

IDFC First Bank Ltd.

Guidance 2.0

In Q3FY24, IDFC First Bank Ltd (IDFCFB) reported a strong loan book growth of 3% on QoQ and 24% on a YoY, with the retail loan book demonstrating substantial growth of 6% on a QoQ and 31% on a YoY basis. In the retail segment, MSME loans, auto loans, consumer loans, credit cards, rural finance, education loans and digital & gold loans grew by >30% on a YoY basis. The Bank's cost-to-income ratio had remained elevated and grew by 10 bps on a QoQ basis due to its ongoing expansion of branch networks and investments in technology. With consistent improvement in asset quality, PAT grew by 18% on a YoY basis. Going forward, the management has guided to grow its loan book by 20%, while maintaining NIM and enhanced return ratios.

Strong growth in loan book and deposits

IDFCFB reported a strong growth of 7%/37% on a QoQ / YoY basis in deposits, led by an increase in term deposits by 7% on QoQ and 59% on a YoY basis during the quarter. The CASA ratio increased from 46.4% in Q2FY24 to 46.8% in Q3FY24.

In the loan book, the Company saw strong growth in all product segments, with a 165%, 57%, 47%, and 45% YoY increase in education loan, credit card, rural finance, and digital & gold loans, respectively, in Q3FY24. The target to reduce the infrastructure financing book is on track, as it decreased from 3.6% in Q3FY23 to 1.6% in Q3FY24.

Going forward, the management is guiding to grow the deposit at ~25% CAGR and loan book at 20% CAGR over the five years.

Improvement in asset quality

IDFCFB is continuously showing improvement in asset quality. The retail and commercial business financing, which represents ~77% of the loan book, has less than 1.5% gross NPA in Q3FY24. Asset quality in the corporate book is also strong, with an adequate PCR of 95%. The Bank expects to weed out the infrastructure book and maintain a gross retail NPA below 1.5%.

The cost-to-income ratio remains elevated

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 decreasing the cost-to-income ratio going forward.

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. 99.5 (2.2x FY25E Adj. book value). We expect the Bank to grow its loan book at 20% with a stable NIM within the range of 6.3-6.5%. We also expect an enhancement in the cost-to-income ratio and maintain its asset quality. These factors are expected to drive profitability and result in improved return ratios.

23rd January 2024**BUY**

CMP Rs. 82

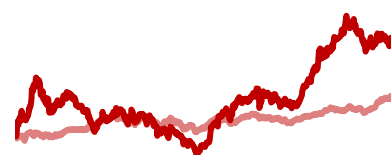
TARGET Rs. 99.5 (+21.5%)

Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	5,78,419
O/S Shares (Mn)	7,067
52w High/Low	101 / 52
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	2902

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	37.45	39.37	39.93
FIIIs	24.30	24.48	20.85
DIIIs	10.34	9.50	11.68
Non-Institutional	27.91	26.66	27.55

IDFC First Bank vs Nifty

Jan, 21 Jan, 22 Jan, 23 Jan, 24
— IDFCFB — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	126.4	167.4	196.8
PPOP	49.9	65.6	86.8
Net Profit	24.8	30.9	42.3
Advances	1,517.9	1,973.3	2,368.0
ROE (%)	9.6%	10.6%	12.8%
ROA (%)	1.0%	1.1%	1.2%

Source: Company, Keynote Capitals Ltd. estimates

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IDFC First Bank Ltd. | Quarterly Update

Q3 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q3FY24	Q3FY23	Change % (Y-o-Y)	Q2FY24	Change % (Q-o-Q)	9MFY24	9MFY23	Change % (Y-o-Y)	FY23
Net Interest Income	42,872	32,860	30%	39,507	9%	1,19,843	90,398	33%	1,26,372
Other Income	15,166	11,524	32%	14,095	8%	42,897	30,695	40%	44,673
Net Income	58,037	44,384	31%	53,602	8%	1,62,740	1,21,093	34%	1,71,045
Operating Expense	42,192	31,615	33%	38,490	10%	1,17,059	86,899	35%	1,21,082
Pre-provision Operating Profit	15,846	12,769	24%	15,112	5%	45,681	34,194	34%	49,962
Provisions	6,548	4,502	45%	5,284	24%	16,593	11,824	40%	16,648
PBT	9,297	8,267	12%	9,828	-5%	29,088	22,370	30%	33,314
Tax	1,977	2,101	-6%	2,360	-16%	6,983	5,682	23%	8,465
PAT	7,321	6,166	19%	7,469	-2%	22,105	16,688	32%	24,849
EPS	1.0	1.0		1.1		3.2	2.6		4.0

