

A class apart performance, once again

BFSI - Banks ▶ Result Update ▶ January 29, 2025

TARGET PRICE (Rs): 675

Indian Bank consciously slowed down credit growth in 3Q to ~11% YoY to protect its margins, which manifested via a 6bps QoQ improvement in NIM to 3.45%, defying industry trend. This, coupled with steady improvement in NPAs (GNPA ratio down to 3.3% and NNPA ratio at an industry-low of 0.2%) and thus lower provisions, led to a 7% beat on PAT at Rs28bn and hence superior RoA at 1.4%. The only minor irritant in 3Q was rise of Rs29bn QoQ in the SMA 1 & 2 pool (led by 3 government accounts) to Rs77bn (1.4% of loans), of which 2 accounts have been resolved till now and the pool has now reduced to below Rs30bn. That said, the bank carries enough provision buffers including specific PCR at an industry high of ~94%, and has made accelerated standard asset provision of Rs5.5bn in 3Q. We retain BUY and TP of Rs675 (valuing it at 1.2x Dec-26E ABV) given its unwavering focus on delivering superior profitability and strong capital/provision buffers. Indian Bank remains our preferred pick, given its consistently healthy performance, defying industry-wide weakness.

Indian Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	52,814	80,631	107,464	119,674	128,099
Loan growth (%)	15.4	14.6	10.8	10.7	13.4
NII growth (%)	20.9	15.1	8.8	9.2	10.6
NIM (%)	3.1	3.2	3.1	3.1	3.1
PPOP growth (%)	20.1	10.3	12.3	9.4	9.0
Adj. EPS (Rs)	42.4	62.2	79.8	88.8	95.1
Adj. EPS growth (%)	27.6	46.7	28.3	11.4	7.0
Adj. BV (INR)	315.0	392.3	462.5	527.9	598.1
Adj. BVPS growth (%)	18.1	24.5	17.9	14.1	13.3
RoA (%)	0.8	1.1	1.3	1.3	1.2
RoE (%)	13.3	17.1	18.6	17.6	16.4
P/E (x)	12.9	8.8	6.8	6.1	5.7
P/ABV (x)	1.7	1.4	1.2	1.0	0.9

Source: Company, Emkay Research

Consciously slowed down credit growth to support margins

Indian Bank consciously slowed down credit growth in 3Q to ~11% YoY, given its long-standing stance of focusing on protecting margins vs chasing growth. Thus, the bank opted to slow down growth in the corporate book, but continues to grow its high-yielding RAM book. Within Retail, VF remains the key growth driver, while low-yielding mortgage growth too has slowed down. The bank continues to run down its PL book as a part of its risk management strategy. Separately, the recent RBI guidelines have led to de-classification of agri gold loans into the non-priority segment which may have some impact on the PSL. Deposits growth too was moderate, at 7.4% YoY/1.3% QoQ, leading to stable albeit healthy LDR at 77%. This, coupled with better loan yields (+15bps QoQ), led to 6bps QoQ expansion in NIM to 3.45%. The new MD has retained the earlier credit growth guidance of 11-13%, but considering the current run-rate, we believe there could be some slip-up given its focus on protecting margins.

Asset quality continues to improve, but still carries healthy provision buffers

Gross slippages dipped to a low of Rs10.2bn/0.8% of loans (improved across the segment with miniscule corporate slippages) in 3Q, leading to a 22bps QoQ decline in GNPA ratio to 3.3% and in NNPA ratio to 0.2% (being one of the lowest in the industry). The only minor irritant in 3Q was rise in the SMA 1 & 2 book (led by 3 government accounts) by Rs29bn QoQ to Rs77bn (1.4% of loans), of which 2 accounts have been resolved till now and in the other account, the bank does not see a meaningful risk of default. That said, the bank carries enough provision buffers including specific PCR at an industry high at ~94%, and has made accelerated standard asset provision of Rs5.5bn in 3Q.

