

CMP: ₹ 64

Target: ₹ 75 (17%)

Target Period: 12 months

May 2, 2023

BUY

Gradual decline in CI ratio to aid RoA...

About the stock: IDFC First Bank was formed by the merger of the erstwhile IDFC Bank and Capital First in 2018. Retailisation of its business has been the key focus.

- Retail funded assets form ~67% of total funded assets
- Branch network is at 809 as on March 2023

Q4FY23 Results: IDFC First Bank reported a strong performance.

- GNPA down 45 bps QoQ to 2.51%; NNPA down 17 bps QoQ to 0.86%
- NII up 34.7% YoY, NIMs up 28 bps QoQ to 6.41%, C/I at ~68%
- Provisions up 7.2% QoQ; PAT at ₹ 802 crore, up >2x YoY
- Funded assets up 24.4% YoY at ₹ 1.60 lakh crore, retail grew 32% YoY

What should investors do? IDFC First Bank's stock price rose ~60% in the past one year. Credit growth continued to remain strong and ahead of industry growth coupled with a gradual improvement in cost to income and steady asset quality. RoA reached at 1.1% in FY23 and expected to improve to 1.3% next year.

- Thus, we retain our **BUY** rating on the stock as valuations look reasonable.

Target Price and Valuation: With RoE expected to reach ~15% by FY25, we value IDFC First Bank at ~1.6x FY25E ABV and revise our target price to ₹ 75 per share from ₹ 70 earlier.

Key triggers for future price performance:

- Rundown of high cost legacy borrowings to improve CoF and aid margins. The management guided for ~5.6% margins
- As per management guidance CI ratio to be ~65% vs. 70% plus (currently). A gradual decline in CI ratio will be the key driver of RoA
- Better than industry credit growth along with steady asset quality and, thus, lower credit cost to aid earning CAGR of 33%, RoA of ~1.5% in FY23-25
- After equity infusion capital adequacy stands at 16.8%

Alternate Stock Idea: Apart from IDFC First, in our coverage we also like CSB Bank.

- CSB Bank has shown a meaningful transformation in its overall performance in the past few years and currently focuses on gold and SME loans
- BUY with a target price of ₹ 330

Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	6,076	7,380	9,706	12,897	29%	16,358	20,005	25%
Net profit (₹ crore)	(2,864)	452	146	2,434	-	3,362	4,299	33%
EPS (₹)	(6.0)	0.8	0.2	3.7	-	5.4	6.9	
P/E (x)	NM	76.6	260.6	16.6		11.3	8.8	
ABV (₹)	30.2	28.1	30.8	36.8		39.9	45.7	
P/ABV (x)	2.0	2.2	2.0	1.7		1.5	1.3	
RoA (%)	(1.9)	0.3	0.1	1.1		1.3	1.5	
RoE (%)	(18.7)	2.7	0.8	10.4		12.9	15.2	

Source: Company, ICICI Direct Research



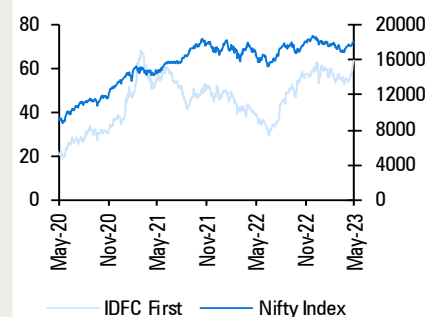
Particulars

	Amount
Market Capitalisation	₹ 42355 crore
Networth	₹ 21048 crore
52 week H/L	65/ 29
Face value	₹ 10

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	36.5	36.5	36.5	36.4	40.0
FII	13.5	11.0	19.3	19.8	19.3
DII	9.6	10.2	9.8	9.6	7.7
Others	40.5	42.3	34.4	34.3	33.0

Price Chart



Risk to our call

- Net stressed assets declined to 0.8% vs. 2% in FY22
- **Key Risk:** i) Higher opex to keep earnings in check ii) Slower than expected credit growth

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Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Highest ever quarterly PAT led by strong business growth

- NII up 34.7% YoY, 9.5% QoQ to ₹ 3597 crore, driven by 28 bps QoQ, 14 bps QoQ expansion in NIMs at 6.4% and strong business growth. Other income registered strong growth of 68% YoY and 21% QoQ
- Fee income growth was contributed mainly by fees related to loan sourcing, higher transaction led fees, distribution and wealth management fees, etc. Operating expense (including staff cost) grew 28.5% YoY and 8.1% QoQ at ₹ 3436 crore but CI ratio declined to 68.8% vs. 76.4% in Q4FY22 and 71.6 bps in Q3FY23
- On a QoQ basis, provisions inched up 7.2% QoQ at ₹ 482 crore (up 30.6% YoY). Credit cost was at 1.16% vs. 1.5% guidance for FY23. The bank reported highest quarterly PAT of ₹ 802.6 crore (doubled YoY and up 32.8% QoQ) with RoA of 1.23% for Q4FY23
- Asset quality improved sequentially as GNPA, NNPA declined 45 bps, 17 bps QoQ to 2.51%, 0.86%, respectively. Retail GNPA declined from 2.03% to 1.65% QoQ. Management remains confident on asset quality ahead
- Total funded assets were up 24.4% YoY, 5.6% QoQ to ₹ 1.60 lakh crore, wherein retail funded assets were up 32% YoY to ₹ 110207 crore. Customer deposit growth was at 46.8% YoY to ₹ 1.36 lakh crore. This was led by 41% YoY uptick in CASA. CASA ratio was at 49.8% while 76% of customer deposits are retail

