

May 6, 2024

RESULT REPORT Q4 FY24 | Sector: Banks

Indian Bank Ltd

Initiated as BUY in March 2022, INBK multiplies nearly 3.5x but still has material upside

Our view – Declining credit cost, stable margin and reasonable growth keep us bullish

Unlike most other banks, INBK is looking forward to credit cost decline owing to healthy upfronted provisioning: Management stated that the specific credit cost would decline from the 77 bps registered in FY24. This is expected given Net NPA has declined from 0.9% to 0.4% and the SMA book is also small. For the quarter, the annualised gross slippage ratio of 1.1% was well under control.

Margin expanded slightly on sequential basis, while management guided for broadly stable margin: For the quarter, yield on advances was up 3 bps QoQ to 8.81% while Yield on investment was up 8 bps QoQ to 6.88%. Management stated that margin can be in a range of 3.4-3.5% plus or minus 10-15 bps. It may be noted that the bank is conservative with its margin guidance, given that it had guided for sustenance of FY23 domestic margin of 3.41% and delivered 3.54% for FY24.

Loan growth was slightly slower than the system but there is no major challenge here: Advances are up 13% YoY while total deposits are up 11% YoY. The incremental CD ratio was 90% for FY24 while the outstanding CD ratio stands at 77-78%. The bank wishes to plan in a similar way going forward. Furthermore, there is excess SLR worth Rs 440bn, which the bank wants to redeploy towards credit as it is higher yielding.

We maintain 'BUY' rating on INBK with a revised price target of Rs 675: We initiated on INBK with BUY, in our [report released in March 2022](#), and as only our 3rd PSB pick, as our thumbs up to the PSU bank theme. Since then, INBK has returned 245%. We value the bank at 1.2x FY26 P/BV for an FY25E/26E RoE profile of 15.3/15.9%.

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

Result Highlights (See "Our View" above for elaboration and insight)

- **Asset quality:** Gross NPA additions amounted to Rs 12.68bn (annualized NPA addition ratio of 1%), while recoveries and upgrades amounted to Rs 8.98bn
- **Margin picture:** Domestic NIM at 3.52% was up 3bps QoQ, driven by increase in yield on advances and yield on investments
- **Asset growth:** Gross advances grew 4.7%/12.7% QoQ/YoY, driven sequentially by Corporate, Agri and Retail Loans
- **Opex control:** Total opex grew 9.8%/13.9% QoQ/YoY, Employee Exp. grew 12.7%/18.6% QoQ/YoY and other expense rose 4.4%/5.8% QoQ/YoY
- **Fee income:** Core fee income rose 13.8%/6.1% QoQ/YoY, driven higher sequentially by growth in Loan Processing Charges and Misc. fee income

Exhibit 1: Result table

(Rs mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
Total Interest Income	146,245	141,976	3.0	122,444	19.4
Interest expended	(86,091)	(83,834)	2.7	(67,361)	27.8
Net Interest Income	60,154	58,142	3.5	55,083	9.2
Other income	22,625	19,016	19.0	19,939	13.5
Total Income	82,779	77,158	7.3	75,022	10.3
Operating expenses	(39,730)	(36,186)	9.8	(34,866)	13.9
PPoP	43,050	40,972	5.1	40,156	7.2
Provisions	(12,478)	(13,494)	(7.5)	(25,630)	(51.3)
PBT	30,572	27,478	11.3	14,526	110.5
Tax	(8,102)	(6,285)	28.9	(53)	15,216.3
PAT	22,470	21,194	6.0	14,473	55.3

Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 532
Target price	: Rs 675
Potential return	: 27%

Stock data (as on May 6, 2024)

Nifty	21,443
52 Week h/l (Rs)	574 / 268
Market cap (Rs/USD mn)	732748 / 8776
Outstanding Shares (mn)	1,347
6m Avg t/o (Rs mn):	1,167
Div yield (%):	1.5
Bloomberg code:	INBK IN
NSE code:	INDIANB

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	73.8%
FII+DII	22.2%
Others	3.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	675	650

