Indian Bank

CMP: ₹412; 1 year Target: ₹505

Premia Research

Sector	Banking
Recommendation	BUY
Upside	22.7%

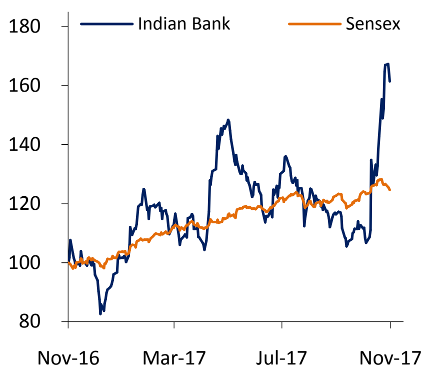
Stock Data	
Sensex	33,107
52 Week h/l (₹):	418 / 197
Market cap (₹ Cr) :	19,830
BSE code:	532814
NSE code:	INDIANB
FV (₹):	10
Div yield (%):	1.5

Shareholding Pattern

	Mar-17	Jun-17	Sept-17
Promoters	82.1	82.1	82.1
DII+FII	15.2	15.1	15.0
Individuals	2.7	2.8	2.9

Source: www.bseindia.com

Share Price Trend



Prices as on 16/11/2017

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Higher capitalization to revive loan scenario

Indian Bank is focusing more on non-corporate loans (+9.7% yoy for FY17) in retail, agri & MSME segments (~55% contribution to domestic loans), where the bank is seeing major growth. We forecast its total loan book to expand by 15.4% over FY17-19E. The bank's strong capital adequacy ratio at 13.6%, with Tier-1 capital at 12.2% (FY17) coupled with branch expansion initiatives, will boost the loan book for next couple of years. Moreover, its capital raising plan from institutions along with government recapitalization programme will further strengthen its capital position. Also, it is prudently expanding its branch network across India, which will further aid higher loan growth and fee income.

Operating profit to propel led by higher NII & other income

Pre-provision operating profit (PPOP) of the bank is expected to register ~24% CAGR over FY17-19E led by potentially higher net interest income (NII). The loan expansion and improvement in NIM will contribute to NII growth. Moreover, higher other income and lower cost to income ratio will drive PPOP. Its cost to income ratio is expected to decline by 875 bps to 38% over FY17-19E owing to higher operating leverage benefits. The bank's NIM is likely to improve by 41 bps to 3% over FY17-FY19E due to its focus on retail loans and moderation in slippages. Further, the CASA ratio is anticipated to surge by 248 bps to 39% over FY17-19E led by the bank's focus on re-composition of loan book.

Asset quality on the improvement track

Indian Bank's asset quality has been relatively better than other PSU banks, and we expect further improvement once upgrades and recoveries begin to outweigh fresh slippages leading to a reduction in GNPA. The bank's GNPA has reduced by 100 bps to 6.67% in Q2FY18 from 7.47% yoy. We believe the GNPA would decline further by 225 bps to 5.2% over FY17-19E. Its stressed portfolio (GNPA + restructured accounts) has come down to 9.69% in Q2FY18 (FY17 at 10.7%) against ~12% yoy owing to its diversified book and lower exposure to power and infra sectors. Besides, its slippages are contained to a great extent and bad debt recovery has also improved. Hence, we anticipate moderation in credit cost going ahead.

Outlook & Valuation

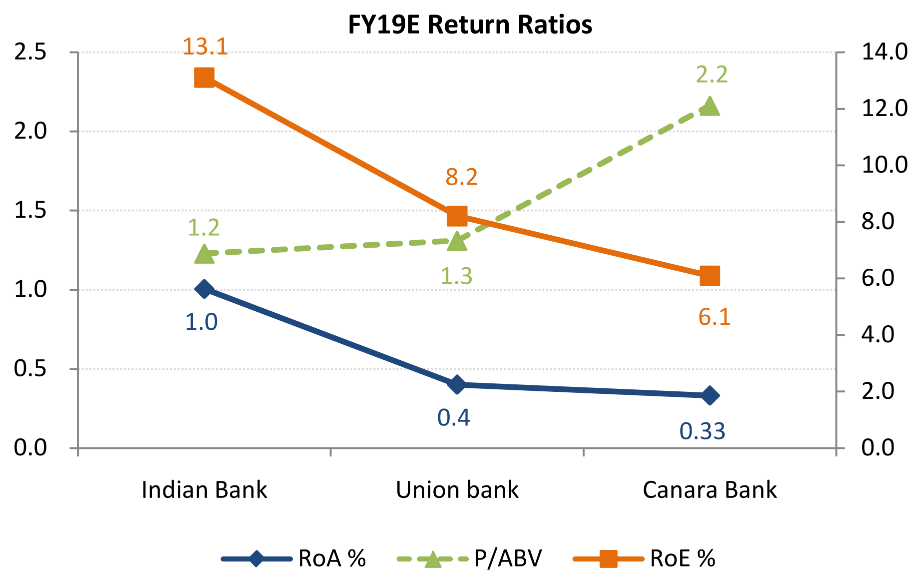
Indian Bank's return ratios are the best among PSBs. The RoA and RoE of the bank for FY19E is projected at 1% and 13.1% respectively against peers i.e. Union Bank and Canara Bank (RoA/RoE for FY19E stands at 0.4%/8.2% and 0.33%/6.1% respectively). Despite higher return ratios, Indian Bank is trading at attractive valuations at 1.2x FY19E P/ABV (Union Bank & Canara Bank are trading at 1.3x & 2.2x FY19E P/ABV respectively). The government's recapitalization programme, bank's fund raising initiatives and prudent measures to contain slippages would provide it the next leg of growth. Since, the bank is commanding a premium compared to its peers, we have valued the bank at 1.5x its FY19E P/ABV. Hence, we recommend BUY with a Target Price of ₹ 505 with a 12-month horizon.

