

Operating performance was in-line; Margins improved sharply

CMP: INR 40

Rating: Buy

Target Price: INR 59

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	6,212
Mkt Cap (INR Cr)	24,561
52w H/L (INR)	62 / 38
Avg Yearly Vol (in 000')	32,148

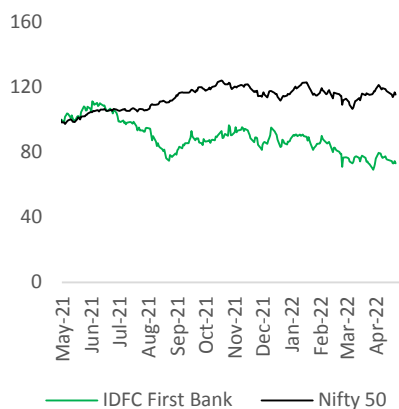
Shareholding Pattern %

(As on March, 2022)

Promoters	36.5
FII	13.5
DII	9.6
Public & Others	40.4

Stock Performance (%)	1m	3m	12m
IDFC FIRST Bank	4.0	-15.6	-28.0
Nifty	-1.5	-0.2	14.6

IDFC FIRST Bank Vs Nifty



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IDFC First Bank has reported good performance during Q4FY22 with strong profit growth of 168% YoY/22% QoQ to INR 343 cr was higher than our estimate of INR 300 cr driven by strong operating profit growth and lower provisioning. The early bucket collection efficiency has surpassed pre-covid level at 99.6% in urban and 99.7% in rural retail segment. At bank level, asset quality improved with GNPA/NNPA decreased by 26bps/21bps QoQ at 3.7%/1.5% respectively. Retail GNPA reduced from 2.9% to 2.6% QoQ and NNPA reduced from 1.3% to 1.1% QoQ. Management has guided to reduce its retail GNPA/NNPA at 2% and 1% respectively. NIM improved from 5.9% to 6.3% QoQ, due to improved share of retail loans and reduction in cost of funds. The Bank has not utilised the covid provision during the quarter and carries provisions of INR 165 crore as of Q4FY22. Business momentum of the bank was healthy with funded assets growth of 13% YoY/8% QoQ.

Margins improved due to further reduction in cost of funds: NIM improved further by 37bps QoQ at 6.3%, leading to strong NII growth of 36% YoY/4% QoQ to INR 2,669 cr, was in line with our estimate of INR 2,664 cr. Margin improvement was largely due to further 18bps reduction in cost of funds and improvement in yield on advances. Operating profit for the quarter grew by 28% YoY/7% QoQ to INR 827 cr, driven by strong operating income growth. Fee and other income increased strongly by 40% YoY to INR 841 cr YoY. There was a treasury loss of INR 9 cr in Q4FY22 as compared to profit of INR 218 cr in Q4FY21.

Advance growth continues to driven by retail assets: Total funded assets of the bank increased by 13% YoY/8% QoQ to INR 131,951 cr, continued to driven by retail (across the portfolio) and commercial finance segment (~72% of the total portfolio). Retail portfolio of the bank grew by 28% YoY/11% QoQ while wholesale funded assets book declined by 12% YoY. Home loan segment of the bank witnessed robust growth of 52% YoY as bank witnessing strong traction in prime housing loan segment. Management expects the growth momentum to continue, going forward and is confident of growing the loan book by ~20-25% going forward. Card business of the bank increased strong by 21% QoQ. Wholesale book declined by 12% YoY and increased marginally by 1% on a sequential basis. Bank intends to grow CA share in CASA deposits. CASA deposits posted growth of 11% YoY at INR 51,170 cr as on FY22. CASA ratio of the bank declined from 51.6% to 48.4% QoQ due to increased share of term deposits.

Asset quality improved sequentially: GNPA/NNPA for the quarter improved by 26bps/21bps QoQ at 3.7%/1.5%. Retail GNPA saw improvement of 29bps QoQ at 2.6% and NNPA saw decline 13bps QoQ at 1.1%. In the Retail Loan segment, the quality of incremental business originations continues to improve, based on data of the first EMI bounce rates. Corporate infra GNPA was higher at 21.6% vs. 20.0% QoQ due to decline in the Infra book during the quarter.

Valuation & View: Bank has delivered a better performance during Q4FY22 on most of the counts with improvement in asset quality, higher margins and strong business growth. Management sounded confident of delivering strong growth in loan book as well as improvement in asset quality (some visibility as collection efficiency back to pre-covid level). However, due to lower provision buffer, we expect the credit cost to remain elevated going ahead. We revise our rating on the stock to Buy from Accumulate with a revised target price of INR 59, based on 1.6x P/ABV to its FY24E.

Q4FY22 - Quarterly Performance (Standalone) (INR Cr)

