

26 October 2020

Indian Bank

Strong quarter, sharp increase in collections; Buy

NIM expansion and higher non-interest income led to a strong, 40%, y/y increase in Indian Bank's Q2 operating profits. With the standstill on NPA recognition, asset quality and PCR improved. Collection efficiency improved exceptionally in Sep. We maintain our positive view on the bank at a TP of Rs75, valuing it at 0.3x P/ABV on its FY22e book.

Collection efficiency exceptionally good. The bank's overall collection efficiency for Sep'20 was above 90%. It was above 95% for its Corporate, Retail and agri portfolios, while it was 86% for its MSME portfolio. The collection efficiency was among the best reported by other banks. GNPA sequentially improved 101bps as slippages were negligible given the standstill on NPA recognition. The PCR (incl. w/o) improved 387bps sequentially to 84.4%. Consequently, during the quarter Rs22bn could not be recognised as NPA for which the bank holds provisions of Rs6.3bn. The bank expects 3-4% of overall loans to be restructured. For FY21 we expect slippages to be 3% of loans and project GNPA at 10.1% and NNPA at 3.4%.

Profitability to be subdued in FY21. With expected more slippages, higher credit costs would keep the bank's earnings weak in the medium term. We estimate a 0.3% RoA for FY21, and 0.8% for FY22.

Valuation. Our Oct'21 target of Rs75 is based on the two-stage DDM model. This implies ~0.24x P/BV and ~0.31x P/ABV multiples on its FY22e book.

Risks: Lumpy slippages from the corporate book; lower-than-expected loan growth.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Net interest income (Rs m)	62,636	70,181	130,578	165,117	186,754
Pre-provisioning profit (Rs m)	50,010	48,806	95,865	116,751	131,732
Provisions (Rs m)	39,246	45,964	132,616	94,909	66,208
PAT (Rs m)	12,590	3,220	-46,431	16,120	48,357
EPS (Rs)	26.2	6.7	-41.1	14.3	42.8
NIM (%)	2.8	2.8	3.2	3.0	3.1
Cost-Income (%)	42.3	45.2	49.1	46.9	45.9
RoE (%)	7.1	1.7	-17.2	4.8	14.2
RoA (%)	0.5	0.1	-1.1	0.3	0.8
Advances growth (%)	22.6	15.8	88.0	3.0	9.0
GNPA (%)	7.4	7.1	11.4	10.1	9.2
CAR (%)	12.6	13.2	13.3	13.7	13.8
P / E (x)	2.3	9.1	-1.5	4.3	1.4
P / BV (x)	0.2	0.2	0.2	0.2	0.2
P / ABV (x)	0.2	0.2	0.3	0.3	0.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs75

Share Price: Rs61

Key data	INBK IN / INBA.BO
52-week high / low	Rs140 / 42
Sensex / Nifty	40686 / 11930
3-m average volume	\$1.5m
Market cap	Rs69bn / \$939.8m
Shares outstanding	1129m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	88.1	88.1	83.5
- of which, Pledged	-	-	-
Free float	11.9	11.9	16.5
- Foreign institutions	0.8	1.0	2.3
- Domestic institutions	4.0	4.1	6.7
- Public	7.2	6.9	7.5

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net interest income	62,636	70,181	130,578	165,117	186,754
<i>NII growth (%)</i>	21.7	12.0	86.1	26.5	13.1
Non-interest income	24,058	18,829	57,693	54,922	56,794
Income	86,694	89,010	188,271	220,039	243,548
<i>Income growth (%)</i>	17.8	2.7	111.5	16.9	10.7
Operating expenses	36,684	40,204	92,406	103,287	111,816
PPOP	50,010	48,806	95,865	116,751	131,732
<i>PPOP growth (%)</i>	25.0	-2.4	96.4	21.8	12.8
Provisions	39,246	45,964	132,616	94,909	66,208
PBT	10,764	2,842	-36,751	21,843	65,524
Tax	-1,826	-377	9,680	5,723	17,167
PAT	12,590	3,220	-46,431	16,120	48,357
<i>PAT growth (%)</i>	-10.4	-74.4	-1,542.2	-134.7	200.0
FDEPS (Rs / sh)	26.2	6.7	-41.1	14.3	42.8
DPS (Rs / sh)	0.0	0.0	0.0	2.1	6.4

