

## Capital raising to strengthen balance sheet

In an exchange notification, IDFC First Bank has informed exchanges that its board has approved raising of ₹ 2000 crore equity capital by issuing ~86.24 crore shares through preferential route at ₹ 23.19/share. Promoter IDFC Ltd will subscribe to ~34.5 crore shares maintaining its holding at 40%. Other investors include ICICI Prudential Life Insurance (~25.87 crore shares), HDFC Life Insurance (~8.6 crore shares), Bajaj Allianz Life Insurance (~8.6 crore shares) and Dayside Investment, an affiliated entity of Warburg Pincus (~8.07 crore shares).

Exhibit 1: IDFC First Shareholding pre & post share issue

Investor Name	Pre-Issue		Post-Issue	
	no. of shares	% stake	no. of shares	% stake
IDFC Financial Holding	19239,61,207	40.00	22689,37,489	40.00
ICICI Prudential Life Insurance	-	0.00	2587,32,212	4.56
Dayside Investments Ltd (affiliated entity of Warbug Pincus)	55,31,602	0.12	917,75,672	1.62
HDFC Life Insurance	-	0.00	862,44,070	1.52

Source: Company, ICICI Direct Research

## Asset quality to dip marginally in near term...

Post the aforesaid capital raising, the networth of the bank will increase to ₹ 17,240 crore (based on base networth as of December 31, 2019), subject to shareholders' approval.

Exhibit 2: IDFC First capital raising below book value

Particulars	Amount
<b>Pre-Issue</b>	
Net Worth (as on Dec 2019)	15,240.0
Number of shares	478.2
Existing Book Value	31.9
<b>Post Issue</b>	
Number of shares	564.4
Capital Raise (in crore)	2,000.0
Net worth	17,240.0
Book Value Post Issue	30.5

Source: Company, ICICI Direct Research

Capital raising at a price below book value will lead to ~11% reduction in our book value estimate for FY22E and RoE estimate by ~73 bps. Though, the issue will result in dilution, it will shore up capital adequacy (with CET 1 ratio at 15.3%) thereby strengthening the bank to face any increase in delinquencies (amid Covid-19) and pedal future balance sheet growth ahead. However, exposure to lumpy corporate, including telecom sector and MSME/LAP segment warrant a cautious outlook in the near term. Thus, we remain cautious about asset quality ahead.

## Valuation & Outlook

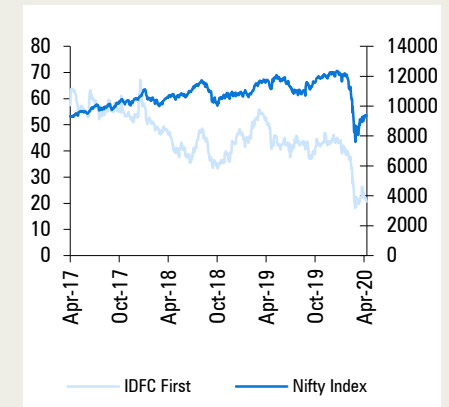
Given the asset mix and the current lockdown scenario, trend in asset quality and management commentary on the business outlook continue to remain key monitorables. Restructuring of balance sheet underway has continued with increase in run rate of low cost deposits. Raising capital is positive for the bank as it instils confidence. However, it also delays our return ratio target. Thus, we value the bank at ~0.8x FY22E ABV with a revised target price of ₹ 25. We maintain **BUY** recommendation.



### Particulars

Particulars	Amount
Market Capitalisation	₹9981 crore
Networth	1 7767 crore
52 week H/L	51/18
Equity capital	₹ 5644 crore
Face value	₹10
DII Holding (%)	0.2
FII Holding (%)	17.77

### Price Chart



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## Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Interest Earned	13,998	16,114	17,515	20,121
Interest Expended	9,710	10,333	10,945	12,134
Net Interest Income	4,287	5,781	6,570	7,987
Growth (%)	117	35	14	22
Non Interest Income	1,092	1,648	1,846	2,136
Fees and advisory	542	948	1,090	1,286
Treasury Income	236	307	323	371
Other income	314	393	433	478
Net Income	5,380	7,429	8,416	10,122
Employee cost	945	1,554	1,849	1,987
Other operating Exp.	2,952	3,833	4,115	4,751
Operating Income	1,482	2,042	2,452	3,385
Provisions	1,904	4,121	1,724	1,817
PBT	(422)	(2,079)	727	1,567
Exceptional items	2,599.0	-	-	-
Taxes	(1,381)	624	185	400
Net Profit	(1,641)	(2,702)	542	1,168
Growth (%)	(272)	65	NM	115
EPS (₹)	(3.4)	(4.8)	1.0	2.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares (crore)	478.2	564.4	564.4	564.4
EPS (₹)	(3.4)	(4.8)	1.0	2.1
DPS (₹)	-	(0.4)	0.1	0.2
BV (₹)	38.1	31.48	32.34	34.20
ABV (₹)	35.7	28.9	29.4	30.7
P/E	(11.9)	(8.6)	42.7	19.8
P/BV	1.1	1.3	1.3	1.2
P/ABV	1.1	1.4	1.4	1.3
Yields & Margins (%)				
Net Interest Margins	2.8	3.8	4.0	4.3
Yield on assets	9.0	10.5	10.7	10.9
Avg. cost on funds	7.9	7.4	7.4	7.2
Yield on average advan	10.6	11.9	12.5	12.8
Avg. Cost of Deposits	7.5	7.1	6.9	6.8
Quality and Efficiency (%)				
Cost to income ratio	72.5	72.5	70.9	66.6
Credit/Deposit ratio	155.2	147.9	129.1	115.1
GNPA	2.0	2.8	3.1	2.9
NNPA	1.0	1.4	1.4	1.4
ROE	(9.8)	(15.0)	3.0	6.217
ROA	(1.1)	(1.6)	0.3	0.6
RWA/assets	68.0	70.0	71.0	72.0
RWA/ NW	16.0	15.3	13.9	12.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	4,782	5,644	5,644	5,644
Reserves and Surplus	13,417	12,123	12,610	13,661
Net worth	18,199	17,767	18,254	19,305
Deposits	70,478	70,724	91,681	1,19,161
Borrowings	69,983	68,946	65,783	60,925
Other Liabilities & Provis	8,562	8,764	8,972	9,508
Total	1,67,222	1,66,200	1,84,690	2,08,899
Application of Funds				
Fixed Assets	899	943	995	1,057
Investments	44,582	49,040	54,166	59,828
Advances	1,09,369	1,04,609	1,18,331	1,37,153
Other Assets	6,971	5,672	4,670	3,685
Cash with RBI & call mc	5,401	5,937	6,527	7,176
Total	1,67,222	1,66,200	1,84,690	2,08,899

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(% growth)	FY19	FY20	FY21E	FY22E
Total assets	32.3	(0.6)	11.1	13.1
Advances	109.7	(4.4)	13.1	15.9
Deposit	46.7	0.3	29.6	30.0
Total Income	47.7	17.7	9.0	15.0
Net interest income	117.4	34.8	13.6	21.6
Operating expenses	116.9	38.2	10.7	13.0
Operating profit	14.4	37.8	20.0	38.1
Net profit	(271.7)	64.7	(120.1)	115.4
Net worth	19.1	(2.4)	2.7	5.8
EPS	(222.2)	40	(120)	115

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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