COMPANY UPDATE

IDFC

Propitious metamorphosis

India Equity Research| Banking and Financial Services

The estimated profitability of IDFC's new venture, i.e. IDFC Bank catapulted with RBI easing compliance costs for infra lending via long term unsecured bonds. This move significantly irons out the transition hardships which were anticipated at the time of grant of banking license. Benefits are twofold, 1) infra financing business can continue unabated which was not a very profitable option in the earlier format due to the onerous PSL/SLR/CRR burden and 2) pressure to scale up other lending and especially PSL is considerably lower now allowing it to take a calibrated and profit driven approach. In all, intrinsic profitability sees a massive jump from the earlier 10% RoE levels to 15% backed by 1.9% RoA by FY20E, the year when we expect stability to set in under the base case scenario. Significant upside can further accrue if RBI exempts all of current eligible infra loan from PSL/SLR/CRR requirements vis-à-vis the staggered format. We project bank's business model (in both scenarios) and along with the value of other businesses, assign fair value of INR181 (25% upside) for IDFC (50% probability to each case). Upgrade to 'Buy'.

Strategy: Still early days; technology to be the key differentiator

Recent RBI's regulations have charted a few paths for IDFC bank. Infrastructure will continue to be a sizeable portion of loans, gradually dropping but still at 60% by FY20E. Hence, infra income will cross subsidise setup of other businesses which can choose to grow at high pace only once they hit the healthy profitability zone. Technology will be a key differentiator and underlying theme. We understand that it will be a bimodal bank with urban presence very different from the rural India (Bharat banking). The strategy is to start at the extreme ends of the banking pyramid and then eventually fill the gap.

Outlook and valuations: Bank genesis healthy; Upgrade to 'Buy'

We are subscribers to the evolution model laid out for IDFC's metamorphosis from monoline NBFC to a universal bank. Top management's ability to shape this venture is undisputable given its previous track record. This coupled with bank's high intrinsic profitability of 1.9% RoA warrants P/ABV of 1.7x, (15% discount to the established banks with a similar return profile) and P/ABV of 1.8x (10% discount) for 2% RoA in blue sky scenario case. Along with IDFC Ltd. (NOFHC), shareholders will also hold 50% of bank directly. Post a holding company discount (15%) fair value is INR291 for FY20E. We discount it back to FY16E and arrive at a TP of INR181/share for IDFC Ltd (10% higher beta built in for execution risk). Upgrade to **'BUY/SO'** from 'HOLD/SP'.

SOTP by FY20E (INR)

	Base Case	Bull base	Combined
-Bank (Under IDFC Ltd.)	93	104	
-Other subsidiaries (Under IDFC Ltd.)	77	77	
-Bank (Direct holding)	109	122	
Total	279	304	
Fair value (50% probability)			291
Discounted back to FY16E (@14.5%)			**181**

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: IDFC.BO, B: IDFC IN)*

CMP	: INR 145
Target Price	: INR 181
52-week range (INR)	: 167 / 86
Share in issue (mn)	: 1,517.1
M cap (INR bn/USD mn)	: 220/ 3,609
Avg. Daily Vol.BSE/NSE('000)	: 11,491.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY14	Q3FY14
Promoters *	-	-	-
MF's, FI's & BK's	29.6	29.4	31.0
FII's	51.8	52.6	51.4
Others	18.6	18.0	17.6

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	15.7	3.1	1.8
3 months	39.9	15.3	18.3
12 months	39.3	32.8	48.1

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Suruchi Chaudhary
+91 22 6623 3316
suruchi.chaudhary@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

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Set of underlying assumptions for the upcoming bank

We draw a list of underlying assumptions that we have for the upcoming IDFC Bank. We detail the numbers for the base case first. For the blue sky scenario the only vector that changes is the amount of eligible infra loans exempt from the triple requirements of PSL/SLR/CRR, i.e. moving from staggered exemption to 100% exemption from FY16E itself. IDFC Ltd. is awaiting to hear from RBI on the clarification for the same. The issue of debate is whether the transfer of assets to IDFC Bank is to be considered as new loans and hence the entire exemption. We await clarity on the same.

Base case

Loans composition and growth rate: Infra loans to drop to 60% by FY20

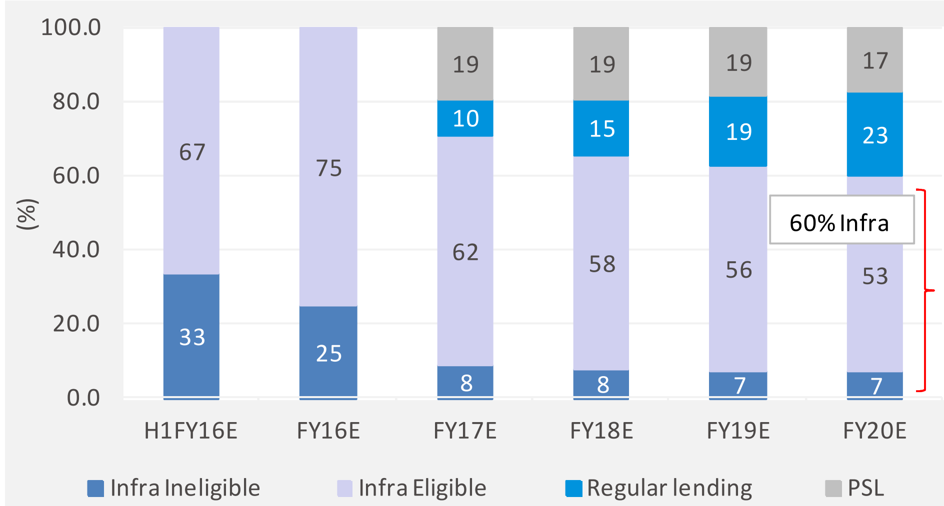
When the banking entity comes into existence in October 2015, we expect a loan book of closer to INR517bn to be transferred from the current NBFC. Within this the proportion of infrastructure assets which falls under eligible credit, i.e. on which CRR/SLR/PSL is exempt would be approximately 20%. Under our base case scenario, the benefit of this book will flow in a staggered manner depending on the ageing of the book. 100% exemption to begin with will be the blue sky scenario which we discuss later. The components of the loan book is as follows:

- **Infrastructure book:** Utilising the expertise in this domain along with suitable regulations we anticipate a ~30% growth in this book over FY16-FY20E. However, since funding via the unsecured long term bond market is yet to be tested, some proportion of the growth might fall into the ineligible credit bucket on which the IDFC Bank will need to meet the triple requirements. Currently to project the growth of the eligible infra book we are working with a bond issuance constraint of INR150bn per annum. Any change to this number along with favorable lending environment can significantly improve profitability of the bank as it generates better RoA. We anticipate spreads on this book to be ~3%, similar to the current levels enjoyed by IDFC. By FY20E, infra component should become 60% of the loans from the current 100%.

- **Corporate and retail lending:** We expect IDFC to follow a calibrated approach as far as corporate and retail lending goes with pilot projects preceding any major rollouts. Also branch expansion might not be too aggressive (225 by FY20E) which is important for retail lending numbers. On a blended basis we anticiapte a doubling of the book for the first two-three years given the small base. Further strong relationships with the large corporates of the country will come in handy. The compsoition of the same is likely to be ~23% of the loan book of INR1.5tn by FY20E. Spreads clocked on the same will range from 1.25-1.5%.

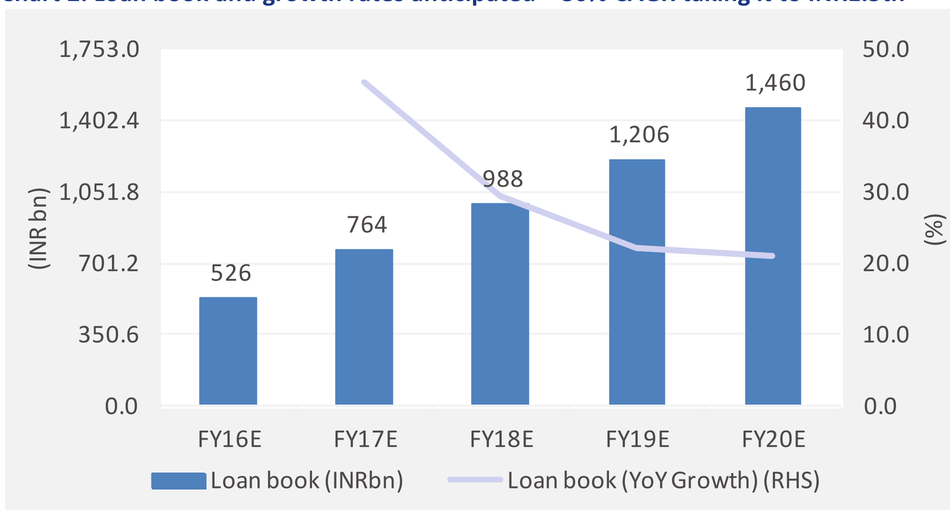
- **Priority sector lending:** Depending on the growth clocked by the above two components (ineligible portion within the infra lending) the PSL requirements will flow. With the regulations exempting PSL on long term unsecured bonds funded infra lending the PSL requirements is considerably lower. We expect a CAGR of 19% in PSL book from FY17-FY20E. It remains to be seen if IDFC can generate all of this itself and hence portfolio buyouts remain a high possibility. We anticipate the lending rates to be very close to that of the cost of funds thereby not resulting in any meaningful NII accretion.

Chart 1: Loan book composition – Declining share of infra loans, 60% by FY20E



Source: Company, Edelweiss research

Chart 2: Loan book and growth rates anticipated – 30% CAGR taking it to INR1.5tn



Source: Company, Edelweiss research

Table 1: Credit eligible for regulatory incentives

Period	Eligible Credit = EC
From the date of circular till March 31, 2015	B - 0.84A
April 1, 2015 – March 31, 2016	B - 0.7A
April 1, 2016 – March 31, 2017	B - 0.56A
April 1, 2017 – March 31, 2018	B - 0.42A
April 1, 2018 – March 31, 2019	B - 0.28A
April 1, 2019 – March 31, 2020	B - 0.14A
April 1, 2020 onwards	B

Source: RBI

Note: A is Outstanding 'Standard' loans to Infrastructure sector (project loans) and affordable housing on the date of this circular

B is Outstanding 'Standard' loans to Infrastructure sector (project loans) and affordable housing on the date of issuance of the bonds

Table 2: PSL calculation, 19% CAGR expected from FY17-20E given benefits on infra

