

May 3, 2010

BUY

MEDIUM RISK

PRICE Rs.225

TARGET Rs.310

BFSI

EARLIER RECO

BUY	
Price	Rs.101
Target	Rs.230
Date	May 18, 2009

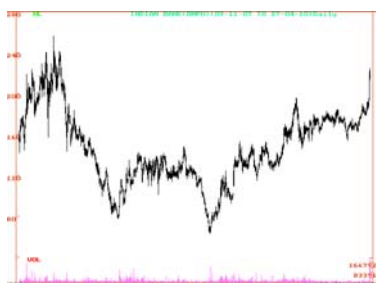
SHARE HOLDING (%)

Promoters	51.7
FII	7.9
FI / MF	0.3
Body Corporates	6.4
Public & Others	33.7

STOCK DATA

Reuters Code	INBA.BO	
Bloomberg Code	INBK@IN	
BSE Code	532814	
NSE Symbol	INDIANB	
Market Capitalization*	Rs. 96.7 bn US\$ 2.2 bn	
Shares Outstanding*	429.8 mn	
52 Weeks (H/L)	Rs. 225 / 93	
Avg. Daily Volume (6m)	121,595 Shares	
Price Performance (%)		
1M	2M	3M
25	22	40
200 Days EMA: Rs. 162		

*On fully diluted equity shares

Part of  Classic

ANALYST

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Decent Q4FY10 performance

Indian Bank reported Net Interest Income growth of 40% YoY led by high advance growth of 22% YoY and margin expansion. Its non-interest income was flat YoY due to 87% lower treasury income (recoveries grew by 98% YoY). Non-interest income excluding recoveries & treasury has increased by only 4%. Operating expenses increased by only 10% resulting in improvement in Cost/Income ratio (ex treasury) to 29% v/s 36% in Q4FY09. C/I ratio for FY10 was at 40% (including one time wage revision provision) which is one of the best amongst PSU banks. Strong total income supported by improved operating efficiency resulted in high PPP (Pre-provisioning Profit) growth of 37%. Ex-Treasury PPP growth was 50%. However, higher provisions resulted in lower PAT growth of 8% YoY during Q4FY10.

Asset quality - A positive surprise

Indian Bank reported a Gross NPA ratio of 0.81% and Net NPA ratio of 0.23% with NPA coverage of 72% (Including write offs, coverage ratio is very high at 94%) during Q4FY10. Better recovery management has helped the bank in maintaining its low NPA, even though higher slippages were witnessed during the quarter. Restructured Advances of Rs 18 bn were upgraded due to one-year satisfactory performance. Very low slippages were witnessed in these loans (about 0.6% of loans). Also, as the current NPA levels are low, we don't see any major concern in asset quality for the bank.

Well capitalized for future growth

Bank is well capitalized with CAR of 12.7% under Basel II and Tier I capital of +11%, which we believe will help the bank for future growth. High Tier I coupled with government holding of 80% gives adequate headroom for bank to maintain a comfortable capital adequacy relative to its growth aspirations for the next few years.

Higher than industry growth; Improvement in margins

Advances grew by 22% YoY and deposits grew by 21%. Strong Advance growth was owing to +27% growth in corporate segment. Proportion of overseas advance decreased to 4% from 6% in FY09. Improved Credit-Deposit ratio by 370 bps QoQ to 71%, re-pricing of bulk of deposits and high CASA (marginally increased by 22bps YoY to 32%) has resulted in sharp improvement in margins to by 37 bps YoY and 17 bps QoQ to 3.7%. We expect the bank to maintain its high margins of 3.5% for FY11E due to lesser high-cost deposits, higher CDR & high CASA share despite of higher interest payments on saving deposit.

OUTLOOK & VALUATION

Indian Bank, established in 1907, is a south based mid-size public sector bank with business size of Rs. 1.5 tn operating & branch network of 1,756. key investment rationale are strong corporate focus which is +64% of advances (Including SME which accounts for 13%), strong ROE of +20% supported by an equally high ROA of +1.6%, low opex ratio of 40%, well capitalized with high Tier-I and very high margins. Considering its strong FY10 result, we have increased our FY11 estimates by 12%, due to higher than expected treasury income and lower expenses. We expect Advance growth of 20-21%, Deposit growth of 19% in FY11-12E and Net Profit to grow at 18% in FY11E and 14% in FY12E. The stock currently trades at 1x FY12E ABV and 4.7x FY12E earnings, which we believe could get re-rated to 1.4x ABV on back of strong business model and +20% sustainable ROE. Reiterate 'BUY' rating on the stock with increased target price of Rs.310.

