

IDFC First Bank Ltd.

2nd May 2023

Continues to deliver on all parameters

IDFC First Bank Ltd (IDFCFB) reported strong loan book growth of 6% on Q-o-Q and 24% on a Y-o-Y basis during the quarter, with the retail loan book growing ahead of the overall loan book by 8% Q-o-Q and 32% Y-o-Y. In the retail segment, home loans, auto loans, credit cards, rural finance, commercial finance, and digital & gold loans grew by >5% on a Q-o-Q basis. Deposits rallied 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 ~6.7% in Q4FY22 to ~13.5% in Q4FY23. PAT surged by 33% Q-o-Q and 134% Y-o-Y in Q3FY23.

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 8% Q-o-Q and 41% Y-o-Y during the quarter. The CASA ratio stood stable at 49.8% in Q4FY23.

In the loan book, the Company saw strong growth in all product segments, with a 74%, 53%, and 50% Y-o-Y increase in credit card, auto loans, and digital & gold loans, respectively, in Q4FY23. The target to reduce the infrastructure financing book is on track, as it decreased from 5% in Q4FY22 to 3% in Q4FY23.

Improvement in Cost to Income ratio

IDFCFB has improved its cost-to-income ratio from 77.8% in Q4FY22 to 72.5% in Q4FY23. The businesses that are worsening the overall cost-to-income ratios are liabilities and credit cards, as the Bank is in the setup stage. The Bank believes that as these businesses get scale cost-to-income ratio naturally comes down.

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 81% of the loan book, has less than 2% gross NPA in Q4FY23. Asset quality in the corporate book is also strong, with adequate PCR of 99.8%. The Bank expects to weed out the infrastructure book and maintain a gross retail NPA below 2%.

Return ratios uptick on track

As guided by the management, the bank achieved a double-digit ROE and ROA greater than 1% in FY23, as evidenced by the 13.5% ROE and 1.4% ROA in the quarter. The improvement in return ratios is led by 35% Y-o-Y growth in NII and a 40% growth in fee income. This led to a strong 134% surge in PAT during Q4FY23. The Bank expects return ratios to improve further based on improvement in operating leverage.

View & Valuation

We have revised our estimate and maintained our view on IDFC First Bank Ltd with a BUY rating and a target price of Rs. 85 (2x 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. 64

TARGET Rs. 85 (+32.8%)

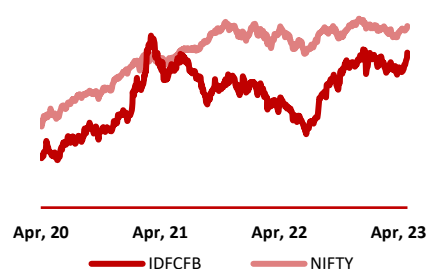
Company Data

MCAP (Rs. Mn)	4,07,541
O/S Shares (Mn)	6,618
52w High/Low	64 / 29
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	1,376.5

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	39.99	36.38	36.47
FIs	19.31	19.76	19.28
DIs	11.67	13.82	14.02
Non-Institutional	29.06	30.04	30.23

IDFC First Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
NII	97.1	126.4	146.7
PPOP	32.8	49.9	66.8
Net Profit	1.5	24.8	36.3
Advances	1,178.6	1,517.9	1821.5
ROE (%)	0.7%	9.6%	12.3%
ROA (%)	0.1%	1.0%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

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Result Highlight (Rs. Mn)

Particulars	Q4FY23	Q4FY22	Change % (Y-o-Y)	Q3FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Net Interest Income	35,974	26,695	35%	32,860	9%	1,26,372	97,076	30%
Other Income	13,978	8,312	68%	11,524	21%	44,673	31,726	41%
Net Income	49,952	35,007	43%	44,384	13%	1,71,045	1,28,802	33%
Operating Expense	34,184	26,612	28%	31,615	8%	1,21,082	95,967	26%
Pre-provision Operating Profit	15,768	8,395	88%	12,769	23%	49,962	32,836	52%
Provisions	4,824	3,695	31%	4,502	7%	16,648	31,086	-46%
PBT	10,944	4,701	133%	8,267	32%	33,314	1,750	1804%
Tax	2,783	1,177	136%	2,101	32%	8,465	427	1884%
PAT	8,161	3,523	132%	6,166	32%	24,849	1,323	1778%
EPS	1.3	0.6	128%	1.0	31%	4.0	0.2	1795%

Source: Company, Keynote Capitals Ltd.

