

Bright prospects intact...

IDFC First posted decent results for Q2FY21 with improvement in some operating parameters. Overall loan growth remained flattish owing to rebalancing of the portfolio but long term prospects remain intact.

NII increased 21.8% YoY, 2.1% QoQ to ₹ 1660 crore on account of expansion in NIM, which increased 4 bps QoQ, 114 bps YoY to 4.57%. Other income declined 51.7% YoY. This de-growth can be attributed to 19% drop in fee income due to lower loan origination as a result of low business activity due to pandemic. **The bank sold off entire exposure to one of the stressed HFC through secondary market transaction, booked a loss of ₹ 463 crore in trading income and released existing provision of ₹ 460 crore.** PAT for the quarter was at ₹ 101 crore vs. ₹ 94 crore QoQ and loss of ₹ 680 crore YoY.

The asset quality performance was healthy as GNPA and NNPA reduced by 37 bps and 8 bps sequentially to 1.62% and 0.43%, respectively. Even on a standstill asset classification basis, the performance was good as GNPA and NNPA were at 1.87% and 0.60%, respectively, as on September 2020. Within the retail segment GNPA and NNPA were at 0.41% and 0.17% compared to 0.87% and 0.24% QoQ, respectively.

The bank has made additional provisions related to Covid-19 amounting to ₹ 1400 crore during Q2FY21. As a result, the bank now has total Covid-provisions of ₹ 2000 crore. **During the quarter, the bank released ~50% provisions worth ₹ 811 crore of total ₹ 1622 crore on a telecom company and used it to create additional Covid-19 provisions.**

The bank intends to slowly rebalance the book in favour of retail assets. As a result, funded assets fell 1% YoY but increased 3% to ₹ 106828 crore from ₹ 107656 crore in the previous year. Retail book grew 25% YoY and 7% sequentially and was at ₹ 59860 crore, driven by 30% YoY uptick in mortgage book. Wholesale funded assets fell 20% YoY to ₹ 36987 crore. The bank is looking to expand its housing portfolio as one of its important product line.

Total deposits increased 9% YoY to ₹ 75800 crore. The bank continues to focus on increasing contribution from retail and, thus, adding granularity. As a result, retail deposit showed strong growth of 119% YoY and 24% QoQ to ₹ 49610 crore. **CASA deposits saw strong growth of 142% YoY to ₹ 30181 crore due to which CASA ratio increased to 40.37% from 33.74% QoQ.**

Valuation & Outlook

The bank seems to be well on track to its long-term objectives of shifting loan mix in retail favour and higher retailisation of liability franchisee. With a prudent approach on the provisioning front, moving away from risky sectors and improving funding profile, we believe return ratios are set to improve meaningfully in the medium to long term with RoAs set to reach 1%. Thus, we value the bank at ~1.1x FY22E ABV with a revised target price of ₹ 36 from ₹ 34 earlier. We maintain our **BUY** recommendation.



Particulars

	Amount
Market Capitalisation	₹17385 crore
Networth	₹15343 crore
52 week H/L	48/18
Equity capital	₹ 4810 crore
Face value	₹10
DII Holding (%)	12.46
FII Holding (%)	11.23

Key Highlights

- Total Covid-19 related provisions at ₹ 2000 crore
- Asset quality improved even on a standstill asset classification basis
- Total stressed pool reduced from ₹ 3195 crore to ₹ 2717 crore. The bank has provided 48% for the same
- Maintain BUY recommendation with revised target price of ₹ 36

