

Core business intact, growth and asset portfolio concerns arise

CMP: Rs 28

Rating: BUY

Target Price: Rs 39

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	5,672
Mkt Cap (Rs Cr)	14,294
52w H/L (Rs)	57 / 18
Avg Yearly Vol (in 000')	26,008

Shareholding Pattern %

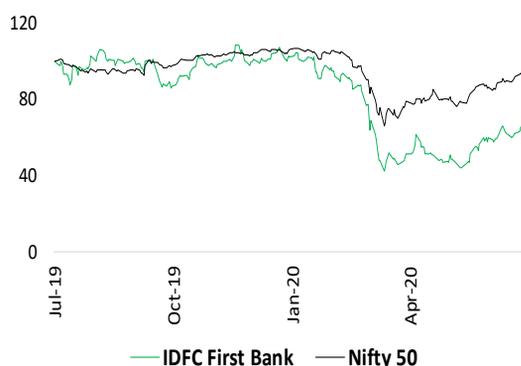
(As on June, 2020)

Promoters	40.0
FII	11.4
DII	16.0
Public & Others	32.7

Stock Performance (%)

	3m	6m	12m
IDFC FIRST Bank	22.9	-38.3	-37.1
Nifty	18.2	-12.1	-6.8

IDFC FIRST Bank Vs Nifty



IDFC FIRST Bank reported another healthy set of quarterly earnings. NII increased by 38.4% YoY/4.0% QoQ to Rs 1,626 Cr, PPOP increased by 180% YoY/71.5% QoQ to Rs 892 Cr and Net Profit increased to Rs 94 Cr, against Rs 617 Cr loss in Q1FY20. Other income increased on account of treasury gains of the bank. The bank has taken provisions of Rs 764 Cr for the quarter, of which Rs 375 Cr is contingent Covid-19 provision during Q1FY21.

Key Highlights of Q1 FY21:

NIMs growth continuously quarter after quarter, costs came down: The bank's NIMs stood at 4.53% (up +152bps YoY/29bps QoQ) while the Cost of Funds stood at 7.21% (calculated) (down -20bps YoY/-20bps QoQ) for Q1FY21 reflecting the fallen costs and increasing spread for banks amid the interest rate cuts by RBI. The bank's CASA increased to 33.74% (14.6% in Q1FY20), as the bank focussed towards customer acquisition offering ~7% interest rates.

Costs to decrease over time: The bank's Cost/Income ratio is high currently, but is poised to come down significantly over time owing to its strategy of sourcing of funds from deposits going ahead rather than borrow.

Sequential fall in corporate/wholesale/infra book: The bank is in a drive to calibrate its loan book mix in favour of retail segment and is checking any fresh disbursements to corporate borrowers.

Improvement in Asset Quality: The bank's asset quality improved with the GNPA/NNPA coming down to 1.99%/0.51% by Q1FY21. However, the bank has provided Rs 764 Cr during Q1FY21 of which Covid-19 related provisions amount to Rs 375 Cr.

Valuation & View

IDFC FIRST Bank is one of the fastest growing retail bank with 503 branches (up 39 from 464 branches in Q4FY20) across the nation. Despite the pandemic the bank expanded its branch count by 39 during the quarter. The bank is focused in servicing the retail segment of consumer lending business and will witness focus on retail asset quality going ahead. The bank's NIMs and overall yields are expected to increase further in the future due to its increasing retail segment. IDFC FIRST Bank is currently trading at a much cheaper valuation of 0.88x P/Adj. BV FY22E. Historically, the bank has traded at a mean Forward P/BV of 1.32x since its listing in 2015. We assign an exit P/adj. BV multiple of 1.2x on FY22E adj. BV of INR 32.3 for standalone bank, arriving at a Target Price of INR 39 with a BUY rating.

Key Financials (Rs Cr)	FY19	FY20	FY21E	FY22E
NII	3,199	5,635	6,872	8,586
NIM (%)	2.3%	3.9%	4.99%	5.8%
Net Profit	-1,944	-2,864	748	1,394
Advances	86,302	85,595	100,289	114,915
Deposits	70,479	65,108	85,551	111,340
GNPA (%)	2.4%	2.6%	3.5%	2.2%

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Q1 FY21 - Quarterly Performance (Standalone) (Rs Cr)

Quarterly Result Update (Rs Cr)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Interest Income	3,831	3,956	3,793	-3.1%	1.0%
Interest Expended	2,205	2,392	2,619	-7.8%	-15.8%
Net Interest Income	1,626	1,563	1,174	4.0%	38.4%
Other Income	485	484	310	0.2%	56.2%
Operating Income	2,111	2,047	1,485	3.1%	42.1%
a. Operating Expenses	776	1,164	806	-33.3%	-3.7%
b. Employee Expenses	443	364	361	21.9%	22.7%
Operating Expenses (a+b)	1,219	1,527	1,167	-20.2%	4.4%
PPOP	892	520	318	71.5%	180.6%
Provisions	764	412	1,281	85.3%	-40.3%
PBT	128	107	-963	18.8%	-113.2%
Tax Expenses	34	36	-346	-5.1%	-109.8%
Net Income	94	72	-617	30.8%	-115.2%
Balance Sheet Analysis					
Advances	97,940	85,595	108,582	14.4%	-9.8%
Deposits	69,832	65,108	66,226	7.3%	5.4%
Total Assets	150,640	149,200	168,706	1.0%	-10.7%
CASA Deposits	23,491	20,661	9,594	13.7%	144.9%
CASA (%)	33.74%	31.87%	14.57%	187bps	1917bps
CAR (%)	15.03%	13.38%	14.01%	165bps	102bps
Spreads					
NIMs (%)	4.53%	4.24%	3.01%	29bps	152bps
Cost of Funds	7.21%	7.41%	7.41%	-20bps	-20bps
Yield on Average Advances	13.10%	12.95%	11.36%	15bps	175bps
Asset Quality					
GNPA	1,742	2,280	2,419	-23.6%	-28.0%
NNPA	437	809	1,215	-46.0%	-64.0%
GNPA (%)	1.99%	2.60%	2.66%	-61bps	-67bps
NNPA (%)	0.51%	0.94%	1.35%	-43bps	-84bps
Credit Costs	3.12%	1.93%	4.72%	119bps	-160bps
Provision Coverage Ratio	74.91%	64.53%	49.76%	1038bps	2516bps
Returns & Expenses					
RoA	0.25%	0.19%	-1.46%	6bps	171bps
RoE	2.15%	1.87%	-14.07%	28bps	1622bps
Cost / Income Ratio (overall)	57.76%	74.61%	78.60%	-1685bps	-2084bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Valuation (Rs per share)	FY22E
BVPS	34.3
ABVPS	32.3
Target Multiple ($x=P/Adj. BV$)	1.2
Target Price	39
CMP	28
Upside	36.6%