Indian Bank remains our preferred pick among PSBs

We expect the bank to deliver superior RoA at 1.2-1.3% and RoE at 16-19% over FY25-27E among peers which, coupled with the bank's healthy CET-1@13.3% (ex-9M profits), provides comfort. We retain our BUY and TP of Rs675 (valuing it at 1.2x Dec-26E ABV) given its unwavering focus on delivering superior profitability vs growth and strong capital/provision buffers. **Key risks:** Macro dislocation hurting the growth/asset quality improvement trajectory, introduction of ECL norms and merger of any other PSB, given the bank's otherwise strong fundamentals.

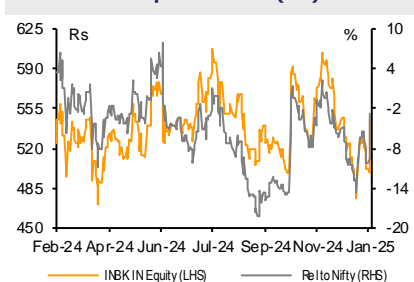
Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.9
CMP (29-Jan-25) (Rs)	544.8

Stock Data	Ticker
52-week High (Rs)	633
52-week Low (Rs)	456
Shares outstanding (mn)	1,347.0
Market-cap (Rs bn)	734
Market-cap (USD mn)	8,477
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,056.5
ADTV-3M (USD mn)	12.2
Free float (%)	26.0
Nifty-50	23,163
INR/USD	86.6
Shareholding, Dec-24	
Promoters (%)	73.8
FPIs/MFs (%)	4.8/17.6

Price Performance

(%)	1M	3M	12M
Absolute	(0.4)	(6.2)	13.4
Rel. to Nifty	2.3	(1.0)	6.4

1-Year share price trend (Rs)



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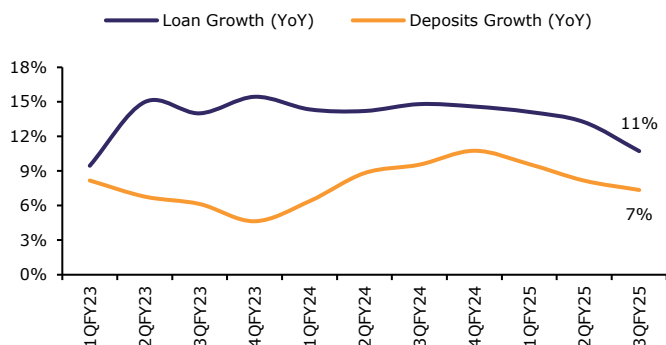
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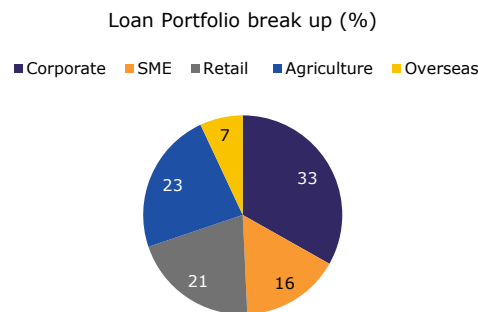
Story in Charts

Exhibit 1: Conscious slowdown in business growth to protect margins...



