

IDFC First Bank

| | |
|-----------------|---|
| Estimate change | ↓ |
| TP change | ↓ |
| Rating change | ↔ |

| | |
|-----------------------|-------------|
| Bloomberg | IDFCFB IN |
| Equity Shares (m) | 7316 |
| M.Cap.(INRb)/(USDb) | 490.1 / 5.8 |
| 52-Week Range (INR) | 92 / 65 |
| 1, 6, 12 Rel. Per (%) | -3/-29/-51 |
| 12M Avg Val (INR M) | 3239 |

Financial and Valuation (INR b)

| Y/E March | FY24 | FY25E | FY26E |
|---------------|-------|-------|-------|
| NII | 164.5 | 196.3 | 236.0 |
| OP | 62.4 | 80.5 | 101.8 |
| NP | 29.6 | 24.4 | 40.2 |
| NIM (%) | 6.1 | 6.0 | 6.0 |
| EPS (INR) | 4.3 | 3.5 | 5.7 |
| BV/Sh. (INR) | 45 | 49 | 54 |
| ABV/Sh. (INR) | 44 | 46 | 52 |

Ratios

| | | | |
|---------|------|-----|------|
| RoA (%) | 1.1 | 0.7 | 1.0 |
| RoE (%) | 10.2 | 7.3 | 11.0 |

Valuations

| | | | |
|-----------|------|------|------|
| P/E(X) | 15.2 | 18.9 | 11.5 |
| P/BV (X) | 1.4 | 1.3 | 1.2 |
| P/ABV (X) | 1.5 | 1.4 | 1.3 |

Shareholding Pattern (%)

| As On | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 35.4 | 37.4 | 39.4 |
| DII | 15.3 | 11.7 | 12.4 |
| FII | 19.6 | 21.0 | 21.6 |
| Others | 29.8 | 30.0 | 26.7 |

CMP: INR66

TP: INR73 (+11%)

Neutral

PPoP inline; elevated provisioning drags earnings

Credit cost guidance raised to 2.2-2.25%

- IDFC First Bank (IDFCFB) reported 2QFY25 PAT of INR2b (73% YoY decline, significant miss to MOFSLe) due to a spike in provisions.
- NII grew 21% YoY to INR47.9b (in-line), while margin moderated 4bp QoQ to 6.18%. Opex grew 17.7% YoY to INR45.5b (inline). C/I ratio stood at ~70%.
- Net advances grew 20.7% YoY (6.2% QoQ) while deposits grew 30.6% YoY (6.6% QoQ), with CASA mix improving 230bp QoQ to 48.9%.
- GNPA ratio increased 2bp QoQ to 1.92% while NNPA ratio improved 11bp QoQ to 0.48%. Credit cost was higher, primarily due to the prudent provisioning buffer of INR5.68b.
- We cut our earnings by 18%/5% for FY25E/26E and estimate FY26E RoA/RoE of 1.0%/11.0%. Reiterate Neutral with a revised TP of INR73 (premised on 1.4x FY26E ABV).**

Deposits growth robust; margin moderates 4bp QoQ

- IDFCFB reported 2QFY25 PAT of INR2b (73% YoY decline, significant miss from MOFSLe) due to higher-than-expected provisions. In 1HFY25, earnings declined 42% YoY to INR8.8b and we estimate 2HFY25 earnings to grow 9% YoY to INR15.6b.
- NII grew 21% YoY to INR47.9b (in-line), while the margin moderated 4bp QoQ to 6.18%. Provisions increased 228% YoY to INR17.3b (47% higher than MOFSLe).
- Other income grew 21% YoY to INR17.3b (in-line). Opex grew 17.7% YoY to INR45.5b (in-line). C/I ratio, thus, eased slightly to ~70%. PPoP grew 30% YoY to INR19.6b (in-line). The management expects a C/I ratio of ~65% by FY27.
- On the business front, gross advances grew 21.5% YoY/6.3% QoQ, led by 25% YoY growth in retail finance and 21% growth in SME & Corporate finance. Rural book rose 5.8% QoQ (+13.6% YoY). Within retail, growth was led by vehicle (+8.4% QoQ) and cards (+6.6% QoQ). The share of consumer & rural finance was ~70% as of 2QFY25.
- Deposit growth remained healthy at 30.6% YoY/6.6% QoQ, with CASA mix improving 230bp QoQ to 48.9%. CD ratio moderated 44bp QoQ to 96.2%.
- GNPA ratio increased 2bp QoQ to 1.92% while NNPA ratio improved 11bp QoQ to 0.48%. PCR ratio increased 588bp QoQ to 75.3%. SMA book stood at 0.99% vs 1.01% in 1QFY25. Restructured book declined to 0.23% of funded assets.
- Credit cost was higher, primarily due to a prudent provisioning buffer of INR5.68b created for the MFI business (INR3.15b) and one legacy infrastructure toll road account. Excluding this, credit cost was at 1.8% for the quarter. The bank expects the credit cost to be ~2.25% for the year. Excluding the toll account and MFI, the credit cost is expected to be ~165-175bp.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- The bank's merger was successfully completed in Oct'24. As a result of the merger, INR6.18b was added to the bank's net worth. Considering this as well as 1HFY25 profits, the total CRAR would be 16.60% with CET-I ratio of 14.08%.
- Contingency provisioning for MFI business equates to ~ 99% of the SMA-1+2 portfolio, and is 2.5% of the entire MFI portfolio.
- C/I ratio stood at 70.7% in 1HFY25 and is expected to improve to ~65% by FY27.

