

Walking on right path...

IDFC First delivered a strong performance despite a challenging environment. Except moratorium in phase2 still high at 28%, the bank recorded an improvement on all parameters.

The bank offered Morat 2 to 28% of its customers by value vs. 35% in Morat 1. Around 23% is in retail assets including rural portfolio and 35% is in the wholesale financing portfolio. Provision was at ₹ 764 crore, including ₹ 375 crore related to Covid-19 over and above ₹ 225 crore done in Q4FY21.

Asset quality witnessed a strong sequential improvement with GNPA & NNPA ratio improving ~61 bps and ~43 bps to 1.99% and 0.51%, respectively. Gross NPA of the retail loan book was at 0.87% vs. 1.77% as of March 31, 2020 and net NPA percentage of the retail loan book of the bank was at 0.24% vs. 0.67% as of March 31, 2020. Moratorium helped NPA ratio improvement. PCR has been improving in the last five quarters and has reached 74.93% from 64.53% in Q4FY20.

NII grew 38% YoY to ₹ 1,626 crore, up from ₹ 1,174 crore in Q1FY20, up 4% QoQ. NIM rose to 4.53% in Q1FY21 from 3.01% in Q1FY20, up 4.24% QoQ.

Funded assets fell QoQ to ₹ 104050 crore from ₹ 107400 crore. Within the same, wholesale book, as targeted, de-grew ~6.3% QoQ to ₹ 37928 crore. Retail book grew 26% YoY but marginally fell QoQ at ₹ 56043 crore. CASA accretion remained robust growing 145% YoY & CASA reached 33.7%.

PAT for Q1FY21 was at ₹ 94 crore as compared to loss of ₹ 617 crore for Q1FY20 and profit of ₹ 72 crore in Q4FY20, up 31% (QoQ). Other income declined 53% YoY. Cost to income ratio (excluding trading gains): 68.72% for Q1FY21 vs. 78.06% in Q1FY20 and 76.54% in Q4FY20.

The bank has raised ₹ 2000 crore via preferential share route at ₹ 23.19/share. CRAR was at 15.03%, while CET1 ratio was at 14.53%.

Balance sheet strengthens with PCR build-up

The management's strategy to restructure balance sheet thereby increasing proportion of retail asset and liabilities continued as planned earlier with retail assets forming 61% of assets. On liabilities, higher quarterly accretion of CASA, retail term deposit is enabling to improve margins. Retail deposits rose to ₹ 39,872 crore, up 139% YoY. We expect CASA ratio + retail term deposits to hit 50% of borrowings in the medium term. Improvement in moratorium from ~35% to 28% is slow. The management kept its long term guidance unchanged with RoA at 1.4-1.6%, RoE of 13-15% in the next five to six years.

Valuation & Outlook

Prudent approach & providing adequately for lumpy stressed assets upfront adds to the confidence. Factoring in adequate provisions in wholesale stress, lower retail NPA and building up of Covid provision, balance sheet seems to be resilient in these tough times. Capital raising of ₹ 2000 crore raised ability to absorb any near term shocks, though potentially delaying return ratio target. Thus, we value the bank at ~1.1x FY22E ABV with a revised target price of ₹ 34. We maintain our **BUY** recommendation.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Net profit (₹crore)	(1,944)	(2,864)	385	1,213	185.5
EPS (₹)	(3.4)	(4.6)	0.7	2.1	185.6
P/E (x)	NM	NM	NM	19.1	
BV (₹)	38.1	31.9	31.1	33.1	
P/BV (x)	1.1	1.3	1.3	1.2	
ABV (₹)	35.7	30.2	29.7	31.2	
P/ABV (x)	1.1	1.4	1.4	1.3	
RoA (%)	(1.1)	(1.3)	0.2	0.7	
RoE (%)	(9.8)	(13.1)	2.3	6.7	



Particulars

	Amount
Market Capitalisation	₹9981 crore
Networth	₹15343 crore
52 week H/L	51/18
Equity capital	₹4810 crore
Face value	₹10
DII Holding (%)	11.25
FII Holding (%)	11.31

Key Highlights

- The bank has provided ₹ 375 crore for Covid-19
- Total 28% of customers opted for moratorium
- Total stressed pool reduced by to ₹ 3195 crore. The bank has provided 52% for the same
- Maintain BUY recommendation with revised target price of ₹ 34

