

Indian Bank

Refer to important disclosures at the end of this report

Getting back into the groove; upgrade to Buy

CMP	Target Price
Rs 138 as of (July 19, 2021)	Rs 225 (▲) 12 months
Rating	Upside
BUY (▲)	62.9 %

- Indian Bank has benefited the most from the merger with Allahabad Bank(CASA@41%) and has largely completed the integration process. It is now gearing up to accelerate growth with a strong capital buffer (CET 1 of 11.6% post recent QIP). We expect a sharp improvement in RoE to 13% by FY24E from 4% post-merger in FY20. We upgrade it to Buy with a revised TP of Rs225 (0.7x Jun'23E ABV).
- In Q1, the bank once again delivered a strong beat on PAT at Rs11.8bn (est. Rs7.7bn), mainly driven by better NIMs, higher other income, and tax reversal benefits from c/fwd accumulated losses. Despite higher slippages (mainly in SME), GNPA moderated further to 9.7% due to aggressive w-offs.
- We believe that the transfer of NPAs to NARCL (Rs50bn/1.3% of loans), including Rs19bn in Phase-1, and accelerating lumpy resolutions (DHFL/ILFS) will meaningfully reduce NPAs. The bank has a reasonably lower NNPA among PSBs at 3.5%, and targets to reduce it to <2% led by higher PCR.
- Although credit growth was subdued at 7% yoy in Q1, the bank expects it to improve to 10-12% by the year-end, driven by RAM (Retail, Agri, MSME) and mid-corporate segments. Thus, better LDR, coupled with lower interest reversals on NPAs, should drive core margins/profitability up. We raise FY22/23E EPS by 106%/45%, factoring in better growth/NIMs and lower LLP/tax.

Growth set to improve, so are margins: Loan growth was subdued at 7% yoy in Q1 due to lower business activity across segments. However, the bank expects a pick-up in business activity from July and targets 10-12% credit growth, driven by RAM/Corporate growth, subject to no Covid 3.0. The CASA ratio is high and healthy at 41%, benefiting from the merger with Allahabad Bank, which led to a lower CoF. This, coupled with lower interest reversals, led to a 51bps qoq jump in NIMs to 2.85%. The bank aspires for ~3% NIM on better growth/LDR, lower CoF and interest reversals.

NPAs set to trend down, led by corporate resolutions: Fresh slippages were elevated during Q1 at Rs42bn (5.2% of loans), mainly due to the higher stress in SME due to the Covid-induced disruption. However, overall GNPA ratio declined to 9.7% qoq due to w-offs. The bank has restructured Rs48bn of loans (1.4% of loans) and expects further restructuring of Rs25-30bn, taking the restructuring pool to ~3% of the loan book, a trend which is being seen across PSBs. SMA 1/2 pool has reduced to 4.8%/2.5% from 5.8%/2.9% in Q4FY21 and should reduce further given improving collection efficiencies.

Outlook and valuations: We believe Indian Bank has benefited the most from the merger in terms of liability profile (CASA), and it has largely completed the integration process given its proactive management. With strong capital buffers in place and overall NPAs expected to trend down given the transfer to NARCL/resolutions, the bank is gearing up for growth (10-12% yoy). Factoring in better growth/margins and lower LLP/tax incidence, we raise FY22/FY23E EPS by 106%/45%. We expect the bank's RoE to improve to 12%/13% by FY23/24E from a low of 4% in FY20 post-merger. Accordingly, we are upgrading the stock to Buy from Hold with a revised TP of Rs225 (0.7x Jun'23E ABV). The current MD is due for retirement in Aug'21. However, Mr. S L Jain, the new designated MD from Bank of Baroda (ED) had earlier worked at Allahabad Bank, which should further reduce any potential risk of cultural friction after the merger. **Key risks:** slower growth due to a delay in macro pick-up and higher-than-expected NPA formation in the SME segment.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	109,189	217,451	235,973	257,724	296,956
Net profit	7,534	30,048	36,203	48,053	63,171
EPS (Rs)	13.8	34.6	30.5	38.6	50.7
ABV (Rs)	276.3	282.2	262.9	305.0	365.2
RoA (%)	0.3	0.6	0.6	0.7	0.8
RoE (%)	4.3	11.6	10.2	11.7	13.3
PE (x)	10.0	4.0	4.5	3.6	2.7
P/ABV	0.5	0.6	0.6	0.5	0.4

