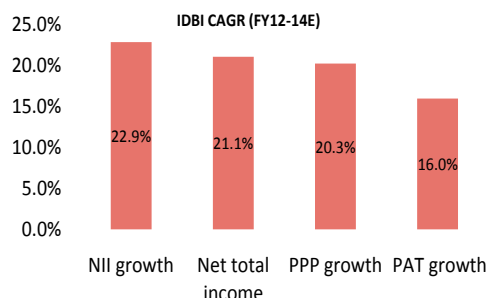


April 24, 2012

Result Update

Banking
Sector Outlook - Neutral



Recommendation	Hold
CMP (₹)	105
Price Target (₹)	117
Upside (%)	11
52 Week H / L ₹	154/77
BSE 30	17097

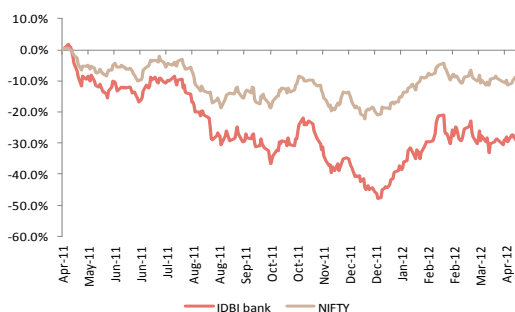
Key Data

No. of Shares, Mn.	1278
Mcap, ₹ mn	103330
Mcap, USD Mn @ ₹50	2067
2 W Avg Qty, (BSE+NSE) Mn	2.2

Share holding, Mar'12

Promoters	70.5
FII	2.7
DII	14.6
Public & Others	12.1

Performance	1 M	3 M	6 M	12 M
Stock Return %	-0.8	10.6	1.2	-29.2
Relative Return %	-1.1	5.8	-2.7	-19.6



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IDBI Bank reported a PAT of Rs 7708 mn up 49% yoy and 88% qoq. Bottom-line stood well above expectations due to an improvement in asset quality and a spurt in fee based income. Additionally the bottom-line of the bank was aided by a lower tax rate as the bank took advantage of tax deductions under Sec 36 (1) (viii). However going ahead, fee based income and CASA are expected to come off and sustainability of asset quality remains questionable

NIM remains stable sequentially

IDBI Bank reported a NIM of 1.9% for Q4FY12, which was in line with that of the previous quarter. The yield on advances came off by 37 bps qoq due to continued focus on priority sector lending which has lower yields. However the fall in the yield on advances was compensated by lower cost of funds during the quarter. The cost of funds came off by 49 bps qoq as the CASA ratio improved sequentially. In FY13 the NIM is expected to fall in a range of 1-9%-2.1%.

Advances growth spurts sequentially due to higher PSL lending

Advances grew by 16% qoq and 15.3% yoy. The spurt in sequential lending was on account of higher bought outs as the bank prepares to meet priority sector lending targets by FY13.

Higher fee based income due to closure of assignments boosts other income

Non-interest increased by 80% qoq as certain loan syndication and project appraisal assignments achieved closure in Q4FY12 which led to a 94% qoq increase in fee based income. Fee based income is likely to come off in Q1FY13.

Asset quality improves sequentially, slippages come off

Slippages for the quarter stood at Rs 3760 mn (slippage rate of 1.0%). Slippages were significantly lower than that of the previous quarter. Due to lower slippages and strong reductions, absolute GNPA's came off by 1.9% qoq and NNPA's came off by 4.8% qoq. On a relative basis asset quality improvement was stronger due to the high sequential growth in the advances book.

Restructured assets at 5.5% of total advances

The banks restructured book increased by 5.4% qoq to Rs 100373 mn as the bank restructured loans of around Rs 14980 mn during the quarter. Of this amount, Rs 7630 mn was due to restructuring of Air India.

Revise price target to Rs 117 from Rs 120 earlier

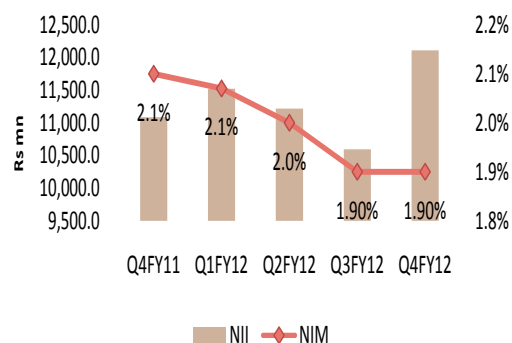
IDBI Bank has reported a strong set of numbers for Q4FY12 on the back of a spurt in fee based income, strong CASA growth and an improvement in the asset quality. However going ahead, fee based income and CASA are expected to come off and sustainability of asset quality remains questionable. As a result we maintain our Hold recommendation on the stock with a revised price target of Rs 117. At the CMP of Rs 105, the bank trades at 0.8x its FY13E ABV and 0.7x its FY14E ABV.

