

9th November 2023

₹83.70/-

 View – **Buy**
Key Highlights – Q2FY24

- IDFC First Bank Ltd.'s PAT was up +35% YoY / flat QoQ to ₹7,513mn.
- Total deposits rose +44% YoY / +11% QoQ to ₹1,647bn.
- Loan book witnessed healthy +26% YoY / +7% QoQ growth to ₹1,832bn.
- Asset quality improved significantly with GNPA at 2.1% and NNPA at 0.7%.
- Bank's focus remains on brining down the mix of legacy Infrastructure projects in overall financing book which now stands at 1.8%.
- Return ratios for the bank have come off slightly on sequential basis with RoA at 1.2% (-10bps QoQ) and RoE at 11.0% (-75bps QoQ).

Important Statistics

| | |
|------------------------|------------|
| Nifty | 19,444 |
| Sensex | 64,976 |
| M.CAP (₹ bn) | ~₹591 |
| 52 Week H/L (₹) | 65/29 |
| NSE Code | IDFCFIRSTB |
| BSE Code | 539437 |
| Bloomberg Code | IDFCBK:IN |

Shareholding Pattern (%) Sep'23

| | |
|-----------|--------|
| Promoters | 39.37% |
| FII's | 24.48% |
| DII | 9.51% |
| Public | 26.65% |

Q2FY24 Result Update
Advances –

- IDFC First Bank Ltd. delivered strong growth in advances supported by healthy performance from new lines of businesses within lending. Mortgage backed book now stands at ~28%, with mix of home loans and loan against property stable at 24%.
- Loans and advances during Q2FY24, witnessed +26% YoY/+7% QoQ increase to ₹1,832bn driven by continued strong performance in consumer finance segment which grew +32% YoY/ +8% QoQ to ₹1,274bn.
- Within consumer financing, home loans saw healthy +26% YoY (+6% QoQ) growth to ₹213bn, while consumer loans were up +22% YoY (+4% QoQ) to ₹232bn.
- Education loan book witnessed sharp sequential rise of 37% to ₹17.6bn (up from ₹5.8bn in Q2FY23) while vehicle financing grew strong at +9% QoQ (+41% YoY) to ₹178bn.
- Focus remains on bringing down the legacy Infrastructure loans, which now stands at 1.8% of overall book. It fell -44% YoY/ -11% QoQ to ₹34bn.
- SME and Corp. Finance business too posted robust performance, up +22% YoY/ +5% QoQ to ₹524bn. The growth was broad based with Corporate loan book growing +18% YoY (+6% QoQ) to ₹293bn while CV/CE financing nearly doubled on YoY basis (+16% QoQ) to ₹49bn.
- Management highlighted that the bank's exposure to personal loans less than '50,000 is ₹5.4bn which constitutes 0.3% of the overall funded assets.

| Gross Loans & Advances | YoY (%) |
|-------------------------------|---------|
| Home Loan | 26% |
| Loan Against Property | 15% |
| Wheels | 41% |
| Consumer Loans | 22% |
| Rural Finance | 51% |
| Digital, Gold Loan and Others | 35% |
| Credit Card | 58% |
| Commercial Finance | 5% |
| Corporate | 18% |
| Infrastructure | -44% |
| Others | 69% |
| Total Gross Loans & Advances | 26% |

Deposit Growth (₹ bn)

| | Sept-23 | Sept-22 | YoY % |
|----------|---------|---------|-------|
| CASA | 795 | 633 | 26% |
| Term | 853 | 507 | 68% |
| Deposits | 1,647 | 1,140 | 44% |

Relative Performance

| Return (%) | 1 Yr | 3Yr | 5 Yr |
|------------------------|------------|-------------|-------------|
| IDFC First Bank | 45% | 148% | 130% |
| Nifty 50 | 7% | 56% | 84% |
| Sensex | 7% | 53% | 85% |

Source – Company, Way2Wealth Research

Deposits and Borrowings –

- Total deposits during the quarter witnessed strong growth of +44% YoY/ +11% QoQ to ₹1,647bn. It was led by +68% YoY/ +11% QoQ increase in Term Deposits to ₹853bn. CASA deposits posted healthy performance rising +26% YoY/ 11% QoQ to ₹795bn.
- Although, CASA ratio fell -490 bps YoY, it remained fairly stable sequentially at 46.4% and remained one of the highest among its listed peers.
- In overall customer deposits, strong YoY growth has led the share of retail deposits rising to 77%, thus reducing bank's dependency on wholesale book.
- Certificate of deposits degrew in by -31% YoY/ up +9% QoQ to ₹65bn.

