



Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,860	INBK IN
	REUTERS CODE
S&P CNX: 5,036	INBA.BO

23 January 2010

Buy

Previous Recommendation: Buy

Rs173

		YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV (X)
Equity Shares (m)	429.8	3/09A	36,440	12,453	29.0	23.5	6.0	1.4	14.0	24.8	1.6	1.4
52-Week Range	196/64	3/10E	44,290	15,652	36.4	25.7	4.8	1.1	13.8	25.6	1.7	1.1
1,6,12 Rel.Perf.(%)	0/10/-50	3/11E	50,084	14,221	33.1	-9.1	5.2	1.0	13.2	19.6	1.3	1.0
M.Cap. (Rs b)	74.4	3/12E	56,162	17,115	39.8	20.4	4.3	0.8	12.8	20.3	1.3	0.8
M.Cap. (US\$ b)	1.6											

- Indian Bank has reported better than expected results for 3QFY10. NII grew 21% YoY v/s our estimate of 10% growth. PAT was up 26% YoY v/s our estimate of 9% growth.
- Adjusted for recoveries, NII grew 17% YoY and 14% QoQ on loan growth of 14% YoY and 7% QoQ. CASA grew 22% YoY and 6% QoQ and CASA ratio improved to 31.6% v/s 31% in 2QFY10.
- NIM was 3.8% (up ~40bp QoQ), the highest in the last four quarters. Gross NPAs stand at 0.9%, with provision coverage of 83% – one of the best in the industry. However, restructured loans at 8.8% of total loans or Rs51b (down Rs1b QoQ) remain one of the highest in the sector.
- We estimate EPS at Rs33 for FY11 and Rs40 for FY12. BV would be Rs181 in FY11 and Rs210 in FY12. RoE should sustain at ~20% over the next two years and tier-I CAR should remain ~11%+.
- Valuations at 1x FY11E and 0.8x FY12E BV, and 5.2x FY11E and 4.3x FY12E EPS present an attractive risk reward equation. We maintain **Buy**, with a target price of Rs250 (1.2x FY12E BV) – an upside of 44.5%.

QUARTERLY PERFORMANCE

	(RS MILLION)									
	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	15,018	16,882	17,840	18,564	18,802	19,372	20,148	20,613	68,303	78,935
Interest Expense	9,623	10,063	10,644	11,888	11,426	11,780	11,418	11,691	42,218	46,315
Net Interest Income	5,395	6,818	7,196	6,676	7,377	7,591	8,730	8,922	26,085	32,620
% Change (Y-o-Y)	11.7	44.7	24.6	27.7	36.7	11.3	21.3	33.7	27.0	25.1
Other Income	2,432	2,128	2,873	2,921	3,502	2,372	2,935	2,861	10,354	11,670
Net Income	7,827	8,946	10,069	9,597	10,878	9,963	11,665	11,784	36,440	44,290
Operating Expenses	3,461	3,618	3,833	3,239	4,573	4,425	4,758	4,591	14,151	18,348
Operating Profit	4,366	5,328	6,237	6,357	6,305	5,539	6,907	7,192	22,288	25,942
% Change (Y-o-Y)	32.4	55.1	34.6	21.6	44.4	4.0	10.7	13.1	19.1	21.5
Other Provisions	1,690	1,089	1,410	243	1,209	293	320	1,103	4,427	2,924
Profit before Tax	2,676	4,239	4,827	6,114	5,096	5,246	6,586	6,089	17,861	23,018
Tax Provisions	500	1,409	1,320	2,173	1,780	1,526	2,172	1,888	5,408	7,366
Net Profit	2,176	2,829	3,507	3,941	3,317	3,720	4,414	4,202	12,453	15,652
% Change (Y-o-Y)	2.6	14.3	14.0	63.1	52.4	31.5	25.9	6.6	23.5	25.7
Interest Exp/Interest Income (%)	64.1	59.6	59.7	64.0	60.8	60.8	56.7	56.7	61.8	58.7
Other Income/Net Income (%)	31.1	23.8	28.5	30.4	32.2	23.8	25.2	24.3	28.4	26.3
Cost/Income Ratio (%)	44.2	40.4	38.1	33.8	42.0	44.4	40.8	39.0	38.8	41.4
Provisions/Operating Profits (%)	38.7	20.4	22.6	3.8	19.2	5.3	4.6	15.3	19.9	11.3
Tax Rate (%)	18.7	33.3	27.3	35.5	34.9	29.1	33.0	31.0	30.3	32.0