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net profit (₹crore)	(1,944)	(2,864)	445	858	
EPS (₹)	(4.1)	(6.0)	0.8	1.5	
P/E (x)	NM	NM	52.3	27.1	
BV (₹)	38.0	31.9	31.8	33.1	
P/BV (x)	1.1	1.3	1.3	1.2	
ABV (₹)	35.7	30.2	30.1	31.8	
P/ABV (x)	1.1	1.4	1.4	1.3	
RoA (%)	(1.2)	(1.9)	0.3	0.5	
RoE (%)	(10.7)	(18.7)	2.7	4.7	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	1,660	1,650	1,363	21.8	1,626	2.1	Largely driven by sequential expansion in net interest margin
NIM (%)	5	5	3	114 bps	5	4 bps	Increasing low cost CASA deposits, reduced slippages helped margins
Other Income	168	571	349	-51.9	485	-65.4	Owing to decline in fee income due to relatively slow business activity due to pandemic
Net Total Income	1,828	2,221	1,712	6.8	2,111	-13.4	
Staff cost	489	412	404	20.9	443	10.3	
Other Operating Expenses	997	961	890	12.0	776	28.5	Pick up in other expenses as some improvement in business activity is seen
PPP	342	847	418	-18.1	892	-61.7	
Provision	216	736	317	-32.0	764	-71.8	Significant decline owing to reduction in overall slippages
PBT	126	111	100	25.8	128	-1.2	
Tax	25	28	780	-96.8	34	-26.5	
PAT	101	83	-679	-114.9	94	7.9	Bottomline aided by lower provisions and healthy NII

Key Metrics

GNPA	1,486	1,794	2,306	-35.6	1,742	-14.7	Improvement sequentially even on a standstill asset classification basis
NNPA	391	450	1,012	-61.4	437	-10.5	
Advances	106,828	105,212	107,656	-0.8	104,050	2.7	Tepid growth due to reduction in corporate book
Deposits	75,800	75,832	69,321	9.3	69,832	8.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	6,732.3	6,771.6	0.6	7,462.0	7,467.9	0.1
Pre Provision Profit	2,961.8	2,894.1	-2.3	3,240.9	2,989.1	-7.8
NIM calculated (%)	4.5	4.8	32 bps	4.4	4.7	26 bps
PAT	385.3	444.9	15.5	1,213.1	858.2	-29.3
ABV (₹)	29.7	30.1	1.5	31.2	31.8	1.8

Source: Company, ICICI Direct Research

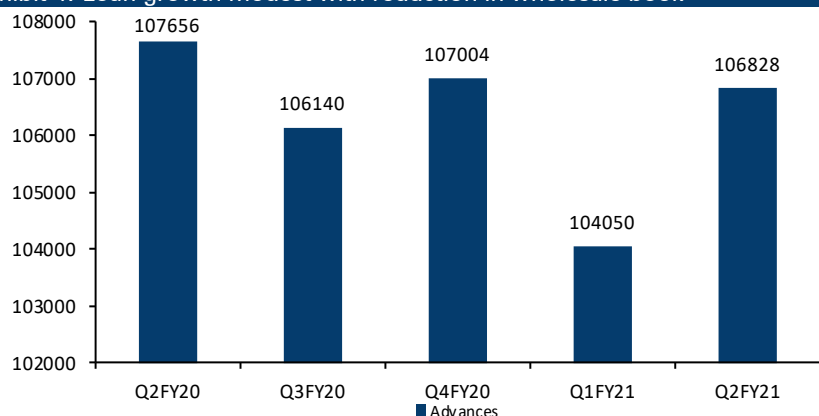
Exhibit 3: Assumption

	Current			Earlier	
	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	-0.8	7.7	11.2	12.0	13.0
Deposit Growth (%)	-7.6	21.7	19.7	31.8	20.0
CASA ratio (%)	0.0	39.7	42.9	33.7	38.8
NIM Calculated (%)	4.1	4.8	4.7	4.1	4.4
Cost to income ratio (%)	73.7	65.5	67.8	70.5	68.1
GNPA (₹crore)	2,280	1,819	1,819	3,036	3,306
NNPA (₹crore)	809	927	767	823	880
Credit cost (%)	5.0	2.5	1.8	2.6	1.9