Financials	NII ₹mn	PAT ₹mn	ABV ₹	P/E x	P/ABV x	ROA %	ROE %
FY10	22,561	10,306	94.1	7.4	1.1	0.5%	10.5%
FY11	43,289	16,503	111.7	6.3	0.9	0.7%	13.3%
FY12	45,449	20,316	114.4	6.6	0.9	0.7%	12.0%
FY13E	56,468	23,430	129.8	5.7	0.8	0.8%	11.5%
FY14E	68,617	27,361	145.0	4.9	0.7	0.8%	12.3%

Source: Company, Sunidhi Research

**NIM remains stable sequentially**

IDBI Bank reported a NIM of 1.9% for Q4FY12, which was in line with that of the previous quarter. The yield on advances came off by 37 bps qoq due to continued focus on priority sector lending which has lower yields. However the fall in the yield on advances was compensated by lower cost of funds during the quarter. The cost of funds came off by 49 bps qoq as the CASA ratio improved sequentially. In FY13 the NIM is expected to fall in a range of 1-9%-2.1%.

Exhibit 1: Trend in NII and NIM

Source: Company, Sunidhi Research

Exhibit 2: Trend in yields and costs

Yield /Cost	Q4FY12	Q4FY11	yoy bps	Q3FY12	qoq bps
Yield on advances - C	11.1%	10.2%	93	11.5%	-37
Yield on Inv - C	6.9%	7.7%	-79	7.6%	-77
Yield on Assets - C	8.9%	8.5%	42	9.2%	-35
Cost of Funds - C	7.9%	7.3%	61	8.4%	-49
NIM - C	1.8%	1.9%	-10	1.7%	10
NIM -R	1.9%	2.4%	-53	1.9%	0

Source: Company, Sunidhi Research

Advances growth spurts sequentially due to higher PSL lending

Advances grew by 16% qoq and 15.3% yoy. The spurt in sequential lending was on account of higher bought outs as the bank prepares to meet priority sector lending targets by FY13. Loan book growth was led by the agricultural segment which grew by 78.4% yoy and 58.3% qoq. In FY13 loan book growth is expected to be at around 15% yoy as the banks focus will remain on meeting priority sector lending targets.

Exhibit 3: Trend in loan book mix

Advances (Rs mn)	Q4FY12	Q4FY11	yoy	Q3FY12	Qoq
Corporate	1235880	1057130	16.9%	1080130	14.4%
SME	81930	114580	-28.5%	89460	-8.4%
Agri	189060	105980	78.4%	119400	58.3%
Retail	304720	293280	3.9%	273170	11.5%
Total	1811590	1570970	15.3%	1562160	16.0%

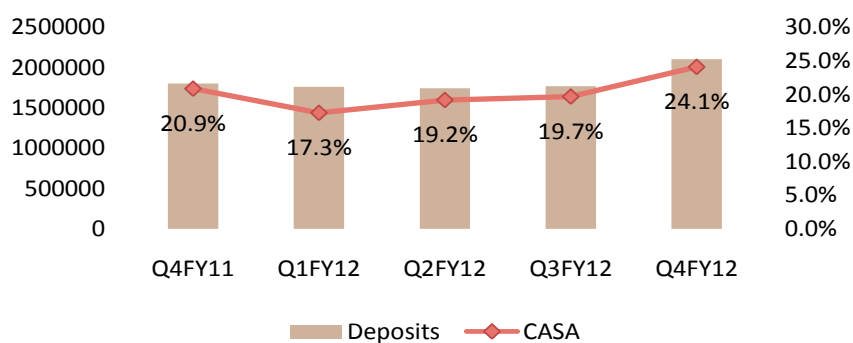
Source: Company, Sunidhi Research

CASA improves sequentially aided by float from tax saving bond issuances

The bank reported a deposit growth of 16.6% yoy and 18.8% qoq. CASA deposits grew at a faster pace of 34.7% yoy and 45.6% qoq taking the CASA ratio to 24.1% from 19.7% in the previous quarter. The improvement in the CASA was partly due to one offs relating to float from tax saving bond issuances. We expect the CASA ratio to trend downwards in Q1FY13.



