

October 28, 2024

RESULT REPORT Q2 FY25 | Sector: Banks

Indian Bank Ltd

Initiated as BUY in March 2022, INBK multiplies more than 3.5x but still has material upside

Our view – Long-term bull market for select PSU banks still not over

Asset Quality – Slippages were well under control with management guiding for a decline in credit cost: Gross NPA additions amounted to Rs 13.84bn for 2QFY25, translating to calculated annualized slippage ratio of 1.02% for the quarter. Gross NPA additions had amounted to Rs 19.56bn during 1QFY25. Recoveries and upgrades amounted to Rs 10.85bn for 2QFY25, implying net NPA addition of Rs 2.99bn for the quarter. For FY25, the bank has a target of Rs 20bn for AUC recovery and Rs 70-80bn for total recovery including AUC recovery. Provisions were Rs 10.99bn, down by -12.7% QoQ and -29.1% YoY, translating to calculated annualised credit cost of 83bps. The reported Credit cost was at 65bps for 2Q and 68bps for 1H (presumably specific credit cost only).

Net Interest Margin - Margin declined sequentially but only on account of penal charges rules: The whole bank NIM was at 3.39%, down -5bps QoQ and -7bps YoY. Due to regulatory changes, the penal interest is now accounted as penal charges and form part of other income, which had an adverse impact of -6bps on NIM.

Balance sheet growth – Loan growth was within the guided range: Gross advances grew 2.1%/11.9% QoQ/YoY, driven sequentially by MSME, Agri and some segments of Retail Loans. The guidance for advances is to grow in the range of 11-13%. The corporate loan growth outlook is reasonable given undisbursed term loans amounting to Rs 70bn, proposals in pipeline amounting to Rs 160-170bn and undisbursed working capital limit amounting to Rs 280bn. The guidance for deposits is to grow by 8-10%.

We maintain 'BUY' rating on INBK with a revised price target of Rs 710: We initiated INBK with BUY, in our [report released in March 2022](#), and as only our 3rd PSB pick, as our thumbs up to the PSU bank theme. Since then, INBK has returned 258%. We value the bank at 1.3x FY26 P/BV for an FY25/26/27E RoE profile of 16.6/16.7/16.7%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio at 45.1% was up by 81/76bps QoQ/YoY and the Cost to assets was at 1.9% up by 13/4bps QoQ/YoY
- **Fee income:** Core fee income to average assets was at 0.4%, up 5bps QoQ but flat YoY.

Exhibit 1: Result table

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total Interest Income	153,476	150,391	2.1	137,433	11.7
Interest Expense	(91,534)	(88,611)	3.3	(80,031)	14.4
Net Interest Income	61,942	61,780	0.3	57,402	7.9
Fee Income	8,910	7,880	13.1	8,050	10.7
Non-fee Income	15,311	11,175	37.0	11,880	28.9
Total Non-Interest Income	24,221	19,055	27.1	19,930	21.5
Total Income	86,163	80,835	6.6	77,332	11.4
Employee Expense	(24,644)	(23,011)	7.1	(21,769)	13.2
Non-employee Opex	(14,234)	(12,810)	11.1	(12,535)	13.5
Total Operating expenses	(38,878)	(35,820)	8.5	(34,304)	13.3
PPOP	47,285	45,015	5.0	43,027	9.9
Provisions	(10,992)	(12,584)	(12.7)	(15,507)	(29.1)
PBT	36,294	32,431	11.9	27,521	31.9
Tax	(9,229)	(8,398)	9.9	(7,643)	20.8
PAT	27,064	24,033	12.6	19,878	36.2

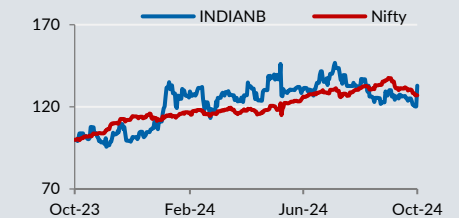
Source: Company, YES Sec-Research

Recommendation	: BUY
Current price	: Rs 551
Target price	: Rs 710
Potential return	: 29%

