

Treading well on long term transition path...

IDFC First posted decent results with healthy business traction and stable asset quality. The bank is well on course to achieve its long term objectives of improving retail mix, improving NIMs and granularity on liability side.

Net interest income (NIM) was up 15.3% YoY to ₹ 1960 crore despite ₹ 55 crore worth interest on interest reversals. **Net interest margins (NIM) were up 4 bps QoQ to 5.09%**. The bank has reduced savings interest rate to 4% for deposits below ₹ 1 lakh and peak rates of 5%, which should keep funding cost benign and, thus, aid margins. Other income was up 74% YoY mainly due to trading gains. Operating expense were up 11% QoQ to ₹ 2156 crore. This rise can be attributed to increased business activity. Cost-to-income ratio (calculated) was up from 75.1% to 76.9% QoQ. Provisions during the quarter remained elevated at ₹ 602 crore, up 25% QoQ. This was mainly due to additional provisions of ₹ 375 crore for Covid-19 risks. This additional provisioning was done from release of ₹ 324 crore worth provisions on its telecom exposure. The bank had tax write-back of ₹ 84 crore during the quarter. As a result, PAT came in at ₹ 127 crore.

Asset quality was stable as GNPA was at 4.15% vs. 4.18% proforma level in the previous quarter. GNPA in the retail segment increased 13 bps from 3.88% to 4.01% sequentially. Total restructured book is now at 0.9% of funded assets vs. 0.8% QoQ. Collection efficiency for early buckets had reached pre-Covid levels but the impact of the second wave of the pandemic needs to be monitored. **Though PCR improved to 56.2% from 52.3% QoQ it is still on the lower side.** Also, with the pandemic forcing lockdowns again, we may see elevated provisions, going ahead, in order to deal with incremental stress and strengthening of the balance sheet.

Credit growth trajectory for the bank improved QoQ as funded assets were up 6% QoQ, 9.5% YoY to ₹ 117127 crore against flattish growth 0.7% in the previous quarter. **Growth in loans was driven by retail assets, which were up 26% YoY to ₹ 71987 crore. They now form 61% of the total book.** ECLGS portfolio is at ₹ 1687 crore. Wholesale book was down 14% YoY to ₹ 33920 crore, in line with the management's strategy. On the liabilities side, total deposits increased 36% YoY to ₹ 88688 crore wherein retail deposit showed strong growth of 88% YoY to ₹ 49610 crore. Wholesale deposits declined 20% YoY to ₹ 24795 crore. CASA deposits saw strong growth of 122% YoY. As a result, CASA ratio jumped to 51.7% vs. 48.1% QoQ, 31.7% YoY.

Valuation & Outlook

In terms of business, the bank seems to be on track in its long-term objectives of shifting the loan mix in retail favour and higher retailisation of liability franchisee. The second wave of the pandemic could keep credit cost elevated in the next two to three quarters. **Asset quality in the near term and opex structure in the medium term would be key monitorables.** We value the bank at ~1.65x FY23E ABV and revise target price to ₹ 65 (₹ 52 earlier). We maintain our **BUY** recommendation.

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net profit (₹ crore)	(1,944)	(2,864)	452	981	1,787	99%
EPS (₹)	(4.1)	(5.0)	0.8	1.6	2.9	90%
P/E (x)	NM	NM	69.0	34.8	19.1	
BV (₹)	38.0	31.9	31.4	39.4	41.9	16%
P/BV (x)	1.4	1.7	1.8	1.4	1.3	
ABV (₹)	35.7	30.2	28.1	36.0	38.8	
P/ABV (x)	1.5	1.8	2.0	1.5	1.4	
RoA (%)	(1.2)	(1.6)	0.3	0.6	0.9	
RoE (%)	(10.7)	(15.8)	2.7	4.6	7.1	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 34315 crore
Networth	₹ 17808 crore
52 week H/L	69 / 18
Face value	₹ 10
DII Holding (%)	11.2
FII Holding (%)	11.9

Key Highlights

- GNPA stable at 4.15% vs. 4.18% (proforma) QoQ
- Loan book rises 6% QoQ driven by retail loans
- Maintain BUY recommendation with revised target price of ₹ 65

Risk to our call

- Persistent impact of pandemic could dent asset quality
- High opex structure could keep profitability low.

