

BSE SENSEX	S&P CNX
29,918	9,304
Bloomberg	IDFC IN
Equity Shares (m)	1,589
M.Cap.(INRb)/(USDb)	87.4 / 1.3
52-Week Range (INR)	71 / 35
1, 6, 12 Rel. Per (%)	-2/-3/25
Avg Val, INRm	327.0
Free float (%)	100.0

**IDFC Bank: Financials & Valuations (INR b)**

Y/E March	2017	2018E	2019E
NII	20.2	23.0	29.8
OP	17.5	18.3	24.0
NP	10.2	11.2	14.5
NIM (%)	2.3	2.0	2.1
EPS (INR)	3.0	3.3	4.3
EPS Gr. (%)	10.1	28.8	
BV/Sh. (INR)	43.2	45.7	49.0
RoE (%)	7.2	7.4	9.0
RoA (%)	1.0	0.9	0.9
Cons. PAT	10.2	11.2	14.4

**CMP: INR62 TP: INR81 (+30%)**
**Buy**
**Subdued performance by IDFC Bank hurts overall results**

IDFC Limited's (IDFC) operating profit declined to INR3.3b in 4QFY17 from INR5.5b in the previous quarter (YoY comparison not available), primarily due to lower contribution from IDFC Bank. Lower sequential margins and trading losses (v/s trading gains in the prior quarter) drove subdued performance at the bank ([refer to our latest note here](#)).

- **IDF business:** IDFC IDF (now rechristened IDFC Infrastructure Finance) continues to expand its loan book (up 19% QoQ from INR22.6b to INR26.8b, driven by an increase in the number of accounts from 36 to 37). While growth has been strong, we believe that sustaining such levels would be difficult due to the operating environment, especially after the rate cut by banks. Note that IDF can refinance only projects that have been operational for at least a year. Given the scarcity of such projects right now, banks are unwilling to let go of such projects. As a result, management expects spreads to compress from 2% now to ~1.4%. IDF is well capitalized, with a CAR of 28.9%. Operating profit was INR190m v/s INR220m in 3QFY17.
- **AMC business:** IDFC acquired the 25% stake held by Natixis Global in the AMC business in 4QFY17 for INR2.44b. Average AUM was largely stable QoQ (+14% YoY) at INR595b, with share of equity AUM stable at 22%. However, total income grew in excess of AUM growth at 8% QoQ, while expense growth was relatively modest (+2% QoQ). This led to 16% QoQ growth in operating profits in the quarter to INR370m.
- **Other highlights:** (a) Profits in Alternative Management segment declined QoQ from INR70m to INR40m; (b) IDFC Securities witnessed a spike in revenue from INR140m in 3QFY17 to INR250m in 4QFY17.
- **Valuation and view:** In the near term, quarterly trends are not very relevant, and most of the profitability will be derived from banking operations. We expect balance sheet growth for the bank to remain modest, while asset quality issues are likely to persist. While trading gains at IDFC Bank supported earnings in 9MFY17, it is unlikely to continue in this magnitude. Increase in IDF leverage (leading to higher RoE), continued traction in asset-light businesses (Securities, Asset Management) and build-up of banking business will lead to value creation for shareholders. We use SOTP to arrive at a target price of INR81. **Buy.**

**SOTP: FY19 based**

	(INR b)	(USD b)	Per Share (INR)	Valuation Rationale
<b>A] IDFC Bank (53% direct stake)</b>	<b>112.3</b>	<b>1.7</b>	<b>71</b>	<b>Based on TP of INR68 for IDFCB</b>
<b>B] Other Ventures</b>	48.4	0.7	30	
IDF	8.6	0.1	5	1x Net worth
Alternative assets mgt	9.5	0.1	6	5.6% of FY19E AUM
IB and Broking	2.8	0.0	2	10x FY19 EPS; PBV 1.5x; ROE 16%
Mutual Fund Business	27.4	0.4	17	4.2% of FY19E AUM
<b>Hold Co discount</b>	<b>32.1</b>	<b>0.5</b>	<b>20</b>	<b>20% holdco discount</b>
<b>IDFC Ltd</b>	<b>128.6</b>	<b>1.9</b>	<b>81</b>	
CMP (INR)			55	
<b>Upside (%)</b>			<b>47</b>	

