

RESULTS REVIEW
Share Data

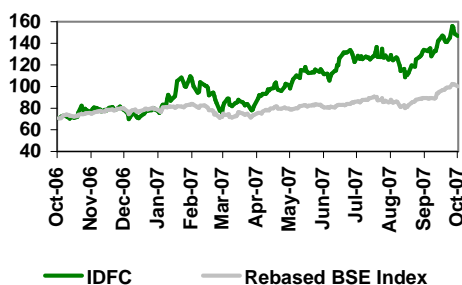
Market Cap	Rs. 165.8 bn
Price	Rs. 146.9
BSE Sensex	17,491.39
Reuters	IDFC.BO
Bloomberg	IDFC IN
Avg. Volume (52 Week)	2 mn
52-Week High/Low	Rs. 157.9 / 67.5
Shares Outstanding	1128.5 mn

Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	4.7	5.9
+/- (%)	15.0%	25.3%
PER (x)	31.1x	24.8x
P / PPP (x)	24.1x	18.8x
P / ABV (x)	3.5x	3.1x

Shareholding Pattern (%)

Promoter	0.0
FII's	34.6
Institutions	54.9
Public & Others	10.6

Relative Performance

IDFC
Buy
Diversifying income streams

IDFC reported strong 1Q'08 numbers with consolidated net profit increasing 38% yoy to Rs. 1.8 bn. The Company's balance sheet grew 50% yoy to Rs. 206.7 bn driven by increase in proprietary investments and growth in loan book by 30%. Gross approvals and disbursements grew 57% and 83% respectively. Nil income increased 11% yoy to Rs. 1 bn while margins remain under pressure due to high cost of funds. Non interest income showed a robust growth of 174% yoy to Rs. 1.7 bn on account of SSKI consolidation and increase in profit on sale of equity investments. During the quarter, IDFC raised Rs. 21 bn through issue of shares at Rs. 127 to QIP, which will help the Company to augment its capital base. IDFC acquired additional 33.3% stake in SSKI which will give strong momentum to its investment banking initiatives focused especially on the infrastructure space and will boost its fee based income significantly.

We continue to remain positive on IDFC based on its dynamic management, diversified business model, and huge potential from fee based income. Hence, we maintain our Buy rating.

Result Highlights

IDFC reported a strong growth in its balance sheet. Consolidated balance sheet grew 50% yoy to Rs. 206.7 bn primarily driven by 30% growth in

Key Figures (Standalone)

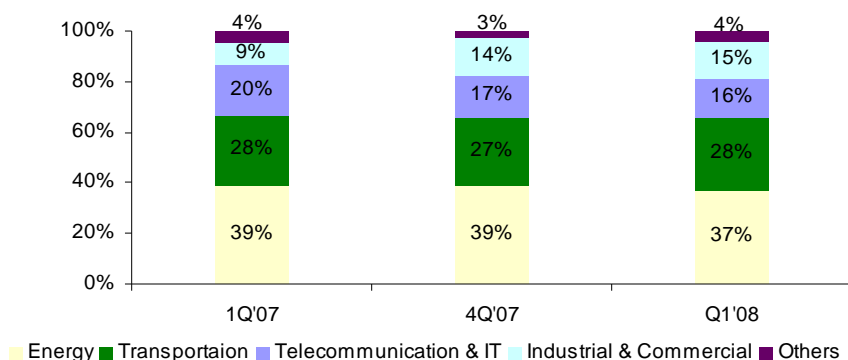
Year to March	1Q'07	1Q'08	YoY %	FY06	FY07	YoY %
(Figures in Rs mn, except per share data)						
Net Interest Income	1,565	2,462	57.3%	2,805	4,218	50.4%
Total Net Income	1,572	2,462	56.7%	5,020	6,503	29.5%
Pre-Prov Operating Profit	1,460	2,227	52.6%	4,580	5,889	28.6%
Net Profit	1,212	1,678	38.4%	3,756	4,629	23.2%
Cost / Net Interest Income (%)	7.1%	9.5%	-	5.2%	5.6%	-
Net Interest Margin	3.0%	2.7%	-	2.9%	2.8%	-
NPA ratio	0.0%	0.0%	-	0.0%	0.0%	-
Per Share Data (Rs.)						
PPP per share	1.3	2.0	51.8%	4.1	5.2	28.2%
EPS	1.1	1.5	37.7%	3.3	4.1	22.8%
Adj. Book value per share	23.7	27.0	13.8%	22.7	25.6	12.9%
PER (x)	-	-	-	43.9x	35.7x	-
P/ABV (x)	-	-	-	6.5x	5.7x	-

