

SELL

TP: Rs 23 | ▼ 17%

IDFC FIRST BANK

| Banking

| 29 July 2020

High moratorium in corporate portfolio a risk – cut to SELL

IDFC First Bank's (IDFCFB) Q1FY21 PAT at Rs 0.9bn was aided by 38% YoY growth in NII, stable non-interest income and lower opex QoQ. Unlike peers, moratorium share reduced only marginally to 28% of loans (vs. 35% in Q4) while wholesale share stayed high at 35%. GNPA declined to 2% and the legacy stress book was stable at 3.3% of loans. Retailisation trends continued with 26% YoY retail loan growth and retail deposit share rising to 57%. We cut FY22 EPS 15%; cut to SELL (from ADD) as exposure to riskier segments will keep credit cost high.

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Moratorium share at 28%: IDFCFB's loans under moratorium decreased to 28% with retail loan share at 23%; wholesale portfolio share at 35% is high compared to peers. The bank made additional Covid-related provisions of ~Rs 3.8bn and has an overall buffer of Rs 6bn (0.6% of loans). GNPA's declined to 2% as slippages were lower at Rs 0.7bn (vs. Rs 4.2bn in Q4) given the benefit of moratorium provided to customers, including the overdue 'standstill' accounts. PCR improved to ~75% (vs. 65% in Q4). The legacy stress book was stable at Rs 32bn (3.3% of loans) but provisioning on the same improved to 52%.

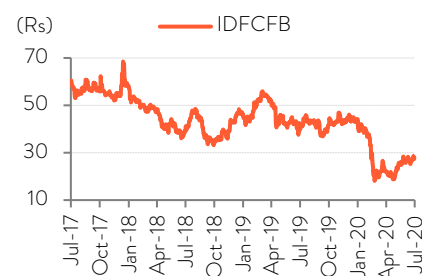
Retail growth stays strong: Despite 26% YoY growth in retail assets, total funded loan assets declined 8% as the wholesale portfolio dropped 28% (due to a 24%/34% YoY fall in the corporate/infrastructure books). The share of retail deposits swelled to 57% (vs. 52% in Q4) and CASA ratio improved to 34%.

Downgrade to SELL: We view IDFCFB's shift towards retail assets and liabilities as a positive but high exposure to riskier segments will keep credit costs elevated and return ratios subdued. We cut FY22 EPS estimates by ~15% to factor higher credit costs and roll forward to a Sep'21 TP of Rs 23 (Rs 20 earlier). Cut to SELL.

Ticker/Price	IDFCFB IN/Rs 28
Market cap	US\$ 2.1bn
Shares o/s	5,672mn
3M ADV	US\$ 15.6mn
52wk high/low	Rs 39/Rs 18
Promoter/FPI/DII	40%/11%/49%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	31,991	56,353	59,671	68,406	78,280
NII growth (%)	77.9	76.2	5.9	14.6	14.4
Adj. net profit (Rs mn)	(19,442)	(28,642)	(955)	6,020	9,438
EPS (Rs)	(4.8)	(6.0)	(0.2)	1.1	1.7
P/E (x)	(5.9)	(4.7)	(152.9)	26.2	16.7
P/BV (x)	0.7	0.9	0.9	0.9	0.9
ROA (%)	(1.3)	(1.8)	(0.1)	0.4	0.6
ROE (%)	(11.6)	(17.1)	(0.6)	3.4	5.2

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Income Statement					
Interest income	38,314	37,931	39,559	1.0	(3.1)
Interest expense	22,055	26,187	23,924	(15.8)	(7.8)
Net interest income	16,259	11,745	15,635	38.4	4.0
Non-interest income	4,849	3,105	4,838	56.2	0.2
Net total income	21,108	14,849	20,473	42.1	3.1
Staff expenses	4,432	3,611	3,636	22.7	21.9
Other operating expenses	7,760	8,061	11,639	(3.7)	(33.3)
Operating expenses	12,191	11,672	15,275	4.4	(20.2)
Pre-provisioning profit	8,916	3,177	5,198	180.6	71.5
Total provisions	7,641	12,808	4,124	(40.3)	85.3
Profit before tax	1,275	(9,630)	1,074	(113.2)	18.8
Tax	340	(3,457)	358	(109.8)	(5.1)
Profit after tax	935	(6,174)	715	(115.2)	30.8
Balance Sheet					
Advances	979,400	1,085,820	980,620	(9.8)	(0.1)
Deposits	698,320	662,260	651,080	5.4	7.3
CASA ratio (%)	33.7	14.6	31.9	1,917bps	187bps
Yields and margins (%)					
Net interest margin	4.5	3.0	4.2	152bps	29bps
Yield on advances	12.3	10.3	12.1	200bps	17bps
Cost of funds	7.2	7.4	7.4	(20bps)	(20bps)
Key ratios (%)					
Cost/Income	57.8	78.6	74.6	(2,084bps)	(1,685bps)
Tax rate	26.7	35.9	33.4	(924bps)	(672bps)
Loan to Deposit ratio	140.3	164.0	150.6	(2,371bps)	(1,036bps)
Capital adequacy ratios (%)					
Tier 1	14.6	13.8	13.3	78bps	128bps
Total CAR	15.0	13.9	13.4	110bps	165bps
Asset quality (Rs mn)					
Gross NPAs	17,417	24,190	22,796	(28.0)	(23.6)
Net NPAs	4,366	12,160	8,086	(64.1)	(46.0)
Gross NPA ratio (%)	2.0	2.7	2.6	(67bps)	(61bps)
Net NPA ratio (%)	0.5	1.4	0.9	(84bps)	(43bps)
Coverage Ratio (%)	74.9	49.7	64.5	2,520bps	1,040bps

