

IFCI Ltd.

CMP: Rs.59

Target Price: Rs.94



Financial Institutions / Buy

Give me more....!!!

IFCI – a troubled institution; has made a smart turn around through unlocking the value of its investments and the strong recoveries. We expect the company to further unlock the value from its investments (quoted and unquoted) and also the recoveries are expected to directly add to the bottom line of the company. Further the strategic investor is expected to turnaround the company on the operational front. We expect the stock to further re-rate with the unlocking of the investments.

BSE Sensex	14964
NSE Nifty	4390

Scrip Details

Equity	Rs.6386.8mn
Face Value	Rs.10/-
Market Cap	Rs.37.7bn
	US\$936.1mn
52 week High/Low	Rs.64.20/7.70
1-Month Avg. Volume (Daily)	10773 287
BSE Code	500106
NSE Symbol	IFCI
Bloomberg Code	IFCIIN
Reuters Code	IFCI.BO

Business Group - Govt. of India - FIs

Shareholding Pattern (%)

MF/Banks/Insurance/FIs	26.9
FIs	21.8
Corporate Bodies	13.7
Public / Others	37.6

Investments

IFCI has huge Equity investments – quoted and unquoted in its books along with the preferential investment. The current market value of these investments (equity quoted) is Rs13.6bn i.e. Rs 21.5/ share (FY06) and the cost of investments for unquoted investments is Rs.2.7bn. Amongst the unquoted equity, IFCI holds stakes in NSE (5.4%), SHCIL (10%), CCI etc.

During FY07, IFCI divested its investments in NSE (7%) for around Rs.7.8bn, ICRA (21%) for around Rs.300mn. Going forward, the company is expected to continue its divestment process and unlock the value from these investments.

Investments

Particulars	Value / share (Rs)
Quoted Equity	21.5
Unquoted Equity	25.0
Preference Shares	7.0
Total	53.5

Source: Company, Dolat Research

(Refer annexure I) - Details of Investments – Quoted, unquoted and Preference Shares

Strong Recoveries continue.....

During FY07, IFCI made aggregate recoveries to the tune of Rs.21bn (higher than target of Rs.20bn) i.e. Rs.10bn from recoveries and Rs.11bn from loan and other recoveries.

Recoveries

Gross NPA (Rs bn)	60.0
Recoveries - 50%* (Rs bn)	30.0
Recoveries @ 15% discount** (Rs bn)	25.5
No of Shares (mn)	638.7
Value / share (Rs)	39.9

*- Assuming 50% of recoveries of Gross NPA

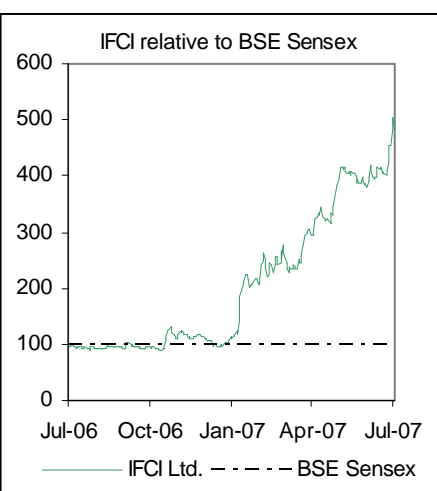
**- Assuming 15% Discount and Provisions

Source : Dolat Research

....Improves Asset Quality

Over a last couple years, IFCI has made remarkable improvement in its asset quality. IFCI's Gross NPA stood at around Rs 60bn, where as Net NPAs were NIL (FY07) as compared to Rs.6.67bn in FY06. The company is expected to continue its strong recoveries, thus directly adding to its profitability.

(Refer annexure II) - Assets available for Sale



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Strategic investor – operational turnaround

IFCI plans to dilute around 26% through private placement to a strategic investor, thus enabling the company to operationally turn around. The company has appointed E&Y to find a strategic partner for the company. We believe several global financial majors have expressed their interest.

Financials

During Q407, the company's income from operations grew by 41% to Rs.10,526mn. Other Income grew by 40% to Rs.414.7mn, while the Aggregate Operating expenses grew by 15%. Net Profit grew to Rs.6,441mn.

During FY07, IFCI's income from operations grew by 21% to Rs 19,897mn. Company's operating expenses increased by 11% to Rs.631mn. The Provisions for bad debts were lower by 99% to Rs.152.8mn. Net Profit stood at Rs.8,737mn compared to loss of Rs.2,662mn in FY06.

The disinvestment process and strong recoveries has enabled the company to reduce its accumulated losses from Rs47,722mn in FY06 to Rs.8,362mn in FY07.

