

MFI stress to impacting Profits; Retail business to drive growth and Profitability from FY26

CMP: INR 57

Rating: BUY

Target Price: INR 93

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	73
Mkt Cap (INR Bn)	415
52w H/L (INR)	86 / 56
Avg Yearly Vol (in 000')	35,048

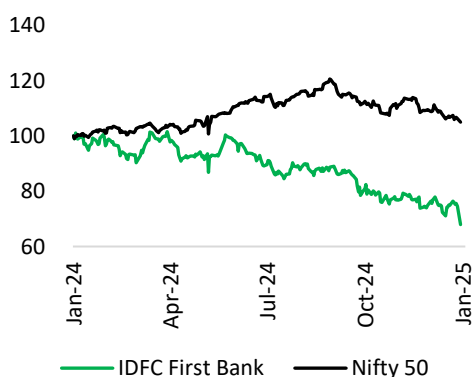
Shareholding Pattern %

(As on Dec, 2024)

Promoters	0.0
Public & Others	100.0

Stock Performance (%)	1m	6m	12m
IDFC FIRST Bank	-9.0	-24.0	-31.9
Nifty	-4.1	-8.1	5.0

IDFC FIRST Bank Vs Nifty



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IDFC First Bank has reported a profit of INR 3,394 mn for Q3FY25, up 69.1% QoQ / down 52.6% YoY. Net Interest Income for Q3FY25 stood at INR 49 bn, against our estimates of INR 49.9 bn, up by 2.4% QoQ / up by 14.4% YoY. PPOP came at INR 17.6 bn, against our estimates of INR 21.6 bn, down by 10.3% QoQ / up by 12.6% YoY. Provisions stood at INR 13.38 bn, against our estimates of INR 8.4 bn, down 22.8% QoQ / up 104.3% YoY. PAT increased to INR 3.39 bn, against our estimates of INR 9.9 bn, up 69.1% QoQ / down by 52.6% YoY. GNPA came at 1.94%, up 2 bps QoQ / down 10 bps YoY while NNPA was at 0.52%, up 4 bps QoQ / down 16 bps YoY, against our estimates of 1.89% / 0.46%. Advances growth was 3.7% QoQ / up 20.3% YoY to INR 2,231 bn. Deposits growth was up 5.9% QoQ / up 29.8% YoY to INR 2,369 bn. CASA ratio for the bank came down to 47.74% in Q3FY25, down 114 bps QoQ / up 90 bps YoY. Return on Assets for the Standalone Bank stood at 0.41% (annualized) for Q3FY25, up 16 bps QoQ / down 65 bps YoY. NIMs came at 6.04%, down 14 bps QoQ / down 38 bps YoY. Cost of Funds came at 6.49% for Q3FY25, increasing by 3 bps QoQ / up 13 bps YoY.

- Spreads squeezed as Cost of funds increase while NIMs fall:** NIMs for the Q3FY25 came at 6.04%, down 14 bps QoQ / down 38 bps YoY, understandable for competitive pricing during the festive season sales. The Cost of Funds for the Bank increased by 3 bps QoQ / 13 bps YoY to 6.49%, very much stable on account of good growth in CASA deposits.
- MicroFinance slippages dragged down overall Profits:** The Bank saw the slippages in Q3FY25 rising on account of stress in the unsecured MFI book, which accounted for INR 1.43 bn of INR 1.62 bn of increase in Gross slippages. The Gross slippages increased from INR 20.31 bn in Q2FY25 to INR 21.92 bn. The Retail, Rural and SME asset quality remained intact with GNPA/ NNPA at 1.81%/ 0.49% at Sept 2024, better than the overall bank's GNPA & NNPA at 1.94% / 0.52%. The SMA 1 & 2 of the Retail, Rural and SME Portfolio improved by 3 bps QoQ at 0.82% at the end of Q3FY25 against 0.85% in Q2FY25.

Valuation & View: IDFC First Bank's performance in Q3FY25 was impacted on account of stress seen in MFI segment where the Credit Cost for the 9MFY25 stood at 8% despite a contingency buffer of INR 3.15 bn. 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 increased MFI provisions & expect better FY26 for the Bank, and maintain BUY rating with a Target Price of INR 93, based on 1.2x P/ABV to its FY27E (earlier TP INR 98 on 1.4x P/ABV).

