

Impressive performance in terms of rising NIMs and growth in both Loans & Deposits

CMP: INR 88

Rating: BUY

Target Price: INR 113

Stock Info

BSE	539437
NSE	IDFCFIRSTB
Bloomberg	IDFCFB IN
Reuters	IDFB.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	67
Mkt Cap (INR Bn)	611
52w H/L (INR)	100 / 52
Avg Yearly Vol (in 000')	35,048

Shareholding Pattern %

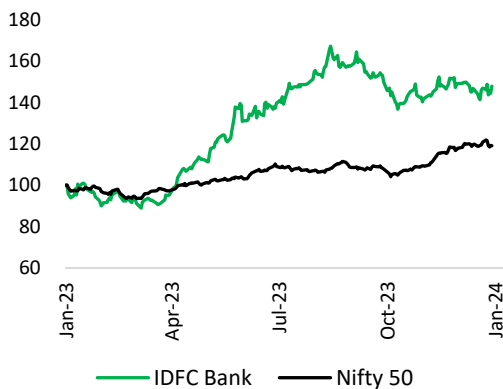
(As on December, 2023)

Promoters	37.5
Public & Others	62.5

Stock Performance (%)

	1m	6m	12m
IDFC FIRST Bank	-0.7	4.9	48.1
Nifty	1.1	9.7	19.1

IDFC FIRST Bank Vs Nifty



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IDFC First Bank has reported a profit of INR 7.16 bn against INR 6.04 bn in corresponding quarter last year (up 18.4% YoY/down 4.7% QoQ), due to the absorption of rising interest costs. The collection efficiency has been stable at 99.6% against previous quarter's 99.5%. At bank level, asset quality improved with GNPA/NNPA decreased by 92 bps/35 bps YoY to 2.04%/0.68% respectively. GNPA for Retail, Rural & SME finances reduced from 1.65% (March 2023) to 1.45% YoY and NNPA reduced from 0.55% to 0.51% YoY. Management has guided to maintain its GNPA/NNPA at ~1.5%/0.4% respectively by FY29. NIM improved marginally by 10bps QoQ/29 bps YoY to 6.42%.

- Core operating performance was strong:** NII increased by 30.5% YoY/8.5% QoQ to INR 42.8 bn, driven by strong growth in advances. Other income increased by 31.6% YoY/6.1% QoQ to INR 15.2 bn. Bank has reported profit of INR 716 bn as compared to INR 7.51 bn in Q2FY24 and profit of INR 6.04 bn in Q3FY23. Provisions increased by 45.4% YoY/23.9% QoQ to INR 6.5 bn.
- Asset quality improved further with the retail asset quality intact:** Bank continues to report improvement in asset quality as GNPA declined further by 7 bps QoQ at 2.04%. NNPA improved stayed flat QoQ at 0.68%. The bank has given a guidance of GNPA ~1.5% and NNPA ~0.4% for the bank's next 5 years target. The asset quality is well within the guidance given by them earlier and will continue to be improving by small notches in the coming quarters. Retail asset quality remains intact with GNPA/ NNPA at 1.45%/ 0.51% at Dec 2023 better than overall bank.
- Advance growth continues to be driven by retail assets:** Banks advances stood at INR 1,855 bn v/s INR 1,748 bn in Q2FY24 (up 38.1% YoY, up 6.1% QoQ). The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 1.6% in the Q3FY24. Consumer and credit card loans showed a strong growth of 37.6% YoY and 57.2% YoY, Vehicle loans by 31% YoY, Home loans by 18.8% YoY while Rural finance book increased by 47.4% YoY.

Valuation & View: IDFC First Bank's performance in Q3FY24 was impressive with retail asset quality intact along with robust loan book growth across all retail loan segments. Strong growth in deposit mobilization is the foundation driving the growth. Bank is expected to post strong growth in the Retail Portfolio in the range of 20–25% YoY during FY24. We revise our estimates for FY25 & FY26 post witnessing continuous growth, and upgrade our rating to Buy with a Target Price of INR 113, based on 1.6x P/ABV to its FY26E.