KEY FINANCIALS

Y/E	EPS (Rs.)	EPS (% Chg)	ROE (%)	NIM (%)	NET NPL (%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div Yield (%)
Mar.										
FY 10	35.7	26.0	20.9	3.7	0.2	33.7	12.6	1.5	6.3	2.7
FY 11E	42.1	17.7	20.8	3.5	0.3	33.0	12.4	1.2	5.3	3.2
FY 12E	48.0	13.6	20.1	3.4	0.3	33.0	12.2	1.0	4.7	3.8

QUARTERLY RESULTS STATEMENT

(Rs.mn)

Y/E March	Q4FY10	Q4FY09	YoY growth	Q3FY10	QoQ growth
Interest earned	20,249	18,564	9.1%	20,148	0.5%
Interest Expended	10,908	11,888	-8.2%	11,418	-4.5%
Net Interest Income	9,341	6,676	39.9%	8,730	7.0%
Other income	2,929	2,921	0.3%	2,935	-0.2%
- Treasury income	75	578	-87.1%	773	-90.3%
Operating income	12,270	9,597	27.9%	11,665	5.2%
Total Operating expenses	3,546	3,239	9.5%	4,758	-25.5%
- Employee expenses	2,150	2,058	4.5%	3,408	-36.9%
Operating profit	8,723	6,357	37.2%	6,907	26.3%
Provisions and contingencies	2,136	243	778.1%	320	566.5%
PBT	6,588	6,114	7.8%	6,586	0.0%
Provision for Tax	2,488	2,173	14.5%	2,172	14.5%
PAT	4,100	3,941	4.0%	4,414	-7.1%
PPP (ex treasury)	8,649	5,779	49.7%	6,134	41.0%
EPS	9.5	9.2	4.0%	10.3	-7.1%
Business					
Advances	626,580	514,660	21.7%	570,435	9.8%
- Corporate & Commercial	317,700	249,650	27.3%	279,720	13.6%
- SME	81,930	63,940	28.1%	76,990	6.4%
- Retail	108,560	96,640	12.3%	106,050	2.4%
- Overseas	26,950	29,700	-9.3%	23,750	13.5%
- Agriculture	91,440	78,380	16.7%	88,170	3.7%
Deposits	882,280	725,820	21.6%	847,320	4.1%
- CASA deposits	280,510	229,190	22.4%	263,900	6.3%
- Term deposits	601,770	496,630	21.2%	583,420	3.1%
Ratio (%)	Q4FY10	Q4FY09	YoY chg (bps)	Q3FY10	QoQ chg (bps)
Gross NPLs	0.81	0.89	(8.0)	0.89	(8)
Net NPLs	0.23	0.18	5.0	0.16	7
Coverage ratio	71.59	79.57	(798)	82.55	(1,096)
ROA Annualised	1.70	1.89	(19)	1.86	(16)
C/I Ratio	29.08	35.92	(684)	43.68	(1,460)
Capital Adequacy Ratio	12.16	13.27	(111)	13.15	(99)
- Tier I CAR	10.65	11.28	(63)	11.56	(91)
NIM (Reported)	3.71	3.34	37	3.54	17
CASA Ratio	31.79	31.58	22	31.15	65
CDR	71.0	70.9	11	67.3	370

Source: Company, Sushil Finance Research Estimate

PROFIT & LOSS STATEMENT

(Rs.mn)

Y/E March	FY09	FY10	FY11E	FY12E
Interest income	68,303	78,518	92,600	108,660
Interest expense	42,218	45,528	54,561	65,084
Net interest income	26,085	32,991	38,039	43,575
NII Growth %	27.0%	26.5%	15.3%	14.6%
Other income	10,354	11,865	12,262	12,931
- Treasury profits	1,948	2,175	1,523	1,675
Total income	36,440	44,856	50,301	56,507
Operating expenses	14,151	17,225	17,809	19,404
Pre-provision Profit	22,288	27,631	32,493	37,103
Total Provisions	4,428	3,969	4,936	5,793
Provision - NPL	1,992	2,142	2,784	3,341
PBT	17,861	23,662	27,557	31,310
Tax	5,408	7,974	9,094	10,332
PAT	12,453	15,688	18,463	20,978
PAT Growth %	23.5%	26.0%	17.7%	13.6%
PPP (Ex Treasury)	20,341	25,456	30,970	35,428
PPP Growth %	37.4%	25.1%	21.7%	14.4%

