

Banking Sector

Recommendation:BUY

Target-Rs.325

*CMP-Rs257.80

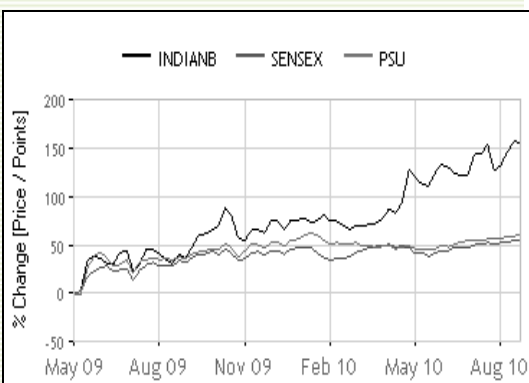
Potential upside:41%

BLOOMBERG: INBK IN
REUTERS CODE: INBA.BO

Date:-20th August,2010

Stock History :

Weekly H/L	258.90 / 246.15
Monthly H/L	258.90 / 209.20
52 Weeks H/L	258.90 / 125.00



Equity Research Analyst: Ashish Jha

E-mail:ashish.mdu@gmail.com

Tel No:-0969991724

Flourish Fincap Pvt Ltd,Delhi.

409,416,Essel House,10 Asaf Ali
Road,New Delhi-110002

Phones:01123233965,23238521,Fax:0
11-23238344

Mob No.-+91-9810020399.

E- mail:flourishfincap@yahoo.com

Website:flourishfincap.com

Indian Bank

Investment period-12 Months

Indian Banking Sector Overview:

Indian Banking sector is dominated by Public sector banks (PSBs) which accounted for 72.6% of total advances for all Schedule commercial Banks(SCBs) as on 31st March 2008. PSBs have rapidly expanded their foot prints after nationalization of banks in India in 1969 and further in 1980. Although there is a restrictive entry/expansion for private and foreign banks in India, these banks have increased their presence and business over last 5 years.

Recovery in the global economy picked up momentum during Q4FY10. However, the level of risk is much higher on account of large deficits among developed countries. While various projections point to a recovery led by Emerging Market Economies (EMEs), it remains to be seen whether the domestic demand in EMEs can sufficiently plug the fall in consumption by the advanced economies.

1.Credit Growth:Total bank credit for Scheduled Commercial Banks (SCBs) including Regional Rural Banks (RRBs) at the end of March 2010 stood at Rs.3,240,399 crore, registering a y-o-y growth of 17.0% (FY09: 17.3%) following a significant revival in credit demand since end-November 2009.Credit growth of Schedule Commercial Banks (SCBs) for the quarter ending March 31, 2010 stood a 7.3% vis-à-vis the 4.6% growth seen in the corresponding period of last year

2.Deposits Growth:Unlike the slowdown in credit growth, deposits with SCBs continued to exhibit healthy growth rates led primarily by risk aversion in general and flight to safety of the attractive 1-3 year fixed deposit schemes offered by public sector banks

during FY09. However, most banks have now stepped up efforts to mobilise low-cost CASA deposits and are also shedding bulk deposits.

Aggregate deposits for SCBs (including RRBs) at the end of March 2010 grew by 17.1% y-o-y to Rs.4,486,574 crore. The composition of deposits has undergone a change with a gradual deceleration seen in the growth of time deposits on account of the softening interest rates and the improvement in the equity markets.

During FY10, the average deposit growth for the banks covered in our study stood at 17.3% with Public Sector banks clocking a growth of 18.5% while Private Sector banks registered a deposit growth of 10.5%. Among Public Sector banks, IDBI bank was the outperformer with a 49% growth in deposit base. Private Sector banks (excluding ICICI Bank) clocked a deposit growth rate of 21.9%. The overall median CASA as a proportion of total deposits remained relatively flat at 31.8% vs 31.0% a year ago with both Public and Private Sector banks registering only a marginal increase on an average.

