

## Snapshot

|                     |            |
|---------------------|------------|
| CMP                 | 139        |
| Target price        | 155/180    |
| 1 year High/Low     | 188/121    |
| Market Cap: (in cr) | 22,252     |
| Face Value          | 10         |
| Rating              | Buy        |
| Risk rating         | Medium     |
| Weightage           | Overweight |
| NSE SYMBOL          | IDFC       |

## Shareholding Pattern (%)

|             | Current | Q4FY15 | Q3FY15 |
|-------------|---------|--------|--------|
| Promoters   | -       | -      | -      |
| MF's & FI's | 29.8    | 30.0   | 31.1   |
| FII's       | 47.4    | 47.4   | 47.7   |
| Others      | 22.8    | 22.6   | 21.2   |

## Price Performance

|          | Stock | Nifty |
|----------|-------|-------|
| 1 Month  | -2.4  | -5.9  |
| 3 Month  | -11.2 | -6.5  |
| 12 Month | -5.5  | -4.1  |

## Valuation

While the makeover into a bank may be tedious, given the RBI's forbearance on infra lending, we expect the company's intrinsic profitability to improve to clock RoE of 15% backed by 1.9% RoA by FY20. The bank will start with a clean state with most of the hit on the stressed portfolio already taken from net worth (as seen in Q1FY16). Moreover, top management's ability to shape up the banking venture is undisputable given its successful track record. We maintain 'BUY'.

## Investment Highlight:

IDFC is very close to the effective date of de-merger of IDFC (holding company, IDFC FHCL) and IDFC Bank, which will see launch of its banking operations from October 1, 2015. Considering that IDFC Bank will be held ~53% by IDFC FHCL and ~47% by IDFC's shareholders directly, we ascribe a value of INR94/share to IDFC FHCL assigning holding company discount of 40% for its investments in IDFC Bank. Also, IDFC Bank's shares will get listed in the first fortnight of November. Given strong management acumen, focus on technology and service delivery, bank starting with a clean state with most of the hit already taken and trigger in terms of stock coming out of FII restriction (foreign holding of ~22.28% in bank), we expect IDFC Bank to command a multiple of 1.85x translating to INR70/share. We subscribe to the model that IDFC has adopted to metamorphose into a universal bank and de-merger will lead to value creation as it embarks on its journey of creating a strong banking franchise. We, therefore, recommend investors to 'BUY' the stock even at current level anticipating an upside of more than 15% post de-merger (IDFC FHCL + IDFC Bank = INR164/share).

## De-merger on the anvil, banking operations to commence shortly:

With all requisite regulatory approvals now in place (from shareholders, creditors, SEBI, Stock Exchanges, RBI, and High Court), IDFC is now set to roll out its banking operations. IDFC will demerge its financing business into IDFC Bank (effective from October 1, 2015). The holding company discount and fair value of IDFC FHL has yet to be ascertained. However, we estimate IDFC FHL to fetch INR94 (holding company discount of 40%) and IDFC Bank to fetch INR70. While triggers for the holding company will be limited, the next value creator will be re-rating of the banking entity.

## In transition phase: Rollout of a bank:

Management is seized of the fact that being a new entrant the bank cannot get too innovative in terms of product offering, but it can surely focus on quality of service delivery. Accordingly, the bank will invest in technology and processes. The initial 3-6 months after launch in October 2015, the bank will be involved in investing in systems, people, processes, and first year of operations for all practical purposes would commence from FY17. The bank plans to start operations with 23 branches, with 15 situated in rural areas.

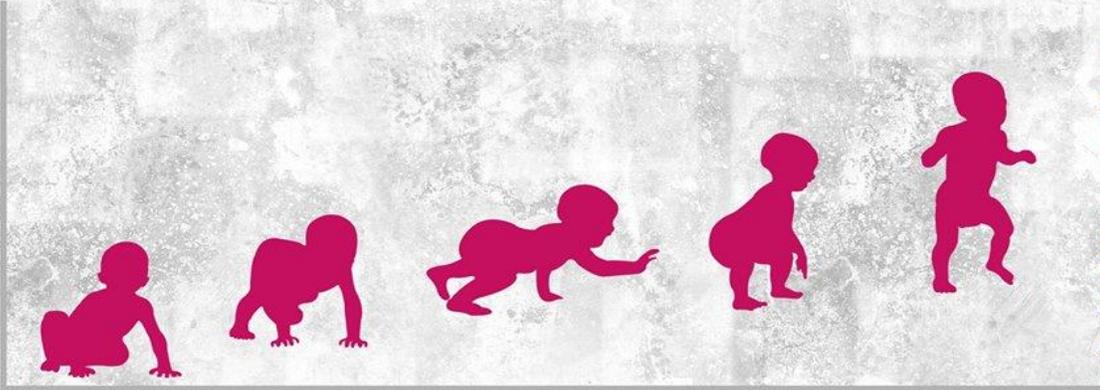
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