

Retail Equity Research (South India Focus)

Indian Bank

Banking

BUY

BSE CODE : 532814

NSE CODE: INDIANB

BLOOMBERG CODE: INBK:IN

SENSEX : 39,832

12M Investment Period

Rating as per Mid Cap

CMP Rs. 127

TARGET Rs. 156

RETURN 23% ↑

(Closing: 29-10-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Stable performance with attractive valuation

Indian bank is a mid-sized bank in the public sector, with a loan book size of ~Rs194,000cr and deposit base of ~Rs253,000cr. The bank operates through a network of 2,884 domestic branches largely distributed across the Southern states.

- The merger of Indian bank and Allahabad bank to make it the 7th largest public sector bank, with nationwide presence.
- The Net Interest Income (NII) grew at 7.6% YoY due to higher growth in cost of funds compared to that of the interest yield.
- The total income grew at 20% YoY supported by 72% YoY growth in other income, with an improved profit in sale on investments.
- The banks loans/deposits grew at 13%/15% YoY in Q2FY20.
- Asset quality improved with GNPA/NNPA at 7.2%/3.54% compared to 7.33%/3.84% in the last quarter.
- We reduce our valuation to 0.35x BV of FY21E and retain our Buy rating with a revised downward target price of Rs156.

The merger with Allahabad bank to form the 7th largest PSU Bank

In the mega bank merger announced by the Finance Minister in late August 2019, the Allahabad Bank is merged with Indian bank, which makes it the 7th largest public sector bank in the country with a nationwide presence spread over 6,100 branches and around 43,000 employees. The total gross advances of the merged entity to be around ~Rs3.5 lakh crore and the deposits to be around ~Rs4.6 lakh crore. At present, Indian bank is having a strong presence in South India, with over 60% business network from the region, and Allahabad bank having significant presence in Northern & Eastern region, to give a strong pan India presence for the merged entity.

Decent operating performance backed by other income growth

The Net Interest Income (NII), which is the interest income less interest expense, has grown at a ~7.6% on a YoY basis, mainly due to 19bps increase in cost of funds for H1FY20 compared to that of H1FY19 and a 6bps YoY increase in yield on advances for the same period. The other income has increased by 72% on a YoY basis, supported by the profit on sale of investments & PSLC (Priority Sector Lending Certificates) income. The pre-provision operating profit (PPOP) has registered around ~26% YoY growth backed by a moderate expenditure growth at ~14% YoY.

Consistent performance with loans/deposits growing at 13%/15% YoY

The bank's total loans & advances have grown at 13% on a YoY basis supported by MSME (↑20%), retail (↑17%) and agriculture loans (↑16%). Overall, the RAM (retail, agriculture & MSME) sector grew by 17.3% on a YoY basis, and currently constitutes around 61.2% of the total loans & advances, compared to 58.7% a year ago. The bank's total deposits have increased by 15% YoY, with CASA deposits growing at 10% YoY, with CASA ratio marginally declining to 33.8% and the Term deposits growing at 18% YoY. The Cost to Income (C/I) ratio improved to 42.3% compared to 44.8% in Q2FY19.

Asset quality improved with reduced slippages from corporate book

In the current quarter, the gross NPA has marginally deteriorated by 4bps on a YoY basis, however improved by 13bps sequentially to 7.2%. At the same time, the net NPA has improved to 3.54% compared to 4.23% in Q2FY19 and 3.84% in Q1FY20. The slippages from the corporate book stands at Rs311cr, compared to that of Rs1,189cr in Q2FY19.

Valuations

We expect the proposed merger to bring in temporary short term slowdown in the banks business and we expect some corporate slippages in the 2nd half of FY20. However, currently the bank is trading at a lower P/B of 0.31x and 0.29x respectively for FY20E and FY21E, which is at a significant discount to its long term average. Hence, we reduce our valuation to 0.35x BV of FY21E (from previous 0.5x) with a revised downward target price of Rs156 and retain our Buy rating.