Exhibit 4: Trend in deposit growth and CASA ratio



Source: Company, Sunidhi Research

Higher fee based income due to closure of assignments boosts other income

Non-interest increased by 80% qoq as certain loan syndication and project appraisal assignments achieved closure in Q4FY12 which led to a 94% qoq increase in fee based income. Fee based income is likely to come off in Q1FY13.

Exhibit 5: Trend in other income

Other Income (Rs mn)	Q4FY12	Q4FY11	yoy	Q3FY12	qoq
CEB	5770	4830	19%	2970	94%
Treasury	270	480	-44%	400	-33%
Revaluation of investment	120	40	200%	80	50%
Forex	700	570	23%	380	84%
Recovery of BD	560	730	-23%	190	195%
Others	350	110	218%	320	9%
Total	7770	6760	15%	4318	80%

Source: Company, Sunidhi Research

Asset quality improves sequentially, slippages come off

Slippages for the quarter stood at Rs 3760 mn (slippage rate of 1.0%). Slippages were significantly lower than that of the previous quarter. Due to lower slippages and strong reductions, absolute GNPA's came off by 1.9% qoq and NNPA's came off by 4.8% qoq. On a relative basis asset quality improvement was stronger due to the high sequential growth in the advances book.

Provisions came off by 33% qoq led by an 84% qoq decline in NPA provisions. The provision coverage ratio of the bank came off by 81 bps qoq to 68.3%.

Exhibit 6: Trend in asset quality

Asset Quality	Q4FY12	Q4FY11	yoy	Q3FY12	Qoq
GNPA	45513.7	27847.3	63.4%	46399.2	-1.9%
%GNPA	2.5%	1.8%	73	2.9%	-45
NNPA	29109.3	16779.1	73.5%	30578.7	-4.8%
%NNPA	1.6%	1.1%	55	2.0%	-35
PCR	36.0%	39.7%	-370	34.1%	195
PCR incl w/o	68.3%	74.7%	-638	69.1%	-81

Source: Company, Sunidhi Research

**Restructured assets at 5.5% of total advances**

The banks restructured book increased by 5.4% qoq to Rs 100373 mn as the bank restructured loans of around Rs 14980 mn during the quarter. Of this amount, Rs 7630 mn was due to restructuring of Air India. Other prominent accounts restructured during the quarter include Vijay Electricals, 3i infotech and New Tirupur Area Development. Going ahead management expects incremental restructuring to be limited.

CAR improves on capital infusion

The Tier 1 CAR stands at 8.4% as compared to 7.5% in the previous quarter. During Q4FY12, the government of India allowed conversion of Rs 21305 mn worth of Tier 1 bonds into equity. Additionally preference shares of Rs 8100 mn and Rs 3785.2 mn were allotted to the GOI and LIC respectively. Post the infusion GOI stake in IDBI stands at over 70%.

Revise price target to Rs 117 from Rs 120 earlier

IDBI Bank has reported a strong set of numbers for Q4FY12 on the back of a spurt in fee based income, strong CASA growth and an improvement in the asset quality. However going ahead, fee based income and CASA are expected to come off and sustainability of asset quality remains questionable. As a result we maintain our Hold recommendation on the stock with a revised price target of Rs 117. At the CMP of Rs 105, the bank trades at 0.8x its FY13E ABV and 0.7x its FY14E ABV.



Q4FY12 Financial highlights (Standalone)

