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Smooth ECL related absorption to aid steady RoA for FY27...

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of ₹ 14.9 lakh crore.

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

Q4FY26 performance: Indian Bank reported steady Q4FY26 performance, with advances growing 13.4% YoY (4.4% QoQ) to ₹6.67 lakh crore, driven by continued traction in RAM segments (15.2% YoY), particularly retail (18.7%) and MSME (16.4%), while corporate growth remained moderate at 9.2%. Deposits grew 12.3% YoY (4.6% QoQ) to ₹8.28 lakh crore, with CASA ratio broadly stable at ~39.7% (+60 bps QoQ). NII rose 11.3% YoY (3.1% QoQ) to ₹7,109 crore, while NIM moderated to 3.23% (-5 bps QoQ) amid high bulk deposit rates. Other income remained subdued due to treasury impact, while opex was controlled, leading to stable operating performance. The bank created an incremental provisioning buffer of ~₹500 crore on standard assets, including ₹310 crore linked to geopolitical risks, with PAT at ₹3,103 crore (1.4% QoQ). Asset quality improved further with GNPA/NNPA at 1.98%/0.15% and credit cost at 47 bps, reflecting benign stress trends.

Investment Rationale:

- Growth visibility intact, deposit remains a key monitorable:** Loan growth lagged system trends, reflecting a cautious stance with management prioritising asset quality and margins over aggressive expansion, despite steady RAM traction (~15.2% YoY) and visible corporate pipeline (~51000 crore) across sectors such as green finance, datacentres, logistics and infrastructure. Incremental growth is expected to moderate further due to high base in jewel loans grown by ~91% YoY (~16-17% of the book), with guidance maintained at 11-13% credit growth. On the liability side, conditions remain challenging, with bulk deposits (~18-19% of total deposits) rates elevated, constraining funding cost flexibility offset by CASA accretion (CASA ratio up ~60 QoQ). Accordingly, deposit growth guidance of 9-11% reflects a cautious outlook, with the liability franchise remaining a key monitorable.
- Margins to remain range bound, asset quality remains strong:** Margins are likely to remain under pressure, with management guiding NIM at 3.10-3.25%, as elevated funding cost and higher reliance on bulk deposits limit upside, while limited repricing levers on the asset side further constrain expansion. While CASA stability and calibrated mix may provide some support, near-term margin trajectory is expected to remain range-bound. Asset quality trends, however, remain a key positive, with GNPA guided at 1.50-1.60%, credit cost and slippages below 1%, supported by improving SMA trends and steady recoveries. The bank's conservative stance, including additional standard asset provisioning and preparedness for ECL transition, may keep near-term earnings volatile but enhances balance sheet resilience.

Rating and Target Price

- Core operating performance remains steady, with improved asset quality and adequate capital buffers supporting balance sheet resilience. However, a tight liability environment is likely to keep margins range-bound, while the bank's conservative stance toward ECL-related provisioning could lead to near-term earnings volatility.
- Factoring RoA of ~1.3x, we continue to assign multiple of ~1.25x FY28E BV, revising our target price to ₹980 (earlier ₹950). Upgrade to Buy.



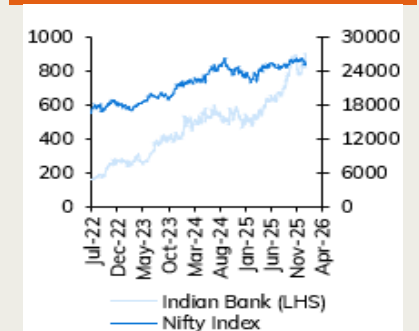
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,13,845 crore
52 week H/L	1,001 / 540
Net worth	₹ 80,043 Crore
Face Value	10.0
DII Holding (%)	17.8
FII Holding (%)	5.8

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	73.8	73.8	73.8	73.8
FII	4.5	4.7	5.6	5.8
DII	18.0	18.6	17.8	17.8
Others	3.7	2.9	2.7	2.6

Price Chart



Key risks

- (i) Earnings volatility led by ECL transition
- (ii) Slower than expected pressure on CoF

