

**BUY**

TP: Rs 90 | ▲ 18%

**IDFC FIRST BANK**

| Banking

| 30 July 2024

### Business performance in line with guidance

- Management maintained its strong business growth target with major focus on operational leverage to improve return, C/I Ratio <65% by 2027
- NIM expected to remain stable at current level of 6.5% with stable asset quality, continues to guide for credit cost of 1.6%-1.8% for FY25
- Revise estimates with 37% PAT CAGR over FY24-FY26E and RoA/RoE approaching 1.4%/14%. Retain BUY with lower TP of Rs 90 (1.5x FY26E)

**Ajit Agrawal**

research@bobcaps.in

**Continued strong business growth:** IDFCBK posted PAT of Rs 6.8bn in Q1FY25, down 6% QoQ on modest business growth (loan grew 4%/21% QoQ/YoY, while deposit grew 5%/36% QoQ/YoY). NII rose 5% QoQ on higher CoF, while lower other income QoQ (-1.4%) hit total income (up 3% QoQ). Opex growth remained flat QoQ (-0.3%), aiding PPop growth of 13% QoQ which stayed the centre of focus. Higher provision (38%/108% QoQ/YoY), mainly from the JLG book, dragged PAT.

**Stable NIM, C/I to improve:** NIM fell QoQ on higher CoF and higher portion of low-yielding assets like T-Bills, while bank guiding for stable NIM with decline in high-cost borrowings. Business granularity kept its opex higher and its C/I ratio stood at 70% in Q1 (73% in Q4; industry's highest). Bank expects business volume leverage, mainly cost towards liability franchise, to reduce post FY25 and guided for C/I ratio of 65% by FY27. We model 24% NII CAGR over FY24-FY26 with C/I ratio of 67%.

**Suitable portfolio mix:** We expect SME and retail portfolios to drive loan book growth. Along with strong deposit growth, IDFCBK has a healthy CASA ratio of 47% in Q1FY25 (highest among its peers). Infra book constitutes 1.3% vs. 1.6% in Q4. Baking in IDFCBK's track record and industry dynamics, we assume a credit/deposit CAGR of 24%/31% over FY24-FY26E.

**Stable asset quality:** Controlled slippages led to stable asset quality and GNPA /NNPA stood flat at 1.9%/0.6%. Restructured book fell to 26bps vs. 31bps in Q4 while SMA book increased 16bps QoQ to 1% mainly from the JLG book. Credit cost was 1.9% and bank guided for the same level in Q2 while expecting improvement post H2, and maintained its FY25 target at 1.65%. We expect its asset quality to remain stable with a GNPA/NNPA of 1.8%/0.6% over FY26E with a PCR of 70%.

**Valuation outlook:** Factoring in growth moderation, we revise growth estimates and cut PAT by 7%/3% for FY25/FY26. However, bank's focus on operational efficiencies would be key to improving ROA/ROE (1.4%/14% in FY26E). Considering sustainable growth and the bank's stable asset quality, we value it at 1.5x FY26E (Jun'26) ABV (1.6x earlier) using the GGM and lower our TP to Rs 90 (from Rs 96).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IDFCBK IN/Rs 76
Market cap	US\$ 6.4bn
Free float	65%
3M ADV	US\$ 37.2mn
52wk high/low	Rs 101/Rs 71
Promoter/FPI/DII	35%/20%/13%

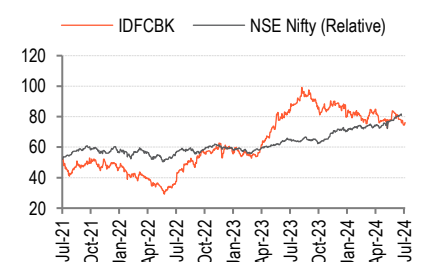
Source: NSE | Price as of 31 Jul 2024

### Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	164,508	204,496	252,772
NII growth (%)	30.2	24.3	23.6
Adj. net profit (Rs mn)	29,565	36,105	55,294
EPS (Rs)	4.3	5.1	7.8
Consensus EPS (Rs)	4.3	5.8	7.8
P/E (x)	17.6	14.9	9.7
P/BV (x)	1.7	1.5	1.3
ROA (%)	1.1	1.1	1.4
ROE (%)	10.2	10.5	14.1

