

Q1FY13-Underperformer on all grounds

CMP:	Rs. 88
Target Price:	Rs. 100
Upside/(Downside):	14%
Recommendation:	HOLD

Stock Info

BSE Group	A
BSE Code	500116
NSE Symbol	IDBI
Bloomberg	IDBI IN
Reuters	IDBI.BO
BSE Sensex	17236
NSE Nifty	5229

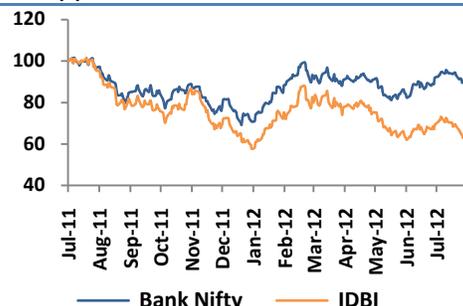
Market Info

Market Capital	11307.5cr
Equity Capital	1278.4cr
52 Wk High/ Low	131/77
Face Value	10

Shareholding Pattern (%) (30th June 2012)

Promoters	NA
Domestic Institutions	19.7
Foreign Institutions	13.9
Non Promoters Corp.	1.7
Public & Others	10.4
Govt. Holdings	54.3

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	2031	2292	2607
EPS (in Rs)	18.0	17.9	20.4
PE (x)	6.1	6.1	5.3
PABV (x)	0.9	0.7	0.6



IDBI Bank posted dismal performance for Q1FY13 on most of the parameters on sequential basis. Insignificant NII growth, discouraging non-interest income show, elevated provision levels and consequent decline in profitability on sequential basis implies underperformance by the bank. YoY growth in PAT was boosted by lower taxes and fee income. Net interest income too turned out to be a disappointment with meager growth at both QoQ and YoY levels.

No Earnings visibility, dip in return ratios: PAT for the quarter at Rs 427 crs that declined QoQ by 45% was largely affected by poor NII that grew merely by 5% QoQ and 10% YoY, 33% fall QoQ in other income performance and 85% QoQ increase in credit costs. Following the same, the return ratios took a toll with RoEs at 10% and RoAs at 0.6% that stands lowest in the industry. Going ahead, we do not foresee healthy earnings momentum and expect the PAT growth levels to trend downwards impacting the return ratios.

Shrinkage in business, liability franchise weakens: Starting Q1FY12, the business for IDBI Bank has been falling apart with slowdown in advances and deposit base quarter after quarter. Q1 witnessed credit growth and deposit growth way below industry averages at 8% and 9% with sequential fall. The traditionally wholesale funded bank also observed weakened CASA profile with fall in absolute CASA by 32% QoQ with CASA ratio down from 24% previous quarter to 18% in Q1.

Margin pressures inevitable, no signs of revival

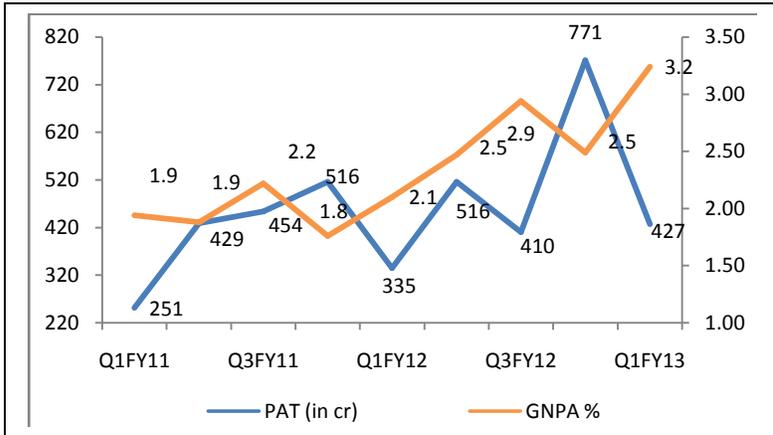
As highlighted in Q4FY12, margin pressures stand imminent due to spike in costs of funds and large proportion of bulky deposits. Since past five quarters margins are hovering around 2.0-2.1% levels. Q1 margins stood at 2.1% on account of the twin effects of poor NII and weak CASA profile. Given the gloomy picture with no signs of improvement, we estimate stagnant margins at 1.9% for FY13-14.

