

Retail Equity Research

IDFC First Bank Ltd.

Banking

BSE CODE: 539437 NSE CODE: IDFCFIRSTB
 BLOOMBERG CODE: IDFCFB:IN SENSEX: 58,116

BUY

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 42 TARGET Rs. 51 RETURN 22% ↑
 (Closing: 01-08-22)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Strong operating performance to be maintained

IDFC First Bank, founded by the merger of erstwhile IDFC Bank and erstwhile Capital First on December 18, 2018. At present, the bank's total number of branches stands at 651, with a total funded assets of Rs.1,37,663cr.

- Net Interest Income (NII) reported a growth of 26% on a YoY basis with strong business growth while Net Interest Margin (NIM) stood at 5.89% in Q1FY23.
- Bank has been successful in shifting its advance mix with retail focus and has made a considerable reduction in its corporate/infrastructure book.
- Asset quality improved with GNPA/NNPA at 3.36%/1.30% compared to 3.70%/1.53% during previous quarter. Provision Coverage Ratio (PCR) improved to 72.2%.
- Management has provided credit cost guidance of 1.5% for FY23. Collection efficiency has surpassed pre-covid levels.
- We value the bank at 1.4x Adj. BVPS of FY24E with a target price of Rs.51 and maintain our Buy rating.

Strong performance aided by business growth and lower provisioning

In Q1FY23, Net Interest Income (NII) reported growth of 26% on a YoY basis and 3% sequentially aided by business growth. Interest income grew by 20% YoY and 2.1% QoQ, while interest expense grew by 14% YoY/4% QoQ. Reported Net Interest Margin stood at 5.89% compared to 5.96% during the previous quarter. Cost of funds are expected to decline further in upcoming quarters as high cost legacy borrowings are being substituted with low cost deposits after its maturity. As on Q1FY23, the total high cost legacy borrowing stood at Rs.22,406cr compared to Rs.27,936cr in Q1FY22. Provision for the quarter stood at Rs.308.0cr compared to Rs.369.4cr, a sequential decline of 16.6%. Of the total advance book, only 37% is external benchmark linked, while 63% are fixed in nature. This will add pressure on NIM expansion. With reduced provisioning during the quarter, the bank reported PAT of Rs.474.3cr compared to Rs.342.7cr in Q4FY22 and net loss of Rs.630.0cr in Q1FY22. Management expects NIM to be maintained at 6%, while credit cost is expected to decline to 1.5% during FY23 compared to 2.5% in FY22 leading to lower provisioning.

Strong growth in key business figures

Gross Funded Asset of the bank grew by 21% YoY to Rs.1,37,663cr during the quarter with retail loan book growing at 40% YoY to Rs.90,630cr. However, the wholesale funded asset book declined by 9% YoY. Management is expecting the loan book to grow at more than 20% going forward. Deposit of the bank grew by 21% YoY to Rs.1,02,868cr with CASA book growing at 22%. CASA ratio of the bank stood at 50.0% compared to 48.44% in previous quarter and 50.86% a year ago. Capital Adequacy of the bank stands at 15.77%.

Improvement in asset quality

During this quarter, corporate segment witnessed elevated slippage as one large retail group slipped into NPA from restructured book, however, it is fully provisioned. GNPA/NNPA of the segment stands at 3.67%/0.20%. On the overall loan book, asset quality has shown significant improvement. GNPA of the bank improved 34bps on a sequential basis to 3.36%, while NNPA stood at 1.30% showing an improvement of 23bps. Overall Provision Coverage Ratio stands at 72.2% and collection efficiency at 99.4% as on June 2022.

Outlook & Valuation

Bank has shown improvement in key business figures including business growth, margins and lending mix which is positive for the long term. Declining impact of legacy borrowings will help in expanding the margins, however, higher mix of fixed loan book will slow down its pace. Management expects advances to grow at more than 20% with credit cost declining to 1.5%. With expected improvement in profitability, we value the stock at 1.4x FY24 Adj. BVPS to arrive at a target price of Rs.51 and maintain our Buy rating.

