

Retail Equity Research

IDFC First Bank Ltd.

Banking

BSE CODE: 539437

NSE CODE: IDFCFIRSTB

BLOOMBERG CODE: IDFCFB:IN

SENSEX: 60,353

Accumulate

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 52
TARGET Rs. 58
RETURN 12% ↑

(Closing: 10-11-21)

KEY CHANGES:
TARGET ↑

RATING ↑

EARNINGS ↓

Economic recovery to drive business growth

IDFC First Bank, founded by the merger of erstwhile IDFC Bank and erstwhile Capital First on December 18, 2018. At present, the bank's total number of branches stands at 599, with a total funded assets to the tune of around ~Rs.1,17,270cr.

- **Net Interest Income (NII)** reported a growth of 27.4% on a YoY basis, and reported Net Interest Margin (NIM) improved to 5.76% in Q2FY22, compared to 5.51% in Q1FY22.
- **Bank is shifting its business from wholesale and infrastructure loan to retail lending and has been successful so far. As a result infra mix has been reduced to 8.6% from 11.7% a year ago.**
- **Asset quality improved however slippages remained elevated. GNPA/NNPA stood at 4.27%/2.09% compared to 4.61%/2.32% during previous quarter. Provision Coverage Ratio (PCR) improved to 52.1%.**
- **Collection efficiency reached pre-covid levels during the quarter.**
- **We value the bank at 1.9x Adj BVPS of FY23E and upgrade our rating to Accumulate with a target price of Rs.58.**

Net Interest Income growth aided by margin expansion

In Q2FY22 Net Interest Income (NII) reported strong growth of 27.4% on a YoY basis and 4.0% sequentially aided by the expansion of margin. Interest income grew by 4.5%YoY while remained flat QoQ and interest expense reduced by 14.6%YoY and 4.0% sequentially. Reported Net Interest Margin improved 85bps YoY and 25bps QoQ to 5.76% due to a decline in cost of funds. Cost of funds are expected to decline further in upcoming quarters as high cost legacy borrowings are to be substituted with low cost deposits after its maturity. Pre-provision profit doubled on YoY basis however showed a decline of 30.8% on sequential basis as operating expenses increased by 16.1%. Provision for the quarter stood at Rs.475cr against 1878.6cr in the previous quarter and resultantly PAT grew 49.6% YoY to Rs.151.7cr.

Improvement in key business figures

Gross Funded Asset of the bank increased 10% YoY to Rs.1,17,270cr during the quarter. Retail loan book grew 30% YoY to Rs.78,048cr which includes Rs.1,555cr disbursement through ECLG scheme. Bank is expecting retail advances to continue its strong grow in the coming quarters. Bank has also been successful in reducing the wholesale loan by 15% while infra loan book reduced by 19% and infra financing as a % of total funded loan reduced to 8.6% from 11.7% a year ago. Customer deposit increased 21% to Rs.83,889cr with CASA ratio at 50.9%.

Improvement in asset quality

During the quarter asset quality improved across all segments. GNPA for the quarter stood at 4.27% against Q4FY21 GNPA of 4.61% while NNPA stood at 2.09% against 2.32%. Retail GNPA stands at 3.45% against 3.86 during previous quarter. Provision coverage ratio stands at 52.1% which still remain as a concern for the bank. Slippages still remaining high is another concern for the bank in the near future. Collection efficiency reached pre-covid levels with urban retail segment at 99.4% and rural retail segment at 98.9% during September 2021. Total restructured book increased to 2.9% compared to 2.0% during previous quarter.

Outlook & Valuation

Bank has shown improvement in key business figures including margins and lending mix which is positive for the long term. Management is also confident on business growth as economic activities started picking momentum. Improvement in asset quality is visible along with better collection efficiency. Management expects to bring down GNPA to 2% and NNPA to 1%. However, low PCR and high slippages remains a concern in near term. We therefore assign an Accumulate rating on the stock with a target price of Rs.58 based on 1.9x FY23 Adj BVPS.

