

CMP: ₹ 175

Target: ₹ 210 (20%)

Target Period: 12 months

August 22, 2022

BUY

Decent performance; outlook steady...

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of over ₹ 10.1 lakh crore

- Pan-India presence with strong branch network of 5721 domestic branches
- Diversified loan mix with RAM (retail/agri/MSME) forming ~61% to book

Q1FY23 Results: Healthy operational performance; asset quality improves.

- Advances grew 9.1% YoY to ₹ 425203 crore. Deposits up 8.2% YoY with CASA growth at 8% YoY
- NII up 13.5% YoY, 6.6% QoQ. NIMs improved 23 bps QoQ at 3.1%
- GNPA down 34 bps QoQ to 8.1%. R/s book declined 53 bps QoQ to ~4%

What should investors do? Indian Bank's share price has given ~7% returns in the past three years. Improvement in credit growth outlook and asset quality with adequate capital position gives comfort.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Indian Bank at ~0.7x FY24E ABV and revise our target price from ₹ 180 to ₹ 210 per share

Key triggers for future price performance:

- Credit growth to be led by RAM segment, which will aid margins and earnings
- Management guidance to keep credit cost of <2% and recovery from stressed assets provides comfort
- Expect return ratios to improve gradually and, thus, aid valuations

Alternate Stock Idea: Apart from Indian Bank, in our coverage we also like SBI.

- SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 50 lakh crore
- BUY with a target price of ₹ 615



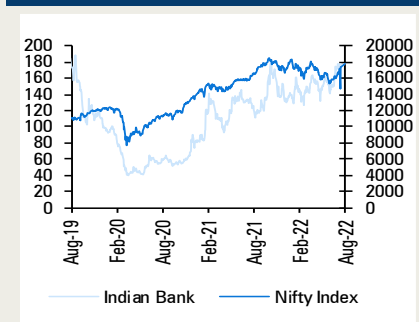
Particulars

Particulars	Amount
Market Capitalisation	₹ 22168 Crore
52 week H/L	195/115
Net Worth (₹ crore)	₹ 34826
Face value	₹ 10
DII Holding (%)	11.7
FII Holding (%)	2.0

Shareholding pattern

	Jun-21	Mar-22	Jun-22
Promoter	79.9	79.9	79.9
FII	10.4	1.7	2.1
DII	3.0	11.1	11.7
Others	6.7	7.3	6.3

Price Chart



Recent Event & Key risks

- GNPA down 34 bps QoQ to 8.1%. Restructured book at ~4%
- **Key Risk:** 1) Slower growth in RAM segment to impact earnings; 2) Stress in restructured book

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	7606	15666	16728	34%	18551	21047	12%
PPP	6498	11396	12717	38%	14200	16142	13%
PAT	753	3005	3945	131%	5557	6613	29%
ABV (₹)	249.3	212.2	261.6		275.2	324.0	
P/E	14.3	6.7	5.6		4.0	3.3	
P/ABV	0.7	0.8	0.7		0.6	0.5	
RoA	0.3	0.5	0.6		0.8	0.9	
RoE	4.3	9.8	11.2		12.3	13.4	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Overall decent performance

- NII up 13.5% YoY, 6.6% QoQ to ₹ 4534 crore, largely driven by retail segment and margin expansion. Margin expanded 25 bps YoY to 3.1%. Other income reported de-growth of 11.9% YoY, mainly on account of treasury losses during the quarter
- Provisions declined 13.3% YoY at ₹ 2219 crore. Thus, PAT reported growth of 2.7% YoY, 23.3% QoQ to ₹ 1213.4 crore
- Asset quality improved as GNPA and NNPA declined 34 bps and 15 bps QoQ to 8.1% and 2.13%, respectively. Slippages ratio was at 3.03% vs 4.78% in Q1FY22 and 3.63% in Q4FY22
- Advances were up 9.1% YoY to ₹ 425203 crore, led by retail & agri segment. Corporate book de grew 2% YoY. RAM segment constitutes ~61% of total loans. Deposit growth was at 8.2% YoY to ₹ 584251 crore, primarily driven by growth in overseas deposits. CASA deposits grew 8% YoY but CASA as percentage of total deposits moderated to 40.73%