Source: Company, BOBCAPS Research

Valuation methodology

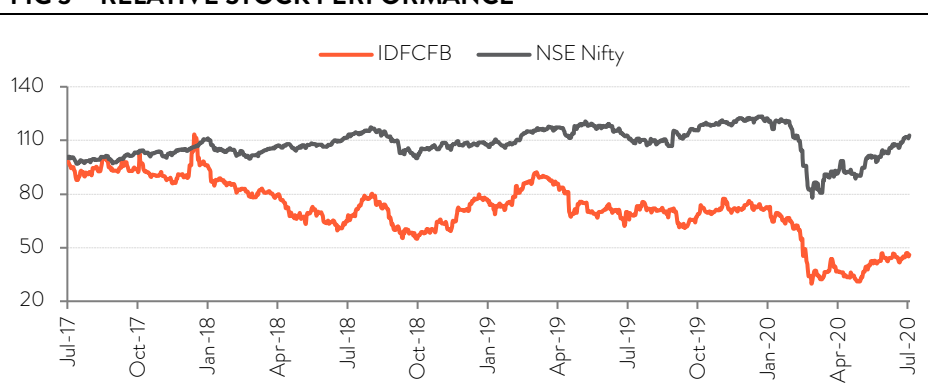
We continue to value IDFCFB at 0.6x FY22E P/BV using the two-stage Gordon Growth Model. However, we downgrade the stock to SELL from ADD as we believe its high exposure to riskier segments will keep credit costs elevated and return ratios subdued. We lower our FY22 EPS estimate by 15% to factor higher credit costs and roll forward to a new Sep'21 target price of Rs 23 (Rs 20 earlier).

FIG 2 – REVISED ESTIMATES

Particulars	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income (Rs mn)	59,671	68,406	65,042	78,982	(8.3)	(13.4)
Pre-provisioning profit	24,118	34,180	23,780	36,233	1.4	(5.7)
Net Profit (Rs mn)	(955)	6,020	(880)	7,112	NM	(15.3)
EPS (Rs)	0	1	0	1	NM	(15.3)

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Much stronger-than-expected improvement in the retail liability franchise
- Below-expected risk emanating from retail NPAs plus sharp improvement in corporate asset quality

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	31,991	56,353	59,671	68,406	78,280
NII growth (%)	77.9	76.2	5.9	14.6	14.4
Non-interest income	9,386	17,222	22,229	26,234	31,049
Total income	41,377	73,575	81,901	94,640	109,329
Operating expenses	58,867	54,207	57,783	60,461	68,352
Operating profit	(17,491)	19,367	24,118	34,180	40,976
Operating profit growth (%)	(238.4)	(210.7)	24.5	41.7	19.9
Provisions	15,461	43,153	25,394	26,131	28,358
PBT	(32,952)	(23,785)	(1,276)	8,049	12,618
Tax	(13,510)	4,857	(322)	2,028	3,180
Reported net profit	(19,442)	(28,642)	(955)	6,020	9,438
Adjustments	0	0	0	0	0
Adjusted net profit	(19,442)	(28,642)	(955)	6,020	9,438

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	47,817	48,099	56,723	56,723	56,723
Reserves & surplus	133,776	105,327	115,939	120,755	128,306
Net worth	181,593	153,426	172,662	177,479	185,029
Deposits	704,790	651,080	729,209	838,591	1,006,309
Borrowings	699,834	573,972	516,575	439,088	351,271
Other liabilities & provisions	85,632	113,526	136,232	156,666	156,666
Total liabilities and equities	1,671,849	1,492,004	1,554,678	1,611,824	1,699,275
Cash & bank balance	95,668	41,908	38,933	37,838	39,730
Investments	584,754	454,046	467,667	491,051	515,603
Advances	863,023	855,954	920,959	1,049,507	1,188,692
Fixed & Other assets	128,404	140,097	127,118	33,429	(44,750)
Total assets	1,671,849	1,492,004	1,554,678	1,611,824	1,699,275
Deposit growth (%)	46.2	(7.6)	12.0	15.0	20.0
Advances growth (%)	65.4	(0.8)	7.6	14.0	13.3

