

IDLC Finance Ltd. (IDLC)

Current Price	Valuation	Return Potential	Earnings Growth Forecast	Equity Growth Forecast	Rating	Category
BDT 46.50	BDT 56.57	21.66%	14.08%	10.27%	Buy	NBFI

Fundamentals

Market Cap (BDT mn)	19,330
52-weeks Price Range	(46.50 - 55.10)
Authorized Capital (BDT mn)	10,000
Paid up Capital (BDT mn)	4,157
Free-Float Share (%)	56.7%
Free-Float Market Cap (BDT mn)	10,952
Number of Share (mn)	416
Dividend Yield	3.2%
Reserve & Surplus (mn)	12,692
Latest LTM EPS (BDT)	4.3
Latest NAV (BDT)	44.4
3 Years Median P/E	10.6x
3 Years Median P/B	1.4x

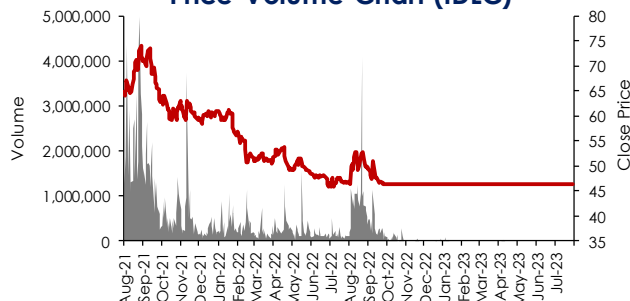
NBFIs Industry Facts

NBFI provide a range of financial services such as term financing, SME financing, factoring, syndicating financing, equity financing, merchant banking, venture capital, and working capital financing. In Bangladesh, as of December 2022, 35 NBFIs are in operation. Out of 35 NBFIs, 3 are fully government-owned, 19 privately-owned local companies, and the remaining 13 are established jointly under local and foreign participation. Currently, NBFI use a total of 274 branches to carry out their business operations in Bangladesh.

Total assets of the NBFI industry reached at BDT 920 billion at end of December 2022, an increase of 2.61% from the preceding year. As on FY22, the share of loans and leases to total assets stood at 72.4%, the same as it was at end of FY21. The industry's total assets to GDP ratio accounted for 3.03% in 2022 which was 3.2% in the previous accounting year. Industry loans and leases were concentrated in the two major sectors namely the power, gas, water, and sanitary service sub-sector and garments and knitwear sub-sector, which accounted for 18.95% and 13.84% of total loans and leases in the industry sector respectively. In FY22, the liability to asset ratio stood at 93.4%, which was 1.49% higher than from the previous year.

Aggregate non-performing loans and leases of NBFI increased to BDT 168.21 billion at the end of 2022 from BDT 130.17 billion in the previous year. NPL eventually increased considerably from 19.33% in 2021 to 23.88% in 2022. The industry experienced a provision shortfall of BDT 10.53 billion in 2022 against the required provisions of BDT 100.82 billion. As on FY21, the NBFI sector maintained a 1.70% of CRR and 22.10% of SLR. Both CRR and SLR decreased to 1.59% and 16.63% respectively, at the end of FY22, still remaining in the comfort zone as per the central Bank.

Price-Volume Chart (IDLC)



Shareholding Structure as on Jul-23

Sponsor/Director	Institute	Foreign	Public
235,534,762	115,896,738	4,822,102	59,444,883
56.66%	27.88%	1.16%	14.30%

Top Shareholders of IDLC as on December 31

Name of the Shareholders	2022		2021	
	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
The City Bank Limited and its subsidiaries	96,480,405	23.21%	91,886,102	23.21%
Transcom Group	55,426,161	23.27%	52,786,821	13.33%
Sadharan Bima Corporation (SBC)	31,672,060	7.62%	30,163,868	7.62%
Reliance Insurance Limited	29,098,891	7.00%	27,713,230	7.00%
Mercantile Bank Limited and its subsidiary	22,863,413	5.50%	21,774,680	5.50%

