

Stable Performance Amid Margin Pressures

CMP: INR 775

Rating: ACCUMULATE

Target Price: INR 871

Stock Info

BSE	532814
NSE	INDIANB
Bloomberg	INBK IN
Reuters	INBA.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	13.47
Mkt Cap (INR Bn)	1,039.4
52w H/L (INR)	805 / 474
Avg Volume (In '000)	1,863

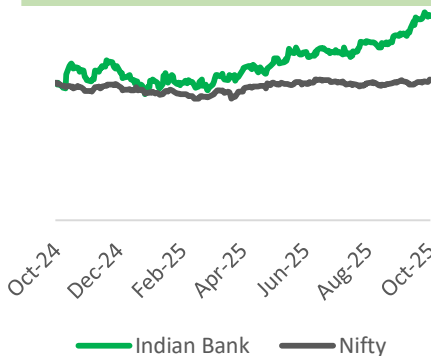
Shareholding Pattern %

(As on Sept, 2025)

Promoters	73.84
FII	4.68
DII	18.62
Public & Others	2.86

Stock Performance (%)	3m	6m	12m
Indian Bank	20.86	34.05	48.72
Nifty50	1.89	7.27	2.46

Indian Bank vs Nifty 50



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Indian Bank reported a relatively strong set of Q2FY26 results, with NII slightly above our estimates, while PAT came in marginally below estimates. GNPA improved to 2.6% from 3.0% in the previous quarter. Net Interest Income stood at INR 65.5 Bn, compared to the estimate of INR 64.3 Bn, up by 3.02% QoQ and 5.76% YoY. PPOP was INR 48.4 Bn vs the estimate of INR 48.7 Bn, up 1.39% QoQ and 2.28% YoY. Provisions stood at INR 7.4 Bn, vs the estimated INR 7.9 Bn, up 6.89% QoQ but down 32.80% YoY. PAT came in at INR 30.2 Bn against the estimate of INR 30.6 Bn, up 1.53% QoQ and 11.52% YoY. GNPA at 2.6% vs an estimated 3.0%, down 41 bps QoQ and 88 bps YoY, while NNPA was 0.16% against the estimate of 0.17%, down 2 bps QoQ and 11 bps YoY. Deposits increased to INR 7,769.4 Bn compared to an estimated INR 7,629.0 Bn, up 4.39% QoQ and 12.09% YoY, and advances up to INR 6,051.7 Bn vs an estimate of INR 5,958.0 Bn, up 3.60% QoQ and 13.55% YoY.

RAM-Focused Growth Strategy: The Bank's strategy of growing the RAM (Retail, Agriculture, MSME) portfolio continues to dominate the narrative this quarter as well. In Q2FY26, RAM advances grew 15.57% YoY and 3.52% QoQ, contributing to 65.50% of total advances (vs 65.34% from previous quarter). Retail loans grew 18.58% YoY, Agriculture 13.98% YoY, and MSME loans grew a solid 14.10% YoY, a modest increase as compared to previous quarter. This growth helps reduce dependence on the corporate book and supports yields and asset diversification. This, coupled with focused digital journeys (13 new digital MSME processes) and agentic AI for collections, positions the Bank well for sustainable, higher-yielding growth.

Consistent Profit Growth with Stable Return Metrics Despite Margin Pressures :

NIM is almost flat on a QoQ basis and the same goes for YoY numbers when extrapolated. Net profit grew 11.49% YoY to INR 30,180 Mn, while ROA and ROE were maintained at 1.32% and 19.58% respectively, above the guided range (ROA: 1.20%, ROE: 19–20%) but almost flat on a QoQ basis. Operating profit stood at INR 48,370 Mn, growing 2.31% YoY. The bank remains confident of maintaining NIMs in the 3.15–3.30% range (that is true for Q2 FY26 as well), supported by repricing of INR 860,000 Mn deposits over the next 3-6 months and falling bulk deposit rates.

Accelerated Digital Transformation: The Bank is undergoing a digital transformation with Fintech partnerships, Agentic AI as collection tools and the Bank's Private Cloud. Digital transactions have increased to 94% of total transactions, and UPI volumes have seen a jump of almost 40% in terms of transactions and 24% in terms of users. Similarly mobile banking has seen a large usage spike of almost 17% in terms of users. The bank intends to focus on this aspect going forward.

