

Indian Bank

Refer to important disclosures at the end of this report

Growth set to improve, but asset quality to be key monitorable

- Among the PSBs that were part of the recent consolidation, Indian Bank benefited the most from its merger with Allahabad Bank in terms of liability profile (CASA >40%). Its proactive tech integration ensured a smooth transition, unlike BOB. We believe Indian Bank is one of the best mid-cap PSBs with strong capital ratios (CET 1 ~11.7%) across cycles and ability to deliver relatively stronger return ratios (RoA/RoE at 0.8%/13%) as growth accelerates.
- With strong capital buffers (CET1@11.7%) in place and overall NPAs trending down, it is gearing up to accelerate growth (~8% in FY22E; >10% in FY23E). This should be mainly driven by healthy traction in the RAM segment and back-end support from mid-corporates. Thus, better growth/LDR and lower interest reversals should support margins.
- Asset quality performance has been a mixed bag, with NPAs declining to 9.6% from a peak of 12.7% post-merger, but restructuring remains slightly high at 5% of loans. Management believes that the bulk of retail (42%) restructuring is toward mortgages and expects a lower relapse rate. The impact of RBI's norms on upgrading NPAs, subject to clearance of all dues, could have a limited impact in Q3.
- Factoring in the impact of rising G-sec yields on treasury and a slightly higher tax rate from FY23E, we cut the bank's FY23-24E earnings by 5-6% and still expect it to deliver healthy RoA/RoE of 0.8%/13% by FY24E. Valuations remain reasonable post the recent market-wide correction. Hence, we retain Buy with a revised TP of Rs220 (0.7x Dec'23E ABV) from earlier Rs235. **Key risks:** slow growth/higher NPAs in the SME segment due to a fresh Covid wave and delay in macro pick-up.

Growth set to improve, and so should margins: Overall loan growth has been subdued at 6% yoy, mainly due to the corporate drag stemming from the underutilization of capacities and deleveraging. However, RAM growth was reasonable at 13% yoy, including retail at 14% yoy and agri at 16% yoy. Management believes consistent momentum in RAM will do the heavy-lifting in terms of delivering 8% overall credit growth in FY22, with some back-end support from mid-corporate. It sees opportunities in sectors such as textiles, petrochemical, chemical and steel. The bank has also signed a co-lending arrangement with NBFCs like Indiabulls Housing and IIFL, but it is yet to see meaningful traction. The bank would be open to more partnerships on the lending side. The bank expects NIM to remain healthy at around 2.8-3%, led by improving growth/LDR and lower interest reversals as lumpy asset quality is largely behind.

Asset quality remains a mixed bag: The bank has already recognized Srei Group (inherited from Allahabad Bank) as an NPA with a 50% provision cover, while Future Retail (Rs11bn) is already part of the restructured pool. The bank expects few lumpy resolutions (including ILFS), transfer of NPAs to NARCL and higher write-offs given healthy provisioning cover to keep NPAs in check. The restructured book remains elevated at Rs192bn (5% of loans), mainly from retail (42%) and MSME (37%), but management expects limited slippages from the pool based on repayment trends and subject to no severe third Covid wave. The SMA 2 pool too has moderated to 1.5% from 2.6% in Q1, indicating a moderating stress pool.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	1,09,189	2,17,451	2,37,231	2,50,130	2,79,760
Net profit	7,534	30,048	37,811	46,727	61,588
EPS (Rs)	13.8	34.6	31.8	37.5	49.4
ABV (Rs)	276.3	216.9	249.4	291.8	346.9
RoA (%)	0.3	0.6	0.6	0.7	0.8
RoE (%)	4.3	11.6	10.6	11.4	13.1
PE (x)	10.0	4.0	4.3	3.7	2.8
P/ABV	0.5	0.6	0.6	0.5	0.4

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Source: Company, Emkay Research

CMP	Target Price
Rs 138	Rs 220 (▼)
as of (December 21, 2021)	12 months
Rating	Upside
BUY (■)	58.9 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	6.4
Target Period (Months)	12
Previous Reco	Buy

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	31.8	37.5
Consensus	31.6	43.9
Mean Consensus TP (12M)	Rs 202	

Stock Details

Bloomberg Code	INBK IN
Face Value (Rs)	10
Shares outstanding (mn)	1,245
52 Week H/L	195 / 74
M Cap (Rs bn/USD bn)	172 / 2.28
Daily Avg Volume (nos.)	58,39,667
Daily Avg Turnover (US\$ mn)	12.5

