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Rating	BUY
Price	Rs126
Target Price	Rs160
Implied Upside	27.0%
Sensex	25,318
Nifty	7,688

(Prices as on September 08, 2015)
Trading data

Market Cap. (Rs bn)	204.6
Shares o/s (m)	1,622.4
3M Avg. Daily value (Rs m)	807.8

Major shareholders

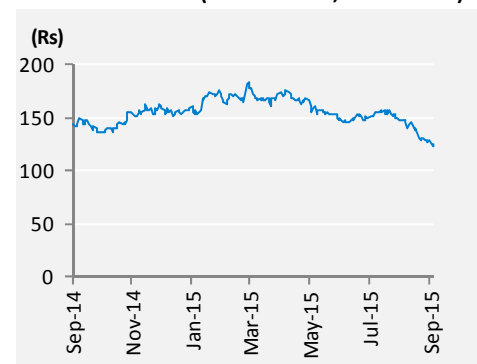
Promoters	0.00%
Foreign	47.41%
Domestic Inst.	29.76%
Public & Other	22.83%

Stock Performance

(%)	1M	6M	12M
Absolute	(14.7)	(29.4)	(11.9)
Relative	(4.4)	(15.4)	(4.6)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2016	12.3	8.4	46.3
2017	12.4	11.1	11.2

Price Performance (RIC: IDFC.BO, BB: IDFC IN)


Source: Bloomberg

IDFC Limited plans to launch its banking operations from Oct-2015 with ~25 branches and focus on corporate and rural banking in the initial phase of its operations. The bank will be starting operations with a network of Rs135bn (after making incremental provisions of Rs25bn) implying a Tier-I of ~16%. IDFC Bank will get listed in November 2015 and the current suppressed share price of IDFC offers an attractive opportunity to buy into one of the strong emerging private banks. We value IDFC at Rs160 per share taking a holding company discount of 20% (Rs205 per share as per our bull case valuation) wherein we have valued IDFC Bank at 1.6x FY17E ABV.

■ **Margins to remain under pressure; FY18E to mark the trough:** IDFC has been able to maintain its NIM at 3.2% (aided by Tier-I of ~23%) even as it has built-up a sizeable G-Sec portfolio. However, as the bank is demerged and the network is allocated between IDFC Bank and the holding company (NOFHC), Tier-I of the bank will likely fall to ~16% from ~23% currently. This, along with continuous build-up of low-yielding investment portfolio, PSL drag and CRR requirement, will push margins lower over the next two years. Consequently, we estimate margins to decline by ~50bps between FY16-18E and likely to improve thereafter.

■ **Cost ratios to increase until FY18E; RoA to recover to 1.4% by FY20E:** We expect IDFC's cost-ratios to increase steadily over the next three years as it invests in technology and expands its branch network. We expect IDFC's branch network to increase to 600 by FY20 v/s 20-25 to start with. We, thus, estimate cost-income ratio to increase steadily and stabilize at ~35% by FY20E, while cost-to-asset ratio is likely to increase to 1.2% from 0.8% currently. Hence, expect IDFC's RoA to moderate by 43bps over FY16-18E and thereafter recover to 1.4% by FY20E. However, improving leverage will still enable RoE to maintain its upward trajectory and reach close to 15% by FY20E.

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Key Financials (Y/e March)	2014	2015	2016E	2017E
Net interest income (Rs m)	27,040	26,434	27,949	28,425
Growth (%)	6.7	(2.2)	5.7	1.7
Non-interest income (Rs m)	10,310	12,125	12,121	13,405
Operating Profit (Rs m)	31,912	31,920	31,822	31,990
PAT (Rs m)	18,022	17,259	19,884	20,043
EPS (Rs)	11.9	10.6	12.3	12.4
Growth (%)	(2.0)	(10.5)	15.2	0.8
Net DPS (Rs)	3.1	3.7	4.5	5.4

Profitability & valuation	2014	2015	2016E	2017E
Spreads / Margins (%)	3.7	3.4	3.4	3.1
RoAE (%)	12.5	10.5	10.8	10.1
RoAA (%)	2.5	2.2	2.4	2.2
P/E (x)	10.6	11.9	10.3	10.2
P/BV (x)	1.3	1.2	1.1	1.0
P/ABV (x)	1.3	1.2	1.1	1.0
Net dividend yield (%)	2.5	3.0	3.6	4.3

Source: Company Data; PL Research

- **Deposit build-up to be gradual; to comprise ~32% of balance sheet by FY20E:** Building up a deposit franchise will be one of the major challenges that IDFC will face as it evolves as a bank. Intense competition for savings account deposit and limited branch presence of IDFC as it plans to start with lean branch network will limit its ability to quickly ramp-up the savings account franchise. However, on the positive side, we expect CA to quickly gain traction as IDFC benefits from its close association with wholesale customers and effectively cross-sells the wide bouquet of products that it now has to offer. We estimate IDFC's deposit portfolio to account for ~32% of total balance sheet by FY20E, while we estimate CASA mix to improve to 20.4% by FY20E.
- **FII ownership headroom to increase significantly post demerger:** Currently there is limited room for FII participation at the holding company level. However, post demerger, FII ownership in IDFC Bank will decline to ~22% v/s stipulated limit of 49%. This will give FIIs enough room to buy directly into the bank and will also enable IDFC Bank to raise capital as and when needed depending upon the growth outlook.
- **Valuation:** We value IDFC using SOTP methodology at Rs92, after applying 20% holding company discount. We have further valued IDFC Bank at 1.6x FY17E ABV which gives us an overall value of Rs160 per share for IDFC - prior to demerger.

Exhibit 1: IDFC Bank DuPont analysis: We expect RoA to bottom out at 1.2% in FY18E

RoA decomposition	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Interest income	10.05	9.20	8.87	8.64	8.57	8.57
Interest expenses	6.97	6.71	6.87	6.77	6.58	6.35
Net interest income	3.07	2.49	2.00	1.87	1.99	2.22
Treasury income	1.15	0.06	0.07	0.07	0.08	0.09
Other Inc. from operations	0.79	1.57	1.55	1.45	1.39	1.34
Total income	5.01	4.12	3.62	3.40	3.46	3.65
Employee expenses	0.48	0.51	0.53	0.51	0.49	0.47
Other operating expenses	0.39	0.63	0.72	0.77	0.81	0.82
Operating profit	4.14	2.98	2.37	2.12	2.16	2.36
Tax	0.74	0.67	0.56	0.51	0.54	0.60
Loan loss provisions	1.25	0.68	0.50	0.40	0.35	0.37
ROA	2.16	1.63	1.31	1.20	1.27	1.39

Source: Company Data, PL Research

Long term play; near term triggers

IDFC plans to launch its banking operations from Oct-2015, with ~15 branches in Madhya Pradesh (spread over three districts Hoshangabad, Khandwa, and Harda) and 5-10 branches in Delhi and Mumbai. The bank plans to focus on corporate and rural banking in the initial phase of its operations and will gradually work towards building up its retail portfolio which will be the most challenging piece to execute as the company transforms into a full scale bank. The bank will be starting operations with a networth of Rs135bn (after making incremental provisions of Rs25bn) and a total share capital of ~Rs34bn which implies a book value of ~Rs40 for IDFC Bank and Tier-I of ~16%.

