

Indian Bank

BSE SENSEX 80,248 S&P CNX 24,276

CMP: INR583 TP: INR670 (+15%) Buy



Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Bloomberg	INBK IN
Equity Shares (m)	1347
M.Cap.(INRb)/(USDb)	784.8 / 9.3
52-Week Range (INR)	633 / 391
1,6,12 Rel. Per (%)	0/-5/25
12M Avg Val (INR M)	1268

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	232.7	253.0	275.3
OP	168.4	186.8	201.2
NP	80.6	104.1	112.8
NIM calc (%)	3.2	3.1	3.1
EPS (INR)	62.2	77.3	83.7
EPS Gr. (%)	46.7	24.2	8.4
BV/Sh. (INR)	409	471	537
ABV/Sh. (INR)	396	461	524

Ratios

RoA (%)	1.1	1.3	1.2
RoE (%)	17.1	18.4	17.3

Valuations

P/E(X)	9.2	7.4	6.8
P/BV (X)	1.4	1.2	1.1
P/ABV (X)	1.4	1.2	1.1

Delivering sustainable growth and profitability

RoA to remain robust at 1.2%

- Indian Bank (INBK) has emerged as one of the better-performing PSU banks with the best-in-class profitability and asset quality ratios. The bank stands out for its prudent strategy, i.e., increasing its MCLR book ahead of a potential reversal in the rate cycle and strengthening its balance sheet with a robust PCR and contingency buffer.
- INBK has reported loan growth of 3.5% in 1HFY25 YTD (13% in FY24) and muted deposit growth of 0.7% (11% in FY24). Its CD ratio has, thus, increased to 76.9%. The bank guides for better traction in business growth in 2H and aims to maintain a CD ratio of <80%.
- INBK wants to maintain a balance between NIMs and growth and does not want to unnecessarily chase growth. It expects NIMs to remain stable at 3.4%.
- Asset quality remains robust and the bank sees further potential to reduce its slippage run-rate over the medium term, aided by the benefits of improved technology usage and digital monitoring as well as process reengineering. The credit cost is thus likely to remain under control. The bank holds a healthy contingency buffer of INR62b, which provides comfort.
- Additionally, improvements in the bank's underwriting quality have strengthened its asset quality ratios, with GNPA at 3.5%, NNPA at 0.3%, and PCR at 92.5%. The transition to ECL norms will have a limited impact on the bank's RoA trajectory, given its healthy capital ratios, robust PCR and contingency buffer.
- INBK remains our preferred idea among the mid-size PSU banks. We reiterate our BUY rating with a TP of INR670 (1.3x FY26E ABV).

Guides 13% growth in loan book; RAM mix to sustain at ~63%

INBK maintains a healthy credit growth rate of 13%, backed by good traction in the RAM segment. The retail segment remains a growth driver, led by its mortgage and vehicle finance (VF) verticals. PL growth continues to moderate as the bank maintains its cautious view on the unsecured loan segment. With faster growth in the RAM segment over the years, the RAM segment's overall share has risen to 63% (higher vs. other peers), which should help the bank maintain healthy NIMs and profitability. We conservatively estimate a modest 11% CAGR in loans over FY24-27 amid system-wide growth moderation.

Deposit growth to sustain at 11%; CD ratio to stay below 80%

The bank's deposit growth recovered to 11% in FY24 after dipping to ~4.6% in FY23. While the overall system's deposit growth continues to be challenging amid intense competition for CASA deposits, INBK expects its CASA ratio to sustain at 40%. The bank expects ~11% deposit growth in FY25, with healthy traction anticipated in 2H. We estimate a 9.3% CAGR in deposits during FY24-27E and expect the CD ratio to inch up gradually to 75.9% in FY25E, 77% in FY26E and 77.5% in FY27E.

