

Indian Bank

Sensex: 35631

CMP: INR 230

Target: INR 335



BFSI

Indian Bank (IB) reported NII of INR 17.3bn (12% y-o-y & -4% q-o-q) led by loan book growth of (19% y-o-y & 5% q-o-q) to INR 1.7bn. Margins for the quarters stood at 2.97% (12bps y-o-y & -17bps q-o-q). Weak treasury gains led to decline in other income to INR 4.3bn (-40% y-o-y & -3% q-o-q) and PPOP income of INR 11.9bn (-13% y-o-y & -8% q-o-q). Elevated provision of INR 10bn (35% y-o-y & -2% q-o-q) resulted in lower PAT of INR 1.5bn (-67% y-o-y & -28% q-o-q). GNPA / NNPA stood at 7.2% / 4.2% for the quarter respectively.

Asset Quality disappoints; PCR declines by 356bps q-o-q to 61%.

Asset quality deteriorated on a sequential basis with GNPA / NNPA in absolute terms stood at INR 123.3bn / 70.6bn (4% / 18% q-o-q) respectively. GNPA (%) / NNPA (%) for the quarter stands at 7.2 / 4.2 (-4bps / 44bps q-o-q) respectively. Corporate & Overseas, MSME, agriculture and retail formed 12.7% / 4.51% / 1.9% / 2.3% GNPA respectively. Slippages stood at INR 22.5bn (56% q-o-q) while write offs and assigned to ARC for the quarter rose significantly to INR 14.7bn (119% q-o-q). Addition of INR 5bn to an old NPA in oil sector was due to devolvement of NCLT proceedings, INR 4.6bn slippage was from an infra-railway co. where recovery may not come 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 account. Within this, the bank was the sole lender for the sugar and power company and remaining was in consortium. Slippages in retail and SME were stable. The bank guided slippage run-rate to be ~INR 10-12bn each in Q3 & Q4 FY19 and GNPA/NNPA to decline below 7% & 3.6% respectively. The SMA 2 book stands at INR 37bn (INR 30.7 in Q1 FY19). PCR (incl/excl tech. w/off) declined to 61% / 43% (-356bps / -652bps q-o-q) respectively. Standard restructured book declined and stood at INR 14.8bn (-26% q-o-q). The bank expects recoveries of INR 6bn from the power sector and has an NCLT exposure of INR 9.4bn (65% PCR).

Credit growth remains strong, NIMs contracted sequentially

Global gross advances stood at INR 1.7tn (19% y-o-y & 5% q-o-q) led by RAM credit which stood at INR 969bn (27% y-o-y & 9% q-o-q) and comprises 56% of the overall global gross advances as against 53% a year ago. Within domestic advances, Retail / Agriculture / MSME sector grew by 33%/28%/20% y-o-y respectively. Corporate segment stood at INR 682bn (11% y-o-y & -1% q-o-q) and comprise 40% of the overall global gross advances. NII for the quarter stood at INR 17.3bn (12% y-o-y & -4% q-o-q). Domestic NIMs contracted by 13bps q-o-q to 3.01% largely due to absence of interest recovery on resolution of a

large steel account in Q1 FY19 and INR 1bn interest reversal on slippages. Global NIMs stood at 2.97%. Other Income declined and stood at INR 4.3bn (-40% y-o-y & -3% q-o-q) largely due to weak treasury income of INR 5mn (-98% y-o-y & -71% q-o-q). Deposits stood at INR 2.2tn (10.5% y-o-y & 4% q-o-q) while CASA ratio declined from 37.9% in Q1 FY19 to 36.1% in Q2 FY19

Other Highlights

- In Q2 FY19, the bank added 8 branches taking the total tally to 2830 branches.
- CASA in absolute terms stood at INR 770bn (-0.4% q-o-q & 7% y-o-y).
- As per Basel III norms, CAR stands at 12.73% at the end of Q2 FY19 with tier I capital at 11.53%.
- The proportion of MCLR and base rate linked loans is 60% and 18% respectively.

