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Resilient quarter amid margin pressure...

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of ₹ 13.97 lakh crore.

- Pan-India presence with strong branch network of 5,955 domestic branches
- Diversified loan mix with RAM (retail/agri/MSME) forming ~66% to book

Q2FY26 performance: Indian Bank posted a healthy performance in Q2FY26 with balanced growth, strong recoveries, and sustained profitability. Advances grew 12.6% YoY (3.2% QoQ) led by RAM segment (5.6% QoQ), while deposits increased 12.1% YoY (4.4% QoQ) with CASA ratio stable at 38.9%. NIM remained resilient at 3.23% (-1 bp QoQ), aided by lower funding cost and stable yields. PAT rose 11.5% YoY (1.5% QoQ) to ₹2,332 crore, supported by healthy other income from PSLC fees, treasury gains, and interest on IT refund. Asset quality improved further with GNPA/NNPA improving to 2.60%/0.16% (down 41 bps/2 bps QoQ), Slippages ratio declined to 0.79% (vs. 0.94%), and PCR at 98.3%, while credit cost eased to 0.26%.

Investment Rationale:

- **Steady credit growth with calibrated deposit strategy:** Management maintained its FY26 guidance of 10–12% credit growth and 8–10% deposit growth, supported by robust traction in RAM segments and a strong sanctions pipeline. MSME demand continues to recover, aided by improvement in textiles, PLI-related activity, and emerging capex demand in renewables and gas distribution. Deposit mobilisation is expected to gain traction through CASA-led initiatives, expansion of branch network, and digital account acquisition, while the CD ratio below 80% provides sufficient balance sheet leverage for growth. Expect credit growth to remain steady at 11–12% in FY26–27%.
- **Margins and asset quality remain resilient:** NIM remained resilient at 3.23% (-1 bp QoQ), aided by lower funding cost and stable yields. Further, NIM is guided to stay within the 3.15–3.30% range as deposit repricing benefits accrue in H2FY26. Management expects margin compression to moderate, supported by easing bulk deposit rates, repricing of retail term deposits, and stability in lending yields. Asset quality trends remain strong, with management revising GNPA guidance downward from below 3% to below 2%, driven by better recoveries and contained slippages. Additional provisioning of ₹400 crore, created towards SMA-1 accounts for ECL transition underscores prudence, while overall ECL impact is expected to be limited and absorbed within a year. Credit cost is guided to remain within 50–70 bps, with recoveries likely to exceed slippages through FY26.

Rating and Target Price

- Steady performance marked by consistent growth, resilient margins, and improving asset quality provides confidence. Management's focus on RAM-led growth, deposit mobilisation and guidance to keep margins in 3.15–3.30% range provides further comfort. Factoring RoA of ~1.3x, we value the stock at 1.4x FY27E BV revising target price to ₹900 (from ₹740).

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22–25)	FY26E	FY27E	2 year CAGR (FY25–27E)
NII	20,225	23,273	25,176	14.6%	26,155	29,210	7.7%
PPP	15,271	16,840	18,998	14.3%	19,270	21,007	5.2%
PAT	5,282	8,063	10,918	40.4%	12,068	13,019	9.2%
ABV (₹)	304	373	453		574	651	
P/E	13.0	9.2	6.8		6.1	5.7	
P/ABV	1.8	1.5	1.2		1.0	0.8	
RoA	0.8	1.1	1.3		1.3	1.3	
RoE	14.7	15.2	17.1		15.7	14.4	

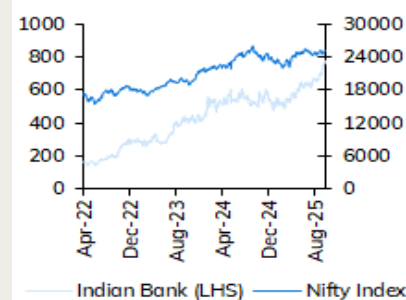
Source: Company, ICICI Direct Research

**Particulars**

Particulars	Amount
Market Capitalisation	₹ 1,05,171 crore
52 week H/L	806 / 474
Net worth	₹ 76,887 Crore
Face Value	10.0
DII Holding (%)	18.6
FII Holding (%)	4.7

Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	73.8	73.8	73.8	73.8
FII	4.8	4.7	4.5	4.7
DII	17.6	17.7	18.0	18.6
Others	3.8	3.8	3.7	2.9

