and SMA numbers.

### Key Highlights:

- The overall business of the bank has grown by 11% YoY.
- Deposits up 10% while Advances grew by 13%, above the guidance of 10-12% given earlier. The advances had a broad based growth in Retail, Agriculture and MSME.
- With growth in Savings and Current deposits, CASA grew by 8% while the CASA ratio stood at 39.67%. Term deposits grew by 11%.
- Operating profit was up by only 1% due to revisions in wage provisions in the quarter. Net profit grew by 52% YoY.
- NII grew by 6% YoY/1.3% QoQ while NIM fell by 11 bps QoQ to INR 3.41 bn.
- Total provisions add up to INR 12.51bn.
- Yields on advances grew marginally by 3bps QoQ to 8.78%.
- Cost of deposit was up by 10bps QoQ from 4.89% to 4.99%.
- Cost to income ratio is up at 46% from 44%.
- CD Ratio stood at 78%.
- RoE growing sequentially at 19.92%, RoA stands at 1.11%.
- Collection efficiencies maintained at 95%. Recovery was around INR 25bn while Slippage was INR 16bn, working well within the guidance.
- Slippage ratio down to 1.29% while Credit cost down by 0.76%.
- Gross NPA came down to 4.47% from 4.9%. Net NPA too came down to 0.53% from 0.6% in Q2FY24.
- Capital Adequacy Ratio at 15.58%. INR 40bn raised by a QIP.

### Digitisation:

- 15 new journeys were launched in Q3FY24, totalling to 78 journeys.
- Mobile banking users up by 47% to 15.9mn. Transactions in Q3 were 17.4mn. UPI users stand at 16.4mn, transactions up to 930mn.
- Digital transition gone up to 87% from 83%.
- Digital business stands at INR 528bn.
- e-OTS service upto INR 10 lakhs and Death Claim settlement portal launched in the quarter.
- The bank is sequentially increasing their AFS book, building good quality asset and generating good return. Yield on AFS holding also increased to 7.33% from 6.84%.
- Margins currently stand at 3.54%, within the guidance level.

Profit & Loss Statement (INR Bn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	389	449	527	576	632
Interest Expense	221	247	316	346	381
<b>Net Interest Income</b>	<b>167</b>	<b>202</b>	<b>211</b>	<b>230</b>	<b>251</b>
YoY change (%)	7	21	4	9	9
Non Interest Income	69	71	79	86	95
Total Net Income	236	274	289	316	346
Total Operating Expenses	109	121	140	146	152
<b>Pre Provision profit</b>	<b>127</b>	<b>153</b>	<b>149</b>	<b>170</b>	<b>195</b>
YoY change (%)	16	20	-2	14	14
Provisions	95	94	82	98	108
Profit Before Tax	32	59	67	72	87
YoY change (%)	10	85	13	8	20
Taxes	-7	6	17	18	22
<b>Net profit</b>	<b>39</b>	<b>53</b>	<b>50</b>	<b>54</b>	<b>65</b>
YoY change (%)	31.3	33.9	-5.2	8.1	20.5

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
<b>Total Assets</b>	<b>6,717</b>	<b>7,105</b>	<b>7,646</b>	<b>8,370</b>	<b>9,164</b>
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
<b>Total Liabilities</b>	<b>6,717</b>	<b>7,105</b>	<b>7,646</b>	<b>8,370</b>	<b>9,164</b>

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	3.9	3.9	4.0
Operating Expenses	1.7	1.8	1.9	1.8	1.7
Operating Profit	2.0	2.2	2.0	2.1	2.2
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	0.7

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Efficiency Ratio (%)</b>					
Int Expended / Int Earned	56.9	55.0	60.0	60.1	60.3
Int Income / Total Assets	5.8	6.3	6.9	6.9	6.9
NII / Total Income	36.5	38.8	34.8	34.7	34.6
Other Inc. / Total Income	15.1	13.7	13.0	13.1	13.1
Ope. Exp. / Total Income	23.9	23.2	23.1	22.0	20.8
Net Profit / Total Assets	0.6	0.7	0.7	0.6	0.7
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	3.0	3.1	3.1
<b>Solvency</b>					
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	17.2	17.4	17.7
Tier I Capital (%)	13.2	13.5	13.9	14.1	14.4
Tier II Capital (%)	3.4	3.0	3.3	3.3	3.3
<b>Growth Ratio (%)</b>					
Interest Income	-0.6	15.7	17.2	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	16.2	9.4	9.8
Net profit	31.3	33.9	-5.2	8.1	20.5
Deposits	10.3	4.6	9.0	10.0	10.0
Advances	6.9	15.4	10.0	10.0	10.0
<b>Return Ratio</b>					
RoAA (%)	0.6	0.8	0.7	0.7	0.7
RoAE (%)	9.6	11.5	9.9	9.7	10.6
<b>Per Share Data (INR)</b>					
EPS	32	42	40	43	52
Book Value	351	385	425	469	521
Adj Book Value of Share	280	353	394	434	483
<b>Valuation Ratio</b>					
P/E (x)	12.6	9.4	9.9	9.2	7.6
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/ABV (x)	1.4	1.1	1.0	0.9	0.8

Source: Company, Arianth Research

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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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