



IDFC

BSE SENSEX 18,091
S&P CNX 5,432

Rs141

Neutral

Bloomberg IDFC IN
Equity Shares (m) 1,508.6
52-Week Range (Rs) 218/140
1,6,12 Rel.Perf.(%) -11/-24/-16
M.Cap. (Rs b) 212.7
M.Cap. (US\$ b) 4.7

YEAR	NET INCOME	PAT	EPS	EPS	P/E	ABV	API/ABV	ROAA	ROAE
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(RS)	(X)	(%)	(%)
3/10A	21,067	10,623	8.2	41.1	17.3	42.2	2.7	3.4	16.1
3/11E	26,429	12,817	8.5	4.0	16.6	67.7	1.7	3.1	13.9
3/12E	32,521	15,384	10.2	20.0	13.8	77.4	1.5	2.7	12.7
3/13E	39,774	18,703	12.4	21.6	11.4	89.4	1.3	2.7	14.0

* Adjusted for Goodwill and Investment in subsidiaries , Prices adjusted for other ventures

IDFC's 3QFY11 PAT grew 19% YoY, led by strong NII growth of 67% YoY.

Key highlights

- Business momentum slowed down, with sanctions declining 44% YoY to Rs37.4b for 3QFY11. While disbursements were up 68% YoY to Rs51.3b, the pace of growth was slow (disbursements in 2QFY11 were up 3.3x). Loans towards infrastructure grew 51% YoY and 1.8% QoQ. Uncertain economic scenario and sell-down of loans impacted the growth rate. However, management remains confident of increasing balance sheet size to Rs1,000b by FY13.
- Spreads (12-months rolling) remained stable on a QoQ basis at 2.4%, NII as a percentage of average assets improved 20bp QoQ to 3.8%. NII from infrastructure activity was up 59% YoY (15% QoQ) and NII from treasury activity was Rs470m v/s Rs190m in 3QFY10 (Rs150m in 2QFY11). Large part of the disbursements in 2QFY11 was done at the end of the quarter. Full impact of these loans on income resulted in strong NII growth in 3QFY11.
- Fee income (non-interest income ex trading profits) improved 26% YoY, led by improvement in loan-related and other fee income. Principal gains were lower at Rs300m v/s Rs1.05b a year ago and Rs120m in 2QFY11. Fee income declined 35% QoQ, as disbursements slowed down, impacting loan-related fees and investment banking fees has also declined (Rs370m v/s Rs590m a quarter ago).
- Asset quality remains impeccable, with NNPA ratio at 11bp as at 2QFY11. The company made 65bp of standard provisions for incremental disbursements. Cumulative standard asset provision stands at Rs6.3b (1.8% of standard loans).
- While the stock has corrected 30%+ from its recent peak, slowdown in loan growth and stressed liquidity conditions is likely to be a key headwind in the near term. The stock trades at 1.5x FY12E ABV and 13.8x EPS. **Neutral**.

QUARTERLY PERFORMANCE

	(RS MILLION)									
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
NII	2,440	2,770	2,750	3,210	3,370	3,740	4,600	4,803	11,170	16,513
% Change (Y-o-Y)	13	37	6	25	38	35	67	50	20	48
- Infra Loans	2,190	2,520	2,600	2,900	3,040	3,590	4,130	4,503	10,210	15,263
- Treasury	250	250	150	310	330	150	470	300	960	1,250
Fees	1,535	1,698	1,390	2,397	1,492	2,620	1,662	1,877	7,019	7,651
- Asset management	720	690	680	1,530	650	750	630	736	3,620	2,766
- SSKI	390	590	340	510	360	740	510	500	1,830	2,110
- Loan related/others	425	418	370	357	482	1,130	522	642	1,569	2,775
Principal investments	680	610	1,050	270	1,200	120	300	485	2,610	2,105
Other Income	23	145	5	95	58	24	38	40	268	160
Net Income	4,679	5,223	5,194	5,971	6,120	6,503	6,600	7,206	20,799	26,429
% Change (Y-o-Y)	22	20	55	44	31	25	27	21	34	27
Operating Expenses	1,026	1,097	1,091	2,268	1,232	1,239	1,634	2,610	5,482	6,715
Operating profit	3,653	4,126	4,103	3,704	4,888	5,265	4,966	4,595	15,317	19,715
% Change (Y-o-Y)	19	21	53	30	34	28	21	24	29	29
Provisions	(66)	242	424	697	445	515	487	635	1,298	2,082
PBT	3,718	3,884	3,679	3,007	4,443	4,750	4,479	3,960	14,287	17,633
Tax	973	975	979	738	1,098	1,375	1,272	1,076	3,666	4,821
PAT	2,745	2,908	2,700	2,269	3,345	3,375	3,207	2,884	10,622	12,811
Less: Consol Adjustments	20	(10)	1	(13)	0	(9)	(8)	10	(1)	(6)
Consol PAT	2,724	2,918	2,699	2,281	3,345	3,384	3,215	2,874	10,623	12,818
% Change (Y-o-Y)	26	26	46	96	23	16	19	26	42	21

