

31 January 2011

**Buy**

Target price  
Rs223.00

Price  
Rs148.35

Equity | India | Diversified Financial Serv

**Flashnote**

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# IDFC

## Strong growth in core earnings

In 3QFY11, IDFC reported a strong growth in core earnings. NII increased by 23% qoq (+65% yoy), while loans grew by 2.0% qoq (+50% yoy). Fee income growth moderated on qoq basis, in line with the moderation in loan growth. IDFC (consolidated) trades at 2.0x FY12F book value and 13.4x PE, we maintain Buy.

### Sharp growth in net interest income

- Net interest income on infrastructure assets increased to 3.5% (3.3% in FY10) while net interest income on treasury operations were largely stable at 0.3% (0.3% in FY10). However, reported spreads (12 month rolling basis) came down to 2.4% (2.7% in FY10) but were stable qoq.
- Note, that IDFC had raised equity capital in 2QFY11 and the momentum in NII is partly due to the same. Further, loan growth in 2Q was back-ended, which has led to sharp growth in NII on qoq basis.
- Fee income increased by 25% yoy (-35% qoq) largely on the back of moderation in fee income growth related to lending activities.

### Operating expenses increase at a fast pace

- Operating expenses grew by 50% yoy (+33% qoq). Operating costs to income ratio was at 24.5% in 3QFY11 compared to 20.8% a year ago (18.9% in 2QFY11).

### Business growth moderates, inline with management guidance

- Loans grew by 2% qoq (+50% yoy) on the back of 54% qoq fall in disbursements during 3QFY11. Approvals fell by 81% qoq (-44% yoy) in 3QFY11, suggesting that incremental loan growth in 4QFY11 will be moderate.

### Return on assets

- On a rolling 12-month basis, reported ROAs came down by 20bps to 3.1%. Net interest income to average assets increased by 20bp qoq to 3.8% which was more than offset by the 40bp qoq decline in non-interest income to average assets to 2.5%.

### IDFC (consolidated) - quarterly earnings summary

Rs mn	1QFY10	Q2FY10	3QFY10	4QFY10	1QFY11	Q2FY11	3QFY11
<b>Net Interest Income</b>	<b>2,440</b>	<b>2,770</b>	<b>2,790</b>	<b>3,170</b>	<b>3,370</b>	<b>3,740</b>	<b>4,600</b>
% growth	14.6%	39.2%	8.1%	25.8%	38.1%	35.0%	64.9%
Fees income	1,490	1,650	1,330	1,700	1,450	2,560	1,660
% growth	50.5%	26.9%	84.7%	33.9%	-2.7%	55.2%	24.8%
Profit on sale of equity / principal investments	680	610	1,050	990	1,200	120	300
% of total income	14.5%	11.7%	20.2%	16.5%	19.6%	1.9%	4.5%
<b>Pre-Provisioning Profits</b>	<b>3,650</b>	<b>4,120</b>	<b>4,110</b>	<b>3,700</b>	<b>4,890</b>	<b>5,240</b>	<b>4,990</b>
% growth	20.1%	23.0%	53.9%	31.7%	34.0%	27.2%	21.4%
<b>PAT</b>	<b>2,710</b>	<b>2,931</b>	<b>2,699</b>	<b>2,280</b>	<b>3,348</b>	<b>3,391</b>	<b>3,215</b>
% growth	24.6%	26.0%	46.6%	97.7%	23.5%	15.7%	19.1%
EPS qtrly, Rs	2.1	2.3	2.1	1.8	2.6	2.3	2.2
BVPS, Rs	49.8	52.1	54.0	53.9	56.3	70.3	72.2
Adjusted (for goodwill) BV per share, Rs	40.8	43.1	45.1	45.0	47.4	62.4	64.3
Loan assets	208,540	217,850	234,500	250,310	289,010	343,970	350,210
% yoy	-3%	2%	12%	22%	39%	58%	49%
% qoq	1%	4%	8%	7%	15%	19%	2%

Source: Company data

Important disclosures can be found in the Disclosures Appendix.

## Income Statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Interest income	29736	30430	39061	52163	67731
Interest expense	-20795	-19779	-24974	-34027	-45085
Provision for loan losses	-1564	-1075	-2599	-2792	-3888
<b>Int inc after loan loss</b>	<b>7377</b>	<b>9576</b>	<b>11489</b>	<b>15344</b>	<b>18758</b>
Non-interest income	3490	5541	6727	8861	11267
Oth operating costs	-1288	-1994	-2783	-3331	-3992
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other DD&A	69.1	-228.5	0.00	0.00	0.00
Oper profit post-prov	9649	12895	15432	20875	26032
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported PTP</b>	<b>9649</b>	<b>12895</b>	<b>15432</b>	<b>20875</b>	<b>26032</b>
Taxation	-2290	-3043	-4244	-5741	-7159
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Minority interests	n/a	n/a	n/a	n/a	n/a
Other post-tax items	140.9	489.3	987.8	1011	1445
<b>Reported net profit</b>	<b>7500</b>	<b>10341</b>	<b>12176</b>	<b>16145</b>	<b>20318</b>
Normalised net profit	7500	10341	12176	16145	20318

Source: Company data, RBS forecasts

year to Mar

## Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs	6561	320.3	368.3	423.6	487.1
Total loan investments	205918	250270	375313	505116	679938
Total receivables	n/a	n/a	n/a	n/a	n/a
Goodwill	n/a	n/a	n/a	n/a	n/a
Other intangible assets	n/a	n/a	n/a	n/a	n/a
Tangible fixed assets	3905	3624	3987	4386	4824
Other non-current assets	77350	77495	89885	104555	121994
<b>Total assets</b>	<b>293734</b>	<b>331710</b>	<b>469554</b>	<b>614480</b>	<b>807244</b>
Short term debt	36935	37843	53793	63093	73888
Customer deposits	n/a	n/a	n/a	n/a	n/a
Total payables	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	0.00	0.00	0.00	0.00	0.00
<b>Total current liabilities</b>	<b>36935</b>	<b>37843</b>	<b>53793</b>	<b>63093</b>	<b>73888</b>
Long term debt	198961	227385	313280	436075	601744
Total provisions	0.00	0.00	0.00	0.00	0.00
Oth non-current liab	0.00	0.00	0.03	0.03	0.00
<b>Total liabilities</b>	<b>244232</b>	<b>275173</b>	<b>377324</b>	<b>509758</b>	<b>686593</b>
Total equity (incl min)	49502	56537	92230	104723	120651
<b>Total liab &amp; sh equity</b>	<b>293734</b>	<b>331710</b>	<b>469554</b>	<b>614480</b>	<b>807244</b>

Source: Company data, RBS forecasts

year ended Mar

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