

July 29, 2024

RESULT REPORT Q1 FY25 | Sector: Banks

Indian Bank Ltd

Initiated as BUY in March 2022, INBK multiplies nearly 3.8x but still has material upside

Our view – Profitability continues to improve supported by declining credit cost, stable margins and reasonable growth

Asset Quality – Slippages rise sequentially due to seasonality but credit cost to remain on a downward trend: Gross NPA additions amounted to Rs 19.56bn for 1QFY25, translating to calculated annualized slippage ratio of 1.46% for the quarter. Gross NPA additions had amounted to Rs 12.68bn during 4QFY24. Recoveries in 1Q were Rs 12.9bn and the management has guided for total recoveries of Rs 70bn in FY25 including AUC recovery of Rs 20bn. Provisions were Rs 12.6bn, up by 0.9% QoQ but down by -27.7% YoY, translating to calculated annualised credit cost of 97bps. The management has stated that the credit cost at 71bps (assume specific) is marginally down sequentially and they expect it to decline further from current levels.

Net Interest Margin - Margin remained stable on sequential basis and are also expected to broadly remain stable: The whole bank NIM was at 3.44%, flat QoQ but down -12bps YoY. The cost of deposits in 1Q was at 5.05%, up by 4bps QoQ and 45bps YoY and the management expects it to further inch up by 3-5bps. The share of MCLR linked loans is 61% of the total advances and hence the management expects that the NIMs would be stable around current levels.

Balance sheet growth – Loan growth was within the guided range: Gross advances grew 1.0%/12.5% QoQ/YoY, driven sequentially by Agri, Retail and Overseas Loans. The current YoY growth was inline with the management’s earlier guidance of 11-13% of YoY advances growth.

We maintain ‘BUY’ rating on INBK with a revised price target of Rs 715: We initiated on INBK with BUY, in our [report released in March 2022](#), and as only our 3rd PSU pick, as our thumbs up to the PSU bank theme. Since then, INBK has returned 280%. We value the bank at 1.3x FY26 P/BV for an FY25E/26E RoE profile of 15.6/16.1%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Aspects (See “Our View” above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 44.3% was down/up by -368/9bps QoQ/YoY and the Cost to assets was at 1.8% down by -24/-4bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.4%, down/up -10/2bps QoQ/YoY.

Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Interest Income	150,391	146,245	2.8	130,494	15.2
Interest Expense	(88,611)	(86,091)	2.9	(73,459)	20.6
Net Interest Income	61,780	60,154	2.7	57,035	8.3
Fee Income	7,880	9,700	(18.8)	6,710	17.4
Non-fee Income	11,175	12,925	(13.5)	10,386	7.6
Total Non-Interest Income	19,055	22,625	(15.8)	17,096	11.5
Total Income	80,835	82,779	(2.3)	74,131	9.0
Employee Expense	(23,011)	(26,333)	(12.6)	(21,186)	8.6
Non-employee Opex	(12,810)	(13,396)	(4.4)	(11,599)	10.4
Total Operating expenses	(35,820)	(39,730)	(9.8)	(32,784)	9.3
PPOP	45,015	43,050	4.6	41,347	8.9
Provisions	(12,584)	(12,478)	0.9	(17,406)	(27.7)
PBT	32,431	30,572	6.1	23,940	35.5
Tax	(8,398)	(8,102)	3.6	(6,852)	22.6
PAT	24,033	22,470	7.0	17,088	40.6

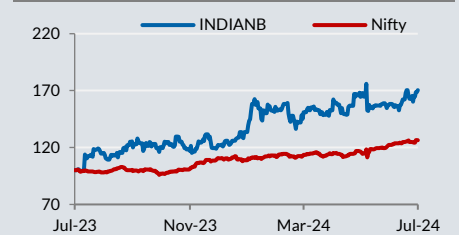
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 587
Target price	: Rs 715
Potential return	: 22%

Stock data (as on July 29, 2024)

Nifty	24,836
52 Week h/l (Rs)	633 / 325
Market cap (Rs/USD mn)	783192 / 9354
Outstanding Shares (mn)	1,347
6m Avg t/o (Rs mn)	1,274
Div yield (%)	2.1
Bloomberg code:	INBK IN
NSE code:	INDIANB

