

IDFCFIRSTBANK/SD/72/2021-22

May 28, 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.: **Update on Ratings of the Non-Convertible Debentures ('NCDs') and Bank loan facilities of IDFC FIRST Bank Limited (the 'Bank').**

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 **Brickwork Ratings** have re-affirmed existing rating ('BWR AA+/Stable') in respect of Bank's NCDs (Rs. 2,496.90 crore) and have withdrawn the rating of Bank loan facilities due to its pre-payment (NIL outstanding) by the Bank.

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

RATING RATIONALE

27 May 2021

IDFC First Bank Limited

Brickwork Ratings reaffirms ‘BWR AA+/Stable’ rating on IDFC First Bank Ltd.’s Non-Convertible Debentures of Rs.2496.90 Crs and Withdraws the Rating of Bank loan facilities

Particulars:

Instruments	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (May 2020)	Present
Non Convertible Debentures	3372.20	2496.90	Long Term	BWR AA+ (Stable)	BWR AA+ (Stable) Reaffirmed
Fund Based: Bank Loans	660	0	Long Term	BWR AA+ (Stable)	Withdrawn; as fully repaid
Total	4032.20	2496.90	Rupees Two Thousand Four Hundred Ninety Six Crores Ninety Lakhs Only		

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

Note: The reduction in the total rated amount from Rs.4032.20 Crs to Rs.2496.90 Crs is post redemption in non convertible debentures and prepayment of the bank loans in full. The aforesaid is the outstanding amount as of 24 May 2021

Note: ISIN-wise details is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the rating of non-convertible debentures and withdraws the rating of bank loan facilities of IDFC First Bank Ltd (IDFCFB or the bank), as tabulated above. BWR factors in the bank’s performance upto FY21, publicly available information, and information and clarification provided by the bank’s management.

The rating reaffirmation factors in the bank’s comfortable capital adequacy ratios of a total CAR of 13.77%, Tier I ratio of 13.27% and CET-1 ratio of 13.27% as of 31 March 2021, its strengthening to total CAR of 16.32%, Tier I ratio of 15.62% and CET - 1 ratio of 15.62% as of 06 April 2021 with capital infusion of Rs.3000 Crs and expected strengthening of these ratios in FY22; increase in business size to Rs.1.89 lakh Crs (FY20: Rs.1.5 lakh Crs) consisting of net advances of Rs. 100,550 Crs (FY20: Rs.85,595 Crs) and total deposits of Rs. 88,688 Crs (FY20: Rs.65,108 Crs) as of 31 March 2021 through increased focus on the retail portfolio. The bank has a strong board of directors and dynamic team of management under the leadership of Mr V. Vaidyanathan as its Managing Director and Chief Executive Officer.

The rating is, however, constrained by the increase in gross non performing assets (NPA) ratio to 4.15% (FY20: 2.6%) as of 31 March 2021. The slippages to NPA were muted during the period Q4FY20 to Q3FY21 following the regulatory moratorium and the Supreme Court's order of 03 September 2020. These were relief measures of relaxations provided to the borrowers whose business and cash flows were affected by the COVID19 pandemic. Later in Q4FY21, following the regulatory guidelines of asset classification, the bank's additions to gross NPA was Rs.5626 Crs in FY21, as against Rs.2689 Crs in FY20. The Bank's reductions to NPA for FY21 were better at Rs.3603 Crs, as against Rs.2545 Crs. The additions to NPA for the bank was mainly from the retail loan segment amounting to Rs.1982 Crs during FY21. The collections which remained low during most of FY21, improved to ~100% in March 2021. Going forward, maintaining the higher levels of collection of ~100% to avoid incremental slippages to NPA especially from the retail loan segment, shall be a monitorable in the near term

BWR continues to maintain the bank's outlook as stable as it expects the bank to continue increasing its business mix in favour of a retail portfolio over the next year, especially in better yielding assets, along with an increase in the CASA ratio, continual growth in earnings and operating profits, the maintenance of comfortable capital adequacy ratios and infusion of capital funds to assist business growth and manage incremental delinquency, if any. However, the incremental slippages from the bank's exposure to business loans especially in the retail sector shall be monitorable

