

Key Highlights – Q2FY23

- Healthy traction across loan portfolio
- Deposit growth exceeding credit growth
- Strong core operating performance
- Improvement in Asset Quality; Higher PCR
- Trading at valuation of ~1.3x FY24E P/B

Important Statistics

M.CAP (₹ bn)	~₹357
52 Week H/L (₹)	59.45 / 28.95
NSE Code	IDFCFIRSTB
BSE Code	539437

Q2FY23 Result Update

➤ **Advances**

- The loan book saw robust growth of 25% YoY led by Retail & Commercial Finance loans which grew ~40% yoy.
- The bank is seeing strong traction in Home loans driven by Prime Home loans launched in 2021 which grew 59% yoy. Within retail subset, consumer loans & rural finance grew at strong pace of 36% & 34% yoy respectively.
- The non-infra corporate book grew by 20% Y-o-Y and by 4% on a Q-o-Q basis. The infrastructure book de-grew further and it reduced by about 41% on a Y-o-Y basis and by 11% on a Q-o-Q basis and is now sub ₹6000Cr and is now merely form 4.1% of the total funded assets – compared to 22% at the time of merger.

	YoY Growth %
Overall Domestic Advances	25%
Retail & Commercial Finance Loans	40%
Corporate Loans	20%
Infra Loans	-41%

➤ **Deposits and Margins**

- The bank bucked the industry trend and saw its overall deposit growth at 36% exceeding the credit growth of 25%.
- The bank saw healthy CASA deposit growth of 37% yoy leading to stable CASA ratio at ~51%.
- The bank mentioned that net interest margins should hover around ~6% levels.
- W.r.t. increasing margins sequentially, the bank mentioned that 38% of the domestic book is benchmark linked and they will continue to see some benefits on the yields in terms of the repricing as the repo rate increases. It saw funding cost increased by 25 bps as deposit mobilization gathers pace.

	Q2FY23	Q2FY22	Q1FY23
NIM	5.98%	5.83%	5.89%
CASA ratio	51.28%	51.28%	50.04%

Shareholding Pattern (%)	Sep'22
Promoters	36.47%
FII's	11.70%
DII	21.65%
Public	30.17%
Others	0.01%

➤ **Operational performance**

- Core operating income excluding trading gains increased by 35% Y-o-Y to ₹3,947Cr aided by strong NII and fee income growth.
- Operating expenses grew by 23% on a Y-o-Y basis to ₹2,895Cr, the increase in OPEX was relatively higher on account of higher business volumes witnessed in Q2 FY23.
- The cost to income ratio improved to 73.34% in Q2 FY23 from 80.53% in Q2 FY22 last year. Core operating profit grew by 84% Y-o-Y and 7% on a Q-on-Q basis to ₹1052Cr.

➤ **Asset Quality**

- The declining trend in asset quality continues with GNPA coming at 3.18% vs 4.27% in Q2FY22 and NNPA coming at 1.09% vs 2.09% in Q2FY22.
- The restructured book as a percentage of total funded assets has reduced to 1% now as compared 1.3% last quarter.
- The gross and net slippage for the quarter were at similar levels as the last quarter, despite the increase in overall book.

	Q2FY23	Q2FY22	Q1FY23
GNPA ratio	3.18%	4.27%	3.36%
NNPA ratio	1.09%	2.09%	1.30%
PCR	76.49%	63.00%	73.13%
SMA 1&2	1.00%	3.00%	1.50%

Segment-Q2FY23	GNPA	NNPA
Retail & Commercial Finance	2.03%	0.73%
Corporate	3.43%	0.14%
Infra	24.48%	13.40%
Overall Bank Level	3.18%	1.09%

View

The bank has reported robust set of numbers with net profit growing at 266% yoy to ₹556Cr led by strong advances, healthy margins, strong core operating performance and stable asset quality.

The bank continues to deliver on key metrics like strong core operating performance and stable asset quality which should deliver healthy earnings growth over next two years.

At CMP of ₹56.35, the stock is available at ~1.3x FY24E which is reasonable considering the strong return ratios and healthy balance sheet which is a key element of their strategic framework.

We continue to re-iterate our stance to Buy the stock and add more on dips.

22nd November 2022

CMP – ₹56.35/-

 View – **Buy on Dip**
Financial Performance

Particulars	(₹ Cr)							
	Q2FY23	Q2FY22	YoY	Q1FY23	QoQ	FY22	FY21	YoY
NII	3,002	2,272	32%	2,751	9%	9,706	7,380	32%
Other Income	945	658	44%	899	5%	2,691	1,622	66%
Total Net Income	3,947	2,930	35%	3,650	8%	12,397	9,002	38%
Total Op. Exp.	2,895	2,359	23%	2,663	9%	9,644	7,093	36%
Core Operating Profit	1,052	571	84%	987	7%	2,753	1,909	44%
Treasury Income	116	122	-5%	(44)	-364%	531	1,162	-54%
Operating Profit	1,168	693	69%	943	24%	3,284	3,071	7%
Provisions and Contingencies	424	475	-11%	308	38%	3,109	2,595	20%
PAT	556	152	266%	474	17%	145	452	-68%
Advances	1,40,239	76,793	83%	1,32,555	6%	1,24,075	1,11,758	11.02
Deposits	1,23,442	90,235	37%	1,13,349	9%	1,05,634	88,688	19.11
Total Business	2,63,681	1,67,028	58%	2,45,904	7%	2,29,709	2,00,446	14.60
Book Value	35.45	32.76	8%	34.55	3%	33.78	31.37	7.68

Source: Company, Way2wealth Research

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Disclosure of Interest Statement IDFC First Bank Ltd. as on November 22, 2022

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Name of the analyst	Harshil Gandhi
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Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
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