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	232,733	266,317	303,433
PPOP	168,396	204,871	236,288
Net Profit	80,629	95,412	111,854
Growth (%)	52.7	18.3	17.2
EPS (Rs)	59.9	70.8	83.0
BVPS (Rs)	433	490	557
P/E (x)	8.9	7.5	6.4
P/BV (x)	1.2	1.1	1.0
ROE (%)	15.2	15.3	15.9
ROA (%)	1.1	1.1	1.2
Tier-1 (%)	14.0	13.8	13.6

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	70.8	83.0
EPS (Old)	NA	69.4	80.2
% change	NA	2.0%	3.6%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Regarding new RBI order

- The bank has a relatively smaller share (especially among PSU banks) of corporate loans at 37% of overall loan book.
- Firstly, not all these loans are under project finance.
- Furthermore, the amount of project finance loans in under construction phase is very small.
- Specifically, the bank has been in road financing for 2 decades and there have very little new projects.

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 12.68bn for 4QFY24, translating to an annualized slippage ratio of 1.11% for the quarter. (Gross NPA additions had amounted to Rs 16.67bn during 3QFY24.)
 - **Segmental slippages**
 - MSME – Rs 6.44bn, of which Rs 1.4bn was from the restructured book
 - Agri – Rs 5.08bn, which emerged from the KCC, other agri and SHG books
 - Retail – Rs 1.26bn, which emerged from the housing and education loan books (among other sub-segments)
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 8.98bn for 4QFY24, implying net NPA addition of Rs 3.7bn for the quarter.
- **More on recovery**
 - The recovery target for FY24 was Rs 80bn, against which Rs 88bn was recovered.
 - The recovery in FY23 had amounted to Rs 85bn.
 - The recovery planned for FY25 amounts to Rs 70-80bn from the NPA pool worth Rs 600bn, of which Rs 390bn is the written off pool.
 - **AUC recovery**
 - The AUC recovery amounted to Rs 28.58bn, of which Rs 18bn has travelled through the P&L.
 - About Rs 10bn is on SR and OCD, on which income will be booked in the next few years.
 - **NCLT recovery**
 - The recovery from NCLT amounted to Rs 18.17bn compared with Rs 10.29bn in FY23.
- **Provisions**
 - Provisions were Rs 12.5bn, down by -7.5% QoQ and -51.3% YoY, translating to calculated annualised credit cost of 99bps.
 - **Outstanding provisions**
 - The PCR is 96.3%.
 - **Credit cost guidance**
 - The credit cost would decline from the 77 bps (presumably only specific credit cost / NPA provisions) registered in FY24.
 - This is expected given Net NPA has declined from 0.9% to 0.4% and the SMA book is also small.

(Con call takeaways continue on the next page)

- **SMA position**
 - The SMA1 and SMA2 book together amount to 48 bps of advances.
- **NPA ratios**
 - GNPA ratio stands at 3.95%, down -52 bps QoQ and -148 bps YoY while NNPA ratio stands at 0.43%, down -10 bps QoQ and -37 bps YoY.

Capital adequacy

- There has been a 60 bps reduction in Tier 2 capital ratio due to the redemption of Tier 2 bonds.
- There has been an accretion of Tier 1 capital ratio amounting to about 100 bps due to the Rs 40bn equity capital raise and the government shareholding stands reduced from 79% to 74%.
- There has been a 57 bps erosion of Tier 1 capital ratio due to the new RBI risk weight guidelines.
- However, the CET1 ratio net accreted 63 bps YoY to 13.52% as of March 2024, implying organic accretion of CET1 ratio on the back of internal accruals.

Net interest margin

- NIM (Global) was at 3.44%, up 3 bps QoQ but down -12 bps YoY.
- **Yield**
 - Yield on advances was up 3 bps QoQ to 8.81%.
 - Yield on investment was up 8 bps QoQ to 6.88%.
 - **Holding yield**
 - The blended holding yield for FY24 amounted to 7.17% compared with 6.8% last year.
- **Loan mix by rate category**
 - MCLR – 60%
 - Repo rate – 33-34%
 - The remaining is mainly Fixed Rate loans and a little bit of Base Rate.
- **Guidance**
 - The margin can be in a range of 3.4-3.5% plus or minus 10-15 bps.
 - It may be noted that the bank is conservative with its margin guidance, given that it had guided for sustenance of FY23 margin of 3.41% and delivered 3.54% for FY24.

