

Elevated Provisions Dent Earnings, RoA Improvement Delayed!

Est. Vs. Actual for Q2FY25: NII – **Broadly INLINE**; PPOP – **INLINE**; PAT – **MISS**

Changes in Estimates post Q2FY25

FY25E/FY26E/FY27E (in %): NII: -1.3/-2.3/-1.2; PPOP: -0.7/-4.8/-2.5; PAT: -29.9/-18.3/-14.4

Recommendation Rationale

- **Elevated provisions are a RoA dampener** – IDFCFB's provisions were significantly higher on account of prudent provision buffer of Rs 568 Cr created for microfinance business (to the tune of Rs 315 Cr, which equals 99% of SMA1+2 portfolio) and one legacy infrastructure toll road account with the Maharashtra Government withdrawing toll charges at Mumbai Entry Point, which adversely affected the infra customer (to the tune of ~Rs 250 Cr). Excluding the provision buffer created on the microfinance and the legacy toll account, credit costs would have been at ~1.8% (vs 1.7% in Q1FY25), largely within the guided range. Microfinance continues to remain a pain point with slippages elevated in Q2 and credit costs climbing up to ~6% in H1FY25. While stress in the MFI book continues, the management indicated that stress has exhibited better or similar delinquency trends in Top-5 states, except Kerala, where it has pruned its exposure significantly. Surprisingly, the credit quality in the credit card portfolio continues to hold up well, with credit costs being stable. Similarly, asset quality across all other retail segments continues to show healthy trends. **Given the large hit on credit costs in Q2FY25, the management has revised its credit costs guidance for FY25 to 2.25% vs 1.8-1.85% earlier, with a possible (slight) moderation in H2FY25. Going ahead, credit costs are expected to normalise at ~1.85%.** The management has also highlighted that the impact of ECL norms on credit costs, if and when implemented would be ~10-20bps.
- **Eyeing meaningful C-D Ratio decline:** The management does not see any constraints on credit and deposit growth and expects the bank to continue its growth momentum. With a focus on retail granular deposits, the management believes IDFCFB remains well-placed to deliver a deposit growth of ~30%+ in FY25, adequate to support the ~20% broad-based credit growth. On an incremental basis, the C-D Ratio stands at ~78%. We expect IDFCFB to deliver a healthy credit/deposit growth of 22/26% CAGR growth over FY24-27E.

Sector Outlook: Positive

Company Outlook: The negative surprise on the legacy account alongside persistent stress in the microfinance book has resulted in a sharp dent in the earnings for FY25E and has resultantly delayed the RoA improvement journey. We expect IDFCFB's RoA to be capped at ~1.2% by FY27E vs. our earlier expectations of ~1.4%.

Current Valuation: 1.1x Sep'26E ABV; **Earlier Valuation:** 1.6x FY26E ABV

Current TP: Rs 66/share; **Earlier TP:** Rs 90/share

Recommendation: We downgrade the stock to **HOLD** from **BUY** earlier.

Alternative BUY Ideas from our Sector Coverage

City Union Bank (TP – Rs 185/share), **DCB Bank** (TP – Rs 135/share)

Financial Performance:

- **Operational Performance:** Advances growth of 21/6% YoY/QoQ was broad-based. Deposits growth continued to remain strong at 32/7% YoY/QoQ. CASA deposits grew by 38/12% YoY/QoQ and TDs by 28/2% YoY/QoQ. CASA Ratio improved to 50.1% vs. 48.2/47.8% YoY/QoQ. C-D Ratio stood at 96.2% vs 102.2/96.6% YoY/QoQ.
- **Financial Performance:** NII grew by 21/2% YoY/QoQ owing to a sharp margin contraction of ~35bps. NIMs stood at 6.2% vs 6.5% YoY/QoQ. Non-interest income grew by 21/7% YoY/QoQ driven by healthy fee income growth (+18/2% YoY/QoQ). Opex grew by 18/3% YoY/QoQ. C-I Ratio (key lever for RoA improvement) improved to 69.9% vs. 71.9%/70.2% YoY/QoQ. Credit costs were higher at 3.21% vs. 1.19/1.97% YoY/QoQ, denting earnings growth. PAT de-grew sharply by 73/71% YoY/QoQ.
- **Asset Quality** remained stable with GNPA/NNPA at 1.9/0.5% vs 1.9/0.6% QoQ. Slippages during the quarter stood at Rs 2,030 Cr, with a slippage ratio of 3.8% vs 3.2% QoQ. A bulk of the slippages are from the microfinance pool.

