

# Indian Bank (INBK IN)

## Asset quality improves for now

### INDIA | BANKING | Quarterly Update

1 June 2021

#### Top takeaways from Q4FY21

- Indian bank reported PAT of Rs 17.1bn due to income tax reversal of Rs 9bn. PBT at Rs 7.9bn (+1.43% qoq). vs loss of Rs 7.8bn last year. NII at Rs 33bn (+0.7% yoy & -23% qoq) was driven NIM of 2.34% (-33bps yoy & -79bps qoq) due to interest reversal on NPAs and interest on interest.
- Non-interest income stood at Rs17.4bn (0.9% yoy). Core fee income was lower by 2.5% yoy to Rs 6.6bn on lower misc. fee income (-37% yoy). Transaction fee, commission on LC/BG and cross selling fee increased by 39%/32% and 56% respectively. Operating expenses Rs 25.3bn (-4% yoy) owing to 9% decline in employee cost as provisions for wage revision and pension declined 56% yoy.
- Pre-provision profit at Rs 25bn (+6% yoy & -18% qoq) due to low NII. Provision Rs 17.5bn (-45% yoy & -24% qoq).
- Slippage was Rs 27bn (adjusting for proforma slippage), which is 0.75% compared to 1% in Q3. GNPA and NNPA at 9.85% and 3.37% declined 57bps and 19bps qoq respectively (vs Proforma in 3Q21). PCR at 82%.
- Domestic credit growth was muted given the environment at +6.7% yoy, while RAM segment grew by +12%, corporate credit declined 2% yoy.
- Bank received restructuring request under COVID-19 frame work worth Rs 52bn (1.64% of loan book). Total restructured book including MSME restructuring is Rs 96.6bn (2.5% of loan book).

#### Management comments /concall takeaways

- ECLGS:** Sanctioned Rs 68bn and disbursed Rs 58bn.
- Loan growth:** expect credit growth between 10-12% in FY22, drive by RAM segment.
- Asset quality:** Corporate slippage includes Rs 10bn slippage from Future retail, expect this to be upgraded in 1Q22. Expect slippage to be remain <3% and credit cost <2% for FY22. SREI group has not yet declared NPA but bank has provided 20% provision on the same. Management expect recovery of Rs 50bn in FY22 (Including all NCLT/Non NCLT and smaller accounts).
- Collection Efficiency:** Collection in April' 21 dropped to 86%.

**Outlook and valuation:** Having completed the merger, the next challenge for the bank is COVID related asset quality headwinds, akin to other banks. **The guidance suggests credit cost of <2% and slippage of <3% in FY22.** We expect re-bound in earnings growth for FY22/23, translating into RoA of 0.6%/0.85%. The stock trades at 0.8x/0.6x FY22/23 ABVPS of Rs 172/224. Maintain Buy with a revised PT to Rs 180 (Rs 115 earlier) which is 0.8x FY23 ABVPS.

(Rs bn)	Q4FY21	Q4FY20	yoy %	Q3FY21	qoq %	Comments
Net interest income	33.3	33.1	0.7	43.1	-22.7	NII growth was lower due to interest reversal of Rs 9.3bn
NIM (%)	2.3	2.7	(33bps)	3.1	(79bps)	Slippage and interest reversal on interest on interest led to margin decline
Advances	3640.1	3410.7	6.7	3628.2	0.3	Advance growth driven by RAM segment. Corporate declined 2% yoy
Deposit	5380.7	4885.5	10.1	5212.5	3.2	Term deposit grew 7% yoy, CASA deposit grew 14% yoy
CASA	2276.0	1993.8	14.2	2130.4	6.8	Savings and Demand deposit grew 12% and 32% respectively
CASA %	42.0	41.0	100bps	41.0	100bps	CASA ratio improved due to weak growth in term deposits
Core fee	8.2	7.4	10.8	7.1	15.7	Fee income remains muted due to lack of pick up in corporate activity
Trading gain	4.5	3.3	37.2	4.1	11.5	
Operating expenses	25.3	26.4	-4.1	26.1	-3.1	Employee expenses declined 9% yoy, other opex grew 2% yoy
Cost to income ratio (%)	54.7	56.0	(129bps)	49.2	547bps	
Provision	17.5	31.9	-45.0	23.1	-24.3	NPA provision (Rs 28.7bn), Std. Provision (-13.33bn), Investment dep. (Rs1.63bn)
PAT	17.1	-16.4	-204.2	5.1	232.3	PAT was better due to lower provision
Slippage	27.1	39.4	-31.3	36.2	-25.2	Slippage 0.75% vs 1% in Q3
GNPA	9.9	11.4	(154bps)	9.0	81bps	3Q21 Proforma GNPA/NNPA at 10.38% / 3.5%
NNPA	3.4	4.2	(86bps)	2.4	102bps	
Tier 1 Capital %	11.3	10.4	86bps	11.2	9bps	

