

CMP: INR 84

Rating: Hold

Target Price: INR 94

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	6,628
Mkt Cap (INR Cr)	55,643
52w H/L (INR)	86 / 35
Avg Yearly Vol (in 000')	35,963

Shareholding Pattern %

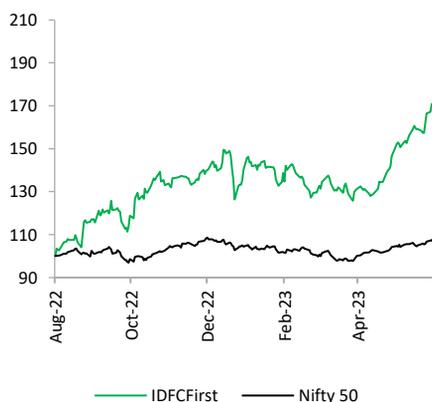
(As on June, 2023)

Promoters	39.9
Public & Others	60.1

Stock Performance (%)

	1m	6m	12m
IDFC FIRST Bank	5.7	48.5	100
Nifty	1.7	11.2	13.3

IDFC FIRST Bank Vs Nifty



IDFC First Bank has reported a profit of INR 765 cr against INR 474 cr in corresponding quarter last year (up 61.3% YoY, down 4.7% QoQ), driven by strong NII growth. The collection efficiency has been stable at 99.5% since past few quarters. At bank level, asset quality improved with GNPA/NNPA decreased by 119bps/60bps YoY at 2.17%/0.7% respectively. Retail GNPA reduced from 2.12% to 1.53% YoY and NNPA reduced from 0.93% to 0.52% YoY. Management has guided to maintain its GNPA/NNPA at 2 - 2.5%/ 1 - 1.2% respectively. NIM declined marginally by 8bps QoQ at 6.33%.

Core operating performance was strong: NII increased by 36% YoY/4% QoQ to INR 3,745 cr, driven by strong growth in advances. Other income increased by 65% YoY/1% QoQ to INR 1414 cr. Bank has reported treasury gain of INR 73 cr as compared to loss of INR 44 cr in Q1FY23. Bank has reported profit of INR 765 cr as compared to INR 474 cr in Q1FY23 and profit of INR 803 cr in Q4FY23. Provisions increased by 55% YoY/-1.3% QoQ to INR 476 cr.

Asset quality improved further: Bank continue to report improvement in asset quality as GNPA declined further by 34bps QoQ at 2.17%. NNPA improved by 16bps QoQ at 0.70%. The bank has given a guidance of GNPA within the range of 2% - 2.5% and NNPA within the range of 1% - 1.2%. The asset quality is well within the guidance given by them and will continue to be so, for coming quarters.

Advance growth continues to be driven by retail assets: Banks advances stood at INR 1,71,578 cr v/s INR 1,60,599 cr in last quarter (up 25% YoY, up 6.8% QoQ). The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 2.2% in the Q1FY24. This has helped them to improve their asset quality and their yields. Further, Bank continues to reduce its high cost legacy borrowings. They have planned to reduce their legacy borrowings to zero by the end of FY26. This will help them reduce their cost of funds, which in turn will improve their margins.

Valuation & View: Bank has delivered an above average performance during Q1FY24 on most of the counts with improvement in asset quality along with strong business growth. We expect the bank to continue to report such performance in coming quarters. Bank is expected to grow within the range of 20 - 25% during the FY24. We downgrade our rating to Hold on the stock with a target price of INR 94, based on 1.9x P/ABV to its FY25E.

Exhibit 1: Financial Performance

Key Financials (INR in Cr)	FY21	FY22	FY23	FY24E	FY25E
NII	7,380	9,706	12,635	17,749	19,091
PPOP	2,541	3,284	4,932	7,627	8,144
Net Profit	452	145	2,437	4,084	4,298
Advances	1,00,550	1,17,858	1,51,795	1,80,706	1,88,556
Deposits	88,688	1,05,634	1,44,637	1,50,078	1,57,300
RoA (%)	0.3%	0.1%	1.0%	1.5%	1.5%
RoE (%)	2.5%	0.7%	9.5%	13.7%	14.0%