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	4,803	4,803	51,360	11,294	11,294
Reserves & surplus	179,681	189,084	296,150	309,852	350,955
Deposits	2,082,942	2,420,759	4,888,350	5,279,418	5,807,360
Borrowings	197,602	121,375	299,330	314,297	330,011
Minority interests					
Total liabilities	2,527,158	2,800,653	5,680,540	6,093,573	6,658,342
Advances	1,565,689	1,812,619	3,408,520	3,510,776	3,826,745
Investments	713,978	649,922	1,619,090	1,861,954	2,048,149
Cash & bank balance	105,016	117,019	131,020	146,742	164,351
Fixed & other assets	34,183	39,614	74,060	81,466	89,613
Total assets	2,527,158	2,800,653	5,680,540	6,093,573	6,658,342
No. of shares (m)	480	480	1,129	1,129	1,129
<i>Deposits growth (%)</i>	14.1	16.2	101.9	8.0	10.0
<i>Advances growth (%)</i>	22.6	15.8	88.0	3.0	9.0

Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
NIM	2.8	2.8	3.2	3.0	3.1
Other inc. / total inc.	27.8	21.2	30.6	25.0	23.3
Cost-income	42.3	45.2	49.1	46.9	45.9
Provision coverage	50.3	49.1	66.0	68.4	68.6
Dividend payout	0.0	0.0	0.0	15.0	15.0
Credit-deposit	75.2	74.9	69.7	66.5	65.9
Investment-deposit	34.3	26.8	33.1	35.3	35.3
Gross NPA	7.4	7.1	11.4	10.1	9.2
Net NPA	3.8	3.7	4.2	3.4	3.1
BV (₹)	384.1	403.7	307.7	284.4	320.8
Adj. BV (₹)	297.3	304.7	219.2	209.5	246.5
CAR (%)	12.6	13.2	13.3	13.7	13.8
- Tier 1	11.3	11.3	10.4	10.8	10.9
RoE	7.1	1.7	-17.2	4.8	14.2
RoA	0.5	0.1	-1.1	0.3	0.8

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Conference-call takeaways

Asset quality

■ Restructuring

- MSME accounts restructured till date – 83,905 amounting to Rs36.93bn.
- The company expects overall restructuring from Covid'19-related stress to be 3-4% of loans.
- It expects restructuring of its Corporate book to be to the tune of Rs40bn. From the Corporate book it has already received 6-8 applications to the tune of Rs8bn for restructuring.
- These 6-8 applications pertain to hotels and hospitality sectors. The bank is comfortable regarding the promoters and liquidity coverage of these accounts.

■ NPA

- The accounts where moratorium was extended amount to Rs21.69bn. The bank holds provisions of Rs6.32bn against these.
- It is confident of limiting GNPA to under 10% and NNPA to under 3% even after considering slippages from the watch-list and restructured accounts.

Fig 7 – Collection efficiency across portfolios

(in %)	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20	Sep'20
Retail	92	75	78	75	93	82	95
Agri	64	45	67	74	65	66	96
MSME	88	60	52	59	62	66	86
Corporate	74	74	38	61	70	73	96

Source: Company, Anand Rathi Research

Fig 8 – NCLT accounts

NCLT list (iRs m)	No. of Accounts	Exposure	Provision	PCR (%)
RBI List-1	8	42,770	42,770	100
RBI List-2	16	40,510	40,170	99
Acc filed by bank	27	19,770	18,770	95
Acc filed by other bank	153	141,110	136,870	97
	204	244,160	238,580	98

