

MFI stress to impact near term Profits; Retail business to drive growth and Profitability from FY26

CMP: INR 65

Rating: BUY

Target Price: INR 98

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	67
Mkt Cap (INR Bn)	490
52w H/L (INR)	92 / 65
Avg Yearly Vol (in 000')	35,048

Shareholding Pattern %

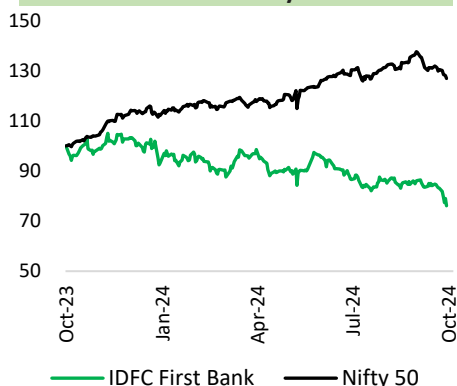
(As on Oct, 2024)

Promoters	0.0
Public & Others	100.0

Stock Performance (%)

	1m	6m	12m
IDFC FIRST Bank	-11.6	-19.7	-23.8
Nifty	-7.6	6.8	27.0

IDFC FIRST Bank Vs Nifty



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IDFC First Bank has reported a profit of INR 2,007 mn for Q2FY25, down 70.5% QoQ/down 73.3% YoY, due to a combination of Prudent Provisioning required for the Bank's MicroFinance book along with 100% Provisioning of a legacy Infrastructure Toll Project. The collection efficiency has been stable at 99.5% against previous quarter's 99.6%. At the bank level, asset quality was relatively stable with GNPA increasing by 2 bps QoQ while NNPA decreased by 11 bps QoQ to 1.92%/0.48% respectively. SMA 1 & 2 for Retail, Rural & SME finances reduced to 0.87%, improving by 8 bps QoQ. NIM fell marginally by 4 bps QoQ/14 bps YoY to 6.18%.

- Core operating performance was strong:** NII increased by 2.0% QoQ/21.2% YoY to INR 47,879 mn, driven by strong growth in advances. Other income increased by 6.7% QoQ/20.8% YoY to INR 17,273 mn. The Bank has reported profit of INR 2,007 mn as compared to INR 6,807 mn in Q1FY25 and profit of INR 7,513 mn in Q2FY24. Provisions increased significantly by 74.2% QoQ/228% YoY to INR 17,319 mn.
- Asset quality concerns arise on MFI and legacy Infra book:** The Bank saw the GNPA increase marginally by 2 bps QoQ at 1.92% while NNPA improved by 11 bps QoQ to 0.48%. The MicroFinance Portfolio saw concerns as seen across the industry, requiring a contingent Provisioning of INR 3.15 bn during Q2FY25, providing 99% of the SMA 1 & 2 accounts. The Retail, Rural and SME asset quality remained intact with GNPA/NNPA at 1.57%/0.53% at Sept 2024, better than the overall bank levels. The SMA 1 & 2 of the Retail, Rural and SME Portfolio was down 8 bps QoQ at 0.87% at the end of Q2FY25.
- Advance growth continues to be driven by retail assets:** Banks advances stood at INR 2,150 bn, up 6.2% QoQ/ 23.0% YoY. The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 1% in the Q2FY25. Vehicle, Consumer and credit card loans showed a strong growth of 32.6% YoY, 21.8% YoY and 47.9% YoY, while LAP and Home Loans grew by 20.3% YoY and 19.9% YoY respectively.

Valuation & View: IDFC First Bank's performance in Q2FY25 was impacted on account of stress seen in MFI segment and the Infra Toll Project which they provided for 100% with INR 2.53 bn buffer provisions. While the Bank is poised to post strong growth in the Retail Portfolio in the range of 20–25% YoY in FY25 and beyond, the legacy book impact has eaten a part of its medium term Profits. We revise our estimates for FY25 cutting the bottom-line on MFI provisions & expect better FY26 for the bank, and maintain BUY rating with a Target Price of INR 98, based on 1.2x P/ABV to its FY27E (earlier TP INR 103 on 1.4x P/ABV).