Loan Book mix

Particulars	Q4 FY22	Q1 FY23	Q2FY23	Q3FY23	Q4FY23	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	63%	66%	66%	66%	69%	32%	8%
Home loan	11%	11%	12%	12%	12%	39%	10%
Loan Against Property	14%	14%	13%	13%	13%	11%	3%
MSME/Rural Loans	10%	10%	10%	11%	12%	48%	18%
Auto Loans	8%	8%	9%	9%	9%	34%	7%
Consumer Loans	13%	14%	13%	13%	13%	19%	4%
Credit Card	2%	2%	2%	2%	2%	74%	12%
Digital, Gold Loan and Others	6%	7%	7%	8%	8%	50%	5%
Corporates	18%	17%	17%	17%	16%	5%	1%
Infrastructure	5%	5%	4%	4%	3%	9%	2%
Others	5%	4%	3%	3%	2%	-32%	-16%
Commercial Finance	9%	8%	9%	9%	10%	-35%	-14%
Total Funded Assets (Rs. Bn)	13,195	13,766	14,536	15,215	16,060	37%	11%

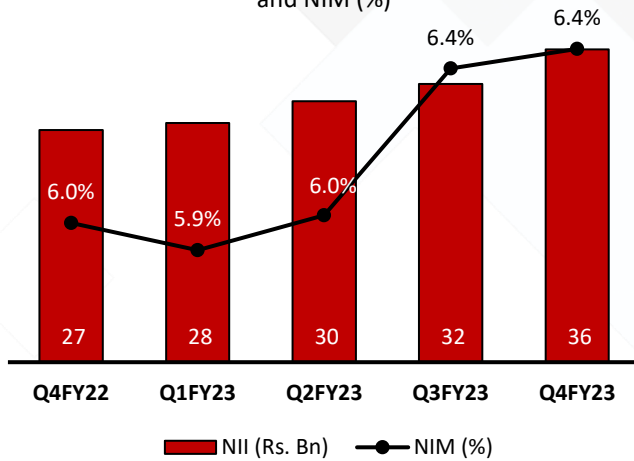
Source: Company, Keynote Capitals Ltd.

Deposits mix

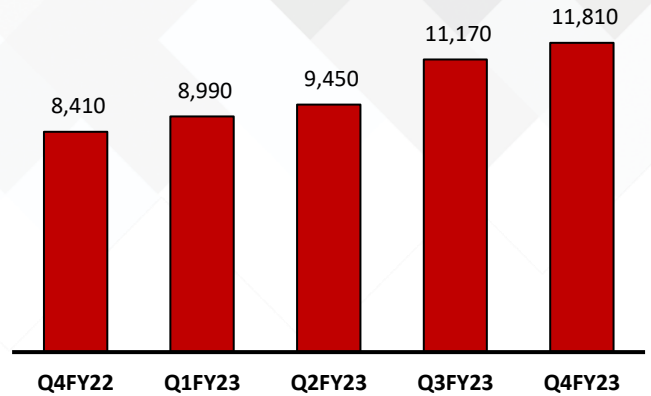
Particulars	Q4 FY22	Q1 FY23	Q2FY23	Q3FY23	Q4FY23	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	48.4%	50.0%	51.3%	50.0%	49.8%	41%	8%
Term Deposits	39.8%	40.7%	41.1%	42.9%	44.8%	54.0%	14%
Certificate of Deposits	11.8%	9.2%	7.6%	7.1%	5.4%	-37.0%	-17%
Total Deposits (Rs. Bn)	9,277	10,563	11,335	13,303	14,464	37.0%	9.0%

Source: Company, Keynote Capitals Ltd.

Q-o-Q Improvement in NII (Rs. Bn) and NIM (%)

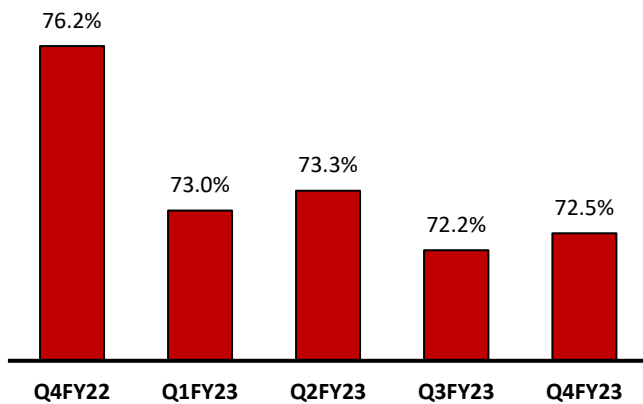


Continuous rise in Fee & Other Income (Rs. Mn) of which 91% comes from retail and banking operation in Q4FY23