Source: Company, ICICI Direct Research

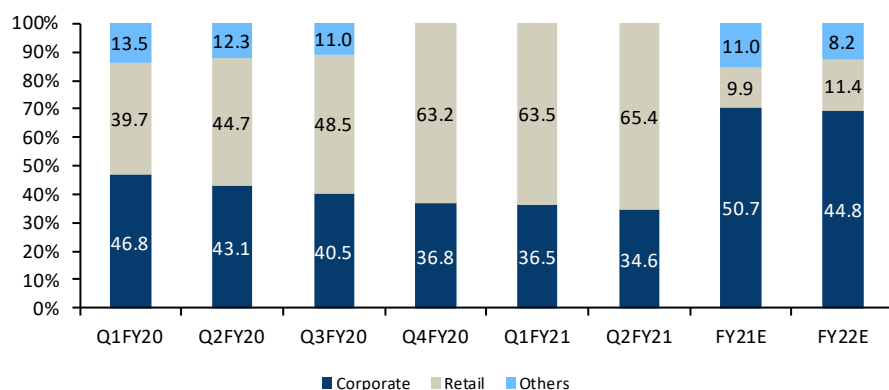
Story in Charts

Exhibit 4: Loan growth modest with reduction in wholesale book



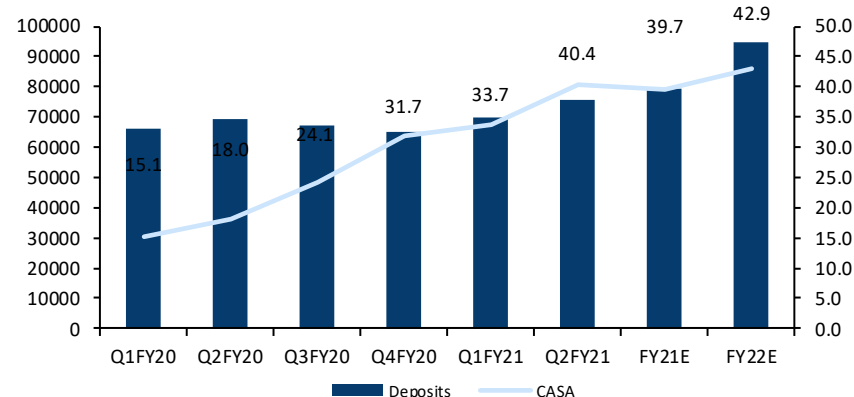
Source: Company, ICICI Direct Research

Exhibit 5: Increasing level of retail in mix



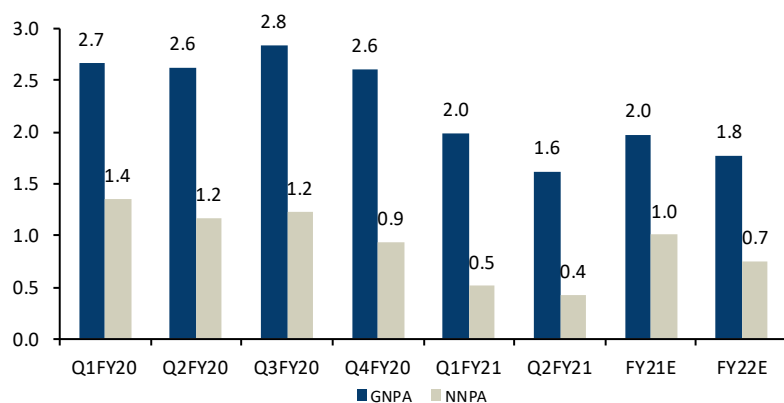
Source: Company, ICICI Direct Research

Exhibit 6: CASA, retail TD to drive overall deposit



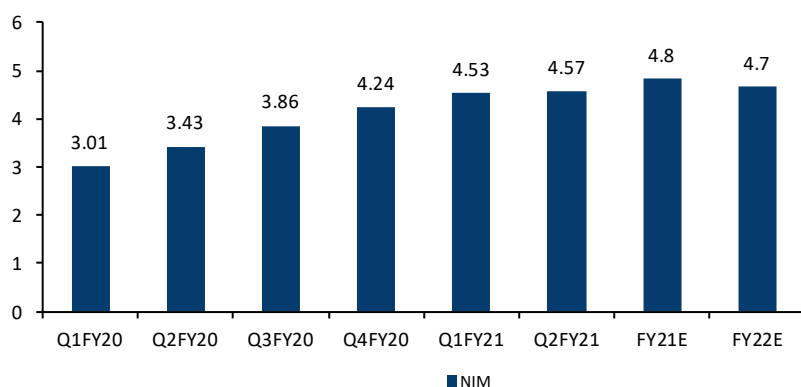
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality to show gradual improvement