BALANCE SHEET STATEMENT

(Rs.mn)

As on 31 st March	FY09	FY10E	FY11E	FY12E
Cash balances	66,838	94,733	101,050	123,247
Advances	514,653	626,654	761,507	913,808
Investments	228,006	260,534	307,121	354,695
- Govt. Securities	194,553	223,735	268,483	314,125
Fixed assets	15,942	15,942	15,942	15,942
Current assets	15,779	18,145	20,867	23,997
Total assets	841,217	1,016,008	1,206,487	1,431,689
Equity Capital	4,298	4,298	4,298	4,298
Reserves and Surplus	67,061	79,434	93,988	110,346
Shareholders' funds	71,359	83,732	98,286	114,644
Deposits	725,818	882,132	1,052,542	1,255,221
- Demand deposits	229,594	280,460	336,552	396,033
- Term deposits	496,225	601,672	715,990	859,188
Borrowings	5,308	5,839	6,422	7,065
Subordinated debt	3,000	5,000	6,000	7,200
Current liabilities	35,732	39,305	43,236	47,560
Total liabilities	841,217	1,016,008	1,206,487	1,431,689

FINANCIAL RATIO STATEMENT

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability Ratios				
EPS (Rs)	28.1	35.7	42.1	48.0
Earnings growth (%)	23.5	26.0	17.7	13.6
CEPS (Rs)	33.3	41.2	48.6	55.2
PPP / Share (Rs)	51.9	64.3	75.6	86.3
ROAA (%)	1.6	1.7	1.7	1.6
ROAE (%)	20.9	20.9	20.8	20.1
DPS (Rs)	5.0	6.0	7.2	8.6
Dividend Payout (%)	20.7	18.9	19.3	20.4
Efficiency Ratios (%)				
Int. exp/Int. Income	61.8	58.0	58.9	59.9
Cost-Inc. ratio (Ex Tr)	41.0	40.4	36.5	35.4
Other Inc (Ex Tr)/Total Inc	24.4	22.7	10.4	9.4
Cost Asset Ratio	1.7	1.7	1.5	1.4
CASA	31.6	31.8	32.0	31.6
Tax Rates	30.3	33.7	33.0	33.0
Asset Quality Ratios				
Gross NPLs	0.9	0.8	0.9	1.1
Net NPLs	0.2	0.2	0.3	0.3
Coverage	79.6	71.6	72.3	69.7
Provision/ Loans	0.4	0.3	0.4	0.4

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIO STATEMENT

Y/E March	FY09	FY10E	FY11E	FY12E
Asset-Liability Profile				
Capital Adequacy Ratio	13.3	12.6	12.4	12.2
- Tier I CAR	11.3	10.4	10.4	10.4
C/D ratio	70.9	71.0	72.3	72.8
Loan Growth	29.2	21.8	21.5	20.0
Deposit Growth	18.9	21.5	19.3	19.3
Balance Sheet Growth	19.3	20.8	18.7	18.7
Equity / Assets	8.5	8.2	8.1	8.0
Equity / Loans	13.9	13.4	12.9	12.5
Spreads Analysis (%)				
Yield on Advances	11.1	10.6	10.3	10.0
Yield on Investments	7.5	7.0	7.1	7.1
Cost of funds	6.2	5.6	5.6	5.6
NIM (Calculated)	3.5	3.7	3.5	3.4
Valuation				
BV/share (Rs)	127.5	156.3	190.2	228.2
Adjusted BV / Sh (Rs)	125.3	152.9	185.7	221.1
Dividend Yield (%)	2.2	2.7	3.2	3.8
P/E (x)	8.0	6.3	5.3	4.7
P/PPP (x)	4.3	3.5	3.0	2.6
P/ABV (x)	1.8	1.5	1.2	1.0

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).

** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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