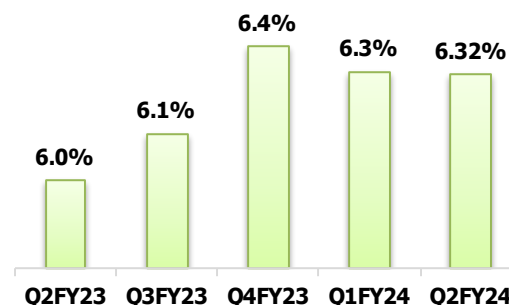
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➤ **Improved Profitability Metrics –**

- IDFC First Bank posted healthy performance in Q2FY24, recording a +32% YoY/ +5% QoQ growth in net interest income to ₹39.5bn. Growth in interest expenses came in higher at +38% YoY (+9% QoQ) than that of +34% YoY (+7% QoQ) in interest income.
- Net interest margin for the quarter stood at 6.3%, up +49 bps YoY/ stable QoQ, likely due to of interest rate pass on to MCLR linked loan book.
- Fee and other income (including Trading gains) was up +35% YoY but flat sequentially at ₹14.3bn, with improved mix from retail fees at 92%. Contribution from new lines of revenue such as credit card & FASTag, wealth and forex remains stable at ~40% of overall fee & other income pie showcasing strong traction while that from loan origination fees stood higher at 32%.
- During the quarter, 38 new branches were added and operating expenses rose +34% YoY / +6% QoQ to ₹39bn. Resultantly, core PPOP stood at ₹15.1bn up +29% YoY/ flat QoQ.
- Provisions for the quarter were up +25% YoY/+11% QoQ at ₹5.3bn. Profit after tax came in at ₹7.5bn increased +35% YoY/ decreased -2% QoQ.

Net Interest Margin

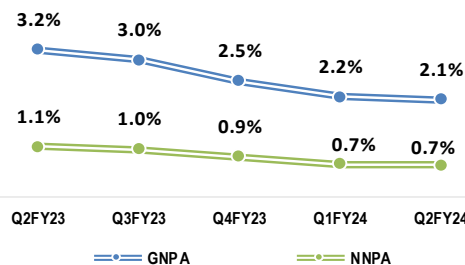


Source – Company, Way2Wealth Research

➤ **Asset Quality –**

- Led by stringent underwriting processes and better controls in place, asset quality has improved significantly. For Q2FY24, overall GNPA came in at 2.1% down -107 bps YoY/ -6 bps QoQ, while NNPA stood at 0.7% down -41 bps YoY/ -2 bps QoQ.
- Asset quality of bank’s retail book is strong and below pre-COVID level with GNPA and NNPA coming in at 1.5% and 0.5% respectively. Run-down of high NPA infrastructure book would eventually lead to overall asset quality improving to that of retail book level over the medium term.
- Overall SMA book (SMA1+SMA2) now stands at 0.77% of total Retail, Rural and SME loan book, down from 0.85% in Q1FY24 and 0.89% in Q2FY23.

Asset Quality

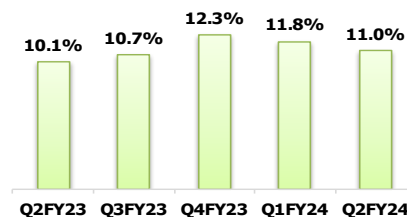


Source – Company, Way2Wealth Research

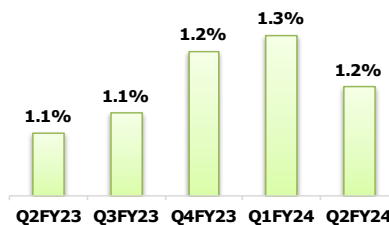
➤ **Return Ratios –**

- During the quarter, bank’s return ratios have moderated slightly on sequential basis, with capital infusion of ₹30bn in Oct’23 led return on equity fall by -75 bps QoQ coming in at 11.0%, but up +90 bps YoY. Return on assets was at 1.2% up +9 bps YoY / -10 bps QoQ.

