

Indian Bank

Refer to important disclosures at the end of this report

Enhancement in provision cover leads to earnings miss

- Indian Bank reported a miss on PAT at Rs6.9bn vs. our estimate of Rs8.7bn, mainly due to higher provisions, as the bank shored up its PCR in line with large peers to 72%, including on Srei Infra (100% PCR). Asset quality was a mixed bag, with the GNPA ratio down 43bps qoq to 9.1%. However, restructuring remains elevated at 5% of loans. The bank claimed that the relapse rate from the restructured book remained low at 3%.
- Loan growth was moderate at 3% yoy, which the bank expects to improve to ~8% in FY22, calling for better growth run-rate in Q4. NIM improved 14bps qoq to 3%, mainly due to lower interest reversal on NPAs and yield on the balance with the RBI.
- Fresh slippages remained elevated in Q3 at Rs27bn (3% of loans) due to higher retail/corporate slippages. Slippages may remain elevated in 4Q in case Future Retail slips, to which the bank has exposure to the tune of Rs9bn (15% PCR). Factoring in higher LLP, we cut our FY22E EPS by 3%. However, we expect the bank to deliver healthy RoA/RoE of 0.8%-13% by FY24E.
- We believe that Indian Bank is one of the best mid-cap PSBs, with strong capital ratios and liability profile, as well as the ability to deliver strong return ratios as growth accelerates. Retain Buy with a TP of Rs220, based on 0.7x Dec'23E ABV, offering 38% upside from CMP.

Growth remains moderate, but margins improve: Loan growth remained subdued at 3% yoy, mainly due to corporate drag. However, RAM growth was healthy at 11% yoy, including retail at 13% yoy and agri at 14% yoy. Management believes that continued momentum in RAM will do the heavy-lifting in terms of delivering 8-10% overall credit growth in FY22, with some back-end support from mid-corporate as well. The CASA ratio improved further to 42%, leading to a lower CoF. This, coupled with a lower interest reversal on NPAs and yield on the balance with the RBI, led to a sharp 14bps qoq expansion in NIM to 3%. The bank expects NIMs to remain healthy at around 2.8-3% in the medium term, despite a rising rate cycle.

Fortifies provision cover amid elevated stress pool: Fresh slippages were elevated in Q3 at Rs27bn (3% of loans), mainly due to higher retail and corporate NPAs (including RKM Power, Delhi Metro). However, higher recoveries/upgrades led to a 43bps qoq decline in the GNPA ratio to 9.1%. As a prudent measure, the bank has now made 100% provision for the Srei Infra exposure, which partly led to overall specific PCR of 72%, in line with its large peers. The bank has exposure to Future Retail to the tune of Rs9bn (PCR @ 15%), which if slipped could lead to elevated NPAs in Q4 as well. However, it will be transferring loans to the tune of Rs12bn (5 a/cs) in Phase 1 to NARCL, which should lead to a cash recovery in Q4.

Outlook and valuations: With strong capital buffers in place and improving economic environment, the bank is geared up for growth. Factoring in higher LLP, we cut our FY22E EPS by 3%. However, we expect the bank to deliver healthy RoA/RoE of 0.8%-13% by FY24E. Retain Buy with a TP of Rs220, based on 0.7x Dec'23E ABV. **Key risks:** slow growth due to a delay in macro pick-up and higher-than-expected NPA formation in the SME segment.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	1,09,189	2,17,451	2,37,926	2,53,136	2,83,869
Net profit	7,534	30,048	36,698	46,535	60,624
EPS (Rs)	13.8	34.6	30.9	37.4	48.7
ABV (Rs)	276.3	282.2	262.8	292.8	347.1
RoA (%)	0.3	0.6	0.6	0.7	0.8
RoE (%)	4.3	11.6	10.3	11.4	12.9
PE (x)	11.4	4.6	5.1	4.2	3.2
P/ABV	0.6	0.7	0.6	0.5	0.5

Source: Company, Emkay Research

CMP	Target Price
Rs 158 as of (February 8, 2022)	Rs 220 (■) 12 months
Rating	Upside
BUY (■)	39.4 %

Change in Estimates

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

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	30.9	37.4
Consensus	31.0	40.8
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 / 96
M Cap (Rs bn/USD bn)	197 / 2.63
Daily Avg Volume (nos.)	37,26,018
Daily Avg Turnover (US\$ mn)	7.6

