Indian Bank (INDIBA)

ICICI Direct

CMP: ₹ 855 | Target: ₹ 1,000 (16%) | Target Period: 12 months | **BUY**

July 13, 2026

Result update

Resilient Q1; RoA to remain steady despite ECL provisioning...

About the stock: Indian Bank is one of the largest and among the better performing PSU banks in India with a total business of ₹ 15 lakh crore.

- Diversified loan mix with RAM (retail/agri/MSME) forming ~66% of book

Q1FY27 performance: Indian Bank reported healthy Q1FY27 performance, with advances growing 13.9% YoY (2.6% QoQ) to ₹6.85 lakh crore, driven by continued traction in RAM segments (14.8% YoY), particularly retail (18.7%) and MSME (17%), while corporate advances grew 11.5%. Deposits grew 13.5% YoY (2% QoQ) to ₹8.44 lakh crore, broadly matching credit growth, with CASA being broadly steady at ~39.7%, supported by strong current account growth (26.3% YoY). NIMs expanded 6 bps QoQ to 3.41%, healthy fee income, controlled opex and treasury recovery drove PAT to ₹3,273 crore (+10% YoY, +5.5% QoQ) despite creating ~₹1,000 crore of ECL-related provisions and maintaining contingency overlays of ~₹323 crore for geopolitical risks. Asset quality strengthened further, with GNPA/NNPA improving to 1.86%/0.15%, PCR at 98.22% and credit cost declining to 23 bps, reflecting lower slippages and sustained recoveries.

Investment Rationale:

- **Strategy to deliver balanced and sustained growth:** Management continues to prioritise sustainable growth by aligning credit expansion with deposit mobilisation while preserving asset quality. Healthy RAM growth (~14.8% YoY), led by retail (~18.7% YoY) and MSME (~17% YoY) supports business momentum, while agriculture growth is expected to recover to ~15–16% following temporary disruption from system transition in case of jewel loan. On the liability side, deposits grew ~13.5% YoY, broadly matching advances, with CASA stable at ~39.7% and bulk deposits broadly unchanged, reducing pressure on funding cost. Management maintained guidance for FY27 with continued strategy focussing on maintain balance between advances and liabilities, especially bulk deposit to manage margin performance. We expect credit growth of ~13% CAGR in FY26-28E.

- **Margin resilience and robust asset quality underpin earnings visibility**: Margin outlook remains stable, with management reiterating FY27 NIM guidance of 3.1–3.25%, aided by selective repricing of advances, calibrated exit from low-yield corporate exposures and continued reliance on lower-cost market borrowings thereby offsetting MCLR and bulk deposit repricing (~2 bps each). Asset quality continues to strengthen, supported by lower slippages, healthy recoveries and improving SMA trends, with management reiterating GNPA guidance of 1.5–1.6% and expecting credit cost and slippages to remain <1%. The bank's proactive provisioning towards ECL transition (~₹1,000 crore provided in Q1 out of estimated ₹3,000–3,500 crore), along with contingency overlays (~₹323 crore) for potential geopolitical risk, enhances balance sheet resilience. Steady margins, conservative provisioning and strong capital buffers should support earnings.

Rating and Target Price

- Core operating performance remains robust, supported by healthy business growth, resilient asset quality and strong capital buffers. While focus on funding mix is seen to protect margins, higher recoveries is to aid earnings resilience despite ECL transitioning. Factoring RoA of ~1.3x, we continue to assign multiple of ~1.3x FY28E BV, revising our target price to ₹1,000 (earlier ₹980). Maintain Buy.

