

IDFC First Bank (IDFCFB IN)

Rating: ACCUMULATE | CMP: Rs19 | TP: Rs21

May 26, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	21		25	
NII (Rs. m)	65,862	72,840	64,293	74,190
% Chng.	2.4	(1.8)		
Op. Profit (Rs. m)	20,068	21,480	19,135	21,786
% Chng.	4.9	(1.4)		
EPS (Rs.)	0.3	0.7	0.3	1.1
% Chng.	(13.4)	(33.5)		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
NII (Rs m)	31,991	56,353	65,862	72,840
Op. Profit (Rs m)	(17,491)	19,367	20,068	21,480
PAT (Rs m)	(36,435)	(28,642)	1,416	3,538
EPS (Rs.)	(4.8)	(6.0)	0.3	0.7
Gr. (%)	(288.0)	25.7	(104.9)	149.8
DPS (Rs.)	0.8	-	-	-
Yield (%)	4.0	-	-	-
NIM (%)	2.3	3.9	4.8	4.9
RoAE (%)	(21.8)	(17.1)	0.9	2.1
RoAA (%)	(2.5)	(1.8)	0.1	0.2
P/BV (x)	0.5	0.6	0.5	0.5
P/ABV (x)	0.5	0.6	0.6	0.6
PE (x)	(4.0)	(3.2)	64.0	25.6
CAR (%)	15.5	13.4	15.1	14.7

Key Data

IDFB.BO | IDFCFB IN

52-W High / Low	Rs.48 / Rs.18
Sensex / Nifty	30,673 / 9,039
Market Cap	Rs.91bn / \$ 1,194m
Shares Outstanding	4,810m
3M Avg. Daily Value	Rs.1562.26m

Shareholding Pattern (%)

Promoter's	40.00
Foreign	23.37
Domestic Institution	4.41
Public & Others	32.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(21.3)	(56.2)	(55.8)
Relative	(19.5)	(42.3)	(43.6)

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Quick Pointers

- Strong CASA growth of 30% QoQ, thereby Retail TD+CASA ratio move at 60%
- 35% of loan book has opted for moratorium, while bank has provided Rs2.25bn or 26bps of loans for all overdue accounts.

IDFCFB's PPOP performance was largely in-line with our estimates but earnings remained dismal at Rs715mn (PLe: Rs951mn), despite reporting profit after five loss making quarters. 35% of bank's loan book was under moratorium as at first week of May'20 and made 26bps of LLP for all overdue loans. Few upsides in Q4 were (i) strong CASA growth of 27% QoQ moving up the ratio to 31.7%, up 810bps QoQ (ii) 40bps QoQ of NIM improvement to 4.24% led by continued mix change towards retail (grew 40% YoY) plus improvement in cost of funds due to sharp decline in bulk deposits replaced by retail and (iii) asset quality has held up especially in retail. Some niggling issues that will keep ROEs in lackluster are (i) steady asset growth as bank continues to adjust wholesale liabilities & assets, (ii) continued opex/assets on high retail focus and (iii) COVID impact on asset quality. may keep ROEs in single digits. We retain ACCUMULATE with revised TP of Rs21 (from Rs25).

- Retail traction strong but risks from COVID also high:** Bank grew its retail loan book by 40% YoY/7% QoQ from all segments taking retail mix to 54% and has sharply de-grown its wholesale & infra book by 26% YoY/8% QoQ. Bank is quite vulnerable to COVID shock due to presence in the high risk segments like SME-LAP and Consumer durable lending, but it has been able to demonstrate strong asset qualities in various scenarios. Also bank's retail deposits strategy is seeing robust built up with CASA growth of 126% YoY/30% QoQ, while retail TDs doubled from last year at 8.5% QoQ. Strong retail deposit growth has led to shedding of wholesale liabilities partly, due to lower reliance on wholesale assets (as some would be self-funded).
- Decent operational trends but opex remains deterrent:** COVID has some impact on traction of retail growth with NII growing at 40% YoY but 2% QoQ as asset growth remains dismal, while retail loan growth has continued to showcase strong fee income of 29% YoY. Core PPOP growth look good on YoY basis but was down 9% QoQ as other opex remain on higher side.
- Asset quality has been steady even without COVID effect:** GNPA/NNPA saw 28bps/20bps from moratorium benefit with retail book benefitting by 45bps/32bps respectively. Although, otherwise also asset quality would have been steady. Bank has not seen any slippage from the stressed book Rs32.0bn and neither seen any addition to it keeping overall PCR on same at 49%. Bank has communicated that 35% of loans are under moratorium, which is on higher side reported as of now by the peer banks. Asset quality remains high in the segments where bank operates, hence we build in higher slippages rate of 300bps in FY21 and 210bps of credit cost with follow up in FY22 as well. Retail build-up is on track but we do not see operating leverage coming in despite NIMs moving up (a similar problem in CAPF model) which will keep ROEs depressed for immediate next few years.

