

Indian Bank

Another steady quarter, strong earnings to persist; retaining a Buy

Improved operating performance and moderating provisions led to Indian Bank's strong profitability, with RoA up 5bps q/q to 1.2%. Headline asset quality and PCR improved despite seasonality. Ahead, we expect modest slippages as most of the stress has been recognised. With stress from the legacy book recognised, the focus now shifts to profitability. We expect the bank to deliver a sustainable ~1.2% RoA in the medium term. We retain our positive view, at a higher 12-mth TP of Rs674, 1.2x P/BV on its FY26e book.

Asset quality continues to improve. On higher recoveries and write-offs, GNPA/NNPA improved 18bps/4bps q/q. Q1 FY25 slippages were Rs19.6bn (1.5% of loans), more than in the last quarter due to seasonality. The slippage run-rate is expected to improve in coming quarters. The standard restructured book was Rs78.8bn (down 8.4% q/q), ~1.5% of loans. The SMA 30+ (>Rs50m) was stable at Rs24.5bn (0.47% of loans). Ahead, with a low stress pipeline and normal collection efficiency, slippages are expected to hold below 1.5% and overall asset quality to continue to improve.

RoA to be ~1.2% sustainably. With a pick-up in loan growth (~16% for FY25) and the modest slippage run-rate, credit costs are likely to be modest. Stable margins, strong fee income and modest opex would help to maintain a good operating performance. Strong operating profits and modest credit costs would lead to robust medium-term profitability. We estimate ~1.2% RoA and ~16% RoE through FY25/26.

Valuation. Our TP of Rs674 is based on the two-stage DDM model. This implies a ~1.2x P/BV multiple on its FY26e book. **Risks:** Lumpy slippages from the corporate book; less-than-expected loan growth.

| Key financials (YE Mar) (Rs m) | FY22 | FY23 | FY24 | FY25e | FY26e |
|--------------------------------|---------|---------|---------|---------|---------|
| Net interest income | 167,280 | 202,255 | 232,733 | 270,621 | 315,860 |
| Pre-provisioning profit | 127,169 | 152,706 | 168,395 | 196,853 | 233,830 |
| Provisions | 95,127 | 93,562 | 58,884 | 66,730 | 76,761 |
| PAT | 39,448 | 52,817 | 80,629 | 97,332 | 117,487 |
| EPS (Rs) | 31.7 | 42.4 | 59.9 | 72.3 | 87.2 |
| NIM (%) | 2.9 | 3.3 | 3.3 | 3.5 | 3.6 |
| Cost-Income (%) | 46.2 | 44.2 | 45.9 | 44.6 | 42.6 |
| RoE (%) | 9.6 | 11.5 | 15.2 | 15.6 | 16.4 |
| RoA (%) | 0.6 | 0.8 | 1.1 | 1.2 | 1.2 |
| Advances growth (%) | 7.3 | 15.4 | 14.6 | 16.0 | 16.0 |
| GNPA (%) | 8.5 | 6.0 | 4.0 | 3.3 | 2.6 |
| CAR (%) | 16.5 | 16.5 | 16.4 | 16.1 | 16.2 |
| P / E (x) | 18.5 | 13.8 | 9.8 | 8.1 | 6.7 |
| P / BV (x) | 1.7 | 1.5 | 1.4 | 1.2 | 1.0 |
| P / ABV (x) | 1.9 | 1.6 | 1.4 | 1.2 | 1.1 |