Source: MOSL

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on [www.motilaloswal.com](http://www.motilaloswal.com)/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: Entity wise P&L for the quarter**

INR m	IDFCB	AMC	Alternatives	IDF	Securities
Operating Income	5,570	850	280	220	250
Operating Expense	2,970	480	240	30	240
PPoP	2600	370	40	190	10

Source: Company, MOSL; Note: Consol numbers do not equal sum of subsidiary numbers as standalone and other business numbers are not included

**Key Concall Highlights****Business Updates**

- IDFC bought back 25% of the stake held by Natixis Global in the mutual fund business in March and now own 100%.
- Focus in the AMC business is mainly on growth now. Launched a few new products recently. Market share is 3.4% - want to take it to 5%.
- IDFC Securities - INR810m topline with PAT of INR130m
- IDFC Ltd. Has to bring down its stake in IDFCBK to 40% in 3 years. It is yet to take a call on how to achieve this.
- IDF business – Spreads are 2% in this segment but will narrow to 1.3-1.4% due to competition. RoE was 12% in FY17 but can go higher. Can lever up 7-8x in this segment. Good fee generating business (30-40bp of loans). Net worth stands at INR6.5b.

## Exhibit 2: Financials Valuation Matrix

Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)		
	(INR)	(USDb)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	
ICICIBC*	Buy	279	24.8	17.8	20.5	15.6	13.6	158.0	172.4	1.76	1.62	1.23	1.22	9.8	10.5
HDFCB	Buy	1,542	62.4	67.1	79.4	23.0	19.4	387	448	3.98	3.44	1.81	1.78	18.2	19.0
AXSB	Neutral	510	18.8	23.4	41.2	21.7	12.4	244	278	2.09	1.83	0.86	1.26	9.9	15.7
KMB*	Buy	902	26.1	32.3	40.5	27.9	22.3	239	278	3.78	3.25	1.75	1.88	14.5	15.7
YES	Buy	1,631	11.6	92.2	116.2	17.7	14.0	542	635	3.01	2.57	1.78	1.84	18.0	19.7
IIB	Buy	1,445	13.6	59.4	72.0	24.3	20.1	385	447	3.75	3.23	1.87	1.88	16.5	17.3
IDFC Bk	Neutral	66	3.4	3.3	4.3	19.9	15.4	46	49	1.44	1.34	0.88	0.93	7.4	9.0
FB	Buy	107	2.5	5.2	6.7	20.5	16.1	54	60	1.97	1.80	0.72	0.75	10.0	11.7
DCBB	Neutral	183	0.8	8.8	11.2	20.8	16.3	75	85	2.45	2.15	0.94	0.97	12.4	14.0
JKBK	Neutral	81	0.6	13.0	15.4	6.3	5.3	117	129	0.70	0.63	0.69	0.72	11.6	12.5
SIB	Neutral	26	0.5	3.1	3.8	8.3	6.8	32	35	0.80	0.74	0.54	0.59	10.0	11.3
Equitas	Buy	166	0.9	6.2	7.4	26.8	22.6	73	80	2.28	2.07	1.92	1.66	8.9	9.6
RBL	Under Review	565	3.1	18.5	24.3	30.5	23.3	130	149	4.36	3.78	1.24	1.27	15.2	17.4
<b>Private Aggregate</b>															
SBIN (cons)*	Buy	289	34.0	16.9	23.3	15.2	10.9	243	262	1.06	0.97	0.36	0.45	7.3	9.3
PNB	Buy	169	5.4	12.4	16.6	13.6	10.2	191	205	0.88	0.82	0.36	0.43	6.7	8.3
BOI	Neutral	186	2.9	14.5	23.7	12.9	7.9	249	267	0.75	0.70	0.23	0.33	6.0	9.2
BOB	Buy	188	6.5	19.0	26.1	9.9	7.2	167	187	1.12	1.00	0.60	0.75	11.9	14.8
CBK	Neutral	355	2.8	35.9	57.6	9.9	6.2	525	569	0.68	0.62	0.31	0.43	7.0	10.5
UNBK	Neutral	171	1.7	30.5	45.3	5.6	3.8	328	368	0.52	0.46	0.45	0.59	9.7	13.0
OBC	Neutral	170	0.9	21.0	26.0	8.1	6.5	413	433	0.41	0.39	0.28	0.31	5.2	6.1
INBK	Buy	318	2.3	33.3	38.1	9.6	8.4	327	356	0.97	0.89	0.71	0.72	10.6	11.1
<b>Public Aggregate</b>															
<b>Banks Aggregate</b>															
HDFC*	Buy	1,537	38.4	38.4	43.2	22.8	18.0	225	283	3.88	2.74	1.78	1.83	18.1	17.1
LICHF	Neutral	668	5.3	44.6	51.2	15.0	13.1	249	290	2.69	2.31	1.52	1.54	19.3	19.0
IHFL	Buy	1,017	6.6	82.2	101.6	12.4	10.0	322	364	3.16	2.79	3.15	3.09	27.0	29.6
GRHF	Neutral	397	2.3	10.3	12.5	38.6	31.7	37	44	10.80	8.96	2.49	2.49	30.6	30.9
REPCO	Buy	765	0.7	34.0	40.2	22.5	19.0	210	247	3.65	3.10	2.14	2.09	17.5	17.6
DEWH	Buy	428	2.1	36.7	42.7	11.7	10.0	278	311	1.54	1.37	1.37	1.31	13.9	14.5
<b>Housing Finance</b>															
RECL	Neutral	203	6.3	35.0	40.4	5.8	5.0	196	227	1.03	0.89	3.10	3.12	19.1	19.1
POWF	Neutral	160	6.5	27.2	30.2	5.9	5.3	169	191	0.94	0.83	2.76	2.72	17.0	16.8
<b>Infra Finance</b>															
SHTF	Buy	1,037	3.7	77.4	98.6	13.4	10.5	556	638	1.86	1.63	2.56	2.91	14.5	16.3
MMFS	Buy	337	2.9	12.9	16.4	26.1	20.6	122	132	2.76	2.55	1.59	1.73	10.9	12.9
BAF	Buy	1,276	10.7	47.5	64.0	26.9	19.9	207	261	6.17	4.88	3.59	3.66	25.5	27.3
SCUF	Buy	2,237	2.3	134.5	164.6	16.6	13.6	870	1,008	2.57	2.22	3.73	3.85	16.5	17.5
MUTH	Buy	393	2.5	34.5	40.0	11.4	9.8	182	207	2.16	1.90	4.11	4.12	20.2	20.6
SKSM	Neutral	805	1.7	42.8	55.1	18.8	14.6	243	298	3.31	2.70	4.58	4.18	19.3	20.4
<b>Asset Finance</b>															
Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries															

