

# Indian Bank

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## Focused on profitability vs growth; well-capitalized among PSBs

**We met Indian Bank's MD & CEO to discuss the bank's near-to-medium term business strategy amid the increasing global & macro uncertainty; key takeaways:**

- **Unwavering focus on margins, instead of chasing credit growth:** Bank maintains clarity on achieving growth without compromising on margins; thus, it would avoid chasing growth in its corporate book. Consequently, bank guides for 13-14% credit growth in FY23 (lower than the system at 15-16%) and foresees maintaining a similar trend in FY24, based on macro conditions and focus on margins. Though current blended CoF is 4.3%, incremental CoF is >6% on TDs; hence, the bank would continue to focus on growing its RAM book (Retail – Housing/VF/Gold loans; Agri – Agri Gold loans and MSME) to support margins. Within Retail, the bank plans adding express PL as a new product, while maintaining its dominance in retail/agri gold loans as well as offering SHG loans. Bank logged its highest-ever NIM, of 3.7% in 3Q (due to interest recognition on NPA recovery + asset repricing), but believes that a blend of improving LDR (low at 71% now), growth in the RAM segment, repricing of the MCLR book (highest among PSBs at 56%) and repricing of the investment book will help protect margin, keeping it well above 3%.
- **Plans to build new CASA and retail deposit pockets:** Indian Bank benefited the most from its merger with east-India based Allahabad Bank, in terms of CASA, which stands high at 40% amongst peers. However, CASA is under pressure for most banks due to cannibalization towards TDs as well as competition from NSS (National Saving Schemes) and other alternative investments. Bank has been rationalizing its branch network since long post-merger, and would now look to expand the network to new SA/retail deposit pockets, for mobilizing deposits. Bank will also focus on NRI/HNI deposit pockets, with targeted deposit products. Management understands that such measures will bear fruit in the medium-to-long term and, thus, its immediate focus will be on sweating the existing branch network and client relationships, while managing credit growth in sync with deposit growth to maintain ALM.
- **NPA ratios to trend down; relapse from restructured book to be lower:** Bank has recovered well from the merger/ILFS pain, with its NNPA ratio now being one of the lowest among PSBs, at 1% (after SBI/BOM, and similar to BOB's). Bank believes that the overall slippage ratio in FY23 would be <2%, which should sustain, in the absence of lumpy corporate NPAs. Bank's exposure to Adani is lower than 0.5% of loans/4% of NW and is largely in operational assets. Agri slippages remain volatile, but Mgmt believes that the recovery rate is far better now, as nearly 53% of the agri loans are backed by collaterals which is unique for Indian Bank. Restructured book stands higher for the bank at 3.4% vs peers, as the bank has been relatively liberal in restructuring; but relapse rate would be lower and is well provided for (15%). Bank will also be one of the key beneficiaries from the resolution of accounts like Srei Infra, ILFS, etc.
- **We retain BUY:** We expect the bank to report 0.8% RoA in FY23E and reach 1% by FY24E/FY25E, led by a healthy margin trajectory, improving fees (incl. PSLC) and normalization of credit cost (1.1-1.2%, from a high of >2%). Additionally, Indian Bank is one of the few PSBs to remain well capitalized, with CET 1 at 13.2% (including 9MFY23 profit), thus posing no risk of equity dilution for investors, unlike peers. The current MD & CEO's term is till Sep-2024, post which he will be eligible for a 2-year extension before superannuation. We retain a BUY on the stock, with TP of Rs375/share (0.8x FY25E ABV).

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	213,160	236,434	270,121	291,251	327,348
Net profit	30,046	39,448	52,635	73,134	88,226
EPS (Rs)	34.6	33.2	42.3	58.7	70.8
ABV (Rs)	282.9	266.8	329.2	396.1	475.8
RoA (%)	0.6	0.6	0.8	1.0	1.0
RoE (%)	11.6	11.2	12.9	15.2	15.3
P/E (x)	7.9	8.2	6.4	4.6	3.8
P/ABV (x)	1.0	1.0	0.8	0.7	0.6

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 273</b> as of (March 19, 2023)	<b>Rs 375 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>37.6 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-(0.6)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	42.3	58.7
Consensus	44.0	56.0
Mean Consensus TP (12M)	Rs 348	

