

CMP Rs.124

Target Rs.154

Initiating Coverage- Buy

Key Share Data

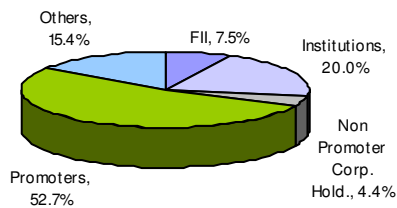
Face Value (Rs.)	10
Equity Capital (Rs. Mn.)	7248.8
Market Capitalization (Rs. Mn.)	86876.9
52-wk High / Low (Rs.)	140.00 / 85.10
Average Yearly Volume	1565676
BSE code	50016
NSE code	IDBI
Reuters code	IDBI.BO
Bloomberg code	IDBI IN

Company Profile

IDBI Bank was Development Financial Institution (DFI) when established, which transformed into a full-service commercial bank offering the entire suite of banking products and named as Industrial Development Bank of India Ltd (IDBI) in Sept. 2004.

As on 31st March 2010, IDBI Bank had total 720 branches, 1210 ATMs and around 11800 employees. Total business stood at Rs.3058689 Mn.

Shareholding Pattern – 31st March 2010



Investment Rationale

Capital infusion, fuel for growth:

- As on 31st March 2010. Tier 1 capital of IDBI Bank was 6.2%, which is lower than the RBIs suggested level of 8%.
- To increase the Tier 1 capital to 8% GOI is expected to infuse capital of Rs.31000 Mn. by way of preferential placement of equity.
- This will provide headroom to IDBI bank to raise funds to support its business growth.

Healthy business growth:

- With the capital infusion, IDBI Bank would be in position to grow its business above the industry average, though achieving the previous high growth rate will not be possible. **We believe that Total business for IDBI Bank will grow at the CAGR of 24% from FY09 to FY12E.**
- This growth would be supported by:
 - Branch expansion.
 - Capital infusion.
 - Targeting infrastructure lending.

Financials (Rs. Mn.)

	FY09	FY10	FY11E	FY12E
Net Int.inc.	12394	22674	35091	48645
NIMs (%)	0.92%	1.23%	1.49%	1.69%
Oprt Profit	13779	27269	35904	47372
PAT	8585	10311	13587	18179
PAT Gr %	17.70%	20.10%	31.77%	33.79%
EPS (Rs.)	11.84	14.23	13.94	18.65
BVPS	119.15	123.54	145.47	160.61

Key Financial Ratios

	FY09	FY10	FY11E	FY12E
P/E	10.47	8.72	8.90	6.65
P/ABV	1.17	1.19	0.97	0.88
Cost to Income	49.26%	40.18%	41.51%	39.95%
RoA%	0.57%	0.51%	0.53%	0.60%
RoE%	10.19%	11.72%	11.75%	12.19%
CD Ratio	92.03%	82.43%	82.43%	79.13%
Spread %	0.99%	1.32%	1.45%	1.46%
Pro.Coverage%	33.90%	33.96%	33.83%	36.46%
NNPA%	0.92%	1.02%	1.05%	0.96%
CASA	14.78%	14.59%	16.00%	17.00%

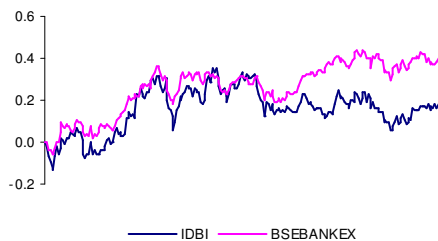
Increased emphasis on CASA deposits:

- IDBI Bank has been depending on borrowings to support its lending business. Now bank is emphasizing on deposits to support its lending, leading to decreased cost.
- The bank has been growing its concentration on mobilizing the CASA deposits as witnessed by the CASA ratio trend which we estimate to increase from 14.78% in 2009 to 17% by 2012E.**

Robust profitability:

- Reshuffling of deposits and skew ness towards low cost deposits will improve margins and on this basis we expect to see growth in NII by 56% and 36% for FY2011E and 2012E respectively.**
- Fee based income is also expected to grow in line with growth in credit, helping to sustain high growth in PAT.