Shareholding Pattern Dec '21

Promoters	79.9%
FIIIs	1.9%
DIIIs	10.6%
Public and Others	7.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(9)	17	24
Rel. to Nifty	13	(5)	10	7

Relative price chart



Source: Bloomberg

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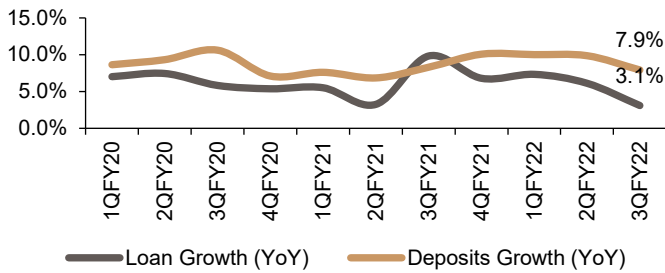
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Story in charts

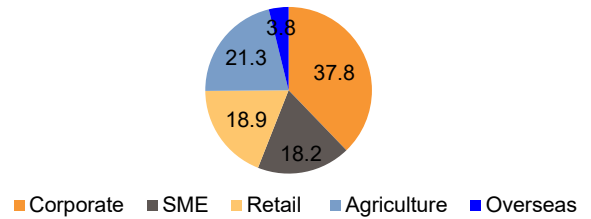
Exhibit 1: Credit growth remains moderate, but set to improve



Source: Company, Emkay Research

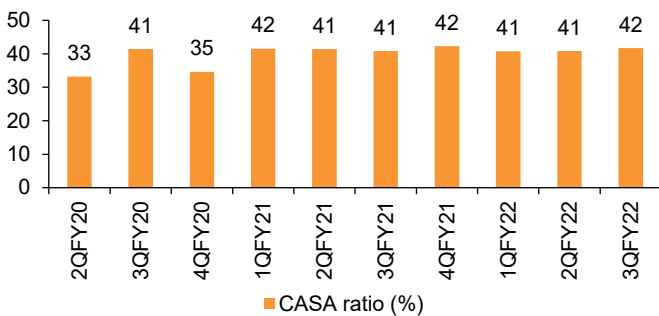
Exhibit 2: Share of RAM is now high at ~58% due to corporate slowdown

Loan Book break up (%)