Deterioration in asset quality, slippages at elevated levels: During the quarter, the GNPLs and NNPLs inched upwards by 124 bps and 82 bps respectively on YoY basis. This was primarily driven by elevated slippages that stood at Rs 1043 crs for the quarter. Also, given the higher credit costs and the existing restructured book (numbers not known yet) would imply continued NPL risks for the bank.

Valuation Outlook: Shrinkage in business, weak liability franchise with high bulk deposit base, poor earnings coupled with subdued margins, fall in return ratios and deterioration in asset quality forms the negatives of the bank. With no signs of earnings sustenance and improvement in asset quality, the bank has underperformed consistently and hence we downgrade the stock to HOLD (earlier Accumulate), valuing the bank at 0.6X P/ABV FY14E with a price target of Rs 100. The weak balance sheet structure with no steady-state business growth, there is limited scope for upside. Hence, we advise the clients to Hold the stock at current levels.

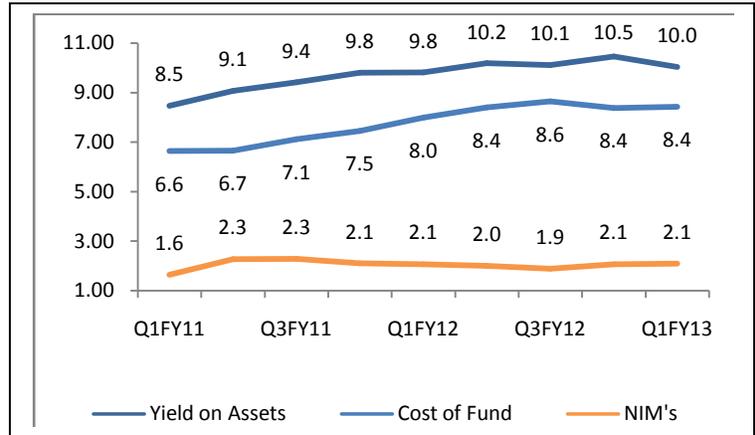


Chart 1: Poor show on profitability and asset quality



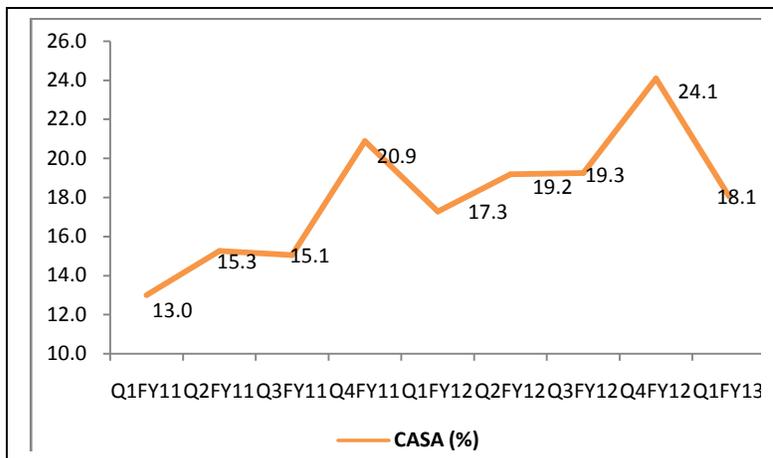