3.Investments: Higher deposits and lower credit offtake resulted in a build-up of surplus liquidity in the banking system. This resulted in banks parking their idle funds with RBI through reverse repo window especially during FY10. The incremental Credit-to-Deposit (C/D) ratio for all SCBs also improved from the 41% levels seen in FY10 to 72.2% in March 2010.

4.Income: Total income registered a 10% y-o-y growth for FY10 for the year ended March 31, 2010 with PSU Banks faring better than Private Sector banks.

Operating Efficiency and Provisioning: Cost-to-Income ratio for FY10 continued to remain at 40% levels despite improved operating efficiencies exhibited by the New Private Sector Banks. Public sector banks reporting a 20% y-o-y growth in PAT.

Overall Gross NPA levels rose to 2.32% as of Mar 31, 2010 as against 2.17% a year ago on the back of higher slippages exhibited by PSU banks. In our coverage on the Performance of the NPA levels for the Banking sector to reach 2.8%(approx) for the year ended Mar 31, 2010.

Exhibit: 1

Parameters	Overall		PSU Banks		Private Banks	
	Mar-09	Mar-10	Mar-09	Mar-10	Mar-09	Mar-10
Gross NPA/Advances	2.17	2.32	1.98	2.2	3.06	2.91
Net NPA/Advances	1	1.08	0.92	1.09	1.34	1.06
Provisions Coverage	53.85	53.27	53.08	50.6	56.17	63.62

Source: Research-cell

Capital Adequacy Ratio (CAR)

The Capital Adequacy levels for the selected banks continued to be healthy with the overall median CAR, as per Basel II improving from 13.25% as on March 31, 2009 to 13.48% as on March 31, 2010. This was mainly on account of Tier I/Tier II issuances by most banks in FY10.

Exhibit: 2

Category	CAR(%)		Tier I CAR(%)	
	31-Mar-09	31-Mar-10	31-Mar-09	31-Mar-10
Overall	13.25	13.48	8.34	8.64
Public sector banks	13.18	13.16	8.01	8.36
Private sector banks	13.18	13.16	8.01	8.36

Source: Research-cell

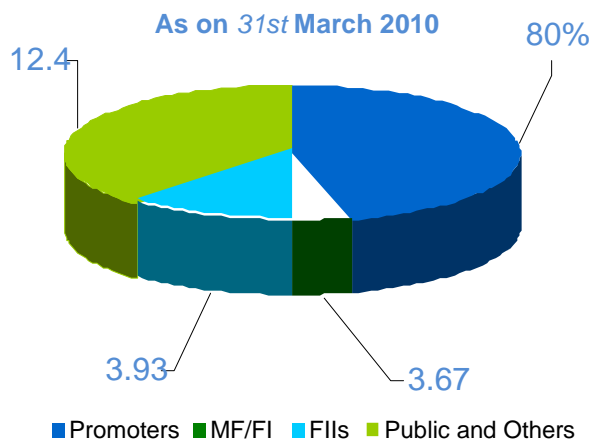
Prospects:-

For FY11, we continue to estimate Advances growth to be in the range of 20-22% (led by increase in demand from the infrastructure sector) and Deposit growth for FY11, should be in the range of 18-20%.

On April 9, 2010, the RBI announced the final guidelines on the implementation of the Base rate system which would replace the BPLR (Benchmark Prime Lending Rate) w.e.f. July 1, 2010. Banks are now free to adopt any methodology/ any benchmark and even link it to the tenor of the loans offered, besides having the option to change it any time before 31st December, 2010.

Company Profile:

Indian Bank is a state-owned bank with 80% Government of India holding. It has a pan-India network of 1,700+ branches and 855 ATMs, with a focus on South India. The bank had experienced financial setbacks in the 1990s, following the introduction of prudential norms by the RBI. It incurred losses in FY94 and over FY96-01. In March 2006, the bank reduced its share capital by writing off accumulated losses of Rs38.3b. On 30 September 2006, it restructured its entire paid-up capital of Rs7.4b held by the government into perpetual non-cumulative preference share capital of Rs4b and equity share capital of Rs3.4b. It issued 343.8m equity shares of Rs10 each to the government, without payment by the promoter.

