

Indian Bank

Refer to important disclosures at the end of this report

Better growth, receding NPAs to drive-up RoA

- Indian Bank reported healthy core-operating profitability (up 22% YoY), led by healthy margin/other income, albeit partly offset by higher staff costs. Bank expects staff cost to remain elevated in H2 due to provision towards new wage cycle (as negotiations will begin soon), which will be largely offset by better NII growth, lower LLP and tax benefit to drive-up RoA.
- Loan growth was strong at 15% YoY/3% QoQ, led by faster growth in the RAM portfolio, whereas growth in Corporate was relatively moderate due to the bank's conscious stance to focus on the risk-reward ratio. The bank has increased credit growth guidance to >12% and believes NIMs will improve in the absence of interest reversal, unlike in Q2 (~Rs4bn).
- Fresh slippages moderated to Rs25bn/2.8% of loans (vs 3.4% in Q1) which, coupled with higher recovery/w-offs, led to sharp reduction of 80bps QoQ to 7.3% in GNPA ratio. Management expects NPA ratios to trend down which, coupled with higher PCR @ 81%, should contain incremental LLP (<2%).
- We raise our earnings for FY23-25E by 6%-14% (respectively) and expect the bank to claw back RoA/RoE of 1%/15% by FY25E on the back of better growth/margins and lower LLP. We retain our BUY rating on the stock, with revised TP of Rs310/sh (earlier Rs210), based on 0.8 Sep-24E ABV vs our earlier 0.6x Jun-24E ABV.

- What we liked:** Better growth and sharp improvement in asset quality. **What we did not like:** Slower deposit growth and relatively lower expansion in margins (10bps) vs peers (>20bps).
- Growth picks up and so do margins, with scope for further improvement:** For Q2FY23, loan growth was strong at 15% YoY/3% QoQ. This was led by continued healthy growth in the RAM portfolio, while Corporate growth remains sluggish, given the bank's stated stance to focus only on achieving a better-margin business. Management guides for healthy credit growth at >12% for FY23, with RAM being the key contributor and some seasonal acceleration in corporate lending. Deposits growth was relatively slower at 7% YoY/1% QoQ, but should improve in H2, given deposit rate hikes. NIMs improved by 10bps QoQ/30bps YoY to 3.2%, but was relatively moderate vs peers at >20bps mainly due to interest reversal of Rs4bn (@25bps impact).
- NPAs moderate, as does the RSA pool:** Fresh slippages toned-down to Rs25bn/2.8% of loans, due to moderation in slippages from the RSA pool as well as from the Retail, MSME and Corporate segments. However, agri NPAs were elevated (which the bank attributes to seasonal factors) and should partly reverse in H2. This, coupled with better recoveries/upgrades and w-offs, led to 80bps reduction in GNPA ratio at 7.3%. The restructured pool also moderated, to Rs160bn/3.7% of loans, with retail share at 44% and MSME share at 43%. Management expects NPA ratios to trend down which, coupled with higher PCR @ 81%, should contain incremental LLP (<2%).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	2,13,160	2,36,434	2,62,875	2,85,031	3,20,729
Net profit	30,046	39,448	53,154	68,716	84,803
EPS (Rs)	34.6	33.2	42.7	55.2	68.1
ABV (Rs)	282.9	266.8	308.3	368.6	444.9
RoA (%)	0.6	0.6	0.8	0.9	1.0
RoE (%)	11.6	11.2	13.1	14.3	14.9
P/E (x)	7.2	7.5	5.9	4.5	3.7
P/ABV	0.9	0.9	0.8	0.7	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 250 as of (November 4, 2022)	Rs 310 (▲) 12 months
Rating	Upside
BUY (■)	24.1 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	6/14
Target Price change (%)	47.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	42.7	55.2
Consensus	41.7	50.9
Mean Consensus TP (12M)	Rs 233	

Stock Details

Bloomberg Code	INBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,245
52 Week H/L	259 / 130
M Cap (Rs bn/USD bn)	311 / 3.77
Daily Avg Volume (nos.)	21,85,064
Daily Avg Turnover (USD mn)	5.5

