

IDLC Limited

Company Analysis Company In Focus

Strong lease financing, term financing and merchant banking wing is the main growth drivers. Earnings in the next year is expected to be driven by strong net interest income growth generated from the loan and lease portfolio. Investment income is expected to see timid growth.

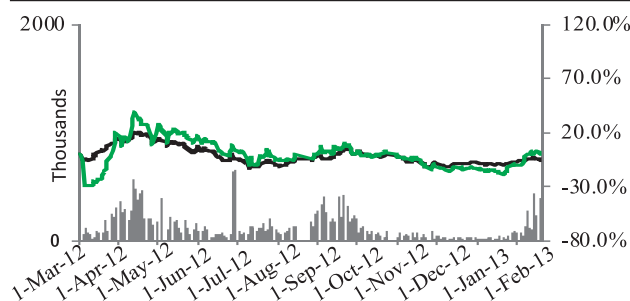
| Company Snapshot | |
|------------------------------------|--------------|
| Paid Up Capital (BDT Million) | 1608 |
| Total No. of Securities (MN) | 160.8 |
| Free Float (Estimated) | 36.18 |
| Market Capitalization(BDT Million) | 8093.25 |
| Reserve and Surplus(BDT Million) | 2739.22 |
| 52 Week Price Range | 63.3 - 149.8 |
| Average Daily Volume | 119000 |
| Face Value | 10 |
| Market Lot | 200 |
| Category | A |

Source: DSE

| PRICE PERFORMANCE | | | |
|-----------------------|------|------|------|
| Price Performance (%) | 3 M | 6 M | 12 M |
| IDLC Finance | -18% | -32% | -24% |
| DGEN | -12% | -22% | -17% |

Source: DSE

Comparative price performance



Source: LBSL Research

| | 2010 | 2011 | 2012 |
|------------------|-----------|-----------|-----------|
| Advance | 21,254.20 | 26,357.10 | 32,595.18 |
| Deposit | 13,001.35 | 17,638.85 | 22,998.90 |
| Total Asset | 26,929.99 | 31,164.54 | 37,783.87 |
| NII | 1,262.63 | 1,577.71 | 1,750.89 |
| Operating Income | 3,046.92 | 2,159.87 | 2,403.24 |
| Net Income | 1,327.10 | 500.28 | 712.82 |
| ROAE | 43.63% | 13.04% | 16.44% |
| ROAA | 5.35% | 1.72% | 2.07% |

Source: LBSL Research

IDLC Finance Ltd. (IDLC) is the one of the largest first generation multiproduct financial institution. IDLC mainly focuses its business towards three-four basic business areas. These are- leasing and different kind of loan products, proprietary investment, brokerage and margin loan, and finally other financial services. In the year of 2012 73% of the earnings came from the net interest income.

Past three years trend shows the steadily increasing contribution from net interest income whereas capital market operations saw its contribution declining. Contribution of it's once core business of leasing is declining sharply. This trend is presenting both opportunity and threat to its business activities.

Overall profitability of the company has decline substantially during the last three years as the capital market operation segment has seen drastic decline in revenue. ROE has declined from 43.6% in 2010 to 16.4% in 2012 . We project that the overall profitability of IDLC has bottomed and is expected to improve from here, supported by strong interest income growth.

Both the asset growth and quality improvement of asset has continued for IDLC. Asset growth was mainly driven by the loans and advances growth which was financed by robust deposit growth. Cost of fund has increased to 13.41% in 2012 to 12.33% in 2011 due to volatile money market.

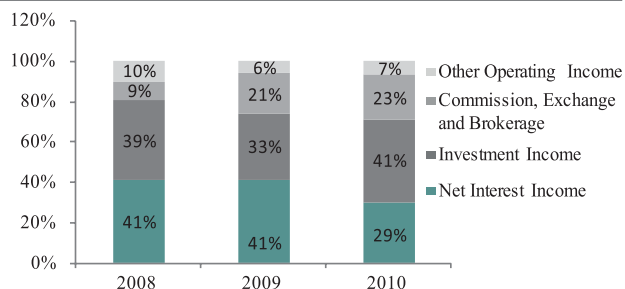
Net interest income will see robust growth supported by increasing spread and loans and advances growth. Non-interest income will see halt of sliding growth and is expected to come back to the recovery path.

