

ADD

TP: Rs 20 | ▲ 6%

IDFC FIRST BANK

| Banking

| 23 May 2020

Retailisation trend continues

IDFC First Bank's (IDFCFB) Q4FY20 PAT at Rs 715mn was driven by 40% YoY growth in NII. The bank has 35% of its loans under moratorium (beneficial impact of 28bps/45bps on headline/retail GNPA ratio) and made Covid-related provisions worth Rs 2.3bn. The legacy stress book dipped to 3.3% of loans. CASA ratio improved to 31.9% (24.1% in Q3) while the share of retail loans improved to 54%. We retain ADD but lower our Mar'21 TP to Rs 20 (vs. Rs 23) as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is book value dilutive.

Vikesh Mehta

research@bobcaps.in

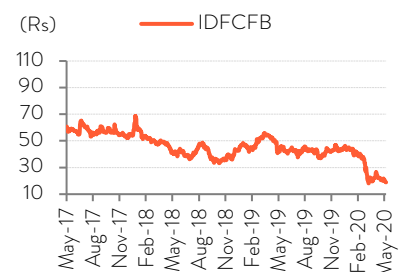
35% of portfolio under moratorium: IDFCFB has 35% of its outstanding book under moratorium, but has offered 100% moratorium to select segments such as rural financing. GNPA's declined by 23bps QoQ to 2.6% but would have been higher by 5bps if we exclude the moratorium impact. Retail GNPA's saw 45bps of moratorium benefit to stand at ~1.8% (vs. ~2.3% in Q3). The bank made Covid-19-related provisions worth Rs 2.3bn, including Rs 2bn towards standard but overdue loans. Its legacy stress book inched down to Rs 32bn (3.3% of loans) and provisioning on the same remains at 49%.

Ticker/Price	IDFCFB IN/Rs 19
Market cap	US\$ 1.2bn
Shares o/s	4,789mn
3M ADV	US\$ 10.3mn
52wk high/low	Rs 39/Rs 18
Promoter/FPI/DII	40%/15%/45%

Source: NSE

Retail trend in assets and liabilities continues: The share of retail deposits swelled further to 52% (vs. 43% in Q3) fuelled by strong growth in CASA deposits coupled with a reduction in CDs. The funded book was stable at Rs 1.1tn while the share of retail funded loans increased to 54% (49% in Q3) spurred by strong growth across subsegments. Moreover, the share of wholesale loans declined to 37% owing to a 24%/30% reduction in corporate/infrastructure loans.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: In our view, current valuations at 0.6x FY22E P/BV reflect concerns over the protracted improvement in profitability. We lower our Mar'21 TP to Rs 20 (from Rs 23) as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is BV-dilutive.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,981	31,991	56,353	65,042	78,982
NII growth (%)	NA	77.9	76.2	15.4	21.4
Adj. net profit (Rs mn)	8,593	(19,442)	(28,642)	(880)	7,112
EPS (Rs)	5.0	(4.8)	(6.0)	(0.2)	1.3
P/E (x)	3.7	(4.0)	(3.2)	(112.3)	15.0
P/BV (x)	0.4	0.5	0.6	0.6	0.6
ROA (%)	1.4	(1.3)	(1.8)	(0.1)	0.4
ROE (%)	11.3	(11.6)	(17.2)	(0.5)	4.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

