

CMP: ₹ 38

Target: ₹ 50 (32%)

Target Period: 12 months

July 31, 2022

BUY

Growth & PAT induce confidence; 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 74% of total funded assets
- Branch network is at 651 as on June 2022

Q1FY23 Results: IDFC First Bank reported strong operational performance

- GNPA down 34 bps QoQ to 3.36%; NNPA down 23 bps QoQ to 1.3%
- NII up 25.9% YoY, NIMs down 38 bps QoQ to 5.89%, C/I at ~73%
- Provisions down 83.6% YoY; PAT at ₹ 474.3 crore vs loss in Q1FY22
- Funded assets up 21% YoY at ₹ 1.37 lakh crore, retail grew 25% YoY

What should investors do? The IDFC First stock performance was volatile in past year mainly due to concerns on growth & asset quality. Healthy business growth, steady asset quality and gradual improvement in CI ratio should propel RoE.

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

Target Price and Valuation: We value IDFC First Bank at ~1.35x FY24E ABV to arrive at revised target price of ₹ 50 per share.

Key triggers for future price performance:

- With core focus on retail loans and granular liabilities base augers well for business growth as well as steady 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 management has guided CI ratio to improve in long term (at around ~65% levels)
- Any development on merger could lead to near term volatility in price

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 ₹ 250

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%	11,709	14,283	21%
Net profit (₹ crore)	(1,944)	(2,864)	452	146	-	1,609	2,406	307%
EPS (₹)	(4.1)	(6.0)	0.8	0.2	-	2.6	3.9	
P/E (x)	NM	NM	47.1	160.4		14.5	9.7	
ABV (₹)	35.7	30.2	28.1	30.8		34.2	37.2	
P/ABV (x)	1.1	1.2	1.3	1.2		1.1	1.0	
RoA (%)	(1.2)	(1.9)	0.3	0.1		0.8	1.0	
RoE (%)	(10.7)	(18.7)	2.7	0.8		7.4	10.1	

Source: Company, ICICI Direct Research



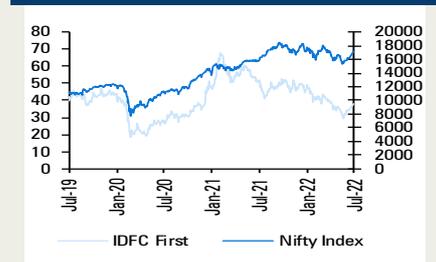
Particulars

	Amount
Market Capitalisation	₹ 23353 crore
Networth	₹ 21003 crore
52 week H/L	54/ 29
Face value	₹ 10

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	36.6	36.5	36.5	36.5	36.5
FII	15.1	14.8	14.8	13.5	11.0
DII	11.9	10.2	10.4	9.6	10.2
Others	36.4	38.5	38.4	40.5	42.3

Price Chart



Risk to our call

- Provisions declined by 83.6% YoY and 16.6% QoQ
- **Key Risk:** i) Slower improvement in CI ii) Delay in credit card picking momentum

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong operating performance; asset quality improved

- NII up 25.9% YoY to ₹ 2751 crore, driven by 39 bps YoY expansion in net interest margin at 5.89%. On a sequential basis NIMs declined by 38 bps. Fee and other income almost doubled YoY at ₹ 899 crore, partially due to low base of Q1FY22. Operating expense (including staff cost) grew 31% YoY at ₹ 2663 crore and was marginally down on QoQ basis.
- On a QoQ basis provisions were down 16.6% at ₹ 308 crore (down 83.6% YoY). The credit cost as % of average funded assets stood at 0.9%. Thus, PAT came in at ₹ 474.3 crore vs a loss of ₹ 630 crore in Q1FY22 (38.4% jump on QoQ basis).
- Asset quality improved sequentially as GNPA and NNPA declined 34 bps and 23 bps QoQ to 3.36% and 1.30%, respectively. Retail GNPA declined from 2.63% to 2.12% while corporate segment saw GNPA increase from 2.75% to 3.67% QoQ. GNPA in infra segment largely stood flat QoQ at 21.7%.
- Total funded assets were up 21% YoY and 6.7% QoQ to ₹ 1.37 lakh crore, wherein retail funded assets were up 25% YoY to ₹ 90630 crore. Customer deposit growth was at 21.2% YoY to ₹ 1.02 lakh crore. This was led by 22% YoY uptick in CASA. CASA ratio is now at 50.04% vs 48.44% QoQ.