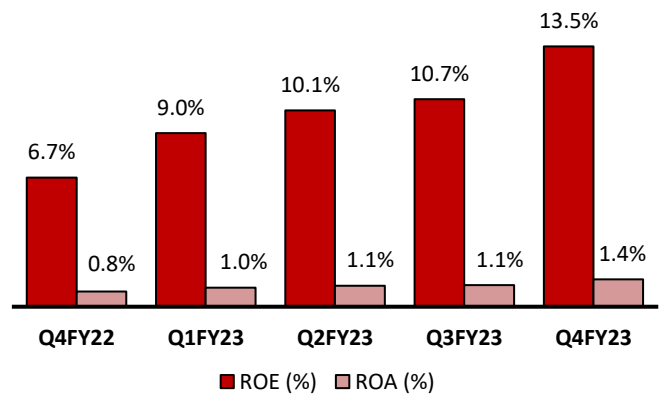


Source: Company, Keynote Capitals Ltd.

Q-o-Q improvement in Cost to Income ratio (%)

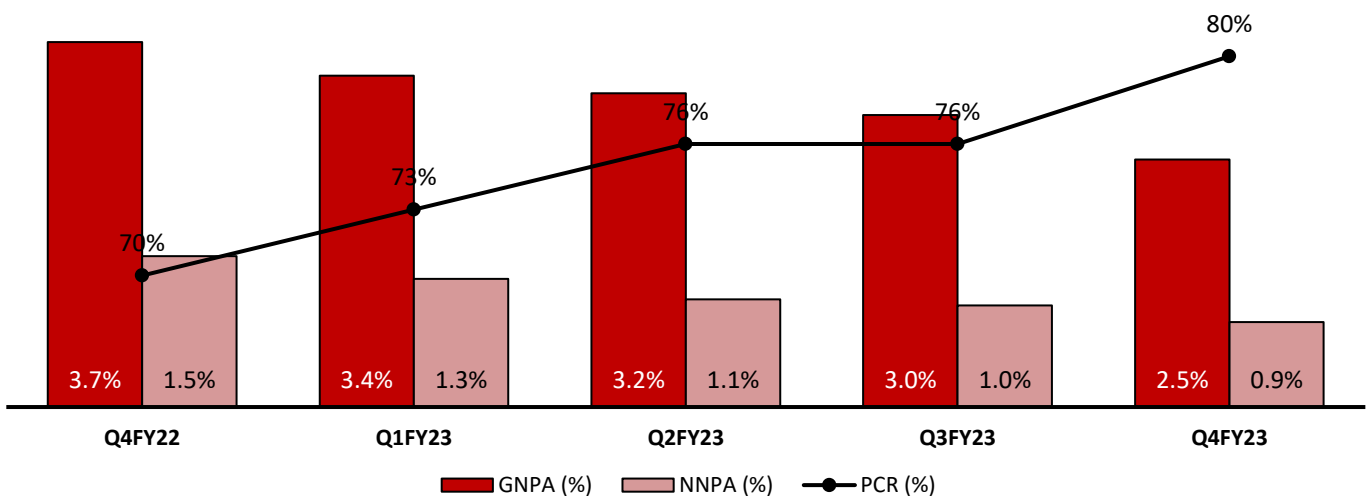


Q-o-Q improvement in Return Ratios (%)



Source: Company, Keynote Capitals Ltd.

Continuous improvement in asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q4FY23 Conference Call Takeaways