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

### Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	58,443	63,246	67,475	69,995	73,672	26.1	5.3
Income on investments	9,418	9,675	10,354	11,730	13,276	41.0	13.2
Int. on bal. with RBI & inter-bank funds & Others	816	640	966	467	938	14.9	100.8
<b>Interest income</b>	<b>68,677</b>	<b>73,562</b>	<b>78,794</b>	<b>82,192</b>	<b>87,886</b>	<b>28.0</b>	<b>6.9</b>
Interest expense	31,226	34,060	35,928	37,503	40,937	31.1	9.2
<b>Net interest income</b>	<b>37,451</b>	<b>39,502</b>	<b>42,866</b>	<b>44,689</b>	<b>46,949</b>	<b>25.4</b>	<b>5.1</b>
Growth YoY (%)	36.1	31.6	30.5	24.2	25.4	(1,077bps)	111bps
<b>Non-interest income</b>	<b>14,138</b>	<b>14,296</b>	<b>15,166</b>	<b>16,420</b>	<b>16,192</b>	<b>14.5</b>	<b>(1.4)</b>
Growth YoY (%)	65.2	34.7	31.6	17.5	14.5	(5,071bps)	(297bps)
<b>Total income</b>	<b>51,589</b>	<b>53,798</b>	<b>58,031</b>	<b>61,109</b>	<b>63,141</b>	<b>22.4</b>	<b>3.3</b>
Growth YoY (%)	43.0	32.4	30.8	22.4	22.4	(2,064bps)	3bps
Staff expenses	11,528	11,901	12,217	13,280	13,374	16.0	0.7
Other operating expenses	25,059	26,795	30,190	31,190	30,943	23.5	(0.8)
<b>Operating expenses</b>	<b>36,586</b>	<b>38,696</b>	<b>42,407</b>	<b>44,470</b>	<b>44,316</b>	<b>21.1</b>	<b>(0.3)</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>15,003</b>	<b>15,103</b>	<b>15,625</b>	<b>16,639</b>	<b>18,825</b>	<b>25.47</b>	<b>13.1</b>
Growth YoY (%)	59.0	29.2	23.9	6.8	25.5	(3,350bps)	1,872bps
<b>Provisions</b>	<b>4,762</b>	<b>5,284</b>	<b>6,548</b>	<b>7,223</b>	<b>9,944</b>	<b>108.8</b>	<b>37.7</b>
Growth YoY (%)	54.6	24.6	45.4	49.7	108.8	5,423bps	5,911bps
<b>PBT</b>	<b>10,242</b>	<b>9,819</b>	<b>9,077</b>	<b>9,416</b>	<b>8,881</b>	<b>(13.3)</b>	<b>(5.7)</b>
Tax	2,590	2,306	1,920	2,173	2,074	(19.9)	(4.5)
<b>PAT</b>	<b>7,652</b>	<b>7,513</b>	<b>7,157</b>	<b>7,244</b>	<b>6,807</b>	<b>(11.0)</b>	<b>(6.0)</b>
Growth YoY (%)	103.1	35.2	18.4	(9.8)	(11.0)	(11,410bps)	(129bps)
<b>Per Share</b>							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	1	1	1	1	1	(17.2)	(5.9)
Book Value (Rs)	40	41	47	45	47	17.8	3.8

Source: Company, BOBCAPS Research

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

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Deposits	1,544,270	1,712,359	1,825,490	2,005,763	2,096,663	35.8	4.5
Growth YoY (%)	36.2	38.7	37.2	38.7	35.8	(47bps)	(290bps)
Advances	1,673,740	1,748,138	1,855,030	1,945,924	2,025,681	21.0	4.1
Growth YoY (%)	26.3	29.7	26.1	28.2	21.0	(524bps)	(717bps)
Investment	562,690	631,326	603,960	747,104	736,242	30.8	(1.5)
Equity	265,310	276,754	314,510	321,613	334,434	26.1	4.0
Assets	2,489,500	2,647,184	2,707,380	2,961,151	3,068,192	23.2	3.6
Growth YoY (%)	24.1	24.4	22.3	23.4	23.2	(88bps)	(17bps)
<b>Yield (%)</b>							
Yield on Funds	11.85	12.06	12.40	12.20	12.23	38bps	3bps
Cost of Funds	6.06	6.27	6.36	6.26	6.38	32bps	12bps
Spread	5.79	5.79	6.04	5.94	5.85	6bps	(9bps)
<b>Net Interest Margin</b>	6.46	6.48	6.75	6.63	6.53	7bps	(10bps)
<b>Ratios (%)</b>							
Other Income / Net Income	27.4	26.6	26.1	26.9	25.6	(176bps)	(123bps)
Cost to Income ratio	70.9	71.9	73.1	72.8	70.2	(73bps)	(258bps)
CASA ratio	46.5	46.4	46.8	47.2	46.6	12bps	(65bps)
C/D ratio	108.4	102.1	101.6	97.0	96.6	(1177bps)	(40bps)
Investment to Assets	22.6	23.8	22.3	25.2	24.0	139bps	(123bps)
<b>Assets Quality</b>							
GNPA	36,034	37,478	37,754	37,184	39,042	8.3	5.0
NNPA	11,490	11,925	12,503	11,605	11,953	4.0	3.0
Provision	24,544	25,553	25,251	25,579	27,089	10.4	5.9
GNPA (%)	2.17	2.11	2.04	1.88	1.90	(27bps)	2bps
NNPA (%)	0.70	0.68	0.68	0.60	0.59	(11bps)	(1bps)
Provision (%)	68.1	68.2	66.9	68.8	69.4	127bps	59bps
Slippages	0.00	0.00	0.80	0.73	0.85	85bps	13bps
<b>Others (nos)</b>							
Branches	824	862	897	944	955	131	11
ATMs	-	1,111	1,136	1,164	1,216	1,216	52

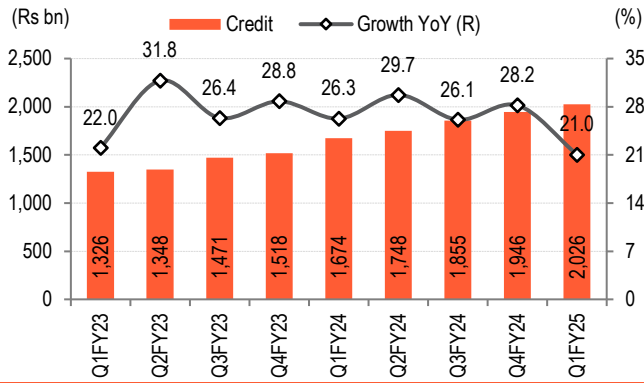
Source: Company, BOBCAPS Research

**Fig 3 – Actual vs. Estimates**

(Rs bn)	Q1FY25A	Q1FY25E	Actual vs. Estimates (%)
Loan	2,026	2,121	(4.5)
Deposits	2,097	2,100	(0.2)
Assets	3,068	3,231	(5.0)
NII	47	49	(4.5)
PPOP	19	19	0.6
Provision	10	8	30.4
PAT	7	8	(19.7)