Exhibit:3**Shareholding Pattern:**

Particulars	Parent				Consolidated	
	Quarter ended		Year ended		Year ended	
	31.03.2010	31.03.2009	31.03.2010	31.03.2009	31.03.2010	31.03.2009
Part A. Business Segments	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
I. Segment Revenue						
(a) Treasury Operations	534.38	541.74	2 293.71	1 966.80	2 293.71	1 966.80
(b) Corporate Banking	947.77	842.82	3 575.00	3 113.39	3 575.00	3 113.39
(c) Retail Banking	815.68	737.79	3 100.15	2 729.19	3 100.15	2 729.19
(d) Other Banking Operations	19.90	26.14	61.91	56.39	68.45	69.81
Total	2 317.73	2 148.49	9 030.77	7 865.77	9 037.31	7 879.19
Less: Inter Segment Revenue						
Net Sales/Income from operations	2 317.73	2 148.49	9 030.77	7 865.77	9 037.31	7 879.19
2. Segment Results (Profit)						
(a) Treasury Operations	165.26	166.25	712.84	598.99	712.84	598.99
(b) Corporate Banking	372.23	200.21	1 110.21	779.45	1 110.21	779.45
(c) Retail Banking	314.95	160.13	862.39	620.99	862.39	620.99
(d) Other Banking Operations	19.90	26.14	61.91	56.39	62.32	68.22
Total	872.34	552.73	2 747.35	2 055.82	2 747.76	2 067.65
Less: (i) Interest						
(ii) Other Un-allocable Expenditure	213.56	- 58.68	395.74	270.24	385.23	270.05
(iii) Un-allocable income					9.72	6.73
Total Profit Before Tax	658.78	611.41	2 351.61	1 785.58	2 372.25	1 804.33
Less : Provisions for taxation	248.82	217.32	796.62	540.27	802.44	549.18
Extraordinary Profit / Loss						
Profit after tax	409.96	394.09	1 554.99	1 245.31	1 569.81	1 255.15
3. Capital Employed						
(Segment Assets - Segment Liabilities)						
(a) Treasury Operations	2 234.15	2 105.48	2 234.15	2 105.48	2 234.15	2 105.48
(b) Corporate Banking	3 497.38	2 408.44	3 497.38	2 408.44	3 497.38	2 408.44
(c) Retail Banking	2 381.31	2 192.75	2 381.31	2 192.75	2 381.31	2 192.75
(d) Other Banking Operations	16.86	50.00	16.86	50.00	16.86	50.00
(e) Unallocated	142.42	379.24	142.42	379.24	283.04	507.48
Total	8 272.12	7 135.91	8 272.12	7 135.91	8 412.74	7 264.15
Part B - Geographic Segments						
I. Revenue						
a) Domestic Operations	2 277.77	2 093.59	8 865.06	7 665.87	8 871.59	7 679.29
b) Foreign Operations	39.96	54.89	165.72	199.90	165.72	199.90
Total	2 317.73	2 148.48	9 030.78	7 865.77	9 037.31	7 879.19
II. Assets						
a) Domestic Operations	97 436.47	80 136.46	97 436.47	80 136.46	97 571.00	80 187.95
b) Foreign Operations	3 952.85	3 986.12	3 952.85	3 986.12	3 952.85	3 986.12
Total	1 01 389.32	84 122.58	1 01 389.32	84 122.58	1 01 523.85	84 174.07

Source: Company

Financial result highlights

Q1FY10 Performance at a glance

Indian Bank has reported 26% rise in the Net Interest Earned at Rs 926.65 crore on the back of 13% jump in the Interest earned to Rs 2121.79 crore in the quarter ended June 2010. Global Gross Credit has grown by 31% on y-o-y basis and 9% on q-o-q basis to Rs 68027 crore in the quarter under review. NIM also stood at 3.71% in quarter under review as against 3.56% a year ago. The other income has reported marginal 2% rise to Rs 355.46 crore. However, core non interest income has jumped up by 54% to Rs 257.79 crore in the quarter under review. Thus the growth in Net total Income has been restricted by 18% to Rs 1282.11 crore. The share of net total income to other income has decreased to 28% from 32% a year ago.

