

IDFC First Bank Ltd.

25th Oct 2022

Double-digit ROE led by strong growth in PAT driven by loan growth

IDFC First Bank Ltd (IDFCFB) reported a strong growth of 6% on Q-o-Q and 26% on a Y-o-Y basis in the loan book during the quarter. Both the retail and corporate segment contributed to the growth. In the retail segment, home loans, auto loans, credit cards, and digital & gold loans grew by >10% on a Q-o-Q basis. Deposits have soared by 9% & 37% on Q-o-Q and Y-o-Y basis, respectively. With consistent improvement in asset quality, the Company's ROE has jumped from ~3% in Q2FY22 to ~10% in Q2FY23. PAT surged by 17% Q-o-Q and 266% Y-o-Y in Q2FY23.

Strong growth in loan book and deposits

IDFCFB reported strong growth of 9% Q-o-Q and 37% Y-o-Y in deposits, led by an increase in CASA deposits by 12% Q-o-Q and 37% Y-o-Y during the quarter. Despite lowering the interest rate, the CASA ratio stood stable at 51.3% in Q2FY23.

In the loan book, credit card and digital & gold loans saw a staggering 119% & 134% growth Y-o-Y in Q2FY23, respectively. This growth was due to a lower base. The contribution of digital & gold loans to the total loan book increased from 4% in Q2FY22 to 7% in Q2FY23. The target to reduce the infrastructure financing book is on track, and it decreased from 9% in Q2FY22 to 4% in Q2FY23.

Improvement in Cost to Income ratio

IDFCFB has improved its cost-to-income ratio from 77.3% in Q2FY22 to 73.3% in Q2FY23. Management expects the cost-to-income ratio to decrease due to normalizing operating costs, paying off high-cost liabilities, and traction in the credit card business.

Improvement in asset quality

IDFCFB is continuously showing improvement in asset quality. The significant and growing part of the book, i.e., the retail and commercial business financing, which forms 75% of the loan book, has a ~2% gross NPA in Q2FY23. Asset quality in the corporate book is also strong, with adequate PCR of 98%. The Bank expects the infrastructure book to wind down and gross retail NPA to fall below 2%.

Return ratios uptick on track

As per management guidance, to reach double-digit ROE and 1% ROA by the end of FY23. The Bank has achieved an ROE of 10.1% and a ROA of 1.1% in the quarter. The improvement in return ratios is led by 32% Y-o-Y growth in NII and a de-growth of 11% in provision. This led to a mammoth 266% surge in PAT during Q2FY23. The Bank expects return ratios to improve further based on improvement in operating leverage.

View & Valuation

We maintain our view on IDFC First Bank Ltd with a BUY rating and a target price of Rs. 81 (2.5x FY24E Adj. book value). We expect the Bank to grow its loan book at 20-25% with stable NIM of 6%. Normalization of asset quality will lead to lesser mishaps and improved profitability growth, leading to improved return ratios.

BUY

CMP Rs. 56.5

TARGET Rs. 81 (+43.4%)

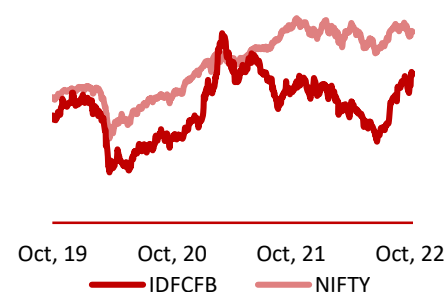
Company Data

MCAP (Rs. Mn)	3,51,816
O/S Shares (Mn)	6,219
52w High/Low	59 / 29
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	2,245

Shareholding Pattern %

	Sep 22	Jun 22	Mar 22
Promoters	36.47	36.48	36.49
FIIs	19.28	10.99	13.48
DIIIs	9.83	14.38	13.78
Non-Institutional	34.41	38.14	36.24

IDFC First Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
NII	97,062	1,14,969	1,35,061
PPOP	32,838	42,814	56,847
Net Profit	1,455	17,194	28,051
Advances	11,78,578	14,73,223	17,67,867
ROE (%)	0.7%	7.6%	11.0%
ROA (%)	0.1%	0.8%	1.1%

Source: Company, Keynote Capitals Ltd. estimates

Devin Joshi, Research Analyst

Devin@keynoteindia.net

IDFC First Bank Ltd. | Quarterly Update

Result Highlight (Rs. Mn)