Increased exposure to capital market makes the financial institutions vulnerable to drastic fall in the market. IDLC Finance Ltd. is not different from that. A prolonged correction will put significant downward pressure on the bottom line.

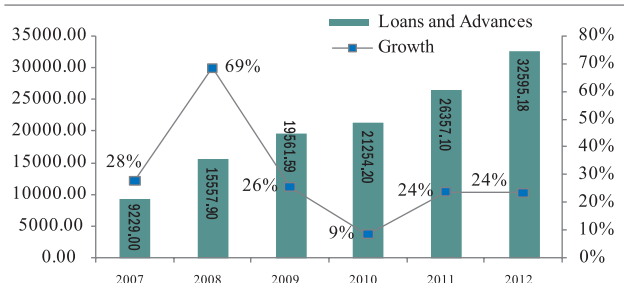
| Year | Operating Income (BDT mn) | PAT(BDT mn) | EPS(BDT) | NAV Per Share | EPS Growth | Asset Growth | ROE | P/E |
|-------|---------------------------|-------------|----------|---------------|------------|--------------|--------|-------|
| 2010 | 3,046.92 | 1,327.10 | 8.25 | 61.5 | -34.90% | 18.70% | 43.60% | 7.27 |
| 2011 | 2,159.87 | 500.28 | 3.11 | 40.21 | -77.20% | 15.70% | 13.00% | 19.29 |
| 2012 | 2,403.24 | 712.82 | 4.43 | 37.93 | 14.00% | 21.20% | 16.40% | 13.54 |
| 2013E | 2,805.35 | 849.25 | 5.28 | 54.41 | 19.10% | 11.70% | 30.60% | 11.37 |

Source: LBSL Research

Contribution of different segments in operating income



Loans and Advances and Growth



PROFILE

IDLC Finance Ltd. started as a leasing company in the mid eighties. It was established with the collaboration of reputed international development agencies like KDLC, South Korea, Kookmin Bank, South Korea, IFC, Aga Khan Fund for Economic Development (AKFED), German Investment and Development Company (DEG). At the beginning of its operation it was focused to the leasing business. Later on it expanded its business area to factoring, long term financing and other types of financing business.

After 2000s the company changed its focus. It converted itself from a leasing company to a multi product financial institution that generates its revenue side by side from traditional lease financing business and capital market operations. 2010 capital market operations contributed 62% of its total profit. Contribution of leasing business is declining day by day. SME and term financing has taken a major place in financing business.

Last decade was an extremely successful one for IDLC Finance Ltd. During the past 13 years net profit grew 10.21 fold from 70 million to 715 million at a compounding growth rate of 20% per annum.

ANALYSIS OF KEY BUSINESS SEGMENT

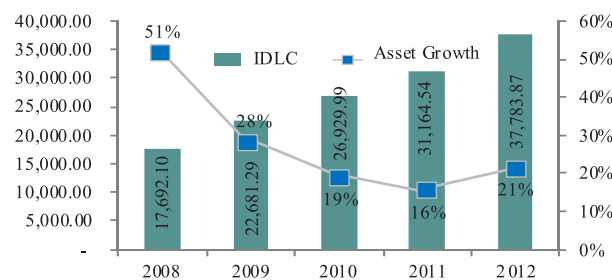
Leadership in Leasing Business

All the leasing companies are facing setback in their once prime business after banks entry into this segment. Low cost of fund has enabled banks to charge low interest against lease and term loan financing. IDLC Finance still claims the leadership in the lease financing segment. They have succeeded to cater a profitable market niche in this segment. We expect a moderate growth of 15%-20% in this business of IDLC.