Stock performance



	1M	3M	1Y
Absolute return	7.7%	5.0%	70.4%

Shareholding pattern (As of June'24 end)

Promoter	73.8%
FII+DII	22.3%
Others	3.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	715	700

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	232,733	266,317	303,433
PPOP	168,395	204,834	236,247
Net Profit	80,629	97,404	114,086
Growth (%)	52.7	20.8	17.1
EPS (Rs)	59.9	72.3	84.7
BVPS (Rs)	433	491	559
P/E (x)	9.8	8.1	6.9
P/BV (x)	1.4	1.2	1.1
ROE (%)	15.2	15.6	16.1
ROA (%)	1.1	1.2	1.2
Tier-1 (%)	14.0	13.8	13.7

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	72.3	84.7
EPS (Old)	NA	70.8	83.0
% change	NA	2.1%	2.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 19.56bn for 1QFY25, translating to an annualized slippage ratio of 1.46% for the quarter. (Gross NPA additions had amounted to Rs 12.68bn during 4QFY24)
 - Slippages were higher in 1QFY25 due to seasonality, elections and heatwaves.
 - Out of the total slippages in 1Q, Rs 3.12bn has been recovered post June.
 - **Segmental slippages:**
 - MSME – Rs 9.09bn
 - Agri – Rs 5.97bn
 - Retail – Rs 4.22bn
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 12.90bn for 1QFY25, implying net NPA addition of Rs 6.66bn for the quarter.
 - **More on recovery**
 - The recovery target for FY25 is Rs. 70bn (including AUC Recovery) from a pool of Rs. 600bn (Gross NPA- Rs. 200bn; TWO- Rs 400bn)
 - **AUC recovery**
 - AUC Recovery amounted to Rs. 5.04bn for 1QFY25. AUC Recovery was Rs. 9.35bn in 4QFY24 and Rs. 1.78bn in 1QFY24.
 - AUC Recovery target for FY25 is Rs. 20bn.
- **Provisions**
 - Provisions were Rs 12.6bn, up by 0.9% QoQ but down by -27.7% YoY, translating to calculated annualised credit cost of 97bps.
 - **Outstanding provisions**
 - The PCR is 96.7%.
 - **Credit cost guidance**
 - The credit cost has declined from 73 bps in 4QFY24 to 71bps in 1QFY25 (presumably only specific credit cost / NPA provisions). This is expected to decline further.
- **SMA position**
 - The SMA1 and SMA2 book together amount to 47 bps of advances.
- **NPA ratios**
 - GNPA ratio stands at 3.77%, down -18 bps QoQ and -170 bps YoY while NNPA ratio stands at 0.39%, down -4 bps QoQ and -31 bps YoY.

Capital adequacy

- The capital adequacy ratio stands at 16.47% as at June end. Including profit of 1QFY25, capital adequacy ratio is more than 17%

Net interest margin

- **NIM (Global) was at 3.44%, was flat QoQ but down -12 bps YoY.**

(Con call takeaways continue on the next page)

- **Yield**
 - Yield on advances was down -12 bps QoQ to 8.69% due to penal charges regulations, interest reversal and lower MOI recovery
 - Cost of deposit was up 4 bps QoQ to 5.05%
 - Yield on investment was up 27 bps QoQ to 7.15%.
 - **Holding yield**
 - HTM Holding Yield- 7.08%
 - AFS Yield- 7.17%
 - FVTPL- 7.79%
- **Loan mix by rate category**
 - MCLR – 61% (80% linked to 1-yr MCLR)
- **Guidance**
 - Cost of deposit may further inch up by 3-5 bps
 - MCLR increased by 5 bps in June and 5 bps in July
 - Margins to be maintained at stable level

Liquidity

- **Loan to deposit ratio**
 - CD ratio stands at 79.15%.
 - The bank wishes to maintain the CD ratio close to 80%.
 - There is excess SLR worth Rs 440bn.
- **LCR**
 - The LCR stood at 120% as at June end
 - **On new LCR draft guidelines:**
 - The impact of increasing run off factor for retail deposits is anticipated at 4-5% for the bank.
 - No major impact on HQLA since the market value of excess LCR is greater than book value
 - LCR is anticipated to drop to 115%

