

# India Infoline Limited (INDINF)

**Rs 113**

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 121 to Rs 111
EPS (FY11E) .....	Changed from Rs 8.3 to Rs 8.5
EPS (FY12E) .....	Changed from Rs 8.7 to Rs 8.6
RATING.....	Changed from Add to Reduce

## Lower yields take away premium valuation....

India Infoline (IIFL) has started to account for revenues excluding service tax from this quarter. On a comparable basis, the topline of the company grew 84% YoY and 7% QoQ to Rs 309 crore (not comparable with our estimates due to service tax component). The PAT was reported at Rs 52 crore, which was much lower than our estimates of Rs 61 crore. The fall in bottomline can be accredited to higher finance charges of Rs 12 crore against Rs 2 crore in Q4FY09 and Rs 1 crore in Q3FY10 and lower broking yields. We expect 14% CAGR in total revenues over FY09-12E to Rs 1419 crore.

### ■ Brokerage net of service tax depicts lower yields of 6.7 bps in Q4

The average daily turnover (ADT) slipped marginally in line with total market turnover from Rs 3755 crore in Q3FY10 to Rs 3690 crore in Q4FY10. The ADT for FY10 stood at Rs 3500 crore, up from Rs 2230 crore in FY09. The growth was in line with total market volumes. Hence, the market share was maintained at 3.7%. We expect the market share to stay stable around 3.6-3.8% till FY12E. The change in accounting has given a true picture of yields from gross 9 bps in FY09 to net 7.2 bps in FY10. We expect yields to stay under pressure and slide to 6.5-6.6 bps by FY12E.

### ■ Finance income salvages bottomline

The loan book of IIFL grew 71% YoY and 36% QoQ to Rs 1630 crore. Of the total loan book, margin funding and LAS constitute over 50% while 42% came from the mortgage portfolio. Margin funding grew from Rs 115 crore in FY09 to Rs 570 crore in FY10, LAS from Rs 153 crore to Rs 261 crore. This resulted in growth in financing income from Rs 60 crore in Q3FY10 to Rs 97 crore in Q4FY10. We expect the loan book to grow to Rs 2160 crore by FY12E with major emphasis on margin funding and LAS.

## Valuation

At the CMP of Rs 113, the stock is ruling at 13x its FY12E EPS. IIFL has historically traded at a premium to market multiples due to its diversified revenue stream and higher-than-industry blended yields of ~8 bps. However, due to recent accounting changes, yields are showing the true picture. RoEs are expected to stay around 14-15% in the next two years. We take away IIFL's premium to the market and value the stock at Rs 111.

### Exhibit 1: Financial Summary

Rs Crore	Q4FY10	Q4FY10E*	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	309.5	325.8	167.9	289.4	84.4	6.9
EBIDTA	102.9	111.5	168.1	112.9	-38.8	-8.8
EBIDTA margin	33.3	34.2	100.2	39.0	-	-
PAT	52.2	60.8	25.3	59.5	106.4	-12.3
<b>PAT margin</b>	<b>16.9</b>	<b>18.7</b>	<b>15.1</b>	<b>20.6</b>	-	-

\* not comparable

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Reduce</b>
Target	: Rs 111
Target Period	: 12-15 months
Potential Upside	: -2%

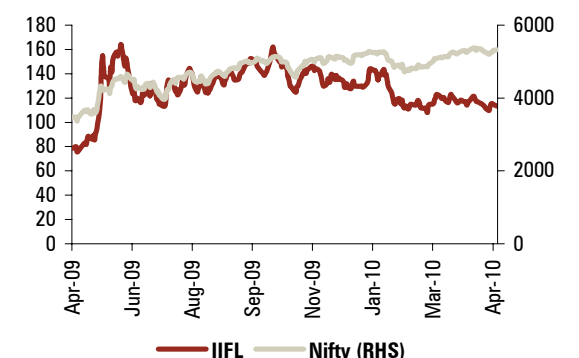
Trailing 4 quarters growth (Rs Crore)				
	Q1FY10*	Q2FY10*	Q3FY10*	Q4FY10
Total Revenue	235.5	290.0	289.7	309.7
EBITDA	95.8	125.7	112.9	102.9
Net Profit	51.9	57.8	59.5	52.2

