

IDFC (IDFC)

Rs 161

Rating matrix

Rating	:	Hold
Target	:	Rs 162
Target Period	:	12 months
Potential Upside	:	0 %

Key Financials

(Rs Crore)	FY08	FY09	FY10E	FY11E
NII	693.9	921.9	1059.2	1230.8
PPP	1072.3	1187.3	1392.3	1608.0
Net Profit	744.0	748.0	952.0	1103.9

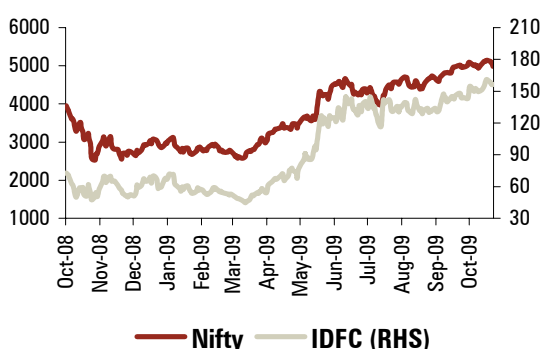
Valuation summary

	FY08	FY09	FY10E	FY11E
PE (x)	28.0	27.9	21.9	18.9
P/ABV (x)	3.7	3.4	3.1	2.7
GNPA (%)	0.2	0.4	0.4	0.4
NNPA (%)	0.0	0.2	0.2	0.2
RoNA (%)	3.2	2.5	2.9	2.9
RoE (%)	17.4	12.7	14.6	15.2

Stock data

Market Capitalisation	Rs 21766 crore
Net worth (Q2FY10)	Rs 6744 crore
NNPA (Q2FY10)	0.2 %
NIM (Q2FY10)	3.5 %
52 week H/L	128/27
Equity capital	Rs 26 Crore
Face value	Rs. 5
MF Holding (%)	13.0
RI Holding (%)	4.4

Price performance



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY09E)	Changed from Rs 6.9 to Rs 7.3
EPS (FY10E)	Changed from Rs 8 to Rs 8.5
RATING.....	from Performer to Hold

Growth pick-up & leveraging to propel RoE

IDFC reported consolidated earnings of Rs 290 crore, a jump of 26.4% YoY much higher than anticipated on strong 40% NII growth. Loan book has also seen sequential growth of 6.5% to Rs 22487 crore. We expect the loan book to grow at 16% in FY10E with net NPAs maintained at 0.2% and estimate PAT to grow at 19% CAGR over FY09-11E.

■ Core NII growth stronger, spreads expanding

Lower interest expenses have led to higher NII, growing 40% YoY to Rs 277 crore in Q2FY09 resulting in 12 month rolling spreads expanding to 2.6% from 2.4% as of last quarter. NIMs have also increased from 3.2% to 3.5%. With loan book growth expected to be even stronger, going ahead, we expect NII to grow at 16% CAGR over FY09-11E.

■ Share of fee-based income continues to be high in total income

Due to pick-up in primary markets and other capital market deals in the quarter, IB fees income almost doubled both YoY and QoQ to Rs 63 crore. This led to 11% growth in overall non-interest income to Rs 244 crore. Principal investment income remained stable sequentially at Rs 69.4 crore as no major assets increased under AUM. We estimate the non-interest income segment will grow at 15% CAGR over FY09-FY11E.

Valuation

Asset quality is maintained at 0.20% NNPA and 0.35% GNPA. We do not expect a steep rise in the same. We expect IDFC to grow its balance sheet by 15-17% over the next two years and PAT growth is pegged at 19% CAGR to Rs.1103.8 crore. As leverage increases from the current 4.7x, ROE should see an up tick and reach 15-16% over the next couple of years. At the CMP of Rs 161, IDFC is trading at 2.7x its FY11E ABV. Hence, we maintain our target price at Rs 162 on an SOTP basis. We assign a **Hold** rating to the stock.

