



annual report 2000-2001



 **idbi bank**

what can 
do for you?

Board of Directors :

Mr. Verma M.S.
Chairman
 Mr. Chakrabarti S.K.
 Mr. Nimbalkar P.B.
 Mr. Kapur S.K.
 Mr. Bajaj S.
 Dr. Phatak D.B.
 Mr. Shah M.C.
 Dr. Shenoi P.V.
 Mr. Chitale M.M.
 Mr. Chadha Gunit
Managing Director & CEO

Auditors :

M/s. Sharp and Tannan,
 Chartered Accountants,
 Bank of Baroda Building,
 Bombay Samachar Marg,
 Mumbai 400 001.

Company Secretary :

Ranganath Athreya

Registered Office :

Chaturvedi Mansion,
 2nd Floor, 26/4,
 Old Palasia,
 Agra-Mumbai Road,
 Indore 452 001.

Corporate Office :

Nariman Bhavan,
 12th Floor,
 V.K. Shah Marg,
 Nariman Point,
 Mumbai 400 021.

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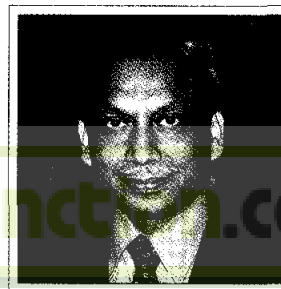
M.S. Verma
 (Chairman)



Gunit Chadha
 (Managing Director & CEO)



S.K. Chakrabarti



P.B. Nimbalkar



S.K. Kapur



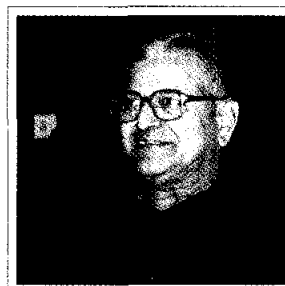
S. Bajaj



D.B. Phatak



M.C. Shah



P.V. Shenoi



M.M. Chitale

"what can idbi do for you?"

organizations with an eye to the future must have their ears to the ground. they must unquestioningly ask questions of their stakeholders and customers.

that and that alone prompted us to adopt *"what can idbi do for you?"* as our culture credo. we believe that as an organization we must ask the right questions before attempting to author the right answers.

we must employ expectations as the benchmark for all our efforts.

indeed, it is this act of asking *"what can idbi do for you?"* of our shareholders that has led us to make strategic changes in the corporation. it had led us to invest vastly and wisely in technology. it has prompted us to change tracks and embrace the more engaging and absorbing field of retail banking. it has helped us bring on board a humbling line-up of the most celebrated stalwarts in banking. it has encouraged us to adopt the most pristine risk management practices and best practices in the spheres of human relations, colleague compensation, accounting policies and disclosures.

all of these have been engineered to deliver maximum shareholder value in the long-term.

all of these are significant milestones in the longer march towards creating shareholder delight.

at idbi bank, we are today, at an interesting junction in the journey.

the road ahead is paved with promise, and indeed with profit.

thank you for investing in our future.

the year 2000-01 was a significant station in our journey towards being the preferred bank of the country.

this was the year, when we put our ambitions of being a significant player in the retail space into play.

to put the intent firmly in place, we embraced a fresh new identity. one that breathed new energy and enterprise into the retail bank. we also adopted a fresh new credo "what can *idbi* do for you?" to reinforce our commitment to customer service.

furthermore, aware of the fact that tomorrow will be tailored by technology, we invested hugely in bringing our technology up to speed with the very best in the world.

finally, ours is a people's business, to that end, we brought into the bank a dynamic new team with years of experience behind them and years of enthusiasm ahead.

