

May 4, 2010

IDBI Bank (IDBI)

Rs 120

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Changed from Rs 16 to Rs 15.2
EPS (FY12E)	Rs 19.0
RATING.....	Unchanged

Business growth in line, provisioning high...

IDBI Bank reported a 58% YoY jump in NII to Rs 760 crore, which was in line with our estimates. It witnessed higher operating expenditure for the quarter and also maintained higher-than-expected provisions, which led to 60% YoY and 62% QoQ decline in PBT to Rs 151 crore. The bank exercised deferred tax credit of Rs 167 crore leading to PAT of Rs 318 crore in line with our estimate of Rs 310 crore.

NIM to improve to 1.6%

The NIM of 1.6% for Q4FY10 was flat YoY. For the full year, the NIM improved by 29 bps to 1.3%. The bank currently has 720 branches and plans to add another 300 branches in FY11E. This will enable it to improve its CASA ratio from the current 14.6% to 16% by FY12E. Above industry credit growth and a rising interest rate should improve the NIM to 1.6%.

Asset quality improves sequentially

The GNPA improved from Rs 2317 crore in Q3FY10 to Rs 2129 crore for Q4FY10 (1.5% of loan book). Higher provision coverage ratio of 75% led to improvement in NNPA from Rs 1554 crore in Q3FY10 to Rs 1406 crore (1% of loan book). We expect GNPA@1.8% and NNPA@1.1% for FY12E.

Capital infusion awaited

The CAR of the bank currently stands at 11.3% (Tier I- 6.2%), which is below the required limit of 12% (Tier I- 8%). The bank has applied to GoI for capital infusion that will enable the bank to grow its balance sheet over 20% CAGR in the coming five years (approximates about Rs 10,000 crore). But we believe government can't give such a huge amount and may give about Rs. 5000 crore on singular basis and if full Rs.10000 cr is to be raised, IDBI will have to come to market. Hence, we have currently factored in 10% dilution in FY11E as government funds.

Valuation

We believe due to lower-than-industry NIMs at 1%, RoE of 14%-16% & RoA at 0.5%, the stock cannot trade more than book. We value IDBI at 0.9x FY12E ABV and ascribe Rs 25 to its investment book, to get fair price of Rs 141.

Exhibit 1: Financial performance

Rs Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
NII	760.2	744.2	481.4	718.8	57.9	5.8
Other Income	547.1	403.3	472.3	425.6	15.8	28.5
Total Income	1307.2	1147.5	953.7	1144.4	37.1	14.2
PPP	694.0	585.5	483.9	640.3	43.4	8.4
PAT	318.4	310.9	313.7	287.2	1.5	10.9
EPS	4.4	4.3	4.3	4.0	1.4	10.9

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Buy
Target	: Rs141
Target Period	: 12-15 months
Potential Upside	: 18%

Trailing 4 quarters growth (Rs Crore)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
NII	316.4	472.0	718.8	760.2
PPP	756.1	636.6	640.2	693.9
PAT	171.8	253.7	287.2	318.4

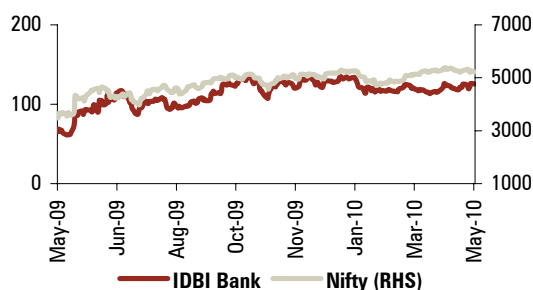
Valuation summary

	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	858.5	1031.1	1210.1	1513.0
EPS (Rs)	7.8	14.2	15.2	19.0
Growth (%)	0.0	83.3	6.7	25.0
P/E (x)	15.5	8.4	7.9	6.3
ABV (Rs)	89.6	93.5	103.5	111.3
Price / Book (x)	1.2	1.1	0.9	0.8
Price / Adj Book (x)	1.3	1.3	1.2	1.1
GNPA (%)	1.4	1.5	1.7	1.8
NNPA (%)	1.1	1.0	1.1	1.1
RoNA (%)	0.6	0.5	0.5	0.5
RoE (%)	12.1	13.2	13.1	13.9

