

Upside potential led by value unlocking

In 2014, IDFC Ltd received a license to set up a universal bank – IDFC Bank. To strengthen retail franchise, IDFC Bank, Capital First Ltd engaged in a merger to form IDFC First Bank in December 2018. Currently, IDFC Ltd holds 40% stake in IDFC First Bank. Apart from banking, IDFC Ltd owns a Mutual Fund (100% owned). Its AUM stands at ₹ 103893 crore of which equity AUM – ₹ 29609 crore as of March 2020).

IDFC First Bank has been able to continue its restructuring plan increasing the granularity of balance sheet with retail now forming ~55% of advances. Continued focused build-up of CASA has increased its proportion to upwards of 30%. Prudent provisioning and recent capital raising of ₹ 2000 crore provides cushion from any hiccups in asset quality. Healthy growth in the AMC business with strong inflow in debt schemes aided by consistent performance bodes well for the future earnings.

IDFC Ltd, as a promoter, holds 40% stake in IDFC First Bank with a lock-in period of five years, which is ending as of September 2020. As per their licence, the promoter has to bring down the stake to 15% in the bank within 15 years from 2014. An internal committee constituted by RBI to suggest future course for holding companies is scheduled to submit its report in September 2020. IDFC Ltd may seek to collapse the current holding company structure, if allowed by regulators whereby reverse merger into bank will entail current IDFC Ltd shareholders to receive IDFC First bank shares and for AMC - cash on the expectation of same being sold off fully. If the above doesn't materialise, then selling 25% stake to reach 15% in bank is likely to bring down holding company discount as majority valuation of IDFC Ltd will be driven by its holdings in AMC. In both situations we believe existing shareholders of IDFC Ltd to benefit but may need patience as the value unlocking may take sometime.

Valuation & Outlook

Post the lock-in ends in September 2020, IDFC Ltd (promoter) can bring down its stake to 15% as required by the current guidelines or collapse the current structure of holding company, if permitted by the internal committee Report. Also, sale of IDFC bank stake and realisation of IDFC AMC true value can also result in value unlocking. Thus, we believe in future course, the holding company discount may reduce and one-time sale proceeds adds to net worth. Valuing the AMC business conservatively at 5% of AUM and providing multiple of 1x to FY22E ABV for IDFC bank for 15% stake held, we arrive at a target price of ₹ 42/share in Exhibit 2. Risk to our call will be non-execution of 25% stake sale in bank holding/ AMC valuations decline significantly.

Exhibit 1: In case of sale of 25% stake in IDFC First Bank

Holding	Basis	Stake	Mcap	Value
IDFC First Bank	1x FY22E ABV	15%	17811.0	2671.7
IDFC AMC	5% of AUM	100%	5150.0	5150.0
				7821.7
Hold Co discount				64%
Value post Discount				2815.8
Proceeds from 25% stake sale				3900.0
IDFC Limited				6715.8
Value per share				42.1

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹4430 crore
Networth	₹8321 crore
52 week H/L	41/13
Equity capital	₹ 1596 crore
Face value	₹10
Promoter (%)	0
D II Holding (%)	9.24
F II Holding (%)	31.34
Others	59.42

Key Highlights

- IDFC First Bank (40% stake) continues to restructure balance sheet thereby improving earnings
- Gradual uptick in AUM based on consistent performance bodes well for AMC business
- Lock-in of promoter stake in bank ends in September 2020; post which value unlocking to lead to upside potential
- Assign BUY with target price of ₹ 42 per share

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Exhibit 2: Current Status at CMP of ₹ 28

Holding	Basis	Stake	Mcap	Value
IDFC First Bank	1x FY22E ABV	40%	17811.0	7124.4
IDFC AMC	5% of AUM	100%	5150.0	5150.0
				12274.4
Hold Co discount				64%
IDFC Limited				4374.0

