MSFL Research

Q3FY12 - Result Update

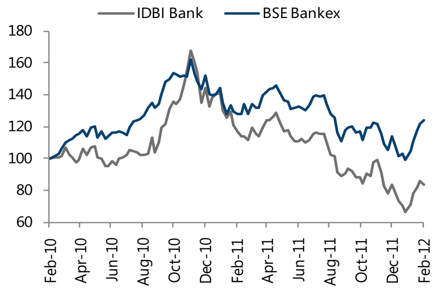
IDBI Bank

Subdued quarter

Buy

Reco	Maintained
CMP	₹ 97
Target Price	₹ 133
Upside Potential	37%

Price Performance	
52 wk Hi/Lo	154/77
All time Hi/Lo	202/14
6 mnth Average Vol	1862332
Stock Beta	1.25



Valuation

	FY11	FY12P	FY13P
P/E (x)	5.8	5.5	4.5
P/BV (x)	0.8	0.7	0.6
P/ABV (x)	0.9	0.8	0.7
RONW (%)	16.1	12.8	14.1

Peer Valuation (FY12)

	PNB	BOB	Avg
PE	5.2	5.4	4.7
P/BV (x)	1.3	1.3	1.1

Equity Data

Market Cap. (₹ bln)	95.5
Face value (₹)	10
No of shares o/s (mln)	985

	Dec'10	Dec'11	Δ %
Promoters	65.14	65.13	-0.02
DFI's	14.35	15.57	8.50
FII's	5.34	3.35	-37.27
Public	15.17	15.95	5.14

Laxmi Ahuja
laxmi.ahuja@msflibg.in
(+ 91 22 3094 7132)

Himanshu Kuriyal
himanshu.kuriyal@msflibg.in
(+ 91 22 3094 7112)

Arif Dadani
arif.dadani@msflibg.in
(+ 91 281 2481313)

February 3, 2012

IDBI bank has reported lower than expected numbers both on earnings and profitability front with NII declining by 12% y-o-y while the Earnings declined by 9.8%. The decline in NII apart from increase in cost of deposits q-o-q is due to income reversal to the extent of ₹ 640mln on account of one aviation exposure slippage.

Consolidation in business growth

Business growth of the bank was at 17.1% yoy with advances growing by 16.2% and deposits growing by 17.9%. However, on YTD basis, business growth is down by 1.3% with advance and deposits declining by -0.6% and -1.9% respectively. Advances were driven by Retail (+20.7%) and Agri (+36.5%) with focus ahead being on priority sector lending in order to meet the PSL targets. CASA deposits of the bank improved by 54% y-o-y and the CASA ratio came in at 19.7% as against 19.2% in Q2FY12. Also the share of the bulk deposits to total deposit reduced to 54.8% as against 65% in the previous quarter, indicating increasing thrust on Retail deposits.

Sequential contraction in margins

The Net Interest Margin (NIM) of the bank declined by 11 bps q-o-q to 1.89% as cost of funds increased by 24 bps. Income reversal of ₹ 640mln due to slippage of one aviation account as well as sequential increase in loans to agriculture has led just 2bps increase in yield on advance q-o-q. Going forward, the management has guided that incremental growth would be largely towards priority sector to meet the PSL targets. While for the next quarter too we could see moderating margin trend, improvement in retail term deposits, further traction in CASA as well as falling interest rates should see margins improving in FY13.

Except for one-off, slippages lower than average run rate

The slippages for the quarter stood at ₹ 12.34bln which included one aviation exposure worth ₹ 6.96bln, sans which the slippages for the quarter has been lower than the average run rate of ₹ 6-7bln. The slippage ratio stood at 2.38% as against 1.6% q-o-q. GNPA and NNPA ratio on the relative basis came in at 2.94% and 1.96% as against 2.47% and 1.57%. Coverage ratio of the bank stood at 69.1% (incl. technical write offs). The restructured book swelled to 6.1% of the loan book as against 5.7% q-o-q as net additions to this book were to the tune of ₹ 7bln.

