BUY (Maintain)

CMP: **INR 74** Target Price: **INR 95** ▲ 28%

ICICI Securities

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29 July 2024

India | Equity Research | Q1FY25 results review

IDFC FIRST Bank

Banking

Business growth strong; cost income improves, but higher credit costs weigh on RoA

IDFC First Bank (IBFCFB) has reported a broadly in-line set of numbers with strong business growth and better cost income, though higher credit costs (as guided) weighed on PAT (INR 6.8bn) and RoA (down 12bps QoQ to 91bps). NIM was down 13bps QoQ to 6.22%, mostly on higher growth in investment and rise in LCR (to 118% vs. 114% QoQ). Deposits growth (36% YoY) continues to be among the highest across peers and IDFCFB should sustain deposits growth at >2x system growth, in our view. Loan/revenue growth is likely to remain strong at ~22–23% YoY, which coupled with easing opex growth (~20% YoY) should yield an improving cost income trajectory for FY24–26E. Rise in credit costs, as guided earlier, is mostly driven by MFI loans (6% of overall loans). SMA 1+2 book has risen marginally to 1.01% vs. 85bps QoQ. Credit costs are likely to ease in H2FY25 given short tenure of MFI loans and FLDG coming in.

Vintage analysis for month on book (MOB) loans suggests a sharp improvement in 30dpd behavior in the post-Covid book (vs. pre-Covid book). CET 1, including recent capital infusion and interim profits, stood at a comfortable 14.67%. Our estimates are broadly unchanged and we see industry-leading deposits/PAT growth for FY24–26E. We maintain **BUY** with an unchanged TP of INR 95, valuing the stock at ~1.65x FY26E ABV. As detailed here, (link), our target multiple is higher than estimated RoA (~1.3% for FY26) factoring-in industry-leading deposits growth (~2x of system), improving RoA and strong PAT growth. Key risks are higher-than-expected rise in delinquencies impacting profitability. We would also be monitoring deposits traction post the recent tweak in the rates/buckets.

Deposit growth likely to sustain >2x industry growth; loan growth healthy and LDR improves YoY

Deposits growth, up 4.5% QoQ, continues to surprise positively; YoY, at 36%, it is more than double that of the banking system. On a YoY-basis, CASA/term deposits growth is similar; QoQ, CASA growth was reasonable at 3%. CASA's share was flattish YoY, at 46.6%, and marginal down from 47% QoQ.

Gross loans and advances grew 4% QoQ/22% YoY. Growth was strong in home loans (up 10% QoQ), CV/CE (up 6% QoQ) and gold/education loans, off a low base. LAP growth was reasonable at 2% QoQ (on top of 11% QoQ last quarter). Credit card growth moderated QoQ, but is still strong at 7% QoQ.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	126.4	164.5	201.3	242.1
Op. profit (INR bn)	49.3	62.4	83.2	108.3
Net Profit (INR bn)	24.4	29.6	36.6	49.8
EPS (INR)	3.7	4.2	4.9	6.7
EPS % change YoY	1,501.1	13.6	17.1	36.2
ABV (INR)	37.4	44.3	51.0	57.5
P/BV (x)	1.9	1.6	1.4	1.3
P/ABV (x)	2.0	1.7	1.5	1.3
Return on Assets (%)	1.1	1.1	1.1	1.3
Return on Equity (%)	10.4	10.2	10.3	12.0

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Market Data

Market Cap (INR)	557bn
Market Cap (USD)	6,657mn
Bloomberg Code	IDFCFB IN
Reuters Code	IDFB BO
52-week Range (INR)	101 /71
Free Float (%)	55.0
ADTV-3M (mn) (USD)	41.5

Price Performance (%)	3m	6m	12m
Absolute	(12.2)	(7.0)	(12.0)
Relative to Sensex	(22.5)	(22.0)	(33.9)

Earnings Revisions (%)	FY25E	FY26E
PAT	(1)	(1)

Previous Reports

21-05-2024: Company Update
28-04-2024: Q4FY24 results review

The bank has moderated growth in JLG with flattish growth QoQ and a decline since Dec'23. IDFCFB sounded confident of a 5-year CAGR of ~20%. We keep our growth estimates unchanged at 21–22% CAGR for FY24–26E.

