

Improved overall performance...

Indian Bank reported a good set of Q3FY21 numbers relative to PSU peers. Asset quality on a notional/proforma basis remained steady while a pick-up in loan growth remained a positive.

Net interest income (NII) for the bank was up 31% YoY, 4.1% QoQ to ₹ 4313 crore, mainly driven by a rise in margins, controlled asset quality and pick-up in loan growth. Net interest margin (NIM) for the quarter increased 22 bps YoY, 7 bps QoQ to 3.13% as a rise in low cost deposits helped in a faster decline in cost of funds vs. yields. Other income declined 16.5% YoY, 13.3% QoQ to ₹ 1397 crore. A higher base YoY along with lower bad debt recovery were responsible for declining figures. Opex declined 5.4% sequentially as the previous quarter had one-off provisions for wage revision of ~₹ 250 crore. Provisions for the quarter were up marginally by 1.3% QoQ. As a result of healthy topline and controlled opex, the bank reported a PAT of ₹ 514 crore vs. loss of ₹1739 (merged figure) YoY.

Business growth for the quarter showed improved traction as gross advances were up 7.5% YoY, 6.5% QoQ to ₹ 389646 crore. Growth in advances was led by retail, agriculture and MSME segment, which were up 13% YoY, 11% YoY, respectively. Together they form ~56% of total advances. Corporate book growth was miniscule at 2% YoY amid cautious stance towards this segment. The bank till now has sanctioned ₹ 277 crore loans under ECLGS-2.0 while it has disbursed ₹ 5203 crore in ECLGS-1.0.

Asset quality performance was healthy as headline GNPA and NNPA declined from 9.89% and 2.96% to 9.04% and 2.35%, respectively. Also, on a proforma basis, GNPA remained steady at ~10.38% vs. 10.45% (calculated) in the previous quarter. Restructured portfolio due to Covid-19 was at 1.62% of standard advances. Proforma/notional slippage for 9MFY21 were around ₹ 5000 crore against which the bank has a provision cover of 21%. Of the total restructuring, ~₹ 400 crore came in from retail segment. Collection efficiency has been showing an improving trend on a monthly basis from September onwards and is currently above 91% level.

Valuation & Outlook

Improving macroeconomic conditions coupled with the focused approach of the bank on growth as well as asset quality paves the way for a healthy revival in performance ahead. Indian Bank has shown an encouraging performance considering the current situation and some green shoots are embedded within these results. Asset quality performance has been improving this quarter while loan growth pick-up along with management guidance of further traction is a positive. We expect a gradual improvement in RoA, RoE to 0.7%, 12.5%, respectively, in FY23E. Therefore, we remain positive on the relative performance of the bank. Hence, we upgrade our target price to ₹ 180 (earlier ₹ 88), valuing the bank at 0.9x FY23E ABV. Consequently, we upgrade our recommendation from HOLD to **BUY**.



Particulars

Particulars	Amount
Market Capitalisation	₹ 17352 Crore
GNPA (Q3FY21)	₹ 35237 crore
NNPA (Q3FY21)	₹ 8537 crore
NIM (Q3FY21)	3.13
52 week H/L	142/42
Net Worth (₹ crore)	₹ 36978
Face value	₹ 10
DII Holding (%)	4.5
FII Holding (%)	0.8

Key Highlights

- Healthy 6.5% sequential pick up in loan growth
- Largely stable asset quality with proforma NPA steady at ~10.4%
- Upgrade from HOLD to BUY with revised target price of ₹ 180

Risk to our call

- Slower than anticipated business growth can limit earnings momentum
- Increase in slippage from MSME and corporate book could dent recovery

