AXIS SECURITIES

Initiating Coverage
7th Oct 2022

IDFC FIRST BANK
BFSI

BUY
Target Price
70

Strong Growth Momentum & ROA/ROE Expansion to Drive Value!

We initiate coverage on IDFC First bank Ltd. (IDFCFB) with a BUY recommendation and a Target Price of Rs 70/share, implying an upside of 29% from the CMP. We believe the company has all the right levers to grow profitably from hereon supported by its successful transition from infrastructure lending to building a diversified retail-focused loan book (the retail book is now 66% of the total loan book as of Q1FY23). Moreover, it has reduced its high-risk infrastructure book to 5% of the loan book in FY22 from 37% in FY18 and the management has guided that the same is expected to reduce further.

On the deposit front, IDFCFB has focused on building a granular liability franchise for the past 5 years. Consequently, Retail Deposits (Retail CASA + Retail Term Deposits) grew at a 3-Year CAGR of 73% to reach Rs 68,035 Cr in FY22. With strong service levels, attractive pricing, a strong brand, and excellent customer-first products, CASA deposits grew at 86% CAGR in the past 3 years. Consequently, the bank's CASA Ratio (%) has grown from 8.68% (in Dec'18 at the time of the merger) to an impressive 50.04% in Jun'22, enabling the bank to reduce its cost of borrowing from 13.5% in FY18 to 5.1% in FY22.

IDFCFB has demonstrated resilience by weathering the COVID-19 disruptions and has emerged with stronger asset quality, a significant deposit base, and a granular retail-focused asset book. while the credit costs were at an elevated level during the pandemic, the company has clearly come out of it with a much better credit cost of 0.9% (in Q1FY23). Despite the adverse impact of the pandemic, IDFCFB successfully implemented its de-risking strategy and increased its retail book as well as reduced its high-risk infrastructure lending book. Consequently, from FY18 to FY22, the bank's retail book and commercial finance grew by a healthy 89.4% CAGR and 77.02% CAGR respectively, whereas the infrastructure lending book degrew by 28.8% CAGR. This loan book derisking strategy aided the bank in reporting robust asset quality with GNPA/NNPA at 3.7/1.3% in FY22. We believe IDFCFB is well-placed in the market to benefit from (a) Granular liability franchise, (b) One of the best CASA ratios in the industry, (c) Successful derisking of the loan book, (d) Pan-India geographical presence, and (e) Improving asset quality trends.

Investment Thesis

Successful implementation of loan book de-risking plan

The bank focused on building a strong retail franchise post-merger by proactively recognizing the change in the Indian landscape, emerging risk in infrastructure financing, and the low margins in corporate banking and put together a strategy to realize its loan book with an objective to derisk, diversify, and enhance margins. This helped it achieve its derisking strategy even with the unexpected and unprecedented stress that hit the infrastructure book during the Covid-19 pandemic. Overall, the bank reduced its Infrastructure financing portfolio from 37% (Mar'18) to 5.2% (Mar'22) of total funded assets. Moving forward, **we expect the loan book to report healthy growth of 20-25% over FY23-25E with a key focus on the retail segment and a slightly stable-to-lower growth in the corporate segment.**

Granular deposits franchise to support the cost of funds since the merger

Post-merger, the bank had a very low retail deposit of Rs 10,400 Cr against a loan book of Rs 104,660 Cr, resulting in a very high cost of borrowing (to the tune of 13.5% in FY18). With the new management at the helm led by V. Vaidyanathan, the bank focused on building a strong retail deposit base with a high proportion of CASA. Consequently, the bank's cost of borrowing was reduced to 5.1% in FY22. Currently, with a strong CASA ratio of 50.04% (Q1FY23), we believe IDFCFB is in a good position to grow with a reasonably sustainable level of cost of borrowing.

Continuous ROA improvement with double-digit ROE

The bank has observed significant improvement in ROA over the last four quarters with ROA going up from 0.37% in Q2FY22 to 0.97% in Q1FY23. We expect the bank to continue its journey moving forward to further augment its ROA/ROE by leveraging a) Its powerful unit economics, b) Incremental retail lending business at ROE of 18-20%, c) Improving branch productivity with normalized cost to income ratio and, and d) Scaling up its fee income from new business launches like Wealth, FASTag, credit card, CMS, among others. We expect IDFCFB to continue delivering RoA of 1%+ over FY23-25E.

Strong growth momentum with ROE expansion; Initiate with BUY

In Q1FY23, the bank's retail book continued to report a broad-based and strong growth momentum of 40% YoY. This was driven by credit cards (+183% YoY), digital and gold loans (+123% YoY), and home loans (+60% YoY). Moreover, the bank has been reducing the infrastructure loan book by 32% CAGR over the past 3 years. We believe this will lead to stronger asset quality and eventually lower credit costs. We also believe that the bank's ROA/ROE will further expand with strong operating performance, improving asset quality, reducing the cost-to-income ratio with operating leverage and lower credit cost. With this view, we initiate coverage with a 'BUY' rating and a target price of Rs 70/share (1.6x FY25E ABV), implying an upside of 29% from CMP.

Key Financials

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
NII	7,380	9,706	11,401	13,257	15,669
PPOP	2,498	3,284	4,156	5,311	7,207
PAT	452	145	1,896	2,572	3,706
NNPA (%)	1.9%	1.5%	1.3%	1.2%	1.1%
EPS (Rs)	0.8	0.2	3.0	4.1	6.0
ABV (Rs)	28	31	34	38	43
P/E (x)	68.1	232.1	17.8	13.1	9.1
P/ABV (x)	1.9	1.8	1.6	1.4	1.3
RoA (%)	0.3%	0.1%	0.9%	1.1%	1.4%

Source: Company, Axis Research

(CMP as of Oct 6, 2022)

CMP (Rs)	54.3
Upside /Downside (%)	29%
High/Low (Rs)	55/29
Market cap (Cr)	33,160
Avg. daily vol. (6m) Shrs.	34,02,959
No. of shares (Cr)	622

Shareholding (%)

	Jun-22	Mar-22	Dec-21
Promoter	36.48	36.49	36.51
FIIs	10.99	13.48	14.77
MFs	14.39	13.79	14.57
Public	38.14	36.24	34.15

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
NII	11,401	13,257	15,669
PPP	4,156	5,311	7,207
PAT	1,896	2,572	3,706
EPS (Rs)	3.0	4.1	6.0
ABV/Share (Rs)	34	38	43
P/ABV (x)	1.6	1.4	1.3
RoA (%)	0.9%	1.1%	1.4%
NNPA (%)	1.3%	1.2%	1.1%

ESG disclosure Score**

Environmental Disclosure	16.79
Social Disclosure Score	30.11
Governance Disclosure Score	83.59
Total ESG Disclosure Score	43.55

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Key Drivers (%)

Y/E Dec	FY23E	FY24E	FY25E
NIM	6.0%	6.1%	6.2%
C-I	73.0%	71.1%	67.6%
ROE	8.6%	10.6%	13.6%

Axis vs Consensus

EPS Estimates	FY23E	FY24E	FY25E
Axis	3.0	4.1	6.0
Consensus	2.8	4.0	4.9
Mean Consensus TP (12M)			**47**

Relative performance

Source: Capitaline, Axis Securities

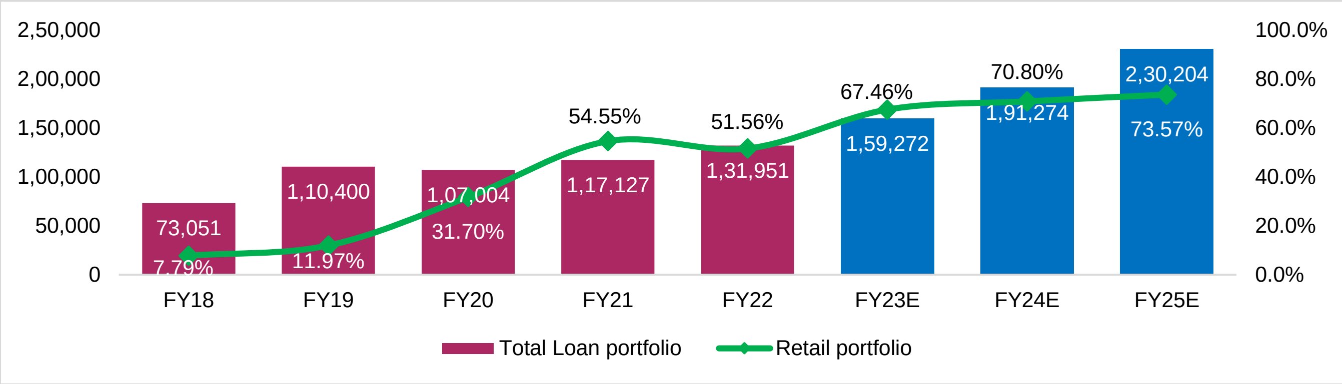
Sumit Rathi, CFA
Research Analyst
Email: sumit.rathi@axissecurities.in

Dnyanada Vaidya
Research Analyst
Email:dnyanada.vaidya@axissecurities.in

CA Bhavya Shah
Research Associate
Email: bhavya1.shah@axissecurities.in

Story in Charts

Exhibit 1: High growth phase to continue over the medium term supported by retail book growth (Rs in Cr)



Source: Company, Axis Securities

Exhibit 2: Reduced high-risk legacy Infrastructure book at a CAGR of 32% in the past 3 years (Rs in Cr)

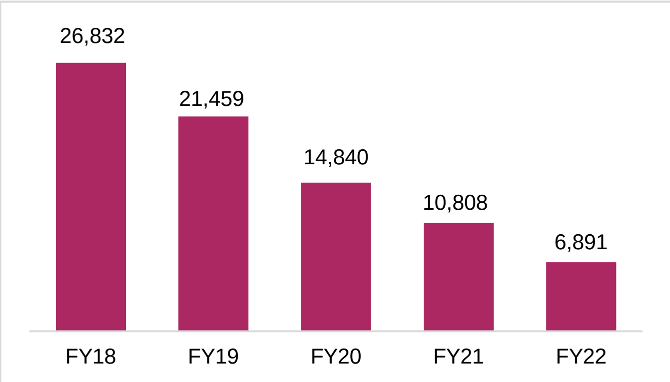
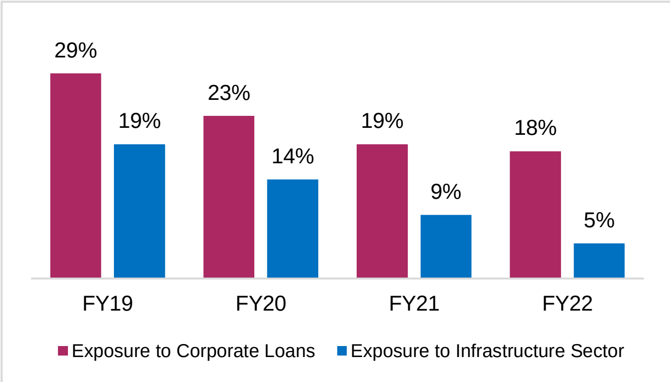
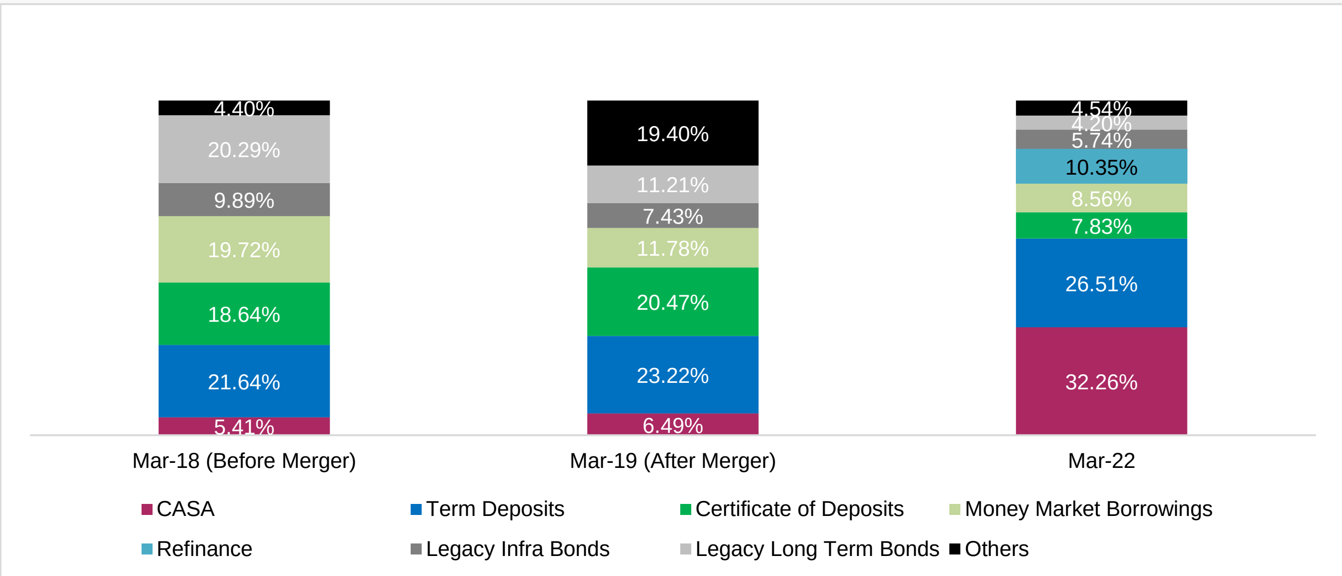