Source: Company, Anand Rathi Research

Fig 9 – Movement of GNPA

GNPA (Rs m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY22
Opening balance	420,580	422,150	454,490	460,120	419,980	399,650
Slippages	40,390	49,460	56,410	39,420	6,060	3,150
Gross slippage ratio (%)	5.0	6.0	6.8	4.6	0.7	0.4
Reductions	38,820	17,120	50,766	79,560	26,390	40,821
Upgrades	6,280	6,980	7,480	4,160	2,390	1,950
Recoveries	8,430	7,660	11,810	12,960	2,010	7,950
Write-offs	24,130	2,480	31,476	62,440	21,980	30,920
Closing balance	422,150	454,490	460,134	419,980	399,650	361,980
GNPA (%)	12.1	12.6	12.7	11.4	10.9	9.9
Restructured advances (%)	420,580	422,150	454,490	460,120	419,980	399,650
Stressed assets (%)	40,390	49,460	56,410	39,420	6,060	3,150

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 10 – Income statement

(Rs m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY22
Interest income	94,610	94,200	96,927	97,570	101,200	100,574
Interest expense	61,450	62,810	63,999	64,470	62,457	59,133
NII	33,160	31,390	32,928	33,100	38,743	41,440
<i>Y/Y growth (%)</i>	83.5	81.3	91.8	87.7	16.8	32.0
Non-interest income	11,190	12,490	16,733	17,280	13,268	16,117
Trading profits	3,090	5,100	5,000	3,990	6,800	7,120
Income	44,350	43,880	49,661	50,380	52,010	57,558
<i>Y/Y growth (%)</i>	97.4	103.2	129.7	115.9	17.3	31.2
Operating expenses	22,010	22,530	21,496	26,370	24,477	27,608
Of which, staff cost	13,320	12,960	11,728	15,340	16,540	17,504
PPOP	22,340	21,350	28,165	24,010	27,533	29,950
<i>Y/Y growth (%)</i>	72.2	79.3	145.6	92.8	23.2	40.3
Total provisions	18,040	36,500	46,216	31,860	21,391	22,841
PBT	4,300	(15,150)	(18,051)	(7,850)	6,142	7,108
Tax	(630)	2,400	(660)	8,570	2,450	2,986
PAT	4,930	(17,550)	(17,391)	(16,420)	3,693	4,123
<i>Y/Y growth (%)</i>	135.5	-1268.9	-1242.1	765.2	-25.1	-123.5

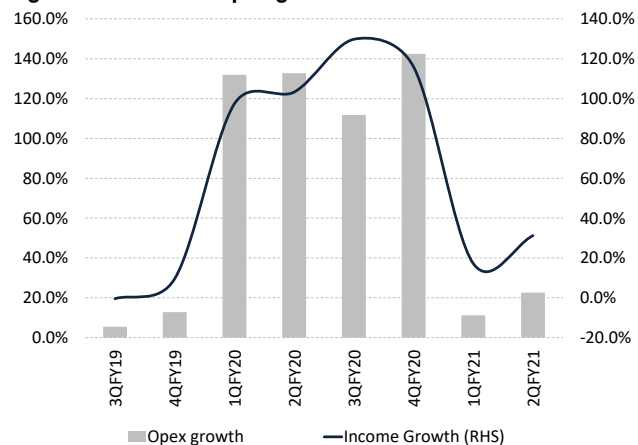
Source: Company, Anand Rathi Research

Fig 11 – Balance sheet

(Rs m)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20
Equity capital	4,803	4,800	4,803	4,920	4,915	6,090
Reserves & Surplus	1,83,917	1,85,520	1,89,084	1,95,500	2,24,528	2,26,150
Deposits	21,95,226	22,58,470	24,20,759	24,14,570	25,31,720	25,76,210
Borrowings	1,74,938	1,28,090	1,21,375	1,19,540	1,56,758	1,09,700
Other liabilities	57,540	61,650	64,631	84,640	58,700	82,950
Equity and Liabilities	26,16,423	26,38,530	28,00,653	28,19,170	29,76,621	30,01,100
<i>Deposits y/y growth (%)</i>	10.5	9.4	16.2	14.9	15.3	14.1
<i>Deposits q/q growth (%)</i>	4.5	2.9	7.2	-0.3	4.9	1.8
Assets						
Cash and cash balance	1,56,791	1,64,090	2,00,204	2,22,100	1,97,638	2,22,980
Advances	16,69,666	17,11,570	18,12,619	17,75,810	18,68,229	18,52,460
Investments	6,71,816	6,32,120	6,49,922	6,76,370	7,55,003	7,68,420
Other assets	1,18,150	1,30,750	1,37,908	1,44,870	1,55,752	1,57,240
Total Assets	26,16,423	26,38,530	28,00,653	28,19,150	29,76,621	30,01,100
<i>Advances y/y growth (%)</i>	19.9	15.4	15.8	12.1	11.9	8.2
<i>Advances q/q growth (%)</i>	5.4	2.5	5.9	-2.0	5.2	-0.8