Exhibit 1: Q4FY20 results – Decent topline but high provisions dent earnings

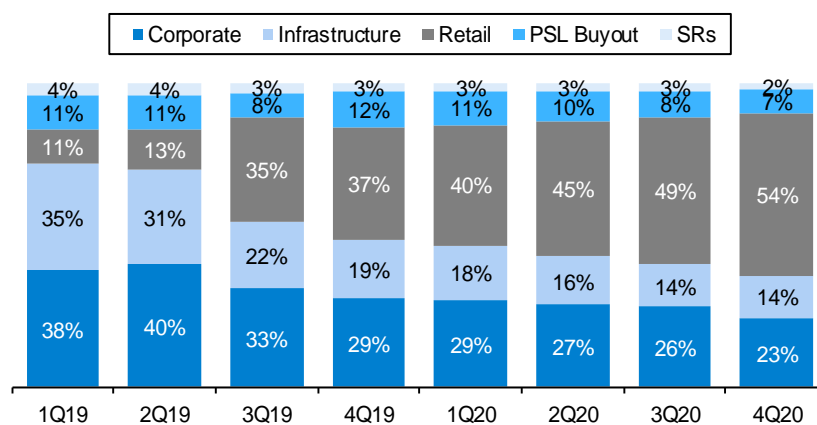
P&L (Rs million)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Interest Income	39,559	36,288	9.0	41,002	(3.5)
Interest Expense	23,924	25,159	(4.9)	25,659	(6.8)
Net interest income (NII)	15,635	11,129	40.5	15,343	1.9
Other income	4,838	3,162	53.0	5,790	(16.4)
Total income	20,473	14,113	45.1	21,133	(3.1)
Operating expenses	15,275	11,476	33.1	14,315	6.7
-Staff expenses	3,636	3,480	4.5	3,986	(8.8)
-Other expenses	11,639	7,996	45.6	10,330	12.7
Operating profit	5,198	2,637	97.1	6,817	(23.8)
Core operating profit	4,680	2,993	56.4	5,157	(9.3)
Total provisions	4,124	6,982	(40.9)	23,048	(82.1)
Profit before tax	1,074	(4,345)	NA	(16,230)	NA
Tax	358	(1,987)	NA	158	NA
Profit after tax	715	(2,180)	NA	(16,389)	NA
Balance Sheet					
Deposits	6,51,080	7,04,790	(7.6)	6,86,970	(5.2)
Borrowings	5,73,972	6,99,834	(18.0)	6,70,250	(14.4)
Net Loan Assets	9,80,620	10,68,730	(8.2)	10,04,180	(2.3)
Profitability ratios					
NIM	4.2	3.0	121	3.9	38
RoAA	0.2	(0.6)	73	(4.0)	420
Asset Quality					
Gross NPL (Rs m)	22,796	21,360	6.7	25,114	(9.2)
Net NPL (Rs m)	8,086	11,066	(26.9)	10,716	(24.5)
Gross NPL ratio	2.6	2.4	17	2.8	(23)
Net NPL ratio	0.9	1.3	(33)	1.2	(29)
Coverage ratio	64.5	48.2	1,634	57.3	720
Business & Other Ratios					
Low-cost deposit mix	31.9	12.9	1,897	24.1	781
Cost-income ratio	74.6	80.3	(569)	67.7	687
Non int. inc / total income	23.6	22.1	150	27.4	(377)
CAR	13.4	15.5	(212)	13.3	9

Source: Company, PL

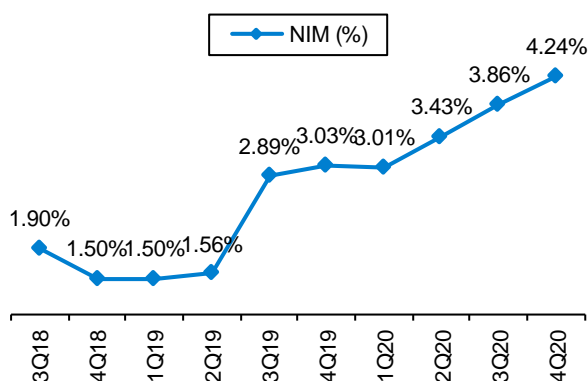
Exhibit 2: Retail continues to grow with planned de-growth in Wholesale

