Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

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make money. not mistakes.

CMP : 30.25
Target Price : 39.00
Upside : 29%
Stop Loss : 26 (closing basis)

03rd November 2020

IDFC First Bank - Buy

About the Company:

IDFC First Bank has walked a long path of transformation starting from infrastructure finance NBFC to universal bank. To strengthen retail franchise, IDFC Bank & Capital First Ltd engaged into a merger to form IDFC First Bank in December 2018. The merged entity is the eighth largest private bank with funded asset at 103188 crore (retail: wholesale – 45:55) as of Sept 2019 and wide customer base of 7 million. It is being headed by V Vaidyanathan, who has a proven track record at Capital First. IDFC First Bank has a pan India presence with 351 branches. In summary, under our stated strategy for the combined entity, IDFC FIRST Bank, the same successful model of Capital First lending business is now being built on a Bank platform from IDFC Bank, thus the business becomes more profitable, robust and sustaining because of availability of low cost and more abundant funding.

Investment Thesis

Robust Growth in retail loan book

For the quarter ended September2020 the total loan book of the bank stood at Rs 1,06,802cr. Retail accounted 56% of the loan book amounting Rs59,860Cr and Wholesale loan book amounting Rs 36,987cr accounts for around 35% of the total loan book. There was a 25%(YoY) and 7%(QoQ) increase in the retail loan book and -20% (YoY) and -2%(QoQ)decline in wholesale loan book where most of bad loan lies. Banks plan to increase retail exposure is yielding results.

Overall asset quality improved while strong asset quality on retail loan book.

Asset quality witnessed improvement on a sequential basis with GNPA/NNPA at 1.62%/0.43% compared to 1.99%/0.51% in Q1FY21. However, strong asset quality on retail loan book improved at 0.41%/0.17% during the quarter. Improvement in asset quality can be largely attributed to moratorium provided to customers. Impact of the Hon. Supreme Court notification to stop NPA classification for the accounts that were under moratorium till further orders, which would have otherwise slipped to NPA. Without this impact the GNPA as on 30 September 2020 would have been 1.87% and the NNPA would have been 0.60%. For the retail loans, in the same way, GNPA and NNPA would be 0.79% and 0.41%. Bank withdrew 50% of telecom account related provision & used it for COVID19 provisions. Bank has used Rs 811cr of provision from telecom exposure provision of Rs1622 cr for COVID 19 related provision in Q2FY21 Total covid-19 provision at Rs2000cr.

Stock Details	
Market Cap (RsCr)	17,385.76
BSE Code	539437
NSE Code	IDFCFIRSTB
Sector/Index	Bank / S&P BSE 200
Year End	March
52 w.High/Low	48/17.75
Outstanding shares	567.2(cr)
BSE Sensex	39,614.07
NSE Nifty	11,642.40

Shareholding Pattern	
Indian Promoters	40.00%
DIIs	15.72%
FIIs	11.23%
Others	33.05%

Key Ratios	
Div Yield	0.00%
Industry P/BV	2.33x
TTM EPS	-2.37
IDFCFIRSTB P/BV	0.99

Capital raising supported balance sheet.

In Q1FY21, Bank recently raised Rs 2,000cr through preferential shares to enhance capital base. Post the capital raising the CET 1 stand more than 15%. Large part of the stress lies in corporate accounts and total outstanding exposure in stressed accounts stands at Rs 5961 cr including that of telecom exposure. Bank has provided 48% provision to these stressed assets as on September 2020.

Better top-line performance with 22% growth in NII.

During the quarter Q2FY21 , Net interest income reported a 22% increase on an annualised basis powered by a 25% increase in retail book. NII grew to Rs 1,660 cr as compared to Rs 1,363cr in Q2FY20. Net Interest Margin (NIM) improved to 4.57% in Q2FY21compared to 3.43 % in Q2FY20 and 4.53% sequentially. Total income including Net Interest income, fees and trading gain came at Rs 2,288 cr an increase of 21% YoY from Rs1,884cr in Q2FY20.Pre-Provision profit (PPOP) grew by 36% YoY to Rs803cr in the current quarter compared to Rs590cr in Q2FY20.