Capital market Operation

IDLC operates in capital; market through its two fully owned subsidiary- IDLC (the merchant banking wing) and IDLC Securities (the brokerage wing). Additionally IDLC Finance makes proprietary investment in capital market. Return from proprietary investment has faltered significantly. IDLC is expected to generate positive return with reasonable investment management capability and market recovery. For the year 2013 return on investment is estimated to be 20%. Securities brokerage revenue will continue to be flatter. We forecast that IDLC investment will have to keep 10% of the entire margin loan portfolio as provision.

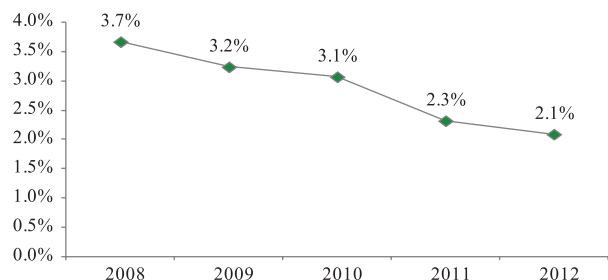
Asset growth



ASSET GROWTH

IDLC Finance Ltd. Maintained a sustainable asset growth during the past five years. The assets of the company grown at an average rate of 21%. Investment in equities declined substantially after the market crash. Growth in loans and advances has accelerated. The company is trying to increase concentration in core business of financing. Year on year growth in loans and advances was 24% in 2012 whereas investment in equities have declined by 29%.

NPL ratio



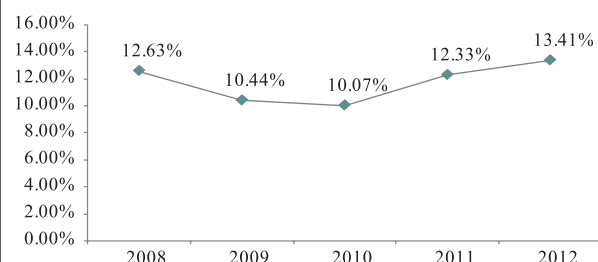
ASSET QUALITY AND CREDIT RISK

Credit quality of the leased asset portfolio of IDLC Finance has been good in comparison to peer leasing and finance companies. Meticulous loan evaluation and approval process has helped IDLC to pull the NPL ratio down. Now IDLC has the best loan portfolio among the NBFIs. NPL ratio has come down to 2.09% in 2012 compared to 2.325 in 2011. Management of IDLC has decided to concentrate more on acquiring better quality financial assets rather than volume achievement. We forecast that IDLC will continue to maintain a superior quality credit portfolio.

COST OF FUND AND SPREADS

IDLC Finance Ltd. specifically indicated their intention to reduce funding cost, diversify funding sources and diminish reliance on conventional sources like bank borrowing. They have always been successful in keeping their cost of fund below the peer leasing companies. Key reason behind is that they have always opted to collect fund through deposits rather than bank borrowing. In 2012 cost of fund has increased to 13.41% compared to 12.33% in 2011 as the money market was extremely volatile. As the money market has eased down we expect that the cost of fund will go down by another 100 to 150 basis point in the next year.

Cost of Fund



Cost To Income



OPERATING EFFICIENCY

Operating Efficiency of IDLC has deteriorated over the last three years as the capital market revenue dried out completely. Total operating expense as a proportion of total operating revenue has gone up from 31.7% in 2010 to 44% in 2012. We expect that the management of IDLC Finance will be able to keep these expenses under control. We expect the operating expense will stay under 40% in the forecasted period.

