

August 1, 2022

**RESULT REPORT Q1 FY23** | Sector: Banks

# Indian Bank Ltd

## INBK continues to be a reasonable name among PSU banks

### Result Highlights

- ✓ **Asset quality:** Gross NPA additions amounted to Rs 30.89bn (annualized NPA addition ratio of 3.03%), with net slippages amounting to Rs 15.12bn
- ✓ **Margin picture:** NIM at 3.10% was up 23bps/25bps QoQ/YoY, driven sequentially by higher yield on advances and lower cost of deposits
- ✓ **Asset growth:** Advances grew 2.3%/9.1% QoQ/YoY driven sequentially by Agri and Overseas loans
- ✓ **Opex control:** Total opex de-grew/grew -16.7%/7.3% QoQ/YoY, Emp. Exp. de-grew/grew -21%/5% QoQ/YoY and other exp. fell/rose -9.3%/10.9% QoQ/YoY
- ✓ **Fee income:** Core fee income fell/rose -22.9%/34.5% QoQ/YoY, driven lower sequentially largely by Loan processing charges and Misc. fee Income.

### Our view - INBK continues to be a reasonable name among PSU banks

NPA additions were lower sequentially but somewhat elevated in the absolute sense but about 50% of the slippages emerged from the known restructured book: The recoveries in FY22 had amounted to about Rs 72bn and the recoveries planned for FY23 amount to about Rs 80bn. Management expects credit cost to be lower than 2% in FY23 and acknowledged that they are being conservative in what they say in this regard. The outstanding standard restructured book stood at Rs 165.8bn or 3.9% of gross advances.

**Underlying factors aiding NIM include repricing of floating rate loans and positive loan mix change:** 40 bps of repo rate hike was passed on EBLR-linked loans in June and the MCLR was also hiked in the same month. The loan mix has also changed in favour of the retail segment. In terms of breakup of loan book by rate category, EBLR-linked loans are 42% of loan book whereas MCLR-linked loans represent 45%. Management stated that they would be able to maintain the margin achieved in FY23.

**Management guided that overall loan growth for FY23 would be 10% plus or minus 2%:** Overall advances, RAM advances, retail, agri and MSME loan book have grown 9%, 12%, 14%, 13% and 8% YoY, respectively. Management stated that sequential loan growth for the quarter would have been better but they allowed some borrowers to leave for rate shopping. In terms of corporate pipeline, there is Rs 190bn of term loan sanctions and Rs 140bn of working capital limit available.

**We maintain 'Buy' rating on INBK with a revised price target of Rs 220:** We value the bank at 0.5x FY24 P/BV for an FY23E/24E/25E RoE profile of 9.6/11.8/13.0%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

### Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Interest Income	101,536	98,324	3.3	96,236	5.5
Interest expended	(56,197)	(55,773)	0.8	(56,294)	(0.2)
<b>Net Interest Income</b>	<b>45,339</b>	<b>42,552</b>	<b>6.6</b>	<b>39,942</b>	<b>13.5</b>
Other income	16,046	15,728	2.0	18,207	(11.9)
<b>Total Income</b>	<b>61,386</b>	<b>58,279</b>	<b>5.3</b>	<b>58,148</b>	<b>5.6</b>
Operating expenses	(25,742)	(30,903)	(16.7)	(23,990)	7.3
<b>PPoP</b>	<b>35,643</b>	<b>27,376</b>	<b>30.2</b>	<b>34,159</b>	<b>4.3</b>
Provisions	(22,189)	(19,139)	15.9	(25,586)	(13.3)
<b>PBT</b>	<b>13,454</b>	<b>8,237</b>	<b>63.3</b>	<b>8,573</b>	<b>56.9</b>
Tax	(1,320)	1,606	(182.2)	3,244	(140.7)
<b>PAT</b>	<b>12,134</b>	<b>9,842</b>	<b>23.3</b>	<b>11,817</b>	<b>2.7</b>

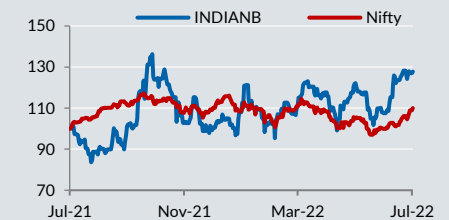
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 178
Target price	: Rs 220
Potential return	: 24%

