

BUY

TP: Rs 75 | ▲ 20%

IDFC FIRST BANK

| Banking

| 27 January 2025

Subdued performance, elevated provisioning

- Earnings lower on account of higher slippages, moderate loan book growth
- NIMs was lower on account of decline in the MFI business and increase in the share of wholesale banking business
- Revise our estimates and multiples and maintain BUY with lower TP of Rs 75 (1.3x Dec'26E)

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Moderate business growth: IDFCBK reported weak performance with PAT declining by 53% YoY (up 69% QoQ) which came in at Rs 3.4bn in Q3FY25 vs. Rs 4.9bn. This was primarily due to lower-than-expected NII growth and advances. NII grew a moderate 14% YoY (growth in Q2 was 21% YoY, Q1 was 25% YoY). Lower growth in advances impacted NII growth. Loan book grew 20% YoY (4% QoQ). The bank continues to degrow its MFI book which currently constitutes to 4.8% of the overall loan book as on Dec'24.

Stable opex: Opex growth was slower which grew by 16% YoY aided by cost rationalisation measures adopted by the bank. Cost to income ratio stood at 73.7% in Q3FY25 vs. 69.9% in Q2FY25. It is expected to grow by 13% with ratio to improve to 65% going ahead.

NIMs declined: NIMs contracted by 14bps QoQ to 6.04% on account of decline in the MFI business and increase in the share of wholesale banking business which moved to 17% from 16% in Q2FY25 of the overall loan book.

Asset quality: Both GNPA and NNPA increased by 2bps QoQ to 1.94% and 4bps to 0.52% QoQ on account of slippages in the MFI book. Out of Rs 21.9bn in slippages during the quarter, ~Rs 4.4bn (20% of the total slippages) came from the MFI book. Slippages from retail, MSME, agri and corporate loans remained stable at Rs 1.8bn.

Assume coverage with a BUY on IDFCBK: Although the bank posted a weak set of numbers during the quarter, we believe business momentum would continue to be healthy going ahead. We believe the advances would grow at a CAGR of ~21% in FY24-FY27E going forward. The bank's focus on operational efficiencies would be key to improving ROA to be 1-1.1% in FY25-FY27E. Considering sustainable growth and the bank's stable asset quality, we value it at 1.3x Dec'26 ABV (1.5x earlier) and lower our TP to Rs 75 (from Rs 90).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IDFCBK IN/Rs 62
Market cap	US\$ 5.3bn
Free float	65%
3M ADV	US\$ 22.6mn
52wk high/low	Rs 86/Rs 59
Promoter/FPI/DII	35%/20%/13%

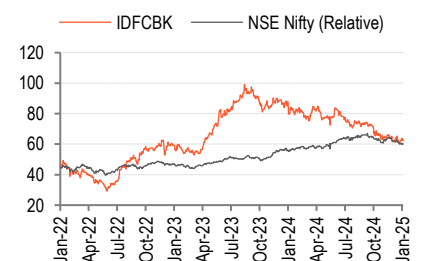
Source: NSE | Price as of 24 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	1,64,508	1,96,011	2,37,361
NII growth (%)	30.2	19.2	21.1
Adj. net profit (Rs mn)	29,565	20,637	40,277
EPS (Rs)	4.3	2.9	5.5
Consensus EPS (Rs)	4.3	5.8	7.8
P/E (x)	14.4	21.7	11.3
P/BV (x)	1.4	1.2	1.1
ROA (%)	1.1	0.6	1.0
ROE (%)	10.2	5.8	9.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Income Statement							
Interest Income	67,475	69,995	73,672	75,810	79,151	17.3	4.4
Income on investments	10,354	11,730	13,276	12,818	13,135	26.9	2.5
Int. on bal. with RBI & inter-bank funds & Others	966	467	938	942	1,144	18.4	21.4
Interest income	78,794	82,192	87,886	89,569	93,430	18.6	4.3
Interest expense	35,928	37,503	40,937	41,691	44,410	23.6	6.5
Net interest income	42,866	44,689	46,949	47,879	49,021	14.4	2.4
Growth YoY (%)	30.5	24.2	25.4	21.2	14.4		
Non-interest income	15,166	16,420	16,192	17,273	17,799	17.4	3.0
Growth YoY (%)	31.6	17.5	14.5	20.8	17.4		
Total income	58,031	61,109	63,141	65,152	66,819	15.1	2.6
Growth YoY (%)	30.8	22.4	22.4	21.1	15.1		
Staff expenses	12,217	13,280	13,374	14,241	14,203	16.3	(0.3)
Other operating expenses	30,190	31,190	30,943	31,292	35,026	16.0	11.9
Operating expenses	42,407	44,470	44,316	45,533	49,230	16.1	8.1
Pre-Provisioning Profit (PPoP)	15,625	16,639	18,825	19,619	17,589	12.57	(10.3)
Growth YoY (%)	23.9	6.8	25.5	29.9	12.6		
Provisions	6,548	7,223	9,944	17,319	13,379	104.3	(22.8)
Growth YoY (%)	45.4	49.7	108.8	227.8	104.3		
PBT	9,077	9,416	8,881	2,299	4,210	(53.6)	83.1
Tax	1,920	2,173	2,074	292	816	(57.5)	179.2
PAT	7,157	7,244	6,807	2,007	3,394	(52.6)	69.1
Growth YoY (%)	18.4	(9.8)	(11.0)	(73.3)	(52.6)		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	1	1	1	0	0	(54.9)	70.4
Book Value (Rs)	47	45	47	49	52	10.4	4.7

