

Basic Retail banking to drive growth: Simple Banking

CMP: Rs 25

Rating: BUY

Target Price: Rs 37

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	5,672
Mkt Cap (Rs Cr)	14,294
52w H/L (Rs)	57 / 18
Avg Yearly Vol (in 000')	26,008

Shareholding Pattern %

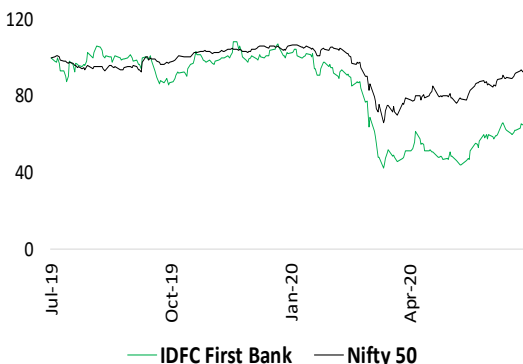
(As on 5 June, 2020)

Promoters	40.0
FII	11.4
DII	16.0
Public & Others	32.7

Stock Performance (%)

	3m	6m	12m
IDFC FIRST Bank	22.9	-38.3	-37.1
Nifty 50	18.2	-12.1	-6.8

IDFC FIRST Bank Vs Nifty



IDFC FIRST Bank was formed from the merger of IDFC Bank & Capital FIRST Limited effective from Dec 2018. The erstwhile IDFC Bank, a subsidiary of IDFC Limited which got its banking license from RBI in 2014 following which it then demerged its infrastructure assets to form the new IDFC Bank. The bank then continued its legacy portfolio of assets to grow as an infrastructure financier cum bank. On the other side, Capital FIRST Limited, a mostly retail consumer loan financing NBFC came up with a zero cost financing model for consumers attracting & creating its own set of loyal customers but lagging the traditional sources of funding enjoyed by scheduled commercial banks (CASA deposits). Today, after an year since the merger, the IDFC FIRST Bank is competing with other larger peers in order to carve out its separate market share in the retail lending business and emerge as a retail customer services focussed bank. We see a massive change in the portfolio mix of the bank underway re-establishing our faith on the CEO & MD Mr V. Vaidyanathan's ability to make stand another gem in the retail lending business.

Investment Rationale:

Fastest Retailization seen in any bank: IDFC FIRST Bank's portfolio consisted of a mere 34.6% of assets from retail funded assets by Dec 2018 and increased it to 53.6% by end of March 2020. While the bank envisages to see a 70% retail asset book in 5 years (since merger), we believe it is on the right track to achieve those numbers quite ahead of its set deadline and outgrow its own size before the targeted 5 years time.

Immensely high yields from retail segment: IDFC FIRST Bank's yields from retail assets range around ~16% against a ~10% yield from wholesale assets, thereby providing both an opportunity as well as beneficial for the management to skew the mix favouring retail segment.

Lower risk going ahead; asset quality to only improve in future: The bank's asset quality will be witnessing a gradual & stable improvisation apart from expected Covid impacted stress as it keeps a tab on incremental corporate loans, exits from infrastructure lending and a more reliable and credit conscious retailers start banking with it.

Legacy book concerns addressed & well provided off: IDFC FIRST Bank has already provided healthy percentage for the legacy wholesale assets (infra, telecom, logistics company, etc.) with PCR levels at 64.5% by March 2020. The bank has been upfront to provide by 49% for several wholesale assets under watch-list comprising a total of Rs 3,205 Cr exposure towards these watch-list accounts.

Valuation & View

IDFC FIRST Bank is the sixth largest private sector bank in India with funded assets of more than Rs 1 lakh Cr. We estimate that the bank will be able to maintain its growth for the next few years while they increase its presence across the nation with new branches. The bank's legacy corporate accounts are expected to go down in future as new disbursements towards wholesale/corporate/infrastructure accounts have diminished and the bank intends to increase its retail books only during this period. IDFC FIRST Bank is trading at FY21E/FY22E P/ABV multiple of 0.87/0.81 (x) currently. However, going by the banks performance, book size, experienced management team as well as the fact that the expected defaults due to corona crisis have been well provided in advance, we assign a P/Adj. BV of 1.2 to arrive at a target price of Rs 37 per equity share and recommend BUY for IDFC FIRST Bank.

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Historical Background: IDFC FIRST Bank Ltd

IDFC FIRST Bank traces its roots from several entities: IDFC Bank Limited, IDFC Limited and Capital FIRST Limited.

IDFC Limited was founded in 1997 dedicated towards financing infrastructure projects for private sector. Dr. Rajiv Lall (Non-Executive Chairman, IDFC FIRST Bank Limited) joined IDFC Limited in 2005 and expanded it successfully to build an Asset Management Firm, Institutional Broking and Infrastructure Debt Fund. By 2013, IDFC Limited had applied for banking license with RBI which it received in 2014 along with Bandhan Bank. In 2015, IDFC Limited demerged its infrastructure lending business to form what became as IDFC Bank Limited.

In an entirely different business sphere, Mr. V. Vaidyanathan (Managing Director & CEO, IDFC FIRST Bank Limited), reputed to have built ICICI Bank's retail banking business from 2000-2009, and then MD & CEO of ICICI Prudential Life Insurance Company, quit from his positions to start his own entrepreneurial venture. He bought a listed NBFC with the stated intent of converting it to a commercial bank financing small businesses.

