

October 28, 2023

RESULT REPORT Q2 FY24 | Sector: Banks

IDFC First Bank Ltd

Asset quality and opex evolution not comforting

Result Highlights (See "Our View" below for elaboration and insight)

- **Asset quality:** Gross slippages amounted to Rs 13.5bn, translating to an annualised slippage ratio of 3.1%
- **Margin picture:** NIM at 6.32% was down/up -1bp/49bps QoQ/YoY, where the negative impact in 2Q from the incremental CRR amounted to 2 bps
- **Asset growth:** Advances grew 6.8%/26.1% QoQ/YoY, driven sequentially by Consumer Finance and Rural Finance.
- **Opex control:** Total opex rose 5.8%/33.7% QoQ/YoY, staff expenses rose 3.2%/29.6% QoQ/YoY and other expenses rose 6.9%/35.6% QoQ/YoY.
- **Fee income:** Fee income rose 2.6%/45.6% QoQ/YoY, where Retail fees comprised around 93% of total fees.

Our view – Asset quality and opex evolution not comforting

Gross slippages see material sequential rise, which is indicative of weaknesses in the underlying business model: Gross slippage ratio had stood at ~2.7% in 1Q, indicating a ~40 bps rise on sequential basis in 2Q. Further, an absolute level of 3.1% for gross slippage ratio in the current benign environment is unhealthy. Gross slippage ratio has, in fact, averaged 3.14% over the past 6 quarters. Provisions were Rs 5.28bn, up by 11% QoQ and 24.6% YoY, translating to annualised credit cost of 119 bps of funded assets. This level of credit cost, currently, is roughly 3x of better-placed banks. It may be noted that IDFCB has not disclosed its exposure to unsecured non-wholesale loans.

Net interest margin remains at industry-leading levels despite elevated cost of deposits, indicative of a high-yield asset mix: Management expects NIM to remain stable at current levels. The deposit repricing is largely complete and there may be a 10-15 bps rise in 2H. Cost of funds is expected to go up marginally in 3Q and then plateau in 4Q. Factors that would support NIM include repricing of investments, liquidity getting deployed and repricing of 1-year MCLR loans.

Cost to income ratio rose sequentially by 101 bps to a particularly elevated 71.9%: While IDFCB is among the last 2 universal bank licences, it has been in operation as a bank since 2015. It has never been entirely clear as to why the cost ratios are so elevated even adjusting for the bank's age or examining annual report disclosures.

We maintain a less-than-bullish 'ADD' rating on IDFCB with a revised price target of Rs 100: We value the bank at 1.9x FY25 P/BV for an FY24E/25E/26E RoE profile of 11.4%/12.9%/14.7%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Total Interest Income	73,562	68,677	7.1	54,697	34.5
Interest expended	(34,060)	(31,226)	9.1	(24,675)	38.0
Net Interest Income	39,502	37,451	5.5	30,022	31.6
Other income	14,296	14,138	1.1	10,613	34.7
Total Income	53,798	51,589	4.3	40,635	32.4
Operating expenses	(38,696)	(36,586)	5.8	(28,948)	33.7
PPOP	15,103	15,003	0.7	11,687	29.2
Provisions	(5,284)	(4,762)	11.0	(4,242)	24.6
PBT	9,819	10,242	(4.1)	7,445	31.9
Tax	(2,306)	(2,590)	(11.0)	(1,890)	22.0
PAT	7,513	7,652	(1.8)	5,556	35.2

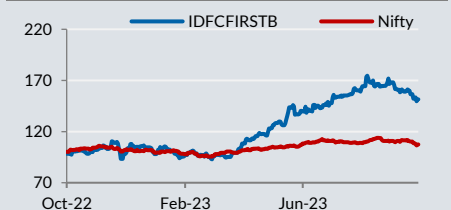
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 86
Target Price	: Rs 100
Potential Return	: 16%

Stock data (as on October 27, 2023)

Nifty	19,047
52 Week h/l (Rs)	101 / 52
Market cap (Rs/USD mn)	599559 / 7201
Outstanding Shares (mn)	7,058
6m Avg t/o (Rs mn):	2,776
Div yield (%):	NA
Bloomberg code:	IDFCFB IN
NSE code:	IDFCFIRSTB

Stock performance



Shareholding pattern (As of Jun'23 end)

Promoter	37.5%
FII+DII	36.9%
Others	25.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	100	105

