

July 29, 2020

Q1FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	SELL		SELL	
Target Price	21		21	
NII (Rs. m)	74,686	83,569	72,840	81,629
% Chng.	2.5	2.4		
Op. Profit (Rs. m)	24,101	23,601	21,480	25,039
% Chng.	12.2	(5.7)		
EPS (Rs.)	0.9	1.1	0.7	1.6
% Chng.	17.8	(32.7)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII (Rs m)	56,353	65,633	74,686	83,569
Op. Profit (Rs m)	19,367	24,679	24,101	23,601
PAT (Rs m)	(28,642)	2,571	4,916	6,189
EPS (Rs.)	(6.0)	0.5	0.9	1.1
Gr. (%)	25.7	(108.2)	76.7	25.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
NIM (%)	3.9	4.9	5.4	5.5
RoAE (%)	(17.1)	1.6	2.8	3.4
RoAA (%)	(1.8)	0.2	0.3	0.4
P/BV (x)	0.9	0.9	0.9	0.9
P/ABV (x)	1.0	0.9	0.9	0.9
PE (x)	(4.7)	57.8	32.7	26.0
CAR (%)	13.4	15.3	15.1	14.6

Key Data

IDFB.BO | IDFCFB IN

52-W High / Low	Rs.48 / Rs.18
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.161bn/ \$ 2,150m
Shares Outstanding	5,672m
3M Avg. Daily Value	Rs.2389.3m

Shareholding Pattern (%)

Promoter's	40.00
Foreign	19.63
Domestic Institution	11.25
Public & Others	29.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.2	(35.6)	(31.7)
Relative	0.3	(30.4)	(32.4)

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COVID impact to keep return ratios dismal

Quick Pointers:

- Continued strong traction in SA deposits with growth of almost 2x YoY & 24% QoQ, leading CASA ratio of 33.6% up 190bps QoQ
- Loan book under moratorium came off to 28% as compared to 45% in last quarter.

IDFCFB's earnings performance of Rs935mn (PLe: Rs889mn) was broadly in line with expectations but was better on PPOP on back of better NII and treasury gains which helped to make an additional Rs3.75bn of COVID related provisions and now has Rs6bn (60bps of loans) of COVID provisions. Loans under moratorium has come off to 28% as compared to 45% in Q4FY20 (35% excl. Agri) with 23% in retail and 35% in wholesale book. Bank's retail drive continues to move ahead with strong SA growth of 24% QQ and Retail TDs up 10% QoQ replacing bulky deposits, while corporate book has continued to de-grow and retail has held up steady keep mix of retail at 54%. As balance sheet continues to transition with consolidation return ratios will remain muted in near term, while we remain conservative from hits on COVID impact. We retain SELL with TP of Rs21 based on 0.65x FY22BV.

- Retail liabilities has been strong; retail asset halt momentum:** Retail CASA+Retail TDs have reached 62% of overall deposits, with SA growing 24% QoQ & 2x YoY has been strong achievement. Bank offers much higher SA rate of at 6-7% compared to peers of 2.5-5.0% and higher TD rates (though coming down) which has come as advantage. Bank continues to add NTB customers, while also on small proportion keep mining cross to existing asset customers. On retail assets, growth was 25% YoY/-2.2% QoQ due to lockdown but better than peers as MFI & mortgage book has held up well, while consumer loans have remained under pressure with 4% QoQ de-growth. We believe, bank retail mix will continue to move up as wholesale assets wind down gradually and should improve mix from current 56% to 70% by FY22 end.
- Operationally holds up:** Overall PPOP was up 180% YoY on Rs3.3bn of treasury gains, although core PPOP grew by 80% YoY with strong NII growth of 38% YoY and slower other opex growth. Fee income was weak on lower disbursements and employee expenses seemed slightly higher with 22% growth. NII has been benefitting from changing mix in loans and importantly reducing cost of funds by replacing wholesale deposits with retail.
- Asset quality shows marked improvement but due to moratorium:** GNPA/NNPA saw 60bps/43bps decline sequentially on lower slippages benefitting from standstill & moratorium. Continued provisions also led to improvement in PCR to 74% from 64% in Q4FY20. Moratorium has come down to 28% v/s 45% in Q4FY20 (35% excl Agri) with higher in corporate at 35% and is likely due to higher infrastructure portfolio, although loan book is coming off faster. Bank holds 60bps of COVID related provisions, while it has +50% provision in its stressed assets, although slippages are likely to be high given retail concentration in LAP, consumer loans & MFI which will may keep earnings under pressure.

