

Steady performance; lower PCR stays key concern...

Indian Bank reported a healthy operational performance at ₹ 1374 crore, on the back of 58% YoY growth in other income (treasury gain & PSLC sale). NII came in flat YoY at ₹ 1785 crore due to a fall in yields & CASA ratio. Accordingly, margins contracted 10 bps QoQ to 2.85%. Lower-than-expected provision of ~₹ 795 crore & healthy operating profit led to 75% YoY PAT growth to ₹ 365 crore. Growth in advances remained steady at 12.3% YoY to ₹ 1.77 lakh crore, led by growth in retail & agri. However, corporate book de-grew ~8% QoQ. Deposit accretion stayed healthy at ~15% YoY. High traction was seen in term deposit while CASA traction remained muted. Accordingly, CASA ratio declined 108 bps QoQ to 33.4%.

Slippages continue to stay elevated at ₹ 1035 crore though in line with management guidance. Corporate slippages stay high at ₹ 430 crore led by slippages in steel trading, road asset & hotel companies while retail & MSME slippages were steady at ₹ 228 crore & ₹ 217 crore, respectively. Absolute GNPA stayed broadly stable QoQ at ₹ 13511 crore as fresh slippages were offset by equivalent recovery. Accordingly, GNPA ratio was at 7.33% vs. 7.11% in Q4FY19. The bank has exposure to DHFL worth ₹ 1482 crore, which is currently categorised as SMA. Total SMA (1 & 2) as of Q1FY20 was at ₹ 4600 crore. The management expects DHFL issue to be resolved by Q3FY20.

Cautious on relatively lower PCR

The bank's exposure to NCLT account as of Q1FY20 was at ₹ 4586 crore, which has adequate provisions coverage of 83.6%. Going ahead, management has guided for a quarterly run rate of ₹ 800-1000 crore in slippages, while recovery of ₹ 3500 crore is targeted in FY20E. Lower coverage ratio at 66.34% compared to its peers remains a discomfort & management's target to increase PCR to 70% will entail higher credit cost. Apart from this, any haircut on recently cropped up stress asset (DHFL- ₹ 1482 crore)(Reliance Capital- ₹ 245 crore) which is not classified as NPA pose a risk of higher provisions impacting future earnings

Valuation & Outlook

Healthy balance sheet growth & adequate capital adequacy remains a fundamental strength. However, with lower provision coverage & persisting asset quality issues, Indian Bank's credit cost is expected to remain elevated for FY20E and FY21E thereby impacting earnings and book value. Accordingly, we cut our earnings estimates by 17%, 15% for FY20E, FY21E & ABV estimates by 12% each for FY20E, FY21E, respectively. Apart from this, any haircut for exposure to tainted companies with lower coverage could lead to more pressure on earnings. Consequently, we expect return ratios to remain subdued with RoA of 0.5% in FY21E. Accordingly, we lower our target multiple from 1.0x to 0.8x on FY21E ABV & thereby downgrade our target to ₹ 220 (earlier ₹ 300). Consequently, we change our recommendation to **HOLD** from BUY.



Particulars

Particulars	Amount
Market Capitalisation	₹ 9683 Crore
GNPA (Q1FY20)	₹ 13541 crore
NNPA (Q1FY20)	₹ 6824 crore
NIM (Q1FY20)	2.85
52 week H/L	380 /160
Net Worth	₹ 20042 Crore
Face value	₹ 10
DII Holding (%)	10.9
FII Holding (%)	4.2

Key Highlights

- Lower coverage towards tainted companies pose a threat to earnings
- The management reiterated credit growth guidance of 15% though it expects corporate sector to grow 12%
- Downgrade to HOLD from BUY with a revised target price of ₹ 220 (earlier ₹ 300)

