Indian Bank (INDIBA)

ICICI direct Research

CMP: ₹ 259 | Target: ₹ 300 (16%) | Target Period: 12 months | BUY

November 10, 2022

Overall steady performance; margin expansion to be key

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of over ₹ 10.3 lakh crore

- Pan-India presence with strong branch network of 5728 domestic branches
- Diversified loan mix with RAM (retail/agri/MSME) forming ~62% to book

Q2FY23 Results: Steady operational performance; asset quality improved.

- Gross advances grew 13.5% YoY to ₹ 437941 crore. Deposits up 6.8% YoY with CASA growth at 7% YoY
- NII up 14.7% YoY, 3.3% QoQ. NIMs improved 10 bps QoQ at 3.2%
- GNPA down 83 bps QoQ to 7.3%. R/s book declined QoQ to 3.7%

What should investors do? Steady credit growth outlook and improvement in asset quality trend with adequate liabilities & capital position gives comfort.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: Indian Bank is expected to deliver credit growth largely in line with industry and RoA of ~0.9% in FY24E. Thus, we value the bank at ~0.85x FY24E ABV and revise our target price from ₹ 250 to ₹ 300 per share

Key triggers for future price performance:

- Credit growth guidance of 10% driven by RAM segment (12-13% growth) will also aid earnings momentum
- Improvement in CD ratio and gradual transmission of rate hike to keep margin trajectory steady at 3.2-3.25%
- Recoveries are in line with what the management had guided for in FY23E. Hence, credit cost of <2% is achievable
- Expect return ratios to improve gradually and, thus, aid valuations

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

- SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 52 lakh crore
- BUY with a target price of ₹ 700

Result Update

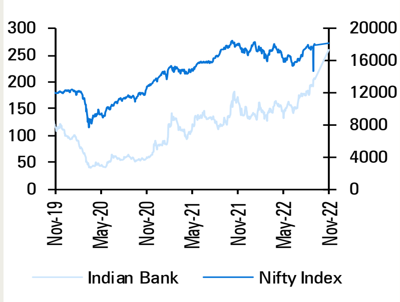
Particulars

Particulars	Amount
Market Capitalisation	₹ 33365 Crore
52 week H/L	269/130
Net Worth (₹ crore)	₹ 36069
Face value	₹ 10
DII Holding (%)	12.1
FII Holding (%)	2.6

Shareholding pattern

	Jun-21	Mar-22	Jun-22	Sep-22
Promoter	79.9	79.9	79.9	79.9
FII	10.4	1.7	2.1	2.6
DII	3.0	11.1	11.7	12.1
Others	6.7	7.3	6.3	5.5

Price Chart



Recent Event & Key risks

- GNPA down 83 bps QoQ to 7.3%. Restructured book at 3.7%
- Key Risk: 1) Slower than expected growth in RAM segment 2) Delayed recoveries

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	7606	15666	16728	34%	18648	21212	13%
PPP	6498	11396	12717	38%	14412	16470	14%
PAT	753	3005	3945	131%	5281	6273	26%
ABV (₹)	249.3	212.2	261.6		288.5	345.9	
P/E	20.9	9.7	8.2		4.8	4.1	
P/ABV	1.0	1.2	1.0		0.7	0.6	
RoA	0.3	0.5	0.6		0.8	0.8	
RoE	4.3	9.8	11.2		11.8	12.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Steady performance; asset quality improving

- NII up 14.7% YoY, 3.3% QoQ to ₹ 4684 crore, largely driven by retail segment and margin expansion. Margin expanded 31 bps YoY and 10 bps QoQ to 3.2%. Other income reported de-growth of 7% YoY, mainly on account of lower income from sale of investments
- Provisions declined 19.2% YoY at ₹ 2059 crore. Thus, PAT reported growth of 12.5% YoY and was flat on a QoQ basis to ₹ 1225.2 crore
- Asset quality improved as GNPA, NNPA declined 83 bps, 62 bps QoQ to 7.3%, 1.5%, respectively. Slippages ratio was at 2.44% vs. 3.03% in Q1FY23 and 4.49% in Q2FY22
- Gross advances were up 13.5% YoY to ₹ 437941 crore, led by retail & agri segment. Corporate book grew 6% YoY. RAM segment constitutes ~62% of total loans. Deposit growth was at 6.8% YoY to ₹ 588860 crore, primarily driven by growth in overseas deposits. CASA deposits grew 7% YoY and CASA as percentage of total deposits was at 40.94%

