IDFC FIRST Bank

IDFCFIRSTBANK/SD/313/2021-22 **March 23, 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 'India Ratings & Research' ("Ind-Ra") has enhanced the rated amount of Basel III – Tier 2 Debt Instruments ("Bonds") of IDFC FIRST Bank Limited from Rs. 2,000 crore to Rs. 5,000 crore. Ind-Ra has assigned 'IND AA+/Negative' rating/outlook to the additional Tier 2 Bonds (Rs. 3,000 crore) while re-affirming the rating/outlook of Rs. 2,000 crore Basel III – Tier 2 Bonds.

Further, Ind-Ra has also re-affirmed the rating/outlook of other debt instruments (Infra Bonds and NCDs) at 'IND AA+/Negative'

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: 2022.03.23 15:32:20 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

India Ratings & Research
A Fitch Group Company

India Ratings Assigns IDFC FIRST Bank's Additional Basel III Tier 2 Debt Instruments 'IND AA+'/Negative; Affirms Other Ratings

22

MAR 2022

By Jinay Gala

India Ratings and Research (Ind-Ra) has affirmed IDFC FIRST Bank Limited's (IDFCFB) debt instruments' ratings at 'IND AA+' with a Negative Outlook, as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier 2 debt#*	-	-	-	INR30	IND AA+/Negative	Assigned
Basel III Tier 2 debt*	-	-	-	INR20	IND AA+/Negative	Affirmed
Infra bonds*	-	-	-	INR100	IND AA+/Negative	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR177.3(reduced from INR184.93)	IND AA+/Negative	Affirmed

*Details in Annexure
#unutilised

Ind-Ra has maintained the Negative Outlook in view of the likelihood of continued asset quality challenges owing to the impact of the pandemic-led disruptions, especially in IDFCFB's retail and SME segments, and the impact of incremental slippages from the restructured book on overall profitability buffers. This could lead to a moderation in the operating performance and dilute the capital buffers. However, the bank has raised capital to the tune of INR50 billion, build up adequate capital buffers, strengthened its liability franchise and improved its funding profile, by bringing down costs, reducing concentration and increasing the granularity of asset profile.

KEY RATING DRIVERS

Retail Book Driving Loan Portfolio Expansion; Reducing Concentration Risk, Driving Margins: IDFCFB's retail and commercial finance book accounted for 70.4% of the total funded exposure in 3QFY22 (FY21:62.9%). The bank intends to continue focusing on expanding its retail loan portfolio, thereby increasing loan granularity, improving yields on overall book and resultantly strengthening margins, which would offset some of the impact of elevated funding cost compared to peers. Retailisation of the loan book led to IDFCFB's net interest margin rising to 5.9% in 3QFY22 (FY21: 4.98%, FY20: 3.91%). Ind-Ra believes the retail portfolio (45.7% of the exposure remained unsecured in nature in 9MFY22) could witness heightened credit costs in the prevailing challenging economic scenario.

Stable Capital Buffers: After having raised INR20 billion in April 2020, IDFCFB raised INR30 billion in April 2021, leading to an improvement in its common equity tier-1 ratio to 14.8% in 3QFY22 (FY21: 13.3%; FY20: 13.3%). Also, the bank raised INR15 billion of tier 2 bonds in February 2022. The agency believes this improved capitalisation is necessary to strengthen the bank's buffers to absorb shocks in case of any higher-than-expected stress on the loan portfolio. The improved capitalisation also allows the bank to expand its loan portfolio, as and when demand recovers. However, with the retail book growth on the higher side for FY22, there could be increased absorption of capital levels during the year. Furthermore, any impact due to the deterioration in asset quality on account of COVID-19, leading to higher slippages or write-offs, could necessitate a capital raise.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable in 3QFY22, with its quarterly liquidity coverage ratio improving to 149% (4QFY21: 153%; 4QFY20: 111%). Moreover, the bank's assets-liability tenure remained matched across shorter buckets at end-FY21. Also, it maintains 6.2% of net demand time liabilities as excess statutory liquidity ratio, indicating that it will be able to meet its short-term funding requirements.

