

IDBI Bank (IDBI)

Rs 122

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 141 to Rs 134
 EPS (FY11E) Changed from Rs 12.8 to Rs 12.4
 EPS (FY12E) Changed from Rs 15.6 to Rs 15.3
 RATING..... Changed from Strong Buy to Buy

Building core business growth...

Net profit for the bank grew 46% YoY to Rs 251 crore buoyed by strong performance on the NII front, which grew 169% YoY (as estimated by us) on a smaller base to Rs 852 crore in Q1FY11. However, this was lower than our expectations of Rs 271 crore as other income declined 38% YoY. Deposits at Rs1,57,204 crore and advances at Rs 1,35,329 crore expanded 36% and 38% YoY, respectively. However, the loan book slid 2.1% QoQ as it did not provide short-term credit to the telecom sector. This was because the strategic focus of the bank was on building long-term credit lines so as to maintain NIM at the current levels of 1.6-1.7% by FY11E.

Asset quality: Under the spotlight

GNPA rose 24% QoQ to Rs 2640 (GNPA ratio @1.9%) while NNPA rose 14% QoQ to Rs 1606 crore. Provision coverage stands at 73.6% (39.2% excluding technical w/off). Restructured assets increased by Rs 65 crore QoQ to Rs 9365 crore. Slippages from restructured assets amount to Rs 260 crore (two accounts) and further slippages to the tune of Rs 200 crore can be expected, going forward, as indicated by the management. We expect GNPA @2.1% and NNPA @ 0.9% for FY12E.

Business growth moderating

The bank is moderating its growth pace, which has been consistently higher on a lower base. The management has guided for balance sheet and loan book growth for FY11E by 16% and 20% YoY, respectively. The bank is planning to add another 300 branches in FY11 which will pressurise operating cost ratio in near term. The bank will focus on the MSME and agriculture segment, which will drive loan book growth in FY11E.

Valuation

GNPA addition will be an overhang on the stock in the near term. We feel capital infusion to the tune of Rs 3119 crore (already factored in our estimates) will support balance sheet growth, which we are targeting. We have built in higher NNPA that has lowered the ABV for FY12E. We are maintaining the multiple accorded to the bank at 1.1x its FY12E ABV and ascribing Rs 24 to its investment book, arriving at a fair price of Rs 134 from Rs 141 earlier. We recommend **BUY** on the stock at current levels.

Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
NII	851.2	815.9	316.4	760.2	169.0	12.0
Other Income	466.2	601.8	755.6	547.1	-38.3	-14.8
Total Income	1317.4	1417.7	1072.1	1307.2	22.9	0.8
PPP	831.2	773.7	756.2	694.0	9.9	19.8
PAT	250.9	271.8	171.8	318.4	46.0	-21.2

Source: Company, ICICIdirect.com Research

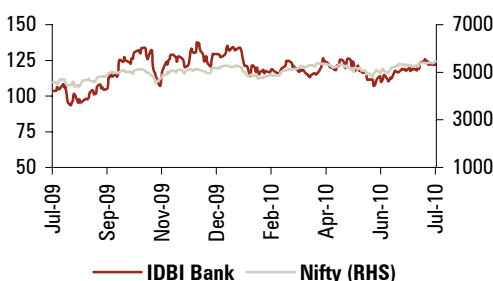
Rating matrix	
Rating	: Buy
Target	: Rs 134
Target Period	: 12 months
Potential Upside	: 10 %

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	1239.4	2267.4	3403.8	4805.8
PPP	1377.9	2726.9	3477.4	4371.4
PAT	858.5	1031.1	1220.2	1503.6

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs cr)	858.5	1031.1	1220.2	1503.6
EPS (Rs)	7.8	8.8	12.4	15.3
Growth (%)	0.0	12.9	41.6	23.2
P/E (x)	15.2	13.5	9.5	7.7
ABV (Rs)	62.3	67.3	87.8	99.8
Price / Book (x)	1.6	1.4	1.1	1.0
PABV (x)	1.9	1.8	1.3	1.2
GNPA (%)	1.4	1.5	2.0	2.1
NNPA (%)	0.8	0.8	1.1	0.9
RoNA (%)	0.6	0.5	0.5	0.5
RoE (%)	12.1	13.2	11.9	11.6

