

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 35.7 bn
Price	Rs. 49.3
BSE Sensex	8,902.6
Reuters	IDBI.BO
Bloomberg	IDBI IN
Avg. Volume (52 Week)	0.89 mn
52-Week High/Low	Rs. 121 / 48.5
Shares Outstanding	724.8 mn

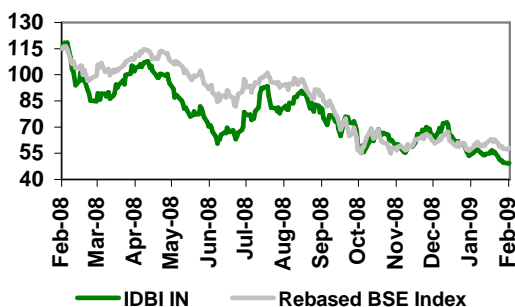
#### Valuation Ratios (Standalone)

	FY09E	FY10E
EPS (Rs.)	10.6	9.6
+/- (%)	5.0%	(9.1)%
PER (x)	4.7x	5.1x
P / PPP (x)	2.8x	2.1x
P / ABV (x)	0.47x	0.44x

#### Shareholding Pattern (%)

Promoter	53
FII's	4
Institutions	22
Public & Others	21

#### Relative Performance



### IDBI Bank

Hold

#### Battling macroeconomic headwinds

Despite a robust growth in the net interest income, IDBI Bank reported a moderate 26.6% yoy growth in Q3'09 net profit, primarily due to a decline in the non-interest income. We hold a cautious near-term outlook for the Bank on account of its heavy dependence on corporate banking, a decline in treasury profits despite falling interest rates, and a lower RoE. However, the low CASA ratio should improve as the Bank plans to enhance its network by 200 branches during the next 6–9 months. Our SOTP valuation suggests a fair value of Rs. 55, indicating a potential upside of 11% over the current stock price. Thus, we give a Hold rating to the stock.

**Fee income growth to decline in the short term:** The Bank reported a 27.3% yoy decline in the non-interest income to Rs. 2.7 bn; however, fee income increased 143.4% yoy to Rs. 2 bn. Non-interest income declined primarily due to lower treasury profits; this is a matter of concern as other Banks reported a growth in treasury profits on account of falling interest rates during the same time. We expect fee income growth to fall as the Bank would generate less income through loan processing. This is because the declining growth rate of advances and falling equity markets are likely to steer investors from insurance and mutual fund products, thereby adversely affecting third-party distribution. Thus, we expect the non-interest income to decline by around 30% in FY09.

**Funding advances through borrowings:** Advances grew by robust 34.7% yoy and 5.8% qoq to Rs 921.9 bn, primarily led by higher demand

#### Key Figures (Standalone)

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY %	QoQ%	9M'08	9M'09	YoY %
(Figures in Rs mn, except per share data)								
Net Interest Income	2,201	2,290	5,163	134.6%	125.5%	4,348	8,445	94.2%
Net Optng. Income	5,864	5,491	7,823	33.4%	42.5%	16,251	17,619	8.4%
Pre-Prov Optng. Profit	3,718	2,845	3,906	5.1%	37.3%	9,757	8,938	(8.4)%
<b>Net Profit</b>	1,758	1,625	2,226	26.6%	37.0%	4,845	5,449	12.5%
Cost/Optng. Income	36.6%	48.2%	50.1%	-	-	40.0%	49.3%	-
Net Interest Margin*	0.98%	0.79%	1.11%	-	-	-	-	-
NPA ratio	1.19%	1.28%	1.04%	-	-	1.19%	1.04%	-
<b>Per Share Data (Rs.)</b>								
PPP per share	5.1	3.9	5.4	4.8%	37.4%	13.5	12.3	(8.3)%
EPS	2.4	2.2	3.1	26.3%	37.1%	6.7	7.5	12.6%
BVPS	121.4	126.0	128.8	6.1%	2.2%	121.4	128.8	6.1%