By 2016-17, both the respective entities started feeling the need for expansion into diverse forays or compromise with the growth momentum of their respective businesses. In IDFC Bank, the rising proportion of bad assets in its portfolio brought distress accompanied with increasing provisions and a tapering bottom-line.

On the other hand, Capital FIRST foraying into retail banking business, saw a turnaround as Mr. V Vaidyanathan arranged a management buyout of the firm along with securing Rs 810 Cr backing by global PE investor firm Warburg Pincus. With this, the new Capital FIRST was founded and kept on increasing its retail portfolio at a very aggressive pace.

While IDFC Bank did well since its banking operations started, it could not generate the kind of bottom-line as was expected from a small sized bank. The high concentration of corporate segment (~90%) of its total loan portfolio, and the additional slippages kept the bank's appetite for growth under wraps and look out foraying into retail segment. On the other hand, Capital FIRST knocked past several milestones with its rapid growth in the retail banking business. However, the lack of adequate & economic source of funds that all the banks were enjoying because of the presence of a big deposit base were about to curtail the growth rate of Capital FIRST.

Thankfully, they found each-other!!!

In Jan 2018, the heads of both the entities understood the utmost complementary nature of requirement of both the entities which were hindering the growth as well as profitability of each of the businesses and announced of the merger of the 2 entities. IDFC Bank was to benefit from the vast retail portfolio of Capital FIRST while Capital FIRST had the benefit of access to retailer's / depositor's funds to help bring down its cost of funds.

With Rs 32,622 Cr of AUM of Capital FIRST and a total book of funded assets of Rs 75,337 Cr, the 2 entities merged effectively on 18 Dec 2018 to form the new IDFC FIRST Bank Ltd. The merger transaction was an all share swap deal with IDFC Bank issuing 139 equity shares for each 10 shares of Capital FIRST Limited.

Business Overview: IDFC FIRST Bank Ltd

IDFC FIRST Bank has been operating as a full fledged commercial bank with focus on consumer loans, SME and retail personal loans, and a pool of funded assets of Rs 1,07,002 Cr as of March 2020.

Assets Under Management	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20
Mortgage	12,555	14,268	15,620	16,929	19,023	20,314
MSME Loans	5,891	7,122	7,925	8,491	9,559	10,338
Consumer Loans	13,541	14,885	16,212	17,159	19,152	19,971
JLG (MFI)	4,249	4,535	4,885	5,491	5,951	6,687
Total Retail Funded Assets	36,236	40,810	44,642	48,070	53,685	57,310
Retail Book as % of Total Advances	34.6%	37.0%	39.7%	44.7%	48.9%	53.6%
Wholesale Books						
Corporate	34,099	32,190	32,353	29,165	28,728	24,547
Emerging Large Corporates	7,886	9,133	9,145	8,345	7,419	6,629
Large Corporates	5,852	2,951	2,415	2,438	2,121	1,540
Financial institutions Group	10,158	11,988	12,933	12,610	13,604	12,645
Others	10,203	8,118	7,860	5,772	5,584	3,733
Infrastructure	22,710	21,459	20,322	17,211	15,601	14,840
Total Wholesale Funded Assets	56,809	53,649	52,675	46,376	44,329	39,388
Priority Sector Lending (Certificates)	8,575	12,924	12,268	10,318	8,913	7,954
Stressed Equity & Stressed SRs (D)	3,040	3,016	2,973	2,892	2,770	2,351
Total Wholesale Funded Assets & Others	68,424	69,589	67,916	59,586	56,012	49,692
Total Funded Assets	104,660	110,399	112,558	107,656	109,697	107,002

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Classification of Loan Book:

IDFC FIRST Bank's loan book which used to be skewed in favour of corporate/wholesale segments is slowly but gradually stabilizing its business coupled with diversification of risk to small ticket size assets. The bank had increased the mix of retail assets from 34.6% of its book to 53.6% by March 2020 in just around 1 & ½ year since its merger.

As is stated strategy by the MD & CEO Mr. V Vaidyanathan, the bank intends to shift its portfolio mix in favour of retail assets within the next 5 years (since Dec 2018).

The bank had also stated to bring down the infrastructure book down to nil in the same time-frame or as early it can while it will become very conservative towards corporate loans to large and emerging large corporates. The total outstanding principal book towards corporates can be seen falling in absolute numbers over last several quarters since the merger in all sub-segments but Financial Institutional Group (FIG) segment which comprises the JLG (Joint Liability Group loans) loan book of micro-finance business of IDFC FIRST Bank.

Investment Rationale: IDFC FIRST Bank Ltd

1. Fastest retailization among any bank: IDFC FIRST Bank's strategy has been to shift majority component of loan book mix from retail loans segment and its performance/disbursals over the past year reflect the same. The bank had planned a self-imposed time-frame of 5 years during which it will increase the mix of retail funded assets to 70% of its books but its quarterly performance and change in the loan book mix suggest a faster than expected execution of its plans.

The shift in this loan book mix could be attributed to several factors including overall demand from consumer segment being consistently high than from corporate segment. However, we see the plan-action execution by the bank in a unique manner which is helping it.

a. Increase in the number of branches: IDFC FIRST Bank had stated its intent of operating 700 branches across the nation within the 5 years stipulated time-frame. However, the bank has been adding branches very aggressively since the merger and has managed to add 258 new branches taking its total branch presence to 464. This has significantly increased their Cost/Income ratio during these quarters and we expect it to remain at elevated levels in the next couple of years while it keeps adding on its branch presence.

