Twitter Thread by Vishnu Kapadia

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Thread on IDFC first Bank ■

Market cap: 37,087 crores
Revenues: 15,968 crores
P/E: 82
P/B: 2.42
ROE: 2.95%

Here we go ■

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Unique evolution,

On getting a license, it was created out of a demerger of infrastructure financing business followed by the merger of erstwhile Capital First;

Stress build-up and franchise investment resulted in a weak Return profile during the transition phase;

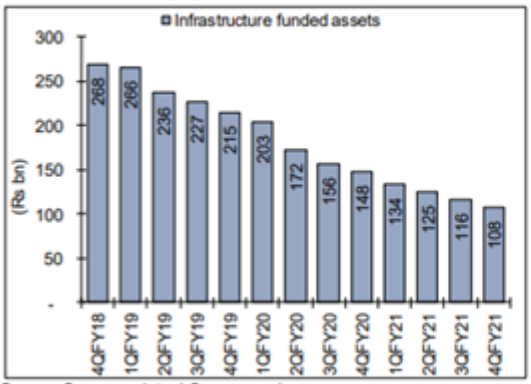
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After merger of Capital First, with Mr. V. Vaidyanathan at the helm, management is focused on building a high-yielding retail banking franchise (average retail yield at >15%);

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

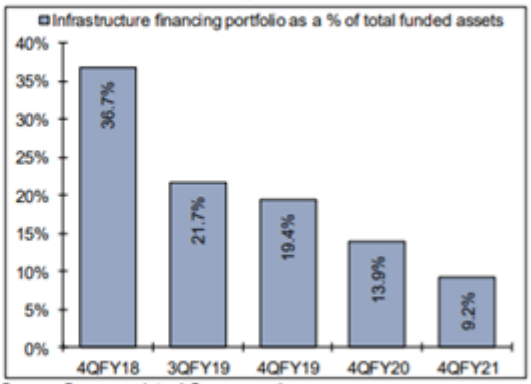
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Chart 4: On track with plan to rationalise infra portfolio to a negligible level in 3-5 years



Source: Company data, I-Sec research

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

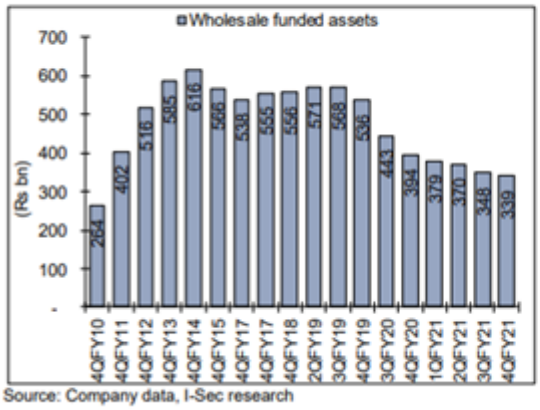


Source: Company data, I-Sec research

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;

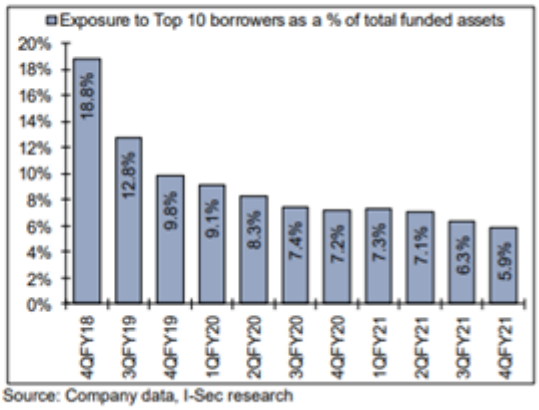
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Chart 2: Running down wholesale portfolio effectively



Source: Company data, I-Sec research

Chart 3: Reducing concentration risk is key focus area



Source: Company data, I-Sec research

Remarkable transition in asset and liability profile post the merger:

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:-

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1) Realization of assets (>30% CAGR over FY19-FY21, constituting 63% of assets);

2) Granularity of deposits – average CASA deposits surged to ~50% & deposits of
3) Sharp spike in NIM from <2% in FY18 to ~5% in FY21 and very much on track towards 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.

