

Improved performance on most parameters

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 67% of gross funded assets
- Branch network is at 599 with 720 ATMs as on September 2021

Q2FY22 Results: Steady operating results.

- NII up 27.4% YoY to ₹ 2272 crore, NIMs rise 25 bps QoQ to 5.76%
- Provisions down 74% QoQ. Net profit at ₹ 151.7 crore up 49% YoY
- GNPA down 34 bps QoQ to 4.27%, restructured book at 2.9% of loans
- Advances up 3.1% QoQ & 9.8% YoY, deposit up 19% YoY, CASA ratio at 51.3%

What should investors do? The IDFC First stock has jumped over 65% in the past one year. Gradual improvement in margin, pick up in loan growth 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 maintain target price of ₹ 60 per share

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
- Improved performance on asset quality is a positive
- Investment in franchise undertaken; sweating of asset to improve efficiency

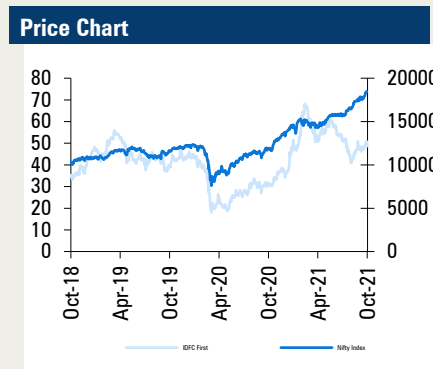
Alternate Stock Idea: Apart from IDFC First, in our coverage we also like CSB Bank.

- 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



Particulars	Amount
Market Capitalisation	₹30781 crore
Networth	₹20350 crore
52 week H/L	69/ 29
Face value	₹10

Shareholding pattern					
(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	40.0	40.0	40.0	36.6	36.5
FII	11.2	11.6	11.9	15.1	14.8
DII	11.1	11.3	11.2	11.9	22.2
Others	37.7	37.1	36.9	36.4	36.4



- Risk to our call**
- GNPA down 34 bps QoQ each to 4.27%, restructured book at 2.9% of loans
 - Key Risk:** Persistent impact of pandemic could impact business growth and dent asset quality.

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Key Financial Summary

Key Financials	FY19	FY20	FY21	2 year CAGR (FY19-FY21)	FY22E	FY23E	2 year CAGR (FY21E-23E)
NII	3,199	6,076	7,380	52%	9,152	10,301	18%
Net profit (₹ crore)	(1,944)	(2,864)	452	-	298	995	48%
EPS (₹)	(4.1)	(5.0)	0.8	-	0.5	1.6	42%
P/E (x)	NM	NM	77.8		128.8	38.6	
ABV (₹)	35.7	30.2	28.1		34.9	37.4	
P/ABV (x)	1.7	2.1	2.2		1.8	1.7	
RoA (%)	(1.2)	(1.6)	0.3		0.2	0.5	
RoE (%)	(10.7)	(15.8)	2.7		1.4	4.1	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Healthy overall performance

- NII growth of 27.4% YOY and 4.0% QoQ driven by margin expansion and pick up in loan growth. Improvement in NIM is primarily attributable to decline in cost of funds led by reduction in deposit rates
- Non-interest income came in at ₹ 780 crore, led by sequential 46.5% rise in fee income while treasury income declined. Opex was up 31% QoQ to ₹ 2359 crore as a result of higher business activity due to which cost to income jumped from 67% to 77% QoQ
- Provisions declined sequentially 74% to ₹ 474 crore. Thus, the bank posted net profit of ₹ 151 crore in Q2FY22 vs. a loss in the previous quarter
- Business growth showed improvement as funded assets showed uptick of 3.1% QoQ and 9.8% YoY to ₹ 117270 crore. Retail funded assets posted healthy growth of 7.3% QoQ and 30.4% YoY to ₹ 78048 crore and now form 67% of total book. Growth in retail assets was driven by 46.4% YoY rise in home loans, 25.2% jump in LAP and 27% rise in consumer loans
- Deposits for the quarter were at ₹ 90235 crore, up 19% YoY and down 1.2% QoQ. CASA deposits showed a jump of 53% YoY but muted on sequential basis due to reduction in deposit rates
- Asset quality showed decent performance as GNPA and NNPA for the bank declined 34 bps and 23 bps sequentially to 4.27% and 2.09%, respectively, while restructured book was at 2.9% compared to 2.1% QoQ. The bank utilised Covid provisions worth ₹ 560 crore during the quarter and now has a balance of ₹ 165 crore towards the same

