Equity Research
June 1, 2021
BSE Sensex: 51937

ICICI Securities Limited is the author and distributor of this report

Initiating coverage

Banking

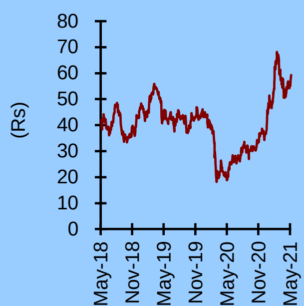
Target price Rs73

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	40.0	40.0	40.0
Institutional investors	22.3	22.9	23.1
MFs and others	2.7	2.9	2.9
FIs/Banks	0.0	0.0	0.0
Insurance	8.4	8.4	8.3
FIIs	11.2	11.6	11.9
Others	37.7	37.1	36.9

Source: Company

Price chart



INDIA

IDFC FIRST Bank

BUY

Superior incremental unit economics demonstrates business potential

Rs59

We initiate coverage on IDFC FIRST Bank (IDFCFB) with BUY recommendation and target price of Rs73 (assigning 1.9x multiple to FY23E book). The bank's evolution is unique in a sense: on getting license, it was created out of demerger of infrastructure financing business followed by merger of erstwhile Capital First. Stress build-up and franchise investment resulted in a weak return profile (net worth erosion) during the transition phase. However, the new bank, with a new Board, new management and renewed focus, has made significant strides in retailisation and granularisation of its business. Current return profile is dragged by high-cost structure, low fee income and elevated credit cost. Nonetheless, its marginal unit economics is superior and incremental retail disbursements have potential RoE of >20%. Going forward, key triggers for RoE improvement would be normalisation of cost to income ratio, retail fee income scale-up, and steady improvement in NIM trajectory. Key risks would be sustenance of cutting edge execution of stated strategy and elevated 'cost to income'.

- **Remarkable transition in asset and liability profile post the merger:** IDFC FIRST Bank followed a structural path towards retailisation of assets as well as liabilities. After having rolled out a 5-year strategic roadmap towards targeted RoA and RoE of 1.4-1.6% and 13-15% respectively, it has made significant strides on most operating parameters: 1) retailisation of assets (>30% CAGR over FY19-FY21, now constituting 63% of assets); 2) granularity of deposits – average CASA deposits surged to ~50% and deposits of <Rs10mn are at 62%; 3) sharp spike in NIM from <2% in FY18 to ~5% in FY21 and very much on track towards targeted levels of 5.0-5.5%.
- **Retail GNPAs rise amidst disruption; wholesale portfolio adequately covered:** With FY21 slippage run-rate of >5% (>7% for retail), GNPAs rose to 4.15% (from 2.6% in FY20). Retail GNPAs at 4.01% are higher by 175bps from the pre-covid average. Restructured pool is equivalent to 1.3% of retail assets. Despite the incremental stress in FY21, credit cost was contained at 250bps for FY21 supported from adequately covered and write-back in wholesale portfolio. Coming from a high-growth phase in retail (>25% in FY21), the impact of covid second wave disruption needs to be closely monitored.
- **Investment in franchise comes at a cost; efficiency key to drive RoAs:** Bank has actively invested in people, processes, products, infrastructure and technology to put together all the necessary building blocks towards a stronger foundation essential for a long-term sustainable growth engine. However, this has come at a cost, and the cost structure hovers much higher compared to peers (IDFCFB's 'cost to income' at >70%). However, cost efficiency and containment will be a key RoA driver going forward.
- **RoE profile currently low; incremental unit economics superior:** IDFC FIRST Bank's current return profile is dragged by higher 'cost to income', lower fee income, and elevated credit cost. Nonetheless, its far superior incremental unit economics is encouraging (incremental retail disbursements have potential RoE profile of >20%). As we see a steady and sustainable transition in favour of retail assets/liabilities, we expect return profile to improve (to >8%/11% by FY23E/FY24E) on the back of normalisation of 'cost to income', retail fee income scale-up, and steady improvement in NIM trajectory.

Market Cap	Rs363bn/US$5bn
Reuters/Bloomberg	IDFCFB IN
Shares Outstanding (mn)	6,201.9
52-week Range (Rs)	68/23
Free Float (%)	60.0
FII (%)	11.9
Daily Volume (US$'000)	37,212
Absolute Return 3m (%)	(7.8)
Absolute Return 12m (%)	164.7
Sensex Return 3m (%)	6.0
Sensex Return 12m (%)	62.1

Year to Mar	FY21P	FY22E	FY23E	FY24E
NII (Rs mn)	69,898	95,159	1,18,265	1,43,041
Net Income (Rs mn)	4,523	5,213	18,318	27,665
EPS (Rs)	0.8	0.8	3.0	4.5
% Chg YoY	NM	6%	251%	51%
P/E (x)	74.1	70.2	20.0	13.2
P/BV (x)	1.8	1.7	1.5	1.4
Net NPA (%)	1.9	1.8	1.6	1.5
Dividend Yield (%)	4.2	5.0	4.3	4.0
RoA (%)	0.3	0.3	0.9	1.2
RoE (%)	2.7	2.7	8.4	11.6

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**BSE Sensex and CMP are as on May 31, 2021*

Investment thesis

Significant strides in retailisation and granularisation of business

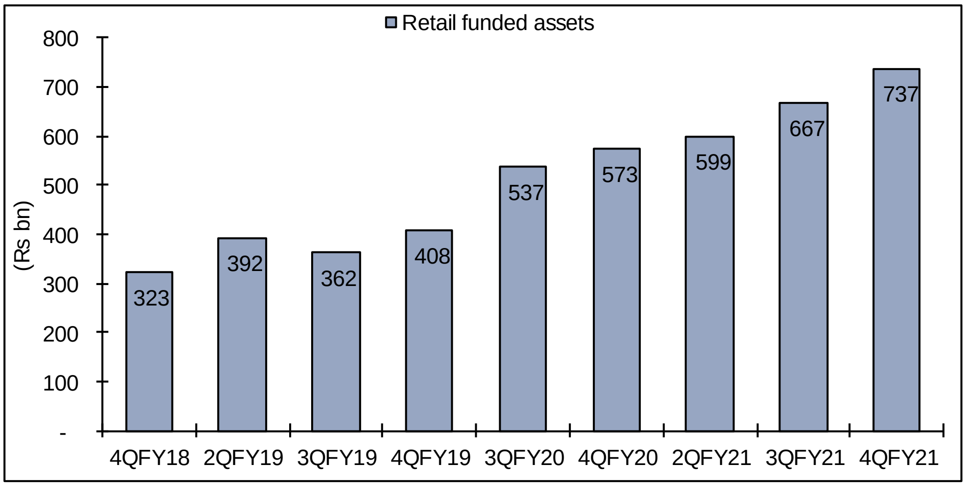
Post the merger of erstwhile IDFC Bank and Capital First, IDFC FIRST Bank is following a structural path towards retailisation of assets as well as liabilities. After having rolled out a 5-year strategic roadmap towards targeted RoA and RoE of 1.4-1.6% and 13-15% respectively, it has made significant strides on most operating parameters (be in retailisation of assets, granularity of deposits, improving NIM trajectory, etc.). It has actively invested in people, processes, products, infrastructure and technology to put together all the necessary building blocks towards a stronger foundation that is essential for a long-term sustainable growth engine.

Evolving into a high-yielding retail bank; targeted retail mix at 70-75%

Post becoming a bank, the erstwhile IDFC Bank took early steps to diversify away from infrastructure into corporate and retail banking. After merger of erstwhile Capital First, with Mr. V. Vaidyanathan at the helm, management is focused on building a high-yielding retail banking franchise (average retail yield at >15%). On its guided strategy, over the past 24 months, it has built strong capabilities in meeting financing needs of consumers, small businesses and MSMEs – through a bouquet of loan products namely home loans, LAP, business loans, personal loans, wheels (2-wheelers, car, CV financing), micro loans, etc. Bank has also launched gold loans, primarily targeted at rural customers and credit cards with variants offering lifetime free, dynamic interest rate, highly rewarding programs, interest-free cash withdrawal, etc. Also, after having tapped the affordable housing segment (yields of 8-9%), now with reduced savings and term deposit rates, it plans to participate in the prime home loan market as well (with competitive rates starting at 6.9%). Besides newly launched products, the bank plans to effectively scale-up its entire bouquet of retail portfolio.

Retail assets after compounding at 34% CAGR over FY19-FY21 to Rs737bn now constitutes 63% of customer assets (including inorganic buyouts). Quarterly run-rate accretion of Rs50bn-70bn of retail assets suggests it is on track towards the targeted Rs1trn of retail assets by FY23/FY24. On overall loan base of Rs1.4trn -1.7trn by then, it would contribute 70-75% to the overall AUM.

Chart 1: Retail assets have more than doubled since merger in Dec'18



Source: Company data, I-Sec research

Table 1: Portfolio growth led by retail; corporate run-down continues

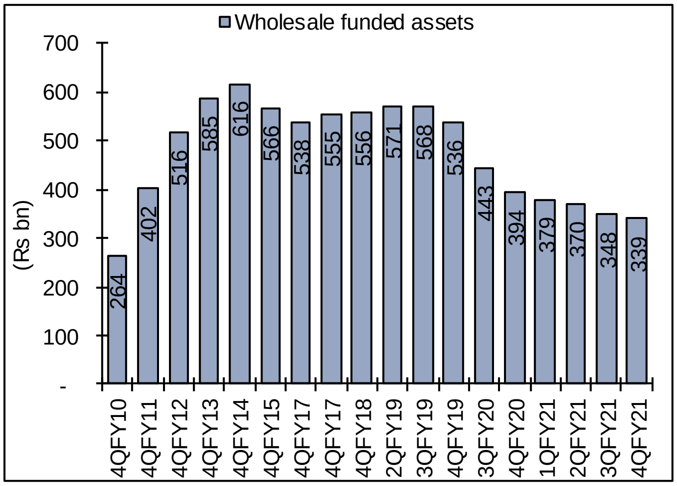
	Mar-20	Dec-20	Mar-21	YoY %	QoQ %
Home Loans	77	94	106	37%	13%
Loan against property	126	138	153	22%	11%
SME loans	89	94	108	22%	15%
Wheels	89	102	108	21%	6%
Consumer loans	117	132	139	19%	6%
Credit Card	-	1	4	NA	398%
Rural	67	72	77	15%	6%
Others	8	17	24	190%	43%
ECLGS portfolio	-	17	17	NA	-1%
Total Retail Funded Assets (A)	**573**	**667**	**737**	**29%**	**11%**
Corporates	245	232	231	-6%	0%
Conglomerates	*8*	*14*	*13*	60%	-4%
Large Corporates	*15*	*18*	*19*	23%	7%
Emerging Large Corporates	*66*	*69*	*71*	7%	4%
Financial Institutional Group	*126*	*109*	*110*	-13%	1%
Others	*29*	*23*	*18*	-38%	-21%
Infrastructure	148	116	108	-27%	-7%
Total Wholesale Funded Assets (B)	**394**	**348**	**339**	**-14%**	**-3%**
PSL Inorganic (C)	80	67	74	-7%	11%
SRs and Loan Converted into Equity (D)	24	23	21	-11%	-9%
Total Funded Assets (A+B+C+D)	**1,070**	**1,105**	**1,171**	**9%**	**6%**

Source: Company data, I-Sec research

Infrastructure loans to be completely run down; selective lending in non-infra corporate segment

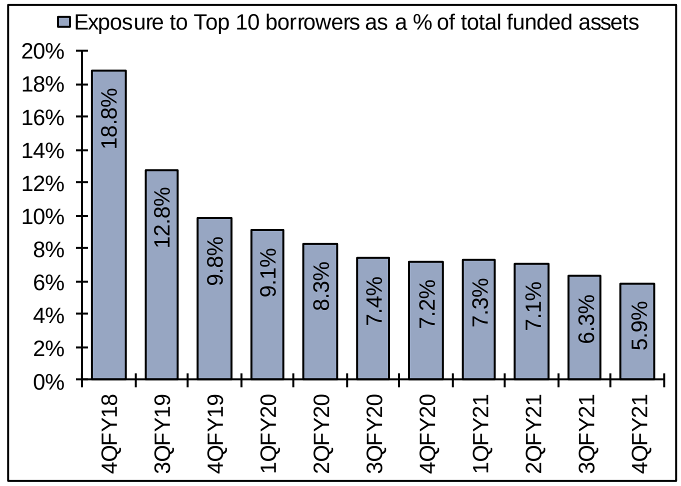
Bank is committed to reduce concentration risk and is steadily running off wholesale exposure – down by more than a third in two years to Rs339bn (from a peak of Rs570bn just prior to the merger). Of the wholesale exposure, infra book has been almost halved since merger to Rs108bn and will be further rationalized to a very negligible proportion in 3-5 years. With regard to the non-infrastructure credit portfolio, it will continue to adopt a selective stance based on the opportunity and risks involved, on a case-by-case basis.

