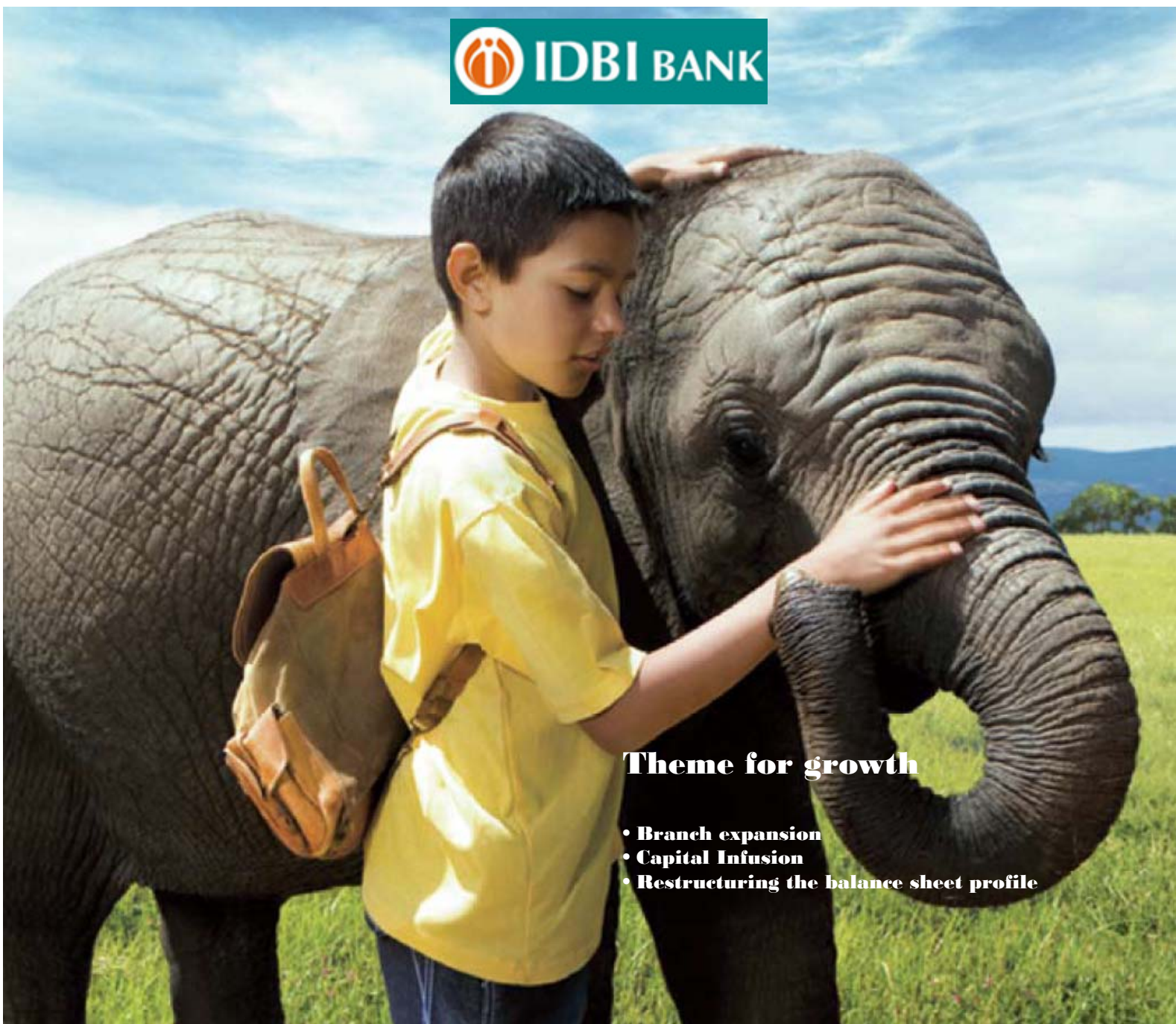


Initiating Coverage Report



Theme for growth

- Branch expansion
- Capital Infusion
- Restructuring the balance sheet profile

Analyst – Abhisek Sasmal
033-3051-2100
asasmal@microsec.in

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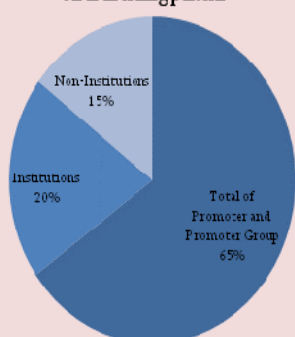
Industrial Development Bank of India (IDBI)

