

Business outlook improving but asset quality deteriorated sharply

CMP: Rs 52

Rating: Accumulate

Target Price: Rs 60

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)	29,559
52w H/L (Rs)	53 / 18
Avg Yearly Vol (in 000')	40,388

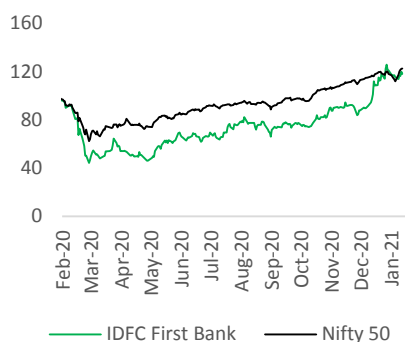
Shareholding Pattern %

(As on December, 2020)

Promoters	40.00
FII	11.57
DII	11.33
Public & Others	37.10

Stock Performance (%)	3m	6m	12m
IDFC FIRST Bank	58.1	67.8	27.2
Nifty	19.5	34.1	24.3

IDFC FIRST Bank Vs Nifty



Raju Barnawal

Raju.b@arihantcapital.com

022 67114870

IDFC First Bank reported profit came lower as compared to our estimates of INR 130 cr (our estimate was INR 204 cr) largely due to sharp rise in provisions on the back of sharp increase in proforma GNPA. Proforma GNPA for the quarter came in higher at 4.2% as compared to 1.9% in previous quarter. The bank holds a INR 2,165 cr of covid provision as on 9MFY21 and expect a gradual reduction in NPAs. Bank's continued move towards building retail deposits resulted a robust CASA growth of 34% QoQ and total deposits growth of 23% YoY. As per the bank's strategy to reduce corporate portfolio, its wholesale funded assets fell by 21% YoY and retail book grew by 24% YoY. On the business front, bank is progressing well with good transition in the portfolio with sharp growth in CASA but on the asset quality it become weaker which will be the key monitorable going forward.

Mixed operating performance supported by higher other income: NII for the quarter increased by 14% YoY/5% QoQ to INR 1,744 cr. NIM expanded by 8 bps QoQ at 4.65% despite interest reversals due to NPAs supported by sharp rise in CASA. Fee and Other income (ex-trading gains) grew sharply by 33% YoY to INR 582 cr. Reported PPOP declined by 3% YoY due to high increase in OPEX supported by better treasury income. Provisions for the quarter stood at INR 482 crore, +123% QoQ owing to rise in proforma NPA.

Loan profile shaping well, Retail liabilities grew strongly: 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 24% YoY/11% QoQ to INR 66,665 cr while wholesale funded assets fell by 21% YoY/6% QoQ to INR 34,809 cr. Total deposits for the quarter increased by 23% YoY/11% YoY to INR 84,294 cr. CASA ratio of the bank increased to 48.3% from 40.4% QoQ.

Proforma NPA increased sharply: Reported GNPA/NNPA for the quarter stood at 1.3%/0.3% (-29bps/-10bps QoQ) due to SC's interim order. Without considering SC' stay order, the GNPA/NNPA would have been higher at 4.2%/2% as compared to 1.9%/0.6% QoQ respectively, mainly due to increase from retail segment. Restructuring book is expected to be 1.8-2% (0.8% already implemented) in FY21 which is quite positive. Collection efficiency of the bank for standard loans stood at 98% of the pre-covid levels (Jan'20 and Feb'20) as of Q3FY21.

Valuation & View: On the business front, bank is well on track to achieve its long term objective with rapid retailisation with granular liability franchise and reducing wholesale exposure. Slippages increased this quarter due to higher moratorium and stress is mainly from retail segment which will keep credit cost elevated. Asset quality of the bank will remain under the watch. With improving liability profile, healthy PCR and higher margin (due to retail transformation), we believe return ratios are set to improve meaningfully in the long term. We revise our rating on the stock to Accumulate from Buy, valuing it at 1.8x P/ABV to its FY23E ABV of INR 33.5 for standalone bank to arrive at a target price of INR 60 per share.

Key Financials (Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
NII	3,199	5,635	6,983	8,723	9,708
NIM (%)	2.3%	3.9%	5.06%	5.9%	6.1%
Net Profit	-1,944	-2,864	357	647	1,356
Advances	86,302	85,595	102,730	113,251	124,480
Deposits	70,479	65,108	91,043	104,850	120,460
GNPA (%)	2.4%	2.6%	4.0%	3.9%	3.3%

Q3FY21 - Quarterly Performance (Standalone) (Rs Cr)