We believe that the imminent listing of the bank enabling investors – (i) to directly invest in the bank, and, (ii) opening up of large FII headroom will act as near term catalysts for stock performance. While improvement in earnings stability and return ratios will help re-rate the stock over the longer term.

Exhibit 2: IDFC's transition to a bank: Fresh share issuance and network

IDFC transition to a bank	
Existing Number of shares of IDFC	1,593
No. of shares to be issued for IDFC Bank in 1:1 ratio, representing 47% of total equity	1,593
Total number of shares of the bank	3,389
No. of shares to be held by NOFHC	1,796
Total share capital of IDFC Bank (Rs m)	33,889
Total networth of IDFC Bank at start (Rs m)	135,000

Source: Company Data, PL Research

Exhibit 3: IDFC Bank book value post incremental provision of Rs25bn

Networth allocation post incremental provision of Rs25bn	Rs m
Current networth of IDFC	173,209
Incremental provisions to be made	25,000
Impact on networth, adjusting for DTA creation	156,543
Networth allocation of above:	
- To IDFC, Subs and NOFHC	21,543
- To IDFC Bank	135,000
Current Book value of IDFC Bank, Rs	40

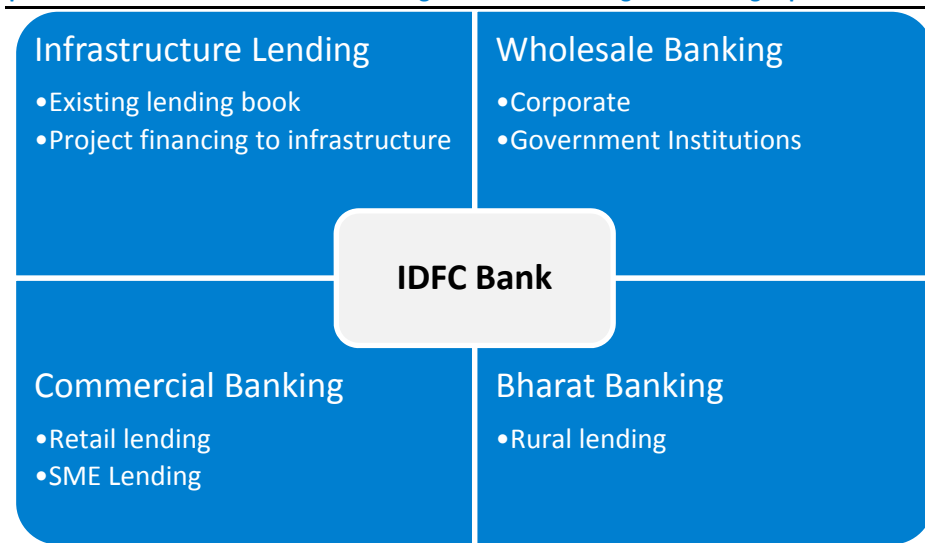
Source: Company Data, PL Research

Exhibit 4: Tentative listing timeline for IDFC Bank

1-Oct-15	IDFC Bank to launch its operations; Effective date of demerger
10 th – 15 th Oct, 2015	Record date for demerger
Following three weeks	Issuance of IDFC Bank shares to all IDFC shareholders in 1:1 ratio
1st week of Nov, 2015	Listing of IDFC Bank

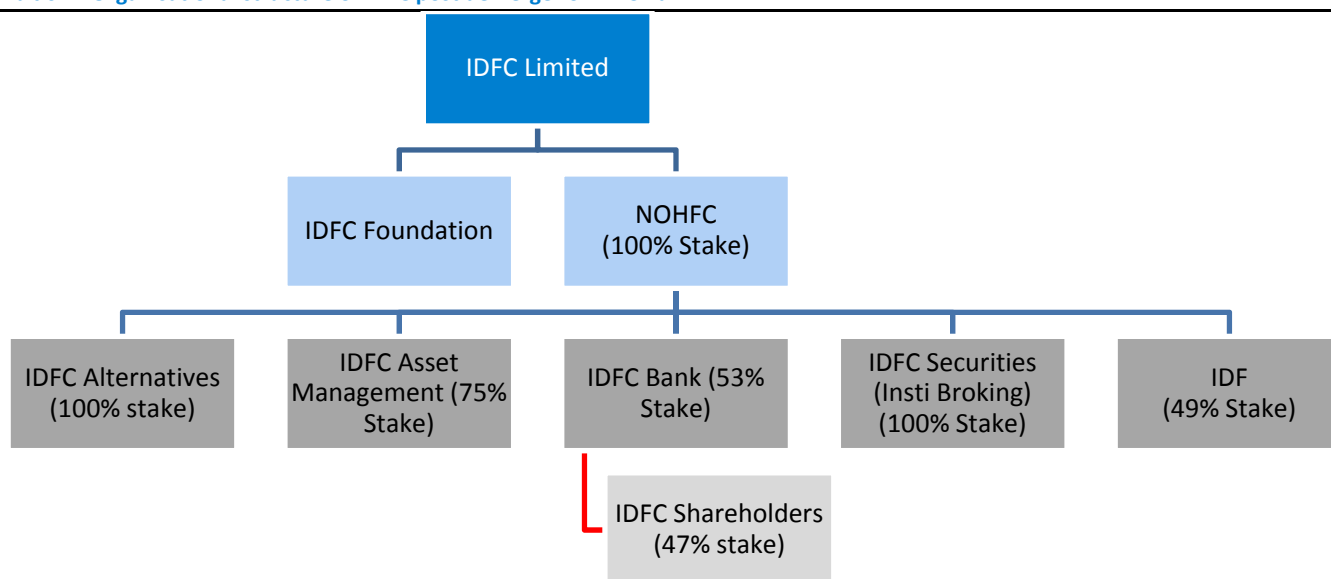
Source: Company, PL Research

Exhibit 5: IDFC Bank business verticals – Wholesale & Infra book to dominate the lending portfolio while initial focus will remain high on Bharat Banking and working capital loans



