

Finance

Company Overview

IDFC First Bank is an entity formed by the merger of IDFC Bank (a scheduled commercial bank) and Capital first Limited (Non Banking Financial Services). The merger was finally came into existence on December 18, 2018. Currently, it has a network of 279 branches with a total fund asset of 1.12 lakh crore with 40% being retail assets.

Investment Rationale

Robust growth strategy would enable to improve retail business ,going ahead

The merged entity has a renewed focus on the retail business, with the bank planning to grow the retail loan assets to Rs 1 lakh cr constituting 70% of the total loan mix and at the same time reducing their dependence/exposure to the Infrastructure sector by bringing the exposure to NIL in coming 5 years. The Retail Loan Book which stood at Rs. 48,069 crore, contributes 45% to the Gross Loan Book as of September 30, 2019, increasing from 13% pre-merger, in just three quarters since the merger. In the next 5 years, the bank also plans to set up 600-700 branches which would be suitably supported by the attractive product propositions and other associated services as well as cross - selling opportunities.

Reduction in cost of funds led by improvement in CASA mix

In Q2FY20, bank reported a CASA ratio of 18.70% from 8.68% as on December 31, 2018 at merger. During the quarter, the Bank gained strong momentum in raising CASA Deposits while reducing its dependency on wholesale deposits like Certificate of Deposits and Wholesale term Deposits. As a result of the CASA deposits increase, cost of funds for the bank reduced from 7.75% Q1FY20 to 7.71% Q2FY20. With the increasing share of CASA going ahead, the cost of funds is expected to see further benefits. Further, the bank strives to reach a CASA ratio of 30% within five years, and gradually take it to 40-50% after.

Valuation and Outlook

IDFC First Bank 's strong management and its proven track record remains a key factor to look for, However, its Focus on retail loans, improving CASA and increasing efficiency will enable to augur healthy growth going forward. With improving return ratios, RoA is seen increasing to 0.4% and RoE to 4% by FY21E respectively. All these factors contribute towards our positive view towards the bank. We, therefore recommend a BUY on the bank assigning a P/BV multiple of 1.5x of FY21 book value implying a target price of INR 57.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	40
Target Price (INR)	47
NSE Symbol	IDFCFIRSTB
Bloomberg	IDFCB IN
Reuters	IDFB.BO

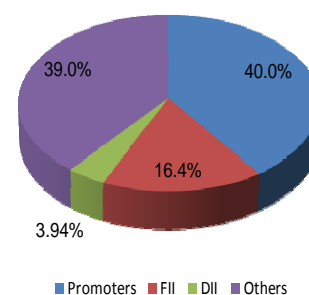
Key Data

Nifty	11,584
52WeekH/L(INR)	56.9/33.0
O/s Shares (Mn)	4782.7
Market Cap (INR bn)	195.
Face Value (INR)	10

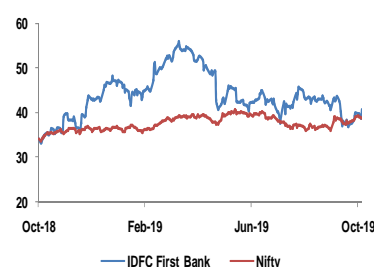
Average volume

3 months	18,901,780
6 months	16,845,040
1 year	16,347,820

Share Holding Pattern (%)



Relative Price Chart





IDFC First Bank Ltd

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income	20,628	19,725	34,608	51,210	61,315
<i>Revenue Growth (Y-o-Y)</i>	<i>143.0%</i>	<i>(4.4%)</i>	<i>75.5%</i>	<i>48.0%</i>	<i>19.7%</i>
Pre-Provisioning Profits	17,498	12,955	7,742	12,620	23,100
<i>Growth (Y-o-Y)</i>	<i>136.0%</i>	<i>(26.0%)</i>	<i>(40.2%)</i>	<i>63.0%</i>	<i>83.0%</i>
Net Profit	10,627	9,555	(19,345)	(3,680)	8,010
<i>Net Profit Growth (Y-o-Y)</i>	<i>128.0%</i>	<i>(10.1%)</i>	<i>(302.5%)</i>	<i>(81.0%)</i>	<i>NA</i>
EPS	3.0	2.6	(4.8)	(0.8)	1.7
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>117.0%</i>	<i>(13.8%)</i>	<i>(285.7%)</i>	<i>(84.0%)</i>	<i>NA</i>
Key Ratios					
NIM (%)	1.8%	1.6%	2.1%	2.6%	2.8%
NPM (%)	0.9%	0.8%	-1.2%	-0.2%	0.4%
RoE (%)	7.2%	6.3%	-10.6%	-2.1%	4.4%
BV	43.2	45.0	38.0	37.0	38.0
Valuation Ratios					
P/E (x)	13.7x	15.9x	-8.6x	-53.4x	24.1x
P/BV (x)	1.0x	0.9x	1.1x	1.1x	1.1x

Source: Company, BP Equities Research



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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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