International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 08 Issue: 12 | Dec - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

Fundamental Analysis of IDFC First Bank

Prakash Patel, Mr. S.B.Waghole[2]

[1]Student of Master of Management Studies, Alamuri Ratnamala Institute of Engineering and Technology, Mumbai University,mailto:p.patel.j7@gmail.com

[2]Assistant Professor, MMS Department, Alamuri Ratnamala Institute of Engineering and Technology University of Mumbai mmsho.armiet@gmail.com

Abstract— This paper provides a comprehensive fundamental analysis of IDFC First Bank, focusing on its financial health, operational efficiency, and growth potential. The study uses secondary data sources, including financial statements, market reports, and industry analysis, to evaluate the bank's performance over recent years.

Keywords— IDFC First Bank, Financial Analysis, Operational Efficiency, Growth Potential, Banking Industry

I. INTRODUCTION

IDFC First Bank, formed by the merger of IDFC Bank and Capital First in December 2018, has been steadily growing and diversifying its portfolio. This paper aims to provide a detailed analysis of the bank's financial health, operational efficiency, and growth potential, focusing on key financial indicators and market position.

II. BASICS OF A PROJECT

1. Background and Formation:

- **IDFC Bank:** Established in 1997, IDFC Limited aimed to support infrastructure projects by supplying funding and raising capital for private sector development. The bank focused on project finance, maintaining existing infrastructure, and advancing the infrastructure value chain through creative solutions.
- **Capital First**: Between 2010 and 2017, Capital First emerged as a noteworthy player with a particular emphasis on retail financing. The merger with IDFC Bank aimed to create a comprehensive banking entity offering retail banking, corporate banking, and wealth management services.

2. Financial Performance Before the Merger

- **IDFC Bank**: Focused primarily on wholesale banking, specializing in corporate and infrastructure loans.
- **Capital First**: Emphasized retail financing, showing impressive growth in retail assets under management and financial stability.

III. FINANCIAL ANALYSIS

1. Net Profit Margin

Table 2: Net Profit Margin of IDFC First Bank:

Bank	Net Profit Margin (%)				
	March-2020	March-2021	March-2022	March-2023	March-2024
IDFC First Bank Ltd.	-17.50%	3.02%	0.77%	10.93%	9.70%

Interpretation:

As the table shows IDFC First Bank Ltd. Over the last five years there have been significant variations in the net profit margin. The bank experienced a notable deficit in 2020 but it bounced back and saw growth in profitability reaching its highest point in March 2023. Despite a minor decline in profitability in the most recent year (2024) the banks financial performance appears to have stabilized overall.

2. Earnings per share (EPS)

Table 3: EPS of IDFC First Bank:

Bank	EPS (Rs)					
		March-2020	March-2021	March-2022	March-2023	March-2024
IDFC First Bank Ltd.	**Basic EPS**	-5.94	0.88	0.21	3.98	4.30
	Diluted EPS	-5.86	0.87	0.21	3.92	4.23

Interpretation:

According to the data IDFC First Bank Ltd. has clearly turned around between 2020 and 2024. The bank saw substantial losses in 2020 but it steadily recovered and saw steady profitability growth in 2021. By 2023 and 2024 the banks financial standing seems good as seen by the rising EPS numbers which show that the bank has overcome its difficulties and is currently providing shareholders with strong returns.

3. Return on Equity (ROE)

Table 4: Return on Equity of IDFC First Bank:

Bank	ROE (%)				
	March-2020	March-2021	March-2022	March-2023	March-2024
IDFC First Bank Ltd.	-18.66%	2.53%	0.69%	9.47%	9.19%

Interpretation:

The Equity Return on Investment for IDFC First Bank Ltd. illustrates a clear upward trend from 2020s financial difficulties to 2023 and 2024s stable profits. The bank was losing money on the investments of its shareholders when it had a negative return on equity (ROE) but it was now continuously producing positive returns. This improvement points to stronger overall financial health over the next five years improved management and more effective use of equity.