BUY

Market Data

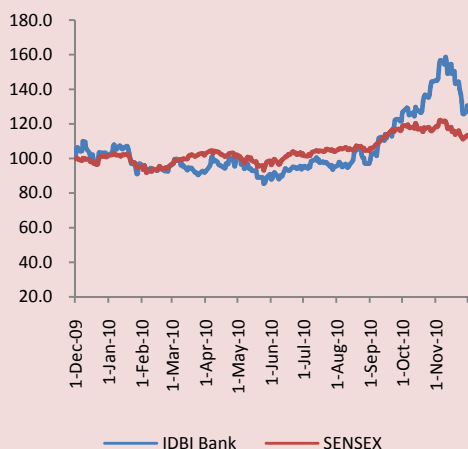
Current Market Price (INR)	161
Target Price (INR)	215
Upside Potential	33%
52 Week High / Low (INR)	202/106
Market Capitalization (In INR Mn)	165720

Shareholding pattern



STOCK SCAN

BSE Code	500116
NSE Code	IDBI
Bloomberg Ticker	IDBI IN
Reuters Ticker	IDBI.BO
Face Value (INR)	10
Equity Share Capital (INR. Mn.)	7248.1
Average P/E/PBV	8.1/0.94
Beta vs Sensex	1.31
Average Daily Volmes (6 M)	4878660
Dividend Yield (%)	1.65
Stock Return (1 Yr)	59.7



We rate **IDBI bank** a **BUY**. The **Industrial Development Bank of India Limited (IDBI)** is one of India's leading public sector banks and 4th largest Bank in overall ratings. It is currently 10th largest development bank in the world in terms of reach with 1228 ATMs, 750 branches and 490 centers. Established in 1964 as a development financial Institution, IDBI's role was facilitating the industrial and economic development of the country through project finance. It also pioneered the capital market development by setting up agencies like NSE, NSDL, CARE and SHCIL and equity holding in these institutions form a part of banks strategic investments. Post the recent capital infusion of more than INR 3000 cr (at INR 120 per share) through preferential capital, the stake of Govt has increased from 52.7% to 65.2%.

Investment Rationale

- ☐ Restructuring of the asset profile to improve fundamentals
- ☐ Growth in CASA & strong branch expansion plans to boost deposit growth
- ☐ Net Interest Margin is expected to improve
- ☐ Capital adequacy well above prudential norms

☐ Asset Quality can put up negative surprises in near term – however may peak out in FY11

Key Risks

- ☐ More than expected increase in slippages due to interest rate hike
- ☐ Less than anticipated CASA share improvement
- ☐ More than anticipated increase in wholesale funding cost

Particulars (in INR Mn)	2009	2010	2011E	2012E	2013E
Total Income	27158.0	45584.0	60491.9	71948.2	85068.4
Growth%	20.3%	67.8%	32.7%	18.9%	18.2%
NII	12394.0	22674.0	43247.9	52117.6	62263.2
Growth%	83%	82.9%	90.7%	20.5%	19.5%
Net Profit	8585.0	10212.0	14792.8	23267.5	27301.5
Growth%	10.3%	19.0%	44.9%	57.3%	17.3%
EPS	11.8	14.1	15.0	23.6	27.7
P/E *	14.41	12.06	11.31	7.19	6.13
NIM%	0.8%	1.1%	1.75%	1.80%	1.93%
ROE	9.1%	10.0%	12.7%	17.4%	15.6%
NNPA%	0.9	1	1.05	0.95	0.8
BV	95.8	103.3	118.5	133.5	170.6
Adj.BV	85.8	93.3	103.5	118.5	155.6
P/Adj. BV *	1.98	1.82	1.64	1.43	1.09

* All prices as on 3rd December'10

Source: Company, Microsec Research

Management

Name	Designation	Previous Organization	Experience (Years)
Mr. R. M. Malla	Chairman & MD	IFCI, SIDBI	35
Mr. P. Sitaram	CFO	NA	30

Company Background

1964-1976	1994-00	2003 - 06	2007- 10
<ul style="list-style-type: none"> Set up by an Act of Parliament in 1964 as a subsidiary of the Central Bank (RBI) Ownership transferred to Govt. in 1976 IDBI had been a policy bank in the area of industrial financing and development 	<ul style="list-style-type: none"> IDBI Act amended to permit private ownership upto 49%. Domestic IPO in 1995, reduces Govt. stake to 72%. Post capital restructuring in 2000, Govt. stake reduced to 58.5% 	<ul style="list-style-type: none"> IDBI Repeal Act passed in December 2003 for conversion to a banking company. Govt. ownership to be not below 51% Amalgamation of IDBI Bank Ltd. With IDBI Ltd. W.e.f. April 2, 2005 Oct. 2006 amalgamated erstwhile UWB. 	<ul style="list-style-type: none"> Complete Networking (100% Core Banking) Organization structure redesigned on Customer Segmentation basis Name changed to IDBI Bank Ltd Achieved regulatory norms of SLR, CME