Stock data

Market Capitalisation	Rs 8698 crore
GNPA (FY10)	Rs 2129 crore
NNPA (FY10)	Rs 1406 crore
NIM (Q4FY10)	1.6 %
52 week H/L	140 / 58
Equity capital	Rs 725crore
Face value	Rs.10
DII Holding (%)	6.8
FII Holding (%)	20.0

Price movement



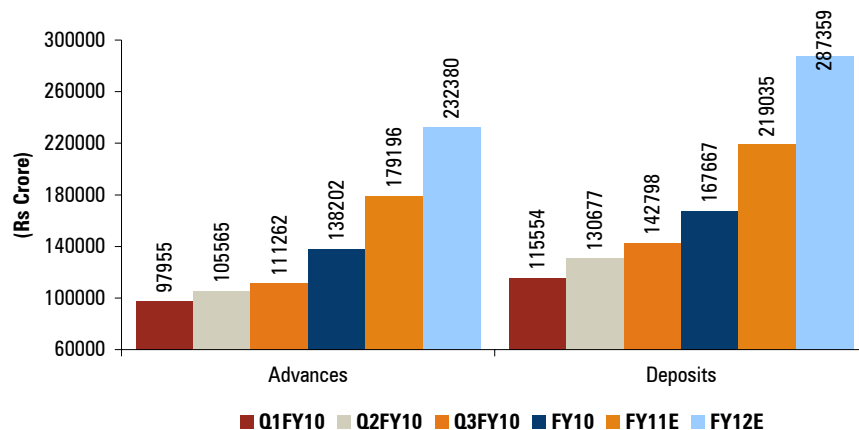
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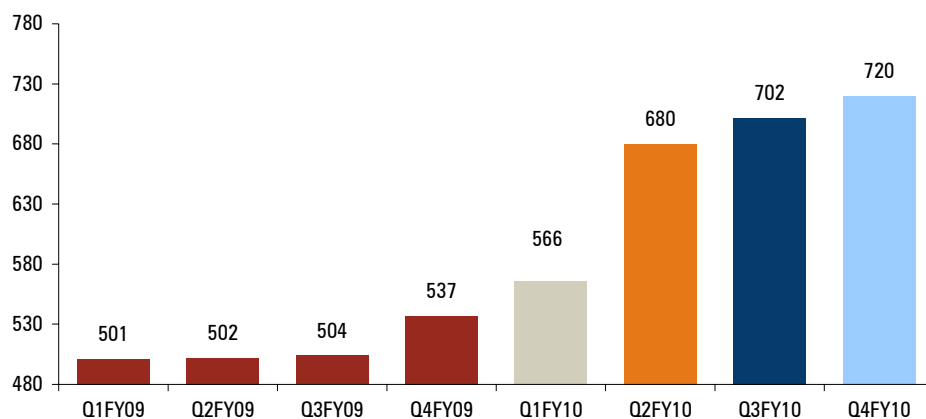
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The business mix crossed Rs 3 lakh crore, with a deposit base of Rs 1,67,667 crore (up 49% YoY) and loan book of Rs 1,38,202 crore (growth of 34% YoY).