Quarterly Result Update (Rs Cr)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Interest Income	3,952	3,801	4,100	4.0%	-3.6%
Interest Expended	2,209	2,141	2,566	3.2%	-13.9%
Net Interest Income	1,744	1,660	1,534	5.1%	13.7%
Other Income	759	168	579	350.8%	31.1%
Operating Income	2,503	1,828	2,113	36.9%	18.5%
a. Operating Expenses	1,317	997	1,033	32.0%	27.5%
b. Employee Expenses	526	489	399	7.5%	31.9%
Operating Expenses (a+b)	1,842	1,486	1,432	24.0%	28.7%
PPOP	661	342	682	93.1%	-3.0%
Provisions	482	216	2,305	123.4%	-79.1%
PBT	179	126	-1,623	41.4%	NA
Tax Expenses	49	25	16	96.8%	210.5%
Net Income	130	101	-1,639	27.7%	NA
Balance Sheet Analysis					
Advances	106,263	102,534	99,796	3.6%	6.5%
Deposits	84,294	75,800	68,697	11.2%	22.7%
Total Assets	155,677	152,661	160,062	2.0%	-2.7%
CASA Deposits	40,563	30,181	16,204	34.4%	150.3%
CASA (%)	48.31%	40.37%	24.06%	794bps	2425bps
CAR (%)	14.33%	14.73%	13.29%	-40bps	104bps
Spreads					
NIMs (%)	4.65%	4.57%	3.86%	8bps	79bps
Cost of Funds	7.11%	6.97%	7.50%	14bps	-39bps
Yield on Average Advances	11.90%	11.90%	11.76%	0bps	14bps
Asset Quality					
GNPA	1,289	1,486	2,511	-13.2%	-48.7%
NNPA	321	391	1,072	-18.0%	-70.1%
GNPA (%)	1.33%	1.62%	2.83%	-29bps	-150bps
NNPA (%)	0.33%	0.43%	1.23%	-10bps	-90bps
Credit Costs	1.82%	0.84%	9.24%	97bps	-742bps
Provision Coverage Ratio	75.13%	73.69%	57.33%	144bps	1780bps
Returns & Expenses					
RoA	0.33%	0.26%	-4.10%	7bps	443bps
RoE	2.93%	2.31%	-43.02%	62bps	4595bps
Cost / Income Ratio (overall)	73.60%	81.28%	67.74%	-768bps	585bps

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

Key Financials

Profit & Loss Statement (Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	11,948	15,867	16,000	17,368	20,155
Interest Expended	8,749	10,232	9,017	8,646	10,447
Net Interest Income	3,199	5,635	6,983	8,723	9,708
Other Income	939	1,722	2,045	2,641	3,007
Operating Income	4,138	7,357	9,027	11,364	12,715
Operating Expenses	5,887	5,421	6,549	8,451	9,217
Employee Expenses	1,118	1,528	2,007	2,196	2,348
Other Operating Expenses	4,769	3,893	4,542	6,255	6,869
PPOP	-1,749	1,937	2,479	2,913	3,498
Provisions	1,546	4,315	2,001	2,048	1,686
PBT	-3,295	-2,379	477	865	1,812
Tax Expenses	-1,351	486	120	218	456
Net Income	-1,944	-2,864	357	647	1,356

Balance Sheet (Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Equity & Liabilities					
Share Capital	4,782	4,810	5,672	5,672	5,672
Reserves & Surplus	13,378	10,533	12,029	12,676	14,032
Net Worth	18,159	15,343	17,701	18,349	19,704
Deposits	70,479	65,108	91,043	104,850	120,460
Borrowings	69,983	57,397	29,084	19,540	23,484
Other Liabilities and Provisions	8,563	11,353	12,274	20,718	14,124
Total Capital & Liabilities	167,185	149,200	150,102	163,457	177,773
Assets					
Cash & Bank Balances with RBI	9,567	4,191	7,284	7,884	8,534
Investments	58,475	45,405	30,659	31,903	33,199
Advances	86,302	85,595	102,730	113,251	124,480
Fixed Assets	950	1,038	1,267	1,582	1,995
Other Assets	11,890	12,972	8,163	8,836	9,564
Total Assets	167,185	149,200	150,102	163,457	177,773

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

Ratios	FY19	FY20	FY21E	FY22E	FY23E
Growth rates					
Advances (%)	65.4%	-0.8%	20.0%	10.2%	9.9%
Deposits (%)	46.2%	-7.6%	39.8%	15.2%	14.9%
Total assets (%)	32.1%	-10.8%	0.6%	8.9%	8.8%
NII (%)	77.9%	76.2%	23.9%	24.9%	11.3%
Pre-provisioning profit (%)	-238.4%	-210.7%	28.0%	17.5%	20.1%
PAT (%)	-326.3%	47.3%	112.5%	81.2%	109.5%
Balance sheet ratios					
Credit/Deposit (%)	122.5%	131.5%	112.8%	108.0%	103.3%
CASA (%)	12.9%	31.9%	47.2%	48.0%	46.1%
Advances/Total assets (%)	51.6%	57.4%	68.4%	69.3%	70.0%
Leverage (x) (Asset/Shareholder's Fund)	9.21	9.72	8.48	8.91	9.02
CAR (%)	15.5%	13.4%	14.1%	14.2%	14.5%
CAR - Tier I (%)	15.3%	13.3%	14.0%	14.1%	14.4%
Operating efficiency					
Cost/income (%)	142.3%	73.7%	72.5%	74.4%	72.5%
Opex/total assets (%)	3.5%	3.6%	4.4%	5.2%	5.2%
Opex/total interest earning assets	3.8%	4.0%	4.7%	5.5%	5.5%
Profitability					
NIM (%)	2.3%	3.9%	5.1%	5.9%	6.1%
RoA (%)	-1.2%	-1.9%	0.2%	0.4%	0.8%
RoE (%)	-10.7%	-18.7%	2.0%	3.5%	6.9%
Asset quality					
Gross NPA (%)	2.4%	2.6%	4.00%	3.9%	3.3%
Net NPA (%)	1.3%	0.9%	0.61%	0.6%	0.5%
PCR (%)	48.2%	64.5%	84.6%	84.7%	84.1%
Credit cost (%)	1.8%	5.0%	1.9%	1.8%	1.4%
Per share data / Valuation					
EPS (INR)	-4.07	-5.95	0.63	1.14	2.39
BVPS (INR)	37.98	31.90	31.21	32.35	34.74
ABVPS (INR)	35.66	30.22	30.09	31.17	33.48
P/E (x)	-7.78	-5.32	50.26	27.74	13.24
P/BV (x)	0.83	0.99	1.01	0.98	0.91
P/ABV (x)	0.89	1.05	1.05	1.02	0.95

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880