BWR has withdrawn the rating of bank loan facilities of IDFC First Bank Ltd. The said loans were availed from NABARD as refinance for lending to the rural sector. The Bank has prepaid the rated bank loans in full as confirmed by NABARD. Hence, at the request of IDFC First Bank Ltd and no objection from NABARD, BWR withdraws the rating for bank loan facilities of IDFC First Bank Ltd, which is in line with the BWR Rating policy

KEY RATING DRIVERS

Credit Strengths:

Comfortable capitalisation: The bank's capital adequacy ratios as of 31 March 2021 continue to remain strong, and it has a total CAR of 13.77%, tier 1 ratio of 13.27% and CET-1 ratio of 13.27%, which is well above the regulatory requirement of 10.875%, 8.875% and 7.375%, respectively. 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 capital funds amounting to Rs.3000 Crs on 06 April 2021, and strengthened the total CAR to 16.32% and tier-I and CET-1 ratios to 15.62% each. The networth of the bank is comfortable at 11x of its net non performing assets as of 31 March 2021.

Gradual conversion of business mix: The bank's business mix is gradually shifting from wholesale to retail. It was in the proportion of 46:54 as of FY19, which stands shifted in the proportion of 37:63 in favour of retail. The bank has increased the retail book both on the liabilities, as well as assets side.

The bank has increased its CASA deposits from Rs.20,661 Crs as of 31 March 2020 to Rs.45,896 Crs as of 31 March 2021. The CASA ratio improved from 31.9% as of 31 March 2020 to 51.8% as of 31 March 2021. The bank increased its total customer deposits from Rs.57,719 Crs as of 31



March 2020 to Rs.82,725 Crs as of 31 March 2021, and has decreased its Certificate of Deposits from Rs.7,111 Crs as of 31 March 2020 to Rs.5,964 Crs as of 31 March 2021.

The bank increased its retail funded assets by 26% from Rs.57,310 Crs in FY20 to Rs.73,673 Crs in FY21. The retail-funded assets book of the bank consists of mortgage loans, micro, small and medium enterprises (MSME) loans, consumer loans and rural micro finance. All these segments have grown by ~20%, and home loans grown by 37%, for FY21 over FY20. The wholesale-funded assets book consisting of infrastructure decreased by 27% to Rs.10,808 Crs, through prepayments, and these are further expected to decrease for FY22.

Strong board and experienced management team: The bank has a strong board of directors consisting of two non independent directors - one of them represents 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 Mr. V. Vaidyanathan - Managing Director and Chief Executive Officer of the Bank.

Moderate earnings profile: The bank's net interest income increased to Rs.7380 Crs (FY20: Rs. 6075 Crs) from its better yielding products and other income to Rs.2254 Crs (FY20: Rs.1722 Crs) from its treasury and fee based income. The operating profits increased to Rs.2541 Crs (FY20: Rs.1937 Crs) with improved income levels. The bank earned a net profit of Rs.452 Crs in FY21 as against a net loss of Rs.2,864 Crs in FY20. During FY21, the bank's provisions (other than tax) of Rs.2065 Crs though lower than Rs.4315 Crs in FY20, includes COVID19 provisions of Rs.375 Crs for FY22. And the PCR is maintained at 65% (including COVID provisions) for FY21 (FY20: 64%). Incremental slippages to the asset quality and its impact on provisions and net profits for FY22 shall remain a monitorable.

Credit Risks:

Concerns on asset quality: The bank has a GNPA of Rs.4303 Crs, standard restructured advances of Rs.1328 Crs and net NPA of Rs.1883 Crs. The slippages to NPA were muted during the period Q4FY20 to Q3FY21 following the regulatory moratorium and the Supreme Court's order of 03 September 2020. These were relief measures of relaxations provided to the borrowers whose business and cash flows were affected by the COVID19 pandemic. Later in Q4FY21, following the regulatory guidelines of asset classification, the bank's additions to gross NPA was Rs.5626 Crs in FY21, as against Rs.2689 Crs in FY20. The Bank's reductions to NPA for FY21 were better at Rs.3603 Crs, as against Rs.2545 Crs. The additions to NPA for the bank was mainly from the retail loan segment amounting to Rs.1982 Crs during FY21. The collections which remained low during most of FY21, improved to ~100% in March 2021. Going forward, maintaining the higher levels of collection of ~100% to avoid incremental slippages to NPA especially from the retail loan segment, shall be a monitorable in the near term. The revival in the economic activity of borrowers shall remain the key concern on asset classification and their treatment by the end of FY22. The bank's exposure to retail funded assets comprises business loans under consumer loans and MSME, and the impact of COVID-19 on the asset quality from these segments shall be a key monitorable over the near term.