Q2FY22 Earnings Conference Call highlights

- Gross slippages during the quarter were ~₹ 1600 crore, down 40% QoQ
- Write-offs were at ~₹ 1000 crore, down 50% QoQ.
- The management expects steep fall in provision requirement hereon
- Funded exposure in telecom account is at ₹ 2000 crore and has ₹ 487 crore provisions
- Expect loan growth to reach 25% in medium term
- Increased opex due to higher collection and origination related expenses
- Excess liquidity, LCR at 174%, will be toned down

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
BoB (BANBAR)	98	120	Buy	504	2.5	9.6	14.8	39.2	10.2	6.6	0.9	0.8	0.7	0.1	0.4	0.6	1.7	6.3	9.0	107	119	135
SBI (STABAN)	502	540	Buy	4484	22.9	30.5	35.8	22	16.5	14.0	2.1	1.9	1.7	0.5	0.6	0.6	8.4	10.2	10.8	243	262	292
Indian Bank (INDIBA)	172	180	Buy	214	26.6	32.9	46.7	6.5	5.2	3.7	0.8	0.9	0.7	0.6	0.6	0.8	9.9	10.4	13.5	212	199	245
Axis Bank (AXIBAN)	742	970	Buy	2276	21.5	41.0	52.7	34.5	18.1	14.1	2.4	2.2	1.9	0.7	1.2	1.4	7.1	11.7	13.4	309	343	400
City Union (CITUNI)	168	200	Buy	124	8.8	9.3	11.7	19.1	18.1	14.4	2.6	2.3	1.9	1.3	1.2	1.4	11.9	11.3	12.4	64	74	87
Federal Bank (FEDBAN)	97	120	Buy	205	8.0	8.8	11.3	12.2	11.0	8.6	1.3	1.3	1.2	0.8	0.9	1.0	10.4	10.9	12.7	73	76	84
HDFC Bank (HDFBAN)	1,582	2,000	Buy	8765	47.9	56.4	66.1	33.0	28.0	23.9	5.2	4.4	3.8	1.9	1.9	1.9	16.4	16.6	16.7	305	361	413
IndusInd Bank (INDBA)	1,140	1,400	Buy	883	36.7	57.4	72.9	31.1	19.9	15.6	2.1	1.9	1.9	0.8	1.2	1.3	7.3	10.0	12.3	542	594	587
Kotak Bank (KOTMAH)	2,032	2,550	Buy	4030	35.1	38.9	48.9	57.8	52.3	41.5	6.6	5.9	5.2	1.9	1.9	2.1	12.4	11.4	12.7	308	344	393
CSB Bank (CSBBAN)	294	380	Buy	51	12.6	19.7	24.7	23.3	14.9	11.9	2.7	2.4	2.0	0.1	1.0	1.4	10.5	14.6	15.8	107	125	148
Bandhan (BANBAN)	292	310	Hold	470	13.7	-7.0	24.7	21.3	-41.7	11.8	3.2	3.6	2.7	2.1	-0.9	2.8	13.5	-6.7	22.2	90	82	106
IDFC First (IDFBAN)	49	60	Buy	306	0.8	0.5	2.3	61.5	101.8	21.4	1.6	1.3	1.2	0.3	0.2	0.7	2.7	1.4	5.8	31	38	40

Source: Company, ICICI Direct Research

We believe the liability side of IDFC First Bank has been shaping up well and it is back on track to meet its mid-term objectives.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
NII	2,272	2,138	1,784	27.4	2,185	4.0	Margin improvement aids NII growth
NIM (%)	5.76	2.6	4.91	85 bps	5.51	25 bps	Reduction in SA rates aided margins
Other Income	780	828	166	369.7	842	-7.4	Fee income reported healthy momentum
Net Total Income	3,052	2,965	1,950	56.5	3,027	0.8	
Staff cost	636	565	489	30.1	554	14.7	
Other Operating Expenses	1,724	1,507	1,121	53.7	1,478	16.6	Rise in business activity leads to increased Opex
PPP	692.6	892.1	339.8	103.8	994.9	-30.4	
Provision	474.9	586.2	213.4	122.6	1,872.3	-74.6	Down sequentially due to higher base and less slippages
PBT	217.6	305.9	126.4	72.2	-877.4	NA	
Tax	65.9	78.0	25.0	163.6	-247.3	NA	
PAT	151.7	227.9	101.4	49.6	-630.0	NA	Aided by lower credit cost
Key Metrics							
GNPA	4,485.5	4,900.5	1,486.1	201.8	4,667.1	-3.9	Improved asset quality with slippages reducing by 50% QoQ
NNPA	2,150.3	2,450.2	391.0	450.0	2,293.2	-6.2	
Funded Assets	117,270	117,244	106,828	9.8	113,794	3.1	Retail assets drive growth
Deposits	90,235	90,141	75,800	19.0	91,312	-1.2	CASA remains steady QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	9,073	9,152	0.9	10,903	10,301	-5.5
Pre Provision Profit	3,618	3,743	3.5	4,745	3,982	-16.1
NIM calculated (%)	5.3	5.4	12 bps	5.5	5.3	-19 bps
PAT	366	298	-18.5	1,808	995	-45.0
ABV (₹)	35.3	34.9	-1.3	37.9	37	-1.3

