

Indian Bank

Sector: Banks /Mid-Cap | Earnings Update – 2QFY19

BUY

13 November 2018

Background: Indian Bank features among the mid-sized banks in the public sector space, as of 2QFY19 the bank had business of about INR 3.92tn. The Bank operates through a network of 2830 branches; Indian Bank's footprint is largely skewed towards the southern states of Tamil Nadu, Karnataka, Andhra Pradesh and Kerala. With RoA of ~0.23%, the bank features amongst the most profitable banks in the PSU space. The bank has positioned itself as a bank with focus on retail and mid corporate segment.

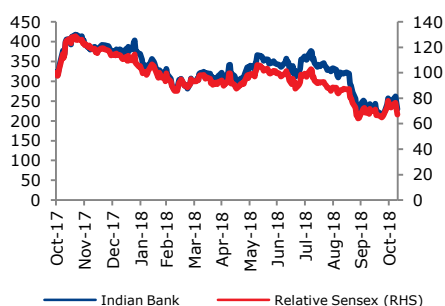
Sensex	34,873
Nifty	10,499
Price	INR 224
Target Price	INR 304
Recommendation	BUY
52 Week High/Low	INR 428/211
Bloomberg / Reuters	INBK IN / INBA.BO
Equity (shares in mn)	480.29
Mkt. Cap in bn	INR 107.56/ \$ 1.48
Avg. Daily Vol. ('000)	1,880.45
Avg. Daily Vol. (mn)	INR 421.13 / \$ 5.80

Shareholding	Sep 17	Jun 18	Sep 18
Promoters (%)	82.10	81.71	81.73
FII (%)	7.57	5.29	4.52
DII (%)	7.38	10.44	10.74
Others (%)	2.95	2.56	3.01
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Interest Inc	62.6	63.2	70.9
Other Inc	24.1	22.2	27.9
Pre Prov Profit	50.0	46.7	57.1
PAT	12.6	6.6	21.0
EPS	26.2	13.7	43.7
EPS growth (%)	-10.4	-47.6	217.9
PE	8.5	16.3	5.1
P /ABV	0.8	0.8	0.7
Div Yield (%)	2.7	2.2	2.5
ROA (%)	0.5	0.2	0.7
ROE (%)	7.1	3.5	10.6
Tier – 1 (%)	11.3	11.5	11.2
CAR (%)	12.6	12.7	12.5

Performance %	1M	6M	12M
Indian bank	1.4	-32.9	-42.7
Sensex	2.5	-0.5	5.7



Weak quarter; Profits miss estimates due to higher NPAs

- In 2QFY19 Indian bank's total advances grew at a healthy 19.5% YoY (in line with CSEC estimate of 20.3%) to INR 1.72tn. The domestic loan book grew by 19.6% YoY (4.5% QoQ), driven by growth in RAM (Retail Agricultural and MSME) segment, which was up by 24.6% YoY (6.3% QoQ). Corporate & Commercial segment also saw a growth of 13.2% YoY. Management has guided loan book growth of ~20% in FY19E, driven entirely by the RAM segment.
- Overall deposits recorded moderate growth of 10.5% YoY (beating CSEC estimate of 7.7%) and stood at INR 2.2tn, led by strong growth in term deposits (12.4% YoY). CASA however, grew at slower pace of 7.3% (flat QoQ). While Savings grew by 8.5% YoY, demand deposits demonstrated muted growth (1.6% YoY). Consequently, CASA ratio declined to 36.1% vs 37.2% in 2QFY18.
- Net interest income (NII) saw a muted growth of 12.1% YoY (-4.2% QoQ) and stood at INR 17.31bn (vs. CSEC estimate of INR 18.16bn), due to higher interest reversals (amounting to INR 1bn) on account of higher slippages this quarter. Also, yield on advances dipped by 20bps YoY (-17bps QoQ) and stood at 8.4%. With Cost of deposits also declining by 10bps YoY and the overall cost of funds remaining largely intact; NIMs saw a 12 bps increase YoY. The management has guided that NIMs would be >3% by end of FY19E.
- Asset quality worsened, with fresh slippages growing at 57% QoQ to INR 16.24bn. This includes an addition of INR 5bn to an old NPA in oil sector due to devolvement of NCLT proceedings; INR 4.6bn slippage from an infra-railway company where recovery may not happen soon; INR 2.86bn from one road project of IL&FS; INR 1.3bn from a power project in Chennai which is struck in a family dispute and resolution is expected soon and INR 1.4bn from a sugar manufacturing company.
- Recoveries in the current quarter stood at INR 2.31, including INR 946mn from an NCLT account. The management expects recoveries of INR 2.65bn and INR 4-5bn in 3QFY19 and 4QFY19 respectively.
- GNPAs spiked to INR 123bn, taking the GNPA ratio to 7.16% (up by 49bps YoY). The overall stressed assets, however, fell by 1.1% YoY to INR 138bn; and as a % of gross advances stood at 8.02%, vs. 9.69% in 2QFY18. The management has reemphasized that, going forward fresh slippages would be limited to INR 10-12bn per quarter over 3QFY19E and 4QFY19E, keeping overall GNPAs at ~6% and NNPAAs at 3.5-3.6% by FY19E, from the current levels of 7.16% and 4.23% respectively.
- Provisions spiked by 34.9% YoY to INR 10bn, due to higher slippages. PCR fell to 60.8% from 65.4% in 2QFY18. In regard to the carry forward of MTM losses and gratuity provision for 4 quarters from 4QFY18, the bank has a balance of INR 3.56bn and INR 0.08bn respectively to be provided for in the coming quarters in FY19E, which could continue to put pressure on profits. The management has also guided for a targeted PCR of 62-63% by FY19E.
- Despite a 6.34% YoY growth in fee income, Other Income dropped by 40.1% YoY to INR 4.28bn, owing to a decline in profit on sale of investments and forex income. Operating profit de-grew by 13.4% YoY to INR 11.9bn on account of muted growth in NII and de-growth in other Income. Further, due to higher provisions PAT tanked by 66.7% YoY to INR 1.5bn (lower than CSEC's estimate of 4.2bn). Cost to Income ratio worsened to 44.8%, up by 575bps YoY and 259 bps QoQ.