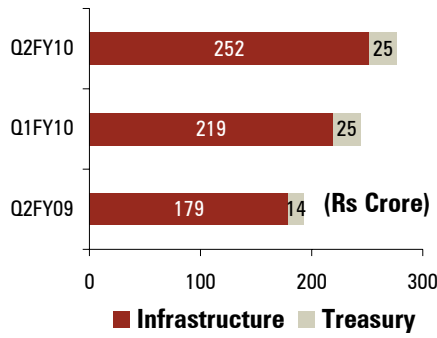
Exhibit 1: Performance Highlights

Rs Crore	Q2FY10	Q1FY10E	Q2FY09	Q1FY10	YoY Gr.(%)	QoQ Gr.(%)
NII	277.0	230.4	198.1	244.0	39.8	13.5
Other Income	244.1	211.4	220.0	224.1	10.9	8.9
Total Income	521.1	441.8	418.1	468.1	24.6	11.3
PPP	412.1	336.6	334.3	365.1	23.3	12.9
PAT	291.3	249.5	232.2	272.6	25.5	6.9

Source: Company, ICICIdirect.com Research

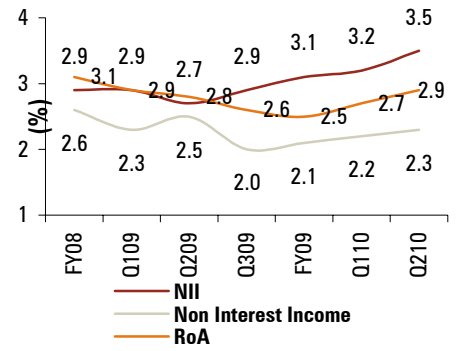
Crisil ratings have not materially impacted the cost of funds and the company has been able to maintain lower cost of funds & higher NII growth. As can be seen, both NIIs as a percentage of 12 months assets and PAT (RoA) are rising

Exhibit 2: Break-up of NII



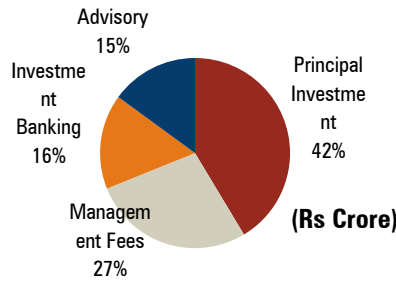
Source: Company, ICICIdirect.com Research

Exhibit 3: RoA tree



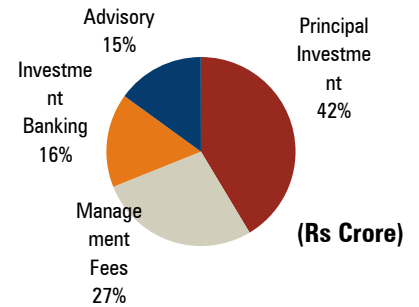
Source: Company, ICICIdirect.com Research

Exhibit 4: Q2FY09: Non-interest income



Source: Company, ICICIdirect.com Research

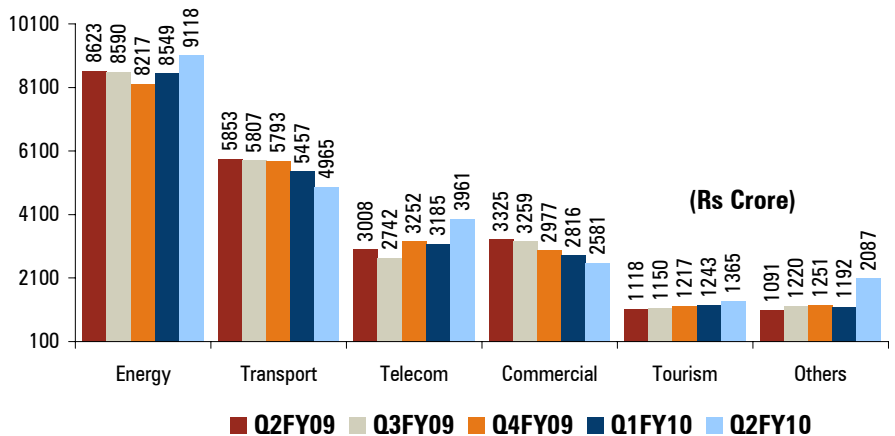
Exhibit 5: Q2FY10: Non-interest income



Source: Company, ICICIdirect.com Research

Loan book growth has been strong in the quarter as anticipated. Hence, we have upgraded FY10E loan growth from 14% to 16%

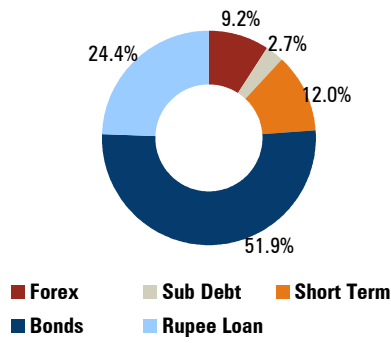
Exhibit 6: Outstanding disbursements – slight up tick seen