Source: Company, PL Research

Exhibit 6: Organisational structure of IDFC post demerger of IDFC Bank



Source: Company, PL Research

Scaling up IDFC Bank – Wholesale banking to remain the mainstay

Wholesale banking will remain the core of IDFC Bank even as the focus in this segment will move away from infra project lending to more of working capital / SME loans, cash management, transaction banking, foreign exchange and other fee-based services. The profitability in this segment will remain critical to the growth of other pieces viz Bharat banking and Retail operations. Corporate banking business will be headed by Ajay Mahajan and would include treasury, cash management, transaction banking, government banking, mid-markets, SME, investment banking and large corporate. The securities broking business will be held under the NOFHC as a separate subsidiary and will not be included in the corporate banking. The company already has strong relationships on the corporate side not just in the infrastructure sector but across the entire spectrum which gives it an advantage in building the wholesale loan portfolio and offer products and services to these customers which it was earlier unable to provide. Spreads in this business are likely to remain thin as IDFC bank builds its book on a cautious note and does business with top rated corporates. Potential savings from infrastructure bond issuance will help limit margin damage to some extent.

Exhibit 7: IDFC Bank can raise Rs70-90bn of infra bonds per year which comply for regulatory benefit

	Q1FY16	FY16E	FY17E	FY18E	FY19E	FY20E
IDFC Bank Loan Book	524	579	687	818	984	1,205
Loan book eligible as LT Infra Project Loans	350	375	411	448	490	539
Eligible for regulatory benefit on Infra bonds	30%	30%	44%	58%	72%	86%
Eligible Infra Loans for PSL/CRR/SLR Benefit	105	113	181	260	353	464
Infra bonds that can be raised		107	172	247	335	441

Source: Company Data, PL Research

Nearly Rs350-360bn worth of IDFC's assets is eligible to be funded by long-term infrastructure bonds and avail benefit on SLR/CRR/PSL requirement in FY16. The company plans to issue 30% of this eligibility (maximum permissible) i.e. ~Rs100bn within the current fiscal itself. While, going ahead, incremental 14% of infra loan book will be eligible per year for regulatory incentives with 100% book eligible by FY21E. As a part of regulatory incentive, IDFC Bank can raise Rs70-90bn of infra bonds every year (after FY16E) which would not be part of NDTL calculation.

We estimate infra loan book to grow at 9% CAGR in FY16-FY20E and share of infra loans to come down to 45% in FY20E as retail, rural & wholesale business gains size.

Rural business to scale up rapidly

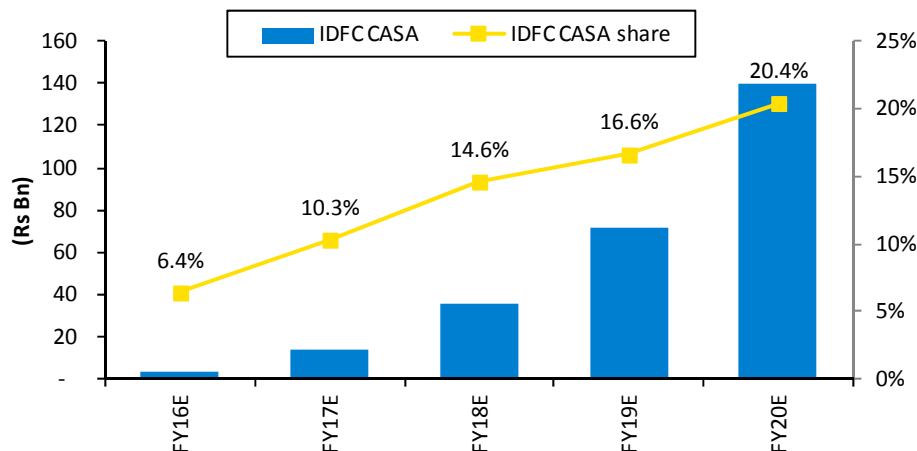
IDFC bank intends to scale up the rural business (Bharat Banking) rapidly and will increase branches in Tier-VI centres (where the population is less than 10,000) to much more than the regulatory requirement of 25%. As per IDFC, this business is likely to turn profitable early on and will make decent ROE as the amount of investment required is significantly lower. The contribution of rural bank to the overall bank's profit will remain small for initial few years. However, as these loans are qualified for PSL lending, this will help lower the drag arising from non-compliance of PSL loans, beginning FY17E. The company has hired Ravi Shankar to drive its rural banking operations.

Retail will remain the most difficult piece to execute

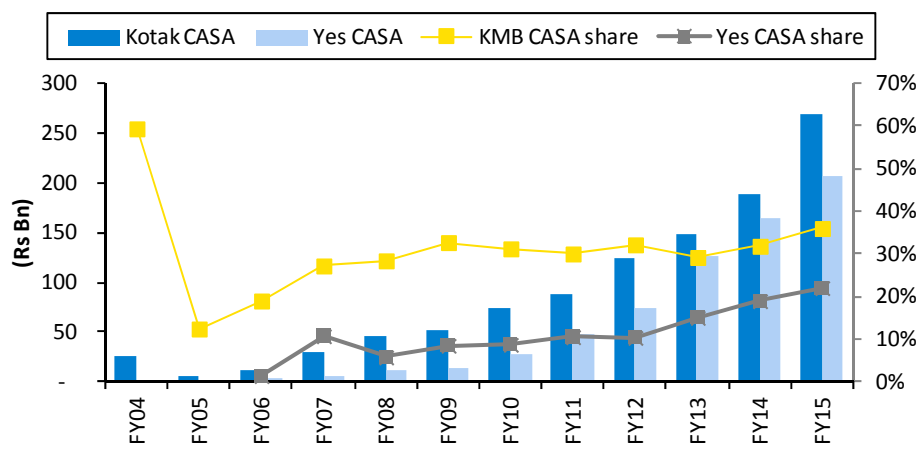
Retail operations will be the third building block as IDFC transforms into a full scale bank and will be the most difficult piece to execute. IDFC is cautious of opening too many branches and plans to leverage on technology to expand its retail operations. To begin with, the company will focus largely on Tier-I cities and aims to build a liability base with a bulk of savings and current account deposits. The company plans to start with home loans and focus on affordable housing, which will be eligible for priority sector lending as well. The bank's retail business will be headed by Naval Bir Kumar.