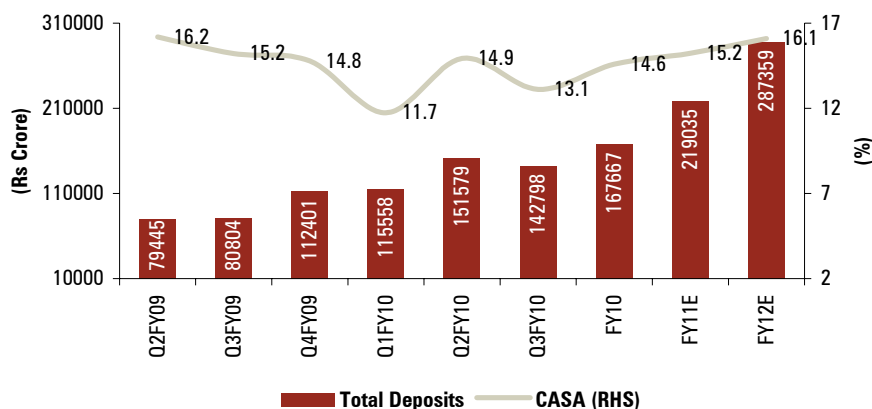
Exhibit 2: Business growth to stay robust, going ahead as well


Source: Company, ICICIdirect.com Research

Exhibit 3: Branch expansion to support future growth


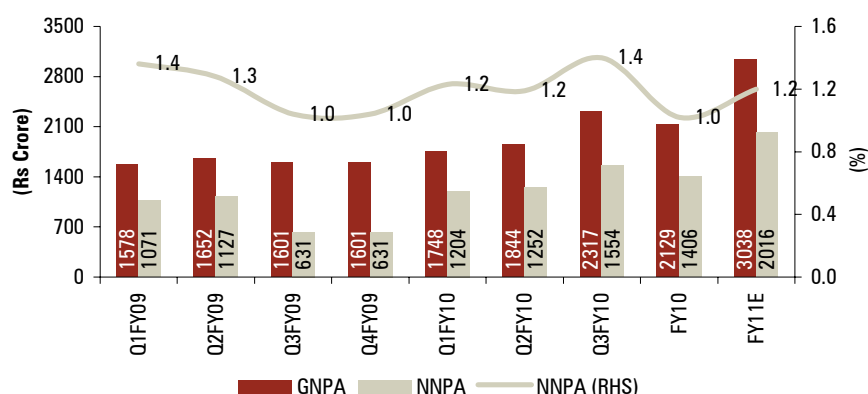
Source: Company, ICICIdirect.com Research

We expect CASA to increase gradually to 16% by FY12E

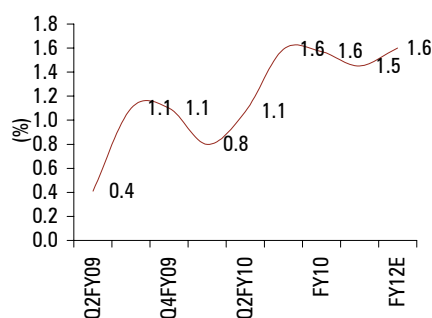
Exhibit 4: CASA on track after a blip


Source: Company, ICICIdirect.com Research

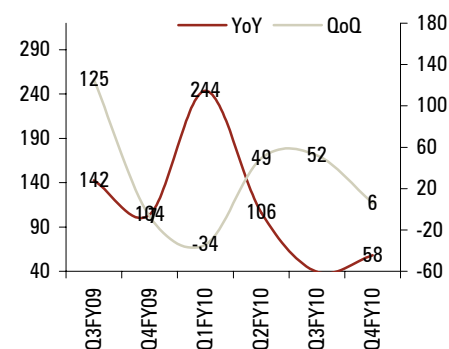
IDBI has been able to improve the asset quality with GNPA not estimated to rise above 2% and net NPA at 1.2% levels. Restructured assets remain high for the bank but they are pertaining to a few large accounts like Dabhol, etc. Hence, they are not expected to be added to the NPA