1 year Performance comparison IDBI v/s BSEBANKEX



Valuation

At present IDBI Bank is trading at 1.2x Adj. BV of FY10. Our target price of Rs.154 is 1.2x and 1.1x to Adj. BV per share of FY11& FY12 respectively.

We hereby initiate coverage on IDBI Bank and recommend buy rating with a target price of Rs.154/- (24% upside) in 12 months.

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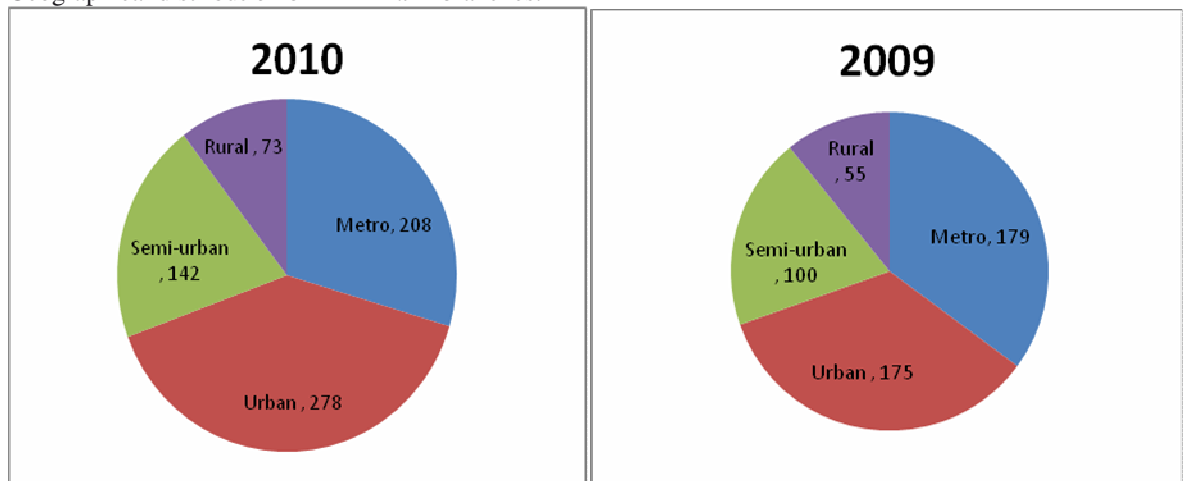
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Company profile

IDBI Bank was Development Financial Institution (DFI) when established, which transformed into a full-service commercial bank and named as Industrial Development Bank of India Ltd (IDBI) in Sept. 2004.

- It was incorporated as a wholly owned subsidiary of Reserve Bank of India (RBI) in the year of 1964. In 1976 IDBI came under the holding of Government of India (GOI) by the way of RBI's transfer. RBI surrendered its 100% stake to GOI . The Bank made its Initial Public Offer (IPO) in July, 1995, it brought down GOI holding to 72% and the post-capital restructuring to 58.1%. In September 2003, the Bank acquired the entire shareholding of Tata Finance Ltd in Tata Home Finance Ltd. The company has since been renamed as IDBI Home Finance Ltd (IHFL).
- In Sept. 2004, IDBI was transformed into a banking company to undertake all kind of banking activities while continuing to play its secular Development Financial Institution role. To reflect this, IDBI's name was changed as Industrial Development Bank of India Ltd. In 2005, IDBI Ltd. merged its banking subsidiary 'IDBI Bank' with itself, IDBI is now a universal bank. In October 2006, the Bank merged the erstwhile United Western Bank Ltd. (UWB) with itself as a part of the inorganic growth strategy.
- As on 31st March 2010, IDBI Bank had total 720 branches, 1210 ATMs and around 11800 employees.
- IDBI Bank has pan India presence, which helps to tap the huge potential in rural areas and the industrially important areas.

Geographical distribution of IDBI Bank branches:



Source: Company & SKP Research

- To take advantage of trade and cross-border capital flows between India and the Middle-East region, IDBI Bank has opened its first overseas branch at the Dubai International Financial Centre (DIFC), which will provide corporate banking services, including financial advisory and syndication of credit. This would help to meet the corporate financing needs of not only its vast Indian clientele but also clients in the developing Middle-East.

