IDFC FIRST Bank

IDFCFIRSTBANK/SD/83/2022-23

June 30, 2022

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 CRISIL Ratings ("CRISIL") have re-affirmed its 'CRISIL AA / Stable' rating on the existing Tier II Bonds (Under Basel III) of IDFC FIRST Bank Limited ("Bank") amounting to Rs. 5,000 crore, and have also re-affirmed 'CRISIL A1+' rating on the Bank's existing Certificate of Deposits amounting to Rs. 45,000 crore. CRISIL has also re-affirmed and withdrawn its 'FAAA/Stable' rating on the fixed deposit programme of the Bank at the request of the Bank.

A detailed Rating Rationale for the above is enclosed herewith.

Request you to take the above on record and acknowledge receipt of the same.

Thanking you,

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

SATISH ASHOK GAIKWAD
Digitally signed by SATISH ASHOK GAIKWAD
Date: 2022.06.30 11:56:48 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

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Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

June 29, 2022 | Mumbai

IDFC FIRST Bank Limited

Ratings Reaffirmed; FD Withdrawn

Rating Action

Rs.3000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA/Stable (Reaffirmed)**
Rs.2000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA/Stable (Reaffirmed)**
Rs.50000 Crore Fixed Deposits	**FAAA/Stable (Rating Reaffirmed and Withdrawn)**
Rs.45000 Crore Certificate of Deposits	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the existing debt instruments of IDFC FIRST Bank Limited (IDFC FIRST) and has reaffirmed and **withdrawn** its 'FAAA/Stable' rating on the fixed deposit programme of the bank. The withdrawal is on the request of the bank and is in line with CRISIL Ratings' withdrawal policy.

The ratings continue to reflect the bank's healthy capitalisation, strengthened liability franchise and, increased retailisation of the asset base, supporting improvement in asset quality after the pandemic impact. However, these strengths are partially offset by relatively low profitability due to early-stage build-up of the bank and high-cost legacy liabilities. The bank's ability to improve its profitability and asset quality on a sustained basis as its scales its retail portfolio over time are key monitorables.

The bank has continued to show good momentum in deposit mobilisation with overall deposit base growing by 19% in fiscal 2022 to Rs 1,05,634 crore as of March 31, 2022, on the back of a 36% growth in fiscal 2021. Mobilisation of current account and savings account (CASA) deposits has seen good traction at the bank, whereby on a daily average basis, the CASA ratio was higher at 49.88% for fiscal 2022 as against 41.50% in the previous fiscal despite reduction in savings account interest rates during fiscal 2022. On an absolute basis, CASA deposits increased to Rs 51,170 crore as on March 31, 2022, from Rs 45,896 crore as on March 31, 2021.

On the asset quality front, gross non-performing assets (GNPAs) stood at 3.7% (Rs 4,469 crore) as on March 31, 2022, down from 4.15% (Rs 4,303 crore) as on March 31, 2021; however, it remains higher than the 2.6% (Rs 2,280 crore) level as on March 31, 2020. GNPAs in the retail and commercial portfolio, which comprised 72% of total funded assets as on March 31, 2022, reduced substantially to 2.63% as on March 31, 2022, from 4.01% as of March 31, 2021. The standard restructured book stood at Rs 2,712 crore (2.06% of total funded assets) as on March 31, 2022. The retail and commercial finance asset quality has near normalised with net NPA of 1.15% as of March 31, 2022, as compared to 1.06% as of December 31, 2019 (pre-Covid). However, given the challenging macro environment, there were some high-ticket slippages in the legacy wholesale book, leading to gross NPA in the wholesale business increasing to 7.16% as of March 31, 2022, from 3.63% as of December 31, 2019 (pre-Covid); net NPA in the wholesale book rose to 2.80% from 1.46% over the same period.

