

Endearing performance, yet again

BFSI - Banks ▶ Result Update ▶ May 7, 2024

TARGET PRICE (Rs): 650

Indian Bank yet again posted a strong all-around performance, delivering inline PAT at Rs22.5bn/1.2% RoA, on the back of healthy margins (up by 4bps QoQ to 3.44%) and steady improvement in asset quality, with GNPA ratio down to 4%/NNPA to industry-low of 0.4%. Though the banking sector will contest the recent RBI draft IRACP guidelines calling for higher standard asset provisions on project financing loans, Indian Bank believes it will see low impact, given its limited exposure to project financing. Our back-of-the envelope calculation suggests incremental std provision requirement at 15bps of loans in the worst case scenario; the bank carries additional specific provision buffer of 80bps (assuming optimal specific PCR @70% vs 90% now) and can thus be easily absorbed. We expect the bank to sustainably deliver 1.1-1.2% RoA/15-16% RoE over FY25-27E, led by healthy margin, PSLC fees/treasury gains, and contained opex. Higher CET 1@13.5% is likely to effectively absorb any ECL impact and designated MD&CEO Asheesh Pandey's (ED BOM) credible all-around experience adds comfort. We retain BUY on Indian Bank, lifting our TP to Rs650/sh (Rs550 earlier), valuing the bank at 1.2x FY26E ABV (from 1x FY26E ABV).

Indian Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	52,817	80,629	99,176	111,553	122,415
Loan growth (%)	15.4	14.6	13.3	13.7	15.3
NII growth (%)	20.9	15.1	8.8	11.7	12.8
NIM (%)	3.1	3.2	3.1	3.1	3.0
PPOP growth (%)	20.1	10.3	9.9	14.2	14.8
Adj. EPS (Rs)	42.4	62.2	73.6	82.8	90.9
Adj. EPS growth (%)	27.7	46.7	18.4	12.5	9.7
Adj. BV (INR)	315.0	439.1	491.3	555.3	623.7
Adj. BVPS growth (%)	11.6	34.0	11.9	13.2	12.8
RoA (%)	0.8	1.1	1.2	1.2	1.1
RoE (%)	13.3	16.1	15.7	15.4	15.0
P/E (x)	12.5	8.6	7.2	6.4	5.9
P/ABV (x)	1.7	1.2	1.1	1.0	0.9

Source: Company, Emkay Research

Healthy credit growth and improvement in the CASA ratio led to stable margins

Indian Bank reported healthy credit growth at 15% YoY/5% QoQ, mainly led by strong traction in retail, SME, and Agri loans. Within Retail, VF, and mortgages were the primary growth drivers, whereas PL growth was largely muted. The recent RBI push to have a re-look at co-lending arrangements has possibly eased lending in retail gold loans. Deposits too grew, at 11% YoY/ 5% QoQ, with CASA improving by 110bps QoQ to 41%, and leading to a nearly-stable cost of deposits. This led to a 4-bps QoQ uptick in NIM to 3.44%. Going forward, the Bank expects NIM to remain healthy on the back of steady LDR and a higher share (60%) of the MCLR book.

One of the lowest NNPA's/the highest specific PCR, among PSBs

Bank's fresh slippages were lower than expected at Rs12.7bn/1.1% of loans which, coupled with higher write-offs, led to a sharp 52-bps QoQ contraction in GNPA ratio to 4%. Indian Bank continues to report one of the lowest NNPA ratios, at 0.4%, and the highest specific PCR at 90%, among PSBs. Though the banking sector will contest the recent RBI draft IRACP guidelines calling for higher standard asset provisions on project financing loans, Indian Bank believes that the impact for it will be low, given its limited exposure to project financing. Our 'back of the envelope' calculation suggests incremental std provision requirement in the worst case at 15bps of loans, while the bank carries additional specific provision buffer of 80bps (assuming optimal specific PCR @70% vs the current 90%) and can thus be easily absorbed.

Indian Bank, our preferred pick among PSBs

We expect the bank to sustainably deliver 1.1-1.2% RoA/15-16% RoE over FY25-27E led by healthy margins, PSLC fees/treasury gains and contained opex. Higher CET 1@13.5% is likely to effectively absorb any ECL impact and designated MD&CEO Asheesh Pandey's (ED BOM) credible all-around experience adds comfort. We retain BUY on Indian Bank, with a revised up TP of Rs650/share (earlier Rs550/share), valuing the bank at 1.2x FY26E ABV. **Key risks:** Macro-dislocation hurting the growth/asset-quality improvement trajectory, higher than expected standard provisions as per new IRACP norms/ECL impact, and merger of any other PSB, given Bank's otherwise strong fundamentals.