Q1FY23 Earnings Conference Call highlights

- Credit growth guidance of 10% YoY in FY23E. CD ratio to be maintained at ~73-74% levels. RAM proportion to be ~61% of total loans
- Strong traction seen in corporate segment but the management will be cautious on margins. Overall NIMs to be steady in FY23E
- GNPA, NNPA should be ~7%, < 2%, respectively, in FY23E. Credit cost to be < 2%
- Slippage during the quarter were at ₹ 2,885 crore and around 50% of the slippages are from restructured book. Under the corporate, major slippage is in the Retail Future Group, and one sugar account, one government account, wherein money was received in July 2022
- SMA 1 and SMA 2 book declined from 0.98% to ~0.61%. Restructured book is at ₹ 16580 crore (~4% of total loan book). Out of this, ₹ 7400 crore is in retail segment
- Plan to recover ₹ 8000 crore in FY23E (~₹ 2000 crore every quarter)
- Exposure to SREI of ₹ 1800 crore is fully provided. RWAs declined from 65% in Q1FY22 to ~60% in Q1FY23
- Total ~42% of loans are linked to EBLR and ~45% is MCLR linked. Rates are passed on to customers immediately in one to two days. Staff loans and overseas advances are at fixed rate
- Outstanding ECLGS book at ₹ 8000 crore, with cumulative NPAs of ₹ 400 crore.
- Tax liability will be ~10% in FY23E

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
BoB (BANBAR)	118	135	Buy	609	-18.9	14.0	18.1	21.4	-6.2	8.4	6.5	5.5	1.1	0.8	0.7	0.6	-13.1	8.9	10.2	10.6
SBI (STABAN)	531	605	Buy	4,735	22.9	35.5	38.6	44.1	23	14.9	13.7	12.0	2.2	1.9	1.7	1.5	8.4	11.9	11.6	11.9
Indian Bank (INDIBA)	178	215	Buy	221	26.6	31.7	44.6	53.1	6.7	5.6	4.0	3.4	0.8	0.7	0.6	0.5	9.8	11.2	12.3	13.4
Federal Bank (FEDBAN)	110	110	Hold	232	8.0	9.0	10.8	12.4	14	12.2	10.2	8.9	1.5	1.3	1.2	1.1	10.4	10.8	11.5	12.0
IndusInd Bank (INDBA)	1,093	1,150	Buy	846	36.7	59.5	91.7	117.1	30	18.4	11.9	9.3	2.0	1.8	1.6	1.4	7.3	10.1	14.0	15.7
IDFC First (IDFBAN)	45	50	Buy	281	0.8	0.2	2.6	3.9	56.7	193.1	17.5	11.7	1.6	1.5	1.3	1.2	2.7	0.8	7.4	10.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	4,534	3,994	13.5	4,255	6.6	Driven by healthy loan growth and margin expansion
NIM (%)	3.10	2.85	25 bps	2.87	23 bps	Yields improved 16 bps QoQ, 10 bps YoY
Other Income	1,605	1,821	-11.9	1,573	2.0	
Net Total Income	6,139	5,815	5.6	5,828	5.3	
Staff cost	1,539	1,466	5.0	1,949	-21.0	
Other Operating Expenses	1,035	684	51.3	1,141	-9.3	
PPP	3,564	3,416	4.3	2,738	30.2	
Provision	2,219	2,559	-13.3	1,914	15.9	NPA provisions declined marginally by 2% QoQ
PBT	1,345	857	56.9	824	63.3	
Tax Outgo	132.0	-324.4	-140.7	-160.6	-182.2	
PAT	1,213.4	1,181.7	2.7	984.2	23.3	Healthy topline aided PAT growth sequentially
Key Metrics						
GNPA	34,573.0	37,759.2	-8.4	35,214.0	-1.8	Slippage ratio declined QoQ to 3.03% vs. 3.63%
NNPA	8,471.0	12,652.9	-33.1	8,849.0	-4.3	
Advances	425,203.0	389,625.0	9.1	415,625	2.3	Led by retail segment
Deposits	584,251.0	540,082.0	8.2	593,618	-1.6	CASA ratio moderated to 40.73%