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Deposits	18,25,490	20,05,763	20,96,663	22,36,067	23,68,778	29.8	5.9
Growth YoY (%)	37.2	38.7	35.8	30.6	29.8		
Advances	18,55,030	19,45,924	20,25,681	21,50,613	22,31,039	20.3	3.7
Growth YoY (%)	26.1	28.2	21.0	23.0	20.3		
Investment	6,03,960	7,47,104	7,36,242	7,63,283	8,10,331	34.2	6.2
Equity	3,14,510	3,21,613	3,34,434	3,68,906	3,78,009	20.2	2.5
Assets	27,07,380	29,61,151	30,68,192	32,04,417	33,58,506	24.1	4.8
Growth YoY (%)	22.3	23.4	23.2	21.1	24.1		
Yield (%)							
Yield on Funds	12.40	12.20	12.23	11.96	11.94	(46bps)	(2bps)
Cost of Funds	6.36	6.26	6.38	6.28	6.42	6bps	15bps
Spread	6.04	5.94	5.85	5.68	5.52	(52bps)	(17bps)
Net Interest Margin (Cal)	6.75	6.63	6.53	6.39	6.27	(48bps)	(13bps)
Ratios (%)							
Other Income / Net Income	26.1	26.9	25.6	26.5	26.6	50bps	12bps
Cost to Income ratio	73.1	72.8	70.2	69.9	73.7	60bps	379bps
CASA ratio	46.8	47.2	46.6	48.9	47.7	90bps	(114bps)
C/D ratio	101.6	97.0	96.6	96.2	94.2	(743bps)	(199bps)
Investment to Assets	22.3	25.2	24.0	23.8	24.1	182bps	31bps
Assets Quality							
GNPA	37,754	37,184	39,042	41,952	43,993	16.5	4.87
NNPA	12,503	11,605	11,953	10,376	11,620	(7.1)	12.0
Provision	25,251	25,579	27,089	31,576	32,374	28.2	2.5
GNPA (%)	2.04	1.88	1.90	1.92	1.94	(10bps)	2bps
NNPA (%)	0.68	0.60	0.59	0.48	0.52	(16bps)	4bps
Provision (%)	66.9	68.8	69.4	75.3	73.6	671bps	(168bps)
Slippages	0.80	0.73	0.85	1.00	1.02	22bps	2bps

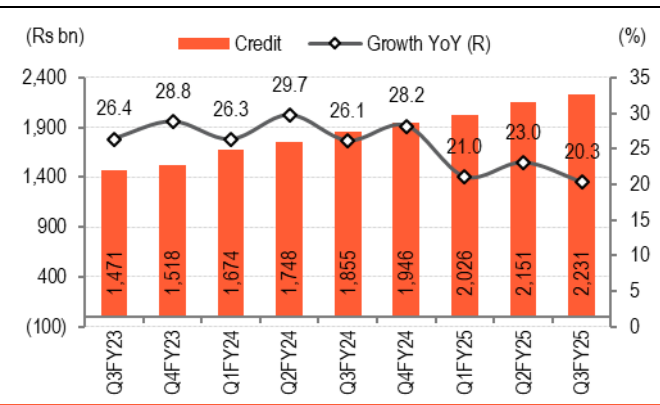
Source: Company, BOBCAPS Research

Fig 3 – Actual vs. Estimates

(Rs mn)	Q3FY25A	Q3FY25E	Actual vs. Estimates (%)
Loan	22,31,039	22,81,687	(2.2)
Deposits	23,68,778	23,45,755	1.0
Assets	33,58,506	33,58,202	0.0
NII	49,021	49,654	(1.3)
PPOP	17,589	20,272	(13.2)
Provision	13,379	13,851	(3.4)
PAT	3,394	4,912	(30.9)

