

Q3FY13-Dark clouds to persist, Downgrade to Sell

CMP: Rs. 112
Target Price: Rs. 96
Upside/(Downside): (14%)
Recommendation: SELL

IDBI Bank continues to underperform for the third quarter in a row. While the top-line performance looked good, it was largely offset by significant provisions recorded during the quarter that dragged the profitability downwards.

No Earnings visibility, dip in return ratios: PAT for the quarter at Rs 417 crs that declined 14% QoQ primarily on account of increased provisions that jumped 95% QoQ and 137% YoY. The return ratios, therefore, continue to dip standing at lowest levels vis-à-vis industry averages (RoE: 8.95%, RoA: 0.64%). NII performance (34% YoY growth) for the quarter stood robust owing to softening of interest costs and other income moved up owing to lumpy transactions, which may not be the scenario in future and the fairly good show on top-line observed in Q3 is unlikely to sustain.

On account of earnings pressure, we expect the bank to report de-growth in bottom-line for the current fiscal. Going ahead, we would continue to see decline in EPS and consequently dip in return ratios.

Moderate business growth, liability franchise remains weak: The business for IDBI Bank remain at moderate levels with advances growing only 10% YoY and deposits at 5% levels. Going ahead business dynamics may not work in favor of IDBI Bank and we expect the balance sheet growth to remain stagnant at 15% levels. While the capital raising is in offing in order to beef up capital base and boost the business growth, near term business outlook remains subdued in our view.

The traditionally wholesale funded bank also observed weakened CASA profile with CASA ratio standing unchanged at 22% (same as previous quarter). That said, the bank expects to grow CASA to 25% levels by FY13.

Margins pressures inevitable, PSL shortage to trim margins: As highlighted earlier, margin pressures stand imminent with the bank reporting NIMs at 2.3% levels which may not be sustainable in the near future. Given the fact that the bank continues to fall short on PSL target at current 20% levels which it plans to take it to 30% by year end, margins would continue to face pressures for next couple of quarters. Moreover, the higher proportion of bulky deposits (45% of the total base) would continue to restrict margins accretion. Given the gloomy picture with no signs of improvement, we estimate stagnant margins at 2% for FY13-14.

Asset quality continue to haunt, slippages at elevated levels: Exposure to stressed sectors such as aviation, power, steel, textiles, media and others have ensured higher slippages (spanning across large, mid-corporates and SMES) and restructured assets for the bank for some time now. The restructured assets that stood at Rs 3370 crs for the quarter are expected to remain at elevated levels in Q4 as well. While the provisions for the quarter burgeoned on account of media account and airlines, the GNPLs inched upwards by 100 bps to 3.7% and NNPA's at 1.9% were tad lower. This implies NPL risks would continue to haunt the bank.

Valuation Outlook: The wholesale funded IDBI bank characterized by weak CASA profile, higher delinquencies and poor earnings outlook has underperformed consistently. While the near-term outlook remains hazy, **we downgrade the stock to SELL (from HOLD) for the price target (SOTP) of Rs 96**; valuing the bank at 0.5X P/ABV FY14E. Persistent underperformance on most of the parameters and no positive triggers in near future prompts us to bring down our estimates for FY13-14.

Stock Info

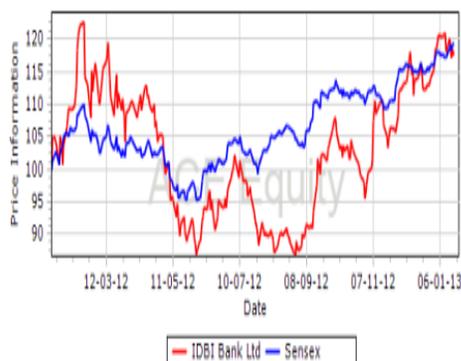
BSE Group	A
BSE Code	500116
NSE Symbol	IDBI
Bloomberg	IDBI IN
Reuters	IDBI.BO
BSE Sensex	20101.8
NSE Nifty	6082.3

Market Info

Market Capital	14331 cr
Equity Capital	1278.4cr
52 Wk High/ Low	122/82
Face Value	10

Shareholding Pattern (%)	(31 th Dec 2012)
Promoters	70.5
Domestic Institutions	14.7
Foreign Institutions	3.2
Public & Others	11.6

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	2031	1845	1971
EPS (in Rs)	18.0	14.4	15.4
PE (x)	5.2	6.5	6.1
PABV (x)	0.8	0.6	0.6



