

RESULTS REVIEW

Share Data

Market Cap	Rs. 56.2 bn
Price	Rs. 77.50
BSE Sensex	15,395.82
Reuters	IDBI.BO
Bloomberg	IDBI IN
Avg. Volume (52 Week)	2.8 mn
52-Week High/Low	181 / 74
Shares Outstanding	724.7 mn

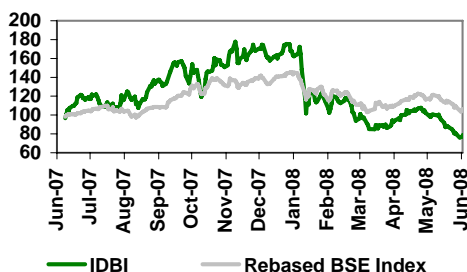
Valuation Ratios

Year to 31 March	2009E	2010E
EPS (Rs.)	11.7	16.2
+/- (%)	15.7%	39.1%
PER (x)	6.7x	4.8x
P / PPP (x)	2.9x	2.1x
P / ABV (x)	0.8x	0.7x

Shareholding Pattern (%)

Promoter	53
FII's	4
Institutions	20
Public & Others	23

Relative Performance



IDBI Ltd

Buy

A long distance runner: Maintain Buy

We maintain our **Buy** rating on IDBI Ltd on account of the following reasons:

- The core business is getting stronger.** The Bank's balance sheet surged 26% in FY08, much better than the 17% increase in FY07 and the 9% rise in FY06. Advances rose 32% in FY08, outpacing the increase witnessed in FY07 (19%) and FY06 (16%). Though net interest margin fell 12 bps essentially on account of the fast-growing deposits, we expect it to increase as the Bank is planning to raise capital in FY09.
- Geographical expansion will play a key role in future growth.** IDBI is aggressively expanding into newer geographies. The merger with United Western Bank has increased IDBI's number of branches by more than 100. In addition, it has added 67 branches on its own. In FY09, the Bank plans to set up another 200 branches and 200 ATMs. Meanwhile, it is also eyeing another acquisition and has already begun talks with some banks.
- The Bank is also focusing on diversification.** IDBI has recently launched a life insurance company and is planning a foray into asset management and venture capital businesses. It has forged an agreement with Motilal Oswal Securities and has started offering online trading and demat services to its customers. As its number of branches is growing at a healthy pace, we expect that other income would contribute more to the operating income in the coming years.

Key Figures (Standalone)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY %	QoQ%	FY07	FY08	YoY %
(Figures in Rs mn, except per share data)								
Net Interest Income	2,127	2,129	2,360	10.9%	10.8%	6,579	6,564	(0.2)%
Net Operating Income	5,836	6,071	6,144	5.3%	1.2%	16,851	22,919	36.0%
Pre-Prov Operating Profit	3,784	3,925	3,050	(19.4)%	(22.3)%	9,066	13,331	47.0%
Net Profit	2,136	1,758	2,450	14.7%	39.3%	6,303	7,294	15.7%
Cost/Net Operating Income(%)	35.2%	35.3%	50.4%	-	-	46.2%	41.8%	-
Net Interest Margin	-	0.92%	-	-	-	0.80%	0.68%	-
NPA ratio	1.12%	1.19%	1.30%	-	-	1.12%	1.30%	-
Per Share Data (Rs.)								
PPP per share	5.2	5.4	4.2 (19.5)%	(22.4)%	-	12.5	18.4	46.9%
EPS	3.0	2.4	3.4	14.6%	39.1%	8.7	10.1	15.6%
Adj. Book value per share	87.4	92.8	93.4	6.9%	0.6%	87.4	93.4	6.9%

Valuation

We have valued IDBI (standalone) by using the Gordon-growth Model. We arrived at a target P/ABV of 0.83x, thus valuing the standalone Bank at Rs. 85 per share. IDBI Home and IDBI Capital, have collectively been valued at Rs. 8 per share. Equity investments in ARCIL, NSE, SIDBI, IDFC and other companies have been valued at about Rs. 33 per share. Our final SOTP valuation results in a target price of Rs. 126. We maintain our Buy rating on the stock.

Result Highlights

IDBI's net interest income for the quarter increased 11% yoy to Rs. 2.4 bn. It remained virtually unchanged in FY08 at Rs. 6.6 bn, due to a 114 bps yearly increase in the cost of funds. The increase in yield failed to bring any change in spreads which remained constant over the year at 1.50%. As a result, the net interest margin fell 12 bps over the year to 0.68%.

Non-interest income, which soared 59% in FY08, improved only 2% in Q4'08 to Rs. 3.8 bn. The nominal gain was on account of a loss on revaluation of investment worth Rs. 1 bn. Excluding this loss, net interest income for Q4'08 was Rs. 4.8 bn, a 29% yoy increase. Commission, exchange and brokerage income collectively accounted for 29% of the total other income. Profit on sale of investments – which is nonrecurring in nature – was 69% of the total other income.

Operating expenses increased 51% yoy to Rs. 3.1 bn. Employee expenses shot up 87% yoy, while other expenses rose 30% yoy.

The balance sheet recorded a healthy growth of 26% yoy to Rs. 1.3 tn. Total business grew at 47% yoy to Rs. 1.6 tn. The growth in deposits (68% yoy) outpaced the rise in advances (31.6% yoy). This is because the Bank's borrowing structure, which was earlier in favour of bonds, has now shifted to deposits.

