

Relatively better performance; guidance positive

About the stock: Indian Bank is seventh largest and among the better performing PSU banks in India with total business of over ₹ 9.2 lakh crore.

- Pan-India presence with strong branch network of 5809 domestic branches
- Diversified loan mix with RAM (Retail/Agri/MSME) forming 58% to book

Q1FY22 Results: Indian Bank reported relatively better performance.

- Advances up 6.2% YoY to ₹ 3.9 lakh crore, deposits up 10.4% YoY to ₹ 5.4 lakh crore
- NII up 19.8% QoQ, 3% YoY at ₹ 3994 crore. NIMs up ~51 bps QoQ to 2.85%
- GNPA down 16 bps QoQ to 9.69%, restructuring up 73 bps QoQ to 1.4%

What should investors do? Indian Bank's share price has given flattish returns in the last five years but has provided over 2.2x returns in the past one year

- Factoring a sweet spot for Indian bank post-merger - bringing strong deposits and lending franchises together, Maintain BUY rating on the stock

Target Price and Valuation: We value Indian Bank at ~0.7x FY23E ABV and maintain our target price at ₹ 180 per share

Key triggers for future price performance:

- Expect credit growth at 10-12%; liabilities franchise healthy
- Continued focus on RAM to aid margin improvement & earnings
- Guidance to keep credit cost <2% and slippages less than 3% provide comfort.
- Accumulated loss from merger to provide benefit on tax outgo for two years

Alternate Stock Idea: Apart from Indian Bank, in our coverage we also like SBI

- SBI is the largest bank in India with advances portfolio of over ₹ 25 lakh crore. The bank also has among top operating metrics in the PSU space
- BUY with a target price of ₹ 500



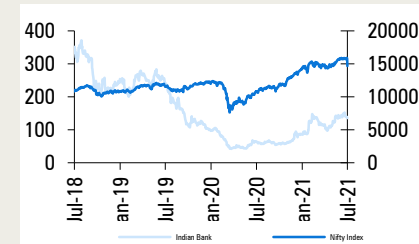
Particulars

Particulars	Amount
Market Capitalisation	₹ 17149 Crore
52 week H/L	157/53
Net Worth (₹ crore)	₹ 41272
Face value	₹ 10
DII Holding (%)	10.5
FII Holding (%)	2.9

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	88.1	88.1	88.1	79.9
FII	0.8	0.8	1.0	2.9
DII	4.0	4.5	4.4	10.5
Others	7.2	6.7	6.6	6.7

Price Chart



Recent Event & Key risks

- GNPA down 16 bps QoQ to 9.69% while restructuring increased 73 bps sequentially to 1.4%
- **Key Risk:** Slower than expected business growth or higher losses in MSME/ Mudra loans due to pandemic to act as risk

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Key Financial Summary

₹ crore	FY20*	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY22E-23E)
NII	7606	15666	NA	17274	19908	13%
PPP	6498	11396	NA	12176	14136	11%
PAT	753	3005	NA	4095	5813	39%
ABV (₹)	249.3	212.2		199.0	245.2	
P/E	11.3	5.3		4.3	3.0	
P/ABV	0.6	0.7		0.7	0.6	
RoA	0.3	0.6		0.6	0.8	
RoE	3.6	9.9		10.4	13.5	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Decent overall performance considering turbulent times

- Sequential loan growth was flattish owing to slower growth in retail segment due to lockdowns and tepid corporate book growth. Deposits showed decent growth of 10.5% YoY with CASA ratio at 41%
- GNPA declined 16 bps QoQ to 9.69%. Slippages were down sequentially from ₹ 8292 crore to ₹ 4204 crore. Recoveries were down to ₹ 657 crore from ₹ 2119 crore QoQ owing to lockdowns restricting field staff movement
- MSME was most impacted with slippages of ₹ 2472 crore and had highest GNPA of 15.66%

