

**CMP: INR 86**

**Rating: Hold**

**Target Price: INR 94**

**Stock Info**

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	7,054
Mkt Cap (INR Cr)	61,165
52w H/L (INR)	100 / 52
Avg Yearly Vol (in 000')	34,860

**Shareholding Pattern %**

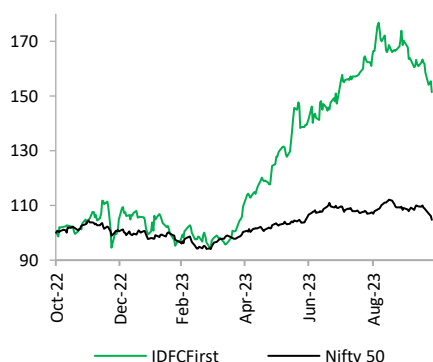
(As on September, 2023)

Promoters	37.5
Public & Others	62.5

**Stock Performance (%)**

	1m	6m	12m
IDFC FIRST Bank	-7.9	35.8	54.6
Nifty	-3.7	6.24	7.3

**IDFC FIRST Bank Vs Nifty**



Abhishek Jain

[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)

Anmol Das

[Anmol.das@arihantcapital.com](mailto:Anmol.das@arihantcapital.com)

Harshit Jain

[harshit.jain@arihantcapital.com](mailto:harshit.jain@arihantcapital.com)

IDFC First Bank has reported a profit of INR 751 cr against INR 556 cr in corresponding quarter last year (up 35% YoY, down 1.8% QoQ), driven by strong NII growth. The collection efficiency has been stable at 99.5% since past few quarters. At bank level, asset quality improved with GNPA/NNPA decreased by 107bps/41bps YoY at 2.11%/0.68% respectively. Retail GNPA reduced from 2.03% to 1.53% YoY and NNPA reduced from 0.73% to 0.52% YoY. Management has guided to maintain its GNPA/NNPA at 2 - 2.5%/ 1 - 1.2% respectively. NIM declined marginally by 1bps QoQ at 6.32%.

- Core operating performance was strong:** NII increased by 32% YoY/6% QoQ to INR 3,950 cr, driven by strong growth in advances. Other income increased by 35% YoY/1% QoQ to INR 1430 cr. Bank has reported profit of INR 751 cr as compared to INR 556 cr in Q2FY23 and profit of INR 765 cr in Q1FY24. Provisions increased by 25% YoY/11% QoQ to INR 528 cr.
- Asset quality improved further and the retail asset quality remains intact:** Bank continue to report improvement in asset quality as GNPA declined further by 6bps QoQ at 2.11%. NNPA improved marginally by 2bps QoQ at 0.68%. The bank has given a guidance of GNPA within the range of 2% - 2.5% and NNPA within the range of 1% - 1.2%. The asset quality is well within the guidance given by them and will continue to be so, for coming quarters. Retail asset quality remains intact with GNPA/NNPA at 1.53%/ 0.52% sequentially and improves by 50bps/ 21bps YoY.
- Advance growth continues to be driven by retail assets:** Banks advances stood at INR 1832.36 bn v/s INR 1715.78 bn in Q1FY24 (up 26% YoY, up 6.8% QoQ). The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 2% in the Q1FY24. This has helped them to improve their asset quality and their yields. Further, Bank continues to reduce its high cost legacy borrowings. They have planned to reduce their legacy borrowings to zero by the end of FY26. This will help them reduce their cost of funds, which in turn will improve their margins.

**Valuation & View:** IDFC First Bank's performance in Q2FY24 was impressive with retail asset quality intact with robust loan book growth alongside healthy deposit mobilization sequentially. We expect the bank to continue to report such performance in coming quarters. Bank is expected to grow within the range of 20 - 25% during the FY24. We maintain our Hold rating on the stock with a target price of INR 94, based on 1.8x P/ABV to its FY26E.

