

IDFC

3Q12: surprise on loan growth

IDFC reported PAT of Rs 3.81 bn, up 19% y/y. The 4% miss on JPMe was driven mainly on lower investment profits and higher equity provisions, despite a significant beat on NII. Loan growth was exceptionally strong - IDFC beat the full-year guidance with a quarter in hand. We maintain OW - falling rates and an improving policy environment should be strong rerating triggers.

- Growth momentum accelerates.** Disbursements grew 58% q/q to Rs58bn, driving 25% y/y loan growth to Rs 439bn. The 3Q growth was driven mainly by easier FII funding and refinancing opportunities. We raise FY12e loan growth to 22.5% (from 18%) mainly on better policy direction and easier funding. This is a critical inflexion point, given that loan origination is the major earnings driver.
- NIM holds up:** The company reported 20bps QoQ improvement in the NIM from 4.1% to 4.3% (our estimates), the trailing 12m NIM stayed flat q/q. There was a sharp increase in short-term borrowing, reflective of where the major loan demand lay. The outlook is flat to rising, depending on how the mix between refinanced and project loans moves.
- NPLs jump.** Gross NPLs went up from 0.19% to 0.33% - the dramatic delta masks a very low incremental delinquency of ~50bp. We see these delinquencies continuing and believe that management guidance of ~100 bps gross NPL ratio in 12-18m is probably optimistic. *However, IDFC's best-in-class provisioning (1.6% of the loans) mitigates a large part of this risk.*
- Earnings revised upwards.** We have revised our 12e, 13e and 14e net profit and EPS estimates by 4%, 7.5% and 10% respectively on the higher loan growth assumptions. We have revised our Dec 13 price target to Rs 150 (Rs 130 previously) incorporating the change in the estimates.

Overweight

IDFC.BO, IDFC IN

Price: Rs137.80

▲ **Price Target: Rs150.00**
Previous: Rs130.00

India

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Price Performance

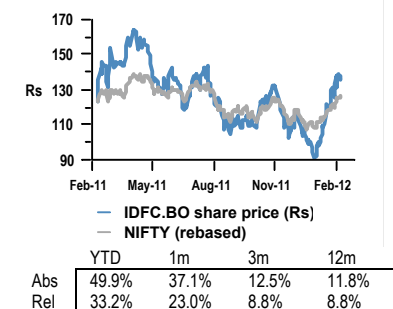


Table 1: 3Q 12 results summary

RS mn, %			
(Rs m)	3Q12	YoY	QoQ
NII	5,460	19%	10%
Non-int inc	2,120	-1%	-46%
Misc inc	30	NM	-25%
PPOP	6,340	27%	-16%
PAT	3,810	19%	-27%
Loans	438,970	25%	12%
Margins	4.33%	0.07%	0.20%

Source: Company reports

More details in Table 2

Infrastructure Development Finance Company (Reuters: IDFC.BO, Bloomberg: IDFC IN)

Year-end Mar (Rs in mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Operating Profit (Rs mn)	15,585	20,135	23,523	30,329	36,571
Net Profit (Rs mn)	10,621	12,791	15,741	19,180	23,003
Cash EPS (Rs)	8.17	8.48	10.43	12.71	15.25
Fully Diluted EPS (Rs)	8.17	8.48	10.43	12.71	15.25
DPS (Rs)	1.39	1.75	2.09	2.54	3.05
EPS growth (%)	39.6%	3.8%	23.1%	21.8%	19.9%
ROE	16.1%	14.7%	13.8%	14.5%	15.5%
P/E	16.9	15.7	13.2	10.8	9.0
BVPS (Rs)	53.90	71.24	82.69	92.60	104.49
P/BV	2.6	1.9	1.7	1.5	1.3
Div. Yield	1.0%	1.3%	1.5%	1.8%	2.2%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

52-wk range (Rs)	167.20 - 90.25
Market cap (Rs mn)	201,751
Market cap (\$ mn)	4,075
Shares outstanding (mn)	1,464
Fiscal Year End	Mar
Price (Rs)	137.80
Date Of Price	09 Feb 12
Avg daily value (Rs mn)	-
Avg daily value (\$ mn)	-
Avg daily vol (mn)	-
NIFTY	5,382
Exchange Rate	49.51

