

## Integration in focus; better placed on asset quality

Indian Bank reported its first quarter of merged numbers with Allahabad Bank. The amalgamation of the bank came into effect on April 1, 2020. The bank reported a steady performance on business growth but higher provisioning arrested PAT growth.

**The bank had customers who have two months of their instalments unpaid (for May, June 2020) or have paid zero or one instalment at 7% of total loan book (overall morat at ~23%), which is relatively less compared to peers.**

Provisioning for the quarter was elevated at ₹ 2139 crore, up 18.6% YoY mainly on the back of 100% provisions for two fraud accounts at ₹ 1133 crore. The bank provided ₹ 112 crore for Covid-19 in the quarter. Total Covid provisions held as on June 2020 were at ₹ 632 crore (~17 bps of advances).

On the back of standstill asset classification benefit, fresh slippages drooped 86.8% YoY to ₹ 523 crore with majority of the slippages attributable to the corporate book. Absolute GNPA stood at ₹ 39965 crore with GNPA ratio at 10.9%. Total NCLT exposure stood at ₹ 27798 crore to which the bank has maintained PCR at 91%.

Advances growth decelerated to ~5% YoY to ₹ 3.7 lakh with steady growth in retail credit at 11% YoY to ₹ 60529 crore. Corporate advances grew 6% YoY to ₹ 167977 crore. Foreign advances slumped 14% YoY to ₹ 8918 crore.

NII was up 17% YoY to ₹ 3874 crore on account of steady credit growth and margins. NIMs came in at 2.83% vs. 2.87% in Q1FY20. Higher provisioning marred earnings trajectory with PAT de-growing 33% YoY to ₹ 369 crore.

## Focus to remain on merger, business growth to take backseat

The ongoing merger process coupled with uncertain macro-economic condition would entail muted business traction for the bank. We expect advances to grow at ~5% CAGR to FY21-22E to ₹ 375653 crore. Though probability of delinquency shock cannot be ruled out in near term as integration process moves ahead. However, PCR at 80.5% and 7% advances availing moratorium in true sense (not paid 2 recent instalments) makes the bank better placed on asset quality compared to peers. Ageing of stressed asset to keep near term credit cost higher. Therefore, we expect PAT to gradually pick up to ₹ 2537 crore in FY22E.

## Valuation & Outlook

Integration process and current uncertain economic condition are seen keeping business momentum moderate. Better repayment trend by customers would keep restructuring at minimum level. High PCR at 80.5% & adequate CaR at 13.4% remain positive. Though long-term fundamentals look healthy, near term earnings would remain muted led by elevated credit cost on the back of ageing stressed asset. Expect gradual improvement in RoA, RoE to 0.4%, 6.6%, respectively, in FY22E. Given slower growth seen ahead, we maintain **HOLD** rating with a revised target price of ₹ 70 (earlier ₹ 50), valuing the stock at 0.4x FY22E ABV.

### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
NII	10996	7018	7606	14937	15993	45%
PPP	8439	4881	6498	9974	10918	30%
PAT	-3415	322	753	1153	2537	83%
ABV (₹)	90.8	262.2	261.3	164.0	183.2	
P/E	NA	0.0	0.0	4.1	1.9	
P/ABV	0.9	0.2	0.2	0.3	0.2	
RoA	(0.7)	0.1	0.3	0.3	0.4	
RoE	-11.3	1.3	3.6	3.9	6.6	

Source: Company, ICICI Direct Research  
FY21 & FY22 estimates are on a merged basis



### Particulars

Particulars	Amount
Market Capitalisation	₹7025 Crore
GNPA (Q1FY21)	₹39965 crore
NNPA (Q1FY21)	₹12755 crore
NIM (Q1FY21)	2.83
52 week H/L	203/42
Net Worth (₹crore)	36053 crore
Face value	₹10
DII Holding (%)	4.1
FII Holding (%)	1.0

### Key Highlights

- Full provision on two accounts at ₹ 1133 crore, led credit cost to remain elevated
- Business growth to remain muted with focus on integration
- Moratorium at 7%, PCR at 80% provides comfort on asset quality
- Maintain HOLD with revised target price of ₹ 70 (earlier ₹ 50)

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Yash Batra  
yash.batra@icicisecurities.com