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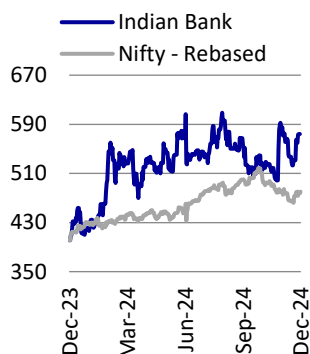
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Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	73.8	73.8	79.9
DII	17.4	16.9	11.8
FII	5.0	5.4	4.3
Others	3.8	3.9	4.1

FII includes depository receipts

Stock Performance (1-year)**NIMS to remain healthy at 3.4% backed by healthy share of RAM, MCLR-linked loans**

While the yields increased by 161bp from 1QFY23 to 2QFY25, the cost of deposits saw a slower increase at 128bp over the same period. The bank's focus on RAM segment has helped to manage cost and thus retain healthy NIMs at 3.4%. On the other hand, over the years, the bank has gradually increased its MCLR book to 58% (highest among PSU banks), and this should be beneficial when the rate cycle turns. Thus, with a healthy share of RAM and a higher share of MCLR book, INBK is one of the few PSU banks with a stable margin trajectory. The management thus expects to sustain NIMs at 3.4% vs. 3.49% in 2QFY25.

Opex growth to stay under control; C/I ratio to remain steady at 46%

After an 18% jump in FY24, opex growth is expected to moderate going ahead, which can result in a decline in the cost ratios over FY25-27. We expect the bank's opex growth to closely follow asset growth, with both clocking a 10.1% CAGR over FY24-27E. Faster growth in NII and other income will lead to a 10% CAGR in total income. On the other hand, INBK enjoys healthy PSLC income (~10% of other income), which further supports revenue growth. As a result, we expect the C/I ratio to sustain at 46% by FY27E.

Asset quality trends stable, healthy capital buffer offers comfort

The bank experienced seasonally higher slippages in 1H at INR33.4b (1.4% of loans). This stress is expected to ease as the portfolio quality remains strong. The bank does not face any imminent asset quality concerns and has no exposure to the government telco account. Further, the bank has a recovery target of INR70-80b, while it aims to improve the slippage run rate by ~50bp, benefitting from improved technology usage and digital monitoring as well as process reengineering. The bank has maintained a strong GNPA ratio of 3.5% and an industry-leading NNPA ratio of 0.27%, alongside a healthy coverage ratio of 92.5% (97.6% including TWO). As ECL norms are set to be implemented next year, the bank's coverage ratio is robust enough to absorb any potential P&L impact, and its CET-1 ratio of 13.5% adds further reassurance. The bank also maintains a healthy floating provision of INR62b/1.2% of loans (sitting in Tier-2 capital), which offers further comfort.

Valuation and view: Reasonable valuations; reiterate BUY

INBK has emerged as one of the better performing PSU banks with the best-in-class profitability and asset quality ratios. The bank stands out for its prudent strategy that is well-aligned with market conditions, i.e., increasing its MCLR book and strengthening its balance sheet by making additional specific and floating provisions. Additionally, improvements in the bank's underwriting quality have strengthened its asset quality ratios, with GNPA at 3.5%, NNPA at 0.3%, and PCR at 92.5%. The transition to ECL norms will have a limited impact on the bank's RoA trajectory, given its healthy capital ratios and robust provisioning coverage. In terms of leadership changes, the current tenure of Mr. S.L. Jain as MD and CEO is ending in Dec'24 and he will be replaced by Mr. Binod Kumar, ED of PNB. INBK remains our preferred stock among the mid-size PSU banks. **We maintain a BUY rating on the stock with a TP of INR670 (1.3x FY26E ABV).**

Story in Charts

Exhibit 1: Loan book up ~13% YoY (up 2.3% QoQ)

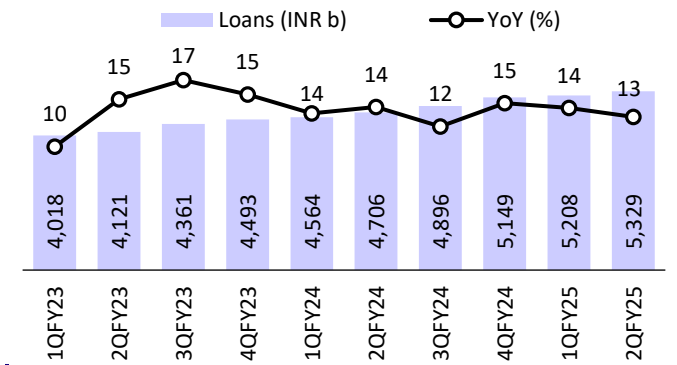


Exhibit 2: Deposits grew ~8.2% YoY (up 1.8% QoQ)

