November 03, 2010

Buy

IDBI Bank

Industry: Commercial Banks | Industry View: Overweight

Initiating Coverage

"Turnaround in sight"

IDBI Bank is a commercial bank with dominant presence in infrastructure development finance space. A new Chairman on board, the bank is armed with new-fangled aspirations which include building a retail franchise, cleaning the book for legacy npas and higher margins.The infusion of retail assets and liabilities, expanding network across a technology savvy platform, IDBI Bank is well on its way to cross the 2% NIM and 1% RoA mark by FY13. BUY.

Moderating growth to improve balance sheet profile

Under the leadership of the new Chairman, Mr. Malla, IDBI Bank is taking a twofold step to correct the skew of the balance sheet towards low yielding industrial assets and high cost wholesale deposits. The bank is focusing on SME, mid corporate and retail assets (loan CAGR 18% over FY10-13E), building a low cost retail liability base (CASA 28% CAGR over FY10-13) through branch expansion (250 branches in FY11). As the bank allows unprofitable assets and liabilities to roll off the book over the next 9-12 months, balance sheet growth is likely to slow down (14% CAGR over FY10-13 v/s 31% FY07-10). We expect the concentrated effort to expand RoE and RoA from 10.5% to 18% and 0.5% to 1% by FY13. With a CAR of 14.2% (Sept 2010) post ₹ 30 bn capital infusion from GoI and additional room to raise ₹ 60 bn of tier I and tier II capital gives the bank adequate room to propel loan book as an when the opportunities arise.

Valuations and Outlook

Adjusted for subsidiary valuations, the stock trades at P/ABV 1.4x FY11 and 1.2x on FY12. The historical high of 1.8x P/ABV is lower than peer multiples of 2-3x, attributed to historically bad asset quality (1.5% Gross npas in FY10), lower NIMs (<2% over FY07 to FY10) and RoEs (10.5% in FY10 v/s 15% plus of peers). We expect benefits of cleaner balance sheet, steady growth and favourable asset and liability mix to translate into higher RoEs of 18% in FY13. We have valued the standalone bank at ₹ 207 per share(1.75x FY12 P/ABV). We have valued the investment book (including subsidiaries) of ₹ 39bn at ₹ 40 per share. We recommend BUY with a 1 year target price of ₹ 247 per share.

Risks

Sharp rise in wholesale borrowing cost remains a risk for margin improvement – bulk deposits constitute ~56% of the deposit base.Also, these deposits are less sticky than retail deposits.Sharp interest rate hikes would mean disproportionate increase in cost of funds v/s peers.

Stock Data

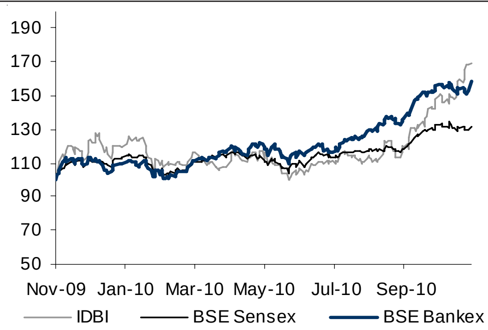
Current Market Price (₹)	182
12 Month Target Price (₹)	247
Potential upside (%)	36
Reuters	IDBI.BO
Bloomberg	IDBI IN

Key Data

Market Cap (₹.mn)	178
52-Week Range(₹)	188/105
Avg. Daily Trading Value (₹.mn)	5
GOI (%)	66
FII Holding (%)	5
DII Holding (%)	15
Public & Others Holding (%)	15

₹ mn	FY09	FY10	FY11E	FY12E	FY13E
Oper. Income	27,158	45,584	61,081	77,694	96,352
NII	12,394	22,674	40,354	51,840	65,203
NIMs (%)	1.0	1.3	1.9	2.1	2.3
PAT	8,585	10,311	14,215	23,016	32,227
RoE	9.4	10.5	11.6	14.9	18.0
RoA	0.6	0.5	0.6	0.8	1.0
ABV	80.6	83.7	100.6	118.2	144.3
P/ABV (x)	1.8	1.7	1.4	1.2	1.0
EPS	11.8	14.2	14.4	23.4	32.7
P/E (x)	12.0	10.0	9.8	6.1	4.3

Relative price performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	19	52	69
BSE Relative	18	39	37
Rel Bankex	16	27	11

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Investment Rationale

Change at the helm

Since August 2010, Mr. R M Malla took over as the new MD and Chairman of IDBI Bank. Mr. Malla had spent over 20 years with the erstwhile IDBI, before its conversion into a bank. He has returned to IDBI Bank after heading IFCI and Small Industries Development Bank of India (SIDBI). Under the new leadership the management has identified areas of growth and improvement (increasing CASA, legacy of npas). The management has chalked out a restructuring plan – to build mid corporate, SME, retail assets, reduce bulk deposits, focus on recoveries and bring down gross npas; long term targets – build asset size to rank 6th in the industry, branch network and other retail initiatives to achieve CASA level of 28% over by FY14, improve asset and liability mix to achieve NIMs of 2% by FY12, RoA of 1% by FY13.

