RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

India's growth continues to impress

IDFC FIRST BANK | TARGET: Rs 96 | +19% | BUY

Ambitious growth outlook

Daily macro indicators

Indicator	07-Mar	08-Mar	Chg (%)
US 10Y yield (%)	4.08	4.07	(1bps)
India 10Y yield (%)	7.06	7.03	(2bps)
USD/INR	82.83	82.79	0.1
Brent Crude (US$/bbl)	83.0	82.1	(1.1)
Dow	38,791	38,723	(0.2)
Hang Seng	16,230	16,353	0.8
Sensex	74,086	74,119	0.0
India FII (US$ mn)	**05-Mar**	**06-Mar**	**Chg ($ mn)**
FII-D	96.2	276.4	180.3
FII-E	(26.7)	685.6	712.3

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

India's high frequency growth indicators remained broadly resilient. Electricity demand, non-oil-non-gold imports, PMI data and credit offtake showed resilience. On fiscal front, consolidation is underway. The biggest announcement of the month is India's inclusion in the Bloomberg EM Index. Already positive sentiments have resulted in increased debt inflows which has supported yields.Thus, India's 10Y yield may soon reach below the 7% mark. From Jun'24 onwards, with inclusion into the JP Morgan Index, further downward pressure on yields cannot be ruled out. The macro environment of moderation in inflation and easing cycle by RBI going forward, also supports narrative of a lower yields in the near to medium term.

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IDFC FIRST BANK

- Management targets credit/deposit CAGR of 20%/25% over FY24-FY29; NIM to stabilise at current mark with upward bias (6.4% in Q3FY24)
- Strategic realignment of balance sheet to improve overall performance but bank still lags in operational efficiencies, in our view
- We expect 31% PAT CAGR over FY23-FY26 and assume coverage with BUY and TP of Rs 96 (1.6x FY26E ABV)

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India's growth continues to impress

India's high frequency growth indicators remained broadly resilient. Electricity demand, non-oil-non-gold imports, PMI data and credit offtake showed resilience. On fiscal front, consolidation is underway. The biggest announcement of the month is India's inclusion in the Bloomberg EM Index. Already positive sentiments have resulted in increased debt inflows which has supported yields.Thus, India's 10Y yield may soon reach below the 7% mark. From Jun'24 onwards, with inclusion into the JP Morgan Index, further downward pressure on yields cannot be ruled out. The macro environment of moderation in inflation and easing cycle by RBI going forward, also supports narrative of a lower yields in the near to medium term.

Domestic demand showing momentum: The recent estimates for Q3FY24 GDP highlighted a pickup in private consumption (3.5% form 2.4% in Q2). Some high frequency indicators such as electricity demand, non-oil-non-gold imports along with digital payments have also registered improvement in the month of Jan'24. Robust GST collections, strong manufacturing PMI and buoyancy in credit growth bode well for domestic growth. On rural front, agriculture growth contracted by (-) 0.8% in Q3FY24 after increasing by 1.6% in Q2. According to the 2nd advance estimates, wheat output is expected at a record high of 112 mn tonnes from 110.5mn tonnes in 2022-23. The rabi foodgrain production is estimated to be marginally lower than last year and the kharif foodgrain production is pegged to grow at a steady pace as last year.

Health of centre's finances: Centre's fiscal deficit ratio (% of GDP, 12MMA) settled at 5.7% as of Jan'24 compared with 6.0% as of Dec'23, on account of further slowdown in spending. In FYTD24 (Apr'23-Jan'24), centre's overall spending momentum eased to 5.9% versus 7.1% as of Dec'23. This was mainly driven by slowdown in revenue spending (1.4% versus 2.5%). Capex also moderated (26.5% versus 28.4%). On the income side, centre's net revenue receipts rose by 15.5%, compared with 13.3% growth seen as of Dec'23. This was driven by jump in direct tax collections (48.1% versus 17.2%). On the other hand, indirect tax collections slowed (4.9% versus 7.1%). Within direct taxes, both income and corporate receipts picked up pace.

A sub 7% mark for yield seems likely: In Feb'24 and Mar'24 (till 7Th), India's 10Y yield has fallen by 11bps. Much of this fall is attributable to buoyant foreign flows (FII debt inflows in Feb and Mar totalled US$ 3.1bn). Inclusion of India in the Bloomberg EM Index also boosted investor sentiments. Liquidity condition of the system also turned favourable with a pickup in government spending towards the end of financial year. Liquidity moved from a deficit of Rs 1.9 lakh crore (average) in Feb'24 to a surplus of Rs 599 crore (average) in Mar'24. Going forward, all the macro conditions point towards India's 10Y yield touching below the 7% mark in the near term.

