

IDFC First Bank Ltd.

Increased provisioning impacting profitability and return ratios

In Q2FY25, IDFC First Bank Ltd (IDFCFB) reported a steady loan book growth of 6% on QoQ and 21% on a YoY basis, with the retail loan book growing at 4% on a QoQ and 23% 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 31%/7% on a YoY/QoQ basis, respectively. During the quarter, the Bank prudently increased its provisions buffer by Rs. 5.7 Bn created for MFI segment (Rs. 3.2 Bn) and a legacy infrastructure toll road account (Rs. 2.5 Bn). This led to increase in its credit cost by 52 bps on a QoQ basis impacting PAT which degrew by 67%/ 72% on a QoQ and YoY basis. MFI segment continues to remain challenging and given the impact of credit cost the management has revised its credit cost guidance for FY25 to 2.25% vs 1.8-1.85% earlier.

Strong deposit growth to fuel loan book expansion

IDFCFB reported solid growth in deposits, up 7%/ 31% on a QoQ/ YoY basis, driven by increased term deposits and CASA. Term deposits rose by 12%/ 38% on a QoQ/ YoY basis, while CASA increased by 7%/ 32% on a QoQ/ YoY basis. This resulted in an improvement of the CASA ratio by 228 bps on a QoQ basis to ~49%.

This strong deposit growth enabled the Bank to expand its loan book by 6% QoQ and 21% YoY, achieving an incremental CD ratio of 78%. The growth was sustained alongside strong asset quality, with retail GNPA and NNPA ratios stable at 1.6% and 0.5%, respectively.

Looking ahead, this performance supports the Bank's target to grow its loan book by 30% in FY25, aiming to maintain an incremental CD ratio of ~75%.

Focus on reducing the cost-to-income ratio

During the quarter, the Bank's cost-to-income ratio remained stable at 70.0%, showing a 50-bps improvement on a QoQ basis. While this ratio is elevated due to prior investments and expansion efforts, the Bank aims to reduce it from 70% to 65% by FY27, with a long-term target of ~50%.

Stable asset quality despite variability in credit costs

In Q2FY25, the credit cost has increased by 52 bps on a QoQ basis led by MFI portfolio and legacy toll accounts. The management has revised its credit cost guidance for FY25 to 2.25% vs 1.8-1.85%, with a possible (slight) moderation in H2FY25. Both GNPA and NNPA remained stable at 1.9% and 0.5%, respectively, in Q2FY25.

View & Valuation

We have revised our estimates and changed our view on IDFC First Bank Ltd from a BUY rating to NEUTRAL rating and a target price of Rs. 72.8 (1.5x FY26E Adj. book value). We expect the Bank's profitability will be affected in FY26 due to an increase in credit costs, which will, in turn, impact the Bank's return ratios. Therefore, we have assigned a multiple of 1.5x Adj. book value. (lowered our valuation because the ROA trend is below 1%)

30th October 2024

NEUTRAL

CMP Rs. 67.6

TARGET Rs. 72.8 (+8.0%)

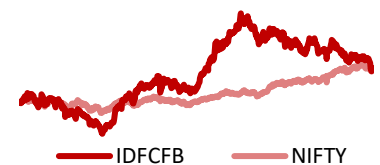
Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	4,94,653
O/S Shares (Mn)	7,483
52w High/Low	92 / 59
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	2,382

Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	35.37	37.37	37.43
FII's	19.57	21.02	23.65
DII's	15.24	11.64	10.51
Non-Institutional	29.81	29.96	28.40

IDFC First Bank vs Nifty



Oct, 21 Oct, 22 Oct, 23 Oct, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	164.6	196.8	227.0
PPOP	62.4	78.5	95.1
Net Profit	29.4	22.4	32.2
Advances	1,945.9	2,374.1	2,848.8
ROE (%)	9.1%	6.5%	8.5%
ROA (%)	1.0%	0.6%	0.8%