Particulars	Q2FY23	Q2FY22	Change % (Y-o-Y)	Q1FY23	Change % (Q-o-Q)	H1FY23	H1FY22	Change % (Y-o-Y)	FY22
Net Interest Income	30,020	22,720	32%	27,510	9%	57,530	44,570	29%	97,062
Other Income	10,610	7,800	36%	8,550	24%	19,170	16,220	18%	32,220
Net Income	40,630	30,520	33%	36,060	13%	76,700	60,790	26%	1,29,282
Expenses									
Operating Expense	28,950	23,590	23%	26,630	9%	55,580	43,920	27%	96,444
Pre-provision Operating Profit	11,680	6,930	69%	9,430	24%	21,120	16,870	25%	32,838
Provisions	4,240	4,750	(11%)	3,080	38%	7,320	23,470	(69%)	31,086
EBT	7,440	2,180	241%	6,350	17%	13,800	(6,600)	-	1,752
Tax	1,890	660	186%	1,620	17%	3,500	(1,810)	-	297
PAT	5,550	1,520	265%	4,730	17%	10,300	(4,790)	-	1,455

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2FY23	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	63%	65%	62%	63%	66%	66%	26%	6%
Home loan	10%	10%	10%	11%	11%	12%	40%	10%
Loan Against Property	13%	14%	14%	14%	14%	13%	18%	1%
MSME Loans	9%	9%	10%	10%	10%	10%	42%	7%
Auto Loans	9%	9%	8%	8%	8%	9%	23%	11%
Consumer Loans	12%	12%	13%	13%	14%	13%	34%	-1%
Credit Card	1%	1%	1%	2%	2%	2%	119%	17%
Rural Finance	6%	6%	0%	0%	0%	0%	-	-
Digital, Gold Loan and Others	3%	4%	6%	6%	7%	7%	134%	18%
Corporates	19%	18%	18%	18%	17%	17%	18%	4%
Infrastructure	9%	9%	7%	5%	5%	4%	(41%)	(11%)
Others	9%	8%	5%	5%	4%	3%	(50%)	(15%)
Commercial Finance	0%	0%	9%	9%	8%	9%	-	23%
Total Funded Assets (Rs. Bn)	11,380	11,727	12,222	13,195	13,766	14,536	24%	6%

Source: Company, Keynote Capitals Ltd.

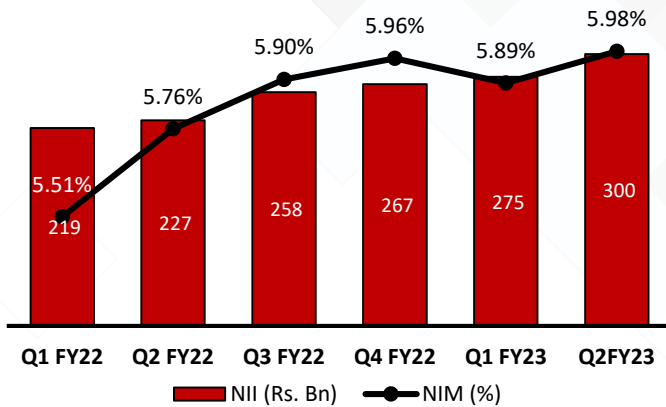
Deposits mix

Particulars	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2FY23	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	50.9%	51.3%	51.6%	48.4%	50.0%	51.3%	37%	12%
Term Deposits	42.1%	41.7%	40.9%	39.8%	40.7%	41.1%	35%	10%
Certificate of Deposits	7.0%	7.0%	7.5%	11.8%	9.2%	7.6%	49%	(10%)
Total Deposits (Rs. Bn)	9,131	9,023	9,277	10,563	11,335	12,344	37%	9%

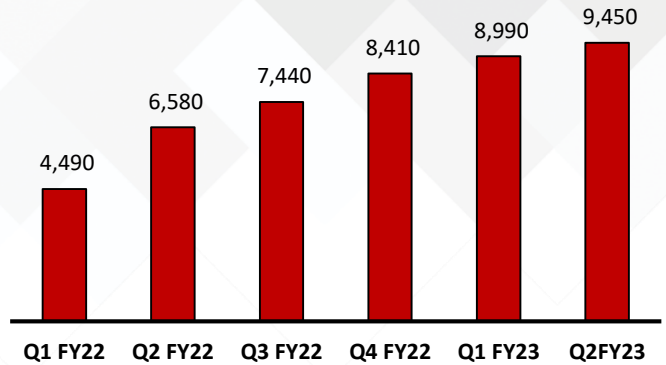
Source: Company, Keynote Capitals Ltd.

