IDFC FIRST Bank

IDFCFIRSTBANK/SD/09/2022-23 **April 08, 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 Limited' ("CRISIL") has enhanced the rated amount of Tier II Bonds (under Basel III) of IDFC FIRST Bank Limited ("Bank") from Rs. 2,000 crore to Rs. 5,000 crore, thereby assigning 'CRISIL AA/Stable' rating to the additional Rs. 3,000 crore Tier II Bonds (under Basel III) and re-affirming its 'CRISIL AA/FAAA/CRISIL A1+' ratings, with stable outlook, on the existing debt instruments, fixed deposit and Certificate of Deposit programme of the Bank, respectively.

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: 2022.04.08 15:40:17 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

April 07, 2022 | Mumbai

IDFC FIRST Bank Limited

'CRISIL AA/Stable' assigned to Tier II Bonds (Under Basel III)

Rating Action

Rs.3000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA/Stable (Assigned)**
Rs.2000 Crore Tier II Bonds (Under Basel III)	**CRISIL AA/Stable (Reaffirmed)**
Rs.50000 Crore Fixed Deposits	**F AAA/Stable (Reaffirmed)**
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 assigned its **'CRISIL AA/Stable'** rating to the Rs 3,000 crore Tier II bonds (under Basel III) of IDFC FIRST Bank Limited (IDFC FIRST) and reaffirmed its 'CRISIL AA/FAAA/Stable/CRISIL A1+' ratings on the existing debt instruments and fixed deposit programme of the bank.

The ratings continue to reflect the bank's healthy capitalisation, increased retail proportion in both assets and liabilities, and expected improvement in earnings over the medium term. These strengths are partially offset by average asset quality, which is yet to normalise from the Covid stress. The ability of IDFC FIRST to demonstrate improvement in asset quality on a sustained basis in the growing retail portfolio over a longer period and on a larger scale will be a key monitorable.

On the asset quality front, gross non-performing assets (GNPAs) increased to 4.15% (Rs 4,303 crore) as on March 31, 2021, from 2.6% (Rs 2,280 crore) a year earlier due to the vulnerability of borrowers amid the economic slowdown induced by Covid-19 and the high-value slippage in the legacy infra book. The second Covid wave in the first quarter of fiscal 2022 accentuated the asset quality pressure in retail gross advances. However, the leading asset quality indicators reflect the onset of normalcy with bounce rates and collection efficiency nearing pre-Covid levels since September 30, 2021. As a result, GNPAs reduced to 3.96% (Rs 4,457 crore) as on December 31, 2021. The reduction in overall GNPAs was also supported by cumulative write-offs of Rs 3,137 crore (4.1% of opening gross advances) during the first nine months of fiscal 2022, largely in the retail book. The GNPAs in retail and commercial portfolio, which comprised 70% of total funded assets as on December 31, 2021, reduced to 2.92% as on December 31, 2021, from 4.01% as of March 31, 2021.The restructuring as a percentage of gross advances as on December 31, 2021, stood at 3.13% of which 2.84% was under the onetime restructuring scheme announced by the Reserve Bank of India (RBI).

Nonetheless, sizeable provisions strengthen the balance sheet against potential credit losses. As on December 31, 2021, the bank's provision coverage ratio was 57%, besides 18% provision on the restructured book and additional Covid-19 provisions of Rs 165 crore (0.14% of the total funded assets). Moreover, Rs 2,000 crore and Rs 3,000 crore 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 of the bank.

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 14.8% and overall CAR of 15.4% as on December 31, 2021 (13.3% and 13.8%, respectively as on March 31, 2021). While internal cash accrual has been low due to losses in the past, the bank has been able to raise funds even in the challenging environment. It raised overall Rs 5,000 crore of equity capital in fiscals 2021 and during nine months of fiscal 2022 (Rs 2,000 crore in June 2020 and Rs 3,000 crore in April 2021), besides Rs 1,500 crore through Tier II bonds in the fourth quarter of fiscal 2022, increasing the

capital adequacy to 16.5% (calculated on the financials as of 31st December 2021). The networth was sizeable at Rs 20,718 crore providing cushion against asset side risks, with networth coverage for net non-performing assets (NPAs) of 10.8 times as on December 31, 2021 (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 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.

- **Increased retailisation of both assets and liability franchise**
  IDFC FIRST Bank, in line with its strategy to become a bank with a sustainable growth engine driven by granular retail and commercial loans, has significantly scaled up the retail book and commercial book to 70% of the overall funded assets since the merger. This portfolio grew 26% in the past year, to Rs 86,052 crore as on December 31, 2021, from Rs 68,060 crore a year earlier. Consequently, the share of retail and commercial portfolio in total funded assets (advances + debt investments) increased to 70% from 62%; this further increased to 72.2% (including commercial loans of 8.8%) as on March 31, 2022 (provisional). While growth has largely been across retail product offerings, home loans were the primary driver along with small commercial loans.