Liquidity

- **Loan to deposit ratio**
 - The incremental CD ratio was 90% for FY24 while the outstanding CD ratio stands at 77-78%.
 - The bank wishes to plan in a similar way going forward.
 - There is excess SLR worth Rs 440bn, which the bank wants to redeploy towards credit as it is higher yielding.
- **LCR**
 - The LCR stood at 132-133%.

Deposits growth

- Total deposits are up 11% YoY.

(Con call takeaways continue on the next page)

- CASA deposits are up 8% YoY.
- CASA ratio is above 42%.

Loan growth

- **Overall growth**
 - Advances are up 13% YoY.
 - RAM advances are up 14% YoY.
 - The standard advances growth of 15% YoY in is line with the industry.
- **Retail credit**
 - Retail credit is up 15% YoY.
 - **Retail segments**
 - Home loans are up 11% YoY.
 - Personal loans are up 10% YoY.
- **Agri loans**
 - Agri loans are up 19% YoY.
 - **Gold loans share**
 - 78% of crop loans are gold loans.
- **MSME loans**
 - MSME loans are up 6% YoY.
- **Corporate credit**
 - Corporate loans are up 10% YoY.

Fee income

- Fee income is up 11% YoY.
- PSLC income is up 37% YoY.

Operating expenses

- **Total opex**
 - Opex, at Rs. 39.7 bn, is up 9.8% QoQ and 13.9% YoY.
 - Consequently, cost/income ratio came in at 47.99%, up by 110bps QoQ and 152bps YoY.
 - **Guidance**
 - The cost to income ratio for FY24 was 45.9% due to high employee cost and the bank would like to bring it down below 44%.
 - The total opex for FY24 amounted to about Rs 92bn and this could be Rs 90bn in FY25.
- **Staff opex**
 - The staff opex is up by 12.7% QoQ and 18.6% YoY.
 - Of the total staff opex amounting to Rs 26.33bn in 4Q, Rs 10.15bn is employee benefits expense, of which Rs 3.88bn in ex-gratia payment on pension.
 - Employee expense was up 23% YoY in FY24 driven by staff-related provisions, including for retiral and pension.
 - **New subsidiary**
 - A new subsidiary Indbank Global has been formed to carry out back office operations.

(Con call takeaways continue on the next page)

- Activities that would be outsourced would include support on collections, support on operations such as check issuance, generating leads for savings accounts, etc.
 - The personnel for this subsidiary have been recruited from outside and are not transferees from the bank.
- **Other opex**
 - Other opex in up by 4.4% QoQ and 5.8% YoY.
 - Other opex was up 10% YoY in FY24 driven by expenditure on digitization.