E: MOSL Estimates

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RESULTS ANALYSIS (RS M)

	3QFY10	3QFY09	YOY GR. %	2QFY10	QOQ GR. %	FY09	FY10E	FY11E
Interest Income	20,148	17,840	13	19,372	4	68,303	78,935	94,823
Interest Expense	11,418	10,644	7	11,780	-3	42,218	46,315	57,576
Net Interest Income (NII)	8,730	7,196	21	7,591	15	26,085	32,620	37,247
Other Income	2,935	2,873	2	2,372	24	10,354	11,670	12,837
- Fees and others	1,739	1,476	18	1,786	-3	6,577	7,270	8,437
- Trading Profits	773	1,095	-29	299	NM	1,948	2,400	2,400
- Recovery from w/off	423	302	40	286	48	1,830	2,000	2,000
Net Income	11,665	10,069	16	9,963	17	36,440	44,290	50,084
Total Operating Costs	4,758	3,833	24	4,425	8	14,151	18,348	19,601
- Staff Costs	3,408	2,787	22	3,114	9	9,798	13,213	13,961
- Other Opex	1,350	1,046	29	1,311	3	4,354	5,134	5,639
Operating Profit	6,907	6,237	11	5,539	25	22,288	25,942	30,484
Provisions	320	1,410	-77	293	9	4,427	2,924	9,571
PBT	6,586	4,827	36	5,246	26	17,861	23,018	20,913
Tax	2,172	1,320	65	1,526	42	5,408	7,366	6,692
Tax rate %	33	27		29		30	32	32
PAT	4,414	3,507	26	3,720	19	12,453	15,652	14,221
Deposits	847,320	696,600	22	800,680	6	725,818	870,982	1,045,178
CASA Ratio %	32	31		31		32	31	31
Advances	574,680	504,600	14	539,190	7	514,653	617,583	741,100
Gross NPA	5,143	4,625	11	4,790		4,592	5,439	17,764
Gross NPA %	0.9	0.9		0.9		0.9	0.9	2.4
Net NPA	897	803	12	975		938	1,360	5,329
Net NPA %	0.2	0.2		0.2		0.2	0.2	0.7
Yields on Advances %*	10.9	11.3		10.8		11.1	10.4	10.6
Cost of Deposits %*	5.6	6.3		5.9		6.2	5.8	6.0
NIM %*	3.8	3.9		3.5		3.8	3.9	3.8
Tier I CAR %*	12.1	10.6		12.1		11.9	12.0	11.5
Tier II CAR %*	1.7	2.1		1.8		2.1	1.8	1.7
Branches	1,704	1,584		1,670		1,642	1,725	1,825

* Reported, Calculated for full year nos

High margins sustained despite sub-optimal C-D ratio

On a high base, loan growth is modest at 14% YoY. Growth rates have picked up recently, with QoQ loan growth for the quarter at 7%. Deposit growth has averaged ~22% in the last four quarters. As a result, C-D ratio has declined from 72.4% in 3QFY09 to 67.8% in 3QFY10 (down ~460bp in the last one year).

INBK has more or less been able to maintain NIM at 3.5%+, which highlights strong control over cost of funds and better pricing. 3QFY10 NIM was 3.8% (up ~40bp QoQ), the highest in the last four quarters, driven by stronger recoveries of interest on written-off accounts and a sharp fall in cost of deposits.