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY22E/FY23E (%)	106/ 46
Target Price change (%)	125.0
Target Period (Months)	12
Previous Reco	HOLD

Stock Details

Bloomberg Code	INBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,245
52 Week H/L	157 / 53
M Cap (Rs bn/USD bn)	172 / 2.31
Daily Avg Volume (nos.)	4,837,400
Daily Avg Turnover (US\$ mn)	8.7

Shareholding Pattern Jun '21

Promoters	79.9%
FIIs	3.0%
DIIIs	10.2%
Public and Others	6.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	34	50	132
Rel. to Nifty	(3)	23	36	56

Relative price chart



Source: Bloomberg

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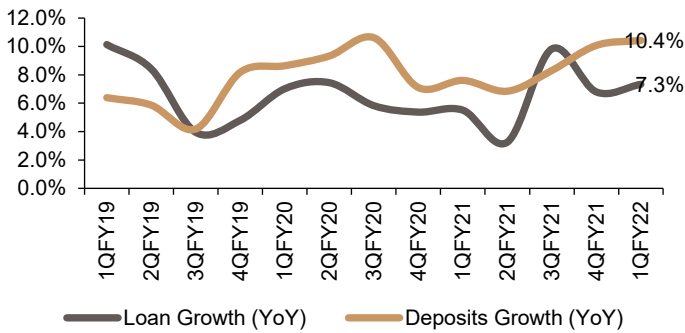
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Story in Charts

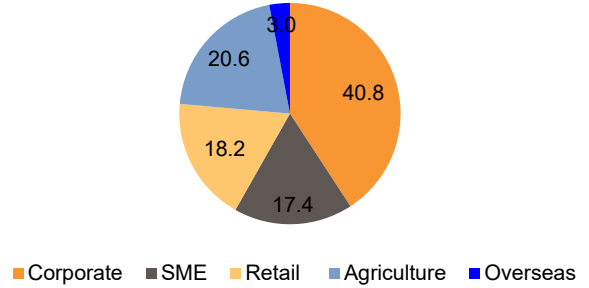
Exhibit 1: Credit growth remains subdued but set to improve, led by RAM and back-end support from corporate growth



Source: Company, Emkay Research

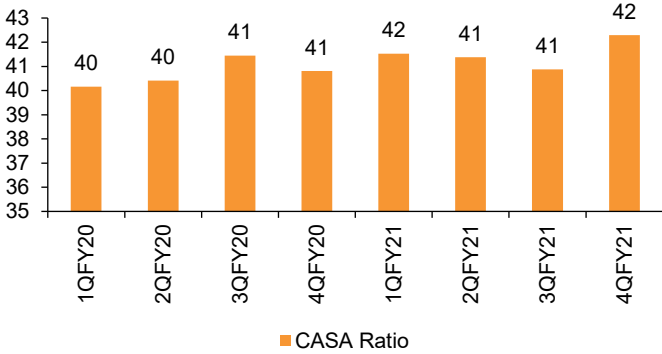
Exhibit 2: Share of RAM is now high at 58% due to corporate slowdown

Loan Book break up (%)



Source: Company, Emkay Research

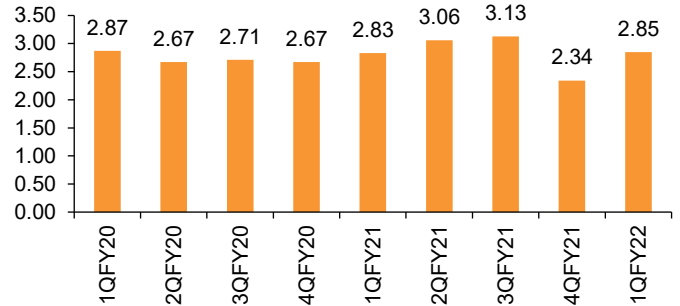
Exhibit 3: CASA ratio remains healthy, benefiting from merger with Allahabad Bank



