

BUY **IDFC First Bank****Sticky opex, stable margins cause earnings miss**BFSI - Banks ▶ Result Update ▶ **October 29, 2023****TARGET PRICE (Rs): 98**

IDFCB continues to report strong growth (25% YoY) and stable margins at 6.3%, led by better asset pricing, but lower other income and sticky operational cost (C/I ratio at 72%) caused a 7% miss on earnings estimate, with PAT at Rs7.5bn/RoA of 1.2%. Bank has recently raised capital via QIP (150bps on RWA) and should thus help contain funding cost, which would stabilize margins. However, checking run-away cost is paramount for sustaining higher RoA delivery. Also, amid rising stress in unsecured loans, we believe Bank needs to closely monitor any sign of stress and build sufficient specific provision/contingent buffer to limit future impact on the P&L.

Factoring-in the relatively sticky operational cost and higher LLP amid rising stress in unsecured loans, we cut FY25/26E earnings by 7/16%, but expect the bank to deliver healthy RoA/RoE at ~1.3-1.4%/11-14% over FY24-26E (accounting for the recent capital raise) vs. 0.3-1.1%/3-10% over FY21-23. We retain BUY on the stock, with revised TP of Rs98/share (Rs96 earlier), rolling forward on 1.8x Sep-25E ABV (earlier, 1.7x Jun-25E ABV).

IDFC First Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	1,455	24,371	33,500	43,724	54,051
Loan growth (%)	17.2	28.8	24.9	25.2	24.8
NII growth (%)	31.5	30.2	28.1	21.2	22.7
NIM (%)	5.9	6.3	6.4	6.4	6.3
PPOP growth (%)	31.4	50.2	31.6	35.4	34.5
Adj. EPS (Rs)	0.2	3.7	4.7	6.2	7.7
Adj. EPS growth (%)	(70.6)	1,473.3	28.9	30.5	23.6
Adj. BV (INR)	31.6	37.4	45.6	51.3	58.0
Adj. BVPS growth (%)	9.4	18.3	21.8	12.6	13.0
RoA (%)	0.1	1.1	1.3	1.4	1.4
RoE (%)	0.7	10.4	11.4	12.5	13.6
P/E (x)	367.6	23.4	18.1	13.9	11.2
P/ABV (x)	2.7	2.3	1.9	1.7	1.5

Source: Company, Emkay Research

Strong growth/stable margin, but opex remains elevated

IDFCB continues to report robust credit growth, at 25% YoY/4% QoQ, on the back of sustained acceleration in Retail, Rural and BB. The corporate book too has been on the up-move after the extended deceleration, thus supporting growth. Within Retail, the bank intends to boost the share of mortgages and, hence, the secured loans, in order to de-risk the portfolio; this will also improve the leverage and thus the RoE. Deposit growth was also resilient, at 39% YoY/11% QoQ. Despite the run-up in funding cost, Bank managed to report stable margins due to rising loan yields. Bank has recently raised capital via QIP (150bps on RWA) which should thus help contain funding cost, leading to stable margins. However, quelling the run-away cost (C/I ratio at an intense >70%) is paramount for sustaining higher RoA delivery.

NPA ratio continues to trend down, but Company needs to shore-up its <70% specific PCR and build some counter-cyclical buffers

IDFCB reported a slight increase in absolute GNPA of 4% QoQ, but better credit growth led to slight reduction in the GNPA ratio by 6bps QoQ to 2.1%. Specific PCR remains below 70% (at 68%), which we believe the bank needs to shore it up. Additionally, rising noise on stress build-up in unsecured loans would call for building counter-cyclical buffers, even if it hurts near-term profitability.

