Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

IDFC Bank

Weak operations but better asset growth

Q4FY18 Result Update

April 25, 2018

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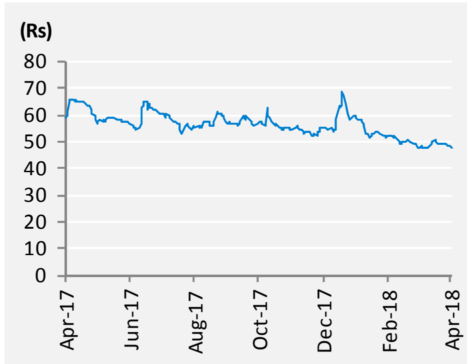
Rating	**Accumulate**
Price	Rs47
Target Price	Rs55
Implied Upside	17.0%
Sensex	34,501
Nifty	10,571

(Prices as on April 25, 2018)

Trading data			
Market Cap. (Rs bn)			161.4
Shares o/s (m)			3,404.1
3M Avg. Daily value (Rs m)			414.9
Major shareholders			
Promoters			52.80%
Foreign			30.69%
Domestic Inst.			3.87%
Public & Other			18.24%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(0.7)	(17.6)	(20.3)
Relative	(6.6)	(22.1)	(35.5)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2019	2.8	4.5	*-37.2*
2020	3.5	6.1	*-43.5*

Price Perf. (RIC: IDFB.BO, BB: IDFCBK IN)



IDFCBK's earnings were below estimates on back of hit from one-time additional provisioning of 3.1bn on review of stressed assets value and drag on spreads from traditional balance sheet items. Loan book growth was better with strong growth in retail segment (+1x in many segments) and de-risking from running down infrastructure book. Stressed assets continued to be stable but bank added additional provisioning to improve the PCR. Bank believes although there is no incremental addition to stressed asset from revised stress asset framework but would see some provisioning impact. Bank's retail franchise is gathering pace and bank plans to double the assets and improve CASA but spreads improvement being muted and higher opex, PPOP growth will remain muted and hence we retain Accumulate with TP of Rs55 based on 1.3x Mar-20 ABV (rolled from Sep-19 ABV).

- **Operationally weak on all counts:** NII de-grew 10% YoY as spreads/NIMs continued to be dragged down on pressure on yields from all segments and PSL drag. Even other income was weak on lack of treasury gains and slower fees and with high opex, PPOP de-grew by 80% YoY (core PPOP -70% YoY). We believe, margins have bottomed and will remain stable in H1FY19 and but is likely to improve in H2FY19 on as retail asset growth catches up & improvement in CASA.

- **Loan growth strong in retail & corporate:** Bank's legacy infra book de-grew by 21% YoY with focus on de-risking, while growth in corporates was 38% YoY & retail grew 2x YoY on lower base. In Corporate, emerging corporates contributed strong growth and remains a focus area along with better rated corporates mix. In Retail, rural saw strong growth (MFI loans) but urban retail saw very strong growth from segments like home/LAP loans, biz banking and CVs. Bank will continue drive growth from urban retail and double overall retail assets in FY19.

- **Asset quality deteriorates:** Overall stressed assets remain quite stable and bank mentioning no impact from the RBI's revised framework on asset quality but incrementally could see some provisioning Rs6.5-7.5bn as stressed asset legacy has been already 3 years. PCR on stressed assets remain improved to 76% with PCR on stressed gas assets at ~90% showcasing limited impact on balance sheet.

Key financials (Y/e March)	**2017**	**2018**	**2019E**	**2020E**
Net interest income	20,173	17,981	21,314	25,889
Growth (%)	*138.1*	*(10.9)*	*18.5*	*21.5*
Operating profit	17,588	12,102	13,862	16,849
PAT	10,251	8,060	9,575	11,796
EPS (Rs)	3.0	2.4	2.8	3.5
Growth (%)	*60.3*	*(21.1)*	*18.7*	*23.2*
Net DPS (Rs)	—	0.7	0.9	0.9

