

## Higher provisions impacted earnings; growth steady

**About the stock:** IDFC First Bank was formed by the merger of the erstwhile IDFC and Capital First in 2018. Retailization of its business has been the key focus.

- Retail funded assets form ~59% of total funded assets
- Branch network is at 961 as on September 2024

**Q2FY25 performance:** IDFC First Bank reported weak Q2FY25 results, wherein advances rose 21.5% YoY (6.3% QoQ) to ₹ 2,22,613 crore, led by a 25% YoY rise in retail segment while infra book de-grew 21% YoY. NII grew at 21% YoY, while NIM contracted by 14 bps YoY (4 bps QoQ) to 6.18%. Core operating profit, excluding treasury gains, rose by 28% YoY. Higher provisions, primarily on account of MFI exposure & one infra toll account totalling a buffer of ₹ 568 crore, plunged PAT to ₹ 201 crore (~73% YoY & 71% QoQ). RoA fell 34 bps QoQ to 0.57%, while excluding additional provisioning it stood at 0.85%. GNPA rose marginally 2 bps QoQ to 1.92% & NNPA fell 9 bps QoQ to 0.48%. Deposit accretion came at 32.4% YoY to ₹ 2,18,026 crore, led by ~37.5% YoY growth in retail deposit & healthy CASA ratio at 48.9%.

### Investment Rationale

- **Elevated provisions impact earnings:** Microfinance remains a pain point with deterioration in collection efficiency (early bucket) by 40 bps QoQ to 98.6%, elevated slippages & rising credit costs at ~7-7.5% for Q2FY25 (~6% for H1FY25), however, asset quality trend in retail, rural and MSME remained healthy with ex-MFI GNPA at 1.5% & NNPA at 0.54%. Provisions rose significantly due to a prudent buffer of ₹568 crore, including ₹315 crore for MFI segment (99% of SMA 1+2 portfolio) and ₹250 crore for a legacy toll road account impacted by toll withdrawal by state government. Excluding which, credit cost would have been ~1.8%. Thus, management has revised credit cost guidance for FY25E to 225 bps (from 180-185 bps).
- **Sustained healthy growth and optimizing CD & CI ratio remains key:** Defying industry trend, liabilities accretion remained robust at 32.4% YoY led by ~37.5% YoY rise in retail deposits with improvement in CASA mix. Credit growth was steady at 21.5% YoY led by retail credit growth of 25.1% YoY and 20% rise in non-infra corporate book. Strategy to focus on sustaining robust deposit growth is seen to aid C/D ratio. C/I ratio (currently at ~70.7%) is expected to gradually decline amid business growth being higher than opex, with target at ~65% by FY27E. With focus on retail granular deposits, expect liabilities to grow at ~30% for FY25 and at ~22-23% for FY26-27E while credit growth is seen at ~20% for FY25-27E.

### Rating and Target Price

- With balance sheet restructuring seems to be broadly over, now the focus will be on improving operational matrix including CI ratio. Management remains confident to deliver 20-25% growth in business with gradual improvement in operational performance, however, near term headwinds in terms of higher credit cost pertaining to exposure to unsecured retail loans and erstwhile infrastructure book could be ruled out. Thus, we value the stock at 1.3x FY27E ABV and assign target price of ₹75. Recommend Buy.



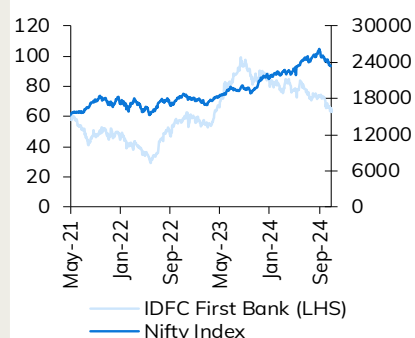
### Particulars

Particulars	Amount
Market Capitalisation	₹ 47,164 crore
Networth	₹ 32,274 crore
52 week H/L	92 / 59
Face value	₹ 10

### Shareholding Pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	39.4	37.5	37.4	37.4	35.4
FII	24.5	24.3	23.7	21.0	19.6
DII	5.6	6.6	6.8	7.9	11.7
Others	30.6	31.6	32.1	33.7	33.3

### Price Chart



### Key risks

- Higher opex to impart pressure on RoA
- Exposure to unsecured portfolio remains at risk

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### Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-FY27E)
NII	7380	9706	12635	16451	31%	19602	23348	28154	20%
PPP	2498	3284	4932	6237	36%	8022	10057	13124	28%
PAT	452	146	2437	2957	87%	2358	4013	5635	24%
P/E	81.6	277.7	17.7	15.5		19.5	11.5	8.2	
ABV	28.1	30.8	36.8	43.8		46.8	51.2	58.6	
P/ABV	2.3	2.1	1.8	1.5		1.4	1.3	1.1	
RoA	0.3	0.1	1.1	1.1		0.7	1.1	1.2	
RoE	2.7	0.8	10.4	10.2		7.1	11.1	13.9	