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Key Financial Summary

₹ crore	FY19	FY20 - Merged	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
NII	7018	13057	16795	19017	22201	15%
PPP	4881	9587	11855	13314	15807	15%
PAT	322	-4643	1912	3281	5139	64%
ABV (₹)	262.2	199.4	164.0	183.2	202.4	
P/E	22.4	NA	8.9	5.2	3.3	
P/ABV	0.4	0.4	0.5	0.5	0.5	
RoA	0.1	(1.1)	0.4	0.5	0.7	
RoE	1.3	-16.3	6.1	8.5	12.5	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	4,313	3,293	31.0	4,144	4.1	Healthy growth owing to margin expansion and loan growth
NIM (%)	3.13	2.91	22 bps	3.06	7 bps	NIMs expanded 7 bps QoQ due to faster decline in cost of funds
Other Income	1,397	1,673	-16.5	1,612	-13.3	Other income declined QoQ with decline in fee income & treasury
Net Total Income	5,710	4,966	15.0	5,756	-0.8	
Staff cost	1,572	1,173	34.0	1,750	-10.2	One off item in previous quarter. Hence, QoQ decline in staff cost
Other Operating Expenses	1,039	977	6.4	1,010	2.9	
PPP	3,099	2,816	10.0	2,995	3.5	
Provision	2,314	4,621	-49.9	2,284	1.3	Credit cost lesser as proforma NPA were under control
PBT	785	-1,805	-143.5	711	10.4	
Tax Outgo	270.4	-66.0	-509.6	298.6	-9.4	
PAT	514.2	-1,739.0	-129.6	412.3	24.7	Healthy topline controlled opex and credit cost aid profitability
Key Metrics						
GNPA	35,237.2	46,012.0	-23.4	36,198.0	-2.7	Proforma GNPA at 10.38% vs. ~10.45% (calculated)
NNPA	8,537.5	13,937.0	-38.7	10,052.2	-15.1	
Advances	389,646.0	362,536.0	7.5	365,896	6.5	Spike in retail and agri advances boost growth
Deposits	521,248.0	481,277.0	8.3	501,956	3.8	Steady CASA growth

Source: Company, ICICI Direct Research

Note- Q3FY20 figures are of merged Indian Bank

Exhibit 2: Change in Estimates

₹ Crore	FY21E			FY22E			FY23E Introduced
	Old	New	% Change	Old	New	% Change	
Net Interest Income	14,937	16,552	10.8	15,993	18,886	18.1	22,116
Pre Provision Profit	9,974	11,303	13.3	10,918	12,703	16.4	15,506
NIM (%)	2.7	2.9	19 bps	2.7	3.1	42 bps	3.4
PAT	1,153	1,778	54.2	2,537	3,513	38.5	5,125
ABV (₹)	164.0	164.0	0.0	183.2	183.2	0.0	202.4

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

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

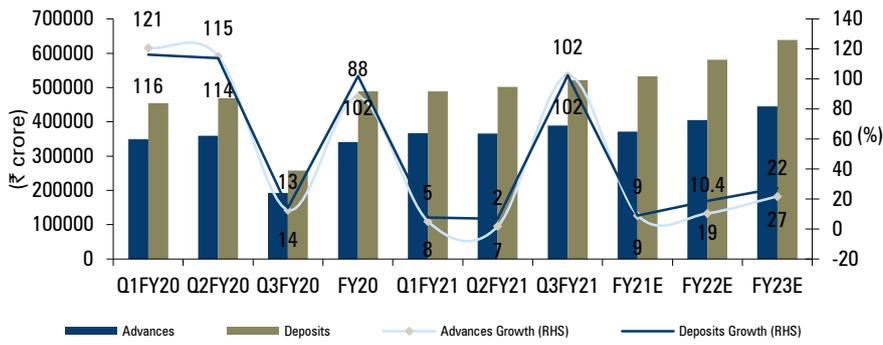
	Current			Earlier	
	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	87.7	7.5	8.0	77.4	7.0
Deposit Growth (%)	104.8	6.5	7.0	97.2	6.0
NIM Calculated (%)	2.9	3.1	3.4	2.7	2.7
Cost to income ratio (%)	49.6	48.2	44.9	49.9	49.1
GNPA (₹ crore)	41,963	44,061	46,264	41,963	44,061
NNPA (₹ crore)	13,418	13,821	14,235	13,418	13,821
Credit cost (%)	2.4	2.0	2.0	2.4	2.0