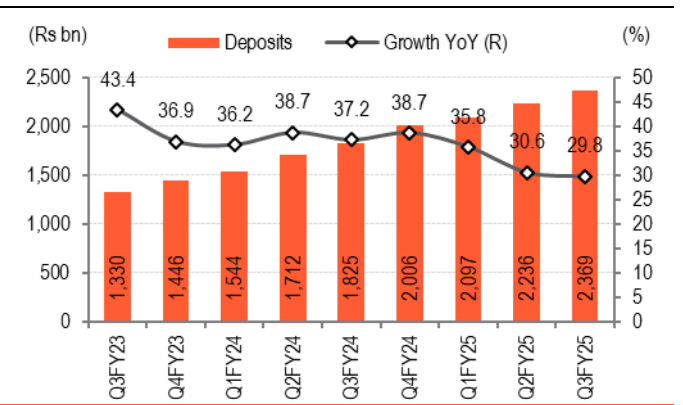
Source: Company, BOBCAPS Research

Fig 4 – Credit moderates on seasonality



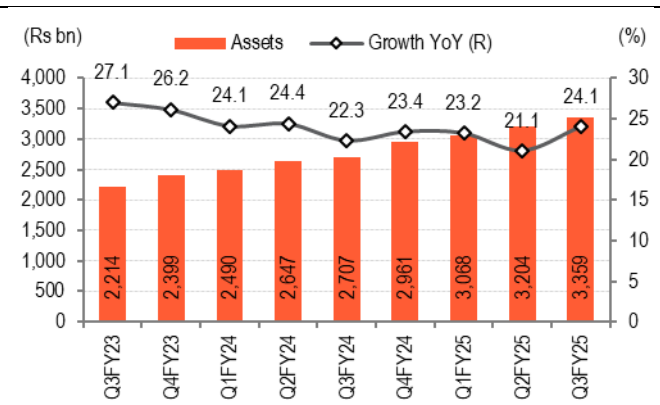
Source: Company, BOBCAPS Research

Fig 5 – Deposit growth continued to outpace loan growth



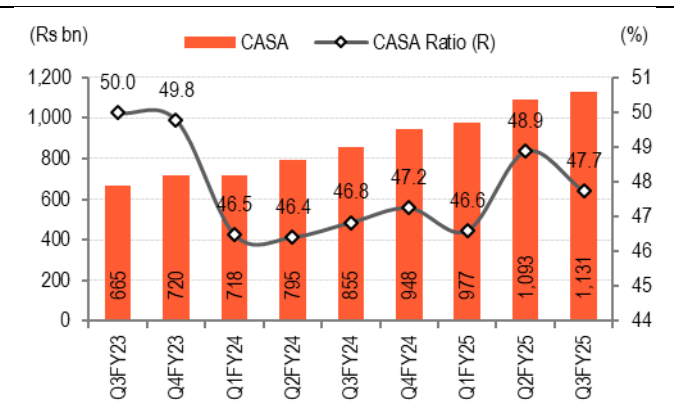
Source: Company, BOBCAPS Research

Fig 6 – Asset growth healthy



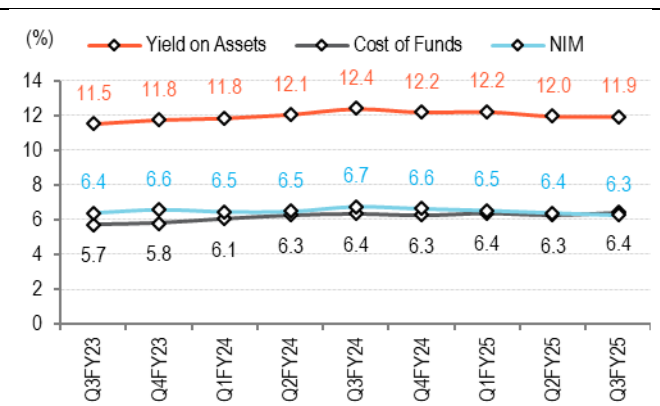
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio decreased 114bps in Q3