Expansion of Branch Network	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20
Number of Bank Branches	206	242	279	351	424	464
Addition of branches		36	37	72	73	40

#We expected a 10% QoQ branch expansion for the bank till March 21 (apart from the H1FY21 with lockdowns making a minor pause and 5% QoQ expansion going ahead after March 21

Source: Arian Research, Company Filings

b. Rapid Retailization by the bank

IDFC FIRST Bank has increased its retail funded assets book since its merger and strategically intends to increase it above 70% from retail segment. However, going by the pace of the bank as well as the overall credit demand from retail segment, we expect the composition of retail book to go past 70% of the total way ahead of the stipulated 5 years time-line.

The bank has been witnessing a higher single digit growth on a QoQ basis for all the retail product segment with the consumer loans sub-segment (catering to consumer durables product loan segment) making up the bulk of the book.

Retail Loans per Product (Rs Cr)	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20	Mar/21	Mar/22
Mortgage	12,555	14,268	15,620	16,929	19,023	20,314	22,411	27,241
MSME Loans	5,891	7,122	7,925	8,491	9,559	10,338	13,280	18,397
Consumer Loans	13,541	14,885	16,212	17,159	19,152	19,971	25,400	32,055
JLG (MFI)	4,249	4,535	4,885	5,491	5,951	6,687	8,845	12,033
Total Retail Funded Assets	36,236	40,810	44,642	48,070	53,685	57,310	69,936	89,727
Retail Book as % of Total Advances	34.6%	37.0%	39.7%	44.7%	48.9%	53.6%	63.8%	72.9%

#Estimates for next 2 years

Source: Arian Research, Company Filings

Investment Rationale: IDFC FIRST Bank Ltd (Cont'd)

Yields (annualized)	Mar-20
Retail	16.2%
Wholesale	10.2%
Overall	12.4%

Source: Arianth Research, Company Management

2. High Yields from Retail segment to drive overall yields: IDFC FIRST Bank's yields from retail lending activities stands around +16% while that of the wholesale book around ~10% dragging down its overall yield to around 12-13%. However, going ahead we expect this situation to benefit the bank as the proportion of retail funded assets in the total advances increases and the bank's overall income & yields also increase driving the spreads higher as well as the NIMs.

3. Increasing spreads for the Bank: As the bank's income from retail assets grow hand-in-hand with the growth in the size of the retail assets book, the bank will be witnessing its spreads increasing going ahead driven by an increasing overall yield.

4. Better & stable Asset Quality: The retail GNPA's/NNPA's are stable in comparison to the wholesale/corporate/infrastructure accounts the bank already has. The management of the bank has thereby adopted the right strategy to focus on cleaning its books from the corporate segment. The management remains confident that the delinquency rates from retail loans would stabilise once normalcy resumes after the pandemic and that the GNPA's/NNPA's would remain around 3%/1% in the foreseeable future.

Retail Asset Quality	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20
GNPAs	2.18%	2.32%	2.31%	2.26%	1.77%
NNPAs	1.24%	1.14%	1.08%	1.06%	0.67%

Source: Arianth Research, Company Presentations

5. Declining Wholesale Assets: In order to prevent events of defaults by large and emerging corporate accounts, the bank has become very conservative in new disbursements towards the corporate account customers. As per the management, the bank is not willing to grow its corporate books anymore and may reduce it further apart from the Financial Institutional Group (small NBFCs and MSMEs). This helps the bank's asset quality in 2 ways: it doesn't have to be bothered of large ticket defaults as well as no opportunity cost with the bank's capital stuck in any long pending insolvency proceedings.

Wholesale Books (Rs Cr)	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20	Mar/21	Mar/22
Corporate	34,099	32,190	32,353	29,165	28,728	24,547	21,761	20,129
Emerging Large Corporates	7,886	9,133	9,145	8,345	7,419	6,629	5,399	4,398
Large Corporates	5,852	2,951	2,415	2,438	2,121	1,540	1,254	1,022
Financial institutions Group	10,158	11,988	12,933	12,610	13,604	12,645	13,158	13,693
Others	10,203	8,118	7,860	5,772	5,584	3,733	1,949	1,017
Infrastructure	22,710	21,459	20,322	17,211	15,601	14,840	12,087	9,845
Total Wholesale Funded Assets	56,809	53,649	52,675	46,376	44,329	39,387	33,848	29,975
Priority Sector Lending (Certificates)	8,575	12,924	12,268	10,318	8,913	7,954	8,610	9,319
Stressed Equity & Stressed SRs	3,040	3,016	2,973	2,892	2,770	2,351	2,143	1,953
Total Wholesale Funded Assets & Others	68,424	69,589	67,916	59,586	56,012	49,692	44,601	41,247
Total Funded Assets	104,660	110,399	112,558	107,656	109,697	107,002	114,537	130,974

Estimates based on assumptions as per the company guidance

Source: Arianth Research, Company Management

Investment Rationale: IDFC FIRST Bank Ltd (Cont'd)

6. Increasing CASA and savings deposits to reduce the Cost of Funds for the bank in the future: IDFC FIRST Bank's CoF stood at 7.64% for Q3FY20 which is very high compared to other scheduled commercial banks (generally varies around ~5%). The bank has been increasing its CASA levels since the merger and is expected to come down as the bank is able to attract customers in savings accounts.

IDFC FIRST Bank has been opening new branches very aggressively over last few quarters aiming to get new customers with savings accounts that will ease its cost burdens. The bank's CASA has increased drastically over the last several quarters and we expect it to keep adding on branches and acquire new customers till it has the CASA at satisfactory levels (somewhere between 40-50% for most of the peer banks).

