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Indian Bank

BUY

Sector: Banks/Mid Cap | Earnings Update – 2QFY22

3 November 2021

Background: Indian Bank features among the mid-sized banks in the public sector space. As of 2QFY22, the bank had business of about ₹9.2tn operating through a network of 5,759 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	59,771
Nifty	17,829
Price	₹ 169
Target Price (12 months)	₹ 195
Recommendation	BUY

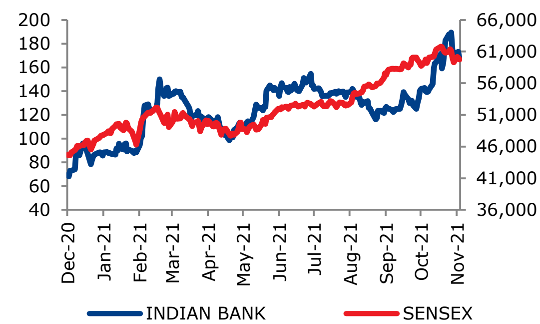
52 Week High/Low	₹ 194.8/56.5
Bloomberg / Reuters	INBK IN / INBA.BO
Equity (shares in mn)	1,245.4
Mkt. Cap in bn	₹ 210.4/ $ 2.8
Avg. Daily Vol. ('000)	4,517.3
Avg. Daily Vol. (mn)	₹ 763.4 /$ 10.2

Shareholding	Sep-20	Jun-21	Sep-21
Promoters (%)	88.1	79.9	79.9
FII (%)	0.8	2.9	2.4
DII (%)	4.0	10.4	10.5
Others (%)	7.2	6.7	7.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2021	2022E	2023E
Net Interest Inc	156.7	166.6	178.8
Other Inc	65.4	84.3	75.9
Pre Prov Profit	114.2	137.4	145.2
PAT	30.2	46.5	52.9
EPS (₹)	26.7	37.3	42.5
EPS growth (%)	86.3	39.8	13.8
PE (X)	6.3	4.5	4.0
P /ABV (X)	0.7	0.6	0.5
Div Yield (%)	-	0.9	0.9
ROA (%)	0.5	0.7	0.7
ROE (%)	8.2	11.0	10.9
CAR (%)	15.7	14.1	14.1

Performance(%)	1M	3M	12M
INDIAN BANK	17.2	20.1	184.9
SENSEX	0.8	12.9	47.2



Steady quarter: Improvement in CASA supported NIM while tax reversal propped up PAT; For FY22 bank is targeting 8%-10% credit growth and slippages below 3%

- Indian bank's total advances growth was sequentially muted (6%/0% YoY/QoQ) at ₹3.6tn. This was on account of decline in corporate book (down 6.9% QoQ, 40% of book) owing to deleveraging by corporates and lower utilization. The decline was offset by growth in Retail (+14 YoY), MSME (+8% YoY) and Agriculture (+16% YoY). Management is confident of recovery in corporate book in FY22. For FY22 the bank expects total credit growth to be in the range of 8-10%, mainly driven by RAM segment.
- Deposits during the quarter stood at ₹5.5tn (+10% YoY) led by growth in term deposits (14% YoY). In addition there was noticeable recovery in CASA deposits (2% QoQ) after a muted 1QFY22. CASA stood at ₹2.2tn (+8% YoY). This led to a stable CASA ratio of 41% (down 10 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.
- In 2QFY22, the Net interest income (NII) registered a weak growth of 2.3% sequentially (down 1.5% YoY) and stood at ₹40bn. This was owing to high interest reversals of ₹3.2bn and weak credit growth. Yield on advances was stable at 6.98% (down 8bps QoQ). In addition, the cost of funds remained stable at 3.89% (down 8bps QoQ) owing to growth in CASA deposits and increasing term deposits at lower rates. This led to stable NIM of 2.89% (+4bps QoQ). The management last quarter shared its intention to take the NIM to 3%.
- The bank's asset quality remained stable despite increase in slippages. The slippages stood at 4.3% (annualized) vs 5% in 1QFY22 with majority of stress arising from Corporate. Higher slippages were offset by high recoveries and upgrades of ₹25bn. The Slippages are expected to remain marginally higher in FY22. The management aims to keep slippage below 3% going forward. The bank expects recoveries/upgrades of ₹40bn for 2HFY22. Restructuring increased to 5.8% of book.
- Headline GNPA ratio improved to 9.56% in 2QFY22 (vs 9.69% in 1QFY22) led by higher upgrades (₹16bn) and write-offs (₹22bn). NNPA too improved by 21bps QoQ to 3.26% in 2QFY22. The bank's collection efficiency (CE) improved in 2QFY22. CE stood at 91% in Sept (vs 89% in June 2021) in line with management's expectation. Segment wise CE stood at: Retail-97%, MSME-92%, Agri-81% and Corporate 98%. PCR stood at 83% (vs 82% in 1QFY22).
- In 2QFY22, Non-interest income improved to ₹19.6bn (up 26% YoY), partly due to recovery of bad debts (+450% YoY) and Forex income (+42% YoY).
- During the quarter, the bank reported operating profit of ₹32bn (down 6% QOQ) on account of impact of provisions made for family pension and NPS. This led to a rise in opex (+14% QoQ). The bank's provisions continue to remain elevated at ₹25bn (vs ₹26bn in 1QFY22). However tax reversal of ₹3bn supported PAT, which stood at ₹11bn (158% YoY).

Valuation: The bank's improving collection efficiencies and more than expected recoveries 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 off take in credit demand. Assigning a P/ABV of 0.6x for FY23E, we revise our target price to ₹195 (Earlier: 170) and retain a BUY rating on the stock.

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

Results Summary 2QFY22

Y/E March (₹ bn)	2QFY22	2QFY21	YoY Growth	1QFY22	QoQ Growth
Net Interest Income	40.8	41.5	-1.5%	39.9	2.3%
Other Income	20.4	17.4	17.3%	19.8	2.7%
Pre Provisioning Profit	32.9	30.1	9.0%	34.9	-5.8%
PAT	11.0	4.24	158.5%	12.0	-8.3%
Cost/Income (%)	45.9	48.0		40.9	
Gross NPA (%)	9.6	9.9		9.7	
Net NPA (%)	3.3	3.0		3.5	
Prov Coverage ratio (%)	83.3	84.4		82.0	
CAR (%)	15.9	13.6		15.9	

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