Deposits growth

- Total deposits are up 9.6% YoY against guidance of 8-10%
- CASA deposits are up 6.2% YoY.
- CASA ratio is around 41%.
- **Guidance:**
 - Deposit growth will be lower than credit growth

Loan growth

- **Overall growth**
 - Advances are up 12% YoY against guidance of 11-13%
 - RAM advances are up 13% YoY.
- **Retail credit**
 - Retail credit is up 14% YoY.

(Con call takeaways continue on the next page)

- **Retail segments**
 - Home loans are up 13% YoY (constitutes 70% of Retail loan)
 - Jewel loans are up 10% YoY.
 - Auto loans are up 55% YoY.
- **Agri loans**
 - Agri loans are up 18% YoY.
 - **Gold loans**
 - Gold loans are up 25% YoY
 - 78% of crop loans are gold loans.
- **MSME loans**
 - MSME loans are up 6% YoY.
 - Standard MSME loans are up 11% YoY
 - The Bank is focusing on Mid-corporate branches which is growing at around 30%
 - 27 mid-corporate branches were opened as on June end and 2 more are in pipeline
- **Corporate credit**
 - Corporate loans are up 9% YoY.
 - Standard corporate loans are up 10%
- **Overseas loans**
 - Overseas loans are up 27% YoY.
 - The bank will continue to focus more on syndication loan since it has better margins compared to Buyer's Credit and Trade finance.

Fee income

- Fee income is up 17% YoY.
- **PSLC Income**
 - Bank has earned PSLC income of Rs. 6.27bn which will be amortised over 4 quarters
 - Rs. 1.57bn was recognized in 1Q and balance Rs. 4.70bn will be recognized in next 3 quarters

Operating expenses

- **Total opex**
 - Opex, at Rs. 35.8 bn, is down -9.8% QoQ but up 9.3% YoY.
 - Consequently, cost/income ratio came in at 44.3%, down by -376bps QoQ but up by 51bps YoY.
 - **Guidance**
 - The cost to income ratio will be more or less stable with a variation of 1-2% for FY25
- **Staff opex**
 - The staff opex is down by -12.6% QoQ but up by 8.6% YoY.
 - The bank had booked Rs 3.88bn in ex-gratia payment on pension in 4QFY24.
- **Other opex**
 - Other opex is down by -4.4% QoQ but up by 10.4% YoY.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1FY25	Q4FY24	% qoq	Q1FY24	% yoy	Q4FY24*	chg QoQ*	chg YoY*
Global Gross Advances	5,391,230	5,337,730	1.0	4,794,040	12.5	100.0	0bps	0bps
Overseas Gross Advances	365,050	356,130	2.5	287,700	26.9	6.8	10bps	77bps
Domestic Gross Advances	5,026,180	4,981,600	0.9	4,506,340	11.5	93.2	-10bps	-77bps
Corporate Loans	1,893,170	1,882,420	0.6	1,741,990	8.7	35.1	-15bps	-122bps
MSME	833,610	841,210	(0.9)	785,100	6.2	15.5	-30bps	-91bps
Agri	1,238,490	1,210,620	2.3	1,047,100	18.3	23.0	29bps	113bps
Retail Loans	1,060,910	1,047,350	1.3	932,150	13.8	19.7	6bps	23bps
Home Loan	688,910	664,230	3.7	607,460	13.4	12.8	33bps	11bps
Auto Loan	86,340	80,160	7.7	55,880	54.5	1.6	10bps	44bps
Personal Loan	82,390	85,660	(3.8)	82,210	0.2	1.5	-8bps	-19bps
Jewel Loan Non Priority	59,650	53,660	11.2	54,350	9.8	1.1	10bps	-3bps
Others	143,620	163,640	(12.2)	132,250	8.6	2.7	-40bps	-9bps
Total Deposits	6,811,830	6,880,000	(1.0)	6,215,390	9.6	100.0	0bps	0bps
CA	344,870	389,930	(11.6)	328,560	5.0	5.1	-60bps	-22bps
SA	2,313,780	2,414,940	(4.2)	2,173,860	6.4	34.0	-113bps	-101bps
Term	4,153,180	4,075,130	1.9	3,712,970	11.9	61.0	174bps	123bps
RWA	3,951,850	3,922,460	0.7	3,479,870	13.6	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Net interest margin-Global	3.44	3.44	0bps	3.56	-12bps
Net interest margin-Domestic	3.53	3.52	1bps	3.61	-8bps
Yield on advances	8.69	8.81	-12bps	8.53	16bps
Cost of deposits	5.05	5.01	4bps	4.60	45bps
Loan to Deposit ratio	76.5	74.8	162bps	73.4	304bps
Non-interest income/Total income	23.6	27.3	-376bps	23.1	51bps
Fee Income to Avg. Total Assets	0.4	0.5	-10bps	0.4	2bps
Cost to Income	44.3	48.0	-368bps	44.2	9bps
Opex to Avg. Total Assets	1.8	2.0	-24bps	1.8	-4bps
RoE	19.8	19.1	70bps	17.9	188bps
RoA	1.2	1.2	5bps	1.0	25bps
Capital adequacy ratio	16.5	16.4	3bps	15.8	69bps
Common equity tier 1	13.4	13.5	-10bps	12.3	111bps
Tier I capital ratio	13.9	14.0	-10bps	12.9	105bps
Annualised Slippage Ratio	1.5	1.0	49bps	1.6	-10bps
Provision Coverage	96.7	96.3	32bps	95.1	156bps
Gross NPA	3.8	4.0	-18bps	5.5	-170bps
Net NPA	0.4	0.4	-4bps	0.7	-31bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	61,780	62,259	(0.8)
Pre-Prov. Operating Profit	45,015	44,099	2.1
Profit After Tax	24,033	23,636	1.7