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	1,626	1,616	1,174	38.4	1,563	4.0	Improvement in margins continued with better asset mix and lower cost of funds
NIM (%)	4.5	3.3	3.0	10 bps	4.2	6.8	Restructuring of advances and liabilities led to ~26 bps QoQ improvement in margins to 4.5%
Other Income	485	400	310	56.2	484	0.2	Core fee income declined 53% YoY
Net Total Income	2,111	2,016	1,485	42.1	2,047	3.1	
Staff cost	443	407	361	22.7	364	21.9	
Other Operating Expenses	776	904	806	-3.7	1,164	-33.3	Lockdown helped lower cost
PPP	891.6	705.3	317.7	180.6	519.8	71.5	
Provision	764.1	470.6	1,280.8	-40.3	6,790.0	-88.7	Provisions includes ₹375 crore related to Covid-19.
Exceptional Items	0.0	0.0	0.0	-100.0	0.0	NM	
PBT	127.5	234.6	-963.0	-113.2	-6,270.2	-102.0	
Tax	34.0	59.8	-345.7	-109.8	35.8	-5.1	
PAT	93.5	174.8	-617.3	-115.2	-6,306.1	-101.5	Profitability continues to take a toll due to higher provisioning due to Covid-19

Key Metrics

GNPA	1,741.7	2,282.0	2,419.0	-28.0	2,279.6	-23.6	Gross NPA of the Retail Loan Book was at 0.87% as compared to 1.77% as of March 31, 2020 and Net NPA % of the Retail Loan Book of the Bank was at 0.24% as compared to 0.67% as of March 31, 2020. Moratorium helped NPA ratio improvement
NNPA	436.6	809.0	1,216.0	-64.1	808.6	-46.0	
Advances	1,04,050	1,04,588	1,12,558	-7.6	1,07,004	-2.8	
Deposits	66,226	67,178	66,226	0.0	65,108	1.7	CASA accretion continued to remain robust with growth of 14% QoQ to ₹23491 crore with CASA ratio at 353.7%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹C crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	6,574.0	6,732.3	2.4	7,678.6	7,462.0	-2.8
Pre Provision Profit	2,487.2	2,961.8	19.1	3,128.7	3,240.9	3.6
NIM calculated (%)	4.1	4.3	18 bps	4.4	4.4	4 bps
PAT	-10.1	385.3	-3,899.4	764.1	1,213.1	58.8
ABV (₹)	29.1	29.7	2.2	30.2	31.2	3.4

Source: Company, ICICI Direct Research

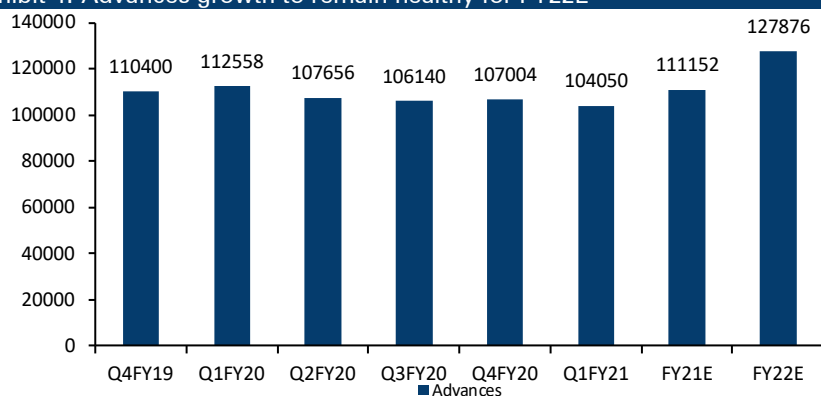
Exhibit 3: Assumption

	Current			Earlier	
	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	-0.8	12.0	13.0	12.0	13.0
Deposit Growth (%)	-7.6	21.8	19.5	31.8	20.1
CASA ratio (%)	27.3	31.2	35.0	33.7	38.8
NIM Calculated (%)	3.8	4.3	4.4	4.1	4.4
Cost to income ratio (%)	71.4	64.2	64.6	70.5	68.1
GNPA (₹crore)	2,280	3,002	3,002	3,036	3,306
NNPA (₹crore)	809	816	1,064	823	880
Credit cost (%)	5.0	2.6	1.5	2.6	1.9