Guidance:

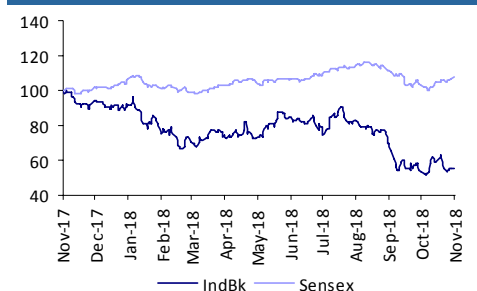
1. Upgrades and recoveries : INR 2.6bn in Q3FY19 and INR 4-5bn in Q4FY19
2. Credit cost : 1.6-1.8%
3. PCR : 63-65%
4. Margins : ~3%

Outlook & Valuation

By FY19E, we expect FPO of INR 10.4bn to reduce the government's shareholding from 82% to ~75%. We expect higher provisioning going ahead and have reduced our NP estimates for FY19E & FY20E to INR 10bn / INR 20bn (-40% / -15%) respectively. While the asset quality has been disappointing the growth potential and the focus on RAM credit remains intact. Moderation of fresh slippages and high recoveries remains a key monitor able going ahead which will drive earnings growth going forward. Also, uncertainties over merger of PSU banks remain an overhang on the stock. We expect FY20E ROE to decline from 10.6% to 9.5% and have revised our FY20E target multiple from 0.9x to 0.8x and maintain our BUY rating on the stock with a TP of INR 335 from our earlier TP of INR 396.

Shareholding (%)	Sep-18
Promoters	81.73
FPI's / FII's	5.26
DII's	9.88
Others	3.13

Relative Price Performance



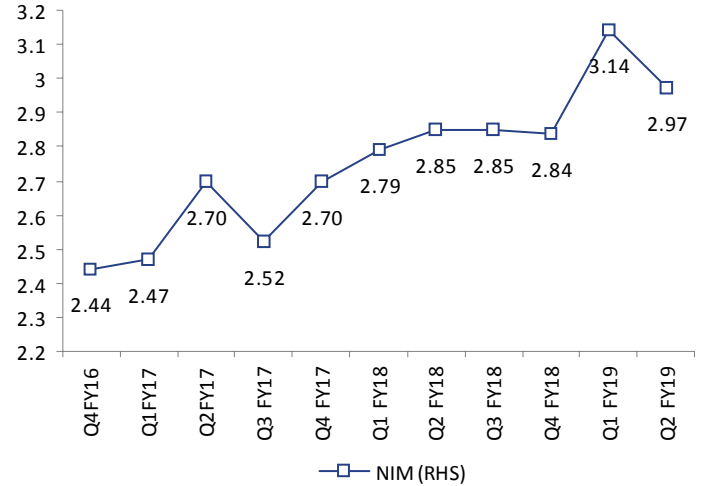
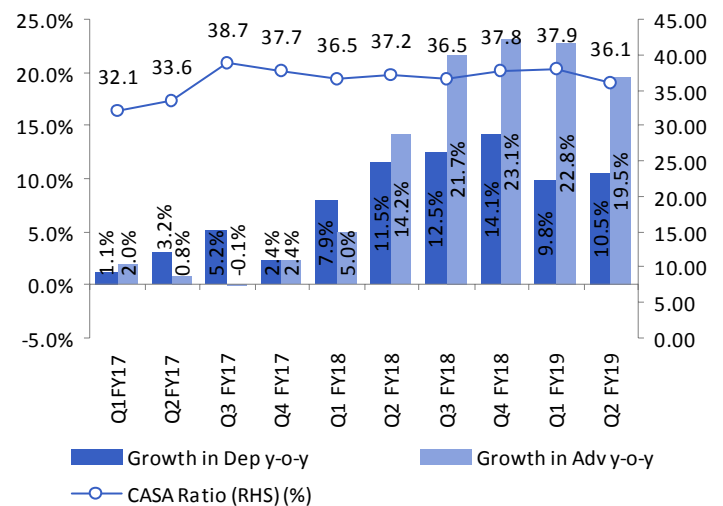
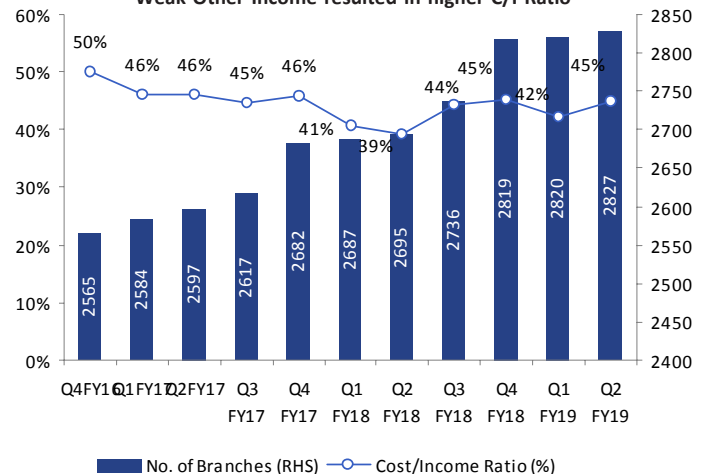
Key Data	
BSE Code	532814
NSE Symbol	INDIANB
Bloomberg Code	INBK IN
Reuters Code	INBA.BO
Shares Outstanding (mn)	480
Face Value	10
Mcap (INR bn)	110.08
52 Week H/L	421/211
2W Avg. Vol, NSE (000)	2223.51
CMP	229
Beta	1.75

