

IDFC First Bank Ltd

IDFCB makes fresh long-term guidance

Our view – It seems like a broad continuation of NBFC-style model

Long-term loan growth guidance materially lags long-term deposits growth guidance likely owing to high loan-to-deposit ratio: Management has stated that, over FY24-29, advances are to grow at a CAGR of 20.3% whereas customer Deposits are to grow at a CAGR of 24.8%. We believe this differential of about 450 bps in the two long-term CAGR figures is likely a natural requirement, among other reasons, of normalizing the loan-to-deposit ratio, which is at 102%, the highest in our coverage universe, bar HDFCB.

Management has guided for broadly stable net interest margin, which we think would be the result of mix change being offset by the aforementioned LDR unwind: It is to be expected that retail loans would outpace wholesale loans, which would remain relatively de-focused. For the quarter, in addition to yield enhancement via loan mix change, legacy high-cost borrowings declined Rs 14bn and stand at about Rs 136bn. An incremental reduction of Rs 13bn is expected to play out in 4QFY24.

Steady state credit cost guidance of 160 is slightly higher than previous guidance in this regard: The credit cost guidance seems a natural consequence of the loan mix choices being made by management. Gross additions to GNPA amounted to Rs 14.0bn for the quarter and were slightly higher than Rs 13.5bn in 2Q. The gross slippage ratio of 3.0% is elevated, given the relatively benign systemic NPL cycle. In fact, gross slippage ratio has averaged 3.1% even after FY22, when slippages had spiked.

We maintain a less-than-bullish 'ADD' rating on IDFCB with an unchanged price target of Rs 100: We value the bank at 2.0x FY25 P/BV for an FY24E/25E/26E RoE profile of 11.1%/12.4%/13.4%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See "Our View" above for elaboration and insight)

- **Asset quality:** Gross slippages amounted to Rs 14.0bn, translating to an annualised slippage ratio of 3.0%
- **Margin picture:** NIM at 6.42% was up 10bp/29bps QoQ/YoY, sequentially higher as calculated yield on advances have moved up faster than cost of funds
- **Asset growth:** Advances grew 3.4%/24.5% QoQ/YoY, driven sequentially by Consumer Finance and Rural Finance.
- **Opex control:** Total opex rose 9.6%/33.5% QoQ/YoY, staff expenses rose 2.7%/28.2% QoQ/YoY and other expenses rose 12.7%/35.7% QoQ/YoY.
- **Fee income:** Fee income rose 6.8%/31.5% QoQ/YoY, driven sequentially by Loan origination fees, Credit cards and wealth management and third party products.

Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Interest Income	78,794	73,562	7.1	59,118	33.3
Interest expended	(35,928)	(34,060)	5.5	(26,265)	36.8
Net Interest Income	42,866	39,502	8.5	32,853	30.5
Other income	15,166	14,296	6.1	11,525	31.6
Total Income	58,031	53,798	7.9	44,378	30.8
Operating expenses	(42,407)	(38,696)	9.6	(31,770)	33.5
PPOP	15,625	15,103	3.5	12,608	23.9
Provisions	(6,548)	(5,284)	23.9	(4,502)	45.4
PBT	9,077	9,819	(7.6)	8,105	12.0
Tax	(1,920)	(2,306)	(16.7)	(2,059)	(6.8)
PAT	7,157	7,513	(4.7)	6,046	18.4

Source: Company, YES Sec-Research

Recommendation : **ADD**

Current Price : Rs 88

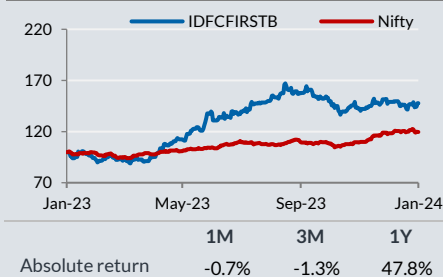
Target Price : Rs 100

Potential Return : +14%

Stock data (as on January 20, 2024)

Nifty	21,572
52 Week h/l (Rs)	101 / 52
Market cap (Rs/USD mn)	605626 / 7289
Outstanding Shares (mn)	7,067
6m Avg t/o (Rs mn):	3,260
Div yield (%):	NA
Bloomberg code:	IDFCFB IN
NSE code:	IDFCFIRSTB

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	37.5%
FII+DII	34.7%
Others	27.9%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	100	100

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	155,971	186,581	224,443
PPOP	66,451	86,808	106,858
Net Profit	32,898	44,110	53,452
Growth (%)	35.0	34.1	21.2
EPS (Rs)	4.5	6.0	7.3
BVPS (Rs)	46	51	57
P/E (x)	19.5	14.6	12.0
P/BV (x)	1.9	1.7	1.5
ROE (%)	11.1	12.4	13.4
ROA (%)	1.2	1.4	1.4
Tier-1 (%)	14.8	13.4	12.3

Δ in earnings estimates

Rs. bn	FY24E	FY25E	FY26E
PAT (New)	4.5	6.0	7.3
PAT (Old)	4.7	6.3	8.1
% change	-3.5%	-4.6%	-9.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Guidance

- **New Guidance 2.0 (FY24-FY29)**
 - Customer Deposits to grow at a CAGR of 24.8%.
 - Loans and advances to grow at a CAGR of 20.3%.
 - GNPA to be at 1.5% and NNPA at 0.4% in FY29
 - ROA to reach around 1.9-2.0% and ROE at 17-19% in FY29
 - NIMs are expected to broadly remain stable
 - Credit cost between FY24-FY29 to be at 1.6%
 - Cost to income to reach 55% for exit FY29
- **Clarification on Advances growth guidance**
 - The management has clarified that although they have assumed a 20.3% CAGR for Loans and Advances over FY24-29, there will be no immediate slowdown in growth. As such, the bank does intend to slow down its growth momentum.
- **Existing guidance**
 - The cost to income ratio guidance of 65% by exit FY25 would not be achieved.
 - The RoA guidance of 1.4% by FY25 is maintained.

Net interest margin

- **NIM for the quarter**
 - NIM for the quarter was 6.42%, up by 10bps QoQ.
- **Legacy borrowings**
 - Legacy high-cost borrowings declined Rs 14bn during the quarter and stand at about Rs 136bn.
 - Rs 13bn more reduction is to happen over in 4QFY24.
- **Liquidity**
 - The average LCR for the quarter was 121%.

Asset quality

- **Slippages**
 - Gross additions to GNPA amounted to Rs 14.0bn for the quarter compared with Rs 13.5bn in 2Q.
 - The gross additions to GNPA translated to an annualised slippage ratio of 3.0% for the quarter.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 8.5bn for the quarter.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 6.55bn, up by 24% QoQ and 45% YoY, translating to calculated annualised credit cost of 144bps.
 - The credit cost has increased due to ageing of NPAs.
 - The bank is not impacted by the RBI circular with regards to AIFs and hence there were no provisions regarding the same during the quarter.

(Con call takeaways continue on the next page)

- **GNPA ratio**
 - Overall GNPA ratio declined 7 bps QoQ to 2.0%.
 - Excluding the infra book, the GNPA ratio is 1.66%.
 - For the retail, rural and MSME book, the GNPA ratio is 1.45%.
- **Collection efficiency**
 - For the current bucket, the collection efficiency in Dec'23 has marginally increased to 99.6% as against 99.5% in Sept'23.
- **Restructured book**
 - The restructured book amounts to 35 bps of funded assets, down 3 bps QoQ.
 - More than 93% of the restructured book is secured in nature.

Deposits growth

- Total customer deposits are up 43% YoY.
- **CASA deposits**
 - CASA ratio has improved to 46.8%.
 - CASA deposits rose 28.6% YoY.
- **Current accounts**
 - Average CA deposits were up 33% YoY.
- **Retail deposits**
 - Retail deposits rose 47% YoY.
 - Retail deposits share in total deposits were at 79%
- **Term deposits**
 - Term deposits have grown 59% YoY, as customers wanted to lock-in higher interest rates in the system.

Loan growth

- Total funded assets grew 24.5% YoY.
- **Retail assets**
 - Retail assets were up 29% YoY.
 - Vehicle loans were up 31% YoY.
 - Consumer loans were up 38%.
 - **Credit cards**
 - 2.2mn cards have been issued till date.
 - The credit card outstanding book was Rs 50bn.
 - Card spends have risen 61% in 9M.
- **Rural assets**
 - Rural assets were up 47% YoY.
- **Wholesale assets**
 - Funded assets for SME, business and corporates rose 16% YoY.
 - The legacy infra book has declined to 1.6% of funded assets.

(Con call takeaways continue on the next page)

Operating expenses

- **Total opex**
 - Total opex, at Rs. 42.41 bn, is up 9.6% QoQ and 33.5% YoY.
 - Consequently, cost/income ratio came in at 73.1%, up by 115bps QoQ and 149bps YoY.
 - **Guidance**
 - The company expects cost to income ratio to see material downward moment from Q3FY25-Q4FY25.
 - **Credit Card Segment expense**
 - The credit card business cost to income ratio was 154% in FY23 and the bank targets to achieve a cost to income of 110% in FY24 and breakeven in FY25.
- **Staff expenses**
 - The staff opex is up by 2.7% QoQ and 28.2% YoY.
- **Non-staff expenses**
 - Other opex in up by 12.7% QoQ and 35.7% YoY.
 - The other opex growth on YoY basis was driven by strong business volume, branch expansion and some increase in other expenses like marketing, etc.
 - **Branch expansion**
 - 35 branches were added during the quarter, taking the total branch count to 897.

Fee income

- Fee income has risen 6.8% QoQ and 31.5% YoY.

Treasury gain

- The treasury gain for the quarter amounted to Rs 0.48bn.

Capital adequacy

- CET1 ratio at the end of the quarter was 13.95%.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy	Q3FY24*	chg qoq	chg yoy
Gross Advances	1,894,750	1,832,360	3.4	1,521,520	24.5	100.0	0bps	0bps
Consumer Finance	1,113,970	1,046,030	6.5	861,210	29.3	58.8	171bps	219bps
Home Loan	211,260	212,570	(0.6)	177,830	18.8	11.1	-45bps	-54bps
Loan Against Property	218,340	216,290	0.9	196,780	11.0	11.5	-28bps	-141bps
Wheels	182,060	178,420	2.0	138,930	31.0	9.6	-13bps	48bps
Consumer Loans	266,240	232,350	14.6	193,480	37.6	14.1	137bps	134bps
Education Loans	19,890	17,610	12.9	7,500	165.2	1.0	9bps	56bps
Credit Card	49,460	42,820	15.5	31,460	57.2	2.6	27bps	54bps
Gold Loan	7,750	5,630	37.7	1,620	378.4	0.4	10bps	30bps
Others	158,970	140,340	13.3	113,610	39.9	8.4	73bps	92bps
Rural Finance	239,550	228,280	4.9	162,480	47.4	12.6	18bps	196bps
SME & Corporate Finance	511,290	524,480	(2.5)	442,120	15.6	27.0	-164bps	-207bps
of which CV/CE Financing	51,150	49,340	3.7	30,230	69.2	2.7	1bps	71bps
of which Business Banking	66,990	61,020	9.8	44,700	49.9	3.5	21bps	60bps
of which Corporate Loans	281,520	293,240	(4.0)	253,730	11.0	14.9	-115bps	-182bps
Infrastructure	29,940	33,560	(10.8)	55,720	(46.3)	1.6	-25bps	-208bps
Total Deposits	1,825,490	1,712,359	6.6	1,330,380	37.2	100.0	0bps	0bps
CASA	854,920	794,680	7.6	664,980	28.6	46.8	42bps	-315bps
Term	970,570	917,679	5.8	665,400	45.9	53.2	-42bps	315bps
Investments	603,960	598,380	0.9	510,160	18.4	NA	NA	NA
Investments/(Invest.+Net Adv.), %	24.6	25.1	-59bps	25.9	-137bps	NA	NA	NA
Borrowings	451,090	531,655	(15.2)	544,060	(17.1)	NA	NA	NA
Borrowings/(Borr.+Dep.), %	19.8	23.7	-388bps	29.0	-921bps	NA	NA	NA
RWA	2,186,080	1,984,250	10.2	1,640,940	33.2	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q3FY24	Q2FY24	qoq	Q3FY23	yoy
Net interest margin	6.42	6.32	10bps	6.13	29bps
CASA	46.8	46.4	42bps	50.0	-315bps
Loan to Deposit ratio	101.6	104.0	-240bps	109.5	-793bps
Non-interest income/Total income	26.1	26.6	-44bps	26.0	16bps
Fee Income to Avg. Total Assets	2.2	2.1	5bps	2.1	14bps
Cost to Income	73.1	71.9	115bps	71.6	149bps
Opex to Avg. Total Assets	6.3	6.0	31bps	5.9	48bps
RoE	10.7	11.0	-36bps	10.7	-5bps
RoA	1.1	1.2	-10bps	1.1	-5bps
Annualised Slippage Ratio*	3.0	3.1	-4bps	3.2	-18bps
Gross NPA	2.0	2.1	-7bps	3.0	-92bps
Net NPA	0.7	0.7	0bps	1.0	-35bps
Provision Coverage	84.7	84.1	59bps	77.2	747bps
Capital adequacy ratio	16.7	16.5	19bps	16.1	67bps
Tier I capital ratio	14.0	13.5	46bps	13.5	46bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	42,866	41,702	2.8
Pre-Prov. Operating Profit	15,625	16,137	(3.2)
Profit After Tax	7,157	7,957	(10.1)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Employee Expense	12,217	11,901	2.7	9,528	28.2
Other Operating Expense	30,190	26,795	12.7	22,242	35.7
Total Operating Expense	42,407	38,696	9.6	31,770	33.5

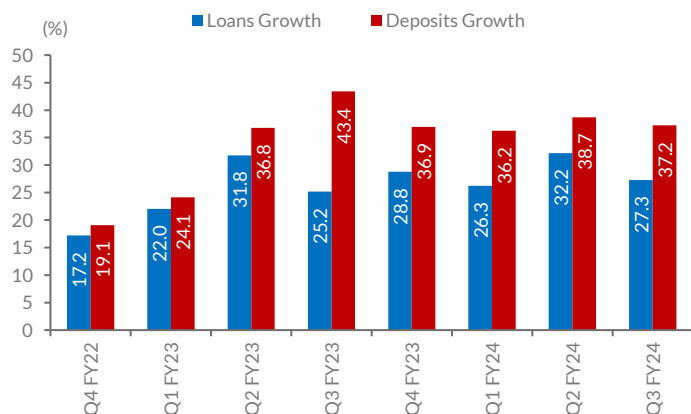
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Total Fee Income (A)	14,690	13,760	6.8	11,170	31.5
Loan Origination fees	5,123	4,668	9.7	3,686	39.0
Credit Card & Toll	2,918	2,338	24.8	1,676	74.1
Trade & Client Fx	904	1,238	(26.9)	1,229	(26.4)
Wealth Management & 3 rd Party Products	2,895	1,925	50.4	1,229	135.6
General Banking Fees	2,850	3,592	(20.6)	3,351	(14.9)
Total Other Income (B)	476	536	(11.3)	355	34.0
Treasury	480	540	(11.1)	360	33.3
Others	(5)	(4)	21.6	(5)	(13.5)
Total Non-Interest Income (A+B)	15,166	14,296	6.1	11,525	31.6

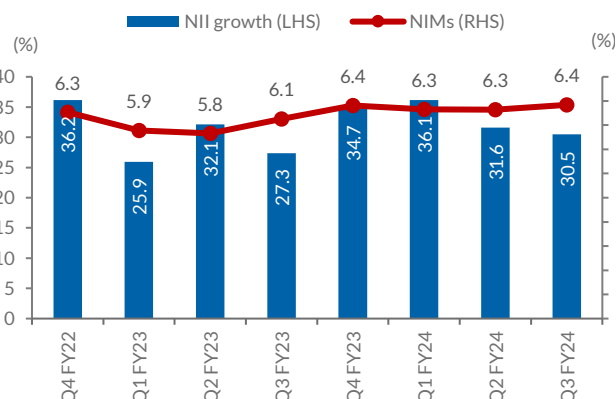
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



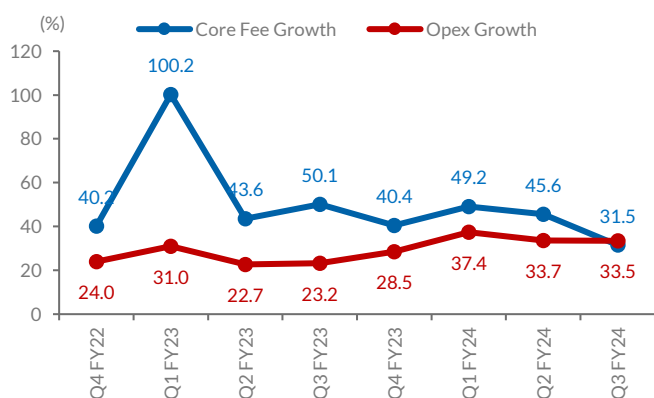
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



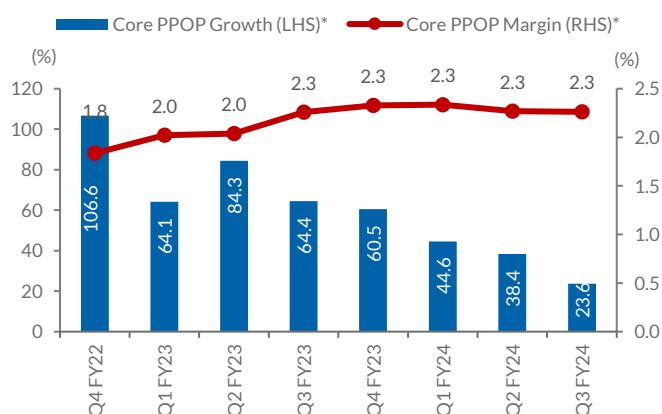
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



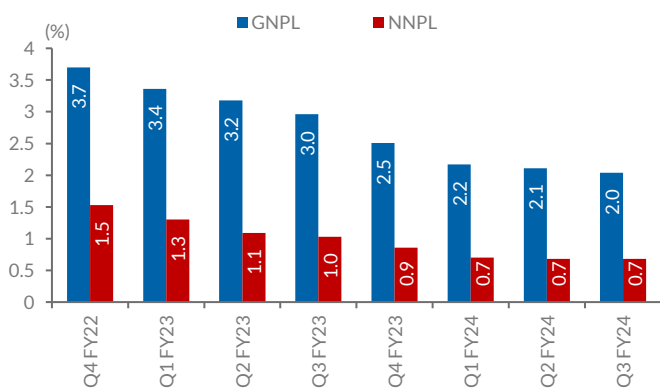
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



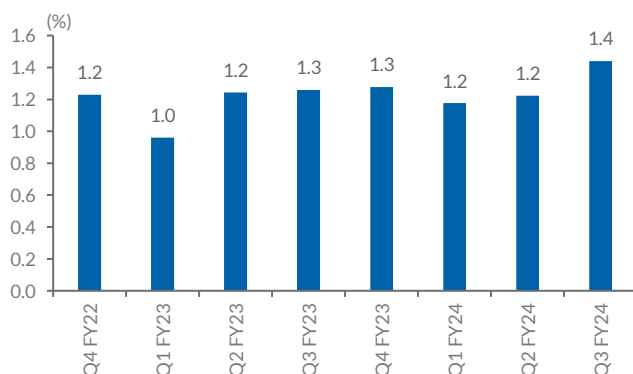
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Credit Cost (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	157,579	138,980	180,256	218,812	263,351
Investments	461,448	611,236	672,359	739,595	813,554
Advances	1,178,578	1,517,945	1,897,432	2,352,815	2,893,963
Fixed assets	13,612	20,901	22,991	25,291	27,820
Other assets	90,598	110,355	193,121	173,809	165,118
Total assets	1,901,816	2,399,417	2,966,159	3,510,322	4,163,806
Net worth	210,035	257,212	337,372	374,865	420,299
Deposits	1,056,344	1,446,373	1,995,995	2,475,034	3,093,792
Borrowings	529,626	572,121	629,333	692,266	761,493
Other liabilities	105,812	123,711	3,459	-31,844	-111,778
Total liabilities incl. Equity	1,901,816	2,399,417	2,966,159	3,510,322	4,163,806

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	171,727	227,275	290,836	357,013	434,336
Interest expense	(74,665)	(100,922)	(134,865)	(170,433)	(209,894)
Net interest income	97,062	126,353	155,971	186,581	224,443
Non-interest income	32,220	44,670	61,706	77,895	95,114
Total income	129,282	171,023	217,677	264,475	319,557
Operating expenses	(96,444)	(121,704)	(151,226)	(177,668)	(212,699)
PPoP	32,838	49,320	66,451	86,808	106,858
Provisions	(31,086)	(16,648)	(22,352)	(27,679)	(35,206)
Profit before tax	1,752	32,671	44,099	59,128	71,651
Taxes	(297)	(8,300)	(11,201)	(15,019)	(18,199)
Net profit	1,455	24,371	32,898	44,110	53,452

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.7	10.6	10.8	11.0	11.3
Interest expense	-4.2	-4.7	-5.0	-5.3	-5.5
Net interest income	5.5	5.9	5.8	5.8	5.8
Non-interest income	1.8	2.1	2.3	2.4	2.5
Total income	7.3	8.0	8.1	8.2	8.3
Operating expenses	-5.5	-5.7	-5.6	-5.5	-5.5
PPoP	1.9	2.3	2.5	2.7	2.8
Provisions	-1.8	-0.8	-0.8	-0.9	-0.9
Profit before tax	0.1	1.5	1.6	1.8	1.9
Taxes	0.0	-0.4	-0.4	-0.5	-0.5
Net profit	0.1	1.1	1.2	1.4	1.4

Source: Company, YES Sec – Research

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	155,971	186,581	224,443	157,557	189,861	233,833	(1.0)	(1.7)	(4.0)
Pre-Prov. Operating Profit	66,451	86,808	106,858	68,038	89,841	115,081	(2.3)	(3.4)	(7.1)
Profit after tax	32,898	44,110	53,452	34,081	46,235	59,031	(3.5)	(4.6)	(9.5)

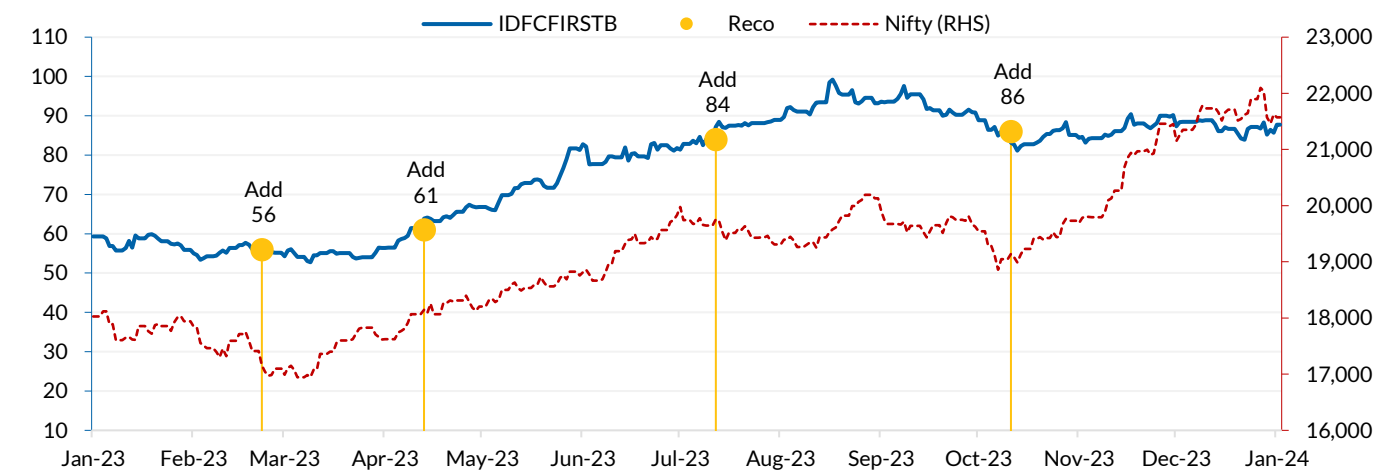
Source: Company, YES Sec – Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	31.5	30.2	23.4	19.6	20.3
PPoP	29.2	50.2	34.7	30.6	23.1
Net profit	-67.8	1575.1	35.0	34.1	21.2
Loans	17.2	28.8	25.0	24.0	23.0
Deposits	19.1	36.9	38.0	24.0	25.0
Profitability Ratios (%)					
Net interest margin	6.0	6.2	6.2	6.2	6.2
Return on Average Equity	0.7	10.4	11.1	12.4	13.4
Return on Average Assets	0.1	1.1	1.2	1.4	1.4
Per share figures (Rs)					
EPS	0.2	3.7	4.5	6.0	7.3
BVPS	34	39	46	51	57
ABVPS	31	37	44	48	54
Valuation multiples					
P/E	375	23.8	19.5	14.6	12.0
P/BV	2.6	2.3	1.9	1.7	1.5
P/ABV	2.8	2.4	2.0	1.8	1.6
NIM internals (%)					
Yield on loans	13.0	14.2	14.5	14.5	14.5
Cost of deposits	4.4	5.0	5.5	5.7	5.8
Loan-deposit ratio	111.6	104.9	95.1	95.1	93.5
CASA ratio	48.4	49.8	46.5	47.0	47.0
Opex control (%)					
Cost/Income ratio	74.6	71.2	69.5	67.2	66.6
Cost to average assets	5.5	5.7	5.6	5.5	5.5
Capital adequacy (%)					
Tier 1 capital ratio	14.9	14.2	14.8	13.4	12.3
Asset quality (%)					
Slippage ratio	6.9	3.4	2.7	2.5	2.5
Gross NPL ratio	3.7	2.5	1.8	1.9	1.9
Credit cost	3.5	1.9	1.2	1.2	1.2
Net NPL ratio	1.5	0.9	0.7	0.9	0.9

Source: Company, YES Sec – Research

Recommendation Tracker



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