View and Valuation

IFCI – has made a smart turn around through unlocking the value of its investments and also the strong recoveries. We expect the company to further unlock the value from its investments (quoted and unquoted) and also the recoveries are expected to directly add to the bottom line of the company. Further the strategic investor is expected to turnaround the company on the operational front. We expect the stock to further re-rate with the unlocking of the investments.

At CMP of Rs.59, the stock trades at 4.2x FY2007 EPS of Rs.14. We recommend a BUY on the stock with a Target Price of Rs.94 over next 12 months.

Value per share

Investments	Value / share (Rs)
Quoted Equity	21.5
Unquoted Equity	25.0
Preference Shares	7.0
Total: Investment value/share	53.5
Recoveries	40.0
Total	93.5

Source: Company, Dolat Research

Financial Performance

Particulars (Rs mn)	Q407	Q406	%Chg.	FY07	FY06	%Chg.
Operational Income	10,526.2	7,486.8	40.6	19,897.3	16,456.9	20.9
Other Income	414.7	296.1	40.1	569.5	374.6	52.0
Total Income	10,940.9	7,782.9	40.6	20,466.8	16,831.5	21.6
Cost of Borrowings	1,813.7	1,980.1	(8.4)	7,309.4	7,621.7	(4.1)
Operating Expenses	231.6	201.4	15.0	631.2	569.3	10.9
Staff Cost	133.2	81.8	62.8	339.8	254.1	33.7
Other Expenses	77.3	97.4	(20.6)	201.2	216.4	(7.0)
Depreciation	21.1	22.2	(5.0)	90.2	98.8	(8.7)
Total Expenditure	2,045.3	2,181.5	(6.2)	7,940.6	8,191.0	(3.1)
Gross Profit	8,895.6	5,601.4	58.8	12,526.2	8,640.5	45.0
Provision for bad & Doubtful Assets	(1,177.1)	6,651.7	-	152.8	11,299.8	(98.6)
Profit before Tax	10,072.7	(1,050.3)	-	12,373.4	(2,659.3)	-
Provision for Taxation	3,631.5	0.8	-	3,636.3	2.8	-
Profit/Loss after Tax	6,441.2	(1,051.1)	-	8,737.1	(2,662.1)	-