Exhibit 1: Financial Performance

Key Financials (Rs Bn)	FY23	FY24	FY25E	FY26E	FY27E
NII	126.35	164.51	197.56	240.53	289.43
PPOP	49.32	62.37	89.74	128.85	176.68
Net Profit	24.37	28.85	34.23	65.71	100.12
Advances	1,518	1,929	2,326	2,721	2,830
Deposits	1,446	1,908	2,442	2,912	3,043
RoA (%)	1.0%	1.0%	1.0%	1.7%	2.4%
RoE (%)	9.5%	9.0%	9.5%	14.5%	21.2%

Source: Arihant Research, Company Filings

Q2FY25 - Quarterly Performance (Standalone)

(INR Mn)

IDFC First Bank (Standalone)					
Quarterly Result Update (Rs Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Interest Income	89,569	87,886	73,562	1.9%	21.8%
Interest Expended	41,691	40,937	34,060	1.8%	22.4%
Net Interest Income	47,879	46,949	39,502	2.0%	21.2%
Other Income	17,273	16,192	14,296	6.7%	20.8%
Operating Income	65,152	63,141	53,798	3.2%	21.1%
a. Other Operating Expenses	31,292	30,943	26,795	1.1%	16.8%
b. Employee Expenses	14,241	13,374	11,901	6.5%	19.7%
Operating Expenses (a+b)	45,533	44,316	38,696	2.7%	17.7%
PPOP	19,619	18,825	15,103	4.2%	29.9%
Provisions	17,319	9,944	5,284	74.2%	227.8%
PBT	2,299	8,881	9,819	-74.1%	-76.6%
Tax Expenses	292	2,074	2,306	-85.9%	-87.3%
Net Income	2,007	6,807	7,513	-70.5%	-73.3%
Balance Sheet Analysis					
Advances	21,50,613	20,25,681	17,48,138	6.2%	23.0%
Deposits	22,36,067	20,96,663	17,12,359	6.6%	30.6%
Total Assets	32,04,417	30,63,073	26,47,184	4.6%	21.1%
CASA Deposits	10,92,920	9,76,920	7,94,680	11.9%	37.5%
CASA (%)	48.88%	46.59%	46.41%	228bps	247bps
CAR (%)	16.01%	15.88%	16.54%	13bps	-53bps
Spreads					
NIMs (%)	6.18%	6.22%	6.32%	-4bps	-14bps
Cost of Funds	6.28%	6.56%	6.56%	-28bps	-29bps
Yield on Average Advances	14.52%	14.90%	14.93%	-38bps	-41bps
Asset Quality					
GNPA	41,952	39,042	37,478	7.5%	11.9%
NNPA	10,376	11,953	11,925	-13.2%	-13.0%
GNPA (%)	1.92%	1.90%	2.11%	2bps	-19bps
NNPA (%)	0.48%	0.59%	0.68%	-11bps	-20bps
Credit Costs	3.22%	1.96%	1.19%	126bps	203bps
Provision Coverage Ratio	75.27%	87.00%	84.09%	-1173bps	-882bps
Returns & Expenses					
RoA (annualized)	0.25%	0.91%	1.16%	-66bps	-91bps
RoE (excl. One Time Slippage)	7.60%	8.32%	11.03%	-72bps	-343bps
Cost / Income Ratio	69.89%	70.19%	71.93%	-30bps	-204bps

