

IDFC (IDFC)

Rs 182

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 200 to Rs 206
 EPS (FY11E) Changed from Rs 9.1 to Rs 8.5
 EPS (FY12E) Changed from Rs 11.8 to Rs 10.5
 RATING..... Unchanged

Sequentially another strong quarter...

Higher than estimated consolidated PAT at Rs 335 crore and a jump of 23% YoY depicts the resilience of IDFC in maintaining strong 39% loan growth with NIM improving to 3.6% even in a rising interest rate scenario. Principal investment income surged to Rs 120 crore boosting non-interest income. Business growth is expected to remain buoyant. We have estimated 26% CAGR in loan book. We expect PAT to grow at 20% CAGR over FY10-12E to Rs 1550 crore.

Strong business growth leads to net interest income surge

Advances growth at 39% YoY and 15% QoQ to Rs 28901 crore led to a sharp rise of 38% YoY and 6% QoQ in NII. We expect the NII to grow at 23% CAGR over FY10-12E. The NIM has remained stable at 3.6% though we believe the same will come under slight pressure with rising rates. However, infrastructure status, on the other hand, should help in guarding against a sharp rise in cost of funds.

Non-interest income proportion around 45% in total income...

Non-interest income grew 24% YoY, fuelled by principal investment income surging 78% YoY to Rs 120 crore. The AMC fees also remained stable at Rs 65.4 crore. The proportion of non-interest income has been hovering around 44-47% of the total income. We believe that with the loan book building up, this proportion will decline to 41% by FY12E.

Asset quality remains upbeat...

Asset quality continues to remain upbeat at 0.15% NNPA and 0.27%. We expect delinquencies to remain low even for the next couple of years.

Valuation

Lower RoEs of 15% and strong RoA of over 3% will continue as the company builds up its asset book. We expect IDFC to grow its balance sheet at 19% CAGR over FY10-12E. Asset quality continues to remain upbeat at 0.15% NNPA and 0.27% GNPA. We have valued IDFC's standalone lending business at Rs 185 (2.3x FY12E ABV) and on an SOTP basis revised our target upwards to Rs 206 (includes AUM valuation, NSE stake). We recommend **BUY** on the stock.

Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q4FY09	Q4FY10	YoY Gr.(%)	QoQ Gr.(%)
NII	337.0	276.9	244.0	316.4	38.1	6.5
Other Income	275.8	246.6	223.1	282.0	23.6	-2.2
Total Income	612.8	523.5	467.1	598.4	31.2	2.4
PPP	488.8	397.8	364.1	369.9	34.2	32.1
PAT	335.1	275.6	271.6	227.3	23.4	47.4

Source: Company, ICICIdirect.com Research

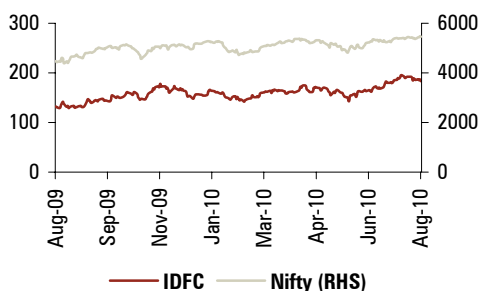
Rating matrix	
Rating	: Buy
Target	: Rs 206
Target Period	: 12 months
Potential Upside	: 13%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	922.0	1117.0	1327.5	1678.2
PPP	1287.3	1558.0	1790.6	2203.0
PAT	855.9	1062.0	1249.4	1534.7

Valuation summary				
	FY09	FY10	FY11E	FY12E
EPS (Rs)	6.5	8.2	8.5	10.5
Growth (%)	13.9	24.7	4.7	22.8
P/E (x)	27.5	22.0	21.1	17.1
ABV	47.4	53.3	72.8	80.6
Price / Adj Book (x)	3.8	3.4	2.5	2.2
NNPA (%)	0.2	0.2	0.1	0.1
RoNA (%)	2.8	3.2	3.2	3.3

Stock data	
Market Capitalisation	Rs crore
GNPA (Q1FY11)	Rs 79.7 crore
NNPA (Q1FY11)	Rs 42.8 crore
NIM (Q1FY11)	3.6%
52 week H/L	196/126
Equity capital	Rs Crore
Face value	Rs. 10
DII Holding (%)	
FII Holding (%)	