Source: Company, Emkay Research

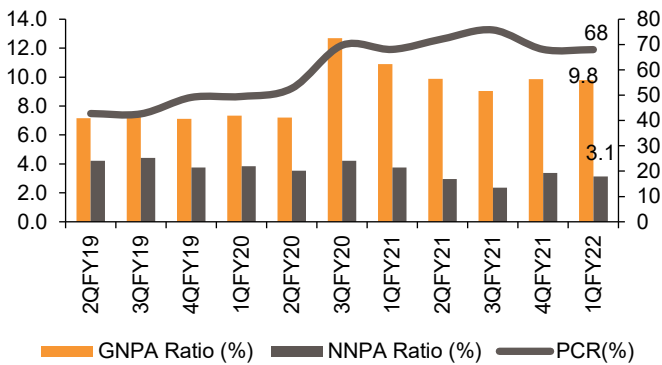
Exhibit 4: NIM improved qoq due to lower interest reversal on NPA

NIM (%)



Source: Company, Emkay Research

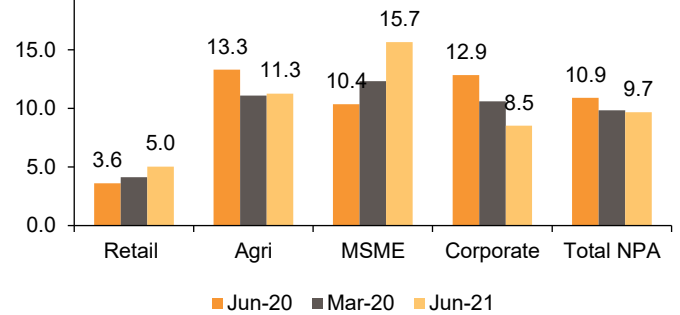
Exhibit 5: GNPA improved qoq despite higher slippages of Rs42bn (5.2%) due to write-offs and upgrades



Source: Company, Emkay Research

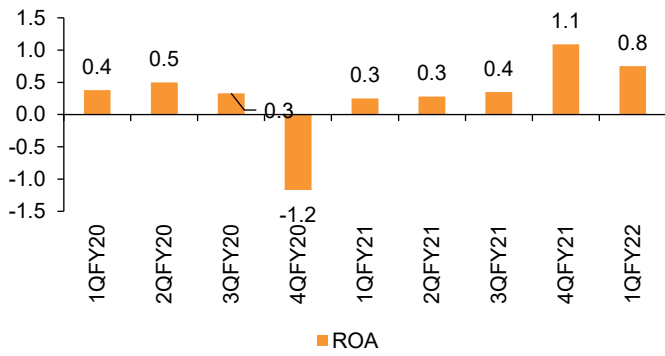
Exhibit 6: Despite stress in MSME, overall asset quality improved due to Corporate and Agri

Product wise GNPA (%)



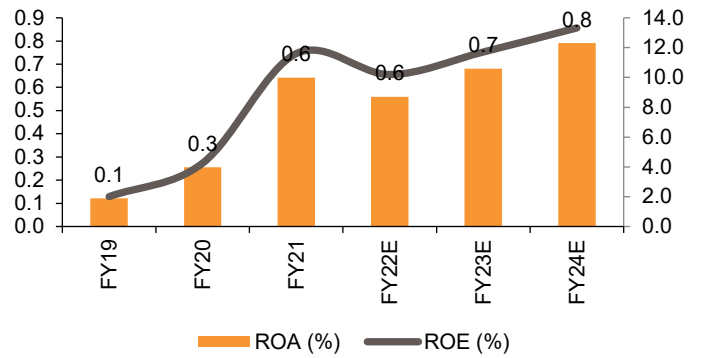
Source: Company, Emkay Research

Exhibit 7: Strong margins, higher other income and tax reversal led to healthy RoA at 0.8%



