

1 June 2021

## Indian Bank

*Decent quarter, asset quality holds; retaining our Buy*

Rating: Buy

Target Price: Rs170

Share Price: Rs136

**Lower credit cost and a DTA reversal led to strong earnings growth for Indian bank, with Q4 RoA at 1.1%. Asset quality surprised positively with reported FY21 NPA ratios being lower than in FY20. Given its healthy capitalisation and a favourable credit-deposit ratio, the bank has adequate resources to rapidly gain market share from its peer banks. We retain our positive view on the bank at a TP of Rs170, valuing it at 0.5x P/ABV on its FY23e book.**

**Asset quality holds.** The bank's overall Mar'21 collection efficiency was ~90%. GNPA sequentially deteriorated 81bps on account of Rs83.1bn in slippages in Q4 FY21. FY21 overall slippages at Rs94.3bn (2.4% of loans) were much lower than earlier anticipated. The overall restructured book was 1.4% of loans, way lower than the initial 3-4% of guidance. For FY22 we expect slippages to be 2.3% of loans, project GNPA at 9.3% and NNPA at 3.8%.

**Loan growth to pick up.** The bank's loan book was Rs3.64trn (up 6.8% y/y). The corporate portfolio (~41% of loans) shrank 7.8% y/y. This was in line with management's strategy of focusing on granular retail lending. With a cleaner balance sheet, adequate capital and a strong deposit base, we expect a pick-up in credit growth once the pandemic-related restrictions are lifted and, accordingly, model 9% for FY22 and 12% for FY23.

**Valuation.** Our June'22 target of Rs170 is based on the two-stage DDM model. This implies ~0.4x P/BV and ~0.5x P/ABV multiples on its FY23e book. **Risks:** Lumpy slippages from the corporate book; lower-than-expected loan growth.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Net interest income (Rs m)	70,181	130,581	156,659	177,696	202,627
Pre-provisioning profit (Rs m)	48,806	95,861	113,956	134,357	156,046
Provisions (Rs m)	45,964	132,610	84,901	59,221	60,800
PAT (Rs m)	3,220	-46,429	30,047	55,450	70,291
EPS (Rs)	6.7	-41.1	26.6	49.1	62.2
NIM (%)	2.8	3.2	2.8	2.9	3.0
Cost-Income (%)	45.2	49.1	47.6	44.7	42.4
RoE (%)	1.7	-17.2	8.2	13.6	15.2
RoA (%)	0.1	-1.1	0.5	0.8	1.0
Advances growth (%)	15.8	88.0	6.8	9.0	12.0
GNPA (%)	7.1	11.4	9.9	9.4	7.9
CAR (%)	13.2	13.3	15.7	16.3	16.6
P / E (x)	20.9	-3.4	5.3	2.9	2.2
P / BV (x)	0.3	0.5	0.4	0.4	0.3
P / ABV (x)	0.5	0.6	0.5	0.5	0.4

Source: Company, Anand Rathi Research

Key data	INBK IN / INBA.BO
52-week high / low	Rs157 / 43
Sensex / Nifty	51937 / 15583
3-m average volume	\$6.8m
Market cap	Rs161bn / \$2222.5m
Shares outstanding	1129m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	88.1	88.1	88.1
- of which, Pledged	-	-	-
Free float	11.9	11.9	11.9
- Foreign institutions	1.0	0.8	0.8
- Domestic institutions	4.4	4.5	4.0
- Public	6.6	6.7	7.2