Exhibit 3: Downward trend in exposure to Corporate and Infrastructure Sector (as a % of funded book)



Source: Company, Axis Securities

Exhibit 4: Shift in Borrowing Mix from legacy high-cost instruments to low-cost CASA and term deposits aiding NIM



Source: Company, Axis Securities

Exhibit 5: NIM Profile continues to improve aided by high-yielding retail loans and reduced cost of borrowing

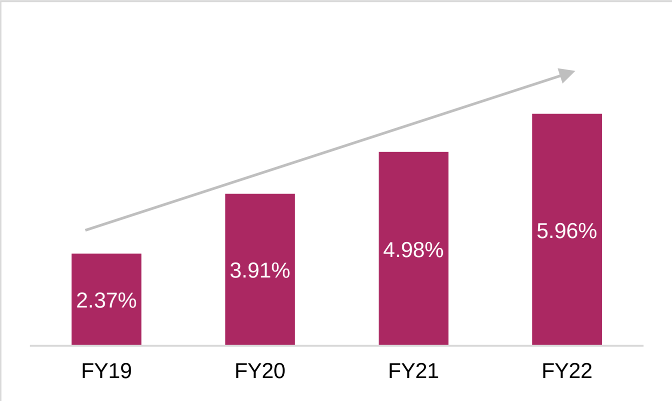
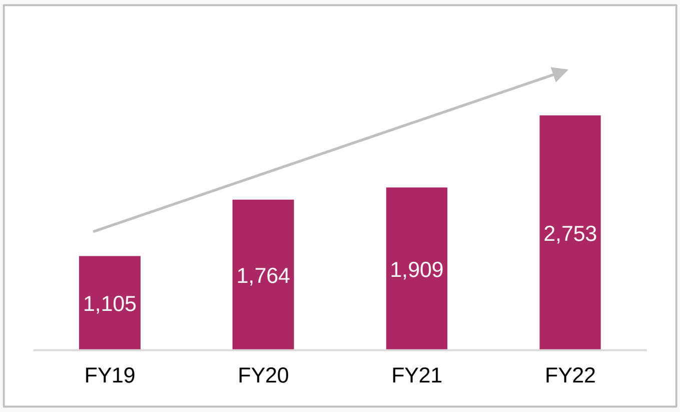


Exhibit 6: Operating profit (Excluding trading gain) grew at 36% CAGR in the past 3 years



Source: Company, Axis Securities

Exhibit 7: Elevated Cost to Income ratio to improve by FY25

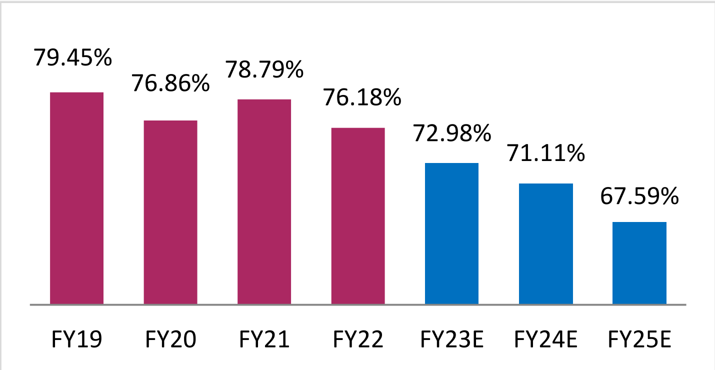
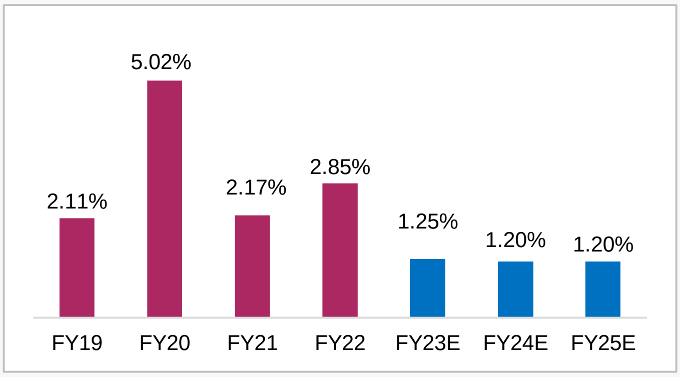


Exhibit 8: Credit cost expected to reduce further aided by strong recoveries



Source: Company, Axis Securities

Exhibit 10: ROA and ROE continue to improve by FY25

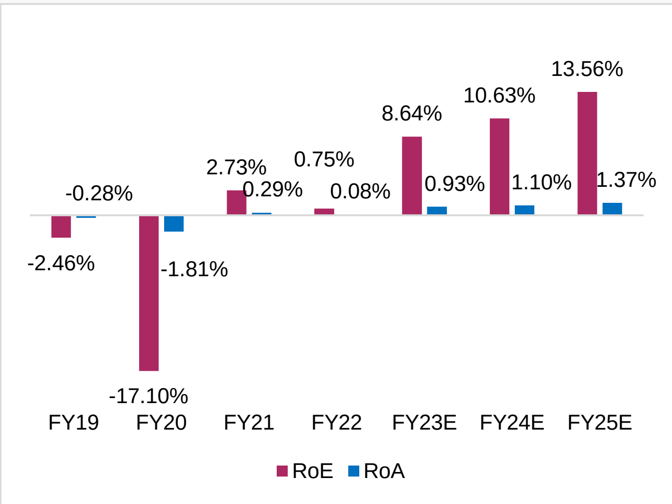
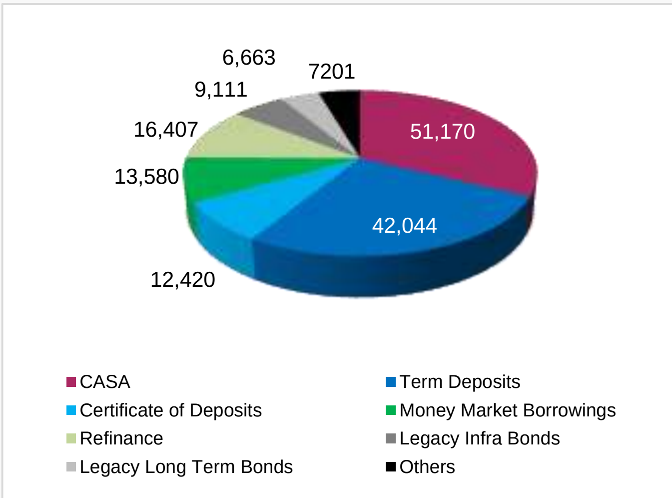


Exhibit 11: Borrowing Mix (Q1FY23



Source: Company, Axis Securities

Exhibit 12: Reduction in Industry and Borrower Concentration risk

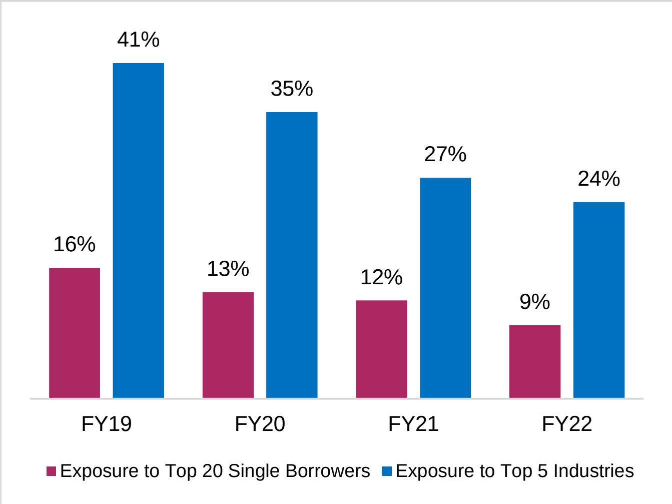
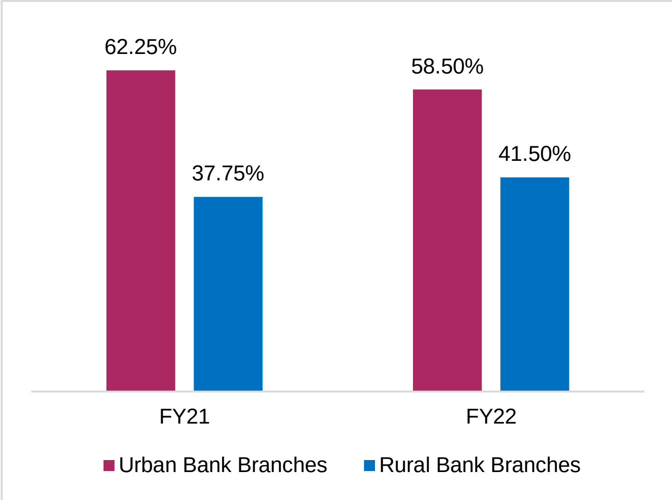


Exhibit 13: Mixed geographical presence



Source: Company, Axis Securities

About the Company

IDFC First bank (IDFCB) was formed by the merger of erstwhile IDFC bank – promoted by renowned infrastructure financing institution IDFC Ltd. and leading technology NBFC, Capital First. The bank has a balance sheet of Rs 2,00,565 Cr, has provided over 30 Mn loans in its total history, and serves customers in over 60,000 villages, cities and towns across the country. The bank believes in making customer-first products and was the first universal bank to offer monthly interest credit on savings accounts, lifetime free credit cards with dynamic and low APR rates, and many other such interesting products.