E: MOSL Estimates, * FY11 asset mgmt fees includes carry income which is clubed in principal investments in FY10

Business momentum moderates QoQ; asset pipeline remains healthy

In 3QFY11, sanctions were down 44% YoY to Rs37.4b; disbursements were up 68% YoY to Rs51.3b. The pace of growth has been slow (in 2QFY11, sanctions were up 3.6x YoY and disbursements up 3.3x). Management cited that the uncertainty in economic conditions and certain cancellations of sanctioned loans impacted the growth rate. Asset pipeline has declined to Rs180b from Rs236b in 2QFY11 and Rs188b in 1QFY11.

During the quarter, the share of sanctions for the Telecom segment dropped from 10% in 2QFY11 to 1% in 3QFY11. Telecom-related sanctions were cancelled during the quarter. Energy and Telecom contribute ~57% and ~37%, respectively of the overall asset pipeline. Share of Telecom in overall disbursements declined 400bp QoQ to 21%, while share of Energy and Transportation increased 200bp each to 42% and 24%. Loans grew 51% YoY and 1.8% QoQ to Rs350b. There were some sell-downs in the Transportation segment (quantum not disclosed), which impacted sequential growth. Borrowings increased 54% YoY and 3.7% QoQ to Rs374.7b. During the quarter, incremental loans were at Rs6.2b v/s incremental borrowings at Rs13.3b.

Asset book pipeline of Rs180b by asset class (Rs b)

	Total Exposure	Disb. and O/S	Pipeline
Loans and Debentures	524.8	352.9	171.8
- Project Loans	349.9	205.9	143.9
- Corporate Loans	167.8	139.9	27.9
- LAS	7.1	7.1	0.0
Mezzanine Products	3.7	3.6	0.1
Equity	29.4	22.8	6.5
Non Funded	17.8	16.6	1.2
Total	575.6	395.9	179.7

Source: Company/MOSL

Spreads remained stable QoQ

Overall NII grew 67% YoY to Rs4.6b, led by 59% YoY growth in infrastructure NII. Strong loan growth (51% YoY) helped report strong NII growth. Treasury NII was up at Rs470m v/s Rs190m in 3QFY10 (Rs150m in 2QFY11). Large part of disbursements in 2QFY11 was done at the end of the quarter. Full impact on income from these loans resulted in strong NII growth. Overall spread remained stable on a QoQ basis at 2.4% in December 2010 (12m trailing).

Non-interest income (ex principal gains) grew 26% YoY, down 35% QoQ

Overall non-interest income declined 17% YoY; ex-principal gains growth was healthy at 26% YoY. Loan-related fees as a % of disbursements remained stable at ~1%. In absolute terms, loan-related fees increased 73% YoY to Rs520m (down from Rs1.1b in 2QFY11, as disbursements declined sharply on a QoQ basis). IB fees grew 3.4x YoY (down 37% QoQ) and broking fees declined 39% YoY (stable QoQ).

Aggregate assets under management (AUM) were down 8% QoQ, led by 10% QoQ drop in IDFC Mutual Fund's AUM. Asset management fees dropped 7% YoY and 16% QoQ to Rs630m. For the quarter, there was nil carry income (v/s gains of Rs200m in 2QFY11). Income from domestic MF fees stood at Rs300m v/s Rs170m in 2QFY11 (Rs280m in 3QFY10).

Valuation and view: downgrading estimates by ~5%

We have downgraded our estimates by ~5% to factor in slowdown in loan growth and fee income. In our view, while growth is likely to be very strong over the next few years, excess capital will keep ROE under 15% in FY12 and ~16% in FY13. In the near term, RoA is likely to decline from 3.4% in FY10 to 3.1% in FY12 and ~2.7% in FY12/13, as growth picks up and spreads compress. However, higher contribution from fee-based income will keep RoA healthy.