Strategic Investments

Entity	%
IDBI ASSET MANAGEMENT LTD.	100.00
IDBI CAPITAL MARKET SERVICES LIMITED	100.00
IDBI GILTS LTD	100.00
IDBI HOMEFINANCE LIMITED	100.00
IDBI INTECH LIMITED	100.00
IDBI MF TRUSTEE COMPANY LTD.	100.00
IDBI FORTIS LIFE INSURANCE COMPANY LIMITED	48.00
IDBI TRUSTESHIP SERVICES LIMITED	39.78
NATIONAL SECURITIES DEPOSITORY LIMITED	30.00
BIOTECH CONSORTIUM INDIA LIMITED	27.93
CREDIT ANALYSIS AND RESEARCH LIMITED	25.79
NORTH EASTERN DEVELOPMENT FINANCE CORPORATION LIMITED	25.00
INVESTORS SERVICES OF INDIA LIMITED	24.21
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA	19.21
ASSET RECONSTRUCTION COMPANY (INDIA) LIMITED	19.18
STOCK HOLDING CORPORATION OF INDIA LIMITED	18.95
OTC EXCHANGE OF INDIA LIMITED	17.00
NEPAL DEVELOPMENT BANK LIMITED	10.00
SECURITIES TRADING CORPORATION OF INDIA LIMITED	6.60
CLEARING CORPORATION OF INDIA LIMITED	6.50
NATIONAL STOCK EXCHANGE OF INDIA LIMITED	5.00
UNITED STOCK EXCHANGE OF INDIA LIMITED	1.20

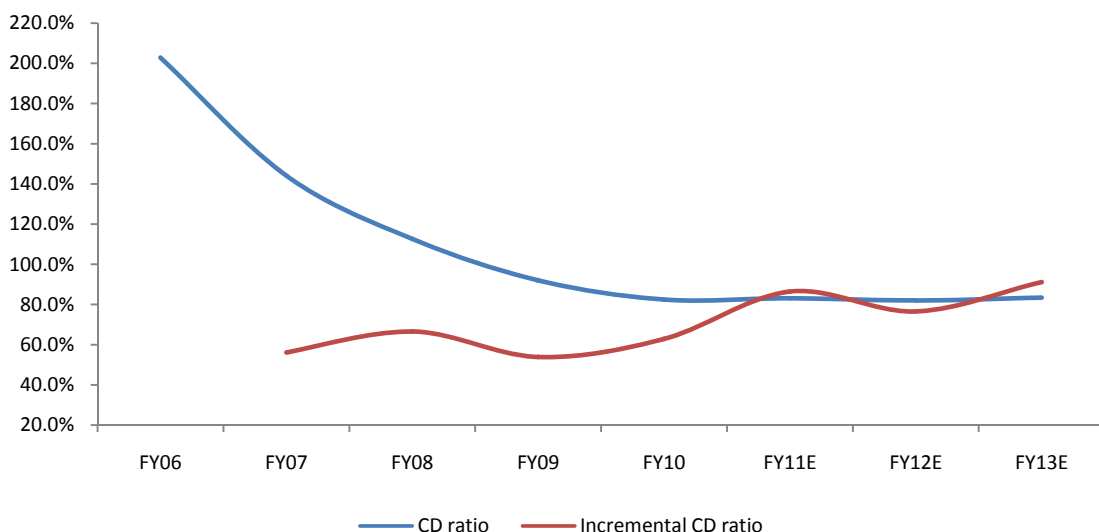
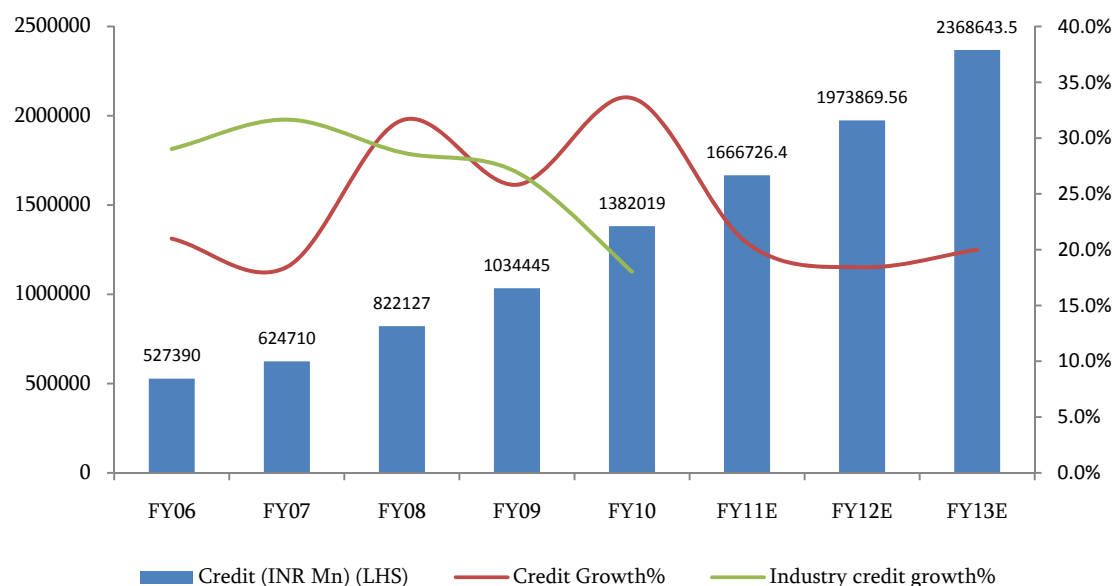
The entire process of amalgamation of IDBI Gilts and IDBI Home Finance, the two wholly owned subsidiaries of IDBI Bank, into the parent is expected to be completed by this fiscal-end. The amalgamation of Home Finance will help IDBI Bank increase its retail portfolio on the housing loans side