Company Overview

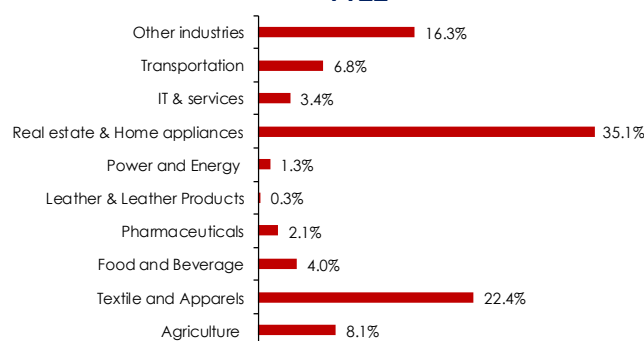
IDLC Finance Limited is the largest multi-product, multi-segment Non-Banking Financial Institution (NBFI) in Bangladesh. As one of the most respected financial brands in the industry, IDLC holds a strong and diversified footing in Corporate, SME, Retail and Capital Market segments.

When incorporated, the company started with lease and term financing, as its core businesses. It expanded its activities into 'Short-Term Finance' and 'Real Estate Finance' operations in 1997. It also started car loan and personal loan services to individuals in 2004 and 2007, respectively. IDLC provides loan solutions to corporate clients including providing green banking solutions. IDLC has successfully penetrated the digital space through Digital Deposit and the newly launched "Deposit Plus". IDLC ended the first mileage of Digital Deposit scheme in ties with bKash, with more than 700,000 micro-saving clients. In 2022, MFS based DPS with bKash crossed BDT 1 billion portfolio mark.

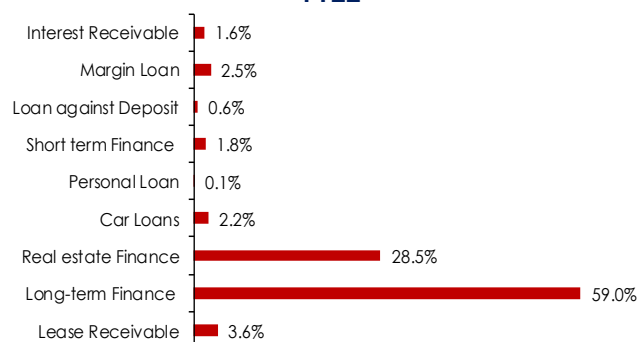
IDLC Group comprises of four companies which include IDLC Finance Limited, IDLC Securities Limited, IDLC Investments Limited and IDLC Asset Management Limited. The businesses of all the four concerns are intertwined and operated under the umbrella of IDLC Group.

Recently, Bangladesh Bank (BB) has approved to launch the Islamic Shariah-based financing business in IDLC under the Islamic finance window.

Industry-wise Credit Deployment FY22



Portfolio Exposure by Major Type FY22



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Financial Performance

In HY23, IDLC reported BDT 722 million earnings which was 21.4% lower than the previous period.

In FY22, net interest income increased by 6.5% as a result of loan book size, it was somewhat stunted by downward re-pricing of the portfolio to maintain compliance with the central bank's directives. At the same time, interest expense increased by 12.2% which can be mostly attributed to upward pressure on deposit rates among other factors. Resultantly, the net interest income only increased by 0.42%.

In FY22, total operating income edged down by 13.3% to BDT 6,588 million, from BDT 7,600 million in the previous year. Revenue de-growth was driven by a decrease in non-funded income (NFI) (41.1% YoY).

Profit before tax decreased by 29.3% to BDT 2,617 million. After paying income tax of BDT 703 million, net profit slumps by 9.5% to BDT 1,915 million as against BDT 2,116 million in 2021.

Funding base of IDLC increased by 4.44% in 2022 and moved to BDT 117,273 million from BDT 112,283 million in the previous year. Term Deposits, which now comprises 66.2% of the funding basket, saw a growth and stood at BDT 77,645 million which was BDT 73,171 million in the prior year (6.1% YOY).

In FY22, total balance-sheet of IDLC grew stronger by 3.7% leading to a total of BDT 148,185 million at the end of 2022, which was BDT 142,913 million at the end of 2021.