Investment Arguments

1. Capital Infusion, fuel for growth:

- The tier 1 capital of IDBI Bank stands at 6.2% as on 31st March 2010, far below the stipulated level of RBI of 8%. However the GOI approved the infusion of Rs.31 Bn. in the bank through preferential placement of equity. This would increase the tier 1 capital to 8% and the govt. holding to approx. 65% at the market price of Rs.120 and the equity dilution would be around 36%.

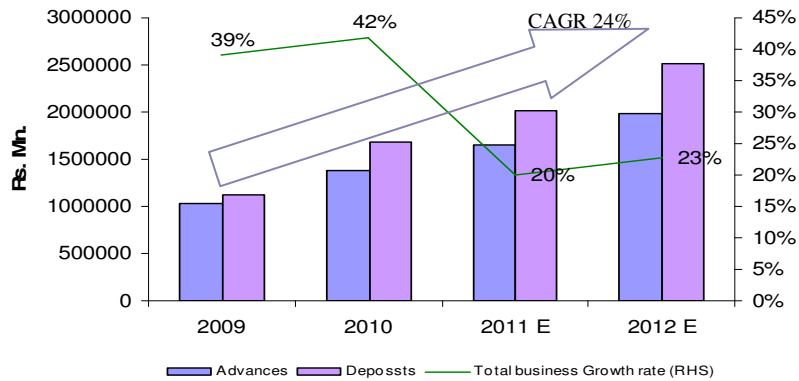
(Rs. Mn.)	Sensitivity analysis.	
Capital infusion	31000	31000
Price at which shares allotted (Assumed).	120	140
No. of shares (Mn.)	258	221
Capital value	2583	2214
Current capital	7249	7250
No. of shares (Mn.)	725	725
Govt. Holding	52.67%	52.67%
Govt. share capital	3818	3818
Other's holding	3431	3431
After infusion govt. holding	6401	6033
Total capital after infusion	9832	9464
% dilution in equity	35.64%	30.54%
Govt. Holding after capital infusion	65.1%	63.7%

Source: SKP Research

- Moreover the increase govt. holding would provide headroom for the bank to raise further capital through FPO, there by maintaining the required minimum govt. holding at the previous level of 52%. Management has stated that FPO would depend on the market conditions and the internal requirement of the bank.
- The capital infusion would give headroom to IDBI Bank to raise the additional capital through Tier 2 and Innovative Perpetual debt instruments.
- Capital infusion might dilute the EPS, but it will help in improving the margins as IDBI Bank's dependence on high cost deposits and borrowings would reduce.
- Capital infusion would strengthen the IDBI bank's balance sheet and provide the required capital to achieve its lending targets.

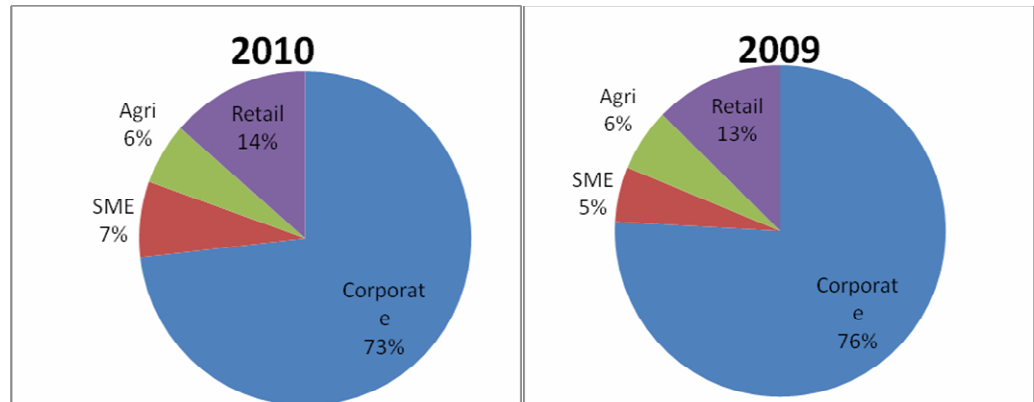
2. Healthy business growth:

- With the capital infusion, IDBI Bank would be in position to grow its business above the industry average, though achieving the previous high growth rate will not be possible. We believe that Total business for IDBI Bank will grow at the CAGR of 24% from FY09 to FY12E.