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	1,960	1,924	1,700	15.3	1,892	3.6	Driven by sequential rise in margin and loan growth
NIM (%)	5.1	4.6	4.6	114 bps	5.0	4 bps	Margins rise despite interest reversals
Other Income	841	683	484	73.9	759	10.8	Other income boosted by trading gains
Net Total Income	2,801	2,607	2,184	28.3	2,652	5.7	
Staff cost	520	541	364	42.9	526	-1.1	
Other Operating Expenses	1,636	1,480	1,300	25.8	1,465	11.7	Sequential rise due to business activity
PPP	645.8	586.4	519.8	24.3	660.9	-2.3	
Provision	602.7	546.8	412.4	46.2	482.2	25.0	Elevated provisions due to higher stress recognition
PBT	43.1	39.6	107.4	-59.9	178.7	-75.9	
Tax	-84.7	10.1	35.8	NA	49.2	NA	
PAT	127.8	29.5	71.5	78.6	129.5	-1.3	Tax write-back aids bottom-line

Key Metrics

GNPA	4,303.0	4,770.0	2,279.6	88.8	1,289.2	233.8	Asset quality stable with GNPA at 4.15% versus 4.18% proforma
NNPA	1,883.3	1,431.0	808.6	132.9	320.6	487.4	
Funded Assets	1,17,127	1,16,341	1,07,004	9.5	1,10,469	6.0	Growth led by retail funded assets
Deposits	88,688	89,352	65,108	36.2	84,294	5.2	CASA jumps 122% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	7,978.5	8,905.9	11.6	9,643.9	10,563	9.5
Pre Provision Profit	3,418.7	3,257.8	-4.7	4,603.3	4,157	-9.7
NIM calculated (%)	4.9	5.2	28 bps	5.2	5.3	12 bps
PAT	923.8	981.1	6.2	1,876.9	1,787	-4.8
ABV (₹)	32.1	36.0	12.2	35.3	39	10.2

Source: Company, ICICI Direct Research

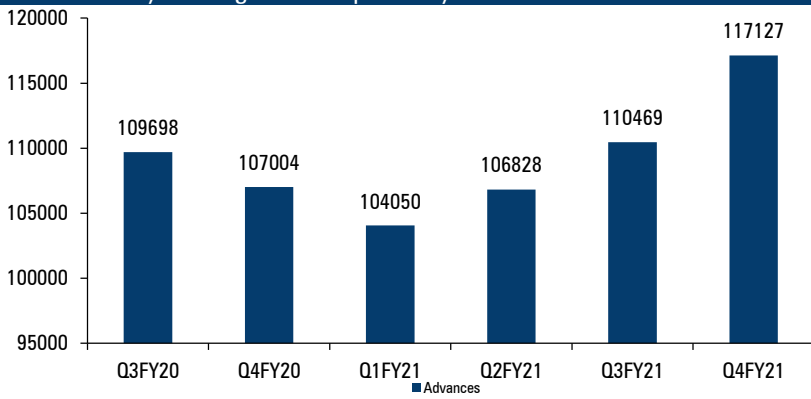
Exhibit 3: Assumption

	Current			Earlier		
	FY21	FY22E	FY23E	FY21E	FY22E	FY23E
Credit growth (%)	17.5	17.9	18.4	7.7	15.5	18.0
Deposit Growth (%)	36.2	22.9	24.6	39.0	22.1	28.4
CASA ratio (%)	51.7	54.7	55.3	48.1	51.0	52.3
NIM Calculated (%)	5.1	5.2	5.3	5.0	4.9	5.2
Cost to income ratio (%)	73.6	71.3	68.9	69.6	67.2	63.3
GNPA (₹ crore)	4,202	4,202	3,922	3,662	3,662	3,411
NNPA (₹ crore)	1,879	2,057	1,924	2,490	1,963	1,707
Credit cost (%)	2.1	1.6	1.3	2.3	2.0	1.7

