

Loan growth improved; Margin impacted due to decline in yield

CMP: INR 155

Outlook: Buy

Target Price: INR 190

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)	19,260
52w H/L (INR)	195 / 115

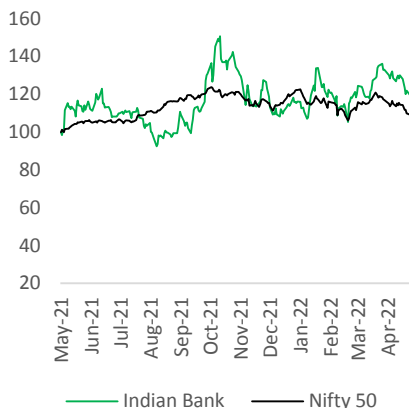
Shareholding Pattern %

(As on March, 2022)

Promoters	79.9
FII	1.7
DII	11.1
Public & Others	7.3

Stock Performance (%)	1m	3m	12m
Indian Bank	-7.6	1.7	22.9
Nifty 500	-9.3	-8.5	7.9

Indian Bank vs Nifty 50



Indian Bank has posted profit of INR 984 cr (-42% YoY/+43% QoQ), led by 23% sequential decline in provisions and tax reversal of INR 161 cr. Despite 4% QoQ growth in advances, NII for the quarter decreased by 3% QoQ while it grew by 28% on YoY basis. Other income declined marginally by 0.5% YoY and grew by 1% QoQ to INR 1,573 cr. Core fee income growth of the bank was strong at 23% YoY/22% QoQ to INR 813 cr. Operating expenses growth was higher at 22% YoY/16% QoQ due to 39% YoY increase in employee expenses as the bank has provided for the entire pension liability provision of INR 465 cr. As a result, cost to income ratio of the bank increased from 44.8% to 53% on QoQ basis. Operating profit growth was lower at 15% YoY/-17% QoQ at INR 2,738 cr was impacted due to higher cost ratio. NIM of the bank moderated by 16bps QoQ at 2.9% due to 19bps QoQ decline in yield on advances.

Loan growth improved: Advances growth of the bank was at 7% YoY/4% QoQ (vs. 3% YoY/3.7% QoQ in Q3FY22) to INR 389,186 cr, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 11% YoY growth in credit. Retail segment portfolio increased by 15% YoY, Agri by 12% YoY and MSME increased by 6% YoY. The corporate book declined further by 5% YoY. Deposits growth was healthy at 10% YoY/6% QoQ to INR 593,618 cr, driven by CASA deposits growth of 9% YoY/6% QoQ. CASA ratio of the bank improved marginally by 10bps QoQ at 41.8%.

Slippages was elevated during the quarter: Total slippages for the quarter stood elevated at INR 3,298 cr vs. 2,732 cr (Slippage ratio at 3.4% vs. 2.9% QoQ). Higher slippages was attributable to MSME segment at INR 1,431 cr vs. INR 896 cr in Q3FY22 and Corporate segment at INR 973 cr vs. INR 955 cr in Q3FY22. However, healthy recoveries & upgrades and write-offs led to an improvement in asset quality, with GNPA/NNPA ratio improved by 66bps/45bps QoQ at 8.5%/2.3% respectively. Bank has downgraded Future retail as NPA, having an exposure of INR 851 cr where it has made ~89% provisions. Collection efficiency (CE) ratio improved from 94% to 95% on a sequential basis. CE as per segment : Retail- 95%, MSME- 95%, Agri- 90% and Corporate - 99% for the Mar'22. The total restructuring book was elevated at 4.7% of loans (vs. 5.1% in Q3FY22) at INR 18,422 cr. SMA1&2 book (>5 cr and above) stood at 0.93% vs 0.92% QoQ.

Valuation and View: Indian Bank has reported steady quarter excluding one-off impact of pension provision on operating front. NIM witnessed contraction during the quarter but improving credit growth primarily in retail segment and lag effect on deposits rates re-pricing will keep margin protected. Asset quality of the bank improved sequentially. However, due to elevated slippages and higher restructuring book of 4.7%, we need to keep watch on asset quality. At CMP of INR 155, it is trading at cheaper valuation of 0.4x P/ABV to its FY24E. We maintain our Buy rating on the stock with a target price of INR 190, based on 0.5x FY24E ABV of INR 380.

Financial Performance

(in INR Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
NII	7,606	15,666	16,728	18,094	20,545
Operating profit	6,498	10,967	12,717	14,631	17,261
Net profit	753	3,005	3,945	6,573	8,060
EPS	12.4	26.6	31.7	52.8	64.7
RoA (%)	0.3	0.6	0.6	0.9	1.1
RoE (%)	3.6	9.9	9.6	14.0	14.8
P/BV(x)	0.4	0.5	0.4	0.4	0.3
P/ABV(x)	0.6	0.7	0.6	0.5	0.4

Source: Company, Arihant Research

Note: Financials for FY20 is for Standalone entity (Indian Bank). Hence, numbers are not comparable.

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Q4FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Quarterly Result Update (Rs Cr)	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
Interest Income	9,832	8,904	9,926	10.4%	-0.9%
Interest Expended	5,577	5,570	5,531	0.1%	0.8%
Net Interest Income	4,255	3,334	4,395	27.6%	-3.2%
Other Income	1,573	1,744	1,556	-9.8%	1.1%
Operating Income	5,828	5,078	5,951	14.8%	-2.1%
Employee Expenses	1,949	1,402	1,567	39.0%	24.4%
Other Operating Expenses	1,141	1,128	1,096	1.2%	4.1%
Total Expenses	3,090	2,530	2,663	22.2%	16.0%
PPOP	2,738	2,548	3,288	7.4%	-16.7%
Provisions	1,914	1,752	2,493	9.2%	-23.2%
PBT	824	796	795	3.5%	3.6%
Tax Expenses	-161	-913	105	NA	-252.7%
Net Income	984	1,709	690	-42.4%	42.7%
Balance Sheet Analysis	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
Advances	389,186	364,010	373,905	6.9%	4.1%
Deposits	593,618	538,071	562,575	10.3%	5.5%
CASA Deposits	247,926	227,595	234,422	8.9%	5.8%
CASA (%)	41.8%	42.3%	41.7%	-53bps	10bps
CAR (%)	16.5%	15.7%	15.5%	82bps	106bps
Spreads	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
NIMs (%)	2.9%	2.3%	3.0%	53bps	-16bps
Cost of Funds	3.8%	4.1%	3.9%	-28bps	-6bps
Yield on Average Advances	7.0%	6.3%	7.2%	73bps	-19bps
Asset Quality	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
GNPA	35,214	38,455	36,540	-8.4%	-3.6%
NNPA	8,849	12,271	10,155	-27.9%	-12.9%
GNPA (%)	8.5%	9.9%	9.1%	-138bps	-66bps
NNPA (%)	2.3%	3.4%	2.7%	-110bps	-45bps
Returns & Expenses	Q4FY22	Q4FY21	Q3FY22	YoY	QoQ
RoA	0.6%	1.1%	0.4%	-47bps	19bps
RoE	11.7%	15.2%	8.3%	-350bps	344bps
Cost / Income Ratio	53.0%	49.8%	44.8%	321bps	827bps

Source: Arianth Research, Company Filings

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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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