Exhibit 1: Q1FY21 results – Higher Provisions set-off lower costs

P&L (Rs million)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Interest Income	38,314	37,931	1.0	39,559	(3.1)
Interest Expense	22,055	26,187	(15.8)	23,924	(7.8)
Net interest income (NII)	16,259	11,745	38.4	15,635	4.0
Other income	4,849	3,105	56.2	4,838	0.2
Total income	21,108	14,939	41.3	20,473	3.1
Operating expenses	12,191	11,672	4.4	15,275	(20.2)
-Staff expenses	4,432	3,611	22.7	3,636	21.9
-Other expenses	7,760	8,061	(3.7)	11,639	(33.3)
Operating profit	8,916	3,267	172.9	5,198	71.5
Core operating profit	8,916	3,087	188.8	4,680	90.5
Total provisions	7,641	12,808	(40.3)	4,124	85.3
Profit before tax	1,275	(9,540)	N/A	1,074	18.8
Tax	340	(3,457)	N/A	358	(5.1)
Profit after tax	935	(6,174)	N/A	715	30.8
Balance Sheet					
Deposits	6,98,320	6,62,260	5.4	6,51,080	7.3
Borrowings	5,23,970	7,60,440	(31.1)	5,73,972	(8.7)
Net Loan Assets	9,80,620	10,68,730	(8.2)	10,04,180	(2.3)
Profitability ratios					
NIM	4.5	3.0	152	4.2	29
RoAA	0.2	(1.5)	171	0.2	6
Asset Quality					
Gross NPL (Rs m)	17,417	24,186	(28.0)	22,796	(23.6)
Net NPL (Rs m)	4,366	12,151	(64.1)	8,086	(46.0)
Gross NPL ratio	2.0	2.7	(67)	2.6	(61)
Net NPL ratio	0.5	1.4	(84)	0.9	(43)
Coverage ratio	74.9	49.8	2,517	64.5	1,040
Business & Other Ratios					
Low-cost deposit mix	33.7	14.6	1,917	31.9	187
Cost-income ratio	57.8	78.6	(2,084)	74.6	(1,685)
Non int. inc / total income	23.0	20.9	206	23.6	(66)
CAR	15.0	14.0	102	13.4	165

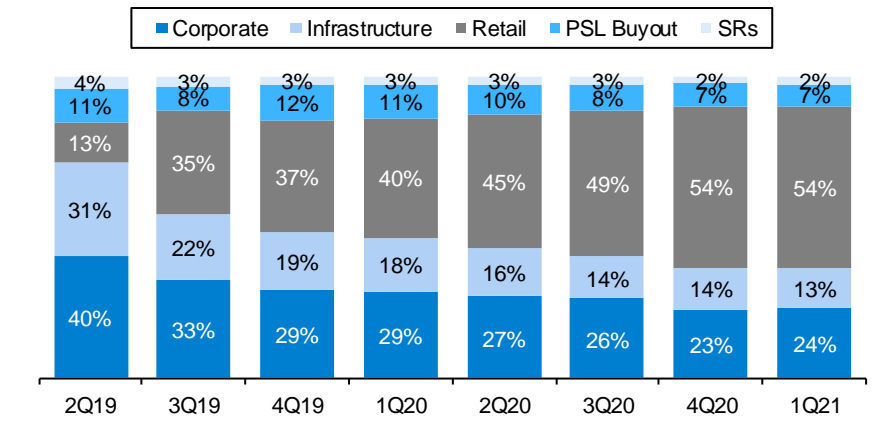
Source: Company, PL

Exhibit 2: Retail continues to grow with planned de-growth in Wholesale

Loan Mix	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Wholesale	3,79,280	5,26,750	(28.0)	3,93,880	(3.7)
Corporate	2,45,120	3,23,520	(24.2)	2,45,480	(0.1)
Infrastructure	1,34,160	2,03,220	(34.0)	1,48,400	(9.6)
Retail	5,60,430	4,46,420	25.5	5,73,100	(2.2)
PSL Buyout	77,320	1,22,680	(37.0)	79,540	(2.8)
Total Stressed Assets	23,470	29,730	(21.1)	23,510	(0.2)
Total	10,40,500	11,25,570	(7.6)	10,70,030	(2.8)

