

IDBI Bank (IDBI)

Rs 182

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 151 to Rs 206
 EPS (FY11E) Changed from Rs 12.9 to Rs 15.0
 EPS (FY12E) Changed from Rs 17.1 to Rs 19.4
 RATING..... Unchanged at Buy

Business re-engineering on the way...

IDBI Bank reported PAT of Rs 429 crore, up a stellar 69% YoY and 71% QoQ well above all expectations. The thrust was provided by higher NII of Rs 1168 crore, which grew 14% YoY and 37% QoQ. It pushed NIM to 2.3% and controlled asset quality leading to lower provisioning. The business mix saw 21% YoY growth but declined 3% QoQ to Rs 284518 crore (in line with bank's strategy to moderate growth). New CMD, Mr Malla, has placed more emphasis on quality and profitability (focusing on positive spreads) rather than adding size. We see FY11 as a year of consolidation after two previous years of greater than 30% growth in assets. The results of such a process will be visible from FY12E onwards. We expect 36% CAGR in PAT over FY10-12E to Rs 1905 crore.

NIM over 2% for the first time

NII push was provided by a fall in the cost of funds to 6.6% from 7.5% in Q2FY10. Given this, there was a rise in CASA ratio to 15% from 11%, fall in share of bulk deposits and gradual shedding of erstwhile IDBI bonds. On the other hand, yield on assets remained flat at 9.1%. This pushed up NIM to over 2% (2.27% in Q2FY11) for the first time. We expect the bank to maintain NIM of above 2% for the coming quarters as well.

Asset quality: Under the spotlight

GNPA fell 6% QoQ to Rs 2472 crore (GNPA ratio @1.9%) while NNPA fell by 4% QoQ to Rs 1549 crore. Provision coverage stands at 74.5% (37.3% excluding technical w/off). Restructured assets declined by Rs 50 crore QoQ to Rs 9315 crore. The management is expecting repayments to flow back in from restructured assets. This would reduce the portfolio to that extent. This would reduce the provisioning requirement (which was high in the previous four or five quarters) and help in PAT growth. We expect GNPA @2.1% and NNPA @ 0.9% for FY12E.

Valuation

The bank is in a phase of consolidation and the operating matrix is expected to show positive improvement. We expect CASA to reach 18% and 21% for FY11E and FY12E, respectively. We see an expansion in the RoA to 0.7% and RoE of 14% (despite recent capital infusion by Gol) by FY12E. We are valuing the core business of the bank at 1.5x FY12E ABV and ascribing Rs 40 to its investment book providing a fair value target of Rs 206. We recommend a **BUY** rating on the stock.

Exhibit 1: Financial Performance

Rs Crore	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	YoY Gr.(%)	QoQ Gr.(%)
NII	1167.9	818.9	472.1	851.2	147.4	37.2
Other Income	492.1	480.2	562.7	466.2	-12.5	5.6
Total Income	1660.0	1299.0	1034.8	1317.4	60.4	26.0
PPP	1025.5	836.0	636.6	831.2	61.1	23.4
PAT	428.9	246.0	253.7	250.9	69.0	71.0

Source: Company quarterly presentation, ICICIdirect.com Research

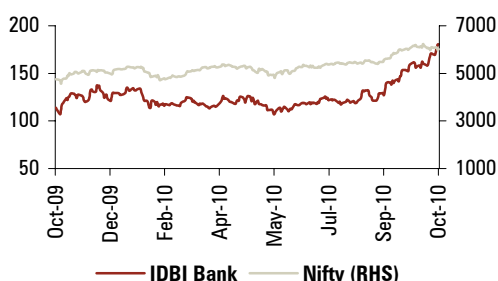
Rating matrix	
Rating	: Buy
Target	: Rs 206
Target Period	: 12 months
Potential Upside	: 13%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	1239.4	2267.4	4117.4	5481.0
PPP	1377.9	2726.9	3906.0	4771.5
PAT	858.5	1031.1	1477.0	1905.3

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (R cr)	858.5	1031.1	1477.0	1905.3
EPS (R)	7.8	8.8	15.0	19.4
Growth (%)	0.0	12.9	71.4	29.0
P/E (x)	23.3	20.6	12.0	9.3
ABV (Rs)	62.3	67.3	92.8	108.6
Price / Book (x)	2.4	2.1	1.6	1.4
PABV (x)	2.9	2.7	1.9	1.7
GNPA (%)	1.4	1.5	1.9	2.1
NNPA (%)	0.8	0.8	1.0	0.9
RoNA (%)	0.6	0.5	0.6	0.7
RoE (%)	12.1	13.2	14.2	14.2

