

Retail Equity Research

IDFC First Bank Ltd.

Banking

BSE CODE: 539437

NSE CODE: IDFCFIRSTB

BLOOMBERG CODE: IDFCFB:IN


SENSEX: 60,906

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 55

TARGET Rs. 62

RETURN 12% 

(Closing: 02-11-22)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Moving ahead of guidance

IDFC First Bank, founded by the merger of erstwhile IDFC Bank and erstwhile Capital First on December 18, 2018. Currently, the bank has 670 branches, with a total funded asset value of Rs. 1,45,362 cr.

- Net Interest Income (NII) is expected to grow at a rate of 26% during FY23, with strong growth in business and expansion in margin.
- Advances and deposits are estimated to grow at a CAGR of 24% during FY22-24E.
- Bank has been successful in shifting its advance mix with retail focus and has made a considerable reduction in its corporate/ infrastructure book.
- Asset quality has been improving with GNPA/NNPA at 3.18%/1.09%. Provision Coverage Ratio (PCR) improved to 76.5%. Management has provided credit cost guidance of 1.5% for FY23.
- We value the bank at 1.55x Adj. BVPS of FY24E with a target price of Rs.62 and recommend an Accumulate rating.

Strong business growth to support earnings

Net Interest Income (NII) is expected to grow at a rate of 26% YoY during FY23 and 23% in FY24, with strong growth in business. As of H1FY23, NII grew by 29%, with interest income growing at a rate of 27% YoY and interest expense at 24%. Reported net interest margin stood at 5.98% in Q2FY23 compared to 5.89% in the previous quarter. Management expects to maintain NIM at 6% for FY23. With declining cost of funds due to a reduction in high cost legacy borrowings, the bank will be able to improve their margins further. However, a higher mix of fixed advances will add pressure. Of the total advance book, only 38% are external benchmark linked, while 63% are fixed in nature. Bank has repaid ~Rs.2,000cr of high cost borrowings during Q2FY23 and the total high cost legacy borrowing stands at Rs.20,449cr compared to Rs.22,406cr in Q1FY23. With high net interest income and lower cost, bank is expected to reported a PAT of Rs.2,180cr in FY23, compared to Rs.145cr in FY22. Management expects credit cost to decline to 1.5% during FY23, compared to 2.5% in FY22 and is on track for the same.

Strong growth supported by retail book

The bank has accelerated its growth with focus on retail advances. Gross Funded Asset of the bank stands at Rs.1,45,362cr, up 10% in H1FY23 compared to Rs.1,31,951cr in FY22. The growth was driven by retail book which stand at Rs.1,08,228cr. However, the wholesale funded asset book is showing a declining trend in line with management guidance. Management expects the loan book to grow at a rate of more than 20% going forward. Deposit has also displayed a robust performance, led by growth in the CASA book. CASA ratio of the bank stood at 51.3%, compared to 49.9% in FY22. Capital Adequacy of the bank stands at 15.35%.

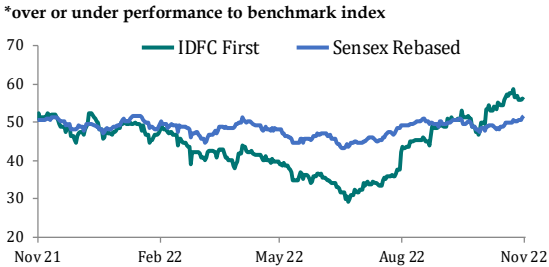
Improvement in asset quality

On the overall loan book, asset quality has shown significant improvement. The GNPA of the bank improved 18bps on a sequential basis to 3.18%, while the NNPA stood at 1.09%, showing an improvement of 21bps. The retail segment, which constitutes 79.4% of the total book, has GNPA/NNPA of 2.03%/0.73%. Overall Provision Coverage Ratio improved to 76.5% compared to 72.2% in Q1. Management expects credit costs to decline to 1.5% in FY23

Outlook & Valuation

Management is moving ahead of their guidance for growth. With strong support from retail segment, bank's advances grew at 25% YoY while deposits grew by 36%. Management expects their book to grow by more than 20% going forward. With declining legacy issues and a high growth prospect, we upgrade our earnings forecast for FY24 and value the stock at 1.55x FY24 Adj. BVPS to arrive at a target price of Rs.62 and recommend an Accumulate rating.

