

Healthy operating performance; NIM improved sequentially

CMP: INR 177

Rating: Buy

Target Price: INR 216

Stock Info

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,245
Mkt Cap (INR Cr)	22,013
52w H/L (INR)	195 / 115

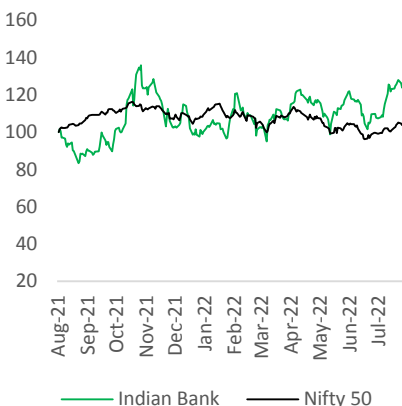
Shareholding Pattern %

(As on June, 2022)

Promoters	79.9
FII	2.0
DII	11.7
Public & Others	6.4

Stock Performance (%)	1m	3m	12m
Indian Bank	18.4	10.0	27.1
Nifty 50	10.1	1.6	9.2

Indian Bank vs Nifty 50



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Indian Bank has posted profit steady performance during Q1FY23 with profit growth of 23% YoY/3% QoQ to INR 1,213 cr, led by NII growth and sequential decline in OPEX. NII for the quarter increased by 14% YoY/7% QoQ to INR 4,534 cr, driven by gross advances growth of 9% YoY and margins expansion. NIM of the bank improved by 23bps QoQ at 3.1% due to 16bps increase in yield on advances with largely stable cost of funds at 3.83% (+3bps QoQ). Other income of the bank declined by 14.5% YoY and increased by 2% QoQ to INR 1,605 cr. Core fee income grew strongly by 35% YoY. Bank has reported total treasury loss of INR 131 cr vs. profit of INR 84 cr QoQ and profit of INR 559 cr in Q1FY22. Operating expenses growth was modest at 7% YoY, led by moderation in employee expenses (Q4FY22 included a one-off pension liability cost of INR 465 cr). Thus, cost to income ratio moderated to 42% from 53% QoQ, which has resulted into PPOp growth of 3% YoY/30% QoQ to INR 3,564 cr.

Loan growth improved: Total gross advances growth of the bank was at 9% YoY/2% QoQ to INR 425,203 cr, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 12% YoY growth. Retail segment portfolio increased by 14% YoY, Agri by 13% YoY and MSME increased by 8% YoY. The corporate book declined further by 2% YoY. Deposits growth was at 8% YoY/-2% QoQ to INR 584,251 cr, led by 4% QoQ decline in CASA deposits. CASA ratio of the bank moderated by 104bps QoQ at 41.8%. Management reiterated their guidance of loan book growth of >10% in FY23E.

Asset quality improved sequentially: GNPA/NNPA ratio improved by 34bps/15bps QoQ at 8.1%/2.1% respectively. Total slippages for the quarter stood at INR 2,885 cr vs. 3,298 cr (Slippage ratio at 2.7% vs. 3.2% QoQ). In terms of break-up, INR 2,108 cr slippages was from RAM segment and INR 777 cr was from Corporate segment. Recoveries, upgrades and write-offs was healthy at INR 3,729 cr vs. INR 4,694 cr QoQ. PCR was healthy at 75%. SMA 1&2 book (>5 cr and above) decreased from 0.93% to 0.61% QoQ. The total restructured portfolio was higher at INR 16,580 cr, ~4% of loans. Collection efficiency moderated to 94% in Jun'22 vs. 95% in Mar'22 due to decline in MSME restructuring. Collection efficiency (CE) QoQ - as per segment : Retail- 96% vs 95%, MSME- 90% vs 95%, Agri- 90% vs flat QoQ and Corporate - 99% vs flat QoQ.

Valuation and View: Indian Bank has reported steady quarter with healthy loan growth traction and improving profitability. Performance of the bank was strong primarily on margins side, driven by yield expansion. Management guided for >10% credit growth for FY23E, which we believe, easily achievable and expect bank to surpass +10% loan growth mark, given the system credit growth at 12-13% and increasing retail focus. Asset quality of the bank improved sequentially. However, due to elevated slippages and higher restructuring, we need to keep watch on asset quality. At CMP of INR 177, it is trading at cheaper valuation of 0.5x P/ABV to its FY24E. We maintain our Buy rating on the stock with a revised target price of INR 216 (earlier INR 190), based on 0.6x FY24E ABV of INR 372.

