IDFCFIRSTBANK/SD/213/2023-24 **December 12, 2023**

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 'India Ratings & Research' ("Ind-Ra") has re-affirmed the rating/outlook of Bank's Debt instruments *(Basel III Tier 2 Bonds, Infrastructure Bonds and Non-Convertible Debt Instruments)* amounting to ₹ 29,148 crore at '**IND AA+/Stable**'. Further, Ind-Ra has also assigned 'IND AA+' with Stable Outlook to Basel III Tier 2 Bonds amounting to ₹ 3,000 crore.

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: 2023.12.12 15:15:52 +05'30'
Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

India Ratings Affirms IDFC FIRST Bank’s NCDs, Bonds and Tier 2 Debt at ‘IND AA+’/Stable; Rates Additional Tier 2 Debt

Dec 11, 2023 | Private Sector Bank

India Ratings and Research (Ind-Ra) has affirmed IDFC FIRST Bank Limited’s (IDFCFB) debt instruments ratings at ‘IND AA+’ with Stable Outlook. The detailed rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR146.28 (reduced from INR165.89)	IND AA+/Stable	Affirmed
Infrastructure bonds*	-	-	-	INR95.2 (reduced from INR100)	IND AA+/Stable	Affirmed
Basel III Tier 2 debt*	-	-	-	INR50	IND AA+/Stable	Affirmed
Basel III Tier 2 debt*	-	-	-	INR30	IND AA+/Stable	Assigned

*Details in annexure

Analytical Approach: Ind-Ra continues to analyse the issuer's standalone financials for the rating purpose.

Key Rating Drivers

Sizeable Retail Franchise with Diversified Product Lines: IDFCFB’s retail and commercial finance book accounted for 80.1% of the total funded exposure in 2QFY24 (2QFY23: 75.4%). The bank intends to continue focusing on diversifying its overall loan portfolio with focus on retail and SME loans, thereby increasing loan granularity. This increased retailisation would help maintain the margins, thereby reducing the impact of higher-than-peer funding cost and helping the bank absorb its above-average operating cost. IDFCFB’s net interest margin marginally improved to 6.3% in 2QFY24 (FY23: 6.05%), driven by a moderation in the cost of funds and continued retailisation of the loan book. However, sustaining margins at current levels would be monitorable as the recent Reserve Bank of India directive on unsecured lending could curtail loan growth for the impacted segments such as consumer loans, credit cards and other retail loans which constituted 23% of the overall loan book as of 2QFY24.

Retail Liabilities and Repricing of Legacy Borrowing to Reduce Funding Cost: IDFCFB’s top 20 deposit-to-total deposits moderated to 10.9% in 2QFY24 (FY23: 12.56%; FY22: 16.06%), thereby improving its granularity, in line with its peers. In line with the industry, the CASA ratio marginally moderated to 46.4% in 2QFY24 (FY23: 49.8%). In 2QFY24, IDFCFB’s current account saving account (CASA) deposits accounted for 35.4% (FY23: 35.7%; FY22: 32.3%) of the total liabilities (deposits + borrowing). While the bank’s cost of funds has moderated from the historical levels, its borrowing cost is likely to remain higher than that of its peers in the medium term, due to its historically high-cost fixed rate borrowings which has been moving down and is being replaced with retail deposits. However, any reduction in the funding cost would be absorbed incrementally, as the bank builds up a higher proportion of secured book thereby marginally benefiting overall margins. With the growth in its retail deposit base, IDFCFB has been able to reduce its high-cost borrowings (2QFY23: INR150.0 billion; FY23: INR176.7 billion) and would run them down by FY26.

Asset Quality Improved: IDFCFB's overall gross non-performing assets (NPAs) improved to 2.1% in 1HFY24 (FY23: 2.5%; FY22: 3.7%) with provision coverage ratio rose to 68.2% (66.4%, 59.5%). The credit cost as of average funded asset (annualised) for 1HFY24 moderated to 117bp from 115bp in FY23 (FY22: 253bp, FY21: 183bp). The credit cost was relatively high during FY22 and FY21, largely due to the second wave of COVID-19 and legacy wholesale exposures in the overall loan mix, respectively. Its net stressed assets (net NPA + net security receipts + net restructured book) as a percentage of the total asset reduced to 0.66% in 1HFY24 (1HFY23: 1.28%).

Moreover, the bank's concentration in its top 20 borrowers in terms of overall advances fell to 6.22% in 2QFY24 (FY23: 7.19%, FY22: 10.01%), with the large telecom exposure reducing to INR3 billion in 2QFY24. Its restructured book reduced to INR7.01 billion in 2QFY24, accounting for 0.4% of the funded exposure (FY23: 0.6%; FY22: 1.8%). The bank has also witnessed a reduction in its special mention accounts (SMA 1 and SMA 2) as % of retail and commercial loans to 0.77% in 1HFY24 (FY23: 0.87%). Incrementally, any pressure on borrowers' cashflows due to inflation or an increase in the interest rates, where the bank's ability to manage its asset quality is better than peers', remains rating monitorables.