Source: Company, ICICI Direct Research

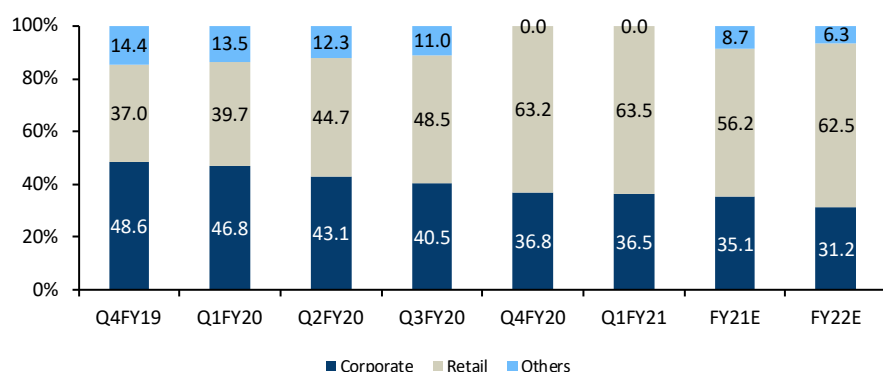
Story in Charts

Exhibit 4: Advances growth to remain healthy for FY22E



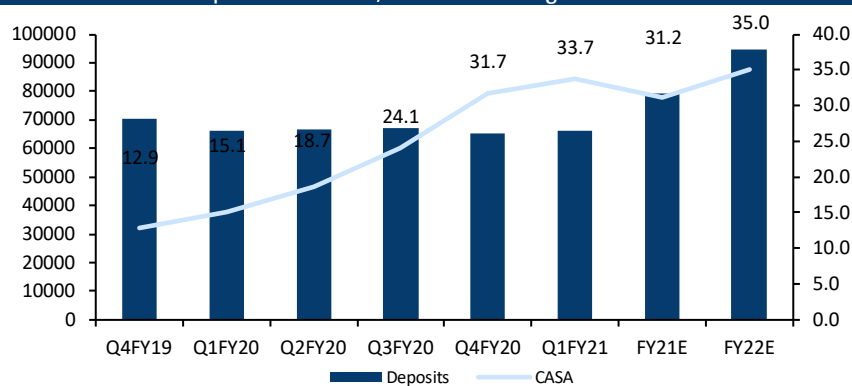
Source: Company, ICICI Direct Research

Exhibit 5: Shift towards retail faster than anticipated



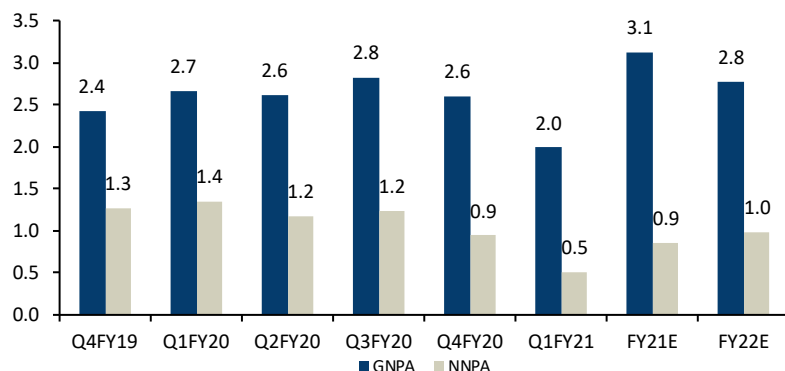
Source: Company, ICICI Direct Research

Exhibit 6: Robust deposit accretion; well ahead of guidance



Source: Company, ICICI Direct Research

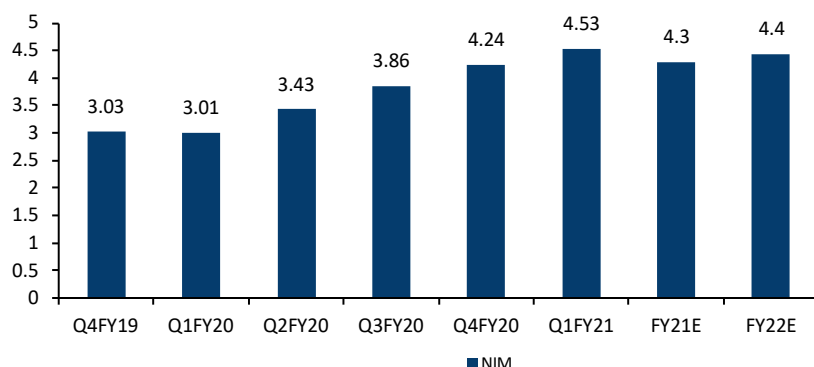
Exhibit 7: Asset quality concerns to remain an overhang