Key Financials

Profit & Loss Statement (Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	8,930	11,948	15,867	16,557	18,100
Interest Expended	7,132	8,749	10,232	9,685	9,514
Net Interest Income	1,798	3,199	5,635	6,872	8,586
Other Income	1,118	939	1,722	2,260	2,758
Operating Income	2,916	4,138	7,357	9,132	11,344
Operating Expenses	1,653	5,887	5,421	5,455	6,894
Employee Expenses	676	1,118	1,528	1,768	1,961
Other Operating Expenses	977	4,769	3,893	3,687	4,933
PPOP	1,263	-1,749	1,937	3,677	4,450
Provisions	236	1,546	4,315	2,677	2,587
PBT	1,027	-3,295	-2,379	999	1,863
Tax Expenses	168	-1,351	486	252	469
Net Income	859	-1,944	-2,864	748	1,394

Balance Sheet (Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Equity & Liabilities					
Share Capital	3,404	4,782	4,810	5,672	5,672
Reserves & Surplus	11,852	13,378	10,533	12,416	13,810
Net Worth	15,257	18,159	15,343	18,089	19,482
Deposits	48,198	70,479	65,108	85,551	111,340
Borrowings	57,287	69,983	57,397	37,502	28,345
Other Liabilities and Provisions	5,778	8,563	11,353	10,882	10,542
Total Capital & Liabilities	126,520	167,185	149,200	152,023	169,709
Assets					
Cash & Balances with RBI	3,051	4,150	3,380	6,295	6,814
Balances with Other Banks & Call Money	1,841	5,417	811	0	0
Investments	61,202	58,475	45,405	33,828	35,202
Advances	52,165	86,302	85,595	100,289	114,915
Fixed Assets	784	950	1,038	1,267	1,582
Other Assets	7,478	11,890	12,972	10,344	11,196
Total Assets	126,520	167,185	149,200	152,023	169,709

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY18	FY19	FY20	FY21E	FY22E
Growth rates					
Advances (%)		65.4%	-0.8%	17.2%	14.6%
Deposits (%)		46.2%	-7.6%	31.4%	30.1%
Total assets (%)		32.1%	-10.8%	1.9%	11.6%
NII (%)		77.9%	76.2%	21.9%	25.0%
Pre-provisioning profit (%)		-238.4%	-210.7%	89.8%	21.0%
PAT (%)		-326.3%	47.3%	126.1%	86.4%
Balance sheet ratios					
Credit/Deposit (%)	108.2%	122.5%	131.5%	117.2%	103.2%
CASA (%)	11.8%	12.9%	31.9%	41.8%	47.0%
Advances/Total assets (%)	41.2%	51.6%	57.4%	66.0%	67.7%
Leverage (x) (Asset/Shareholder's Fund)	8.29	9.21	9.72	8.40	8.71
CAR (%)	18.0%	15.5%	13.4%	14.1%	13.2%
CAR - Tier I (%)	17.7%	15.3%	13.3%	14.0%	13.1%
Operating efficiency					
Cost/income (%)	56.7%	142.3%	73.7%	59.7%	60.8%
Opex/total assets (%)	1.3%	3.5%	3.6%	3.6%	4.1%
Opex/total interest earning assets	1.4%	3.8%	4.0%	3.9%	4.4%
Profitability					
NIM (%)	3.0%	2.3%	3.9%	5.0%	5.8%
RoA (%)	0.7%	-1.2%	-1.9%	0.5%	0.8%
RoE (%)	5.6%	-10.7%	-18.7%	4.1%	7.2%
Asset quality					
Gross NPA (%)	3.3%	2.4%	2.6%	3.50%	2.2%
Net NPA (%)	1.7%	1.3%	0.9%	1.10%	1.0%
PCR (%)	0.0%	48.2%	64.5%	68.6%	54.2%
Credit cost (%)	0.5%	1.8%	5.0%	2.7%	2.3%
Per share data / Valuation					
EPS (INR)	2.52	-4.07	-5.95	1.32	2.46
BVPS (INR)	44.82	37.98	31.90	31.89	34.35
ABVPS (INR)	44.82	35.66	30.22	29.94	32.28
P/E (x)	11.23	-6.97	-4.76	21.50	11.54
P/BV (x)	0.63	0.75	0.89	0.89	0.83
P/ABV (x)	0.63	0.79	0.94	0.95	0.88

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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