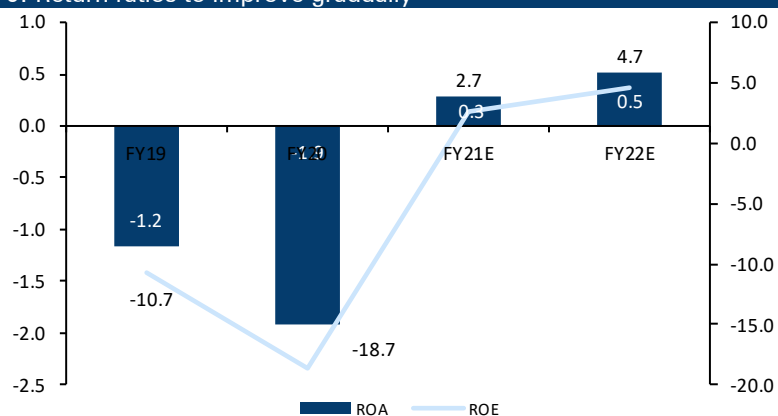
Source: Company, ICICI Direct Research

Exhibit 8: Margin to show steady expansion



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve gradually

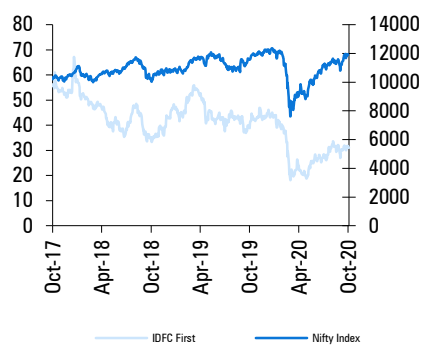


Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	40.0	40.0	40.0	40.0	40.0
FII	16.4	15.1	13.6	11.3	11.2
DII	4.0	4.3	4.4	11.3	12.5
Others	39.6	40.6	42.0	37.4	36.3

Source: Company, ICICI Direct Research

Exhibit 11: Price Chart


Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement

₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Interest Earned	11,948	15,867	16,652	17,549
Interest Expended	8,749	10,232	9,881	10,081
Net Interest Income	3,199	5,635	6,772	7,468
Growth (%)	62	76	20	10
Non Interest Income	852	1,722	1,620	1,812
Fees and advisory	542	948	1,278	1,406
Treasury Income	236	307	410	471
Other income	74	467	(68)	(65)
Net Income	4,051	7,357	8,392	9,280
Employee cost	1,118	1,528	1,607	1,755
Other operating Exp.	2,169	3,893	3,891	4,536
Operating Income	764	1,937	2,894	2,989
Provisions	1,460	4,315	2,297	1,837
PBT	(696)	(2,379)	597	1,152
Exceptional items	2,599.3	-	-	-
Taxes	(1,351)	486	155	299
Net Profit	(1,944)	(2,864)	445	858
Growth (%)	(303)	47	(116)	93
EPS (₹)	(4.1)	(6.0)	0.8	1.5

