

Indian Bank (INBK IN)

Below Expectation – Moderated Outlook

INDIA | BANKING | Quarterly Update

Earnings was impacted by NIM decline and high delinquencies in RAM segment. Rise in cost of deposit impacted NIM despite favourable liquidity in balance sheet. We believe NIM will decline in FY24E vs FY23. Muted loan growth of 10-12% and NIM decline will contract the core earnings growth next year. Credit cost to remain elevated given high restructure loan. We don't see material improvement in return ratio going ahead and ROA should remain below 1% level. Given limited upside from current level we **downgrade the stock to NEUTRAL from BUY**.

Top takeaways from Q4FY23

- PAT at Rs 14bn (47% yoy & 3.7% qoq), was inline due to low tax. PBT declined 6% qoq.
- NII Rs 55bn (30% yoy & flat qoq) is below our expectation due to margin contraction. Domestic NIM, which was 3.59% (-15bps qoq and 72bps yoy), is driven by higher deposit repricing sequentially.
- Other income at Rs 20bn (27% yoy & 16% qoq) was aided by high recovery from written off asset amounting to Rs 8bn compared to Rs 2bn in Q4FY22 & Rs 4.3bn in Q3. Fee income Rs 9.6bn (-12% yoy & -3.8% qoq) impacted by forex income (-83% yoy & -84% qoq).
- Operating expenses growth was high at 13% yoy due to 14% yoy growth in employee cost. Bank made provision for wage revision amounting to Rs 1.8bn for the quarter. Other operating expense increased by 11% yoy. The cost to income ratio 47% vs 45% in Q3FY23.
- Provision was high as bank increased restructured provision from previous regulatory level of 5%/10%, resulting an additional standard provision of Rs 14bn. Provision stood at Rs 26bn, translating into credit cost of 2.28% compared to 2.36% in Q3FY23.
- GNPA/NNPA declined to 5.95%/0.9% (-58bps qoq / -10bps qoq). Slippage increased to 2.3% Vs 1.2% in Q3. Restructured book at Rs 113bn (2.4% of loan book).
- Gross loan was Rs 4493bn (15.4% yoy & 5.4% qoq) driven by agri 16% yoy; retail 13% yoy; MSME 7% yoy; domestic corporate 12% yoy and international loan 49% yoy.
- The SMA book declined to 0.54% (23bps qoq).

Outlook and valuation: We expect PAT growth of 18% / 12% in FY24E/25E, translating into RoA of 0.8% and RoE of ~12.5% for both the years. The stock trades at 0.9x/0.8x FY23E/25E ABVPS of Rs 332/389. We Downgrade to NEUTRAL from BUY with revised PT to Rs330 (Rs 335 earlier) which is 1.0x FY24E ABVPS.

(Rs bn)	Q4FY23	Q4FY22	yoy %	Q3FY23	qoq %	Comments
Net interest income	55.1	42.6	29.5	55.0	0.2	NII growth was below expectation due to NIM contraction
NIM (%)	3.6	2.9	72bps	3.7	(15bps)	Sequential improvement in yield was more than off-set by high cost of deposit
Advances	4493.0	3891.9	15.4	4264.4	5.4	Advance growth driven by 12% yoy growth in RAM segment.
Deposit	6211.7	5936.2	4.6	5971.1	4.0	Term deposit grew 4% yoy, CASA deposit grew 5% yoy
CASA	2608.1	2479.3	5.2	2412.1	8.1	Savings and Demand deposit grew 7% and -2% respectively
CASA %	42.8	41.8	103bps	40.4	240bps	
Core fee	9.6	10.9	-11.7	10.0	-3.8	Fee income impacted by 83% yoy decline in forex income
Trading gain	0.8	0.8	-2.4	2.0	-59.2	MTM gain moderate due to stable G.sec yield qoq
Operating expenses	34.9	30.9	12.8	31.5	10.5	Employee expenses grew 14% yoy, other opex grew 11% yoy
Cost to income ratio (%)	47.0	53.8	(681bps)	45.0	202bps	Bank made provision for wage revision Rs 1.8bn
Provision	25.6	19.1	33.9	25.2	1.9	NPA provision Rs 10bn, Std. Provision 14bn
PAT	14.5	9.8	47.0	14.0	3.7	PBT below expectation, but PAT in line due to low tax
Slippage	25.7	33.7	-23.8	13.1	95.4	MSME Rs 13.4bn; Retail Rs 5bn; Agri Rs 7bn & Corporate Rs 0.14bn
GNPA	6.0	8.5	(252bps)	6.5	(58bps)	Outstanding standard restructured Rs 113bn (2.4% gross loan)
NNPA	0.9	2.3	(137bps)	1.0	(10bps)	PCR 93.8% vs 93.6% in Q3
Tier 1 Capital %	13.5	13.2	31bps	12.6	90bps	

