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Investment Ideas

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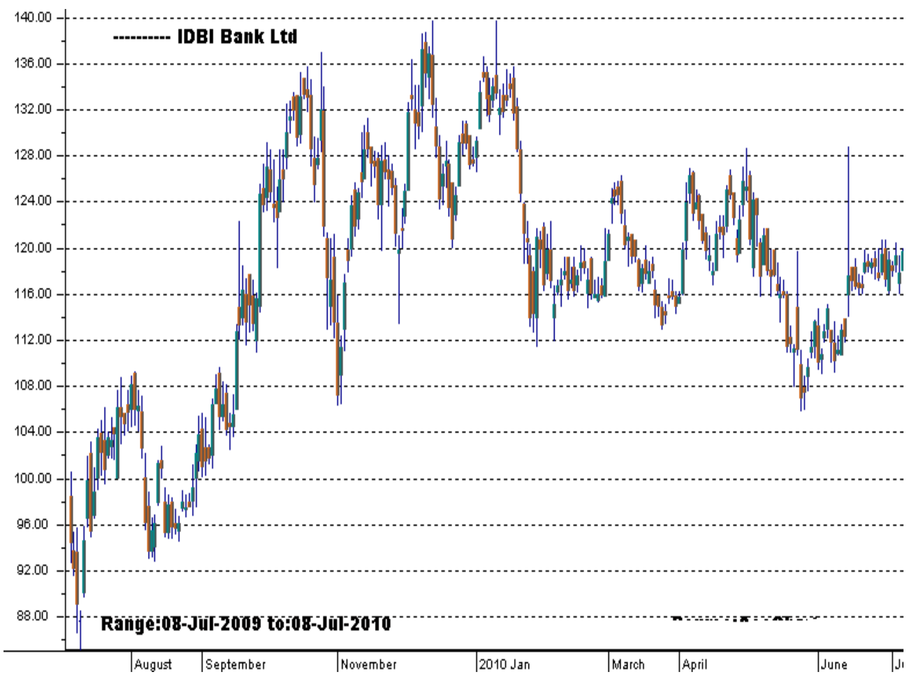
IDBI Bank ltd

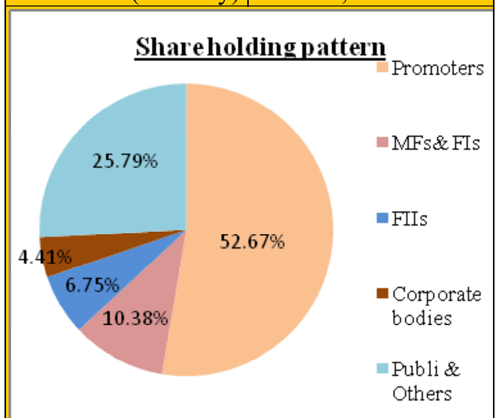
BUY

(Medium Risk Medium Return)

CMP: - Rs 122.1



Key Data	
Face Value:	10
52 week High:	140
52Week Low:	85.1
NSE Code:	IDBI
Total Vol. (Monthly)	60,017860



Company background:

IDBI Bank Ltd (IDBI) was set up by Industrial Development Bank of India in 1994. It went public in 1999 and raised about Rs 500cr cr. Two entities were merged in 2005 and merged company was renamed as IDBI Bank Ltd. In Oct 2006 United Western Bank (UWB) was acquired by IDBI. IDBI forayed into Life Insurance business via a JV with Federal Bank and Fortis Insurance International. IDBI has four wholly owned subsidiaries namely IDBI Capital Market Services, IDBI Home Finance, IDBI Gilts and IDBI Intech. In March 2010 IDBI Bank launched its Mutual Fund Company, IDBI Asset Management Ltd. As on 31st Mar'10 IDBI has a network of 720 branches and 1210 ATMs across the country.

Investment Rationale:

Recent capital infusion would accelerate the growth:

In June 2010 the government has approved capital infusion of Rs 3119cr for IDBI through the preferential equity placement. That capital infusion would increase the govt. share from current 52.69% to 65%. Although the pricing of equity is not yet disclosed we are expecting that would be around Rs 122 as per the expected rise in shares. This capital infusion in IDBI would have the following benefits:

- Tier-I CAR of the bank which is now 6.24 %(lower than RBI stipulated rate of 8%) will improve to at least 8%. The increase in Tier –I capital would enable the bank to raise Tier-II capital.
- Capital infusion would also increase the lending capacity of the bank which in turn would lead to a higher credit growth.
- Bank can go for FPO to raise further capital while retaining the government share at 51% plus. Management is optimistic about FPO to meet their capital need further.