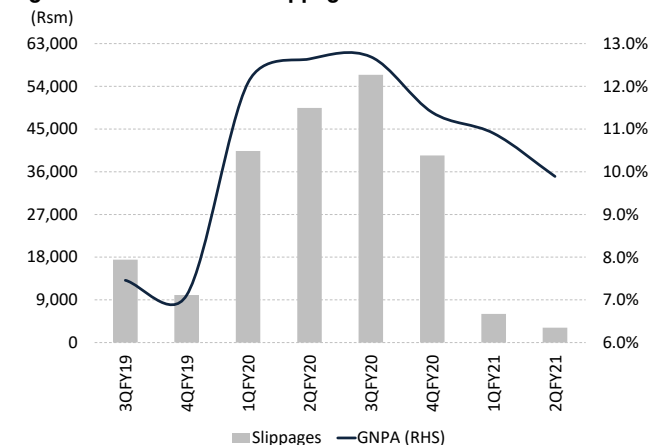
Source: Company, Anand Rathi Research

Fig 12 – Income vs. Opex growth



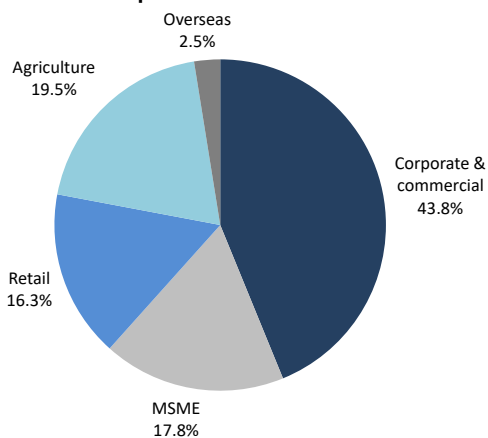
Source: Company, Anand Rathi Research

Fig 13 – Gross NPA and slippages



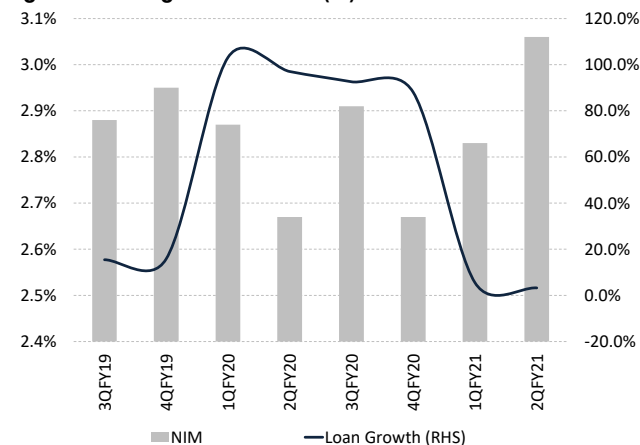
Source: Company, Anand Rathi Research

Fig 14 – Loan break-up



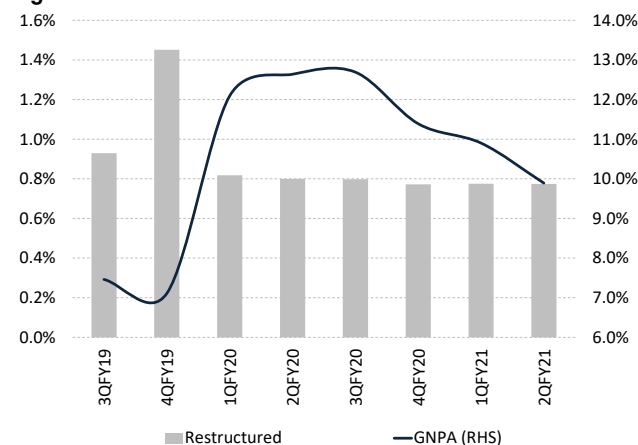
Source: Company, Anand Rathi Research

Fig 15 – Credit growth vs. NIM (%)



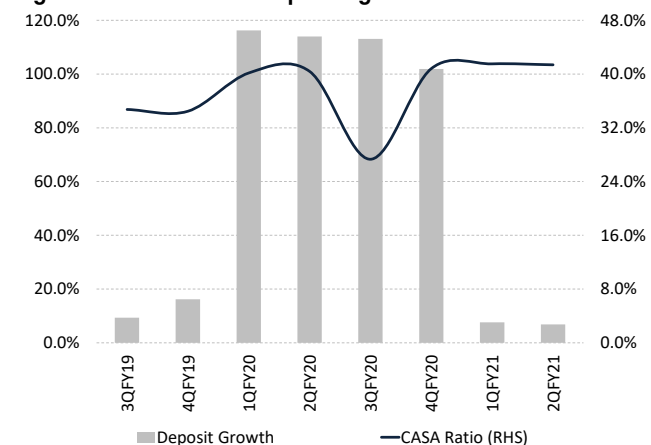
Source: Company, Anand Rathi Research

Fig 16 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 17 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