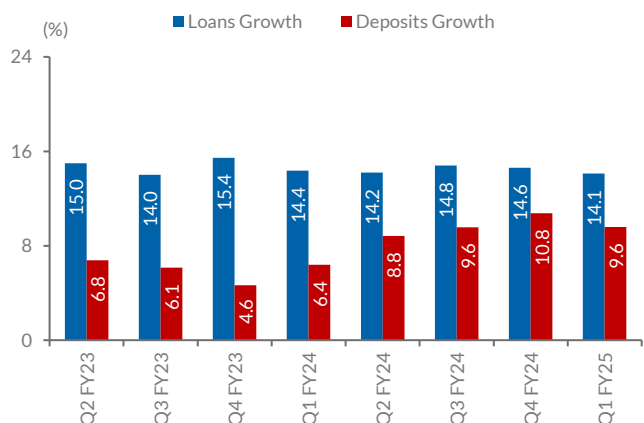
Source: Company, YES Sec – Research

Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q1FY25	Q4FY24	% qoq	Q1FY24	% yoy
Total Fee Income (A)	7,880	9,700	(18.8)	6,710	17.4
Transaction fees	1,830	1,960	(6.6)	1,700	7.6
Loan processing charges	1,430	2,190	(34.7)	1,370	4.4
Commission on Govt. business	170	270	(37.0)	180	(5.6)
Commission on LC/BG	890	1,160	(23.3)	960	(7.3)
Cross Selling	320	460	(30.4)	240	33.3
Income from PFMS operations	10	120	(91.7)	60	(83.3)
Rent on Lockers	400	410	(2.4)	400	0.0
Misc fee Income	2,830	3,130	(9.6)	1,800	57.2
Total Other Income (B)	11,175	12,925	(13.5)	10,386	7.6
Forex Income	600	820	(26.8)	1,980	(69.7)
Treasury Income	2,620	1,930	35.8	4,640	(43.5)
Bad Debts Recovered	5,040	7,730	(34.8)	1,800	180.0
PSLC Commission	1,570	1,690	(7.1)	1,520	3.3
Others	1,345	755	78.1	446	201.8
Total Non-Interest Income (A+B)	19,055	22,625	(15.8)	17,096	11.5

