

Key Highlights – Q4FY23

- IDFC First Bank registered highest-ever quarterly Profit after Tax for Q4FY23 at ₹803Cr, up 134% as compared to ₹343Cr in Q4FY22.
- Customer deposits increased 47% YoY at ₹1,36,812Cr.
- Loans and advances increased by 24% YoY at ₹1,60,599Cr,
- Asset quality improved with Gross NPA at 2.51% and Net NPA at 0.86%.
- The Gross NPA and Net NPA for retail loans both decreased, indicating an improvement in asset quality.
- Other income grew 68% YoY, with strong growth in core fee income (+40% YoY) and strong treasury income.

Important Statistics

M.CAP (₹ bn)	~₹422
52 Week H/L (₹)	65/29
NSE Code	IDFCFIRSTB
BSE Code	539437

Shareholding Pattern (%)	Mar'23
Promoters	39.9%
FIIIs	19.3%
DII	7.6%
Gov	3.9%
Public	29.0%

Q4FY23 Result Update

Advances

- IDFC First Bank reported strong progress across all segments. Even as interest rates were on the rise, housing loan disbursements remained stable.
- The bank continued to grow its loan book by 24% YoY at ₹ 1,60,599 crs as of 31 March 2023. Retail and Commercial Finance mainly contributed 79% of the total Advances.
- The bank diversified its Credit Portfolio well with consumer loans at 13%, Loan against property at 13%, Rural Finance at 12%, Home loans at 12%, Commercial finance at 10%, Wheels increased to 9% and Financial institutions at 8% of the total loans.
- They have successfully wound down the infrastructure financing book and have managed to reduce infrastructure finance's share of total loans and advances from 36.7% to 2.9% Over the past five years, as of March 31, 2023.

Gross Loans & Advances	YoY (%)
Home Loan	39%
Loan Against Property	11%
Wheels	53%
Consumer Loans	20%
Rural Finance	48%
Digital, Gold Loan and Others	50%
Credit Card	74%
Commercial Finance	57%
Corporate	9%
Infrastructure	-32%
Others	-35%
Total Gross Loans & Advances	24%

Deposit Growth (₹ Cr)			
	Mar-23	Mar-22	YoY%
Deposits	1,44,637	1,05,634	37%
CASA	71,983	51,170	41%
Term	72,655	54464	33.40%

Deposits

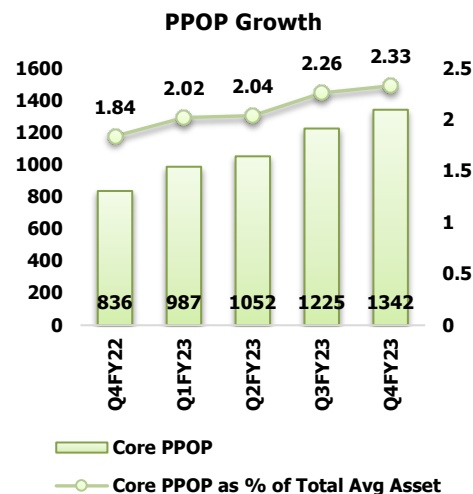
- The CASA ratio increased by 133 basis points YoY, from 48.44% on 31 March 2022, to 49.77% on 31 March 2023.
- CASA deposits are seen to be increasing at a 74% CAGR over a four-year period from ₹7,893 crs on 31 Mar 2019 to ₹71983Cr on 31 Mar 2023 majorly driven by expansion in granular retail.
- The bank's improved customer service and reputation as a clean and ethical business have helped them expand their deposit base. The customer deposits saw an increase of 47% YoY at ₹ 1,36,812 crs.
- The bank significantly increased its retail deposit base, attaining a 3-year CAGR of 84% from Dec'18 to Dec'22. As a result, the Retail Wholesale Deposits composition has shifted from 27:73 in Dec'18 to 76:24 in Mar'23.



Source – Company, Way2Wealth Research

➤ **Improved Profitability Metrics**

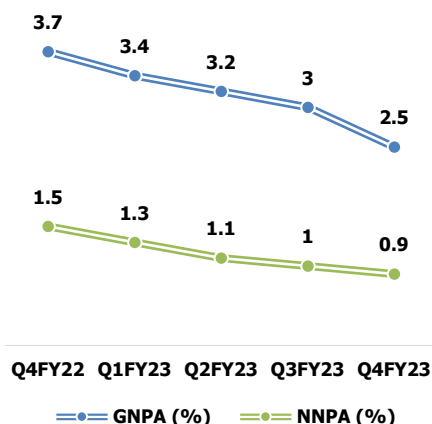
- NII increased by 35% YoY, from ₹ 2,669 crs in Q4FY22 to ₹ 3,597 crs in Q4FY23. NIM for Q4FY23 was 6.41%, up 28bps from 6.13% in Q3FY23.
- Fee and other income increased by 40% YoY, from ₹ 841 crs in Q4FY22 to ₹ 1,181 crs in Q4FY23. Retail fees accounted for 91% of the overall fees in the Q4FY23. Also, it significantly increased from ₹1167Cr in FY19 to ₹4142Cr in FY23 indicating a 4-year CAGR of 37%.
- The bank had trading gains of ₹ 216 crs in Q4FY23 and used ₹ 79 crs to boost the provision coverage ratio. After adjusting for these one-time factors, the bank's net profit for Q4FY23 would have been ₹ 701 crs. On this basis, the Core RoE would have been 12.3%, up from 6.67% for Q4FY22.
- The Core PPOP was 2.33% (annualised) as a percentage of average assets in QFY23, up from 1.84% in Q4FY22.
- Rundown of high-cost legacy debt to enhance Cost of Fund and aid profitability. The management projected margins of 5.6%.
- Capital adequacy ratio was strong at 16.82%.



