

## Equities

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# IDFC (IDFC.BO)

## Alert: Takeaways from Citi India Investor Conference

### ■ Industry Overview

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- **Takeaways from Mumbai** — IDFC management presented at our India Investor Conference in Mumbai today. Key highlights are as below:
- **Outlook on overall infrastructure environment** — There has been a lot of issues surrounding the infrastructure space recently, especially in the power segment. Management is of the opinion that most current concerns are related to execution, and will likely see some improvement in 2H12. However, fuel/coal linkage is the more serious concern - partly executional (can be fixed), but partly also structural and could lead to overall slower growth in power capacity additions medium term. The good parts - renewable energy will get relatively more focus & improved execution for road projects - will likely be key growth areas.
- **IDFC's loan growth should remain healthy** — IDFC management remained confident of loan growth, and although slower in 1H12 (high single digits sequentially), it should pick-up in 2H12 with overall FY12 growth of around 25%. Key drivers could be power (undisbursed sanctions largely, fresh sanctions may pick-up later) and roads. Longer term, management remains more confident of the growth outlook and is not changing its guidance of doubling loan book between FY11-FY14.
- **NIM pressure likely to ease off in next few months** — Management says NIM pressure is seeing signs of easing as banks have been raising their lending rates and interest spreads have limited downside from current levels (2.2% currently). While there is some immediate pressure, these should moderate as the interest rate environment stabilizes.
- **Asset quality: Still too early to talk of impairments** — IDFC management believes it is still too early to talk about meaningful impairments to its loans as most of the power exposure is in operational assets (55% of total power exposure) and only 45% is under construction. Also it does not have much exposure to the merchant power segments (has had caps on exposure to merchant power) and believes key in asset quality will be selection of the sponsors - IDFC relatively well placed.
- **Capital market businesses** — With regards to the outlook on market segments for IDFC, broking, investment banking, and asset management remain challenging as increasing competitive intensity has impacted profitability. Also, loan related fees could slow as incremental disbursements are lower in FY12. Principal investments remain volatile and difficult to predict (would be challenging to see meaningful upsides in the current environment).

Infrastructure Development Finance (IDFC.BO; Rs135.20; 1M)

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Infrastructure Development Finance

### Valuation

We value IDFC at Rs174 based on our sum-of-the-parts methodology. We value IDFC's core lending business at Rs142 per share; we prefer a P/BV multiple of 2.0x 1yr-Fwd BV benchmarked towards the lower band of private banks' target P/BV multiples, given its sub-15% core ROE. This reflects IDFC's premium positioning in the infrastructure segment, strong management, long track record of low asset risks and relatively high growth profile. However, its target multiple is constrained by its lack of retail asset, liability and distribution franchises relative to premier private bank franchises. We value the asset management business as a percentage of assets and value this business at Rs9 per share sub-divided into Rs5 for the private equity segment (7% of AUMs) and Rs4 for the Stanchart AMC business (4% of AUMs). We value IDFC's broking and investment banking business at Rs5 per share based on 15x 1yr Fwd profits. Finally, we also add Rs18 for IDFC's investment portfolio including the NSE (valued in-line with the last reported transaction).

### Risks

We rate IDFC shares Medium Risk, even as our quantitative risk system, which tracks 260-day historical share price volatility, suggests Low Risk. While IDFC's increasing scale and strong asset quality track record, reduce risks, we believe its mono-segment lending and inherent exposure to capital markets increase its risk profile. Key downside risks that could restrict the stock from achieving our target price include: a) Sharp increases in interest rates; b) Significant slowdown in infrastructure growth and asset quality; c) Continued softness in capital markets for a relatively longer period; d) Regulatory changes and a higher tax rate.

## Appendix A-1

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Analyst: Manish Chowdhary, CFA

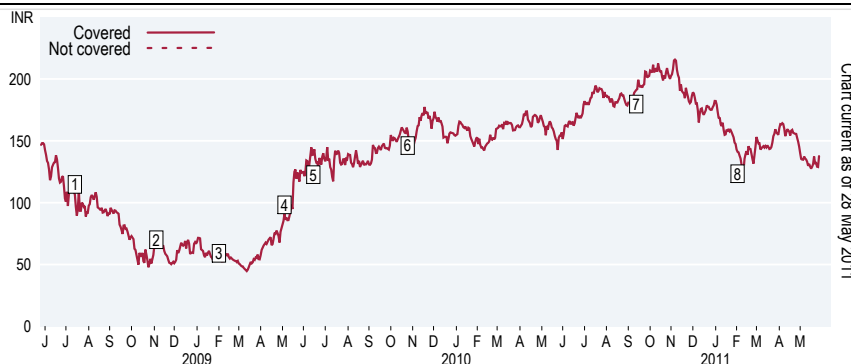


Chart current as of 28 May 2011

	Date	Rating	Target Price	Closing Price
1	14-Jul-08	3M	*112.00	106.70
2	5-Nov-08	3M	*75.00	69.00
3	2-Feb-09	3M	*58.00	56.30

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	5-May-09	3M	*80.00	91.35
5	14-Jun-09	3M	*104.00	138.65
6	25-Oct-09	3M	*141.00	160.65

	Date	Rating	Target Price	Closing Price
7	13-Sep-10	3M	*186.00	191.10
8	2-Feb-11	*1M	*174.00	141.10

Rating/target price changes above reflect Eastern Standard Time

#### Infrastructure Development Finance (IDFC.BO)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA

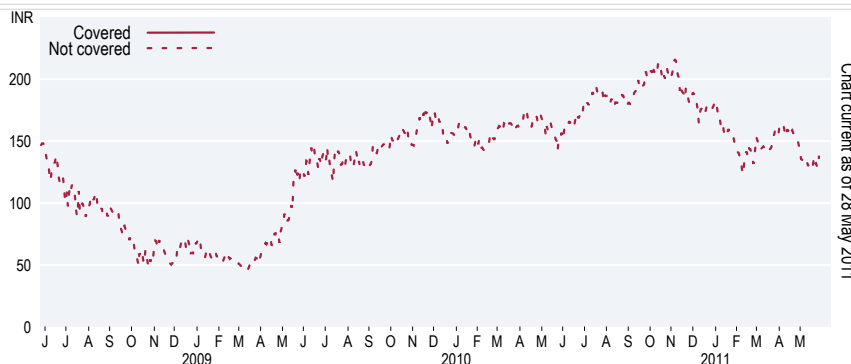


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