

Company Background And Business Model

IDFC First Bank Ltd. was recently founded by the merger of IDFC Bank, a scheduled commercial bank and Capital First Ltd., a systematically important Non-Banking Financial Services company. The merger was first announced on 13th January, 2018 and formally consummated on 18th December, 2018. As part of IDFC Bank's strategy to retailise its loan book the bank was looking for a merger with a retail finance institution with adequate scale, profitability and specialized skills. The merger rationale from the point of view of Capital First was to access low and sustainable cost of funds and hence was interested in a banking platform.

Important Statistics

M.Cap (Cr)	19,915
52 Week H/L (₹)	54.55/32.7
NSE Code	IDFCFIRSTB
BSE Code	539437

Investment Argument

IDFC Bank possessed strong systems and processes, efficient treasury management system, strong presence in corporate and infrastructure financing, payment systems and over 34L customers. On the other hand, Capital First possessed a strong retail franchise in niche segments with strong credit skills, consistently delivered increasing profitability and ROE, high asset quality and a customer base of over 7mn and 4mn live customers. The merged entity, IDFC First Bank, will possess a strong loan asset base of more than ₹104,000Cr, of which 34% is in the retail segment, diversified asset profile, strong platform to grow retail deposits and CASA and a large retail customer base of more than 70L live customers including 30L rural customers. **The strategy going forward as envisaged by the management is as follows:**

Financials

Particulars	₹mn	
	Q3FY19	Q3FY18
Interest Earned	36,641	23,342
Op. Profit	3,080	3,147
PAT	(15,380)	1,461
Gross NPA (%)	1.97%	5.62%
Net NPA (%)	0.95%	2.52%

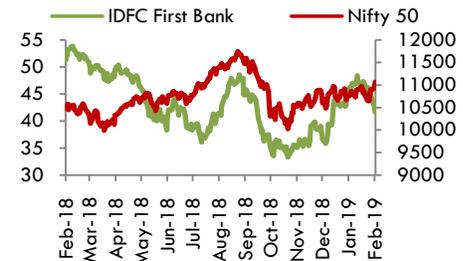
Source: Company Filing

➤ **Asset Strategy** – The strategy on growth of assets, diversification of assets and gross yield expansion is as follows:

- **Growth of Assets** – The Bank plans to grow the retail asset book from ₹36,236Cr to over ₹100,000Cr in the next 5-6 years, reduce the loans to infrastructure segment as they mature and continue to grow the non-infra corporate loan book.
- **Diversification of Assets** – Currently, retail book contributes to 35% of the total funded assets. The Bank plans to increase the retail book composition to more than 70% in the next 5-6 years.
- **Gross Yield Expansion** – As a result of increasing retail book in the loan book pie, the gross yield of the bank's loan book is planned to increase from 9.2% to ~12% in the next 5-6 years.

➤ **Liability strategy**– The strategy on growth of CASA, diversification of liability and branch expansion is as follows:

- **CASA growth** – The key focus of the bank would be to increase the CASA ratio from 10.3% currently to ~30% within the next 5-6 years, as well as to set a trajectory to reach a CASA ratio of 40-50% there on.
- **Diversification of Liability** – As a percentage of the total borrowing, the retail term deposits and CASA is proposed to increase from 10.5% currently to >50% in the next 5-6 years and set a trajectory to reach 75% thereafter.
- **Branch Expansion** – In order to grow retail deposits and CASA, the bank plans to set up 600-700 more branches in the next 5-6 years from the current branch count of 206.



7th February, 2019

CMP – ₹41.65

View – Positive

- **Profitability strategy** – The strategy on Net Interest Margin, Cost to Income Ratio and RoA and RoE is as follows:-
 - **Net Interest Margin** – The Bank has envisaged to expand NIM to about 5.5% in the next 5-6 years.
 - **Cost to Income Ratio** – The Bank plans to improve C:I ratio to ~50-55% over the next 5-6 years, down from ~79% currently.
 - **RoA and RoE** – The bank aims to reach a RoA in the range of 1.4% to 1.6% and RoE of 13-15% over the next 5-6 years.

Valuations

At CMP of ₹41.65, IDFC First Bank is trading at P/B of 0.87 on FY19E basis as per Bloomberg consensus estimates. Given the aggressive strategies laid out by the management as envisaged above to transform the bank and attractive valuations, we are *POSITIVE* on IDFC First Bank.

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Disclosure of Interest Statement in IDFC First Bank Ltd. as on February 7th, 2019

Name of the Security	IDFC First Bank Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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