09 May 2023

NEUTRAL (Downgrade)

CMP RS 315

TARGET RS 330 (+5%)

SEBI CATEGORY: MID CAP

COMPANY DATA

O/S SHARES (MN) :	1,245
MARKET CAP (RSBN) :	393
MARKET CAP (USDBN) :	4.8
52 - WK HI/LO (RS) :	335 / 137
LIQUIDITY 3M (USDMMN) :	6
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Mar 23	Dec 22	Sep 22
PROMOTERS :	79.9	79.9	79.9
DII :	11.6	12.0	12.1
FII :	4.2	3.6	2.6
OTHERS :	4.4	4.6	5.5

KEY FINANCIALS

Rs bn	FY23	FY24E	FY25E
Net Profit	53	63	70
% growth	33.9	18.4	12.2
EPS (Rs)	42.4	50.2	56.3
ABVPS (Rs)	277	332	389
ROA (%)	0.8	0.8	0.8
ROE (%)	11.5	12.4	12.6
PER	7.4	6.3	5.6
P/ABV	1.1	0.9	0.8

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY24E	FY25E	FY24E	FY25E
NII	214.4	232.9	1.2	-0.9
PPOP	146.6	150.6	-1.1	-6.9
Core PAT	62.5	70.2	0.3	1.7
EPS (Rs)	50.2	56.3	0.3	1.7

Manish Agarwalla, Research Analyst

Result update

(Rs bn)	Q4FY23	Q4FY22	yoy %	Q3FY23	qoq %
Interest earned	122.4	98.3	24.5	118.3	3.5
Interest expended	67.4	55.8	20.8	63.4	6.3
Net interest income	55.1	42.6	29.5	55.0	0.2
Net interest margins	3.6	2.9	72bps	3.7	(15bps)
Non-interest income	19.9	15.7	26.8	17.2	16.2
Total Income	75.0	58.3	28.7	72.2	4.0
Total operating expenses	34.9	30.9	12.8	31.5	10.5
Payroll costs	22.2	19.5	13.9	19.9	11.5
Others	12.7	11.4	11.0	11.6	8.9
Pre-provision Profit	40.2	27.4	46.7	40.6	-1.1
Provisions & Contingencies	25.6	19.1	33.9	25.2	1.9
% Operating income	63.8	69.9	(609bps)	61.9	188bps
PBT	14.5	8.2	76.3	15.5	-6.0
Provision for Taxes	0.1	-1.6	-103.3	1.5	-96.5
% of PBT	0.4	-19.5	1986bps	9.7	-96.2
Net Profit	14.5	9.8	47.0	14.0	3.7
Equity	12.5	12.5	0.0	12.5	0.0
EPS, Rs	11.6	7.9	47.0	11.2	3.7
Advances	4493.0	3891.9	15.4	4264.4	5.4
Deposits	6211.7	5936.2	4.6	5971.1	4.0
Advances / Deposits (%)	72.3	65.6	677bps	71.4	91bps
Gross NPAs	281.8	352.1	-20.0	294.8	-4.4
Gross NPAs (%)	5.95	8.5	(252bps)	6.5	(58bps)
Net NPAs	40.4	76.3	-47.0	42.7	-5.3
Net NPAs (%)	0.90	2.3	(137bps)	1.0	(10bps)
CAR - Tier I	13.5	13.2	31bps	12.6	90bps
CAR - Tier II	3.0	3.4	(35bps)	3.2	(15bps)
CAR – Total (%)	16.5	16.5	(4bps)	15.7	75bps

