

High prudential provisions dent profitability

- Indian Bank reported NII and PPOP growth of 29%/47% YoY, slightly behind estimates. PAT miss despite lower tax rate was mainly owing to higher prudential provisions, even as NPA related provisions declined sharply.
- Slippages were high at 2.3%, led by elevated MSME slippages. The bank further raised provisions against restructured book to 20% in Q4. Restructured portfolio at ~2.5% has come down sharply, partly led by repayments. Cumulatively, slippages from restructured book (ex of Future retail) have been ~15% over the last 1.5 years, in line with peers.
- Loan growth at 5% QoQ, though broad based, was led by corporate. With 40% of total advance (based on 1 year MCLR) likely to re-price in H1FY24, near term NIM outlook remains strong. Industry best PCR to 86%, limited corporate stress, and continued recoveries to aid credit costs of 150 bps for FY24/25E
- We factor in higher NIM over the next few quarters and lower credit costs for FY24E/25E, resulting in 7-9% upgrade in earnings for FY24/25E. Maintain Accumulate with a TP of Rs370 (0.9x FY25E P/ABV) against a RoA/RoE of 0.9%/14%. The stock currently trades at 0.8x P/ABV.

Near term NIM outlook remains strong

The bank has 59% of MCLR linked loans, of which ~40% (linked to 1 year MCLR) is expected to re-price in H1 of FY24, aiding NIM prospects even as CoF rise and NIMs normalize thereafter. The bank also has other NIM levers including higher yields on investment portfolio, better utilization of excess liquidity, and sharp moderation in interest reversals. We factor in higher NIM of 3.45% for FY24E against 3.4% in FY23, which moderate to 3.35% in FY25E.

Slippages and credit costs moderate meaningfully

Headline asset quality strengthened with 55 bps sequential decline in GNPA ratio to 5.95%, and high PCR at 86%. Of the high MSME slippages of Rs13bn, half came from restructured book and rest from standard portfolio. But COVID restructured book at 2.5% has moderated sharply, partly led by repayments. Cumulatively, slippages from restructured book have been ~20% over the last 1.5 years, in line with peers. With well-provided NPA and restructured book (PCR at 86%/20% respectively) and additional prudential provisions, we expect credit costs and slippages to moderate to 2-2.1% and 150 bps respectively over FY24/25E.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net interest income	55,083	42,552	29.5	54,992	0.2
Other income	19,939	15,728	26.8	17,165	16.2
Total Net Income	75,022	58,279	28.7	72,156	4.0
Operating expenses	34,866	30,903	12.8	31,542	10.5
Pre-provision profits	40,156	27,376	46.7	40,614	(1.1)
Provisions	25,630	19,139	33.9	25,150	1.9
Tax expense	53	(1,606)	NA	1,499	(96.5)
Reported Net Profit	14,473	9,842	47.0	13,965	3.6
			(bps)		(bps)
Advances Growth YoY (%)	15.4	6.9	853	14.7	77
NIM (%)	3.6	2.9	72	3.7	(15)
RoA	0.8	0.6	23	0.8	2
RoE	12.6	9.6	304	12.2	39
Gross NPA (%)	6.0	8.5	(252)	6.5	(58)

CMP	Rs 315
Target / Upside	Rs 370 / 17%
NIFTY	17,360

Scrip Details

Equity / FV	Rs 12,454mn / Rs 10
Market Cap	Rs 393bn
	USD 4.8bn
52-week High/Low	Rs 335/ 137
Avg. Volume (no)	1,589,890
Bloom Code	INBK IN

Price Performance	1M	3M	12M
Absolute (%)	9	10	106
Rel to NIFTY (%)	6	8	92

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	79.9	79.9	79.9
MF/Banks/FIs	12.1	11.9	11.6
FIs	2.6	3.6	4.2
Public / Others	5.5	4.6	4.4

Valuation (x)