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Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	5146	6264	7018	7613	8639	11%
PPP	4001	5001	4881	5372	6151	12%
PAT	1406	1259	322	1006	1831	138%
ABV (₹)	226.5	245.2	226.1	230.3	271.9	
P/E	8.0	8.9	34.9	11.2	6.1	
P/ABV	1.0	1.0	1.0	1.0	0.9	
RoA	0.7	0.5	0.1	0.3	0.5	
RoE	8.4	7.1	1.7	5.1	8.8	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	1,785	1,808	1,807	-1.2	1,763	1.2	NII growth impacted led by decline in margins
NIM (%)	2.9	3.0	3.1	-29 bps	3.0	-10 bps	Higher accretion of deposit led to decline in margins
Other Income	695	574	440	57.9	570	21.9	Treasury gains and income from PSLC led to healthy growth in other income
Net Total Income	2,480	2,382	2,247	10.4	2,333	6.3	
Staff cost	670	576	554	20.9	572	17.2	
Other Operating Expenses	436	494	395	10.3	516	-15.5	
PPP	1,374	1,312	1,298	5.9	1,245	10.3	
Provision	795	1,053	1,030	-22.8	1,639	-51.5	Provision remained broad based; declined QoQ led by lower slippage
PBT	579	259	268	116.2	-393	-247.3	
Tax Outgo	214.0	57.0	58.7	264.7	-203.7	NM	
PAT	365.4	202.1	209.3	74.6	-189.8	-292.5	Healthy other income and lower provision led to surge in PAT
Key Metrics							
GNPA	13,541.1	13,453.5	11,827.6	14.5	13,353.5	1.4	Slippages run rate continued at ₹ 1035 crore
NNPA	6,824.2	6,854.1	5,998.6	13.8	6,793.1	0.5	
Total Restructured assets	2,631.0	2,610.0	2,006.0	31.2	2,631.0	0.0	Exposure to DHFL classified as SMA 1 with exposure at ₹ 1480 crore
Advances	177,581.0	184,933	158,062	12.3	181,262	-2.0	Retail, agri and MSME segment contribute to credit growth. Growth in corporate segment remained muted
Deposits	241,457.0	246,917	210,170	14.9	242,076	-0.3	Deposit growth remains healthy led by higher accretion in term deposits

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY20E			FY21E			
	Old	New	% Change	Old	New	% Change	
Net Interest Income	7,977	7,613	-4.6	9,118	8,639	-5.3	
Pre Provision Profit	5,666	5,372	-5.2	6,548	6,151	-6.1	
NIM (%)	2.9	2.9	0 bps	3.0	2.8	-14 bps	
PAT	1,212	1,006	-17.0	2,154	1,831	-15.0	
ABV (₹)	255.7	226.1	-11.6	309.3	271.9	-12.1	Slippage from stressed corporate to keep provision elevated

Source: Company, ICICI Direct Research

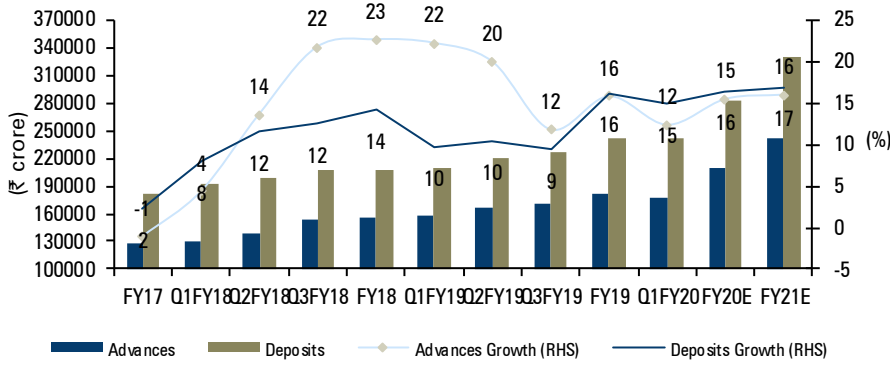
Exhibit 3: Assumptions

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	22.6	15.8	15.5	16.0	16.0	16.2
Deposit Growth (%)	14.1	16.2	16.5	16.9	16.9	17.2
CASA ratio (%)	37.0	34.5	34.5	34.5	34.5	34.7
NIM Calculated (%)	2.9	2.9	2.8	2.8	2.9	3.0
Cost to income ratio (%)	42.3	45.2	45.6	45.4	44.2	43.8
GNPA (₹ crore)	11,990	13,353	14,399	13,914	12,828	11,851
NNPA (₹ crore)	5,960	6,793	7,212	6,658	6,199	5,394
Slippage ratio (%)	3.9	4.1	2.3	1.6	1.8	1.6
Credit cost (%)	2.2	2.0	1.6	1.2	1.6	1.3