IDFC First Bank Ltd. | Quarterly Update

Q-o-Q improvement in NIM (%)

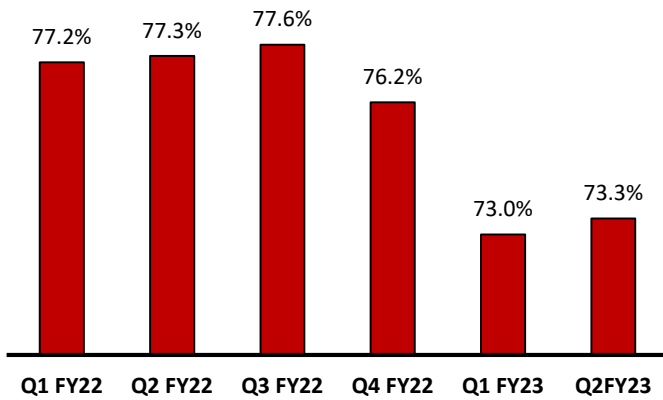


Continuous rise in Fee & Other Income (Rs. Mn) of which 92% comes from retail and banking operation in Q2FY23



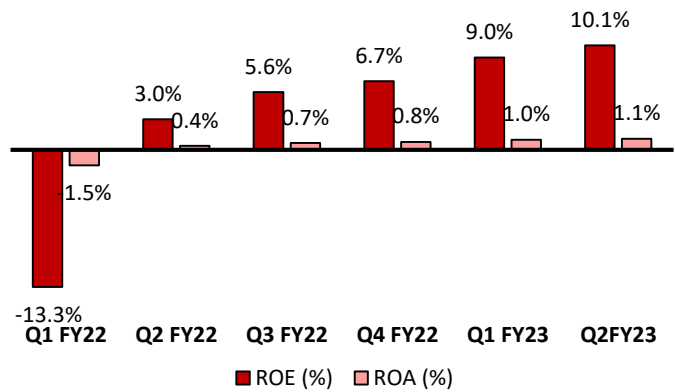
Source: Company, Keynote Capitals Ltd.

Q-o-Q improvement in Cost to Income ratio

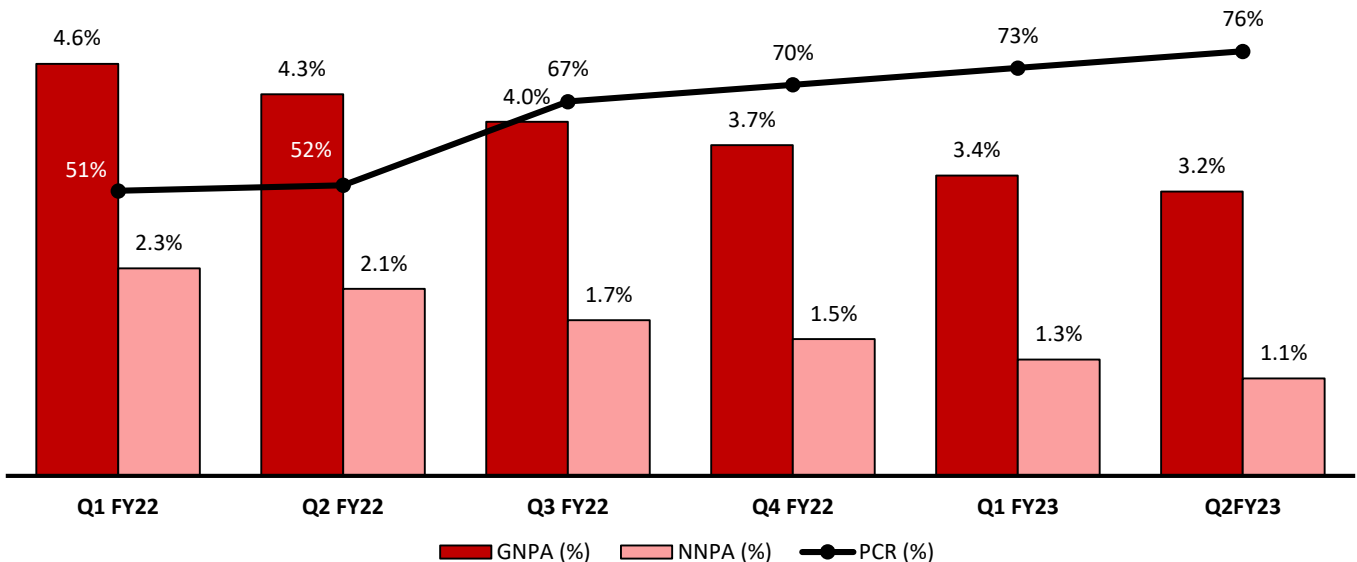


Source: Company, Keynote Capitals Ltd.