Stable Capital Buffers: IDFCFB's capital buffers remained stable in 4QFY24, with its common equity tier-1 (CET1) ratio at 13.49% (FY23: 14.2%; FY22: 14.9%). However, factoring the capital raise in the first week of October 2023 of INR30 billion, the CET1 stood at 15.01% and overall capital adequacy ratio at 18.06%. The recent RBI circular impact on IDFCFB's exposure towards consumer retail credit, credit card outstanding and exposures to NBFCs would have an impact of 70bp on the capital buffers, as per the management. However, the capital raise provides adequate cushion, and the guided growth compared to internal accruals would increase absorption of capital, necessitating a capital raise in FY25 to maintain adequate capital buffers over the regulatory minimum, in line with the similarly rated peers.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable as of 2QFY24, with its quarterly liquidity coverage ratio at 122% (FY23: 120%; FY22: 135.8%). Moreover, the bank's asset-liability tenure was matched across shorter buckets at 2HFY24. Also, it has 3.5% of net demand time liabilities as an excess statutory liquidity ratio, which provided adequate buffer to meet its short-term funding requirements as of 2QFY24.

Improving Profitability Buffers: IDFCB's return ratios have improved with the moderation in credit cost, with its loan book scaling. The return on assets in 1HFY24 stood at 1.2% (FY23: 1.1%; FY22: 0.1%) with 26% yoy growth in funded assets. Furthermore, even with a higher operating expense, which could moderate with scale, the bank has seen an improvement in its pre-provision operating profit margin (2QFY24: 2.4%; 2QFY23: 2.2%), largely due to its improved liability profile, higher proportion of high-yielding book and an improved retailisation of the book.

Higher Operating Expense Remains Drag on Internal Accruals: IDFCFB's cost-to-income ratio (1HFY24: 71.4%; FY23: 71.2%) was higher than its peers' and could remain so, largely due to branch expansion, adding people across product lines and technology spends. However, the bank needs to moderate these expenses to remain competitive and scale-up further in the medium to long term. The drivers for strong retail fee income in the form of distribution fees may entail higher operating expenses, which would also keep the cost-to-income ratio elevated in the medium term. Also, incrementally, as the bank lends more towards secured assets and better-rated borrowers which could curtail margin expansion, thereby keeping the cost to income ratio elevated. Nevertheless, the bank's internal accruals have remained subdued. This could continue until the bank stabilises its operating expenses through scaling of loan book, maintains net interest income and fee income growth higher than operating cost and reduces the legacy borrowing impact on funding cost in the medium term.

Rating Sensitivities

Positive: A substantial improvement in the franchise size and scale, large granular retail funding in line with higher-rated banks, consistent profitability buffers, maintaining stable through-the-cycle asset quality and stronger capital buffers could be key positive rating drivers.

Negative: Following events that could individually or collectively lead to a negative action include:
- higher-than-expected credit costs or a weakening of the provision cover or diluted tangible capitalisation buffers;
- CET1 buffer falling and remaining below 13% on a sustained basis; and
- a material decline in the pace of granularisation of deposits in its funding mix.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IDFCFB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Incorporated on 21 October 2014, IDFCFB is a new-age private sector bank. IDFC Ltd was its ultimate parent, which was established in 1997 by the government for financing infrastructure projects. On 23 July 2015, IDFCB received a banking license. It commenced banking operations on 1 October 2015. IDFCB later merged with Capital First Ltd to form IDFC FIRST Bank in December 2018. IDFC Financial Holding Company Limited held a 40% share; Warburg Pincus held 9.99%; the President of India held a 5.47% share, followed by other shareholders in IDFCFB, as on September 2019. The recently announced merger of IDFC Financial Holding Company with IDFC Ltd and IDFC Ltd with IDFCFB would dissolve the promoter holding.