Source: Company, ICICI Direct Research

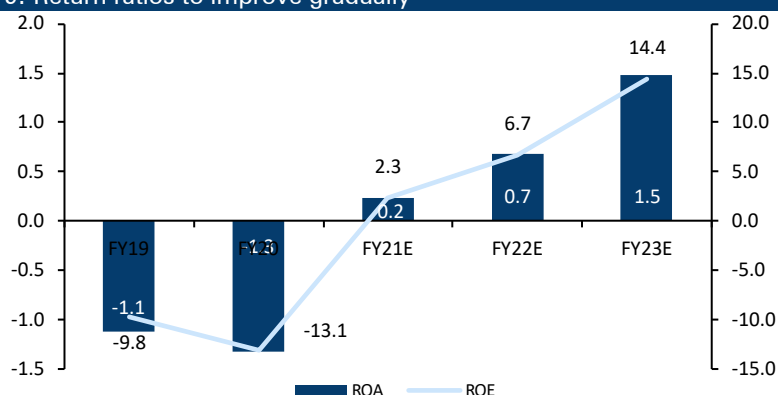
The bank had earlier provided a watch list comprising stressed exposures. The total exposure to this stressed pool is stable QoQ at ₹ 3195 crore with a provision cover of ~52%. Apart from this, exposure to telecom account at ₹ 3244 crore, which was being provided to the extent of 50% in Q3FY20 remains at a standstill with provision cover of 50%.

Exhibit 8: Margin improvement to sustain



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve gradually

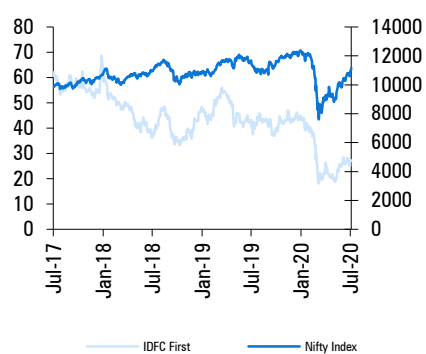


Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	40.0	40.0	40.0	40.0	40.0
FII	13.8	16.4	15.1	13.6	11.3
DII	4.0	4.0	4.3	4.4	11.3
Others	42.2	39.6	40.6	42.0	37.4

Source: Company, ICICI Direct Research

Exhibit 11: Price Chart


Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement

₹ crore

(₹C crore)	FY19	FY20	FY21E	FY22E
Interest Earned	11,948	15,867	16,823	18,465
Interest Expended	8,749	10,232	10,091	11,003
Net Interest Income	3,199	5,635	6,732	7,462
Growth (%)	62	76	19	11
Non Interest Income	852	1,722	1,531	1,702
Fees and advisory	542	948	853	938
Treasury Income	236	307	323	371
Other income	74	467	356	393
Net Income	4,051	7,357	8,264	9,164
Employee cost	1,118	1,528	1,780	1,952
Other operating Exp.	2,169	3,893	3,522	3,971
Operating Income	764	1,937	2,962	3,241
Provisions	1,460	4,315	2,445	1,613
PBT	(696)	(2,379)	517	1,628
Exceptional items	2,599.3	-	-	-
Taxes	(1,351)	486	134	423
Net Profit	(1,944)	(2,864)	385	1,213
Growth (%)	(303)	47	(113)	215
EPS (₹)	(3.4)	(4.6)	0.7	2.1

