

BUZZING

STOCK

Indian Overseas Bank

CMP – Rs.111

Analyst

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Key Stock Data

Sensex	13340
Nifty	3816
Sector	Banks – Public Sector
Bloomberg	IOB@IN
Reuters	IOBK.BO
No. of shares (m)	545
Market Cap (Rs m)	60,337
Market Cap (US\$ m)	1,348
52-week H/L	Rs.134/65

Shareholding Pattern (%)

Promoters	61.23
Mutual Funds	4.50
FII's	18.25
Corporate Bodies	1.23
Public & Others	14.79

Industry event –

There has been a sharp reaction to banking stocks across the board to the RBI's recent decision to hike the reserve money requirement. The CRR hike of 50bps that shall happen in two tranches of 25bps each is expected to suck approximately Rs.135bn liquidity from the system.

While instruments of liquidity control like CRR, SLR have a multiplier effect imputing the incremental credit creation capacities of financial institutions, we feel the present move shall do little harm to banks other than just making their reserves shorter by the estimated amount. This attribute is particularly applicable to banks who are surplus on SLR than those whose SLR remains on the fringe of statutory requirement. Bank's with sufficient cover beyond the statutory SLR requirement can as well unwind some of their investments towards meeting the extra CRR requirement. Hence the hit they shall be taking shall be the effective yield foregone on such liquidated investments. Banks who will have to lower their lending by 50bps of their respective NDTL should find marginal hit occurring to their margins.

In conclusion, it has been an event targeted at killing two birds with one stone – signaling bankers to observe strict restraint and slow down lending activities while trying to achieve a difficult task of arresting inflation at the targeted 5.5% for fiscal 2007. On this backdrop, we take a look at IOB, which corrected 12.7% after the RBI announcement and continues to remain quite below its 52-week high of Rs.134, which is 21.6% higher than the CMP.

Indian Overseas Bank – an attractive pick amongst mid-sized PSB's

A good pick-up in interest earnings taking the YoY growth well beyond 20% (27% in Q2FY07), strong NIM in the region of 4% and a healthy expansion in fee income have made IOB attractive amongst the mid-sized banks. The bank's focus on balance-sheet growth has not affected its profitability. The bank has set a business target of Rs.1,000bn for FY07 and has already achieved Rs.980bn in H1FY07 (YoY growth of 28%).

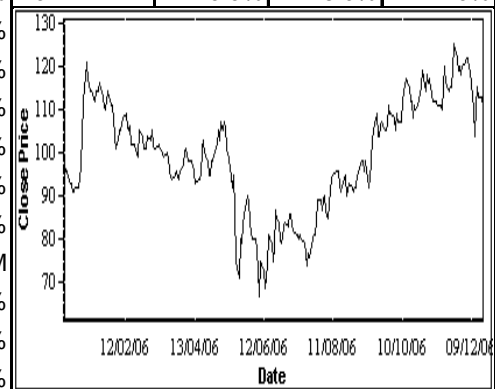
What continues to keep the scrip attractive is the bottomline growth outlook that continues to look strong inspite of a visible pressure on NII. The growth in interest expenses has been accelerated at 36% whereas the interest earnings grew by 28%.

IOB's asset quality remains strong and the provisions for bad loans have shown a sharp downward movement of 39% YoY in the latest earnings quarter. Soft yields did provide some respite, as there haven't been provisions on account of depreciation to the investment portfolio. But a substantial portion, 85% is in HTM while the duration of AFS has fallen below 2 years.

The growth in net profit has therefore been sharp. It has moved from Rs.1,985m in Q2FY06 to Rs.2,499m in Q2FY07.

On valuation front, the latest BVPS for Q2FY07 Rs.64.7 discounts the CMP Rs.110 by 1.7x. The YoY improvement in BV has been 25%. The risk to downside may come more from spike in provisions and resources raising that may put further pressure on interest expenses. The deposit growth in latest quarter has been 20% while the credit growth has been double at 40% taking the bank's CD ratio to 72%.

Financial Snapshot										
Indian Overseas Bank						Rs.m	Ratios (%)			
	Q2FY07	Q2FY06	Chg .	FY06	FY05	Chg.		FY06	FY05	Chng (%)
Interest Income	13,721	10,758	28%	44,063	39,510	12%	CD	63.3%	53.1%	19.2%
Interest expended	7,602	5,585	36%	23,391	20,955	12%	CAR	14.2%	13.0%	9.0%
NII	6,119	5,173	18%	20,672	18,555	11%	NIM	4.0%	4.0%	0.2%
Other Income	1,520	1,746	-13%	7,282	6,398	14%	RoA	1.3%	1.3%	-3.0%
Net Income	7,639	6,919	10%	27,954	24,953	12%	RoANW	29.9%	28.6%	4.6%
Operating expenses	3,491	3,085	13%	12,616	11,585	9%				
Payments to employees	2,413	2,233	8%	8,936	8,435	6%				
Other expenses	1,078	852	27%	3,680	3,151	17%				
Operating income	4,148	3,834	8%	15,338	13,368	15%				
Provisions and contg.	541	912	-41%	5,482	3,650	50%				
NPA provisions	305	503	-39%	1,536	2,949	-48%				
Other provisions	237	410	NM	3,946	700	NM				
PBT	3,607	2,921	23%	9,856	9,718	1%				
Taxes	1,108	937	18%	2,023	3,205	-37%				
PAT	2,499	1,985	26%	7,833	6,514	20%				



*NM - Not Meaningful

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