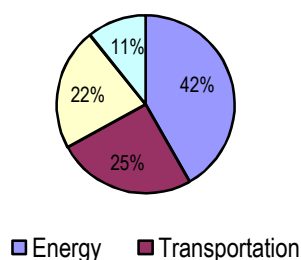
See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

IDFC is a NBFC dedicated to infrastructure lending to private companies. It has a loan portfolio of ~US\$9bn and Energy, transportation, and telecom are the sectors with largest exposure. It also manages ~US\$1.9bn in Project and private equity and US\$5.4bn in MF AUMs

Sector Exposure



Source: Company

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY12E	10.4	10.2
FY13E	12.7	11.3

Source: Bloomberg, J.P.Morgan estimates

P&L sensitivity metrics

	EBITDA Impact (%)	EPS Impact (%)
NIMs		
Impact of each 10bps	1.8%	1.9%
Cost to Income		
Impact of each 100bps	1.4%	1.4%
Provisions/Assets		
Impact of each 10bps	0.0%	1.9%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our Mar-13 PT for IDFC of Rs150/share (previously Mar 13 PT of Rs130) is based on 2 stage Gordon growth model implying 1.5x FY13 book. Our valuations factor in Cost of Equity at 14.9%, Normalised ROE of ~14.5% and terminal growth of 5%.

Risk free rate	8.0%
Equity Risk Premium	6.0%
Beta	1.15
Cost of Equity	14.9%
Terminal growth	5.0%
Stage 2 growth	24.0%
Mar-13 PT	150

Normalised ROE

ROA	2.6%
ROE	14.5%

The key risks are:

- 1) Asset quality: Risk to asset quality is high especially for the power portfolio given fuel shortage and low merchant rates
- 2) Growth: Another risk is continued slowdown in loan growth surrounding the progress of infra projects
- 3) Markets: The dependence on markets means that any further weakness will lead to risk in fees and investment profits

IDFC Vs Peers	Rating	PT	P/B FY12	P/B FY13	P/E FY12	P/E FY13	ROE FY12	ROE FY13	ROA FY12	ROA FY13
Axis	OW	1,100	2.16	1.86	12.8	10.9	18.1%	18.3%	1.4%	1.3%
ICICI	OW	950	1.82	1.67	13.2	11.5	11.1%	11.9%	1.5%	1.5%
IDFC	OW	150	1.62	1.45	12.8	10.5	13.6%	14.3%	3.1%	3.1%
Shriram	N	615	2.15	1.78	9.9	8.9	24.1%	21.8%	3.4%	3.3%

Source: J.P. Morgan estimates, Multiples based on the adjusted BVPS and EPS, priced as of COB 12th Feb 2012 COB.

Table 2: 3Q 12 results details

RS mn, %

(Rs m)	3Q11	2Q12	3Q12	YoY	QoQ
Net interest income	4,600	4,980	5,460	19%	10%
Infrastructure	4,130	4,380	4,730	15%	8%
Treasury	470	590	730	55%	24%
Non-interest income	2,150	3,890	2,120	-1%	-46%
Miscellaneous income	0	40	30	NM	-25%
Operating income	6,600	8,910	7,610	15%	-15%
Operating expense	1,620	1,320	1,270	-22%	-4%
Pre-provision profits	4,980	7,590	6,340	27%	-16%
Provisions and losses	510	630	980	92%	56%
Profit before tax	4,470	6,960	5,360	20%	-23%
Tax	1,260	1,710	1,540	22%	-10%
PAT	3,210	5,250	3,820	19%	-27%
Spreads (12 mnt rolling)	2.40	2.30	2.40	0.0	0.10
Prov/PPOP	10.2%	8.3%	15.5%	5.2%	7.2%
Cost/Income	24.5%	14.8%	16.7%	-7.9%	1.9%
Tax rate	28.2%	24.6%	28.7%	0.5%	4.2%
Loans (Rs mn)	350,210	393,130	438,970	25%	12%
Borrowings (Rs mn)	366,330	395,760	437,290	19%	10%
Disbursals (Rs mn)	51,260	36,910	58,310	14%	58%
Sanctions (Rs mn)	37,380	81,010	77,650	108%	-4%
Non Interest Income					
Principal Investment	300	2,590	910	203%	-65%
Asset management	630	650	680	8%	5%
IB & Broking	510	170	230	-55%	35%
Loan related & other	520	480	300	-42%	-38%
Loans	350,210	393,130	438,970	25%	12%
Margins	4.27%	4.13%	4.33%	0.07%	0.20%