Source: Company, ICICI Direct Research

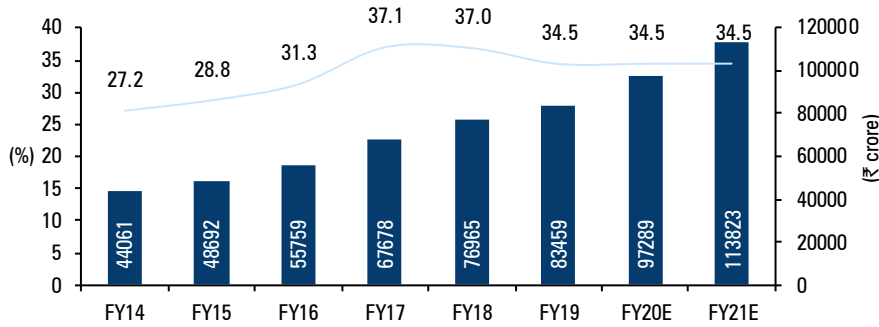
Story in Charts

Exhibit 4: Business traction to pick up gradually



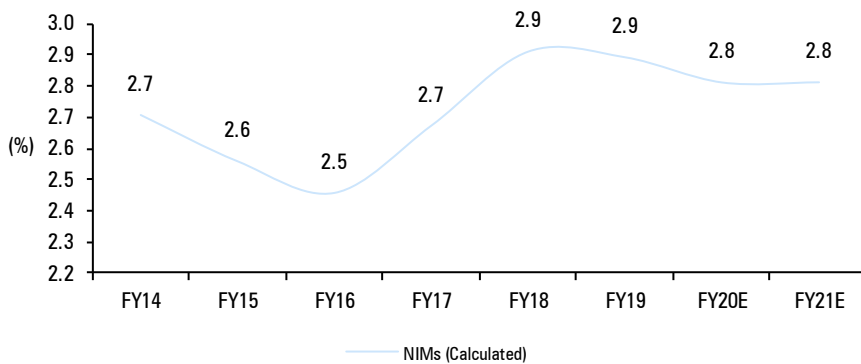
Source: Company, ICICI Direct Research

Exhibit 5: CASA ratio to remain stable



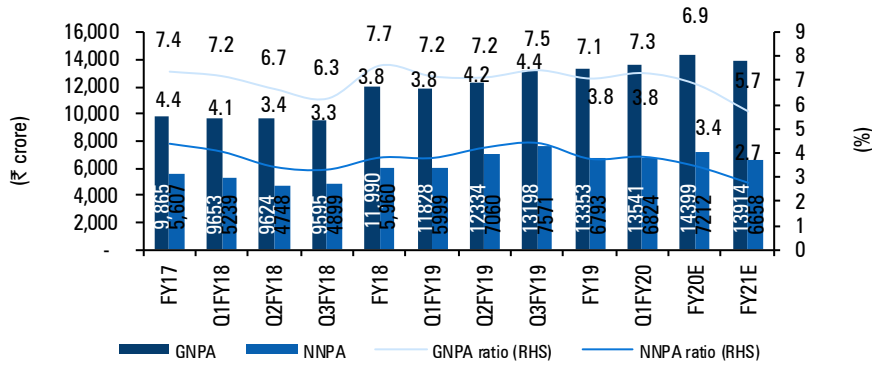
Source: Company, ICICI Direct Research

Exhibit 6: Margins to remain stable, going ahead



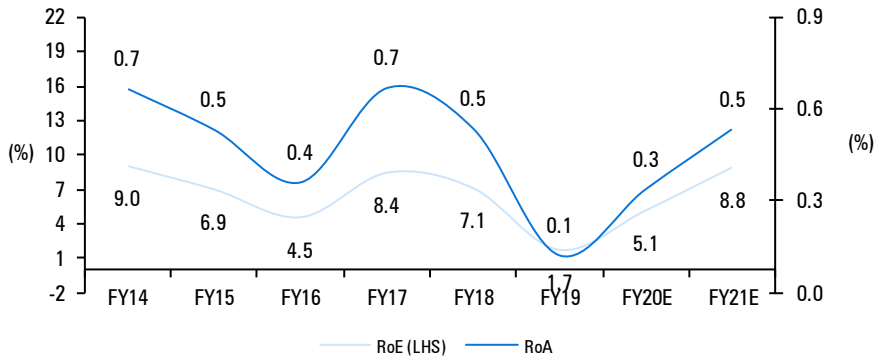
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality to improve, going ahead