Q1FY23 Earnings Conference Call highlights

- Management maintained credit cost guidance of 1.5% for FY23E. RoE will be in double digit at exit of FY23E.
- There is a lag in passing on the rates to customers. The benefit will start coming from Q2FY23 onwards and there will be upwards trajectory in NIMs. Management guided NIMs to be at ~6%.
- 37% book is linked to external benchmark and rest is at fixed rate. Out of 37%, ~60% is repo linked and balance is MCLR.
- CI income ratio (excl trading gains) improved to 72.95% vs 77.16% in Q1FY22. Opex likely to inch up marginally QoQ. Gradual improvement anticipated in CI ratio in mid 60% levels in next couple of years.
- Gross slippages in Q1FY23 was lower by 20% QoQ; overall restructured book has come down to 1.3% vs 1.8% in Q4FY22.
- Out of ₹ 165 crore covid provisions, ₹ ~75 crore utilized in Q1FY23. Exposure of ₹ ~550 (one legacy account) slipped into NPA is zero now.
- Blended cost on borrowings & deposits is 5.2%.
- Growth is expected to pick up in commercial finance segment going ahead.

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	728	970	Buy	2226	21.5	42.4	53.2	65.4	33.9	17.2	13.7	11.1	2.4	2.1	1.8	1.7	7.1	12.0	13.3	15.1
Federal Bank (FEDBAN)	107	110	Hold	224	8.0	9.0	10.8	12.4	13.4	11.9	9.9	8.6	1.5	1.3	1.2	1.1	10.4	10.8	11.5	12.0
IndusInd Bank (INDBA)	1043	1,150	Buy	808	36.7	59.5	90.2	107.3	28.4	17.5	11.6	9.7	1.9	1.8	1.6	1.4	7.3	10.1	14.0	15.0
Kotak Bank (KOTMAH)	1,810	2,200	Buy	3,595	35.1	43.0	48.5	54.7	51.5	42.1	37.3	33.1	5.9	5.2	4.5	4.0	12.4	12.6	12.6	12.5
CSB Bank (CSBBAN)	200	250	Buy	34	12.6	26.4	25.4	28.6	15.9	7.6	7.9	7.0	1.9	1.4	1.2	1.1	10.5	19.0	15.4	14.9
Bandhan (BANBAN)	276	330	Buy	445	-12.8	0.8	24.7	30.3	-21.5	353.9	11.2	9.1	4.3	2.8	2.3	1.8	-14.6	0.8	20.7	20.9
IDFC First (IDFBAN)	38	50	Buy	233	0.8	0.2	2.6	3.9	47.1	160.4	14.5	9.7	1.3	1.2	1.1	1.0	2.7	0.8	7.4	10.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	2,751	2,757	2,185	25.9	2,669	3.1	Driven by healthy loan growth
NIM (%)	5.89	6.35	5.50	39 bps	6.27	-38 bps	Interest rate transmission lag leads to QoQ decline
Other Income	856	774	842	1.6	831	2.9	
Net Total Income	3,607	3,530	3,027	19.1	3,500	3.0	
Staff cost	830	815	554	49.7	785	5.8	
Other Operating Expenses	1,833	1,988	1,478	24.0	1,889	-3.0	Higher opex due to low base effect
PPP	943.8	727.3	994.9	-5.1	826.5	14.2	
Provision	308.0	358.0	1,872.3	-83.6	369.5	-16.6	Utilised ₹ 75 crore of Covid provision
PBT	635.8	369.3	-877.4	NA	457.0	39.1	
Tax	161.5	92.3	-247.3	NA	114.3	41.3	
PAT	474.3	277.0	-630.0	NA	342.7	38.4	Driven by lower provisions

Key Metrics

GNPA	4,354.8	4,379.7	4,667.1	-6.7	4,469.1	-2.6	
NNPA	1,653.8	1,751.9	2,293.2	-27.9	1,808.1	-8.5	
Funded Assets	1,37,663	1,37,685	1,13,794	21.0	1,29,051	6.7	Mainly led by retail segment (up 40% YoY)
Deposits	1,02,868	1,02,363	84,893	21.2	93,214	10.4	CASA deposits grew by 11% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	11,526	11,709	1.6	14,384	14,283	-0.7
Pre Provision Profit	4,241	4,140	-2.4	5,575	5,634	1.1
NIM calculated (%)	6.0	5.9	-10 bps	6.3	6.0	-31 bps
PAT	1,476	1,609	9.0	2,251	2,406	6.9
ABV (₹)	36.9	34.2	-7.5	40.0	37	-7.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	17.5	17.2	19.7	18.9	17.6	18.4
Deposit Growth (%)	36.2	19.1	20.5	22.0	16.6	21.1
CASA ratio (%)	51.7	48.4	48.2	48.9	57.3	57.6
NIM Calculated (%)	5.1	5.8	5.9	6.0	6.0	6.3
Cost to income ratio (%)	74.0	74.6	73.2	69.7	71.3	68.9
GNPA (₹ crore)	4,303	4,469	4,610	4,778	4,850	5,671
NNPA (₹ crore)	1,883	1,808	1,433	1,706	1,949	2,097