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	157,557	189,861	233,833
PPOP	68,038	89,841	115,081
Net Profit	34,081	46,235	59,031
Growth (%)	39.8	35.7	27.7
EPS (Rs)	4.7	6.3	8.1
BVPS (Rs)	46	52	58
P/E (x)	18.5	13.6	10.7
P/BV (x)	1.9	1.7	1.5
ROE (%)	11.4	12.9	14.7
ROA (%)	1.3	1.4	1.5
Tier-1 (%)	14.9	13.4	12.2

Δ in earnings estimates

Rs. bn	FY24E	FY25E	FY26E
PAT (New)	34.1	46.2	59.0
PAT (Old)	35.3	48.6	60.2
% change	-3.5%	-4.9%	-1.9%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - The gross slippages for the quarter amounted to Rs 13.5bn, translating to an annualised gross slippage ratio of 3.1%.
 - Net slippages for the quarter amounted to Rs 8.5bn.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 5.28bn, up by 11% QoQ and 24.6% YoY, translating to annualised credit cost of 119 bps of funded assets.
 - **Outstanding provisions**
 - The PCR gross of technically written off accounts amounts to 84%.
- **Comments on unsecured lending**
 - **Credit appraisal**
 - For unsecured loans outside of credit cards and BNPL, the bank focuses on cash flow assessment.
 - **Sub-Rs 50,000 book**
 - For unsecured loans less than Rs 50,000 ticket size, the exposure is Rs 5.4bn (this pertains to the personal loan book only), which is 0.3% of overall funded assets.
 - This book below Rs 50,000 is behaving well for the bank.
 - **Credit cards**
 - The credit card book stands at Rs 42.8bn.
 - The GNPA ratio of the credit cards book is 1.87% and the NNPA ratio is 0.46%.
 - **Digital loans**
 - The ticket size of the digital loans originated through partners or advertising is usually in the Rs 0.1-0.3mn range.
- **GNPA ratio**
 - Overall GNPA ratio declined 7 bps to 2.11%.
 - Excluding the infra book, the GNPA ratio is 1.69%.
 - For the retail, rural and MSME book, the GNPA ratio is 1.53%.
- **Collection efficiency**
 - For the current bucket, the collection efficiency is 99.5% for 13 months in a row.
- **Restructured book**
 - The restructured book amounts to 38 bps of funded assets, down 9 bps QoQ.
 - More than 85% of the restructured book is secured in nature.
- **Loans to NBFCs**
 - This book is worth Rs 150bn and is performing strongly.
 - More than 80% is rated A and above, with most of the remaining book being BBB or BB+.
 - BB and below is less than 1% of this book.

Net interest margin

- **NIM for the quarter**
 - NIM was at 6.32%, down -1 bp QoQ but up 49bps YoY.
 - The negative impact from the incremental CRR amounted to 2 bps.

(Con call takeaways continue on the next page)

- **Legacy borrowings**
 - Legacy high-cost borrowings declined Rs 10bn during the quarter and stand at about Rs 150bn.
 - Rs 26bn more reduction is to happen over the rest of the financial year, which would happen evenly in 3Q and 4Q.
- **Liquidity**
 - The average LCR for the quarter was 122% and the bank would like to maintain this level.
- **Deposits repricing**
 - The deposit repricing is largely complete and there may be a 10-15 bps rise in 2H.
 - Cost of funds would go up marginally in 3Q and then plateau in 4Q.
- **NIM guidance**
 - Management expects NIM to remain stable (at current level).
 - **Factors that would support NIM**
 - Repricing of investments
 - Liquidity getting deployed
 - Repricing of 1-year MCLR loans
- **Key deposit rates**
 - **Savings accounts**
 - For balances above Rs 0.5mn, the interest rate is 7%.
 - For balances below Rs 0.1mn, the interest rate is 3%.
 - One need to keep in mind that any SA rate is not a committed rate for any time duration and can be revised lower.
 - **Term deposits**
 - 181 days – 1 year: 5.75%.
 - 1 year – 6.5%
 - For 1 year 1 day and upto 2 years, it is 7.5%.