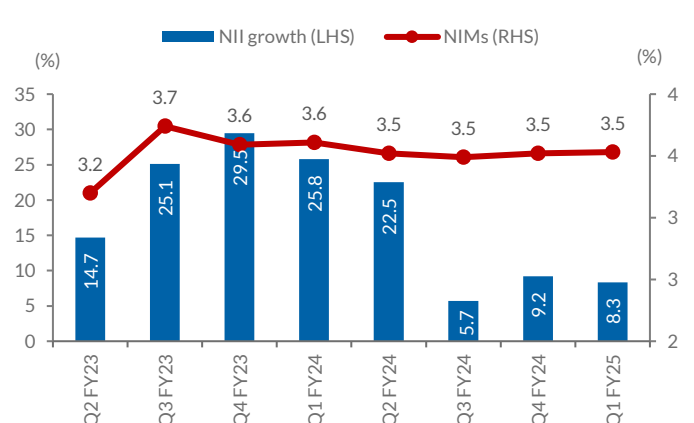
Source: Company, YES Sec – Research

Exhibit 6: Loans and Deposits growth (YoY %)



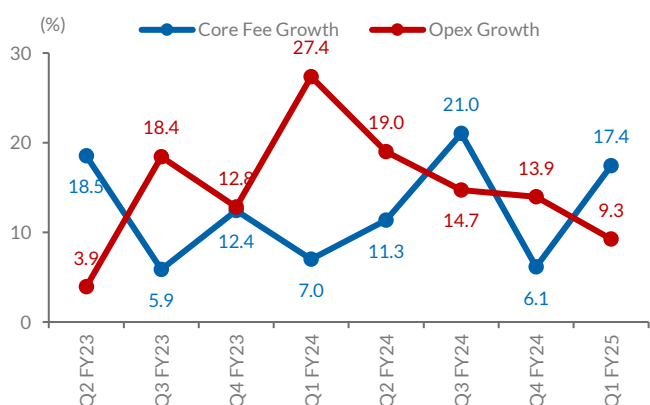
Source: Company, YES Sec – Research

Exhibit 7: NII growth (YoY %) and NIM (%)



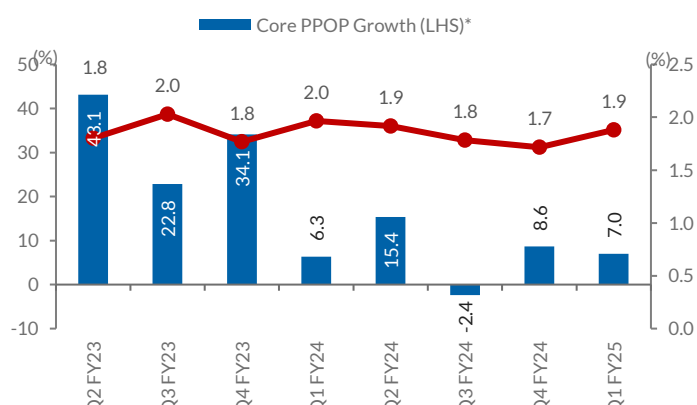
Source: Company, YES Sec – Research

Exhibit 8: Core Fee and Opex growth (YoY %)



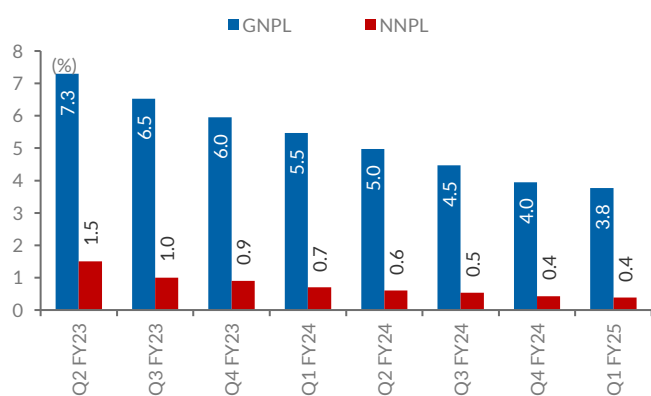
Source: Company, YES Sec – Research

Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin (%)