Stock data	
Market Capitalisation	Rs 13192 crore
GNPA (Q1FY11)	Rs 2472 crore
NNPA (Q1FY11)	Rs 1549 crore
NIM (Q1FY11)	2.27 %
52 week H/L	186 / 106
Equity capital	Rs 984 crore
Face value	Rs.10
DII Holding (%)	14.9
FII Holding (%)	5.3

Price movement



Analyst's name

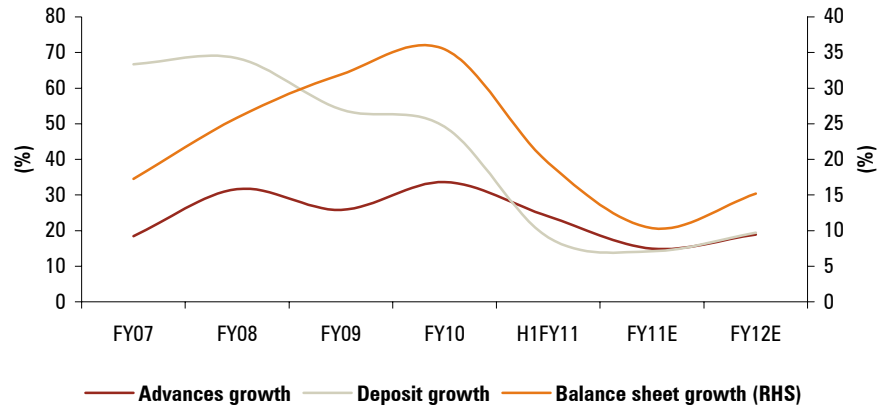
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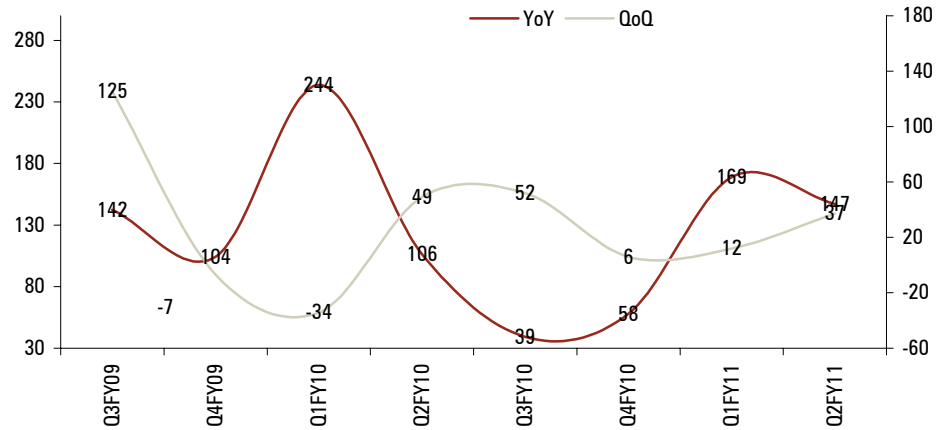
Exhibit 2: FY11- A period of consolidation

Advances growth is expected to slow down to ~15% from the 25% targeted earlier in FY11E. The bank is focusing on revamping its deposit structure by shedding high cost deposits and building CASA franchise



