IDFCFIRSTBANK/SD/77/2023-24 **July 10, 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/Ma'am,

Pursuant to Regulation 30 of the SEBI Listing Regulations, we wish to inform that CRISIL Ratings Limited ("CRISIL") has reaffirmed the existing rating '**CRISIL AA+ / Stable**' in respect of the Tier II Bonds (under Basel III) of the Bank amounting to ₹ 5,000 crore. CRISIL has also re-affirmed CRISIL A1+ rating on the Bank's existing Certificate of Deposits amounting to ₹ 45,000 crore.

Further, Brickwork Ratings has re-affirmed the existing rating **'BWR AA+'** in respect of the Non-Convertible Debenture ("NCDs") of the Bank amounting to ₹ 871.60 crore and has placed the rating outlook on 'Rating Watch with Developing Implications'. Brickwork Ratings has also withdrawn the rating outstanding on the matured NCDs amounting to ₹ 1096.80 crore as these are fully redeemed and no amount is outstanding against the same.

The aforesaid revision in Credit Ratings are post taking note of the announcement made by the Bank on July 03, 2023 for the Amalgamation of (a) IDFC Financial Holding Company Limited into and with IDFC Limited; and (b) IDFC Limited into and with IDFC FIRST Bank Limited and their respective shareholders, through a Composite Scheme of Amalgamation.

A detailed Rating Rationale(s) 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: 2023.07.10 23:01:01 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

CRISIL Ratings

Rating Rationale

July 10, 2023 | Mumbai

IDFC FIRST Bank Limited

Ratings Reaffirmed

Rating Action

Rs.45000 Crore Certificate of Deposits	**CRISIL A1+ (Reaffirmed)**
Tier II Bonds (Under Basel III) Aggregating Rs.5000 Crore	**CRISIL AA+/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the debt instruments of IDFC FIRST Bank Limited (IDFC FIRST) at 'CRISIL AA+/Stable/CRISIL A1+'

CRISIL Ratings has taken note of the composite scheme of amalgamation amongst IDFC Financial Holdings Company Limit (IDFC FHCL), IDFC Ltd and IDFC FIRST as announced by IDFC FIRST on July 3, 2023. The scheme has received approval from the respective board of directors of both the companies and now awaits various regulatory, creditors and shareholders' approval.

This amalgamation is expected to result in simplification of the corporate structure of the bank, whereby the shareholding structure will become more diversified with higher public shareholding.

Currently, both the companies merging into IDFC FIRST Bank, namely IDFC FHCL and IDFC Ltd have no material ongoing operations and the merger is expected to result in an accretion of Rs 500 to Rs 600 crore to the overall balance sheet (pro-forma) of the bank. As on March 31, 2023, the unmerged entity (IDFC Bank) had a networth and total assets of Rs 25,847 crore and Rs 2,39,882 crore respectively.

The ratings on the debt instruments on IDFC FIRST Bank remain unaffected by this development. Nonetheless, CRISIL Ratings will continue to monitor the progress on the announced amalgamation and its impending impact, if any, on the bank.

The rating continues to be driven by steady scale up of business, backed by strengthening of both retail asset and liability side franchise, improved asset quality, and expectation of continued improvement in operating and overall profitability. Furthermore, the ratings reflect the bank's healthy capitalisation level.

IDFC FIRST's funded assets grew 24% year-on-year to Rs 1,60,599 crore as on March 31, 2023, from Rs 1,29,051 crore as on March 31, 2022. Within this, the bank's retail funded assets (69% of total funded assets as on March 31, 2023) grew 34% year-on-year, thereby outpacing the growth of 21% clocked by the banking industry over fiscal 2023.

Furthermore, the bank's liability franchise has also strengthened with retail deposits of current account and savings accounts (CASA) and term deposits of up to Rs 5 crore having grown 45% to Rs 1,13,745 crore as on March 31, 2023, from Rs 78,515 crore as on March 31, 2022. These comprised 79% of total deposits as on March 31, 2023 (74% as on March 31, 2022).

The bank's overall gross non-performing assets (GNPAs) reduced to 2.5% (Rs 3,884 crore) as on March 31, 2023, from 3.70% (Rs 4,469 crore) and 4.15% (Rs 4,303 crore) as on March 31, 2022, March 31, 2021, respectively. This was supported by lower slippages largely driven by gradual shift towards retail and commercial financing and write-offs in the legacy infra book. Retail and commercial book comprised 78.5% of total funded assets as on March 31, 2023 (71.7% as on March 31, 2022) and GNPAs in retail and commercial portfolio reduced to 1.65% (Rs 2,075 crore) as on March 31, 2023, from 2.63% (Rs 2,432 crore) as on March 31, 2022.