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.674

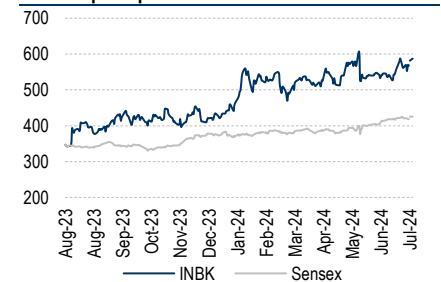
Share Price: Rs.586

| Key data | INBK IN / INBA.BO |
|--------------------|-----------------------|
| 52-week high / low | Rs.633 / 336 |
| Sensex / Nifty | 81,356 / 24,836 |
| 3-m average volume | \$15.8m |
| Market cap | Rs.791bn / \$9,446.2m |
| Shares outstanding | 1m347m |

| Shareholding pattern (%) | Jun'24 | Mar'24 | Dec'23 |
|--------------------------|--------|--------|--------|
| Promoters | 73.8 | 73.8 | 73.8 |
| - of which, Pledged | - | - | - |
| Free float | 26.2 | 26.2 | 26.2 |
| - Foreign institutions | 5.4 | 5.3 | 5.9 |
| - Domestic institutions | 16.9 | 17.0 | 15.8 |
| - Public | 3.9 | 3.9 | 4.4 |

| Estimates revision (%) | FY25e | FY26e |
|-------------------------|-------|-------|
| Net interest income | 0.3 | 0.5 |
| Pre-provisioning profit | 0.8 | 1.1 |
| PAT | 1.2 | 2.1 |

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA

Research Analyst

Kaitav Shah, CFA

Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|--------------------------|---------|---------|---------|---------|---------|
| Net interest income | 167,280 | 202,255 | 232,733 | 270,621 | 315,860 |
| <i>NII growth (%)</i> | 6.8 | 20.9 | 15.1 | 16.3 | 16.7 |
| Non-interest income | 69,154 | 71,431 | 78,667 | 84,961 | 91,757 |
| Income | 236,434 | 273,685 | 311,400 | 355,582 | 407,618 |
| <i>Income growth (%)</i> | 10.9 | 15.8 | 13.8 | 14.2 | 14.6 |
| Operating expenses | 109,265 | 120,979 | 143,005 | 158,729 | 173,787 |
| PPoP | 127,169 | 152,706 | 168,395 | 196,853 | 233,830 |
| <i>PPoP growth (%)</i> | 16.0 | 20.1 | 10.3 | 16.9 | 18.8 |
| Provisions | 95,127 | 93,562 | 58,884 | 66,730 | 76,761 |
| PBT | 32,042 | 59,144 | 109,511 | 130,124 | 157,069 |
| Tax | -7,406 | 6,327 | 28,882 | 32,791 | 39,581 |
| PAT | 39,448 | 52,817 | 80,629 | 97,332 | 117,487 |
| <i>PAT growth (%)</i> | 31.3 | 33.9 | 52.7 | 20.7 | 20.7 |
| FDEPS (Rs) | 31.7 | 42.4 | 59.9 | 72.3 | 87.2 |
| DPS (Rs) | 6.5 | 8.6 | 12.0 | 10.8 | 13.1 |

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|----------------------------|------------------|------------------|------------------|------------------|-------------------|
| Share capital | 12,454 | 12,454 | 13,470 | 13,470 | 13,470 |
| Reserves & surplus | 424,634 | 467,273 | 570,412 | 653,144 | 753,009 |
| Deposits | 5,936,178 | 6,211,658 | 6,880,000 | 7,740,000 | 8,784,900 |
| Borrowings | 171,443 | 220,730 | 231,315 | 242,881 | 255,025 |
| Other liabilities | 171,971 | 192,892 | 230,995 | 221,000 | 213,048 |
| Total liabilities | 6,716,681 | 7,105,007 | 7,926,191 | 8,870,495 | 10,019,451 |
| Advances | 3,891,861 | 4,492,967 | 5,148,891 | 5,972,713 | 6,928,347 |
| Investments | 1,745,586 | 1,859,883 | 2,125,545 | 2,189,311 | 2,320,670 |
| Cash & bank balance | 799,161 | 501,326 | 421,091 | 458,497 | 499,409 |
| Fixed & other assets | 280,074 | 250,832 | 230,664 | 249,973 | 271,025 |
| Total assets | 6,716,681 | 7,105,007 | 7,926,191 | 8,870,495 | 10,019,451 |
| No. of shares (m) | 1,245 | 1,245 | 1,347 | 1,347 | 1,347 |
| <i>Deposits growth (%)</i> | 10.3 | 4.6 | 10.8 | 12.5 | 13.5 |
| <i>Advances growth (%)</i> | 7.3 | 15.4 | 14.6 | 16.0 | 16.0 |