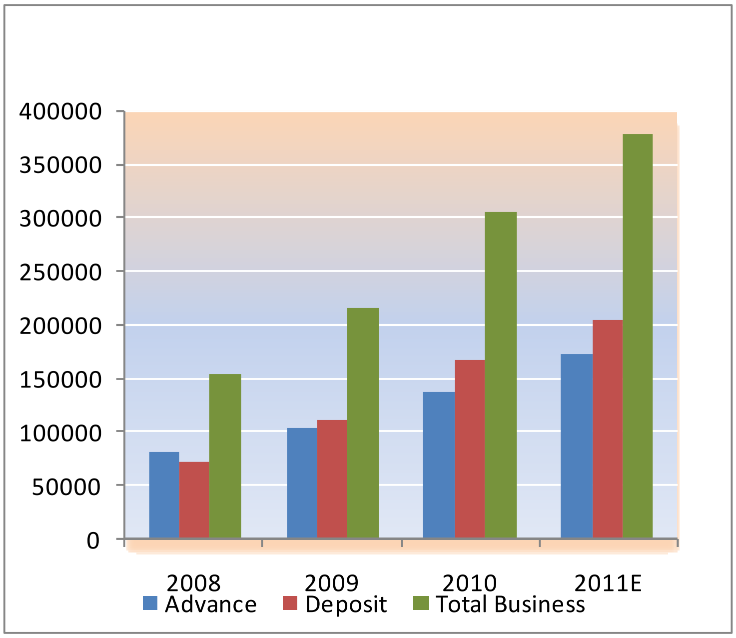
Improved Q4FY10 & FY10 results:

- IDBI reported an impressive rise of 43% y-o-y in operating profit (before provision and contingencies) to 694cr in Q4FY10 coupled with a strong growth in NII of 47% y-o-y. However its net profit grew up only 1.5% y-o-y on account of four fold increase in provisioning in this quarter.
- On full year basis bank's operating profit increased by 98%. Provisions and contingencies restricted the growth in net profit to about 20% y-o-y.
- For FY10 NII grew by 83% y-o-y on the back of a strong 34% y-o-y growth in advances and an improvement in NIM of about 30bps YoY in FY10.
- Non interest income grew by healthy 55% y-o-y to Rs 2291cr during FY10 while in Q4FY10 non interest income rose by 25% y-o-y.
- The total business of the bank stood at around Rs 3lakh cr as on 31st Mar'10 showing a growth of about 42% against FY09 business. Advances and deposits have shown a growth of 34% and 50% respectively in FY10.
- In FY10 IDBI has increased dividend to 30% from 25% in FY09.

Growing Core business:

There is a continuous increase in bank's core business .Its total core business is growing at a CAGR of 40% during the period FY06-FY10 with advance and deposits grew at a CAGR of 27% and 59% respectively during that period. IDBI is considered as the one of the top 10 lenders in the country in terms of size of the loan book. IDBI is a preferred partner in lending to huge infrastructure projects. During 2010 its total business grew by 42% although there is a slower credit growth in the economy. IDBI Bank is the second largest syndicator of funds in India and the fourth largest in entire Asia-Pacific.

Rs in cr	2008	2009	2010	2011E
Advance	82213	103444	138202	172800
Deposit	72998	112401	167667	204500
Total Business	155211	215845	305869	377300
Growth%		39.07%	41.71%	23.35%



Cross-Border Branches: IDBI started its journey to become a global bank by opening its first overseas branch at Dubai during FY10.That enabled the Bank to provide foreign currency funding to its customers in addition to rupee funding in that region. The Category - I Branch at Dubai has commenced operations in January 2010. IDBI has also accorded approval for setting up a Wholesale Bank Branch at Bahrain, an Offshore Banking Unit at Singapore, and a Representative Office at Shanghai. IDBI is planning to raise $1.5bn through medium-term note, or MTN.

Growing Infrastructure sector would raise bank's Business: IDBI has major exposure towards infrastructure financing justifying its earlier credential of DFI. IDBI has a distinction of the second largest syndicator of loans in India and 4th largest in Asia-Pacific. Indian Infrastructure sector is expected to receive a $1trillion dollar investment in 12th five-year plan. Simultaneously RBI had made some relaxation in infrastructure lending norms to facilitate financing of infrastructure projects.

Other developments:

- IDBI launched its Mutual Fund Company, **IDBI Asset Management Ltd**., in March 2010. This is to add mutual funds also to its bouquet of products for its customers. This would strengthen its fee based income.
- IDBI restructured assets of around Rs170 crore during the quarter taking the total restructured assets outstanding to ~Rs 9300 crore.