Loan Mix	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Wholesale	3,93,880	5,36,490	(26.6)	4,29,510	(8.3)
Corporate	2,45,480	3,21,900	(23.7)	2,79,350	(12.1)
Infrastructure	1,48,400	2,14,590	(30.8)	1,50,160	(1.2)
Retail	5,73,100	4,08,120	40.4	5,15,060	11.3
PSL Buyout	79,540	1,29,240	(38.5)	89,130	(10.8)
Total Stressed Assets	23,510	30,160	(22.0)	27,700	(15.1)
Total	10,70,030	11,04,010	(3.1)	10,61,400	0.8

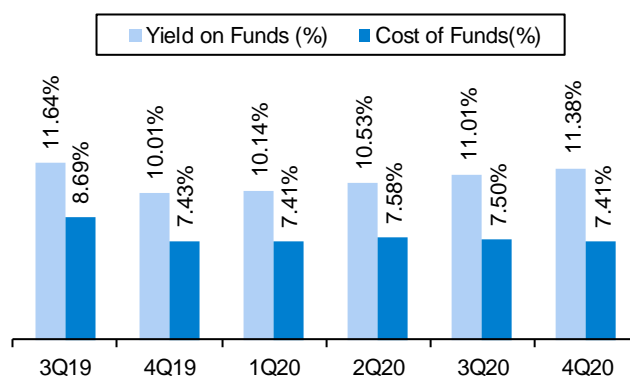
Source: Company, PL

Exhibit 3: Retail book robust growth aids share expansion


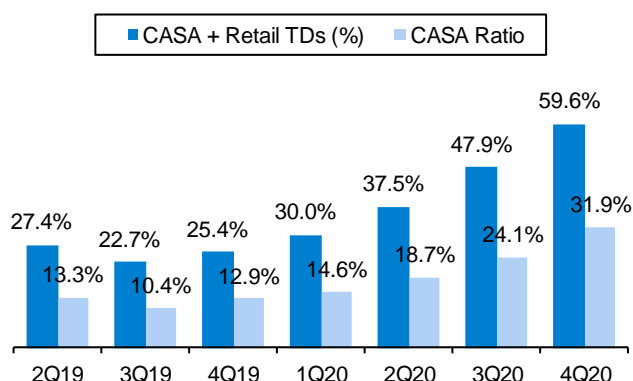
Source: Company, PL

Exhibit 4: NIMs improve on consistent focus on Retail Book


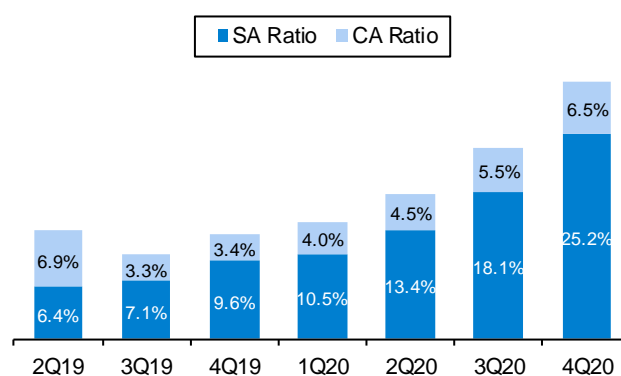
Source: Company, PL

Exhibit 5: Yield on and Cost of Funds improve well


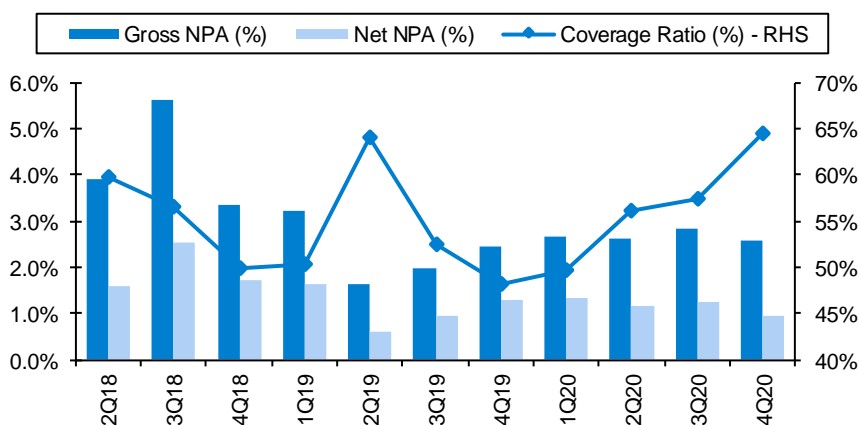
Source: Company, PL

Exhibit 6: CASA + Retail TDs see steady build up


Source: Company, PL

Exhibit 7: SA deposits has been seeing strong traction


Source: Company, PL

Exhibit 8: Asset Quality improves and PCR raised significantly


Source: Company, PL

Exhibit 9: Retail Asset Quality too improves and sees significant rise in PCR

Retail Asset Quality (%)	4Q19	1Q20	2Q20	3Q20	4Q20
Retail GNPA %	2.18	2.32	2.31	2.26	1.77
Retail NNPA %	1.24	1.14	1.08	1.06	0.67
PCR %	43.1	50.9	53.2	53.0	62.1

Source: Company, PL

Exhibit 10: Watchlist improves mainly as exposure to diversified conglomerate falls while overall provisioning remains stable

Stressed Assets under Watch (Funded Exposure in Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Legacy Accounts in HFC, financial services	18,740	15,670	13,360	12,340	960
PCR on Legacy Accounts in HFC, financial services	-	75%	75%	75%	75%
Legacy Accounts in Logistics	-	-	-	1,000	1,000
PCR on Legacy Accounts in Logistics	-	-	-	53%	53%
Legacy Toll Infrastructure Account	10,260	10,060	9,850	9,630	9,340
PCR on Legacy Toll Infrastructure Account	-	15%	15%	16%	16%
Other Legacy Infrastructure Accounts under watch list	8,660	8,630	8,580	8,520	8,460