Source: - Company, Aриhant Research

Chart 2: Stagnant NIMs



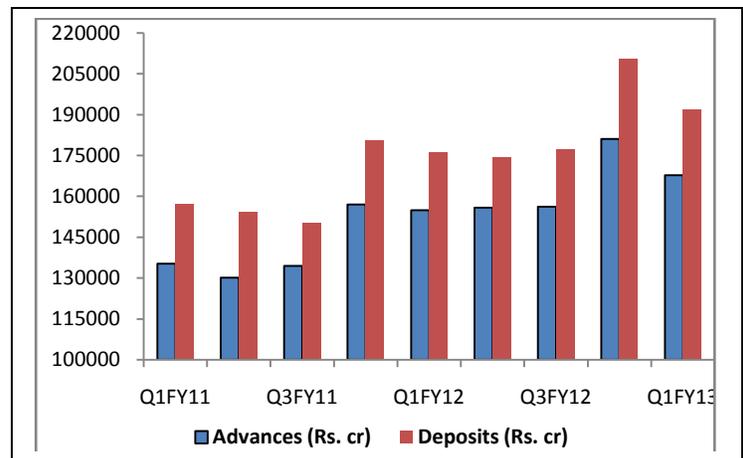
Source: - Company, Aриhant Research

Chart 3: Sharp moderation in CASA



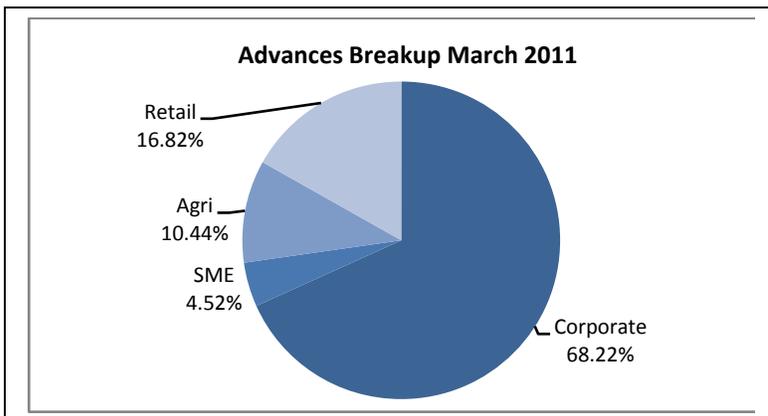
Source: - Company, Aриhant Research

Chart 4: Sequential volume good, year-end growth muted



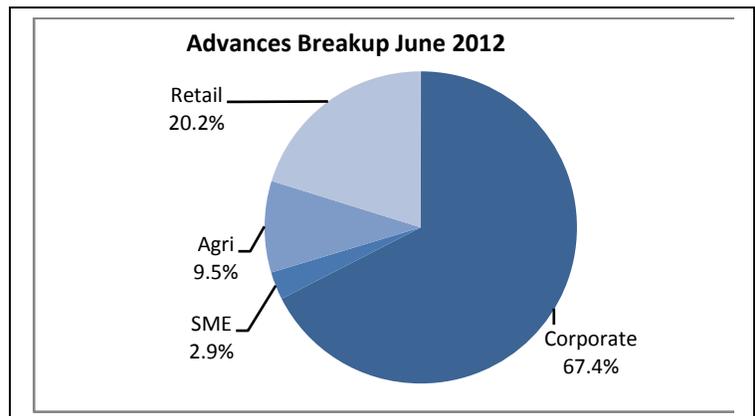
Source: - Company, Aриhant Research

Chart 5: Loan mix concentrated towards corporate book



Source: - Company, Aриhant Research

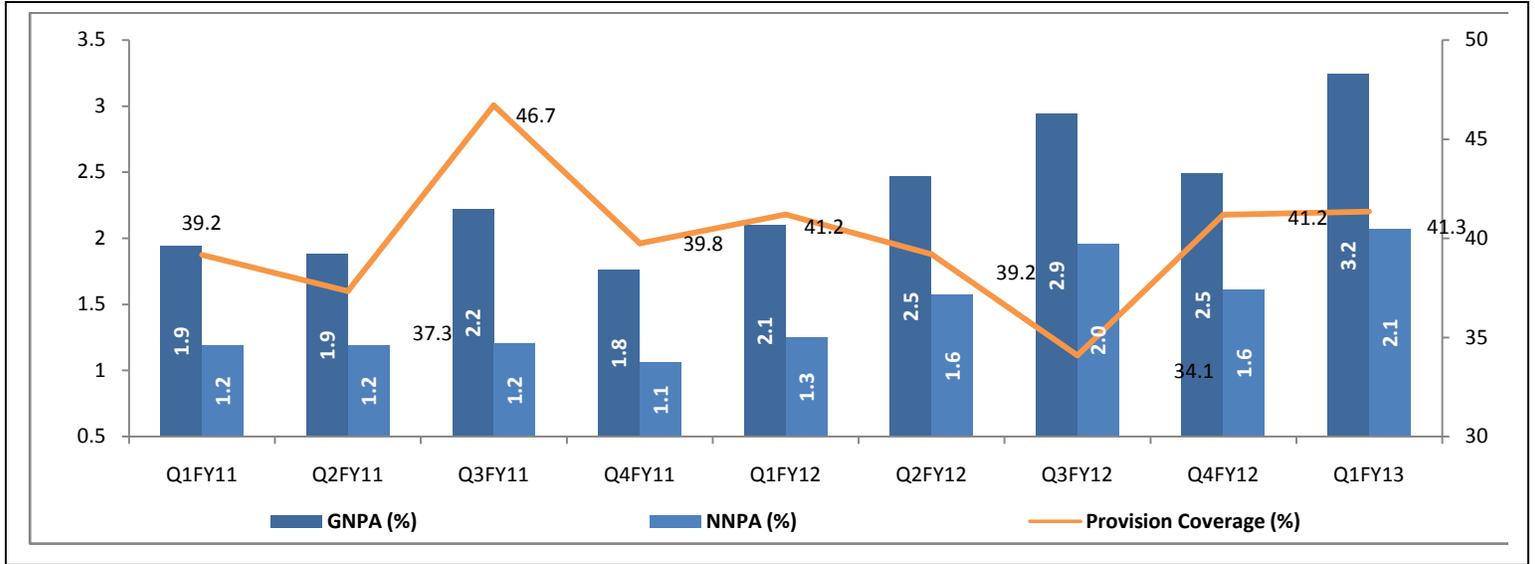
Chart 6: Loan mix continues to be corporate oriented



