

IDFC First Bank Ltd.

31st July 2023

Delivering on guidance

IDFC First Bank Ltd (IDFCFB) reported strong loan book growth of 7% on QoQ and 25% on a YoY basis during the quarter, with the retail loan book demonstrating substantial growth, matching the QoQ pace, and witnessing an even higher YoY growth of 30%. In the retail segment, home loans, auto loans, credit cards, rural finance, and digital & gold loans grew by >30% on a Y-o-Y basis. Deposits grew by 7% & 36% on QoQ and YoY basis, respectively. With consistent improvement in asset quality, the Company's ROE has jumped from ~9% in Q1FY23 to ~12% in Q1FY24. In addition to this, PAT surged by 61% on a YoY basis.

Strong growth in loan book and deposits

IDFCFB reported strong growth of 7%/36% on QoQ and YoY basis in deposits, led by an increase in term deposits by 18% on QoQ and 66% on a YoY basis during the quarter. The CASA ratio stood stable at 46.5% in Q1FY24.

In the loan book, the Company saw strong growth in all product segments, with a 68%, 47%, 44%, and 31% Y-o-Y increase in credit card, rural finance, auto loans and digital & gold loans, and home loan respectively, in Q1FY24. The target to reduce the infrastructure financing book is on track, as it decreased from 5% in Q1FY23 to 2% in Q1FY24.

Improvement in Cost to Income ratio

IDFCFB has improved its cost-to-income ratio from 73% in Q1FY23 to 71.9% in Q1FY24. The businesses that are worsening the overall cost-to-income ratios are liabilities and credit cards because the Bank is in the setup stage. The Bank expects the credit card business to break even by FY25.

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 ~98% of the loan book, has less than 2% gross NPA in Q1FY24. Asset quality in the corporate book is also strong, with adequate PCR of 99.4%. 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 ~12% ROE and 1.3% ROA in the quarter. The improvement in return ratios is led by 36% Y-o-Y growth in NII and a 49% growth in fee income. This led to a strong 61% surge in PAT during Q1FY24. 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. 98.7 (2.3x FY24E Adj. book value). We expect the Bank to grow its loan book at 20-25% with stable NIM of 6-6.5%. Normalization of asset quality and improved profitability growth will lead to improved return ratios.

BUY

CMP Rs. 87

TARGET Rs. 98.7 (+13.4%)

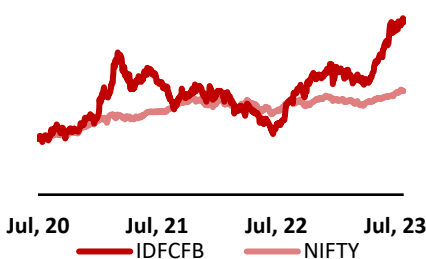
Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	5,56,762
O/S Shares (Mn)	6,628
52w High/Low	88 / 37
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	1,376.5

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	39.93	39.99	36.38
FIs	20.85	19.31	19.76
DIs	11.68	11.67	13.82
Non-Institutional	27.55	29.06	30.04

IDFC First Bank vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	126.4	149.1	180.2
PPOP	49.9	67.9	88.3
Net Profit	24.8	36.8	50.4
Advances	1,517.9	1,897.4	2,314.9
ROE (%)	9.6%	12.5%	14.6%
ROA (%)	1.0%	1.2%	1.4%

Source: Company, Keynote Capitals Ltd. estimates

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Q1 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1FY24	Q1FY23	Change % (Y-o-Y)	Q4FY23	Change % (Q-o-Q)	FY23
Net Interest Income	37,465	27,514	36%	35,974	4%	1,26,372
Other Income	13,636	8,556	59%	13,978	-2%	44,673
Net Income	51,101	36,070	42%	49,952	2%	1,71,045
Operating Expense	36,377	26,488	37%	34,184	6%	1,21,082
Pre-provision Operating Profit	14,724	9,582	54%	15,768	-7%	49,962
Provisions	4,762	3,080	55%	4,824	-1%	16,648
PBT	9,962	6,502	53%	10,944	-9%	33,314
Tax	2,647	1,652	60%	2,783	-5%	8,465
PAT	7,315	4,850	51%	8,161	-10%	24,849
EPS	1.1	0.8	42%	1.3	-15%	4.0