Exhibit 1: Financial Performance

Key Financials (Rs Bn)	FY23	FY24	FY25E	FY26E	FY27E
NII	126.35	164.51	195.88	237.43	287.26
PPOP	49.32	62.37	88.07	125.75	171.40
Net Profit	24.37	28.85	25.49	63.40	92.44
Advances	1,518	1,929	2,320	2,714	2,823
Deposits	1,446	1,908	2,475	2,952	3,085
RoA (%)	1.0%	1.0%	0.7%	1.6%	2.2%
RoE (%)	9.5%	9.0%	7.3%	14.6%	20.4%

Source: Arihant Research, Company Filings

Q3FY25 - Quarterly Performance (Standalone)

(INR Mn)

IDFC First Bank (Standalone)					
Quarterly Result Update (Rs Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY
Interest Income	93,430	89,569	78,794	4.3%	18.6%
Interest Expended	44,410	41,691	35,928	6.5%	23.6%
Net Interest Income	49,021	47,879	42,866	2.4%	14.4%
Other Income	17,799	17,273	15,166	3.0%	17.4%
Operating Income	66,819	65,152	58,031	2.6%	15.1%
a. Other Operating Expenses	35,026	31,292	30,190	11.9%	16.0%
b. Employee Expenses	14,203	14,241	12,217	-0.3%	16.3%
Operating Expenses (a+b)	49,230	45,533	42,407	8.1%	16.1%
PPOP	17,589	19,619	15,625	-10.3%	12.6%
Provisions	13,379	17,319	6,548	-22.8%	104.3%
PBT	4,210	2,299	9,077	83.1%	-53.6%
Tax Expenses	816	292	1,920	179.2%	-57.5%
Net Income	3,394	2,007	7,157	69.1%	-52.6%
Balance Sheet Analysis					
Advances	2,231,039	2,150,613	1,855,030	3.7%	20.3%
Deposits	2,368,778	2,236,067	1,825,490	5.9%	29.8%
Total Assets	3,358,506	3,204,417	2,707,380	4.8%	24.1%
CASA Deposits	1,130,780	1,092,920	854,920	3.5%	32.3%
CASA (%)	47.74%	48.88%	46.83%	-114bps	90bps
CAR (%)	15.65%	16.01%	16.73%	-36bps	-108bps
Spreads					
NIMs (%)	6.04%	6.18%	6.42%	-14bps	-38bps
Cost of Funds	6.49%	6.46%	6.36%	3bps	13bps
Yield on Average Advances	14.52%	14.52%	14.98%	0bps	-46bps
Asset Quality					
GNPA	42,190	41,952	37,754	0.6%	11.7%
NNPA	10,383	10,376	12,503	0.1%	-17.0%
GNPA (%)	1.94%	1.92%	2.04%	2bps	-10bps
NNPA (%)	0.52%	0.48%	0.68%	4bps	-16bps
Credit Costs	2.40%	3.22%	1.41%	-82bps	99bps
Provision Coverage Ratio	73.59%	75.27%	84.68%	-168bps	-1109bps
Returns & Expenses					
RoA (annualized)	0.41%	0.25%	1.06%	16bps	-65bps
RoE (excl. One Time Slippage)	4.62%	7.60%	10.70%	-298bps	-608bps
Cost / Income Ratio	73.68%	69.89%	73.08%	379bps	60bps

Source: Arianth Research, Company Filings

Concall Highlights

Guidance:

- The Bank expects credit cost in the Microfinance business to peak out in Q4FY25.
- Cost to income ratio to reach around 65% by FY27 and ~60% by FY29 in the credit card segment.
- Loan growth to be over 20% and deposit book to rise by ~24% in FY26.
- Operating expense is expected to increase by ~13% in FY26.

Key Highlights

- IDFC First Bank posted slower NII growth trajectory as compared to past few quarters and this was largely on account of margin contraction.
- NIM decline was owing to fall in high yielding MFI business (6 bps impact) and rise in wholesale banking business in Q3FY25.
- Non-interest income was up 17.4% YoY in which fee & other income was up 20% YoY. Around 92% of fees was retail in nature.
- Cost to income ratio increased 60 bps YoY and 379 bps QoQ as opex growth outpaced the top-line momentum owing to higher business activity and festive season expenses.
- Retail loans were up 21.1% YoY to INR 1.34 trillion and form ~58% of total portfolio. Within the retail space, home loans were up 24.5% YoY, vehicle loans jumped 38.5% YoY. Credit card loans showed a strong growth of 39.9% YoY and 9.2% QoQ.
- Rural finance book slowed down to 5.3% YoY and down 2.7% sequentially. Micro-finance contribution to overall loans declined to 4.8% as against 5.6% QoQ.
- Incremental disbursements under MFI book are insured by CGMFU (Credit Guarantee Fund for Micro Units) and insurance coverage in this book stands at 58%.
- CASA ratio was up ~90 bps YoY but down 114 bps QoQ to 47.7%. Retail deposit now form 80% of total deposit base as on December 2024 and were up 29.6% YoY. The bank added 10 branches in the quarter. LCR for the quarter stood at 114%.
- GNPA excluding micro finance business was at 1.81% v/s 1.88% in the previous quarter. GNPA in retail, rural and MSME finance stood at 1.63% and Net NPA were at 1.45%.
- Gross slippages for the quarter stood at INR 21.92 bn v/s INR 20.31 bn QoQ. Of the incremental slippages of ~INR 1.60 bn, micro finance contributed to INR 1.43 bn in the quarter.
- Recoveries and upgrades in the quarter stood at INR 6.51 bn. PCR for Q3FY25 stood at 73.6% versus 66.9% YoY.
- SMA 1 & 2 book in retail, rural and MSME book (ex-micro finance) was down 3 bps QoQ to 0.82%. SMA in key products like mortgage, vehicle, personal and credit card remained stable.
- SMA in micro finance business increased to ~4.6% versus ~2.5% QoQ.
- Standard restructured book now forms 0.2% of funded assets, of which 97% is secured and the bank has 18% provisions against the same.
- The Bank did not utilize provision buffer in the MFI segment on a prudent basis.

