

IDBI Bank Ltd.

₹ 110

*For the Big & the Small***Buy**

Dec 28, 2012

Company Background

IDBI Bank Ltd. (IDBI) is a Universal Bank with its operations driven by a cutting edge core Banking IT platform. The Bank offers personalized banking and financial solutions to its clients through its large network of Branches, ATMs spread across length and breadth of India. With vast experience of financial markets it helps them to adopt appropriate strategies to mitigate the entire range of risks, effectively cope with challenges and capitalize on the emerging opportunities by participating effectively in country's growth process. IDBI is also in the process of setting up overseas branches and representative offices for encashing emerging global opportunities.

Key Highlights

- ➔ The Board of Directors of the Company has given in-principle approval to the proposal for merger of Stock Holding Corporation of India Limited with IDBI Bank Limited subject to statutory / regulatory and shareholders' approvals.
- ➔ In its transition from a DFI to a bank, IDBI has been strengthening its retail presence by adding branches. This will gradually reduce its reliance on wholesale deposit and borrowings and add retail deposits. It has been consistently improving its CASA ratio against the industry trend.
- ➔ The Bank has posted a net profit of Rs. 4.84 bn for QE Sep 12 as compared to Rs. 5.16 bn for QE Sep 11. However Total Income increased from Rs. 62.83 bn for QE Sep 2011 to Rs. 68.80 bn for QE Sep 12.
- ➔ The bank's advances grew by 16.0% QoQ (up 15.3% YoY) & deposits grew by 18.8% QoQ (up 16.6% YoY). On a sequential basis, growth in loan book was due to high agri lending (up 58.3% QoQ), corporate loans (up 14.4% QoQ) & retail loans (up 11.5% QoQ) during 4QFY2012.
- ➔ Growth in current and savings accounts was healthy at 33.6% yoy and 36.4% yoy, respectively.
- ➔ CASA ratio as of 4QFY2012 stood at 24.1% (19.7% in 3QFY2012). The bank's NIM expanded by 18bp qoq during 4QFY2012 on account of lower cost of funds (down 26bp sequentially), primarily due to higher CASA floats (CA deposits up 77.4% qoq).

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (₹ mn)	176145.9	207043.8	253794.7
Rev. growth (%)	34.39	17.54	22.58
Interest Earned (₹ mn)	152726.3	186008.2	233699.3
Int. Earn Growth (%)	31.30	21.79	25.64
Interest Disbursed (₹ mn)	130052.2	142719.3	188250.8
Int. Earn Growth (%)	26.19	9.74	31.90
Net profit (₹ mn)	10311.3	16503.2	20315.9
EPS (INR)	14.23	16.76	14.82
EPS growth (%)	20.08	17.78	(11.58)
Book Value (₹)	113.50	128.69	137.47

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Info Codes

Reuters	: IDBI.BO
Bloomberg	: IDBI@IN
NSE	: IDBI
BSE	: 500116

Market Data

52 Wk Range (₹)	: 122 / 77
Mkt. Cap (₹ bn)	: 140.88
BSE 2 Wk Avg Vol	: 282000

Share Holding Pattern (%)

Promoters	: 70.52
DII's	: 14.71
FII's	: 02.78
Others	: 11.99

Investment Theme

IDBI Bank enjoys advantage of modern, 100% CBS network, which is growing organically at a much faster rate than other PSU banks (17–18% CAGR post the FY2007 UWB acquisition). While the present 982 branches are predominantly urban-concentrated (~66%), the bank intends to increase its presence in semi-urban areas going forward. Management is planning to open another 150 branches in FY2013, which we believe should continue to increase the contribution of retail deposits in the bank's funding mix & drive strong CASA market share gains. It's CASA deposits posted a 35.7% CAGR over FY2007–12, & has factored in 21.7% CAGR over FY2012–14E. Management has indicated that it would continue with its strategy of growing slower than others in FY2013 as well to increase its total % of CASA deposits.

