

Institutional Equities
 India Research

Indian Overseas Bank

RESULT REVIEW

 Bloomberg: IOB IN
 Reuters: IOBK.BO

SELL

Asset Quality concerns continue

In Q3FY13, Indian Overseas Bank's (IOB) profits grew 7.6% YoY (down 26.5% QoQ) to Rs1.2 bn. Lower than our estimates of Rs1.8 bn on account higher NPA provisions. NII grew 13.1% YoY (up 11% QoQ) to Rs 13.8 bn and pre provision profits increased 23.7% YoY to Rs10.1 bn (up 26% QoQ) higher than our estimate of Rs 8.8 bn. During the quarter, NIM improved sequentially owing to increase in yield on advances and decline in cost of deposits. However, asset quality continued its downward trend.

- Loan Growth remains robust:** Advances grew at 18.8% YoY (up 3.1% QoQ), while deposits grew at a slower pace of 11.1% YoY (down 1.9% QoQ). Consequently, C-D ratio increased 403 bps sequentially to 83.4%. CASA ratio remained flat at 25%.
- Asset quality alarming:** IOB's asset quality continued to deteriorate further owing to fresh slippages to Rs 10.9 bn (delinquency ratio of 2.8%). Gross NPA increased 26 bps QoQ to 4.1% and net NPA increased 8 bps QoQ to 2.3%. It also restructured loans worth Rs 12.9 bn taking the cumulative value of the restructured book to Rs 156 bn (10% of gross loan book). Credit cost increased to 2.5% from 1.3% sequentially, while its provision coverage ratio remained flat sequentially at 59%.
- NIM bottoms out:** NIMs improved by 18bps sequentially to 2.51% as yield on advances improved 32 bps QoQ to 10.5%; this was further complimented by decline in cost of deposits by 10 bps QoQ to 7.58%.

Outlook & Valuation

We believe, IOB's asset quality pressures are yet to bottom out which would continue to weigh on the banks profitability. At the CMP, the stock is trading at 5.7x and 4.5x FY14E and FY15E earnings respectively, while the P/ABV is trading at 0.7x and 0.6x FY14E and FY15E respectively. We have downgraded our earnings estimates for FY14 and FY15 by 18% and 14% respectively, owing to heightened asset quality concern. We therefore reduce our price target by 19% to Rs 78 valuing the stock at 0.6x FY15E P/ABV and maintain our **SELL** rating.

Key Financials

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Interest Income	42,080	50,162	53,822	62,702	72,061
Operating Profit	27,521	33,628	35,279	40,741	46,767
PAT	10,725	10,501	8,930	11,169	14,187
EPS (Rs)	19.6	13.2	11.2	14.0	17.8
ABV (Rs)	117.5	116.0	109.9	117.0	130.7
P/E	4.1	6.1	7.2	5.7	4.5
P/ABV	0.7	0.7	0.73	0.69	0.62
Gross NPA (%)	2.7	2.7	3.86	3.85	3.34
Net NPA (%)	1.2	1.4	2.1	1.8	1.5
ROE (%)	14.8	11.1	8.1	9.6	11.4
ROA (%)	0.7	0.5	0.4	0.4	0.4

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs81
Target Price:	Rs78
Previous Target Price	Rs96
Downside (%)	-4%

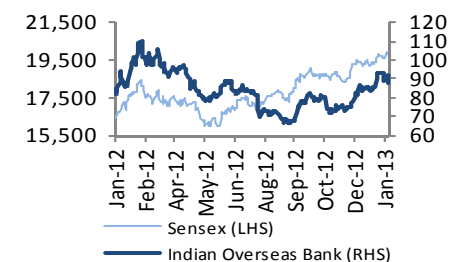
Stock Information

Market Cap. (Rs bn / US\$ mn)	64/1,202
52-week High/Low (Rs)	119/66
3m ADV (Rs mn /US\$ mn)	127/2.4
Beta	1.0
Sensex/ Nifty	20,005/6,056
Share outstanding (mn)	797

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.6)	12.7	(6.4)	(6)
Rel. to Sensex	(8.2)	3.9	(21.1)	(8.7)

Performance



Source: Bloomberg

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Indian Overseas Bank
Exhibit 1: Quarterly Snapshot