Price Chart**Key risks**

- Higher slippages and slower recoveries could dent asset quality
- Further rate cut could pressure margins

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Concall highlights and outlook

Performance and growth outlook

- Advances grew 12.6% YoY (3.2% QoQ), led by RAM segments (15% YoY) while, corporate lending remained selective.
- Deposits rose 12.2% YoY (4.4% QoQ) with CASA ratio stable at 38.9%; CD ratio below 80%,
- Management expects to remain at the upper end of 10–12% loan growth guidance, supported by strong RAM traction and ₹88,000 crore sanctions pipeline.
- MSME credit momentum improving, aided by textile and PLI-led demand; selective revival in capex-related sectors such as renewables, city gas, and solar modules.
- Deposit growth guided at 8–10% aided by CASA mobilisation and 44 new branches in Q2, with another 119 branches planned for FY26 in high-growth regions.
- Other income benefited from PSLC fees (~₹340 crore) and treasury profits (~₹221 crore).
- Treasury book saw limited MTM losses (~₹87 crore), largely from a single account.

Margins

- Yield on advances declined 18 bps QoQ; cost of deposits also eased by 13 bps sequentially.
- NIM stood at 3.23% (flat QoQ), remaining within guidance of 3.15–3.30%; management expects margins to bottom-out in Q3FY26.
- Deposit repricing benefits expected from Q3 as bulk and retail deposit rates are cut to ease funding cost.
- Around 40% of MCLR-linked loans and 22% of term deposits are due for repricing in Q3FY26; this will exert mild NIM pressure.

Asset Quality

- Management revised GNPA guidance downward from <3% to <2%, citing strong recoveries and limited stress accretion.
- ₹400 crore provision created towards SMA-1 accounts as part of ECL transition; overall impact seen as limited and absorbable within FY26.
- Credit cost guided at 50–70 bps for FY26; recoveries from NCLT and written-off accounts remain robust, with ₹1,641 crore recovered in Q2 and full-year guidance maintained at ₹5,500–6,500 crore.
- ECL impact manageable; management confident of completing provisioning in one year instead of the allowed five-year glide path.
- Slippages ratio declined to 0.79% (vs. 0.94% in Q1), and PCR at 98.3%, while credit cost eased to 0.26%

Other updates

- Expected minor capital benefit (5–10 bps) from revised risk weights; reaffirmed CAR at 17.3% (CET-1: 14.8%).
- Continued strong traction in digital adoption:
 - 94% of total transactions are digital (up from 92% in Q1).
 - UPI transactions >3 crore/day; user base grew 24% QoQ.
 - Mobile banking users up 17% QoQ; app rating maintained at 4.4.
- Digital MSME app gaining traction with ~5,500 users and ₹640 crore transactions in Q2.
- Introduced Virtual Banking Experience (VBX) platform with lifestyle-linked debit cards and partnerships with Mastercard & RuPay.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	6,551.0	6,194.2	5.8	6,358.9	3.0	Steady credit momentum and improved liability mix offset margin pressure
NIM (%)	3.23	3.49	-26 bps	3.23	0 bps	Proactive repricing in deposits eased pressure on NIMs
Other Income	2,486.6	2,422.1	2.7	2,438.6	2.0	Higher PSLC fee income, treasury gains and interest on income-tax refund aided other income
Net Total Income	9,037.6	8,616.3	4.9	8,797.5	2.7	
Staff cost	2,651.2	2,464.4	7.6	2,612.3	1.5	
Other Operating Expenses	1,549.9	1,423.4	8.9	1,414.9	9.5	Elevated technology spend, branch expansion, and marketing expenses
PPP	4,836.5	4,728.5	2.3	4,770.3	1.4	
Provision	738.6	1,099.2	-32.8	691.0	6.9	Aided by improved recoveries, lower incremental slippages. Includes ₹400 crore for SMA 1
PBT	4,097.9	3,629.4	12.9	4,079.3	0.5	
Tax Outgo	1,079.7	922.9	17.0	1,106.5	-2.4	
PAT	3,018.2	2,706.4	11.5	2,972.8	1.5	PAT grew on lower provisioning and other income
Key Metrics						
GNPA	16,134.7	19,148.0	-15.7	18,067.0	-10.7	GNPA guidance revised to <2%
NNPA	983.0	1,445.3	-32.0	1,036.0	-5.1	
Advances	620,324.0	550,644.0	12.7	601,147.0	3.2	Credit growth guidance steady at 10-12% YoY
Deposits	776,946.0	693,115.0	12.1	744,289.0	4.4	Deposits guidance at 8-10% YoY

