

IDFC First Bank Ltd.

Steadily growing

In Q1FY25, IDFC First Bank Ltd (IDFCFB) reported a strong loan book growth of 4% on QoQ and 22% on a YoY basis, with the retail loan book demonstrating substantial growth of 5% on a QoQ and 27% on a YoY basis. In the retail segment, auto loans, credit cards, and education loans grew by >30% on a YoY basis. As guided by the management, deposits grew faster than loan book at 36%/5% on a YoY/QoQ basis, respectively. The Bank's cost-to-income ratio declined by 240 bps on a QoQ basis, while it remained elevated due to its ongoing expansion of branch networks and investments in technology. The Bank maintained its GNPA of 1.9% on a QoQ basis. Going forward, the management has guided to grow its loan book by 20-22% while growing its deposits by 28-30%.

Strong growth in loan book and deposits

IDFCFB reported a strong growth of 5%/ 36% on a QoQ/YoY basis in deposits, led by an increase in term deposits by 8% on QoQ and 39% on a YoY basis during the quarter. The CASA ratio remained at ~47%.

In the loan book, the Company saw strong growth in all product segments, with an 86%, 53%, 38%, and 33% YoY increase in education loans, credit card, digital & gold loans, and auto loans, respectively, in Q1FY25. The target to reduce the infrastructure financing book is on track, as it decreased from 2.2% in Q1FY24 to 1.3% in Q1FY25.

Going forward, management is guiding the deposit to grow to ~28-30% and the loan book to 20-22% in FY25.

Improvement in cost-to-income ratio

During the quarter, the Bank's cost-to-income ratio declined by 240 bps on a QoQ basis. While it is still at an elevated level due to its ongoing expansion of branch networks and investments in technology. The Bank aims to reduce its cost-to-income ratio to 65% by FY27 from the current 70.5%.

Stable asset quality

During the quarter, the credit cost increased to 1.9% compared to 1.5% in Q4FY24, though it was broadly in line with management guidance given earlier. The rise in credit costs is primarily due to higher delinquencies in the MFI book. The Bank expects credit cost to maintain at 1.65% in FY25. GNPA remained stable at 1.9% in Q1FY25.

View & Valuation

We have revised our estimates and maintained our view on IDFC First Bank Ltd with a BUY rating and a target price of Rs. 91.4 (2.0x FY25E Adj. book value). We expect the Bank to grow its loan book at 20% with a stable NIM within the range of ~6.0%. We also expect an enhancement in the cost-to-income ratio and maintain its asset quality. These factors are expected to drive profitability and result in improved return ratios.

1st August 2024

BUY

CMP Rs. 75.6

TARGET Rs. 91.4 (+20.9%)

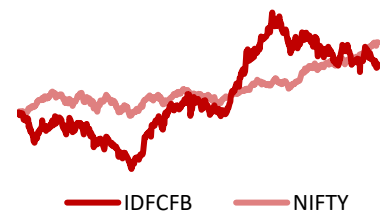
Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	5,68,241
O/S Shares (Mn)	7,081
52w High/Low	101 / 71
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	3,110

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	37.37	37.43	37.45
FIIIs	21.02	23.65	24.30
DIIIs	11.64	10.51	10.34
Non-Institutional	29.96	28.40	27.91

IDFC First Bank vs Nifty



Jul, 21 Jul, 22 Jul, 23 Jul, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	164.6	195.7	229.8
PPOP	62.4	79.3	97.7
Net Profit	29.4	32.9	44.4
Advances	1,945.9	2,335.1	2,802.1
ROE (%)	9.1%	9.3%	11.1%
ROA (%)	0.9%	0.9%	1.0%

Source: Company, Keynote Capitals Ltd. estimates

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Q1 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
Net Interest Income	46,954	37,465	25%	44,705	5%	1,64,548
Other Income	15,740	13,636	15%	16,420	-4%	59,317
Net Income	62,695	51,101	23%	61,125	3%	2,23,865
Operating Expense	44,225	36,377	22%	44,418	0%	1,61,477
Employee cost	15,342	13,331	15%	15,187	1%	56,337
Other operating expenses	28,883	23,046	25%	29,232	-1%	1,05,141
Pre-provision Operating Profit	18,470	14,724	25%	16,707	11%	62,388
Provisions	9,944	4,762	109%	7,223	38%	23,817
PBT	8,526	9,962	-14%	9,484	-10%	38,572
Tax	2,100	2,647	-21%	2,165	-3%	9,148
PAT	6,426	7,315	-12%	7,319	-12%	29,424
EPS	0.9	1.1		1.0		4.2