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

Source: Company, ICICI Direct Research

Story in Charts

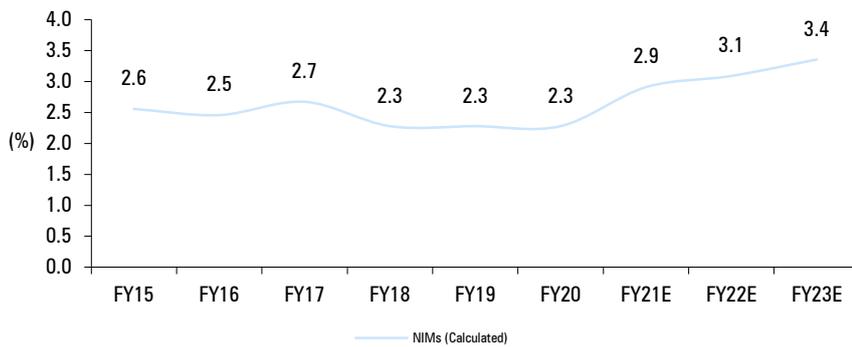
Exhibit 4: Business growth to pick up



Source: Company, ICICI Direct Research

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

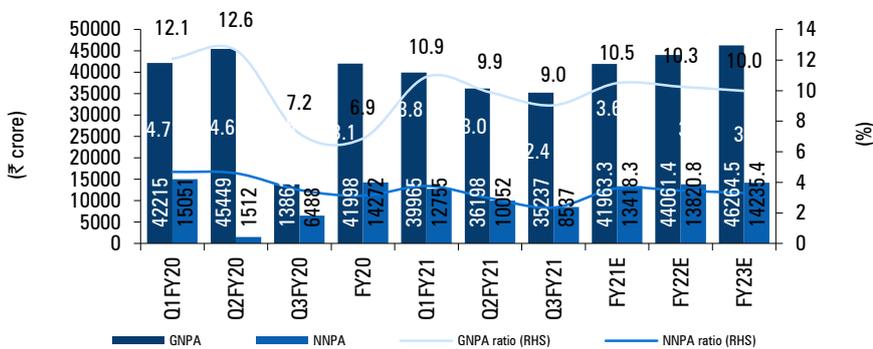
Exhibit 5: Margins to improve



Source: Company, ICICI Direct Research

FY21 and FY22 estimates are on a merged basis

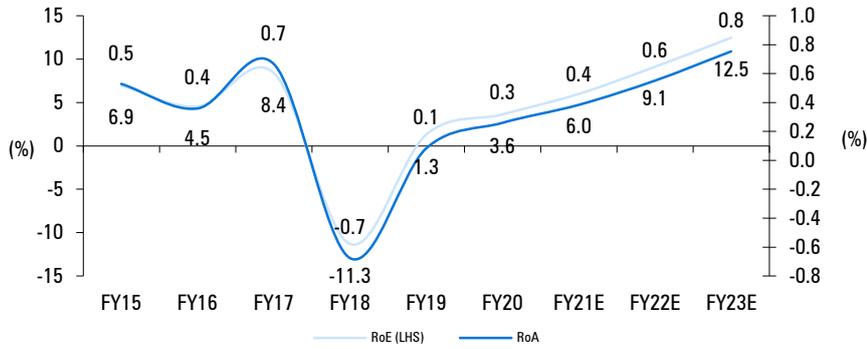
Exhibit 6: Asset quality trends



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

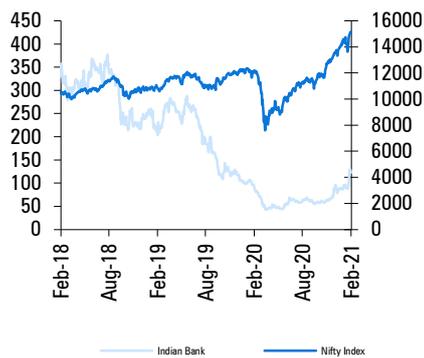
FY21 and FY22 estimates are on a merged basis

Exhibit 8: Shareholding Pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	83.46	83.46	88.06	88.06	88.06
FII	2.7	2.28	0.95	0.81	0.83
DII	7.8	6.51	4.08	3.96	4.45
Others	6.04	7.75	6.91	7.17	6.66

Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

Financial summary

(Year-end March)	FY19	FY20 Merged	FY21E	FY22E	FY23E
Interest Earned	19,185	38330	40494	44796	50489
Interest Expended	12,167	25273	23699	25779	28288
Net Interest Income	7,018	13057	16795	19017	22201
% growth	-36.2	71.7	120.8	13.2	16.7
Non Interest Income	1883	5769	5866	6039	6467
Net Income	8,901	18826	22661	25057	28668
Operating Cost	4020	9239	10806	11743	12861
Operating Income	4,881	9587	11855	13314	15807
Provisions	4596	13262	9288	8909	8909
PBT	284	-3,675	2567	4404	6898
Taxes	-38	968	654	1123	1759
Net Profit	322.0	-4643	1912	3281	5139