Source: - Company, Aриhant Research

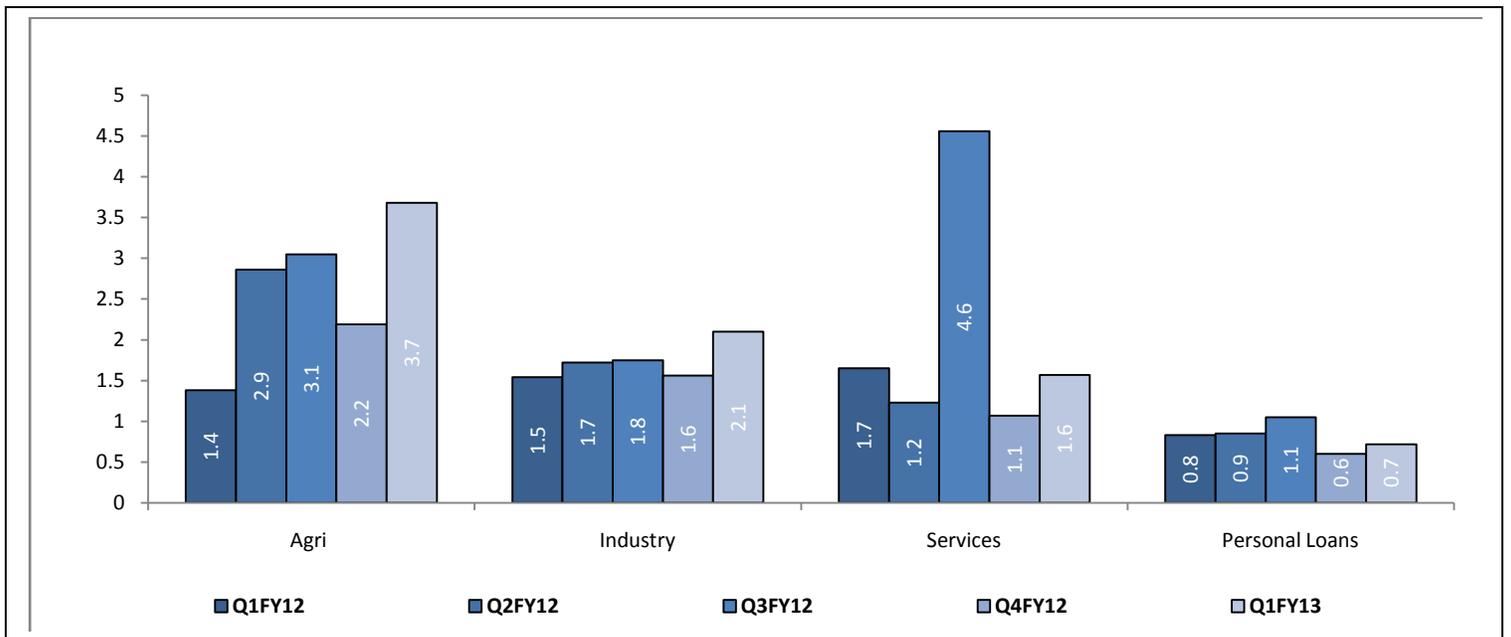


Chart 7: Asset quality improves; quality sustenance needs to be watched out



Source: - Company, Arianth Research

Chart 9: Sector wise break-up of NPAs



Source: - Company, Arianth Research



Table 1:- Q1FY13 Earnings Review

Reported Quarterly Results						
Particulars (Rs in Cr)	Q1FY13	Q1FY12	YoY	Q4FY12	QoQ	Comments
Interest Earned	6,270	5,629	11%	6,079	3%	
Interest Expended	4,999	4,476	12%	4,869	3%	
Net Interest Income	1,271	1,152	10%	1,211	5%	Not impressive NII performance
Other Income	517	431	20%	777	-33%	Poor other income performance on QoQ basis, YoY performance shows good traction though
<i>Other income / Net Income (%)</i>	28.9	27.2		39.1		
Total income	1788	1583	13%	1988	-10%	
Employee Expenses	316	244	30%	383	-17%	
Non-Employee expenses	342	309	11%	410	-17%	
Operating Expenses	659	553	19%	793	-17%	Sequentially opex was down that controlled the C/I ratio at 37% levels
<i>Cost-income Ratio (%)</i>	36.8	34.9		39.9		
Pre-Prov Profits	1,129	1,031	10%	1,195	-5%	
Provisions & Contingencies	507	426	19%	274	85%	Credit costs moved up sharply on QoQ basis and stood up on the higher side on overall basis
PBT	622	605	3%	921	-32%	
Provisions for Tax	195	270	-28%	150	30%	
<i>Effective Tax Rate (%)</i>	31.3	44.6		16.3	92%	
PAT (reported)	427	335	28%	771	-45%	Sequentially PAT suffered on account of poor NII , other income performance and higher credit costs
EPS Basic	3.3	3.4		7.8		
EPS Diluted	3.3	3.4		7.8		
GNPA	5,496.0	3,288.0		4,551.0		Bad loans moved up
NNPA	3,477.8	1,933.0		2,911.0		
GNPA (%)	3.2	2.1		2.5		NPL risks stands on the higehr side
NNPA (%)	2.1	1.3		1.6		
Total CAR (%)	14.4	13.8		14.6		
Tier 1 (%)	8.2	8.1		8.4		
Tier 2 (%)	6.1	5.7		6.2		
NIM	2.1	2.1		2.1		
Advances	1,67,779	1,55,096	8%	1,81,158	-7%	
Deposits	1,91,747	1,76,282	9%	2,10,493	-9%	