LDR improved sharply to 96.6% vs. 108% YoY and was flattish QoQ. IDFCFB shall maintain focus on strong deposits growth to replace borrowing and better LDR further.

NIM declines 13bps QoQ, but opex eases; cost-income improves QoQ

Cost of funds inched-up marginally by 3bps QoQ to 6.47%. NIM declined 13bps QoQ to 6.22%, primarily due to a higher rise in its investment book (up 12% QoQ), as compared to average advances (up 4.6% QoQ). LCR improved QoQ to 118% vs. 114% QoQ. We estimate broadly stable NIM YoY for FY25.

Overall, NII increased 5% QoQ/25% YoY. Core fee income was broadly stable QoQ/increased 19% YoY. Treasury gains came at INR 240mn vs. INR 730mn YoY.

Opex growth moderated to 21% YoY (flat QoQ), within which staff cost grew 16% YoY and non-staff grew 23% YoY. Cost income ratio was flattish YoY, but improved to 70.2% vs. 72.8% QoQ. IDFCFB expects 22–23% growth in revenue and ~20% growth in opex in FY25, leading to improved cost income trajectory. Our estimates are broadly in-line with management expectations. We estimate cost to income improving to 67% by FY26E vs. 72% in FY24.

GNPA/NNPA ratio stable; credit costs rise, but should ease in H2

Gross slippages increased to 3.2% annualized vs. 2.8% QoQ though the rise was on expected lines. Net slippages increased to 2.2% vs. 1.5% QoQ. Headline GNPA ratio was stable at 1.9% vs. 1.88% QoQ. PCR was also stable QoQ and net NPA remained steady at 59bps vs. 60bps QoQ. Restructured book declined to 25bps of assets with 20% PCR.

Credit costs increased to 1.9% vs. 1.5% QoQ, 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; ex-MFI book, credit costs were 1.7%. MFI loans are ~6% of the overall loans.

The rise in MFI book is primarily due to Tamil Nadu floods. The state contributes ~60% of the MFI loans for the bank. The book traditionally has lower NPA (vs. industry) and had credit costs of ~1.6% between Apr'22–Dec'23. The bank expects elevated credit costs in Q2 as well, but H2FY25 should see lower credit costs. For retail, rural and MSME book, SMA 1+2 loan proportion increased to 1.01% vs. 85bps.

IDFCFB has also shared its vintage analysis of retail, rural and SME book. The analysis suggests sharp improvement in 30dpd behaviour of the book for across MOB (month on book) basis. We model gross slippages at 2.7%/2.5% of loans for FY25E/26E.

Other highlights

The merger with parent IDFC limited is likely to be consummated in Q2. This could add INR 5–6bn to its net-worth. Our net-worth estimates do not factor this in yet.

The bank has tweaked its savings offering recently. It now offers 3% for all balances up to INR 0.5mn. The rate rises to 7.25% for balances above INR 0.5mn to up to INR 500mn. IDFCFB believes net impact should be neutral to positive on costs. We would be monitoring deposits traction (quantum) more closely post the change in the bucket.

The bank has introduced new guidance on the cost income front. It expects cost income to improve to 65% for FY27.

Exhibit 1: Q1FY25 result review

	Q1FY24	Q1FY25	YoY (%)	Q4FY24	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	68,677	87,886	28.0	82,192	6.9
Interest Expended	31,226	40,937	31.1	37,503	9.2
Net Interest Income	**37,451**	**46,949**	**25.4**	**44,689**	**5.1**
Other Income	14,138	16,192	14.5	16,420	(1.4)
Total Income	82,815	1,04,078	25.7	98,612	5.5
Total Net Income	**51,589**	**63,141**	**22.4**	**61,109**	**3.3**
Staff Expenses	11,528	13,374	16.0	13,280	0.7
Other operating expenses	25,059	30,943	23.5	31,190	(0.8)
Operating Profit	**15,003**	**18,825**	**25.5**	**16,639**	**13.1**
Provision & Contingencies	4,762	9,944	108.8	7,223	37.7
Provision for tax	2,590	2,074	(19.9)	2,173	(4.5)
Reported Profit	**7,652**	**6,807**	**(11.0)**	**7,243**	**(6.0)**
Other Highlights (INR bn)	**Q1FY24**	**Q1FY25**	**YoY (%)**	**Q4FY24**	**QoQ (%)**
Loans	1,674	2,026	21.0	1,518	33.4
Deposits	1,544	2,097	35.8	1,446	45.0
Gross NPA	36	39.0	8.3	38.8	0.5
Gross NPA (%)	2.2	1.9	-27 bps	2.5	-61 bps
Net NPA	11	12.0	4.0	13.0	-8.3
Net NPA (%)	0.7	0.6	-11 bps	0.9	-27 bps
Provision Coverage (%)	68.1	69.4	127 bps	66.4	296 bps