Source: Company annual report and presentation, ICICIdirect.com Research

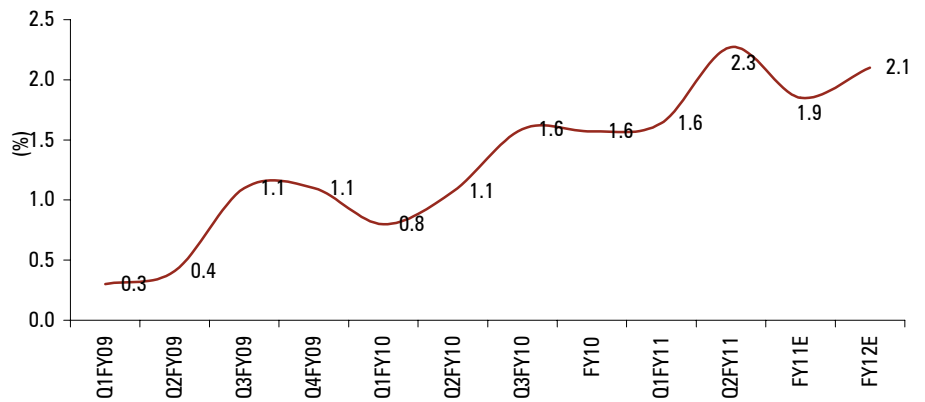
Exhibit 3: Strong NII growth QoQ



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 4: NIM set to improve

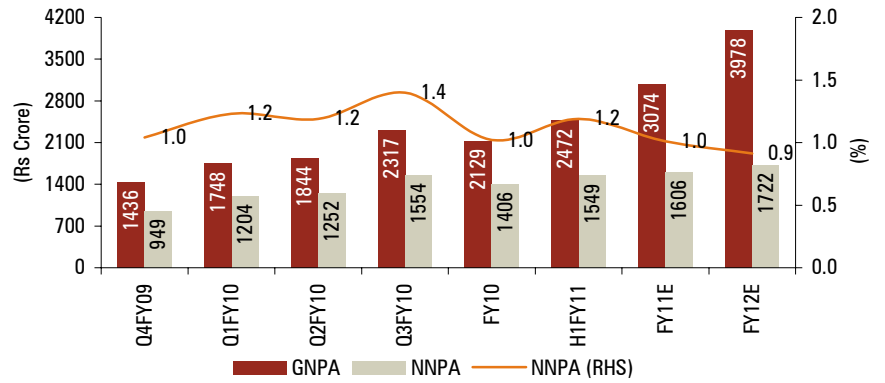
We expect CASA to increase gradually to 21% by FY12E. Addition of 250-300 new branches in FY11E will help the bank to garner more CASA deposits, which will support NIM improvement



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 5: Asset quality: Being watched keenly

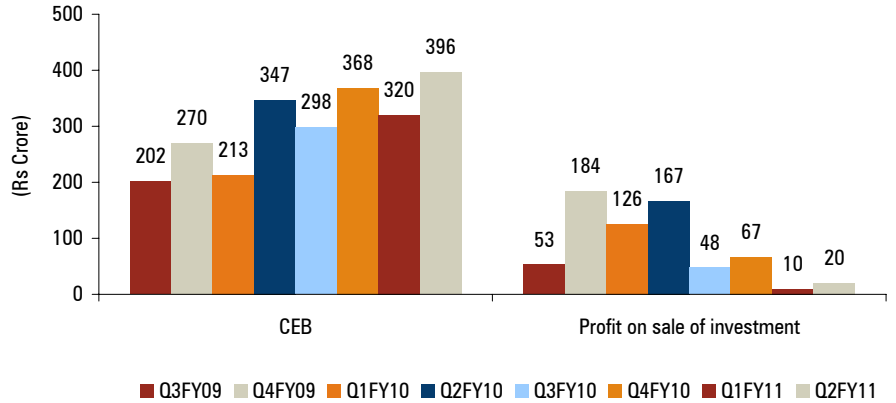
GNPA reduced QoQ because of write-off of Rs 400 crore during Q2FY11 while coverage ratio stands at 74%



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 6: CEB rises despite QoQ fall in loan book

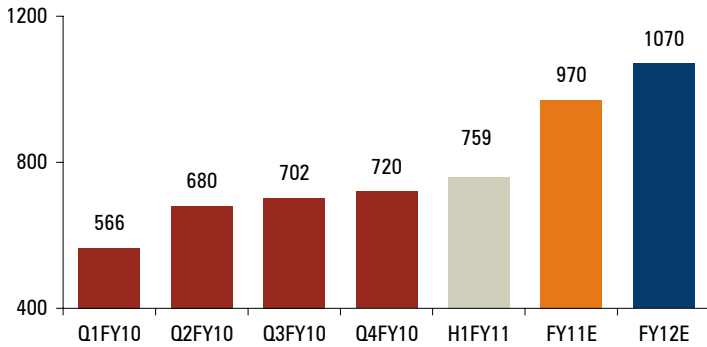
A pick-up in commission exchange brokerage (CEB) despite a fall in the loan book QoQ bodes well for the bank in the coming period