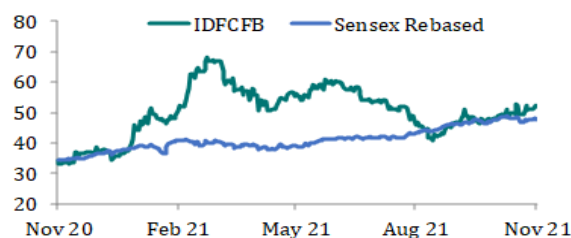
Company Data

Market Cap (Rs cr)	32,210.5
Outstanding Shares (cr)	620.7
Free Float (%)	63.4
Dividend Yield	-
52 week high (Rs)	69.3
52 week low (Rs)	32.0
6m average volume (cr)	0.1
Beta	1.2
Face value (Rs)	10

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	40.0	36.6	36.5
FII's	11.9	15.1	14.8
MFs/Institutions	11.2	11.9	10.2
Public/Others	36.9	36.4	38.5
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	13.1%	-4.2%	51.2%
Absolute Sensex	10.0%	23.8%	39.5%
Relative Return*	3.0%	-28.1%	11.7%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
NII	7,380	8,824	9,797
Growth(%)	21.5%	19.6%	11.0%
NIM(%)	4.19	5.94	6.29
Provisions	2,065	2,914	2,254
Adj. PAT	452	205	745
Growth(%)	-	-54.8%	264.3%
Adj. EPS	0.8	0.4	1.3
Growth(%)	-	-55.5%	264.3%
BVPS	31.4	32.4	33.4
Adj BVPS	28.1	28.4	30.5
P/E	64.5	145.0	39.8
P/B	1.7	1.6	1.6
Adj. P/B	1.9	1.8	1.7
ROE (%)	2.7	1.1	4.0

Quarterly Financials (Standalone)

(Rs cr)	Q2FY22	Q1FY22	QoQ Growth (%)	Q2FY21	YoY Growth (%)	H1FY22	H1FY21	YoY Growth (%)
Interest Income	4,101	4,089	0.3	3,925	4.5	8,190	7,874	4.0
Interest Expense	1,828	1,905	-4.0	2,141	-14.6	3,733	4,346	-14.1
Net Interest Income (NII)	2,272	2,185	4.0	1,784	27.4	4,457	3,528	26.3
Fee and Other Income	780	849	-8.1	166	369.7	1,628	651	150.2
Total Income	3,052	3,034	0.6	1,950	56.5	6,085	4,179	45.6
Expenditure	2,359	2,032	16.1	1,610	46.5	4,392	2,947	49.0
Pre-Provision Profit	693	1,001	-30.8	340	103.8	1,694	1,231	37.5
Provision	475	1,879	-75	213	123	2,354	977	141
Exceptional Item	0	0	-	0	-	0	0	-
PBT	218	-877	-	126	72.2	-660	254	-
Tax	66	-247	-	25	-	-181	59	-
Reported PAT	152	-630	-	101	49.6	-478	195	-
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	152	-630	-	101	49.6	-478	195	-
Diluted EPS (Rs)	0.24	-1.02	-	0.21	-0.5	-0.78	0.41	-

Change in Estimates

Year / Rs cr	Old estimates		New Estimates		Change%	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Interest Income (NII)	8,624	10,218	8,824	9,797	2.3%	-4.1%
Net Interest Margin (%)	5.55	5.48	5.94	6.29	39bps	81bps
Pre-Provision Profit	3,317	3,782	3,193	3,268	-3.7%	-13.6%
Adj. PAT	111	1042	205	745	84.2%	-28.5%
EPS (Rs)	0.19	1.84	0.36	1.31	89.6%	-28.7%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Interest Income	11,948	16,308	15,968	17,130	19,303
Interest Expense	8,749	10,232	8,588	8,306	9,506
Net Int. Income	3,199	6,076	7,380	8,824	9,797
<i>Change</i>	<i>77.9%</i>	<i>89.9%</i>	<i>21.5%</i>	<i>19.6%</i>	<i>11.0%</i>
Non Int. Income	852	1,722	2,254	3,255	3,475
Operating Income	4,051	7,798	9,634	12,079	13,272
<i>Change</i>	<i>38.9%</i>	<i>92.5%</i>	<i>23.5%</i>	<i>25.4%</i>	<i>9.9%</i>
Operating Exp.	3,287	5,861	7,093	8,886	10,004
Pre Prov. Profit	764	1,937	2,541	3,193	3,268
Prov. & Conting.	1460	4315	2065	2914	2254
PBT	-3,295	-2,379	476	278	1,014
<i>Change</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Tax	-1,351	486	24	74	269
Tax Rate (%)	41%	-20%	5%	27%	27%
Reported PAT	-1,944	-2,864	452	205	745
Adjustment	0	0	0	0	0
Adj. PAT	-1,944	-2,864	452	205	745
<i>Change</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
No. of shares (Cr)	478	481	568	568	568
EPS (Rs)	-4.7	5.9	0.8	0.4	1.3