Key Financials

Profit & Loss Statement (INR in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	227,275	303,225	366,769	431,172	451,804
Interest Expended	100,922	138,718	170,889	193,743	164,541
Net Interest Income	126,353	164,508	195,880	237,429	287,263
Other Income	44,670	60,020	62,073	65,050	67,683
Operating Income	171,023	224,528	257,953	302,479	354,946
Operating Expenses	121,704	162,158	169,888	176,725	183,548
- Employee Expenses	37,422	48,925	50,771	53,111	55,098
- Other Operating Expenses	84,281	113,233	119,117	123,614	128,451
PPOP	49,320	62,370	88,065	125,754	171,398
Provisions	16,648	23,817	53,999	41,035	47,866
PBT	32,671	38,553	34,066	84,719	123,532
Tax Expenses	8,300	9,704	8,574	21,324	31,093
Net Income	24,371	28,849	25,492	63,395	92,439

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	191,031	254,529	275,120	360,613	377,280
Net Worth	257,212	321,754	349,947	435,440	452,107
Deposits	1,446,373	1,907,637	2,475,373	2,951,928	3,084,765
Borrowings	572,121	471,389	443,025	488,947	498,726
Other Liabilities and Provisions	123,711	121,523	132,234	119,145	113,398
Total Capital & Liabilities	2,399,417	2,822,303	3,400,579	3,995,460	4,148,996
Assets					
Cash & Bank Balances with RBI	107,397	116,617	128,366	123,072	125,849
Investments	611,236	628,118	826,537	966,932	1,005,609
Advances	1,517,945	1,929,231	2,320,281	2,714,400	2,822,976
Fixed Assets	20,901	25,520	27,529	29,798	30,394
Other Assets	110,355	111,221	109,302	117,207	131,668
Total Assets	2,399,417	2,822,303	3,400,579	3,995,460	4,148,996

Source: Arihant Research, Company Filings

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth rates					
Advances (%)	28.8%	27.1%	20.3%	17.0%	4.0%
Deposits (%)	36.9%	31.9%	29.8%	19.3%	4.5%
Total assets (%)	26.2%	17.6%	20.5%	17.5%	3.8%
NII (%)	30.2%	30.2%	19.1%	21.2%	21.0%
Pre-provisioning profit (%)	50.2%	26.5%	41.2%	42.8%	36.3%
PAT (%)	1575.1%	18.4%	-11.6%	148.7%	45.8%
Balance sheet ratios					
Credit/Deposit (%)	104.9%	101.1%	93.7%	92.0%	91.5%
CASA (%)	54.0%	55.9%	55.3%	56.7%	56.1%
Advances/Total assets (%)	63.3%	68.4%	68.2%	67.9%	68.0%
Leverage (x) (Asset/Shareholder's Fund)	9.33	8.77	9.72	9.18	9.18
CAR (%)	16.1%	15.8%	14.3%	15.2%	15.2%
CAR - Tier I (%)	15.4%	15.2%	13.7%	14.6%	14.6%
Operating efficiency					
Cost/income (%)	71.2%	72.2%	65.9%	58.4%	51.7%
Opex/total assets (%)	5.1%	5.7%	5.0%	4.4%	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%	6.7%	7.3%
RoA (%)	1.0%	1.0%	0.7%	1.6%	2.2%
RoE (%)	9.5%	9.0%	7.3%	14.6%	20.4%
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%	2.3%	1.5%	1.7%
Per share data / Valuation					
EPS (INR)	4	5	4	11	16
BVPS (INR)	45	57	62	77	80
ABVPS (INR)	42	55	60	75	78
P/E (x)	15.1	12.8	14.5	5.8	4.0
P/BV (x)	1.4	1.1	1.1	0.8	0.8
P/ABV (x)	1.6	1.2	1.1	0.9	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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