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	3,874	3,320	16.7	3,321	16.7	Steady margins and advances growth led to traction in NII
NIM (%)	2.8	2.9	-4 bps	2.7	16 bps	Margins remain broadly stable
Other Income	1,327	1,119	18.6	1,728	-23.2	Fee income & recovery remain muted. Treasury came strong
Net Total Income	5,201	4,439	17.2	5,049	3.0	
Staff cost	1,654	1,332	24.2	1,534	7.8	
Other Operating Expenses	794	869	-8.7	1,113	-28.7	
PPP	2,753	2,238	23.0	2,402	14.6	
Provision	2,139	1,804	18.6	3,186	-32.9	Full provision on 2 fraud account worth   1133 crore
PBT	614	434	41.4	-784	-178.3	
Tax Outgo	245.0	-63.0	NM	857.0	-71.4	
PAT	369.3	497.3	-25.7	-1,641.0	NM	Better operating performance offset increase in provision

**Key Metrics**

GNPA	39,965.0	42,215.0	-5.3	41,998.0	-4.8	Fresh slippages remained muted at   523 crore due to standstill asset classification
NNPA	12,754.7	15,051.0	-15.3	14,272.0	-10.6	Continued improvement in PCR at 80.5%
Total Restructured asset	2,631.0	2,631.0	0.0	2,631.0	0.0	
Advances	3,66,787.0	3,49,038	5.1	3,68,664	-0.5	Retail remain as focus area from advance growth perspective
Deposits	4,89,109.0	4,54,533	7.6	4,88,835	0.1	CASA remains steady with minimum dependence on bulk deposit

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	7,947	14,937	88.0	8,553	15,993	87.0
Pre Provision Profit	5,172	9,974	92.8	5,611	10,918	94.6
NIM (%)	2.7	2.7	-4 bps	2.8	2.7	-8 bps
PAT	875	1,153	31.7	1,371	2,537	85.0
ABV (₹)	281.2	164.0	-41.7	323.1	183.2	-43.3

New estimates are on merged basis, therefore, earlier estimates are not comparable

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

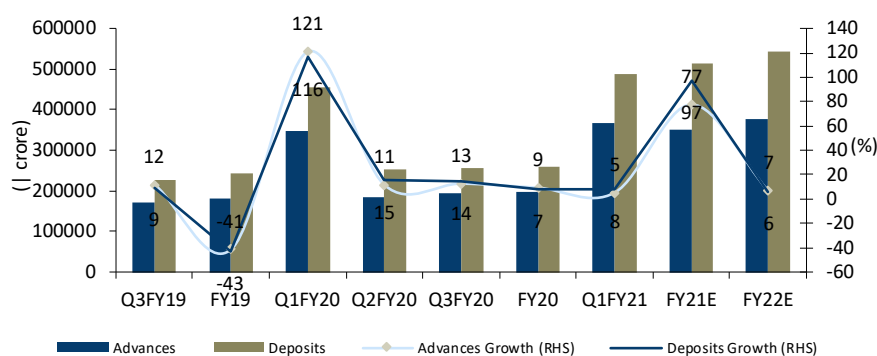
	Current			Earlier		
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	-41.3	9.2	77.4	7.0	1.0	4.8
Deposit Growth (%)	-42.6	7.5	97.2	6.0	5.0	5.5
NIM Calculated (%)	2.7	2.7	2.7	2.7	2.7	2.8
Cost to income ratio (%)	45.2	40.5	49.9	49.1	50.9	50.3
GNPA (₹crore)	13,353	14,151	41,963	44,061	15,283	15,795
NNPA (₹crore)	6,793	6,184	13,418	13,821	6,493	6,656
Credit cost (%)	2.5	2.6	2.4	2.0	2.0	1.8

New estimates are on merged basis, therefore, earlier estimates are not comparable

Source: Company, ICICI Direct Research

## Story in Charts

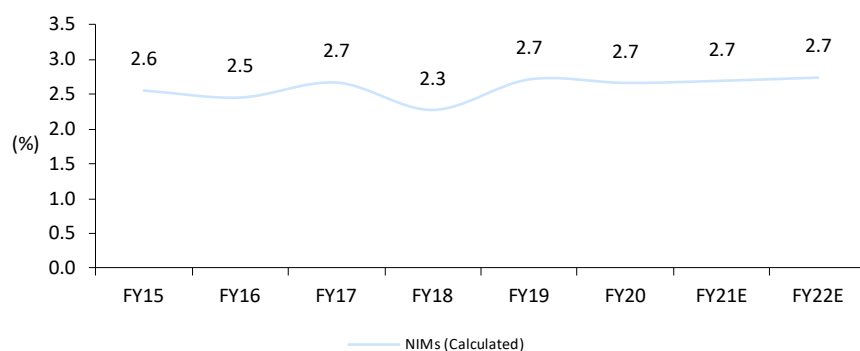
**Exhibit 4: Merger process seen keeping pace of growth moderate in near term**



