

22 June 2022

CMP: Rs.147

For private circulation only

Indian Bank (Indian Bank)

Indian Bank, a medium-sized public sector bank (PSB) set up in 1907, has **amalgamated Allahabad Bank (AB) with itself** with effective from April 1, 2020. Indian Bank has a **strong business network with 20,593 touch points** including 6,004 branches, 5,428 ATMs/BNAs, and 9,161 Business Correspondents. Additionally, the bank has international presence through **three overseas branches**, one each in Singapore, Colombo and Jaffna. The bank has two subsidiaries, viz., Indbank Merchant Banking Services Ltd and Indbank Housing Ltd and two joint ventures, namely, Universal Sampo General Insurance Co Ltd and ARSEC (India) Limited. Post amalgamation of AB and successful placement of shares through QIP, **Government of India (GoI's) stake stands at 79.86%** in Indian Bank, as of June 30, 2021.

We reiterate our Firm Conviction in Indian Bank stock. Why?

We had initiated our BUY Recommendation on Indian Bank on August 4, 2021 at a price of Rs.135.30. Subsequent to our recommendation, the stock hit a 52-week of Rs.194.80 in October 2021. However, due to meltdown in the domestic equity markets and rising inflation, this banking stock has corrected to Rs.148.20 (net of Rs.6.50 dividend per share; record date June 14, 2022). Now we reiterate our firm conviction in the stock with a target price of Rs.225/ for the following reasons:

- ◆ **PSB Space provides a lot of Optimism Now:** Banking Sector has been one of the few sectors to outperform in the recent meltdown in the markets. **Year to Date, Nifty 50 is down 11.27% whereas the Nifty PSU Bank index is down only 7.03% in the same period.** We believe that this outperformance is likely to continue in the Public Sector Banks (PSBs) space over the next 1 to 2 years mainly because of two reasons. **Firstly, the banking credit growth which fell to as low as 5% during the COVID pandemic period, has started improving substantially by posting strong double-digit growth in the latest reporting period at 13.1%, which is a 3-year high. Second, over the last 4 years, there has been a tremendous improvement in the asset quality of banks.**

Gross NPA as a % of Gross Advances	
FY2018	11.50%
FY2019	9.20%
FY2021	7.30%
FY2022	5.97%

Source: RBI

- ◆ **Indian Bank improves its Asset Quality Significantly:** Indian Bank has reduced its Net NPA significantly over the last 3 years. Despite amalgamation of Allahabad Bank (which had quite elevated NPAs), Indian bank reduced its Net NPA significantly post this amalgamation. Its Net NPA stands at 2.27% at the close of FY2022, which is one of the lowest among PSBs.

Period	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Net NPAs (%)	3.50%	3.13%	3.76%	2.96%	2.35%	3.37%	3.47%	3.26%	2.72%	2.27%

Source: BSE;

Continued on Next Page...

CMP (Rs)	147
Upside (%)	53%
High/Low	195/115
Market cap (Cr)	18,320
No. of shares (Cr)	124.54

Shareholding (%)

As on March 31, 2022

Promoter	79.86
Public	20.14
Institutions	12.84
Of which FPIs	1.72
Of which MFs/Banks/FIs	11.12
HNI	1.32
NRI/Corporate Bodies/ESOP	1.86
Others (Retail Float)	4.12
Total	100.00