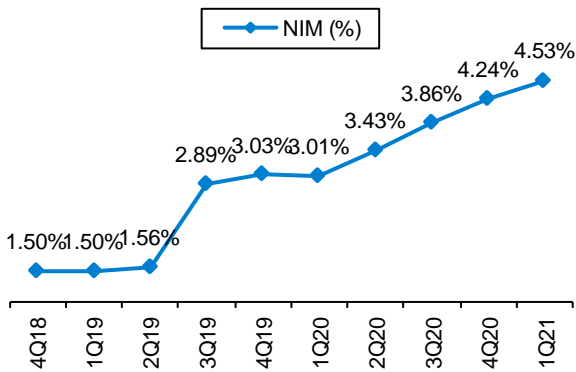
Source: Company, PL

Exhibit 3: Mix remains steady QoQ as Retail book maintains YoY growth



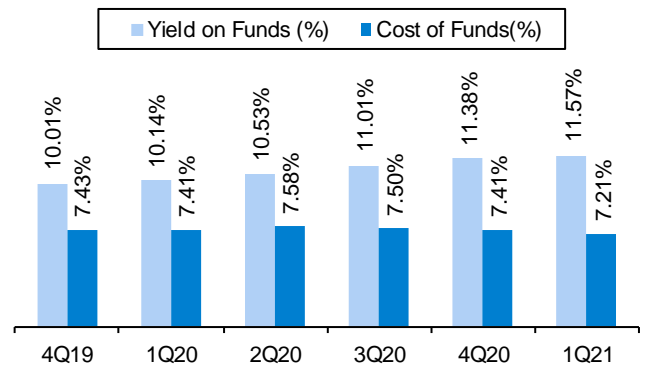
Source: Company, PL

Exhibit 4: NIMs improve on consistent focus on Retail Book



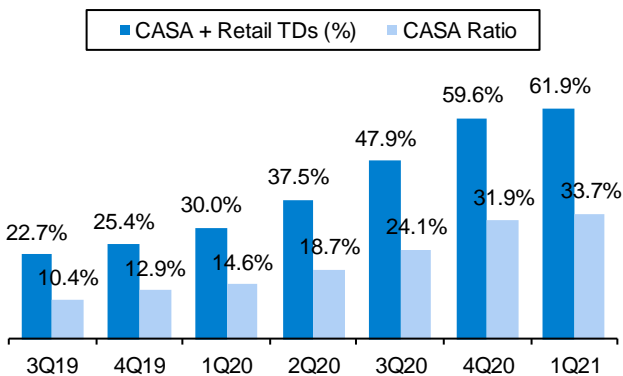
Source: Company, PL

Exhibit 5: Yield on and Cost of Funds improve well



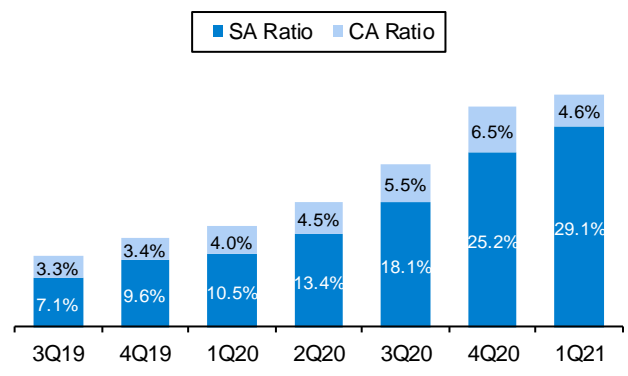
Source: Company, PL

Exhibit 6: CASA + Retail TDs see steady build up

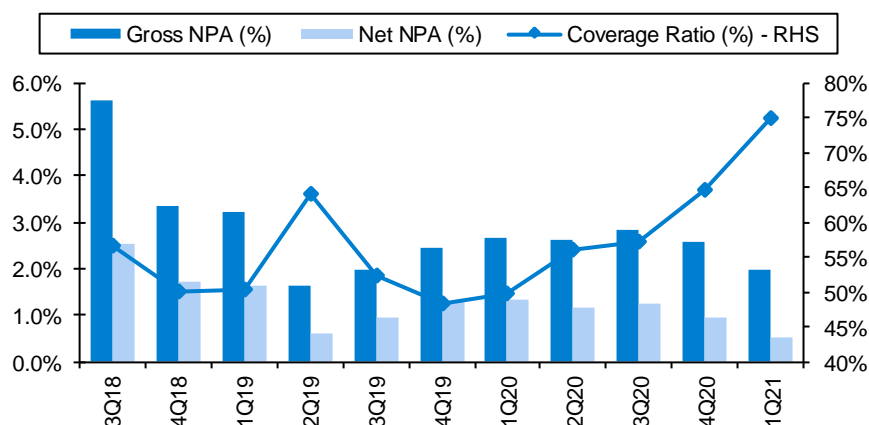


Source: Company, PL

Exhibit 7: SA does well though CA comes off sequentially



Source: Company, PL

Exhibit 8: Asset Quality improves and PCR raised significantly


Source: Company, PL

Exhibit 9: Retail Asset Quality too improves with a jump in PCR

Retail Asset Quality (%)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Retail GNPA %	2.18	2.32	2.31	2.26	1.77	0.87
Retail NNPA %	1.24	1.14	1.08	1.06	0.67	0.24
PCR %	43.1	50.9	53.2	53.0	62.1	72.4

Source: Company, PL

Exhibit 10: Watchlist improves mainly as exposure to MH toll project and Wind projects fall while overall provisioning shows improvement too

Stressed Assets under Watch (Funded Exposure in Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Legacy Accounts in HFC, financial services	18,740	15,670	13,360	12,340	960	961
PCR on Legacy Accounts in HFC, financial services	-	75%	75%	75%	75%	78%
Legacy Accounts in Logistics	-	-	-	1,000	1,000	1000
PCR on Legacy Accounts in Logistics	-	-	-	53%	53%	53%
Legacy Toll Infrastructure Account	10,260	10,060	9,850	9,630	9,340	9,270
PCR on Legacy Toll Infrastructure Account	-	15%	15%	16%	16%	17%
Other Legacy Infrastructure Accounts under watch list	8,660	8,630	8,580	8,520	8,460	8,410
PCR on Other Legacy Infrastructure Accounts under watch list	-	70%	70%	71%	71%	80%
Legacy restructured but performing accounts	3,390	3,370	3,330	3,390	3,660	3,660