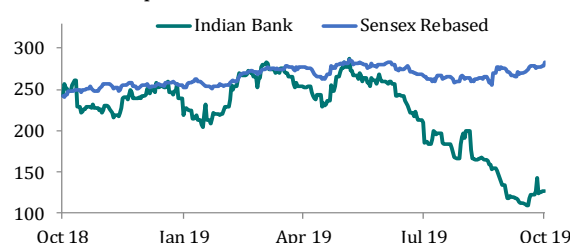
Company Data

Market Cap (Rs cr)	6,224
Outstanding Shares (cr)	49
Free Float	20%
Dividend Yield	-
52 week high (Rs)	292
52 week low (Rs)	105
6m average volume (cr)	0.15
Beta	1.62
Face value (Rs)	10

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	81	80	80
FPI's	6	5	4
MFs/Institutions	10	10	10
Public	3	5	6
Total	100	100	100
Promoter pledge	0	0	0

Price Performance	3 month	6 month	1 year
Absolute Return	-32.1%	-49.9%	-47.5%
Absolute Sensex	6.3%	2.2%	16.9%
Relative Return*	-38.3%	-52.1%	-64.4%

*over or under performance to benchmark index



Standalone (Rs cr)	FY19A	FY20E	FY21E
NII	7,018	7,588	8,632
Growth (%)	12.0	8.1	13.8
NIM(%)	2.84	2.76	2.79
Provisions	4,596	4,222	4,005
Adj. PAT	322	1,108	1,884
Growth (%)	-74.4	244.2	70.1
Adj. EPS	6.7	22.5	38.3
Growth (%)	-74.4	236.3	70.1
P/E	19.07	5.67	3.33
BVPS	403.7	410.0	441.2
Growth (%)	5.1	1.6	7.6
Adj.BVPS	262.2	258.9	284.4
Growth (%)	0.9	-1.3	9.8
P/B	0.32	0.31	0.29
Adj. P/B	0.49	0.49	0.45
ROE (%)	1.70	5.60	9.01

Abijith T Cherian
Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q2FY20	Q1FY20	QoQ Growth (%)	Q2FY19	YoY Growth (%)	H1FY20	H1FY19	YoY Growth (%)
Interest Income	5,308	5,138	3.3	4,701	12.9	10,445	9,393	11.2
Interest Expense	3,445	3,352	2.8	2,970	16.0	6,797	5,855	16.1
Net Interest Income (NII)	1,863	1,785	4.3	1,731	7.6	3,648	3,538	3.1
Fee and Other Income	738	695	6.2	428	72.2	1,432	868	65.0
Total Income	2,601	2,480	4.9	2,159	20.4	5,081	4,406	15.3
Expenditure	1,099	1,106	-0.6	968	13.5	2,205	1,917	15.0
Pre-Provision Profit	1,502	1,374	9.3	1,191	26.1	2,876	2,489	15.6
Provision	909	795	14.4	1,004	-9.5	1,704	2,034	-16.2
PBT	592	579	2.2	187	217.3	1,172	455	157.7
Tax	234	214	9.3	37	539.5	448	95	-
Reported PAT	359	365	-1.9	150	138.8	724	359	101.4
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	359	365	-1.9	150	138.8	724	359	101.4
Diluted EPS (Rs)	7.29	7.53	-3.2	3.13	132.9	14.82	7.48	98.1

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	7,700	9,398	7,588	8,632	-1.45%	-8.15%
Net Interest Margin (%)	2.8	2.9	2.8	2.8	-4bps	-11bps
Pre-Provision Profit	5,474	6,894	5,643	6,421	3.08%	-6.86%
Adj. PAT	1092	2030	1108	1884	1.47%	-7.17%
Diluted EPS (Rs)	22.7	42.3	22.5	38.3	-0.69%	-7.17%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	16,040	17,114	19,185	21,416	24,364
Interest Expense	10,894	10,850	12,167	13,828	15,732
Net Int. Income	5,146	6,264	7,018	7,588	8,632
<i>Change</i>	<i>15.7%</i>	<i>21.7%</i>	<i>12.0%</i>	<i>8.1%</i>	<i>13.8%</i>
Non Int. Income	2,211	2,406	1,883	2,601	2,770
Operating Income	7,357	8,669	8,901	10,189	11,401
<i>Change</i>	<i>18.1%</i>	<i>17.8%</i>	<i>2.7%</i>	<i>14.5%</i>	<i>11.9%</i>
Operating Exp.	3,357	3,668	4,020	4,546	4,981
Pre Prov. Profit	4,001	5,001	4,881	5,643	6,421
Prov. & Conting.	2,242	3,925	4,596	4,222	4,005
PBT	1,758	1,076	284	1,421	2,416
<i>Change</i>	<i>84.1%</i>	<i>-38.8%</i>	<i>-73.6%</i>	<i>400%</i>	<i>70.1%</i>
Tax	353	-183	-38	313	532
Tax Rate (%)	20%	-17%	22%	22%	22%
Reported PAT	1,406	1,259	322	1,108	1,884
Adjustment	0	0	0	0	0
Adj. PAT	1,406	1,259	322	1,108	1,884
<i>Change</i>	<i>97.6%</i>	<i>-10.4%</i>	<i>-74.4%</i>	<i>244%</i>	<i>70.1%</i>
No. of shares (Cr)	48	48	48	49	49
EPS (Rs)	29.3	26.2	6.7	22.5	38.3
<i>Change</i>	<i>97.6%</i>	<i>-10.4%</i>	<i>-74.4%</i>	<i>236.3%</i>	<i>70.1%</i>
DPS (Rs)	1.5	6.0	6.0	7.2	7.2

