

CMP: ₹ 59

Target: ₹ 70 (19%)

Target Period: 12 months

January 23, 2023

BUY

Business, earnings momentum remains strong...

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 funded assets form ~67% of total funded assets
- Branch network is at 707 as on December 2022

Q3FY23 Results: IDFC First Bank reported a strong performance.

- GNPA down 22 bps QoQ to 2.96%; NNPA down 6 bps QoQ to 1.03%
- NII up 27.3% YoY, NIMs up 38 bps QoQ to 6.36%, C/I at ~72%
- Provisions up 6.1% YoY; PAT at ₹ 604.6 crore, up ~2x YoY
- Funded assets up 25.3% YoY at ₹ 1.52 lakh crore, retail grew 36% YoY

What should investors do? IDFC First Bank's stock price rose ~70% in the past six months as balance sheet strength improved. Continued focus on healthy credit growth coupled with a gradual improvement in efficiency and liabilities mix to enable sustainable RoA at ~1.3-1.5% and, thus, drive valuation.

- Thus, we retain our **BUY** rating on the stock

Target Price and Valuation: Rolling to FY25E, we value IDFC First Bank at ~1.5x FY25E ABV and maintain target price of ₹ 70 per share.

Key triggers for future price performance:

- Healthy business growth with primary focus on retail segment and steady asset quality should aid 22-25% growth and drive RoA to ~1.3-1.5%
- Gradual decline in CI ratio remains key to drive further re-rating in valuation. The management has guided CI ratio at ~65%
- With adequate provisions buffers in place, credit cost to be under control
- Replacement of legacy borrowing with liabilities at competitive cost remains key

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 ₹ 275



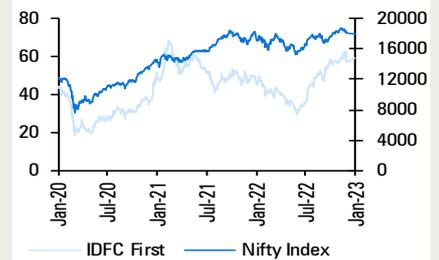
Particulars

	Amount
Market Capitalisation	₹ 37014 crore
Networth	₹ 21048 crore
52 week H/L	64/ 29
Face value	₹ 10

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	36.5	36.5	36.5	36.5	36.4
FII	14.8	13.5	11.0	19.3	19.8
DII	10.4	9.6	10.2	9.8	9.6
Others	38.4	40.5	42.3	34.4	34.3

Price Chart



Risk to our call

- Net stressed assets declined to 1.1%, improvement of ~20 bps QoQ
- **Key Risk:** i) Elevated CI ratio may dent earnings ii) Slower CASA accretion to impact low cost benefit

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Key Financial Summary

Key Financials	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	6,076	7,380	9,706	45%	12,220	15,032	18,415	24%
Net profit (₹ crore)	(2,864)	452	146	-	2,095	2,922	3,816	197%
EPS (₹)	(6.0)	0.8	0.2	-	3.4	4.7	6.1	
P/E (x)	NM	74.0	252.1		17.5	12.6	9.6	
ABV (₹)	30.2	28.1	30.8		35.4	38.6	44.6	
P/ABV (x)	2.0	2.1	1.9		1.7	1.5	1.3	
RoA (%)	(1.9)	0.3	0.1		1.0	1.3	1.4	
RoE (%)	(18.7)	2.7	0.8		9.5	12.0	13.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong operating performance; asset quality improves

- NII up 32.1% YoY and 9.1% QoQ to ₹ 3002 crore, driven by 15 bps YoY, 9 bps QoQ expansion in NIMs at 5.98% and strong business growth. Other income registered strong growth of 36.1% YoY and 24.0% QoQ. Fee Income growth was contributed mainly by the fees related to loan sourcing, higher transaction led fees, distribution and wealth management fees, etc. Operating expense (including staff cost) grew 23% YoY and 9% QoQ at ₹ 2895 crore, mainly due to higher business volumes
- On a QoQ basis, provisions were increased by 37.7% QoQ at ₹ 424 crore (down 11% YoY). The credit cost remained steady sequentially. Thus, PAT grew 3.6x YoY and 17.1% QoQ at ₹ 555.6 crore
- Asset quality improved sequentially as GNPA and NNPA declined 18 bps and 21 bps QoQ to 3.18% and 1.09%, respectively. Retail GNPA declined from 2.12% to 2.03%, corporate segment GNPA declined from 3.67% to 3.43% QoQ. GNPA in infra segment increased from 21.74% to 24.48% QoQ
- Total funded assets were up 24% YoY and 5.6% QoQ to ₹ 1.45 lakh crore, wherein retail funded assets were up 41% YoY to ₹ 96496 crore. Customer deposit growth was at 26.3% YoY to ₹ 1.14 lakh crore. This was led by 37% YoY uptick in CASA. CASA ratio is now at 51.28% vs. 50.04% in Q1FY23 and 51.28% in Q2FY22