Retail Liabilities Improved, but Legacy Cost Keeps Funding Cost Elevated: In 3QFY22, IDFCFB's current account saving accounts accounted for 33.3% (FY21: 34.1%; FY20: 16.9%) of the total liabilities (deposits + borrowing). IDFCFB's top 20 deposit-to-total deposit rose moderately to 9.25% in 9MFY22 (FY21: 7.75%; FY20: 20.36%), thereby improving granularity in line with peers. Ind-Ra believes maintaining the low-cost liability franchise would be a key monitorable for IDFCFB as it has been reducing its saving rates (May 2021), which had been a significant driver in the build-up of its liability franchise. While the cost of funds has moderated, the borrowing cost remains elevated in comparison to peer banks due to the bank's historically high-cost fixed rate borrowings, thus suppressing the net interest margin. With the growth in retail deposit base, IDFCFB has reduced its high-cost borrowings (3QFY22: INR166.6 billion; FY21: INR174billion). The management expects the same to reduce further post FY24, as the legacy long-term and infrastructure bonds start maturing. As a part of reducing its wholesale borrowings, IDFCFB also reduced its certificates of deposits by 16% yoy in FY21(75% yoy in FY20). IDFCFB also intends to strengthen its digital capabilities and offerings for its customers by expanding its retail branch network; however, the successful execution of this plan remains a key monitorable.

Above-average Stressed Credit Portfolio Compared to Peers due to COVID: The stressed assets (gross non-performing assets (GNPA) + gross non-performing investments + gross security receipts + gross restructured book +potential additional stressed asset) accounted for 9.8% of the total funded exposure in 3QFY22 (FY21: 10.0%). The provisions against the stressed assets, including covid provision, stood at 4.7% of the funded asset at 9MFYE22 (FY21: 5.2%), implying provision coverage of 47.7% (51.7%). In 9MFY22, the bank's provision coverage on GNPA book stood at 57.1% (FY21: 55.2%); excluding the large toll account, it stood at 66%. The overall GNPA stood at 3.96% for 9MFY22 (FY21: 4.15%; FY20: 2.6%), due to the migration of large legacy infrastructure loans (toll road part of stressed asset), with exposure of INR8.2 billion, to a higher bucket, as toll collections were hit by the pandemic during 4QFY21; excluding this, the GNPA stood at 3.2% for 9MFY22.

In 9MFY22, the bank saw a reduction in the concentration of the top 10 borrowers to 4.3% from 5.9%, led by the recovery from a large telecom exposure of INR15 billion, wherein the bank reversed the carried 15% provision. However, it still carried exposure of INR21.7 billion to the large telecom entity at 9MFYE22, though the exposure reduced from the levels of INR32.4 billion in FY21. However, bank subsequently recovered INR5 billion in the same account, reducing the exposure to the telecom account to INR16.7 billion, which includes nonfunded exposure of INR12.4 billion, as of January 2022. The bank's restructured book has built up to INR35.2 billion, forming 2.9% of the funded exposure at 9MFYE22, aggravating the existing stress; slippages from the same need to be monitored. The bank's retail and commercial GNPA moderated to 2.9% in 3QFY22 (FY21: 4%; 3QFY21: 3.88%), but it could face incrementally pressure, with inflationary challenges impacting borrowers cash flows, and slow recovery from pandemic-led disruptions. Thus, the banks' ability to manage its asset quality in a better manner compared to its peers remains a monitorable.

The bank follows a proactive write-off policy on retail products, with write-offs for the retail book accounting for 4.65% annualised of the retail book in 9MFY22 (FY21: 2.5%). The management has guided for a provision of INR30 billion for FY22; this remains a key monitorable.