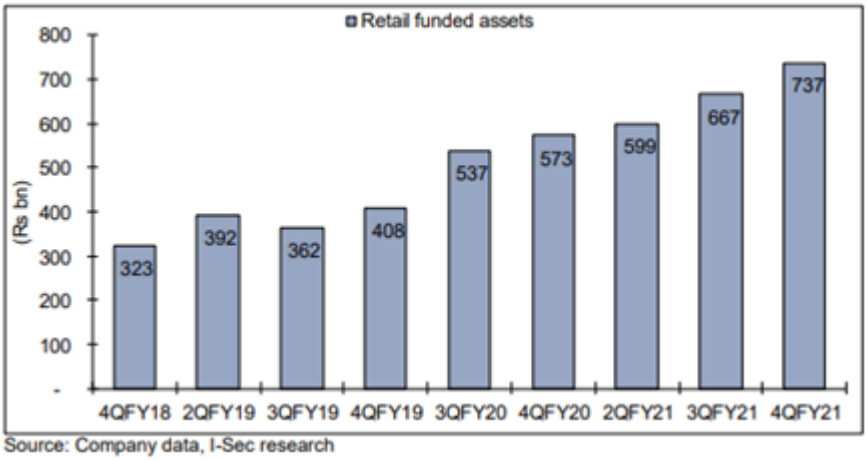
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Restructured pool is equivalent to 1.3% of retail assets.

Despite the incremental stress in FY21, credit cost was contained at 250bps for FY21 supported from adequately covered and write-back in wholesale portfolio;

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



Source: Company data, I-Sec research

Quarterly run-rate accretion of Rs 50bn-70bn of retail assets suggests it is on track towards the targeted Rs 1trn 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.

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Coming from a high-growth phase in retail (>25% in FY21), the impact of covid second wave disruption needs to be closely monitored.

Post becoming a bank, the erstwhile IDFC Bank took early steps to diversify away from infrastructure into corporate and retail banking;

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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;

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However, this has come at a cost, and the cost structure hovers much higher compared to peers (IDFCFB's 'cost to income' at >70%);

Current return profile is dragged by higher ‘cost to income’, lower fee income, and elevated credit cost;

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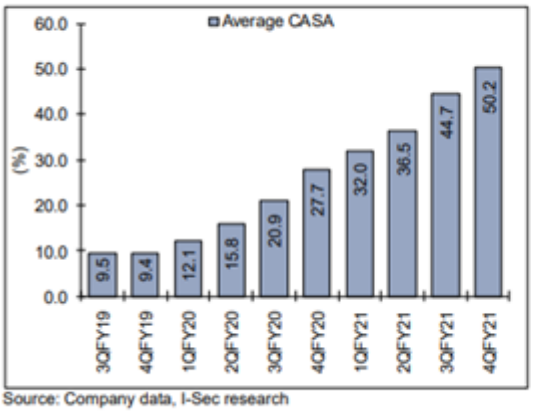
Rapid progress in realization of liabilities:

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

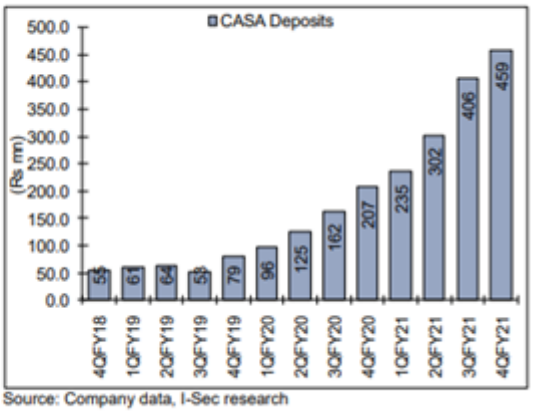
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Chart 6: CASA ratio up >5x in past two years