Strong control over cost of funds, CASA ratio improves QoQ

Cost of funds declined from 5.9% in 2QFY10 to 5.6% in 3QFY10 – among the best in the industry. Yield on advances improved by 8bp to 10.9%. The bank has been able to maintain

its CASA ratio in excess of 30% consistently over several quarters. CASA ratio improved to 31.6% v/s 31% in 2QFY10.

ADJUSTED NII (RS M)

	3QFY10	3QFY09	YOY (%)	2QFY10	QOQ (%)
Interest Income	20,148	17,840	12.9	19,372	4.0
Interest Expenses	11,418	10,644	7.3	11,780	-3.1
Reported NII	8,730	7,196	21.3	7,591	15.0
Less : Recovery of int. on NPA	517	184	180.7	408	26.7
Adjusted NII	8,212	7,012	17.1	7,183	14.3

Source: Company/MOSL

REPORTED NET INCOME (RS M)

	3QFY10	3QFY09	YOY (%)	2QFY10	QOQ (%)
Reported Net Income	11,665	10,069	15.8	9,963	17.1
Less:					
Recovery from woff accounts	423	302	40.0	286	47.7
Recovery of unaccounted interest	517	184	180.7	408	26.7
Trading gains	773	1,095	-29.5	299	158.1
Core Net Income	9,952	8,488	17.2	8,969	11.0

Source: Company/MOSL

Reported NPAs amongst the least, but high restructuring a concern

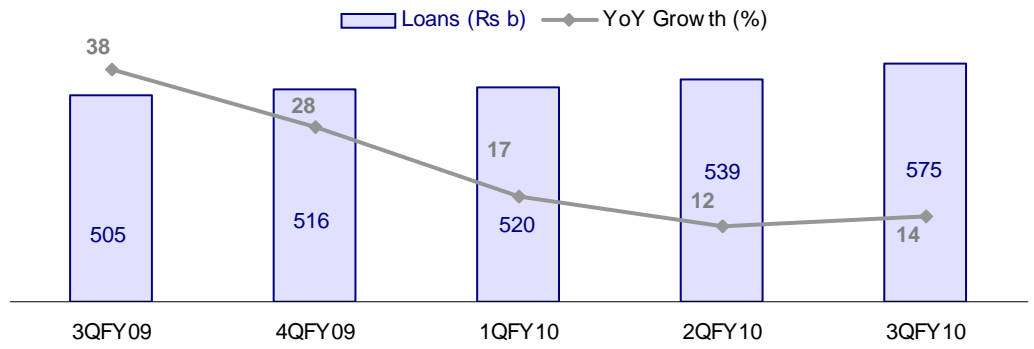
INBK is currently maintaining provision coverage ratio of ~83%, with gross NPAs at 0.9% and net NPAs at 0.16%. Total restructured loans as on December 2009 are Rs51b 8.8% of total loans (down from 9.7% in 2QFY10; classified borrower-wise).

Valuation and view

We estimate EPS at Rs33 for FY11 and Rs40 for FY12. BV would be Rs181 in FY11 and Rs210 in FY12. RoE should sustain at ~20% over the next two years and tier-I CAR should remain ~11%+. Valuations at 1x FY11E and 0.8x FY12E BV, and 5.2x FY11E and 4.3x FY12E EPS present an attractive risk reward equation. We maintain **Buy**, with a target price of Rs250 (1.2x FY12E BV) – an upside of 44.5%.

