

# Indian Bank

Sector: Banks /Mid-Cap | Earnings Update – 3QFY19

**BUY**

29 January 2019

**Background:** Indian Bank features among the mid-sized banks in the public sector space, as of 3QFY19 the bank had business of about INR 4.03tn. The Bank operates through a network of 2842 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.

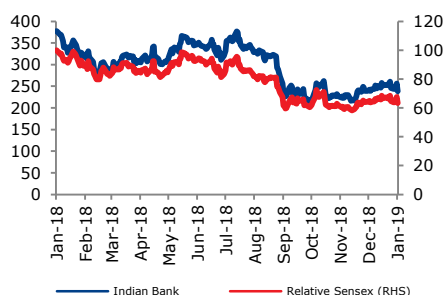
Sensex	35,614
Nifty	10,653
Price	INR 221
Target Price	INR 251
Recommendation	BUY
52 Week High/Low	INR 406/211
Bloomberg / Reuters	INBK IN / INBA.BO
Equity (shares in mn)	480.29
Mkt. Cap in bn	INR 106.14/ \$ 1.49
Avg. Daily Vol. ('000)	2,077.62
Avg. Daily Vol. (mn)	INR 459.15 / \$ 6.45

Shareholding	Dec 17	Sep 18	Dec 18
Promoters (%)	81.87	81.73	81.73
FII (%)	7.58	4.52	5.19
DII (%)	7.71	10.74	10.17
Others (%)	2.84	3.01	2.91
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2019E	2020E	2021E
Net Interest Inc	65.5	68.4	74.5
Other Inc	17.7	20.6	24.0
Pre Prov Profit	44.1	47.3	54.0
PAT	3.7	7.6	13.2
EPS	7.6	15.9	27.5
EPS growth (%)	(70.9)	108.1	73.2
PE	29.0	13.9	8.0
P /ABV	0.9	0.8	0.7
Div Yield (%)	2.3	2.5	2.5
ROA (%)	0.1	0.3	0.4
ROE (%)	2.0	4.1	6.8
Tier – 1 (%)	11.5	11.2	10.9
CAR (%)	13.1	12.7	12.1

Performance %	1M	6M	12M
Indian bank	-0.1	9.0	-36.8
Sensex	1.6	6.9	-0.1



## Advances growth misses expectations; GNPA's spike due to IL&FS exposure

- In 3QFY19, Indian bank's total advances grew by 15% YoY (missing CSEC estimate of 18%) to INR 1.77tn. The domestic loan book grew by 15.6% YoY (2.8% QoQ), driven by growth in RAM (Retail, Agricultural and MSME) segment, which was up by 36% YoY (2.8% QoQ). However, Corporate & Commercial segment de-grew by 4.7% YoY. Management has guided loan book growth of ~20% in FY19E and 15-18% in FY20E, driven entirely by the RAM segment.
- Overall deposits recorded moderate growth of 9.4% YoY (missing CSEC estimate of 10.6%) and stood at INR 2.26tn, led by growth in term-deposits (11.2% YoY). CASA however, grew at slower pace of 6.4% (1.8% QoQ). Savings grew by 8.6% YoY; while demand deposits de-grew by 3.9% YoY. Consequently, CASA ratio declined to 35.7% vs 36.7% in 3QFY18.
- Net interest income (NII) saw a muted growth of 5.8% YoY (flat QoQ) and stood at INR 17.17bn (vs. CSEC estimate of INR 16.2bn), due to higher interest reversals on account of higher slippages this quarter as expected. Also, yield on advances dipped by 14bps YoY (flat QoQ) and stood at 8.41%. As the cost of deposits spiked by 12bps YoY, NIMs compressed by 3bps YoY to 2.88%. The management has guided that NIMs would be >3% by end of FY19E.
- Asset quality worsened, with fresh slippages growing at 8.9% QoQ to INR 17.7bn. This includes slippages from 4 accounts from the IL&FS group, worth INR 6.64bn and 2 other corporate accounts. The management has highlighted that the IL&FS accounts slipped only due to funds from respective escrow accounts not being released to the bank, due to resolution proceedings in the group.
- Recoveries in the current quarter stood at INR 2.23bn. The management expects recoveries of INR 8bn in 4QFY19 including pending NCLT cases.
- GNPAs spiked to INR 132bn, taking the GNPA ratio to 7.46% (up by 119bps YoY). The overall stressed assets spiked by 8.8% YoY to INR 148bn; and as a % of gross advances stood at 8.36%, vs. 8.88% in 3QFY18. The management has reemphasized that, going forward fresh slippages would be limited to INR 10-12bn per quarter over 4QFY19E and 1QFY20E, keeping overall GNPA's at ~6% and NNPA's at 3.5-3.6% by FY19E, from the current levels of 7.46% and 4.42% respectively.
- Provisions remained flat YoY at INR 9.24bn. PCR however, fell to 60.9% from 64.7% in 3QFY18. The management has guided for a targeted PCR of 65% by FY20E.
- During the quarter, the bank recorded a PSLC sale worth of INR 870mn; while fee income remained flat at INR 2.6bn. This coupled with low profit on sale of investments and lower than expected recoveries dragged other income, which fell by 19% YoY.
- Operating profit de-grew by 5.2%YoY to INR 11.46bn on account of muted growth in NII and de-growth in other Income. Further, due to higher provisions PAT tanked by 49.8% YoY to INR 1.52bn (higher than CSEC's estimate of INR 1.47bn). Cost to Income ratio worsened to 46.96%, up by 265bps YoY and 212 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 target price of INR 251, assigning a P/ABV of 0.8X FY21E.

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

## Results Summary 3QFY19

Y/E March ( INR bn)	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth
Net Interest Income	17.17	16.23	5.8%	17.31	-0.8%
Other Income	4.45	5.49	-18.9%	4.28	3.9%
Pre Provisioning Profit	11.47	12.09	-5.2%	11.91	-3.7%
PAT	1.52	3.03	-49.8%	1.50	1.4%
Cost / Income (%)	46.96	44.32		44.84	
Gross NPA (%)	7.46	6.27		7.16	
Net NPA (%)	4.42	3.30		4.23	
Prov Coverage ratio (%)	60.90	64.73		60.82	
CAR (%)	12.67	12.44		12.73	

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