

**Robust recoveries and decline in SMA 1 & 2;
Expecting returns to increase subsequent quarters**

CMP: INR 587

Rating: Hold

Target Price: INR 651

Stock Info

| | |
|-------------------------|-----------|
| BSE | 532814 |
| NSE | INDIANB |
| Bloomberg | INBK IN |
| Reuters | INBA.BO |
| Sector | Banks |
| Face Value (INR) | 10 |
| Equity Capital (INR Bn) | 12.45 |
| Mkt Cap (INR Bn) | 791 |
| 52w H/L (INR) | 633 / 336 |

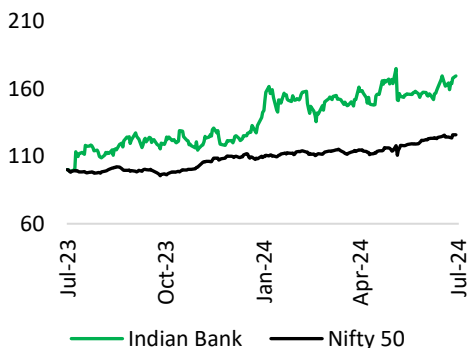
Shareholding Pattern %

(As on June, 2024)

| | |
|-----------------|-------|
| Promoters | 73.84 |
| FII | 5.38 |
| DII | 16.87 |
| Public & Others | 3.90 |

| Stock Performance (%) | 1m | 6m | 12m |
|-----------------------|-----|------|------|
| Indian Bank | 7.7 | 18.8 | 69.2 |
| Nifty 50 | 2.9 | 15.4 | 25.7 |

Indian Bank vs Nifty 50



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Indian Bank has posted steady profit growth performance during Q1FY25 with profit growth of 7.0% QoQ/40.6% YoY to INR 24.03 bn, led by NII growth for the quarter by 2.7% QoQ/8.3% QoQ to INR 61.78 bn. Advances grew by 1.2% QoQ/14% YoY while NIM was steady at 3.53%, up by 1 bps QoQ/down 8 bps YoY. Cost of funds at 5.12% decreased by 1 bps QoQ/up by 37 bps YoY as the interest rates increased over the last year. Other income of the bank decreased by 15.8% QoQ/ up 11.5% YoY to INR 19.06 bn. Core fee income degrew by 19% QoQ/ up 17% YoY to INR 7.88 bn. Operating expenses degrew by 9.8% QoQ/9.3% YoY, led by bank's investments in digital infrastructure creation over the years. The bank's Mobile banking users increased from 13.1 mn in Q1FY24 to 17.5 mn in Q1FY25 while UPI users increased from 14.2 mn in Q1FY24 to 18.5 mn in Q1FY25. These have pushed the cost to income ratio to 44.3% decreasing by 368 bps QoQ/ up 9 bps YoY and PPOP growth was by 4.6% QoQ/up 8.9% YoY to INR 45 bn.

Loan growth moderated, deposit facing headwinds in CASA front: Total advances grew to INR 5,208 bn at 1.2% QoQ/14% YoY, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 13% YoY growth to INR 3.13 tn, driven largely by Agricultural and Retail segment at 18% YoY & 14% YoY respectively. On the other hand, the corporate loan book also grew by 9% YoY to INR 1.89 tn. The Management says they are open to lend more towards the corporates given that borrowers are ready to pay higher margins, which is what we are seeing across the banking sector Peers. Deposits degrew sequentially by 1% YoY/up 9.6% YoY to INR 6,812 bn, dragged by slower growth in CASA deposits at -5% QoQ/6% YoY with decline in CASA ratio by 174 bps QoQ/123 bps YoY.

Asset quality improved sequentially: GNPA/NNPA ratio improved by 18 bps/4 bps QoQ at 3.77%/0.39% respectively. Total slippages for the quarter stood at INR 19.28 bn vs. INR 12.38 bn in the previous quarter. Consequently, Slippage ratio increased to 1.50% vs. 1.11% QoQ while higher recoveries helped bring down Credit Cost to 0.71 from 0.73 in the previous quarter. Recoveries for the quarter stood at INR 19.37 bn. PCR was healthy at 96.66%. SMA 1 & 2 as percentage of total standard advances improved sequentially by 1 bps from 0.48% in Q4FY24 to 0.47%.