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	67%	69%	69%	70%	71%	31%	6%
Home loan	12%	12%	12%	12%	11%	19%	-1%
Loan Against Property	13%	13%	12%	12%	12%	11%	1%
MSME/Rural Loans	11%	12%	12%	12%	13%	47%	5%
Auto Loans	9%	9%	10%	10%	10%	31%	2%
Consumer Loans	13%	13%	13%	13%	14%	32%	15%
Credit Card	2%	2%	2%	2%	3%	57%	16%
Education Loans			1%	1%	1%	165%	13%
Digital, Gold Loan and Others	8%	8%	8%	8%	9%	45%	14%
Corporates	17%	16%	16%	16%	15%	11%	14%
Infrastructure	4%	3%	2%	2%	1.6%	-46%	-3%
Others	3%	2%	-	-	-	-	-
Commercial Finance	9%	10%	7%	7%	6%	-22%	-8%
CV/ CE			2%	3%	3%	69%	4%
Business Banking			3%	3%	4%	50%	10%
Total Funded Assets (Rs. Bn)	1,522	1,606	1,716	1,832	1,895	24%	3%

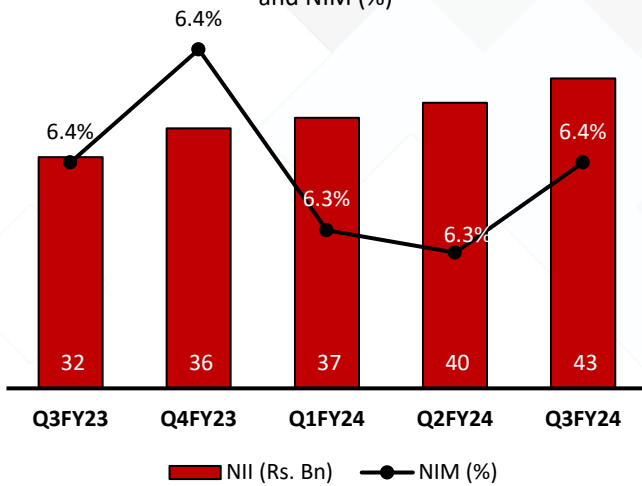
Source: Company, Keynote Capitals Ltd.

Deposits mix (%)

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	50.0%	49.8%	46.5%	46.4%	46.8%	29%	8%
Term Deposits	42.9%	44.8%	49.7%	49.8%	49.8%	59%	7%
Certificate of Deposits	7.1%	5.4%	3.9%	3.8%	3.3%	-36%	-7%
Total Deposits (Rs. Bn)	1,330	1,446	1,544	1,712	1,826	37%	7%

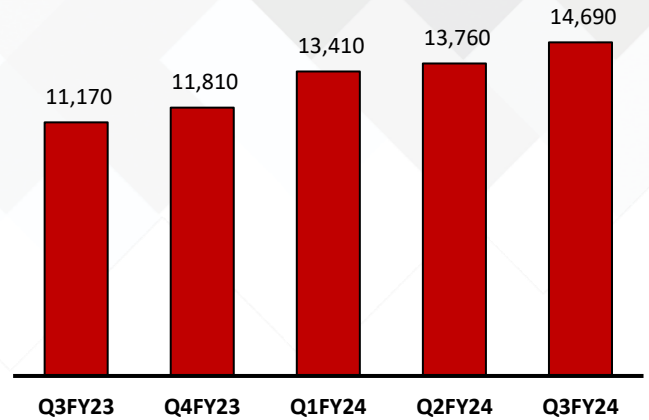
Source: Company, Keynote Capitals Ltd.

