

NIMs to remain under pressure, but penetrating the competition is their USP

CMP: INR 84

Rating: BUY

Target Price: INR 118

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 %

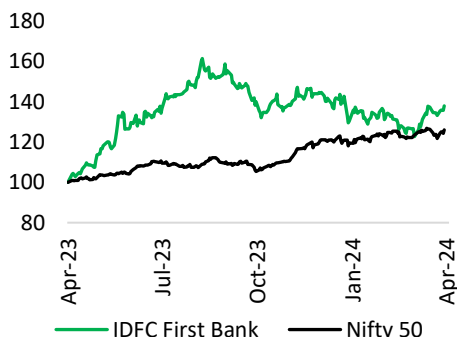
(As on March, 2024)

Promoters	37.4
Public & Others	62.6

Stock Performance (%)

	1m	6m	12m
IDFC FIRST Bank	9.3	1.8	32.6
Nifty	-0.2	17.1	23.5

IDFC FIRST Bank Vs Nifty



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IDFC First Bank has reported a profit of INR 7,243 mn against INR 7,157 mn in previous quarter (up 1.2% QoQ/down 9.8% YoY), due to the absorption of rising interest costs. The collection efficiency has been stable at 99.6% against previous quarter's 99.6%. At bank level, asset quality improved with GNPA/NNPA decreased by 16 bps/8 bps QoQ to 1.88%/0.60% respectively. GNPA & NNPA for Retail, Rural & SME finances reduced to 1.38% & 0.44% (March 2024). Management has guided to maintain its GNPA/NNPA at ~1.5%/0.4% respectively by FY29. NIM fell marginally by 7 bps QoQ/42 bps YoY to 6.35%.

- Core operating performance was strong:** NII increased by 4.3% QoQ/24.2% YoY to INR 44,689 mn, driven by strong growth in advances. Other income increased by 8.3% QoQ/17.5% YoY to INR 16,420 mn. Bank has reported profit of INR 7,243 mn as compared to INR 7,157 mn in Q3FY24 and profit of INR 8,026 mn in Q4FY23. Provisions increased by 10.3% QoQ/49.7% YoY to INR 7,223 mn.
- Asset quality improved further with the retail asset quality intact:** Bank continues to report improvement in asset quality as GNPA declined further by 16 bps QoQ at 1.88%. NNPA improved on a QoQ basis to 0.60%. 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 1.38%/ 0.44% at March 2024, better than the overall bank levels.
- Advance growth continues to be driven by retail assets:** Banks advances stood at INR 1,945 bn v/s INR 1,855 bn in Q3FY24 (up 4.9% QoQ/ 28.2% YoY). The bank has been steadily reducing the percentage of its loan book that is allocated to infrastructure financing, from 36.7% FY18 to 1.4% in the Q4FY24. Vehicle, Consumer and credit card loans showed a strong growth of 40.5% YoY, 33.3% YoY and 58% YoY, LAP and Home Loans grew by 20% YoY and 14.2% YoY respectively.

Valuation & View: IDFC First Bank's performance in Q4FY24 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 in FY25 and beyond. We revise our estimates for FY25 & FY26 post witnessing continuous growth, and maintain rating at Buy with a Target Price of INR 118, based on 1.4x P/ABV to its FY27E.

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

Q4FY24 - Quarterly Performance (Standalone)

(INR Mn)

IDFC First Bank (Standalone)					
Quarterly Result Update (Rs Mn)	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
Interest Income	82,192	78,794	64,244	4.3%	27.9%
Interest Expended	37,503	35,928	28,276	4.4%	32.6%
Net Interest Income	44,689	42,866	35,968	4.3%	24.2%
Other Income	16,420	15,166	13,975	8.3%	17.5%
Operating Income	61,109	58,031	49,942	5.3%	22.4%
a. Other Operating Expenses	31,190	30,190	23,949	3.3%	30.2%
b. Employee Expenses	13,280	12,217	10,407	8.7%	27.6%
Operating Expenses (a+b)	44,470	42,407	34,356	4.9%	29.4%
PPOP	16,639	15,625	15,587	6.5%	6.8%
Provisions	7,223	6,548	4,824	10.3%	49.7%
PBT	9,416	9,077	10,762	3.7%	-12.5%
Tax Expenses	2,173	1,920	2,736	13.2%	-20.6%
Net Income	7,243	7,157	8,026	1.2%	-9.8%
Balance Sheet Analysis					
Advances	19,45,924	18,55,030	15,17,945	4.9%	28.2%
Deposits	20,05,763	18,25,490	14,46,373	9.9%	38.7%
Total Assets	29,61,151	27,07,380	23,99,417	9.4%	23.4%
CASA Deposits	9,47,680	8,54,920	7,19,830	10.9%	31.7%
CASA (%)	47.25%	46.83%	49.77%	42bps	-252bps
CAR (%)	16.11%	16.73%	16.82%	-62bps	-71bps
Spreads					
NIMs (%)	6.35%	6.42%	6.77%	-7bps	-42bps
Cost of Funds	6.43%	6.44%	0.00%	-1bps	56bps
Yield on Average Advances	14.73%	14.98%	15.06%	-25bps	-33bps
Asset Quality					
GNPA	37,184	37,754	45,616	-1.5%	-18.5%
NNPA	11,605	12,503	19,642	-7.2%	-40.9%
GNPA (%)	1.88%	2.04%	3.01%	-16bps	-113bps
NNPA (%)	0.60%	0.68%	1.29%	-8bps	-70bps
Credit Costs	1.48%	1.41%	1.27%	7bps	21bps
Provision Coverage Ratio	86.60%	84.68%	80.30%	192bps	630bps
Returns & Expenses					
RoA	1.03%	1.06%	1.41%	-3bps	-38bps
RoE	10.70%	10.70%	10.79%	0bps	-9bps
Cost / Income Ratio (Calculated)	72.77%	73.08%	68.79%	-30bps	398bps