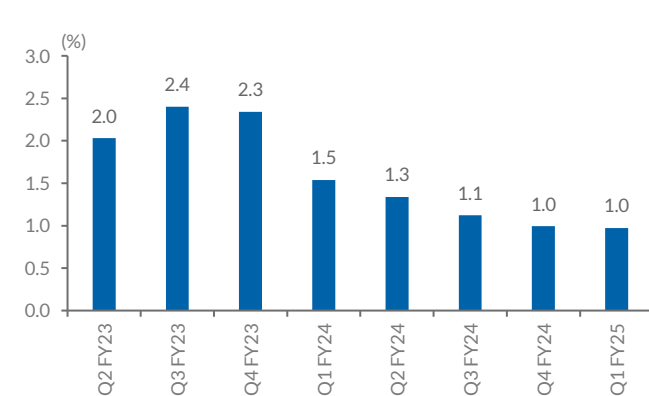
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 10: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 11: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 12: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	799,161	501,326	421,091	576,676	613,583
Investments	1,745,586	1,859,883	2,125,545	2,380,610	2,666,283
Advances	3,891,861	4,492,967	5,148,891	5,766,758	6,458,768
Fixed assets	76,837	74,590	75,155	82,670	90,937
Other assets	203,236	176,241	155,510	163,285	171,449
Total assets	6,716,681	7,105,007	7,926,191	8,969,999	10,001,022
Net worth	437,088	479,728	583,881	661,804	753,073
Deposits	5,936,178	6,211,658	6,880,000	7,705,600	8,630,272
Borrowings	171,443	220,730	231,315	259,073	290,161
Other liabilities	171,971	192,892	230,995	343,522	327,515
Total liabilities incl. Equity	6,716,681	7,105,007	7,926,191	8,969,999	10,001,022

Source: Company, YES Sec – Research

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	388,562	449,422	556,148	631,563	714,336
Interest expense	(221,283)	(247,168)	(323,415)	(365,247)	(410,903)
Net interest income	167,280	202,255	232,733	266,317	303,433
Non-interest income	69,154	71,431	78,667	96,155	106,471
Total income	236,434	273,685	311,400	362,472	409,905
Operating expenses	(109,265)	(120,979)	(143,005)	(157,638)	(173,658)
PPoP	127,169	152,706	168,395	204,834	236,247
Provisions	(95,127)	(93,562)	(58,884)	(73,207)	(82,077)
Profit before tax	32,042	59,144	109,511	131,627	154,170
Taxes	7,406	(6,327)	(28,882)	(34,223)	(40,084)
Net profit	39,448	52,817	80,629	97,404	114,086

Source: Company, YES Sec – Research

Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest income	6.0	6.5	7.4	7.5	7.5
Interest expense	-3.4	-3.6	-4.3	-4.3	-4.3
Net interest income	2.6	2.9	3.1	3.2	3.2
Non-interest income	1.1	1.0	1.0	1.1	1.1
Total income	3.6	4.0	4.1	4.3	4.3
Operating expenses	-1.7	-1.8	-1.9	-1.9	-1.8
PPoP	2.0	2.2	2.2	2.4	2.5
Provisions	-1.5	-1.4	-0.8	-0.9	-0.9
Profit before tax	0.5	0.9	1.5	1.6	1.6
Taxes	0.1	-0.1	-0.4	-0.4	-0.4
Net profit	0.6	0.8	1.1	1.2	1.2

Source: Company, YES Sec – Research

Exhibit 17: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	NA	266,317	303,433	NA	266,317	303,433	NA	0.0	(0.0)
Pre-Prov. Operating Profit	NA	204,834	236,247	NA	204,871	236,288	NA	(0.0)	(0.0)
Profit after tax	NA	97,404	114,086	NA	95,412	111,854	NA	2.1	2.0