Source: Company, Keynote Capitals Ltd. estimates

Devin Joshi, Research Analyst

Devin@keynoteindia.net

IDFC First Bank Ltd. | Quarterly Update

Q2 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2FY25	Q2FY24	Change % (Y-o-Y)	Q1FY25	Change % (Q-o-Q)	H1FY25	H1FY24	Change % (Y-o-Y)	FY24
Net Interest Income	47,883	39,507	21%	46,954	2%	94,837	76,972	23%	1,64,548
Other Income	17,273	14,095	23%	15,740	10%	33,013	27,732	19%	59,317
Net Income	65,156	53,602	22%	62,695	4%	1,27,850	1,04,703	22%	2,23,865
Operating Expense	45,386	38,490	18%	44,225	3%	89,610	74,867	20%	1,61,477
Employee cost	16,170	13,773	17%	15,342	5%	31,512	27,104	16%	56,337
Other operating expenses	29,216	24,717	18%	28,883	1%	58,098	47,763	22%	1,05,141
Pre-provision Operating Profit	19,770	15,112	31%	18,470	7%	38,240	29,836	28%	62,388
Provisions	17,319	5,284	228%	9,944	74%	27,263	10,045	171%	23,817
PBT	2,451	9,828	-75%	8,526	-71%	10,977	19,790	-45%	38,572
Tax	332	2,360	-86%	2,100	-84%	2,431	5,007	-51%	9,148
PAT	2,119	7,469	-72%	6,426	-67%	8,546	14,784	-42%	29,424
EPS	0.3	1.1		0.9		1.2	2.2		4.2

Source: Company, Keynote Capitals Ltd.

Loan Book mix (%)

Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
Retail Funded Assets	70%	71%	71%	72%	70%	23%	4%
Home loan	12%	11%	11%	12%	11%	20%	3%
Loan Against Property	12%	12%	12%	12%	12%	20%	5%
MSME/Rural Loans	12%	13%	12%	12%	12%	14%	6%
Auto Loans	10%	10%	10%	10%	11%	33%	8%
Consumer Loans	13%	14%	13%	13%	13%	22%	2%
Credit Card	2%	3%	3%	3%	3%	48%	7%
Education Loans	1%	1%	1%	1%	1%	60%	18%
Digital, Gold Loan and Others	8%	9%	9%	9%	8%	24%	-1%
Corporates	16%	15%	15%	15%	16%	20%	12%
Infrastructure	2%	1.6%	1.4%	1.3%	1.2%	-21%	-4%
Commercial Finance	7%	6%	6%	5%	6%	7%	20%
CV/ CE	3%	3%	3%	3%	3%	40%	3%
Business Banking	3%	4%	4%	4%	4%	37%	10%
Total Funded Assets (Rs. Bn)	1,716	1,832	1,895	2,010	2,261	21%	6%

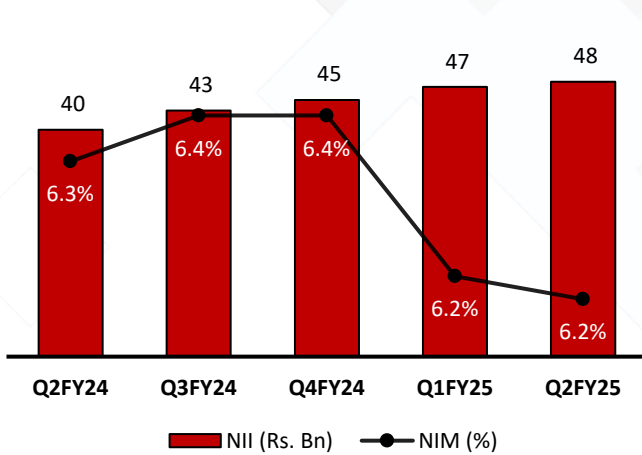
Source: Company, Keynote Capitals Ltd.

Deposits mix (%)

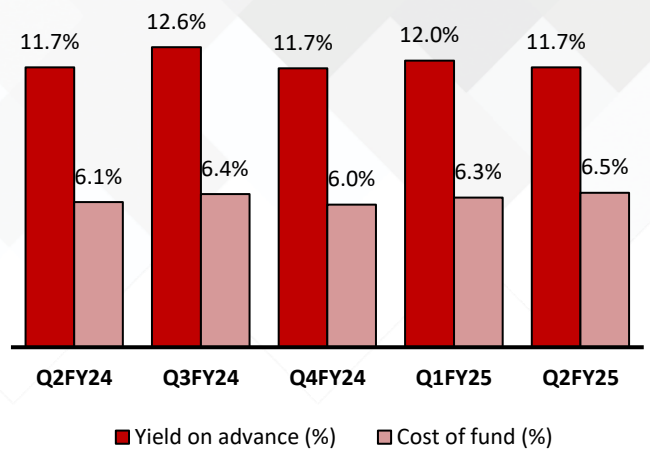
Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Growth Y-o-Y (%)	Growth Q-o-Q (%)
CASA Ratio	46.4%	46.8%	47.2%	46.6%	48.9%	32%	7%
Term Deposits	49.8%	49.8%	49.4%	51.0%	51.0%	38%	12%
Certificate of Deposits	3.8%	3.3%	3.4%	2.4%	2.4%	28%	2%
Total Deposits (Rs. Bn)	1,712	1,826	2,006	2,097	2,236	31%	7%

Source: Company, Keynote Capitals Ltd.