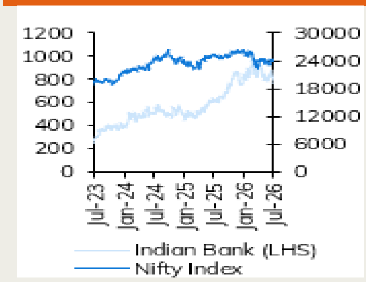
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,14,963 crore
52 week H/L	1,001 / 606
Net worth	₹ 82,070 Crore
Face Value	10.0
DII Holding (%)	17.8
FII Holding (%)	5.8

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	73.8	73.8	73.8	73.8
FII	4.7	5.6	5.8	6.2
DII	18.6	17.8	17.8	17.0
Others	2.9	2.7	2.6	3.0

Price Chart



Key risks

(i) Impact of ECL transition

(ii)Managing bulk deposit & borrowings mix

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Key Financial Summary

₹ crore	FY24	FY25	FY26	3 year CAGR (FY23-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	23,273	25,176	26,915	10.0%	31,281	35,431	14.7%
PPP	16,840	18,998	19,916	9.3%	23,019	25,728	13.7%
PAT	8,063	10,918	12,156	32.0%	13,791	15,180	11.8%
ABV (₹)	365	445	513		614	708	
P/E	14.3	10.5	9.5		8.4	7.6	
P/ABV	2.3	1.9	1.7		1.4	1.2	
RoA	1.1	1.3	1.3		1.3	1.3	
RoE	15.5	17.1	16.5		16.2	15.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Balanced growth continued: deposits 13.4% YoY to (₹8.4 lakh crore), advances 13.9% YoY (to ₹6.85 lakh crore), keeping the deposit-advance gap at ~40 bps, which management wants to keep range-bound to protect NIM.
- RAM grew ~14.8% YoY (66% of book) — retail 18.7%, MSME 17%; corporate grew 11.5%. Agri growth moderated to 9.9% YoY (initial two months hit by jewel-loan transition IT issues; recovered to 10% by quarter-end). Management indicated that the issue has been resolved and expects agriculture growth to return to the 15–16% range going forward.
- CASA grew 15.3% YoY (savings 13.5%, current account 26.3%); CASA ratio at 39.7%, close to the 40% target.
- Gold/jewel loan book at ₹1.32 lakh crore; management guided 15–16% gold loan growth for FY27 (vs. 26–28% last year, which was price- not tonnage-led). LTV remains comfortable despite a ~30% correction in gold prices. NBFC exposure remains selective (only AAA/AA rated exposure).
- FCNR mobilisation at ~$150 mn so far against a $1.5–2 bn target (incl. ECB); ~$1 bn pipeline exists, though funding of associated demand loans is the constraint, not fundraising itself.
- Management reiterated a calibrated growth stance: comfortable with ~13% deposit growth funding ~15% advance growth without compromising NIM; sees 13–14% overall growth considered healthy and sustainable.

Margins

- NIMs expanded 6 bps QoQ to 3.29% (3.41% domestic), aided by flat bulk deposits QoQ (₹1.61 lakh crore) and reliance on cheaper borrowings (~5.25%) over costlier bulk (100–150 bps higher); repricing added ~1–1.5 bps.
- Yield on advances improved ~2 bps QoQ to 8.09% as the bank selectively repriced or exited low-yielding loans
- FY27 NIM guidance retained at 3.10–3.25%, with management indicating it will likely land at the upper end; further expansion seen as marginal (2–3 bps) as MCLR repricing (–2 bps) and bulk deposit repricing (+2–3 bps) broadly offset each other.
- Competitive intensity in retail TDs has eased versus when bulk deposit rates were at 7.8–7.9%. Housing/vehicle/corporate loan pricing remains competitive, especially for top-rated accounts and PSUs.