Higher Operating Expense to Remain a Drag on Internal Accruals: IDFCFB's cost-to-income ratio (9MFY22: 73.8%, FY21:68.9%) has remain elevated, and higher than peers, largely due to branch expansion, adding people across product lines and technology spends. To reduce these expenses, the bank would have to remain competitive and scale up further in the medium-to-long term. (9MFY22: 73.8%). Ind-Ra expects the operating costs to reduce gradually but remain high in the medium term, thereby exerting additional pressure on the bank's internal accruals. The drivers for strong retail fee income, in the form of distribution fees, may entail higher operating expenses, which would also contribute to the cost-to-income ratio remaining elevated in the medium term. A reduction in the saving rates since May 2021 has led to moderation in the cost of funds, and this along with improved retailisations led to margin expansion in 9MFY22. However, incrementally, as the bank lends more towards secured assets and better-rated borrowers, the margin could come under pressure. According to the management, the retailisation of the loan book would be the key focus area for the medium-to-long term. Nevertheless, internal accruals have remained subdued and lower than that of peer banks, which could continue until the bank witness's stabilisation in operating expenses, and moderation in provision cost as well as the drag of legacy borrowing on funding cost in the medium term.

RATING SENSITIVITIES

Positive: A consistent improvement in the granularity of liability franchise, significantly improved operating performance, and strengthened asset quality while maintaining capital could result in a Stable outlook.

Negative: The following events, individually or collectively, could lead to a negative action:
- higher-than-expected credit costs or a weakening of the provision cover or diluted tangible capitalisation buffers
- the common equity tier-1 buffer falling below 13% on a sustained basis
- incurring of further losses in FY22
-a slowdown in the low-cost granular retail liability accretion

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 IDFC FIRST Bank, either due to 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, IDFCB 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 40% share; Warburg Pincus held 9.99%; the President of India held 5.47% share, followed by other shareholders in IDFC FIRST Bank, as on September 2019.

FINANCIAL SUMMARY

Particulars	**FY21**	**FY20**
Total assets (INR billion)	1,631.4	1,492.0
Total equity base (INR billion)	178.08	153.4
Net profit (INR billion)	4.52	-28.6
Return on assets (%)	0.3	-1.8
Tier 1 ratio (%)	13.3	13.3
Capital adequacy ratio (%)	13.7	13.4
GNPA (%)	4.2	2.6
Source: IDFCFB		

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**				
	Rating Type	**Rated Limits (billion)**	**Rating**	**6 August 2021**	**7 August 2020**	**10 December 2019**	**17 July 2019**	**27 June 2018**
NCDs	Long term	INR177.3	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Stable
Infra bonds	Long-term	INR100	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Stable
Basel-III tier 2 debt	Long-term	INR50	IND AA+/Negative	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+/Negative
INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR1.50	IND AA+/Negative
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR1.50	IND AA+/Negative
INE092T08279	NCDs	15 September 2009	9	15 September 2024	INR0.50	IND AA+/Negative
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR1.00	IND AA+/Negative
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR1.00	IND AA+/Negative
INE092T08394	NCDs	27 January 2010	8.8	27 January 2025	INR2.00	IND AA+/Negative
INE092T08428	NCDs	5 April 2010	9.03	5 April 2025	INR2.50	IND AA+/Negative
INE092T08436	NCDs	5 April 2010	8.96	5 April 2025	INR2.50	IND AA+/Negative