## BUY (Maintain)

CMP RS 139/ TARGET RS 180 (+29%)

#### SEBI CATEGORY: SMALL CAP

#### COMPANY DATA

O/S SHARES (MN) :	1129
MARKET CAP (RSBN) :	160
MARKET CAP (USDBN) :	2.2
52 - WK HI/LO (RS) :	110/ 42
LIQUIDITY 3M (USDMMN) :	6.1
PAR VALUE (RS) :	10

#### SHARE HOLDING PATTERN, %

	Mar 21	Dec 20	Sep 20
PROMOTERS	88.1	88.1	88.1
DII	4.4	4.4	3.9
FII	1.0	0.8	0.8
OTHERS	6.5	6.7	7.2

#### KEY FINANCIALS

Rs bn	FY21	FY22e	FY23e
Pre-prov ROE (%)	37.1	34.9	35.1
Pre-prov ROA (%)	2.0	1.9	2.0
Net Profit	30	39	59
% growth	NA	30.8	50.0
EPS (Rs)	26.6	34.8	52.2
ABVPS (Rs)	137.8	172.3	224.1
ROE (%)	9.8	11.4	15.2
P/E (x)	5.2	4.0	2.7
P/ABV (x)	1.0	0.8	0.6

#### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY22e	FY22e	FY22e	FY23e
NII	181.1	208.7	-0.5	3.8
PPOP	119.8	136.0	3.2	9.7
Core PAT	39.3	59.0	9.2	22.9
EPS (Rs)	34.8	52.2	8.8	21.7

Manish Agarwalla, Research Analyst  
Sujal Kumar, Research Analyst

**Result update**

(Rs bn)	Q4FY21	Q4FY20	YoY growth	Q3FY21	QoQ growth
Interest earned	89.0	97.6	-8.8	100.2	-11.2
Interest expended	55.7	64.5	-13.6	59.1	-5.8
<b>Net interest income</b>	<b>33.3</b>	<b>33.1</b>	0.7	<b>41.1</b>	-18.9
<b>Net interest margins</b>	<b>2.3</b>	<b>2.7</b>	-0.3	<b>3.1</b>	-0.7
Non-interest income	17.4	17.3	0.9	16.1	8.2
Total Income	<b>50.8</b>	<b>50.4</b>	0.8	<b>57.2</b>	-11.3
Total operating expenses	<b>25.3</b>	<b>26.4</b>	-4.1	<b>27.6</b>	-8.4
Payroll costs	14.0	15.3	-8.6	17.5	-19.9
Others	11.3	11.0	2.2	10.1	11.6
<b>Pre-provision Profit</b>	<b>25.5</b>	<b>24.0</b>	6.0	<b>29.6</b>	-14.0
Provisions & Contingencies	17.5	31.9	-45.0	22.8	-23.3
% Operating income	68.8	132.6	-63.8	77.1	-8.3
<b>PBT</b>	<b>8.0</b>	<b>-7.8</b>	na	<b>6.8</b>	17.4
Provision for Taxes	-9.1	8.6	na	3.0	-405.8
% of PBT	-114.7	-109.5	-5.3	44.0	-158.7
<b>Net Profit</b>	<b>17.1</b>	<b>-16.4</b>	na	<b>3.8</b>	350.4
Equity	11.3	11.3	0.0	11.3	0.0
<b>EPS, Rs</b>	<b>15.1</b>	<b>-14.5</b>	na	<b>3.7</b>	314.6

Advances	3640.1	3410.7	6.7	3628.2	0.3
Deposits	5380.7	4885.5	10.1	5212.5	3.2
Advances / Deposits (%)	67.7	69.8	-2.2	69.6	-2.0
Proforma Gross NPAs	384.5	420.0	-8.5	408.3	-5.8
Proforma Gross NPAs (%)	9.9	11.4	-1.5	9.0	0.8
Proforma Net NPAs	122.7	144.4	-15.0	85.4	43.7
Proforma Net NPAs (%)	3.4	4.2	-0.9	2.4	1.0
CAR - Tier I	11.3	10.4	0.9	11.2	0.1
CAR - Tier II	3.8	2.9	0.9	2.9	0.9
CAR – Total (%)	15.1	13.3	1.8	14.1	1.0