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	69%	70%	71%	71%	72%	27%	5%
Home loan	12%	12%	11%	11%	12%	22%	10%
Loan Against Property	12%	12%	12%	12%	12%	23%	2%
MSME/Rural Loans	12%	12%	13%	12%	12%	18%	3%
Auto Loans	10%	10%	10%	10%	10%	33%	5%
Consumer Loans	13%	13%	14%	13%	13%	25%	5%
Credit Card	2%	2%	3%	3%	3%	53%	7%
Education Loans	1%	1%	1%	1%	1%	86%	11%
Digital, Gold Loan and Others	8%	8%	9%	9%	9%	38%	4%
Corporates	16%	16%	15%	15%	15%	14%	4%
Infrastructure	2%	2%	1.6%	1.4%	1.3%	-26%	-2%
Commercial Finance	7%	7%	6%	6%	5%	-14%	-4%
CV/ CE	2%	3%	3%	3%	3%	57%	6%
Business Banking	3%	3%	4%	4%	4%	42%	2%
Total Funded Assets (Rs. Bn)	1,716	1,832	1,895	2,010	2,094	22%	4%

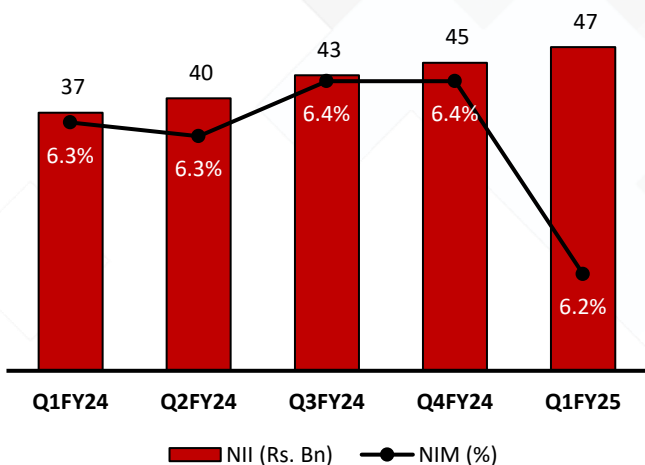
Source: Company, Keynote Capitals Ltd.

Deposits mix (%)

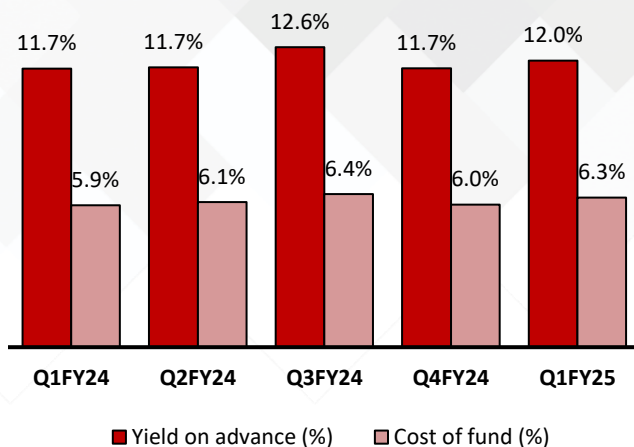
Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	46.5%	46.4%	46.8%	47.2%	46.6%	36%	3%
Term Deposits	49.7%	49.8%	49.8%	49.4%	51.0%	39%	8%
Certificate of Deposits	3.9%	3.8%	3.3%	3.4%	2.4%	-14%	-25%
Total Deposits (Rs. Bn)	1,544	1,712	1,826	2,006	2,097	36%	5%

Source: Company, Keynote Capitals Ltd.

