

25th Aug 2023

₹91.50/-

View – Buy

Key Highlights – Q1FY24

- IDFC First Bank Ltd. posted strong +61% YoY growth in net profit for Q1FY24 to ₹7,652mn aided by surge in fee income during the quarter.
- Total deposits surged +44% YoY to ₹1,485bn.
- Loan book witnessed healthy +25% YoY growth to ₹1,716bn.
- Asset quality improved significantly with GNPA at 2.2% and NNPA at 0.7%.
- Bank's focus remains on bringing down the legacy Infrastructure project financing book
- Return ratios for the bank continues to improve with RoA at 1.3% (+29bps YoY) and RoE at 11.8% (+282bps YoY).

Important Statistics

M.CAP (₹ bn)	~₹607
52 Week H/L (₹)	65/29
NSE Code	IDFCFIRSTB
BSE Code	539437

Shareholding Pattern (%) Jun'23

Promoters	39.93%
FII's	20.85%
DII	11.69%
Public	27.53%

Q1FY24 Result Update

Advances –

- IDFC First Bank delivered strong growth in advances aided by growing contribution from new lines of businesses within lending. Mortgage backed book now stands at ~28%, out of which 24% constitute home loans and loan against property.
- Loans and advances during Q1FY24, witnessed +25% YoY/+7% QoQ increase to ₹1,716bn driven by strong +27% YoY/+7% QoQ growth in consumer finance segment.
- Within consumer financing, home loans saw robust +31% YoY (+3% QoQ) growth to ₹201bn, while consumer loans were up +15% YoY (+12% QoQ) to ₹223bn.
- Education loan book witnessed sharp sequential increase from ₹9.3bn to ₹12.9bn while vehicle financing grew +10% QoQ (+45% YoY) to ₹164bn.
- Focus remains on bringing down the legacy Infrastructure loan book, which now stands at 2.2% of overall book. It fell -44% YoY/ -19% QoQ to ₹38bn.
- SME and Corp. Finance business too posted healthy performance, up +23% YoY/ +9% QoQ to ₹497bn. The growth was broad based with Corporate loan book growing +15% YoY (+7% QoQ) to ₹277bn while CV/CE financing more doubled on YoY basis to ₹42bn.

Gross Loans & Advances	YoY (%)
Home Loan	31%
Loan Against Property	8%
Wheels	45%
Consumer Loans	15%
Rural Finance	46%
Digital, Gold Loan and Others	44%
Credit Card	68%
Commercial Finance	23%
Corporate	15%
Infrastructure	-44%
Others	73%
Total Gross Loans & Advances	25%

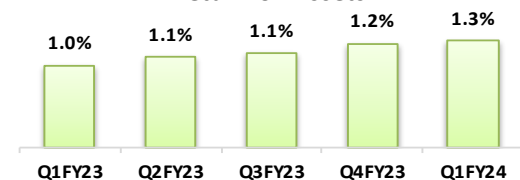
Deposit Growth (₹ bn)

	Jun-23	Jun-22	YoY %
CASA	718	567	27%
Term	767	461	66%
Deposits	1,485	1,029	44%

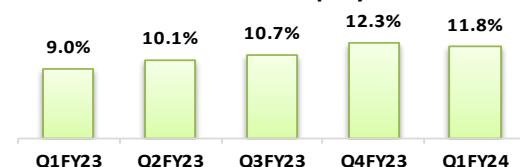
Deposits and Borrowings –

- Total deposits during the quarter went up by +44% YoY/ +9% QoQ to ₹1,485bn. It was led by strong growth of +66% YoY/ +18% QoQ in Term Deposits to ₹767bn while CASA deposits witnessed soft performance up +27% YoY/ flat QoQ to ₹718bn.
- Although, CASA ratio fell -350 bps YoY / -330 bps QoQ to 46.5%, it remains one of the highest among its listed players.
- In overall customer deposits, share of retail deposits have grown on QoQ as well as YoY basis and now stands at 77%.
- Degrowth in certificate of deposits by -43% YoY/ -24% QoQ to ₹60bn suggest reduced dependence on high interest bearing bulk deposits.

Return on Assets



Return on Equity



Source – Company, Way2Wealth Research

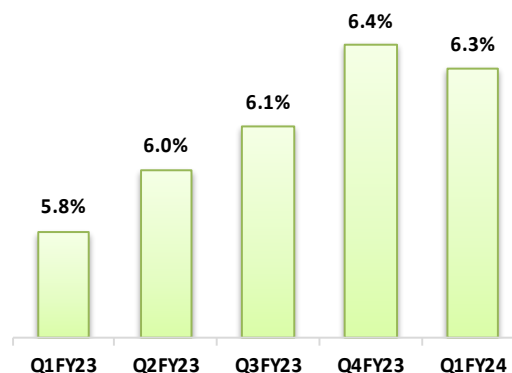
Prasad Hase

prasadhase@way2wealth.com
91-22-4019 2908

➤ **Improved Profitability Metrics –**

- IDFC First Bank posted robust performance in Q1FY24, recording highest ever net interest income of `37bn, up +36% YoY/ +4% QoQ. Growth in interest expenses came in higher at +44% YoY (+10% QoQ) than that of +40% YoY (+7% QoQ) in interest income.
- Net interest margin for the quarter stood at 6.3%, up +56 bps YoY/ down - 8 bps QoQ, owing to rise in cost of funds in-line with the trend seen across the board. While, CoF may see some marginal uptick, it would see notable improvement going forward as focus remains on bringing down high cost borrowings.
- Fee and other income (including Trading gains) was up +65% YoY but flat sequentially at `141bn, with stable contribution of 91% from retail fees. New lines of revenue such as credit card & FASTag, wealth and forex exhibits strong traction and now constitute ~40% of overall fee & other income pie, more than 30% contribution coming in from loan origination fees.
- During the quarter, 15 new branches were added and operating expenses rose +37% YoY / +6% QoQ to `37bn. Resultantly, core PPOp stood at `15bn up +59% YoY/down -4% QoQ.
- Provisions for the quarter were flat sequentially (up +55% YoY) at `4.8bn. Profit after tax came in at `7.7bn increased +61% YoY/ decreased -5% QoQ.

Net Interest Margin

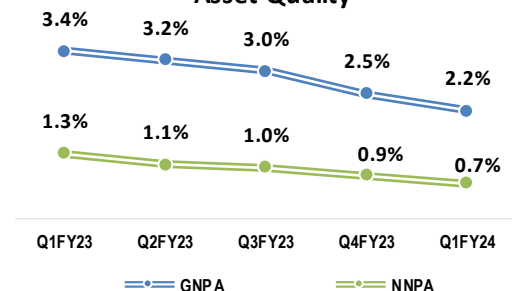


Source – Company, Way2Wealth Research

➤ **Asset Quality –**

- Led by stringent underwriting processes and better controls in place, asset quality has improved significantly. For Q1FY24, Overall GNPA came in at 2.2% down -119 bps YoY/ -34 bps QoQ, while NNPA stood at 0.7% down - 60 bps YoY/ -16 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) saw 32% reduction on YoY basis and constitute 0.85% of retail, rural and SME book in Q1FY24 down from 1.25% in Q1FY23.

Asset Quality



Source – Company, Way2Wealth Research

➤ **Return Ratios –**

- Owing to improved profitability, bank has delivered healthy return ratios during the quarter. Return on equity was at 11.8%, down -52 bps QoQ mainly due to capital raised in last week of March, but up +282 bps YoY. Return on assets improved to 1.3% up +29 bps YoY / +3 bps QoQ.

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 View – **Buy**
View

IDFC First Bank continued on its improving performance trajectory posting an all-round growth for this quarter. Bank's focus on diversifying the product portfolio and to offer services like a universal bank was visible, as new lines of credit witnessed strong loan book growth. Additionally, plans to reduce the infrastructure financing portfolio are progressing well as the share of this segment in overall advances is brought down to 2% from 19% in FY19. Apart from core lending business, the bank is also witnessing strong traction in other lines of businesses such as NRI Banking, wealth management, credit card business and FASTag. With multiple levers in play and growing geographical presence, the bank's slated objective to maintain 25% YoY loan book growth seems achievable. On asset quality front, as GNPA laden Infrastructure book (GNPA – 23.3%) would fall going forward, overall GNPA (2.2%) levels of the bank would eventually coincide with that of retail book (GNPA – 1.5%).

While the bank investing in strengthening its digital capabilities to be able to garner new lines of business as well as infrastructure capabilities to expand its geographical reach, gradual improvement in operating leverage over the medium term would drive the expansion of return ratios.

At CMP of ₹ 92 the stock is trading at a P/B (Adj) ratio of ~1.9x FY25E. **With consistent improvement in operational parameters, strong growth in advances supported by new lines of credit and falling share of infrastructure loan book, we believe the stock will continue to post robust performance hence recommend to Buy.**

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 View – **Buy**
Financial Performance

Particulars (₹ mn)	Q1FY24	Q1FY23	YoY (%/bps)	Q4FY23	QoQ (%/bps)	FY23	FY22	YoY (%/bps)2
Interest Income	68,677	49,217	40%	64,244	7%	2,27,275	1,71,727	32%
Interest Expense	31,226	21,706	44%	28,276	10%	1,00,922	74,665	35%
Net Interest Income	37,451	27,511	36%	35,968	4%	1,26,353	97,062	30%
Fee & Other Income	13,410	8,890	51%	11,810	14%	41,420	26,910	54%
Trading Gain	730	-440		2160		3250	5311	
Operating Income	51,589	36,068	43%	49,942	3%	1,71,023	1,29,282	32%
Operating Expense	36,586	26,630	37%	34,356	6%	1,21,704	96,445	26%
Operating Profit (PPOP)	15,003	9,438	59%	15,587	-4%	49,320	32,838	50%
Provisions	4,762	3,080	55%	4,824	-1%	16,648	31,086	-46%
Profit Before Tax	10,242	6,358	61%	10,762	-5%	32,671	1,752	1765%
Tax	2,590	1,615	60%	2,736	-5%	8,300	297	2696%
Profit After Tax	7,652	4,743	61%	8,026	-5%	24,371	1,455	1575%
Dil. EPS	1.1	0.8	133%	1.3	31%	3.9	0.2	1750%
CASA ratio	46.5%	50.0%	133	49.8%	-23	49.8%	48.4%	133
GNPA %	2.2%	3.4%	-119 bps	2.5%	-34 bps	2.5%	3.7%	-119 bps
NNPA %	0.7%	1.3%	-60 bps	0.9%	-16 bps	0.9%	1.5%	-67 bps
RoE	11.8%	9.0%	282 bps	12.3%	-52 bps	11.0%	0.8%	1,020 bps
RoA	1.3%	1.0%	29 bps	1.2%	3 bps	1.1%	0.1%	105 bps
Capital Adequacy Ratio	17.0%	15.8%	119 bps	16.8%	14 bps	16.8%	16.7%	8 bps

Source – Company, Way2wealth Research

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Disclosure of Interest Statement Prasad Hase as on August 25, 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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