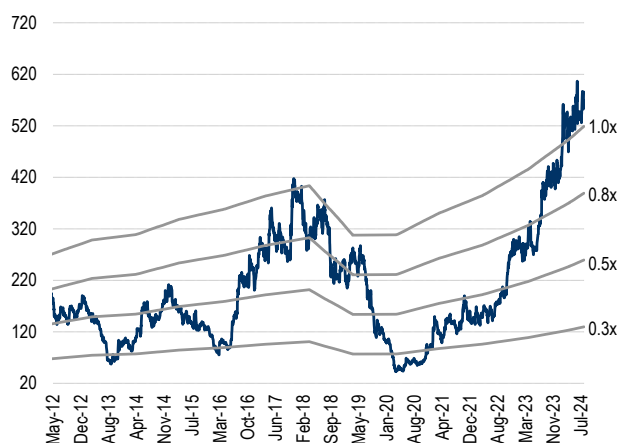
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|-------------------------|-------|-------|-------|-------|-------|
| NIM | 2.9 | 3.3 | 3.3 | 3.5 | 3.6 |
| Other inc. / total inc. | 29.2 | 26.1 | 25.3 | 23.9 | 22.5 |
| Cost-income | 46.2 | 44.2 | 45.9 | 44.6 | 42.6 |
| Provision coverage | 74.9 | 85.7 | 89.5 | 88.0 | 85.0 |
| Dividend payout | 20.5 | 20.3 | 20.0 | 15.0 | 15.0 |
| Credit-deposit | 65.6 | 72.3 | 74.8 | 77.2 | 78.9 |
| Investment-deposit | 29.4 | 29.9 | 30.9 | 28.3 | 26.4 |
| Gross NPA | 8.5 | 6.0 | 4.0 | 3.3 | 2.6 |
| Net NPA | 2.3 | 0.9 | 0.4 | 0.4 | 0.4 |
| BV (Rs) | 351.0 | 385.2 | 433.5 | 494.9 | 569.0 |
| Adj. BV (Rs) | 301.2 | 362.5 | 421.9 | 482.7 | 555.2 |
| CAR (%) | 16.5 | 16.5 | 16.4 | 16.1 | 16.2 |
| - Tier 1 | 13.2 | 13.5 | 14.0 | 14.0 | 14.3 |
| RoE | 9.6 | 11.5 | 15.2 | 15.6 | 16.4 |
| RoA | 0.6 | 0.8 | 1.1 | 1.2 | 1.2 |

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



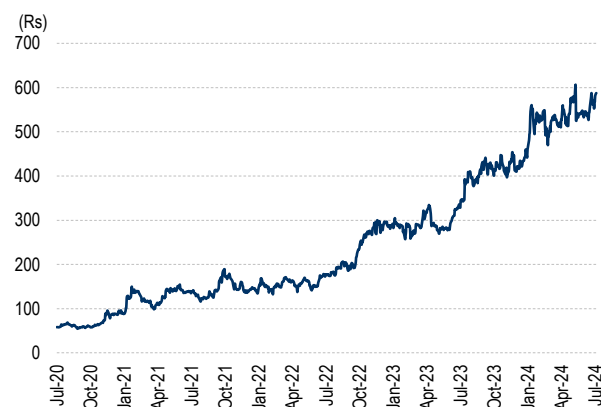
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