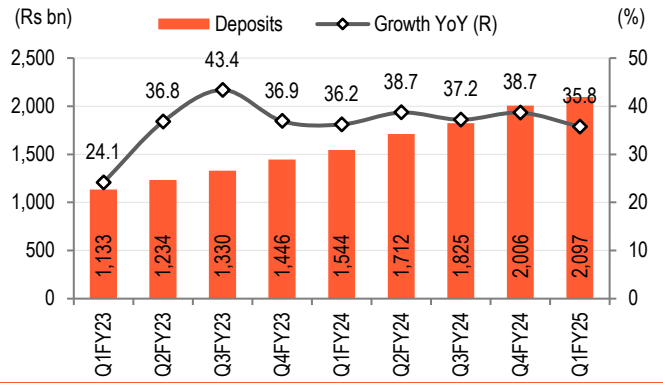
Source: Company, BOBCAPS Research

**Fig 4 – Credit moderates on seasonality**



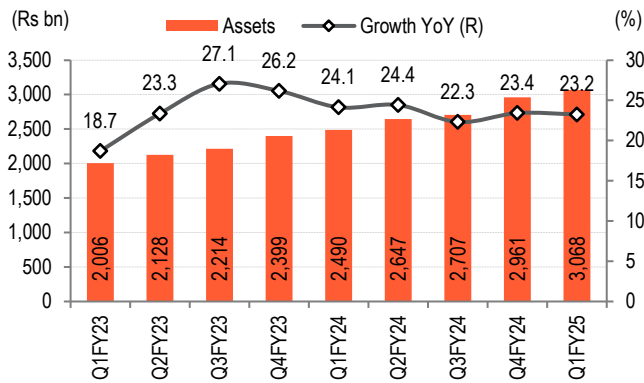
Source: Company, BOBCAPS Research

**Fig 5 – Deposit growth continued to outpace loan growth**



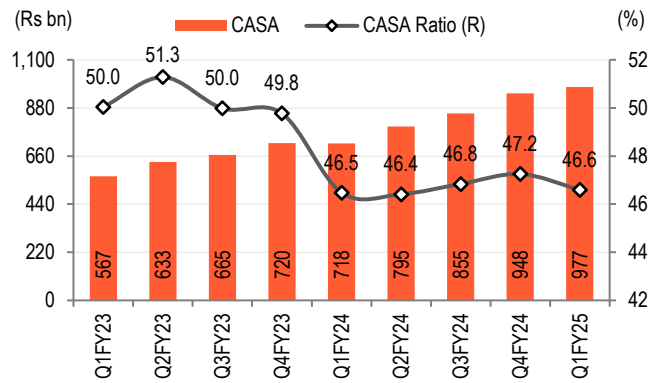
Source: Company, BOBCAPS Research

**Fig 6 – Asset growth healthy**



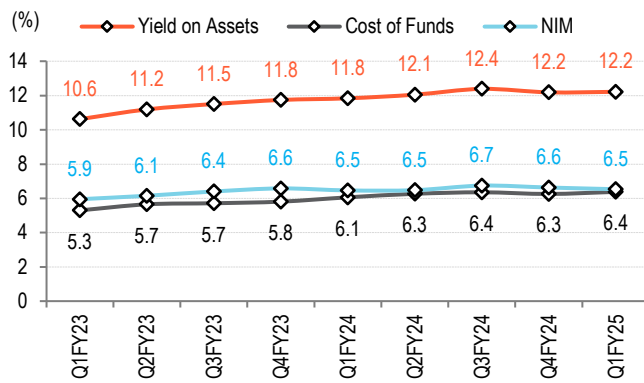
Source: Company, BOBCAPS Research

**Fig 7 – CASA ratio increased 65bps in Q1**



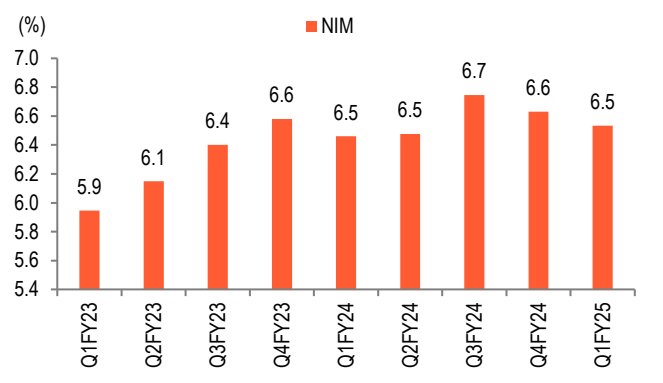
Source: Company, BOBCAPS Research

**Fig 8 – Cost of funds continued to rise**



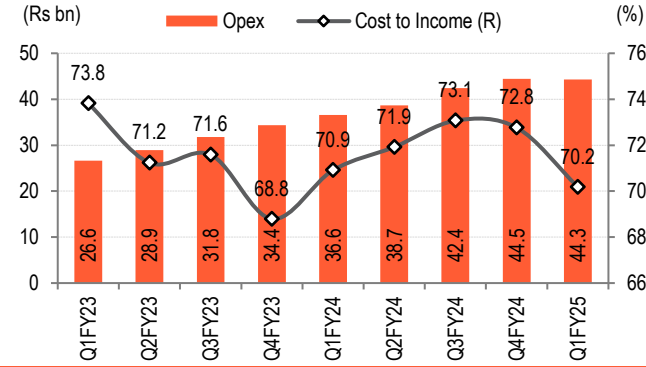
Source: Company, BOBCAPS Research

**Fig 9 – Change in business mix likely to aid NIM**



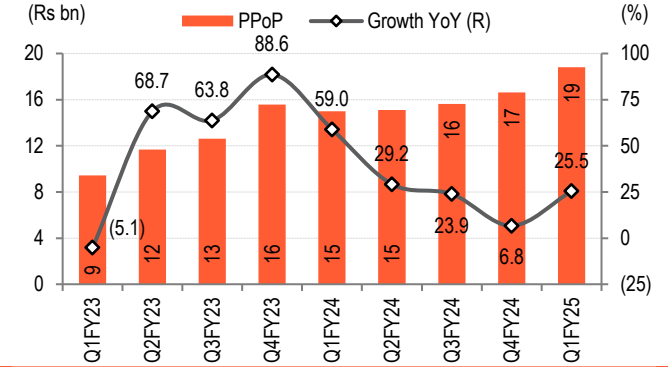
Source: Company, BOBCAPS Research

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



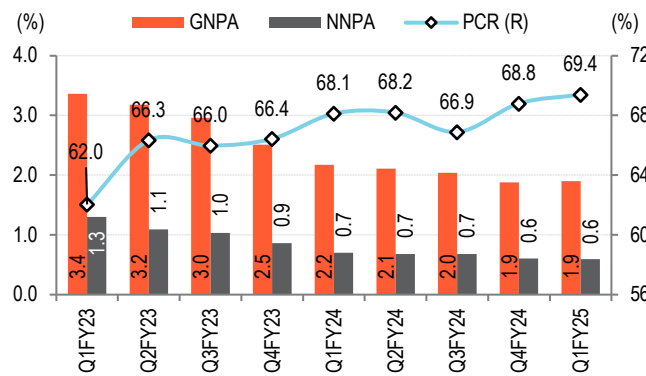
Source: Company, BOBCAPS Research

**Fig 11 – PPOP growth remained healthy**



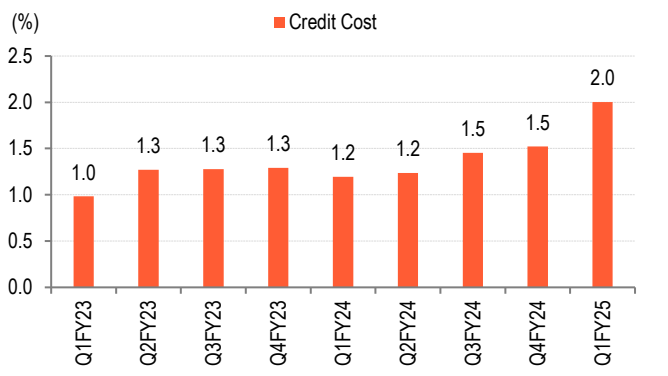
Source: Company, BOBCAPS Research

**Fig 12 – Asset quality remained stable**



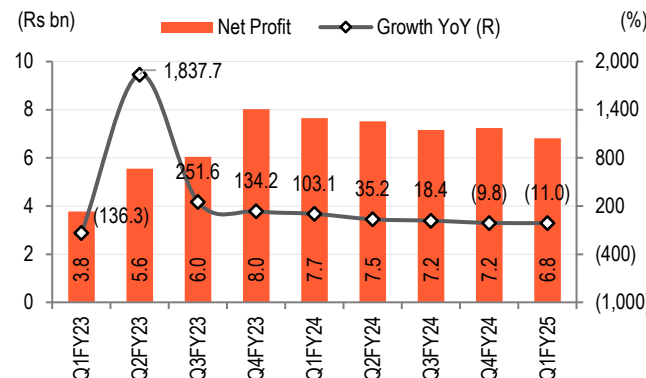
Source: Company, BOBCAPS Research