Chart 2: Running down wholesale portfolio effectively



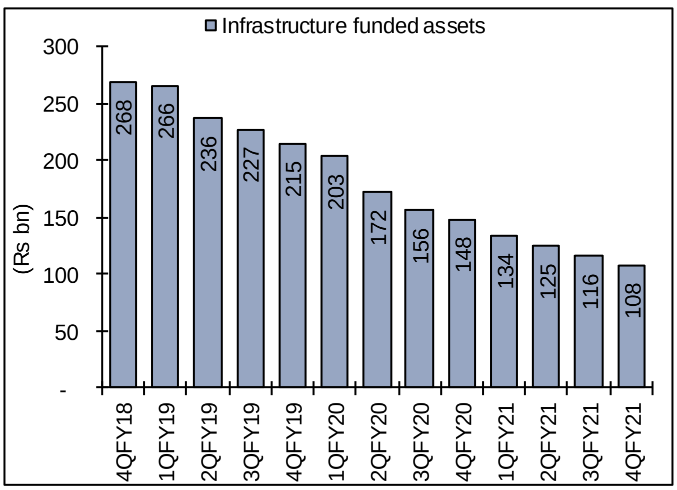
Source: Company data, I-Sec research

Chart 3: Reducing concentration risk is key focus area



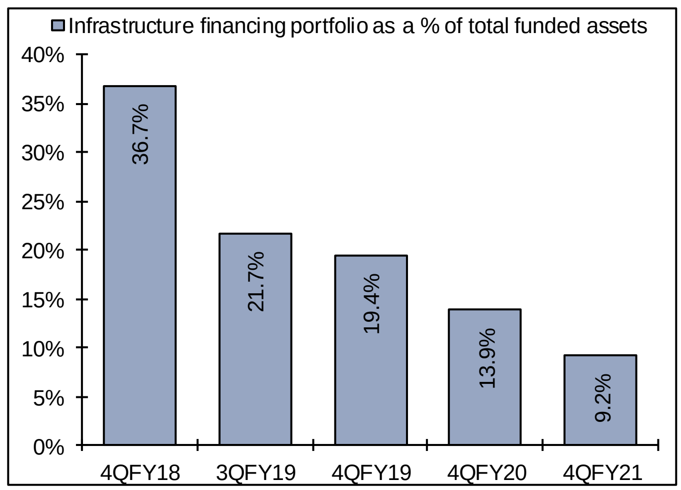
Source: Company data, I-Sec research

Chart 4: On track with plan to rationalise infra portfolio to a negligible level in 3-5 years



Source: Company data, I-Sec research

Chart 5: Infra book as % of total assets has shrunk considerably since merger



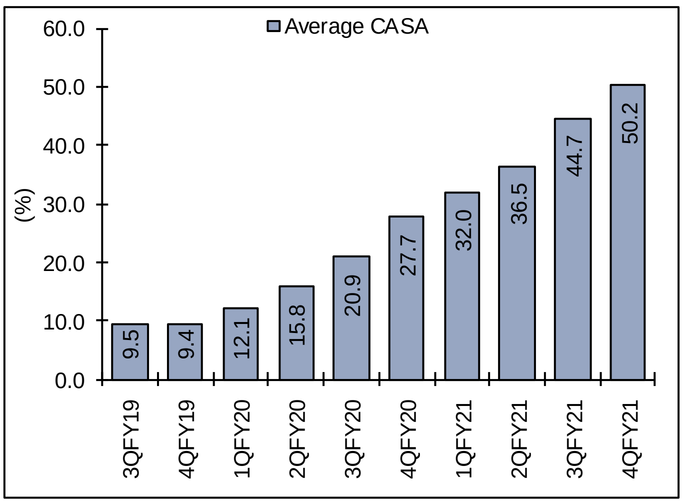
Source: Company data, I-Sec research

Rapid progress in retailisation of liabilities

Bank is making rapid progress in retailisation of liabilities reaching the targeted levels, articulated in a 5-year roadmap, almost 2-3 years earlier. Focusing on reach, pricing and services, it has devised a strategy to build CASA deposit franchise that has scaled up more than 5x since FY19. Average CASA deposits in FY21 surged to ~50% (from less than 10% in FY19); this compares with the target of 30% set for FY24 and 50% a couple of years later.

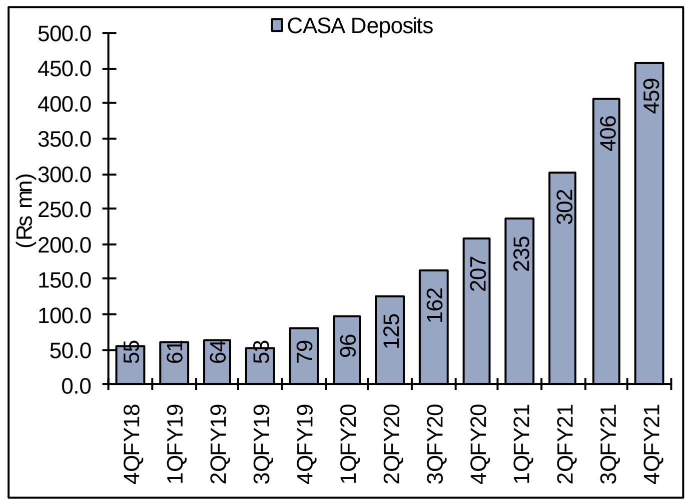
Having offered the best rates in the industry that helped significant ramp-up in CASA deposits, the bank after reducing the peak savings rate from 7% to 6% in Feb'21, has further reduced it to 5% in May'21 (4% for accounts with balance of <Rs0.1mn). The intention is to drain out the excess liquidity and to save the negative carry cost currently being incurred. The behaviour in savings deposits post reduction will be critical and momentum of accretion, if sustained, will impart a lot of confidence that reach and service (beside pricing) are also key determinants in driving liability growth.

Chart 6: CASA ratio up >5x in past two years



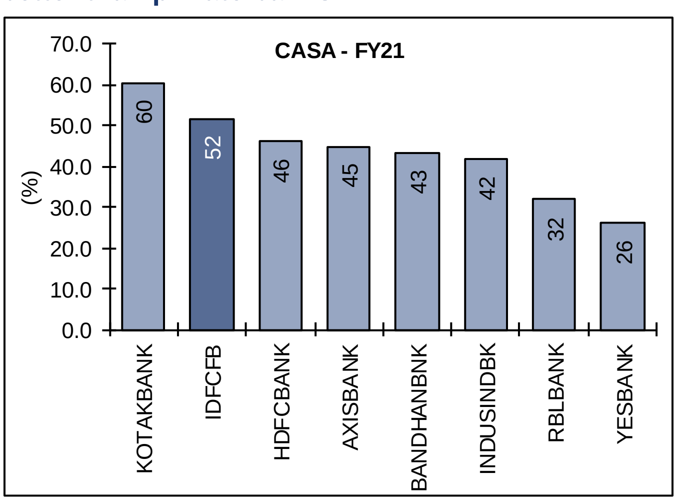
Source: Company data, I-Sec research

Chart 7: …with sharp surge in CASA deposits



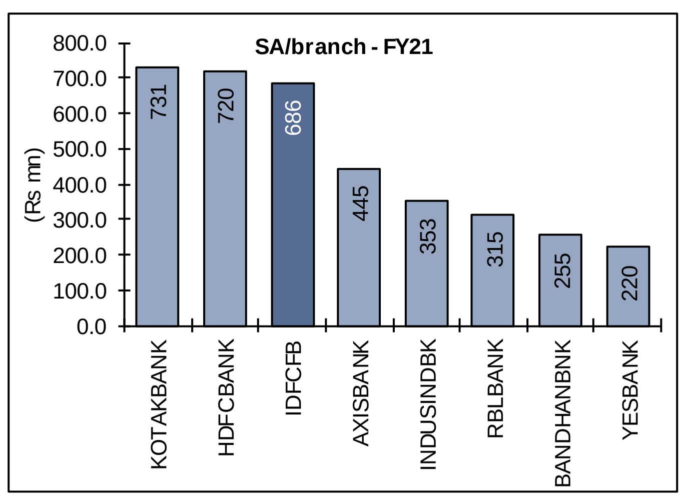
Source: Company data, I-Sec research

Chart 8: CASA proportion of deposits compares better than private banks



Source: Company data, I-Sec research

Chart 9: SA productivity per branch also amongst the best in class



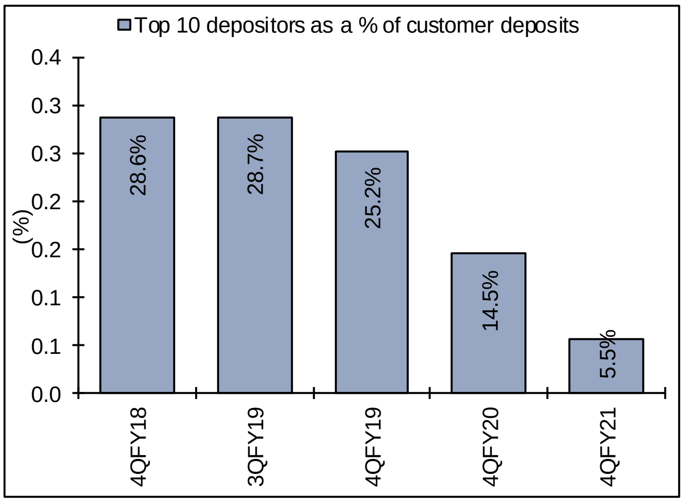
Source: Company data, I-Sec research

Reduced concentration of bulk deposits/borrowings

Bank has successfully replaced wholesale deposits/borrowings with retail customer deposits – proportion of core retail deposits is now up to 77% (targeted to breach target of 80% by FY24). Consequently, concentration of the top-10 depositors is down to mere 6% (from almost 29% during merger) as wholesale deposits have contracted more than 25% in a single year.

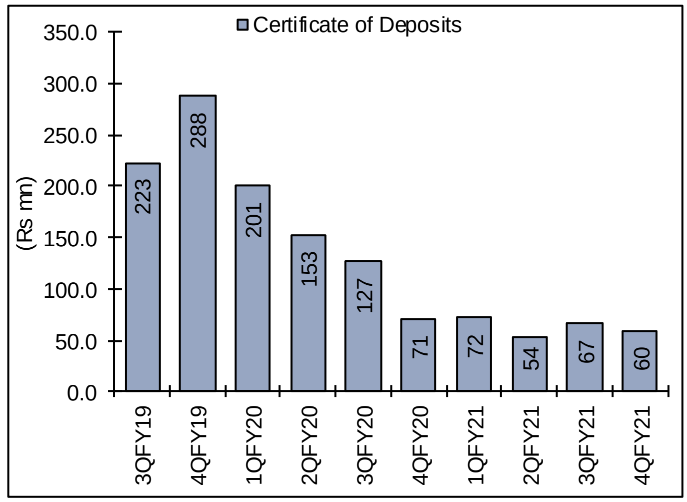
Bank is still carrying a legacy long-term / infra and other bonds of Rs240bn at a higher cost of 8.5-9.0%. Replacement of the same with low-cost retail deposits will itself support reduction in the cost of funding lower even from the current level.

Chart 10: Concentration of deposit base substantially reduced…



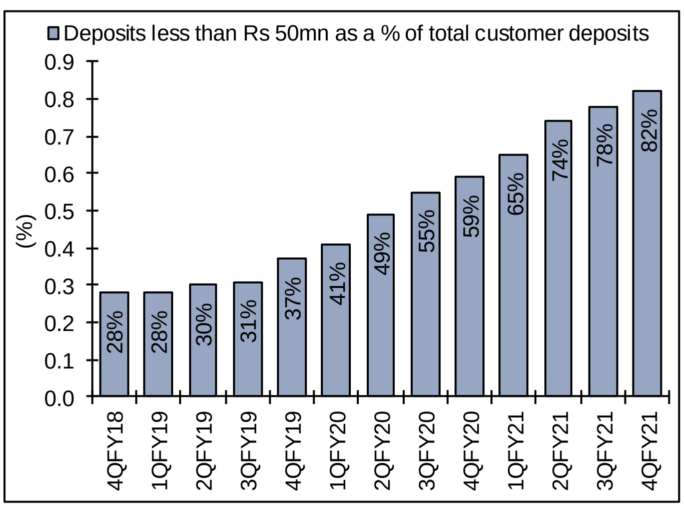
Source: Company data, I-Sec research

Chart 11: …with much lower reliance on certificate of deposits than earlier



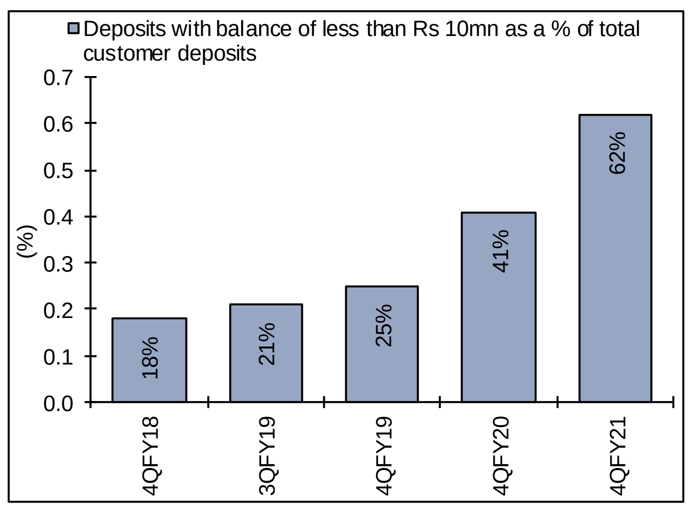
Source: Company data, I-Sec research

Chart 12: Acceleration in CASA deposits has led to granularity in deposits



Source: Company data, I-Sec research

Chart 13: Granular and low-ticket size suggest better stickiness of deposits



Source: Company data, I-Sec research

Table 2: Potential to replace high-cost borrowings with deposits on maturity

(Rs bn)	Infrastructure Bonds	Long-term Legacy Bonds	Other Bonds	Refinance	Total
Up to FY21	-	16	4	1	21
FY22	-	11	11	23	45
FY23	15	-	19	31	65
FY24	14	17	8	19	58
FY25	57	13	2	9	81
Beyond FY25	9	38	7	-	54
Total	**95**	**95**	**50**	**83**	**333**
Rate of Interest per Annum (%)	8.87%	8.98%	8.76%	7.77%	8.60%
Weighted Residual Tenure (years)	3.36	3.97	7.32	1.72	3.74

Source: Company data, I-Sec research

Table 3: Borrowing profile incrementally skewed towards deposits

Deposits & Borrowing Profile (Rs bn)	Q4FY20	Q3FY21	Q4FY21	Y/Y %	Q/Q %
Legacy Long-term Bonds	120	95	79	-34%	-17%
Infra Bonds	104	95	95	-9%	0%
Refinance	147	83	154	5%	86%
Other Borrowings	130	90	76	-41%	-15%
Total Borrowings (A)	**502**	**363**	**405**	-19%	12%
CASA	207	406	459	122%	13%
Term Deposits	371	367	368	-1%	0%
Total Customer Deposits (B)	**577**	**773**	**827**	43%	7%
Certificate of Deposits (C)	71	67	60	-16%	-11%
Money Market Borrowings (D)	72	45	53	-26%	17%
Borrowings + Deposits (A)+(B)+(C)+(D)	**1,222**	**1,248**	**1,345**	10%	8%
CASA % of Deposits	32%	48%	52%		
Customer Deposits as % of Borrowings + Deposits	47%	62%	62%		

Source: Company data, I-Sec research

Branch expansion upfronted; now may go a tad slow

Bank added more than 350 branches in past 24 months taking the total tally to 596 branches. The medium-term plan is to take it to 800-900 branches in 3-4 years. However, it seems, with rapid expansion, it will now allow churning and productivity ramp-up of the existing network before aggressively adding more branches. The network serves more than 8mn customers and has 134 asset servicing branches and 655 business correspondent (BC) branches. Of this, 384 business correspondent branches are through the wholly-owned subsidiary, IDFC FIRST Bharat, which acts as a BC for sourcing loans from rural areas, primarily in southern India.

