QUANTUM SECURITIES PVT. LTD.

Infrastructure Development Finance Company Ltd

Initiating Coverage | **Buy**

Industry	**NBFC**
Close Price (Rs)	**107**
FY13E Target Price (Rs)	**140**
52 Week H/L (Rs)	**218 / 103**
Volumes (BSE+NSE)*	**7273516**
Shares O/S (mn)	**1463.3**
Market Cap (Rs mn)	**156429.7**
Free Float (%)	**100.0**
Bloomberg	**IDFC IN**
Reuters	**IDFC.BO**
***Three month average**	

Share Holding Pattern*		
Particulars	**No. of Shares**	**% Holding**
Promoters	-	-
DII	545.6	37.3
FII	690.9	47.2
Public and Others	226.8	15.5
Total	**1463.3**	**100.0**

*As on September 30, 2011

Date: 21st November, 2011
Analyst: Rati Pandit
Tel: 91-22-40287021
rati@qsmail.com

Financial Highlights

Y/E March 31st (Rs mn)	Operating Income	NIM (%)	PAT	Growth (%)	ABV (Rs)	P/ABV (x)	P/E (x)
FY09	15556.0	3.1	7498.3	1.0	47.3	2.3	18.5
FY10	21091.8	3.4	10622.9	41.7	53.6	2.0	13.1
FY11	25455.0	4.2	12816.5	20.6	71.0	1.5	12.2
FY12E	28879.9	4.0	15102.9	17.8	76.1	1.4	10.7
FY13E	33294.2	3.9	16985.3	12.5	83.9	1.3	9.5

Infrastructure Development Finance Company Ltd (IDFC), which was amongst the first companies to get the IFC status in June 2010, is a leading player, providing financing for long-term infrastructure projects. It also has interests in private equity funds, asset management and equity broking. It had a balance sheet size of Rs 516.5bn as on Sept 30, 2011.

Investment Rationale

Key Beneficiary of Planned Investments in Infrastructure

GOI during the twelfth five year plan (2012-2017), has envisaged total investments of USD 1.025 trillion in the infrastructure sector. This throws up huge opportunities for IDFC, which is at the forefront in the infrastructure finance space and has an unmatched knowledge of the sector.

Uniquely Positioned in Infrastructure Sector

IDFC, with its strong domain expertise in the infrastructure sector, has positioned itself uniquely to capture significant growth. Transforming from being a provider of plain vanilla infrastructure financing, IDFC is now present across the life cycle of an infrastructure project – debt financing, equity financing through private/project equity, investment banking and strong infrastructure advisory support. We believe such a diversified business model is the biggest differentiating factor between IDFC and its peers.

Diversified Loan Book

Unlike its peers PFC and REC (which are focused on the power sector), IDFC is a diversified play on the infrastructure sector, that has developed expertise in financing projects in segments like power, telecom and transportation. Diversity of its loan book helps IDFC to take advantage of favorable investment cycle across sectors and hedge against the risk of slowdown in specific sectors.

Healthy Asset Quality

IDFC's asset quality continues to remain sound with gross and net NPA levels low at 0.19% and 0.09% respectively as on September 30, 2011. However, we do have a concern on the quality of assets in IDFC's key business segment i.e power (due to losses of SEBs and fuel shortage).

But at the same time, we also believe that the risk to earnings growth will be limited, as IDFC already has already maintained higher provisions and in the event of any potential default, we expect IDFC to approach RBI for restructuring of loans, which could be approved by RBI.

Preference on Profitability over Growth in FY12

Due to slowdown and delay in projects currently being witnessed in the infrastructure space, additional funding need from various projects has dried up, which in turn has impacted IDFC's gross approvals and disbursements which fell by 62% YoY in H1FY12. As a result, IDFC has scaled down its loan growth target to 15-20% for FY12E. This according to us is a prudent move taken by the company in order to protect its asset quality and spreads over the medium term.

Low Leverage to be Beneficial for Long Term Asset Growth

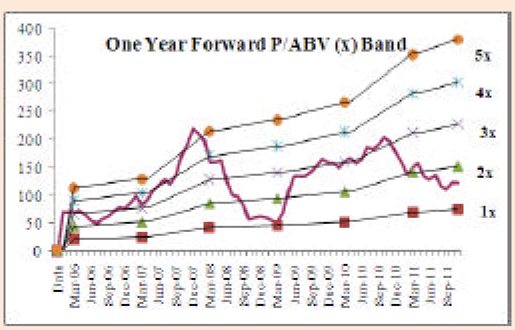
IDFC has a lower leverage of ~4.3x (asset to networth ratio) and so has potential of increasing it to 7x in the next 2-3 years. This leaves a huge scope for IDFC to grow its loan book aggressively in future (when the macro environment improves), thus aiding improvement of return ratios. As per our conservative estimates, we have estimated IDFC's infrastructure loans to grow by 14.8% and 18.8% to Rs 432.2bn and 513.3bn in FY12E and FY13E respectively.

IFC Status gives Access to Newer Avenues of Fund Raising

As the company is classified by the RBI as an 'Infrastructure Finance Company (IFC)', it has the option to partly access ECBs (50% of networth) via the automatic route. Besides this, the FII investment route in infrastructure bonds has been opened up recently in September 2011. Access to cheaper borrowings from overseas will reduce pressure on IDFC's cost of funds and limit the fall in its NIMs in a higher interest rate environment.

Higher Non Interest Income vis-à-vis Peers

To offer broader suite of financing options and to improve its return ratios, IDFC has diversified into businesses like asset management, investment banking and advisory services, where the revenue streams are non-interest income based and generate higher RoEs as compared to its core business. As a result, it has comparatively higher Non Interest Income to Total Income at 20% as against 15.7%, 3.6% and 3% in case of Srei Infrastructure finance, REC and PFC respectively.



