

Indian Overseas Bank (INDOVE)

RESULT UPDATE ✓

WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY08E).....	Unchanged (Rs 22.6)
EPS (FY09E).....	Unchanged (Rs 28.0)
RATING.....	Unchanged

Current price Rs 182	Target price Rs 230
Potential upside 26%	Time Frame 12 months

OUTPERFORMER

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Maintaining leadership on ROE front

With nine-month ROE (not annualised) at 23.15%, we expect Indian Overseas Bank to beat our estimated ROE of 27.8% for the full year FY08. PAT grew a healthy 24.5% to Rs 308.1 crore from Rs 246.8 crore in the corresponding quarter the previous year on account of a reversal in investment depreciation (change in method of amortization) resulting in overall provision coming down by 40% y-o-y for the quarter.

On the net interest income front, the 8% growth to Rs 656 crore was slightly below expectations. Advances grew by a healthy 24% to Rs 54,621 crore and deposits registered a higher 33% growth to Rs 78,791 crore. A dip in NIM to 3.3% from 3.9% was on account of higher cost of funds as a result of falling CASA to 31% from highs of 36% a year ago. This led to low NII growth. However, surprise came from other income which grew 63% y-o-y to Rs.219.5 crore. Fee income grew 29% and trading gains were up 39%. We expect net interest income and non-interest income to grow at 18% and 19% respectively over FY07-09E.

The bank has managed well its non performing assets as net NPA has come down from 0.48% to 0.36%, better than our estimated 0.5% net NPA for FY08. Opex is in line with estimated 10% inspite of transitional provision made for AS-15.

Valuations

At the current price of Rs 182, the stock trades at at 1.7x its FY09E ABV of Rs 107 and 6.4x FY09E EPS of Rs 28. We remain upbeat on the sector and particularly PSU banks. We expect earnings to grow at a 23% CAGR over FY07-09. The bank's ROE at above 25% is one of the best in the industry and ROA at 1.32% is on a higher side among peer public sector banks. We expect the bank to maintain these high return ratios and rate the stock an outperformer with a target price of Rs 230 (mentioned in our report dated October 26, 2007; Rs 192 and Rs 230 possible targets).

Exhibit 1: Key Financials

(Rs crore)

Year to March	Q3FY08	Q3FY07	% change	FY08E	FY09E
Net Interest Income	656.0	605.1	8%	3044.3	3595.6
Non Interest Income	219.5	134.4	63%	494.5	605.6
Total Income	875.5	739.5	18%	3538.9	4201.2
Staff expenses	259.8	213.3	22%	989.3	1068.5
Total Operating Expenses	382.4	311.6	23%	1524.0	1680.3
Operating profit	493.1	427.9	15%	2014.9	2520.9
Total provisions	36.67	61.48	-40%	331.0	403.3
PBT	456.4	366.5	25%	1683.9	2117.6
Tax	148.2	119.7	24%	454.7	592.9
PAT	308.18	246.78	25%	1229.2	1524.7

Source: ICICIdirect Research

RATING RATIONALE

ICICIdirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more

Performer: Between 10% and 20%

Hold: $\pm 10\%$ return

Underperformer: -10% or more

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