Source – Company, Way2Wealth Research

➤ **Asset Quality –**

- Due to excellent underwriting, credit bureaus, technology, and the ability to lend based on cash flow, a significant and expanding portion of the book, i.e. the retail and commercial business financing, has low NPA levels. The Corporate Book's Asset Quality is also high, with an adequate PCR of 99.84%.
- The bank's Asset quality improved sequentially, with GNPA and NNPA falling 45 bps and 17 bps QoQ to 2.51% and 0.86%, respectively.
- In contrast to the guidance of a gross NPA of 2.0% and a net NPA of less than 1%, Retail GNPA fell from 2.03% to 1.65% QoQ and its net NPA at 0.55%. The management is optimistic about asset quality in the future.
- The Gross NPA and Net NPA at the entire bank level would be 1.84% and 0.46% if we remove the infrastructure finance book, which is already in the run-down phase.
- In FY23, the Bank's restructured pool shrank by 60%; as of 31 March 2023, it made up 0.59% of total loans and advances, down from 1.84% on March 31, 2022.



Source – Company, Way2Wealth Research

5th May 2023

CMP – ₹63.80/-

 View – **Buy**
View

IDFC First Bank's consistent growth in core operating profit showcases the strength of the bank's core operating model despite significant setup investments in building capabilities including new products, network, people, digital innovations etc. Bank has seen a steady rise in its RoE since the merger, increasing from near-zero to 10.4% in FY23. This was largely due to their strong incremental profitability. As the drag from the wholesale book continues to ease, the bank is entering a period of strong loan growth. This will be assisted by a significant increase in profitability as a result of the replacement of high-cost borrowings, improved cost trends, and regulated credit costs. Bank's unit economics seems quite robust, with incremental RoE of over 20% in their primary retail and commercial lending growth areas. The FY25 RoE is expected to reach 15% as guided by the bank's management.

Asset quality continues to improve on reduction in net stressed assets both in terms of absolute value and as a percentage of all assets suggesting the upcoming NPA levels to be lower. The FY24 RoA is expected to increase to 1.3% from 1.1% in FY23.

The addition of around 168 branches in FY23 is an indication of gearing up for the next wave of growth. At CMP of ₹ 64 the stock is being quoted at a P/B (Adj) ratio of ~1.6x FY24E. **Given the strong growth momentum and the bank's managerial efficiency to improve asset quality and expand its branch network further, we continue with our recommendation of Buy.**

5th May 2023

CMP – ₹63.80/-

 View – **Buy**
Financial Performance

Particulars (₹ Cr)	Q4FY23	Q4FY22	YoY (%/bps)	Q3FY23	QoQ (%/bps)	FY23	FY22	YoY (%/bps)
Interest Income	6,424	4,554	41%	5,912	9%	22,728	17,173	32%
Interest Expense	2,828	1,884	50%	2,627	8%	10,092	7,467	35%
Net Interest Income	3,597	2,669	35%	3,285	9%	12,635	9,706	30%
Fee & Other Income	1,181	841	40%	1,117	6%	4,142	2,691	54%
Trading Gain	216	-9	-	36	-	325	531	-39%
Operating Income	4,994	3,500	43%	4,438	13%	17,102	12,928	32%
Operating Income (Excl Trading Gain)	4,778	3,510	36%	4,402	9%	16,777	12,397	35%
Operating Expense	3,436	2,674	28%	3,177	8%	12,170	9,644	26%
Operating Profit (PPOP)	1,559	827	89%	1,261	24%	4,932	3,284	50%
Operating Profit (Ex. Trading gain)	1,342	836	61%	1,225	10%	4,607	2,753	67%
Provisions	482	369	31%	450	7%	1,665	3,109	-46%
Profit Before Tax	1,076	457	135%	811	33%	3,267	175	1765%
Tax	274	114	139%	206	33%	830	30	2697%
Profit After Tax	803	343	134%	605	33%	2,437	145	1575%
CAR (Basel III) %	16.82	16.74	8	15.01	181	16.82	16.74	8
CASA ratio	49.77	48.44	133	50.0	-23	49.77	49.44	133
EPS	1.26	0.54	133%	0.96	31%	3.7	0.2	1750%
GNPA %	2.51	3.7	-119	2.96	-45	2.5	3.7	-119
NNPA %	0.86	1.53	-67	1.03	-17	0.9	1.5	-67
RoE	13.45	6.67	678	10.72	273	10.4	0.7	970
RoA	1.42	0.76	66	1.11	31	1.13	0.08	105
Networth	24299	19080	27%	21048	15%	24299	19080	27%
Debt-Equity Ratio	1.09	1.38	-29	1.31	-22	1.09	1.38	-29
Branch	809	641	168	707	102	809	641	168

Source – Company, Way2wealth Research

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Name of the Security	IDFC First Bank Ltd.
Name of the analyst	Dhananjay Kansara
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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