Source: Company data, I-Sec research

Chart 7: …with sharp surge in CASA deposits



Source: Company data, I-Sec research

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);

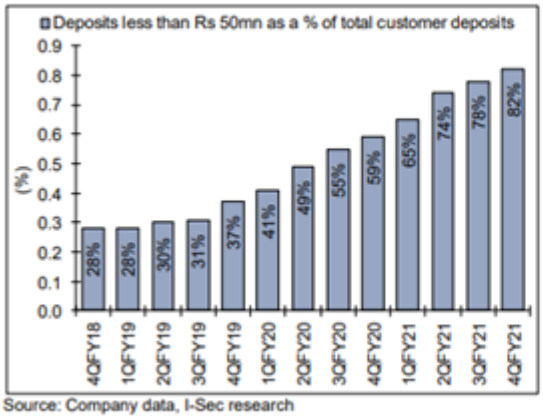
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Consequently, concentration of the top 10 depositors is down to mere 6% (from 29% during merger) as wholesale deposits have contracted more than 25% in a single year;

Bank is still carrying a legacy long-term/infra & other bonds of Rs 240bn at a higher cost of 8.5-9.0%;

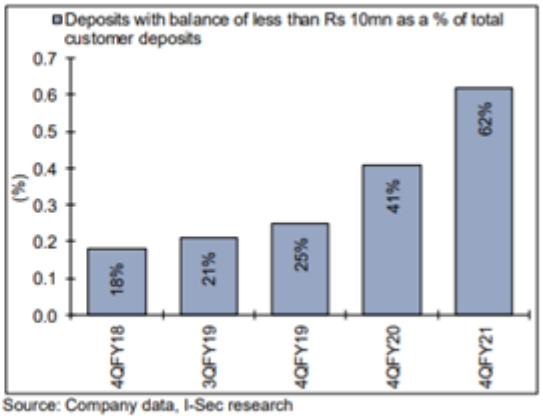
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Chart 12: Acceleration in CASA deposits has led to granularity in deposits



Source: Company data, I-Sec research

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

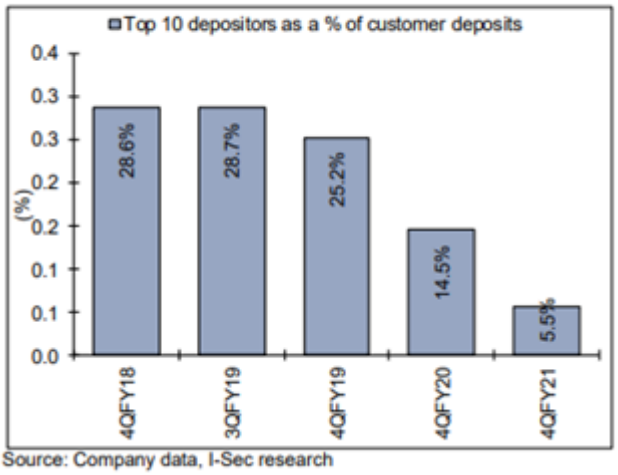


Source: Company data, I-Sec research

Replacement of the same with low-cost retail deposits will itself support reduction in the cost of funding lower even from the current level.

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Chart 10: Concentration of deposit base substantially reduced…



Source: Company data, I-Sec research

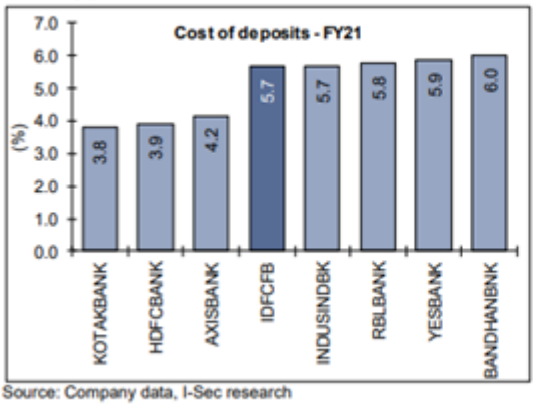
Bank added more than 350 branches in past 24 months taking total tally to 596 branches;

Medium-term plan is to take it to 800-900 branches in 3-4 years; However, it will now allow churning & productivity ramp-up of the existing network before aggressively adding more branches.

