

**Stock details**

BSE Code	500116
CMP -	131.75
Market Capitalization (Mn)	75,494
Face Value (Rs.)	10
Book Value (Rs.)	130
52 Wk High (BSE)	Rs. 140/- (11 th Dec 09)
52 Wk Low (BSE)	Rs. 39.75/- (12 th Mar 09)

Company Profile:

Industrial Development Bank of India (IDBI) is one of India's largest banks. It has essayed a significant role in the country's industrial and economic progress for over 40 years – first as a Development Financial Institution and now as full – service commercial bank.

Post the October 2004 merger of the erstwhile IDBI Bank with its parent company (IDBI Ltd.), IDBI is now a universal bank. The merger was aimed at consolidating business across the value chain and reaping the benefits of economies of scale, thus enabling it to offer an array of customer – friendly services to its existing and prospective clients, both within the geographical boundaries of India and in due course, abroad.

The subsequent merger of erstwhile "The United Western Bank Ltd." (UWB) with the Bank in Oct. 2006 has significantly improved its reach and strengthened its customer and product portfolio.

As on December, 2009, IDBI's delivery channels comprised 689 branches, 1,156 ATMs spread across 458 centres – clear evidence of its efforts to spread its wings across the country.

About its subsidiaries:

IDBI Capital Market Services Ltd.

IDBI Homefinance Ltd.

IDBI Intech Ltd.

IDBI Gilts Ltd.



Company profile :

IDBI Capital Market Services Ltd.: IDBI Capital Market Services Ltd. (head quartered in Mumbai), is a leading provider of financial services and is a 100% subsidiary of IDBI Bank Ltd.

The company was set up in 1993 with the objective of catering to specific financial requirements of financial institutions, banks, mutual funds and corporate houses. The company provides a complete range of financial products and services that includes:

- Stock Broking-Institutional and Retail
- Derivatives Trading
- Distribution of Mutual Funds
- Investment Banking
- PF/Pension Fund Management
- Retail Marketing of Bonds and IPOs
- Depository Services
- Research Services

The Company has substantially improved its financial performance during the year FY09. The Profit before Tax (PBT) rose to Rs.117.2 Mn as against Rs.21.7 Mn during the FY08. Gross Income (Net of Turnover) increased by 32%. The Company brought down the Operating Expenses by 23%.

Financial Highlights:

Paid Up Capital: Rs 1281 Mn
Reserves: Rs 1623.1 Mn
FV: Rs 10
BV: Rs 22.66

IDBI CAPITAL MARKET SERVICES LTD ABRIDGED PROFIT & LOSS

	Fig In Mn	
YEAR ENDING	31st Mar, 09	31st Mar, 08
Total Income	449.5	340.8
Total Expenditure	332.3	319.1
Profit/(Loss) Before Tax	117.2	21.7
Profit/(Loss) After Tax	111.6	14.6

IDBI Home Finance Ltd.: IDBI Home Finance Ltd. is 100% subsidiary of IDBI Bank Ltd. acquired the entire shareholding of Tata Finance Ltd. in Tata Home Finance Ltd. in September 2003. The name of the company was changed to IDBI Home Finance Ltd. Over the years, the company has taken steps to enhance its retail reach, strengthen brand image, improve asset quality, thereby achieving business growth. IDBI Home finance has a loan book of ~ Rs 10,000 Mn and 682 branches across India.

Financial Highlights:

Paid Up Capital: Rs. 1,649 mn
Reserves: Rs. 591 Mn
FV: Rs. 10
BV: Rs. 13.58



IDBI Intech Ltd.: IDBI Intech Ltd. is a wholly owned subsidiary of IDBI Bank Ltd. IDBI has set up IDBI Intech Ltd. (INTECH) in March 2000 to tap the opportunities arising from the IT sector.

INTECH capitalizes on the banking business knowledge acquired over the years supplemented with experience in Implementation & Management of state-of-the-art IT Infrastructure, Technology applications and Systems for one of the largest universal bank in India and uniquely positions itself, in the Information Technology Service Provider Space, to offer the IT-related products and services to the IDBI Group companies and the other organizations, focusing mainly on the BFSI sector.