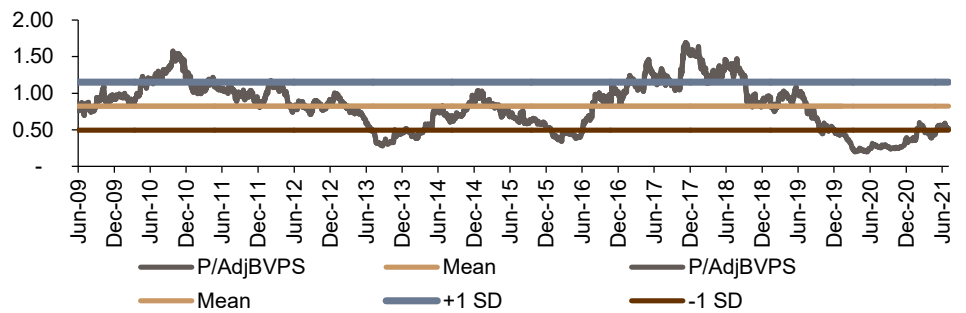
Source: Company, Emkay Research

Exhibit 8: Return ratios are expected to improve by FY24E on better growth/margins and Lower LLP/ tax



Source: Bloomberg, Emkay Research

Exhibit 9: The stock trades at 0.5x – 1-year forward ABV



Source: Emkay Research, Bloomberg

Exhibit 10: Actual vs. Estimates (Q1FY22)

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	58,708	50,613	49,453	16%	19%	Higher margins led to a beat
PPOP	34,718	26,169	27,531	33%	26%	Higher net income led to beat
PAT	11,817	7,773	7,037	52%	68%	Higher PPOP and tax reversals led to beat

Source: Emkay Research, Company

Exhibit 11: Quarterly Summary

Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	101,200	100,573	100,246	89,039	96,236	-5	8	391,057	403,344	3
Interest Exp	62,457	59,133	57,112	55,696	56,294	-10	1	234,398	237,653	1
Net Interest Income	38,743	41,440	43,133	33,343	39,942	3	20	156,659	165,691	6
Global NIMs (reported)	2.83	3.06	3.13	2.34	2.85	2bps	51bps	3.61	2.75	-86bps
Non-interest Income	13,268	16,117	13,968	17,439	18,766	41	8	60,792	70,282	16
Operating Expenses	24,477	27,608	26,111	25,299	23,990	-2	-5	103,494	104,180	1
Pre Provisioning Profit	27,533	29,949	30,990	25,484	34,718	26	36	113,957	131,793	16
Provision & Contingencies	21,391	22,841	23,144	17,525	26,145	22	49	84,900	97,313	15
PBT	6,142	7,108	7,847	7,959	8,573	40	8	29,057	34,480	19
Income Tax Expense (Gain)	2,450	2,986	2,704	-9,130	-3,244	-232	-64	-991	-1,724	74
Net Profit/(Loss)	3,693	4,122	5,143	17,088	11,817	220	-31	30,048	36,203	20
Gross NPA (%)	10.90	9.89	9.04	9.85	9.69	-121bps	-16bps	9.86	8.45	-141bps
Net NPA (%)	3.76	2.96	2.35	3.37	3.47	-29bps	10bps	3.40	2.69	-70bps
Deposits (Rs in bn)	4,891	5,020	5,212	5,381	5,401	10	0	5,381	5,708	6
Net Advances (Rs in bn)	3,395	3,397	3,628	3,640	3,644	7	0	3,640	4,002	10

Source: Company, Emkay Research

Exhibit 12: Estimate revision

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	233,155	235,973	1.2%	247,800	257,724	4.0%	296,956
PPOP	121,197	131,793	8.7%	126,604	144,085	13.8%	169,324
PAT	16,672	36,203	117.2%	30,067	48,053	59.8%	63,171
EPS (Rs)	14.8	30.5	106.0%	26.6	38.6	45.0%	38.6
BV (Rs)	286.6	307.5	7.3%	318.2	351.1	10.3%	351.1

Source: Company, Emkay Research

Factoring in better growth/margins and lower LLP/tax incidence, we raise FY22/FY23E EPS by 106%/45%.

