

EARNINGS REVIEW

Infrastructure Development Finance Co.

Neutral

Below expectations; loan growth slows on macro; maintain Neutral

Facing pressures from all sides

IDFC reported 1QFY12 PAT of Rs3.13 bn, down 6% yoy and 20% below our estimates, the variance driven by lower gains, fee income and higher provisions. Key highlights: (1) Loan growth slowed – flat qoq, up 30% yoy, as disbursements fell 50% yoy. (2) Excluding capital gains, net fund based income grew +43% yoy driven by infrastructure (+41% yoy) and treasury income (+64% yoy). (3) Fee income came in 33% below GSe, declining 23% yoy reflecting pressures across advisory, brokerage and AMC business. (4) Consistent with banks that have reported results so far, operating expenses came in lower than expected, declining 8% yoy.

Retain Neutral on higher valuations, lower RoE

We believe loan growth will remain muted (GSe +14% in FY12, +18% FY13) given a tougher macro environment, higher interest rates and issues in the power sector (surplus capacity, SEB losses and coal linkages). Note IDFC's power sector exposure is high at 44%. While NIM may start stabilizing for IDFC, lower loan growth, advisory, brokerage and investment banking fees should lead to lackluster profit growth during the year.

We reduce our EPS estimates for FY12E/FY13E/FY14E by up to 5% to Rs9.64/11.91/14.42 respectively on the back of reported results, and our 12-m CAMELOT-based target price to Rs140 (from Rs150) as we roll forward the BVPS by a quarter. We retain our Neutral rating on IDFC, as we see more value in other banks under our coverage.

Risks: upside - stronger business volumes. Downside: higher funding costs.

IDFC: Summary of estimates

Rs mn	FY12E	FY13E	FY14E	Y-o-Y Growth (%)		
				FY12E	FY13E	FY14E
NII	21,005	24,595	29,621	13%	17%	20%
PAT	14,096	17,428	21,086	10%	24%	21%
Advances	429,390	505,378	611,340	14%	18%	21%

Source: Goldman Sachs Research estimates

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

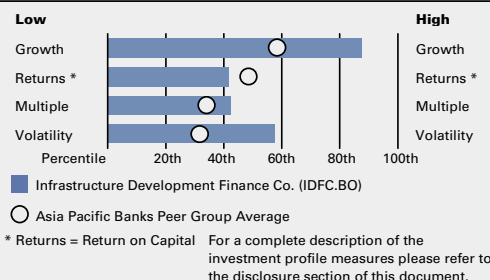
India
Banks

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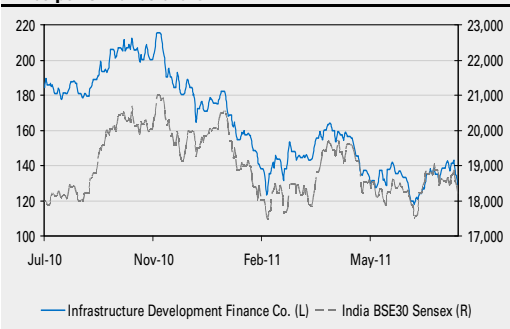


Key data

	Current
Price (Rs)	129.25
12 month price target (Rs)	140.00
Market cap (Rs mn / US\$ mn)	188,827.5 / 4,283.3
Foreign ownership (%)	51.3

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	9.02	9.64	11.91	14.42
EPS revision (%)	0.0	(4.8)	(1.9)	0.1
P/B (X)	1.8	1.6	1.5	1.3
P/E (X)	14.3	13.4	10.8	9.0
Dividend yield (%)	1.6	1.7	2.0	2.5
P/POP (X)	9.6	9.1	7.3	6.0
POP growth (%)	29.9	4.9	24.8	21.2
Preprovision ROA (%)	4.8	4.0	4.4	4.6
Credit cost (%)	0.6	0.3	0.3	0.3
ROA (%)	3.10	2.76	2.99	3.13
ROE (%)	14.7	12.9	14.4	15.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(13.4)	(13.0)	(30.0)
Rel. to India BSE30 Sensex	(8.2)	(12.1)	(31.0)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 7/28/2011 close.