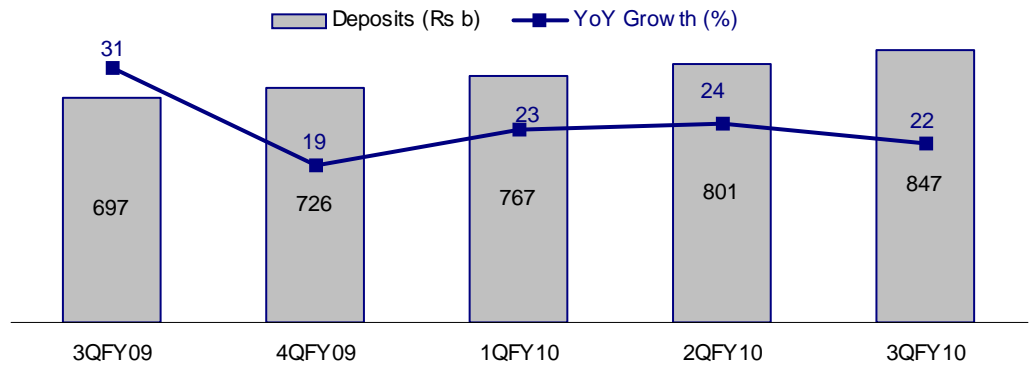
LOAN GROWTH TREND

YoY loan growth modest at 14% YoY; picks up QoQ to 7%

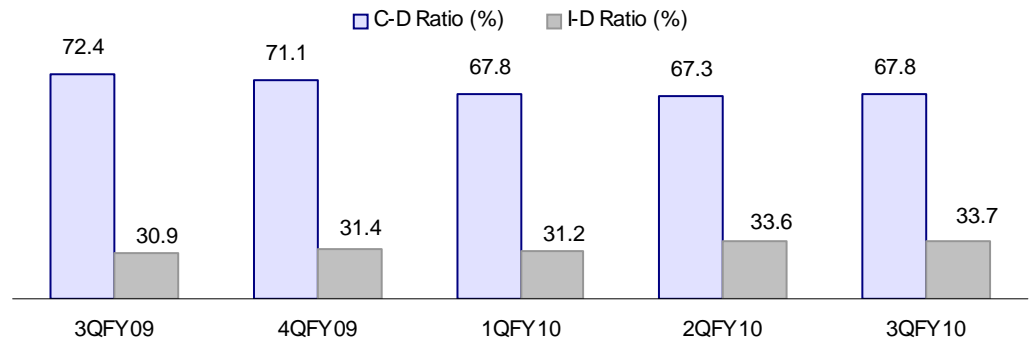


DEPOSITS GROWTH TREND

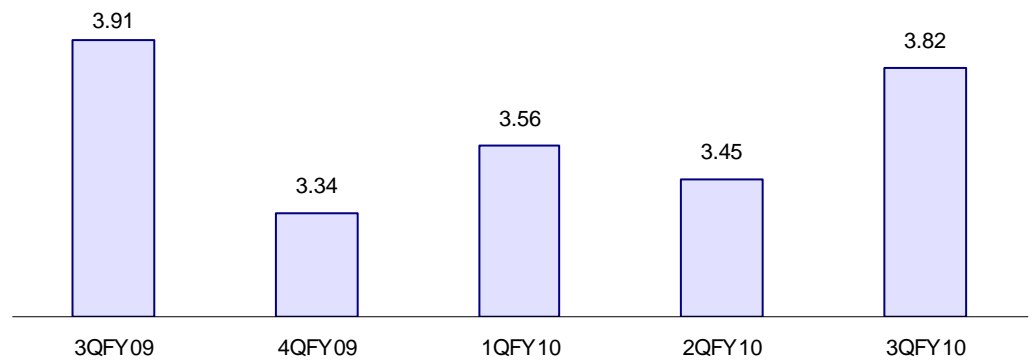
Deposit growth remained firm at 22% YoY



C-D RATIO HAS DECLINED IN THE LAST FIVE QUARTERS