Shareholding Pattern Sep '21

Promoters	79.9%
FIIIs	2.4%
DIIIs	10.5%
Public and Others	7.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	7	(5)	77
Rel. to Nifty	(8)	12	(11)	40

Relative price chart



Source: Bloomberg

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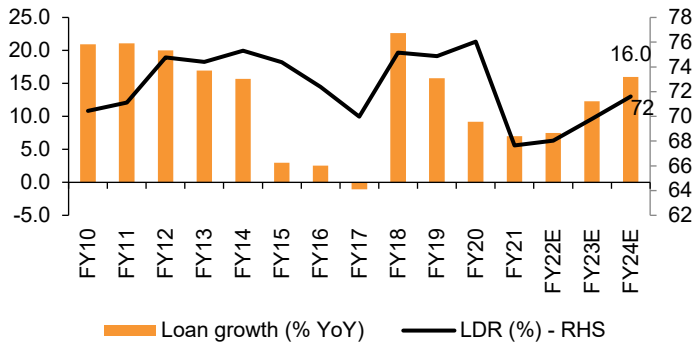
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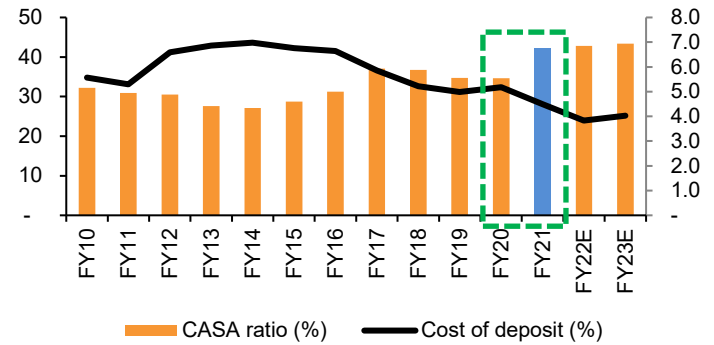
Story in Charts

Exhibit 1: Growth set to improve and so should LDR, with merger and asset quality pain largely behind



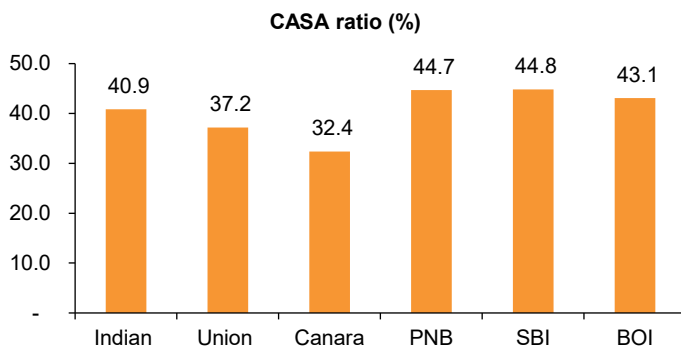
Source: Company, Emkay Research

Exhibit 2: CASA ratio >40% after merger with Allahabad Bank



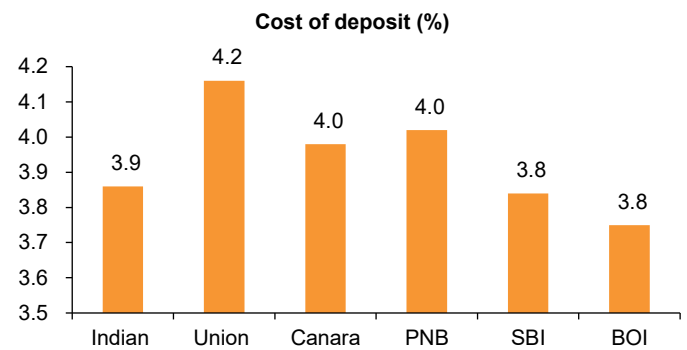
Source: Company, Emkay Research

Exhibit 3: Healthy CASA ratio for Indian Bank...