Even going Slow on Growth can become a growth strategy !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Interest Earned	152726.3	186008.2	21.79	233699.3	25.64
Other Income	23419.6	21035.6	(10.18)	20095.4	(4.47)
Total Income	176145.9	207043.8	17.54	253794.7	22.58
Interest expended	130052.2	142719.3	9.74	188250.8	31.90
Employee Cost	7569.9	10265	35.60	11604.4	13.05
Admin Expenses	7209	18300	153.85	15986.2	(12.64)
Depreciation	909.8	1270.4	39.64	1160.6	(8.64)
Misc. Expenses	20093.7	17986	(10.49)	17849.2	(0.76)
Preop Exp Capitalised	0	0	-	0	-
Operating Expenses	20677.6	35098.4	69.74	35678.2	1.65
Prov & Contingency	15104.8	12723	(15.77)	10922.2	(14.15)
Total Expenses	165834.6	190540.7	14.90	234851.2	23.26
Extraordinary Items	0	0	-	1372.5	-
Net Profit for the Year	10311.3	16503.2	60.05	20315.9	23.10

4 Years Balance Sheet

(₹ mn)

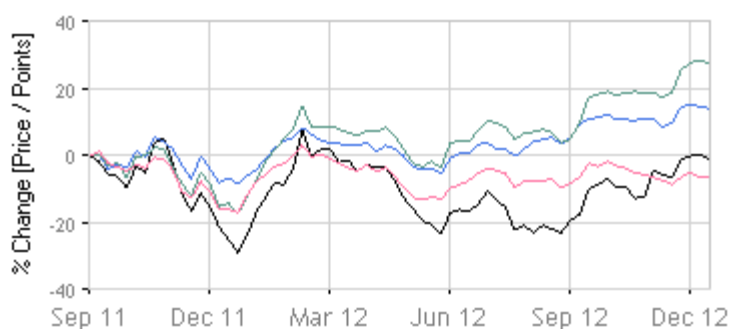
Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	1,724,023.1	2,335,720.2	2,533,767.9	2,908,372.4
Equity Share Capital	7,247.8	7,248.6	9,845.7	12,783.8
Share Application Money	0.0	0.0	9.9	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	86,991.0	94,400.0	135,820.0	181,495.0
Deposits	1,124,010.1	1,676,670.8	1,804,857.9	2,104,925.6
Borrowings	444,170.4	477,094.8	515,696.5	534,776.4
Other Liabilities & Provisions	61,604.0	80,306.2	67,537.7	74,391.2
USES OF FUNDS	1,724,023.1	2,335,720.2	2,533,767.9	2,908,372.4
Cash & Balances with RBI	85,908.2	139,034.7	195,590.5	150,902.1
Balance with Banks, Money at Call	26,285.0	6,793.6	12,070.3	29,674.4
Advances	1,034,283.4	1,382,018.5	1,570,980.7	1,811,584.3
Investments	500,476.0	733,454.6	682,691.8	831,753.6
Gross Block	38,739.5	40,852.7	43,751.0	45,487.4
Accumulated Depreciation	11,274.0	12,503.5	14,058.2	15,544.3
Net Block	27,465.5	28,349.2	29,692.8	29,943.1
Capital Work In Progress	775.6	1,620.4	680.6	245.0
Other Assets	48,829.6	44,449.1	42,061.3	54,269.8
NOTE				
Contingent Liabilities	965,233.4	1,015,974.5	1,082,788.5	1,229,651.3
Bills for collection	200,538.0	266,955.9	299,959.3	312,323.0
Book Value (Rs)	1,027.1	1,135.0	1,286.9	1,374.7
Dividend (%)	25	30	35	35

