



IDFC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,378	IDFC IN
	REUTERS CODE
S&P CNX: 5,196	IDFC.BO

29 April 2008

Buy

Previous Recommendation: Buy

Rs173

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
Equity Shares (m)	1,294.0	3/07A	7,158	5,042	4.4	25.6	39.5	6.6	21.5	18.3	3.3	6.6
52-Week Range	235/94	3/08E	13,236	7,423	5.8	32.9	29.7	4.0	22.0	17.4	3.1	4.0
1,6,12 Rel.Perf.(%)	1/0/55	3/09E	17,416	9,652	7.6	29.9	22.9	3.5	18.0	16.2	2.8	3.6
M.Cap. (Rs b)	223.5	3/10E	22,238	12,455	9.7	29.0	17.7	3.1	16.0	18.3	2.7	3.1
M.Cap. (US\$ b)	5.5											

Strong performance: IDFC's consolidated earnings increased by 61% YoY in 4QFY08 to Rs1.5b and by 47% in FY08 to Rs7.4b. Earnings were lower than our estimate of Rs7.7b for FY08 due to lower treasury gains in 4QFY08 and higher operating expenses due to consolidation of SSKI. We are impressed with the sustained traction in fees (up 60%) and loan book (up 47%).

- Balance sheet grew 56% in FY08 to Rs279b, driven by 47% growth in loans to Rs205b and a build-up of proprietary and treasury investment portfolio. Approvals grew 54% and disbursements grew by 63%; indicating a strong loan book growth going forward. NII on infrastructure loans grew 71% YoY in 4QFY08 to Rs1.66b and 44% in FY08 to Rs5.7b, while NII from treasury portfolio increased 11x YoY to Rs210m in 4QFY08 and 254% in FY08 to Rs1.3b. Spreads improved QoQ from 2% to 2.2% (v/s 1.9% in FY07).
- Fees (excluding SSKI) grew by 60% in FY08 to Rs2.2b. Advisory fees excluding asset management fees were up 100% in FY08. IDFC reported RoA of 3.1% in FY08 (12-month rolling), lower than the December 2007 level of 3.2% and 3.3% in FY07.

Maintain Buy: We are positive on the growth prospects in each of IDFC's businesses and believe that it can leverage its strength to earn significantly higher fee income and RoE going forward. We expect IDFC to report EPS of Rs7.6 in FY09E and Rs9.7 in FY10E. Book value would be Rs49 in FY09 and Rs56 in FY10. Maintain **Buy**.

Y/E MARCH	QUARTERLY PERFORMANCE										(RS MILLION)	
	FY07				FY08				FY07	FY08		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Operating Income	3,388	4,021	4,023	4,232	6,096	6,551	7,634	7,670	15,664	27,951		
Other Income	6	0	0	45	0	16	33	64	52	114		
Total income	3,395	4,021	4,023	4,277	6,096	6,567	7,667	7,734	15,716	28,065		
Y-o-Y Growth (%)	30.5	61.3	58.8	55.6	79.6	63.3	90.6	80.8	51.3	78.6		
Interest Expenses	1,643	1,960	2,291	2,660	3,112	3,306	3,960	4,451	8,555	14,829		
Net Income	1,751	2,061	1,733	1,617	2,985	3,261	3,707	3,283	7,158	13,236		
Operating Expenses	131	181	182	284	486	486	629	810	774	2,411		
Operating Profit	1,620	1,880	1,551	1,333	2,499	2,775	3,077	2,473	6,384	10,825		
Depreciation	10	11	11	12	12	13	13	35	44	73		
Provisions	0	-25	43	159	63	164	73	400	178	700		
Profit before Tax	1,610	1,894	1,496	1,161	2,424	2,598	2,991	2,038	6,162	10,052		
Tax Provisions	298	404	268	271	582	621	774	503	1,241	2,480		
Net Profit	1,312	1,490	1,228	890	1,842	1,977	2,216	1,534	4,921	7,571		
Share of Ass / Minority Int	-1	58	22	39	-33	-32	-41	-41	118	-148		
Consolidated Net Profit	1,312	1,548	1,250	930	1,809	1,945	2,176	1,493	5,039	7,424		
Y-o-Y Growth (%)	19.9	46.2	33.7	11.5	37.9	25.6	77.1	67.7	25.3	47.3		
Int Exp/ Int Earned (%)	48.5	48.8	56.9	62.9	51.0	50.5	51.9	58.0	54.6	53.1		
Other Income / Net Income (%)	0.4	0.0	0.0	2.8	0.0	0.5	0.9	1.9	0.7	0.9		
Cost to Income Ratio (%)	7.5	8.8	10.5	17.6	16.3	14.9	17.0	24.7	10.8	18.2		