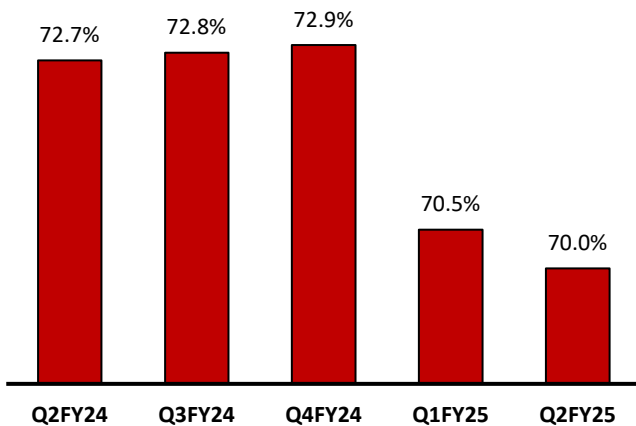
NII (Rs. Bn) and NIM (%)



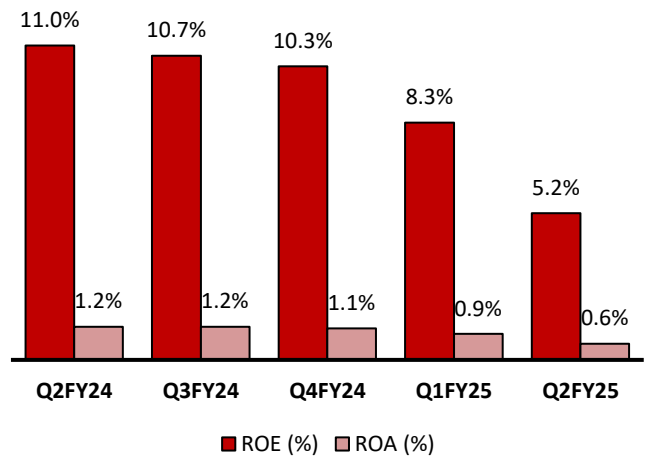
Yield on advance and cost of fund (%)



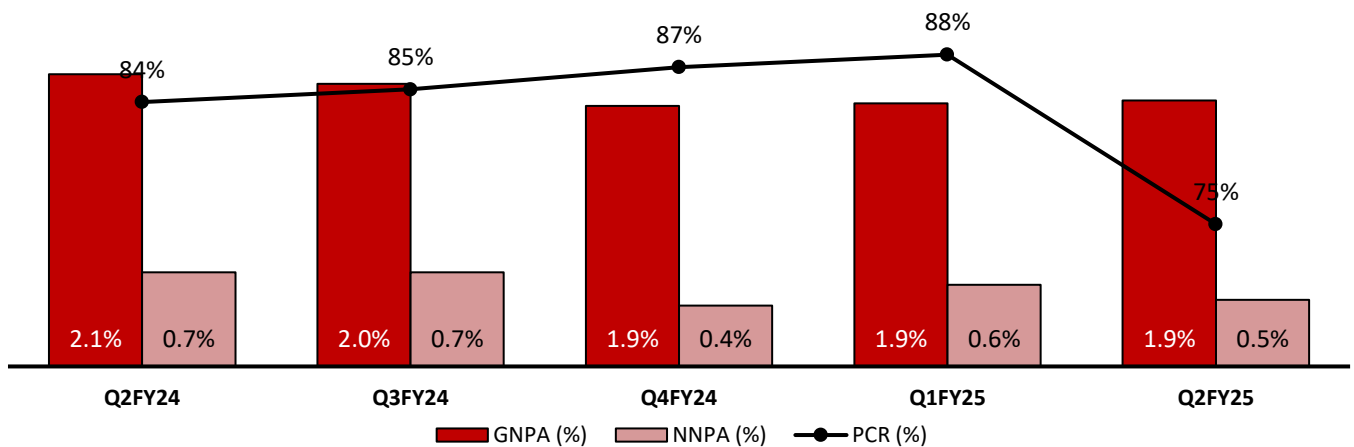
Slight improvement in cost-to-income ratio (%)



ROE and ROA (%)



Stable asset quality (%)



Source: Company, Keynote Capitals Ltd.