Key Financials (Standalone)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	4,695	+5.1	+25.4	4,705	-0.2
PPOP	1,882	+13.1	+25.5	1,734	8.6
Net Profit	681	-6.0	-11.0	652	4.4
NNPA (%)	0.6	-1 bps	-11 bps	0.6	-
RoA (calc. %)	0.9	-12 bps	-35 bps	0.9	+4 bps

Source: Company, Axis Securities Research

(CMP as of 25th October, 2024)

CMP (Rs)	66
Upside /Downside (%)	0.7%
High/Low (Rs)	92/65
Market cap (Cr)	49,034
Avg. daily vol. (6m in Crs) Shrs	3,86,60,986
No. of shares (Cr)	748.3

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	37.4	35.4	35.4
FII's	23.7	19.9	19.6
MFs	2.7	3.3	2.4
Others	36.2	41.4	42.6

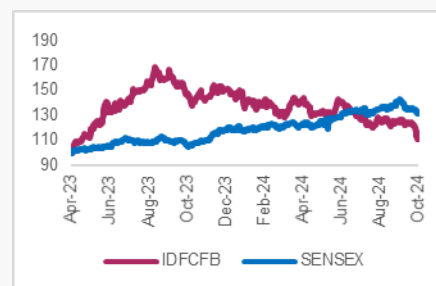
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	19,714	24,369	29,932
PPOP	7,962	10,648	14,076
Net Profit	2,216	4,240	5,910
EPS (Rs)	3.0	5.8	8.1
ABV (Rs)	50.4	56.0	63.6
P/ABV (x)	1.3	1.2	1.0
RoA (%)	0.7	1.1	1.2
NNPA (%)	0.7	0.6	0.7

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-1.3	-2.3	-1.2
PPOP	-0.7	-4.8	-2.5
PAT	-29.9	-18.3	-14.4

Relative Performance



Source: Ace Equity, Axis Securities Research

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Outlook:

While business growth is expected to continue with credit/deposit growth at 22/26% CAGR over the medium term, the higher provisioning is expected to derail earnings growth momentum and delay the RoA improvement journey. We expect RoA/RoE to stand at 1.1-1.2%/11-13% over FY26-27E. We hack our earnings estimates sharply by ~30% in FY25E and further by 14-18% over FY26-27E considering elevated credit costs.

Valuation & Recommendation:

We revise our recommendation to **HOLD** from **BUY** earlier. IDFCFB currently trades at 1.1x Sep'26E ABV and we value the stock at 1.1x Sep'26E ABV to arrive at a target price of Rs 66/share. This TP implies a 0.7% upside from CMP.

Key Highlights

- **CoF stabilises, NIMs to remain steady:** The management has indicated that CoD has stabilised and should see an improving trend from FY26 onwards. The bank will also benefit from the repayment of the high-cost legacy borrowings, driving CoF improvement and thereby supporting NIMs. We expect NIMs to range between 6.4-6.5% over FY25-27E.

Key Risks to Our Estimates and TP

- Elevated levels of the C/I ratio would drag the bank's bottom line thereby keeping RoA subdued.
- A slowdown in overall systemic credit growth could derail our earnings estimates.
- A significant slowdown in the Unsecured Retail and Credit Card business and asset quality challenges cropping out could keep credit costs elevated hurting our earnings estimates

Change in Estimates

Rs Cr	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	19,714	24,369	29,932	19,982	24,947	30,291	-1.3	-2.3	-1.2
PBP	7,962	10,648	14,076	8,018	11,188	14,439	-0.7	-4.8	-2.5
Provisions	4,999	4,980	6,174	3,793	4,252	5,203	31.8	17.1	18.7
PAT	2,216	4,240	5,910	3,160	5,188	6,907	-29.9	-18.3	-14.4