Exhibit 1: Financial Performance

Key Financials (Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	97.06	126.35	163.68	211.92	276.87
PPOP	32.84	49.32	62.10	104.71	165.56
Net Profit	1.45	24.37	28.64	58.45	102.09
Advances	1,179	1,518	1,929	2,257	2,640
Deposits	1,056	1,446	1,908	2,275	2,713
RoA (%)	0.1%	1.0%	1.0%	1.8%	2.7%
RoE (%)	0.7%	9.5%	8.9%	16.3%	24.6%

Source: Arihant Research, Company Filings

Q3FY24 - Quarterly Performance (Standalone)

(INR Mn)

Particulars (Rs Mn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Interest Income	78,794	73,562	59,118	7.1%	33.3%
Interest Expended	35,928	34,060	26,265	5.5%	36.8%
Net Interest Income	42,866	39,502	32,853	8.5%	30.5%
Other Income	15,166	14,296	11,525	6.1%	31.6%
Operating Income	58,031	53,798	44,378	7.9%	30.8%
a. Other Operating Expenses	30,190	26,795	22,242	12.7%	35.7%
b. Employee Expenses	12,217	11,901	9,528	2.7%	28.2%
Operating Expenses (a+b)	42,407	38,696	31,770	9.6%	33.5%
PPOP	15,625	15,103	12,608	3.5%	23.9%
Provisions	6,548	5,284	4,502	23.9%	45.4%
PBT	9,077	9,819	8,105	-7.6%	12.0%
Tax Expenses	1,920	2,306	2,059	-16.7%	-6.8%
Net Income	7,157	7,513	6,046	-4.7%	18.4%
Balance Sheet Analysis					
Advances	18,55,030	17,48,138	13,43,394	6.1%	38.1%
Deposits	18,25,490	17,12,359	12,11,058	6.6%	50.7%
Total Assets	27,07,380	26,47,184	20,92,742	2.3%	29.4%
CASA Deposits	8,54,920	7,94,680	6,25,111	7.6%	36.8%
CASA (%)	46.83%	46.41%	51.62%	42bps	-478bps
CAR (%)	16.73%	16.54%	15.01%	19bps	172bps
Spreads					
NIMs (%)	6.42%	6.32%	6.13%	10bps	29bps
Cost of Funds	6.36%	6.56%	6.34%	-20bps	2bps
Yield on Average Advances	14.98%	14.93%	13.98%	5bps	100bps
Asset Quality					
GNPA	37,754	37,478	43,026	0.7%	-12.3%
NNPA	12,503	11,925	14,642	4.9%	-14.6%
GNPA (%)	2.04%	2.11%	2.96%	-7bps	-92bps
NNPA (%)	0.68%	0.68%	1.03%	0bps	-35bps
Credit Costs	1.41%	1.19%	1.34%	22bps	7bps
Provision Coverage Ratio	84.68%	84.09%	76.60%	59bps	808bps
Returns & Expenses					
RoA	1.06%	1.16%	1.11%	-10bps	-5bps
RoE	10.70%	11.03%	10.72%	-33bps	-2bps
Cost / Income Ratio	73.08%	71.93%	71.59%	115bps	149bps

Source: Arianth Research, Company Filings

Concall Highlights:**Guidance:**

- Management as per their new guidance 2.0, gave a guidance of loan book to reach INR 5 trillion by FY29, i.e. 20% CAGR from current levels. Deposits to grow at an even higher pace of 24.8% during FY24-FY29E to reach INR 5.85 trillion.
- Credit-Deposit ratio to fall below 100% mark going ahead.
- The bank plans to reach a branch count of around 1,700-1,800 in the next 4 years.
- Asset quality is expected to improve as GNPA and NNPA are targeted at 1.5% and 0.4% by FY29.
- IDFC First expects ROA and ROE to be at 1.9%-2% mark and 17%-18% level by FY29, respectively.
- Management expects the credit card segment to break-even by FY25.
- Management guides Cost to income ratio in the range of 55%-57% by FY29.