INRmn	H1FY16E	FY16E	FY17E	FY18E	FY19E	FY20E
Loan book (L)	517,337	525,960	763,921	987,952	1,206,279	1,460,308
-Infra Ineligible	172,446	129,334	64,667	74,367	85,522	98,351
-Infra Eligible	344,892	396,625	475,950	571,141	671,090	771,754
-Regular lending	0	0	75,000	150,000	225,000	337,500
-PSL	0	0	148,303	192,444	224,666	252,703
Eligible assets						
A	344,892	344,892	344,892	344,892	344,892	344,892
B	344,892	396,625	475,950	571,141	671,090	771,754
Staggered Factors	0.70	0.70	0.56	0.42	0.28	0.14
B-Factor*A	103,467	155,201	282,811	426,286	574,520	723,469
Eligible credit (EC)	103,467	155,201	282,811	426,286	574,520	723,469
ANBC (L-EC)		370,759	481,110	561,666	631,758	736,839
PSL @40%			148,303	192,444	224,666	252,703

Source: Company, Edelweiss research

Funding structure: Borrowings to still form substantial portion

Our interation with the management of IDFC makes us believe that branch expansion might not be at an aggressive pace. Hence we are building in muted SA accretion for the period under analysis reaching 4% of deposits by FY20E. CA however may see healthy accretion and clock 11% of the deposits given healhty corporate relations taking total CASA to 15%. Outside of this while unsecured bonds will be used to fund the infra book growth, retail TDs should come to aid for the other loans with wholesale borrowing filling the gap. Combining the yields and the cost of funds at 10.7% and 8.8% on a steady state basis, we expect NIMs of 3% by FY20E. The NIM trajectory continues to decline before reaching stability by FY19E. This is explained by the growing share of lower yielding non-infra lending.

Table 3: Distribution of the funding between deposits and borrowing

Funding profile (%)	FY16E	FY17E	FY18E	FY19E	FY20E
Deposits	-	28.9	35.3	38.0	41.5
-SA % of deposit		1.0	2.0	3.0	4.0
-CA % of deposit		5.0	7.0	9.0	11.0
-TD % of deposit		94.0	91.0	88.0	85.0
Borrowings	100.0	71.1	64.7	62.0	58.5

Table 4: NIMs to moderate from the current 3.6% levels and stabilize at 3%

(%)	FY17E	FY18E	FY19E	FY20E
Yield on assets	11.0	10.7	10.7	10.7
Cost of funds	9.0	8.9	8.8	8.8
Net interest margins	3.6	3.1	3.0	3.0

Source: Company, Edelweiss research

Fee income: Conversion to a bank to significantly aid fee income

Under the aegis of a banking entity the fee income stream opens up significantly for IDFC and we expect to see a replica of high wholesale fee income clocking banks like Yes Bank and IndusInd Bank here as well. With the forex income flowing in and high debt market investment banking fee we anticipate fee income/assets to start at 1%. Another major vector comes from the ability to partcipate in the off balance sheet funding now which till not was not allowed in the NBFC format. Missing link would be the bancassurance income and retail fees which will flow in once the branch network reaches a critical mass.

Table 5: Comparative analysis across private banks indicate to fee income ranging from 1.2% to 2% of the asset base

	Fees, trading profit and misc. income		-Fee Income		-Trading Profit		-Misc. Income		-Dividend Income	
(% of assets)	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**	**FY13**	**FY14**
ICICI Bank	1.7	1.8	1.4	1.4	0.1	0.2	0.0	0.1	0.2	0.2
HDFC Bank	1.9	1.8	1.4	1.3	0.3	0.3	0.1	0.1	0.0	0.0
Axis Bank	2.1	2.0	1.8	1.7	0.2	0.2	0.1	0.2	0.0	0.0
Yes Bank	1.5	1.7	1.2	1.2	0.3	0.4	(0.0)	0.1	-	-
IndusInd Bank	2.1	2.4	1.9	2.0	0.2	0.3	0.0	0.1	0.0	0.0

Source: Company, Edelweiss research

Operating expenses: Infra business makes Cost Income look good

A typical wholesale bank is seen to have cost-income in the 35%-40% range as seen in the case of Yes Bank and Axis Bank which is on the higher end of the band given substantial retail presence now. However, IDFC Bank's case is very different as for the initial few years income from the infra financing book will form a dominant portion of the income profile. Since this is a 14-15% Cost-Income business on an average the blended ratios will look much lower than the numbers clocked by other wholesale heavy banks.

The bank is likely to reach a few hundred branches, i.e. 225-250 branches by FY20E. Taking an average of 55 employees per branch (similar to numbers seen in the case of Yes Bank as the time of start up before moderating) with INR2.5mn of per annum average salary cost our employee bill comes to INR7.25bn to begin with and another INR2.5bn in other opex. Key driver of the needle here and an opaque vector for that matter will be technology costs. Cost income in the case of adoption of differentiated technology can see a substantial jump. Currently we are assigning an annual expense of INR0.5bn on technology to begin with.