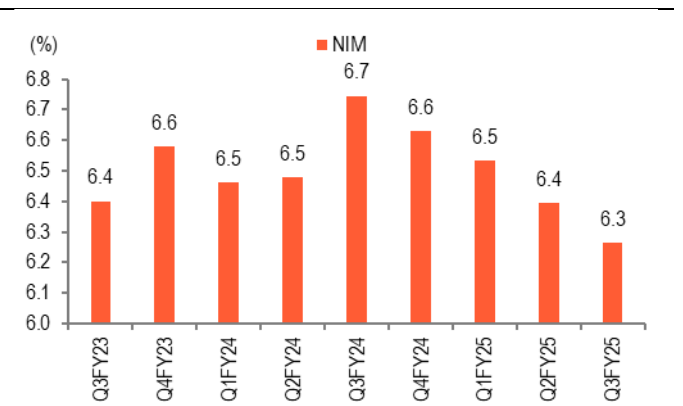
Source: Company, BOBCAPS Research

Fig 8 – Cost of funds continued to rise



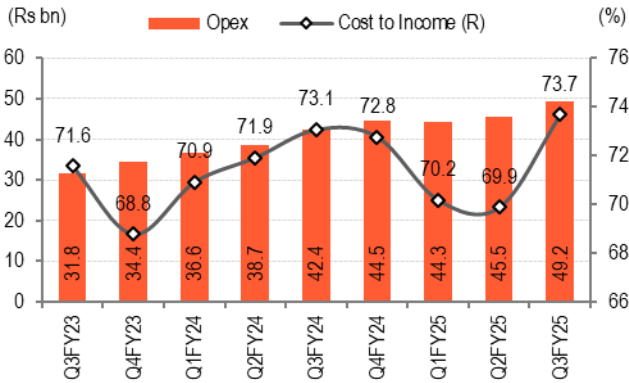
Source: Company, BOBCAPS Research

Fig 9 – Change in business mix likely to aid NIM



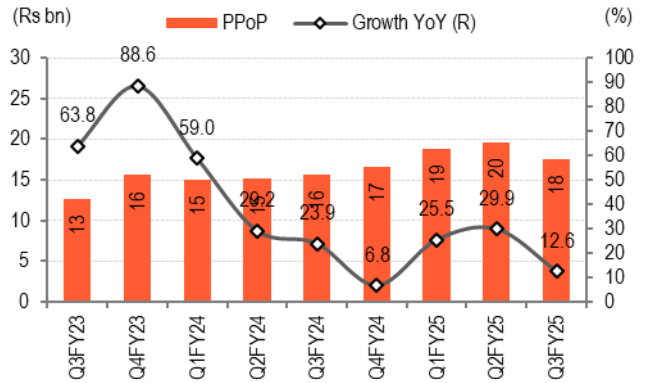
Source: Company, BOBCAPS Research

Fig 10 – Expecting blow to C/I ratio to be 70% by FY25



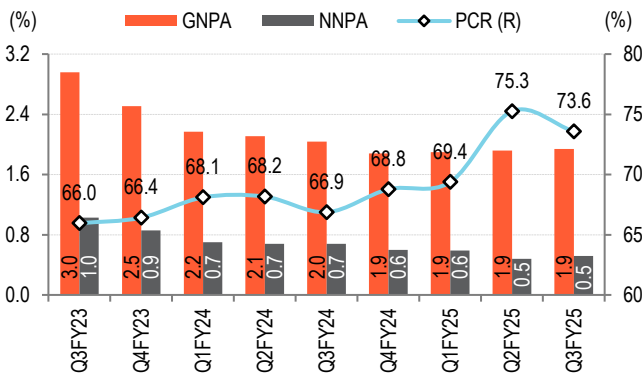
Source: Company, BOBCAPS Research

Fig 11 – PPOP growth remained healthy



Source: Company, BOBCAPS Research

Fig 12 – Asset quality remained stable



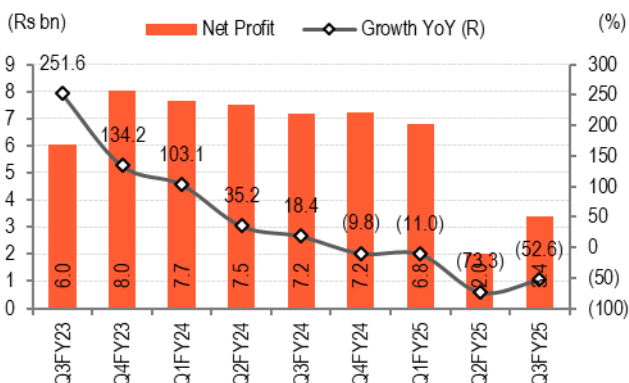
Source: Company, BOBCAPS Research

Fig 13 – Credit cost likely to improve in H2FY25



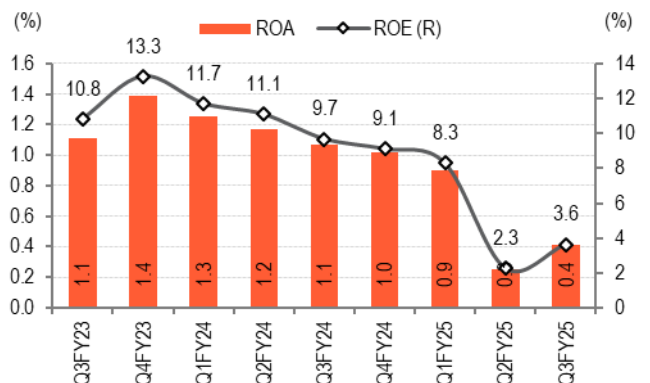
Source: Company, BOBCAPS Research

Fig 14 – PAT declined on softer topline



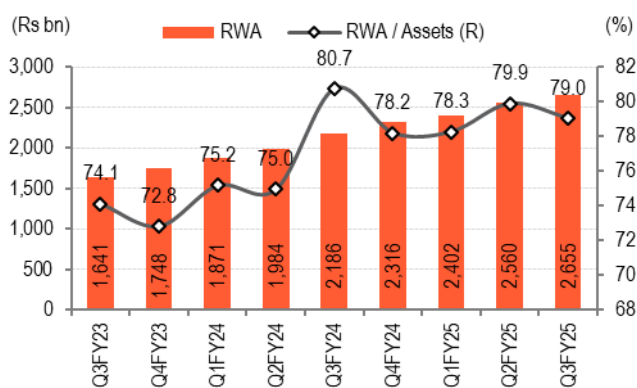
Source: Company, BOBCAPS Research