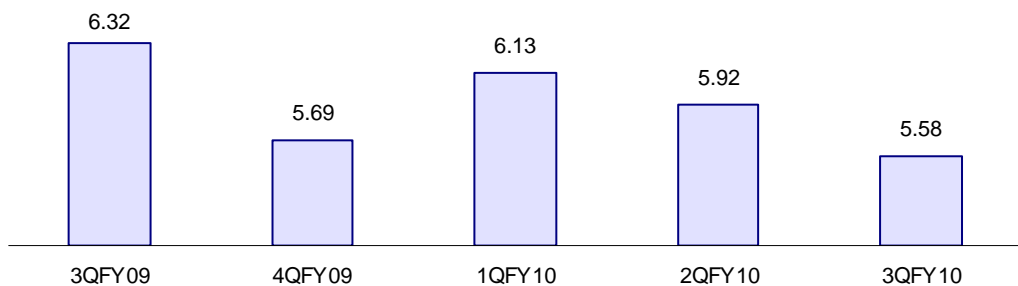


MARGINS IMPROVE QOQ (%)

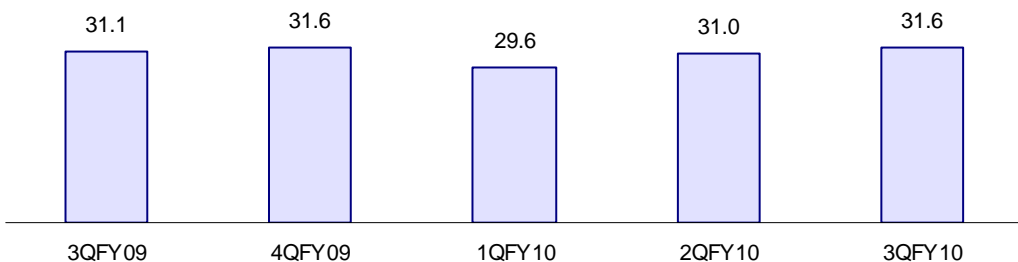


Source: Company/MOSL

STRONG CONTROL OVER COST OF DEPOSITS (%)

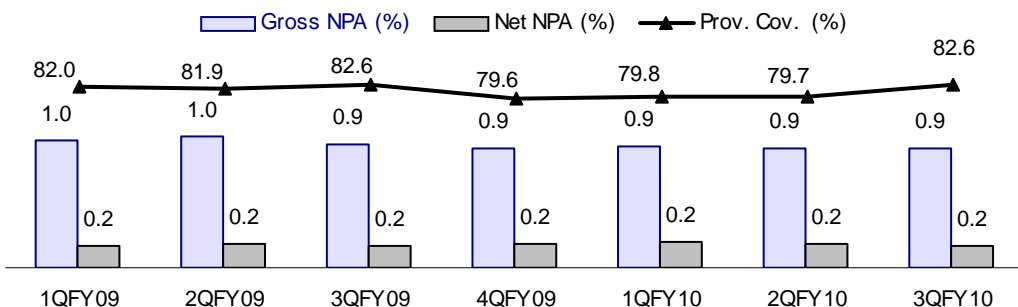


CASA RATIO IMPROVES QOQ (%)



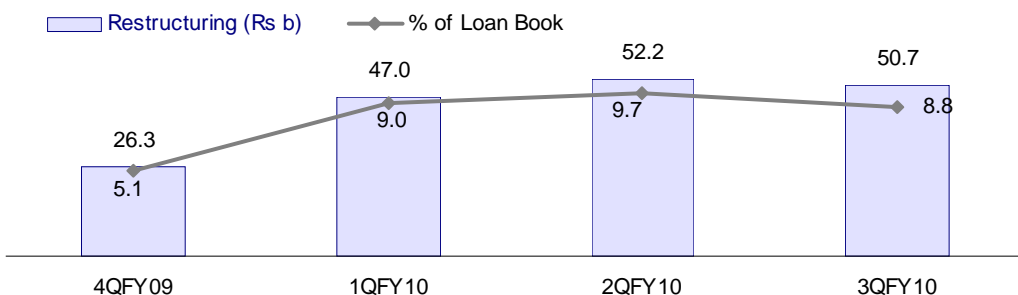
REPORTED NPAS AMONGST THE LEAST IN THE SECTOR

