

Retail Equity Research

Indian Bank Ltd.

Banking

BSE CODE : 532814

NSE CODE: INDIANB

BLOOMBERG CODE: INBK:IN

SENSEX : 76,693

BUY

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 535 **TARGET Rs. 619** **RETURN 16%** ↑

(Closing: 07-06-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Consistent performance to continue

Indian Bank is a mid-sized bank in the public sector, with a loan book size of Rs.5.3 lakh crore and a deposit base of Rs.6.9 lakh crore. Allahabad Bank was merged with Indian Bank on April 1, 2020, and it operates through a network of 5,847 domestic branches.

- **Advances grew by 13%YoY, driven by 14% growth in RAM. Deposit growth lagged at 11%YoY, with the CASA account growing 8%YoY. The CASA ratio stands at 42.31%, up 1.17% sequentially.**
- **Net Interest Income grew by 9.2%YoY, aided by robust advance growth, while NIM saw a slight increase to 3.52%.**
- **Asset quality continues to improve, with GNPA/NNPA declining to 3.95%/0.43% from 4.47%/0.53%.**
- **Provision coverage ratio (PCR) increased to 96.3% from 93.8% in last year.**
- **We expect the current performance to continue in the near future. Therefore, we assign BUY rating with a target price of Rs. 619, based on 1.1x FY26E BVPS.**

Modest advance growth ; deposits lag

Bank's total business grew by 12% YoY to Rs.12.22 lakh cr, with deposits growing at 11% YoY to Rs.6.88 lakh cr and advances at 13% YoY to Rs.5.34 lakh cr during Q4FY24. Advance growth was supported by 14% YoY growth in RAM, while corporate book which constitutes 37.8% of the book, grew by 10%. As of Q4FY24, total RAM advances stood at 62.2% of gross domestic advances. CASA deposit showcased a dismal growth of 8% YoY, with the savings account growing at 7% and the current account at 9%. The CASA ratio of the bank came up to 42.3%, compared to 41.1% last quarter due to sequential increase in the CASA book. We expect advances to grow at 15% CAGR over FY25-26E, while deposits are estimated to grow at 13% during the same period.

Consistently improving ROA

Indian Bank displayed strong business momentum during Q4FY24, with Net Interest Income (NII) growing at 9.2%YoY as interest income grew by 19.4% YoY while interest expenses grew by 28%YoY. NIM stood almost flat sequentially with a 3bps growth to 3.52% as yield on advances expanded by 3bps to 8.81% while cost of funds grew by 4bps to 5.13%. The cost-to-Income ratio of the bank stood at 48% during Q4 compared to 46.9% during Q3 and 46.5% in Q4FY23. The provision for the quarter stood at Rs.1,248cr compared to Rs.2,563cr in Q4FY23. The bank reported PAT of Rs.2,247cr registering a growth of 55% YoY. We expect the bank to maintain the ROA above 1% during FY25-26.

Improving asset quality with controlled slippages

The NPA levels have shown improvement, as GNPA stands at 3.95% compared to 4.47% in the previous quarter. NNPA has been significantly reduced and currently stands at 0.43%, down from 0.53% in Q3. The slippage ratio of the bank has improved, declining to 1.1% from 1.3% in Q3. This continuous improvement is expected to further reduce credit costs.

Outlook and valuation

The bank's impressive progress in enhancing asset quality and other business metrics, including margins, is expected to continue in the near future. Therefore, we assign BUY rating with a target price of Rs.619, based on 1.1x FY26 BVPS.

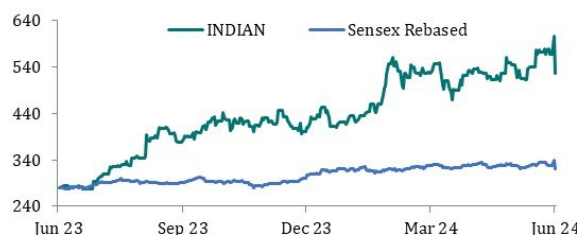
Company Data

Market Cap (Rs cr)	72,487
Outstanding Shares (cr)	135
Free Float (%)	26
Dividend Yield(%)	2.3
52 week high (Rs)	626
52 week low (Rs)	276
6m average volume (cr)	0.31
Beta	1.2
Face value (Rs)	10

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	79.9	73.8	73.8
FII's	4.3	5.9	5.3
MFs/Institutions	11.8	15.9	17.0
Public	4.0	4.4	3.9
Total	100	100	100
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2.4%	21.7%	88.5%
Absolute Sensex	-2.7%	3.7%	14.8%
Relative Return*	0.3%	18.0%	73.7%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
NII	23,273	26,923	32,200
Growth(%)	15.1	15.7	19.6
NIM(%)	3.3	3.3	3.5
Provisions	5,888	6,673	8,323
Adj. PAT	8,063	9,549	11,093
Growth(%)	52.7	18.4	16.2
Adj. EPS	63.2	70.9	82.4
Growth(%)	49.1	12.1	16.2
P/E	8.60	7.26	6.25
BVPS	433.5	492.4	560.7
Growth(%)	12.5	13.6	13.9
Adj.BVPS	417.0	471.7	539.6
Growth(%)	18.2	13.1	14.4
P/B	1.19	1.05	0.92
ROA(%)	1.07	1.13	1.17
ROE(%)	15.16	15.31	15.64

Quarterly Financials (Standalone)