INE092T08444	NCDs	9 April 2010	8.9	9 April 2025	INR2.50	IND AA+/Negative
INE092T08451	NCDs	28 April 2010	8.9	28 April 2025	INR3.50	IND AA+/Negative
INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR5.00	IND AA+/Negative
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR2.00	IND AA+/Negative
INE092T08493	NCDs	15 June 2010	8.8	15 June 2025	INR2.00	IND AA+/Negative
INE092T08501	NCDs	8 July 2010	8.8	8 July 2025	INR2.00	IND AA+/Negative
INE092T08519	NCDs	21 July 2010	8.8	21 July 2025	INR3.00	IND AA+/Negative
INE092T08527	NCDs	6 August 2010	8.95	6 August 2025	INR2.00	IND AA+/Negative
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR1.00	IND AA+/Negative
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR1.20	IND AA+/Negative
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR2.60	IND AA+/Negative
INE092T08592	NCDs	19 November 2010	8.9	19 November 2025	INR2.60	IND AA+/Negative
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR2.08	IND AA+/Negative
INE092T08AO5	NCDs	17 February 2011	9.35	17 February 2026	INR3.15	IND AA+/Negative
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR2.15	IND AA+/Negative
INE092T08CM5	NCDs	21 March 2012	8.7	21 March 2022	INR1.08	WD(Paid in Full)
INE092T08CN3	NCDs	21 March 2012	8.7	21 March 2022	INR3.57	WD(Paid in Full)
INE092T08AR8	NCDs	15 April 2011	9.28	15 April 2026	INR2.50	IND AA+/Negative
INE092T08CK9	NCDs	30 December 2011	9	30 December 2021	INR0.74	WD(Paid in Full)
INE092T08CL7	NCDs	30 December 2011	9	30 December 2021	INR1.99	WD(Paid in Full)
INE092T08CO1	NCDs	31 March 2012	8.43	31 March 2022	INR0.32	IND AA+/Negative
INE092T08CP8	NCDs	31 March 2012	8.43	31 March 2022	INR0.86	IND AA+/Negative
INE092T08808	NCDs	23 May 2013	7.98	23 May 2023	INR4.00	IND AA+/Negative
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR1.45	IND AA+/Negative
INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR11.65	IND AA+/Negative
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR5.70	IND AA+/Negative
INE092T08BN5	NCDs	7 August 2014	9.3	7 August 2024	INR1.74	IND AA+/Negative
INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR10.25	IND AA+/Negative
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR10.55	IND AA+/Negative
INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR10.00	IND AA+/Negative
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR4.80	IND AA+/Negative
INE092T08BS4	NCDs	5 January 2015	8.67	3 January 2025	INR20.00	IND AA+/Negative
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR3.00	IND AA+/Negative
INE092T08AN7	NCDs	17 April 2015	8.59	21 October 2021	INR0.25	WD(Paid in Full)
INE092T08CB8	NCDs	17 April 2015	8.61	19 April 2022	INR0.75	IND AA+/Negative
INE092T08BU0	NCDs	20 May 2015	8.7	20 May 2025	INR7.41	IND AA+/Negative
INE092T08BV8	NCDs	27 May 2015	8.73	30 May 2022	INR6.30	IND AA+/Negative
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR2.00	IND AA+/Negative
INE092T08BX4	NCDs	12 June 2015	8.73	14 June 2022	INR3.18	IND AA+/Negative
INE092T08BY2	NCDs	23 June 2015	8.7	23 June 2025	INR3.95	IND AA+/Negative
INE092T08BZ9	NCDs	9 July 2015	8.73	6 January 2023	INR5.11	IND AA+/Negative
INE092T08CA0	NCDs	28 July 2015	8.75	28 July 2023	INR10.50	IND AA+/Negative

				Total outstanding	INR177.3	

ISIN	Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size (billion)	Rating/Outlook
INE092T08CQ6	Infra bonds	19 May 2016	8.5	4 July 2023	INR4.8	IND AA+/Negative
	Total unutilised				INR95.2	IND AA+/Negative
	Total				**INR100**	

ISIN	Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size (billion)	Rating/Outlook
INE092T08EY6	8.42% IDBKL 08-02-2032 TIER II	8 February 2022	8.42	8 February 2032	INR15	IND AA+/Negative
	Total unutilised				INR35	IND AA+/Negative
	Total				**INR50**	

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity
Infra 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.

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.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Evaluating Corporate Governance
Financial Institutions Rating Criteria
Rating Bank Subordinated and Hybrid Securities

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