Fig 15 – Operational efficiency to be key lever for higher return ratios



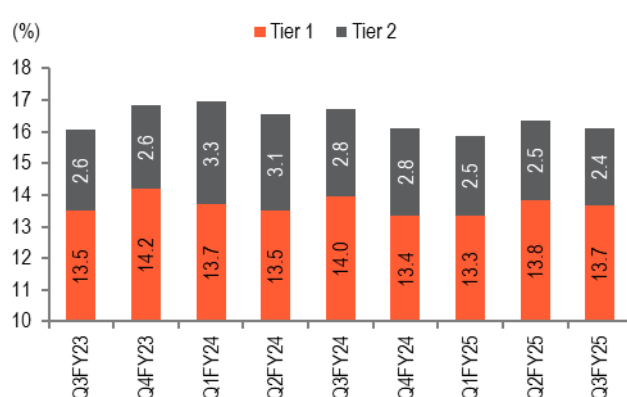
Source: Company, BOBCAPS Research

Fig 16 – Stable RWA-to-asset ratio to aid CAR



Source: Company, BOBCAPS Research

Fig 17 – Well capitalised to fund credit demand



Source: Company, BOBCAPS Research

Fig 18 – Deposit trend

(Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
CASA Deposits	8,54,920	9,47,680	9,76,920	10,92,920	11,30,780	32.3	3.5
Term Deposits	9,70,570	10,58,083	11,19,743	11,43,147	12,37,998	27.6	8.3
Total Deposits	18,25,490	20,05,763	20,96,663	22,36,067	23,68,778	29.8	5.9

Source: Company, BOBCAPS Research

Fig 19 – Deposit distribution

(%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
CASA Deposits	46.8	47.2	46.6	48.9	47.7	90bps	(114bps)
Term Deposits	53.2	52.8	53.4	51.1	52.3	(90bps)	114bps
Total Deposits	100.0	100.0	100.0	100.0	100.0	0bps	0bps