**Exhibit 1: Financial Performance**

Key Financials (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
NII	9,706	12,635	17,749	19,091	19,942
PPOP	3,284	4,932	7,627	8,144	8,130
Net Profit	145	2,437	4,084	4,298	4,031
Advances	1,17,858	1,51,795	1,80,706	1,88,556	1,96,870
Deposits	1,05,634	1,44,637	1,50,078	1,57,300	1,65,040
RoA (%)	0.1%	1.0%	1.5%	1.5%	1.4%
RoE (%)	0.7%	9.5%	13.7%	14.0%	12.7%

Source: Arihant Research, Company Filings

## Q2FY24 - Quarterly Performance (Standalone)

(INR Cr)

## IDFC First Bank (Standalone)

Quarterly Result Update (Rs Cr)	Q2FY24	Q1FY24	Q2FY23	QoQ	YoY
Interest Income	7,356	6,868	5,470	7.1%	34.5%
Interest Expended	3,406	3,123	2,468	9.1%	38.0%
<b>Net Interest Income</b>	<b>3,950</b>	<b>3,745</b>	<b>3,002</b>	<b>5.5%</b>	<b>31.6%</b>
Other Income	1,430	1,414	1,061	1.1%	34.7%
Operating Income	5,380	5,159	4,064	4.3%	32.4%
a. Other Operating Expenses	2,679	2,506	1,976	6.9%	35.6%
b. Employee Expenses	1,190	1,153	919	3.2%	29.6%
Operating Expenses (a+b)	3,870	3,659	2,895	5.8%	33.7%
<b>PPOP</b>	<b>1,510</b>	<b>1,500</b>	<b>1,169</b>	<b>0.7%</b>	<b>29.2%</b>
Provisions	528	476	424	11.0%	24.6%
PBT	982	1,024	745	-4.1%	31.9%
Tax Expenses	231	259	189	-11.0%	22.0%
<b>Net Income</b>	<b>751</b>	<b>765</b>	<b>556</b>	<b>-1.8%</b>	<b>35.2%</b>
<b>Balance Sheet Analysis</b>					
Advances	1,74,814	1,64,147	1,51,795	6.5%	15.2%
Deposits	1,71,236	1,54,427	1,44,637	10.9%	18.4%
Total Assets	2,64,718	2,47,066	2,28,553	7.1%	15.8%
CASA Deposits	69,640	66,962	60,690	4.0%	14.7%
CASA (%)	40.67%	43.36%	41.96%	-269bps	-129bps
CAR (%)	16.54%	16.96%	14.63%	26bps	140bps
<b>Spreads</b>					
NIMs (%)	6.32%	6.33%	5.83%	-1bps	49bps
Cost of Funds	6.56%	6.36%	5.71%	137bps	81bps
Yield on Average Advances	13.32%	13.32%	13.32%	26bps	54bps
<b>Asset Quality</b>					
GNPA	5,694	5,508	4,646	23.2%	18.0%
NNPA	2,775	2,545	1,654	40.7%	11.0%
GNPA (%)	2.11%	2.17%	3.18%	-6bps	-107bps
NNPA (%)	0.68%	0.70%	1.09%	-2bps	-41bps
Credit Costs	1.19%	1.16%	1.12%	3bps	7bps
Provision Coverage Ratio	84.09%	83.12%	76.49%	97bps	760bps
<b>Returns &amp; Expenses</b>					
RoA	1.16%	1.26%	1.07%	-10bps	9bps
RoE	11.03%	11.78%	10.13%	-75bps	90bps
Cost / Income Ratio	71.93%	70.92%	71.24%	101bps	69bps

Source: Arianth Research, Company Filings

**Concall Highlights:****Management Guidance:**

1. The Management emphasizes that the Cost to Income ratio is high as they are continuing expansion of liability side and branches. However, they will be able to deliver their guidance of Cost to Income coming down by the exit quarter of FY25.
2. In the Credit Cards business, the Management maintains guidance of making Profits after FY25.
3. Management guides of stable NIMs for the remaining quarters of the year even if the Cost of Funds increase marginally.