Q3FY23 Earnings Conference Call highlights

- CI to come down to 65% by Q3FY24. Loan book growth of 22-25% YoY. RoE guidance maintained at 13-15%. Credit cost guidance at 1.5% in retail vs. ~2% earlier
- NIMs expansion was led by repricing of repo linked book (~40% book is linked to repo) and churning in investment book resulted in better yields
- Saw strong mobilisation in TD due to overall increase in systemic rates
- Maintained average LCR at ~122% vs. 131% in Q2FY23 as the excess liquidity got deployed
- Provisions during the quarter were at ₹ 450 crore. Slippages for the quarter were at ₹ 1150 crore. Net slippages were at ₹ 570 crore
- High cost legacy borrowings declined by ~ ₹ 1687 crore. The residual amount is now at ₹ 18762 crore, which will further come down in the next two to three years
- Despite an increase in interest rates, the housing segment saw healthy growth of 48% YoY
- Infra loan share continued to come down to 3.37% vs. 6.6% of total funded assets a year ago. The management does not see any incremental stress coming from this segment
- Restructured book declined to 0.9% vs. 1% in Q2FY23. SMA1 and SMA2 book was at ~1% vs. 3.2% a year ago
- Exposure to one telecom company has come down to one-third of ₹ 500 crore and average residual maturity is now less than one year
- Mobilised Tier II of ₹ 1500 crore, which has increased the CRAR
- The bank has issued more than 1.3 million cards since launch in January 2021
- The bank opened 37 branches during the quarter and aims to add 150 branches in the next year

IDFC First Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	16.8	16.8	16.8
Social	27.5	30.1	30.1
Governance	83.6	83.6	83.6
Overall ESG Score	42.7	43.6	43.6

*Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure*

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	(₹)	TP(₹)			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Axis Bank (AXIBAN)	930	1,000	Buy	2,862	21.5	42.4	66.1	72.9	43.2	21.9	14.1	12.8	3.0	2.7	2.3	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,660	1,920	Buy	9,261	56.4	66.7	78.7	93.7	29.4	24.9	21.1	17.7	3.9	3.4	3.0	2.5	16.7	16.9	17.5	17.7
IndusInd Bank (INDBA)	1,202	1,450	Buy	932	36.7	59.5	93.1	111.0	32.8	20.2	12.9	10.8	2.2	2.0	1.8	1.6	7.3	10.1	14.2	14.9
Kotak Bank (KOTMAH)	1,763	2,175	Buy	3,501	35.1	43.0	51.5	56.3	50.2	41.0	34.2	31.3	5.7	4.9	4.3	3.8	12.4	12.6	13.2	12.6
Bandhan (BANBAN)	241	265	Hold	381	-12.8	0.8	12.9	15.9	-18.8	308.6	18.7	15.2	3.8	2.5	2.2	2.0	-14.6	0.8	11.3	12.6
IDFC First (IDFBAN)	59	70	Buy	370	0.8	0.2	3.4	4.7	74.4	253.4	17.6	12.6	2.1	1.9	1.7	1.5	2.7	0.8	9.5	12.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	3,285	3,559	2,580	27.3	3,002	9.4	Driven by healthy loan growth and margin expansion
NIM (%)	6.36	6.00	5.90	46 bps	5.98	38 bps	Primarily led by repricing of repo linked book
Other Income	1,152	1,006	769	49.9	1,061	8.6	Fee income grew 50% YoY
Net Total Income	4,438	4,565	3,349	32.5	4,064	9.2	
Staff cost	953	978	722	32.0	919	3.7	
Other Operating Expenses	2,224	2,191	1,857	19.8	1,976	12.6	Higher opex on account of increased business volumes
PPP	1,260.8	1,396.1	769.7	63.8	1,168.7	7.9	
Provision	450.2	456.0	391.9	14.9	424.2	6.1	PCR increased to 76.6% vs 67.1% a year ago
PBT	810.5	940.2	377.9	114.5	744.5	8.9	
Tax	205.9	230.3	96.8	112.7	189.0	9.0	
PAT	604.6	709.8	281.1	115.1	555.6	8.8	Healthy top-line leads to strong earnings