Source: Arihant Research, Company Filings

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Q1FY24 - Quarterly Performance (Standalone)

(INR Cr)

IDFC First Bank (Standalone)					
Quarterly Result Update	Q1FY24	Q1FY23	Q4FY23	YoY	QoQ
Interest Income	6,868	4,922	6,424	39.5%	6.9%
Interest Expended	3,123	2,171	2,828	43.9%	10.4%
Net Interest Income	3,745	2,751	3,597	36.1%	4.1%
Other Income	1,414	856	1,397	65.2%	1.2%
Operating Income	5,159	3,607	4,994	43.0%	3.3%
a. Other Operating Expenses	2,506	1,833	2,395	36.7%	4.6%
b. Employee Expenses	1,153	830	1,041	38.9%	10.8%
Operating Expenses (a+b)	3,659	2,663	3,436	37.4%	6.5%
PPOP	1,500	944	1,559	59.0%	-3.7%
Provisions	476	308	482	54.6%	-1.3%
PBT	1,024	636	1,076	61.1%	-4.8%
Tax Expenses	259	162	274	60.4%	-5.3%
Net Income	765	474	803	61.3%	-4.7%

Source: Arian Research, Company Filings

Concal Highlights:

Scheme of Merger of IDFC Ltd with IDFC First Bank Ltd

- On July 3, 2023, the boards of IDFC First Ltd. and IDFC Ltd. approved the scheme of amalgamation of the two companies.
- Under the scheme, for every 100 shares of IDFC Ltd., shareholders will be allotted 155 shares of IDFC First Bank.
- The scheme is subject to the approvals of the RBI, SEBI, CCI, NCLT, BSE, and NSE, as well as the shareholders of both companies. The merger is expected to be completed within 12-15 months.

Advances

- Advances for Q1FY24 stood at INR 1,715.78 Bn (up 25% YoY).
- The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 2.2% in the Q1FY24.
- Advance Mix for Q1FY24 (YoY growth)- Consumer Finance- 57% (27%), Rural Finance- 12% (46%), SME & Corporates- 29% (23%), & Infrastructure- 2% (-44%).

Deposits

- Consumer Deposits as of Q1FY24 were INR 1,484.74 Bn (up 10% QoQ, up 44% YoY). The deposits have a 4- year CAGR of 36%.
- CASA for the Q1FY24 stood at 46.5% as against 49.8% in Q4FY23. During the quarter bank has raised more money from FD. Management expects CASA deposit to be around 50% by FY25.
- Deposit Mix for Q1FY24 (Q4FY23) was Retail-77% (76%) and wholesale- 23% (24%).

Asset Quality

- Overall GNPA/NNPA % for Q1FY24 was 2.17%/0.70% as against 3.36%/1.30% in Q1FY23. The company has provided guidance that its GNPA/NNPA for FY24 and FY25 will be in the range of 2% to 2.5%/ 1% to 1.2%.
- PCR for Q1FY24 stood at 83.12%. The company expects it to be around 70% by FY25.
- CRAR/Tier 1 Capital Ratio for the quarter stood at 16.96%/13.70% as against 15.77%/14.01% in FY23.
- Wealth Management AUM increased by 58% YoY to INR 106.79 Bn.
- CRISIL & ICRA has given a rating of AA(stable) to AA+ (stable) for the bank.

Key Metrics

- ROA for Q1FY24 was 1.26% (up 29 bps YoY). Management short term expectations are in range 1.4%-1.6%.
- ROE for Q1FY24 stood at 11.78% v/s 12.3% in Q4FY23. ROE for Q1FY24 impacted by 60 bps on account of equity raised of INR 21.96 Bn in March, 2023.
- C/I Ratio for Q1FY24 was 71.9% as against 72.5% in Q4FY23. Management expects it to drop to 65% by Q4FY25.