We have incorporated recently-issued compulsorily convertible preference shares as equity, as they have to be converted by the end of FY12. We expect EPS of Rs8.5 in FY11, Rs10.2 in FY12 and Rs12.4 in FY13. Consolidated BV would be Rs76 in FY11, Rs84 in FY12 and Rs94 in FY13. BV adjusted for goodwill and investment in subsidiaries is expected to be Rs68 in FY11, Rs77 in FY12 and Rs89 in FY13. While the stock has corrected 30%+ from its recent peak, slowdown in loan growth and stressed liquidity conditions is likely to be a key headwind in the near term. The stock trades at 1.5x FY12E ABV and 13.8x EPS. We maintain **Neutral**.

SOTP FY12 based

	(Rs b)	US\$ b	Per share (Rs)	Valuation rationale
Financing/Investment bus	233.5	5.1	155	2x FY12E stand alone core NW. (please see below)
Alternative assets mgt	10.6	0.2	7	10% of AUM of USD2.2b
NSE Stake	10.0	0.2	7	8% stake, base price of last deal
IDFC SSKI (IB and Broking)	6.7	0.1	4	12x FY12E PAT
Mutual Fund Business	7.9	0.2	5	3.6% of AUM FY12E
Total Value	268.7	5.8	178	
CMP (Rs)			141	
Upside (%)			26	

Source: Company/MOSL

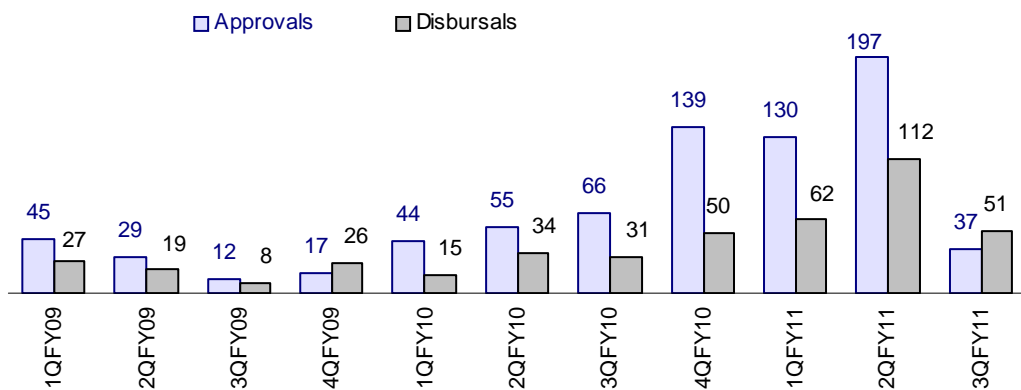
Calculation of FY12 adjusted book value

	(Rs b)	US\$ b	Per Share (Rs)
FY12E Stand alone Net Worth	130.2	2.8	86.3
Less: Investments in			
a) SSKI	4.3	0.1	2.9
b) Mutual Fund	8.2	0.2	5.4
c) NSE	0.9	0.0	0.6
Core Net Worth	116.8	2.5	77.4

Source: Company/MOSL

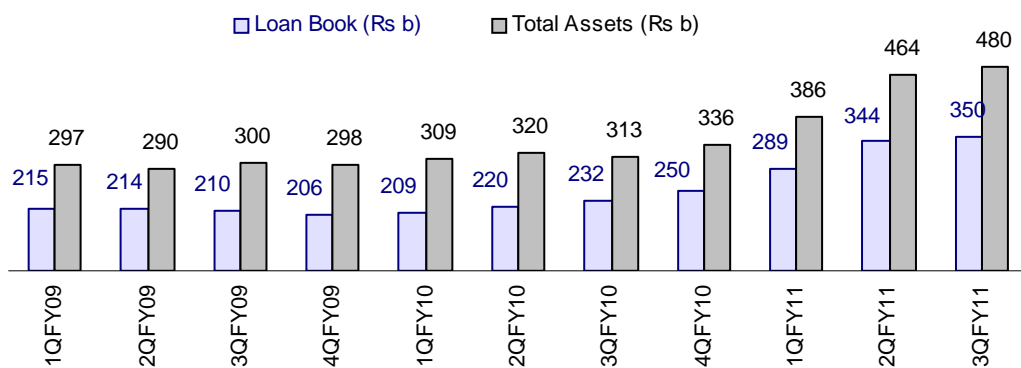
QoQ movement in approvals and disbursements (Rs b)

