

**Robust recoveries and decline in SMA 1 & 2;  
Expecting returns to increase subsequent quarters.**

**CMP: INR 545**

**Rating: BUY**

**Target Price: INR 744**

**Stock Info**

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	12.45
Mkt Cap (INR Bn)	739
52w H/L (INR)	633 / 467

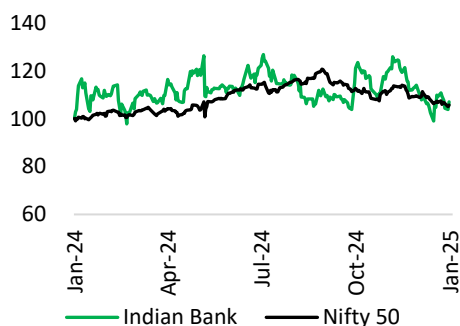
**Shareholding Pattern %**

(As on Dec, 2024)

Promoters	73.84
FII	4.78
DII	17.64
Public & Others	3.75

Stock Performance (%)	1m	6m	12m
Indian Bank	2.7	-7.1	13.5
Nifty 50	-2.1	-6.8	6.4

**Indian Bank vs Nifty 50**



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Indian Bank posted a decent set of earnings for the Q3FY25 with 5.4% QoQ / 34.6% YoY growth in Net Profits. Net Interest Income for Q3FY25 stood at INR 64.15 bn, up by 3.6% QoQ / up by 10.3% YoY. PPOP came at INR 47.49 bn, up by 0.4% QoQ / up by 15.9% YoY. Provisions stood at INR 10.59 bn, down 3.6% QoQ / down 21.5% YoY. PAT increased to INR 28.52 bn, up 5.4% QoQ / up by 34.6% YoY. GNPA came at 3.26%, down 22 bps QoQ / down 121 bps YoY while NNPA was at 0.21%, down 6 bps QoQ / down 32 bps YoY. Gross Advances growth was up 10% YoY to INR 5,592 bn. Deposits growth was up 7% YoY to INR 7,023 bn. CASA ratio for the bank came down to 40% in Q3FY25, down 47 bps QoQ / up 33 bps YoY. Return on Assets for the Standalone Bank stood at 1.39% (annualized) for Q3FY25, up 6 bps QoQ / up 28 bps YoY. NIMs came at 3.57%, up 8 bps QoQ / up 16 bps YoY. Credit Cost stood at 47 bps decreasing by 18 bps YoY. The Slippage ratio has been consistently coming down for the Bank as it came down to 0.77% in Q3FY25 against previous quarter's 1.06% and 1.17% in Q2FY25 and Q1FY25 respectively.

**Loan Growth slowed below industry growth:** Total advances grew to INR 5,421 bn at 6.3% YoY/1.7% QoQ, as the RAM segment, i.e. Retail, Agri and MSME (RAM) segment of the bank has reported 12.8% YoY growth to INR 3.34 tn against previous quarter's 13% YoY growth while Corporate segment grew by 4.5% YoY. Though the Retail segment growth was expected to be faster than actual growth at 15.8% YoY in Q3FY25. Management reiterated their guidance of loan book growth of 11-13% YoY and deposits growth around 8-10% YoY in FY25, even we don't see advances growth that fast happening in current Macro environment. Although, deposit growth guidance is more likely at year end.

**Asset quality improved sequentially:** GNPA/NNPA ratio improved by 22 bps /6 bps QoQ at 3.26%/0.21% respectively. Total slippages for the quarter stood at INR 10.04 bn vs. INR 14.29 bn in Q3FY24. Consequently, Slippage ratio decreased to 1.11% vs. 1.49% at the end of 9MFY25 while higher recoveries helped bring down Credit Cost to 0.61 at 9MFY25 from 0.77 in the FY24. Recoveries for the quarter stood at INR 19.11 bn which were higher than total fresh slippages of INR 10.04 bn. Management aims to achieve recoveries of INR 70 bn for the full year, for which the bank has already achieved INR 58 bn. SMA 1 & 2 as percentage of total standard advances increased slightly for the bank due to some large accounts slipping, which the Management clarified that have come out of SMA 2., and the Bank's exposure towards SMA is less than INR 30 bn.