Source: Company, Axis Securities Research

Results Review

(Rs Cr)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	4788	3950	21.2	4695	2.0	9483	7695	23.2
Non-Interest Income	1727	1430	20.8	1619	6.7	3346	2843	17.7
Operating expenses	4553	3870	17.7	4432	2.7	8985	7528	19.4
Staff Cost	1424	1190	19.7	1337	6.5	2761	2343	17.9
Pre provision profits	1962	1510	29.9	1882	4.2	3844	3011	27.7
Provisions and contingencies	1732	528	227.8	994	74.2	2726	1005	171.4
PBT	230	982	-76.6	888	-74.1	1118	2006	-44.3
Provision for Tax	29	231	-87.3	207	-85.9	237	490	-51.7
PAT	201	751	-73.3	681	-70.5	881	1516	-41.9
Business Update								
Gross Advances	2,22,613	1,83,236	21.5	2,09,361	6.3	2,22,613	1,83,236	21.5
Deposits	2,15,061	1,74,814	23.0	2,02,568	6.2	2,15,061	1,74,814	23.0
CASA Deposits	1,09,292	79,468	37.5	97,692	11.9	1,09,292	79,468	37.5
CASA Ratio	50.1	48.2	189 bps	47.8	237 bps	50.1	48.2	189 bps
C/D Ratio	96.2	102.2	-598 bps	96.6	-44 bps	96.2	102.2	-598 bps
NIMs (%)	5.9	6.3	-44 bps	6.2	-34 bps	6.1	6.3	-27 bps
Cost-Income ratio (%)	69.9	71.9	-204 bps	70.2	-30 bps	70.0	71.4	-139 bps
Asset Quality								
Gross NPA (%)	1.9	2.1	-19 bps	1.9	2 bps	1.9	2.1	-19 bps
Net NPA (%)	0.5	0.7	-20 bps	0.6	-11 bps	0.5	0.7	-20 bps
PCR (%)	94.9	84.0	1092 bps	87.5	742 bps	94.9	84.0	1092 bps
Capital Adequacy								
CRAR	16.4	16.5	-18 bps	15.9	48 bps	16.4	16.5	-18 bps
Tier I	13.8	13.5	35 bps	13.3	50 bps	13.8	13.5	35 bps
Tier II	2.5	3.1	-53 bps	2.5	-2 bps	2.5	3.1	-53 bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	16,451	19,714	24,369	29,932
Non-Interest Income	5,932	7,054	8,467	10,320
Total Income	22,382	26,768	32,836	40,252
Operating Expenses	16,216	18,807	22,188	26,176
Pre-Provision Profits	6,167	7,962	10,648	14,076
Provisions	2,382	4,999	4,980	6,174
PBT	3,785	2,963	5,669	7,902
Tax	899	747	1,429	1,992
Profit After Tax	2,886	2,216	4,240	5,910

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Equity Share Capital	7,070	7,316	7,316	7,316
Reserves & Surplus	25,091	30,729	34,978	40,898
Net Worth	32,161	38,045	42,295	48,215
Borrowings	2,00,576	2,58,966	3,24,055	4,03,320
-- O/W is Deposits	50,936	46,735	3,79,169	4,74,311
Other Liabilities	12,442	15,077	18,485	22,918
Total Liabilities	2,96,115	3,58,822	4,39,949	5,45,444
Cash & Bank balances	12,480	16,890	21,135	26,305
Investments	74,710	85,583	1,00,612	1,25,222
Loans	1,94,592	2,40,059	2,98,228	3,69,153
Fixed Assets & Others	14,332	16,291	19,974	24,763
Total Assets	2,96,115	3,58,822	4,39,949	5,45,444