	FY23A	FY24E	FY25E
P/E	7.3	5.4	5.2
P/ABV	1.0	0.9	0.8
ROAA	0.8	1.0	0.9
ROAE	11.7	14.4	13.3

Estimates (Rs bn)

	FY23A	FY24E	FY25E
NII	202.3	220.3	235.9
PPOP	153.7	167.2	176.7
PAT	53.8	73.3	75.7
Adj BV (Rs)	303.7	353.2	400.5

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Risks to our view: Higher-than-estimated credit loss from MSME segment, weaker than expected NIM and growth metrics, higher than expected ECL provisions.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	55,083	57,529	(4.3)
Operating Profit	40,156	41,588	(3.4)
PAT	14,473	18,820	(23.1)

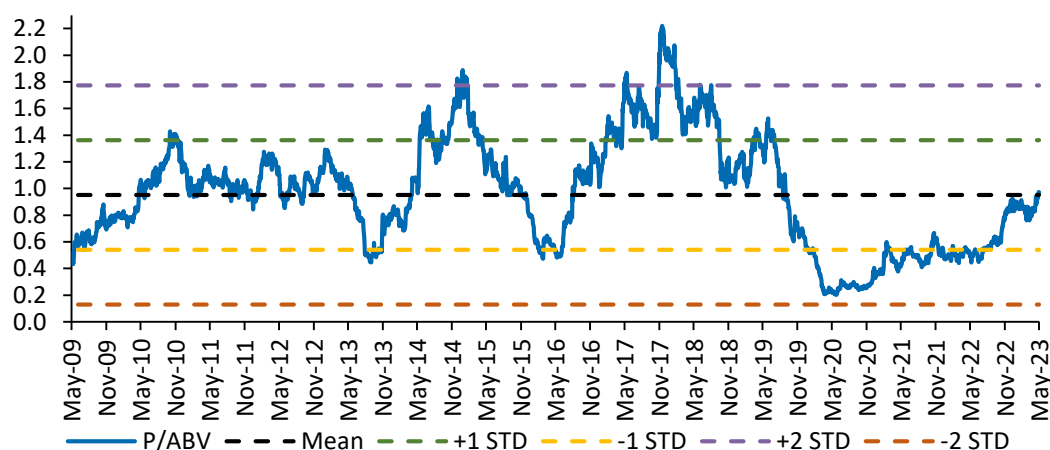
Source: Company, DART

Exhibit 2: Changes in estimates

(INR Mn)	Previous		Revised		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Op Rev	289,427	314,218	302,200	326,214	4.4	3.8
PPOP	156,002	167,945	167,160	176,656	7.2	5.2
PAT	67,338	70,561	73,331	75,747	8.9	7.3

Source: DART, Company

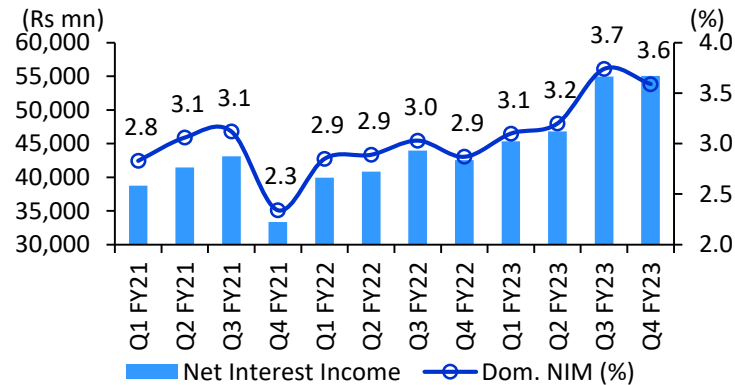
Exhibit 3: The stock currently trades at 1x 1-yr forward P/ABV