PCR on Legacy restructured but performing accounts	-	-	-	11%	10%	10%
Total Outstanding Stressed Assets	41,060	37,720	35,130	34,870	32,050	31,950
<i>as a % of Net Loan Assets</i>	<i>3.84%</i>	<i>3.47%</i>	<i>3.40%</i>	<i>3.49%</i>	<i>3.27%</i>	<i>3.26%</i>
Total Provisions	9,120	17,860	16,630	17,730	15,690	16,680
PCR %	22%	47%	47%	51%	49%	52%
Exposure to Legacy Telecom Account	-	-	-	32,440	32,440	32,440
PCR on Legacy Telecom Account	-	-	-	50%	50%	50%

Source: Company, PL

Exhibit 11: Return ratios to recover helped by lower loan loss provisions but remain dismal

RoA decomposition	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Interest income	4.29	8.73	7.48	8.14	10.03	10.21	10.09
Interest expenses	3.29	6.67	5.98	5.96	6.47	5.81	5.27
Net interest income	1.00	2.07	1.51	2.18	3.56	4.40	4.82
Treasury income	0.39	0.73	0.57	0.06	0.18	0.44	0.21
Other Inc. from operations	0.08	0.30	0.36	0.58	0.91	0.76	1.04
Total income	1.47	3.10	2.44	2.82	4.65	5.60	6.06
Employee expenses	0.30	0.59	0.57	0.76	0.97	1.08	1.12
Other operating expenses	0.30	0.72	0.82	3.25	2.46	2.86	3.39
Operating profit	0.87	1.79	1.06	(1.19)	1.22	1.65	1.55
Tax	0.29	0.46	0.14	(0.92)	0.31	0.06	0.11
Loan loss provisions	0.03	0.29	0.20	1.05	2.73	1.42	1.13
RoAA	0.55	1.04	0.72	(1.32)	(1.81)	0.17	0.32
RoAE	3.0	7.2	5.7	-27.2	-17.1	1.6	2.8

Source: Company, PL

Exhibit 12: Change in earnings estimates – We lower growth, conservatively increase credit costs

Rs (mn)	Old		Revised		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income	65,862	72,840	65,633	74,686	(0.3)	2.5
Operating profit	20,068	21,480	24,679	24,101	23.0	12.2
Net profit	1,416	3,538	2,571	4,916	81.5	39.0
Loan Growth (%)	3.0	6.0	2.0	5.0	(1.0)	(1.0)
Credit Cost (bps)	210.0	170.0	230.0	180.0	20.0	10.0
EPS, Rs.	0.3	0.6	0.5	0.9	66.6	35.4
ABVPS, Rs.	31.0	31.9	30.2	30.8	(2.7)	(3.4)
Price target, Rs.	21		21		(4.5)	
Recommendation	SELL		SELL			