Profitability & Valuation	**2017**	**2018**	**2019E**	**2020E**
NIM (%)	2.07	1.51	1.57	1.65
RoAE (%)	7.2	5.4	6.2	7.3
RoAA (%)	1.05	0.68	0.71	0.75
P / BV (x)	1.1	1.1	1.0	1.0
P / ABV (x)	1.2	1.2	1.1	1.0
PE (x)	15.8	20.0	16.8	13.7
Net dividend yield (%)	—	1.6	1.8	1.9

Source: Company Data; PL Research

Exhibit 1: Q4FY18 results – Profitability was impacted by provisions and low NII

P&L (Rs million)	Q4FY18	Q4FY17	YoY gr.	Q3FY18	QoQ gr.
Interest Income	22,813	22,234	*2.6*	22,837	*(0.1)*
Interest Expense	18,281	17,213	*6.2*	17,888	*2.2*
Net interest income (NII)	**4,532**	**5,021**	***(9.7)***	**4,950**	***(8.4)***
Other income	930	563	*65.3*	2,308	*(59.7)*
Total income	**5,463**	**5,326**	***2.6***	**7,258**	***(24.7)***
Operating expenses	4,899	2,981	*64.3*	4,110	*19.2*
-Staff expenses	1,811	948	*91.1*	1,714	*5.7*
-Other expenses	3,087	2,033	*51.9*	2,396	*28.8*
Operating profit	**564**	**2,344**	*(75.9)*	**3,147**	***(82.1)***
Core operating profit	884	2,860	*(69.1)*	2,367	*(62.7)*
Total provisions	2,425	48	*NA*	1,086	*123.2*
Profit before tax	**(1,861)**	**2,297**	***NA***	**2,061**	***NA***
Tax	(2,280)	795	*NA*	600	*NA*
Profit after tax	**419**	**1,502**	***(72.1)***	**1,461**	***(71.3)***
Balance Sheet					
Deposits	4,81,982	4,02,080	*19.9*	4,22,590	*14.1*
Borrowings	5,72,871	5,02,620	*14.0*	5,45,060	*5.1*
Advances	5,21,649	4,94,017	*5.6*	4,71,270	*10.7*
Profitability ratios					
NIM	**1.5**	**2.0**	***(50)***	**1.9**	***(40)***
RoAA	0.1	0.6	*(50)*	2.0	*(186)*
RoAE	1.1	4.9	*(380)*	7.2	*(610)*
Asset Quality					
Gross NPL (Rs m)	17,791	15,421	*15.4*	27,767	*(35.9)*
Net NPL (Rs m)	8,912	5,765	*54.6*	12,063	*(26.1)*
Gross NPL ratio	3.4	3.0	*36*	5.6	*(227)*
Net NPL ratio	1.7	1.1	*57*	2.5	*(81)*
Coverage ratio	49.9	62.6	*(1,271)*	56.6	*(665)*
Business & Other Ratios					
Low-cost deposit mix	11.8	5.2	*660*	10.1	*170*
Cost-income ratio	89.7	53.4	*3,629*	56.6	*3,304*
Non int. inc / total income	17.0	10.1	*695*	31.8	*(1,477)*
CAR	17.8	18.9	*(110)*	19.1	*(130)*
Tier-I	17.5	18.5	*(100)*	18.8	*(130)*

Source: Company Data, PL Research

IDFC Bank Q4FY18 Concall Highlights

Management Commentary:

- In FY18, company has focused on alignment of balance sheet. Risk on balance sheet has reduced with bank providing incremental provisions of Rs3.12bn on stressed book of Rs487 bn bringing the PCR to 76% on the same. Retailization has improved both from liabilities and assets. **Outlook:** Balance sheet position will be stronger in FY19 with further increase in retailization and provision required on stressed assets.