Valuation and view: Reiterate Neutral with a revised TP of INR73

IDFCFB reported a weak quarter with elevated provisioning causing a big drag on earnings. NIM moderated 4bp QoQ, though opex was in line with our expectations; this led to a slight easing in the C/I ratio. On the business front, deposit traction continued to remain robust, while CASA mix also witnessed an improvement. Advances growth also remained healthy, led by steady traction across Retail, SME, and Corporate finance. We estimate the C/I ratio to moderate gradually to ~66% by FY27 while it may remain elevated in the near term, primarily due to the need to mobilize deposits at a healthy run rate to further bring down the CD ratio. **We cut our earnings by 18%/5% for FY25E/26E and estimate FY26E RoA/RoE of 1.0%/11.0%. Reiterate Neutral with a revised TP of INR73 (premised on 1.4x FY26E ABV).**

Quarterly performance

| | FY24E | | | | FY25E | | | | FY24 | FY25E | FY25E | V/s |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | Est |
| Net Interest Income | 37.5 | 39.5 | 42.9 | 44.7 | 46.9 | 47.9 | 49.7 | 51.8 | 164.5 | 196.3 | 48.4 | -1% |
| % Change (Y-o-Y) | 36.1 | 31.6 | 30.5 | 24.2 | 25.4 | 21.2 | 15.9 | 16.0 | 30.2 | 19.4 | 22.6 | |
| Other Income | 14.1 | 14.3 | 15.2 | 16.4 | 16.2 | 17.3 | 18.1 | 19.5 | 60.0 | 71.1 | 16.9 | 2% |
| Total Income | 51.6 | 53.8 | 58.0 | 61.1 | 63.1 | 65.2 | 67.8 | 71.4 | 224.5 | 267.5 | 65.3 | 0% |
| Operating Expenses | 36.6 | 38.7 | 42.4 | 44.5 | 44.3 | 45.5 | 47.5 | 49.6 | 162.2 | 186.9 | 45.9 | -1% |
| Operating Profit | 15.0 | 15.1 | 15.6 | 16.6 | 18.8 | 19.6 | 20.3 | 21.8 | 62.4 | 80.5 | 19.4 | 1% |
| % Change (Y-o-Y) | 59.0 | 29.2 | 23.9 | 6.8 | 25.5 | 29.9 | 30.1 | 30.8 | 26.5 | 29.1 | 28.3 | |
| Provisions | 4.8 | 5.3 | 6.5 | 7.2 | 9.9 | 17.3 | 12.2 | 9.1 | 23.8 | 48.6 | 11.8 | 47% |
| Profit before Tax | 10.2 | 9.8 | 9.1 | 9.4 | 8.9 | 2.3 | 8.1 | 12.7 | 38.6 | 31.9 | 7.6 | -70% |
| Tax | 2.6 | 2.3 | 1.9 | 2.2 | 2.1 | 0.3 | 2.0 | 3.1 | 9.0 | 7.5 | 1.9 | -85% |
| Net Profit | 7.7 | 7.5 | 7.2 | 7.2 | 6.8 | 2.0 | 6.1 | 9.5 | 29.6 | 24.4 | 5.7 | -65% |
| % Change (Y-o-Y) | 61.3 | 35.2 | 18.4 | -9.8 | -11.0 | -73.3 | -14.9 | 31.7 | 21.3 | -17.3 | -24.2 | |
| Operating Parameters | | | | | | | | | | | | |
| Deposit (INR b) | 1,544 | 1,712 | 1,825 | 2,006 | 2,097 | 2,236 | 2,374 | 2,547 | 2,006 | 2,547 | 2,222 | 1% |
| Deposit Growth (%) | 36.2 | 38.7 | 37.2 | 38.7 | 35.8 | 30.6 | 30.0 | 27.0 | 38.7 | 27.0 | 29.8 | |
| Loan (INR b) | 1,674 | 1,781 | 1,855 | 1,946 | 2,026 | 2,151 | 2,254 | 2,399 | 1,946 | 2,355 | 2,121 | 1% |
| Loan Growth (%) | 26.3 | 27.0 | 27.3 | 24.4 | 21.0 | 20.7 | 21.5 | 23.3 | 28.2 | 21.0 | 19.1 | |
| Asset Quality | | | | | | | | | | | | |
| Gross NPA (%) | 2.2 | 2.1 | 2.0 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 | 1.9 | 2.1 | 2.0 | |
| Net NPA (%) | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.6 | |
| PCR (%) | 68.1 | 68.2 | 66.9 | 68.8 | 69.4 | 75.3 | 73.7 | 74.3 | 68.8 | 74.3 | 69.6 | |