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net interest income	70,181	130,581	156,659	177,696	202,627
<i>NII growth (%)</i>	12.0	86.1	20.0	13.4	14.0
Non-interest income	18,829	57,690	60,793	65,470	68,177
Income	89,010	188,271	217,452	243,166	270,804
<i>Income growth (%)</i>	2.7	111.5	15.5	11.8	11.4
Operating expenses	40,204	92,410	103,496	108,810	114,759
PPOP	48,806	95,861	113,956	134,357	156,046
<i>PPOP growth (%)</i>	-2.4	96.4	18.9	17.9	16.1
Provisions	45,964	132,610	84,901	59,221	60,800
PBT	2,842	-36,749	29,056	75,136	95,246
Tax	-377	9,680	-991	19,686	24,954
PAT	3,220	-46,429	30,047	55,450	70,291
<i>PAT growth (%)</i>	-74.4	-1,542.1	-164.7	84.5	26.8
FDEPS (Rs / sh)	6.7	-41.1	26.6	49.1	62.2
DPS (Rs / sh)	0.0	0.0	0.0	7.4	9.3

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	4,803	51,360	11,294	11,294	11,294
Reserves & surplus	189,084	296,150	372,826	419,959	479,706
Deposits	2,420,759	4,888,350	5,380,711	5,918,782	6,510,660
Borrowings	121,375	299,330	261,746	274,833	288,575
Minority interests	-	-	-	-	-
<b>Total liabilities</b>	<b>2,800,653</b>	<b>5,680,540</b>	<b>6,260,050</b>	<b>6,836,005</b>	<b>7,494,114</b>
Advances	1,812,619	3,408,520	3,640,102	3,967,712	4,443,837
Investments	649,922	1,619,090	1,765,370	1,941,907	2,039,002
Cash & bank balance	117,019	131,020	275,451	308,505	345,526
Fixed & other assets	39,614	74,060	73,763	75,238	82,762
<b>Total assets</b>	<b>2,800,653</b>	<b>5,680,540</b>	<b>6,260,050</b>	<b>6,836,005</b>	<b>7,494,114</b>
No. of shares (m)	480	1,129	1,129	1,129	1,129
<i>Deposits growth (%)</i>	16.2	101.9	10.1	10.0	10.0
<i>Advances growth (%)</i>	15.8	88.0	6.8	9.0	12.0

Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis**

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
NIM	2.8	3.2	2.8	2.9	3.0
Other inc. / total inc.	21.2	30.6	28.0	26.9	25.2
Cost-income	45.2	49.1	47.6	44.7	42.4
Provision coverage	49.1	66.0	68.1	62.3	63.7
Dividend payout	0.0	0.0	0.0	15.0	15.0
Credit-deposit	74.9	69.7	67.7	67.0	68.3
Investment-deposit	26.8	33.1	32.8	32.8	31.3
Gross NPA	7.1	11.4	9.9	9.4	7.9
Net NPA	3.7	4.2	3.4	3.8	3.1
BV (Rs)	403.7	307.7	340.1	381.9	434.8
Adj. BV (Rs)	304.7	219.2	264.1	288.8	350.6
CAR (%)	13.2	13.3	15.7	16.3	16.6
- Tier 1	11.3	10.4	11.9	12.5	12.9
RoE	1.7	-17.2	8.2	13.6	15.2
RoA	0.1	-1.1	0.5	0.8	1.0

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-book band**


Source: Bloomberg

**Fig 5 – One-year-forward price-to-book value**


Source: Company, Anand Rathi Research

**Fig 6 – Price movement**


Source: Bloomberg

## Key Highlights

Conference-call takeaways

Asset quality

### ■ Restructuring

**Fig 7 – Break-up of advances**

(%)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Corporate	45.7	44.6	45.8	43.8	43.3	41.1
MSME	17.1	16.5	16.5	17.8	17.7	18.0
Retail	16.2	17.9	16.5	16.3	17.1	17.9
<i>Housing</i>	-	-	12.0	11.6	11.8	12.2
Agri	18.6	18.7	18.8	19.5	19.3	20.2
Overseas loans	2.3	2.3	2.4	2.5	2.7	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Anand Rathi Research

**Fig 8 – Collection efficiency across portfolios**

(%)	Sep'20	Oct'20	Nov'20	Dec'20	Jan'21	Feb'21	Mar'21
Retail	95	87	91	92	91	91	92
Agri	96	94	90	94	84	82	85
MSME	86	85	89	87	95	90	90
Corporate	96	93	92	92	92	89	90