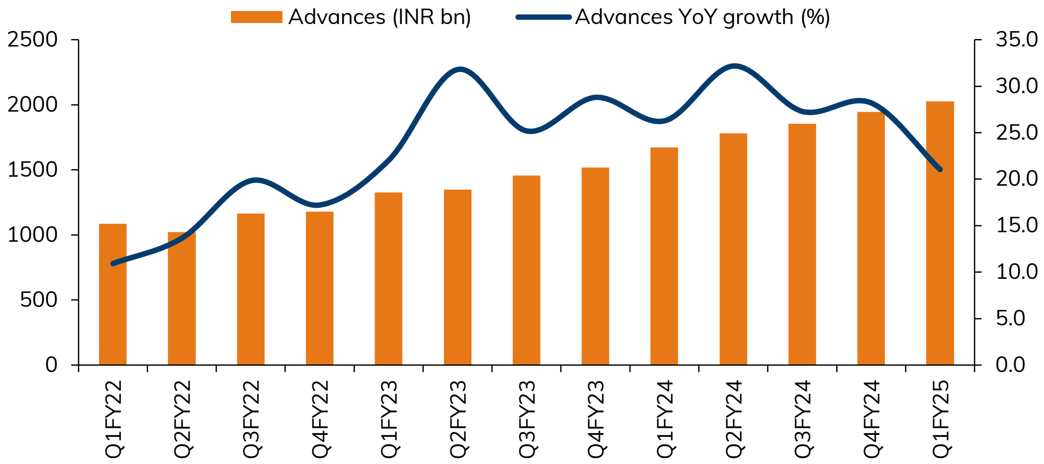
Source: Company data, I-Sec research

Exhibit 2: Total funded assets mix

(INR mn)	Q1FY24	Q4FY24	Q1FY25	YoY %	QoQ %	Mix (%)
Consumer finance (Personal finance)	**9,73,280**	**11,91,310**	**12,55,900**	**29%**	**5%**	**60%**
Home loan	2,01,390	2,23,250	2,46,580	22%	10%	12%
LAP	2,01,030	2,42,470	2,47,290	23%	2%	12%
Wheels	1,63,650	2,08,270	2,18,240	33%	5%	10%
Consumer Loans	2,23,290	2,64,990	2,78,280	25%	5%	13%
Digital, Gold and others	1,44,990	1,96,870	2,06,130	42%	5%	10%
Credit Card	38,930	55,460	59,380	53%	7%	3%
Rural Finance	**2,07,440**	**2,38,820**	**2,45,180**	**18%**	**3%**	**12%**
SME & corporate finance (Business finance)	**4,97,490**	**5,51,220**	**5,64,860**	**14%**	**2%**	**27%**
Corporate	2,76,620	3,03,060	3,15,080	14%	4%	15%
CV/CE	42,470	62,860	66,740	57%	6%	3%
Business Banking	53,540	74,050	75,900	42%	2%	4%
Others	1,24,860	1,11,250	1,07,140	-14%	-4%	5%
Infrastructure	37,580	28,300	27,660	-26%	-2%	1%
Total Funded Assets	**17,15,780**	**20,09,650**	**20,93,600**	**22%**	**4%**	**100%**