That said, sizeable provisions strengthen the bank's balance sheet against potential credit losses. As on March 31, 2022, the bank's provision coverage ratio (PCR) improved to 70.29% (excluding one active toll account, PCR was 77%), from 63.57% as of March 31, 2021, besides 21% provision on the restructured book and additional Covid-19 provisions of Rs 165 crore (0.13% of the total funded assets). Moreover, Rs 2,000 crore and Rs 3,000 crore capital raised in the first quarters of fiscals 2021 and 2022, respectively, along with the Rs 1,500 crore Tier II bonds raised in the fourth quarter of fiscal 2022, support the capital metrics.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of IDFC FIRST and its subsidiaries. This is because of majority shareholding, business and financial linkages, and shared brand

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy capitalisation**
  Capitalisation is healthy, as reflected in Tier 1 capital adequacy ratio (CAR) of 14.88% and overall CAR of 16.74% as on March 31, 2022 (13.27% and 13.77%, respectively as on March 31, 2021). While internal cash accrual has been low due to losses in the past and muted earnings of the bank at the time of merger with Capital First Ltd, the bank has been able to raise funds even in the challenging environment in the last few fiscals. It raised Rs 2,000 crore and Rs 3,000 crore capital in the first quarters of fiscals 2021 and 2022, respectively, along with the Rs 1,500 crore Tier II bonds raised in the fourth quarter of fiscal 2022, The consolidated networth was sizeable at Rs 21,082 crore providing cushion against asset side risks, with networth coverage for net non-performing assets of 11.7 times as on March 31, 2022 (Rs 17,900 crore and 9.5 times, respectively, as on March 31, 2021).

  With incremental growth in the retail and commercial loans portfolio along with scaling down of the legacy infrastructure loan portfolio, capital consumption is expected to be lower than in the past. In addition, the management has demonstrated ability to raise capital on several occasions in the past.

  CRISIL Ratings believes the bank's capitalisation should remain healthy and will support credit growth over the medium term.

- **Strengthened liability franchise:**
  The bank has been focusing on building a granular retail deposit franchise. Of the total deposits, current account and savings account (CASA) deposits and retail term deposits upto Rs. 5 crores were 84.23% as on March 31, 2022. Mobilisation of CASA deposits has been steady, accounting for 48.4% of the total deposits (32.3% of overall resources) as on March 31, 2022 (51.7% and 34% as on March 31, 2021). On a daily average basis, the CASA ratio was higher at 49.88% for fiscal 2022 as against 41.50% in the previous fiscal. On an absolute basis, CASA deposits increased to Rs 51,170 crore as on March 31, 2022, from Rs 45,896 crore as on March 31, 2021.

  As the bank's overall loan book did not grow to a similar extent as the retail liability franchise, the resources raised have been partly used to run down wholesale term deposits and certificate of deposits which helped increase granularity of the deposits profile and lower concentration risk by reducing dependence on wholesale deposits. The bank is also expected to retire ~Rs. 25,000 crore of high cost bonds (~8.8%) over the next few years.

  The ability to continue to scale up the retail liabilities franchise to support credit growth, given the re-alignment of interest rates, will be a monitorable over the medium term.

- **Increased retailisation of the asset book supporting asset quality improvement post pandemic:**
  IDFC FIRST Bank's total funded assets grew by 13% yoy to Rs 1,31,951 crore as on March 31, 2022, from Rs 1,17,127 crore a year earlier. In line with its strategy to become a bank with a sustainable growth engine, driven by granular retail and commercial loans, it has significantly scaled up the proportion of retail and commercial book of the overall funded assets to 72% as on March 31, 2022 (37% as on March 31, 2019). This portfolio grew 26% in fiscal 2022 to Rs 95,377 crore, from Rs 75,404 crore a year earlier. While growth has largely been across retail product offerings; within that, home loans were the primary driver along with small commercial loans.

  The management plans to record a steady growth in the retail and commercial loan book in the coming quarters by leveraging their expertise and track record and targeting small entrepreneurs and retail customer segments to drive growth. The bank had more than 100 lakh retail customers as of March 2022.

  In the wholesale funded assets, the bank is gradually scaling down its infrastructure financing portfolio while the non-infrastructure corporate loans portfolio is set to grow on a selective basis. The wholesale funded assets reduced by 46% since merger and stood at Rs 30,567 crore as on March 31, 2022. Within the wholesale funded assets, the legacy infrastructure financing portfolio, with identified potential risks, reduced to Rs 6,891 crore as on March 31, 2022, from Rs 10,808 crore a year earlier.