Jan 2006 – Nov 2011	Multiple (x)
Maximum P/ABV	5.10
Minimum P/ABV	1.08
Average P/ABV	2.56

Valuations and Outlook

We have estimated IDFC's net profit to grow at a CAGR of 15.1% over FY11-FY13E from Rs 12.8bn in FY11 to Rs 17bn in FY13E, which will translate into an RoAE of 14% in FY13E.

We have used the Sum of the Parts (SOTP) method for valuing IDFC. We have valued IDFC's standalone business at 1.58x its FY13E ABV of Rs 83.9, which gives us a standalone value of Rs 131.10. The subsidiaries and strategic investments are valued at Rs 9 (Estimated value less cost of investments). Thus, we arrive at a FY13E target price of Rs 140. After considering the company's unique positioning in the infrastructure sector, strong management capabilities, diversified loan portfolio, higher fee income and healthy asset quality, we recommend investors to **'Buy'** the stock.

Leading player providing equity and debt financing for infrastructure projects.

Company Background

Infrastructure Development Finance Company Ltd (IDFC), which was amongst the first companies to get the IFC status in June 2010, is a leading player, providing financing for long-term infrastructure projects. It also has interests in private equity funds, asset management, investment banking and equity broking. The company was incorporated in Chennai by a Consortium of public and private investors, and was listed on the stock exchanges in August 2005. It had a balance sheet size of Rs 516.5bn as on September 30, 2011.

Key Management Personnel

Name	Designation
Dr. Rajiv Lall	MD & CEO
Vikram Limaye	ED
Sunil Kakar	Group CFO
Sadashiv Rao	Group Chief Risk Officer
Animesh Kumar	Group Head Human Resources, Corporate Communication
Rajeev Obero	Group Head Legal and Compliance
Vinayak Mavinkurve	Group Head Project Finance
Sanjay Grewa	Group Head Project Finance
Tapasije Mishra	Group CEO, IDFC Capital and Securities
Naishadh Paleja	Group CEO, IDFC Capital and Securities
Naval Bir Kumar	President and CEO of IDFC AMC
Satish Mandhana	Managing Partner of IDFC Private Equity
M. K. Sinha	President and CEO of IDFC Project Equity
Chetan Dave	President and CEO Real Estate Group
Cherian Thomas	Group Head and COO of IDFC Foundation
Ritu Anand	Principal Advisor, Chief Economist

Group Structure

Subsidiary Name	Holding Company	% Stake
Dheeru Powergen Ltd	IDFC Projects Limited	51
Emerging Markets Private Equity Fund, L.P.	IDFC Fund of Funds Ltd	100
IDFC Asset Management Company Ltd	IDFC Ltd	100
IDFC AMC Trustee Company Ltd	IDFC Ltd	100
IDFC Capital Ltd	IDFC Securities Ltd	100
IDFC Capital (Singapore) Pte. Ltd.	IDFC Capital Ltd	100
IDFC Distribution Company Ltd	IDFC Securities Ltd	100
IDFC Finance Limited	IDFC Ltd	100
IDFC Fund of Funds Ltd	IDFC Capital Ltd	100
IDFC General Partners Ltd	IDFC Capital Ltd	100
IDFC Investment Advisors Ltd	IDFC Asset Management	100
IDFC Investment Managers (Mauritius) Ltd	IDFC Asset Management	100
IDFC Pension Fund Management Co. Ltd	IDFC Asset Management	100
IDFC PPP Trusteeship Company Ltd	IDFC Ltd	100
IDFC Private Equity Company Ltd	IDFC Ltd	100
IDFC Project Equity Company Ltd	IDFC Ltd	100
IDFC Projects Limited	IDFC Ltd	100
IDFC Securities Limited	IDFC Ltd	100
IDFC Capital (USA) Inc.	IDFC Securities Ltd	100
IDFC Trustee Company Ltd	IDFC Ltd	100
Jetpur Somnath Highway Ltd	IDFC Projects Ltd	74
Jetpur Somnath Tollways Ltd	IDFC Projects Ltd	74
Uniquest Infra Ventures Private Ltd	Subsidiary of IDFC Foundation.	100

Investment Rationale

Key Beneficiary of Planned Investments in Infrastructure

Planned investments in infrastructure sector throw up good opportunities for IDFC.

The Indian economy has grown at a strong pace since a decade and in order to maintain the growth momentum of the economy, the GOI has planned large projects in various segments of infrastructure like: roads, power, railways, telecom, etc. GOI during the twelfth five year plan (2012-2017), has envisaged total investments of USD 1.025 trillion, which is double the estimated investment of USD 514 billion during the current five year plan. Within this, investment by the private sector in infrastructure is expected to go up to 50% of total investments in 12th plan as against estimated 36% in 11th plan. This throws up huge opportunities for IDFC, which is at the forefront in the infrastructure finance space and has an unmatched knowledge of the sector.

Planned Investments in Infrastructure Sector

Sector	11th Plan (2007-2012) - USD bn	12th Plan (2012-2017) - USD bn	Presence of IDFC
Oil & Gas Pipeline	32	66	Very Strong
Power	165	314	Very Strong
Roads	70	123	Very Strong
Ports	10	26	Very Strong
Airports	9	17	Strong
Railways	50	74	Strong
Water Supply & Sanitation	28	46	Moderate
Telecom	86	253	Very Strong
Irrigation	62	100	Moderate
Storage	2	6	Moderate
Total	**514**	**1025**	

Source: http://infrastructure.gov.in, QS Research

Uniquely Positioned in the Infrastructure Sector

Uniquely positioned in infrastructure financing by being present across phases of an infrastructure project.