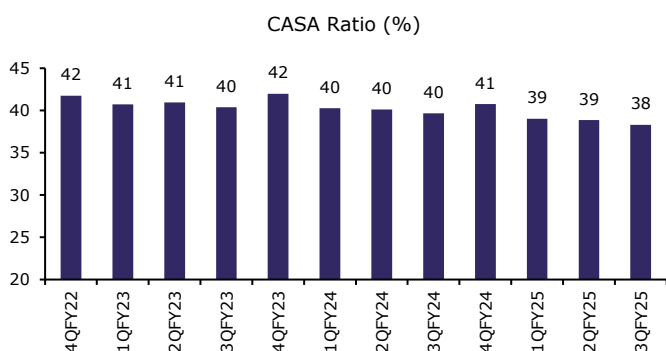
Source: Company, Emkay Research

Exhibit 2: ...but the bank remains focused on growing its RAM book



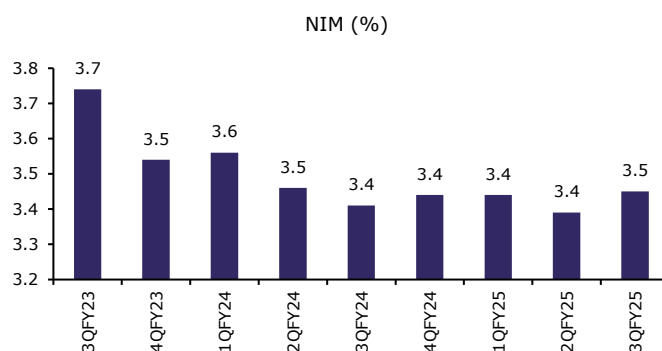
Source: Company, Emkay Research

Exhibit 3: CASA ratio slips a bit QoQ due to industry-wide cannibalization



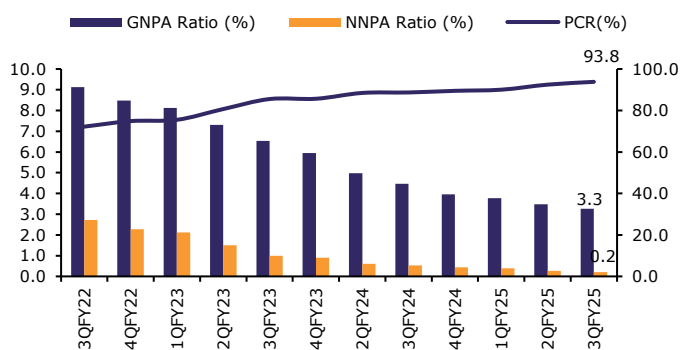
Source: Company, Emkay Research

Exhibit 4: NIM improved QoQ due to better loan yields



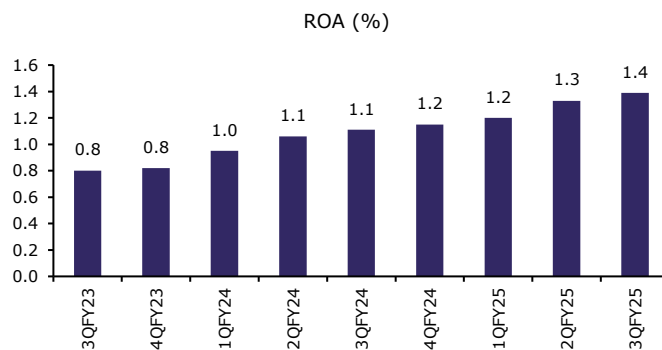
Source: Company, Emkay Research

Exhibit 5: NNPA ratio remains one of the lowest among peers; PCR further shored up to 93.8% – the highest among PSBs

