

**IDFC Limited**  
Holding Company**STOCK IDEA**  
Rating: **BUY**

Date	20-Sept-2021
CMP	Rs. 54.5

<b>Our TP for IDFC FIRST Bank</b>	<b>73</b>
Correlation between IDFC FIRST Bank & IDFC Ltd. Share Price over Last 1 Year	10.20%
<b>Target Price for IDFC Ltd.</b>	<b>80</b>

Market Data	
O/S Shares (In Cr)	159.63
Mkt Cap (INR Cr)	8,740
52 Wk H/L (INR)	63/28
3M Avg. Volume (000')	9,428
Face Value	10
Bloomberg Code	IDFC IN

BSE Sensex	58,491
NSE Nifty	17,397

IDFC Ltd. is the Holding Company of 3 entities currently: IDFC FIRST Bank, IDFC AMC and IDFC Foundation, of which only the Bank and AMC are operational. The Holding company is trading at steep discount of around 41% against the fair (market value) value of its holding subsidiaries. Since getting RBI approval to exit as Promoters of the bank, the Hold Co. is making preparations for the same. Recently, it announced the divestment of its MF business, IDFC AMC.

**Investment Rationale:****Distribution of Proceeds from Selling of MF Business**

If management is able to sell the entire AMC, we expect majority of the proceeds to be distributed as payout due to 2 factors: First, the shareholders have demanded the same in the pre AGM concall hosted on 14<sup>th</sup> Sept 2021 by the Hold Co. Second, holding cash will make no sense for a holding company if it is not to be used for business or investments. The sale proceeds of IDFC AMC at a valuation of Rs 5,000 Cr at 4% of Overall AUM. If sold at once, investors can assume around Rs 25 per share as dividend to be distributed after payment of Long Term Capital Gains Tax.

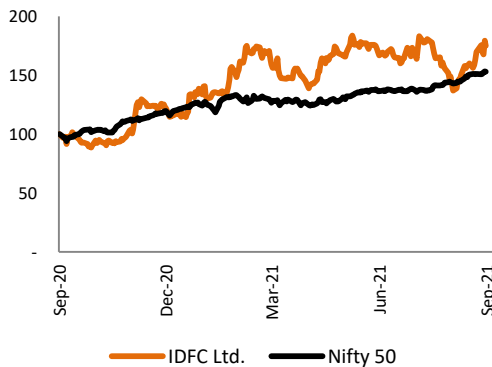
**Shareholders of IDFC Limited to receive some value in cash or share swap**

IDFC Limited has received clarification from RBI on 20<sup>th</sup> July 2021 that it can exit as the Promoter of IDFC FIRST Bank on completion of 5 Years of banking operations, which it completed on 1<sup>st</sup> Oct 2020. Two options available for the Hold Co. to exit as Promoters are:

**a. Distribute the shares of the bank among its own shareholders, which will be value-accretive.** In this case, long term investors will be able to create wealth in the long term as the bank has been performing well and is getting higher ratings with each passing quarters. With IDFC Ltd holding around 36.56% (226 Cr shares) of stakes in IDFC First Bank, each shareholder of IDFC Ltd. should be entitled to around 1.4 equity shares of IDFC FIRST Bank.

**b. Sell the entire stake of IDFC FIRST Bank to a strategic buyer, probably a bank or some PE fund.** With the entry of a large or a group of few large PE Investors/Funds, the bank itself will get a far higher rating than it is presently, as a large capital injection (Rs 11,000 Cr equivalent to market rates), will bolster not only its current capital strength, but also increase its potency to compete with its larger peers in retail lending space.

**Valuation & Outlook:** We believe the proposed reverse merger to be value accretive for the shareholders of IDFC Limited. Our confidence arises with our belief on the strong fundamentals laid over last couple of years by IDFC FIRST Bank's Management. We have a BUY recommendation on IDFC FIRST Bank with a Target Price of 73 per share on 1.9x P/Adj. BV of Rs 38 for FY23E. Since, the notion of reverse merger of the Hold Co. has been around for some time, hence, we observed 89.8% correlation of the Share Price of the Hold Co with the bank over last 1 Year. **Therefore, at CMP of Rs 54.5 per share, we recommend a BUY rating on IDFC Limited with a patience to hold the stock for a Target Price of Rs 80 per share.**

**Comparative Price Chart****Shareholding Pattern**

Particulars	June 21	Mar 21
Promoters	0	0
FII	24.25	24.80
DII	23.58	24.33
Others	52.17	50.87

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Valuations/M. Cap	CMP	Total Equity Shares (in Crs)	Market Cap. (Rs Cr)
IDFC Limited	54.50	159.6	8,700
IDFC First Bank	48.55	620.7	29,607
IDFC AMC (Valued at 4% of AUM)			
AUM (Rs Cr)	1,26,049		5,000
Fair Value:			
Shareholding in IDFC First Bank	36.56%	226.9	10,823
Net Realization of IDFC AMC after LT Capital Gain Tax	100%		4,000
Sum			14,823
Fair Price per share			93
Discount (%)			-41.3%