Source: Arianth Research, Company Filings

Concall Highlights:**Key Highlights:**

- Net Interest Income for Q2FY25 stood at INR 47,879 mn against our estimates of INR 48,085 mn, up by 2.0% QoQ / up by 21.2% YoY.
- PPOP came at INR 19,619 mn against our estimates of INR 19,629 mn, up 4.2% QoQ / up by 29.9% YoY.
- Provisions stood at INR 17,319 mn against our estimates of INR 8,332 mn increasing by 74.2% QoQ / up by 227.8% YoY.
- PAT stood at INR 2,007 mn against our estimates of INR 8,453 mn decreasing by 70.5% QoQ / down by 73.3% YoY.
- GNPA came at 1.92% up 2 bps QoQ / down 19 bps YoY against our estimates of 1.96% while NNPA was at 0.48% against our estimates of 0.61% down 11 bps QoQ / down 20 bps YoY.
- Deposits increased by 6.6% QoQ / up 30.6% YoY to INR 2,236 bn.
- Advances increased by 6.2% QoQ / up 23.0% YoY to INR 2,150 bn.
- CASA deposits grew by ~37.5% YoY with CASA ratio at 48.9% as of Q2FY25.
- The Bank's Management said that around ~80% of the deposits was made by retail clients. Term deposits grew by 28% YoY basis to INR 1,087 bn.
- In Q2FY25, Housing finance grew by 20% YoY.
- The Cost of funds was stable at 6.46% for Q2FY25, while excluding legacy borrowings, cost of funds were 6.37% in Q2FY25. Retail loans grew by 25% YoY basis, whereas, Corporate loans (excluding infrastructure) grew by 21% YoY in Q2FY25.
- The Credit card book increased to INR 63.32 bn with a total credit cards in force at 3.1 million as on 30th September 2024. Credit card spends for H1 FY25 was INR 190.05 bn.
- The Bank's Wealth management AUM increased by 79% YoY to INR 208.57 bn.
- The Management clarified that for H1FY25, credit cost of the MicroFinance book was 6%.
- The Provisions for Q2FY25 stood at INR 17.32 bn, primarily on account of provisioning buffer of INR 5.68 bn. They had created Provisions for MicroFinance business of INR 3.15 bn and the rest for one legacy infrastructure toll road account.
- The Bank has made conservative contingency provision of INR 3.15 bn against the MicroFinance business, equivalent to 99% of the SMA 1 & 2 portfolio, which is 2.5% of the entire portfolio.
- The recently announced withdrawal of toll charges across the 5 entry points for Mumbai by Maharashtra Government, adversely affected the Bank's Infrastructure customer. Hence, the Bank took 100% provision and made additional provision of INR 2.53 bn on pro-active basis.
- The Management clarified that excluding the provisions in MicroFinance portfolio and additional provision buffer created for the legacy toll account, the quarterly annualized Credit Cost for the loan book for Q2FY25 was 1.8%.
- The Banks collection efficiency (excl. MicroFinance) remained stable at 99.5%.
- The PCR for Q2FY25 was 75.3% in Q2FY25.
- The Bank has successfully reduced its stressed infrastructure portfolio from INR 214.59 bn in March 2019 to INR 26.54 bn as of September 2024.
- The Disbursements decreased by 53% YoY to INR 20.0 bn.
- Gross slippages increased from INR 16.47 bn in Q2FY24 to INR 20.3 bn in Q2FY25.

Key Financials

Profit & Loss Statement (INR in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	2,27,275	3,03,225	3,64,995	4,30,718	4,51,332
Interest Expended	1,00,922	1,38,718	1,67,438	1,90,192	1,61,907
Net Interest Income	1,26,353	1,64,508	1,97,558	2,40,527	2,89,425
Other Income	44,670	60,020	62,073	65,050	67,935
Operating Income	1,71,023	2,24,528	2,59,631	3,05,577	3,57,360
Operating Expenses	1,21,704	1,62,158	1,69,888	1,76,725	1,80,683
- Employee Expenses	37,422	48,925	50,771	53,111	55,184
- Other Operating Expenses	84,281	1,13,233	1,19,117	1,23,614	1,25,499
PPOP	49,320	62,370	89,743	1,28,851	1,76,677
Provisions	16,648	23,817	43,999	41,035	42,874
PBT	32,671	38,553	45,745	87,817	1,33,803
Tax Expenses	8,300	9,704	11,514	22,103	33,678
Net Income	24,371	28,849	34,231	65,713	1,00,125

