

Healthy operating performance; NIMs on improvement path

CMP: INR 537

Rating: BUY

Target Price: INR 593

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)	574 / 267

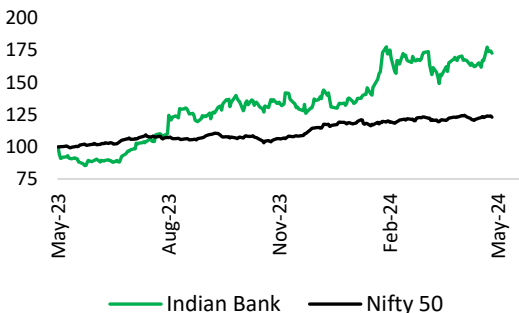
Shareholding Pattern %

(As on March, 2024)

Promoters	73.84
FII	5.29
DII	16.95
Public & Others	3.93

Stock Performance (%)	1m	6m	12m
Indian Bank	2.2	30.4	74.3
Nifty 50	-0.5	16.2	23.5

Indian Bank vs Nifty 50



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Indian Bank has posted profit steady performance during Q4FY24 with profit growth of 6.0% QoQ/55.3% YoY to INR 22.47 bn, led by NII growth for the quarter by 3.5% QoQ/9.2% YoY to INR 60.15 bn. Advances grew by 1.0% QoQ/14.6% YoY while NIM improved by 12 bps QoQ/ down by 7 bps YoY. Cost of funds kept on increasing although slowly at 5.13% increased by 4 bps QoQ/69 bps YoY as the interest rates increased over the last year and a half is now very much absorbed by most banks. Other income of the bank increased by 19.0% QoQ/13.5% YoY to INR 22.63 bn. Core fee income grew moderately by 14% QoQ/8% YoY. Operating expenses growth was moderate during the quarter at 9.8% QoQ/13.9% YoY, led by bank's investments in digital infrastructure creation over the years. The bank's Mobile banking users increased by a staggering 14 times increase during the year. These have pushed the cost to income ratio marginally to 48% increasing by 109 bps QoQ/152 bps YoY resulting in PPOP growth of 5.1% QoQ/7.2% YoY to INR 43.05 bn.

Loan growth slowed sequentially, deposit growth stable: Total advances grew to INR 5,149 bn growing by 1.0% QoQ/14.6% YoY, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank that reported 14% YoY growth, driven largely by Agricultural and Retail segment at 19% YoY & 14% YoY respectively. On the other hand, the corporate loan book grew by 10% 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 5.2% QoQ/10.8% YoY to INR 6,880 bn, led by pick up in growth in CASA deposits at 8.1% QoQ/7.5% YoY with increase in CASA ratio by 264 bps QoQ/32 bps YoY. Management reiterated their guidance of loan book growth of 12-13% YoY and deposits growth around 8-9% YoY in FY25E.

Asset quality improved sequentially: GNPA/NNPA ratio improved by 52bps/10bps QoQ at 3.95%/0.43% respectively. Total slippages for the quarter stood at INR 12.38 bn vs. INR 14.29 bn in the previous quarter. Consequently, Slippage ratio decreased to 1.11% vs. 1.28% QoQ while higher recoveries helped bring down Credit Cost to 0.73 from 0.76 in the previous quarter. Recoveries for the Q4FY24 stood at INR 20.17 bn and full year recoveries stood at 88 bn. PCR was healthy at 96.34%. SMA 1 & 2 as percentage of total standard advances improved sequentially by 8 bps from 0.56% to 0.48%. However, the Corporate SMA book saw sequential increase from INR 2.51 bn over previous quarter to INR 3.24 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. However, along with the Management guidance on growth side at 12-13% YoY and sequential slow growth, we expect the growth to moderate in order to maintain the Asset Quality of the bank. Hence, we maintain our positive stance on the bank, and on FY27E ABV of INR 539, ascertain a Target Price of INR 593 on 1.1x P/ABV.