Source: MOFSL, Company

Quarterly Snapshot

| Profit and Loss (INR b) | FY24 | | | | FY25 | | Change (%) | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | YoY | QoQ |
| Net Interest Income | 37.5 | 39.5 | 42.9 | 44.7 | 46.9 | 47.9 | 21 | 2 |
| Other Income | 14.1 | 14.3 | 15.2 | 16.4 | 16.2 | 17.3 | 21 | 7 |
| Trading profits | 0.7 | 0.5 | 0.5 | 0.3 | 0.2 | 1.1 | 94 | 335 |
| Total Income | 51.6 | 53.8 | 58.0 | 61.1 | 63.1 | 65.2 | 21 | 3 |
| Operating Expenses | 36.6 | 38.7 | 42.4 | 44.5 | 44.3 | 45.5 | 18 | 3 |
| Employee | 11.5 | 11.9 | 12.2 | 13.3 | 13.4 | 14.2 | 20 | 6 |
| Others | 25.1 | 26.8 | 30.2 | 31.2 | 30.9 | 31.3 | 17 | 1 |
| Operating Profits | 15.0 | 15.1 | 15.6 | 16.6 | 18.8 | 19.6 | 30 | 4 |
| Core Operating Profits | 14.3 | 14.6 | 15.1 | 16.3 | 18.6 | 18.6 | 28 | 0 |
| Provisions | 4.8 | 5.3 | 6.5 | 7.2 | 9.9 | 17.3 | 228 | 74 |
| PBT | 10.2 | 9.8 | 9.1 | 9.4 | 8.9 | 2.3 | -77 | -74 |
| Taxes | 2.6 | 2.3 | 1.9 | 2.2 | 2.1 | 0.3 | -87 | -86 |
| PAT | 7.7 | 7.5 | 7.2 | 7.2 | 6.8 | 2.0 | -73 | -71 |
| Balance Sheet | | | | | | | | |
| Loans | 1,674 | 1,781 | 1,855 | 1,946 | 2,026 | 2,151 | 21 | 6 |
| -Growth (%) | 26 | 27 | 27 | 24 | 21 | 21 | -23 | -1 |
| Deposits | 1,544 | 1,712 | 1,825 | 2,006 | 2,097 | 2,236 | 31 | 7 |
| -Growth (%) | 36 | 39 | 37 | 39 | 36 | 31 | -21 | -14 |
| -CASA Deposits | 718 | 795 | 855 | 948 | 977 | 1,093 | 38 | 12 |
| Loan mix | | | | | | | | |
| Retail Finance | 973.3 | 1,046 | 1,114.0 | 1,191.3 | 1,255.9 | 1,307 | 25 | 4 |
| -Home loan | 201.4 | 213 | 211.3 | 223.3 | 246.6 | 255 | 20 | 3 |
| -Vehicle loan | 163.7 | 178 | 182.1 | 208.3 | 218.2 | 237 | 33 | 8 |
| -Consumer + education loan | 236.1 | 250 | 286.1 | 286.6 | 302.2 | 311 | 24 | 3 |
| -Credit card | 38.9 | 43 | 49.5 | 55.5 | 59.4 | 63 | 48 | 7 |
| Rural Finance | 207.4 | 228 | 239.6 | 238.8 | 245.2 | 259 | 14 | 6 |
| SME & Corporate Finance | 497.5 | 524 | 511.3 | 551.2 | 564.9 | 633 | 21 | 12 |
| Infrastructure | 37.6 | 34 | 29.9 | 28.3 | 27.7 | 27 | -21 | -4 |
| Loan mix (%) | | | | | | | | |
| Retail Finance | 56.7 | 57.1 | 58.8 | 59.3 | 60.0 | 58.7 | 163 | -127 |
| -Home loan | 11.7 | 11.6 | 11.1 | 11.1 | 11.8 | 11.5 | -15 | -33 |
| -Vehicle loan | 9.5 | 9.7 | 9.6 | 10.4 | 10.4 | 10.6 | 89 | 20 |
| -Consumer + education loan | 13.8 | 13.6 | 15.1 | 14.3 | 14.4 | 14.0 | 33 | -46 |
| -Credit card | 2.3 | 2.3 | 2.6 | 2.8 | 2.8 | 2.8 | 51 | 1 |
| Rural Finance | 12.1 | 12.5 | 12.6 | 11.9 | 11.7 | 11.6 | -81 | -6 |
| SME & Corporate Finance | 29.0 | 28.6 | 27.0 | 27.4 | 27.0 | 28.4 | -18 | 146 |
| Infrastructure | 2.2 | 1.8 | 1.6 | 1.4 | 1.3 | 1.2 | -64 | -13 |
| Asset Quality | | | | | | | | |
| GNPA | 36.0 | 37.5 | 37.8 | 37.2 | 39.0 | 42.0 | 12 | 7 |
| NNPA | 11.5 | 11.9 | 12.5 | 11.6 | 12.0 | 10.4 | -13 | -13 |
| Asset quality ratios (%) | | | | | | | | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | YpY (bp) | QpQ (bp) |
| GNPA | 2.17 | 2.11 | 2.04 | 1.88 | 1.90 | 1.92 | -19 | 2 |
| NNPA | 0.70 | 0.68 | 0.68 | 0.60 | 0.59 | 0.48 | -20 | -11 |
| PCR (Exc TWO) | 68.1 | 68.2 | 66.9 | 68.8 | 69.4 | 75.3 | 709 | 588 |
| SMA 1&2 | 0.9 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 22 | -2 |
| Credit Cost | 1.3 | 1.3 | 1.6 | 1.6 | 2.2 | 3.5 | 220 | 137 |
| Business ratios (%) | | | | | | | | |
| CASA (Reported) | 46.5 | 46.4 | 46.8 | 47.2 | 46.6 | 48.9 | 250 | 230 |
| Loan/Deposit | 108.4 | 104.0 | 101.6 | 97.0 | 96.6 | 96.2 | -784 | -44 |
| Other income/Total Income | 27.4 | 26.6 | 26.1 | 26.9 | 25.6 | 26.5 | -6 | 87 |
| Cost to Asset | 1.6 | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 | -6 | -4 |
| Cost to Income | 70.9 | 71.9 | 73.1 | 72.8 | 70.2 | 69.9 | -204 | -30 |
| Tax Rate | 25.3 | 23.5 | 21.2 | 23.1 | 23.4 | 12.7 | -1,077 | -1,065 |
| Capitalisation Ratios (%) | | | | | | | | |
| Tier-1 | 13.7 | 13.5 | 14.0 | 13.4 | 13.3 | 13.8 | 35 | 50 |
| -CET-1 | 13.7 | 13.5 | 14.0 | 13.4 | 13.3 | 13.8 | 35 | 50 |
| CAR | 17.0 | 16.5 | 16.7 | 16.1 | 15.9 | 16.4 | -18 | 48 |
| RWA / Total Assets | 75.2 | 75.0 | 80.7 | 78.2 | 78.3 | 79.9 | 494 | 162 |
| LCR | 125.6 | 121.6 | 119.9 | 114.0 | 118.0 | 116.0 | -564 | -200 |
| Profitability ratios (%) | | | | | | | | |
| YoA | 15.6 | 15.9 | 16.3 | 16.0 | 15.9 | 15.4 | -47 | -51 |

| | | | | | | | | |
|----------------------|------|------|------|------|------|------|-----|-----|
| YoF | 13.6 | 13.9 | 14.2 | 13.6 | 14.1 | 13.5 | -32 | -53 |
| CoF* | 6.6 | 6.7 | 6.4 | 6.4 | 6.9 | 6.7 | 1 | -20 |
| Margins | 6.33 | 6.32 | 6.42 | 6.35 | 6.22 | 6.18 | -14 | -4 |
| Other Details | | | | | | | | |
| Branches | 824 | 862 | 897 | 944 | 955 | 961 | 99 | 6 |

*Cost of funds from 3QFY24 is reported, only 1QFY24 and 2QFY24 are calculated by MOFSL.