Exhibit 5: Asset quality: Being watched keenly


Source: Company, ICICIdirect.com Research

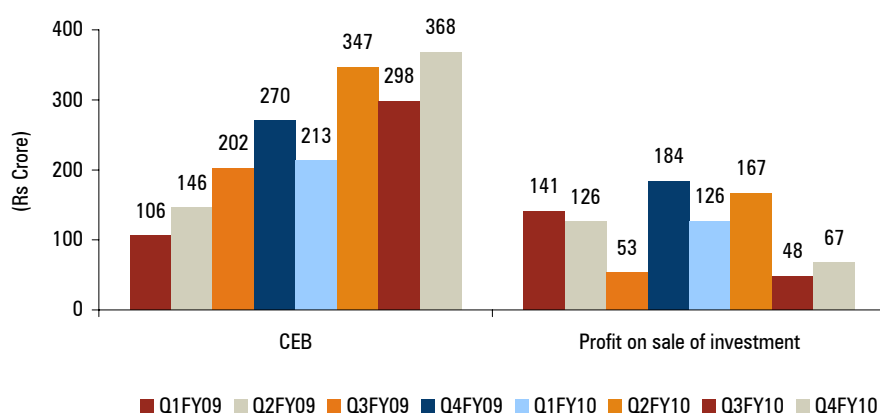
Exhibit 6: Improving NIM


Source: ICICIdirect.com Research

Exhibit 7: Growth trend for NII


Source: ICICIdirect.com Research

It was very encouraging to see a major contribution to non interest income coming from fee-based income rather than treasury gains

Exhibit 8: Two major constituents of non interest income


Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	380	FY10	1894.1	36.0	10.6	1.7	0.8	13.4
		Target	383	FY11E	2566.8	48.8	7.8	1.6	0.9	16.6
Mcap (Rs Cr)	19985	Upside (%)	0.8	FY12E	3216.3	61.2	6.2	1.4	0.9	19.1
Bank of Baroda					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	691	FY10	3058.3	83.7	8.2	1.8	1.0	21.5
		Target	722	FY11E	3710.5	101.5	6.8	1.5	1.1	21.4
Mcap (Rs Cr)	25148	Upside (%)	4.5	FY12E	4580.7	125.3	5.5	1.2	1.2	21.5
Dena Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	86	FY10	511.3	17.8	4.8	1.2	1.3	21.4
		Target	91	FY11E	619.2	16.0	5.4	1.1	1.1	20.0
Mcap (Rs Cr)	2480	Upside (%)	5.3	FY12E	768.2	15.8	5.5	1.0	1.0	18.2
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	96	FY10	1292.7	13.0	7.4	1.0	0.6	9.9
		Target	90	FY11E	891.5	16.4	5.9	1.0	0.6	12.0
Mcap (Rs Cr)	5230	Upside (%)	-6.3	FY12E	1248.1	22.9	4.2	0.9	0.8	14.9
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	120	FY10	1031.1	14.2	8.4	1.2	0.5	13.2
		Target	141	FY11E	1210.1	15.2	7.9	1.0	0.5	13.1
Mcap (Rs Cr)	8698	Upside (%)	17.5	FY12E	1513.0	19.0	6.3	1.0	0.5	13.9
OBC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	348	FY10	1134.7	45.3	7.7	1.2	0.9	14.6
		Target	423	FY11E	1465.0	58.5	5.9	1.0	0.9	16.6
Mcap (Rs Cr)	8709	Upside (%)	21.7	FY12E	1767.9	70.6	4.9	0.9	1.0	17.2
Punjab National Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1030	FY10	3719.0	118.0	8.7	1.9	1.4	23.0
		Target	950	FY11E	4514.8	143.2	7.2	1.8	1.4	24.2
Mcap (Rs Cr)	32462	Upside (%)	-7.7	FY12E	5418.1	171.8	6.0	1.6	1.4	25.9
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	2289	FY 09	91.2	143.7	15.9	2.6	1.1	17.1
		Target	2251	FY10	101.5	159.8	14.3	2.4	1.0	16.5
Mcap (Rs Cr)	145325	Upside (%)	-1.7	FY11E	112.2	176.7	13.0	2.0	0.9	16.0
Union Bank of India					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	305	FY10	2053.7	40.7	7.5	1.5	1.2	21.4
		Target	310	FY11E	2349.0	46.5	6.6	1.3	1.1	20.6
Mcap (Rs Cr)	15406	Upside (%)	1.6	FY12E	2871.4	56.8	5.4	1.0	1.2	20.8
Axis Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1257	FY10	2514.5	62.1	20.3	3.3	1.7	19.2
		Target	1302	FY11E	3129.7	76.5	16.4	2.7	1.6	17.5
Mcap (Rs Cr)	50930	Upside (%)	3.6	FY12E	4133.3	101.1	12.4	2.3	1.7	19.2
Dhanlaxmi Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	151	FY10	24.0	3.7	40.5	2.4	0.4	5.5
		Target	170	FY11E	65.3	9.4	16.0	2.0	0.7	12.8
Mcap (Rs Cr)	969	Upside (%)	12.4	FY12E	107.9	15.6	9.7	1.8	0.8	17.1
HDFC Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	1978	FY10	2948.7	64.4	30.7	4.3	0.3	20.3
		Target	2151	FY11E	3972.3	87.6	22.6	3.9	0.3	17.6
Mcap (Rs Cr)	90530	Upside (%)	8.8	FY12E	5051.4	111.4	17.8	3.4	0.3	20.0
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	739	FY 09	293.9	8.5	86.7	7.1	1.2	11.4
		Target	734	FY10	275.8	8.0	92.6	6.4	1.0	7.5
Mcap (Rs Cr)	25693	Upside (%)	-0.7	FY11E	464.2	13.4	55.0	6.3	1.5	11.5
South Indian bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	156	FY10	230.8	20.4	7.6	1.3	1.0	16.9
		Target	201	FY11E	268.0	23.7	6.6	1.2	0.9	17.3
Mcap (Rs Cr)	1763	Upside (%)	28.8	FY12E	369.5	32.7	4.8	1.0	1.1	20.5
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	285	FY10	477.7	14.1	20.3	3.2	1.6	20.3
		Target	316	FY11E	666.4	19.6	14.5	2.8	1.5	20.2
Mcap (Rs Cr)	8565	Upside (%)	10.8	FY12E	890.6	26.2	10.9	2.3	1.4	22.7