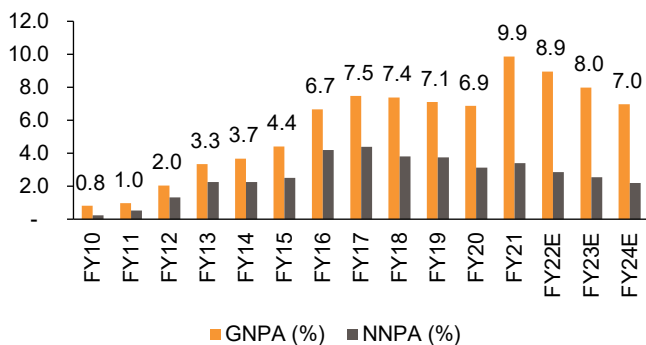
Source: Company, Emkay Research

Exhibit 4: ...leading to lower cost of deposit



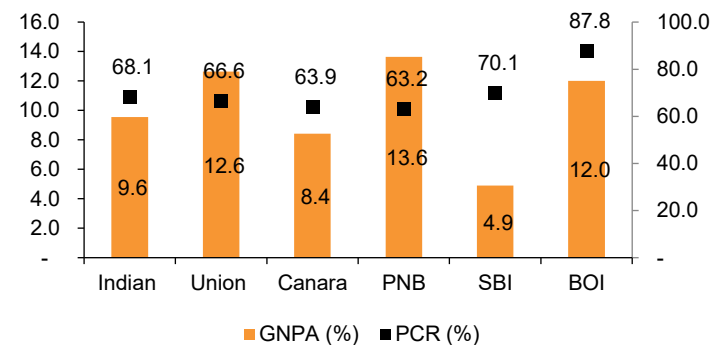
Source: Company, Emkay Research

Exhibit 5: NPA ratios trending down due to resolutions and higher w-offs

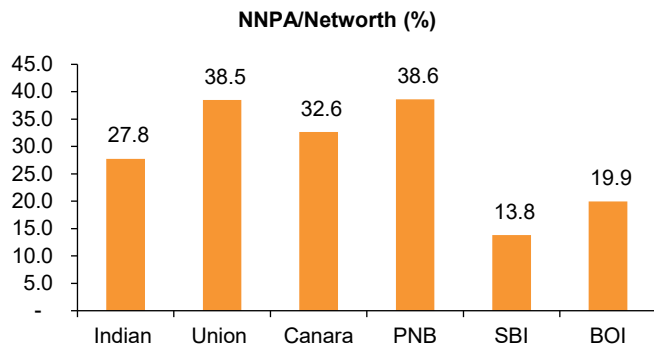


Source: Company, Emkay Research

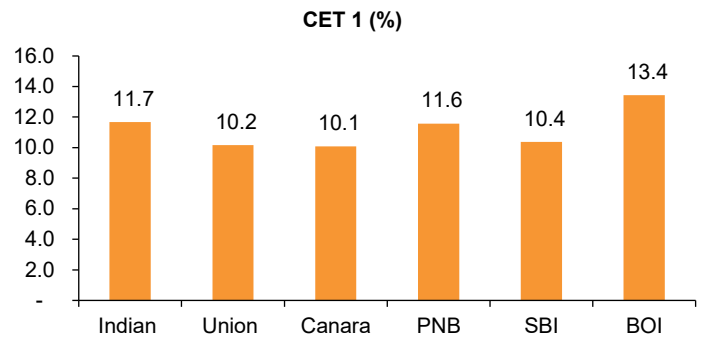
Exhibit 6: Indian Bank has reasonable asset quality, along with provision cover



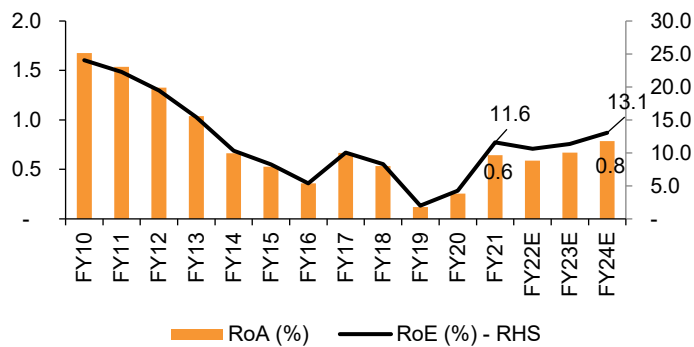
Source: Company, Emkay Research

Exhibit 7: Indian bank has reasonable NNPA/Networth ratio after SBI and BOI...