Highlights from the management commentary

Opening remarks by the management

- The bank's total deposit is ~INR2.2t. 80% of the total deposits are retail in nature.
- Provisions were higher due to MFI and toll road.
- The cost of deposits stood at 6.38% and the cost of fund was at 6.46% in 2QFY24.
- The bank has ~3.1m credit cards issued.
- PAT would be INR6.26b, adjusted for one-off provisions taken prudently against one legacy toll account and the SMA book of the microfinance portfolio.
- 92% of the fee income and other income is from retail banking operations, which is granular and sustainable.
- The CASA ratio stood at 48.8% vs 46.6% in the last quarter.
- The CGFMU portfolio coverage increased to 50% in Sep'24 and the bank plans to increase coverage to >75% by Mar'25.
- The bank has transformed the liability profile in five years from wholesale to retail, in order to diversify the deposit base.

With respect to costs, yields, and margins

- The bank has carried out massive digitalization across all businesses, which is leading to increased income.
- At an overall level, the C/I ratio stood at 70.7% in 1HFY25 and is expected to improve to ~65% by FY27.
- The cost of funds would be ~6.37% if adjusted for legacy high-cost borrowings, which will be replaced by the bank's deposits at a normal rate.
- Fee and other income as a % of total average assets was stable at 2.08% in 1HFY25.
- The C/I ratio in credit cards stood at 99.8% in 1HFY25 and will reduce to ~75% with scale by FY27.
- Improvement in the C/I ratio is expected from retail liabilities.
- The bank has opened 6 branches in the current quarter and is currently at 961 branches.
- RoA/RoE stood at 0.57%/5.15% for 1HFY25. Excluding the additional provisioning in 2QFY25 on one legacy toll account and prudent provisioning on the MFI business, the RoA and RoE would be 0.85% and 7.60% respectively.

With respect to loans and deposits

- Housing finance is growing at 20%, with retail finance growing at 25% YoY.
- Retail deposits have increased from 27% of deposits at the merger to 80% currently, which has significantly stabilized the deposits side.
- The bank has grown its customer deposits by 32% YoY, which was utilized for the repayment of legacy borrowings and the growth of assets.

- The bank reduced the infrastructure loans of the total loan assets from 22% at the merger to only 1.2% currently.
- The bank has improved the mortgage-backed loans % of the total loan assets to 29%.
- The retail and consumer loans as a % of the total loan assets stand at 25% currently.
- 15% of the total loan book is unsecured retail credit.
- The bank has reduced its infrastructure financing portfolio from 19% in Mar'19 to 1.2% of the total funded assets in Sep'24.
- The JLG outstanding portfolio is ~6% of the overall loan book.
- Once the high-cost legacy borrowing gets repaid by FY26, the bank will require the deposits only for growing the book and, therefore, the bank expects deposit requirements to come down going forward.
- LCR stood at ~116% for 2QFY25 and the bank expects this to be >110% for FY25.

Asset quality

- GNPA has come down to 1.9%, while NNPA is 0.48%. The provision coverage at the bank level stood at 75.3%.
- SMA of the retail, rural, and MSME book (incl MFI) stood at 0.99%.
- Provisions for 2QFY25 stood at INR17.3b, primarily on account of a prudent provisioning buffer of INR5.68b created for the MFI business (INR3.15b) and one legacy infrastructure toll road account.
- The bank has made a conservative contingency provision of INR3.15b against the MFI business, equivalent to ~ 99% of the SMA-1+2 portfolio, and is at 2.5% of the entire portfolio in this business segment as of 2QFY25.
- The Maharashtra government withdrew toll charges at the Mumbai Entry Point, which adversely affected its infrastructure customers. The bank took 100% provision and made an additional provision of INR2.53b on a pro-active basis.
- Excluding the provision in the MFI portfolio and the additional provision buffer created on the legacy toll account, the quarterly annualized credit cost for the loan book was 1.8% for 2QFY25.
- Excluding the toll account and MFI, the credit cost is expected to be ~165-175bp going forward.
- GNPA was at 2.08% and NNPA was at 0.61% as of 2QFY24 for the consumer loan book, including unsecured retail credit and consumer durable loans, education loans, etc.
- The toll road account was initially at INR11b and then was left at INR5b, of which 42% was provided earlier and the balance has been provided in this quarter.
- The credit cost on the MFI book is at 6% for 1HFY25 and 7-7.5% for 2QFY25.
- On MFI, the risk weight is at 120%, similar to other banks. SMA book stood at 0.87% excl the JLG book.
- ~0.23% of the funded assets is restructured book. ~95% of the restructured book is secured in nature and the bank holds ~19% provisions on this.
- The significant and growing part of the book, i.e. the Retail, Rural, and SME financing business, has low NPA levels due to the high-quality underwriting, credit bureaus, technology, cash flow-based lending capabilities.

- Gross slippages of the bank stood at ~INR20.30b and net slippages at ~INR13.92b, out of which 40% came from microfinance.
- There has been ~20bp increase in net slippage excluding MFI. Recoveries stood at INR6.38b.

