

IDFC First Bank Ltd.

30th Oct 2023

The strong performance persists despite elevated costs

IDFC First Bank Ltd (IDFCFB) reported a strong loan book growth of 7% on QoQ and 26% on a YoY basis during the quarter, with the retail loan book demonstrating substantial growth by 8% on a QoQ and 31% on a YoY basis. In the retail segment, auto loans, credit cards, rural finance, education loans and digital & gold loans grew by >30% on a Y-o-Y basis. The Bank's cost-to-income ratio had remained elevated and grew by 80 bps on a QoQ basis due to its ongoing expansion of branch networks and investments in technology. With consistent improvement in asset quality, PAT surged by 31% on a YoY basis. Going forward, the management has guided to grow its loan book by 25-30%, maintained NIM and enhanced return ratios.

Strong growth in loan book and deposits

IDFCFB reported a strong growth of 11%/39% on QoQ and YoY basis in deposits, led by an increase in term deposits by 11% on QoQ and 68% on a YoY basis during the quarter. The CASA ratio stood stable at 46.4% in Q2FY24.

In the loan book, the Company saw strong growth in all product segments, with a 58%, 51%, 41%, and 35% Y-o-Y increase in credit card, rural finance, auto loans and digital & gold loans, respectively, in Q2FY24. The target to reduce the infrastructure financing book is on track, as it decreased from 4.1% in Q2FY23 to 1.8% in Q2FY24.

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 represents ~77% of the loan book, has less than 2% gross NPA in Q2FY24. Asset quality in the corporate book is also strong, with an adequate PCR of 97.7%. The Bank expects to weed out the infrastructure book and maintain a gross retail NPA below 2%.

The cost-to-income ratio remains elevated

IDFCFB has improved its cost-to-income ratio from 73.3% in Q2FY23 to 72.7% in Q2FY24. However, the Bank's cost-to-income ratio has been consistently high due to its ongoing expansion of branch networks and investments in technology. The bank has introduced and expanded several new products over the last two years, and they will require some time to reach a breakeven point. The Bank remains confident of achieving its guidance of 65% cost to income by Q4FY25.

View & Valuation

We have revised our estimates and maintained our view on IDFC First Bank Ltd with a BUY rating and a target price of Rs. 101.9 (2.2x FY25E Adj. book value). We expect the Bank to grow its loan book at 20-25% with a stable NIM within the range of 6.3-6.5%. We also expect an enhancement in the cost-to-income ratio, considering the Bank's ongoing improvements in asset quality. These factors are expected to drive profitability and result in improved return ratios.

BUY

CMP Rs. 83

TARGET Rs. 101.9 (+22.8%)

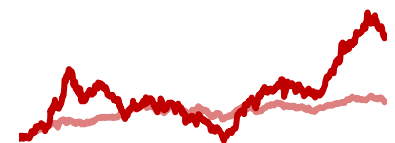
Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	6,07,605
O/S Shares (Mn)	6,722
52w High/Low	101 / 52
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	386

Shareholding Pattern %

	Oct 23	Sep 23	Jun 23
Promoters	37.51	39.37	39.93
FIIs	26.06	24.48	20.85
DIIIs	10.82	9.50	11.68
Non-Institutional	25.61	26.66	27.55

IDFC First Bank vs Nifty



	Oct, 20	Oct, 21	Oct, 22	Oct, 23
IDFCFB				
NIFTY				

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	126.4	151.5	185.6
PPOP	49.9	62.7	85.7
Net Profit	24.8	32.6	47.9
Advances	1,517.9	1,973.3	2,407.5
ROE (%)	9.6%	11.2%	14.1%
ROA (%)	1.0%	1.1%	1.4%

Source: Company, Keynote Capitals Ltd. estimates

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IDFC First Bank Ltd. | Quarterly Update