E: MOSSt Estimates * Quarterly nos and full year nos will not tally due to different way of reporting financial nos

Highlights

Loan book growth likely to remain strong: IDFC's traction in sanctions (up 54%) and disbursements (up 63%) indicates that loan book growth would remain strong going forward. Amount sanctioned but not disbursed of ~Rs100b (~50% of outstanding loan book of Rs205b) would sustain loan growth in FY09. We estimate 35% CAGR in loan over FY08-10E. Management aims to be more cautious in lending going forward considering the increased risk perception and challenges for entrepreneurs to raise equity capital.

Spreads improve in FY08; believe higher spreads can be sustained in FY09:

Spreads improved from 1.9% in FY09 to 2.2% in FY10. The improvement is attributable to higher yields on structured financing. While management continues to guide that spreads will come under pressure in the long term, we believe in the current environment, IDFC has ability to sustain these higher spreads on account of: (a) its competitive borrowing costs; and (b) pricing power due to product and service differentiation.

Fees traction to accelerate: Non-interest income grew by 122% YoY to Rs1.3b in 4QFY08 and 131% in FY08 to Rs6.2b as it acquired SSKI in FY08. Capital gains were Rs160m during 4QFY08 versus Rs50m in 4QFY07. Fees grew 60% in FY08 to Rs2.1b. Advisory fees excluding asset management fees were up 11% YoY in 4QFY08 and 100% in FY08. Asset management fees are largely flat YoY in FY08 as AUM. Management is confident of closing in next 2-3 months (1) US\$600m-700m private equity fund and (2) US\$1b project equity fund (US\$600m already committed). An addition of US\$1.6b to AUMs in 1QFY09 would lead to a quantum jump in asset management fees going forward. IDFC's advisory fees (linked mostly to lending business) are expected to track loan growth. Income from SSKI was Rs630 in 4QFY08 and Rs1.9b in FY08. We expect lower fees from SSKI in FY09 as both of its businesses (broking and investment banking) would be affected by slowdown in capital markets.

Opex growth a negative surprise: Opex grew 185% YoY and 29% QoQ in 4QFY08. Cost-to-income ratio has increased from 11.5% in FY07 to Rs19.2% in FY08. Consolidation of SSKI (80% owned by IDFC) on line by line basis has led to stronger-than-expected growth in opex during FY08. Also, bonus provision for SSKI employees was fully accounted in 4QFY08, leading to higher-than-expected staff costs in 4QFY08. IDFC's acquisition of Standard Chartered AMC (regulatory approvals are awaited) would further shore up its costs in FY09. We have not factored this acquisition in our estimates.

Provisions higher; would accelerate further: While IDFC continues to enjoy large unrealized gains on its listed equity book, it has made some prudent mark to market provisions in 4QFY08 on a couple of its investments. It has a policy of making a standard assets provision of 0.5% of disbursements and holds ~1.1% of its standard assets as accumulated provisions. The company has decided to follow a more aggressive provisioning policy going forward — making a 1% provision (on disbursements) for its category "C" (riskier) assets. This change in provisioning policy would lead to further acceleration in provisions in future.

SOTP of Rs217, upside of 25%: We like IDFC for its unique positioning to exploit the growth opportunities in Indian infrastructure space. While investment banking, broking, principal investments and debt capital market activities make IDFC's earnings volatile, we believe the secular fee income streams and lending business would occupy higher proportion in revenues going forward. The carry on its asset management business (has started flowing from FY08), and capital gains on its own equity book and investment in the private equity ventures, would provide the capital needed to grow its lending business. We expect IDFC's earnings CAGR of 30% over FY08-10E on back of 35% loans growth. Higher capital gains and carry income can bring in huge upside to our earnings estimates. Maintain **Buy** with an SOTP-based target price of Rs217.