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;

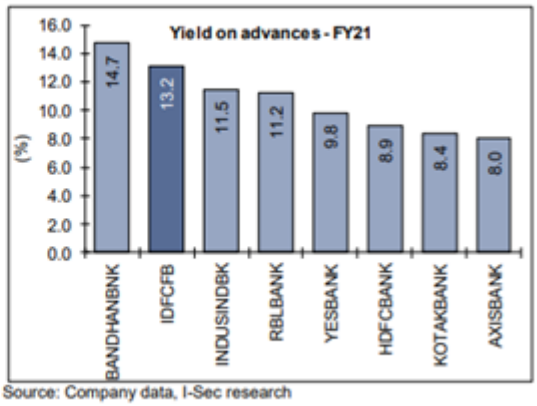
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Chart 17: Cost of deposits comparable to peers offering premium rates



Source: Company data, I-Sec research

Chart 18: Yields relatively higher compared to peers

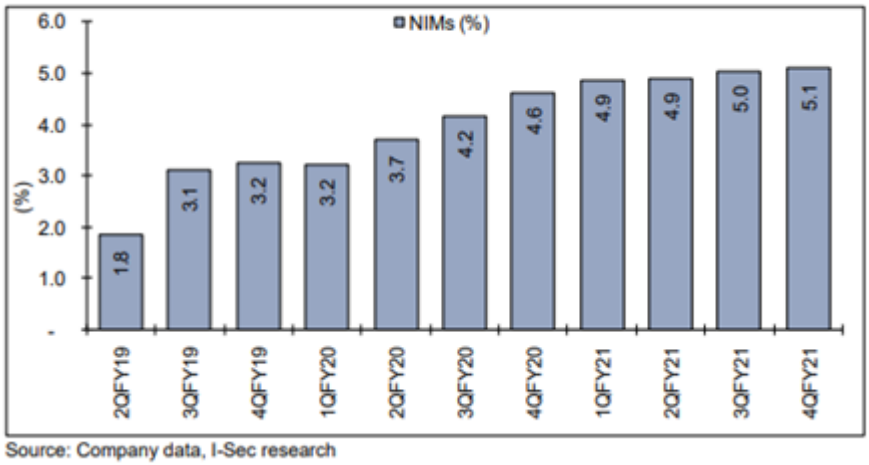


Source: Company data, I-Sec research

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.

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

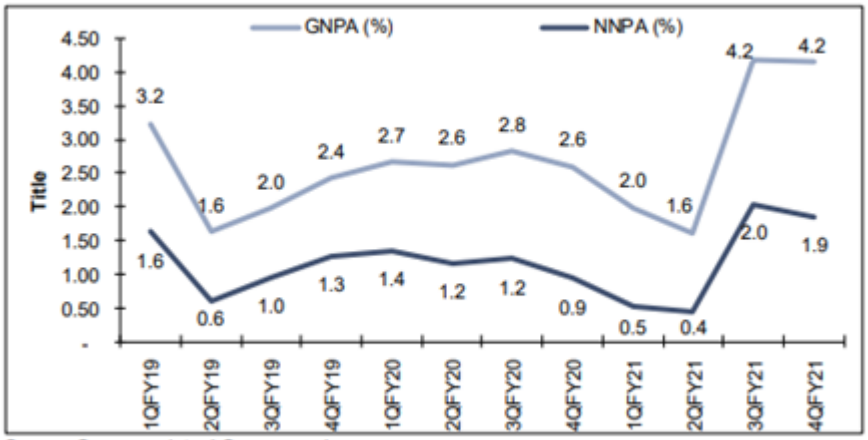


Source: Company data, I-Sec research

Retail GNPA & NNPA as of FY21 are higher by 175bps & 77bps respectively from pre-covid average GNPA & NNPA;

Bank restructured loans worth Rs10.7bn of which, Rs9.6bn was in retail segment & Rs1bn in corporate; This is equivalent to 1.3% of retail assets & 0.9% of the overall AUM.