\*net of service tax, all comparable

Valuation summary					
	FY08	FY09	FY10E	FY11E	FY12E
EPS	6.6	5.1	8.3	8.5	8.6
Diluted EPS	3.2	4.3	6.9	7.0	7.1
PE (x)	17.1	22.1	13.7	13.4	13.2
RoCE	28.2	13.5	16.6	14.0	14.1
RoNW	21.3	10.4	14.5	14.1	13.0
EBIDTA margin	39.3	30.3	38.9	39.8	36.9
BV	51.9	54.5	60.7	66.9	73.2
PBV (x)	2.2	2.1	1.9	1.7	1.5

Stock data	
Market Capitalisation	Rs 3221 crore
ADT (FY10)	Rs 3500 crore
Cash	Rs 69 crore
Yields (Q4FY10)	6.6 bps
52 week H/L	173 / 70
Equity capital	Rs 57 Crore
Face value	Rs 10
FII Holding (%)	17.5
DII Holding (%)	21.8

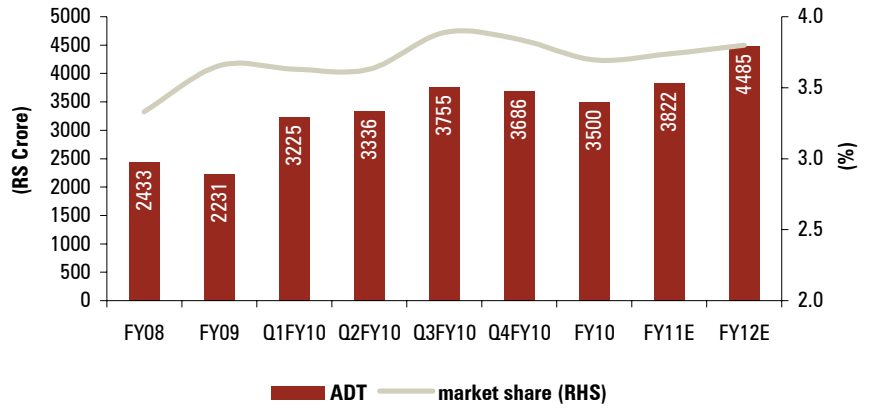
### Price movement (Stock vs. Nifty)



Analyst's name	
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**Exhibit 2: Market share to stay stable**

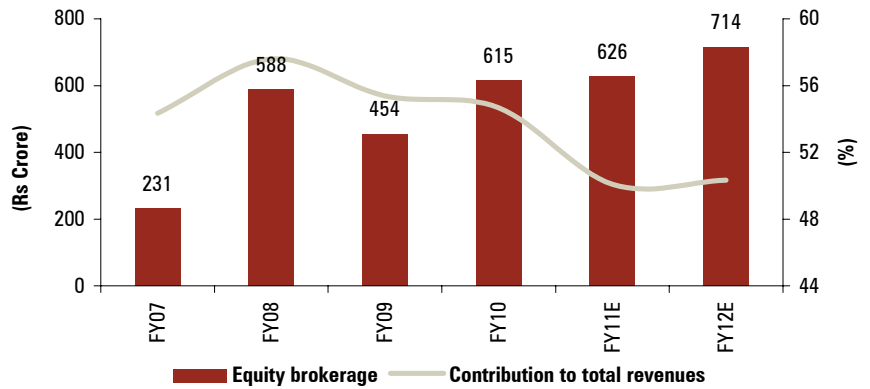
IFIL is one of the few listed brokerages, which has maintained its market share in the past three years. However, broking income remained constant in the last four quarters



