Stock Update

Indian Bank Ltd.

October 25, 2021

RETAILRESEARCH

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Indian Bank Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
PSU Banks	Rs.182.5	Buy at LTP of Rs.182.5 & add more on dips of Rs.160	Rs.199	Rs.214	2 quarters

HDFC Scrip Code	INDIAN EQNR
BSE Code	532814
NSE Code	INDIANB
Bloomberg	INBK IN
CMP Oct 22, 2021	182.5
Equity Capital (Rs Cr)	1245
Face Value (Rs)	10
Equity Share O/S (Cr)	124.5
Market Cap (Rs Cr)	22,723
ABook Value (Rs)	232
Avg. 52 Wk Volumes	4170228
52 Week High	185.75
52 Week Low	56.55

Share holding Pattern % (Sep, 2021)	
Promoters	79.9
Institutions	12.9
Non Institutions	7.2
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

The successful divestment of Air India has reignited the confidence in the capability as well as intention of the Government to execute complex transactions in order to walk the talk in terms of its divestment agenda. Furthermore, the initial set of Q2FY22 numbers from PSU banks (IDBI Bank and Bank of Maharashtra- both of which are generally perceived to weaker in book quality), indicate that the clean-up of the books has progressed well and shall be underpinned further by the transfer of toxic assets to National Asset Reconstruction Company Limited which would release capital for boosting loan growth. Both of these developments augur well for the prospects of PSU banking stocks as they provide higher margin of safety in terms of valuation in an otherwise over-heated market.

We have been observing a sharp re-rating in the PSU banking space lately. Nifty PSU Bank Index has been making higher highs since last four weeks and is up by 12.8% during that time. Privatization theme is keeping them in the lime light and now the hope of earnings as well as asset quality recovery would further sustain the rally. Some of the good quality names within the PSBs with loan book or CASA ratio as good as some top tier private banks, are available at almost half the book value of FY23E; as against about 2x to 3x Price-to-Book Value for private players.

The accelerated resolution program through IBC has helped to bring down NPAs. The PSU banking sectors' lending quality seems to be improved, which has been reflected with no major NPA surge seen post COVID waves. Now with the asset quality challenges of the previous cycles behind us, we feel that the valuation gap between the private Banks and PSBs will start to narrow gradually. Faster resolution by the IBC could also help in recoveries and bring down slippages in future. We believe that the PSU banks might see good addition to the book value per share in the next year mainly on account relatively lower credit costs and recoveries. We further believe acquisition of some PSU Banks by the any prestigious corporates/Institutions – local or foreign - at a good valuation may further re-rate the sector.

India achieved the landmark of administering 1 billion vaccine doses within 281 days in Oct 2021 which naturally coincided with reduction in new covid-19 cases and hospitalisations as well as strong rebound in economic activity. This coupled with resurgence in leisure travel and festive sales are expected to further bolster the cash flows of covid-stricken sectors. ICRA expects credit growth of 7.3-8.3% for banks for FY22 compared to 5.5% for FY21. It believes that with the improved capital and profitability position of public banks, which accounts for a ~62% share in bank loans, and abundant liquidity in the banking system, supply of credit does not appear to be a constraint. Revival of credit demand and the willingness of banks to push growth will be the key drivers of the overall credit growth in the economy.

We had issued initiating report on Indian bank earlier for which both the targets were achieved in a month's time (details and link for the report are below). We feel that there is still some steam left in the stock given the low valuations. We like Indian Bank because it is amongst the better managed PSU banks as it has required limited support from the Government to raise funds. Further, it has long track record of relatively better performance among the PSU banking pack. It is noteworthy that Indian Bank has never reported a single rupee of loss in the last decade despite plethora of credit challenges in the industry. In fact, the Bank has distributed dividend to its shareholders seven times in past ten years.