Source: Company, ICICIdirect.com Research

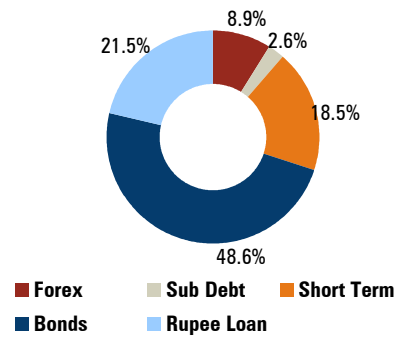
Borrowings have risen from Rs.24300 crore to Rs.25238 crore sequentially due to incremental lending and rise in investment book seen in the quarter.

Exhibit 7: Q1FY10: Borrowing profile



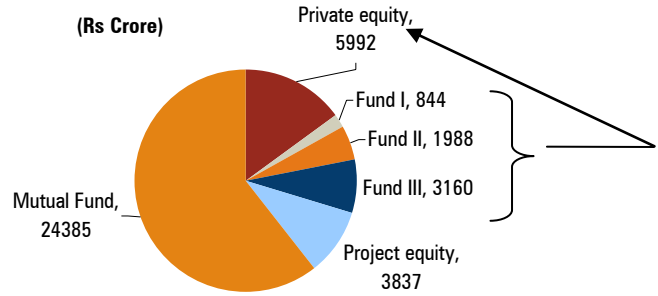
Source: Company, icicisecurities.com

Exhibit 8: Q2FY10: Borrowing profile



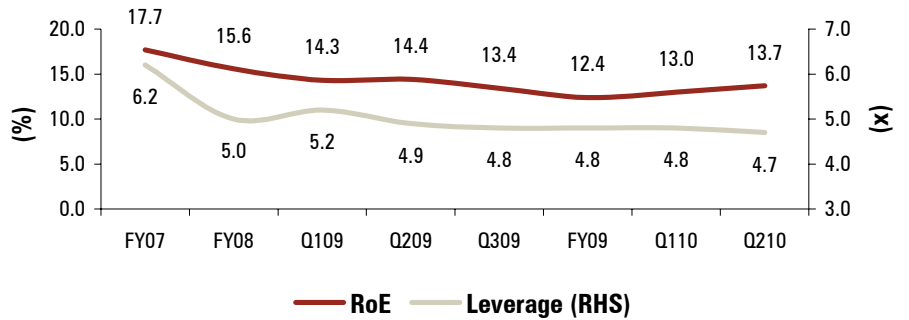
Source: Company, icicisecurities.com

Exhibit 9: Break up of AUMs



Source: Company, ICICIdirect.com Research

Exhibit 10: Pick up in leverage to propel ROE's



Source: Company, ICICIdirect.com Research

ICICI direct.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	453	FY09	3007.3	57.2	6.9	1.9	1.5	25.0
		Target	350	FY10E	3586.2	68.2	5.8	1.5	1.4	23.9
Mcap (Rs Cr)	24058	Upside (%)	-23	FY11E	4532.0	86.2	4.6	1.3	1.5	25.9
Bank of Baroda										
Idirect Code	BANBAR	CMP	56	FY09	2227.2	61.1	7.4	1.3	1.1	18.7
		Target	532	FY10E	2582.0	70.6	6.4	1.2	1.1	18.4
Mcap (Rs Cr)	2097	Upside (%)	850	FY11E	3117.6	85.3	5.3	1.0	1.1	18.7
Dena Bank										
Idirect Code	DENBAN	CMP	76	FY09	422.6	14.7	3.7	0.8	1.0	21.3
		Target	86	FY10E	488.9	12.6	4.3	0.8	0.9	18.8
Mcap (Rs Cr)	2240	Upside (%)	13	FY11E	572.7	14.8	3.6	0.7	0.9	17.7
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	132	FY09	1325.8	24.3	5.1	1.1	1.2	22.1
		Target	144	FY10E	1292.7*	23.7	5.3	1.1	1.0	17.6
Mcap (Rs Cr)	7191	Upside (%)	9	FY11E	1887.9	34.7	3.6	0.9	1.2	22.3
IDBI Bank										
Idirect Code	IDBI	CMP	128	FY09	858.5	7.8	15.9	1.4	0.6	12.1
		Target	116	FY10E	925.8	12.8	9.6	1.3	0.5	11.8
Mcap (Rs Cr)	9281	Upside (%)	-13	FY11E	1132.4	14.2	8.7	1.3	0.5	12.7
OBC										
Idirect Code	ORIBAN	CMP	267	FY09	7.7	6.4	0.8	0.6	0.9	13.8
		Target	255	FY10E	13.1	5.6	0.8	0.8	0.8	12.7
Mcap (Rs Cr)	6717	Upside (%)	-13	FY11E	12.4	5.0	0.7	1.3	0.8	13.2
Punjab National Bank										
Idirect Code	PUNBAN	CMP	864	FY09	3091.3	98.0	8.8	1.9	1.4	22.9
		Target	UR	FY10E	3260.7	103.4	8.4	1.7	1.2	20.4
Mcap (Rs Cr)	27210	Upside (%)		FY11E	4139.5	131.3	6.6	1.5	1.3	22.8
SBI										
Idirect Code	STABAN	CMP	2368	FY09	91.2	143.7	14.8	2.6	1.1	17.1