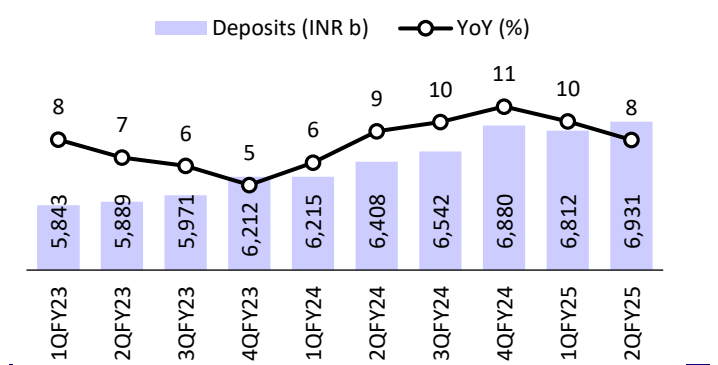


Exhibit 3: NIMs stood at 3.49%; CASA ratio at 38.9%

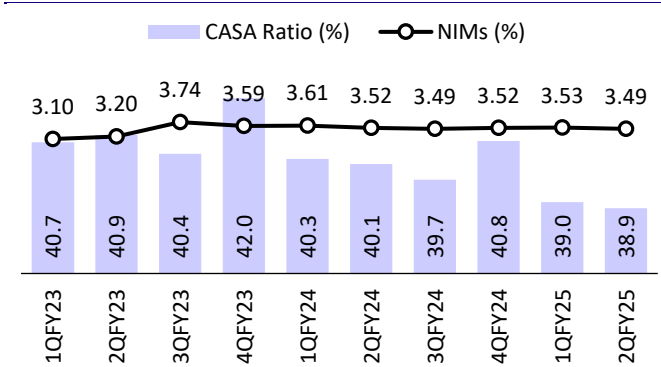


Exhibit 4: Yields increased to 8.8%/CoD at 5.1%

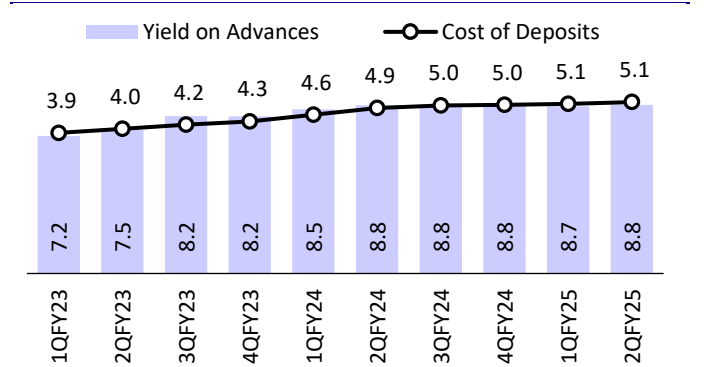


Exhibit 5: C/I ratio increased to 45% in 2QFY25

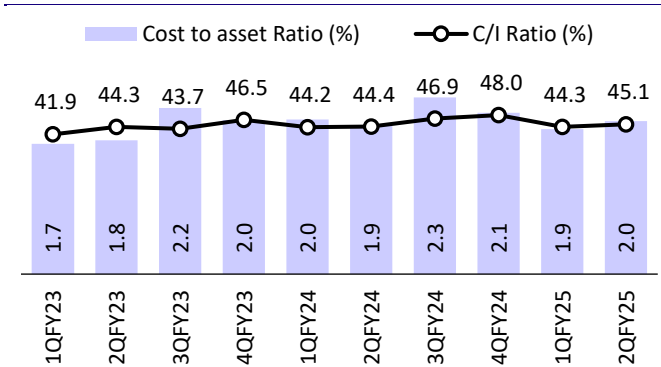


Exhibit 6: CD ratio increased to 76.9%

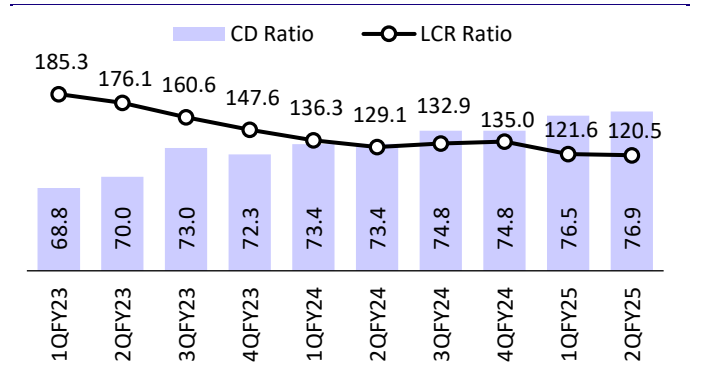


Exhibit 7: Slippages declined to INR13.8b/1.2% in 2QFY25

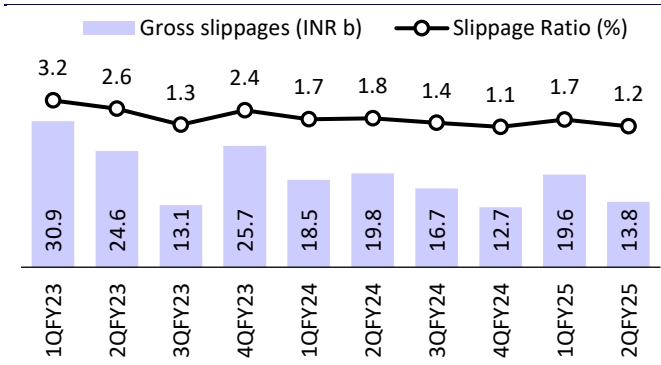
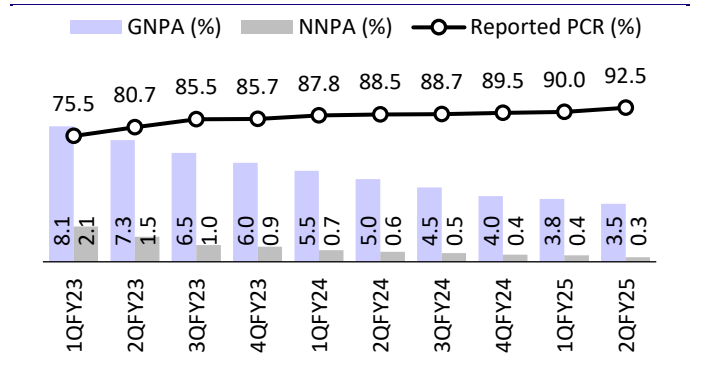