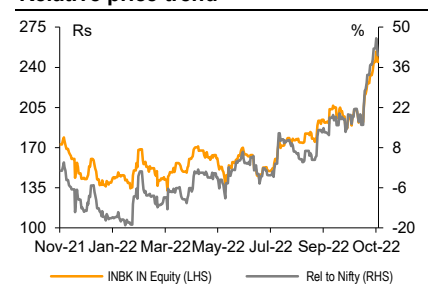
Shareholding Pattern Sep '22

Promoters	79.9%
FIIIs	2.6%
DIIIs	12.1%
Public and Others	5.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	26	43	61	44
Rel. to Nifty	20	37	48	43

Relative price trend



Source: Bloomberg

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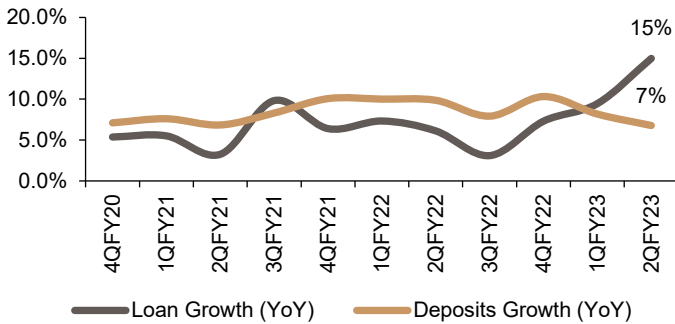
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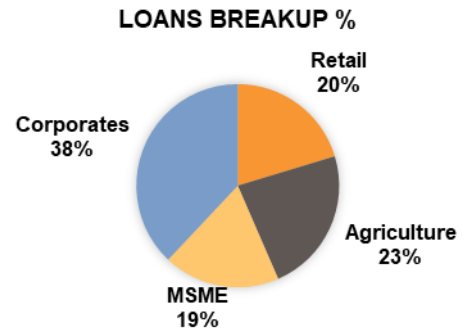
Story in Charts

Exhibit 1: Loan growth was strong, led by faster growth in RAM



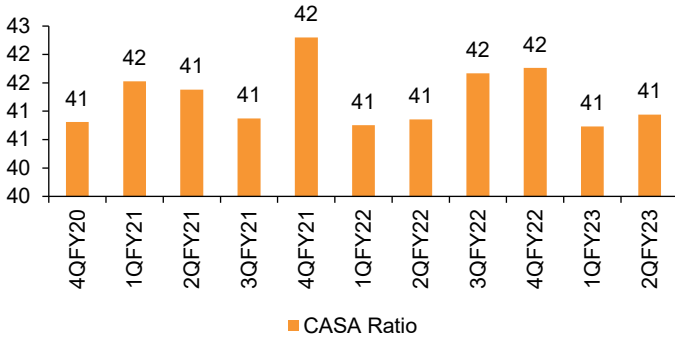
Source: Company, Emkay Research

Exhibit 2: Share of RAM now high at ~62%, due moderate corporate growth



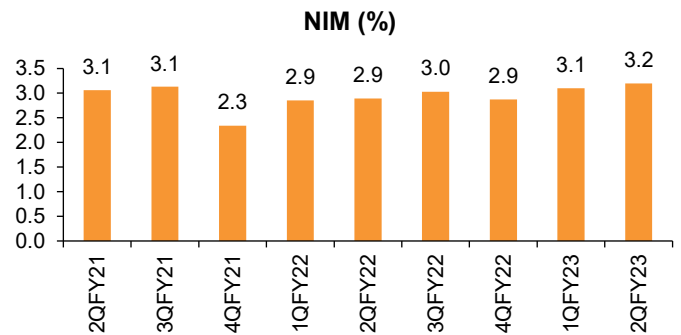
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains stable at 41%, leading to lower CoF