Valuation

As a part of the consolidation strategy, the topline growth is expected to be muted for the bank unless it gains comfort on the cost side. Add to this is the concerns on additional restructuring on certain lumpy accounts which would result in provisioning stress. Event hough the bank is trading at shallow multiples, we believe that it warrants discount to its PSB peers due to above mentioned concerns. At its CMP, the stock trades at 0.8x and 0.7x of its FY12 & FY13E ABV. We value the standalone business at ₹ 105 implying 0.77x of its FY13E ABV and ascribe ₹ 28 per share to for its investments, thus arriving at an SOTP based target pric of ₹ 133.

Summary Financials

Particulars (₹ Mln)	FY10	FY11	FY12P	FY13P
Net Interest Income	22674	43289	46797	58889
Other Income	22910	20837	22063	26062
Pre-Provisioning Profit	27269	41579	42587	53344
Net Profit	10311	16503	17250	21447
EPS	14.2	17.0	17.5	21.8
Networth	101633	126420	161984	180518
Deposits	1676671	1804860	2039492	2345416
Advances	1382019	1570980	1806627	2113754

Exhibit 1: Q3FY12 Performance Highlights

IDBI Bank

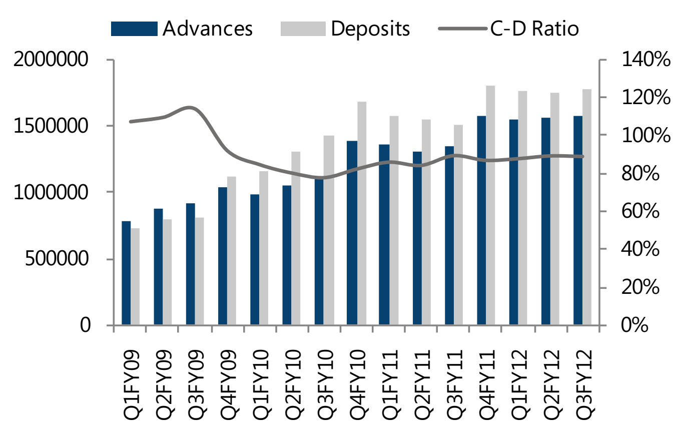
Particulars (₹ in mln)	Q3FY12	Q3FY11	(y-o-y)	(q-o-q)	9MFY12	9MFY11	(y-o-y)
Interest Income	58492	47123	24.1	0.6	172905	135178	27.9
Interest Expense	47897	35083	36.5	2.1	139565	103564	34.8
Net Interest Income (NII)	**10595**	**12040**	**-12.0**	**-5.6**	**33339**	**31615**	**5.5**
Other Income	4318	4472	-3.4	-9.9	13418	14660	-8.5
Net Total Income	14913	16512	-9.7	-6.9	46758	46785	-0.1
Operating Expenses	6670	5167	29.1	12.2	18142	16374	10.8
Pre-Provisioning Profit (PPP)	8243	11345	-27.3	-18.1	28616	30410	-5.9
Provisions & Contingencies	4064	6520	-37.7	26.8	11527	15950	-27.7
PBT	**4179**	**4826**	**-13.4**	**-39.1**	**17089**	**14461**	**18.2**
Tax	81	285	-71.6	-95.2	4481	2620	71.0
PAT	**4098**	**4541**	**-9.7**	**-20.6**	**12608**	**11841**	**6.5**
EPS	4.6	4.6	-0.2	-12.2	13.2	13.0	2.1
Cost to Income (%)	44.7	31.3	1343.1	758.4	38.8	35.0	380.0
GNPA (%)	2.9	2.2	72.0	47.0	2.9	2.2	72.0
NNPA (%)	2.0	1.2	76.0	39.0	2.0	1.2	76.0