Effective tax rate

- The benefit from carry forward losses of Allahabad Bank stands exhausted and the effective tax rate for FY25 would amount to 26%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q4FY24	Q3FY24	% qoq	Q4FY23	% yoy	Q4FY24*	chg QoQ*	chg YoY*
Global Gross Advances	5,337,730	5,098,000	4.7	4,735,860	12.7	100.0	0bps	0bps
Overseas Gross Advances	356,130	354,450	0.5	296,650	20.1	6.7	-28bps	41bps
Domestic Gross Advances	4,981,600	4,743,550	5.0	4,439,210	12.2	93.3	28bps	-41bps
Corporate Loans	1,882,420	1,775,100	6.0	1,712,420	9.9	35.3	45bps	-89bps
MSME	841,210	831,720	1.1	796,560	5.6	15.8	-55bps	-106bps
Agri	1,210,620	1,144,220	5.8	1,019,370	18.8	22.7	24bps	116bps
Retail Loans	1,047,350	992,510	5.5	910,860	15.0	19.6	15bps	39bps
Home Loan	664,230	643,430	3.2	598,400	11.0	12.4	-18bps	-19bps
Auto Loan	80,160	72,910	9.9	53,770	49.1	1.5	7bps	37bps
Personal Loan	85,660	86,480	(0.9)	77,690	10.3	1.6	-9bps	-4bps
Jewel Loan Non Priority	53,660	56,260	(4.6)	52,060	3.1	1.0	-10bps	-9bps
Others	163,640	133,430	22.6	128,940	26.9	3.1	45bps	34bps
Total Deposits	6,880,000	6,541,540	5.2	6,211,658	10.8	100.0	0bps	0bps
CA	389,930	338,140	15.3	358,570	8.7	5.7	50bps	-10bps
SA	2,414,940	2,256,980	7.0	2,249,520	7.4	35.1	60bps	-111bps
Term	4,075,130	3,946,420	3.3	3,603,568	13.1	59.2	-110bps	122bps
RWA	3,922,460	3,801,910	3.2	3,335,820	17.6	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q4 FY24	Q3 FY24	chg qoq	Q4 FY23	chg yoy
Net interest margin-Global	3.44	3.41	3bps	3.56	-12bps
Net interest margin-Domestic	3.52	3.49	3bps	3.59	-7bps
Yield on advances	8.81	8.78	3bps	8.17	64bps
Cost of deposits	5.01	4.99	2bps	4.33	68bps
Loan to Deposit ratio	74.8	74.8	-1bps	72.3	251bps
Non-interest income/Total income	27.3	24.6	269bps	26.6	75bps
Fee Income to Avg. Total Assets	0.5	0.5	4bps	0.5	-3bps
Cost to Income	48.0	46.9	110bps	46.5	152bps
Opex to Avg. Total Assets	2.0	1.9	12bps	2.0	4bps
RoE	19.1	19.9	-86bps	15.5	358bps
RoA	1.2	1.1	4bps	0.8	33bps
Capital adequacy ratio	16.4	15.6	86bps	16.5	-5bps
Common equity tier 1	13.5	12.4	116bps	12.9	63bps
Tier I capital ratio	14.0	12.9	115bps	13.5	55bps
Annualised Slippage Ratio	1.0	1.3	-36bps	2.2	-125bps
Provision Coverage	96.3	95.9	44bps	93.8	252bps
Gross NPA	4.0	4.5	-52bps	6.0	-200bps
Net NPA	0.4	0.5	-10bps	0.9	-47bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q4FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	60,154	59,925	0.4
Pre-Prov. Operating Profit	43,050	42,814	0.6
Profit After Tax	22,470	22,971	(2.2)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q4FY24	Q3FY24	% qoq	Q4FY23	% yoy
Employee Expense	26,333	23,358	12.7	22,199	18.6
Other Operating Expense	13,396	12,829	4.4	12,667	5.8
Total Operating Expense	39,730	36,186	9.8	34,866	13.9

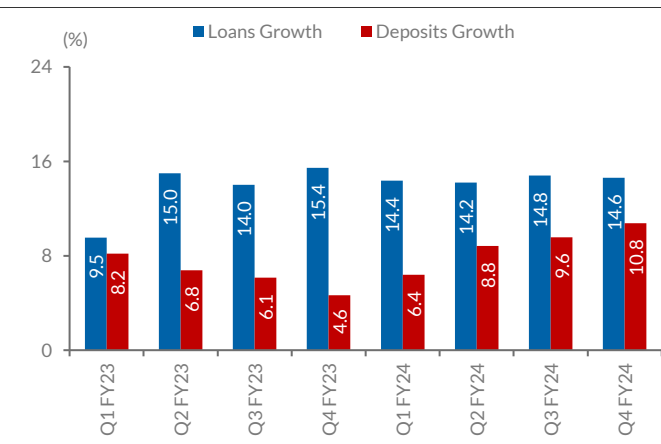
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q4FY24	Q3FY24	% qoq	Q4FY23	% yoy
Total Fee Income (A)	9,700	8,520	13.8	9,140	6.1
Transaction fees	1,960	1,840	6.5	1,640	19.5
Loan processing charges	2,190	1,900	15.3	2,080	5.3
Commission on Govt. business	270	200	35.0	220	22.7
Commission on LC/BG	1,160	1,150	0.9	1,400	(17.1)
Cross Selling	460	520	(11.5)	480	(4.2)
Income from PFMS operations	120	160	(25.0)	60	100.0
Rent on Lockers	410	430	(4.7)	470	(12.8)
Misc fee Income	3,130	2,320	34.9	2,790	12.2
Total Other Income (B)	12,925	10,496	23.1	10,799	19.7
Forex Income	820	840	(2.4)	460	78.3
Treasury Income	1,930	3,280	(41.2)	820	135.4
Bad Debts Recovered	7,730	4,180	84.9	8,600	(10.1)
PSLC Commission	1,690	1,670	1.2	410	312.2
Others	755	526	43.5	509	48.5
Total Non-Interest Income (A+B)	22,625	19,016	19.0	19,939	13.5