With over 114 years of banking operations in India, Indian Bank is one of the most well-established and recognized banking brands in India with a loyal customer base. After the consolidation, it is now seventh largest bank in India by assets. It also has overseas presence. Indian Bank has always remained well placed in terms of capital positioning as compared to other PSB peers. The Capital Adequacy Ratio as on June-21 stood at 15.92% with Tier-1 at 11.6%. It is well capitalized to absorb asset quality risk. The CASA ratio post amalgamation with Allahabad Bank has improved a lot. The cost of deposits and cost of funds have been consistently decreasing, which gives the competitive advantage to the bank. Further, the focus on digitization and technology could bring in cost efficiencies, expansion of service delivery models and increasing penetration among existing and new customer segments. The Bank has diversified asset portfolio and its increased focus on RAM segment (retail agriculture and MSME) will lead to better risk diversification, increased revenue and improved margins. High corporate book with high BB & below rated book and high exposure to sectors like Infrastructure, NBFC etc. are the key concerns for the growth.

We had issued Initiating Report on Indian Bank on 17th September, 2021 and recommended Buy at LTP of Rs.139 & add more on dips of Rs.121 band, for base case target of Rs.158 and bull case target of Rs.170.5 over the next two quarters. The bull case target of Rs.170.5 was achieved on 18th October 2021, yielding return of 22.7%.

Link for the Initiating Coverage:
https://www.hdfcsec.com/hsl.research.pdf/HSL_Initiating%20Coverage%20Indian%20Bank%2017092021.pdf

Valuation & Recommendation:

We have kept the growth expectation same as the initiating report, we might revise it after the Q2FY22 result, which is to be announced on 28th October, 2021. We expect Indian Bank to grow its loan book at 9% CAGR while NII and Net profit are expected to grow at 7.5% and 39.5% (due to lower base) CAGR respectively over FY21-23E. ROAA is estimated to improve to 0.8% in FY23E from current 0.6% in FY21 and RoE could rise to 12.4% from 9.9% in FY21. We expect healthy recoveries and upgrades in next two years. Asset quality trend of corporate and MSME would be the crucial monitorables. Most of the concerns arising out of pending writeoffs out of restructured/SMA accounts are already in the price. We have assumed higher recoveries and lower slippages going forward. NIMs may also start stabilizing around 3% level.

We feel that investors can buy Indian Bank Limited at the LTP of Rs.182.5 (0.6xFY23E ABV) and add on dips to Rs.160 (0.53xFY23E ABV) band. We expect the Base case fair value of Rs.199 (0.65xFY23E ABV) and the Bull case fair value of Rs.214 (0.7xFY23E ABV) over the next 2 quarters.

Financial Summary

Particulars (Rs Cr)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	3994.2	3874.3	3.1	3334.3	19.8	7606.4	15666.0	16509.0	18103.6
PPP	3471.8	2753.3	26.1	2548.4	36.2	6498.0	11395.7	12497.6	13877.5
PAT	1181.7	369.3	220.0	1708.8	-30.8	753.4	3004.7	4490.1	5849.4
EPS (Rs)						12.4	26.6	36.1	47.0
ABV						261.3	231.5	258.6	304.6
P/E (x)						14.7	6.9	5.1	3.9
P/ABV (x)						0.7	0.8	0.7	0.6
RoAA (%)						0.3	0.6	0.7	0.8
RoAE (%)						3.6	9.9	10.9	12.4

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	19185	21405	39106	41819	46022
Interest Expenses	12167	13799	23440	25310	27919
Net Interest Income	**7018**	**7606**	**15666**	**16509**	**18104**
Non-interest income	1883	3312	6079	6405	6986
Operating Income	**8901**	**10919**	**21745**	**22914**	**25089**
Operating Expenses	4020	4421	10350	10416	11212
PPP	4881	6498	11396	12498	13878
Prov & Cont	4596	5125	8490	8660	8747
Profit Before Tax	284	1373	2906	3838	5131
Tax	-38	619	-99	-652	-718
PAT	**322**	**753**	**3005**	**4490**	**5849**