Table 6: Employee per branch to be high to begin with as seen with Yes Bank

Operating metrics	FY16E	FY17E	FY18E	FY19E	FY20E
No. of branches	40	75	100	150	225
No. of employees/branch	55	45	40	35	25
Total no. of employees	2,200	3,375	4,000	5,250	5,625
Cost to Income ratio (%)	32.0	28.0	27.0	25.5	22.7

Source: Company, Edelweiss research

Provisions: Burden low as NPA will be fully provided for before transfer

We anticipate the burden of provisions to be much lower on IDFC Bank as the problem assets, largely the gas portfolio will be fully provided for before being transferred. Given the past track record of minimal NPA in an otherwise difficult business, we expect incremental stress asset formation to be slow helped further by cautious build up of the book.

Networth allocation: Bank likely to start with INR130bn of capital

The current networth of IDFC Ltd. stands at INR150bn as on FY14. By H1FY16E when the banking entity will take shape we expect this networth to grow to INR186bn. This is including the INR8.5-10bn fund infusion by IDFC which is in talks currently to trim the foreign shareholding to the regulator mandated 49%. As per the management the banking entity is likely to start with a capital of INR130bn. Another INR20bn and INR12bn will be earmarked for utilisation in the IDF and for other businesses like private equity, capital market and mutual fund. The rest of the ~INR24bn can be kept under the contingency reserve. We also note that surplus capital will fetch better valuations if parked in the bank.

Tier 1 to begin with will stand at a healthy 20%. However, there are a few distinctive features that will lead to the consumption of the Tier 1 faster than that of other banks. The composition of loans within the balance sheet will be at a higher 85% than the regular 60% for tha banks since a large part of the infra book will not entail parallel SLR built up. We are building in 75% risk weight for ineligible infra (given short tern funding), 115% for eligible infra (to build in for the off book activity as well) and 100% for the other asset classes.

Table 7: Tier 1 consumption is faster given higher proportion of loans in BS

Tier 1 Calculation	FY16E	FY17E	FY18E	FY19E	FY20E
Balance Sheet size (INRbn)	629	908	1,159	1,400	1,688
RWA (INRbn)	553	819	1,055	1,286	1,551
Tier 1 (%)	23.5%	16.5%	14.0%	12.6%	11.6%

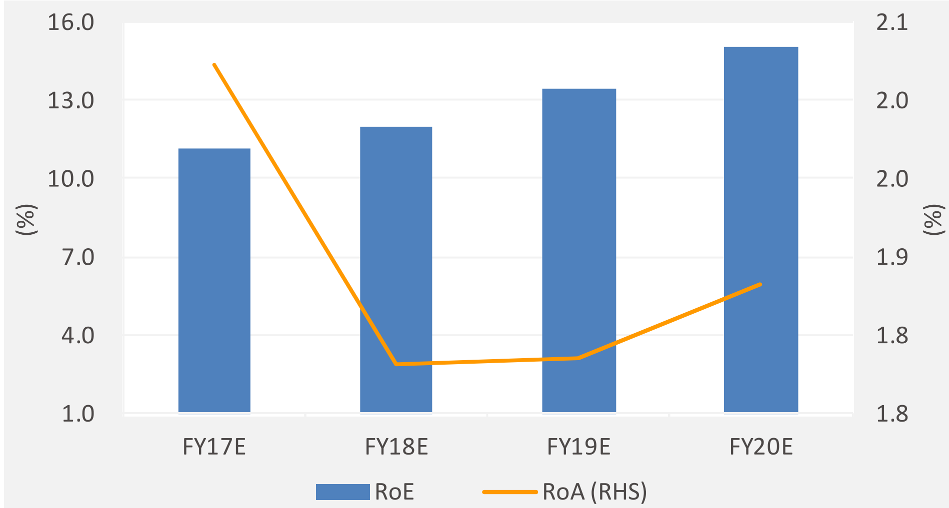
Source: Company, Edelweiss research

Return ratios: High intrinsic profitability with RoA of 1.9%/RoE of 15%

With the recent guidelines coming to aid, the high RoA infra business can continue at healthy pace depending obviously on the opportunities available and improvement in the scenario on ground. This will cross subsidise the other businesses during their setup stage and help maintain the overall profitability. From the current 2.5% RoA of the standalone NBFC, by FY20E i.e. when the bank reaches stability the RoA will tread to 1.9%.

Since the bank will be starting with a Tier 1 of 20% it will be well capitalised. However, gradual build up of the loan book may keep the leverage low and understandably so for the first few years of operation. On a steady state basis the RoE will clock 15%-16% by FY20E.

Chart 3: RoA to stabilize at 1.9% by FY20E when we expect stability to set in



Source: Company, Edelweiss research

Blue sky scenario: All of the eligible infra asset is exempt to begin with

In our base case scenario we assume that of the current eligible infra book for regulatory forbearance the benefit will accrue as per the amortisation schedule given by RBI subject to the total amount of bonds outstanding against it. However, as per IDFC the same pool of eligible loans when transferred to IDFC Bank should be considered as fresh loans and hence the entire eligible book should be exempt from PSL/CRR/SLR requirements. This is line with the guidelines for the existing banks whereby eligible infra loan buyout is fully exempt from the triple requirements, though post the RBI's permission for the same .