Source: Company, PL

Exhibit 13: We maintain our TP at Rs21 based on 0.7x Mar-FY22 ABV

PT calculation and upside	
Market risk premium	7.3%
Risk-free rate	6.5%
Adjusted beta	1.07
Terminal Growth	5.0
Cost of equity	14.2
Fair price - P/ABV	21
Target P/ABV	0.7
Target P/E	23.7
Current price, Rs	28
Upside (%)	-28%
Dividend yield (%)	0%
Total return (%)	-28%

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Earned from Adv.	1,16,345	1,18,438	1,22,601	1,31,871
Int. Earned from invt.	39,173	32,418	32,194	34,655
Others	2,350	624	581	568
Total Interest Income	1,58,673	1,52,380	1,56,382	1,68,268
Interest Expenses	1,02,320	86,747	81,696	84,700
Net Interest Income	56,353	65,633	74,686	83,569
<i>Growth(%)</i>	76.2	16.5	13.8	11.9
Non Interest Income	17,222	17,910	19,343	21,278
Net Total Income	73,575	83,544	94,030	1,04,847
<i>Growth(%)</i>	36.5	(3.2)	3.2	7.9
Employee Expenses	15,276	16,192	17,326	18,712
Other Expenses	35,877	39,465	49,331	59,197
Operating Expenses	54,207	58,864	69,928	81,246
Operating Profit	19,367	24,679	24,101	23,601
<i>Growth(%)</i>	(210.7)	27.4	(2.3)	(2.1)
NPA Provision	4,416	19,884	16,108	14,438
Total Provisions	43,153	21,244	17,532	15,330
PBT	(23,785)	3,436	6,570	8,271
Tax Provision	4,857	865	1,654	2,082
<i>Effective tax rate (%)</i>	(20.4)	25.2	25.2	25.2
PAT	(28,642)	2,571	4,916	6,189
<i>Growth(%)</i>	(21.4)	(109.0)	91.2	25.9

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Face value	10	10	10	10
No. of equity shares	4,810	5,672	5,672	5,672
Equity	48,099	56,723	56,723	56,723
Networth	1,53,426	1,75,997	1,80,913	1,87,102
<i>Growth(%)</i>	(15.5)	14.7	2.8	3.4
Adj. Networth to NNPA's	8,086	4,884	6,138	5,648
Deposits	6,51,080	6,83,634	7,38,324	8,26,923
<i>Growth(%)</i>	(7.6)	5.0	8.0	12.0
CASA Deposits	2,09,397	2,39,272	2,76,872	3,14,231
<i>% of total deposits</i>	32.2	35.0	37.5	38.0
Total Liabilities	14,92,004	14,93,956	16,07,246	17,73,041
Net Advances	8,55,954	8,73,073	9,16,726	10,08,399
<i>Growth(%)</i>	(0.8)	2.0	5.0	10.0
Investments	4,54,046	4,20,124	4,63,351	5,07,461
Total Assets	14,92,004	14,93,956	16,07,246	17,73,041
<i>Growth (%)</i>	(10.8)	0.1	7.6	10.3

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs (Rs m)	22,796	20,355	23,794	18,321
Net NPAs (Rs m)	8,086	4,884	6,138	5,648
<i>Gr. NPAs to Gross Adv.(%)</i>	2.7	2.3	2.6	1.8
<i>Net NPAs to Net Adv. (%)</i>	0.9	0.6	0.7	0.6
<i>NPA Coverage %</i>	64.5	76.0	74.2	69.2

Profitability (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	3.9	4.9	5.4	5.5
RoAA	(1.8)	0.2	0.3	0.4
RoAE	(17.1)	1.6	2.8	3.4
Tier I	13.3	15.2	15.1	14.6
CRAR	13.4	15.3	15.1	14.6