loans and increase in proprietary investments. Gross approvals and disbursements increased 57% and 83% yoy to Rs. 41.6 bn and Rs. 24.4 bn respectively. Further, we expect the loan book to grow on account of healthy loan approvals pipeline.

IDFC has focused its project financing business mainly in energy and transportation which contributed 37.1% and 28.4% respectively. Out of the total exposure top 20 industrial groups constitute 57% of the total exposure. The Company's asset quality remains healthy with zero net NPA.

Sector Exposure

Largely focussed in energy and transportation sector



Source: Company data, indiabulls research

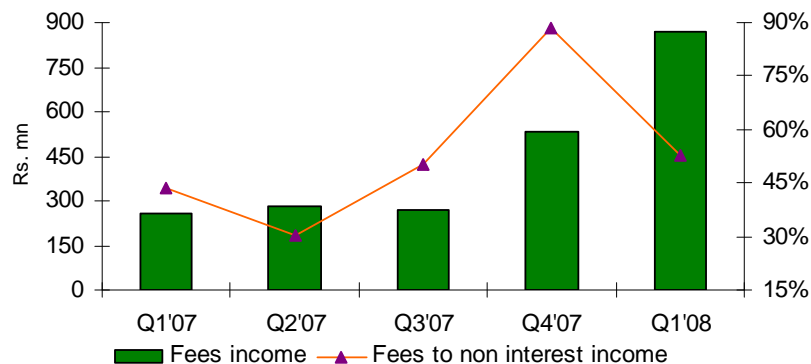
Net interest income on infrastructure loans increased 11% yoy to Rs. 1 bn primarily driven by increase in loan book. However, margins were under pressure and declined 40bps yoy to 2.4% (rolling 12 months). The decrease was a result of higher cost of funds which more than offset the increase in yield on infrastructure assets.

Equity and debt syndication contributed Rs. 160 mn

Non interest income increased 174% yoy to Rs. 1.7 bn primarily due to the consolidation of Rs. 340 mn attributable to SSKI, Rs. 160 mn due to debt and equity syndication, and increase in profit on sale of equity investment by 132% to 780 mn. During the quarter, fees income contributed 52.7% of the total non interest income and we expect it to grow further.

Fees Income

SSKI acquisition to boost fees income significantly



Source: Company data, indiabulls research

Operating expenses increased 3.5 times to Rs. 500 mn on account of SSKI consolidation and increase in IDFC employees by 31 to 223 during the quarter. During the quarter, provisions for tax almost doubled to Rs. 581.9 mn leading to a net profit increase in 38% yoy to Rs. 1.8 bn.

Key Events

Raised Rs. 21 bn to fund further growth

During the quarter, IDFC raised Rs. 21 bn through issue of 165 mn shares at Rs. 127 to QIP. This is one of the largest QIP in India and the proceeds will be used to:

- Augment its capital base, enhance the strength of its balance sheet for its lending operations,
- Provide seed capital to some of the funds it manages,
- To explore opportunities in principal investments and for general corporate purposes.

Increased the stake in SSKI to 67%

During the quarter, IDFC acquired another 33.3% stake in SSKI, a domestic investment bank and institutional brokerage, for a consideration of Rs. 1.5 bn. Consequently, SSKI became the subsidiary of IDFC with a

Capital raising will dilute the earnings in FY08

total stake of 66.6%. This acquisition will boost the IDFC's fee income significantly due to line by line consolidation.

Outlook

IDFC has diversified stream of revenues from lending, AUM, advisory and equity participation in infrastructure companies/projects. The Company is strategically placed to exploit huge infrastructure opportunity in India through its domain expertise in various sectors like energy, telecom and transportation. We expect the lending business to come under margin pressure due to hardening of interest rates but going forward Company's fee income will contribute significantly to its revenue. In FY08E, the Company's earnings will be diluted due to the recent capital raising.