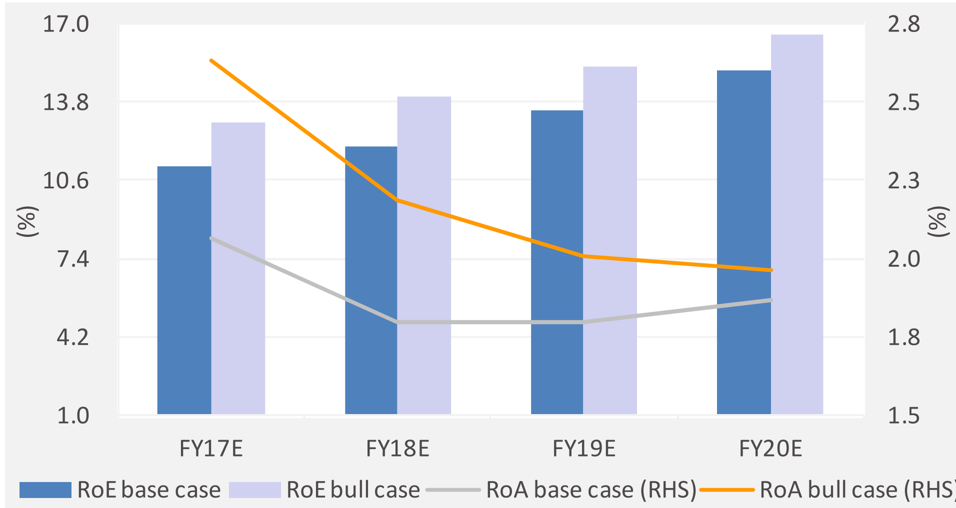
If this propostion were to be accepted by the RBI and all of the INR345bn is exempt from regulatory forbearance the return ratios will see another round of jump as the flat to negative spread business of PSL/CRR/SLR will be reduced. RoAs in the steady state scenario under this case can be 2%. RoEs can also touch 17% levels with the help of a little higher loan growth of 32% CAGR over FY16-FY20E vis-à-vis 29% in our base case scenario as the growth compulsion via PSL eases.

Table 8: Comparison between the base case and the blue sky scenario

	Base Case		Blue Sky Case	
Metrics	**FY19E**	**FY20E**	**FY19E**	**FY20E**
Loans (INRbn)	1,206	1,460	1,329	1,618
PAT (INRbn)	22.9	28.7	27.1	33.3
NIMs (%)	3.0	3.0	3.2	3.0
RoA (%)	1.8	1.9	2.0	2.0
Equity/Assets (x)	13.4	12.4	13.1	11.8
ROAE (%)	13.4	15.0	15.3	16.6

Source: Edelweiss research

Chart 4: RoA jumps from 1.9% to 2% in blue sky scenario taking RoE to 17%



Source: Company, Edelweiss research

SOTP: Value from the NOFHC and from direct ownership of the bank

IDFC Ltd in its new avatar will be a NOFHC holding 50% of the bank along with the other existing businesses i.e. asset management, private equity, investment banking and broking and the proposed IDF in the subsidiary format.

For the banking business we anticipate a 30% plus CAGR taking the loan book to INR1.46tn by FY20E. This will come with steady state NIMs of 3% which coupled with ~1% of fee income will enable clocking of 1.9% RoA and 15% RoE by FY20E. From FY17E, PAT is expected to clock 22% CAGR till FY20E.

We value individual business for FY20E (the year by which we expect steady state metrics to come in) and discount it back to FY16E. The valuation methodolgy for various businesses have been mentioned in Table 9 footnotes. For the purpose of discounting we are using a rate of 14.5% which is based on a 10% higher beta (from the historical 1.5) to factor in execution risk during the transition phase.

Post the formation of the bank in October 2015, the current IDFC shareholder will hold two listed entities. One is the current IDFC ltd which will house 50% of the bank along with other subsidiaries and second is the direct 50% ownership in the bank. While the businesses under the NOFHC, i.e. under the IDFC structure will be subject to 15% holding company discount, full valuation will be realised for the direct ownership of the bank. The bank's high intrinsic profitability of 1.9% RoA warrants P/ABV of 1.7x, (15% discount to the established banks with a similar return profile) in a base case scenario and P/ABV of 1.8x (10% discount) for 2% RoA in blue sky case. Metamorphosis from a monoline NBFC to a universal bank and with the backing of an able management team makes us further confident on the execution of this new venture. We are upgrading our recommendation for IDFC Ltd. from 'Hold/SP' to 'Buy/SO' and assign a target price of INR181 per share.

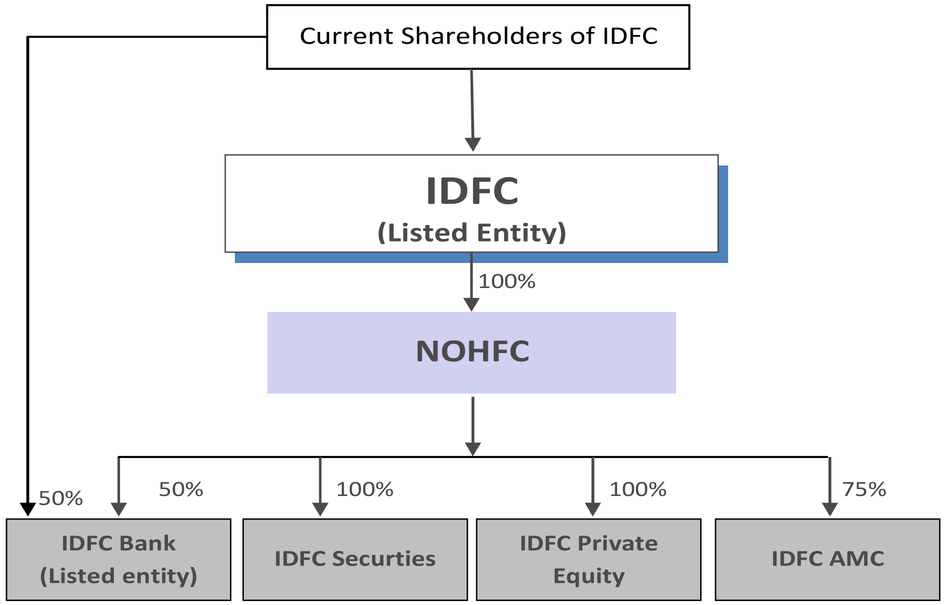
Table 8: SOTP: Assigning a 50% probability to base and blue sky scenario we arrive at a fair value of INR181/share