NII (Rs. Bn) and NIM (%)

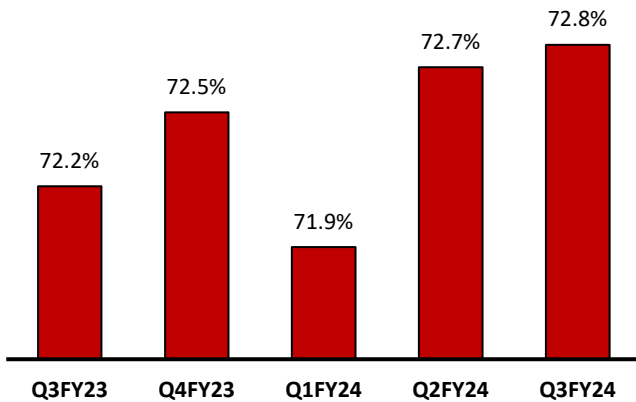


Source: Company, Keynote Capitals Ltd.

Continuous rise in Fee & Other Income (Rs. Mn) of which 93% comes from retail and banking operation in Q3FY24

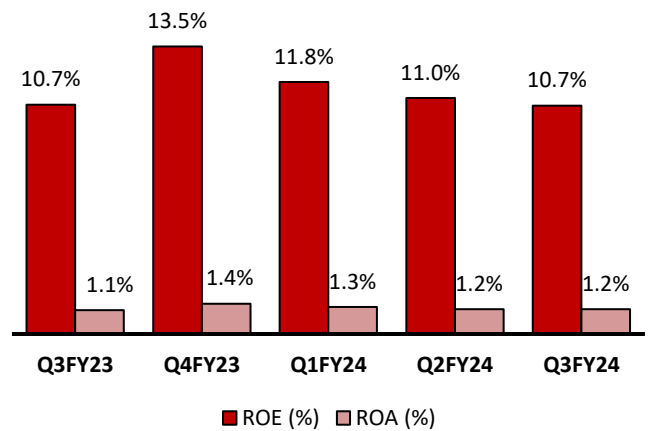


Cost-to-income ratio (%) remained elevated

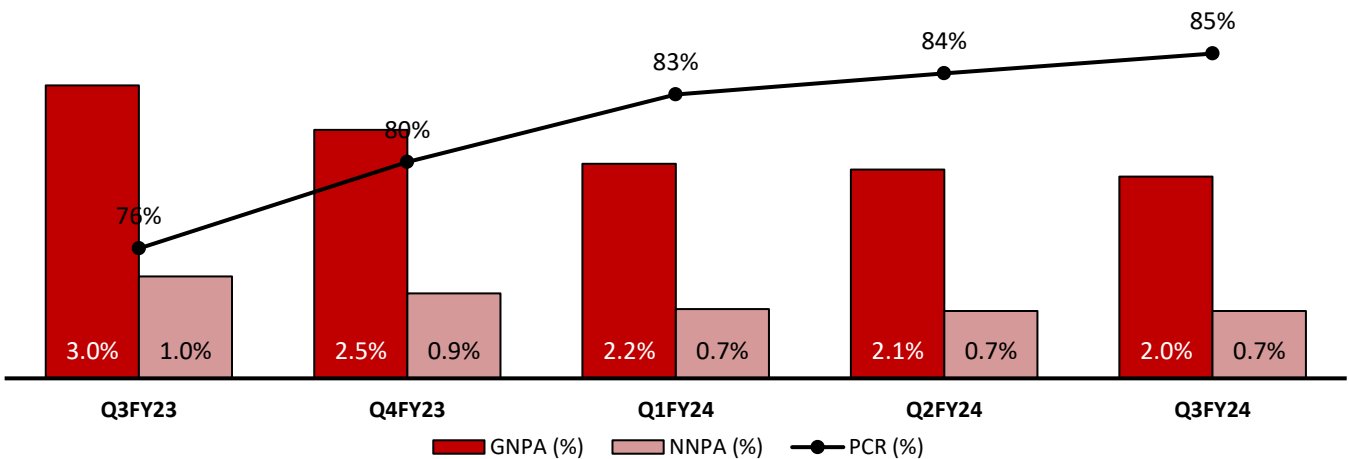


Source: Company, Keynote Capitals Ltd.

ROE and ROA (%)



Continuous improvement in asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways**Guidance 2.0**

- During the quarter, the Bank released guidance 2.0.
- Going forward, the Bank expects deposit growth to be faster than loan growth.
- In Q3FY24, the Bank had 897 branches, which are expected to be 1,700-1,800 branches by the end of FY29.
- The Bank expects GNPA and NNPA to improve from 2.0% and 0.7% in Q3FY24 to 1.5% and 0.4% in FY29, respectively.
- The Bank is guiding the improvement of ROA and ROE from 1.2% and 10.7% in Q3FY24 to 1.9-2.0% and 17-18% in FY29, respectively.
- The Bank expects PAT of Rs. 120-130 Bn in FY29.
- The Bank expects the cost-to-income ratio at 57-58% in FY29.