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Key Financial Summary

₹ crore	FY24	FY25	FY26	3 year CAGR (FY23-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	23,273	25,176	26,915	10.0%	30,482	34,630	13.4%
PPP	16,840	18,998	19,916	9.3%	22,343	25,235	12.6%
PAT	8,063	10,918	12,156	32.0%	13,472	15,043	11.2%
ABV (₹)	373	453	571		658	758	
P/E	9.2	6.8	9.4		5.5	4.9	
P/ABV	1.5	1.2	1.5		0.8	0.7	
RoA	1.1	1.3	1.3		1.3	1.3	
RoE	15.2	17.1	16.5		14.7	14.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Growth remained RAM-led (15.3% YoY), while corporate growth improved to 9.2% YoY. Retail (+18.7% YoY), MSME (+16.4% YoY) and gold loans (+28% YoY) were key drivers.
- Sanctions remained strong at ₹4.26 lakh crore (+62% YoY), with a corporate pipeline of ~₹51,000 crore, providing visibility for FY27.
- Management reiterated a calibrated growth approach, guiding for advances growth of 11–13% and preferring slightly lower growth than industry to preserve asset quality, margins and partly reflects high base in gold loans (~16–17% of book), where incremental growth may moderate.
- Deposit environment remains tight, with limited scope to reduce retail deposit rates, and bulk deposit rates remain elevated at ~6.7–6.8%.
- Bulk deposits remain ~18–19% of total, with management aiming to keep this below 20%.
- Strong demand observed in:
 - Green finance (EV, solar, transmission)
 - Data centres
 - Infrastructure (including expected revival in roads)

Margins

- NIMs moderated to 3.23% (–5 bps QoQ) amid high bulk deposit rates.
- For FY27, management expects moderate pressure on margins, guiding NIM at 3.10–3.25%, as deposit costs to remain elevated amid system-wide tight liquidity.
- Asset-side repricing levers are limited, given ~50% of loans linked to EBLR, while MCLR-linked loans provide partial flexibility.
- Strategy to support margins includes:
 - Focus on CASA stability (~40%)
 - Increasing share of mid-corporate lending (₹50–500 crore segment) for better pricing

Asset Quality

- Slippages in Q4FY26 remain higher at ₹1,355 crore (vs ₹997 crore in Q3FY26) was largely attributed to March-quarter audit-related MOC (~₹400–500 crore), which is a recurring seasonal phenomenon.
- Additional ₹310 crore standard asset provisioning was undertaken as a precaution for geopolitical risks; overall ~₹500 crore buffer created during the quarter.
- Management indicated that final ECL guidelines were released recently, and the bank is in the process of recalibrating the impact, bank expects to absorb the ECL impact within ~6–9 months (1–3 quarters), faster than earlier expectation of ~1 year.
- Management expects stable asset quality, guiding:
 - GNPA: 1.50–1.60%
 - NNPA: <0.25%
 - Credit cost: <1%
 - Slippages: <1%
- Recovery guidance has been moderated to ₹4,500–5,500 crore, given a shrinking stressed asset pool.

Other updates

- RoA remained stable at ~1.3%, with FY27 guidance of 1.2–1.3%, despite ECL-related provisioning absorption.
- Average LCR stood at ~127%, with current levels at ~123–124%, comfortably above regulatory requirements.
- Digital business grew 63% YoY to ₹2.72 lakh crore, with ~97% of retail/agri loans sourced digitally.

Exhibit 1: Variance Analysis

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
NII	7,109.5	6,389.3	11.3	6,895.6	3.1	Supported by healthy RAM-led loan growth, partly offset by moderation in yields amid rate transmission
NIM (%)	3.23	3.37	-14 bps	3.28	-5 bps	NIMs moderated (~5 bps QoQ) due to pressure from elevated bulk deposits cushioned by CASA accretion
Other Income	2,499.7	2,743.3	-8.9	2,565.7	-2.6	Largely impacted by weaker treasury performance and lower recoveries
Net Total Income	9,609.2	9,132.6	5.2	9,461.3	1.6	
Staff cost	2,711.7	2,701.3	0.4	2,785.2	-2.6	
Other Operating Expenses	1,611.8	1,412.6	14.1	1,652.5	-2.5	Higher on account of insurance cost
PPP	5,285.7	5,018.7	5.3	5,023.6	5.2	
Provision	1,225.8	794.6	54.3	857.0	43.0	Provisions increased due to creation of additional standard asset buffer ~₹500 crore
PBT	4,060.0	4,224.1	-3.9	4,166.6	-2.6	
Tax Outgo	956.8	1,268.0	-24.5	1,105.1	-13.4	
PAT	3,103.1	2,956.1	5.0	3,061.5	1.4	PAT remained muted with higher provisioning and softer treasury gains
Key Metrics						
GNPA	13,190.0	18,179.0	-27.4	14,268.4	-7.6	GNPA improved by 25 bps QoQ
NNPA	964.9	1,110.0	-13.1	967.6	-0.3	
Advances	667,113.0	588,140.0	13.4	638,848.0	4.4	Credit growth guidance steady at 11-13% YoY
Deposits	827,726.0	737,154.0	12.3	790,923.0	4.7	CASA ratio improved to 39.67% up ~60 bps QoQ