(INR bn)				Base case			Bull case		
IDFC Shareholder	**Current (FY14)**	**H1FY16E**	**Ownership (%)**	**FY20E**	**Valuation Multiple**	**Valuation**	**FY20E**	**Valuation Multiple**	**Valuation**
Ownership via NOFHC									
Networth allocation	150	186							
-Bank - 50%		65	50	101	1.7	172	107	1.8	193
-IDF		20	100	28	1.3	35	28	1.3	35
-IB, Broking and MF		12		13		68	13		68
Alternatives	AUM		100	290	10%	29	290	10%	29
Asset Management	AUM		74	963	4%	29	963	4%	29
IB, Securities	PAT		100	1	12.0	10	1	12.0	10
-Contingency funds		24	100	34	1.0	34	34	1.0	34
NSE investment value			6	120		7	120		7
Total						314			335
Holding company discount					15%	267		15%	285
No. of shares (bn)						1.6			1.6
Value per share (A)						**170**			**181**
Direct ownership									
Bank - 50%		65	50		1.7	172		1.8	193
No. of shares						1.6			1.6
Value per share (B)						**109**			**122**
Combined value by FY20E (A+B)						**279**			**304**
Discount rate (Higher beta built in to factor in execution risk)						14.5%			14.5%
Combined value by FY16E						**173**			**189**
Probability (%)						50			50
Fair value for IDFC Ltd. FY16E									**181**

Source: Company, Edelweiss research

Note: Valuation methodology-Bank on price to book value basis, Alternatives and Asset management are valued as a percentage of the AUMs and price to earnings multiple is used for the IB and securities business.

Fig. 1: Proposed structure



Source: Edelweiss research

Company Description

IDFC was established in 1997 as a private sector enterprise by a consortium of public and private investors to provide infrastructure financing. It was mainly started as a government initiative, but the structure of ownership changed in 2005-06 with its IPO.

In its current format it generates its income from core lending, as well has built a steady source of fee income business from its principal investments, asset management as well broking and investment.

Investment Theme

IDFC Ltd. currently generates its business in four business segments

In the lending business, it has a balance sheet size in excess of INR700bn and has been growing its balance sheet in excess of 40% CAGR till FY08 before slowing down in FY09 and thereafter. Of its loan book, energy, transportation, and telecom sectors constitute ~85% of the outstanding.

It has sponsored IDFC Private Equity that manages three funds - India Development Fund and IDFC Private Equity Fund 2 and IDFC Private Equity Fund 3. It generates fee income for managing the assets and also participates on upsides over the respective hurdle rates.

It has 100% stake in IDFC-SSKI where it houses the investment banking and institutional broking business.

IDFC is one of the chosen ones to make the cut for banking license. We are subscribers to the evolution model laid out for IDFC's metamorphosis from monoline NBFC to a universal bank. Top management's ability to shape this venture is undisputable given its previous track record. This coupled with bank's high intrinsic profitability of 1.9% RoA warrants P/ABV of 1.7x, (15% discount to the established banks with a similar return profile) and P/ABV of 1.8x (10% discount) for 2% RoA in blue sky scenario case.

Key Risks

Other than the execution risk that is there with respect to the bank under formation, there are risks of margin compression, as the infrastructure financing space is keenly contested. Currently, being an NBFC, IDFC is dependent on wholesale funding. Hence, high interest rates will remain a risk. CASA built up will also be gradual and hence this risk can't be ruled out for the near term.

Large ticket lending makes IDFC's current loan book riskier than other banks. NPA occurrence, due to large ticket size, can dent its future earnings.

Manpower and the management team will be a key building block for the bank and hence any adverse changes here can impact the efficient roll out of the banking operations.