### Stock data (as on August 1, 2022)

Nifty	17,340
52 Week h/l (Rs)	195 / 115
Market cap (Rs/USD mn)	221128 / 2798
Outstanding Shares (mn)	1,245
6m Avg t/o (Rs mn):	373
Div yield (%):	3.7
Bloomberg code:	INBK IN
NSE code:	INDIANB

### Stock performance



	1M	3M	1Y
Absolute return	18.7%	13.2%	33.2%

### Shareholding pattern (As of Jun'22 end)

Promoter	79.9%
FII+DII	13.7%
Others	6.4%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	220	210

### Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
NII	188,122	202,605	227,834
PPOP	136,936	155,495	179,626
Net Profit	43,841	60,095	75,256
Growth (%)	11.1	37.1	25.2
EPS (Rs)	35.2	44.7	55.9
BVPS (Rs)	381	405	453
P/E (x)	5.0	4.0	3.2
P/BV (x)	0.5	0.4	0.4
ROE (%)	9.6	11.8	13.0
ROA (%)	0.6	0.8	0.9
Tier-1 (%)	12.6	12.0	11.3

### Δ in earnings estimates

Rs. bn	FY23E	FY24E	FY25E
PAT (New)	43.8	60.1	75.3
PAT (Old)	49.1	59.5	73.7
% change	-10.7%	1.0%	2.1%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Asset quality

- ✓ **Slippages and other NPA movement**
  - **Slippages**
    - Gross NPA additions amounted to Rs 30.89bn for 1QFY23, translating to an annualized slippage ratio of 3.03% for the quarter. (Gross NPA additions had amounted to Rs 33.68bn during 4QFY22.)
    - **Restructured book slippages**
      - About 50% of the slippages emerged from the restructured book.
    - **Corporate slippages**
      - There were 3 chunky corporate accounts that slipped during the quarter viz. a Future Group account, a sugar sector account and a government sector account, with money from the latter being recovered during July.
      - The government sector account had an exposure of Rs 2.26bn, which was fully provided for and then the account recovered in the current quarter.
  - **Recoveries and upgrades**
    - Recoveries and upgrades amounted to Rs 15.77bn for 1QFY23, implying net NPA addition of Rs 15.12bn for the quarter.
    - The recoveries in FY22 had amounted to about Rs 72bn and the recoveries planned for FY23 amount to about Rs 80bn.
- ✓ **Provisions**
  - Provisions were Rs 22,189mn, up by 15.9% QoQ but down -13.3% YoY.
  - **Credit cost guidance**
    - Management expects credit cost to be lower than 2% in FY23 and acknowledged that they are being conservative in what they say in this regard.
- ✓ **Restructured book**
  - The outstanding standard restructured book stood at Rs 165.8bn or 3.9% of gross advances.
  - The stress on this book is contained with the MSME restructured book.
  - For most of the restructured book, billing has started.
- ✓ **Collection efficiency**
  - Overall collection efficiency in the June quarter was 94% as against 95% in the March quarter.
  - The collection efficiency of the restructured book is 88%.
- ✓ **SMA position**
  - SMA1 and SMA2 was 61 bps of advances as of June 2022 compared with 93 bps as of March quarter.
  - The overlap between SMA1 and SMA2 with the restructured book is Rs 18.96bn and Rs 15.52bn, respectively.
- ✓ **ECLGS book**
  - The ECLGS book outstanding is about Rs 80bn.
  - The outstanding NPA on this book is about Rs 4bn.

(Con call takeaways continue on the next page)

## Deposits traction

- ✓ Overall deposits, CASA deposits, CA deposits and SA deposits have grown 8%, 8%, 14% and 7%, respectively.

## Loan growth

- ✓ Overall advances, RAM advances, retail, agri and MSME loan book have grown 9%, 12%, 14%, 13% and 8% YoY, respectively.
- ✓ Management stated that sequential loan growth for the quarter would have been better but they allowed some borrowers to leave for rate shopping.
- ✓ **Loan growth guidance**
  - Overall loan growth for FY23 would be 10% plus or minus 2%.
- ✓ **Corporate pipeline**
  - There is Rs 190bn term loan sanctions.
  - There is Rs 140bn working capital limit available.