4. Net Interest Margin (NIM)

Table 5: Net Interest Margin of IDFC First Bank:

Bank	Net Interest Margin (NIM)				
	March-2020	March-2021	March-2022	March-2023	March-2024
IDFC First Bank Ltd.	3.77%	4.52%	5.10%	5.26%	5.55%

Interpretation:

Bank IDFC First Ltd. has demonstrated a steady increase in its net interest margin over the observed period indicating improved profitability and financial management.

5. Capital Adequacy Ratio (CAR)

Table 6: Capital Adequacy Ratio of IDFC First Bank:

Bank	**CAR (%)**				
	March-2020	**March-2021**	**March-2022**	**March-2023**	**March-2024**
IDFC First Bank Ltd.	13.30%	13.8%	16.74%	16.82%	16.11%

Interpretation:

In the course of the five years IDFC First Bank Ltd. progressively raised its Capital Adequacy Ratio rising from 13 percent in 2020 to 16 percent in 2024. From a risk-weighted asset perspective this suggests that the bank has been fortifying its capital base. A higher CAR implies that the bank is more equipped to withstand possible losses giving depositors more security and strengthening the banks financial stability. The bank is more prepared to comply with regulations and weather financial hardship as evidenced by the improvement in CAR. Effective capital management and perhaps a strategic emphasis on enhancing asset quality lowering risk exposure and raising capital through equity or retained earnings are reflected in the CARs steady and steady rise.

6. Gross NPA & Net NPA

Table 7: NPA Ratios of IDFC First Bank

Ratios	**Gross NPA & Net NPA (%)**				
	March-2020	**March-2021**	**March-2022**	**March-2023**	**March-2024**
Bank : IDFC First Bank Ltd.					
Gross NPA	2.60%	0.04%	3.70%	2.51%	1.88%
Net NPA	0.94%	0.02%	1.53%	0.86%	0.60%

IV. PERFORMANCE ANALYSIS USING CAMEL MODEL

The CAMEL rating model evaluates financial institutions based on five main criteria: capital adequacy, asset quality, management quality, earnings quality, and liquidity. This model helps regulators and examiners assess the effectiveness of banks and determine which might require more stringent regulatory supervision.

Camel Component	Representative Ratio	Ratios (2024)
Capital Adequacy	Capital Adequacy Ratio(CAR)	16.11%
Assets Quality	NET NPA/Total Assets	0.60%
Management Quality	Return on Assets (ROA)	1.24%
Earnings Quality	Net Interest Margin (NIM)	5.77%
Liquidity	Liquid Assets/ Total Assets	113.63%

1. Capital Adequacy (CAR) - 16.11%

IDFC First Bank appears to have a strong financial cushion to withstand possible losses as indicated by its Capital Adequacy Ratio of 16.11 percent. This ratio is higher than the legal minimum demonstrating the banks solid financial standing and capacity to accommodate growth in the future without sacrificing stability.

2. Asset Quality (Net NPA/Total Assets - 0.60%)

IDFC First Bank has exceptional asset quality as evidenced by its Net NPA to Total Assets ratio of 0.60 percent. This low ratio shows that the bank has minimized the risk of non-performing loans by managing its non-performing assets well. It displays cautious lending procedures and effective credit risk management all of which support the banks general financial stability.

3. Management Quality (Return on Assets - 1.24%)

IDFC First Bank is effectively utilizing its assets to produce profits as evidenced by its Return on Assets (ROA) of 1.24 percent. Although this is a good performance it also implies that operational efficiency could be increased even more. However the banks management is guiding the organization in the right path guaranteeing profitability and long-term expansion.

4. Earnings Quality (Net Interest Margin - 5.77%)

Given its low interest expense ratio IDFC First Bank is making good money from lending activities as evidenced by its exceptionally high Net Interest Margin (NIM) of 5.77 percent. The banks capacity to produce a sizable income from its core business operations is reflected in its high NIM which suggests a robust and lucrative earnings stream. It also emphasizes how to effectively manage interest rate risks.

5. Liquidity (Liquid Assets/Total Assets - 113.63%)

IDFC First Bank is in an exceptionally strong liquidity position with liquid assets making up 113. 63 percent of total assets. This ratio shows that even during periods of market stress the bank has more than enough liquid assets to cover its short-term liabilities guaranteeing financial stability. It shows the banks capacity to control its obligations and preserve a high degree of financial flexibility.