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
Interest income	160397	171136	191854	220159
Interest Expended	108937	108501	120312	139363
Net interest income	51461	62636	71542	80796
Growth	15.7%	21.7%	14.2%	12.9%
NIM	2.6%	2.8%	2.8%	2.8%
APAT	14057	12773	9679	20036
Growth	97.6%	-9.1%	-24.2%	107.0%
Adj. EPS (INR)	29.3	26.6	18.5	38.3
BVPS (INR)	357.3	384.1	389.7	419.1
P/BV (x)	0.78	0.80	0.59	0.55
Net NPA (%)	4.4%	3.8%	3.9%	3.4%
RoA	0.7%	0.5%	0.4%	0.7%
RoE	8.4%	7.2%	5.0%	9.5%

Quarterly Financials

Particulars (INR mn)	Q2 FY19	Q2 FY18	Q1 FY19	γ-o-γ	q-o-q	H1 FY19	H1 FY18	γ-o-γ
Interest Earned	47008	41596	46922	13%	0%	93930	82955	13%
Interest Expended	29699	26159	28852	14%	3%	58551	52924	11%
Net Interest Income	17309	15437	18070	12%	-4%	35379	30031	18%
NIM (%)	2.97	2.85	3.14	12 bps	-17 bps	NA	NA	NA
Other Income	4283	7146	4398	-40%	-3%	8681	13667	-36%
Net Total Income	21593	22583	22468	-4%	-4%	44060	43698	1%
Operating Expenses	9682	8827	9492	10%	2%	19174	17418	10%
Employee Cost	5320	5097	5543	4%	-4%	10864	10207	6%
Other opex exp.	4362	3729	3949	17%	10%	8311	7211	15%
Cost/Income Ratio (%)	45%	39%	42%	575 bps	259 bps	44%	40%	366 bps
Operating Profits	11910	13756	12976	-13%	-8%	24886	26280	-5%
Provisions	10043	7446	10296	35%	-2%	20339	14601	39%
Profit Before Tax	1867	6311	2680	-70%	-30%	4547	11679	-61%
Provision for Tax	366	1795	587	-80%	-38%	952	3439	-72%
Net Profit	1501	4515	2093	-67%	-28%	3595	8239	-56%
EPS	3.13	9.40	4.36	-67%	-28%	7.49	17.15	-56%
Equity	4803	4803	4803	0%	0%	4803	4803	0%
Gross Advances	1723220	1442060	1643810	19%	5%	1723220	1442060	19%
Deposits	2195230	1986690	2101700	10%	4%	2195230	1986690	10%
C/D Ratio (%)	78%	73%	78%	591 bps	29 bps	78%	73%	591 bps
GNPA	123336	96239	118276	28%	4%	123336	96239	28%
NNPA	70599	47482	59986	49%	18%	70599	47482	49%
GNPA (%)	7.2	6.7	7.2	49 bps	-4 bps	7.2	6.7	49 bps
NNPA (%)	4.2	3.4	3.8	82 bps	44 bps	4.2	3.4	82 bps
PCR (%) (incl. tech/off)	60.8	65.4	64.4	-458 bps	-356 bps	60.8	65.4	-458 bps
PCR (%) (excl. tech/off)	42.8	50.7	49.3	-790 bps	-652 bps	42.8	50.7	-790 bps
RoA (%)	0.2	0.8	0.3	-56 bps	-10 bps	0.5	0.3	24 bps
CASA (%)	36.1	37.2	37.9	-102 bps	-175 bps	36.1	37.2	-102 bps