Source: Company, PhillipCapital India Research

**Stress Asset Comparison with Peer Banks**

Figures in % to Gross loan book	Standard restructured Asset (SRA) / SRA - Request received	Mar' 21 GNPA	Dec' 20 Proforma GNPA	A: Total Stress asset (SRA + GNPA)	B: Total Outstanding provision	(A-B): Net Stress asset	Slippage FY21	Slippage FY20	% of loan covered under ECLGS
Axis Bank	0.30%	3.70%	4.55%	4.00%	4.43%	-0.43%	2.93%	3.90%	1.94%
ICICI Bank	0.50%	4.96%	5.42%	5.46%	5.75%	-0.29%	2.00%	1.99%	1.50%
HDFC Bank	0.57%	1.32%	1.38%	1.89%	2.04%	-0.15%	1.70%	1.94%	5.88%
Kotak Mahindra Bank	0.19%	3.25%	3.27%	3.44%	3.14%	0.30%	2.41%	1.50%	4.92%
SBI	0.70%	4.98%	5.44%	5.68%	4.53%	1.16%	1.16%	2.40%	8.82%
IndusInd Bank	2.01%	2.67%	2.93%	4.68%	3.33%	1.35%	3.10%	2.89%	11.12%
Federal Bank	1.04%	3.41%	3.56%	4.45%	2.78%	1.67%	1.40%	1.65%	3.90%
Bandhan Bank	0.71%	6.81%	7.10%	7.52%	4.44%	3.08%	7.91%	1.38%	10.51%
RBL Bank	1.55%	4.34%	4.57%	5.89%	2.27%	3.62%	5.25%	5.79%	5.42%
Bank of Baroda	2.39%	8.87%	9.63%	11.26%	7.24%	4.01%	2.66%	3.48%	17.32%
CANARA	1.93%	8.93%	8.95%	10.86%	5.93%	4.93%	2.65%	3.70%	6.65%
Indian Bank	2.47%	9.85%	10.38%	12.32%	7.35%	4.97%	2.42%	4.00%	8.74%
DCB Bank	4.19%	4.09%	3.70%	8.28%	3.24%	5.04%	2.57%	2.72%	8.15%
CUB	4.99%	5.11%	6.02%	10.10%	2.89%	7.22%	3.01%	3.20%	26.47%

## Financials

### Income Statement

Y/E Mar, Rs bn	FY20*	FY21	FY22e	FY23e
Interest on Loans	272	275	302	344
Interest on Investments	104	112	117	122
Others	7	5	5	6
Total Interest Earned	383	391	425	472
Total Interest Expended	253	234	244	263
<b>Net Interest Income</b>	<b>131</b>	<b>157</b>	<b>181</b>	<b>209</b>
<b>Total non-interest income</b>	<b>58</b>	<b>61</b>	<b>53</b>	<b>54</b>
Total Income	188	217	234	262
Personnel Expenses	53	64	70	77
Other Expenses	39	40	44	49
Total Op expenses	92	103	115	126
<b>Net Inc (Loss) before prov</b>	<b>96</b>	<b>114</b>	<b>120</b>	<b>136</b>
Provision and contingencies	133	85	67	57
<b>Net Inc (Loss) before tax</b>	<b>-37</b>	<b>29</b>	<b>53</b>	<b>79</b>
Provision for Income Tax	14	-1	13	20
<b>Net Profit</b>	<b>-51</b>	<b>30</b>	<b>39</b>	<b>59</b>

### Balance Sheet

Y/E Mar, Rs bn	FY20*	FY21e	FY22e	FY23e
<b>Assets</b>				
Cash & Bal with RBI	357	541	494	475
Loans, Adv & Int accrued	3,411	3,640	4,004	4,484
Investments	1,646	1,793	1,880	1,950
Fixed Assets (Net)	75	74	75	77
Other assets	184	213	223	234
<b>Total Assets</b>	<b>5,672</b>	<b>6,260</b>	<b>6,676</b>	<b>7,220</b>
<b>Liabilities</b>				
Share capital	11	11	11	11
Reserves and Surplus	277	315	349	402
Hybrid Capital	59	58	58	58
Debt	88	132	144	156
Borrowing	222	129	104	83
Total Deposits	4,902	5,398	5,789	6,286
Other liab incld prov	113	216	222	224
<b>Total Liabilities</b>	<b>5,672</b>	<b>6,260</b>	<b>6,676</b>	<b>7,220</b>

Source: Company, PhillipCapital India Research Estimates

\*Merged entity

### Valuation Ratios

	FY20*	FY21	FY22e	FY23e
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	32.0	37.1	34.9	35.1
RoAE (%)	(16.9)	9.8	11.4	15.2
Pre-provision Operating ROA (%)	1.8	1.9	1.9	2.0
RoAB (%)	-0.9	0.5	0.6	0.8
EPS (Rs.)	(44.8)	26.6	34.8	52.2
Dividend per share (Rs.)	0.0	2.0	5.0	5.0
Book Value (Rs.)	255.5	289.2	319.0	366.2
Adj BV (Rs.)	82.5	137.8	172.3	224.1