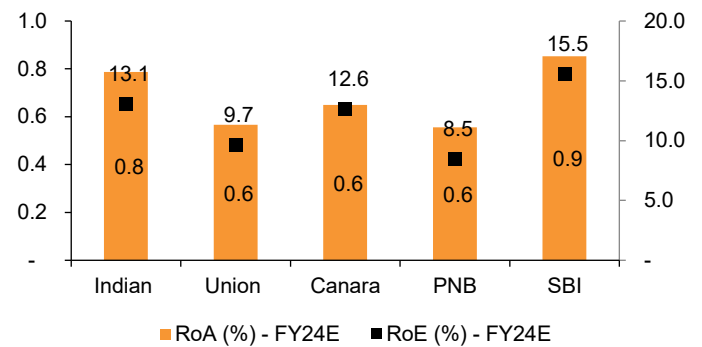
Source: Company, Emkay Research

Exhibit 8: ...given healthy capital ratios

Source: Company, Emkay Research

Exhibit 9: RoA/RoE set to improve as growth accelerates and asset quality moderates

Source: Company, Emkay Research

Exhibit 10: Indian Bank has best return ratios after SBI

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	76,064	1,56,659	1,63,936	1,78,029	2,02,755
Other income	33,125	60,792	73,295	72,100	77,005
Fee income	3,387	7,531	8,284	9,278	10,948
Net income	1,09,189	2,17,451	2,37,231	2,50,130	2,79,760
Operating expenses	44,208	1,03,494	1,08,562	1,18,831	1,32,364
Pre provision profit	64,980	1,13,957	1,28,669	1,31,298	1,47,396
PPP excl treasury	56,183	92,715	1,07,002	1,13,965	1,30,930
Provisions	51,253	84,900	94,295	72,890	65,279
Profit before tax	13,727	29,057	34,374	58,408	82,117
Tax	6,194	(991)	(3,437)	11,682	20,529
Tax rate	45	(3)	(10)	20	25
Profit after tax	7,534	30,048	37,811	46,727	61,588

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	6,368	11,574	12,735	12,735	12,735
Reserves	2,14,805	3,72,826	4,26,835	4,76,433	5,42,897
Net worth	2,21,173	3,84,400	4,39,570	4,89,168	5,55,631
Deposits	26,02,259	53,80,711	57,55,538	63,33,239	71,56,395
Borrowings	1,82,303	1,85,746	1,76,459	1,85,282	2,13,074
Total liabilities	30,94,682	62,60,050	66,07,060	73,20,702	83,34,771
Cash and bank	57,361	2,75,451	3,02,996	3,33,296	3,66,625
Investments	8,12,417	17,65,370	18,25,798	20,00,574	22,42,236
Loans	19,78,870	36,40,102	39,12,640	43,94,193	50,95,615
Others	1,25,190	2,40,216	2,46,011	3,08,881	3,39,895
Total assets	30,94,682	62,60,049	66,07,060	73,20,702	83,34,771

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.8	3.6	2.7	2.7	2.8
Non-II/avg assets	1.1	1.3	1.1	1.0	1.0
Fee income/avg assets	0.8	0.8	0.8	0.8	0.8
Opex/avg assets	1.5	2.2	1.7	1.7	1.7
Provisions/avg assets	1.7	1.8	1.5	1.0	0.8
PBT/avg assets	0.5	0.6	0.5	0.8	1.0
Tax/avg assets	0.2	0.0	(0.1)	0.2	0.3
RoA	0.3	0.6	0.6	0.7	0.8
RoAE	4.3	11.6	10.6	11.4	13.1
GNPA (%)	6.9	9.9	8.9	8.0	7.0
NNPA (%)	3.1	3.4	2.9	2.5	2.2

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	13.8	34.6	31.8	37.5	49.4
BVPS	350.8	289.2	308.8	350.8	406.3
ABVPS	276.3	216.9	249.4	291.8	346.9
DPS	0.0	2.6	3.1	4.5	6.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	10.0	4.0	4.3	3.7	2.8
P/BV	0.5	0.5	0.5	0.5	0.4
P/ABV	0.5	0.6	0.6	0.5	0.4
P/PPOP	1.4	1.4	1.4	1.3	1.2
Dividend Yield (%)	0.0	1.9	2.3	3.3	4.3

Source: Company, Emkay Research

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Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	8.4	106.0	4.6	8.6	13.9
PPOP	33.1	75.4	12.9	2.0	12.3
PAT	134.0	298.8	25.8	23.6	31.8
Loans	9.2	83.9	7.5	12.3	16.0

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
NII	41,440	43,133	33,343	39,942	40,834
NIM(%)	3.1	3.1	2.3	2.9	2.9
PPOP	29,417	30,990	25,484	34,158	32,755
PAT	4,123	5,143	17,088	11,817	10,891
EPS (Rs)	3.65	4.56	15.13	10.21	8.75

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-20	Mar-21	Jun-21	Jun-21	Sep-21
Promoters	88.1	88.1	79.9	79.9	79.9
FIIIs	0.8	1.0	3.0	3.0	2.4
DIIIs	4.4	4.4	10.4	10.2	10.5
Public and Others	6.7	6.6	6.7	6.9	7.2