PCR on Other Legacy Infrastructure Accounts under watch list	-	70%	70%	71%	71%
Legacy restructured but performing accounts	3,390	3,370	3,330	3,390	3,660
PCR on Legacy restructured but performing accounts	-	-	-	11%	10%
Total Outstanding Stressed Assets	41,060	37,720	35,130	34,870	32,050
as a % of Net Loan Assets	3.84%	3.47%	3.40%	3.49%	3.27%
Total Provisions	9,120	17,860	16,630	17,730	15,690
PCR %	22%	47%	47%	51%	49%
Exposure to Legacy Telecom Account	-	-	-	32,440	32,440
PCR on Legacy Telecom Account	-	-	-	50%	50%

Source: Company, PL

Exhibit 11: Return ratios to remain dismal as on higher opex & LLPs

RoA decomposition	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest income	4.29	8.73	7.48	8.14	10.03	10.08	9.82
Interest expenses	3.29	6.67	5.98	5.96	6.47	5.78	5.36
Net interest income	1.00	2.07	1.51	2.18	3.56	4.30	4.45
Treasury income	0.39	0.73	0.57	0.06	0.25	0.21	0.21
Other Inc. from operations	0.08	0.30	0.36	0.58	0.84	1.00	1.10
Total income	1.47	3.10	2.44	2.82	4.65	5.51	5.76
Employee expenses	0.30	0.59	0.57	0.76	0.97	1.02	1.00
Other operating expenses	0.30	0.72	0.82	3.25	2.46	3.18	3.45
Operating profit	0.87	1.79	1.06	(1.19)	1.22	1.31	1.31
Tax	0.29	0.46	0.14	(0.92)	0.31	0.03	0.07
Loan loss provisions	0.03	0.29	0.20	1.05	2.73	1.19	1.02
RoAA	0.55	1.04	0.72	(3.09)	(1.81)	0.09	0.22
RoAE	3.0	7.2	5.7	(11.6)	(17.1)	0.9	2.1

Source: Company, PL

Exhibit 12: Change in earnings estimates – We lower growth, while conservatively increase slippages ratio & credit costs

Rs (mn)	Old		Revised		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	64,293	74,190	65,862	72,840	2.4	(1.8)
Operating profit	19,135	21,786	20,068	21,480	4.9	(1.4)
Net profit	1,626	5,289	1,416	3,538	(12.9)	(33.1)
Loan Growth (%)	7	10	3.0	6.0	(4.0)	(4.0)
Credit Cost (bps)	170	140	210.0	170.0	40.0	30.0
EPS, Rs.	0.3	1.1	0.3	0.7	(13.4)	(33.5)
ABVPS, Rs.	29.0	29.9	32.9	33.7	13.4	12.7
Price target, Rs.	25		21		(12.0)	
Recommendation	ACCUMULATE		ACCUMULATE			