Exhibit 13: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	83.9	9.9	13.0	17.1
Deposit Growth %	106.8	6.1	10.6	13.0
NIM %	3.6	2.7	2.8	2.9
GMPA %	9.9	8.4	7.3	6.1
Credit Cost %	2.6	2.3	2.0	1.5

Source: Company, Emkay Research

Exhibit 14: Key ratios and trends

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Loans (Rs bn)	3,218	3,289	3,304	3,409	3,395	3,397	3,628	3,640	3,644
-growth (YoY)	103.1	92.2	93.0	88.0	5.5	3.3	9.8	6.8	7.3
-growth (QoQ)	77.5	2.2	0.4	3.2	-0.4	0.1	6.8	0.3	0.1
Loan composition (%)									
-Corporate	45.4	45.4	86.0	44.6	45.8	43.9	43.3	41.2	40.8
-Retail	15.6	16.3	30.5	17.9	16.5	16.3	17.1	17.9	18.2
-SME	16.9	17.3	32.3	16.5	16.5	17.8	17.7	18.0	17.4
-Agri	19.1	18.6	35.1	18.7	18.8	19.5	19.3	20.2	20.6
-Overseas	3.0	2.4	4.3	2.3	2.4	2.5	2.7	2.8	3.1
Liability Profile/CAR %									
Deposits (Rs bn)	4545	4698	4813	4888	4891	5020	5212	5381	5401
- growth YoY %	116.3	123.5	113.1	101.9	7.6	6.8	8.3	10.1	10.4
- growth QoQ %	87.8	3.4	2.4	1.6	0.1	2.6	3.8	3.2	0.4
CASA %	40.2	40.4	41.4	40.8	41.5	41.4	40.9	42.3	40.8
CA %	5.0	5.1	5.1	5.0	4.9	5.4	5.7	6.0	5.1
SA %	35.2	35.3	36.3	35.8	36.6	36.0	35.2	36.3	35.6
NIM %	2.87	2.67	2.71	2.67	2.83	3.06	3.13	2.34	2.85
CAR (%)	13.6	14.5	15.0	13.3	13.5	13.6	14.1	15.7	15.9
Tier I (%)	11.7	12.7	13.1	10.4	10.5	10.7	11.2	11.9	12.2
Asset Quality									
GNPA (%)	12.1	12.6	12.7	11.4	10.9	9.9	9.0	9.9	9.7
NNPA (%)	4.7	4.6	4.2	4.2	3.8	3.0	2.4	3.4	3.5
PCR (%)	64.3	80.0	69.7	66.0	68.1	72.2	75.8	68.1	66.5
Slippages (Rs mn)	40,390	49,460	54,970	39,410	6,060	3,150	1,950	83,130	44,120
Slippages %	10.2	11.6	12.8	8.7	0.8	0.4	0.2	9.8	5.2
ROE Decomposition %									
NII	3.3	2.4	2.4	2.4	2.7	2.9	2.9	2.2	2.6
Other Income	1.1	0.9	1.2	1.2	0.9	1.1	0.9	1.1	1.2
Opex	2.2	1.7	1.6	1.9	1.7	1.9	1.8	1.6	1.5
PPOP	2.2	1.6	2.1	1.7	1.9	2.1	2.1	1.7	2.2
Provisioning Cost	1.8	2.7	3.4	2.3	1.5	1.6	1.6	1.1	1.7
PBT	0.4	-1.1	-1.3	-0.6	0.4	0.5	0.5	0.5	0.5
ROA	0.5	-1.3	-1.3	-1.2	0.3	0.3	0.3	1.1	0.8
ROE	5.4	-19.0	-19.7	-18.9	4.1	4.5	5.6	17.8	11.5