Source: Company & SKP Research

- IDBI Bank has substantial portion of its loan book consisting of corporate lending.

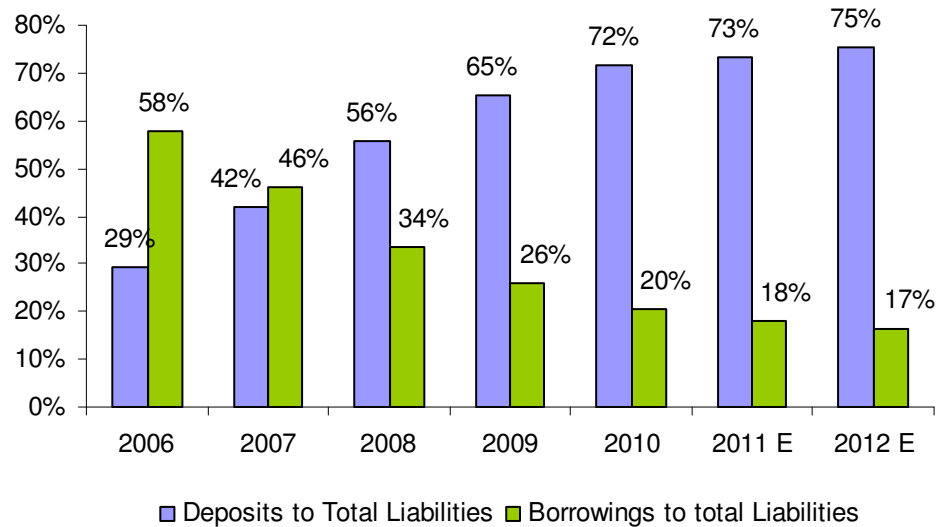


Source: Company & SKP Research

- We expect the bank to continue focus on corporate segment, with infrastructure lending as major growth driver.
- We for see strong growth prospects in the infrastructure sector supported by the govt. spending and ongoing construction activities in realty sector. This will act as the major contributor towards the growth in IDBI bank's loan book.

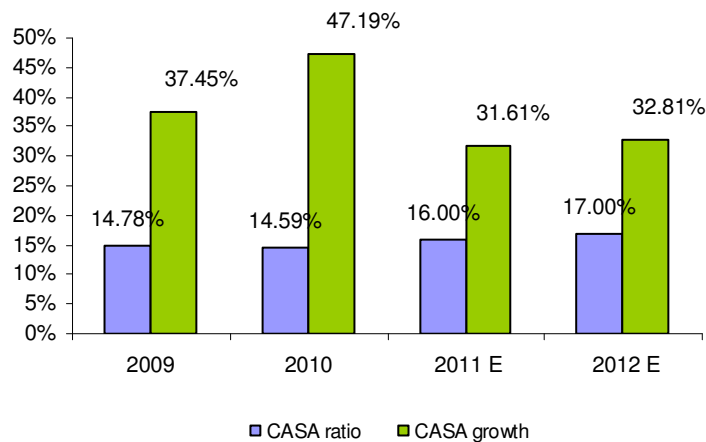
3. Increased emphasis on CASA deposits:

- We expect deposits of IDBI Bank to grow at CAGR of 31% over 2009 to 2012E.
- IDBI Bank has been depending on borrowings to support its lending business. Now bank is emphasizing on deposits to support its lending, leading to decreased cost as CASA deposits would be targeted.



