



Central Bank of India

IPO Fact Sheet

Issue details

Issue opens:	July 24, 2007
Issue closes:	July 27, 2007
Issue size:	Rs680-816 crore
Offer size:	80,000,000 equity shares of Rs10 each for cash constituting 20% of the fully diluted post-issue paid-up capital of the bank.
Price band:	Rs85-102
Reservation for employees:	up to 4,000,000 equity shares
Net issue to public:	at least 76,000,000 equity shares of which:
- QIB portion:	at least 45,600,000 equity shares (60%)
- Non-institutional portion:	at least 7,600,000 equity shares (10%)
- Retail portion:	at least 22,800,000 equity shares (30%)

Objects of the issue

To augment the bank's capital base in order to meet the future capital adequacy requirements arising out of the implementation of the Basel II standards and the growth in the bank's assets.

Background

Central Bank of India (CBI), currently a public sector bank, was actually promoted by Sir Sorabji Pochkhanawala and Pherozesha Mehta in 1911. It was later nationalised in 1969 along with 13 other major commercial banks. It has the third largest network in the country with 3,194 branches (with major presence in central, eastern and western parts of the country). It has an employee base of 36,227 employees serving over 2.5 crore customers. Around 98% of the bank's business has been computerised as at the end of March 2007 with 353 branches covering 35% of the bank's business covered under core banking solution.

Shareholding pattern

Shareholders	Pre-issue (%)	Post-issue (%)
GOI	100	80
Public (including employees)	-	20

Investment positives

Capital restructuring helps to clean up balance sheet

The bank restructured its capital base in March 2002 by netting off accumulated unabsorbed losses of Rs681.3 crore against its paid-up capital of Rs1,805.5 crore. On March 2007 the balance equity capital of Rs1,124.1 crore was further restructured and converted into Rs800 crore worth of non-cumulative perpetual preference shares and Rs324.14 crore of equity capital. This helped the bank to clean up its balance sheet and going forward the bank is expected to deliver higher return on equity on a leaner equity capital base.

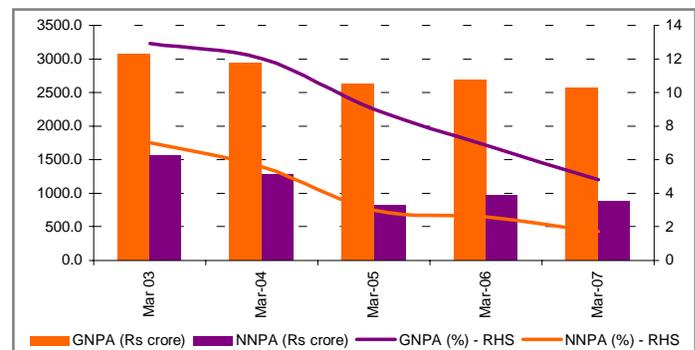
Top management looking to improve performance

The bank's financial performance has not been anything to write home about with the operating profit and net profit growing at a compounded annual growth rate of 8% and 13% respectively for the period FY2003-07. However, the bank has shown improvement in its performance in the last fiscal after its present chairperson and managing director HA Daruwalla took over the charge from July 2005. Ms Daruwalla has experience of managing profitable public sector banks like Oriental Bank of Commerce at the executive director level.

Improving asset quality

The bank's gross non-performing asset (NPA) and net NPA (as percentages of advances) as on March 2007 improved to 4.8% and 1.7% from the highs of 12.9% and 7% in March 2003 respectively. Significant recoveries coupled with better credit assessment helped the bank to substantially lower its NPAs. Provision coverage has also improved from 49% to 66% during March 2003 to March 2007 period.

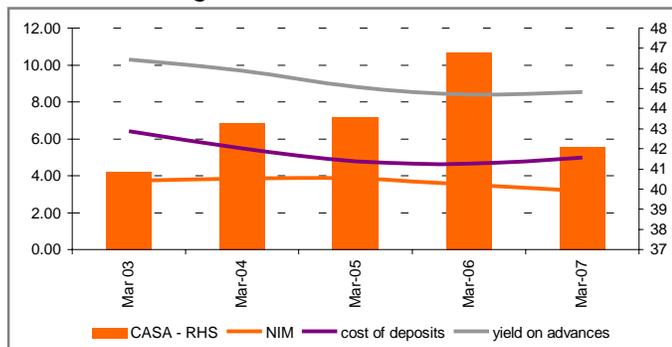
NPAs have been on the decline



Fairs well compared to peers in terms of reach, CASA ratio and margins

The bank's well diversified presence (owns the third largest branch network) and loyal depositor base help the bank to maintain a high proportion of low cost current and savings account (CASA) balances at 42% as on March 2007. Its net interest margin (NIM) has steadily declined but remains at 3.16%. The bank had a return on equity of around 13% as in March 2007 (calculated on post-issue capital); however its CASA ratio and NIM are better than most of its peers. With an improvement in the macro-economic front, as interest rates are likely to have peaked out, along with improved focus on performance at the top management level, we feel the bank's financials are more likely to improve going forward.