## Key Highlights from the concall held just a week before the AGM: 14<sup>th</sup> Sept 2021

- AGM of IDFC Limited is at 11 AM on 22<sup>nd</sup> Sept 2021.
- The Chairman said, "He will not be able to provide a timeline for the resolution of the fiasco".
- The Complex corporate structure of the IDFC Limited is the reason it is taking so long to untie before the holding company could be demerged to the bank.
- IDFC Limited currently holds 3 entities: IDFC First Bank, IDFC AMC and the IDFC Foundation; of which only the Bank and AMC are operational.
- IDFC Foundation has 50% stakes in 2 JVs with 2 state governments: Delhi government & Karnataka state government. Until the 2 JVs stakes are transferred to a different entity and de-link it entirely from IDFC Ltd, the demerger of the holding company cannot be done.
- The 50% stakes of IDFC Foundation in the JV with Delhi Government are on the verge of being transferred to another agency, and is expected to be completed by the end of this month.
- IDFC Ltd. is also expecting something similar for their stakes in the JV with Karnataka Government, as the state government has assured of 2-3 potential prospects.
- The holding company IDFC Limited remains quasi operational with only 6 employees as on 14<sup>th</sup> Sept 2021, which includes the board & management and is bare minimum in order to de-merge in the future.
- The Investors are frustratingly complaining regarding the wealth destruction being shareholder of IDFC Ltd. over last 6 years.

### Comments & Suggestions

Some investors are asking to sell the entire holding company IDFC Limited to other large corporates with the stakes in Bank, AMC and Foundation transferred to the new owner while few others are requesting selling the AMC business first, and in both cases, distribute the dividends to the shareholders. Also, investors are requesting for a timeline for whatever is done with the holding company in future.

### Subsidiaries:

**IDFC FIRST Bank:** Being focused lender towards an incrementally growing retail, consumer finance and microfinance business, IDFC FIRST Bank's yields from these business verticals are around ~15-16% on average from these businesses. On the other hand, its CASA levels have grown to 50.86% as of Q1FY22 with average Cost of Funds around ~4.8% for incremental funding, thereby providing it with an increasing spread from their incremental retail business which constitutes 64% of its funded assets. With almost two thirds of its lending book into retail lending, and fall in their Cost of Funds, IDFC FIRST Bank has a NIM of 5.5% as of June 2021, and will remain above 5% in the foreseeable future.

With the rapid rate of vaccination driving away the Covid threat gradually, we expect the retail credit growth of the bank to start picking up momentum as soon as the coming festive season in Q3FY22, and by the end of March FY22 quarter, to reflect a run rate of 25% YoY (annualized) credit growth. The Bank has been very conservative and risk averse towards corporate lending since it realized the fruits of several large ticket size wholesale defaults. The Bank has also diversified away its exposure from Infrastructure sector reducing from Rs 22,710 Cr in Dec 2018 to Rs 10,346 Cr as of June 2021. With the latest Telecom relief measures & the moratorium announced by the Government, the Rs 3,200 Cr exposure towards Vodafone Idea Limited can also be expected to revive back.

Apart from the pandemic induced fall in asset quality, credit culture among Indian Retail has been always high at GNPA/NNPA levels of 3-4%/1-1.5% respectively for major Private Banks. The retail NPA levels will expectedly improve back to pre-Covid levels as the economy recovers with on-going vaccinations at record pace.

At its current valuations, the bank is trading at P/B of 1.78x for FY21. We expect the share price of the bank to reflect its incremental earnings potentials in the coming future and be re-rated at higher multiples as bottom-line growth stabilizes over few quarters. As per our estimates based on its robust earnings growth, we have recommended IDFC First Bank with a BUY rating for a Target Price of Rs 73 per share for FY23E Adj. BV of Rs 38 per share at 1.9x P/Adj. BV.

**IDFC AMC:** With a market share of 3.8%, IDFC AMC has a quarterly average AUM of Rs 1.26 lakh cr for quarter ended June 2021. The total QA AUM increased by 3.2% QoQ / 24.0% YoY during Q1FY22. The Equity QA AUM stood at Rs 28,159 Cr as of Q1FY22. On Friday, 17<sup>th</sup> Sept, 2021, the board of IDFC Limited had approved the divestment of its Mutual Fund business, i.e. IDFC AMC. The AMC/MF business has a market share of 3.8% in overall AUM basis and Equity market share of 1.6% as of June 2021. While the larger peers like HDFC AMC and UTI AMC trade at much higher valuations owing to their higher earnings, we expect a suitable buyer to value it much higher considering the AUM size and its Profitability which can be increased with changes in their AUM mix & Equity exposure. We estimate it to fetch Rs 5,000 Cr at 4% of Overall AUM as of June 2021.

## Peer Comparison with listed AMC's

AMC	QA AUM	Equity AUM	Equity AUM as % of MF AUM	P/E	Net Profit FY21	Profits as % of AUM (%)	Market Cap	M. Cap as % of AUM
HDFC AMC	4,16,900	1,77,600	42.6%	51.2	1,326	0.32%	68,571	16.4%
UTI AMC	1,87,210	54,009	28.8%	27.2	494	0.26%	14,156	7.6%
IDFC AMC	1,26,049	28,159	22.3%	NA	143	0.11%	NA	NA

Source: Systematix Research, Company Reports

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**EXPLANATION TO RATINGS:** BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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