

IDFCFIRSTBANK/SD/136/2021-22

August 06, 2021

The Manager - Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C – 1, G – Block
Bandra-Kurla Complex, Bandra (East)
Mumbai 400 051.
Tel No.: 022 – 2659 8237/ 38
NSE - Symbol: IDFCFIRSTB

The Manager - Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001.
Tel No.: 022 – 2272 2039/ 37/ 3121
BSE - Scrip Code: 539437

Sub.: Re-affirmation of Credit Rating of IDFC FIRST Bank Limited's (the 'Bank') Debt Instruments.

Ref.: *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 Basel III – Tier 2 Debt (Rs. 2,000 crore) and other debt instruments (Infra Bonds and NCDs) at 'IND AA+/Negative'.

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 Gaikwad
Head – Legal & Company Secretary

Encl.: as above

India Ratings Affirms IDFC FIRST Bank's Debt Instruments at 'IND AA+' / Negative

06

AUG 2021

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#	-	-	-	INR20	IND AA+/Negative	Affirmed
Infra bonds*	-	-	-	INR100	IND AA+/Negative	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR184.93 (reduced from INR205.19)	IND AA+/Negative	Affirmed

*Details in Annexure

#unutilised

Ind-Ra has maintained a Negative Outlook to reflect the asset quality challenges that could persist on account of COVID-19 especially in IDFCFB's retail segment and also the ongoing uncertainty regarding its one large telecom exposure, resulting in higher provision and credit cost. This could lead to a moderation in the operating performance and dilute capital buffers. However, the bank has raised capital to the tune of INR50 billion, built-up adequate capital buffers for incremental provision requirements, strengthened liability franchise and improved funding profile both by reduction in cost and reduced concentration and increased granularity of asset profile.

KEY RATING DRIVERS

Retail Book Driving Loan Portfolio Expansion; Reducing Concentration Risk, Driving Margins: IDFCFB's retail book accounted for 63.9% of the total funded exposure in 1QFY22 (FY21:62.9%; FY20: 53.6%; end-FY19, post the merger with Capital FIRST: 37%).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 5.5% in 1QFY22 (FY21: 4.98%, FY20: 3.91%). However, Ind-Ra believes the retail portfolio (where 46.7% loans remain unsecured in nature) may witness heightened credit costs in the prevailing challenging economic scenario. Thus, the banks' ability to manage its asset quality better than the peers remains monitorable. The bank's retail GNPA rose to 3.86% in 1QFY22 (FY21: 4.01%; FY20: 2.22%), and could face further pressure because of the ongoing pandemic. Thus, the banks' ability to adequately manage its asset quality remains key monitorable.

Stable Capital Buffers: IDFCFB raised INR20 billion in April 2020 and INR30 billion in April 2021, leading to an improvement in its common equity tier-1 ratio to 14.9% in 1QFY22 (FY21: 13.3%; FY20: 13.30%). The agency believes this improved capitalisation is necessary to strengthen 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 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 or the large exposure slipping would necessitate a capital raise.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable as of 1QFY22, with its quarterly liquidity coverage ratio improving to 166% (FY21: 153%; FY20: 111%). Moreover, the bank's assets-liability tenure remained matched across shorter buckets as 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 1QFY22, IDFCFB's current account saving accounts accounted for 33.2% (FY21: 34.1%; FY20: 16.9%) of the total liabilities (deposits + borrowing). IDFCFB's top 20 deposit-to-total deposit moderated to 9.39% in 1QFY22 (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 which was 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 been reduced its high cost borrowings (FY21: INR50.47billion; FY20: INR37.39 billion). The management expects the same to reduce further post FY24, as the legacy long-term and infrastructure bonds start maturing. As a part of the reducing wholesale borrowings, IDFCFB has also reduced its certificates of deposits by 75% yoy in FY20 and 16% yoy in FY21. 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 (GNPA + gross nonperforming investments + gross security receipts + gross restructured book + potential additional stressed asset) as a percentage of total funded exposure stood at 11.2% in 1QFY22 (FY21: 10.0%; FY20: 9.6%). The provisions against the stressed assets including covid provision stood at 5.7% of the funded asset as of 1QFY22 (FY21: 5.2%, FY20: 5.5%), implying provision coverage of 51% (51.7%, 56.8%). The overall GNPA increased in 1QFY22 to 4.6% (FY21: 4.2%; FY20: 2.6%), due to the migration of one of the large legacy infrastructure loans (toll road part of stressed asset) with exposure of INR8.5 billion to a higher bucket because of the COVID-19 impact on toll collections.