Source: Company, ICICIdirect.com Research

**Exhibit 3: Contribution of brokerage income to total revenues to slide down**

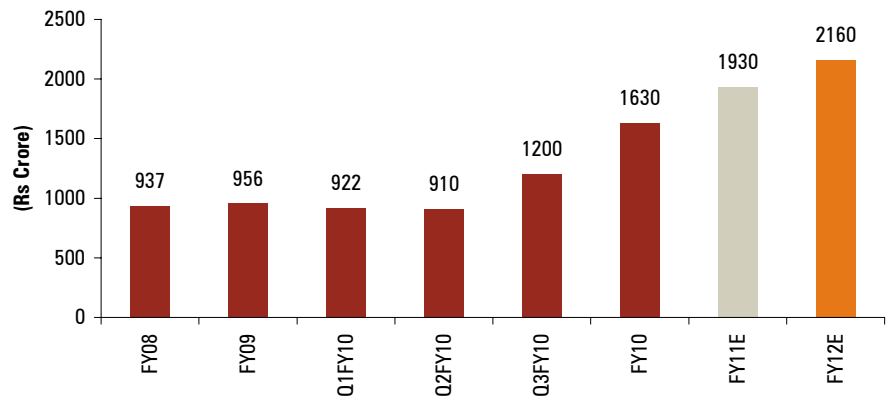
On a comparable basis, yield on broking has slid from 8% in Q1FY10 to 6.7% in Q4FY10. We expect this to result in lower share of broking income to total revenues



Source: Company, ICICIdirect.com Research

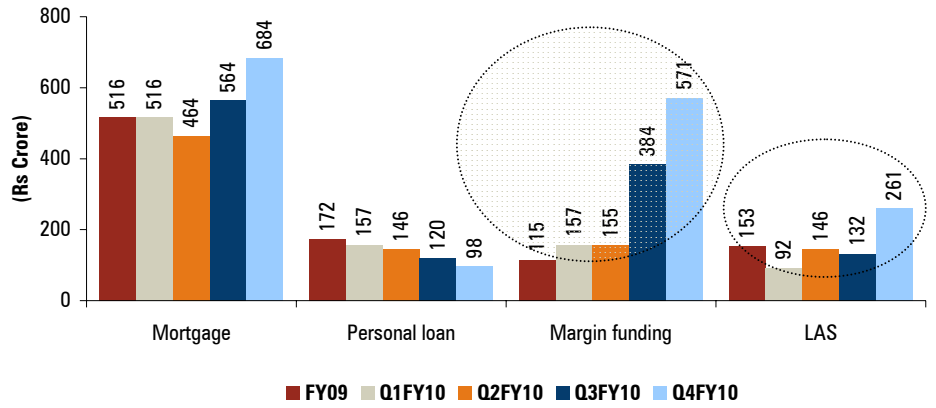
Loan book growth will support interest income and, thus, topline

**Exhibit 4: Loan book to grow well**



Source: Company, ICICIdirect.com Research

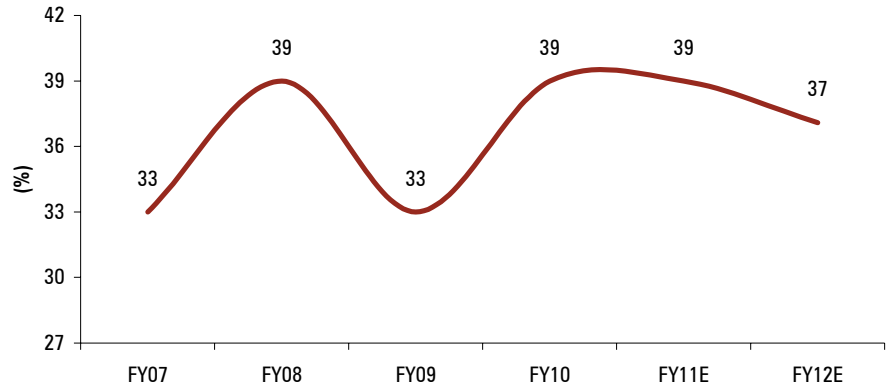
**Exhibit 5: Margin funding book driving loan book growth**



Source: Company, ICICIdirect.com Research

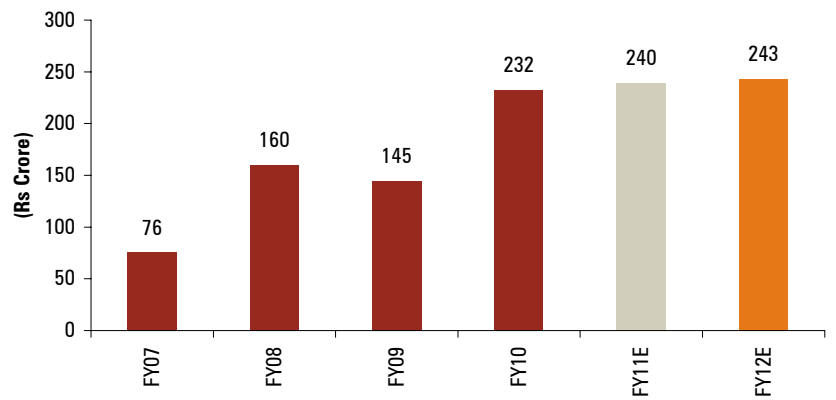
Broking yields are falling and incremental interest income is coming from borrowed funds leading to lower expectation from NIMs