Deposits traction

- Total customer deposits are up 44% YoY.
- **CASA deposits**
 - CASA ratio is largely stable QoQ at 46.4%.
 - CASA deposits rose 26% YoY.
- **Current accounts**
 - Average CA deposits were up 31% YoY.
- **Retail deposits**
 - Diversification of liability base continues with share of retail deposits at 77% of total deposits.
 - The share of institutional deposits was 73% at the time of the merger.
 - Retail deposits rose 50% YoY.
- **Term deposits**
 - Term deposits have grown 68% YoY and 11% QoQ are were predominantly retail in nature.
- **Deposits per branch**
 - The deposits per branch of Rs 1.85bn for the bank has bridged the gap with large private sector banks, some of which are sitting at ~Rs 2.5bn.
 - Management stated that the bank's brand is strong and has the right nature of recall.

(Con call takeaways continue on the next page)

Loan growth

- Total funded assets grew 26% YoY.
- **Retail assets**
 - Retail assets were up 29% YoY and 7% QoQ.
 - Home loans were up 26% YoY.
 - Vehicle loans were up 41% YoY.
 - Consumer loans were up 22%.
 - **Credit cards**
 - 1.9mn cards were added during the quarter.
 - Card spends rose 64% in 1H.
- **Rural assets**
 - Rural assets were up 51% YoY.
- **Wholesale assets**
 - Funding for SME, business and corporates rose 22% YoY.
 - The legacy infra book has declined to 1.8% of funded assets.
- **Credit substitutes**
 - The credit substitutes amount to Rs 50bn.
 - These comprise bonds and PTCs.

Treasury

- The trading gain for the quarter amounted to Rs 0.54bn.

Return ratios

- The RoA and RoE for 1H amounted to 1.2% and 11.36%, respectively.
- Despite high cost to income ratio, due to healthy NIM and fee income to assets, the bank would achieve exit FY25 RoE guidance.
- **Credit cards**
 - The credit cards business would break even in FY25 and then make money the next financial year.

Capital adequacy

- Capital adequacy ratio was 16.54% including profit for 1H.
- CET1 ratio stood at 13.49%
- **Capital raise**
 - In the first week of October, Rs 30bn was raised through a QIP.
 - This has helped CET1 accrete further by 150 bps.

Update on merger

- The approval for the merger has been received from the CCI.
- The applications to the RBI, SEBI, BSE and NSE have been made.
- There have been no hiccups so far in the process.

(Con call takeaways continue on the next page)

