

CMP: ₹ 40

Target: ₹ 56 (40%)

Target Period: 12 months

May 2, 2022

BUY

Good quarter, encouraging guidance; CI remains key

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 the key focus.

- Retail and commercial funded assets form 72% of total funded assets
- Branch network is at 641 as on March 2022

Q4FY22 Results: IDFC First Bank reported a healthy operational performance.

- GNPA down 27 bps QoQ to 3.7%; gross slippages at ₹ 1400 crore
- NII up 36.2% YoY, NIMs up 37 bps QoQ to 6.27%, C/I steady at 76%
- Provisions down 36% YoY; PAT up 128% YoY to ₹ 342.7 crore
- Funded assets up 12.7% YoY at ₹ 1.3 lakh crore, retail grew 28% YoY

What should investors do? The IDFC First stock has given subdued returns in the past year owing to overhangs on growth & asset quality. We believe with improving outlook and as consolidation phase is behind, the same should reflect positively.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value IDFC First Bank at ~1.4x FY24E ABV to arrive at revised target price of ₹ 56 per share.

Key triggers for future price performance:

- Pedalling growth with retail in focus and granular liabilities base to enable business growth as well as aid strong margin. Guidance of lower credit cost at ~1.5% led by improved collections bode well for the earnings trajectory and, therefore, return ratios
- Higher CI ratio is deterrent, though with opex trajectory falling back, revenue is seen leading to gradual uptick in RoA. Unknown merger timelines and valuation to keep the stock volatile

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 ₹ 320

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	3,199	6,076	7,380	9,706	45%	11,526	14,384	22%
Net profit (₹ crore)	(1,944)	(2,864)	452	145		1,476	2,251	293%
EPS (₹)	(4.1)	(5.0)	0.8	0.2	-	2.4	3.6	
P/E (x)	NM	NM	49.6	169.0		16.7	10.9	
ABV (₹)	35.7	30.2	28.1	30.6		36.9	39.9	
P/ABV (x)	1.1	1.3	1.4	1.3		1.1	1.0	
RoA (%)	(1.2)	(1.6)	0.3	0.1		0.7	1.0	
RoE (%)	(10.7)	(15.8)	2.7	0.7		6.4	8.7	

Source: Company, ICICI Direct Research



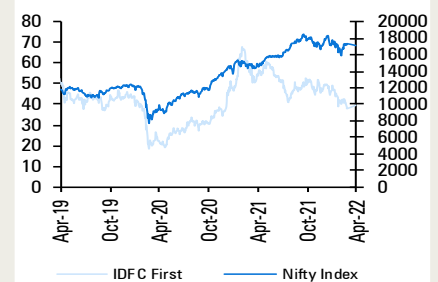
Particulars

Particulars	Amount
Market Capitalisation	₹ 24592 crore
Networth	₹ 21003 crore
52 week H/L	62/ 38
Face value	₹ 10

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	40.0	36.6	36.5	36.5	36.5
FII	11.9	15.1	14.8	14.8	13.5
DII	11.2	11.9	10.2	10.4	9.6
Others	36.9	36.4	38.5	38.4	40.5

Price Chart



Risk to our call

- GNPA down 27 bps QoQ to 3.7%. Gross slippages at ₹ 1400 crore
- **Key Risk:** i) Slower improvement in opex; ii) another wave of Covid

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Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Healthy asset quality and operational performance

- NII up 36.2% YoY and 3.5% QoQ to ₹ 2669 crore, driven by 37 bps QoQ expansion in net interest margin at 6.3%. Fee and other income grew 40% YoY at ₹ 841 crore in Q4FY22. Operating expense (including staff cost) grew 24% YoY at ₹ 2674 crore for Q4FY22, mainly on account of increased business
- Provisions were down 6% QoQ at ₹ 369.5 crore. The bank did not utilise Covid provisions during the quarter and carries Covid provisions of ₹ 165 crore as of March 31, 2022. PAT, thus, jumped 128% YoY and 22% QoQ to ₹ 342.7 crore
- Asset quality improved sequentially as GNPA and NNPA declined 27 bps and 21 bps QoQ to 3.7% and 1.53%, respectively. Retail GNPA declined from 2.92% to 2.63% while corporate segment saw GNPA increase of 22 bps QoQ at 2.75%. GNPA in infra segment inched up to 21.64% from 20.1% QoQ
- Total funded assets were up 12.7% YoY and 8.0% QoQ to ₹ 1.3 lakh crore, wherein retail funded assets were up 28% YoY to ₹ 83740 crore. Commercial loans were up 15% YoY to ₹ 11637 crore. Customer deposit growth was at 13% YoY to ₹ 93214 crore. This was led by 11% YoY uptick in CASA. CASA ratio is now at 48.44% vs. 51.59% QoQ