| (Rs m) | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Interest income | 122,444 | 130,494 | 137,433 | 141,976 | 146,245 | 150,392 |
| Interest expense | 67,361 | 73,459 | 80,031 | 83,834 | 86,091 | 88,611 |
| NII | 55,083 | 57,035 | 57,402 | 58,142 | 60,154 | 61,781 |
| <i>Y/Y growth</i> | 29.5 | 25.8 | 22.5 | 5.7 | 9.2 | 8.3 |
| Non-interest income | 19,939 | 17,096 | 19,930 | 19,016 | 22,625 | 19,055 |
| Total income | 75,022 | 74,131 | 77,332 | 77,158 | 82,779 | 80,836 |
| <i>Y/Y growth</i> | 28.7 | 20.8 | 18.8 | 6.9 | 10.3 | 9.0 |
| Operating expenses | 34,866 | 33,484 | 34,304 | 36,186 | 39,730 | 35,820 |
| Of which, staff cost | 22,199 | 21,886 | 21,769 | 23,358 | 26,333 | 23,011 |
| PPoP | 40,156 | 40,647 | 43,027 | 40,972 | 43,050 | 45,016 |
| <i>Y/Y growth</i> | 46.7 | 14.0 | 18.6 | 0.9 | 7.2 | 10.7 |
| Total provisions | 25,630 | 17,406 | 15,507 | 13,494 | 12,478 | 12,584 |
| PBT | 14,526 | 23,240 | 27,521 | 27,478 | 30,572 | 32,432 |
| Tax | 53 | 6,852 | 7,643 | 6,285 | 8,102 | 8,398 |
| PAT | 14,473 | 16,388 | 19,878 | 21,194 | 22,470 | 24,034 |
| <i>Y/Y growth</i> | 47.0 | 35.1 | 62.2 | 51.8 | 55.3 | 46.7 |

Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

| (Rs m) | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|--------------------------------|------------------|------------------|------------------|-----------|------------------|------------------|
| Equity capital | 12,454 | 12,450 | 12,454 | 12,454 | 13,470 | 13,470 |
| Reserves & Surplus | 467,273 | 484,190 | 504,164 | 525,358 | 570,412 | 594,560 |
| Deposits | 6,211,658 | 6,215,390 | 6,408,027 | 6,541,540 | 6,880,000 | 6,811,830 |
| Borrowings | 220,730 | 199,970 | 249,228 | - | 231,315 | 327,730 |
| Other liabilities | 192,892 | 193,650 | 213,794 | - | 230,995 | 218,070 |
| Equity and Liabilities | 7,105,007 | 7,105,650 | 7,387,667 | - | 7,926,191 | 7,965,660 |
| <i>Deposits y/y growth (%)</i> | 4.6 | 6.4 | 8.8 | 9.6 | 10.8 | 9.6 |
| <i>Deposits q/q growth (%)</i> | 4.0 | 0.1 | 3.1 | 2.1 | 5.2 | -1.0 |
| Assets | | | | | | |
| Cash | 501,326 | 393,810 | 407,723 | - | 421,091 | 385,880 |
| Advances | 4,492,967 | 4,563,750 | 4,706,266 | - | 5,148,891 | 5,208,470 |
| Investments | 1,859,883 | 1,887,890 | 2,016,726 | - | 2,125,545 | 2,115,170 |
| Other assets | 250,832 | 260,200 | 256,952 | - | 230,664 | 256,140 |
| Total Assets | 7,105,007 | 7,105,650 | 7,387,667 | - | 7,926,191 | 7,965,660 |
| <i>Advances y/y growth (%)</i> | 15.4 | - | 14.2 | - | 14.6 | 14.1 |
| <i>Advances q/q growth (%)</i> | - | 1.6 | - | - | - | 1.2 |

Source: Company, Anand Rathi Research

Fig 9 – Asset quality movement

| (Rs m) | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Opening balance | 294,839 | 281,795 | 262,269 | 244,875 | 227,865 | 211,063 |
| Slippages | 25,660 | 18,520 | 19,820 | 16,670 | 12,680 | 19,560 |
| Recovery | 19,010 | 16,660 | 14,150 | 11,430 | 8,980 | 12,900 |
| Write-offs | 19,690 | 21,390 | 23,060 | 22,250 | 20,510 | 14,700 |
| Closing balance | 281,795 | 262,269 | 244,875 | 227,865 | 211,063 | 203,022 |
| GNPA (%) | 6.0 | 5.5 | 5.0 | 4.5 | 4.0 | 3.8 |
| Gross slippage ratio (%) | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 |

