



Indian Bank

IPO Fact Sheet

Issue details

Issue opens	: February 5, 2007
Issue closes	: February 9, 2007
Issue size	: Rs661-782 crore
Offer size	: 85,950,000 equity shares of Rs10 each for cash constituting 20% of the fully diluted post-issue paid-up capital of the bank.
Price band	: Rs77-91
Reservation for employees	: up to 8,595,000 equity shares
Net issue to public	: at least 77,355,000 equity shares of which:
QIB portion	: at least 46,413,000 equity shares (60%)
Non-institutional portion	: at least 7,735,500 equity shares (10%)
Retail portion	: at least 23,206,500 equity shares (30%)

Objects of the issue

- ♦ To augment Indian Bank's capital base 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

Indian Bank (IB) is a public sector bank, which has been in existence since 1907. It has a network of 1,408 branches (of which 640 are in Tamil Nadu), and another 506 delivery channels including extension counters, ATMs and satellite offices. Its employee base is over 21,000 people serving over 1.8 crore customers. All its 1,408 domestic branches are computerised and the bank has implemented core-banking solution in 800 branches covering approximately 84% of the business of the bank.

Shareholding pattern

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

Investment positives

Restructuring and turnaround phase

The bank experienced some financial setbacks in the 1990s consequent upon the introduction of the prudential norms by the Reserve Bank of India (RBI) and certain other factors. The bank incurred losses in 1994 and during the period from fiscal 1996 to fiscal 2001.

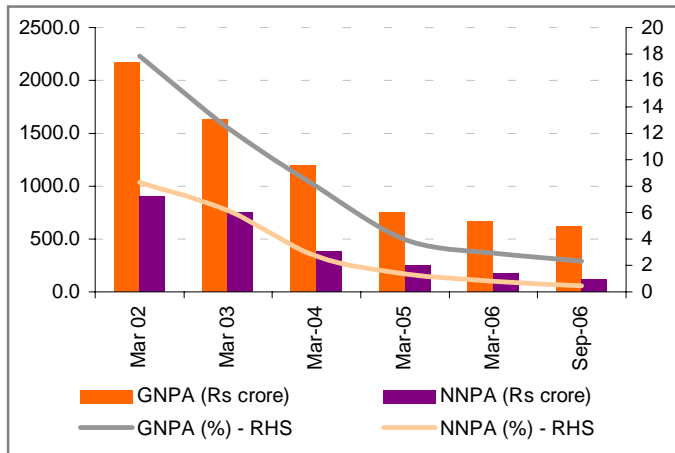
The turnaround phase of the bank started after it submitted a restructuring plan in June 2000 to the government. Recapitalisation and various structural, operational and business growth initiatives like technology upgradation, introduction of voluntary retirement schemes and efficient networking of branches brought the bank on the profitability track. The bank was provided assistance of Rs325 crore and of Rs271 crore for the implementation of the voluntary retirement scheme (VRS) and technological upgradation respectively.

Capital restructuring helps to clean up balance sheet

The bank had a huge amount of unabsorbed losses of Rs3,830.1 crore which it netted off against its capital base of Rs4,573.9 crore with the permission of the ministry of finance. But still the equity base at Rs743.8 crore remained at the higher end. Any further dilution would not have fetched a reasonable valuation. The bank restructured its capital base by converting part of its huge equity base into Rs400 crore worth of non-cumulative perpetual preference shares and the remaining Rs343.8 crore comprised the equity base. This helped the bank to clean up its balance sheet and going forward the bank would be able to deliver much higher return on equity on a leaner equity capital base.

Improving asset quality

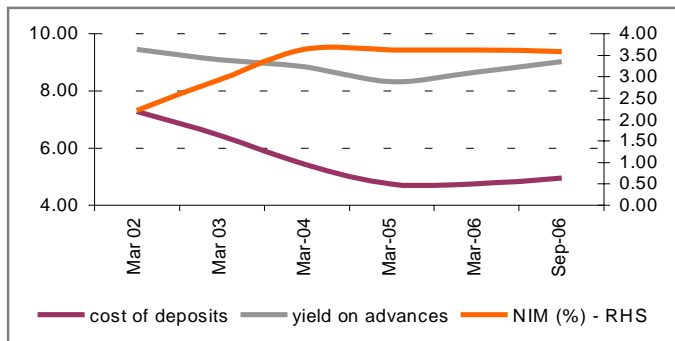
The bank's gross non-performing assets (NPAs) and the net NPAs (as a percentage of advances) as on September 2006 stood at 2.34% and 0.45% respectively. On absolute levels, the gross NPAs have eased from Rs2,175 crore in 2002 to Rs625 crore as on September 2006. Significant recoveries with the aid of asset recovery branches coupled with better credit assessment helped the bank to substantially lower its NPAs.



