



## ACCUMULATE

Price	Rs144
Target Price	Rs154
Investment Period	12 months

### Stock Info

Sector	Banking
Market Cap (Rs cr)	6,195
Beta	0.9
52 WK High / Low	153/64
Avg Daily Volume	184277
Face Value (Rs)	10

BSE Sensex	15,332
Nifty	4,564

BSE Code	532814
NSE Code	INDIANB
Reuters Code	INBA.BO
Bloomberg Code	INBK@IN

### Shareholding Pattern (%)

Promoters	80.0
MF/Banks/Indian FIs	5.5
FII/ NRIs/ OCBs	10.9
Indian Public	3.6

Abs.	3m	1yr	#3yr
Sensex (%)	39.4	6.8	19.0
Indian Bank (%)	43.8	35.8	48.5

Note: # Since listing on March 02, 2007

### Vaibhav Agrawal

Tel: 022 – 4040 3800 Ext: 333  
e-mail: vaibhav.agrawal@angeltrade.com

## Performance Highlights

- Healthy Core Operating performance:** The Bank's Deposits grew 23% yoy and a substantial 5.7% sequentially to Rs76,717cr, aided by a 12% sequential surge in Bulk Deposits and 7% in Retail Term Deposits With CASA balances flattish during the quarter, the CASA ratio declined by 160bp to 30%. The Bank's CD ratio further declined to 68% in line with industry trends as growth in Advances was flattish sequentially. Contrary to the trends in its peer group, the Bank delivered a sequential improvement of 20bp in Reported NIMs to 3.6%, as Yield on Advances remained stable sequentially as the Bank had reduced its PLR by only 150bp up to 1QFY2010, unlike larger PSU Banks that had effected 200-300bp of PLR cuts. Consequently, Net Interest Income surged by 10.5% sequentially and a substantial 37% yoy, ahead of expectations in a challenging quarter for Core Income growth. While the Bank has cut its PLR by 50bp from July 2009, it continues to offer amongst the lowest Retail Term Deposit rates and is also taking advantage of Bulk Deposits currently available at very cheap rates of about 5% to fund its Balance Sheet growth.
- Other Income driven by Treasury Profits:** Non-Interest Income was higher than estimates partly on account of large Treasury gains of Rs103cr in line with industry trends, but also due to 76% sequential surge in Recoveries. Growth in core Fee Income was flattish on a yoy basis and down 11% sequentially in line with the deceleration in the Bank's Balance Sheet growth rate.
- Operating expenses up:** Operating Expenses were up by a substantial 32% yoy and 42% qoq, largely on account of higher Staff Expenses, including Rs45cr on account of provisions for imminent wage hikes.
- Strong Net Profit growth:** The Bank delivered a Net Profit growth of 52.4% yoy to Rs332cr (Rs218cr), higher than estimates on account of strong core performance and large Treasury gains.

## Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>NII</b>	<b>1,992</b>	<b>2,609</b>	<b>3,111</b>	<b>3,520</b>
% chg	6.4	31.0	19.2	13.2
<b>Net Profit</b>	<b>1,009</b>	<b>1,245</b>	<b>1,413</b>	<b>1,530</b>
% chg	32.8	23.5	13.4	8.3
<b>NIM (%)</b>	<b>3.2</b>	<b>3.5</b>	<b>3.5</b>	<b>3.3</b>
<b>EPS (Rs)</b>	<b>22.5</b>	<b>28.1</b>	<b>32.0</b>	<b>34.8</b>
P/E (x)	6.4	5.1	4.5	4.2
P/BV (x)	1.3	1.1	0.9	0.8
P/ABV (x)	1.3	1.1	0.9	0.8
RoA (%)	1.6	1.6	1.5	1.4
RoE (%)	25.8	23.8	22.6	20.7

Source: Company, Angel Research

- Asset quality moderate:** The Bank's Gross NPA ratio was flattish sequentially and on a yoy basis at 0.9%, aided by healthy Recoveries and moderate Slippages. The Net NPA ratio increased to 0.4% and NPA provision coverage declined to 57% on account of the RBI-mandated change in the treatment of floating provisions, treating them as a part of Tier 2 capital instead of adjusting against NPAs. The Bank restructured a further Rs1,786cr of loans during the quarter, taking the cumulative restructuring to about 7.3% of Advances and 61% of Networth. Capital adequacy remained comfortable at 14.2% as per Basel 2 norms, of which Tier 1 capital was a substantial 12%.

### Outlook and Valuation

At the CMP, the stock is trading at 4.2x FY2011E EPS of Rs34.8 and 0.8x FY2011E Adjusted Book Value of Rs181.2. The Bank's predominantly rural and semi-urban presence has enabled it to maintain reasonable Cost of Funds, resulting in more resilient NIMs than other mid-sized PSU banks. 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 a moderate premium to other mid-caps such as OBC and IOB. **We maintain an Accumulate on the stock, with a Target Price of Rs154, implying an upside of 7%.**

#### Exhibit 1: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Interest Earned	1,880	1,502	25.2	6,830	5,190	31.6
Interest Expenses	1,143	962	18.7	4,222	3,159	33.6
<b>Net Interest Income</b>	<b>738</b>	<b>540</b>	<b>36.7</b>	<b>2,609</b>	<b>2,031</b>	<b>28.4</b>
Non-Interest Income	350	243	44.0	1,035	1,029	0.7
Total Income	1,088	783	39.0	3,644	3,060	19.1
Operating Expenses	457	346	32.1	1,415	1,400	1.1
Pre-Prov Profit	630	437	44.4	2,229	1,659	34.3
Provisions & Cont.	121	169	(28.5)	443	424	4.5
PBT	510	268	90.4	1,786	1,235	44.6
Prov. for Taxes	178	50	255.9	540	226	138.8
<b>PAT</b>	<b>332</b>	<b>218</b>	<b>52.4</b>	<b>1,245</b>	<b>1,009</b>	<b>23.4</b>
EPS (Rs)	4.0	2.6	52.4	15.0	12.2	23.4
Cost to Income (%)	42.0	44.2		38.8	45.8	
Effective Tax Rate (%)	34.9	18.7		30.3	18.3	
Net NPA	0.4	0.2				

Source: Company, Angel Research


**Research Team: Tel: 4040 3800**
**E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)**
**Website: [www.angeltrade.com](http://www.angeltrade.com)**

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**Ratings (Returns) :** **Buy (Upside > 15%)**  
**Reduce (Downside upto 15%)**

**Accumulate (Upside upto 15%)**  
**Sell (Downside > 15%)**

**Neutral (5 to -5%)**