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	(4.8)	(6.0)	(0.2)	1.1	1.7
Dividend per share	0.5	0.0	0.0	0.2	0.3
Book value per share	38.0	31.9	30.4	31.3	32.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	(5.9)	(4.7)	(152.9)	26.2	16.7
P/BV	0.7	0.9	0.9	0.9	0.9
Dividend yield (%)	1.9	0.0	(0.1)	0.8	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	2.2	3.6	3.9	4.3	4.7
Non-interest income	0.6	1.1	1.5	1.7	1.9
Operating expenses	4.0	3.4	3.8	3.8	4.1
Pre-provisioning profit	(1.2)	1.2	1.6	2.2	2.5
Provisions	1.1	2.7	1.7	1.7	1.7
PBT	(2.2)	(1.5)	(0.1)	0.5	0.8
Tax	(0.9)	0.3	0.0	0.1	0.2
ROA	(1.3)	(1.8)	(0.1)	0.4	0.6
Leverage (x)	8.8	9.4	9.3	9.0	9.1
ROE	(11.6)	(17.1)	(0.6)	3.4	5.2

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	77.9	76.2	5.9	14.6	14.4
Pre-provisioning profit	(238.4)	(210.7)	24.5	41.7	19.9
EPS	(194.1)	25.7	(97.0)	(682.7)	56.8
Profitability & Return ratios (%)					
Net interest margin	2.4	3.9	4.3	4.6	4.7
Fees / Avg. assets	0.5	0.9	1.0	1.2	1.4
Cost-Income	142.3	73.7	70.6	63.9	62.5
ROE	(11.6)	(17.1)	(0.6)	3.4	5.2
ROA	(1.3)	(1.8)	(0.1)	0.4	0.6
Asset quality (%)					
GNPA	2.4	2.6	3.2	2.7	2.6
NNPA	1.3	0.9	1.2	1.0	0.9
Provision coverage	46.9	63.6	62.7	63.1	66.4
Ratios (%)					
Credit-Deposit	122.5	131.5	126.3	125.2	118.1
Investment-Deposit	83.0	69.7	64.1	58.6	51.2
CAR	15.5	13.4	13.4	12.1	11.2
Tier-1	15.3	13.3	13.3	12.0	11.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

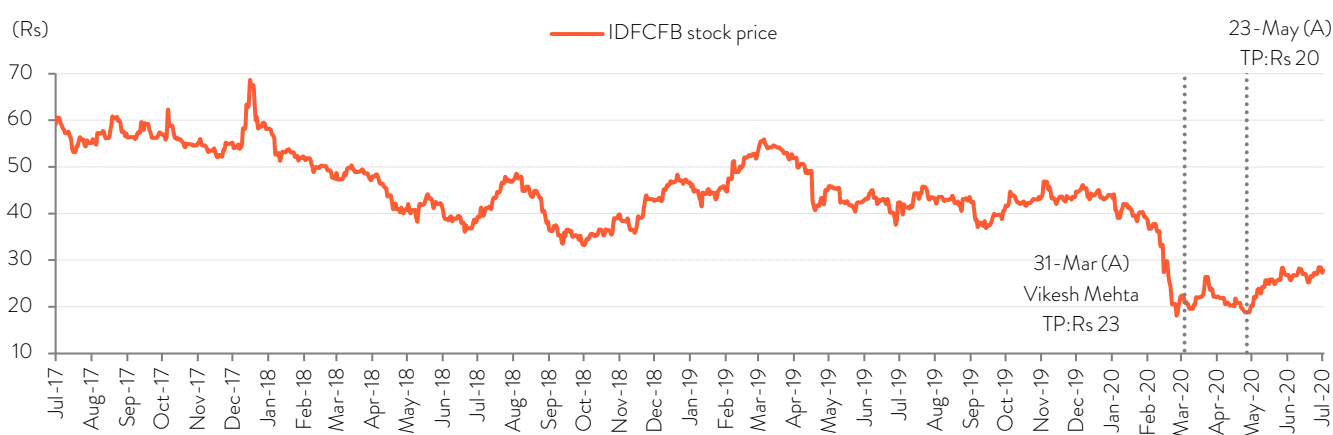
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): IDFC FIRST BANK (IDFCFB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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