Key Ratios

Y/E Mar	FY22	FY23E	FY24E
ABV Rs.	279.90	301.00	326.00
P/ABV (x)	0.53	0.49	0.45
NIM (%)	2.9%	2.9%	3.0%

Relative performance



Relative Performance Source: Equinomics

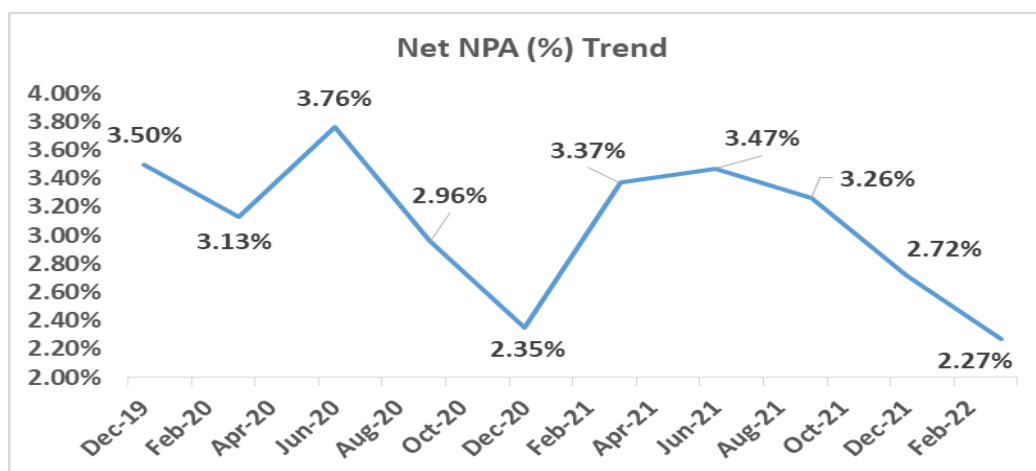
Source: Company, Equinomics Research

G. Chokkalingam
Founder & Head of Research

Nisarg Shah
VP - Research

Gaurav Khanna
VP - Research

Indian Bank improves its Asset Quality Significantly (Continued)



Source: Equinomics Research, BSE

Post amalgamation of BA, Indian Bank's Net NPA spiked to 3.76%, however, it brought down successfully, though it spiked once again during the Covid pandemic period, to one of the lowest among PSBs.

- ◆ **Synergy Benefits Post-Merger has led to Significant Improvement in Profitability:** Indian Bank has improved its operational performance post amalgamation in terms of Net Interest Income (NII), quality of assets and profitability. Post-merger, Indian Bank's NII, profits and quality of assets are far superior on a combined basis.

Parameters	FY2019 (Pre-Merger)		FY2022 (Post-Merger)
	Allahabad Bank	Indian Bank	
NII (Rs. crore)	5,510.81	7,018.09	16,728
PPOP (Rs. crore)	2,767.01	4,880.62	12,717
NPA (%)	5.22%	3.75%	2.27%
PAT (Rs. crore)	-8,333.96	321.95	3,945

Source: Equinomics Research, BSE

Indian Bank improved almost all business / operational parameters in FY2022 over FY2021.

Sr No.	Parameters	FY2021	FY2022
1	Cost of Deposits (%)	4.44	3.97
2	Cost of Funds (%)	4.43	3.90
3	Cost to Income Ratio (%)	48.55	46.21
6	Return on Assets (%)	0.50	0.63
7	Net Interest Margin (Domestic) (%)	2.85	2.91
9	Return on Equity (%)	10.63	12.13
10	Earnings per Share (Rs.)	26.61	32.38
11	Book Value per Share (Rs.)	263.98	269.98
12	Business per Employee (Rs. cr)	22.17	25.20
13	Business per Branch (Rs. cr)	153.62	174.90
14	Net Profit per Employee (Rs. Lakhs)	7.22	9.91

Source: Equinomics Research, BSE

- ◆ **Indian Bank: One of the few PSBs to return to Dividend Payout; Pays Very High Dividend Yield**

Merged PSU Banks	FY2021		FY2022	
	Dividend	Div. Yield	Dividend	Div. Yield
Indian Bank	2.00	1.4%	6.50	4.5%
Canara Bank	-	-	6.50	3.6%
Union Bank	-	-	1.90	5.5%
PNB	-	-	0.64	2.2%

Source: Equinomics Research, BSE

Indian Bank had paid a dividend of Rs.6/ per share for FY2017 and FY2018. However, due to deterioration in asset quality and Covid pandemic, it did not pay any dividend for FY2019 and FY2020. For FY2021, it declared a dividend of Rs.2/ per share. However, for FY2022, Indian Bank has declared a dividend of Rs.6.50 per share, which is among the highest in the PSB space.

