

Quick Contrarian Idea – “IDFC Ltd.”

August 27, 2013

IDFC – Highest loser in price; not in fundamentals...

Shares of IDFC (Bloomberg Code: IDFC IN) continued to plunge after MSCI deleted IDFC from its standard and large cap indices. The effective date is 2nd September, 2013. i.e close of 30th August, 2013. In addition, the company on 26th August 2013 had announced that it has decreased the limit for the purchase of its equity shares and convertible debentures by Foreign Institutional Investors (FIIs), through primary market and stock exchanges, under the Portfolio Investment Scheme from 74 per cent to 54 per cent of its paid up capital with immediate effect.

The announcement made on 26th August 2013 stood as follows:

“This has reference to RBIs Press Release dated August 23, 2013 on Decrease in Foreign investment limit / ceiling in an Indian Company under PIS addressed to all the Custodian Banks, IDFC Ltd has informed BSE that the ceiling Limit in respect of all the FIIs, FDI, NRIs, OCBs and Foreign Nationals have now been reduced from 74% to 54%. Further the Company has informed that, **the current foreign shareholding in IDFC Limited is 53.71%**, hence the Company has advised all the custodian banks vide its email dated August 26, 2013 to not make any further purchases through secondary markets on behalf of their FII & NRI clients with immediate effect”

In July 2012, Khazanah Nasional Bhd, investment arm of the government of Malaysia and Actis Hawk Ltd. had converted their compulsory convertible cumulative preference shares (CCPs) issued by IDFC to equity shares. The transactions were worth Rs. 840 crore. The shares were issued by IDFC to Sipadan Investments (Mauritius) Ltd, an arm of Khazanah, and to Actis. The equity base was expanded after CCPs of Rs. 100 each, aggregating to Rs. 840 crore, **issued to two investors were converted into equity shares at a price of Rs 176 a share. The total number of equity shares issued to the investors were 47,727,272.** The shares issued to Sipadan were worth Rs 380 crore and those for Actis were Rs 460 crore. As on 30th July, 2013, IDFC's Book Value stands at Rs. 90 per share (Estimated at Rs. 100 – Book Value for FY14).

At CMP, the stock trades at an attractive valuation of 0.79x FY14E Book value as compared to its peers who have nominated themselves for Banking License from RBI. Receipt of Banking license would act as a key trigger to stock price performance as well. The current foreign shareholding in IDFC is 53.71 percent (as on 26th August, 2013) also indicates that selling is overdone. With due consideration to factors like IDFC already being compliant in terms of FII shareholding as per stated RBI norms and considering decent past history & stock fundamentals, good result posted in the last quarter considering stress in economy and the business model it enjoys, we believe, the scrip will bounce back. The correction definitely seems to be overdone. We continue to believe in the old maxim "Buy when others are fearful" and recommend a "BUY" (for investors with 6 months horizon) with a target price of Rs. 100 (1x FY14 estimated Book Value by street.

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400

City Office

904, Raheja Centre, Plot No. 214, Free Press Journal Marg, Near MLA Hostel and Mantralaya, Nariman Point, Mumbai – 400021. Tel: 91-22-66551960

Registered Office:

101, Samarath, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40