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



FIG 1 – QUARTERLY PERFORMANCE

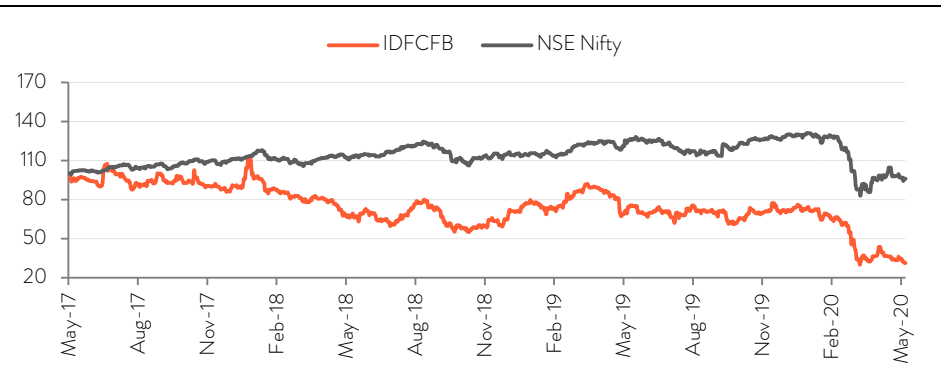
(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Income Statement								
Interest income	39,559	36,288	41,002	9.0	(3.5)	158,673	119,482	32.8
Interest expense	23,924	25,159	25,659	(4.9)	(6.8)	102,320	87,491	16.9
Net interest income	15,635	11,129	15,343	40.5	1.9	56,353	31,991	76.2
Non-interest income	4,838	2,733	5,790	77.0	(16.4)	17,222	8,957	92.3
Net total income	20,473	13,862	21,132	47.7	(3.1)	73,574	40,948	79.7
Staff expenses	3,636	3,480	3,986	4.5	(8.8)	15,276	11,182	36.6
Other operating expenses	11,639	7,996	10,330	45.6	12.7	38,931	21,692	79.5
Operating expenses	15,275	11,476	14,315	33.1	6.7	54,207	32,874	64.9
Pre-provisioning profit	5,198	2,386	6,817	117.8	(23.8)	19,367	8,074	139.9
Total provisions	4,124	6,553	23,048	(37.1)	(82.1)	43,152	15,032	187.1
Profit before tax	1,074	(4,167)	(16,231)	NM	NM	(23,785)	(6,958)	241.8
Tax	358	(1,987)	158	NM	NM	4,857	(13,510)	(135.9)
Profit after tax	715	(2,180)	(16,389)	NM	NM	(28,642)	6,552	(537.2)
Balance Sheet								
Advances	980,620	1,068,730	1,004,180	(8.2)	(2.3)	980,620	1,068,730	(8.2)
Deposits	651,080	704,790	686,970	(7.6)	(5.2)	651,080	704,790	(7.6)
CASA ratio (%)	31.9	11.4	24.1	2,047bps	781bps	31.9	11.4	2,047bps
Yields and margins (%)								
Net interest margin	4.2	3.0	3.9	121bps	38bps	-	-	-
Yield on advances	12.1	10.0	11.7	215bps	37bps	-	-	-
Cost of funds	7.4	7.4	7.5	(2bps)	(9bps)	-	-	-
Key ratios (%)								
Cost/Income	74.6	82.8	67.7	(818bps)	687bps	73.7	80.3	(661bps)
Tax rate	33.4	47.7	(1.0)	(1,430bps)	3,436bps	(20.4)	194.2	(21,457bps)
Loan to Deposit ratio	150.6	151.6	146.2	(102bps)	444bps	150.6	151.6	(102bps)
Capital adequacy ratios (%)								
Tier 1	13.3	15.2	13.3	(193bps)	2bps	13.3	15.2	(193bps)
Total CAR	13.4	15.4	13.3	(203bps)	9bps	13.4	15.4	(203bps)
Asset quality (Rs mn)								
Gross NPAs	2,279,564	2,136,043	2,511,000	6.7	(9.2)	2,279,564	2,136,043	6.7
Net NPAs	808,575	1,107,000	1,071,000	(27.0)	(24.5)	808,575	1,107,000	(27.0)
Gross NPA ratio (%)	2.6	2.4	2.8	17bps	(23bps)	2.6	2.4	17bps
Net NPA ratio (%)	0.9	1.3	1.2	(33bps)	(29bps)	0.9	1.3	(33bps)
Coverage Ratio (%)	64.5	48.2	57.3	1,635bps	718bps	64.5	48.2	1,635bps

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 reduce our Mar'21 target price to Rs 20 from Rs 23 as the bank is raising capital worth Rs 20bn at Rs 23.2/sh which is book value dilutive. Maintain ADD as we believe current valuations reflect concerns over the protracted improvement in profitability.

FIG 2 – 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
- Weak earnings performance by peers which can make IDFCFB's valuations seem attractive

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,981	31,991	56,353	65,042	78,982
NII growth (%)	NA	77.9	76.2	15.4	21.4
Non-interest income	11,179	9,386	17,222	22,780	31,580
Total income	29,160	41,377	73,574	87,822	110,562
Operating expenses	16,526	58,867	54,207	64,042	74,328
Operating profit	12,634	(17,491)	19,367	23,780	36,233
Operating profit growth (%)	NA	(238.4)	(210.7)	22.8	52.4
Provisions	2,361	15,461	43,152	24,956	26,725
PBT	10,273	(32,952)	(23,785)	(1,176)	9,508
Tax	1,680	(13,510)	4,857	(296)	2,396
Reported net profit	8,593	(19,442)	(28,642)	(880)	7,112
Adjustments	0	0	0	0	0
Adjusted net profit	8,593	(19,442)	(28,642)	(880)	7,112

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	34,041	47,817	48,099	56,723	56,723
Reserves & surplus	118,525	133,776	102,934	113,605	119,295
Net worth	152,565	181,593	151,033	170,329	176,019
Deposits	481,982	704,790	651,080	781,296	937,555
Borrowings	572,871	699,834	573,972	516,575	439,088
Other liabilities & provisions	57,784	85,632	113,526	136,232	156,666
Total liabilities and equities	1,265,202	1,671,849	1,489,611	1,604,431	1,709,328
Cash & bank balance	48,918	95,668	41,908	38,933	37,838
Investments	612,015	584,754	454,046	490,369	514,888
Advances	521,649	863,023	855,954	913,197	1,044,796
Fixed & Other assets	82,620	128,404	137,703	161,931	111,807
Total assets	1,265,202	1,671,849	1,489,611	1,604,431	1,709,328
Deposit growth (%)	NA	46.2	(7.6)	20.0	20.0
Advances growth (%)	NA	65.4	(0.8)	6.7	14.4

