

Indian Bank

Performance Highlights

Indian Bank reported a Net Profit growth of 25.9% yoy, which was ahead of our estimates, on account of better-than-expected Net Interest Income (up by 21.3% yoy) and non-interest income (up by 2.1% yoy). Reflecting sectoral trends, the yoy growth in advances was at 13.9%, while deposit growth was strong at 21.6%. The NIM of the bank in 3QFY2010 improved by 37bp sequentially to 3.82% (as against 3.45% in 2QFY2010 and 3.91% in 3QFY2009), aided by repricing of high cost deposits and a stable CASA. At current levels, the stock is trading at attractive valuations. **Hence, we recommend a Buy on the stock.**

Sedate Business Growth, High Profitability: Sequential Business growth was in-line with sector growth in both loans and deposits, with loans growing 6.6% qoq (13.9% yoy) to Rs57,468cr, and deposits growing 5.8% qoq (21.6% yoy) to Rs84,732cr. The YTD growth in the loan book stood at 11.7%; we have factored-in a yoy growth of 13.0% in advances for the bank in FY2010E and 18% in FY2011E and FY2012E each, based on the ongoing pick-up in credit demand and expectations of large, unutilised limits getting increasingly drawn down, going forward, as working capital requirements increase. The NIM of the bank in 3QFY2010 improved to 3.82% (as against 3.45% in 2QFY2010), aided by repricing of high cost deposits and a stable CASA. The CASA ratio of the bank was stable at 31.1%, on a sequential and yoy basis. The Gross and Net NPA ratios of the bank remained stable at 0.9% and 0.2%, respectively, with the NPA provision coverage ratio at 73.7%.

Outlook and Valuation: The Bank's performance and strategic direction has broadly been positive and balanced since its listing, leading to a gradual improvement in the quality of earnings vis-à-vis its peers. At the CMP, the stock is trading at 4.3x FY2012E EPS of Rs40.2 and 0.8x FY2012E Adjusted Book Value of Rs214. In our view, the Bank's valuations are attractively aligned to its relative fundamentals within the PSU space, at a large discount to large-caps such as PNB, albeit at a moderate premium to other mid-caps such as OBC and IOB. We recommend a Buy on the stock, with a 15-month Target Price of Rs214, indicating annualised returns of 19%.

BUY

CMP	Rs172
Target Price	Rs214

Investment Period	15 Months
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Stock Info

Sector	Banking
Market Cap (Rs cr)	7,373
Beta	1.1
52 WK High / Low	196/64
Avg. Daily Volume	174563
Face Value (Rs)	10
BSE Sensex	16,780
Nifty	5,007
Reuters Code	INBA.BO
Bloomberg Code	INBK@IN

Shareholding Pattern (%)

Promoters	80.0
MF/Banks/Indian FIIs	4.3
FII/NRIs/OCBs	12.0
Indian Public	3.7

Abs (%)	3m	1yr	3yr*
Sensex	(0.2)	93.4	26.3
Indian Bank	(3.7)	41.4	87.4

Note: * Since listing on March 23rd, 2007

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
NII	2,609	3,258	3,798	4,215
% chg	31.0	24.9	16.6	11.0
Net Profit	1,245	1,541	1,624	1,764
% chg	23.5	23.8	5.4	8.6
NIM (%)	3.5	3.7	3.6	3.4
EPS (Rs)	29.0	35.0	36.9	40.2
P/E (x)	6.1	4.9	4.7	4.3
P/ABV (x)	1.3	1.1	0.9	0.8
RoA (%)	1.6	1.6	1.5	1.3
RoE (%)	24.7	24.8	21.9	20.3

Source: Company, Angel Research

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Exhibit 1: 3QFY2010 Performance