Q1FY22 Earnings Conference Call highlights

- Corporate sector is expected to see pick-up next quarter. Corporate approvals are in place for next quarter. Expect overall credit to grow 10%
- Domestic NIM is at 2.85% and is expected to be at 3.0% ahead
- Collection efficiency took a dip in May and June while July has shown uptick. The current collection efficiency is Retail-85%, MSME-78%, Corporate-97%, Agriculture-88%. Agriculture slippages had come down
- MSME NPA is expected to dip further & collection efficiency to pick up
- ECLGS 1.0 – ₹ 5330 crore, ECLGS 2.0 – ₹ 1041 crore, sanctioned ₹ 741 crore disbursements ECLGS 3.0 – ₹ 16 crore
- MSME collection efficiency dipped from 90% in March 2021 to 78% in June 2021. It is expected to be back at 90% for MSME till September 2021
- DHFL exposure is at ₹ 1300 crore
- Total slippages were at ₹ 4200 crore
- Slippages guidance – 3%; credit cost guidance – 2% for FY22E. Credit cost may be near 2% in the next year as NNPA is targeted at below 2%
- Jewellery – ₹ 200 crore, steel – ₹ 150 crore, road infra – ₹ 250 crore slipped in Q1FY22 among corporate segment
- Disbursed below ₹ 100 crore to healthcare. Pipeline at ₹ 300-400 crore
- Full year recovery is projected at ₹ 5000 crore, while another upgradation of ₹ 2500 crore is expected. Recovery form NCLT is expected at ₹ 1205 crore
- Total restructuring is expected to be ~₹ 9000 crore

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
BoB (BANBAR)	79	100	Buy	408	1.6	9.5	14.1	49.3	8.3	5.6	0.7	0.7	0.6	0.1	0.4	0.6	1.1	6.2	8.6		
SBI (STABAN)	424	500	Buy	3755	21.2	29.9	32.7	20	14.2	13.0	1.8	1.6	1.4	0.4	0.6	0.6	7.8	10.0	10.0		
Indian Bank (INDIBA)	140	180	Buy	158	26.6	32.9	46.7	5.3	4.3	3.0	0.7	0.7	0.6	0.6	0.6	0.8	9.9	10.4	13.5		

Source: Company, ICICI Direct Research

Improving overall outlook on business growth front, merger synergies kicking in and improving operating metrics are positives. We maintain BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	3,994	3,874	3.1	3,334	19.8	Sequential rise in margins aid NII growth
NIM (%)	2.85	2.83	2 bps	2.34	51 bps	NIMs improve due to decline in impact of interest reversals due to NPA and also relief of interest on interest sequentially
Other Income	1,877	1,327	41.4	1,744	7.6	Mostly driven by forex income and recovery from written offs
Net Total Income	5,871	5,201	12.9	5,078	15.6	
Staff cost	1,466	1,654	-11.4	1,402	4.6	
Other Operating Expenses	933	496	88.1	1,128	-17.3	Costs were under control due to merger synergies as well as lockdown impacting business activity
PPP	3,472	2,753	26.1	2,548	36.2	
Provision	2,615	2,139	22.2	1,752	49.2	Elevated provisions due to stress formation
PBT	857	614	39.6	796	7.7	
Tax Outgo	-324.4	245.0	-232.4	-913.0	-64.5	
PAT	1,181.7	369.3	220.0	1,708.8	-30.8	YoY PAT boosted by tax benefits
Key Metrics						
GNPA	37,759.2	39,965.0	-5.5	38,455.3	-1.8	Slippages in MSME segment impacted but overall slippages contained
NNPA	12,652.9	12,754.7	-0.8	12,271.1	3.1	
Advances	389,625.0	366,787.0	6.2	390,317	-0.2	Loan growth flattish due to retail segment slowdown
Deposits	540,082.0	489,109.0	10.4	538,071	0.4	

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	18,886	17,274	-8.5	22,116	19,908	-10.0
Pre Provision Profit	12,703	12,176	-4.1	15,506	14,136	-8.8
NIM (%)	3.1	3.0	-12 bps	3.4	3.2	-24 bps
PAT	3,513	4,095	16.6	5,125	5,813	13.4
ABV (₹)	183.2	199.0	8.6	202	245.2	21.2