Valuation and View: Indian Bank has reported steady quarter with muted loan growth traction and steady NIMs & Cost of Funds in Q1FY25. Performance of the bank was strong on both the margins side, as well as the recoveries coming in for the bank. Also, the SMA 1 & 2 fell in proportion to loan growth, is a good signal of the Management's effort to resolve delinquencies. With the kind of digital initiatives pulled by the bank over the last year and still continuing, we believe the cost efficiencies will also help check the Cost to Income ratio and benefit bottomline for the bank. Hence, we maintain our positive stance on the bank, and revise our FY27E ABV to INR 651, as we assign a Target Price of INR 651 on 1.0x P/ABV with a Hold rating on account of its stellar rally in the past year.

| Particulars (Bn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------|-------|-------|-------|-------|-------|
| NII | 202 | 233 | 311 | 338 | 369 |
| PPOP | 153 | 168 | 237 | 266 | 300 |
| PAT | 53 | 81 | 100 | 115 | 132 |
| Advances | 4,493 | 5,149 | 5,664 | 6,230 | 6,853 |
| Deposits | 6,212 | 6,880 | 7,759 | 8,534 | 9,388 |
| RoA | 0.8 | 1.1 | 1.2 | 1.3 | 1.3 |

Q1FY25 - Quarterly Performance (Standalone)

(in INR Bn)

| Quarterly Result Update (Rs bn) | Q1FY25 | Q4FY24 | Q1FY24 | QoQ | YoY |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income | 150.39 | 146.24 | 130.49 | 2.8% | 15.2% |
| Interest Expended | 88.61 | 86.09 | 73.46 | 2.9% | 20.6% |
| Net Interest Income | 61.78 | 60.15 | 57.04 | 2.7% | 8.3% |
| Other Income | 19.06 | 22.63 | 17.10 | -15.8% | 11.5% |
| Operating Income | 80.84 | 82.78 | 74.13 | -2.3% | 9.0% |
| Employee Expenses | 23.01 | 26.33 | 21.19 | -12.6% | 8.6% |
| Other Operating Expenses | 12.81 | 13.40 | 11.60 | -4.4% | 10.4% |
| Operating Expenses | 35.82 | 39.73 | 32.78 | -9.8% | 9.3% |
| PPOP | 45.02 | 43.05 | 41.35 | 4.6% | 8.9% |
| Provisions | 12.58 | 12.48 | 17.41 | 0.9% | -27.7% |
| PBT | 32.43 | 30.57 | 23.94 | 6.1% | 35.5% |
| Tax Expenses | 8.40 | 8.10 | 6.85 | 3.6% | 22.6% |
| Net Income | 24.03 | 22.47 | 17.09 | 7.0% | 40.6% |
| Balance Sheet Analysis | | | | | |
| Advances | 5,208 | 5,149 | 4,568 | 1.2% | 14.0% |
| Deposits | 6,812 | 6,880 | 6,215 | -1.0% | 9.6% |
| CASA Deposits | 2,659 | 2,805 | 2,502 | -5.2% | 6.2% |
| CASA (%) | 39.03% | 40.77% | 40.26% | -174bps | -123bps |
| CAR (%) | 16.47 | 16.44 | 15.78 | 3bps | 69bps |
| Spreads | | | | | |
| NIMs (%) | 3.53% | 3.52% | 3.61% | 1bps | -8bps |
| Cost of Funds | 5.12% | 5.13% | 4.75% | -1bps | 37bps |
| Yield on Average Advances | 8.69% | 8.81% | 8.53% | -12bps | 16bps |
| Asset Quality | | | | | |
| GNPA | 203 | 211 | 262 | -3.8% | -22.6% |
| NNPA | 20 | 22 | 32 | -8.8% | -36.6% |
| GNPA (%) | 3.77% | 3.95% | 5.47% | -18bps | -170bps |
| NNPA (%) | 0.39% | 0.43% | 0.70% | -4bps | -31bps |
| Returns & Expenses | | | | | |
| RoA | 1.20 | 1.15 | 0.95 | 5bps | 25bps |
| RoE | 19.76 | 19.06 | 17.88 | 70bps | 188bps |
| Cost / Income Ratio | 44.3% | 48.0% | 44.2% | -368bps | 9bps |