Y/E March (Rs cr)	3QFY10	2QFY10	% chg (qoq)	3QFY09	% chg (yoy)	9MFY10	9MFY09	% chg
Interest Earned	2,015	1,937	4.0	1784	12.9	5,832	4,974	17.3
Interest Expenses	1,142	1,178	(3.1)	1064	7.3	3,462	3,033	14.2
Net Interest Income	873	759	15.0	720	21.3	2,370	1,941	22.1
Non-Interest Income	294	237	23.7	287	2.1	881	743	18.5
Total Income	1,166	996	17.1	1007	15.8	3,251	2,684	21.1
Operating Expenses	476	442	7.5	383	24.1	1,376	1,091	26.1
Pre-Prov Profit	691	554	24.7	624	10.7	1,875	1,593	17.7
Provisions & Cont.	32	29	9.4	141	(77.3)	182	419	(56.5)
PBT	659	525	25.6	483	36.4	1,693	1,174	44.2
Prov. for Taxes	217	153	42.4	132	64.6	548	323	69.6
PAT	441	372	18.7	351	25.9	1,145	851	34.5
EPS (Rs)	5.3	4.5	18.7	4.2	25.9	13.8	10.3	34.5
Cost to Income (%)	40.8	44.4		38.1		42.3	40.7	
Effective Tax Rate (%)	33.0	29.1		27.3		32.4	27.5	
Net NPA (%)	0.2	0.2		0.2		0.2	0.2	

Source: Company, Angel Research

Sedate Business Growth

Sequential Business growth was in-line with sector growth in both loans and deposits, with loans growing 6.6% qoq (13.9% yoy) to Rs57,468cr, and deposits growing 5.8% qoq (21.6% yoy) to Rs84,732cr. The YTD growth in the loan book stood at 11.7%; we have factored-in a yoy growth of 13.0% in advances for the bank in FY2010E and 18% in FY2011E and FY2012E each, based on the ongoing pick-up in credit demand and expectations of large, unutilised limits getting increasingly drawn down, going forward, as working capital requirements increase.

Exhibit 2: Composition of Advances

Sector (Rs cr)	3QFY09	3QFY10	Growth	Composition as % of total
Agriculture	7,326	8,817	20.3	15.3
Retail	9,201	10,605	15.3	18.4
SME	5,291	7,699	45.5	13.5
Corporate	25,803	27,972	8.4	48.6
Others	2,839	2,375	(16.3)	4.2
Total	50,460	57,468	13.9	100.0

Source: Company, Angel Research

NIMs Improve

The NIM of the bank in 3QFY2010 improved by 37bp sequentially to 3.82% (as against 3.45% in 2QFY2010 and 3.91% in 3QFY2009), aided by repricing of high cost deposits and a stable CASA. The CASA ratio of the bank was stable at 31.1%, on a sequential and yoy basis. CASA deposits increased by 6.4% qoq (21.8% yoy) to Rs26,390cr at the end of 3QFY2010. We expect NIM of the bank to be in the range of 3.4-3.5% in FY2011E, as the bank will not have any benefit of repricing going forward.

Exhibit 3: NIMs, Spreads

Period (%)	3QFY09	3QFY10	9MFY09	9MFY10
Net Interest Margin	3.91	3.82	3.63	3.62
Yield on Advances	11.33	10.91	11.11	10.94
Cost of Deposits	6.32	5.56	6.18	5.85
Spread	5.01	5.35	4.93	5.09

Source: Company, Angel Research

Non-interest Income Growth in line with expectations

Non-interest income was almost flat yoy at Rs294cr (Rs287cr in 3QFY2009), on account of lower treasury gains at Rs77cr (Rs110cr in 3QFY2009). However, the income from recoveries was strong at Rs42cr, which grew by 40.1% yoy and 48% sequentially. We expect the growth in core non-interest income to be largely in-line with the advances growth, going forward.

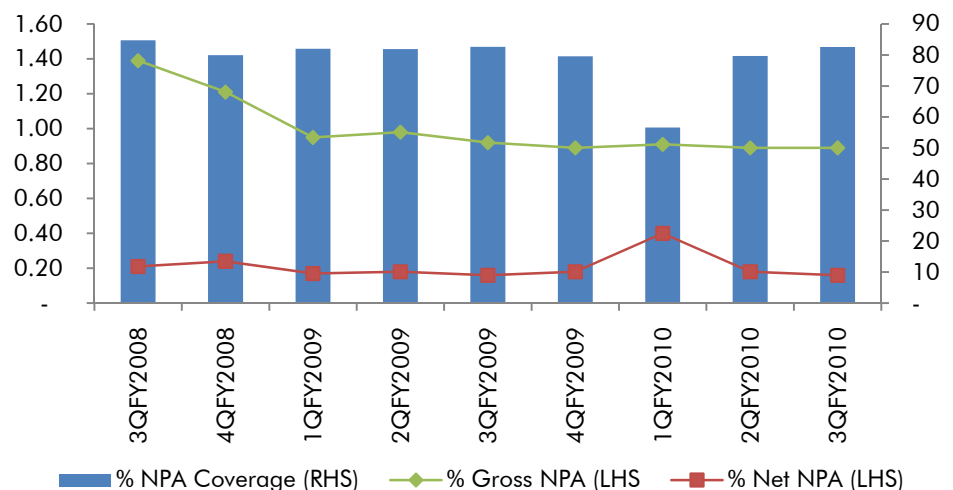
Exhibit 4: Non-Interest Income

Period (Rs cr)	3QFY09	3QFY10	% Change
Recovery of Bad Debts	30	42	40.1
Profit on Sale of Investments	110	77	(29.4)
Core Non-Interest Income	148	174	17.8
Total Non-Interest Income	287	294	2.2