Exhibit 8: GNPA/NNPA ratios improved 29bp/12bp QoQ



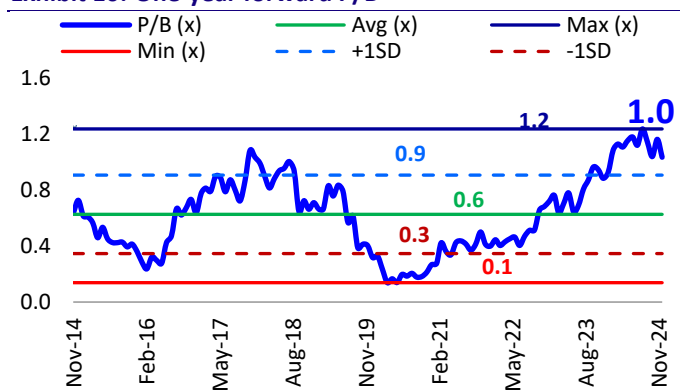
Source: MOFSL, Company

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Exhibit 9: DuPont analysis

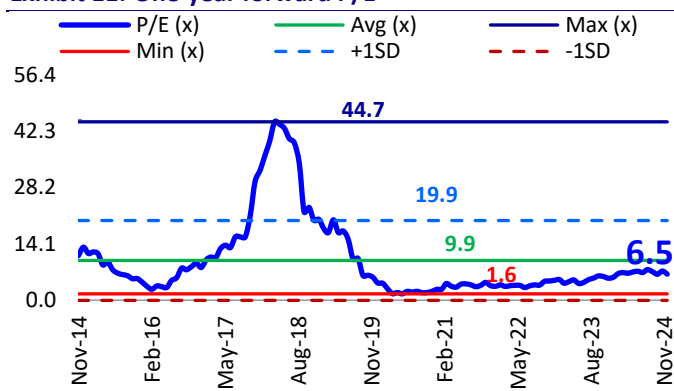
Y/E March (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	6.00	6.50	7.41	7.64	7.59	7.61
Interest Expense	3.42	3.58	4.31	4.59	4.56	4.54
Net Interest Income	2.58	2.93	3.10	3.05	3.03	3.07
Fee income	0.87	0.99	0.87	0.89	0.88	0.86
Trading and others	0.20	0.04	0.17	0.19	0.21	0.23
Other Income	1.07	1.03	1.05	1.08	1.08	1.08
Total Income	3.65	3.96	4.15	4.13	4.11	4.16
Operating Expenses	1.69	1.75	1.91	1.88	1.90	1.91
Employees	1.03	1.09	1.23	1.20	1.20	1.20
Others	0.65	0.66	0.67	0.68	0.70	0.71
Operating Profits	1.96	2.21	2.24	2.25	2.21	2.25
Core operating Profits	1.77	2.17	2.07	2.06	2.00	2.02
Provisions	1.47	1.35	0.78	0.58	0.55	0.56
PBT	0.49	0.86	1.46	1.68	1.66	1.69
Tax	-0.11	0.09	0.38	0.42	0.42	0.43
RoA	0.61	0.76	1.07	1.26	1.24	1.26
Leverage (x)	18.5	17.4	15.9	14.7	14.0	13.4
RoE	11.2	13.3	17.1	18.4	17.3	17.0

Exhibit 10: One-year forward P/B



Source: MOFSL, Company

Exhibit 11: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

Income Statement						(INRb)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	388.6	449.4	556.1	634.7	692.1	763.9
Interest Expense	221.3	247.2	323.4	380.2	415.1	454.5
Net Interest Income	167.3	202.3	232.7	254.5	277.0	309.4
- growth (%)	6.8	20.9	15.1	9.4	8.8	11.7
Non-Interest Income	69.2	71.4	78.7	89.7	98.6	108.5
Total Income	236.4	273.7	311.4	344.2	375.6	417.9
- growth (%)	10.9	15.8	13.8	10.5	9.1	11.3
Operating Expenses	109.3	121.0	143.0	155.9	172.7	191.3
PPoP	127.2	152.7	168.4	188.3	202.9	226.6
- growth (%)	16.0	20.1	10.3	11.8	7.7	11.7