Moderation in loan book to incorporate higher profitability

IDBI Bank gained significant size (balance sheet of ₹ 814 bn in FY05) and network (the merged entity had 199 branches and 500 delivery outlets post merger) through the merger with erstwhile IDBI in 2005 (IDBI contributed ₹ 580 bn assets and 119 branches) and United Western Bank (UWB) in 2009 (UWB contributed ₹ 71 bn assets and 230 branches). The merger with IDBI also diluted asset quality from ₹ 652 mn (0.2%) net npas prior to merger to ₹ 3.7bn (1.7%) post IDBI merger. The merger of the two entities was aimed at repositioning the erstwhile IDBI as a bank focused on development financing (as mandated in legislation), while offering retail banking facilities.

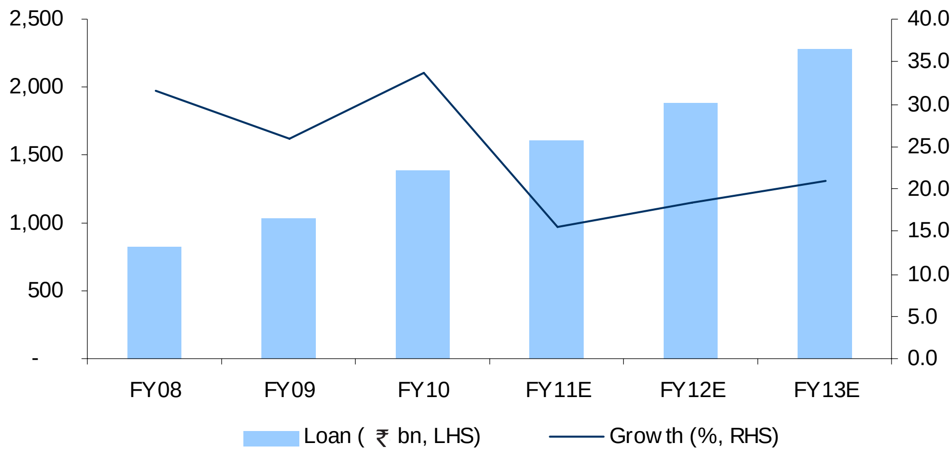
Although IDBI Bank built scale with 725 branches it failed to build a strong retail liability and asset base. Bulk npas continued to remain on the balance sheet courtesy the legacy business inherited through the merger of erstwhile IDBI. The management is now taking a step back, and focusing resources on profitable corporate, retail and SME assets. Bank is in process of merging IDBI Home finance with itself. Post merger, 25 odd IDBI Home Finance branches would be converted as hubs to garner retail business both on the asset and liability side (Annexure A, page no. 11). This will aid the bank with more diversified loan mix, build in granularity reducing bulk npas and improve pricing power.

We expect these initiatives to evolve over the next 2 years and build a platform for future growth. However, over the next 2 years the bank will allow significant short term corporate lending (built in H2FY10) to roll off the book and regroup asset classes. This coupled with lower infra offtake (power sector loans) will translate to a subdued loan growth of 18% CAGR over FY10-13E v/s 30% in FY07-10.

Loan book break up	Share (%)	Growth expectations - We expect the loan book to growth 18% CAGR over FY10-13E
Infrastructure loans	14	~50% of the book is power projects, however growth over the next 2 years will be driven by road, airport and port infra projects. The book is expected to grow by 15% CAGR over FY10-13E.
Corporate Loans	56	Working capital related and short term loans make up 70% of the book. Over the next 1-1.5 years the management is expected to restructure the corporate book to increase the share of mid corporate and better yielding assets. The roll off of short term loans built up in H2FY10 at lower than base rate, realignment of ALM towards mid corporates v/s large corporates, we expect this segment to grow at 9% CAGR over FY10-13E.
Retail	15	Housing loans account for 97% of retail book. This segment is expected to grow at 48% CAGR over FY10-13E on a low base. Merger with it's housing finance subsidiary (addition of ~₹35 bn to ₹202 bn in FY11) and leverage from 300 plus expansion in network will aid growth.
SME	8	This segment is likely to emerge as the fastest growing segment. With the addition of 250 branches in FY11, the bank is expected to increase focus on building SME clusters. These assets are high yielding and present a two fold benefit for increasing transaction banking revenue. We expect the book to grow at 32% CAGR over FY10-13E.
Agri	7	The merger of erstwhile United Western Bank has added to the pool of agri branches and assets. Leveraging on UWB's branches, IDBI Bank will increase priority sector asset inorder to meet the 40% mark.