Source: Company & SKP Research

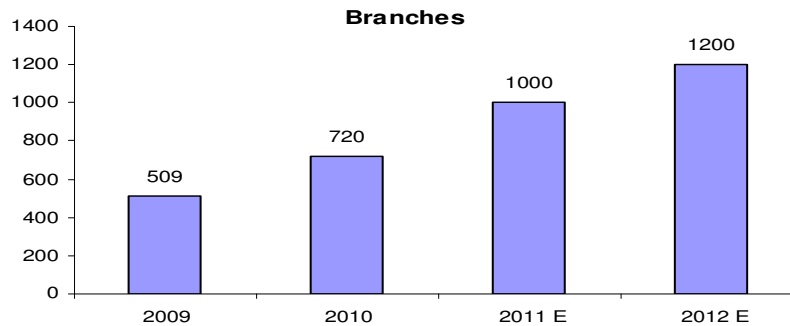
- The bank has been growing its concentration on mobilizing the CASA deposits as witnessed by the CASA ratio trend which we estimate to increase from 14.78% in 2009 to 17% by 2012E. Growth in CASA is backed on:
 1. Branch expansion
 2. Marketing network
 3. Healthy customer relationship.



Source: Company & SKP Research

- IDBI Bank has achieved 100% CBS, this would help in bringing the current account deposits.

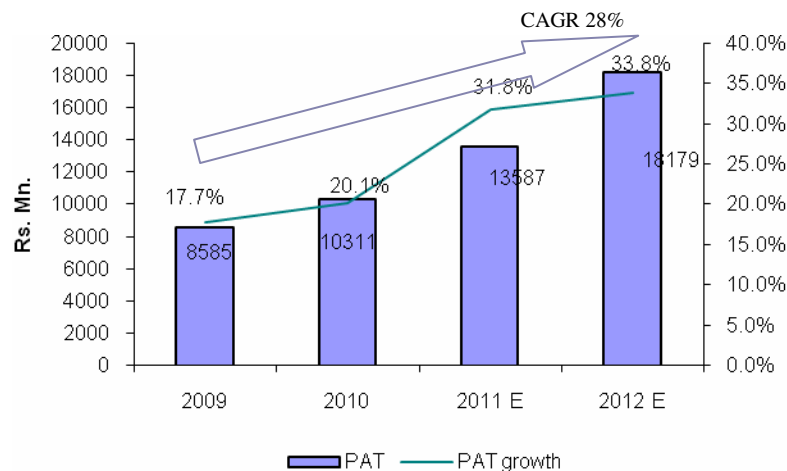
- Currently bank is undergoing a vigorous expansion plan there by targeting to establish 275 new branches, taking the total network to 1000 branches. This will act as a major contributor towards the long term growth in low cost deposits.



Source: Company & SKP Research

4. Robust Profitability:

- We expect IDBI Bank's PAT to grow at CAGR of 28% from 2009 to 2012E.
- This growth will be supported by the improved NIMs. We expect NII to grow by 54% and 36% for 2011E and 2012E respectively.
- Improvement in profits is also backed by growth in Fee based income, though the previous high growth rate will not be seen in Fee income. We expect IDBI bank to maintain sturdy growth in Fee income, in line with the credit growth.