Valuation and View: Indian Bank is keeping its focus on retail and priority lending, cost control, and growing its customer base in Q2FY26 and in H2FY26. The bank aims for double-digit growth this fiscal, targeting credit expansion of 10–12% with credit costs below 100 basis points. Flat NIMs, ROA and ROE continue to cap the valuation of this stock. Asset quality is set to remain strong, helped by good recoveries and a strong provision coverage ratio above 98%. Overall remains confident of maintaining profitability through repricing of deposits and continued focus on high-rated lending. **Hence, we maintain our positive stance on the bank, and revise our FY28E ABV to INR 655, we assign revised Target Price of INR 871 on 1.33x P/ABV (earlier TP 746)**

Indian Bank Ltd. (INR Bn)	FY24A	FY25A	FY26E	FY27E	FY28E
NII	233	252	290	337	376
PPOP	168	190	224	265	315
PAT	81	109	135	162	196
Advances	5,149	5,711	6,225	6,816	7,429
Deposits	6,880	7,372	7,980	8,738	9,525
ROA	1.1	1.3	1.5	1.6	1.8

Source: Company, Arihant Research

Q2FY26 - Quarterly Performance (Standalone)

(in INR Bn)

Quarterly Result Update (INR Bn)	Q2FY26	Q1FY26	Q2FY25	QoQ	YoY
Interest Income	165.90	162.83	153.48	1.9%	8.1%
Interest Expended	100.39	99.24	91.53	1.2%	9.7%
Net Interest Income	65.51	63.59	61.94	3.0%	5.8%
Other Income	24.87	24.39	24.22	2.0%	2.7%
Operating Income	90.38	87.97	86.16	2.7%	4.9%
Employee Expenses	26.51	26.12	24.64	1.5%	7.6%
Other Operating Expenses	15.50	14.15	14.23	9.5%	8.9%
Operating Expenses	42.01	40.27	38.88	4.3%	8.1%
PPOP	48.37	47.70	47.29	1.4%	2.3%
Provisions	7.39	6.91	10.99	6.9%	-32.8%
PBT	40.98	40.79	36.29	0.5%	12.9%
Tax Expenses	10.80	11.06	9.23	-2.4%	17.0%
Net Income	30.18	29.73	27.06	1.5%	11.5%
Balance Sheet Analysis					
Advances	6,052	5,841	5,329	3.6%	13.6%
Deposits	7,769	7,443	6,931	4.4%	12.1%
CASA Deposits	2,888	2,771	2,689	4.2%	7.4%
CASA (%)	38.87%	38.97%	40.47%	-10bps	-160bps
CAR (%)	17.31	17.80	16.55	-49bps	76bps
Spreads					
NIMs (%)	3.34%	3.35%	3.49%	-1bps	-15bps
Cost of Funds	5.09%	5.23%	5.22%	-14bps	-13bps
Yield on Average Advances	8.40%	8.58%	8.77%	-18bps	-37bps
Asset Quality					
GNPA	161	181	191	-10.7%	-15.7%
NNPA	10	10	14	-5.1%	-32.0%
GNPA (%)	2.60%	3.01%	3.48%	-41bps	-88bps
NNPA (%)	0.16%	0.18%	0.27%	-2bps	-11bps
Returns & Expenses					
RoA	1.32	1.20	1.33	12bps	-1bps
RoE	19.58	20.26	21.04	-68bps	-146bps
Cost / Income Ratio	46.5%	45.8%	45.1%	71bps	136bps

Source: Company, Arihant Research

Concall Highlights

Management Guidance:

- FY26 credit growth guidance is maintained at 10-12%, with the bank aiming to hit the higher end of the range based on a reasonable Q2FY26 momentum.
- NIM guidance remains at 3.15%-3.30%. This guidance assumes a possible 50 bps rate cut. Expects stability unless further aggressive cuts occur. CASA ratio target is set at 40%.
- The Credit cost is expected to settle between 50-70 bps in FY26, below the guided 1%.
- ROA guidance of ~1.2% is reaffirmed; FY26 profitability expected to be steady, by treasury gains and controlled slippages.
- GNPA is guided to stay below 3%; NNPA trajectory is also expected to decline with proactive provisioning practices in place.

Other Highlights :

- The following are salient points with regard to NPAs
 - Gross NPA: Decreased to 2.60% in Q2 FY26, from 3.01% in the previous quarter.
 - Net NPA: Fell to 0.16%, down from 0.18% in the previous quarter.
- Due to improved NPA trends, the SMA-2 book for this quarter has seen a marked improvement as compared to Q1
- Indian Bank's provisions eased 32.8 per cent on a year-on-year basis to Rs 739 crore
- INR 330,000 Mn of bulk deposits have matured and repriced in Q2FY26; 50% of bulk deposits will mature in Q3. Bulk deposit strategy remains conservative, will only scale if cost-effective.
- The Bank's total deposits stood at ₹7.77 lakh crore for the second quarter of FY26, marking a 12.09% YoY jump from ₹6.93 lakh crore in the second quarter of the previous fiscal year FY26
- IT capex budget is INR 15,000 Mn; ~3,000 employees to be hired across cybersecurity, IT, risk, and forex functions.
- ₹1.24 lakh Cr of Business under Digital Platform (YoY 59%). Similarly, even in sectors such as Agri, MSME and Retail lending the bank continues to push digital tools.
- CRM and Agent AI launched in collections; eFRMS and data lake initiatives progressing.
- 119 new branches to be opened in FY26; 55 launched in Q2FY26 and 51 were already opened in Q1 FY26, including one for senior citizens.
- Expansion focused on Maharashtra, Gujarat, and Rajasthan to deepen presence in high-GDP states..
- Segmental demand sees traction in renewable energy i.e. solar, city gas distribution, and textiles; PLI sectors also gaining traction.
- The Bank is not seeing major stress in agri SMA accounts and does not expect slippage into NPAs. RAM vs. Corporate book mix expected to remain stable at 65:35 by year-end; corporate credit remains PSU-dominated.