Source: Company , LKP Research

Restructuring of corporate book to impact loan growth



Source: Company , LKP Research

Shifting reliance away from bulk deposits: *higher casa and lower cost of deposits*

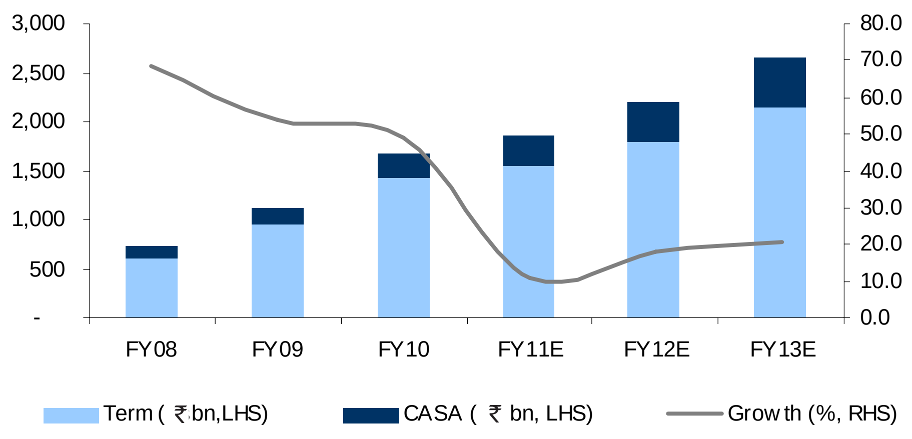
IDBI's role as a DFI meant higher proportion of wholesale borrowings in its liabilities v/s peers. Post merger, the bank had replaced borrowings with bulk deposits. Bogged down by asset mix and meeting statutory commitments the liability mix incorporated 86% share of term deposits and 56% share of bulk deposits.

With focus on retail branches (250 branch addition in FY11), waiver of minimum balance and service charges on CASA and focus on CASA accretive SME and retail assets, the bank is expected to roll off Rs250-300 bn term deposits over the next 1- 1.5 years. The absolute growth in CASA of 28% CAGR over FY10-13 and the relatively higher share in deposits from 15% in FY10 to 19% in FY13 are likely to improve the liability mix and subsequently cost of funds. We expect C/D ratio of ~86% v/s over next 3 years v/s 82% in FY10 and deposit growth of 17% CAGR over FY10-13E v/s 57% CAGR over FY07-10.

	Share (%)		
Strategy for deposits	**FY10**	**FY13**	**Shifting from bulk to CASA deposits albiet at a slow pace**
CASA	14.6	19.3	Through the legacy of the merger with erstwhile IDBI, IDBI Bank suffers from the liability structure of a DFI while being a bank. Reliance on the bulk borrowings were replaced with bulk deposits. In order to reduce the impact of high cost deposits, the management is adding over 300 branches over the next 2-2.5 years. The new branches will focus on retail and SME assets and building a low cost retail liability base. Based on initiatives such as the waiver of service charges on CASA accounts and a well built technology platform we expect CASA share of 19% (28% CAGR over FY10-13E). We have toned down our estimates as comapred to management targets of a 28% CASA share over the next 3-4 years (~40% plus CAGR).
Term deposits	85.4	80.7	The bank had a high reliance on bulk deposits, constituted 56% of deposits, on account of the structure of the loan book. However, with restructuring of loan book and focus on longer tenure loans, the bank is also correcting the liability side by reducing bulk deposit base to 40% of deposits. Term deposits are expected to grow 14% CAGR over FY10-13E.

Source: Company , LKP Research

Deposits to grow in line with loan book growth



Source: Company , LKP Research

Margins to improve

NIMs of the bank have been one of the lowest in the industry mainly on account of high cost of funds acquired through the merger with IDBI. High cost bulk deposits and high share of large corporate lending pushed up costs and dragged down yields, squeezing margins. The shift from large to mid size corporates, SME focus and retail assets is likely to give the bank flexibility to pass on increase in cost of funds to customers.