(Amounts in Rs mn)	Q4FY12	Q4FY11	% yoy	Q3FY12	% qoq	FY12	FY11	% yoy
Interest earned	60794.7	50251.1	21.0%	58492.1	3.9%	233699.3	186037.0	25.6%
Interest on advances	46995.5	37217.1	26.3%	44928.4	4.6%	179676.1	137503.9	30.7%
Interest on investments	13278.9	12872.6	3.2%	13494.0	-1.6%	52907.4	48143.9	9.9%
Interest on balances with RBI, others	317.5	50.5	528.7%	51.8	512.9%	462.5	176.7	161.7%
Others	202.8	110.9	82.9%	17.9	1033.0%	653.3	212.5	207.4%
Interest expended	48685.5	39165.8	24.3%	47897.4	1.6%	188250.9	142719.2	31.9%
Net Interest income	12109.2	11085.3	9.2%	10594.7	14.3%	45448.4	43317.8	4.9%
Non-interest income	7769.5	6760.0	14.9%	4318.3	79.9%	21187.8	20815.0	1.8%
Total Income	19878.7	17840.7	11.4%	14913.0	33.3%	66636.2	64128.2	3.9%
Operating expenses	7933.0	6172.6	28.5%	6669.6	18.9%	26073.1	22546.9	15.6%
<i>Cost-income ratio</i>	<i>39.9%</i>	<i>34.6%</i>	<i>15.3%</i>	<i>44.7%</i>	<i>-10.8%</i>	<i>39.1%</i>	<i>35.2%</i>	<i>11.3%</i>
Operating profit	11945.7	11668.1	2.4%	8243.4	44.9%	40563.1	41581.3	-2.4%
Provisions	2737.9	2819.0	-2.9%	4064.4	-32.6%	14264.8	18771.5	-24.0%
Profit before tax	9207.8	8849.1	4.1%	4179.0	120.3%	26298.3	22809.8	15.3%
Tax provisions	1500.0	3686.6	-59.3%	80.9	1754.1%	5980.9	6306.6	-5.2%
<i>Tax Rate</i>	<i>16.3%</i>	<i>41.7%</i>	<i>-60.9%</i>	<i>1.9%</i>	<i>741.5%</i>	<i>22.7%</i>	<i>27.6%</i>	<i>-17.7%</i>
Profit after tax	7707.8	5162.5	49.3%	4098.1	88.1%	20317.4	16503.2	23.1%

Balance Sheet (Rs mn)	Q4FY12	Q4FY11	% yoy	Q3FY12	% qoq
Capital	12783.8	9845.7	29.8%	9850.0	29.8%
Reserves and Surplus	181486.8	135820.2	33.6%	148120.0	22.5%
NetWorth	1942714.6	1456668.9	33.4%	157970.0	23.0%
Deposits	2104925.6	1804857.9	16.6%	1771230.0	18.8%
Borrowings	534776.4	515696.5	3.7%	541150.0	-1.2%
Other Liabilities and provisions	74391.2	67537.7	10.1%	88540.0	-16.0%
Total Liabilities	46568078.0	38447610.0	14.8%	2558890.0	13.7%
Cash & Balance with RBI	150902.1	195590.5	-22.8%	158990.0	-5.1%
Bal with banks and money at call	29674.4	12070.3	145.8%	38590.0	-23.1%
Investments	831753.7	682691.7	21.8%	713760.0	16.5%
Advances	1811584.3	1570980.7	15.3%	1562170.0	16.0%
Fixed Assets	30188.1	30373.4	-0.6%	30490.0	-1.0%
Other Assets	54269.8	42061.3	29.0%	54890.0	-1.1%
Total Assets	29083724.0	25337679.0	14.8%	2558890.0	13.7%

Source: Company, Sunidhi Research



Financials (Standalone)

Profit & Loss Account (Rs mn)	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Interest Earned	152613.2	186008.2	233699.3	257003.3	293012.2
Interest expended	130052.2	142719.3	188250.8	200535.7	224395.4
Net interest income	22561.0	43288.9	45448.5	56467.5	68616.8
Non-interest income	23017.3	20836.5	21187.8	25272.9	29158.5
Net total income	45578.3	64125.4	66636.3	81740.4	97775.3
Operating expenses	18314.3	22546.9	26074.6	31984.8	39110.1
Pre- provisioning profit (PPP)	27264.0	41578.5	40561.7	49755.6	58665.2
Provision & Contingency	13495.0	18768.7	14264.7	16284.8	19578.2
PBT	13769.0	22809.8	26297.0	33470.9	39086.9
Tax	3463.1	6306.6	5980.9	10041.3	11726.1
PAT	10305.9	16503.2	20316.1	23429.6	27360.8