Y/E Mar (Rsmn)	Q3FY13	Q3FY12	Q2FY13	YoY (%)	QoQ (%)
Interest Income	53,331	46,043	51,040	15.8	4.5
Interest Expenses	39,516	33,827	38,578	16.8	2.4
Net Interest Income	13,816	12,216	12,462	13.1	10.9
NIM (%)	2.51	2.61	2.33	(0.10)	0.18
Non Interest Income	5,138	4,111	4,110	25.0	25.0
Operating Income	18,954	16,326	16,572	16.1	14.4
Staff Cost	6,064	5,458	5,624	11.1	7.8
Other Op Exp	2,720	2,645	2,878	2.8	(5.5)
Total Operating Expenses	8,783	8,103	8,502	8.4	3.3
Cost to Income (%)	46	50	51		
Operating Profit	10,171	8,224	8,071	23.7	26.0
Provisions	8,110	6,675	5,516	21.5	47.0
PBT	2,061	1,549	2,555	33.1	(19.3)
Tax	896	466	970	92.2	(7.7)
effective tax rate	43	30	38		
PAT	1,165	1,083	1,584	7.6	(26.5)
EPS (Rs)	1.5	1.7	2.0	(16.5)	(26.5)
RoA	0.2	0.2	0.3		
Deposits	1,855,730	1,670,060	1,891,152	11.1	(1.9)
Advances	1,546,926	1,301,769	1,500,163	18.8	3.1
GNPA	65,156	39,719	59,296	64.0	9.9
Net NPA	35,951	15,997	33,780	124.7	6.4
GNPA	4.1	3.0	3.9		
NNPA	2.3	1.2	2.3		

Source: Company, Karvy Institutional Research

Exhibit 2: Earnings Estimates

	Revised Estimates			Earlier Estimates			% Revision		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Net Interest Income (Rs mn)	53,822	62,702	72,061	52,195	63,489	73,399	3.1	(1.2)	(1.8)
NIMs (%)	2.3	2.3	2.3	2.3	2.3	2.3	0.1	(0.0)	(0.0)
Operating Profit (Rs mn)	35,279	40,741	46,767	33,402	40,880	46,105	5.6	(0.3)	1.4
Profit after tax (Rs mn)	8,930	11,169	14,187	10,464	13,606	16,551	(14.7)	(17.9)	(14.3)
EPS (Rs)	11.2	14.0	17.8	13.1	17.1	20.8	(14.7)	(17.9)	(14.4)
ABV (Rs)	109.9	117.0	130.7	110.4	126.9	138.1	(0.4)	(7.8)	(5.3)

Source: Company, Karvy Institutional Research

Indian Overseas Bank
Exhibit 3: Income Statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Interest Income	121,015	178,971	209,439	233,551	268,592
Interest expense	78,934	128,809	155,617	170,850	196,531
Net interest income	42,080	50,162	53,822	62,702	72,061
Other Income	12,251	16,810	19,433	23,114	27,869
Fees	6,892	8,999	10,764	12,664	15,864
Profit from Sale of Securities	1,086	1,714	2,130	2,720	3,320
Other Income	5,359	7,812	8,669	10,450	12,005
Net Revenue	54,331	66,972	73,255	85,816	99,930
Operating Expense	25,725	31,631	35,845	42,355	49,843
-Employee Exp	17,411	20,830	23,575	27,335	32,023
-Other Exp	8,314	10,801	12,270	15,020	17,820
Operating Profit	27,521	33,628	35,279	40,741	46,767
Investment Profit	1,086	1,714	2,130	2,720	3,320
Pre-Provision Profits	28,606	35,341	37,409	43,461	50,087
Provisions	12,684	22,364	24,652	28,161	30,653
-Loan Loss Provisions	10,336	14,702	19,350	22,355	24,234
-Investment Depreciation	12	1,716	950	1,054	1,313
-Other Provisions	2,336	5,947	4,352	4,752	5,106
PBT	15,922	12,977	12,757	15,300	19,434
Taxes	5,197	2,476	3,827	4,131	5,247
PAT	10,725	10,501	8,930	11,169	14,187