\* Excluding interest on IT refunds

from entities, especially in the infrastructure space where IDBI is a prominent player. We believe the management will need to slow down the growth in advances because of the lower Tier I capital adequacy, which currently stands at 6.9%. Moreover, the qoq growth of advances in Q3'09 was primarily funded by borrowings (incremental credit/deposit ratio of ~370%), which is not sustainable. Further, due to falling interest rates, the Bank is increasing its exposure in investments—its investment-to-deposit ratio increased from 40.8% in Q2'09 to 48.1% in Q3'09. We expect advances to grow by around 4.5% qoq in Q4'09, averaging around 17% growth for FY09. For FY10, we expect this growth to fall to around 15%.

**Asset quality likely to deteriorate...:** At the close of Q3'09, gross NPAs stood at Rs. 16 bn, versus Rs. 15.8 bn in Q3'08. However, on a qoq basis, gross NPAs decreased 3.1%. Though gross NPAs fell during the quarter, we believe these will increase in the coming quarters as the Bank has a huge exposure to the corporate sector, which is likely to witness a rise in delinquencies in the current economic scenario. In addition, the Bank's recent decrease in provisioning is not in tune with the current market conditions, so we expect provisioning to increase in the near term. For FY2010, our base case assumes a gross NPA ratio of around 2.0% as the Bank has sizable interests in corporate and SME banking, where large ticket loans can lead to higher NPAs.

**...however, margins should increase:** Despite the high cost of funds and the declining CASA ratio, the Bank was able to increase its NIM to 1.1% from 0.98% in Q3'08 (excluding the interest on the IT refund). We believe margins are likely to go up in the future, as the Bank will repay its high-cost bulk deposits. In addition, the Bank is planning to increase its network by 200 branches in the next 6–9 months, which should increase the CASA ratio and thereby boost margins. Thus, we expect the NIM to remain in the range of 1.1–1.5% till FY2011.

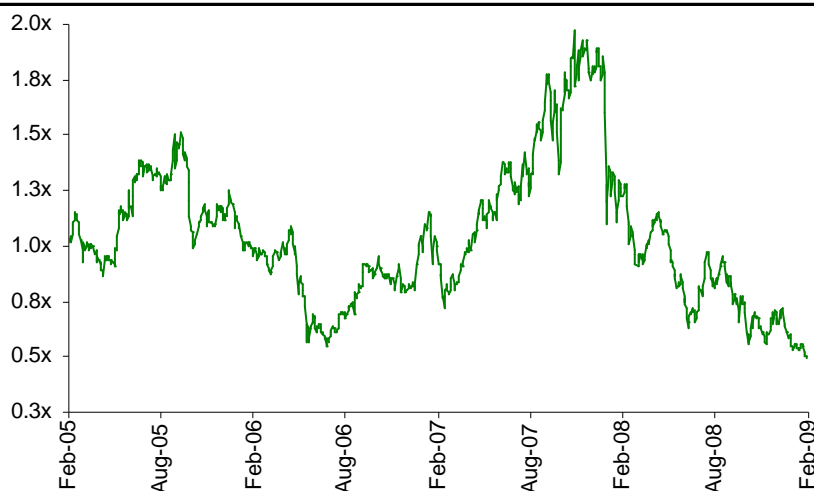
### Valuation

We have valued IDBI Bank's stock by using the sum-of-the-parts methodology. The standalone Bank has been valued by using the three-stage Discounted Equity Cash Flow model. Our fair value estimate of the standalone Bank is Rs. 43, assuming a 16.25% cost of equity and a 7.35% terminal growth rate. The Bank's subsidiaries and equity investments in ARCIL, NSE, SIDBI, IDFC, and IFCI have been valued at about Rs. 12 per share. Our final SOTP valuation of Rs 55 shows an upside of only 11% from the current price. Thus, we give a Hold rating to the stock.