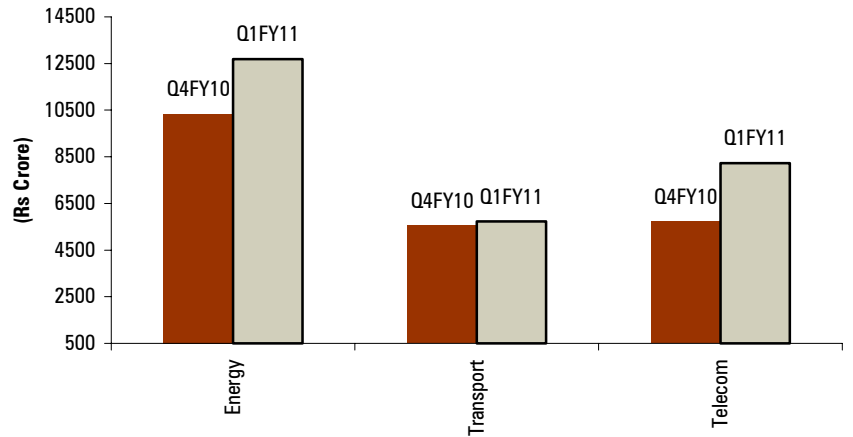
Price movement



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Energy continues to have the largest share in the total loan portfolio

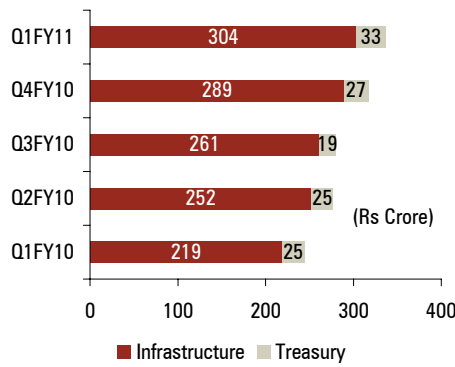
Exhibit 2: Key sectors in loan book (Rs crore)



Source: Company, ICICIdirect.com Research

Loan book growth has improved in the quarter as sequential loan growth is around 15% while YoY it is 39%.

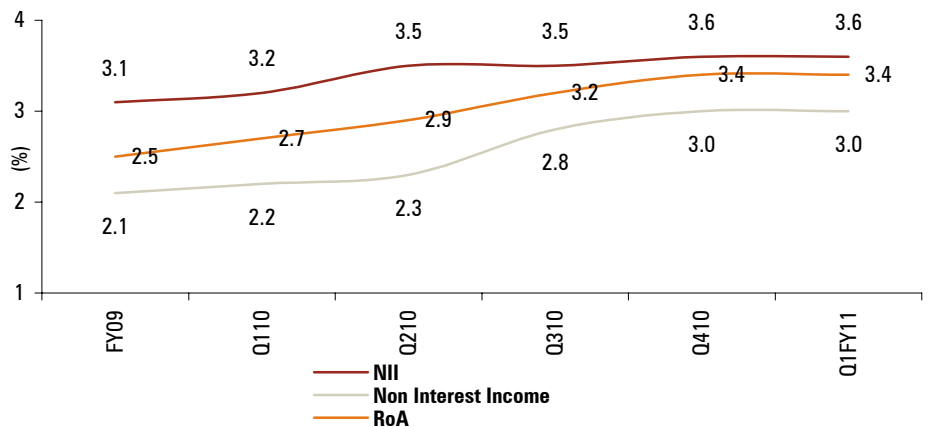
Exhibit 3: Net Interest income components



Source: Company, ICICIdirect.com Research

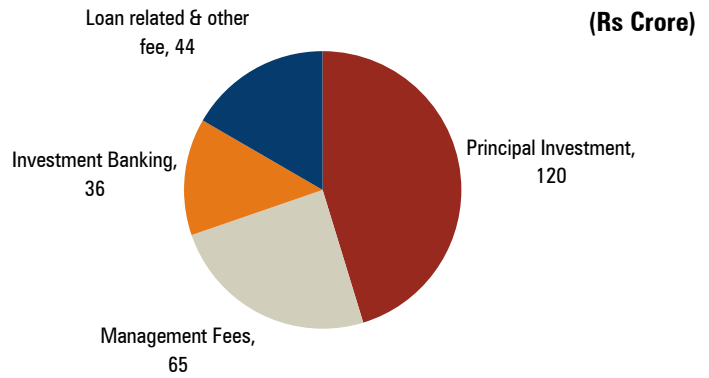
RoA and NIMs are on the rise. We expect NIM to stay around 3.5% in FY11E

Exhibit 4: Key return ratios as a % of RoA improving



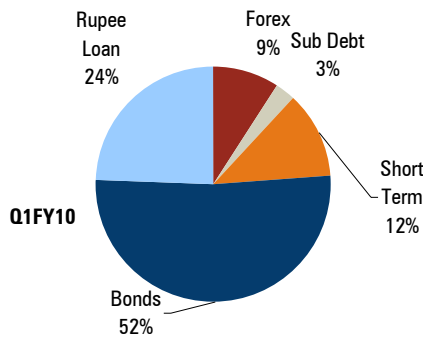
Source: Company, ICICIdirect.com Research