Deposit build-up to be gradual; we estimate deposits to comprise ~32% of balance sheet by FY20E

Building up a deposit franchise will be one of the major challenges that IDFC will face as it evolves as a bank. Intense competition for savings account deposit and limited branch presence of IDFC as it plans to start with lean branch network will limit its ability to quickly ramp-up the savings account franchise. However, on the positive side, we expect CA to quickly gain traction as IDFC benefits from its close association with wholesale customers and effectively cross-sells the wide bouquet of products that it now has to offer. We estimate IDFC's deposit portfolio to account for ~32% of total balance sheet by FY20E, while we estimate CASA mix to improve to 20.4% by FY20E.

Exhibit 8: IDFC Bank: CASA progression and how it stacks up...


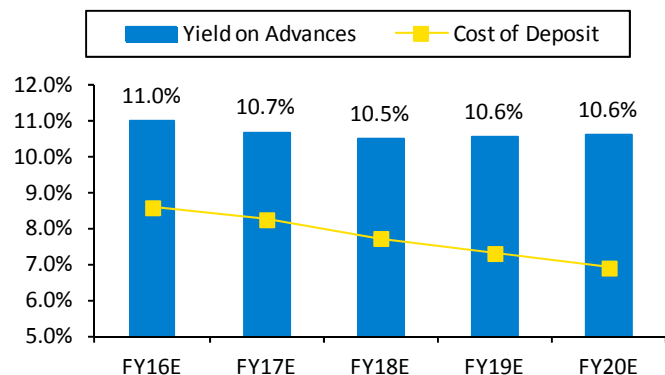
Source: Company Data, PL Research

Exhibit 9: ...against Yes Bank and Kotak Bank


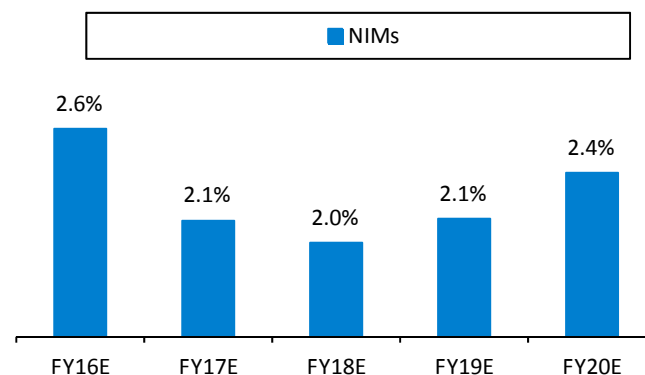
Source: Company Data, PL Research

Margins to remain under pressure; FY18E to mark the trough

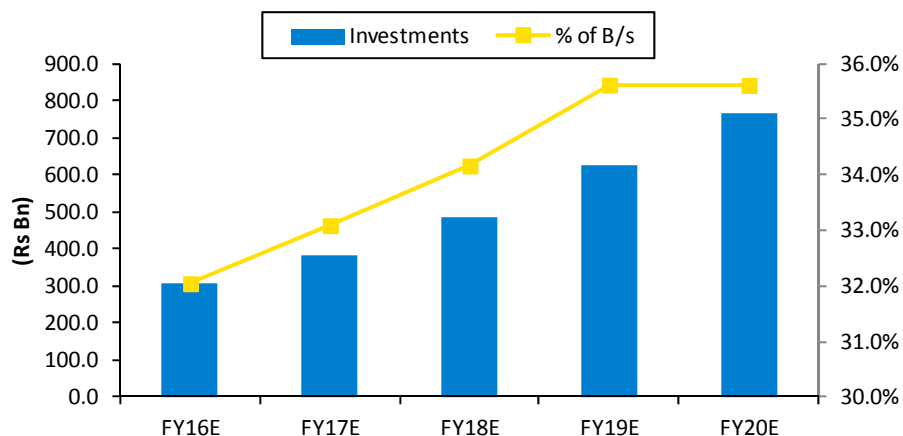
IDFC has been able to maintain its NIM at 3.2% (aided by Tier-I of ~23%) even as it has built-up sizeable G-Sec portfolio to comply with CRR/SLR and LCR requirements. However, as the bank is demerged and the network is allocated between IDFC Bank and the holding company (NOFHC), the Tier-I of the bank will likely fall to ~16% from ~23% currently. This, along with continuous build-up of low-yielding investment portfolio, PSL drag from next fiscal and parking money with RBI towards CRR which is right now fetching ~8% investment yield, will push margins lower over next two years. Consequently, we estimate margins to decline by ~50bps between FY16-18E and likely to improve thereafter.

Exhibit 10: Significant CASA accretion to help lower Cost of deposits..


Source: Company Data, PL Research

Exhibit 11: ..helping margins to bottom out in FY18


Source: Company Data, PL Research

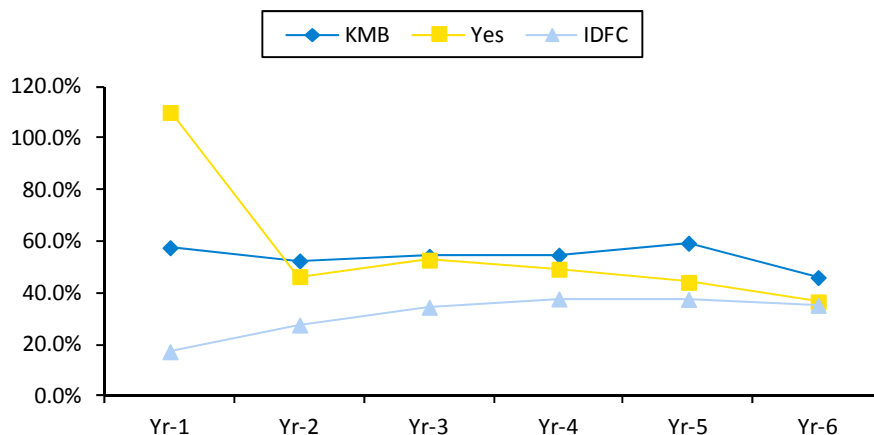
Exhibit 12: IDFC Bank has created enough cushion of SLR requirement


