

IDBI Bank (IDBI)

₹ 128

Key ratios set to improve...

IDBI Bank is one of the large public sector banks with 720 branches spread across the country. The bank is repositioning itself as a bank *"Not just for big boys"* but one that provides *"Banking for all"*. Our recent interaction with the management provides us confidence for much improved operating matrices (FY12E onwards) after a short period of strategic consolidation (in FY11E).

CASA accumulation: the prime focus point

The new CMD, Mr Malla is pushing the competition to accumulate more CASA deposits by announcing zero balance CASA accounts (by not charging for non maintenance of minimum balance), etc. and waiving off all CASA account related charges. CASA was just 13% in Q1FY11. The management has laid down a target of 20% for FY11E. We believe CASA will be at 18.5% and 22% for FY11E and FY12E, respectively, (higher than our previous estimate of 14% and 15%, respectively). This is also supported by aggressive branch addition plans for FY11E at 270+.

...NIM set to rise on the back of fall in cost of funds

Total deposit growth target has been lowered to 19% and 22% for FY11E and FY12E, respectively, compared to 22% and 24% foreseen earlier and they have moderated loan growth target to 15% YoY for FY11E (22-25% targeted previously). The above measures will lead to a drop in CoF to 6.8% in FY12E (7.2% earlier) leading to an expansion in NIM to 1.8%.

Commission income to witness slight moderation

Due to a waiver of charges on the CASA account, the CEB fee growth is likely to get dragged down. Hence, we have estimated it at 18% YoY to ₹ 1446 crore for FY11E leading to a 4% drop in the total non-interest income growth for FY11E to ₹ 2390 crore.

Valuation

At the CMP of ₹ 128, the bank is trading at 1.2x FY12E ABV. The PAT is now seen at ₹ 1267 (up 23% YoY) and ₹ 1638 crore (up 33% YoY) for FY11E and FY12E, respectively. We expect an improvement in the NIM to 1.8%, RoA to 0.6% and RoE@13% for FY12E. We have valued the bank at 1.1x FY12E ABV and ascribed ₹ 24 to its investment book (exhibit 2), revising the target price to ₹ 141. We rate the stock as **BUY**.

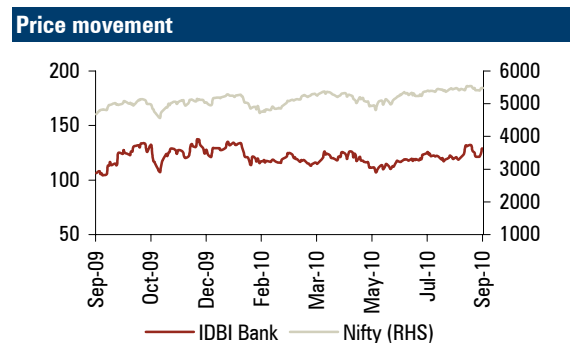
Exhibit 1: Financial Summary

	FY09	FY10	FY11E	FY12E
Net Profit (₹ cr)	858.5	1031.1	1267.2	1683.8
EPS (₹)	7.8	8.8	12.9	17.1
P/E (x)	16.5	14.6	9.9	7.5
ABV (Rs)	62.3	67.3	91.1	105.0
Price / Book (x)	1.7	1.5	1.2	1.0
PABV (x)	2.1	1.9	1.4	1.2
GNPA (%)	1.4	1.5	1.9	2.1
NNPA (%)	0.8	0.8	1.0	0.9
RoNA (%)	0.6	0.5	0.5	0.6
RoE (%)	12.1	13.2	12.3	12.8

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 141
Target Period	: 12 months
Potential Upside	: 10%

Stock Data	
Market Capitalisation	₹ 9278 crore
GNPA (Q1FY11)	₹ 2640 crore
NNPA (Q1FY11)	₹ 1605 crore
NIM (Q1FY11)	1.6 %
52 week H/L	₹ 140 /93
Equity capital	₹ 725 crore
Face value	₹ 10
DII Holding (%)	20.1
FII Holding (%)	7.0



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Exhibit 2: Investment book valuation summary			(₹ Crore)
Company	Holding (%)*	Basis of Valuation	Total Value
ARCIL	20.0	Valued at 35% of FY10E assets	663
CARE	26.8	Milestone-Religare buys 5% stake in the firm for Rs 75 crore in Aug10	401
CCIL	6.5	5x FY10 EPS	59
NSDL	30.0	5x FY09 EPS	73
NSE	5.0	5%Stake sold by NYSE to Temasek in May 2010 at ~150 mn \$	690
STCI	7.3	1x FY09 BV	60
SIDBI	19.2	1x FY10 BV	1135
SHCIL	17.0	5x FY09 EPS	56
			Total Value (₹ crore)
			3138
			Per share (₹)
			32
			Value after 25% discount (₹)
			24

Source: Company, ICICIdirect.com Research

*Based on management affirmation, that stakes have not changed in last couple of years,

Exhibit 3: Profit and loss account				
₹ crore	FY09	FY10E	FY11E	FY12E
Interest Earned	11545	15273	18830	22198
Interest Expended	10306	13005	15447	17542
Net Interest Income	1239	2267	3383	4657
Growth (%)	83.2	82.9	49.2	37.6
Non Interest Income	1476	2291	2390	2572
Fees and advisory	725	1225	1446	1735
Treasury Income and s	324	697	662	563
Other income	427	369	282	274
Total Income	2716	4558	5773	7229
Employee cost	569	757	1066	1417
Other operating Exp.	769	1074	1336	1615
Operating Income	1378	2727	3371	4196
Provisions	392	1682	1747	2038
PBT	986	1045	1625	2159
Taxes	127	14	357	475
Net Profit	859	1031	1267	1684

Source: Company, ICICIdirect.com Research

Exhibit 4: Balance sheet				
₹ crore	FY09	FY10E	FY11E	FY12E
Liabilities				
Capital	725	725	984	984
Reserves and Surplus	8697	9438	13357	14740
Networth	9422	10163	14341	15723
Deposits	112401	167667	195849	234131
Borrowings	49340	53528	50284	51181
Other Liabilities & Prov	1239	2214	1700	1284
Total	172402	233572	262175	302320
Assets				
Fixed Assets	2824	2997	3061	3324
Investments	50048	73913	80354	86123
Advances	103428	138202	158840	188822
Other Assets	4883	3878	3189	4118
Cash with RBI & call n	11219	14583	16731	19933
Total	172402	233572	262175	302320

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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