Target Price – 12M	Mar-25
Change in TP (%)	18.2
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	22.2
CMP (06-May-24) (Rs)	531.8

Stock Data	Ticker
52-week High (Rs)	574
52-week Low (Rs)	267
Shares outstanding (mn)	1,347.0
Market-cap (Rs bn)	716
Market-cap (USD mn)	8,579
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,239.8
ADTV-3M (USD mn)	14.8
Free float (%)	26.0
Nifty-50	22,443
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	73.8
FPIs/MFs (%)	5.3/17.0

Price Performance

(%)	1M	3M	12M
Absolute	(0.6)	(2.0)	60.2
Rel. to Nifty	(0.3)	(4.2)	29.0

1-Year share price trend (Rs)



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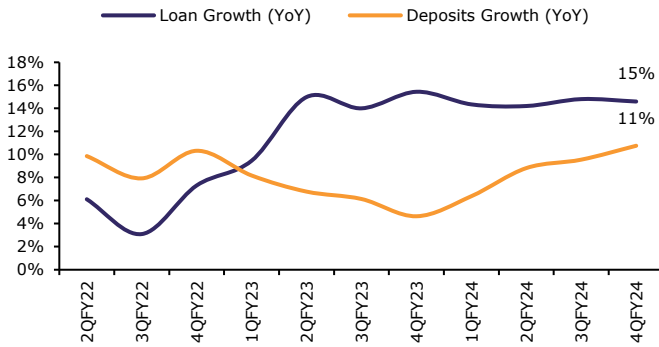
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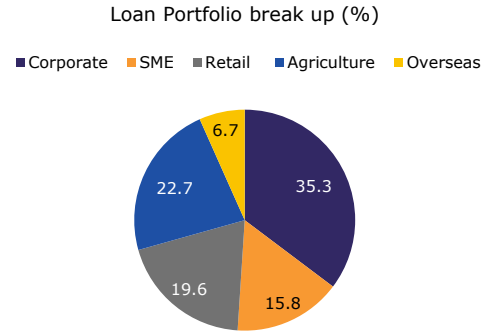
Story in Charts

Exhibit 1: Bank delivers healthy credit growth and thus sustains LDR at 75%...



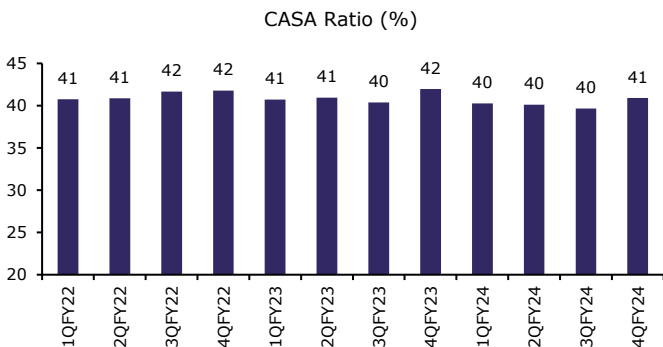
Source: Company, Emkay Research

Exhibit 2: ...with focus on increasing share of the high-margin RAM book



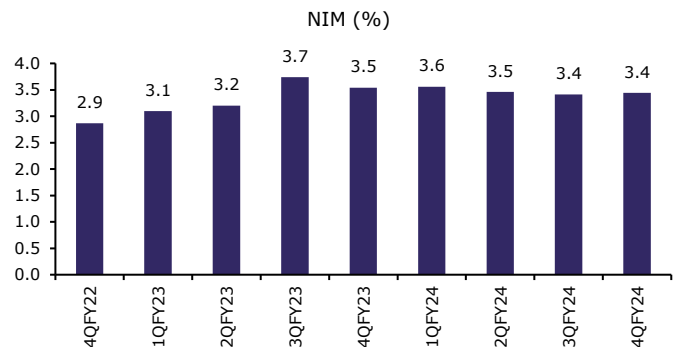
Source: Company, Emkay Research

Exhibit 3: CASA ratio slightly improves QoQ...