### Stock Details

Bloomberg Code	INBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,245
52 Week H/L	310 / 137
M Cap (Rs bn/USD bn)	339 / 4.11
Daily Avg Volume (nos.)	1,783,568
Daily Avg Turnover (USD mn)	6.2

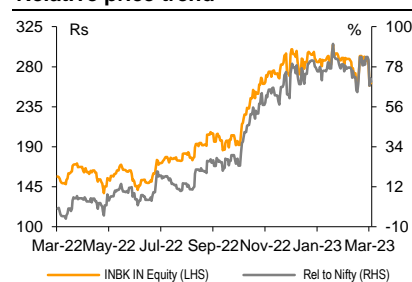
### Shareholding Pattern Dec '22

Promoters	79.9%
FII's	3.6%
DII's	11.9%
Public and Others	4.6%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(6)	(7)	39	74
<b>Rel. to Nifty</b>	(1)	-	45	76

### Relative price trend



Source: Bloomberg

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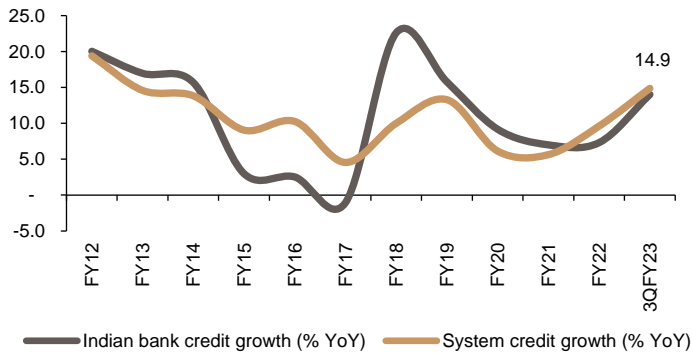
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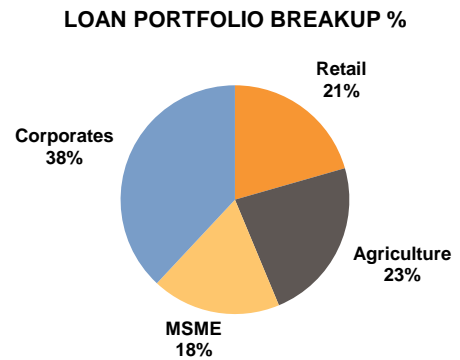
## Story in Charts

**Exhibit 1: Indian Bank's credit growth has either outpaced or lagged the systemic credit growth, given its focus on RAM and margin management**



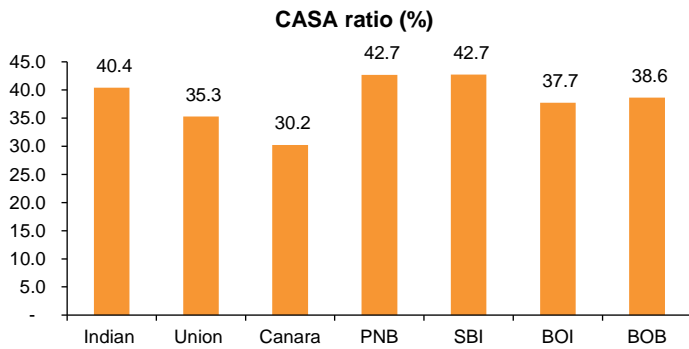
Source: Company, Emkay Research

**Exhibit 2: Bank maintains focus on growing its RAM book (Retail, Agri, MSME); within Agri, 53% is collateralized by gold**