### Sensitivity Analysis of the Estimate

Terminal growth	Cost of equity					
		15.75%	16.00%	16.25%	16.50%	16.75%
6.85%		56	54	53	52	50
7.10%		57	55	54	52	51
7.35%		58	56	55	53	52
7.60%		59	57	56	54	53
7.85%		60	58	57	55	54

### Historical P/B



Source: CMIE

### Result Highlights

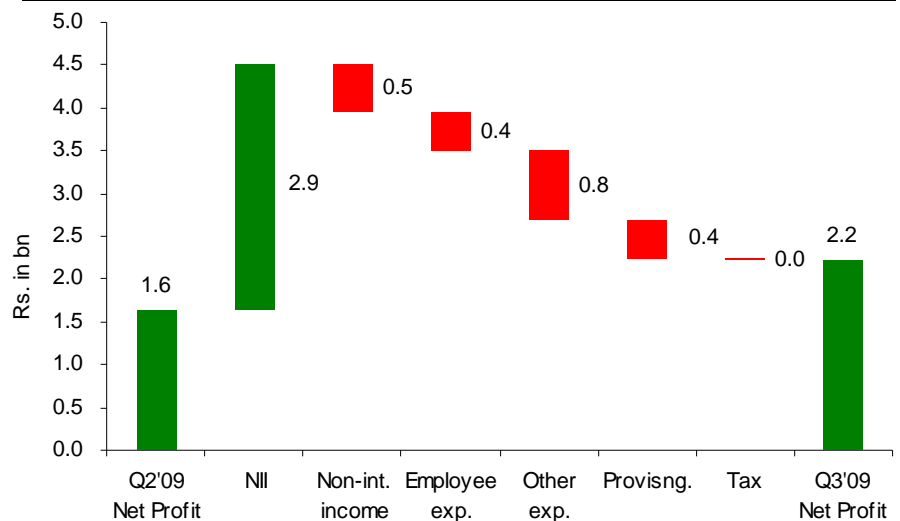
For Q3'09, IDBI reported a moderate 37% yoy and 26.6% qoq growth in the net profit to Rs. 2.2 bn, driven by a robust increase in the net interest income (NII). However, the increase in profit was offset by the decline in the non-interest income. Net interest income (NII) grew by a healthy 134.6% yoy to Rs. 5.2 bn, primarily led by an impressive 34.7% growth in advances and higher yields. The non-interest income witnessed a decline of 27.4% yoy, led by an 82.8% fall in the profit on sale of investments. However, the Bank continued to show a robust growth in its core fee income, which increased by a whopping 143.4% yoy to Rs. 2 bn.

Operating expenses increased 82.6% yoy to Rs. 3.9 bn, primarily due to a substantial 93.3% increase in employee expenses and a 76% increase in other operating expenses. As a result, the cost-to-income increased from 36.6% in Q3'08 to 50.1% in Q3'09.

On a sequential basis, the Bank increased its provisioning by 43.5% to Rs. 1.4 bn; however, on a yearly basis, provisioning decreased by 17.7%. Consequently, the coverage ratio decreased by 8 pts to 39.4%.

Advances increased 34.7% yoy but only 5.8% qoq to Rs. 921.9 bn. The total deposits growth was muted at 1.7% qoq. On a sequential basis, the CASA ratio decreased from 16.2% at the end of Q2'09 to 15.2% at the end of Q3'09.

