Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

Bonanza
make money. not mistakes.

CMP : 46
Target Price : 63
Upside : 36%
Stop Loss : 39(closing basis)

30TH December 2019

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

Stable asset quality

Banks GNPA/NPA has declined to 2.62%/1.17% and PCR improved by 610bps YoY to 55.3%. At the same time retail GNPA/NPA also witnessed improvement. The bank has identified exposures as watch-list accounts under stressed around Rs Rs 3,277 Cr has reported watch list and has taken provision of 55.55% this book has reduced in Q2FY20 marginally and now stand at Rs 2,990 Cr(for HFC & Financial Cos. -75% PCR).The high provision on risky asset would provide stability to PAT.

Operating expenses have gone up due to expanding branches

Opening new branches, brand improvement and business sourcing has led to operating expenses abiding to be higher with cost to assets at 3.1% in the quarter and we continue to keep tab on same.However, Cost to Income declined QoQ 299bps to 75.6%. Cost to income ratio has improved from 78.60% for Q1FY20 to 75.61% in Q2FY20, despite the heavy investments in branches as the Bank added 72 branches in Q2FY20.

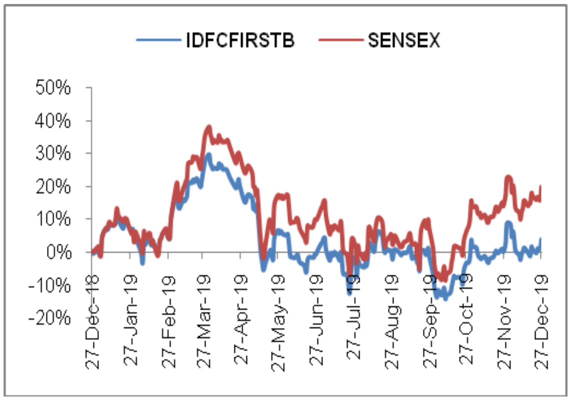
Robust growth Guidance for next 5 to 6 years Plan

The management had initially guided that the retail mix will touch 70% of the loan book (retail loan assets to over Rs 100,000 to reach a 70% of loan mix) within 5 to 6 years, however, it is now confident to achieve the target before schedule. At the same time reducing the infrastructure exposure to NIL in the coming 5 years. The bank plans to reduce the wholesale loan book to Rs 40,000cr by March 2020

Stock Details	
Market Cap (RsCr)	21,576.51
BSE Code	539437
NSE Code	IDFCFIRSTB
Sector/Index	A / S&P BSE 200
Year End	March
52 w.High/Low	56.90/36.15
Shares in Issue (cr)	191
BSE Sensex	41,575.14
NSE Nifty	12157.90

Shareholding Pattern	
Indian Promoters	40.00%
DIIs	9.45%
FIIs	16.36%
Others	34.19%

Key Ratios	
Div Yield	0.00%
Industry P/BV	3.26x
ROE	-11.64%
IDFCFIRSTB P/BV	1.21



The bank expects the gross yield of the loan book to increase to 13.5% in the next five years. On CASA front, the bank strives to reach a CASA ratio of 30% within five years, and gradually take it to 40-50% from thereon. The bank also plans to set up 600-700 branches in the next 5 years, which would be suitably supported by the attractive product propositions and other associated services as well as cross -selling opportunities. The Net Interest Margin (NIM) is estimated to reach an attractive level of 5.0% - 5.5% in the coming five years by the bank. Over next 5 to 6 years, the bank expects the RoA & RoE to reach to the tune of 1.4% - 1.6% and 13% - 15% respectively.

Financials

During the past 5 years,NII of IDFCFIRSTB grew at a CAGR of 32% while PPOP grew at a CAGR of 18% in the same period.