Management cited that the uncertainty in economic conditions and certain cancellations of sanctioned loans impacted the growth rate

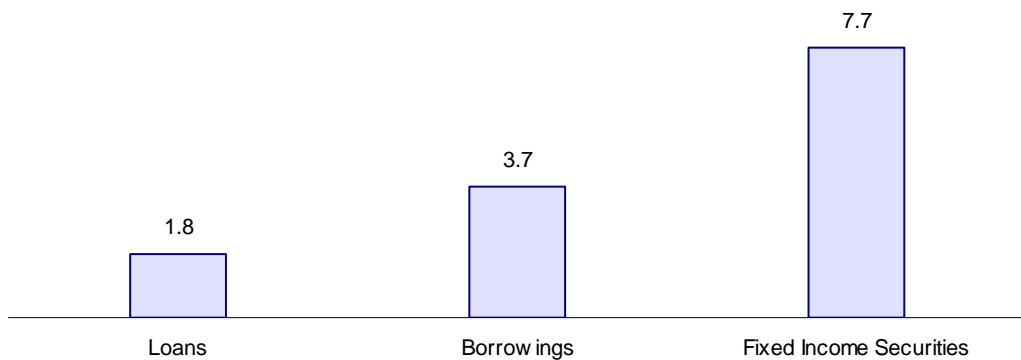


Asset book trend

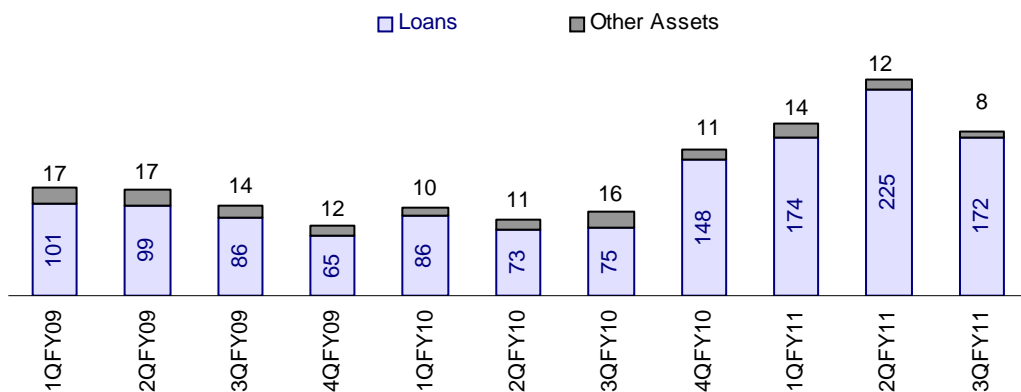
Some sell-downs in the Transportation segment (quantum not disclosed) impacted the sequential growth



Key parameters QoQ growth (%)



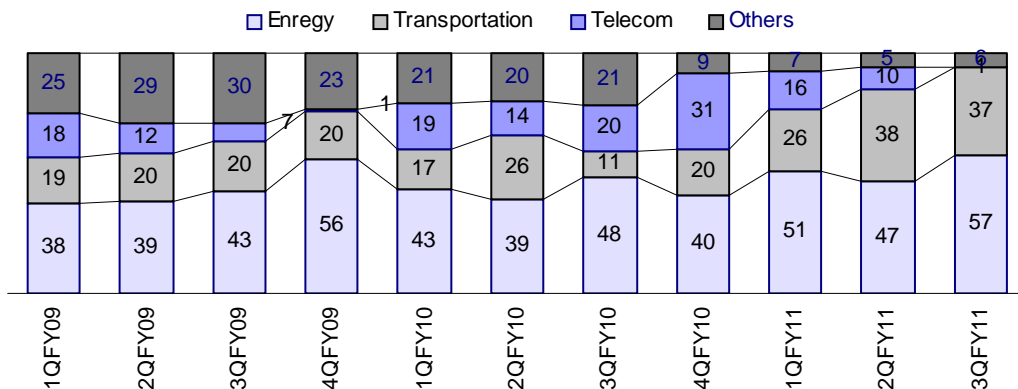
Asset growth pipeline (Rs b) - declines QoQ