Balance Sheet (Rs mn)	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Liabilities	7,248.6	9,845.7	12,780.0	12,780.0	12,780.0
Equity Capital	94,384.0	135,820.2	181,486.8	199,713.9	220,999.3
Reserves	101,648.4	145,675.7	194,275.4	212,502.5	233,787.9
Networth	1,676,670.8	1,804,857.9	2,104,925.6	2,422,467.4	2,843,121.7
Deposits	477,094.8	515,696.5	534,776.4	515,541.7	655,805.5
Borrowings	80,306.2	67,537.7	74,391.2	181,095.7	131,639.7
Other Liabilities & Provisions	2,335,720.2	2,533,767.8	2,908,368.6	3,331,607.2	3,864,354.8
Total Liabilities					
Assets					
Cash & Balances with RBI	139,034.8	195,590.5	150,902.1	181,819.4	210,060.1
Balances with Banks & money at Call	6,793.7	12,070.3	29,674.4	23,787.4	38,391.4
Investments	733,454.6	682,691.7	831,753.7	947,223.5	1,091,044.9
Advances	1,382,018.5	1,570,980.7	1,811,584.3	2,083,321.9	2,416,653.5
Fixed Assets	29,969.6	30,373.4	30,188.1	33,690.0	38,190.0
Other Assets	44,449.1	42,061.3	54,269.8	61,765.0	70,015.0
Total Assets	2,335,720.3	2,533,767.9	2,908,372.4	3,331,607.2	3,864,354.8

Growth Matrix	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Growth (YoY) (%)					
Deposits	49.2%	7.6%	16.6%	15.1%	17.4%
Advances	33.6%	13.7%	15.3%	15.0%	16.0%
Total Assets	35.5%	8.5%	14.8%	14.6%	16.0%
NII	82.0%	91.9%	5.0%	24.2%	21.5%
Non-interest income	55.9%	-9.5%	1.7%	19.3%	15.4%
Operating expenses	36.9%	23.1%	15.6%	22.7%	22.3%
Operating profits	97.9%	52.5%	-2.4%	22.7%	17.9%
Provisions	244.0%	39.1%	-24.0%	14.2%	20.2%
PAT	20.0%	60.1%	23.1%	15.3%	16.8%

Source: Company, Sunidhi Research



Yields/Costs	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Yield on advances	8.9%	9.3%	10.6%	10.2%	10.1%
Yield on investments	6.8%	6.3%	6.1%	5.6%	5.6%
Yield on int earning assets	8.3%	8.2%	9.1%	8.6%	8.5%
Yield on average assets	7.5%	7.6%	8.6%	8.2%	8.1%
Cost of deposits	6.6%	5.7%	7.5%	7.0%	6.8%
Cost of funds	7.0%	6.4%	7.6%	7.2%	7.0%
Net int margin	1.2%	1.9%	1.8%	1.9%	2.0%

Efficiency Ratios	FY2010	FY2011	FY2012P	FY2013E	FY2014E
NIM	1.2%	1.9%	1.8%	1.9%	2.0%
Cost to income	40.2%	35.2%	39.1%	39.1%	40.0%
Business per branch	4320.2	4137.1	4025.2	4012.3	4131.8
Business per employee	250.4	244.6	244.8	244.0	251.3
CASA per branch	34.5	46.2	52.1	51.8	53.6
CASA ratio	14.6%	20.9%	24.1%	24.0%	24.0%

Asset Quality Ratios	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Provisioning / avg assets	0.7%	0.8%	0.5%	0.5%	0.5%
GNPA (%)	1.5%	1.8%	2.5%	2.4%	2.3%
NNPA (%)	1.0%	1.1%	1.6%	1.3%	1.2%
PCR	34.0%	39.8%	36.1%	44.9%	49.0%
Slippage Ratio	1.4%	1.4%	1.6%	1.7%	1.7%
Credit Costs	0.8%	0.3%	0.4%	0.6%	0.6%

Valuation table	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Net profit (Rs mn)	10305.9	16503.2	20316.1	23429.6	27360.8
Shares in issue (mn)	724.9	984.6	1278.0	1278.0	1278.0
Adj EPS (Rs)	14.2	16.8	15.9	18.3	21.4
EPS growth (%)	20%	18%	-5%	15%	17%
PE (x)	7.4	6.3	6.6	5.7	4.9
P/PPP (x)	2.8	2.5	3.3	2.7	2.3
Book value (Rs/share)	140.2	148.0	152.0	166.3	182.9
P/BV (x)	0.7	0.7	0.7	0.6	0.6
Adj book value (Rs/share)	94.1	111.7	114.4	129.8	145.0
P/ABV (x)	1.1	0.9	0.9	0.8	0.7
ROAA (%)	0.5%	0.7%	0.7%	0.8%	0.8%
ROE (%)	10.5%	13.3%	12.0%	11.5%	12.3%
ROE (adj for reval reserve) (%)	13.2%	15.8%	13.5%	12.7%	13.4%
Dividend Yield (%)	2.9%	3.3%	2.9%	3.3%	3.9%

Source: Company, Sunidhi Research



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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