CASA as % of Total Deposits	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20	Mar/21	Mar/22
CASA %	8.7%	12.9%	14.6%	18.7%	24.1%	31.9%	42.7%	47.8%

Source: Arianth Research, Company Filings

Sources of Funds	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20	Mar/21	Mar/22
Borrowings								
Legacy Long Term Bonds	16,385	15,752	13,865	13,452	12,705	12,013	9,745	8,115
Infra Bonds	10,434	10,434	10,434	10,434	10,434	10,434	10,434	8,434
Refinance	3,446	4,047	13,379	14,197	13,478	14,738	14,881	16,108
Money Market Borrowings	10,962	16,493	14,399	11,586	15,212	7,228	7,521	7,827
Other Borrowings	27,388	23,256	23,966	18,996	15,196	12,984	6,492	0
Total Borrowings	68,615	69,982	76,043	68,665	67,025	57,397	49,074	40,483
Deposits								
CASA	5,274	9,114	9,594	12,473	16,204	20,661	36,136	52,907
CASA %	8.7%	12.9%	14.6%	18.7%	24.1%	31.9%	42.7%	47.8%
Retail Term Deposits	7,605	8,769	10,296	13,548	16,708	18,127	25,818	37,799
Wholesale Term Deposits	25,577	23,842	25,885	25,403	21,719	18,931	15,419	12,559
Certificate of Deposits	22,312	28,754	20,058	15,283	12,720	7,111	7,254	7,400
Total Deposits	60,768	70,479	65,833	66,707	67,351	64,830	84,627	110,666

Source: Arianth Research, Company Filings

Maturity of long term bonds to reduce borrowings & costs

IDFC FIRST Bank has been sourcing funds from borrowings for long now which has been clamping down the bank's spreads. With the bank's infrastructure bonds to be maturing by March 2021, along with the legacy long term bonds which increases the cost of funds for the bank.

IDFC FIRST Bank bears around 8.9% interest rate on the long term bonds and the infrastructure bonds. On the other hand, the increase in the number of branches will help the bank acquire retail customers and increase the CASA levels. Typically, being a new bank trying to compete and acquire customers from urban markets, the bank offers saving deposits rates at up to 7%, which is still better than the cost of borrowings from the bonds.

Going ahead, like other commercial banks, IDFC FIRST Bank will also favour CASA as its prime source of funds to keep a check on the Cost of Funds as well as have higher degree of security on its assets.

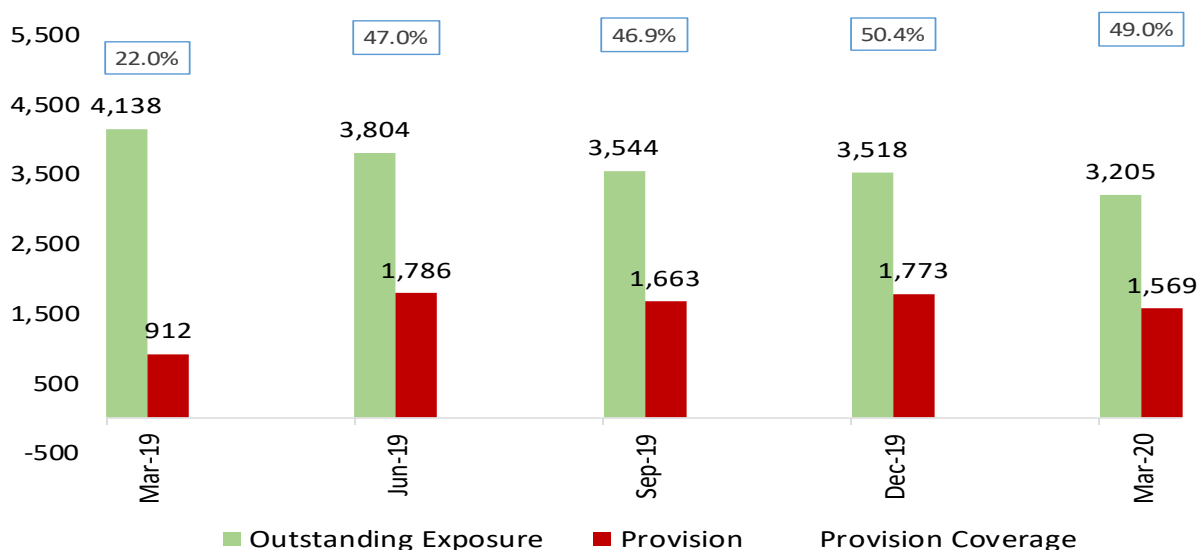
Asset Quality

IDFC FIRST Bank's GNPA/NNPA stood at 2.60%/0.94% respectively (2.88%/1.14% without considering the moratorium impact). The bank is strategically focussed in lending to retail customers and apart from the below list of legacy doubtful asset portfolio for which it has already provided for by 49% PCR, it refrains from increasing its corporate lending portfolio. Going ahead, we expect the rest of the corporate portfolio to comply with the repayment schedule and the retail NPAs to spike for a brief period post the moratorium. Also, with no Credit Card exposure, the asset exposure as unsecured is least compared to other banks.