CORPORATE GOVERNANCE

IDLC Finance Ltd. Strictly maintains its corporate governance structure. It has separate chief executive officer, chairman and independent directors. The company has a history of maintaining accountability to its share holders. Transparent and accountable companies are always capable of generating extra ordinary profitability. We have a strong

| Return Ratio | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------|-------|-------|-------|-------|--------|-------|
| Net Interest Margin | -0.7% | -3.9% | -3.0% | 0.5% | 1.6% | 1.4% |
| Yield on Advances | 13.5% | 13.8% | 13.3% | 14.5% | 15.0% | 14.9% |
| Yield on Investments | 40.2% | 49.8% | 50.8% | 91.4% | -19.6% | 14.9% |
| Cost of Deposits | 14.3% | 17.7% | 16.3% | 14.0% | 13.4% | 13.5% |
| Return on Average Assets | | 3.5% | 5.1% | 5.3% | 1.7% | 2.1% |
| Return on Average Equity | | 39.6% | 50.9% | 43.6% | 13.0% | 16.4% |
| Dividend Yield | | | | | | |
| Effective Tax Rate | | 0.0% | 0.0% | 32.2% | 58.9% | 43.1% |

| Efficiency Ratios | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
| Net Interest Income/ Net Total Income | 112.7% | 50.8% | 46.7% | 41.4% | 73.0% | 72.9% |
| Non Interest Income/ Total Income | -12.7% | 49.2% | 53.3% | 58.6% | 27.0% | 27.1% |
| Interest Expended/ Interest Earned | 68.2% | 72.2% | 65.4% | 59.1% | 60.0% | 63.9% |
| Cost To Income | 122.1% | 29.8% | 25.6% | 31.7% | 42.3% | 44.0% |
| Opex/ Avg. Assets | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| C-D Ratio | 154.7% | 177.2% | 187.8% | 163.5% | 149.4% | 141.7% |
| Incremental C-D Ratio | | | | | | |
| Credit/Assets | 88.9% | 89.7% | 85.8% | 78.9% | 84.6% | 86.3% |
| Loan growth | 0.0% | 16.3% | 25.1% | 9.2% | 24.0% | 23.7% |
| Deposits/Assets | 57.5% | 50.6% | 45.7% | 48.3% | 56.6% | 60.9% |
| Deposit Growth | | 1.5% | 18.0% | 25.5% | 35.7% | 30.4% |

| Growth Ratios | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------|------|---------|-------|-------|--------|--------|
| Adjusted Book Values | | | | | | |
| Advances | | 16.3% | 25.1% | 9.2% | 24.0% | 23.7% |
| Deposits | | 1.5% | 18.0% | 25.5% | 35.7% | 30.4% |
| Investments | | -9.2% | 82.0% | -9.8% | -4.5% | -29.5% |
| Net Interest Income | | -119.7% | 49.1% | 41.4% | 25.0% | 11.0% |
| Non Interest Income | | 69.2% | 75.7% | 75.0% | -67.4% | 12.1% |
| Net Total Income | | -143.6% | 62.2% | 59.3% | -29.1% | 11.3% |
| Pre Provisioning Profit | | 38.6% | 72.0% | 46.2% | -40.1% | 7.9% |
| Net Profit | | 86.6% | 80.0% | 30.3% | -62.3% | 42.5% |
| EPS | | 22.64 | 33.96 | 22.12 | 5.05 | 5.76 |