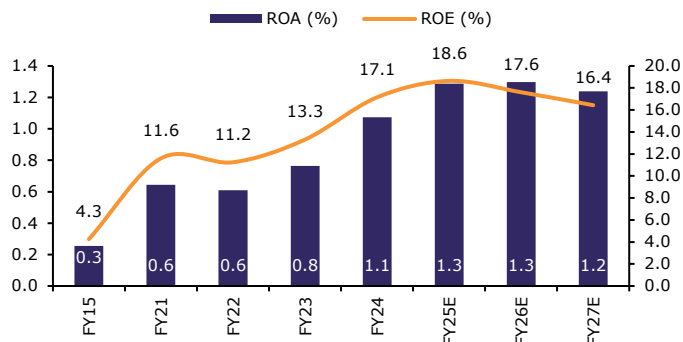


Source: Company, Emkay Research

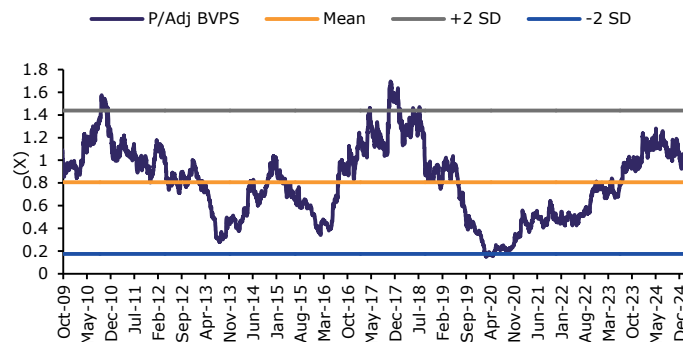
Exhibit 6: The bank delivers healthy RoA at 1.4% due to better NII growth, contained opex, and provisions



Source: Company, Emkay Research

Exhibit 7: We expect the bank's RoA/RoE trajectory to remain healthy

Source: Company, Emkay Research

Exhibit 8: The stock is currently trading at 0.9x its one-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q3FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	85,673	85,289	76,726	0%	12%	Healthy NII growth and lower other income led to inline net income
PPOP	47,494	45,566	44,451	4%	7%	Inline net income and contained opex led to a PPOP beat
PAT	28,524	26,603	24,971	7%	14%	PPOP beat along with contained LLP and lower tax led to a PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	141,976	146,245	150,392	153,476	157,595	11	3	556,148	623,978	12
Interest Expenses	83,834	86,091	88,611	91,534	93,447	11	2	323,415	370,759	15
Net Interest Income	58,142	60,154	61,781	61,942	64,147	10	4	232,733	253,219	9
Global NIMs (reported)	3.41	3.44	3.44	3.39	3.45	4bps	6bps	3.21	3.14	-8bps
Non-interest Income	19,016	22,625	19,055	24,221	21,526	13	-11	78,667	88,059	12
Operating Expenses	36,186	39,730	35,820	38,878	38,179	6	-2	143,005	152,150	6
Pre Provisioning Profit	40,972	43,050	45,016	47,285	47,494	16	0	168,395	189,128	12
Provision & Contingencies	13,494	12,478	12,584	10,992	10,591	-33	-27	58,884	44,880	-24
PBT	27,478	30,572	32,432	36,294	36,903	34	2	109,511	144,248	32
Income Tax Expense (Gain)	6,285	8,102	8,398	9,229	8,379	33	-9	28,880	36,783	27
Net Profit/(Loss)	21,194	22,470	24,034	27,064	28,524	35	5	80,631	107,464	33
Gross NPA (%)	4.47	3.95	3.77	3.48	3.26	-121bps	-22bps	3.95	3.04	-91bps
Net NPA (%)	0.53	0.43	0.39	0.27	0.21	-32bps	-6bps	0.39	0.22	-17bps
Deposits (Rs bn)	6,542	6,880	6,812	6,931	7,023	7	1	6,880	7,358	7
Net Advances (Rs bn)	4,896	5,149	5,208	5,329	5,421	11	2	5,149	5,707	11

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	340,378	341,278	0.3%	379,894	371,287	-2.3%	424,436	405,354	-4.5%
PPOP	185,293	189,128	2.1%	210,420	206,977	-1.6%	238,922	225,517	-5.6%
PAT	104,449	107,464	2.9%	116,559	119,674	2.7%	127,771	128,099	0.3%
EPS (Rs)	77.5	79.8	2.9%	86.5	88.8	2.7%	94.9	95.1	0.3%
BV (Rs)	466.4	468.6	0.5%	535.9	540.5	0.8%	612.3	617.1	0.8%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	14.6	10.8	10.7	13.4
Deposit Growth (%)	10.8	7.0	10.4	13.2
NIM (%)	3.2	3.1	3.1	3.1
GNPA (%)	4.0	3.0	2.6	2.4
Credit Cost (%)	1.1	0.8	0.8	0.8