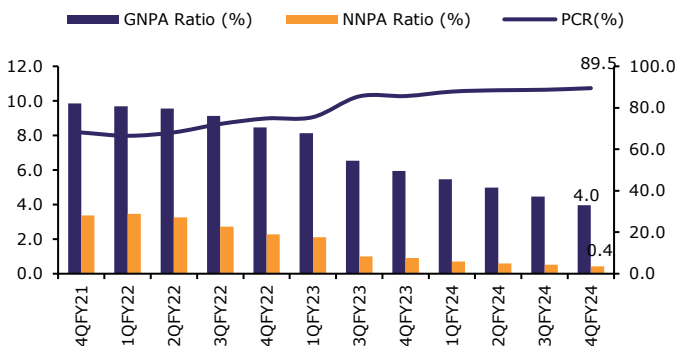
Source: Company, Emkay Research

Exhibit 4: ...which, coupled with contained deposit cost and better yields, led to nearly stable margins



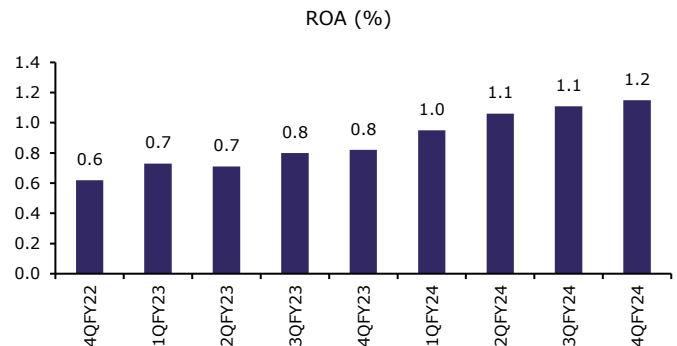
Source: Company, Emkay Research

Exhibit 5: NNPA ratio remains one of the lowest among peers



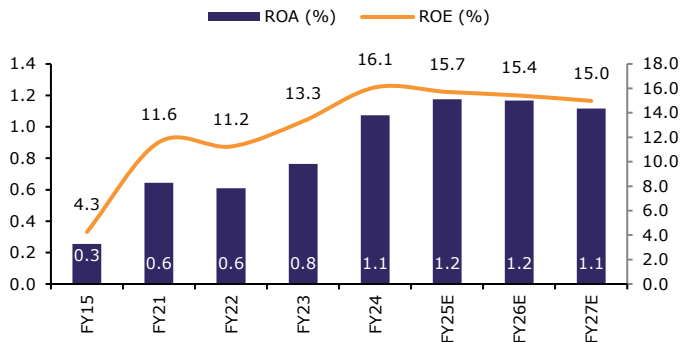
Source: Company, Emkay Research

Exhibit 6: Bank delivers healthy RoA at 1.2% due to better margins and contained provisions



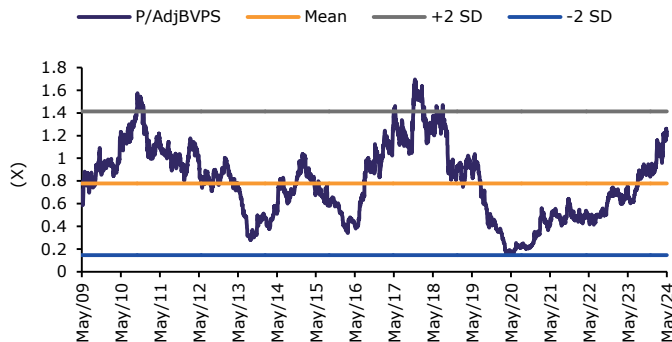
Source: Company, Emkay Research

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



Source: Company, Emkay Research

Exhibit 8: The stock is currently trading at 1.2x its one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	82,779	80,675	80,455	3%	3%	Healthy margins resulted in a slight beat on net income
PPOP	43,050	43,400	42,933	-1%	0%	Higher other income offset by higher staff cost led to an in-line PPOP
PAT	22,470	22,553	22,309	0%	1%	Lower LLP coupled with higher tax incidence led to in-line numbers