Balance Sheet:

- **Advance Book -**
  - **Retail Assets –** Retail book for bank increased to 15% of Net Advances from 5% in FY17 led by strong growth from both rural and urban areas. Retail book is seeing good growth from Home Loans, CV, SME & MSME segments in urban book whereas strong traction from JLG book continues. **Outlook:** Bank aims to grow its retail to Rs150bn by FY19 growing in both rural and urban but more biased towards urban.
  - **Wholesale Banking –** With this book, corporate excl. infra sees strong growth at 38% YoY in emerging large corporates (Avg. turnover Rs25bn) and yields are also better. Rating has improved to A- from AA- in the ELC portfolio. Infra book has come down by 21% YoY and from here on book will shrink gradually unlike in FY18. Infra book has operating assets in roads, telecom (top 5), transmission and has no construction risk. **Outlook:** Bank continues to see good opportunities in this book.
- **Liabilities –** CASA Ratio improved by 170bps QoQ to 11.8% (Rs57bn). Retail TD has also grown better and corporate TD has slightly come down. Bank has large fixed rate long term bonds of Rs310bn carrying average rate of 8.9% which will remain a drag on RoA till FY21 of which Rs50bn will mature in FY19. **Outlook:** Bank aims to have CASA deposits of Rs100bn by FY19.

Margins:

- Margins have fallen by 40bps at 1.5% in 4Q18 mainly on PSL drag and stressed book. PSL drag will not occur in FY19 and benefit from lower CoF will flow in FY19 onwards and improve margins.

Fees/Opex

- **Fee Income –** Recurring fee income which grew by 34% YoY such as processing and CMS fees continue to so well, whereas DCM/syndication fees are slightly volatile in nature. Treasury income was negative due to volatile movement of bond yields this year. **Outlook:** Bank expects recurring fee income to continue to do well.

- **Opex –** Opex will continue to remain high as bank will do investment related expenses. Also, Bank has started participating in PSLCs and thus PSL buyout has come down. However, it will do Rs50 bn PSL buyout in FY19.

Customers:

- **Customers –** Bank continues to acquire 100k customers every month. Total customers for the bank have reached 2.7mn in FY18 with huge increase seen in urban customers. On urban side, it is seen focusing on high income customers on both assets and liabilities side.

Asset Quality:

- **Credit Cost -** Bank has taken additional provisions of Rs3.12bn in Q4 on on assessment of residual value of stressed assets mainly on the gas assets bringing its PCR from 67% to 90% PCR. **Outlook: -** Bank continues to monitor the portfolio and expects to provide Rs6.5-7.5 bn of additional provision as certain assets could be of potential risk in revised framework.

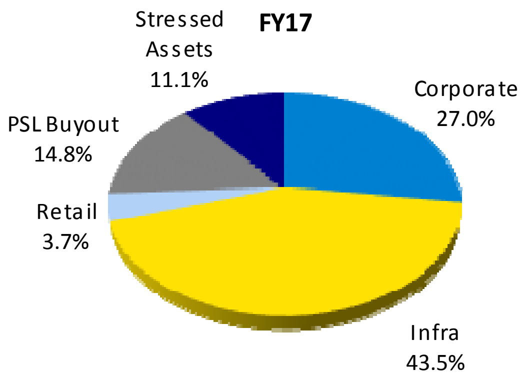
- **Divergence –** Bank has classified Rs2.47bn of NPA from divergence in Q2FY18 and carried excess provisioning as was already in stressed assets classification.

Exhibit 2: Retail and Corporate book excl. Infra which are the focused areas are growing good

Loan Mix	Q4FY18	Q4FY17	*YoY gr.*	Q3FY18	*QoQ gr.*
Wholesale	**5,02,490**	**4,94,770**	**1.6**	**4,65,140**	**8.0**
Corporate	*2,60,590*	*1,89,490*	*37.5*	*2,13,760*	*21.9*
Infrastructure	*2,41,900*	*3,05,280*	*(20.8)*	*2,51,380*	*(3.8)*
Retail	79,660	25,980	206.6	59,910	33.0
PSL Buyout	68,600	1,03,910	(34.0)	76,700	(10.6)
Total Stressed Assets	**58,600**	**77,820**	**(24.7)**	**73,140**	**(19.9)**
SRs	*19,840*	*21,200*	*(6.4)*	*19,970*	*(0.7)*
Stressed Assets	*48,740*	*56,620*	*(13.9)*	*53,170*	*(8.3)*
Technical Write offs	*-9,980*	*0*	*NA*	*0*	*NA*
Total	**7,09,350**	**7,02,480**	**1.0**	**6,74,890**	**5.1**