SOTP BASED VALUATIONS (FY10)

	RS B	USDB	PER SHARE RS	VALUATION RATIONALE
Core Lending Business	255.2	6.3	197.3	3.5x FY10E NW
Asset Management Business	11.7	0.3	9.0	13% of AUM of USD2.25b
NSE Stake	13.2	0.3	10.2	8% stake, base price of last deal + 15% compounded growth
Total Value	280.2	7.0	216.5	
CMP	223.9	5.6	173.0	
Upside (%)	25.1	25.1	25.1	

Source: Motilal Oswal Securities

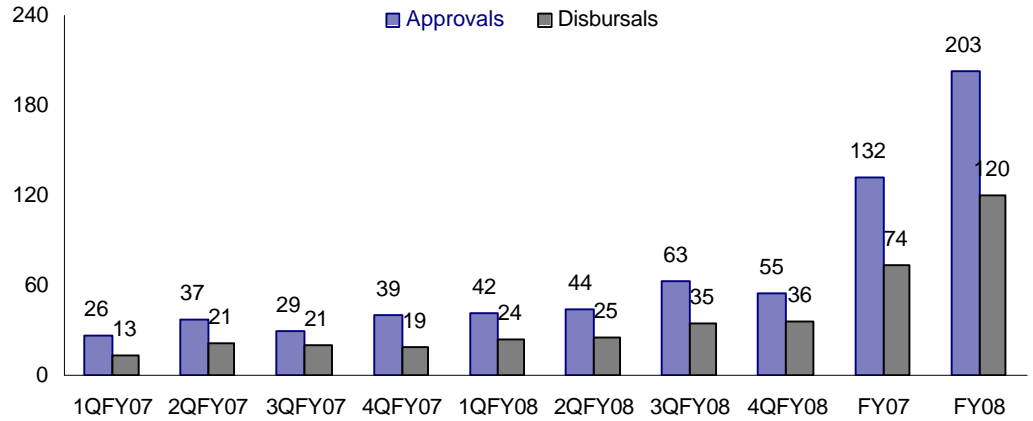
ROA ANALYSIS: ROLLING TWELVE MONTHS BASIS

	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07	SEP-07	DEC-07	MAR-08
Net Interest Income	2.9	2.9	2.9	2.8	2.7	3.0	2.9	2.9
Infrastructure	2.8	2.8	2.7	2.6	2.4	2.5	2.3	2.4
Treasury	0.1	0.2	0.2	0.2	0.4	0.5	0.5	0.5
Non Interest Income	1.9	1.9	1.9	1.7	2.3	2.2	2.6	2.6
Fees Income	0.9	0.9	0.8	0.9	1.2	1.3	1.6	1.7
Capital Gains	1.0	1.0	1.0	0.8	1.0	0.8	1.0	0.9
Miscellaneous Income	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Operating Income	5.0	5.0	4.9	4.7	5.0	5.1	5.5	5.6
Operating Expenses	0.5	0.5	0.5	0.5	0.7	0.8	0.9	1.1
Operating Profit	4.4	4.5	4.4	4.1	4.3	4.3	4.6	4.5
Provisions	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
PBT	4.3	4.4	4.3	4.0	4.1	4.1	4.3	4.2
Tax, Minority Interest	0.6	0.8	0.8	0.8	0.9	1.0	1.1	1.1
Share of Associate Companies	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
PAT	3.7	3.6	3.6	3.3	3.3	3.2	3.2	3.1

Source: Company/Motilal Oswal Securities

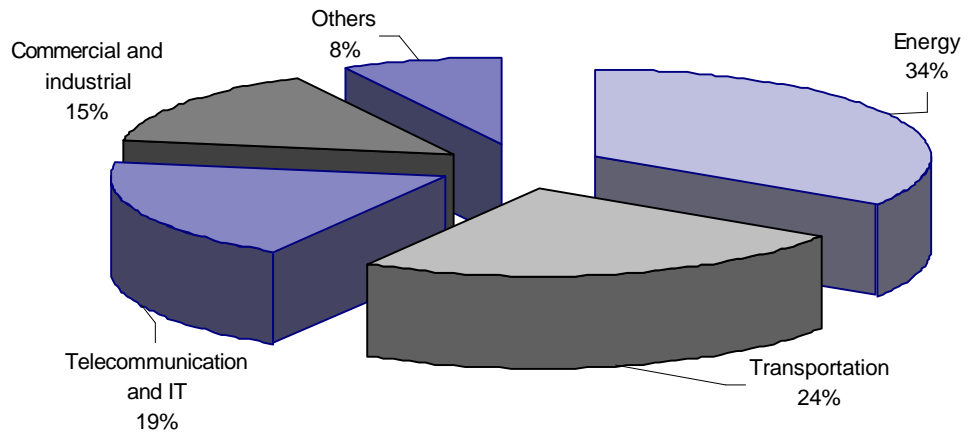
LOAN BOOK GROWTH TO REMAIN STRONG (RS B)