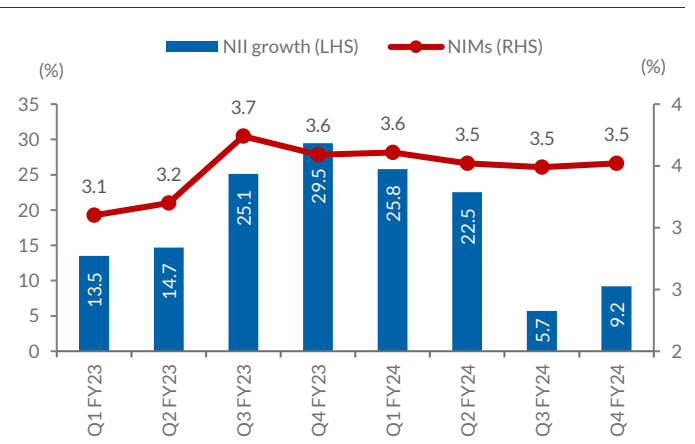
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



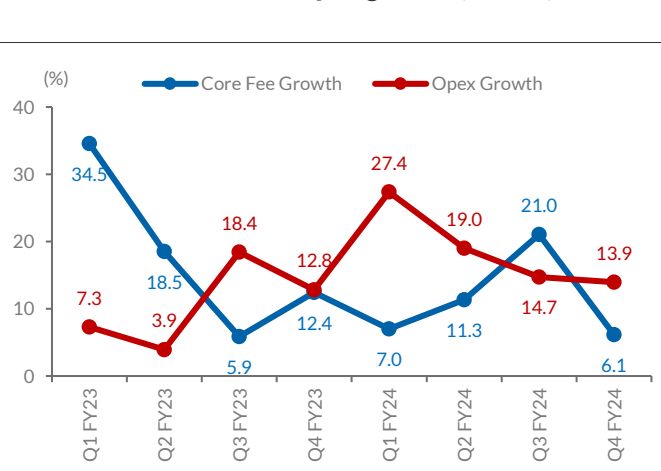
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM (%)



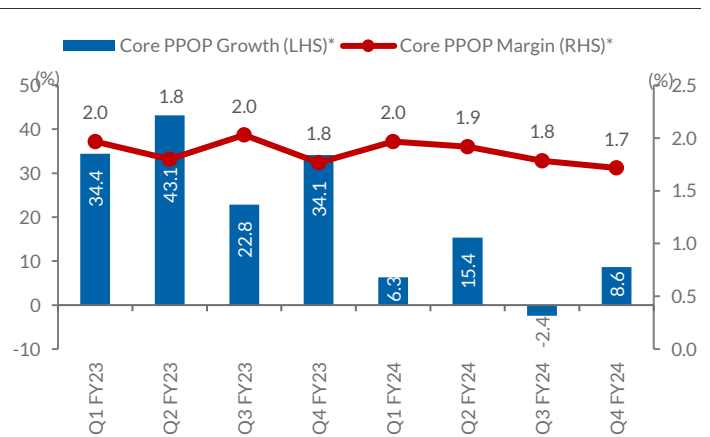
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



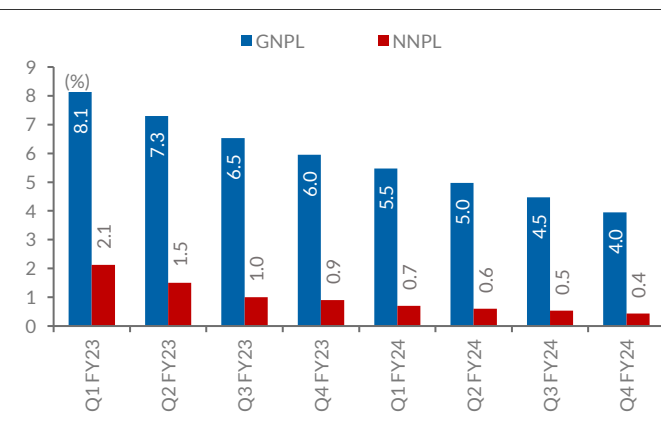
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



