Sector – Banking

IDFC First Bank Ltd.

14th March 2023 | CMP – ₹54.80/- | View – **Buy**

Key Highlights – Q3FY23

- Overall yield grew on the back of hike in repo rates boosted by a greater share of Retail lending.
- Costs continue to decline as funding from CASA deposits replaces high-cost borrowings
- Consistent double-digit RoE and a RoA above 1% affirms the bank's ability to grow profitably
- Asset quality improves with Gross NPA dropping below the 3% mark
- Expansion of branches and offerings to limit profit growth somewhat

Important Statistics

M.CAP (₹ bn)	~₹342
52 Week H/L (₹)	64.30/28.95
NSE Code	IDFCFIRSTB
BSE Code	539437

Shareholding Pattern (%)	Dec'22
Promoters	36.38%
FIIs	19.76%
DII	13.84%
Public& Others	30.02%

Q3FY23 Result Update

IDFC First Bank's NIM climbed 38bps QoQ to 6.36% on the back of hike in repo rates, increased share of high-margin retail lending (57% of the loan book vs. 52% YoY) and continued churn in sources of funding as Deposits replace high-cost borrowings. IDFC Bank's endeavour to expand its presence elevated its quarterly Op-ex by 25% YoY to `31.77bn, but this was off-set by the increase in fee income, resulting in the quarter's PAT doubling YoY to `6.05bn.

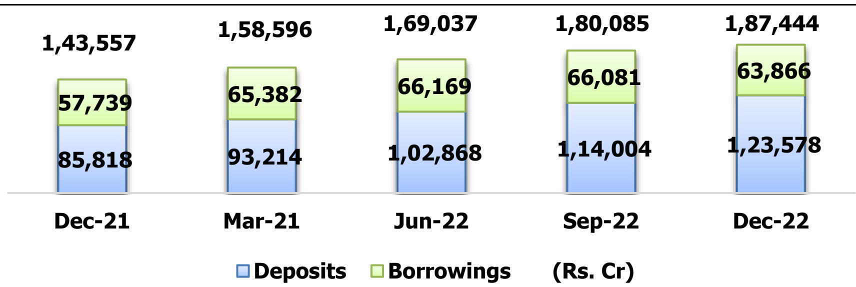
- **Churn in Sources of Funding –** In line with its goal to source a larger chunk of funds from CASA and Term Deposits vs. Infrastructure and other bonds, the bank has trimmed its legacy bond liability down to ₹187.62bn, while ensuring that its strong customer service continues to attract and engage with CASA and Deposit customers.

  Volatility in the equities market and other securities' markets began to spike during the quarter on the back of gloomy global and local macro-economic trends, leading many investors to switch to safe haven investments such as FDs and TDs.

  To expand its retail presence, the bank continues to set up new branches at a pace of 35-40 branches every quarter, with the overall network standing at 707 branches as on Dec-22.

  In addition to this, the management claims that its strong levels of customer service is one of the key drivers for the bank witnessing a strong, disproportionate level of deposit inflows, in spite of a negligible increase in deposit rates. 80%+ of these deposits are a quantum of less than ₹5cr. The increasing appeal also made customers more likely to utilize other ancillary services provided by the bank, which is likely why 90%+ of the non-core Fee & Other Income generated in the quarter was from Retail operations.

  At the end of Dec-22, CASA and TDs cumulatively stood at ₹1,235.78bn, making up 2/3rd of the bank's external funding book.



Source – Company, Way2Wealth Research

- **Loan Book Growth –** The opening up of the economy post co-vid continued to play in favour of the bank as festivities, weddings and other social occasions resumed in full swing after a 2 year hiatus, resulting in a 70% YoY growth in the Gold and Digital Loan book to ₹115.23bn and a 50% YoY growth in the Vehicle Finance book to ₹138.93bn. The Credit Card and Personal Loan book grew 33% YoY to ₹232.44bn as consumers continued to lean towards consumer finance options such as Personal Loans, 0-cost EMI plans, BNPL, Credit Cards, etc. when undertaking large transactions.