Stock data (as on October 28, 2024)

Nifty	24,339
52 Week h/l (Rs)	633 / 391
Market cap (Rs/USD mn)	671462 / 7989
Outstanding Shares (mn)	1,347
6m Avg t/o (Rs mn):	1,113
Div yield (%):	2.3
Bloomberg code:	INBK IN
NSE code:	INDIANB

Stock performance



	1M	3M	1Y
Absolute return	2.2%	-5.2%	33.0%

Shareholding pattern (As of June'24 end)

Promoter	73.8%
FII+DII	22.3%
Others	3.9%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	710	700

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
NII	269,586	304,290	339,328
PPOP	213,561	243,217	276,363
Net Profit	103,862	119,243	136,483
Growth (%)	28.8	14.8	14.5
EPS (Rs)	77.1	88.5	101.3
BVPS (Rs)	495	566	647
P/E (x)	7.1	6.2	5.4
P/BV (x)	1.1	1.0	0.9
ROE (%)	16.6	16.7	16.7
ROA (%)	1.2	1.3	1.3
Tier-1 (%)	13.9	13.8	13.8

Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	77.1	88.5	101.3
EPS (Old)	72.3	84.7	97.0
% change	6.6%	4.5%	4.4%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 13.84bn for 2QFY25, translating to an annualized slippage ratio of 1.02% for the quarter. (Gross NPA additions had amounted to Rs 19.56bn during 1QFY25.)
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 10.85bn for 2QFY25, implying net NPA addition of Rs 2.99bn for the quarter.
 - **AUC recovery**
 - AUC Recovery amounted to Rs. 7.33bn for 2QFY25.
 - AUC Recovery was Rs. 5.04bn in 1QFY25 and Rs. 5.93bn in 2QFY24.
 - **Guidance**
 - The bank has done an AUC recovery of Rs 12bn and total recovery including AUC recovery of Rs 39.58bn in 1H.
 - For FY25, the bank has a target of Rs 20bn for AUC recovery and Rs 70-80bn for total recovery including AUC recovery.
 - The recovery last year had amounted to Rs 86bn.
 - The outstanding technically written off book and NPA pool amount to Rs 410bn and Rs 190bn, respectively.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 10.99bn, down by -12.7% QoQ and -29.1% YoY, translating to calculated annualised credit cost of 83bps.
 - The reported Credit cost was at 65bps for 2Q and 68bps for 1H (presumably specific credit cost only).
 - **Credit cost guidance**
 - Credit cost is coming down due to lower NNPA and credit cost will come down further.
 - **Outstanding provisions**
 - The PCR is 97.7%, up 176bps YoY.
 - The standard asset provisions on the balance sheet amount to Rs 85bn.
 - The restructured book is carrying a provision cover of 28%.
- **SMA position**
 - The SMA1 and SMA2 book together amount to 90 bps (Rs 47.6bn) of advances, up by 43bps QoQ (from Rs 24.5bn).
 - The increase is because of 1 government guaranteed corporate account of Rs 22bn in SMA 2.
 - The bank has received partial payment in October and the account has now moved to SMA 1.
- **Collection position**
 - The collection efficiency was at 95%.
- **NPA ratios**
 - GNPA ratio stands at 3.48%, down -29bps QoQ and -149bps YoY while NNPA ratio stands at 0.27%, down -12bps QoQ and -33bps YoY.

(Con call takeaways continue on the next page)

Loan growth

- **Overall growth**
 - Advances are up 12% YoY.
 - RAM advances are up 14% YoY.
 - **Retail credit**
 - Retail credit is up 15% YoY.
 - **Retail segments**
 - Home loans are up 14% YoY.
 - Jewel loans are up 21% YoY.
 - Auto loans are up 51% YoY.
 - **Agri loans**
 - Agri loans are up 16% YoY.
 - **Crop loans**
 - Crop loans are up 16% YoY.
 - **MSME loans**
 - MSME loans are up 8% YoY.
 - The standard MSME loans have grown by 12% YoY.
 - **Corporate credit**
 - Corporate loans are up 9% YoY.
 - Standard corporate loans have grown by 10% YoY.
- **Guidance**
 - Advances to grow in the range of 11-13%.
- **Corporate loan growth outlook**
 - Undisbursed term loans amount to Rs 70bn.
 - Proposals in pipeline amount to Rs 160-170bn.
 - Undisbursed working capital limit amounts to Rs 280bn.