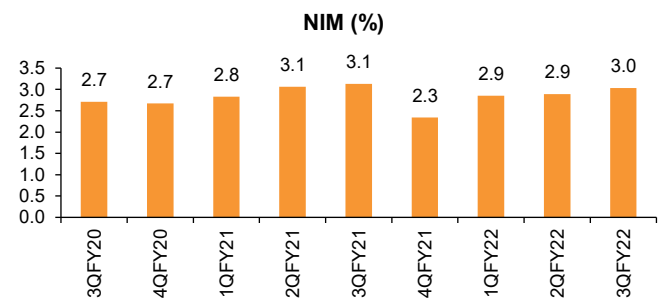
Source: Company, Emkay Research

Exhibit 3: CASA ratio remains healthy



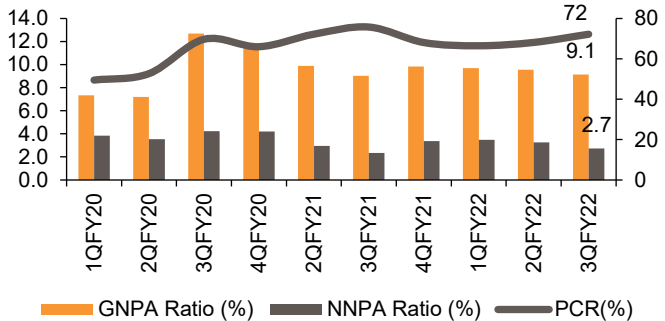
Source: Company, Emkay Research

Exhibit 4: NIM improved due to lower interest reversal on NPA and lower CoF



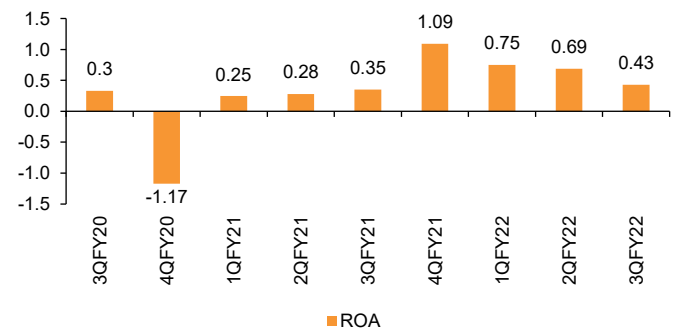
Source: Company, Emkay Research

Exhibit 5: NPA continue to trend down, while PCR improved >70%



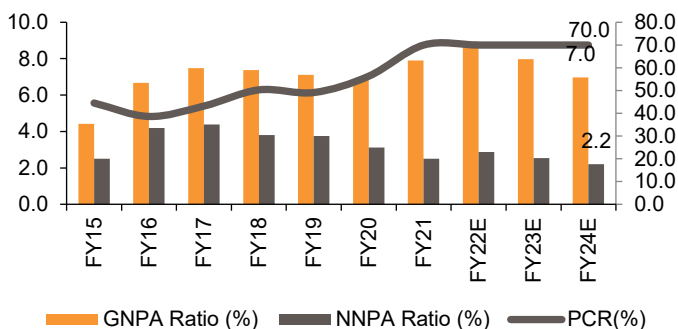
Source: Company, Emkay Research

Exhibit 6: Higher provisions led to lower profitability in Q3



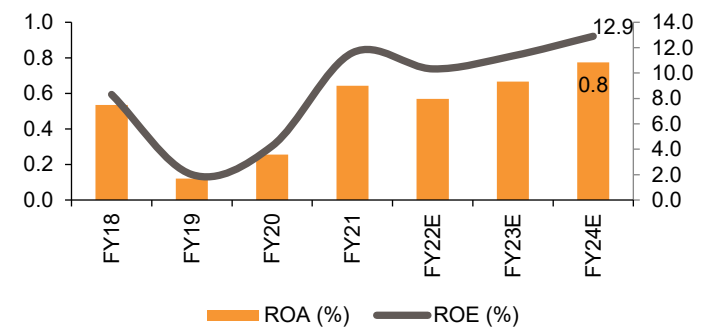
Source: Company, Emkay Research

Exhibit 7: Asset quality expected to improve, led by moderation in slippages and higher recoveries/w-offs

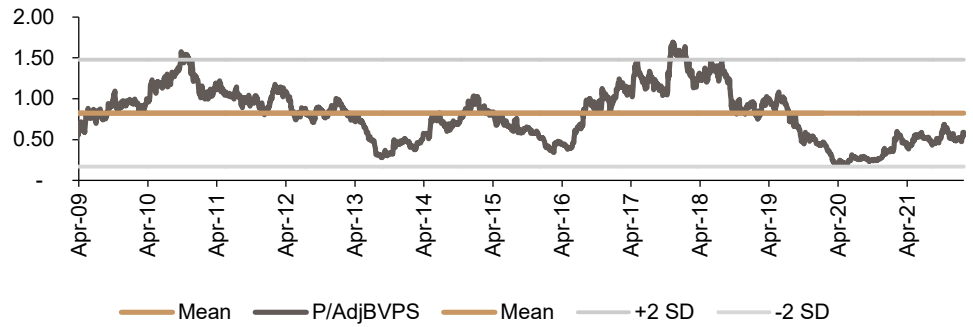


Source: Company, Emkay Research

Exhibit 8: Return ratios are expected to improve by FY24E on better growth/margins and Lower LLP/ tax



Source: Company, Emkay Research

Exhibit 9: The stock currently trades at 0.6x – one-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 10: Actual vs. Estimates (Q3FY22)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	59,512	57,826	50,521	3%	18%	Higher margins resulted in a beat
PPOP	32,880	30,361	25,056	8%	31%	Higher net income, coupled with lower opex, led to beat
PAT	6,897	8,711	10,097	-21%	-32%	Higher LLP and tax provisions led to miss