With respect to capital and merger

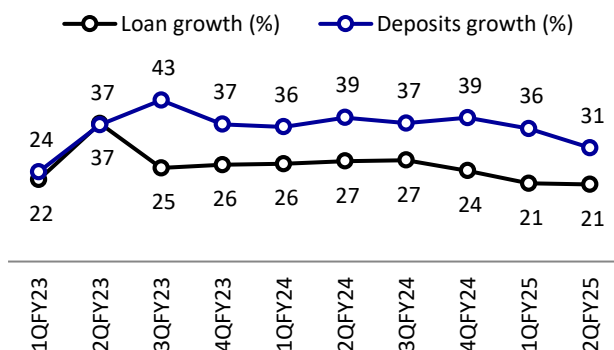
- The bank's merger was successfully completed in Oct'24. As a result of the merger, INR6.18b was added to the bank's net worth. Considering the same and calculated on 2QFY25 numbers, the total CRAR would be 16.60% with the CET-I ratio of 14.08%. ~24bp of relief is due to this, which will come in 3QFY25.
- On the merger, the bank had large and concentrated exposure in infrastructure and corporate loans.
- The bank has run down the portfolio. It is now currently at 1.2% of the total funded book.

Guidance

- CASA + term deposits <INR50m is expected to be ~85% going forward.
- The CASA ratio is expected to be ~50% going forward.
- The C/I ratio is expected to be ~65% by FY27.
- The credit cost is expected to be ~2.25% for the year. Excluding the toll account and MFI, the credit cost is expected to be ~165-175bp.

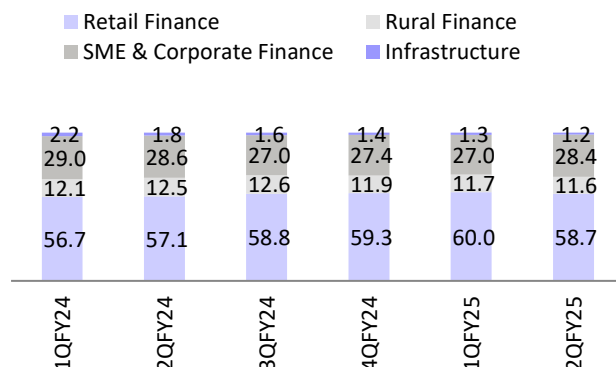
Story in charts

Exhibit 1: Loans/deposits grew 21%/31% YoY



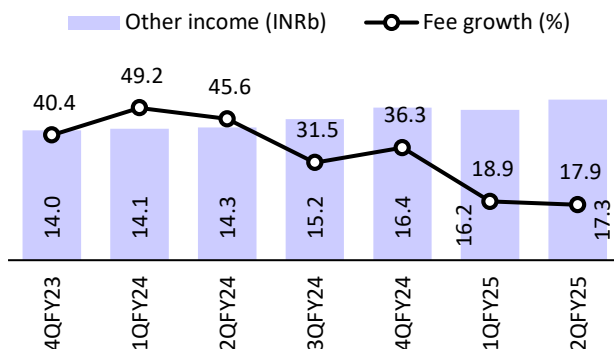
Source: MOFSL, Company

Exhibit 2: Consumer & Rural Finance formed ~70% of the loans



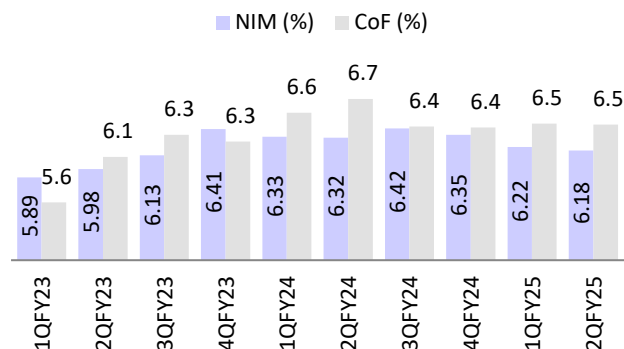
Source: MOFSL, Company

Exhibit 3: Fee income grew 17.9% YoY in 2QFY25



Source: MOFSL, Company

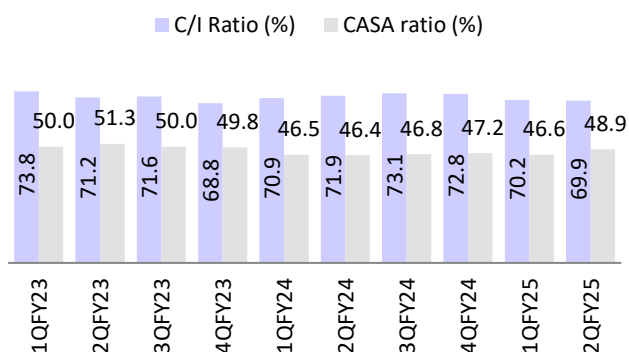
Exhibit 4: NIMs moderated 4bp QoQ to 6.18%



*Cost of funds from 3QFY24 are on a reported basis and NIMs are gross of IBPC.