(Rs cr)	Q4FY24	Q3FY24	QoQ Growth (%)	Q4FY23	YoY Growth (%)	FY24	FY23	YoY Growth (%)
Interest Income	14,624	14,198	3.0	12,244	19.4	55,615	44,942	23.7
Interest Expense	8,609	8,383	2.7	6,736	27.8	32,341	24,717	30.8
Net Interest Income (NII)	6,015	5,814	3.5	5,508	9.2	23,273	20,225	15.1
Fee and Other Income	2,263	1,902	19.0	1,994	13.5	7,867	7,143	10.1
Total Income	8,278	7,716	7.3	7,502	10.3	31,140	27,369	13.8
Expenditure	3,973	3,619	9.8	3,487	13.9	14,300	12,098	18.2
Pre-Provision Profit	4,305	4,097	5.1	4,016	7.2	16,840	15,271	10.3
Provision	1,248	1,349	-7.5	2,563	-51.3	5,888	9,356	-37.1
PBT	3,057	2,748	11.3	1,453	110.5	10,951	5,914	85.2
Tax	810	628	28.9	5	15216.3	2,888	633	-99.2
Reported PAT	2,247	2,119	6.0	1,447	55.3	8,063	5,282	52.7
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	2,247	2,119	6.0	1,447	55.3	8,063	5,282	52.7
Diluted EPS (Rs)	16.7	16.8	-0.6	11.6	43.5	63.2	42.4	49.1

Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change(%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	24,962	-	26,923	32,200	7.9	-
Net Interest Margin (%)	3.2	-	3.3	3.5	0.1bps	-
Pre-Provision Profit	18,948	-	19,405	23,115	2.4	-
Adj. PAT	8,054	-	9,549	11,093	18.6	-
Diluted EPS (Rs)	64.7	-	70.9	82.4	9.6	-

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	38,856	44,942	55,615	62,594	69,671
Interest Expense	22,128	24,717	32,341	35,671	37,470
Net Int. Income	16,728	20,225	23,273	26,923	32,200
Change(%)	6.8	20.9	15.1	15.7	19.6
Non Int. Income	6,915	7,143	7,867	8,496	9,091
Operating Income	23,643	27,369	31,140	35,419	41,291
Change(%)	10.9	15.8	13.8	13.7	16.6
Operating Exp.	10,926	12,098	14,300	16,014	18,176
Pre Prov. Profit	12,717	15,271	16,840	19,405	23,115
Prov. & Conting.	9,513	9,356	5,888	6,673	8,323
PBT	3,204	5,914	10,951	12,732	14,791
Change(%)	10.3	84.6	85.2	16.3	16.2
Tax	-741	633	2,888	3,183	3,698
Tax Rate(%)	-23.1	10.7	26.4	25.0	25.0
Reported PAT	3,945	5,282	8,063	9,549	11,093
Adj*	-	-	-	-	-
Adj. PAT	3,945	5,282	8,063	9,549	11,093
Change(%)	31.3	33.9	52.7	18.4	16.2
No. of shares (mn)	125	125	135	135	135
EPS (Rs)	31.7	42.4	63.2	70.9	82.4
Change(%)	19.1	33.9	49.1	12.1	16.2
DPS (Rs)	2.0	6.5	8.6	12.0	14.0

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	58,555	32,693	32,703	51,235	59,711
Loans & Advances	389,186	449,297	514,889	597,271	692,835
Investments	174,559	185,988	212,554	218,931	232,067
Gross Fixed Assets	11,486	12,319	13,662	14,162	14,662
Net Fixed Assets	7,684	7,459	7,515	7,389	7,240
Other Assets	20,324	17,624	15,551	17,609	19,792
Total Assets	671,668	710,501	792,619	892,435	1,011,646
Deposits	593,618	621,166	688,000	774,000	878,490
Debt Funds	17,144	22,073	23,131	24,288	25,503
Other Liabilities & Provision	17,197	19,289	23,100	27,826	32,125
Equity Capital	1,245	1,245	1,347	1,347	1,347
Reserves & Surplus	42,463	46,727	57,041	64,974	74,181
Shareholder's Funds	43,709	47,973	58,388	66,321	75,528
Total Liabilities	671,668	710,501	792,619	892,435	1,011,646
BVPS (Rs)	351	385	433	492	561
Change(%)	3.2	9.8	12.5	13.6	13.9
Adj. BVPS (Rs)	280	353	417	472	540
Change(%)	20.9	26.0	18.2	13.1	14.4

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
Interest yield (%)	6.5	6.7	7.3	7.8	7.7
Cost of funds (%)	3.8	4.1	4.5	4.7	4.4
Spread.(%)	2.6	2.6	2.8	3.0	3.3
NIM (%)	2.6	2.9	3.3	3.3	3.5
ROE (%)	9.6	11.5	15.2	15.3	15.6
ROA(%)	0.6	0.8	1.1	1.1	1.2
Business Growth (yoy)					
Loans & Advances (%)	6.5	13.9	12.7	14.6	15.4
Deposits (%)	10.3	4.6	10.8	12.5	13.5
Operating Ratios					
Cost to Income (%)	46.2	44.2	45.9	45.2	44.0
CASA (%)	41.8	42.0	40.8	38.9	40.6
Asset Quality					
GNPA (%)	8.5	6.0	4.0	3.8	3.9
NNPA (%)	2.1	0.9	0.4	0.5	0.5
Capital Adequacy					
CAR (%)	16.5	16.8	16.5	16.3	16.1
Valuation ratios					
P/E (x)	16.6	12.4	8.8	7.4	6.4
P/B (x)	1.5	1.4	1.2	1.1	0.9
Adj. P/B (x)	1.9	1.5	1.3	1.1	1.0

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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