| | Income Statement | | | Growth | | | Common size | | |
|--|------------------|----------|----------|--------|---------|---------|-------------|--------|--------|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Net interest income | 1,262.63 | 1,577.71 | 1,750.89 | 41.4% | 25.0% | 11.0% | 41.4% | 73.0% | 72.9% |
| Income from investments | 525.70 | (107.84) | 57.89 | 62.2% | -120.5% | -153.7% | 17.3% | -5.0% | 2.4% |
| Commission, exchange and brokerage | 1,111.18 | 462.75 | 336.66 | 84.1% | -58.4% | -27.2% | 36.5% | 21.4% | 14.0% |
| Other operating income | 147.41 | 227.25 | 257.79 | 60.0% | 54.2% | 13.4% | 4.8% | 10.5% | 10.7% |
| Total operating income | 3,046.92 | 2,159.87 | 2,403.24 | 59.3% | -29.1% | 11.3% | 100.0% | 100.0% | 100.0% |
| Total operating expenses | 965.92 | 913.46 | 1,058.11 | 97.3% | -5.4% | 15.8% | 31.7% | 42.3% | 44.0% |
| Profit before provision against loans and advances | 2,081.00 | 1,246.41 | 1,345.13 | 46.2% | -40.1% | 7.9% | 68.3% | 57.7% | 56.0% |
| Total provision | 124.77 | 29.81 | 92.95 | -16.7% | -76.1% | 211.8% | 4.1% | 1.4% | 3.9% |
| Profit for the year before taxation | 1,956.23 | 1,216.60 | 1,252.19 | 53.6% | -37.8% | 2.9% | 64.2% | 56.3% | 52.1% |
| Provision for tax | 629.13 | 716.32 | 539.37 | - | 13.9% | -24.7% | 20.6% | 33.2% | 22.4% |
| Net profit after tax for the year | 1,327.10 | 500.28 | 712.82 | 30.3% | -62.3% | 42.5% | 43.6% | 23.2% | 29.7% |
| EPS | 8.25 | 3.11 | 4.43 | | | | | | |

| | Balance Sheet | | | Growth | | | Common Size | | |
|--|------------------|------------------|------------------|--------------|--------------|--------------|----------------|----------------|----------------|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Property and assets | | | | | | | | | |
| Cash & Equivalents | 324.15 | 417.21 | 565.59 | 43.9% | 28.7% | 35.6% | 1.20% | 1.34% | 1.50% |
| Balance with other banks and financial institution | 3,028.74 | 2,133.01 | 3,275.46 | 95.9% | -29.6% | 53.6% | 11.25% | 6.84% | 8.67% |
| Money at call and short notice | 370.00 | 670.00 | 40.00 | - | 81.1% | -94.0% | 1.37% | 2.15% | 0.11% |
| Investment | 575.47 | 549.60 | 387.54 | -9.8% | -4.5% | -29.5% | 2.14% | 1.76% | 1.03% |
| Loans and advances | | | | | | | | | |
| | 21,254.20 | 26,357.10 | 32,595.18 | 9.2% | 24.0% | 23.7% | 78.92% | 84.57% | 86.27% |
| Lease receivable | | | | | | | | | |
| Land, building, furniture and fixtures (including leased assets) | 325.67 | 355.69 | 471.83 | 45.1% | 9.2% | 32.7% | 1.21% | 1.14% | 1.25% |
| Other assets | 1,051.76 | 681.68 | 448.26 | 79.3% | -35.2% | -34.2% | 3.91% | 2.19% | 1.19% |
| Total assets | 26,929.99 | 31,164.54 | 37,783.87 | 18.7% | 15.7% | 21.2% | 100.00% | 100.00% | 100.00% |
| Liabilities and shareholder's equity | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Borrowings from other banks, financial institutions and agents | 4,656.97 | 4,565.82 | 4,333.82 | -22.8% | -2.0% | -5.1% | 17.29% | 14.65% | 11.47% |
| Deposits and other accounts: | 13,001.35 | 17,638.85 | 22,998.90 | 25.5% | 35.7% | 30.4% | 48.28% | 56.60% | 60.87% |
| Other liabilities | | | | | | | | | |
| | 5,581.49 | 4,979.40 | 5,757.85 | 43.1% | -10.8% | 15.6% | 20.73% | 15.98% | 15.24% |
| Total liabilities | 23,239.80 | 27,184.07 | 33,090.57 | 14.5% | 17.0% | 21.7% | 86.30% | 87.23% | 87.58% |
| Total shareholders' equity | | | | | | | | | |
| | 3,690.19 | 3,980.47 | 4,693.29 | 54.2% | 7.9% | 17.9% | 13.70% | 12.77% | 12.42% |
| Total liabilities and shareholders' equity | 26,929.99 | 31,164.54 | 37,783.87 | 18.7% | 15.7% | 21.2% | 100.00% | 100.00% | 100.00% |

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