- Cost-to-income ratio has four-parts, retail, wholesale, liability, and credit cards. The retail and wholesale cost-to-income ratio decreased from 63.4% to 55.0% and 38.1% to 31.6%, respectively, in FY23 compared to FY22. The liability and credit card cost-to-income ratio is 173% and 164% in FY23, worsening the cost-to-income ratio to stay elevated.
- In the liability side of the cost-to-income ratio, the simple way to decrease the cost is as branches get more scale and size and customers and deposits.
- In the credit card side of the cost-to-income ratio, the Bank expect 100% cost-to-income ratio in FY24 and expect to break even by FY25.
- The Bank continues to run down the legacy high-cost long-term borrowings of Rs. 176 Bn in FY23 from Rs. 252 Bn in FY22, which has a rate of 9%, which will come down to 5.7-5.8%. This will incrementally benefit to cost-to-income ratio going forward.
- Management is guiding the cost-to-income ratio to fall below 65% by Q4FY25.
- The Bank expects the branches to break even in 24 months.
- For credit growth, the Bank is opening new branches at new locations and launching new products.
- The Bank is guiding a 2-1-2 formula, which says 2% gross NPA, 1% net NPA, and 2% credit cost.
- The credit cost as a percentage of average funded assets for Q4FY23 is 1.2%, lower than the management guidance of 1.5% for FY23.
- Management expects 40% growth in the PPOP in FY24.
- Due to the small size of the home loan book, the profitability in the segment will take some time.
- The Bank will meet its PSL requirement on its book and not buy PSL certificates from outside.
- Bank expects ROE and ROA to improve further, driven by improvement in operating leverage. The Bank has guided for 13-15% ROE and 1.4-1.6% ROA in FY25.
- The Bank will retire Rs. ~120 Bn of infra book in FY24. For this, they will raise the capital.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income	73,803	97,076	1,26,372	1,46,700	1,66,857
Other Income	22,113	31,726	44,673	55,746	66,743
Net Income	95,916	1,28,802	1,71,045	2,02,446	2,33,600
Operating Expenses	70,933	95,967	1,21,082	1,35,639	1,51,840
Pre-Provision Operating Profit	24,983	32,836	49,962	66,807	81,760
Provisions	20,225	31,086	16,648	18,367	20,037
Profit Before Tax	4,758	1,750	33,314	48,440	61,723
Tax	235	427	8,465	12,110	15,431
Profit After Tax	4,523	1,323	24,849	36,330	46,292

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Share Capital	56,758	62,347	66,552	66,552	66,552
Reserves & Surplus	1,21,319	1,48,483	1,91,923	2,28,253	2,74,545
Networth	1,78,078	2,10,830	2,58,476	2,94,805	3,41,098
Deposits	8,86,884	10,55,396	14,44,695	17,34,795	21,01,770
Borrowings	4,57,861	5,29,626	5,72,121	8,39,712	9,60,840
Other Liabilities & Provisions	1,08,615	1,05,614	1,23,529	1,14,745	1,18,388
Total Liabilities	16,31,438	19,01,466	23,98,821	29,84,058	35,22,097
ASSETS					
Cash and Balance	58,279	1,57,024	1,37,787	3,10,370	4,28,440
Investments	4,54,117	4,59,346	6,09,130	7,08,525	7,54,816
Advances	10,05,501	11,78,578	15,17,945	18,21,534	21,85,841
Fixed Assets & Others	1,13,542	1,06,510	1,33,946	1,43,620	1,53,000
Total Assets	16,31,439	19,01,466	23,98,821	29,84,058	35,22,097

Source: Company, Keynote Capitals Ltd.

Ratios

	FY21	FY22	FY23	FY24E	FY25E
Growth YoY (%)					
Advance Growth (%)	17.5%	17.2%	34.0%	20.0%	20.0%
Deposit Growth (%)	36.2%	19.1%	34.7%	15.8%	15.0%
NII Growth (%)	21.5%	31.5%	27.9%	14.5%	19.3%
PPOP Growth (%)	29.0%	31.4%	40.7%	29.4%	30.9%
Ratios					
NIM (%)	5.3%	6.3%	6.7%	6.3%	6.1%
Cost to Income Ratio	74.0%	74.5%	70.8%	67.0%	65.0%
Credit /Deposit Ratio	113.4%	111.7%	105.1%	105.0%	104.0%
CASA Ratio (%)	51.7%	48.4%	49.8%	50.0%	50.0%
ROE (%)	2.5%	0.6%	9.6%	12.3%	13.6%
ROA (%)	0.3%	0.1%	1.0%	1.2%	1.3%
Asset Quality					
GNPA	4.3%	3.8%	2.5%	2.3%	2.0%
NNPA	1.9%	1.5%	0.9%	0.8%	0.7%
PCR (%)	56.2%	59.5%	65.7%	65.2%	65.0%
Credit Cost (%)	3.1%	3.2%	1.2%	1.1%	1.0%
Valuation					
Book Value Per Share			39.1	44.5	51.5
Adjusted Book Value Per Share			37.1	42.3	49.2
P/BV (x)			1.6	1.4	1.2
Price-ABV (x)			1.7	1.5	1.3

Note: Price is taken as of 28th Apr 2023

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%
20 th Jan 2023	BUY	59.4	+38.1%
2 nd May 2023	BUY	64.0	+32.8%

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

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