Net interest margin

- **NIM for the quarter**
 - NIM (Global) was at 3.39%, down by -5bps QoQ and -7 bps YoY.
 - NIM (Domestic) was at 3.49%, down by -4bps QoQ and -3bps YoY.
- **Reason for Sequential change in NIM**
 - Due to regulatory changes, the penal interest is now accounted as penal charges and form part of other income, which had an adverse impact of -6bps on NIM.
- **Yield on Advances**
 - Yield on advances was at 8.77%, up by 8bps QoQ and 2bps YoY.
- **Cost of Deposits**
 - The cost of deposits was at 5.13%, up by 8bps QoQ and 24bps YoY.
- **Loan to Deposit Ratio**
 - The domestic loan to deposit ratio was at 79%.
- **LCR**
 - The LCR has improved from 114% in June quarter to 121-122% in September quarter.
- **Guidance**
 - NIM is expected to be around 3.40%.

(Con call takeaways continue on the next page)

- **Loan mix by rate category**
 - MCLR – 58%, 80% of which is 1-year MCLR
 - Repo – 36%, which reprices the next day
 - Fixed – 5%
 - Others – 1%
- **Borrowings**
 - The infra bond was raised at 7.18% with no CRR SLR obligation.
 - Due to negative carry, the cost comes to 6.8%.
 - In comparison, the 400-day deposit rate is 7.3% and bulk deposit rates are 7.7-7.9%.

Deposits growth

- Total deposits are up 2% QoQ and 8% YoY
- Domestic deposits are up 2% QoQ and 7% YoY
- **CASA**
 - CASA deposits are up 1% QoQ and 5% YoY.
 - CASA ratio was at 40.47%, down -9bps QoQ.
- **Infra Bonds**
 - The bank has raised infra bonds amounting to Rs 100bn in YTD FY25.
- **Guidance**
 - Deposits are to grow by 8-10%.

Treasury operations

- The bank had added investment book worth Rs 50bn.
- It had done so since it expected interest rates to come down.
- The yield on investment amounts to 7.17%.

Ind Bank Housing

- There has been no activity in this entity for a long time and the bank now in the process of selling its assets.
- Indian Bank has a 51% stake in the entity, with 25% being held by HUDCO and the rest with the public.

Fee income

- Fee income is up 13% QoQ and 11% YoY.
- **PSLC Income:**
 - The PSLC income was Rs 1.82bn, up by 16% QoQ and 8% YoY
 - This income was Rs 6.57bn in FY24 and would be Rs 7bn plus in FY25.

Operating expenses

- **Total opex**
 - Opex, at Rs. 38.88bn, is up by 8.5% QoQ and 13.3% YoY.
 - Consequently, cost to income ratio came in at 45.1%, up by 81bps QoQ and 76bps YoY.

(Con call takeaways continue on the next page)

- **Staff opex**
 - The staff opex is up by 7.1% QoQ and 13.2% YoY.
 - The bank had additional provision of Rs 1.50bn due to decrease in FIMMDA rate.
- **Other opex**
 - Other opex in up by 11.1% QoQ and 13.5% YoY.
 - **IT Spends**
 - The IT spends are around 10% of the Opex.
 - The bank has done a capital expenditure of Rs 1.35bn in 1H.
 - The total capital expenditure commitment for FY25 is around Rs 4.5 to 5.0bn.

Return Ratios

- The RoA was at 1.33%, up 27bps YoY.
- The RoE was at 21.04%, up by 114bps YoY.