Source: Company Data, PL Research

Cost ratios to increase until FY18E, but lower than peers

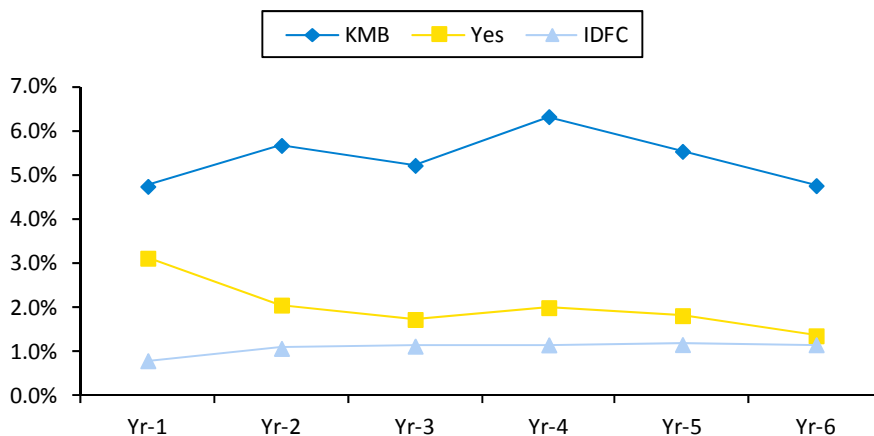
We expect IDFC's cost-ratios to increase steadily over the next three years as it invests in technology and expands its branch network. We expect IDFC's branch count to increase to 600 by FY20 v/s 20-25 to start with. We, thus, estimate cost-income ratio to increase steadily and stabilize at ~35% by FY20E, while cost- to-asset ratio is likely to increase to 1.2% from 0.8% currently.

Exhibit 13: We expect Cost-income to converge for IDFC Bank similar to Yes/KMB post initial years of operations



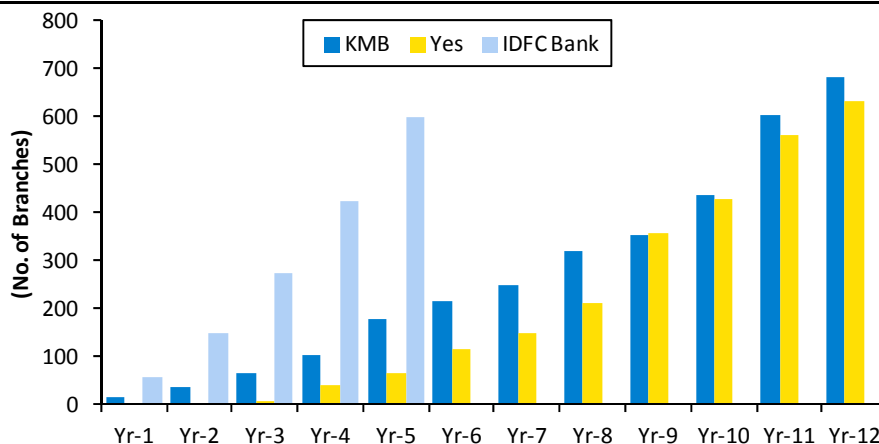
Source: Company Data, PL Research

Exhibit 14: Cost-asset ratio will remain the lowest for IDFC among peers in first years of operation on already available Infra business



Source: Company Data, PL Research

Exhibit 15: Cushion on costs & running wholesale franchise will enable IDFC Bank to go aggressive on branch addition

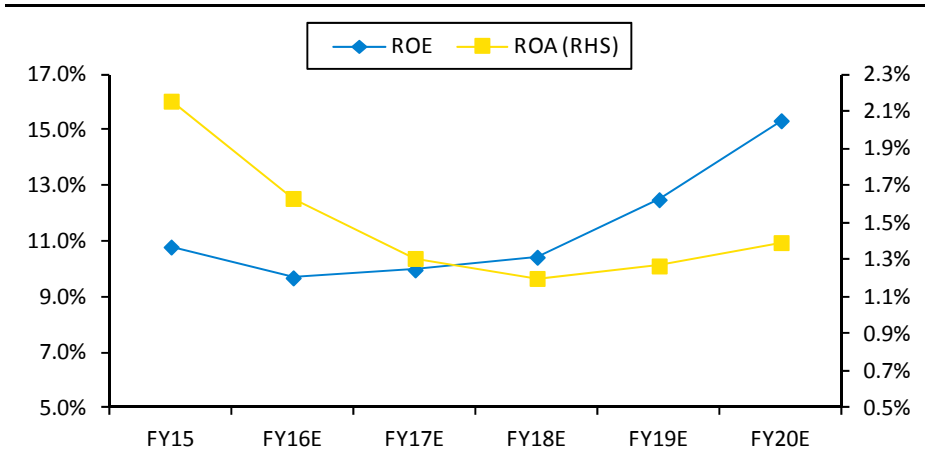


Source: Company Data, PL Research

Return Ratios will hold up well as existing infra business profitable

We expect IDFC's RoA to moderate by 43bps over FY16-18E and thereafter recover to 1.4% by FY20E. However, improving leverage will still enable RoE to maintain its upward trajectory and reach close to 15% by FY20E.

Exhibit 16: ROE/ROA trajectory to bottom out in FY18E



Source: Company Data, PL Research

Incremental provisions will ring-fence the existing portfolio

IDFC plans to provide ~RS25bn over the coming quarters as it ring-fences its balance sheet against any adverse asset quality shocks once it launches the banking operations in Oct-2015. The company has identified assets worth ~Rs85bn which may show stress going forward and plans to provide incremental Rs25bn (to be made in 2QFY16) by directly charging to special reserves, thus taking up the total coverage to ~53% against such assets. This is based on company's conservative assessment where in it expects loss-given-default on such stressed assets to remain nearly 50 cents to a dollar. However, owing to DTA benefits, the resultant impact on networth will be ~Rs16bn.

Going ahead, we expect credit cost to remain much lower at ~0.6% as IDFC cautiously grows its loan book and focuses on low-risk corporate/working capital loans. If the economic environment improves materially there is a fair chance of write-back from the existing provisioning cushion that the company has built which though is not reflected in our estimates.