VI. OBJECTIVES OF THE STUDY

1. Examine financial well-being by utilizing significant financial statements and ratios.
2. To analyze revenue trends and strategic initiatives to determine opportunities for growth.
3. To make informed decisions about investments by utilizing insights on potential returns and value.
4. To assess competitive standing by contrasting performance indicators with those of peers in the industry.

VII. SCOPE OF THE STUDY

The scope of this comprehensive study on IDFC First Bank is defined by several key dimensions, each focusing on various aspects of the bank's performance and market position. This study aims to provide a thorough understanding of IDFC First Bank's financial health, operational efficiency, and growth potential.

Geographic Scope

- **National Perspective**: The study covers IDFC First Bank's operations within India, analysing its performance across different regions and market segments. This allows for a comparative analysis of regional differences in banking practices, customer preferences, and market dynamics.

Financial Scope

- **Financial Performance**: The study examines key financial indicators such as net profit margin, earnings per share (EPS), return on equity (ROE), net interest margin (NIM), capital adequacy ratio (CAR), and non-performing assets (NPA) ratios. These metrics provide insights into the bank's profitability, efficiency, and financial stability.
- **Historical Data**: The analysis includes financial data from the past five years, providing a comprehensive view of the bank's performance trends and growth trajectory.

Operational Scope

- **Operational Efficiency**: The study evaluates the bank's operational efficiency by analysing its cost management, revenue generation, and asset utilization. This includes an assessment of the bank's branch network, digital banking initiatives, and customer service quality.
- **Technological Integration**: The study explores the impact of technological advancements on the bank's operations, including the adoption of digital banking solutions, AI, machine learning, and blockchain technology.

Market Scope

- **Market Position**: The study assesses IDFC First Bank's market position within the Indian banking industry, comparing it with other private sector banks. This includes an analysis of the bank's market share, competitive advantages, and strategic initiatives.

- **Customer Segments**: The study examines the bank's customer segments, including retail banking, corporate banking, and wealth management. This provides insights into the bank's ability to cater to diverse customer needs and preferences.

Risk and Challenge Analysis

- **Credit Risk**: The study analyzes the bank's credit risk management practices, including its approach to managing non-performing assets and maintaining asset quality.
- **Regulatory Compliance**: The study evaluates the bank's compliance with regulatory requirements, including capital adequacy norms, risk management guidelines, and corporate governance standards.

Future Trends and Growth Opportunities

- **Growth Strategies**: The study explores the bank's growth strategies, including its plans for branch expansion, digital transformation, and product diversification.
- **Emerging Markets**: The study forecasts the potential for growth in emerging market segments, particularly in rural banking, SME financing, and digital banking services.

VIII. CONCLUSION

IDFC First Bank is fundamentally strong, as indicated by its improving financial metrics such as CAR, NPA ratios, and profitability indicators (Net Profit Margin, EPS, and ROE). Despite some past struggles, particularly in 2020, the bank has shown resilience and a trend towards recovery and stabilization. The bank is not fundamentally weak; rather, it is in a recovery phase and appears to be on a path of sustained growth. This makes it a potentially attractive investment for those looking at long-term gains, provided they are mindful of the market volatility and the bank's historical challenges.

REFERENCES

[1] Research Paper by Ghosh and Saibal (2018)
[2] Research Paper by Goel, Cheenu, and Rekhi Bhutani Chitwan (2018)
[3] Research Paper by Sodhi and Waraich (2016) and by Undavia (2016)
[4] Research Paper by Mishra Kumar Aswini and colleagues (2019) and by Kamraj K. and Somu A. (2019)
[5] "www.idfcfirstbank.com/Disclosure-on-Liquidity-Coverage-Ratio-as-at-Mar2024.pdf"
[6] "https://www.idfcfirstbank.com/idfc-bank-and-capital-first-merger"
[7] "https://www.moneycontrol.com/financials/idfcfirstbank/ratios"
[8] "https://www.topstockresearch.com/rt/Stock/IDFCFIRSTB/FundamentalAnalysis