

CMP: ₹ 299

Target: ₹ 335 (12%)

Target Period: 12 months

May 9, 2023

HOLD

Modest Q4; trigger for sustained RoA uptick to be watched

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of over ₹ 11 lakh crore.

- Pan-India presence with strong branch network of 5787 domestic branches
- Diversified loan mix with RAM (retail/agri/MSME) forming ~60% to book

Q4FY23 Results: Indian Bank reported a mixed operational performance.

- Gross advances grew 13.9% YoY to ₹ 473586 crore. Deposits were up 4.6% YoY with CASA growth at 5% YoY
- NII was up 29.5% YoY, 0.2% QoQ. NIMs declined 15 bps QoQ at 3.6%
- GNPA down 58 bps QoQ to 5.95%. R/s book was at 2.4% of total loan book

What should investors do? Outlook on credit growth and margins remains comfortable. Moderation in credit cost is expected to be offset by normalised taxation. However, levers for further improvement in return ratio remain unclear with sustained traction to act as a re-rating catalyst.

- We downgrade the stock from BUY to **HOLD** rating

Target Price and Valuation: Indian Bank is expected to deliver credit growth largely in line with industry and RoA of ~0.9% in FY25E. Thus, we value the bank at ~0.8x FY25E ABV and maintain our target price of ₹ 335 per share.

Key triggers for future price performance:

- Credit growth guidance of 10-12%, driven by RAM segment is seen aiding business and margins
- Improvement in CD ratio and increase in proportion of RAM portfolio to partially offset pressure on margins amid repricing of liabilities
- Moderation in credit cost amid healthy buffer seen to be offset by resumption of normalised taxation
- Given anticipation of steady margins and normalised taxation, RoA is expected to witness a gradual improvement at 0.8-0.9%

Alternate Stock Idea: Apart from Indian Bank, in our coverage we also like SBI.

- SBI is a public sector bank and also the largest bank in India with a balance sheet size of over ~ ₹ 52 lakh crore
- BUY with a target price of ₹ 750

Key Financial Summary

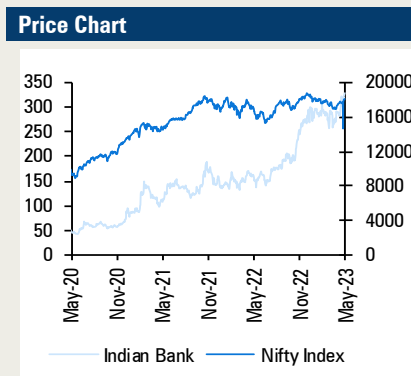
₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	7606	15666	16728	20225	39%	22109	23853	9%
PPP	6498	11396	12717	15271	33%	16557	17694	8%
PAT	753	3005	3945	5282	91%	6698	7469	19%
ABV (₹)	249.3	212.2	261.6	288.2		350.3	400.6	
P/E	24.2	11.2	9.4	7.1		5.6	5.0	
P/ABV	1.2	1.4	1.1	1.0		0.9	0.7	
RoA	0.3	0.5	0.6	0.8		0.9	0.9	
RoE	4.3	9.8	12.1	14.7		13.1	12.9	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalisation	₹ 39050 Crore
52 week H/L	335/137
Net Worth (₹ crore)	₹ 47972
Face value	₹ 10
DII Holding (%)	11.6
FII Holding (%)	4.2

Shareholding pattern	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	79.9	79.9	79.9	79.9	79.9
FII	1.7	2.1	2.6	3.6	4.2
DII	11.1	11.7	12.1	11.9	11.6
Others	7.3	6.4	5.5	4.6	4.4



- Recent Event & Key risks**
- Slippage ratio jumped to 2.43% vs 1.17% in Q3FY23.
 - **Key Risk:** 1) Higher than expected growth 2) Moderation in margins

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Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Mixed performance; significant jump in slippage ratio