The CASA ratio fell to 17% from 25% a year ago. While CASA deposits grew by 10% yoy, term deposits increased by 88% over the year. The Bank's requirement to fund its expansion plans led to the increase in term deposits. Asset quality witnessed deterioration as the net NPA ratio rose

Constant spreads

Loss on account of revaluation of investments

Growth in balance sheet coupled with fall in CASA ratio

18 bps to 1.30%. While gross NPAs fell 2 bps to 1.87%, a nearly 83% fall in provisioning for Q4'08 led to a decline in the net NPAs.

Prospects

Aggressive expansion plans

After a successful merger with United Western Bank with itself, IDBI is eyeing more acquisitions and has already begun talks with certain banks. It plans to open around 200 branches and 200 ATMs in FY09 through the organic route. A successful implementation of its organic and inorganic plans should enhance IDBI's geographical presence, leading to improved spreads and profitability through the mobilisation of low-cost deposits.

More branches on the cards

Insurance business' take-off

IDBI Fortis Life Insurance Company, a 48%:26%:26% joint venture between IDBI, Federal Bank, and Fortis Insurance has begun operations. The new company has a base of 5 mn existing customers and more than 1,000 branches of IDBI and Federal Bank combined. It expects to establish around 100 agency branches with 15,000 agents by the end of FY09.

IDBI's insurance foray

Moving towards diversification

The Bank has been taking several initiatives to expand its business. Apart from its recently launched life insurance business, IDBI has plans to move into the asset management and venture capital businesses. Meanwhile, it has also entered into an agreement with Motilal Oswal Securities and has started offering online trading facilities to its customers. We expect these diversification tactics to significantly improve the Bank's bottom line.

Move towards becoming a diversified financial institution

Outlook

We expect positive trends to reflect in a higher net interest income and improved margins. We anticipate a relatively slower growth in deposits as the Bank would be retiring the high-cost deposits and a substantial rise in advances. The Bank's aggressive retail expansion plans should improve the bottom line by mobilising more low-cost deposits and cross-selling

Geographical expansion and new ventures to play a key role in future growth

financial products and services. The new, non-banking ventures will undoubtedly add to the already growing non-interest income.

Valuation

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*Trading at a forward P/ABV
of 0.8x for FY09*

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY07	FY08	FY09E	FY10E		FY07	FY08	FY09E	FY10E
Interest Income	63,454	80,208	100,024	134,200	Per share data (Rs.)				
Interest Expense	56,875	73,644	91,203	121,194	Shares outstanding (mn)	724.4	724.7	724.7	724.7
Net Interest Income	6,579	6,564	8,821	13,006	Basic EPS	8.7	10.1	11.7	16.2
YoY Growth (%)	73.2%	-0.2%	34.4%	47.4%	Diluted EPS	8.7	10.1	11.7	16.2
Other Income	10,272	16,355	24,532	35,817	Book value per share	114.6	121.7	131.0	144.0
Net Operating Income	16,851	22,919	33,353	48,823	Adj. book value per share	86.1	93.3	102.6	115.6
YoY Growth (%)	1.5%	36.0%	45.5%	46.4%	Valuation ratios (x)				
Operating Expense	7,785	9,588	14,008	21,482	P/PPP	6.2x	4.2x	2.9x	2.1x
Pre-Provisioning Profit	9,066	13,331	19,345	27,341	P/E	8.9x	7.7x	6.7x	4.8x
Provisions and Contingencies	2,240	5,104	9,584	13,759	P/B	0.7x	0.6x	0.6x	0.5x
Profit Before Tax	6,826	8,227	9,761	13,582	P/ABV	0.9x	0.8x	0.8x	0.7x
Tax	523	933	1,318	1,834	Performance ratio (%)				
Net Profit	6,303	7,294	8,443	11,748	Return on avg. assets	0.7%	0.6%	0.6%	0.6%
YoY Growth (%)	12.4%	15.7%	15.7%	39.1%	Return on avg. net worth	8.6%	8.5%	9.2%	11.8%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY07	FY08	FY09E	FY10E	Advances to deposits	144.1%	112.6%	97.6%	86.3%
Cash and balances with RBI	69,111	87,590	105,394	110,572	Borrowings to advances	67.9%	47.0%	42.0%	36.0%
Investments	256,753	328,030	459,887	676,034	Investments to assets	24.7%	25.1%	26.3%	29.0%
YoY Growth (%)	1.3%	27.8%	40.2%	47.0%	Investments to deposits	59.2%	44.9%	42.0%	42.0%
Advances	624,708	822,130	1,068,769	1,389,400	Net Worth to assets	8.0%	6.7%	5.4%	4.5%
YoY Growth (%)	18.5%	31.6%	30.0%	30.0%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	27,784	27,650	28,010	27,993	Opt. expense per employee	1.0	0.9	0.9	1.0
Other Assets	60,037	41,540	87,598	128,768	Net profit per employee	0.8	0.7	0.5	0.5
Total Assets	1,038,393	1,306,940	1,749,659	2,332,767	Asset per employee	138.8	120.5	111.2	105.9
Deposits	433,540	729,980	1,094,970	1,609,606	Operating ratios (%)				
YoY Growth (%)	66.7%	68.4%	50.0%	47.0%	Operating cost to operating income	46.2%	41.8%	42.0%	44.0%
Borrowings	424,044	386,130	448,883	500,184	Operating cost to avg. assets	0.8%	0.8%	0.9%	1.1%
YoY Growth (%)	-10.8%	-8.9%	16.3%	11.4%					
Other Liabilities & Provisions	97,810	102,620	110,830	118,588					
Total Liabilities	955,395	1,218,730	1,654,683	2,228,377					
Share Capital	7,244	7,247	7,247	7,247					
Reserves & Surplus	75,755	80,963	87,729	97,143					
Total Equity & Liabilities	1,038,393	1,306,940	1,749,659	2,332,767					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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