IDFCFIRSTBANK/SD/198/2024-25 **October 02, 2024**

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1, G-Block
Bandra-Kurla Complex, Bandra (East)
Mumbai 400 051
NSE Symbol: IDFCFIRSTB

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001
BSE Scrip Code: 539437

Sub.: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("SEBI Listing Regulations").

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI Listing Regulations, we wish to inform that CARE Ratings Limited ("CARE") has re-affirmed the existing rating of the Bank's long-term debt instruments amounting to ₹ 1,307.38 crore at '**CARE AA+ / Stable'**.

A detailed Rating Rationale for the above is enclosed herewith.

Request you to take the above on record.

Thanking you,

Yours faithfully,
For **IDFC FIRST Bank Limited**

SATISH ASHOK GAIKWAD
Digitally signed by SATISH ASHOK GAIKWAD
Date: 2024.10.02 12:33:06 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

IDFC First Bank Limited

October 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term Instruments	1,307.38 (Reduced from 1,874.68)	CARE AA+; Stable	Reaffirmed

Details of facilities/instruments in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the long-term debt instruments of IDFC First Bank Limited (IDFC First) factors in comfortable capitalisation levels supported by periodic capital infusion with the latest rounds of equity of ₹3,000 crore in the month of October 2023 and ₹3,200 crore in the month of July 2024 to fund its asset growth. The rating also continues to factor in improvement in the bank's scale of operations and diversification and granularisation of the advances book with a shift towards retail lending and gradual reduction in legacy infrastructure lending and growth of liabilities franchise with increase in proportion of retail customer deposits and comfortable current account savings account (CASA) deposits. Cost of funds of the bank is relatively moderate due to higher cost of deposits as compared to larger private banks and high-cost legacy borrowings in its funding profile, majority of which will be matured by FY26 and will be eventually replaced by deposits increasing the overall liability book's deposit proportion, bringing down its cost of funds and improving the credit to deposit ratio which stands at 98% as on June 30, 2024.

However, these rating strengths are partially offset by relatively moderate profitability driven by high cost to income ratio as the bank continues the expansion of retail book, investment in technology, branch expansion and people, although this is on a decreasing trend with increase in the revenue. Return ratios are expected to improve gradually as the bank attains scale leading to improvement in the cost to income ratio. Furthermore, the rating is also constrained considering challenges in asset quality of its legacy infrastructure advances which has reduced significantly to 1% of advances over a period of time and the recent stress witnessed primarily in the micro-finance segment. Bank's ability to control asset quality and credit cost remains a monitorable.

CARE Ratings Limited (CARE Ratings) has withdrawn ratings on certain instruments due to redemption and reduced the amount to be rated accordingly.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainably improving market positioning and resource profile with a higher share of retail deposits.
- Improving operating performance and improving cost to income ratio.

Negative factors

- Higher-than-expected deteriorating asset quality, with gross non-performing assets (GNPA) level increasing to above 5% and impacting the earnings profile.
- Deteriorating capitalisation levels with cushion over the minimum regulatory requirement of less than 3.5%.
- Declining Return on Total Assets (ROTA) below 1% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of comfortable capitalization levels, diversification and granularization in the advances book being maintained, diversification in the resource profile with higher proportion of retail deposit base coupled with improved asset quality parameters and financial performance

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Comfortable capitalisation levels

The bank has been maintaining comfortable capitalisation levels to support the growth in business and to have cushion to absorb credit costs. IDFC First demonstrated its ability to raise capital over past few years. The bank raised ₹3,000 crore of equity capital through QIP in October 2023 and preferential issue of ₹3,200 crore in July 2024 and ₹1,500 crore of Tier-II bonds in FY24. (FY23: Equity capital: ₹ 2,196 crore, Tier-II bonds of ₹1,500 crore). The bank reported capital adequacy ratio (CAR) of total CAR of 15.88% and Tier I CAR (entirely CET-I) of 13.34% as on June 30, 2024, (CAR: 17.21% and CET-1: 14.67% considering equity raise of July 2024) (March 31, 2024: CAR: 16.11%, Tier I CAR: 13.36%), which is over and above the regulatory requirement of 11.5% and 9%, respectively. Current capitalisation level is comparable to peer mid-sized private sector banks, despite lower than larger size peers. CARE Ratings expects the bank to raise capital in due course to fund its planned growth and maintain comfortable capitalisation levels.