Source: Company, Anand Rathi Research

**Fig 9 – NCLT accounts**

NCLT list (Rs m)	No. of Accounts	Exposure	Provision	PCR (%)
RBI List-1	8	29,600	29,280	99
RBI List-2	11	35,640	35,570	100
Accounts filed by bank	25	18,990	18,000	95
Accounts filed by other banks	152	141,870	139,700	98
	<b>196</b>	<b>226,100</b>	<b>222,550</b>	<b>98</b>

Source: Company, Anand Rathi Research

**Fig 10 – GNPA**

GNPA (Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Opening balance	454,490	460,120	419,980	399,650	361,980	352,372
Slippages	56,400	39,420	6,060	3,150	1,950	83,130
<i>Gross slippage ratio (%)</i>	<i>6.8</i>	<i>4.6</i>	<i>0.7</i>	<i>0.4</i>	<i>0.2</i>	<i>9.1</i>
Reductions	50,766	79,560	26,390	40,821	11,557	50,949
Upgrades	7,480	4,160	2,390	1,950	1,360	1,160
Recoveries	11,810	12,960	2,010	7,950	7,440	21,190
Write-offs	31,476	62,440	21,980	30,920	2,760	28,590
<b>Closing balance</b>	<b>460,124</b>	<b>419,980</b>	<b>399,650</b>	<b>361,980</b>	<b>352,372</b>	<b>384,553</b>
<i>GNPA (%)</i>	<i>12.7</i>	<i>11.4</i>	<i>10.9</i>	<i>9.9</i>	<i>9.0</i>	<i>9.9</i>

Source: Company, Anand Rathi Research

## Quarterly snapshot

Fig 11 – Income statement

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Interest income	96,930	97,570	101,200	100,574	100,245	89,039
Interest expense	63,999	64,470	62,457	59,133	57,112	55,696
<b>NII</b>	<b>32,931</b>	<b>33,100</b>	<b>38,743</b>	<b>41,440</b>	<b>43,133</b>	<b>33,343</b>
<i>Y/Y growth (%)</i>	<i>91.8</i>	<i>87.7</i>	<i>16.8</i>	<i>32.0</i>	<i>31.0</i>	<i>0.7</i>
Non-interest income	16,730	17,280	13,268	16,117	13,968	17,439
Trading profits	5,000	3,990	6,800	7,120	5,190	6,190
<b>Income</b>	<b>49,661</b>	<b>50,380</b>	<b>52,010</b>	<b>57,558</b>	<b>57,101</b>	<b>50,783</b>
<i>Y/Y growth (%)</i>	<i>129.7</i>	<i>115.9</i>	<i>17.3</i>	<i>31.2</i>	<i>15.0</i>	<i>0.8</i>
Operating expenses	21,500	26,370	24,477	27,608	26,111	25,299
Of which, staff cost	11,730	15,340	16,540	17,504	15,717	14,022
<b>PPOP</b>	<b>28,161</b>	<b>24,010</b>	<b>27,533</b>	<b>29,950</b>	<b>30,990</b>	<b>25,484</b>
<i>Y/Y growth (%)</i>	<i>145.6</i>	<i>92.8</i>	<i>23.2</i>	<i>40.3</i>	<i>10.0</i>	<i>6.1</i>
Total provisions	46,210	31,860	21,391	22,841	23,144	17,525
<b>PBT</b>	<b>(18,049)</b>	<b>(7,850)</b>	<b>6,142</b>	<b>7,108</b>	<b>7,846</b>	<b>7,959</b>
Tax	(660)	8,570	2,450	2,986	2,704	(9,130)
<b>PAT</b>	<b>(17,389)</b>	<b>(16,420)</b>	<b>3,693</b>	<b>4,123</b>	<b>5,143</b>	<b>17,088</b>
<i>Y/Y growth (%)</i>	<i>NM</i>	<i>NM</i>	<i>-25.1</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>