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

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current			Earlier	
	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	87.7	7.5	8.0	7.5	8.0
Deposit Growth (%)	104.8	6.5	7.0	6.5	7.0
NIM Calculated (%)	2.9	2.9	3.1	2.9	3.1
Cost to income ratio (%)	49.6	48.2	44.9	48.2	44.9
GNPA (₹ crore)	41,963	44,061	46,264	44,061	46,264
NNPA (₹ crore)	13,418	13,821	14,235	13,821	14,235
Credit cost (%)	2.4	2.0	2.0	2.0	2.0

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

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20*	FY21	FY22E	FY23E
Interest Earned	21,405	39,106	44,090	49,741
Interest Expended	13,799	23,440	26,815	29,833
Net Interest Income	7,606	15,666	17,274	19,908
growth (%)	8.4	106.0	10.3	15.2
Non Interest Income	3312	6079	5923	6429
Net Income	10919	21745	23197	26337
Staff cost	2473.0	6378	6515	6947
Other Operating expense	1947.9	3971	4506	5254
Operating profit	6498	11396	12176	14136
Provisions	5125	8490	7866	7677
PBT	1373	2906	4311	6459
Taxes	619	-99	216	646
Net Profit	753.4	3005	4095	5813
growth (%)	134.0	298.8	36.3	42.0
EPS (₹)	12.4	26.6	32.9	46.7

Source: Company, ICICI Direct Research

* pre-amalgamation

Exhibit 6: Key Ratios				
(Year-end March)	FY20*	FY21	FY22E	FY23E
Valuation				
No. of Equity Shares (Crore)	60.9	112.9	124.6	124.6
EPS (₹)	12.4	26.6	32.9	46.7
BV (₹)	350.9	320.9	305.1	353.5
ABV (₹)	249.3	212.2	199.0	245.2
P/E	11.3	5.3	4.3	3.0
P/BV	0.4	0.4	0.5	0.4
P/ABV	0.6	0.7	0.7	0.6
Yields & Margins (%)				
Net Interest Margins	2.8	3.7	2.9	3.1
Yield on assets	7.9	9.2	7.4	7.7
Avg. cost on funds	5.0	5.4	4.4	4.4
Yield on average advances	8.4	9.8	8.3	8.4
Avg. Cost of Deposits	5.2	5.6	4.6	4.6
Quality and Efficiency (%)				
Cost to income ratio	40.5	47.6	47.5	46.3
Credit/Deposit ratio				
	79.1	72.5	67.7	68.2
GNPA				
	19.4	9.9	9.4	8.7
NNPA				
	3.0	3.1	3.3	3.0
ROE				
	3.6	9.9	10.4	13.5
ROA				
	0.3	0.6	0.6	0.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY20*	FY21	FY22E	FY23E
Sources of Funds				
Capital	608.8	1129.4	1245.6	1245.6
Reserves and Surplus	21480.5	37282.6	38936.6	44956.2
Networth	22089.3	38411.9	40182.2	46201.8
Deposits	260225.9	538071.1	592565.4	652633.6
Borrowings	20830.3	26174.6	29664.8	32369.1
Other Liabilities & Provisions	6322.7	23347.3	24623.0	24907.6
Total	3,09,468	6,26,005	6,87,035	7,56,112
Applications of Funds				
Fixed Assets	3895.7	7376.3	7642.8	7947.1
Investments	81241.7	176537.0	189799.8	200705.4
Advances	197887.0	364010.2	400964.7	445332.1
Other Assets	12519.1	24021.6	29688.1	37938.0
Cash with RBI & call money	13924.7	54059.9	58939.9	64189.4
Total	3,09,468	6,26,005	6,87,035	7,56,112

Source: Company, ICICI Direct Research

* pre-amalgamation

Exhibit 8: Key ratios			(%)	
(Year-end March)	FY22E	FY23E		
Total assets	9.7	10.1		
Advances	10.2	11.1		
Deposit	10.1	10.1		
Total Income	6.7	13.5		
Net interest income	10.3	15.2		
Operating expenses	106.5	110.7		
Operating profit	6.9	16.1		
Net profit	36.3	42.0		
Net worth	4.6	15.0		
EPS	23.6	42.0		

Source: Company, ICICI Direct Research

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