## Financials and Valuations

IDFC ltd Model (INR M)	FY2017	FY2018E	FY2019E	FY2020E	FY2021E	FY2022E
IDFC Standalone (Ex Div from Subs)	1,280	1,536	1,843	2,120	2,438	2,803
IDFC Bank	17,530	18,338	24,001	29,053	32,997	36,911
IDF - NBFC	760	979	1,142	1,360	1,588	1,823
Securities	210	226	277	338	413	503
Asset Management Business	1,400	1,242	1,553	1,925	2,355	2,846
Alternative Assetment Business	290	348	418	501	601	722
Others	1,110	1,332	1,598	1,918	2,302	2,762
<b>PPoP before Elimnation adjustments</b>	<b>22,580</b>	<b>24,000</b>	<b>30,831</b>	<b>37,215</b>	<b>42,693</b>	<b>48,369</b>
Less: Elimnation Adjustments	15,600	15,700	15,800	15,900	16,000	16,100
<b>Reported PAT Per MI and AFF</b>	<b>6,980</b>	<b>8,300</b>	<b>15,031</b>	<b>21,315</b>	<b>26,693</b>	<b>32,269</b>
<b>% to total profit (pre MI)</b>						
IDFC Standalone (Ex Div from Subs)	18.3	18.5	12.3	9.9	9.1	8.7
IDFC Bank	251.1	220.9	159.7	136.3	123.6	114.4
IDF - NBFC	10.9	11.8	7.6	6.4	5.9	5.6
Securities	3.0	2.7	1.8	1.6	1.5	1.6
Asset Management Business	20.1	15.0	10.3	9.0	8.8	8.8
Alternative Assetment Business	4.2	4.2	2.8	2.4	2.3	2.2
Others	15.9	16.0	10.6	9.0	8.6	8.6
<b>PPoP before Elimnation adjustments</b>	<b>323.5</b>	<b>289.2</b>	<b>205.1</b>	<b>174.6</b>	<b>159.9</b>	<b>149.9</b>
Less: Elimnation Adjustments	223.5	189.2	105.1	74.6	59.9	49.9
<b>Reported PAT Per MI and AFF</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth YoY</b>						
IDFC Standalone (Ex Div from Subs)	20.0	20.0	15.0	15.0	15.0	15.0
IDFC Bank	4.6	30.9	21.1	13.6	11.9	
IDF - NBFC	28.8	16.6	19.1	16.8	14.8	
Securities	-11.3	25.1	24.0	22.3	20.8	
Asset Management Business	20.0	20.0	20.0	20.0	20.0	
Alternative Assetment Business	7.5	22.6	22.3	22.0	21.9	
Others	-11.3	25.1	24.0	22.3	20.8	
<b>PPoP before Elimnation adjustments</b>	<b>-11.3</b>	<b>25.1</b>	<b>24.0</b>	<b>22.3</b>	<b>20.8</b>	
Less: Elimnation Adjustments	20.0	20.0	20.0	20.0	20.0	
<b>Reported PAT Per MI and AFF</b>	<b>6.3</b>	<b>28.5</b>	<b>20.7</b>	<b>14.7</b>	<b>13.3</b>	
<b>Add: MI and Affiliates</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	
IDFC Bank	18.9	81.1	41.8	25.2	20.9	