Key Business Highlights

IDFC First bank's fund book was at Rs 1,06,828 cr in September 2020 (Rs 1,04,050 crore as of Q1FY21) with share of retail pegged at 56% and wholesale at 44%. Under the new management, while the merged entity is to retain its strength in retail lending (proven in erstwhile NBFC), focus will be on building a retail liability franchise to boost earnings and return ratios ahead. The management has indicated that, going ahead, the bank focus will be on retail book majorly on home loans, auto loans (including two- wheelers) and consumer durable financing.

Risk & Concern

Delay in the rundown NPAs therein could affect business and profitability.

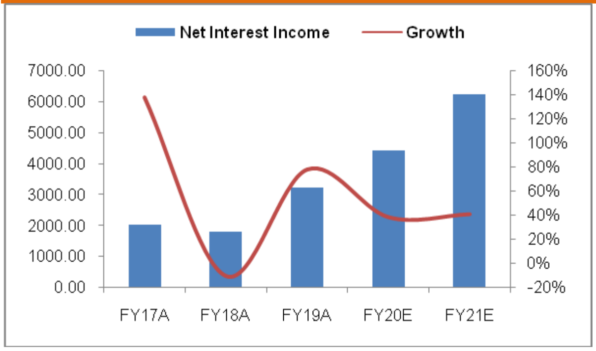
Competition from small finance banks, with respect to building CASA deposits

Valuation

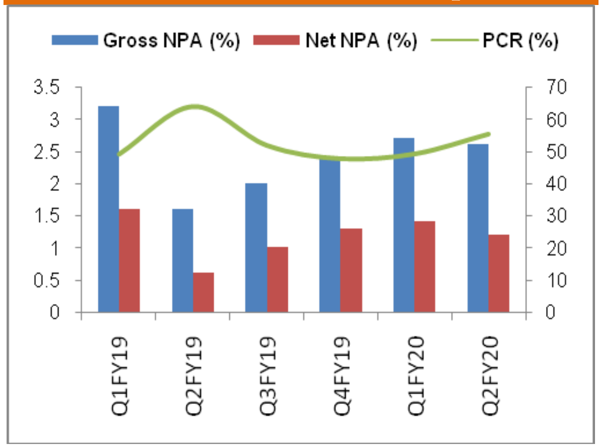
Top line growth is expected to remain robust due to increase in retail exposure as there is huge potential in retail financing in India. as per the management credit demand will reach in pre covid levels in the next quarter onwords and collection performance on retail loans have improved sharply after the lockdown has been lifted, and in fact are much stronger, near term shocks with respect to asset quality will be absorbed by the capital raised recently. We value the bank at 1.2x Adj BVPS of FY22E and our rating to accumulate with an upward target price of Rs 39.

Graphs & Charts

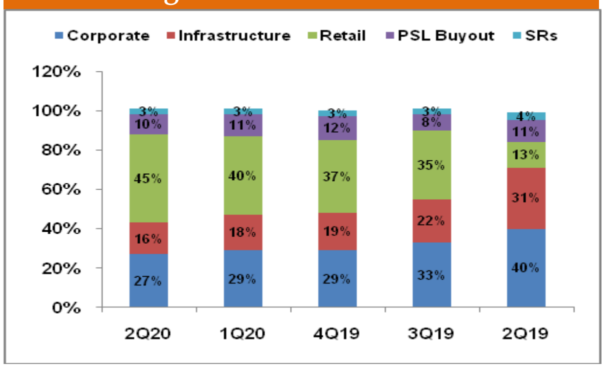
Net Interst Income Trend



AQR remains stable while PCR improves



Retail book gains Share



NIM Improved %

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Disclosure:

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