The Operating expenses have slipped by 3% to Rs 444.29 crore owing to 7% dip in the employee cost to Rs 321.49 crore and 10% increase in Other Operating expenses to Rs

122.80 crore. A sum of Rs.23 crore has been charged to Profit & Loss Account towards transitional liability on proportionate basis for the quarter ended 30th June 2010 in compliance with the Revised AS -15 on Employee Benefits and the remaining unrecognized transitional liability is Rs.161 crore. An amount of Rs.8.20 crore, being the proportionate sum towards the total additional Gratuity fund requirement of Rs.164 crore as per actuarial valuation arising on account of amendment made to Payment of Gratuity Act, 1972, has been provided pending receipt of approval for bank's request for amortization over a period of five years.

The Cost to income ratio has declined by 740 bps o 34.7% and has lifted Operating Profit up by 33% to Rs 837.82 crore. The Provisions and contingencies have spiraled up by 185% to Rs 343.90 crore and pulled down PBT by 3% to Rs 493.92 crore. Finally, 950 bps dip in effective tax rate to 25.5% has made Net Profit up by 11% to Rs 368.15 crore.

Yearly Performance

For the full year ended March 2010, Indian bank has reported 25% increase in the Net Profit to Rs 1554.99 crore over 27% increase in the NII to Rs 3303.88 crore. The other income of the bank has increased by 13% to Rs 1173.72 crore and left Net Total Income up by 23% to Rs 4477.59 crore. The cost to income ratio of the bank has declined by 490 bps to 38.6% and lifted Operating Profit up by 34% to Rs 2747.35 crore. The provisions and contingencies of the bank has increased by 46% to Rs 395.74 crore while that of taxation has increased by 47% to Rs 796.62 crore and curtailed growth in the Net Profit up by 25% on y-o-y basis.

Financials and valuations:-

- Indian Bank is currently trading at PE of 6.1 times with EPS of Rs 37.
- At a Book Value (BV) per share of Rs 154.2 and Adjusted Book Value (ABV) per share of Rs 120.8, for the quarter ended June 2010, the P/BV and P/ABV of the bank works out to 1.5 and 1.9 respectively. ROE and EPS for FY10 is 36.2% and 25% respectively. Which is higher among others PSU Banks.

Exhibit:4 Income Statement

(In Cr.)	2009 - 10	2008 - 09	2007 - 08	2006 - 07
Revenue	7,857.06	6,830.33	5,150.78	4,284.65
Other Income	1,173.72	1,035.45	1,067.89	733.21
Total Income	9,030.78	7,865.77	6,218.67	5,017.86
Expenditure	-1,730.25	-1,415.13	-1,400.29	1,165.97
Interest	-4,553.18	-4,221.82	-3,159.08	-2,412.62
PBT	2,747.35	2,228.83	1,659.30	1,832.97
Tax	-796.62	-540.27	-226.24	-124.44
Net Profit	1,554.99	1,245.32	1,008.74	759.77
Equity	429.77	429.77	429.77	429.77
Reserves	6,217.25	5,050.53	4,115.50	2,791.54
EPS	35.09	27.96	22.52	20.46
CAR%	12.71	13.98	12.74	14.14
NPM %	19.79	18.23	19.58	17.73

Source: Company Research-cell

Key investment arguments:

- ✓ Strong CASA franchise and lower dependence on bulk deposits would keep the cost of funds under control and margins higher than peers.
- ✓ Lower slippages from the restructured pool can provide earning triggers.