IDFC First Bank (Standalone)					
Quarterly Result Update (Rs Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Interest Income	4,554	4,429	3,993	2.8%	14.0%
Interest Expended	1,884	1,849	2,033	1.9%	-7.3%
Net Interest Income	2,669	2,580	1,960	3.5%	36.2%
Other Income	831	769	841	8.1%	-1.2%
Operating Income	3,500	3,349	2,801	4.5%	25.0%
a. Other Operating Expenses	1,889	1,857	1,636	1.7%	15.5%
b. Employee Expenses	785	722	520	8.7%	51.0%
Operating Expenses (a+b)	2,674	2,579	2,156	3.7%	24.0%
PPOP	827	770	646	7.4%	28.0%
Provisions	369	392	603	-5.7%	-38.7%
PBT	457	378	43	21.0%	960.1%
Tax Expenses	114	97	-85	18.1%	-235.0%
Net Income	343	281	128	21.9%	168.2%
Balance Sheet Analysis					
Advances	1,17,858	1,16,422	1,00,550	1.2%	17.2%
Deposits	1,05,634	92,765	88,688	13.9%	19.1%
Total Assets	1,90,182	1,74,232	1,63,144	9.2%	16.6%
CASA Deposits	51,170	47,859	45,896	6.9%	11.5%
CASA (%)	48.44%	51.59%	51.75%	-315bps	-331bps
CAR (%)	16.70%	15.38%	16.32%	132bps	38bps
Spreads					
NIMs (%)	6.18%	6.28%	5.09%	-9bps	109bps
Cost of Funds	4.99%	5.17%	6.26%	-18bps	-128bps
Yield on Average Advances	13.06%	12.64%	12.44%	42bps	63bps
Asset Quality					
GNPA	4,469	4,457	4,303	0.3%	3.9%
NNPA	1,808	1,914	1,883	-5.5%	-4.0%
GNPA (%)	3.70%	3.96%	4.15%	-26bps	-45bps
NNPA (%)	1.53%	1.74%	1.86%	-21bps	-33bps
Credit Costs	1.25%	1.35%	2.40%	-9bps	-114bps
Provision Coverage Ratio	59.54%	57.06%	56.23%	249bps	331bps
Returns & Expenses					
RoA	0.72%	0.65%	0.31%	8bps	41bps
RoE	6.53%	5.44%	2.87%	108bps	366bps
Cost / Income Ratio	76.39%	77.01%	76.95%	-62bps	-56bps

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

Key Financials

Profit & Loss Statement (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	16,308	15,968	17,173	19,493	22,511
Interest Expended	10,232	8,588	7,467	9,482	9,921
Net Interest Income	6,076	7,380	9,706	10,011	12,590
Other Income	1,722	2,254	3,228	4,266	4,261
Operating Income	7,798	9,634	12,934	14,276	16,851
Operating Expenses	5,861	7,093	9,644	10,929	12,042
- Employee Expenses	1,528	1,977	2,697	2,986	3,338
- Other Operating Expenses	4,333	5,116	6,948	7,943	8,704
PPOP	1,937	2,541	3,290	3,348	4,809
Provisions	4,315	2,065	3,115	2,090	2,432
PBT	-2,379	476	175	1,258	2,377
Tax Expenses	486	24	30	317	598
Net Income	-2,864	452	145	941	1,779

Balance Sheet (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Equity & Liabilities					
Share Capital	4,810	5,676	6,218	6,218	6,218
Reserves & Surplus	10,533	12,132	14,786	15,727	17,506
Net Worth	15,343	17,808	21,003	21,944	23,723
Deposits	65,108	88,688	105,634	118,425	136,491
Borrowings	57,397	45,786	52,963	28,125	23,419
Other Liabilities and Provisions	11,353	10,861	10,581	42,584	54,301
Total Capital & Liabilities	149,200	163,144	190,182	211,079	237,934
Assets					
Cash & Bank Balances with RBI	4,191	5,828	15,758	9,409	5,753
Investments	45,405	45,412	46,145	44,352	46,153
Advances	85,595	100,550	117,858	145,516	172,706
Fixed Assets	1,038	1,266	1,361	1,995	2,707
Other Assets	12,972	10,088	9,060	9,807	10,615
Total Assets	149,200	163,144	190,182	211,079	237,934

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

Ratios	FY20	FY21	FY22	FY23E	FY24E
Growth rates					
Advances (%)	-0.8%	17.5%	17.2%	23.5%	18.7%
Deposits (%)	-7.6%	36.2%	19.1%	12.1%	15.3%
Total assets (%)	-10.8%	9.3%	16.6%	11.0%	12.7%
NII (%)	89.9%	21.5%	31.5%	3.1%	25.8%
Pre-provisioning profit (%)	-210.7%	31.2%	29.5%	1.7%	43.7%
PAT (%)	47.3%	115.8%	-67.8%	546.8%	89.0%
Balance sheet ratios					
Credit/Deposit (%)	131.5%	113.4%	111.6%	122.9%	126.5%
CASA (%)	31.9%	51.7%	49.6%	48.2%	45.2%
Advances/Total assets (%)	57.4%	61.6%	62.0%	68.9%	72.6%
Leverage (x) (Asset/Shareholder's Fund)	9.72	9.16	9.05	9.62	10.03
CAR (%)	13.4%	16.3%	16.9%	14.3%	13.0%
CAR - Tier I (%)	13.3%	15.6%	16.2%	13.7%	12.5%
Operating efficiency					
Cost/income (%)	75.2%	73.6%	74.6%	76.6%	71.5%
Opex/total assets (%)	3.9%	4.3%	5.1%	5.2%	5.1%
Opex/total interest earning assets	4.3%	4.7%	5.4%	5.5%	5.4%
Profitability					
NIM (%)	4.2%	5.1%	5.9%	5.3%	5.9%
RoA (%)	-1.9%	0.3%	0.1%	0.4%	0.7%
RoE (%)	-18.7%	2.5%	0.7%	4.3%	7.5%
Asset quality					
Gross NPA (%)	2.6%	4.2%	3.8%	3.4%	3.2%
Net NPA (%)	0.9%	1.9%	1.5%	1.4%	1.5%
PCR (%)	64.5%	56.2%	59.5%	59.9%	54.5%
Credit cost (%)	5.0%	2.1%	2.6%	1.4%	1.4%
Per share data / Valuation					
EPS (INR)	-6	1	0	2	3
BVPS (INR)	32	31	37	39	42
ABVPS (INR)	30	28	34	35	37
P/E (x)	-6.7	50.2	156.0	24.1	12.8
P/BV (x)	1.3	1.3	1.1	1.0	1.0
P/ABV (x)	1.3	1.4	1.2	1.2	1.1

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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