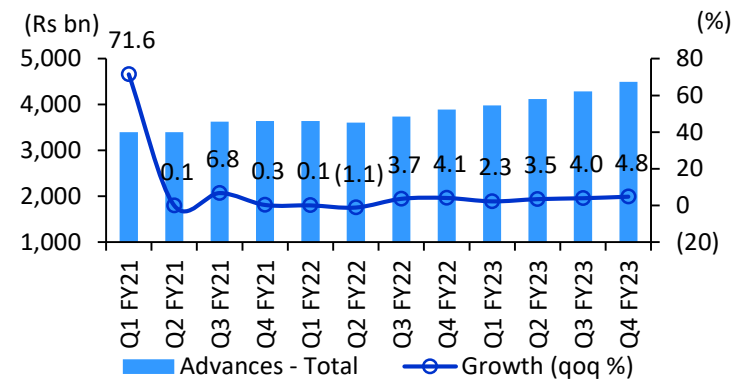
Source: DART, Company

Earnings Call KTAs

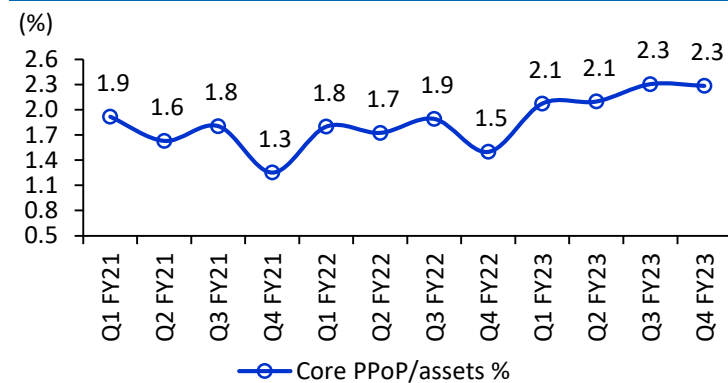
- **Guidance:** The management has guided to protect the current NIM of 3.41%. Credit growth guided to be ~10%-12%. Deposit growth to be in the range of 8%-10%. GNPA guided to be below 5%. Tech spend to be in range of Rs.5-6bn. Credit costs should come down substantially as going forward and 20% RSA provisions seems to be at comfortable level. Tax rate will be ~25% going forward.
- **Advances:** The bank is focussed mid corporate book (growth is 19%); has opened up 25 branches for the same. Share of MCLR book increased from 56% to 59%, repo rate book declined from 36% to 34%. 40% of total advance is based on 1 year MCLR and 14% is on 6 months. Bank is planning to introduce fixed rate products in coming fiscal. Bank has passed on 170 bps, 180bps and 190 bps in housing, auto and jewellery book respectively. Continue to achieve growth of 20% in gold space.
- **Deposits:** Average duration of liability is 1.6. Some part of the deposits will be due for repricing. Bulk deposits constitute 17% of the total deposits. 16% of term deposit likely to be repriced every quarter.
- **Profitability:** AFS yield has improved to 7.15% and profits to accrue in near term. Bank is positive to protect the NIM of 3.4% by using excess SLR investments as credit and by increasing the MCLR mix in total advances book. Interest reversal is Rs.2.36 bn v/s Rs1.39bn for last quarter. Total spend on technology in so far is ~Rs.16bn. Tax amount declined during the quarter due to creation of standard asset provision.
- **Asset Quality:** Rs.70bn O/s of the total ECLGS book or Rs.110bn. Of this Rs.13bn MSME slippages, Rs.7bn is from restructured book and Rs.1.1bn is from ECLGS book. Any RSA account going bad, the provisions are from retrospective effect. Exposure to Spicejet is of Rs.200mn.
- **Technology:** Completed 20 digital journey in RAM and garnered Digital canvas business of Rs.52bn, Rs.33bn and Rs.0.6bn in retail, agriculture and MSME respectively. Planning to move core banking to cloud platform in FY24. Further strengthen cyber security and developed centre of excellence for initiatives on analytics, data warehouse etc. On-boarded CRM vendor for customer 360.
- **Others:** LCR at 138%. Excess SLR of Rs.350-360bn. Investment in government securities at 80% currently, to come down to 75%. Bank does not intend to raise capital in near term. Bank has received RBI permission to create it's own subsidiary that will be responsible for marketing and back office work of the bank which in turn will aid cost reduction.