Profit & Loss Statement (INR Bn)	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Interest Income	449	556	620	699	780	858
Interest Expense	247	323	368	408	443	482
Net Interest Income	202	233	252	290	337	376
YoY change (%)	21	15	8	15	16	12
Non Interest Income	71	79	92	95	103	127
Total Net Income	274	311	344	385	440	503
Total Operating Expenses	121	143	154	161	175	188
Pre Provision profit	153	168	190	224	265	315
YoY change (%)	20	10	13	18	18	19
Provisions	94	59	42	41	45	50
Profit Before Tax	59	110	148	183	219	265
YoY change (%)	85	85	35	24	20	21
Taxes	6	29	39	48	57	69
Net profit	53	81	109	135	162	196
YoY change (%)	33.9	52.7	35.4	23.7	20.1	21.0

Balance Sheet (INR Bn)	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Cash & Balances with RBI	327	327	319	217	280	361
Inter bank borrowing	174	94	229	248	272	296
Investments	1,860	2,126	2,253	2,456	2,677	2,918
Loan and Advances	4,493	5,149	5,711	6,225	6,816	7,429
Other Assets	176	156	133	244	267	291
Total Assets	7,105	7,926	8,734	9,489	10,420	11,414
Deposits						
Borrowings	6,212	6,880	7,372	7,980	8,738	9,525
Other Liability	221	231	415	423	432	440
Equity	193	231	254	257	260	262
Reserves	12	13	13	13	13	13
Total Liabilities	467	570	680	815	977	1,173

Dupont Analysis (% of Average Assets)	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income	2.9	3.1	3.0	3.2	3.4	3.4
Non Interest Income	1.0	1.0	1.1	1.0	1.0	1.2
Net Income	4.0	4.1	4.1	4.2	4.4	4.6
Operating Expenses	1.8	1.9	1.8	1.8	1.8	1.7
Operating Profit	2.2	2.2	2.3	2.5	2.7	2.9
Provisions & Contingencies	1.4	0.8	0.5	0.5	0.5	0.5
Taxes	0.1	0.4	0.5	0.5	0.6	0.6
ROAA	0.8	1.1	1.3	1.5	1.6	1.8

Ratios	FY23A	FY24A	FY25A	FY26E	FY27E	FY28E
Efficiency Ratio (%)						
Int Expended / Int Earned	55.0	58.2	59.4	58.4	56.8	56.2
Int Income / Total Assets	6.3	7.0	7.1	7.4	7.5	7.5
NII / Total Income	38.8	36.7	35.3	36.6	38.2	38.2
Other Inc. / Total Income	13.7	12.4	12.9	12.0	11.6	12.9
Ope. Exp. / Total Income	23.2	22.5	21.6	20.3	19.8	19.1
Net Profit / Total Assets	0.7	1.0	1.3	1.4	1.6	1.7
Credit / Deposit	72.3	74.8	77.5	78.0	78.0	78.0
Investment / Deposit	29.9	30.9	30.6	30.8	30.6	30.6
NIM	3.2	3.3	3.2	3.4	3.6	3.7
Solvency						
Gross NPA (Rs. Cr)	282	211	182	188	195	202
Net NPA (Rs. Cr)	40	22	11	17	24	31
Gross NPA (%)	6.3	4.1	3.2	3.0	2.9	2.7
Net NPA (%)	0.9	0.4	0.2	0.3	0.4	0.4
Capital Adequacy Ratio (%)	16.5	16.4	17.9	19.8	21.8	24.3
Tier I Capital (%)	13.5	14.0	15.8	17.6	19.5	21.8
Tier II Capital (%)	3.0	2.4	2.1	2.2	2.3	2.5
Growth Ratio (%)						
Interest Income	15.7	23.7	11.5	12.7	11.6	10.0
Interest Expenses	11.7	30.8	13.9	10.9	8.5	8.8
Other Income	3.3	10.1	17.2	3.1	8.1	23.5
Total Income	13.8	21.9	12.2	11.4	11.2	11.6
Net profit	33.9	52.7	35.4	23.7	20.1	21.0
Deposits	4.6	10.8	7.1	8.3	9.5	9.0
Advances	15.4	14.6	10.9	9.0	9.5	9.0
Return Ratio						
RoAA (%)	0.8	1.1	1.3	1.5	1.6	1.8
RoAE (%)	11.5	15.2	17.1	17.8	17.8	18.0
Per Share Data (INR)						
EPS	42	60	81	100	120	146
Book Value	385	433	515	553	603	678
Adj Book Value of Share	353	417	506	540	585	655
Valuation Ratio						
P/E (x)	18.2	12.9	9.5	7.7	6.4	5.3
P/BV (x)	2.0	1.8	1.5	1.4	1.3	1.1
P/ABV (x)	2.2	1.8	1.5	1.4	1.3	1.2

Source: Company, Aриhant 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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