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	122,444	130,494	137,433	141,976	146,245	19	3	449,422	556,148	24
Interest Exp	67,361	73,459	80,031	83,834	86,091	28	3	247,168	323,415	31
Net Interest Income	55,083	57,035	57,402	58,142	60,154	9	3	202,255	232,733	15
Global NIMs (reported)	3.54	3.56	3.46	3.41	3.44	-10bps	3bps	3.07	3.21	14bps
Non-interest Income	19,939	17,096	19,930	19,016	22,625	13	19	71,431	78,667	10
Operating Expenses	34,866	32,784	34,304	36,186	39,730	14	10	120,979	143,005	18
Pre Provisioning Profit	40,156	41,347	43,027	40,972	43,050	7	5	152,706	168,395	10
Provision & Contingencies	25,630	17,406	15,507	9,058	8,995	-65	-1	93,562	58,884	-37
PBT	14,526	23,940	27,521	27,478	30,572	110	11	59,144	109,511	85
Income Tax Expense (Gain)	53	6,852	7,643	6,285	8,102	15,216	29	6,327	28,882	356
Net Profit/(Loss)	14,473	17,088	19,878	21,194	22,470	55	6	52,817	80,629	53
Gross NPA (%)	5.95	5.47	4.97	4.47	3.95	-200bps	-52bps	5.95	3.95	-200bps
Net NPA (%)	0.90	0.70	0.60	0.53	0.43	-47bps	-10bps	0.89	0.43	-46bps
Deposits (Rs bn)	6,212	6,215	6,408	6,542	6,880	11	5	6,212	6,880	11
Net Advances (Rs bn)	4,493	4,564	4,706	4,896	5,149	15	5	4,493	5,149	15

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	338,354	340,402	0.6%	379,394	381,436	0.5%
PPOP	181,463	185,143	2.0%	205,993	211,461	2.7%
PAT	87,905	99,176	12.8%	103,719	111,553	7.6%
EPS (Rs)	65.3	73.6	12.8%	77.0	82.8	7.6%
BV (Rs)	460.6	504.0	9.4%	522.6	570.3	9.1%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	14.6	13.3	13.7	15.3
Deposit Growth (%)	10.8	12.3	13.7	15.6
NIM (%)	3.2	3.1	3.1	3.0
GNPA (%)	4.0	2.9	2.3	2.0
Credit Cost (%)	1.1	0.9	1.0	1.1

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs bn)	3,892	3,991	4,121	4,264	4,493	4,564	4,706	4,896	5,149
-growth YoY (%)	7.3	9.5	15.0	14.0	15.4	14.4	14.2	14.8	14.6
-growth QoQ (%)	4.0	2.5	3.3	3.5	5.4	1.6	3.1	4.0	5.2
Loan composition (%)									
-Corporate	36.8	36.5	35.7	35.7	36.2	36.3	35.1	34.8	35.3
-Retail	19.4	19.0	19.1	19.3	19.2	19.4	19.4	19.5	19.6
-SME	17.8	17.2	17.4	17.1	16.8	16.4	16.3	16.3	15.8
-Agri	21.2	21.3	21.7	21.7	21.5	21.8	22.4	22.4	22.7
-Overseas	4.8	6.1	6.0	6.1	6.3	6.0	6.8	7.0	6.7
Liability Profile/CAR (%)									
Deposits (Rs bn)	5,936	5,843	5,889	5,971	6,212	6,215	6,408	6,542	6,880
- growth YoY	10.3	8.2	6.8	6.1	4.6	6.4	8.8	9.6	10.8
- growth QoQ	5.5	(1.6)	0.8	1.4	4.0	0.1	3.1	2.1	5.2
CASA	41.8	40.7	40.9	40.4	42.0	40.3	40.1	39.7	40.8
CA	6.2	5.6	5.7	5.1	5.8	5.3	5.2	5.2	5.7
SA	35.6	35.2	35.3	35.3	36.2	35.0	34.9	34.5	35.1
NIM	2.87	3.10	3.20	3.74	3.54	3.56	3.46	3.41	3.44
CAR	16.5	16.5	16.2	15.7	16.5	15.8	15.5	15.6	16.4
Tier I	13.2	13.2	12.9	12.6	13.5	12.9	12.6	12.9	14.0
Asset Quality									
GNPA (%)	8.5	8.1	7.3	6.5	6.0	5.5	5.0	4.5	4.0
NNPA (%)	2.3	2.1	1.5	1.0	0.9	0.7	0.6	0.5	0.4
PCR (%)	74.9	75.5	80.7	85.5	85.7	87.8	88.5	88.7	89.5
Slippages (Rs mn)	33,680	30,890	24,600	13,130	25,660	18,520	19,820	16,670	12,680
Slippages (%)	3.7	3.4	2.7	1.4	2.6	1.9	1.9	1.6	1.1
ROE Decomposition (%)									
NII	2.8	2.9	3.0	3.4	3.3	3.4	3.3	3.2	3.2
Other Income	1.0	1.0	1.2	1.1	1.2	1.0	1.2	1.1	1.2
Opex	2.0	1.6	1.8	2.0	2.1	1.9	2.0	2.0	2.1
PPOP	1.8	2.3	2.3	2.5	2.4	2.4	2.5	2.3	2.3
Provisioning cost	1.2	1.4	1.3	1.6	1.6	1.0	0.9	0.5	0.5
PBT	0.5	0.9	1.0	1.0	0.9	1.4	1.6	1.8	1.8
ROA	0.6	0.8	0.8	0.9	0.9	1.0	1.1	1.2	1.2
ROE	9.0	11.1	10.6	12.1	12.1	14.2	15.4	17.6	15.4