Q2FY23 Earnings Conference Call highlights

- Overall credit growth guidance maintained at 10% YoY for FY23. Credit growth in the RAM segment is expected to be 12-13% YoY with RAM proportion in total loans to be 62%
- Growth in corporate segment may be muted due to margin pressures. NIMs to be at ~3%
- CD ratio to be in the range of 72-74% levels
- GNPA, NNPA are expected at ~7%, < 2%, respectively, in FY23E. Credit cost is expected to be < 2%
- During the quarter interest reversal was ₹ 400 crore, which partially impacted NII
- Out of 190 bps repo rate hike by RBI, roughly around 140 bps interest rate is passed on to customers
- Employee cost to remain higher in H2FY23 due to wage revision provisions
- Out of total slippages of ₹ 2460 crore, ~₹ 1000 crore was from agri segment
- Collection efficiency remains steady QoQ at 95% levels
- Currently, there are four accounts in NARCL with exposure of ₹ 4850 crore in which 20-25% recovery is expected
- Earlier guidance of recovery of ₹ 8000 crore in FY23E is maintained

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Bn)	EPS (₹) FY21	FY22E	FY23E	FY24E	P/E (x) FY21	FY22E	FY23E	FY24E	P/ABV (x) FY21	FY22E	FY23E	FY24E	RoE (%) FY21	FY22E	FY23E	FY24E
BoB (BANBAR)	145	170	Buy	747	-18.9	14.0	21.1	21.6	-7.7	10.3	6.9	6.7	1.4	1.0	0.9	0.8	-13.1	8.9	11.8	10.6
SBI (STABAN)	530	650	Buy	4,733	22.9	35.5	38.6	44.1	23	14.9	13.7	12.0	2.2	1.9	1.7	1.5	8.4	11.9	11.6	11.9
Indian Bank (INDIBA)	259	300	Buy	333	26.6	31.7	42.4	50.4	10	8.2	6.1	5.1	1.2	1.0	0.9	0.7	9.8	11.2	11.8	12.8
Axis Bank (AXIBAN)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	4,684	4,083	14.7	4,534	3.3	Driven by margin expansion and decent growth in business
NIM (%)	3.20	2.89	31 bps	3.10	10 bps	Yields improved 32 bps QoQ, 50 bps YoY
Other Income	1,828	1,966	-7.0	1,605	13.9	
Net Total Income	6,512	6,049	7.6	6,139	6.1	
Staff cost	1,777	1,713	3.7	1,539	15.4	
Other Operating Expenses	1,106	437	153.1	1,035	6.9	CI ratio largely steady YoY
PPP	3,629	3,275	10.8	3,564	1.8	
Provision	2,059	2,547	-19.2	2,219	-7.2	Credit cost steady on QoQ basis to 2.01%
PBT	1,571	728	115.7	1,345	16.7	
Tax Outgo	345.5	-360.8	-195.7	132.0	161.7	
PAT	1,225.2	1,089.2	12.5	1,213.4	1.0	Lower provisions lead to healthy PAT growth YoY
Key Metrics						
GNPA	31,959.0	36,886.0	-13.4	34,573.0	-7.6	Slippage ratio declined QoQ to 2.44% vs 3.03%
NNPA	6,174.0	11,749.0	-47.5	8,471.0	-27.1	
Advances	437,941.0	385,730.0	13.5	425,203	3.0	Led by RAM segment
Deposits	588,860.0	551,472.0	6.8	584,251	0.8	CASA ratio up to 40.94%