We retain BUY with revised TP of Rs98/share

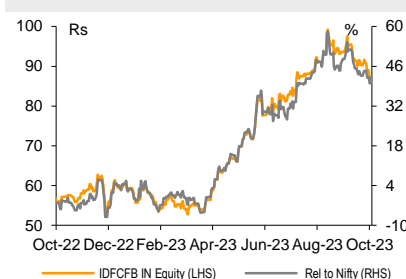
Factoring-in the relatively sticky operational cost and higher LLP amid rising stress in unsecured loans, we have cut our earnings for FY25/26E by 7/16%, but expect the bank to deliver healthy RoA/RoE at ~1.3-1.4%/11-14% over FY24-26E (building-in the recent capital raise) vs. 0.3-1.1%/3-10% over FY21-23. We retain BUY with a revised TP of Rs98/share (Rs96 earlier) rolling forward on 1.8x Sep-25E ABV (earlier 1.7x Jun-25E ABV). Key risks: Macro slowdown hurting growth/asset quality, delay in opex improvement, and KMP attrition.

Target Price – 12M	Sep-24
Change in TP (%)	2.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	13.9
CMP (27-Oct-23) (Rs)	86.1

Stock Data	Ticker
52-week High (Rs)	101
52-week Low (Rs)	52
Shares outstanding (mn)	7,054.9
Market-cap (Rs bn)	607
Market-cap (USD mn)	7,293
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	50
ADTV-3M (Rs mn)	4,523.7
ADTV-3M (USD mn)	54.3
Free float (%)	46.0
Nifty-50	19,047
INR/USD	83.2
Shareholding, Oct-23	
Promoters (%)	37.5
FPIs/MFs (%)	26.1/7.1

Price Performance

(%)	1M	3M	12M
Absolute	(11.8)	4.2	51.5
Rel. to Nifty	(8.7)	7.6	41.1

1-Year share price trend (Rs)**Anand Dama**

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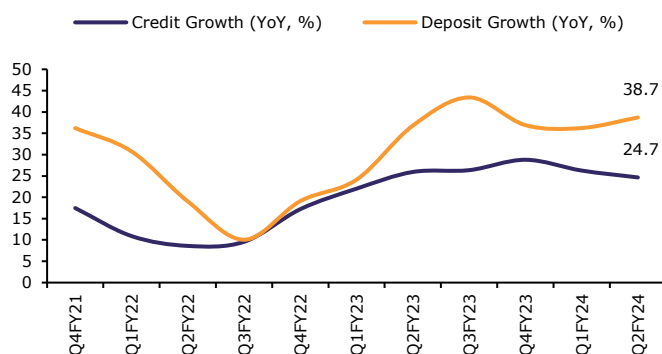
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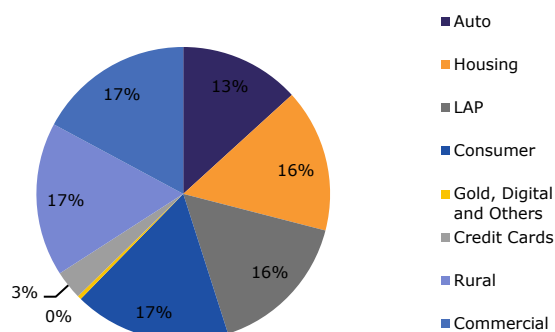
Story in Charts

Exhibit 1: Both credit and deposit growth remain robust for the quarter



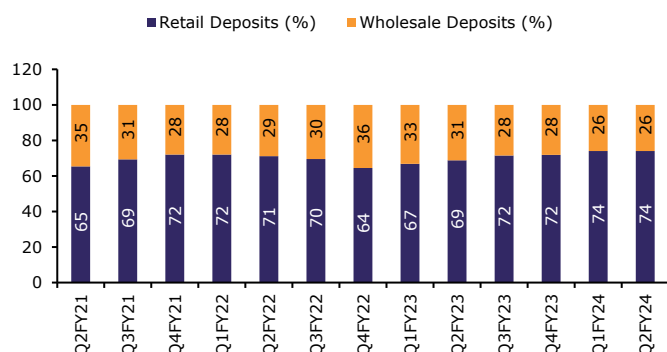
Source: Company, Emkay Research

Exhibit 2: Well diversified loan book, with retail share on the rise



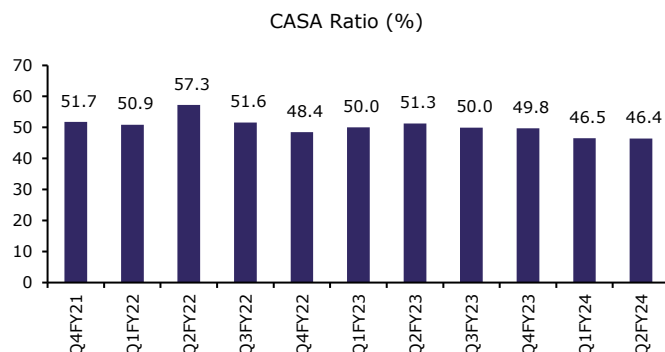
Source: Company, Emkay Research

Exhibit 3: Retail deposits continue to accelerate, improving the granularity of the book