Source: Company, BOBCAPS Research

Fig 20 – Source of fund distribution

(Rs mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Legacy Long Term & Infra Bonds	1,19,290	1,01,320	94,350	70,820	60,680	(49.1)	(14.3)
Refinance & Other borrowings	1,96,130	1,92,130	1,86,810	1,99,400	2,63,260	34.2	32.0
Tier II Bonds	45,000	45,000	45,000	45,000	45,000	0.0	0.0
Total Borrowings	3,60,420	3,38,450	3,26,160	3,15,220	3,68,940	2.4	17.0
CASA Deposits	8,54,920	9,47,680	9,76,920	10,92,920	11,30,780	32.3	3.5
Term Deposits	9,09,900	9,89,850	10,68,800	10,87,350	11,42,370	25.5	5.1
Total Customers Deposits	17,64,820	19,37,530	20,45,720	21,80,270	22,73,150	28.8	4.3
Certificate of Deposits	60,680	68,230	50,950	55,800	95,620	57.6	71.4
Money Market Borrowings	90,670	1,70,910	1,92,530	1,48,230	94,960	4.7	(35.9)
Borrowings & Deposits	22,76,590	25,15,120	26,15,360	26,99,520	28,32,670	24.4	4.9

Source: Company, BOBCAPS Research

Fig 21 – Source of fund distribution trend

(%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Legacy Long Term & Infra Bonds	5.2	4.0	3.6	2.6	2.1	(310bps)	(48bps)
Refinance & Other borrowings	8.6	7.6	7.1	7.4	9.3	68bps	191bps
Tier II Bonds	2.0	1.8	1.7	1.7	1.6	(39bps)	(8bps)
Total Borrowings	15.8	13.5	12.5	11.7	13.0	(281bps)	135bps
CASA Deposits	37.6	37.7	37.4	40.5	39.9	237bps	(57bps)
Term Deposits	40.0	39.4	40.9	40.3	40.3	36bps	5bps
Total Customers Deposits	77.5	77.0	78.2	80.8	80.2	273bps	(52bps)
Certificate of Deposits	2.7	2.7	1.9	2.1	3.4	71bps	131bps
Money Market Borrowings	4.0	6.8	7.4	5.5	3.4	(63bps)	(214bps)
Borrowings & Deposits	100.0	100.0	100.0	100.0	100.0	0bps	0bps

Source: Company, BOBCAPS Research

Key conference call takeaways

Business

NII moderated YoY and came in at Rs 49bn, up 14% YoY and 2% QoQ. This was owing to slower advances growth of 20% YoY and 4% QoQ.

NIM contracted by 14bps QoQ to 6.04%. This was primarily on account of slowdown in the MFI book and increase in the composition of the wholesale banking business.

Likewise, other income was slower which grew by 17% YoY (3% QoQ).

Opex growth was slower which grew by 16% YoY aided by cost rationalisation measures adopted by the bank. Cost to income ratio stood at 73.7% in Q3FY25 vs. 69.9% in Q2FY25. It is expected to grow by 13% with ratio to improve to 65% going ahead.

PPOP was up by 13% YoY and down 10% QoQ.

PAT came in at Rs 3.3bn, down by 53% YoY (up 69% QoQ). This was due to the increase in credit cost on account of increased provisions in the MFI book.

Loan growth

Loan book grew 20% YoY (4% QoQ) led by retail (up 21% YoY, 3% QoQ) rural (up 5% YoY, down 3% QoQ) and SME portfolio (up 34% YoY, 8% QoQ).

Loan growth was robust in the retail segments such as home loans (up 25% YoY, 3% QoQ), LAP (up 18% YoY, down 1% QoQ), vehicle loans (up 39% YoY, 7% QoQ) and gold loans (145% YoY and 18% QoQ). Business banking saw strong growth of 35% YoY (8% QoQ).

IDFCBK's current C/D ratio is at 96.6% and incremental C/D ratio of 72%. The bank expects C/D ratio to be in the range of 90%-93% in FY25E and 80% in FY26E.

Unsecured retail is 15% of the book.

IDFCBK's infrastructure book is now down to 1.3% of total funded assets and management expects it to fall to 1% by end-FY25E.

The bank continues to degrow its MFI portfolio which is currently at 4.8% of the overall book from 5.6% in Q2FY25.

Deposits

Deposits rose 30% YoY and 8% QoQ. Further, the bank foresees deposits to grow by 25% over the next three years. Going ahead, borrowing would be paid off and growth in deposits would be more towards funding assets rather than paying off legacy borrowings.

High-cost legacy borrowings of the bank is expected to fall further to Rs 50bn in FY25E from the current level of Rs 100bn.