Exhibit 17: Provisioning on stressed assets to increase to ~53%

Contingent & specific provisions held on B/s (Rs m)	20,000
Additional provisions to be made via special reserve fund (Rs m)	25,000
Total contingent & specific provisioning (Rs m)	45,000
Total stressed assets (Rs m)	85,000
- of which power related	>80%
Total provisioning cushion on stressed assets	53%

Source: Company Data, PL Research

Exhibit 18: IDFC: Current asset quality snapshot

GNPL, Rs m	8,107
NNPL, Rs m	5,241
GNPL (%)	1.5%
NNPL (%)	1.0%
Provisioning coverage ratio (%)	35.3%
Restructured assets, Rs m	35,680
Restructured assets (%)	7.0%
Total net stressed assets, Rs m	40,922
Total net stressed assets %	8.0%

Source: Company Data, PL Research

FII ownership headroom available will be significant post demerger

Currently, there is limited room for FII participation at the holding company level. However, post demerger, FII ownership in IDFC Bank will decline to ~22% v/s stipulated limit of 49% for the first five years, after which the FII limit will be eased to 74%. This will give FIIs enough room to buy directly into the bank and will also enable IDFC Bank to raise capital as and when needed depending upon the growth outlook.

Exhibit 19: FII ownership room in IDFC Bank

FII ownership in IDFC	47%
No. of shares to be held by FIIs in IDFC Bank	755.14 m
FII holding in IDFC Bank as a percentage of share capital	22%
FII limit permissible in IDFC Bank	49%
FII room left in IDFC Bank- theoretically (%)	27%
Promoter ownership – held by NOFHC	53.0%
Government ownership in IDFC Bank	7.7%
Total public holding possible	39.3%
Maximum FII room possible (%)	17.0%

Source: Company Data, PL Research

Exhibit 20: FII room available in major private banks – HDFCB & ICICIB has limited room

Private Banks	FII holding %	GDR/ADR %	Total FII Ownership %
Axis Bank	44.5	3.8	48.3
HDFCB [#]	32.5	40.5	72.9
ICICI Bank	40.3	29.0	69.3
Kotak Mah. Bank	35.3	0.1	35.4
IndusInd Bank	38.6	12.2	50.8
Yes Bank	44.4	-	44.4
Federal Bank	34.4	1.9	36.3
South Indian Bank	28.2	-	28.2
J&K Bank	24.3	-	24.3

Source: Company Data, PL Research *holding as of Jun'15 end
[#]HDFCB FII ownership includes HDFC's shareholding

Valuation

We value IDFC using SOTP methodology at Rs92, after applying 20% holding company discount. We have further valued IDFC Bank at 1.6x FY17E ABV which gives us an overall value of Rs160 per share for IDFC - prior to demerger.

Exhibit 21: IDFC Bank will add significant value to IDFC limited as we value bank at 1.6x in base case

Valuation post demerger, Rs	Stake (%)	Value at -	Bear Case	Base Case	Bull Case
(i) Value of IDFC Bank					
FY17E Adjusted network of IDFC Bank		Rs 140.6 bn			
P/ABV multiple			1.0x	1.6x	2.5x
Value of IDFC Bank, Rs mn			140.6	231.0	351.5
Value per share of IDFC Bank			41.5	68.2	103.7
(ii) Value of IDFC					
(a) AMC business - FY17E AUMs of Rs674 bn	75%	5% of AUMs		25.3	
(b) IDFC Alternatives - Total AUMs of Rs135.67 bn	75%	10% of AUMs		10.2	
(c) Value of IDFC Securities				5.0	
(c) Value of NSE Stake				8.0	
(e) Value of stake held in IDFC Bank	53%			122	
(f) Value of IDF at 1x network	100%			2	
(g) Unallocated network at NOFHC level / others				10	
Total value of IDFC, Rs bn				182.9	
Holding company discount				20%	
Value of IDFC, post holding company discount, Rs bn				146.3	
Value of IDFC on per share basis – post demerger, Rs				92	

Source: Company Data, PL Research

Exhibit 22: We value IDFC at Rs160 per share in our base case

Value of IDFC prior to demerger	Bear Case	Base Case	Bull Case
Total value of IDFC, Rs bn	182.9	182.9	182.9
Holding company discount	40%	20%	10%
Value of IDFC on per share basis, Rs	69	92	103
Value of IDFC Bank, on per share basis - Rs	41	68	104
Value of IDFC on per share basis - prior to demerger, Rs	110	160	207

Source: Company Data, PL Research

Exhibit 23: We value IDFC bank at 1.6x FY17E book implying target price of Rs68 per share

PT calculation and upside	
Fair price - EVA	66
Fair price - P/ABV	70
Average of the two	68
Target P/ABV	1.6
Target P/E	16.6
Current price, Rs	60
Upside (%)	14%
Dividend yield (%)	4%
Total return (%)	18%

Source: Company Data, PL Research

Exhibit 24: IDFC Bank DuPont analysis: We expect RoA to bottom out at 1.2% in FY18E

RoA decomposition	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
Interest income	10.05	9.20	8.87	8.64	8.57	8.57
Interest expenses	6.97	6.71	6.87	6.77	6.58	6.35
Net interest income	3.07	2.49	2.00	1.87	1.99	2.22
Treasury income	1.15	0.06	0.07	0.07	0.08	0.09
Other Inc. from operations	0.79	1.57	1.55	1.45	1.39	1.34
Total income	5.01	4.12	3.62	3.40	3.46	3.65
Employee expenses	0.48	0.51	0.53	0.51	0.49	0.47
Other operating expenses	0.39	0.63	0.72	0.77	0.81	0.82
Operating profit	4.14	2.98	2.37	2.12	2.16	2.36
Tax	0.74	0.67	0.56	0.51	0.54	0.60
Loan loss provisions	1.25	0.68	0.50	0.40	0.35	0.37
ROA	2.16	1.63	1.31	1.20	1.27	1.39

Source: Company Data, PL Research

Key management personnel and latest appointments

Anil Baijal – Non-executive Chairman of IDFC Bank: He retired from the Indian Administrative Service in 2006 as Secretary, Ministry of Urban Development Government of India. He anchored the designing and roll-out of the flagship programme of Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) with federal grant equivalent of about Rs600bn for improvement of infrastructure and provision of basic services in urban areas of India. Mr. Baijal held various important assignments like Union Home Secretary, CMD - Indian Airlines, CEO - Prasar Bharti Corporation, Vice-Chairman - Delhi Development Authority etc.

Vinod Rai – Independent director on the board of IDFC Bank: He was the 11th Comptroller and Auditor General of India and is the current chairman of UN Panel of external auditors. He is currently Honorary Advisor to the Railways and a member of the Railway Kaya Kalp Council. Mr. Rai also worked as Financial Services Secretary and was director on several boards including State Bank of India, ICICI Bank, IDBI Bank and Life Insurance Corporation of India. He holds a Masters Degree in Economics from the University of Delhi, and Masters in Public Administration from Harvard University.