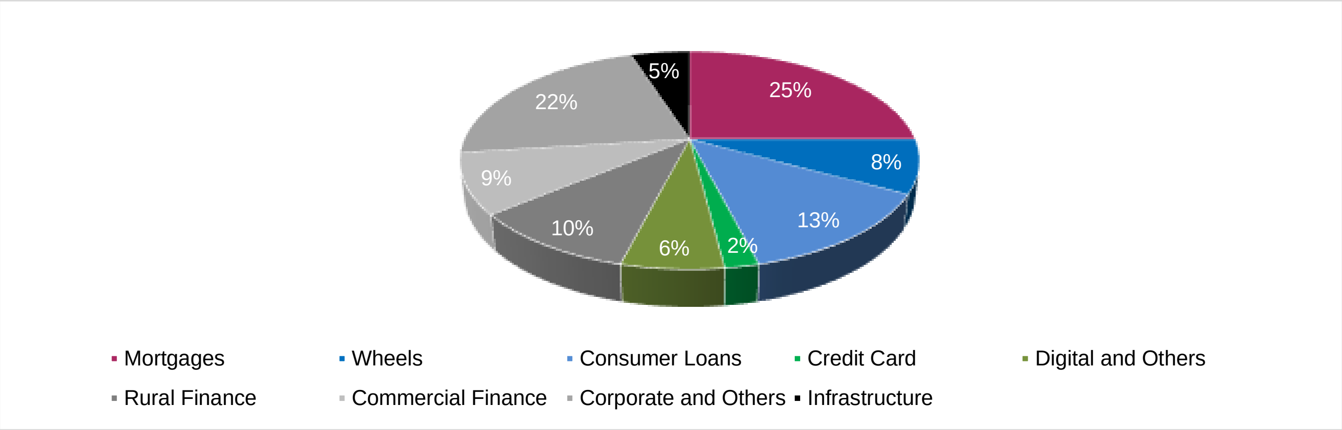
In a short time, the bank has expanded to 651 branches, 235 asset service centres, 807 ATMs and 602 rural business correspondent centres across the country, a next-generation net and mobile banking platform and 24/7 Customer Care services and is incrementally growing digitally. The bank also offers high-quality technology-enabled corporate banking solutions, contemporary cash management solutions, fleet card and FASTag solutions and wealth management solutions.

The bank offers a wide range of products as follows:

- **(a)** **Prime Home Loans:** Starting at 6.9% to select Prime Salaried Customer of top corporates, Self-employed customers for buying house property.
- **(b)** **Credit Card:** The bank has now issued more than 1 Mn credit cards and grew by 183% YoY in Q1FY23.
- (c) **Affordable Home Loans:** Smaller ticket size home loans to salaried and self-employed customers for purchasing house property.
- (d) **Loan Against Property**: Long-term loans to MSMEs after proper evaluation of cash flows; against residential or commercial property
- (e) **New & Pre-owned Car Loan**: To salaried and self-employed customers for purchasing a new car or a pre-owned car
- (f) **Business Loans**: Unsecured Loans to the self-employed individual or entity against business cash-flows
- (g) **Personal Loans**: Unsecured Loans to salaried and self-employed customers for fulfilling their financial needs
- (h) **Consumer Durable Loans**: Financing to individuals for purchasing LCD/LED panels, Laptops, Air-conditioners, etc
- (i) **Two Wheeler Loans**: To the salaried and self-employed customers for purchasing new two-wheelers
- (j) **Micro Enterprise Loans**: Loan solutions to small business owner
- (k) **JLG Loan for Women**: Sakhi Shakti loan is, especially designed for the livelihood advancement of women, primarily in rural areas.

IDFC FIRST bank has one wholly owned Subsidiary Company, namely IDFC FIRST Bharat Limited ('IDFC FIRST Bharat' / 'IDFCFBL'). IDFCFBL is acting as a Business Correspondent ('BC') for the distribution of the products of IDFC FIRST bank and has given added momentum to the financial inclusion plan of the bank. During FY22, IDFCFBL sourced loans worth Rs 8,057 Cr. IDFC FIRST Bharat reported a Profit After Tax of Rs 37 Cr for FY22 as against Rs 31 Cr for FY21.

Exhibit 14: The bank has built a well-diversified lending portfolio



Source: Company, Axis Securities

Focus on building high growth Retail Based Asset Franchise

Caliberated Growth in Total Loan Book: On the merger, IDFCFB had a large loan book of Rs 1,04,660 Cr but very low retail deposits of Rs 10,400 Cr. To address the same, the management slowed down overall loan growth for the first 3 years (loan growth of CAGR 6% FY19 to FY22), and grew deposits strongly (Retail Deposits growth CAGR 72%) to strategically strengthen the bank. This phase of consolidation got completed in FY22 and the management now expects the loan book to grow at 20-25% on a sustainable basis.

Healthy growth in Retail and Commercial Loan Book: Total Funded Assets, including advances, credit investments and PSL buyouts, gross of Inter-bank Participation Certificates (IBPC), grew by 13% YOY to Rs 1,31,951 Cr in FY22 from Rs1,17,127 Cr in FY21 of the total book. The Retail Loan Book increased by 28% to Rs 83,740 Cr in FY22 from Rs 65,300 Cr in FY21. This has been driven by strong growth in the home loan segment, up 52% YOY to Rs 14,106 Cr in FY22 from Rs 9,276 Cr in FY21. The bank remained cautious on the rural financing portfolio in light of the COVID-19 impact on the rural economy. However, it reported an encouraging growth of 12% YOY supported by a strong recovery in the second half of the year. The Commercial Finance book increased by 15% to Rs 11,637 Cr in FY22 from Rs 10,104 Cr in FY21. During the COVID-19 pandemic, the bank sustained its cautious stance and grew this book by only 15%.

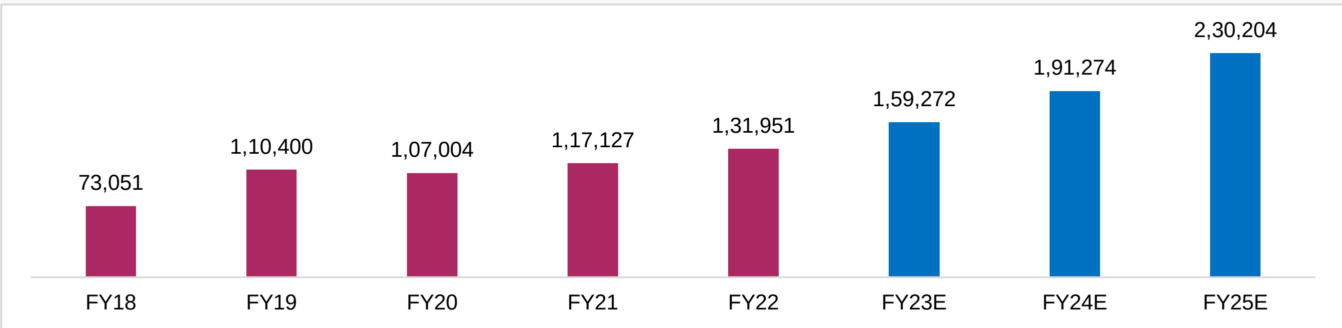
Management expects the loan book to grow at 20-25% on a sustainable basis over 2-3 years

Strong pick up in credit card business: The bank successfully launched its credit card business on Jan'21 and has been growing the book steadily through in-house organic origination driven by the strong digital platform. The bank has issued over 1 Mn credit cards to date and the spends on credit cards has been increasing by 20% sequentially.

Reduction in infrastructure financing portfolio: The bank reduced its Wholesale Funded Assets by 12% from Rs 41,723 Cr in FY21 to Rs 36,574 Cr in FY22. This includes the Security Receipts, Loans converted into Equity, PTC and RIDF Bonds. Within the Wholesale Funded Assets, the bank reduced the Infrastructure Financing portfolio by 36% YOY from Rs 10,808 Cr in FY21 to Rs 6,891 Cr in FY22 as per its stated strategy. While it had an outstanding funded exposure of Rs 2,000 Cr through credit investments to one large legacy telecom account, it got fully repaid during the year. This has also helped the bank to reduce its concentration risk in the top 10 exposures as it was the largest exposure for the bank. IDFCFB has increased its non-infra Corporate Funded Assets by 5% YOY from Rs 22,499 Cr in FY21 to Rs 23,676 Cr in FY22.

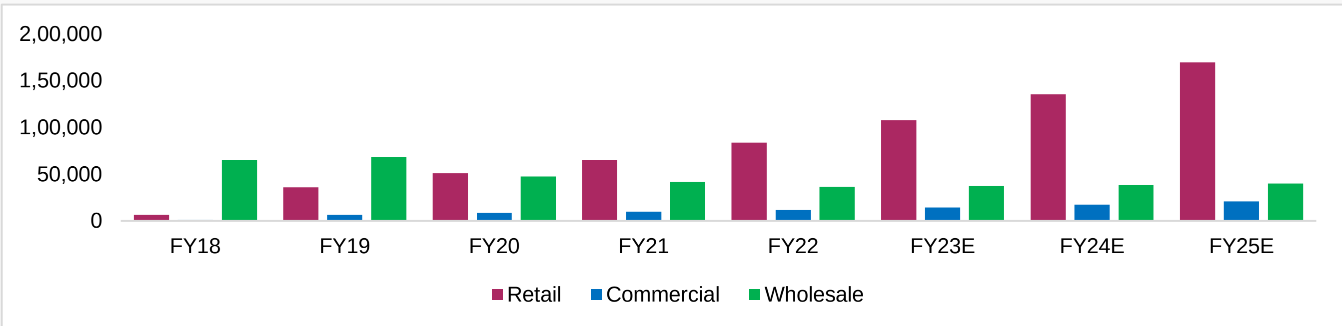
The management is poised to consistently grow the retail loan book as per the stated strategy while maintaining the focus on robust credit underwriting and strong asset quality. As the infrastructure finance book decreases to an insignificant portion of the total funded assets and the non-infra corporate book grows moderately from the current base, we believe IDFCFB's overall loan book will continue its credit growth in a granular manner.

Exhibit 15: Growth in the Loan portfolio



Source: Company, Axis Securities

Exhibit 16: Change in Portfolio mix



Source: Company, Axis Securities

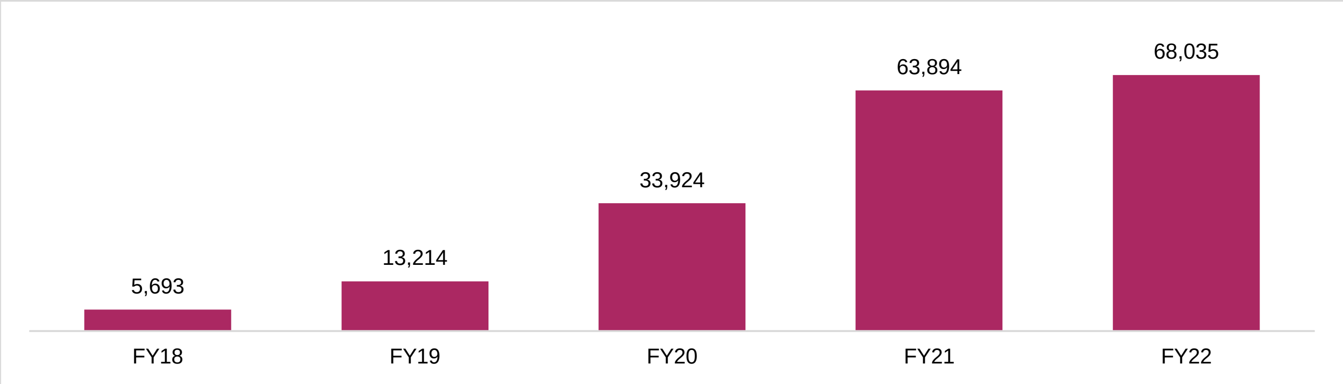
Significant growth demonstrated in the CASA and retail deposits

Strong growth in total deposits and borrowings: Since the merger in Dec'18, IDFCFB has grown its deposit base strongly and continued its growth journey even during the COVID-19 period. Its total deposits and borrowings in FY19 stood at Rs 1,40,462 Cr of which 23% constituted term deposits, 6% CASA deposits, 20% CD and 51% of borrowings. For 3 years since FY19, the management focused on building granular liability franchise. Consequently, total deposits and borrowings stood at Rs 1,58,597 Cr in FY22 which constituted 26% term deposits, 32% CASA deposits, 8% CD, and 34% of borrowings.