- Our Oct'21 target of Rs75 is based on the two-stage DDM model. This implies $\sim 0.24x$ P/BV and $\sim 0.31x$ P/ABV multiples on its FY22e book.
- The bank is one of the best-managed public-sector banks and we are positive about management's ability to deliver on its loan-growth targets.

Risks

- Higher slippages in future (especially from the corporate portfolio) could lead to volatility in asset quality.
- Lower-than-expected loan growth could upset our estimates.

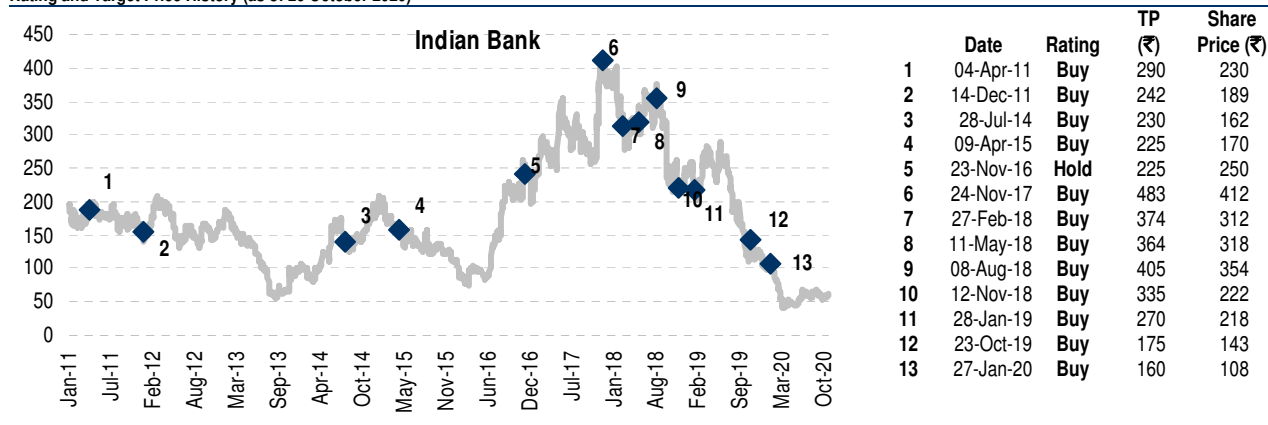
Appendix

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