Doubtful Stressed Asset Exposure as of 31 st March 2020 (Rs. Cr)	Outstanding Exposure	Provision	Provision Coverage (%)
Toll Road (BOT) project in MH	239	12	5%
Toll Road Projects in TN	45	10	23%
Wind Power Projects in AP, GJ, KN, RJ	168	92	55%
Solar Projects in RJ	88	0	0%
Thermal Power Project in Odisha	548	477	87%
Wind Power Projects in KN and RJ	25	18	71%
Toll Road Project in Punjab	17	17	100%
Coal beneficiation & thermal power in Chattisgarh	82	16	19%
Toll Road Projects in MH	934	154	16%
Logistics Company in Karnataka	100	53	53%
Large Housing Finance Company in Mumbai	596	448	75%
Diversified Financial Conglomerate in Mumbai	364	273	75%
Total Stressed Pool Identified	3,205	1,569	49%

Source: Arian Research, Company Filings

#does not include exposure towards Vodafone of Rs 3,200 Cr for which 50% provision has already been created



Source: Arian Research, Company Filings

Banking Sector Health

The Indian banking sector had been predominantly catered by the public sector banks who comprise almost two-third of the total banking business.

Advances Pvt Banks (Rs Cr)	Market Share	FY19	FY18	FY17	FY16	FY15
Total Private Sector Banks	37.2%	34,09,129	28,99,880	24,71,864	24,46,477	20,85,005
HDFC Bank Ltd.	9.0%	8,19,401	6,58,333	5,54,568	5,46,424	4,50,796
ICICI Bank Ltd.	6.4%	5,86,647	5,12,395	4,64,232	4,21,426	3,61,563
Axis Bank Ltd.	5.4%	4,94,798	4,39,650	3,73,069	3,57,968	3,22,442
Yes Bank Ltd.	2.6%	2,41,500	2,03,534	1,32,263	1,11,720	91,176
Kotak Mahindra Bank Ltd.	2.2%	2,05,695	1,69,718	1,36,082	1,38,643	74,860
IndusInd Bank Ltd.	2.0%	1,86,394	1,44,954	1,13,081	93,000	74,134
IDBI Bank Ltd.	1.6%	1,46,790	1,71,740	1,90,826	2,65,720	2,59,836
The Federal Bank Ltd.	1.2%	1,10,223	91,957	73,336	79,172	70,825
IDFC FIRST Bank Ltd.	0.9%	86,302	52,165	49,402	8,219	0
Standard Chartered PLC	0.7%	66,838	64,166	68,629	66,536	68,402
The Jammu & Kashmir Bank Ltd.	0.7%	66,272	56,913	49,816	69,390	65,756
The South Indian Bank Ltd.	0.7%	62,694	54,563	46,389	55,721	51,912
The Karnataka Bank Ltd.	0.6%	54,828	47,252	36,916	50,488	46,009
RBL Bank Ltd.	0.6%	54,308	40,268	29,449	24,349	17,099
Karur Vysya Bank Ltd.	0.5%	48,581	44,800	40,908	50,079	44,690
Bandhan Bank Ltd.	0.4%	39,643	29,713	16,839	12,089	0
City Union Bank Ltd.	0.4%	32,673	27,853	23,833	27,158	24,075
DCB Bank Ltd.	0.3%	23,568	20,337	15,818	14,926	12,609
AU Small Finance Bank Ltd.	0.2%	22,819	13,312	6,551	0	0
The Lakshmi Vilas Bank Ltd.	0.2%	20,103	25,768	23,729	25,431	21,964
Equitas Small Finance Bank Ltd.	0.1%	11,595	7,707	5,702	2,227	0
CSB Bank Ltd.	0.1%	10,615	9,337	8,119	14,438	14,474
Ujjivan Small Finance Bank Ltd.	0.1%	10,552	7,335	5,861	0	0
Dhanlaxmi Bank Ltd.	0.1%	6,289	6,110	6,446	11,354	12,382
Market Share		37.2%	35.2%	33.5%	33.7%	30.6%

Market Share Private Banks (Advances)	FY19	FY18	FY17	FY16	FY15
Total Private Sector Banks	37.2%	35.2%	33.5%	33.7%	30.6%
HDFC Bank Ltd.	9.0%	8.0%	7.5%	7.5%	6.6%
ICICI Bank Ltd.	6.4%	6.2%	6.3%	5.8%	5.3%
Axis Bank Ltd.	5.4%	5.3%	5.1%	4.9%	4.7%
Yes Bank Ltd.	2.6%	2.5%	1.8%	1.5%	1.3%
Kotak Mahindra Bank Ltd.	2.2%	2.1%	1.8%	1.9%	1.1%
IndusInd Bank Ltd.	2.0%	1.8%	1.5%	1.3%	1.1%
IDBI Bank Ltd.	1.6%	2.1%	2.6%	3.7%	3.8%
The Federal Bank Ltd.	1.2%	1.1%	1.0%	1.1%	1.0%
IDFC FIRST Bank Ltd.	0.9%	0.6%	0.7%	0.1%	0.0%
Standard Chartered PLC	0.7%	0.8%	0.9%	0.9%	1.0%
The Jammu & Kashmir Bank Ltd.	0.7%	0.7%	0.7%	1.0%	1.0%
The South Indian Bank Ltd.	0.7%	0.7%	0.6%	0.8%	0.8%
The Karnataka Bank Ltd.	0.6%	0.6%	0.5%	0.7%	0.7%
RBL Bank Ltd.	0.6%	0.5%	0.4%	0.3%	0.3%
Karur Vysya Bank Ltd.	0.5%	0.5%	0.6%	0.7%	0.7%
Bandhan Bank Ltd.	0.4%	0.4%	0.2%	0.2%	0.0%
City Union Bank Ltd.	0.4%	0.3%	0.3%	0.4%	0.4%
DCB Bank Ltd.	0.3%	0.2%	0.2%	0.2%	0.2%
AU Small Finance Bank Ltd.	0.2%	0.2%	0.1%	0.0%	0.0%
The Lakshmi Vilas Bank Ltd.	0.2%	0.3%	0.3%	0.3%	0.3%
Equitas Small Finance Bank Ltd.	0.1%	0.1%	0.1%	0.0%	0.0%
CSB Bank Ltd.	0.1%	0.1%	0.1%	0.2%	0.2%
Ujjivan Small Finance Bank Ltd.	0.1%	0.1%	0.1%	0.0%	0.0%
Dhanlaxmi Bank Ltd.	0.1%	0.1%	0.1%	0.2%	0.2%
Market Share	37.2%	35.2%	33.5%	33.7%	30.6%