Key Q3FY12 Result Highlights

Consolidation in business growth

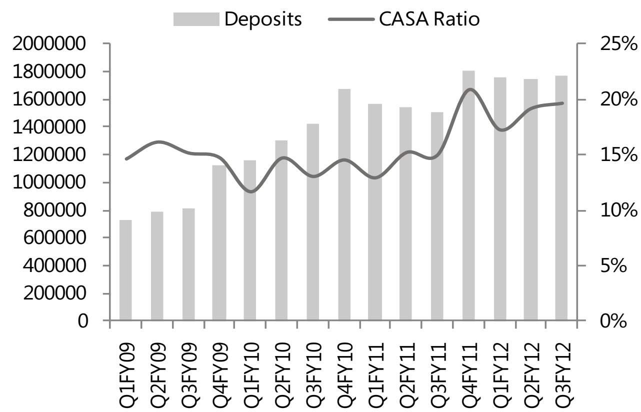
Business growth of the bank was at 17.1% y-o-y with advances growing by 16.2% and deposits growing by 17.9%. However, on YTD basis, business growth is down by 1.3% with advance and deposits declining by -0.6% and -1.9% respectively. Advances were driven by Retail (+20.7%) and Agri (+36.5%) with focus ahead being on priority sector lending in order to meet the PSL targets. CASA deposits of the bank improved by 54% y-o-y and the CASA ratio came in at 19.7% as against 19.2% in Q2FY12. Also the share of the bulk deposits to total deposit reduced to 54.8% as against 65% in the previous quarter, indicating increasing thrust on Retail deposits.

Exhibit 2: Trend in Buisness growth



Source: Company, MSFL Research

Exhibit 3: Trend in CASA Ratio



Source: Company, MSFL Research

Exhibit 4: Loan Book Break-up

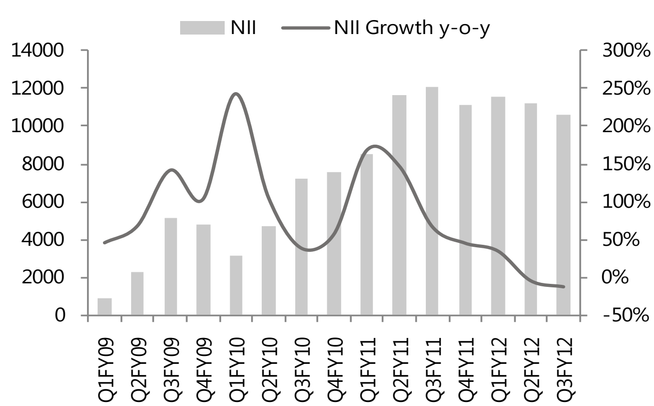
	Q3FY12	Q3FY11	% y-o-y	Q2FY12	% q-o-q
Retail	273170	226280	20.7%	272340	0.3%
SME	89460	119050	-24.9%	96460	-7.3%
Large & Mid Corp	1080130	909690	18.7%	1082230	-0.2%
Agri Advances	119400	87440	36.6%	108150	10.4%
Total Advances	**1562170**	**1344910**	**16.2%**	**1559171**	**0.2%**

Source: Company, MSFL Research

Sequential contraction in margins

The Net Interest Margin (NIM) of the bank declined by 11 bps q-o-q to 1.89% as cost of funds increased by 24 bps. Income reversal of ₹ 640mln due to slippage of one aviation account as well as sequential increase in loans to agriculture has led just 2bps increase in yield on advance q-o-q. Going forward, the management has guided that incremental growth would be largely towards priority sector to meet the PSL targets. While for the next quarter too we could moderating margin trend, improvement in retail term deposits, further traction CASA as well as falling interest rates should see margins improving in FY13.

Exhibit 5: NII growth trend



Source: Company, MSFL Research

Weak Other Income

The fee income was flat on y-o-y basis given the flattish growth in advances as well as lack of closures for many projects. Apart from this stream, all the other segments too declined on y-o-y basis. As a result of which the Non interest income of the bank was down by -3.4% on y-o-y basis.