**Valuation and View:** Indian Bank has reported steady quarter with relatively slower loan growth traction and better than expected NIMs in Q3FY25. Performance of the bank was strong on both the margins side, as well as the recoveries coming in for the bank. Also, the NPAs fell in proportion to lower slippages, is a good signal of the Management's effort to resolve to generate growth in Q4FY25. Hence, we maintain our positive stance on the bank, and revise our FY27E ABV to INR 620, we assign revised Target Price of INR 744 on 1.2x P/ABV (earlier TP 761).

**Financial Performance**

Particulars (Bn)	FY23A	FY24A	FY25E	FY26E	FY27E
NII	202	233	295	320	349
PPOP	153	168	221	248	280
PAT	53	81	88	101	117
Advances	4,493	5,149	5,664	6,230	6,853
Deposits	6,212	6,880	7,759	8,534	9,388
RoA	0.8	1.1	1.1	1.1	1.2

## Q3FY25 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (Rs bn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY
Interest Income	157.59	153.48	141.98	2.7%	11.0%
Interest Expended	93.45	91.53	83.83	2.1%	11.5%
<b>Net Interest Income</b>	<b>64.15</b>	<b>61.94</b>	<b>58.14</b>	<b>3.6%</b>	<b>10.3%</b>
Other Income	21.53	24.22	19.02	-11.1%	13.2%
<b>Operating Income</b>	<b>85.67</b>	<b>86.16</b>	<b>77.16</b>	<b>-0.6%</b>	<b>11.0%</b>
Employee Expenses	24.17	24.64	23.36	-1.9%	3.5%
Other Operating Expenses	14.01	14.23	12.83	-1.6%	9.2%
<b>Operating Expenses</b>	<b>38.18</b>	<b>38.88</b>	<b>36.19</b>	<b>-1.8%</b>	<b>5.5%</b>
<b>PPOP</b>	<b>47.49</b>	<b>47.29</b>	<b>40.97</b>	<b>0.4%</b>	<b>15.9%</b>
Provisions	10.59	10.99	13.49	-3.6%	-21.5%
<b>PBT</b>	<b>36.90</b>	<b>36.29</b>	<b>27.48</b>	<b>1.7%</b>	<b>34.3%</b>
Tax Expenses	8.38	9.23	6.28	-9.2%	33.3%
<b>Net Income</b>	<b>28.52</b>	<b>27.06</b>	<b>21.19</b>	<b>5.4%</b>	<b>34.6%</b>
<b>Balance Sheet Analysis</b>					
Advances	5,421	5,329	5,098	1.7%	6.3%
Deposits	7,023	6,931	6,542	1.3%	7.4%
CASA Deposits	2,691	2,689	2,595	0.1%	3.7%
CASA (%)	40.00%	40.47%	39.67%	-47bps	33bps
CAR (%)	15.92	16.55	15.58	-63bps	34bps
<b>Spreads</b>					
NIMs (%)	3.57%	3.49%	3.41%	8bps	16bps
Cost of Funds	5.27%	5.22%	5.09%	5bps	18bps
Yield on Average Advances	8.92%	8.77%	8.78%	15bps	14bps
<b>Asset Quality</b>					
GNPA	182	191	228	-4.9%	-20.1%
NNPA	11	14	26	-22.0%	-56.3%
GNPA (%)	3.26%	3.48%	4.47%	-22bps	-121bps
NNPA (%)	0.21%	0.27%	0.53%	-6bps	-32bps
<b>Returns &amp; Expenses</b>					
RoA	1.39	1.33	1.11	6bps	28bps
RoE	21.00	21.04	19.92	-4bps	108bps
Cost / Income Ratio	44.6%	45.1%	46.9%	-56bps	-234bps