Exhibit 4: Reported NIM moderated sequentially by 15bps


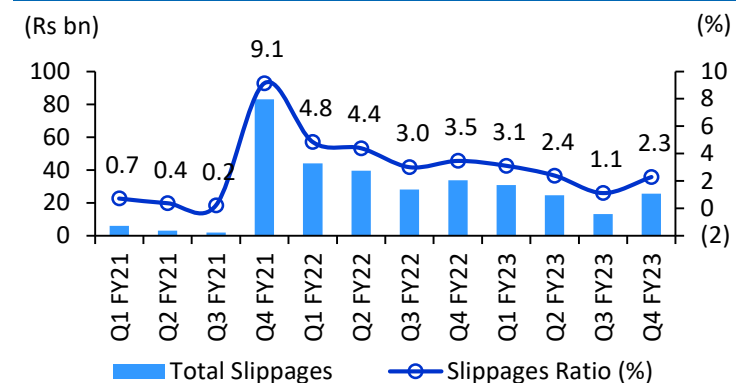
Source: Company, DART

Exhibit 5: Sequential growth driven by corporate


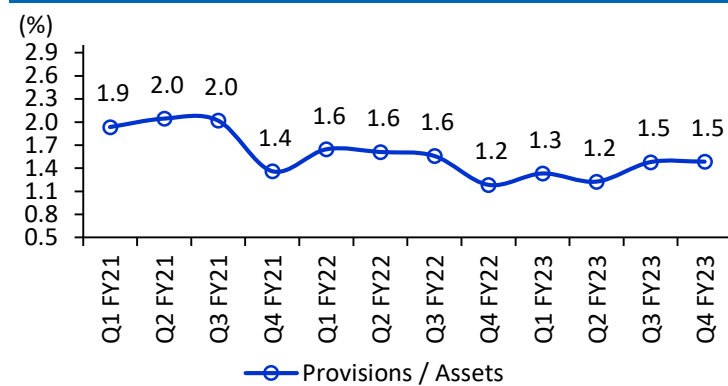
Source: Company, DART

Exhibit 6: Core PPOP benefitted from high other income


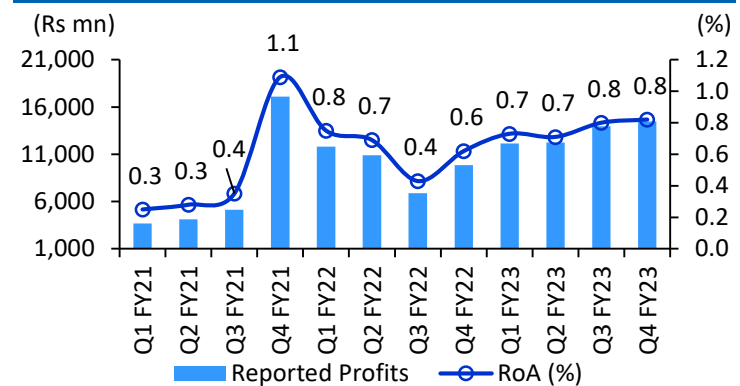
Source: Company, DART

Exhibit 7: Slippages increased in Q4 after a sharp decline


Source: Company, DART

Exhibit 8: Provisions stable QoQ; but higher than expected


Source: Company, DART

Exhibit 9: RoAs have gradually inched upwards


Source: Company, DART

Profit and Loss (Rs mn)	Q4FY23	Q4FY22	% YoY / bps	Q3FY23	% QoQ / bps	FY23	FY22	% YoY / bps
Interest Income	122,444	98,324	24.5	118,342	3.5	449,422	388,562	15.7
Yield on Advances (%)	8.2	7.0	117	8.2	(2)	7.8	7.1	69
Yield on Domestic Invt. (%)	6.6	6.4	19	6.5	10	6.6	6.2	38
Interest Expenses	67,361	55,773	20.8	63,350	6.3	247,168	221,283	11.7
Cost of Dep. (%)	4.3	3.9	45	4.2	14	4.1	3.9	19
Net Interest Income	55,083	42,552	29.5	54,992	0.2	202,255	167,280	20.9
NII to Net Operative Income	73.4	73.0	41	76.2	(279)	73.9	70.8	315
Dom. NIM (%)	3.6	2.9	72	3.7	(15)	3.4	2.9	50
Core Fee Income	8,166	8,130	0.4	7,040	16.0	29,680	25,540	16.2
Exchange Profit	460	2,740	(83.2)	2,940	(84.4)	10,090	6,900	46.2
Profit on Sale / Rev of Investments	170	2,490	(93.2)	1,340	(87.3)	3,810	16,260	(76.6)
Recovery from W/O Debts	8,600	1,970	336.5	4,260	101.9	21,770	16,120	35.0
Others	2,542	398	539.4	1,585	60.4	7,054	4,335	62.7
Other Income - Total	19,939	15,728	26.8	17,165	16.2	71,431	69,154	3.3
Other Inc to Net Oper. Income (%)	26.6	27.0	(41)	23.8	279	26.1	29.2	(315)
Net Operating Revenue	75,022	58,279	28.7	72,156	4.0	273,685	236,434	15.8
Employee Expenses	22,199	19,494	13.9	19,915	11.5	75,272	66,957	12.4