Gross NPA less than 1% and provision coverage ratio ~83%

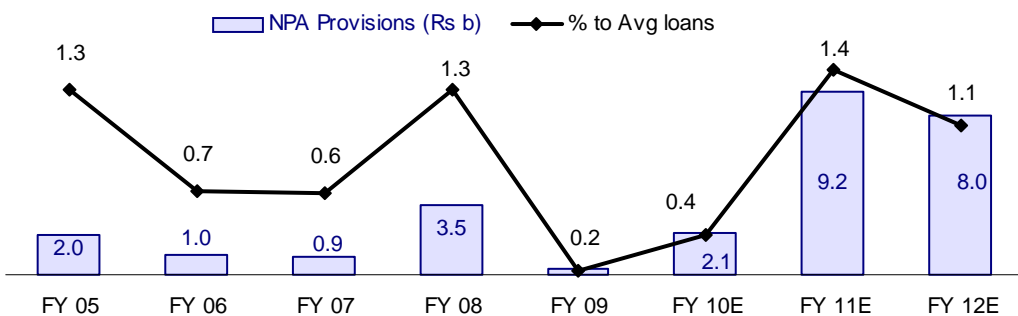


RESTRUCTURED LOANS DECLINE QOQ

Restructured assets at 8.8% of loan book, highest among peers



OUR MODEL CAPTURES POTENTIALLY HIGH SLIPPAGES



Source: Company/MOSL

Indian Bank: an investment profile

Company description

Indian Bank is state owned bank with 80% GoI holding. The bank has a pan Indian network of 1,700+ branches and 855 ATMs with focus on the state of Tamil Nadu and southern India. Indian Bank experienced some financial setbacks in the 1990s following introduction of prudential norms by the RBI. It incurred losses in FY94 and during the period FY96-01. In March 2006, the bank reduced its share capital by writing off accumulated losses of Rs38.3b. This reduced its paid-up share capital from Rs45.7b to Rs7.4b. On 30 September 2006, the bank restructured its entire paid-up capital of Rs7.4b held by the GoI into perpetual non-cumulative preference share capital of Rs4b and equity share capital of Rs3.4b. To give effect to this restructuring, the bank issued 343.8m equity shares of Rs10 each to the GoI, without payment by the promoter.

Key investment arguments

- Strong CASA franchise and lower dependence on bulk deposits would keep cost of funds under control and margins higher than peers
- We expect RoA and RoEs to remain at 1.3%+ and 20%+ for next couple of years.

Key investment risks

- Lower recoveries from written off NPAs would lead to lower earnings growth
- High NPAs from restructured accounts may increase the provisions

COMPARATIVE VALUATIONS

		INDIAN BANK	IOB	BOI
P/E (x)	FY11E	5.2	6.3	7.7
	FY12E	4.3	3.8	5.7
P/BV (x)	FY11E	1.0	0.9	1.3
	FY12E	0.8	0.7	1.1
RoE (%)	FY11E	19.6	14.4	18.7
	FY12E	20.3	20.9	21.4
RoA (%)	FY11E	1.3	0.7	1.0
	FY12E	1.3	0.9	1.1

SHAREHOLDING PATTERN (%)

	DEC-09	SEP-09	DEC-08
Promoter	80.0	80.0	80.0
Domestic Inst	3.2	3.6	3.1
Foreign	12.0	10.1	12.9
Others	4.7	6.2	4.0

Recent developments

- Nil

Valuation and view

- We estimate EPS of Rs33 in FY11 and Rs40 in FY12. BV would be Rs181 in FY11 and Rs210 in FY12.
- We estimate RoE to sustain ~20% over next two years and Tier I CAR to remain ~11%+.
- Valuation at 1x and 0.8x FY11E and FY12E BV and 5.2x and 4.3x FY11E and FY12E EPS presents attractive risk reward equation.
- Maintain Buy with a target price of Rs250 (1.2x FY12 BV), an upside of 44.5%.