BALANCE SHEET

Y.E March (Rs cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	9,567	4,191	5,828	3,767	5,656
Loans & Advances	86,302	85,595	100,550	116,577	132,606
Investments	58,475	45,405	45,412	40,199	43,920
Gross Fixed Assets	4248	4758	5328	5968	6684
Net Fixed Assets	950	1038	1266	1519	1838
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	11,890	12,972	10,088	10,579	12,200
Total Assets	167,185	149,200	163,144	172,640	196,220
Deposits	70,479	65,108	88,688	94,997	111,393
Debt Funds	69,983	57,397	45,786	46,546	51,240
Other Liabilities	8,563	11,353	10,862	12,694	14,640
Provisions	-	-	-	-	-
Equity Capital	4782	4810	5676	6199	6199
Reserves & Surplus	13,378	10,533	12,132	12,203	12,749
Shareholder's Funds	18,159	15,343	17,808	18,402	18,948
Total Liabilities	167,185	149,200	163,144	172,640	196,220
BVPS (Rs)	38.0	31.9	31.4	32.4	33.4
<i>Change</i>	<i>-15.3%</i>	<i>-16.0%</i>	<i>-1.6%</i>	<i>3.3%</i>	<i>3.0%</i>
Adj. BVPS (Rs)	35.7	30.2	28.1	28.4	30.5
<i>Change</i>	<i>-15.5%</i>	<i>-15.3%</i>	<i>-7.1%</i>	<i>1.4%</i>	<i>7.3%</i>

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
Interest yield (%)	9.1	11.4	11.3	11.1	11.4
Cost of funds (%)	7.1	7.8	6.7	5.9	5.8
Spread(%)	2.0	3.6	4.6	5.2	5.6
NIM (%)	2.5	4.2	5.3	5.9	6.3
ROE (%)	-11.6	-17.1	2.7	1.1	4.0
ROA(%)	-1.3	-1.8	0.3	0.1	0.4
Business Growth					
Loans & Advances (%)	65.4	-0.8	17.5	15.9	13.8
Deposits (%)	46.2	-7.6	36.2	7.1	17.3
Operating Ratios					
Cost to Income (%)	81.1	74.2	73.6	72.6	71.7
CASA (%)	12.9	27.0	51.8	52.0	53.0
Asset Quality					
GNPA (%)	2.4	2.6	4.2	4.1	3.5
NNPA (%)	1.3	0.9	1.9	1.9	1.2
Capital Adequacy					
Tier 1 CAR (%)	15.3	13.5	15.5	12.9	12.2
CAR (%)	15.5	13.7	15.7	13.1	12.4
Valuation					
P/E (x)	-10.9	8.7	64.5	145.0	39.8
P/B (x)	1.4	1.6	1.7	1.6	1.6
Adj. P/B (x)	1.4	1.7	1.9	1.8	1.7

Recommendation Summary (last 3 years)



Dates	Rating	Target
13 September 19	Hold	45.6
04 February 20	Hold	43.2
06 June 20	Hold	26.2
26 August 20	Accumulate	36
06 November 20	Buy	38
04 February 21	Buy	68
17-May-21	Accumulate	62
04-August-21	Reduce	46
11-November-21	Accumulate	58

Source: Bloomberg, Geojit Research.

Investment Criteria

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

Definition:

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

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

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

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

Sell: Exit from the stock.

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

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