Source: Company, ICICI Direct Research

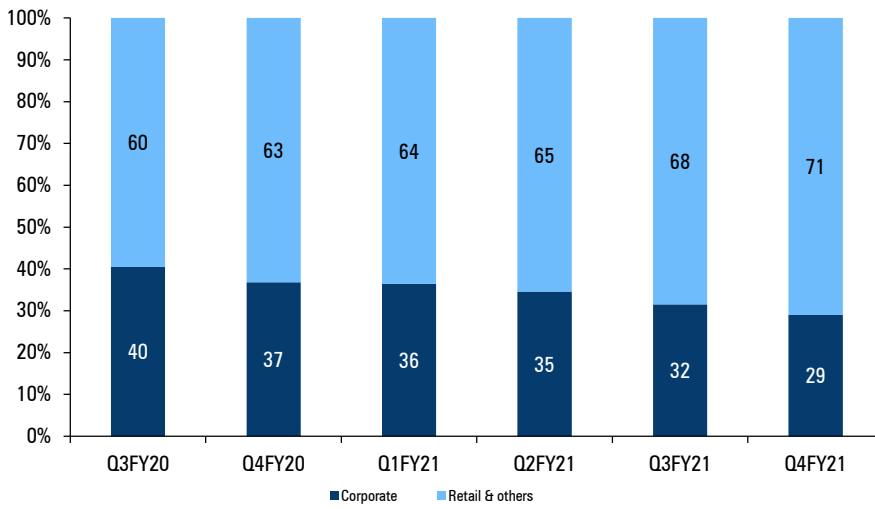
Story in charts

Exhibit 4: Healthy credit growth sequentially



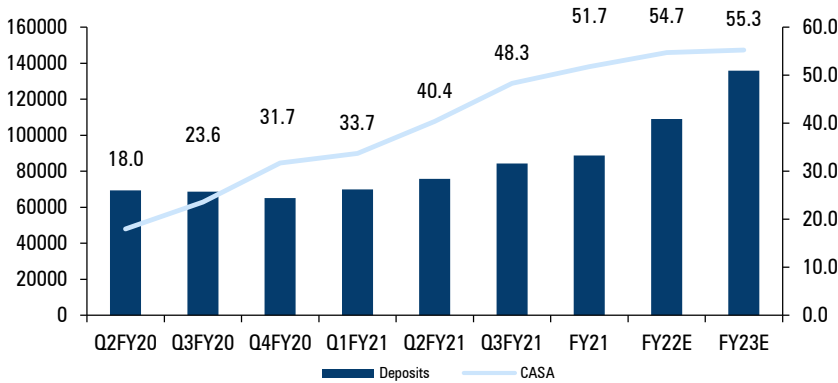
Source: Company, ICICI Direct Research

Exhibit 5: Increasing retail contribution in loan mix



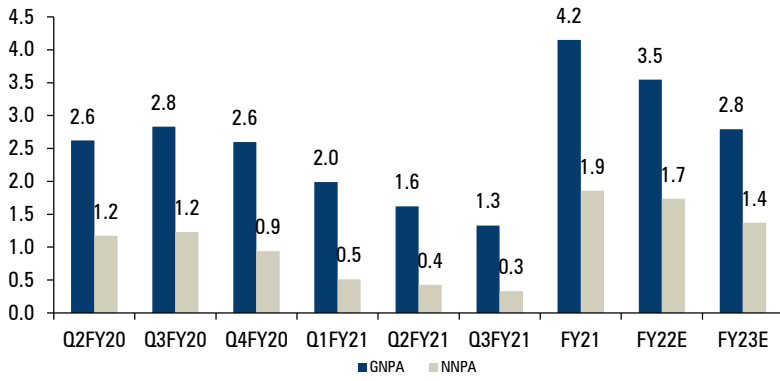
Source: Company, ICICI Direct Research

Exhibit 6: CASA deposits show strong traction



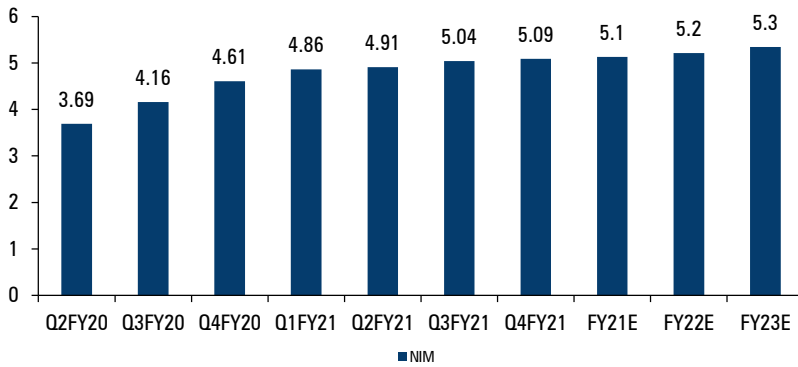
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality trend



