

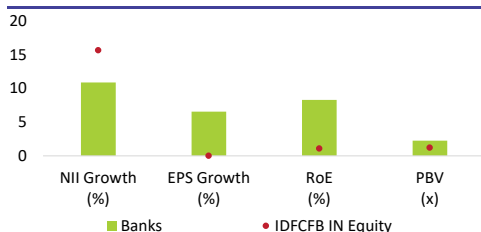
IDFC FIRST BANK

POST-CONFERENCE NOTES

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	37
12 month price target (INR)	32
Market cap (INR bn/USD bn)	209/2.8
Free float/Foreign ownership (%)	60.0/32.8
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

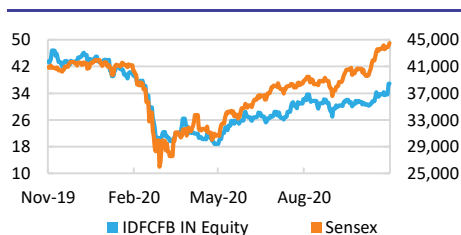


FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	73574	84285	96139	109866
PPoP	19367	22767	26994	32832
Adjusted profit	(28642)	1753	2374	10587
Diluted EPS (INR)	(6.0)	0.3	0.4	1.9
EPS growth (%)	nm	nm	35.4	346.0
RoAE (%)	(17.1)	1.1	1.3	5.8
P/E (x)	(6.2)	119.7	88.4	19.8
P/ABV (x)	1.5	1.7	1.8	1.7
Dividend yield (%)	0.5	0.6	0.7	0.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Strategy in place, execution key

We hosted management of IDFC First Bank (IDFCB) at the Edelweiss India e-Conference 2020, Asia Pacific. Highlights: i) The bank has taken considerable strides towards its 'retailisation' strategy with retail assets at 56% and CASA over 40%. ii) Bounce rates at 1.5x pre-covid-19 levels with collection levels of approx. 95%. iii) Covid-19 provisions of INR2.2bn to be sufficient for non-recognised stressed accounts.

As argued in 'One bank's pothole, another's abyss,' IDFCB remains at the bottom quartile of our coverage in terms of proximity of reported net worth vis-a-vis its 'true residual equity'. We estimate its RoE to continue to be modest over the medium term. Retain 'HOLD' with a TP of INR32. Valuation of 1.2x FY21E P/BVPS provides some comfort.

Key takeaways

On asset quality:

- Retail gross NPA guided at 2% level as of FY21-end and net NPA around 1%.
- Collection efficiency was 60% during the lockdown, which has touched 90–95% presently. Bounce rates had increased to 3x of pre-covid-19 levels during the lockdown; they have now reduced to 1.5x and are yet to get back to normal.

On business segments:

- The bank expects retail asset growth of 20%, which will lead to an overall loan growth of 15%. Legacy infra book will be brought down to nil while the non-infra wholesale book will continue to grow.
- Management had guided for a CASA ratio of 40% in five years post-merger; this has been achieved within two years of merger.

On operations:

- The bank is confident of funding flows and is not looking for inorganic growth by acquiring a bank with a CASA franchise; a smaller size retail NBFC may be better suited. The bank remains confident of generating 13–14% RoE by FY24.
- For the NOFHC structure, a decision has not been made yet, but the two options are a reverse merger and a stake sale to institutional investors.

Outlook and valuation: Bolstering retail; maintain 'HOLD'

IDFCB's asset quality concerns will dominate core business momentum gains in the near future. A significant estimated gap between reported net worth and 'true residual equity' continues to be our key concern even as coverage provides some comfort. We estimate the RoE would continue to be modest in the near to medium term. Maintain 'HOLD/SN'.