Disbursements up 63% and approvals up 54%



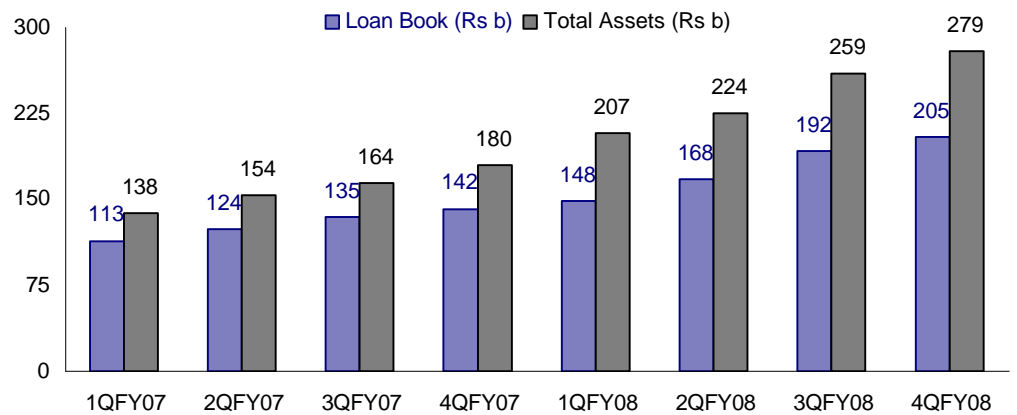
OUTSTANDING DISBURSEMENTS UP 50% TO RS234B