INTECH operates in a multi-dimensional framework and provides IT related services in the area of Consultancy, System Integration, System implementation & support, Applications & Server hosting and other IT related managed services and specialized training.

IDBI Intech also helped IDBI Bank in launching the following value added products for its customers.

- ❖ Mobile Payment Solutions
- ❖ Application Supported Blocked Amount Application
- ❖ Maharashtra Sales Tax Collection Module
- ❖ Transfer Pricing System
- ❖ Government Business Module

Financial Highlights:

Paid Up Capital: Rs131.3 Mn

Reserves: Rs25.9 Mn

FV Rs 10

BV Rs 11.97

		Fig In Mn
YEAR ENDING	31st Mar, 09	31st Mar, 08
Total Income	1051.6	215.6
Total Expenditure	1016.5	137.3
Profit/(Loss) Before Tax	35.1	78.3
Profit/(Loss) After Tax	20.4	53.5

IDBI Gilts Ltd.:

IDBI Gilts Ltd. was set up as a wholly owned subsidiary of IDBI Bank Ltd. to undertake Primary Dealership [PD] Business. In accordance with RBI guidelines, the PD business of IDBI Capital Market Services Ltd. [ICMS] has been de-linked and transferred to IDBI Gilts Ltd. The company was incorporated in December 2006 and became operational from July 24, 2007. The company's business ambit includes Bond trading, underwriting in auctions of primary issuance of Government dated securities and treasury bills. In addition, IDBI Gilts also plans to be a major player in the interest rate and credit derivative market.



IDBI Fortis Life Insurance Company

IDBI Fortis Life Insurance Company Limited (IDBI Fortis) is a joint venture of IDBI Bank Limited, Federal Bank Limited and Fortis Insurance International. IDBI Fortis entered the market with several innovative products consisting of WealthsurancTM - an insured wealth plan, BondsuranceTM - an insurance plan with guaranteed returns, HomesuranceTM - an insurance plan for home loans and RetiresuranceTM - a retirement plan. The innovative features of these products were well received by customers.

During FY09, IDBI Fortis sold 84,003 policies for a total first year premium of Rs. 3,170 mn. In addition, the Company received renewal premium of Rs. 20 mn. The Sum Assured of contracts in force increased to nearly Rs.26, 950 mn. With this achievement, IDBI Fortis established the record for highest premium collected during the first full year of operations amongst all current insurance companies.

IDBI Fortis Co Ltd – Financial Results

		Fig In Mn
YEAR ENDING	31st Mar, 09	31st Mar, 08
Gross Premium Written	3189.7	119
Operating Expenses*	1191.5	100.3
Contribution from Shareholder account	1161.1	101.9
Profit/(Loss) After Tax	-1102.3	-255.3
Assets Under Management	5940.1	1614.5

** In the Policy Holder Accounts*

Stake in Institutions to act as wealth Generator

IDBI has stake in various reputed financial institutions like National Stock Exchange, Small Industries Development Bank, Industrial Development Finance Corporation, National Securities Depositories Ltd. The cost of such investments is Rs 6000 Mn and current value is ~ Rs 30,000 Mn

**Financial highlights:**

Particulars (Rs. in mn)	Q2 – FY 10	Q1 – FY 10	Q2 – FY 09	HY 10	HY 09
Interest income	37,200	34,630	25,970	71,830	50,130
Interest expenses	32,480	31,470	24,680	63,950	47,940
Net Interest income	4,720	3,160	1,290	7,880	2,190
Other Income	5,630	7,560	4,210	13,190	7,610
Total income	10,350	10,720	5,500	21,070	9,800
Operating Expenses	3,980	3,160	2,650	7,140	4,770
Operating Profit	6,370	7,560	2,850	13,930	5,030
Provisions & contingencies	3,830	5,840	1,230	9,670	1,810
Profit After Tax	2,540	1,720	1,620	4,260	3,220

