

Fundamentals intact, wait for growth visibility

Quick Note

February 13, 2012

Rating Remains	Neutral
Target price Remains	INR 140
Closing price February 6, 2012	INR 140

Key highlights:

- IDFC's Q3FY12 reported EPS came in line with the street at INR2.5 but missed our estimate of INR2.7 on higher P&L provisions towards its equity exposure.
- Strong sequential uptick in disbursements helped IDFC report 25% y-y loan book growth while gross approvals for 9month period were INR217bn (40% lower compared to same period of the previous year).
- Gross NPL doubled to INR1.48bn q-q on account of addition of one account in the tourism sector. IDFC holds INR7bn in general provisions, INR2bn in as provision for its equity book and around INR1bn towards specific NPL and investment book provisions. IDFC hasn't restructured anything over last nine months.
- Overall rolling 12m spreads improved to 2.37% from 2.3% in 2QFY12 largely on lower cost of funding and expansion in treasury spreads.

Outlook & key notes from management discussion:

- **Loan growth**- IDFC expects to report growth of 20% for FY12 and 15-20% growth for FY13. Its growth outlook doesn't factor in any delta from developments on thermal coal front and it largely expects the growth to come from refinancing opportunities in road and telecom sector and some capex on the renewable energy front.
- **Telecom exposure**-IDFC doesn't have any exposure to the new 2G licensees; over 90% of its exposure is to the three largest and established operators while the balance is to cable companies.
- **Asset quality** – IDFC has been guiding towards keeping net NPL below 1% without using general provision buffer while it expects to write back some of the equity MTM provisions in Q4FY12.
- **Opex** – Expect steady state cost-income ratio to be below 20%.
- **Alternative asset book** – Out of IDFC's three private equity funds, fund-1 has returned full capital, fund 2 is 100% deployed while fund 3 is 66% committed at the moment and would get deployed in 8 months. The project equity fund is 65% committed and is expected to be fully invested in 6 months. IDFC is looking to raise a real estate focussed fund.
- **Power Sector** – IDFC expects Coal India to increase commitments to 70% of promised linkages in medium term although for newer projects higher imported coal mix and hence higher tariffs and/or lower IRRs are inevitable. On gas driven thermal plants, IDFC expects pricing issues to get resolved in the next three months and availability to improve.

Valuation: IDFC is currently trading at 1.6x FY13F adjusted book value and 12.4x FY13F EPS. Our TP of INR140 implies 1.7x our FY13F ABV of INR81.9 and P/E of 12.9x, for FY13F adjusted ROE of 14.5%.

Research analysts

India Banks

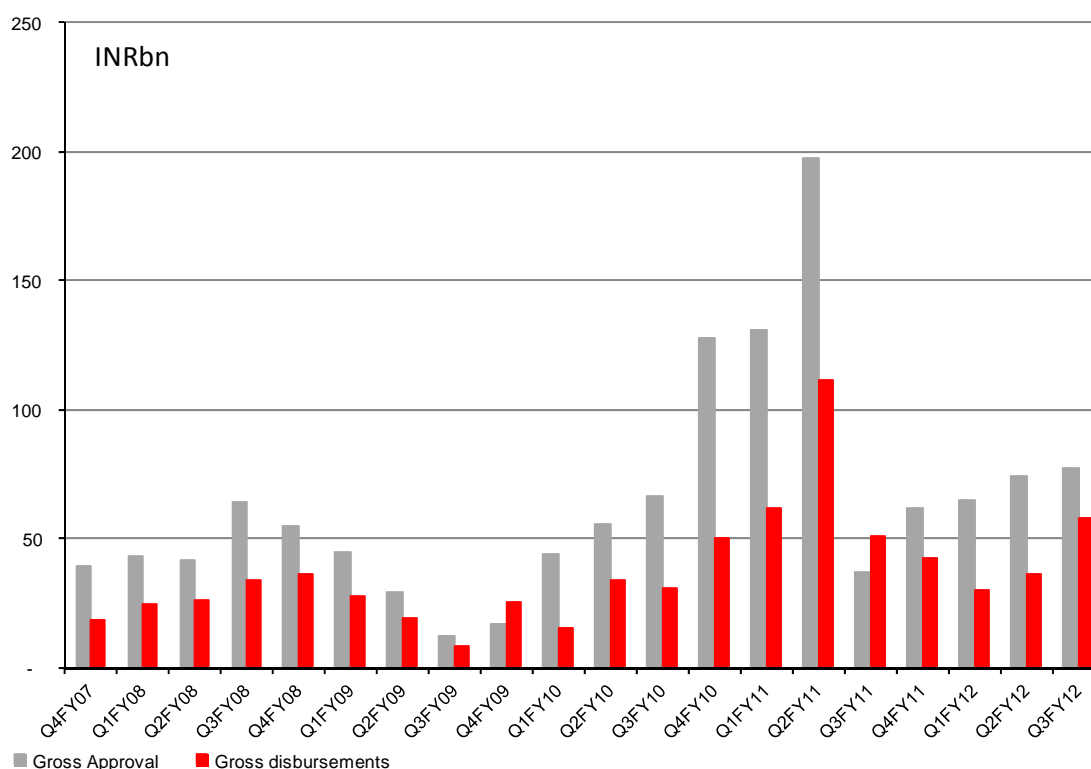
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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 1: Movement in quarterly approval and disburseals