Other highlights

- The Bank's capacity to accumulate deposits was robust, enabling it to support a 37% growth in its loan portfolio and promptly repay high-cost bonds when they reach maturity. Further, the Bank has guided to grow its deposits at 25% CAGR over FY23-29.
- The standard restructured book continues to come down and has further reduced to 0.35% of funded assets compared to 0.38% last quarter. More than 93% of the restructured book is secured in nature.
- The Bank's asset quality continuously improves due to increased collection efficiency. The management regards collection efficiency as a leading indicator that will help analyzing the GNPA trend early if it deteriorates.
- The Bank's in-house and field staff play a significant role in collecting funds in rural areas. The bank emphasized a growing trend towards digitalization in the collection process.
- For the credit card business, the Bank projects to reach a breakeven point in FY25 and expects it to turn profitable by FY26.
- Management expects that the NIM will remain steady going forward.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	97,076	1,26,372	1,67,405	1,96,829	2,30,806
Other Income	31,726	44,673	66,962	78,731	92,323
Net Income	1,28,802	1,71,045	2,34,367	2,75,560	3,23,129
Operating Expenses	95,967	1,21,082	1,68,744	1,88,759	2,13,265
Pre-Provision Operating Profit	32,836	49,962	65,623	86,801	1,09,864
Provisions	31,086	16,648	24,439	30,389	36,467
Profit Before Tax	1,750	33,314	41,184	56,412	73,397
Tax	427	8,465	10,296	14,103	18,349
Profit After Tax	1,323	24,849	30,888	42,309	55,048
EPS	0.2	3.8	4.4	6.0	7.8

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	2,22,139	2,64,448	3,19,496
Networth	2,10,830	2,58,476	2,89,363	3,31,673	3,86,720
Deposits	10,55,396	14,44,695	19,53,791	24,41,232	30,55,477
Borrowings	5,29,626	5,72,121	5,73,191	5,76,989	5,79,692
Other Liabilities & Provisions	1,05,614	1,23,529	1,16,263	1,20,210	1,24,946
Total Liabilities	19,01,466	23,98,821	29,32,609	34,70,103	41,46,835
ASSETS					
Cash and Balance	1,57,024	1,37,787	1,09,030	1,95,090	3,18,260
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	23,67,995	28,41,594
Fixed Assets & Others	1,06,510	1,33,946	1,41,718	1,52,200	1,55,500
Total Assets	19,01,466	23,98,821	29,32,609	34,70,103	41,46,835

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	17.2%	34.0%	30.0%	20.0%	20.0%
Deposit Growth (%)	19.1%	34.7%	35.2%	24.9%	25.2%
NII Growth (%)	31.5%	27.9%	32.5%	17.6%	17.3%
PPOP Growth (%)	31.4%	40.7%	31.3%	32.3%	26.6%
Ratios					
NIM (%)	6.3%	6.7%	7.0%	6.8%	6.4%
Cost to Income Ratio	74.5%	70.8%	72.0%	68.5%	63.0%
Credit /Deposit Ratio	111.7%	105.1%	101.0%	97.0%	106.5%
CASA Ratio (%)	48.4%	49.8%	46.8%	46.5%	50.0%
ROE (%)	0.6%	9.6%	10.7%	12.8%	14.2%
ROA (%)	0.1%	1.0%	1.1%	1.2%	1.3%
Asset Quality					
GNPA	3.8%	2.5%	2.0%	2.1%	2.2%
NNPA	1.5%	0.9%	0.6%	0.5%	0.5%
PCR (%)	59.5%	65.7%	70.0%	76.2%	79.5%
Credit Cost (%)	3.2%	1.2%	1.4%	1.4%	1.4%
Valuation					
Book Value Per Share		39.1	40.9	46.9	54.7
Adjusted Book Value Per Share		37.1	39.3	45.2	52.9
P/BV (x)		2.2	2.0	1.7	1.5
Price-ABV (x)		2.3	2.1	1.8	1.5

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%
23 rd Jan 2024	BUY	82.0	+21.5%

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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