Key Highlights:

- Net Interest Income was up 30.5% YoY and 8.5% QoQ to INR 42.87 bn and was driven by expansion in net interest margins and strong loan growth. NIMs increased by 10 bps QoQ / 29 bps YoY basis to 6.42%, as the bank continues to run-off its high-cost legacy borrowings.
- Non-interest income was up 31.6 YoY/6.1% QoQ to INR 15.1 bn, i.e., making up a fifth of their total interest income.
- Cost to income ratio (C/I ratio) increased 149 bps YoY and 115 bps QoQ to 73.1%. The rise in opex was on account of branch addition and other business expansion related expenses.
- Provisions increased by 45.4% YoY / 23.9% QoQ to INR 6.5 bn. There was no impact due to AIF (alternate investment fund) regulation on the bank.
- Net profit thus increased by 18.4% YoY/down 4.7% QoQ to INR 7.16 bn.
- Advances grew by 38.1% YoY / 6.1% QoQ to INR 1.85 trillion. Retail loans were up 29.3% YoY/6.5% QoQ to INR 1.11 tn and form 58.7% of total portfolio.
- Within the retail space, home loans were up 18.8% YoY, vehicle loans jumped 31% YoY, Consumer and credit card loans showed a strong growth of 37.6% YoY and 57.2% YoY, while Rural finance book increased by 47.4% YoY and SME and corporate finance loans grew by 15.6% YoY. Infrastructure book declined by 46.3% YoY and now forms only 1.6% of total gross loans.
- Credit card book now is at INR 49.46 bn as on Q3 FY24, which is a big positive for the bank.
- Deposits for the quarter jumped by 37.2% YoY/6.6% QoQ to INR 1.82 tn in which CASA deposits were up by 28.5% YoY/7.6% QoQ, forming 46.8% CASA Ratio, up 42 bps in Q3FY24 over previous quarter but lower than 51.62% in Q3FY23.
- Retail deposit now form 79% of total deposit base as on December 2023 versus 76% in March 2023.
- Legacy borrowing stood at INR 136.07 bn from INR 187.6 bn in Q3FY23, and is expected to run-down going ahead.
- Average LCR during the quarter was over 120% for the bank.
- The Asset Quality of the bank remained steady as GNPA ratio declined by 7 bps QoQ/92 bps YoY to 2.04% while net NPA remained steady on QoQ basis to 0.68%. GNPA in Retail, Rural and SME finance stood at 1.45% while in corporate (ex-infra) it stood at 2.89% while net NPA came in at 0.51% and 0.27% respectively. Within retail GNPA in credit card and SME loans stood at 1.89% and 1.43% respectively, which is fairly better for those segments.
- Slippages for the quarter stood at INR 14 bn v/s INR 13.50 bn in Q2FY24. Provision coverage ratio stood at 84.7% v/s 85.1% in Q2FY24. Standard restructured book now forms 0.35% of total funded assets versus 0.4% previous quarter. 93% of restructured book is secured in nature.
- Infra financing book has reduced to 2% as on Q3 FY24 on a YTD basis from 3% in March 2023, also exposure to top 5 industries reduced to 19% from 22% during similar time frame.
- Loan application rejection rate is at 40-60% depending upon product category.
- Bounce rate in this fiscal until now has been at 6.3% versus over 9% in pre-covid levels, reflecting a stronger Credit Culture developing in the Indian banking sector.

Key Financials

Profit & Loss Statement (INR in Mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,71,727	2,27,275	3,00,389	3,54,500	4,24,161
Interest Expended	74,665	1,00,922	1,36,713	1,42,584	1,47,290
Net Interest Income	97,062	1,26,353	1,63,676	2,11,917	2,76,872
Other Income	32,220	44,670	59,448	61,871	64,881
Operating Income	1,29,282	1,71,023	2,23,123	2,73,788	3,41,752
Operating Expenses	96,445	1,21,704	1,61,024	1,69,080	1,76,197
- Employee Expenses	26,965	37,422	48,036	49,433	50,833
- Other Operating Expenses	69,479	84,281	1,12,988	1,19,647	1,25,364
PPOP	32,838	49,320	62,100	1,04,707	1,65,556
Provisions	31,086	16,648	23,828	26,590	29,132
PBT	1,752	32,671	38,272	78,117	1,36,424
Tax Expenses	297	8,300	9,633	19,662	34,338
Net Income	1,455	24,371	28,639	58,455	1,02,086