### Revenue Analysis

Interest income on IBA (%)	7.5	6.9	6.9	7.1
Interest cost on IBL (%)	5.1	4.3	4.2	4.2
NIM on IBA / AWF (%)	2.5	2.8	2.9	3.1
Core fee Inc / AWF (%)	0.5	0.5	0.5	0.5
Portfolio gains / Total Inc (%)	7.6	10.8	4.5	3.1
Op.Exp / TI (%)	52.8	52.7	51.1	49.7
Op.Exp / AWF (%)	1.8	1.8	1.9	1.9
Employee exps / Op exps (%)	57.7	61.6	61.2	61.1
Tax / Pre-tax earnings (%)	(37.7)	(3.4)	25.5	25.5

### Asset Quality

GNPAs / Gr Adv (%)	11.4	9.9	8.6	7.7
NNPAs / Net Adv (%)	4.2	3.4	2.6	2.3

### Growth Ratio

Loans (%)	NA	6.7	10.0	12.0
Investments (%)	NA	8.9	4.8	3.7
Deposits (%)	NA	10.1	7.2	8.6
Networth (%)	NA	10.5	8.8	12.8
Net Int Income (%)	NA	20.0	15.6	15.3
Non-fund based income (%)	NA	(10.8)	9.4	5.2
Non-Int Exp (%)	NA	12.0	10.7	10.2
Profit Before Tax (%)	NA	NA	81.6	50.0
Net profit (%)	NA	NA	30.8	50.0

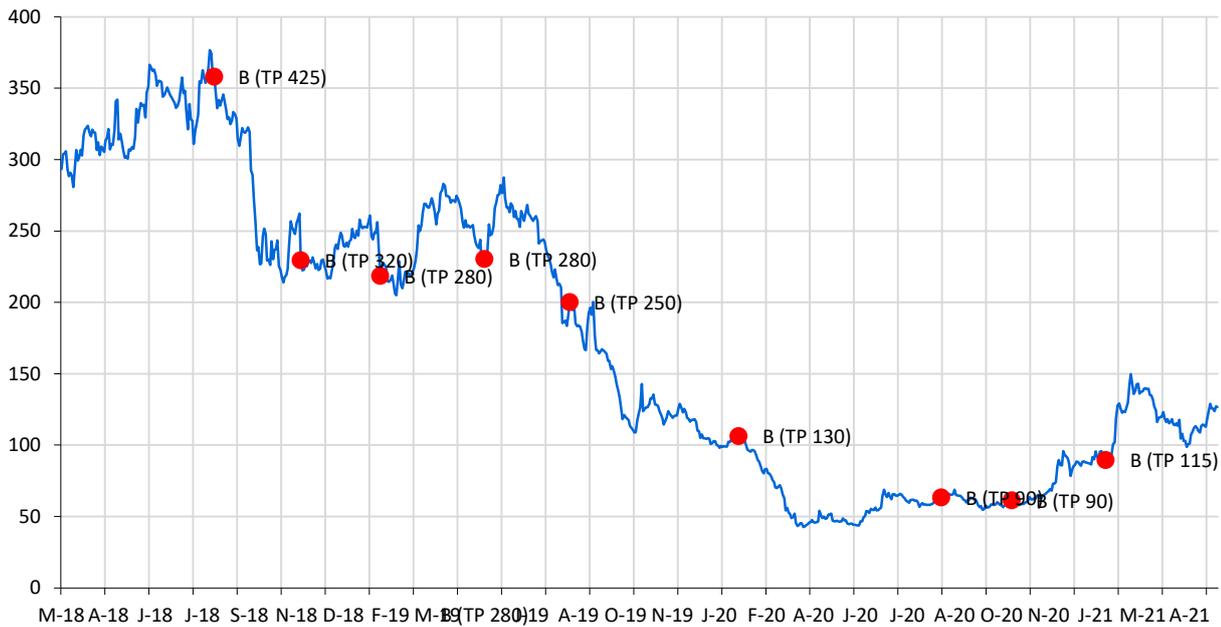
### Asset / Liability Profile

Avg CASA/ Deposits (%)	41.5	41.5	42.4	42.2
Avg Adv / Avg Dep (%)	62.2	60.6	61.6	64.2
Avg Invst / Avg Dep (%)	31.9	33.4	32.8	31.7
Incr Adv / Deposits (%)	64.6	46.2	93.0	96.6
Avg Cash / Avg Dep (%)	6.7	8.7	9.2	8.0

### Capital Adequacy Ratio:

Tier I (%)	13.3	15.7	14.7	15.1
CET1 (%)	10.4	11.9	11.1	11.5
CET1 (%)	10.2	11.3	10.3	10.4
NNPAs to Equity (%)	41.6	31.9	25.3	22.2

## Stock Price, Price Target and Rating History



## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

### Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

### Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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