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios

	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares (crore)	478.2	481.0	567.2	567.2
EPS (₹)	(4.1)	(6.0)	0.8	1.5
DPS (₹)	0.5	-	-	0.1
BV (₹)	38.0	31.90	31.77	33.13
ABV (₹)	35.7	30.2	30.1	31.8
P/E	NA	NA	39.0	20.2
P/BV	0.8	1.0	1.0	0.9
P/ABV	0.9	1.0	1.0	1.0
Yields & Margins (%)				
Net Interest Margins	2.5	4.1	4.8	4.7
Yield on assets	9.3	11.5	12.4	12.0
Avg. cost on funds	6.8	8.2	7.8	7.4
Yield on average advance:	11.5	16.6	14.8	14.7
Avg. Cost of Deposits	9.5	9.4	7.8	7.3
Quality and Efficiency (%)				
Cost to income ratio	145.3	73.7	65.5	67.8
Credit/Deposit ratio	122.5	131.5	116.3	108.0
G NPA	2.5	2.7	2.0	1.8
NNPA	1.3	0.9	1.0	0.7
ROE	(10.7)	(18.7)	2.7	4.7
ROA	(1.2)	(1.9)	0.3	0.5
RWA/assets	0.0	0.0	1.0	2.0
RWA/ NW	0.0	0.0	1131.0	546.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet

₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	4,782	4,810	5,672	5,672
Reserves and Surplus	13,377	10,533	12,347	13,119
Networth	18,159	15,343	18,019	18,791
Deposits	70,479	65,108	79,226	94,863
Borrowings	69,983	57,397	50,789	46,083
Other Liabilities & Provisic	8,562	11,353	11,280	12,176
Total	167,183	149,200	159,314	171,913
Application of Funds				
Fixed Assets	950	1,038	1,183	1,301
Investments	58,475	45,405	46,485	51,370
Advances	86,302	85,595	92,159	102,436
Other Assets	11,889	12,973	12,961	11,414
Cash with RBI & call mor	9,567	4,190	6,527	5,391
Total	167,183	149,200	159,314	171,913

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(%)

(% growth)	FY19	FY20	FY21E	FY22E
Total assets	32.3	(10.8)	6.8	7.9
Funded asset	65.4	(0.8)	7.7	11.2
Deposit	46.7	(7.6)	21.7	19.7
Total Income	25.3	37.4	3.9	6.0
Net interest income	62.2	76.1	20.2	10.3
Operating expenses	227.6	(7.9)	1.4	14.4
Operating profit	(241.7)	(205.6)	49.4	3.3
Net profit	(303.4)	47.3	NA	92.9
Net worth	18.9	(15.5)	17.4	4.3
EPS	(244.8)	46	NA	93

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)	43	48	Hold	19,429.0	1.2	4.9	7.3	36.4	8.8	5.9	0.3	0.4	0.4	0.1	0.2	0.3	0.9	3.1	4.7
State Bank of India (STABAN)	190	215	Hold	170,013	16.2	15.3	26.1	11.7	12.4	7.3	0.9	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	59	70	Hold	6,697	-27.2	8.5	13.0	-2.2	6.9	4.5	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	510	600	Buy	154,492	5.8	20.8	34.0	88.4	24.5	15.0	1.9	1.5	1.4	0.2	0.6	0.9	2.1	6.4	8.8
City Union Bank (CITUNI)	153	130	Hold	11,330	6.5	7.5	9.7	23.7	20.3	15.7	2.5	2.3	2.0	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	78	90	Hold	2,413	10.9	9.8	13.5	7.2	8.0	5.8	0.8	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	52	60	Buy	10,406	7.7	7.0	9.0	6.7	7.4	5.8	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,205	1,450	Buy	663,388	47.9	52.3	63.3	25.2	23.0	19.0	3.9	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	586	625	Hold	44,298	63.7	33.7	52.2	9.2	17.4	11.2	1.2	1.2	1.1	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,053	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,552	1,634	Buy	307,241	31.1	26.0	32.1	49.9	59.6	48.3	6.2	5.1	4.7	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	289	400	Hold	46,499	18.1	17.7	25.2	16.0	16.3	11.4	3.1	2.9	2.4	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	31	36	Buy	17,385	-6.0	0.8	1.5	NA	39.5	20.5	1.0	1.0	1.0	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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