Operating expenses

- **Total opex**
 - Total opex, at Rs. 38.7 bn, is up 5.8% QoQ and 33.7% YoY.
 - Consequently, cost/income ratio came in at 71.9%, up by 101bps QoQ and 69bps YoY.
 - **Comments on high cost to income ratio**
 - The drag on cost to income ratio is coming mainly from the liability side.
 - The asset side RoE is ~20%.
- **Staff expenses**
 - The staff opex is up by 3.2% QoQ and 29.6% YoY
- **Non-staff expenses**
 - Other opex in up by 6.9% QoQ and 35.6% YoY.
 - **Branch expansion**
 - 38 branches were added during the quarter, taking the branch count to 862.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy	Q2FY24*	chg qoq	chg yoy
Gross Advances	1,832,360	1,715,780	6.8	1,453,620	26.1	100.0	0bps	0bps
Consumer Finance	1,046,030	973,270	7.5	813,540	28.6	57.1	36bps	112bps
Home Loan	212,570	201,390	5.6	169,250	25.6	11.6	-14bps	-4bps
Loan Against Property	216,290	201,030	7.6	187,400	15.4	11.8	9bps	-109bps
Wheels	178,420	163,650	9.0	126,150	41.4	9.7	20bps	106bps
Consumer Loans	232,350	223,290	4.1	190,000	22.3	12.7	-33bps	-39bps
Education Loans	17,610	12,850	37.0	5,780	204.7	1.0	21bps	56bps
Credit Card	42,820	38,930	10.0	27,060	58.2	2.3	7bps	48bps
Gold Loan	5,630	3,630	55.1	1,240	354.0	0.3	10bps	22bps
Others	140,340	128,500	9.2	106,650	31.6	7.7	17bps	32bps
Rural Finance	228,280	207,440	10.0	151,420	50.8	12.5	37bps	204bps
SME & Corporate Finance	524,480	497,490	5.4	428,740	22.3	28.6	-37bps	-87bps
of which CV/CE Financing	49,340	42,470	16.2	25,200	95.8	2.7	22bps	96bps
of which Business Banking	61,020	53,540	14.0	39,940	52.8	3.3	21bps	58bps
of which Corporate Loans	293,240	276,620	6.0	248,830	17.8	16.0	-12bps	-111bps
Infrastructure	33,560	37,580	(10.7)	59,920	(44.0)	1.8	-36bps	-229bps
Total Deposits	1,712,359	1,544,270	10.9	1,234,424	38.7	100.0	0bps	0bps
CASA	794,680	717,650	10.7	633,050	25.5	46.4	-6bps	-487bps
Term	917,679	826,620	11.0	601,374	52.6	53.6	6bps	487bps
Investments	631,326	552,690	14.2	505,865	24.8	NA	NA	NA
Investments/(Invest.+Net Adv.), %	26.5	24.8	171bps	27.3	-76bps	NA	NA	NA
Borrowings	531,655	557,410	(4.6)	566,430	(6.1)	NA	NA	NA
Borrowings/(Borr.+Dep.), %	23.7	26.5	-283bps	31.5	-776bps	NA	NA	NA
RWA	1,984,250	1,871,330	6.0	1,571,200	26.3	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q2FY24	Q1FY24	qoq	Q2FY23	yoy
Net interest margin	6.32	6.33	-1bps	5.83	49bps
CASA	46.4	46.5	-6bps	51.3	-487bps
Loan to Deposit ratio	102.1	108.4	-629bps	109.2	-708bps
Non-interest income/Total income	26.6	27.4	-83bps	26.1	46bps
Fee Income to Avg. Total Assets	2.1	2.2	-5bps	1.8	31bps
Cost to Income	71.9	70.9	101bps	71.2	69bps
Opex to Avg. Total Assets	6.0	6.0	4bps	5.6	42bps
RoE	11.0	11.8	-75bps	10.1	90bps
RoA	1.2	1.3	-10bps	1.1	9bps
Annualised Slippage Ratio*	3.1	2.7	37bps	3.3	-17bps
Gross NPA	2.1	2.2	-6bps	3.2	-107bps
Net NPA	0.7	0.7	-2bps	1.1	-41bps
Provision Coverage	84.1	83.1	97bps	76.5	760bps
Capital adequacy ratio	16.5	17.0	-42bps	15.4	119bps
Tier I capital ratio	13.5	13.7	-21bps	13.7	-18bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	39,502	39,168	0.9
Pre-Prov. Operating Profit	15,103	15,780	(4.3)
Profit After Tax	7,513	8,064	(6.8)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Employee Expense	11,901	11,528	3.2	9,186	29.6
Other Operating Expense	26,795	25,059	6.9	19,762	35.6
Total Operating Expense	38,696	36,586	5.8	28,948	33.7

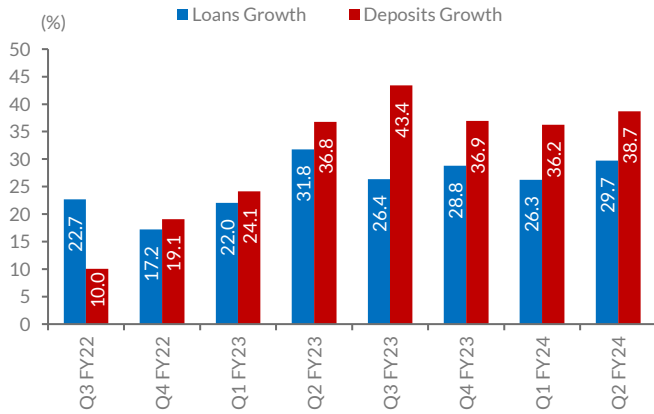
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q2FY24	Q1FY24	% qoq	Q2FY23	% yoy
Total Fee Income (A)	13,760	13,410	2.6	9,450	45.6
Loan Origination fees	4,668	4,023	16.0	3,308	41.1
Credit Card & Toll	2,338	2,280	2.5	1,134	106.1
Trade & Client Fx	1,238	1,207	2.5	1,040	19.0
Wealth Management & 3 rd Party Products	1,925	1,877	2.5	1,134	69.8
General Banking Fees	3,592	4,023	(10.7)	2,835	26.7
Total Other Income (B)	536	728	(26.4)	1,163	(53.9)
Treasury	540	730	(26.0)	1,160	(53.4)
Others	(4)	(2)	105.6	3	(208.8)
Total Non-Interest Income (A+B)	14,296	14,138	1.1	10,613	34.7