Source: Arian Research, Company Filings

Concall Highlights:**Guidance:**

- The Management expects the Cost to Income ratio to come down gradually from Q4FY25.
- RoA guidance given at 1.9-2.0% in the next 4 years.
- The Bank intends to grow their balance sheet at 20-22% YoY growth rate.
- The Management intends to bring down the GNPA and NNPA down to 1.5% & 0.4% in the medium term.
- By FY29, the Management intends to achieve a Branch Network of 1,800 for the bank.

Key Highlights:

- In Q4FY24, NII grew by 4.3% QoQ/24.2% YoY to INR 44,689 mn, PPOP grew by 6.5% QoQ/6.8% YoY to INR 16,639 mn and Net Profits increased by 1.2% QoQ/down 9.8% YoY to INR 7,243 mn, respectively.
- For full year FY24, the NII/PPOP/Net Income grew by 30.2%/26.5%/21.3% respectively.
- In FY24, the bank's advances grew by 28.2% and deposits grew by 38.7%.
- NIMs were down 7 bps on sequential basis to 6.35%.
- Non-interest income was up 17.5% YoY in which fee income was up 36% YoY while treasury income was down 85% YoY.
- Cost to income ratio declined on sequential basis by 30 bps but was up 398 bps on YoY to 72.77%.
- Provisions increased by 49.7% YoY and 10.3% QoQ to INR 7,223 mn, owing to strengthening of balance sheet in Q4FY24.
- Retail loans were up 30.9% YoY to INR 1.19 trillion and form ~60% of total portfolio.
- Within the retail space, home loans were up 14.2% YoY, vehicle loans jumped 40.5% YoY.
- Consumer and credit card loans showed a strong growth of 33.3% YoY and 58% YoY.
- Rural finance book jumped 24.5% YoY while SME and corporate finance loans were up 20.5% YoY.
- Infra structure book declined by 39.3% YoY and now forms only ~1.4% of total loans.
- Deposits for the quarter jumped by 38.7% YoY and 9.9% QoQ to INR 2.0 trillion in which CASA deposits were up by 31.7% YoY and 10.9% QoQ at 47.2% up 42 bps on sequential basis.
- Retail deposits now form 78% of total deposit base as on March 2024 versus 76% at fiscal beginning.
- Legacy borrowing stood at INR 118.09 bn and are expected to run-down going ahead. Legacy borrowings cost around 8.9% as of March 2024.
- Average LCR during the quarter was over 114% for the bank.
- In Q4FY24, the asset quality performance of the bank was healthy as GNPA and NNPA ratio declined by 16 bps and 8 bps on QoQ basis to 1.88% and 0.6% respectively.
- GNPA excluding infra exposure stood at 1.55% versus 1.66% QoQ.
- GNPA in home loans stood at 0.75%, in LAP they were at 1.59%, in vehicle segment GNPA ratio stood at 1.52% as on March 2024. In credit card and SME loans, GNPA stood at 1.76% and 1.20% respectively.
- In all major lending segments NPA ratios have seen a dip on sequential basis.
- Slippages for the quarter stood at INR 13.47 bn versus INR 14.0 bn QoQ and INR 14.22 bn YoY.
- Provision coverage ratio for Q4FY24 stood at 86.6% and ex-technical write off the PCR stood at 68.8%.
- Standard restructured book now forms 0.31% of total funded assets vs 0.35% a quarter ago.
- 95% of restructured book is secured in nature.
- Loan application rejection rate is at 40-60% depending upon product category.
- Bounce rate has declined to 6.1% in FY24 as against 6.8% in the previous year FY23.