Source: Company quarterly presentation, ICICIdirect.com Research

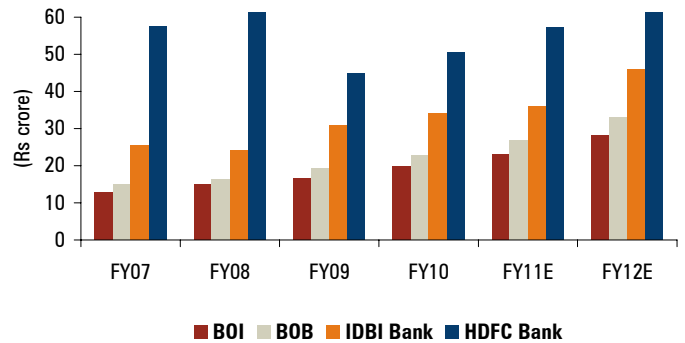
Aggressive expansion plans will pressurise cost ratios in the near term

Exhibit 7: Branch addition



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 8: CASA/branch: A comparison



Source: Company annual report and presentation, ICICIdirect.com Research

Though the bank looks low on a CASA ratio of 15%, on a comparative basis it looks impressive. The bank is enjoying highest CASA/branch among PSBs.

ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	486	FY10	1741.1	33.1	14.7	2.4	0.7	12.6
		Target	525	FY11E	2875.1	54.7	8.9	2.0	1.0	18.7
Mcap (Rs Cr)	25559	Upside (%)	8.0	FY12E	3721.9	61.5	7.9	1.7	1.0	19.7
Bank of Baroda					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	1018	FY10	3058.3	83.7	12.2	3.1	1.2	21.9
		Target	918	FY11E	3683.2	100.8	10.1	2.5	1.2	21.9
Mcap (Rs Cr)	37211	Upside (%)	-9.8	FY12E	4373.2	119.6	8.5	2.0	1.2	21.1
Dena Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	138	FY10	511.3	17.8	7.7	2.0	1.0	21.4
		Target	162	FY11E	676.4	19.8	7.0	1.5	1.1	21.3
Mcap (Rs Cr)	3958	Upside (%)	17.4	FY12E	858.2	25.1	5.5	1.3	1.1	20.8
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	159	FY10	707.0	13.0	12.3	2.0	0.6	11.5
		Target	145	FY11E	996.3	18.3	8.7	1.5	0.7	14.6
Mcap (Rs Cr)	8662	Upside (%)	-8.8	FY12E	1287.4	23.6	6.7	1.2	0.8	16.4
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	182	FY10	1031.1	8.8	20.8	2.7	0.5	13.2
		Target	206	FY11E	1477.0	15.0	12.1	2.0	0.6	14.2
Mcap (Rs Cr)	13192	Upside (%)	13.2	FY12E	1905.3	19.4	9.4	1.7	0.7	14.2
OBC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	502	FY10	1134.7	45.3	11.1	1.7	0.9	14.5
		Target	545	FY11E	1533.9	61.2	8.2	1.4	1.0	17.2
Mcap (Rs Cr)	12577	Upside (%)	8.6	FY12E	1851.2	73.9	6.8	1.2	1.0	17.7
Punjab National Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1289	FY10	3905.4	123.9	10.4	2.7	1.4	23.9
		Target	1218	FY11E	4949.7	157.0	8.2	2.2	1.5	25.1
Mcap (Rs Cr)	40642	Upside (%)	-5.5	FY12E	6096.8	193.4	6.7	2.0	1.6	26.6
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	3157	FY10	91.7	144.4	21.9	3.6	0.9	14.8
		Target	3210	FY11E	113.2	160.5	19.7	2.8	1.0	14.4
Mcap (Rs Cr)	8662	Upside (%)	1.7	FY12E	142.1	201.5	15.7	2.4	1.0	14.7
Syndicate Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SYNBN	CMP	139	FY10	813.3	15.6	8.9	1.7	0.6	15.3
		Target	144	FY11E	1094.6	21.0	6.6	1.5	0.7	18.2
Mcap (Rs Cr)	7238	Upside (%)	3.9	FY12E	1380.6	26.4	5.2	1.4	0.8	20.5
Union Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	378	FY10	2074.9	41.1	9.2	2.4	1.2	26.2
		Target	380	FY11E	2148.5	42.5	8.9	2.1	1.0	22.2
Mcap (Rs Cr)	19093	Upside (%)	0.5	FY12E	3209.5	57.8	6.5	1.6	1.3	25.1
Axis Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1470	FY10	2514.5	62.1	23.7	3.8	1.7	19.2
		Target	1520	FY11E	3008.4	74.3	19.8	3.3	1.3	17.4
Mcap (Rs Cr)	59561	Upside (%)	3.4	FY12E	3825.8	94.4	15.6	2.8	1.2	19.0
Dhanlaxmi Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	184	FY10	23.3	3.6	50.6	3.0	0.3	5.4
		Target	191	FY11E	41.3	4.8	38.0	2.1	0.4	6.5
Mcap (Rs Cr)	1180	Upside (%)	3.8	FY12E	101.0	11.9	15.5	2.0	0.6	11.5
HDFC Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	2268	FY10	2948.7	64.4	35.2	4.9	1.5	16.3
		Target	2559	FY11E	3963.0	86.6	26.2	4.4	1.6	17.3
Mcap (Rs Cr)	103829	Upside (%)	12.8	FY12E	5194.9	113.5	20.0	3.8	1.7	20.0
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	465	FY10	561.1	8.1	58.3	7.7	1.7	13.5
		Target	464	FY11E	793.6	10.9	43.2	5.9	1.9	15.0
Mcap (Rs Cr)	16168	Upside (%)	-0.2	FY12E	1009.7	13.8	33.9	5.3	2.0	15.7
South Indian Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	28	FY10	233.7	2.1	13.5	2.3	1.1	17.9
		Target	32	FY11E	279.6	2.5	11.3	2.0	1.0	17.8
Mcap (Rs Cr)	3157	Upside (%)	14.3	FY12E	355.1	3.1	8.9	1.7	1.1	19.5
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	357	FY10	477.7	14.1	25.3	3.9	1.6	20.3
		Target	395	FY11E	694.4	19.9	17.9	3.2	1.5	19.7
Mcap (Rs Cr)	10705	Upside (%)	10.8	FY12E	921.1	26.4	13.5	2.6	1.4	21.1