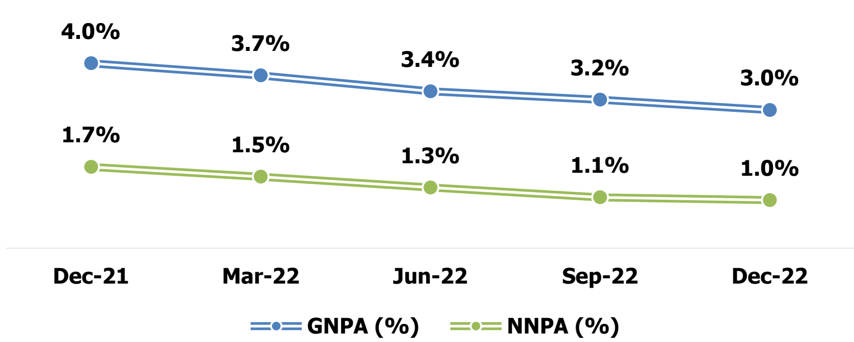
  Given the bank's focus on increasing its Retail book, the Corporate Finance Loan book grew a comparatively modest 23% YoY to ₹396.84bn, while its Infrastructure lending book contracted 31% YoY to ₹55.72bn.

Particulars (₹ Cr)	Dec-22	Sep-22	Jun-22	Mar-22	Dec-21	Dec-22 (YoY)	Dec-22 (QoQ)
Loan Book	**1,52,152**	**1,45,362**	**1,37,662**	**1,31,952**	**1,21,420**	**25%**	**5%**
Retail Home Loan, LAP	*37,461*	*35,665*	*33,983*	*32,248*	*29,330*	28%	5%
Wheels	*13,893*	*12,615*	*11,359*	*11,037*	*9,278*	50%	10%
Consumer + Cr Cards	*23,244*	*22,285*	*21,994*	*19,442*	*17,441*	33%	4%
Digital, Gold Loans	*11,523*	*10,789*	*9,166*	*8,059*	*6,729*	71%	7%
Rural	*16,248*	*15,142*	*14,127*	*12,955*	*11,969*	36%	7%
Corporate, Commercial Lending	*39,684*	*38,056*	*34,649*	*35,313*	*32,152*	23%	4%
Infrastructure	*5,572*	*5,992*	*6,739*	*6,891*	*8,051*	(31)%	(7)%
Others	*4,527*	*4,818*	*5,645*	*6,007*	*6,470*	(30)%	(6)%

Source – Company, Way2Wealth Research

- **Improving Asset Quality –** While the bank's lending book shot up 25% YoY, its strict and prudent lending norms saw Gross NPA plunge 100bps to 2.96% in Dec-22. IDFC Bank continued to incur a Credit cost of 1.2% taking the total PCR to 77% vs. 66% last year and taking Net NPA to 1.03% vs. 1.74% last year. The corporate non-infra book continues to be well provided for with a PCR of 99%.

  Similarly, its Net Stressed Assets has reduced significantly to 1.1% of the loan book vs. ~3% last year, a strong indicator of a high quality book and a declining NPA number in the future as well



Source – Company, Way2Wealth Research

W2W Lighthouse - A Quick Perspective

- **Improved Profitability Metrics –** The increasing share of retail loans in the mix, full benefit of the higher interest rate being captured, and replacement of high-cost borrowings with Deposits resulted in NII growing 27% YoY / 9% QoQ to ₹32.85bn and NIM expanding 38bps QoQ to 6.36%.

  The increase in manpower and required infrastructure to facilitate its growing branch network caused Op-ex to rise 23% YoY to ₹31.77bn in Q3-23 / 25% YoY to ₹87.35bn in 9MFY23. However, this was offset by its non-core Fee & Other Income jumping 50% YoY to ₹11.17bn in Q3-23 / 60% YoY to ₹29.61bn in 9mo-23.

  The strict lending norms ensured Credit Cost remaining relatively stable at 1.2% on a growing Loan book, thus generating a PAT of ₹6.05bn in Q3-23 / ₹16.35bn in 9MFY23, and ensuring a quarterly RoA > 1% and RoE > 10% for the second-time in a row.

  The bank is confident of maintaining, if not surpassing, these levels of return in future quarters as well. Its endeavour to bring down the Cost-to-Income ratio to 55% by FY24-25E from the current ~72% will play a significant role in sustaining these high levels of profitability.

Risks

With the lending rates fully reflecting the hike in base rates, banks will now focus on increasing Deposit rates. IDFC Bank has also indicated that it will increase Deposit rates in line with the system, which will likely trim the bottomline to an extent. At the systemic level, elevated levels of inflation tend to slow loan book growth as many expenses – at both, the household and corporate level – are deferred.

View

With an increasing branch network and greater usage of technologies such as AI, ML and Data Analytics in lending, IDFC Bank continues to hit all the right notes in its goal to increase its presence at the Retail level. Its strict lending norms maintain the quality of its Asset book, while the increasing share of Retail loans elevates the bank's bottomline. The recent Rs. 21.96bn fund infusion (~10% of its current Net Worth) from its promoter entity along with the continuing reduction of its legacy high cost borrowings will allow the bank's balance sheet to expand at a profitable pace. At the CMP, the bank trades at P/B (Adj) ratio of ~1.9x. **Given the strong growth momentum being witnessed and its ability to grow the franchise in new geographies, we continue with our recommendation of BUY.**

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Financial Performance

(₹Cr)

Particulars	9MFY23	9MFY22	y-o-y	Q3FY23	Q3FY22	y-o-y	Q2FY23	q-o-q
Interest Income	**16,303**	**12,619**	**29%**	**5,912**	**4,429**	**33%**	**5,470**	**8%**
Finance Cost	**7,265**	**5,582**	**30%**	**2,627**	**1,849**	**42%**	**2,468**	**6%**
NII	**9,039**	**7,037**	**28%**	**3,285**	**2,580**	**27%**	**3,002**	**9%**
NIM (%)	*N/A*	*N/A*		*6.36%*	*5.90%*	*8%*	*5.98%*	*6%*
Employees exp	2,702	1,912	41%	953	722	32%	919	4%
Oth. Oper Exp	6,033	5,059	19%	2,224	1,857	20%	1,976	13%
Op-Ex	**8,735**	**6,970**	**25%**	**3,177**	**2,579**	**23%**	**2,895**	**10%**
OPERATING PROFIT	**304**	**66**	**357%**	**108**	**1**	**9745%**	**107**	**1%**
(+) Other Income	3,069	2,391	28%	1,152	769	50%	1,061	9%
Fee and Oth Income	2,961	1,851	60%	1,117	744	50%	945	18%
PPOP	**3,373**	**2,457**	**37%**	**1,261**	**770**	**64%**	**1,169**	**8%**
Provisions	1,182	2,739	(57)%	450	392	15%	424	6%
Credit Cost	*1.04%*	*3.01%*		*1.2%*	*1.3%*		*1.2%*	
PBT	**2,191**	**(282)**	**(877)%**	**811**	**378**	**114%**	**745**	**9%**
Tax Expense	556	(85)		206	97		189	
PAT	**1,635**	**(197)**	**(929)%**	**605**	**281**	**115%**	**556**	**9%**
% Margin	*10%*	*(2)%*	(741)%	*10%*	*6%*	61%	*10%*	1%
No. of shares (cr)	662	662		662	662		662	
EPS	2.47	(0.30)	-929%	0.91	0.42	115%	0.84	9%

Source: Company, Way2wealth Research

W2W Lighthouse - A Quick Perspective

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Disclosure of Interest Statement IDFC First Bank Ltd. as on March 14, 2023

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