Particulars (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
NII	2017.32	1798.10	3199.09	4419.69	6217.32
PPoP	1753.46	1263.40	-1749.08	743.87	3347.60
PAT	1019.74	859.30	-1944.18	-1154.42	609.68
EPS (Rs)	3.00	2.52	-4.07	-2.41	1.28
Adjus BVPS (Rs)	41.48	42.20	35.66	33.69	35.12
P/BV (x)	1.11	1.09	1.29	1.37	1.31

Key Business Highlights

IDFC First bank's fund book was at Rs 1,07,656 cr in September 2019 (Rs 1,12,558 crore as of Q1FY20) with share of retail pegged at 45% and wholesale at 55%. 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. We expect funded book to grow at CAGR of 30% to Rs 145109cr by FY21E.(FY17A TO FY21E)

Risk & Concern

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

Any regulatory changes coming from RBI Significant slowdown in consumer demand.

Operations may be affected during merger/integration process.

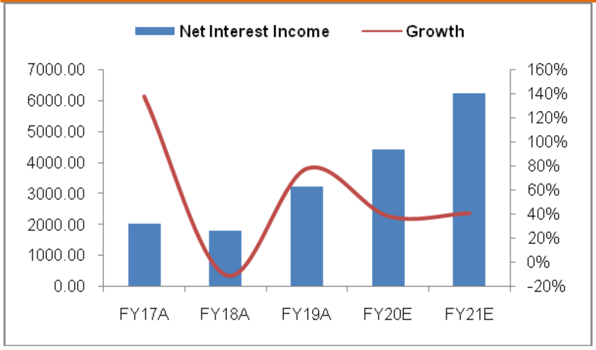
Competition from small finance banks, with respect to building CASA deposits

Valuation

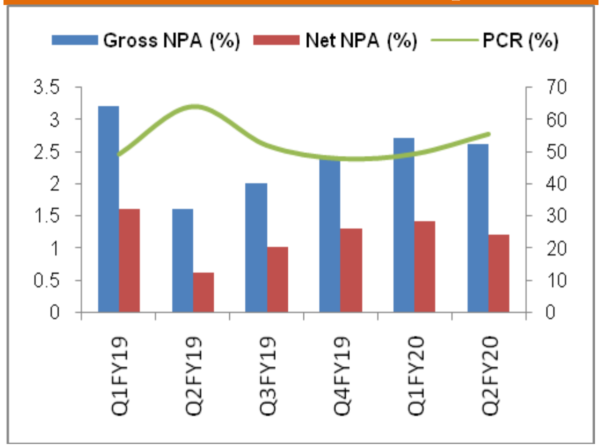
We strongly believe that the merger and the enhanced focus on retail segment along with a clear growth strategy will act positively for the bank on a longer-term. However, we expect the operating costs as well as the cost of funds to remain elevated on a shorter to medium term. Hence, we value the bank at 1.7x BVPS of FY21E arrive at target price of Rs 63

Graphs & Charts

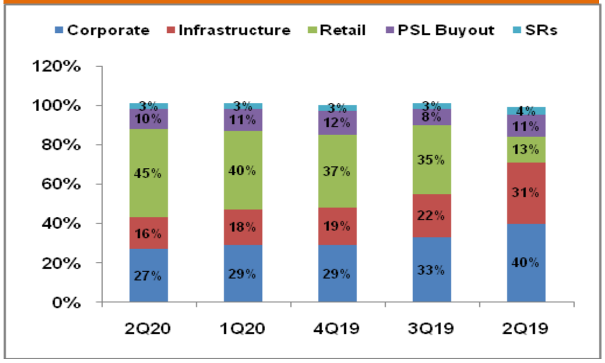
Net Interst Income Trend



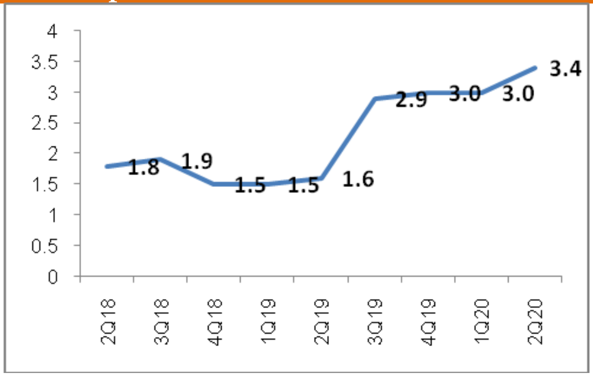
AQR remains stable while PCR improves



Retail book gains Share



NIM Improved %



Disclosure:

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