Diversified advances book with retail focus

Post the merger of IDFC Bank Limited with Capital First Limited (CFL) in December 2018, the bank has been focussed in diversifying its advances book with increase in retail and gradually moderating and balancing corporate lending book with steady decline in infrastructure lending book. Further, the bank's retail book has a diversified product mix including home loans, loan against property (LAP), SME loans, vehicle loans, consumer durable loans, credit cards, personal loans, and micro-finance, among others with no segment exceeding 20% of retail. Advances book witnessed a substantial growth of 24% in FY24 with total advances stood at ₹2,05,583 crore as on June 30, 2024 (March 31, 2023: ₹1,54,830 crore; March 31, 2024: ₹1,97,459 crore YOY growth of 28%). The proportion of proportion of advance mix consisting of Retail: Rural: MSME: Wholesale segments have changed over a period of time from 28%:4%:6%:62% as on March 31, 2019 to 60%:12%:11%:17% as March 31, 2024.

The bank has been growing its corporate book with smaller ticket sizes although this would grow relatively slower as compared to retail segment. Going forward, advances mix is likely to hover around these levels although the composition within retail may change.

Strong deposit growth with healthy CASA

The bank's total deposits have seen a significant growth of 24% CAGR over the last five years. Total deposits grew 36% year on year to ₹2,09,666 crore as on June 30, 2024. CASA proportion declined to 46.59% as on June 30, 2024, (March 31, 2024: 47.25%) as compared to 49.77% as on March 31, 2023, with the entire banking industry although CASA proportion remains higher as compared to peers. Proportion of retail customer deposits to total customer deposits has been improving gradually and increased from 59% as on March 31, 2020, to 80% as on June 30, 2024. However, despite high CASA, cost of deposits of the bank is relatively higher as compared to its larger private banks and is comparable to peers, though the gap between the bank's cost of funds and larger private banks has narrowed meaningfully.

The bank has ~₹10,000 crore high-cost legacy borrowings (~30% of long term borrowings as on June 30, 2024) in its funding profile majority of which will be matured by FY26 and will be eventually replaced by deposits increasing deposit proportion of overall liability book, bringing down its cost of funds and improving credit to deposit ratio which stands at 98% as on June 30, 2024 with incremental year on year credit to deposit ratio being 72%.

The bank's ability of maintaining a stable CASA base and retail deposits on a sustainable basis and bringing down the cost of funds would be a key monitorable for the bank.

Key weaknesses

Moderate profitability due to high cost to income ratio

In FY24, the bank witnessed improvement in net income margin (NIM) at 6.17% in FY24 (PY: 5.92%) due to faster growth in the relatively higher yielding retail book along with growth in fee income. Operating expense continues to be high due to expansion of retail book, investment in technology, branch expansion and people. Cost to income stood high at 73% for FY24 and would come down as the bank scales up. Credit costs stood at 0.89% in FY24 which increased from 0.78% due to normalisation of credit cost. As a result, ROTA stayed flat at 1.11% in FY24 as compared to 1.14% in FY23 which is relatively lower as compared to peer private banks.

The bank reported ROTA of 0.91% for Q1FY25 as compared to 1.26% in Q1FY24. The fall was primarily due to increase in operating expenses and provisions due to normalisation of credit environment in the lending space along with specific stress on the micro-finance segment, as witnessed by the players operating in micro-finance industry.

Going forward, the bank's ability to control its cost to income ratio and credit costs while it scales up its business would be a key rating monitorable.

Asset quality remains monitorable

Asset quality parameters peaked in Covid with the bank reporting GNPA of 4.15% as on March 31, 2021. However, since then these have been improving each year owing to recovery of the economy and better collection efforts.