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Net interest income	56,352	65,172	75,535	87,309
Non interest income	17,222	19,113	20,603	22,558
Fee and forex income	12,212	12,943	14,433	16,388
Misc. income	20	20	20	20
Investment profits	4,990	6,150	6,150	6,150
Net revenues	73,574	84,285	96,139	1,09,866
Operating expense	54,207	61,518	69,145	77,035
Employee exp	15,276	17,188	19,069	20,391
Other opex	38,931	44,330	50,076	56,643
Preprovision profit	19,367	22,767	26,994	32,832
Provisions	43,152	20,447	23,828	18,715
PBT	(23,785)	2,320	3,166	14,116
Taxes	4,857	567	792	3,530
PAT	(28,642)	1,753	2,374	10,587
Extraordinaries	0	0	0	0
Reported PAT	(28,642)	1,753	2,374	10,587
Diluted EPS (INR)	(6.0)	0.3	0.4	1.9
DPS (INR)	0.2	0.2	0.3	0.3

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Yield on advances	10.5	11.3	11.8	12.2
Yield on investments	8.1	8.1	8.1	8.1
Yield on assets	9.4	10.0	10.3	10.6
Cost of funds	7.2	7.0	7.0	7.0
Cost of deposits	7.1	7.6	7.7	7.6
Net interest margins	2.3	2.9	3.2	3.4
Spread	2.2	3.0	3.3	3.6
Cost-income	73.7	73.0	71.9	70.1
Tax rate	20.4	(24.4)	(25.0)	(25.0)

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY)	4.8	(6.0)	7.0	6.0
Inflation (Avg)	4.3	5.0	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Repo rate (exit rate)	4.4	3.5	3.5	4.0
Credit growth	(8.2)	2.8	10.2	12.7
Deposit growth	(8.0)	6.0	12.0	12.0
Inc yield on advances	10.5	11.3	11.8	12.2
Inc cost of deposits	7.1	7.6	7.7	7.6
Tax rate	20.4	(24.4)	(25.0)	(25.0)
Low-cost deposits	31.9	28.0	31.0	31.0
Incremental slippages	4.0	4.9	9.1	1.7

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted PE (x)	(6.2)	119.7	88.4	19.8
Price/BV (x)	1.2	1.2	1.2	1.1
Price/ABV (x)	1.5	1.7	1.8	1.7
Dividend yield (%)	0.5	0.6	0.7	0.7

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Equity capital	48,099	56,723	56,723	56,723
Reserves	1,05,331	1,18,412	1,20,703	1,29,382
Net worth	1,53,430	1,75,135	1,77,427	1,86,106
Sub bonds/pref cap	6,500	6,500	6,500	6,500
Deposits	6,48,300	6,87,198	7,69,662	8,62,021
Borrowings	5,53,153	5,33,375	5,55,347	6,27,742
Other liabilities	97,220	1,03,053	1,08,206	1,13,616
Total	14,58,603	15,05,261	16,17,142	17,95,985
Assets				
Loans	9,80,620	10,08,367	11,11,719	12,53,285
Investments	3,33,411	3,48,583	3,48,058	3,73,725
Cash & equi	35,604	32,459	35,338	40,420
Fixed assets	10,380	10,848	11,290	11,706
Other assets	98,589	1,05,005	1,10,736	1,16,849
Total	14,58,603	15,05,261	16,17,142	17,95,985
BV/share (INR)	31.9	30.9	31.3	32.8
ABV/share (INR)	24.6	22.1	20.5	22.2
Capital adequacy (%)	18.7	15.1	15.9	13.7

Balance Sheet Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Credit growth	(8.2)	2.8	10.2	12.7
Deposit growth	(8.0)	6.0	12.0	12.0
EA growth	(15.2)	2.9	7.6	11.5
SLR ratio	24.0	26.0	24.0	24.0
C-D ratio	151.3	146.7	144.4	145.4
Low-cost deposits	31.9	28.0	31.0	31.0
Gross NPA ratio	2.4	5.4	7.8	4.9
Net NPA ratio	0.8	2.6	3.1	1.2
Provision coverage	66.2	51.0	60.4	76.5