  Consequently, the concentration risk in total funded assets has reduced significantly with the top 10 borrowers (as a % of total funded assets) accounting for 3.7% as on March 31, 2022, as against 5.9% a year earlier. The bank plans to further run down the infrastructure financing portfolio over the medium term.

  As the infrastructure financing portfolio which was a major contributor to the bank's GNPAs in the past, has already reduced sharply and retail loans have been growing at a steady pace, this structural change in portfolio composition is likely to support an improvement in the bank's overall asset quality. The retail and commercial portfolio asset quality has held up with GNPAs of 2.63% as on March 31, 2022 (4.01% as of March 31, 2021, and 2.26% as on December 31, 2019). With impact of pandemic subsiding and improvement in borrower repayment behaviour manifesting itself in improved collection efficiency and bounce rates nearing the pre-Covid levels, the incremental stress on the portfolio going forward is likely to be lower.

Weakness:

- **Subdued profitability on account of higher credit cost and operating expenses:**
  IDFC FIRST's net earnings have been low given the early stage of buildup of the bank, as, in order to enhance CASA deposits and retailisation of the loan book, the bank has since December 2018, rolled out 435 new branches and 607 new ATMs, hired ~12,000 employees, and invested in digitization competitively, which resulted in higher operating expenses. The earnings were also impacted by elevated credit cost, which stood at 1.8% (Rs 3,109 crore) of average total assets in fiscal 2022, as against 1.3% (Rs 2,023 crore) in the previous fiscal, as the bank took higher provisioning and write-offs to manage the impact of the pandemic and the stress in legacy infrastructure finance portfolio.

  Provision coverage ratio stood at 70.3% as on March 31, 2022 (higher than 63.6% as on March 31, 2021). The bank reported subdued net profit of Rs 132 crore for fiscal 2022 on consolidated basis with return on average total assets of 0.1% (Rs 483 crore and 0.3%, in the previous fiscal), on account of the higher one-off provisioning taken in Q1 of the fiscal on account of the Covid impact. However, post 1QFY22, there has been a marked increase in profitability with net profit for the next 9 months of the fiscal touching Rs 753 crore as against Rs 383 crore in the corresponding period of the previous fiscal. With gradual improvement in asset quality, credit cost is expected to reduce going forward.

  Scaling up of relatively high yielding retail and commercial loan portfolio, has supported bank's core profitability with the bank reporting a pre-provisioning operating profit of Rs 3,284 crore (1.9% of average total assets) for fiscal 2022, as against Rs 2,542 crore (1.6%) in the previous fiscal. The net interest margin (NIM) is at comfortable level of 5.96% for fiscal 2022 given the asset side focus and is expected to improve further as the proportion of the relatively higher-yielding retail segment increases and reliance on high-cost wholesale borrowings decreases.

  Ability to improve profitability on a sustained basis will continue to remain a key monitorable.

Liquidity: Superior

Liquidity coverage ratio was 136% as on March 31, 2022, against the regulatory requirement of 100%. Furthermore, excess statutory liquidity stood at Rs 13,276 crore as on March 31, 2022, forming around 10.51% of total net demand and time liabilities. Liquidity also benefits from access to systemic funding sources such as the liquidity adjustment facility from the Reserve Bank of India (RBI), call money market, and refinance limits from sources such as Small Industries Development Bank of India and National Bank for Agriculture and Rural Development.

Outlook: Stable

CRISIL Ratings believes IDFC FIRST will benefit from the management's expertise in building up retail operations and will continue to maintain healthy capitalisation over the medium term.

Rating Sensitivity factors

Upward factors:

- Substantial and sustained improvement in market position in retail loans along with build-up of retail liabilities with CASA deposits sustaining above 45%.
- Sharp improvement in earnings driven by core operations with stable asset quality.

Downward factors:

- Deterioration in asset quality with GNPAs increasing beyond 6%, leading to significant weakening in profitability and capitalisation
- Inability to sustain the ramp-up in CASA and retail deposit base

About the Bank

IDFC FIRST came into effect on December 18, 2018, after the merger of IDFC Bank Ltd (IDFC Bank) and Capital First Ltd (CFL).