Asset Quality

- GNPA improved 115 bps YoY / 12 bps QoQ to 1.86%; NNPA flat at 0.15%; PCR at 98.22%.
- Slippage ratio improved to 0.77% (vs. 0.96% last year); recoveries (₹1,885 crore) outpaced slippages (₹1,250 crore), aided by one large ~₹400 crore recovery.
- Credit cost fell to 0.23% from 0.47% in Mar-26. Management flagged March as a quarter with elevated seasonality (audit-related) and expects the remaining FY27 quarters to stay range-bound.
- The bank created ~₹1,000 crore of ECL-related floating provisions during the quarter, translating into a net standard asset provision of ₹733 crore after write-back related provision releases. It also added ₹13 crore to its West Asia contingency buffer, taking the cumulative provision to ~₹323 crore.
- Total ECL transition impact estimated at ₹3,000–3,500 crore, of which ₹1,000 crore is provided in Q1FY27; another ₹500–1,000 crore is planned through the year. Steady-state flow impact on credit cost estimated at ~12 bps gross (~8–10 bps net of tax) per 1% of incremental growth, as D3/loss-asset provisioning must be maintained at 100% as per new guidelines, limiting any substantial release from provisioning buffer.

- Guidance reiterated: GNPA 1.5–1.6%, recovery ₹4,500–5,500 crore (₹1,885 crore achieved in Q1)