IDFC First Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	16.8	16.8	16.8
Social	27.5	30.1	30.1
Governance	83.6	83.6	83.6
Overall ESG Score	42.7	43.6	43.6

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Q4FY23 Earnings Conference Call highlights

- Guidance – RoA, RoE of 1.4-1.6%, 13-15%, respectively. Credit cost at ~1.5%, CI ratio at ~65%
- Investment gains during the quarter were mainly led by (one-off) monetisation of venture capital fund investments of ₹ 200 crore
- The bank utilised ₹ 79 crore provision during the quarter
- Cost to income - Retail segment - down from 63.4% to 55.0%, wholesale segment - down from 38.1% to 31.6%
- Despite a rise in interest rates, traction in home loans was strong for the bank
- Infrastructure book de-grew 32% YoY to ₹ 4664 crore (at 2.9% of total loans vs. 5.3% in the previous year)
- CASA and term deposits of <₹ 5 crore was 83% of total deposits. Retail deposits as percentage of total deposits were 76% and grew 53% YoY
- LCR was at 120% vs. 122% in Q3FY23. The management aims to maintain LCR at current levels
- Net slippages were down 21% and standard restructured book has further reduced to 0.6% vs. 0.9% in Q3FY23. PCR on debt book was at 25%
- The SMA1 and SMA2 on the retail book is stable at ~1% and lower compared to the previous year (2.2%)
- High cost borrowings reduced by ₹ 7500 crore in last one year and now were at ₹ 17673 crore (of which ₹ 5100 crore is expected to run down in FY24). The management expect this to run down in the next two to three years
- During the quarter, the bank opened 102 branches
- Branches usually breakeven in 24 months or earlier

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)						
	₹	TP(₹)	Rating	₹ Bn	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Axis Bank (AXIBAN)	855	1,100	Buy	2,640	42.4	31.1	88.9	106.1	20.2	27.5	9.6	8.1	2.5	2.2	1.7	1.5	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4
Kotak Bank (KOTMAH)	1,937	2,290	Buy	3,501	43.0	55.2	64.8	74.3	45.0	35.1	29.9	26.1	5.4	4.7	4.0	3.7	2.1	2.4	2.4	2.4	12.6	14.0	14.3	14.6
CSB Bank (CSBBAN)	279	330	Buy	48	26.4	31.5	31.8	35.0	10.6	8.8	8.8	8.0	2.0	1.6	1.4	1.2	1.9	2.0	1.7	1.5	19.0	18.7	15.9	15.1
Bandhan (BANBAN)	230	265	Hold	370	0.8	12.9	15.9	20.2	294.4	17.8	14.5	11.4	2.4	2.1	1.9	1.7	3.9	-2.0	0.1	1.4	0.8	11.3	12.6	14.3
IDFC First (IDFBAN)	61	75	Buy	421	0.2	3.7	5.4	6.9	258.9	16.5	11.2	8.8	2.0	1.6	1.5	1.3	0.1	1.1	1.3	1.5	0.8	10.4	12.9	15.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	3,597	3,510	2,669	34.7	3,285	9.5	Led by strong business growth and margins uptick
NIM (%)	6.41	6.40	6.27	14 bps	6.13	28 bps	
Other Income	1,397	1,350	831	68.1	1,152	21.3	Fee income grew 40% YoY
Net Total Income	4,994	4,860	3,500	42.7	4,438	12.5	
Staff cost	1,041	1,063	785	32.6	953	9.2	
Other Operating Expenses	2,395	2,456	1,889	26.8	2,224	7.7	CI ratio moderate to 68% vs. 76% in Q4FY22
PPP	1,558.7	1,340.6	826.5	88.6	1,260.8	23.6	
Provision	482.4	480.6	369.5	30.6	450.2	7.2	PCR largely steady on QoQ basis at ~66%
PBT	1,076.2	860.0	457.0	135.5	810.5	32.8	
Tax	273.6	210.7	114.3	139.3	205.9	32.9	
PAT	802.6	649.3	342.7	134.2	604.6	32.8	Healthy topline resulted in strong earnings growth