Asset quality

GNPA increased by 2bps QoQ to 1.94% and NNPA by 4bps QoQ to 0.52% on account of slippages in the MFI book.

Restructured book dipped to 0.26% in Q3FY25 from 0.31% in Q2FY25 of which 95% is secured in nature and the bank holds 20% provision on the same.

Higher provision during the quarter was on the back of some normalisation and provision uptick from the Joint Liability Group (JLG) portfolio.

Credit cost is at 190bps excluding JLG's 170bps.

Management revised its credit cost guidance to 1.85% from 1.65% for H1FY25 and some improvement during H2FY25 is possible.

Margin

Sequentially NIM declined 11bps to 6.22% mainly due to higher investment book in the form of T-Bills, which had an impact of about 8bps.

Cost of funds increased by 4bps to 6.47% and deposit cost by 11bps to 6.38%.

Operating parameter

Post FY25 opex is likely to grow at 20% vs. 33% in FY24, and income should grow by 23-24% over the same period.

It expects C/I ratio to come down to 65% by FY27 from 70% in Q1FY25.

LCR was at 118% Q1FY25 vs. 114% in Q1FY24.

Valuation methodology

Assume coverage with a BUY on IDFCBK: Although the bank posted a weak set of numbers during the quarter, we believe business momentum would continue to be healthy going ahead. We believe the advances would grow at a CAGR of ~21% in FY24-FY27E going forward. Further, the bank's focus on operational efficiencies would be key to improving ROA to be 1-1.1% in FY25-FY27E. Considering sustainable growth and the bank's stable asset quality, we value it at 1.3x Dec'26 ABV (1.5x earlier) and lower our TP to Rs 75 (from Rs 90).

Fig 22 – Key operational assumptions

Parameter (%)	FY24A	FY25E	FY26E	FY27E
Advances Growth	28.2	21.0	21.2	21.2
NII Growth	30.2	19.2	21.1	23.2
PPoP Growth	26.5	28.0	23.2	29.3
PAT Growth	21.3	(28.8)	91.2	35.9
NIM	6.5	6.3	6.3	6.3
GNPA	1.9	2.0	1.8	1.7
CAR	16.1	15.6	14.6	13.5

Source: Company, BOBCAPS Research

Fig 23 – Key valuation assumptions: Gordon Growth model

(%)	
Cost of equity (%)	12.2
Blended ROE (%)	13.0
Initial high growth period (years)	12.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	7
Long term dividend payout ratio (%)	50
Justified P/BV (x)	1.3
Implied BVPS (Rs)	58
Value per share (Rs)	75

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- The bank's inability to manage the cost of funds, leading to compressed margin, and
- inability to manage the credit cycle.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	1,26,353	1,64,508	1,96,011	2,37,361	2,92,351
Nil growth (%)	30.2	30.2	19.2	21.1	23.2
Non-interest income	44,670	60,020	70,819	83,442	98,226
Total income	1,71,023	2,24,528	2,66,830	3,20,804	3,90,577
Operating expenses	1,21,704	1,62,158	1,86,987	2,22,397	2,63,324
PPOP	49,320	62,370	79,844	98,406	1,27,252
PPOP growth (%)	50.2	26.5	28.0	23.2	29.3
Provisions	16,648	23,817	52,107	44,271	53,656
PBT	32,671	38,553	27,737	54,135	73,596
Tax	8,300	8,988	7,101	13,859	18,841
Reported net profit	24,371	29,565	20,637	40,277	54,756
Adjustments	0	0	0	0	0
Adjusted net profit	24,371	29,565	20,637	40,277	54,756

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity capital	66,181	70,699	73,201	73,201	73,201
Reserves & surplus	1,91,030	2,50,914	3,14,255	3,54,531	4,09,287
Net worth	2,57,212	3,21,613	3,87,455	4,27,732	4,82,488
Deposits	14,46,373	20,05,763	25,67,377	31,96,384	39,69,909
Borrowings	5,72,121	5,09,356	5,50,104	5,99,614	6,53,579
Other liab. & provisions	1,23,711	1,24,419	89,899	1,66,362	2,29,244
Total liab. & equities	23,99,417	29,61,151	35,94,835	43,90,092	53,35,220
Cash & bank balance	1,38,980	1,24,802	1,92,510	2,37,755	2,95,610
Investments	6,11,236	7,47,104	8,92,524	10,88,873	13,26,069
Advances	15,17,945	19,45,924	23,54,568	28,53,736	34,58,728
Fixed & Other assets	1,31,256	1,43,321	1,55,233	2,09,728	2,54,813
Total assets	23,99,417	29,61,151	35,94,835	43,90,092	53,35,220
Deposit growth (%)	36.9	38.7	28.0	24.5	24.2
Advances growth (%)	28.8	28.2	21.0	21.2	21.2