Valuation: Superior asset quality amongst its PSU peers, strong loan growth trajectory coupled with lower costs and margin expansion paints a positive outlook for the bank. Though slippages were higher this quarter, which limited the expansion in margins (due to interest reversal), we gain comfort from healthy cash recoveries and >60% provision coverage. Hence, we maintain a BUY rating with a revised target price of INR 304, assigning a P/ABV of 0.9X FY20E.

Risks: Fresh Slippages from stressed sectors, recoveries being delayed and restructuring of PSU Banks by government.

Results Summary 2QFY19

Y/E March (INR bn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
Net Interest Income	17.31	15.44	12.1%	18.07	-4.2%
Other Income	4.28	7.15	-40.1%	4.40	-2.6%
Pre Provisioning Profit	11.91	13.76	-13.4%	12.98	-8.2%
PAT	1.50	4.52	-66.7%	2.09	-28.3%
Cost / Income (%)	44.84	39.09		42.25	
Gross NPA (%)	7.16	6.67		7.20	
Net NPA (%)	4.23	3.41		3.79	
Prov Coverage ratio (%)	60.82	65.40		64.38	
CAR (%)	12.73	13.16		12.77	

DISCLOSURES/ APPENDIX

I. ANALYST CERTIFICATION

I, **Keerthi.S** hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report, (2) No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by Cholamandalam Securities Limited or its Group/associates companies. (3) has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

II. ISSUER SPECIFIC REGULATORY DISCLOSURES, Unless specifically mentioned in Point No. 9 below:

1. The Research Analyst(s), Cholamandalam Securities Limited (CSL), Associate of Analyst or his relative does not have any financial interest in the company(ies) covered in this report.
2. The Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively do not hold more than 1% of the securities of the company (ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
3. The Research Analyst, his associate, his relative and CSL do not have any other material conflict of interest at the time of publication of this research report.
4. The Research Analyst, CSL and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
5. The Research Analyst, CSL or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report. \
6. CSL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
7. The Research Analyst has not served as an Officer, Director or employee of the company (ies) covered in the Research report.
8. The Research Analyst and CSL has not been engaged in market making activity for the company(ies) covered in the Research report.
9. Details CSL, Research Analyst and its associates pertaining to the companies covered in the Research report:

Sr.No.	Particulars	Yes/No
1	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CSL	No
2	Whether Research Analyst, CSL or its associates or relatives of the Research Analyst associates collectively hold more than 1% of the company(ies) covered in the Research report	No
3	Whether compensation has been received by CSL or its associates from the company(ies) covered in the Research report	No
4	CSL or its associates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5	Research Analyst, his associate, CSL or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve month	No

10. There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities.

STOCK RATINGS

BUY : The stock's total return is expected to exceed 15 % over the next 12 months.

OUT PERFORMER: The stock's total return is expected to be within 5-15% over the next 12 months.

MARKET PERFORMER : The stock's total return is expected to be between -5% to +5% over the next 12 months.

UNDER PERFORMER: The stock's total return is expected to be between -15% to -5% over the next 12 months.

SELL: The stock's total return is expected to more than -15% over the next 12 months.

III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable, but we do not represent that it is accurate or complete, and one should exercise due caution while acting on it. Descriptions of any company or companies or their securities mentioned herein are not complete and this document is not, and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments.

Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to CSL or its associates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof.

Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the Report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

CSL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, CSL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or associates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by CSL however, compensation may relate to the revenue of CSL, of which sales and trading are a part. Research analysts and sales persons of CSL may provide important inputs to its affiliated company(ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. CSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc

CSL and its associates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the Company may or may not subscribe to the views expressed therein.

CSL, its associates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall CSL, any of its associates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The Company accepts no liability whatsoever for the actions of third parties.

The Report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Report refers to website material of the Company, the Company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the Company shall be at your own risk and the Company shall have no liability arising out of, or in connection with, any such referenced website

CSL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall the CSL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by CSL through this presentation.

Neither CSL, nor any of its other group companies or associates, shall be responsible for any decisions taken on the basis of this report. Investors are advised to consult their Investment and Tax consultants before taking any investment decisions based on this report.

RESEARCH			
Sathyanarayanan M	Consumption	+91-44 - 3000 7361	sathyanarayananm@chola.murugappa.com
Mugilan K	Technicals	+91-44 - 3000 7353	mugilank@chola.murugappa.com
Keerthi S	Banking & Financial Services	+91-44 - 3000 7363	keerthi@chola.murugappa.com
Sai Lavanya K	IT, Auto & Auto Ancillary	+91-44 - 3000 7266	sailk@chola.murugappa.com
Muthu Kumar J	Associate- Research	+91-44 - 3000 7360	muthukumarj@chola.murugappa.com
Sahil Jain	Associate - Cement	+91-44 - 3000 7360	sahilj@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesk Katariya	Mumbai	+91-9860297739	bhaveskgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

*Employees of Business Partner - RCCR