Capital adequacy

- As of September, the CET 1 and total capital adequacy ratio was at 13.51% and 16.55% respectively.
- Including 1HFY25 profit the total CRAR is at 17.84%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q2FY25	Q1FY25	% qoq	Q2FY24	% yoy	Q1FY25*	chg QoQ*	chg YoY*
Global Gross Advances	5,506,440	5,391,230	2.1	4,922,880	11.9	100.0	0bps	0bps
Overseas Gross Advances	373,260	365,050	2.2	336,070	11.1	6.8	1bps	-5bps
Domestic Gross Advances	5,133,180	5,026,180	2.1	4,586,810	11.9	93.2	-1bps	5bps
Corporate Loans	1,882,680	1,893,170	(0.6)	1,727,900	9.0	34.2	-93bps	-91bps
MSME	867,290	833,610	4.0	801,160	8.3	15.8	29bps	-52bps
Agri	1,282,720	1,238,490	3.6	1,104,040	16.2	23.3	32bps	87bps
Retail Loans	1,100,490	1,060,910	3.7	953,710	15.4	20.0	31bps	61bps
Home Loan	708,150	688,910	2.8	622,890	13.7	12.9	8bps	21bps
Auto Loan	95,260	86,340	10.3	62,910	51.4	1.7	13bps	45bps
Personal Loan	79,600	82,390	(3.4)	86,680	(8.2)	1.4	-8bps	-32bps
Jewel Loan Non Priority	65,360	59,650	9.6	54,220	20.5	1.2	8bps	9bps
Others	152,120	143,620	5.9	127,010	19.8	2.8	10bps	18bps
Total Deposits	6,931,155	6,811,830	1.8	6,408,027	8.2	100.0	0bps	0bps
CA	361,580	344,870	4.8	334,470	8.1	5.2	15bps	0bps
SA	2,332,010	2,313,780	0.8	2,235,800	4.3	33.6	-32bps	-125bps
Term	4,237,565	4,153,180	2.0	3,837,757	10.4	61.1	17bps	125bps
RWA	3,965,160	3,951,850	0.3	3,537,190	12.1	NA	NA	NA

Source: Company, YES Sec - Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
Net interest margin-Global	3.39	3.44	-5bps	3.46	-7bps
Net interest margin-Domestic	3.49	3.53	-4bps	3.52	-3bps
Yield on advances	8.77	8.69	8bps	8.75	2bps
Cost of deposits	5.13	5.05	8bps	4.89	24bps
Loan to Deposit ratio	76.9	76.5	43bps	73.4	345bps
Non-interest income/Total income	28.1	23.6	454bps	25.8	234bps
Fee Income to Avg. Total Assets	0.4	0.4	5bps	0.4	0bps
Cost to Income	45.1	44.3	81bps	44.4	76bps
Opex to Avg. Total Assets	1.9	1.8	13bps	1.9	4bps
Credit Cost	0.8	1.0	-14bps	1.3	-50bps
RoE	21.0	19.8	128bps	19.9	114bps
RoA	1.3	1.2	13bps	1.1	27bps
Capital adequacy ratio	16.6	16.5	8bps	15.5	102bps
Common equity tier 1	13.5	13.4	9bps	12.1	144bps
Tier I capital ratio	14.0	13.9	9bps	12.6	139bps
Annualised Slippage Ratio	1.0	1.5	-44bps	1.6	-62bps
Provision Coverage	97.6	96.7	94bps	95.6	196bps
Gross NPA	3.5	3.8	-29bps	5.0	-149bps
Net NPA	0.3	0.4	-12bps	0.6	-33bps

Source: Company, YES Sec - Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	61,942	63,324	(2.2)
Pre-Prov. Operating Profit	47,285	46,235	2.3
Profit After Tax	27,064	25,234	7.3