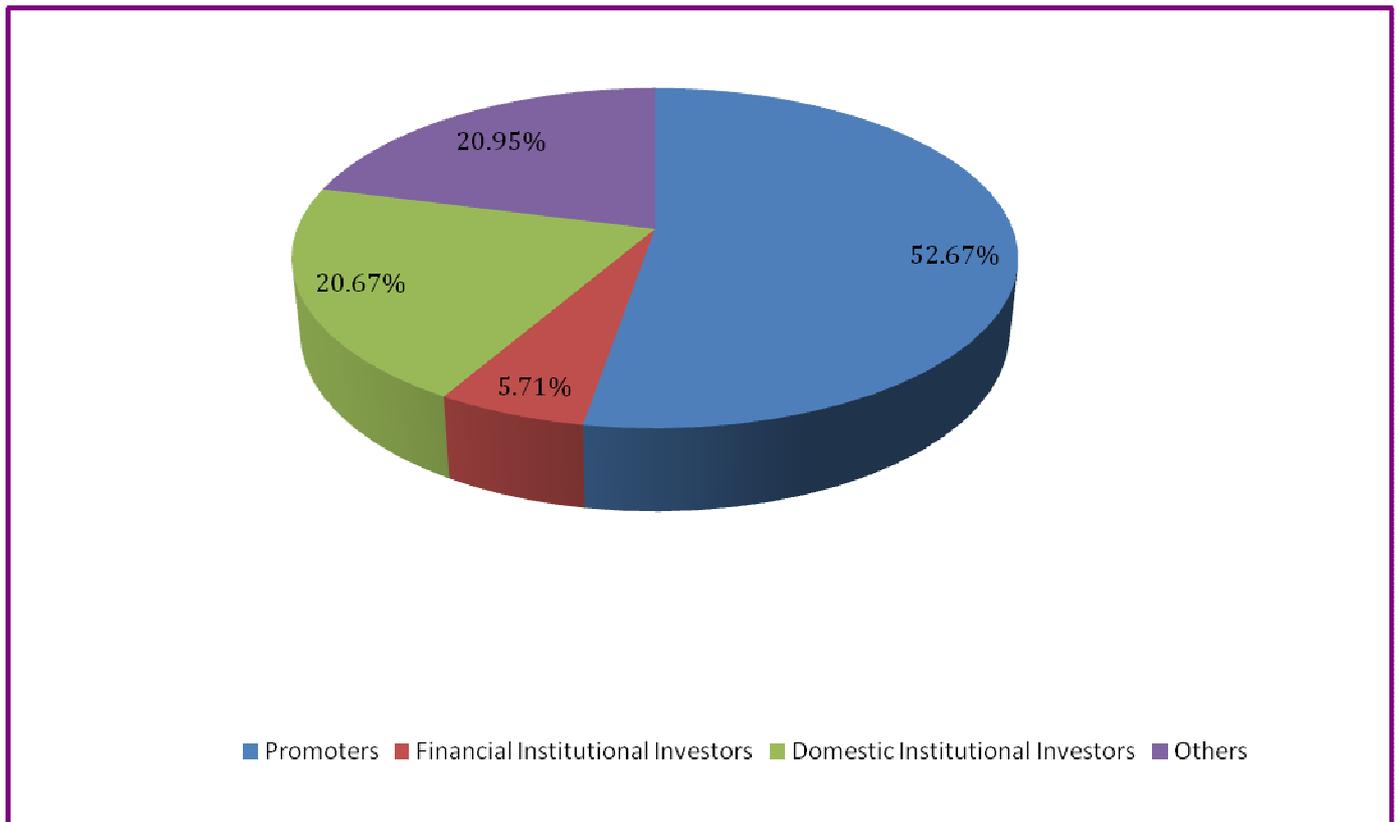
KEY PROFITABILITY INDICATORS :

Particulars	Q2 – FY 10	Q2 - FY 09	HY - 10	HY - 09	FY - 09
Net Interest Margin (%)	1.07%	0.41%	0.95%	0.38%	0.99%
Return on Assets (%)	0.53%	0.49%	0.47%	0.50%	0.62%
Return on Equity (%)	13.15%	9.38%	11.21%	9.30%	12.11%
Cost of all liabilities (%)	6.82%	7.51%	7.07%	7.39%	7.39%
Yield on Total Assets	9.00%	9.19%	9.41%	8.90%	9.34%
Margin (%)	2.17%	1.67%	2.33%	1.51%	1.95%
Cost of Funds (%)	7.45%	8.35%	7.63%	8.18%	8.42%
Return on Earning Assets (%)	9.37%	9.82%	9.81%	9.39%	9.87%
Spread (%)	1.92%	1.47%	2.18%	1.21%	1.45%
Low cost funds to Total Funds (%)	14.76%	16.19%	14.76%	16.19%	14.78%
Net NPA Ratio (%)	1.19%	1.28%	1.19%	1.28%	0.92%