Table 4: Maharashtra with ~15% of branch network constitutes >25% of loans…

	Advances (Rs bn)	% of total
Total Funded Assets as of FY21	**1,171**	**100%**
Maharashtra	*313*	*27%*
Karnataka	*85*	*7%*
Gujarat	*77*	*7%*
Tamil Nadu	*99*	*8%*
Others	*598*	*51%*

Source: SLBC, Company data, I-Sec research

Table 5: …and has same concentration in deposits as well

	Deposits (Rs bn)	% of total
Total Deposits as of FY21	**887**	**100%**
Maharashtra	*215*	*24%*
Karnataka	*74*	*8%*
Gujarat	*58*	*7%*
Tamil Nadu	*31*	*3%*
Others	*508*	*57%*

Note: Maharashtra, Gujarat data is as of Dec'20, Karnataka as of Sep'20 and Tamil Nadu as of Mar'20
Source: SLBC, Company data, I-Sec research

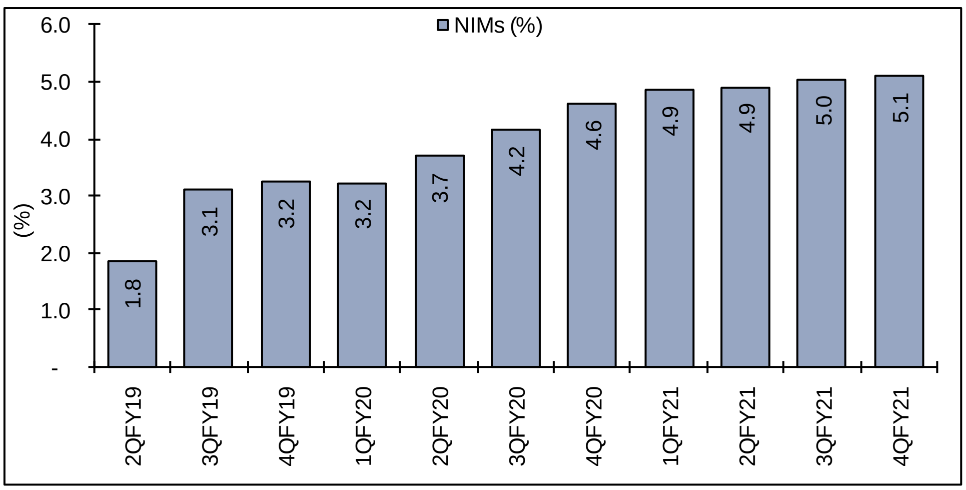
Consistently rising NIM trajectory nearing targeted levels

NIM for the full year FY21 settled at 4.98% as compared to 3.91% in FY20. It is very much on track towards targeted sustainable levels of 5.0-5.5%. NIM on incremental disbursements are substantially higher than the reported NIM. Exit quarter NIM has improved to 5.09% in Q4FY21 *vs* 4.61% in Q4FY20. Gross yield, which was expected to be >12% in five years post the merger, seems to be scaling even higher than the targeted levels at ~13.5%. Consistent rising trajectory of NIM from sub-2% pre-merger to as high as 5% recently is aided by:

- Gradual shift towards high-yielding retail banking businesses – yields in retail have been upwards of 15% and the bank has been carefully selecting retail products where it has proven capabilities.
- Significantly lower incremental average deposit cost at 5.2% that is steadily replacing high-cost borrowings.

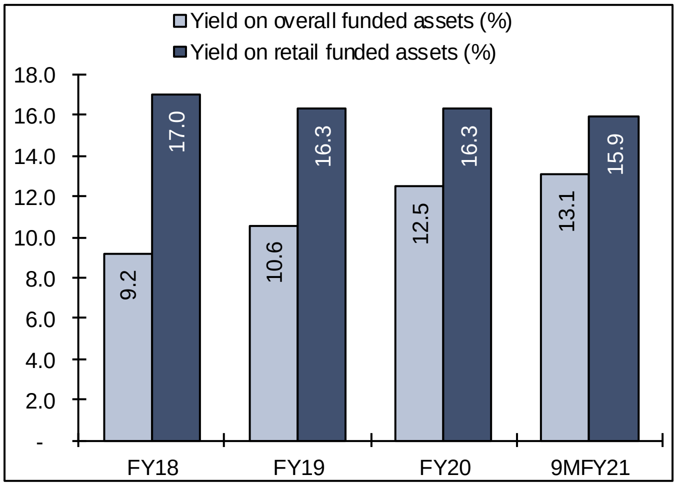
Two consecutive savings rate cut of 100bps each (in Feb '21 and May'21) to 5% will further cushion average savings deposit cost that hovered high at 6.8% in 9MFY21. Passing the benefit of this lowered cost, the bank is planning to participate in the prime home loan market at competitive rates – though this will not entirely offset the benefit and reflect in an uptick in NIM.

Chart 14: Net interest margins have been on an upward trajectory since merger



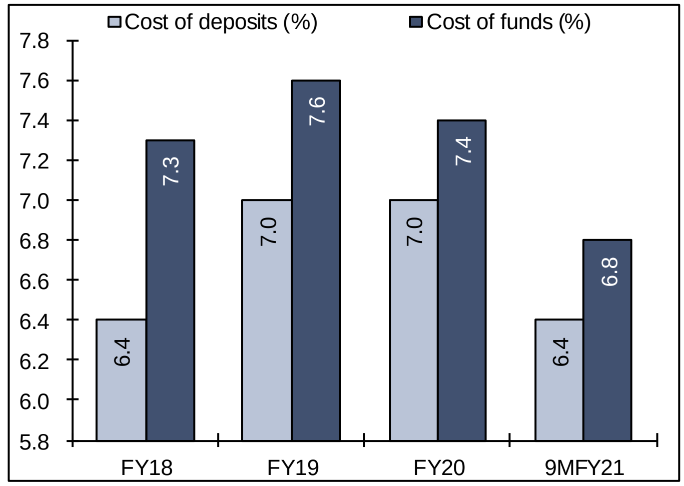
Source: Company data, I-Sec research

Chart 15: High-yielding retail assets driving yield improvement



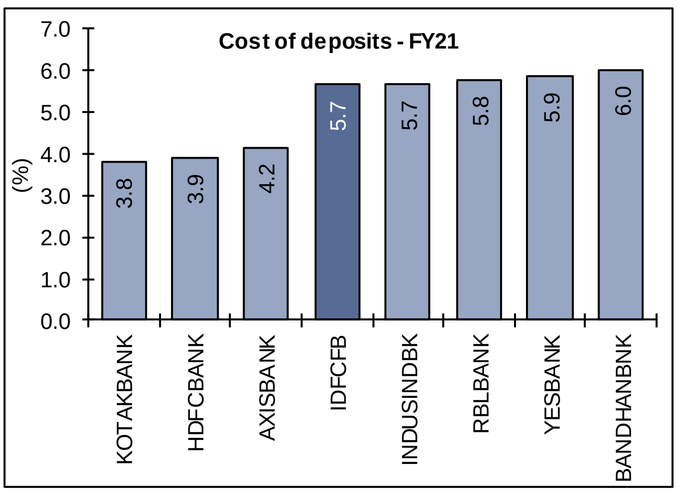
Source: Company data, I-Sec research

Chart 16: Cost of deposits too has fallen considerably since FY19



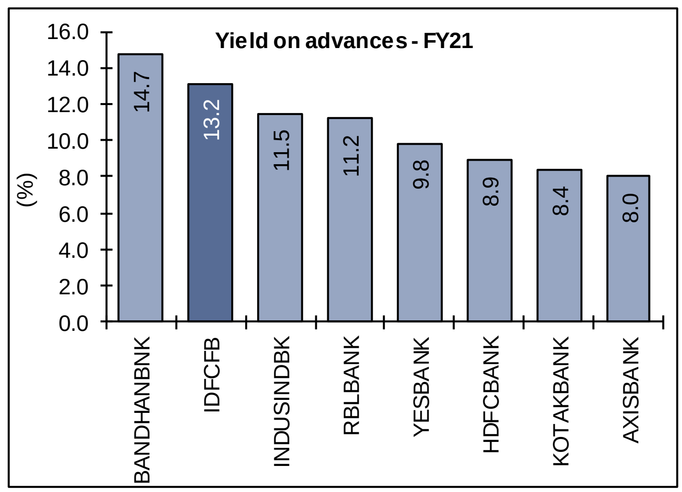
Source: Company data, I-Sec research

Chart 17: Cost of deposits comparable to peers offering premium rates



Source: Company data, I-Sec research

Chart 18: Yields relatively higher compared to peers



Source: Company data, I-Sec research

Table 6: Interest income growth led by high-yielding retail assets

(Rs bn)

	FY18	FY19	FY20	9MFY21
Yields				
Retail	13.17%	14.55%	15.72%	15.12%
Wholesale	9.61%	10.06%	10.63%	10.84%
Total	**9.92%**	**11.57%**	**13.41%**	**13.66%**

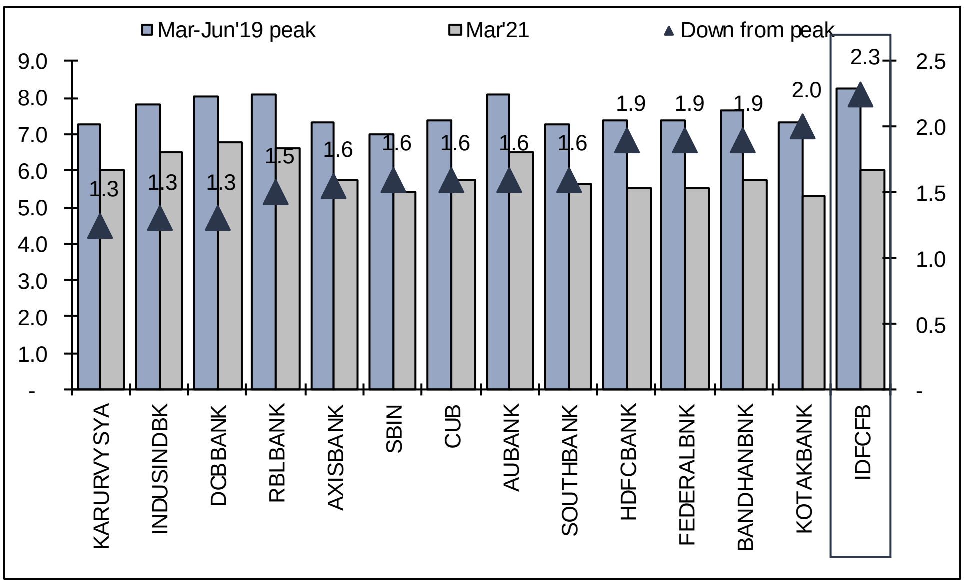
Source: Company data, I-Sec research

Table 7: Deposit cost down 63bps to 6.41% *vs* 7.04% for FY20

(Rs bn)	FY18	FY19	FY20	9MFY21
Savings Deposits	5.36%	5.77%	7.07%	6.83%
CASA Deposits	3.10%	3.89%	5.67%	6.05%
Term Deposits	6.84%	7.51%	7.59%	6.95%
Total Customer Deposits	6.45%	6.96%	7.07%	6.57%
Certificate of Deposits	6.40%	7.16%	6.94%	4.82%
Total Deposits	**6.43%**	**7.03%**	**7.04%**	**6.41%**