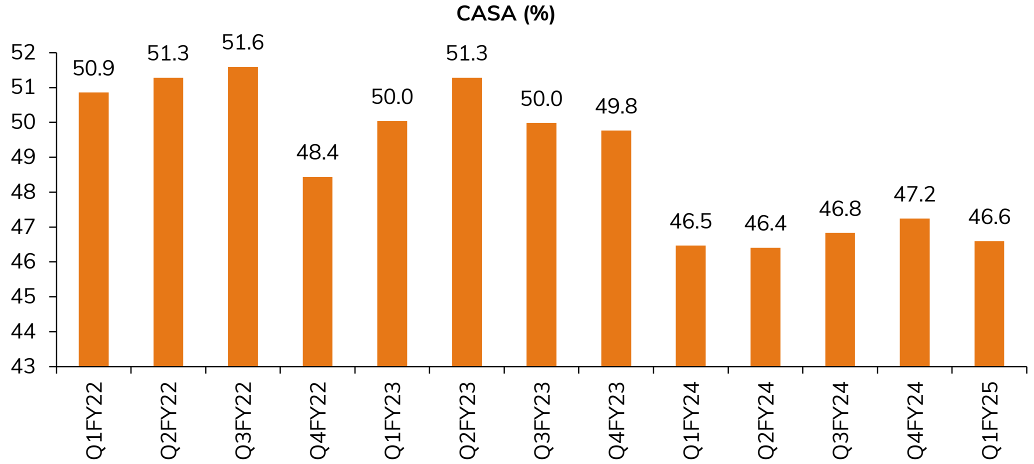
Source: Company data, I-Sec research

Exhibit 3: Advances growing at a steady pace



Source: Company data, I-Sec research

Exhibit 4: CASA ratio down, but remains strong at >45%



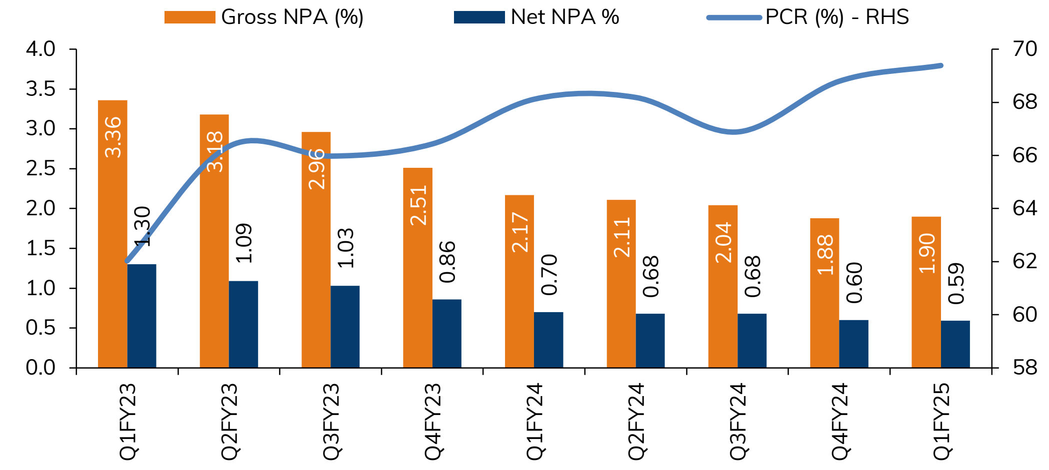
Source: Company data, I-Sec research

Exhibit 5: Continues to run down the legacy high-cost long-term borrowings

In Rs. Cr	Balance		Run off Schedule				RoI (%)
	As on Jun-23	As on Jun-24	Q2-FY25	H2-FY25	FY26	Beyond FY26	
Infrastructure Bonds	6,901	5,306	1,777	2,710	819	-	8.95%
Long Term Legacy Bonds	6,149	4,129	237	394	3,498	-	8.88%
Other Bonds	1,146	648	25	-	298	326	9.13%
Refinance	1,860	-	-	-	-	-	-
Total	**16,055**	**10,084**	**2,039**	**3,104**	**4,614**	**326**	**8.93%**