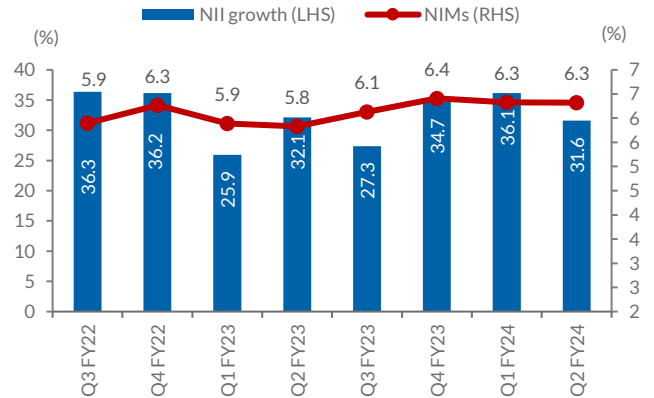
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



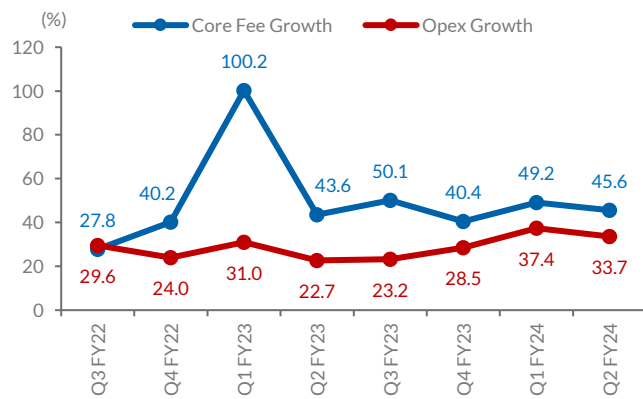
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



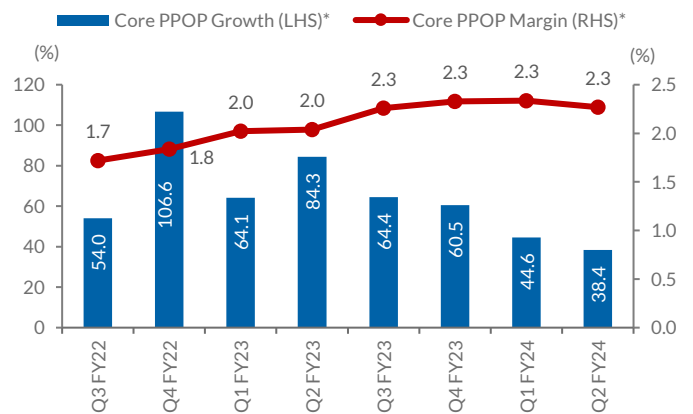
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



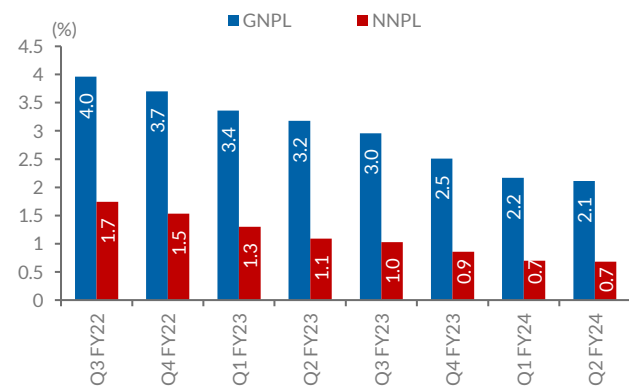
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



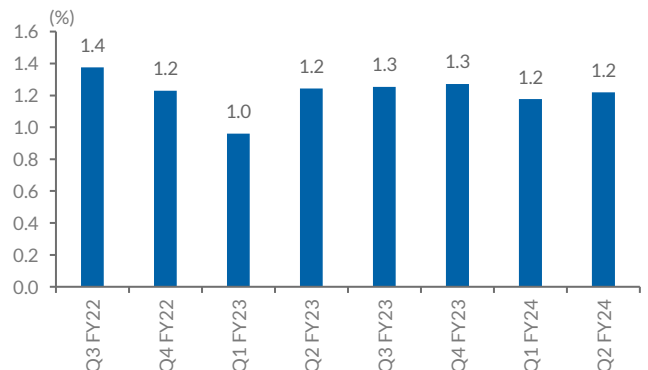
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Credit Cost (%)