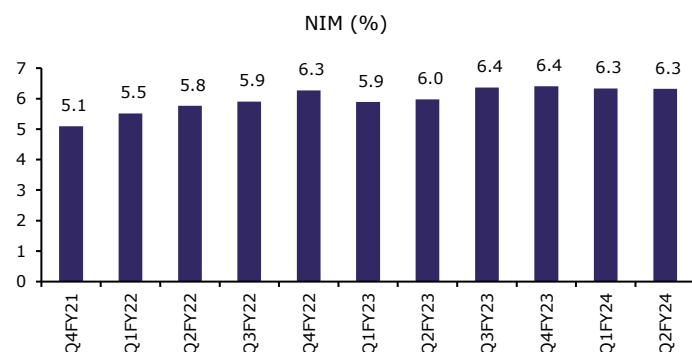
Source: Company, Emkay Research

Exhibit 4: CASA ratio remains relatively subdued



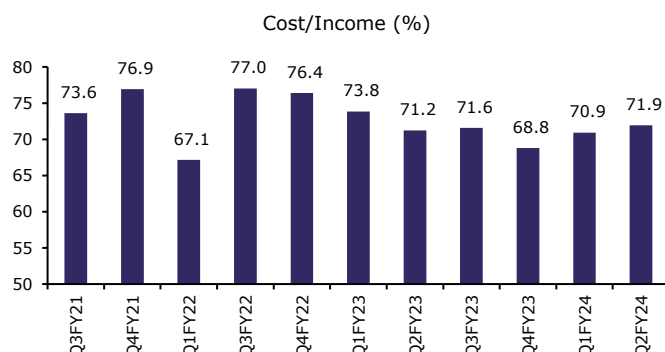
Source: Company, Emkay Research

Exhibit 5: NIMs remain stable owing to better loan yields

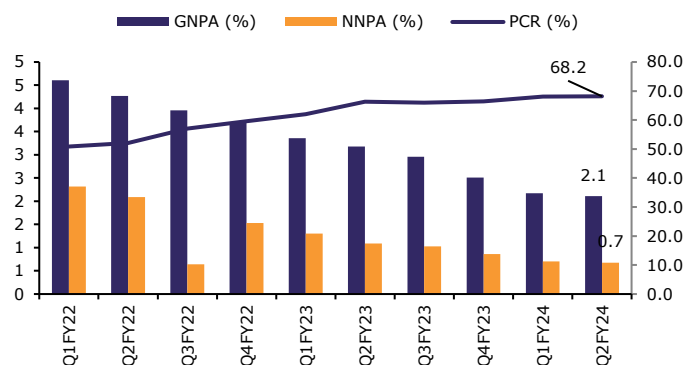


Source: Company, Emkay Research

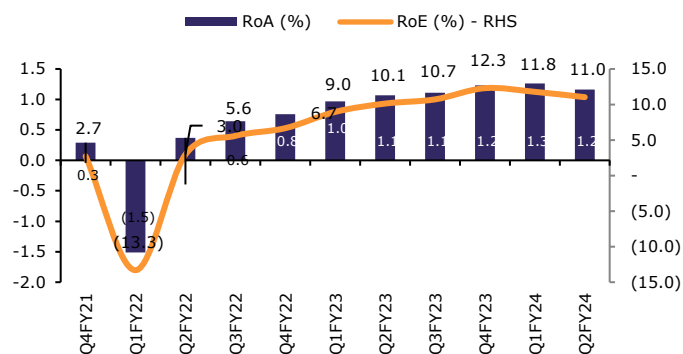
Exhibit 6: Cost-to-income ratio remains high vs peers



