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Q4 FY07
Result Update

Indian Overseas Bank

Outperformer

Rs 106

April 24, 2007

Healthy performance though CASA under pressure

Company Details				Result Snapshot	
Market Cap:	Rs 57,722m			35.4% growth in advances to Rs. 470.6 bn	
52 Week High/Low:	Rs 129 / 66			36.1% growth in deposits to Rs. 687.5 bn	
Bloomberg Code:	IOB@IN			CASA ratio down from 36% in Q3 FY 07 to 34%	
Reuters Code:	IOBK.BO / NS			NII has gone up by 42% to Rs. 7682 mn	
Shares O/s:	545m			NIM has improved to 4.16% from 3.9% in Q3 FY 07	
Average Volume (3 months):	0.3m			Net profits have gone up by 42% to Rs. 2898 mn	
Price Performance					
(%)	1m	3m	12m		
Absolute	0.5	(6.4)	6.8	These Q4 number include the effect of Bharat Overseas Bank hence to that expect inflated. Stock is trading at 1.3x FY 08 ABV. With overall healthy performance continued and reasonable valuations, we reiterate our Outperformer rating on the stock.	
Relative to Sensex	(4.0)	(4.4)	(8.7)		

Q4 FY07 Result Snapshot

(Rs m)

Y/e March	Q4FY07	Q4FY06	yoy gr. (%)	Q3FY07	FY06	FY07	yoy gr. (%)
Net Int. Income	7,682	5,411	42.0	6,051	20,672	25,608	23.9
Op. Profit	5,617	4,110	36.7	4,916	15,338	15,600	1.7
Net Profit	2,898	2,044	41.7	2,468	7,833	10,084	28.7
Advances	470,600	347,562	35.4	431,739	347,562	470,600	35.4
Deposits	687,460	505,293	36.1	592,000	505,293	687,460	36.1

Valuation Ratios

Y/e March	FY06	FY07E	FY08E	FY09E
EPS (Rs)	14.4	18.5	21.2	25.3
EPS growth (%)	20.3	28.7	14.3	19.4
BV/S (Rs)	56.1	68.0	86.7	106.4
ABV/S (Rs)	52.0	63.2	79.9	96.9
P/E (x)	7.4	5.7	5.0	4.2
P/BV (x)	1.9	1.6	1.2	1.0
P/ABV (x)	2.0	1.7	1.3	1.1
DPS (Rs)	3.0	3.6	4.1	4.9
Dividend Payout ratio (%)	20.6	22.0	22.0	22.0
Dividend yield (%)	2.8	3.4	3.9	4.7

(Stock price as on April 23, 2007)



Result Highlights

IOB has reported 35.4% growth in advances to Rs. 470.6 bn. While deposits have gone up by 36.1% to Rs. 687.5 bn. Deposits growth is significantly higher than 20% reported in Q3 FY 07. This is largely due to significant increase in term deposits.

In fact share of low cost deposits had already come down from 40% a year ago to 36% as on Q3 FY 07. Now with bank continue to grow its deposit base aggressively, share of low cost deposit has further come down to 34%.

NII has gone up by 42% to Rs. 7682 mn in Q4 FY 07. Since Bharat Overseas Bank (BhoB) has been merged with the IOB with effect from March 31, 2007, Q4 numbers include the Bharat Overseas Bank number as well. Actual NII growth will be lower to that extent.

Despite decline in share of low cost deposits, NIM has improved to 4.16% from 3.9% in Q3 FY 07 due to effect of two PLR hike taking place and one off items like interest on CRR balances paid in Q4 for period between June 2006 till February 2007. But we believe that this improvement is not sustainable and margins might come down in Q1 FY 08.

Similarly net profits have gone up by 42% to Rs. 2898 mn in Q4 FY 07 but if we exclude the effect of BhoB (roughly Rs. 500 mn) then effective growth would be around 17%.

Asset quality remains stable at the gross level with gross NPA at 2.34% compared to 2.54% as on Q3 FY 07. But net NPAs have gone up marginally from 0.48% as on Q3 FY 07 to 0.55%.

Capital adequacy remains healthy at 13.27% with tier - I at 8.2% as bank has so far raised Rs. 2800 mn as perpetual debt, Rs. 5000 mn as upper tier - II capital and Rs. 5000 mn as subordinated debt in FY 07.

Stock is trading at 1.3x FY 08 ABV. With overall healthy performance continued and reasonable valuations, we reiterate our Outperformer rating on the stock.



Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4FY07	Q4FY06	yoy gr. (%)	Q3FY07	FY06	FY07	yoy gr. (%)
Int. on Advances	11,358	7,127	59.4	9,924	26,291	39,010	48.4
Int. on Investments	4,846	4,185	15.8	4,362	16,733	17,033	1.8
Others	1,250	306	308.7	451	1,039	2,278	119.2
Total Int. Earned	17,454	11,618	50.2	14,737	44,063	58,321	32.4
Total other Income	1,905	2,122	(10.3)	1,980	7,282	3,870	(46.8)
Total Income	19,358	13,740	40.9	16,717	51,345	62,191	21.1
Int. Expanded	9,771	6,207	57.4	8,686	23,391	32,713	39.9
Net Int. Income	7,682	5,411	42.0	6,051	20,672	25,608	23.9
Net Total Income	9,587	7,533	27.3	8,031	27,954	29,478	5.5
Op. expenses	3,970	3,424	15.9	3,116	12,616	13,878	10.0
Op. Profit	5,617	4,110	36.7	4,916	15,338	15,600	1.7
Core Op Profit	5,360	3,632	47.6	4,510	13,001	13,497	3.8
Provisions	1,820	2,285	(20.4)	1,251	5,482	1,866	(66.0)
PBT	3,798	1,824	108.1	3,665	9,856	13,734	39.3
Prov. for taxes	900	(220)	(509.0)	1,197	2,023	3,650	80.4
Net Profit	2,898	2,044	41.7	2,468	7,833	10,084	28.7
<i>Effective tax rate (%)</i>	<i>23.7</i>	<i>-12.1</i>		<i>32.7</i>	<i>20.5</i>	<i>26.6</i>	
EPS	5.3	3.8	41.7	4.5	14.4	18.5	28.7
<i>Int on adv % total</i>	<i>58.7</i>	<i>51.9</i>		<i>59.4</i>	<i>51.2</i>	<i>62.7</i>	
<i>Other inc. % total</i>	<i>9.8</i>	<i>15.4</i>		<i>11.8</i>	<i>14.2</i>	<i>6.2</i>	
<i>Cost/Income ratio (%)</i>	<i>41.4</i>	<i>45.4</i>		<i>38.8</i>	<i>45.1</i>	<i>47.1</i>	
<i>CAR (%)</i>	<i>13.3</i>	<i>13.0</i>		<i>14.0</i>	<i>12.8</i>	<i>13.3</i>	
Gross NPA	11,202	12,276		11,216	12,276	11,202	
Net NPA	2578	2243		2065	2243	2578	
<i>% of gross NPAs</i>	<i>2.3</i>	<i>3.4</i>		<i>2.5</i>	<i>3.4</i>	<i>2.3</i>	
<i>% of net NPAs</i>	<i>0.6</i>	<i>0.7</i>		<i>0.5</i>	<i>0.6</i>	<i>0.5</i>	
Advances	470,600	347,562	35.4	431,739	347,562	470,600	35.4
Deposits	687,460	505,293	36.1	592,000	505,293	687,460	36.1



Key Figures

(Rs m)

Y/e March	FY06	FY07E	FY08E	FY09E
Market Price	106	106	106	106
Equity Capital	5,448	5,448	5,448	5,448
Market Capitalisation	57,722	57,722	57,722	57,722
Balance sheet size	593,578	795,997	923,208	1,104,315
<i>Market cap to balance sheet size (%)</i>	<i>9.7</i>	<i>7.3</i>	<i>6.3</i>	<i>5.2</i>
Deposits	505,293	687,460	822,763	988,078
Net Advances	347,562	470,600	574,131	688,957
Investments	189,523	202,973	246,785	291,298
Networth	30,550	37,028	46,019	56,757
NII	20,672	25,608	28,316	32,670
<i>Growth (%)</i>	<i>11.4</i>	<i>23.9</i>	<i>10.6</i>	<i>15.4</i>
Operating profits	15,338	15,600	18,206	22,064
PAT	7,833	10,084	11,527	13,766
<i>PAT growth (%)</i>	<i>20.3</i>	<i>28.7</i>	<i>14.3</i>	<i>19.4</i>
<i>NIM (%)</i>	<i>3.9</i>	<i>4.0</i>	<i>3.6</i>	<i>3.4</i>
<i>RoA (%)</i>	<i>1.4</i>	<i>1.5</i>	<i>1.3</i>	<i>1.4</i>
<i>RoE (%)</i>	<i>28.5</i>	<i>29.8</i>	<i>27.8</i>	<i>26.8</i>
<i>Treasury gain as % of OP</i>	<i>15.2</i>	<i>13.5</i>	<i>8.7</i>	<i>7.5</i>
<i>Treasury gain as % of PBT</i>	<i>23.7</i>	<i>15.3</i>	<i>10.3</i>	<i>9.0</i>
<i>Cost - Income ratio (%)</i>	<i>45.1</i>	<i>47.1</i>	<i>44.6</i>	<i>41.8</i>
<i>Credit - Deposit ratio (%)</i>	<i>68.8</i>	<i>68.5</i>	<i>69.8</i>	<i>69.7</i>
Gross NPAs	12,276	11,202	14,177	16,657
Net NPAs	2,243	2,578	3,732	5,167
<i>% of Gross NPAs</i>	<i>3.4</i>	<i>2.3</i>	<i>2.4</i>	<i>2.4</i>
<i>% of Net NPA</i>	<i>0.6</i>	<i>0.5</i>	<i>0.7</i>	<i>0.8</i>

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