Investment rationale

Restructuring of the asset profile to improve fundamentals going forward

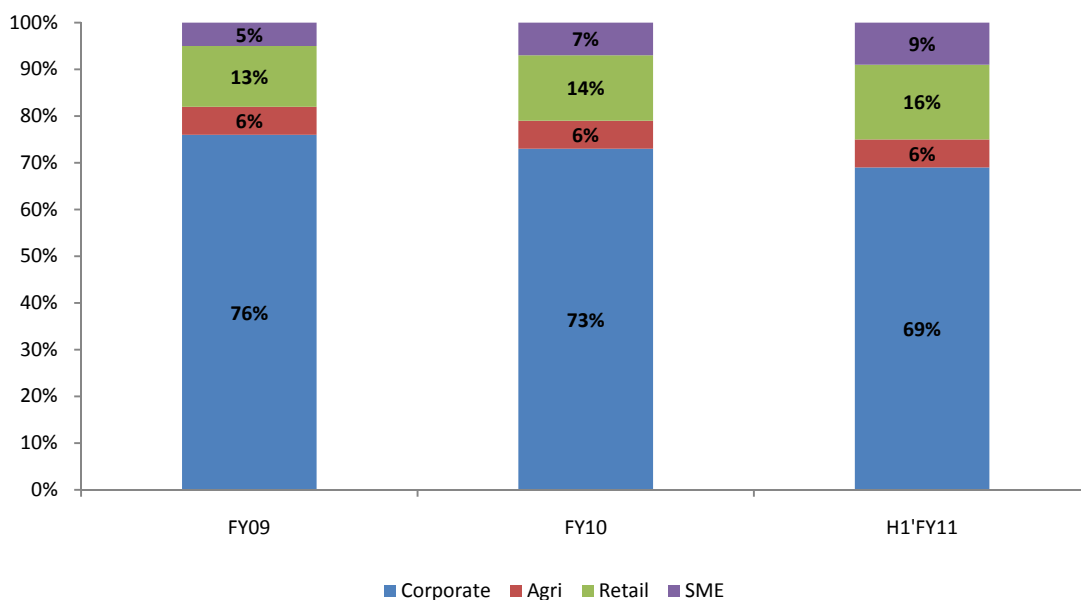
The bank's loan book has grown at a CAGR of 27.2% over the last 5 years, which is well above the average industry growth rate. However the new management is more focused on reducing the share of low yielding, high volume industrial assets from its books, which may impact their loan book growth in the next 9-12 months (**19.6% CAGR over FY10-13 V/S 27.2% CAGR over FY06-10**). We believe this would act as a positive for the bank as it is expected to increase its RoE from 10% in FY10 to 15.6% by FY13 and RoA from 0.44% to 0.71% by FY13. With a CAR of 14.2% (as on Sep'10) post INR 30 Bn capital infusion from government and additional room to raise INR 60 Bn of Tier-1 and Tier-2 capital gives the bank sufficient headroom for loan growth in future.

The present management is more focused towards improving return ratios going forward.



The management has chalked out plans to build retail and SME book more aggressively going forward.

Lowering dependence on the corporate book...