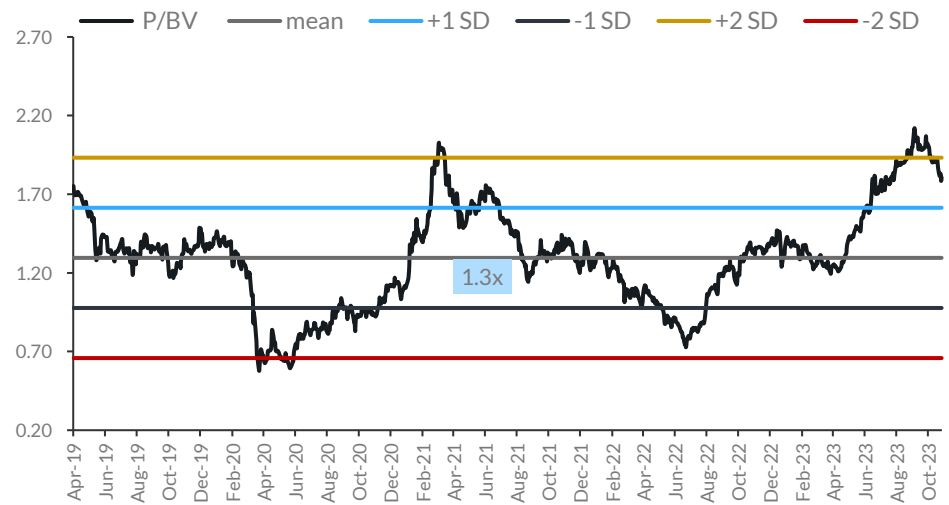
Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	157,579	138,980	303,589	320,192	326,121
Investments	461,448	611,236	672,359	739,595	813,554
Advances	1,178,578	1,517,945	1,897,432	2,371,790	2,964,737
Fixed assets	13,612	20,901	22,991	25,291	27,820
Other assets	90,598	110,355	126,908	133,254	139,916
Total assets	1,901,816	2,399,417	3,023,279	3,590,120	4,272,148
Net worth	210,035	257,212	338,378	377,677	427,854
Deposits	1,056,344	1,446,373	2,010,459	2,472,864	3,041,623
Borrowings	529,626	572,121	629,333	692,266	761,493
Other liabilities	105,812	123,711	45,110	47,312	41,179
Total liabilities incl. Equity	1,901,816	2,399,417	3,023,279	3,590,120	4,272,148

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	171,727	227,275	292,828	362,183	442,161
Interest expense	(74,665)	(100,922)	(135,271)	(172,323)	(208,328)
Net interest income	97,062	126,353	157,557	189,861	233,833
Non-interest income	32,220	44,670	61,706	78,208	96,595
Total income	129,282	171,023	219,263	268,069	330,428
Operating expenses	(96,444)	(121,704)	(151,226)	(178,227)	(215,347)
PPoP	32,838	49,320	68,038	89,841	115,081
Provisions	(31,086)	(16,648)	(22,352)	(27,864)	(35,952)
Profit before tax	1,752	32,671	45,686	61,977	79,130
Taxes	(297)	(8,300)	(11,604)	(15,742)	(20,099)
Net profit	1,455	24,371	34,081	46,235	59,031

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.7	10.6	10.8	11.0	11.2
Interest expense	-4.2	-4.7	-5.0	-5.2	-5.3
Net interest income	5.5	5.9	5.8	5.7	5.9
Non-interest income	1.8	2.1	2.3	2.4	2.5
Total income	7.3	8.0	8.1	8.1	8.4
Operating expenses	-5.5	-5.7	-5.6	-5.4	-5.5
PPoP	1.9	2.3	2.5	2.7	2.9
Provisions	-1.8	-0.8	-0.8	-0.8	-0.9
Profit before tax	0.1	1.5	1.7	1.9	2.0
Taxes	0.0	-0.4	-0.4	-0.5	-0.5
Net profit	0.1	1.1	1.3	1.4	1.5

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	157,557	189,861	233,833	155,709	189,167	230,429	1.2	0.4	1.5
Pre-Prov. Operating Profit	68,038	89,841	115,081	68,832	91,628	115,596	(1.2)	(2.0)	(0.4)
Profit after tax	34,081	46,235	59,031	35,311	48,633	60,173	(3.5)	(4.9)	(1.9)

