

**Improvement in asset quality, driven by robust recoveries**

**CMP: INR 552**

**Rating: BUY**

**Target Price: INR 761**

**Stock Info**

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	13.50
Mkt Cap (INR Bn)	743.01
52w H/L (INR)	633 / 391
Average volume ('000)	2289

**Shareholding Pattern %**

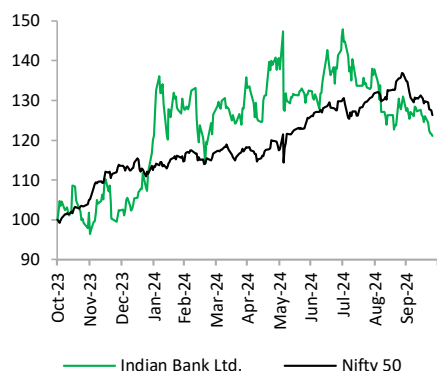
(As on September, 2024)

Promoters	73.84
Public & Others	26.16

**Stock Performance (%)**

	1m	6m	12m
Indian Bank	5.3	-1.3	34.1
Nifty 50	-5.7	7.5	27.2

**Indian Bank vs Nifty 50**



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Indian Bank has posted profit strong performance during Q2FY25 with profit growth of 36.2% YoY/ 12.6% QoQ to INR 27.06 bn, led by growth in NII, other income and decline in provisions. NII for the quarter grew by 7.9% YoY/ 0.3% QoQ to INR 61.94 bn. Other income grew by 27.1% QoQ/ 21.5% YoY at INR 24.22bn. Provisions declined by 12.7% QoQ/ 29.1% YoY. Advances grew by 13.2% YoY/2.3% QoQ while NIM fell marginally by 3bps YoY/4 bps sequentially. Cost of funds at 5.22% increased by 25 bps YoY/ 10bps QoQ as the interest rates increased over the last year. Operating expenses growth was steep at 13.3% YoY/ 8.5% QOQ. The bank's Mobile banking users increased by 20% YoY while UPI users & transactions increased by 27% YoY & 13% YoY respectively. PPOP grew by 9.9% YoY/ 5% QoQ to INR 47.29 bn.

**Loan growth stable, deposit growth picks up:** Total advances grew to INR 5,329 bn at 13.2% YoY/2.3% QoQ, driven by RAM segment. Retail, Agri and MSME (RAM) segment of the bank has reported 14% YoY growth to INR 3.25 tn, driven largely by Agricultural and Retail segment at 16% YoY & 15% YoY respectively. On the other hand, the corporate loan book also grew by 9% YoY to INR 1.88 tn. Deposits growth was at 8.2% YoY/1.8% QoQ to INR 6,931 bn, dragged by slower growth in CASA deposits at 4.6% YoY/1.1% QoQ with decline in CASA ratio by 90 bps YoY/9 bps QoQ. Management reiterated their guidance of loan book growth of 11-13% YoY and deposits growth around 8-10% YoY in FY25.

**Asset quality improved sequentially:** GNPA/NNPA ratio improved by 29bps/12bps QoQ at 3.48%/0.27% respectively. Total slippages for the quarter stood at INR 13.57 bn vs. INR 19.28 bn in the previous quarter. Consequently, Slippage ratio decreased to 1.06% vs. 1.50% QoQ while higher recoveries helped bring down Credit Cost to 0.65 from 0.71 in the previous quarter. Recoveries for the quarter stood at INR 20.21 bn and 6MFY25 recoveries stood at INR 39.58bn. Management aims to achieve recoveries of INR 70 bn for the full year. PCR was healthy at 97.6%. SMA 1 & 2 as percentage of total standard advances increased sequentially by 43 bps from 0.47% to 0.90%.

**Valuation and View:** Indian Bank has reported healthy performance during the quarter with stable loan growth and improvement in asset quality, driven by robust recoveries. Performance of the bank was strong on both the margins side, as well as the recoveries coming in for the bank. NIMs saw a marginal decrease despite increase in the cost of funds. Profitability during the quarter was driven by growth in NII, other income and decline in provisions. Hence, we maintain our positive stance on the bank, and revise our FY27E ABV to INR 634, as we assign a Target Price of INR 761 on 1.2x P/ABV with an BUY rating on account of its strong performance during the quarter.