## Concall Highlights and Outlook

- IDFC First Bank's deposits grew at 32% YoY which was utilized for repayment of the legacy borrowings with management giving guidance for liabilities accretion at 30% YoY. CASA deposits grew 37.5% YoY and 11.9% QoQ, improving CASA ratio by 247 bps YoY to 48.9%, and is expected to be ~50% going forward. 80% of total deposits are retail in nature.
- Cost of funds were stable at 6.46%, and excluding legacy loans CoF stood at 6.37%. Credit to deposit (C/D) ratio for Q2FY25 was 97.7% with a target of 75% on an incremental basis.
- There was significant increase in provisions – with stress witnessed in MFI business leading to conservative provision of ₹ 315 crores, equivalent of ~99% of the SMA-1+2 portfolio and is 2.5% of the entire portfolio in this business segment for Q2FY25. Additionally, a legacy toll loan being written off amounted to extra provision of ₹ 250 crores. Excluding the extra provisions created, credit cost remained at 1.8%.
- Credit cost for FY25 is expected to be ~2.25%. Excluding the toll account and MFI, credit cost is expected to fall in the range of ~165 bps to ~170 bps.
- The bank reduced the infrastructure loans of the total loan assets from 22% (FY19) to only 1.2% as of Q2FY25. The bank has improved the mortgage-backed loans from 13% at merger to 29% and retail & consumer loans from 9% at merger to 25% in Q2FY25.
- Overall credit growth was 21.5% YoY with total retail loans growing 25% YoY, rural finance at 13.6% YoY and MSME & corporate loans grew at 20.7% YoY. Under retail loans, housing finance grew by ~20% YoY, vehicle loans grew 32.6% YoY and consumer loans saw growth of 21.8% YoY.
- Restructured book constitutes ~0.23% of the total funded assets, with ~95% of this restructured book being secured in nature.
- The bank's collection efficiency excluding micro-finance is stable at 99.5% for Q2FY25. For MFI business, collection efficiency dipped 40 bps to 98.6%.
- Management expects liquidity coverage ratio to be >110% for FY25 with the LCR for Q2FY25 stable at 116%.
- RoA stood at 0.57% for Q2FY25. Excluding additional provisioning in the legacy toll account and prudent provisioning on the MFI business, RoA would have been 0.85%.
- 92% of the fee income & other income is from retail banking operations which is granular and sustainable. Ratio of fee to average total assets was stable at 2.08% for H1-FY25.
- Cost to income (C/I) ratio on an overall basis stood at 70.7% for H1FY25 and expected to improve to ~65% by FY27E. For credit cards, C/I ratio stood at 99.8% for H1FY25, which the management expects to reduce to ~75% with scale by FY27E.
- Merger of IDFC Ltd and IDFC First Bank has been successfully completed in October 2024. As result of the merger, ₹ 618 crore was added to bank's net worth. Considering the same and calculated for Q2FY25 numbers, total CRAR would be 16.6% with CET-I ratio of 14.08%.
- Gross slippages for Q2FY25 were ₹ 2,030 crore and net slippages were ₹ 1,392 crore, with microfinance constituting ~40%. Recoveries and upgrades were slightly higher at ₹ 638 crores in current quarter against ₹ 526 crores in Q1FY25. The net slippages increased by ₹ 260 crores, i.e. ~20 bps QoQ.
- The bank's credit cards in force (CIF) reached 31 lakh with credit card spends for Q2FY25 at ₹ 6,332 crore, growing at 46% YoY.
- IDFC FIRST bank is the largest issuer among 38 issuer banks in NETC with respect to FASTAG monthly activation numbers (~2 crore for Q2FY25) and value processed. It is the largest acquirer bank with 765+ toll-plaza and parking merchants, with ~45% market share, with an issuance value of ₹ 67 crore per day in H1FY25, with 37% market share.

**Exhibit 1: Variance Analysis**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	4,788	3,950	21.2	4,695	2.0	Growth led by stable cost of funds at 6.46%
NIM (%)	6.18	6.32	-14 bps	6.22	-4 bps	
Other Income	1,727	1,430	20.8	1,619	6.7	Fee & other income grew 18% YoY
Net Total Income	6,515	5,380	21.1	6,314	3.2	
Staff cost	1,424	1,190	19.7	1,337	6.5	
Other Operating Expenses	3,129	2,679	16.8	3,094	1.1	OpEx growth came at a reduced rate of 18%
PPP	1,961.9	1,510.3	29.9	1,882.5	4.2	
Provision	1,731.9	528.4	227.8	994.4	74.2	Surge in provisions on account of prudent provisioning buffer of ₹ 568 crore
PBT	229.9	981.9	-76.6	888.1	-74.1	
Tax	29.2	230.6	-87.3	207.4	-85.9	
PAT	200.7	751.3	-73.3	680.7	-70.5	Significant decline due to higher provisions
<b>Key Metrics</b>						
GNPA	4,195.2	3,747.8	11.9	3,904.2	7.5	Credit cost for the loan book ex-MFI was 1.8%
NNPA	1,037.6	1,192.5	-13.0	1,195.3	-13.2	
Funded Assets	2,22,613	1,83,236	21.5	2,09,361	6.3	Mainly driven by 25.1% YoY growth in retail segment
Deposits	2,18,026	1,64,726	32.4	2,04,572	6.6	Retail as well as CASA deposits grew at ~37.5% YoY; CASA ratio steady at ~48.9%