NII to grow 42% CAGR over FY10-13

₹ bn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Interest Earned	80	115	153	187	220	258
Interest expended	74	103	130	147	168	192
NII	7	12	23	40	52	65
Growth (%)	(0)	89	83	78	28	26

Source: Company , LKP Research

We expect interest earned to grow 19% CAGR over FY10-13E v/s 34% over FY07-10. Average asset yields are likely to increase by 80 bps from 8.9% in FY10 to 9.7% in FY13. The change in structure of the asset base gives the bank flexibility to reduce reliance on bulk deposits. Similarly the increasing branch network provides room for CASA accretion. Although we expect change in mix and reduction of bulk deposits to reduce cost of funds by 100bps, increase in interest rates will reduce the benefit to ~50bps. Also, sharp rise in wholesale borrowing cost remains a risk for margin improvement. Thus we expect interest expended to increase by 14% CAGR over FY10-13E and cost of funds to decline to 6.9% in FY13.

Lower bulk deposits, improvement in asset yields to increase NIM

%	FY08	FY09	FY10	FY11E	FY12E	FY13E
Yield on assets	9.0	9.8	8.9	9.2	9.7	9.7
Cost of funds	7.9	8.4	7.4	6.8	7.0	6.9
NIMs	0.7	1.0	1.3	1.9	2.1	2.3

Source: Company , LKP Research

We expect the 250 retail branches to add incremental retail assets and liabilities during FY12. In addition reduction in high cost liabilities in FY11 will translate to higher NIMs. We expect NIMs to increase by 100bps over the next 3 years to 2.3% in FY13.

C/I ratios to stabilize: *flow through of productivity benefits*

Employee costs are an import parameter in the cost structure of the banking industry. The two mergers in 2005 and 2007, resulted in employee addition of >3,000 employees. Since the 2 mergers, harmonization of human resources had become a challenge for management as the wage offered by the erstwhile IDBI was not on a par with IDBI Bank. Of the 2,500 employees of the private IDBI Bank, 1,800 left after the merger. Employee and branch productivity remained a concern and C/I ratio was as high as 52% in FY06.

The bank has brought 70% of its employees under a fixed compensation package and the bank has put in place a performance review system for its employees. While the share of wages in the total expenses is 13.7% for PSBs and 10.7% for private banks, this number is a mere 5% for IDBI Bank. The bank has to make additional provisions of ~₹2 bn for employee pension and gratuity in FY11 which will increase wages to total expenses to 6%. Staff costs are expected to increase by 24% CAGR over FY10-13.

Break up of operating cost

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Employee costs	3,846	5,692	7,570	10,911	12,246	14,573
Growth (%)		48	33	44	12	19
Other operating costs	5,742	7,687	10,744	13,373	15,944	19,336
Growth (%)		34	40	24	19	21
Operating costs	9,588	13,379	18,314	24,284	28,190	33,909
Growth (%)		40	37	33	16	20
C/I	41.8	49.3	40.2	39.8	36.3	35.2

Source: Company , LKP Research

The management has implemented 100% CBS and improved technology platforms to curb operating costs for the bank. Going forward, the bank plans to bring in granularity through expansion of SME, mid corporate and retail assets and liabilities. Network expansion, rebranding and restructuring exercise is expected to increase operational costs 21% CAGR over FY10-13.

Although retail and SME assets are network intensive, improvement in productivity will cap C/I ratio at 40% in FY11 post which improvement in NII and non interest income will improve the ratio to 35% in FY13.

Improving productivity

	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
NII per employee	0.4	0.8	1.0	0.8	1.3	1.9	3.0	3.5	4.1
Net Income per employee	1.8	3.7	2.4	2.8	2.9	3.7	4.6	5.3	6.0
Profit per employee	0.7	1.2	0.9	0.9	0.9	0.8	1.1	1.6	2.0
Business per employee	133.6	173.1	153.3	188.1	232.0	250.4	257.7	277.6	308.0
Net Income per Branch	41.0	97.1	42.0	49.0	53.4	64.4	63.8	67.1	71.0
Profit per branch	15.4	32.8	15.7	15.6	16.9	14.6	14.8	19.9	23.7
Business per branch	3,041.0	4,604.7	2,639.0	3,316.5	4,240.6	4,320.2	3,608.0	3,527.2	3,632.3

Fee income traction to continue: *Infrastructrure domain knowledge and new client addition*

Fee income has grown by 41% CAGR over FY07-10, largely driven by loan syndication, LCs and guarantee fees. We expect IDBI Bank to continue to benefit from domain knowledge in infrastructure through advisory revenue, guarantees, loan syndications. Growth in mid corporate, SME and retail clients is also expected to contribute to fee revenue going forward. We expect fee income to grow at 24% CAGR over FY10-13, contributing over 30% of IDBI Bank's net income, sufficient to cover most of operating expenditure over the next 3 years.