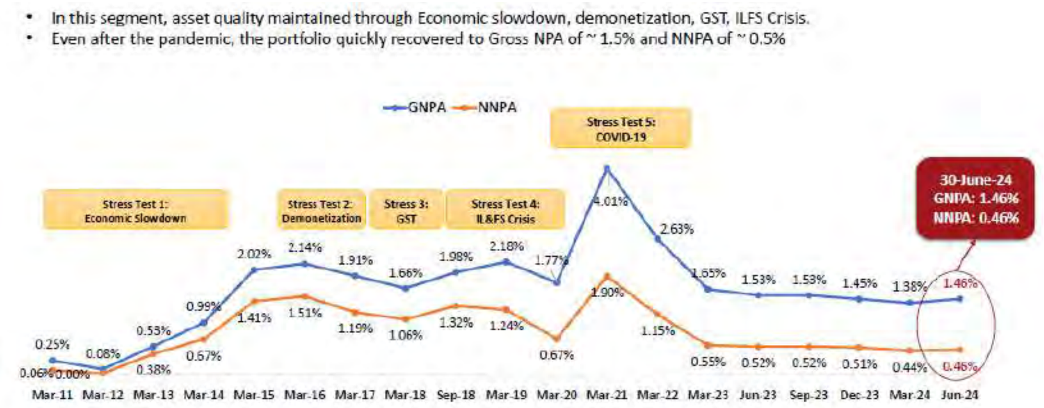
Source: Company data, I-Sec research

Exhibit 6: Headline GNPA and NNPA ratios stable



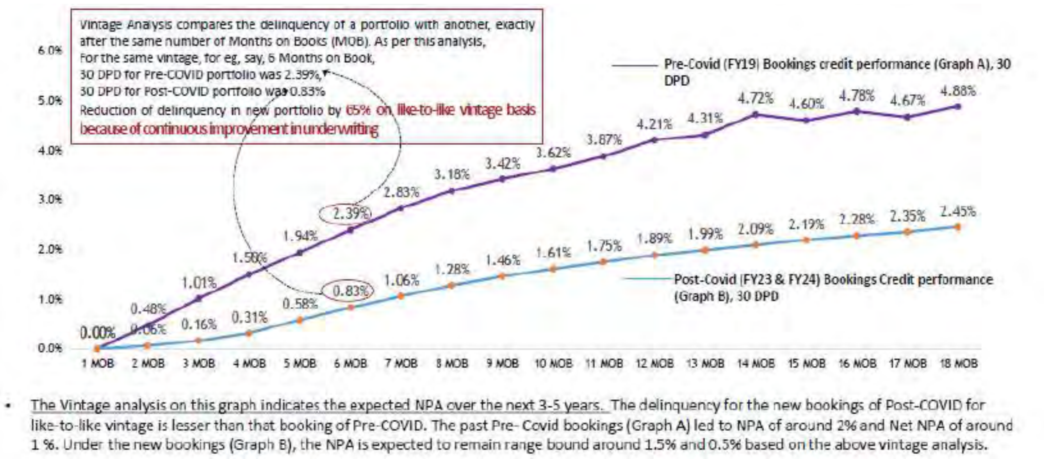
Source: Company data, I-Sec research

Exhibit 7: Maintained high retail asset quality GNPA of ~2% and NNPA of ~1% for a decade across cycles



Source: Company data, I-Sec research

Exhibit 8: Vintage analysis – retail, rural and SME book, 30 DPD (excluding JLG)



Source: Company data, I-Sec research

Exhibit 9: Product-wise GNPA and NNPA

Retail, rural and MSME product segments continue to have low NPA ratios

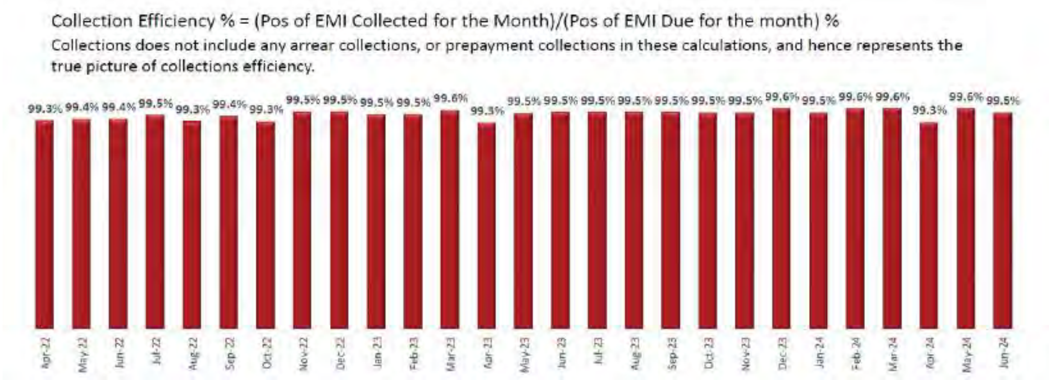
Segment	Gross Advances Breakup (Rs. Crore)	Gross NPA	Net NPA
Home Loan	24,658	0.67%	0.31%
Loan Against Property	24,729	1.57%	0.67%
Vehicles	21,824	1.62%	0.63%
Consumer Loans	30,215	1.86%	0.55%
Rural Finance	24,518	1.20%	0.20%
Digital, Gold & Others	18,226	1.91%	0.43%
Credit Cards	5,938	1.89%	0.44%
MSME Finance	23,688	1.30%	0.43%
Corporate (Non-Infra)	29,128	2.46%	0.24%
Infrastructure Finance	2,658	24.75%	14.32%
Overall Bank	2,05,583	1.90%	0.59%
Bank (Excluding Infra)	2,02,924	1.60%	0.43%