Source: Company, Anand Rathi Research

Fig 10 – Break-up of advances

| (%) | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Corporate & Commercial | 36.2 | 36.3 | 35.1 | 34.8 | 35.3 | 35.1 |
| MSME | 16.8 | 16.4 | 16.3 | 16.3 | 15.8 | 15.5 |
| Retail | 19.2 | 19.4 | 19.4 | 19.5 | 19.6 | 19.7 |
| Housing | 12.6 | 12.7 | 12.7 | 12.6 | 12.4 | 12.8 |
| Vehicle | 1.1 | 1.2 | 1.3 | 1.4 | 1.5 | 1.6 |
| Personal | 1.6 | 1.7 | 1.8 | 1.7 | 1.6 | 1.5 |
| Others | 3.8 | 3.9 | 3.7 | 3.7 | 4.1 | 3.8 |
| Agriculture | 21.5 | 21.8 | 22.4 | 22.4 | 22.7 | 23.0 |
| Total domestic advances | 93.7 | 94.0 | 93.2 | 93.0 | 93.3 | 93.2 |
| Overseas advances | 6.3 | 6.0 | 6.8 | 7.0 | 6.7 | 6.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Company, Anand Rathi Research

Fig 11 – Collection efficiency across portfolios

| (%) | Dec'22 | Mar'23 | Jun'23 | Sep'23 | Dec'23 | Mar'24 | Jun'24 |
|-----------|--------|--------|--------|--------|--------|--------|--------|
| Retail | 94 | 94 | 94 | 94 | 94 | 95 | 96 |
| Agri | 91 | 92 | 90 | 90 | 91 | 92 | 91 |
| MSME | 95 | 95 | 94 | 94 | 93 | 94 | 92 |
| Corporate | 99 | 99 | 99 | 99 | 99 | 99 | 99 |

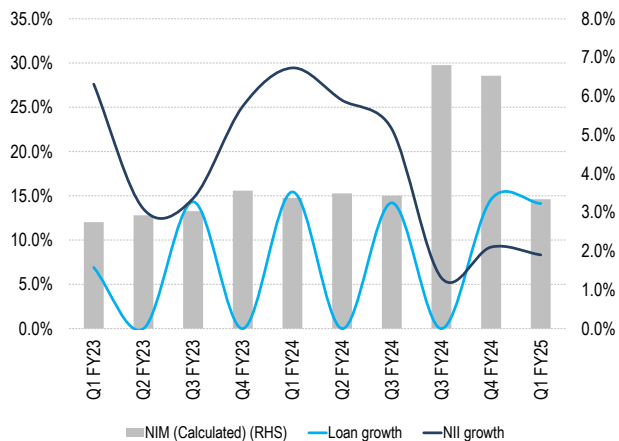
Source: Company, Anand Rathi Research

Fig 12 – NCLT accounts

| NCLT list | No. of Accounts | Exposure (Rs m) | Provision (Rs m) | PCR (%) |
|-------------------------------|-----------------|-----------------|------------------|------------|
| RBI List-1 | 6 | 12,250 | 12,250 | 100 |
| RBI List-2 | 10 | 28,530 | 28,530 | 100 |
| Accounts filed by the bank | 28 | 13,260 | 13,260 | 100 |
| Accounts filed by other banks | 212 | 1,66,510 | 1,66,510 | 100 |
| Total | 256 | 2,20,550 | 2,20,550 | 100 |