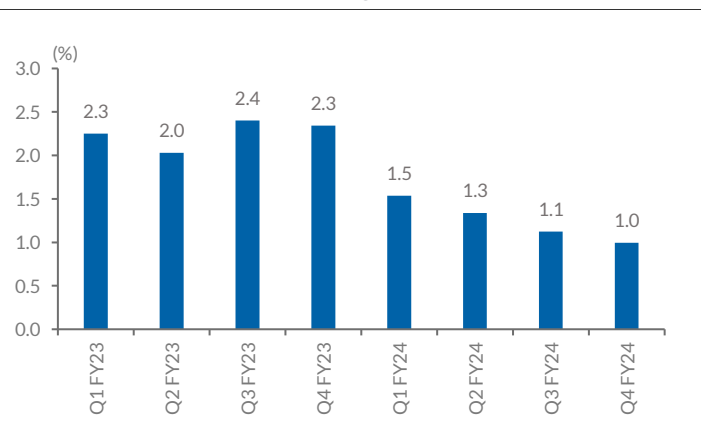
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	799,161	501,326	421,091	576,676	613,583
Investments	1,745,586	1,859,883	2,125,545	2,380,610	2,666,283
Advances	3,891,861	4,492,967	5,148,891	5,766,758	6,458,768
Fixed assets	76,837	74,590	75,155	82,670	90,937
Other assets	203,236	176,241	155,510	163,285	171,449
Total assets	6,716,681	7,105,007	7,926,191	8,969,999	10,001,022
Net worth	437,088	479,728	583,881	660,211	749,694
Deposits	5,936,178	6,211,658	6,880,000	7,705,600	8,630,272
Borrowings	171,443	220,730	231,315	259,073	290,161
Other liabilities	171,971	192,892	230,995	345,115	330,894
Total liabilities incl. Equity	6,716,681	7,105,007	7,926,191	8,969,999	10,001,022

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	388,562	449,422	556,148	631,563	714,336
Interest expense	(221,283)	(247,168)	(323,415)	(365,247)	(410,903)
Net interest income	167,280	202,255	232,733	266,317	303,433
Non-interest income	69,154	71,431	78,667	96,155	106,471
Total income	236,434	273,685	311,400	362,472	409,905
Operating expenses	(109,265)	(120,979)	(143,005)	(157,600)	(173,617)
PPoP	127,169	152,706	168,396	204,871	236,288
Provisions	(95,127)	(93,562)	(58,884)	(75,936)	(85,134)
Profit before tax	32,042	59,144	109,511	128,935	151,154
Taxes	7,406	(6,327)	(28,882)	(33,523)	(39,300)
Net profit	39,448	52,817	80,629	95,412	111,854

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest income	6.0	6.5	7.4	7.5	7.5
Interest expense	-3.4	-3.6	-4.3	-4.3	-4.3
Net interest income	2.6	2.9	3.1	3.2	3.2
Non-interest income	1.1	1.0	1.0	1.1	1.1
Total income	3.6	4.0	4.1	4.3	4.3
Operating expenses	-1.7	-1.8	-1.9	-1.9	-1.8
PPoP	2.0	2.2	2.2	2.4	2.5
Provisions	-1.5	-1.4	-0.8	-0.9	-0.9
Profit before tax	0.5	0.9	1.5	1.5	1.6
Taxes	0.1	-0.1	-0.4	-0.4	-0.4
Net profit	0.6	0.8	1.1	1.1	1.2

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	NA	266,317	303,433	NA	265,210	295,257	NA	0.4	2.8
Pre-Prov. Operating Profit	NA	204,871	236,288	NA	204,935	233,785	NA	(0.0)	1.1
Profit after tax	NA	95,412	111,854	NA	93,380	107,827	NA	2.2	3.7