**Financial Performance**

Particulars (Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
NII	167	202	233	302	328	358
PPOP	127	153	168	228	256	289
PAT	39	53	81	93	108	124
Advances	3,892	4,493	5,149	5,664	6,230	6,853
Deposits	5,936	6,212	6,880	7,759	8,534	9,388
RoA	0.6	0.8	1.1	1.1	1.2	1.2

## Q2FY25 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (Rs bn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Interest Income	153.48	150.39	137.43	2.1%	11.7%
Interest Expended	91.53	88.61	80.03	3.3%	14.4%
<b>Net Interest Income</b>	<b>61.94</b>	<b>61.78</b>	<b>57.40</b>	<b>0.3%</b>	<b>7.9%</b>
Other Income	24.22	19.06	19.93	27.1%	21.5%
<b>Operating Income</b>	<b>86.16</b>	<b>80.84</b>	<b>77.33</b>	<b>6.6%</b>	<b>11.4%</b>
Employee Expenses	24.64	23.01	21.77	7.1%	13.2%
Other Operating Expenses	14.23	12.81	12.54	11.1%	13.5%
<b>Operating Expenses</b>	<b>38.88</b>	<b>35.82</b>	<b>34.30</b>	<b>8.5%</b>	<b>13.3%</b>
<b>PPOP</b>	<b>47.29</b>	<b>45.02</b>	<b>43.03</b>	<b>5.0%</b>	<b>9.9%</b>
Provisions	10.99	12.58	15.51	-12.7%	-29.1%
<b>PBT</b>	<b>36.29</b>	<b>32.43</b>	<b>27.52</b>	<b>11.9%</b>	<b>31.9%</b>
Tax Expenses	9.23	8.40	7.64	9.9%	20.8%
<b>Net Income</b>	<b>27.06</b>	<b>24.03</b>	<b>19.88</b>	<b>12.6%</b>	<b>36.2%</b>
<b>Balance Sheet Analysis</b>					
Advances	5,329	5,208	4,706	2.3%	13.2%
Deposits	6,931	6,812	6,408	1.8%	8.2%
CASA Deposits	2,689	2,659	2,570	1.1%	4.6%
CASA (%)	40.47%	40.56%	41.37%	-9bps	-90bps
CAR (%)	16.55	16.47	15.53	8bps	102bps
<b>Spreads</b>					
NIMs (%)	3.49%	3.53%	3.52%	-4bps	-3bps
Cost of Funds	5.22%	5.12%	4.97%	10bps	25bps
Yield on Average Advances	8.77%	8.69%	8.75%	8bps	2bps
<b>Asset Quality</b>					
GNPA	191	203	245	-5.7%	-21.8%
NNPA	14	20	28	-28.7%	-48.9%
GNPA (%)	3.48%	3.77%	4.97%	-29bps	-149bps
NNPA (%)	0.27%	0.39%	0.60%	-12bps	-33bps
<b>Returns &amp; Expenses</b>					
RoA	1.33	1.20	1.06	13bps	27bps
RoE	21.04	19.76	19.90	128bps	114bps
Cost / Income Ratio	45.1%	44.3%	44.4%	81bps	76bps

Source: Company, Arihant Research

## Concall Highlights

### Management Guidance:

- Management has given a recovery guidance of INR 70 bn for the FY25.
- Management reiterated their guidance of loan book growth of 11-13% YoY and deposits growth around 8-10% YoY in FY25.
- NIMs expected to remain around 3.4% levels.

### Key Highlights:

- Net Interest Income for Q2FY25 stood at INR 61.94 bn against our estimates of INR 63.3 bn up by 0.3% QoQ / up by 7.9% YoY while NIMs came at 3.49%, down by 4 bps QoQ/ down by 3 bps YoY.
- PPOP came at INR 47.29 bn against our estimates of INR 46.4 bn, up by 5.0% QoQ / up by 9.9% YoY.
- Provisions stood at INR 10.99 bn against our estimates of INR 12.8 bn decreasing by 12.7% QoQ / down by 29.1% YoY.
- PAT increased to INR 27.06 bn against our estimates of INR 24.8 bn increasing by 12.6% QoQ / up by 36.2% YoY.
- GNPA came at 3.48% against our estimates of 3.91%, down 29 bps QoQ/down 149 bps while NNPA was at 0.27% against our estimates of 0.39%, down 12 bps QoQ/ down 33 bps YoY.
- Advances increased by 2.3% QoQ / up 13.2% YoY to INR 5,329 bn.
- Deposits increased by 1.8% QoQ / up 8.2% YoY to INR 6,931 bn.
- Business of INR 3790.59 bn has been generated through Digital Channels in H1FY25. A total of 102 Digital Journeys, Utilities and Processes have been launched so far.
- Number of Mobile Banking users has grown by 20% YoY, reaching INR 0.0181 bn.
- UPI users and Net Banking Users have seen a 27% & 13% YoY increase respectively, reaching INR 0.0195 bn and INR 0.0111 bn respectively.
- The Credit Card users increased by 50% YoY to 2.65 lakh, while the total number of Point of Sale (PoS) terminals has increased by 56% YoY, reaching a total of 20,904.
- The Bank has 5856 domestic branches (including 3 DBUs), out of which 1983 are Rural, 1532 are Semi-Urban, 1174 are Urban & 1167 are in Metro category. The Bank has 3 overseas branches & 1 IBU (Gift City Branch).