Major components of non interest income

₹ bn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Fee income	5,746	9,264	14,562	18,461	22,569	27,692
Trading Income (net)	10,517	3,239	6,967	600	1,800	2,200
Non interest income	16,355	14,764	22,910	20,727	25,854	31,149

Source: Company , LKP Research

Adverse impact of rising yields on the bank's significant investment book has been mitigated to some extent with the reduction in duration of the AFS portfolio. However, higher yields are likely to reduce trading gains. Non-interest income is expected to grow 11% CAGR over FY10-13 v/s 33% over FY07-10.

Share of fee income in non interest income

₹ bn	FY08	FY09	FY10	FY11E	FY12E	FY13E
Non inter. income as a % of net income	71.4	54.4	50.3	33.9	33.3	32.3
Fee income as a % of net income	25.1	34.1	31.9	30.2	29.0	28.7

Source: Company , LKP Research

Domain knowledge in infra space is the key differentiator for fee income of the bank.

Quality of assets: *dampener on profits*

We expect asset quality to remain a concern over FY11 and FY12. The 6.7% restructured assets and the 1.9% gross npas, make IDBI Bank's portfolio riskier than peers.

The restructured portfolio has begun repayment in June 2010 and additional npas from the ₹93 bn (6.9% of assets) portfolio are likely to be low. However, slippages from metal and agri based industries (corporate segment), SME assets, (slippages of >2.5% of their book Sept 2010), are expected over the next few quarters. We expect gross npas to grow 22% CAGR over FY10-13, as a % of advances we expect npas of 1.8% in FY11 and 1.7% in FY12 (v/s 1.5% in FY10 and 1.9% in H1FY11).

Sectoral Net NPAs	%
Agri & Allied activities	1.1
Industry (Micro, Small, Medium & Large)	1.4
Services	0.6
Personal Loans	1.1

Asset quality remains a concern

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Gross npas (₹ mn)	15,647	14,357	21,294	30,175	33,823	38,816
Net npas (₹ mn)	10,829	9,490	14,063	18,999	21,163	24,203
Gross npas (%)	1.9	1.4	1.5	1.9	1.8	1.7
Net npas (%)	1.3	0.9	1.0	1.2	1.1	1.1

Source: Company , LKP Research

NPA levels to ease . However, bulky coporate assets to translate to higher than industry level npas

The bank has coverage ratio >70% in line with RBI guidelines. Additional npas from non-restructured and SME portfolio will translate into npa provisions remaining high over the next 3 years however; lower provisions on restructured assets is likely to curb the increase in total provisions. Thus total provisions are expected to show a decline 6% CAGR over FY10-13.

RoA and RoE to expand: *pegged to improvement in asset quality*

The bank has finished writing off losses from the previous 2 mergers and will move to a higher tax rate from FY11. We expect PAT to grow 46% CAGR over the FY10-13 v/s 18% CAGR over FY07-10. Higher core business growth, increasing productivity and improvement in asset quality to translate to higher PAT growth and expansion in RoA by 50 bps to 1% in FY13 and RoE by 750 bps to 18% in FY13.

Outlook and Valuation

The stock trades at 1.2x ABV FY12E as against 2-3x that of peer banks. We expect the benefit of a cleaner balance sheet, steady growth and favourable asset and liability mix to translate into higher RoEs in FY13. We have valued the standalone bank at 1.75x P/ABV on our FY12 ABV of ₹118.2 per share which translates to ₹207 per share. We have valued the investment book (including subsidiaries) of ₹39 bn at ₹40 per share. We recommend a BUY with a 1 year target price of ₹247 per share.

Peer comparison: disparity to correct on forward valuations

FY10	IDBI	SBI	PNB	BoB	BoI	Union Bank	Indian Bank	Allahabad Bank	Vijaya Bank
NII (₹mn)	22,674	236,714	85,229	59,395	57,559	41,924	33,039	26,505	14,491
PAT (₹mn)	10,311	91,661	39,054	30,583	17,411	20,749	15,550	12,063	5,073
Networth (₹mn)	101,633	659,492	162,309	151,051	128,006	88,078	66,470	58,843	26,635
CAR (%)	11.3	13.4	14.2	14.4	12.9	12.5	12.7	-	12.5
Loan book (₹mn)	1,382,019	6,319,142	1,866,012	1,750,353	1,684,907	1,193,153	621,461	716,049	415,217
NIMs (%)	1.0	2.2	2.9	2.1	2.1	2.1	3.3	2.2	2.1
RoA (%)	0.5	0.9	1.4	1.2	0.7	1.2	1.7	1.1	0.8
RoE (%)	10.5	14.8	26.6	21.9	14.2	26.2	25.6	22.2	20.4
Net npas (%)	1.0	1.7	0.5	0.3	1.3	0.8	0.2	0.7	1.4
EPS (₹ per share)	14.2	144.4	123.9	84.0	33.2	41.1	35.3	27.0	10.9
BV (₹ per share)	140.2	1,038.8	514.8	414.7	243.7	174.4	154.7	131.7	61.4