GNPA ratio improved in FY24 and stood at 1.88% as on March 31, 2024, as compared to 2.51% as on March 31, 2023. Segment wise, retail and corporate segments have shown improvement on a year-on-year basis except infrastructure segment where non-performing assets (NPAs) have increased, although the exposure has been reducing.

However, the asset quality has seen slight moderation in Q1FY25 with increase in NPA in some products in retail segment especially in the micro-finance segment (which constitutes 6% of overall loan book) led to increase in GNPA to 1.90% as on June 30, 2024, affecting credit costs. Slippages may remain elevated in Q2FY25 and Q3FY25 post which the improvement may happen from Q4FY25 onwards. Credit cost for FY25 is expected to be slightly higher as a result. The bank-maintained provision coverage ratio (PCR) excluding technical write-offs at 69% on GNPA as on June 30, 2024. Gross stressed assets to gross advances and net stressed to net worth stood comfortable at 2.17% and 5.41% as on June 30, 2024, as compared to 3.23% and 9.96% as on March 31, 2023. ~50% of the retail book is unsecured which is relatively riskier.

However, the ability to manage asset quality and credit cost remain critical for stability of its profitability and return ratios going forward.

Liquidity: Adequate

As per the structural liquidity statement as on June 30, 2024, there were no negative cumulative mismatches for time buckets up to one year. The bank also maintained excess statutory liquidity ratio (SLR) of ₹10,563 crore (5.72%) over and above regulatory requirements, which provides liquidity buffer. In addition, the bank has access to borrowing from Reserve Bank of India's (RBI's) liquidity adjustment facility (LAF) and marginal standing facility (MSF) and option to refinance from Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and National Bank for Agriculture and Rural Development (NABARD) among others, and access to call money markets. The bank's liquidity coverage ratio (LCR) was comfortable at 118.37% as on June 30, 2024, as against the minimum regulatory requirement of 100%.

Environment, social, and governance (ESG) risks

The bank has in place a dedicated governance structure, starting with a board committee that manages Stakeholders' Relationship, ESG and Customer Service (SRECS), supported by an ESG Management Committee and a working group. ESG function is responsible for identifying opportunities for the bank to create a larger impact; acting as a centre of excellence for all ESG initiatives across the bank; running point on ESG goals; evaluating ESG risks; and communicating to stakeholders on the Bank's ESG progress through benchmarked reporting.

- 21% office and branch area is green certified.
- Women Directors on board, both of whom are independent directors.
- 55% Independent Directors on Board.
- One tree being planted for every new Home Loan.
- Mandatory ESG course launched for all employees.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Bank
Financial Ratios - Financial Sector
Withdrawal Policy

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Banks	Private sector bank

IDFC First Bank Limited was incorporated in October 2014 and the bank's name underwent a change from 'IDFC Bank Limited' (IBL) to 'IDFC First Bank Limited' on January 12, 2019, following the merger of Capital First Limited with the bank. The merger of Capital First Limited and its two subsidiaries with IDFC Bank Limited has become effective from December 18, 2018. IDFC Limited holds 39.93% stake in IDFC First Bank Limited. IDFC First Bank's (IFB) operations are across its three business verticals: corporate banking, consumer banking and rural banking. As on June 30, 2024, it has a network of 955 branches and 1,216 ATMs across the country. The bank is led by MD-CEO, V Vaidyanathan, who has over 25 years of banking experience. RBI has granted its approval for re-appointment of V Vaidyanathan as the bank's MD and CEO for three years effective from December 19, 2024, to December 18, 2027.