Source: Company, Bloomberg, Emkay Research

Exhibit 11: Quarterly summary

Rs (mn)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	1,00,246	89,039	96,236	94,745	99,257	-1	5	3,91,057	3,90,359	0
Interest Exp	57,112	55,696	56,294	53,910	55,306	-3	3	2,34,398	2,22,094	-5
Net Interest Income	43,133	33,343	39,942	40,834	43,951	2	8	1,56,659	1,68,265	7
Global NIMs (reported)	3.13	2.34	2.85	2.89	3.03	-10bps	14bps	3.61	2.80	-80bps
Non-interest Income	13,968	17,439	18,207	19,659	15,561	11	-21	60,792	69,661	15
Operating Expenses	26,111	25,299	23,990	27,739	26,633	2	-4	1,03,494	1,05,973	2
Pre Provisioning Profit	30,990	25,484	34,158	32,755	32,880	6	0	1,13,957	1,31,953	16
Provision & Contingencies	23,144	17,525	25,586	25,472	24,931	8	-2	84,900	98,591	16
PBT	7,847	7,959	8,573	7,283	7,949	1	9	29,057	33,362	15
Income Tax Expense (Gain)	2,704	-9,130	-3,244	-3,608	1,052	-61	-129	-991	-3,336	237
Net Profit/(Loss)	5,143	17,088	11,817	10,891	6,897	34	-37	30,048	36,698	22
Gross NPA (%)	9.04	9.85	9.69	9.56	9.13	9bps	-43bps	9.86	8.68	-118bps
Net NPA (%)	2.35	3.37	3.47	3.26	2.72	37bps	-54bps	3.40	2.77	-62bps
Deposits (Rs in bn)	5,212	5,381	5,401	5,515	5,626	8	2	5,381	5,756	7
Net Advances (Rs in bn)	3,628	3,640	3,644	3,604	3,740	3	4	3,640	3,920	8

Source: Company, Emkay Research

Exhibit 12: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	2,37,231	2,37,926	0.3%	2,50,130	2,53,136	1.2%	2,79,760	2,83,869	1.5%
PPOP	1,28,669	1,31,953	2.6%	1,31,298	1,38,099	5.2%	1,47,396	1,55,651	5.6%
PAT	37,811	36,698	-2.9%	46,727	46,535	-0.4%	61,588	60,624	-1.6%
EPS (Rs)	31.8	30.9	-2.9%	37.5	37.4	-0.4%	49.4	48.7	-1.6%
BV (Rs)	308.8	307.9	-0.3%	350.8	349.8	-0.3%	406.3	404.5	-0.4%

Source: Emkay Research

Exhibit 13: Key assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	83.9	7.7	12.3	15.9
Deposit Growth %	106.8	7.0	10.0	12.4
NIM %	3.6	2.8	2.8	2.9
GNPA %	9.9	8.7	7.7	6.8
Credit Cost %	2.6	2.4	1.7	1.3

Source: Emkay Research

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Exhibit 14: Key ratios and trends