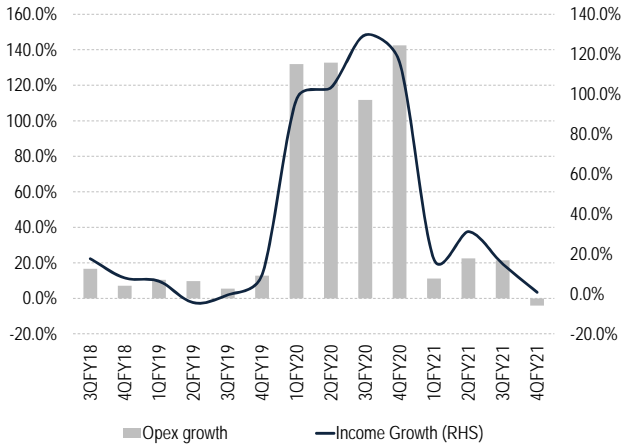
Source: Company, Anand Rathi Research

Fig 12 – Balance sheet

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Equity capital	43,310	51,360	11,294	11,294	11,290	11,294
Reserves & Surplus	309,620	296,150	349,239	353,223	358,490	372,826
Deposits	4,812,770	4,888,350	4,891,086	5,019,564	5,212,480	5,380,711
Borrowings	193,910	299,330	307,940	313,096	300,700	261,746
Other liabilities	138,550	145,350	198,104	151,625	200,940	233,474
<b>Equity and Liabilities</b>	<b>5,498,160</b>	<b>5,680,540</b>	<b>5,757,663</b>	<b>5,848,802</b>	<b>6,083,900</b>	<b>6,260,050</b>
<i>Deposits y/y growth (%)</i>	<i>113.1</i>	<i>101.9</i>	<i>7.6</i>	<i>6.8</i>	<i>8.3</i>	<i>10.1</i>
<i>Deposits q/q growth (%)</i>	<i>2.4</i>	<i>1.6</i>	<i>0.1</i>	<i>2.6</i>	<i>3.8</i>	<i>3.2</i>
<b>Assets</b>						
Cash and cash balance	428,970	356,740	460,920	397,505	423,680	540,599
Advances	3,303,600	3,408,520	3,394,815	3,396,566	3,628,170	3,640,102
Investments	1,477,850	1,619,090	1,615,349	1,781,603	1,754,590	1,765,370
Other assets	287,740	296,190	286,579	273,129	277,460	313,979
<b>Total Assets</b>	<b>5,498,160</b>	<b>5,680,540</b>	<b>5,757,663</b>	<b>5,848,802</b>	<b>6,083,900</b>	<b>6,260,050</b>
<i>Advances y/y growth (%)</i>	<i>93.0</i>	<i>88.0</i>	<i>5.5</i>	<i>3.3</i>	<i>9.8</i>	<i>6.8</i>
<i>Advances q/q growth (%)</i>	<i>0.4</i>	<i>3.2</i>	<i>-0.4</i>	<i>0.1</i>	<i>6.8</i>	<i>0.3</i>