ROA Decomposition (%)

Year to March	FY20A	FY21E	FY22E	FY23E
NII/Assets	3.8	4.8	5.2	5.5
Fees/Assets	0.8	0.9	1.0	1.0
Inv profits/Assets	0.3	0.4	0.4	0.4
Net revenues/assets	4.7	5.7	6.2	6.6
Opex/Assets	(3.7)	(4.5)	(4.8)	(4.9)
Provisions/Assets	(2.9)	(1.5)	(1.7)	(1.2)
Taxes/Assets	(0.3)	0	(0.1)	(0.2)
Total costs/Assets	(7.0)	(6.0)	(6.5)	(6.3)
RoA	(1.9)	0.1	0.2	0.7
Equity/Assets	11.4	12.0	12.2	11.5
RoAE	(17.1)	1.1	1.3	5.8

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	nm	nm	35.4	346.0
RoAE (%)	(17.1)	1.1	1.3	5.8
Net NPA ratio (%)	0.8	2.6	3.1	1.2
Payout ratio (%)	(3.2)	66.1	63.7	13.8

Other highlights:

On asset quality:

- Covid provisions as at Q2FY21 stand at INR20bn which is 2.2% of standard assets.
- Collection efficiency was at 60% at the beginning of the lockdown, which has reached to 90-95% levels presently. Collection efficiency is calculated on the basis of amount collected in the month versus demand raised.
- Bounce rates had increased to 3x of pre-covid levels in the lockdown, which has come down to 1.5x and are yet to get back to normal.
- The bank remains cautious on SME lending and this stance will continue for the next 2-3 months given current environment.

On business segments:

- Disbursements in Sept at almost 100% levels of last year and October has seen over 100% disbursements in comparison to previous year.
- Retail assets are at 56% of total funded book, in the next 6-8 quarters, retail will form 70% of the book.
- The bank expects retail asset growth of 20% which will lead to an overall loan growth of 15%.
- Legacy infra book will be brought down to nil while the non-infra wholesale book will continue to grow.
- Management had guided for CASA of 40% in 5 years post-merger which has been achieved in 2 years of merger.
- Have disbursed INR15bn under the ECLGS scheme in Q2FY21. The management is of the opinion that the amount disbursed is used for business and not for repaying existing loans.

On operations and other highlights:

- Capital position aided by INR20bn raised at the beginning of the year and CRAR stands at 14.7%.
- NIMs increased by 1 ppt since the merger and stood at 4.6%. (guided at 5-5.5%)
- In 5 years post-merger (FY24), cost ratios should come down to 50-55%, which are at 73% levels presently.
- Will increase branch network along with digital capabilities which will help maintain deposit traction.
- The bank is confident of funding flows and not looking for any inorganic growth by acquiring a bank with a CASA franchise, while a smaller size retail NBFC may be better suited.
- For the NOFHC structure, no decision has been taken but the two options are reverse merger and selling of stake to institutional investors.
- The bank remains confident of generating 13-14% RoE by FY24.

Company Description

IDFC FIRST Bank is founded by the merger of IDFC Bank, a scheduled commercial bank and Capital First Limited, a systematically important Non-Banking Financial Services Company. The merger was first announced on January 13, 2018, and formally consummated on December 18, 2018. The merged entity has a network of 503 branches and a total funded assets portfolio of INR1.06tn with over 50% being retail assets.

Investment Theme

IDFCFB's asset quality concerns will dominate core business momentum gains for the foreseeable future. Wide estimated chasm between reported net worth and 'true residual equity' remains our concern. Adequate coverage provides some comfort. We estimate RoE to continue to be modest in the near to medium term. We maintain 'HOLD/SU'.

Key Risks

- On a funding side, IDFC FIRST Bank will have to built CASA and branches which could be a challenge in current scenario especially considering small finance banks are also poised to start their operations in next 18-24 months.
- Deterioration of macro environment can result in slowdown with respect to credit offtake.
- Building the retail side of Balance sheet, be it retail liability or retail asset.