Source: Company/MOSL

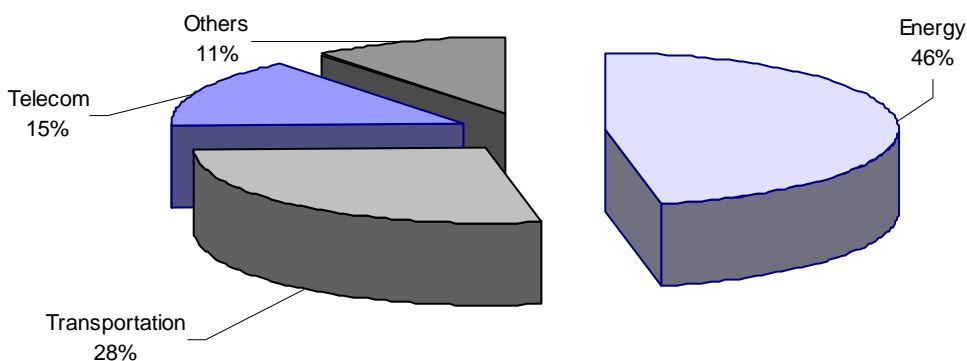
Asset book pipeline by sector (%)

Share of sanctions for Telecom segment dropped from 10% in 2QFY11 to 1% in 3QFY11



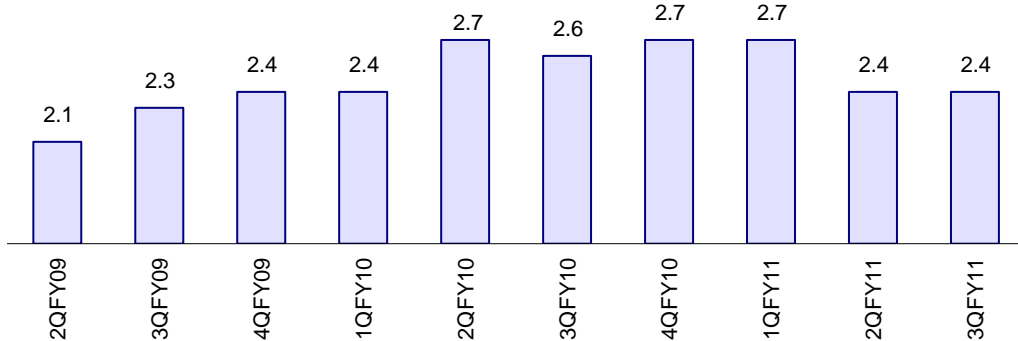
Outstanding exposure sector-wise

Outstanding exposure of Rs575.6b is dominated by Energy and Transportation



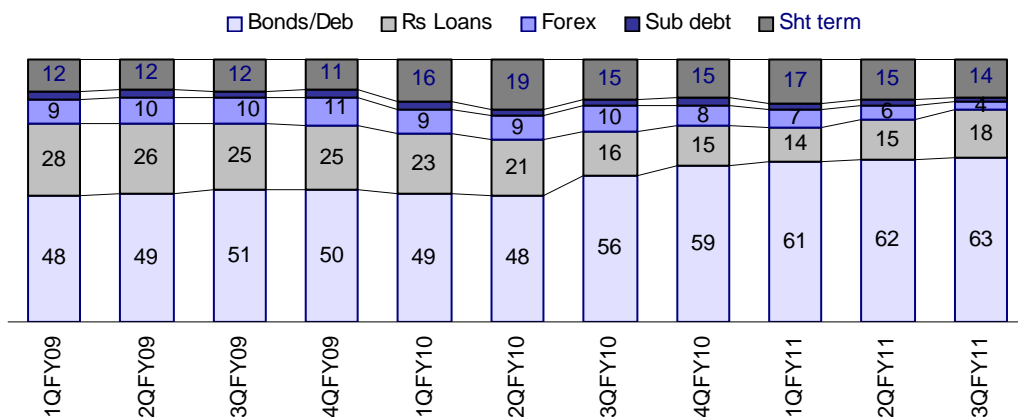
Trend in spreads (reported 12-months rolling basis)

Higher treasury NII and full impact of disbursements made during the later part of 2QFY11 helped report higher NII



Borrowing mix (%)

Focus on garnering long-term borrowings



Source: Company/MOSL

RoA analysis (%)

