

Steady quarter with balance-sheet optimization underway...

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of ₹ 14.3 lakh crore.

- Diversified loan mix with RAM (retail/agri/MSME) forming ~66% of book

Q3FY26 performance: Indian Bank delivered a steady operating performance. Gross advances grew 14.2% YoY (3.3% QoQ) to ₹6.39 lakh crore, led by sustained traction in RAM portfolio, while deposits rose 12.6% YoY (2% QoQ) to ₹7.91 lakh crore, with CASA ratio at 39.1%. NIM improved 5 bps QoQ to 3.28%, aided by deposit repricing, improving yield dynamics and CRR benefit. Opex rose 18% YoY, largely driven by higher insurance cost (DICGC premium). Provisions increased to ₹1,963 crore (up 8% QoQ), primarily due to higher precautionary buffers, led by an increase in SMA-1 provisioning from 5% to 10% (₹380 crore), partly offset by benign slippages and steady recoveries. PAT stood at ₹3,061 crore, up 7.3% YoY.

Investment Rationale:

- Growth visibility intact, deposit remains a key monitorable:** Management continues to target RAM: Corporate mix of ~65:35, which it views as optimal and intends to maintain in FY26–27E, with growth opportunities anchored in green finance (EV, solar), logistics, warehousing and select manufacturing segments. Loan growth guidance has been reiterated at 10–12%, with management preferring calibrated expansion over aggressive growth to avoid future asset quality risk, supported by sustained RAM traction and ₹50,000 crore corporate sanctions pipeline. On the liabilities side, bulk deposits form ~18% of total deposits, with management aiming to prevent any further increase in this share; however, incremental bulk deposit rates of ~6.7–6.8% could exert some pressure on margins. Management also acknowledged system-wide deposit tightness, particularly in CASA (39% Q3FY26), which is viewed as a structural shift in saver behaviour, with CASA expected to remain broadly stable with continued elevated competitive intensity.
- Margins and asset quality well cushioned; prudence ahead of ECL:** Margins are expected to remain broadly stable at 3.15–3.30% range, supported by asset repricing, CRR-related benefits and calibrated deposit repricing, although higher funding cost could limit near-term upside. Asset quality trend remains benign, with GNPA/NNPA at cyclical lows (2.23%/0.15%), supported by controlled slippages at 0.69% (down 10 bps) and healthy recoveries. The bank's conservative stance—evident in higher SMA provisioning (~₹380 crore)—strengthens balance sheet resilience ahead of ECL implementation, which management aims to absorb within a year. Credit cost is expected to remain contained, while ongoing investment in digital capabilities and process automation should support operating efficiency over the medium term.

Rating and Target Price

- Operating performance remains steady, with stable margins and strong asset quality providing earnings visibility. However, given the recent run-up in the stock, a more challenging liabilities environment and management's conservative approach toward ECL-related provisioning—which may keep near-term earnings volatile, we change our rating from Buy to Hold.
- Rolling over to FY28E, and factoring RoA of ~1.4x, we assign multiple of ~1.2x FY28E BV revising target price to ₹950 (from ₹900).

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	20,225	23,273	25,176	14.6%	26,824	31,030	35,299	11.9%
PPP	15,271	16,840	18,998	14.3%	19,865	22,743	25,582	10.4%
PAT	5,282	8,063	10,918	40.4%	12,366	13,875	15,723	12.9%
ABV (₹)	304	373	453		576	661	761	
P/E	13.0	9.2	6.8		6.0	5.3	4.7	
P/ABV	1.8	1.5	1.2		1.0	0.8	0.7	
RoA	0.8	1.1	1.3		1.3	1.3	1.4	
RoE	14.7	15.2	17.1		16.0	15.1	14.9	

Source: Company, ICICI Direct Research



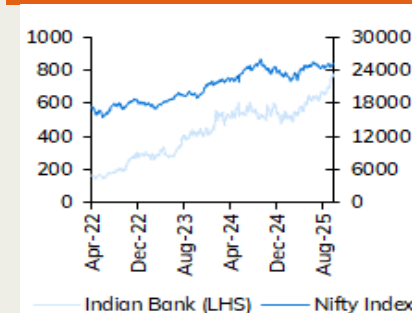
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,18,055 crore
52 week H/L	909 / 478
Net worth	₹ 79,918 Crore
Face Value	10.0
DII Holding (%)	17.8
FII Holding (%)	5.6

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	73.8	73.8	73.8	73.8
FII	4.7	4.5	4.7	5.6
DII	17.7	18.0	18.6	18.6
Others	3.8	3.7	2.9	2.9