Source: Emkay Research

Exhibit 13: Key ratios and trends

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Loans (Rs bn)	4,264	4,493	4,564	4,706	4,896	5,149	5,208	5,329	5,421
-growth YoY (%)	14.0	15.4	14.4	14.2	14.8	14.6	14.1	13.2	10.7
-growth QoQ (%)	3.5	5.4	1.6	3.1	4.0	5.2	1.2	2.3	1.7
Loan composition (%)									
-Corporate	35.7	36.2	36.3	35.1	34.8	35.3	35.1	34.1	33.2
-Retail	19.3	19.2	19.4	19.4	19.5	19.6	19.7	20.0	20.5
-SME	17.1	16.8	16.4	16.3	16.3	15.8	15.5	15.7	16.1
-Agri	21.7	21.5	21.8	22.4	22.4	22.7	23.0	23.3	23.2
-Overseas	6.1	6.3	6.0	6.8	7.0	6.7	6.8	6.8	7.0
Liability Profile/CAR (%)									
Deposits (Rs bn)	5,971	6,212	6,215	6,408	6,542	6,880	6,812	6,931	7,023
- growth YoY	6.1	4.6	6.4	8.8	9.6	10.8	9.6	8.2	7.4
- growth QoQ	1.4	4.0	0.1	3.1	2.1	5.2	(1.0)	1.8	1.3
CASA	40.4	42.0	40.3	40.1	39.7	40.8	39.0	38.9	38.3
CA	5.1	5.8	5.3	5.2	5.2	5.7	5.1	5.2	5.1
SA	35.3	36.2	35.0	34.9	34.5	35.1	34.0	33.6	33.3
NIM	3.74	3.54	3.56	3.46	3.41	3.44	3.44	3.39	3.45
CAR	15.7	16.5	15.8	15.5	15.6	16.4	16.5	16.6	15.9
Tier I	12.6	13.5	12.9	12.6	12.9	14.0	13.9	14.0	13.8
Asset Quality									
GNPA (%)	6.5	6.0	5.5	5.0	4.5	4.0	3.8	3.5	3.3
NNPA (%)	1.0	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.2
PCR (%)	85.5	85.7	87.8	88.5	88.7	89.5	89.5	92.5	93.8
Slippages (Rs mn)	13,130	25,660	18,520	19,820	16,670	12,680	19,560	13,840	10,160
Slippages (%)	1.4	2.6	1.9	1.9	1.6	1.1	1.7	1.2	0.8
ROE Decomposition (%)									
NII	3.4	3.3	3.4	3.3	3.2	3.2	3.1	3.1	3.1
Other Income	1.1	1.2	1.0	1.2	1.1	1.2	1.0	1.2	1.1
Opex	2.0	2.1	1.9	2.0	2.0	2.1	1.8	1.9	1.9
PPOP	2.5	2.4	2.4	2.5	2.3	2.3	2.3	2.4	2.3
Provisioning cost	1.6	1.6	1.0	0.9	0.5	0.5	0.5	0.4	0.3
PBT	1.0	0.9	1.4	1.6	1.8	1.8	1.8	1.9	2.0
ROA	0.9	0.9	1.0	1.1	1.2	1.2	1.2	1.3	1.4
ROE	12.1	12.1	14.2	15.4	17.6	15.4	15.8	16.9	17.1