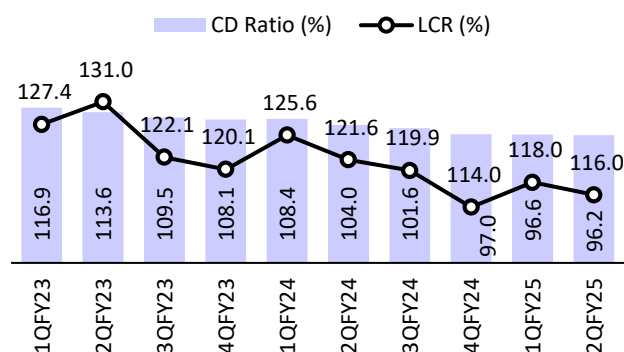
Source: MOFSL, Company

Exhibit 5: C/I ratio moderated to 69.9%; CASA ratio at 48.9%



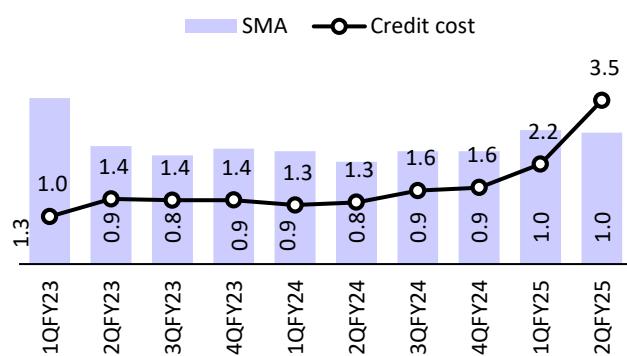
Source: MOFSL, Company

Exhibit 6: CD ratio stood at 96.2%; LCR at 116%



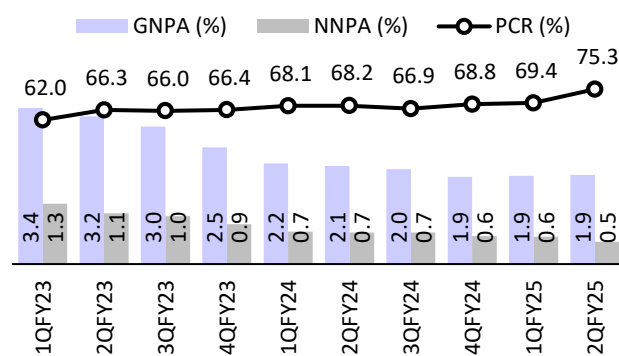
Source: MOFSL, Company

Exhibit 7: Credit cost stood elevated at 3.5%; SMA at 0.99%



Source: MOFSL, Company

Exhibit 8: GNPA/NNPA ratio stood at 1.9%/0.5%; PCR at 75%



Source: MOFSL, Company

Valuation and view: Reiterate Neutral with a revised TP of INR73

- IDFCFB reported a weak quarter with elevated provisioning causing a big drag on earnings. NIM moderated 4bp QoQ, though opex was in line with our expectations; this led to a slight easing in the C/I ratio. On the business front, deposit traction continued to remain robust, while CASA mix also witnessed an improvement. Advances growth also remained healthy, led by steady traction across Retail, SME, and Corporate finance.
- We estimate the C/I ratio to moderate gradually to ~66% by FY27E, while it may remain elevated in the near term, primarily due to the need to mobilize deposits at a healthy run rate to further bring down the CD ratio. Credit cost increased as the bank created a provisioning buffer on account of stress in MFI and one toll road infrastructure account.
- We cut our earnings by 18%/5% for FY25E/26E and estimate FY26E RoA/RoE of 1.0%/11.0%. Reiterate Neutral with a revised TP of INR73 (premised on 1.4x FY26E ABV).

Exhibit 9: Changes to our estimates

Revised estimates

| INR B | Old Est. | | New Est. | | Change (%/bps) | |
|--------------------------|--------------|--------------|--------------|--------------|----------------|-------------|
| | FY25 | FY26 | FY25 | FY26 | FY25 | FY26 |
| Net Interest Income | 199.8 | 237.7 | 196.3 | 236.0 | -1.7 | -0.7 |
| Other Income | 70.2 | 82.2 | 71.1 | 83.2 | 1.3 | 1.3 |
| Total Income | 270.0 | 319.9 | 267.5 | 319.2 | -0.9 | -0.2 |
| Operating Expenses | 188.9 | 217.9 | 186.9 | 217.4 | -1.1 | -0.2 |
| Operating Profits | 81.1 | 102.0 | 80.5 | 101.8 | -0.7 | -0.2 |
| Provisions | 41.1 | 45.7 | 48.6 | 48.2 | 18.1 | 5.4 |
| PBT | 39.9 | 56.3 | 31.9 | 53.6 | -20.0 | -4.8 |
| Tax | 10.0 | 14.1 | 7.5 | 13.5 | -25.1 | -4.8 |
| PAT | 29.9 | 42.2 | 24.4 | 40.2 | -18.3 | -4.8 |
| Loans | 2,362 | 2,858 | 2,355 | 2,849 | -0.3 | -0.3 |
| Deposits | 2,547 | 3,184 | 2,547 | 3,184 | 0.0 | 0.0 |
| Margins (%) | 6.10 | 6.00 | 6.0 | 6.0 | (10) | (4) |
| Credit Cost (%) | 1.90 | 1.70 | 2.3 | 1.8 | 35 | 10 |
| RoA (%) | 0.9 | 1.1 | 0.7 | 1.0 | (17) | (5) |
| RoE (%) | 8.9 | 11.4 | 7.3 | 11.0 | (157) | (35) |
| EPS | 4.2 | 6.0 | 3.5 | 5.7 | -18.3 | -4.8 |
| BV | 49.4 | 55.4 | 48.7 | 54.3 | -1.6 | -1.9 |
| ABV | 47.1 | 52.7 | 46.5 | 51.7 | -1.3 | -1.9 |