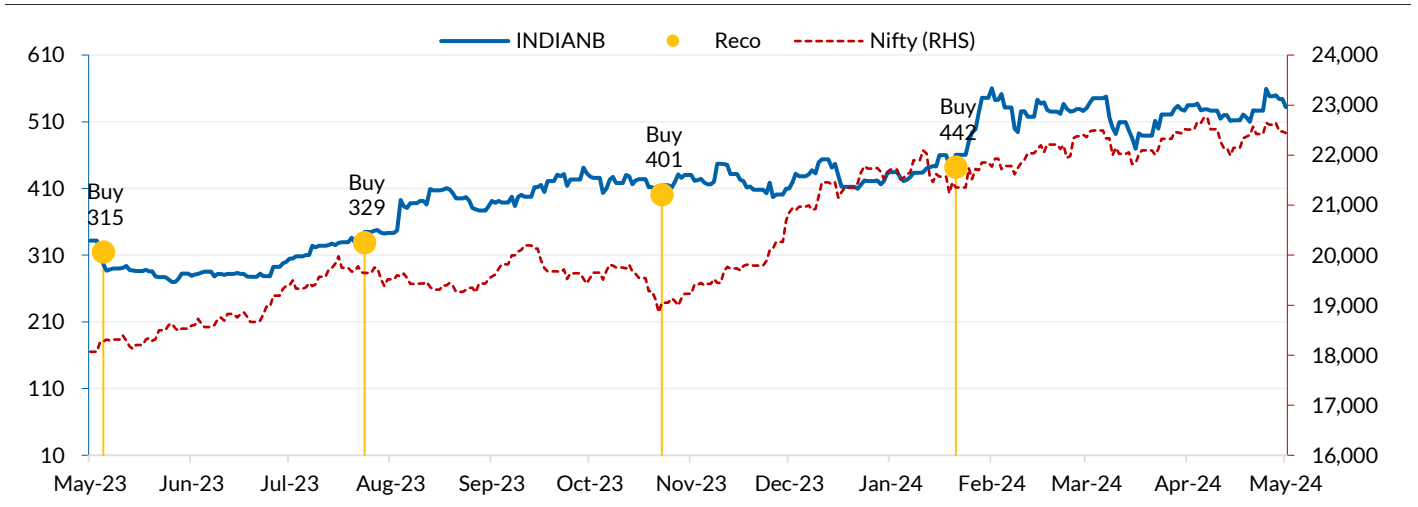
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.8	20.9	15.1	14.4	13.9
PPoP	11.6	20.1	10.3	21.7	15.3
Net profit	31.3	33.9	52.7	18.3	17.2
Loans	6.9	15.4	14.6	12.0	12.0
Deposits	10.3	4.6	10.8	12.0	12.0
Profitability Ratios (%)					
Net interest margin	2.9	3.4	3.5	3.5	3.6
Return on Average Equity	9.6	11.5	15.2	15.3	15.9
Return on Average Assets	0.6	0.8	1.1	1.1	1.2
Per share figures (Rs)					
EPS	31.7	42.4	59.9	70.8	83.0
BVPS	351	385	433	490	557
ABVPS	280	353	417	474	540
Valuation multiples					
P/E	16.8	12.5	8.9	7.5	6.4
P/BV	1.5	1.4	1.2	1.1	1.0
P/ABV	1.9	1.5	1.3	1.1	1.0
NIM internals (%)					
Yield on loans	7.2	7.6	8.4	8.5	8.6
Cost of deposits	3.7	3.8	4.7	4.8	4.8
Loan-deposit ratio	65.6	72.3	74.8	74.8	74.8
CASA ratio	41.8	42.0	40.8	40.9	41.1
Opex control (%)					
Cost/Income ratio	46.2	44.2	45.9	43.5	42.4
Cost to average assets	1.7	1.8	1.9	1.9	1.8
Capital adequacy (%)					
Tier 1 capital ratio	13.2	13.5	14.0	13.8	13.6
Asset quality (%)					
Slippage ratio	2.7	1.7	1.4	1.8	1.8
Gross NPL ratio	8.5	6.0	4.0	3.9	3.9
Credit cost	2.2	1.6	0.8	1.2	1.2
Net NPL ratio	2.3	0.9	0.4	0.4	0.3

Source: Company, YES Sec – Research

Recommendation Tracker



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