Profitability continues to improve with net earnings having increased to Rs 2,485 crore in fiscal 2023 from Rs 135 crore in fiscal 2022 (Rs 483 crore in fiscal 2021). Correspondingly, return on assets (RoA) increased to 1.2% for fiscal 2023 from 0.1% for fiscal 2022 and 0.3% for fiscal 2021. The overall improvement in profitability was driven by improved net interest margin (5.9% of average total assets in fiscal 2023 and 5.5% in the previous fiscal) and lower credit costs (0.8% of average total assets in fiscal 2023; 1.8% in fiscal 2022).

Over the medium term, the bank's capital position is expected to remain healthy while its earnings profile continues to improve. The asset quality is also expected to remain stable but as the business continues to scale with higher focus on the retail segment, the bank's ability to sustain asset quality and profitability along with growth will remain a key monitorable.

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 14.2% and overall CAR of 16.8% as on March 31, 2023 (14.88% and 16.74%, respectively, as on March 31, 2022). The capital position is supported by timely capital raises of Rs 2,196 crore in fiscal 2023, and Rs 2,000 crore and Rs 3,000 crore in the first quarters of fiscals 2021 and 2022, respectively, along with Tier II bonds of Rs 1500 crore each, raised in the fiscal 2022 and fiscal 2023. Hereafter, the anticipated continuity of improvement in profitability would further support the capitalisation buffers, and the bank's ability to demonstrate this remains critical. On March 31, 2023, the bank's consolidated networth was sizeable at Rs 25,847 crore, thereby providing cushion against asset-side risks, with networth coverage for net NPAs of 19.8 times as on that date. (Rs 21,082 crore and 11.7 times, respectively, as on March 31, 2022).

As the growth strategy remains focused on the retail and commercial loans portfolio along with scaling down of the legacy infrastructure loan portfolio, the bank's capital consumption is expected to reduce. Additionally, improved profitability will aid capitalisation ensuring that it remains healthy to support credit growth over the medium term.

Strengthened liability franchise:
With healthy growth rate of 37% in overall deposits (including certificate of deposits) in fiscal 2023 (19% in fiscal 2022), the bank has outpaced the banking industry's deposit growth rate. The customer deposits (excluding the certificate of deposits) grew by 47% (year on year) to Rs 1,36,812 crore as on March 31, 2023, from Rs. 93,214 crore as on March 31, 2022. This was largely driven by traction in granular retail deposit franchise (CASA deposits and term deposits up to Rs 5 crore) which grew 45% between fiscals 2022 and 2023; These retail deposits comprised 79% of total deposits as on March 31, 2023. Mobilisation of CASA deposits have been steady, accounting for 49.8% of total deposits (35.7% of overall resources) as on March 31, 2023 (48.4% (32.3%), as on March 31, 2022).

Over the past few years, the bank has reduced its dependence on wholesale deposits, certificate of deposits and discharged majority of other high-cost legacy liabilities by replacing it with retail deposits. This has strengthened its overall liability franchise by making it more granular. In the near future, the bank is expected to retire ~Rs 14,859 crore of high-cost bonds and Rs. 2,814 crore, of legacy borrowings through refinance, which shall further strengthen its resource profile. As the bank's credit grows over the medium term, its ability to adequately scale its retail liability base to support this traction will remain a monitorable.

Increased retailisation of asset book supporting asset quality improvement:
Total funded assets grew to Rs 1,60,599 crore as on March 31, 2023, from Rs 1,29,051 crore as on March 31, 2022 (Rs 1,17,127 crore as on March 31, 2021), registering annual growth rate of 24%. This growth was propelled by significant scale up in the proportion of granular retail and commercial book to 78.5% of the overall funded assets as on March 31, 2023, compared to 71.7% as on March 31, 2022 (38.2% as on March 31, 2019).

The retail and commercial portfolio grew 36% to Rs 1,26,135 crore as on March 31, 2023, from Rs 92,477 crore as on March 31, 2022 (Rs 75,404 crore a year earlier). There was growth across retail product offerings including prime home loans, credit card, gold loans, education loans, tractor loans being launched in the last 2 years and being scaled up from a relatively low base.

As the infrastructure financing portfolio, which was a major contributor to the GNPAs of the bank in the past, has already reduced sharply (being gradually replaced by retail loans which have grown at a steady pace) the portfolio composition has changed structurally, leading to improvement in the overall asset quality.