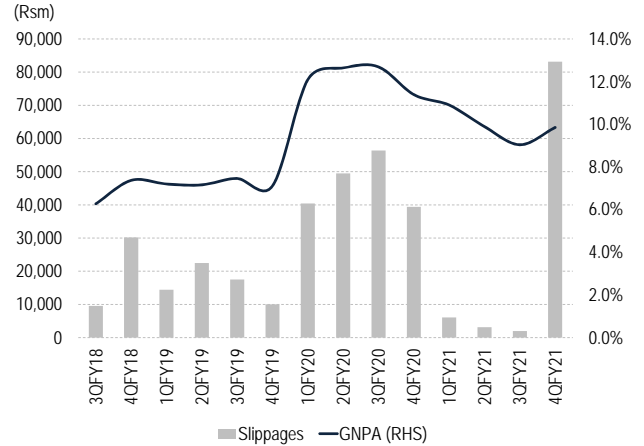
Source: Company, Anand Rathi Research

Fig 13 – Income vs. Opex growth



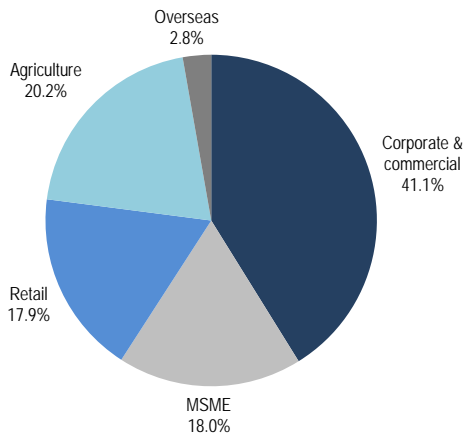
Source: Company, Anand Rathi Research

Fig 14 – Gross NPA and slippages



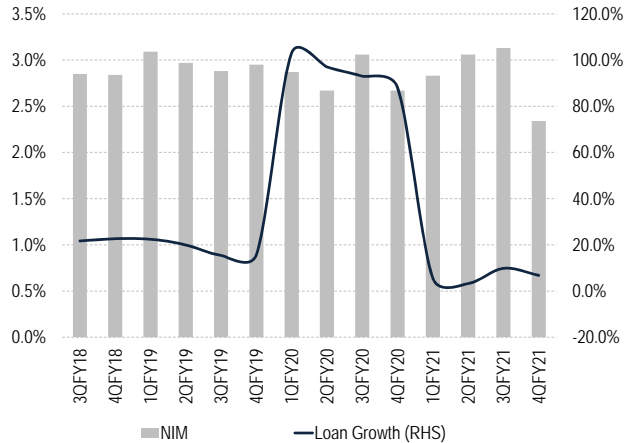
Source: Company, Anand Rathi Research

Fig 15 – Loan break-up



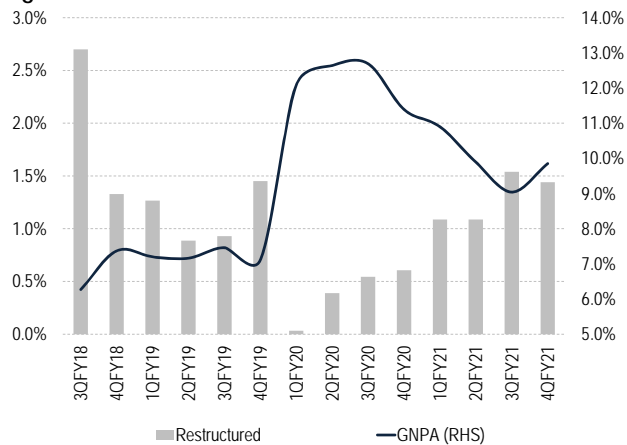
Source: Company, Anand Rathi Research

Fig 16 – Credit growth vs. NIM (%)



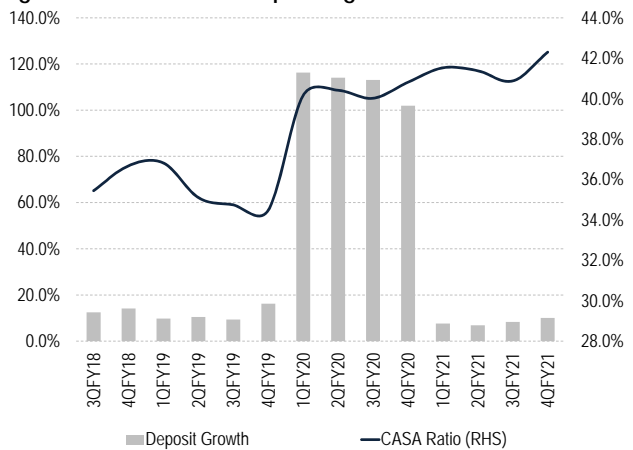
Source: Company, Anand Rathi Research

Fig 17 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 18 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

## Valuation

- Our June'22 target of Rs170 is based on the two-stage DDM model. This implies a  $\sim 0.5x$  P/ABV multiple on its FY23e book.
- The bank is one of the best-managed public-sector banks and we are positive about management's ability to deliver on its loan-growth targets.