INR to trade with an appreciating bias: INR appreciated by 0.2% in Feb'24 and is trading at a 6-month high in Mar'24. India's strong macroeconomic performance has been underlining the strength in INR in recent times. This is supplemented by robust FPI inflows, especially in the debt segment. With India now being included in the Bloomberg global index as well, FPI inflows are likely to see further pick up. Along with this, Fed Chair also gave a clear indication of rate cuts, which will also benefit INR. Hence, we expect INR to appreciate further. However, the gains will continue to be gradual.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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BUY
TP: Rs 96 | ⮝ 19%

IDFC FIRST BANK | Banking | 11 March 2024

Ambitious growth outlook

- **Management targets credit/deposit CAGR of 20%/25% over FY24-FY29; NIM to stabilise at current mark with upward bias (6.4% in Q3FY24)**
- **Strategic realignment of balance sheet to improve overall performance but bank still lags in operational efficiencies, in our view**
- **We expect 31% PAT CAGR over FY23-FY26 and assume coverage with BUY and TP of Rs 96 (1.6x FY26E ABV)**

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Bank aims to achieve strong business growth: Since it merged with IDFC, IDFCBK delivered strong business growth (moving from institutional lending to retail business) with the focus on reducing high-cost funds to improve margin (infrastructure book constitutes 1.6% in Q3FY24 from 19.4% in FY19). In line with strategy, IDFCBK's advances/deposits rose at a healthy 21%/27% CAGR over FY19-FY23, while its current guidance targets credit/deposit CAGR of 20%/25% over FY24-FY29.

SME and retail portfolios to drive growth: Baking in IDFCBK's track record and industry dynamics, we assume a credit/deposit CAGR of 24%/31% over FY23-FY26. We expect strategic growth in the loan book to be driven by the SME and retail portfolios, likely aiding NIM. Along with strong deposit growth, IDFCBK has a healthy CASA ratio of 47% in Q3FY24 (the highest among peers) which also supports NIM.

Stable NIM, C/I to improve: The steady decline in high-cost funding sources and focus on retail assets helped the bank improve NIM by 10bps QoQ to 6.4% in Q3FY24. Management has guided for NIM to stay at the current level. IDFCBK's focus on granularity kept its operational cost elevated and its C/I ratio for Q3 stood at 73% (industry's highest). Management expects business volume leverage to be effective post FY25 substantially improving operational efficiencies. We model for a 25% NII CAGR through to FY26 with the C/I ratio improving to 68% by FY26.

Stable asset quality: The bank's conservative approach on asset quality led to substantial improvements in GNPA and NNPA to 2.0%/0.7% in Q3FY24 vs. 2%/1% in FY19. The restructured/SMA book at 0.35%/0.85% provide confidence on asset health. Credit cost at 1.4% seems healthy. We expect its asset quality to remain stable with a GNPA/NNPA of 2.1%/0.7% over FY26 with a PCR of 69%.

BUY, TP Rs 96: Better operational efficiencies would be key to improving ROA/ROE (1.4%/14% in FY26E). Considering sustainable growth and stable asset quality, we assume coverage with BUY, valuing the stock at 1.6x FY26E ABV using the Gordon Growth Model.

Key changes

Target	Rating
▲	▲

Ticker/Price	IDFCBK IN/Rs 81
Market cap	US$ 6.6bn
Free float	63%
3M ADV	US$ 37.8mn
52wk high/low	Rs 101/Rs 52
Promoter/FPI/DII	37%/24%/7%

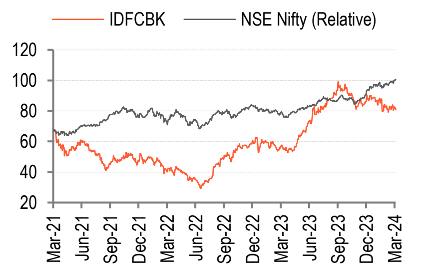
Source: NSE | Price as of 7 Mar 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	126,353	163,866	200,771
NII growth (%)	30.2	29.7	22.5
Adj. net profit (Rs mn)	24,371	29,772	37,498
EPS (Rs)	3.8	4.5	5.6
Consensus EPS (Rs)	3.8	4.7	5.8
P/E (x)	21.3	18.1	14.5
P/BV (x)	2.1	1.7	1.5
ROA (%)	1.1	1.1	1.2
ROE (%)	10.4	10.3	11.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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