Source: Company reports

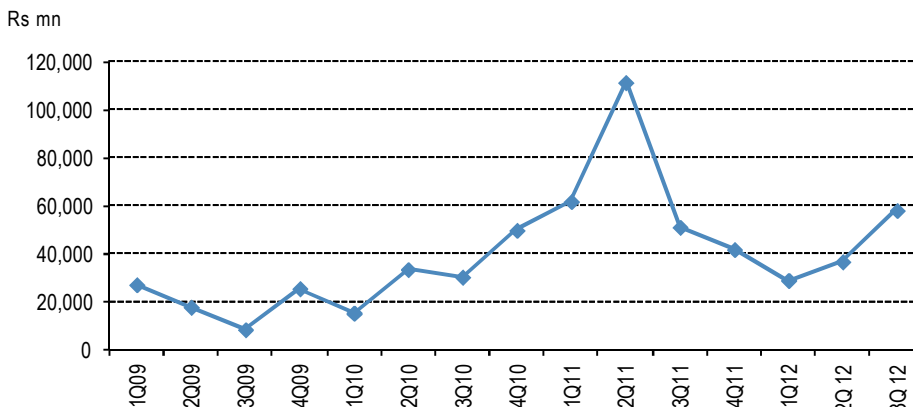
Table 3: IDFC earnings revision summary

Rs m, %

Earnings revision	FY 12e	FY 13e	FY 14e	FY 12e % change	FY 13e % change	FY 14e % change
NII	20,176	26,974	32,265	1.1%	2.7%	3.2%
Non int inc	9,179	10,238	12,435	13.0%	16.2%	23.9%
Opex	5,833	6,882	8,129	0.0%	2.1%	4.4%
PPOP	23,523	30,329	36,571	5.7%	7.0%	9.1%
Provisions	1,812	3,874	4,843	30.5%	3.8%	3.8%
PBT	21,711	26,455	31,728	4.1%	7.5%	10.0%
Taxes	5,971	7,275	8,725	4.1%	7.5%	10.0%
PAT	15,741	19,180	23,003	4.1%	7.5%	10.0%
NII	19,951	26,263	31,267			
Non int inc	8,127	8,808	10,037			
Opex	5,833	6,739	7,788			
PPOP	22,245	28,333	33,515			
Provisions	1,388	3,732	4,665			
PBT	20,857	24,600	28,850			
Taxes	5,736	6,765	7,934			
PAT	15,121	17,835	20,916			