Source: Company, Arihant Research

Concall Highlights

Guidance:

- The Management said that they intend to keep the Loan Deposit Ratio at 80% in their best interests, as the Deposit growth in the CASA front is major challenge which grew by 6% YoY in Q1FY25.
- The Management intends to do better RoAs than 1.20% seen in Q1FY25.

Key Highlights:

- NII came at INR 61.78 bn against our estimates of INR 65.8 bn (up 2.7% QoQ/up 8.3% YoY).
- PPOP came at INR 45 bn against our estimate of INR 48.3 bn (up 4.6% QoQ / up 8.9% YoY).
- Provisions decreased in the quarter to INR 12.58 bn against our estimate of INR 12.8 bn (up 0.9% QoQ/ down 27.7% YoY).
- PAT came at INR 24.03 bn against our estimate of INR 26.09 bn (up 7.0% QoQ / up 40.6% YoY).
- NIMs for Q1FY25 stood at 3.53%, up 1 bps QoQ / down 8 bps YoY.
- Cost of Funds increased to 5.12%, down 1 bps QoQ / up 37 bps YoY.
- Asset Quality: GNPA ratio decreased by 18 bps QoQ / down 170 bps YoY at 3.77% against our estimates of 3.65% and NNPA also decreased by 4 bps QoQ / down 31 bps YoY to 0.39% against our estimates of 0.40% for Q1FY25.
- Balance Sheet: Advances at INR 5,208 bn grew by 1.2% QoQ / up 14.0% YoY against Deposits at INR 6,812 bn which were down by 1.0% QoQ / up 9.6% YoY.
- Cost to income ratio decreased by 368 bps QoQ and up by 9 bps YoY to 44.3%.
- CASA ratio declined by 174 bps QoQ / down 123 bps YoY to 39.03%.
- The Bank's RAM Credit segments grew by 13% YoY, under which the Retail segment grew by 14% YoY. The Agri segment loans grew by 18% YoY for Q1FY25 and MSME grew by 6% YoY.
- Under the Retail sub segment, Housing Loans grew by 13% YoY for the bank. Auto Loans grew by 55% YoY and Gold Loans grew by 25% YoY.
- The Allied Agri activities loans grew by 58% YoY, Infrastructure grew by 18% YoY, Self Help Group grew by 14% YoY.
- Standard MSME segment grew by 11% YoY and the Micro Finance grew by 14% YoY.
- The Corporate loans grew by 9% YoY.
- The Non-interest income grew by 11% YoY, under which, bad debt recovery grew by 180% YoY to INR 5.04 bn.
- Slippages for the quarter stood at INR 19.28 bn, which was 1.5% of the advances. Among them, INR 9 bn came from the MSME book, INR 6 bn from the Agri book and INR 4 bn from the Retail book.
- The Recovery stood at INR 19.37 bn, which was higher than the slippages of INR 19.28 bn for Q1FY25.
- On the Digital front, 90% of the transactions were digital and the remaining 10% were at the branch levels.
- Mobile Banking users for the bank grew from 13.1 mn in Q1FY24 to 17.5 mn in Q1FY25.
- The Management informed that the UPI users have gone up from 14.2 mn in Q1FY24 to 18.5 mn in Q1FY25, i.e, a growth of 30% YoY.
- On the digital journeys and digital initiatives front, the Bank completed 178 journeys in FY24, which gave them digital business of INR 12.50 bn. This year they have added another 6 journeys in Q1FY25 and are planning to add another 15 journeys in Q2, and are planning for 44 journeys for the full year FY25.
- The Bank's SMA 2 account has 2 major accounts of INR 2.63 bn and INR 1.02 bn which have slipped. The Management said that it is still much smaller as compared to their overall book size.
- The Management sighed relief that the Credit Cost is declining, and is at 0.71% against 0.73% in the previous quarter.