In 2022, paid up share capital rose to BDT 4,156 million following issuance of bonus Share, which brought down the debt to equity ratio to 7.18 times. Capital Adequacy Ratio also improved to 19.29% from 18.27% in 2022, remaining robust and well over the regulatory limit of 10%.

Cash generated from operating activities before changes in operating assets and liabilities stood at BDT 5,352 million, registering a 25% decline following the downturn of fees and commission earned and capital gain from investment.

The cash flow from investing activities moved to BDT (3,429) million from BDT 2,489 million, predominantly due to increased net investment in government securities to further strengthen the Balance Sheet. IDLC paid dividend of BDT 594 million, which was slightly higher, compared to the amount paid in the previous year of BDT 584 million.

Between FY2021-2022, Return on equity (ROE) decreased to 10.6% from 12.6% and Return on assets (ROA) decreased to 1.3% from 1.5%. The NAV per share increased to BDT 43.56 in 2022 from BDT 40.39 in 2021. In HY23, the NAV stood at BDT 43.80 per share.

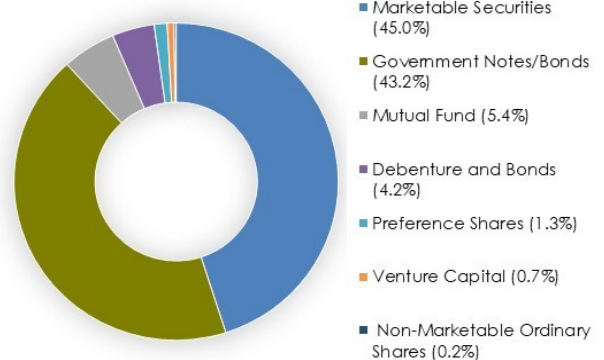
Stock Performance

IDLC holds the third highest market capitalization in the listed NBFI industry (BDT 19,330 mn). Its share price inched down 22.9% (YoY) in 2022, because of a challenging capital market environment characterized by pandemic-induced volatility. Share price went dry due to the regulatory floor price impact followed by the global geopolitical and economic crises.

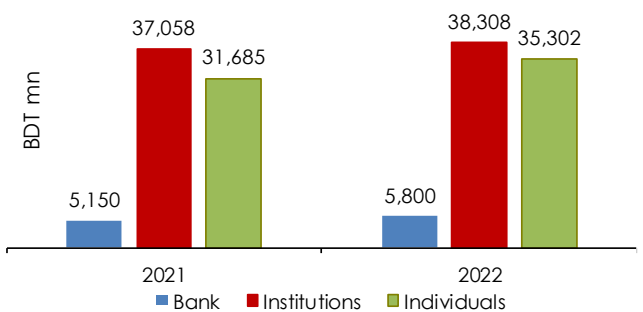
In 2022, IDLC reported its Economic value-added (EVA) of BDT 820 million, which is 21% lower from the preceding year. On this year, NOPAT grew by 5.6% (YoY), but cost of equity grew significantly (1.07%) from the previous year.

IDLC reported its market value-added (MVA) of BDT 1,220 million in 2022 as against BDT 7,084 million in 2021, and representing a slow performance in the stock market.