Additional Data

Management

Chairman	Rajiv Lall
MD & CEO	V. Vaidyanathan
Ind. Director	Anand Sinha
Ind. Director	Brinda Jagirdar
Auditor	Deloitte

Holdings – Top 10*

	% Holding		% Holding
Cloverdell	9.85	Odyssey 44	1.47
Govt of India	5.46	Caladium Invst	1.39
Singapore Govt	2.54	Vaidyanathan V	1.04
Aditya Birla AM	1.98	Dimensional Fun	0.95
Vanguard Group	1.70	BlackRock	0.68

*Latest public data

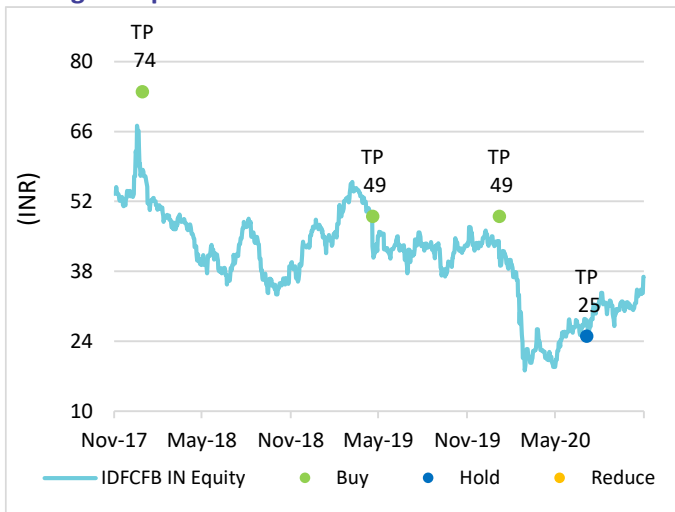
Recent Company Research

Date	Title	Price	Reco
02-Nov-20	Strides in the right direction; <i>Result Update</i>	32	Hold
29-Jul-20	IDFC First Bank - Result Update Q1FY21 -; <i>Result Update</i>	25	Hold
24-May-20	IDFC FIRST Bank - Result Update Q4FY20 ; <i>Result Update</i>	49	Buy

Recent Sector Research

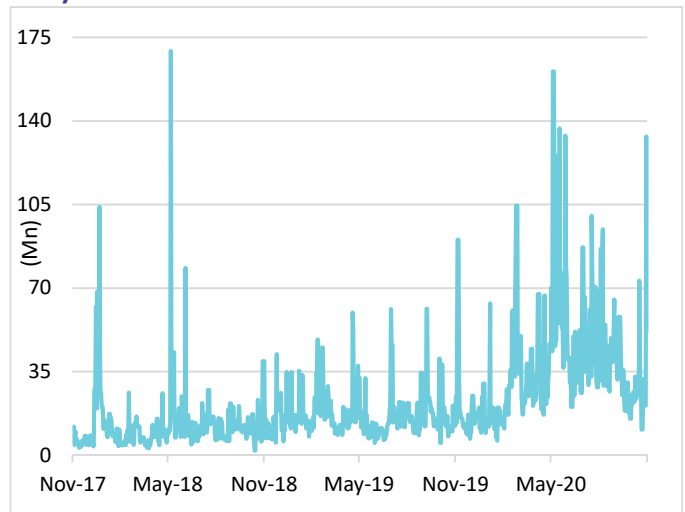
Date	Name of Co./Sector	Title
23-Nov-20	AU SFB	Recovery continues; <i>Company Update</i>
04-Nov-20	State Bank of India	Moderate stress, sub-par provisioning; <i>Result Update</i>
03-Nov-20	Punjab National Bank	Precariously positioned; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	162	63	14	239
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	179	59	8	246

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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