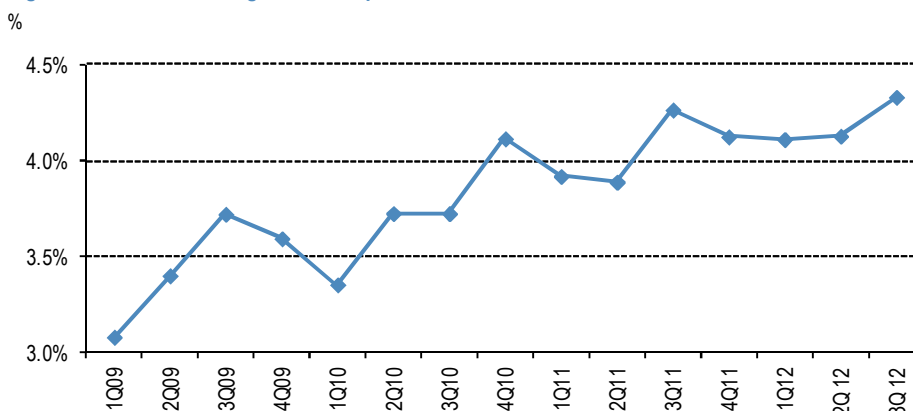
Source: J.P. Morgan estimates

Figure 1: Disbursements have improved in the 3Q 12



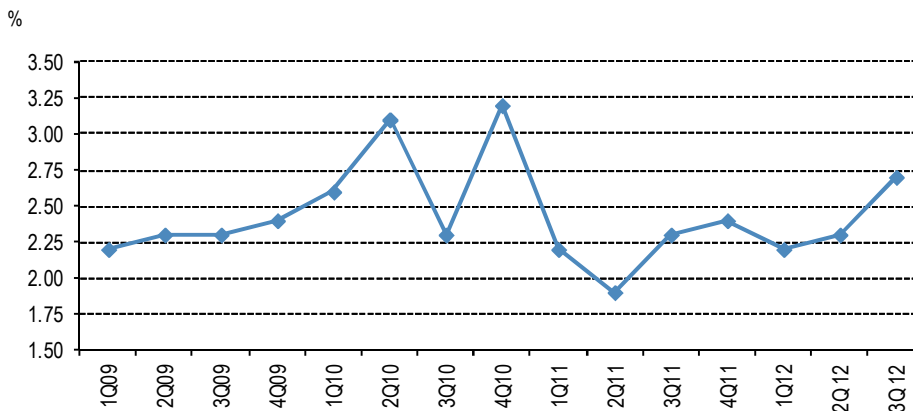
Source: Company reports

Figure 2: Net interest margins have improved



Source: Company reports, J.P. Morgan calculated

Figure 3: Quarterly spreads has also increased



Source: Company reports, J.P. Morgan calculated

JPM Q-Profile

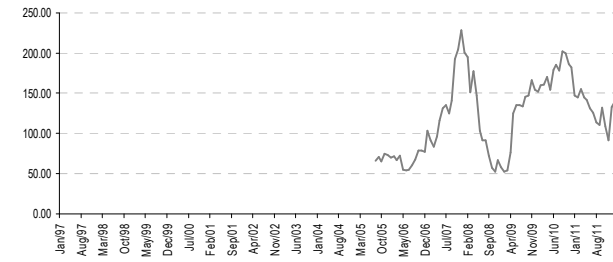
Infrastructure Development Finance Co. Ltd. (INDIA / Financials)

As Of: 10-Feb-2012

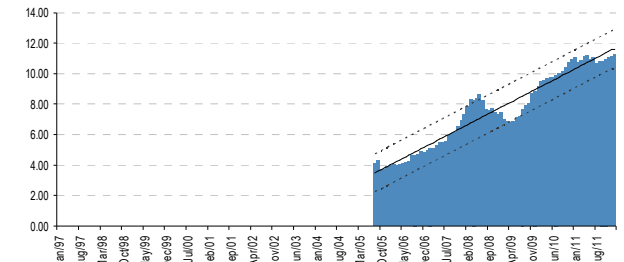
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