Source: MOFSL, Company

Exhibit 10: One-year forward P/E

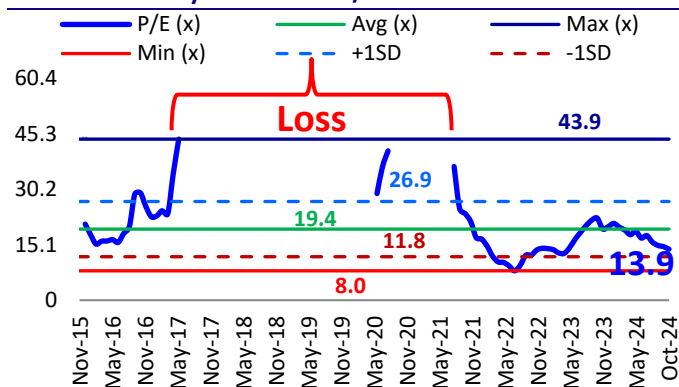


Exhibit 11: One-year forward P/B

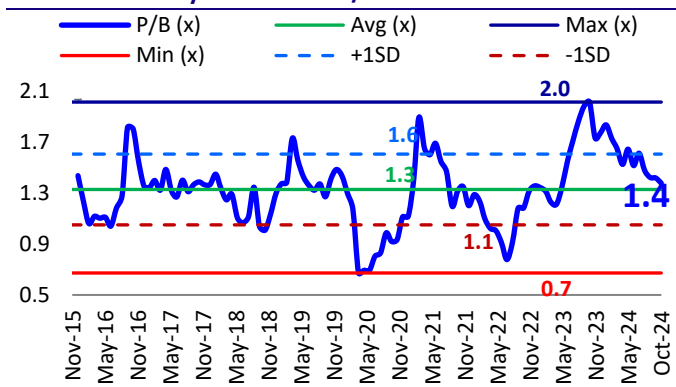


Exhibit 12: DuPont Analysis

| Y/E MARCH | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------------------|-------------|-------------|-------------|------------|-------------|-------------|
| Interest Income | 9.7 | 10.6 | 11.3 | 11.3 | 11.2 | 11.2 |
| Interest Expense | 4.2 | 4.7 | 5.2 | 5.3 | 5.3 | 5.2 |
| Net Interest Income | 5.5 | 5.9 | 6.1 | 6.0 | 6.0 | 5.9 |
| Fee income | -1.3 | 0.6 | 1.5 | 1.6 | 1.6 | 1.7 |
| Trading and others | 3.1 | 1.5 | 0.8 | 0.6 | 0.5 | 0.4 |
| Non Interest income | 1.8 | 2.1 | 2.2 | 2.2 | 2.1 | 2.0 |
| Total Income | 7.3 | 8.0 | 8.4 | 8.2 | 8.1 | 8.0 |
| Operating Expenses | 5.5 | 5.7 | 6.1 | 5.7 | 5.5 | 5.3 |
| Employee cost | 1.5 | 1.7 | 1.8 | 1.7 | 1.7 | 1.6 |
| Others | 3.9 | 3.9 | 4.2 | 4.0 | 3.8 | 3.7 |
| Operating Profit | 1.9 | 2.3 | 2.3 | 2.5 | 2.6 | 2.7 |
| Core Operating Profit | -1.2 | 0.8 | 1.6 | 1.9 | 2.1 | 2.3 |
| Provisions | 1.8 | 0.8 | 0.9 | 1.5 | 1.2 | 1.2 |
| PBT | 0.1 | 1.5 | 1.4 | 1.0 | 1.4 | 1.5 |
| Tax | 0.0 | 0.4 | 0.3 | 0.2 | 0.3 | 0.4 |
| RoA | 0.1 | 1.1 | 1.1 | 0.7 | 1.0 | 1.1 |
| Leverage (x) | 9.1 | 9.2 | 9.3 | 9.8 | 10.9 | 11.6 |
| RoE | 0.7 | 10.4 | 10.2 | 7.3 | 11.0 | 12.6 |

Source: MOFSL, Company

Financials and valuations

| Income Statement | | | | | (INRb) |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
| Interest Income | 227.3 | 303.2 | 369.6 | 444.1 | 530.7 |
| Interest Expense | 100.9 | 138.7 | 173.3 | 208.1 | 249.5 |
| Net Interest Income | 126.4 | 164.5 | 196.3 | 236.0 | 281.2 |
| -growth (%) | 30.2 | 30.2 | 19.4 | 20.2 | 19.2 |
| Non Interest Income | 44.7 | 60.0 | 71.1 | 83.2 | 97.4 |
| Total Income | 171.0 | 224.5 | 267.5 | 319.2 | 378.5 |
| -growth (%) | 32.3 | 31.3 | 19.1 | 19.3 | 18.6 |
| Operating Expenses | 121.7 | 162.2 | 186.9 | 217.4 | 251.1 |
| Pre Provision Profits | 49.3 | 62.4 | 80.5 | 101.8 | 127.4 |
| -growth (%) | 50.2 | 26.5 | 29.1 | 26.4 | 25.2 |
| Core PPOp | 46.1 | 60.3 | 78.6 | 100.0 | 125.7 |
| -growth (%) | 68.6 | 30.8 | 30.3 | 27.2 | 25.7 |
| Provisions (excl tax) | 16.6 | 23.8 | 48.6 | 48.2 | 58.4 |
| PBT | 32.7 | 38.6 | 31.9 | 53.6 | 69.0 |
| Tax | 8.3 | 9.0 | 7.5 | 13.5 | 17.3 |
| Tax Rate (%) | 25.4 | 23.3 | 23.5 | 25.1 | 25.1 |
| PAT | 24.4 | 29.6 | 24.4 | 40.2 | 51.7 |
| -growth (%) | 1,575.3 | 21.3 | -17.3 | 64.3 | 28.8 |
| Balance Sheet | | | | | |
| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
| Equity Share Capital | 66.2 | 70.7 | 70.7 | 70.7 | 70.7 |
| Reserves & Surplus | 190.7 | 250.3 | 273.4 | 313.5 | 365.2 |
| Net Worth | 256.8 | 321.0 | 344.1 | 384.2 | 435.9 |
| Deposits | 1,446.4 | 2,005.8 | 2,547.3 | 3,184.1 | 3,948.3 |
| -growth (%) | 36.9 | 38.7 | 27.0 | 25.0 | 24.0 |
| -CASA Dep | 719.8 | 947.7 | 1,220.2 | 1,537.9 | 1,914.9 |
| -growth (%) | 40.7 | 31.7 | 28.8 | 26.0 | 24.5 |
| Borrowings | 572.1 | 509.4 | 565.0 | 610.0 | 658.5 |
| Other Liabilities & Prov. | 123.7 | 124.4 | 130.6 | 139.8 | 151.0 |
| Total Liabilities | 2,399.0 | 2,960.6 | 3,587.1 | 4,318.1 | 5,193.8 |
| Current Assets | 139.0 | 124.8 | 177.4 | 216.3 | 262.6 |
| Investments | 611.2 | 747.1 | 911.5 | 1,097.4 | 1,327.9 |
| -growth (%) | 32.5 | 22.2 | 22.0 | 20.4 | 21.0 |
| Loans | 1,517.9 | 1,945.9 | 2,354.6 | 2,849.0 | 3,435.9 |
| -growth (%) | 28.8 | 28.2 | 21.0 | 21.0 | 20.6 |
| Fixed Assets | 20.9 | 26.2 | 32.6 | 40.7 | 50.7 |
| Other Assets | 110.4 | 117.1 | 111.0 | 114.8 | 116.7 |
| Total Assets | 2,399.4 | 2,961.2 | 3,587.1 | 4,318.1 | 5,193.8 |
| Asset Quality | | | | | |
| | FY23 | FY24 | FY25E | FY26E | FY27E |
| GNPA | 38.8 | 37.2 | 49.5 | 60.8 | 69.7 |
| NNPA | 13.0 | 11.6 | 12.8 | 15.5 | 18.0 |
| GNPA Ratio (%) | 2.6 | 1.9 | 2.1 | 2.1 | 2.0 |
| NNPA Ratio (%) | 0.9 | 0.6 | 0.5 | 0.5 | 0.5 |
| Slippage Ratio (%) | 3.4 | 3.0 | 3.6 | 3.1 | 2.8 |
| Credit Cost (%) | 1.2 | 1.4 | 2.3 | 1.8 | 1.8 |
| PCR (Excl Tech. write off) (%) | 66.4 | 68.8 | 74.3 | 74.5 | 74.1 |