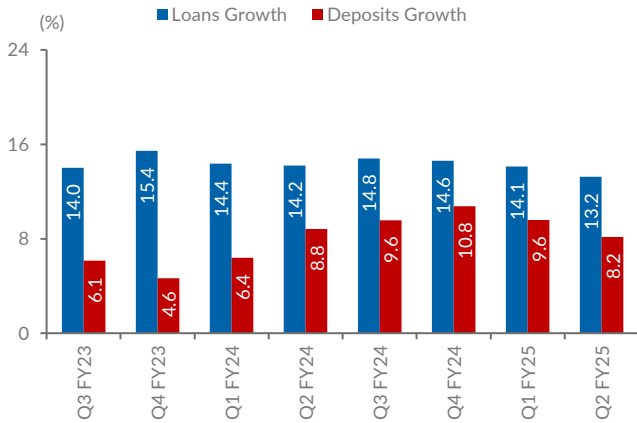
Source: Company, YES Sec - Research

Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q2FY25	Q1FY25	% qoq	Q2FY24	% yoy
Total Fee Income (A)	8,910	7,880	13.1	8,050	10.7
Transaction fees	2,530	1,830	38.3	2,090	21.1
Loan processing charges	1,710	1,430	19.6	2,000	(14.5)
Commission on Govt. business	280	170	64.7	180	55.6
Commission on LC/BG	820	890	(7.9)	940	(12.8)
Cross Selling	450	320	40.6	420	7.1
Income from PFMS operations	80	10	700.0	20	300.0
Rent on Lockers	360	400	(10.0)	350	2.9
Misc fee Income	2,680	2,830	(5.3)	2,050	30.7
Total Other Income (B)	15,311	11,175	37.0	11,880	28.9
Forex Income	570	600	(5.0)	880	(35.2)
Treasury Income	3,320	2,620	26.7	3,230	2.8
Bad Debts Recovered	7,320	5,040	45.2	5,080	44.1
PSLC Commission	1,820	1,570	15.9	1,690	7.7
Others	2,281	1,345	69.5	1,000	128.2
Total Non-Interest Income (A+B)	24,221	19,055	27.1	19,930	21.5

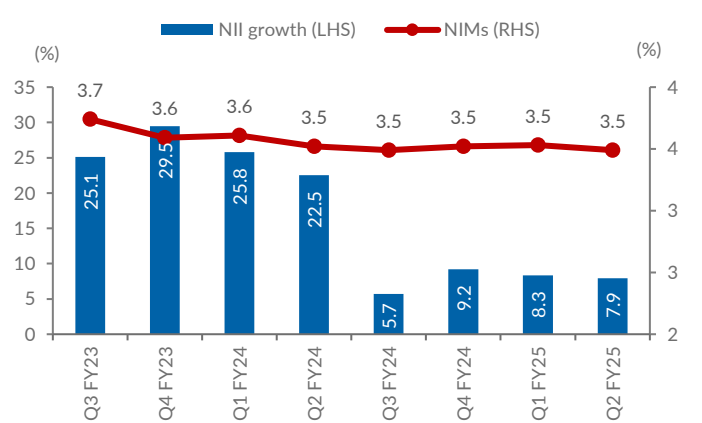
Source: Company, YES Sec – Research

Exhibit 6: Loans and Deposits growth (YoY %)



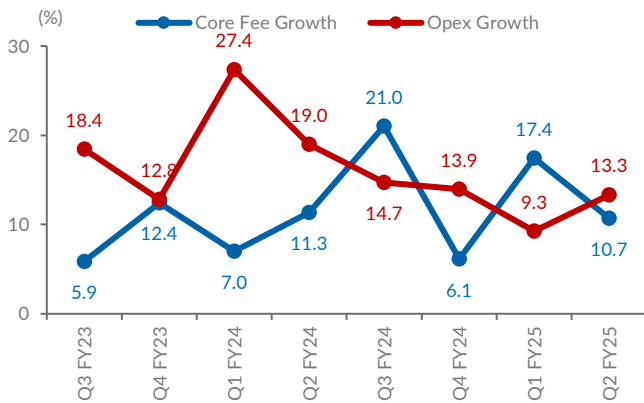
Source: Company, YES Sec - Research

Exhibit 7: NII growth (YoY %) and NIM (%)