IDFC, with its strong domain expertise in the infrastructure sector, has positioned itself to capture significant growth. Transforming from being a provider of plain vanilla infrastructure financing, IDFC is now present across the life cycle of an infrastructure project – debt financing, equity financing through private/project equity, investment banking and strong infrastructure advisory support. We believe such a diversified business model is the biggest differentiating factor between IDFC and its peers.

Besides the above mentioned attributes of its business, IDFC has also established strong relationships with the government, which gives it access to decision makers at government entities. As a result, it has been able to play a significant role in the direction of the country's infrastructure policy. Its relationship with government entities opens up major financing and advisory opportunities in the infrastructure sector.

IDFC's diversified loan book helps it to leverage on its investment cycle across sectors and hedge against the risk of slowdown in specific sectors.

IDFC enjoys a healthy asset quality with gross and net NPA levels at 0.19% and 0.09% respectively.

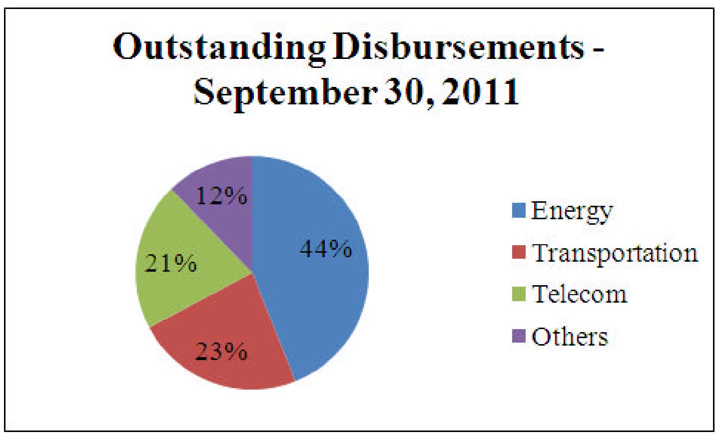
IDFC's Business Divisions

Business Division	Segments
Corporate Investment Banking	• Project Finance • IDFC Investment Banking • IDFC Securities
Alternative Asset Management	• IDFC Private Equity • IDFC Project Equity • IDFC Projects
Public Market Asset Management	• IDFC Mutual Fund
IDFC Foundation	• Public Private Partnership • Policy Group • CSR

Source: Company, QS Research

Diversified Loan Book

Unlike its peers PFC and REC (which are focused on the power sector), IDFC is a diversified play on the infrastructure sector, that has developed expertise in financing projects in segments like power, telecom and transportation. Diversity of its loan book helps IDFC to leverage on its investment cycle across sectors and hedge against the risk of slowdown in specific sectors. In the current environment, where coal based power projects are facing problems of coal linkages and SEBs are witnessing financial problems, IDFC is in a good position to tide over this scenario due to presence in other segments like renewable energy, roads, ports and airports, which are comparatively doing well.



Source: Company, QS Research

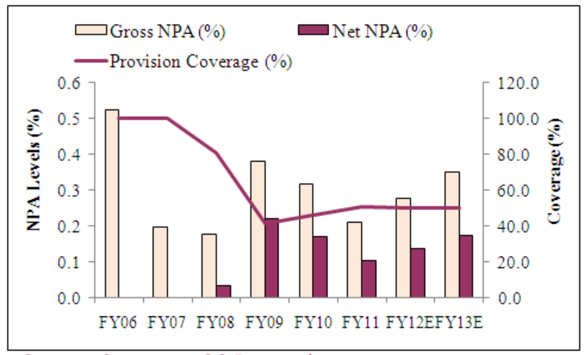
Healthy Asset Quality

IDFC's asset quality continues to remain sound with gross and net NPA levels low at 0.19% and 0.09% respectively as on September 30, 2011. This is mainly due to its strong credit and project appraisal skills and disciplined risk management practices. IDFC's credit process involves extensive screening and financial analysis to access potential risks and devising appropriate risk mitigation mechanisms. The company also has a systematic review process to continuously monitor and evaluate the projects in its portfolio.

Apart from this, IDFC is also quite conservative on the provisioning front, with a coverage ratio of 51% and provisions on its balance sheet being 7x its gross NPAs as on March 31, 2011.

We believe that risk to earnings growth due to asset quality issues will be limited.

However, we do have a concern on the quality of assets in IDFC's key business segment i.e power. While the IDFC management claims that they have been very careful in selecting the assets they have funded, we feel that the possibility of the power sector borrowers facing significant debt servicing challenges, cannot be ruled out. Currently disbursements to power sector constitute 44% of IDFC's total disbursements. This portfolio may come under pressure in the near future, due to financial problems of State Electricity Boards and shortage of coal supply in coal based power plants. However, we believe that the risk to earnings growth will be limited, as IDFC already has already maintained higher provisions and in the event of any potential default, we expect IDFC to approach RBI for restructuring of loans. At present, though it is difficult to gauge the quantum of slippages, we have estimated gross NPA levels to grow at 50% CAGR over FY11-FY13E to Rs 1.8bn in FY13E.



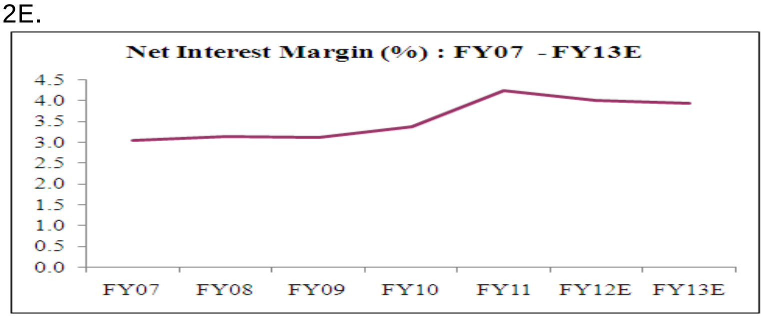
Source: Company, QS Research

Preference on Profitability over Growth in FY12

IDFC's scaling down of its loan growth target to 15-20% for FY12E is a prudent move.