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios

	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares (crore)	478.2	478.2	564.4	564.4
EPS (₹)	(3.4)	(4.6)	0.7	2.1
DPS (₹)	-	(0.4)	0.1	0.2
BV (₹)	38.1	31.86	31.15	33.08
ABV (₹)	35.7	30.2	29.7	31.2
P/E	NA	NA	NA	13.0
P/BV	0.7	0.9	0.9	0.8
P/ABV	0.8	0.9	0.9	0.9
Yields & Margins (%)				
Net Interest Margins	2.8	3.8	4.3	4.4
Yield on assets	9.0	10.5	10.7	11.0
Avg. cost on funds	7.9	7.4	7.1	7.4
Yield on average advance:	10.6	11.9	12.4	12.7
Avg. Cost of Deposits	7.5	7.1	6.6	6.6
Quality and Efficiency (%)				
Cost to income ratio	72.5	71.4	64.2	64.6
Credit/Deposit ratio	155.2	151.3	140.1	134.9
GNPA	2.5	2.7	3.1	2.8
NNPA	1.3	0.9	0.9	1.0
ROE	(9.8)	(13.1)	2.3	6.693
ROA	(1.1)	(1.3)	0.2	0.7
RWA/assets	68.0	70.0	71.0	72.0
RWA/NW	16.0	13.3	14.4	14.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet

₹ crore

(₹C crore)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	4,782	4,810	5,644	5,644
Reserves and Surplus	13,417	10,533	11,935	13,027
Networth	18,199	15,343	17,579	18,671
Deposits	70,478	65,108	79,317	94,804
Borrowings	69,983	57,397	65,468	58,500
Other Liabilities & Provisic	8,562	11,353	8,972	9,508
Total	1,67,222	1,49,200	1,71,337	1,81,483
Application of Funds				
Fixed Assets	950	1,038	1,075	1,183
Investments	58,475	45,405	46,075	50,918
Advances	86,302	85,595	95,867	1,08,329
Other Assets	17,344	13,783	6,508	(5,669)
Cash with RBI & call mon	4,150	3,380	6,527	7,176
Total	1,67,222	1,49,200	1,56,052	1,61,936

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(%)

(% growth)	FY19	FY20	FY21E	FY22E
Total assets	32.3	(2.1)	4.7	5.9
Funded asset	109.7	(2.2)	3.9	15.0
Deposit	46.7	0.3	12.2	19.5
Total Income	47.7	18.7	2.5	9.9
Net interest income	117.4	38.2	13.7	10.8
Operating expenses	116.9	38.7	(1.9)	11.7
Operating profit	14.4	46.1	36.8	9.4
Net profit	(271.7)	33.2	(117.6)	214.8
Net worth	19.1	(16.3)	15.4	6.2
EPS	(222.2)	33	(115)	215

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	50	65	Hold	22,756.3	-0.4	-1.9	-4.3	-113.4	NA	NA	0.7	0.6	0.5	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	193	250	Buy	1,66,310	16.8	24.2	33.7	11.5	8.0	5.7	1.1	1.0	0.9	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	46	50	Hold	2,810	-27.2	8.5	13.0	-1.7	5.4	3.5	0.3	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	460	530	Buy	1,10,439	5.8	23.7	38.0	79.8	19.4	12.1	1.8	1.7	1.5	0.2	0.7	1.0	2.2	7.5	11.1
City Union Bank (CITUNI)	133	171	Buy	8,711	8.7	10.1	11.4	15.3	13.2	11.6	2.1	1.8	1.6	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	102	92	Hold	2,524	13.0	13.5	15.0	7.9	7.5	6.8	1.1	1.0	0.9	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	52	55	Hold	8,355	7.7	7.9	12.5	6.7	6.6	4.2	0.8	0.8	0.7	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	1,103	1,320	Buy	6,03,467	47.9	48.5	66.3	23.0	22.8	16.6	3.6	3.4	3.1	1.9	1.6	1.9	16.4	14.6	17.9
Indusind Bank (INDBA)	472	400	Hold	27,461	69.5	55.8	82.0	6.8	8.5	5.8	1.0	0.9	0.8	1.6	1.2	1.6	14.4	10.1	13.4
Jammu & Kashmir Bank (JAMKAS)	14	12	Sell	671	-12.7	-0.1	-6.1	-1.1	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,322	1,600	Buy	2,61,686	31.1	26.0	32.1	42.5	50.8	41.1	5.3	4.4	4.0	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	220	400	Hold	30,740	18.1	23.1	29.1	12.2	9.5	7.6	2.4	2.1	1.7	3.9	3.6	3.6	22.1	22.6	23.5
IDFC First (IDFBAN)	29	34	Buy	10,221	-5.7	1.1	2.4	NA	NA	12.1	1.0	1.0	0.9	-1.6	0.3	0.6	-15.9	3.4	7.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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