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CMP: INR 52

Rating: Hold

Target Price: INR 57

Stock Info	
BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	5,672
Mkt Cap (INR Cr)	32,276
52w H/L (INR)	69 / 26
Avg Yearly Vol (in 000')	41,542

Shareholding Pattern %	
<i>(As on June, 2021)</i>	
Promoters	36.6
FII	15.1
DII	11.9
Public & Others	36.4

Stock Performance (%)	1m	3m	12m
IDFC FIRST Bank	-4.1	-4.9	92.6
Nifty	0.3	7.8	41.9

IDFC FIRST Bank Vs Nifty



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Due to sharp jump in credit cost, IDFC First Bank has reported net loss of INR 630 cr during Q1FY22 vs. our estimate of profit of INR 81 cr. Headline numbers of the bank was above our estimate while bottom line performance got impacted due to sharp jump in provision. Despite taking higher write offs of INR 1,400 cr, asset quality of the bank deteriorated further with GNPA/NNPA both increased by 46 bps QoQ at 4.6%/2.3%. Slippages for the quarter came in at INR 2,800 cr (10.3% slippage ratio), of which INR 1,800 cr was from retail book. During the quarter one infrastructure loans (Mumbai Toll Road account) became NPA with INR 854 cr outstanding which was a part of identified stressed assets. Bank carries a provision of INR 154 cr on this account. The bank has created additional covid provisions of INR 350 cr during the quarter taking the total covid provision pool to INR 725 cr or 0.7% of advances. The bank believes that the full estimated impact of covid 2.0 is now provided for in the books of the Bank. Business momentum of the bank slowed down during the quarter with advances growth of 11% YoY (vs. 17.5% in Q4FY21) and deposits growth at 31% YoY.

Cut in deposit rates added NII growth: Bank has cut deposits rates by 100bps during the quarter leading to strong NII growth of 34% YoY/11.5% QoQ to INR 2,185 cr. Operating profit for the quarter increased by 12% YoY/55% QoQ to INR 1,001 cr driven by strong operating income. NIM expanded further by 42 bps QoQ at 5.5% was supported by decline in cost of funds (-71bps QoQ) and 33 bps increase in yield on advances. Provisions for the quarter increased sharply by 3.1x QoQ to INR 1,879 cr.

Advance growth continue to driven by retail assets: As per the bank's strategy to reduce corporate portfolio, its wholesale funded assets decreased by 15% YoY and retail book grew by 27% YoY (30% YoY including ECLGS). The bank continues to make progress in its 'retailisation' strategy. Total funded assets increased by 9% YoY to INR 1,13,794 cr and declined by 3% QoQ, primarily due to lower disbursements during the quarter. The Bank expects disbursements to pick up from Q2FY22 onwards. CASA ratio of the bank decreased by 89bps QoQ at 50.9% due to recent cut in deposits rates. Given the recent cut in interest rates, we need to see CASA stickiness.

Asset quality deteriorated further: Reported GNPA/NNPA for the quarter stood at 4.6%/2.3% vs. 4.1%/1.9% in the previous quarter. Retail GNPA saw decrease of 15bps QoQ to 3.9% and NNPA saw decline of 8bps to 1.8%. Total restructured book including retail and wholesale loans increased from 0.9% to 2% on QoQ basis. Bank has took higher write offs of INR 1400 cr, leading to improvement in retail GNPA. As per the bank's statement, bank has seen improvement in key indicators, like Improving customer profile, improving cheque bounce trends and collection efficiencies. Based on the above portfolio analysis, the bank is confident of reducing GNPA/NNPA to pre covid levels and expects to reduce annualized credit costs to less than 2% by Q4FY22 for the retail loan book.

Valuation & View:

We cut our FY22/23E earnings estimates by 26%/8% respectively to factor in higher credit cost. We believe near term concern on asset quality front will remain high and thus, we build higher credit cost/NPA in our estimates. Lower cost of funds and improving share of retail assets has led to margins moving to +5% leading to strong operating profit growth. However, return ratios of the bank remained low. We maintain our Hold rating on the stock with a revised target price of INR 57 (INR 62 earlier), valuing it at 1.7x P/ABV to its FY23E.

Q1FY22 - Quarterly Performance (Standalone) (INR Cr)

IDFC First Bank (Standalone)					
Quarterly Result Update (Rs Cr)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Interest Income	4,089	3,993	3,831	2.4%	6.7%
Interest Expended	1,905	2,033	2,205	-6.3%	-13.6%
Net Interest Income	2,185	1,960	1,626	11.5%	34.4%
Other Income	849	841	485	0.9%	75.1%
Operating Income	3,034	2,801	2,111	8.3%	43.7%
a. Operating Expenses	1,478	1,636	776	-9.7%	90.5%
b. Employee Expenses	554	520	443	6.7%	25.1%
Operating Expenses (a+b)	2,032	2,156	1,219	-5.7%	66.7%
PPOP	1,001	646	892	55.0%	12.3%
Provisions	1,879	603	764	211.7%	145.9%
PBT	-877	43	128	NA	NA
Tax Expenses	-247	-85	34	NA	NA
Net Income	-630	128	94	NA	NA
Balance Sheet Analysis					
Advances	1,08,628	1,11,758	97,940	-2.8%	10.9%
Deposits	91,312	88,688	69,832	3.0%	30.8%
Total Assets	1,68,986	1,63,144	1,50,640	3.6%	12.2%
CASA Deposits	46,439	45,896	23,491	1.2%	97.7%
CASA (%)	50.86%	51.75%	33.74%	-89bps	1712bps
CAR (%)	15.56%	16.32%	15.03%	-76bps	53bps
Spreads					
NIMs (%)	5.51%	5.09%	4.53%	42bps	98bps
Cost of Funds	5.56%	6.26%	7.21%	-71bps	-165bps
Yield on Average Advances	12.13%	11.80%	13.10%	33bps	-97bps
Asset Quality					
GNPA	4,667	4,303	1,742	8.5%	167.9%
NNPA	2,293	1,883	437	21.8%	424.8%
GNPA (%)	4.61%	4.15%	1.99%	46bps	262bps
NNPA (%)	2.32%	1.86%	0.51%	46bps	181bps
Credit Costs	6.92%	2.16%	3.12%	476bps	380bps
Provision Coverage Ratio	50.87%	56.23%	74.91%	-537bps	-2405bps
Returns & Expenses					
RoA	-1.49%	0.31%	0.24%	-180bps	-173bps
RoE	-12.49%	2.87%	2.15%	-1537bps	-1464bps
Cost / Income Ratio	67.00%	76.95%	57.76%	-995bps	924bps

