

## IDFC FIRST BANK LTD

Mar-19

**Industry: Banks**

**Cmp Rs. 53**

**Recommendation: Accumulate**

**Target Rs: 65**

### Key Data

Date	22.3.19
BSE Code	539437
NSE Code	IDFCFIRSTB
52 Week High (Rs)	53.85
52 Week Low (Rs)	32.70
Market Cap (Rs Cr)	25510
Face Value	10

### About the Company:

IDFC First Bank Ltd is an Indian Banking company with diversified asset profile headquartered in Mumbai that was formed following the successful completion of the merger between IDFC Bank Ltd and Capital First Ltd on January 2019. It will now offer a wide array of retail and wholesale banking products, services and digital innovations to a greater number of customer segments. The bank has total funded assets of Rs 1,04,660 Cr which it manages through 206 branches, 129 ATM's and 454 rural business correspondent centres pan India. The combined entity also has a large retail customer base of more than 70 lacs live customers including 30lacs rural customers.

### Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

### Mview:

#### Retail base set to boost growth:

Post-merger retail forms significant chunk of the book. IDFC First Bank's retail assets stood at 33% of total loan assets. It plans to grow the retail asset book from Rs 36,236 Cr to Rs 1,00,000 Cr over the next 5-6 years. This will increase the mix from 35% to 70%. Capital First had strong retail franchise and strong credit skills in niche segment. The combined entity now will likely deliver 20% CAGR in the retail loan book over the next five years even as the wholesale loan book will grow moderately at about 6%, translating into overall loan growth of 10%. Balance will happen in growing both secured as well unsecured segments with higher focus on risk-adjusted spreads.

#### Improvement in the operational performance:

IDFC First Bank's return ratios are expected to improve gradually. Net interest margin (NIM) is expected to increase to about 5.5% in next 5-6 years from current 3.27%. NIM is expected to improve due to change in the loan mix with mostly concentrating on high yielding retail lending. Focus will also remain on replacing high-cost long-term bonds and infrastructure bonds with retail and bulk deposits. IDFC First Bank's retail expansion and investments in building out the bank will led to cost to income ratio of 78.75% in the current year (Q3 FY19), which the bank expects to reduce to 50-55% over the next 5-6 years. Also increase in the fees income due to expected growth in the loan book and operating leverage playing out with lower asset quality issues going forward will play a major role in benefiting the bank by improving its return ratios such as Return on assets (1.4-1.6%) and Return on equity (13%-15%).

### Shareholding Jan 2019

Promoters	40.00%
Public	60.00%

### Promoters/ Management

Mr. Vaidyanathan	Ex Director
Mr. Pankaj Sanklecha	CFO
Mr. Rajiv Lall	Non Ex Dir
Mr. Aashish Kamat	Non Ex Dir
Mr. Abhijeet Sen	Non Ex Dir

### Key Ratios

CASA Ratio %	10.30
NIM %	3.27
Cost/Income %	79
P/Bv x	1.41

### Price Chart



#### Strengthening the Asset-Liability strategy:

On the asset side strategy diversification of its loan book across sectors and its efforts to increase retail composition will benefit the bank. Bank will achieve relatively higher gross yield on its loan book from its current 9.2% to 12% over next 5-6 years. On the liability front the key focus of the combined entity is to increase the CASA ratio from 10.3% (Q3 FY19) on a continuous basis year on year to strive to reach 30% over next 5-6 years. Diversification of liabilities in favour of retail deposits (CASA and retail term deposits) is essential for availing low cost and sustainable source of funding to fund the growth for the bank. As a percentage of the total borrowings, the retail term deposits and CASA is proposed to increase from 10.5% currently to over 50% in the next 5-6 years. IDFC First bank has plans to set up 600-700 more bank branches in next 5-6 from current branch count of 206. This would possibly help to grow the retail deposits and CASA.

### Mview:

We believe IDFC First Bank's merger provides an opportunity to build a robust banking franchise with high focus on building retail assets which is more than >35%. Financially post-merger it has absorbed and took hit on earnings on back of creation of goodwill from merger, adjusting to the one-time exceptional item PAT in Q3. Considering its growing retail product portfolio, new management bandwidth with proven execution track record and sufficient capital would lift RoE, hence going forward it can be a re-rating candidate. On valuation parse the stock is currently available at 1.3x FY21E P/BV which is below its peers. Henceforth we recommend investors to "Accumulate" IDFC First Bank for healthy 17-25% return on investment over medium to long term investment.