Key Metrics

GNPA	4,302.6	4,278.7	4,456.9	-3.5	4,396.2	-2.1	
NNPA	1,464.2	1,604.5	1,914.0	-23.5	1,480.0	-1.1	
Funded Assets	1,52,152	1,51,989	1,21,419	25.3	1,45,362	4.7	Mainly driven by retail segment which was up 36% YoY
Deposits	1,23,578	1,17,571	85,818	44.0	1,14,004	8.4	CASA deposits grew by 39% YoY; CASA ratio at 50%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	11,994	12,220	1.9	14,344	15,032	4.8	18,415
Pre Provision Profit	4,330	4,414	1.9	5,643	6,043	7.1	7,936
NIM calculated (%)	6.1	6.1	7 bps	5.9	6.2	28 bps	6.3
PAT	2,088	2,095	0.3	2,687	2,922	8.8	3,816
ABV (₹)	39.5	35.4	-10.4	39.4	39	-2.0	45

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	22.4	21.6	20.8	19.7	18.9
Deposit Growth (%)	22.9	21.9	22.0	20.5	22.0
CASA ratio (%)	47.3	48.0	48.7	48.2	48.9
NIM Calculated (%)	6.1	6.2	6.3	6.0	6.0
Cost to income ratio (%)	72.7	69.3	66.7	71.8	68.6
GNPA (₹ crore)	4,397.0	4,747.8	5,171.7	6,585.0	4,656.0
NNPA (₹ crore)	1,106.6	1,715.8	1,462.3	1,688.0	1,442.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Interest Earned	17,173	21,380	25,782	30,951
Interest Expended	7,467	9,160	10,750	12,536
Net Interest Income	9,706	12,220	15,032	18,415
Growth (%)	32	26	23	23
Non Interest Income	3,222	3,955	4,668	5,410
Net Income	12,928	16,175	19,700	23,825
Employee cost	2,697	3,445	4,036	4,725
Other operating Exp.	6,948	8,315	9,622	11,164
Operating Income	3,284	4,414	6,043	7,936
Provisions	3,109	1,621	2,120	2,814
PBT	175	2,793	3,923	5,122
Exceptional items	-	-	1.0	1.0
Taxes	46	726	1,020	1,332
Net Profit	146	2,095	2,922	3,816
Growth (%)	(68)	1,339	40	31
EPS (₹)	0.2	3.4	4.7	6.1

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
	FY22	FY23E	FY24E	FY25E
Valuation				
No. of shares (crore)	621.8	621.8	621.8	621.8
EPS (₹)	0.2	3.4	4.7	6.1
DPS (₹)	0.0	0.3	0.4	0.5
BV (₹)	33.8	37.2	41.4	46.9
ABV (₹)	30.8	35.4	38.6	44.6
P/E	252.1	17.5	12.6	9.6
P/BV	1.7	1.6	1.4	1.3
P/ABV	1.9	1.7	1.5	1.3
Yields & Margins (%)				
Net Interest Margins	5.8	6.1	6.2	6.3
Yield on assets	11.1	11.9	12.1	12.3
Avg. cost on funds	5.0	5.4	5.5	5.4
Yield on average advances	9.7	14.2	14.2	14.2
Avg. Cost of Deposits	4.8	4.9	4.8	4.8
Quality and Efficiency (%)				
Cost to income ratio	74.6	72.7	69.3	66.7
Credit/Deposit ratio	111.6	111.1	110.9	109.8
GNPA	3.8	3.0	2.7	2.4
NNPA	1.5	0.8	1.0	0.7
ROE	0.8	9.5	12.0	13.9
ROA	0.1	1.0	1.3	1.4
RWA/assets	2.0	3.0	4.0	5.0
RWA/ NW	551.8	359.0	256.2	197.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	6,218	6,218	6,218	6,218
Reserves and Surplus	14,770	16,887	19,517	22,951
Networth	20,987	23,104	25,735	29,169
Deposits	1,05,634	1,29,784	1,58,226	1,93,012
Borrowings	52,963	50,133	54,561	59,531
Other Liabilities & Provisions	10,581	11,529	12,568	13,707
Total	1,90,166	2,14,551	2,51,090	2,95,418
Application of Funds				
Fixed Assets	1,361	1,457	1,558	1,668
Investments	46,145	50,342	55,490	61,166
Advances	1,17,858	1,44,216	1,75,413	2,11,928
Other Assets	9,060	7,043	5,995	6,758
Cash with RBI & call money	15,758	11,494	12,634	13,900
Total	1,90,182	2,14,551	2,51,090	2,95,418

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(% growth)	FY22	FY23E	FY24E	FY25E
Total assets	16.6	12.8	17.0	17.7
Funded asset	17.2	22.4	21.6	20.8
Deposit	19.1	22.9	21.9	22.0
Total Income	12.2	24.2	20.2	19.4
Net interest income	31.5	25.9	23.0	22.5
Operating expenses	36.0	21.9	16.1	16.3
Operating profit	31.4	34.4	36.9	31.3
Net profit	(67.8)	1,339.4	39.5	30.6
Net worth	17.9	10.1	11.4	13.3
EPS	(71)	1,339	40	31

Source: Company, ICICI Direct Research

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