Ajay Mahajan – Head Corporate and Consumer banking: He has over 23 years of experience in the banking industry. Worked with Bank of America for 14 years, where he last served as MD & Country Treasurer. He was also a part of founding team of Yes Bank, as Group President of Financial Markets, Institutions and Investment Management.

Ravi Shankar – Head of Bharat Bank (Rural banking business): He has about 29 years of experience across sectors including retail finance, business consulting, advertising, automotive, aviation etc. Prior to this, he was Head of Business & Marketing at Fullerton India Credit Co. Ltd where he helped in building a profitable and robust rural finance network.

Vinayak Mavinkurve – Infrastructure lending: He has over two decades of experience in finance and infrastructure sectors. He is working with IDFC since 1998.

Sanjay Grewal – Corporate (Non-infrastructure lending): He is with IDFC since 2007 and is currently working as Group head - project finance. Prior to this, he was a Principal Investment Officer with the IFC.

Naval Bir Kumar – Consumer Banking: He is currently the Vice Chairman of IDFC Asset Management Company.

Sriraman Jagannathan – Chief Digital & Data Officer: Prior to joining IDFC, he was working with Airtel, where he spearheaded the launch of its first mobile payments platform. He also worked with Citi group for over 20 years, which included leading their e-commerce and digital build out in India and Japan.

Animesh Kumar – Group head - HR & Corporate services: Prior to this, he was a part of the HR leadership team in ABN AMRO/Royal Bank of Scotland (RBS) Group. He also held positions with Marico Industries, Thomas Cook (India), YES Bank and Standard Chartered Bank (SCB).

Pavan Pal Kaushal – Chief Risk Officer: He has over 30 years of experience in the Banking & Financial Industry.

IDFC Bank – Pro-forma Financials

Exhibit 25: IDFC Bank - Balance Sheet (Rs m)

	FY16E	FY17E	FY18E	FY19E	FY20E
Capital	33,889	33,889	33,889	33,889	33,889
Reserves & Surplus	101,111	109,760	120,409	134,461	153,601
Deposits	53,000	132,500	245,125	428,969	686,350
Borrowings	728,767	838,082	963,794	1,089,087	1,197,996
Other Liab. & Prov.	42,648	51,178	60,390	71,864	86,237
Total liabilities	959,415	1,165,408	1,423,607	1,758,270	2,158,073
Cash & Bal. with RBI	9,381	14,559	30,223	45,542	65,952
Bal. with banks	10,163	12,618	15,716	19,735	24,496
Investments	307,499	385,688	486,405	626,269	768,538
Advances	589,833	699,542	833,154	1,002,284	1,226,796
Fixed Assets	17,157	21,275	26,381	32,712	40,563
Other Assets	25,383	31,728	31,728	31,728	31,728
Total assets	959,415	1,165,408	1,423,607	1,758,270	2,158,073
<i>% Growth</i>	<i>10.2</i>	<i>21.5</i>	<i>22.2</i>	<i>23.5</i>	<i>22.7</i>

Source: Company Data, PL Research

Exhibit 26: IDFC Bank – Income Statement (Rs m)

	FY16E	FY17E	FY18E	FY19E	FY20E
Profit & Loss					
Interest Income	84,160	94,219	111,838	136,360	167,749
Interest Expense	61,407	72,997	87,581	104,711	124,278
Net Interest Income	22,754	21,222	24,257	31,650	43,472
<i>% Growth</i>	<i>(8.7)</i>	<i>(6.7)</i>	<i>14.3</i>	<i>30.5</i>	<i>37.4</i>
Treasury Income	588	737	955	1,255	1,672
Other Inc. exc Treasury	14,360	16,454	18,815	22,073	26,322
Total Income	37,702	38,413	44,026	54,978	71,466
Employees Expenses	4,658	5,636	6,650	7,847	9,260
Other Op. Expenses	5,782	7,637	9,987	12,820	16,009
Operating Profit	27,262	25,140	27,389	34,311	46,196
<i>% Growth</i>	<i>(18.9)</i>	<i>(7.8)</i>	<i>8.9</i>	<i>25.3</i>	<i>34.6</i>
Tax	6,100	5,958	6,662	8,644	11,699
Total Provisions	6,229	5,280	5,184	5,497	7,199
Net Profit	14,934	13,902	15,544	20,170	27,298
<i>% Growth</i>	<i>(14.7)</i>	<i>(6.9)</i>	<i>11.8</i>	<i>29.8</i>	<i>35.3</i>

Source: Company Data, PL Research

Exhibit 27: IDFC Bank - Key Ratios

	FY16E	FY17E	FY18E	FY19E	FY20E
Asset Quality					
Gross NPA (Rs m)	4,800	5,384	6,140	8,269	8,880
Gross NPA (%)	0.8	0.8	0.7	0.8	0.7
Net NPA (Rs m)	2,244	2,548	3,332	4,777	4,590
Net NPA (%)	0.4	0.4	0.4	0.5	0.4
% coverage of NPA	53.3	52.7	45.7	42.2	48.3
Delinquencies (%)	0.6	0.5	0.5	0.6	0.5
Capital Adequacy Ratio					
RWA (Rs. mn)	923,484	1,078,076	1,263,397	1,494,219	1,795,454
Tier I (%)	15.8	14.4	13.1	12.0	11.0
Tier II (%)	0.5	1.1	1.0	0.8	0.7
Total CAR (%)	16.3	15.5	14.1	12.8	11.7
Business Ratios					
Credit / Deposit (%)	1,112.9	528.0	339.9	233.6	178.7
Invnt. / Deposit (%)	580.2	291.1	198.4	146.0	112.0
CASA (%)	6.4	10.3	14.6	16.6	20.4
RoA (%)	1.6	1.3	1.2	1.3	1.4
Core RoE (%)	9.7	10.0	10.4	12.5	15.3
Dividend Yield (%)	1.7	1.7	2.0	2.5	3.3
Key assumptions					
Avg. Deposit Growth (%)	-	150.0	85.0	75.0	60.0
Avg. Cost of Deposits (%)	8.6	8.3	7.7	7.3	6.9
Avg. Adv. Growth (%)	10.5	18.6	19.1	20.3	22.4
Avg. yield on Advances (%)	11.0	10.7	10.5	10.6	10.6
Avg. Investment. Growth (%)	2.6	25.4	26.1	28.8	22.7
Avg. Yield on Investment (%)	7.7	7.6	7.5	7.4	7.4
Earnings Ratios					
Int. Inc. / Avg.assets (%)	9.2	8.9	8.6	8.6	8.6
Int. Exp./ Avg. assets (%)	6.7	6.9	6.8	6.6	6.3
NIM (%)	2.6	2.1	2.0	2.1	2.4
Int. exp/ Int earned (%)	73.0	77.5	78.3	76.8	74.1
Oth. Inc./ Tot. Inc. (%)	39.6	44.8	44.9	42.4	39.2
Staff exp/Total opt. exp (%)	44.6	42.5	40.0	38.0	36.6
Cost/ Income Ratio (%)	27.7	34.6	37.8	37.6	35.4
LLP / Avg. loans (bps)	65.0	60.0	55.0	50.0	55.0
Per Share Data					
BVPS (Rs)	39.8	42.4	45.5	49.7	55.3
Adj. BVPS (Rs)	38.5	41.5	44.4	48.2	53.5
Price/ Adj. Book value	1.6	1.4	1.4	1.2	1.1
EPS (Rs)	6.0	4.1	4.6	6.0	8.1
P/E Ratio	10.0	14.6	13.1	10.1	7.4
% EPS Growth	(46.7)	(31.6)	11.8	29.8	35.3