Company Data			
Market Cap (Rs cr)	34,658.2		
Outstanding Shares (cr)	622.2		
Free Float (%)	63.5		
Dividend Yield	-		
52 week high (Rs)	59.4		
52 week low (Rs)	29.0		
6m average volume (cr)	4.0		
Beta	1.0		
Face value (Rs)	10		
Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	36.5	36.5	36.5
FII's	13.5	11.0	19.3
MFs/Institutions	9.6	10.2	9.8
Public/Others	40.4	42.3	34.4
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 month	6 month	1 year
Absolute Return	29.1%	42.1%	10.2%
Absolute Sensex	4.7%	9.7%	1.6%
Relative Return*	24.3%	32.4%	8.6%



Standalone (cr)	FY22A	FY23E	FY24E
NII	9,706	12,184	14,948
Growth(%)	31.5	25.5	22.7
NIM(%)	6.26	6.56	6.60
Provisions	3,109	1,505	1,984
Adj. PAT	145	2,180	2,996
Growth(%)	-67.8	1398.7	37.4
Adj. EPS	0.2	3.5	4.8
Growth(%)	-71.6	1423.8	37.4
BVPS	33.8	36.9	41.4
Adj BVPS	30.8	34.8	39.8
P/E	242.0	15.9	11.6
P/B	1.6	1.5	1.3
Adj. P/B	1.8	1.6	1.4
ROE (%)	0.8	9.9	12.3

Cyril Charly
Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q2FY23	Q1FY23	QoQ Growth (%)	Q2FY22	YoY Growth (%)	H2FY23E	H2FY22	YoY Growth (%)
Interest Income	5,470	4,922	11.1	4,101	33.4	11,343	8,983	26.3
Interest Expense	2,468	2,171	13.7	1,828	35.0	4,912	3,734	31.6
Net Interest Income (NII)	3,002	2,751	9.1	2,272	32.1	6,430	5,249	22.5
Fee and Other Income	1,061	856	24.0	780	36.1	2,212	1,600	38.3
Total Income	4,064	3,607	12.7	3,052	33.1	8,643	6,849	26.2
Expenditure	2,895	2,663	8.7	2,359	22.7	6,284	5,253	19.6
Pre-Provision Profit	1,169	944	23.8	693	68.7	2,359	1,596	47.8
Provision	424	308	38	475	-11	773	761	2
Exceptional Item	0	0	-	0	-	0	0	-
PBT	745	636	17.1	218	242.1	1,586	835	90.0
Tax	189	162	17.0	66	-	436	211	106.3
Reported PAT	556	474	17.1	152	266.1	1,151	624	84.4
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	556	474	17.1	152	266.1	1,151	624	84.4
Diluted EPS (Rs)	0.88	0.75	17.3	0.24	-0.5	1.87	0.99	89.4

- With support from the retail loan book, strong operating performance is expected to continue in H2FY23, with NII growing at 23% YoY and PAT growing at 84%.
- Further reduction in legacy borrowings along with an improving CASA mix will aid margin expansion in the coming quarters.

Change in Estimates

	Old estimates		New Estimates		Change%	
Year / Rs cr	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Interest Income (NII)	11,405	13,403	12,184	14,948	6.8%	11.5%
Net Interest Margin (%)	6.35	6.36	6.56	6.60	21bps	24bps
Pre-Provision Profit	4,014	4,834	4,472	6,061	11.4%	25.4%
Adj. PAT	1,546	1,960	2,180	2,996	41.0%	52.9%
EPS (Rs)	2.49	3.15	3.50	4.82	40.8%	52.9%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	16,308	15,968	17,173	21,734	26,931
Interest Expense	10,232	8,588	7,467	9,550	11,982
Net Int. Income	6,076	7,380	9,706	12,184	14,948
Change	89.9	21.5	31.5	25.5	22.7
Non Int. Income	1,722	2,254	3,222	4,129	5,117
Operating Income	7,798	9,634	12,928	16,313	20,065
Change	92.5	23.5	34.2	26.2	23.0
Operating Exp.	5,861	7,093	9,644	11,841	14,005
Pre Prov. Profit	1,937	2,541	3,284	4,472	6,061
Prov. & Conting.	4,315	2,065	3,109	1,505	1,984
PBT	-2,379	476	175	2,967	4,077
Change	-	-	-63.2	1593.5	44.8
Tax	486	24	30	786	1,080
Tax Rate (%)	-20	5	17	27	27
Reported PAT	-2,864	452	145	2,180	2,996
Adjustment	0	0	0	0	0
Adj. PAT	-2,864	452	145	2,180	2,996
Change	-	-	-67.8	1398.7	44.8
No. of shares (Cr)	481	568	6,218	622	622
EPS (Rs)	-5.9	0.8	0.2	3.5	4.8