Retail, Rural & MSME	
Gross NPA	Net NPA
1.46%	0.46%

- The significant and growing part of the book, i.e. the Retail, Rural and MSME business financing business has low NPA levels because of high-quality underwriting, credit bureaus, technology, cash-flow based lending capabilities.

Source: Company data, I-Sec research

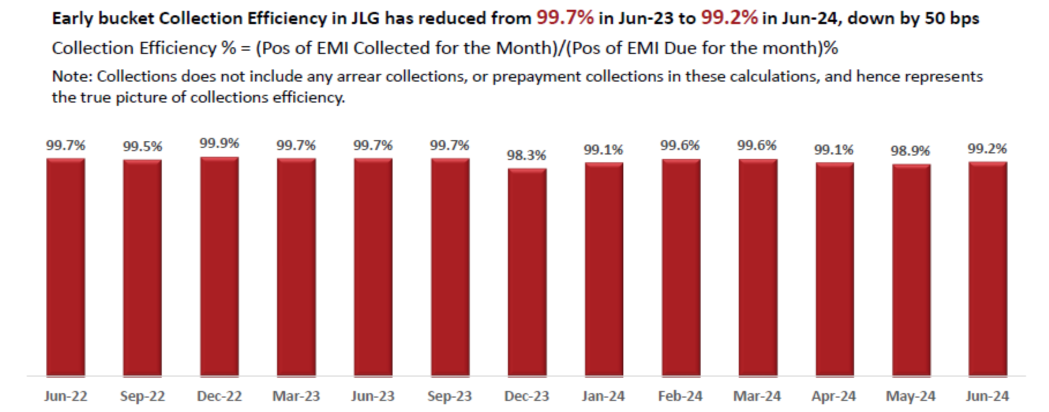
Exhibit 10: Collection efficiency is broadly steady



Source: Company data, I-Sec research

Numbers pertain to collection efficiency in current bucket in Retail portfolio (excluding rural financing) which is the majority of the Book. Similar experience is observed in the Rural financing also, excluding JLG

Exhibit 11: JLG collection efficiency moderated, but it is ~6% of the overall book