Source: Company Data, PL Research
Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Interest Income	40,182	41,002	39,559	38,314
Interest Expenses	26,551	25,659	23,924	22,055
Net Interest Income	13,631	15,343	15,635	16,259
<i>YoY growth (%)</i>	202.1	34.0	40.5	38.4
CEB	3,350	4,130	4,320	1,479
Treasury	-	-	-	-
Non Interest Income	3,490	5,790	4,838	4,849
Total Income	43,671	46,791	44,396	43,162
Employee Expenses	4,044	3,986	3,636	4,432
Other expenses	8,901	10,330	11,639	7,760
Operating Expenses	12,945	14,315	15,275	12,191
Operating Profit	4,175	6,817	5,198	8,916
<i>YoY growth (%)</i>	2,132.8	121.4	84.7	180.6
Core Operating Profits	-	-	-	-
NPA Provision	-	-	-	-
Others Provisions	3,174	23,048	4,124	7,641
Total Provisions	3,174	23,048	4,124	7,641
Profit Before Tax	1,002	(16,230)	1,074	1,275
Tax	7,797	158	358	340
PAT	(6,795)	(16,389)	715	935
<i>YoY growth (%)</i>	83.8	(254.4)	(132.8)	(115.2)
Deposits	6,93,215	6,86,970	6,51,080	6,98,320
<i>YoY growth (%)</i>	43.4	11.0	(7.6)	5.4
Advances	10,31,880	9,97,960	8,55,954	9,79,400
<i>YoY growth (%)</i>	91.6	(1.9)	(0.8)	(9.8)

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	28	28	28	28
EPS (Rs)	(6.0)	0.5	0.9	1.1
Book Value (Rs)	32	31	32	33
Adj. BV (70%)(Rs)	30	30	31	32
P/E (x)	(4.7)	57.8	32.7	26.0
P/BV (x)	0.9	0.9	0.9	0.9
P/ABV (x)	1.0	0.9	0.9	0.9
DPS (Rs)	-	-	-	-
<i>Dividend Payout Ratio (%)</i>	-	-	-	-
<i>Dividend Yield (%)</i>	-	-	-	-

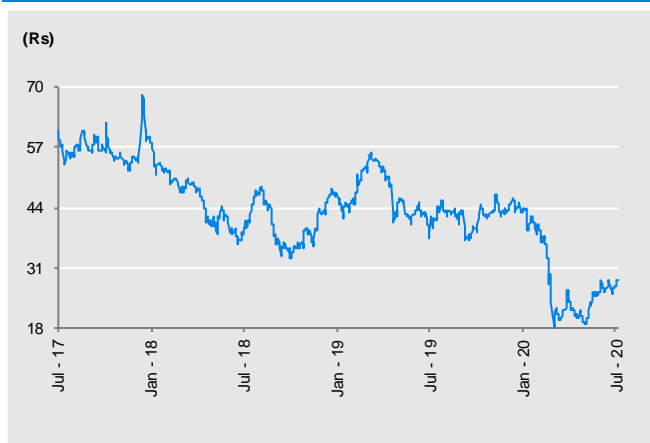
Efficiency

Y/e Mar	FY20	FY21E	FY22E	FY23E
<i>Cost-Income Ratio (%)</i>	73.7	70.5	74.4	77.5
<i>C-D Ratio (%)</i>	131.5	127.7	124.2	121.9
Business per Emp. (Rs m)	75	64	57	53
Profit per Emp. (Rs lacs)	(14)	1	2	2
Business per Branch (Rs m)	3,248	2,344	1,916	1,725
Profit per Branch (Rs m)	(62)	4	6	6

Du-Pont

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	3.89	4.88	5.39	5.55
Total Income	5.08	6.21	6.79	6.97
Operating Expenses	3.74	4.38	5.05	5.40
PPoP	1.34	1.84	1.74	1.57
Total provisions	2.98	1.58	1.27	1.02
RoAA	(1.98)	0.19	0.35	0.41
RoAE	(17.10)	1.56	2.75	3.36

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Sell	21	28
2	26-May-20	Accumulate	21	19
3	14-Apr-20	Accumulate	25	22
4	30-Jan-20	Hold	41	44
5	03-Jan-20	BUY	44	46
6	25-Oct-19	BUY	44	39
7	03-Oct-19	BUY	54	37

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Hold	480	446
2	Bank of Baroda	BUY	83	53
3	Federal Bank	BUY	67	50
4	HDFC Bank	BUY	1,265	1,098
5	HDFC Life Insurance Company	Reduce	522	627
6	ICICI Bank	BUY	462	383
7	ICICI Prudential Life Insurance Company	Reduce	402	443
8	IDFC First Bank	Sell	21	28
9	IndusInd Bank	BUY	680	527
10	Kotak Mahindra Bank	Accumulate	1,389	1,323
11	Max Financial Services	Hold	518	546
12	Punjab National Bank	BUY	40	37
13	SBI Life Insurance Company	Hold	880	888
14	South Indian Bank	BUY	11	8
15	State Bank of India	BUY	254	192

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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