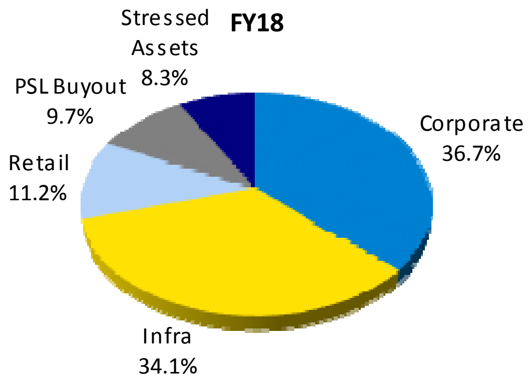
Source: Company Data, PL Research

Exhibit 3: Infra dominated loans in FY17 with lower retail...



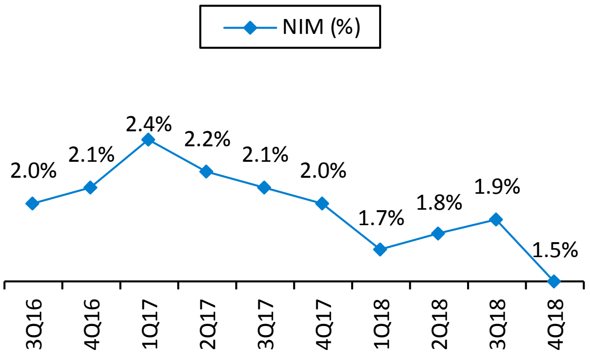
Source: Company Data, PL Research

Exhibit 4: ...which has improved in FY18 on de-risking from infra



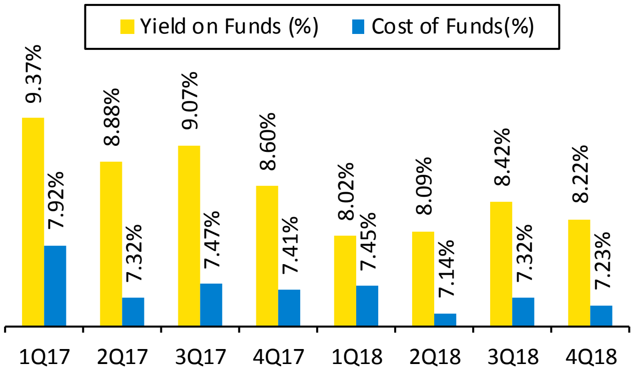
Source: Company Data, PL Research

Exhibit 5: NIMs remain under pressure from legacy book & PSL drag



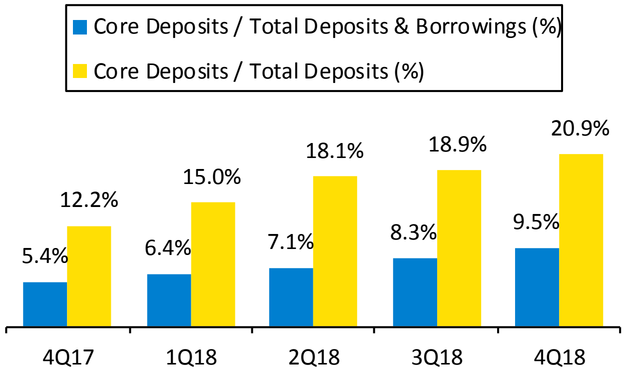
Source: Company Data, PL Research

Exhibit 6: Yield remain under pressure



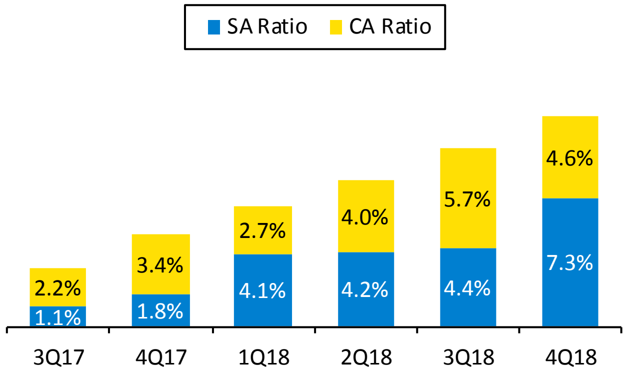
Source: Company Data, PL Research

Exhibit 7: Core Deposits are rising gradually yet low



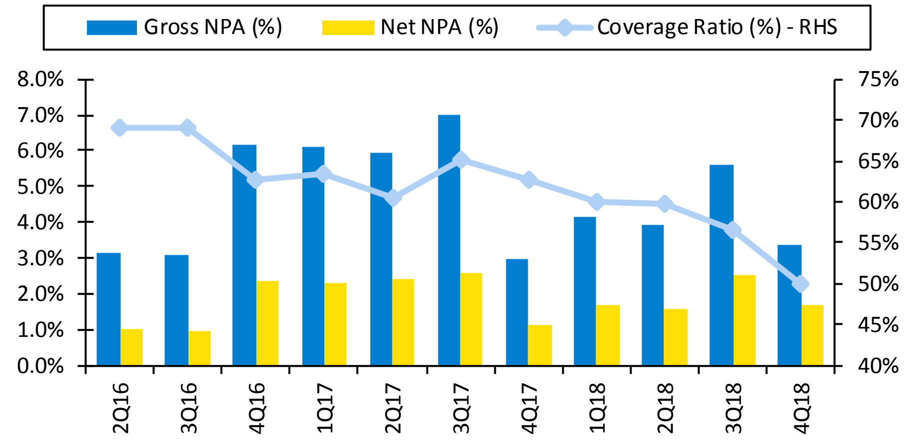
Source: Company Data, PL Research

Exhibit 8: CASA improved slightly yet remains a challenge



Source: Company Data, PL Research

Exhibit 9: Asset quality remained stable with PCR falling down to ~50% levels



Source: Company Data, PL Research

Exhibit 10: PCR on stressed book has increased to 76%

	4Q17	1Q18	2Q18	3Q18	4Q18
Stressed Assets (Net of SRs)	**56,620**	**55,640**	**53,440**	**53,160**	**48,740**