**Exhibit 6: EBIDTA margin to stay under pressure**



Source: Company, ICICIdirect.com Research

**Exhibit 7: PAT to be stagnant**



Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	383	FY10	1894.1	36.0	10.6	1.8	0.8	13.4
		<b>Target</b>	383	FY11E	2566.8	48.8	7.9	1.6	0.9	16.6
<b>Mcap (Rs Cr)</b>	20155	<b>Upside (%)</b>	-0.1	FY12E	3216.3	61.2	6.3	1.4	0.9	19.1
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	676	FY10	2939.3	80.4	8.4	1.8	1.2	20.7
		<b>Target</b>	744	FY11E	3566.3	97.6	6.9	1.4	1.3	20.7
<b>Mcap (Rs Cr)</b>	24710	<b>Upside (%)</b>	10.1	FY12E	4536.3	124.1	5.4	1.2	1.3	21.5
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	84	FY10	487.7	17.0	4.9	1.2	0.9	20.7
		<b>Target</b>	91	FY11E	566.8	14.7	5.7	1.0	0.9	18.4
<b>Mcap (Rs Cr)</b>	2406	<b>Upside (%)</b>	8.5	FY12E	682.4	14.0	6.0	1.0	0.9	16.2
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	102	FY10	1292.7	14.2	7.2	1.1	0.6	10.9
		<b>Target</b>	99	FY11E	920.2	16.9	6.0	1.0	0.6	12.3
<b>Mcap (Rs Cr)</b>	5552	<b>Upside (%)</b>	-2.8	FY12E	1182.0	21.7	4.7	1.0	0.7	14.9
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	123	FY10	1029.2	14.2	8.7	1.2	0.5	13.1
		<b>Target</b>	141	FY11E	1261.6	15.8	7.8	1.1	0.5	14.0
<b>Mcap (Rs Cr)</b>	8916	<b>Upside (%)</b>	14.6	FY12E	1543.9	17.6	7.0	1.1	0.5	14.5
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	340	FY10	1128.0	45.0	7.6	3.4	0.9	14.4
		<b>Target</b>	377	FY11E	1354.4	54.1	6.3	3.0	0.9	15.2
<b>Mcap (Rs Cr)</b>	8518	<b>Upside (%)</b>	10.9	FY12E	1655.6	66.1	5.1	2.7	1.0	16.1
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	1023	FY10	3719.0	118.0	8.7	4.2	1.4	23.0
		<b>Target</b>	950	FY11E	4514.8	143.2	7.1	3.8	1.4	24.2
<b>Mcap (Rs Cr)</b>	32255	<b>Upside (%)</b>	-7.1	FY12E	5418.1	171.8	6.0	3.4	1.4	25.9
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2217	FY 09	91.2	143.7	15.4	2.9	1.1	17.1
		<b>Target</b>	2251	FY10	101.5	159.8	13.9	2.7	1.0	16.5
<b>Mcap (Rs Cr)</b>	140753	<b>Upside (%)</b>	1.5	FY11E	112.2	176.7	12.5	2.3	0.9	16.0
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	311	FY10	2053.7	40.7	7.6	1.6	1.2	21.4
		<b>Target</b>	310	FY11E	2349.0	46.5	6.7	1.3	1.1	20.6
<b>Mcap (Rs Cr)</b>	15709	<b>Upside (%)</b>	-0.3	FY12E	2871.4	56.8	5.5	1.0	1.2	20.8
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	1279	FY10	2514.5	62.1	20.6	3.3	1.7	19.2
		<b>Target</b>	1302	FY11E	3129.7	76.5	16.7	2.7	1.6	17.5
<b>Mcap (Rs Cr)</b>	51822	<b>Upside (%)</b>	1.8	FY12E	4133.3	101.1	12.7	2.3	1.7	19.2
<b>Dhanlaxmi Bank</b>										
<b>Idirect Code</b>	DHABAN	<b>CMP</b>	149	FY10	24.0	3.7	39.9	2.4	0.4	5.5
		<b>Target</b>	170	FY11E	65.3	9.4	15.8	2.0	0.7	12.8
<b>Mcap (Rs Cr)</b>	955	<b>Upside (%)</b>	14.1	FY12E	107.9	15.6	9.5	1.8	0.8	17.1
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1975	FY10	2948.7	64.4	30.7	4.3	0.3	1.8
		<b>Target</b>	2151	FY11E	3839.4	85.1	23.2	3.9	0.3	1.6
<b>Mcap (Rs Cr)</b>	90416	<b>Upside (%)</b>	8.9	FY12E	4918.3	109.0	18.1	3.5	0.3	1.8
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	753	FY 09	293.9	8.5	88.3	7.3	1.2	11.4
		<b>Target</b>	734	FY10	275.8	8.0	94.4	6.6	1.0	7.5
<b>Mcap (Rs Cr)</b>	26181	<b>Upside (%)</b>	-2.5	FY11E	464.2	13.4	56.1	6.4	1.5	11.5
<b>South Indian bank</b>										
<b>Idirect Code</b>	SOUINO	<b>CMP</b>	179	FY10	265.6	23.5	7.6	1.5	1.1	19.2
		<b>Target</b>	201	FY11E	359.8	31.8	5.6	1.2	1.3	22.0
<b>Mcap (Rs Cr)</b>	2023	<b>Upside (%)</b>	12.3	FY12E	458.0	40.5	4.4	1.0	1.3	23.2
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	280	FY10	461.9	14.0	20.1	3.1	1.7	19.8
		<b>Target</b>	293	FY11E	630.5	19.0	14.7	2.6	1.8	18.8
<b>Mcap (Rs Cr)</b>	8408	<b>Upside (%)</b>	4.6	FY12E	819.0	24.7	11.3	2.1	1.7	20.1