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	11,948	16,308	15,968	18,198	21,078
Interest Expended	8,749	10,232	8,588	9,012	10,923
Net Interest Income	3,199	6,076	7,380	9,185	10,155
Other Income	939	1,722	2,254	2,919	2,872
Operating Income	4,138	7,798	9,634	12,104	13,027
Operating Expenses	5,887	5,861	7,093	8,291	8,926
- Employee Expenses	1,118	1,528	1,977	2,200	2,332
- Other Operating Expenses	4,769	4,333	5,116	6,091	6,594
PPOP	-1,749	1,937	2,541	3,813	4,101
Provisions	1,546	4,315	2,065	3,205	2,404
PBT	-3,295	-2,379	476	608	1,697
Tax Expenses	-1,351	486	24	153	427
Net Income	-1,944	-2,864	452	455	1,270

Balance Sheet (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Equity & Liabilities					
Share Capital	4,782	4,810	5,676	6,199	6,199
Reserves & Surplus	13,378	10,533	12,132	15,083	16,353
Net Worth	18,159	15,343	17,808	21,282	22,552
Deposits	70,479	65,108	88,688	1,05,108	1,20,384
Borrowings	69,983	57,397	45,786	27,610	28,125
Other Liabilities and Provisions	8,563	11,353	10,861	33,724	42,070
Total Capital & Liabilities	1,67,185	1,49,200	1,63,144	1,87,723	2,13,131
Assets					
Cash & Bank Balances with RBI	9,567	4,191	5,828	10,372	11,227
Investments	58,475	45,405	36,719	42,621	44,352
Advances	86,302	85,595	1,11,758	1,24,745	1,46,461
Fixed Assets	950	1,038	1,266	1,582	1,995
Other Assets	11,890	12,972	7,573	8,403	9,095
Total Assets	1,67,185	1,49,200	1,63,144	1,87,723	2,13,131

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Ratios	FY19	FY20	FY21	FY22E	FY23E
Growth rates					
Advances (%)	65.4%	-0.8%	30.6%	11.6%	17.4%
Deposits (%)	46.2%	-7.6%	36.2%	18.5%	14.5%
Total assets (%)	32.1%	-10.8%	9.3%	15.1%	13.5%
NII (%)	77.9%	89.9%	21.5%	24.5%	10.6%
Pre-provisioning profit (%)	-238.4%	-210.7%	31.2%	50.1%	7.6%
PAT (%)	-326.3%	47.3%	115.8%	0.6%	179.1%
Balance sheet ratios					
Credit/Deposit (%)	122.5%	131.5%	126.0%	118.7%	121.7%
CASA (%)	12.9%	31.9%	51.7%	49.7%	47.9%
Advances/Total assets (%)	51.6%	57.4%	68.5%	66.5%	68.7%
Leverage (x) (Asset/Shareholder's Fund)	9.21	9.72	9.16	8.82	9.45
CAR (%)	15.5%	13.4%	16.3%	16.2%	14.6%
CAR - Tier I (%)	15.3%	13.3%	15.6%	15.5%	14.0%
Operating efficiency					
Cost/income (%)	142.3%	75.2%	73.6%	68.5%	68.5%
Opex/total assets (%)	3.5%	3.9%	4.3%	4.4%	4.2%
Opex/total interest earning assets	3.8%	4.3%	4.6%	4.7%	4.4%
Profitability					
NIM (%)	2.3%	4.2%	5.1%	5.5%	5.3%
RoA (%)	-1.2%	-1.9%	0.3%	0.2%	0.6%
RoE (%)	-10.7%	-18.7%	2.5%	2.1%	5.6%
Asset quality					
Gross NPA (%)	2.4%	2.6%	4.2%	4.5%	4.2%
Net NPA (%)	1.3%	0.9%	1.9%	2.2%	2.2%
PCR (%)	48.2%	64.5%	56.2%	51.7%	47.9%
Credit cost (%)	1.8%	5.0%	1.8%	2.6%	1.6%
Per share data / Valuation					
EPS (INR)	-4	-6	1	1	2
BVPS (INR)	38	32	31	38	40
ABVPS (INR)	36	30	28	33	33
P/E (x)	-13.8	-9.4	70.2	69.8	25.0
P/BV (x)	1.5	1.8	1.8	1.5	1.4
P/ABV (x)	1.6	1.9	2.0	1.7	1.7

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

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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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