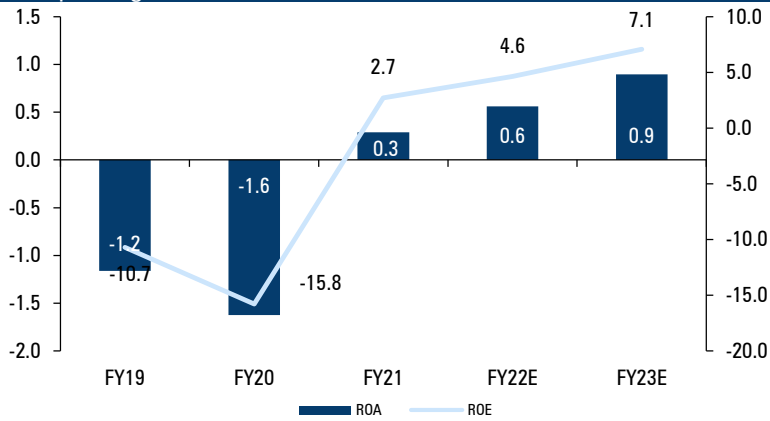
Source: Company, ICICI Direct Research

Exhibit 8: Margin to show steady expansion



Source: Company, ICICI Direct Research

Exhibit 9: Improving return ratios



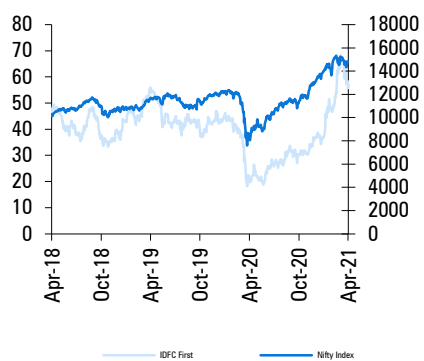
Source: Company, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	40.0	40.0	40.0	40.0	40.0
FII	13.6	11.3	11.2	11.6	11.9
DII	4.4	11.3	12.5	11.3	11.2
Others	42.0	37.4	36.3	37.1	36.9

Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement					
	₹ crore				
(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	11,948	16,308	15,968	18,690	22,048
Interest Expended	8,749	10,232	8,588	9,784	11,486
Net Interest Income	3,199	6,076	7,380	8,906	10,563
Growth (%)	62	90	21	21	19
Non Interest Income	852	1,722	2,254	2,444	2,797
Net Income	4,051	7,798	9,634	11,350	13,359
Employee cost	1,118	1,528	1,977	2,215	2,401
Other operating Exp.	2,169	4,333	5,116	5,877	6,802
Operating Income	764	1,937	2,541	3,258	4,157
Provisions	1,460	4,315	2,065	1,941	1,759
PBT	(696)	(2,379)	476	1,317	2,398
Exceptional items	2,599.3	-	-	-	-
Taxes	(1,351)	486	24	342	624
Net Profit	(1,944)	(2,864)	452	981	1,787
Growth (%)	NA	NA	NA	117	82
EPS (₹)	(4.1)	(5.0)	0.8	1.6	2.9