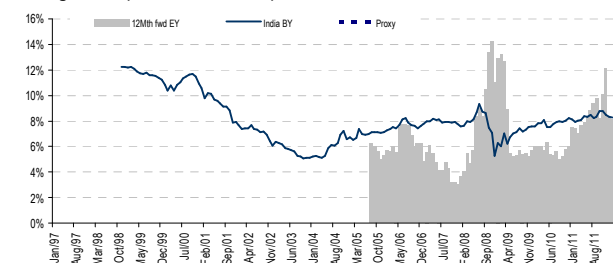
Local Share Price Current: **138.55**



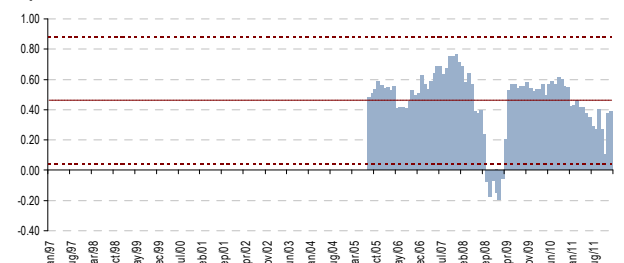
12 Mth Forward EPS Current: **11.26**



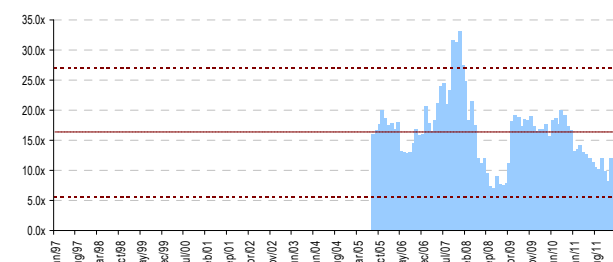
Earnings Yield (& local bond Yield) Current: **8%**



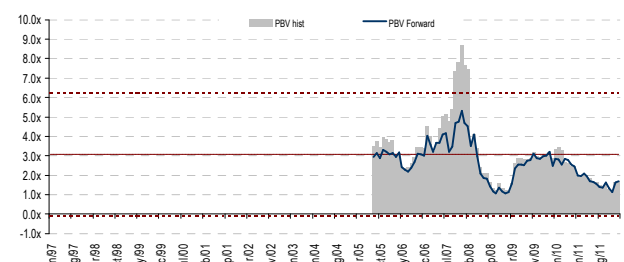
Implied Value Of Growth* Current: **38.71%**



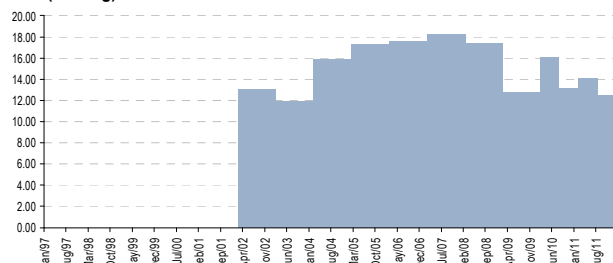
PE (1Yr Forward) Current: **12.3x**



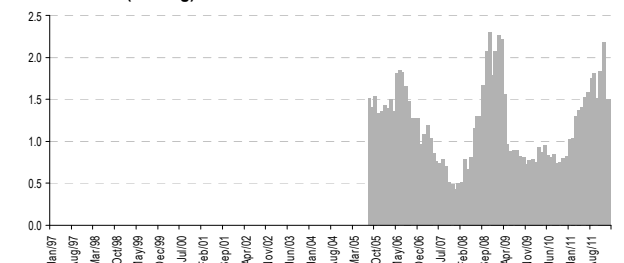
Price/Book Value Current: **1.7x**



ROE (Trailing) Current: **12.47**



Dividend Yield (Trailing) Current: **1.50**



Summary

Infrastructure Development Finance Co. Ltd.		SEDOL		B0C5QR1		As Of:		10-Feb-12			
INDIA						Local Price:		138.55			
Financials						EPS:		11.26			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	12.30x	7.03	33.02	16.79	16.39	27.14	5.65	-43%	168%	36%	33%
P/BV (Trailing)	1.68x	1.11	8.73	2.86	3.09	6.28	-0.10	-34%	420%	70%	84%
Dividend Yield (Trailing)	1.50	0.44	2.30	1.19	1.22	2.16	0.27	-71%	53%	-20%	-19%
ROE (Trailing)	12.47	11.91	18.27	15.94	15.20	19.80	10.59	-5%	46%	28%	22%
Implied Value of Growth	38.7%	-0.19	0.76	0.53	0.46	0.88	0.04	-150%	97%	38%	19%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