Key Financials

Profit & Loss Statement (INR in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	2,27,275	3,03,225	3,56,276	4,26,054	4,45,913
Interest Expended	1,00,922	1,38,718	1,46,710	1,53,634	1,60,533
Net Interest Income	1,26,353	1,64,508	2,09,566	2,72,421	2,85,380
Other Income	44,670	60,020	63,041	66,675	70,248
Operating Income	1,71,023	2,24,528	2,72,607	3,39,096	3,55,628
Operating Expenses	1,21,704	1,62,158	1,70,705	1,78,382	1,83,626
- Employee Expenses	37,422	48,925	50,562	52,265	54,111
- Other Operating Expenses	84,281	1,13,233	1,20,143	1,26,117	1,29,515
PPOP	49,320	62,370	1,01,902	1,60,714	1,72,002
Provisions	16,648	23,817	26,644	29,253	30,913
PBT	32,671	38,553	75,258	1,31,461	1,41,089
Tax Expenses	8,300	8,988	18,942	33,089	35,512
Net Income	24,371	29,565	56,315	98,372	1,05,577

Balance Sheet (INR in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity & Liabilities					
Share Capital	66,181	70,699	70,699	70,699	70,699
Reserves & Surplus	1,91,031	2,50,914	2,81,992	3,32,508	4,20,920
Net Worth	2,57,212	3,21,613	3,52,691	4,03,207	4,91,619
Deposits	14,46,373	20,05,763	23,91,910	28,11,453	28,67,683
Borrowings	5,72,121	5,09,356	6,07,416	6,75,834	7,06,246
Other Liabilities and Provisions	1,23,711	1,24,419	40,336	16,741	53,258
Total Capital & Liabilities	23,99,417	29,61,151	33,92,353	39,07,235	41,18,805
Assets					
Cash & Bank Balances with RBI	1,07,397	1,10,750	1,19,880	1,15,225	1,17,529
Investments	6,11,236	7,47,104	8,40,872	9,46,409	9,74,801
Advances	15,17,945	19,45,924	22,76,455	26,63,131	27,69,656
Fixed Assets	20,901	26,194	28,354	30,691	31,305
Other Assets	1,10,355	1,17,127	1,19,470	1,21,859	1,24,296
Total Assets	23,99,417	29,61,151	33,92,353	39,07,235	41,18,805

Source: Arianth Research, Company Filings

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth rates					
Advances (%)	28.8%	28.2%	17.0%	17.0%	4.0%
Deposits (%)	36.9%	38.7%	19.3%	17.5%	2.0%
Total assets (%)	26.2%	23.4%	14.6%	15.2%	5.4%
NII (%)	30.2%	30.2%	27.4%	30.0%	4.8%
Pre-provisioning profit (%)	50.2%	26.5%	63.4%	57.7%	7.0%
PAT (%)	1575.1%	21.3%	90.5%	74.7%	7.3%
Balance sheet ratios					
Credit/Deposit (%)	104.9%	97.0%	95.2%	94.7%	96.6%
CASA (%)	49.8%	47.2%	53.9%	53.5%	53.0%
Advances/Total assets (%)	63.3%	65.7%	67.1%	68.2%	67.2%
Leverage (x) (Asset/Shareholder's Fund)	9.33	9.21	9.62	9.69	8.38
CAR (%)	16.1%	15.7%	14.7%	14.4%	16.9%
CAR - Tier I (%)	15.4%	15.0%	14.1%	13.8%	16.1%
Operating efficiency					
Cost/income (%)	71.2%	72.2%	62.6%	52.6%	51.6%
Opex/total assets (%)	5.1%	5.5%	5.0%	4.6%	4.5%
Opex/total interest earning assets	5.4%	5.8%	5.3%	4.8%	4.6%
Profitability					
NIM (%)	6.2%	6.5%	6.9%	7.8%	7.5%
RoA (%)	1.0%	1.0%	1.7%	2.5%	2.6%
RoE (%)	9.5%	9.2%	16.0%	24.4%	21.5%
Asset quality					
Gross NPA (%)	2.7%	1.9%	1.8%	1.7%	1.7%
Net NPA (%)	1.2%	0.6%	0.6%	0.6%	0.5%
PCR (%)	56.9%	67.3%	67.5%	67.8%	67.9%
Credit cost (%)	1.1%	1.2%	1.2%	1.1%	1.1%
Per share data / Valuation					
EPS (INR)	4	5	10	17	19
BVPS (INR)	45	57	62	71	87
ABVPS (INR)	42	54	60	69	84
P/E (x)	19.7	16.3	8.5	4.9	4.6
P/BV (x)	1.9	1.5	1.4	1.2	1.0
P/ABV (x)	2.0	1.6	1.4	1.2	1.0

Source: Arian 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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