Particulars (Rs. In millions)	FY 08	FY 09	FY 10E	FY 11E
Total Income	22,582	27,158	35,047	42,514
Net Profit	7,294	8,585	9,596	10,872
No. of Equity Shares (mn)	724.80	724.80	724.80	724.80
Diluted EPS (Rs.)	10.06	11.84	13.24	15
P/E (x)	13.17	11.13	9.95	8.78
Book Value (Rs.)	122	130	141	154

Shareholding pattern as on September 2009



**Risks and concerns:**

- 1) Any increase in Bank's provisioning cost as a % of Average assets would affect the profitability levels of the bank.
- 2) Any increase high funding expenses and increase in credit costs would affect Net Interest Margins.

Financials - Income Statement - (Rs. in millions)

Particulars	FY 08	FY 09	FY 10E	FY 11E
Interest Earned	80,409	116,316	144,067	152,856
Interest Expended	73,644	103,057	126,923	133,458
Net Interest Income	6,765	13,259	17,144	19,398
Other Income	15,818	13,899	17,903	21,115
Total Income	22,582	27,158	35,047	40,513
Operating Expenses	9,588	13,379	12,807	14,350
Pre Provisioning Profit	12,995	13,779	22,240	26,163
Provisions and Contingencies	4,768	3,923	11,224	13,682
Profit before Tax	8,227	9,856	11,016	12,481
Tax	933	1,271	1,420	1,610
Profit after Tax	7,294	8,585	9,596	10,871
No. of Equity Shares	724.8	724.8	724.8	724.8
EPS (Rs)	10.06	11.84	13.24	15

**Balance Sheet – (Rs. in millions)**

Particulars	FY 08	FY 09	FY 10E	FY 11E
LIABILITIES				
Share Capital	7247.64	7247.81	7,247.81	7,247.81
Reserves and Surplus	80,955	86,974	94,897	104,097
Deposits	729,890	1,124,010	1,405,013	1,629,815
Borrowings	438,230	444,170	480,166	522,200
Other Liabilities and provisions	50,515	61,621	67,985	81,582
Total	1,306,944	1,724,023	2,055,309	2,344,942
ASSETS				
Cash and balances with RBI	66,948	85,908	108,134	136,921
Balances with banks and money at call and short notice	20,639	26,285	33,217	42,061
Investments	328,029	500,476	620,000	720,000
Advances	822,128	1,034,283	1,200,558	1,344,305
Fixed Assets	27,660	28,241	29,900	31,655
Other Assets	41,540	48,830	63,500	70,000
Total	1,306,944	1,724,023	2,055,309	2,344,942



Cash Flow Statement – (Rs. in millions)

Particulars	FY 08	FY 09	FY 10E	FY 11E
Net Profit before Tax	8,227	9,856	11,016	12,482
Net Cash Flow from Operating Activities (A)	20,843	27,677	21,473	28,576
Net Cash Flow from Investing Activities (B)	-1,121	-1,401	-1,659	-1755
Net Cash Flow from Financing Activities (C)	-1,245	-1,671	-1,672	-1672
Increase/(Decrease) in cash & cash equivalents during the year	18,477	24,605	29,158	37,631
Cash and Cash Equivalents at the beginning of the year	69,111	87,588	112,193	141,351
Cash and Cash Equivalents at the end of the year	87,588	112,193	141,351	178,982

