

Retail Equity Research

IDFC First Bank Ltd.

Banking

Hold

BSE CODE: 539437 NSE CODE: IDFCFIRSTB
BLOOMBERG CODE: IDFCFB:IN SENSEX: 34,287

12M Investment Period Rating as per Mid Cap

CMP Rs. 24.2 TARGET Rs.26.2 RETURN +8% ↑
(Closing: 05-06-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Asset quality concerns to weigh

IDFC First Bank is founded by the merger of erstwhile IDFC Bank and erstwhile Capital First on December 18, 2018. At present, the bank's total number of branches stands at 464 with a total funded assets to the tune of around ~Rs1,07,004cr.

- Net Interest Income (NII) reported a growth of 13% on a YoY basis, and Net Interest Margin (NIM) improved to 4.24% in Q4FY20, compared to 3.86% in the previous quarter.
- Currently Gross/Net NPA stands at 2.60%/0.94% compared to 2.83%/1.23% in Q3FY20. Provision coverage ratio improved for the quarter to 64.53% compared to 57.34% in Q3FY20.
- We have lowered our advances growth estimates by 13% each for FY21E and FY22E due to Covid 19 pandemic.
- Exposure to SME segment to pave way for asset quality concerns post moratorium. Higher provisions to dent the bottom line performance.
- We value the bank at 0.77 x FY22E BVPS and retain Hold rating with a revised down target price of Rs.26.2.

Better top-line performance with 38% growth in NII.

In the current quarter, Net interest income reported a 38% increase on an annualised basis powered by a 40% increase in retail book. NII grew to Rs 1,563 cr as compared to Rs 1,113 cr in Q4FY19. Net Interest Margin (NIM) improved to 4.24% in Q4FY20 compared to 3.03% in Q4FY19 and 3.86% sequentially. Total income including Net Interest income, fees and trading gain came at Rs 2,314 cr an increase of 67% (YoY) from Rs 1,386cr in Q4FY19. Pre-Provision profit (PPOP) grew 229% YoY to Rs 787cr in the current quarter compared to Rs 239cr in Q4FY19.

Asset quality remains weak.

Excluding the moratorium the asset quality of the bank remains weak with Gross NPA at 2.88% compared to 2.83% in Q3FY20 and Net NPA stood at 1.14% in Q4FY20 compared to 1.23% in Q3FY20. However, including the moratorium factor Gross NPA/ Net NPA stood at 2.60%/0.94% respectively. Bank provided moratorium to customers as per regulatory requirement and close to 35% of advances opted for the same. Bank was required to make provisions of Rs 25cr pertaining to accounts where asset classification benefit was given. Total provision for the quarter stood at Rs 679cr after considering additional provision over and above regulatory requirement amounting Rs 200cr. PAT for the quarter came at Rs 72cr against loss of Rs 218cr in Q4FY19 and continued to get impacted by higher provisions.

Advance growth to moderate in FY21 and early FY22.

Total loan book of the bank stood at Rs 1,07,004cr. Retail accounted 54% of the loan book amounting Rs 57,782Cr and Wholesale loan book amounting Rs 49,221cr around 46% of the total loan book. There was a 7% increase in the retail book and 11% decline in wholesale loan book where most of bad loan lies. We have lowered advances estimate by 13% each in FY21E and FY22E. Continuous lockdown due to Covid 19 pandemic since April has caused disruption in loan disbursals. Total credit outflow in the economy has taken a hit and the same is expected to have hurt the bank.

Valuation

Balance sheet restructuring with reduction in wholesale loan book and higher emphasis on retail assets to aid future growth. Restructuring of some advances and liabilities have paved way for 40bps margin gain in Q4FY20. Post Moratorium asset quality remains as a concern. However bank has raised Rs 2000cr through preferential issue augmenting capital base to provide further cushioning. Factoring in post Covid 19 impact on the valuation we value the bank at 0.77x BVPS of FY22E and retain Hold rating with a revised down target price of Rs.26.2