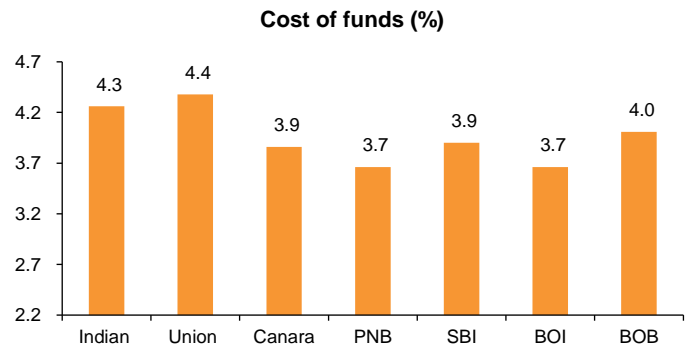
Source: Company, Emkay Research

**Exhibit 3: Bank is better placed among peers, in terms of CASA ratio**



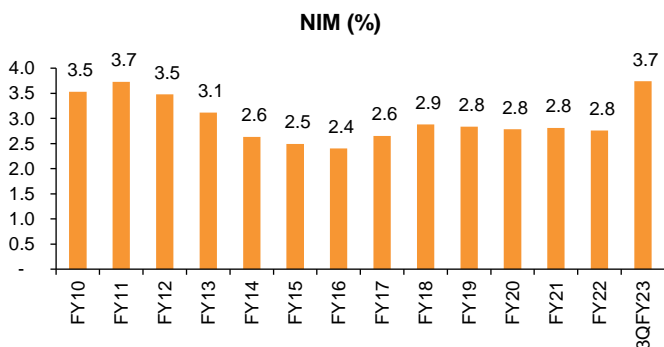
Source: Company, Emkay Research

**Exhibit 4: Indian Bank's CoF is slightly on the higher side, as also its yields, thus leading to a better margin trajectory**



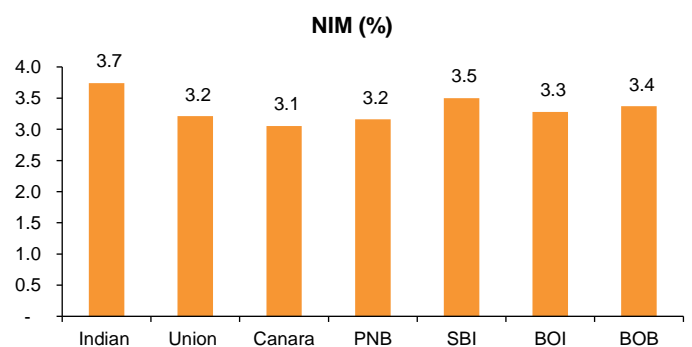
Source: Company, Emkay Research

**Exhibit 5: Higher share of RAM portfolio aiding margins**



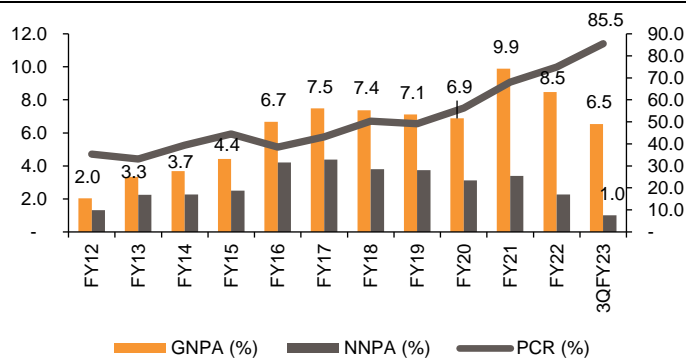
Source: Company, Emkay Research

**Exhibit 6: Indian Bank has better margins than peers in 3Q (due to interest recognition on NPA recovery + asset repricing)**