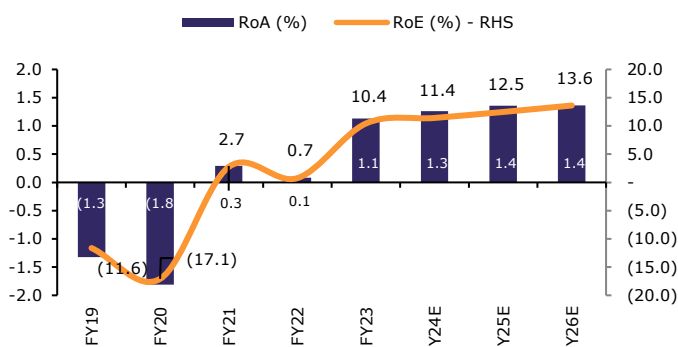
Source: Company, Emkay Research

Exhibit 7: NPAs trend down further; PCR remains relatively low vs peers

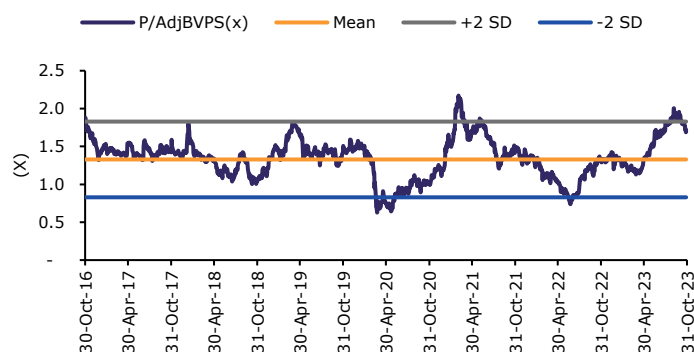
Source: Company, Emkay Research

Exhibit 8: RoA moderates a bit to 1.2%, due to lower other income, sticky cost

Source: Company, Emkay Research

Exhibit 9: Healthy growth/margins to scale-up RoAs/RoEs

Source: Company, Emkay Research

Exhibit 10: The stock trades at 1.8x its one-year forward ABV

Source: Bloomberg, Emkay Research

Exhibit 11: Actuals vs Estimates (Q2FY24)

Actuals (Rs mn)	Estimates		Variation		Comments
	Emkay	Consensus	Emkay	Consensus	
53,798	53,416	53,295	1%	1%	Higher NII led to a beat
15,103	15,586	16,106	-3%	-6%	Higher opex led to a miss
7,513	8,060	8,059	-7%	-7%	Lower PPop along with higher LLP led to a miss

Source: Company, Emkay Research

Exhibit 12: Quarterly Summary

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	54,697	59,118	64,244	68,677	73,562	34	7	2,27,275	3,04,700	34.1
Interest Exp	24,675	26,265	28,276	31,226	34,060	38	9	1,00,922	1,42,892	41.6
Net Interest Income	30,022	32,853	35,968	37,451	39,502	32	5	1,26,353	1,61,808	28.1
Global NIMs (reported)	5.98	6.13	6.41	6.33	6.32	34bps	-1bps	6.26	6.45	19bps
Non-interest Income	10,613	11,525	13,975	14,138	14,296	35	1	44,670	60,283	35.0
Operating Expenses	28,948	31,770	34,356	36,586	38,696	34	6	1,21,704	1,57,205	29.2
Pre Provisioning Profit	11,687	12,608	15,587	15,003	15,103	29	1	49,319	64,887	31.6
Provision & Contingencies	4,242	4,502	4,824	4,762	5,284	25	11	16,648	20,119	20.8
PBT	7,445	8,105	10,762	10,242	9,819	32	-4	32,671	44,768	37.0
Income Tax Expense (Gain)	1,890	2,059	2,736	2,590	2,306	22	-11	8,300	11,268	35.8
Net Profit/(Loss)	5,556	6,046	8,026	7,652	7,513	35	-2	24,371	33,500	37.5
Gross NPA (%)	3.18	2.96	2.51	2.17	2.11	-107bps	-6bps	2.52	1.96	-56bps
Net NPA (%)	1.09	1.03	0.86	0.70	0.67	-42bps	-3bps	0.86	0.59	-26bps
Deposits (Rs in bn)	1,234	1,330	1,446	1,544	1,712	39	11	1,446	1,915	32.4
Net Advances (Rs in bn)	1,402	1,471	1,518	1,674	1,748	25	4	1,518	1,896	24.9