Key Financials

Profit & Loss Statement (INR in Cr)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	15,968	17,173	22,728	28,501	29,478
Interest Expended	8,588	7,467	10,092	10,308	10,387
Net Interest Income	7,380	9,706	12,635	17,968	19,087
Other Income	2,254	3,222	4,467	4,862	4,376
Operating Income	9,634	12,928	17,102	22,774	23,412
Operating Expenses	7,093	9,644	12,170	14,984	15,324
- Employee Expenses	1,977	2,697	3,742	4,579	4,658
- Other Operating Expenses	5,116	6,948	8,428	10,406	10,666
PPOP	2,541	3,284	4,932	8,339	8,569
Provisions	2,065	3,109	1,665	2,169	2,400
PBT	476	175	3,267	6,266	6,169
Tax Expenses	24	30	830	1,577	1,553
Net Income	452	145	2,437	4,688	4,616

Balance Sheet (INR in Cr)	FY21	FY22	FY23	FY24E	FY25E
Equity & Liabilities					
Share Capital	5,676	6,218	6,618	6,618	6,618
Reserves & Surplus	12,132	14,786	19,103	23,792	24,873
Net Worth	17,808	21,003	25,721	30,410	31,491
Deposits	88,688	1,05,634	1,44,637	1,50,078	1,57,300
Borrowings	45,786	52,963	57,212	35,564	37,316
Other Liabilities and Provisions	10,861	10,581	12,371	52,566	53,382
Total Capital & Liabilities	1,63,144	1,90,182	2,39,942	2,68,618	2,79,490
Assets					
Cash & Bank Balances with RBI	5,828	15,758	10,740	27,106	28,283
Investments	45,412	46,145	61,124	46,153	46,614
Advances	1,00,550	1,17,858	1,51,795	1,80,706	1,88,556
Fixed Assets	1,266	1,361	2,090	2,707	3,851
Other Assets	10,088	9,060	11,035	11,945	12,184
Total Assets	1,63,144	1,90,182	2,39,943	2,68,618	2,79,490

Source: Arianth Research, Company Filings

Ratios	FY21	FY22	FY23	FY24E	FY25E
Growth rates					
Advances (%)	17.5%	17.2%	28.8%	19.0%	4.3%
Deposits (%)	36.2%	19.1%	36.9%	3.8%	4.8%
Total assets (%)	9.3%	16.6%	26.2%	12.0%	4.0%
NII (%)	21.5%	31.5%	30.2%	42.2%	6.2%
Pre-provisioning profit (%)	31.2%	29.2%	50.2%	69.1%	2.8%
PAT (%)	115.8%	-67.8%	1575.1%	92.4%	-1.5%
Balance sheet ratios					
Credit/Deposit (%)	113.4%	111.6%	104.9%	120.4%	119.9%
CASA (%)	51.7%	49.6%	51.2%	50.2%	49.8%
Advances/Total assets (%)	61.6%	62.0%	63.3%	67.3%	67.5%
Leverage (x) (Asset/Shareholder's Fund)	9.16	9.05	9.33	8.83	8.88
CAR (%)	16.3%	16.9%	16.1%	16.0%	15.9%
CAR - Tier I (%)	15.6%	16.2%	15.4%	15.3%	15.2%
Operating efficiency					
Cost/income (%)	73.6%	74.6%	71.2%	63.4%	63.4%
Opex/total assets (%)	4.3%	5.1%	5.1%	5.6%	5.5%
Opex/total interest earning assets	4.7%	5.4%	5.4%	5.9%	5.8%
Profitability					
NIM (%)	5.1%	5.9%	6.2%	7.5%	7.4%
RoA (%)	0.3%	0.1%	1.0%	1.7%	1.7%
RoE (%)	2.5%	0.7%	9.5%	15.4%	14.7%
Asset quality					
Gross NPA (%)	4.2%	3.8%	3.1%	2.9%	2.8%
Net NPA (%)	1.9%	1.5%	1.3%	1.4%	1.3%
PCR (%)	56.2%	59.5%	59.0%	52.5%	53.0%
Credit cost (%)	2.1%	2.6%	1.1%	1.2%	1.3%
Per share data / Valuation					
EPS (INR)	1	0	4	8	8
BVPS (INR)	31	37	45	54	56
ABVPS (INR)	28	34	42	49	51
P/E (x)	105.3	327.5	19.6	4.6	4.7
P/BV (x)	2.7	2.3	1.9	0.7	0.7
P/ABV (x)	3.0	2.5	2.0	0.8	0.8

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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