At the current price of Rs. 146.9, the stock trades at forward P/BV of 3.5x FY08E and 3.1x FY09E (standalone).

We have valued IDFC on sum-of-the-parts valuation and arrived at the target price of Rs. 167 for FY08E.

Diversifying revenue towards fee based income

Target Price Calculation		
Company	Value	Basis
Standalone IDFC Business	147	Based on our revised target PB multiple of 3.5x
Value from SSKI	4	Based on our target PE multiple of 25x
Value from NSE	6	Based on recent NSE deals
Value from IDFC Private Equity	8	Based on our target PE multiple of 18x
Unrealised gains on listed investments	2	Calculated on CMP of 08/10/07.
Total	167	

Key risks to our rating are hardening of interest rates and significant exposure in energy and transportation sector.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	7,813	12,773	19,354	26,253	Per share data (Rs.)				
Interest Expense	5,008	8,555	13,612	18,963	Shares outstanding (mn)	1,122.5	1,125.9	1,290.9	1,290.9
Net Interest Income	2,805	4,218	5,742	7,290	Basic EPS	3.3	4.1	4.7	5.9
YoY Growth (%)	16.7%	50.4%	36.1%	27.0%	Diluted EPS	3.4	4.1	4.9	6.1
Other Income	2,216	2,285	2,938	3,821	Book value per share	22.7	25.6	42.1	46.7
Total Net Income	5,020	6,503	8,680	11,111	Adj. book value per share	22.7	25.6	42.1	46.7
YoY Growth (%)	20.8%	29.5%	33.5%	28.0%	Valuation ratios (x)				
Operating Expense	440	614	797	1,016	P/PPP	36.0x	28.1x	24.1x	18.8x
Pre-Provisioning Profit	4,580	5,889	7,883	10,095	P/E	43.9x	35.7x	31.1x	24.8x
Provisions and Contingencies	387	174	256	475	P/B	6.5x	5.7x	3.5x	3.1x
Profit Before Tax	4,193	5,715	7,627	9,619	P/ABV	6.5x	5.7x	3.5x	3.1x
Tax	437	1,087	1,525	1,972	Performance ratio (%)				
Net Profit	3,756	4,629	6,102	7,647	Return on avg. assets	3.6%	3.0%	2.6%	2.2%
YoY Growth (%)	23.6%	23.2%	31.8%	25.3%	Return on avg. net worth	16.9%	17.1%	14.7%	13.3%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to assets	82.3%	76.1%	67.7%	67.9%
Cash and balances with RBI	3,349	9,717	45,314	65,545	Investments to Assets	10.6%	13.7%	13.0%	13.0%
Investments	12,949	24,976	37,464	52,450	Loan Funds to assets	76.4%	81.5%	78.9%	83.0%
YoY Growth (%)	68.4%	92.9%	50.0%	40.0%	Net Worth to assets	20.8%	15.8%	18.8%	14.9%
Advances	100,795	139,155	195,489	274,239	Productivity ratio (Rs. mn)				
YoY Growth (%)	43.0%	38.1%	40.5%	40.3%	Opt. expense per employee	3.5	3.2	2.8	2.4
Fixed Assets (Net)	498	478	462	453	Net profit per employee	30.1	24.1	21.2	17.7
Other Assets	4,929	8,419	9,970	10,970	Asset per employee	980.2	951.8	1,002.4	934.4
Total Assets	122,520	182,746	288,699	403,656	Operating ratios (%)				
Loan Funds	93,665	148,890	227,801	334,868	Operating cost to net income	8.8%	9.4%	9.2%	9.1%
YoY Growth (%)	43.1%	59.0%	53.0%	47.0%	Operating cost to avg. assets	0.4%	0.4%	0.3%	0.3%
Other Liabilities & Provisions	3,413	5,035	6,546	8,510					
Total Liabilities	97,078	153,925	234,347	343,378					
Share Capital	11,225	11,259	12,909	12,909					
Reserves & Surplus	14,217	17,561	41,442	47,369					
Total Equity & Liabilities	122,520	182,746	288,699	403,656					

Source: Company data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Company

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