Energy and transportation segments dominate the business



STRONG TRACTION IN BALANCE SHEET

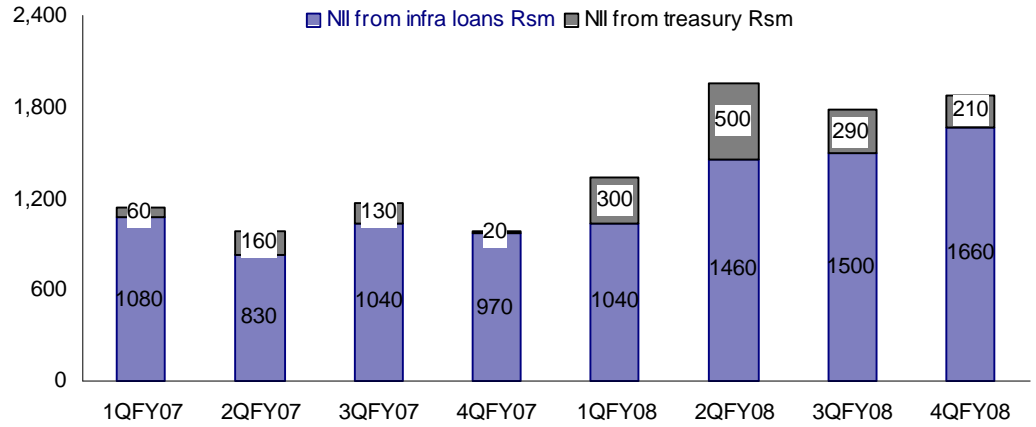
Loans up 47% and total assets up 56%



Source Company

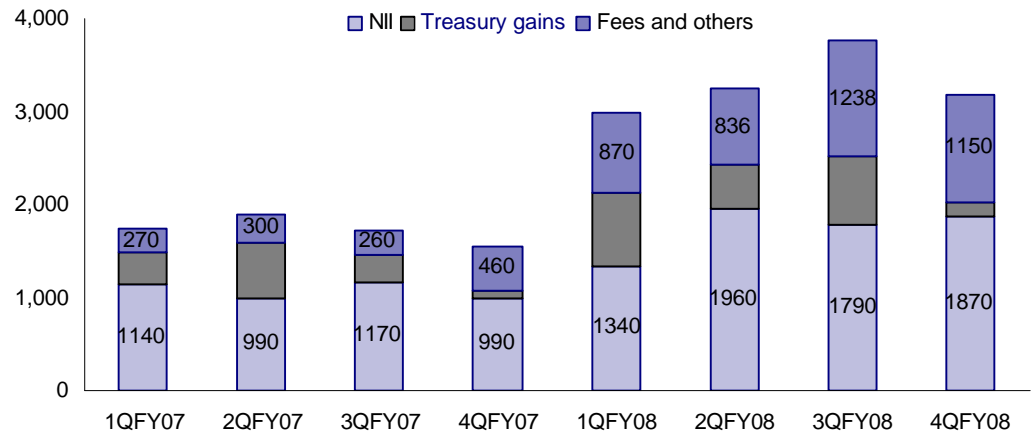
NII: GROWING STRONG

NII up 62% in FY08 and 122% in 4QFY08



FEE'S CONTRIBUTION TO REVENUES INCREASING (RS M)

Fees growth commendable



Source Company

IDFC: an investment profile

Company description

IDFC was established in 1997 as a specialized financial intermediary to catalyze private sector investments to commercially viable infrastructure projects. Apart from infrastructure funding, IDFC works closely with the Government of India and other state governments to conceptualize and formulate policies to inculcate a conducive environment for private sector participation in the infrastructure sector. IDFC's main focus areas are power, roads, ports and telecom. Since it began operations in 1997, IDFC has rapidly grown across all business parameters. Its fast growing AMC business and entry into investment banking and broking business through acquisition of SSKI would be another key earnings driver for the company.

Key investment arguments

- ✍ Explosive infrastructure growth will enable robust loan book expansion and fee income growth.
- ✍ The company has a sterling pedigree in quality lending, and hence, is able to maintain zero net NPAs.
- ✍ Enjoys the highest RoA in the sector; high CAR post current dilution gives enough room to grow loan book and boost RoE.

COMPARATIVE VALUATIONS

		IDFC	HDFC BANK *	HDFC
P/E (x)	FY09E	22.9	25.6	23.0
	FY10E	17.8	19.4	18.9
P/BV (x)	FY09E	3.5	4.2	5.8
	FY10E	3.1	3.6	5.1
RoE (%)	FY09E	16.2	17.4	20.6
	FY10E	18.3	19.8	21.1
RoA (%)	FY09E	2.8	1.4	2.8
	FY10E	2.7	1.4	2.8

* Excludes CBoP merger

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	0.0	0.0	0.0
Domestic Inst	41.2	39.3	40.1
Foreign	46.7	49.0	48.1
Others	12.1	11.7	11.8

Recent developments

- ✍ IDFC would be raising project equity funds for Indian infrastructure in collaboration with Citi and Blackstone of US\$5b over the next couple of years.
- ✍ IDFC has acquired 80% stake in SSKI during 9MFY08
- ✍ IDFC made a QIP of Rs21b at a price of Rs127 per share.

Valuation and view

- ✍ With growth in infrastructure development activities, the loan book is expected to expand by 35% CAGR in FY08-10E.
- ✍ Consolidated PAT is expected to grow at a CAGR of 30% over FY08-10E. The stock currently trades at 17.8x FY10E EPS and 3.1x FY10E BV. Maintain **Buy**.

Key investment risks

- ✍ Is dependent on government policies.
- ✍ Rising interest rates may pressurize margins.
- ✍ Faces competitive pressures from banks.

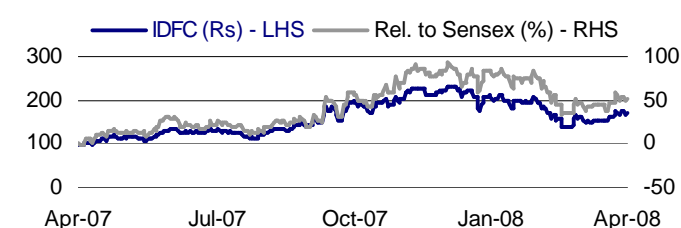
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	7.6	8.0	-4.9
FY10	9.7	10.3	-6.2

