

Relative high slippage; business momentum on track

IDFC First posted decent Q3FY21 results with improvement in operating parameters and sequential rise in loan growth. On the asset quality front, there was little disappointment but long-term prospects remain intact.

NII was up 13.7% YoY, 5.1% QoQ to ₹ 1744 crore. NIMs expanded QoQ by 8 bps and 79 bps YoY to 4.65% despite interest reversals due to NPAs, supported by sharp rise in CASA deposits. Other income for the quarter jumped 31.1% YoY ₹ 759 crore. Fee income increased 33% YoY to ₹ 582 crore. Provisions for the quarter were at ₹ 482 crore, up 123% QoQ owing to rise in proforma NPA. PAT was at ₹ 129.5 crore for Q3FY21.

On the asset quality front, headline GNPA, NNPA declined from 1.62%, 0.43% to 1.33%, 0.33%, respectively; benefitted by standstill status. On a proforma basis, GNPA, NNPA ratio showed a steep rise sequentially and was up 231 bps, 144 bps to 4.18%, 2.04%, respectively. In the retail segment, proforma GNPA increased from 0.79% to 3.88% QoQ. The bank is holding decent amount of provisions against the same. Collection efficiency for standard loans was at 98% of pre-Covid levels. Restructured pool was at 0.8% of total funded assets. Restructuring request was at 1.8%.

The bank has made additional provisions related to Covid-19 amounting to ₹ 390 crore during the quarter. As a result, the bank now has total Covid-provisions of ₹ 2165 crore. The bank has provisions of 25% to total outstanding for a telecom exposure. Provision coverage including the general provision, Covid-19 provision, specific provisions on NPAs was 309% on reported NPA and 99% of proforma NPA.

Funded assets growth was flattish at 1% YoY but increased 3% QoQ to ₹ 110469 crore. Retail book grew 24% YoY and 11% sequentially and was at ₹ 66665 crore, driven by 28% YoY uptick in mortgage book, 21% rise in MSME loans and 22% increase in rural micro finance and KCC portfolio, while consumer loans also reported healthy growth of 22% YoY. On liabilities side, total deposits increased 23% YoY to ₹ 84294 crore, driven by retail deposit that showed a strong growth of 100% YoY and 18% QoQ to ₹ 58435 crore while wholesale deposits declined 34% YoY to ₹ 25859 crore. CASA deposits saw strong growth of 150% YoY to ₹ 40563 crore, due to which CASA ratio increased to 48.31% from 24.06% a year ago.

Valuation & Outlook

In terms of business, the bank seems to be on track to its long-term objectives of shifting loan mix in retail favour and higher retailisation of liability franchisee. The bank has been posting improving profitability in the past four quarters. Slippages came in higher in Q3FY21 owing to exposure to MSME segment, which was impacted by the pandemic. This is seen keeping credit cost elevated in next two to three quarters. With a prudent approach on the provisioning front 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 ~1.6x FY23E ABV with a revised target price of ₹ 52 (earlier ₹ 45). We maintain **BUY** rating.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net profit (₹ crore)	(1,944)	(2,864)	446	893	1,717	96%
EPS (₹)	(4.1)	(6.0)	0.8	1.6	3.0	96%
P/E (x)	NM	NM	52.2	26.0	13.5	
BV (₹)	38.0	31.9	31.8	33.2	35.9	6%
P/BV (x)	1.1	1.3	1.3	1.2	1.1	
ABV (₹)	35.7	30.2	27.4	29.7	32.6	
P/ABV (x)	1.1	1.4	1.5	1.4	1.3	
RoA (%)	(1.2)	(1.9)	0.3	0.5	0.9	
RoE (%)	(10.7)	(18.7)	2.7	4.8	8.8	



Particulars	Amount
Market Capitalisation	₹ 25216 crore
Networth	₹ 15343 crore
52 week H/L	52/18
Networth	₹ 17668 crore
Face value	₹ 10
DII Holding (%)	11.33
FII Holding (%)	11.57

