

NCD Issue Note
IDFC Ltd

Issuer	Infrastructure Development Finance Company Ltd
Issue	Public Issue of NCDs aggregating to Rs.5,000 crs
Recommendation	SUBSCRIBE
Acceptance	ON FIRST COME FIRST SERVE BASIS
Issue Date	21 st November 2011 – 16 th December 2011
Book Running Lead Manager	ICICI Securities, JM Financial, Karvy, Kotak Mahindra, IDFC Capital Ltd
Co Lead Managers	RR Investors Capital Services, Bajaj Capital, SMC Capitals
Registrar	Karvy Computershare Pvt Ltd
Stock exchange proposed for listing	BSE, NSE after 5 years
Trading lot	1 NCD
Depositories	NSDL and CDSL
Rating	AAA/Stable by Fitch and ICRA AAA (stable) by ICRA
Sector	NBFC

Source: Company data, Nirmal Bang Research

Details of the issue

Tranche I Bonds Series	1	2
Tenor (in months)	120	120
Frequency of Interest payment	Annual	Cumulative
Minimum Application	Rs 10,000	Rs 10,000
In Multiples of	Rs 5,000	Rs 5,000
Face Value of NCDs (Rs/NCD)	Rs 5,000	Rs 5,000
Issue price	Rs 5,000	Rs 5,000
Lock-in period	5 years	5 years
Buyback option		
Buyback option	Yes	Yes
Buyback amount	Rs 5,000	Rs 7,695
Effective yield	9%	9% compounded annually
Maturity option		
Maturity amount	Rs 5,000	Rs 11,840
Effective yield	9%	9% compounded annually

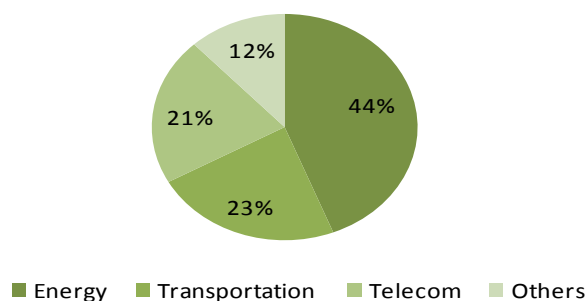
Source: Company data, Nirmal Bang Research

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Background

Infrastructure Development Finance Company Ltd (IDFC), is amongst the first companies to get the IFC status in June 2010 and is a leading player, providing financing for long-term infrastructure projects with a balance sheet size of Rs 51,650 crs as on September 2011. IDFC, along with its subsidiaries, is engaged in providing finance and advisory services for infrastructure projects, asset management and investment banking. The different strategic business units (SBUs) are structured into four platforms - Corporate and Investment Bank (CIB), Alternative Asset Management (AAM) Public Market Asset Management (PAM) and Other Businesses. The company's outstanding disbursements as on March 2011 stood at Rs 41,823 crs.

Outstanding disbursements



Company data, Nirmal Bang Research

Objects of the Issue

The funds raised through the Issue will be utilized for infrastructure lending (after providing for issue related expenses), business operations and working capital requirement.

About the Issue

IDFC bonds will have a lock-in period of five years. Post five years, these bonds will be traded both on NSE and BSE. At the same time, the company can also exercise the buyback option. Bond investors will get the income tax benefits under 80CCF wherein a maximum investment of Rs 20,000 crore per year would fetch tax exemptions to the tune of Rs 2,060 (10.3% of 20,000) - minimum and 6,180 (30.9% of 20,000) - maximum. This is over and above the existing investment limit of Rs 1 lakh.

Tax adjusted yield on maturity (with tax benefits upto Rs 20,000)		
Tax Slab	I	II
30.90%	15.19%	13.10%
20.60%	12.75%	11.54%
10.30%	10.72%	10.19%

Tax adjusted yield on buyback (with tax benefits upto Rs 20,000)		
Tax Slab	I	II
30.90%	19.11%	17.35%
20.60%	15.15%	14.14%
10.30%	11.83%	11.39%

Company data

- ✓ **Credit Rating**
The long term debt instruments of the company enjoy ratings of ICRA AAA (Stable) from ICRA and Fitch AAA from Fitch.
- ✓ **Capital Adequacy**
The capital adequacy ratio of IDFC in FY11 is 22.87% as on 30th September 2011. Tier I ratio stood at around 20% in September 2011.
- ✓ **Asset quality**
IDFC's asset quality continues to remain sound with gross and net NPA levels low at 0.19% and 0.09% respectively as on September 30, 2011. We do have a concern on the quality of assets in IDFC's key business segment i.e power where it has 43% exposure. However, the company does not have any exposure to the stressed SEBs.
- ✓ **IFC Status**
As the company is classified by the RBI as an 'Infrastructure Finance Company (IFC)', it has access to cheaper borrowings from overseas which will reduce pressure on IDFC's cost of funds and limit the fall in its NIMs in a higher interest rate environment.
- ✓ **Debt to equity ratio**
The debt-equity ratio prior to this Issue is 3.01 times which is based on a total outstanding consolidated debt of Rs 36,218.44 crs and consolidated shareholder funds amounting to Rs 12,020.23 crs as on October 31, 2011. The debt equity ratio post the Issue, (assuming subscription of NCDs aggregating to Rs 5000 crs) would be 3.43 times.

Recommendation:

We believe that the tax saving bond issue from IDFC is a good long term investment opportunity as well as a tax saving instrument for investors as the returns are higher as compared the recent PFC bond issue. PFC offered a coupon rate of 8.09% for 10 year bond and 8.15% for 15 year bond.

Key Concerns

- **Change in interest rates**
Increasing rates of interest, resulting from higher inflation are likely to have a negative effect on the price of the NCDs.
- **Lack of liquidity**
Though NCDs are listed on the stock exchange, there can be problem of liquidity for sale or purchase of NCDs on the exchange.
- **Concerns in the infrastructure sector**
Slowdown in the infrastructure sector and delay in projects is another key concern.

NOTE

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