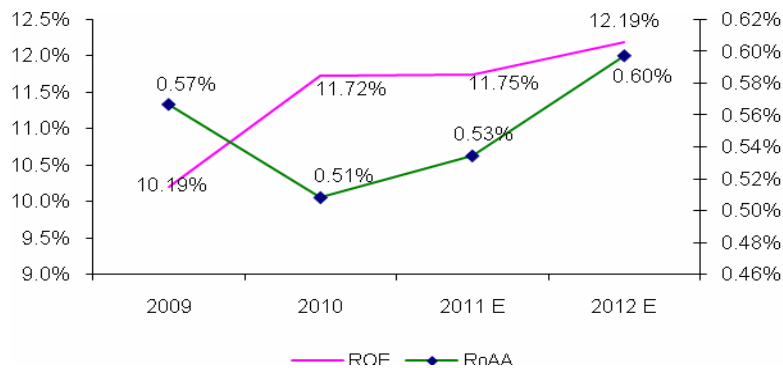


Source: Company & SKP Research

Financial Performance

1. Better returns:

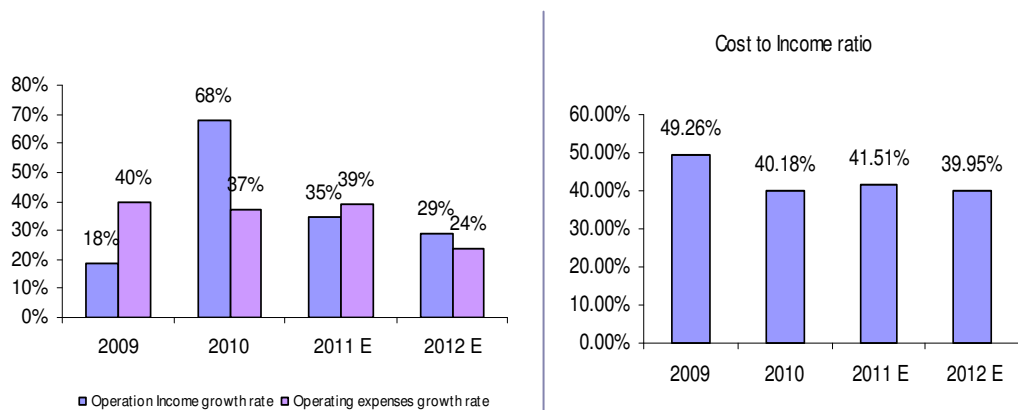
- IDBI has been reshuffling its liability mix towards low cost deposits and focusing on leveraging its current customer base along with acquiring new customer, this has lead to improved margins and better utilization of resources.
- This is evident from the improvement in the Return on equity part and we expect the RoAA to improve as profitability grows in line with growth in assets. **We expect RoE to improve from 10.19% in 2009 to 12.19% by 2012, and RoAA to improve from 0.57% in 2009 to 0.6% by 2012E.**



Source: Company & SKP Research

2. Cost Efficiency:

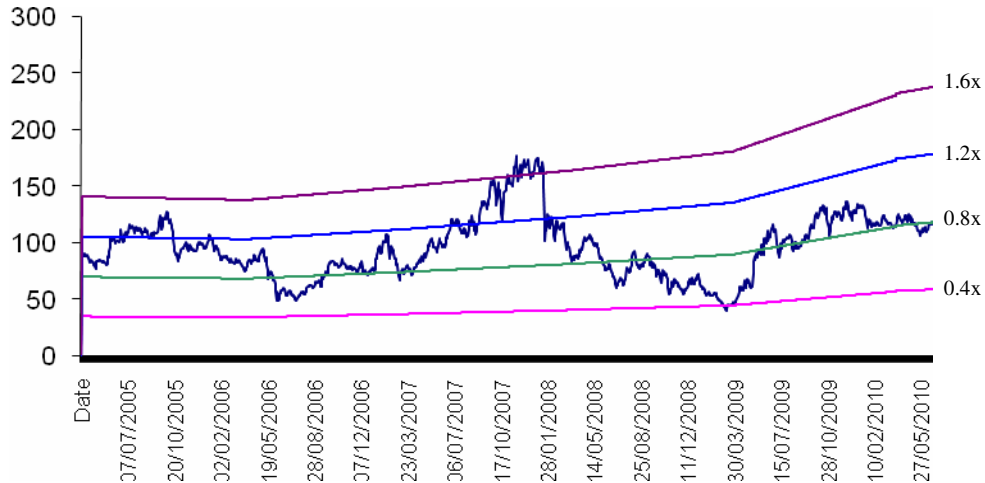
- Due to lower number of staff, IDBI Bank has been enjoying lower overhead cost advantage as compared to its peers.
- The cost to income ratio went up to 49% in 2009, due to higher growth in Operating expenses than operating income.
- IDBI bank might see a marginal increase in cost to income ratio due expansion expenses.
- We expect the cost to income ratio to settle at around 40% by 2012E.**