Portfolio Composition

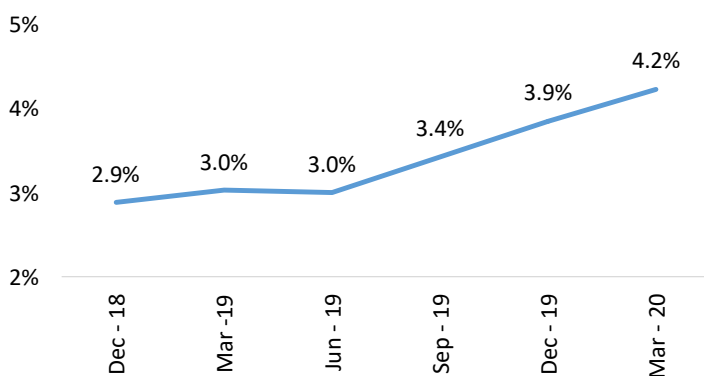
Funded Assets Portfolio (in Rs Cr)	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20	Mar/21	Mar/22
Retail	36,236	40,810	44,642	48,070	53,685	57,310	69,936	89,727
Corporate	34,099	32,190	32,353	29,165	28,728	24,547	21,761	20,129
Infrastructure	22,710	21,459	20,322	17,211	15,601	14,840	12,087	9,845
PSL	8,575	12,924	12,268	10,318	8,913	7,954	8,610	9,319
SRs & SE	3,040	3,016	2,973	2,892	2,770	2,351	2,143	1,953
Total Funded Assets	104,660	110,399	112,558	107,656	109,697	107,002	114,537	130,974

#We believe the company to grow its retail lending business primarily with FIG group among the corporate segment with any positive growth interest of the bank

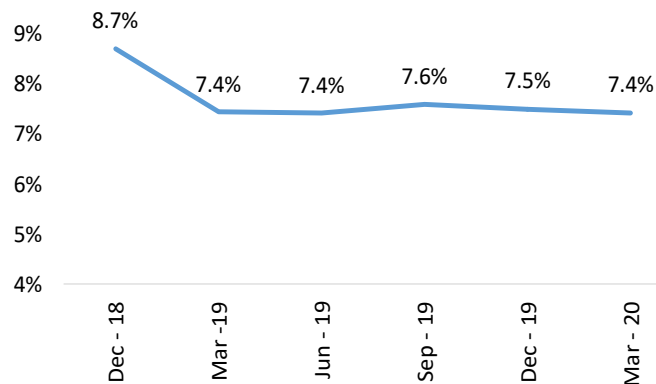
Source: Arian Research, Company Filings, etc.

Margins	Dec/18	Mar/19	Jun/19	Sep/19	Dec/19	Mar/20
NIMs	2.9%	3.0%	3.0%	3.4%	3.9%	4.2%
Overall Yields	12.1%	11.0%	11.4%	10.9%	11.8%	12.9%
Cost of Funds	8.7%	7.4%	7.4%	7.6%	7.5%	7.4%
CASA	8.7%	12.9%	14.6%	18.7%	24.1%	31.9%

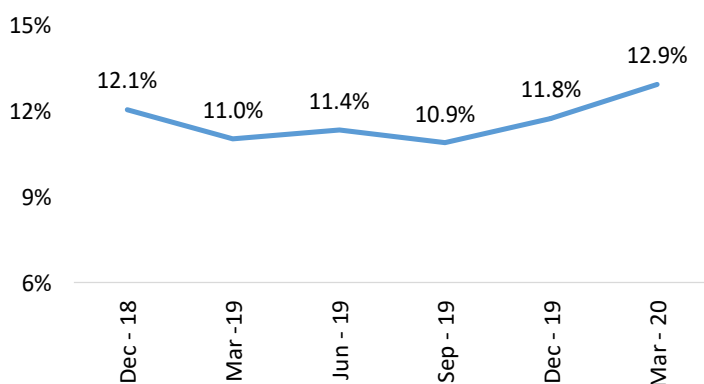
NIMs



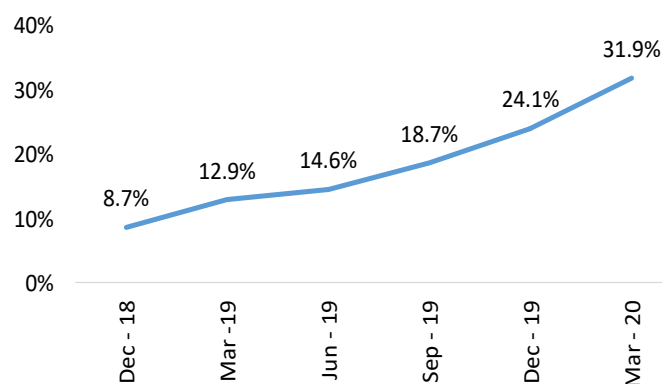
Cost of Funds



Overall Yields



CASA



Key Risks to Investment

IDFC FIRST Bank is among the top 10 private sector banks in India with a book size of more than Rs 1 lakh Cr. However, considering the macro environment being difficult for trade & business to prosper, the key risks to investment in IDFC FIRST Bank are as follows:

- Covid-19 (coronavirus) pandemic has been destroying wealth & economies all over the world since last couple of months. Since IDFC FIRST Bank operates in the domestic economy of India only by now, its exposure to risk of the pandemic spreading throughout India. Consumer demand for discretionary items slowing drastically could alter the growth plans of the bank as it rides high on lending consumer loans
- Heavy fresh slippages from legacy corporate portfolio and watch-list accounts on account of coronavirus. The RBI's bailout package for the banks for providing moratorium of 6 months before re-classification of any loan asset as NPA will temporarily mitigate the default risk by such corporates.
- Fall in repo & bank rates to such levels that affect the spreads of the bank.
- Big banks (peers) pushing their margins very low down to thwart competition from smaller banks, e.g. IDFC FIRST Bank.
- Like many other banks, the Credit Card unsecured portfolio risk is not there with IDFC FIRST Bank as the bank does not have any CC exposure. The risk of retail consumer loans going default will remain for the bank like all other banks during the corona crisis.

Impact of CoVid-19 coronavirus Pandemic: In line with the entire global economy, IDFC FIRST Bank will find the post-coronavirus markets behaving significantly different.

Until now, the bank's CEO has been following a stated strategy of lending to the retail consumers, specially the consumer product loans, mostly comprising of financing short term loans to consumer's purchasing household electrical appliances, e.g. refrigerator, AC, TV, Microwave, etc. However, with the advent of corona virus, the consumer spending towards these items will not pick up much pace as it used to witness till previous year. A nationwide lockdown allowing only essential items production will not only hamper the days lost while the factories remain shut, but also slow down run-rate of production of these factories till the actual demand picks up. The actual demand on the other hand will remain subdued as the entire industrial consumption of the economy will be impacted and suppressed on a quarterly basis while the consumer demand of discretionary items will pick-up later in the year, probably by Q3FY21 when the festive season demand kicks in.

Major risks to the asset portfolio of IDFC FIRST Bank can be concluded as:

However, all above will happen if we don't witness a prolonged coronavirus fear. In case the disease and its impact on day-to-day life lingers longer than the H1FY21, we will have to account for the opportunity loss as well as some permanent loss from the assets of the bank as well.

For the year FY21, we do expect the bank's asset quality to deteriorate due to poor macro economic condition triggering a spike in the gross and net NPA levels for the year FY21, with GNPA/NNPAs to go as high as 3.5%/1.1% by the end of this year. However, with the economy now almost 100% open and resuming normalcy across different segments, this will improve in subsequent years and we can expect a faster recovery once the pandemic crosses its peak.

Also, with the government providing credit guarantee schemes for banks to provide any liquidity requirement from MSME & corporate segment due to the Covid-19, the risk of extended credit during these hard times also reduces for all of banking sector overall and bolsters banks like IDFC FIRST to extend credit towards some business under stress as well.

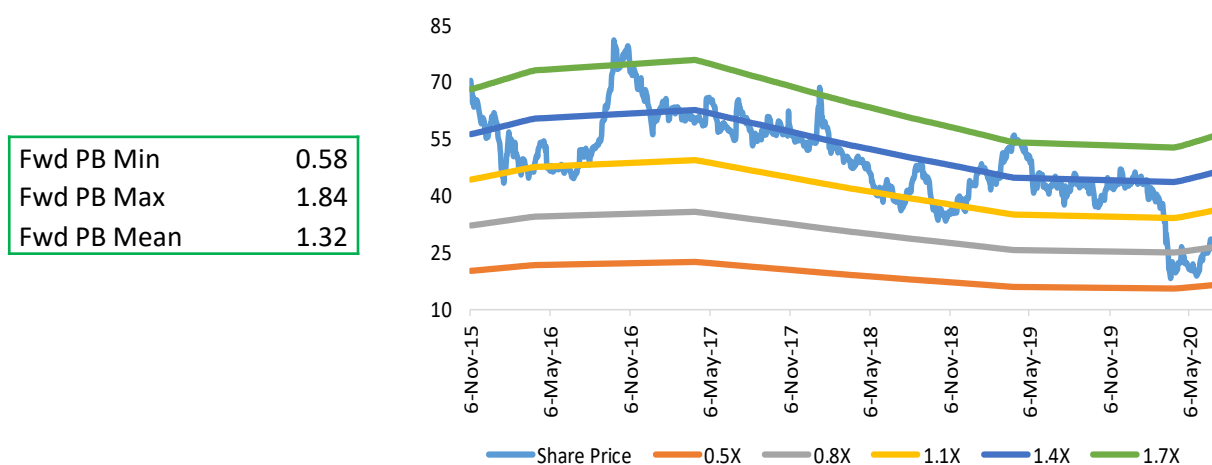
Valuation

IDFC FIRST Bank is among the top 10 private sector banks in India with a book size of more than Rs 1 lakh Cr. The bank's management is making strides towards their stated strategy for the bank's business by shifting the loan book mix in favour of retail segment. We estimate that the bank will be able to maintain its growth in the next few years while they increase its presence across the nation with new branches. We expect the bank to have around 700 branches by March 2022 which is very crucial strategically to reduce its Cost of Funds going ahead.