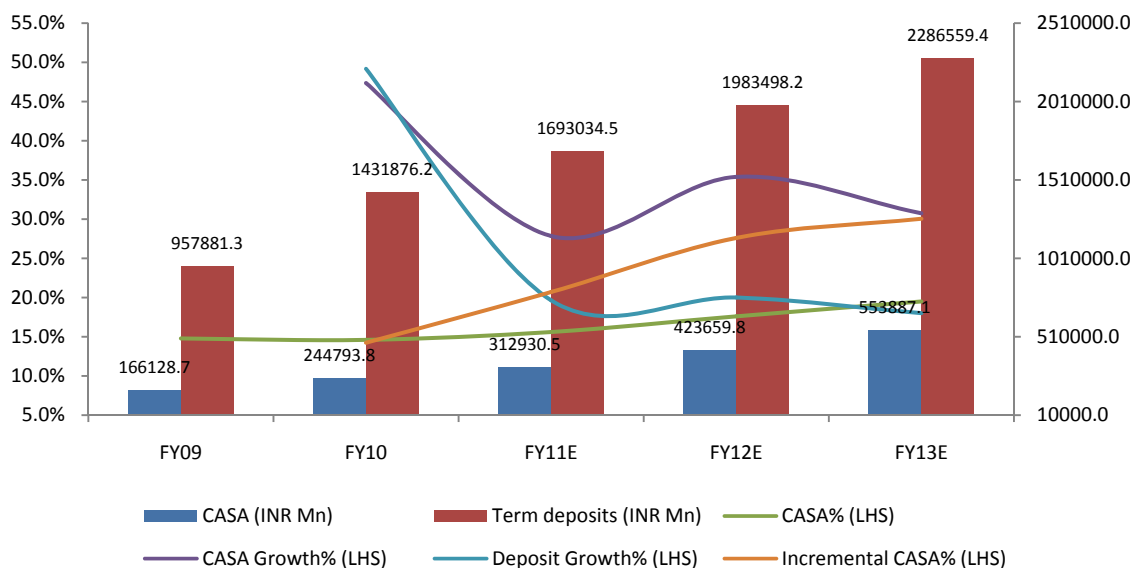


Source: Company, Microsec Research

Growth in CASA & strong branch expansion plans to boost deposit growth

The bank's deposits have also grown at a scorching pace, 59.4% (CAGR for last 5 years), but most of the growth has been led by term deposits. Through the merger with IDBI, IDBI bank has got some legacy book which is much similar to a DFI. Although bulk borrowing were replaced by bulk deposits which are usually high cost deposits, it effects banks NIMs quite hard (one of the lowest among PSBs). With more focus on augmenting retail base (adding over 300 branches in next 12 to 18 months), rolling off term deposits, we expect CASA to grow at a CAGR of 31.2% over FY10-13.

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Source: Company, Microsec Research

Margin is expected to improve

Net interest margin is expected to improve by 83bps by FY13. However, the management is confident of maintaining margins at 1.75-2% on the back of re-pricing of high cost deposits and pick up in business growth. We expect 300 retail branch addition to boost the retail base and augment the low cost CASA base from the current 14.6% to 19.5% by FY13, which would impact the NIMs positively.

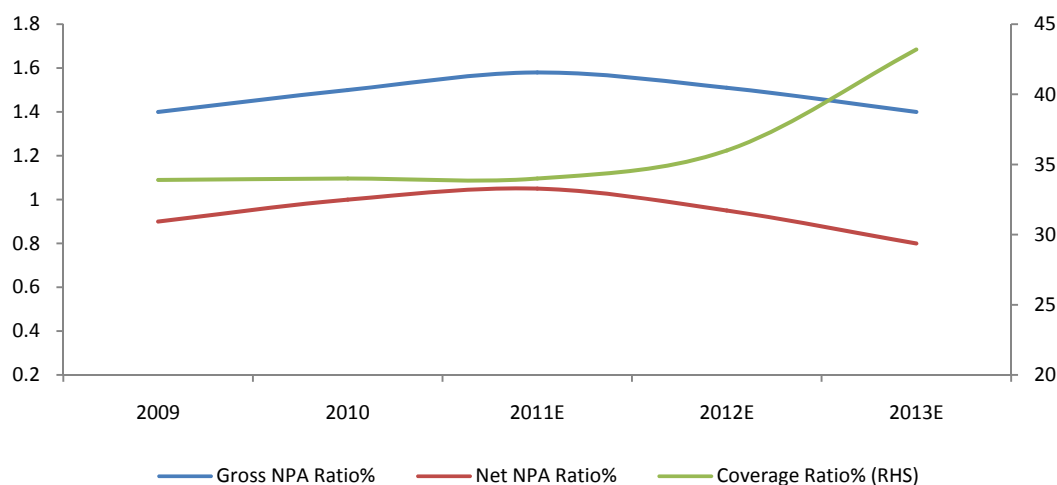
	2008	2009	2010	2011E	2012E	2013E
Yield on advances%	9	9.8	8.9	9.1	9.3	9.6
Yield on Investments%	4.7	5.3	6.8	6.9	7	7.1
Cost of deposits%	6.5	7.1	6.6	6.3	6.4	6.4
cost of funds%	6.5	6.6	6	6.2	6.5	6.6
NIM	0.6%	0.8%	1.1%	1.75%	1.80%	1.93%