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(Year-end march)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	17,173	22,728	30,323	36,574	42,363	50,102
Interest Expended	7,467	10,092	13,872	16,972	19,015	21,948
Net Interest Income	9,706	12,635	16,451	19,602	23,348	28,154
Growth (%)	32	30	30	19	19	21
Non Interest Income	3,222	4,467	6,002	7,177	8,304	9,847
Net Income	12,928	17,102	22,453	26,780	31,653	38,000
Employee cost	2,697	3,742	4,893	5,946	6,873	7,911
Other operating Exp.	6,948	8,428	11,323	12,812	14,723	16,965
Operating Income	3,284	4,932	6,237	8,022	10,057	13,124
Provisions	3,109	1,665	2,382	4,857	4,670	5,560
PBT	175	3,267	3,855	3,165	5,386	7,564
Exceptional items	-	-	1.0	1.0	1.0	1.0
Taxes	46	849	1,002	823	1,400	1,967
Net Profit	146	2,437	2,957	2,358	4,013	5,635
Growth (%)	(68)	1,575	21	(20)	70	40
EPS (₹)	0.2	3.7	4.2	3.3	5.7	8.0

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end march)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Valuation						
No. of shares (crore)	621.8	661.8	707.0	707.0	707.0	707.0
EPS (₹)	0.2	3.7	4.2	3.3	5.7	8.0
DPS (₹)	-	-	-	0.3	0.5	0.7
BV (₹)	33.8	38.8	45.4	48.7	53.8	61.0
ABV (₹)	30.8	36.8	43.8	46.8	51.2	58.6
P/E	277.7	17.7	15.5	19.5	11.5	8.2
P/BV	1.9	1.7	1.4	1.3	1.2	1.1
P/ABV	2.1	1.8	1.5	1.4	1.3	1.1
Yields & Margins (%)						
Net Interest Margins	5.8	6.0	5.9	5.7	5.7	5.8
Yield on assets	11.1	12.1	12.6	12.5	12.2	12.1
Avg. cost on funds	5.0	5.5	6.4	6.3	5.9	5.6
Yield on average advances	9.7	14.2	15.0	15.0	14.5	14.3
Avg. Cost of Deposits	4.8	4.8	4.9	5.9	5.4	5.2
Quality and Efficiency (%)						
Cost to income ratio	74.6	71.2	72.2	70.0	68.2	65.5
Credit/Deposit ratio	111.6	104.9	97.0	95.3	93.3	91.7
GNPA	3.8	2.6	1.9	2.1	2.0	1.9
NNPA	1.5	0.9	0.6	0.6	0.7	0.5
RoE	0.8	10.4	10.2	7.1	11.1	13.9
RoA	0.1	1.1	1.1	0.7	1.1	1.2
RWA/assets	2.0	3.0	4.0	5.0	6.0	7.0
RWA/ NW	551.8	356.8	271.0	200.5	154.4	125.2

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds						
Capital	6,218	6,618	7,070	7,070	7,070	7,070
Reserves and Surplus	14,786	19,103	25,032	27,387	30,998	36,070
Networth	21,004	25,721	32,102	34,457	38,068	43,140
Deposits	1,05,634	1,44,637	2,00,576	2,46,338	3,02,647	3,70,506
Borrowings	52,963	57,212	50,936	48,137	52,772	57,882
Other Liabilities & Provisions	10,581	12,371	12,501	14,724	17,486	20,832
Total	1,90,182	2,39,942	2,96,115	3,43,655	4,10,974	4,92,359
Application of Funds						
Fixed Assets	1,361	2,090	2,619	2,803	2,999	3,209
Investments	46,145	61,124	74,710	83,124	94,657	1,08,681
Advances	1,17,858	1,51,795	1,94,592	2,34,765	2,82,409	3,39,912
Other Assets	9,060	11,035	11,713	9,544	15,554	22,940
Cash with RBI & call money	15,758	13,898	12,480	13,420	15,355	17,616
Total	1,90,182	2,39,942	2,96,115	3,43,655	4,10,974	4,92,359

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end march)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total assets	16.6	26.2	23.4	16.1	19.6	19.8
Funded asset	17.2	28.8	28.2	20.6	20.3	20.4
Deposit	19.1	36.9	38.7	22.8	22.9	22.4
Total Income	12.2	33.3	33.6	20.4	15.8	18.3
Net interest income	31.5	30.2	30.2	19.2	19.1	20.6
Operating expenses	36.0	26.2	33.2	15.7	15.1	15.2
Operating profit	31.4	50.2	26.5	28.6	25.4	30.5
Net profit	(67.8)	1,574.7	21.3	(20.2)	70.2	40.4
Net worth	17.9	22.4	25.0	7.3	10.5	13.3
EPS	(71)	1,473	14	(20)	70	40

Source: Company, ICICI Direct Research

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Sell: <-15%



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