Historical NIMs lower than industry average mainly on account of high cost deposits. Changing profile of assets and improved liability mix will tranalate to higher NIMs over next 3 years

Lower returns from core business and adverse asset quality contributed to lower return ratios . Although asset quality will improve at a slower pace , the mismatch on asset returns will correct faster.

Risk managment and recovery efforts are likely to reduce npa levels going forward. The bank has put in place risk modules and mechanisms for SME financing. IDBI Bk has a 74% coverage ratio which fares well for the bank.

IDBI Bank has suffered the disadvantage of a liability and asset structure of a DFI while operating as a bank. Thus the turnaround of the merger with IDBI has stretched over 5 years. While peers have a significant retail network, IDBI has its strength as a infra lending institution. Although the bank has a network of over 700 branches, these are not equipped to handle non-infra or corporate clients which have resulted in lower productivity v/s peers. Similarly IDBI Bank's liability mix is weighed towards wholesale deposits (56% of total deposits v/s 30-35% for peers), which are both high cost and less sticky (than retail and CASA). During tight liquidity conditions IDBI Bank, faces greater strain on growth and higher cost of funds (8.4% in FY09 v/s 6.0% for SBI).

Poor investment decisions on large ticket corporate and infra loans translated into bulk npas as compared to smaller ticket retail and mid corporate asset. Lack of bargaining power and an unfavorable liability mix makes for unfavorable comparison on return ratios with banking peers.

Comparing peers on forward valuations

	IDBI		SBI		PNB		BoB		BoI		Allahabad Bank		Vijaya Bank	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
BV	146.8	166.7	1,434.6	1,661.0	606.6	744.6	449.5	545.8	274.6	323.4	156.5	189.0	78.1	90.0
P/BV	1.0	0.9	2.2	1.9	2.2	1.8	2.2	1.8	2.0	1.7	1.5	1.3	1.3	1.2
EPS	14.4	23.4	212.3	265.5	149.1	182.3	94.9	119.4	48.2	62.9	30.8	38.7	14.7	17.7
P/E	9.8	6.1	15.1	12.1	8.8	7.2	10.2	8.1	11.2	8.6	7.7	6.2	7.1	5.9
RoE (%)	11.6	14.9	15.6	16.9	24.6	25.0	21.9	23.0	17.7	19.7	19.5	20.7	20.1	21.1
RoA (%)	0.6	0.8	0.9	1.0	1.5	1.4	1.1	1.2	0.9	0.9	1.1	1.1	0.8	0.8

Source: Bloomberg, LKP Research

Valuation gap to narrow

IDBI trades at 1.2x at our ABV FY12E (adjusted for subsidiary valuations), a discount to its peer group (2-3x) as well as its own historical high of 1.8x to book. Steady growth and improvement in productivity post FY12 are likely to reduce the gap in valuations.

We acknowledge that the bank has some hurdles to overcome in terms of ALM, productivity and profitability to rank as the top 6th bank in the Indian banking space. However, the restructuring initiatives fare well as a step in that direction.

BV and ABV growth

	FY08	FY09	FY10	FY11E	FY12E	FY13E
BV (Rs per share)	121.7	130.0	140.2	146.8	166.7	196.0
Growth (%)	6.2	6.8	7.9	4.7	13.6	17.6
ABV (Rs per share)	71.4	80.6	83.7	100.6	118.2	144.3
Growth (%)	0.3	12.9	3.8	20.2	17.5	22.0