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Infrastructure Development Finance Co.: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	18,608.7	21,004.9	24,594.9	29,620.8	Gross loans	376,523.2	429,389.7	505,378.3	611,339.7
Non-interest income	6,412.5	5,143.7	7,369.2	8,729.6	NPLs	797.3	877.1	964.8	1,061.3
Operating revenue	25,021.2	26,148.6	31,964.1	38,350.4	Loan loss reserves	368.7	405.6	446.1	490.8
Non-interest expense	(5,320.5)	(5,478.4)	(6,175.1)	(7,084.5)	Total interest earning assets	445,167.5	505,319.0	579,927.3	685,645.0
Preprovision operating profit	19,700.7	20,670.2	25,789.0	31,265.9	Other non-interest earning assets	33,005.9	38,948.3	40,516.2	42,043.6
Total provision charge	(2,346.1)	(1,149.3)	(1,583.9)	(1,979.9)	Total assets	478,173.4	544,267.3	620,443.5	727,688.6
Associates	0.0	0.0	0.0	0.0	Customer deposits	0.0	0.0	0.0	0.0
Pretax profit	17,788.4	20,000.9	24,205.1	29,286.0	Total interest-bearing liabilities	363,039.5	410,418.8	456,929.1	545,719.0
Tax	(4,997.5)	(5,904.6)	(6,777.4)	(8,200.1)	Total equity	104,086.2	114,685.1	127,630.7	143,293.8
Minorities	--	--	--	--	CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
Net profit	12,790.8	14,096.2	17,427.6	21,085.9	C: Tier 1 capital ratio	--	--	--	--
Dividends	2,925.1	3,479.1	3,834.1	4,638.9	C: Equity/loans	27.6	26.7	25.3	23.4
Dividends payout (%)	22.9	22.2	22.0	22.0	C: Equity/assets	21.8	21.1	20.6	19.7
Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E	A: NPL ratio	0.2	0.2	0.2	0.2
Net interest margin	4.70	4.15	4.26	4.42	A: Loan loss reserves/NPLs	46.2	46.2	46.2	46.2
Provision charge/total loans	0.62	0.27	0.31	0.32	E: Net interest margin	4.70	4.15	4.26	4.42
YoY Growth (%)					E: Non int inc/oprer revenues	25.63	19.67	23.05	22.76
Customer deposits	--	--	--	--	E: Cost-income ratio	21.3	21.0	19.3	18.5
Loans	50.4	14.0	17.7	21.0	E: ROAA	3.10	2.76	2.99	3.13
Net interest income	28.7	12.9	17.1	20.4	L: Loan/deposit ratio	NM	NM	NM	NM
Fee income	3.7	(19.8)	43.3	18.5	Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
Non-interest income	3.7	(19.8)	43.3	18.5	GS CAMELOT implied P/B (X)	1.6	--	--	--
Operating revenue	21.2	4.5	22.2	20.0	GS CAMELOT implied P/E (X)	12.6	--	--	--
Operating expenses	2.9	(3.0)	(12.7)	(14.7)	Risk-free rate (%)	7.0	7.0	7.0	7.0
Preprovision operating profit	29.9	4.9	24.8	21.2	Equity risk premium (%)	5.0	5.0	5.0	5.0
Provision charges	43.5	(41.4)	75.0	25.0	CAMELOT beta (X)	1.2	--	--	--
Pretax profit	24.5	12.4	21.0	21.0	Risk-adjusted cost of equity (%)	13.0	--	--	--
Net profit	20.4	10.2	23.6	21.0	3-yr adjusted DPS CAGR (%)	15.4	--	--	--
EPS	10.4	6.8	23.6	21.0	Sustainable ROE estimate (%)	13.0	--	--	--
DPS	37.5	3.6	22.7	21.0	LT dividend payout estimate (%)	61.5	--	--	--
Market dimensions	3/11	3/12E	3/13E	3/14E	Ex-growth bond-equivalent P/B (X)	1.0	--	--	--
No of branches	--	--	--	--	Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
No of staff (000)	0.6	0.6	0.6	0.7	Commercial & corporate	NM	NM	NM	NM
Revenues/staff (US\$)	937,003.0	995,587.0	1,185,660.7	1,329,487.4	Mortgages/home loans	NM	NM	NM	NM
Net profit/staff (US\$)	478,996.2	536,703.2	646,453.5	730,982.8	Consumer	NM	NM	NM	NM
DuPont analysis (%)	3/11	3/12E	3/13E	3/14E	Valuation (current price)	3/11	3/12E	3/13E	3/14E
ROE	14.7	12.9	14.4	15.6	P/E basic (X)	14.3	13.4	10.8	9.0
x leverage	21.1	21.4	20.8	20.1	P/B (X)	1.81	1.65	1.48	1.32
=ROA	3.10	2.76	2.99	3.13	P/PPOP (X)	9.6	9.1	7.3	6.0
% of assets	3/11	3/12E	3/13E	3/14E	Dividend yield (%)	1.6	1.7	2.0	2.5
Net interest income	4.50	4.11	4.22	4.39	EPS, basic (Rs)	9.02	9.64	11.91	14.42
Fee income	1.55	1.01	1.27	1.30	EPS, fully-diluted (Rs)	9.02	9.64	11.91	14.42
Non-interest income	1.55	1.01	1.27	1.30	EPS, basic growth (%)	10.4	6.8	23.6	21.0
Operating revenue	6.06	5.11	5.49	5.69	EPS, fully diluted growth (%)	10.4	6.8	23.6	21.0
Operating expenses	1.29	1.07	1.06	1.05	BVPS (Rs)	71.25	78.40	87.25	97.96
Preprovision operating profit	4.77	4.04	4.43	4.64	DPS (Rs)	2.06	2.14	2.62	3.17
Loan loss provisions	0.37	0.18	0.27	0.29					
Pretax profits	4.31	3.91	4.16	4.34					
Taxes	1.21	1.16	1.16	1.22					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Actuals versus estimates