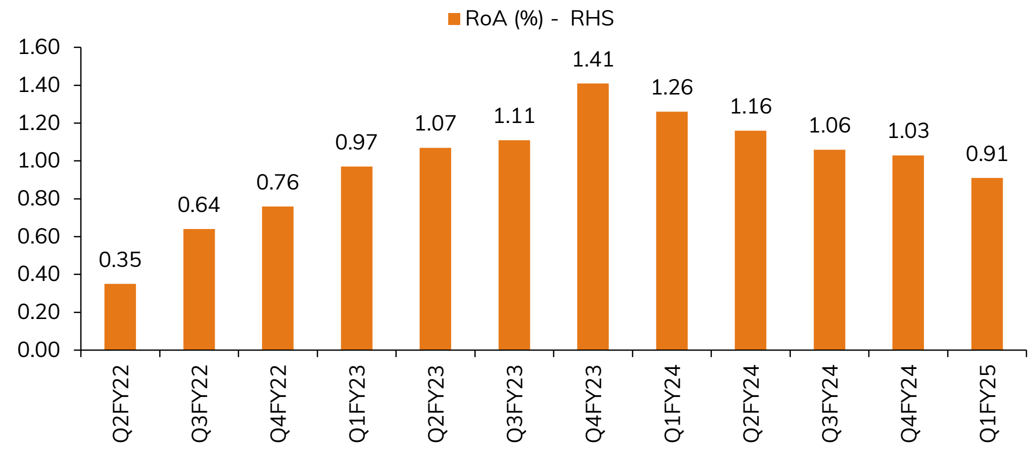


Source: Company data, I-Sec research

Exhibit 12: SMA 1+2 of total retail, rural and MSME book

Source: Company data, I-Sec research

Exhibit 13: RoA declined to <1% despite improvement in cost income



Source: Company data, I-Sec research

Exhibit 14: Launched and scaled up many new products in the last 2 years

Retail Assets	Commercial Credit & Wholesale Banking	Rural Products	Retail Fee Businesses
Prime Home Loans	Commercial Vehicle Loans	Gold Loans	Wealth Management
New Car Loans	Construction Equipment Loans	KCC	FASTag
Credit Card	Cash Management	Agri / Farmer Loans	Forex Card
Digital Loans	Trade Finance	Tractor Loans	
Education Loans	Forex Solutions		
	Transaction Banking		

Source: Company data, I-Sec research

Exhibit 15: Guidance 2.0 (FY24–29)

Particulars	31-Dec-2018	31-Dec-2023	5 Year CAGR (%)	31-Mar-2029
Deposits	First 5 years since after merger			
Branches (#)	206	897	34%	1700-1800
Customer Deposits (Rs Cr)	38,455	176,481	36%	585,000
- CASA Deposits (Rs Cr)	5,274	85,492	75%	2,85,000
- Term Deposits (Rs Cr)	33,181	90,990	22%	3,00,000
Assets				
Loans & Advances** (Rs Cr)	104,660	1,89,475	13%	5,00,000
Total Assets (Rs Cr)	156,916	270,738	12%	7,00,000
Asset quality				
GNPA %	1.97%	2.04%	-	1.5%
NNPA %	0.95%	0.68%	-	0.4%
Profitability				
Profit (Rs Cr)	-1,568	2,232*	-	12,000 – 13,000
ROA %	-	1.2%	-	1.9-2.0%
ROE %	-	10.7%	-	17-18%

- The Bank has exceeded or met or most likely to meet most targets as provided under Guidance 1.0.
- We have a strong proven business model that is incrementally very profitable.
- We are building a world class bank with highest levels of corporate governance, a consistent balance sheet growth of ~20%, with strong asset quality of GNPA < 1.5% and net NPA of < 0.4%, with ROE of 17-18%, with contemporary technology, unique business model, and high levels of Customer Centricity.

Source: Company data, I-Sec research

* for 9MFY24

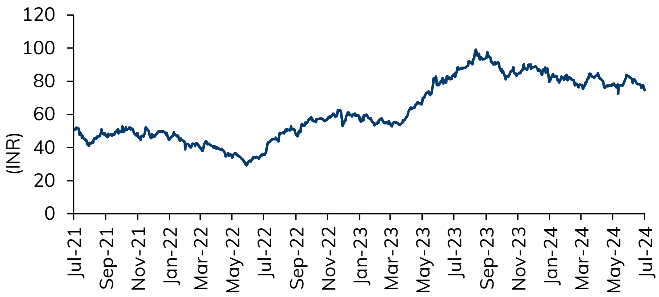
** including credit substitute

Exhibit 16: Shareholding pattern

%	Dec'24	Mar'24	Jun'24
Promoters	37.5	37.4	35.4
Institutional investors	30.9	30.5	32.6
MFs and other	3.4	2.7	3.3
FIs/ Banks	0.1	0.0	0.5
Insurance Cos.	2.5	3.6	8.9
FIIs	24.9	24.2	19.9
Others	31.6	32.1	32.0