IDFCFB intends to maintain an average CASA ratio between 45-50% which is comparable to the large peer banks

Declining dependence on wholesale deposits: Retail Deposits (Retail CASA + Retail Term Deposits) grew by a 4-Year CAGR of 85.9% to reach Rs 68,035 Cr. The bank raised retail deposits of Rs 34,111 Cr even in a COVID-19 crisis during the last 2 years. Strong growth in retail deposits has reduced the bank's dependence on wholesale deposits and has provided greater stability to the liability side.

Exhibit 17: Growth in Retail Deposits



Source: Company, Axis Securities

Robust growth in CASA deposits: The bank's Total CASA deposits grew at a 4-Year CAGR of 74.3% to reach Rs 51,170 Cr (as on March 31, 2022). The growth was led by the bank's strong brand, excellent customer service, and customer-focused products and service offerings. The bank also reported strong growth of 73% YOY on current account deposits, primarily driven by branch banking. The average CASA ratio (calculated on the daily average balance of deposits) of the bank remained strong at 49.88% for FY22 as against 41.5% for FY21. IDFCFB intends to maintain an average CASA ratio between 45-50% which is comparable to the large peer banks.

Exhibit 18: Robust growth in CASA Deposit

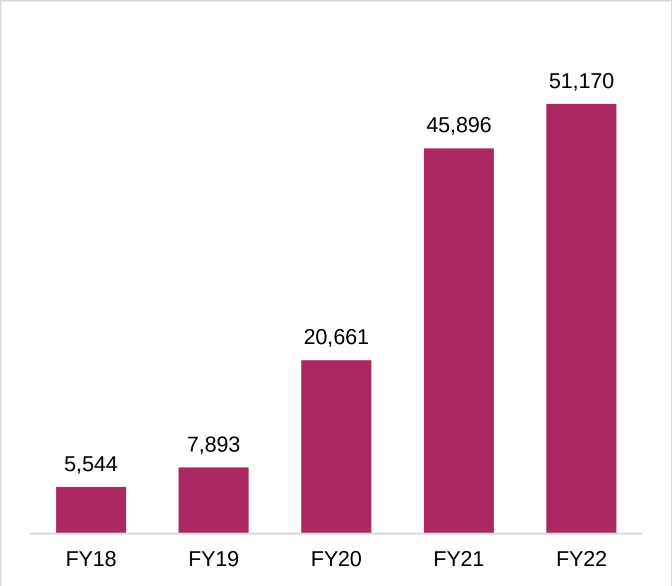
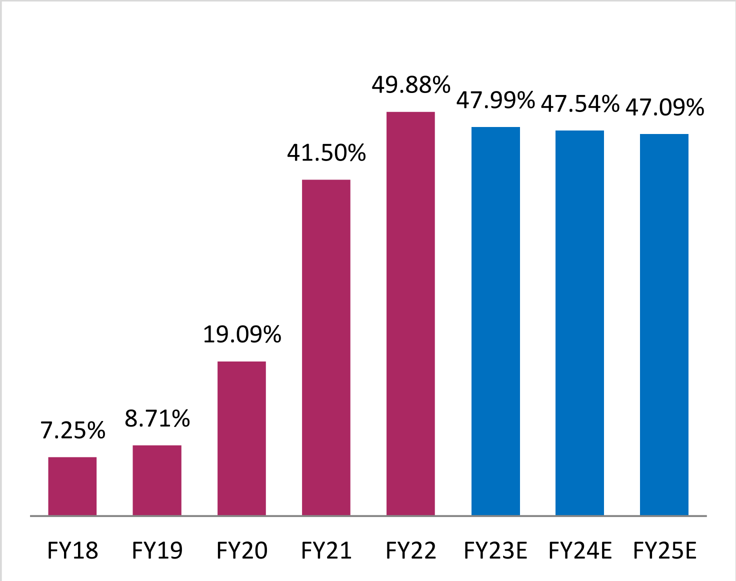


Exhibit 19: Consistent CASA Ratio



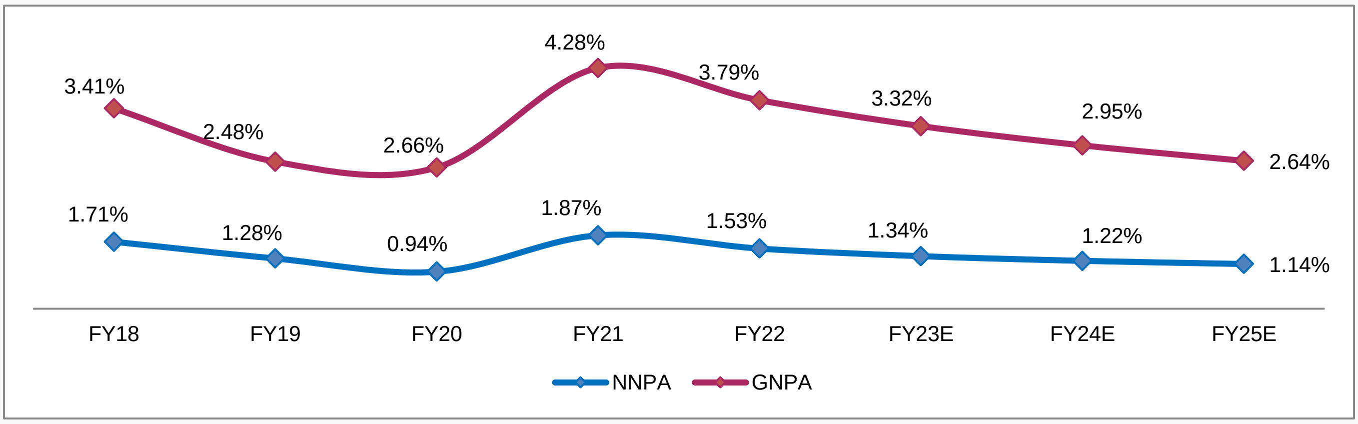
Source: Company, Axis Securities

Continuous Improvement in the Asset Quality over the last 6 quarters

Higher levels of NNPA and GNPA during Q1FY22: IDFCFB witnessed higher levels of NPA during Q1FY22 due to COVID 2.0 impact. The situation was further accentuated by a large legacy toll road infrastructure account which slipped into NPA in Q1FY22 as the toll collections dipped due to COVID-19 lockdowns. The account was already under the SMA-2 category but was servicing the loan with a delay for the last 3 years. Consequently, the GNPA of IDFCFB increased from 4.15% in FY21 to 4.61% as on June 30, 2021.

Improvement in NPAs and credit costs to aid in ROA and ROE expansion: Subsequently, as economic conditions improved and collection and recovery efforts enhanced, the GNPA improved every quarter to reach 3.36% in Q1FY23. The management expects the same to reduce further aided by strong recoveries ahead. Furthermore, excluding the NPA in the infrastructure financing book which will run down in due course, the bank's Gross and Net NPA would have been 2.39% and 0.80% respectively. Particularly in the Retail and Commercial lending segment, the GNPA ratios improved significantly as the economic recovery and activities resumed during H2FY22. Furthermore, Gross slippages for the Q1FY23 were lower by 20% on a sequential basis and Slippages net of recovery and upgrade were lower by 25% sequentially. Despite the severe COVID 2.0, the bank's overall credit cost in FY22 was 2.5% and the same reduced further to 0.91% in Q1FY23. The Management expects the credit cost will be reported at ~1.5% in FY23. This reduced credit cost will aid ROA as well as ROE improvement.

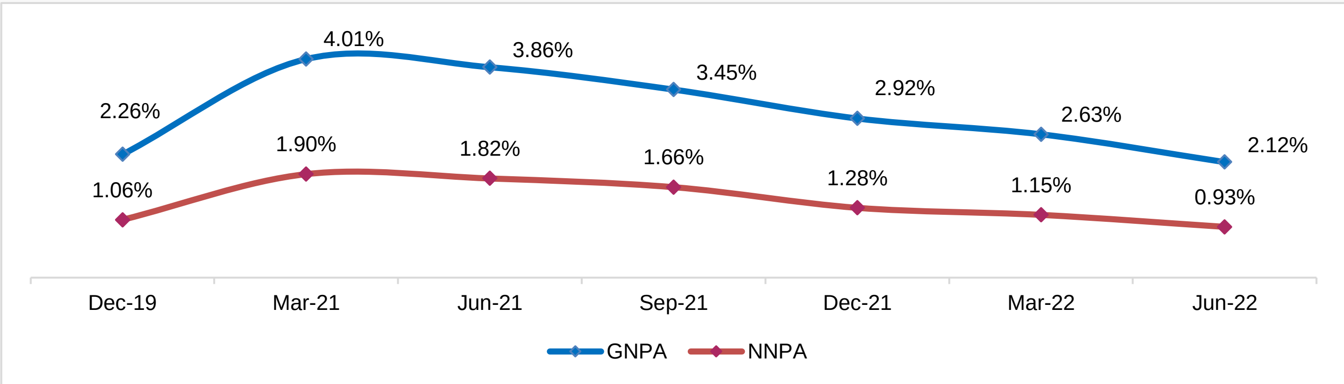
Exhibit 20: Overall Asset quality (retail + commercial + wholesale) of the bank continues to improve every quarter



Source: Company, Axis Securities

Significant progress in improving the overall bounce rates and collection efficiency: The Gross NPA as a % of the Retail and Commercial Finance Book improved from 4.01% in FY21 to 2.12% in Q1FY23. The Net NPA % in this segment improved from 1.90% in FY21 to 0.93% in Q1FY23. The bank made significant progress in improving the overall bounce rates and collection efficiency as both parameters are now better than even the pre-COVID levels. The management expects GNPA and NNPA will be less than 2% and 1% in this segment going forward based on the improvement trend.