Key Highlights

- Proforma GNPA increased sequentially to 4.18% of funded assets
- Overall provision buffer at 99% of proforma GNPA
- Maintain BUY recommendation with revised target price of ₹ 52

Risk to our call

- Further increase in proforma NPA would be cause of concern
- Delayed pick-up in loan growth could halt recovery

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	1,744	1,860	1,534	13.7	1,660	5.1	Decent growth helped by improving margins
NIM (%)	4.7	4.6	3.9	114 bps	4.6	4 bps	NIMs expand aided by low cost of funds due to high CASA
Other Income	759	184	579	31.1	168	351.9	
Net Total Income	2,503	2,044	2,113	18.5	1,828	37.0	
Staff cost	526	503	399	31.9	489	7.5	
Other Operating Expenses	1,317	1,027	1,033	27.5	997	32.0	Sequentially up as business activity rises thus variable costs
PPP	660.9	513.5	681.7	-3.0	341.8	93.4	
Provision	482.2	331.5	2,304.8	-79.1	215.8	123.4	Sequential rise as proforma NPA jumped
PBT	178.7	182.0	-1,623.0	-111.0	126.0	41.9	
Tax	49.2	46.4	15.8	210.5	25.0	96.8	
PAT	129.5	135.6	-1,638.9	-107.9	101.0	28.3	Top line and other income aid profit despite high provisions

Key Metrics

GNPA	1,289.2	1,515.8	2,511.0	-48.7	1,486.1	-13.2	Proforma GNPA sees spike of ~231bps QoQ to 4.18%
NNPA	320.6	398.8	1,071.0	-70.1	391.0	-18.0	
Funded Assets	1,10,469	1,10,484	1,09,698	0.7	1,06,828	3.4	Growth largely driven by retail
Deposits	84,294	77,227	68,697	22.7	75,800	11.2	CASA deposits surge 150% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	6,732.3	6,765.6	0.5	7,462.0	7,793.7	4.4	9,043
Pre Provision Profit	2,961.8	2,725.0	-8.0	3,240.9	3,358.1	3.6	4,186
NIM calculated (%)	4.5	4.8	32 bps	4.4	4.9	48 bps	5
PAT	385.3	445.7	15.7	1,213.1	893.4	-26.4	1,717
ABV (₹)	29.7	27.4	-7.8	31.2	29.7	-4.7	33

Source: Company, ICICI Direct Research

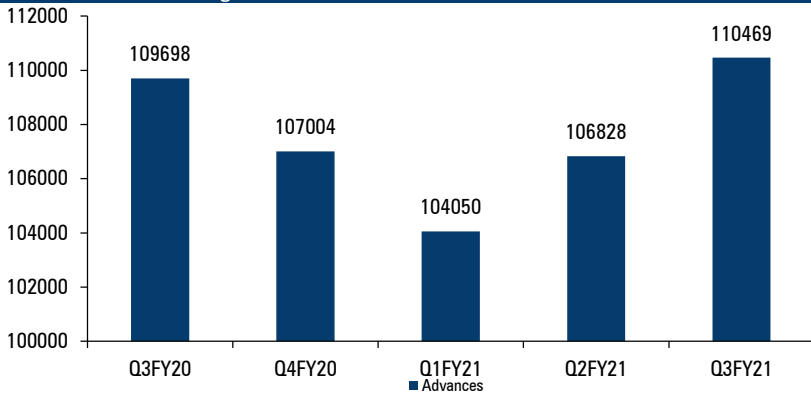
Exhibit 3: Assumption

	Current				Earlier	
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	-0.8	7.7	11.2	10.8	12.0	13.0
Deposit Growth (%)	-7.6	33.8	21.9	22.4	31.8	20.0
CASA ratio (%)	0.0	46.1	49.0	52.0	33.7	38.8
NIM Calculated (%)	4.1	4.8	4.9	5.1	4.1	4.4
Cost to income ratio (%)	73.7	68.4	66.8	64.5	70.5	68.1
GNPA (₹ crore)	2,280	3,662	3,662	3,435	3,036	3,306
NNPA (₹ crore)	809	2,490	1,963	1,893	823	880
Credit cost (%)	5.0	2.3	2.1	1.7	2.6	1.9