### QoQ Net Profit Walk



Source: Bank data

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY07	FY08	FY09E	FY10E		FY07	FY08	FY09E	FY10E
<b>Income Statement</b>					<b>Key Ratios</b>				
(Rs mn, Yr. ending March 31)	FY07	FY08	FY09E	FY10E		FY07	FY08	FY09E	FY10E
Interest Income	63,454	80,208	118,251	140,771	<b>Per share data (Rs.)</b>				
Interest Expense	56,875	73,644	104,378	118,041	Shares outstanding (mn)	724.4	724.7	724.7	724.7
<b>Net Interest Income</b>	<b>6,579</b>	<b>6,564</b>	<b>13,873</b>	<b>22,731</b>	Basic EPS	8.7	10.1	10.6	9.6
YoY Growth (%)	73.2%	-0.2%	111.3%	63.8%	Diluted EPS	8.7	10.1	10.6	9.6
Other Income	10,272	16,355	11,517	7,986	Book value per share	114.6	121.7	127.6	133.0
<b>Net Operating Income</b>	<b>16,851</b>	<b>22,919</b>	<b>25,390</b>	<b>30,717</b>	Adj. book value per share	114.6	96.1	104.5	112.2
YoY Growth (%)	1.5%	36.0%	10.8%	21.0%	<b>Valuation ratios (x)</b>				
Operating Expense	7,785	9,588	12,461	13,276	P/PPP	6.2x	4.8x	2.8x	2.1x
<b>Pre-Provisioning Profit</b>	<b>9,066</b>	<b>13,331</b>	<b>12,928</b>	<b>17,440</b>	P/E	8.9x	8.8x	4.7x	5.1x
Provisions and Contingencies	2,240	5,104	4,268	9,516	P/B	0.7x	0.7x	0.4x	0.4x
<b>Profit Before Tax</b>	<b>6,826</b>	<b>8,227</b>	<b>8,660</b>	<b>7,924</b>	P/ABV	0.7x	0.9x	0.5x	0.4x
Tax	523	933	988	951	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>6,303</b>	<b>7,295</b>	<b>7,672</b>	<b>6,973</b>	Return on avg. assets	0.7%	0.6%	0.5%	0.4%
YoY Growth (%)	12.4%	15.7%	5.2%	-9.1%	Return on avg. net worth	8.6%	8.5%	8.5%	7.4%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY07	FY08	FY09E	FY10E	Advances to deposits	145.3%	113.3%	110.0%	108.0%
Cash and balances with RBI	69,111	87,588	74,569	59,258	Borrowings to advances	67.9%	47.0%	47.1%	46.6%
Investments	256,753	328,029	423,541	518,572	Investments to assets	24.7%	25.1%	27.6%	29.2%
YoY Growth (%)	1.3%	27.8%	29.1%	22.4%	Investments to deposits	59.2%	44.9%	48.1%	50.1%
Advances	624,708	822,127	962,424	1,109,825	Tier I capital adequacy	9.1%	7.6%	6.8%	6.2%
YoY Growth (%)	18.5%	31.6%	17.1%	15.3%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	27,784	27,660	25,962	25,632	Opt. expense per employee	1.0	1.2	1.5	1.3
Other Assets	60,037	41,540	50,761	59,669	Net profit per employee	0.8	0.9	0.9	0.7
<b>Total Assets</b>	<b>1,038,393</b>	<b>1,306,944</b>	<b>1,537,258</b>	<b>1,772,955</b>	Asset per employee	138.8	158.4	186.3	169.1
Deposits	433,540	729,980	880,753	1,035,310	<b>Operating ratios (%)</b>				
YoY Growth (%)	66.7%	68.4%	20.7%	17.5%	Operating cost to net income	46.2%	41.8%	49.1%	43.2%
Borrowings	424,044	386,126	453,300	517,317	Operating cost to avg. assets	0.8%	0.8%	0.9%	0.8%
YoY Growth (%)	-10.8%	-8.9%	17.4%	14.1%					
Other Liabilities & Provisions	97,810	102,619	110,704	123,918					
<b>Total Liabilities</b>	<b>955,395</b>	<b>1,218,724</b>	<b>1,444,756</b>	<b>1,676,545</b>					
Share Capital	7,244	7,248	7,248	7,248					
Reserves & Surplus	75,755	80,972	85,254	89,163					
<b>Total Equity &amp; Liabilities</b>	<b>1,038,393</b>	<b>1,306,944</b>	<b>1,537,258</b>	<b>1,772,955</b>					

Note: Standalone IDBI numbers

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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