

Retail slippage impacts PAT; maintains guidance...

About the stock: IDFC First Bank was formed by the merger of the erstwhile IDFC Bank and Capital First in 2018. Retailisation of its business has been key focus.

- Retail funded assets form 64% of gross funded assets
- Branch network is at 601 with 703 ATMs as on June 2021

Q1FY22 Results: Disappointing performance with elevated provisions.

- GNPA up 46 bps QoQ to 4.61% with restructured book at 2.1%
- Sharp rise in provisions (~3x QoQ to ₹1879 crore) led to loss of ₹ 630 crore
- Steady operational show, NII up 25% YoY, NIMs up 42 bps QoQ to 5.51%
- Advances down 2.8% QoQ & up 9% YoY, deposit up 31% YoY, 3% QoQ

What should investors do? The IDFC First stock has given ~30% return in the past three years while the stock price has jumped ~2x in the past one year. Rise in stress remains a near term overhang but a gradual improvement in margin and operational performance is expected to aid return ratios.

- We retain our BUY rating on the stock

Target Price and Valuation: We value IDFC First Bank at ~1.6x FY23E ABV and arrive at a revised target price of ₹ 60 per share (earlier ₹ 65).

Key triggers for future price performance:

- On track for most parameters to achieve midterm guidance
- Granular liability base to help lower cost of funds thus aiding NIMs
- Elevated slippage to remain a near term overhang; expect faster recovery
- Investment in franchise undertaken; sweating of asset to improve efficiency

Alternate Stock Idea: Apart from IDFC First, in our coverage we also like CSB Bank.

- CSB Bank has shown a meaningful transformation in its overall performance in the past few years and currently focuses on gold and SME loans
- BUY with a target price of ₹ 380



IDFC FIRST
Bank

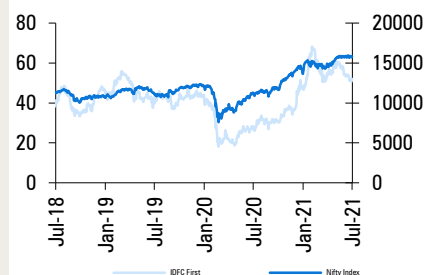
Particulars

	Amount
Market Capitalisation	₹ 30836 crore
Networth	₹ 20170 crore
52 week H/L	69/26
Face value	₹ 10

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	40.0	40.0	40.0	40.0	36.6
FII	11.3	11.2	11.6	11.9	15.1
DII	11.3	12.5	11.3	11.2	11.9
Others	37.4	36.3	37.1	36.9	36.4

Price Chart



Risk to our call

- GNPA, NNPA rise 46 bps QoQ each to 4.61%, 2.32%, respectively
- Key Risk:** Persistent impact of pandemic could impact business growth and dent asset quality.

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	2 year CAGR (FY20-FY21)	FY22E	FY23E	2 year CAGR (FY21E-23E)
Net profit (₹ crore)	(1,944)	(2,864)	452	-	366	1,808	100%
EPS (₹)	(4.1)	(5.0)	0.8	-	0.6	2.9	91%
P/E (x)	NM	NM	77.8		105.0	21.3	
BV (₹)	38.0	31.9	31.4	-9%	38.5	41.1	14%
P/BV (x)	1.6	1.9	2.0		1.6	1.5	
ABV (₹)	35.7	30.2	28.1		35.3	37.9	
P/ABV (x)	1.7	2.1	2.2		1.8	1.6	
RoA (%)	(1.2)	(1.6)	0.3		0.2	0.9	
RoE (%)	(10.7)	(15.8)	2.7		1.8	7.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: High credit cost mars profits

- NII growth as at 25% YoY to ₹ 2185 crore, mainly due to 42 bps QoQ and 65 bps YoY improvement in NIMs to 5.5%. Improvement in NIM is primarily attributable to decline in cost of funds led by reduction in deposit rates
- Non-interest income came in at ₹ 849 crore, led by a sequential increase in treasury income, though fee income remained healthy
- Provisions increased by 3x from ₹ 603 crore in Q4FY21 to ₹ 1879 crore, including additionally Covid-19 related provisions of ₹ 350 crore during the quarter taking the tally to ₹ 725 crore
- Elevated credit cost resulted in a net loss of ₹ 630 crore
- Total funded assets were at ₹ 113794 crore, up 9% YoY, down 2.8% QoQ. Retail funded assets were at ₹ 72766 crore, up 30% YoY, while wholesale funded assets continued their declining trajectory at ₹ 32148 crore. Proportion of retail assets has risen to ~64% vs. ~54% in Q1FY21