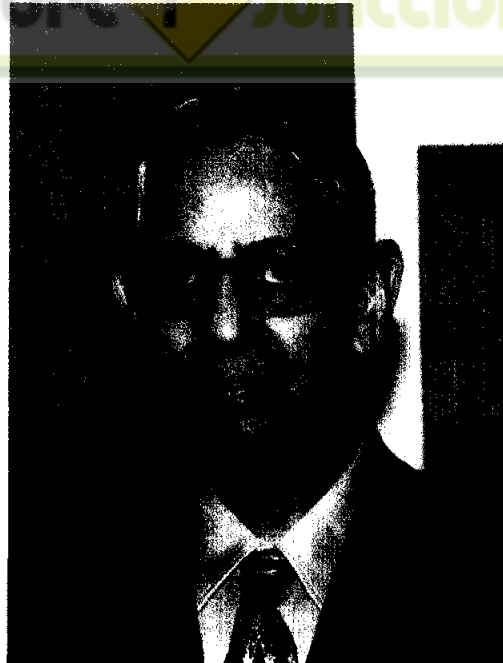
they say, the only constant thing in life is change. and change we will constantly.

indeed, change is the journey.

and the journey is the destination.

M S Verma
Chairman

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7th annual report 2000-01

fast forward



to participate in changing an institution is challenging.

we are clear about the journey we are undertaking. we wish to, over the next few years, become the absolute shorthand for service and the signature of excellence.

to that end, this year saw the installation of a fresh new brand identity, an identity that emerged out of extensive engagements with consumers and colleagues. the new teal colour of the bank accentuates our aspiration to be a contemporary bank brand. the new service credo, "*what can i do for you?*" embalms the desire to listen to consumers and create products out of client expectations.

the second source of encouragement is our perspective on technology. i am pleased to report that we have invested heavily in tomorrow's technology, today. we wish to be recognised as a technology-led and service-driven marketing company, within the financial services industry. i believe that technology will be a significant punctuation in the service sentence. we have employed the best of systems, all with a view to create customer convenience and product superiority, threaded by an engrained culture of service excellence.

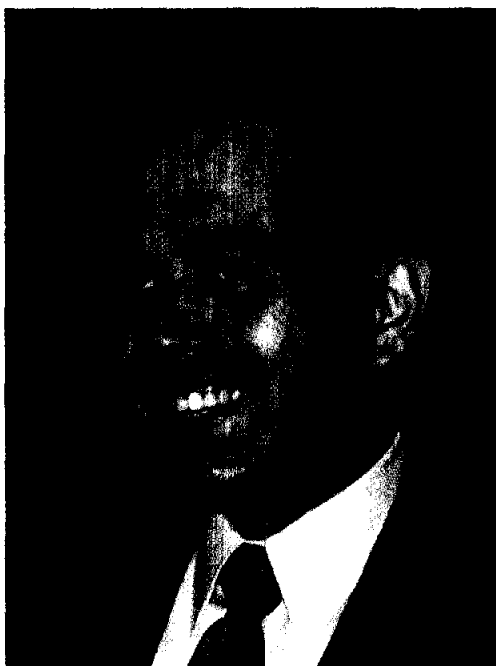
we have also invested very diligently in people. we believe that we are the company we keep and if we hire people taller than us, we will be a company of giants. i am glad that some of the finest names in retail, corporate, treasury and other functions have joined hands to fulfill our stakeholders dream.

finally, i think all that we have done and wish to do must enhance shareholder value. having said that, i am of the opinion that whilst enhancing shareholder worth, we must also assiduously build careholder values within the bank.

i would like to see us as being careholders of consumers, of colleagues, for when we can create care value, driven by a strong code of conduct and governance, creating share value will be a relatively simple task.

2001-01 has been a period of introspection, consolidation and strategic shift for idbi bank. with a new road map, the journey has just begun. there will be challenges along the way. the management is confident that leading indicators of performance will show significant successes over the coming years. in each of these challenges and successes, we will be honest and transparent with all our stakeholders.

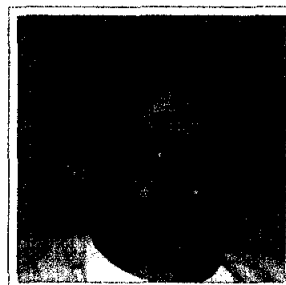
Gunit Chadha
Managing Director & CEO



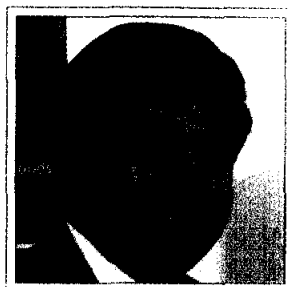
Janak Desai, 36 yrs. -
Treasurer, 12 yrs. of
experience at ABN-Amro
and Standard Chartered.