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios					
	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of shares (crore)	478.2	481.0	567.6	619.9	619.9
EPS (₹)	(4.1)	(5.0)	0.8	1.6	2.9
DPS (₹)	0.5	-	-	0.1	0.2
BV (₹)	38.0	31.9	31.4	39.4	41.9
ABV (₹)	35.7	30.2	28.1	36.0	38.8
P/E	NA	NA	69.5	35.0	19.2
P/BV	1.5	1.7	1.8	1.4	1.3
P/ABV	1.6	1.8	2.0	1.5	1.4
Yields & Margins (%)					
Net Interest Margins	2.5	4.4	5.1	5.2	5.3
Yield on assets	9.3	11.8	11.5	11.9	12.1
Avg. cost on funds	6.8	8.2	6.7	6.9	7.1
Yield on average advances	11.5	16.6	13.8	14.0	14.2
Avg. Cost of Deposits	7.4	9.5	5.7	6.5	6.5
Quality and Efficiency (%)					
Cost to income ratio	145.3	69.5	73.6	71.3	68.9
Credit/Deposit ratio	122.5	131.5	113.4	108.8	103.4
GNPA	2.5	2.7	4.2	3.5	2.8
NNPA	1.3	0.9	1.9	1.7	1.4
ROE	(10.7)	(15.8)	2.7	4.6	7.1
ROA	(1.2)	(1.6)	0.3	0.6	0.9
RWA/assets	0.0	0.0	1.0	2.0	3.0
RWA/ NW	0.0	0.0	1091.5	653.3	410.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet					
	₹ crore				
(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital	4,782	4,810	5,676	6,199	6,199
Reserves and Surplus	13,377	10,533	12,132	18,197	19,805
Networth	18,159	15,343	17,808	24,396	26,004
Deposits	70,479	65,108	88,688	1,08,994	1,35,831
Borrowings	69,983	57,397	45,786	41,595	36,839
Other Liabilities & Provisions	8,562	11,353	10,861	11,716	12,649
Total	1,67,183	1,49,200	1,63,144	1,86,701	2,11,324
Application of Funds					
Fixed Assets	950	1,038	1,266	1,393	1,210
Investments	58,475	45,405	45,412	50,135	55,417
Advances	86,302	85,595	1,00,550	1,18,544	1,40,412
Other Assets	11,889	12,973	10,088	9,639	6,783
Cash with RBI & call mone	9,567	4,190	5,828	6,991	7,501
Total	1,67,183	1,49,200	1,63,144	1,86,701	2,11,324

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					
(% growth)	FY19	FY20	FY21	FY22E	FY23E
Total assets	32.3	(10.8)	9.3	14.4	13.2
Funded asset	65.4	(0.8)	17.5	17.9	18.4
Deposit	46.7	(7.6)	36.2	22.9	24.6
Total Income	25.3	40.9	1.1	16.0	17.6
Net interest income	62.2	89.9	21.5	20.7	18.6
Operating expenses	227.6	(7.9)	30.9	14.1	13.7
Operating profit	(241.7)	(229.5)	6.9	28.2	27.6
Net profit	NA	NA	NA	116.9	82.1
Net worth	18.9	(15.5)	16.1	37.0	6.6
EPS	NA	NA	NA	99	82

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
SBI (STABAN)	362	410	Buy	3196	20.0	28.1	30.5	18	12.9	11.9	1.6	1.4	1.3	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	118	180	Buy	133	16.9	29.1	45.5	7.0	4.1	2.6	0.7	0.6	0.6	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	715	900	Buy	2195	25.2	47.7	58.7	28.4	15.0	12.2	2.5	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	167	200	Buy	125	10.0	10.0	10.0	16.7	16.7	16.7	2.5	2.2	2.2	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	94	110	Buy	29	10.8	12.3	15.6	8.7	7.6	6.0	1.0	0.8	0.7	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	79	90	Buy	155	7.7	7.9	10.0	10.2	10.0	7.9	1.2	1.1	1.1	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1,419	1,700	Buy	7824	56.4	66.4	77.8	25.1	21.4	18.2	3.9	3.5	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	945	1,100	Buy	715	36.8	56.5	66.5	25.7	16.7	14.2	1.9	1.8	1.8	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	25	25	Hold	17	7.5	10.4	0.0	3.3	2.4		0.4	0.3	1.0	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,811	2,040	Buy	3527	35.1	43.2	51.4	51.5	42.0	35.2	5.9	5.2	4.5	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	297	330	Hold	476	14.7	24.7	31.4	20.2	12.0	9.5	3.4	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	55	65	Buy	343	0.8	1.6	2.9	69.0	34.8	19.1	2.0	1.5	1.4	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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