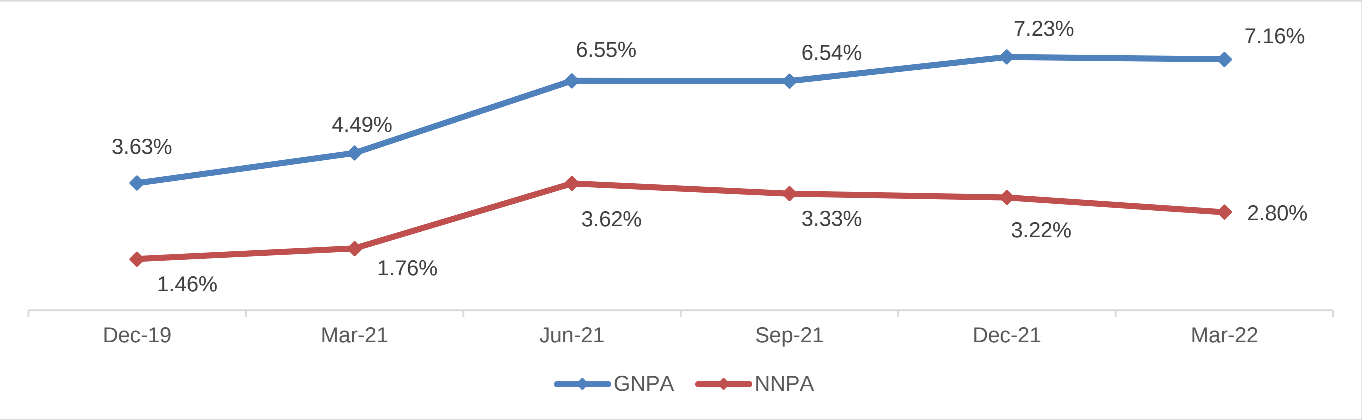
Exhibit 21: Reduced NPA in Retail and Commercial Finance



Source: Company, Axis Securities

On the **infrastructure financing**, the GNPA was at 21.64% primarily due to the toll account as mentioned above which forms 12% of the overall infrastructure book of Rs 6,891 Cr. However, the said toll account has been paying its dues and is likely to get resolved in due course. NPA ratios on the wholesale assets have been high due to legacy infra financing (GNPA of 22% as on March 31, 2022). However, the company has reduced the Infra financing book from Rs 22,710 Cr as on December 31, 2018, to Rs 6,891 Cr as on March 31, 2022 (5.2% of the overall funded assets).

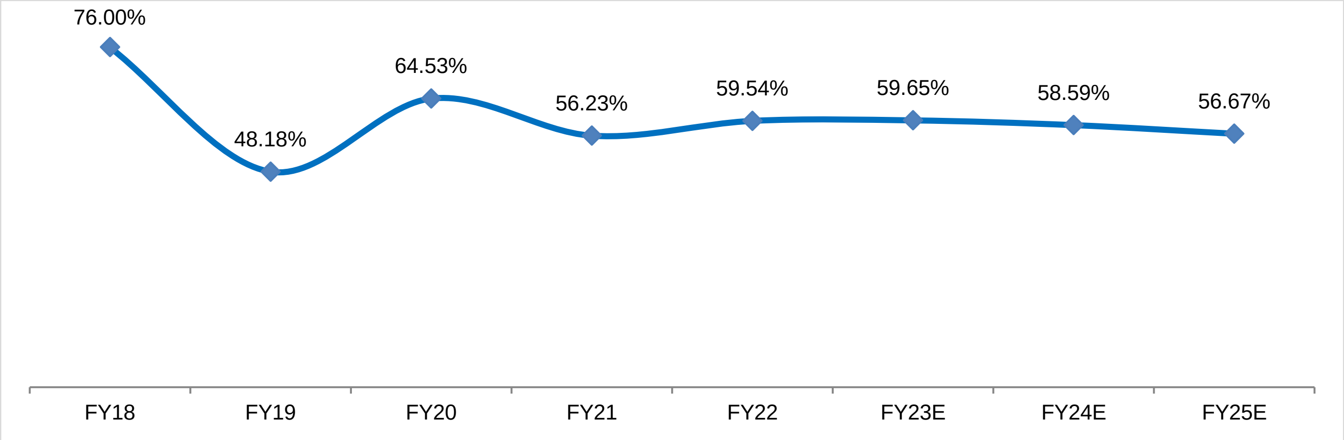
Exhibit 22: Wholesale lending (infrastructure + non infrastructure) financing



Source: Company, Axis Securities

The **Provision Coverage Ratio** (including the technical write-off) of the Retail and Commercial lending segment has also improved to 70% as of FY22 from 58% as of FY21 and 55% in the pre-COVID times. IDFCFB has made conservative changes in its provisioning policy to improve the PCR during FY22. PCR at the corporate book and Retail and Commercial Finance book stood at 97% and 72.2% respectively in Q1FY23.

Exhibit 23: PCR at the bank level



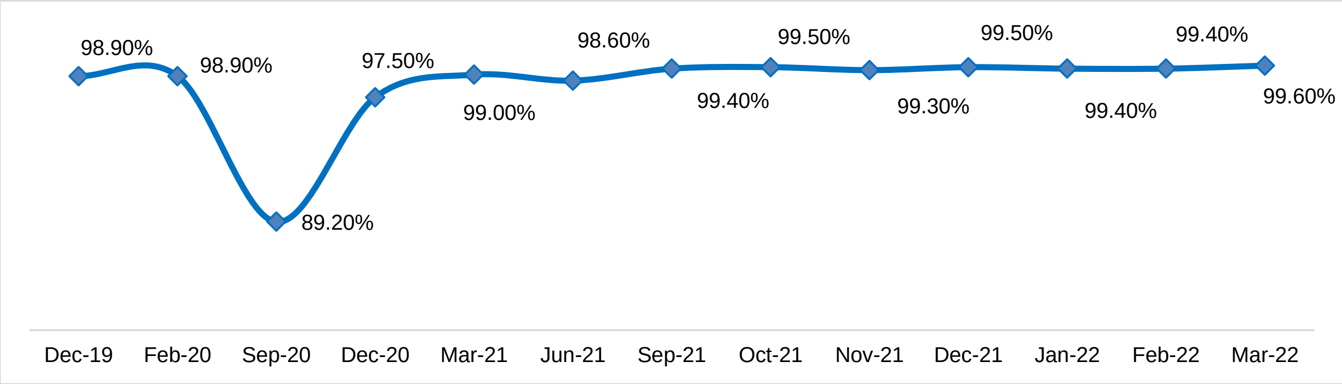
Source: Company, Axis Securities

Collection efficiency

The bank tracks the early bucket collection efficiency as it is also a direct indicator of the delinquency flows leading to NPA in future. The

the bank has improved the early bucket collection efficiency beyond Pre-COVID levels.

Exhibit 24: Collection efficiency

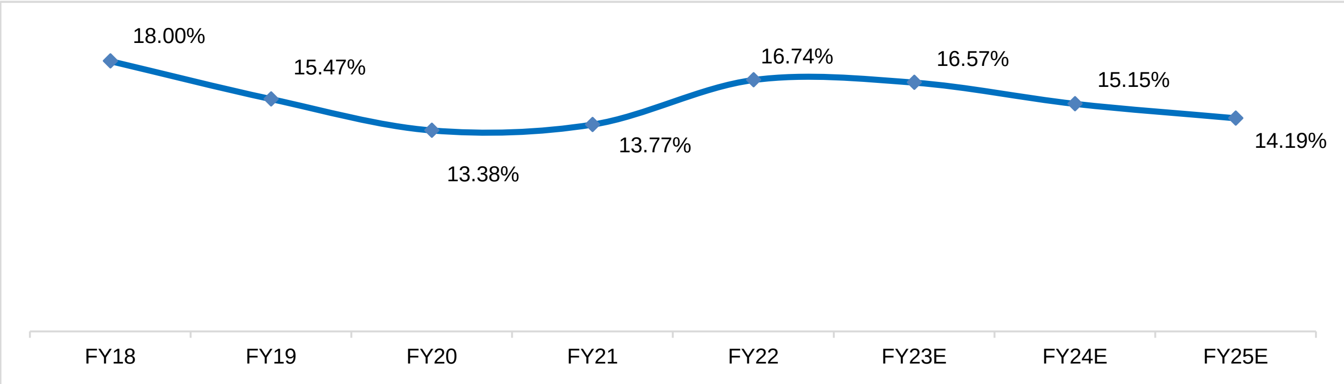


Source: Company, Axis Securities

Capital Adequacy

The bank has strengthened its capital position. Its Capital Adequacy Ratio now stands at 16.74%. The bank's net worth stood at Rs 21,003 Cr as on March 31, 2022, as against Rs 17,808 Cr as on March 31, 2021. The bank raised Rs 3,000 Cr of fresh equity capital from marquee FIIs and DIIs through qualified institutional placement on April 6, 2021. The book value per share stood at Rs 33.78 as of March 31, 2022. Furthermore, IDFCFB also raised Rs 1,500 Cr of Tier-2 capital through the issuance of bonds subscribed by marquee domestic insurance companies in India.

Exhibit 25: Capital Adequacy

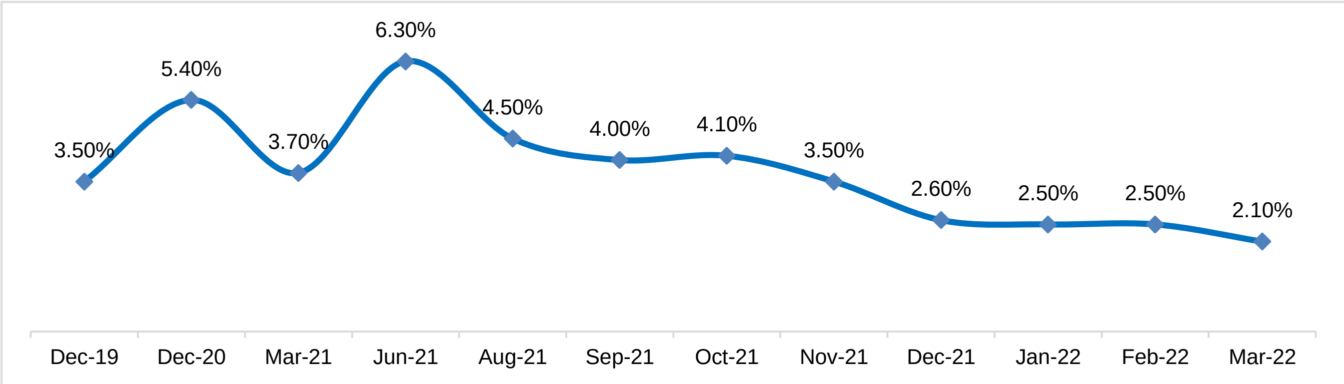


Source: Company, Axis Securities

PROGRESS SINCE MERGER: ASSET QUALITY – SMA POSITIONS (RETAIL & COMMERCIAL)

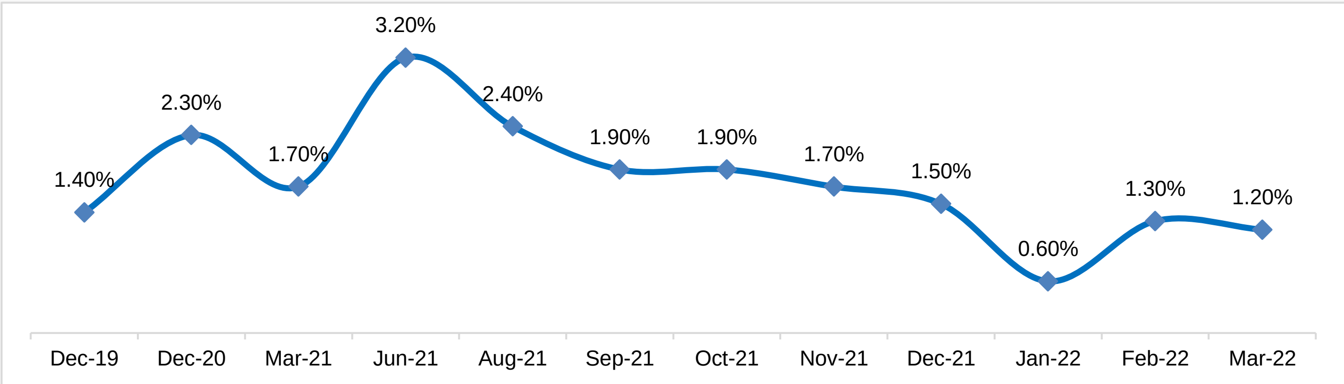
SMA (Special Mention Accounts) position of the retail and commercial loan portfolio, including SMA-0 (overdue between 1-30 days), SMA-1 (overdue between 31-60 days), SMA-2 (overdue between 61-90 days), improved on an MoM basis post COVID 2.0 impact. SMA positions are currently better than even the pre-COVID level as shown below:

Exhibit 26: Reduced SMA - 0 (1 - 30 days overdue)



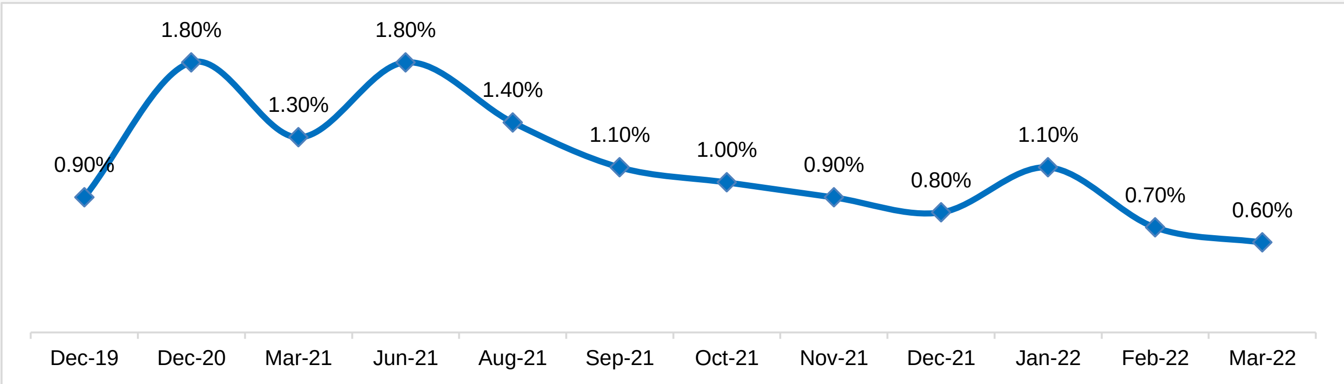
Source: Company, Axis Securities

Exhibit 27: Reduced SMA - 1 (31 - 60 days overdue)



Source: Company, Axis Securities

Exhibit 28: Reduced SMA - 2 (61 - 90 days overdue)

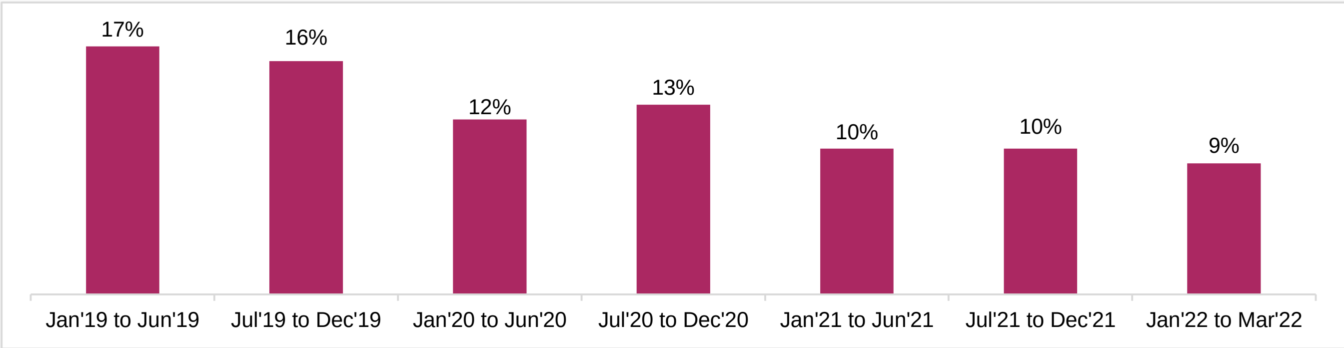


Source: Company, Axis Securities

Risk Management in retail & commercial business since Merger

As the cost of funds for the bank reduced, the bank has been significantly migrating towards customer segments with proven credit track records. New to credit customers as % incremental booking have reduced from 17% to 9%, indicating improved underwriting quality.

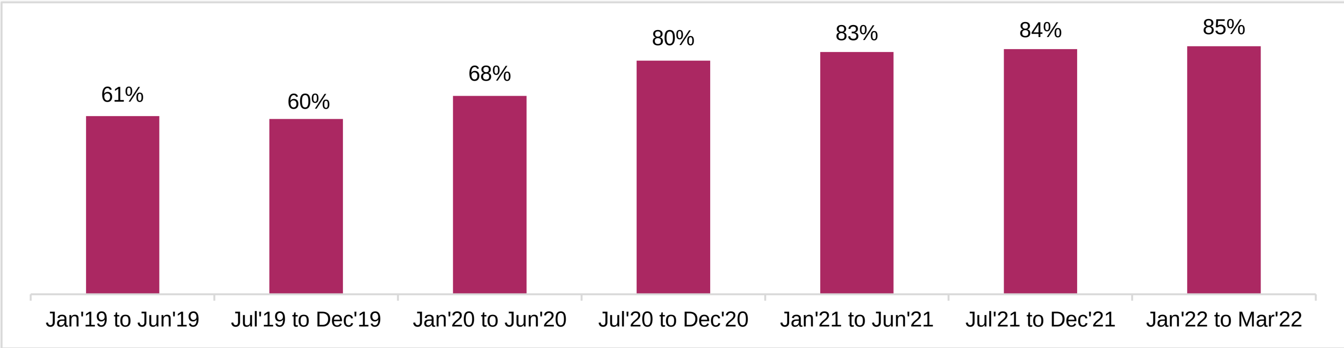
Exhibit 29: New to credit customers as % incremental booking



Source: Company, Axis Securities

Among the customers with existing credit history, the proportion of customers having a good credit bureau score (>700) to total customers has sharply improved. This indicates that the NPA% is likely to improve moving forward further from here on.

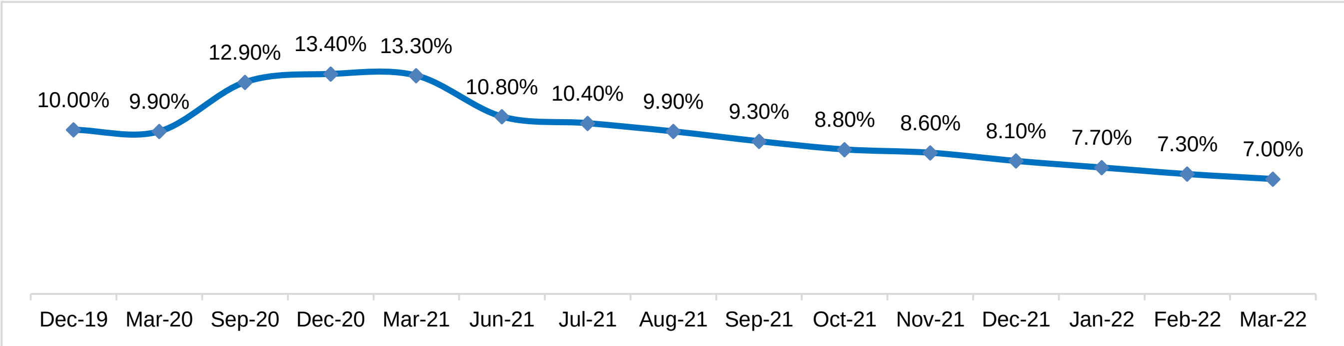
Exhibit 30: Increased customers with good credit bureau scores (>700)



Source: Company, Axis Securities

The return of cheques/mandates for the first EMI after booking a loan is an early indication of the asset quality of the bank. The first EMI bounce rates have improved over the years significantly and thus, the need for field collection has reduced substantially. This too augurs for lower NPA, lower SMA, and lower credit provisioning requirements going forward.

Exhibit 31: Reducing First EMI bounce rates



Source: Company, Axis Securities

BUSINESS OPPORTUNITIES

The total credit market comprising consumer, commercial (micro and small business <10 Cr), MFI and agriculture segments is about Rs 72 Tn. Of this, the consumer business credit is Rs 44 Tn, which includes home loans of Rs 24 Tn, personal loans of about Rs 7 Tn, car loans of Rs 4 Tn, credit cards of Rs 1.8 Tn, education loan of Rs 1 Tn and a few other products bring up the balance. This translates to personal credit of only about 18% of India's GDP, while personal credit to GDP of developed countries of between 80% to 120%. Thus according to the management, considering a nominal GDP growth of 10-12% including inflation, even if retail credit compounds at 20% for 20 years, India will still be much unserved and underserved as compared to today's levels of credit penetration for global peers on personal credit.

IDFCFB has just 1.4% share and has a large size of market opportunity

Small business financing (<Rs 10 Cr) such as Loan Against Property, Mudra, Kisan credit card, Commercial Vehicles, Construction equipment, and small business working capital banking, among others is only Rs 12 Tn. It stands notably underserved and will most certainly multiply in the years to come as data quality increases in India. The agricultural financing market is ~Rs 14 Tn which is underserved as well. The MFI market is about Rs 2.6 Tn. IDFCFB is just about 1.4% of these four businesses and thus has ample opportunities to grow.

Corporate Banking opportunities

Corporate banking (>Rs 10 Cr) is a market of about Rs 65 Lc Cr and is an important part of IDFCFB. Their corporate banking offerings include trade finance, working capital, term loans and treasury solutions. While IDFCFB have reduced the infrastructure financing portfolio, the management looks forward to increasing its non-infra corporate book moderately and opportunistically, but only with a strong credit evaluation process.

New business opportunities

New product launches to aid fee income growth over FY23-25E

Beyond lending, IDFCFB has also launched several other new businesses which will provide income streams in future years. IDFCFB has launched or recently scaled up its best-in-class Digital Cash Management solutions (3,000 clients), Trade Forex, wealth management (AUM Rs 6,536 Cr, up 97% over FY21), FASTag (8.5 Mn, up 50%over FY21), toll acquiring businesses (420 toll plazas, up 50% over FY21), credit cards (7 Lc cards, FY22). IDFCFB has also launched many variants of current accounts catering to different segments such as merchants, professionals, startups and new businesses. The company has significantly grown its Mobility and Transit payments over the last 2 years. It is one of the largest banks in the FASTag ecosystem and helped 8.5 Mn vehicles pay its toll, fuel, and parking payments in a digital mode. The bank has also started distributing investment products, mutual funds, PMS, AIF, insurance, Sovereign Gold bonds, and many such products where it will make distribution fees. The bank's wealth management business is near-doubling every year which will provide fee income. Thus we believe with entering various businesses will increase cross-sell opportunities leading to higher fee income.

NIMs & RoA Performance to Remain Best-In-Class

Best-in-class NIMs;

Multiple factors support superior NIMs: IDFCFB has been consistent in improving NIM year over year. The NIM% of the bank has been increasing steadily over the quarters since the merger in December 2018, as both the assets and liabilities of the bank are undergoing the transformation in favour of the retail businesses resulting in the improvement of overall yields and cost of funds respectively.