Due to slowdown and delay in projects currently being witnessed in the infrastructure space, additional funding need from various projects has dried up, which in turn has impacted IDFC's gross approvals and disbursements which fell by 62% YoY in H1FY12. As a result, IDFC has scaled down its loan growth target for FY12E to 15-20% as against 20-25% growth guidance given at the beginning of FY12E. This according to us is a prudent move taken by the company in order to protect its asset quality and spreads.

In order to protect its spreads in the current environment, IDFC has adopted a strategy of lending selectively to certain higher yielding segments. However, after considering the fact that funding costs have gone up substantially and assuming comparatively lesser pricing power for IDFC (during FY12E) than before, due to slowdown in financing demand from infrastructure space, we have built-in a 20bps contraction in the company's Net Interest Margin (NIM) from 4.2% in FY11 to 4% in FY12E.

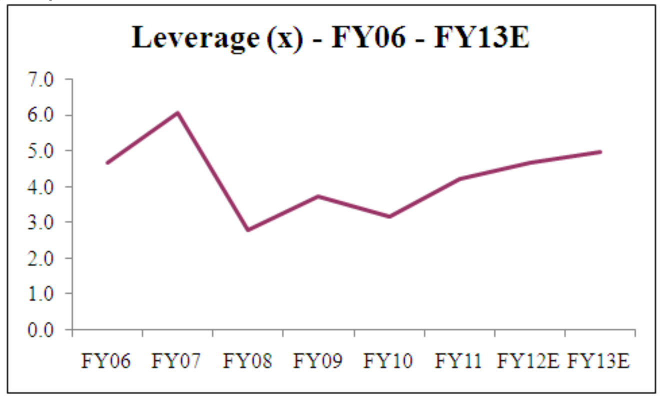


Source: Company, QS Research

IDFC's lower leverage of 4.3x leaves enough scope to grow loan book aggressively when economy revives.

Low Leverage and Higher Capital Adequacy to be Beneficial for Long Term Asset Growth

IDFC has a lower leverage of ~4.3x (asset to networth ratio) and so has potential of increasing it to 7x over the next 2-3 yrs (10x is the limit as per RBI guidelines). This leaves a huge scope for IDFC to grow its loan book aggressively in future (when the macro environment improves), thus aiding improvement of return ratios.

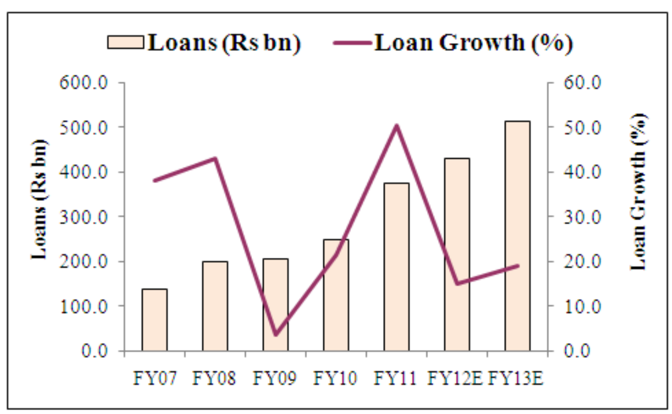


Source: Company, QS Research

One of the reasons for this lower leverage is a substantial increase in the size of its networth during FY11, due to raising of Rs 26.5bn by way of QIP and Rs 8.4bn by way of CCPS (has to be converted into equity at a conversion price of Rs 176 within the next 15 months). As a result, its Tier I Capital is 20.5% at present and its Capital Adequacy Ratio stood at 22.87% as on September 30, 2011. This makes IDFC sufficiently capitalized for future growth, leaving very less scope for further equity dilution at least for the next 1-2 years.

IDFC's management remains confident of long term 'India Growth Story'.

In the longer run, IDFC's management remains confident of the 'India Growth Story' and so it expects to be back to the high growth phase again, whenever the economic environment improves. As per our conservative estimates, we have estimated IDFC's infrastructure loans to grow by 14.8% and 18.8% to Rs 432.2bn and 513.3bn in FY12E and FY13E respectively.



Source: Company, QS Research

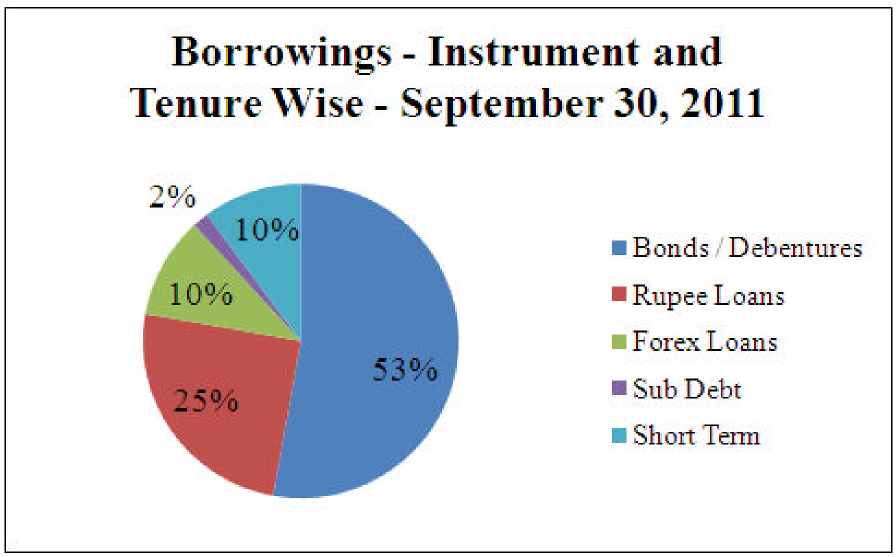
IFC status gives access to cheaper borrowings from overseas.