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	17,274	16,728	-3.2	19,908	18,551	-6.8
Pre Provision Profit	12,176	12,717	4.4	14,136	14,200	0.5
NIM (%)	3.0	3.0	0 bps	3.2	3.2	0 bps
PAT	4,095	3,945	-3.7	5,813	5,557	-4.4
ABV (₹)	199.0	261.6	31.4	245	275.2	12.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	21,405	39,106	38,856	44,135	49,277
Interest Expended	13,799	23,440	22,128	25,584	28,231
Net Interest Income	7,606	15,666	16,728	18,551	21,047
growth (%)	8.4	106.0	6.8	10.9	13.5
Non Interest Income	3312	6079	6915	7051	7873
Net Income	10919	21745	23643	25602	28920
Staff cost	2473.0	6378	6696	6270	6781
Other Operating expense	1947.9	3971	4231	5131	5996
Operating profit	6498	11396	12717	14200	16142
Provisions	5125	8490	9513	8026	8795
PBT	1373	2906	3204	6174	7348
Taxes	619	-99	-741	617	735
Net Profit	753.4	3005	3945	5557	6613
growth (%)	134.0	298.8	31.3	40.9	19.0
EPS (₹)	12.4	26.6	31.7	44.6	53.1

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	60.9	112.9	124.5	124.5	124.5
EPS (₹)	12.4	26.6	31.7	44.6	53.1
BV (₹)	350.9	320.9	332.6	353.7	404.7
ABV (₹)	249.3	212.2	261.6	275.2	324.0
P/E	14.3	6.7	5.6	4.0	3.3
P/BV	0.5	0.6	0.5	0.5	0.4
P/ABV	0.7	0.8	0.7	0.6	0.5
Yields & Margins (%)					
Net Interest Margins	2.8	3.7	2.8	2.9	3.0
Yield on assets	7.9	9.2	6.6	6.9	7.1
Avg. cost on funds	5.0	5.4	3.6	3.9	4.0
Yield on average advances	8.4	9.8	7.2	7.4	7.7
Avg. Cost of Deposits	5.2	5.6	3.7	4.0	4.1
Quality and Efficiency (%)					
Cost to income ratio	40.5	47.6	46.2	44.5	44.2
Credit/Deposit ratio	76.0	67.4	65.6	66.5	67.2
GNPA	6.9	9.9	8.5	8.6	8.1
NNPA	3.1	3.4	2.3	2.3	2.1
ROE	4.3	9.8	11.2	12.3	13.4
ROA	0.3	0.5	0.6	0.8	0.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	608.8	1129.4	1245.4	1245.4	1245.4
Reserves and Surplus	21480.5	37282.6	42463.4	45091.7	51447.5
Networth	22089.3	38411.9	43708.8	46337.1	52692.9
Deposits	260225.9	538071.1	593617.8	639020.6	698614.0
Borrowings	20830.3	26174.6	17144.3	17908.5	18711.0
Other Liabilities & Provisions	6322.7	23347.3	17197.1	18493.8	18799.9
Total	3,09,468	6,26,005	6,71,668	7,21,760	7,88,818
Applications of Funds					
Fixed Assets	3895.7	7376.3	7683.7	7961.5	8279.2
Investments	81241.7	176537.0	174558.6	183834.6	193648.6
Advances	197887.0	362669.1	389186.1	424985.1	469152.8
Other Assets	12519.1	25362.8	20323.6	22543.8	31490.7
Cash with RBI & call money	13924.7	54059.9	79916.1	82434.9	86246.4
Total	3,09,468	6,26,005	6,71,668	7,21,760	7,88,818

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets	10.5	102.3	7.3	7.5	9.3
Advances	9.2	83.3	7.3	9.2	10.4
Deposit	7.5	106.8	10.3	7.6	9.3
Total Income	22.7	99.2	8.7	8.3	13.0
Net interest income	8.4	106.0	6.8	10.9	13.5
Operating expenses	10.0	134.1	5.6	4.3	12.1
Operating profit	33.1	75.4	11.6	11.7	13.7
Net profit	134.0	298.8	31.3	40.9	19.0
Net worth	13.9	73.9	13.8	6.0	13.7
EPS	84.6	115.0	19.1	40.9	19.0

Source: Company, ICICI Direct Research

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