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	624,986	690,092	767,944
Interest Expense	247,168	323,415	371,784	407,165	448,752
Net interest income	202,255	232,733	253,203	282,926	319,192
NII growth (%)	20.9	15.1	8.8	11.7	12.8
Other income	71,431	78,667	87,199	98,509	109,586
Total Income	273,685	311,400	340,402	381,436	428,778
Operating expenses	120,979	143,005	155,259	169,975	186,100
PPOP	152,706	168,395	185,143	211,461	242,678
PPOP growth (%)	20.1	10.3	9.9	14.2	14.8
Core PPOP	149,767	159,765	173,924	197,437	227,252
Provisions & contingencies	93,562	58,884	52,554	62,326	79,022
PBT	59,144	109,511	132,588	149,135	163,656
Extraordinary items	0	0	0	0	0
Tax expense	6,327	28,882	33,412	37,582	41,241
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	52,817	80,629	99,176	111,553	122,415
PAT growth (%)	33.9	52.7	23.0	12.5	9.7
Adjusted PAT	52,817	80,629	99,176	111,553	122,415
Diluted EPS (Rs)	41.4	60.7	72.0	80.9	88.8
Diluted EPS growth (%)	27.8	46.8	18.5	12.5	9.7
DPS (Rs)	8.6	12.5	15.0	16.5	18.0
Dividend payout (%)	20.3	20.1	20.4	19.9	19.8
Effective tax rate (%)	10.7	26.4	25.2	25.2	25.2
Net interest margins (%)	3.1	3.2	3.1	3.1	3.0
Cost-income ratio (%)	44.2	45.9	45.6	44.6	43.4
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	211,055.1	172,196.5	153,281.3	159,107.9
Net NPLs	40,005.9	22,225.0	25,829.5	30,656.3	39,777.0
GNPA ratio (%)	6.0	4.0	2.9	2.3	2.0
NNPA ratio (%)	0.9	0.4	0.4	0.5	0.5
Provision coverage (%)	85.8	89.5	85.0	80.0	75.0
Gross slippages	70,427.3	67,690.0	77,717.2	94,575.9	116,531.0
Gross slippage ratio (%)	1.5	1.3	1.3	1.4	1.5
LLP ratio (%)	2.0	1.1	0.9	1.0	1.1
NNPA to networth (%)	8.3	3.3	3.3	3.5	3.9
Capital adequacy					
Total CAR (%)	16.5	16.4	16.7	16.6	16.2
Tier-1 (%)	13.5	14.0	14.4	14.4	14.2
CET-1 (%)	12.9	15.2	15.4	15.3	15.0
RWA-to-Total Assets (%)	47.0	49.5	50.0	50.0	50.0
Miscellaneous					
Total income growth (%)	13.8	21.9	12.2	10.7	11.3
Opex growth (%)	10.7	18.2	8.6	9.5	9.5
Core PPOP growth (%)	31.0	6.7	8.9	13.5	15.1
PPOP margin (%)	2.2	2.2	2.2	2.2	2.2
PAT/PPOP (%)	34.6	47.9	53.6	52.8	50.4
LLP-to-Core PPOP (%)	62.5	36.9	30.2	31.6	34.8
Yield on advances (%)	7.7	8.5	8.5	8.2	8.0
Cost of funds (%)	3.9	4.8	4.9	4.8	4.6