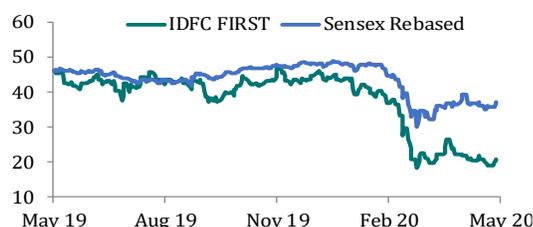
Company Data

Market Cap (Rs cr)	11,664
Outstanding Shares (cr)	481
Free Float	60.2%
Dividend Yield	-
52 week high (Rs)	48
52 week low (Rs)	18
6m average volume (cr)	2.59
Beta	1.32
Face value (Rs)	10

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	40	40	40
FPI's	16.4	15.1	13.5
MFs/Institutions	9.4	3.9	4.0
Public	34.2	40.9	42.5
Total	100	100	100

Price Performance	3 month	6 month	1 year
Absolute Return	-44.2%	-56.1%	-55.2%
Absolute Sensex	-16.1%	-21.3%	-18.7%
Relative Return*	-28.0%	-34.9%	-36.5%

*over or under performance to benchmark index



Standalone (cr)	FY20E	FY21E	FY22E
NII	5,635	5,592	6,437
Growth(%)	76.2%	-0.8%	15.1%
NIM(%)	4.09	4.08	4.19
Provisions	4,315	1,403	1,611
Adj. PAT	-2,864	615	898
Growth(%)	-	-	45.9%
Adj. EPS	-6.0	1.3	1.9
Growth(%)	-	-	45.9%
BVPS	32	33	34
Adj BVPS	30	31	33
P/E	-3.4	15.9	10.9
P/B	0.6	0.6	0.6
Adj. P/B	0.7	0.7	0.6
ROE (%)	-17.1	4.0	5.6

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Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q4FY20	Q3FY20	QoQ Growth (%)	Q4FY19	YoY Growth (%)	FY20	FY19	YoY Growth (%)
Interest Income	3,956	4,100	-3.5	3,629	13.0	15,867	11,948	32.8
Interest Expense	2,392	2,566	-6.8	2,516	2.0	10,232	8,749	16.9
Net Interest Income (NII)	1,563	1,534	1.9	1,113	37.9	5,635	3,199	76.2
Fee and Other Income	484	579	-16.4	273	111.8	1,722	852	102.1
Total Income	2,047	2,113	-3.1	1,386	52.5	7,357	4,051	81.6
Expenditure	1,527	1,432	6.7	1,148	24.7	5,421	3,287	64.9
Pre-Provision Profit	520	682	-23.8	239	185.7	1,937	764	153.6
Provision	412	2,305	-82	655	251.7	4,315	1,460	195.6
Exceptional Item	0	0	-	0	-	0	2,599	-
PBT	107	-1,623	-	-417	-	-2,379	-3,295	-
Tax	36	16	-	-199	-	486	-1,351	-
Reported PAT	72	-1,639	-	-218	-	-2,864	-1,944	-
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	72	-1,639	-	-218	-	-2,864	-1,944	-
Diluted EPS (Rs)	0.15	-3.42	-	-0.45	-	-5.98	-4.71	-

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	6,038	6,909	5,592	6,437	-7.4%	-6.8%
Net Interest Margin (%)	3.54	3.6	4.08	4.19	54bps	59bps
Pre-Provision Profit	2,096	2,658	2,240	2,833	6.9%	6.6%
Adj. PAT	820	1276	615	898	-	-29.6%
Diluted EPS (Rs)	0.4	0.5	0.4	0.5	-	0.0%

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	8,930	11,948	15,867	15,248	17,077
Interest Expense	7,132	8,749	10,232	9,656	10,640
Net Int. Income	1,798	3,199	5,635	5,592	6,437
Change	-	77.9%	76.2%	-0.8%	15.1%
Non Int. Income	1,118	852	1,722	1,281	1,434
Operating Income	2,916	4,051	7,357	6,873	7,872
Change	-	38.9%	81.6%	-6.6%	14.5%
Operating Exp.	1,653	3,287	5,421	4,633	5,039
Pre Prov. Profit	1,263	764	1,937	2,240	2,833
Prov. & Conting.	236	1,460	4315	1403	1611
PBT	1,027	-3,295	-2,379	837	1,222
Change	-	-	-	-	-
Tax	168	-1,351	486	222	324
Tax Rate (%)	16%	41%	-20%	27%	27%
Reported PAT	859	-1,944	-2,864	615	898
Adjustment	0	0	0	0	0
Adj. PAT	859	-1,944	-2,864	615	898
Change	-	-	-	-	-
No. of shares (Cr)	340	478	479	479	479
EPS (Rs)	2.5	-4.7	-6.0	1.3	1.9
Change	-	-	-	-	-
DPS (Rs)	0.75	0.75	0.30	0.40	0.50