Financial Performance

(in INR Cr)	FY21A	FY22A	FY23E	FY24E
NII	15,666	16,728	18,094	20,545
Operating profit	10,967	12,717	13,332	17,261
Net profit	3,005	3,945	5,602	8,060
EPS	26.6	31.7	45.0	64.7
RoA (%)	0.6	0.6	0.8	1.1
RoE (%)	9.9	9.6	12.0	15.1
P/BV(x)	0.5	0.5	0.4	0.4
P/ABV(x)	0.8	0.6	0.6	0.5

Source: Company, Arihant Research

Q1FY23 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
Interest Income	10,154	9,624	9,832	5.5%	3.3%
Interest Expended	5,620	5,629	5,577	-0.2%	0.8%
Net Interest Income	4,534	3,994	4,255	13.5%	6.6%
Other Income	1,605	1,877	1,573	-14.5%	2.0%
Operating Income	6,139	5,871	5,828	4.6%	5.3%
Employee Expenses	1,539	1,466	1,949	5.0%	-21.0%
Other Operating Expenses	1,035	933	1,141	10.9%	-9.3%
Total Expenses	2,574	2,399	3,090	7.3%	-16.7%
PPOP	3,564	3,472	2,738	2.7%	30.2%
Provisions	2,219	2,615	1,914	-15.1%	15.9%
PBT	1,345	857	824	56.9%	63.3%
Tax Expenses	132	-324	-161	NA	NA
Net Income	1,213	1,182	984	2.7%	23.3%
Balance Sheet Analysis	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
Gross Advances	425,203	389,626	415,625	9.1%	2.3%
Deposits	584,251	540,082	593,618	8.2%	-1.6%
CASA Deposits	237,967	220,873	247,926	7.7%	-4.0%
CASA (%)	40.7%	40.9%	41.8%	-17bps	-103bps
CAR (%)	16.5%	15.9%	16.5%	59bps	-2bps
Spreads	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
NIMs (%)	3.1%	2.9%	2.9%	25bps	23bps
Cost of Funds	3.8%	4.1%	3.8%	-25bps	3bps
Yield on Average Advances	7.2%	7.1%	7.0%	10bps	16bps
Asset Quality	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
GNPA	34,573	37,759	35,214	-8.4%	-1.8%
NNPA	8,471	12,653	8,849	-33.1%	-4.3%
GNPA (%)	8.1%	9.7%	8.5%	-156bps	-34bps
NNPA (%)	2.1%	3.5%	2.3%	-135bps	-15bps
Returns & Expenses	Q1FY23	Q1FY22	Q4FY22	YoY	QoQ
RoA	0.7%	0.8%	0.6%	-2bps	11bps
RoE	14.2%	15.2%	11.7%	-102bps	248bps
Cost / Income Ratio	41.9%	40.9%	53.0%	107bps	-1109bps

Concall highlights

- **Credit growth outlook:** Management has guided for a credit growth of 10% (+/- 2%) in FY23. The growth will be mainly from Retail, Agri and MSME segment.
- **Credit cost guidance:** Bank has guided for credit cost to be below 2% in FY23 (vs. 2.02% in Q1FY23).
- **Advances by rate type:** 42% of the book is externally benchmarked (EBLR), ~45% is linked with MCLR and rest is fixed. Bank is able to pass on rate hike in EBLR book on immediate basis.
- **NIM outlook:** NIM during Q1FY23 improved by 23bps QoQ at 3.1% driven by improvement in yield. Management has guided for NIM range of 2.9-3% for full year.
- **On asset quality:** GNPA/NNPA of the bank declining consistently on quarter on quarter basis. Management expects GNPA/NNPA of the bank to be in the range of 7%/2% by end of the year (vs. 8.1%/2.1% in Q1FY23).
- **Collection efficiency (CE):** Overall, collection efficiency of the bank was at 94% vs. 95% QoQ. Retail CE improved from 95% to 96% QoQ while it remained stable in Corporate and agri book at 99% and 90%. CE in MSME book declined sharply from 95% to 90% sequentially.
- **Recovery:** Bank expects recovery of INR 8,000 cr during FY23, of which INR 2000 cr recovered during Q1. Bank has fully provided for all major stressed accounts like SREI, Future retail and others. Slippages for the quarter was at INR 2,885 cr, of which, ~50% slippages come from Restructured book. SMA 1&2 book (above 5 cr) of the bank declined from 0.93% to 0.61% QoQ.
- **Restructuring:** Outstanding standard restructuring book of the bank was at INR 16,580 cr as on Jun'22 where collection efficiency is at 88%.
- Bank is comfortable on the capital level. Its capital adequacy ratio as on Jun'22 stood at 16.5%. Arihant Capital Markets Ltd

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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