**Key Highlights:**

1. Management believes the Deposit of INR 1.65 trillion has grown strong.
2. CASA ratio is stable at 46.4% in Q2FY24 from previous quarter's 46.5%.
3. Management acknowledges that the deposit growth is so strong that it helps them fund their growth at around 25% YoY as well as replace the high cost bonds as & when they are maturing.
4. The High cost bonds which were around INR 250 bn at the time of the merger, have now come down to INR 150 bn, of which another INR 30 bn will mature for repayment at the end of this year. In Q2 itself, it has come down by INR 10 bn.
5. The Management is satisfied that their Assets are very widely diversified among Mortgage, SME, Retail, Agri, Emerging Entrepreneur, Gold, Corporate, etc kind of loans, mitigating any concentration risk.
6. The lending business is followed using a Cash Flow Analysis of the customers using Data Analysis with the bank as well as other financial institutions.
7. In the loan book of ticket size of Rs 50,000 or less, where the Management says the delinquencies are very high, the amount of the book for the bank is only INR 5.4 bn, which is just 0.3% of the total advances and 0.37% of the total RAM segment book. The Management says that the public hype regarding this ticket size loan book is way too much, and that the bank has very little exposure in that segment. For the NBFCs which the bank lends to, more than 80% of the NBFC customers are rated A and above.
8. In the Retail, Agri and MSME (RAM) segment, the GNPA is very low at 1.53%, same as it was in last quarter at 1.53%. The Net NPA is 0.52% for the segment.
9. The collection ratio continues to be 99.5%, and above 99% since Covid times.
10. SMA stands at 0.77%, at its lowest levels the bank has seen ever.
11. Home Loans grew by 26% YoY, Vehicles segment (incl. Cars & 2W) grew by 41% YoY, Consumer loans by 22% and Credit Cards grew strongly because of a small base. SMEs and Corporate book grew by 20% YoY basis and Infrastructure book is at only 1.8% of total funded assets at INR 33 bn.
12. The restructured book is down to 0.38% from 0.47% from last quarter. More than 85% of the restructured book is secured in nature.
13. Fee & Other Income increased by 46% YoY to INR 13.76 bn largely led by retail & other fees.
14. A trading gain of INR 400 mn was earned during the quarter.
15. The Bank successfully raised INR 30 bn from QIB investors during the quarter.
16. Average LCR was at 122% for Q2FY24.
17. Gross Slippages for Q2FY24 stood at INR 13.5 bn and Net Slippages at INR 8.5 bn.
18. The Management says that except the Credit Cards book, the bank collects the EMI due from the customer's account directly.
19. The GNPA in Credit Cards is 1.87% and Net NPA at 0.4%.
20. The Management acknowledges the bank's brand image has increased a lot over the recent years, customers are appreciative of the bank's services and that's why the Management finds drive to increase their branch numbers.
21. Currently the bank is acquiring customers both digitally and physically at a rate of 70-80,000 per month, and have reduced this customer acquisition rate in order to get better customers who keep a good amount of money in their account, as of their experience from previous years when they used to acquire up to 1,50,000 customers per month.

## Key Financials

Profit & Loss Statement (INR in Cr)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	17,173	22,728	28,929	29,894	30,719
Interest Expended	7,467	10,092	10,752	10,387	10,815
<b>Net Interest Income</b>	<b>9,706</b>	<b>12,635</b>	<b>17,749</b>	<b>19,091</b>	<b>19,942</b>
Other Income	3,222	4,467	5,288	4,916	4,425
Operating Income	12,928	17,102	22,611	23,467	23,880
Operating Expenses	9,644	12,170	15,481	15,981	16,376
- Employee Expenses	2,697	3,742	4,734	4,855	4,971
- Other Operating Expenses	6,948	8,428	10,747	11,127	11,405
<b>PPOP</b>	<b>3,284</b>	<b>4,932</b>	<b>7,627</b>	<b>8,144</b>	<b>8,130</b>
Provisions	3,109	1,665	2,302	2,533	2,743
PBT	175	3,267	5,457	5,743	5,387
Tax Expenses	30	830	1,374	1,446	1,356
<b>Net Income</b>	<b>145</b>	<b>2,437</b>	<b>4,084</b>	<b>4,298</b>	<b>4,031</b>