Core PPoP	114.3	149.8	155.3	172.6	184.1	204.0
- growth (%)	23.3	31.0	3.7	11.2	6.6	10.9
Provisions	95.1	93.6	58.9	47.7	50.5	55.8
PBT	32.0	59.1	109.5	140.6	152.4	170.8
Tax	-7.4	6.3	28.9	35.4	38.4	43.1
Tax Rate (%)	-23.1	10.7	26.4	25.2	25.2	25.2
PAT	39.4	52.8	80.6	105.2	114.0	127.8
- growth (%)	31.3	33.9	52.7	30.4	8.4	12.1
Balance Sheet						
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	12	12	13	13	13	13
Equity Share Capital	12.5	12.5	13.5	13.5	13.5	13.5
Reserves & Surplus	424.6	467.3	570.4	655.1	744.8	844.0
Net Worth	437.1	479.7	583.9	668.5	758.3	857.5
Deposits	5,936.2	6,211.7	6,880.0	7,499.2	8,196.6	8,999.9
- growth (%)	10.3	4.6	10.8	9.0	9.3	9.8
- CASA Dep	2,479.3	2,608.1	2,804.9	3,025.9	3,344.2	3,712.5
- growth (%)	8.9	5.2	7.5	7.9	10.5	11.0
Borrowings	172.1	220.7	231.3	244.2	266.5	293.2
Other Liabilities & Prov.	171.3	192.9	231.0	265.6	305.5	351.3
Total Liabilities	6,716.7	7,105.0	7,926.2	8,677.6	9,526.9	10,501.9
Current Assets	799.2	501.3	421.1	441.4	465.5	515.8
Investments	1,745.6	1,859.9	2,125.5	2,312.6	2,497.6	2,734.9
- growth (%)	-1.1	6.5	14.3	8.8	8.0	9.5
Loans	3,891.9	4,493.0	5,148.9	5,694.7	6,309.7	6,972.2
- growth (%)	7.3	15.4	14.6	10.6	10.8	10.5
Fixed Assets	76.8	74.6	75.2	81.2	87.7	94.7
Other Assets	203.2	176.2	155.5	147.8	166.5	184.4
Total Assets	6,716.7	7,105.0	7,926.2	8,677.6	9,526.9	10,501.9
Asset Quality						
	FY22	FY23	FY24	FY25E	FY26E	FY27E
GNPA (INR b)	352.1	281.8	211.1	186.6	190.4	197.7
NNPA (INR b)	88.5	40.4	22.2	15.8	21.1	26.1
GNPA Ratio (%)	8.5	6.0	4.0	3.2	2.9	2.8
NNPA Ratio (%)	2.3	0.9	0.4	0.3	0.3	0.4
Slippage Ratio(%)	2.7	1.7	1.4	1.3	1.4	1.4
Credit Cost (%)	2.5	2.2	1.2	0.8	0.8	0.8
PCR (Excl Tech. write off)	74.9	85.7	89.5	91.5	88.9	86.8