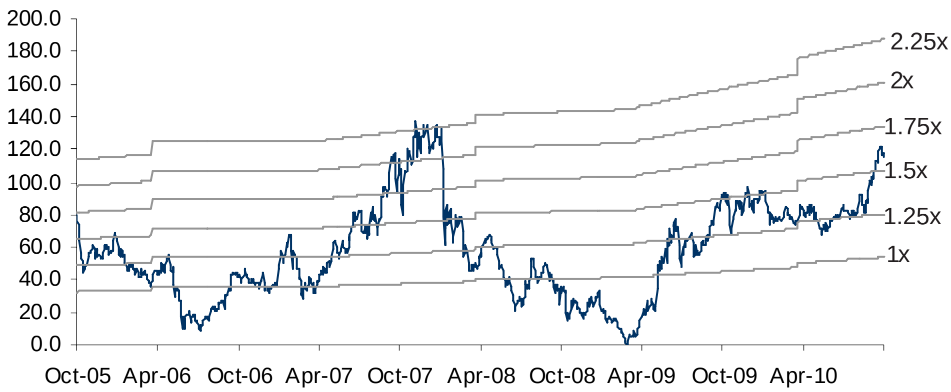
26% Dilution

Growth, improvement in asset quality, realignment of balance sheet to contribute to higher growth.

Although we believe the management's initiative to restructure the loan mix towards mid corporate, SME and retail assets will pay off in the long term through greater pricing power and lower risk, in the medium term, slower growth and higher provisioning will plague the balance sheet.

The stock trades at a discount to its historical high of 1.8x ABV FY12E. Historically the stock has traded at lower than industry multiples, this could be attributed to bad asset quality (1.5% in FY10) and lower margins (<2% over past 3 years). Over the next couple of years the management is likely to reallocate resources to profitable assets, build network and clean up the books. Although the benefit of this will show up in financials post FY12, in the long term steady growth, higher NIMs and productivity will expand RoEs to 18% in FY13.

Rolling P/ABV



Source: Bloomberg

Background

Evolution to a commercial bank

1964-1976

- 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

1994- 00

- 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%

2003 - 06

- 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.

2007- 10

- Complete Networking (100% Core Banking)
- Organization structure redesigned on Customer Segmentation basis
- Name changed to IDBI Bank
- Achieved regulatory norms of SLR, CME

The bank has changed management at the helm and brought in a new MD and Chairman, Mr. R M Malla in August 2010. He had worked earlier for over 20 years with IDBI, before its conversion into a bank. He has returned to IDBI Bank after heading IFCI and Small Industries Development Bank of India.

Built pan India network

The bank has built significant scale over the past 5 years with fully integrated CBS across network. The bank has increased network from 199 branches in 2005 to 725 branches in 2010 (~69% of the branches are in metro and urban regions). The bank acquired erstwhile United Western bank in 2009 in order to build on its rural network and agri assets.Presence over 468 locations, the bank has established 50 retail and 30 SME centres in order to capitalize on the 5 million plus retail customers.

IDBI Bank's pan India network

Industrial financing continued to dominate

IDBI played an apex role in creating industrial and infrastructural base in India. Total investments generated were ₹4000 bn (over USD 80 bn). Post the merger the bank continues to play a role in financing and appraisal of infra projects and remains a significant player in debt syndication. Thus the bank has the advantage of continued capital support from the government. GoI infused ₹30 bn to equity in H1FY11 increasing its stake to 66% from 53%.

₹ mn	FY06	FY07	FY08	FY09	FY10
Balance sheet	885,648	1,038,393	1,306,944	1,724,023	2,335,720
Loans	527,391	624,708	822,127	1,034,445	1,382,019
- Share of Infra and Corp.	369,173	437,296	575,489	724,111	967,413
Deposits	151,026	260,009	433,540	729,980	1,124,010
- Share of bulk deposits	84,575	145,605	242,783	408,789	629,446
Gross npas	11,155	12,319	15,647	14,357	21,294
Net npas	5,631	7,219	10,829	9,490	14,063

Source: Company

Annexure -A

IDBI Home Finance - Financials

₹ mn	FY07	FY08	FY09	FY10	CAGR (%)
Loan book	21,470	27,100	30,890	35,370	18
Share of individuals	96	97	97	97	-
Share of variable rate loans	83	88	91	93	-
Sanctions	11,160	11,730	9,760	16,410	14
Disbursements	8,400	8,560	7,940	10,550	8
Borrowings	23,174	27,333	31,108	35,532	15
NHB refinance	1,894	2,069	2,897	4,946	38
D/E limit	16.0	16.0	16.0	16.0	-
D/E actual	14.5	13.8	13.9	13.5	-
PAT	13	35	32	52	59
CAR	14.0	16.0	12.5	13.3	-
Gross npas	1.1	1.0	1.0	0.9	-
net npas	0.7	0.6	0.6	0.3	-

Source: Company

Financial Summary (Standalone)