In the coming years, the management plans to maintain its steady growth trajectory in the retail and commercial loan book by leveraging their expertise and track record and targeting small entrepreneurs and retail customers to drive growth. On the other hand, the corporate book (non-infrastructure; 16% of total funded assets as on March 31, 2023) is expected to grow selectively while the infrastructure book (3% as on March 31, 2023) is left to run down. Consequently, the concentration risk in total funded assets has reduced, with the top 10 borrowers accounting for only 2.7% as on March 31, 2023.

The overall GNPAs reduced to 2.5% (Rs 3,884 crore) as on March 31, 2023, from 3.70% (Rs 4,469 crore) as on March 31, 2022, and 4.15% (Rs 4,303 crore) as on March 31, 2021. This was supported by lower overall slippages and improved asset quality in the retail and commercial funded assets and write-offs in the legacy infra book. GNPAs in retail and commercial portfolio reduced to 1.65% (Rs 2,075 crore) as on March 31, 2023, from 2.63% (Rs 2,432 crore) as on March 31, 2022 (4.01% (Rs 2,966 crore) as on March 31, 2021). At the same time, the GNPAs of the corporate (non-infrastructure) book was 2.87% (Rs 695 crore) as on March 31, 2023, against 2.75% (Rs 599 crore) as on March 31, 2022.

The bank continues to take various risk management initiatives including reducing borrower concentration, industry concentration, exposure to high-risk sectors, which should support the overall asset quality over the medium term.

Leading indicators of asset quality, that is high collection efficiency levels (~99.5%) and the improving trajectory of SMA 1 and SMA 2 levels to 1% as on March 31, 2023, from 1.8% as on March 31, 2022, point to steady asset quality levels. Nevertheless, given the recent high growth rates in the retail portfolio, asset quality performance as the portfolio seasons will need to be seen.

Weakness:
Modest, albeit improving, profitability:
Since fiscal 2022, IDFC FIRST's overall profitability has continued to improve at a steady pace on a quarter-on-quarter basis. The net earnings on a consolidated basis rose to Rs 2,485 crore for fiscal 2023 with return on average assets (ROAA) of 1.2%, against Rs 132 crore and 0.1%, respectively, for fiscal 2022 (Rs 483 crore and 0.3%, respectively, for fiscal 2021).

Over the past few fiscals, net earnings have been low due to the investments required to scale up the business, as well as higher credit costs emanating from the legacy book and the Covid-19 pandemic.

Given that the bank has been in its early stage of growth, in order to enhance CASA deposits and retailisation of the loan book, the bank rolled out 603 new branches, 785 new automated teller machines (ATMs), hired more than 20,000 employees, and invested in digital innovation initiatives since December 2018. As a result, operating cost has remained relatively high for fiscal 2023. However, it is expected to reduce over the medium term with planned expansion in funded assets leading to economies of scale.

Substantial scale up in retail and commercial loan portfolio has been supporting the core profitability of the bank, leading to a pre-provisioning operating profit of Rs 4,996 crore for fiscal 2023 (2.3% of average total assets), against Rs 3,284 crore (1.9% of average total assets) for fiscal 2022 (Rs 2,542 crore [1.6%] for fiscal 2021). The net interest margin is also healthy at 5.9% of average total assets for fiscal 2023 (5.5% and 4.7%, respectively, for fiscals 2022 and 2021) given the asset-side focus.

Between fiscals 2019 and 2022, the overall earnings were also constrained by elevated credit cost as the bank made higher provisioning and write-offs to manage the impact of the pandemic as well as the stress in the legacy infrastructure finance portfolio. However, credit costs have reduced to 0.8% in fiscal 2023 from 1.8% in fiscal 2022 as lingering asset quality challenges have been surmounted to a large extent. Provision coverage ratio at 66.4% as on March 31, 2023 (59.5% as on March 31, 2022), was also adequate and continues to support the credit risk profile from potential credit losses. Including the technical write-off, the provision coverage ratio improved to 80.29% as on March 31, 2023, from 70.29% as on March 31, 2022, and 63.57% as on March 31, 2021. Excluding the run-down infrastructure book, the provision coverage ratio, including technical write-off stood at 86.85% as of March 31, 2023.

CRISIL Ratings expects overall profitability of the bank to benefit from increasing proportion of the relatively higher-yielding retail advances, reducing reliance on high-cost wholesale borrowings, operating efficiency kicking in with scale up and incremental credit cost remaining range bound. As the business scales up, the bank's ability to sustain improvement in profitability will remain a key monitorable.

Liquidity: Superior
Liquidity coverage ratio was 120% (as against a stipulated requirement of 100%) for the quarter ended March 31, 2023. Furthermore, excess statutory liquidity was Rs 8884.5 crore as on March 31, 2023, forming around 5.45% 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.