Continued on next page

◆ Regional Rural Banks (RRBs) Promoted by Indian Bank also show significant growth in their Business

Parameters (Rs. Crore)	Tamil Nadu Grama Bank			Saptagiri Grameena Bank			Puduvai Bharathiar Grama Bank			Total		
	Mar'21	Mar'22	% Chg	Mar'21	Mar'22	% Chg	Mar'21	Mar'22	% Chg	Mar'21	Mar'22	% Chg
Business	30,578	34,711	14%	15,434	17,453	13%	1,731	1,957	13%	47,744	54,121	13%
Operating Profit	463	571	23%	362	397	9%	14	16	13%	839	984	17%
Net Profit	185	232	25%	178	201	13%	9	10	13%	372	443	19%
Gross NPA %	2.16	1.65	-51 bps	1.47	1.1	-37 bps	2.56	2.49	-7 bps	-	-	-
Net NPA %	0.57	0.11	-46 bps	0	0	0	0	0	0	-	-	-
CRAR %	12.21	12.74	53 bps	13.55	15.19	164 bps	11.98	10.57	-141 bps	-	-	-
No. of branches	640	644	-	225	229	-	44	44	-	909	917	-

Source: Equinomics Research, BSE

Performance Highlights of RRBs in Y2022:

- ◆ Reported a 13% yoy Combined Business Growth;
- ◆ Combined Operating profit grew by 17% yoy whereas net profit grew by 19% yoy;
- ◆ Net NPAs is NIL for 2 RRBs and 0.11% for 1 RRB; and
- ◆ Number of branches increased from 909 to 917;

Indian bank: Outlook and Valuation Extremely Appealing

Indian Bank has one of the lowest Net NPAs among the Public Sector Banks (PSBs) – its Net NPA stands at 2.27%. **With this kind of business size and credentials, we firmly believe that Indian Bank does not deserve to trade at 48% discount to its Adjusted Book Value of Rs.280 in Q4FY2022. We firmly believe that one day Indian Bank will see its steep discount to adjusted book value vanishing largely.**

Key Valuation Parameters of Indian Bank

Particulars	Indian Bank Q4FY2022
P/Adj.BV (x)	0.52
Net NPA (%)	2.27%
Business (Deposit + Advances) (Rs. cr)	9,82,804
Mkt.Cap to Business	1.8%
Advance Growth yoy	7.3%
Deposits Growth yoy	10.3%

Source: Equinomics Research, BSE

It is true that PSBs are known for underperformance in the short to medium term. However, in the long term they have made substantial wealth. For example, post the 2003-2004 period, when India faced extreme drought and post 2008-09 Lehman crisis, PSB stocks made substantial wealth. In our view now, the time has come for Indian Bank to perform very well as the bank has seen substantial improvement in asset quality and improved profitability with merger synergies. We believe that Indian Bank is one of the best plays in mid-size Public Sector Banking space with a sizable scale of operations. Indian Bank's business size stands at ~9.83 lakh crore but its market cap (Rs.17,909 crore) to business size is miniscule at 1.8%. The stock, at current price of Rs.147/, trades at 47% discount to adjusted book value (ABV) of ~Rs.280 for FY2022. We firmly believe that Indian Bank is set for substantial reduction in the discount in the years to come and hence, we firmly reiterate our Buy Recommendation on the stock with a target price of Rs.225/, valuing the bank at 0.74x its FY2023E ABV Rs.301/.

Key Risks: Any possible severe deflationary conditions or galloping inflation, which could lead to steep hike in interest rates, would be a major risk factor for the stock.

Disclosure: I, G. Chokkalingam, Mrs. Parimalam Chokkalingam (Director), Equinomics, Analyst (Author) declares that we have not obtained any monetary benefit from the said company. Further I, G. Chokkalingam, Mrs. Parimalam Chokkalingam (Director) and Equinomics, directly or indirectly do not hold shares of Indian Bank through friends, relatives or any proxies. Gaurav Khanna and Nisarg Shah also declare that they personally do not hold shares of Indian Bank nor their dependents hold shares of Indian Bank.