Exhibit 5: Principal investment income cushioned non interest income



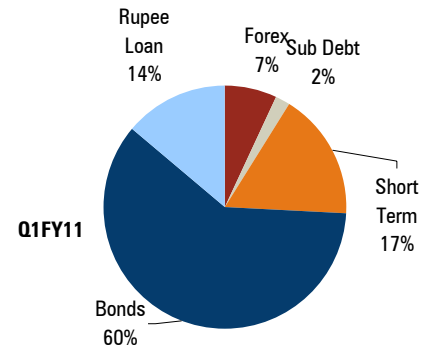
Source: Company, ICICIdirect.com Research

Exhibit 6: Q1FY10: Borrowing profile



Source: Company, ICICIdirect.com Research

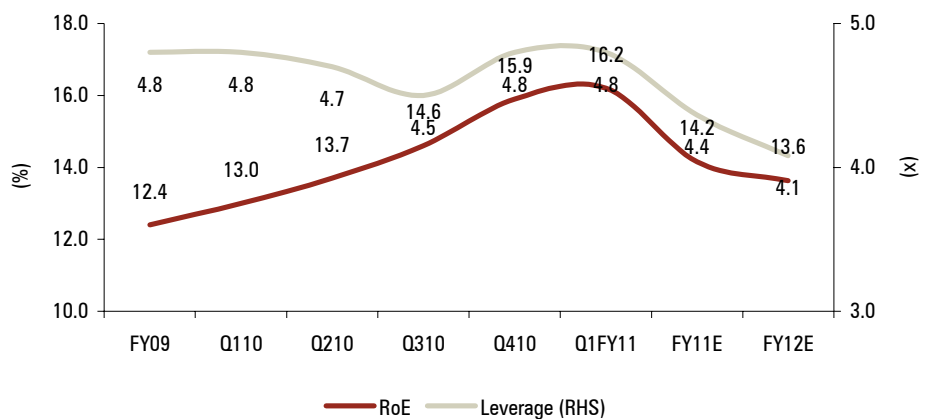
Exhibit 7: Q1FY11: Borrowing profile



Source: Company, ICICIdirect.com Research

Borrowings have risen sharply due to loan growth. Equity fund raising shall also boost credit growth