Other updates

- Net profit +10.09% YoY to ₹3,273 crore; operating profit +16.51% YoY to ₹5,557 crore; NII +17% YoY. RoE at 19.48%; cost-to-income improved to 44.80% (guidance: ~45%).
- CRAR at 17.58% (CET1 at 16.51%), aided by a 44 bps boost from ₹2,000 crore of IFR moving from Tier 2 to Tier 1.
- Treasury profit came in better than expected (management had modelled ₹250–300 crore) amid falling yields. AFS reserve turned positive at ₹546 crore. FY27 treasury profit guided at only ₹600–700 crore, with G-sec yields seen bottoming near 6.65% (lower only on Bloomberg index inclusion).
- LCR steady at 123%, as the bank continues to fund incremental growth through lower-cost market borrowings instead of relying on expensive bulk deposits, supporting margin resilience.
- Fee income strength (syndication fee - ₹272 crore, CBDC reimbursement) called sustainable by management, driven by volumes, not rate hikes.
- Digital/IT budget: ~₹750 crore capital budget for AI and cyber-resilience initiatives (CSOC, UEBA, zero-trust), part of a broader ~₹3,000 crore IT budget; a data lakehouse project is underway for DPDP compliance.
- Management noted that around ₹11,000 crore of advances are ECLGS, of which nearly ₹5,000 crore has already been disbursed, providing additional support to eligible MSME borrowers.
- Execution at the branch level improved significantly, with 51% of branches achieving their business targets in Q1FY27 compared with only 25–27% in the corresponding period last year, reflecting stronger franchise-wide participation.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	7,434.8	6,358.9	16.9	7,109.5	4.6	Supported by healthy RAM-led loan growth and steady margins
NIM (%)	3.29	3.23	6 bps	3.23	6 bps	Increase in CD ratio drives margin improvement
Other Income	2,633.5	2,438.6	8.0	2,499.7	5.4	Growth in fee income and steady treasury performance
Net Total Income	10,068.2	8,797.5	14.4	9,609.2	4.8	
Staff cost	3,070.6	2,612.3	17.5	2,711.7	13.2	
Other Operating Expenses	1,440.4	1,414.9	1.8	1,611.8	-10.6	
PPP	5,557.3	4,770.3	16.5	5,285.7	5.1	
Provision	1,195.7	691.0	73.0	1,225.8	-2.5	Credit cost lower at ~23 bps, despite ~₹1,000 crore towards ECL
PBT	4,361.6	4,079.3	6.9	4,060.0	7.4	
Tax Outgo	1,088.5	1,106.5	-1.6	956.8	13.8	
PAT	3,273.1	2,972.8	10.1	3,103.1	5.5	Delivered earning growth despite ECL provisioning
Key Metrics						
GNPA	12,710.3	18,067.0	-29.6	13,190.0	-3.6	GNPA improved by 13 bps QoQ
NNPA	990.2	1,036.0	-4.4	964.9	2.6	
Advances	684,623.0	601,147.0	13.9	667,113.0	2.6	Credit growth guidance steady at 11-13% YoY
Deposits	844,578.0	744,289.0	13.5	827,726.0	2.0	CASA ratio broadly stable at 39.73%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	62,002.2	67,450.7	75,181.7	83,552.0
Interest Expended	36,825.8	40,535.8	43,900.9	48,121.1
Net Interest Income	25,176.4	26,914.9	31,280.8	35,430.9
growth (%)	8.2	6.9	16.2	13.3
Non Interest Income	9,223.5	9,990.6	10,650.0	11,424.8
Net Income	34,399.9	36,905.5	41,930.7	46,855.6
Staff cost	9,884.0	10,760.3	11,905.5	13,503.2
Other Operating expense	5,517.7	6,229.1	7,006.3	7,624.0
Operating profit	18,998.2	19,916.1	23,018.9	25,728.4
Provisions	4,211.3	3,512.4	4,408.5	5,243.0
PBT	14,787.0	16,403.7	18,610.4	20,485.4
Taxes	3,868.7	4,248.1	4,819.5	5,305.1
Net Profit	10,918.3	12,155.6	13,790.9	15,180.3
growth (%)	35.4	11.3	13.5	10.1
EPS (₹)	81.1	90.2	102.4	112.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares (	134.7	134.7	134.7	134.7
EPS (₹)	81.1	90.2	102.4	112.7
BV (₹)	453.2	581.2	625.7	723.6
ABV (₹)	445.0	513.4	613.9	708.1
P/E	10.5	9.5	8.4	7.6
P/BV	1.9	1.5	1.4	1.2
P/ABV	1.9	1.7	1.4	1.2
Yields & Margins (%)				
Net Interest Margins	3.2	3.1	3.2	3.2
Yield on assets	8.0	7.7	7.6	7.6
Avg. cost on funds	4.8	4.7	4.6	4.6
Yield on avg advance	8.3	8.0	8.0	8.0
Avg. Cost of Deposits	4.9	4.8	4.7	4.6
Quality and Efficiency (%)				
Cost to income ratio	44.8	46.0	45.1	45.1
Credit/Deposit ratio	77.5	79.1	80.4	81.6
GNPA	3.2	2.0	1.6	1.2
NNPA	0.2	0.1	0.2	0.3
RoE	17.1	16.5	16.2	15.3
RoA	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	1,347.0	1,347.0	1,347.0	1,347.0
Reserves and Surplus	67,963.0	76,944.3	91,104.9	104,294.5
Networth	69,309.9	78,291.3	92,451.9	105,641.4
Deposits	737,153.6	827,726.3	920,230.6	1,023,514.5
Borrowings	41,507.9	46,692.5	50,261.0	54,186.3
Subordinated Debt				
Other Liabilities & Provisions	25,439.2	35,242.8	39,250.6	41,182.1
Total	873,410.6	987,952.8	1,102,194.1	1,224,524.3
Applications of Funds				
Fixed Assets	8,826.7	8,646.7	8,872.2	9,125.3
Investments	225,303.1	244,665.7	262,995.5	282,763.0
Advances	571,071.2	654,888.2	739,841.3	835,157.7
Other Assets	13,341.8	14,162.0	31,052.2	33,485.0
Cash with RBI & call money	54,867.9	65,590.2	59,432.8	63,993.3
Total	873,410.6	987,952.8	1,102,194.1	1,224,524.3

Source: Company, ICICI Direct Research

Exhibit 5: Growth (%)

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	10.2	13.1	11.6	11.1
Advances	10.9	14.7	13.0	12.9
Deposit	7.1	12.3	11.2	11.2
Total Income	10.5	7.3	13.6	11.7
Net interest income	8.2	6.9	16.2	13.3
Operating expenses	7.7	10.3	11.3	11.7
Operating profit	12.8	4.8	15.6	11.8
Net profit	35.4	11.3	13.5	10.1
Net worth	18.7	13.0	18.1	14.3
EPS	35.4	11.3	13.5	10.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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