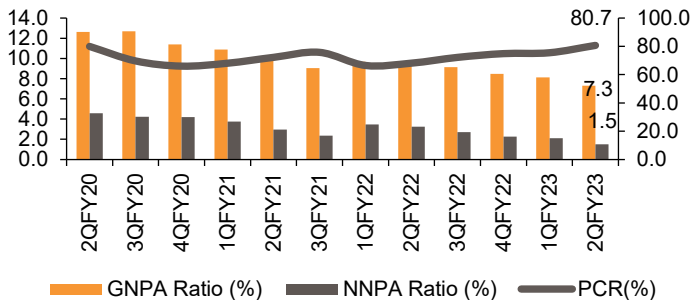
Source: Company, Emkay Research

Exhibit 4: NIM improved QoQ, due to higher LDR/ interest yields



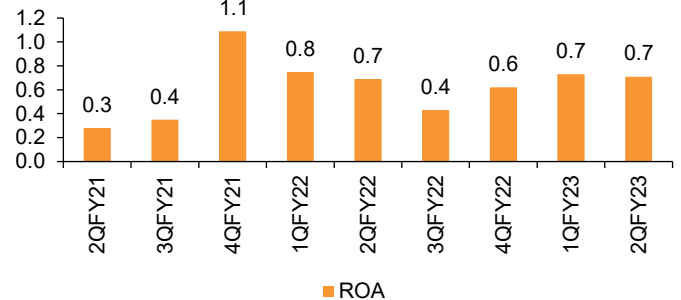
Source: Company, Emkay Research

Exhibit 5: Asset quality improved, with fresh slippages moderating, and better recoveries & w-off, while PCR improved QoQ



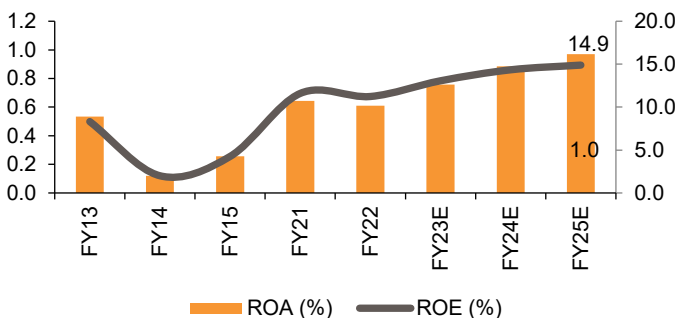
Source: Company, Emkay Research

Exhibit 6: Better NIMs and contained opex led to better profitability in Q2



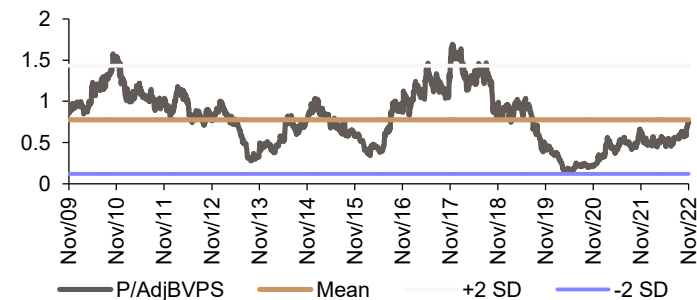
Source: Company, Emkay Research

Exhibit 7: Return ratios expected to improve, led by better growth and moderation in LLP



Source: Company, Emkay Research

Exhibit 8: Stock currently trading at 0.8x FY24E ABV



Source: Company, Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	65,121	63,046	64,900	3%	0%	Better margins and higher other income resulted in a beat
PPOP	36,293	33,699	35,553	8%	2%	Higher net income coupled with lower opex led to a beat
PAT	12,252	12,379	12,379	-1%	-1%	Higher LLP led to a largely in-line PAT

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	94,745	99,257	98,324	1,01,537	1,07,099	13	5	3,88,562	4,36,101	12
Interest Exp	53,910	55,310	55,773	56,197	60,259	12	7	2,21,283	2,45,195	11
Net Interest Income	40,834	43,947	42,552	45,340	46,840	15	3	1,67,280	1,90,906	14
Global NIMs (reported)	2.89	3.03	2.87	3.10	3.20	31bps	10bps	2.76	2.87	11bps
Non-interest Income	19,659	15,561	15,728	16,046	18,281	-7	14	69,154	71,968	4
Operating Expenses	27,739	26,633	30,903	25,742	28,828	4	12	1,09,265	1,18,141	8
Pre Provisioning Profit	32,755	32,875	27,376	35,644	36,293	11	2	1,27,169	1,44,734	14
Provision & Contingencies	25,472	24,931	19,139	22,189	20,586	-19	-7	95,127	78,291	-18
PBT	7,283	7,945	8,237	13,455	15,707	116	17	32,042	66,443	107
Income Tax Expense (Gain)	-3,608	1,052	-1,606	1,320	3,455	-196	162	-7,406	13,289	-279
Net Profit/(Loss)	10,891	6,893	9,842	12,134	12,252	12	1	39,448	53,154	35
Gross NPA (%)	9.56	9.13	8.47	8.13	7.30	-226bps	-83bps	8.47	7.02	-145bps
Net NPA (%)	3.26	2.72	2.27	2.12	1.50	-176bps	-62bps	2.27	1.85	-42bps
Deposits (Rs bn)	5,515	5,626	5,936	5,843	5,889	7	1	5,936	6,411	8
Net Advances (Rs bn)	3,584	3,740	3,892	3,988	4,121	15	3	3,892	4,449	14