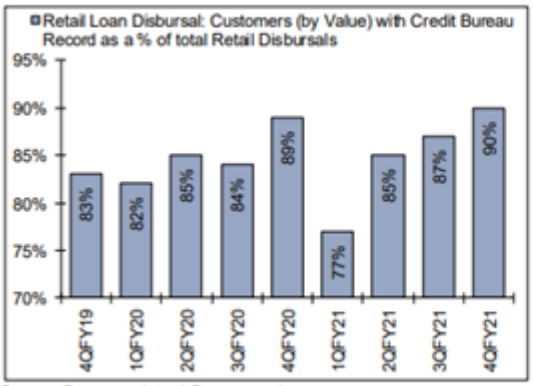
Chart 21: GNPA amidst the disruption has risen over the past two quarters



Source: Company data, I-Sec research

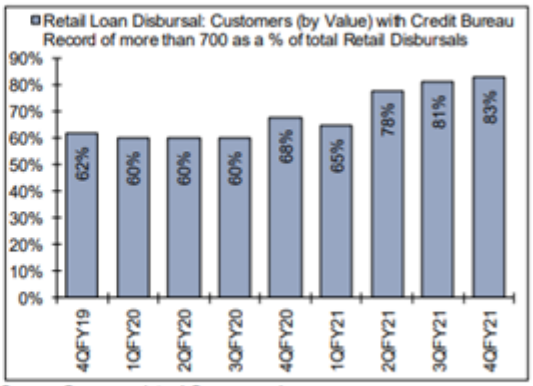
The quality of customer profile has improved with 'new to credit' customers constituting 10% of the disbursals (By value) in Q4FY21 vs 18% in Q4FY19. Also, 83% of the customers sourced (by value) in Q4FY21 had credit bureau score above 700 as compared to 61% in Q4FY19.

Chart 23: Lending is concentrated on customers with credit history



Source: Company data, I-Sec research

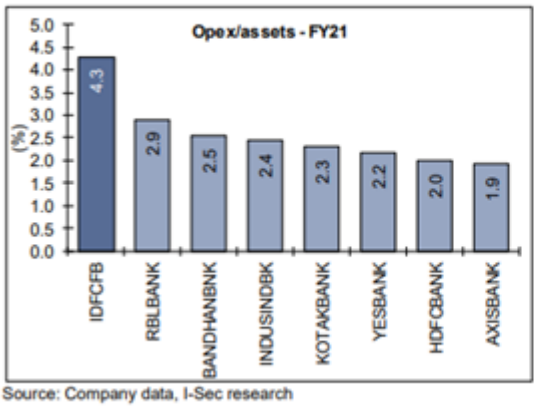
Chart 24: >80% of customers have high bureau scores of more than 700



Source: Company data, I-Sec research

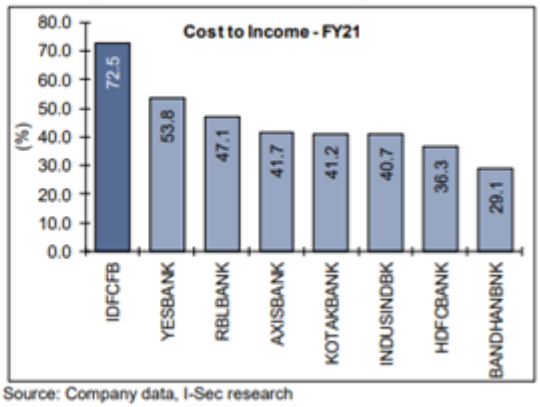
Cost efficiency and retail fee enhancers– triggers to RoA improvement:

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

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.

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RoE profile still low; incremental unit economics superior:

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;

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Chart 39: Retail has a bouquet of retail loan offerings



Source: Company data, I-Sec research

Key risk factors:

■Strategy execution

■Retailisation of liabilities- Behavior 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;

End of Thread ■

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