Empl. Cost/Oper. Exps. (%)	29.6	33.4	(386)	27.6	199	27.5	28.3	(82)
Other Opex	12,667	11,409	11.0	11,628	8.9	45,707	42,308	8.0
Other Opex/ Assets (%)	0.2	0.2	1	0.2	1	0.7	0.7	1
Total Opex	34,866	30,903	12.8	31,542	10.5	120,979	109,265	10.7
Cost to Income Ratio (%)	46.5	53.0	(655)	43.7	276	44.2	46.2	(201)
Pre Provision Profits	40,156	27,376	46.7	40,614	(1.1)	152,706	127,169	20.1
Provisions & Contingencies - Total	25,630	19,139	33.9	25,157	1.9	93,562	95,127	(1.6)
NPA Provisions as % PPP	63.8	69.9	(609)	61.9	188	61.3	74.8	(1,353)
Profit Before Tax	14,526	8,237	76.3	15,457	(6.0)	59,144	32,042	84.6
Tax	53	(1,606)	NA	1,499	(96.5)	6,327	(7,406)	NA
Effective Tax Rate (%)	0.4	(19.5)	1,986	9.7	(933.6)	10.7	(23.1)	3,381
Reported Profits	14,473	9,842	47.0	13,958	3.7	52,817	39,448	33.9
RoA (%)	0.8	0.6	20	0.8	2.0	0.8	0.6	14

Balance Sheet Analysis	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ % / bps	YoY % / bps
RoE (%)	8.3	11.7	14.2	13.8	15.2	15.5	27	378
CET1 (%)	11.4	12.5	12.5	12.3	12.0	12.9	92	36
Tier 1 (%)	12.0	13.2	13.2	12.9	12.9	13.5	86	31
Total CAR (%)	15.5	16.5	16.5	16.2	15.7	16.5	75	(4)
RWA - Total	3,055,090	3,089,380	3,088,190	3,157,440	3,226,830	3,335,820	3.4	8.0
Advances - Total	3,737,015	3,891,861	3,980,917	4,120,735	4,285,565	4,492,967	4.8	15.4
Total Assets	6,570,822	6,716,681	6,628,508	6,732,561	6,897,390	7,105,007	3.0	5.8
RoA (%)	0.4	0.6	0.7	0.7	0.8	0.8	2	20
Deposits	5,625,750	5,936,178	5,842,510	5,888,600	6,006,372	6,211,658	4.0	4.6
Saving Deposit	2,004,210	2,112,060	2,054,900	2,077,650	2,110,120	2,249,520	6.6	6.5
Current Deposit	340,010	367,200	324,770	333,130	302,010	358,570	18.7	(2.4)
CASA Deposits	2,344,220	2,479,260	2,379,670	2,410,780	2,412,130	2,608,090	8.1	5.2
CASA Ratio (%)	41.7	41.8	40.7	40.9	40.4	42.0	159	22