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20 Merged	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares (Crore)	48	103	113	113	113
EPS (₹)	6.7	NA	16.9	29.1	45.5
BV (₹)	403.7	338.3	282.8	305.7	328.5
ABV (₹)	262.2	199.4	164.0	183.2	202.4
P/BV	0.4	0.4	0.5	0.5	0.5
P/ABV	0.6	0.7	0.9	0.8	0.7
GNPA	7.1	11.4	10.5	10.1	9.7
NNPA	3.7	4.2	3.6	3.4	3.2
RoE	1.3	-16.3	6.1	8.5	12.5
ROA	0.08	-1.06	0.38	0.51	0.73
NIM	2.72	2.42	2.91	3.09	3.36

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20 Merged	FY21E	FY22E	FY23E
Sources of Funds					
Capital	480	5136	1129	1129	1129
Reserves and Surplus	18908	29615	36112	38689	41267
Networth	19389	34751	37241	39818	42396
Deposits	242076	488835	532830	580785	638863
Borrowings	12138	29933	31430	33001	34651
Other Liabilities & Prov	6463	14535	15989	17427	18996
Total	280065	568054	617489	671032	734906
Applications of Funds					
Fixed Assets	3691	7406	7554	7781	8014
Investments	64992	161909	168385	176805	185645
Advances	181262	340852	371529	404966	445463
Other Assets	9829	22213	33277	48410	66021
Cash with RBI & call	11702	35674	36744	33070	29763
Total	271477	568054	617489	671032	734906

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20 Merged	FY21E	FY22E	FY23E
Total assets	-46.3	109.2	8.7	8.7	9.5
Advances	-41.3	88.0	9.0	9.0	10.0
Deposits	-42.6	101.9	9.0	9.0	10.0
Total Income	-44.7	111.5	20.4	10.6	14.4
Net interest income	-36.2	86.0	28.6	13.2	16.7
Operating expenses	-47.5	129.8	17.0	8.7	9.5
Operating profit	-109.4	96.4	23.7	12.3	18.7
Net profit	NA	-1542.1	-141.2	71.6	56.6
Book value	76.9	-16.2	-16.4	8.1	7.5
EPS (₹)	NA	NA	NA	71.6	56.6

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP		M Cap (₹ Bn)	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
BoB (BANBAR)	92	70	Hold	425	1.6	1.2	6.2	56.3	77.8	14.8	1.1	0.8	0.8	0.4	0.1	0.2	0.9	0.9	3.9
SBI (STABAN)	419	410	Buy	3739	16.3	20.0	28.1	25.8	21	14.9	2.1	1.9	1.7	0.4	0.4	0.6	6.4	7.4	9.6
Indian Bank (INDIBA)	150	180	Buy	174	NA	16.9	29.1	-	8.9	5.2	0.8	0.9	0.8	-1.1	0.4	0.5	-16.3	6.1	8.5
Axis Bank (AXIBAN)	774	800	Buy	2372	5.8	25.2	47.7	134	30.7	16.2	2.9	2.7	2.3	0.2	0.8	1.3	2.1	8.1	13.8
City Union (CITUNI)	168	200	Buy	136	8.4	10.0	10.0	20.0	16.8	16.8	2.9	2.5	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	119	130	Hold	36	10.9	11.0	14.0	10.9	10.8	8.5	1.3	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	86	90	Buy	172	6.3	7.7	7.9	13.7	11.1	10.9	1.5	1.3	1.2	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,574	1,700	Buy	8674	47.9	55.9	65.6	32.9	28.1	24.0	5.2	4.5	3.9	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	1,046	1,050	Buy	793	63.7	36.8	56.5	16.4	28.4	18.5	2.2	2.1	2.0	1.5	0.8	1.1	14.4	7.4	10.3
J&K (JAMKAS)	31	25	Hold	19	-16.0	7.5	10.4	-1.9	4.1	3.0	0.5	0.4	0.4	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,952	2,040	Buy	3867	20.4	23.5	27.2	95.6	83.2	71.7	12.0	9.7	8.7	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	348	370	Hold	549	18.1	14.7	24.7	19.2	23.6	14.1	3.8	4.0	3.2	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	58	52	Buy	328	46.5	NA	100.5	1.2	NA	0.6	1.9	2.1	1.9	-1.9	0.3	0.5	-18.7	2.7	4.8

Source: Company, ICICI Direct Research

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