

IDLC FINANCE LIMITED

Company Overview

IDLC Finance Limited was incorporated on May 23, 1985 and commenced its operation on February 22, 1986. The firm initially started with Lease Financing as core product, later it has changed its focus to multi-product with almost equal attention in Corporate, Retail and SME sectors. Recently, it emphasized more on its SME sector. As on December 31, 2012 total customers in SME sector increased by over 50% to 5,222 and disbursement rose by 33.86% to BDT 8,554 mn.

The group is working with 26 branches in the major cities of the country. It operates in capital market through its two fully owned subsidiaries – IDLC Investment Ltd & IDLC Securities Ltd.

As per 2012 Annual Report, Company's loan portfolio was BDT 32.60 bn stating a 3 year CAGR (Compound Annual Growth Rate) of 15.3% and total deposit was BDT 23 bn with 3 year CAGR of 20.9%. Up to 9 months of 2013, 74.5% of total operating income generated from net interest income, 10.6% from Commission and brokerage, 2.5% from investment income and rest 12.4% from other operating income.

As on December 2012, the company's capital market exposure (i.e., Investment in marketable & non-marketable ordinary shares, preference shares, bonds and Margin loan to portfolio investors) was around BDT 5.0 bn or 13.2% of its total asset which was around BDT 5.3 bn or 16.9% in 2011.

The firm enlisted in with DSE on March 20, 1993 and CSE on November 25, 1996. Currently, around 63.27% of shares are held by Sponsors whereas 21.74% and 14.44% of shares are held by General and Institutional Investors respectively.

Industry Overview

As financial intermediaries Non-Bank Financial Institution plays vital role in the development of the country. They provide additional financial services that are not always provided by the full-fledged banking industry. According to latest Bangladesh Bank (BB) statistics, out of 31 NBFIs, 3 are Government-owned, 10 are joint venture and the rest 18 are locally private-owned. Meanwhile, the branch network reached to 170 as on 30 June 2013. So far 23 NBFIs are listed in our capital market.

Major sources of funds of NBFIs are term deposits, credit facilities from banks and other NBFIs, the call money market, as well as bonds and securitizations. A comparison from December 2012 to June 2013 showed that, aggregate industry assets increased by 13.36% to BDT 378.5 bn, liabilities by 15.31% to BDT 316.3 bn and equity by 9.51% to BDT 62.2 bn. Meanwhile, total deposit stood at BDT 174.0 bn (19.67% growth) and loan portfolio was BDT 273.6 bn (8.5% growth).

As on June 30, 2013, primary investment of the sector focuses was on industrial sector (43.8%) followed by real estate (16.7%), trade and commerce (11.3%), margin loans (5.0%), merchant banking (4.0%), agriculture (1.5%) and others (17.7%). Non-performing loan (NPL) situation deteriorated; as on June 30 2013, NPL was 6.2% whereas in December 2012 it was 5.4%.

Company Fundamentals

Market Cap (BDT mn)	10,956.0
Market weight	0.5%
No. of Share Outstanding (in mn)	160.9
Free-float (Public +Inst.)	36.2%
Paid-up Capital (BDT mn)	1609.0
3 Months Average Turnover (BDT mn)	20.8
3 Months Return	13.1%
Current Price (BDT)	71.6
52-week price range (BDT)	52.7 - 107.2
Sector Forward P/E	26.6

	2010	2011	2012	2013 (9m, Ann)
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Financial Information (BDT mn):

Operating Income	3,027	2,160	2,403	2,679
Profit After Tax	1,319	500	713	482
Equity	3,690	3,980	4,693	5,055
Deposit	13,001	17,639	22,999	27,712
Loans and Advances	21,254	26,357	32,595	40,667
Total Asset	26,930	31,165	37,784	47,388
Div. % (C/B)	35/65	-/25	-/30	-/

Margin:

Operating Profit	68.7%	57.7%	56.0%	54.3%
Net Profit	43.6%	23.2%	29.7%	18.0%

Growth:

Loans & Advances	8.7%	24.0%	23.7%	24.8%
Deposits	25.5%	35.7%	30.4%	20.5%
Equity	54.2%	7.9%	17.9%	7.7%
Operating Income	58.3%	-28.6%	11.3%	11.5%
Net Profit	60.5%	-62.1%	42.5%	-32.3%