Source: - Company, Arihant Research



Profit & Loss Statement				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Interest Income	18601	23370	26608	30395
Interest Expenses	14272	18825	21277	24137
Net Interest Income	4329	4545	5331	6258
- growth %	91%	5%	8%	17%
Fee-based Income	1786	1805	1951	2188
Treasury Income	123	155	196	237
Recovery from W/Off	144	142	162	178
Other Non-interest Income	30	16	14	16
Operating Income	6412	6663	7654	8877
- growth %	41%	4%	11%	16%
Operating Expenses	2255	2607	2885	3237
- Staff Cost	1046	1187	1348	1530
- Other Operating Exp.	1208	1420	1537	1707
Gross Profits	4157	4055	4769	5639
- growth %	52%	-2%	8%	18%
Provisions	1877	1426	1773	2116
Profit Before Taxes	2280	2629	2966	3523
Taxes	631	598	704	916
Profit After Taxes	1650	2031	2292	2607
- growth %	60%	23%	13%	14%

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	985	1278	1278	1278
Reserves & Surplus	13582	18149	21591	25338
Deposits	180486	210493	237646	275669
- growth %	7.6	23.1	15.5	16.0
Borrowings	51570	53478	64174	72149
Other liabilities & provisions	6991	7440	11824	15595
TOTAL LIABILITIES	253613	290838	336513	390029
ASSETS				
Cash on hand & with RBI	19559	15090	18562	21252
Money at call and short notice	1207	2967	2714	3486
Advances	157098	181158	209751	245409
- growth %	13.7	20.3	16.0	17.0
Investments	68269	83175	93982	105643
Fixed assets	3037	3019	3581	4008
Other assets	4443	5429	7924	10232
TOTAL ASSETS	253613	290838	336513	390030

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS*	19.3	18.0	18.7	21.2
Book Value per share	128.3	137.1	166	196
70% Adjusted Book Value	119.7	125.0	152	181
Dividend per share	3.5	1.5	4.5	4.5
Asset Quality (%)				
Gross NPAs	1.8	2.5	2.6	2.6
Net NPAs	1.1	1.6	1.7	1.6
NPA Coverage	39.7	36.0	38.1	39.6
Delinquency Ratio	1.3	1.4	1.4	2.2
Profitability ratios (%)				
RoAE	13.3	12.0	10.8	10.5
RoAA	0.7	0.7	0.7	0.7
NIM	2.0	2.1	1.9	1.9
Operating Profit Margin	20.1	15.9	16.5	17.1
Net Profit Margin	8.0	8.0	7.9	7.9
Cost to Income	35.2	39.1	37.7	36.5
Fee-based income to Operating Income	27.9	27.1	25.5	24.6

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	9.3	10.6	10.1	10.0
Yield on investments	6.8	7.0	7.8	7.4
Yield on interest-earning assets	8.4	8.7	8.9	8.7
Cost of funds	6.2	7.1	7.0	6.9
Spread	2.2	2.0	1.8	1.8
Net Interest Income to AWF	1.7	1.7	1.7	1.7
Non Interest Income to AWF	0.8	0.8	0.7	0.7
Operating Profit to AWF	1.7	1.5	1.5	1.6
Net Profit to AWF	0.7	0.7	0.7	0.7

Valuation ratios (x)				
	FY11	FY12	FY13E	FY14E
P/E	5.6	6.1	6.1	5.3
P/BV	0.8	0.8	0.7	0.6
P/ABV	0.9	0.9	0.7	0.6

Note: - *EPS is based on average no of shares



Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets ltd.

3rd Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E) Mumbai - 400057

Tel. 022-42254800 Fax. 022-42254880

www.arihantcapital.com