Profit & Loss Statement (INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	389	449	556	687	753	829
Interest Expense	221	247	323	384	425	471
<b>Net Interest Income</b>	<b>167</b>	<b>202</b>	<b>233</b>	<b>302</b>	<b>328</b>	<b>358</b>
YoY change (%)	7	21	15	30	9	9
Non Interest Income	69	71	79	87	95	105
Total Net Income	236	274	311	389	423	463
Total Operating Expenses	109	121	143	160	167	174
<b>Pre Provision profit</b>	<b>127</b>	<b>153</b>	<b>168</b>	<b>228</b>	<b>256</b>	<b>289</b>
YoY change (%)	16	20	10	36	12	13
Provisions	95	94	59	104	112	123
Profit Before Tax	32	59	110	125	144	166
YoY change (%)	10	85	85	14	15	15
Taxes	-7	6	29	31	36	42
<b>Net profit</b>	<b>39</b>	<b>53</b>	<b>81</b>	<b>93</b>	<b>108</b>	<b>124</b>
YoY change (%)	31.3	33.9	52.7	15.7	15.3	15.4

Balance Sheet (INR Bn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Cash & Balances with RBI	241	327	327	263	289	318
Inter bank borrowing	559	174	94	218	240	264
Investments	1,746	1,860	2,126	2,296	2,479	2,678
Loan and Advances	3,892	4,493	5,149	5,664	6,230	6,853
Other Assets	203	176	156	222	244	269
<b>Total Assets</b>	<b>6,717</b>	<b>7,105</b>	<b>7,926</b>	<b>8,756</b>	<b>9,585</b>	<b>10,494</b>
Deposits	5,936	6,212	6,880	7,759	8,534	9,388
Borrowings	171	221	231	77	105	147
Other Liability	172	193	231	243	161	51
Equity	12	12	13	13	13	13
Reserves	425	467	570	664	771	895
<b>Total Liabilities</b>	<b>6,717</b>	<b>7,105</b>	<b>7,926</b>	<b>8,756</b>	<b>9,585</b>	<b>10,494</b>

Dupont Analysis (% of Average Assets)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Net Interest Income	2.6	2.9	3.1	3.6	3.6	3.6
Non Interest Income	1.1	1.0	1.0	1.0	1.0	1.0
Net Income	3.6	4.0	4.1	4.7	4.6	4.6
Operating Expenses	1.7	1.8	1.9	1.9	1.8	1.7
Operating Profit	2.0	2.2	2.2	2.7	2.8	2.9
Provisions & Contingencies	1.5	1.4	0.8	1.2	1.2	1.2
Taxes	-0.1	0.1	0.4	0.4	0.4	0.4
ROAA	0.6	0.8	1.1	1.1	1.2	1.2

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Efficiency Ratio (%)</b>						
Int Expended / Int Earned	56.9	55.0	58.2	56.0	56.5	56.8
Int Income / Total Assets	5.8	6.3	7.0	7.8	7.9	7.9
NII / Total Income	36.5	38.8	36.7	39.1	38.7	38.4
Other Inc. / Total Income	15.1	13.7	12.4	11.2	11.2	11.2
Ope. Exp. / Total Income	23.9	23.2	22.5	20.8	19.7	18.6
Net Profit / Total Assets	0.6	0.7	1.0	1.1	1.1	1.2
Credit / Deposit	65.6	72.3	74.8	73.0	73.0	73.0
Investment / Deposit	29.4	29.9	30.9	29.6	29.0	28.5
NIM	2.9	3.2	3.3	3.8	3.8	3.8
<b>Solvency</b>						
Gross NPA (Rs. Cr)	352	282	283	312	343	377
Net NPA (Rs. Cr)	88	40	41	45	50	55
Gross NPA (%)	8.5	6.0	5.5	5.5	5.5	5.5
Net NPA (%)	2.3	0.9	0.8	0.8	0.8	0.8
Capital Adequacy Ratio (%)	16.5	16.5	18.2	19.0	20.1	21.1
Tier I Capital (%)	13.2	13.5	14.9	15.7	16.8	17.8
Tier II Capital (%)	3.4	3.0	3.3	3.3	3.3	3.3
<b>Growth Ratio (%)</b>						
Interest Income	-0.6	15.7	23.7	23.4	9.7	10.1
Interest Expenses	-5.6	11.7	30.8	18.9	10.7	10.7
Other Income	22.4	3.3	10.1	10.0	10.0	10.0
Total Income	2.3	13.8	21.9	21.8	9.8	10.1
Net profit	31.3	33.9	52.7	15.7	15.3	15.4
Deposits	10.3	4.6	10.8	12.8	10.0	10.0
Advances	6.9	15.4	14.6	10.0	10.0	10.0
<b>Return Ratio</b>						
RoAA (%)	0.6	0.8	1.1	1.1	1.2	1.2
RoAE (%)	9.6	11.5	15.2	14.8	14.7	14.7
<b>Per Share Data (INR)</b>						
EPS	32	42	60	69	80	92
Book Value	351	385	433	503	583	675
Adj Book Value of Share	280	353	403	469	546	634
<b>Valuation Ratio</b>						
P/E (x)	17.4	13.0	9.2	8.0	6.9	6.0
P/BV (x)	1.6	1.4	1.3	1.1	0.9	0.8
P/ABV (x)	2.0	1.6	1.4	1.2	1.0	0.9

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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