Maturity Profile (INR Mn) As on Sep'10	Amount	% share
Upto 6 months	233450	17.9%
6 months - 1 year	84600	6.5%
1-3 year	463510	35.6%
3-5 year	195320	15.0%
> 5 years	325250	25.0%
Total	1302130	

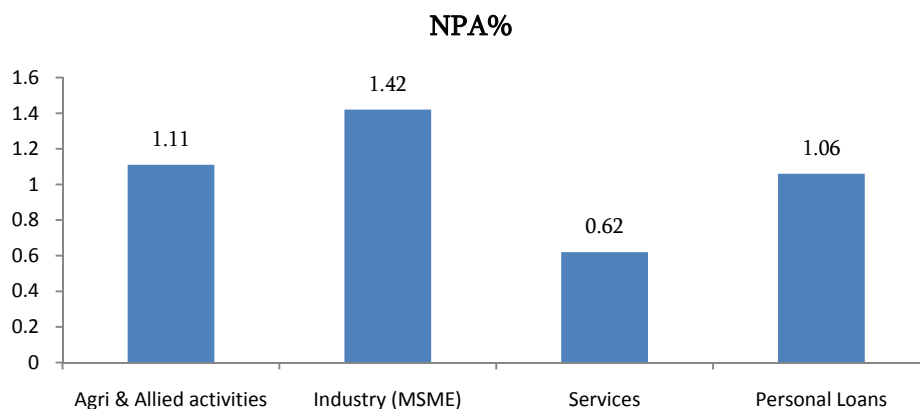
Source: Company, Microsec Research

Asset Quality can put up negative surprises in near term – however may peak out in FY11.

With recent negative news flows regarding MFIs, telecom sector and real estate, where the bank has on an average 2-4% exposure, we may see some negative surprises in one or two quarters going forward. However we believe the asset quality concerns will peak out in FY11 on the back of strong focus on recoveries and shedding off its legacy loan book .



7.2% of the loan book are restructured assets where 20% slippage rate can make the asset quality under pressure in the remaining parts of FY11.



Source: Company, Microsec Research

Capital adequacy well above prudential norms

The capital adequacy at 14.2% is more than adequate for a 18%+ credit growth for the bank. The Tier-1 capital ratio stood at 9% at the end of FY10. Additional room to raise INR 60 Bn of Tier-1 and Tier-2 capital gives the bank sufficient headroom from loan growth in future.

CAR at 14% is more than adequate for a 18%+ credit growth for the bank.

Operational productivity is on the rise

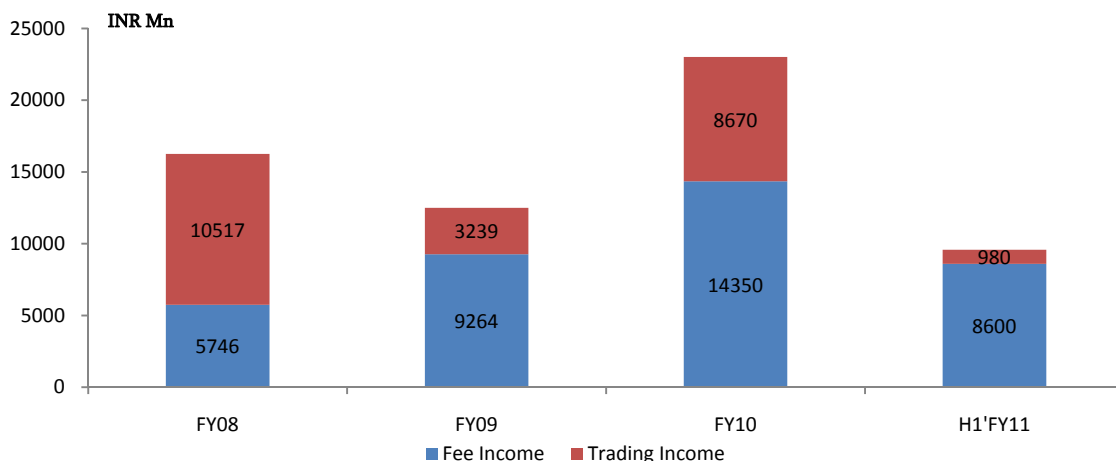
Items	FY06	FY07	FY08	FY09	FY10
No. of offices	173	442	509	520	705
No. of employees	4548	7482	8253	10201	12213
Business per employee (in INR lakh)	1718.24	1387.16	1809.17	2030.33	2417.42
Profit per employee (in INR. lakh)	12.45	8.44	8.86	8.42	8.44
Wages as % to total expenses	5.44	4.38	4.62	4.89	5.10

Source: Company, Microsec Research

Fee Income growth encouraging

The fee income of the bank grew by 22% YoY almost in line with growth in advances. For the half year the growth was as high as 34% and the bank expects that it will maintain this growth for FY11E. This has also helped in absorbing cost pressure and has maintained the Cost to Income Ratio to less than 40%. At present the bank's CMS penetration is just 30% and leaves a lot to be explored. Another positive observation is that the share of trading income (market driven) to other income is on the decline.