ESG:
The environment, social and governance (ESG) profile of IDFC FIRST supports its credit risk profile.

The ESG profile for the financial sector entities typically factors in governance as a key differentiator between individual banks. The sector has reasonable social impact because of its substantial employee and customer base and can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on the environment.

IDFC FIRST has an ongoing focus on strengthening various aspects of its ESG profile.

The key ESG highlights are as follows:

- The bank follows the Equator Principles, an internationally accepted credit risk management framework for identifying, assessing, and managing environmental and social risk in project finance.
- As part of social objective, the bank financing promotes financial inclusion. The bank has extended finance across 670,000 villages/towns and of this, 75% of the borrowers are women.
- The bank is also aligning its ESG governance framework to the global Task Force on Climate-Related Financial Disclosures (TCFD) framework, the recommendations of which are structured around four thematic areas: governance, strategy, risk management and metrics and targets.
- 60% of the board members are independent directors. A dedicated investor grievance redressal mechanism is in place and the disclosures put out by it are extensive.

There is growing importance of ESG among investors and lenders. The commitment of IDFC FIRST to ESG will play a key role in enhancing stakeholder confidence, given the participation of foreign portfolio investors in shareholding of the bank and access to capital markets.

Outlook: Stable
CRISIL Ratings believes IDFC FIRST will maintain its capitalisation at healthy levels while growing its retail asset portfolio and strengthening its liability franchise.

Rating Sensitivity Factors
Upward factors:
* Substantial and sustained improvement in market position, along with build-up of retail liabilities
* Capital position remaining strong with CET1 ratio (including CCB) remaining above 13% on a sustained basis
* Asset quality and profitability remaining above average on a steady-state basis

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 Company
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 financing 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 a 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 management buyout (MBO) with equity backing from Warburg Pincus. Prior to the MBO, the NBFC was primarily engaged in corporate lending while post the MBO, it transformed into a retail lender with focus on consumer and small and medium enterprise segments. 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 (AUM) of CFL grew at compound annual growth rate (CAGR) of 29% over the five years till March 2018. Over the same time frame, the profits 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: corporate banking, consumer banking and rural banking. It had a network of 576 branches as on December 31, 2020. Additionally, it has 271 business correspondent branches and 560 ATMs including recyclers across the country. Prior to the merger, IDFC Bank had loan book of Rs 75,337 crore (as on September 30, 2018) largely concentrated towards infrastructure and wholesale lending. On the other hand, CFL's AUM (Rs 32,622 crore on the same date) was primarily retail, focused on small entrepreneurs and the consumer segment. On merger, the merged entity had AUM of Rs 1,04,660 crore as on December 31, 2018. In the initial few quarters post the merger, IDFC FIRST proactively recognised and provided for stressed assets as well as invested in expanding its reach for building a strong retail franchise.

For fiscal 2023, IDFC FIRST reported profit after tax (PAT) of Rs 2,485 crore and total income (net of interest expense) of Rs 17,104 crore, against Rs 132 crore and Rs 12,880 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators: consolidated

As on/for the period ended	Unit	Mar'23	Mar'22	Mar'21
Total assets	Rs crore	2,39,882	1,90,146	1,63,072
Total income (net of interest expense)	Rs crore	17,104	12,880	9,594
Pre-provisioning operating profit	Rs crore	4,996	3,284	2,542
PAT	Rs crore	2,485	132	483
Return on assets	%	1.2	0.1	0.3

Key financial indicators: Standalone

As on/for the period ended	Unit	Mar'23	Mar'22	Mar'21
GNPAs	%	2.51	3.70	4.15
PAT	Rs crore	2437	145	452
Overall capital adequacy ratio	%	16.82	16.74	13.77

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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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
INE092T08EZ3	Tier II bonds (under Basel III)	1-Dec-22	8.7	1-Dec-32	1500	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	2,000	Complex	CRISIL AA+/Stable
NA	Certificate of deposits programme	NA	NA	7-365 Days	45,000	Simple	CRISIL A1+

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			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Certificate of Deposits	ST	45000.0	CRISIL A1+	02-06-23	CRISIL A1+	01-11-22	CRISIL A1+	30-04-21	CRISIL A1+	09-04-20	CRISIL A1+	--
			--		--	29-06-22	CRISIL A1+		--	18-02-20	CRISIL A1+	--
			--		--	07-04-22	CRISIL A1+		--	07-02-20	CRISIL A1+	--
Fixed Deposits	LT		--		--	29-06-22	Withdrawn	30-04-21	F AAA/Stable	09-04-20	F AAA/Stable	--
			--		--	07-04-22	F AAA/Stable		--		--	--
Tier II Bonds (Under Basel III)	LT	5000.0	CRISIL AA+/Stable	02-06-23	CRISIL AA+/Stable	01-11-22	CRISIL AA/Positive	30-04-21	CRISIL AA/Stable	09-04-20	CRISIL AA/Stable	--
			--		--	29-06-22	CRISIL AA/Stable		--	18-02-20	CRISIL AA/Stable	--
			--		--	07-04-22	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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About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

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CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html

RATING RATIONALE

07 July 2023

IDFC First Bank Ltd.

