

## Banks

### 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. The Bank's segments include treasury, corporate banking, retail banking and other banking business. The Treasury segment consists of its investment portfolio, and money market borrowing and lending among others, corporate banking segment provides loans, non-fund facilities and transaction services to corporate relationship not included under retail banking, corporate advisory, project appraisal placement and syndication while, retail banking segment constitutes lending to individuals/business banking customers through the branch network and other delivery channels depending on orientation, nature of product, granularity of the exposure and the quantum thereof.

### Investment Rationale

#### Strong operational performance led by reduction in cost of funds

In Q3FY20, bank's operating expenses increased due to opening up of new branches, brand improvement and business sourcing with a cost to assets being at 3.9% in annualized terms. However, on the other side, Cost to Income ratio has been down at 68% led by better NII supported by tailwinds from lower costs, improvement in mix (retail 49% of loan assets) up by 400 bps sequentially. while other income increased led by treasury gains which were strong aiding to deliver in core PPOP. Further, 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.

#### 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 shifting its loan mix to retail segment with retail loan assets growing by 42% Q3FY20 to Q3FY19 and 7.2% on sequentially basis with an improved mix of 49% out of total loan assets. Meanwhile, retail Casa and core retail deposits grew to 43.4%YoY vs 33.9% QoQ which provide a confidence for opening up of new branches,73 new branches were opened during the quarter leading to 424 branches till date. In the next 5 years, the bank has planned to hit a target of 600-700 branches w which would be suitably supported by the attractive product propositions and other associated services as well as cross-selling opportunities.

### 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 0.6%and RoE to 5.7%by FY22E 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 1.1x of FY22 book value implying a target price of INR 47.

### 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

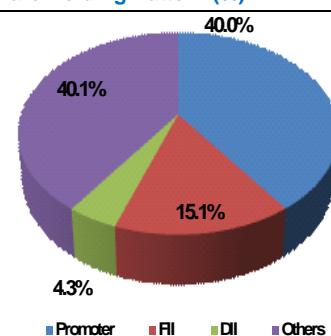
### Key Data

Nifty	11,661
52WeekH/L(INR)	56/36
O/s Shares (Mn)	4769.5
Market Cap (INR bn)	189
Face Value (INR)	10

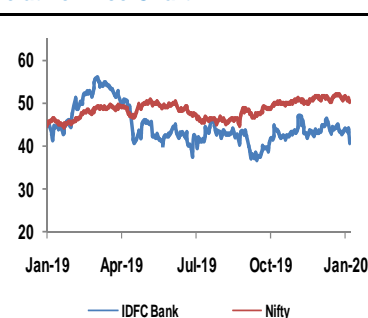
### Average volume

3 months	17,257,100
6 months	17,532,310
1 year	17,262,310

### Share Holding Pattern (%)



### Relative Price Chart



# Weekly Wealth

## Key Financials

YE March (INR mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Interest Income</b>	<b>19,725</b>	<b>34,608</b>	<b>51,210</b>	<b>61,315</b>	<b>72,474</b>
<i>Revenue Growth (Y-o-Y)</i>	<i>(4.4%)</i>	<i>75.5%</i>	<i>48.0%</i>	<i>19.7%</i>	<i>18.2%</i>
<b>Pre-Provisioning Profits</b>	<b>12,955</b>	<b>7,742</b>	<b>12,620</b>	<b>23,100</b>	<b>28,921</b>
<i>Growth (Y-o-Y)</i>	<i>(26.0%)</i>	<i>(40.2%)</i>	<i>63.0%</i>	<i>83.0%</i>	<i>25.2%</i>
<b>Net Profit</b>	<b>9,555</b>	<b>(19,345)</b>	<b>(3,680)</b>	<b>8,010</b>	<b>11,310</b>
<i>Net Profit Growth (Y-o-Y)</i>	<i>(10.1%)</i>	<i>(302.5%)</i>	<i>(81.0%)</i>	<i>(317.7%)</i>	<i>41.2%</i>
<b>EPS</b>	<b>2.6</b>	<b>(4.8)</b>	<b>(0.8)</b>	<b>1.7</b>	<b>2.4</b>
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(13.8%)</i>	<i>(285.7%)</i>	<i>(84.0%)</i>	<i>(317.7%)</i>	<i>41.2%</i>

## Key Ratios

<b>NIM (%)</b>	<b>1.6%</b>	<b>2.1%</b>	<b>3.1%</b>	<b>3.5%</b>	<b>3.9%</b>
ROA (%)	0.8%	-1.2%	-0.2%	0.5%	0.6%
<b>RoE (%)</b>	<b>6.3%</b>	<b>-10.6%</b>	<b>-2.1%</b>	<b>4.4%</b>	<b>5.7%</b>
BV per Share	45.0	38.0	37.0	38.0	41.4

## Valuation Ratios

<b>P/E (x)</b>	<b>15.5x</b>	<b>-8.3x</b>	<b>-52.1x</b>	<b>23.9x</b>	<b>16.9x</b>
P/BV (x)	0.9x	1.1x	1.1x	1.1x	1.0x

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

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