Stock data	
Market Capitalisation	Rs 8843 crore
GNPA (Q1FY11)	Rs 2640 crore
NNPA (Q1FY11)	Rs 1606 crore
NIM (Q1FY11)	1.6%
52 week H/L	140/93
Equity capital	Rs 725 Crore
Face value	Rs.10
DII Holding (%)	20.1
FII Holding (%)	7.0

Price movement



Analyst's name

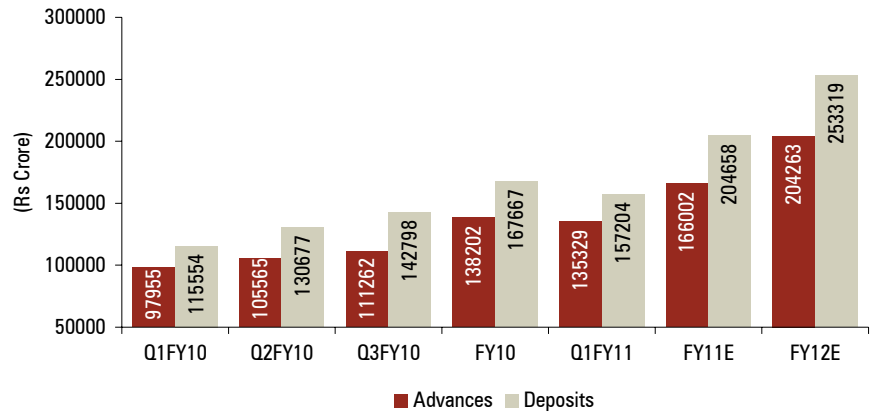
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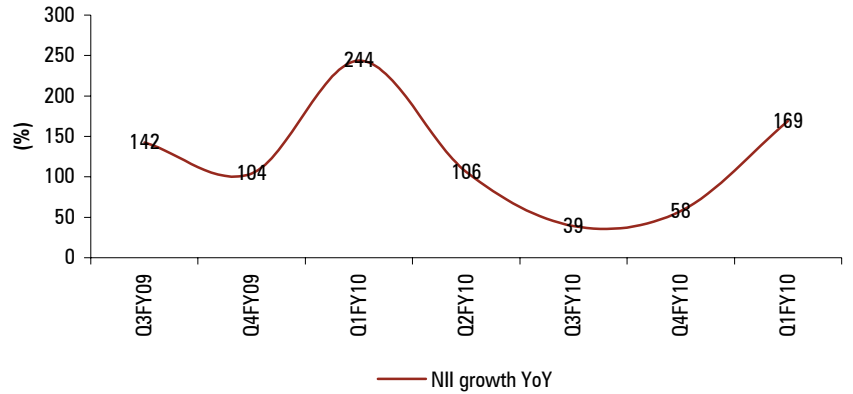
Exhibit 2: Business growth to mellow down to ~20% for FY11E

Advances growth is expected to slow down to ~20% from 25% targeted earlier in FY11E. The bank is focusing on revamping its deposit structure by shedding high cost deposits and building CASA