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	62,002.2	67,450.7	74,625.6	82,614.8
Interest Expended	36,825.8	40,535.8	44,143.1	47,984.8
Net Interest Income	25,176.4	26,914.9	30,482.5	34,630.0
growth (%)	8.2	6.9	13.3	13.6
Non Interest Income	9,223.5	9,990.6	10,699.3	11,433.8
Net Income	34,399.9	36,905.5	41,181.8	46,063.8
Staff cost	9,884.0	10,760.3	12,089.4	13,582.4
Other Operating expense	5,517.7	6,229.1	6,749.1	7,246.3
Operating profit	18,998.2	19,916.1	22,343.3	25,235.2
Provisions	4,211.3	3,512.4	4,097.4	4,861.6
PBT	14,786.9	16,403.7	18,245.9	20,373.6
Taxes	3,868.7	4,248.1	4,773.6	5,330.3
Net Profit	10,918.3	12,155.7	13,472.2	15,043.3
growth (%)	35.4	11.3	10.8	11.7
EPS (₹)	81.1	90.2	100.0	111.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares	134.7	134.7	134.7	134.7
EPS (₹)	81.1	90.2	100.0	111.7
BV (₹)	461.1	581.2	670.4	774.3
ABV (₹)	452.9	571.3	658.1	758.3
P/E	6.8	9.4	5.5	4.9
P/BV	1.2	1.5	0.8	0.7
P/ABV	1.2	1.5	0.8	0.7
Yields & Margins (%)				
Net Interest Margins	3.2	3.1	3.1	3.2
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 advance	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	45.7	45.2
Credit/Deposit ratio	77.5	79.5	80.3	81.1
GNPA	3.2	2.0	1.5	1.2
NNPA	0.2	0.2	0.2	0.3
RoE	17.1	16.5	14.7	14.4
RoA	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	1,347.0	1,347.0	1,347.0	1,347.0
Reserves and Surplus	67,963.0	76,944.3	96,157.8	110,145.8
Networth	69,309.9	78,291.3	97,504.8	111,492.7
Deposits	737,153.6	827,726.3	911,472.1	1,010,438.0
Borrowings	41,507.9	46,692.5	53,409.9	58,600.7
Subordinated Debt				
Other Liabilities & Provision	25,439.2	35,242.8	29,835.3	31,039.7
Total	873,410.6	987,952.8	1,092,222.1	1,211,571.1
Applications of Funds				
Fixed Assets	8,826.7	8,646.7	9,271.3	9,535.1
Investments	225,303.1	244,665.7	260,323.6	279,921.2
Advances	571,071.2	654,888.2	732,156.3	819,908.6
Other Assets	13,341.8	14,162.0	30,578.7	37,870.7
Cash with RBI & call money	54,867.9	65,590.2	59,892.3	64,335.5
Total	873,410.6	987,952.8	1,092,222.1	1,211,571.1

Source: Company, ICICI Direct Research

Exhibit 5: Growth				
	(%)			
(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	10.2	13.1	10.6	10.9
Advances	10.9	14.7	11.8	12.0
Deposit	7.1	12.3	10.1	10.9
Total Income	10.5	7.3	11.6	11.9
Net interest income	8.2	6.9	13.3	13.6
Operating expenses	7.7	10.3	10.9	10.6
Operating profit	12.8	4.8	12.2	12.9
Net profit	35.4	11.3	10.8	11.7
Net worth	18.7	13.0	24.5	14.3
EPS	35.4	11.3	10.8	11.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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