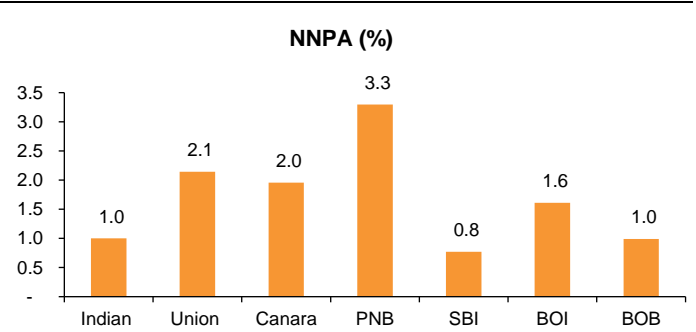
Source: Company, Emkay Research

**Exhibit 7: Bank has recovered well post-merger/ILFS pain which reflects in its improving asset quality**



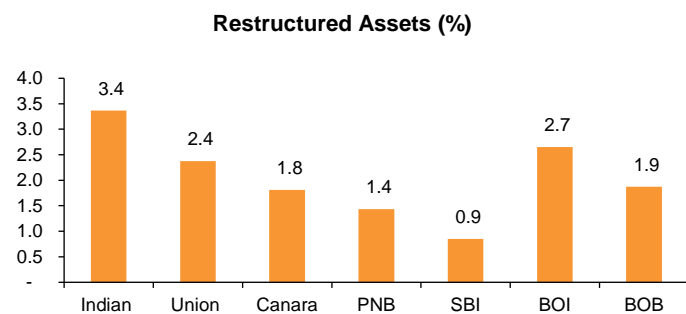
Source: Company, Emkay Research

**Exhibit 8: Indian Bank's NNPA is now one of the lowest among PSBs**



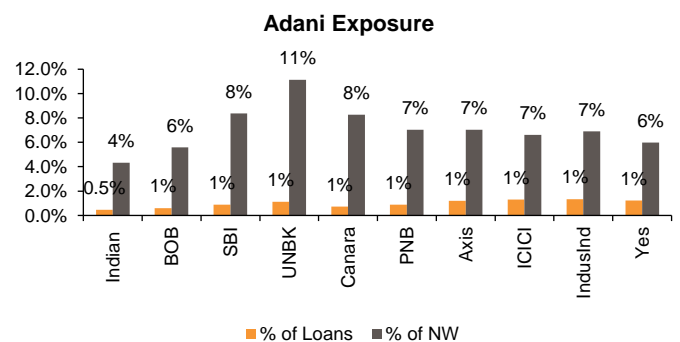
Source: Company, Emkay Research

**Exhibit 9: Restructured book stands higher for the bank at 3.4% vs peers, as the bank has been relatively liberal in restructuring**



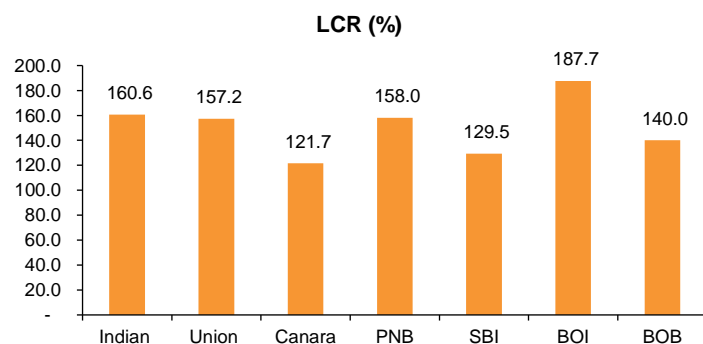
Source: Company, Emkay Research

**Exhibit 10: Indian Bank's exposure to Adani is lower than 0.5% of loans/4% of NW and is largely in operational assets**