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	2,49,620	2,62,875	5.3%	2,68,414	2,85,031	6.2%	3,03,814	3,20,729	5.6%
PPOP	1,33,698	1,44,734	8.3%	1,39,135	1,54,763	11.2%	1,56,803	1,73,866	10.9%
PAT	50,216	53,154	5.9%	60,479	68,716	13.6%	75,392	84,803	12.5%
EPS (Rs)	40.3	42.7	5.9%	48.6	55.2	13.6%	60.5	68.1	12.5%
BV (Rs)	349.4	351.8	0.7%	408.0	416.9	2.2%	480.5	497.0	3.4%

Source: Emkay Research

Exhibit 12: Key assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	7.3	14.3	15.0	15.8
Deposit Growth	10.3	8.0	11.0	13.2
NIM	2.8	2.9	2.9	3.0
GNPA	8.5	7.0	6.1	5.4
Credit Cost	2.3	1.8	1.3	1.1

Source: Emkay Research

Exhibit 13: Key ratios and trends

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs bn)	3,397	3,628	3,627	3,644	3,584	3,740	3,892	3,988	4,121
-growth (YoY)	3.3	9.8	6.4	7.3	5.5	3.1	7.3	9.5	15.0
-growth (QoQ)	0.1	6.8	0.0	0.5	-1.6	4.4	4.0	2.5	3.3
Loan composition (%)									
-Corporate	42.6	43.3	41.3	40.8	38.6	37.8	36.8	36.5	35.7
-Retail	17.5	17.1	18.0	18.2	19.1	18.9	19.4	19.0	19.1
-SME	17.8	17.7	18.0	17.4	18.3	18.2	17.8	17.2	17.4
-Agri	19.5	19.3	20.3	20.6	21.6	21.3	21.2	21.3	21.7
-Overseas	2.5	2.7	2.8	3.1	2.9	3.8	4.8	6.1	6.0
Liability Profile/CAR									
Deposits (Rs bn)	5,020	5,212	5,381	5,401	5,515	5,626	5,936	5,843	5,889
- growth YoY (%)	6.8	8.3	10.1	10.4	9.9	7.9	10.3	8.2	6.8
- growth QoQ (%)	2.6	3.8	3.2	0.4	2.1	2.0	5.5	(1.6)	0.8
CASA (%)	41.4	40.9	42.3	40.8	40.9	41.7	41.8	40.7	40.9
CA (%)	5.4	5.7	6.0	5.1	5.5	6.0	6.2	5.6	5.7
SA (%)	36.0	35.2	36.3	35.6	35.3	35.6	35.6	35.2	35.3
NIM (%)	3.06	3.13	2.34	2.85	2.89	3.03	2.87	3.10	3.20
CAR (%)	13.6	14.1	15.7	15.9	15.9	15.5	16.5	16.5	16.2
Tier I (%)	10.7	11.2	11.9	12.2	12.2	12.0	13.2	13.2	12.9
Asset Quality									
GNPA (%)	9.9	9.0	9.9	9.7	9.6	9.1	8.5	8.1	7.3
NNPA (%)	3.0	2.4	3.4	3.5	3.3	2.7	2.3	2.1	1.5
PCR (%)	72.2	75.8	68.1	66.5	68.1	72.2	74.9	75.5	80.7
Slippages (Rs mn)	3,150	1,950	83,130	44,120	39,520	27,320	33,680	30,890	24,600
Slippages (%)	0.4	0.2	9.8	5.2	4.7	3.0	3.7	3.4	2.7
ROE Decomposition (%)									
NII	2.9	2.9	2.2	2.6	2.6	2.9	2.8	2.9	3.0
Other Income	1.1	0.9	1.0	1.2	1.2	1.0	1.0	1.0	1.2
Opex	1.9	1.8	1.6	1.5	1.8	1.8	2.0	1.6	1.8
PPOP	2.0	2.1	1.5	2.2	2.1	2.2	1.8	2.3	2.3
Provisioning Cost	1.5	1.6	1.0	1.6	1.6	1.7	1.2	1.4	1.3
PBT	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.9	1.0
ROA	0.3	0.3	1.1	0.8	0.7	0.5	0.6	0.8	0.8
ROE	4.5	5.6	17.8	11.5	10.3	6.5	9.0	11.1	10.6