At present the bank's CMS penetration is just 30% and leaves a lot to be explored. Another positive observation is that the share of trading income (market driven) to other income is on the decline.



Source: Company, Microsec Research

Investment book

IDBI Bank's investment book is less volatile as almost 75% of the book as on Sep'10, is HTM(held till maturity) and 85% of this is in Government securities. The AFS portfolio in Govt securities stood at 7.5% of the total Govt. Securities held, which makes the investment book less volatile in case of increasing bond yield scenario.

Category (INR Crs)	HTM	AFS	HFT	TOTAL
Government securities	44622	3862	2962	51446
SASF Securities	5841	0	0	5841
Shares	306	2834	20	3160
Debentures/ Bonds	253	1986	0	2239
Subsidiaries/ Joint Ventures	791	0	0	791
Others (CPs/CD/MF)etc.	648	3438	2467	6553
Total	52461	12120	5449	70030

Source: Company, Microsec Research

Valuation & Recommendation

At CMP, the stock is trading at 1.1x of its FY13E ABV. We value the standalone business at 1.25x of its FY13E Adjusted Book Value (ABV) at INR 195 while we ascribe per share value of 19.56 for its investments thus arriving at a SOTP based target price of 215 per share. We recommend a **BUY** on this stock with a time horizon of 12 months.

A new management team, re-structuring of the asset profile, improving CASA and improving asset quality are expected to help the bank in improving its financial going forward.

Our target price has revised lower from INR 235 earlier to INR 215 on the back of increase in equity base due to the recent capital infusion from government. All other valuation parameters are same as before. More than INR 3000 cr (at INR 120 per share) got infused through preferential capital, the stake of Govt has increased from 52.7% to 65.2%.

IDBI - Valuation of unlisted investments	% stake	Valuation (INR Mn)	Value of IDBI's stake	No of shares of IDBI	Value per share
Asset Reconstruction Corporation (ARCIL)	19.2	12000	2304	984	2.34
Credit Analysis & Rating (CARE)	25.8	15000	3870	984	3.93
Clearing Corporation of India (CCIL)	6.5	5413	351.845	984	0.36
National Securities Depository (NSDL)	30	7020	2106	984	2.14
National Stock Exchange (NSE)	5	135000	6750	984	6.86
Securities Trading Corporation (STCI)	6.6	10000	660	984	0.67
Small Industries Development Bank of India (SIDBI)	19.2	8500	1632	984	1.66
Stock Holding Corporation (SHCIL)	19	7500	1425	984	1.45
United Stock Exchange of India Limited	1.2	12000	144	984	0.15
				Total	INR 19.56

Source: Microsec Research, Google

Price-To-Book Band



Financials & Projections

Income Statement					
in Mn	2009	2010	2011E	2012E	2013E
Interest earned	115451.0	152726.0	188746.7	228119.2	274020.5
Interest expense	103057.0	130052.0	145498.8	176001.6	211757.3
NII	12394.0	22674.0	43247.9	52117.6	62263.2
Other Income	14764.0	22910.0	17244.0	19830.6	22805.2
Total Income	27158.0	45584.0	60491.9	71948.2	85068.4
Operational expense	13379.0	18314.0	24196.8	28059.8	33176.7
Gross Profit (ppp- Pre Provision Profit)	13779.0	27270.0	36295.2	43888.4	51891.7
Provisions	3923.0	13595.0	16031.0	14804.0	17764.8
PBT	9856.0	13675.0	20264.2	29084.4	34126.9
Tax	1271.0	3463.0	5471.3	5816.9	6825.4
PAT	8585.0	10212.0	14792.8	23267.5	27301.5
EPS	11.8	14.1	15.0	23.6	27.7

Balance Sheet					
in Mn	2009	2010	2011E	2012E	2013E
Liabilities					
Equity Capital	7248	7248	9843	9843	9843
Reserve & Surplus	86974	94384	106737	124187	164663
Networth	94222	101632	116580	134030	174506
Deposits	1124010	1676671	2005965	2407158	2840446.44
Borrowings	444170	477095	568215	653,447.3	751,464.3
Other Liabilities	61604	80306	81606	78585	74566
Total	1724006	2335704	2772365	3273220	3840983
Assets					
Fixed Asset	28241	29970	32014.5	36817	38658
Cash & balances with RBI	85915	139035	146672	220674	231707
Balances with banks & Call money	26278	6794	78085	103131	108287
Investments	500476	733455	802986.8	868514	1079824
Advances	1034445	1382019	1666726.4	1973869.56	2368643.5
Other Assets	48651	44431	45881	70216	13863
Total	1724006	2335704	2772366	3273220	3840983

Source: Company, Microsec Research

Financials & Projections...