Movement of NPA (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ % / bps	YoY % / bps
Gross Advances	4,002,143	4,157,527	4,252,563	4,377,922	4,515,147	4,736,055	4.9	13.9
Gross NPA	365,396	352,143	345,733	319,588	294,839	281,795	(4.4)	(20.0)
Gross NPA Ratio (%)	9.1	8.5	8.1	7.3	6.53	5.95	(58)	(252)
PCR - Calculated (%)	72.2	74.9	75.5	80.7	85.5	85.7	14	1,078
PCR - Inc. Tech w/o (%)	85.5	87.4	88.1	91.1	93.59	93.82	23	644
Net Advances	3,733,419	3,898,084	3,995,623	4,116,087	4,270,480	4,492,300	5.2	15.2
Net NPA	101,549	88,487	84,707	61,741	42,705	40,431	(5.3)	(54.3)
Net NPAs Ratio (%)	2.7	2.3	2.1	1.5	1.00	0.90	(10)	(137)

Loan Book Analysis (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	QoQ % / bps	YoY % / bps
Agriculture	852,570	881,000	905,050	952,140	982,200	1,019,370	3.8	15.7
Corp & Other	1,513,570	1,529,980	1,551,130	1,562,420	1,613,510	1,712,420	6.1	11.9
Retail	756,460	804,330	806,670	836,550	872,190	910,860	4.4	13.2
Overseas	153,370	199,270	258,430	264,430	274,960	296,650	7.9	48.9
SME/MSME	728,350	741,670	730,750	763,870	773,720	796,560	3.0	7.4
Advances - Total	3,737,015	3,891,861	3,980,917	4,120,735	4,285,565	4,492,967	4.8	15.4

Source: DART, Company

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY22A	FY23A	FY24E	FY25E
Interest Income	388,562	449,422	510,435	565,100
Interest expenses	221,283	247,168	290,116	329,225
Net interest income	167,280	202,255	220,319	235,875
Other incomes	69,154	72,404	81,881	90,339
Total expenses	109,265	120,979	135,039	149,558
- Employee cost	66,957	75,272	84,305	92,735
- Other	42,308	45,707	50,734	56,823
Pre provisioning profit	127,169	153,680	167,160	176,656
Provisions	95,127	93,565	68,064	74,295
Profit before taxes	32,042	60,115	99,096	102,360
Tax provision	(7,406)	6,327	25,765	26,614
Profit after tax	39,448	53,788	73,331	75,747
Adjusted profit	39,448	53,788	73,331	75,747

Balance Sheet (Rs Mn)

Particulars	FY22A	FY23A	FY24E	FY25E
Sources of Funds				
Equity Capital	12,454	12,454	12,454	12,454
Reserves & Surplus	424,634	467,273	526,256	587,382
Minority Interest	-	-	0	0
Net worth	437,088	479,728	538,711	599,837
Borrowings	171,443	220,730	279,937	384,747
- Deposits	5,936,178	6,211,658	6,718,489	7,310,197
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	171,971	192,892	206,294	236,029
Total Liabilities	6,716,681	7,105,007	7,743,431	8,530,809
Application of Funds				
Cash and balances with RBI	799,161	501,326	489,549	540,179
Investments	1,745,586	1,859,883	2,006,364	2,181,052
Advances	3,891,861	4,492,967	4,987,194	5,535,785
Fixed assets	76,837	74,590	75,271	79,488
Other current assets, loans and advances	203,236	176,241	185,053	194,306
Total Assets	6,716,681	7,105,007	7,743,431	8,530,809