Q-o-Q improvement in return ratios



Continuous improvement in asset quality



Source: Company, Keynote Capitals Ltd.

Q2FY23 Conference Call Takeaways

- Management expects 25% growth in the loan book.
- The Bank needs CASA for two reasons; a) 20-25% loan growth requires deposits, b) to pay off the legacy bonds and borrowings.
- Management expects a 50% growth in operating profit in FY23.
- Restructured book as a percentage of total funded assets has reduced to 1% in Q2FY23 compared to 1.3% in Q1FY23.
- The credit cost as a percentage of average funded assets for Q2FY23 is 1.2%, which is lower than the management guidance of 1.5% for FY23.
- Bank expects ROE and ROA to improve further, driven by improvement in operating leverage.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Interest Income	73,803	97,062	1,14,969	1,35,061	1,60,877
Other Income	22,113	32,220	37,940	51,323	64,351
Net Income	95,916	1,29,282	1,52,908	1,86,385	2,25,228
Operating Expenses	70,933	96,444	1,10,094	1,29,537	1,50,903
Pre Provision Operating Profit	24,983	32,838	42,814	56,847	74,325
Provisions	20,225	31,086	19,889	19,447	19,447
Profit Before Tax	4,758	1,752	22,926	37,401	54,879
Tax	235	297	5,731	9,350	13,720
Profit After Tax	4,523	1,455	17,194	28,051	41,159

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	56,758	62,347	62,340	62,340	62,340
Reserves & Surplus	1,21,319	1,47,697	1,64,889	1,92,940	2,34,099
Networth	1,78,078	2,10,044	2,27,229	2,55,280	2,96,439
Deposits	8,86,884	10,56,344	13,27,227	15,37,276	17,67,867
Borrowings	4,57,861	5,29,626	5,45,959	6,09,678	8,06,260
Other Liabilities & Provisions	1,08,615	1,05,812	1,08,962	1,11,909	1,15,444
Total Liabilities	16,31,438	19,01,825	22,09,378	25,14,143	29,86,010
ASSETS					
Cash and Balance	58,279	1,57,579	1,62,868	1,77,671	2,25,245
Investments	4,54,117	4,61,448	4,63,549	4,56,868	5,25,572
Advances	10,05,501	11,78,578	14,73,223	17,67,867	21,21,440
Fixed Assets & Others	1,13,542	1,04,211	1,09,730	1,11,730	1,13,740
Total Assets	16,31,439	19,01,816	22,09,380	25,14,136	29,86,007

Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Growth YoY (%)					
Advance Growth (%)	17.5%	17.2%	25.0%	20.0%	20.0%
Deposit Growth (%)	36.2%	19.1%	25.6%	15.8%	15.0%
NII Growth (%)	21.5%	31.5%	18.4%	17.5%	19.1%
PPOP Growth (%)	29.0%	31.4%	30.4%	32.8%	30.7%
Ratios					
NIM (%)	5.1%	5.9%	5.9%	6.0%	6.1%
Cost to Income Ratio	74.0%	74.6%	72.0%	69.5%	67.0%
C/D Ratio	113.4%	111.6%	111.0%	115.0%	120.0%
CASA Ratio (%)	51.7%	48.4%	49.5%	50.0%	50.0%
ROE (%)	2.5%	0.7%	7.6%	11.0%	13.9%
ROA (%)	0.3%	0.1%	0.8%	1.1%	1.4%
Asset Quality					
GNPA	4.3%	3.8%	3.2%	3.0%	2.8%
NNPA	1.9%	1.5%	1.3%	1.2%	1.1%
PCR (%)	56.2%	59.5%	59.4%	60.0%	60.7%
Credit Cost (%)	3.1%	3.2%	1.5%	1.2%	1.0%
Valuation					
Book Value Per Share		33.8	36.5	41.0	47.7
Adjusted Book Value Per Share		26.6	29.0	32.5	38.1
P/BV (x)		1.7	1.5	1.4	1.2
Price-ABV (x)		2.1	1.9	1.7	1.5

Note: Price is taken as of 25th Oct 2022

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 th Oct 2022	BUY	55.7	+45.6%
25 th Oct 2022	BUY	56.5	+43.4%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.