Source: Company, SPA Research

NIMs declined sequentially

Credit growth intact; CASA Ratio declines

Weak Other Income resulted in higher C/I Ratio


Financials

Income Statement

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
Interest income	160397	171136	191854	220159
<i>Growth (%)</i>	-1%	7%	12%	15%
Interest Expended	108937	108501	120312	139363
Net interest income	51461	62636	71542	80796
<i>Growth</i>	16%	22%	14%	13%
Other Income	22114	24058	20596	22731
Net Income	73574	86694	92137	103528
Operating Expenditure	33567	36684	38956	42664
Pre Provisioning Profit	40007	50010	53181	60864
Provisions & Contingencies	22425	39063	40276	34149
PBT	17582	10947	12906	26715
Tax	3526	(1826)	3226	6679
PAT	14057	12773	9679	20036
<i>Growth</i>	97.6%	-9.1%	-24.2%	107.0%
EPS (INR)	29.3	26.6	18.5	38.3

Balance Sheet

Y/E March (INR mn)	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS				
Equity Share Capital	4803	4803	5234	5234
Reserves	166817	179681	198739	214100
Total Shareholders Funds	171620	184484	203973	219334
Total Deposits	1825093	2082942	2362291	2719816
<i>Growth</i>	2%	14%	13%	15%
Borrowings	126369	197602	187722	197108
Other Liabilities & Provisions	59250	62130	59301	58627
Total Liabilities	2182331	2527158	2813286	3194885
APPLICATION OF FUNDS				
C/B with RBI and Call Money	100417	129278	154434	161396
Investments	675518	713978	690229	713630
Net Advances	1276993	1565689	1845866	2200823
<i>Growth</i>	-1%	23%	18%	19%
Fixed Assets	34426	34183	34525	35216
Other Assets	94978	84030	88231	83820
Total Assets	2182331	2527158	2813286	3194885

Key Ratios

Y/E March	FY17	FY18	FY19E	FY20E
Per Share Data (INR)				
EPS	29	27	18	38
BVPS	357	384	390	419
ABVPS	241	260	254	275
DPS	6.0	5.3	3.7	7.7
Profitability Ratios				
Yield on Advances	8.9%	8.3%	8.2%	8.3%
Cost of Deposits	6.2%	5.5%	5.4%	5.5%
Net Interest Margin (Calc)	2.6%	2.8%	2.8%	2.8%
RoA	0.7%	0.5%	0.4%	0.7%
RoE	8.4%	7.2%	5.0%	9.5%
Balance Sheet Ratios				
Credit/Deposit Ratio	70.0%	75.2%	78.1%	80.9%
Investment/Deposit Ratio	37.0%	34.3%	29.2%	26.2%
CASA Ratio	37.1%	37.8%	35.5%	34.9%
Capital Adequacy Ratio (CAR)	13.6	12.6	13.1	12.1
Tier I	12.2	11.3	11.7	10.7
Asset Quality Ratios				
GNPA (INR mn)	98651	119901	129388	142100
NNPA (INR mn)	56066	59596	71163	75313
Gross NPA	7.5%	7.4%	6.8%	6.3%
Net NPA	4.4%	3.8%	3.9%	3.4%
PCR (incl. tech w/off)	55%	61%	63%	65%
Efficiency Ratios				
Cost to Income Ratio	45.6%	42.3%	42.3%	41.2%
Business per Employee (in INR mn)	148	184	204	228
Profit per Employee (in INR mn)	0.7	0.6	0.5	0.9
Valuation Ratios				
P/E (x)	9.5	11.5	12.4	6.0
P/BV (x)	0.8	0.8	0.6	0.5
P/ABV (x)	1.2	1.2	0.9	0.8
Dividend Yield	2.1%	1.7%	1.6%	3.3%

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