  The management plans a steady growth in the retail and commercial book in the coming quarters by leveraging their expertise and track record and targeting small entrepreneurs and consumer segments to drive growth. The bank had more than 100 lakh retail customers as of December 2021.

  In addition, to increase the granularity of the loan book, the bank is focusing on consumer and micro small enterprise businesses and is also gradually scaling down its infrastructure financing portfolio while the non infra corporate loans portfolio will grow on a selective basis. Growth of 17% in the overall funded assets since the merger has been driven by the retail and commercial book, which grew 133% during this period. On the other hand, wholesale funded assets reduced by 48% during the same period and stood at Rs 29,697 crore as on December 31, 2021. Within the wholesale funded assets, the legacy infrastructure financing portfolio, with identified potential risks, reduced to Rs 8,051 crore as on December 31, 2021, from Rs 11,602 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 4.3% as on December 31, 2021, as against 6.3% a year earlier. The bank plans to further run down the infrastructure financing portfolio over the medium term.

  Total funded assets grew 11% to Rs 1,22,219 crore as on December 31, 2021, from Rs 1,10,469 crore a year earlier. The gross funded assets further grew to Rs 1,32,067 crore (provisional), as on March 31, 2022 (Rs 117127crore as on March 31, 2021). As the infrastructure financing portfolio has already reduced sharply and retail loans have been growing at a steady pace, the bank is now expected to gradually scale up going forward.

  On the liabilities side, the bank has been focusing on building a granular retail deposit franchise. Mobilisation of current account and savings account (CASA) deposits has improved significantly over the past few quarters, rising to 51.6% of total deposits (33.3% of overall resources) as on December 31, 2021 (48.31% and 32.4%, respectively, as on December 31, 2020). The proportion of deposits less than Rs 5 crore has been increasing gradually and stood at 87% (of consumer deposits) as on December 31, 2021 (78% as on December 31, 2020; 55% as on December 31, 2019). As the bank's overall loan book did not grow to a similar extent as the retail liability franchise, this resource raised has 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.

  CASA as a % of total deposits stood at 48.7% as on March 31, 2022 (provisional) and on an absolute basis, the CASA increased to Rs 51,407 crore (provisional) from Rs 45,896 crore (51.7% as a % of total deposits) as on March 31, 2021.

  With reduction in deposit rates and the consequent decrease in overall cost of funding, the bank plans to increasingly target the prime retail customer segment with relatively better credit profiles by offering competitive pricing.

  CRISIL Ratings believes IDFC FIRST will continue to focus on driving growth by scaling up the retail loan book, further improving the granularity of the portfolio. It does not plan to take on incremental exposure in the infrastructure segment and will focus on the relatively mid-ticket, mid-corporate, and financial institution segments. The ability to scale up the retail liabilities franchise to support credit growth, given the alignment of interest rates, will need to be demonstrated over the medium term.

- **Earnings to improve supported by healthy core profitability**
  IDFC FIRST's earnings remain supported by healthy core profitability, as reflected in pre-provisioning operating profit of Rs 2,444 crore (2% of average total assets; annualised) for the nine months ended December 31, 2021, as against Rs 1,906 crore (1.6%) in the corresponding period of the previous fiscal (Rs 2,542 crore for fiscal 2021; 1.6%).

However, overall earnings remain impacted by elevated credits cost which stood at 1.3% (Rs 2,023 crore) of average total assets in fiscal 2021 and 2.7% (Rs 4,316 crore) in the previous fiscal. The bank reported a net profit of Rs 483 crore in fiscal 2021 with return on average total assets of 0.3% (loss of Rs 2,843 crore and negative 1.8%, respectively, in the previous fiscal).

Furthermore, in the first quarter of fiscal 2022, the bank's asset quality was impacted by the second Covid wave leading to credit cost increasing to 4.5% (annualised; Rs 1,879 crore) with the bank reporting a loss of Rs 621 crore. Thereafter, in the second and third quarters of the fiscal, the bank's credit cost normalised to 1.1% (Rs 475 crore) and 0.9% (Rs 392 crore), respectively, which resulted in net profit of Rs 111 crore and Rs 290 crore, respectively. For the first nine months of fiscal 2022, the bank reported net loss of Rs 220 crore as against net profit of Rs 346 crore for the corresponding period of the previous fiscal.