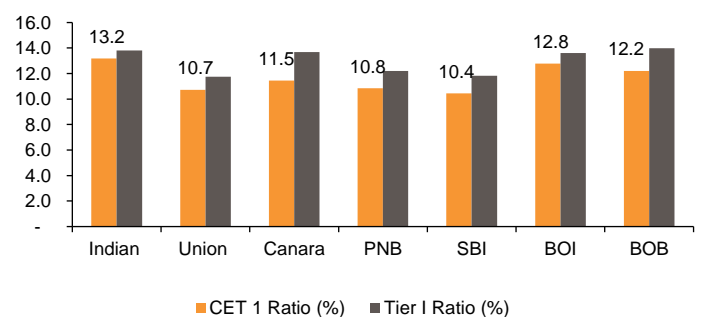
Source: Company, Emkay Research

**Exhibit 11: Indian Bank's LCR remains healthy, indicating enough short-term liquidity on the balance sheet**



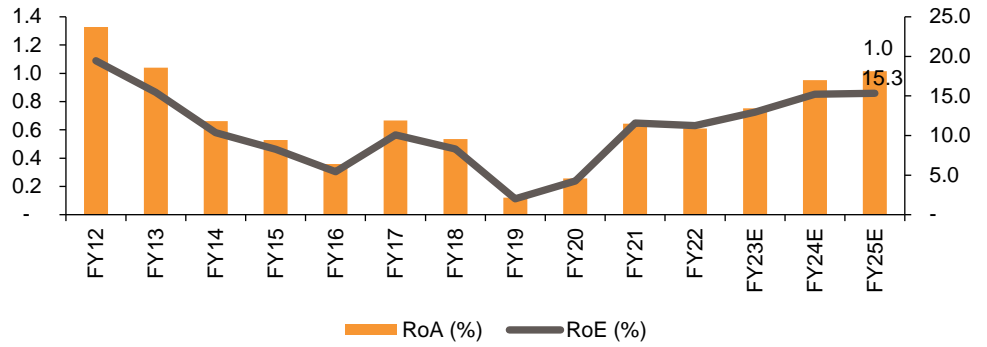
Source: Company, Emkay Research

**Exhibit 12: Indian Bank remains one of the few PSBs to remain well capitalized, with CET 1 at 13.2% (including 9MFY23 profit)**



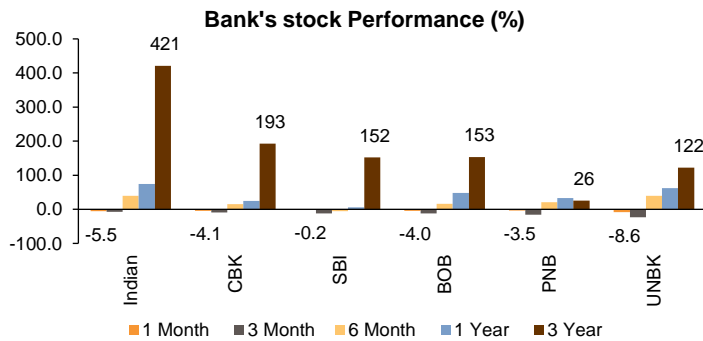
Source: Company, Emkay Research

**Exhibit 13: We expect the bank to report RoA of 0.8% in FY23E and reach 1% by FY24E/FY25E, led by a healthy margin trajectory, improving fees (including PSLC) and normalization of credit cost**



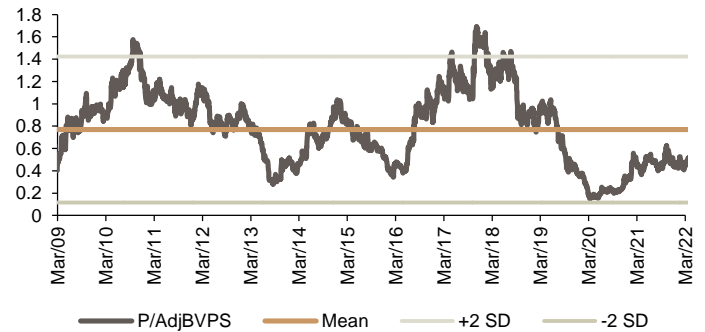
Source: Company, Emkay Research

**Exhibit 14: Indian Bank's stock has been an outperformer in last 3 years among peers**



Source: Bloomberg, Emkay Research

**Exhibit 15: The stock is currently trading at 0.7x its FY24E ABV**



Source: Bloomberg, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>156,658</b>	<b>167,280</b>	<b>201,353</b>	<b>217,017</b>	<b>245,397</b>
<b>Other income</b>	<b>56,502</b>	<b>69,154</b>	<b>68,768</b>	<b>74,234</b>	<b>81,952</b>
Fee income	7,670	8,061	8,867	9,931	11,322
<b>Net income</b>	<b>213,160</b>	<b>236,434</b>	<b>270,121</b>	<b>291,251</b>	<b>327,348</b>
Operating expenses	103,495	109,265	118,929	131,954	147,219
<b>Pre provision profit</b>	<b>109,665</b>	<b>127,169</b>	<b>151,192</b>	<b>159,297</b>	<b>180,129</b>
<b>PPP excl treasury</b>	<b>92,713</b>	<b>114,344</b>	<b>147,941</b>	<b>155,070</b>	<b>173,789</b>
Provisions	80,610	95,127	87,776	61,524	62,181
<b>Profit before tax</b>	<b>29,055</b>	<b>32,042</b>	<b>63,416</b>	<b>97,772</b>	<b>117,949</b>
Tax	(991)	(7,406)	10,781	24,639	29,723
Tax rate	(3)	(23)	17	25	25
<b>Profit after tax</b>	<b>30,046</b>	<b>39,448</b>	<b>52,635</b>	<b>73,134</b>	<b>88,226</b>