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	55,614.8	62,002.2	65,852.9	71,479.9
Interest Expended	32,341.5	36,825.8	39,698.2	42,269.5
Net Interest Income	23,273.3	25,176.4	26,154.8	29,210.3
growth (%)	15.1	8.2	3.9	11.7
Non Interest Income	7,866.7	9,223.5	9,956.9	10,406.5
Fees and advisory	1,018.3	1,066.5	1,141.1	1,221.0
Treasury Income	1,307.8	1,045.5	1,150.1	920.1
Other income	5,540.6	7,111.5	7,665.7	8,265.5
Net Income	31,140.0	34,399.9	36,111.7	39,616.8
Staff cost	9,264.6	9,884.0	10,662.6	11,979.5
Other Operating expense	5,035.9	5,517.7	6,179.1	6,630.9
Operating profit	16,839.5	18,998.2	19,270.0	21,006.5
Provisions	5,888.4	4,211.3	3,390.9	3,876.5
PBT	10,951.1	14,786.9	15,879.0	17,130.1
Taxes	2,888.2	3,868.7	3,811.0	4,111.2
Net Profit	8,062.9	10,918.3	12,068.1	13,018.8
growth (%)	52.7	35.4	10.5	7.9
EPS (₹)	59.9	81.1	89.6	96.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares (Crore)	134.7	134.7	134.7	134.7
EPS (₹)	59.9	81.1	89.6	96.7
BV (₹)	389.1	461.1	576.5	662.1
ABV (₹)	372.6	452.9	574.0	650.6
P/E	9.2	6.8	6.1	5.7
P/BV	1.4	1.2	1.0	0.8
P/ABV	1.5	1.2	1.0	0.8
Yields & Margins (%)				
Net Interest Margins	3.3	3.2	3.0	3.1
Yield on assets	8.0	8.0	7.6	7.5
Avg. cost on funds	4.6	4.8	4.7	4.6
Yield on avg advances	8.4	8.3	8.0	7.8
Avg. Cost of Deposits	4.7	4.9	4.8	4.7
Quality and Efficiency (%)				
Cost to income ratio	45.9	44.8	46.6	47.0
Credit/Deposit ratio	74.8	77.5	78.5	79.8
GNPA	4.1	3.2	2.2	1.8
NNPA	0.4	0.2	0.1	0.2
RoE	15.2	17.1	15.7	14.4
RoA	1.1	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	1,347.0	1,347.0	1,347.0	1,347.0
Reserves and Surplus	57,041.1	67,963.0	83,511.8	95,041.1
Networth	58,388.1	69,309.9	84,858.8	96,388.0
Deposits	688,000.0	737,153.6	807,157.5	889,387.2
Borrowings	23,131.5	41,507.9	35,960.3	38,133.0
Subordinated Debt				
Other Liabilities & Provision:	23,099.5	25,439.2	28,687.7	29,835.3
Total	792,619.1	873,410.6	956,664.3	1,053,743.5
Applications of Funds				
Fixed Assets	7,515.6	8,826.7	9,036.0	9,271.3
Investments	212,554.5	225,303.1	242,152.6	260,323.6
Advances	514,889.1	571,071.2	633,633.3	709,576.0
Other Assets	15,550.8	13,341.8	16,056.4	14,680.4
Cash with RBI & call money	42,109.1	54,867.9	55,786.0	59,892.3
Total	792,619.1	873,410.6	956,664.3	1,053,743.5

Source: Company, ICICI Direct Research

Exhibit 5: Growth

(%)

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	11.6	10.2	9.5	10.1
Advances	14.6	10.9	11.0	12.0
Deposit	10.8	7.1	9.5	10.2
Total Income	13.8	10.5	5.0	9.7
Net interest income	15.1	8.2	3.9	11.7
Operating expenses	18.2	7.7	9.3	10.5
Operating profit	10.3	12.8	1.4	9.0
Net profit	52.7	35.4	10.5	7.9
Net worth	21.7	18.7	22.4	13.6
EPS	41.2	35.4	10.5	7.9

Source: Company, ICICI Direct Research

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Buy: >15%

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Sell: <-15%



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