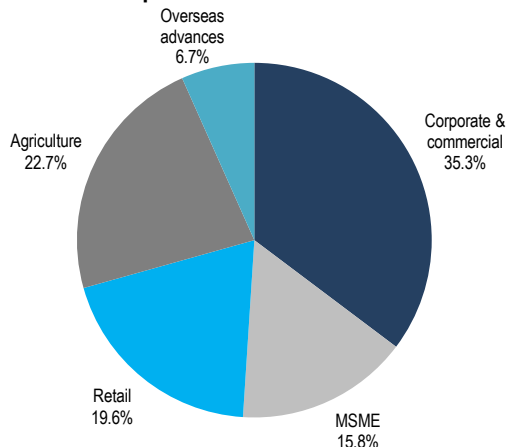
Source: Company, Anand Rathi Research

Fig 13 – Credit growth vs. NIM (%)



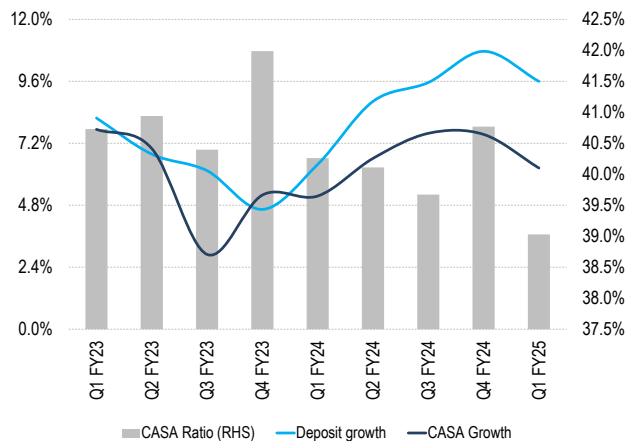
Source: Company, Anand Rathi Research

Fig 14 – Loan break-up



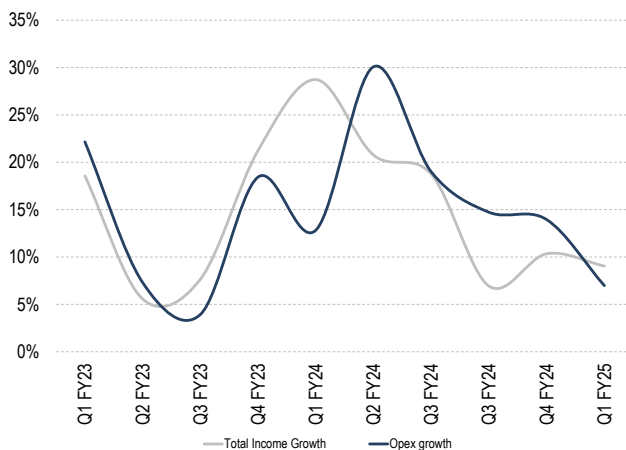
Source: Company, Anand Rathi Research

Fig 15 – CASA ratio vs. Deposits growth



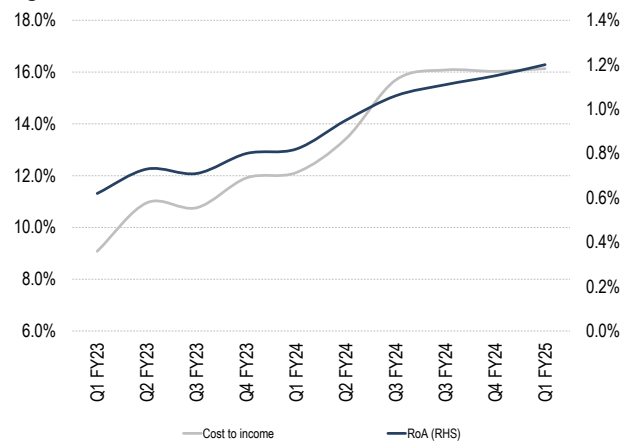
Source: Company, Anand Rathi Research

Fig 16 – Income vs. Opex growth



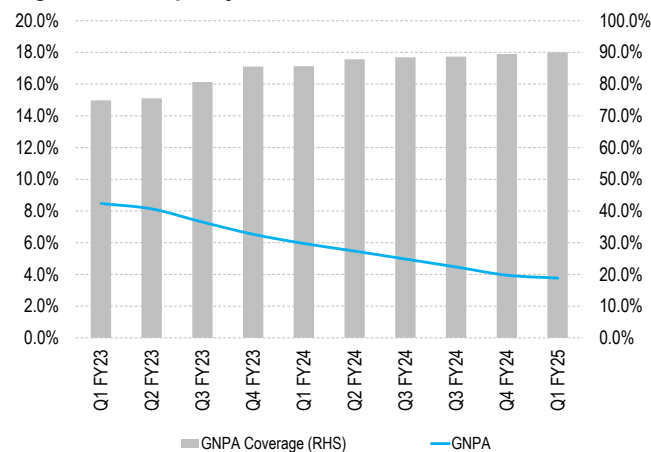
Source: Company, Anand Rathi Research

Fig 17 – Cost to income vs. RoA



Source: Company, Anand Rathi Research

Fig 18 – Asset quality



Source: Company, Anand Rathi Research

Valuation

- Our target price of Rs674 is based on the two-stage DDM model. This implies a ~1.2x P/BV multiple on its FY26e book.