**Fig 13 – Credit cost likely to improve in H2FY25**



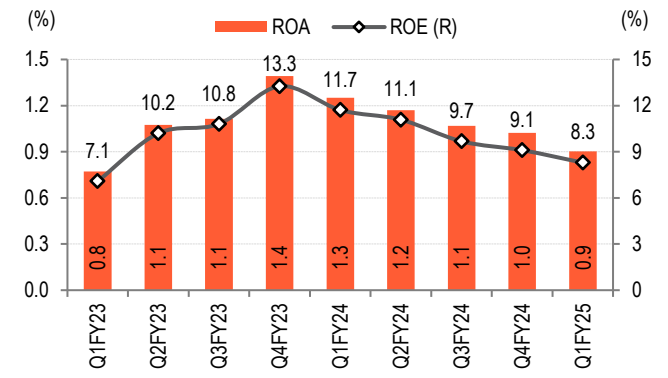
Source: Company, BOBCAPS Research

**Fig 14 – PAT declined on softer topline**



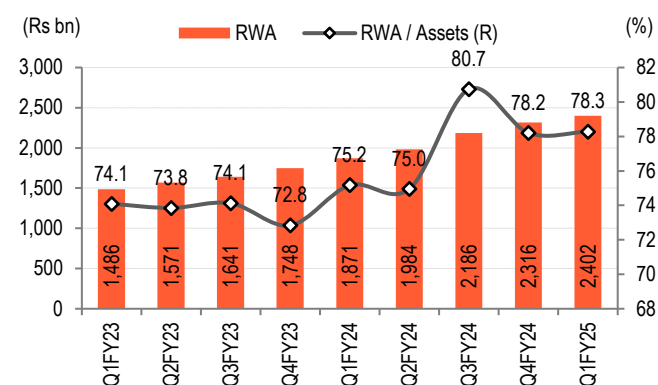
Source: Company, BOBCAPS Research

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



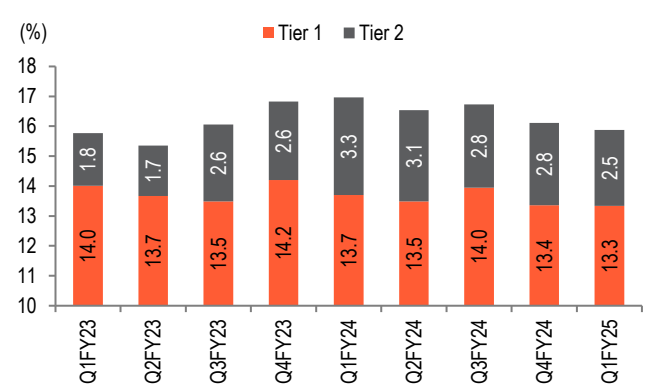
Source: Company, BOBCAPS Research

**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)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
CASA Deposits	664,980	719,830	717,650	794,680	854,920	947,680	976,920	36.1	3.1
Term Deposits	665,400	726,543	826,620	917,679	970,570	1,058,083	1,119,743	35.5	5.8
<b>Total Deposits</b>	<b>1,330,380</b>	<b>1,446,373</b>	<b>1,544,270</b>	<b>1,712,359</b>	<b>1,825,490</b>	<b>2,005,763</b>	<b>2,096,663</b>	<b>35.8</b>	<b>4.5</b>

Source: Company, BOBCAPS Research

**Fig 19 – Deposit distribution**

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
CASA Deposits	50.0	49.8	46.5	46.4	46.8	47.2	46.6	12bps	(65bps)
Term Deposits	50.0	50.2	53.5	53.6	53.2	52.8	53.4	(12bps)	65bps
<b>Total Deposits</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0bps</b>	<b>0bps</b>

Source: Company, BOBCAPS Research

**Fig 20 – Source of fund distribution**

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Legacy Long Term Bonds	65,110	64,110	61,480	61,290	60,300	46,220	41,290	(32.8)	(10.7)