Pradeep Patil, 48 yrs. -
Head Audit, 24 yrs. of
experience at Union
Bank of India.



Ajay Bimbhet, 46 yrs. -
Country Co-Head Retail
Banking, 24 yrs. of
experience at ANZ
Grindlays-India, London.



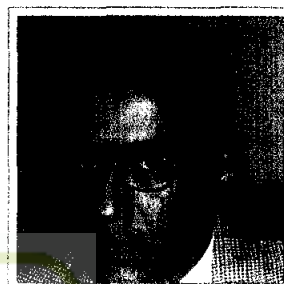
Vinit Kohli, 45
yrs. - CFO, 20
yrs. of
experience at
HSBC and
ANZ Grindlays.



Neeraj B Bhai, 45 yrs. -
CTO, 23 yrs. of
experience at SBI, ICICI
and Sharekhan.



Gunit Chadha, 40 yrs. - MD & CEO,
16 yrs. of experience in Citigroup - India
and New York.



R S Khot, 49 yrs. - Head
Corporate Banking, 26 yrs. of
experience at SBI and
Standard Chartered.



S. Kumar, 38 yrs. - Head
Operations, 12 yrs. of experience
at Standard Chartered - Dubai
and HDFC Bank.



Prakash Jaodekar, 45 yrs. - Head
Risk Management, 20 yrs. of
experience at SBI - India and
Frankfurt.



Uhas Deshpande, 40 yrs. - Head
HRD, 19 yrs. of experience at
Parke Davis and Tata-AIG.

financial highlights



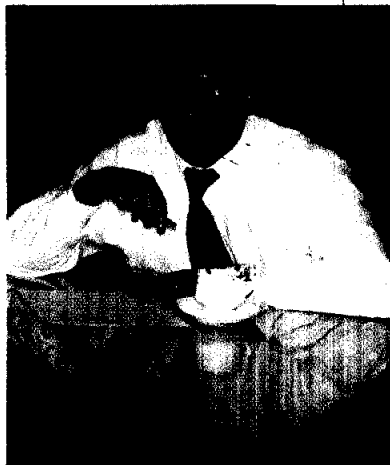
(Rs.in crores)

Particulars	1996-97	1997-98	1998-99	1999-00	2000-01
Interest Income	43.88	149.25	295.01	423.78	539.10
Interest Expenses	19.62	104.60	230.90	332.61	437.50
Net Interest Income	24.26	44.65	64.11	91.17	101.60
FOREX Income	0.36	4.98	5.74	6.57	8.37
Money Market Trading Income	1.47	2.97	2.31	12.56	11.89
Commission, Exchange and Brokerage	3.97	8.85	19.34	32.06	42.72
Other Income	0.25	0.83	1.49	3.95	6.59
Net Income	30.31	62.28	92.99	146.31	171.17
Operating Expenses	21.67	33.56	54.49	62.67	102.56
Operating Income	8.64	28.72	38.50	83.64	68.61
Loan Loss Provision	1.43	1.37	3.27	5.36	40.99
Depreciation on Investments	—	—	0.03	(0.03)	3.86
Other Provisions	—	0.11	—	—	0.10
Profit before Tax	7.21	27.24	35.20	78.31	23.66
Provision for Tax	3.54	7.19	4.44	17.32	4.30
Profit after Tax	3.67	20.05	30.76	60.99	19.36
Share Capital	100.00	100.00	140.00	140.00	140.00
Reserves & Surplus	4.62	24.67	77.22	118.56	128.12
Subordinated Debt	—	—	—	100.00	125.00
Deposits	505.25	1845.53	2751.28	3448.17	3567.50
Advances	495.42	843.05	1074.44	1604.64	1724.99
Total Assets	790.32	2201.53	3419.22	4516.08	4918.66
Investments	195.81	847.64	1617.06	2128.92	2524.80
EPS (Rs.)	0.37	2.01	2.20	4.36	1.38
Dividend	—	—	9%	12%	7%
Book Value (Rs.)	10.46	12.47	15.52	18.54	19.15
Capital Adequacy					
Total	17.90	9.82	11.26	11.80	11.72
Tier I	17.90	9.82	11.21	8.43	7.89
Branches	7	17	26	39	53
Employees	181	331	419	547	773

* Proposed

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Sandeep Dixit, Director,
Indosuez W.I. Carr Securities



Tabassum Inamdar
Senior Analyst, Kotak
Securities

Our objective - enhancing shareholder value

The principal objective of the management of your bank is to create a vibrant financial services Company that delivers superior performance and value to its shareholders. The value addition can also be in the form of providing additional information to the shareholders so that there is a better understanding and appreciation of the business that they have invested into.