Source: Bloomberg, I-Sec research

Exhibit 17: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	2,27,275	3,03,225	3,74,348	4,47,554
Interest expense	1,00,922	1,38,718	1,73,030	2,05,503
Net interest income	**1,26,353**	**1,64,508**	**2,01,318**	**2,42,051**
Non-interest income	44,670	60,020	74,155	89,736
Operating income	**1,71,023**	**2,24,528**	**2,75,473**	**3,31,787**
Operating expense	1,21,704	1,62,158	1,92,267	2,23,504
Staff expense	37,422	48,925	57,243	65,257
Operating profit	**49,320**	**62,370**	**83,206**	**1,08,282**
Core operating profit	**46,139**	**58,870**	**80,206**	**1,04,782**
Provisions & Contingencies	16,648	23,817	34,778	41,690
Pre-tax profit	**32,671**	**38,553**	**48,428**	**66,593**
Tax (current + deferred)	8,300	8,988	11,865	16,781
Net Profit	**24,371**	**29,565**	**36,563**	**49,811**
Adjusted net profit	**24,371**	**29,565**	**36,563**	**49,811**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Cash and balance with RBI/Banks	1,38,980	1,24,802	1,99,709	2,44,897
Investments	6,11,236	7,47,104	8,52,924	9,78,903
Advances	15,17,945	19,45,924	23,95,829	28,73,019
Fixed assets	20,901	26,194	29,727	33,711
Other assets	1,10,355	1,17,127	1,34,680	1,55,083
Total assets	**23,99,417**	**29,61,151**	**36,12,868**	**42,85,614**
Deposits	14,46,373	20,05,763	25,91,223	31,87,434
Borrowings	5,72,121	5,09,356	4,81,219	4,67,750
Other liabilities and provisions	1,23,711	1,24,419	1,50,250	1,90,442
Share capital	66,181	70,699	74,668	74,668
Reserve & surplus	1,91,030	2,50,914	3,15,508	3,65,320
Total equity & liabilities	**23,99,417**	**29,61,151**	**36,12,868**	**42,85,614**
% Growth	26.2	23.4	22.0	18.6

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
Adjusted EPS	3.7	4.2	4.9	6.7
Book Value per share	39	45	52	59
Adjusted BVPS	37	44	51	57
Valuation ratio				
PER (x)	20.2	17.8	15.2	11.2
Price/ Book (x)	1.9	1.6	1.4	1.3
Price/ Adjusted book (x)	2.0	1.7	1.5	1.3
Dividend Yield (%)	-	-	-	-
Profitability ratios (%)				
Yield on advances	14.2	15.0	14.7	14.5
Yields on Assets	10.6	11.3	11.4	11.3
Cost of deposits	5.0	5.9	5.9	5.8
Cost of funds	4.7	5.2	5.3	5.2
NIMs	6.3	6.5	6.5	6.4
Cost/Income	71.2	72.2	69.8	67.4
Dupont Analysis (as % of Avg Assets)				
Interest Income	10.6	11.3	11.4	11.3
Interest expended	4.7	5.2	5.3	5.2
Net Interest Income	**5.9**	**6.1**	**6.1**	**6.1**
Non-interest income	2.1	2.2	2.3	2.3
Trading gains	0.1	0.1	0.1	0.1
Fee income	1.9	2.1	2.2	2.2
Total Income	8.0	8.4	8.4	8.4
Total Cost	**5.7**	**6.1**	**5.8**	**5.7**
Staff costs	1.7	1.8	1.7	1.7
Non-staff costs	3.9	4.2	4.1	4.0
Operating Profit	2.3	2.3	2.5	2.7
Core Operating Profit	**2.1**	**2.2**	**2.4**	**2.7**
Non-tax Provisions	0.8	0.9	1.1	1.1
PBT	1.5	1.4	1.5	1.7
Tax Provisions	0.4	0.3	0.4	0.4
Return on Assets (%)	**1.1**	**1.1**	**1.1**	**1.3**
Leverage (x)	9.2	9.3	9.2	9.5
Return on Equity (%)	**10.4**	**10.2**	**10.3**	**12.0**
Asset quality ratios (%)				
Gross NPA	2.5	1.9	1.7	1.8
Net NPA	0.9	0.6	0.5	0.5
PCR	66.4	68.8	70.0	72.0
Gross Slippages	3.9	3.5	3.3	2.7
LLP / Avg loans	1.9	1.7	1.7	1.6
Total provisions / Avg loans	1.2	1.4	1.6	1.6
Net NPA / Networth	5.1	3.6	3.2	3.3
Capitalisation ratios (%)				
Core Equity Tier 1	14.2	13.3	12.5	12.0
Tier 1 cap. adequacy	14.2	13.4	13.7	13.0
Total cap. adequacy	16.8	16.1	16.5	15.9

Source Company data, I-Sec research

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