Source: Company, Emkay Research

Indian Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	449,422	556,148	623,978	671,151	727,081
Interest Expense	247,170	323,415	370,759	394,556	421,243
Net interest income	202,252	232,733	253,219	276,595	305,838
NII growth (%)	20.9	15.1	8.8	9.2	10.6
Other income	71,431	78,667	88,059	94,692	99,516
Total Income	273,683	311,400	341,278	371,287	405,354
Operating expenses	120,979	143,005	152,150	164,311	179,837
PPOP	152,704	168,395	189,128	206,977	225,517
PPOP growth (%)	20.1	10.3	12.3	9.4	9.0
Core PPOP	149,764	155,317	178,946	193,741	210,957
Provisions & contingencies	93,562	58,884	44,880	46,984	54,262
PBT	59,142	109,511	144,248	159,992	171,255
Extraordinary items	0	0	0	0	0
Tax expense	6,327	28,880	36,783	40,318	43,156
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	52,814	80,631	107,464	119,674	128,099
PAT growth (%)	33.9	52.7	33.3	11.4	7.0
Adjusted PAT	52,814	80,631	107,464	119,674	128,099
Diluted EPS (Rs)	42.4	62.2	79.8	88.8	95.1
Diluted EPS growth (%)	27.6	46.7	28.3	11.4	7.0
DPS (Rs)	8.6	12.0	15.0	17.0	18.5
Dividend payout (%)	20.3	20.1	18.8	19.1	19.5
Effective tax rate (%)	10.7	26.4	25.5	25.2	25.2
Net interest margins (%)	3.1	3.2	3.1	3.1	3.1
Cost-income ratio (%)	44.2	45.9	44.6	44.3	44.4
Shares outstanding (mn)	1,245.4	1,347.0	1,347.0	1,347.0	1,347.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	281,795.2	211,063.0	178,750.9	170,997.6	175,560.8
Net NPLs	40,005.9	20,199.7	12,512.6	25,649.6	38,623.4
GNPA ratio (%)	6.0	4.0	3.0	2.6	2.4
NNPA ratio (%)	0.9	0.4	0.2	0.4	0.5
Provision coverage (%)	85.8	90.4	93.0	85.0	78.0
Gross slippages	70,427.3	67,699.3	64,611.0	77,533.2	91,263.1
Gross slippage ratio (%)	1.5	1.3	1.1	1.2	1.3
LLP ratio (%)	2.0	1.1	0.8	0.8	0.8
NNPA to networth (%)	8.3	3.4	1.7	3.1	4.0
Capital adequacy					
Total CAR (%)	16.5	16.4	17.3	17.8	17.7
Tier-1 (%)	13.5	14.0	15.1	15.6	15.6
CET-1 (%)	12.9	13.6	14.7	15.3	15.3
RWA-to-Total Assets (%)	47.0	49.5	50.0	50.0	50.0
Miscellaneous					
Total income growth (%)	13.8	21.9	12.2	7.6	7.9
Opex growth (%)	10.7	18.2	6.4	8.0	9.4
Core PPOP growth (%)	31.0	3.7	15.2	8.3	8.9
PPOP margin (%)	2.2	2.2	2.3	2.2	2.2
PAT/PPOP (%)	34.6	47.9	56.8	57.8	56.8
LLP-to-Core PPOP (%)	62.5	37.9	25.1	24.3	25.7
Yield on advances (%)	7.7	8.5	8.4	8.2	7.9
Cost of funds (%)	3.9	4.8	5.0	4.9	4.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	12,454	13,470	13,470	13,470	13,470
Reserves & surplus	467,273	570,412	676,739	770,565	870,942
Net worth	479,728	583,881	690,209	784,035	884,412
Deposits	6,211,658	6,880,000	7,358,448	8,122,219	9,191,869
Borrowings	220,730	231,315	240,741	273,553	310,955
Interest bearing liab.	6,432,388	7,111,315	7,599,189	8,395,771	9,502,824
Other liabilities & prov.	192,892	230,995	474,657	513,919	606,418
Total liabilities & equity	7,105,007	7,926,191	8,764,055	9,693,725	10,993,654
Net advances	4,492,967	5,148,891	5,707,491	6,315,754	7,164,108
Investments	1,859,883	2,125,545	2,344,989	2,613,777	2,972,307
Cash, other balances	501,326	421,091	436,953	461,767	522,655
Interest earning assets	6,854,176	7,695,527	8,489,434	9,391,299	10,659,071
Fixed assets	74,590	75,155	103,710	113,871	125,285
Other assets	176,241	155,510	170,911	188,555	209,298
Total assets	7,105,007	7,926,191	8,764,055	9,693,725	10,993,654
BVPS (Rs)	336.2	402.5	468.6	540.5	617.1
Adj. BVPS (INR)	315.0	392.3	462.5	527.9	598.1
Gross advances	4,734,757	5,339,754	5,873,729	6,461,102	7,301,046
Credit to deposit (%)	72.3	74.8	77.6	77.8	77.9
CASA ratio (%)	42.0	40.8	37.1	36.8	36.3
Cost of deposits (%)	3.8	4.7	4.9	4.9	4.6
Loans-to-Assets (%)	63.2	65.0	65.1	65.2	65.2
Net advances growth (%)	15.4	14.6	10.8	10.7	13.4
Deposit growth (%)	4.6	10.8	7.0	10.4	13.2
Book value growth (%)	11.6	19.7	16.4	15.3	14.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	12.9	8.8	6.8	6.1	5.7
P/B (x)	1.6	1.4	1.2	1.0	0.9
P/ABV (x)	1.7	1.4	1.2	1.0	0.9
P/PPOP (x)	4.4	4.4	3.9	3.5	3.3
Dividend yield (%)	1.6	2.3	2.8	3.1	3.4
DuPont-RoE split (%)					
NII/avg assets	2.9	3.1	3.0	3.0	3.0
Other income	1.0	1.0	1.1	1.0	1.0
Fee income	0.7	0.5	0.6	0.7	0.7
Opex	1.8	1.9	1.8	1.8	1.7
PPOP	2.2	2.2	2.3	2.2	2.2
Core PPOP	2.2	2.1	2.1	2.1	2.0
Provisions	1.4	0.8	0.5	0.5	0.5
Tax expense	0.1	0.4	0.4	0.4	0.4
RoA (%)	0.8	1.1	1.3	1.3	1.2
Leverage ratio (x)	17.4	16.0	14.5	13.6	13.3
RoE (%)	13.3	17.1	18.6	17.6	16.4
Quarterly data					
Rs mn, Y/E Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	58,142	60,154	61,781	61,942	64,147
NIM(%)	3.4	3.4	3.4	3.4	3.5
PPOP	40,972	43,050	45,016	47,285	47,494
PAT	21,194	22,470	24,034	27,064	28,524
EPS (Rs)	17.02	18.04	19.30	21.73	22.90