Q4FY22 Earnings Conference Call highlights

- The phase of consolidation is complete now and loan book growth of ~20-25% YoY is expected from here on. Double digit RoE by Q4FY23
- As high cost borrowings will get replaced with incremental cost of ~5%, it will add about ~₹ 1000 crore to NII on an annualised basis
- CASA ratio to remain at similar levels (~50%). During the quarter the bank has added 42 branches out of which 70% are in semi-urban and rural areas
- The management has sufficiently provided for all legacy stressed corporate and infrastructure loans. The share of Infrastructure book has further reduced to 5.2% from 9.2% as on March 2021
- Top 10 borrower's concentration is down to 3.7% in March 2022 vs. 5.9% in March 2021. Gross slippages were at ₹ 1400 crore. Net slippages were at ₹ 700 crore. During Q4FY22, one corporate account with exposure of ₹ 150 crore slipped into NPA
- The bank has brought down its excess liquidity during the quarter as LCR is now at 126% vs. 149% in Q3FY22
- The bank is confident of achieving credit cost for FY23E at ~1.5%
- The bank has a healthy capital position. As of now there are no plans to raise Tier I capital. There is significant headroom to raise tier II capital

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	₹	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	729	970	Buy	2237	42.4	52.7	63.7	17.2	13.8	11.4	2.1	1.8	1.7	1.2	1.4	1.5	12.0	13.3	14.8
Federal Bank (FEDBAN)	96	120	Buy	201	8.8	10.6	13.1	10.9	9.1	7.3	1.3	1.1	1.0	0.9	1.0	1.1	10.9	11.9	13.3
IndusInd Bank (INDBA)	978	1,150	Buy	758	59.5	82.4	101.0	16.4	11.9	9.7	1.7	1.6	1.4	1.2	1.5	1.6	10.1	13.1	15.1
Kotak Bank (KOTMAH)	1,789	2,500	Buy	3550	40.0	46.8	55.3	44.7	38.2	32.3	5.1	4.5	3.9	1.9	2.0	2.1	11.7	12.2	12.7
CSB Bank (CSBBAN)	215	320	Buy	37	24.6	27.6	33.8	8.7	7.8	6.4	1.7	1.4	1.1	1.8	1.8	1.8	17.9	16.9	17.5
Bandhan (BANBAN)	334	300	Hold	538	-5.0	21.1	31.3	-66.1	15.8	10.7	4.0	3.2	2.5	-0.7	2.5	3.1	-4.8	19.0	23.1
IDFC First (IDFBAN)	40	56	Buy	246	0.2	2.4	3.6	169.0	16.7	10.9	1.3	1.1	1.0	0.1	0.7	1.0	0.7	6.4	8.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	2,669	2,907	1,960	36.2	2,580	3.5	Driven by loan growth and margin expansion
NIM (%)	6.27	5.80	5.09	118	5.90	37	
Other Income	831	889	841	-1.2	769	8.1	
Net Total Income	3,500	3,795	2,801	25.0	3,349	4.5	
Staff cost	785	772	520	51.0	722	8.7	
Other Operating Expenses	1,889	2,024	1,636	15.5	1,857	1.7	Higher opex on account of increased business activities
PPP	826.5	998.9	645.8	28.0	769.7	7.4	
Provision	369.5	369.8	602.7	-38.7	391.9	-5.7	Lower slippages leads to lower credit cost
PBT	457.0	628.1	43.1	960.1	377.9	21.0	
Tax	114.3	157.3	-84.7	-235.0	96.8	18.1	
PAT	342.7	470.8	127.8	168.2	281.1	21.9	Aided by healthy operational performance

Key Metrics

GNPA	4,469.1	4,456.9	4,303.0	3.9	4,456.9	0.3	
NNPA	1,808.1	1,871.9	1,883.3	-4.0	1,914.0	-5.5	
Funded Assets	1,31,951	1,32,070	1,17,127	12.7	1,22,219	8.0	Driven by retail & commercial finance segment
Deposits	93,214	86,161	82,725	12.7	85,818	8.6	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	11,585	11,526	-0.5	14,357	14,384	0.2
Pre Provision Profit	4,372	4,241	-3.0	5,907	5,575	-5.6
NIM calculated (%)	6.0	6.0	-8 bps	6.5	6.3	-23 bps
PAT	1,110	1,476	33.0	2,004	2,251	12.3
ABV (₹)	36.9	36.9	0.0	39.7	40	0.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier		
	FY21	FY22E	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	17.5	17.2	17.6	18.4	17.5	18.5
Deposit Growth (%)	36.2	19.1	16.6	21.1	23.4	23.5
CASA ratio (%)	51.7	56.7	57.3	57.6	57.9	59.0
NIM Calculated (%)	5.1	5.8	6.0	6.3	6.0	6.5
Cost to income ratio (%)	73.6	73.8	71.3	68.9	70.4	66.9
GNPA (₹ crore)	4,202	4,434	4,850	5,671	4,842	5,647
NNPA (₹ crore)	1,879	1,967	1,949	2,097	1,685	1,764