## Net interest margin

- ✓ **Net interest income**
  - NII has grown 13% YoY and 7% QoQ.
- ✓ **Cost of deposits**
  - Cost of deposits declined 3 bps to 3.85%.
- ✓ **Yield on advances**
  - Yield on advances rose 10 bps QoQ to 7.16%.
- ✓ **NIM level**
  - Domestic NIM rose 23 bps QoQ to 3.10%.
- ✓ **Factors aiding NIM**
  - 40 bps of repo rate hike was passed on EBLR-linked loans in June.
  - The MCLR was also hiked in June.
  - The loan mix has also changed in favour of retail.
- ✓ **Breakup of loan book by rate category**
  - EBLR – 42%
  - MCLR – 45%
- ✓ **Margin guidance**
  - Management stated that they would be able to maintain the margin achieved in FY23.

## Fee income

- ✓ Fee income has grown 35% YoY but de-grown -23% QoQ.

## Treasury

- ✓ Profit on investments declined to Rs 1.05bn for the quarter compared with Rs 2.49bn in 4QFY22.
- ✓ The PV01 for the treasury book is Rs 88mn.

(Con call takeaways continue on the next page)

## Tax rate

- ✓ The bank has had the benefit of carry forward losses from Allahabad Bank.
- ✓ Tax credit will be partially available to the bank in FY23 as well.
- ✓ Effective tax rate in FY23 would be about 10% of PBT.

## Operating expenses

- ✓ Staff expenses declined -21% QoQ to Rs 15.39bn driven by a -46% decline in Employee Benefit expenses to Rs 3.44bn.
- ✓ The bank had made a one-time pension provision of about Rs 4bn in 4QFY22.
- ✓ Staff expenses for FY23 are expected to be in the range of Rs 62-65bn.

## Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Global Gross Advances	4,252,030	4,156,250	2.3	3,896,260	9.1
Overseas Gross Advances	258,430	199,270	29.7	118,850	117.4
Domestic Gross Advances	3,993,600	3,956,980	0.9	3,777,410	5.7
Corporate Loans	1,551,130	1,529,980	1.4	1,590,110	(2.5)
MSME	730,750	741,670	(1.5)	676,310	8.0
Agri	905,050	881,000	2.7	802,720	12.7
Retail Loans	806,670	804,330	0.3	708,270	13.9
Home Loan	534,380	538,520	(0.8)	481,080	11.1
Auto Loan	43,230	41,980	3.0	35,430	22.0
Personal Loan	54,200	53,060	2.1	41,190	31.6
Jewel Loan Non Priority	54,820	47,870	14.5	38,710	41.6
Others	120,040	122,900	(2.3)	111,860	7.3
Total Deposits	5,842,510	5,936,178	(1.6)	5,400,820	8.2
CA	324,770	367,200	(11.6)	284,080	14.3
SA	2,054,900	2,112,060	(2.7)	1,924,650	6.8
Term	3,462,840	3,456,918	0.2	3,192,090	8.5
RWA	3,088,190	3,089,380	(0.0)	3,054,250	1.1

Source: Company, YES Sec – Research

## Exhibit 3: Key quarterly ratios

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Net interest margin-Domestic	3.10	2.87	23bps	2.85	25bps
Yield on advances	7.16	7.00	16bps	7.06	10bps
Cost of deposits	3.85	3.88	-3bps	4.05	-20bps
Loan to Deposit ratio	68.31	65.56	275bps	67.47	84bps
Non-interest income/Total income	26.14	26.99	-85bps	31.31	-517bps
Cost to Income	41.94	53.03	-1109bps	41.26	68bps
RoE	14.18	11.70	248bps	15.20	-102bps
RoA	0.73	0.62	11bps	0.75	-2bps
Capital adequacy ratio	16.51	16.53	-2bps	15.92	59bps
Common equity tier 1	12.53	12.53	0bps	11.57	96bps
Tier I capital ratio	13.18	13.18	0bps	12.22	96bps
Annualised Slippage Ratio	3.03	3.63	-60bps	4.78	-175bps
Provision Coverage	88.08	87.38	70bps	82.00	608bps
Gross NPA	8.13	8.47	-34bps	9.69	-156bps
Net NPA	2.12	2.27	-15bps	3.47	-135bps

