

Profitability impacted due to One-off

CMP: Rs 32

Rating: BUY

Target Price: Rs 41

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs Cr)	5,672
Mkt Cap (Rs Cr)	17,953
52w H/L (Rs)	48/ 18
Avg Yearly Vol (in 000')	32,992

Shareholding Pattern %

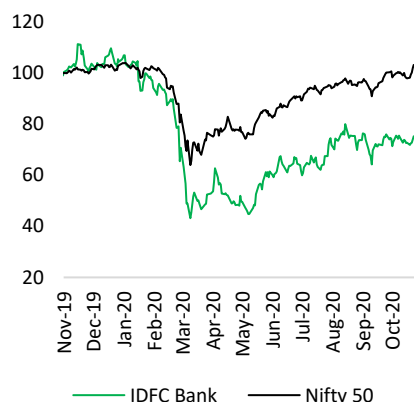
(As on September, 2020)

Promoters	40.00
FII	11.23
DII	11.11
Public & Others	37.66

Stock Performance (%)

	3m	6m	12m
IDFC FIRST Bank	17.4	51.1	-25.5
Nifty	9.5	32.3	2.5

IDFC FIRST Bank Vs Nifty



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IDFC First Bank reported decent operating performance (excluding one-off) during Q2FY21. NII increased by 22% YoY/2% QoQ to Rs 1,660 cr, driven by margin expansion of 114bps YoY. Fee and Other income (excluding trading gains) decreased by 19% YoY to Rs 291 cr in Q2FY21 due to lower loan originations and reduced banking activity on account of pandemic. The bank has sold its entire exposure to one of the stressed HFC through secondary market transaction and booked a loss of Rs 463 cr in trading income and released the existing provision of Rs 460 cr. As a result, PPOP decreased by 18% YoY/62% QoQ to Rs 342 Cr. Net Profit for the quarter increased by 8% QoQ to Rs 101 cr.

Key Highlights of Q2FY21:

NIM growing continuously, costs came down: The bank's NIM stood at 4.57% (+114bps YoY/+4bps QoQ) while the Cost of Funds stood at 6.97% (calculated) (-61bps YoY/-24bps QoQ) for Q2FY21 reflecting the fallen costs and increasing spread for banks amid the interest rate cuts by RBI. CASA ratio increased sharply to 40.37% (33.74% in Q1FY21), as the bank's focus is towards increasing contribution from retail customers continues, thus, adding granularity.

Loan growth remained lower largely due to rebalancing: The bank is in a drive to calibrate its loan book mix in favour of retail segment. As a result, total retail funded assets grew by 25% YoY/7% QoQ to Rs 59,860 cr while wholesale funded assets fell by 20% YoY/2% QoQ to Rs 36,987 cr.

Improvement in asset quality due to SC's interim order: The bank's asset quality improved with GNPA/NNPA improved by 37bps/8bps QoQ to 1.62%/0.43%. Without considering SC' stay order, the GNPA/NNPA would have been 1.87%/0.6% respectively. During the quarter, the bank has released 50% provisions worth Rs 811 cr, out of total Rs 1,622 cr held towards its telecom exposure and used it to create additional provisions. The bank has provided additional Covid provision of Rs 1,400 Cr during Q2FY21, taking the total Covid provision at Rs 2,000 cr (2.21% of standard advances) as of Sep'20.

Valuation & View

As highlighted in our IC, that bank intends to grow its retail loan book rapidly with granular liability profile, we believe, bank is well on track to achieve its long term objective with rapid retailisation towards liability franchise. Management has stated that, with the liability side firmly addressed, will see the growth in the total loan book from Q3FY21 onwards. IDFC First Bank is one of the fastest growing retail bank with 523 branches (up 20 from 520 branches in Q1FY21) across the nation. The bank's NIMs and overall yields are expected to increase further in the future due to its increasing retail segment. IDFC First Bank is currently trading at attractive valuation of 1.02x P/Adj. BV FY22E. We assign an exit P/adj. BV multiple of 1.3x on FY22E adj. BV of INR 31 for standalone bank to arrive at a target price of INR 41 with a Buy rating.

Key Financials (Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
NII	1,798	3,199	5,635	6,710	8,288
NIM (%)	3.0%	2.3%	3.9%	4.90%	5.6%
Net Profit	859	-1,944	-2,864	489	914
Advances	52,165	86,302	85,595	1,00,289	1,14,915
Deposits	48,198	70,479	65,108	96,612	1,27,446
GNPA (%)	3.3%	2.4%	2.6%	3.5%	3.3%

Q2FY21 - Quarterly Performance (Standalone) (Rs Cr)

