

Retail Equity Research

IDFC First Bank Ltd.

Banking

BSE CODE: 539437 NSE CODE: IDFCFIRSTB
BLOOMBERG CODE: IDFCFB:IN SENSEX: 39,074

Accumulate

12M Investment Period

Rating as per Mid Cap

CMP Rs. 32 TARGET Rs.36 RETURN +13% ↑
(Closing: 26-08-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Strengthened retail franchise to aid 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 503, with a total funded assets to the tune of around ~Rs1,04,050cr.

- We value the bank at 1.2x Adj BVPS of FY22E and revise our rating to Accumulate from Hold with a revised upward target price of Rs 36.
- Net Interest Income (NII) reported a growth of 38% on a YoY basis, and Net Interest Margin (NIM) improved to 4.53% in Q1FY21, compared to 3.01% in Q1FY20.
- Asset quality improved for the quarter with GNPA/NNPA at 1.99%/0.51% compared to 2.60%/0.99% in Q4FY20. Provision coverage ratio improved for the quarter to 74.93% compared to 64.53% in Q4FY20.
- Retail advances is expected to report a growth of 13% CAGR during FY20-22E.
- Recent capital raising to limit near term shocks in asset quality.

Better top-line performance with 38% growth in NII.

In the current quarter, Net interest income reported a 38% increase on an annualised basis powered by a 26% increase in retail book. NII grew to Rs 1,626 cr as compared to Rs 1,174cr in Q1FY20. Net Interest Margin (NIM) improved to 4.53% in Q1FY21 compared to 3.01% in Q1FY20 and 4.24% sequentially. Total income including Net Interest income, fees and trading gain came at Rs 2,111cr an increase of 42% YoY from Rs1,485cr in Q1FY20. Pre-Provision profit (PPOP) grew by 180% YoY to Rs892cr in the current quarter compared to Rs318cr in Q1FY20.

Overall asset quality improved while retail asset quality remain stable.

Asset quality witnessed improvement on a sequential basis with GNPA/NNPA at 1.99%/0.51% compared to 2.60%/0.99% in Q4FY20. However, retail asset quality remained mostly stable at 0.87%/0.24% during the quarter. Improvement in asset quality can be largely attributed to moratorium provided to customers. Bank offered moratorium 2.0 to 28% of its customers by value compared to 35% in last quarter. Provisions for the quarter stood at Rs 764cr including Rs375cr Covid related provisions. We remain watchful on the asset quality as we expect a weakness post moratorium gets lifted.

Retail advances to contribute to growth.

For the quarter ended June 2020 the total loan book of the bank stood at Rs 1,04,050cr. Retail accounted 54% of the loan book amounting Rs56,043Cr and Wholesale loan book amounting Rs 37,928cr accounts for around 46% of the total loan book. There was a 26% increase in the retail book and 28% decline in wholesale loan book where most of bad loan lies. Banks plan to increase retail exposure is yielding results. We expect retail advances to grow at a CAGR of 13% during FY20-22E.

Capital raising strengthened balance sheet.

Bank recently raised Rs 2,000cr through preferential shares to augment capital base. Post the capital raising the CET 1 stands at 15%. Large part of the stress lies in corporate accounts and total outstanding exposure in stressed accounts stands at Rs 6000cr including that of Vodafone Idea's. Bank has provided 50% provision to these stressed assets as on June 2020.

Valuation

Top line growth is expected to remain robust due to increase in retail exposure as there is huge potential in retail financing in India. Post Covid there is slow uptick in demand, and as per the management credit demand will reach pre covid levels in the next 2-3 months. However, we remain watchful over the asset quality post the moratorium ends in August. Any near term shocks with respect to asset quality will be absorbed by the capital raised recently. We value the bank at 1.2x Adj BVPS of FY22E and revise our rating to Accumulate from Hold with a revised upward target price of Rs 36.