Source: Company, ICICI Direct Research

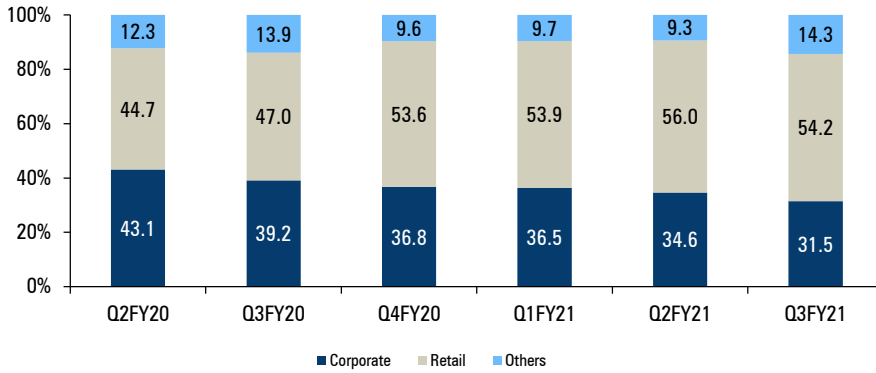
Story in Charts

Exhibit 4: Modest loan growth



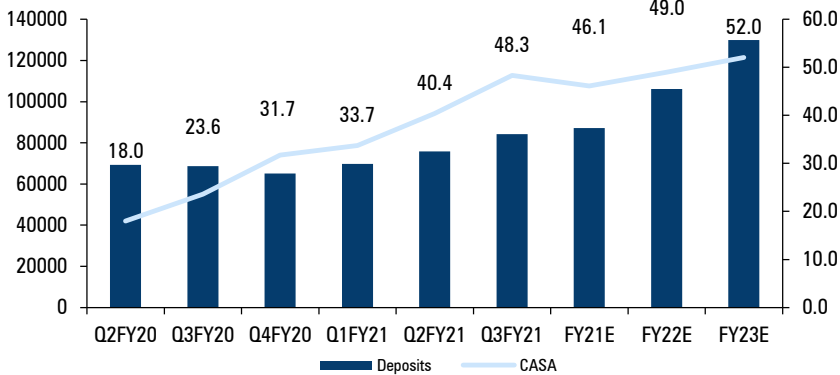
Source: Company, ICICI Direct Research

Exhibit 5: Retail contribution on the rise



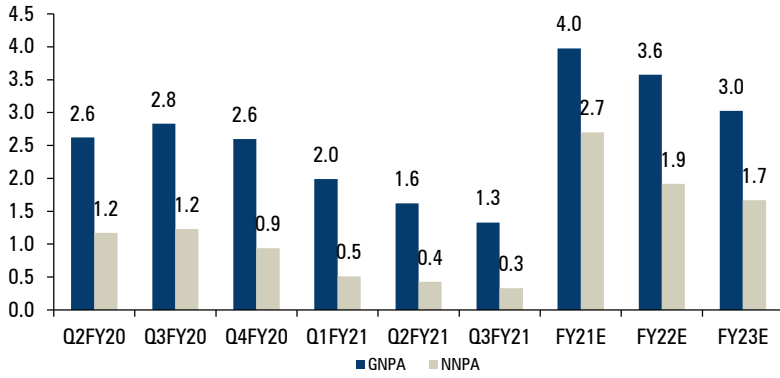
Source: Company, ICICI Direct Research

Exhibit 6: CASA deposits surge



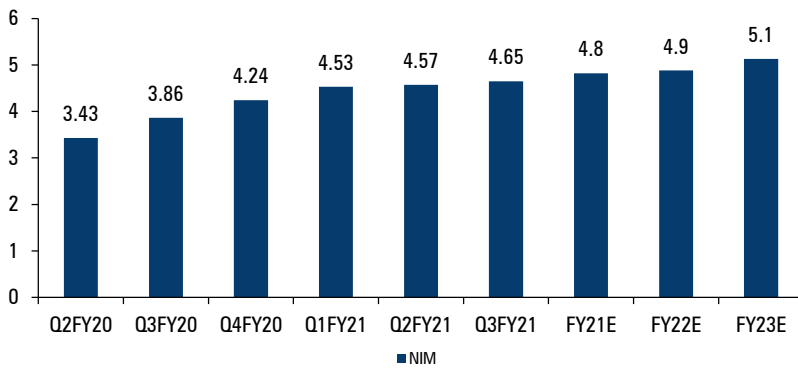
Source: Company, ICICI Direct Research

Exhibit 7: Gradual improvement in asset quality seen



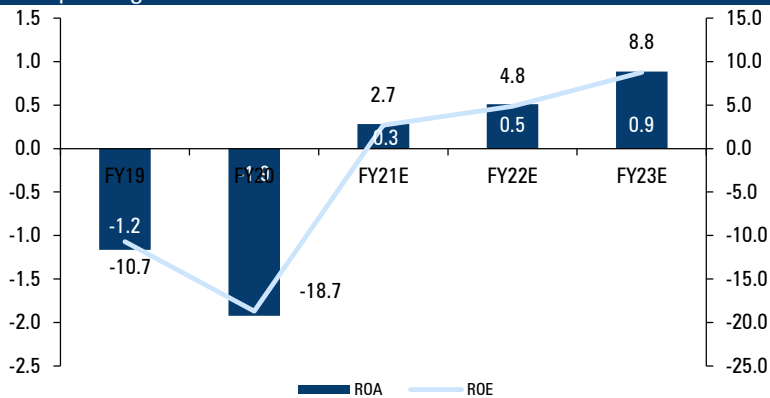
Source: Company, ICICI Direct Research

Exhibit 8: Margin to show steady expansion



Source: Company, ICICI Direct Research

Exhibit 9: Improving return ratios



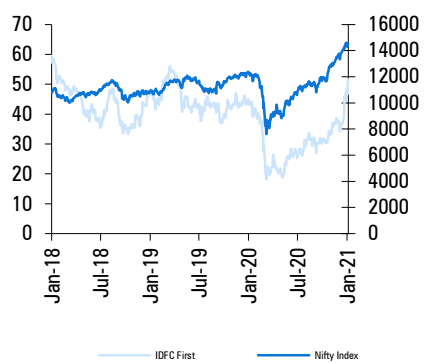
Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	40.0	40.0	40.0	40.0	40.0
FII	15.1	13.6	11.3	11.2	11.6
DII	4.3	4.4	11.3	12.5	11.3
Others	40.6	42.0	37.4	36.3	37.1

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement					
	₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Interest Earned	11,948	15,867	16,629	18,011	20,511
Interest Expended	8,749	10,232	9,863	10,218	11,468
Net Interest Income	3,199	5,635	6,766	7,794	9,043
Growth (%)	62	76	20	15	16
Non Interest Income	852	1,722	1,852	2,318	2,760
Fees and advisory	542	948	1,491	1,670	2,004
Treasury Income	236	307	429	494	568
Other income	74	467	(68)	154	188
Net Income	4,051	7,357	8,618	10,111	11,802
Employee cost	1,118	1,528	2,004	2,188	2,371
Other operating Exp.	2,169	3,893	3,889	4,565	5,245
Operating Income	764	1,937	2,725	3,358	4,186
Provisions	1,460	4,315	2,127	2,159	1,882
PBT	(696)	(2,379)	598	1,199	2,304
Exceptional items	2,599.3	-	-	-	-
Taxes	(1,351)	486	156	312	599
Net Profit	(1,944)	(2,864)	446	893	1,717
Growth (%)	(303)	47	(116)	100	92
EPS (₹)	(4.1)	(6.0)	0.8	1.6	3.0