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	20,792	24,854
Interest Expended	8,749	10,232	8,588	7,467	9,084	10,571
Net Interest Income	3,199	6,076	7,380	9,706	11,709	14,283
Growth (%)	62	90	21	32	21	22
Non Interest Income	852	1,722	2,211	3,222	3,732	4,304
Net Income	4,051	7,798	9,592	12,928	15,440	18,587
Employee cost	1,118	1,528	1,977	2,697	2,858	3,202
Other operating Exp.	2,169	4,333	5,116	6,948	8,442	9,751
Operating Income	764	1,937	2,498	3,284	4,140	5,634
Provisions	1,460	4,315	2,023	3,109	1,980	2,383
PBT	(696)	(2,379)	476	175	2,160	3,252
Exceptional items	2,599.3	-	-	-	-	1.0
Taxes	(1,351)	486	24	46	562	845
Net Profit	(1,944)	(2,864)	452	146	1,609	2,406
Growth (%)	(303)	47	NA	(68)	1,006	50
EPS (₹)	(4.1)	(6.0)	0.8	0.2	2.6	3.9

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)	(6.0)	0.8	0.2	2.6	3.9
DPS (₹)	0.5	-	-	0.0	0.2	0.3
BV (₹)	38.0	31.9	31.4	33.8	36.5	39.9
ABV (₹)	35.7	30.2	28.1	30.8	34.2	37.2
P/E	NA	NA	47.1	160.4	14.5	9.7
P/BV	1.0	1.2	1.2	1.1	1.0	0.9
P/ABV	1.1	1.2	1.3	1.2	1.1	1.0
Yields & Margins (%)						
Net Interest Margins	2.5	4.4	5.1	5.8	5.9	6.0
Yield on assets	9.3	11.8	11.5	11.1	11.7	12.0
Avg. cost on funds	6.8	8.2	7.0	5.0	5.4	5.5
Yield on average advance:	11.5	16.6	9.6	9.7	14.0	14.1
Avg. Cost of Deposits	8.0	6.3	5.8	4.8	4.7	4.8
Quality and Efficiency (%)						
Cost to income ratio	145.3	75.2	74.0	74.6	73.2	69.7
Credit/Deposit ratio	122.5	131.5	113.4	111.6	110.8	108.1
GNPA	2.5	2.7	4.3	3.8	3.3	2.8
NNPA	1.3	0.9	1.9	1.5	1.0	1.0
ROE	(10.7)	(18.7)	2.7	0.8	7.4	10.1
ROA	(1.2)	(1.9)	0.3	0.1	0.8	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	14,770	16,450	18,615
Networth	18,159	15,343	17,808	20,987	22,667	24,833
Deposits	70,479	65,108	88,688	1,05,634	1,27,243	1,55,177
Borrowings	69,983	57,397	45,786	52,963	50,133	54,561
Other Liabilities & Provisio	8,562	11,353	10,861	10,581	11,529	12,568
Total	1,67,183	1,49,200	1,63,144	1,90,166	2,11,573	2,47,139

Application of Funds						
Fixed Assets	950	1,038	1,266	1,361	1,457	1,558
Investments	58,475	45,405	45,412	46,145	50,342	55,490
Advances	86,302	85,595	1,00,550	1,17,858	1,41,036	1,67,699
Other Assets	11,889	12,973	10,088	9,060	7,244	9,758
Cash with RBI & call mor	9,567	4,190	5,828	15,758	11,494	12,634
Total	1,67,183	1,49,200	1,63,144	1,90,182	2,11,573	2,47,139

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	11.2	16.8
Funded asset	65.4	(0.8)	17.5	17.2	19.7	18.9
Deposit	46.7	(7.6)	36.2	19.1	20.5	22.0
Total Income	25.3	40.9	0.8	12.2	20.2	18.9
Net interest income	62.2	89.9	21.5	31.5	20.6	22.0
Operating expenses	227.6	(0.4)	21.0	36.0	17.2	14.6
Operating profit	(241.7)	(205.6)	29.0	31.4	26.1	36.1
Net profit	(303.4)	47.4	NA	(67.8)	1,005.7	49.5
Net worth	18.9	(15.5)	16.1	17.9	8.0	9.6
EPS	(244.8)	46	NA	(71)	1,006	50

Source: Company, ICICI Direct Research

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