Dupont Analysis	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-09	Jun-10	Sep-10	Dec-10
NII	2.7	2.9	3.1	3.2	3.5	3.5	3.6	3.7	3.6	3.8
Infrastructure NII	2.3	2.5	2.6	2.7	2.9	3.1	3.3	3.4	3.4	3.5
Treasury NII	0.4	0.5	0.6	0.5	0.6	0.4	0.3	0.4	0.3	0.3
Non Interest Income	2.5	2.0	2.1	2.2	2.2	2.8	3.1	3.0	2.8	2.5
Principal Investments	0.8	0.6	0.6	0.6	0.5	0.9	1.1	0.9	0.7	0.5
Asset Management	0.4	0.5	0.7	0.9	0.9	1.0	0.9	1.1	1.0	0.9
Investment Banking	0.7	0.5	0.4	0.3	0.4	0.5	0.6	0.5	0.5	0.5
Loan related and other Fees	0.6	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Miscellaneous Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Operating Income	5.3	5.0	5.2	5.5	5.8	6.4	6.8	6.8	6.6	6.4
Operating Expenses	1.1	1.1	1.2	1.3	1.4	1.5	1.8	1.8	1.6	1.6
Operating Profits	4.2	3.9	4.0	4.2	4.5	4.9	5.0	5.1	5.0	4.8
Provisions	0.3	0.3	0.5	0.4	0.5	0.6	0.4	0.6	0.6	0.5
PBT	3.8	3.6	3.5	3.8	4.0	4.3	4.6	4.5	4.4	4.3
Taxes and Minority Interest	1.0	1.0	1.0	1.1	1.1	1.1	1.2	1.1	1.2	1.1
PAT	2.8	2.6	2.5	2.7	2.9	3.2	3.4	3.4	3.3	3.1

(12m rolling) (Reported)

Source: Company/MOSL

*Spreads (12-months rolling) remained stable on a QoQ basis at 2.4%,
NII as percentage of average assets improved 20bp QoQ to 3.8%*

Financials and Valuation

INCOME STATEMENT (CONSOLIDATED)						(RS MILLION)
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Interest Income*	21,873	30,092	30,801	40,970	57,678	75,824
Interest Expended	14,829	20,812	19,535	24,353	37,152	50,221
Net Interest Income	7,044	9,280	11,266	16,617	20,525	25,603
<i>Change (%)</i>	<i>57.1</i>	<i>31.8</i>	<i>21.4</i>	<i>47.5</i>	<i>23.5</i>	<i>24.7</i>
Other Income	6,192	6,275	9,801	9,812	11,996	14,171
Fees Based income	4,013	4,287	6,182	7,247	8,480	10,093
Principal Inv't (Incl Carry Inc)**	2,160	1,840	3,330	2,405	3,315	3,838
Miscellaneous Income	20	149	289	160	200	240
Net Income	13,236	15,556	21,067	26,429	32,521	39,774
<i>Change (%)</i>	<i>84.9</i>	<i>17.5</i>	<i>35.4</i>	<i>25.5</i>	<i>23.0</i>	<i>22.3</i>
Operating Expenses	2,532	3,666	5,482	6,715	8,318	10,252
Operating Income	10,704	11,890	15,585	19,715	24,202	29,522
<i>Change (%)</i>	<i>68.9</i>	<i>11.1</i>	<i>31.1</i>	<i>26.5</i>	<i>22.8</i>	<i>22.0</i>
Other Provisions	700	1,532	1,298	2,082	2,795	3,419
PBT	10,004	10,358	14,287	17,633	21,407	26,103
Tax	2,480	2,782	3,666	4,821	6,025	7,399
<i>Tax Rate (%)</i>	<i>24.8</i>	<i>26.9</i>	<i>25.7</i>	<i>27.3</i>	<i>28.1</i>	<i>28.3</i>
PAT	7,523	7,576	10,621	12,811	15,383	18,704
<i>Change (%)</i>	<i>52.9</i>	<i>0.7</i>	<i>40.2</i>	<i>20.6</i>	<i>20.1</i>	<i>21.6</i>
(Ml)/Associate profit	101.9	79.0	-1.5	-6.0	-1.3	0.9
Consolidated PAT	7,422	7,497	10,623	12,817	15,384	18,703
<i>Change (%)</i>	<i>47.3</i>	<i>1.0</i>	<i>41.7</i>	<i>20.7</i>	<i>20.0</i>	<i>21.6</i>
Proposed Dividend	1,556	1,555	1,951	2,715	3,017	3,771