Income statement

YE March (₹mn)	FY09	FY10	FY11E	FY12E	FY13E
Interest earned	115,451	152,726	187,022	220,091	257,655
Interest Expended	103,057	130,052	146,668	168,251	192,452
Net Interest Income	**12,394**	**22,674**	**40,354**	**51,840**	**65,203**
Growth (%)	*89*	*83*	*78*	*28*	*26*
Other income	14,764	22,910	20,727	25,854	31,149
Operating income	**27,158**	**45,584**	**61,081**	**77,694**	**96,352**
Growth (%)	*18*	*68*	*34*	*27*	*24*
Operating expenses	13,379	18,314	24,284	28,190	33,909
Employee expenses	5,692	7,570	10,911	12,246	14,573
Other operating expe.	7,687	10,744	13,373	15,944	19,336
Operating profit	**13,779**	**27,269**	**36,796**	**49,504**	**62,443**
Growth (%)	*3*	*98*	*35*	*35*	*26*
Operating margins (%)	51	60	60	64	65
Provi. and contingencies	3,923	16,822	17,456	14,841	13,908
PBT	**9,856**	**10,447**	**19,340**	**34,662**	**48,535**
Provision for Tax	1,271	136	5,125	11,647	16,308
PAT	**8,585**	**10,311**	**14,215**	**23,016**	**32,227**
Growth (%)	*18*	*20*	*38*	*62*	*40*
PAT margins (%)	32	23	23	30	33

Balance sheet

YE March (₹ mn)	FY09	FY10	FY11E	FY12E	FY13E
Sources of Funds					
Share capital	7,248	7,249	9,844	9,844	9,844
Reserves & Surpluss	86,974	94,384	134,669	154,289	183,120
Shareholders funds	94,221	101,633	144,513	164,133	192,963
ESOP's	17	16	15	15	15
Deposits	1,124,010	1,676,671	1,859,960	2,194,960	2,649,335
Borrowings	355,316	350,105	371,116	378,116	383,116
Subordinated debt	49,229	58,186	58,511	63,511	67,011
Perpetual debt	24,625	35,942	38,392	38,392	38,392
Upper Tier II debt	15,000	32,862	32,862	42,862	45,362
Othr liabilities and prov.	61,604	80,306	87,225	96,798	105,973
Total	1,724,023	2,335,720	2,592,594	2,978,786	3,482,168
Application of funds					
Net Fixed Assets	28,241	29,970	32,099	33,200	34,302
Investments	500,476	733,455	709,618	764,139	836,524
Advances	1,034,445	1,382,019	1,596,547	1,889,577	2,283,317
Balance with RBI	85,915	139,035	140,427	150,355	181,479
Balances with bank	26,278	6,794	64,614	85,324	82,962
Other assets	48,668	44,449	49,289	56,191	63,584
Total	1,724,023	2,335,720	2,592,594	2,978,786	3,482,168

Key Ratios

YE March (%)	FY09	FY10	FY11E	FY12E	FY13E
Yield on Investments	5.3	6.8	6.8	6.9	6.7
Yield on advances	9.8	8.9	9.2	9.7	9.7
Cost of deposits	8.0	6.9	6.4	6.6	6.5
Cost of funds	8.4	7.4	6.8	7.0	6.9
NIM	0.9	1.3	1.9	2.1	2.3
Interest Spread	2.2	1.9	2.7	3.0	3.2
RoA	0.6	0.5	0.6	0.8	1.0
RoE	9.4	10.5	11.6	14.9	18.0
Gross NPA	1.4	1.5	1.9	1.8	1.7
Net NPA	0.9	1.0	1.2	1.1	1.1
Growth in advances	25.8	33.6	15.5	18.4	20.8
Growth in deposits	54.0	49.2	10.9	18.0	20.7
Growth in investments	52.6	46.6	(3.2)	7.7	9.5
Growth in retail credit	54.2	61.7	61.9	46.2	36.3
Share of CASA in depo.	14.8	14.6	16.9	18.2	19.3
Retail adv.s as a % of adv	9.5	11.5	16.1	19.9	22.5
C/D	92.0	82.4	85.8	86.1	86.2
I/D	44.5	43.7	38.2	34.8	31.6
CAR	11.6	11.3	12.0	11.2	10.4
Tier 1 ratio	6.8	6.2	7.5	7.2	6.9
Tier 2 ratio	4.8	5.1	4.4	4.0	3.4
EPS	11.8	14.2	14.4	23.4	32.7
BV	130.0	140.2	146.8	166.7	196.0
ABV	80.6	83.7	100.6	118.2	144.3
P/E	12.0	10.0	9.8	6.1	4.3
P/BV	1.1	1.0	1.0	0.9	0.7
P/ABV	1.8	1.7	1.4	1.2	1.0

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