Price Chart



Key risks

- Higher slippages and slower recoveries could dent asset quality
- Slower than anticipated pressure on cost of funds

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Concall highlights and outlook

Performance and growth outlook

- Advances grew 14.2% YoY (3.2% QoQ), led by RAM segments (16.7% YoY).
- Deposits rose 12.6% YoY (2% QoQ) while CASA balances grew 9.9% YoY to ₹2.96 lakh and CASA ratio stable at 39.1%; CD ratio at 80.8%.
- Management expects to remain at 10–12% loan growth guidance, rather than aggressive expansion, to avoid future asset quality risks, supported by strong RAM traction and ₹50,000 crore corporate sanctions pipeline.
- RAM:Corporate mix targeted at ~65:35, which management views as optimal and to be continued going into FY26-27.
- Growth opportunities highlighted in green finance (EV, solar), logistics, warehousing and select manufacturing segments.
- Bulk deposits constitute ~18% of total deposits; management aims to prevent further increase in this share. Incremental bulk deposit rates have risen to ~6.7–6.8%, which could exert some pressure on margins going forward.
- Management acknowledged system-wide deposit tightness, particularly in CASA, which is seen as a structural shift in saver behaviour.
- CASA is expected to be broadly stable to marginally declining, rather than expanding meaningfully.

ECL Readiness & Provisioning Strategy

- Management confirmed that the bank has internally assessed ECL requirements under multiple scenarios, but refrained from disclosing absolute numbers given that final RBI guidelines are awaited.
- Stated intent is not to stretch ECL transition over five years; instead, management aims to absorb the impact within ~1 year, preferably in a phased, quarterly manner.
- Incremental provisions will continue to be created proactively so that ECL transition impact is minimised at the time of implementation.

Margins

- Near-term margin pressures may arise due to:
 - Repo rate cut transmission
 - Repricing of MCLR-linked loans (~37% in Q4)
 - These pressures are expected to be partly offset by deposit repricing (~18% in Q4).
- Management expects RoA to remain ~1.3% in the near term, with marginal quarterly volatility.
- Bank executed ₹7,000 crore, IBPC sales during the quarter, helped save interest cost (~₹140 crore equivalent), supporting margins.

Asset Quality

- Sequential spike in SMA-2 was attributed largely to two PSU-linked accounts (~₹3,000 crore) backed by state government guarantees, which oscillate between SMA buckets.
- Excluding these accounts, underlying SMA trends remain benign.
- Total SMA book stood at ~₹31,488 crore, comprising:
 - SMA-0: ~₹12,000 crore
 - SMA-1: ~₹8,000 crore
 - SMA-2: ~₹11,000 crore
- Provisioning on SMA-1 increased from 5% to 10%, resulting in ~₹380 crore additional provisions during the quarter.
- Management reiterated confidence in maintaining GNPA below 2% and NNPA near current levels, barring typical March-quarter audit-related slippages.

Other updates

- DICGC premium increased by ~₹128 crore, of which ₹82 crore related to past periods; incremental run-rate impact expected at ~₹60 crore annually.

- Employee cost increase was driven by AS-15 actuarial valuation, with ~₹102 crore sequential rise.
- Labour code impact was quantified as immaterial (~₹56 lakh) for the quarter.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	6,895.6	6,414.7	7.5	6,551.0	5.3	Steady business expansion aids NII
NIM (%)	3.28	3.57	-29 bps	3.23	5 bps	Marginal expansion in NIMs aided by repricing in deposits
Other Income	2,565.7	2,152.6	19.2	2,486.6	3.2	Higher treasury gains aided other income
Net Total Income	9,461.3	8,567.3	10.4	9,037.6	4.7	
Staff cost	2,785.2	2,417.1	15.2	2,651.2	5.1	
Other Operating Expenses	1,652.5	1,400.7	18.0	1,549.9	6.6	Higher on account of insurance cost
PPP	5,023.6	4,749.4	5.8	4,836.5	3.9	
Provision	857.0	1,059.1	-19.1	738.6	16.0	Provisioning on SMA-1 increased from 5% to 10%, resulting in ~₹380 crore additional provisions
PBT	4,166.6	3,690.3	12.9	4,097.9	1.7	
Tax Outgo	1,105.1	837.9	31.9	1,079.7	2.4	
PAT	3,061.5	2,852.4	7.3	3,018.2	1.4	PAT grew on lower provisioning and other income
Key Metrics						
GNPA	14,268.4	18,208.4	-21.6	16,134.7	-11.6	GNPA down by 37 bps QoQ
NNPA	967.6	1,126.9	-14.1	983.0	-1.6	
Advances	638,848.0	559,199.0	14.2	620,324.0	3.0	Credit growth guidance steady at 10-12% YoY
Deposits	790,923.0	702,282.0	12.6	776,946.0	1.8	CASA maintained at 39.1% levels

