

IDFC

Bloomberg: IDFC IN Equity

Reuters: IDFC.BO

Recommendation: **BUY****EVENT UPDATE**

Building appetite

Operational triggers remain

- Raises \$575mn through QIP at Rs168.25/shr
- Dilution at ~12% of pre-diluted equity
- Capital raising signals intent to capitalize on huge growth opportunities
- Equity raising likely to trigger rating upgrades from independent agencies
- IFC status. concomitant with higher ratings, to help bring down marginal cost of funds by 15-20bps
- Maintain **BUY** at current levels; TP revised to Rs210 on FY12E estimates

IDFC reportedly closed its QIP issue yesterday, raising \$575mn (Rs26.5bn) at Rs168.25/shr. The Board of Directors at IDFC had earlier given an in-principle approval for raising capital to the tune of Rs35bn through the equity or quasi-equity route. Given the current prudential exposure norms (corporate level as well as group level), we believe that the capital raising exercise is primarily aimed at building the company's appetite to assume higher ticket sized projects.

Valuation and recommendation: Factoring in our FY12E estimates, we arrive at an SOTP-based target price of Rs208 (rounded-off to Rs210). Although our revised target price implies a ~14% upside from current levels, we believe that investors should stay invested in the stock in order to capture the upside triggers purely from an execution perspective, which is likely to gradually get priced into the stock over the medium-term. At its CMP of Rs182, the stock trades at 2.5x and 2.2x our standalone FY11E and FY12E ABVPS of Rs72 and Rs82 respectively.

Our estimates and valuations do not capture the considerable upside that IDFC can potentially generate from any incremental exits (from the PE funds). Although we believe that IDFC's current return ratios do not merit any incremental re-rating in the stock, we maintain our '**BUY**' recommendation on the stock with a marginally revised target price of Rs208 (rounded off to Rs210).

Exhibit 1: Key financials

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Net interest income	5,670	7,534	9,313	12,930	17,374
Net operating income	10,552	12,336	16,343	21,446	27,900
Pre-provisioning profit	9,419	11,144	14,475	19,034	24,752
Net profit	6,692	7,359	10,128	12,923	16,944
EPS (Rs)	5.2	5.7	7.8	8.9	11.6
Adj. BVPS (Rs)	42.1	46.5	52.5	72.0	81.8
Debt-equity ratio (%)	4.1	3.9	3.9	3.1	3.4
RoE (%)	16.1	12.8	15.8	14.9	15.1
RoAA (%)	2.9	2.6	3.2	3.4	3.5
P/ABV (x)	4.3	3.9	3.5	2.5	2.2
CAR (%)	20.9	20.1	20.6	24.6	22.4

Source: Company, Ambit Capital research

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poonamsaney@ambitcapital.com**Recommendation**

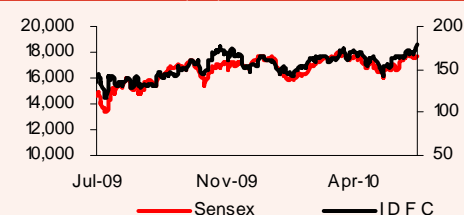
CMP:	Rs182
Target Price (Period):	Rs210
Previous TP:	Rs195
Upside/Downside (%)	15
ABVPS (FY11E):	Rs72
Change from previous (%)	0.0

Stock Information

Mkt cap:	Rs237,290mn/US\$5,108mn
52-wk H/L:	Rs184/115
3M Avg. daily vol. (mn):	11
Beta (x):	1.3
BSE Sensex:	17509
Nifty:	5251

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	20.3	13.3	36.5	18.1
Rel. to Sensex	13.9	14.5	14.2	17.8

Performance (%)

Source: Bloomberg, Ambit Capital research

IDFC reportedly closed its QIP issue, having raised \$575mn from investors yesterday at Rs168.25/shr. Our interaction with the management indicates that the issue witnessed broad-based participation from domestic as well as foreign institutional investors. Factoring in our FY12E forecasts, we continue to maintain our **'BUY'** recommendation on the stock.