Net interest margins remains stable



Investment concerns

Drawbacks of an unlisted public sector bank

The bank being unlisted was not required to furnish details to investors and hence was not that performance oriented. Some of its peers have shown radical changes in their management and performance, which has led to better valuations. If CBI wants to benchmark itself with leading public sector banks then it has to first show improvement in its performance, which can only happen with the passage of time.

The bank has around 36% of its investment portfolio in the "available for sale" category with duration of 2.5 years which poses moderate interest rate risk for the bank's earnings if interest rates rise.

Valuations

Based on the price range of Rs85-102, CBI is available at (1.1-1.2)x its post-issue book value (BV) and (1.5-1.7)x its post-issue adjusted book value (ABV). The bank has a return on equity of around 13%, a dividend yield of 3% (based on the upper price band), and CASA ratio and NIM at par or better than that of most of its peers. Considering the above facts we feel the offer price even at the higher end of the band has something to offer to its investors.

Peer group valuations

Banks	P/E (x)	P/BV (x)	P/ABV (x)	RONW (%)	NNPA (%)	CASA (%)	NIM (%)	RoA (%)
Central Bank of India (LB)*	8.1	1.1	1.5	13.3	1.7	42.0	3.2	0.5
Central Bank of India (UB)**	9.7	1.2	1.7	12.8	1.7	42.0	3.2	0.5
Bank of Baroda	11.2	1.3	1.4	11.5	0.6	33.0	3.2	0.7
Bank of India	11.8	2.2	2.5	19.1	0.7	32.0	3.2	0.9
IDBI	13.3	1.3	1.5	9.8	1.1	25.0	0.7	0.7
Indian Overseas Bank	7.3	1.9	2.0	25.3	0.6	35.0	3.5	1.4
Oriental Bank of Commerce	11.6	1.2	1.2	10.0	0.5	30.0	2.5	1.2
Syndicate Bank	6.6	1.4	1.6	21.8	0.8	31.0	2.7	0.9
UCO Bank	7.6	1.1	1.9	13.8	2.1	29.0	2.5	0.5
Union Bank of India	9.3	1.6	1.8	17.3	1.0	34.0	3.1	0.9

*LB: Lower Band

**UB: Upper Band

Note: For CBI P/E, P/BV and P/ABV are all based on post issue equity of 40.4 crore shares

Earnings table (stand-alone)

Particulars (Rs crore)	FY2003	FY2004	FY2005	FY2006	FY2007
Interest earned	5073.0	5063.7	5204.9	5385.6	6234.2
<i>% y-o-y growth</i>		-0.2	2.8	3.5	15.8
Interest expended	3175.6	2941.5	2829.9	3005.5	3759.8
<i>% y-o-y growth</i>		-7.4	-3.8	6.2	25.1
Net interest income	1897.4	2122.2	2374.9	2380.1	2474.4
<i>% y-o-y growth</i>		11.8	11.9	0.2	4.0
Non-interest income	553.5	964.3	920.1	530.8	475.7
<i>% y-o-y growth</i>		74.2	-4.6	-42.3	-10.4
CEB	285.9	297.8	295.2	302.8	350.5
<i>% y-o-y growth</i>		4.2	-0.9	2.6	15.7
Treasury	242.1	618.1	587.9	183.7	136.2
<i>% y-o-y growth</i>		155.3	-4.9	-68.8	-25.8
Net total income	2451.0	3086.5	3295.1	2910.9	2950.1
<i>% y-o-y growth</i>		25.9	6.8	-11.7	1.3
Operating expenses	1527.1	1557.5	1685.9	1716.2	1684.4
<i>% y-o-y growth</i>		2.0	8.2	1.8	-1.9
Staff	1186.7	1183.5	1277.6	1275.7	1175.4
<i>% y-o-y growth</i>		-0.3	8.0	-0.1	-7.9
Others	340.5	374.1	408.3	440.5	508.9
<i>% y-o-y growth</i>		9.9	9.2	7.9	15.5
Operating profit	923.8	1528.9	1609.2	1194.7	1265.7
<i>% y-o-y growth</i>		65.5	5.2	-25.8	5.9
Provisions and contingencies	478.6	654.7	1019.5	818.7	570.4
<i>% y-o-y growth</i>		36.8	55.7	-19.7	-30.3
Profit before tax	445.2	874.2	589.6	375.9	695.3
<i>% y-o-y growth</i>		96.3	-32.6	-36.2	85.0
Tax	139.7	256.1	232.2	118.5	197.3
<i>% y-o-y growth</i>		83.3	-9.3	-49.0	66.5
Net profit	305.5	618.1	357.4	257.4	498.0
<i>% y-o-y growth</i>		102.3	-42.2	-28.0	93.5

The "views" expressed in this report are our views only and have been arrived at after analysis of the public offering details. This is not a recommendation under our "Stock Idea" category. It may/may not be included in the Stock Idea by our analysts at a later date.

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