**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	372,826	424,634	484,505	567,500	668,829
<b>Net worth</b>	<b>384,400</b>	<b>437,368</b>	<b>497,240</b>	<b>580,235</b>	<b>681,563</b>
Deposits	5,380,711	5,936,178	6,281,614	6,960,902	7,866,707
Borrowings	171,343	101,443	106,515	122,493	140,866
<b>Total liabilities</b>	<b>6,234,266</b>	<b>6,716,681</b>	<b>7,288,845</b>	<b>8,092,177</b>	<b>9,276,989</b>
Cash and bank	275,451	240,544	264,599	291,058	320,164
Investments	1,765,370	1,745,586	1,770,627	1,983,387	2,258,872
Loans	3,626,691	3,891,861	4,435,400	5,060,290	5,917,728
Others	253,798	203,236	220,705	237,611	268,498
<b>Total assets</b>	<b>6,234,267</b>	<b>6,716,681</b>	<b>7,288,845</b>	<b>8,092,177</b>	<b>9,276,989</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.6	2.8	3.0	3.0	3.0
Non-ll/avg assets	1.2	1.1	1.0	1.0	0.9
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	1.3	0.8	0.7
PBT/avg assets	0.6	0.5	0.9	1.3	1.4
Tax/avg assets	0.0	(0.1)	0.2	0.3	0.3
RoA	0.6	0.6	0.8	1.0	1.0
RoAE	11.6	11.2	12.9	15.2	15.3
GNPA (%)	9.9	8.5	6.0	5.1	4.3
NNPA (%)	3.4	2.3	1.0	0.9	0.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	34.6	33.2	42.3	58.7	70.8
BVPS	376.1	316.0	351.6	420.3	503.6
ABVPS	282.9	266.8	329.2	396.1	475.8
DPS	2.6	6.8	8.0	10.0	12.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	7.9	8.2	6.4	4.6	3.8
P/BV	1.0	1.0	0.8	0.7	0.6
P/ABV	1.0	1.0	0.8	0.7	0.6
P/PPOP	2.9	2.7	2.3	2.2	1.9
Dividend Yield (%)	1.0	2.5	2.9	3.7	4.6

Source: Company, Emkay Research

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<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
NII	106.0	6.8	20.4	7.8	13.1
PPOP	79.6	16.0	18.9	5.4	13.1
PAT	298.8	31.3	33.4	38.9	20.6
Loans	83.3	7.3	14.0	14.1	16.9

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
NII	43,947	42,552	45,340	46,840	54,992
NIM (%)	3.0	2.9	3.1	3.2	3.7
PPOP	32,875	27,376	35,644	36,293	40,614
PAT	6,893	9,842	12,134	12,252	13,958
EPS (Rs)	5.53	7.90	9.74	9.84	11.21

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	79.9	79.9	79.9	79.9	79.9
FII	1.9	1.7	2.1	2.6	3.6
DII	10.6	11.1	11.7	12.1	11.9
Public and Others	7.7	7.3	6.4	5.5	4.6

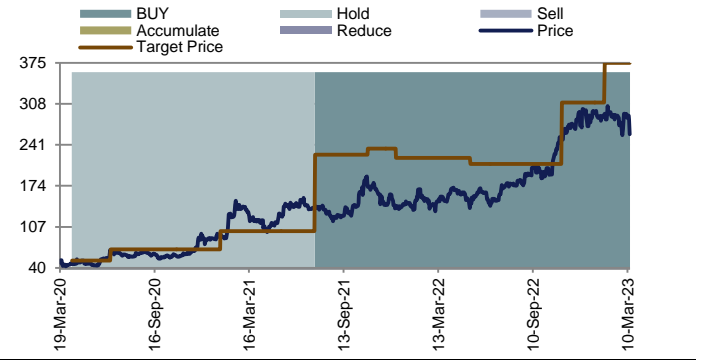
Source: Capitaline

## RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
9-Mar-23	285	375	12m	Buy	Anand Dama
25-Jan-23	292	375	12m	Buy	Anand Dama
4-Nov-22	250	310	12m	Buy	Anand Dama
1-Aug-22	178	210	12m	Buy	Anand Dama
13-May-22	146	210	12m	Buy	Anand Dama
8-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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - Trend



Source: Bloomberg, Company, Emkay Research

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