Towards this end, we requested three top banking analysts for their views on the sector. We are grateful to them for readily accepting to participate in this worthy venture.

We submit the highlights of their views which we are certain will be useful to you and your understanding of the banking sector.

We asked the analysts their outlook for the Banking Sector, here is what we heard:

With the significant increase in the levels of competition in this sector, the key differentiators will be technology, containment of cost of operations, effective risk management and prudent provisioning.

We see margins coming under increasing strain and at least with reference to lending to the top quality corporates, traditional 'working capital' driven lending will take a back seat to savvier credit substitute products. Making money will become tougher for banks especially in an environment where almost every blue line corporate is attempting to cut down on working capital.

The stress on spreads on corporate lending will drive better banks to focus on retail lending, where in spite of growing competition, the more efficient players equipped with better risk management tools will stand to gain.

We see a shift of business from the NBFC sector to the banking sector occurring in the retail assets segment more markedly in the days ahead.

Increasing disintermediation by top corporates will put pressure on the foreign and new private sector banks to take a fresh look at the SME sector. A pointer to this is the small beginning that some select foreign banks have already initiated.

While the SME sector does offer banks the option of better spreads, only those banks who aggressively understand the intricacies of lending to this sector and who approach it more through the ancillary route can be expected to gain. This sector demands possibly the most stringent tracking mechanisms and the best risk management skills which the smaller new private sector banks seem to possess more than their PSU peers.

The key moving forward will be, *Efficient use of Capital*. The weaker PSU banks will be increasingly marginalized and with the regulatory environment beginning to encourage consolidation, more mergers can be expected. We also see increased foreign ownership in banks emerging as a key factor.

We see mutual funds competing more effectively for attracting savings in the future. Mutual funds will emerge as the single greatest threat to banks in attracting savings. The present climate is not favourable to equity based mutual fund product offerings, but debt funds are still attracting sizeable volumes. The tax sops given to the mutual fund industry can be expected to continue in the medium term which will further encourage flow of savings into this channel. Though not an immediate threat in their present size, mutual funds will increasingly cast their shadow on the banking sector in the future.

We believe that *Return on Equity* will be the key driver which will enable banks to expand their capital further. *Gaining market credibility and creating shareholder value will be key* and those

banks that add shareholder value will be rewarded with public confidence reflected in improved valuations and lower cost of raising capital.

We asked them their comments on the phenomenon of new private sector banks; their reactions:

New private sector banks have already created a niche for themselves and have taken away quality market share from both foreign banks and PSU banks.

There is still plenty of steam left and scope for growth available for new private sector banks. But even within this sector, the institution backed players will have an edge over the rest.

We see a shift in retail liabilities from PSU banks to new private sector banks happening. The key drivers will be brand and network. We will see the battle ground shift in market segmentation from the high networth individuals to the middle class. The fight will be more amongst foreign banks and new private sector banks in the metros.

Through effective use of technology, efficient management of cost of operations and superior service and product delivery, new private sector banks as a sector have grown very strongly and will continue to grow well in the future.

We asked them to provide us with key indicators which would differentiate the leaders from the rest of the players within the new private sector banking world; their comments:

Those players in the institution backed new private sector banking sector who are making changes through restructuring will certainly witness the benefits going forward.