Legacy Infrastructure Bonds	75,420	69,150	69,010	59,080	58,990	55,100	53,060	(23.1)	(3.7)
Refinance	202,270	209,900	199,100	186,940	175,380	166,120	154,560	(22.4)	(7.0)
Other Borrowings	20,640	29,760	42,970	11,090	20,750	26,010	32,250	(24.9)	24.0
Tier II Bonds	30,000	30,000	45,000	45,000	45,000	45,000	45,000	0.0	0.0
<b>Total Borrowings</b>	<b>393,440</b>	<b>402,920</b>	<b>417,560</b>	<b>363,400</b>	<b>360,420</b>	<b>338,450</b>	<b>326,160</b>	<b>(21.9)</b>	<b>(3.6)</b>
CASA Deposits	664,980	719,830	717,650	794,680	854,920	947,680	976,920	36.1	3.1
Term Deposits	570,800	648,290	767,090	852,580	909,900	989,850	1,068,800	39.3	8.0
<b>Total Customers Deposits</b>	<b>1,235,780</b>	<b>1,368,120</b>	<b>1,484,740</b>	<b>1,647,260</b>	<b>1,764,820</b>	<b>1,937,530</b>	<b>2,045,720</b>	<b>37.8</b>	<b>5.6</b>
Certificate of Deposits	94,600	78,260	59,530	65,100	60,680	68,230	50,950	(14.4)	(25.3)
Money Market Borrowings	150,630	169,210	139,850	168,260	90,670	170,910	192,530	37.7	12.6
<b>Borrowings &amp; Deposits</b>	<b>1,874,450</b>	<b>2,018,510</b>	<b>2,101,680</b>	<b>2,244,020</b>	<b>2,276,590</b>	<b>2,515,120</b>	<b>2,615,360</b>	<b>24.4</b>	<b>4.0</b>