E: MOFSL Estimates

Financials and Valuation

Ratios						
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield and Cost Ratios (%)						
Avg. Yield- on Earning Assets	6.3	6.8	7.6	7.9	7.8	7.8
Avg. Yield on loans	7.2	7.6	8.4	8.7	8.6	8.7
Avg. Yield on Investments	6.3	6.5	6.8	6.9	7.0	7.0
Avg. Cost of Int. Bear. Liab.	3.8	3.9	4.8	5.1	5.1	5.1
Avg. Cost of Deposits	3.7	3.8	4.7	5.2	5.2	5.2
Interest Spread	2.5	2.8	2.9	2.7	2.7	2.7
Net Interest Margin-calc	2.7	3.0	3.2	3.2	3.1	3.2
Capitalisation Ratios (%)						
CAR	16.8	16.5	16.4	17.5	17.4	17.1
Tier I	13.5	13.5	14.0	15.2	15.4	15.4
- CET-1	12.5	12.9	13.5	14.6	14.8	14.9
Tier II	3.4	3.0	2.4	2.3	2.0	1.7
Business Ratios (%)						
Loans/Deposit Ratio	65.6	72.3	74.8	75.9	77.0	77.5
CASA Ratio	41.8	42.0	40.8	40.4	40.8	41.3
Cost/Assets	1.6	1.7	1.8	1.8	1.8	1.8
Cost/Total Income	46.2	44.2	45.9	45.3	46.0	45.8
Cost/Core income	48.9	44.7	47.9	47.4	48.4	48.4
Int. Expense/Int.Income	56.9	55.0	58.2	59.9	60.0	59.5
Fee Income/Total Income	23.8	25.0	21.1	21.5	21.2	20.6
Non Int. Inc./Total Income	29.2	26.1	25.3	26.1	26.3	26.0
Empl. Cost/Total Expense	61.3	62.2	64.8	63.6	63.1	62.7
Efficiency Ratios (INRm)						
Employee per branch (in nos)	6.9	7.0	6.9	6.9	6.9	6.9
Staff cost per employee (INR m)	1.7	1.8	2.3	2.4	2.6	2.8
CASA per branch (INRm)	432.3	450.7	479.4	507.0	549.4	597.9
Deposits per branch (INRm)	1,035.1	1,073.4	1,175.9	1,256.6	1,346.5	1,449.5
Business per Employee (INR m)	246.9	262.5	298.8	321.4	346.4	373.9
Profit per Employee (INR m)	1.0	1.3	2.0	2.6	2.7	3.0
Profitability Ratios and Valuation						
RoE	11.2	13.3	17.1	18.6	17.4	17.1
RoA	0.6	0.8	1.1	1.3	1.3	1.3
RoRWA	1.3	1.6	2.2	2.6	2.5	2.5
Book Value (INR)	324	358	409	472	539	612
- growth (%)	3.7	10.7	14.2	15.4	14.1	13.7
Price-BV (x)	1.8	1.6	1.4	1.2	1.1	0.9
Adjusted BV (INR)	272	334	396	462	525	596
Price-ABV (x)	2.1	1.7	1.4	1.2	1.1	1.0
EPS (INR)	33.2	42.4	62.2	78.1	84.6	94.9
- growth (%)	24.9	27.7	46.7	25.5	8.4	12.1
Price-Earnings (x)	17.2	13.4	9.2	7.3	6.7	6.0
Dividend Per Share (INR)	6.5	8.6	12.0	15.2	18.0	21.2
Dividend Yield (%)	1.1	1.5	2.1	2.7	3.2	3.7

E: MOFSL Estimates

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Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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