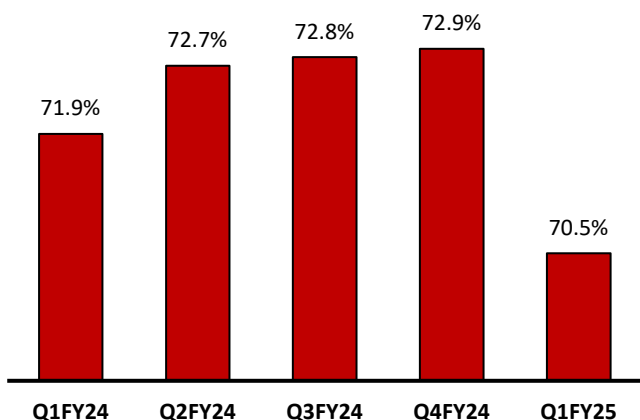
NII (Rs. Bn) and NIM (%)



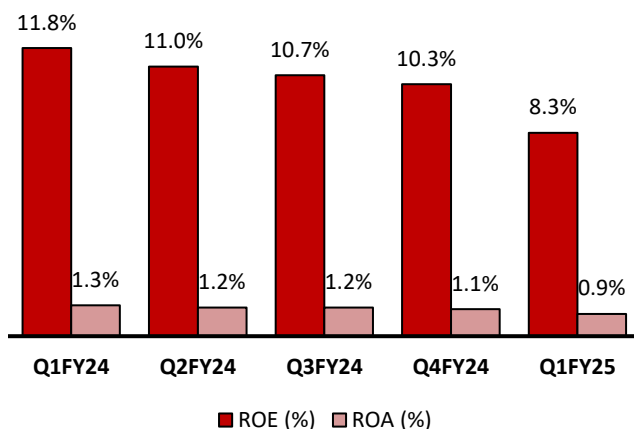
Yield on advance and cost of fund (%)



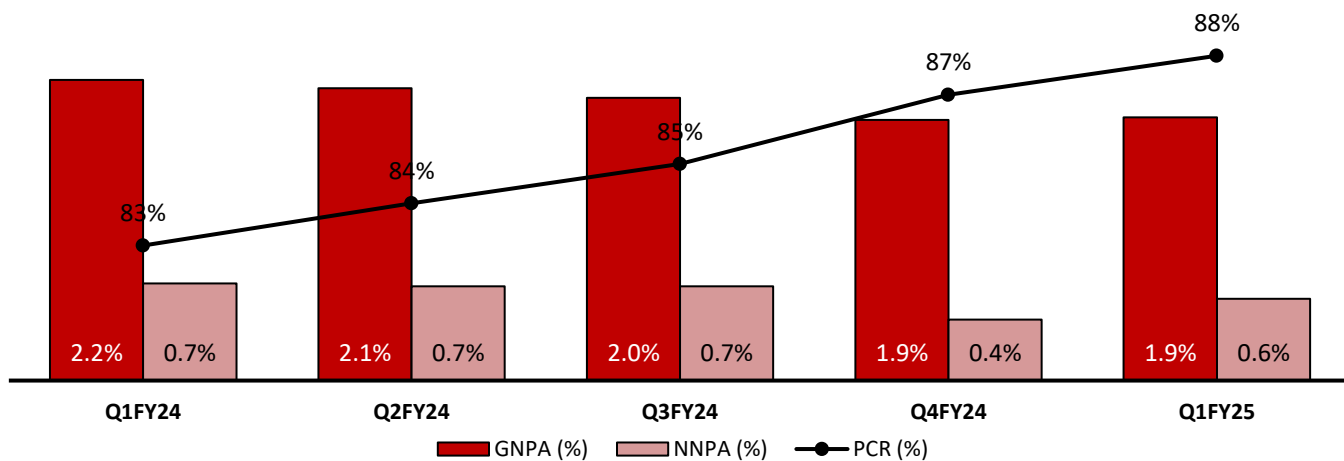
Significant improvement in cost-to-income ratio (%)



ROE and ROA (%)