Source: Company, ICICIdirect.com Research

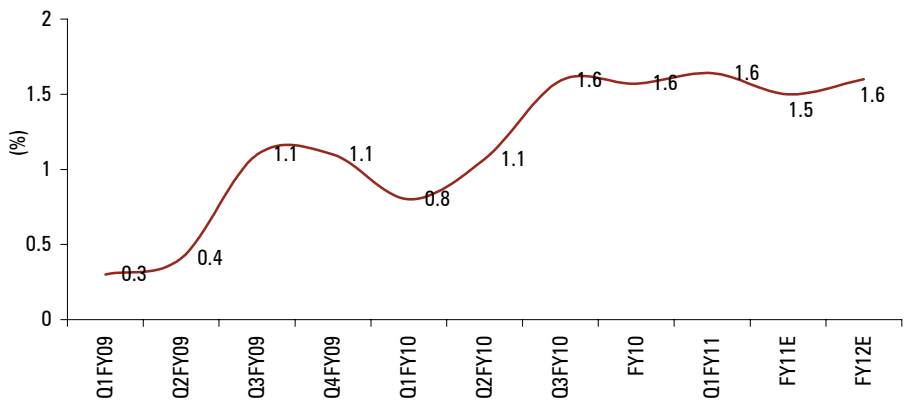
Exhibit 3: Strong NII growth YoY



Source: Company, ICICIdirect.com Research

Exhibit 4: NIM to stabilise at current levels

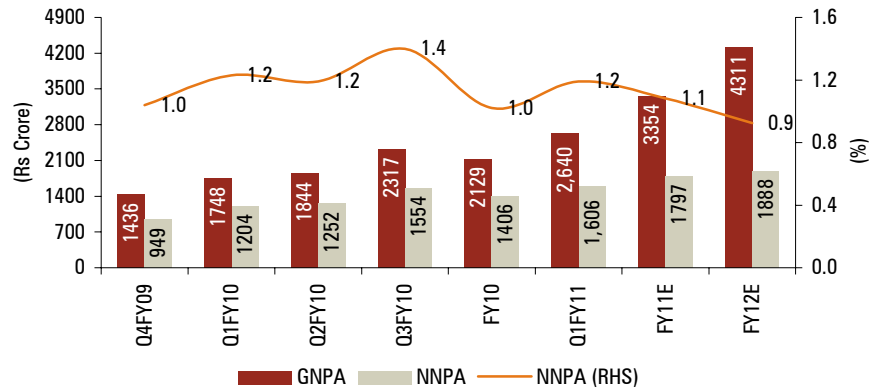
We expect CASA to increase gradually to 16% by FY12E. Addition of 250-300 new branches in FY11E will help the bank to garner more CASA deposits



Source: Company, ICICIdirect.com Research

Asset quality deteriorated this quarter as GNPA rose 51% YoY and 24% QoQ to Rs 2640 crore. Restructured assets remain higher for the bank with two accounts from the textile and electrical machinery space worth Rs 260 crore slipping into NPA.

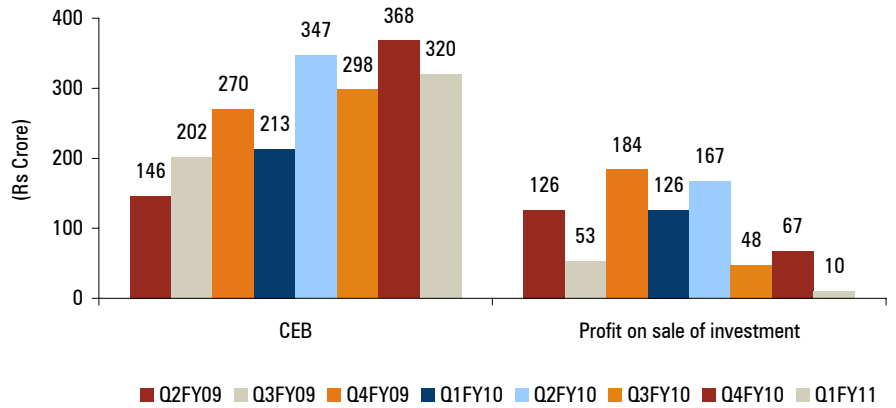
Exhibit 5: Asset quality: Being watched keenly



Source: Company, ICICIdirect.com Research

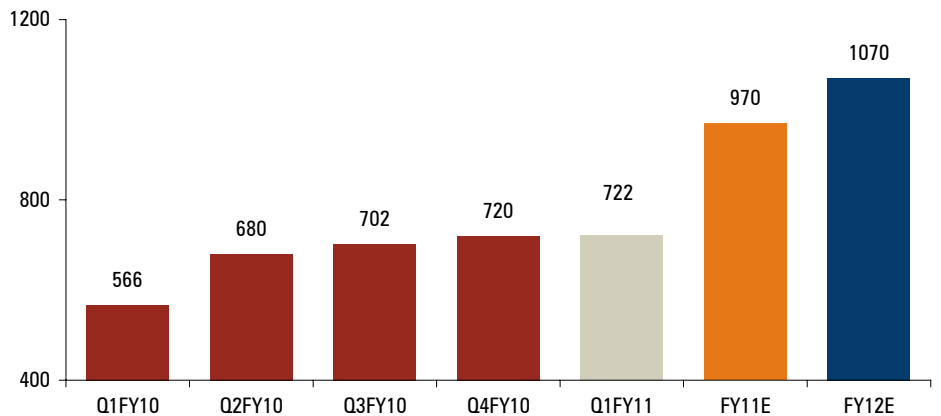
Non interest income growth was sluggish due to slow business growth. Treasury gains slipped from Rs 126 crore in Q1FY10 to Rs 10 crore in this quarter