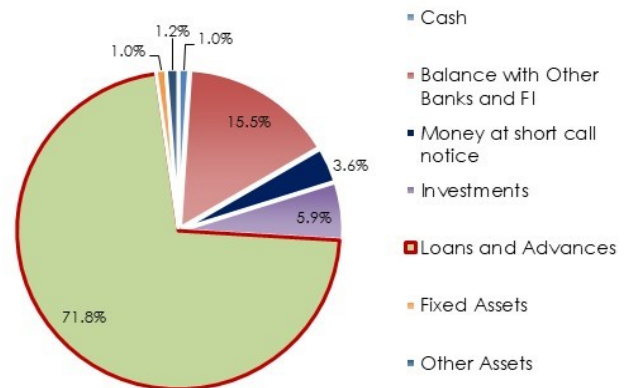
Investment Mix FY22



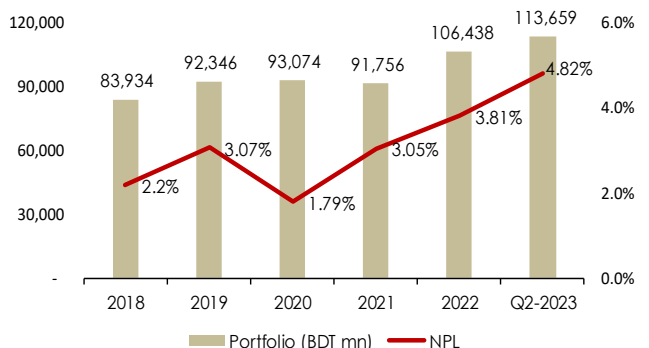
Term Deposit Sources



Assets Mix FY22



Loan Portfolio and NPL Trend



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Assets Mix

IDLC is amongst the largest NBFI in Bangladesh in terms of total assets, and total outstanding loans which stood at BDT 148,185 million, and 106,437 million respectively at the end of 2022. At the end of 2022, total assets grew with a CAGR of 7.9% in past five years. IDLC assets size, consists of cash balances, balance with other banks and FIs, money at call and short notice, investments and loan portfolios. As of December 2022, the credit segment holds 71.8% of total assets. IDLC distributed its credit portfolio to agriculture loan (8.1%), textile and apparels (22.4%), food and beverage (4.0%), pharmaceuticals (2.1%), leather & leather products (0.3%), power and energy (1.3%), real estate & home appliances (35.1%), IT & services (3.4%), transportation (6.8%), and rest of 16.3% other industries at the end of December 2022.

The total classified loan is stood at BDT 4,374 million, NPL stood at only 3.8% as against the total industry average 23.8% in 2022.

Investment Mix

As of December 2022, the investment portfolio of IDLC stood at BDT 8,690 million, where 45.0% was invested in marketable securities, 43.2% in Government notes/bonds and the rest amount in mutual fund (5.4%), debenture and bonds (4.2%), preference shares (1.3%), venture capital (0.7%), and non-marketable ordinary shares (0.2%).

Investment Merits

**Industry Largest Service Network:** IDLC marks its presence in over 22 cities, represented by over 40 branches with over 1,600 employees, and serving over 400,000 clients.

**Stable Net Interest Income:** IDLC maintains a positive net interest income growth over the years. In FY-22, IDLC net interest income grew by 0.4% (YOY), and the CAGR of last five years is 5.0%. End of 2022, interest rate spread stood at 2.6%, as against of 1.5% industry average.

Better Asset Quality than Industry

**Average:** At the end of 2022, NPL of IDLC stood at 3.8% as against the NBFI industry average of 23.8%. In HY-2023, NPL is registered at 4.8%.

On average, IDLC was able to keep it's NPL at 2.8% level in last five years.

**Lucrative Dividend Payment:** IDLC provided handsome dividend over the years. Because of regulatory restriction on dividend payment, NBFI now can declare a maximum of 30% dividend with cash and stock combined. IDLC disbursed 15.0% cash dividend for investors. The dividend yield is estimated 3.2% as on today's market price of BDT 46.5 per share.

**Strong Capitalization:** IDLC maintains a strong capitalization in Tier -1 and total capital ratio which stood at 18.3% and 19.29%, respectively, in FY2022, compared to the regulatory minimum ratios of 5% and 10%.

Investment Concerns

**High Cost to Income Ratio:** In HY-23, cost to income ratio of IDLC stood at 49.1%, which was 39.3% in HY-22. At the end of December 2022, the ratio accounted for 43.8%, which was 7.6% higher from the preceding year. High cost to income ratio might have a bad effect in the profitability in coming years.