Sector view

- 9MFY10 YTD loan growth of 9% and deposit growth of 11%. We expect loan growth to 16% and deposit growth to 18% in FY10.
- We expect margins to improve in 4QFY10 and FY11 as (a) loan growth picks up and CD ratio expands, (b) cost of deposits continue to fall (a lag effect of deposits repricing), and (c) yields to improve in a rising interest rate scenario.
- Our concerns over asset quality are abating with the up-tick in economic and IIP growth.
- Selective buying in favor of banks with higher earnings visibility and reasonable valuations.

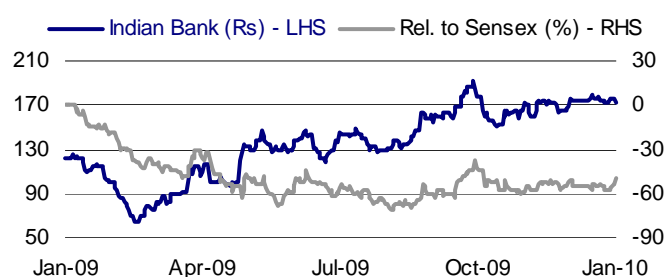
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	36.4	32.8	10.9
FY11	33.1	36.6	-9.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
173	250	44.5	Buy

STOCK PERFORMANCE



Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2007	2008	2009	2010E	2011E	2012E
Interest Income	41,948	52,130	68,303	78,935	94,823	113,324
Interest Expended	24,126	31,591	42,218	46,315	57,576	70,974
Net Interest Income	17,822	20,539	26,085	32,620	37,247	42,350
Change (%)	23.6	15.2	27.0	25.1	14.2	13.7
Other Income	8,231	10,057	10,354	11,670	12,837	13,812
Net Income	26,052	30,596	36,440	44,290	50,084	56,162
Change (%)	36.7	17.4	19.1	21.5	13.1	12.1
Operating Expenses	12,467	14,003	14,151	18,348	19,601	22,350
Operating Income	13,586	16,593	22,288	25,942	30,484	33,813
Change (%)	64.6	22.1	34.3	16.4	17.5	10.9
Other Provisions	4,744	4,243	4,427	2,924	9,571	8,643
PBT	8,842	12,350	17,861	23,018	20,913	25,170
Tax	1,244	2,262	5,408	7,366	6,692	8,054
Tax Rate (%)	14.1	18.3	30.3	32.0	32.0	32.0
PAT	7,598	10,087	12,453	15,652	14,221	17,115
Change (%)	74.2	32.8	23.5	25.7	-9.1	20.4
Proposed Dividend	1,289	2,421	2,953	3,175	3,737	4,415

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2007	2008	2009	2010E	2011E	2012E
Capital	8,298	8,298	8,298	8,298	8,298	8,298
- Equity Share Capital	4,298	4,298	4,298	4,298	4,298	4,298
- Preference Share Capital	4,000	4,000	4,000	4,000	4,000	4,000
Reserves & Surplus	30,110	43,307	63,061	75,038	85,022	97,223
Net Worth	38,408	51,605	71,359	83,336	93,320	105,520
Deposits	470,909	610,459	725,818	870,982	1,045,178	1,254,214
Change (%)	15.4	29.6	18.9	20.0	20.0	20.0
Borrowings	19,365	12,832	5,308	5,573	5,852	6,437
Other Liabilities & Prov.	32,805	30,180	38,732	42,605	48,996	56,346
Total Liabilities	561,486	705,077	841,217	1,002,497	1,193,346	1,422,517
Current Assets	48,178	67,728	66,838	75,628	97,230	125,302
Investments	208,777	219,151	228,006	275,887	320,029	371,233
Change (%)	9.8	5.0	4.0	21.0	16.0	16.0
Loans	290,581	398,387	514,653	617,583	741,100	889,320
Change (%)	29.2	37.1	29.2	20.0	20.0	20.0
Net Fixed Assets	5,512	5,393	15,942	16,042	16,242	16,042
Other Assets	8,439	14,418	15,779	17,356	18,745	20,619
Total Assets	561,486	705,077	841,217	1,002,497	1,193,346	1,422,517