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	17.5	14.1	18.9	18.0	19.0
Deposit Growth (%)	36.2	21.0	23.3	23.4	24.6
CASA ratio (%)	51.7	54.0	55.1	54.5	55.1
NIM Calculated (%)	5.1	5.4	5.3	5.3	5.5
Cost to income ratio (%)	73.6	69.6	70.4	69.0	65.4
GNPA (₹ crore)	4,202	4,432	4,841	4,796	5,219
NNPA (₹ crore)	1,879	2,160	1,512	1,946	1,992
Credit cost (%)	2.1	2.9	1.9	2.6	1.6

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	18,732	21,344
Interest Expended	10,232	8,588	9,580	11,043
Net Interest Income	6,076	7,380	9,152	10,301
Growth (%)	90	21	24	13
Non Interest Income	1,722	2,254	3,153	3,174
Fees and advisory	948	1,562	2,187	2,471
Treasury Income	307	429	537	510
Other income	467	262	429	192
Net Income	7,798	9,634	12,306	13,475
Employee cost	1,528	1,977	2,212	2,414
Other operating Exp.	4,333	5,116	6,350	7,079
Operating Income	1,937	2,541	3,743	3,982
Provisions	4,315	2,065	3,343	2,647
PBT	(2,379)	476	401	1,335
Exceptional items	-	-	-	-
Taxes	486	24	104	347
Net Profit	(2,864)	452	298	995
Growth (%)	47	NA	(34)	233

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	0.5	1.6
DPS (₹)	-	-	0.0	0.1
BV (₹)	31.9	31.4	38.4	39.8
ABV (₹)	30.2	28.1	34.9	37.4
P/E	NA	62.2	102.9	30.9
P/BV	1.6	1.6	1.3	1.2
P/ABV	1.6	1.8	1.4	1.3
Yields & Margins (%)				
Net Interest Margins	4.4	5.1	5.4	5.3
Yield on assets	11.8	11.5	12.1	12.0
Avg. cost on funds	8.2	6.7	6.8	6.9
Yield on average advances	16.6	13.8	14.2	14.0
Avg. Cost of Deposits	8.6	5.7	5.9	6.0
Quality and Efficiency (%)				
Cost to income ratio	69.5	73.6	69.6	70.4
Credit/Deposit ratio	131.5	113.4	106.9	103.1
GNPA	2.7	4.2	3.9	3.5
NNPA	0.9	1.9	1.9	1.1
ROE	(15.8)	2.7	1.4	4.1
ROA	(1.6)	0.3	0.2	0.5
RWA/assets	0.0	1.0	2.0	3.0
RWA/ NW	0.0	1091.5	644.9	393.2

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	17,583	18,478
Networth	15,343	17,808	23,782	24,677
Deposits	65,108	88,688	1,07,295	1,32,252
Borrowings	57,397	45,786	41,595	39,640
Other Liabilities & Provisions	11,353	10,861	11,716	12,649
Total	1,49,200	1,63,144	1,84,388	2,09,219
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	1,14,715	1,36,369
Other Assets	12,973	10,088	11,192	8,482
Cash with RBI & call money	4,190	5,828	6,991	7,501
Total	1,49,200	1,63,144	1,84,388	2,09,219

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(%)

(% growth)	FY20	FY21	FY22E	FY23E
Total assets	(10.8)	9.3	13.0	13.5
Funded asset	(0.8)	17.5	14.1	18.9
Deposit	(7.6)	36.2	21.0	23.3
Total Income	40.9	1.1	20.1	12.0
Net interest income	89.9	21.5	24.0	12.6
Operating expenses	(7.9)	30.9	20.7	10.9
Operating profit	(229.5)	6.9	47.3	6.4
Net profit	24.7	NA	(34.0)	233.2
Net worth	(15.5)	16.1	33.5	3.8
EPS	24	NA	(40)	233

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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