- NII up 30% YoY (flat QoQ) to ₹ 5508 crore. The sequential performance was dented by a decline in NIMs (down 15 bps QoQ at 3.59%)
- Other income grew 26.8% YoY, 16.2% QoQ at ₹ 1994 crore mainly driven by income from bad debts recovery of ₹ 860 crore during the quarter (vs. ₹ 197 crore in Q4FY22 and ₹ 426 crore in Q3FY23)
- Provisions were largely flat on a QoQ basis at ₹ 2563 crore (credit cost was at 0.96%). PAT grew 47% YoY and 3.7% QoQ at ₹ 1447 crore
- Asset quality improved as GNPA declined 58 bps QoQ to 5.95%. On a sequential basis, slippages almost doubled at ₹ 2566 crore (mainly led by RAM segment) resulting in slippage ratio of 2.43% vs. 1.17% in Q3FY23
- Gross advances were up 14% YoY, 5% QoQ to ₹ 4.73 lakh crore, led by 12% YoY growth in RAM segment. Deposit growth was subdued at 5% YoY, 4% QoQ to ₹ 6.21 crore

Q4FY23 Earnings Conference Call highlights

- FY24 Guidance – Credit growth to be 10-12% YoY (auto – 28% YoY, gold – 20% YoY), deposit growth to be 8-10% YoY. NIMs to be at ~3.15%. GNPA <5%
- MCLR linked loans increased from 56% in December 2023 to 59% in March 2023. Total 40% of the loan book is linked to one-year MCLR
- Out of 250 bps increase in repo rate, the bank has passed on the rates to its customers. Also, 170 bps in housing, 180 bps in auto, ~190 bps in gold segment
- Interest reversal during the quarter was ₹ 236 crore vs. ₹ 139 crore in Q3FY23
- The bank is expected to spend ₹ 500-600 crore on IT infra in the coming year
- ECLGS loans outstanding was at ₹ 7200 crore vs. ₹ 11800 crore
- Standard asset provisions were at ₹ 6000 crore. Wage provision of ₹ 177 crore vs. ₹ 75 crore in Q3FY23
- Slippages – Out of total MSME slippages of ₹ 1343 crore, ₹ 700 crore came from restructuring book and ₹ 110 crore from the ECLGS book
- The bank is likely to sell ₹ 6200 crore of book to NARCL on which ~95% provisions have already been made so recoveries are expected to be better than previous quarters
- The bank has opened 25 branches dedicated to mid-corporates
- LCR was at 158% with excess SLR of ₹ 35000
- Effective tax rate during the year was ~11%, which, going ahead, should be back to ~25%

Exhibit 1: Peer Comparison (BFSI)

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)			P/ABV (x)			RoA (%)			RoE (%)					
	₹	TP(₹)	Rating	₹ Bn	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
BoB (BANBAR)	177	200	Buy	918	14.0	23.9	28.0	33.0	12.6	7.4	6.3	5.4	1.3	1.0	0.9	0.8	-0.8	0.6	0.9	0.9	8.9	13.3	13.3	13.7
SBI (STABAN)	573	700	Buy	5,117	35.5	50.8	58.4	67.3	16.1	11.3	9.8	8.5	2.0	1.7	1.5	1.3	0.5	0.7	0.9	0.9	11.9	15.0	14.9	14.9
Indian Bank (INDIBA)	299	335	Hold	369	31.7	42.4	53.8	60.0	9.4	7.1	5.6	5.0	1.1	1.0	0.9	0.7	0.6	0.8	0.9	0.9	12.1	14.7	13.1	12.9
Axis Bank (AXIBAN)	888	1,100	Buy	2,734	42.4	31.1	88.9	106.1	20.9	28.5	10.0	8.4	2.6	2.3	1.8	1.5	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4
HDFC Bank (HDFBAN)	1,643	2,050	Buy	9,174	66.7	79.1	93.3	108.3	24.7	20.8	17.6	15.2	3.9	3.3	2.9	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	5,508	4,255	29.5	5,499	0.2	Sequential fall in NIMs impacted growth
NIM (%)	3.59	2.87	72 bps	3.74	-15 bps	Yields were largely flat on QoQ basis at 8.17%
Other Income	1,994	1,573	26.8	1,716	16.2	
Net Total Income	7,502	5,828	28.7	7,216	4.0	
Staff cost	2,220	1,949	13.9	1,991	11.5	Staff cost partly increased due to wage revision provision of ₹ 251 crore.
Other Operating Expenses	1,267	201	531.6	1,163	8.9	
PPP	4,016	2,738	46.7	4,061	-1.1	
Provision	2,563	1,914	33.9	2,516	1.9	Credit cost improved to 96bps vs. 141 bps in Q3FY23
PBT	1,453	824	76.3	1,546	-6.0	
Tax Outgo	5.3	-160.6	-103.3	149.9	-96.5	
PAT	1,447.3	984.2	47.0	1,395.8	3.7	Lower tax aided earnings growth
Key Metrics						
GNPA	28,179.5	35,214.0	-20.0	29,484.0	-4.4	Slippage ratio jumped from 1.2% to 2.4% QoQ
NNPA	4,043.1	8,849.0	-54.3	42,710.0	-90.5	
Advances	473,586.0	415,625.0	13.9	451,658	4.9	Credit growth guidance steady at 10-12% YoY
Deposits	621,166.0	593,618.0	4.6	597,114	4.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	21,212	22,109	4.2	22,938	23,853	4.0
Pre Provision Profit	16,540	16,557	0.1	17,903	17,694	-1.2
NIM (%)	3	3	24 bps	3.0	3	20 bps
PAT	6,851	6,698	-2.2	7,227	7,469	3.3
ABV (₹)	357.0	350.3	-1.9	408	400.6	-1.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Interest Earned	38,856	44,942	50,721	54,537	
Interest Expended	22,128	24,717	28,612	30,684	
Net Interest Income	16,728	20,225	22,109	23,853	
growth (%)	6.8	20.9	9.3	7.9	
Non Interest Income	6915	7143	7510	8448	
Net Income	23643	27368	29619	32302	
Staff cost	6696	7527	7763	8722	
Other Operating expense	4231	4571	5299	5885	
Operating profit	12717	15271	16557	17694	
Provisions	9513	9356	8677	8907	
PBT	3204	5914	7880	8787	
Taxes	-741	633	1182	1318	
Net Profit	3945	5282	6698	7469	
growth (%)	31.3	33.9	26.8	11.5	
EPS (₹)	31.7	42.4	53.8	60.0	

