IDFC– Q4FY11 update

7th May, 2011

CMP: Rs. 137.3

FV: Rs.10

Market Capitalization: Rs. 179bn

Q4FY11 Financial summary - Consolidated (Rs. in mn)

Particulars	Q4FY11	Q4FY10	% yoy change	Q3FY11	% qoq change
Net interest income	***4,745***	***3,210***	*48*	***4,600***	*3*
a) NII – Infrastructure	*4,250*	*2,900*	*47*	*4,130*	*3*
b) NII – Treasury	*495*	*310*	*60*	*470*	*5*
Non interest income	***1,465***	***2,700***	*(46)*	***1,960***	*(25)*
a) Principal investment	290	270	7	300	**(3)**
b) Asset management	880	1,530	(42)	630	**40**
c) Investment banking	380	510	(25)	**510**	**(25)**
Other income	**70**	**120**	(42)	**40**	**75**
Net income	**6,280**	**6,030**	4	**6,600**	**(5)**
Operating expenses	1,260	2,330	(46)	406	(22)
Pre-provisioning profits	**5,020**	**3,700**	**36**	**79**	**1**
Provisions	**900**	**700**	**29**	**66**	**76**
PBT	**4,120**	**3,000**	**37**	**1,308**	**(8)**
Tax/MI/Associates	1,250	720	74	1,007	(1)
PAT	**2,870**	**2,280**	**26**	**14**	**(11)**

Key Ratios (%)

Particulars	Q4FY11	Q4FY10	yoy change	Q3FY11	qoq change
Capital Adequacy ratio (%)	*24.5*	*20.5*	*397bps*	*24.9*	*(45)bps*

Cost to Income ratio (%)	*8.9*	*17.7*	*(887)bps*	*10*	*(112)bps*
Overall spread	*2.2*	*2.7*	*(50)bps*	*2.4*	*(20)bps*
Net NPAs (%)	*0.1*	*0.17*	*(7)bps*	*0.11*	*(1) bps*
RoA(%)	*2.4*	*2.8*	*(42) bps*	*2.7*	*(32)bps*
RoE(%)	10.1	13	(290) bps	11.4	(130)bps
Coverage ratio (%)	51.2	46.2	500 bps	51.2	-

Q4FY11 update

Higher Net Interest Income (NII) yoy growth of 48% on yoy basis and reduction in operating expenses by 46% on yoy basis drove PAT by 26% on yoy basis to touch Rs. 2.87 bn. Net Interest Income from infrastructure sector witnessed an impressive yoy growth of 47%. On the other hand, Non Interest Income declined by 46% on a yoy basis. This was mainly attributable to pressure in capital market segment. Investment Banking income declined by 25% on yoy basis and broking income witnessed a fall of 42%. Increased competition and regulatory restrictions led to such downfall. Going ahead too, considering market conditions, we believe that the capital market segment of the company would be under stress.

Loan book witnessed yoy growth of 56% to touch Rs. 376 bn in Q4FY11. The growth was driven by transportation (up 90% YoY on o/s disbursement basis), energy (68%) and telecom (59%) sector. A large part of the disbursements in Q4FY11 was done at the end of the quarter. The full impact on income from the loans would result in strong NII growth going forward. However, approvals declined by 55.3% and disbursements too declined by 16%.

Overall spreads declined 20bp sequentially and 50 bps on yoy basis to touch 2.2% in March 2011 (12-month trailing). This was mainly attributed to wholesale financing. Going ahead, we believe increased cost of funds would put pressure on NIMs.

Outlook and Recommendation

We believe, envisaged investment by National Highway Authority of India (NHAI) of Rs. 600-650 bn in road sector by FY12 would augur well for the company. We recommend investors to accumulate the stock at current levels with a target price of Rs. 156 (1.9x FY12E Book Value of Rs.82) for investors with a six-nine months horizon.

Disclaimer

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