Indian Bank: Risk Profile and Investment Horizon

Stock Risk Profile	Low	Moderate	High	Very High
		✓		
Investment Horizon	1 Year	1-2 years	2-3 years	3 years & above
		✓		

Note: Investment Horizon indicates the time period in which the stock price may possibly achieve the target price;

Stock Disclosure: Whether Stock Held By:

	G. Chokkalingam & Family	Mrs. Parimalam Chokkalingam (Director)	Equinomics Research & Advisory Private Ltd.	Gaurav Khanna Analyst	Nisarg Shah Analyst
Indian Bank	No	No	No	No	No

Equinomics Research & Advisory Private Ltd
Research Analyst / CIN:U67190MH2014PTC252252

SEBI REG. NO. INH000007863

G. Chokkalingam - Founder & Head of Research

Head Office - Mumbai

101, Simba, 12, Aradhana Industrial Estate

*Off. Western Express Highway, Near Virwani Industrial Estate,
Goregaon East, Mumbai - 400063*

Ph: +91-7710074647 | Email: contactus@equinomics.co.in | Website: www.equinomics.co.in

Disclosure of Interest Statement

1	Registration Status of Equinomics	Equinomics is registered with SEBI as a Research Analyst (SEBI Registration No. INH000007863)
2	Business Activities of Equinomics Research and Advisory Pvt Ltd. (Equinomics)	Equinomics Research and Advisory is also an approved Authorised person of Aditya Birla Money Limited (ABML), offering trading facility on NSE and BSE. Both the services i.e., Research Analyst are Authorised Person offering trading facility, are rendered under two separate divisions and operate independently of each other. Equinomics' both business divisions are separated by Chinese wall.
3	Details of Disciplinary History of Equinomics	Equinomics Research and Advisory Pvt Ltd has not been debarred/suspended by SEBI or any other regulatory authority from accessing/dealing in securities market.

Definition of Ratings

Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

1. Details of Research Analyst:

Name: Mr. G Chokkalingam, Gaurav Khanna, Nisarg Shah

Email Id: gaurav.khanna@equinomics.co.in, nisarg.shah@equinomics.co.in

Contact No: +91-7710074647

2. The Analyst certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

3. Equinomics Research & Advisory Private limited (Equinomics) is a SEBI registered Research Analyst. This document has been prepared by Equinomics Research & Advisory Private Ltd

Disclosure under SEBI (Research Analyst) Regulations 2014:

4. Whether the research analyst or research entity or its associates or his relative has any financial interest in the subject company and the nature of such financial interest- No

Indian Bank | General Update

5. Whether the research analyst or research entity or its associates or relatives, have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance – No
6. Whether the research analyst or research entity or his Associate or his relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance – No
7. Whether the research analyst or its associates have received any compensation from the subject company in the past twelve months- No
8. Whether the research analyst or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months-No
9. Whether the research analyst or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months- No
10. Whether the research analyst or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months- No
11. Whether the research analyst or its associates have received any compensation or other benefits from the Subject Company or third party in connection with the research report. – No
12. Whether the research analyst has served as an officer, director or employee of the subject company – No
13. Whether the research analyst or research entity has been engaged in market making activity for the subject company – No

Disclaimer:

1. This report is for the personal information of the authorized recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent.
2. This report and information herein are solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient.
3. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.
4. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.
5. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein.
6. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such.
7. Equinomics or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.
8. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.
9. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval.
10. Equinomics Research & Advisory Private Ltd, its affiliates their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document.
11. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of Equinomics. The views expressed are those of the analyst and the Company may or may not subscribe to all the views expressed therein.
12. Neither this document nor any copy of it may be taken or transmitted into the United States (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof.
13. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Equinomics Research & Advisory Private Ltd to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.
14. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

For any grievances, please contact our compliance officer Mr. Qusai Basrai on basrai.qusai@equinomics.co.in

Copyright of this document vests exclusively with Equinomics Research & Advisory Private Ltd. Ph: +91-7710074647