IDFC First Bank made an announcement on stock exchanges dated July 03, 2023, that the Board of Directors of IDFC First Bank, at its meeting held on July 03, 2023, has inter alia, approved the composite Scheme of Amalgamation (Scheme) among 'IDFC Financial Holding Company Limited' (IFHCL) and 'IDFC Limited' and the bank, and their respective shareholders, under Sections 230 to 232 of the Companies Act, 2013 and other applicable laws including the rules and regulations which envisages (i) the amalgamation of (a) IFHCL into and with IDFC Limited; and (b) IDFC Limited into and with the Bank, and (ii) reduction of securities premium account of the bank. Share exchange ratio shall be 155 equity shares of face value of ₹10/- each of IDFC First Bank Limited for every 100 fully paid-up equity shares of face value of ₹10/- each of IDFC Limited. The scheme is subject to the receipt of requisite approvals from Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Competition Commission of India, National Company Law Tribunal, BSE Limited and National Stock Exchange of India Limited.
The bank has received requisite approvals/ no objection letters from applicable regulators. Per the directions of the Honourable National Company Law Tribunal, Chennai, ("NCLT') on the Company Scheme Application, the scheme was approved by shareholders and non-convertible debenture holders of the bank with requisite majority at their respective meeting held on May 17, 2024. NCLT, on September 25, 2024, sanctioned the scheme. CARE Ratings does not expect the proposed merger will have material impact on IDFC First Bank's credit profile.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total income	27,195	36,325	10,408
PAT	2,437	2,957	681
Total Assets*	2,38,520	2,95,022	3,05,726
Net NPA (%)	0.86	0.60	0.59
ROTA (%)	1.14	1.11	0.91

A: Audited UA: Unaudited; Note: these are latest available financial results
*Total Assets are net of deferred tax and intangible assets.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Long-term bank facilities#	-	-	-	-	692.38	CARE AA+; Stable
Non-convertible debentures	INE688I08053	17-05-2013	9.5	17-05-2028	49.4	CARE AA+; Stable
Non-convertible debentures	INE688I08087	29-09-2015	9.4	29-09-2025	43.4	CARE AA+; Stable
Non-convertible debentures	INE688I08095	30-10-2015	9.25	30-10-2025	66.8	CARE AA+; Stable
Non-convertible debentures	INE688I08103	20-11-2015	9.25	20-11-2025	25	CARE AA+; Stable
Non-convertible debentures	INE688I08111	15-12-2015	9.25	15-12-2025	25	CARE AA+; Stable
Non-convertible debentures	INE688I08129	29-12-2015	9.25	29-12-2025	11.2	CARE AA+; Stable
Non-convertible debentures	INE688I08145	01-03-2016	10.5	01-03-2099	52.3	CARE AA+; Stable
Non-convertible debentures	INE688I08152	06-06-2016	9.75	06-06-2099	26	CARE AA+; Stable
Non-convertible debentures	INE688I08160	25-07-2016	9.24	24-07-2026	25.5	CARE AA+; Stable
Non-convertible debentures	INE092T08DM3	20-09-2016	8.75	18-09-2026	25	CARE AA+; Stable
Non-convertible debentures	INE688I08178	24-08-2017	8.25	24-08-2027	144.9	CARE AA+; Stable
Non-convertible debentures	INE688I08186	18-09-2017	8.6	18-09-2099	55.3	CARE AA+; Stable
Non-convertible debentures	INE688I08202	07-06-2018	9.1	06-06-2025	65.2	CARE AA+; Stable
Non-convertible debentures*	INE092T08EX8	12-12-2018	8.69	12-12-2023	-	Withdrawn
Non-convertible debentures*	INE688I08194	07-06-2018	9.1	07-06-2024	-	Withdrawn
Non-convertible debentures*	INE092T08EC2	03-05-2017	8.45	03-05-2024	-	Withdrawn
Non-convertible debentures*	INE688I08079	23-09-2014	10.5	23-09-2099	-	Withdrawn

#Bank facilities are closed/repaid but not withdrawn
* Withdrawn due to redemption on maturity and exercise of call option.

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Borrowings-Secured Long Term Borrowings	LT	1307.38	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Oct-23)	1)CARE AA; Stable (04-Oct-22)	1)CARE AA; Stable (07-Jan-22) 2)CARE AA; Stable (06-Oct-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Borrowings-Secured Long-term Borrowings	Simple

Annexure-5: Lender details: Not applicable

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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