Source: Company, Arihant Research

## Concall Highlights

### Management Guidance:

- Management expects CASA ratio to be maintained above 40%.
- The Bank maintained their NIM guidance between 3.4-3.5% for FY25.
- The Bank intends to grow the Deposits at 8-10% growth rate and advances at 11-13% rate.
- The Management wants to maintain Credit Deposit ratio at around 80% levels.
- The Management maintained their earlier guidance of NNPA below 0.23%, came at 0.21% for Q3FY25.
- On the Recovery side, the Management had given guidance of INR 70 bn, and they are on track to achieve it as the 9MFY25 Recoveries stood at INR 58 bn.
- The Bank has beaten the RoA guidance of 1.2 by achieving RoA of 1.39 for Q3FY25 and Return on Equity at 21% against earlier guidance of 19-20%.
- The Bank maintained their Cost to Income ratio guidance of 44%, and got 44.5% in Q3FY25.
- The Management maintained their Credit Cost guidance of 0.77% as it was 0.47% in Q3FY25.

### Key Highlights:

- Net Interest Income for Q3FY25 stood at INR 64.15 bn, up by 3.6% QoQ / up by 10.3% YoY.
- PPOP came at INR 47.49 bn, up by 0.4% QoQ / up by 15.9% YoY.
- Provisions stood at INR 10.59 bn, down 3.6% QoQ / down 21.5% YoY.
- PAT increased to INR 28.52 bn, up 5.4% QoQ / up by 34.6% YoY.
- GNPA came at 3.26%, down 22 bps QoQ / down 121 bps YoY while NNPA was at 0.21%, down 6 bps QoQ / down 32 bps YoY.
- Gross Advances growth was up 10% YoY to INR 5,592 bn.
- Deposits growth was up 7% YoY to INR 7,023 bn.
- CASA ratio for the bank came down to 40% in Q3FY25, down 47 bps QoQ / up 33 bps YoY.
- Return on Assets for the Standalone Bank stood at 1.39% (annualized) for Q3FY25, up 6 bps QoQ / up 28 bps YoY.
- NIMs came at 3.57%, up 8 bps QoQ / up 16 bps YoY.
- Credit Cost stood at 47 bps decreasing by 18 bps YoY.
- The Slippage ratio has been consistently coming down for the Bank as it came down to 0.77% in Q3FY25 against previous quarter's 1.06% and 1.17% in Q2FY25 and Q1FY25 respectively.
- The Management acknowledged that the SMA accounts have increased during the quarter due to the slippage of 2-3 big accounts. They further clarified that all the 3 accounts have come out of SMA 2 as of now, and that the Bank's exposure to SMA 2 is less than INR 30 bn.

### Digitisation:

- The Bank has launched more than 170 journeys or Projects over the last 2 years.
- The Bank had opened 5.6 mn new accounts in the last year, which they have achieved 4.2 mn in the 9MFY25.
- The Bank's digital migration has gone up from 87% to 92% as of Q3FY25 with branch level transactions coming down to only 8%.
- Across Mobile Banking and other digital channels, the bank saw a growth of 18% YoY as the transactions grew by 12% YoY. The Bank's business on the digital channels have gone up by 125% YoY.
- Similarly, the Bank's E Deposit has gone up by 113% YoY.
- The Bank has partnered with 138 Fintech partners for providing various digital and various platforms for customized solutions for some business lending solutions.

Profit & Loss Statement (INR Bn)	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	449	556	679	745	820
Interest Expense	247	323	384	425	471
<b>Net Interest Income</b>	<b>202</b>	<b>233</b>	<b>295</b>	<b>320</b>	<b>349</b>
YoY change (%)	21	15	27	9	9
Non Interest Income	71	79	87	95	105
Total Net Income	274	311	381	415	454
Total Operating Expenses	121	143	160	167	174
<b>Pre Provision profit</b>	<b>153</b>	<b>168</b>	<b>221</b>	<b>248</b>	<b>280</b>
YoY change (%)	20	10	31	12	13
Provisions	94	59	104	112	123
Profit Before Tax	59	110	117	136	157
YoY change (%)	85	85	7	16	16
Taxes	6	29	30	34	40
<b>Net profit</b>	<b>53</b>	<b>81</b>	<b>88</b>	<b>101</b>	<b>117</b>
YoY change (%)	33.9	52.7	8.7	15.7	15.8