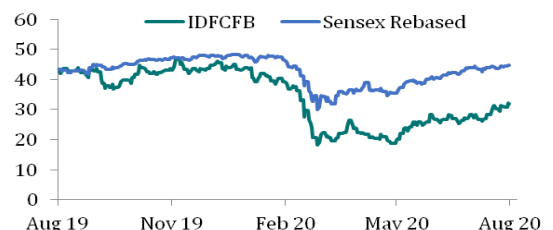
Company Data

Market Cap (Rs cr)	18,123
Outstanding Shares (cr)	567.2
Free Float	60%
Dividend Yield	-
52 week high (Rs)	48
52 week low (Rs)	18
6m average volume (cr)	4.4
Beta	1.3
Face value (Rs)	10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	40.0	40.0	40.0
FPI's	15.1	13.5	11.4
MFs/Institutions	3.9	4.0	2.9
Public	40.9	42.5	45.7
Total	100	100	100
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 month	6 month	1 year
Absolute Return	56.6%	-17.2%	-26.2%
Absolute Sensex	22.9%	-2.3%	3.6%
Relative Return*	33.7%	-15.0%	-29.8%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
NII	5,635	5,729	6,694
Growth(%)	76.2%	1.7%	16.8%
NIM(%)	4.09	4.18	4.36
Provisions	4,315	1,403	1,611
Adj. PAT	-2,864	725	1,103
Growth(%)	-	-	52.1%
Adj. EPS	-6.0	1.3	1.9
Growth(%)	-	-	52.1%
BVPS	32	29	31
Adj BVPS	30	28	30
P/E	-3.4	25.2	16.5
P/B	0.6	1.1	1.0
Adj. P/B	0.7	1.1	1.1
ROE (%)	-17.1	4.5	6.5

Rajin Rajan P
Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q1FY21	Q4FY20	QoQ Growth (%)	Q1FY20	YoY Growth (%)
Interest Income	3,831	3,956	-3.1	3,793	1.0
Interest Expense	2,205	2,392	-7.8	2,619	-15.8
Net Interest Income (NII)	1,626	1,563	4.0	1,174	38.4
Fee and Other Income	485	484	0.2	310	56.2
Total Income	2,111	2,047	3.1	1,485	42.1
Expenditure	1,219	1,527	-20.2	1,167	4.4
Pre-Provision Profit	892	520	71.5	318	180.6
Provision	764	412	85	1,281	-40.3
Exceptional Item	0	0	-	0	-
PBT	128	107	19	-963	-
Tax	34	36	-5	-346	-
Reported PAT	94	72	31	-617	-
Adjustment	-	-	-	-	-
Adj. PAT	94	72	31	-617	-
Diluted EPS (Rs)	0.20	0.15	31	-1.27	-

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	5,592	6,437	5,729	6,694	2.5%	4.0%
Net Interest Margin (%)	4.08	4.19	4.18	4.36	10bps	17bps
Pre-Provision Profit	2,240	2,833	2,389	3,112	6.7%	9.8%
Adj. PAT	615.4	898.0	725	1103	17.8%	22.8%
EPS (Rs)	1.30	1.90	1.28	1.94	-1.7%	2.3%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	8,930	11,948	15,867	15,386	17,334
Interest Expense	7,132	8,749	10,232	9,656	10,640
Net Int. Income	1,798	3,199	5,635	5,729	6,694
Change	-	77.9%	76.2%	1.7%	16.8%
Non Int. Income	1,118	852	1,722	1,292	1,456
Operating Income	2,916	4,051	7,357	7,022	8,150
Change	-	38.9%	81.6%	-4.6%	16.1%
Operating Exp.	1,653	3,287	5,421	4,633	5,039
Pre Prov. Profit	1,263	764	1,937	2,389	3,112
Prov. & Conting.	236	1460	4315	1403	1611
PBT	1,027	-3,295	-2,379	986	1,500
Change	-	-	-	-	-
Tax	168	-1,351	486	261	398
Tax Rate (%)	16%	41%	-20%	27%	27%
Reported PAT	859	-1,944	-2,864	725	1,103
Adjustment	0	0	0	0	0
Adj. PAT	859	-1,944	-2,864	725	1,103
Change	-	-	-	-	-
No. of shares (Cr)	340	478	479	567	567
EPS (Rs)	2.5	-4.7	-6.0	1.3	1.9
Change	-	-	-	-	-
DPS (Rs)	0.75	0.75	0.30	0.40	0.50