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	5.0	(4.8)	(6.0)	(0.2)	1.3
Dividend per share	0.7	0.5	0.5	0.0	0.3
Book value per share	44.8	38.0	31.4	30.0	31.0

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	3.7	(4.0)	(3.2)	(112.3)	15.0
P/BV	0.4	0.5	0.6	0.6	0.6
Dividend yield (%)	3.8	2.8	2.4	(0.2)	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	2.8	2.2	3.6	4.2	4.8
Non-interest income	1.8	0.6	1.1	1.5	1.9
Operating expenses	2.6	4.0	3.4	4.1	4.5
Pre-provisioning profit	2.0	(1.2)	1.2	1.5	2.2
Provisions	0.4	1.1	2.7	1.6	1.6
PBT	1.6	(2.2)	(1.5)	(0.1)	0.6
Tax	0.3	(0.9)	0.3	0.0	0.1
ROA	1.4	(1.3)	(1.8)	(0.1)	0.4
Leverage (x)	8.3	8.8	9.5	9.6	9.6
ROE	11.3	(11.6)	(17.2)	(0.5)	4.1

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Net interest income	0.0	77.9	76.2	15.4	21.4
Pre-provisioning profit	0.0	(238.4)	(210.7)	22.8	52.4
EPS	0.0	(194.1)	25.7	(97.2)	(847.0)
Profitability & Return ratios (%)					
Net interest margin	1.5	2.4	3.9	4.7	5.2
Fees / Avg. assets	0.7	0.5	0.7	1.0	1.4
Cost-Income	56.7	142.3	73.7	72.9	67.2
ROE	11.3	(11.6)	(17.2)	(0.5)	4.1
ROA	1.4	(1.3)	(1.8)	(0.1)	0.4
Asset quality (%)					
GNPA	3.3	2.4	2.6	3.2	2.7
NNPA	1.7	1.3	0.9	1.1	0.8
Provision coverage	48.2	46.9	63.6	65.8	69.4
Ratios (%)					
Credit-Deposit	108.2	122.5	131.5	116.9	111.4
Investment-Deposit	127.0	83.0	69.7	62.8	54.9
CAR	18.0	15.5	13.4	13.5	12.2
Tier-1	17.7	15.3	13.3	13.4	12.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

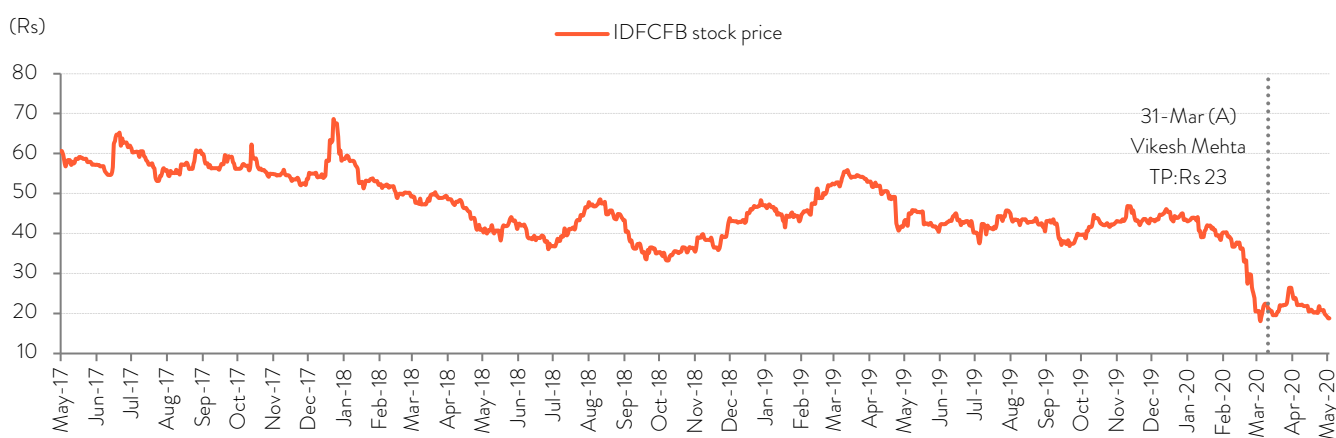
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: IDFC FIRST BANK (IDFCFB IN)



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

Rating distribution

As of 30 April 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 17 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.