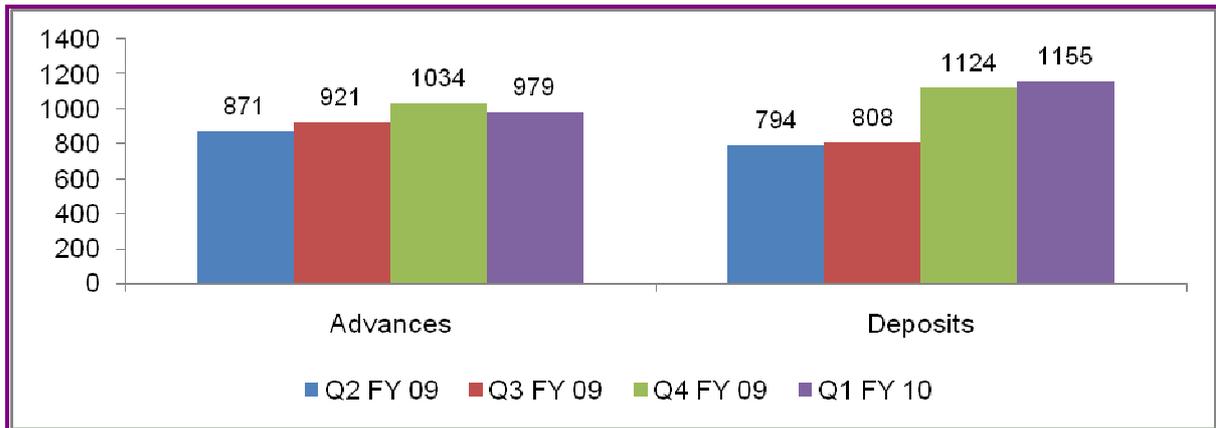


Strengths:

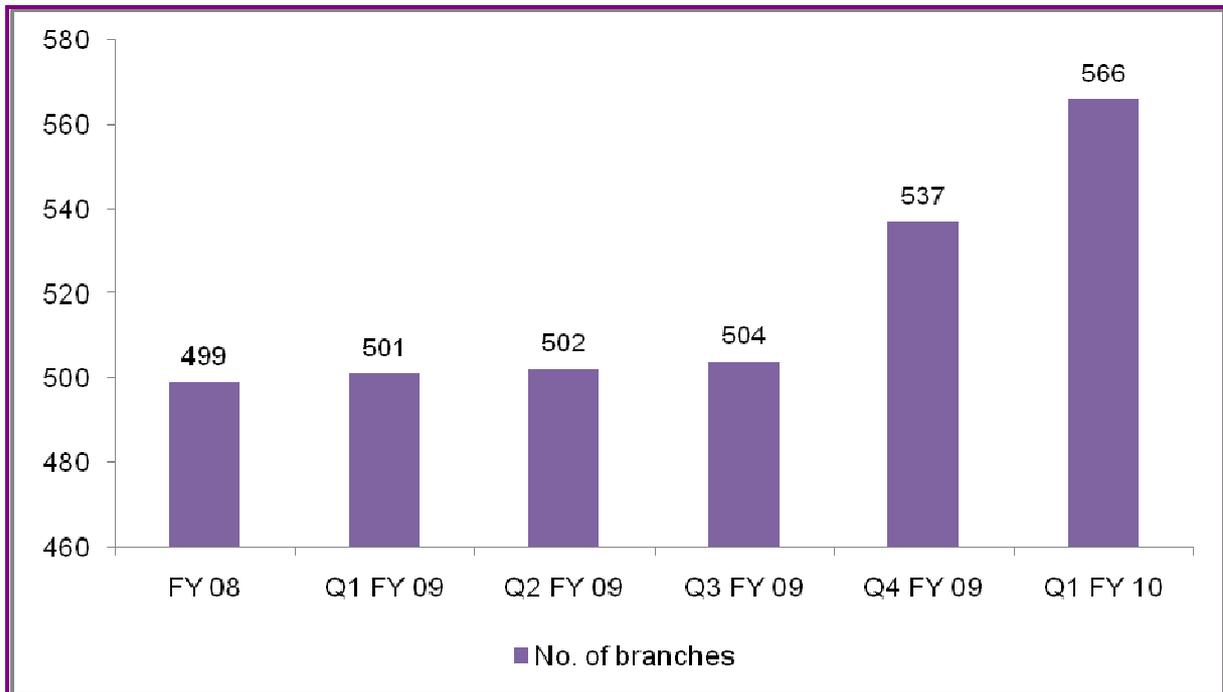
Core Business Going Strong....