Brickwork Ratings withdraws the rating of NCDs aggregating Rs.1096.80 Cr on full redemption and reaffirms the BWR AA+ rating of outstanding NCDs aggregating Rs.871.6 CR of IDFC First Bank Ltd. and places the rating on Watch with Developing Implications.

Particulars:

Instruments	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (6 June 2022)	Present
Non Convertible Debentures	871.60	**871.60**	Long Term	BWR AA+ (Stable) Reaffirmed	**BWR AA+ (Rating Watch with Developing Implications)**
	1096.80	**-**	Long Term	BWR AA+ (Stable) Reaffirmed	**Withdrawn on Redemption**
Total	1968.40	**871.60**	**Rupees Eight Hundred Seventy One Crore and Sixty Lakhs only**		

*Please refer to BWR website **www.brickworkratings.com/** for the definition of the ratings
Note: outstanding NCDs as on 30th June 2023.
Note: ISIN-wise details are provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) withdraws the rating of the non-convertible debentures aggregating Rs.1096.8 Cr of IDFC First Bank Ltd. on redemption. Withdrawal is in line with BWR's policy for withdrawal of ratings.

Brickwork Ratings (BWR) reaffirms the rating of the outstanding non-convertible debentures aggregating Rs.871.6 Cr of IDFC FIRST Bank Ltd (IFBL or the 'Bank'), as tabulated above and places the rating on Watch with Developing Implications.

The Rating Watch with Developing Implications (RWDI) follows the announcement on 3rd July 2023 by the Board of Directors of IDFC First Bank Ltd of (i) the Composite Scheme of Amalgamation of IDFC Financial Holding Company Ltd. (IDFC FHC) into and with IDFC Ltd., and IDFC Ltd into and with IDFC First Bank Ltd. (Bank), and (ii) Reduction of the Securities Premium Account of the Bank. The ratings are placed on Watch on account of aligned uncertainties with respect to the Scheme of Amalgamation and its impact on the financial and operating performance of the IDFC First Bank. BWR will continue to closely monitor the developments and the progress of the transaction. BWR is in talks with the management of the

Bank to understand the implications of the proposed amalgamation. It will evaluate its impact on the business and financial profile of IDFC First Bank once more clarity emerges and will take appropriate rating action as may be required.
Based on the initial discussion with the management, the scheme of amalgamation is expected to be Balance Sheet neutral transaction for IDFC First Bank Ltd. and is expected to result in inflows of cash and cash equivalents / investments of approximately Rs.500 Cr to Rs.600 Cr which would increase the net worth of the merged entity.
BWR factors in the Bank's performance upto FY23, feedback from the Debenture trustees, publicly available information, and information and clarification provided by the Bank's management, while reaffirming the rating.

The rating reaffirmation factors in the Bank's comfortable capital adequacy ratio (CAR) of a total 16.82% (CET-1 ratio of 14.2%) as of 31 March 2023, along with an increase in the business size to Rs.2.97 lakh Crs. (FY22: Rs.2.22 lakh Crs) consisting of Gross funded assets of Rs.1,60,599 Cr (FY22: Rs.1,29,051 Crs.) and total customer deposits of Rs.1,36,812 Cr (FY22: Rs.93,214 Crs) as of 31 March 2023 through increased focus on the retail portfolio. This was supported by the improvement in asset quality with Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) ratios of the Bank declining 119 bps and 67 bps respectively to 2.51% and 0.86% respectively as at 31 March 2023 on the back of lower overall slippages and improved asset quality in the retail and commercial funded assets and write-offs in the legacy infra book. The Bank has a strong board of directors and a dynamic management team under the leadership of Mr V. Vaidyanathan as its Managing Director and Chief Executive Officer.
With scale up of operations, earnings profile of the Bank also improved with Bank reporting net profit of Rs.2437 Cr in FY23 as against Rs.145 Cr in FY22 supported with higher net interest margin which improved from 5.9% in FY22 to 6.1% in FY23, higher fee income and lower cost to income ratio which reduced from 77.79% in FY22 to 72.54% in FY23.