Financial Performance

Particulars (Bn)	FY24A	FY25E	FY26E	FY27E
NII	233	246	268	292
PPOP	168	176	200	228
PAT	81	54	65	78
Advances	5,149	5,664	6,230	6,853
Deposits	6,880	7,759	8,534	9,388
RoA	1.1	0.6	0.7	0.8

Source: Company, Arihant Research

Q4FY24 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (Rs bn)	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
Interest Income	146.24	141.98	122.44	3.0%	19.4%
Interest Expended	86.09	83.83	67.37	2.7%	27.8%
Net Interest Income	60.15	58.14	55.08	3.5%	9.2%
Other Income	22.63	19.02	19.94	19.0%	13.5%
Operating Income	82.78	77.16	75.02	7.3%	10.3%
Employee Expenses	26.33	23.36	22.20	12.7%	18.6%
Other Operating Expenses	13.40	12.83	12.67	4.4%	5.8%
Operating Expenses	39.73	36.19	34.87	9.8%	13.9%
PPOP	43.05	40.97	40.15	5.1%	7.2%
Provisions	12.48	13.49	25.63	-7.5%	-51.3%
PBT	30.57	27.48	14.52	11.3%	110.5%
Tax Expenses	8.10	6.28	0.05	28.9%	15216.3%
Net Income	22.47	21.19	14.47	6.0%	55.3%
Balance Sheet Analysis					
Advances	5,149	5,098	4,493	1.0%	14.6%
Deposits	6,880	6,542	6,212	5.2%	10.8%
CASA Deposits	2,805	2,595	2,608	8.1%	7.5%
CASA (%)	42.31%	39.67%	41.99%	264bps	32bps
CAR (%)	16.44	15.58	16.49	86bps	-5bps
Spreads					
NIMs (%)	3.52%	3.41%	3.59%	11bps	-7bps
Cost of Funds	5.13%	5.09%	4.44%	4bps	69bps
Yield on Average Advances	8.81%	8.78%	8.17%	3bps	64bps
Asset Quality					
GNPA	211	228	282	-19.1%	-99.2%
NNPA	22	26	40	-36.2%	-99.4%
GNPA (%)	3.95%	4.47%	5.95%	-52bps	-200bps
NNPA (%)	0.43%	0.53%	0.90%	-10bps	-47bps
Returns & Expenses					
RoA	1.15	1.11	0.82	4bps	33bps
RoE	19.06	19.92	15.48	-86bps	358bps
Cost / Income Ratio	48.0%	46.9%	46.5%	109bps	152bps

Concall Highlights

Management Guidance:

- The Management intends to keep CASA at 42% levels in the future as well.
- The Management gave NIM guidance of 3.4-3.5% in the future.
- The Bank's Credit Cost for the year FY24 stood at 0.77%. Since, the Net NPAs for the Bank has come down to 0.43%, the Management expects the Credit Cost to come down significantly for FY25.
- The Bank is aiming a growth of 12-13% in FY25 as well similar to FY24 growth rate.

Key Highlights:

- The Bank recovered INR 88 bn during the year FY24 against INR 80 bn recovery in FY23. The slippages for the year stood at INR 67 bn for FY24 against slippages of INR 70 bn in FY23.
- The Bank has recovered INR 28.68 bn from Accounts Under Collections segment.
- The Bank launched 78 digital journeys during the year resulting in 14 fold increase in their digital transactions.
- The Bank witnessed 89% of transactions through digital channels.
- The Bank is planning 27 digital journeys during FY25, of which they will launch 10 in Q1FY25 alone.
- The Bank raised capital of INR 40 bn through QIP during the year helping their capital adequacy by 100 bps which got impacted by 57 bps due to RBI guidelines.
- The QIP caused the Promoter shareholding to come down from 79% to 74%.
- The bank witnessed balanced approach with growth across all segments including Retail (15% YoY), Agriculture (19% YoY), MSME (6% YoY), and Corporate (10% YoY).
- The Bank aims to bring the Cost to Income Ratio below 44% by focusing on fee-based income and improving margins.
- As per the Management, there will be Potential minimal impact of the proposed 5% standard asset provisioning requirement for Project Financing.
- 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.