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	1,56,658	1,67,280	1,90,906	2,16,629	2,48,448
Other income	56,502	69,154	71,968	68,402	72,281
Fee income	7,670	8,061	8,867	10,109	11,726
Net income	2,13,160	2,36,434	2,62,875	2,85,031	3,20,729
Operating expenses	1,03,495	1,09,265	1,18,141	1,30,268	1,46,863
Pre provision profit	1,09,665	1,27,169	1,44,734	1,54,763	1,73,866
PPP excl treasury	92,713	1,14,344	1,41,482	1,49,885	1,66,550
Provisions	80,610	95,127	78,291	62,897	60,493
Profit before tax	29,055	32,042	66,443	91,866	1,13,373
Tax	(991)	(7,406)	13,289	23,150	28,570
Tax rate	(3)	(23)	20	25	25
Profit after tax	30,046	39,448	53,154	68,716	84,803

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	11,574	12,734	12,734	12,734	12,734
Reserves	3,72,826	4,24,634	4,85,024	5,63,601	6,60,885
Net worth	3,84,400	4,37,368	4,97,759	5,76,336	6,73,619
Deposits	53,80,711	59,36,178	64,11,072	71,14,952	80,52,256
Borrowings	1,71,343	1,01,443	1,06,515	1,22,493	1,40,866
Total liabilities	62,34,266	67,16,681	73,37,284	81,87,922	93,17,595
Cash and bank	2,75,451	2,40,544	2,64,599	2,91,058	3,20,164
Investments	17,65,370	17,45,586	18,00,402	20,18,819	23,01,549
Loans	36,26,691	38,91,861	44,48,532	51,17,364	59,25,419
Others	2,53,798	2,03,236	2,10,701	2,25,446	2,42,037
Total assets	62,34,266	67,16,681	73,37,284	81,87,922	93,17,595

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.6	2.8	2.9	2.9	3.0
Non-ll/avg assets	1.2	1.1	1.0	0.9	0.8
Fee income/avg assets	0.2	0.1	0.1	0.1	0.1
Opex/avg assets	2.2	1.7	1.7	1.7	1.7
Provisions/avg assets	1.7	1.5	1.1	0.8	0.7
PBT/avg assets	0.6	0.5	0.9	1.2	1.3
Tax/avg assets	0.0	(0.1)	0.2	0.3	0.3
RoA	0.6	0.6	0.8	0.9	1.0
RoAE	11.6	11.2	13.1	14.3	14.9
GNPA (%)	9.9	8.5	7.0	6.1	5.4
NNPA (%)	3.4	2.3	1.9	1.8	1.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	34.6	33.2	42.7	55.2	68.1
BVPS	376.1	316.0	352.0	417.2	497.2
ABVPS	282.9	266.8	308.3	368.6	444.9
DPS	2.6	6.8	8.0	10.0	12.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	7.2	7.5	5.9	4.5	3.7
P/BV	0.9	0.9	0.8	0.7	0.6
P/ABV	0.9	0.9	0.8	0.7	0.6
P/PPOP	2.6	2.5	2.2	2.1	1.8
Dividend Yield (%)	1.0	2.7	3.2	4.0	4.8

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	106.0	6.8	14.1	13.5	14.7
PPOP	79.6	16.0	13.8	6.9	12.3
PAT	298.8	31.3	34.7	29.3	23.4
Loans	83.3	7.3	14.3	15.0	15.8

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	40,834	43,947	42,552	45,340	46,840
NIM (%)	2.9	3.0	2.9	3.1	3.2
PPOP	32,755	32,875	27,376	35,644	36,293
PAT	10,891	6,893	9,842	12,134	12,252
EPS (Rs)	8.74	5.53	7.90	9.74	9.84