a) Growth in Advances and Deposits

(Rs. in bn)



b) Branch expansion to support future growth



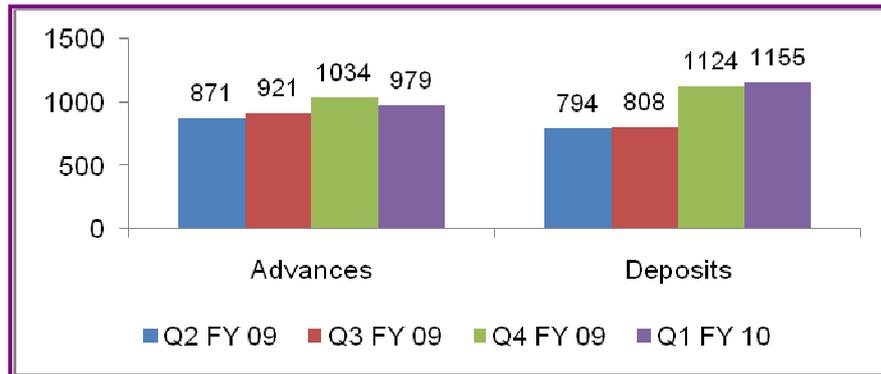


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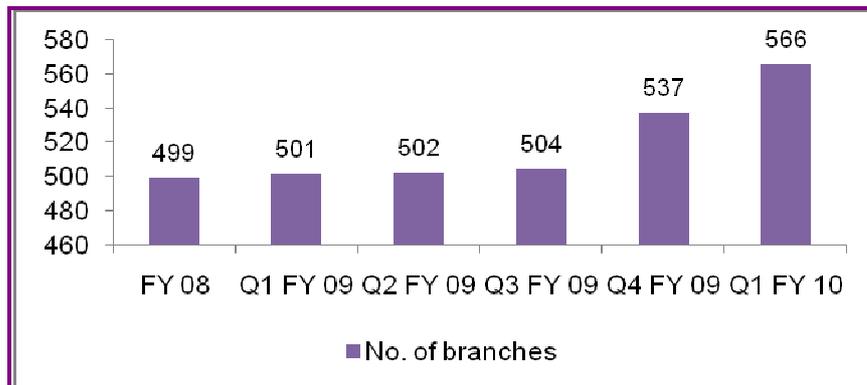
Core Business Going Strong....

a) Growth in Advances and Deposits

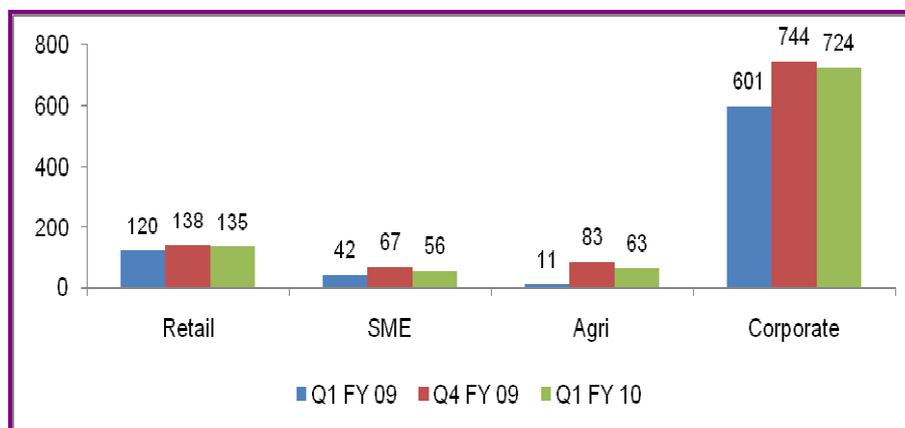
(Rs. in bn)



b) Branch expansion to support future growth



c) Composition of loan book (Rs. in bn)



