

### IDFC FIRST BANK LTD

May-19

Industry: Banks

Cmp Rs. 43

Recommendation: Hold/Accumulate

Target Rs: 53

#### Key Data

Date	20.5.19
BSE Code	539437
NSE Code	IDFCFIRSTB
52 Week High (Rs)	56.90
52 Week Low (Rs)	32.70
Market Cap (Rs Cr)	20586
Face Value	10

#### Result Update:

**Retail base set to boost growth:** IDFC First Bank has grown its gross funded assets by 5.5% on a QoQ basis and reached Rs. 110,400 Cr as of FY19. The growth of the loan book was driven by the growth in the retail loans which grew by 13% on QoQ basis to reach Rs. 40,812 Cr as of FY19. IDFC First Bank's retail assets has improved and stood at 37% of total loan assets up from 33%. It plans to reach Rs 1,00,000 Cr over the next 5-6 years. This will increase the mix from current 37% 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 showed a de growth, mainly because of decrease in the large corporates and infrastructure book. Balance will happen in growing both secured as well unsecured segments. Their major focus remains on the risk adjusted spread which has increased marginally from 3.6% to 3.7% in Q4FY19.

#### Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

**Improvement in the operational performance:** IDFC First Bank's return ratios are expected to improve gradually. Net interest margin (NIM) was at 3.03% vs 2.89% in Dec18. It is expected to increase to about 5.5% in next 5-6 years. NIM is expected to improve due to change in the loan mix with mostly concentrating on high yielding retail lending. NII has grown by 4.5% QoQ without one time effect last time. Focus will also remain on replacing high-cost long-term bonds and infrastructure bonds with retail and bulk deposits. Cost to Income ratio has slightly increased to 80.30% in comparison to 78.75%, IDFC First Bank's retail expansion and investments in building out the bank should help the bank reduce the ratio to 50-55% over the next 5-6 years. The Fee and Other Income from the normal business operations has increased by 11% on a QoQ basis to reach Rs. 334 Cr for Q4FY19. Also increase in the fees income due to expected growth in the loan book and with increase in the branch productivity, the cost to income ratio is likely to come down. This would improve the return profiles of the bank.

#### Shareholding March 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

**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 achieved relatively higher gross yield of 11.7% on its loan book and expects to increase further over next 5-6 years. On the liability front the bank was successful in increase the CASA ratio from 10.3% to 12.9% on a continuous basis YoY 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. Current NNPA and GNPA stands at 1.3% and 2.4%. Increase in NNPA of Rs. 151 crores is because of certain wholesale Assets and Rs. 136 Cr is because of alignment of NBFC NPA norms to Bank NPA norms. IDFC First bank currently has 242 branches which it plans to set up 600-700 more bank branches. This would possibly help to grow the retail deposits and CASA.

#### Key Ratios

CASA Ratio %	12.90
NIM %	3.03
Cost/Income %	80.30
P/BV x	1.41

#### Mview:

We see Q4 results of IDFCFIRST has taken prudent measures after reporting muted profitability metrics for the second straight quarter. On a full year basis bank took a hit of 2,599 crore on account of goodwill arising out of merger which had full impact on FY19 and Bank has also increased its provisioning towards doubtful exposure which has low probability to fall in NPA but by disclosing in this way bank feels that is appropriate for IDFCFIRST to be transparent and clear with stakeholders. We feel the merger benefits would run the show in coming few quarters based on healthy CASA and retail deposits like CASA has grown 62% from Rs 5,700 crore to Rs 9,100 crore and NIM was 1.7%, while in this quarter it is 3.03% which indicates a healthy rise from low base. Looking forward to the few quarters, bank is confident that NIM would continue to expand in every quarter with a target of 4.5-5% in NIM. Considering expected higher profitable margins, quicker retail loan growth and a decline in infrastructure exposure will help the bank get back to profits in one or two quarters and recent fall of 30% from its recent gives investors an opportunity to "Accumulate" with decent return on investment and long-term story in intact.

#### Price Chart



#### 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 1,10,400 Cr which it manages through 242 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.

#### Research Team

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### FINANCIAL OVERVIEW

#### Profit & Loss Statement (Rs Cr)

Particulars	Q4FY19	Q3FY19	YoY		FY19*	FY18	YoY
Interest Earned	3629	3664	-0.96%		11948	8930	34%
Other income	316	304			939	1118	
<b>Total Income</b>	<b>3945</b>	<b>3968</b>	<b>-0.59%</b>		<b>12887</b>	<b>10048</b>	<b>28%</b>
Interest Expended	2516	2519	-0.12%		8749	7132	23%
Operating expenses	1148	1142			3287	1653	
<b>Total expenditure</b>	<b>3664</b>	<b>3660</b>	<b>0.08%</b>		<b>12036</b>	<b>8785</b>	<b>37%</b>
<b>Operating profit</b>	<b>281</b>	<b>308</b>	<b>-8.60%</b>		<b>850</b>	<b>1263</b>	<b>-33%</b>
Provisions	698	213			1546	236	
Exceptional items	0	2599			2599	0	
<b>Profit/Loss from ordinary activ</b>	<b>-417</b>	<b>-2504</b>	<b>-83.36%</b>		<b>-3295</b>	<b>1027</b>	<b>-421%</b>
Tax Expense	-199	-966			-1351	168	
<b>Net Profit</b>	<b>-218</b>	<b>-1538</b>	<b>-85.82%</b>		<b>-1944</b>	<b>859</b>	<b>-326%</b>
<b>EPS</b>	<b>-0.46</b>	<b>-3.22</b>			<b>-4.75</b>	<b>2.53</b>	

\* In view of accounting for IDFC - CFL merger from appointed date of October 1, 2018, the figures of the quarter and year ended March 31, 2019 are not comparable to the corresponding figures of the previous periods.

Source: bseindia.com

### TECHNICAL TREND

IDFC Bank Ltd, India, D, NSE - O43.00 H43.20 L42.45 C42.70



Source: investing.com



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**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**

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