Balance Sheet (INR Bn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash & Balances with RBI	327	327	263	289	318
Inter bank borrowing	174	94	218	240	264
Investments	1,860	2,126	2,296	2,479	2,678
Loan and Advances	4,493	5,149	5,664	6,230	6,853
Other Assets	176	156	222	244	269
<b>Total Assets</b>	<b>7,105</b>	<b>7,926</b>	<b>8,756</b>	<b>9,585</b>	<b>10,494</b>
Deposits	6,212	6,880	7,759	8,534	9,388
Borrowings	221	231	77	105	147
Other Liability	193	231	248	172	69
Equity	12	13	13	13	13
Reserves	467	570	658	759	877
<b>Total Liabilities</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)	FY23A	FY24A	FY25E	FY26E	FY27E
Net Interest Income	2.9	3.1	3.5	3.5	3.5
Non Interest Income	1.0	1.0	1.0	1.0	1.0
Net Income	4.0	4.1	4.6	4.5	4.5
Operating Expenses	1.8	1.9	1.9	1.8	1.7
Operating Profit	2.2	2.2	2.6	2.7	2.8
Provisions & Contingencies	1.4	0.8	1.2	1.2	1.2
Taxes	0.1	0.4	0.4	0.4	0.4
ROAA	0.8	1.1	1.1	1.1	1.2

Ratios	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Efficiency Ratio (%)</b>					
Int Expended / Int Earned	55.0	58.2	56.6	57.1	57.4
Int Income / Total Assets	6.3	7.0	7.8	7.8	7.8
NII / Total Income	38.8	36.7	38.5	38.0	37.8
Other Inc. / Total Income	13.7	12.4	11.3	11.3	11.3
Ope. Exp. / Total Income	23.2	22.5	21.0	19.9	18.8
Net Profit / Total Assets	0.7	1.0	1.0	1.1	1.1
Credit / Deposit	72.3	74.8	73.0	73.0	73.0
Investment / Deposit	29.9	30.9	29.6	29.0	28.5
NIM	3.2	3.3	3.7	3.7	3.7
<b>Solvency</b>					
Gross NPA (Rs. Cr)	282	283	312	343	377
Net NPA (Rs. Cr)	40	41	45	50	55
Gross NPA (%)	6.0	5.5	5.5	5.5	5.5
Net NPA (%)	0.9	0.8	0.8	0.8	0.8
Capital Adequacy Ratio (%)	16.5	18.2	18.9	19.8	20.8
Tier I Capital (%)	13.5	14.9	15.6	16.5	17.5
Tier II Capital (%)	3.0	3.3	3.3	3.3	3.3
<b>Growth Ratio (%)</b>					
Interest Income	15.7	23.7	22.1	9.7	10.1
Interest Expenses	11.7	30.8	18.9	10.7	10.7
Other Income	3.3	10.1	10.0	10.0	10.0
Total Income	13.8	21.9	20.6	9.8	10.1
Net profit	33.9	52.7	8.7	15.7	15.8
Deposits	4.6	10.8	12.8	10.0	10.0
Advances	15.4	14.6	10.0	10.0	10.0
<b>Return Ratio</b>					
RoAA (%)	0.8	1.1	1.1	1.1	1.2
RoAE (%)	11.5	15.2	14.0	14.0	14.1
<b>Per Share Data (INR)</b>					
EPS	42	60	65	75	87
Book Value	385	433	499	574	661
Adj Book Value of Share	353	403	465	537	620
<b>Valuation Ratio</b>					
P/E (x)	12.9	9.1	8.4	7.2	6.3
P/BV (x)	1.4	1.3	1.1	0.9	0.8
P/ABV (x)	1.5	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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