Growth in NII aided by a reduction in the cost of deposits has resulted in NIM expansion. According to management most of the repo rate increase in Q1FY23 has not been passed on to the customer and it will be passed in Q2FY23, which will further aid NIM expansion. A robust increase in CASA deposits and reduction in term deposits resulted in the cost of deposits being lower. CASA deposits have grown from 5,544 Cr in FY18 to 51,170 in FY22 based on a strong brand, excellent customer service, customer-focused products and service offerings. Further high cost legacy long-term bond and legacy infra bond are retiring and thus has aided in reducing the cost of funds. The blended cost of the fund at present is 5.2%. Management further indicated that even an increase of 20-25 bps in the Cost of the fund will not impact banks' profitability much as it will be offset by diversified income from new and existing products.

Strong performance in NIM will aid growth in **ROA** as being one of the important levers of the same. The strong profitability trajectory of the bank is driven by a) Powerful unit economics b) Retail lending business ROE of 18-20% c) Retiring of high-cost liabilities d) Growth in credit cards business e) Improving branch productivity f) Recent new Business launches(Wealth, FASTag, CMS, among others.) g) Reduced provisions f) Improved operating leverage. Furthermore, Core operating profit (Excluding Treasury Income) annualised post-merger increased from 1,105 Cr in FY19 to 2,753 Cr in FY22 of IDFCFB increased by 36% CAGR in past 3 years. The management expects the same will increase by 45% over FY23-24. Considering all this, the management has provided ROE guidance of a double-digit mark by the end of FY23. **Thus we believe ROE could reach 13.6% by FY25.**

NIM is expected to remain consistent at around 6% in the medium term.

Bank has been strongly improving its profitability parameters aiding in achieving its target return ratios.

Exhibit 32: ROE expected to reach double-digit by FY23 and NIM +6%

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII	2.2%	3.6%	4.7%	5.5%	5.6%	5.7%	5.8%
Other Income	0.6%	1.1%	1.4%	1.8%	2.0%	2.2%	2.4%
Total Income	2.8%	4.7%	6.1%	7.3%	7.6%	7.9%	8.2%
Opex	2.2%	3.4%	4.5%	5.5%	5.5%	5.6%	5.5%
PPP	0.5%	1.2%	1.6%	1.9%	2.0%	2.3%	2.7%
Provisions	1.0%	2.7%	1.3%	1.8%	0.8%	0.8%	0.8%
PBT	-0.5%	-1.5%	0.3%	0.1%	1.2%	1.5%	1.8%
Tax Rate	41.0%	-20.4%	4.9%	16.9%	25.2%	25.2%	25.2%
RoA	-0.3%	-1.8%	0.3%	0.1%	0.9%	1.1%	1.4%
Leverage	8.8	9.4	9.4	9.1	9.3	9.7	9.9
ROE	-2.5%	-17.1%	2.7%	0.7%	8.6%	10.6%	13.6%

Source: Company, Axis Securities

Exhibit 33: NIM is expected to remain stable at the current level

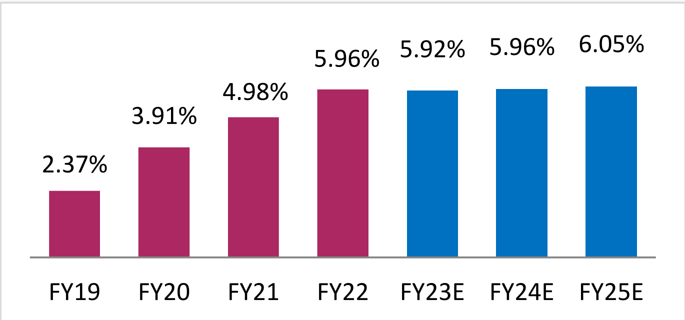
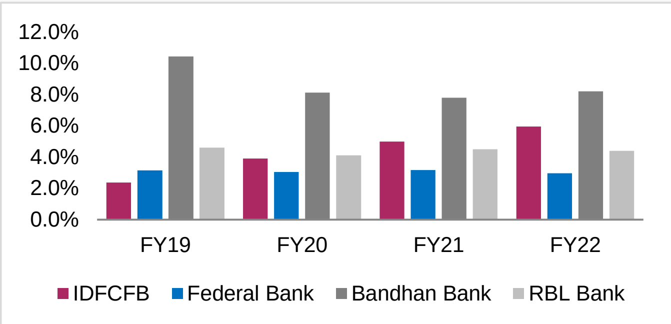


Exhibit 34: NIM – IDFCFB vs Federal bank Vs Bandhan bank Vs RBL



Source: Company, Axis Securities

Opex currently at a higher level with front load business expansion but expected to normalize

The operating expenses for FY22 stood at Rs 9,644 Cr, an increase of 36% YOY from Rs 7,093 Cr in FY21. IDFCFB's cost-to-income ratio is higher compared to other players in the industry due to the following reasons:

Structure: IDFCFB has been created by the merger of IDFC bank and Capital First in December 2018. IDFC bank was a DFI recently converted to a bank. Capital First was an NBFC with no retail deposits. As a result, post-merger, both players were only lenders, and there were low retail deposits and low CASA of ~9%. But the funded assets were large at about Rs 1.04 Tn. In order to build a strong retail franchise, the bank set up ATMs, and branches and hired over 12,000 employees in slightly short span of time, which led to an increase in operating expenditure.

Capability building: Most peer banks have been in operation for over 20 to 25 years and thus have already spent on building essential systems such as their mobile banking application, savings account systems and current account propositions, merchant account solutions, credit cards, branches, ATMs etc over the last 15-20 years. Since IDFCFB is a relatively new bank with a large loan book to start with, it had to quickly build these capabilities, and thus had to spend on building the same, either to catch up with the existing ecosystem or to build for the future.

Retail businesses, both assets and liabilities, by their very nature, are Opex intensive in their early stages. Since the strategy was to build a stable bank with a high level of granular retail deposits and low dependency on corporate deposits, the bank launched a large number of branches and ATMs to raise the necessary retail deposits of the bank. IDFCFB increased its footprints across India by opening 435 new bank branches and 607 new ATMs (incl. Recyclers) since the merger, out of which 45 branches and 42 ATMs were opened during FY22.

New Business lines launched: IDFCFB built new businesses like credit cards to complete its offerings, which have a high cost-to-income ratio, and thus are currently loss-making. Management expects this business to be profitable from FY24 onwards.

Legacy liabilities: IDFCFB carried Rs 25,181 Cr of legacy liabilities as on March 31, 2022, costing it about 8.7% which would gradually be replaced at significantly lower costs.

Cumulatively, the management expects these to be addressed either by scale or repayments of high-cost debt, and the cost-to-income ratio would come down gradually.

Quarterly Cost to Income Ratio is expected to reach ~65% by Q4FY25E.

Exhibit 35: Cost to income ratio is expected to normalize gradually

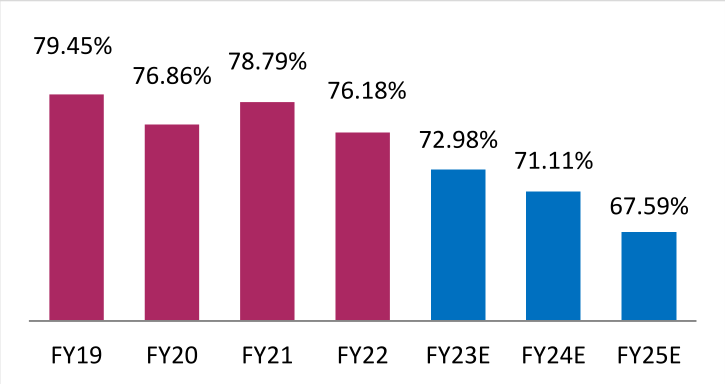
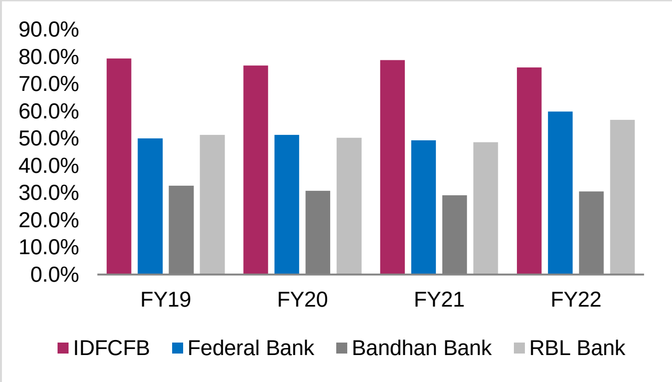


Exhibit 36: Cost to Income Ratio –IDFCFB vs Federal bank Vs Bandhan bank Vs RBL bank



Source: Company, Axis Securities

Key Risk Factors

High GNPA/NNPA in Infrastructure lending business

GNPA/NNPA stood at 21.64%/11.76% in FY22 and 21.74%/11.82% in Q1FY23. Such high rates impact a bank's profitability. However, the impact of the same is minimal as the bank is successful in lowering its high-risk infrastructure portfolio by 32% CAGR in the past 3 years. At present, the infrastructure portfolio constitutes ~6% of the total loan book and the same is expected to decline over the years.

Market uncertainty and rising inflation

Presently the market is facing challenges such as uncertainty of interest rates due to rising inflation, geopolitical pressures, adverse movements in commodity prices and global supply chain issues. At the emergence of the unprecedented Coivd-19 crisis, central banks across the globe had slashed the interest rates to a very low level. This has majorly driven inflation up globally. Central banks across the globe are using various tools to bring inflation back to its normal level and one of the tools is rising interest rates. This risk can be mitigated marginally through diversification of loan and borrowing mix.

Risk of losing customers due to rate cut in saving account

According to the bank's website, for savings account balances up to Rs 10 lakh, the interest rate that can be earned is 4%. For those with savings account balances between Rs 10 lakh to Rs 25 Cr, the interest rate is 6%. This drop in any of these interest rates may result in a shift in customers to other banks. However, the same can be mitigated with better customer service.

Execution risk

The management has given guidance of NIM to remain at about 5.8-6% and the cost of income to be reduced to 70% in FY23. Further, according to management, this will aid to achieve double-digit ROE by FY23. But all of the above is subject to strategy execution risk.

The cost-to-income ratio at an elevated level

The merger took place in FY18 and since the bank is relatively new, IDFCFB had to build a branch network across India as well as build a robust digital ecosystem. Consequently, the cost-to-income ratio has remained elevated at above 70% for the last four years and at present is 74.6% in FY22. The management has guided that the same will come down to 70% in FY23. According to management, there will be a gradual decrease in cost to income ratio. However, if the cost-to-income ratio remains at an elevated level then it will negatively impact the operating profit of the bank which will eventually drag the ROA and ROE.

Peer Review

We have reviewed IDFCFB against its closest peers namely **Bandhan bank, Federal** and **RBL**. We have also compared IDFCFB against the well-established larger private sector banks in the industry.