Source: PhillipCapital India Research

Stress asset comparison

Figures in % to Gross loan book	Standard restructured Asset (SRA)	Mar' 22 GNPA	Dec' 22 GNPA	A: Total Stress asset (SRA + GNPA)	B: Total Outstanding provision	(A-B): Net Stress asset	Gross Slippage Q4FY23 (annualized)	Net Slippage Q4FY23 (annualized)	Slippage Q3FY23
ICICIBC	0.43%	2.98%	3.34%	3.41%	4.65%	-1.24%	1.64%	0.01%	2.35%
AXSB	0.24%	2.16%	2.57%	2.40%	3.14%	-0.73%	1.75%	0.50%	1.96%
HDFCB	0.37%	1.12%	1.23%	1.49%	1.97%	-0.48%	1.21%	0.40%	1.74%
CSBBANK	0.16%	1.22%	1.40%	1.38%	1.66%	-0.28%	0.65%	-0.07%	0.54%
KMB	0.22%	1.78%	1.90%	2.00%	2.01%	-0.01%	1.01%	0.04%	0.95%
IIB	0.83%	1.98%	2.09%	2.81%	2.49%	0.32%	2.18%	1.31%	2.15%
EQUITASB	0.22%	2.76%	3.63%	2.98%	2.09%	0.89%	2.91%	-0.30%	4.92%
AUBANK	1.30%	1.66%	1.81%	2.96%	1.92%	1.04%	1.29%	-0.14%	1.64%
FB	1.60%	2.36%	2.38%	3.95%	2.38%	1.57%	1.02%	0.12%	0.95%
RBK	1.20%	3.37%	3.70%	4.57%	2.79%	1.78%	3.79%	1.64%	3.65%
INBK	2.38%	5.95%	6.53%	8.33%	6.36%	1.97%	2.17%	0.56%	1.16%
CBK	2.08%	5.35%	5.89%	7.44%	4.46%	2.97%	1.38%	0.15%	1.51%
DCBB	5.06%	3.20%	3.63%	8.26%	3.36%	4.89%	3.06%	-0.42%	4.75%

Outstanding Provision Breakup

Figures in % to Gross loan book	NPA Provision	Contingent Provision	Standard Provision	Total Provision
ICICIBC	2.49%	1.25%	0.91%	4.65%
AXSB	1.75%	0.65%	0.73%	3.14%
HDFCB	0.85%	0.69%	0.43%	1.97%
CSBBANK	0.89%	0.50%	0.27%	1.66%
KMB	1.41%	0.18%	0.42%	2.01%
IIB	1.37%	0.65%	0.47%	2.49%
EQUITASB	1.57%	0.18%	0.34%	2.09%
AUBANK	1.24%	0.35%	0.32%	1.92%
FB	1.68%	0.32%	0.38%	2.38%
RBK	2.29%	0.04%	0.46%	2.79%
INBK	5.10%	0.50%	0.76%	6.36%
CBK	3.69%	0.31%	0.46%	4.46%
DCBB	2.18%	0.86%	0.33%	3.36%

Source: Company, PhillipCapital India Research;