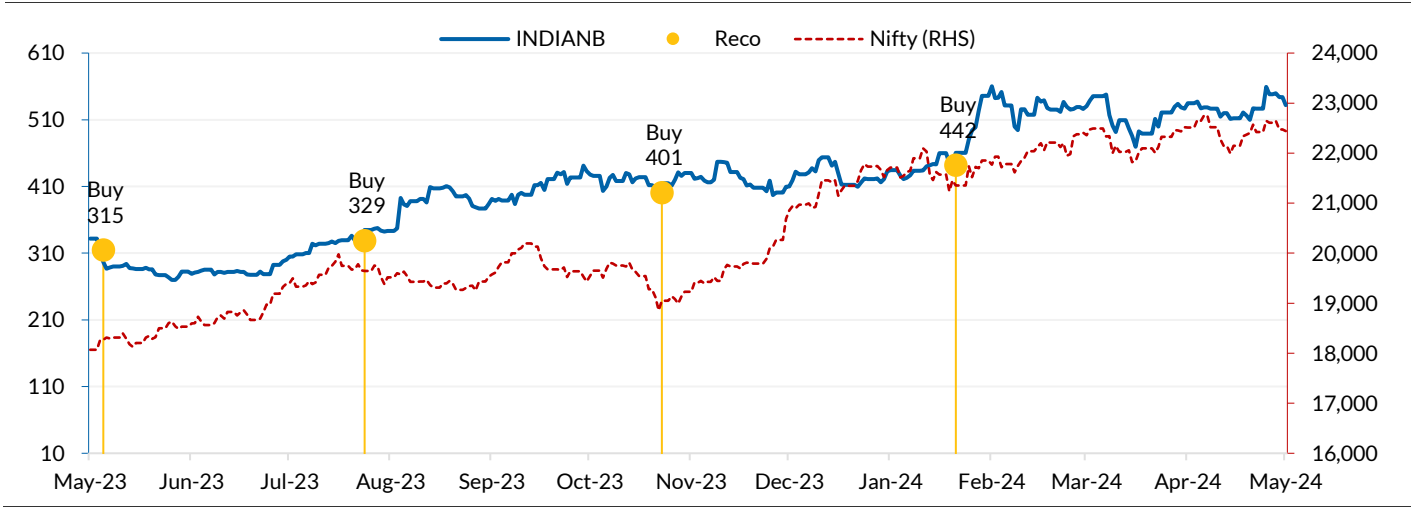
Source: Company, YES Sec – Research

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.8	20.9	15.1	14.4	13.9
PPoP	11.6	20.1	10.3	21.6	15.3
Net profit	31.3	33.9	52.7	20.8	17.1
Loans	6.9	15.4	14.6	12.0	12.0
Deposits	10.3	4.6	10.8	12.0	12.0
Profitability Ratios (%)					
Net interest margin	2.9	3.4	3.5	3.5	3.6
Return on Average Equity	9.6	11.5	15.2	15.6	16.1
Return on Average Assets	0.6	0.8	1.1	1.2	1.2
Per share figures (Rs)					
EPS	31.7	42.4	59.9	72.3	84.7
BVPS	351	385	433	491	559
ABVPS	280	353	417	473	538
Valuation multiples					
P/E	18.5	13.8	9.8	8.1	6.9
P/BV	1.7	1.5	1.4	1.2	1.1
P/ABV	2.1	1.7	1.4	1.2	1.1
NIM internals (%)					
Yield on loans	7.2	7.6	8.4	8.5	8.6
Cost of deposits	3.7	3.8	4.7	4.8	4.8
Loan-deposit ratio	65.6	72.3	74.8	74.8	74.8
CASA ratio	41.8	42.0	40.8	40.9	41.1
Opex control (%)					
Cost/Income ratio	46.2	44.2	45.9	43.5	42.4
Cost to average assets	1.7	1.8	1.9	1.9	1.8
Capital adequacy (%)					
Tier 1 capital ratio	13.2	13.5	14.0	13.8	13.7
Asset quality (%)					
Slippage ratio	2.7	1.7	1.4	1.8	1.8
Gross NPL ratio	8.5	6.0	4.0	3.9	3.9
Credit cost	2.2	1.6	0.8	1.2	1.2
Net NPL ratio	2.3	0.9	0.4	0.4	0.4

Source: Company, YES Sec – Research

Recommendation Tracker



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