Nevertheless, the bank's provision coverage ratio stood at 57% as on December 31, 2021. The bank also had 81% provisioning for identified stressed book, 18% provisioning for restructured assets and additional Covid-19 related contingent provision of Rs 165 crore (0.14% of total funded assets) as of December 31, 2021. With improving repayment behaviour of borrowers as reflected in the collection efficiency and the bounce rates nearing the pre-Covid levels, the incremental stress is not likely to reach the fiscal 2021 and the first quarter of fiscal 2022 cost.

In addition, the net interest margin (NIM) is at comfortable level of 5.9% given the asset side focus and is expected to improve further as the proportion of the relatively high-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.

Weakness:

- **Average asset quality**
  IDFC FIRST's asset quality was impacted in fiscal 2021 with GNPAs increasing to 4.1% as on March 31, 2021, from 2.6% as on March 31, 2020, due to Covid-led stress on cash flows of borrowers which adversely affected the retail and SME portfolio across the banking industry. There was additional stress on the loan book, especially the retail book, in the first quarter of fiscal 2022, due to the second Covid wave and absence of regulatory dispensations, leading the overall GNPAs to increase to 4.61% as on June 30, 2021. However, with easing of restrictions and pick-up in economic activity since then, bounce rates and collection efficiency have started improving and nearing the pre-Covid levels.

  Slippages as a percentage of opening net advances for the nine months ended December 31, 2021, stood at 8.0% (annualised; Rs 6,106 crore). Overall GNPAs stood at 3.96% and the restructured book was 3.13% as on December 31, 2021. The slippages and GNPAs include one legacy infrastructure toll account with an outstanding of Rs 819 crore, which turned NPA in the first quarter of fiscal 2022. This account's toll collections have improved since covid second wave, and although the account continues to be classified as an NPA, the repayments from this account are active. CRISIL Ratings understands that this account is expected to be resolved in near future. Excluding the said account, the overall GNPA and NNPA would have been 3.24% and 1.14% as of December 31, 2021.

  The stress in overall economic environment led to increase in the retail book GNPAs to 4% as on March 31, 2021, from 1.77% a year earlier. However, over the quarters the retail GNPAs gradually reduced to 2.92% as on December 31, 2021, supported by normalising industry dynamics, refining of underwriting standards by the bank's management, improving collection efficiency, and write-offs of Rs 3,000 crore. The wholesale book, excluding the infrastructure book, has been performing well as reflected in GNPA and NNPA having reduced to 2.52% and 0.39% respectively as of December 31,2021 from 3.98% and 1.92% as of March 31, 2021. The bank has identified stressed book of Rs 1,083 crore (0.9% of total funded assets) as on December 31, 2021, largely in the legacy infrastructure book, wherein it has made 81% provisioning.

  Ability to scale up the retail book while having adequate asset quality will remain a key monitorable.

Liquidity: Superior

Liquidity coverage ratio was 149% as on December 31, 2021, against the regulatory requirement of 100% (effective April 1, 2021) Furthermore, excess statutory liquidity stood at Rs 9455 crore as on December 31, 2021, forming around 8.06% of total net demand and time liabilities. The bank's liquidity is supported by access to systemic sources of funds such as the liquidity adjustment facility from the RBI, access to the 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 along with build-up of retail liability
- Improvement in earnings with return on assets above 1.75% on a steady state basis

Downward factors:
- Deterioration in asset quality with GNPAs increasing beyond 8%, 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 equity backing from Warburg Pincus. 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 2009 to a net profit of Rs 328 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 599 branches and 201 asset service centres as on December 31, 2021. Additionally, it has 620 rural business correspondent branches, and 727 automated teller machines (ATMs) across the country. 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 the nine months ended December 31, 2021, IDFC FIRST reported a net loss of Rs 220 crore and a total income (net of interest expense) of Rs 9,380 crore, against PAT of Rs 346 crore and total income (net of interest expense) of Rs 6,815 crore for the corresponding period of the previous fiscal.

Key Financial Indicators: Consolidated

As on/for the period ended December 31,	Unit	2021	2020
Total assets	Rs crore	1,74,212	155,617
Total income (net of interest expense)	Rs crore	9380	6815
Profit after tax	Rs crore	-220	346
Return on assets (annualised)	%	-0.2	0.3

Key financial indicators: Standalone

As on/for the period ended December 31,	Unit	2021	2020
GNPAs	%	3.96	1.3
Overall capital adequacy ratio	%	15.4	14.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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

**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+		--	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	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		--	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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Note for Media:

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