Spread Analysis	2009	2010	2011E	2012E	2013E
Yield on advances%	9.8	8.9	9.1	9.3	9.6
Yield on Investments%	5.3	6.8	6.9	7	7.1
Cost of deposits%	7.1	6.6	6.3	6.4	6.4
cost of funds%	6.6	6	6.2	6.5	6.6
NIM	0.8%	1.1%	1.75%	1.80%	1.93%

Growth%	2009	2010	2011E	2012E	2013E
Advances	25.83%	33.60%	20.60%	18.43%	20.00%
NII	83.2%	82.9%	90.7%	20.5%	19.5%
PAT	17.7%	19.0%	44.9%	57.3%	17.3%

Operating Metrics	2009	2010	2011E	2012E	2013E
Cost to Income	49.3%	40.2%	40.0%	39.0%	39.0%
ROE	9.1%	10.0%	12.7%	17.4%	15.6%
ROA	0.50%	0.44%	0.53%	0.71%	0.71%

Asset Quality	2009	2010	2011E	2012E	2013E
Gross NPA Ratio	1.4	1.5	1.58	1.51	1.4
Net NPA Ratio	0.9	1	1.05	0.95	0.8
Coverage Ratio	33.9	34	34	36	43.2

CRAR Ratio	2009	2010	2011E	2012E	2013E
Tier1 Ratio	6.8	6.2	10	10	10
Tier2 Ratio	4.8	5.1	4	3	3
CAR%	11.6	11.3	14	13	13

Valuation Ratios	2009	2010	2011E	2012E	2013E
PE	14.41	12.06	11.31	7.19	6.13
P/BV	1.75	1.63	1.42	1.23	0.95
P/ABV	1.98	1.82	1.64	1.43	1.09

Source: Company, Microsec Research

Key Risks to our call

- ☐ More than expected increase in slippages due to interest rate hike.
- ☐ Less than anticipated CASA improvement.
- ☐ More than anticipated increase in wholesale funding cost.

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Microsec Research: Phone No.: 91 33 30512100 Email: microsec_research@microsec.in

Ajay Jaiswal: President, Investment Strategies, Head of Research: ajaiswal@microsec.in

Fundamental Research			
Name	Sectors	Designation	Email ID
Nitin Prakash Daga	IT, Telecom & Entertainment	AVP-Research	npdaga@microsec.in
Naveen Vyas	Midcaps, Market Strategies	AVP-Research	nvyas@microsec.in
Harsh Jain	Oil & Gas, Energy & Power	Sr. Research Analyst	hjain@microsec.in
Nitesh Goenka	BFSI	Sr. Research Analyst	ngoenka@microsec.in
Abhisek Sasmal	BFSI	Research Analyst	asasmal@microsec.in
Sutapa Roy	Economy	Research Analyst	s-roy@microsec.in
Gargi Deb	Agriculture & Pharma	Executive Research	gdeb@microsec.in
Khushboo Khetan	Shipping, Real Estate, Midcaps	Executive Research	kkhetan@microsec.in
Technical & Derivative Research			
Vinit Pagaria	Derivatives & Technical	VP	vpagaria@microsec.in
Ranajit Saha`	Technical Research	Sr. Manager	rkhsaha@microsec.in
Institutional Desk			
Rajiv Lilaramani	Institutional Equities	Sr. Manager	rlilaramani@microsec.in
Dhruva Mittal	Institutional Equities	Manager	dmittal@microsec.in
PMS Division			
Siddharth Sedani	PMS Research	AVP	ssedani@microsec.in
Sarmistha Rudra	PMS Technical	Research Analyst	srudra@microsec.in
Research: Financial Planning Division			
Shrivardhan Kedia	FPD Products	Manager Research	skedia@microsec.in
Research-Support			
Subhabrata Boral	Research Support	Executive	sboral@microsec.in

MICROSEC RESEARCH IS ALSO ACCESSIBLE ON BLOOMBERG AT
<MCLI>

Kolkata

Investment Banking

Azimganj House, 2nd Floor
7, Camac Street, Kolkata – 700 017, India
Tel: 91 33 2282 9330, Fax: 91 33 2282 9335

Brokerage and Wealth Management

Shivam Chambers, 1st Floor
53, Syed Amir Ali Avenue, Kolkata – 700 019, India
Tel: 91 33 3051 2000, Fax: 91 33 3051 2020

Mumbai

74 A, Mittal Tower, 7th Floor
210, Nariman Point, Mumbai – 400 021, India
Tel: 91 22 2285 5544, Fax: 91 22 2285 5548

Email: info@microsec.in
www.microsec.in

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