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	62,002.2	67,271.3	75,109.7	83,158.0
Interest Expended	36,825.8	40,447.3	44,080.1	47,859.0
Net Interest Income	25,176.4	26,824.1	31,029.5	35,299.1
growth (%)	8.2	6.5	15.7	13.8
Non Interest Income	9,223.5	10,091.2	10,551.6	11,111.8
Fees and advisory	1,066.5	1,141.1	1,221.0	1,306.5
Treasury Income	1,045.5	1,150.1	920.1	736.1
Other income	7,111.5	7,800.0	8,410.5	9,069.3
Net Income	34,399.9	36,915.2	41,581.1	46,410.9
Staff cost	9,884.0	10,760.5	12,089.4	13,582.4
Other Operating expense	5,517.7	6,289.6	6,749.1	7,246.3
Operating profit	18,998.2	19,865.2	22,742.6	25,582.2
Provisions	4,211.3	3,117.6	3,951.0	4,287.6
PBT	14,786.9	16,747.6	18,791.6	21,294.6
Taxes	3,868.7	4,381.6	4,916.4	5,571.2
Net Profit	10,918.3	12,366.0	13,875.2	15,723.3
growth (%)	35.4	13.3	12.2	13.3
EPS (₹)	81.1	91.8	103.0	116.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of Equity Shares	134.7	134.7	134.7	134.7
EPS (₹)	81.1	91.8	103.0	116.7
BV (₹)	461.1	580.3	675.2	785.5
ABV (₹)	452.9	575.5	661.1	761.1
P/E	6.8	6.0	5.3	4.7
P/BV	1.2	0.9	0.8	0.7
P/ABV	1.2	1.0	0.8	0.7
Yields & Margins (%)				
Net Interest Margins	3.2	3.1	3.2	3.3
Yield on assets	8.0	7.7	7.7	7.7
Avg. cost on funds	4.8	4.7	4.6	4.5
Yield on avg advanc	8.3	8.1	8.1	8.1
Avg. Cost of Deposit	4.9	4.8	4.7	4.6
Quality and Efficiency (%)				
Cost to income ratio	44.8	46.2	45.3	44.9
Credit/Deposit ratio	77.5	79.5	80.8	81.6
GNPA	3.2	2.1	1.8	1.5
NNPA	0.2	0.1	0.3	0.4
RoE	17.1	16.0	15.1	14.9
RoA	1.3	1.3	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	1,347.0	1,347.0	1,347.0	1,347.0
Reserves and Surplus	67,963.0	84,018.2	96,794.8	111,656.7
Networth	69,309.9	85,365.2	98,141.8	113,003.7
Deposits	737,153.6	818,448.3	906,630.9	1,004,967.4
Borrowings	41,507.9	48,691.1	55,319.6	60,701.2
Subordinated Debt				
Other Liabilities & Provision:	25,439.2	28,687.7	29,835.3	31,039.7
Total	873,410.6	981,192.4	1,089,927.5	1,209,712.1
Applications of Funds				
Fixed Assets	8,826.7	9,036.0	9,271.3	9,535.1
Investments	225,303.1	242,152.6	260,323.6	279,921.2
Advances	571,071.2	651,021.2	732,156.3	819,908.6
Other Assets	13,341.8	23,196.6	28,284.1	36,011.6
Cash with RBI & call money	54,867.9	55,786.0	59,892.3	64,335.5
Total	873,410.6	981,192.4	1,089,927.5	1,209,712.1

Source: Company, ICICI Direct Research

Exhibit 5: Growth

(%)

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	10.2	12.3	11.1	11.0
Advances	10.9	14.0	12.5	12.0
Deposit	7.1	11.0	10.8	10.8
Total Income	10.5	7.3	12.6	11.6
Net interest income	8.2	6.5	15.7	13.8
Operating expenses	7.7	10.7	10.5	10.6
Operating profit	12.8	4.6	14.5	12.5
Net profit	35.4	13.3	12.2	13.3
Net worth	18.7	23.2	15.0	15.1
EPS	35.4	13.3	12.2	13.3

Source: Company, ICICI Direct Research

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