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	66%	66%	67%	69%	69%	30%	7%
Home loan	11%	12%	12%	12%	12%	31%	3%
Loan Against Property	14%	13%	13%	13%	12%	8%	0%
MSME/Rural Loans	10%	10%	11%	12%	12%	47%	8%
Auto Loans	8%	9%	9%	9%	10%	44%	10%
Consumer Loans	14%	13%	13%	13%	13%	13%	7%
Credit Card	2%	2%	2%	2%	2%	68%	11%
Education Loans					1%		
Digital, Gold Loan and Others	7%	7%	8%	8%	8%	44%	9%
Corporates	17%	17%	17%	16%	16%	15%	7%
Infrastructure	5%	4%	4%	3%	2%	-44%	-19%
Others	4%	3%	3%	2%	-		
Commercial Finance	8%	9%	9%	10%	7%	17%	-22%
CV/ CE					2%		
Business Banking					3%		
Total Funded Assets (Rs. Bn)	1,377	1,454	1,522	1,606	1,716	25%	7%

Source: Company, Keynote Capitals Ltd.

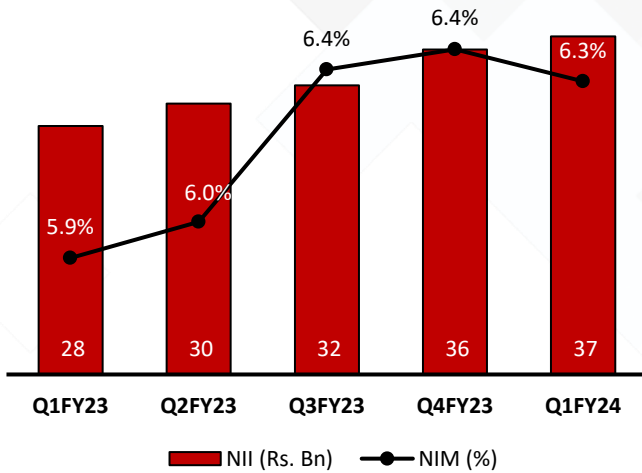
Deposits mix

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	50.0%	51.3%	50.0%	49.8%	46.5%	27%	0%
Term Deposits	40.7%	41.1%	42.9%	44.8%	49.7%	66%	18%
Certificate of Deposits	9.2%	7.6%	7.1%	5.4%	3.9%	-43%	-24%
Total Deposits (Rs. Bn)	1,056	1,134	1,330	1,446	1,544	36%	7%

Source: Company, Keynote Capitals Ltd.

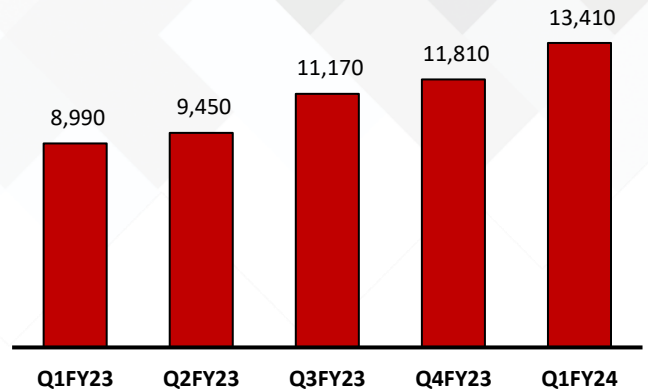
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YoY Improvement in NII (Rs. Bn) and NIM (%)

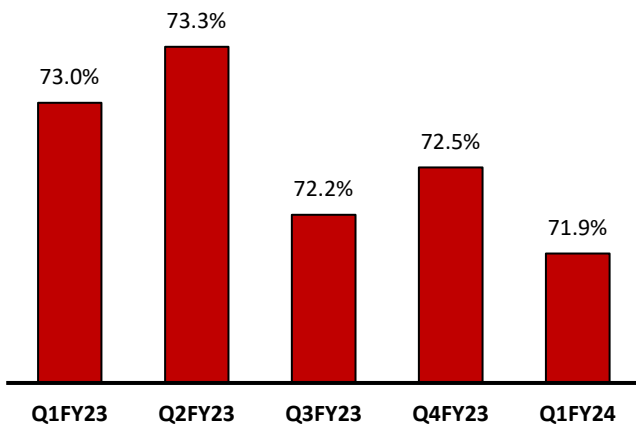


Source: Company, Keynote Capitals Ltd.