Quarterly Result Update (Rs Cr)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Interest Income	3,801	3,831	4,018	-0.8%	-5.4%
Interest Expended	2,141	2,205	2,655	-2.9%	-19.4%
Net Interest Income	1,660	1,626	1,363	2.1%	21.8%
Other Income	168	485	349	-65.3%	-51.7%
Operating Income	1,828	2,111	1,712	-13.4%	6.8%
a. Operating Expenses	997	776	890	28.5%	12.0%
b. Employee Expenses	489	443	404	10.3%	20.9%
Operating Expenses (a+b)	1,486	1,219	1,295	21.9%	14.8%
PPOP	342	892	418	-61.6%	-18.0%
Provisions	216	764	317	-71.8%	-32.0%
PBT	126	128	100	-0.9%	26.2%
Tax Expenses	25	34	780	-26.5%	-96.8%
Net Income	101	94	-680	8.4%	-114.9%
Balance Sheet Analysis					
Advances	1,02,534	97,940	1,03,188	4.7%	-0.6%
Deposits	75,800	69,832	69,321	8.5%	9.3%
Total Assets	1,52,661	1,50,640	1,63,777	1.3%	-6.8%
CASA Deposits	30,181	23,491	12,473	28.5%	142.0%
CASA (%)	40.37%	33.74%	18.70%	663bps	2167bps
CAR (%)	14.73%	15.03%	14.65%	-30bps	8bps
Spreads					
NIMs (%)	4.57%	4.53%	3.43%	4bps	114bps
Cost of Funds	6.97%	7.21%	7.58%	-24bps	-61bps
Yield on Average Advances	11.90%	13.10%	10.89%	-120bps	101bps
Asset Quality					
GNPA	1,486	1,742	2,306	-14.7%	-35.6%
NNPA	391	437	1,011	-10.5%	-61.3%
GNPA (%)	1.62%	1.99%	2.62%	-37bps	-100bps
NNPA (%)	0.43%	0.51%	1.17%	-8bps	-74bps
Credit Costs	0.84%	3.12%	1.23%	-228bps	-39bps
Provision Coverage Ratio	73.69%	74.91%	56.16%	-122bps	1753bps
Returns & Expenses					
RoA	0.26%	0.24%	-1.63%	2bps	189bps
RoE	2.31%	2.15%	-16.12%	17bps	1843bps
Cost / Income Ratio (overall)	81.28%	57.76%	75.61%	2352bps	567bps

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

Key Financials

Profit & Loss Statement (Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	8,930	11,948	15,867	16,246	17,756
Interest Expended	7,132	8,749	10,232	9,537	9,468
Net Interest Income	1,798	3,199	5,635	6,710	8,288
Other Income	1,118	939	1,722	1,893	2,758
Operating Income	2,916	4,138	7,357	8,603	11,046
Operating Expenses	1,653	5,887	5,421	5,928	7,338
Employee Expenses	676	1,118	1,528	1,843	1,984
Other Operating Expenses	977	4,769	3,893	4,085	5,353
PPOP	1,263	-1,749	1,937	2,675	3,708
Provisions	236	1,546	4,315	2,021	2,487
PBT	1,027	-3,295	-2,379	654	1,221
Tax Expenses	168	-1,351	486	165	307
Net Income	859	-1,944	-2,864	489	914

Balance Sheet (Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Equity & Liabilities					
Share Capital	3,404	4,782	4,810	5,672	5,672
Reserves & Surplus	11,852	13,378	10,533	12,164	13,078
Net Worth	15,257	18,159	15,343	17,837	18,750
Deposits	48,198	70,479	65,108	96,612	1,27,446
Borrowings	57,287	69,983	57,397	35,631	26,513
Other Liabilities and Provisions	5,778	8,563	11,353	-1,587	-6,868
Total Capital & Liabilities	1,26,520	1,67,185	1,49,200	1,48,493	1,65,842
Assets					
Cash & Bank Balances with Bank and RBI	4,892	9,567	4,191	3,543	3,835
Investments	61,202	58,475	45,405	34,926	36,344
Advances	52,165	86,302	85,595	1,00,289	1,14,915
Fixed Assets	784	950	1,038	1,267	1,582
Other Assets	7,478	11,890	12,972	8,468	9,166
Total Assets	1,26,520	1,67,185	1,49,200	1,48,493	1,65,842

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

Ratios	FY18	FY19	FY20	FY21E	FY22E
Growth rates					
Advances (%)		65.4%	-0.8%	17.2%	14.6%
Deposits (%)		46.2%	-7.6%	48.4%	31.9%
Total assets (%)		32.1%	-10.8%	-0.5%	11.7%
NII (%)		77.9%	76.2%	19.1%	23.5%
Pre-provisioning profit (%)		-238.4%	-210.7%	38.1%	38.6%
PAT (%)		-326.3%	47.3%	117.1%	86.7%
Balance sheet ratios					
Credit/Deposit (%)	108.2%	122.5%	131.5%	103.8%	90.2%
CASA (%)	11.8%	12.9%	31.9%	51.6%	57.2%
Advances/Total assets (%)	41.2%	51.6%	57.4%	67.5%	69.3%
Leverage (x) (Asset/Shareholder's Fund)	8.29	9.21	9.72	8.33	8.84
CAR (%)	18.0%	15.5%	13.4%	13.9%	12.7%
CAR - Tier I (%)	17.7%	15.3%	13.3%	13.8%	12.6%
Operating efficiency					
Cost/income (%)	56.7%	142.3%	73.7%	68.9%	66.4%
Opex/total assets (%)	1.3%	3.5%	3.6%	4.0%	4.4%
Opex/total interest earning assets	1.4%	3.8%	4.0%	4.3%	4.7%
Profitability					
NIM (%)	3.0%	2.3%	3.9%	4.9%	5.6%
RoA (%)	0.7%	-1.2%	-1.9%	0.3%	0.6%
RoE (%)	5.6%	-10.7%	-18.7%	2.7%	4.9%
Asset quality					
Gross NPA (%)	3.3%	2.4%	2.6%	3.49%	3.3%
Net NPA (%)	1.7%	1.3%	0.9%	1.00%	0.9%
PCR (%)	0.0%	48.2%	64.5%	71.3%	71.5%
Credit cost (%)	0.5%	1.8%	5.0%	2.0%	2.2%
Per share data / Valuation					
EPS (INR)	2.52	-4.07	-5.95	0.86	1.61
BVPS (INR)	44.82	37.98	31.90	31.45	33.06
ABVPS (INR)	44.82	35.66	30.22	29.68	31.18
P/E (x)	12.54	-7.78	-5.32	36.69	19.65
P/BV (x)	0.71	0.83	0.99	1.01	0.96
P/ABV (x)	0.71	0.89	1.05	1.07	1.02

Source: Arianth 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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