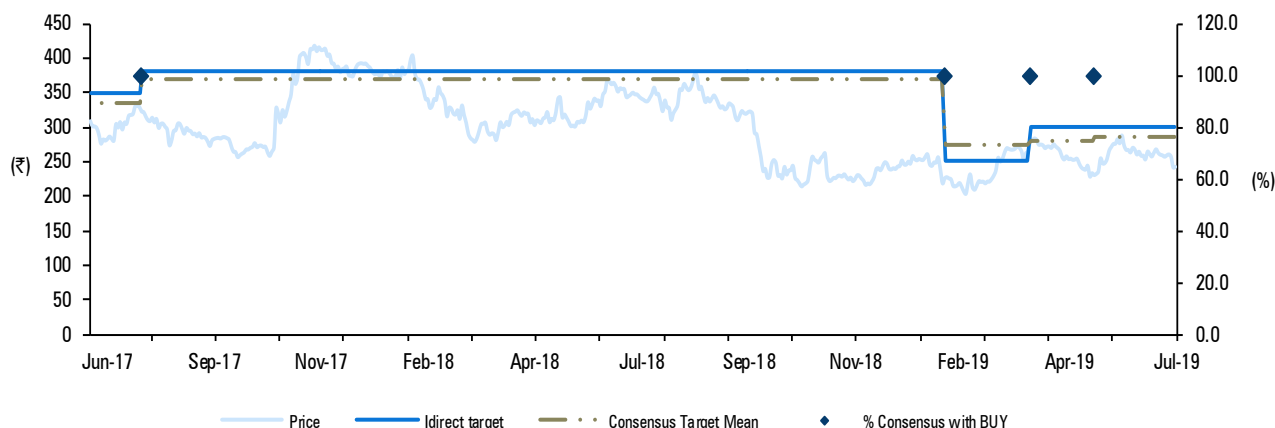
Source: Company, ICICI Direct Research

Exhibit 8: Return ratio to recover gradually



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	31-03-2019	79.62%	391.37M	0
2	HDFC Asset Management Co., Ltd.	31-03-2019	4.30%	21.15M	+0.21M
3	L&T Investment Management Limited	31-03-2019	2.60%	12.80M	+0.42M
4	Life Insurance Corporation of India	31-03-2019	1.85%	9.08M	0
5	HSBC Global Asset Management (Hong Kong) Limited	31-05-2019	1.73%	8.50M	0
6	The Vanguard Group, Inc.	31-05-2019	0.68%	3.35M	+0.15M
7	Dimensional Fund Advisors, L.P.	31-05-2019	0.56%	2.74M	0
8	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-05-2019	0.41%	2.03M	0
9	Kotak Mahindra Asset Management Company Ltd.	31-05-2019	0.37%	1.81M	+0.38M
10	IDFC Asset Management Company Private Limited	31-05-2019	0.34%	1.69M	+0.44M

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Aditya Birla Sun Life AMC Limited	+3.45M	+0.87M	Capital Investment Trust Corporation	-1.70M	-0.48M
IDFC Asset Management Company Private Limited	+1.76M	+0.44M	Danske Capital	-0.61M	-0.15M
L&T Investment Management Limited	+1.70M	+0.42M	Reliance Nippon Life Asset Management Limited	-0.58M	-0.15M
Kotak Mahindra Asset Management Company Ltd.	+1.53M	+0.38M	Principal Global Investors (Hong Kong) Limited	-0.43M	-0.12M
Norges Bank Investment Management (NBIM)	+1.21M	+0.35M	Candriam Belgium S.A.	-0.39M	-0.10M

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	81.7	81.7	81.7	81.5	79.6
FII	5.3	4.5	4.5	5.1	4.2
DII	10.5	10.7	10.8	10.7	10.9
Others	2.5	3.0	2.9	2.8	5.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ Crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	17,114	19,185	21,815	25,232
Interest Expended	10,850	12,167	14,203	16,593
Net Interest Income	6,264	7,018	7,613	8,639
growth (%)	21.7	12.0	8.5	13.5
Non Interest Income	2406	1883	2254	2622
Net Income	8669	8901	9867	11261
Staff cost	2100	2159	2299	2436
Other Operating expense	1568	1861	2196	2675
Operating profit	5001	4881	5372	6151
Provisions	3925	4596	3975	3535
PBT	1076	284	1397	2616
Taxes	-183	-38	391	785
Net Profit	1259	322	1006	1831
growth (%)	-10.4	-74.4	212.4	82.0
EPS (₹)	26.2	6.7	20.9	38.1