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	76,064	156,659	165,691	184,587	219,121
Other income	33,125	60,792	70,282	73,137	77,835
Fee income	3,387	7,531	8,284	9,527	11,432
Net income	109,189	217,451	235,973	257,724	296,956
Operating expenses	44,208	103,494	104,180	113,639	127,632
Pre provision profit	64,980	113,957	131,793	144,085	169,324
PPP excl treasury	56,183	92,715	110,976	124,309	151,525
Provisions	51,253	84,900	97,313	93,504	84,905
Profit before tax	13,727	29,057	34,480	50,582	84,419
Tax	6,194	(991)	(1,724)	2,529	21,248
Tax rate	45	(3)	(5)	5	25
Profit after tax	7,534	30,048	36,203	48,053	63,171

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	6,368	11,574	12,735	12,735	12,735
Reserves	214,805	372,826	425,228	476,774	547,312
Net worth	221,173	384,400	437,962	489,509	560,046
Deposits	2,602,259	5,380,711	5,708,323	6,314,537	7,135,798
Borrowings	182,303	185,746	176,459	185,282	213,074
Total liabilities	3,094,682	6,260,050	6,680,155	7,443,190	8,528,901
Cash and bank	57,361	275,451	302,996	333,296	366,625
Investments	812,417	1,765,370	1,814,466	1,996,179	2,237,499
Loans	1,978,870	3,640,102	4,001,543	4,522,748	5,296,218
Others	125,190	240,216	245,784	308,705	339,706
Total assets	3,094,682	6,260,049	6,680,155	7,443,190	8,528,901

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.8	3.6	2.7	2.8	2.9
Non-ll/avg assets	1.1	1.3	1.1	1.0	1.0
Fee income/avg assets	0.1	0.2	0.1	0.1	0.1
Opex/avg assets	1.5	2.2	1.6	1.6	1.6
Provisions/avg assets	1.7	1.8	1.5	1.3	1.1
PBT/avg assets	0.5	0.6	0.5	0.7	1.1
Tax/avg assets	0.2	0.0	0.0	0.0	0.3
RoA	0.3	0.6	0.6	0.7	0.8
RoAE	4.3	11.6	10.2	11.7	13.3
GNPA (%)	6.9	9.9	8.4	7.3	6.1
NNPA (%)	3.1	3.4	2.7	1.9	1.6

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	13.8	34.6	30.5	38.6	50.7
BVPS	351.3	376.1	322.8	351.3	410.0
ABVPS	276.3	282.2	262.9	305.0	365.2
DPS	0.0	2.6	3.1	5.0	8.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	10.0	4.0	4.5	3.6	2.7
P/BV	0.5	0.5	0.5	0.5	0.4
P/ABV	0.5	0.6	0.6	0.5	0.4
P/PPOP	1.4	1.4	1.3	1.2	1.0
Dividend Yield (%)	0.0	1.9	2.3	3.6	5.8

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	8.4	106.0	5.8	11.4	18.7
PPOP	33.1	75.4	15.7	9.3	17.5
PAT	134.0	298.8	20.5	32.7	31.5
Loans	9.2	83.9	9.9	13.0	17.1

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	38,743	41,440	43,133	33,343	39,942
NIM(%)	2.8	3.1	3.1	2.3	2.9
PPOP	27,533	29,949	30,990	25,484	34,718
PAT	3,693	4,122	5,143	17,088	11,817
EPS (Rs)	3.27	3.65	4.56	15.13	10.21

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Jun-21
Promoters	88.1	88.1	88.1	79.9	79.9
FII	0.8	0.8	1.0	3.0	3.0
DII	4.0	4.4	4.4	10.4	10.2
Public and Others	7.2	6.7	6.6	6.7	6.9