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios					
	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of shares (crore)	478.2	481.0	567.2	567.2	567.2
EPS (₹)	(4.1)	(6.0)	0.8	1.6	3.0
DPS (₹)	0.5	-	-	0.1	0.3
BV (₹)	38.0	31.9	31.8	33.2	35.9
ABV (₹)	35.7	30.2	27.4	29.7	32.6
P/E	NA	NA	57.3	28.6	14.9
P/BV	1.2	1.4	1.4	1.4	1.3
P/ABV	1.3	1.5	1.6	1.5	1.4
Yields & Margins (%)					
Net Interest Margins	2.5	4.1	4.8	4.9	5.1
Yield on assets	9.3	11.5	12.3	12.3	12.7
Avg. cost on funds	6.8	8.2	7.6	7.0	7.1
Yield on average advances	11.5	16.6	14.8	14.9	15.2
Avg. Cost of Deposits	9.5	9.6	7.4	6.7	6.4
Quality and Efficiency (%)					
Cost to income ratio	145.3	73.7	68.4	66.8	64.5
Credit/Deposit ratio	122.5	131.5	105.8	96.5	87.3
GNPA	2.5	2.7	4.0	3.6	3.0
NNPA	1.3	0.9	2.7	1.9	1.7
ROE	(10.7)	(18.7)	2.7	4.8	8.8
ROA	(1.2)	(1.9)	0.3	0.5	0.9
RWA/assets	0.0	0.0	1.0	2.0	3.0
RWA/ NW	0.0	0.0	1077.6	513.5	332.4

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet					
	₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital	4,782	4,810	5,672	5,672	5,672
Reserves and Surplus	13,377	10,533	12,348	13,152	14,697
Networth	18,159	15,343	18,020	18,824	20,369
Deposits	70,479	65,108	87,137	1,06,190	1,30,010
Borrowings	69,983	57,397	50,789	46,083	40,736
Other Liabilities & Provisions	8,562	11,353	11,280	12,176	13,154
Total	1,67,183	1,49,200	1,67,226	1,83,273	2,04,270
Application of Funds					
Fixed Assets	950	1,038	1,183	1,301	1,210
Investments	58,475	45,405	46,485	51,370	56,772
Advances	86,302	85,595	92,159	1,02,436	1,13,516
Other Assets	11,889	12,973	20,872	22,774	26,871
Cash with RBI & call money	9,567	4,190	6,527	5,391	5,901
Total	1,67,183	1,49,200	1,67,226	1,83,273	2,04,270

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					
(% growth)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	32.3	(10.8)	12.1	9.6	11.5
Funded asset	65.4	(0.8)	7.7	11.2	10.8
Deposit	46.7	(7.6)	33.8	21.9	22.4
Total Income	25.3	37.4	5.1	10.0	14.5
Net interest income	62.2	76.1	20.0	15.2	16.0
Operating expenses	227.6	(7.9)	8.7	14.6	12.8
Operating profit	(241.7)	(205.6)	40.7	23.2	24.7
Net profit	(303.4)	47.3	NA	100.5	92.2
Net worth	18.9	(15.5)	17.5	4.5	8.2
EPS	(244.8)	46	NA	100	92

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
BoB (BANBAR)	67	70	Hold	311	1.6	1.2	6.2	41.0	56.7	10.8	0.8	0.6	0.6	0.4	0.1	0.2	0.9	0.9	3.9
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	645	800	Buy	2042	5.8	25.2	47.7	112	25.6	13.5	2.4	2.3	1.9	0.2	0.8	1.3	2.1	8.1	13.8
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	842	1,050	Buy	641	63.7	36.8	56.5	13.2	22.9	14.9	1.8	1.7	1.6	1.5	0.8	1.1	14.4	7.4	10.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3527	20.4	23.5	27.2	86.2	75.0	64.6	10.8	8.8	7.8	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	45	52	Buy	251	46.5	NA	100.5	1.0	NA	0.4	1.5	1.6	1.5	-1.9	0.3	0.5	-18.7	2.7	4.8

Source: Company, ICICI Direct Research

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