Exhibit 8: Equity dilution to maintain leverage and keep RoEs contained



Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	437	FY10	1741.1	33.1	13.2	2.2	0.7	12.6
		Target	467	FY11E	2895.1	55.0	7.9	1.8	1.0	18.8
Mc cap (Rs Cr)	22982	Upside (%)	6.9	FY12E	3768.9	62.3	7.0	1.5	1.1	19.9
Bank of Baroda										
Idirect Code	BANBAR	CMP	770	FY10	3058.3	83.7	9.2	2.3	1.2	21.9
		Target	765	FY11E	3683.2	100.8	7.6	1.9	1.2	21.9
Mc cap (Rs Cr)	28159	Upside (%)	-0.7	FY12E	4373.2	119.6	6.4	1.5	1.2	21.1
Dena Bank										
Idirect Code	DENBAN	CMP	102	FY10	511.3	17.8	5.7	1.5	1.0	21.4
		Target	107	FY11E	621.0	18.2	5.6	1.2	1.0	20.3
Mc cap (Rs Cr)	2926	Upside (%)	4.9	FY12E	746.0	21.8	4.7	1.0	1.0	19.5
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	123	FY10	707.0	13.0	9.5	1.5	0.6	11.5
		Target	140	FY11E	996.3	18.3	6.7	1.2	0.7	14.6
Mc cap (Rs Cr)	6701	Upside (%)	13.8	FY12E	1287.4	23.6	5.2	0.9	0.8	16.4
IDBI Bank										
Idirect Code	IDBI	CMP	122	FY10	1031.1	8.8	13.9	1.8	0.5	13.2
		Target	134	FY11E	1220.2	12.4	9.8	1.4	0.5	11.9
Mc cap (Rs Cr)	8825	Upside (%)	10.1	FY12E	1503.6	15.3	8.0	1.2	0.5	11.6
OBC										
Idirect Code	ORIBAN	CMP	402	FY10	1134.7	45.3	8.9	1.3	0.9	14.5
		Target	482	FY11E	1533.9	61.2	6.6	1.1	1.0	17.2
Mc cap (Rs Cr)	10063	Upside (%)	20.0	FY12E	1851.2	73.9	5.4	1.0	1.0	17.7
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1097	FY10	3905.4	123.9	8.9	2.3	1.4	23.9
		Target	1062	FY11E	4593.7	145.7	7.5	1.9	1.4	23.5
Mc cap (Rs Cr)	34589	Upside (%)	-3.2	FY12E	5361.0	170.0	6.5	1.7	1.4	24.0
SBI										
Idirect Code	STABAN	CMP	2595	FY10	91.7	144.4	18.0	3.0	0.9	14.8
		Target	2556	FY11E	103.5	146.9	17.7	2.4	0.9	13.3
Mc cap (Rs Cr)	164762	Upside (%)	-1.5	FY12E	127.1	180.3	14.4	2.1	0.9	13.4
Union Bank of India										
Idirect Code	UNIBAN	CMP	321	FY10	2074.9	41.1	7.8	2.1	1.2	26.2
		Target	358	FY11E	2444.0	48.4	6.6	1.7	1.1	24.8
Mc cap (Rs Cr)	16212	Upside (%)	11.5	FY12E	2948.7	53.1	6.0	1.4	1.2	22.8
Axis Bank										
Idirect Code	UTIBAN	CMP	1340	FY10	2514.5	62.1	21.6	3.5	1.7	19.2
		Target	1400	FY11E	3306.9	81.6	16.4	3.0	1.5	19.0
Mc cap (Rs Cr)	54293	Upside (%)	4.5	FY12E	4236.2	104.6	12.8	2.5	1.4	20.5
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	193	FY10	23.3	3.6	53.0	3.1	0.3	5.4
		Target	190	FY11E	61.3	7.2	26.8	2.1	0.6	9.5
Mc cap (Rs Cr)	1236	Upside (%)	-1.4	FY12E	99.8	11.7	16.4	2.0	0.7	11.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	2115	FY10	2948.7	64.4	32.8	4.6	1.5	16.3
		Target	2151	FY11E	3927.6	85.8	24.6	4.1	1.6	17.2
Mc cap (Rs Cr)	96816	Upside (%)	1.7	FY12E	5078.0	110.9	19.1	3.6	1.8	19.6
Kotak Bank										
Idirect Code	KOTMAH	CMP	838	FY10	561.1	16.1	47.4	6.3	1.7	13.5
		Target	831	FY11E	793.6	21.8	35.1	4.8	1.9	15.0
Mc cap (Rs Cr)	29121	Upside (%)	-0.8	FY12E	1009.7	27.7	27.6	4.3	2.0	15.7
South Indian bank										
Idirect Code	SOUINO	CMP	193	FY10	233.7	20.7	9.3	1.6	1.1	17.9
		Target	195	FY11E	272.5	24.1	8.0	1.4	1.0	17.4
Mc cap (Rs Cr)	2179	Upside (%)	1.1	FY12E	335.6	29.7	6.5	1.2	1.0	18.6
Yes Bank										
Idirect Code	YESBAN	CMP	304	FY10	477.7	14.1	21.6	3.4	1.6	20.3
		Target	316	FY11E	685.7	20.2	15.0	2.8	1.6	20.2
Mc cap (Rs Cr)	9116	Upside (%)	4.1	FY12E	885.6	26.1	11.6	2.3	1.5	21.6

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	186	FY 09	848.0	6.5	28.4	3.9	2.8	14.4
		Target	200	FY10	1062.1	8.2	22.8	3.5	3.2	16.2
Mcap (Rs Cr)	24081	Upside (%)	7.5	FY11E	1328.1	9.1	20.5	2.5	3.4	15.0
LICHF										
Idirect Code	LICHF	CMP	1128	FY 09	531.6	62.6	18.0	4.4	2.0	26.1
		Target	1161	FY10	662.1	69.7	16.2	3.0	1.9	22.7
Mcap (Rs Cr)	10710	Upside (%)	2.9	FY11E	861.9	90.8	12.4	2.5	1.9	21.9
Rel Cap										
Idirect Code	RELCAP	CMP	792	FY10	434.6	17.7	44.9	2.5	2.4	5.7
		Target	800	FY11E	771.3	31.3	25.3	2.3	4.0	9.5
Mcap (Rs Cr)	19454	Upside (%)	1.0	FY12E	761.9	31.0	25.6	2.1	3.5	8.7

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	534	FY10	229.2	30.5	17.5	1.8	5.5	11.2
		Target	535	FY11E	265.7	35.4	15.1	1.6	4.1	11.9
Mcap (Rs Cr)	4004	Upside (%)	0.3	FY12E	295.2	39.3	13.6	1.5	3.4	12.0
India Infoline										
Idirect Code	INDINF	CMP	95	FY10	232.0	8.1	11.6	1.7	5.7	14.9
		Target	UR*	FY11E	233.9	8.2	11.5	1.5	4.0	14.6
Mcap (Rs Cr)	2699	Upside (%)		FY12E	273.1	9.6	9.9	1.4	4.8	15.4
MOFSL										
Idirect Code	MOTOSW	CMP	165	FY10	170.4	11.9	13.8	2.6	10.3	18.6
		Target	167	FY11E	176.7	12.1	13.6	2.2	9.5	16.4
Mcap (Rs Cr)	2355	Upside (%)	1.4	FY12E	188.2	12.9	12.7	1.9	8.8	15.0

*UR: Under review

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