Source: Company, Angel Research

Asset-quality stable

The Gross and Net NPA ratios of the bank remained stable at 0.9% and 0.2%, respectively, with the NPA provision coverage ratio at 73.7%. Gross NPAs increased by 7.1% sequentially and by 11.2% yoy to Rs514cr. Details on restructuring were not available.

Exhibit 5: Trend in Asset Quality


Source: Company, Angel Research

Operating costs under control

The total operating expenses increased by 24.1% yoy and by 7.5% sequentially, to Rs476cr. The cost-to-income ratio of the bank improved to 40.8% (44.4% in 2QFY2010). The Bank has opened 32 branches and 100 ATMs so far in 3QFY2010. Additionally, the bank is planning to open 30-35 branches per quarter, maintaining its steady rate of branch expansion.

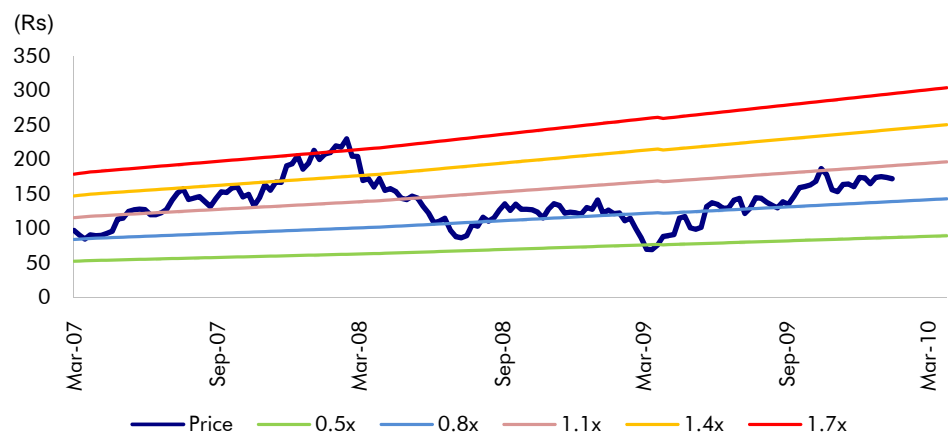
Well-capitalised to grow

The bank recorded a strong CAR of 13.8%, with Tier-I capital of 12.1% (forming 88% of the total CAR). The bank has adequate headroom to raise additional Tier-II capital, going forward, in order to grow above the industry growth rate.

Outlook and Valuation

The bank's predominantly rural and semi-urban presence has enabled it to maintain a reasonable Cost of Funds, resulting in more resilient NIMs than other mid-sized PSU banks. The bank's legacy at the time of listing was characterised by a large Equity Capital base, healthy NIMs and a large portfolio of fully written-off NPAs (that are supporting Other Income growth) on the one hand, and high operating expenses and low Fee income on the other. Within the context of this legacy, under the present management, the Bank's performance and strategic direction has broadly been positive and balanced since listing, leading to a gradual improvement in the quality of earnings vis-à-vis its peers (any change in this direction needs to be watched out for, with the present CMD, Mr. Sundararajan due for retirement in March 2010). At the CMP, the stock is trading at 4.3x FY2012E EPS of Rs40.2 and 0.8x FY2012E Adjusted Book Value of Rs214. In our view, the Bank's valuations are attractively aligned to its relative fundamentals within the PSU space, at a large discount to large-caps such as PNB, albeit at a moderate premium to other mid-caps such as OBC and IOB. **We recommend a Buy on the stock, with a 15-month Target Price of Rs214, indicating annualised returns of 19%.**