Q1FY22 Earnings Conference Call highlights

- Average SA rate was at 4.8% vs. ~5.8% QoQ
- Total SA deposits were at ~₹ 6000 crore
- Expect loan growth to be ~20% for FY22E
- NIMs to improve amid lower costs
- Total ₹ 2800 crore slippage for the quarter of which ₹ 1800 crore came in from retail side and one lumpy account of ₹ 850 crore from stressed corporate segment. Retail write-off was at ₹ 1400 crore in Q1FY22
- Restructuring book was up 1.8% in retail vs. 0.9% QoQ. No significant restructuring is expected in Q2
- Credit cost for FY22E guided below 2.5% and below 2% for FY23E
- Vehicle lending and Joint liability group saw stress this quarter

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			ABV (₹)			
	₹	TP(₹)		Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Axis Bank (AXIBAN)	756	900	Buy	2318	25.2	47.7	58.7	30.0	15.9	12.9	2.7	2.3	1.9	0.8	1.3	1.4	8.1	13.8	15.2	284	335	390
City Union (CITUNI)	154	200	Buy	114	8.4	10.0	12.0	18.4	15.3	12.8	2.3	2.0	1.7	1.2	1.3	1.4	11.2	11.9	12.6	68	78	90
DCB Bank (DCB)	103	110	Buy	32	10.8	12.3	15.6	9.5	8.4	6.6	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8	96	113	135
Federal Bank (FEDBAN)	87	100	Buy	174	8.0	9.5	12.0	11.0	9.2	7.2	1.2	1.1	1.0	0.8	0.9	1.0	10.4	11.8	13.4	73	77	86
HDFC Bank (HDFBAN)	1,434	1,800	Buy	7928	56.4	66.4	77.8	25.4	21.6	18.4	4.0	3.6	3.2	1.9	1.9	2.0	16.6	17.0	17.9	361	402	442
IndusInd Bank (INDBA)	975	1,150	Buy	755	36.7	65.1	78.6	26.6	15.0	12.4	1.8	1.6	1.4	0.8	1.3	1.4	7.3	10.8	11.6	537	623	687
Kotak Bank (KOTMAH)	1,740	2,040	Buy	3451	35.1	43.2	51.4	49.5	40.3	33.9	5.6	5.0	4.3	1.8	1.9	2.0	12.4	12.0	13.1	308	350	403
CSB Bank (CSBBAN)	352	380	Buy	61	12.6	18.3	25.5	27.9	19.2	13.8	3.3	2.9	2.4	0.1	1.0	1.2	10.5	13.6	16.4	107	123	147
Bandhan (BANBAN)	298	330	Hold	480	14.7	24.7	31.4	20.2	12.0	9.5	3.4	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2	87	109	141
IDFC First (IDFBAN)	51	60	Buy	318	0.8	0.6	2.9	64.3	86.8	17.6	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3	31	38	41

Source: Company, ICICI Direct Research

We believe IDFC First Bank has been shaping up its liability side well but volatility on assets repayment could be a near term overhang.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	2,185	1,959	1,626	34.4	1,960	11.5	Driven by margin expansion
NIM (%)	5.5	3.6	4.9	114 bps	5.1	4 bps	Reduction in savings rate help lower cost of funds and, thus, aid NIMs
Other Income	849	853	485	75.1	841	0.9	
Net Total Income	3,034	2,812	2,111	43.7	2,801	8.3	
Staff cost	554	525	443	25.1	520	6.7	
Other Operating Expenses	1,478	1,587	776	90.5	1,636	-9.7	Decline in opex owing to reduced business activity
PPP	1,001.2	700.7	891.6	12.3	645.8	55.0	
Provision	1,878.6	567.2	764.1	145.9	602.7	211.7	Elevated credit cost due to stress and accelerated provisions
PBT	-877.4	133.5	127.6	-787.9	43.1	-2,135.0	
Tax	-247.3	34.1	34.0	-827.5	-84.7	192.0	
PAT	-630.0	99.5	93.6	-773.5	127.8	-592.9	Net loss due to high provisions

Key Metrics

GNPA	4,667.1	4,518.2	1,741.7	168.0	4,303.0	8.5	Asset quality deteriorated as retail slippages rise due to restrictions on field staff movement due to Covid impacting
NNPA	2,293.2	1,977.4	436.6	425.3	1,883.3	21.8	
Funded Assets	113,794	113,434	104,050	9.4	117,127	-2.8	Tepid business growth due to lockdowns
Deposits	91,312	91,005	69,832	30.8	88,688	3.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	8,905.9	9,073.0	1.9	10,562.6	10,903	3.2
Pre Provision Profit	3,257.8	3,617.9	11.1	4,157.0	4,745	14.1
NIM calculated (%)	5.2	5.3	10 bps	5.3	5.5	17 bps
PAT	981.1	366.0	-62.7	1,786.7	1,808	1.2
ABV (₹)	36.0	35.3	-2.0	38.8	38	-2.5