Exhibit 2: Capital raising exercise

Capital raising exercise	
Amount of money raised (\$mn)	575
INR / USD	46.16
Amount of money raised (Rs mn)	26,542.0
Price at which money is raised (Rs/shr)	168.3
No of shares issued (mn)	157.8
Existing equity base (mn)	1,300.6
New equity base (mn)	1,458.4
Dilution (% of pre-diluted equity)	12.1
Dilution (% of post-diluted equity)	10.8
Face value (Rs/shr)	10
Addition to equity capital (Rs mn)	1,577.5
Share premium (Rs mn)	24,964.5
Addition to networth (Rs mn)	26,542.0
FY11E CRAR (post-capital raising)	24.6

Source: Ambit Capital research

Although the return ratios are likely to get diluted for FY11E, the potential growth that IDFC can capture (in its aspiration to triple its loan book by FY15E) is likely to offset the deterioration in return ratios.

Our interaction with the management suggests that the company is geared to leapfrog and capitalize on the enormous growth opportunities that present themselves within the infrastructure lending business. Having acquired the 'Infra NBFC' (IFC) status last week, the two key business triggers (from our last update) have already panned out along expected lines.

Fresh equity issuance to trigger rating upgrades: The business prospects have never been this rosy - the pipeline continues to remain robust and the company has now built enough appetite to capitalize on growth opportunities in the core business.

We believe that rating agencies would take note of the equity issuance and appropriately upgrade their credit ratings on IDFC, which augurs well from a marginal cost of funds perspective. The IFC status also provides IDFC with a quantum jump in terms of access to debt (higher exposure ceiling), which augurs well from a leverage perspective.

Valuation and recommendation: Factoring in our FY12E estimates, we arrive at an SOTP-based target price of Rs208 (rounded-off to Rs210). Although our revised target price implies a ~14% upside from current levels, we believe that investors should stay invested in the stock in order to capture the upside triggers purely from an execution perspective, which is likely to gradually get priced into the stock over the medium-term. At its CMP of Rs182, the stock trades at 2.5x and 2.2x our standalone FY11E and FY12E ABVPS of Rs72 and Rs82 respectively.

Other upside triggers (that are difficult to capture in our estimates): In addition to the above, there exist a few triggers that pose upside risks to our current estimates.

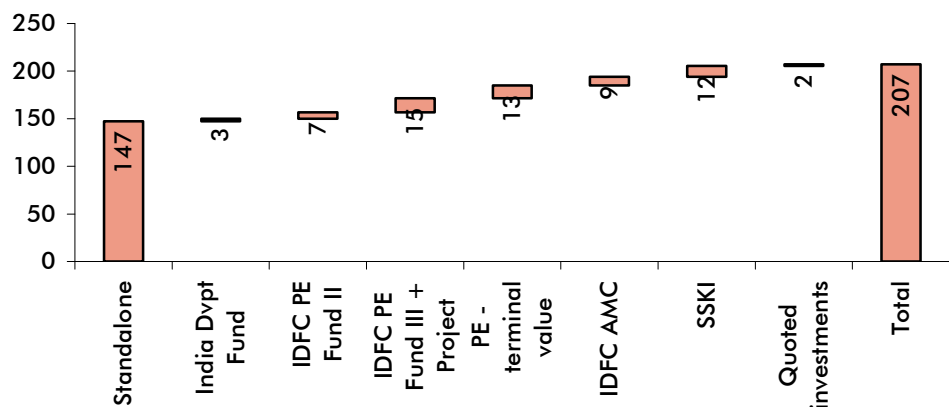
Exits from India Development Fund: India Development Fund (IDF), the first private equity fund floated by IDFC during 2004, has completed 6 years of operations. Of the 11 investments made by the fund, 6 have been closed while the fund continues to be opportunistic in terms of monetizing the remaining 5. Given the fact that IDF has already returned capital to its limited partners, any exits from hereon would directly accrue to the general partner (IDFC Private Equity).