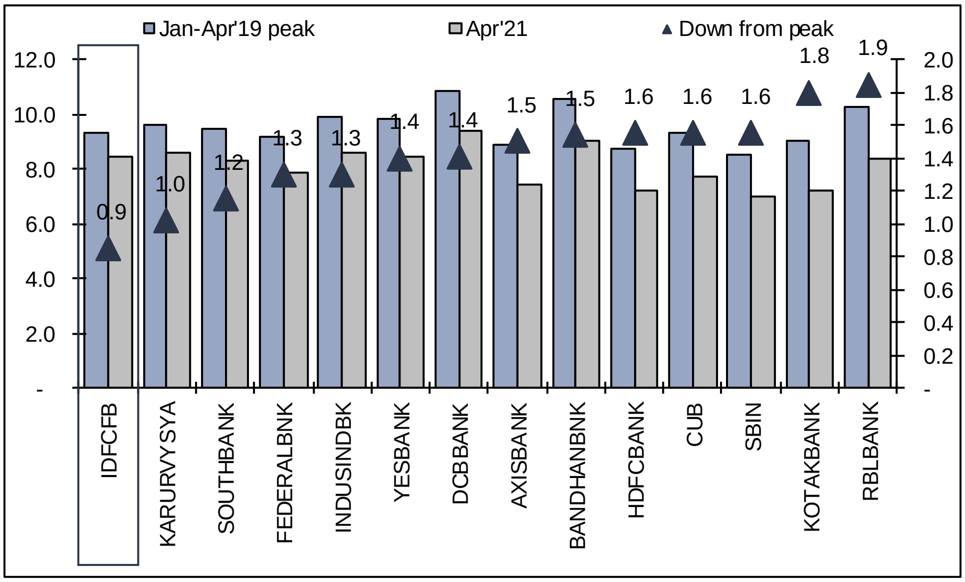
Source: Company data, I-Sec research

Chart 19: IDFCFB has cut TD rates by 230bps from peak compared to 130-160bps by peers…



Source: Company data, I-Sec research

Chart 20: …and MCLR by 85 bps



Source: I-Sec research, RBI

Table 8: Second consecutive cut in savings rate in past two quarters – aligning lower than peers

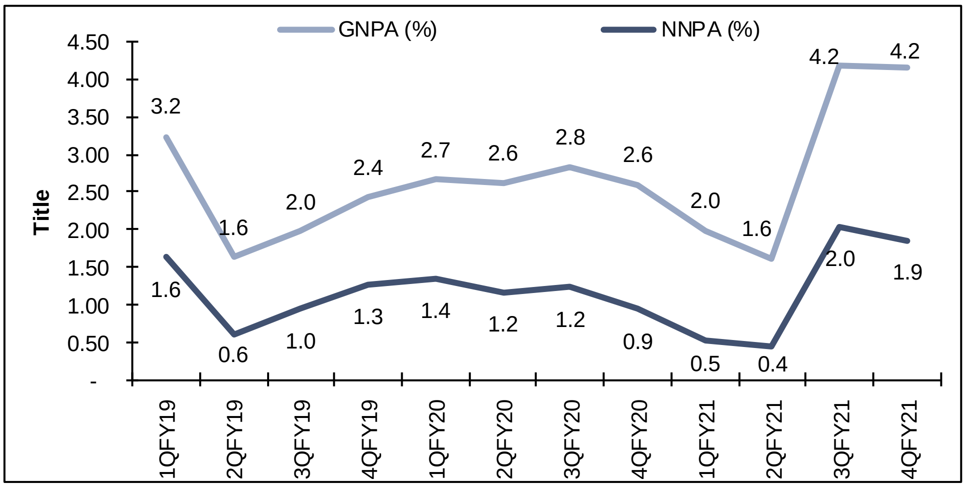
SA rates	AU Bank	Axis Bank	Bandhan Bank	CUB	DCB Bank	Federal Bank	HDFC Bank	IDFC Bank	IndusInd Bank	KVB	Kotak Bank	RBL Bank	SBI	South Indian Bank
Up to Rs 0.1mn	3.50	2.00	3.00	3.50	3.25	2.50	3.00	4.00	4.00	2.75	3.50	4.50	2.70	2.35
Rs 0.1mn - Rs 1mn	5.00	3.00	6.00	3.75	4.00	2.50	3.00	4.50	5.00	3.00	4.00	6.00	2.70	2.75
Above Rs 1mn	6.00	3.00	6.00	4.00	4.00	2.50	3.00	5.00	6.00	3.25	4.00	6.25	2.70	2.75
Rs 5mn - Rs 10mn	7.00	3.50	6.00	4.00	4.00	2.50	3.50	5.00	6.00	3.25	4.00	6.25	2.70	2.75

Source: Company data, I-Sec research

Retail GNPAs rise amidst disruption; wholesale portfolio adequately covered

With rationalisation of the wholesale book and upfront recognition and provisioning of the stress pool in this segment, non-retail NPAs have not seen any significant spike in FY21. Of the FY21 slippage run-rate of >5%, we anticipate 70-75% have flown from the retail segment and ~30% from wholesale segment. This was offset by average write-offs of 2% and recoveries/upgrades of 1.6%, while overall GNPAs rose to 4.15% (from 2.6% in FY20). These run-rates suggest almost 7% slippage on the lagged FY20 retail portfolio. Retail GNPA has actually risen to 4.01% from proforma levels of 3.88%. Retail GNPA and NNPA as of FY21 are higher by 175bps and 77bps respectively from the pre-covid average GNPA and NNPA.

Chart 21: GNPA amidst the disruption has risen over the past two quarters



Source: Company data, I-Sec research

Table 9: Retail GNPA is higher by almost 175bps over pre-covid average

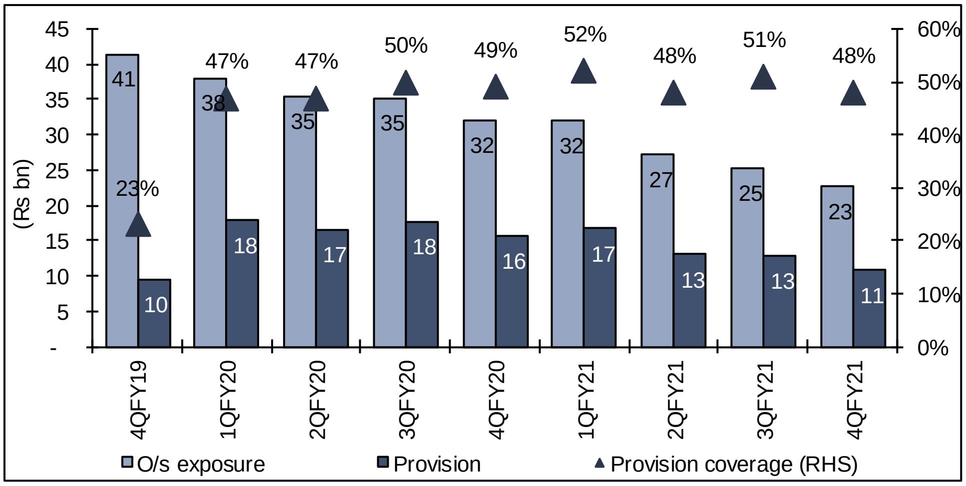
	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	3QFY21	4QFY21	Long-term avg (pre-covid)	Covid impact (bps)
								Mar-19 to Dec-19	Mar-21 *vs* long-term avg
GNPA - Retail (%)	2.19	2.33	2.31	2.26	1.77	3.88	4.01	2.27	175
NNPA - Retail (%)	1.25	1.15	1.08	1.06	0.67	2.35	1.90	1.13	77
Provision coverage (%)	43%	51%	54%	54%	62%	41%	53%	51%	300

Source: Company data, I-Sec research

In addition to the above, the bank restructured loans worth Rs10.7bn of which, Rs9.6bn was in retail segment and Rs1bn in corporate. This is equivalent to 1.3% of retail assets and 0.9% of the overall AUM. There are a few accounts in corporate segment where restructuring was approved, but not implemented by Mar '21 and were categorised as NPA. This in coming quarters will move from NPA to standard restructured assets.

Bank has also disbursed Rs16.9bn under ECLGS (2.3% of retail book, suggesting 11-13% of existing retail portfolio would have taken benefit of this.

Chart 22: Identified wholesale stress pool consistently declining with recognition or resolution



Source: Company data, I-Sec research

Table 10: Identified wholesale stress pool covered to the extent of 48%

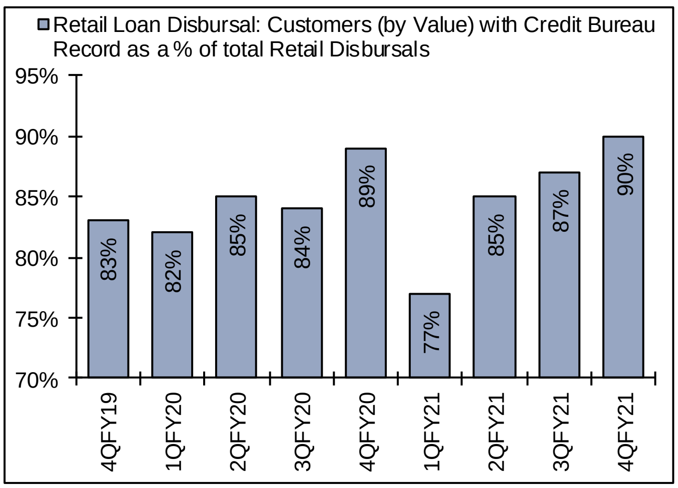
Client Description (Rs bn)	Q4FY21 O/s Exposure	Provision	PCR (%)	Comments
Toll Road Projects in MH	8.7	1.5	18%	Repayment has been consistently delayed (SMA2), but account is regular as of date.
Thermal Power Project in Orissa	5.3	5.3	100%	Account suffers from delayed payments from discoms. The account is regular as the account is benefiting from the RBI covid schemes. Bank expects the account to be resolved leading to a positive economic value, as the account is fully provided for.
Toll Road (BOT) project in MH	2.5	0.1	5%	This is an operating project; toll is being collected, account is being serviced. <5% of project work is unfinished.
Diversified Financial Conglomerate in Mumbai	2.2	2.2	100%	Exposure is to a housing finance company belonging to this distressed group. Lending banks are running a process for management change. Bank expects partial recovery, which will be PnL accretive, as the account is fully provided.
Wind Power Projects in AP, GJ, KN, RJ	1.6	0.4	25%	Account servicing was earlier delayed. The project is now showing improved financial performance and is servicing debt regularly from cashflows from the project, with DSRA getting built up. However, the sponsor is still undergoing a resolution process.
Logistics Company in Karnataka	1.0	1.0	100%	The group is a Bengaluru-based coffee group, and has been under financial stress. Bank has initiated legal proceedings against it.
Financial Institution in MH	-	-	-	
Solar Projects in RJ	0.8	-	0%	The projects are performing well and have serviced debt regularly. However, the sponsor entity is undergoing resolution process leading to a deteriorating maintenance of the project. Lenders are putting together a maintenance plan.
Coal beneficiation & thermal power in Chhattisgarh	-	-	-	
Toll Road Projects in TN	0.3	0.1	29%	The account has been servicing debt. However, the sponsor entity is undergoing resolution process and the project requires additional cashflows for pending maintenance work.
Wind Power Projects in KN and RJ	0.2	0.2	100%	The project is generating required cashflows and is servicing debt. However, the parent entity is undergoing resolution. Repayments have been regular so far.
Microfinance Institution in Orissa	-	-	-	
Toll Road Project in Punjab	-	-	-	
Total stress pool identified	**22.6**	**10.8**	**48%**	

Source: Company data, I-Sec research

Slippage run-rate, restructuring and ECLGS pool reflect the vulnerability of retail pool. Further, with one-third of retail assets being secured (either home or LAP), it reflects relatively higher stress in other part of the portfolio. In Mar'21, the collection efficiency for early buckets reached 100% of the pre-covid collection efficiency levels. Cheque bounce instances have been dropping consistently and it reached 1.2x pre-covid level in Mar'21 (compared to the peak of 2.5x). In the context of covid second wave and coming from a high-growth phase in retail (>25% in FY21), the impact of disruption needs to be closely monitored.

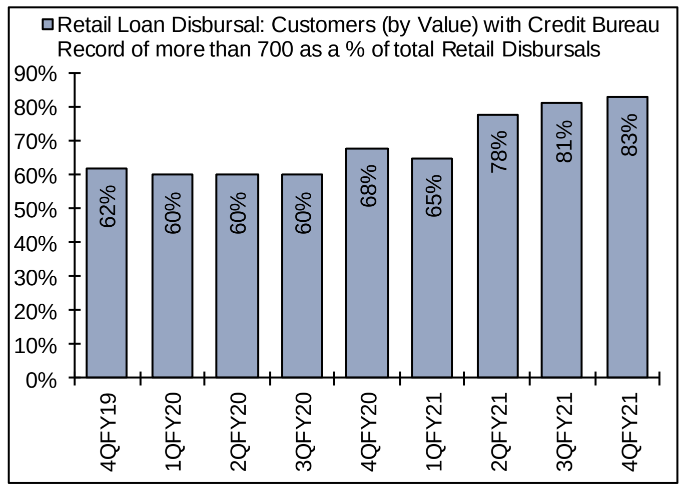
Amidst uncertainty and disruption, the bank has implemented tightened underwriting standards: 1) sector restrictions for covid affected sectors, 2) reduced authority limits for credit appraisals, 3) implemented additional caps on individual ticket sizes on incremental loans, 4) reduced the LTV limits in certain categories, 5) revised restrictions on collaterals, 6) revised criteria for bureau score cut-offs and tightened the criteria for number of credit enquiries on the bureau. The quality of customer profile has improved with 'new to credit' customers constituting 10% of the disbursals (by value) in Q4FY21 *vs* 18% in Q4FY19. Also, 83% of the customers sourced (by value) in Q4FY21 had credit bureau score above 700 as compared to 61% in Q4FY19.

Chart 23: Lending is concentrated on customers with credit history



Source: Company data, I-Sec research

Chart 24: >80% of customers have high bureau scores of more than 700



Source: Company data, I-Sec research

Despite the incremental stress in FY21, credit cost was contained at 250bps for FY21. We believe this was entirely towards retail stress while there would have been write-back in wholesale stress provisioning. Bank has proactively identified a few wholesale accounts with exposure of Rs22.6bn as stressed or potential NPAs, and has conservatively created 48% provisioning on the same. This pool has been consistently coming off (from Rs41bn in FY19 and Rs32bn in FY20) and, even with slippage into NPA, has not led to any significant rise in non-retail net NPA as they were adequately provided.