### Research Team

**Prashanth Tapse**

022-61507123

[prashanth.tapse@mehtagroup.in](mailto:prashanth.tapse@mehtagroup.in)

## FINANCIAL OVERVIEW

### Profit & Loss Statement (Rs Cr)

Particulars	Q3FY19	Q3FY18	YoY	Q2FY19	QoQ	9MFY19	9MFY18	YoY
Interest Earned	3664	2334	56.98%	2284	60.44%	8319	6649	25%
Other income	304	119		231		622	1025	
<b>Total Income</b>	<b>3968</b>	<b>2453</b>	<b>61.75%</b>	<b>2515</b>	<b>57.82%</b>	<b>8942</b>	<b>7674</b>	<b>17%</b>
Interest Expended	2519	1883	33.77%	1789	40.82%	6233	5304	18%
Operating expenses	1142	552		411		2140	1163	
<b>Total expenditure</b>	<b>3660</b>	<b>2435</b>	<b>50.34%</b>	<b>2200</b>	<b>66.40%</b>	<b>8373</b>	<b>6467</b>	<b>29%</b>
<b>Operating profit</b>	<b>308</b>	<b>19</b>	<b>1547.78%</b>	<b>315</b>	<b>-2.15%</b>	<b>569</b>	<b>1207</b>	<b>-53%</b>
Provisions	213	601		109		848	-6	
Exceptional items	2599	0		0		2599	0	
<b>Profit/Loss from ordinary activ</b>	<b>-2504</b>	<b>-583</b>	<b>329.71%</b>	<b>206</b>	<b>-1314.72%</b>	<b>-2878</b>	<b>1213</b>	<b>-337%</b>
Tax Expense	-966	-213		60		-1152	396	
<b>Net Profit</b>	<b>-1538</b>	<b>-370</b>	<b>316.03%</b>	<b>146</b>	<b>-1152.49%</b>	<b>-1726</b>	<b>817</b>	<b>-311%</b>
<b>EPS</b>	<b>-3.22</b>	<b>0.43</b>		<b>-1.09</b>		<b>-4.47</b>	<b>2.40</b>	

Source: bseindia.com

## TECHNICAL TREND



Source: investing.com



# MSEARCH

**Disclosures:** The following Disclosures are being made in compliance with the (herein after referred to as the Regulations). Mehta Equities Ltd. (MEL) is a SEBI Registered Research Analyst having registration no. INH000000552. MEL, the Research firm as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MEL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and BSE Limited (BSE), Multi Commodity Exchange of India (MCX), National Commodity & Derivatives Exchange Ltd. (NCDEX) & ICEX for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Neither MEL nor its associates or the Research Analyst(s) named in this report or his/her relatives individually own 1% or more securities of the company(ies) covered under this report, at the relevant date as specified in the SEBI (Research Analysts) Regulations, 2014 but MEL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MEL and its associate company(ies), their directors and Research Analyst and their relatives may; from time to time, have a long or short position in, and buy or sell the securities or derivatives thereof of companies mentioned herein. MEL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. To enhance transparency, MEL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MEL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MEL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

**Terms & Conditions:** This report has been prepared by MEL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MEL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose only and clients has to initiate decision to buy or sell or hold, considering their own risk before investing, MEL will not treat recipients as customers by virtue of their receiving this report. MEL may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and must not alone be taken as the basis for an investment decision.

**Analyst Certification:** The views expressed in this research report accurately reflect the personal views of the analyst(s) and investment committee(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analyst fulfils all the qualification required as per SEBI Research Analyst Regulations 2014.

**Disclosure of Interest Statement:** Analyst ownership of the stock: No

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com). Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research.

**Msearch's Recommendation (Absolute Performance)**

**Buy : > 20% within the next 12 Months**

**Accumulate : 5% to 20% within the next 12 Months**

**Sell : < -20% within the next 12 Months**

**MEHTA EQUITIES LTD**

BSE: - Membership Clearing No. 122 - SEBI Regn. No. INB010683856, NSE: - Membership Clearing No. 13512- SEBI Regn. No. INB231351231,

NSE FO SEBI Regn. No. INF231351231, CIN No: U65990MH1994PLC078478

MSEI: - Membership Clearing No. 51800 - SEBI Regn. No. INB261351234

SEBI registered RA Reg No INH000000552

Mehta Equities Limited, 903, 9th Floor, Lodha Supremus, Dr.E.Moses Road, Worli Naka, Worli,  
Mumbai 400 018, India

Tel: +91 22 6150 7101, Fax: +91 22 6150 7102

Email: [info@mehtagroup.in](mailto:info@mehtagroup.in), Website: [www.mehtagroup.in](http://www.mehtagroup.in)