Source: IDFC, Nomura research

Fig. 2: Q3FY12 earnings summary

Earnings summary (INRmn)	3QFY12	2QFY12	3QFY11	%/y	%q/q	3QFY12F	Variance
Interest Income	14,262	13,240	11,100	28.5	7.7	13,864	2.9
Interest expended	8,802	8,260	6,500	35.4	6.6	8,298	6.1
Net Interest Income	5,460	4,980	4,600	18.7	9.6	5,565	(1.9)
Non-interest income	2,137	3,921	2,000	6.8	(45.5)	3,164	(32.5)
Fees	1,227	1,310	1,660	(26.1)	(6.4)	1,873	(34.5)
Trading gains	910	2,590	300	203.3	(64.9)	1,291	(29.5)
Net Revenues	7,596	8,901	6,600	15.1	(14.7)	8,730	(13.0)
Total Operating expenses	1,266	1,314	1,634	(22.5)	(3.6)	1,802	(29.7)
Employee expenses	726	770	874	(16.9)	(5.7)	1,022	(28.9)
Other Operating expenses	539	543	760	(29.0)	(0.7)	780	(30.9)
Operating Profit	6,331	7,587	4,966	27.5	(16.6)	6,928	(8.6)
Core operating profit	5,421	4,997	4,666	16.2	8.5	5,637	(3.8)
Provisions	978	631	487	100.8	54.9	858	13.9
PBT	5,353	6,956	4,479	19.5	(23.0)	6,069	(11.8)
Core PBT	4,443	4,366	4,179	6.3	1.8	4,778	(7.0)
Tax	1,537	1,715	1,272	20.8	(10.4)	1,850	(17.0)
Net Profit before minority interest	3,816	5,241	3,207	19.0	(27.2)	4,219	(9.5)
Minority interest (SSKI 20%)	(4)	(2)	(8)	(46.5)	146.8	23	(118.1)
Net profit after minority interest	3,812	5,243	3,215	18.6	(27.3)	4,196	(9.2)
Adjusted net profit	3,812	5,243	3,215	18.6	(27.3)	4,196	(9.2)
EPS	2.5	3.5	2.1	21.4	(28.0)	2.7	(8.4)

Source: IDFC, Nomura research

Fig. 3: Asset Quality

Asset Quality (INRmn)	3QFY12	2QFY12	3QFY11	%/y	%q/q	
Gross NPL	1,483	775	797	86.0	91.3	
Net NPL	964	362	389	147.9	166.7	
Gross NPL, %	0.33	0.22	0.22	11	11	bps
Net NPL, %	0.22	0.10	0.11	11	12	bps