Exhibit 6: Break up of Other Income

	Q3FY12	Q3FY11	% y-o-y	Q2FY12	% q-o-q
CEB	2970	2920	1.7%	3200	-7.2%
Treasury	400	650	-38.5%	630	-36.5%
Forex	380	460	-17.4%	240	58.3%
Recovery from W/o a/c	190	220	-13.6%	270	-29.6%
Misc Income	378	222	70.3%	451	-16.1%
Total	**4318**	**4472**	**-3.4%**	**4791**	**-9.9%**

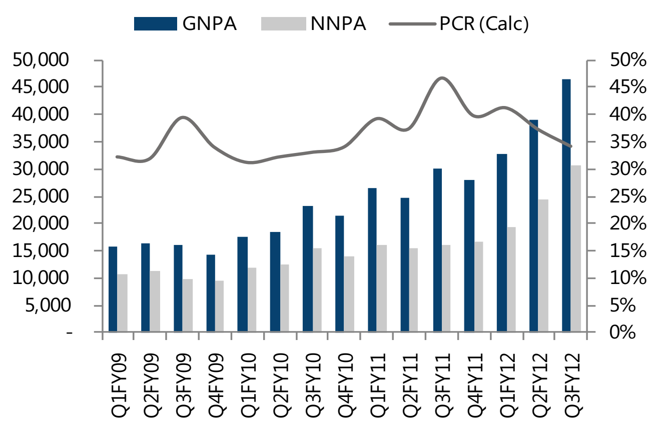
Source: Company, MSFL Research

Except for one-off, slippages lower than average run rate

The slippages for the quarter stood at ₹ 12.34bln which included one aviation exposure worth ₹ 6.96bln, sans which the slippages for the quarter has been lower than the average run rate of ₹ 6-7bln. The slippage ratio stood at 2.38% as against 1.6% q-o-q. Given the overhang on yet another major aviation exposure (₹ 10bln), the slippages could swell in Q4, in case any material solution doesn't emerge. GNPA and NNPA ratio on the relative basis came in at 2.94% and 1.96% as against 2.47% and 1.57%. Coverage ratio of the bank stood at 69.1% (incl. technical write offs).

Restructured loan book of the bank increased by 7.5% on sequential basis and stands at ₹ 95.22bln which is 6.1% of the loan boo as net additions to this book were to the tune of ₹ 7bln. Bank has witnessed further slippages from restructured book of ₹ 5.77bln taking total slippages to 22.2% of restructured book as against 17.4% in 2QFY12.

Exhibit 7: Trend in Asset Quality



Source: Company, MSFL Research

Sequential Provisions on the rise

Provisions of the bank was up by 26.8% on sequential basis largely due to higher provision in restructurred advances (7x qoq) as the bank had to take an NPV hit on the restructured telecom exposure. Also the loan loss provisions have increased significantly during the quarter and was almost doubled. Bank has taken advantage of the tax provision of section 36 (1) (viii) which provides for deduction to the extent of reserves created out ot profit (max to the extent of 20% of profits). As a resul,t tax expense of the bank has come down significantly.

Other Highlights

- The Cost to Income ratio of the bank stood at 44.7% as against 37.1% in the previous quarter due to higher other expenses.
- The Capital Adequacy Ratio of the bank stood at 13.53% with Tier-I ratio at 7.54%. Tier-I bonds wroth ₹ 21.3bln are expected to be converted into equity by FY12.
- Higher growth in RWA is mainly due to internal and external ratings of certain entities coming down as a result of which higher risk weights are assigned plus the additional restructuring during the quarter.
- Air India exposure of the bank is to the tune of ₹ 10000 mln.