Bank is carrying a cumulative covid buffer of Rs3.75bn, including which provisioning coverage stands at 64%. As far as retail stress is concerned, it is covered to the extent of 53%. We expect GNPAs to rise to 5.0% by FY22E and are building-in credit cost of 3.2%/2.5% for FY22E/FY23E.

Table 11: BB & below corporate investment portfolio will be vulnerable

External rating (Rs bn)	As at Mar 31, 2018		As at Mar 31, 2019		As at Mar 31, 2020		As at Dec 31, 2020	
	Gross book	% of total	Gross book	% of total	Gross book	% of total	Gross book	% of total
AAA	619	51%	609	47%	208	33%	32	7%
AA	563	46%	565	44%	135	21%	104	22%
A	29	2%	111	9%	27	4%	85	18%
BBB	10	1%	10	1%	26	4%	26	6%
BB & below	-	0%	-	0%	240	38%	223	47%
Total	**1,221**	**100%**	**1,295**	**100%**	**636**	**100%**	**470**	**100%**

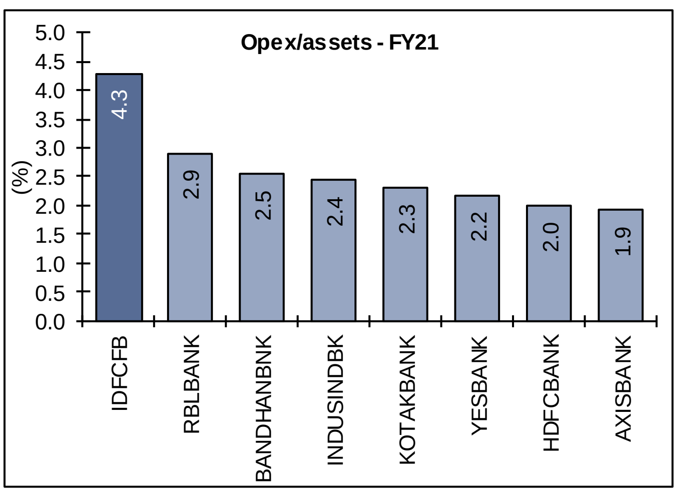
Source: Company data, I-Sec research

Cost efficiency and retail fee enhancers – triggers to RoA improvement

Investment in franchise and better than targeted scale-up of retail assets/liabilities has come with a cost – 'cost to income' is still hovering higher just shy of 80%. This is elevated much above the targeted level of 55%; however, cost efficiency and containment will be a key RoA driver going forward.

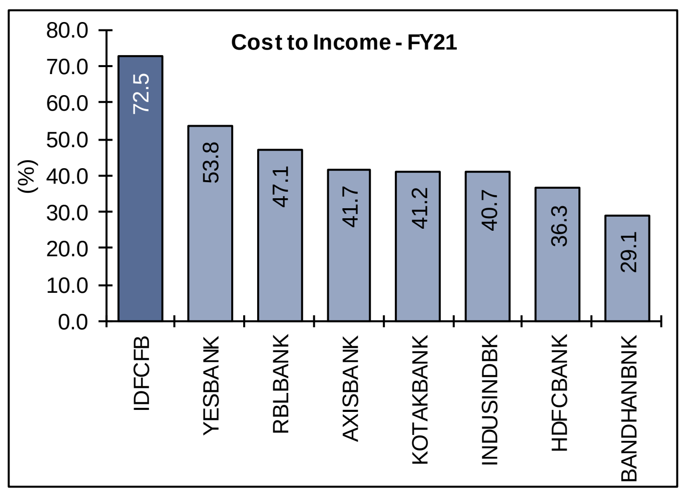
Fee income (excluding investment profits) profile is almost equivalent to 20-25% of core NII. Larger part of fee income is led by transaction banking, retail asset processing fees, etc. Third party distribution, retail liabilities, forex, etc. is now expected to provide incremental delta to fee income. Bank has developed capabilities to grow its fee income at significantly higher (2-4x) than balance sheet growth and, if it gains scale, it should be able to take care of operating expenses.

Chart 25: Investment in franchise has come at a cost



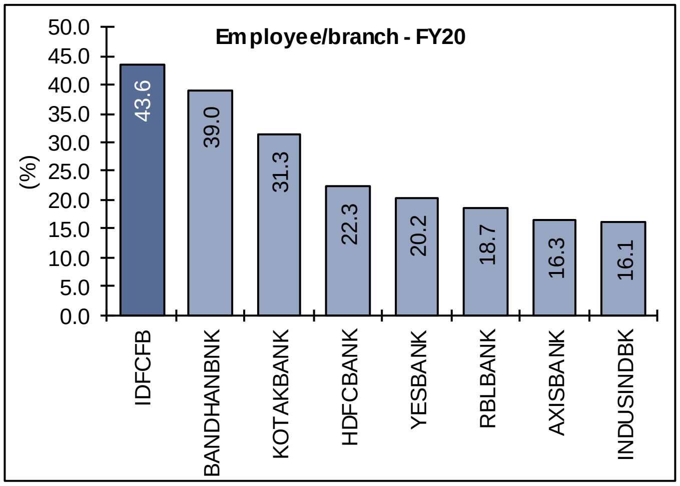
Source: Company data, I-Sec research

Chart 26: 'Cost to income' ratio elevated, but operating efficiencies to result in gradual cool-off



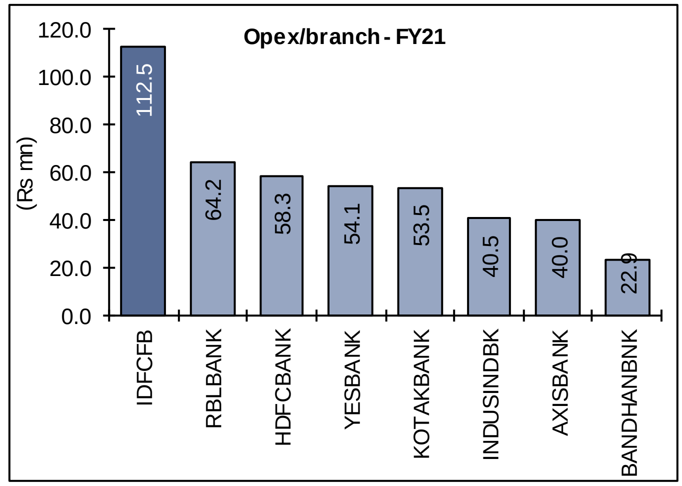
Source: Company data, I-Sec research

Chart 27: Focus on granularity of profile reflected in higher employees per branch…



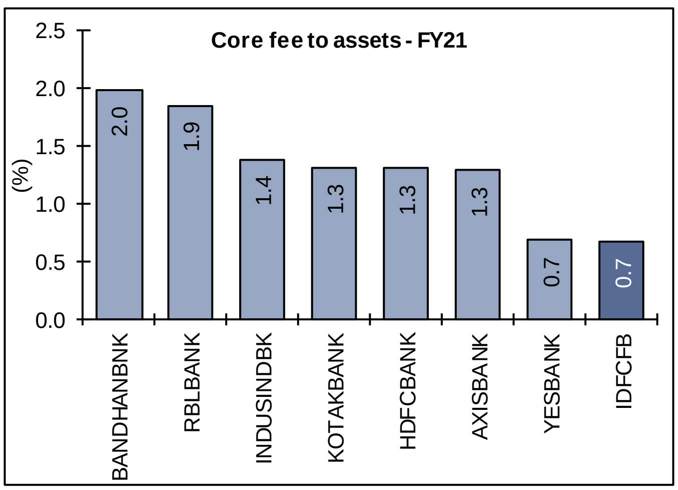
Source: Company data, I-Sec research

Chart 28: …and higher opex per branch as well



Source: Company data, I-Sec research

Chart 29: Contrary to cost, core fee is much lower relative to peers for IDFCFB



Source: Company data, I-Sec research

Incremental RoA/RoE economics far better than reported

Since the merger in Dec '18, net worth cumulatively has been knocked down by 5% and the bank recently raised Rs30bn of fresh equity shoring the CET-1 capital to 15.6% (compared to 13.3% pre-money). During the transitioning phase post the merger, return profile was dragged by higher 'cost to income' (75-80%), lower fee income (20-25% of NII) and elevated credit cost.

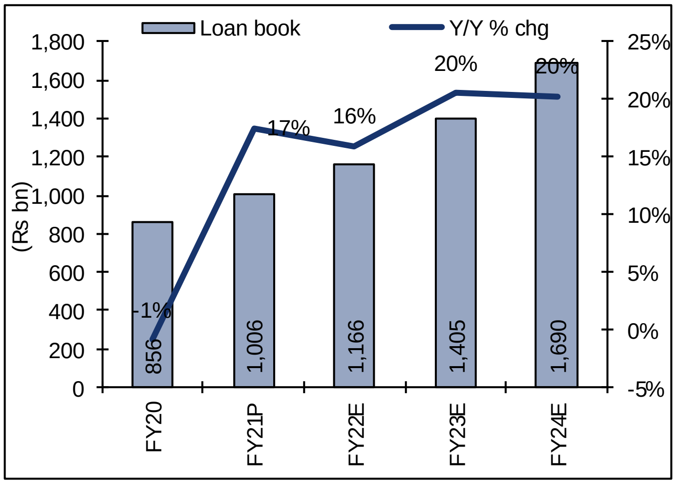
Nonetheless, what is encouraging is the far superior incremental unit economics. Incremental retail disbursements have potential RoE profile of >20% -- albeit currently retail liabilities (due to huge investments) and corporate centre (due to legacy borrowings) are dragging it down. As we expect a steady and sustainable transition in favour of retail assets/liabilities, the return profile is likely to improve on the back of normalisation of 'cost to income', retail fee income scale-up, and steady improvement in NIM trajectory. What can disappoint is elevated credit cost continuing in the interim due to covid resurgence, especially when the bank has grown its retail portfolio aggressively in past 18 months.

Building digital and data analytical capabilities

Bank strives to provide digital solutions at each stage of the customer loan lifecycle, namely origination, underwriting, disbursements, monitoring, and collections. It uses underwriting platforms and automated credit scorecards driven by artificial intelligence and machine learning to provide almost instant decisions at the point of sale for retail products, such as consumer durable loans and two-wheeler loans. Such automated credit scorecards go through numerous iterations and rigorous testing, encompassing various facets of the retail applicant's background, including credit history, fraud probability, and demographic parameters. It also uses advanced analytical capabilities and scorecards to screen for eligible customers for upselling and cross-selling of loans. It has made progress in creating a customer platform that serves as a one-stop shop for account opening, deposit applications, purchase of loan and investment products, funds transfer, and conducting of transaction banking.

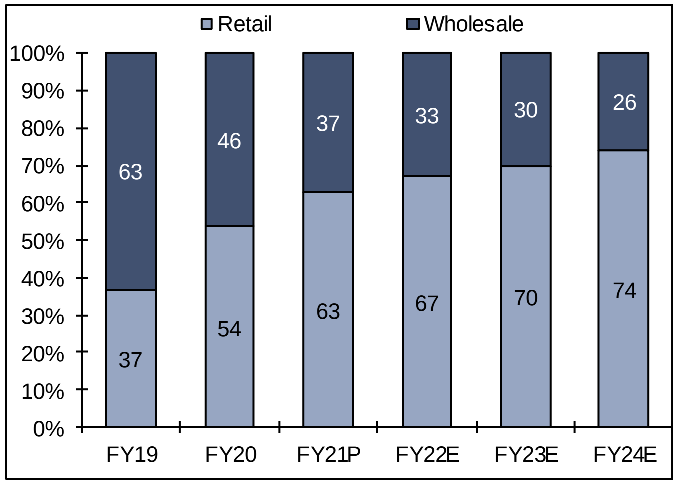
Financial Outlook – High NII and fee income to drive RoE higher for IDFCFB