IFC Status gives Access to Newer Avenues of Fund Raising

IDFC's overseas debt as a proportion of total debt currently stands lower at 10.4%. As the company is classified by the RBI as an 'Infrastructure Finance Company (IFC)', it has the option to partly access ECBs (50% of networth) via the automatic route. The company plans to tap this avenue in the future whenever the need for fund raising arises and market conditions are favorable for doing so. Besides this, the recent opening up of the FII route in September 2011 for investing in infrastructure bonds, is largely contributing to the incremental foreign borrowings of IDFC.

In our view, access to cheaper borrowings from overseas will reduce pressure on IDFC's cost of funds and limit the fall in its NIMs in this high interest rate environment.

IDFC is also permitted to raise funds through tax-saving infrastructure bonds. The company has raised Rs 4.7bn, Rs 7.6bn and Rs 2.2bn in 3 tranches in Nov 2010, Jan 2011 and March 2011 respectively during FY11. Over the next two years, we expect the company to increase the amount it borrows through these bonds. Currently it is in the process of raising Rs 50bn by way of infrastructure bonds through more than 1 tranche in FY12.

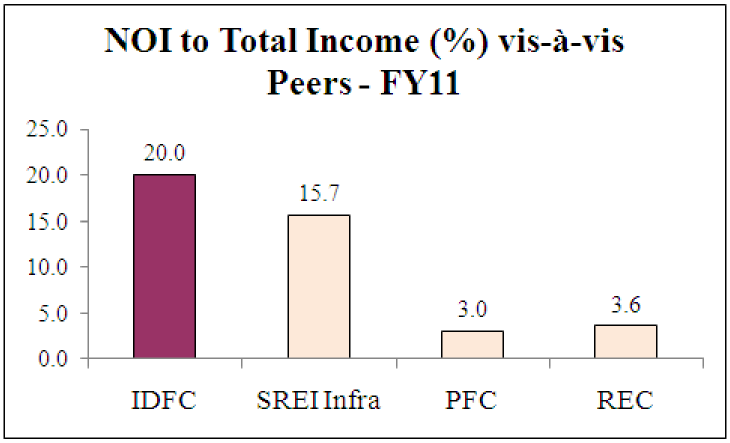


Source: Company, QS Research

Higher Non Interest Income vis-à-vis Peers

To offer broader suite of financing options and to improve its return ratios, IDFC has diversified into businesses like asset management, investment banking and advisory services, where the revenue streams are non-interest income based and generate higher RoEs as compared to its core business. As a result, it has comparatively higher non interest income vis-à-vis its peers.

IDFC has highest NOI to total income (%) as compared to other IFCs like Srei Infra Finance, PFC and REC.



Source: QS Research

The above mentioned businesses have been set up for complementing the company's core business. But at the same time, are directly linked to capital market conditions.

With the capital market conditions being in a rough phase currently, we estimate the brokerage income, investment banking and advisory fees, IDFC project equity fees, IDFC PE fees and IDFC AMC fees to decline by 20%, 5%, 13.3%, 13.6% and 13% respectively during FY12E.

As the loan disbursements have also fallen significantly in the current fiscal year, we expect loan related fees also to decline by 10% YoY to Rs 2bn in FY12E from Rs 2.2bn in FY11.

However, the company's management has indicated that they are likely to harvest capital gains from the few investments they have done in the past, that have done well. As a result we expect IDFC to report a flattish growth in Non Interest Income to Rs 10bn in FY12E. Post that we expect its Non Interest Income to grow by 15.8% YoY to Rs 11.6bn in FY13E, which will be supported by 16.7% growth in fee income and 18% growth in profit on sale of investments.

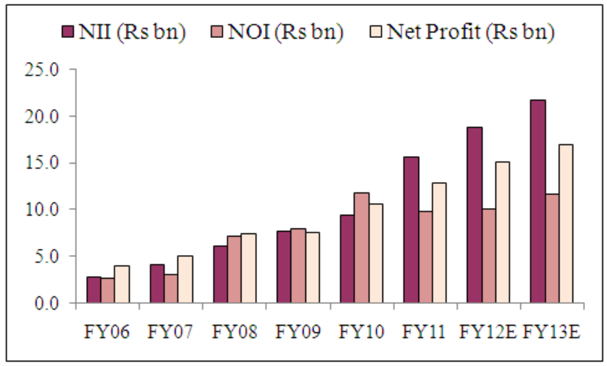
NII is expected to grow at a CAGR of 17.9% over FY11-FY13E.

Net profit is expected to grow at a CAGR of 15.1% over FY11-FY13E.

Financial Analysis

Core Business to be a Key Driver of Revenues and Earnings growth

With growth in Non Interest Income (NOI) expected to remain muted during FY12E, we expect the company's core business to remain a key contributor to revenues and earnings growth during FY11-FY13E. We have estimated Net Interest Income (NII) to grow at a CAGR of 17.9% over FY11-FY13E from Rs 15.6bn in FY11 to Rs 21.7bn in FY13E. This growth in NII will be driven by 16.8% CAGR in infrastructure loans over the same period.