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	FY23E			FY24E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	18,551	18,648	0.5	21,047	21,212	0.8
Pre Provision Profit	14,200	14,412	1.5	16,142	16,470	2.0
NIM (%)	3	3	5 bps	3.0	3	0 bps
PAT	5,557	5,281	-5.0	6,613	6,273	-5.1
ABV (₹)	275.2	288.5	4.8	324	345.9	6.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	21,405	39,106	38,856	43,943	50,504
Interest Expended	13,799	23,440	22,128	25,295	29,292
Net Interest Income	7,606	15,666	16,728	18,648	21,212
growth (%)	8.4	106.0	6.8	11.5	13.8
Non Interest Income	3312	6079	6915	7051	7873
Net Income	10919	21745	23643	25699	29085
Staff cost	2473.0	6378	6696	6270	6781
Other Operating expense	1947.9	3971	4231	5017	5834
Operating profit	6498	11396	12717	14412	16470
Provisions	5125	8490	9513	8199	9090
PBT	1373	2906	3204	6213	7380
Taxes	619	-99	-741	932	1107
Net Profit	753.4	3005	3945	5281	6273
growth (%)	134.0	298.8	31.3	33.9	18.8
EPS (₹)	12.4	26.6	31.7	42.4	50.4

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	60.9	112.9	124.5	124.5	124.5
EPS (₹)	12.4	26.6	31.7	42.4	50.4
BV (₹)	350.9	320.9	332.6	350.0	397.9
ABV (₹)	249.3	212.2	261.6	288.5	345.9
P/E	20.9	9.7	8.2	6.1	5.1
P/BV	0.7	0.8	0.8	0.7	0.7
P/ABV	1.0	1.2	1.0	0.9	0.7
Yields & Margins (%)					
Net Interest Margins	2.8	3.7	2.8	2.9	3.0
Yield on assets	7.9	9.2	6.6	6.8	7.1
Avg. cost on funds	5.0	5.4	3.6	3.9	4.2
Yield on average adva	8.4	9.8	7.2	7.4	7.8
Avg. Cost of Deposits	5.2	5.6	3.7	3.9	4.2
Quality and Efficiency (%)					
Cost to income ratio	40.5	47.6	46.2	43.9	43.4
Credit/Deposit ratio	76.0	67.4	65.6	68.2	69.9
GNPA	6.9	9.9	8.5	7.7	6.9
NNPA	3.1	3.4	2.3	1.8	1.3
ROE	4.3	9.8	11.2	11.8	12.8
ROA	0.3	0.5	0.6	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	608.8	1129.4	1245.4	1245.4	1245.4
Reserves and Surplus	21480.5	37282.6	42463.4	44623.2	50594.0
Networth	22089.3	38411.9	43708.8	45868.6	51839.4
Deposits	260225.9	538071.1	593617.8	639020.6	698614.0
Borrowings	20830.3	26174.6	17144.3	18214.2	19032.0
Other Liabilities & Provisions	6322.7	23347.3	17197.1	18493.8	18799.9
Total	3,09,468	6,26,005	6,71,668	7,21,597	7,88,285
Applications of Funds					
Fixed Assets	3895.7	7376.3	7683.7	7961.5	8279.2
Investments	81241.7	176537.0	174558.6	183834.6	193648.6
Advances	197887.0	362669.1	389186.1	435854.1	488118.5
Other Assets	12519.1	25362.8	20323.6	11512.0	11992.5
Cash with RBI & call money	13924.7	54059.9	79916.1	82434.9	86246.4
Total	3,09,468	6,26,005	6,71,668	7,21,597	7,88,285

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios (%)

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	10.5	102.3	7.3	7.4	9.2
Advances	9.2	83.3	7.3	12.0	12.0
Deposit	7.5	106.8	10.3	7.6	9.3
Total Income	22.7	99.2	8.7	8.7	13.2
Net interest income	8.4	106.0	6.8	11.5	13.8
Operating expenses	10.0	134.1	5.6	3.3	11.8
Operating profit	33.1	75.4	11.6	13.3	14.3
Net profit	134.0	298.8	31.3	33.9	18.8
Net worth	13.9	73.9	13.8	4.9	13.0
EPS	84.6	115.0	19.1	33.9	18.8

Source: Company, ICICI Direct Research

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Sell: <-15%

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