Peer Bank Performance Comparison

Q4FY23	Advance Rs bn	Change qoq %	NII Rs bn	Change qoq %	PPoP Rs bn	Change qoq %	PAT Rs bn	Change qoq %	NIM %	Change qoq, bps
HDFCB	16006	6.2%	234	1.6%	186	-0.6%	120	-1.7%	4.1%	0bps
ICICIBC	10196	4.7%	177	7.3%	139	4.8%	91	9.7%	4.9%	25bps
AXSB*	8453	7.0%	117	2.5%	92	-1.2%	66	13.2%	4.2%	(4bps)
CBK	8307	1.4%	86	0.2%	73	4.3%	32	10.2%	3.1%	2bps
INBK	4493	5.4%	55	0.2%	40	-1.1%	14	3.7%	3.6%	(15bps)
KMB	3199	2.9%	61	8.0%	47	21.0%	35	25.2%	5.8%	28bps
IIB	2899	6.3%	47	3.9%	37	3.9%	20	4.1%	4.3%	1bps
FB	1774	3.7%	19	-2.4%	13	4.7%	9	12.3%	3.3%	(18bps)
IDFCBK	1564	6.3%	36	9.5%	16	23.6%	8	32.7%	6.4%	28bps
RBK	702	5.0%	12	5.0%	6	5.0%	3	30.0%	5.0%	27bps
AUBANK	584	5.1%	12	5.2%	6	3.9%	4	8.1%	6.1%	(10bps)
DCBB	344	4.3%	5	9.0%	2	26.0%	1	24.9%	4.2%	16bps
EQUITASB	258	10.8%	7	9.2%	4	38.4%	2	11.7%	9.1%	9bps

Q4FY23	cost / Income %	Change qoq, bps	Credit cost %	Change qoq, bps	Slippage %	Change qoq, bps	NNPA%	Change qoq, bps	ROA %	Change qoq, bps
HDFCB	42%	200bps	0.67%	(7bps)	1.2%	(52bps)	0.27%	(5bps)	2.0%	(15bps)
ICICIBC	39%	86bps	0.65%	(29bps)	1.7%	(66bps)	0.48%	(7bps)	2.3%	10bps
AXSB*	45%	150bps	0.14%	(60bps)	1.6%	(18bps)	0.39%	(8bps)	2.1%	20bps
CBK	46%	108bps	1.89%	(2bps)	1.4%	(13bps)	1.73%	(23bps)	1.0%	7bps
INBK	47%	(200bps)	2.28%	(8bps)	2.3%	(105bps)	0.90%	(10bps)	0.8%	1bps
KMB	44%	(509bps)	0.19%	(1bps)	1.1%	1bps	0.37%	(6bps)	2.9%	50bps
IIB	45%	102bps	1.46%	(14bps)	2.2%	6bps	0.59%	(3bps)	1.8%	1bps
FB	50%	130bps	0.26%	(20bps)	1.0%	6bps	0.69%	(4bps)	1.4%	11bps
IDFCBK	72%	(26bps)	1.271%	flat	na	na	0.86%	(17bps)	1.4%	30bps
RBK	69%	60bps	1.16%	(40bps)	4.1%	20bps	1.10%	(8bps)	1.0%	22bps
AUBANK	63%	147bps	0.29%	5bps	1.3%	(35bps)	0.42%	(9bps)	2.0%	1bps
DCBB	60%	(420bps)	0.62%	11bps	3.1%	(174bps)	1.04%	(33bps)	1.1%	17bps
EQUITASB	59%	(598bps)	2.05%	116bps	3.0%	(197bps)	1.21%	(52bps)	2.3%	10bps

**Adjusted for like to like comparison

Coverage Universe

Company	Size	Fw P/B	Reco/UpSide	
AXSB	L	1.7	BUY	19
BANDHAN	M	1.7	BUY	41
BOB	L	1.0	NEU	-13
DCBB	S	0.8	BUY	26
EQUITASB	S	1.3	BUY	32
HDFCB	L	2.5	BUY	19
ICICIBC	L	2.6	BUY	22
IIB	L	1.4	BUY	24
INBK	M	1.0	NEU	5
KMB	L	3.3	BUY	12
SBIN	L	1.1	BUY	25