Continued...

NBFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	200	FY10	1117.0	8.2	24.5	3.7	3.2	16.1
		Target	240	FY11E	1327.5	8.5	23.4	2.8	3.2	14.1
Mcap (Rs Cr)	29220	Upside (%)	20.0	FY12E	1678.2	10.5	19.0	2.5	3.3	13.7
LICHF										
Idirect Code	LICHF	CMP	1344	FY10	662.1	69.7	19.3	3.6	1.9	22.7
		Target	1506	FY11E	856.7	90.2	14.9	3.0	1.9	21.8
Mcap (Rs Cr)	12761	Upside (%)	12.1	FY12E	1025.5	108.0	12.4	2.5	1.8	21.9
Rel Cap										
Idirect Code	RELCAP	CMP	813	FY10	434.6	17.7	46.0	2.7	2.0	5.7
		Target	852	FY11E	787.9	32.0	25.4	2.4	3.4	9.9
Mcap (Rs Cr)	19970	Upside (%)	4.8	FY12E	826.7	33.6	24.2	2.3	3.2	9.7
Brokerage firms										
Edelweiss Capital					NP (Rs Cr)	EPS (Rs)*	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	EDECAP	CMP	63	FY10	229.2	30.5	20.7	2.1	5.5	11.2
		Target	71.0	FY11E	269.4	3.6	17.6	1.9	4.0	12.0
Mcap (Rs Cr)	4747	Upside (%)	12.3	FY12E	308.7	4.1	15.4	1.7	3.3	12.5
India Infoline					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	INDINF	CMP	116	FY10	232.0	8.1	14.8	2.1	5.7	14.9
		Target	135	FY11E	236.8	8.3	14.5	1.9	3.8	14.3
Mcap (Rs Cr)	3314	Upside (%)	16.1	FY12E	294.5	10.3	11.6	1.7	4.8	15.9
MOFSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	194	FY10	170.4	11.9	16.4	3.0	10.3	18.6
		Target	203	FY11E	159.3	10.8	18.0	2.6	8.4	15.0
Mcap (Rs Cr)	2773	Upside (%)	4.6	FY12E	180.9	12.4	15.8	2.3	8.5	14.7

*Adjusted for bonus and stock split

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Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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