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
173	217	25.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(RS MILLION)
Y/E MARCH	2007	2008E	2009E	2010E	
Interest Income	12,762	21,271	30,888	41,807	
Interest Expended	8,555	14,829	21,739	30,225	
Net Interest Income	4,208	6,942	9,899	12,581	
Change (%)	48.2	65.0	42.6	27.1	
Other Income	2,951	6,294	7,517	9,656	
- Fees	1,346	2,264	3,621	5,361	
- SSKI	0	1,870	1,496	1,795	
- Treasury Income	1,605	2,160	2,400	2,500	
Net Income	7,158	13,236	17,416	22,238	
Change (%)	33.6	84.9	31.6	27.7	
Operating Expenses	818	2,532	3,238	3,897	
Operating Income	6,340	10,704	14,178	18,341	
Change (%)	31.7	68.8	32.4	29.4	
Other Provisions	175	700	972	1,313	
PBT	6,165	10,004	13,205	17,028	
Tax	1,241	2,480	3,433	4,427	
Tax Rate (%)	20.1	24.8	26.0	26.0	
PAT	4,924	7,523	9,772	12,601	
Change (%)	26.0	52.8	29.9	29.0	
(Minority Interest)/Associate profit	118	-100	-120	-146	
Consolidated PAT	5,042	7,423	9,652	12,455	
Change (%)	29.0	47.2	30.0	29.0	
Proposed Dividend	1,126	1,553	1,941	2,426	
BALANCE SHEET					(RS MILLION)
Y/E MARCH	2007	2008E	2009E	2010E	
Capital	11,259	12,940	12,940	12,940	
Reserves & Surplus	18,217	42,990	50,371	59,987	
Net Worth	29,476	55,930	63,311	72,927	
Borrowings	142,528	216,540	313,983	423,877	
Change (%)	63.3	51.9	45.0	35.0	
Sub-ordinated Debt	6,500	6,500	6,500	6,500	
Other Liabilities & Prov.	5,335	10,041	12,552	15,690	
Total Liabilities	183,840	289,011	396,345	518,994	
Cash and bank balance	10,800	-230	10,213	10,912	
Investments	23,903	70,050	98,070	122,588	
Change (%)	84.9	193.1	40.0	25.0	
Advances	139,184	204,940	276,669	373,503	
Change (%)	38.0	47.2	35.0	35.0	
Net Fixed Assets	489	3,850	440	411	
Deferred Tax Assets	857	970	873	786	
Other Assets	7,637	6,491	7,141	7,855	
Total Assets	183,840	289,011	396,345	518,994	
ASSUMPTIONS					(%)
Borrowings Growth	63.3	51.9	45.0	35.0	
Advances Growth	38.0	47.2	35.0	35.0	
Dividend	10.0	12.0	15.0	18.8	

E: M0St Estimates

RATIOS

Y/E MARCH	2007	2008E	2009E	2010E
Spreads Analysis (%)				
Avg. Yield - Earning Assets	8.5	9.4	9.4	9.4
Avg. Cost-Int. Bear. Liab.	7.0	8.0	8.0	8.1
Interest Spread	14	14	14	13
Net Interest Margin	2.8	2.8	2.8	2.6

Profitability Ratios (%)

RoE	18.3	17.4	16.2	18.3
RoA	3.3	3.1	2.8	2.7
Int. Expended/Int.Earned	67.0	69.7	70.4	72.3
Fee Income./Net Income	18.8	17.1	20.8	24.1

Efficiency Ratios (%)

Op. Exps./Net Income	114	19.1	18.6	17.5
Empl. Cost/Op. Exps.	58.7	66.2	71.1	70.4
Busi. per Empl. (Rs m)	1224	837	1205	1,542
NP per Empl. (Rs m)	25.6	17.9	23.3	28.0

Asset-Liability Profile (%)

D/E Ratio	5.1	4.0	5.1	5.9
Gross NPAs to Adv.	0.6	0.2	0.4	0.4
Net NPAs to Adv.	0.0	0.0	0.2	0.3

VALUATION

Book Value (Rs)	26.2	43.2	48.9	56.4
Price-BV (x)	6.6	4.0	3.5	3.1
Adjusted BV (Rs)	26.2	43.2	48.6	55.7
Price-ABV (x)	6.6	4.0	3.6	3.1
EPS (Rs)	4.4	5.8	7.6	9.7
EPS Growth (%)	25.6	32.9	29.9	29.0
Price-Earnings (x)	39.5	29.7	22.9	17.7
OPS (Rs)	5.6	8.3	11.0	14.2
OPS Growth (%)	31.3	46.9	32.4	29.4
Price-OP (x)	30.7	20.9	15.8	12.2

E: MOSI Estimates

N O T E S



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

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