Source: Company, PhillipCapital India Research (Note: L/M/S = Large/Mid/Small Cap)

Financials

Income Statement

Y/E Mar, Rs bn	FY22	FY23	FY24E	FY25E
Interest on Loans	269	319	376	420
Interest on Investments	110	116	120	125
Others	10	14	14	15
Total Interest Earned	389	449	509	560
Total Interest Expended	221	247	295	327
Net Interest Income	167	202	214	233
Total non-interest income	69	71	69	72
Total Income	236	274	284	305
Personnel Expenses	67	75	87	99
Other Expenses	42	46	50	56
Total Op expenses	109	121	137	154
Net Inc (Loss) before prov	127	153	147	151
Provision for NPAs	95	90	63	56
Net Inc (Loss) before tax	32	59	84	94
Provision for Income Tax	(7)	6	21	24
Net Profit	39	53	63	70

Balance Sheet

Y/E Mar, Rs bn	FY22	FY23	FY24E	FY25E
Assets				
Cash & Bal with RBI	559	174	166	157
Loans, Adv&Int accrued	3,892	4,493	4,942	5,435
Investments	1,746	1,860	1,923	2,082
Fixed Assets (Net)	77	75	76	78
Other assets	203	176	184	193
Total Assets	6,717	7,105	7,657	8,355
Liabilities				
Share capital	12	12	12	12
Reserves and Surplus	425	467	517	573
Borrowing	171	221	236	258
Total Deposits	5,936	6,212	6,671	7,287
Other liab incld. prov	172	193	221	226
Total Liabilities	6,717	7,105	7,657	8,355

Valuation Ratios

	FY22	FY23	FY24E	FY25E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	31.0	33.3	29.0	27.0
RoAE (%)	9.6	11.5	12.4	12.6
Pre-provision Operating ROA (%)	1.9	2.2	1.9	1.8
RoAB (%)	0.6	0.8	0.8	0.8
EPS (Rs.)	31.7	42.4	50.2	56.3
Dividend per share (Rs.)	6.5	8.6	10.0	12.0
Book Value (Rs.)	301.1	336.2	376.4	420.7
Adj BV (Rs.)	175.8	276.5	332.1	388.7

Revenue Analysis

	FY22	FY23	FY24E	FY25E
Interest income on IBA (%)	6.3	6.7	7.1	7.2
Interest cost on IBL (%)	3.8	3.9	4.4	4.5
NIM on IBA / AWF (%)	2.7	3.0	3.0	3.0
Core fee Inc / AWF (%)	0.5	0.6	0.6	0.6
Portfolio gains / Total Inc (%)	5.7	1.1	2.2	2.7
Op.Exp / TI (%)	48.9	44.7	49.4	52.0
Op.Exp / AWF (%)	1.8	1.8	1.9	2.0
Employee exps / Op exps (%)	61.3	62.2	63.2	63.9
Tax / Pre-tax earnings (%)	(23.1)	10.7	25.5	25.5

Asset Quality

	FY22	FY23	FY24E	FY25E
GNPAs / Gr Adv (%)	8.5	6.0	4.4	3.2
NNPAs / Net Adv (%)	2.3	0.9	0.6	0.5

Growth Ratio

	FY22	FY23	FY24E	FY25E
Loans (%)	7.3	15.4	10.0	10.0
Investments (%)	(1.1)	6.5	3.4	8.3
Deposits (%)	10.3	4.6	7.4	9.2
Networth (%)	13.8	9.8	10.4	10.4
Net Int Income (%)	6.8	20.9	6.0	8.6
Non-fund based income (%)	22.4	3.3	(3.1)	4.2
Non-IntExp (%)	6.5	8.0	10.4	10.4
Profit Before Tax (%)	10.3	84.6	42.0	12.2
Net profit (%)	31.3	33.9	18.4	12.2