E: MOFSL Estimates

Financials and valuations

Ratios

| Y/E March | FY23 | FY24 | FY25E | FY26E | FY27E |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Yield and Cost Ratios (%) | | | | | |
| Avg. Yield-Earning Assets | 11.2 | 11.9 | 11.8 | 11.7 | 11.6 |
| Avg. Yield on loans | 14.2 | 15.0 | 14.5 | 14.4 | 14.2 |
| Avg. Yield on Investments | 6.1 | 6.1 | 6.9 | 6.9 | 6.9 |
| Avg. Cost-Int. Bear. Liab. | 5.6 | 6.1 | 6.2 | 6.0 | 5.9 |
| Avg. Cost of Deposits | 5.0 | 5.9 | 6.0 | 5.9 | 5.8 |
| Interest Spread | 9.2 | 9.1 | 8.5 | 8.5 | 8.4 |
| Net Interest Margin | 6.5 | 6.8 | 6.5 | 6.4 | 6.4 |
| Capitalisation Ratios (%) | | | | | |
| CAR | 16.8 | 16.1 | 16.6 | 15.5 | 14.7 |
| Tier I | 14.2 | 13.4 | 13.6 | 12.8 | 12.3 |
| -CET-1 | 14.2 | 13.4 | 13.6 | 12.8 | 12.3 |
| Tier II | 2.6 | 2.8 | 3.0 | 2.7 | 2.3 |
| Business Ratios (%) | | | | | |
| Loans/Deposit Ratio | 104.9 | 97.0 | 92.4 | 89.5 | 87.0 |
| CASA Ratio | 49.8 | 47.2 | 47.9 | 48.3 | 48.5 |
| Cost/Assets | 5.1 | 5.5 | 5.2 | 5.0 | 4.8 |
| Cost/Total Income | 71.2 | 72.2 | 69.9 | 68.1 | 66.3 |
| Cost/Core Income | 72.5 | 72.9 | 70.4 | 68.5 | 66.6 |
| Int. Expense/Int.Income | 44.4 | 45.7 | 46.9 | 46.9 | 47.0 |
| Fee Income/Total Income | 24.3 | 25.8 | 25.9 | 25.5 | 25.3 |
| Non Int. Inc./Total Income | 26.1 | 26.7 | 26.6 | 26.1 | 25.7 |
| Empl. Cost/Total Expense | 30.7 | 30.2 | 30.1 | 30.0 | 29.9 |
| Efficiency Ratios (INRm) | | | | | |
| CASA per branch | 889.8 | 1,003.9 | 2,033.6 | 2,563.2 | 3,191.6 |
| Employee per branch (in nos) | 43.7 | 43.6 | 75.4 | 84.5 | 94.6 |
| Staff exp per employee | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Busi. per Empl. | 83.8 | 96.1 | 108.3 | 119.0 | 130.1 |
| NP per Empl. | 0.7 | 0.7 | 0.5 | 0.8 | 0.9 |

Profitability Ratios and Valuation

| | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|------------|
| RoE | 10.4 | 10.2 | 7.3 | 11.0 | 12.6 |
| RoA | 1.1 | 1.1 | 0.7 | 1.0 | 1.1 |
| RoRWA | 1.6 | 1.5 | 1.0 | 1.4 | 1.5 |
| Book Value (INR) | 39 | 45 | 49 | 54 | 62 |
| -growth (%) | 15.0 | 17.0 | 7.2 | 11.7 | 13.5 |
| Price-BV (x) | 1.7 | 1.4 | 1.3 | 1.2 | 1.1 |
| Adjusted BV (INR) | 37 | 44 | 46 | 52 | 59 |
| Price-ABV (x) | 1.8 | 1.5 | 1.4 | 1.3 | 1.1 |
| EPS (INR) | 3.8 | 4.3 | 3.5 | 5.7 | 7.3 |
| -growth (%) | 1,452.3 | 13.8 | -20.0 | 64.3 | 28.8 |
| Price-Earnings (x) | 17.2 | 15.2 | 18.9 | 11.5 | 9.0 |
| Dividend Per Share (INR) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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|----------------------------------|--|
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| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
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