## Continued...

<b>NBFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	169	FY 09	848.0	6.5	25.8	3.5	2.8	14.3
		<b>Target</b>	180	FY10	1058.7	8.2	20.7	3.1	3.2	15.9
<b>Mcap (Rs Cr)</b>	21880	<b>Upside (%)</b>	6.5	FY11E	1191.5	9.2	18.4	2.8	3.1	15.9
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	914	FY 09	532.4	62.6	14.6	3.4	2.0	25.3
		<b>Target</b>	805	FY10	572.7	59.7	15.3	2.8	1.7	20.7
<b>Mcap (Rs Cr)</b>	8678	<b>Upside (%)</b>	-11.9	FY11E	741.5	77.2	11.8	2.4	1.8	21.3
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	737	FY 09	1014.1	41.2	17.9	2.4	5.9	14.4
		<b>Target</b>	800	FY10	555.6	22.6	32.7	2.4	2.9	7.2
<b>Mcap (Rs Cr)</b>	18103	<b>Upside (%)</b>	8.5	FY11E	907.7	36.9	20.0	2.1	4.3	11.0
<b>Brokerage firms</b>										
<b>Edelweiss Capital</b>										
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	418	FY10	255.3	32.0	13.1	1.3	6.7	11.5
		<b>Target</b>	494	FY11E	323.7	40.6	10.3	1.2	6.4	13.2
<b>Mcap (Rs Cr)</b>	3137	<b>Upside (%)</b>	18.2	FY12E	351.5	44.1	9.5	1.1	5.6	12.9
<b>India Infoline</b>										
<b>Idirect Code</b>	INDINF	<b>CMP</b>	113	FY10	236.4	8.3	13.5	1.9	12.7	15.6
		<b>Target</b>	111	FY11E	244.2	8.6	13.1	1.7	11.7	14.5
<b>Mcap (Rs Cr)</b>	3221	<b>Upside (%)</b>	-1.8	FY12E	245.7	8.7	13.0	1.5	10.5	13.2
<b>MOFSL</b>										
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	165	FY 09	93.4	6.6	25.1	3.0	5.8	11.8
		<b>Target</b>	184	FY10	140.6	9.9	16.7	2.7	7.8	15.9
<b>Mcap (Rs Cr)</b>	2359	<b>Upside (%)</b>	11.5	FY11E	184.5	13.0	12.7	2.2	8.6	17.5

## RATING RATIONALE

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