Q2 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Net Interest Income	39,507	30,025	32%	37,465	5%	76,972	57,538	34%	1,26,372
Other Income	14,095	10,614	33%	13,636	3%	27,732	19,170	45%	44,673
Net Income	53,602	40,639	32%	51,101	5%	1,04,703	76,709	36%	1,71,045
Operating Expense	38,490	28,795	34%	36,377	6%	74,867	55,284	35%	1,21,082
Pre-provision Operating Profit	15,112	11,843	28%	14,724	3%	29,836	21,425	39%	49,962
Provisions	5,284	4,242	25%	4,762	11%	10,045	7,322	37%	16,648
PBT	9,828	7,602	29%	9,962	-1%	19,790	14,103	40%	33,314
Tax	2,360	1,930	22%	2,647	-11%	5,007	3,581	40%	8,465
PAT	7,469	5,672	32%	7,315	2%	14,784	10,522	41%	24,849
EPS	1.1	0.8	44%	1.1	2%	2.2	1.7	31%	4.0

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	66%	67%	69%	69%	70%	31%	8%
Home loan	12%	12%	12%	12%	12%	26%	6%
Loan Against Property	13%	13%	13%	12%	12%	15%	8%
MSME/Rural Loans	10%	11%	12%	12%	12%	51%	10%
Auto Loans	9%	9%	9%	10%	10%	41%	9%
Consumer Loans	13%	13%	13%	13%	13%	19%	4%
Credit Card	2%	2%	2%	2%	2%	58%	10%
Education Loans	0%			1%	1%	205%	37%
Digital, Gold Loan and Others	7%	8%	8%	8%	8%	35%	10%
Corporates	17%	17%	16%	16%	16%	18%	6%
Infrastructure	4%	4%	3%	2%	2%	-44%	-11%
Others	3%	3%	2%	-	-	-	-
Commercial Finance	9%	9%	10%	7%	7%	-8%	-3%
CV/ CE				2%	3%	-	16%
Business Banking				3%	3%	-	14%
Total Funded Assets (Rs. Bn)	1,454	1,522	1,606	1,716	1,832	26%	7%

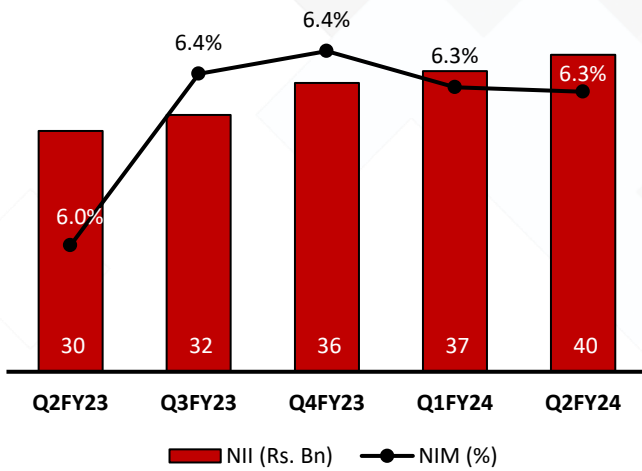
Source: Company, Keynote Capitals Ltd.

Deposits mix (%)

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	51.3%	50.0%	49.8%	46.5%	46.4%	26%	11%
Term Deposits	41.1%	42.9%	44.8%	49.7%	49.8%	68%	11%
Certificate of Deposits	7.6%	7.1%	5.4%	3.9%	3.8%	-31%	9%
Total Deposits (Rs. Bn)	1,134	1,330	1,446	1,544	1,712	39%	11%

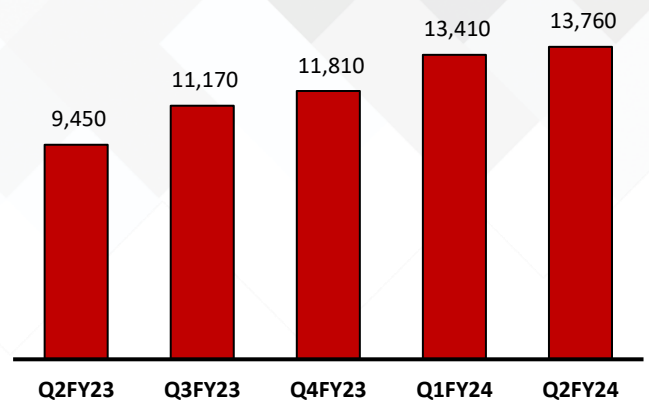
Source: Company, Keynote Capitals Ltd.