Exhibit:-5 Peer group comparison:-

Banking Sector	PAT(Rs Crs.)	Price*	Book value	P/B V(x)	NIM(%)QT R March to June,2010	CAR(%)	Total Debt/Equity	NPM(%)	NI(Crs.)	NPA(%)	CASA (%)	No. of Shares(Crs)	EPS(%)	ROE(%)
Allahabad Bank	1,206.33	219.05	131	1.7	2.94	13.6	18.02	14.41	2650	0.66	34.5	446.7	27.01	22.2
Andhra Bank	1,045.85	157.5	90.93	1.7	3.72	13.9	17.62	16.41	2195	0.86	29.43	485	21.56	26
Bank of Maharashtra.	439.57	68.3	55.84	1.2	2.38	12.4	26.33	9.28	1296	1.6	40.08	430.52	10.21	19.7
UCO Bank	1,012.18	107.45	65.74	1.6	3.07	11.6	34.21	10.63	2324	1.18	24.88	1699.36	18.42	31.6
Vijaya Bank	507.29	78.1	61.44	1.3	3	14.7	23.44	9.75	1449	2.37	24.13	933.52	11.7	19.6
Indian Bank	1,554.99	242.4	159.7	1.5	3.78	12.2	13.33	19.79	3304	0.23	31.1	829.77	36.18	25
Indian Overseas Bank	706.96	129.15	116.5	1.1	2.75	13.3	17.45	6.9	3168	1.73	33.1	544.8	12.98	11.5
Dena Bank	511.25	103.45	83.43	1.2	2.82	11.8	21.46	12.75	1100	1.5	36.9	286.82	17.82	23.6
South Indian Bank Ltd.	233.76	204.5	129.8	1.6	1.8	14.7	15.69	12.08	568.3	0.39	24	113.01	20.68	17
Federal Bank Ltd.	464.55	337.8	252.2	1.3	3.21	17.9	7.45	12.65	1411	0.48	23.5	171.03	27.16	12.2
Karnataka Bank Ltd.	167.12	176	136.8	1.3	2.9	12.4	12.95	8.18	335.6	1.4	36	133.99	12.47	9.8
Canara Bank	3,021.43	501.9	305.8	1.6	2.78	12.4	18.71	16.11	5681	1	29.2	410	73.69	26.8

Source: Research- cell Flourish fincap Pvt.Ltd.

*As on 16-08-2010.

Figures are in Crs.