IDFC AMC	0.3	30.9	21.1	13.6	11.9	
<b>Cons Profit Post MI and Affliates</b>	<b>4.6</b>	<b>30.9</b>	<b>21.1</b>	<b>13.6</b>	<b>11.9</b>	

## Financials and Valuations

Income Statement								(INR Million)
Y/E March	2H2016	2017	2018E	2019E	2020E	2021E	2022E	
Interest Income	36,488	85,327	104,477	124,549	142,170	160,023	180,468	
Interest Expense	28,015	65,154	81,508	94,730	105,204	116,962	131,109	
<b>Net Interest Income</b>	<b>8,473</b>	<b>20,173</b>	<b>22,969</b>	<b>29,819</b>	<b>36,967</b>	<b>43,062</b>	<b>49,359</b>	
Change (%)	0.0	0.0	13.9	29.8	24.0	16.5	14.6	
<b>Non Interest Income</b>	<b>4,032</b>	<b>10,131</b>	<b>12,071</b>	<b>14,083</b>	<b>16,221</b>	<b>18,769</b>	<b>21,828</b>	
Fee income	677	3,600	5,040	6,552	8,190	10,238	12,797	
Change (%)	0.0	0.0	40.0	30.0	25.0	25.0	25.0	
Other Income	3,355	6,531	7,031	7,531	8,031	8,531	9,031	
<b>Net Income</b>	<b>12,505</b>	<b>30,304</b>	<b>35,040</b>	<b>43,903</b>	<b>53,188</b>	<b>61,830</b>	<b>71,187</b>	
Change (%)	0	142.3	15.6	25.3	21.1	16.2	15.1	
<b>Operating Expenses</b>	<b>5,106</b>	<b>12,770</b>	<b>16,703</b>	<b>19,902</b>	<b>24,135</b>	<b>28,833</b>	<b>34,277</b>	
Change (%)	0	150.1	30.8	19.2	21.3	19.5	18.9	
<b>Pre Provision Profits</b>	<b>7,399</b>	<b>17,535</b>	<b>18,338</b>	<b>24,001</b>	<b>29,053</b>	<b>32,997</b>	<b>36,911</b>	
Change (%)	0	0.0	4.6	30.9	21.1	13.6	11.9	
<b>Provisions (excl tax)</b>	<b>242</b>	<b>2,825</b>	<b>2,293</b>	<b>3,334</b>	<b>4,441</b>	<b>5,687</b>	<b>6,356</b>	
Credit Cost (%)	0.0	0.4	0.3	0.3	0.4	0.4	0.4	
<b>PBT</b>	<b>7,158</b>	<b>14,710</b>	<b>16,045</b>	<b>20,666</b>	<b>24,611</b>	<b>27,310</b>	<b>30,554</b>	
Tax	2,489	4,512	4,813	6,200	7,383	8,193	9,166	
Tax Rate (%)	34.8	30.7	30.0	30.0	30.0	30.0	30.0	
<b>PAT</b>	<b>4,669</b>	<b>10,197</b>	<b>11,231</b>	<b>14,467</b>	<b>17,228</b>	<b>19,117</b>	<b>21,388</b>	
Change (%)	0.0	10.1	28.8	19.1	11.0	11.0	11.9	
Equity Dividend (Incl tax)	1,092	2,386	2,628	3,385	4,031	4,473	5,005	
<b>Core PPP*</b>	<b>4,044</b>	<b>11,003</b>	<b>11,307</b>	<b>16,469</b>	<b>21,022</b>	<b>24,466</b>	<b>27,879</b>	
Change (%)			2.8	45.7	27.6	16.4	14.0	