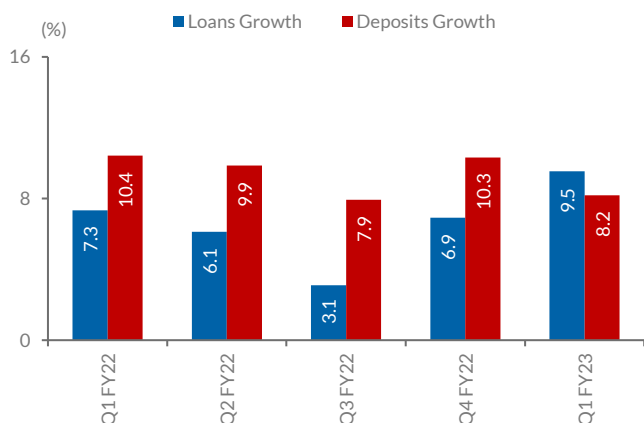
Source: Company, YES Sec – Research

## Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY23 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	45,339	43,190	5.0
Pre-Prov. Operating Profit	35,643	20,845	71.0
Profit After Tax	12,134	1,568	673.7

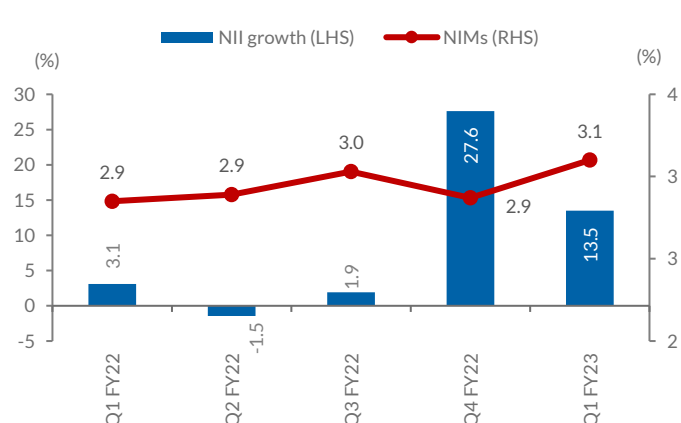
Source: Company, YES Sec – Research

**Exhibit 5: Loans and Deposits growth (YoY %)**



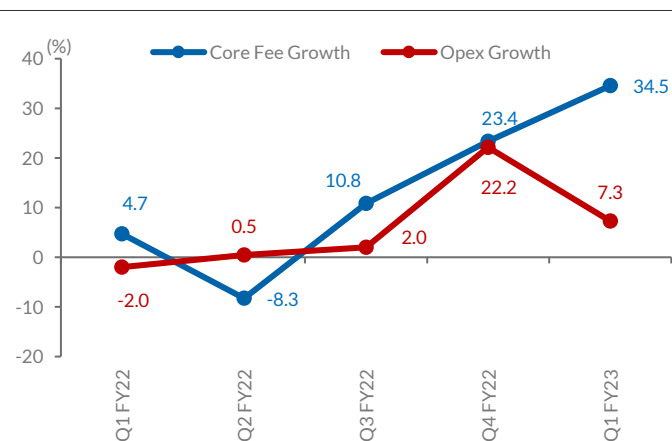