Outlook and Valuation

As a part of the consolidation startegy, the topline growth is expected to be muted for the bank unless it gains comfort on the cost side. Add to this is the concerns on additional restructuring on certain lumpy accounts which would result in provisioning stress. Even though the bank is trading at shallow multiples, we believe that it warrants discount to its PSB peers due to above mentioned concerns. At its CMP, the stock trades at 0.8x and 0.7x of its FY12 & FY13E ABV. We value the standalone business at ₹ 105 implying 0.77x of its FY13E ABV and ascribe ₹ 28 per share to for its investments, thus arriving at an SOTP based target pric of ₹ 133.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Interest Income	115,451	152,726	186,008	225,239	265,980
Interest Expense	103,057	130,052	142,719	178,442	207,091
Net Interest Income (NII)	**12,394**	**22,674**	**43,289**	**46,797**	**58,889**
Other Income	14,764	22,910	20,837	22,063	26,062
Total Net Income	27,158	45,584	64,125	68,860	84,951
Operating Expenses	13,379	18,314	22,547	26,273	31,608
Pre-Provisioning Profit (PPP)	13,779	27,269	41,579	42,587	53,344
Provisions & Contingencies	3,923	13,495	18,769	17,945	22,705
PBT	**9,856**	**13,774**	**22,810**	**24,643**	**30,639**
Tax	1,271	3,463	6,307	7,393	9,192
PAT	**8585**	**10311**	**16503**	**17250**	**21447**
NIM (Calculated)	0.8%	1.1%	1.8%	1.7%	1.9%
EPS	11.8	14.2	17.0	17.5	21.8
NII Growth (%)	83.2%	82.9%	90.9%	8.1%	25.8%
PAT Growth (%)	17.7%	20.1%	60.0%	4.5%	24.3%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Liabilities					
Equity	7,248	7,249	9,850	9,850	9,850
Reserves & Surplus	86,974	94,384	135,820	152,134	170,668
Networth	**94,221**	**101,633**	**126,420**	**161,984**	**180,518**
Deposits	1,124,010	1,676,671	1,804,860	2,039,492	2,345,416
Borrowings	444,170	477,095	515,700	539,434	565,011
Other Liabilities & Provisions	61,604	80,306	67,550	182,607	241,170
Total Liabilities	**1,724,023**	**2,335,720**	**2,533,770**	**2,923,516**	**3,332,115**
Assets					
Cash & balances with RBI	85,915	139,035	195,590	207,820	225,119
Balances with banks & money at call	26,278	6,794	12,070	76,887	65,774
Investments	500,476	733,455	682,690	754,612	844,350
Advances	1,034,445	1,382,019	1,570,980	1,806,627	2,113,754
Fixed Assets	28,241	29,970	30,370	33,407	36,748
Other Assets	48,668	44,449	42,060	44,163	46,371
Total Assets	**1,724,023**	**2,335,720**	**2,533,770**	**2,923,516**	**3,332,115**

Ratios

Valuation Ratios	2009	2010	2011	2012P	2013P
P/E	8.2	6.8	5.8	5.5	4.5
P/BV	0.9	0.9	0.8	0.7	0.6
P/ABV	1.1	1.0	0.9	0.8	0.7
P/PPP	5.1	2.6	2.3	2.2	1.8
EPS	11.8	14.2	16.8	17.5	21.8
DPS	2.5	3.0	3.5	3.5	4.6
Book Value (BV)	102.7	113.5	128.2	144.8	163.6
Adjusted Book Value (ABV)	89.6	94.1	111.2	115.3	136.3
Profitability Ratios					
ROE	9.4%	13.2%	16.1%	12.8%	14.1%
ROA	0.6%	0.5%	0.7%	0.6%	0.7%

Source: Company, MSFL Research

Spread Analysis	2009	2010	2011	2012P	2013P
Yield on Advances	9.8%	8.9%	9.3%	10.2%	10.5%
Yield on Investments	5.3%	6.8%	6.8%	7.0%	7.2%
Cost of Deposits	7.1%	6.6%	5.7%	7.1%	7.5%
Cost of Funds	7.4%	6.8%	6.2%	7.1%	7.4%
Net Interest Margin (NIM)	**0.8%**	**1.1%**	**1.8%**	**1.7%**	**1.9%**

Key Assumptions

Credit Growth	-	-	-	15.0%	17.0%
Deposit Growth	-	-	-	13.0%	15.0%
CASA Ratio	-	-	-	22.0%	23.0%
Slippage Ratio	-	-	-	1.8%	1.4%
Provisioning coverage	-	-	-	34.9%	44.2%

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

Marwadi Shares & Finance Limited

Institutional Business Group, *MSFL*
@p-sec, 306, Gresham Assurance House
132, Mint Road, Fort, Mumbai – 400 001
Tel : + 91 22 30947100 / 102 Fax : +91 22 2269 0478

Registered Office
Marwadi Financial Plaza, Nava Mava Main Road,
Off 150 FT. Ring Road, Rajkot,- 360 005
Tel : + 91 281 2481313 / 3011000