

Indian Bank

Sector: Banks/Mid Cap | Earnings Update – 1QFY22

22 July 2021

BUY

Background: Indian Bank features among the mid-sized banks in the public sector space. As of 1QFY22, the bank had business of about ₹9.2tn operating through a network of 5,809 branches. Prior to amalgamation with Allahabad bank, Indian Bank's footprint was largely skewed towards the southern states of Tamil Nadu, Karnataka, Andhra Pradesh and Kerala. Now the combined entity has a stronger presence in Central and Eastern states of India too. With RoA of ~0.75%, the bank features amongst the most profitable banks in the PSU space. The bank has positioned itself as a bank with focus on retail and mid corporate segment.

Sensex	52,198
Nifty	15,632
Price	₹ 140
Target Price (12 months)	₹ 170
Recommendation	BUY

52 Week High/Low	₹ 156.9/53.2
Bloomberg / Reuters	INBK IN / INBA.BO
Equity (shares in mn)	1,245.4
Mkt. Cap in bn	₹ 157.2 / \$ 2.1
Avg. Daily Vol. ('000)	4,995.2
Avg. Daily Vol. (mn)	₹ 699.3 / \$ 9.3

Shareholding	Jun-20	Mar-21	Jun-21
Promoters (%)	88.1	88.1	79.9
FII (%)	1.0	1.0	2.9
DII (%)	4.0	4.4	10.5
Others (%)	6.9	6.6	6.7
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2021	2022E	2023E
Net Interest Inc	156.7	170.2	194.7
Other Inc	65.4	66.9	82.6
Pre Prov Profit	114.2	138.4	158.0
PAT	30.2	44.1	60.6
EPS (₹)	26.7	35.4	48.7
EPS growth (%)	86.3	32.5	37.5
PE (X)	5.2	4.0	2.9
P /ABV (X)	0.6	0.6	0.6
Div Yield (%)	-	1.1	1.1
ROA (%)	0.5	0.7	0.8
ROE (%)	8.2	10.6	12.7
CAR (%)	15.7	14.1	14.1

Performance(%)	1M	3M	12M
INDIAN BANK	-5.3	33.9	123.2
SENSEX	-0.7	7.0	37.6

Steady quarter: Improvement in NIM and lower opex boosted operating performance while tax reversal propped up PAT; For FY22 bank is targeting 10%-12% credit growth and slippage ratio below 3%

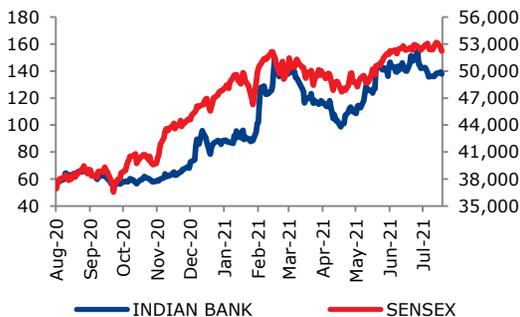
- In 4QFY21 Indian bank's total advances growth remain muted (6%/0% YoY/QoQ) to ₹3.7tn. The domestic loan book increased 6% YoY, buoyed by growth in Agri segment, up 17% YoY and MSME up 12% YoY. The Corporate advances (42% of loan book) registered a decline of 3% YoY primarily on account of bank's cautious lending approach and weak demand in the private sector. The management remains optimistic of recovery in corporate lending beginning 2QFY22. For FY22 the bank expects credit growth to be in the range of 10-12%, mainly driven by RAM segment.
- Deposits during the quarter stood at ₹5.4tn (+10% YoY) led by growth in term deposits (12% YoY). However CASA deposits growth (flat QoQ) was marginally weaker than previous quarter due to seasonality and stood at ₹2.2tn (+9% YoY). This led to a small dip in CASA ratio to 41% (down 64 bps QoQ). The bank continues to enjoy a high CASA ratio compared to peers owing to its merger with Allahabad Bank leading to lower Cost of Funds. The management is optimistic of CASA ratio improvement in the coming quarters. During the quarter, the Net interest income (NII) registered strong growth of 20% sequentially (3% YoY) and stood at ₹39bn. This led to increase in NIM to 2.85% (+ 51bps QoQ). The management intends to take the NIM to 3%. Yield on advances improved by 79bps QoQ to 7.06%. In addition, the cost of funds remained stable at 4.08% (flat QoQ) owing to growth in CASA deposits and increasing term deposits at lower rates.
- The bank's asset quality remained stable despite increase in slippages. The slippages stood at 5% (annualized) vs 9% in 4QFY21 with majority of stress arising from MSME. Slippages are expected to remain marginally higher in FY22. The management aims to keep slippage below 3% going forward. The bank expects additional restructuring worth ₹4-5bn in the MSME book. Segment wise restructuring: Retail- ₹3.2bn, MSME- ₹13.4bn.
- Headline GNPA ratio improved to 9.69% in 1QFY22 (vs 9.85% in 4QFY21) led by higher upgrades (₹16bn) and write-offs (₹28bn). However NNPA increased by 10bps QoQ to 3.47% in 1QFY22. The bank's collection efficiency (CE) declined in May-June 2021 however recovered in July 2021. Segment wise CE stood at: Retail-85%, MSME-78%, Agri-88% and Corporate 97%. The management expects CE to exceed 90% in 2QFY22.
- In 4QFY21, Non-interest income increased to ₹18bn (up 8% QoQ), partly due to profit on sale of investment (up 35% QoQ) and recovery of bad debts (up 12% QoQ). In addition the amalgamation with Allahabad Bank has accrued cost synergies leading to improvements in Cost to Income ratio to 40.86% (vs 47.06% 1QFY21).
- During the quarter, the bank reported operating profit of ₹34.9bn (up 26% YoY) on account of robust increase in Non-Interest Income (+8% QoQ) and lower opex (down 5.6% QoQ). The bank's provisions continue to remain elevated at ₹26bn (vs ₹21bn in 1QFY21). However tax reversal of ₹3bn supported PAT, which stood at ₹11.9bn. PCR stood at 82% (vs 80.5% in 1QFY21).

Valuation: The bank's improving collection efficiencies and less than expected restructuring have improved credit cost outlook. In addition, the anticipated recovery in corporate demand should support the credit off take in 2HFY22E. The bank with its strong capital base remains well placed to benefit from expected economic revival in the coming quarters. The bank's performance has been good despite the current economic scenario and presents a stable outlook for the bank. We expect earnings to grow on the back of improved margins and offtake in credit demand. Assigning a P/ABV of 0.6x for FY23E, we maintain our target price of ₹170 and BUY rating on the stock.

Risks: Fresh slippages arising from stressed sectors, recoveries being delayed and lower than anticipated growth in advances.

Results Summary 1QFY22

Y/E March (₹ bn)	1QFY22	1QFY21	YoY Growth	4QFY21	QoQ Growth
Net Interest Income	39.9	38.7	3.1%	33.3	20.0%
Other Income	19.8	13.3	49.6%	18.3	8.7%
Pre Provisioning Profit	34.9	27.5	26.8%	25.2	38.6%
PAT	12.0	3.69	224.1%	16.8	-28.8%
Cost/Income (%)	40.9	47.1		49.8	
Gross NPA (%)	9.7	10.9		9.9	
Net NPA (%)	3.5	3.8		3.4	
Prov Coverage ratio (%)	82.0	80.5		82.1	
CAR (%)	15.9	13.5		15.7	



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