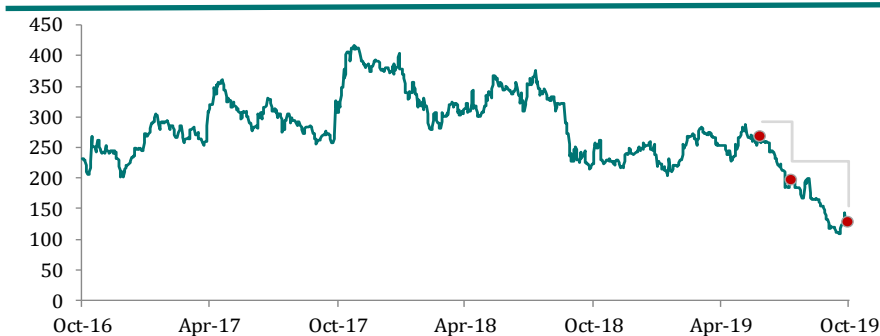
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	5,589	10,502	11,703	17,238	23,512
Loans & Advances	1,27,699	1,56,569	1,81,262	2,06,284	2,34,475
Investments	67,552	71,398	64,992	71,491	78,640
Gross Fixed Assets	5,133	5,345	6,147	6,447	6,777
Net Fixed Assets	3,443	3,418	3,961	3,978	4,008
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	0	0	0	0	0
Other Assets	9,498	8,403	9,829	10,314	11,724
Total Assets	2,18,233	2,52,716	2,80,065	3,17,714	3,60,861
Deposits	1,82,509	2,08,294	2,42,076	2,70,523	3,08,396
Debt Funds	12,637	19,760	12,138	19,281	21,980
Other Liabilities	2,023	2,387	1,843	2,402	2,713
Provisions	3902	3826	4620	5355	6087
Equity Capital	480	480	480	492	492
Reserves & Surplus	16,682	17,968	18,908	19,663	21,193
Shareholder's Funds	17,162	18,448	19,389	20,154	21,685
Total Liabilities	2,18,233	2,52,716	2,80,065	3,17,714	3,60,861
BVPS (Rs)	357.3	384.1	403.7	410.0	441.2
<i>Change</i>	<i>5.5%</i>	<i>7.5%</i>	<i>5.1%</i>	<i>1.6%</i>	<i>7.6%</i>
Adj. BVPS (Rs)	239.5	260.0	262.2	258.9	284.4
<i>Change</i>	<i>6.1%</i>	<i>8.5%</i>	<i>0.9%</i>	<i>-1.3%</i>	<i>9.8%</i>

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
Yield on Advances (%)	8.2	7.8	7.8	7.8	7.9
Cost of Deposits (%)	5.8	5.1	5.0	5.1	5.1
Spread(%)	2.4	2.7	2.7	2.7	2.8
NIM (%)	2.6	2.9	2.8	2.8	2.8
ROE (%)	8.4	7.1	1.7	5.6	9.0
ROA(%)	0.7	0.5	0.1	0.4	0.7
Business Growth					
Loans & Advances (%)	-1.0	27.4	15.5	14.0	13.7
Deposits (%)	2.4	14.1	16.2	11.8	14.0
Operating Ratios					
Cost to Income (%)	45.6	42.3	45.2	44.6	43.7
CASA (%)	37.7	37.8	35.5	36.5	37.5
Asset Quality					
GNPA (%)	7.5	7.4	7.1	6.9	6.3
NNPA (%)	4.4	3.8	3.8	3.5	3.2
Capital Adequacy					
CAR (%)	13.6	12.6	13.2	13.4	13.6
Valuation					
P/E (x)	4.4	4.9	19.1	5.7	3.3
P/B (x)	0.4	0.3	0.3	0.3	0.3
Adj. P/B (x)	0.5	0.5	0.5	0.5	0.4

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
26 June 19	Accumulate	292
09 August 19	Buy	227
30 October 19	Buy	156

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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