Exhibit 6: Two major constituents of non interest income



Source: Company, ICICIdirect.com Research

Exhibit 7: Branch expansion to generate more deposit franchise



Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	403	FY10	1741.1	33.1	12.2	2.1	0.7	12.6
		Target	373	FY11E	2872.0	54.6	7.4	1.8	1.0	18.7
Mcaps (Rs Cr)	21199	Upside (%)	-7.5	FY12E	3367.6	55.7	7.2	1.5	0.9	18.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	725	FY10	3058.3	83.7	8.7	2.2	1.2	21.9
		Target	765	FY11E	3683.2	100.8	7.2	1.8	1.2	21.9
Mcaps (Rs Cr)	26506	Upside (%)	5.5	FY12E	4373.2	119.6	6.1	1.4	1.2	21.1
Dena Bank										
Idirect Code	DENBAN	CMP	101	FY10	511.3	17.8	5.7	1.5	1.0	21.4
		Target	107	FY11E	621.0	18.2	5.6	1.2	1.0	20.3
Mcaps (Rs Cr)	2900	Upside (%)	5.8	FY12E	746.0	21.8	4.6	1.0	1.0	19.5
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	116	FY10	707.0	13.0	8.9	1.1	0.6	9.6
		Target	105	FY11E	964.1	17.7	6.5	1.3	0.7	12.8
Mcaps (Rs Cr)	6298	Upside (%)	-9.2	FY12E	1224.4	22.5	5.1	1.1	0.8	15.2
IDBI Bank										
Idirect Code	IDBI	CMP	122	FY10	1031.1	8.8	13.9	1.8	0.5	13.2
		Target	134	FY11E	1220.2	12.4	9.8	1.4	0.5	11.9
Mcaps (Rs Cr)	8843	Upside (%)	9.8	FY12E	1503.6	15.3	8.0	1.2	0.5	11.6
OBC										
Idirect Code	ORIBAN	CMP	364	FY10	1134.7	45.3	8.0	1.2	0.9	14.5
		Target	424	FY11E	1359.4	54.3	6.7	1.1	0.9	15.4
Mcaps (Rs Cr)	9122	Upside (%)	16.5	FY12E	1650.5	65.9	5.5	0.9	0.9	16.2
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1051	FY10	3905.4	123.9	8.5	2.0	1.4	23.9
		Target	1064	FY11E	4593.7	145.7	7.2	1.7	1.4	23.5
Mcaps (Rs Cr)	33126	Upside (%)	1.3	FY12E	5361.0	170.0	6.2	1.6	1.4	24.0
SBI										
Idirect Code	STABAN	CMP	2495	FY10	91.7	144.4	17.3	2.9	0.9	14.8
		Target	2556	FY11E	103.5	146.9	17.0	2.3	0.9	13.3
Mcaps (Rs Cr)	158384	Upside (%)	2.5	FY12E	127.1	180.3	13.8	2.0	0.9	13.4
Union Bank of India										
Idirect Code	UNIBAN	CMP	326	FY10	2170.1	43.0	7.6	2.1	1.2	22.6
		Target	358	FY11E	2540.8	50.3	6.5	1.7	1.2	22.2
Mcaps (Rs Cr)	16462	Upside (%)	9.8	FY12E	3033.9	60.1	5.4	1.4	1.2	22.0
Axis Bank										
Idirect Code	UTIBAN	CMP	1355	FY10	2514.5	62.1	21.8	3.5	1.7	19.2
		Target	1400	FY11E	3306.9	81.6	16.6	3.0	1.5	19.0
Mcaps (Rs Cr)	54901	Upside (%)	3.3	FY12E	4236.2	104.6	13.0	2.5	1.4	20.5
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	177	FY10	23.3	3.6	48.7	2.9	0.3	5.4
		Target	190	FY11E	61.3	7.2	24.6	1.9	0.6	9.5
Mcaps (Rs Cr)	1135	Upside (%)	7.3	FY12E	99.8	11.7	15.1	1.8	0.7	11.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	2040	FY10	2948.7	64.4	31.6	4.4	1.5	16.3
		Target	2151	FY11E	3927.6	85.8	23.8	3.9	1.6	17.2
Mcaps (Rs Cr)	93300	Upside (%)	5.4	FY12E	5078.0	110.9	18.4	3.5	1.8	19.6
Kotak Bank										
Idirect Code	KOTMAH	CMP	769	FY10	561.1	16.1	47.8	6.3	1.7	13.5
		Target	831	FY11E	793.6	21.8	35.4	4.8	1.9	15.0
Mcaps (Rs Cr)	26751	Upside (%)	8.0	FY12E	1009.7	27.7	27.8	4.4	2.0	15.7
South Indian bank										
Idirect Code	SOUINO	CMP	187	FY10	233.7	20.7	9.1	1.5	1.1	17.9
		Target	195	FY11E	272.5	24.1	7.8	13.5	1.0	17.4
Mcaps (Rs Cr)	2118	Upside (%)	4.1	FY12E	335.6	29.7	6.3	11.5	1.0	18.6
Yes Bank										
Idirect Code	YESBAN	CMP	302	FY10	477.7	14.1	21.5	3.3	1.6	20.3
		Target	316	FY11E	685.7	20.2	15.0	2.8	1.6	20.2
Mcaps (Rs Cr)	9067	Upside (%)	4.7	FY12E	885.6	26.1	11.6	2.3	1.5	21.6