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

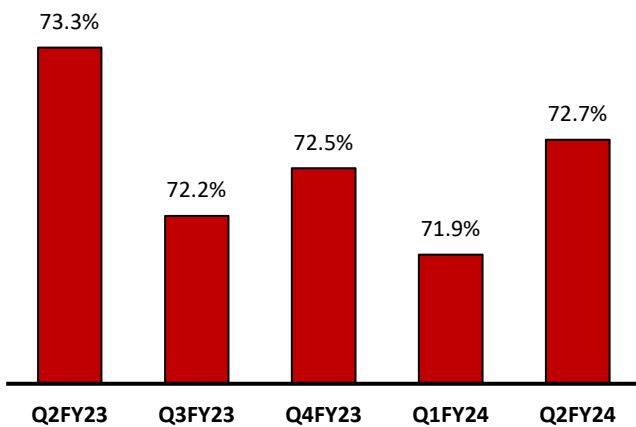


Source: Company, Keynote Capitals Ltd.

Continuous rise in Fee & Other Income (Rs. Mn) of which 92% comes from retail and banking operation in Q2FY24

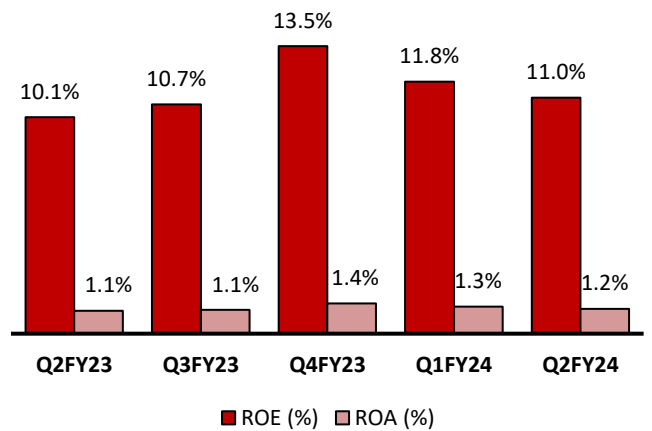


Cost-to-income ratio (%)

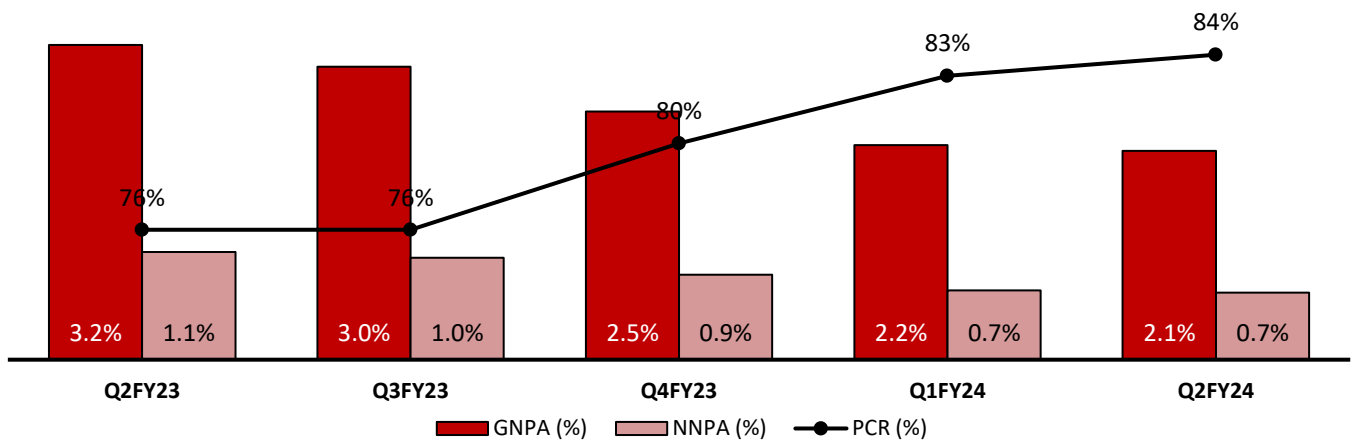


Source: Company, Keynote Capitals Ltd.