Balance Sheet

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	480	609	1129	1245	1245
Reserves & Surplus	18908	21480	37283	43058	48596
Shareholder funds	**19389**	**22089**	**38412**	**44303**	**49841**
Deposits	242076	260226	538071	584569	636629
Borrowings	12138	20830	26175	25317	28102
Other Liab & Prov.	6463	6323	23347	25682	28250
SOURCES OF FUNDS	**280065**	**309468**	**626005**	**679872**	**742823**
Cash & Bank Balance	20020	13925	54060	58830	62501
Investment	64992	81242	176537	192425	209359
Advances	181262	197887	364010	389491	432335
Fixed Assets	3961	3896	7376	7966	8365
Other Assets	9829	12519	24022	31159	30263
TOTAL ASSETS	**280065**	**309468**	**626005**	**679872**	**742823**

(Source: Company, HDFC sec)

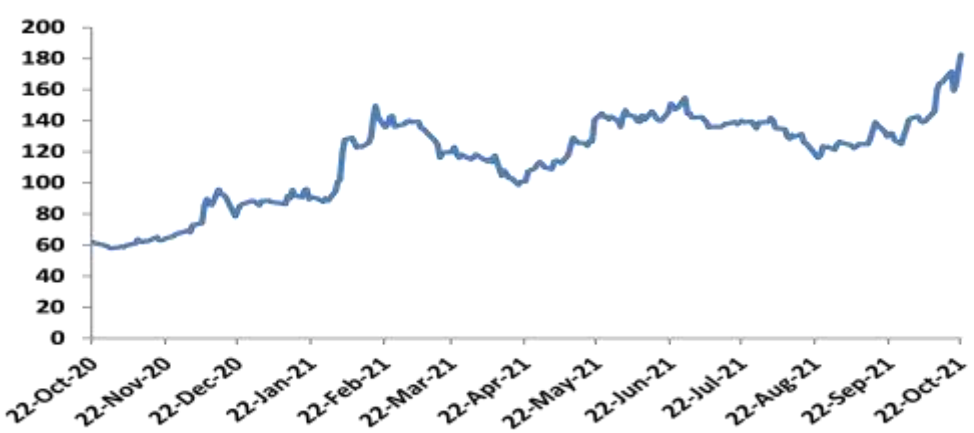
Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Return Ratios					
Calc. Yield on adv	11.4%	11.3%	10.7%	11.1%	11.2%
Calc. Cost of funds	5.0%	5.2%	4.2%	4.2%	4.2%
NIM	2.9%	2.8%	2.9%	2.8%	2.8%
RoAE	1.7%	3.6%	9.9%	10.9%	12.4%
RoAA	0.1%	0.3%	0.6%	0.7%	0.8%
Asset Quality Ratios					
GNPA	7.1%	6.9%	9.9%	9.5%	8.9%
NNPA	3.7%	3.1%	3.4%	3.1%	2.8%
PCR	49.1%	56.3%	68.1%	67.3%	69.2%
Growth Ratios					
Advances	15.8%	9.2%	83.9%	7.0%	11.0%
Deposits	16.2%	7.5%	106.8%	8.6%	8.9%
NII	12.0%	8.4%	106.0%	5.4%	9.7%
PAT	-74.4%	134.0%	298.8%	49.4%	30.3%

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratios					
EPS	6.7	12.4	26.6	36.1	47.0
P/E	27.2	14.7	6.9	5.1	3.9
Adj. BVPS	262.2	261.3	231.5	258.6	304.6
P/ABV	0.7	0.7	0.8	0.7	0.6
Dividend per share	0.0	0.0	2.0	2.0	2.5
Other Ratios					
Cost-Income	45.2	40.5	47.6	45.5	44.7
CASA	34.7	34.6	42.3	43.4	44.4
CAR	13.2	14.1	15.7	16.1	16.3
Tier 1	11.3	12.1	11.9	12.7	13.2

One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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