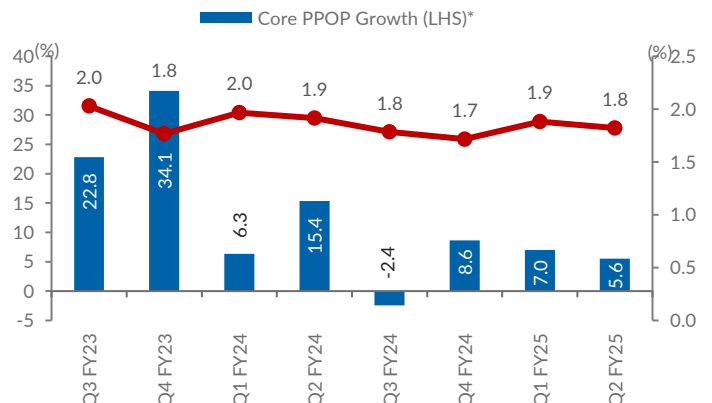
Source: Company, YES Sec - Research

Exhibit 8: Core Fee and Opex growth (YoY %)



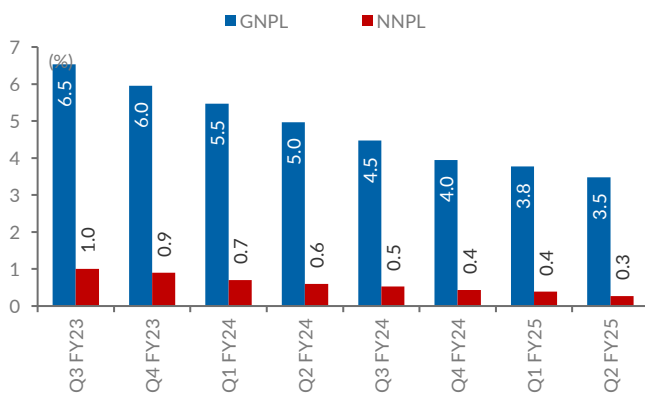
Source: Company, YES Sec - Research

Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin (%)



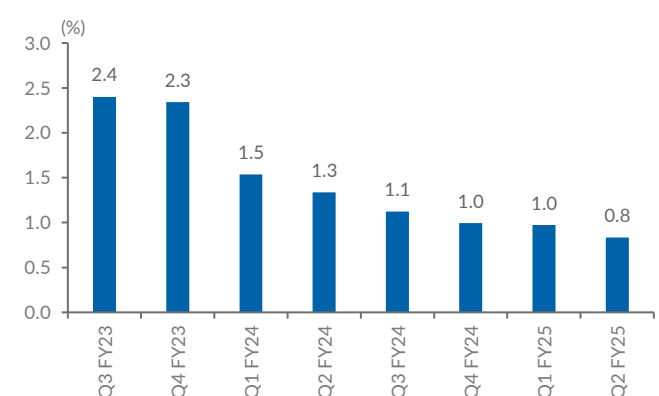
Source: Company, YES Sec - Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 10: Gross NPA and Net NPA (%)