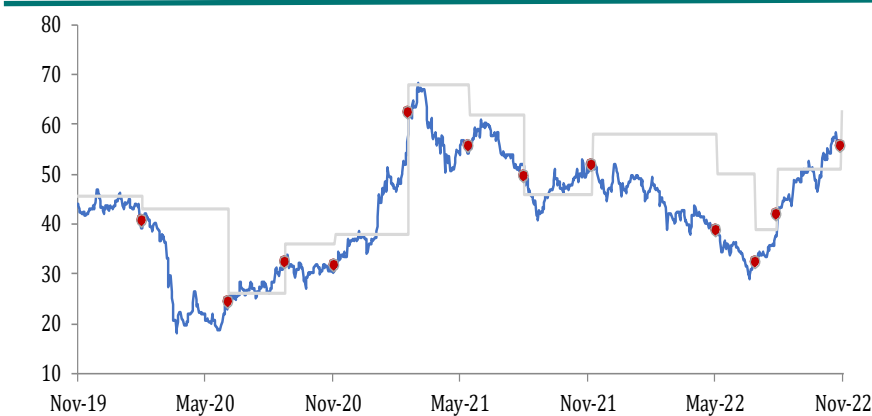
BALANCE SHEET

Y.E March (Rs cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	4,191	5,828	15,758	12,364	9,103
Loans & Advances	85,595	1,00,550	1,17,858	1,50,522	1,80,368
Investments	45,405	45,412	46,145	57,204	64,899
Gross Fixed Assets	4,618	5,146	5,764	6,455	7,230
Net Fixed Assets	1,038	1,266	1,361	1,854	2,244
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	12,972	10,088	9,060	11,441	12,980
Total Assets	1,49,200	1,63,144	1,90,182	2,33,386	2,69,593
Deposits	65,108	88,688	1,05,634	1,35,499	1,61,206
Debt Funds	57,397	45,786	52,963	62,925	68,315
Other Liabilities	11,353	10,862	10,597	12,013	14,346
Provisions	-	-	-	-	-
Equity Capital	4,810	5,676	6,218	6,218	6,218
Reserves & Surplus	10,533	12,132	14,770	16,731	19,509
Shareholder's Funds	15,343	17,808	20,987	22,949	25,726
Total Liabilities	1,49,200	1,63,144	1,90,182	2,33,386	2,69,593
BVPS (Rs)	31.9	31.4	33.8	36.9	41.4
Change(%)	-16.0	-1.6	7.6	9.3	12.1
Adj. BVPS (Rs)	30.2	28.1	30.8	34.8	39.8
Change(%)	-15.3	-7.1	9.9	13.0	14.3

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
Interest yield (%)	11.4	11.3	10.8	11.5	11.7
Cost of funds (%)	7.8	6.7	5.1	5.4	5.6
Spread(%)	3.6	4.6	5.7	6.1	6.1
NIM (%)	4.2	5.3	6.3	6.6	6.6
ROE (%)	-17.1	2.7	0.8	9.4	12.4
ROA(%)	-1.8	0.3	0.1	1.0	1.2
Business Growth					
Loans & Advances (%)	-0.8	17.5	17.2	27.7	19.8
Deposits (%)	-7.6	36.2	19.1	28.3	19.0
Operating Ratios					
Cost to Income (%)	74.2	73.6	74.6	72.6	69.8
CASA (%)	32.2	51.8	48.4	51.0	52.0
Asset Quality					
GNPA (%)	2.6	4.2	3.7	3.0	2.7
NNPA (%)	0.9	1.9	1.5	0.8	0.5
Capital Adequacy					
Tier 1 CAR (%)	13.3	13.3	14.9	13.4	12.5
CAR (%)	13.4	13.8	16.7	13.5	12.6
Valuation					
P/E (x)	-9.4	68.7	242.0	15.9	11.6
P/B (x)	1.7	1.8	1.6	1.5	1.3
Adj. P/B (x)	1.8	2.0	1.8	1.6	1.4

Recommendation Summary (last 3 years)



Dates	Rating	Target
04 February 20	Hold	43.2
06 June 20	Hold	26.2
26 August 20	Accumulate	36
06 November 20	Buy	38
04 February 21	Buy	68
17-May-21	Accumulate	62
04-August-21	Reduce	46
11-November-21	Accumulate	58
07-May-22	Buy	50
01-July-22	Buy	39
02-Aug-22	Buy	51
03-Nov-22	Accumulate	62

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not Rated/Neutral: The analyst has no investment opinion on the stock

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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