Q2 FY25 Conference Call Takeaways

General highlights

- The Bank has created a provisioning buffer of Rs. 5.7 Bn, allocated to the Bank's MFI portfolio (55.5%) and a legacy infrastructure toll road account.
- The Bank established a conservative contingency provision of ~2.5% of the entire MFI portfolio, while a 100% provision was made for the toll road account following the Maharashtra government's withdrawal of toll charges, which affected infrastructure clients.
- During the quarter, both the cost of funds and deposits remained stable. Legacy borrowings were also reduced by Rs. 24 Bn, with further repayments planned for the year.
- Observing a decline in collection discipline within the MFI loan book in FY24, the Bank proactively reduced MFI disbursals from Rs. 42.5 Bn in Q2FY24 to Rs. 20 Bn in Q2FY25.
- Additionally, it initiated CGFMU insurance for its loan book, with 50% coverage in Q2FY25 and plans to increase this to 75% by FY25, enabling a more relaxed provisioning policy.
- The Bank has effectively reduced its cost of funds from 7.8% to 6.3% over five years and has consistently raised capital despite a small branch network.
- The Bank aims to achieve a ROE of 16% over time. While it initially targeted a ROA of 1.4-1.6% by FY25, this goal may be delayed by 2-3 years due to regulatory changes affecting MFI and insurance income.
- Since its merger six years ago, the Bank has successfully transitioned from infrastructure to retail banking, boosting core operating profit from Rs. 11 Bn to Rs. 66 Bn. Management is now focused on improving credit cost management and reducing infrastructure loan exposure for more predictable results over the next five years.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,26,372	1,64,548	1,96,808	2,27,030	2,62,925
Other Income	44,673	59,317	64,947	74,920	86,765
Net Income	1,71,045	2,23,865	2,61,755	3,01,950	3,49,690
Operating Expenses	1,21,082	1,61,477	1,83,228	2,06,836	2,36,041
Pre-Provision Operating Profit	49,962	62,388	78,526	95,114	1,13,649
Provisions	16,648	23,817	48,599	52,229	62,674
Profit Before Tax	33,314	38,572	29,927	42,886	50,975
Tax	8,465	9,148	7,482	10,721	12,744
Profit After Tax	24,849	29,424	22,445	32,164	38,231
EPS	3.8	4.4	3.0	4.3	5.1

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	34.0%	28.2%	22.0%	20.0%	20.0%
Deposit Growth (%)	34.7%	38.8%	30.1%	28.5%	20.0%
NII Growth (%)	27.9%	30.2%	19.6%	15.4%	15.8%
PPOP Growth (%)	40.7%	24.9%	25.9%	21.1%	19.5%
Ratios					
NIM (%)	6.7%	6.8%	6.3%	6.2%	6.4%
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%	48.5%	48.5%	48.0%
ROE (%)	9.6%	9.1%	6.5%	8.5%	9.2%
ROA (%)	1.0%	1.0%	0.6%	0.8%	0.9%
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%	2.3%	2.0%	2.0%
Valuation					
Book Value Per Share		45.6	46.2	50.5	55.6
Adjusted Book Value Per Share		44.0	44.3	48.6	53.7
P/BV (x)		1.7	1.5	1.3	1.2
Price-ABV (x)		1.7	1.5	1.4	1.3

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	66,552	70,699	74,830	74,830	74,830
Reserves & Surplus	1,91,923	2,51,447	2,70,351	3,02,515	3,40,746
Networth	2,58,476	3,22,736	3,45,181	3,77,345	4,15,576
Deposits	14,44,695	20,05,702	26,08,821	33,51,567	40,21,881
Borrowings	5,72,121	5,09,357	5,32,326	1,95,477	1,15,462
Other Liabilities & Provisions	1,23,529	1,24,303	1,20,270	1,25,018	1,30,716
Total Liabilities	23,98,821	29,62,098	36,06,606	40,49,412	44,52,718
ASSETS					
Cash and Balance	1,37,787	1,24,812	3,25,560	2,90,260	1,22,700
Investments	6,09,130	7,45,001	7,54,816	7,54,816	7,54,816
Advances	15,17,945	19,45,924	23,74,027	28,48,832	34,18,599
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	36,06,606	40,49,412	44,52,718

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%
30 th Oct 2024	NEUTRAL	67.6	+8.0%

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

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.