ASSUMPTIONS	(%)					
Deposit Growth	15.4	29.6	18.9	20.0	20.0	20.0
Loans Growth	29.2	37.1	29.2	20.0	20.0	20.0
Investments Growth	9.8	5.0	4.0	21.0	16.0	16.0
Provisions Coverage	81.3	80.0	79.6	75.0	70.0	72.0
Dividend	30.0	40.0	55.0	55.0	66.2	79.6

E: MOSL Estimates

Financials and Valuation

RATIOS

Y/E MARCH	2007	2008	2009	2010E	2011E	2012E
Spreads Analysis (%)						
Avg. Yield-Earn. Assets	8.3	9.2	10.0	9.5	9.6	9.6
Avg. Cost-Int. Bear. Liab.	5.3	5.7	6.2	5.8	6.0	6.1
Interest Spread	3.1	3.5	3.7	3.8	3.6	3.5
Net Interest Margin	3.5	3.6	3.8	3.9	3.8	3.6

Profitability Ratios (%)

RoE	29.9	26.0	24.8	25.6	19.6	20.3
RoA	1.5	1.6	1.6	1.7	1.3	1.3
Int. Expended/Int. Earned	57.5	60.6	61.8	58.7	60.7	62.6
Other Inc./Net Income	31.6	32.9	28.4	26.3	25.6	24.6

Efficiency Ratios (%)

Op. Exps./Net Income	57.2	54.5	48.6	46.0	42.9	43.2
Empl. Cost/Op. Exps.	70.5	69.1	69.2	72.0	71.2	70.8
Busi. per Empl. (Rs m)	33.4	43.3	56.5	68.5	81.2	86.7
NP per Empl. (Rs lac)	3.6	4.9	6.3	7.9	7.1	7.6

*ex treasury and recovery from w/off accounts

Asset-Liability Profile (%)

Adv./Deposit Ratio	61.7	65.3	70.9	70.9	70.9	70.9
CASA Ratio	35.4	32.3	31.6	31.3	30.8	30.5
Invest./Deposit Ratio	44.3	35.9	31.4	31.7	30.6	29.6
G-Sec/Invest. Ratio	79.9	81.7	84.1	82.1	84.9	87.8
Gross NPAs to Adv. (%)	1.9	1.2	0.9	0.9	2.4	2.8
Net NPAs to Adv. (%)	0.4	0.2	0.2	0.2	0.7	0.8
CAR	14.1	12.7	14.0	13.8	13.2	12.8
Tier 1	12.3	11.3	11.9	12.0	11.5	11.1

VALUATION

Book Value (Rs)	75.0	105.8	127.5	156.5	180.9	210.5
Price-BV (x)	2.3	1.6	1.4	1.1	1.0	0.8
Adjusted BV (Rs)	74.2	105.0	126.8	155.5	176.8	204.9
Price-ABV (x)	2.3	1.6	1.4	1.1	1.0	0.8
EPS (Rs)	17.7	23.5	29.0	36.4	33.1	39.8
EPS Growth (%)	39.3	32.8	23.5	25.7	-9.1	20.4
Price-Earnings (x)	9.8	7.4	6.0	4.8	5.2	4.3
OPS (Rs)	31.6	38.6	51.9	60.4	70.9	78.7
OPS Growth (%)	184.9	22.1	34.3	16.4	17.5	10.9
Price-OP (x)	5.5	4.5	3.3	2.9	2.4	2.2

E: MOSL Estimates

N O T E S



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