



ACCUMULATE

Price	Rs113
Target Price	Rs121
Investment Period	12 months
Stock Info	
Sector	Banking
Market Cap (Rs cr)	4,839
Beta	0.9
52 WK High / Low	157/64
Avg Daily Volume	172353
Face Value (Rs)	10
BSE Sensex	11,372
Nifty	3,470
BSE Code	532814
NSE Code	INDIANB
Reuters Code	INBA.BO
Bloomberg Code	INBK@IN
Shareholding Pattern (%)	
Promoters	80.0
MF/Banks/Indian FIs	4.5
FII/ NRIs/ OCBs	12.3
Indian Public	3.2

Abs.	3m	1yr	#3yr
Sensex (%)	26.3	(33.6)	(13.6)
Indian Bank (%)	(10.5)	(21.8)	14.5

Note: # Since listing on March 02, 2007

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Performance Highlights

- Reasonable Core Operating performance:** Reported NIMs declined sequentially by a substantial 57bp to 3.3%. To an extent, this needs to be seen in the context of the unsustainable increase in NIMs of PSU Banks over the two preceding quarters on account of the temporary increase in pricing power. However, it is also symptomatic of the greater competitive pressures being faced by mid-sized PSU Banks. Hence, Indian Bank registered 7.2% sequential decline in Net Interest Income (NII) to Rs668cr. Non-Interest Income was higher than our estimates partly on account of the moderate Treasury gains and also due to the high sequential growth of 28% in Fee Income. Recoveries from written-off accounts continued to slow down, slipping by 53% yoy to Rs46cr during the quarter. Operating expenses moved up a moderate 7% yoy, enabling the Bank to post 21.5% yoy growth in Pre-Provisioning Profits. The effective tax rate further increased compared to earlier quarters to 35.5% (as the Bank has accounted for Deferred Tax Asset with respect to its carry-forward losses).
- Other Income driven by Treasury Profits:** Provisioning expenses came in much lower than expected at Rs24cr, down by more than 80% on a yoy and sequential basis. While a detailed break-up was not available, this would have likely been on account of lower NPA provisions. Correspondingly, the Bank's Gross additions to NPAs in FY2009 were also much lower than expected at 0.6% of FY2008 Advances compared to the Gross addition at the rate of 1.5% in FY2008. In terms of Gross and Net NPA ratios, Asset quality was largely stable sequentially. Lower NPAs and Provisions are likely attributable to the large magnitude of restructuring done by the Bank in FY2009 at around Rs2,000cr, which amounts to a substantial 3.9% of Advances. Data regarding the amount pending for restructuring was not available. The Bank's Capital Adequacy remained at comfortable levels of 14% as per the Basel 2 norms, of which Tier 1 capital was a high 11.9%.
- Strong Net Profit growth:** The Bank delivered Net Profit growth of 63% yoy to Rs394cr (Rs242cr) during the quarter, which exceeded our estimates on account of the much lower Provisioning expenses.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
NII	1,992	2,609	2,992	3,354
% chg	6.4	31.0	14.7	12.1
Net Profit	1,009	1,245	1,292	1,326
% chg	32.8	23.5	3.7	2.7
NIM (%)	3.2	3.5	3.4	3.3
EPS (Rs)	22.5	28.1	29.2	30.0
P/E (x)	5.0	4.0	3.9	3.7
P/BV (x)	1.1	0.9	0.7	0.6
P/ABV (x)	1.1	0.9	0.7	0.6
RoA (%)	1.6	1.6	1.4	1.2
RoE (%)	25.8	23.8	20.8	18.4

Source: Company, Angel Research

- Moderate Balance Sheet growth:** The Bank's Deposits grew 19% yoy to Rs72,582cr, though driven largely by a substantial 38% sequential surge in Bulk Deposits, resulting in an increase in the Bulk Deposit component in the overall Deposit mix by 3 percentage points to 12.6%. The Bank's CASA ratio remained stable at 31% while it continued to offer amongst the lowest Retail term deposit rates in the sector. The Bank's CD ratio further declined to 71%. Advances grew 29% yoy to Rs51,465cr (though slower than the 49% yoy growth in 2QFY2009 and 39% yoy in 3QFY2009), largely driven by growth in the Retail, SME and Agriculture Segments.

Outlook and Valuation

At the CMP, the stock is trading at 3.9x FY2010E EPS of Rs29.2 and 0.7x FY2010E Adjusted Book Value of Rs151.9. The Bank's predominantly Rural and Semi-urban presence has enabled the Bank to maintain reasonable cost of funds, partly responsible for more resilient NIMs than other mid-sized PSU Banks. After sharply underperforming its peers in March 2009, we believe that Indian Bank's relative valuations are now more aligned with its relative fundamentals within the PSU space wherein it is trading at a discount to its large-cap peers such as PNB, but is at a moderate premium to Mid-cap Banks such as OBC and IOB. **We maintain an Accumulate on the stock, with a revised Target Price of Rs121 (Rs96), implying an upside of 8%.**

Exhibit 1: 4QFY2009 Performance

Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Interest Earned	1,856	1,360	36.5	6,830	5,190	31.6
Interest Expenses	1,189	847	40.4	4,222	3,159	33.6
Net Interest Income	668	513	30.1	2,609	2,031	28.4
Non-Interest Income	292	313	(6.6)	1,035	1,029	0.7
Total Income	960	826	16.2	3,644	3,060	19.1
Operating Expenses	324	303	6.9	1,415	1,400	1.1
Pre-Prov Profit	636	523	21.6	2,229	1,659	34.3
Provisions & Cont.	24	178	(86.4)	443	424	4.5
PBT	611	345	77.3	1,786	1,235	44.6
Prov. for Taxes	217	103	110.8	540	226	138.8
PAT	394	242	63.1	1,245	1,009	23.4
EPS (Rs)	4.7	2.9	63.1	15.0	12.2	23.4
Cost to Income (%)	33.8	36.7		38.8	45.8	
Effective Tax Rate (%)	35.5	29.9		30.3	18.3	
Net NPA	0.2	0.2				

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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