Balance Sheet (INR in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity & Liabilities					
Share Capital	66,181	67,225	74,827	74,827	74,827
Reserves & Surplus	1,91,031	2,54,529	2,84,627	3,77,059	3,97,115
Net Worth	2,57,212	3,21,754	3,59,454	4,51,886	4,71,942
Deposits	14,46,373	19,07,637	24,41,841	29,11,941	30,42,979
Borrowings	5,72,121	4,71,389	4,22,673	4,66,485	4,75,815
Other Liabilities and Provisions	1,23,711	1,21,523	1,51,986	1,30,668	1,22,651
Total Capital & Liabilities	23,99,417	28,22,303	33,75,954	39,60,981	41,13,387
Assets					
Cash & Bank Balances with RBI	1,07,397	1,16,617	1,28,044	1,23,072	1,25,533
Investments	6,11,236	6,28,118	8,01,905	9,38,116	9,75,640
Advances	15,17,945	19,29,231	23,26,103	27,21,212	28,30,060
Fixed Assets	20,901	25,520	28,687	31,052	31,673
Other Assets	1,10,355	1,11,221	1,09,302	1,17,207	1,19,551
Total Assets	23,99,417	28,22,303	33,75,954	39,60,981	41,13,387

Source: Arianth Research, Company Filings

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth rates					
Advances (%)	28.8%	27.1%	20.6%	17.0%	4.0%
Deposits (%)	36.9%	31.9%	28.0%	19.3%	4.5%
Total assets (%)	26.2%	17.6%	19.6%	17.3%	3.8%
NII (%)	30.2%	30.2%	20.1%	21.7%	20.3%
Pre-provisioning profit (%)	50.2%	26.5%	43.9%	43.6%	37.1%
PAT (%)	1575.1%	18.4%	18.7%	92.0%	52.4%
Balance sheet ratios					
Credit/Deposit (%)	104.9%	101.1%	95.3%	93.5%	93.0%
CASA (%)	54.0%	54.3%	53.9%	53.5%	53.0%
Advances/Total assets (%)	63.3%	68.4%	68.9%	68.7%	68.8%
Leverage (x) (Asset/Shareholder's Fund)	9.33	8.77	9.39	8.77	8.72
CAR (%)	16.1%	15.8%	14.7%	15.8%	15.8%
CAR - Tier I (%)	15.4%	15.2%	14.0%	15.1%	15.2%
Operating efficiency					
Cost/income (%)	71.2%	72.2%	65.4%	57.8%	50.6%
Opex/total assets (%)	5.1%	5.7%	5.0%	4.5%	4.4%
Opex/total interest earning assets	5.4%	6.0%	5.2%	4.6%	4.6%
Profitability					
NIM (%)	6.2%	6.6%	6.6%	6.8%	7.4%
RoA (%)	1.0%	1.0%	1.0%	1.7%	2.4%
RoE (%)	9.5%	9.0%	9.5%	14.5%	21.2%
Asset quality					
Gross NPA (%)	2.7%	1.9%	1.8%	1.9%	1.8%
Net NPA (%)	1.2%	0.6%	0.6%	0.5%	0.4%
PCR (%)	56.9%	67.3%	69.4%	75.3%	75.4%
Credit cost (%)	1.1%	1.2%	1.9%	1.5%	1.5%
Per share data / Valuation					
EPS (INR)	4	5	6	12	18
BVPS (INR)	45	57	63	80	83
ABVPS (INR)	42	55	62	78	81
P/E (x)	15.1	12.8	10.8	5.6	3.7
P/BV (x)	1.4	1.1	1.0	0.8	0.8
P/ABV (x)	1.6	1.2	1.1	0.8	0.8

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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