Annexure I - Investment - Equity Quoted

Investments FY2006 (Rs.mn)	No of Equity Shares	Cost of Investments	CMP 5/07/07	Current Value of Investment
Welspun Guj.Stah	4,235,000	67.3	229.1	970.2
SBI Dfhi	64,700	15.3	0	-
Abhishek Inds.	1,398,800	21.6	17.7	24.8
Bharat Immunolog	2,609,500	26.1	11.42	29.8
Central Ind.Pol.	5,300,000	53	0	-
Chambal Fert.	3,100,000	31	35.9	111.3
DCM Shriram Inds	187,457	23.9	45.45	8.5
Dhampur Sugar	130,000	2.2	66.6	8.7
Diana Tea	2,309,687	14.8	18.6	43.0
Energy Devlop.Co	1,370,573	13.7	59.5	81.5
Essar Oil	5,263,000	223.7	54.85	288.7
Essar Steel	720,000	28.8	35.65	25.7
Ferro Alloys Cor	3,000,000	4.2	8.04	24.1
Garden Silk Mill	514,285	36	56.5	29.1
Gayatri Sugars	4,407,820	43.7	7.01	30.9
Graphite India	89,060	3.6	56.85	5.1
Guj. Ambuja Cem	600,000	40	129.1	77.5
Guj. Sidhee Cem.	1,201,000	12	21.95	26.4
India Polyfibres	5,582,100	55.8	0	-
Indian Acrylics	6,000,000	60	4.08	24.5
Indo Rama Text.	830,000	37.7	0	-
Indo Rama Synth.	2,779,750	127.6	49	136.2
Indrapr.Medical	1,175,000	11.8	31.45	37.0
Ispat Inds.	93,844,664	1030.9	15.15	1,421.7
ITC	623,730	93.7	156.1	97.4
JK Lakshmi	1,620,081	159.8	130.3	211.1
Jaiprakash Assoc	110,000	6.6	778.2	85.6
Jayaswals Neco	5,668,930	56.7	19.3	109.4
Jaypee Hotels	683,800	16.7	61.6	42.1
JCT	26,340,000	65.8	8	210.7
Jhagadia Co	5,000,000	50	11.57	57.8
JSW Steel	1,426,985	234.6	628.35	896.6
K G Denim	1,479,756	23.4	18.4	27.2
Kanoria Chem.	400,000	52	90.9	36.4
Kirl. Ferrous	4,100,000	41	39.15	160.5
Kothari Sugars	1,300,000	13	12.45	16.2
Lloyd Steel Inds	4,632,114	126.5	9.22	42.7
Manali Petrochem	1,893,500	18.9	9.48	18.0
McDowell & Co.	70,000	3.9	1212.8	84.9
Munjal Auto Inds	101,000	1.5	115.35	11.7
Mysore Paper	4,504,386	45	9.59	43.2
Nag. Fert & Chem	4,960,000	68.3	22.75	112.8
Noida Tollbridge	3,650,000	36.5	26.65	97.3
Pennar Inds.	1,808,360	9	22.45	40.6
Reliance Cap Ven	893,315	2.6	0	-
Reliance Communi Ven	893,315	77.9	545.05	486.9
Reliance En Ven	893,315	14.7	0	-
Reliance Inds.	893,315	104.7	1707.9	1,525.7
Reliance Natural	893,315	1.4	38.05	34.0
Spel Semiconductor	1,800,000	18	25.8	46.4
Sr. Rayal. Alka.	18,223,780	182.2	12.5	227.8
SRF	595,000	38.9	175.85	104.6
Star Paper Mills	701,600	39.5	35	24.6
Sunflag Iron	1,667,853	16.7	14.79	24.7
Suryalak. Cott.	120,000	2.7	53.7	6.4
Tata Power Co.	1,300,000	58	670.25	871.3
Andhra Petrochem	1,900,000	19	21.1	40.1
Tinplate Co.	600,000	29.4	57.45	34.5
Unimers India	4,283,200	10.1	5.79	24.8
Welspun India	6,034,069	437	64.9	391.6
Welspun Syntex	31,891,360	316.9	5.27	168.1
Andhra Bank	600,000	5.9	86.05	51.6
Assets Care Enterpri	1,650,000	16.5	0	-
Bank of Baroda	835,000	69.2	271.5	226.7
Canara Bank	255,000	8.9	268	68.3
GIC Housing Fin	2,200,000	38.4	53.5	117.7
Hind.Oil Explor.	50,000	0.8	115.95	5.8
ICICI Bank	45,000	3	1005.4	45.2
Indian Overseas	185,000	4.4	119.7	22.1
I D B I	4,730,088	279.8	118.3	559.6
IDFC	13,895,000		131.7	1,830.0
Oriental Bank	180,000	1.08	223	40.1
Pun. Natl. Bank	4,000	0.01	529.6	2.1
Sec. Trading Co.	337,400	4.58	0	-
South Ind.Bank	143,000	0.45	134.9	19.3
St Bk of India	240,000	2.4	1546.8	371.2
SHCIL	3,570,000	4.46	0	-
Syndicate Bank	700,000	0.69	76.4	53.5
Tour. Fin. Corp.	12,677,807	12.66	23.65	299.8
UTI Bank	17,250	0.04	630.05	10.9
UCO Bank	131,000	0.16	24.4	3.2
Union Bank (I)	245,000	0.39	129.75	31.8
Vijaya Bank	131,000	0.17	51	6.7
GHCL	920,000	0.92	127.85	117.6
Uttam Galva	710,000	0.71	36.4	25.8
Total		5,147		13,727.4
No of Equity Shares (mn)		639		639
Investments / share		8.1		21.5

Annexure I - Investments - Equity Unquoted

Company Name	No of Equity Shares	Cost of Investments (Rs.mn)
Andhra Pradesh Ind &	180	0.2
Bihar Ind. & Tech Co	233	0.2
Biotech Consorti	1,000,000	10.0
C C I	2,000,000	20.0
Foremost Factors	9,968,750	68.6
Gujarat Ind. & Tech	2,500	0.2
Haryana-Delhi Indust	2,600	0.3
Himachal Consultancy	735	0.7
Appollo Fibres	6,134,428	61.3
Balaji Indl.Corp	7,909,371	384.0
Dewan Rubber	1,200,000	66.0
Essar Power	45,000,000	450.0
Hind Agro Inds.	2,700,000	27.0
India Paging Service	15,239,300	152.4
Ispat Profile	13,161,250	131.6
Malvika Steel	3,188,300	122.6
Modern Syntex	2,422,798	69.7
Modi Rubber	1,473,166	51.2
Monnet Inds.	500,000	20.0
Orissa Polyfibre	3,685,306	36.9
Pettech Computer Ltd	500,000	30.0
Pratibha Syntex	699,849	26.9
RSL	17,579,300	174.3
Samcor Glass	2,000,000	76.0
Spectrum Power	11,820,000	118.2
SHCIL	3,570,000	44.6
IFCI Venture	6,000,000	60.0
IFCI Finan.Serv.	6,903,188	69.0
IDBI Trusteeship	150,000	1.5
I T C O TN	2,500	0.2
J & K Ind. & Tech Co	227	0.2
Kitco	399	0.4
Madhya Pradesh Consu	980	1.0
Maharashtra Ind. & T	2,500	0.3
N S E	5,600,000	98.0
North East. Dev	10,000,000	100.0
North East. Ind. Con	191	0.2
North East. Ind. & T	295	0.3
North India Technica	1,600	0.2
Orissa Ind. & Techni	277	0.3
O T C Exchange	800,000	8.0
Power Trading Corpor	2,500,000	25.0
Rajasthan Consultanc	980	1.0
Tourism Finance Corp	125,000	2.5
U.P. Industrial Cons	1,790	0.2
West Bengal Consulta	127	0.1
Total		2,511.3