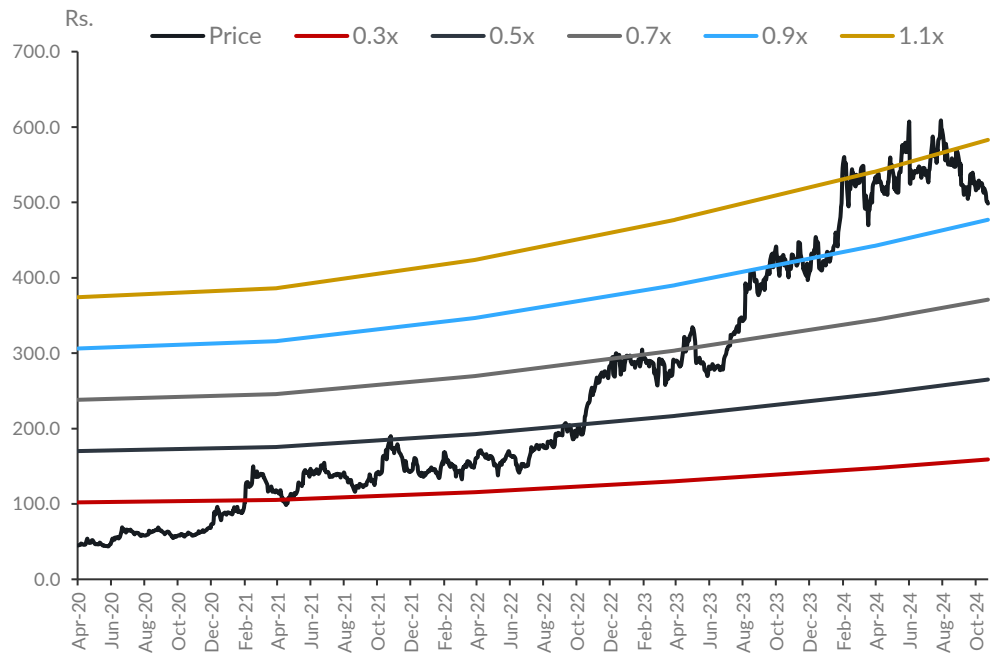
Source: Company, YES Sec - Research

Exhibit 11: Provisions/Average Advances (%)



Source: Company, YES Sec - Research

Exhibit 12: 1-year rolling P/BV band



Source: Company, YES Sec - Research

Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research

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Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Total cash & equivalents	501,326	421,091	576,676	613,583	687,213
Investments	1,859,883	2,125,545	2,380,610	2,666,283	2,986,237
Advances	4,492,967	5,148,891	5,766,758	6,458,768	7,233,821
Fixed assets	74,590	75,155	82,670	90,937	100,031
Other assets	176,241	155,510	163,285	171,449	180,022
Total assets	7,105,007	7,926,191	8,969,999	10,001,022	11,187,324
Net worth	479,728	583,881	666,971	762,366	871,552
Deposits	6,211,658	6,880,000	7,568,000	8,476,160	9,493,299
Borrowings	220,730	231,315	259,073	290,161	324,981
Other liabilities	192,892	230,995	475,955	472,334	497,492
Total liabilities incl. Equity	7,105,007	7,926,191	8,969,999	10,001,022	11,187,324

Source: Company, YES Sec – Research

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	449,422	556,148	631,563	708,224	791,466
Interest expense	(247,168)	(323,415)	(361,977)	(403,933)	(452,138)
Net interest income	202,255	232,733	269,586	304,290	339,328
Non-interest income	71,431	78,667	101,613	112,584	126,094
Total income	273,685	311,400	371,199	416,874	465,423
Operating expenses	(120,979)	(143,005)	(157,638)	(173,658)	(189,059)
PPoP	152,706	168,395	213,561	243,217	276,363
Provisions	(93,562)	(58,884)	(73,207)	(82,077)	(91,926)
Profit before tax	59,144	109,511	140,354	161,140	184,437
Taxes	(6,327)	(28,882)	(36,492)	(41,896)	(47,954)
Net profit	52,817	80,629	103,862	119,243	136,483

Source: Company, YES Sec – Research

Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	6.5	7.4	7.5	7.5	7.5
Interest expense	-3.6	-4.3	-4.3	-4.3	-4.3
Net interest income	2.9	3.1	3.2	3.2	3.2
Non-interest income	1.0	1.0	1.2	1.2	1.2
Total income	4.0	4.1	4.4	4.4	4.4
Operating expenses	-1.8	-1.9	-1.9	-1.8	-1.8
PPoP	2.2	2.2	2.5	2.6	2.6
Provisions	-1.4	-0.8	-0.9	-0.9	-0.9
Profit before tax	0.9	1.5	1.7	1.7	1.7
Taxes	-0.1	-0.4	-0.4	-0.4	-0.5
Net profit	0.8	1.1	1.2	1.3	1.3

Source: Company, YES Sec – Research

Exhibit 17: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Interest Income	269,586	304,290	339,328	266,317	303,433	338,373	1.2	0.3	0.3
Pre-Prov. Operating Profit	213,561	243,217	276,363	204,834	236,247	268,562	4.3	3.0	2.9
Profit after tax	103,862	119,243	136,483	97,404	114,086	130,710	6.6	4.5	4.4