| Profit & Loss Statement (INR Bn) | FY22A | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------------------|------------|------------|------------|------------|------------|------------|
| Interest Income | 389 | 449 | 556 | 696 | 763 | 840 |
| Interest Expense | 221 | 247 | 323 | 384 | 425 | 471 |
| Net Interest Income | 167 | 202 | 233 | 311 | 338 | 369 |
| YoY change (%) | 7 | 21 | 15 | 34 | 9 | 9 |
| Non Interest Income | 69 | 71 | 79 | 87 | 95 | 105 |
| Total Net Income | 236 | 274 | 311 | 398 | 433 | 474 |
| Total Operating Expenses | 109 | 121 | 143 | 160 | 167 | 174 |
| Pre Provision profit | 127 | 153 | 168 | 237 | 266 | 300 |
| YoY change (%) | 16 | 20 | 10 | 41 | 12 | 13 |
| Provisions | 95 | 94 | 59 | 104 | 112 | 123 |
| Profit Before Tax | 32 | 59 | 110 | 134 | 154 | 177 |
| YoY change (%) | 10 | 85 | 85 | 22 | 15 | 15 |
| Taxes | -7 | 6 | 29 | 34 | 39 | 45 |
| Net profit | 39 | 53 | 81 | 100 | 115 | 132 |
| YoY change (%) | 31.3 | 33.9 | 52.7 | 24.2 | 14.9 | 15.0 |

| Balance Sheet (INR Bn) | FY22A | FY23A | FY24A | FY25E | FY26E | FY27E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Cash & Balances with RBI | 241 | 327 | 327 | 263 | 289 | 318 |
| Inter bank borrowing | 559 | 174 | 94 | 218 | 240 | 264 |
| Investments | 1,746 | 1,860 | 2,126 | 2,296 | 2,479 | 2,678 |
| Loan and Advances | 3,892 | 4,493 | 5,149 | 5,664 | 6,230 | 6,853 |
| Other Assets | 203 | 176 | 156 | 222 | 244 | 269 |
| Total Assets | 6,717 | 7,105 | 7,926 | 8,756 | 9,585 | 10,494 |
| Deposits | 5,936 | 6,212 | 6,880 | 7,759 | 8,534 | 9,388 |
| Borrowings | 171 | 221 | 231 | 77 | 105 | 147 |
| Other Liability | 172 | 193 | 231 | 236 | 146 | 28 |
| Equity | 12 | 12 | 13 | 13 | 13 | 13 |
| Reserves | 425 | 467 | 570 | 671 | 786 | 918 |
| Total Liabilities | 6,717 | 7,105 | 7,926 | 8,756 | 9,585 | 10,494 |

| Dupont Analysis (% of Average Assets) | FY22A | FY23A | FY24A | FY25E | FY26E | FY27E |
|---------------------------------------|-------|-------|-------|-------|-------|-------|
| Net Interest Income | 2.6 | 2.9 | 3.1 | 3.7 | 3.7 | 3.7 |
| Non Interest Income | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Net Income | 3.6 | 4.0 | 4.1 | 4.8 | 4.7 | 4.7 |
| Operating Expenses | 1.7 | 1.8 | 1.9 | 1.9 | 1.8 | 1.7 |
| Operating Profit | 2.0 | 2.2 | 2.2 | 2.8 | 2.9 | 3.0 |
| Provisions & Contingencies | 1.5 | 1.4 | 0.8 | 1.2 | 1.2 | 1.2 |
| Taxes | -0.1 | 0.1 | 0.4 | 0.4 | 0.4 | 0.4 |
| ROAA | 0.6 | 0.8 | 1.1 | 1.2 | 1.3 | 1.3 |