Continued...

NBFC

IDFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDFC	CMP	169	FY 09	848.0	6.5	25.8	3.5	2.8	14.3
		Target	200	FY10	1062.1	8.2	20.6	3.1	3.2	15.9
Mcap (Rs Cr)	21848	Upside (%)	18.5	FY11E	1326.8	9.1	18.6	2.2	3.4	14.6
LICHF					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	LICHF	CMP	958	FY 09	532.4	62.6	15.3	3.5	2.0	25.3
		Target	1013	FY10	662.5	69.0	13.9	3.0	2.0	23.8
Mcap (Rs Cr)	9097	Upside (%)	5.7	FY11E	849.1	88.5	10.8	2.4	2.1	24.0
Rel Cap					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	RELCAP	CMP	732	FY 09	1014.1	41.2	17.8	2.4	5.9	14.4
		Target	800	FY10	578.6	23.5	31.1	2.3	3.0	7.5
Mcap (Rs Cr)	17968	Upside (%)	9.4	FY11E	911.7	37.0	19.7	2.1	4.3	11.0

Brokerage firms

Edelweiss Capital					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	EDECAP	CMP	410	FY10	255.3	32.0	12.8	1.3	6.7	11.5
		Target	494	FY11E	323.7	40.6	10.1	1.2	6.4	13.2
Mcap (Rs Cr)	3081	Upside (%)	20.4	FY12E	351.5	44.1	9.3	1.1	5.6	12.9
India Infoline					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	INDINF	CMP	109	FY10	234.3	8.3	13.2	1.8	9.0	14.6
		Target	111	FY11E	239.6	8.5	12.9	1.6	7.4	14.2
Mcap (Rs Cr)	3113	Upside (%)	1.6	FY12E	242.8	8.6	12.7	1.5	7.1	13.1
MOFSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	181	FY 09	93.4	6.3	26.7	3.0	6.6	11.8
		Target	203	FY10	174.3	11.9	14.1	2.6	10.5	19.0
Mcap (Rs Cr)	2406	Upside (%)	12.2	FY11E	203.4	13.9	12.1	2.2	10.6	18.3

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