Exhibit:6

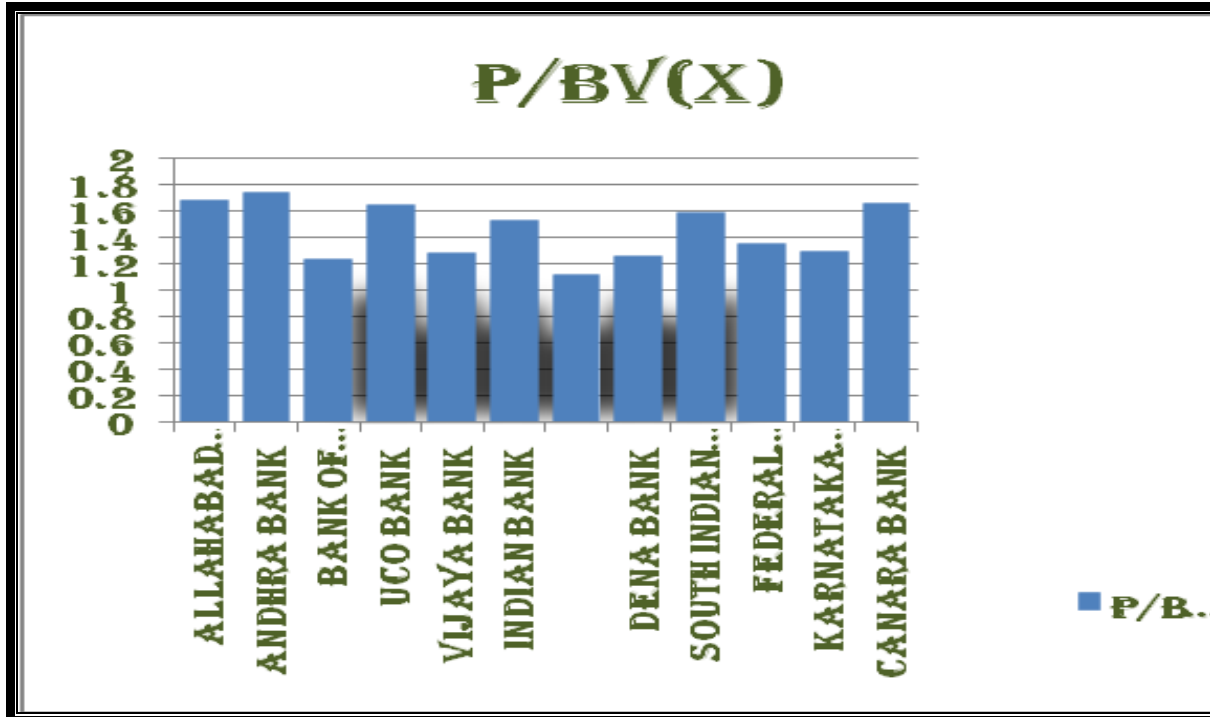


Exhibit:7 Net Interest income performance of PSU Banks

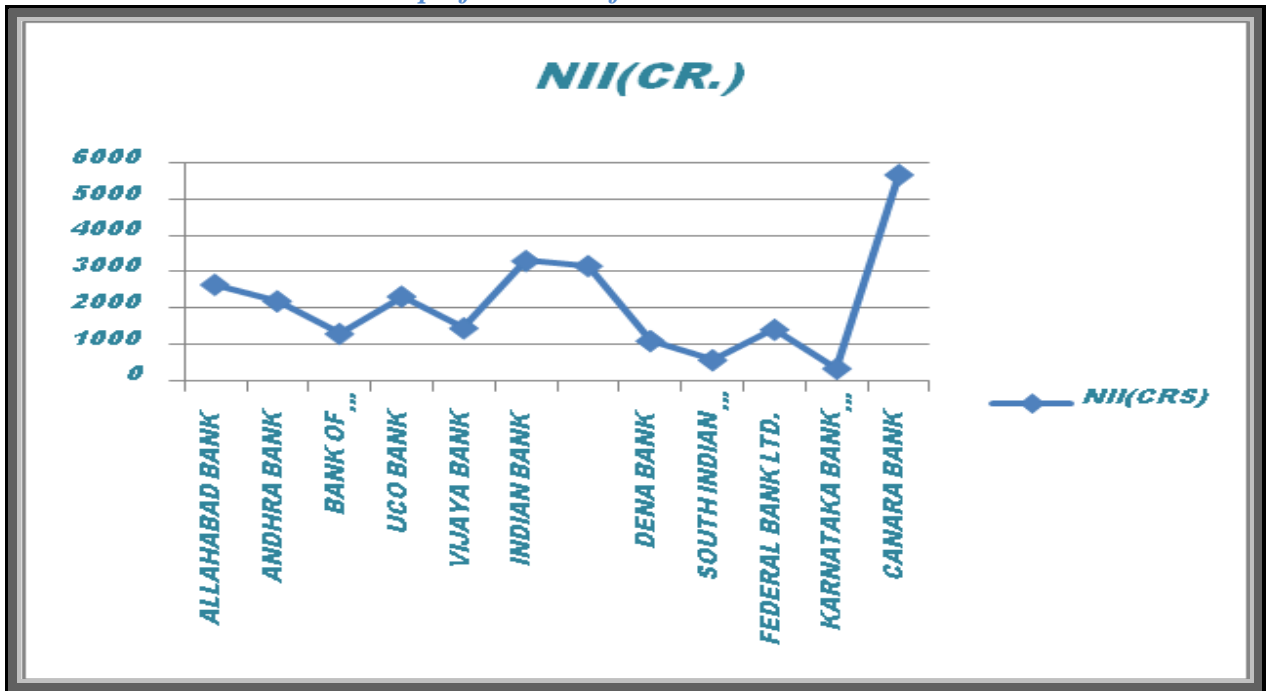
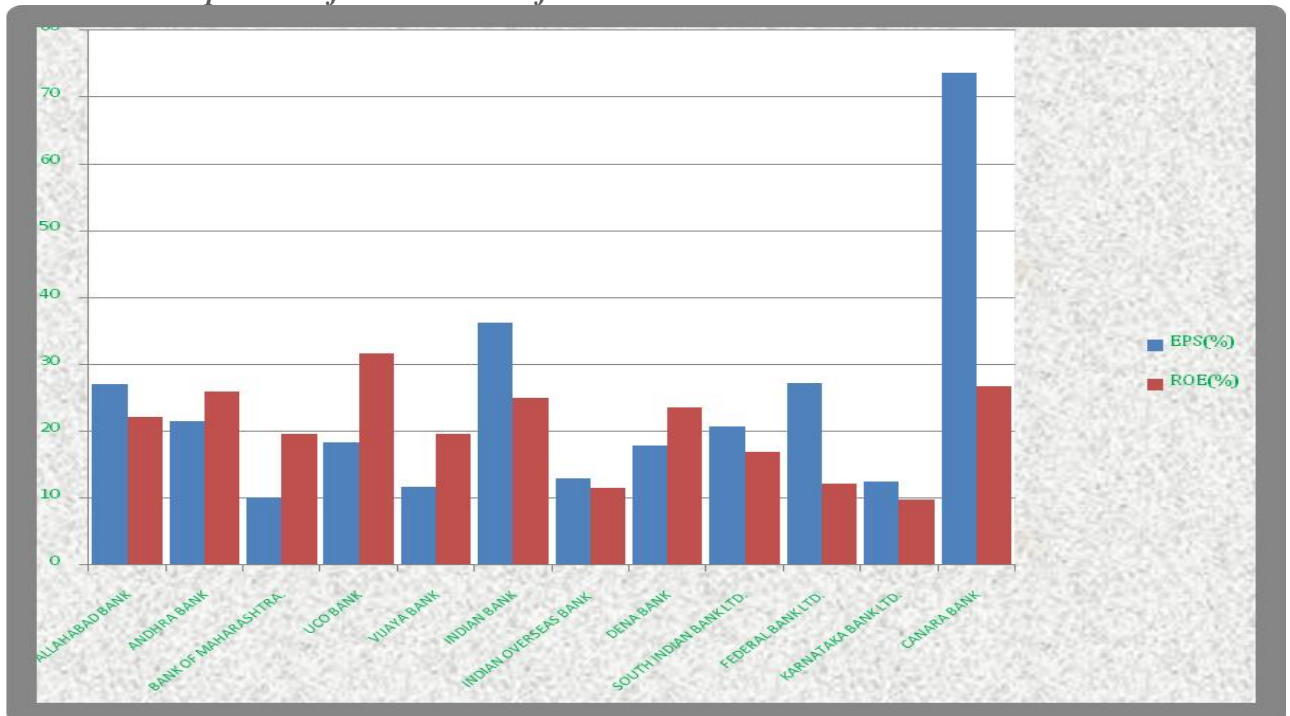


Exhibit:8 Comparison of ROE & EPS of Banks



The bank aims to achieve 22 percent growth in its business to touch Rs 1,85,000 crore by the end of the current fiscal. In the year ended March 2010, the company had achieved business of Rs 1,50,886 crore. Moreover, the bank plans to achieve its target by focusing on growing its current and savings account deposits from 32.9% at present to 34%. The bank also plans to raise its lending focus to the micro, small and medium segments and farm, corporate and infrastructure sectors.

Note:-* As on 16/8/2010.

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Contact:-

*Equity Research Analyst-Ashish Jha
E-mail:ashish.mdu@gmail.com*

*Flourish Fincap Pvt. Ltd.
Member:NSE,F&O,MCX,NCDEX,MCX-SX,DSE,UPSE
409,416,Essel House,10 Asaf Ali Road,New Delhi-110002
Phones:011-23238521,23233965,Fax:011-23238344
Mob No.-+91-9810020399.
E-mail:flourishfincap@yahoo.com
Website:flourishfincap.com*