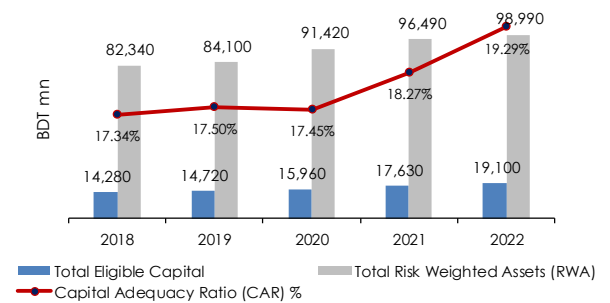
Advance-Deposit Ratio (ADR) Compliance:

At the end of 2022, the ADR of IDLC stood at 132.6% against regulatory limit of 95.0%. In HY-2023, ADR stood at 136.3%. The historic (5 years) average ADR of IDLC accounts 121.2%. So, it seems difficult for IDLC to disburse chunk credit in the coming years.

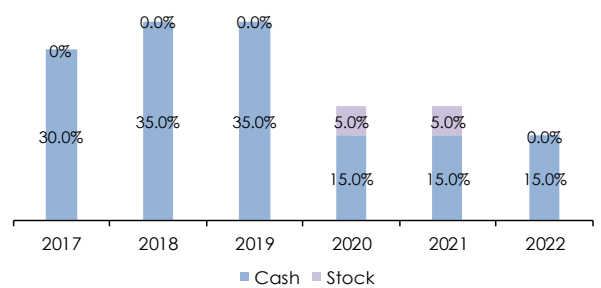
Downward Trend in ROA and ROE:

Return on Assets (ROA) and Return on Equity (ROE) of IDLC are decreasing over the years. In FY-22, ROA and ROE stood at 1.3% and 10.6%, respectively, which was 2.0% and 15.9% in 2018.

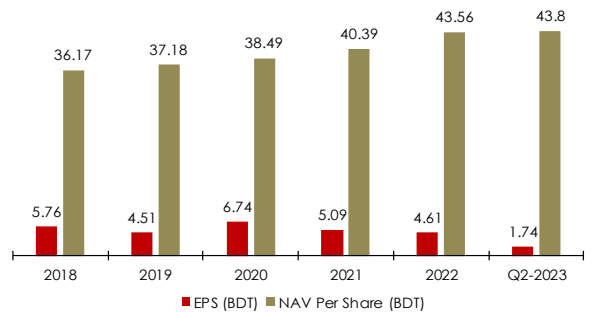
Capital Adequacy Ratio



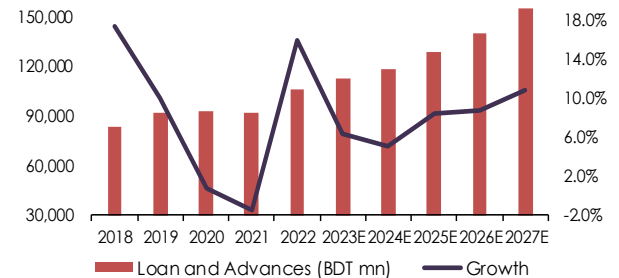
Dividend Payment



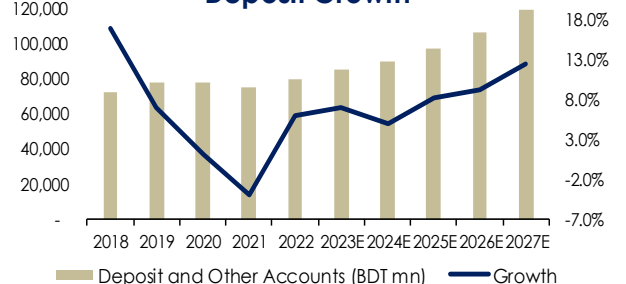
Earnings and NAV Per Share (BDT)



Credit Growth



Deposit Growth



IDLC Finance Ltd. (IDLC)

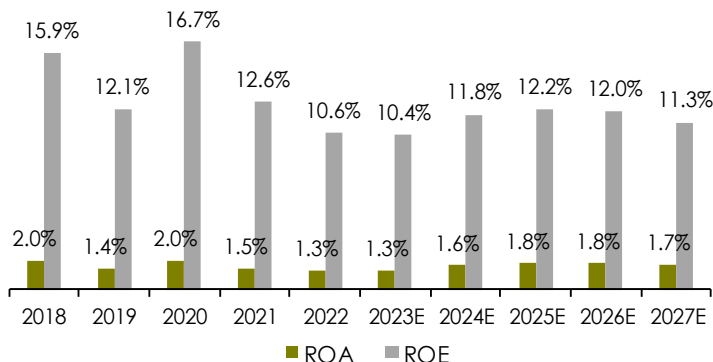
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Valuation