The rating is, however, constrained by the high Credit Deposit ratio, of more than 100%. Even though the Credit Deposit ratio (including Certificates of Deposits) has continuously improved during the last 4 years and reached 107% as on 31st March 2023 from 114% as on 31st March 2022, it is still high as compared to the peers because of the legacy reasons. The incremental credit to deposit ratio for the year FY23 was 86%.
BWR will continue to monitor the sustainability of the current growth indicators along with the asset quality, especially the incremental slippages from the bank's exposure to business loans, particularly in the retail sector.

KEY RATING DRIVERS

Credit Strengths-:
Comfortable capitalisation: The Bank's capital adequacy ratios as of 31 March 2023 continue to remain strong, and it has a total CAR of 16.82% and CET-1 ratio of 14.2%, which is well above the regulatory requirement for the Capital Adequacy Ratio. The Bank is also increasingly building on the advances portfolio towards a better rated portfolio to improve its risk-weighted

assets (RWA). The Bank infused fresh equity capital funds amounting to Rs.2196 Crs during FY23 and also mobilised maiden Tier II bonds of Rs.1,500 Crs on a private placement basis.

Gradual conversion of business mix: The Bank is in the process of transforming its liability profile from wholesale to retail. During FY23, total customer deposits of the Bank increased by 47% to Rs.1,36,812 Cr of which Rs.71,983 Cr was CASA deposits. CASA deposits have grown 41% YoY and with a CAGR of 74% during the last four years.

The Bank is also working on reducing its dependence on high cost legacy infrastructure bonds and refinancing the same with the low cost debt. High Cost borrowings of the Bank reduced from Rs. 25,180 Cr as on 31st March 2022 to Rs.17,673 Cr as on 31st March 2023. The Bank expects it to further reduce by Rs.5,132 Cr during FY24. The Bank is also reducing its dependence on Certificate of Deposits to finance its operations and instead relying on other money market instruments.

Total funded advances of the Bank increased by 24.4% to Rs.1,60,599 Cr, with continued focus on increasing the share of the granular and diversified retail book. The share of retail and commercial loan book to total funded advances increased to 78.5% in FY23 from 71.7% in FY22. The retail funded book is diversified, and the book increased 36.4% YoY to Rs. 1,26,135 Cr from Rs.92,477 Cr as on 31 March 2022. The housing loans book grew by 39% YoY as of 31 March 2023 to Rs.19,552 Cr. Loan against property grew by 11% YoY to Rs.20,199 Cr, Vehicle financing grew by 53% YoY to Rs.14,823 Cr, consumer loans grew by 20% YoY to Rs.20,819 Cr, rural finance grew 48% YoY 19,181 Cr, digital gold loans and others grew 50% YoY to Rs.12,123 Cr, credit card grew 74% YoY to Rs.3,510 Cr and commercial finance grew 57% YoY to Rs.15,928 Cr.

The Corporate (non-Infra) funded book increased 9% YoY to Rs.25,984 Cr in FY23 whereas infrastructure financing declined by 32% YoY to Rs.4664 Cr. The Bank will continue to run down this legacy infrastructure financing book.

The top 10 borrowers' concentration as a percentage of the total loans and advances is 2.7% as on 31st March 2023. The Bank will continue to maintain it at <5% during FY24 and FY25.

Improving Asset Quality: As the infrastructure financing portfolio, which was a major contributor to the GNPAs of the bank in the past, has already reduced sharply with Bank's strategy to reduce the legacy book, and the portfolio composition has become more granular to include higher contribution from retail assets. This has led to improvement in the asset quality. GNPA and NNPA ratios of the Bank improved by 119 bps and 67 bps respectively to 2.51% and 0.86%, respectively. This was supported by lower overall slippages and improved asset quality in the retail and commercial funded assets and write-offs in the legacy infra book. GNPAs in retail and commercial portfolio reduced to 1.65% (Rs 2,075 crore) as on March 31, 2023, from 2.63% (Rs 2,432 crore) as on March 31, 2022 (4.01% (Rs 2,966 crore) as on March 31, 2021). At the same time, the GNPAs of the corporate (non-infrastructure) book was 2.87% (Rs 695 crore) as on March 31, 2023, against 2.75% (Rs 599 crore) as on March 31, 2022. Including technical write-offs, the provision Coverage Ratio at the Bank level increased by 1000 bps to 80.29% as compared to 70.29% in March 2022. Provision coverage excluding run down Infra financing book increased to 86.85% in FY23 as compared to 76.04% in FY22.