Source: Company, BOBCAPS Research

**Fig 21 – Source of fund distribution trend**

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Legacy Long Term Bonds	3.5	3.2	2.9	2.7	2.6	1.8	1.6	(135bps)	(26bps)
Legacy Infrastructure Bonds	4.0	3.4	3.3	2.6	2.6	2.2	2.0	(125bps)	(16bps)
Refinance	10.8	10.4	9.5	8.3	7.7	6.6	5.9	(356bps)	(70bps)
Other Borrowings	1.1	1.5	2.0	0.5	0.9	1.0	1.2	(81bps)	20bps
Tier II Bonds	1.6	1.5	2.1	2.0	2.0	1.8	1.7	(42bps)	(7bps)
<b>Total Borrowings</b>	<b>21.0</b>	<b>20.0</b>	<b>19.9</b>	<b>16.2</b>	<b>15.8</b>	<b>13.5</b>	<b>12.5</b>	<b>(740bps)</b>	<b>(99bps)</b>
CASA Deposits	35.5	35.7	34.1	35.4	37.6	37.7	37.4	321bps	(33bps)
Term Deposits	30.5	32.1	36.5	38.0	40.0	39.4	40.9	437bps	151bps
<b>Total Customers Deposits</b>	<b>65.9</b>	<b>67.8</b>	<b>70.6</b>	<b>73.4</b>	<b>77.5</b>	<b>77.0</b>	<b>78.2</b>	<b>757bps</b>	<b>118bps</b>
Certificate of Deposits	5.0	3.9	2.8	2.9	2.7	2.7	1.9	(88bps)	(76bps)
Money Market Borrowings	8.0	8.4	6.7	7.5	4.0	6.8	7.4	71bps	57bps
<b>Borrowings &amp; Deposits</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0bps</b>	<b>0bps</b>

Source: Company, BOBCAPS Research

**Fig 22 – Maturity profile of high-cost borrowings**

(Rs mn)	Q1FY24	Q1FY25	Q2FY25	H2FY25	FY26	Post FY26	Rol (%)
Infrastructure Bonds	69,010	53,060	17,770	27,100	8,190	-	8.95
Long Term Legacy Bonds	61,490	41,290	2,370	3,940	34,980	-	8.88
Other Bonds	11,460	6,480	250	-	2,980	3,260	9.13
Refinance	18,600	-	-	-	-	-	-
<b>Total</b>	<b>160,560</b>	<b>100,830</b>	<b>20,390</b>	<b>31,040</b>	<b>46,150</b>	<b>3,260</b>	<b>8.93</b>

Source: Company, BOBCAPS Research

## Key conference call takeaways

### Business

With IDFCBK's current C/D ratio at 96.6% and incremental C/D ratio of 72%, it is expecting a C/D ratio of 90%-93% by FY25 and 80% by FY26.

Branch addition would be 10%, while deposit growth would be 25% over the next three years. Borrowing would be paid off and growth in deposit would be more towards funding assets rather than paying off legacy borrowings.

High-cost legacy borrowings will fall further by Rs 50bn in FY25 from the current level of Rs 100bn.

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-FY25.

### Asset quality

Restructured book dipped to 0.26% in 1QFY25 from 0.31% in Q4, 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.

Since Jan'24, the bank has been insuring the JLG book and paying a premium of 1% to the Credit Guarantee Fund for Micro Units.

### **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 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

IDFCBK maintained its healthy growth momentum, although it witnessed some moderation due to seasonality in Q1 wherein advances grew 21% YoY and 4% QoQ in Q1FY25, driven by retail loan. The bank continued to reduce loans in infrastructure book which stood at 1.3% in Q1FY25 of the total funded assets vs. 1.6% in Q4FY24, 19.4% in FY19, 9.2% in FY21 and 2.9% in FY23. Management is confident of growing its advances by 20-22% CAGR between FY24 and FY26. We estimate advances growth at 24% CAGR over FY24-FY26.

The bank grew its deposits by 36% YoY during Q1FY25 mainly driven by retail deposits which will aid credit growth and the repayment of high-cost legacy borrowings. It expanded its network to 955 branches in Q1FY25 and plans to add 100 per annum going ahead vs. 131 branches in FY24.

Management indicated opex would remain elevated in the near term and expects moderation post Q3FY25 with business volume leverage in play. Bank guided for a slowdown in deposit mobilisation post the replacement of high-cost borrowings with deposits. Management believes this will also aid in reducing costs related to the liability franchise and the C/I ratio would reach 65% by FY27. The C/I ratio is currently at 72% and expected to remain below 70% in FY25.

The bank posted credit cost of 1.9% in Q1FY25, 1.7% excluding JLG book, and guided for the same level of credit cost for Q2 as well. Post that it will revert to the target level of 1.65%. Considering the guidance, we revise our provision estimate by 25% for FY25 and 2% for FY26, leading to 8%/4% decline in PAT though we have increased our credit and deposit growth estimates by 2-3% over the same period and factor in ongoing strong growth rate despite a challenging environment. IDFCBK's GNPA stood at 1.9% and NNPA 0.6% with PCR (Reported) at 69%. Restructured book stood at 0.26% vs 0.31% in Q4FY24. The bank's SMA book stood at 1% vs. 0.85% mainly due to JLG book.

IDFCBK is a turnaround story post Covid-19, with its business dynamics and asset quality improving substantially, as partly reflected in the valuation rerating over the past one year. Thus, factoring in robust business growth, stable margins and healthy asset quality, we believe the bank has further potential to improve its return metrics. Additionally, the bank is well capitalised with a CAR of 15.9% (CET1 at 13.3%), which will likely support business growth in FY25/FY26. As the bank is witnessing strong growth with stable margin and asset quality, operational efficiencies will likely improve its overall return ratio. The bank's current ROA is 0.9% and ROE 8.1%. It is targetting substantial improvement post FY25 and we estimate its RoA and RoE to reach 1.4%/14% by FY26 which is in line with the bank's guidance.