NPL	11,920	11,890	11,870	27,770	27,690
Others Loans	30,750	30,190	29,600	13,420	9,270
Stressed Equity	13,950	13,560	11,970	11,970	11,780
Provisions (Net of SRs)	**34,580**	**34,580**	**33,610**	**33,990**	**37,070**
NPL	8,620	8,670	8,630	15,700	18,780
Others Loans	14,750	14,930	15,050	8,140	8,140
Stressed Equity	11,210	10,980	9,920	10,150	10,150
PCR (%)	**61.1%**	**62.1%**	**62.9%**	**63.9%**	**76.1%**
NPL (% of stressed assets)	**21.1%**	**21.4%**	**22.2%**	**52.2%**	**56.8%**

Source: Company Data, PL Research

Exhibit 11: Estimates change table – We slightly tweak our estimates on yields, other income & opex and increase our business growth assumptions

(Rs mn)	Old		Revised		*% Change*	
	FY19E	FY20E	FY19E	FY20E	*FY19E*	*FY20E*
NII	23,282	27,477	21,314	25,889	*(8.5)*	*(5.8)*
Operating profit	18,728	21,660	13,862	16,849	*(26.0)*	*(22.2)*
Net profit	11,291	12,979	9,577	11,798	*(15.2)*	*(9.1)*
EPS (Rs)	3.3	3.8	2.8	3.5	*(15.3)*	*(9.2)*
ABVPS (Rs)	46.1	48.1	43.3	45.9	*(6.0)*	*(4.5)*
Price target (Rs)	**55**		**55**		-	
Recommendation	**ACCUMULATE**		**ACCUMULATE**			