		Target	2217	FY10E	99.4	156.5	13.6	2.4	1.0	16.2
Mcap (Rs Cr)	152856	Upside (%)	-6	FY11E	100.0	195.0	10.9	2.0	1.0	17.5
Union Bank of India										
Idirect Code	UNIBAN	CMP	272	FY09	1727.6	34.2	6.6	1.4	1.2	21.4
		Target	250	FY10E	1781.2	35.3	6.4	1.2	1.0	18.7
Mcap (Rs Cr)	14088	Upside (%)	-8	FY11E	2165.7	42.9	5.3	1.0	1.1	19.5
Axis Bank										
Idirect Code	UTIBAN	CMP	993	FY09	1815.5	50.6	19.2	3.5	1.4	19.1
		Target	1100	FY10E	2166.2	53.0	18.3	2.5	1.3	16.2
Mcap (Rs Cr)	36213	Upside (%)	11	FY11E	2572.2	62.9	15.4	2.2	1.2	14.7
HDFC Bank										
Idirect Code	HDFBAN	CMP	1686	FY09	2244.9	52.8	32.1	5.1	1.4	17.2
		Target	1881	FY10E	2843.5	63.0	26.9	3.8	1.4	15.9
Mcap (Rs Cr)	71861	Upside (%)	12	FY11E	3901.0	86.4	19.6	3.5	1.6	17.6
Kotak Bank										
Idirect Code	KOTMAH	CMP	806	FY09	275.8	8.0	86.1	6.7	0.9	7.6
		Target	584	FY10E	351.2	9.8	70.7	6.3	1.0	8.6
Mcap (Rs Cr)	28666	Upside (%)	-28	FY11E	497.5	13.0	52.9	6.2	1.3	11.0
Yes Bank										
Idirect Code	YESBAN	CMP	252	FY09	303.8	10.3	24.5	4.7	1.6	20.7
		Target	245	FY10E	421.3	14.2	17.7	3.7	1.6	23.0
Mcap (Rs Cr)	7648	Upside (%)	-3	FY11E	617.7	19.6	12.9	2.6	1.9	23.7

Continued...

IDFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDFC	CMP	161	FY09	748.0	5.8	27.9	3.4	2.5	12.7
		Target	162	FY10E	952.0	7.3	21.9	3.1	2.9	14.6
Mcap (Rs Cr)	21766	Upside (%)	0	FY11E	1103.9	8.5	18.9	2.7	2.9	15.2
LICHF					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	LICHF	CMP	848	FY09	532.4	62.6	13.5	3.1	2.0	25.3
		Target	710	FY10E	608.9	63.4	13.4	2.6	1.8	21.8
Mcap (Rs Cr)	7247	Upside (%)	-16	FY11E	719.4	74.9	11.3	2.2	1.8	20.5
MOSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	166	FY09	93.4	6.6	25.3	3.0	8.3	11.8
		Target	184	FY10E	153.6	10.8	15.4	2.6	8.4	17.1
Mcap (Rs Cr)	2472	Upside (%)	11	FY11E	191.0	13.4	12.3	2.2	8.9	17.8
Rel Cap					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	RELCAP	CMP	886	FY08	1334.7	54.2	16.4	2.8	7.7	18.6
		Target	800	FY09	1151.4	46.8	19.0	2.6	5.8	14.0
Mcap (Rs Cr)	21916	Upside (%)	-10	FY10E	1073.5	43.6	20.4	2.3	4.6	11.6

RATING RATIONALE

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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