Financial Indicators:

Credit/Deposit	1.6	1.5	1.4	1.5
Asset/Equity	7.3	7.8	8.1	9.4
Capital Adequacy	N/A	13.6	13.9	N/A
NPL	2.80%	2.30%	2.10%	N/A
Cost to Income	31.3%	42.3%	44.0%	45.7%

Profitability:

ROE	43.4%	13.0%	16.4%	9.9%
ROA	5.3%	1.7%	2.1%	1.1%

Valuation:

Price/Earnings	8.73	23.02	16.16	23.88
Price/BV	3.12	2.89	2.45	2.28
EPS (BDT)	8.20	3.11	4.43	3.00
NAVPS (BDT)	22.94	24.74	29.17	31.42

Investment Positives

- **IDLC Finance Ltd. has established itself as market leader and is recognized as a reliable brand name in country's financial sector.**
- As of September 2013, the firm holds a Loan Portfolio of BDT 40.0 bn, which is the highest in size among all other sector players. Up to 3rd quarter of 2013, the portfolio increased by around 25% compared to last year. Loan Diversification was also ensured as SME sector got 26% of loan portfolio followed by industrial loan (24%) and real estate finance (22%).
- The firm maintained its non-performing loan at 2.09% of total loan in 2012 whereas the industry average was 5.4%.

Investment Negatives

- Interest rate Spread (Difference between lending rate and borrowing rate), on an average, has declined up to Q3 of 2013 compared to last year interest rate spread.
- Up to 9 months of 2013, Company reported 35.5% decline in net profit than that of 9 months of 2012 due to higher provision as Bangladesh Bank has enforced stricter loan rescheduling and provisioning policy.
- Compared to year 2012, costly funding (borrowing from other banks and financial institutions) increased by 87% as on Sep 30, 2013, which consists around 23% of total funding.

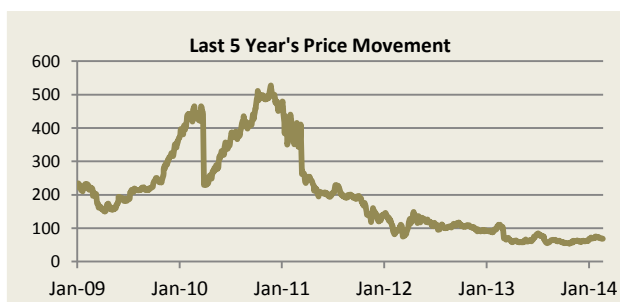
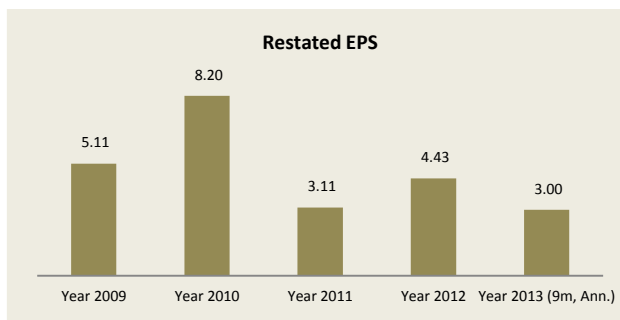
Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Market Trailing P/E	18.3	80.9
Market Forward P/E	19.3	57.9
Sector Trailing P/E	19.5	86.3
Sector Forward P/E	26.6	79.6
Market P/NAV	2.0	62.3
Sector P/NAV	2.1	67.1

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Concluding Remark

IDLC Finance Ltd. is playing a leading role in country's non-banking financial sector. The firm is also well-known for its strong ethical practices as well as exemplary corporate governance and statutory compliance. Though net profit after tax declined by 35.5% up to Q3 of 2013, the firm reported 10.21% growth in operating profit during this time. The Company maintained higher Capital Adequacy Ratio (13.88 in 2012) than required (10.0). As on date, the company's 14 days RSI was 57.47 and 14 days MFI was 34.40.

Source: Annual Reports, DSE Website, the Financial Express, the Daily Star, ILSL Research, IDLC website.

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