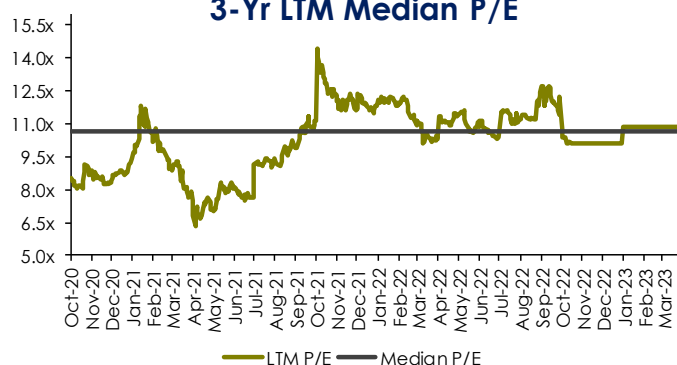
The relevant valuation methods are (Residual Income Approach and Relative Valuation) to find out the intrinsic value of the company.

The assumed cost of equity and terminal growth rate are 10.5% and 2.0% respectively. Under the residual income model, the value of the company is BDT 55.1 per share. Under the relative valuation, it has been used Last Twelve Month (LTM) PE and PB multiples to value the company. Based on the relevance and merits of the valuation models, It has been given 50% weight in Residual income model and 50% in relative valuation. Overall, the intrinsic value of the IDLC has estimated at BDT 56.57 per share. Currently, IDLC is traded at BDT 46.5 in the secondary market. So, IDLC return potential is 21.7%.