Improving earnings profile: The Bank's net interest income increased to Rs.12635 Cr (FY22: Rs.9706 Crs) driven by improvement in net interest margin and non-interest income increased to Rs.4142 Cr. (FY22: Rs.2691 Crs.) from yearly Fee and Other Income. The pre-provision operating profit (PPOP) increased by 50% to Rs.4932 Cr (FY22 - Rs.3,284 Crs) with improved income levels. With increase in profits, ROA improved from 0.08% in FY22 to 1.13% in FY23

Strong Board & Experienced Management team: The Bank has a strong board of directors including three non-independent directors, wherein two of them represent the major shareholders of the bank viz. IDFC Limited. It also has six independent directors. The Bank has a dynamic and an experienced team of management under the leadership of the bank's Managing Director and Chief Executive Officer Mr. V. Vaidyanathan. Recently, the Chief Operating Officer of the Bank, Mr. Madhivanan Balakrishnan has been inducted in the Board of Directors.

Credit Risks-:

Higher Credit Deposit Ratio as compared to its peers: Even though the Credit Deposit Ratio (including Certificate of Deposits) of the bank improved from 114.49% as on 31st March 2022 to 107.05% as on 31st March 2023, it still remains high as compared to its peers due to legacy reasons. However, over the last four years, the Bank has continuously improved the same with consistent deposit growth which has been higher than the calibrated growth in advances.

Higher cost to Income ratio: The Bank has expanded its network from 596 branches as of 31 March 2021 and 877 ATMs (including recyclers) to 809 branches and 925 ATMs (including recyclers) across the country as of 31 March 2023. The Bank has also informed that it has invested heavily in creating digital capabilities, IT infrastructure, analytics driven customer journeys and processes to cater to the growing digital banking needs. This has resulted in comparatively higher operating expenses, and the cost to income ratio as the Bank is still in its early stage of operations as compared to its peers. Even though it has reduced from 77.79% in FY22 to 72.54% in FY23, it is on a higher side in the industry.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the Bank's standalone financials and rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). The non-convertible debentures are excluded from being categorised under any of the Basel III instruments, and a base case rating has been extended to the non-convertible debentures.

RATING SENSITIVITIES

UPWARD: Robust growth in business, a substantial improvement in the asset quality, credit deposit and cost to income ratio, profitability and resource mix, along with the maintenance of comfortable capital adequacy ratios, shall be positives for the Bank.

DOWNWARD: A substantial increase in the gross NPA ratio above 5% and the weakening of the profitability would constitute negatives that could impact the Bank's ratings and/or outlook.

LIQUIDITY INDICATORS: ADEQUATE
The average LCR was strong, at 120%, for the quarter ending on 31 March 2023 and was well above the regulatory requirement. The Bank had a cash and bank balance of Rs.10739.4 Crs, investments of Rs.61,123.55 Crs. and borrowings of Rs.57212 Crs. on a net worth of Rs.25721 Crs. as of 31 March 2023, which is adequate to repay the maturing debt.

BANK's PROFILE
Background: IDFC FIRST Bank was formed by the amalgamation of Capital First Limited and Capital First Home Finance Limited into IDFC Bank in December 2018, which was rechristened as IDFC FIRST Bank in January 2019. As of 31 March 2023, the Bank had 809 branches and 925 ATMs (including recyclers) across the country, a total balance sheet size of Rs.2,39,942 Crs and business size of Rs.2,97,411 Crs. The Bank is held 39.99% by the promoter – IDFC Ltd. as of 31 March 2023. Mr V. Vaidyanathan is the managing director of the Bank and is supported by an experienced team of management and a strong Board of Directions including executive director Mr. Madhivanam Balakrihnan, six independent directors Mr. Sanjeeb Chaudhuri Mr. Aashish Kamat, Mr. Hemang Raja, Mr.Pravir Vohra, Ms. Brinda Jagirdar and Mr.S Ganesh Kumar, along with three non-executive non-independent directors Mr. Ajay Sondhi, Dr. Jaimini Bhagwati and Mr. Vishal Mahadevia.