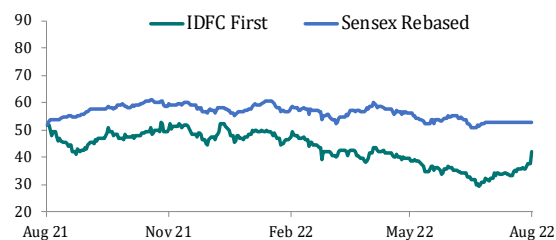
Company Data

Market Cap (Rs cr)	26,089.9
Outstanding Shares (cr)	621.9
Free Float (%)	63.5
Dividend Yield	-
52 week high (Rs)	53.5
52 week low (Rs)	29.0
6m average volume (cr)	3.4
Beta	1.1
Face value (Rs)	10

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	36.5	36.5	36.5
FII's	14.8	13.5	11.0
MFs/Institutions	10.4	9.6	10.2
Public/Others	38.4	40.4	42.3
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	8.0%	-14.9%	-19.3%
Absolute Sensex	-6.7%	-10.7%	1.1%
Relative Return*	14.7%	-4.2%	-20.4%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
NII	9,706	11,405	13,403
Growth(%)	31.5	17.5	17.5
NIM(%)	6.26	6.35	6.36
Provisions	3,109	1,910	2,167
Adj. PAT	145	1,546	1,960
Growth(%)	-67.8	962.5	26.8
Adj. EPS	0.2	2.5	3.2
Growth(%)	-71.6	980.7	26.8
BVPS	3.4	35.9	38.7
Adj BVPS	3.1	33.6	36.8
P/E	182.4	16.9	13.3
P/B	12.4	1.2	1.1
Adj. P/B	13.6	1.3	1.1
ROE (%)	0.8	7.1	8.5

Quarterly Financials (Standalone)

(Rs cr)	Q1FY23	Q4FY22	QoQ Growth (%)	Q1FY22	YoY Growth (%)
Interest Income	4,922	4,554	8.1	4,089	20.4
Interest Expense	2,171	1,884	15.2	1,905	14.0
Net Interest Income (NII)	2,751	2,669	3.1	2,185	25.9
Fee and Other Income	856	831	2.9	849	0.8
Total Income	3,607	3,500	3.0	3,034	18.9
Expenditure	2,663	2,674	-0.4	2,032	31.0
Pre-Provision Profit	944	827	14.2	1,001	-5.7
Provision	308	369	-17	1,879	-84
Exceptional Item	0	0	-	0	-
PBT	636	457	39.1	-877	-172.5
Tax	162	114	41.3	-247	-
Reported PAT	474	343	38.4	-630	-175.3
Adjustment	-	-	-	-	-
Adj. PAT	474	343	38.4	-630	-175.3
Diluted EPS (Rs)	0.75	0.54	38.9	-1.02	-0.5

Change in Estimates

Year / Rs cr	Old estimates		New Estimates		Change%	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (NII)	11,206	12,856	11,405	13,403	1.8%	4.3%
Net Interest Margin (%)	6.32	6.37	6.35	6.36	3bps	-1bps
Pre-Provision Profit	4,177	5,122	4,014	4,834	-3.9%	-5.6%
Adj. PAT	1245	1737	1546	1960	24.2%	12.8%
EPS (Rs)	2.19	3.06	2.49	3.15	13.3%	3.0%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	16,308	15,968	17,173	20,689	24,485
Interest Expense	10,232	8,588	7,467	9,284	11,082
Net Int. Income	6,076	7,380	9,706	11,405	13,403
<i>Change</i>	<i>89.9%</i>	<i>21.5%</i>	<i>31.5%</i>	<i>17.5%</i>	<i>17.5%</i>
Non Int. Income	1,722	2,254	3,222	3,724	4,162
Operating Income	7,798	9,634	12,928	15,129	17,566
<i>Change</i>	<i>92.5%</i>	<i>23.5%</i>	<i>34.2%</i>	<i>17.0%</i>	<i>16.1%</i>
Operating Exp.	5,861	7,093	9,644	11,115	12,732
Pre Prov. Profit	1,937	2,541	3,284	4,014	4,834
Prov. & Conting.	4315	2065	3109	1910	2167
PBT	-2,379	476	175	2,103	2,667
<i>Change</i>	<i>-</i>	<i>-</i>	<i>-63.2%</i>	<i>1100.7%</i>	<i>26.8%</i>
Tax	486	24	30	557	707
Tax Rate (%)	-20%	5%	17%	27%	27%
Reported PAT	-2,864	452	145	1,546	1,960
Adjustment	0	0	0	0	0
Adj. PAT	-2,864	452	145	1,546	1,960
<i>Change</i>	<i>-</i>	<i>-</i>	<i>-67.8%</i>	<i>962.5%</i>	<i>26.8%</i>
No. of shares (Cr)	481	568	6,218	622	622
EPS (Rs)	-5.9	0.8	0.2	2.5	3.2

BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	4,191	5,828	15,758	13,433	14,991
Loans & Advances	85,595	1,00,550	1,17,858	1,41,511	1,66,705
Investments	45,405	45,412	46,145	53,567	59,729
Gross Fixed Assets	4618	5146	5764	6455	7230
Net Fixed Assets	1038	1266	1361	1854	2244
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	12,972	10,088	9,060	10,178	11,946
Total Assets	1,49,200	1,63,144	1,90,182	2,20,152	2,49,361
Deposits	65,108	88,688	1,05,634	1,26,325	1,47,658
Debt Funds	57,397	45,786	52,963	58,924	62,873
Other Liabilities	11,353	10,862	10,597	12,588	14,775
Provisions	-	-	-	-	-
Equity Capital	4810	5676	6218	6218	6218
Reserves & Surplus	10,533	12,132	14,770	16,097	17,838
Shareholder's Funds	15,343	17,808	20,987	22,314	24,056
Total Liabilities	1,49,200	1,63,144	1,90,182	2,20,152	2,49,361
BVPS (Rs)	31.9	31.4	3.4	35.9	38.7
<i>Change</i>	<i>-16.0%</i>	<i>-1.6%</i>	<i>-89.2%</i>	<i>963.0%</i>	<i>7.8%</i>
Adj. BVPS (Rs)	30.2	28.1	3.1	33.6	36.8
<i>Change</i>	<i>-15.3%</i>	<i>-7.1%</i>	<i>-89.0%</i>	<i>987.9%</i>	<i>9.6%</i>

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
Interest yield (%)	11.4	11.3	10.8	11.3	11.4
Cost of funds (%)	7.8	6.7	5.1	5.4	5.6
Spread(%)	3.6	4.6	5.7	5.9	5.8
NIM (%)	4.2	5.3	6.3	6.4	6.4
ROE (%)	-17.1	2.7	0.8	7.1	8.5
ROA(%)	-1.8	0.3	0.1	0.6	0.8
Business Growth					
Loans & Advances (%)	-0.8	17.5	17.2	20.1	17.8
Deposits (%)	-7.6	36.2	19.1	19.6	16.9
Operating Ratios					
Cost to Income (%)	74.2	73.6	74.6	73.5	72.5
CASA (%)	32.2	51.8	48.4	48.5	49.5
Asset Quality					
GNPA (%)	2.6	4.2	3.7	3.2	2.9
NNPA (%)	0.9	1.9	1.5	1.0	0.7
Capital Adequacy					
Tier 1 CAR (%)	13.3	13.3	14.9	14.3	13.1
CAR (%)	13.4	13.8	16.7	14.4	13.2
Valuation					
P/E (x)	-7.1	51.8	182.4	16.9	13.3
P/B (x)	1.3	1.3	12.4	1.2	1.1
Adj. P/B (x)	1.4	1.5	13.6	1.3	1.1

Recommendation Summary (last 3 years)



Dates	Rating	Target
13 September 19	Hold	45.6
04 February 20	Hold	43.2
06 June 20	Hold	26.2
26 August 20	Accumulate	36
06 November 20	Buy	38
04 February 21	Buy	68
17-May-21	Accumulate	62
04-August-21	Reduce	46
11-November-21	Accumulate	58
07-May-22	Buy	50
01-July-22	Buy	39
02-Aug-22	Buy	51

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not Rated/Neutral: The analyst has no investment opinion on the stock

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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