Chart 30: Retail to drive portfolio growth of 15-20%



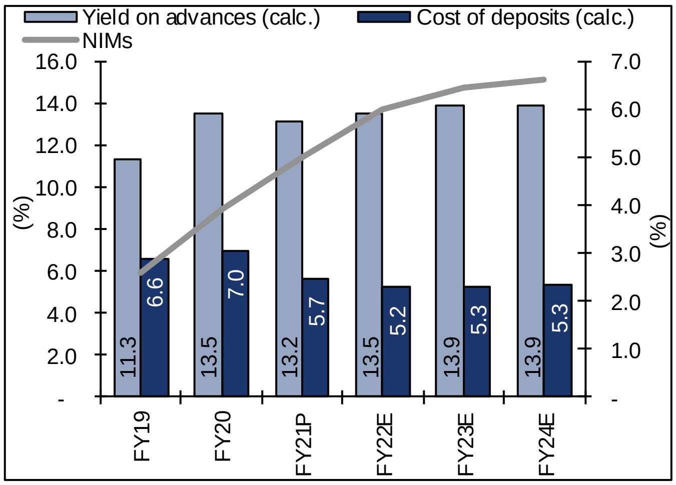
Source: Company data, I-Sec research

Chart 31: …mix moving towards targeted 70-75%



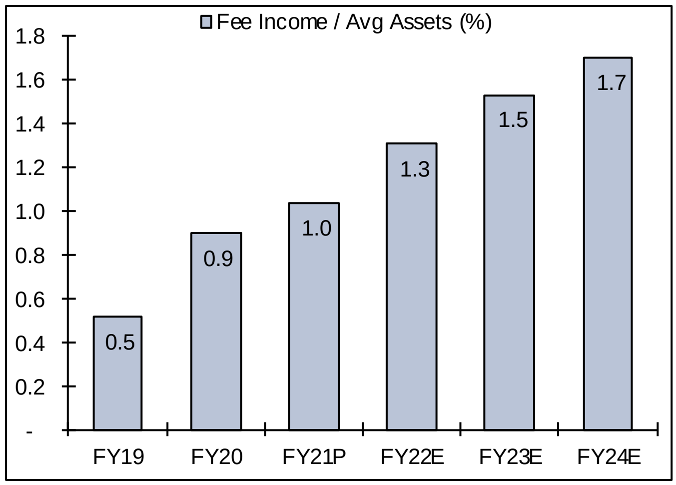
Source: Company data, I-Sec research

Chart 32: Cut in deposit rate to support NIM rise



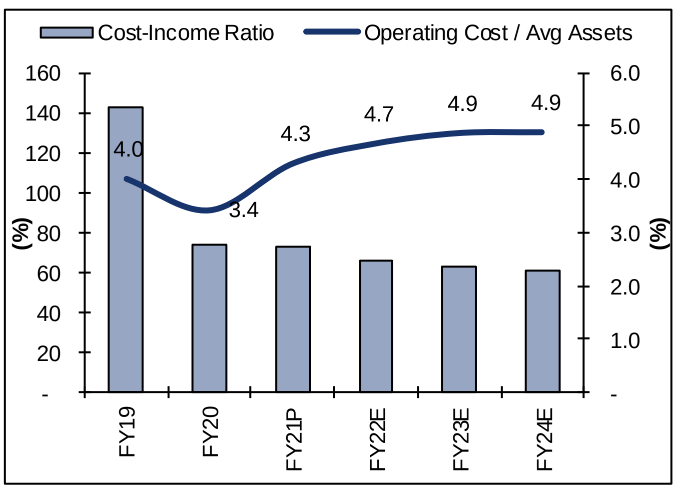
Source: Company data, I-Sec research

Chart 33: Fee income – potential RoA driver



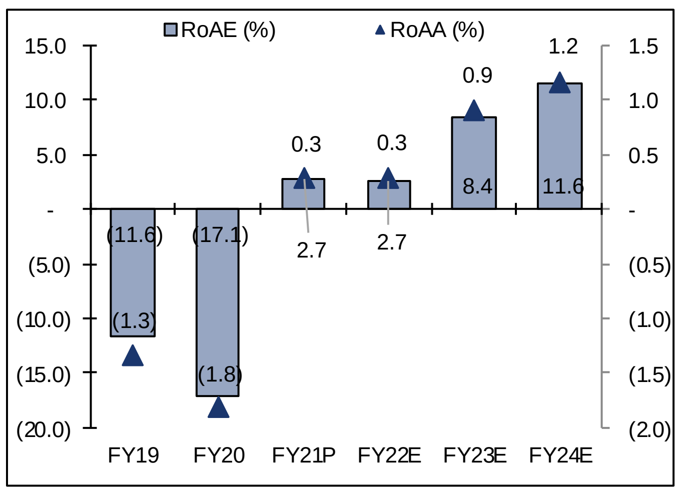
Source: Company data, I-Sec research

Chart 34: 'Cost to income' ratio to fall considerably



Source: Company data, I-Sec research

Chart 35: RoE to touch 11% by FY24E



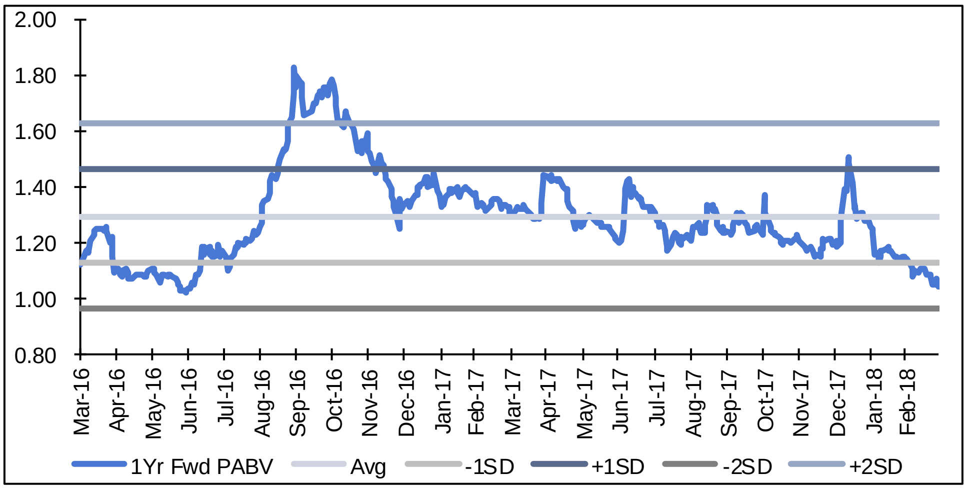
Source: Company data, I-Sec research

Valuations

Unique evolution – historical valuations not an appropriate indicator

IDFC FIRST Bank has a unique evolution – the erstwhile IDFC Bank came into existence as a universal bank in 2015 through demerger of infrastructure lending business of IDFC Ltd to the bank. IDFC Bank post creation launched corporate banking, treasury operations, retail and rural business and started to scale retail deposits. However, progress was far from satisfactory with net worth accretion of mere 9% over FY16 to H1FY19, retail portfolio being mere 15% and retail deposits sub-10%. Consequently, IDFC Bank was trading at 1.2-1.5x 1-year forward P/B multiple during this phase.

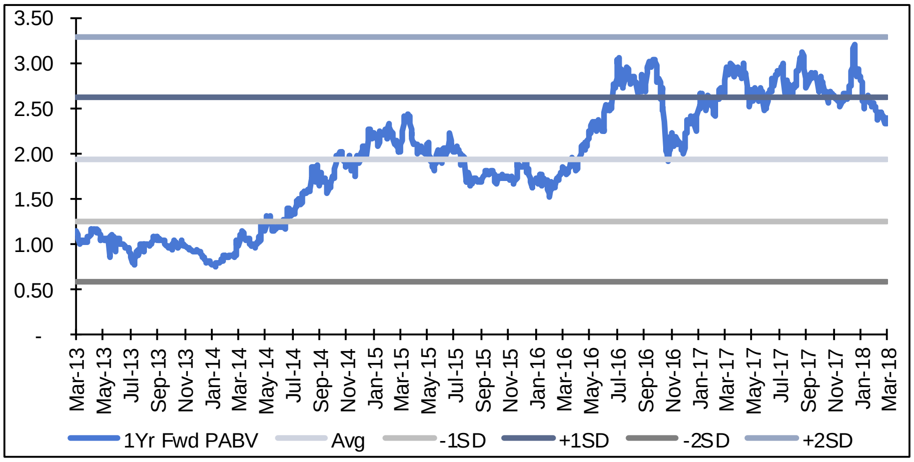
Chart 36: Erstwhile IDFC Bank traded at ~1.2-1.5x 1-year forward P/B over FY16-FY18



Source: Company data, Bloomberg, I-Sec research

As part of its strategy to diversify its loanbook, IDFC Bank was looking for merger with a retail finance institution with adequate scale, profitability and specialised skills. Meanwhile, erstwhile Capital First, having scaled up its MSME and consumer financing at the pace of 30% CAGR over FY14-H1FY19 was on lookout for a commercial banking license to access stable and low-cost deposits. During the high growth phase, erstwhile Capital First was trading at 2.0-3.0x 1-year P/B multiple.

Chart 37: Capital First traded at an average of ~2.0-3.0x 1-year forward P/B over FY13-FY18



Source: Company data, Bloomberg, I-Sec research

Remarkable transition in asset and liability profile post-merger

Post the merger of erstwhile IDFC Bank and Capital First, IDFC FIRST Bank is following a structural path towards retailisation of assets as well as liabilities. After having rolled out a 5-year strategic roadmap towards targeted RoA and RoE of 1.4-1.6% and 13-15% respectively, it has made significant strides on most operating parameters (be it retailisation of assets, granularity of deposits, improving NIM trajectory, etc.).

Retail assets after compounding at the pace of more than 30% CAGR over FY19-FY21 to Rs737bn now constitutes 63% of customer assets (including inorganic buyouts). It is on track towards its targeted Rs1trn of retail assets by FY24-FY25. On an overall loan base of Rs1.4trn by then, it would contribute 70-75% of AUM. Meanwhile, it has reduced its wholesale portfolio (including infra) at a CAGR of 29% over FY19-FY21 – infra financing portfolio is down to sub-10%.

Bank during the same period made rapid progress in retailisation of liabilities reaching the targeted levels (articulated in its 5-year roadmap) almost 2-3 years earlier. Average CASA deposits in FY21 surged to ~50% (from less than 10% in FY19); this compares with the target of 30% set for FY24 and 50% couple of years later.

Changing profile of assets and liabilities has supported sharp spike in NIM from <2% in FY18 to ~5% and it is very much on track towards targeted sustainable levels of 5.0-5.5%. Two consecutive savings rate cut of 100bps each (in Feb '21 and May'21) to 5% will further cushion average savings deposit cost that hovered high at 6.8% in 9MFY21. Passing the benefit of this lowered cost, the bank is planning to participate in the prime home loan market at competitive rates – though it will not entirely offset the benefit and reflect in an uptick in NIM.

With FY21 slippage run-rate of >5%, GNPAs rose to 4.15% (from 2.6% in FY20). Retail GNPA has risen to 4.01% from proforma levels of 3.88%. Retail GNPA and NNPA as of FY21 are higher by 175bps and 77bps respectively from the pre-covid average GNPA and NNPA. Restructured pool is equivalent to 1.3% of retail assets and 0.9% of the overall AUM. Slippage run-rate, restructuring and ECLGS pool reflect the vulnerability of retail pool. Despite the incremental stress in FY21, credit cost was contained at 250bps for FY21. In the context of covid second wave and coming from a high growth phase in retail (>25% in FY21), the impact of disruption needs to be closely monitored.

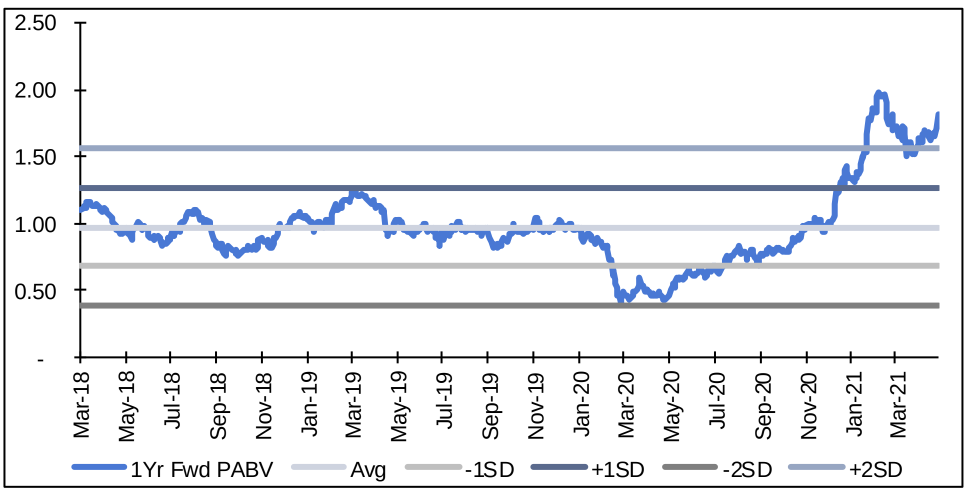
Investment in franchise and better than targeted scale-up of retail assets/liabilities has come with a cost – 'cost to income' ratio is still hovering higher and is just shy of 80%.

RoE profile still low; incremental unit economics superior

Current return profile of IDFC FIRST Bank is dragged by higher 'cost to income', lower fee income and elevated credit cost. Nonetheless, what is encouraging is far more superior incremental unit economics. Incremental retail disbursements have potential RoE profile of >20% -- albeit currently retail liabilities (due to huge investments), corporate centre cost (due to legacy borrowings) are dragging it down. As we see a steady and sustainable transition in favour of retail assets/liabilities, the return profile would improve on the back of normalisation of 'cost to income', retail fee income scale-up, and steady improvement in NIM trajectory.

Using Gordon Growth model, factoring in RoEs of 17.5% in the medium term and subsequently steady RoE profile of 18.5% till the terminal stage, we assign 1.9x P/B multiple to its FY23E book. This translates to target price of Rs73 per share – implying >20% upside from the current level. We initiate coverage on IDFCFB with a **BUY** recommendation.