KEY FINANCIAL INDICATORS

Parameters	Units	FY 2022 Audited	FY 2023 Audited
Total Business	Rs. Crs.	2,22,265	2,97,411
Net Interest Income	Rs. Crs.	9,706	12,635
Net profits	Rs. Crs.	145	2,437
Gross NPA	Per Cent	3.7	2.51
PCR	Per Cent	70.29	80.29
Total CAR	Per Cent	16.74	16.82

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S. No	Instrument/ Facility	Current Rating			Rating History		
		Type	Amount (Rs.Crs.)	Rating	2022	2021	2020
1	Non Convertible Debentures	Long Term	871.6	BWR AA+ (Stable) Reaffirmed	BWR AA+/Stable (Reaffirmed) (Rs.1968.40 Crs.)	BWR AA+/Stable (Reaffirmed) (Rs.2496.90 Crs.)	BWR AA+ (Stable) Reaffirmed (Rs 3372.20 Crs.)
2.	Non Convertible Debentures	Long Term	1096.80	Withdrawn	BWR AA+/Stable	BWR AA+/Stable	BWR AA+/Stable
3	Term Loans	Long Term	0	-	-	Withdrawn on prepayment in full	BWR AA+ (Stable) Reaffirmed (Rs. 660 Crs.)
	Total		**871.6**	**Rupees Eight Hundred Seventy One Crore and Sixty Lakhs Only**			

*Please refer to BWR website **www.brickworkratings.com/** for definition of the ratings

COMPLEXITY LEVELS OF THE INSTRUMENTS –

Instrument Details	Issue Date	Rated Amount Rs Crs	Maturity Date	ISIN	Complexity Levels
NCD	19-07-2016	34	19-Jul-23	INE092T08DG5	Simple
NCD	20-09-2016	25	18-Sep-26	INE092T08DM3	Simple
NCD	3/5/2017	70	3-May-24	INE092T08EC2	Simple
NCD	17-05-2013	49.5	17-May-28	INE688I08053	Simple
NCD	23-09-2014	49.6	23-Sep-99	INE688I08079	Complex
NCD	29-09-2015	49.6	29-Sep-25	INE688I08087	Simple
NCD	30-10-2015	74.9	30-Oct-25	INE688I08095	Simple
NCD	20-11-2015	25	20-Nov-25	INE688I08103	Simple

NCD	15-12-2015	25	15-Dec-25	INE688I08111	Simple
NCD	29-12-2015	34.2	29-Dec-25	INE688I08129	Simple
NCD	1/3/2016	56.8	1-Mar-99	INE688I08145	Complex
NCD	6/6/2016	28.2	6-Jun-99	INE688I08152	Complex
NCD	25-07-2016	30	24-Jul-26	INE688I08160	Simple
NCD	24-08-2017	146.6	24-Aug-27	INE688I08178	Simple
NCD	18-09-2017	76.2	18-Sep-99	INE688I08186	Complex
NCD	7/6/2018	29	7-Jun-24	INE688I08194	Simple
NCD	7/6/2018	68	6-Jun-25	INE688I08202	Simple
		871.6			

For more information, visit **www.brickworkratings.com/download/ComplexityLevels.pdf**

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **BWR's Policy for withdrawal of Ratings**
- **Banks and Financial Institutions**
- **Rating Criteria for Capital Instruments issued by Banks and Financial Institutions.**

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IDFC FIRST Bank Ltd

ANNEXURE I
INSTRUMENT DETAILS

Following is the list of Outstanding non convertible debentures as of 30th June 2023

Instrument Details	Issue Date	Rated Amount Rs Crs	Coupon Rate (%)	Maturity Date	ISIN
NCD	19-07-2016	34	9.15	19-Jul-23	INE092T08DG5
NCD	20-09-2016	25	8.75	18-Sep-26	INE092T08DM3
NCD	3/5/2017	70	8.45	3-May-24	INE092T08EC2
NCD	17-05-2013	49.5	9.50	17-May-28	INE688I08053
NCD	23-09-2014	49.6	10.50	23-Sep-99	INE688I08079
NCD	29-09-2015	49.6	9.40	29-Sep-25	INE688I08087
NCD	30-10-2015	74.9	9.25	30-Oct-25	INE688I08095
NCD	20-11-2015	25	9.25	20-Nov-25	INE688I08103
NCD	15-12-2015	25	9.25	15-Dec-25	INE688I08111
NCD	29-12-2015	34.2	9.25	29-Dec-25	INE688I08129
NCD	1/3/2016	56.8	10.5	1-Mar-99	INE688I08145
NCD	6/6/2016	28.2	9.75	6-Jun-99	INE688I08152
NCD	25-07-2016	30	9.24	24-Jul-26	INE688I08160
NCD	24-08-2017	146.6	8.25	24-Aug-27	INE688I08178
NCD	18-09-2017	76.2	8.6	18-Sep-99	INE688I08186
NCD	7/6/2018	29	9.10	7-Jun-24	INE688I08194
NCD	7/6/2018	68	9.10	6-Jun-25	INE688I08202
		871.6			

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