Balance Sheet (INR in Cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Equity &amp; Liabilities</b>					
Share Capital	6,218	6,618	6,618	6,618	6,618
Reserves & Surplus	14,786	19,103	23,185	24,166	25,144
Net Worth	21,003	25,721	29,804	30,784	31,762
Deposits	1,05,634	1,44,637	1,50,078	1,57,300	1,65,040
Borrowings	52,963	57,212	35,564	37,316	39,282
Other Liabilities and Provisions	10,581	12,371	53,172	54,090	55,440
<b>Total Capital &amp; Liabilities</b>	<b>1,90,182</b>	<b>2,39,942</b>	<b>2,68,618</b>	<b>2,79,490</b>	<b>2,91,524</b>
<b>Assets</b>					
Cash & Bank Balances with RBI	15,758	10,740	27,106	28,283	29,531
Investments	46,145	61,124	46,153	46,614	47,081
Advances	1,17,858	1,51,795	1,80,706	1,88,556	1,96,870
Fixed Assets	1,361	2,090	2,707	3,851	5,614
Other Assets	9,060	11,035	11,650	11,883	12,121
<b>Total Assets</b>	<b>1,90,182</b>	<b>2,39,943</b>	<b>2,68,323</b>	<b>2,79,189</b>	<b>2,91,217</b>

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth rates</b>					
Advances (%)	17.2%	28.8%	19.0%	4.3%	4.4%
Deposits (%)	19.1%	36.9%	3.8%	4.8%	4.9%
Total assets (%)	16.6%	26.2%	11.8%	4.0%	4.3%
NII (%)	31.5%	30.2%	40.5%	7.6%	4.5%
Pre-provisioning profit (%)	29.2%	50.2%	54.6%	6.8%	-0.2%
PAT (%)	-67.8%	1575.1%	67.6%	5.2%	-6.2%
<b>Balance sheet ratios</b>					
Credit/Deposit (%)	111.6%	104.9%	120.4%	119.9%	119.3%
CASA (%)	49.6%	51.2%	50.2%	49.8%	49.4%
Advances/Total assets (%)	62.0%	63.3%	67.3%	67.5%	67.6%
Leverage (x) (Asset/Shareholder's Fund)	9.05	9.33	9.01	9.08	9.18
CAR (%)	16.9%	16.1%	15.7%	15.5%	15.3%
CAR - Tier I (%)	16.2%	15.4%	15.0%	14.8%	14.7%
<b>Operating efficiency</b>					
Cost/income (%)	74.6%	71.2%	66.3%	65.3%	66.0%
Opex/total assets (%)	5.1%	5.1%	5.8%	5.7%	5.6%
Opex/total interest earning assets	5.4%	5.4%	6.1%	6.1%	6.0%
<b>Profitability</b>					
NIM (%)	5.9%	6.2%	7.4%	7.4%	7.4%
RoA (%)	0.1%	1.0%	1.5%	1.5%	1.4%
RoE (%)	0.7%	9.5%	13.7%	14.0%	12.7%
<b>Asset quality</b>					
Gross NPA (%)	3.8%	3.1%	2.9%	2.8%	2.7%
Net NPA (%)	1.5%	1.3%	1.4%	1.3%	1.3%
PCR (%)	59.5%	59.0%	52.5%	53.0%	53.3%
Credit cost (%)	2.6%	1.1%	1.3%	1.3%	1.4%
<b>Per share data / Valuation</b>					
EPS (INR)	0	4	7	8	7
BVPS (INR)	37	45	53	54	56
ABVPS (INR)	34	42	48	49	51
P/E (x)	327.5	19.6	11.7	11.1	11.8
P/BV (x)	2.3	1.9	1.6	1.5	1.5
P/ABV (x)	2.5	2.0	1.8	1.7	1.6

Source: Arianth Research, Company Filings

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> 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
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**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 is 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