Source: Company, Karvy Institutional Research

Exhibit 4: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Equity Capital	6187.493	7969.982	7969.982	7969.982	7969.982
Reserves & Surplus	87062	111307	116973	124412	133936
Shareholder's Funds	93,249	119,277	124,943	132,382	141,906
Deposits	1,452,288	1,784,342	2,062,255	2,435,458	2,857,454
Current deposits	118,056	122,873	126,192	146,192	168,196
Saving deposits	320,556	348,620	388,552	487,552	587,542
Term deposit	1,013,675	1,312,849	1,547,511	1,801,714	2,101,716
Borrowings	193,554	236,138	283,856	320,928	395,928
-Sub ordinate debt	34,260	33,900	38,900	39,900	42,900
Other liabilities	48,752	56,725	78,568	108,363	176,043
Total liabilities	1,787,843	2,196,482	2,549,622	2,997,131	3,571,332
Cash/Equivalent	120,187	162,611	168,109	205,269	242,469
Advances	1,118,330	1,407,244	1,672,910	1,973,251	2,363,251
Investments	486,105	555,659	634,145	736,145	875,145
Fixed Assets	16,811	17,440	18,542	21,542	24,542
Other assets	46,411	53,527	55,915	60,924	65,924
Total assets	1,787,843	2,196,482	2,549,622	2,997,131	3,571,332

Source: Company, Karvy Institutional Research

Indian Overseas Bank
Exhibit 5: Ratios

	FY11	FY12	FY13E	FY14E	FY15E
Growth (%)					
NII growth	32.8	19.2	7.3	16.5	14.9
Pre-provision profit growth	55.1	23.5	5.9	16.2	15.2
PAT growth	51.7	(2.1)	(15.0)	25.1	27.0
Business (%)					
Deposit growth	31.1	22.9	15.6	18.1	17.3
Advance growth	41.6	25.8	18.9	18.0	19.8
Business growth	35.4	24.2	17.0	18.0	18.4
CD	77.0	78.9	81.1	81.0	82.7
CASA	30.2	26.4	25.0	26.0	26.4
Operating efficiency (%)					
Cost-to-income	47.3	47.2	48.9	49.4	49.9
Cost-to-assets	1.1	1.0	1.0	1.0	1.0
Productivity (Rs mn)					
Business per branch	1,174	1,214	1,250	1,305	1,378
Business per employee	99.7	116.6	111.1	116.0	122.5
Profit per branch	4.9	4.0	3.0	3.3	3.7
Profit per employee	0.4	0.4	0.3	0.3	0.3
Spreads (%)					
Yield on advances	9.3	10.8	10.5	9.8	9.5
Yield on investments	6.9	7.6	7.4	7.3	7.2
Cost of deposits	5.3	6.9	7.3	6.8	6.6
Yield on funds	8.1	9.3	9.1	8.7	8.4
Cost of funds	5.4	6.9	7.0	6.6	6.5
NIMs	2.8	2.6	2.3	2.3	2.3
Capital adequacy (%)					
Tier I	8.2	7.6	7.0	6.4	5.7
Tier II	6.4	4.5	4.9	4.7	4.1
Total CAR	14.5	12.2	11.9	11.0	9.8
Asset Quality (%)					
Gross NPA	2.7	2.7	3.9	3.9	3.3
Net NPA	1.2	1.4	2.1	1.8	1.5
Provision coverage	57.0	51.3	46.1	53.0	57.0
Provision coverage (incl w/off)	70.5	67.7	58.9	67.6	74.7
Slippage	2.2	2.5	2.9	2.1	1.9
Credit cost	1.1	1.1	1.2	1.2	1.1
Return (%)					
ROE	14.8	11.1	8.1	9.6	11.4
ROA	0.7	0.5	0.4	0.4	0.4
Per share (Rs)					
EPS	19.6	13.2	11.2	14.0	17.8
BV	132.0	135.3	141.1	150.4	162.4
ABV	117.5	116.0	109.9	117.0	130.7
Valuation(x)					
P/E	4.1	6.1	7.2	5.7	4.5
P/BV	0.6	0.6	0.6	0.5	0.5
P/ABV	0.7	0.7	0.7	0.7	0.6

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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