Exhibit 6: P/ABV Band – Indian Bank



Source: Company, Angel Research

Income Statement (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Net Interest Income	2,609	3,258	3,798	4,215
YoY Growth (%)	31.0	24.9	16.6	11.0
Other Income	1,035	1,108	1,091	1,226
YoY Growth (%)	-3.0	7.0	-1.5	12.3
Operating Income	3,644	4,366	4,889	5,441
YoY Growth (%)	19.1	19.8	12.0	11.3
Operating Expenses	1,415	1,867	2,054	2,341
YoY Growth (%)	1.1	31.9	10.0	14.0
Pre - Provision Profit	2,229	2,499	2,836	3,100
YoY Growth (%)	34.3	12.1	13.5	9.3
Prov. & Cont.	443	233	447	506
YoY Growth (%)	4.3	-47.4	91.9	13.2
Profit Before Tax	1,786	2,267	2,389	2,595
YoY Growth (%)	44.6	26.9	5.4	8.6
Prov. for Taxation	541	725	764	830
as a % of PBT	30.3	32.0	32.0	32.0
PAT	1,245	1,541	1,624	1,764
- YoY Growth (%)	23.5	23.8	5.4	8.6
- Pref. Div. (incl DDT)	43	36	36	36
PAT available for Equity Shareholders	1,203	1,505	1,588	1,728
- YoY Growth (%)	24.1	25.1	5.5	8.8

Balance Sheet (Rs cr)

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Share Capital	830	830	830	830
- Equity	430	430	430	430
- Preference	400	400	400	400
Reserve & Surplus	6,306	7,457	8,692	10,016
Deposits	72,582	86,372	101,919	119,246
Growth (%)	18.9	19.0	18.0	17.0
Borrowings	531	632	745	872
Tier 2 Capital	300	450	531	627
Other Liab. & Prov.	3,573	4,364	5,406	6,615
Total Liabilities	84,122	100,105	118,124	138,205
Cash balances	6,212	4,319	5,096	5,962
Bank balances	472	2,503	2,953	3,455
Investments	22,801	29,866	35,307	40,679
Advances	51,465	59,700	70,446	83,126
Growth (%)	29.2	16.0	18.0	18.0
Fixed Assets	1,594	1,840	2,106	2,390
Other Assets	1,578	1,878	2,216	2,592
Total Assets	84,122	100,105	118,124	138,205
Growth (%)	19.3	19.0	18.0	17.0

Ratio Analysis

Y/E March	FY2009	FY2010E	FY2011E	FY2012E
Profitability ratios (%)				
NIMs	3.5	3.7	3.6	3.4
Cost to Income ratio	38.8	42.8	42.0	43.0
RoA	1.6	1.6	1.5	1.3
RoE	24.7	24.8	21.9	20.3
B/S ratios (%)				
CASA ratio	31.6	30.8	29.8	29.0
Credit/Deposit ratio	70.9	69.1	69.1	69.7
CAR	12.0	13.1	12.1	12.0
- Tier I	10.2	11.2	10.4	10.4
Asset Quality (%)				
Gross NPAs	0.9	0.8	0.7	0.6
Net NPAs	0.2	0.2	0.1	0.1
Slippages	0.6	0.8	0.8	0.7
NPA prov. / avg. assets	0.0	0.3	0.3	0.3
Provision coverage	79.6	80.5	80.4	80.3
Per Share Data (Rs)				
EPS	28.0	35.0	36.9	40.2
ABVPS (75% Cover.)	127.5	154.3	183.0	213.8
DPS	5.0	7.0	7.0	8.0
Valuation Ratios				
P/E (x)	6.1	4.9	4.7	4.3
P/ABVPS (x)	1.3	1.1	0.9	0.8
Dividend Yield	2.9	4.1	4.1	4.7
DuPont Analysis				
NII	3.4	3.5	3.5	3.3
(-) Prov. Exp.	0.6	0.3	0.4	0.4
Adj. NII	2.8	3.3	3.1	2.9
Treasury	0.3	0.2	0.1	0.1
Int. Sens. Inc.	3.1	3.5	3.1	2.9
Other Inc.	1.1	1.0	0.9	0.9
Op. Inc.	4.1	4.5	4.1	3.9
Opex	1.8	2.0	1.9	1.8
PBT	2.3	2.5	2.2	2.0
Taxes	0.7	0.8	0.7	0.6
RoA	1.6	1.7	1.5	1.4
Leverage	15.3	15.2	15.1	15.0
RoE	24.7	24.8	21.9	20.3

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Disclosure of Interest Statement	Indian Bank
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Broking relationship with company covered	No

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