IDFC Bank was initially established as IDFC Ltd in 1994 to facilitate infrastructure finance in the country. In 2014, IDFC Ltd got a banking license from the RBI and IDFC Bank launched operations on October 1, 2015. Post the conversion to bank, all the lending business of IDFC Ltd was transferred to IDFC Bank.

Mr V Vaidyanathan started CFL in 2012 after acquisition of an existing non-banking financial company (NBFC) through a management buyout (MBO) with private equity backing. Prior to the MBO, The NBFC was primarily engaged in corporate lending and transformed into a retail lender with focus on consumer and small and medium enterprise segments after the buyout. The MBO turned around the company from losses of Rs 32 crore in fiscal 2010 to a net profit of Rs 327 crore in fiscal 2018. The assets under management of CFL grew at a compound annual growth rate of 29% over five years till March 2018 while profit grew at a five-year CAGR of 56%.

Post the merger of IDFC Bank with CFL and its subsidiaries, the merged entity was renamed as IDFC FIRST. The bank has three business verticals: retail banking, commercial banking, and corporate banking. It had a network of 641 branches as on March 31, 2022. Before the merger, IDFC Bank had a loan book of Rs 75,332 crore (as on September 30, 2018) largely concentrated towards infrastructure and wholesale lending. On the other hand, CFL's AUM (Rs 32,623 crore as on the same date) was primarily retail, focused on small entrepreneurs and the consumer segment. On merger, the merged entity had an

AUM of Rs 1,04,660 crore as on December 31, 2018. In the initial few quarters post the merger, IDFC FIRST pro-actively recognised and provided for stressed assets as well as invested in expanding its reach for building a strong retail franchise.

For fiscal 2022, IDFC FIRST reported a net profit 132 crore and a total income (net of interest expense) of Rs 12,880 crore, against PAT of Rs 483 crore and total income (net of interest expense) of Rs 9,594 crore for the previous fiscal.

Key Financial Indicators: consolidated

As on/for the period ended March 31,	Unit	2022	2021
Total assets	Rs crore	1,90,146	1,63,072
Total income (net of interest expense)	Rs crore	12,880	9,594
Pre-provisioning operating profit	Rs crore	3,284	2,542
Profit after tax	Rs crore	132	483
Return on assets (annualised)	%	0.1	0.3

Key financial indicators: standalone

As on/for the period ended March 31,	Unit	2022	2021
GNPAs	%	3.7	4.2
Profit after tax	Rs crore	145	452
Overall capital adequacy ratio	%	16.7	13.8

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Tier II bonds (under Basel III)*	NA	NA	NA	3000	Complex	CRISIL AA/Stable
INE092T08EY6	Tier II bonds (under Basel III)	8-Feb-22	8.42	8-Feb-32	1500	Complex	CRISIL AA/Stable
NA	Tier II bonds (under Basel III)*	NA	NA	NA	500	Complex	CRISIL AA/Stable
NA	Certificate of deposits programme	NA	NA	7-365 Days	45000	Simple	CRISIL A1+
NA	Fixed deposits	NA	NA	NA	50000	Simple	FAAA/Stable (Rating Reaffirmed and Withdrawn)

**Yet to be issued*

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IDFC FIRST Bharat Ltd (formerly, IDFC Bharat Ltd)	Full	Subsidiary
Millennium City Expressways Pvt Ltd	Full	Associate

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	45000.0	CRISIL A1+	07-04-22	CRISIL A1+	30-04-21	CRISIL A1+	09-04-20	CRISIL A1+		--	--
			--		--		--	18-02-20	CRISIL A1+		--	--
			--		--		--	07-02-20	CRISIL A1+		--	--

Fixed Deposits	LT	50000.0	FAAA/Stable (Rating Reaffirmed and Withdrawn)	07-04-22	F AAA/Stable	30-04-21	F AAA/Stable	09-04-20	F AAA/Stable		--	--
Tier II Bonds (Under Basel III)	LT	5000.0	CRISIL AA/Stable	07-04-22	CRISIL AA/Stable	30-04-21	CRISIL AA/Stable	09-04-20	CRISIL AA/Stable		--	--
			--		--		--	18-02-20	CRISIL AA/Stable		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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