Source: Company, YES Sec – Research

**Exhibit 6: NII growth (YoY %) and NIM**



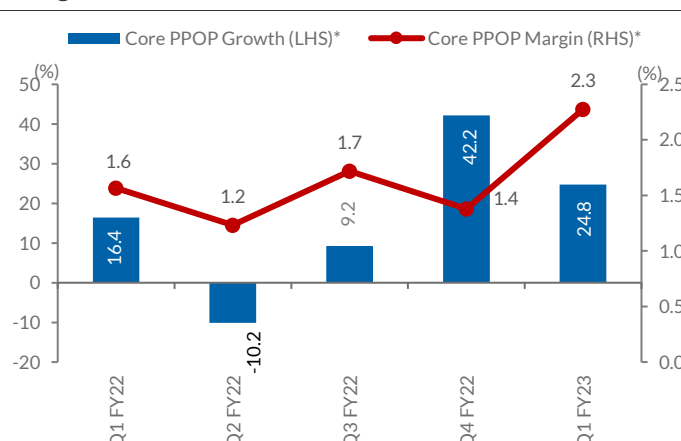
Source: Company, YES Sec – Research

**Exhibit 7: Core Fee and Opex growth (YoY %)**



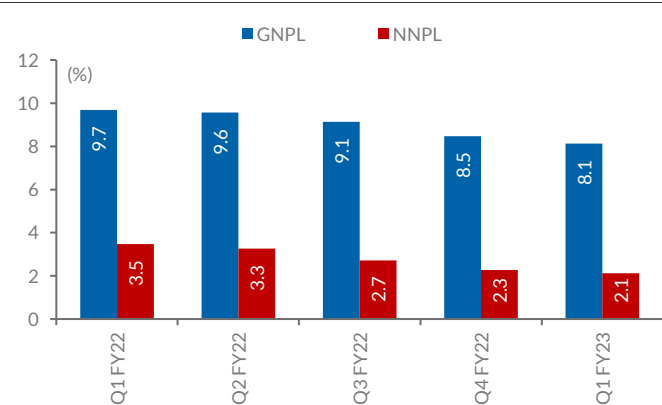
Source: Company, YES Sec – Research

**Exhibit 8: Core PPOP growth (YoY %) and Core PPOP margin**



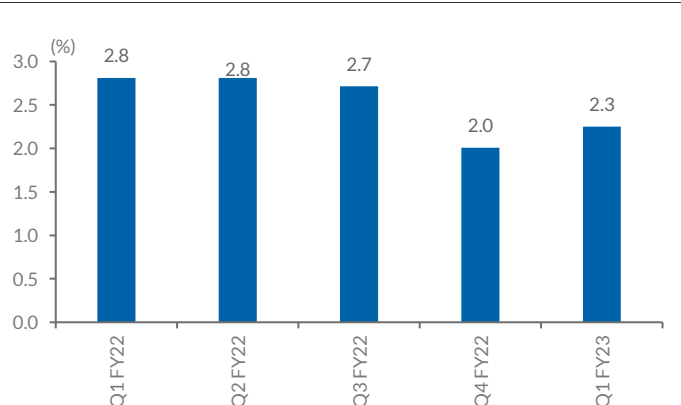
Source: Company, YES Sec – Research, \* Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