Source: Company, QS Research

IDFC has been able to reduce its cost to income ratio to 20.9% in FY11 from 26.2% in FY10, through effective cost control. Going ahead, we don't expect IDFC to make aggressive recruitments (staff costs are major operating costs for IDFC) in the near-medium term, due to expected slowdown its operations (lower loan growth) during FY12E. As a result, we expect operating expenses to grow at a CAGR of 10.4% during FY11-FY13E, which will be lower than the 14.4% CAGR in operating income during the same period. Because of this, the cost to income ratio is expected to decline to 19.5% in FY13E.

Though IDFC's power sector exposure might be a cause of concern in future, we expect the company to approach RBI for restructuring of loans. As a result, we expect provisions to grow at a lower CAGR of 23.5% over FY11-FY13E (as against CAGR of 43.4% over FY06-FY11) from Rs 2.3bn in FY11 to Rs 3.6bn in FY13E.

We expect IDFC's net profit to grow at a CAGR of 15.1% over FY11-FY13E from Rs 12.8bn in FY11 to Rs 17bn in FY13E, which will be a result of good growth in its core business and lower operating costs and provisions.

RoAE to be at 14% in FY13E

We expect the company's Return on Average Equity (RoAE) to decline to 13.8% in FY12E, due to lower income growth and then rise to 14% in FY13E in-line with an upswing in disbursements and income growth. Return on Average Assets (RoAA) is estimated to be at 3% in FY12E and then decline to 2.9% in FY13E, due to higher asset growth and pressure on margins, due to expected decline in lending yields next year in a declining interest rate environment.

Investment Concerns

- Higher than estimated slippages in asset quality is a key risk to our investment call.
- The company operates in a segment which is subject to stiff competition from banks, other financial institutions and multinational players, which have access to cheaper funds. Hence, due to competition, if the company is forced to reduce its lending rates, then it might impact its NIMs.
- Slowdown in the infrastructure sector and delay in projects is another key concern.
- Significant weakness in capital markets will impact investment banking and other capital market related businesses.

Valuations

At a CMP of Rs 107, IDFC is trading at 1.3x its FY13E ABV of Rs 83.9, which is at 72.5% discount to its one year forward peak valuation of 5.1x in Dec 2007 and 45.1% discount to its average valuation of 2.56x over Jan 2006 – Nov 2011.

We have used the Sum of the Parts (SOTP) method for valuing IDFC. We have valued IDFC's standalone business at 1.58x its FY13E ABV of Rs 83.9, which gives us a standalone value of Rs 131.10. The subsidiaries and strategic investments are valued at Rs 9 (Estimated value less cost of investments). Thus, we arrive at a FY13E target price of Rs 140. After considering the company's unique positioning in the infrastructure sector, strong management capabilities, diversified loan portfolio, higher fee income and healthy asset quality, we recommend investors to **'Buy'** the stock.

Calculation of Standalone Value / Share (Rs)	
RoE – P/ABV based Multiple (x)	1.58
Projected Market Capitalization FY13E (Rs mn)	198912.9
Less: Net NPA FY13E (Rs mn)	883.4
Adjusted Market Capitalization FY13E (Rs mn)	198029.5
Standalone Value / Share (Rs)	**131.1**

Source: QS Research

Price Target Calculation	**Basis of Calculation**	**Amount (Rs)**
Standalone Value / Share (Rs)	**1.58x FY13E ABV**	**131.1**
IDFC Mutual Fund	3% of AUM	5.9
IDFC Private Equity	10% of AUM	2.9
IDFC Project Equity	6% of AUM	1.5
IDFC Securities (Broking and Investment Banking)	10x FY13E earnings	2.6
Other Equity Investments	NSE stake valuation at 20% discount to Nov 2010 deal. Other investments valued at their cost on IDFC's Balance Sheet.	8.2
Subsidiary / Strategic Investments Value per share (Rs)		**21.1**
Less: Cost per share of Investments in Subsidiaries / Strategic Investments (Rs)		12.1
Net Value per share of Investments in Subsidiaries and other Strategic Investments (Rs)		**9.0**
Target Price (Rs)		**140.1**

Source: QS Research

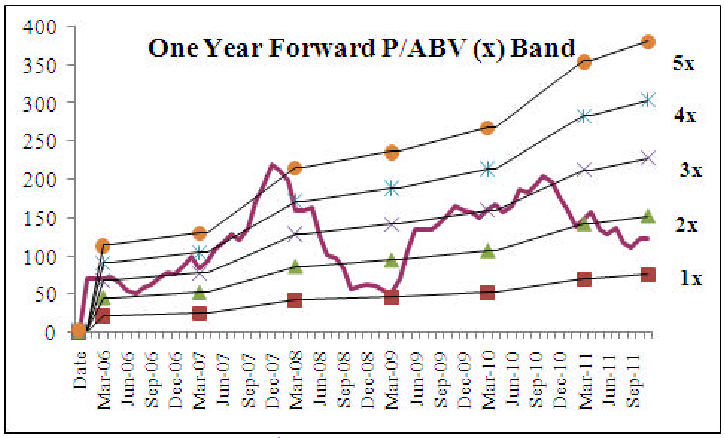
Peer Comparison

Particulars	CMP (Rs)	Market Cap. (Rs mn)	P/E (x)	P/BV (x)	EPS (Rs)	BVPS (Rs)	RoE (%)	RoA (%)
			FY13E	FY13E	FY13E	FY13E	FY13E	FY13E
IDFC	106.9	156429.7	9.5	1.3	11.2	84.4	14.0	2.9
PFC	160.9	212376.7	5.7	0.8	28.4	193.6	15.1	2.7
REC	181.7	179372.1	5.1	1.0	35.7	177.0	21.6	2.9
Srei Infra. Fin.	23.2	11650.0	5.5	0.4	4.2	55.7	7.8	1.8