E – Estimates

Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
(A) Margins (%)				
Yield on advances	7.2	7.6	7.9	8.0
Yields on interest earning assets	6.3	6.8	7.1	7.2
Yield on investments	6.2	6.5	6.5	6.5
Costs of funds	3.8	3.9	4.3	4.5
Cost of deposits	3.7	3.9	4.3	4.4
NIMs	2.7	3.0	3.1	3.0
(B) Asset quality and capital ratios (%)				
GNPA	8.5	6.0	5.2	4.5
NNPA	2.3	0.9	0.8	0.7
PCR	74.9	85.7	85.0	85.0
Slippages	2.8	2.4	2.1	2.0
NNPA to NW	23.6	9.7	8.1	7.0
CASA	42.4	42.9	41.0	41.0
CAR	16.5	16.4	15.2	14.7
Tier 1	13.2	13.5	12.5	12.2
Credit - Deposit	65.6	72.3	74.2	75.7
(C) Dupont as a percentage of average assets				
Interest income	6.0	6.5	6.9	6.9
Interest expenses	3.4	3.6	3.9	4.0
Net interest income	2.6	2.9	3.0	2.9
Non interest Income	1.1	1.0	1.1	1.1
Total expenses	1.7	1.8	1.8	1.8
- cost to income	46.2	44.0	44.7	45.8
Provisions	1.5	1.4	0.9	0.9
Tax	(0.1)	0.1	0.3	0.3
RoA	0.6	0.8	1.0	0.9
Leverage	17.9	17.0	16.2	15.9
RoE	9.6	11.7	14.4	13.3
RoRwa	1.3	1.6	1.8	1.6
(D) Measures of Investments				
EPS - adjusted	31.7	43.2	58.9	60.8
BV	301.1	336.2	384.2	430.6
ABV	230.0	303.7	353.2	400.5
DPS	6.5	9.0	12.0	12.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	6.8	20.9	8.9	7.1
PPoP	16.0	20.8	8.8	5.7
Adj PAT	31.3	36.4	36.3	3.3
Advances	7.3	15.4	11.0	11.0
Total borrowings	(30.7)	28.7	26.8	37.4
Total assets	7.7	5.8	9.0	10.2
(F) Valuation Ratios				
Market Cap (Rs. mn)	392,687	392,687	392,687	392,687
CMP (Rs.)	315	315	315	315
P/E (x)	10.0	7.3	5.4	5.2
P/BV (x)	1.0	0.9	0.8	0.7
P/ABV (x)	1.4	1.0	0.9	0.8
Div Yield (%)	2.1	2.9	3.8	3.8

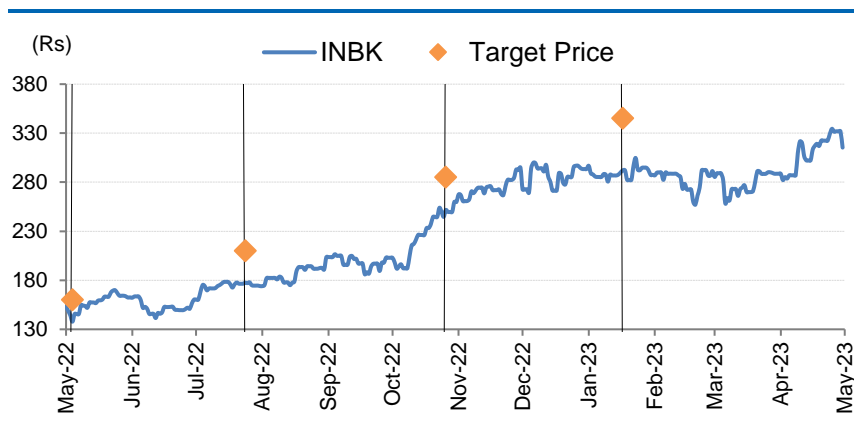
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-22	Accumulate	160	138
Aug-22	Accumulate	210	178
Nov-22	Accumulate	285	252
Jan-23	Accumulate	345	292

*Price as on recommendation date

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Analyst(s) Certification

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