Chart 38: IDFC FIRST Bank moved out of sub-1.5x P/B band



Source: Company data, Bloomberg, I-Sec research

Table 12: Bank currently trading at 1.6x P/B; business transition and improving RoE profile to drive further rerating

Price to Book Workings	Capital First	IDFC Bank	IDFC FIRST Bank
High	3.2	1.8	2.0
Low	0.8	1.0	0.4
Average	1.9	1.3	1.0
Median	2.0	1.3	0.9
5th Percentile	0.9	1.1	0.5
95th Percentile	2.9	1.7	1.7
5-95 Percentile Avg.	1.9	1.4	1.1

Source: SLBC, I-Sec research

Table 13: Relative valuation metrics

Particulars	CMP	P/E (x)			P/BV (x)			P/ABV (x)		
		FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
IDFC FIRST Bank	59	73.4	69.6	19.8	1.8	1.7	1.5	1.9	1.8	1.6
HDFC Bank	1,516	25.7	21.2	17.5	3.9	3.4	3.0	4.0	3.5	3.0
Axis Bank	751	32.2	13.6	11.4	2.1	1.9	1.6	2.2	1.9	1.7
SBI	424	11.4	8.1	5.7	1.0	0.9	0.8	1.2	1.1	0.9
Bandhan Bank	307	22.4	14.4	9.2	2.8	2.4	1.9	3.2	2.7	2.1
Federal Bank	87	11.1	9.3	7.7	1.2	1.0	0.9	1.2	1.1	1.0
City Union Bank	172	21.5	18.7	14.4	2.2	2.0	1.7	2.5	2.2	1.9
DCB Bank	105	9.7	8.8	6.4	0.9	0.9	0.8	1.0	0.9	0.8
Karur Vysya Bank	57	12.7	6.7	5.5	0.7	0.6	0.6	0.8	0.8	0.7
IIB Bank	1,013	26.7	12.9	10.3	1.8	1.6	1.4	1.9	1.7	1.4
Kotak Mahindra Bank	1,808	39.2	31.7	26.3	4.3	3.8	3.3	4.4	3.9	3.4
AU SFB	989	26.4	36.3	26.3	4.9	4.4	3.8	5.4	4.7	4.0
RBL Bank	214	25.2	11.1	7.4	1.0	0.9	0.8	1.1	1.0	0.9
Yes Bank	14	N/A	40.0	17.0	1.0	1.0	0.9	1.3	1.2	1.1
South Indian Bank	10	N/A	13.0	6.1	0.4	0.4	0.4	0.6	0.6	0.5

Particulars	EPS (Rs)			BV (Rs)			ABV (Rs)			RoAA (%)			RoAE (%)		
	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
IDFC FIRST Bank	1	1	3	33	35	38	30	33	36	0.3	0.3	0.9	2.7	2.7	8.4
HDFC Bank	56	68	83	370	423	487	363	416	479	1.9	2.0	2.1	16.6	17.3	18.2
Axis Bank	22	51	61	332	373	423	315	358	409	0.7	1.5	1.6	7.1	14.4	15.2
SBI	23	32	45	252	284	329	209	243	292	0.5	0.6	0.8	9.5	12.0	14.8
Bandhan Bank	14	21	33	108	127	159	95	113	148	2.1	2.8	3.8	13.5	18.2	23.4
Federal Bank	8	9	11	73	81	91	68	74	85	0.8	0.9	1.0	10.4	11.8	12.7
City Union Bank	8	9	12	79	88	100	68	78	91	1.2	1.2	1.5	10.6	11.0	12.8
DCB Bank	11	12	16	113	123	137	100	113	131	0.9	0.9	1.1	10.1	10.1	12.6
Karur Vysya	5	9	10	87	95	104	71	76	88	0.5	0.9	1.0	5.3	9.3	10.5
IIB Bank	38	78	99	559	627	712	544	613	699	0.9	1.6	1.9	7.6	13.2	14.7
Kotak Mahindra	35	43	52	322	364	414	311	353	404	1.9	2.1	2.2	12.4	12.7	13.5
AU SFB	38	27	38	201	226	261	183	212	245	2.5	1.5	1.7	22.0	12.8	15.4
RBL Bank	8	19	29	212	229	255	196	214	241	0.5	1.1	1.5	4.4	8.8	12.0
Yes Bank	(1)	0	1	13	14	14	10	11	12	(1.3)	0.3	0.7	(12.6)	2.5	5.7
South Indian	0	1	2	27	27	29	17	18	21	0.1	0.2	0.3	1.1	2.9	6.2

Source: Company data, NSE, I-Sec research

Key risk factors

- **Strategy execution:** Over the past 24-30 months since merger, the bank has witnessed significant progress in the aforementioned direction. Sustenance of similar improvement in franchise with cutting edge execution will be key.
- **Retailisation of liabilities** has been possible through higher rate offering. After having reached 50% average CASA, the bank has effected two consecutive 100bps savings rate cuts (in Feb'21 and May'21). Behaviour of SA deposits in the coming deposits will be key to garner confidence on the strength of the liability franchise foundation it has built over past 2-3 years.
- **'Cost to income' has been hovering higher:** Investment in franchise and better than targeted scale-up of retail assets/liabilities has come with a cost – the 'cost to income' ratio is still hovering higher just shy of 80%. This is elevated compared to the targeted level of 55%. Operating levers and containment of cost will be key to increase RoA hereon.
- In the context of **covid second wave** and coming from a high-growth phase in retail (>25% in FY21), the behaviour of retail portfolio (that witnessed inch-up in GNPAs this quarter) will be key monitorable for anticipated normalisation of credit cost.

About IDFC FIRST Bank

The erstwhile IDFC Bank was launched through the demerger of IDFC Limited in Nov'15 while IDFCFB was founded by the merger of erstwhile IDFC Bank and erstwhile Capital First on 18th Dec'18.

Post the merger, during the last two years, the bank has invested in people, products, processes, infrastructure and technology to put together all the necessary building blocks of a stronger foundation, which is essential for a long-term sustainable growth engine. As a result, it now has a strong retail and CASA deposits franchise (CASA 52% as of Mar'21), and looks forward to steady growth hereon. Further, it raised additional equity capital of Rs30bn through QIP in Apr'21.

IDFCFB offers a wide spread of banking products to meet the needs of retail customers in the MSME and consumer sectors in both urban and rural geographies, as well as its wholesale customers, such as large corporates and NBFCs.

Bank delivers a wide range of banking products and services to its customers through a variety of channels, including bank branches, call centres, ATMs, internet and mobile phones. As at 31st Mar'21, the bank had more than 8mn customers and a network of 596 branches, 134 asset servicing branches, 655 business correspondent branches (consisting of 384 business correspondent branches through its wholly-owned subsidiary, IDFC FIRST Bharat Limited, and 271 other business correspondent branches), 592 ATMs and 85 recyclers across the country.

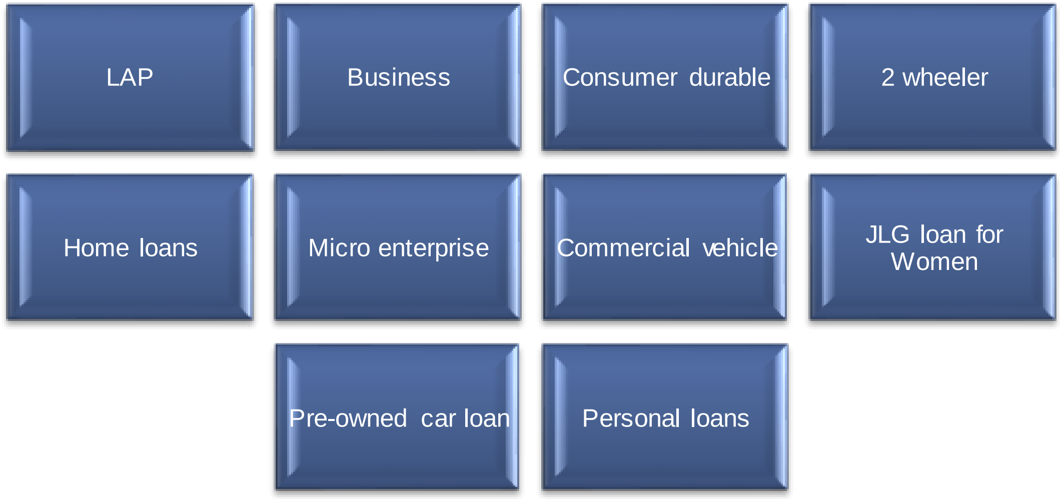
In wholesale banking, IDFCFB is offering corporate customers a range of financial products and services, including project financing, corporate deposit products and transaction banking services, such as cash management and escrow services. It also provides business loans and working capital loans for large corporates, emerging large corporates, NBFCs and financial institutions.

Bank is constantly working to develop new technology and improve the digital aspects of its business. It has developed a mobile banking app, IDFC FIRST Bank Mobile Banking, to serve as a one-stop platform offering numerous services, including funds transfer, account opening, loan application and application for investment products. It also provides 'watch banking' to customers, allowing them the ease and convenience of accessing their bank accounts on smart watches. Moreover, it also provides SMS and *WhatsApp* banking to allow customers to, amongst others, enquire about their account balances and make request for cheque books.

In addition, the bank uses underwriting platforms and automated credit scorecards driven by artificial intelligence and machine learning to provide almost instant decisions at the point of sale for retail products, such as consumer durable loans and two-wheeler loans.

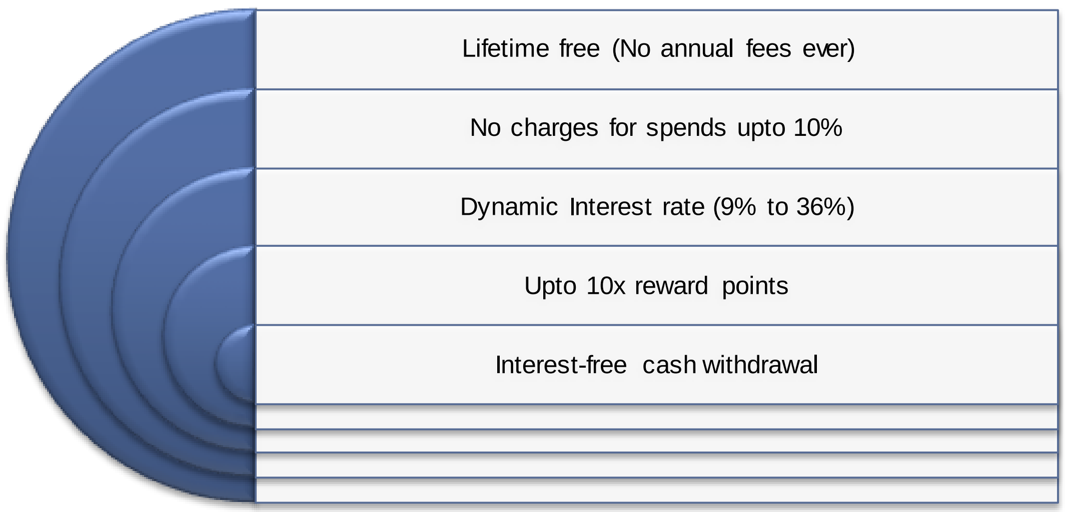
IDFCFB offers a bouquet of loan products across varied customer segments including consumers and MSMEs – LAP, business loans, consumer durable loans, 2-wheeler loans, home loans, micro enterprise loans, CV loans, new and pre-owned car loans, JLG, personal loans. Apart from these products, the bank also offers working capital loans, corporate loans to business banking and corporate customers in India.

Chart 39: Retail has a bouquet of retail loan offerings



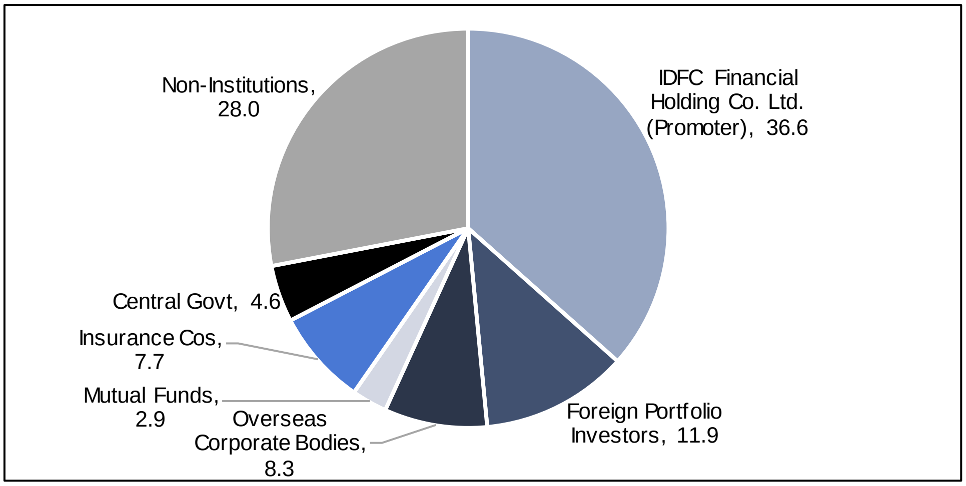
Source: Company data, I-Sec research

Chart 40: Credit card offerings attractive across the industry



Source: Company data, I-Sec research

Chart 41: Promoter holding at 36%; also backed by marquee institutional investors



Source: Company, I-Sec research

Note: Shareholding as of 6th April 2021, post QIP issuance of Rs 30bn

Note: On a fully diluted basis, including shares and options, Mr. Vaidyanathan holds >2% of the equity of the bank including shares held in his social welfare trust.