We value the bank at 1.5x FY26E (Jun'26) ABV (1.6x earlier) using the Gordon Growth Model and assume coverage with a BUY rating and lower TP of Rs 90 (from Rs 96). We believe the bank's strategic approach to becoming IDFC 2.0 will augur well for it, though improving operational efficiencies would be key. We introduce FY27 forecasts.

**Fig 23 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Loan	2,465,485	2,983,237	2,393,486	2,920,053	3.0	2.2
Deposits	2,707,780	3,384,725	2,607,492	3,311,515	3.8	2.2
Assets	3,664,538	4,513,847	3,586,630	4,392,071	2.2	2.8
NII	204,496	252,772	203,797	247,893	0.3	2.0
PPOP	86,567	112,461	82,918	114,921	4.4	(2.1)
Provision	38,039	38,141	30,376	37,195	25.2	2.5
PAT	36,105	55,294	39,091	57,828	(7.6)	(4.4)

Source: BOBCAPS Research

**Fig 24 – Key operational assumptions**

Parameter (%)	FY24E	FY25E	FY26E	FY27E
Advances Growth	28.2	26.7	21.0	21.0
NII Growth	30.2	24.3	23.6	21.4
PPoP Growth	26.5	38.8	29.9	27.9
PAT Growth	21.3	22.1	53.1	29.2
NIM	6.5	6.5	6.5	6.5
GNPA	1.9	2.0	1.8	1.7
CAR	16.1	14.3	13.6	12.8

Source: Company, BOBCAPS Research

**Fig 25 – Key valuation assumptions: Gordon Growth model**

Particulars (%)	
Cost of equity (%)	12.8
Blended ROE (%)	14.8
Initial high growth period (years)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	6
Long term dividend payout ratio (%)	60
Justified P/BV (x)	1.5
Implied BVPS (Rs)	59
Value per share (Rs)	90

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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	43.0	1,166	1,222	HOLD
Bandhan Bank	BANDHAN IN	4.2	218	245	BUY
Canara Bank	CBK IN	12.4	115	140	BUY
DCB Bank	DCBB IN	0.5	126	172	BUY
Federal Bank	FB IN	5.9	201	242	BUY
HDFC Bank	HDFCB IN	145.5	1,616	1,872	BUY
ICICI Bank	ICICIB IN	102.1	1,215	1,352	HOLD
IDFC First Bank	IDFCBK IN	6.4	76	90	BUY
Indusind Bank	IIB IN	13.3	1,428	1,844	BUY
Kotak Mahindra Bank	KMB IN	42.9	1,808	2,040	BUY
RBL Bank	RBK IN	1.7	235	276	BUY
State Bank of India	SBIN IN	93.0	872	969	BUY

Source: BOBCAPS Research, NSE | Price as of 31 Jul 2024

## Glossary

Glossary of Abbreviations			
<b>AUCA</b>	Advance Under Collection Account	<b>LCR</b>	Liquidity Coverage Ratio
<b>ARC</b>	Asset Reconstruction Company	<b>MCLR</b>	Marginal Cost of Funds-based Lending Rate
<b>BRDS</b>	Bills Rediscounting Scheme	<b>MFI</b>	Microfinance Institution
<b>CAR</b>	Capital Adequacy Ratio	<b>MTM</b>	Mark to Market
<b>CASA</b>	Current Account and Savings Account	<b>NII</b>	Net Interest Income
<b>CD</b>	Credit-Deposit Ratio	<b>NIM</b>	Net Interest Margin
<b>CET1</b>	Common Equity Tier 1	<b>NNPA</b>	Net Non-Performing Assets
<b>CGFMU</b>	Credit Guarantee Fund for Micro Units	<b>PCR</b>	Provision Coverage Ratio
<b>C/I</b>	Cost-Income Ratio	<b>PPOP</b>	Pre-Provision Operating Profit
<b>CRB</b>	Commercial and Rural Banking	<b>PSU</b>	Public Sector Unit
<b>EBLR</b>	External Benchmark-based Lending Rate	<b>RWA</b>	Risk-weighted Assets
<b>ECL</b>	Expected Credit Loss	<b>SA</b>	Savings Account
<b>ECLGS</b>	Emergency Credit Line Guarantee Scheme	<b>SLR</b>	Statutory Liquidity Ratio
<b>GNPA</b>	Gross Non-Performing Assets	<b>SMA</b>	Special Mention Account
<b>IBPC</b>	Interbank Participation Certificate	<b>SME</b>	Small and Medium-sized Enterprises
<b>LAP</b>	Loans against Property		