Sale of stake in AMC to a strategic partner: Media reports have been suggesting that IDFC may be looking at offloading a significant stake in its AMC to a strategic partner. While the other businesses continue to mature, we believe that IDFC will continue to invest in this business over the next 15-18 months. In fact, we believe that a significant proportion of the fresh equity issuance will be infused into the AMC business, which continues to be in an investment phase.

Spreads on core lending business could continue surprising: Contrary to our expectations, IDFC has been reporting expansion in the spreads on the infrastructure business at 3.3% as of Mar'10 (from the Dec'09 levels of 3.1%).

Although we expect the spreads on infrastructure lending to shrink marginally (from current levels) on a normalized basis, we believe that the IFC status helps offset the fall in spreads. On a blended basis, although we expect spreads on the infrastructure business to remain stable, we believe that overall spreads would recover by close to 12-15bps.

Exhibit 3: SOTP-based valuation of consolidated entity



Source: Ambit Capital research

Exhibit 4: Balance sheet

Balance sheet (Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Shareholders' Funds - Capital	12,943	12,953	13,009	14,586	14,586
Reserves & Surplus	41,601	47,339	55,223	90,426	104,725
<i>Networth</i>	<i>54,544</i>	<i>60,292</i>	<i>68,231</i>	<i>105,012</i>	<i>119,311</i>
Subordinated Debt (Unsecured)	1,649	0	0	1,500	1,500
Loan Funds (Unsecured)	221,236	235,330	265,229	321,383	408,521
Total sources of funds	277,429	295,622	333,460	427,895	529,333
Fixed Assets - Net Block	3,359	3,905	3,625	3,499	3,332
Investments	55,169	75,784	57,788	75,034	82,305
Infrastructure Loans	199,024	205,918	250,270	329,946	421,797
Deferred Tax Asset	953	1,393	1,743	2,100	0
Net Current Assets / (Liabilities)	18,917	8,622	20,034	17,316	21,899
Total application of funds	277,422	295,622	333,460	427,895	529,333

Source: Company, Ambit Capital research

Exhibit 5: Profit and loss

Profit & loss (Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Interest income	20,472	28,329	28,816	36,101	46,752
Interest expenditure	14,802	20,795	19,502	23,171	29,379
<i>Net interest income</i>	<i>5,670</i>	<i>7,534</i>	<i>9,313</i>	<i>12,930</i>	<i>17,374</i>
Other income	4,882	4,803	7,029	8,516	10,526
<i>Net operating income</i>	<i>10,552</i>	<i>12,336</i>	<i>16,343</i>	<i>21,446</i>	<i>27,900</i>
Operating expenses	1,133	1,288	1,994	2,413	3,148
<i>Pre-provisioning profit</i>	<i>9,419</i>	<i>11,144</i>	<i>14,475</i>	<i>19,034</i>	<i>24,752</i>
Provision	2,727	3,785	4,347	6,111	7,808
<i>Net profit</i>	<i>6,692</i>	<i>7,359</i>	<i>10,128</i>	<i>12,923</i>	<i>16,944</i>
EPS (Rs)	5.2	5.7	7.8	8.9	11.6
Adj. BVPS (Rs)	42.1	46.5	52.5	72.0	81.8

Source: Company, Ambit Capital research

Exhibit 6: Key financial ratios

	FY08	FY09	FY10	FY11E	FY12E
Leverage (x)	4.1	3.9	3.9	3.1	3.4
CAR (%)	20.9	20.1	20.6	24.6	22.4
RoE (%)	16.1	12.8	15.8	14.9	15.1
RoAA (%)	2.9	2.6	3.2	3.4	3.5
P/E (x)	35.2	32.0	23.4	20.5	15.7
P/ABV (x)	4.3	3.9	3.5	2.5	2.2

Source: Company, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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