Financial Statements (Proposed IDFC Bank)

Key assumptions

	H2FY16E	FY17E	FY18E	FY19E	FY20E
Operating metric assump. (%)					
Yield on advances	NA	11.8	11.4	11.3	11.3
Yield on investments	NA	8.0	8.0	8.0	8.0
Yield on assets	NA	11.0	10.7	10.7	10.7
Net interest margins	NA	3.6	3.1	3.0	3.0
Cost of funds	NA	9.0	8.9	8.8	8.8
Cost of deposits	NA	8.9	8.7	8.6	8.4
Cost of borrowings	NA	9.0	9.0	9.0	9.0
Spread	NA	2.0	1.8	1.8	1.9
Tax rate	NA	33.5	33.5	33.5	33.5
Balance sheet assumption (%)					
Credit growth	NA	45.2	29.3	22.1	21.1
Deposit growth	NA	0.0	60.3	31.6	32.9
SLR ratio	24.0	24.0	24.0	24.0	24.0
Tax rate	33.5	33.5	33.5	33.5	33.5
Low-cost deposits	NA	6.0	9.0	12.0	15.0
Gross NPA ratio	1.1	0.9	0.9	1.0	1.2
Net NPA ratio	0.0	0.0	0.2	0.2	0.3
Provision coverage	100.0	84.3	79.8	77.5	76.8
Incremental slippage	0.1	0.2	0.3	0.4	0.4
Net NPA / Equity	0.0	0.0	1.1	1.6	2.0
Capital adequacy	25.5	18.5	16.0	14.6	13.6

Income statement (INR mn)

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
Interest income	35,203	83,777	109,868	136,024	164,174
Interest expenses	22,275	56,291	78,314	98,053	118,620
Net interest income	12,928	27,485	31,554	37,971	45,554
Non interest income	2,730	7,418	10,444	13,474	16,887
- Fee & forex income	*2,630*	*7,268*	*10,194*	*12,974*	*16,387*
- Misc. income	*0*	*0*	*0*	*0*	*0*
- Investment profits	*100*	*150*	*250*	*500*	*500*
Net revenues	15,658	34,904	41,998	51,444	62,441
Operating expense	5,010	9,777	11,325	13,109	14,158
- Employee exp	2,750	7,250	8,500	9,950	10,625
- Other opex	2,260	2,527	2,825	3,159	3,533
Preprovision profit	10,648	25,127	30,673	38,335	48,283
Provisions	1,073	1,454	2,935	3,864	5,167
- Loan loss provisions	573	954	2,435	3,364	4,667
- Other provisions	500	500	500	500	500
PBT	9,575	23,673	27,737	34,472	43,116
Taxes	3,208	7,931	9,293	11,549	14,445
PAT	6,367	15,742	18,445	22,923	28,672
Diluted EPS	2.0	5.0	5.8	7.2	9.0
DPS	0.4	1.0	1.2	1.4	1.8
Payout ratio (%)	22.0	22.0	22.0	22.0	22.0

Growth ratios (%)

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
NII growth	NA	112.6	14.8	20.3	20.0
Fees growth	NA	176.4	40.2	27.3	26.3
Opex growth	NA	95.1	15.8	15.8	8.0
PPOP growth	NA	136.8	21.8	24.4	26.3
PPP growth	NA	136.0	22.1	25.0	25.9
Provisions growth	NA	66.6	155.3	38.1	38.7
PAT growth	NA	147.2	17.2	24.3	25.1

Operating ratios (%)

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
Yield on advances	12.3	11.8	11.4	11.3	11.3
Yield on investments	7.9	8.0	8.0	8.0	8.0
Yield on assets	11.4	11.0	10.7	10.7	10.7
Net interest margins	4.2	3.6	3.1	3.0	3.0
Cost of funds	9.1	9.0	8.9	8.8	8.8
Cost of deposits	NA	8.9	8.7	8.6	8.4
Cost of borrowings	9.0	9.0	9.0	9.0	9.0
Spread	2.3	2.0	1.8	1.8	1.9
Cost-income	32.0	28.0	27.0	25.5	22.7
Tax rate	33.5	33.5	33.5	33.5	33.5

Balance sheet					(INR mn)
As on 31st March	**H2FY16E**	**FY17E**	**FY18E**	**FY19E**	**FY20E**
Liabilities					
Equity capital	31,705	31,705	31,705	31,705	31,705
Reserves	103,308	115,581	129,960	147,831	170,184
Net worth	135,014	147,286	161,665	179,536	201,889
Sub bonds/pref cap	0	0	0	0	0
Deposits	0	219,812	352,307	463,693	616,372
Borrowings	493,976	540,618	645,508	756,613	870,104
Other liabilities	0	0	0	0	0
Total	**628,990**	**907,716**	**1,159,480**	**1,399,842**	**1,688,365**
Assets	493,976	760,430	997,815	1,220,306	1,486,476
Loans	525,960	763,921	987,952	1,220,306	1,460,308
Investments					
Gilts	*81,306*	*114,628*	*137,167*	*154,988*	*183,122*
Others	*0*	*0*	*0*	*0*	*0*
Cash & equi	16,939	23,881	28,576	32,289	38,150
Fixed assets	4,785	5,285	5,785	6,285	6,785
Other assets	0	0	0	0	0
Total	**628,990**	**907,716**	**1,159,480**	**1,399,842**	**1,688,365**
Balance sheet ratios (%)					
Credit growth	NA	45.2	29.3	22.1	21.1
Deposit growth	NA	0.0	60.3	31.6	32.9
EA growth	NA	44.6	27.8	20.8	20.7
SLR ratio	24.0	24.0	24.0	24.0	24.0
C-D ratio	NA	347.5	280.4	260.1	236.9
Low-cost deposits	NA	6.0	9.0	12.0	15.0
Gross NPA ratio	1.1	0.9	0.9	1.0	1.2
Net NPA ratio	0.0	0.0	0.2	0.2	0.3
Provision coverage	100.0	84.3	79.8	77.5	76.8
Incremental slippage	0.1	0.2	0.3	0.4	0.4
Net NPA / Equity	0.0	0.0	1.1	1.6	2.0
Capital adequacy	25.5	18.5	16.0	14.6	13.6
- Tier 1	23.5	16.5	14.0	12.6	11.6
Book value	42.6	46.5	51.0	56.6	63.7