**Exhibit 9: Gross NPA and Net NPA (%)**



Source: Company, YES Sec – Research

**Exhibit 10: Credit cost (%)**



Source: Company, YES Sec – Research

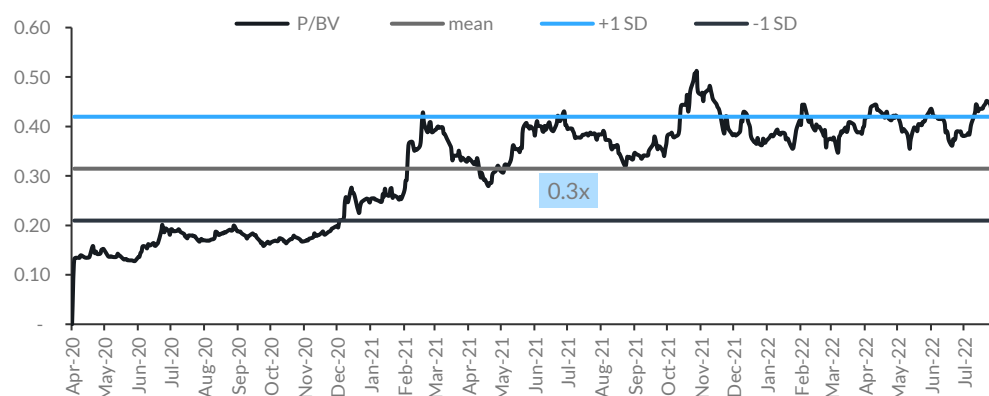
# Indian Bank Ltd

**Exhibit 11: 1-year rolling P/BV band**



Source: Company, YES Sec – Research

**Exhibit 12: 1-yr rolling P/BV vis-a-vis the mean and standard deviations**



Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total cash & equivalents	540,599	799,161	513,726	575,373	644,417
Investments	1,765,370	1,745,586	1,920,144	2,150,562	2,408,629
Advances	3,640,102	3,891,861	4,281,047	4,794,772	5,370,145
Fixed assets	73,763	76,837	84,521	92,973	102,270
Other assets	240,216	203,236	223,560	250,387	280,434
<b>Total assets</b>	<b>6,260,050</b>	<b>6,716,681</b>	<b>7,022,998</b>	<b>7,864,067</b>	<b>8,805,896</b>
Net worth	384,119	437,088	474,353	545,361	609,329
Deposits	5,380,711	5,936,178	6,529,796	7,313,371	8,190,976
Borrowings	261,746	171,443	188,587	211,218	236,564
Other liabilities	233,474	171,971	-169,739	-205,884	-230,974
<b>Total liabilities incl. Equity</b>	<b>6,260,050</b>	<b>6,716,681</b>	<b>7,022,998</b>	<b>7,864,067</b>	<b>8,805,896</b>

Source: Company, YES Sec – Research

### Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	391,058	388,562	437,162	485,568	551,503
Interest expense	(234,398)	(221,283)	(249,040)	(282,962)	(323,669)
<b>Net interest income</b>	<b>156,659</b>	<b>167,280</b>	<b>188,122</b>	<b>202,605</b>	<b>227,834</b>
Non-interest income	60,793	69,154	68,358	82,015	91,857
<b>Total income</b>	<b>217,452</b>	<b>236,434</b>	<b>256,479</b>	<b>284,621</b>	<b>319,691</b>
Operating expenses	(103,496)	(109,265)	(119,543)	(129,125)	(140,065)
<b>PPoP</b>	<b>113,956</b>	<b>127,169</b>	<b>136,936</b>	<b>155,495</b>	<b>179,626</b>
Provisions	(84,901)	(95,127)	(82,135)	(75,186)	(79,056)
<b>Profit before tax</b>	<b>29,056</b>	<b>32,042</b>	<b>54,802</b>	<b>80,309</b>	<b>100,570</b>
Taxes	991	7,406	(10,960)	(20,214)	(25,313)
<b>Net profit</b>	<b>30,047</b>	<b>39,448</b>	<b>43,841</b>	<b>60,095</b>	<b>75,256</b>

Source: Company, YES Sec – Research



## Exhibit 15: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	6.6	6.0	6.4	6.5	6.6
Interest expense	-3.9	-3.4	-3.6	-3.8	-3.9
<b>Net interest income</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
Non-interest income	1.0	1.1	1.0	1.1	1.1
<b>Total income</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.8</b>
Operating expenses	-1.7	-1.7	-1.7	-1.7	-1.7
<b>PPoP</b>	<b>1.9</b>	<b>2.0</b>	2.0	2.1	2.2
Provisions	-1.4	-1.5	-1.2	-1.0	-0.9
<b>Profit before tax</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>1.1</b>	<b>1.2</b>
Taxes	0.0	0.1	-0.2	-0.3	-0.3
<b>Net profit</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>

Source: Company, YES Sec – Research

## Exhibit 16: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	188,122	202,605	227,834	185,055	202,605	227,651	1.7	0.0	0.1
Pre-Prov. Operating Profit	136,936	155,495	179,626	143,512	154,736	177,601	(4.6)	0.5	1.1
Profit after tax	43,841	60,095	75,256	49,102	59,527	73,741	(10.7)	1.0	2.1