Source: Company, ICICI Direct Research

Q3FY19, FY19, Q2FY20 & Q3FY20 numbers are on a standalone basis

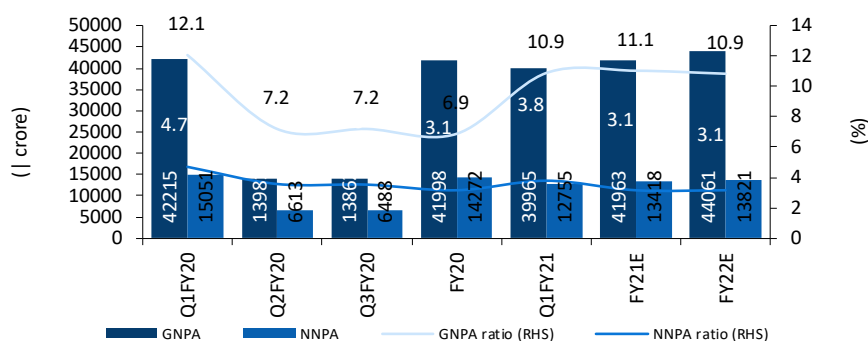
**Exhibit 5: Margins to remain stable**



Source: Company, ICICI Direct Research

FY21 and FY22 estimates are on a merged basis

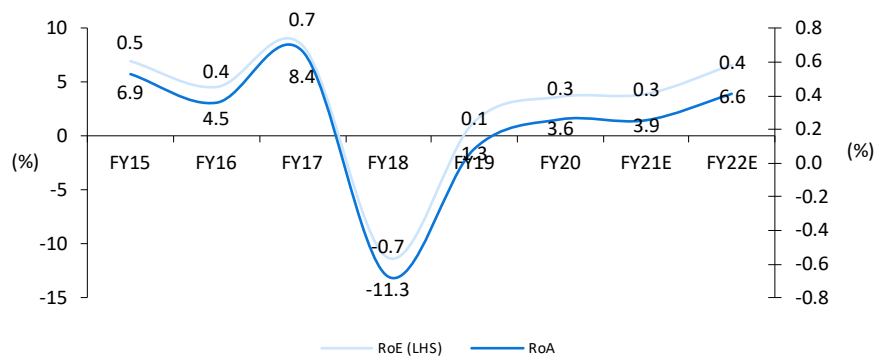
**Exhibit 6: Asset quality to remain under watch in near term**



Source: Company, ICICI Direct Research

Q2FY20 & Q3FY20 numbers are on a standalone basis

**Exhibit 7: Gradual pick-up seen in return ratios post FY21E**



Source: Company, ICICI Direct Research

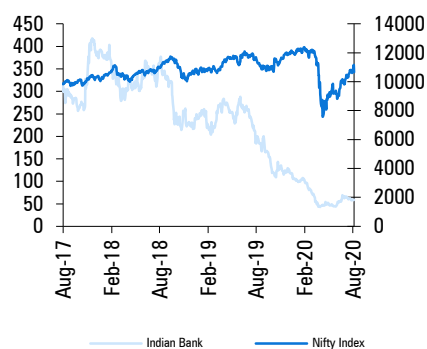
FY21 and FY22 estimates are on a merged basis

**Exhibit 8: Shareholding Pattern**

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	79.6	79.62	83.46	83.46	88.06
FII	4.2	4.1	2.7	2.28	0.95
DII	10.9	10.45	7.8	6.51	4.08
Others	5.3	5.83	6.04	7.75	6.91

Source: Company, ICICI Direct Research

**Exhibit 9: Price Chart**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	19,185	21405	40266	42826
Interest Expended	12,167	13799	25329	26834
Net Interest Income	7,018	7606	14937	15993
% growth	-36.2	8.4	96.4	7.1
Non Interest Income	1883	3312	4963	5455
Net Income	8,901	10919	19900	21448
Operating Cost	4020	4421	9926	10530
Operating Income	4,881	6498	9974	10918
Provisions	4596	5125	8426	7513
PBT	284	1,373	1548	3405
Taxes	-38	619	395	868
Net Profit	322.0	753	1153	2537