The large telecom exposure of INR32.4 billion where bank carries 15% provision could see a higher provision impact amid the current financial challenges at the telecom entity. In event of deterioration, there could be a moderation on capital buffers from current levels in FY22 due to the incremental provision requirement and without materially diluting the existing provision coverage levels depending upon the loss given default for the exposure. The bank's retail GNPA also rose to 3.86% in 1QFY22 (FY21: 4.01%; FY20: 2.22%), which could face further pressure as it largely caters to self-employed borrowers, and the large proportion of the retail book being unsecured could pose the risk of high write-offs or addition to GNPA in FY22 because of the second covid wave. The bank follows a proactive write-off policy on retail products where write-offs for retail book stood at 1.9% of the retail book in 1QFY22 (FY21: 2.5%). The management has guided for a provision of INR30 billion for FY22 which remains a key monitorable.

Higher Operating Expense to Remain a Drag on Internal Accruals: Post the merger, IDFCFB's cost-to-income ratio exceeded 79.5% in 2HFY19, before falling to 68.8% in FY21 (1QFY22: 69.5%). Ind-Ra expects it to remain elevated in the medium term, largely due to branch expansion and technology related cost, thus adding 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 keep the cost-to-income ratio elevated in the medium term. A further reduction in the saving rates would lead to a moderation in the cost of funds and with increased retailisation, there could be a further expansion in margins, helping absorb incremental credit cost coming from retail assets. However, the internal accruals would remain subdued and could be lower than peer banks' in the near to medium term. According to the management, retailisation of the loan book would be the key focus area for the medium-to-long term. While this should be margin-accretive in the medium term, its impact on overall return ratios would depend on loan growth, a moderation of negative carry due to the legacy borrowing book, stabilisation of operating cost and a moderation in provision costs.

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: 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
- the common equity tier-1 buffer falling below 13% on a sustained basis
- if the bank posts a further losses in FY22
- a slowdown in the low-cost granular retail liability accretion

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 Watch			
	Rating Type	Rated Limits (billion)	Rating	7 August 2020	10 December 2019	17 July 2019	27 June 2018
NCDs	Long term	INR184.93	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+/Stable
Basel-III tier 2 debt	Long-term	INR20	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
INE092T08535	NCDs	15 September 2010	8.79	15 September 2020	INR0.85	WD(Paid in Full)
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR1.00	IND AA+/Negative
INE092T08550	NCDs	20 September 2010	8.77	20 September 2020	INR0.8	WD(Paid in Full)
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR1.20	IND AA+/Negative
INE092T08576	NCDs	29 September 2010	8.72	29 September 2020	INR1.35	WD(Paid in Full)
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
INE092T08600	NCDs	2 December 2010	8.89	2 December 2020	INR3.06	WD(Paid in Full)
INE092T08618	NCDs	27 December 2010	9.05	27 December 2020	INR3.39	WD(Paid in Full)
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR2.08	IND AA+/Negative
INE092T08A05	NCDs	17 February 2011	9.35	17 February 2026	INR3.15	IND AA+/Negative
INE092T08634	NCDs	24 March 2011	9.25	24 March 2021	INR5.00	WD(Paid in Full)
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR2.15	IND AA+/Negative
INE092T08CG7	NCDs	21 February 2011	8	21 February 2021	INR1.03	WD(Paid in Full)
INE092T08CH5	NCDs	21 February 2011	8.01	21 February 2021	INR3.36	WD(Paid in Full)
INE092T08CI3	NCDs	30 March 2011	8.25	30 March 2021	INR0.34	WD(Paid in Full)
INE092T08CJ1	NCDs	30 March 2011	8.25	30 March 2021	INR1.08	WD(Paid in Full)
INE092T08CM5	NCDs	21 March 2012	8.7	21 March 2022	INR1.08	IND AA+/Negative
INE092T08CN3	NCDs	21 March 2012	8.7	21 March 2022	INR3.57	IND AA+/Negative
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	IND AA+/Negative
INE092T08CL7	NCDs	30 December 2011	9	30 December 2021	INR1.99	IND AA+/Negative
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	IND AA+/Negative
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	INR184.93	

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	

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

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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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Rating FI Subsidiaries and Holding Companies](#)

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