Profit & Loss Statement (INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	389	449	556	599	658	725
Interest Expense	221	247	323	353	391	433
Net Interest Income	167	202	233	246	268	292
YoY change (%)	7	21	15	6	9	9
Non Interest Income	69	71	79	90	99	109
Total Net Income	236	274	311	336	367	401
Total Operating Expenses	109	121	143	160	167	174
Pre Provision profit	127	153	168	176	200	228
YoY change (%)	16	20	10	4	14	14
Provisions	95	94	59	104	112	123
Profit Before Tax	32	59	110	72	87	104
YoY change (%)	10	85	85	-34	21	19
Taxes	-7	6	29	18	22	26
Net profit	39	53	81	54	65	78
YoY change (%)	31.3	33.9	52.7	-32.9	20.8	19.2

Balance Sheet (INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Cash & Balances with RBI	241	327	327	263	289	318
Inter bank borrowing	559	174	94	218	240	264
Investments	1,746	1,860	2,126	2,296	2,479	2,678
Loan and Advances	3,892	4,493	5,149	5,664	6,230	6,853
Other Assets	203	176	156	222	244	269
Total Assets	6,717	7,105	7,926	8,756	9,585	10,494
Deposits	5,936	6,212	6,880	7,759	8,534	9,388
Borrowings	171	221	231	77	105	147
Other Liability	172	193	231	282	242	178
Equity	12	12	13	13	13	13
Reserves	425	467	570	625	690	768
Total Liabilities	6,717	7,105	7,926	8,756	9,585	10,494

Dupont Analysis (% of Average Assets)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Net Interest Income	2.6	2.9	3.1	3.0	2.9	2.9
Non Interest Income	1.1	1.0	1.0	1.1	1.1	1.1
Net Income	3.6	4.0	4.1	4.0	4.0	4.0
Operating Expenses	1.7	1.8	1.9	1.9	1.8	1.7
Operating Profit	2.0	2.2	2.2	2.1	2.2	2.3
Provisions & Contingencies	1.5	1.4	0.8	1.2	1.2	1.2
Taxes	-0.1	0.1	0.4	0.2	0.2	0.3
ROAA	0.6	0.8	1.1	0.6	0.7	0.8

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Efficiency Ratio (%)						
Int Expended / Int Earned	56.9	55.0	58.2	58.9	59.3	59.7
Int Income / Total Assets	5.8	6.3	7.0	6.8	6.9	6.9
NII / Total Income	36.5	38.8	36.7	35.7	35.3	35.0
Other Inc. / Total Income	15.1	13.7	12.4	13.1	13.1	13.1
Ope. Exp. / Total Income	23.9	23.2	22.5	23.3	22.1	20.8
Net Profit / Total Assets	0.6	0.7	1.0	0.6	0.7	0.7
Credit / Deposit	65.6	72.3	74.8	73.0	73.0	73.0
Investment / Deposit	29.4	29.9	30.9	29.6	29.0	28.5
NIM	2.9	3.2	3.3	3.1	3.1	3.1
Solvency						
Gross NPA (Rs. Cr)	352	282	283	312	343	377
Net NPA (Rs. Cr)	88	40	41	45	50	55
Gross NPA (%)	8.5	6.0	5.5	5.5	5.5	5.5
Net NPA (%)	2.3	0.9	0.8	0.8	0.8	0.8
Capital Adequacy Ratio (%)	16.5	16.5	18.2	18.1	18.3	18.5
Tier I Capital (%)	13.2	13.5	14.9	14.8	15.0	15.2
Tier II Capital (%)	3.4	3.0	3.3	3.3	3.3	3.3
Growth Ratio (%)						
Interest Income	-0.6	15.7	23.7	7.7	9.9	10.1
Interest Expenses	-5.6	11.7	30.8	9.1	10.7	10.8
Other Income	22.4	3.3	10.1	14.5	10.0	10.0
Total Income	2.3	13.8	21.9	8.6	9.9	10.1
Net profit	31.3	33.9	52.7	-32.9	20.8	19.2
Deposits	10.3	4.6	10.8	12.8	10.0	10.0
Advances	6.9	15.4	14.6	10.0	10.0	10.0
Return Ratio						
RoAA (%)	0.6	0.8	1.1	0.6	0.7	0.8
RoAE (%)	9.6	11.5	15.2	8.9	9.7	10.5
Per Share Data (INR)						
EPS	32	42	60	40	48	58
Book Value	351	385	433	474	522	580
Adj Book Value of Share	280	353	403	440	485	539
Valuation Ratio						
P/E (x)	17.0	12.7	9.0	13.4	11.1	9.3
P/BV (x)	1.5	1.4	1.2	1.1	1.0	0.9
P/ABV (x)	1.9	1.5	1.3	1.2	1.1	1.0

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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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