Source: Company & SKP Research

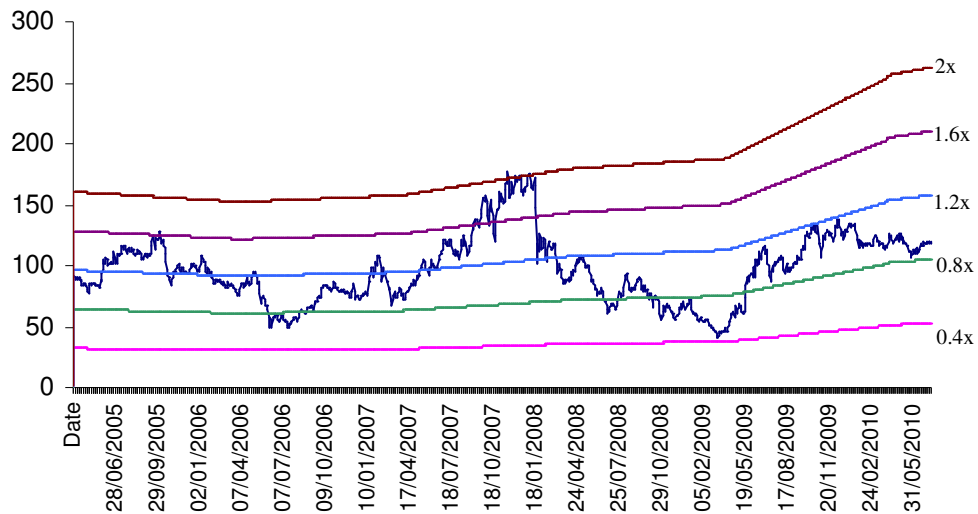
Valuations & Outlook

One year forward Price to Book Value band chart:



Source: Capitaline & SKP Research.

One year forward Price to Adj. Book Value band chart:



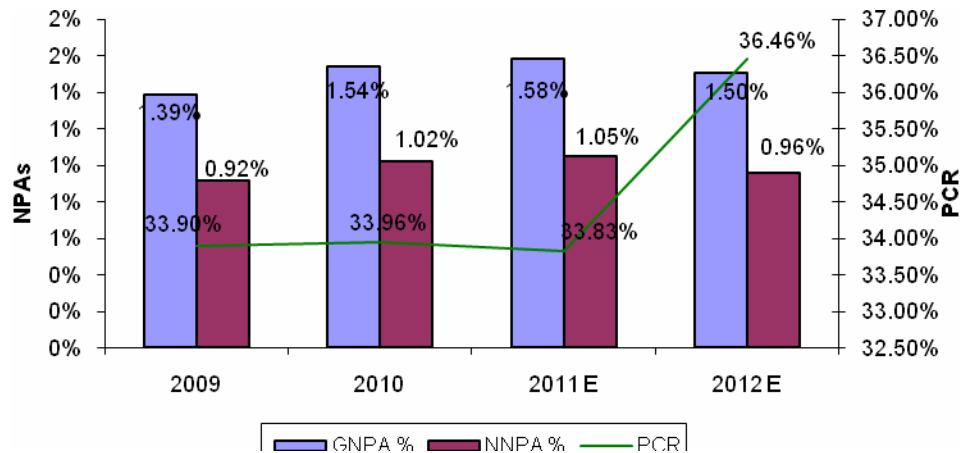
Source: Capitaline & SKP Research.

At present IDBI Bank is trading at 1.2x Adj. BV of FY10. Our target price of Rs.154 is 1.2x and 1.1x to Adj. BV per share of FY11E& FY12E respectively.

We hereby initiate coverage on IDBI Bank and recommend buy rating with a target price of Rs.154/- (24% upside) in 12 months.

Key Concerns

- Asset quality is a concern, but with improving market conditions we expect IDBI Bank would be in position to maintain its asset quality.



Source: Company & SKP Research (PCR excluding Tech. W/Offs.)

- IDBI Bank's Provision Coverage Ratio as on 31st March 2010 stood at 74.86% including the technical write offs. This is well above the mandatory requirement of 70% by RBI. We believe that IDBI Bank would maintain its PCR well above the minimum requirement of 70%.
- We have assumed that Rs.31000 Mn. would be fully infused in IDBI Bank by GOI in the current year.