Source: Company, PL

Exhibit 13: We revise our TP to Rs21 (from Rs25) based on 0.6x Mar-FY22 ABV

PT calculation and upside	
Market risk premium	7.3%
Risk-free rate	6.8%
Adjusted beta	1.07
Terminal Growth	5.0
Cost of equity	14.5
Fair price - P/ABV	21
Target P/ABV	0.6
Target P/E	29.2
Current price, Rs	19
Upside (%)	14%
Dividend yield (%)	0%
Total return (%)	14%

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Earned from Adv.	78,255	1,16,345	1,19,025	1,23,499
Int. Earned from invt.	39,057	39,173	33,937	35,427
Others	1,938	2,350	920	1,014
Total Interest Income	1,19,482	1,58,673	1,54,537	1,60,504
Interest Expenses	87,491	1,02,320	88,675	87,664
Net Interest Income	31,991	56,353	65,862	72,840
Growth(%)	41.9	77.8	14.8	11.6
Non Interest Income	9,386	17,222	18,599	21,389
Net Total Income	41,377	73,575	84,461	94,229
Growth(%)	28.3	36.5	(1.6)	5.1
Employee Expenses	11,182	15,276	15,581	16,360
Other Expenses	19,559	31,735	41,256	48,682
Operating Expenses	58,867	54,207	64,393	72,750
Operating Profit	(17,491)	19,367	20,068	21,480
Growth(%)	(238.4)	(210.7)	3.6	7.0
NPA Provision	(1,059)	29,121	18,245	15,437
Total Provisions	15,461	43,153	18,176	16,752
PBT	(32,952)	(23,785)	1,893	4,728
Tax Provision	(13,510)	4,857	476	1,190
Effective tax rate (%)	41.0	(20.4)	25.2	25.2
PAT	(36,435)	(28,642)	1,416	3,538
Growth(%)	(524.0)	(21.4)	(104.9)	149.8

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Face value	10	10	10	10
No. of equity shares	4,782	4,810	4,810	4,810
Equity	47,817	48,099	48,099	48,099
Networth	1,81,593	1,53,426	1,66,218	1,69,756
Growth(%)	19.0	(15.5)	8.3	2.1
Adj. Networth to NNPA's	11,066	8,086	8,150	7,672
Deposits	7,04,790	6,51,080	6,70,612	7,17,555
Growth(%)	46.2	(7.6)	3.0	7.0
CASA Deposits	91,139	2,06,610	2,28,008	2,48,992
% of total deposits	12.9	31.7	34.0	34.7
Total Liabilities	16,71,849	14,92,004	15,74,470	16,95,624
Net Advances	8,63,023	8,55,954	8,81,632	9,34,530
Growth(%)	65.4	(0.8)	3.0	6.0
Investments	5,84,754	4,54,046	4,80,896	5,20,094
Total Assets	16,71,849	14,92,004	15,74,470	16,95,624
Growth (%)	32.1	(10.8)	5.5	7.7

Asset Quality

Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs (Rs m)	21,360	22,796	24,924	23,948
Net NPAs (Rs m)	11,066	8,086	8,150	7,672
Gr. NPAs to Gross Adv.(%)	2.5	2.7	2.8	2.6
Net NPAs to Net Adv. (%)	1.3	0.9	0.9	0.8
NPA Coverage %	48.2	64.5	67.3	68.0

Profitability (%)

Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	2.3	3.9	4.8	4.9
RoAA	(2.5)	(1.8)	0.1	0.2
RoAE	(21.8)	(17.1)	0.9	2.1
Tier I	15.3	13.3	15.0	14.7
CRAR	15.5	13.4	15.1	14.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Interest Income	37,931	40,182	41,002	1,51,744
Interest Expenses	26,187	26,551	25,659	88,675
Net Interest Income	11,745	13,631	15,343	63,069
YoY growth (%)	43.0	41.0	1.9	252.5
CEB	3,010	3,350	4,130	9,943
Treasury	-	-	-	-
Non Interest Income	3,105	3,490	5,790	3,347
Total Income	41,036	43,671	46,791	1,55,091
Employee Expenses	3,611	4,044	3,986	3,986
Other expenses	8,061	8,901	10,330	11,690
Operating Expenses	11,672	12,945	14,315	15,677
Operating Profit	3,177	4,175	6,817	50,739
YoY growth (%)	31.2	2,132.8	121.4	1,702.5
Core Operating Profits	-	-	-	-
NPA Provision	-	-	-	-
Others Provisions	12,808	3,174	23,048	18,176
Total Provisions	12,808	3,174	23,048	18,176
Profit Before Tax	(9,630)	1,002	(16,230)	32,563
Tax	(3,457)	7,797	158	8,252
PAT	(6,174)	(6,795)	(16,389)	24,311
YoY growth (%)	(440.1)	83.8	(254.4)	(1,215.0)
Deposits	6,62,260	6,93,215	6,86,970	6,70,612
YoY growth (%)	22.5	43.4	11.0	(4.8)
Advances	10,85,820	10,31,880	9,97,960	8,81,632
YoY growth (%)	98.1	91.6	(1.9)	2.2