IDFC: Summary of Financials

Income Statement						Growth Rates					
Rs in millions, year end Mar	FY10	FY11	FY12E	FY13E	FY14E		FY10	FY11	FY12E	FY13E	FY14E
NIM (as % of avg. assets)	3.5%	4.2%	4.0%	4.4%	4.2%	Loans	21.5%	50.4%	22.5%	25.0%	25.0%
Earning assets/assets	100.7%	103.8%	103.7%	94.4%	95.2%	Deposits	-	-	-	-	-
Margins (% of earning assets)	3.5%	4.4%	4.1%	4.1%	4.0%	Assets	12.9%	41.7%	18.9%	23.3%	23.5%
						Equity	13.5%	48.5%	19.9%	12.0%	12.8%
Net Interest Income	10,178	16,053	20,176	26,974	32,265	RWA	-	-	-	-	-
Total Non-Interest Income	10,888	9,402	9,179	10,238	12,435	Net Interest Income	29.4%	57.7%	25.7%	33.7%	19.6%
Fee Income	-	-	-	-	-	- Non-Interest Income	41.6%	-13.7%	-2.4%	11.5%	21.5%
						of which Fee Grth	-	-	-	-	-
Other Operating Income	0	0	0	0	0	Revenues	-	-	-	-	-
Total operating revenues	-	-	-	-	-	- Costs	49.6%	-2.9%	9.6%	18.0%	18.1%
						Pre-Provision Profits	31.1%	29.2%	16.8%	28.9%	20.6%
Operating costs	-5,482	-5,320	-5,833	-6,882	-8,129	Loan Loss Provisions	-15.3%	80.8%	-22.8%	113.8%	25.0%
						Pre-Tax	37.9%	24.5%	22.1%	21.9%	19.9%
Pre-Prov. Profits	15,585	20,135	23,523	30,329	36,571	Attributable Income	40.2%	20.4%	23.1%	21.9%	19.9%
Provisions	-1,298	-2,346	-1,812	-3,874	-4,843	EPS	39.6%	7.2%	19.2%	21.9%	19.9%
Other Inc/Exp. (treasury Income)	-	-	-	-	-	DPS	15.6%	26.1%	19.2%	21.9%	20.0%
Exceptionals	0	0	0	0	0						
						Balance Sheet Gearing	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax	14,287	17,788	21,711	26,455	31,728	Loan/deposit	-	-	-	-	-
Tax	-3,666	-4,998	-5,971	-7,275	-8,725	Investment/assets	8.3%	10.2%	9.6%	9.3%	9.1%
Minorities	-	-	-	-	-	Loan/Assets	71.9%	76.4%	78.7%	79.8%	80.8%
Other Distbn.	-	-	-	-	-	Customer deposits/liab.	0.0%	0.0%	0.0%	0.0%	0.0%
Attributable Income	10,621	12,791	15,741	19,180	23,003	LT debt/liabilities	76.3%	75.3%	75.4%	77.8%	79.8%
Per Share Data Rs	FY10	FY11	FY12E	FY13E	FY14E	Asset Quality/Capital	FY10	FY11	FY12E	FY13E	FY14E
EPS	8.17	8.76	10.43	12.71	15.25	Loan loss reserves/loans	0.0%	0.0%	0.0%	0.0%	0.0%
DPS	1.39	1.75	2.09	2.54	3.05	NPLs/loans	0.3%	0.2%	0.3%	0.4%	0.4%
Payout	-	-	-	-	-	Specific loan loss reserves/NPLs	0.0%	0.0%	0.0%	0.0%	0.0%
Book value	53.90	71.24	82.69	92.60	104.49	Growth in NPLs	59.0%	0.0%	71.2%	50.9%	42.2%
Fully Diluted Shares	-	-	-	-	-	Tier 1 Ratio	-	-	-	-	-
						Total CAR	-	-	-	-	-
Key Balance sheet Rs in millions	FY10	FY11	FY12E	FY13E	FY14E	Du-Pont Analysis	FY10	FY11	FY12E	FY13E	FY14E
Net Loans	250,311	376,523	461,241	576,551	720,689	NIM (as % of avg. assets)	3.5%	4.2%	4.0%	4.4%	4.2%
LLR	-	-	-	-	-	Earning assets/assets	100.7%	103.8%	103.7%	94.4%	95.2%
Gross Loans	250,311	376,523	461,241	576,551	720,689	Margins (as % of Avg. Assets)	3.5%	4.4%	4.1%	4.1%	4.0%
NPLs	793	793	1,358	2,050	2,915	Non-Int. Rev./ Revenues	-	-	-	-	-
Investments	28,738	50,074	56,015	67,318	81,120	Non IR/Avg. Assets	3.3%	2.2%	1.7%	1.6%	1.5%
Other earning assets	44,241	31,515	31,090	33,235	35,595	Revenue/Assets	6.9%	6.6%	5.8%	5.7%	5.5%
Avg. IEA	290,042	378,313	503,914	617,760	768,526	Cost/Income	26.0%	20.9%	19.9%	18.5%	18.2%
Goodwill	-	-	-	-	-	Cost/Assets	-1.7%	-1.3%	-1.1%	-1.1%	-1.0%
Assets	348,098	493,167	586,118	722,707	892,536	Pre-Provision ROA	5.2%	5.4%	4.8%	4.6%	4.5%
						LLP/Loans	-0.6%	-0.8%	-0.4%	-0.8%	-0.8%
Deposits	0	0	0	0	0	Loan/Assets	69.5%	74.5%	77.6%	79.3%	80.3%
Long-term bond funding	265,439	371,439	442,193	562,163	712,239	Other Prov. Income/ Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Other Borrowings	-	-	-	-	-	Operating ROA	4.7%	4.8%	4.4%	4.6%	4.5%
Avg. IBL	-	-	-	-	-	Pre-Tax ROA	4.8%	4.8%	4.4%	4.0%	3.9%
Avg. Assets	328,261	420,633	539,643	654,413	807,621	Tax rate	25.7%	28.1%	27.5%	27.5%	27.5%
Common Equity	70,101	104,084	124,756	139,709	157,642	Minorities & Outside Distbn.	0.0%	0.0%	0.0%	0.0%	0.0%
RWA	-	-	-	-	-	ROA	3.2%	3.0%	2.9%	2.9%	2.9%
Avg. RWA	-	-	-	-	-	RORWA	-	-	-	-	-
						Equity/Assets	20.1%	20.7%	21.2%	20.2%	18.4%
						ROE	16.1%	14.7%	13.8%	14.5%	15.5%