Source: Company, ICICI Direct Research

Based on data availability, FY21 and FY22 estimates are on a merged basis while FY19 and FY20 are standalone Indian Bank numbers

Exhibit 11: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares (Crore)	48	61	113	113
EPS (₹)	6.7	12.4	10.2	22.5
BV (₹)	403.7	362.8	259.0	305.7
ABV (₹)	262.2	261.3	164.0	183.2
P/BV	0.1	0.1	0.2	0.1
P/ABV	0.2	0.2	0.3	0.2
GNPA	7.1	6.9	11.1	10.9
NNPA	3.7	3.1	3.8	3.7
RoE	1.3	3.6	3.9	6.6
ROA	0.08	0.26	0.25	0.41
NIM	2.72	2.67	2.70	2.75

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	480	609	1129	1129
Reserves and Surplus	18908	21480	36112	38689
Networth	19389	22089	37241	39818
Deposits	242076	260226	513277	544073
Borrowings	12138	20830	31430	33001
Other Liabilities & Provision	6463	6323	15989	17427
Total	280065	309468	597936	634320
Applications of Funds				
Fixed Assets	3691	3896	7554	7781
Investments	64992	81242	165147	173405
Advances	181262	197887	351078	375653
Other Assets	9829	20708	37413	44412
Cash with RBI & call money	11702	5736	36744	33070
Total	271477	309468	597936	634320

Source: Company, ICICI Direct Research

Based on data availability, FY21 and FY22 estimates are on a merged basis while FY19 and FY20 are standalone Indian Bank numbers

Exhibit 13: Key ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	-46.3	14.0	93.2	6.1
Advances	-41.3	9.2	77.4	7.0
Deposits	-42.6	7.5	97.2	6.0
Total Income	-44.7	22.7	82.2	7.8
Net interest income	-36.2	8.4	96.4	7.1
Operating expenses	-47.5	10.0	124.5	6.1
Operating profit	-109.4	33.1	53.5	9.5
Net profit	NA	NA	NA	-10.8
Book value	76.9	-10.1	-28.6	18.0
EPS (₹)	NA	NA	NA	120.0

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (BFSI)**

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	47	52	Hold	21,763.0	1.2	1.8	5.8	39.8	NA	NA	0.5	0.5	0.5	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	190	215	Hold	1,66,310	16.2	15.3	26.1	11.7	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	63	70	Hold	7,025	-27.2	8.5	13.0	-2.3	7.4	4.8	0.5	0.4	0.4	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	460	530	Buy	1,10,439	5.8	23.7	38.0	79.8	19.4	12.1	1.8	1.7	1.5	0.2	0.7	1.0	2.2	7.5	11.1
City Union Bank (CITUNI)	123	130	Hold	9,043	6.5	7.5	9.7	19.0	16.3	12.6	2.0	1.9	1.6	1.0	1.1	1.3	9.4	10.2	11.8
Development Credit Bank (DCB)	83	90	Hold	2,577	10.9	11.1	12.4	7.6	7.5	6.7	0.9	0.8	0.7	0.9	0.8	0.8	11.4	10.2	10.1
Federal Bank (FEDBAN)	52	55	Hold	8,355	7.7	7.9	12.5	6.7	6.6	4.2	0.8	0.8	0.7	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	1,103	1,320	Buy	6,03,467	47.9	52.1	65.4	23.0	21.2	16.9	3.6	3.3	3.0	1.9	1.7	1.9	16.4	15.7	17.5
Indusind Bank (INDBA)	472	400	Hold	27,461	63.7	33.7	52.2	7.4	14.0	9.0	1.0	1.0	0.9	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	14	12	Sell	671	-12.7	-0.1	-6.1	-1.1	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,322	1,600	Buy	2,61,686	31.1	26.0	32.1	42.5	50.8	41.1	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	220	400	Hold	30,740	18.1	17.7	25.2	12.2	12.4	8.7	2.4	2.2	1.8	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	29	34	Buy	10,221	-5.7	1.1	2.4	NA	NA	12.1	1.0	1.0	0.9	-1.6	0.3	0.6	-15.9	3.4	7.0

Source: Company, ICICI Direct Research

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Buy: > 15%

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Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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