Peer Analysis:

Looking at peer set IDBI appears cheaper as compared to its peers in term of its P/BV(x).The recent capital infusion would be helpful to increase the performance of the bank. Growing NPAs is concern area but adequate provision and restricting of loans would helpful to rein over the NPAs.

FY10 , Rs in Cr

Perticular	Central Bank	IDBI Bank	Bank of India
Interest earned	12064	15273	17878
Total income	13799.5	17563	20495
Net profit	1058.8	1031	1741
Equity	404.1	725	525
EPS(Rs)	26.20	14.2	33.2
CMP(Rs)	144	122	382
NII	2545	2268	5756
NIM%	1.86	1.28	2.51
CASA%	34.44	14.59	27.84
NNPA%	0.69	1.53	1.31
BV/shr(Rs)	108	113	244
P/E(X)	5.50	8.58	11.52
P/BV(X)	1.33	1.08	1.57
Div%	22.00	30.00	70.00

Risk concerns:

- Quality of assets is a major concern area for the bank. Hardening of interest rates can cause deterioration in the quality of assets.
- CASA level and NIM is lower than the industry average.
- Lower NIM would lower core business profit.
- New entrants may increase the competition in the banking space.
- Tightening of liquidity can impact the profits of the banks.

Recommendation:

Capital infusion and growth in business will lead to improvement in the performance of the bank. The strong pick up in infrastructure segment where IDBI is well positioned would further act as a catalyst. A reduction in provisioning requirement would improve the bottom line. At CMP Rs 122 the stock is trading at forward earning multiple of 6.5 x of FY11E and 0.9x of FY11E BV. Long term Investors can buy at this counter for a target of Rs140 in medium term

Financials:

Earnings Table	(Rs Cr)			
Particulars	***FY08***	***FY09***	***FY10***	***FY11E***
Interest earned	8041	11545	15273	19702
Change %		43.58%	32.29%	29.00%
Other Income	1582	1476	2291	2978
Total Income	9623	13022	17564	22680
Interest Expense	7364	10306	13005	16600
Total Expenses	8323	11644	14837	19100
profit befor Prov& Cont	1299	1378	2727	3580
Provisions	477	392	1682	1400
Tax	93	127	14	327
Reported PAT	729	859	1031	1853
Change %		17.70%	20.10%	79.70%
NII	676	1239	2267	3102
Change %		83.22%	82.94%	36.79%
EPS	10	12	14	19
Equity	725	725	725	980
BV	93	103	113	132
CMP(Rs)	122	122	122	122
P/E(x)	12.1	10.3	8.6	6.5

Balance Sheet	(Rs Cr)			
Particulars	***FY08***	***FY09***	***FY10***	***FY11E****
cash & balance with RBI	6695	8592	13903	16800
Investments	32803	50048	73345	79000
Advances	82213	103444	138202	172800
change%		25.83%	33.60%	25.03%
Fixed Asset (Net)	2722	2747	2835	2950
Other assets	6262	7572	5286	8000
Total Assets	130694	172402	233572	279550
Share capital	726	727	726	980
Reserves	8096	8697	9438	13816
Deposits	72998	112401	167667	204500
change%		53.98%	49.17%	21.97%
Borrowings	38613	39494	41891	45000
change%		2.28%	6.07%	7.42%
Other lib& Prov	10262	11083	13849	15254
Total Liabilities	130694	172402	233572	279550

*capital in fusion announced in June 2010

Key Ratios				
Particulars	***FY08***	***FY09***	***FY10***	***FY11E***
Cost/Income %	41.8	49.3	40.2	37.0
Credit/deposite%	112.6	92.0	82.4	84.5
Prov.cov ratio%	NA	33.9	74.9	75.0
CASA%	16.6	14.8	14.6	16.0
NIM%	0.71	0.99	1.28	1.32
CAR%	12.0	11.6	11.3	13.0
GNPA%	1.9	1.4	1.5	1.2
NNPA%	1.3	0.9	1.0	0.9
ROE%	11.2	12.1	13.2	13.2
RoA(%)	0.6	0.6	0.5	0.7

Valuations				
Particulars	***FY08***	***FY09***	***FY10***	***FY11E***
EPS (Rs)	10.1	11.8	14.2	18.9
Book Value Per Share	93.1	102.7	113.5	131.7
Dividend per share	2.0	2.5	3.0	3.0
P/E	12.1	10.3	8.6	6.5
P/BV	1.3	1.2	1.1	0.9
M-Cap/Sales	0.0	0.8	0.6	0.6

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