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	665,360	754,689	852,858
Net worth	479,728	583,881	678,830	768,158	866,328
Deposits	6,211,658	6,880,000	7,727,106	8,785,228	10,153,165
Borrowings	290,730	231,315	262,153	297,232	337,147
Interest bearing liab.	6,502,388	7,111,315	7,989,259	9,082,459	10,490,313
Other liabilities & prov.	122,892	230,995	279,837	327,832	381,244
Total liabilities & equity	7,105,007	7,926,191	8,947,926	10,178,449	11,737,885
Net advances	4,492,967	5,148,891	5,831,880	6,632,794	7,649,402
Investments	1,859,883	2,125,545	2,361,533	2,696,393	3,121,232
Cash, other balances	501,326	421,091	479,356	544,948	629,419
Interest earning assets	6,854,176	7,695,527	8,672,769	9,874,135	11,400,053
Fixed assets	74,590	75,155	103,916	114,107	125,557
Other assets	176,241	155,510	171,241	190,207	212,276
Total assets	7,105,007	7,926,191	8,947,926	10,178,449	11,737,885
BVPS (Rs)	336.2	450.5	504.0	570.3	643.2
Adj. BVPS (INR)	315.0	439.1	491.3	555.3	623.7
Gross advances	4,734,757	5,337,721	5,978,247	6,755,419	7,768,732
Credit to deposit (%)	72.3	74.8	75.5	75.5	75.3
CASA ratio (%)	42.0	40.8	39.9	39.2	39.5
Cost of deposits (%)	3.8	4.7	4.8	4.7	4.6
Loans-to-Assets (%)	63.2	65.0	65.2	65.2	65.2
Net advances growth (%)	15.4	14.6	13.3	13.7	15.3
Deposit growth (%)	4.6	10.8	12.3	13.7	15.6
Book value growth (%)	6.4	34.0	11.9	13.2	12.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	12.5	8.5	7.2	6.4	5.9
P/B (x)	1.7	1.2	1.1	1.0	0.9
P/ABV (x)	1.7	1.2	1.1	1.0	0.9
P/PPOP (x)	4.3	4.3	3.9	3.4	3.0
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	2.9
Other income	1.0	1.0	1.0	1.0	1.0
Fee income	0.7	0.7	0.7	0.8	0.8
Opex	1.8	1.9	1.8	1.8	1.7
PPOP	2.2	2.2	2.2	2.2	2.2
Core PPOP	2.2	2.1	2.1	2.1	2.1
Provisions	1.4	0.8	0.6	0.7	0.7
Tax expense	0.1	0.4	0.4	0.4	0.4
RoA (%)	0.8	1.1	1.2	1.2	1.1
Leverage ratio (x)	17.4	15.0	13.4	13.2	13.4
RoE (%)	13.3	16.1	15.7	15.4	15.0
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	55,083	57,035	57,402	58,142	60,154
NIM(%)	3.5	3.6	3.5	3.4	3.4
PPOP	40,156	41,347	43,027	40,972	43,050
PAT	14,473	17,088	19,878	21,194	22,470
EPS (Rs)	11.62	13.72	15.96	17.02	18.04

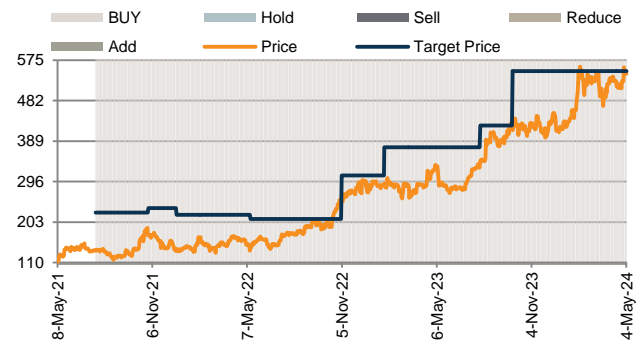
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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
22-Dec-21	138	220	Buy	Anand Dama
29-Oct-21	172	235	Buy	Anand Dama
20-Jul-21	138	225	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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