Board of directors

Name & Designation	Experience
Mr. V. Vaidyanathan: Managing Director & Chief Executive Officer	He was earlier the Chairman and Managing Director of Capital First Limited. He built Capital First Limited into a retail financing player in India, focused on financing small entrepreneurs and Indian consumers. In 2018, he steered the merger of Capital First Limited with IDFC Bank Limited and took over as Managing Director and CEO of the merged entity, IDFC FIRST Bank Limited, in Dec'18. He earlier worked with ICICI Bank as executive director (2006–2009) and with ICICI Prudential Life Insurance Company Limited as managing director and CEO (2009-2010). Prior to this, he has worked with Citibank. He has several years of experience in the Indian banking sector.
Mr. Aashish Kamat: Non-Executive Independent Director	He holds a bachelor's degree in Arts from the Franklin and Marshall College, and is also a member of the Pennsylvania Institute of Certified Public Accountants. He was previously the CEO, UBS AG Mumbai branch, India. In the past, he has been a director on the Board of UBS Securities India Private Limited and UBS Business Solutions (India) Private Limited.
Dr. (Mrs.) Brinda Jagirdar: Non-Executive Independent Director	She holds a bachelor's degree in Arts from Fergusson College, University of Pune. She also holds a master's degree in Arts from the same university and a master's degree in agricultural economics from the University of California. She retired as General Manager (Economics), State Bank of India. She also holds a doctoral degree in economics from the Department of Economics, University of Mumbai. She has attended an Executive Programme at the John F. Kennedy School of Government, Harvard University.
Mr. Hemang Raja: Non-Executive Independent Director	He holds a bachelor's degree in commerce from the University of Mumbai, and a master's degree in business administration from Abeline Christian University, Texas. Additionally, he has also received a certificate of recognition from the Agency for International Development for participating in a technical cooperation program. He was previously associated with Asia Growth Capital Advisors and as Managing Director in the private equity, asset management division at Credit Suisse Consulting (India) Private Limited. He is also a director on the Board of Multi Commodity Exchange of India Limited.
Mr. Pravir Vohra: Non-Executive Independent Director	He holds a master's degree in Arts from the University of Delhi, and is an associate of the Indian Institute of Bankers. He was previously the Vice President at Times Bank Limited, and President at ICICI Bank Limited. He is also a director on the board of Thomas Cook (India) Limited, 3i Infotech Limited, and National Collateral Management Services Limited.
Mr. Sanjeeb Chaudhuri: Non-Executive Independent Director	He holds a bachelor's degree in science and a master's degree in management studies from the University of Mumbai. He was previously the Regional Head, South Asia, at Standard Chartered Bank. In the past, he has been a director on the boards of Aditya Birla Fashion and Retail Limited, and Standard Chartered Securities (India) Limited.
Mr. Sunil Kakar: Non-Executive Non-Independent Director (Representing IDFC Limited)	He holds a bachelor's degree in chemical engineering from the Indian Institute of Technology, Kanpur, and has successfully completed the postgraduate diploma course in business management from XLRI, Jamshedpur. He is the Managing Director of IDFC Limited.
Mr. Vishal Mahadevia: Non-Executive, Non-Independent Director	He holds bachelor's degrees in economics and electrical engineering from the University of Pennsylvania. He is the Managing Director of Warburg Pincus India Private Limited.
Mr. S Ganesh Kumar – Independent Director.	He was the Executive Director of the Reserve Bank of India. His most recent responsibilities included the entire gamut of Payment and Settlement Systems, creation and development of strategic plans for the Bank and to take care of the external investments and manage the foreign exchange reserves with the central bank. He has rich experience in the Information Technology area and has honed skills in this area of specialization.

Source: Company data, I-Sec research

Key managerial personnel

Name & Designation	Experience
Mr. V. Vaidyanathan: Managing Director & Chief Executive Officer	He was earlier the Chairman and Managing Director of Capital First Limited. He built Capital First Limited into a retail financing player in India, focused on financing small entrepreneurs and Indian consumers. In 2018, he steered the merger of Capital First Limited with IDFC Bank Limited and took over as Managing Director and CEO of the merged entity, IDFC FIRST Bank Limited, in Dec'18. He earlier worked with ICICI Bank as executive director (2006–2009) and with ICICI Prudential Life Insurance Company Limited as managing director and CEO (2009-2010). Prior to this, he has worked with Citibank. He has several years of experience in the Indian banking sector.
Mr. Satish Gaikwad: Head - Legal and Company Secretary	Post amalgamation with Capital First Limited, he was appointed as Company Secretary of the Bank with effect from 19th Dec'18. He is a fellow member of the Institute of Company Secretaries of India, and an associate member of the Institute of Cost and Works Accountants of India as well as the Insurance Institute of India. He also holds a bachelor's degree in law and a bachelor's degree in commerce from the University of Mumbai. He has approximately 20 years of experience in the area of secretarial, legal and compliance functions. He was previously Head – Legal, Compliance and the Company Secretary of Capital First Limited. He has been associated with Capital First Limited (formerly known as Future Capital Holdings Limited) since May'12.
Mr. Sudhanshu Jain: Chief Financial Officer and Head - Corporate Centre.	He was appointed Chief Financial Officer of the bank with effect from 27th Mar'20. He is a qualified chartered accountant and company secretary and has approximately 17 years of experience in the fields of finance and accounts. Prior to joining IDFC FIRST Bank, he was associated with Paytm E-Commerce Private Limited and Paytm Payments Bank Limited, as the deputy chief financial officer and Vice President, respectively. In the past, he has also been associated with ICICI Bank.

Source: Company data, I-Sec research

Financial summary

Table 14: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY20	FY21P	FY22E	FY23E	FY24E
Profit & Loss Account					
Net Interest Income	56,353	69,898	95,159	1,18,265	1,43,041
% Growth	*76*	*24*	*36*	*24*	*21*
Fee income	14,201	16,210	22,694	30,637	39,828
Add: Other income	3,020	6,327	4,559	5,352	5,794
Total Net Income	**73,575**	**92,435**	**1,22,412**	**1,54,253**	**1,88,663**
% Growth	*78*	*26*	*32*	*26*	*22*
Less: Operating Expenses	(54,207)	(67,028)	(81,090)	(97,183)	(1,14,190)
Pre-provision operting profit	**19,367**	**25,407**	**41,322**	**57,071**	**74,473**
NPA Provisions	(8,277)	(20,649)	(34,353)	(32,581)	(37,489)
Other provisions	(34,875)	-	-	-	-
PBT	**(23,785)**	**4,758**	**6,969**	**24,489**	**36,985**
Less: taxes	(4,857)	(235)	(1,756)	(6,171)	(9,320)
PAT	**(28,642)**	**4,523**	**5,213**	**18,318**	**27,665**
% Growth	*47*	*(116)*	*15*	*251*	*51*

Source: Company data, I-Sec research

Table 15: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21P	FY22E	FY23E	FY24E
Capital	48,099	56,759	61,991	61,991	61,991
Reserve & Surplus	1,05,327	1,21,319	1,49,131	1,64,660	1,87,365
Deposits	6,51,080	8,86,884	11,25,001	14,28,317	18,14,943
Borrowings	5,73,972	4,57,861	4,06,945	3,63,667	3,26,881
Other liabilities	1,13,526	1,08,615	1,02,825	1,37,215	1,39,837
Total liabilities	**14,92,004**	**16,31,439**	**18,45,894**	**21,55,849**	**25,31,017**
Cash & Bank Balances	41,908	58,280	61,278	67,199	74,964
Investment	4,54,046	4,54,117	4,98,491	5,55,327	6,27,625
Advances	8,55,954	10,05,501	11,65,961	14,04,931	16,90,111
Fixed Assets	10,377	12,664	11,611	11,981	12,983
Other Assets	1,29,719	1,00,876	1,08,553	1,16,411	1,25,335
Total Assets	**14,92,004**	**16,31,439**	**18,45,894**	**21,55,849**	**25,31,017**

Source: Company data, I-Sec research

Table 16: Key ratios

(Year ending Mar 31)

	FY20	FY21P	FY22E	FY23E	FY24E
Per share data					
EPS – Diluted (Rs)	-6.0	0.8	0.8	3.0	4.5
% Growth	26%	-113%	6%	251%	51%
DPS (Rs)	0.0	0.0	0.4	0.5	0.8
Book Value per share (BVPS) (Rs)	33.6	32.7	35.4	38.2	42.2
% Growth	-26%	-3%	8%	8%	10%
Adjusted BVPS (Rs)	32.5	30.5	33.2	35.9	39.6
% Growth	-26%	-6%	9%	8%	10%
Valuations (x)					
Price / Earnings (x)	-9.9	74.1	70.2	20.0	13.2
Price / Book (x)	1.8	1.8	1.7	1.5	1.4
Price / Adjusted BV (x)	1.8	1.9	1.8	1.6	1.5
Asset Quality					
Gross NPA (Rs mn)	22,796	43,030	59,672	62,716	68,809
Gross NPA (%)	2.6	4.2	5.0	4.3	4.0
Net NPA (Rs mn)	8,086	18,833	20,885	21,951	24,083
Net NPA (%)	0.9	1.9	1.8	1.6	1.4
NPA Coverage ratio (%)	65	56	65	65	65
Gross Slippages (%)	3.1	5.5	4.5	3.0	2.8
Credit Cost (%)	5.0	2.2	3.2	2.5	2.4
Net NPL/Networth	5.3%	10.6%	9.9%	9.7%	9.7%

	FY20	FY21P	FY22E	FY23E	FY24E
Business ratios (%)					
RoAA	(1.8)	0.3	0.3	0.9	1.2
RoAE	(17.1)	2.7	2.7	8.4	11.6
Credit Growth	(0.8)	17.5	16.0	20.5	20.3
Deposits Growth	(7.6)	36.2	26.8	27.0	27.1
CASA	32.2	51.7	50.6	49.4	48.2
Credit / Deposit Ratio	131	113	104	98	93
Cost-Income ratio	74	73	66	63	61
Operating Cost / Avg. Assets	3.4	4.3	4.7	4.9	4.9
Fee Income / Avg. Assets	0.9	1.0	1.3	1.5	1.7
Earning ratios (%)					
Yield on Advances	13.5	13.2	13.5	13.9	13.9
Yield on Earning Assets	11.0	11.0	11.4	11.7	11.8
Cost of Deposits	7.0	5.7	5.2	5.3	5.3
Cost of Funds	7.8	6.7	6.1	5.9	5.9
NIM	3.9	4.9	5.9	6.4	6.5
Capital Adequacy (%)					
RWA (Rs mn)	11,04,815	12,79,440	14,47,624	16,90,704	19,84,926
Tier I	13.3	15.6	14.6	13.4	12.6
CAR	13.4	16.3	15.2	13.9	13.0

Source: Company data, I-Sec research

Table 17: DuPont analysis (on average assets)

(%, year ending Mar 31)

	FY20	FY21P	FY22E	FY23E	FY24E
Interest income	10.0	10.0	10.5	10.8	11.0
Interest expense	6.5	5.5	5.0	4.9	4.9
NII	**3.6**	**4.5**	**5.5**	**5.9**	**6.1**
Other income	0.2	0.4	0.3	0.3	0.2
Fee income	0.9	1.0	1.3	1.5	1.7
Total income	**4.7**	**5.9**	**7.0**	**7.7**	**8.1**
Operating expenses	3.4	4.3	4.7	4.9	4.9
Operating profit	**1.2**	**1.6**	**2.4**	**2.9**	**3.2**
Total provisions	2.7	1.3	2.0	1.6	1.6
PBT	**(1.5)**	**0.3**	**0.4**	**1.2**	**1.6**
Tax	0.3	0.0	0.1	0.3	0.4
PAT (RoA)	**(1.8)**	**0.3**	**0.3**	**0.9**	**1.2**
Leverage (x)	9.4	9.4	8.9	9.1	9.8
RoE	**-17.1**	**2.7**	**2.7**	**8.4**	**11.6**

Source: Company data, I-Sec research

Annexures

Table 18: Trend in savings deposit rates – cut by 200-250 bps

Balance (Rs)	31-Mar-19	31-Mar-20	31-Mar-21	01-May-21
<=0.1mn	6.00%	6.00%	6.00%	4.00%
> 0.1mn <= 1mn	7.00%	7.00%	6.00%	4.50%
> 1mn <= 5mn	7.00%	7.00%	6.00%	5.00%
> 5mn <=10mn	7.00%	7.00%	6.00%	5.00%
>10mn <=20mn	7.00%	7.00%	5.00%	5.00%
>20mn <=50mn	7.00%	7.00%	5.00%	4.00%
>50mn <=100mn	7.25%	7.25%	4.00%	4.00%
>100mn <= 500mn	7.25%	7.25%	3.50%	3.50%
>500mn <= 1bn	7.25%	7.25%	3.50%	3.50%
>1bn <= 2.5bn	7.00%	7.00%	3.50%	3.00%
> 2.5bn <= 7.5bn	8.50%	8.50%	3.50%	3.00%
> 7.5bn	8.50%	8.50%	3.50%	3.00%

Source: Company data, I-Sec research

Table 19: Term Deposit Rates – peak rates cut by 200-225 bps

Tenor Bucket	31-Mar-19	31-Mar-20	31-Mar-21	01-May-21
7 - 14 days	4.00%	4.00%	2.75%	2.75%
15 - 29 days	5.00%	5.00%	3.00%	3.00%
30 - 45 days	6.25%	6.25%	3.50%	3.50%
46 - 90 days	6.50%	6.50%	4.00%	4.00%
91 - 180 days	6.75%	6.75%	4.50%	4.50%
181 days – less than 1 year	7.00%	7.00%	5.25%	5.25%
1 year – 499 days	7.75%	7.25%	5.75%	5.50%
500 days	7.75%	7.50%	6.00%	5.50%
501 days – less than 2 years	7.75%	7.25%	5.75%	5.50%
731 Days	8.25%	7.25%	5.75%	5.50%
2 years 1 day – 3 years	7.50%	7.25%	5.75%	5.75%
3 years 1 day – 5 years	7.50%	7.25%	5.75%	6.00%
5 year 1 day - 10 years	7.25%	7.25%	5.75%	5.75%
Tax Saver Deposits	7.25%	7.25%	5.75%	5.75%

Source: Company data, I-Sec research

Table 20: Cut in MCLR is restricted to less than 100 bps

Date	MCLR Rate			
	12-Month	6-Month	3-Month	1-Month
08-Dec-19	9.30%	9.20%	9.10%	9.00%
08-Jan-20	9.30%	9.20%	9.10%	9.00%
08-Feb-20	9.30%	9.20%	9.10%	9.05%
08-Mar-20	9.35%	9.25%	9.15%	9.10%
08-Apr-20	9.35%	9.25%	9.15%	9.05%
08-May-20	9.35%	9.25%	9.15%	9.05%
08-Jun-20	9.20%	9.10%	9.00%	8.90%
08-Jul-20	9.15%	9.05%	8.90%	8.80%
08-Aug-20	8.95%	8.85%	8.70%	8.65%
08-Sep-20	8.95%	8.85%	8.70%	8.65%
08-Oct-20	8.70%	8.65%	8.50%	8.40%
08-Nov-20	8.60%	8.50%	8.40%	8.30%
08-Dec-20	8.55%	8.50%	8.35%	8.25%
08-May-21	8.50%	8.35%	8.20%	8.10%

Source: Company data, I-Sec research

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