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	3.8	4.3	2.9	5.5	7.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	38.9	45.5	52.9	58.4	65.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
P/E	16.4	14.4	21.7	11.3	8.3
P/BV	1.6	1.4	1.2	1.1	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	5.9	6.1	6.0	5.9	6.0
Non-interest income	2.1	2.2	2.2	2.1	2.0
Operating expenses	5.7	6.1	5.7	5.6	5.4
Pre-provisioning profit	2.3	2.3	2.4	2.5	2.6
Provisions	0.8	0.9	1.6	1.1	1.1
PBT	1.5	1.4	0.8	1.4	1.5
Tax	0.4	0.3	0.2	0.3	0.4
ROA	1.1	1.1	0.6	1.0	1.1
Leverage (x)	9.2	9.3	9.2	9.8	10.7
ROE	10.4	10.2	5.8	9.9	12.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Net interest income	30.2	30.2	19.2	21.1	23.2
Pre-provisioning profit	50.2	26.5	28.0	23.2	29.3
EPS	1451.5	13.8	(33.6)	91.8	35.9
Profitability & Return ratios (%)					
Net interest margin	6.1	6.4	6.2	6.1	6.2
Fees / Avg. assets	0.5	0.5	0.5	0.5	0.5
Cost-Income	71.2	72.2	70.1	69.3	67.4
ROE	10.4	10.2	5.8	9.9	12.0
ROA	1.1	1.1	0.6	1.0	1.1
Asset quality (%)					
GNPA	2.5	2.0	2.0	1.8	1.7
NNPA	0.9	0.6	0.6	0.6	0.5
Slippage ratio	3.9	1.8	3.9	2.4	2.4
Credit cost	1.2	1.4	2.4	1.7	1.7
Provision coverage	65.6	70.8	68.4	68.4	68.5
Ratios (%)					
Credit-Deposit	104.9	97.0	91.7	89.3	87.1
Investment-Deposit	42.3	37.2	34.8	34.1	33.4
CAR	16.9	16.1	15.6	14.6	13.4
Tier-1	15.3	13.4	13.3	12.3	11.4

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

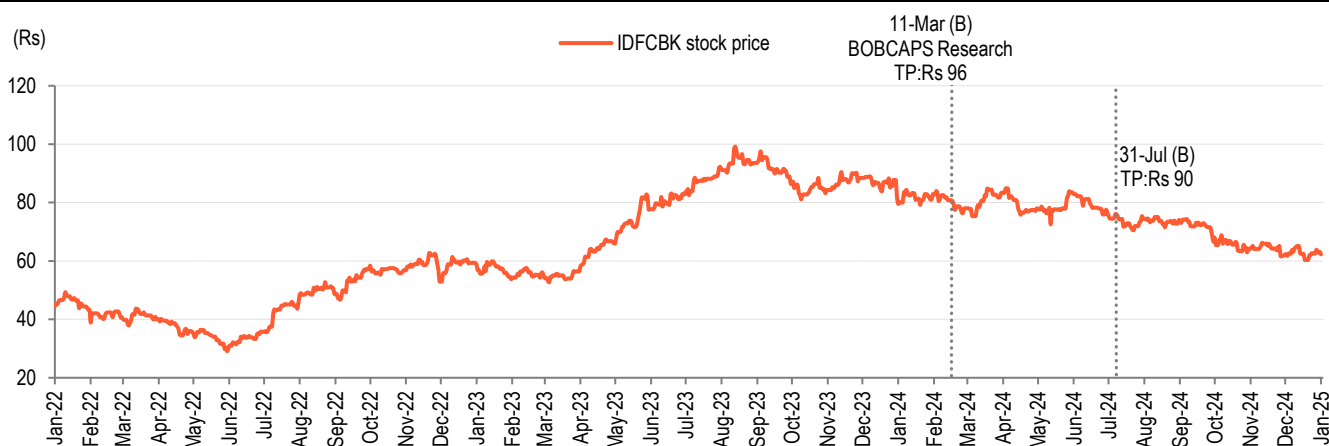
HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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