Source: Company, ICICI Direct Research

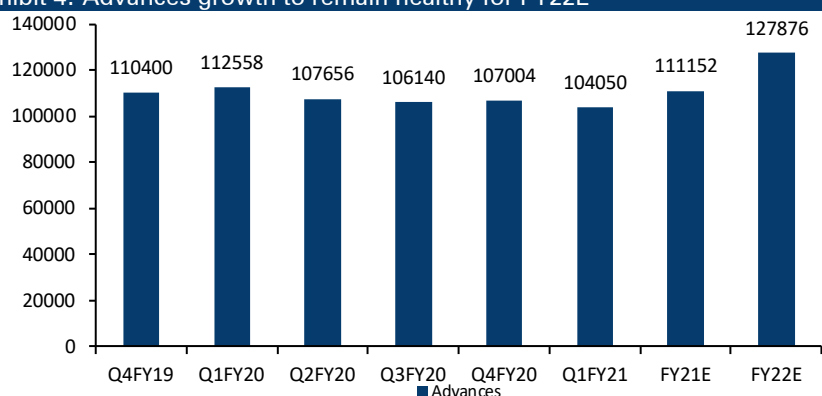
Exhibit 3: Key Financials (Consolidated)

	FY17	FY18	FY19	FY20
NII (₹crore)		16.3	9.2	17.6
Total Revenue (₹crore)	10392.5	670.1	340.7	355.5
Total Costs (₹crore)	8610.6	425.2	373.2	284.5
Net profit (₹crore)	699.1	779.7	-552.6	-976.5
EPS (₹)	4.4	5.5	-5.2	-6.2
Networth (₹crore)	10819.9	11276.0	10384.8	8320.7
Total Assets (₹crore)	117640.9	15602.3	10557.9	8569.1
BV per share (₹)	67.8	70.6	65.1	52.1
P/E (x)	6.4	5.1	NA	NA
P/BV (x)	0.4	0.4	0.4	0.5
RoE (%)	6.5	6.9	-5.3	-11.7
RoA (%)	0.6	5.0	-5.2	-11.4

