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Result Update
IDBI Bank

Q2FY13-IDBI Bank-A consistent Underperformer

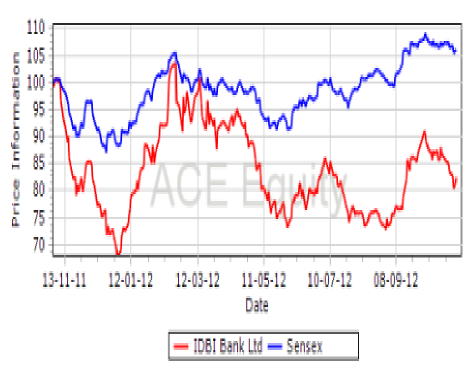
CMP:	**Rs. 94**
Target Price:	**Rs. 100**
Upside/(Downside):	**6%**
Recommendation:	**HOLD**

Stock Info	
BSE Group	A
BSE Code	500116
NSE Symbol	IDBI
Bloomberg	IDBI IN
Reuters	IDBI.BO
BSE Sensex	18561.7
NSE Nifty	5645.0

Market Info	
Market Capital	` 12049.0.5cr
Equity Capital	` 1278.4cr
52 Wk High/ Low	121/77
Face Value	10

Shareholding Pattern (%)	(30th Sep 2012)
Promoters	70.5
Domestic Institutions	14.7
Foreign Institutions	2.8
Public & Others	11.9

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	2031	2292	2607
EPS (in Rs)	18.0	17.9	20.4
PE (x)	5.2	5.2	4.6
PABV (x)	0.8	0.6	0.5



Nov 01, 2012

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IDBI Bank continues to underperform on most of the parameters for Q2FY13. Not very impressive NII growth, elevated provision levels and higher opex led to consequent decline in profitability on YoY basis. However, improvement in non-interest income performance turned out to be the only positive factor.

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 10.6% and RoAs at 0.7% that stands lowest in the industry. Going ahead, we do continue to foresee earnings pressure impacting the return ratios.

Shrinkage in business, liability franchise weakens: The business for IDBI Bank has been falling apart with slowdown in advances and deposit base since 5 quarters. Q2 witnessed credit growth and deposit growth way below industry averages at 7% and 3% with sequential fall. The traditionally wholesale funded bank also observed weakened CASA profile with marginal uptick on CASA ratio that stood at 22%.

Stagnancy in margins, pressures inevitable: As highlighted earlier, margin pressures stand imminent due to spike in costs of funds and large proportion of bulky deposits. Since past six quarters margins have remained stagnant. Q2 margins stood at 2.05% 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 2% for FY13-14.

Deterioration in asset quality, slippages at elevated levels: During the quarter, the GNPLs and NNPLs inched upwards by 100 bps and 40 bps respectively on YoY basis. The GNPAs were recorded at 3.5% and NPAs at 2.0%. This was primarily driven by elevated slippages in certain pockets and heavy restructured book that stood at Rs 12534 crs. This implies NPL risks would continue to haunt the bank.

SHCIL Merger update-earnings accretive: Stock Holding Corporation of India (SHCIL) which is one of the largest security custodians to financial institutions is set to merge with IDBI Bank. The proposed merger is expected to give IDBI Bank access to 227 branches and 8 lakh customers of SHCIL. IDBI intends to bank on this to cross sell banking products and also plans to convert the custodian's offices into bank branches with the Regulatory approval. Moreover, the fee income that SHCIL earns for its custodian services would to a great extent benefit IDBI Bank to shore up its weak bottom-line. We await further details and do not build in any assumptions on this account into our current estimates.

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 form the negatives of the bank. The bank has underperformed consistently and hence we maintain HOLD rating, valuing the bank at 0.5X P/ABV FY14E with a price target of Rs 100. The SHCIL merger may prove earnings accretive in terms of improvement in liability franchise and business traction, but the benefits are expected to come with time.

Table 1:- Q2FY13 Earnings Snapshot

Particulars (Rs in Cr)	Q2FY13	Q2FY12	*YoY%*	Q1FY13	*QoQ %*	Comments
Interest Earned	6197	5812	***6.6***	6270	***-1.2***	
Interest Expended	4948	4690	***5.5***	4999	***-1.0***	
Net Interest Income	**1249**	**1122**	***11.3***	**1271**	***-1.7***	**NII performance not impressive**
Other Income	683	479	***42.5***	517	***32.1***	**Other income shot up both YoY and QoQ**
Other income / Net Income (%)	*35*	*30*		*29*		
Total income	**1932**	**1601**	***20.7***	**1788**	***8.1***	
Employee Expenses	386	266	***45.5***	316	***22.2***	
Non-Employee expenses	366	329	***11.3***	342	***7.0***	
Operating Expenses	**753**	**395**	***26.5***	**659**	***14.3***	**YoY opex stood on the higher side**
Cost-income Ratio (%)	*39*	*37*		*37*		**As a result, C/I ratio spiked up**
Pre-Prov Profits	**1180**	**1006**	***17.2***	**1129**	***4.5***	
Provisions & Contingencies	495	321	***54.3***	507	***-2.4***	**While QoQ credit costs reduced, YoY they shot up quite significantly**
PBT	**685**	**686**	***-0.1***	**622**	***10.1***	
Provisions for Tax	201	170	***18.5***	195	***3.4***	
Effective Tax Rate (%)	*29*	*25*		*31.3*		
PAT (reported)	**484**	**516**	***-6.3***	**427**	***13.1***	**YoY PAT was impacted on account of poor NII show, higher opex and higher credit costs**
EPS Basic	3.8	5.2		3.3		
EPS Diluted	3.8	5.2		3.3		
GNPA	5848	3889		5496		**NPLs stood on the higher side, sequential though not very high, slippages in certain pockets have moved up for the quarter**
NNPA	3395	2443		3478		
GNPA (%)	3.5	2.5		3.2		**NPL risks stand on the higher side**
NNPA (%)	2.0	1.6		2.1		
Total CAR (%)	13.9	13.3		14.4		
Advances	166370	155475	***7%***	167779	***-1%***	**Business growth not encouraging**
Deposits	180087	174441	***3%***	191747	***-6%***	

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**	**390030**
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	17.9	20.4
Book Value per share	128.3	137.1	164.9	194.2
70% Adjusted Book Value	119.7	125.0	151.0	179.2
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

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

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)				
P/E	4.9	5.2	5.2	4.6
P/BV	0.7	0.7	0.6	0.5
P/ABV	0.8	0.8	0.6	0.5

Source: - Company, Arihant Research

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Stock Rating Scale

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