Source: Company, Emkay Research

Exhibit 13: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	2,17,228	2,22,092	2.2%	2,70,007	2,72,899	1.1%	3,33,494	3,37,500	1.2%
PPOP	65,726	64,887	-1.3%	90,913	87,879	-3.3%	1,23,454	1,18,231	-4.2%
PAT	33,555	33,500	-0.2%	45,010	43,724	-2.9%	60,910	54,051	-11.3%
EPS (Rs)	5.2	4.7	-8.7%	6.7	6.2	-6.8%	9.0	7.7	-14.9%
BV (Rs)	45.7	46.8	2.3%	54.3	52.6	-3.1%	63.0	59.9	-5.0%

Source: Emkay Research

Exhibit 14: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	28.8	24.9	25.2	24.8
Deposit Growth (%)	36.9	32.4	29.9	30.4
NIM (%)	6.3	6.4	6.4	6.3
GNPA (%)	2.5	2.0	1.8	2.0
Credit Cost (%)	1.7	1.3	1.5	1.7

Source: Emkay Research

Exhibit 15: Key ratios and trends

	2QFY22	3QFY22	4QFY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Loans (Rs mn)	11,13,530	11,64,220	11,78,578	13,25,550	14,02,390	14,71,090	15,17,945	16,73,740	17,48,138
Growth YoY (%)	8.6	9.6	17.2	22.0	25.9	26.4	28.8	26.3	24.7
Growth QoQ (%)	2.5	4.6	1.2	12.5	5.8	4.9	3.2	10.3	4.4
Composition (%)									
- Corporate	26.6	24.5	23.7	22.3	21.2	20.3	19.0	18.3	18.7
- SME/BB	8.5	8.7	7.9	27.5	9.1	9.4	12.4	12.9	13.2
- Retail (inc. agri)	58.7	61.6	63.8	65.8	66.4	67.3	68.6	68.8	72.9
Liability Profile & Margin									
CASA (%)	51.3	51.6	48.4	50.0	51.3	50.0	49.8	46.5	46.4
Asset Quality (%)									
GNPA	4.3	4.0	3.7	3.4	3.2	3.0	2.5	2.2	2.1
NNPA	2.1	0.6	1.5	1.3	1.1	1.0	0.9	0.7	0.7
PCR	52.1	57.1	59.5	62.0	66.3	66.0	66.4	68.1	68.2
Restructured	2.9	1.4	1.4	1.4	1.0	0.9	0.6	0.5	0.4
Capital Adequacy									
CAR (%)	15.6	15.4	15.4	15.8	15.4	16.1	16.8	17.0	16.5
Tier I (%)	14.9	14.8	14.8	14.0	13.7	13.5	14.2	13.7	13.5
ROE Decomposition (%)									
NII	5.3	6.0	5.9	5.6	5.8	6.1	6.2	6.1	6.2
Other Income	1.5	1.7	1.8	1.8	1.8	2.1	2.0	2.2	2.1
Treasury	0.3	0.1	(0.0)	(0.1)	0.2	0.1	0.4	0.1	0.1
Net income	7.1	7.7	7.7	7.4	7.9	8.2	8.7	8.5	8.4
Opex	5.5	6.0	5.9	5.5	5.6	5.9	6.0	6.0	6.0
PPOP	1.6	1.8	1.8	1.9	2.3	2.3	2.7	2.5	2.4
Provisions	1.1	0.9	0.8	0.6	0.8	0.8	0.8	0.8	0.8
PBT	0.5	0.9	1.0	1.3	1.4	1.5	1.9	1.7	1.5
Tax	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.4	0.4
ROA	0.4	0.6	0.8	1.0	1.1	1.1	1.4	1.3	1.2
ROE	3.0	5.5	6.6	8.9	10.2	10.8	13.3	11.7	11.1