Source: Company, ICICI Direct Research

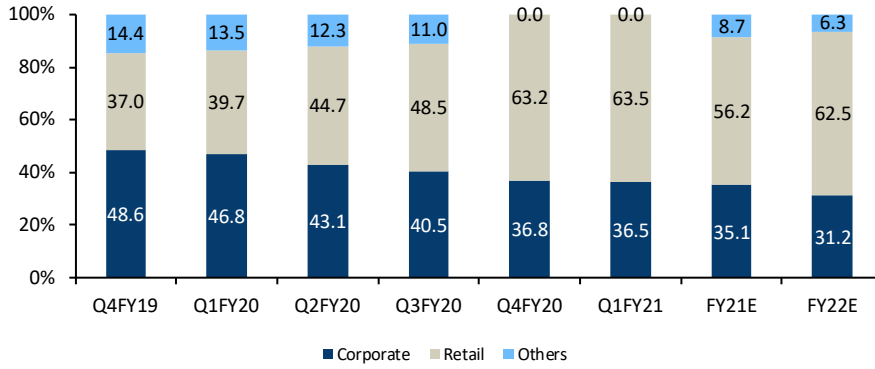
IDFC First Bank

Exhibit 4: Advances growth to remain healthy for FY22E



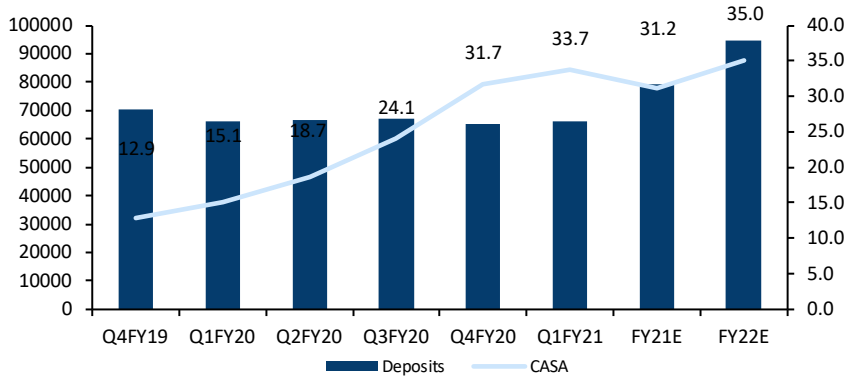
Source: Company, ICICI Direct Research

Exhibit 5: Shift towards retail faster than anticipated



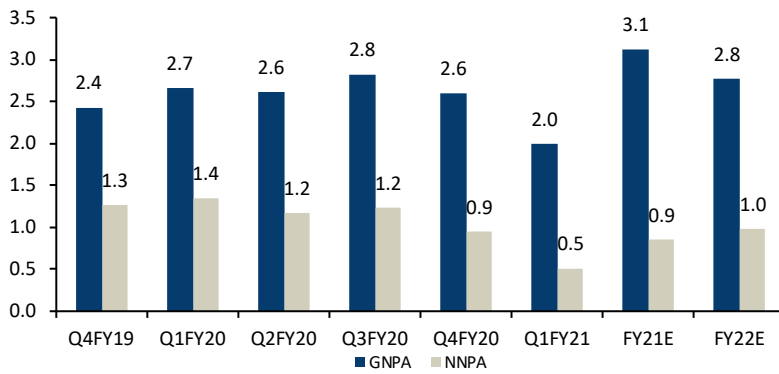
Source: Company, ICICI Direct Research

Exhibit 6: Robust deposit accretion; well ahead of guidance



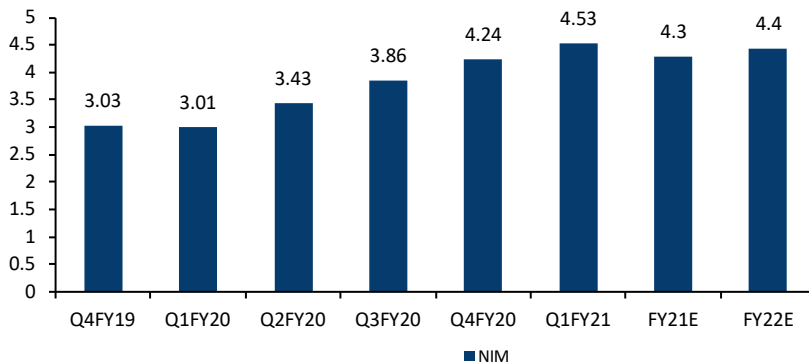
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality concerns to remain an overhang



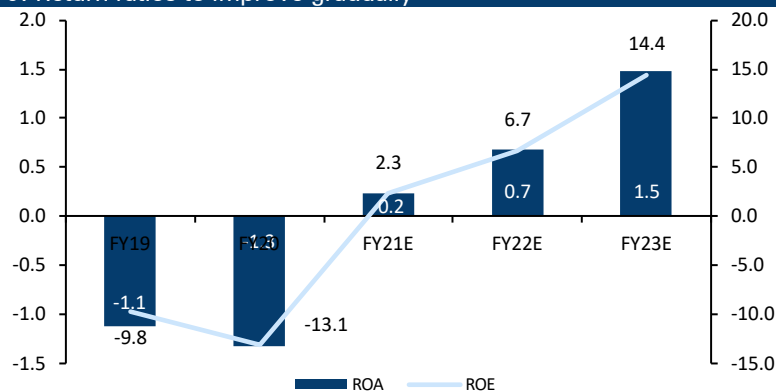
Source: Company, ICICI Direct Research

Exhibit 8: Margin improvement to sustain



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve gradually



Source: Company, ICICI Direct Research

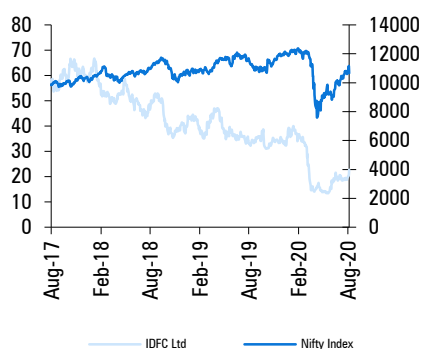
IDFC AMC

Exhibit 10: Healthy growth in AUM (₹ crore)

	FY17	FY18	FY19	FY20
Equity AUM	13773	19943	21995	29609
Debt AUM	35124	37628	35756	63698
Liquid AUM	11992	12348	11496	10586
Total AUM	60636	69919	69248	103893
Revenue	310		277	306.1
% of AUM	0.51%		0.40%	0.29%
OPEX	213		210.4	198.7
PAT	97	54	43.7	79.4
% of AUM	0.16%		0.06%	0.08%

Source: Company, ICICI Direct Research

Exhibit 11: Price Chart



Source: Company, ICICI Direct Research

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