Source: QS Research, Bloomberg Consensus Estimates

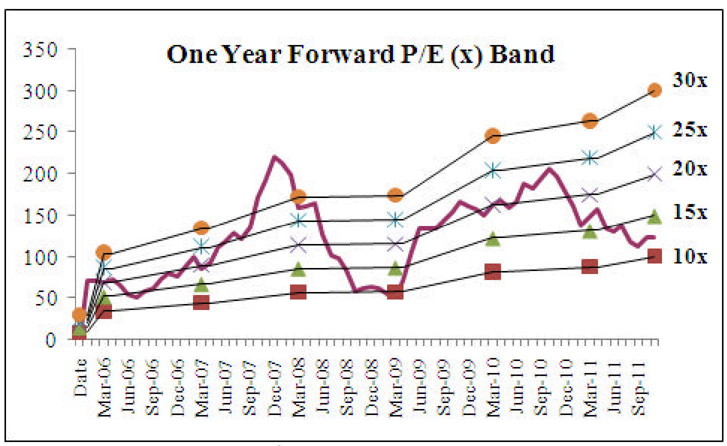
Note: From the above peer comparison we can observe that IDFC enjoys a premium over PFC and REC due to the former's diversified loan portfolio, higher fee income and conservative provisioning policy. IDFC also enjoys a premium over Srei Infrastructure Finance due to its better return ratios. A good business model and good corporate governance system are other reasons which helps IDFC to get good valuations over its peers.

Jan 2006 – Nov 2011	Multiple (x)
Maximum P/ABV	5.10
Minimum P/ABV	1.08
Average P/ABV	2.56



Source: QS Research

Jan 2006 – Nov 2011	Multiple (x)
Maximum P/E	38.39
Minimum P/E	8.53
Average P/E	18.41



Source: QS Research

Quarterly Income Statement

Particulars (Rs mn)	Q2FY12	Q2FY11	% Var YoY	Q1FY12	% Var QoQ	H1FY12	H1FY11	% Var YoY
Total Income from Operations	17149.3	12167.5	40.9	13513.4	26.9	30662.7	23081.5	32.8
Financial Expenses	8259.7	5687.9	45.2	7539.4	9.6	15799.1	10540.0	49.9
Net Interest Income	**8889.6**	**6479.6**	**37.2**	**5974.0**	**48.8**	**14863.6**	**12541.4**	**18.5**
Other Income	11.1	23.9	-53.5	66.4	-83.3	77.5	82.2	-5.8
Operating Income	**8900.7**	**6503.4**	**36.9**	**6040.4**	**47.4**	**14941.1**	**12623.7**	**18.4**
Total Expenditure	1313.7	1238.6	6.1	1131.2	16.1	2445.0	2470.4	-1.0
Operating Profit	**7586.9**	**5264.9**	**44.1**	**4909.2**	**54.5**	**12496.1**	**10153.3**	**23.1**
Provision and Contingencies	631.3	515.1	22.6	399.3	58.1	1030.6	960.5	7.3
Profit Before Tax	**6955.6**	**4749.8**	**46.4**	**4509.9**	**54.2**	**11465.6**	**9192.8**	**24.7**
Tax	1714.6	1374.8	24.7	1377.8	24.4	3092.4	2472.8	25.1
Profit Before Minority Interest	**5241.1**	**3375.0**	**55.3**	**3132.1**	**67.3**	**8373.2**	**6720.1**	**24.6**
Share in Profit of Associates & Minority Interest	1.7	9.0	-81.5	4.8	-65.5	6.5	15.0	-56.8
PAT	**5242.7**	**3384.0**	**54.9**	**3137.0**	**67.1**	**8379.7**	**6735.1**	**24.4**

Consolidated Income Statement

Particulars Y/E March (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Interest Income	28464.4	28917.8	39479.8	52493.3	62030.1
Non-Interest Income	7903.7	11708.6	9850.5	10033.9	11619.4
Total Income	**36368.1**	**40626.4**	**49330.3**	**62527.2**	**73649.5**
Financial Expenses	20812.1	19534.7	23875.3	33647.2	40355.3
Net Interest Income	**7652.3**	**9383.1**	**15604.5**	**18846.1**	**21674.9**
% Change YoY	*24.5*	*22.6*	*66.3*	*20.8*	*15.0*
Operating Income	**15556.0**	**21091.8**	**25455.0**	**28879.9**	**33294.2**
Total Expenditure	3665.3	5525.7	5320.5	5564.1	6482.5
Operating Profit	**11890.7**	**15566.0**	**20134.5**	**23315.9**	**26811.7**
Provisions and Contingencies	1531.8	1282.5	2346.1	2661.2	3576.5
Profit Before Tax	**10358.9**	**14283.5**	**17788.4**	**20654.6**	**23235.2**
Tax	2781.7	3665.8	4997.5	5576.8	6273.5
PAT Before Minority Interest	**7577.3**	**10617.8**	**12790.8**	**15077.9**	**16961.7**
Minority Interest and Share of Profit in Subsidiaries / Associates	-79.0	5.2	25.7	25.0	23.6
Profit After Tax	**7498.3**	**10622.9**	**12816.5**	**15102.9**	**16985.3**
% Change YoY	*1.0*	*41.7*	*20.6*	*17.8*	*12.5*