Source: Company Data, PL Research

Exhibit 12: We maintain our TP of Rs55 based on 1.2x Mar-20 ABV on rollover from Sep-19

PT calculation and upside	
Fair price - EVA, Rs	55
Fair price - P/ABV, Rs	55
Average of the two, Rs	**55**
Target P/ABV (x)	**1.2**
Target P/E (x)	**16.0**
Current price, Rs	47
Upside (%)	**17%**
Dividend yield (%)	2%
Total return (%)	**19%**

Source: Company Data, PL Research

Exhibit 13: RoAE tree - Return ratios to move gradually but will remain sub-optimal than peers

RoAE decomposition (%)	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Net Interest Income/Assets	1.0%	2.2%	1.6%	1.7%	1.8%
Fees/Assets	0.1%	0.5%	0.4%	0.5%	0.6%
Investment profits/Assets	0.4%	0.6%	0.6%	0.5%	0.5%
Net revenues/Assets	**1.5%**	**3.3%**	**2.6%**	**2.7%**	**2.9%**
Operating Expense/Assets	-0.6%	-1.4%	-1.5%	-1.6%	-1.7%
Provisions/Assets	0.0%	-0.3%	-0.2%	-0.1%	-0.1%
Taxes/Assets	-0.3%	-0.5%	-0.2%	-0.2%	-0.2%
Total Costs/Assets	**-1.0%**	**-2.2%**	**-1.9%**	**-2.0%**	**-2.1%**
ROA	**0.58%**	**1.11%**	**0.72%**	**0.75%**	**0.81%**
Equity/Assets	19.1%	15.4%	13.4%	12.2%	11.1%
ROE	**3.0%**	**7.2%**	**5.4%**	**6.2%**	**7.3%**

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Int. Earned from Adv.	50,884	47,229	52,833	60,150
Int. Earned from Invt.	32,888	40,413	48,965	57,780
Others	1,555	1,658	1,424	1,647
Total Interest Income	85,327	89,300	103,221	119,577
Interest expense	65,154	71,319	81,908	93,688
NII	**20,173**	**17,981**	**21,314**	**25,889**
Growth (%)	*138.1*	*(10.9)*	*18.5*	*21.5*
Treasury Income	5,646	6,487	6,617	6,948
NTNII	4,539	4,692	6,798	9,418
Non Interest Income	10,185	11,179	13,415	16,366
Total Income	95,512	100,479	116,636	135,942
Growth (%)	*135.7*	*5.2*	*16.1*	*16.6*
Operating Expense	12,770	17,058	20,866	25,406
Operating Profit	**17,588**	**12,102**	**13,862**	**16,849**
Growth (%)	*137.7*	*(31.2)*	*14.5*	*21.5*
NPA Provisions	(10,623)	2,470	1,651	1,534
Investment Provisions	1,569	—	—	—
Total Provisions	2,825	2,361	1,890	1,723
PBT	**14,763**	**9,741**	**11,972**	**15,126**
Tax Provisions	4,512	1,681	2,396	3,330
Effective Tax Rate (%)	*30.6*	*17.3*	*20.0*	*22.0*
PAT	**10,251**	**8,060**	**9,575**	**11,796**
Growth (%)	*119.6*	*(21.4)*	*18.8*	*23.2*

Balance Sheet (Rs m)

Y/e March	2017	2018	2019E	2020E
Par Value	10	10	10	10
No. of equity shares	3,399	3,404	3,404	3,404
Equity	33,990	34,041	34,041	34,041
Networth	146,770	152,565	157,893	166,004
Adj. Networth	141,004	143,654	151,708	161,524
Deposits	402,082	481,982	602,478	753,097
Growth (%)	*389.2*	*19.9*	*25.0*	*25.0*
Low Cost deposits	20,944	57,000	81,334	106,940
% of total deposits	*5.2*	*11.8*	*13.5*	*14.2*
Total Liabilities	**1,121,586**	**1,265,202**	**1,451,201**	**1,677,801**
Net Advances	494,017	521,649	579,030	648,514
Growth (%)	*8.1*	*5.6*	*11.0*	*12.0*
Investments	504,717	612,015	714,700	840,503
Total Assets	**1,121,597**	**1,265,202**	**1,451,201**	**1,677,801**