Annexure I - Investment - Preference Shares

Pref Shares - FY06 (Rs.mn)

Investment company name	No of Preference Shares	Cost of Investments
Balaji Distilleries Ltd	16,043,890	160.4
Bellary Steel & Alloys Ltd	567,260	56.7
Bhaval Synthetics (I) Ltd	400,000	39.6
Blue Blends (India) Ltd	1,000,000	99.0
Dhampur Sugar Mills	1,198,530	119.9
Essar Steel Ltd	22,596,600	240.4
Facor Alloys Ltd	1,130,293	113.0
Ferro Alloys Corporation Ltd	226,058	22.6
Ginni International Ltd	400,000	28.0
Haryana Sheet Glass Ltd	413,200	41.3
IC Textiles Ltd	402,394	40.2
Ispat Industries Ltd	57,155,108	633.2
Jayaswal Neco Ltd	634,335	63.4
JCT	500,315	50.0
Kalyanpur Cement Ltd	584,040	58.0
LML Ltd	2,150,912	215.1
Malwa Cotton Spg. Mills Ltd	1,724,610	172.5
Mangalore Refinery & Pertochem Ltd	7,148,949	71.5
Nagarjuna Fertilisers Ltd	1,026,880	102.7
Prag Bosimi Synthetics Ltd	2,614,577	261.5
Ritspin Synthetics Ltd	934,760	93.5
Saurashtra Chemical Ltd	1,046,700	104.7
SJK Steel Corporation Ltd	4,271,149	427.1
Tinplate Co of India Ltd	908,000	90.8
Welspun India Ltd	300,000	29.7
Welspun Syntex Ltd	10,000,000	100.0
Gayatri Sugars Ltd	4,303,245	24.5
Gujarat Poly AVX Electronics Ltd	209,000	20.9
Indian Seamless Steels & Alloys Ltd	559,639	56.0
JSW Steel Ltd	15,723,089	157.2
SWIL Ltd	5,534,350	553.4
Suryalakshmi Cotton Mills Ltd	271,600	27.2
Others	-	91.2
Total		4,365.2

Annexure II - Assets available for Sale

Company	Current status in DRT	Area
AEC Sangyong Ltd.	Execution proceeding pending	66 mn sq mtrs
Anjani Solvents Ltd.	Execution proceeding pending	
Arihant Agro products Ltd.	Execution proceeding pending	10274.13 sq mtrs
Bagwe Udyog Ltd	Execution proceeding pending	
Beta Naphthol Ltd.	Execution proceeding pending	
Bharat Zinc Ltd.	Execution proceeding pending	
Columbia Electronics	Execution proceeding pending	
Ceccan CoopSpg Mills Ltd.	Execution proceeding pending	
Essem Coated Steels Ltd.	Execution proceeding pending	
Firth Steels Ltd.	Recovery certificate issued by DRT	
J.F.Laborateries Ltd.	Execution proceeding pending	60125 sq mtrs
Joymat Hotels Ltd.	Execution proceeding pending	11.46 Acres
M.P.VidyutYantra Ltstd.	Execution proceeding pending	
Pooja Ind. Ltd.	Execution proceeding pending	
Primus Chemicals Ltd.	Execution proceeding pending	
Punwire Telecom Ltd.	Execution proceeding pending	
Ravish Infusion Ltd	Execution proceeding pending	
Repute Plastics Ltd	Execution proceeding pending	7.03 Acres
Star steels Ltd	Execution proceeding pending	
Tridev Duplex Boards Ltd	Execution proceeding pending	
United Soya products	Execution proceeding pending	
Upper thiruwoods Products	Execution proceeding pending	

Source : Company, Dolat Research

The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

DOLAT TEAM

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