Exhibit 37: Operational Performance Metrics (FY22 performance)

Peer Companies	Gross Advances	NIM %	C-I Ratio (%)	CASA Ratio	GNPA (%)	NNPA (%)	ROA (%)	ROE (%)
HDFC Bank Limited	13,80,500	4.0	36.9	48.0	1.2	0.3	2.0	16.9
ICICI Bank Ltd	8,59,020	3.9	40.5	47.2	3.6	0.7	1.8	14.8
Kotak Mahindra Bank Ltd	2,71,254	4.3	48.0	60.7	2.3	0.6	2.4	13.4
Bandhan Bank Ltd	99,340	8.2	30.5	41.6	6.5	1.7	0.1	0.8
Federal Bank Ltd	1,47,639	2.9	59.9	36.9	2.8	0.9	1.0	11.9
RBLBank	60,022	4.4	56.9	35.3	4.4	1.3	-0.1	-0.6
IDFC First Bank	***1,37,663***	***5.9***	***76.2***	***50.1***	***3.7***	***1.9***	***0.1***	***6.7***

Source: Company, Axis Securities

Exhibit 38: Valuation Metrics vs. Peers

	RoA				RoE				P/E (FY24E) (x)	P/ABV (FY24E) (x)
Peer Companies	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E		
HDFC Bank Limited	2	2	1.9	2	16.6	16.9	17.7	17.8	15.3	2.6
ICICI Bank Ltd	1.42	1.84	1.8	1.9	12.2	14.8	15.3	16.2	18.3	2.9
Kotak Mahindra Bank	1.9	2.36	2	2	12.4	13.4	12.1	12.9	38.7	4.0
Bandhan Bank Ltd	2.1	0.11	0.1	2.9	13.2	0.76	0.7	22.9	9.9	2.1
Federal Bank Ltd	0.85	1.03	1	1.1	10.38	11.93	13.3	14.1	8.7	1.1
IDFC First Bank	***0.28***	***0.08***	***0.9***	***1.1***	***2.7***	***0.7***	***8.6***	***10.6***	***13.1***	***1.4***

Source: Company, Axis Securities, CMP as of 6th Oct 2022

Competent and Experienced Management Team

Exhibit 39: Key Management Personnel

Name	Designation	Role
Mr. V. Vaidyanathan	Chairman &MD	With over two decades in financial services in India, V. Vaidyanathan has seen India through many lenses - first as a banker (1990-2000, Citibank), (2000-2009, ICICI bank), then as an entrepreneur (2010-2019, Capital First) and a professional banker again (2019- date, after merging Capital First with IDFC bank). He is an alumnus of Birla Institute of Technology and Harvard Business School.
Mr. Sudhanshu Jain	Chief Financial Officer	Mr. Sudhanshu Jain is a Chartered Accountant and Company Secretary with over 15 years of experience with a demonstrated history of working in the banking industry. His last role as a Chief Financial officer was with Paytm Payments bank
Mr. Aashish Kamat	Independent Director	Mr. Aashish Kamat has over 32 years of experience in the corporate world, with 24 years being in banking and financial services, 6 years in public accounting and 2 years in Private Equity. Mr. Kamat holds a BA in Accounting from Franklin & Marshall College, USA and is also a Certified Public Accountant (CPA).
Dr.(Mrs.)Brinda Jagirdar	Independent Director	Dr. (Mrs.) Brinda Jagirdar, is an independent consulting economist with specialization in areas relating to Banking and Economics including Agriculture Economics. She has a brilliant academic record, with a PhD in Economics from the Department of Economics, the University of Mumbai, M.S. in Economics from the University of California at Davis, USA, and M.A. in Economics from Gokhale Institute of Politics and Economics, Pune and B.A. in Economics from Fergusson College, Pune.
Mr. Sanjeeb Chaudhuri	Part-Time Non-Executive Chairperson (Independent Director)	Mr. Sanjeeb Chaudhuri is an MBA in Marketing and has completed an Advanced Management Program. He has over four decades of senior multinational business experience across global banks and consumer companies. He was listed among the Top 25 Media Visionaries in the Asia Pacific in 2016 and is a featured speaker at premier global marketing and media events in Europe and Asia.
Mr. Hemang Raja	Independent Director	Mr. Hemang Raja, is an MBA from Abilene Christian University, Texas, with a major emphasis on finance. He has also done an Advanced Management Program (AMP) from Oxford University, UK. He has vast experience of over thirty-seven years in the financial services industry. His last assignment from the year 2006 was in Private Equity and Fund Management business with Credit Suisse and Asia Growth Capital Advisers in India as MD and Head - India.
Mr. Pravir Vohra	Independent Director	Mr. Pravir Vohra is a postgraduate in Economics from St. Stephen's College, University of Delhi and a Certified Associate of the Indian Institute of Bankers. He began his career in banking with the State bank of India where he worked for over 23 years. He held various senior-level positions in business as well as technology within the bank, both in India and abroad.
Mr S Ganesh Kumar	Independent Director	Mr. S Ganesh Kumar was the Executive Director of the Reserve bank of India. While the most recent responsibilities included the entire gamut of Payment and Settlement Systems, creation and development of strategic plans for the bank to take care of the external investments and manage the foreign exchange reserves with the central bank, a long period in the Information Technology area has honed skills in this area of specialisation.

Source: Company, Axis Securities

Valuation & Recommendation

With a strong retail deposit base and reducing high-cost legacy borrowing, we believe IDFCFB is poised for strong profitable growth ahead. However, it does currently face near-term headwinds such as elevated cost-to-income ratios, the uncertainty of interest rates due to rising inflation and geo-political pressure. However, with a strong NIM outlook, continuous reduction in cost of fund, improved asset quality, lower expected credit cost, robust capital adequacy ratio and expected play out of operating leverage keeps the bank in a better position to continue its growth momentum. With a strong and granular deposit base, IDFCFB is focused on growing its loan portfolio wherein retail book is expected to drive the same. Continuous improvement in asset quality, strategy to improve operating performance with expected operating leverage to kick in along with the expected achievement of superior return ratios over FY23-25E, we expect the stock is poised for re-rating. **We initiate coverage with a 'BUY' rating with a target price of Rs 70/share (1.6x FY25E ABV), implying an upside of 29% from the CMP.**

Assigned 'BUY' rating with a target price of Rs 70/share arrived at a multiple of 1.6x FY25E ABV

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Interest Income	**3,199**	**5,635**	**7,380**	**9,706**	**11,401**	**13,257**	**15,669**
Other Income	852	1,722	2,211	3,222	3,981	5,126	6,571
Net Income	**4,051**	**7,357**	**9,592**	**12,928**	**15,382**	**18,383**	**22,240**
Operating Expenses	3,287	5,421	7,093	9,644	11,226	13,072	15,032
Pre Provision Profits	**764**	**1,937**	**2,498**	**3,284**	**4,156**	**5,311**	**7,207**
Provisions	4,059	4,315	2,023	3,109	1,621	1,873	2,252
PBT	**(3,295)**	**(2,379)**	**476**	**175**	**2,535**	**3,438**	**4,955**
Tax	(1,351)	486	24	30	639	866	1,249
Profit After Tax	**(1,944)**	**(2,864)**	**452**	**145**	**1,896**	**2,572**	**3,706**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	4,782	4,810	5,676	6,234	6,234	6,234	6,234
Reserves & Surplus	13,378	10,533	12,132	14,770	16,666	19,237	22,944
Net Worth	**18,159**	**15,343**	**17,808**	**20,987**	**22,884**	**25,455**	**29,162**
Deposits	70,479	65,108	88,688	1,05,634	1,17,287	1,30,236	1,44,626
Borrowings	1,40,462	1,22,505	1,34,475	1,58,597	1,83,294	2,14,726	2,51,634
Other Liabilities	8,563	11,353	10,861	10,581	10,641	10,701	10,761
Total Liabilities	**1,67,185**	**1,49,200**	**1,63,144**	**1,90,182**	**2,16,835**	**2,50,899**	**2,91,573**
Cash & bank balances	9,567	4,191	5,828	15,758	16,510	17,332	18,234
Investments	58,475	45,405	45,412	46,145	46,915	50,792	54,958
Loans	86,302	85,595	1,00,550	1,17,858	1,42,260	1,70,843	2,05,615
Fixed Assets & Others	12,840	14,010	11,354	10,421	11,151	11,931	12,766
Total Assets	**1,67,185**	**1,49,200**	**1,63,144**	**1,90,182**	**2,16,835**	**2,50,899**	**2,91,573**

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS							
EPS (INR)	(4.1)	(6.0)	0.8	0.2	3.0	4.1	6.0
Earnings Growth	*-261%*	*46%*	*-113%*	*-71%*	*1204%*	*36%*	*44%*
Dividend Per Share	-	-	-	-	-	-	-
BV per share	38	32	31	34	37	41	47
Adj. BV per share	36	30	28	31	34	38	43
RoE	-2.5%	-17.1%	2.7%	0.7%	8.6%	10.6%	13.6%
RoA	-0.3%	-1.8%	0.3%	0.1%	0.9%	1.1%	1.4%
Price-Earnings (x)	NA	NA	68.1	232.1	17.8	13.1	9.1
Price-ABV (x)	1.5	1.8	1.9	1.8	1.6	1.4	1.3
Dividend Yield (%)	-	-	-	-	-	-	-
PROFITABILITY							
Net Interest Margin	2.4%	3.6%	5.0%	6.0%	6.0%	6.1%	6.2%
Cost to Income	81.1%	73.7%	74.0%	74.6%	73.0%	71.1%	67.6%
BALANCE SHEET STRUCTURE RATIOS							
Loan Growth (%)	65.4%	-0.8%	17.5%	17.2%	20.7%	20.1%	20.4%
Deposit Growth (%)	46.2%	92.4%	136.2%	119.1%	111.0%	111.0%	111.0%
C/D Ratio (%)	122.5%	131.5%	113.4%	111.6%	121.3%	131.2%	142.2%
CASA	11.2%	31.7%	51.7%	48.4%	48.0%	47.5%	47.1%
CAR	15.5%	13.4%	13.8%	16.7%	16.6%	15.2%	14.2%
Tier 1	15.3%	13.3%	13.3%	14.9%	14.7%	13.3%	12.3%
ASSET QUALITY							
GNPA Ratio	2.5%	2.7%	4.3%	3.8%	3.3%	3.0%	2.6%
NNPA Ratio	1.3%	0.9%	1.9%	1.5%	1.3%	1.2%	1.1%
PCR	48.2%	64.5%	56.2%	59.5%	59.7%	58.6%	56.7%
Credit costs	0.9%	2.1%	5.0%	2.2%	2.8%	1.2%	1.2%

Source: Company, Axis Securities

IDFC First bank Price Chart and Recommendation History

Date	Reco	TP	Research
7-Oct-22	BUY	70	Initiating Coverage

Source: Axis Securities

About the analyst

Analyst: Sumit Rathi, CFA

Contact Details: sumit.rathi@axissecurites.in

Sector: BFSI/NBFC

Analyst Bio: Sumit Rathi is MBA (Finance) and CFA Charter holder with over 6 years of research experience covering and tracking various sectors including Banking/NBFC sector.

Analyst: Dnyanada Vaidya

Contact Details: dnyanada.vaidya@axissecurities.in

Sector: Banks/NBFCs

Analyst Bio: Dnyanada Vaidya is M.M.S (Finance) with over 4 years of research experience in the Banking/NBFC Industry.

Associate: CA Bhavya Shah

Contact Details: bhavya1.shah@axissecurities.in

Sector: Banks/NBFCs

Analyst Bio: Bhavya Shah is Chartered Accountant and CFA level 2 candidate with over 6 months of research experience in the Banking/NBFC Industry.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis bank Ltd. Axis bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Sumit Rathi, CFA, MBA (Finance), Dnyanada Vaidya, MBA-Finance and CA Bhavya Shah, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, employee among others. in the subject company in the last 12-month period.Any holding in stock – No
5. 5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of its receiving this report.

DEFINITION OF RATINGS	
Ratings	**Expected absolute returns over 12-18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make its own investment decisions, based on its own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, among others. Past performance is not necessarily a guide to future performance. Investors are advice necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, its directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. Consequently, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706