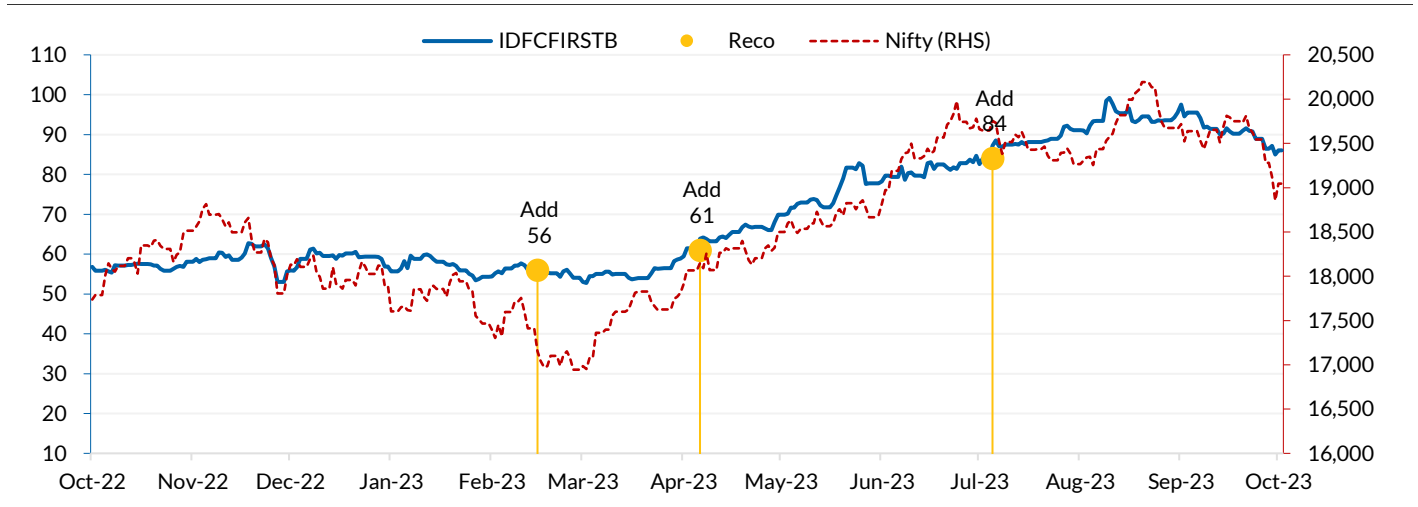
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	31.5	30.2	24.7	20.5	23.2
PPoP	29.2	50.2	38.0	32.0	28.1
Net profit	-67.8	1575.1	39.8	35.7	27.7
Loans	17.2	28.8	25.0	25.0	25.0
Deposits	19.1	36.9	39.0	23.0	23.0
Profitability Ratios (%)					
Net interest margin	6.0	6.2	6.3	6.2	6.4
Return on Average Equity	0.7	10.4	11.4	12.9	14.7
Return on Average Assets	0.1	1.1	1.3	1.4	1.5
Per share figures (Rs)					
EPS	0.2	3.7	4.7	6.3	8.1
BVPS	34	39	46	52	58
ABVPS	31	37	44	49	55
Valuation multiples					
P/E	368	23.4	18.5	13.6	10.7
P/BV	2.5	2.2	1.9	1.7	1.5
P/ABV	2.8	2.3	1.9	1.8	1.6
NIM internals (%)					
Yield on loans	13.0	14.2	14.4	14.4	14.4
Cost of deposits	4.4	5.0	5.5	5.7	5.8
Loan-deposit ratio	111.6	104.9	94.4	95.9	97.5
CASA ratio	48.4	49.8	46.5	47.0	47.0
Opex control (%)					
Cost/Income ratio	74.6	71.2	69.0	66.5	65.2
Cost to average assets	5.5	5.7	5.6	5.4	5.5
Capital adequacy (%)					
Tier 1 capital ratio	14.9	14.2	14.9	13.4	12.2
Asset quality (%)					
Slippage ratio	6.9	3.4	2.7	2.5	2.5
Gross NPL ratio	3.7	2.5	1.8	1.9	1.9
Credit cost	3.5	1.9	1.2	1.2	1.2
Net NPL ratio	1.5	0.9	0.7	0.9	0.8

Source: Company, YES Sec – Research

Recommendation Tracker



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