	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Loans (Rs bn)	3,304	3,409	3,395	3,397	3,628	3,640	3,644	3,604	3,740
-growth (YoY)	93.0	88.0	5.5	3.3	9.8	6.8	7.3	6.1	3.1
-growth (QoQ)	0.4	3.2	-0.4	0.1	6.8	0.3	0.1	-1.1	3.8
Loan composition (%)									
-Corporate	86.0	44.6	45.8	42.6	43.3	41.2	40.8	38.4	37.8
-Retail	30.5	17.9	16.5	17.5	17.1	17.9	18.2	19.0	18.9
-SME	32.3	16.5	16.5	17.8	17.7	18.0	17.4	18.2	18.2
-Agri	35.1	18.7	18.8	19.5	19.3	20.2	20.6	21.5	21.3
-Overseas	4.3	2.3	2.4	2.5	2.7	2.8	3.1	2.9	3.8
Liability Profile/CAR %									
Deposits (Rs bn)	4813	4888	4891	5020	5212	5381	5401	5515	5626
- growth YoY %	113.1	101.9	7.6	6.8	8.3	10.1	10.4	9.9	7.9
- growth QoQ %	2.4	1.6	0.1	2.6	3.8	3.2	0.4	2.1	2.0
CASA %	41.4	40.8	41.5	41.4	40.9	42.3	40.8	40.9	41.7
CA %	5.1	5.0	4.9	5.4	5.7	6.0	5.1	5.5	6.0
SA %	36.3	35.8	36.6	36.0	35.2	36.3	35.6	35.3	35.6
NIM %	2.71	2.67	2.83	3.06	3.13	2.34	2.85	2.89	3.03
CAR (%)	15.0	13.3	13.5	13.6	14.1	15.7	15.9	15.9	15.5
Tier I (%)	13.1	10.4	10.5	10.7	11.2	11.9	12.2	12.2	12.0
Asset Quality									
GNPA (%)	12.7	11.4	10.9	9.9	9.0	9.9	9.7	9.6	9.1
NNPA (%)	4.2	4.2	3.8	3.0	2.4	3.4	3.5	3.3	2.7
PCR (%)	69.7	66.0	68.1	72.2	75.8	68.1	66.5	68.1	72.2
Slippages (Rs mn)	54,970	39,410	6,060	3,150	1,950	83,130	44,120	39,520	27,320
Slippages %	12.8	8.7	0.8	0.4	0.2	9.8	5.2	4.7	3.0
ROE Decomposition %									
NII	2.4	2.4	2.7	2.9	2.9	2.2	2.6	2.6	2.9
Other Income	1.2	1.2	0.9	1.1	0.9	1.1	1.2	1.2	1.0
Opex	1.6	1.9	1.7	1.9	1.8	1.6	1.5	1.8	1.8
PPOP	2.1	1.7	1.9	2.0	2.1	1.7	2.2	2.1	2.2
Provisioning Cost	3.4	2.3	1.5	1.5	1.6	1.1	1.6	1.6	1.7
PBT	-1.3	-0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5
ROA	-1.3	-1.2	0.3	0.3	0.3	1.1	0.8	0.7	0.5
ROE	-19.7	-18.9	4.1	4.5	5.6	17.8	11.5	10.3	6.5

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	1,68,265	1,82,796	2,08,160
Other income	33,125	60,792	69,661	70,340	75,709
Fee income	3,387	7,531	8,359	9,446	10,957
Net income	1,09,189	2,17,451	2,37,926	2,53,136	2,83,869
Operating expenses	44,208	1,03,494	1,05,973	1,15,037	1,28,218
Pre provision profit	64,980	1,13,957	1,31,953	1,38,099	1,55,651
PPP excl treasury	56,183	92,715	1,17,084	1,26,203	1,44,350
Provisions	51,253	84,900	98,591	79,930	74,819
Profit before tax	13,727	29,057	33,362	58,168	80,832
Tax	6,194	(991)	(3,336)	11,634	20,208
Tax rate	45	(3)	(10)	20	25
Profit after tax	7,534	30,048	36,698	46,535	60,624

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	4,25,722	4,75,128	5,40,628
Net worth	2,21,173	3,84,400	4,38,457	4,87,863	5,53,363
Deposits	26,02,259	53,80,711	57,55,538	63,33,239	71,20,523
Borrowings	1,82,303	1,85,746	1,76,459	1,67,636	1,92,781
Total liabilities	30,94,682	62,60,050	66,26,923	73,22,862	83,25,008
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	19,96,427	22,29,318
Loans	19,78,870	36,40,102	39,20,492	44,02,077	51,03,500
Others	1,25,190	2,40,216	2,46,011	3,08,715	3,39,379
Total assets	30,94,682	62,60,049	66,26,923	73,22,862	83,25,008

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.8	3.6	2.8	2.8	2.9
Non-II/avg assets	1.1	1.3	1.1	1.0	1.0
Fee income/avg assets	0.1	0.2	0.1	0.1	0.1
Opex/avg assets	1.5	2.2	1.6	1.6	1.6
Provisions/avg assets	1.7	1.8	1.5	1.1	1.0
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	10.3	11.4	12.9
GNPA (%)	6.9	9.9	8.7	7.7	6.8
NNPA (%)	3.1	3.4	2.8	2.5	2.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	13.8	34.6	30.9	37.4	48.7
BVPS	351.3	376.1	323.2	350.0	404.7
ABVPS	276.3	282.2	262.8	292.8	347.1
DPS	0.0	2.6	3.1	4.5	6.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	11.4	4.6	5.1	4.2	3.2
P/BV	0.6	0.6	0.6	0.5	0.5
P/ABV	0.6	0.7	0.6	0.5	0.5
P/PPOP	1.6	1.6	1.5	1.5	1.3
Dividend Yield (%)	0.0	1.6	2.0	2.9	3.8