Source: Company, Emkay Research

IDFC First Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,71,727	2,27,275	3,04,700	3,63,683	4,37,171
Interest Expense	74,665	1,00,922	1,42,892	1,67,516	1,96,513
Net interest income	97,062	1,26,353	1,61,808	1,96,167	2,40,658
NII growth (%)	31.5	30.2	28.1	21.2	22.7
Other income	32,221	44,670	60,283	76,733	96,841
Total Income	1,29,282	1,71,023	2,22,092	2,72,899	3,37,500
Operating expenses	96,444	1,21,704	1,57,205	1,85,020	2,19,268
PPOP	32,838	49,319	64,887	87,879	1,18,231
PPOP growth (%)	31.4	50.2	31.6	35.4	34.5
Core PPOP	26,934	46,054	61,295	83,390	1,12,844
Provisions & contingencies	31,086	16,648	20,119	29,449	46,000
PBT	1,752	32,671	44,768	58,430	72,231
Extraordinary items	0	0	0	0	0
Tax expense	297	8,300	11,268	14,707	18,181
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,455	24,371	33,500	43,724	54,051
PAT growth (%)	(67.8)	1,574.6	37.5	30.5	23.6
Adjusted PAT	1,455	24,371	33,500	43,724	54,051
Diluted EPS (Rs)	0.2	3.7	4.7	6.2	7.6
Diluted EPS growth (%)	(71.6)	1,492.2	28.7	30.5	23.6
DPS (Rs)	0.0	0.0	0.0	0.3	0.4
Dividend payout (%)	0.0	0.0	0.0	4.8	5.2
Effective tax rate (%)	16.9	25.4	25.2	25.2	25.2
Net interest margins (%)	5.9	6.3	6.4	6.4	6.3
Cost-income ratio (%)	74.6	71.2	70.8	67.8	65.0
Shares outstanding (mn)	6,217.7	6,618.1	7,054.9	7,054.9	7,054.9