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	79.9	79.9	79.9	79.9	79.9
FII	2.4	1.9	1.7	2.1	2.6
DII	10.5	10.6	11.1	11.7	12.1
Public and Others	7.2	7.7	7.3	6.4	5.5

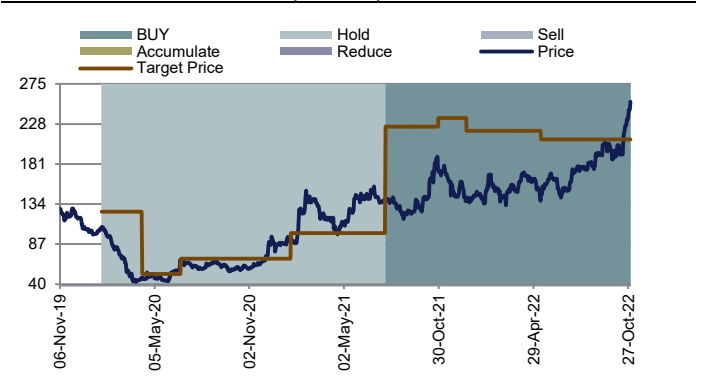
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
01-Aug-22	178	210	12m	Buy	Anand Dama
13-May-22	146	210	12m	Buy	Anand Dama
08-Feb-22	156	220	12m	Buy	Anand Dama
22-Dec-21	138	220	12m	Buy	Anand Dama
29-Oct-21	172	235	12m	Buy	Anand Dama
20-Jul-21	138	225	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



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 based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.87	20.82	-0.2%	-4	100.00	
Axis Bank	2.22	2.34	5%	12	11.21	0
AU Small Finance Bank	0.27	0.25	-7%	-2	1.20	0
Bandhan Bank	0.16	0.17	1%	0	0.79	0
Bank of Baroda	0.26	0.24	-6%	-2	1.15	0
Canara Bank	0.18	0.23	27%	5	1.12	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20	0
Federal Bank	0.25	0.25	0%	0	1.22	0
HDFC Bank	6.16	6.21	1%	5	29.75	0
ICICI Bank	5.88	6.03	3%	15	28.90	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.70	0.82	18%	12	3.92	0
Karur Vysya Bank	0.00	0.10	NA	10	0.47	0
Kotak Mahindra Bank	2.53	2.00	-21%	-52	9.60	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.04	2.04	0%	0	9.78	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.06	0.06	0%	0	0.28	0
Yes Bank	0.05	0.05	1%	0	0.22	0
Cash	0.00	0.04	NA	4	0.21	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	3-Nov-21	4-May-22	3-Aug-22	3-Oct-22	3-Nov-22
EAP - BFSI-Banks	100.0	134.8	120.5	130.0	129.9	141.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	132.1	118.2	127.5	127.2	138.2

*Performance measurement base date 1st April 2019

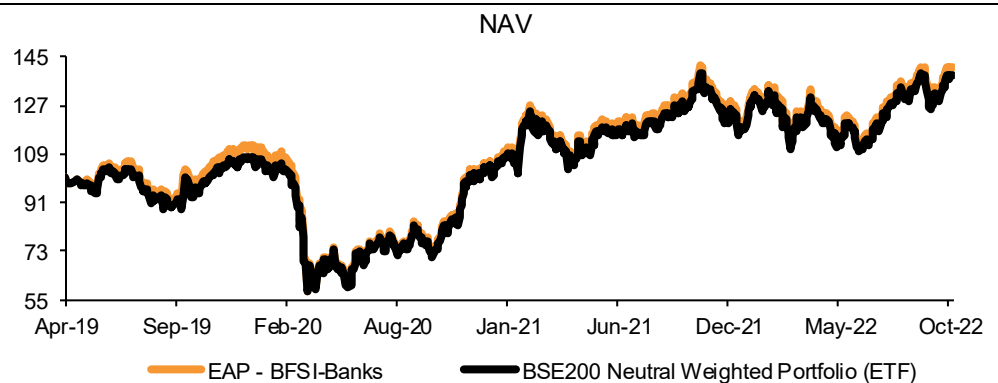
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.8%	8.6%	17.3%	4.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.7%	8.4%	17.0%	4.7%

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”

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Emkay Rating Distribution

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

Completed Date: 05 Nov 2022 04:09:59 (SGT)

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