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Net interest income</b>	<b>126,353</b>	<b>164,508</b>	<b>204,496</b>	<b>252,772</b>	<b>306,794</b>
NilI growth (%)	30.2	30.2	24.3	23.6	21.4
Non-interest income	44,670	60,020	74,036	90,780	110,965
Total income	171,023	224,528	278,532	343,552	417,758
Operating expenses	121,704	162,158	191,965	231,091	273,947
PPOP	49,320	62,370	86,567	112,461	143,811
PPOP growth (%)	50.2	26.5	38.8	29.9	27.9
Provisions	16,648	23,817	38,039	38,141	47,799
PBT	32,671	38,553	48,529	74,320	96,012
Tax	8,300	8,988	12,423	19,026	24,579
<b>Reported net profit</b>	<b>24,371</b>	<b>29,565</b>	<b>36,105</b>	<b>55,294</b>	<b>71,433</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>24,371</b>	<b>29,565</b>	<b>36,105</b>	<b>55,294</b>	<b>71,433</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Equity capital	66,181	70,699	70,811	70,811	70,811
Reserves & surplus	191,030	250,914	293,954	349,248	420,681
Net worth	257,212	321,613	364,765	420,059	491,492
Deposits	1,446,373	2,005,763	2,707,780	3,384,725	4,230,907
Borrowings	572,121	509,356	478,794	493,158	507,953
Other liab. & provisions	123,711	124,419	113,199	215,905	252,609
<b>Total liab. &amp; equities</b>	<b>2,399,417</b>	<b>2,961,151</b>	<b>3,664,538</b>	<b>4,513,847</b>	<b>5,482,960</b>
Cash & bank balance	138,980	124,802	202,427	251,316	314,145
Investments	611,236	747,104	833,578	1,059,669	1,292,511
Advances	1,517,945	1,945,924	2,465,485	2,983,237	3,609,717
Fixed & Other assets	131,256	143,321	163,047	219,625	266,587
<b>Total assets</b>	<b>2,399,417</b>	<b>2,961,151</b>	<b>3,664,538</b>	<b>4,513,847</b>	<b>5,482,960</b>
Deposit growth (%)	36.9	38.7	35.0	25.0	25.0
Advances growth (%)	28.8	28.2	26.7	21.0	21.0

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
EPS	3.8	4.3	5.1	7.8	10.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	38.9	45.5	51.5	59.3	69.4

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
P/E	20.0	17.6	14.9	9.7	7.5
P/BV	2.0	1.7	1.5	1.3	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Net interest income	5.9	6.1	6.2	6.2	6.1
Non-interest income	2.1	2.2	2.2	2.2	2.2
Operating expenses	5.7	6.1	5.8	5.7	5.5
Pre-provisioning profit	2.3	2.3	2.6	2.8	2.9
Provisions	0.8	0.9	1.1	0.9	1.0
PBT	1.5	1.4	1.5	1.8	1.9
Tax	0.4	0.3	0.4	0.5	0.5
ROA	1.1	1.1	1.1	1.4	1.4
Leverage (x)	9.2	9.3	9.7	10.4	11.0
ROE	10.4	10.2	10.5	14.1	15.7

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Net interest income	30.2	30.2	24.3	23.6	21.4
Pre-provisioning profit	50.2	26.5	38.8	29.9	27.9
EPS	1451.5	13.8	18.1	53.0	29.2
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	6.1	6.4	6.4	6.4	6.3
Fees / Avg. assets	0.5	0.5	0.5	0.5	0.5
Cost-Income	71.2	72.2	68.9	67.3	65.6
ROE	10.4	10.2	10.5	14.1	15.7
ROA	1.1	1.1	1.1	1.4	1.4
<b>Asset quality (%)</b>					
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	3.4	2.4	2.4
Credit cost	1.2	1.4	1.7	1.4	1.5
Provision coverage	65.6	70.8	69.4	69.4	69.5
<b>Ratios (%)</b>					
Credit-Deposit	104.9	97.0	91.1	88.1	85.3
Investment-Deposit	42.3	37.2	30.8	31.3	30.5
CAR	16.9	16.1	14.3	13.6	12.8
Tier-1	15.3	13.4	12.3	11.7	11.3

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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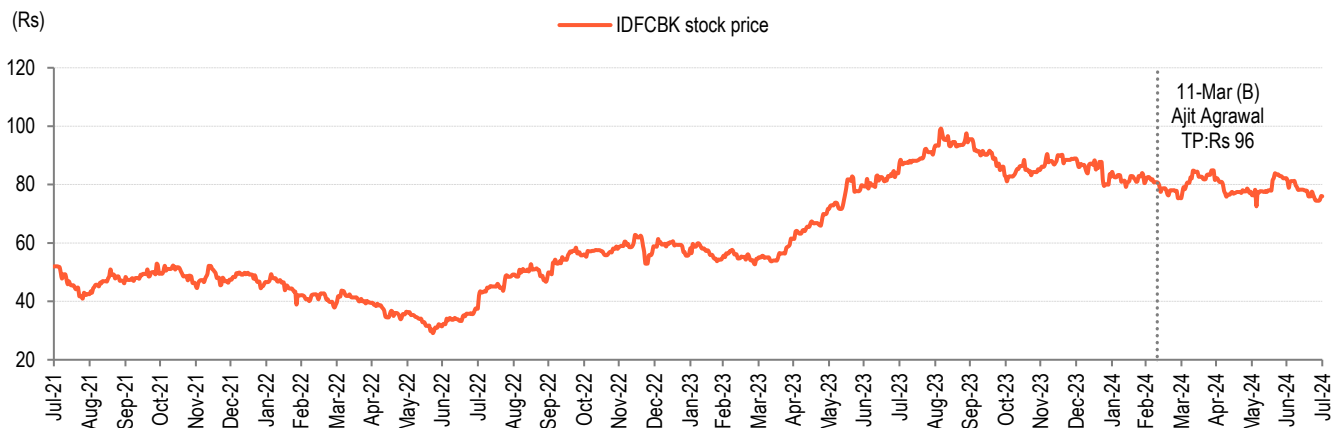
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