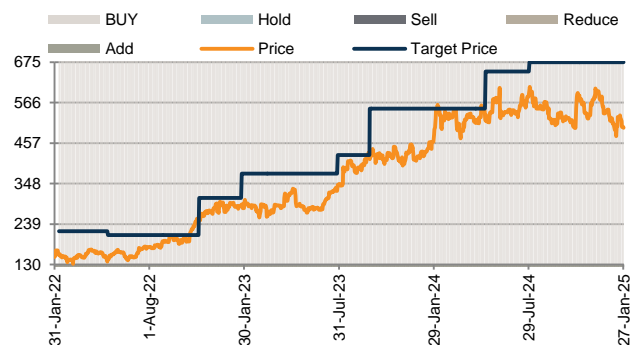
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
28-Oct-24	551	675	Buy	Anand Dama
11-Sep-24	510	675	Buy	Anand Dama
30-Jul-24	601	675	Buy	Anand Dama
07-May-24	518	650	Buy	Anand Dama
25-Jan-24	461	550	Buy	Anand Dama
30-Nov-23	397	550	Buy	Anand Dama
28-Sep-23	414	550	Buy	Anand Dama
28-Jul-23	345	425	Buy	Anand Dama
09-Jun-23	285	375	Buy	Anand Dama
09-May-23	297	375	Buy	Anand Dama
19-Mar-23	273	375	Buy	Anand Dama
09-Mar-23	285	375	Buy	Anand Dama
25-Jan-23	292	375	Buy	Anand Dama
04-Nov-22	250	310	Buy	Anand Dama
01-Aug-22	178	210	Buy	Anand Dama
13-May-22	146	210	Buy	Anand Dama
08-Feb-22	156	220	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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