Financial Summary

Consolidated ₹ cr	FY16	FY17	FY18E	FY19E
Net interest income	4,446	5,146	6,083	7,276
Total operating income	18,033	18,262	19,720	22,133
Pre- provision operating profit	3,036	4,007	5,302	6,338
Net profit	751	1,453	1,915	2,794
P/E (x)	26.3	13.6	10.3	7.1
P/ABVPS (x)	1.8	1.7	1.5	1.2
ROE (%)	5.5	10.0	10.1	13.1
ROA (%)	0.4	0.7	0.8	1.0

Source: Company, IIFL Research

Peer Comparison

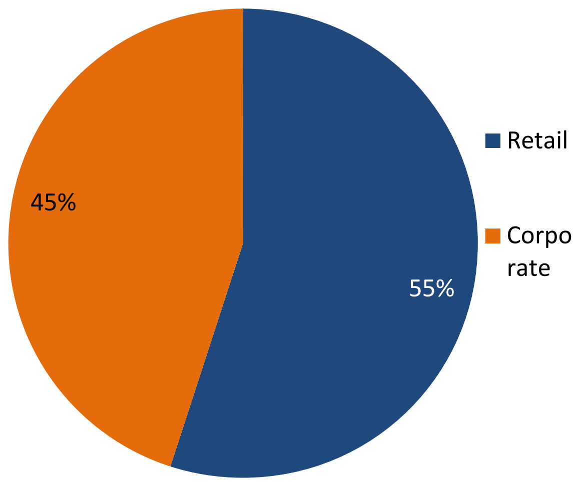


Indian Bank would emerge as a strong performer vis-à-vis peers, with higher return ratios on FY19E numbers, which supports our valuation view.

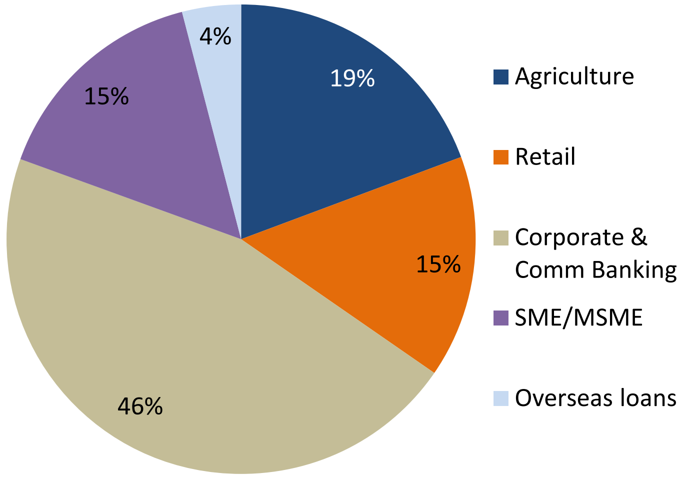
Snapshot of the company

Indian Bank is the best performing public sector bank on all fronts. The FY17 loan portfolio break-up of the bank is – Agriculture ~19%, Retail ~15%, Corporate & Commercial Banking ~46%, SME/MSME ~15% and Overseas Loans ~4%. As on FY17, its domestic loan book stood at ₹ 1,26,489 cr, which is diversified into corporate ~45% and retail ~55%, while the overseas loan portfolio stood at ~₹ 5,656 cr. The GNPA and NNPA ratio for FY17 stands at 7.5% and 4.2% respectively. Its cost to income ratio for FY17 is projected at 45.6%, while the bank also enjoys highest capital adequacy (FY17 – 13.6%) ratio among the nationalized banks. Out of its total branch network of 2,682 for FY17, ~62% are present in Southern India while the rest are spread in other regions of India.

FY17 Domestic Loan book break-up



Segment wise loan break-up FY17



Source: Company

Disclaimer

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

Please refer to http://www.indiainfoline.com/research/disclaimer for recommendation parameter, analyst disclaimer and other disclosures.

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