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2014	2015	2016E	2017E
Int. Inc. / Opt. Inc.	77,592	78,668	82,332	90,049
Interest Expenses	50,552	52,233	54,383	61,624
Net interest income	27,040	26,434	27,949	28,425
<i>Growth (%)</i>	6.7	(2.2)	5.7	1.7
Non interest income	10,310	12,125	12,121	13,405
<i>Growth (%)</i>	13.0	17.6	—	10.6
Net operating income	37,350	38,559	40,069	41,831
Expenditure				
Employees	2,883	3,604	4,504	5,405
Other expenses	2,555	3,035	3,743	4,435
Depreciation	—	—	—	—
Total expenditure	5,438	6,639	8,247	9,841
PPP	31,912	31,920	31,822	31,990
<i>Growth (%)</i>	9.4	—	(0.3)	0.5
Provision	6,290	8,114	4,396	4,721
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	25,622	23,806	27,426	27,269
Tax	7,600	6,547	7,542	7,226
<i>Effective tax rate (%)</i>	29.7	27.5	27.5	26.5
PAT	18,022	17,259	19,884	20,043
<i>Growth (%)</i>	(1.9)	(4.2)	15.2	0.8

Balance Sheet (Rs m)

Y/e March	2014	2015	2016E	2017E
Sources of funds				
Equity	15,163	16,224	16,224	16,224
Reserves & Surplus	135,420	161,069	175,603	190,252
Networth	150,583	177,294	191,827	206,476
<i>Growth (%)</i>	10.1	17.7	8.2	7.6
Loan funds	559,150	564,408	631,175	729,954
<i>Growth (%)</i>	—	—	—	—
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	35,397	38,676	42,321	46,317
Total	751,630	786,878	871,823	989,247
Application of funds				
Net fixed assets	3,286	3,245	3,171	3,077
Advances	565,950	582,929	629,563	679,928
<i>Growth (%)</i>	1.5	3.0	8.0	8.0
Net current assets	3,904	4,685	5,528	6,523
Investments	113,087	129,449	165,752	230,592
<i>Growth (%)</i>	2.8	14.5	28.0	39.1
Other Assets	65,404	66,570	67,809	69,127
Total	751,630	786,766	871,710	989,133

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY15	Q3FY15	Q4FY15	Q1FY16
Int. Inc. / Operating Inc.	—	—	—	—
Income from securitization	—	—	—	—
Interest Expenses	—	—	—	—
Net Interest Income	6,490	6,620	6,410	6,270
<i>Growth</i>	(5.4)	(0.3)	(4.0)	(8.1)
Non interest income	4,530	3,180	4,530	840
Net operating income	11,020	9,800	10,940	7,110
<i>Growth</i>	23.8	14.8	12.6	(19.8)
Operating expenditure	1,970	1,980	2,540	2,460
PPP	9,050	7,820	8,400	4,650
<i>Growth</i>	20.3	7.9	0.7	(44.1)
Provision	2,810	1,530	3,750	620
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	6,240	6,290	4,650	4,030
Tax	2,010	2,090	830	1,480
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	32.2	33.2	17.8	36.7
PAT	4,230	4,200	3,820	2,550
<i>Growth</i>	(13.3)	(16.2)	48.1	(47.1)

Key Ratios

Y/e March	2014	2015	2016E	2017E
CMP (Rs)	126	126	126	126
Eq. Shrs. O/s. (m)	1,516	1,622	1,622	1,622
Market Cap (Rs m)	191,204	204,588	204,588	204,588
Market Cap to AUM (%)	25.4	26.0	23.5	20.7
EPS (Rs)	11.9	10.6	12.3	12.4
Book Value (Rs)	99.3	109.3	118.2	127.3
Adjusted Book Value (Rs)	97.8	106.9	114.8	122.7
P/E (x)	10.6	11.9	10.3	10.2
P/BV (x)	1.3	1.2	1.1	1.0
P/ABV (x)	1.3	1.2	1.1	1.0
DPS (Rs)	3.1	3.7	4.5	5.4
Dividend Yield (%)	2.5	3.0	3.6	4.3

Asset Quality

Y/e March	2014	2015	2016E	2017E
Gross NPAs (Rs m)	3,396	7,074	10,805	14,834
Net NPAs (Rs m)	2,342	3,891	5,619	7,417
Gross NPAs to Gross Adv. (%)	0.6	1.2	1.7	2.2
Net NPAs to Net Adv. (%)	0.4	0.7	0.9	1.1
NPA Coverage (%)	31.0	45.0	48.0	50.0

Profitability (%)

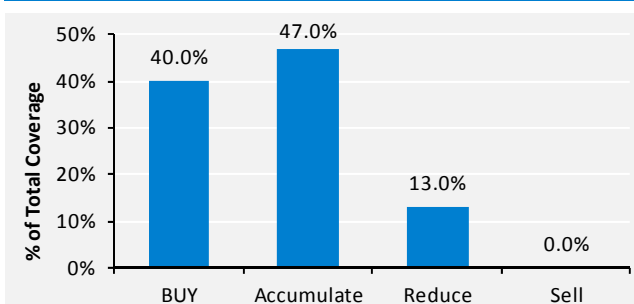
Y/e March	2014	2015	2016E	2017E
NIM	3.7	3.4	3.4	3.1
RoAA	2.5	2.2	2.4	2.2
RoAE	12.5	10.5	10.8	10.1

Source: Company Data, PL Research.

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