Source: Company reports and J.P. Morgan estimates.

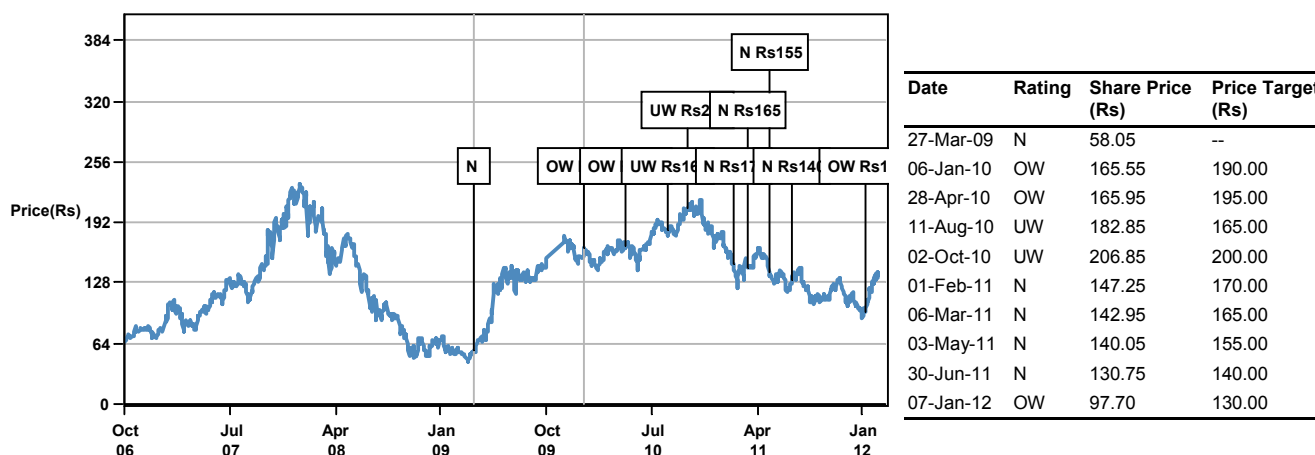
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IDFC (IDFC.BO, IDFC IN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Mar 27, 2009 - Jan 06, 2010.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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