Source: Company, Emkay Research

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Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	8.4	106.0	7.4	8.6	13.9
PPOP	33.1	75.4	15.8	4.7	12.7
PAT	134.0	298.8	22.1	26.8	30.3
Loans	9.2	83.9	7.7	12.3	15.9

Quarterly (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
NII	43,133	33,343	39,942	40,834	43,951
NIM(%)	3.1	2.3	2.9	2.9	3.0
PPOP	30,990	25,484	34,158	32,755	32,880
PAT	5,143	17,088	11,817	10,891	6,897
EPS (Rs)	4.56	15.13	10.21	8.75	5.54

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Apr-21	Jun-21	Sep-21	Dec-21
Promoters	88.1	79.9	79.9	79.9	79.9
FII	1.0	3.0	3.0	2.4	1.9
DII	4.4	10.4	10.2	10.5	10.6
Public and Others	6.6	6.7	6.9	7.2	7.7

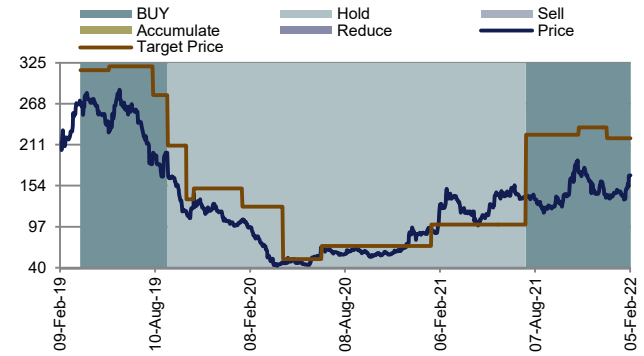
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Dec-21	138	220	12m	Buy	Anand Dama
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	20.34	20.34	0.0%	0	100.00	
Axis Bank	2.13	2.29	7%	15	11.24	0
AU Small Finance Bank	0.30	0.25	-17%	-5	1.21	0
Bandhan Bank	0.21	0.11	-47%	-10	0.54	0
Bank of Baroda	0.19	0.24	22%	4	1.17	0
Canara Bank	0.14	0.10	-28%	-4	0.51	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.19	0.27	39%	8	1.32	0
HDFC Bank	6.52	6.63	2%	10	32.59	0
ICICI Bank	5.46	5.61	3%	15	27.59	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.56	0.56	0%	0	2.77	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.41	2.16	-10%	-25	10.64	0
Punjab National Bank	0.12	0.00	-100%	-12	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.99	2.12	7%	13	10.43	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	0.00	NA	0	0.00	0

Source: Emkay Research

* Not under coverage: Equal Weight

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

Sector portfolio NAV

	Base 1-Apr-19	4-Feb-21	4-Aug-21	3-Nov-21	4-Jan-22	Latest 4-Feb-22
EAP - BFSI-Banks	100.0	120.7	123.3	134.8	127.2	132.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	118.5	120.6	132.1	124.6	130.2

*Performance measurement base date 1st April 2019

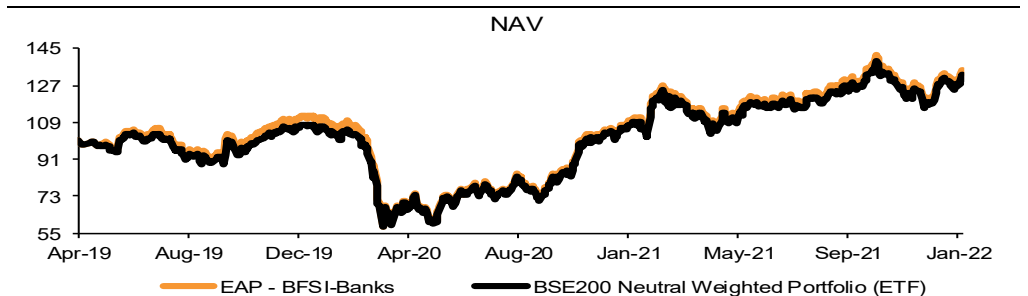
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	4.4%	-1.5%	7.6%	10.0%
BSE200 Neutral Weighted Portfolio (ETF)	4.6%	-1.4%	8.0%	9.9%

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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HOLD	Between -5% to 15%
SELL	Below -5%

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