Key Ratios

Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	19	19	19	19
EPS (Rs)	(4.8)	(6.0)	0.3	0.7
Book Value (Rs)	38	32	35	35
Adj. BV (70%)(Rs)	35	30	33	34
P/E (x)	(4.0)	(3.2)	64.0	25.6
P/BV (x)	0.5	0.6	0.5	0.5
P/ABV (x)	0.5	0.6	0.6	0.6
DPS (Rs)	0.8	-	-	-
Dividend Payout Ratio (%)	15.8	-	-	-
Dividend Yield (%)	4.0	-	-	-

Efficiency

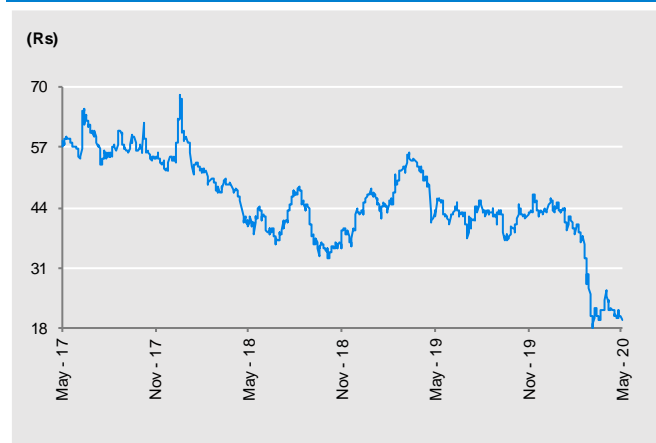
Y/e Mar	FY19	FY20	FY21E	FY22E
Cost-Income Ratio (%)	142.3	73.7	76.2	77.2
C-D Ratio (%)	122.5	131.5	131.5	130.2
Business per Emp. (Rs m)	128	-	-	-
Profit per Emp. (Rs lacs)	(30)	-	-	-
Business per Branch (Rs m)	6,479	3,248	2,338	1,912
Profit per Branch (Rs m)	(151)	(62)	2	4

Du-Pont

Y/e Mar	FY19	FY20	FY21E	FY22E
NII	2.35	3.89	4.76	4.96
Total Income	3.04	5.08	6.10	6.41
Operating Expenses	4.32	3.74	4.65	4.95
PPoP	(1.28)	1.34	1.45	1.46
Total provisions	1.13	2.98	1.31	1.14
RoAA	(1.43)	(1.98)	0.10	0.24
RoAE	(27.19)	(17.10)	0.89	2.11

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Apr-20	Accumulate	25	22
2	30-Jan-20	Hold	41	44
3	03-Jan-20	BUY	44	46
4	25-Oct-19	BUY	44	39
5	03-Oct-19	BUY	54	37
6	04-Jul-19	BUY	55	45

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	475	455
2	Bandhan Bank	Subscribe	-	-
3	Bank of Baroda	BUY	83	50
4	Federal Bank	BUY	73	41
5	HDFC	BUY	1,406	1,278
6	HDFC Bank	BUY	1,105	910
7	HDFC Life Insurance Company	Hold	454	485
8	ICICI Bank	BUY	436	338
9	ICICI Prudential Life Insurance Company	Accumulate	385	385
10	IDFC First Bank	Accumulate	25	22
11	IndusInd Bank	BUY	720	407
12	Kotak Mahindra Bank	Accumulate	1,343	1,187
13	Max Financial Services	BUY	610	484
14	Punjab National Bank	BUY	40	31
15	SBI Life Insurance Company	BUY	880	714
16	South Indian Bank	BUY	11	6
17	State Bank of India	BUY	317	184

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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