* Includes debt trading gains; ** Excludes debt trading gains

BALANCE SHEET						(RS MILLION)
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Capital	12,943	12,953	13,006	15,086	15,086	15,086
Reserves & Surplus	42,990	48,806	57,097	99,879	111,733	126,023
Net Worth	55,933	61,759	70,103	114,965	126,819	141,109
Minority Interest	241	281	63	70	79	90
Borrowings	223,035	235,481	265,439	387,904	504,278	635,627
<i>Change (%)</i>	<i>49.7</i>	<i>5.6</i>	<i>12.7</i>	<i>46.1</i>	<i>30.0</i>	<i>26.0</i>
Total Liabilities	279,210	297,521	335,605	502,939	631,175	776,826
Investments	52,257	65,000	46,417	86,512	108,744	136,237
<i>Change (%)</i>	<i>118.6</i>	<i>24.4</i>	<i>-28.6</i>	<i>86.4</i>	<i>25.7</i>	<i>25.3</i>
Loans	199,051	205,962	250,311	369,148	479,893	599,866
<i>Change (%)</i>	<i>43.0</i>	<i>3.5</i>	<i>21.5</i>	<i>47.5</i>	<i>30.0</i>	<i>25.0</i>
Goodwill	2,943	10,790	11,694	11,694	11,694	11,694
Net Fixed Assets	3,850	4,543	4,415	4,510	4,510	4,410
Deferred Tax Assets	972	1,421	1,755	2,343	2,393	2,443
Net current Assets	23,079	20,594	32,707	40,426	35,635	33,870
Total Assets	279,210	297,521	335,605	502,939	631,175	776,826

ASSUMPTIONS	(%)					
Borrowings Growth	49.7	5.6	12.7	46.1	30.0	26.0
Loans Growth	43.0	3.5	21.5	47.5	30.0	25.0
Investments Growth	118.6	24.4	-28.6	86.4	25.7	25.3
Total Assets/Equity(x)	5.0	4.8	4.8	4.4	5.0	5.5
Debt/Equity (x)	4.0	3.8	3.8	3.4	4.0	4.5
Dividend	12.0	12.0	15.0	18.0	20.0	25.0

E: MOSL Estimates

Financials and Valuation

RATIOS

Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Spreads Analysis (%)						
Avg. Yield - Infrastructure loans	10.2	11.9	11.3	11.0	11.3	11.8
Avg. Yield - Earning Assets	9.7	11.0	10.7	10.6	10.7	11.2
Avg. Cost-Int. Bear. Liab.	8.0	9.1	7.8	7.4	8.3	8.8
Interest Spread	1.8	1.9	2.9	3.2	2.5	2.4
Net Interest Margin	2.9	3.0	3.6	4.1	3.7	3.7
Profitability Ratios (%)						
RoE	17.4	12.7	16.1	13.9	12.7	14.0
RoA	3.2	2.6	3.4	3.1	2.7	2.7
Int. Expended/Int. Earned	67.8	69.2	63.4	59.4	64.4	66.2
Other Income./Net Income	46.8	40.3	46.5	37.1	36.9	35.6
Efficiency Ratios (%)						
Fee income/Net Income	30.3	27.6	29.3	27.4	26.1	25.4
Op. Exps./Net Income	19.1	23.6	26.0	25.4	25.6	25.8
Empl. Cost/Op. Exps.	66.2	48.4	56.0	55.1	56.7	58.2
VALUATION						
Book Value (Rs)	43.2	47.7	53.9	76.2	84.1	93.5
Price-BV (x)	3.3	3.0	2.6	1.9	1.7	1.5
Adjusted BV (Rs)*	40.6	38.9	42.2	67.7	77.4	89.4
Price-ABV (x)	2.9	3.0	2.7	1.7	1.5	1.3
EPS (Rs)	5.7	5.8	8.2	8.5	10.2	12.4
EPS Growth (%)	28.1	0.9	41.1	4.0	20.0	21.6
Price-Earnings (x)	24.6	24.4	17.3	16.6	13.8	11.4
OPS (Rs)	8.3	9.2	12.0	13.1	16.0	19.6
OPS Growth (%)	46.9	11.0	30.5	9.1	22.8	22.0
Price-OP (x)	17.0	15.4	11.8	10.8	8.8	7.2

E: MOSL Estimates; * Adj. for Goodwill and Investment in subsidiaries, Prices adjusted for other ventures

N O T E S



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.