Continuous rise in Fee & Other Income (Rs. Mn) of which 91% comes from retail and banking operation in Q1FY24

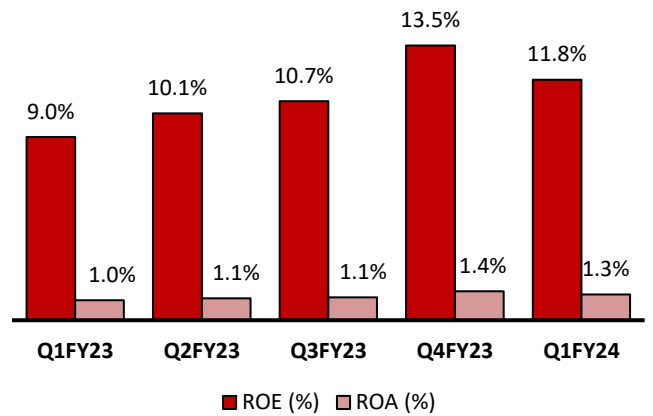


YoY improvement in Cost to Income ratio (%)

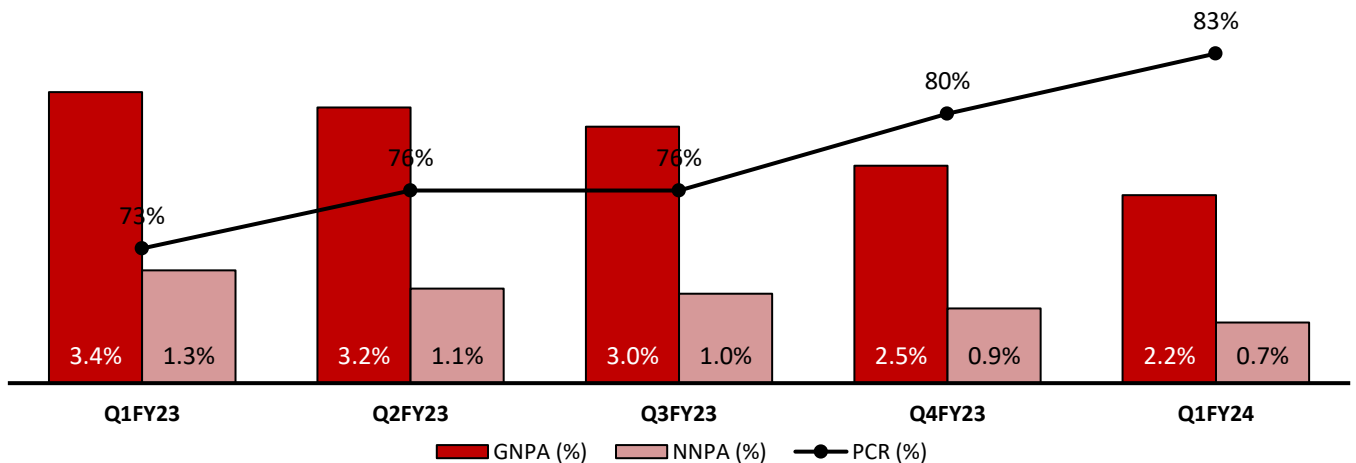


Source: Company, Keynote Capitals Ltd.