The bank's legacy corporate accounts are expected to go down in future as new disbursements towards wholesale/corporate/infrastructure accounts have diminished and the bank intends to increase its retail book size during this period. With yields as high as 15-16% from the retail lending segment, the NIMs & spreads are expected to go up while the acquisition of retail customers in new bank branches will help increase the CASA levels of the bank. However, we don't expect the 7% interest offered for savings account currently to continue for long as the motive behind the branch expansion is to get customers, increase CASA and reduce the Cost of Funds. While the branch expansion will be costly, hence the Cost/Income ratio will come down after the aggressive branch expansion phase ends.

IDFC FIRST Bank is trading at FY21E/FY22E P/ABV multiple of 0.87/0.81 (x) currently. However, going by the banks performance, book size, experienced management team as well as the fact that the corona-virus pandemic impact will linger for a shorter period of time, we assign a P/Adj. BV of 1.2 to arrive at a target price of Rs 37 per equity share and recommend BUY for IDFC FIRST Bank.

Historical P/Bs since listing



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Valuation	FY22E
BVPS	33.1
ABVPS	31.2
Target Multiple	1.2
Target Price	37
CMP	25
Upside	47.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (Rs Cr)	FY19	FY20	FY21E	FY22E
Interest Income	11,948	15,867	16,598	19,212
Interest Expended	8,749	10,232	9,814	10,708
Net Interest Income	3,199	5,635	6,784	8,504
Other Income	939	1,722	2,117	2,758
Operating Income	4,138	7,357	8,901	11,262
Operating Expenses	5,887	5,421	6,364	7,261
Employee Expenses	1,118	1,528	1,666	1,864
Other Operating Expenses	4,769	3,893	4,698	5,397
PPOP	-1,749	1,937	2,537	4,001
Provisions	1,546	4,315	2,164	2,446
PBT	-3,295	-2,379	373	1,554
Tax Expenses	-1,351	486	94	391
Net Income	-1,944	-2,864	279	1,163

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (Rs Cr)	FY19	FY20	FY21E	FY22E
Equity & Liabilities				
Share Capital	4,782	4,810	5,672	5,672
Reserves & Surplus	13,378	10,533	11,950	13,113
Net Worth	18,159	15,343	17,622	18,785
Deposits	70,479	65,108	84,627	110,666
Borrowings	69,983	57,397	49,074	40,483
Other Liabilities and Provisions	8,563	11,353	12,667	15,528
Total Capital & Liabilities	167,185	149,200	163,990	185,462
Assets				
Cash & Balances with RBI	4,150	3,380	4,795	6,802
Balances with Other Banks & Call Money	5,417	811	0	0
Investments	58,475	45,405	51,103	53,178
Advances	86,302	85,595	92,784	108,701
Fixed Assets	950	1,038	1,267	1,582
Other Assets	11,890	12,972	14,041	15,199
Total Assets	167,185	149,200	163,990	185,462

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

Ratios	FY19	FY20	FY21E	FY22E
Growth rates				
Advances (%)	65.4%	-0.8%	8.4%	17.2%
Deposits (%)	46.2%	-7.6%	30.0%	30.8%
Total assets (%)	32.1%	-10.8%	9.9%	13.1%
NII (%)	77.9%	76.2%	20.4%	25.4%
Pre-provisioning profit (%)	-238.4%	-210.7%	31.0%	57.7%
PAT (%)	-326.3%	47.3%	109.8%	316.2%
Balance sheet ratios				
Credit/Deposit (%)	122.5%	131.5%	109.6%	98.2%
CASA (%)	12.9%	31.9%	42.7%	47.8%
Advances/Total assets (%)	51.6%	57.4%	56.6%	58.6%
Leverage (x) (Asset/Shareholder's Fund)	9.21	9.72	9.31	9.87
CAR (%)	15.5%	13.4%	14.8%	13.5%
CAR - Tier I (%)	15.3%	13.3%	14.7%	13.4%
Operating efficiency				
Cost/income (%)	142.3%	73.7%	71.5%	64.5%
Opex/total assets (%)	3.5%	3.6%	3.9%	3.9%
Opex/total interest earning assets	3.8%	4.0%	4.3%	4.3%
Profitability				
NIM (%)	2.3%	3.9%	4.8%	5.4%
RoA (%)	-1.2%	-1.9%	0.2%	0.6%
RoE (%)	-10.7%	-18.7%	1.6%	6.2%
Asset quality				
Gross NPA (%)	2.4%	2.6%	3.5%	2.5%
Net NPA (%)	1.3%	0.9%	1.1%	1.0%
PCR (%)	48.2%	64.5%	68.6%	60.4%
Credit cost (%)	1.8%	5.0%	2.3%	2.3%
Per share data / Valuation				
EPS (INR)	-4.07	-5.95	0.49	2.05
BVPS (INR)	37.98	31.90	31.07	33.12
ABVPS (INR)	35.66	30.22	29.27	31.20
P/E (x)	-6.25	-4.27	51.56	12.39
P/BV (x)	0.67	0.80	0.82	0.77
P/ABV (x)	0.71	0.84	0.87	0.81

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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