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Sales Turnover	58,492.1	60,794.7	62,698.1	61,972.3
Other Income	4,318.3	7,769.5	5,170.0	6,827.8
Total Income	62,810.4	68,564.2	67,868.1	68,800.1
Total Expenses	10,734.0	10,670.9	11,653.8	12,470.9
Operating Profit	47,758.1	50,123.8	51,044.3	49,501.4
Total Extraordinary Income	0.0	0.0	0.0	0.0
Total Extraordinary Expenses	0.0	0.0	0.0	0.0
Gross Profit	52,076.4	57,893.3	56,214.3	56,329.2
Interest	47,897.4	48,685.5	49,992.0	49,479.1
PBDT	4,179.0	9,207.8	6,222.3	6,850.1
Depreciation	0.0	0.0	0.0	0.0
PBT	4,179.0	9,207.8	6,222.3	6,850.1
Tax	80.9	1,500.0	1,948.9	2,014.8
Net Profit	4,098.1	7,707.8	4,273.4	4,835.3

52 Week Index Relative Percentage Appreciation



IDBI vs SENSEX vs BANKEX vs PSU

Points to Ponder

IDBI will be a key beneficiary of interest rate reversal (50%+ of its deposits are bulk deposits). The bank has been among the fastest-growing banks in terms of CASA deposits over the past few years (CAGR of ~36% over FY2007-12) even when compared to private banks and now has a market share of 2.1% (as of FY2011). Historically, IDBI Bank has witnessed the lowest NIM in the industry, majorly on account of high cost of funding due to the liability mix heavily skewed towards bulkdeposits. Also, since the bank relied heavily on corporate lending to increase its loan book, yields on assets on an average have been lower than peers. In wake of lower NIMs, the bank has indicated a strategy of lower advances growth (~15% for FY2013) than the system to concentrate on the increasing percentage of low-cost CASA deposits and to consciously shift focus from large corporate lending to retail and MSME lending to bring in higher-yielding loans.

Risks Associated

The bank runs the risk of high slippages and restructuring due to high exposure to stressed segments. Its return ratios are estimated to be low with RoA at 0.9% and RoE at 15.0% by FY14. Currently only 33% of the bank's loans are to the PSL segment, which it needs to increase to 40% by end of FY13 as per RBI guidelines. Thus, the management guidance of 15% loan growth implies that bulk of the lending in FY13 would be the PSL and corporate segments where it has prior commitment. This is negative for incremental yield on loans, thereby limiting the benefit of interest rate reversal on margins. Further, re-pricing of loans with reduction in base rate would pressurize yields on loan and higher dependency on bulk deposits would lead to volatility in margins. Management has guided margin of 2-2.2% in FY13 v/s 2% in FY12.

In a Nutshell

IDBI Bank Ltd. is today one of India's largest commercial Banks. For over 40 years, IDBI Bank has essayed a key nation-building role, first as the apex Development Financial Institution in the realm of industry and thereafter as a full-service commercial Bank October 2004 onwards. As a DFI, the erstwhile IDBI stretched its canvas beyond mere project financing to cover an array of services that contributed towards balanced geographical spread of industries, development of identified backward areas, emergence of a new spirit of enterprise and evolution of a deep and vibrant capital market. In October 2004, the erstwhile IDBI converted into a Banking company as Industrial Development Bank of India Limited to undertake the entire gamut of Banking activities while continuing to play its secular DFI role. Post the mergers of the erstwhile IDBI Bank with its parent company IDBI Ltd. and the subsequent merger of the erstwhile United Western Bank Ltd. with IDBI Bank in 2006, the tech-savvy, new generation Bank with majority Government shareholding today touches the lives of millions of Indians through an array of corporate, retail, SME and Agri products and services. Headquartered in Mumbai, IDBI Bank today rides on the back of a robust business strategy, a highly competent and dedicated workforce and a state-of-the-art information technology platform, to structure and deliver personalised and innovative Banking services and customised financial solutions to its clients across various delivery channels. We believe the stock has a lot more to deliver in the coming years.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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