FINANCIAL SUMMARY

Particulars	**1HFY24**	**FY23**	**FY22**
Total assets (INR billion)	2,647.2	2,399.4	1,901.8
Total equity base (INR billion)	276.8	257.2	210.0
Net profit (INR billion)	15.2	24.4	1.45
Return on assets (%)	1.2	1.1	0.1
Tier 1 ratio (%)	13.5	14.2	14.9
Capital adequacy ratio (%)	16.5	16.8	16.7
Gross NPA (%)	2.1	2.5	3.7
Net NPA (%)	0.68	0.86	1.53
Source: IDFCFB; Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type`	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	12 December 2022	22 March 2022	6 August 2021	7 August 2020
NCDs	Long term	INR146.28	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative

Infrastructure bonds	Long-term	INR95.2	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative
Basel-III tier 2 debt	Long-term	INR80	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative

Annexure

ISIN No.	Instrument	Date of Issuance	Coupon rate (%)	Maturity Date	Issue size (billion)	Rating/Outlook
INE092T08014	NCDs	17 January 2006	7.75	17 January 2026	INR2.00	IND AA+/Stable
INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR1.50	IND AA+/Stable
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR1.50	IND AA+/Stable
INE092T08279	NCDs	15 September 2009	9	15 September 2024	INR0.50	IND AA+/Stable
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR1.00	IND AA+/Stable
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR1.00	IND AA+/Stable
INE092T08394	NCDs	27 January 2010	8.8	27 January 2025	INR2.00	IND AA+/Stable
INE092T08428	NCDs	5 April 2010	9.03	5 April 2025	INR2.50	IND AA+/Stable
INE092T08436	NCDs	5 April 2010	8.96	5 April 2025	INR2.50	IND AA+/Stable
INE092T08444	NCDs	9 April 2010	8.9	9 April 2025	INR2.50	IND AA+/Stable
INE092T08451	NCDs	28 April 2010	8.9	28 April 2025	INR3.50	IND AA+/Stable
INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR5.00	IND AA+/Stable
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR2.00	IND AA+/Stable
INE092T08493	NCDs	15 June 2010	8.8	15 June 2025	INR2.00	IND AA+/Stable
INE092T08501	NCDs	8 July 2010	8.8	8 July 2025	INR2.00	IND AA+/Stable
INE092T08519	NCDs	21 July 2010	8.8	21 July 2025	INR3.00	IND AA+/Stable
INE092T08527	NCDs	6 August 2010	8.95	6 August 2025	INR2.00	IND AA+/Stable
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR1.00	IND AA+/Stable
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR1.20	IND AA+/Stable
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR2.60	IND AA+/Stable
INE092T08592	NCDs	19 November 2010	8.9	19 November 2025	INR2.60	IND AA+/Stable
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR2.08	IND AA+/Stable
INE092T08AO5	NCDs	17 February 2011	9.35	17 February 2026	INR3.15	IND AA+/Stable
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR2.15	IND AA+/Stable
INE092T08AR8	NCDs	15 April 2011	9.28	15 April 2026	INR2.50	IND AA+/Stable
INE092T08808	NCDs	23 May 2013	7.98	23 May 2023	INR4.00	WD (paid in full)
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR1.45	IND AA+/Stable
INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR11.65	IND AA+/Stable
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR5.70	IND AA+/Stable
INE092T08BN5	NCDs	7 August 2014	9.3	7 August 2024	INR1.74	IND AA+/Stable
INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR10.25	IND AA+/Stable
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR10.55	IND AA+/Stable
INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR10.00	IND AA+/Stable
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR4.80	IND AA+/Stable
INE092T08BS4	NCDs	5 January 2015	8.67	3 January 2025	INR20.00	IND AA+/Stable

INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR3.00	IND AA+/Stable
INE092T08BU0	NCDs	20 May 2015	8.7	20 May 2025	INR7.41	IND AA+/Stable
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR2.00	IND AA+/Stable
INE092T08BY2	NCDs	23 June 2015	8.7	23 June 2025	INR3.95	IND AA+/Stable
INE092T08BZ9	NCDs	9 July 2015	8.73	6 January 2023	INR5.11	WD (paid in full)
INE092T08CA0	NCDs	28 July 2015	8.75	28 July 2023	INR10.50	WD (paid in full)
				Total outstanding	INR146.28	

ISIN	Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size (billion)	Rating/Outlook
INE092T08CQ6	Infrastructure bonds	19 May 2016	8.5	4 July 2023	INR4.8	WD (paid in full)
	Total unutilised				INR95.2	IND AA+/Stable
	Total				**INR95.2**	

ISIN	Instrument	Date of Issuance	Coupon Rate (%)
INE092T08EY6	Basel III Tier 2 debt	8 February 2022	8.42% IDBKL 08-02-2032 TIER II
INE092T08EZ3	Basel III Tier 2 debt	1 December 2022	8.70% Unsecured, rated, listed, redeemable non-convertible bond series PP12023 (date of maturity 1 Decemb
INE092T08FA3	Basel III Tier 2 debt	27 June 2023	8.40% IDBKL 27-06-2033 TIER II
	Total unutilised		
	Total		

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Infrastructure bonds	Low
Basel III Tier 2 debt	Low
NCDs	Low

For details on the complexity level of the instruments please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Evaluating Corporate Governance

The Rating Process