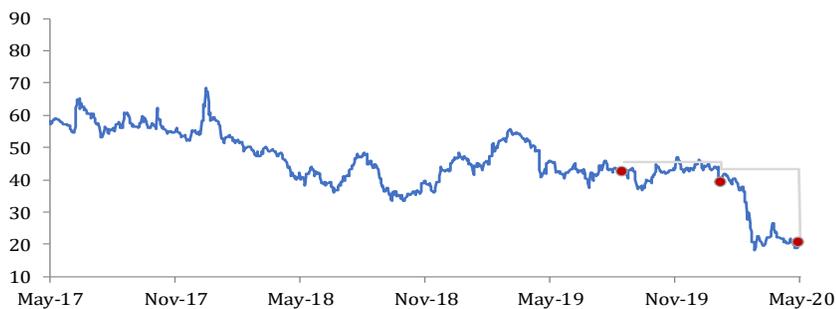
BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	4,892	9,567	4,191	10,341	7,596
Loans & Advances	52,165	86,302	85,595	93,510	1,07,418
Investments	61,202	58,475	45,405	49,644	56,344
Gross Fixed Assets	1184	4248	4758	5328	5968
Net Fixed Assets	784	950	1038	1256	1519
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	7,478	11,890	12,972	12,839	14,572
Total Assets	1,26,520	1,67,185	1,49,200	1,67,877	1,87,736
Deposits	48,198	70,479	65,108	77,677	86,870
Debt Funds	57,287	69,983	57,397	65,051	73,830
Other Liabilities	5,778	8,563	11,353	9,415	10,686
Provisions	-	-	-	-	-
Equity Capital	3404	4782	4810	4810	4810
Reserves & Surplus	11,852	13,378	10,533	10,923	11,540
Shareholder's Funds	15,257	18,159	15,343	15,733	16,350
Total Liabilities	1,26,520	1,67,185	1,49,200	1,67,877	1,87,736
BVPS (Rs)	44.8	38.0	32.0	32.8	34.1
Change	-	-15.3%	-15.6%	2.5%	0.0%
Adj. BVPS (Rs)	42.2	35.7	30.1	31.2	32.9
Change	-	-15.5%	-15.5%	3.6%	5.3%

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	-	9.1	11.3	10.9	10.9
Cost of funds (%)	-	7.1	7.8	7.2	7.0
Spread(%)	-	2.0	3.5	3.8	3.9
NIM (%)	-	2.5	4.1	4.1	4.2
ROE (%)	-	-11.6	-17.1	4.0	5.6
ROA(%)	-	-1.3	-1.8	0.4	0.5
Business Growth					
Loans & Advances (%)	-	65.4	-0.8	9.2	14.9
Deposits (%)	-	46.2	-7.6	19.3	11.8
Operating Ratios					
Cost to Income (%)	56.7	81.1	73.7	67.4	64.0
CASA (%)	11.8	12.9	27.0	30.0	35.0
Asset Quality					
GNPA (%)	3.3	2.4	2.4	2.2	2.0
NNPA (%)	1.7	1.3	1.1	0.8	0.6
Capital Adequacy					
Tier 1 CAR (%)	17.7	15.3	13.5	13.2	12.5
CAR (%)	18.0	15.5	13.7	13.4	12.6
Valuation					
P/E (x)	8.1	-4.3	-3.4	15.9	10.9
P/B (x)	0.5	0.5	0.6	0.6	0.6
Adj. P/B (x)	0.5	0.6	0.7	0.7	0.6

Recommendation Summary (last 3 years)



Dates	Rating	Target
13 September 19	Hold	45.6
04 February 20	Hold	43.2
06 June 20	Hold	26.2

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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