Consolidated Balance Sheet

Particulars Y/E March (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Equity Capita	12952.8	13006.1	14609.5	15110.5	15110.5
Preference Capital	-	-	8400.0	0.0	0.0
Share Application Money	0.5	2.6	41.4	0.2	0.2
Reserves and Surplus	48805.6	57094.6	89433.5	100451.9	112487.1
Shareholders' Funds	**61758.8**	**70103.3**	**112484.4**	**115562.7**	**127597.8**
Secured Loans	-	-	354350.1	411177.9	493413.4
Unsecured Loans	236046.0	265438.6	8689.3	9960.3	11659.0
Loan Funds	**236046.0**	**265438.6**	**363039.5**	**421138.2**	**505072.4**
Minority Interest	281.1	63.3	1.7	0.6	2.1
Deferred Tax Liability	3.8	11.1	15.3	15.3	15.3
Capital Employed	**298089.7**	**335616.3**	**475541.0**	**536716.9**	**632687.7**
APPLICATION OF FUNDS					
Fixed Assets	4543.4	4415.1	4469.1	4722.8	5255.1
Goodwill on Consolidation	10789.8	11596.3	11638.0	8638.0	8638.0
Investments	64999.8	46554.0	69611.5	82517.4	97988.4
Infrastructure Loans	**205962.4**	**250310.6**	**376523.2**	**432159.3**	**513297.0**
Deferred Tax Asset	1425.0	1766.2	2495.6	2495.6	2495.6
Current Assets, Loans and Advances	20144.7	33457.1	28430.1	25096.5	25341.3
Less: Current Liabilities and Provisions	9775.4	12483.0	17626.4	18912.7	20327.7
Net Current Assets	**10369.3**	**20974.0**	**10803.7**	**6183.8**	**5013.6**
Total Assets	**298089.7**	**335616.3**	**475541.0**	**536716.9**	**632687.7**
% Change YoY	*6.8*	*12.6*	*41.7*	*12.9*	*17.9*

Dupont Analysis

RoA Decomposition	FY09	FY10	FY11	FY12E	FY13E
% of Average Assets					
Net Interest Income	2.7	3.0	3.8	3.7	3.7
Non-Interest Income	2.7	3.7	2.4	2.0	2.0
Net Income	5.4	6.7	6.3	5.7	5.7
Operating Expenses	1.3	1.7	1.3	1.1	1.1
Operating Profit	4.1	4.9	5.0	4.6	4.6
Provisions	0.5	0.4	0.6	0.5	0.6
Taxes	1.0	1.2	1.2	1.1	1.1
Share in Profit of Associates, Minority Interest	0.0	0.0	0.0	0.0	0.0
RoA (%)	**2.6**	**3.4**	**3.2**	**3.0**	**2.9**
Avg. Assets / Avg. Equity (x)	4.9	4.8	4.4	4.4	4.8
RoE (%)	**12.7**	**16.1**	**14.7**	**13.8**	**14.0**

Key Ratios

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Valuations					
EPS (Rs)	5.8	8.2	8.8	10.0	11.2
BVPS (Rs)	47.7	53.9	71.2	76.5	84.4
Adj BVPS (Rs)	47.3	53.6	71.0	76.1	83.9
P/E (x)	18.5	13.1	12.2	10.7	9.5
P/BV (x)	2.2	2.0	1.5	1.4	1.3
P/ABV (x)	2.3	2.0	1.5	1.4	1.3
Dividend Yield (%)	1.1	1.4	1.9	2.2	2.6
Payout (%)	24.3	21.4	27.3	26.9	29.1
Growth (%)					
Loan Funds	5.8	12.5	36.8	16.0	19.9
Investments	24.4	-28.4	49.5	18.5	18.7
Infrastructure Loans	3.5	21.5	50.4	14.8	18.8
Loans and Advances	-12.0	207.3	-58.9	-10.0	-5.0
Net Interest Income	24.5	22.6	66.3	20.8	15.0
Operating Income	17.5	35.6	20.7	13.5	15.3
Operating Profit	11.1	30.9	29.3	15.8	15.0
Net Profit	1.0	41.7	20.6	17.8	12.5
Profitability (%)					
Yield on Interest Earning Assets	11.6	10.4	10.7	11.2	11.3
Yield on Investments	5.0	4.6	6.8	7.1	7.4
Cost of Funds	9.1	7.8	7.6	8.6	8.7
Spread - Reported	2.4	2.7	2.2	-	-
Spread - Calculated	2.5	2.6	3.1	2.6	2.6
NIM	3.1	3.4	4.2	4.0	3.9
RoAE	12.7	16.1	14.7	13.8	14.0
RoAA	2.6	3.4	3.2	3.0	2.9
Cost/Income	23.6	26.2	20.9	19.3	19.5
Balance Sheet Ratios					
Leverage (Total Assets/Networth) (x)	3.7	3.2	4.2	4.6	5.0
Leverage (Total Loans/Networth) (x)	3.5	3.9	3.4	3.8	4.1
Secured Loan/Total Loan Funds (%)	-	-	97.6	97.6	97.7
Unsecured Loan/Total Loan Funds (%)	100.0	100.0	2.4	2.4	2.3
Investment/Total Loan Funds (%)	27.5	17.5	19.2	19.6	19.4
Asset Quality (%)					
Gross NPA	0.4	0.3	0.2	0.3	0.3
Net NPA	0.2	0.2	0.1	0.1	0.2
Provision Coverage	41.7	46.2	51.2	50.1	50.4
Capital Adequacy (%)					
Capital Adequacy Ratio	23.8	20.4	24.5	21.9	20.0
Tier I Capital Ratio	20.0	17.2	21.9	19.5	18.4
Basic Data					
Share Price (Rs)	106.9	106.9	106.9	106.9	106.9
Market Capitalization (Rs mn)	138465.0	139035.5	156175.3	161531.7	161531.7