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Q3FY13 Earnings Snapshot

Particulars (Rs in Cr)	Q3FY13	Q3FY12	YoY%	Q2FY13	QoQ %	Comments
Interest Earned	6200	5849	6.0	6197	0.1	
Interest Expended	4787	4790	-0.1	4948	-3.3	
Net Interest Income	1413	1059	33.5	1249	13.1	Robust NII performance for the quarter, the only positive
Other Income	870	432	101.3	683	27.4	Other income shot up both YoY and QoQ driven by lumpiness in other income
Total income	2283	1491	53.1	1932	18.2	Good show on top-line unlikely to sustain
Employee Expenses	333	294	13.3	386	-13.8	
Non-Employee expenses	398	329	20.8	366	8.6	
Operating Expenses	731	623	17.3	753	-2.9	YoY opex stood on the higher side
<i>Cost-income Ratio (%)</i>	32	42		39		C/I ratio looks lower since the bank barely observed any substantial additions wrt employees and branches
Pre-Prov Profits	1553	868	78.9	1180	31.6	
Provisions & Contingencies	963	407	136.6	495	94.7	Credit costs jumped up dramatically on account of stressed large corporate accounts; impacting the bottom-line
PBT	590	461	27.9	685	-13.9	
Provisions for Tax	173	8	2059.4	201	-14.3	
<i>Effective Tax Rate (%)</i>	29	2		29		
PAT (reported)	417	453	-8.0	484	-13.8	Higher credit costs, weak CASA profile, subdued margins and moderate business dragged the profitability downwards
EPS Basic	3.3	4.2		3.8		
EPS Diluted	3.3	3.9		3.8		
GNPA	6401	4640		5848		NPLs stood on the higher side, slippages coming from stressed pockets have moved up for the quarter
NNPA	3302	3058		3395		NNPLs were tad lower, YoY higher though
GNPA (%)	3.7	2.9		3.5		NPL risks stand on the higher side
NNPA (%)	1.9	2.0		2.0		
Total CAR (%)	14.2	13.5		13.9		
Advances	170959	155653	10%	166370	3%	Business growth momentum moderates
Deposits	186623	177123	5%	180087	4%	

Source: Company, Arianth Research

Profit & Loss Statement				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Interest Income	18601	23370	26646	30126
Interest Expenses	14272	18825	21514	24413
Net Interest Income	4329	4545	5132	5713
- growth %	91%	5%	4%	11%
Fee-based Income	1786	1805	1887	2110
Treasury Income	123	155	194	235
Recovery from W/Off	144	142	162	178
Other Non-interest Income	30	16	14	16
Operating Income	6412	6663	7388	8252
- growth %	41%	4%	7%	12%
Operating Expenses	2255	2607	2945	3337
- Staff Cost	1046	1187	1349	1534
- Other Operating Exp.	1208	1420	1596	1803
Gross Profits	4157	4055	4444	4915
- growth %	52%	-2%	1%	11%
Provisions	1877	1426	1984	2287
Profit Before Taxes	2280	2629	2460	2628
Taxes	631	598	615	657
Profit After Taxes	1650	2031	1845	1971
- growth %	60%	23%	-9%	7%

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	985	1278	1278	1278
Reserves & Surplus	13582	18149	21144	24255
Deposits	180486	210493	237646	275669
- growth %	7.6	23.1	15.5	16.0
Borrowings	51570	53478	64174	72149
Other liabilities & provisions	6991	7440	10622	12946
TOTAL LIABILITIES	253613	290838	334864	386297
ASSETS				
Cash on hand & with RBI	19559	15090	18562	21252
Money at call and short notice	1207	2967	2714	3486
Advances	157098	181158	207943	241214
- growth %	13.7	20.3	15.0	16.0
Investments	68269	83175	93981	105643
Fixed assets	3037	3019	3704	4423
Other assets	4443	5429	7960	10279
TOTAL ASSETS	253613	290838	334863	386296

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS*	19.3	18.0	14.4	15.4
Book Value per share	128.3	137.1	161.4	185.7
70% Adjusted Book Value	119.7	125.0	147.6	170.9
Dividend per share	3.5	1.5	4.5	4.5
Asset Quality (%)				
Gross NPAs	1.8	2.5	2.7	2.6
Net NPAs	1.1	1.6	1.7	1.6
NPA Coverage	60.3	64.0	61.8	60.3
Delinquency Ratio	1.3	1.4	1.4	2.2
Profitability ratios (%)				
RoAE	13.3	12.0	8.8	8.2
RoAA	0.7	0.7	0.6	0.5
NIM	2.0	2.1	1.9	1.8
Operating Profit Margin	20.1	15.9	15.4	15.0
Net Profit Margin	8.0	8.0	6.4	6.0
Cost to Income	35.2	39.1	39.9	40.4
Fee-based income to Operating Income	27.9	27.1	25.5	25.6

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	9.3	10.6	10.2	10.0
Yield on investments	6.8	7.0	7.8	7.4
Yield on interest-earning assets	8.4	8.7	8.9	8.8
Cost of funds	6.2	7.1	7.1	7.0
Spread	2.2	2.0	1.8	1.7
Net Interest Income to AWF	1.7	1.7	1.6	1.6
Non Interest Income to AWF	0.8	0.8	0.7	0.7
Operating Profit to AWF	1.7	1.5	1.4	1.4
Net Profit to AWF	0.7	0.7	0.6	0.5

Valuation ratios (x)				
	FY11	FY12	FY13E	FY14E
P/E	4.9	5.2	6.5	6.1
P/BV	0.7	0.7	0.6	0.5
P/ABV	0.8	0.8	0.6	0.6

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

Source: - Company, Arianth Research

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Stock Rating Scale

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

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