Source: IDFC, Nomura research

Fig. 4: Key Asset and Liability Items

Assets & Liabilities (INRmn)	3QFY12	2QFY12	3QFY11	%y/y	%q/q
Advances	438,970	393,134	350,210	25.3	11.7
Investments	66,540	81,169	94,000	(29.2)	(18.0)
Total Borrowings	437,290	395,756	366,320	19.4	10.5
Total Assets	561,800	516,462	480,298	17.0	8.8

Source: IDFC, Nomura research

Fig. 5: Key Ratios

Key Ratios	3QFY12	2QFY12	3QFY11	y/y bps	q/q bps
Reported spread, %	2.37	2.30	2.40	(3)	7
Total CAR, %	21.89	22.90	24.93	(304)	(101)
Tier I, %	19.60	20.50	22.74	(314)	(90)
Cost to income ratio, %	16.66	14.76	24.75	(809)	190
ROA, %	2.86	4.18	2.75	11	(132)
Adjusted ROE, %	14.85	21.78	13.62	123	(693)

Source: IDFC, Nomura research

Appendix A-1

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
IDFC	IDFC IN	INR 140	06-Feb-2012	Neutral	Not rated	

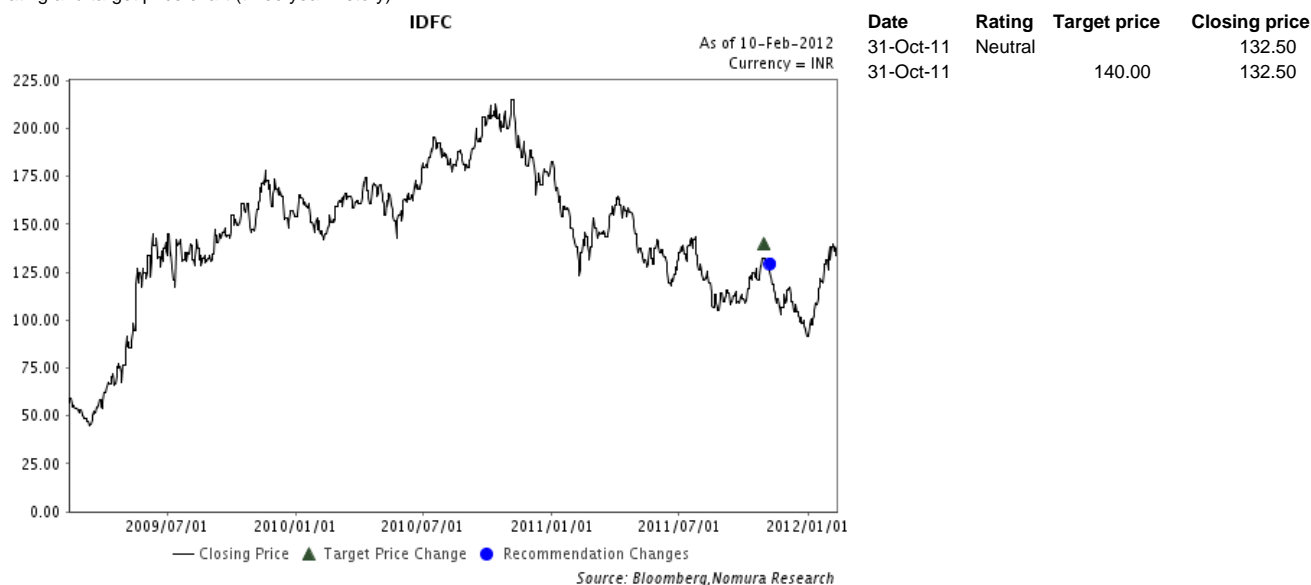
Previous Rating

Issuer name	Previous Rating	Date of change
IDFC	Not Rated	31-Oct-2011

IDFC (IDFC IN)

INR 140 (06-Feb-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR140 implies 1.7x our FY13F ABV of INR81.9 and P/E of 12.9x, for FY13F adjusted ROE of 14.5%.

Risks that may impede the achievement of the target price Upside risks: Accelerated monetary policy easing, policy intervention to resolve power sector bottlenecks like fuel availability and SEB (State Electricity Board) financial health. Downside risks: The RBI persisting with a tight money policy, policy logjam with respect power sector bottlenecks and continued global macro uncertainty.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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