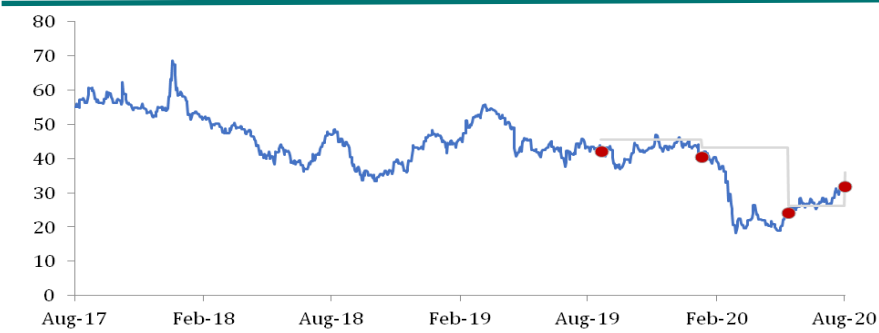
BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	4,892	9,567	4,191	11,558	8,966
Loans & Advances	52,165	86,302	85,595	93,510	107,418
Investments	61,202	58,475	45,405	49,644	56,344
Gross Fixed Assets	1184	4248	4758	5328	5968
Net Fixed Assets	784	950	1038	1256	1519
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	7,478	11,890	12,972	12,839	14,572
Total Assets	126,520	167,185	149,200	168,808	188,820
Deposits	48,198	70,479	65,108	77,677	86,870
Debt Funds	57,287	69,983	57,397	65,051	73,830
Other Liabilities	5,778	8,563	11,353	9,415	10,686
Provisions	-	-	-	-	-
Equity Capital	3404	4782	4810	5672	5672
Reserves & Surplus	11,852	13,378	10,533	10,992	11,762
Shareholder's Funds	15,257	18,159	15,343	16,664	17,434
Total Liabilities	126,520	167,185	149,200	168,808	188,820
BVPS (Rs)	44.8	38.0	32.0	29.4	30.7
Change	-	-15.3%	-15.6%	-8.3%	4.6%
Adj. BVPS (Rs)	42.2	35.7	34.5	28.0	29.7
Change	-	-15.5%	-3.2%	-18.9%	6.0%

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	-	9.1	11.3	11.0	11.1
Cost of funds (%)	-	7.1	7.8	7.2	7.0
Spread(%)	-	2.0	3.5	3.9	4.1
NIM (%)	-	2.5	4.1	4.2	4.4
ROE (%)	-	-11.6	-17.1	4.5	6.5
ROA(%)	-	-1.3	-1.8	0.5	0.6
Business Growth					
Loans & Advances (%)	-	65.4	-0.8	9.2	14.9
Deposits (%)	-	46.2	-7.6	19.3	11.8
Operating Ratios					
Cost to Income (%)	56.7	81.1	73.7	66.0	61.8
CASA (%)	11.8	12.9	27.0	30.0	35.0
Asset Quality					
GNPA (%)	3.3	2.4	0.0	2.2	2.0
NNPA (%)	1.7	1.3	-1.4	0.8	0.6
Capital Adequacy					
Tier 1 CAR (%)	17.7	15.3	13.5	15.7	14.9
CAR (%)	18.0	15.5	13.7	15.9	15.0
Valuation					
P/E (x)	12.8	-6.8	-5.4	25.2	16.5
P/B (x)	0.7	0.8	1.0	1.1	1.0
Adj. P/B (x)	0.8	0.9	0.9	1.1	1.1

Recommendation Summary (last 3 years)



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.

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