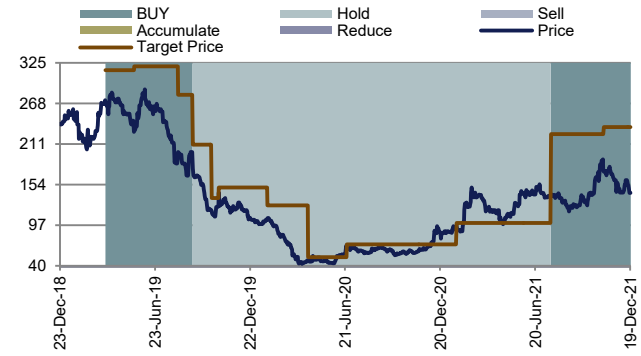
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Oct-21	172	235	12m	Buy	Anand Dama
20-Jul-21	138	225	12m	Buy	Anand Dama
23-Jan-21	91	100	12m	Hold	Anand Dama
20-Jan-21	96	100	12m	Hold	Anand Dama
23-Oct-20	61	70	12m	Hold	Anand Dama
15-Aug-20	62	70	12m	Hold	Anand Dama
24-Jun-20	65	70	12m	Hold	Anand Dama
11-Apr-20	48	52	12m	Hold	Anand Dama
24-Jan-20	107	125	12m	Hold	Anand Dama
23-Oct-19	143	150	12m	Hold	Anand Dama
09-Oct-19	117	135	12m	Hold	Anand Dama
03-Sep-19	177	210	12m	Hold	Anand Dama
06-Aug-19	200	280	12m	Buy	Anand Dama
14-May-19	233	320	12m	Buy	Anand Dama
20-Mar-19	270	315	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.19	19.16	-0.2%	-3	100.00	
Axis Bank	1.91	1.96	3%	5	10.21	0
AU Small Finance Bank	0.23	0.21	-10%	-2	1.09	0
Bandhan Bank	0.17	0.14	-17%	-3	0.75	0
Bank of Baroda	0.15	0.15	-1%	0	0.80	0
Canara Bank	0.11	0.00	-100%	-11	0.00	0
City Union Bank	0.00	0.10	NA	10	0.53	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.10	NA	10	0.52	0
Federal Bank	0.17	0.24	40%	7	1.23	0
HDFC Bank	6.46	6.46	0%	-1	33.65	0
ICICI Bank	5.10	5.19	2%	9	27.06	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.53	0.61	16%	8	3.19	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.36	2.03	-14%	-33	10.58	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.06	NA	6	0.34	0
State Bank of India	1.78	1.90	6%	12	9.90	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.05	0.00	-100%	-5	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
Cash	0.00	0.03	NA	3	0.15	0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Dec-20	21-Jun-21	20-Sep-21	18-Nov-21	20-Dec-21
EAP - BFSI-Banks	100.0	101.7	118.9	127.6	130.1	118.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.3	116.5	124.9	127.7	116.2

*Performance measurement base date 1st April 2019

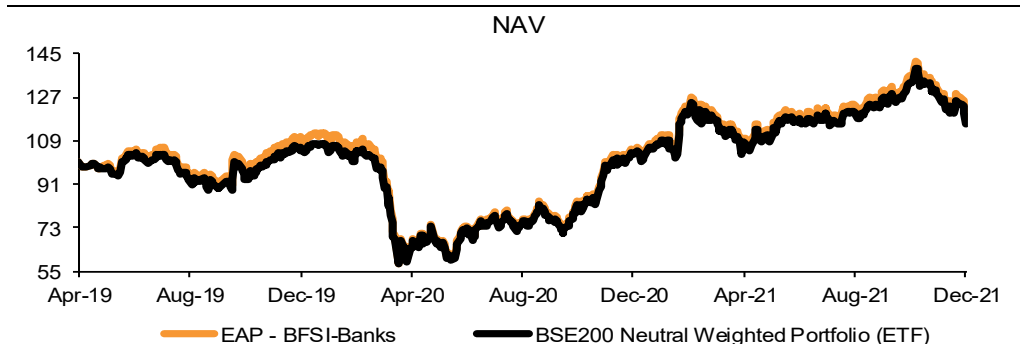
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-8.8%	-7.0%	-0.2%	16.7%
BSE200 Neutral Weighted Portfolio (ETF)	-9.0%	-6.9%	-0.3%	15.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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