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				
	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	17.5	18.0	19.0	17.9	18.4
Deposit Growth (%)	36.2	23.4	24.6	22.9	24.6
CASA ratio (%)	51.7	54.5	55.1	54.7	55.3
NIM Calculated (%)	5.1	5.3	5.5	5.2	5.3
Cost to income ratio (%)	73.6	69.0	65.4	71.3	68.9
GNPA (₹ crore)	4,202	4,796	5,219	4,202	3,922
NNPA (₹ crore)	1,879	1,946	1,992	2,057	1,924
Credit cost (%)	2.1	2.6	1.6	1.6	1.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement

₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Interest Earned	16,308	15,968	18,697	21,978
Interest Expended	10,232	8,588	9,624	11,075
Net Interest Income	6,076	7,380	9,073	10,903
Growth (%)	90	21	23	20
Non Interest Income	1,722	2,254	2,593	2,812
Net Income	7,798	9,634	11,666	13,715
Employee cost	1,528	1,977	2,212	2,414
Other operating Exp.	4,333	5,116	5,836	6,556
Operating Income	1,937	2,541	3,618	4,745
Provisions	4,315	2,065	3,127	2,318
PBT	(2,379)	476	491	2,427
Exceptional items	-	-	-	-
Taxes	486	24	128	631
Net Profit	(2,864)	452	366	1,808
Growth (%)	47	NA	(19)	394
EPS (₹)	(5.0)	0.8	0.6	2.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

	FY20	FY21	FY22E	FY23E
Valuation				
No. of shares (crore)	481.0	567.6	619.9	619.9
EPS (₹)	(5.0)	0.8	0.6	2.9
DPS (₹)	-	-	0.1	0.3
BV (₹)	31.9	31.4	38.5	41.1
ABV (₹)	30.2	28.1	35.3	37.9
P/E	NA	64.0	86.4	17.5
P/BV	1.6	1.6	1.3	1.2
P/ABV	1.7	1.8	1.4	1.3
Yields & Margins (%)				
Net Interest Margins	4.4	5.1	5.3	5.5
Yield on assets	11.8	11.5	11.9	12.0
Avg. cost on funds	8.2	6.7	6.7	6.8
Yield on average advances	16.6	13.8	14.0	14.1
Avg. Cost of Deposits	8.7	5.7	5.9	6.0
Quality and Efficiency (%)				
Cost to income ratio	69.5	73.6	69.0	65.4
Credit/Deposit ratio	131.5	113.4	108.4	103.5
GNPA	2.7	4.2	4.0	3.7
NNPA	0.9	1.9	1.6	1.4
ROE	(15.8)	2.7	1.8	7.3
ROA	(1.6)	0.3	0.2	0.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet

₹ crore

(₹ Crore)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Capital	4,810	5,676	6,199	6,199
Reserves and Surplus	10,533	12,132	17,644	19,271
Networth	15,343	17,808	23,843	25,470
Deposits	65,108	88,688	1,09,408	1,36,340
Borrowings	57,397	45,786	41,595	36,839
Other Liabilities & Provisions	11,353	10,861	11,716	12,649
Total	1,49,200	1,63,144	1,86,562	2,11,298
Application of Funds				
Fixed Assets	1,038	1,266	1,355	1,450
Investments	45,405	45,412	50,135	55,417
Advances	85,595	1,00,550	1,18,649	1,41,150
Other Assets	12,973	10,088	9,431	5,780
Cash with RBI & call mone	4,190	5,828	6,991	7,501
Total	1,49,200	1,63,144	1,86,562	2,11,298

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(%)

(% growth)	FY20	FY21	FY22E	FY23E
Total assets	(10.8)	9.3	14.4	13.3
Funded asset	(0.8)	17.5	18.0	19.0
Deposit	(7.6)	36.2	23.4	24.6
Total Income	40.9	1.1	16.8	16.4
Net interest income	89.9	21.5	22.9	20.2
Operating expenses	(7.9)	30.9	13.5	11.5
Operating profit	(229.5)	6.9	42.4	31.2
Net profit	24.7	NA	(19.1)	393.9
Net worth	(15.5)	16.1	33.9	6.8
EPS	24	NA	(26)	394

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akurati Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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