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	192	FY 09	848.0	6.5	29.3	4.0	2.8	14.3
		Target	200	FY10	1062.1	8.2	23.4	3.5	3.2	15.9
Mcap (Rs Cr)	24858	Upside (%)	4.2	FY11E	1326.8	9.1	21.1	2.6	3.4	14.7
LICHF										
Idirect Code	LICHF	CMP	1035	FY 09	531.6	62.6	16.5	4.1	2.0	26.1
		Target	1161	FY10	662.1	69.7	14.8	2.8	1.9	22.7
Mcap (Rs Cr)	9830	Upside (%)	12.1	FY11E	861.9	90.8	11.4	2.3	1.9	21.9
Rel Cap										
Idirect Code	RELCAP	CMP	799	FY10	434.6	17.7	45.2	2.6	2.4	5.7
		Target	800	FY11E	771.3	31.3	25.5	2.3	4.0	9.5
Mcap (Rs Cr)	19616	Upside (%)	0.2	FY12E	761.9	31.0	25.8	2.2	3.5	8.7

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	510	FY10	244.9	30.5	16.7	1.7	5.3	11.2
		Target	455	FY11E	268.1	33.6	15.2	1.5	4.0	11.3
Mcap (Rs Cr)	3826	Upside (%)	-10.7	FY12E	288.2	36.1	14.1	1.4	3.7	11.1
India Infoline										
Idirect Code	INDINF	CMP	99	FY10	232.0	8.1	12.1	1.7	5.7	14.9
		Target	111	FY11E	244.0	8.6	11.5	1.6	4.1	15.3
Mcap (Rs Cr)	2808	Upside (%)	12.7	FY12E	258.4	9.1	10.9	1.4	4.5	14.6
MOFSL										
Idirect Code	MOTOSW	CMP	173	FY 09	93.4	6.3	27.5	3.1	6.6	11.8
		Target	203	FY10	174.3	11.9	14.6	2.7	10.5	19.0
Mcap (Rs Cr)	2477	Upside (%)	17.2	FY11E	203.4	13.9	12.4	2.2	10.6	18.3

RATING RATIONALE

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 Add: Up to 10%;
 Reduce: Up to -10%
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