Financial Statements & Ratios

Income Statement				
Financial Year (Rs.Mn.)	2009	2010	2011 E	2012 E
Interest Income	115451	152726	200694	251516
Interest Expenses	103057	130052	165603	202870
Net Interest Income	12394	22674	35091	48645
Fee based Income	7253	12254	14705	17646
Treasury Income	4113	7951	8746	9621
Miscellaneous Income	3398	2704	2839	2981
Other Income	14764	22910	26291	30248
Operating Income	27158	45584	61382	78894
Staff Cost	5692	7570	10118	11900
Other Operating Expenses	7687	10744	15360	19622
Operating Expenses	13379	18314	25478	31522
Operating Profit	13779	27269	35904	47372
Provisions	3923	13495	17544	22807
Profit before Taxes	9856	13774	18361	24566
Taxes	1271	3463	4774	6387
Profit after Taxes	8585	10311	13587	18179

Balance Sheet				
Financial Year (Rs. Mn.)	2009	2010	2011 E	2012 E
LIABILITIES				
Capital	7249	7248	9748	9748
Reserves & Surplus	86974	94385	132050	146807
Deposits	1124010	1676671	2012005	2515006
Borrowings	444170	477095	500950	551044
Other Liabilities	61604	80306	96367	115641
Total	1724007	2335704	2751120	3338247
ASSETS				
Cash & Balances with RBI	85915	139035	122709	155424
Balances with bank	26278	6794	-23268	-81742
Advances	1034445	1382019	1658422	1990107
Investments	500476	733455	916818	1191864
Fixed Assets	28241	29970	29767	31255
Other assets	48668	44449	46672	51339
Total Assets	1724007	2335704	2751120	3338247

Ratios	2009	2010	2011 E	2012 E
Spread analysis (%)				
Yield on advances	9.76%	8.92%	8.89%	9.05%
Yield on investments	5.30%	6.85%	7.56%	7.80%
Yield on interest-earning assets	8.53%	8.31%	8.55%	8.73%
Cost of deposits	7.14%	6.56%	6.68%	6.88%
Cost of funds	7.53%	6.99%	7.10%	7.27%
Spread	0.99%	1.32%	1.45%	1.46%
Profitability ratios (%)				
RoAA	0.57%	0.51%	0.53%	0.60%
ROE	10.19%	11.72%	11.75%	12.19%
NIM	0.92%	1.23%	1.49%	1.69%
Cost to Income	49.26%	40.18%	41.51%	39.95%
Asset Quality (%)				
Gross NPAs%	1.39%	1.54%	1.58%	1.50%
Net NPAs%	0.92%	1.02%	1.05%	0.96%
Provision Coverage Ratio	33.90%	33.96%	33.83%	36.46%
Net NPA as % to Networth	10.99%	15.71%	12.22%	12.15%
Delinquency Rate	0.62%	1.07%	1.15%	1.19%
Valuation ratios (x)				
EPS	11.84	14.23	13.94	18.65
BV per share	119.15	123.54	145.47	160.61
Adj. BV	106.06	104.13	127.69	141.09
P/E	10.47	8.72	8.90	6.65
P/Adj.BV	1.17	1.19	0.97	0.88
Business Ratio				
Credit Deposit ratio	92.03%	82.43%	82.43%	79.13%
Investment Deposit ratio	44.53%	43.74%	45.57%	47.39%
SLR to Investment ratio	81.37%	82.91%	82.33%	82.33%
CASA ratio	14.78%	14.59%	16.00%	17.00%
Total Business Growth rate	39.1%	41.7%	20.0%	22.7%

Cash Flow Statement (Rs. Mn.)	2009	2010	2011 E	2012 E
PBT	9856	10447	18361	24566
Net Cash from Operating Activities	27697	38794	-47576	52051
Net Cash used in Investing Activities	-1401	-3071	0	0
Net cash generated from Financing Activities	-1671	-2088	1169	-77810
Net Increase in cash & cash equivalents	24625	33635	-46407	-25759
Cash & Cash Equivalents as at year start.	87588	112213	145848	99441
Cash & Cash Equivalents as at year end.	112213	145848	99441	73683

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities

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