| Ratios | FY22A | FY23A | FY24A | FY25E | FY26E | FY27E |
|-----------------------------|-------|-------|-------|-------|-------|-------|
| Efficiency Ratio (%) | | | | | | |
| Int Expended / Int Earned | 56.9 | 55.0 | 58.2 | 55.3 | 55.7 | 56.1 |
| Int Income / Total Assets | 5.8 | 6.3 | 7.0 | 7.9 | 8.0 | 8.0 |
| NII / Total Income | 36.5 | 38.8 | 36.7 | 39.8 | 39.4 | 39.1 |
| Other Inc. / Total Income | 15.1 | 13.7 | 12.4 | 11.1 | 11.1 | 11.1 |
| Ope. Exp. / Total Income | 23.9 | 23.2 | 22.5 | 20.5 | 19.5 | 18.4 |
| Net Profit / Total Assets | 0.6 | 0.7 | 1.0 | 1.1 | 1.2 | 1.3 |
| Credit / Deposit | 65.6 | 72.3 | 74.8 | 73.0 | 73.0 | 73.0 |
| Investment / Deposit | 29.4 | 29.9 | 30.9 | 29.6 | 29.0 | 28.5 |
| NIM | 2.9 | 3.2 | 3.3 | 3.9 | 3.9 | 3.9 |
| Solvency | | | | | | |
| Gross NPA (Rs. Cr) | 352 | 282 | 283 | 312 | 343 | 377 |
| Net NPA (Rs. Cr) | 88 | 40 | 41 | 45 | 50 | 55 |
| Gross NPA (%) | 8.5 | 6.0 | 5.5 | 5.5 | 5.5 | 5.5 |
| Net NPA (%) | 2.3 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Capital Adequacy Ratio (%) | 16.5 | 16.5 | 18.2 | 19.2 | 20.4 | 21.6 |
| Tier I Capital (%) | 13.2 | 13.5 | 14.9 | 15.9 | 17.1 | 18.3 |
| Tier II Capital (%) | 3.4 | 3.0 | 3.3 | 3.3 | 3.3 | 3.3 |
| Growth Ratio (%) | | | | | | |
| Interest Income | -0.6 | 15.7 | 23.7 | 25.1 | 9.7 | 10.1 |
| Interest Expenses | -5.6 | 11.7 | 30.8 | 18.9 | 10.7 | 10.7 |
| Other Income | 22.4 | 3.3 | 10.1 | 10.0 | 10.0 | 10.0 |
| Total Income | 2.3 | 13.8 | 21.9 | 23.2 | 9.8 | 10.1 |
| Net profit | 31.3 | 33.9 | 52.7 | 24.2 | 14.9 | 15.0 |
| Deposits | 10.3 | 4.6 | 10.8 | 12.8 | 10.0 | 10.0 |
| Advances | 6.9 | 15.4 | 14.6 | 10.0 | 10.0 | 10.0 |
| Return Ratio | | | | | | |
| RoAA (%) | 0.6 | 0.8 | 1.1 | 1.2 | 1.3 | 1.3 |
| RoAE (%) | 9.6 | 11.5 | 15.2 | 15.8 | 15.5 | 15.3 |
| Per Share Data (INR) | | | | | | |
| EPS | 32 | 42 | 60 | 74 | 85 | 98 |
| Book Value | 351 | 385 | 433 | 508 | 593 | 692 |
| Adj Book Value of Share | 280 | 353 | 403 | 474 | 556 | 651 |
| Valuation Ratio | | | | | | |
| P/E (x) | 18.5 | 13.8 | 9.8 | 7.9 | 6.9 | 6.0 |
| P/BV (x) | 1.7 | 1.5 | 1.4 | 1.2 | 1.0 | 0.8 |
| P/ABV (x) | 2.1 | 1.7 | 1.5 | 1.2 | 1.1 | 0.9 |

Source: Company, Arianth Research

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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