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	44,691.3	38,844.0	37,575.5	42,860.9	60,879.4
Net NPLs	18,080.7	13,040.3	11,272.7	12,858.3	18,263.8
GNPA ratio (%)	3.7	2.5	2.0	1.8	2.0
NNPA ratio (%)	1.5	0.9	0.6	0.5	0.6
Provision coverage (%)	59.5	66.4	70.0	70.0	70.0
Gross slippages	75,518.8	45,430.0	42,283.3	52,854.1	72,073.8
Gross slippage ratio (%)	6.3	2.9	2.2	2.2	2.4
LLP ratio (%)	3.3	1.7	1.3	1.5	1.7
NNPA to networth (%)	8.4	5.0	3.3	3.4	4.2
Capital adequacy					
Total CAR (%)	15.4	16.8	16.8	16.0	14.7
Tier-1 (%)	0.0	0.0	0.0	0.0	0.0
CET-1 (%)	14.8	14.2	15.3	14.7	13.6
RWA-to-Total Assets (%)	70.6	72.8	72.0	70.0	69.0
Miscellaneous					
Total income growth (%)	12.2	33.3	34.2	20.7	21.3
Opex growth (%)	36.0	26.2	29.2	17.7	18.5
Core PPOP growth (%)	38.6	71.0	33.1	36.0	35.3
PPOP margin (%)	16.1	18.1	17.8	20.0	22.1
PAT/PPOP (%)	4.4	49.4	51.6	49.8	45.7
LLP-to-Core PPOP (%)	115.4	36.1	32.8	35.3	40.8
Yield on advances (%)	13.2	14.4	15.3	14.8	14.2
Cost of funds (%)	5.1	5.6	6.3	6.0	5.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	62,177	66,181	70,549	70,549	70,549
Reserves & surplus	1,47,858	1,91,030	2,59,271	3,00,878	3,52,107
Net worth	2,10,035	2,57,212	3,29,820	3,71,427	4,22,655
Deposits	10,56,344	14,46,373	19,14,929	24,86,843	33,41,462
Borrowings	3,93,858	4,02,935	4,46,647	4,33,248	3,89,923
Interest bearing liab.	14,50,202	18,49,308	23,61,576	29,20,090	37,31,385
Other liabilities & prov.	2,41,579	2,92,897	2,19,772	2,37,093	2,57,551
Total liabilities & equity	19,01,816	23,99,417	29,11,168	35,28,610	44,11,592
Net advances	11,78,578	15,17,945	18,95,665	23,72,457	29,60,459
Investments	4,61,448	6,11,236	7,15,825	8,37,264	10,49,825
Cash, other balances	1,57,579	1,38,980	1,62,684	1,68,529	2,32,701
Interest earning assets	17,97,605	22,68,160	27,74,174	33,78,250	42,42,985
Fixed assets	13,612	20,901	17,041	21,103	26,181
Other assets	90,598	1,10,355	1,19,952	1,29,257	1,42,426
Total assets	19,01,816	23,99,417	29,11,168	35,28,610	44,11,591
BVPS (Rs)	33.8	38.9	46.8	52.6	59.9
Adj. BVPS (INR)	31.6	37.4	45.6	51.3	58.0
Gross advances	12,05,189	15,43,749	19,21,967	24,02,459	30,03,074
Credit to deposit (%)	111.6	104.9	99.0	95.4	88.6
CASA ratio (%)	48.4	49.8	44.2	43.7	43.9
Cost of deposits (%)	4.4	5.0	5.8	5.6	5.4
Loans-to-Assets (%)	62.0	63.3	65.1	67.2	67.1
Net advances growth (%)	17.2	28.8	24.9	25.2	24.8
Deposit growth (%)	19.1	36.9	32.4	29.9	34.4
Book value growth (%)	7.7	15.1	20.3	12.6	13.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	367.6	23.4	18.1	13.9	11.2
P/B (x)	2.7	2.3	1.9	1.7	1.5
P/ABV (x)	2.7	2.3	1.9	1.7	1.5
P/PPOP (x)	16.3	11.5	9.4	6.9	5.1
Dividend yield (%)	0.0	0.0	0.0	0.3	0.5
DuPont-RoE split (%)					
NII/avg assets	5.5	5.9	6.1	6.1	6.1
Other income	1.8	2.1	2.3	2.4	2.4
Fee income	1.4	1.8	1.9	2.1	2.1
Opex	5.5	5.7	5.9	5.7	5.5
PPOP	1.9	2.3	2.4	2.7	3.0
Core PPOP	1.5	2.1	2.3	2.6	2.8
Provisions	1.8	0.8	0.8	0.9	1.2
Tax expense	0.0	0.4	0.4	0.5	0.5
RoA (%)	0.1	1.1	1.3	1.4	1.4
Leverage ratio (x)	9.1	9.2	9.0	9.2	10.0
RoE (%)	0.7	10.4	11.4	12.5	13.6
Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	30,022	32,853	35,968	37,451	39,502
NIM (%)	6.0	6.1	6.4	6.3	6.3
PPOP	11,687	12,608	15,587	15,003	15,103
PAT	5,556	6,046	8,026	7,652	7,513
EPS (Rs)	0.89	0.97	1.21	1.16	1.14

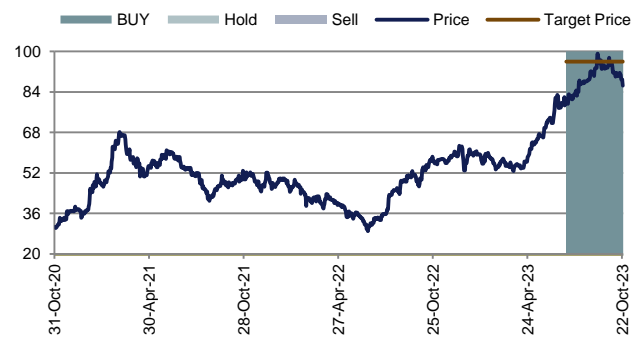
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
30-Jul-23	84	96	Buy	Anand Dama
07-Jul-23	80	96	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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SELL	Below -5%

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