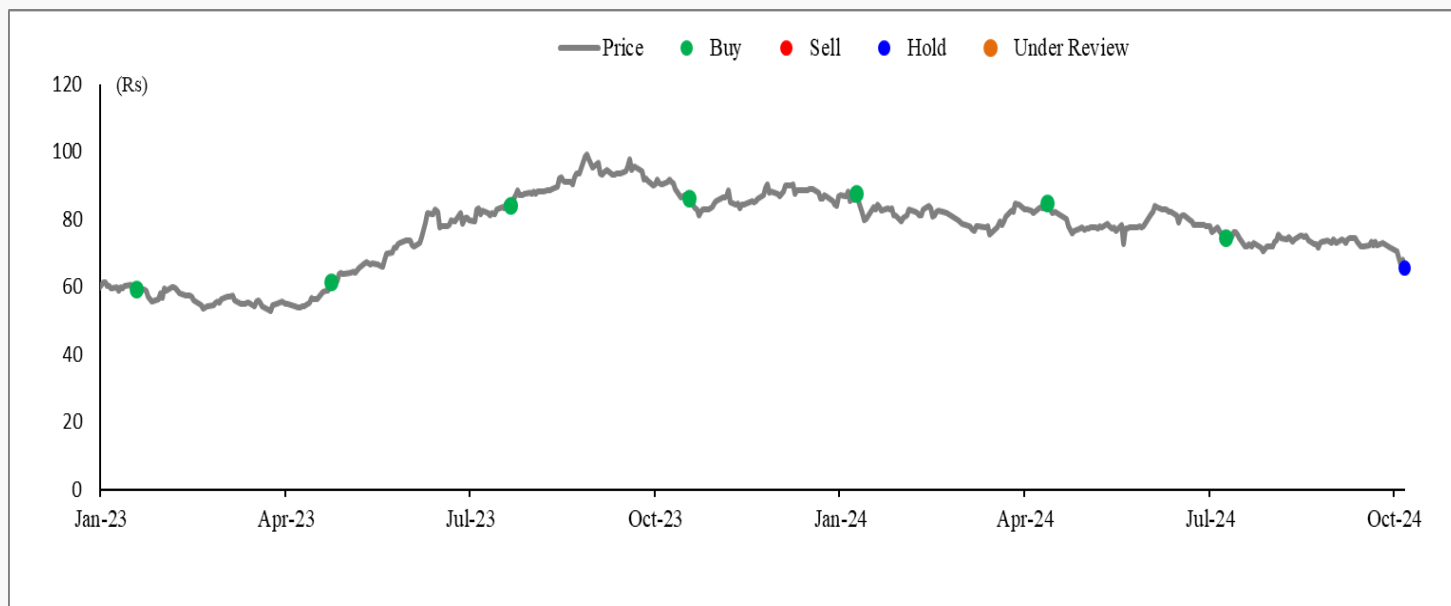
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	4.1	3.0	5.8	8.1
Earnings Growth (%)	10.9%	-25.8%	91.3%	39.4%
BVPS	45.5	52.0	57.8	65.9
Adj. BVPS	43.8	50.4	56.0	63.6
RoAA (%)	1.1	0.7	1.1	1.2
ROAE (%)	9.8	6.3	10.6	13.1
P/E (x)	16.1	21.6	11.3	8.1
P/ABV (x)	1.5	1.3	1.2	1.0
PROFITABILITY & OPERATING EFFICIENCY				
NIM – calc. on IEA (%)	6.4	6.5	6.5	6.5
Cost/Avg. Asset Ratio (%)	6.1	5.7	5.6	5.3
Cost-Income Ratio (%)	72.4	70.3	67.6	65.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	28.2	23.4	24.2	23.8
Deposit Growth (%)	38.7	29.1	25.1	24.5
C-D Ratio	97.0	92.7	92.0	91.5
Equity/Loans (%)	16.5	15.8	14.2	13.1
Equity/Assets (%)	10.9	10.6	9.6	8.8
Capital Adequacy Ratio (CRAR)	16.1	15.5	14.6	13.4
Tier I Capital	13.4	13.0	12.1	10.8
ASSET QUALITY				
Gross NPLs (%)	1.9	2.0	1.8	1.8
Net NPLs (%)	0.6	0.5	0.5	0.5
Coverage Ratio (%)	86.6	94.4	94.4	94.5
Provision/Avg. AUM (%)	1.4	2.3	1.9	1.9
ROAA TREE (on Total Assets)				
Net Interest Income	6.1	6.0	6.1	6.1
Non-Interest Income	2.2	2.2	2.1	2.1
Operating Cost	6.1	5.7	5.6	5.3
Provisions	0.9	1.5	1.2	1.2
Tax	0.4	0.2	0.4	0.4
ROAA	1.1	0.7	1.1	1.2
Leverage (x)	9.3	9.3	9.9	10.9
ROAE	10.0	6.3	10.6	13.1

Source: Company, Axis Securities Research

IDFC First Bank Price Chart and Recommendation History



Date	Reco	TP	Research
23-Jan-23	BUY	75	Result Update
02-May-23	BUY	75	Result Update
31-Jul-23	BUY	90	Result Update
30-Oct-23	BUY	91	Result Update
23-Jan-24	BUY	100	Result Update
29-Apr-24	BUY	104	Result Update
29-Jul-24	BUY	90	Result Update
28-Oct-24	HOLD	66	Result Update

Source: Axis Securities Research

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