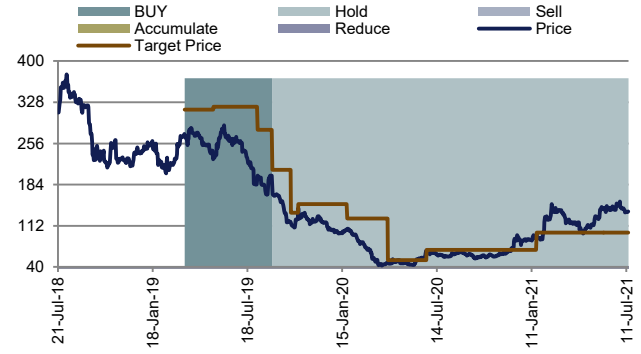
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Jan-21	91	100	12m	Hold	Anand Dama
20-Jan-21	96	100	12m	Hold	Anand Dama
23-Oct-20	61	70	12m	Hold	Anand Dama
15-Aug-20	62	70	12m	Hold	Anand Dama
24-Jun-20	65	70	12m	Hold	Anand Dama
11-Apr-20	48	52	12m	Hold	Anand Dama
24-Jan-20	107	125	12m	Hold	Anand Dama
23-Oct-19	143	150	12m	Hold	Anand Dama
9-Oct-19	117	135	12m	Hold	Anand Dama
3-Sep-19	177	210	12m	Hold	Anand Dama
6-Aug-19	200	280	12m	Buy	Anand Dama
14-May-19	233	320	12m	Buy	Anand Dama
20-Mar-19	270	315	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	20.40	20.40	0.0%	0	100.00
Axis Bank	2.22	2.33	5%	11	11.44
AU Small Finance Bank	0.29	0.20	-29%	-8	0.99
Bandhan Bank	0.25	0.25	0%	0	1.20
Bank of Baroda	0.17	0.14	-14%	-2	0.71
Canara Bank	0.08	0.00	-100%	-8	0.00
City Union Bank	0.13	0.13	0%	0	0.64
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.02	NA	2	0.11
Federal Bank	0.19	0.19	0%	0	0.94
HDFC Bank	6.80	6.90	2%	10	33.82
ICICI Bank	5.00	5.18	4%	18	25.40
Indian Bank	0.00	0.04	NA	4	0.20
Indusind Bank	0.66	0.79	19%	12	3.85
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.51	2.16	-14%	-35	10.59
Punjab National Bank	0.13	0.00	-100%	-13	0.00
RBL Bank	0.12	0.09	-27%	-3	0.42
State Bank of India	1.81	1.98	9%	17	9.69
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.05	0.00	-100%	-5	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Jul-20	15-Jan-21	16-Apr-21	16-Jun-21	16-Jul-21
EAP - BFSI-Banks	100.0	76.4	110.2	109.8	119.5	122.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	75.4	108.3	107.7	117.0	119.5

*Performance measurement base date 1st April 2019

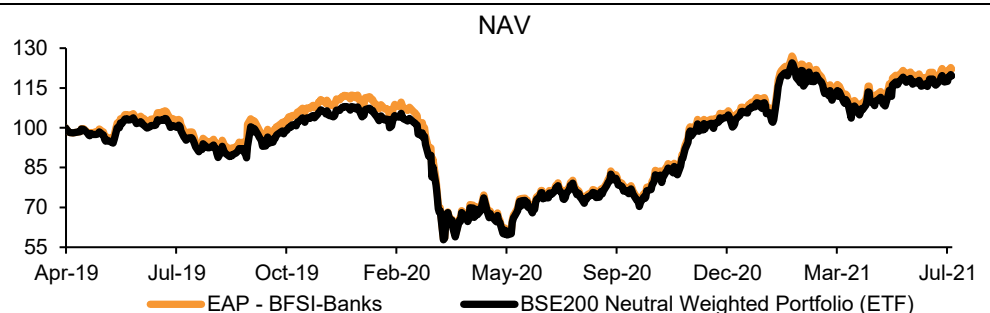
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	2.2%	11.3%	10.8%	60.0%
BSE200 Neutral Weighted Portfolio (ETF)	2.2%	11.0%	10.4%	58.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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