ROE for Q1 FY24 impacted on account of equity capital raised



Continuous improvement in asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q1 FY24 Conference Call Takeaways

- Loan book is getting more diversified as the Bank introduces new products like Education loans and CV/ CE finance.
- 28% of the total loan book is backed by mortgages.
- Out of the total deposits, retail deposits constitute ~77% and rest is wholesale. Over the period, the deposits are getting more granular as during the merger, the ratio between retail and wholesale is 27% and 73%, respectively.
- On account of capital infusion, ROE was impacted and decreased by 167 bps to 11.8%
- The Bank's asset quality is very robust, excluding infrastructure loan book, it stood at 1.7% GNPA and 0.4% NNPA.
- SMA 1 and 2 in the retail book stand at 0.85%
- Going forward, the Bank expects the NIM to remain stable.
- The Bank has a high collection efficiency of 99.5%.
- The Bank expects the branch count to increase by 150-200 in FY24.
- Fee income as a % of total assets is 2.4%, and it is growing on account of toll business, credit card, forex trade, third-party distribution, and wealth management products.
- Credit cost is 1.16%, and the Bank guided to maintain it below 1.5%
- 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.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	97,076	1,26,372	1,49,091	1,80,202	2,12,059
Other Income	31,726	44,673	56,654	72,081	84,823
Net Income	1,28,802	1,71,045	2,05,745	2,52,282	2,96,882
Operating Expenses	95,967	1,21,082	1,37,849	1,63,983	1,87,036
Pre-Provision Operating Profit	32,836	49,962	67,896	88,299	1,09,846
Provisions	31,086	16,648	18,785	21,061	25,464
Profit Before Tax	1,750	33,314	49,111	67,237	84,383
Tax	427	8,465	12,278	16,809	21,096
Profit After Tax	1,323	24,849	36,833	50,428	63,287

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	62,347	66,552	66,552	66,552	66,552
Reserves & Surplus	1,48,483	1,91,923	2,28,757	2,79,185	3,42,472
Networth	2,10,830	2,58,476	2,95,309	3,45,737	4,09,024
Deposits	10,55,396	14,44,695	18,07,078	21,83,836	26,08,300
Borrowings	5,29,626	5,72,121	7,71,826	9,20,428	10,64,199
Other Liabilities & Provisions	1,05,614	1,23,529	1,15,504	1,19,679	1,24,308
Total Liabilities	19,01,466	23,98,821	29,89,717	35,69,680	42,05,832
ASSETS					
Cash and Balance	1,57,024	1,37,787	2,39,160	3,44,500	4,37,880
Investments	4,59,346	6,09,130	7,08,525	7,54,816	8,31,486
Advances	11,78,578	15,17,945	18,97,432	23,14,867	27,77,840
Fixed Assets & Others	1,06,510	1,33,946	1,44,595	1,55,500	1,58,625
Total Assets	19,01,466	23,98,821	29,89,717	35,69,680	42,05,832

Source: Company, Keynote Capitals Ltd.

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	17.2%	34.0%	25.0%	22.0%	20.0%
Deposit Growth (%)	19.1%	34.7%	25.1%	20.8%	19.4%
NII Growth (%)	31.5%	27.9%	18.0%	20.9%	17.7%
PPOP Growth (%)	31.4%	40.7%	35.9%	30.1%	24.4%
Ratios					
NIM (%)	6.3%	6.7%	6.3%	6.4%	6.4%
Cost to Income Ratio	74.5%	70.8%	67.0%	65.0%	63.0%
Credit /Deposit Ratio	111.7%	105.1%	105.0%	106.0%	106.5%
CASA Ratio (%)	48.4%	49.8%	50.0%	50.0%	50.0%
ROE (%)	0.6%	9.6%	12.5%	14.6%	15.5%
ROA (%)	0.1%	1.0%	1.2%	1.4%	1.5%
Asset Quality					
GNPA	3.8%	2.5%	2.0%	1.8%	1.7%
NNPA	1.5%	0.9%	0.6%	0.5%	0.5%
PCR (%)	59.5%	65.7%	70.0%	72.2%	73.5%
Credit Cost (%)	3.2%	1.2%	1.1%	1.0%	1.0%
Valuation					
Book Value Per Share		39.1	44.6	52.2	61.8
Adjusted Book Value Per Share		37.1	42.9	50.5	59.9
P/BV (x)		2.2	2.0	1.7	1.4
Price-ABV (x)		2.4	2.0	1.7	1.5

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%
31 st July 2023	BUY	87.0	+13.4%

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

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