ROA decomposition (%)

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
Net interest inc./Asset:	4.2	3.6	3.1	3.0	3.0
Fees/Assets	0.8	1.0	1.0	1.0	1.1
Invest. profits/Assets	0.0	0.0	0.0	0.0	0.0
Net revenues/Assets	5.0	4.6	4.1	4.0	4.1
Operating exp./Assets	(1.6)	(1.3)	(1.1)	(1.0)	(0.9)
Provisions/Assets	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Taxes/Assets	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)
Total costs/Assets	(3.0)	(2.5)	(2.3)	(2.2)	(2.2)
ROA	2.1	2.1	1.8	1.8	1.9
Equity/Assets	21.4	18.5	15.0	13.4	12.4
ROAE	9.6	11.2	11.9	13.4	15.0

Per share metrics

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
Diluted EPS (INR)	2.0	5.0	5.8	7.2	9.0
EPS growth (%)	*NA*	*147.2*	*17.2*	*24.3*	*25.1*
BV per share (INR)	42.6	46.5	51.0	56.6	63.7
Adj. BV/share (INR)	42.6	46.5	50.6	56.0	62.8

Valuation metrics (IDFC Ltd.)

Year to March	H2FY16E	FY17E	FY18E	FY19E	FY20E
BV/share (INR)	122.2	130.3	139.7	151.5	166.2
EPS/share (INR)	11.3	10.1	11.8	14.7	18.4
P/BV (x)	1.2	1.1	1.0	1.0	0.9
P/E (x)	12.8	14.4	12.3	9.9	7.9

Peer comparison valuation

	Market cap	Diluted PE (X)		Price/BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY15E**	**FY16E**	**FY15E**	**FY16E**	**FY15E**	**FY16E**
IDFC Ltd	3,609	11.0	10.0	1.3	1.2	12.7	12.8
Axis Bank	16,127	13.1	10.7	2.3	1.9	18.1	18.9
Federal Bank	1,741	10.2	8.2	1.4	1.2	14.2	15.6
HDFC Bank	33,973	20.0	16.1	4.1	3.4	21.6	22.4
ICICI Bank	29,823	15.9	13.7	2.2	2.0	14.7	15.4
IndusInd Bank	5,483	18.6	14.7	3.2	2.7	18.3	19.7
ING Vysya	1,971	15.4	12.0	1.6	1.4	10.6	12.4
Kotak Mahindra Bank	13,479	30.7	25.5	4.5	3.7	14.2	14.9
Yes Bank	4,234	13.2	10.8	2.2	1.9	20.8	18.8
Median		13.2	11.1	2.2	1.9	14.2	15.4
AVERAGE		15.1	12.5	2.3	2.0	15.7	16.3

Source: Edelweiss research

Additional Data

Directors Data

S S Kohli	Nominee (Govt)	Donald Peck	Director
S H Khan	Director	Gautam Kaji	Director
Shardul Shroff	Director	Omkar Goswami	Director
Marianne Okland	Independent Non Exe. Director	Rajiv B. Lall	Executive Chairman
Snehlata Shrivastava	Director	Joseph Dominic Silva	Director
Vikram Limaye	Managing Director & CEO		

Auditors - Deloitte Haskins & Sells

*as per last annual report

Holding - Top10

	Perc. Holding		Perc. Holding
Sipadan Invsts Mauritius	9.96	First State Investments Icvc	6.01
Life Insurance Corp Of India	4.20	JF Asset Management Ltd	3.70
Royal Bank Of Scotland Group Plc	2.90	Actis Hawk Ltd	2.44
Abu Dhabi Investment Authority	2.40	Orbis Sicav Asia ExJpn Fd	2.12
Platinum Investment Management L	1.70	JP Morgan Chase & Co	1.53

*as per last available data

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*in last one year

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
25 Aug 2014	Mr. Mahendra N Shah	Sell	120000.00
06 Aug 2014	Dr. Rajiv B. Lall	Sell	1150000.00
06 Aug 2014	Mr Mahendra N Shah	Sell	230041.00
28 Jan 2014	First State Investment Management (UK) Limited & First State Investment International Limited	Buy	9912556.00

*in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SO	L	Bank of Baroda	BUY	SO	M
Development Credit Bank	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IndusInd Bank	BUY	SO	L
IDFC	BUY	SO	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	HOLD	SP	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	Multi Commodity Exchange of India	UNDER REVIEW	None	None
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SP	M
Shriram Tansport Finance	BUY	SO	L	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	BUY	SP	M
Yes Bank	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelweissfin.com*

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales & Strategy	nirav.sheth@edelweissfin.com	+91 22 4040 7499

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Max India, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Tansport Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
04-Sep-14	**BFSI**	Banks' infra bonds being raised at competitive rates; *EdelFlash*		
02-Sep-14	**Banking**	RBI's relief on non-equity capital raising: PSBs to benefit; *Sector Update*		
26-Aug-14	**BFSI**	SBI cuts home loan rates; competition intensifies; *Sector Update*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	151	44	9	205

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	144	56	5

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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