### Risks

- Higher slippages in future (especially from the corporate portfolio) could lead to volatility in asset quality.
- Lower-than-expected loan growth could upset our estimates.

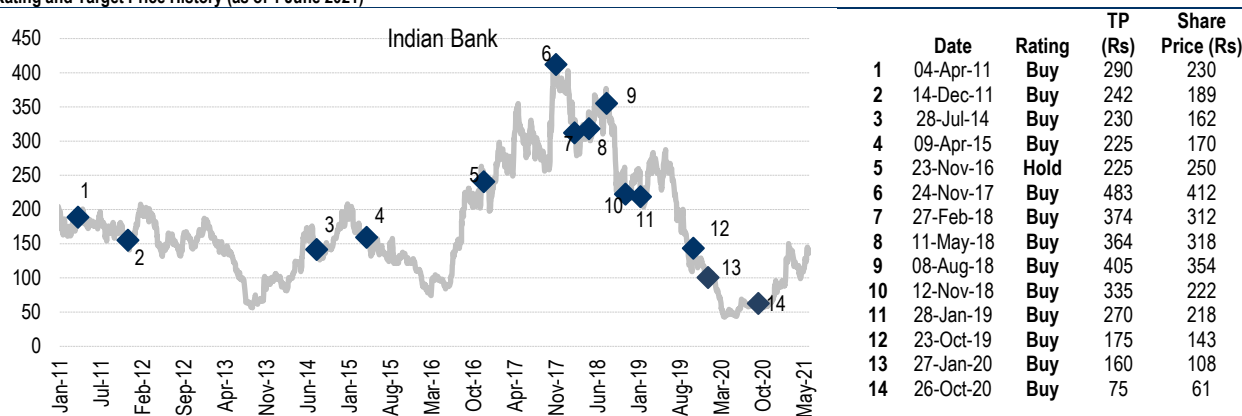
## Appendix

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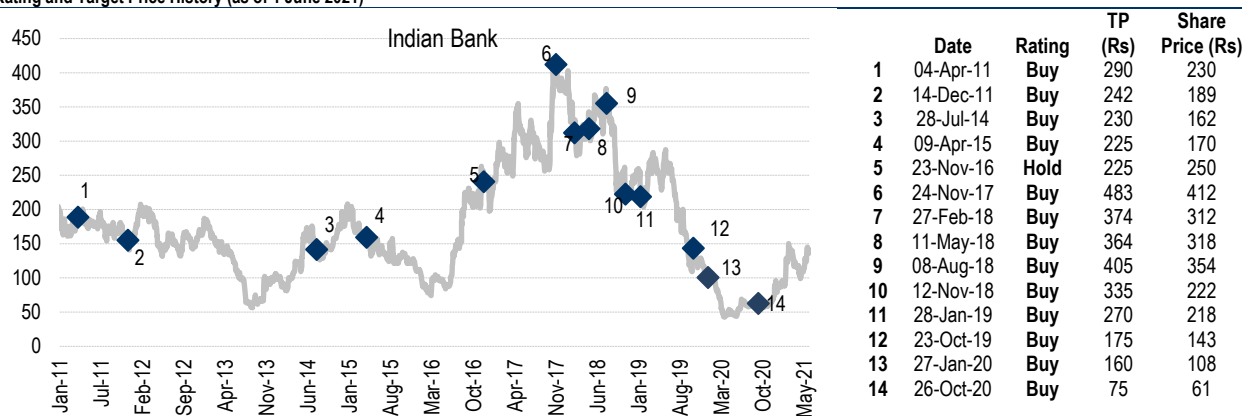
## Appendix

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