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Interest Income	21,451	22,198	22,837	22,813
Interest Expense	17,571	17,580	17,888	18,281
Net Interest Income	**3,880**	**4,619**	**4,950**	**4,532**
Non Interest Income	6,488	1,452	2,308	930
CEB	1,427	1,065	1,380	1,060
Treasury	4,563	1,464	780	(320)
Net Total Income	**10,369**	**6,071**	**7,258**	**5,463**
Operating Expenses	3,894	3,623	4,110	4,899
Employee Expenses	1,654	1,580	1,714	1,811
Other Expenses	2,240	2,575	2,396	3,087
Operating Profit	**6,475**	**2,448**	**3,147**	**564**
Core Operating Profit	1,912	984	2,367	884
Provisions	(146)	(1,004)	1,086	2,425
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	**6,621**	**3,452**	**2,061**	**(1,861)**
Tax	2,245	1,115	600	(2,280)
PAT before EO	**4,376**	**2,337**	**1,461**	**419**
Extraordinary item	—	—	—	—
PAT	**4,376**	**2,337**	**1,461**	**419**

Key Ratios

Y/e March	2017	2018	2019E	2020E
CMP (Rs)	47	47	47	47
Equity Shrs. Os. (m)	3,399	3,404	3,404	3,404
Market Cap (Rs m)	161,113	161,353	161,353	161,353
M/Cap to AUM (%)	*14.4*	*12.8*	*11.1*	*9.6*
EPS (Rs)	3.0	2.4	2.8	3.5
Book Value (Rs)	43	45	46	49
Adj. BV (100%) (Rs)	41	41	43	46
P/E (x)	15.8	20.0	16.8	13.7
P/BV (x)	1.1	1.1	1.0	1.0
P/ABV (x)	1.2	1.2	1.1	1.0
DPS (Rs)	—	0.7	0.9	0.9
Dividend Yield (%)	—	*1.6*	*1.8*	*1.9*

Profitability (%)

Y/e March	2017	2018	2019E	2020E
NIM	2.1	1.5	1.6	1.7
RoAA	1.0	0.7	0.7	0.8
RoAE	7.2	5.4	6.2	7.3

Efficiency

Y/e March	2017	2018	2019E	2020E
Cost-Income Ratio (%)	*42.1*	*58.5*	*60.1*	*60.1*
C-D Ratio (%)	*122.9*	*108.2*	*96.1*	*86.1*
Business per Emp. (Rs m)	324	316	323	333
Profit per Emp. (Rs lacs)	37.1	25.3	26.2	28.0
Business per Branch (Rs m)	11,029	9,882	9,307	8,832
Profit per Branch (Rs m)	126	79	75	74

Asset Quality

Y/e March	2017	2018	2019E	2020E
Gross NPAs (Rs m)	15,420	17,791	13,215	9,817
Net NPAs (Rs m)	5,765	8,912	6,184	4,480
Gr. NPAs to Gross Adv. (%)	*3.1*	*3.4*	*2.3*	*1.5*
Net NPAs to Net Adv. (%)	*1.2*	*1.7*	*1.1*	*0.7*
NPA Coverage (%)	*62.6*	*49.9*	*53.2*	*54.4*

Source: Company Data, PL Research.

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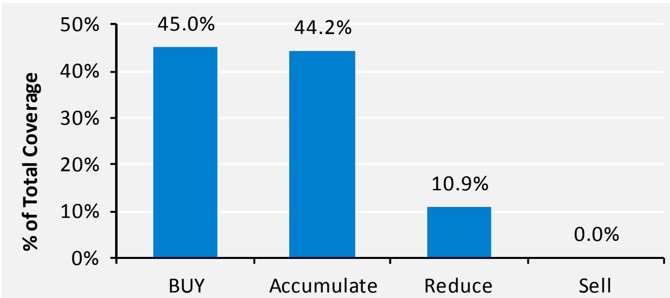
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly