

IDFC FIRST Bank Ltd
Banking

Date	30-Aug-21
CMP	INR 42.50
Target Price	INR 73
Potential Upside	71%

Market Data	
O/S Shares (In Cr)	621
Equity Cap (INR Cr)	6,207
Mkt Cap (INR Cr)	26,675
52 Wk H/L (INR)	69.30/26.85
3M Volume Avg ('000)	34,856
Face Value	10
Bloomberg Code	IDFCBK IN

BSE Sensex	56,125
NSE Nifty	16,705

IDFC Bank, a subsidiary of IDFC Limited got its banking license from RBI in 2014. It merged IDFC Bank & Capital FIRST Limited in Dec 2018 to form **IDFC FIRST Bank**. Capital FIRST Limited, an NBFC moulded by V. Vaidyanathan as a consumer loan financing NBFC with features like zero cost financing model benefitted from the merger as it got access to low cost funds as a bank & opportunity to provide services as a full-fledged bank. On the other hand, IDFC Bank got the large retail customer base of Capital First as synergy from the merger. IDFC First Bank has shown great competency since then increasing its customer CASA base along with expanding its branch network in a very aggressive manner. The Bank has already achieved several milestones it guided with a 5 year vision goal in just 2-3 years.

INVESTMENT RATIONALE**Increased Spread over the years**

Being a focused lender towards an incrementally growing retail, consumer finance and microfinance business, IDFC FIRST bank's yields are as high as ~15-16% on average from these businesses. On the other hand, its CASA levels have grown to 50.86% as of Q1FY22 with average Cost of Funds around ~4.8% for incremental funding, thereby providing it with an increasing spread from their incremental retail business which constitutes 64% of its funded assets.

Conservative, Diversification and Granularization of Wholesale Book going ahead

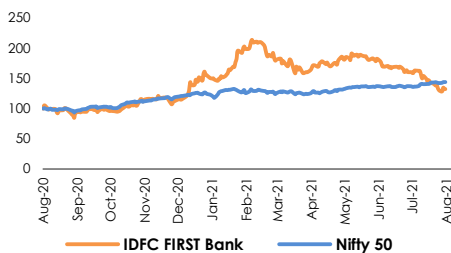
The Bank has been very conservative and risk averse towards corporate lending since it realized the fruits of several large ticket size wholesale defaults. The Bank has also diversified away its exposure from Infrastructure sector reducing from Rs 22,710 Cr in Dec 2018 to Rs 10,346 Cr as of June 2021. In order to reduce their concentration risk further in the corporate lending business, several Private Banks have started their internal campaigns of granularizing their Wholesale portfolio by reducing the overall ticket size of wholesale loans while growing it positively and favoring the mid & smaller sized corporates.

Medium Term Asset Quality Concerns to subside as Covid restrictions ease out

Apart from the pandemic induced fall in asset quality, credit culture among Indian Retail has been always high at GNPA/NNPA levels of 3-4%/1-1.5% respectively for major Private Banks. The retail NPA levels will expectedly improve back to pre-Covid levels as the economy recovers with on-going vaccinations at record pace.

Valuation and Outlook

IDFC FIRST Bank has been aggressively growing its branch network (601 branches as of June 2021) across India focussing on major consumption centres with guidance at the time of merger of having 700 branches in 5 Years. As the Covid pandemic subsides with mass vaccinations, the urbanization and consumption will pick up at a rapid pace. This pent up demand will be triggered with the opening of schools, colleges and lifting of all travel restrictions across the country. IDFC FIRST Bank with its recent capital injection in Q1FY22, can be seen sitting on the cusp of capturing the opportunity when retail consumption picks up. Based on the growing business and much expected improvement in Asset Quality, we recommend IDFC FIRST Bank with a **BUY rating and Target Price of Rs 73 per share for FY23E Adj BV of Rs 38 per share at 1.9x P/Adj. BV.**

Comparative Price Chart

Particulars (%)	Mar 21	June 21
Promoters	39.98	36.56
FII	11.88	15.09
DII	15.83	16.14
Others	32.31	32.21

Anmol Das
Research Analyst – Equities
anmol@systematixgroup.in

Key Financials

Particulars (Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Nil	1,798	3,199	6,076	7,380	9,252	10,734
NIM (%)	3.0	2.3	4.2	5.14	5.96	6.3
Net Profit	859	-1,944	-2,864	452	792	2,853
Advances	52,165	86,302	85,595	1,00,550	1,14,293	1,23,385
Deposits	48,198	70,479	65,108	88,688	95,650	1,23,538
GNPA (%)	3.31	2.43	2.60	4.15	3.81	2.77
NNPA (%)	1.69	1.27	0.94	1.86	1.66	1.25
RoA (%) (annualized)	0.68	-1.16	-1.92	0.28	0.47	1.47
CASA (%)	11.85	12.93	31.87	51.75	50.29	57.01

In FY21, IDFC FIRST Bank has benefitted from CASA increase in two ways: Lowering of Cost of Funds as well as New Customer Accounts

IDFC FIRST Bank like all other banks was only been affected to some extent during FY21 and Q1FY22 due to Covid. However, Government schemes & moratorium by RBI have provided sufficient relief to the bank.

Bank has been showing High levels of NIMs for several quarters now, and is expected to depict similar high levels of NIMS in future as well

Key Improvements in Business Parameters

Improvement in CASA lowering the Cost of Funds: IDFC FIRST Bank has been able to increase its CASA levels from 8.39% at the time of merger in Dec 2018 to 50.86% in June 2021. Since, the bank use to fund itself earlier through the issuance of Infra Bonds mostly at interest rates of ~8.9%, the increase in CASA is helping it to bring down their Cost of Funds from 8.7% in Dec 2018 to 5.6% in June 2021. This directly impacts the bank's spread by almost 3% increase.

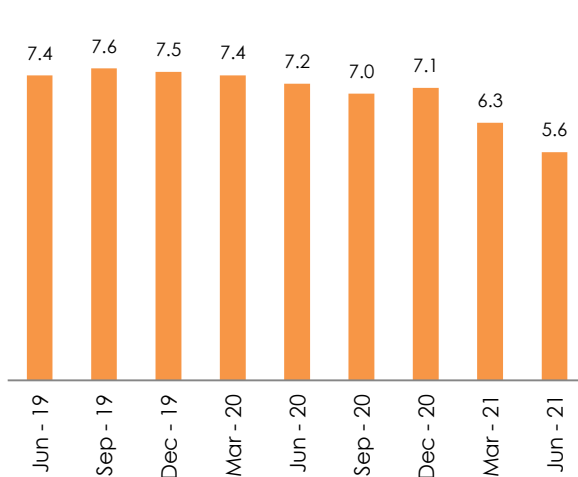
Expansion of Retail Lending business: Compared to Corporate lending, the granular ticket size of retail lending helps diversify the bank's risk, similar to other full-fledged large Pvt. Banks like HDFC Bank, ICICI Bank, etc. IDFC FIRST Bank since its merger has been changing its business mix by mostly lending to retail segment, and thereby mitigating the risks from high exposure to single large corporates. In addition, the higher yields from retail loan segment add to the spread of the bank.

Gradually Maturing Legacy Long Term Borrowings: IDFC FIRST Bank got the legacy Long Term Bonds / Infra Bonds when it demerged from IDFC Ltd. in 2015, which carries interest rates to the tune of 8.9%. These bonds will mostly mature by FY25 and their phasing out will benefit the bank by Rs 1,000 Cr in a cumulative manner.

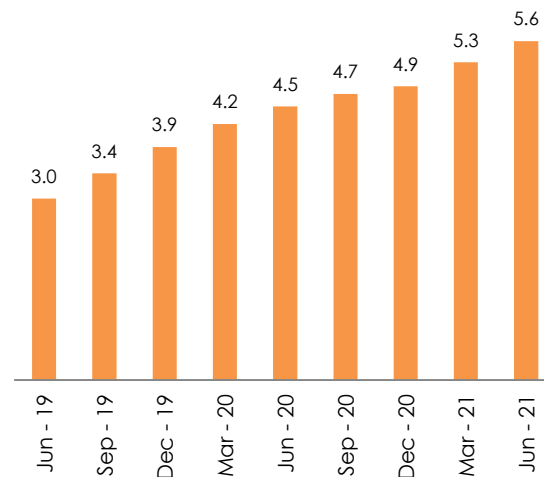
Popularizing Bank's Name through advertisement: IDFC FIRST bank spent a whopping Rs 82 Cr in FY21/ Rs 139 Cr in FY20 respectively on Advertisements & Publicity. In comparison, HDFC Bank spent Rs 95 Cr and ICICI Bank spent Rs 62 Cr for the same in FY21. The Management is clearly focusing on their marketing and promoting their brand opposite the top private banks looking to carve its market share.

The Bank has already started Credit Cards, Prime Mortgage loans, etc.: It has started the Credit Cards business with several offers on Fees, etc. Similarly, The Prime Mortgage business also remains attractive with secured mortgage loans at as low interest rates as 6.9%, offers only Large Banks provided yet.

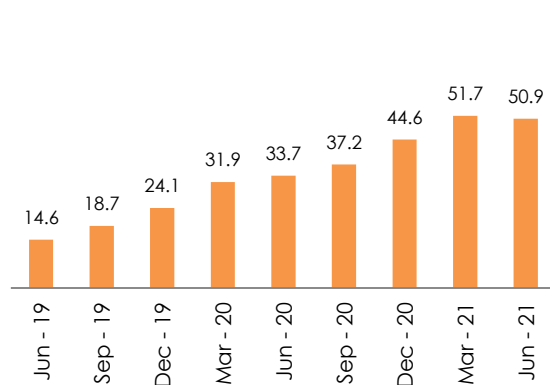
Cost of Funds (%)



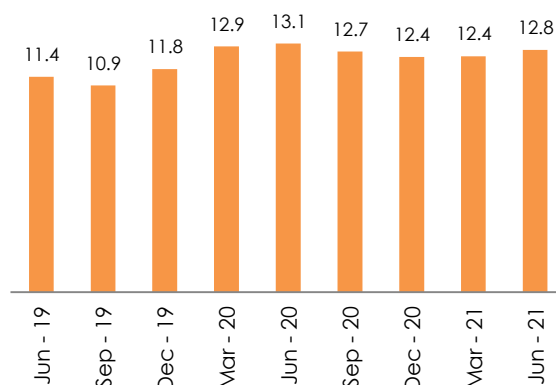
NIMs (%)



CASA (%)



Overall Yields (%)



Changing its Assets Mix from Wholesale to Retail majority, de-risking its portfolio hand-in-hand while yields went up

IDFC Bank's Management has been putting the Bank against the Top Private Banks in India through aggressive branding and expansion.

An Increasing Retail Funding Business and Changing mix from Wholesale to Retail

Assets Under Management (Rs Cr)	Mar-19	Mar-20	Mar-21	Jun-21
Mortgage	14,268	20,314	25,933	26,006
MSME Loans	7,122	10,338	12,499	11,745
Consumer Loans	14,885	19,971	24,712	24,012
JLG (MFI)	4,535	6,687	10,529	11,004
Total Retail Funded Assets	40,810	57,310	73,673	72,767
Retail Book as % of Total Advances	37.0%	53.6%	62.9%	63.9%
Wholesale Books				
Corporate	32,190	24,547	23,112	21,803
Emerging Large Corporates	9,133	6,629	7,115	7,173
Large Corporates	2,951	1,540	1,898	2,206
Financial institutions Group	11,988	12,645	10,960	9,352
Others	8,118	3,733	3,139	3,072
Infrastructure	21,459	14,840	10,808	10,346
Total Wholesale Funded Assets	53,649	39,387	33,920	32,149
Priority Sector Lending (Certificates)	12,924	7,954	7,436	6,796
Stressed Equity & Stressed SRs	3,016	2,351	2,097	2,083
Total Wholesale Funded Assets & Others	69,589	49,692	43,453	41,028
Wholesale Book as % of Total Advances	63.0%	46.4%	37.1%	36.1%
Total Funded Assets	1,10,399	1,07,002	1,17,126	1,13,795

Source: Systematix Research, Company Filings

Retails Assets Quality

Most of the large Private Banks with large retail asset portfolio have witnessed GNPA/NNPA ratio of 3%/1% respectively in the pre-pandemic era. During FY21 and in Q1FY22, the largely pessimistic economic forecasts projected a looming picture of retail asset quality of Indian Banks. However, with the passage of the 2nd wave of Covid (hopefully the worst part over) by June 2021, the retail asset quality of most of these banks has held much better than anticipated. Like the management, we also expect the Retail GNPA/NNPAs to hover around 3%/1% in the long run. (Exhibit: below table)

Retail Segment - Asset Quality (Pre pandemic comparison)	% GNPA		% NNPA	
	Dec-19	Jun-21	Dec-19	Jun-21
IDFC FIRST Bank	2.26%	3.86%	1.06%	1.82%
ICICI Bank	2.14%	3.75%	0.95%	1.45%
Axis Bank	NA	2.60%	NA	1.20%
RBL Bank	2.17%	5.55%	NA	1.96%

Source: Systematix Research, Company Filings

Concerns from some Corporate Accounts mitigated over the years

- IDFC FIRST Bank had to make provisions for several Corporate Accounts in the recent past, which included, Mumbai based Toll Infrastructure Company, IL&FS, DHFL, an Odisha based Power Company and Vodafone Idea Limited.
- As per the Management, apart from the Vodafone Idea exposure where the bank has already provided for Rs 487 Cr for the Rs 3,200 Cr exposure (of which Rs 2,000 Cr are Funded Assets), rest other accounts are no more in limbo for the extent of Provisioning.
- Since most of these Corporate Accounts identified as stressed assets have originated in pre pandemic era, we can expect lower future corporate stress for the bank as it remains conservative towards Corporate Lending.

Rapid Venturing into Credit Card, Prime Mortgage & other Digitally enabled services.

IDFC FIRST Bank is gradually lowering its high cost borrowings replacing it with low cost CASA.

Majority of the legacy liability bonds will be maturing by FY25. These borrowings going out of its books.

Other Positive Changes in Business

Digital Transformation

- IDFC First Bank is offering several digital accolades to its customers through Dining Offers, Local Online Offers, etc. to attract the tech savvy generation use its online platform for bank account opening, video KYC and operating bank account.

Prime Mortgage Loans

- IDFC FIRST Bank is looking to grow its Prime Mortgage business portfolio to 40% of its overall funded assets. This Prime Mortgage book as it increases in the mix, can be deemed as highest credit quality book. These will be valued at several times the book value of these secured assets alone in the future.
- For the quarter ended June 2021, the reduced Cost of Funds (CoF) at 5.6% p.a. with incremental CoF at below 5% p.a. has benefitted the bank to venture into Prime Mortgage business (starting rate of 6.9% p.a.), the spreads of which will keep on increasing as the CoF further sinks.

Robust Customer Acquisition

- The Bank has increased its customer base with <5 Cr from 31% in Dec 2018 to 82% in June 2021, reflecting a shift from Wholesale Deposits to retail granular deposits.
- At the timer of merger, the combined customer base of IDFC FIST Bank included around 6.4 million live customers (IDFC Bank with 3.4 million and Capital First with 4 million live customers), which has grown over the years to cross 10 million customers for the bank as of June 2021.

Credit Card Offerings

- Bank has launched Credit Cards last year and has already active 3.86 lakh credit cards as of June 2021. It is offering some very lucrative offers for attracting new customers, like, 0% interest charge on ATM withdrawals up to 48 days, low interest rates on credit dues between 9-36% p.a. etc.

Borrowings & Deposits Profile: Increase in CASA & lowering of Debt securities Borrowings

Sources of Funds (Rs Cr)	Mar-19	Mar-20	Mar-21	Jun-21
Borrowings				
Legacy Long Term Bonds	15,752	12,013	7,892	7,645
Infra Bonds	10,434	10,434	9,504	9,487
Refinance	4,047	14,738	15,438	13,999
Money Market Borrowings	16,493	7,228	5,330	10,168
Other Borrowings	23,256	12,984	7,618	7,131
Total Borrowings	69,982	57,397	45,782	48,430
Deposits				
CASA	9,114	20,661	45,896	46,439
CASA %	12.9%	31.9%	51.7%	50.9%
Retail Term Deposits	8,769	18,127	21,934	23,327
Wholesale Term Deposits	23,842	18,931	14,895	15,126
Certificate of Deposits	28,754	7,111	5,964	6,419
Total Deposits	70,479	64,830	88,689	91,311

Source: Systematix Research, Company Filings

Reduction in Concentration Risk

- Deposits from top 20 customers has reduced from 40.0% at the time of merger, to 7.7% in March 2021. This has happened rather more itself than being management driven while the CASA increased rapidly, it changed the concentration risk earlier seen.
- Similarly the large borrower's exposure has also been reduced during the last couple of years. Top 10 borrowers constituted 12.8% of total exposure earlier in Dec 2018, which has now come down to 5.9% as of March 2021.

IDFC FIRST Bank's Management is targeting 2-1-2 formula i.e. GNPA 2%, NNPA 1% & Credit Cost 2%.

IDFC FIRST Bank can be compared to several retail banks awaiting Market respect in terms of Valuations.

Decreasing Cost of Funds with Change in Liability Mix

IDFC First Bank has been lowering its Borrowings from Legacy Long Term & Infrastructure Bonds over the years which carry an interest rate of ~8.9%. The Bank in order to lower its overall Cost of Funds has increased its CASA, for which it used to offer Savings Bank Account with 7% interest rates. Now, that the Management sees the CASA levels at 50.86%, it has lowered its interest rates on Savings Accounts.

The fixed rate borrowings, the bulk of which will mature by FY25 except Rs 5,400 Cr, have been pushing up the Cost of Funds for the Bank all this while (see Table below). With the Bank's CASA growing in double digits and the below bonds maturing gradually, the bank will be benefitting almost Rs 1,000 Cr per year on annuity basis when it replaces these fixed rate borrowings of 8.66% interest rates with CASA of 5.0%, and low cost funds from these incremental CASA.

High Cost Fixed Rate Borrowings – Maturity Profile

Particulars (Rs Cr)	Infra Bonds	Long Term Legacy Bonds	Other Bonds	Refinance	Total
Upto March-21	-	1,600	400	100	2,100
FY 21-22	-	1,100	1,100	2,300	4,500
FY 22-23	1,500	-	1,900	3,100	6,500
FY 23-24	1,400	1,700	800	1,900	5,800
FY 24-25	5,700	1,300	200	900	8,100
Beyond FY 25	900	3,800	700	-	5,400
Total	9,500	9,500	5,000	8,300	32,300
Rol	8.87%	8.98%	8.76%	7.77%	8.60%
Weighted Residual Tenor (Yrs)	3.36	3.97	7.32	1.72	3.74

Above Positions as on 31 Dec 2020

Source: Systematix Research, Company Filings

Peer Comparison

Key Parameters Q1FY22	IDFC FIRST	HDFC Bank	ICICI Bank	Axis Bank	RBL Bank
NIM (%)	5.51	4.10	3.90	3.50	4.40
GNPA (%)	4.61	1.47	5.15	3.85	4.99
NNPA (%)	2.32	0.48	1.16	1.20	2.01
CASA (%)	50.86	45.50	44.00	42.00	33.70
P/B (X)	1.29	3.77	6.44	2.19	0.83
PCR (%)	50.86	67.00	77.00	70.00	76.00
CAR (%)	15.56	19.10	19.27	18.70	17.20
ROA (%) (annualized)	-1.52*	1.80	1.54	0.86	-1.88

*Provisions of Rs 1,878 Cr in Q1FY22 included Rs 350 Cr additional Covid Provisioning brought Q1FY22 Net Loss of Rs 630 Cr.

Source: Systematix Research, Company Filings

Mr. Sanjeeb Chaudhuri has been appointed as Part-Time Chairman of IDFC FIRST Bank w.e.f. 25 Aug 2021 for a period of 3 Years.

Key Management

Name & Designation	Brief profile of Management
<p>V.Vaidyanathan</p> <p>Managing Director & Chief Executive Officer</p>	<p>V.Vaidyanathan been over two decades in financial service industry First as a banker (1990-2010, Citibank), then as an entrepreneur (2010-2019, Capital First) and a professional banker again (2019- date, after merging Capital First with IDFC Bank).He worked with Citibank Consumer Banking from 1990-2000, then set up ICICI Group's retail banking from (2000-2009) since its inception & appointed CEO of ICICI Prudential Life Insurance Company in India. He is an alumnus of Birla Institute of Technology and Harvard Business School (Advanced Management Program)</p>
<p>Mr. Sanjeeb Chaudhuri</p> <p>Part-time Chairman</p> <p>Independent Director</p>	<p>Mr. Sanjeeb Chaudhuri has been appointed as Part-Time Chairman of IDFC FIRST Bank w.e.f. 25 Aug 2021 for a period of 3 Years. He is an MBA in Marketing and has completed an Advanced Management Program. He has over four decades of senior multinational business experience across global banks with knowledge of consumer and commercial markets for products and services across major developed and emerging markets of India, rest of Asia, Middle East, Africa and Europe. He was listed among the Top 25 Media Visionaries in Asia Pacific in 2016 and is a featured speaker at premier global marketing and media events in Europe and Asia.</p>
<p>Mr. Aashish Kamat</p> <p>Independent Director</p>	<p>He was the Country Head for UBS India, from 2012 until his retirement in January 2018. Prior to that he started his started with Coopers & Lybrand, a public accounting firm, in 1988 before he joined JP Morgan in 1994. He was the Regional COO/CFO for Asia Pacific at JP Morgan based out of Hong Kong. In New York, where he was the Global Controller for the Investment Bank (IB) at JP Morgan-New York & at Bank of America as the Global CFO for the IB, and, Consumer and Mortgage Products. He has 30 years of experience in the corporate world, with 24 years being in banking & financial services & 6 years in public accounting.</p>
<p>Mr. Hemang Raja</p> <p>Independent Director</p>	<p>Mr. Hemang Raja, is an MBA from Abeline Christian University, Texas, with a major in finance. He has also done an Advance Management Program (AMP) from Oxford University, UK. He was MD and Head in Credit Suisse and Asia Growth Capital Worked in the areas of Private Equity, Fund Management and Capital Markets in companies like Advisers - India.</p>

Source: Systematix Research, Company Filings

Key Risks

An Investment in IDFC First Bank will include following risks

- Any localized lockdowns due to Delta variant of Covid affecting demand in the H2FY22 before vaccination & herd immunity kicks in.
- RBI enforcing lowering of credit lending rates or credit worthiness for lending in order to push Credit Growth rate of overall economy.
- RBI increasing interest rates very sharply could affect the high spreads of banks.
- Key Management Person Mr V. Vaidyanathan is the sole driver of the bank as of now, and involves a risk relying on him completely.
- Macro-economic and systemic risk involved with lending business.

Income Statement

Particulars (Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Interest Income	8,930	11,948	16,308	15,968	18,292	21,737
Interest Expended	7,132	8,749	10,232	8,588	9,040	11,003
Net Interest Income	1,798	3,199	6,076	7,380	9,252	10,734
Other Income	1,118	939	1,722	2,254	3,578	4,259
Operating Income	2,916	4,138	7,798	9,634	12,829	14,992
Operating Expenses	1,653	5,887	5,861	7,093	8,654	9,740
Employee Expenses	676	1,118	1,528	1,977	2,284	2,457
Other Operating Expenses	977	4,769	4,333	5,116	6,370	7,282
PPOP	1,263	-1,749	1,937	2,541	4,176	5,253
Provisions	236	1,546	4,315	2,065	3,117	1,441
PBT	1,027	-3,295	-2,379	476	1,059	3,812
Tax Expenses	168	-1,351	486	24	267	959
Net Income	859	-1,944	-2,864	452	792	2,853

Balance Sheet

Particulars (Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity & Liabilities						
Share Capital	3,404	4,782	4,810	5,676	6,207	6,207
Reserves & Surplus	11,852	13,378	10,533	12,132	15,412	18,265
Net Worth	15,257	18,159	15,343	17,808	21,619	24,472
Deposits	48,198	70,479	65,108	88,688	95,650	123,538
Borrowings	57,287	69,983	57,397	45,786	41,630	34,730
Other Liabilities and Provisions	5,778	8,563	11,353	10,861	9,773	10,787
Total Capital & Liabilities	126,520	167,185	149,200	163,144	168,672	193,527
Assets						
Cash & Balances with RBI	3,051	4,150	3,380	4,746	10,372	11,227
Balances with Other Banks & Call Money	1,841	5,417	811	1,082	0	0
Investments	61,202	58,475	45,405	45,412	33,827	47,064
Advances	52,165	86,302	85,595	100,550	114,293	123,385
Fixed Assets	784	950	1,038	1,266	1,778	2,756
Other Assets	7,478	11,890	12,972	10,088	8,403	9,095
Total Assets	126,520	167,185	149,200	163,144	168,672	193,527

Key Ratios

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
NIM (%)	3.04	2.35	4.20	5.14	5.96	6.31
ROA (%)	0.68	-1.16	-1.92	0.28	0.47	1.47
P/B (x)	0.95	1.12	1.33	1.36	1.22	1.08
GNPA (%)	3.31	2.43	2.60	4.15	3.81	2.77
NNPA (%)	1.69	1.27	0.94	1.86	1.66	1.25
CAR (%)	18.00	15.47	13.38	13.81	14.74	15.46
CASA (%)	11.85	12.93	31.87	51.75	50.29	57.01
PCR (%)	N/A	48.19	64.53	56.23	56.48	54.81

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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

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EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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Systematix Shares and Stocks (India) Limited

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
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