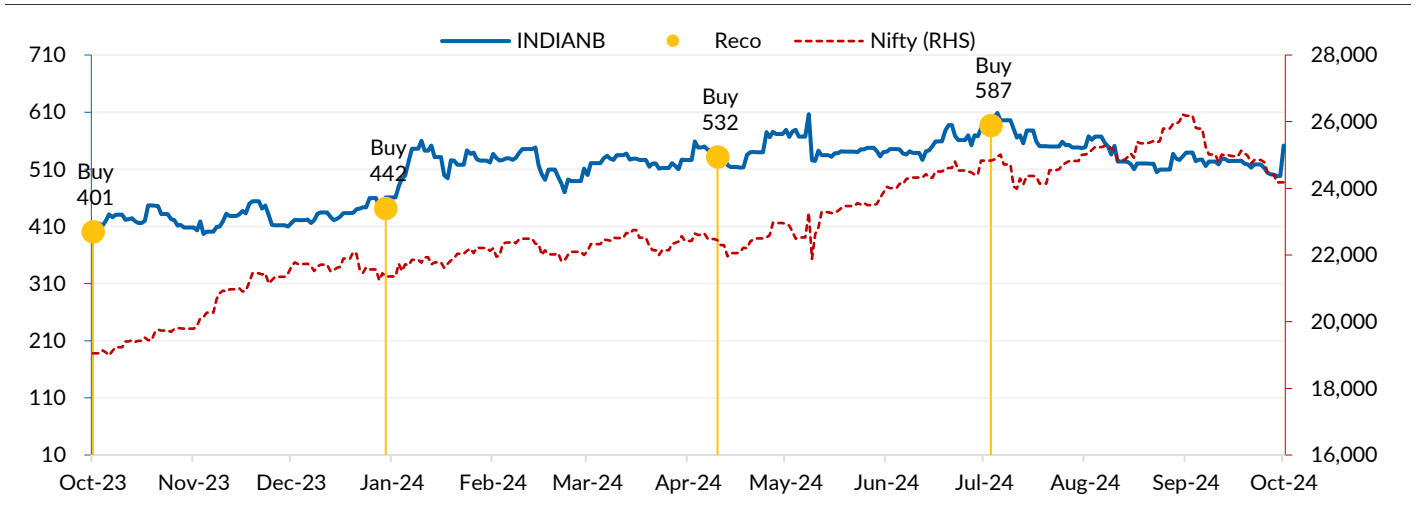
Source: Company, YES Sec – Research

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Net interest income	20.9	15.1	15.8	12.9	11.5
PPoP	20.1	10.3	26.8	13.9	13.6
Net profit	33.9	52.7	28.8	14.8	14.5
Loans	15.4	14.6	12.0	12.0	12.0
Deposits	4.6	10.8	10.0	12.0	12.0
Profitability Ratios (%)					
Net interest margin	3.4	3.5	3.6	3.6	3.6
Return on Average Equity	11.5	15.2	16.6	16.7	16.7
Return on Average Assets	0.8	1.1	1.2	1.3	1.3
Per share figures (Rs)					
EPS	42.4	59.9	77.1	88.5	101.3
BVPS	385	433	495	566	647
ABVPS	353	417	477	545	623
Valuation multiples					
P/E	13.0	9.2	7.1	6.2	5.4
P/BV	1.4	1.3	1.1	1.0	0.9
P/ABV	1.6	1.3	1.2	1.0	0.9
NIM internals (%)					
Yield on loans	7.6	8.4	8.5	8.5	8.5
Cost of deposits	3.8	4.7	4.8	4.8	4.8
Loan-deposit ratio	72.3	74.8	76.2	76.2	76.2
CASA ratio	42.0	40.8	40.9	41.1	41.1
Opex control (%)					
Cost/Income ratio	44.2	45.9	42.5	41.7	40.6
Cost to average assets	1.8	1.9	1.9	1.8	1.8
Capital adequacy (%)					
Tier 1 capital ratio	13.5	14.0	13.9	13.8	13.8
Asset quality (%)					
Slippage ratio	1.7	1.4	1.8	1.8	1.8
Gross NPL ratio	6.0	4.0	3.9	3.9	3.9
Credit cost	1.6	0.8	1.2	1.2	1.2
Net NPL ratio	0.9	0.4	0.4	0.4	0.4

Source: Company, YES Sec - Research

Recommendation Tracker



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