Asset / Liability Profile

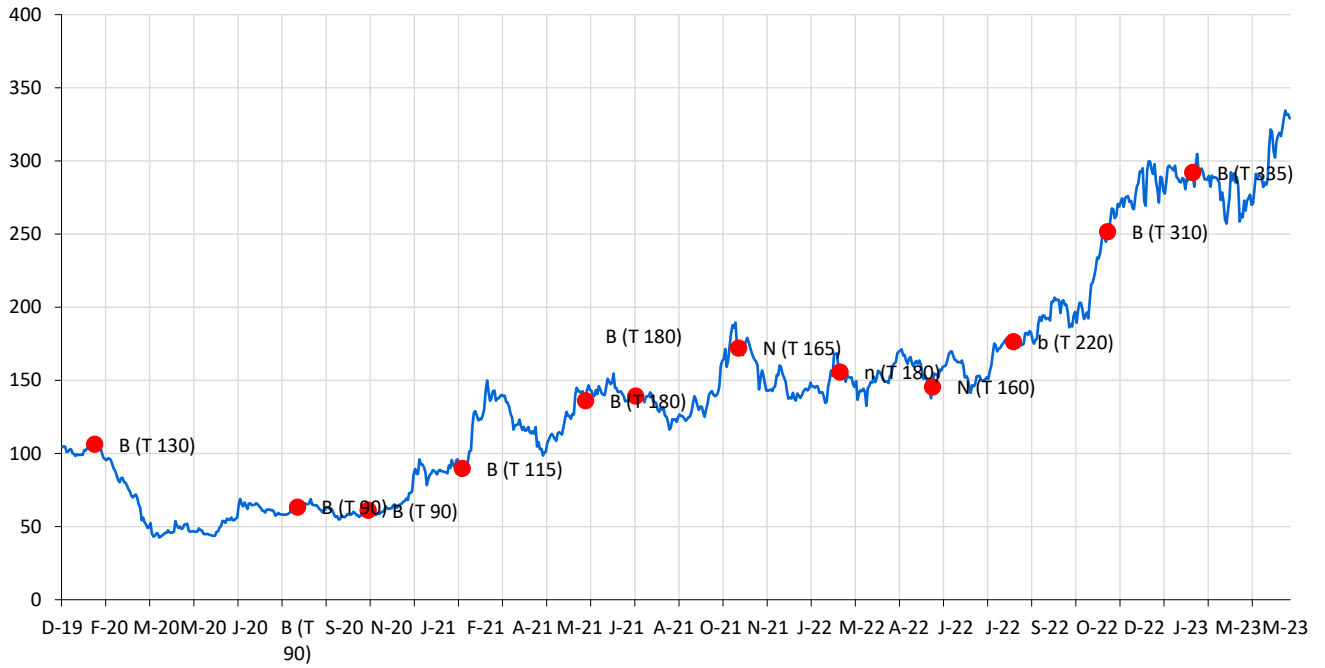
	FY22	FY23	FY24E	FY25E
Avg CASA/ Deposits (%)	41.9	41.8	41.6	40.8
AvgAdv / Avg Dep (%)	59.8	63.7	69.2	71.3
AvgInvst / AvgDep (%)	31.5	30.1	29.8	29.1
IncrAdv / Deposits (%)	47.7	217.8	97.6	80.1
Avg Cash / AvgDep (%)	11.6	10.7	8.0	7.9

Capital Adequacy Ratio:

	FY22	FY23	FY24E	FY25E
CRAR	16.5	16.5	16.8	17.0
Tier I (%)	13.2	13.5	13.7	13.9
CET 1 (%)	12.5	12.9	12.8	12.6
NNPAs to Equity (%)	20.2	8.4	5.9	4.3

Source: Company, PhillipCapital India Research

Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$(10\% > \text{to} < +10\%)$	Target price is less than +10% but more than (10%
SELL	$\leq (10\%$	Target price is less than or equal to (10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$(15\% > \text{to} < +15\%)$	Target price is less than +15% but more than (15%
SELL	$\leq (15\%$	Target price is less than or equal to (15%.

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