\*Core PPP is (NII+Fee income-Opex)

### Balance Sheet

Y/E March	FY16	2017	2018E	2019E	2020E	2021E	FY22E
Share Capital	33,926	33,990	33,990	33,990	33,990	33,990	33,990
Reserves & Surplus	102,399	112,790	121,394	132,475	145,672	160,315	176,699
<b>Net Worth</b>	<b>136,326</b>	<b>146,780</b>	<b>155,384</b>	<b>166,465</b>	<b>179,662</b>	<b>194,305</b>	<b>210,689</b>
<b>Deposits</b>	<b>82,190</b>	<b>402,082</b>	<b>652,632</b>	<b>840,831</b>	<b>1,025,501</b>	<b>1,215,574</b>	<b>1,485,530</b>
Change (%)	0.0	n.a.	62.3	28.8	22.0	18.5	22.2
CA	3,610	18,094	29,968	42,435	55,696	70,018	89,798
SA	800	2,368	7,296	19,712	37,248	58,406	82,068
<b>Borrowings</b>	<b>571,598</b>	<b>502,622</b>	<b>546,101</b>	<b>573,674</b>	<b>565,817</b>	<b>534,876</b>	<b>509,983</b>
Change (%)	0.0	-12.1	8.7	5.0	-1.4	-5.5	-4.7
Infra Bonds	99,450	104,340	152,820	225,432	300,895	379,495	417,444
Other borrowings	472,148	398,282	393,281	348,242	264,922	155,381	92,539
<b>Other Liabilities &amp; Prov.</b>	<b>42,044</b>	<b>70,112</b>	<b>84,134</b>	<b>100,961</b>	<b>121,154</b>	<b>145,384</b>	<b>174,461</b>
<b>Total Liabilities</b>	<b>832,159</b>	<b>1,121,597</b>	<b>1,438,251</b>	<b>1,681,931</b>	<b>1,892,133</b>	<b>2,090,139</b>	<b>2,380,662</b>
Current Assets	29,039	51,020	63,870	76,989	87,086	86,577	98,643
<b>Investments</b>	<b>297,286</b>	<b>504,717</b>	<b>650,240</b>	<b>694,986</b>	<b>688,223</b>	<b>695,631</b>	<b>753,729</b>
Change (%)	0.0	69.8	28.8	6.9	-1.0	1.1	8.4
G Sec	110,570	192,640	260,064	306,876	337,563	354,441	425,329
RIDF and PTC	0	136,000	196,491	175,057	116,302	83,396	44,826
Other investments	186,716	176,077	193,685	213,053	234,358	257,794	283,574
<b>Loans</b>	<b>456,994</b>	<b>494,017</b>	<b>637,930</b>	<b>806,503</b>	<b>992,680</b>	<b>1,158,958</b>	<b>1,349,522</b>
Change (%)	n.a.	8.1	29.1	26.4	23.1	16.8	16.4
Other Assets	48,839	71,843	86,211	103,454	124,144	148,973	178,768
<b>Total Assets</b>	<b>832,159</b>	<b>1,121,597</b>	<b>1,438,251</b>	<b>1,681,931</b>	<b>1,892,133</b>	<b>2,090,139</b>	<b>2,380,662</b>

## Disclosures

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