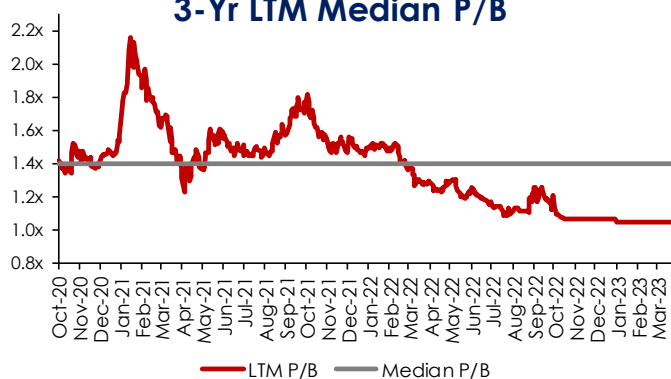
ROA and ROE



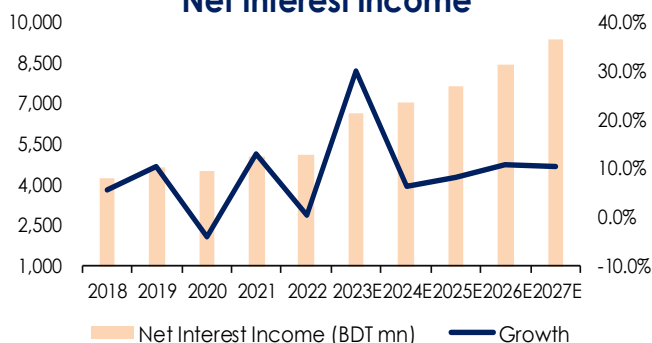
3-Yr LTM Median P/E



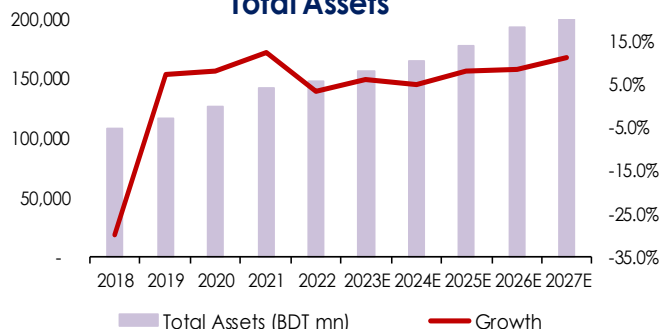
3-Yr LTM Median P/B



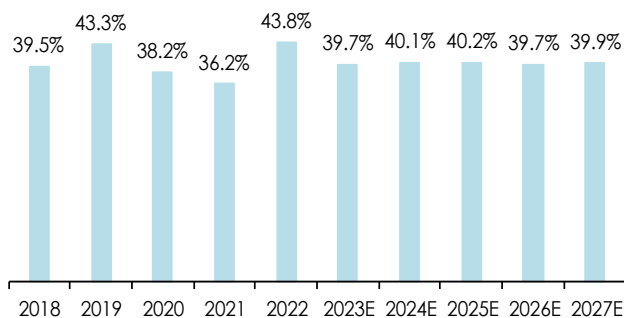
Net Interest Income



Total Assets



Cost to Income Ratio



Valuation (BDT)

Residual Income Model			55.1
<b>P/E Based Valuation (LTM EPS)</b>	<b>Multiple (x)</b>	<b>EPS (BDT)</b>	<b>Valuation (BDT)</b>
3-Yr Median P/E	10.6x	4.28	45.6
Industry P/E	18.8x	4.28	80.4
<b>P/B Based Valuation</b>	<b>Multiple (x)</b>	<b>NAVPS (BDT)</b>	<b>Valuation (BDT)</b>
3-Yr Median P/B	1.4x	44.4	62.0
Industry P/B	1.0x	44.4	44.4
<b>Valuation Per Share</b>			<b>56.57</b>
Current Price (August 13, 2023)			46.50
<b>Return Potential</b>			<b>21.66%</b>



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**Quarterly Financial Performance- IDLC**

Financials (BDT mn)	2023		2022			2021			Year End	
	Q1	Q2	Q1	Q2	Q3	Q1	Q2	Q3	2022	2021
Loan and Advances	111,135	113,659	96,915	100,130	104,876	94,450	89,851	91,059	106,438	91,756
Deposit and Other Accounts	79,880	83,400	77,529	77,639	80,430	79,309	76,877	74,582	80,246	75,609
Loan to Deposit	139.1%	136.3%	125.0%	129.0%	130.4%	119.1%	116.9%	122.1%	132.6%	121.4%
Net Interest Income	1,263	1,205	1,397	1,415	3,960	1,242	1,184	1,086	5,108	5,087
Investment	6,262	6,181	6,869	5,938	8,103	7,980	6,624	5,067	8,690	5,344
Investment to Deposit	7.8%	7.4%	8.9%	7.6%	10.1%	10.1%	8.6%	6.8%	10.8%	7.1%
Investment Income	59	57	100	56	221	572	199	327	319	1,141
Non-Funded Income (NFI)	289	308	373	305	1,072	933	484	689	1,480	2,514
Operating Income	1,553	1,512	1,770	1,720	5,032	2,175	1,668	1,774	6,588	7,600
Operating Expense	741	764	672	700	2,125	691	655	678	2,883	2,748
Cost to Income	47.7%	50.5%	37.9%	40.7%	42.2%	31.8%	39.3%	38.2%	43.8%	36.2%
Operating Profit	811	749	1,098	1,020	2,907	1,485	1,013	1,096	3,705	4,852
Net Profit After Tax	344	378	483	436	1,311	471	564	558	1,915	2,116
EPS (BDT)	0.83	0.91	1.16	1.05	3.15	1.25	1.42	1.41	4.61	5.1

The report is based on an assessment conducted by the Research and Innovation Lab (RIL) at Royal Capital Limited. Related data in this report are mainly sourced from Bangladesh Bank website, annual reports, newspaper, and different publications. RIL will not bear any responsibility for any changes in the related data and estimates made after the mentioned access date. This report is available at: [www.royalcapitalbd.com](http://www.royalcapitalbd.com)

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