Balance Sheet (INR in Mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity & Liabilities					
Share Capital	62,177	66,181	67,225	67,225	67,225
Reserves & Surplus	1,47,858	1,91,031	2,54,121	2,90,797	3,47,596
Net Worth	2,10,035	2,57,212	3,21,345	3,58,022	4,14,821
Deposits	10,56,344	14,46,373	19,07,637	22,74,893	27,12,852
Borrowings	5,29,626	5,72,121	4,71,389	5,62,140	6,70,363
Other Liabilities and Provisions	1,05,812	1,23,711	1,21,523	43,078	-65,209
Total Capital & Liabilities	19,01,816	23,99,417	28,21,895	32,38,133	37,32,827
Assets					
Cash & Bank Balances with RBI	5,50,698	1,07,397	1,16,617	1,26,230	1,21,328
Investments	4,61,448	6,11,236	6,28,118	7,06,953	7,95,682
Advances	11,78,578	15,17,945	19,29,231	22,56,928	26,40,286
Fixed Assets	13,612	20,901	25,520	27,624	29,901
Other Assets	90,598	1,10,355	1,11,221	1,13,445	1,15,714
Total Assets	19,01,816	23,99,417	28,21,895	32,38,133	37,32,827

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth rates					
Advances (%)	17.2%	28.8%	27.1%	17.0%	17.0%
Deposits (%)	19.1%	36.9%	31.9%	19.3%	19.3%
Total assets (%)	16.6%	26.2%	17.6%	14.8%	15.3%
NII (%)	31.5%	30.2%	29.5%	29.5%	30.7%
Pre-provisioning profit (%)	29.2%	50.2%	25.9%	68.6%	58.1%
PAT (%)	-67.8%	1575.1%	17.5%	104.1%	74.6%
Balance sheet ratios					
Credit/Deposit (%)	111.6%	104.9%	101.1%	99.2%	97.3%
CASA (%)	49.6%	54.0%	54.3%	53.9%	53.5%
Advances/Total assets (%)	62.0%	63.3%	68.4%	69.7%	70.7%
Leverage (x) (Asset/Shareholder's Fund)	9.05	9.33	8.78	9.04	9.00
CAR (%)	16.9%	16.1%	15.8%	15.1%	14.9%
CAR - Tier I (%)	16.2%	15.4%	15.1%	14.4%	14.3%
Operating efficiency					
Cost/income (%)	74.6%	71.2%	72.2%	61.8%	51.6%
Opex/total assets (%)	5.1%	5.1%	5.7%	5.2%	4.7%
Opex/total interest earning assets	5.4%	5.4%	6.0%	5.5%	4.9%
Profitability					
NIM (%)	5.9%	6.2%	6.6%	7.3%	8.3%
RoA (%)	0.1%	1.0%	1.0%	1.8%	2.7%
RoE (%)	0.7%	9.5%	8.9%	16.3%	24.6%
Asset quality					
Gross NPA (%)	3.8%	2.7%	1.9%	1.8%	1.7%
Net NPA (%)	1.5%	1.2%	0.6%	0.6%	0.6%
PCR (%)	59.5%	56.9%	67.3%	67.5%	67.8%
Credit cost (%)	2.6%	1.1%	1.2%	1.2%	1.1%
Per share data / Valuation					
EPS (INR)	0	4	5	10	18
BVPS (INR)	37	45	57	63	73
ABVPS (INR)	34	42	54	61	71
P/E (x)	342.3	20.4	17.4	8.5	4.9
P/BV (x)	2.4	1.9	1.5	1.4	1.2
P/ABV (x)	2.6	2.1	1.6	1.4	1.2

Source: Arianth Research, Company Filings

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Stock Rating Scale

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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