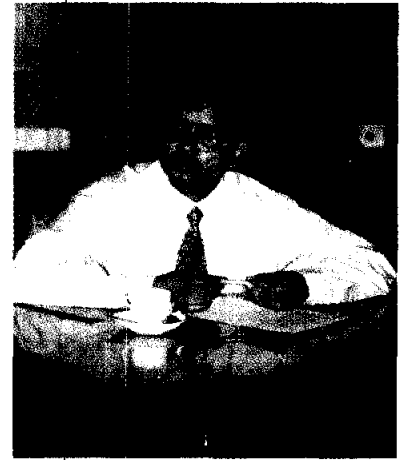
The key differentiators will be :

- Management quality.
- Brand and network.
- Leverage of technology.
- Service levels.
- Retail led strategy on liabilities and assets.
- Ability to measure and manage Risk.
- Efficiency in operations and effective cost control.
- Ability to generate fee income through avenues such as third party distribution.
- Management of Net NPL ratio & provisioning standards.

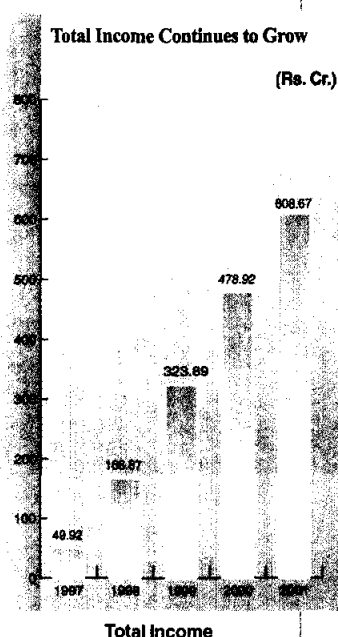
Return on Equity will be key and we will see battle lines shifting to centers other than metros. A key to success will be the strategy on branch expansion. Those players who shift their strategic focus away from the metros to the urban locations will be rewarded with greater market share at the cost of PSU banks.

Expansion of ATM network alone has not met with success. A branch plus ATM strategy has worked best so far.

Those banks who 'over provide' will inspire higher investor confidence and will reap the benefits in their capital raising forays.



Pathik Gandotra, Vice
President
Research, SSKI
Institutional Securities



To the Shareholders

Your Directors have pleasure in presenting to you the 7th Annual Report of your Bank together with the audited Balance Sheet, Profit and Loss Account and the report on business and operations of your Bank for the year ended March 31, 2001.

Financial Highlights

Particulars	Rs. in crores	
	For the year ended March 31, 2000	For the year ended March 31, 2001
Deposits	3448.17	3567.50
Advances	1604.64	1724.99
Gross Income	478.92	608.68
Operating Profit before Provisions	83.64	68.62
Net Profit	60.99	19.36
Transfer to Statutory Reserves	16.78	4.84
Transfer to Investment Fluctuation Reserve	0.03	(0.03)
Proposed Dividend	16.80	9.80
Tax on Dividend	1.85	1.00
Balance of Profit carried forward to Balance Sheet	59.67	62.67

Financial year 2001 has been a period of introspection, consolidation and strategic shift for IDBI Bank. The business thrust has been re-defined to have greater focus on retail activities. Organisational structure of the bank has been re-aligned along functional responsibilities, and a new management team has been inducted into the bank headed by a new Managing Director and CEO. Major investments are being made by the bank in revamping the entire technology and operating platform and rapidly expanding branch network and other distribution channels. The bank is in the process of building the necessary infrastructure. This will allow it to build competitive advantage and grow its business substantially in the near future. The banking industry is undergoing enormous change driven by market conditions. To succeed, the banks will have to respond to the needs of the customers and manage change effectively. Your Bank is well positioned to meet such challenges.

Dividend

Your Directors recommend a dividend of 7% for the year ended March 31, 2001 (previous year 12%). Dividend will be paid to those shareholders whose names appear on the Register of Member of the Bank as on 11.8.01.

Capital Adequacy Ratio

During the year under review, your Bank issued and allotted unsecured subordinated bonds of Rs. 25 crores, qualifying as Tier II capital. As at March 31, 2001, your Bank's total Capital Adequacy Ratio (CAR) stood at a healthy 11.72% as against the regulatory requirement of 9%.

Equity Stock Options

To align the interests of the employees of the bank with that of the shareholders, as also to attract and retain top talent, the shareholders, at the Annual General Meeting held on 29th May, 2000, approved the issuance of 1.4 crore equity stock options ("Options") to employees and directors of the bank, convertible into Equity Shares of the aggregate nominal face value of Rs. 14,00,00,000/-.