**Investment rationale:**

- 1) **Healthy Capital Adequacy ratio:** The capital adequacy of the bank as on September 30, 2009 remained healthy at 11.9% with the tier-I capital adequacy ratio (CAR) standing at 6.83%.
- 2) **Impressive Sept - 09 (Q2 FY 10 results):**
 - a) NII – Q2 FY 10 at Rs. 4,720 mn (Q2 FY09: Rs.1,290 mn) up by 267%
 - b) Fee based income for Q2 FY 10 up by 99% to Rs. 3,900 mn (Q2 FY 09: Rs. 1,960 mn)
 - c) PAT – Q2 FY 10 Rs. 2,540 mn (Q2 FY 09: Rs.1,620 mn)
 - d) PAT for Q2 FY 10 up by 56%
- 3) **Recovery from written off cases:** In FY 09, recovery from written off cases accounted for ~16% of NII. In H1 FY 10, recovery from written off cases stood ~Rs. 520 mn.
- 3) **Re - pricing of deposits to improve margins:** Taking cue from Q2FY2010 results, there is clear evidence of the improvement in the core business. Moreover, the bank should be able to lower its cost of funds further, as its high-cost deposits get re-priced to lower rates.

In Q2 FY10, falling cost of liabilities by 69 bps YoY to 6.82% resulted in YoY increase of 0.66% in its NIMs. As of Q2'10, borrowings accounted for 24.1% of the total funding over 31.6% as of Q2'09. As the Bank will continue to repay its high-cost borrowings it would result in improvement in margins going forward.
- 4) **Expansion both domestically and globally:** For FY 2010, the Bank has acquired license to open 200 additional branches domestically and is planning to open its operations in global markets like Dubai, Singapore, and Beijing. RBI has accorded approval for setting up a Wholesale Bank Branch at Bahrain, an offshore Banking Unit at Singapore, a Category – I branch at Dubai international Financial Centre (DIFC) and a representative office at Shanghai.
- 5) **Possible FPO in 2010:** IDBI plans to come out with an FPO (Follow-on public offer) in 2010. In addition, it also plans to raise USD 500 mn through bonds from overseas to fund some of the Indian corporates' overseas expansion programmes. This capital raising will fund the Bank's deposit and lending growth.
- 6) **Foray into Insurance business:** IDBI has forayed into Life Insurance business via a JV with Federal Bank and Fortis Insurance International as other equity partners.
- 7) **Significant role of IDBI in India's Infrastructure story:**

Road Sector:

The National Highway Development Programme (NHDP) is India's flagship and the world's largest (Public Private Partnership) PPP road development programme.

National Highway Authority of India (NHAI) has awarded (or is evaluating bids for) 24 projects worth Rs. 228 bn. NHAI has an ambitious target of awarding 23,000 km of roads during the next two years. IDBI Bank continues to provide assistance to road projects.

Power Sector:

Government of India has set a target of adding 90,000 MW by the end of 11th Plan.

Ultra Mega Power Projects

Development of Ultra Mega Power Projects ("UMPPs") has been identified by GoI as a key area of potential development. These are very large sized projects, ~ 4,000 MW each, involving an estimated investment of about Rs. 160,000 million. These projects are designed to meet power needs of a number of states and distribution companies located in these states, and are being developed on a Build, Own, and Operate ("BOO") basis.

IDBI Bank is a member of the Core Committee of the Government, which has been set up for finalization of the (UMPPs).



Investment rationale:

IDBI is leading in financing infrastructure projects across the entire infrastructure spectrum like power, roads, telecom, railways, logistics, SEZs etc. It has an exposure of ~Rs. 400 bn in infrastructure projects. Also, IDBI would benefit from the refinance scheme of India Infrastructure Finance Company Limited (IIFCL) will refinance 60% of the commercial bank loans for PPP projects in critical sectors over the next 15 – 18 months. IIFCL and the banking sector together are expected to support projects involving a total investment of Rs. 1,000 bn.

Valuation :

At the CMP of Rs. 131.75 the stock trades at a P/E of 13.09x its FY 09 earnings, 9.95x FY 10E earnings (EPS – Rs. 13.24). With due consideration to strong Infrastructure story of India, comfortable capital adequacy ratio, high quality assets, strong growth in advances, repricing of deposits , we recommend a **“Buy”** at the current market price. Our rating is based on P/E 11x FY 11E (EPS – Rs.15/-) with a price target of **Rs. 165/-** on 3 months horizon.



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