Key Metrics

GNPA	3,884.5	4,022.2	4,469.1	-13.1	4,302.6	-9.7	
NNPA	1,304.1	1,508.3	1,808.1	-27.9	1,464.2	-10.9	
Funded Assets	160,599	160,203	129,051	24.4	152,152	5.6	Mainly driven by retail segment, which was up 32% YoY
Deposits	136,812	125,839	93,214	46.8	123,578	10.7	CASA deposits grew 41% YoY; CASA ratio steady at ~50%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	15,032	16,358	8.8	18,415	20,005	8.6
Pre Provision Profit	6,043	6,834	13.1	7,936	8,558	7.8
NIM calculated (%)	6.2	6.3	12 bps	6.3	6.4	9 bps
PAT	2,922	3,362	15.0	3,816	4,299	12.7
ABV (₹)	38.7	39.9	3.1	44.6	46	2.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	26.6	20.9	21.6	20.8
Deposit Growth (%)	21.2	22.0	21.9	22.0
CASA ratio (%)	50.3	51.0	48.0	48.7
NIM Calculated (%)	6.3	6.4	6.2	6.3
Cost to income ratio (%)	67.5	66.3	69.3	66.7
GNPA (₹ crore)	4,268.9	4,733.4	4,747.8	5,171.7
NNPA (₹ crore)	1,644.0	1,867.6	1,673.7	1,453.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Interest Earned	17,173	22,176	27,457	32,750
Interest Expended	7,467	9,279	11,099	12,745
Net Interest Income	9,706	12,897	16,358	20,005
Growth (%)	32	33	27	22
Non Interest Income	3,222	3,955	4,668	5,410
Net Income	12,928	16,852	21,027	25,415
Employee cost	2,697	3,445	4,036	4,725
Other operating Exp.	6,948	8,373	10,157	12,131
Operating Income	3,284	5,033	6,834	8,558
Provisions	3,109	1,788	2,322	2,787
PBT	175	3,246	4,512	5,771
Exceptional items	-	-	1.0	1.0
Taxes	46	844	1,173	1,500
Net Profit	146	2,434	3,362	4,299
Growth (%)	(68)	1,573	38	28
EPS (₹)	0.2	3.7	5.4	6.9

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
	FY22	FY23	FY24E	FY25E
Valuation				
No. of shares (crore)	621.8	661.8	621.8	621.8
EPS (₹)	0.2	3.7	5.4	6.9
DPS (₹)	0.0	0.3	0.5	0.6
BV (₹)	33.8	38.8	42.5	48.7
ABV (₹)	30.8	36.8	39.9	45.7
P/E	260.6	16.6	11.3	8.8
P/BV	1.8	1.6	1.4	1.3
P/ABV	2.0	1.7	1.5	1.3
Yields & Margins (%)				
Net Interest Margins	5.8	6.3	6.3	6.4
Yield on assets	11.1	11.9	12.1	12.1
Avg. cost on funds	5.0	5.3	5.2	5.1
Yield on average advances	9.7	14.2	14.1	14.0
Avg. Cost of Deposits	4.8	4.9	4.8	4.7
Quality and Efficiency (%)				
Cost to income ratio	74.6	70.1	67.5	66.3
Credit/Deposit ratio	111.6	104.9	109.6	108.6
GNPA	3.8	2.6	2.2	2.0
NNPA	1.5	0.9	0.9	0.8
ROE	0.8	10.4	12.9	15.2
ROA	0.1	1.1	1.3	1.5
RWA/assets	2.0	3.0	4.0	5.0
RWA/ NW	551.8	356.8	244.8	189.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	6,218	6,618	6,218	6,218
Reserves and Surplus	14,786	19,103	20,218	24,087
Networth	21,004	25,721	26,435	30,305
Deposits	1,05,634	1,44,637	1,75,321	2,13,890
Borrowings	52,963	57,212	54,561	59,531
Other Liabilities & Provisions	10,581	12,371	13,609	16,124
Total	1,90,182	2,39,942	2,69,927	3,19,850
Application of Funds				
Fixed Assets	1,361	2,090	2,236	2,393
Investments	46,145	61,124	55,490	61,166
Advances	1,17,858	1,51,795	1,92,207	2,32,292
Other Assets	9,060	11,035	3,971	6,371
Cash with RBI & call money	15,758	13,898	16,023	17,628
Total	1,90,182	2,39,942	2,69,927	3,19,850

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(% growth)	FY22	FY23	FY24E	FY25E
Total assets	16.6	26.2	12.5	18.5
Funded asset	17.2	28.8	26.6	20.9
Deposit	19.1	36.9	21.2	22.0
Total Income	12.2	28.1	22.9	18.8
Net interest income	31.5	32.9	26.8	22.3
Operating expenses	36.0	22.5	20.1	18.8
Operating profit	31.4	53.3	35.8	25.2
Net profit	(67.8)	1,572.8	38.1	27.9
Net worth	17.9	22.4	2.9	14.6
EPS	(71)	1,472	47	28

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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