ROE and ROA (%)



Continuous improvement in asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

- The Bank raised Rs. 30 Bn of fresh equity capital in October 2023.
- The Bank's capacity to accumulate deposits was robust, enabling it to support a 25% growth in its loan portfolio and promptly repay high-cost bonds when they reach maturity.
- On the lending side, the Bank employs a cash flow assessment method, which involves examining a customer's bank statements to determine the balance they maintain before deciding on the loan amount. Additionally, they consider factors like GST filings and external data from credit bureaus. Under this approach, the Bank obtains debit instructions from the customer's bank account, and if they cannot fulfill their obligations, the Bank automatically withdraws the necessary funds on the due date.
- The Bank's asset quality is continuously improving due to an increase in collection efficiency. The management regards collection efficiency as a leading indicator that will help analyzing the GNPA trend early if it deteriorates.
- Primarily, the Bank extend loans to customers with existing relationships in the credit card segment.
- As the Bank continues to grow, the liability side will have an impact, resulting in increased costs.
- The management provided guidance to reduce the cost-to-income ratio to 65% by the fourth quarter of FY25.
- For the credit card business, the Bank projects to reach a breakeven point in FY25 and expects it to turn profitable by FY26.
- Regarding the merger with IDFC Ltd, the Bank has obtained approval from CCI and is currently in the process of seeking approval from RBI, SEBI, NSE, and BSE.
- A significant portion of the interest rate increase has already taken place, and there could be a potential impact of 10-15 bps in H2FY24.
- The Bank's NBFC book size stands at 150 Bn, with over 80% of the book having ratings of A and above, 19% falling in the BBB and BBB+ category, and the remaining 1% having ratings BB and below.
- Management expects that the NIM will remain steady going forward.
- To assess the loan book, the company employs a six-tier control framework:
 1. Underwriting teams
 2. Policy management team
 3. Risk management divisions
 4. Managing Director (MD) level
 5. Board-level Risk Management Committee
 6. Board of Directors

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	97,076	1,26,372	1,51,481	1,85,551	2,18,526
Other Income	31,726	44,673	57,563	74,220	87,411
Net Income	1,28,802	1,71,045	2,09,044	2,59,772	3,05,937
Operating Expenses	95,967	1,21,082	1,46,331	1,74,047	1,98,859
Pre-Provision Operating Profit	32,836	49,962	62,713	85,725	1,07,078
Provisions	31,086	16,648	19,202	21,904	26,482
Profit Before Tax	1,750	33,314	43,511	63,821	80,596
Tax	427	8,465	10,878	15,955	20,149
Profit After Tax	1,323	24,849	32,633	47,866	60,447
EPS	0.2	3.8	4.6	6.8	8.6

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	62,347	66,552	67,225	67,225	67,225
Reserves & Surplus	1,48,483	1,91,923	2,23,884	2,71,750	3,32,197
Networth	2,10,830	2,58,476	2,91,109	3,38,974	3,99,421
Deposits	10,55,396	14,44,695	18,79,361	22,71,190	27,12,632
Borrowings	5,29,626	5,72,121	6,62,865	7,72,357	8,73,648
Other Liabilities & Provisions	1,05,614	1,23,529	1,16,263	1,20,605	1,25,420
Total Liabilities	19,01,466	23,98,821	29,49,598	35,03,126	41,11,121
ASSETS					
Cash and Balance	1,57,024	1,37,787	1,23,140	1,85,350	2,32,060
Investments	4,59,346	6,09,130	7,08,525	7,54,816	8,31,486
Advances	11,78,578	15,17,945	19,73,329	24,07,461	28,88,953
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	29,49,598	35,03,126	41,11,121

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	17.2%	34.0%	30.0%	22.0%	20.0%
Deposit Growth (%)	19.1%	34.7%	30.1%	20.8%	19.4%
NII Growth (%)	31.5%	27.9%	19.9%	22.5%	17.8%
PPOP Growth (%)	31.4%	40.7%	25.5%	36.7%	24.9%
Ratios					
NIM (%)	6.3%	6.7%	6.3%	6.4%	6.4%
Cost to Income Ratio	74.5%	70.8%	70.0%	67.0%	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%	11.2%	14.1%	15.1%
ROA (%)	0.1%	1.0%	1.1%	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	41.3	48.0	56.6
Adjusted Book Value Per Share		37.1	39.6	46.3	54.8
P/BV (x)		2.2	2.1	1.8	1.5
Price-ABV (x)		2.3	2.2	1.9	1.6

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%
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%
30 th Oct 2023	BUY	83.0	+22.8%

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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