Exhibit 1: IDFC 1QFY12 snapshot

Rs mn unless stated	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q1FY12E	Var. Q-o-Q	Var. Y-o-Y	Act vs est
Income statement									
Operating income	9,422	9,581	11,390	11,836	12,340	12,284	4%	31%	0%
Profit on sale of investments	1,200	120	200	290	(20)	600	-107%	-102%	-103%
Interest expenses	4,852	5,688	6,500	6,835	7,539	7,014	10%	55%	7%
Net fund based income	4,570	3,893	4,890	5,001	4,800	5,270	-4%	5%	-9%
yoy growth (%)	46%	15%	15%	21%	5%	15%			
Infrastructure	3,040	3,590	4,130	4,250	4,280	4,480	1%	41%	-4%
Treasury	330	183	560	461	540	191	17%	64%	184%
Net fund based income excl gains	3,370	3,773	4,690	4,711	4,820	4,670	2%	43%	3%
Fee income	1,450	2,560	1,660	1,170	1,120	1,681	-4%	-23%	-33%
Advisory fees	440	1,070	520	-90	310	520	-444%	-30%	-40%
SSKI- brokerage	360	740	510	380	190	425	-50%	-47%	-55%
Fees on AMC	650	750	630	880	620	737	-30%	-5%	-16%
Miscellaneous income	100	50	50	60	120	100	100%	20%	NM
Net total income	6,120	6,503	6,600	6,231	6,040	7,052	-3%	-1%	-14%
Operating expenses	1,232	1,239	1,634	1,170	1,131	1,383	-3%	-8%	-18%
Salary	590	645	874	842	649	660	-23%	10%	-2%
Other costs	641	593	760	328	482	723	47%	-25%	-33%
Preprovision profit	4,888	5,265	4,966	5,061	4,909	5,669	-3%	0%	-13%
Provisions	445	515	487	945	399	250	-58%	-10%	60%
Profit before tax	4,443	4,750	4,479	4,116	4,510	5,419	10%	2%	-17%
Tax	1,098	1,375	1,272	1,252	1,378	1,517	10%	25%	-9%
Net profit	3,345	3,375	3,207	2,864	3,132	3,901	9%	-6%	-20%
yoy growth (%)	22%	16%	18%	26%	-6%	17%			
Effective tax rate(%)	25%	29%	28%	30%	31%	28%	0%	24%	9%
PBT - treasury + provisions	3,688	5,145	4,766	4,771	4,929	5,069	3%	34%	-3%
yoy growth (%)	24%	47%	56%	76%	34%	87%			
Key balance sheet items (Rs mn)									
Disbursements	62,040	111,650	51,260	42,070	31,020		-26%	-50%	
yoy growth (%)	142%	624%	52%	-16%	-50%				
Advances	289,010	343,973	350,210	376,523	375,270	379,458	0%	30%	-1%
yoy growth (%)	37%	56%	46%	50%	30%	52%			

Source: Company data, Goldman Sachs Research estimates.

Reg AC

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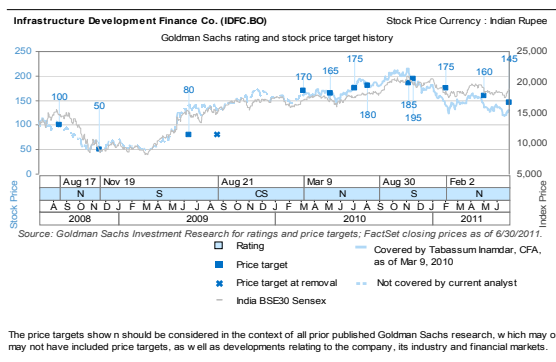
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Price target and rating history chart(s)



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