- This is one of the best-managed public-sector banks and we are sanguine regarding management's ability to deliver on its targets.

Fig 19 – Change in estimates

| (Rs m) | FY25e | | | FY26e | | |
|-------------------------|----------|----------|---------|----------|----------|---------|
| | New | Old | Chg (%) | New | Old | Chg (%) |
| Net interest income | 2,70,621 | 2,69,867 | 0.3 | 3,15,860 | 3,14,158 | 0.5 |
| Pre-provisioning profit | 1,96,853 | 1,95,259 | 0.8 | 2,33,830 | 2,31,183 | 1.1 |
| PAT | 97,332 | 96,140 | 1.2 | 1,17,487 | 1,15,025 | 2.1 |

Source: Anand Rathi Research

Risks

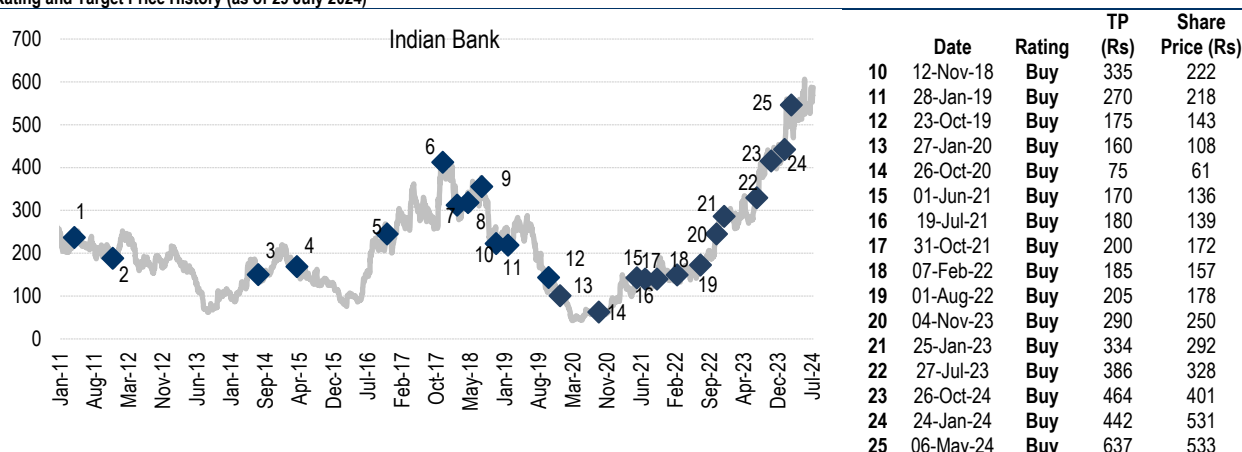
- Higher slippages (especially from the corporate portfolio) could lead to volatility in asset quality.
- Less-than-expected loan growth could disrupt our estimates.

Appendix

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