Stable asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

Highlight

- The Bank has demonstrated strong performance in deposits despite a reduction in interest rates. 80% of the deposits are retail, which enhances the Bank's stability and customer loyalty.
- The Bank incremental credit-to-deposit ratio stood at 72.1%. The overall credit-to-deposit ratio for the Bank is currently at 100%. It anticipates this ratio to decrease to 92-93% by the end of FY25 and further improve to 80% by FY26.
- Initially, the Bank purchased PSL certificates to meet regulatory requirements. However, over the years, the Bank has developed its own PSL portfolio and has now progressed to the point where it is selling PSL certificate.
- The primary reason for the increased slippages in Q1 FY25 is attributed to the impact of floods in Tamil Nadu. This natural disaster significantly affected the Bank's Joint Liability Group (JLG) portfolio, which is a part of its microfinance operations. This led to higher credit costs and increased provisions. The credit cost for the quarter increased from 1.5% in Q4FY24 to 1.9% in Q1FY25.
- The Bank expects a credit cost of 1.65% in FY25.
- The Bank aims to reduce its cost-to-income ratio to 65% by FY27 from the current 70.5%.
- The Bank anticipates stronger profitability in H2FY25 and expects an improvement in its ROE.
- The merger with parent IDFC Ltd. is likely to be consummated in Q2FY25. This could add Rs. 5-6 Bn to its net worth.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,26,372	1,64,548	1,95,692	2,29,752	2,67,168
Other Income	44,673	59,317	68,492	80,413	93,509
Net Income	1,71,045	2,23,865	2,64,184	3,10,166	3,60,677
Operating Expenses	1,21,082	1,61,477	1,84,929	2,12,463	2,43,457
Pre-Provision Operating Profit	49,962	62,388	79,255	97,702	1,17,220
Provisions	16,648	23,817	35,319	38,529	46,235
Profit Before Tax	33,314	38,572	43,937	59,173	70,985
Tax	8,465	9,148	10,984	14,793	17,746
Profit After Tax	24,849	29,424	32,952	44,380	53,239
EPS	3.8	4.4	4.4	5.9	7.1

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	34.0%	28.2%	20.0%	20.0%	20.0%
Deposit Growth (%)	34.7%	38.8%	27.9%	28.5%	20.0%
NII Growth (%)	27.9%	30.2%	18.9%	17.4%	16.3%
PPOP Growth (%)	40.7%	24.9%	27.0%	23.3%	20.0%
Ratios					
NIM (%)	6.7%	6.8%	6.1%	6.0%	6.1%
Cost to Income Ratio	70.8%	72.1%	70.0%	68.5%	67.5%
Credit /Deposit Ratio	105.1%	97.0%	91.0%	85.0%	85.0%
CASA Ratio (%)	49.8%	47.2%	47.5%	47.8%	48.0%
ROE (%)	9.6%	9.1%	9.3%	11.1%	11.7%
ROA (%)	1.0%	1.0%	0.9%	1.0%	1.1%
Asset Quality					
GNPA	2.5%	1.9%	1.8%	1.6%	1.5%
NNPA	0.9%	0.6%	0.6%	0.5%	0.4%
PCR (%)	65.7%	68.1%	66.7%	68.8%	73.3%
Credit Cost (%)	1.2%	1.4%	1.7%	1.5%	1.5%
Valuation					
Book Value Per Share		45.6	47.6	53.5	60.6
Adjusted Book Value Per Share		44.0	45.7	51.6	58.8
P/BV (x)		1.7	1.6	1.4	1.2
Price-ABV (x)		1.7	1.7	1.5	1.3

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	66,552	70,699	70,811	70,811	70,811
Reserves & Surplus	1,91,923	2,51,447	2,84,877	3,29,257	3,82,495
Networth	2,58,476	3,22,736	3,55,688	4,00,068	4,53,307
Deposits	14,44,695	20,05,702	25,66,053	32,96,624	39,55,948
Borrowings	5,72,121	5,09,357	6,70,710	4,64,015	3,05,133
Other Liabilities & Provisions	1,23,529	1,24,303	1,19,881	1,24,551	1,30,156
Total Liabilities	23,98,821	29,62,098	37,12,333	42,85,258	48,44,544
ASSETS					
Cash and Balance	1,37,787	1,24,812	4,27,810	4,92,810	4,70,570
Investments	6,09,130	7,45,001	7,97,216	8,34,816	8,54,816
Advances	15,17,945	19,45,924	23,35,108	28,02,130	33,62,556
Fixed Assets & Others	1,33,946	1,46,361	1,52,200	1,55,500	1,56,600
Total Assets	23,98,821	29,62,098	37,12,337	42,85,260	48,44,546

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 th Oct 2022	BUY	55.7	+45.6%
25 th Oct 2022	BUY	56.5	+43.4%
20 th Jan 2023	BUY	59.4	+38.1%
2 nd May 2023	BUY	64.0	+32.8%
31 st July 2023	BUY	87.0	+13.4%
30 th Oct 2023	BUY	83.0	+22.8%
23 rd Jan 2024	BUY	82.0	+21.5%
29 th April 2024	BUY	81.7	+19.3%
1 st Aug 2024	BUY	75.9	+20.4%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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