Net interest margin remains stable

The bank's net interest margin (NIM) has remained stable at around 3.6%. Its low-cost deposit base as a percentage of deposits stood at 27.5% as on September 2006, which has enough scope for improvement with the bank having a wide branch network.

Net interest margins remains stable



Business growth

IB's business (advances & deposits) has grown at a compounded annual growth rate (CAGR) of 20.3% between FY2002 and FY2006, driven by a compounded annual growth of 19.8% and 20.6% in the advances and the deposits respectively during the same period. However the retail advances grew at a CAGR of 50.5% during the same period and comprised 25% and 26% of the bank's advances as on September 2006 and March 2006 respectively.

New initiatives and business strategy

IB has been one of the first in the banking industry to initiate a tie-up with self-help groups (SHGs). The total lending to SHGs as on September 2006 stood at Rs1,083 crore to 174,162 SHGs. The bank has also set up rural Internet kiosk centres in 12 locations in Tamil Nadu. The bank has also

entered into strategic alliances with Oriental Bank of Commerce (OBC) and Corporation Bank to collectively face the challenges of consolidation, convergence and competition. The bank plans to focus on the small and medium enterprises to maintain its margins and strengthen the retail business by increasing its branch network.

Valuations

Based on the price range of Rs77-91, IB is available at (4.9-5.9)x its H1FY2007 annualised earnings per share calculated on the post-issue capital and (1.15-1.3)x its post-issue book value. Considering its high return on equity of 22-23% calculated on the post-issue capital and annualised HIFY2007 earnings we feel the offer price even at the higher end of the band has something to offer to its investors.

Earnings table

Particulars	FY04	FY05	FY06	H1FY06	H1FY07
Interest earned	2,666.9	2,870.7	3,364.5	1,579.1	1,988.5
Interest expended	1,549.9	1,567.0	1,854.3	878.8	1,125.4
Net interest income	1,117.1	1,303.7	1,510.2	700.3	863.1
<i>y-o-y growth</i>	-	16.7	15.8	-	23.2
Non-interest income	747.3	568.8	531.5	252.1	281.0
<i>y-o-y growth</i>	-	-23.9	-6.6	-	11.5
Treasury	465.7	209.8	75.9	49.2	20.4
Fee income	107.9	115.7	118.0	56.4	73.3
<i>y-o-y growth</i>	-	7.3	2.0	-	30.1
Forex income	58.3	68.7	68.1	28.2	24.7
Others/miscellaneous	109.7	174.4	268.6	118.0	162.0
Net income	1,864.4	1,872.5	2,041.7	952.4	1,144.1
Staff	797.2	727.3	788.6	421.7	405.0
Other expenses	199.2	276.9	374.5	173.7	212.3
Total operating expenses	996.5	1,004.2	1,163.1	595.3	617.3
<i>y-o-y growth</i>	-	0.8	15.8	-	3.7
Operating profit	867.9	868.3	878.6	357.1	526.8
<i>y-o-y growth</i>	-	0.0	1.2	-	47.5
Core operating profit*	292.5	484.1	534.0	189.8	344.3
<i>y-o-y growth</i>	-	65.5	10.3	-	81.4
Provisions & contingencies	373.1	526.6	333.0	101.7	146.0
PBT	494.8	341.7	545.6	255.4	380.8
<i>y-o-y growth</i>	-	-30.9	59.7	-	49.1
Provision for taxes	23.6	23.0	56.2	20.8	46.8
Net profit	471.2	318.7	489.4	234.6	334.0
<i>y-o-y growth</i>	-	-32.4	53.6	-	42.4

* core operating profit = operating profit - treasury - miscellaneous non-interest income

Peer group valuations

Banks	CMP (Rs)	P/E (x)	P/BV (x)	RONW (%)	EPS* (Rs)	BV (Rs)	NNPA (%)	CAR (%)
Indian Bank	77 / 91	4.9 / 5.9	1.15 / 1.3	22.3 / 23.3	15.5	66.6 / 69.4	0.45	12.0*
Allahabad Bank	90.7	4.9	1.0	19.5	18.6	95.4	0.72	12.8
Andhra Bank	88.1	8.0	1.3	16.2	11.0	67.9	0.44	12.8
Corporation Bank	303.0	7.8	1.1	14.7	38.9	265.5	0.47	13.7
Indian Overseas Bank	118.4	6.7	1.7	25.4	17.6	69.3	0.48	14.0
Oriental Bank of Commerce	215.9	7.7	1.3	16.3	28.0	172.0	0.45	13.1
Syndicate Bank	73.7	4.7	1.1	24.3	15.6	64.3	0.90	11.2

*as on September 2006

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