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Valuation					
No. of Equity Shares (Crore)	124.5	124.5	124.5	124.5	
EPS (₹)	31.7	42.4	53.8	60.0	
BV (₹)	332.6	335.3	385.9	442.2	
ABV (₹)	261.6	288.2	350.3	400.6	
P/E	9.4	7.1	5.6	5.0	
P/BV	0.9	0.9	0.8	0.7	
P/ABV	1.1	1.0	0.9	0.7	
Yields & Margins (%)					
Net Interest Margins	2.8	3.2	3.2	3.2	
Yield on assets	6.6	7.1	7.4	7.3	
Avg. cost on funds	3.6	3.8	4.1	4.1	
Yield on average advance	7.2	7.4	7.8	7.7	
Avg. Cost of Deposits	3.7	3.9	4.3	4.3	
Quality and Efficiency (%)					
Cost to income ratio	46.2	44.2	44.1	45.2	
Credit/Deposit ratio	65.6	72.3	74.3	75.6	
GNPA	8.5	6.0	6.0	5.3	
NNPA	2.3	0.9	0.9	0.9	
ROE	12.1	14.7	13.1	12.9	
ROA	0.6	0.8	0.9	0.9	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Sources of Funds					
Capital	1245.4	1245.4	1245.4	1245.4	
Reserves and Surplus	42463.4	46727.3	53028.4	60040.9	
Networth	43708.8	47972.8	54273.8	61286.4	
Deposits	593617.8	621165.7	670843.5	734036.3	
Borrowings	17209.0	22073.0	23127.2	24234.6	
Other Liabilities & Provisions	17132.5	19289.2	19608.9	19934.9	
Total	6,71,668	7,10,501	7,67,853	8,39,492	
Applications of Funds					
Fixed Assets	7683.7	7459.0	7776.5	8138.5	
Investments	174558.6	185988.2	195846.3	206275.8	
Advances	389186.1	449296.7	498463.0	555057.6	
Other Assets	20323.6	17624.1	13674.3	15512.4	
Cash with RBI & call money	79916.1	50132.5	52093.4	54507.8	
Total	6,71,668	7,10,501	7,67,853	8,39,492	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios		(%)			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total assets	7.3	5.8	8.1	9.3	
Advances	7.3	15.4	10.9	11.4	
Deposit	10.3	4.6	8.0	9.4	
Total Income	8.7	15.8	8.2	9.1	
Net interest income	6.8	20.9	9.3	7.9	
Operating expenses	5.6	10.7	8.0	11.8	
Operating profit	11.6	20.1	8.4	6.9	
Net profit	31.3	33.9	26.8	11.5	
Net worth	13.8	9.8	13.1	12.9	
EPS	19.1	33.9	26.8	11.5	

Source: Company, ICICI Direct Research

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