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares (Crore)	48.0	48.0	48.0	48.0
EPS (₹)	26.2	6.7	20.9	38.1
BV (₹)	369.3	367.5	380.4	410.6
ABV (₹)	245.2	226.1	230.3	271.9
P/E	8.9	34.9	11.2	6.1
P/BV	0.6	0.6	0.6	0.6
P/ABV	1.0	1.0	1.0	0.9
Yields & Margins (%)				
Net Interest Margins	2.9	2.9	2.8	2.8
Yield on assets	8.0	7.9	8.1	8.2
Avg. cost on funds	4.9	4.9	5.1	5.1
Yield on average advances	8.3	8.3	8.4	8.5
Avg. Cost of Deposits	5.2	5.1	5.2	5.3
Quality and Efficiency (%)				
Cost to income ratio	42.3	45.2	45.6	45.4
Credit/Deposit ratio	75.2	74.9	74.2	73.6
GNPA	7.7	7.1	6.9	5.7
NNPA	3.8	3.7	3.4	2.7
ROE	7.1	1.7	5.1	8.8
ROA	0.5	0.1	0.3	0.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ Crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	480.3	480.3	480.3	480.3
Reserves and Surplus	17968.1	18908.4	19530.1	20976.8
Networth	18448.4	19388.7	20010.4	21457.0
Deposits	208294.0	242076.0	281949.6	329716.4
Borrowings	19760.2	12137.6	11697.9	11464.7
Other Liabilities & Provisions	6213.0	6463.1	6934.7	7023.7
Total	252,716	280,066	320,595	369,665
Applications of Funds				
Fixed Assets	3418.3	3961.4	4046.4	4149.4
Investments	71397.7	64992.2	74130.5	81078.2
Advances	156568.9	181261.9	209274.9	242675.0
Other Assets	8402.9	66.0	17120.8	23953.6
Cash with RBI & call money	12927.8	20020.4	16019.9	17805.7
Total	252,716	270,302	320,593	369,662

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	15.8	10.8	14.5	15.3
Advances	22.6	15.8	15.5	16.0
Deposit	14.1	16.2	16.5	16.9
Total Income	6.9	7.9	14.2	15.7
Net interest income	21.7	12.0	8.5	13.5
Operating expenses	9.3	9.6	11.8	13.7
Operating profit	25.0	-2.4	10.1	14.5
Net profit	-10.4	-74.4	212.4	82.0
Net worth	7.6	-0.5	3.5	7.9
EPS	(10.4)	(74.4)	212.4	82.0

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E		
Bank of Baroda (BANBAR)	104	140	Buy	39,948	-9.2	7.7	18.5	-11.3	13.5	5.6	0.9	1.3	1.0	-0.3	0.4	0.6	-5.8		9.7		
State Bank of India (STABAN)	299	400	Buy	266,980	-7.3	1.0	23.9	-41.0	308	12.5	2.5	2.1	1.6	-0.2	0.0	0.6	-3.0	0.5	10.8		
Indian Bank (INDIBA)	197	220	Hold	9,683	26.2	6.7	20.9	7.5	29.4	9.4	0.8	0.9	0.9	0.5	0.1	0.3	7.1	1.7	5.1		
Axis Bank (AXIBAN)	673	850	Buy	176,359	-1.0	22.2	28.3	-657.6	30.4	23.8	3.7	3.1	2.3	0.0	0.8	0.9	0.0	0.8	0.9		
City Union Bank (CITUNI)	187	240	Buy	13,702	8.9	9.3	10.3	20.9	20.1	18.1	3.4	3.2	2.7	1.6	1.6	1.6	15.5	15.3	14.7		
DCB Bank (DCB)	183	250	Buy	5,680	7.8	10.5	12.6	23.4	17.4	14.6	2.3	2.1	1.9	0.9	1.0	1.0	10.9	12.1	12.9		
Federal Bank (FEDBAN)	88	125	Buy	17,397	4.5	6.3	7.7	19.6	14.0	11.3	1.6	1.5	1.4	0.7	0.8	0.9	8.2	9.8	11.1		
HDFC Bank (HDFBAN)	2,182	2,400	Hold	596,549	67.4	77.4	93.7	32.4	28.2	23.3	5.5	4.1	3.6	1.8	1.8	1.9	17.9	16.5	16.0		
IndusInd Bank (INDBA)	1,420	1,550	Hold	98,359	60.1	55.0	92.3	23.6	25.8	15.4	3.7	3.5	2.9	1.8	1.3	1.8	16.2	13.1	19.0		
Jammu & Kashmir Bk(JAMKAS)	37	53	Hold	2,085	3.6	8.3	14.7	10.3	4.5	2.5	0.6	0.6	0.6	0.2	0.5	0.7	3.4	7.3	11.8		
Kotak Mahindra Bank (KOTMAH)	1,477	1,500	Hold	281,944	21.4	25.5	30.4	68.9	57.9	48.6	7.9	6.8	6.1	1.7	1.7	1.7	12.5	12.1	12.7		
Yes Bank (YESBAN)	83	75	Reduce	19,225	18.3	6.4	5.8	4.5	13.0	14.3	0.8	0.9	0.9	1.7	0.4	0.4	17.6	5.6	5.5		
Bandhan Bank (BANBAN)	480	650	Buy	57,263	11.3	16.4	22.0	7.3	5.1	3.8	1.1	0.9	0.8	3.6	3.9	4.0	19.5	19.0	21.1		

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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