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement						
	₹ crore					
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	11,948	16,308	15,968	17,173	20,762	25,059
Interest Expended	8,749	10,232	8,588	7,467	9,236	10,675
Net Interest Income	3,199	6,076	7,380	9,706	11,526	14,384
Growth (%)	62	90	21	32	19	25
Non Interest Income	852	1,722	2,254	3,222	3,260	3,551
Net Income	4,051	7,798	9,634	12,928	14,786	17,935
Employee cost	1,118	1,528	1,977	2,367	2,608	2,922
Other operating Exp.	2,169	4,333	5,116	7,277	7,937	9,438
Operating Income	764	1,937	2,541	3,284	4,241	5,575
Provisions	1,460	4,315	2,065	3,109	2,259	2,533
PBT	(696)	(2,379)	476	175	1,982	3,042
Exceptional items	2,599.3	-	-	-	-	1.0
Taxes	(1,351)	486	24	46	515	791
Net Profit	(1,944)	(2,864)	452	145	1,476	2,251
Growth (%)	(303)	47	NA	(68)	915	52
EPS (₹)	(4.1)	(5.0)	0.8	0.2	2.4	3.6

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios						
	FY19	FY20	FY21	FY22	FY23E	FY24E
Valuation						
No. of shares (crore)	478.2	481.0	567.6	621.8	621.8	621.8
EPS (₹)	(4.1)	(5.0)	0.8	0.2	2.4	3.6
DPS (₹)	0.5	-	-	0.0	0.2	0.3
BV (₹)	38.0	31.9	31.4	33.8	40.0	43.3
ABV (₹)	35.7	30.2	28.1	30.6	36.9	39.9
P/E	NA	NA	49.6	169.0	16.7	10.9
P/BV	1.0	1.2	1.3	1.2	1.0	0.9
P/ABV	1.1	1.3	1.4	1.3	1.1	1.0
Yields & Margins (%)						
Net Interest Margins	2.5	4.4	5.1	5.8	6.0	6.3
Yield on assets	9.3	11.8	11.5	11.0	11.5	11.9
Avg. cost on funds	6.8	8.2	6.7	5.7	5.7	5.5
Yield on average advance:	11.5	16.6	13.8	13.6	14.0	14.2
Avg. Cost of Deposits	7.4	6.1	5.7	4.7	4.7	4.7
Quality and Efficiency (%)						
Cost to income ratio	145.3	69.5	73.6	73.8	71.3	68.9
Credit/Deposit ratio	122.5	131.5	113.4	111.6	112.6	110.1
GNPA	2.5	2.7	4.2	3.8	3.5	3.5
NNPA	1.3	0.9	1.9	1.7	1.4	1.3
ROE	(10.7)	(15.8)	2.7	0.7	6.4	8.7
ROA	(1.2)	(1.6)	0.3	0.1	0.7	1.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet						
	₹ crore					
(₹ Crore)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Capital	4,782	4,810	5,676	6,218	6,218	6,218
Reserves and Surplus	13,377	10,533	12,132	14,786	18,673	20,699
Networth	18,159	15,343	17,808	21,003	24,891	26,916
Deposits	70,479	65,108	88,688	1,05,634	1,23,163	1,49,166
Borrowings	69,983	57,397	45,786	52,963	54,426	59,124
Other Liabilities & Provisio	8,562	11,353	10,861	10,581	12,649	13,669
Total	1,67,183	1,49,200	1,63,144	1,90,182	2,15,129	2,48,875
Application of Funds						
Fixed Assets	950	1,038	1,266	1,361	1,450	1,551
Investments	58,475	45,405	45,412	46,145	55,417	61,261
Advances	86,302	85,595	1,00,550	1,17,858	1,38,647	1,64,218
Other Assets	11,889	12,973	10,088	9,060	12,113	13,785
Cash with RBI & call mon	9,567	4,190	5,828	15,758	7,501	8,060
Total	1,67,183	1,49,200	1,63,144	1,90,182	2,15,129	2,48,875

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios						
(% growth)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total assets	32.3	(10.8)	9.3	16.6	13.1	15.7
Funded asset	65.4	(0.8)	17.5	17.2	17.6	18.4
Deposit	46.7	(7.6)	36.2	19.1	16.6	21.1
Total Income	25.3	40.9	1.1	12.7	17.0	19.1
Net interest income	62.2	89.9	21.5	31.5	18.7	24.8
Operating expenses	227.6	(7.9)	30.9	36.0	9.3	17.2
Operating profit	(241.7)	(229.5)	6.9	29.2	29.1	31.5
Net profit	(303.4)	24.7	NA	(67.8)	914.8	52.5
Net worth	18.9	(15.5)	16.1	17.9	18.5	8.1
EPS	(244.8)	24	NA	(71)	915	52

Source: Company, ICICI Direct Research

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