Return on Equity



Return on Assets



Source – Company, Way2Wealth Research

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 View – **Buy**
View

IDFC First Bank Ltd. posted healthy earnings during the quarter on account of decent growth in deposits and loan book coupled with stable performance across all other parameters. Retail loan book remains the key growth engine for the bank, with new businesses such as vehicle finance and credit cards leading the way. Management is confident on the bank's capabilities to expand its deposit base at fairly high rate with strong contribution from retail deposits. This deposit growth is sufficient to fulfill the existing obligations as well as support the loan book growth in the future. On the asset quality front, management does not see red-flags for its unsecured book and have in-fact increased controlling measures. Increase in collection efficiency also indicates that there would unlikely be any concerns over further improvement in the asset quality.

At CMP of ₹83.7 the stock is trading at a P/B (Adj) ratio of ~1.6x FY25E. **Further scope in improvement of asset quality with rising share of retail book and stable margin profile despite elevated cost of deposits hints towards more headroom available for profitability improvement over the medium term, thus we maintain our BUY rating on the bank.**

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 View – **Buy**
Financial Performance

| Particulars (₹ mn) | Q2FY24 | Q2FY23 | YoY (%/bps) | Q1FY24 | QoQ (%/bps) | 1HFY24 | 1HFY23 | YoY (%/bps) |
|--------------------------------|---------------|---------------|-------------|---------------|-------------|---------------|---------------|-------------|
| Interest Income | 73,562 | 54,697 | 34% | 68,677 | 7% | 1,42,239 | 1,03,914 | 37% |
| Interest Expense | 34,060 | 24,675 | 38% | 31,226 | 9% | 65,286 | 46,381 | 41% |
| Net Interest Income | 39,502 | 30,022 | 32% | 37,451 | 5% | 76,953 | 57,533 | 34% |
| Fee & Other Income | 14,296 | 10,613 | 35% | 14,138 | 1% | 28,435 | 19,170 | 48% |
| Operating Income | 53,798 | 40,635 | 32% | 51,589 | 4% | 1,05,388 | 76,703 | 37% |
| Operating Expense | 38,696 | 28,948 | 34% | 36,586 | 6% | 75,282 | 55,578 | 35% |
| Operating Profit (PPOP) | 15,103 | 11,687 | 29% | 15,003 | 1% | 30,106 | 21,125 | 43% |
| Provisions | 5,284 | 4,242 | 25% | 4,762 | 11% | 10,045 | 7,322 | 37% |
| Profit Before Tax | 9,819 | 7,445 | 32% | 10,242 | -4% | 20,061 | 13,804 | 45% |
| Tax | 2,306 | 1,890 | 22% | 2,590 | -11% | 4,896 | 3,505 | 40% |
| Profit After Tax | 7,513 | 5,556 | 35% | 7,652 | -2% | 15,165 | 10,299 | 47% |
| Dil. EPS | 1.1 | 0.9 | 26% | 1.1 | -3% | 2.3 | 1.6 | 38% |
| CASA ratio | 46.4% | 51.3% | -490 bps | 46.5% | -10 bps | 46.4% | 51.3% | -490 bps |
| GNPA % | 2.1% | 3.2% | -107 bps | 2.2% | -6 bps | 2.1% | 3.2% | -107 bps |
| NNPA % | 0.7% | 1.1% | -41 bps | 0.7% | -2 bps | 0.7% | 1.1% | -41 bps |
| RoE | 11.0% | 10.1% | 90 bps | 11.8% | -75 bps | 11.4% | 9.5% | 182 bps |
| RoA | 1.2% | 1.1% | 9 bps | 1.3% | -10 bps | 1.2% | 1.0% | 18 bps |
| Capital Adequacy Ratio | 18.1% | 15.4% | 271 bps | 17.0% | 110 bps | 18.1% | 15.4% | 271 bps |

Source – Company, Way2wealth Research

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Disclosure of Interest Statement Prasad Hase as on November 09, 2023

| | |
|--|----------------------|
| Name of the Security | IDFC First Bank Ltd. |
| Name of the analyst | Prasad Hase |
| 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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| Investment Banking relationship with company covered | NIL |

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