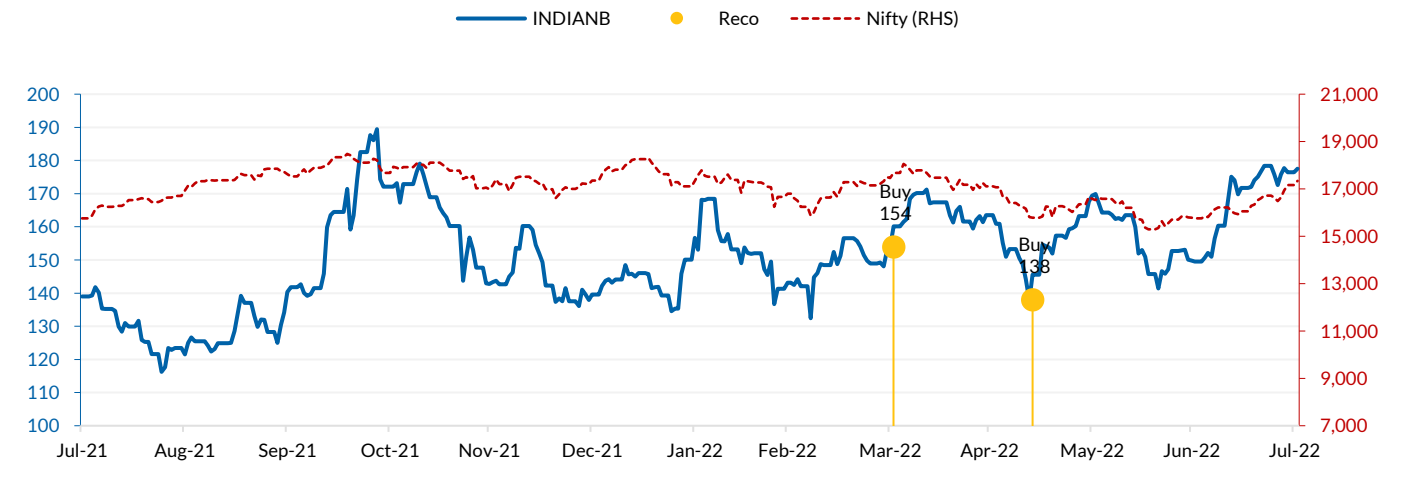
Source: Company, YES Sec – Research

## Exhibit 17: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>					
Net interest income	20.0	6.8	12.5	7.7	12.5
PPoP	18.9	11.6	7.7	13.6	15.5
Net profit	-164.7	31.3	11.1	37.1	25.2
Loans	6.8	6.9	10.0	12.0	12.0
Deposits	10.1	10.3	10.0	12.0	12.0
<b>Profitability Ratios (%)</b>					
Net interest margin	2.8	2.9	2.9	2.9	2.9
Return on Average Equity	8.2	9.6	9.6	11.8	13.0
Return on Average Assets	0.5	0.6	0.6	0.8	0.9
<b>Per share figures (Rs)</b>					
EPS	26.6	31.7	35.2	44.7	55.9
BVPS	340	351	381	405	453
ABVPS	231	280	322	354	405
<b>Valuation multiples</b>					
P/E	6.7	5.6	5.0	4.0	3.2
P/BV	0.5	0.5	0.5	0.4	0.4
P/ABV	0.8	0.6	0.6	0.5	0.4
<b>NIM internals (%)</b>					
Yield on loans	7.8	7.2	7.4	7.5	7.6
Cost of deposits	4.3	3.7	3.9	3.9	4.0
Loan-deposit ratio	67.7	65.6	65.6	65.6	65.6
CASA ratio	42.3	41.8	42.2	42.5	42.9
<b>Opex control (%)</b>					
Cost/Income ratio	47.6	46.2	46.6	45.4	43.8
Cost to average assets	1.7	1.7	1.7	1.7	1.7
<b>Capital adequacy (%)</b>					
Tier 1 capital ratio	11.9	13.2	12.6	12.0	11.3
<b>Asset quality (%)</b>					
Slippage ratio	2.7	2.7	2.5	2.2	2.0
Gross NPL ratio	9.9	8.5	7.7	6.9	6.3
Credit cost	2.1	2.2	1.8	1.5	1.4
Net NPL ratio	3.4	2.3	1.7	1.4	1.2

Source: Company, YES Sec – Research

## Recommendation Tracker



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