Higher cost to income ratio: The bank has expanded its network from 464 branches as of 31 March 2020 to 596 branches as of 31 March 2021. It has 592 automated teller machines as of 31 March 2021 (FY20: 356). This has resulted in higher operating expenses and the cost to income ratio (without trading gains) of 79% (FY20: 77%), is on a higher side in the industry. The Credit deposit ratio of the bank has improved from 131% in FY20 to 113% in FY21, is on a higher side in the industry

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organization (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments, could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its 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. As the bank loans availed from NABARD as refinance for lending to the rural sector, the base case rating was extended to these bank loans.

RATING SENSITIVITIES

UPWARD: Strong growth in business, substantial improvement in asset quality, profitability and resource mix, along with maintaining comfortable capital adequacy ratios, shall be positives for the bank.

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

LIQUIDITY INDICATORS: ADEQUATE

As of 31 March 2021, the average quarterly liquidity coverage ratio of the bank was 153% and well above the regulatory requirement of 90%. The bank had a cash and bank balance of Rs.5,828 Crs, investments of Rs.45,411 Crs and borrowings of Rs.45,786 Crs on a networth of Rs.17,808 Crs as of 31 March 2021. The bank's Basel III leverage ratio of 8.99% as of 31 March 2021 is well above the regulatory requirement.

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. The bank has completed two full years of its operations in

FY21. The bank had 596 branches and 592 ATMs on a total balance sheet size of Rs.163,143 Crs and business size of Rs.189,238 Crs as of 31 March 2021. The key shareholders of the bank are the Government of India (4.61%), IDFC Ltd (39.98%), Warburg Pincus affiliates (9.93%), as of 31 March 2021. Mr V. Vaidyanathan is the managing director of the bank and is supported by an experienced team of management.

KEY FINANCIAL INDICATORS

Parameters	Units	FY 2020 Audited	FY 2021 Audited
Total Business	Rs Crs	150,703	189,238
Net Interest Income	Rs Crs	6,076	7,380
Net profits	Rs Crs	(2864)	452
Gross NPA	Per Cent	2.60	4.15
PCR	Per Cent	64	65
Total CAR	Per Cent	13.38	13.77

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 (Long Term / Short Term)	Amount (₹ Crs)	Rating	2020	2019	2018
1	Non Convertible Debentures	Long Term	2496.90	BWR AA+/Stable (Reaffirmed)	BWR AA+ (Stable) Reaffirmed (Rs 3372.20 Crs)	BWR AA+ (Stable) Assigned 28-May-2019 (Rs.5825 Crs)	-
2	Term Loans	Long Term	0	Withdrawn on prepayment in full	BWR AA+ (Stable) Reaffirmed (Rs 660 Crs)	BWR AA+ (Stable) Assigned 28-May-2019 (Rs.1200 Crs)	-

Total	2496.90	Rupees Two Thousand Four Hundred Ninety Six Crores and Ninety Lakhs Only
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*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

COMPLEXITY LEVELS OF THE INSTRUMENTS - SIMPLE

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

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Complexity levels of the Rated Instruments](#)
- [Basel III Compliant Instruments](#)

Analytical Contacts	
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IDFC First Bank ANNEXURE I INSTRUMENT DETAILS

Following is the list of Outstanding non convertible debentures as of 24-May-2021

Sno	ISIN Code	Bonds Name	Maturity Date	Coupon	Amt Rs Crs
1	INE092T08DA8	9.10% IDBKL CFL-10-31-05-2021	31-May-21	9.1000	149.00
2	INE092T08DF7	9.10% IDBKL CFL-15-30-06-2021	30-Jun-21	9.1000	99.00
3	INE092T08DI1	8.70% IDBKL CFL-18-15-09-2021	15-Sep-21	8.7000	20.00
4	INE092T08DL5	8.70% IDBKL CFL-21-20-09-2021	20-Sep-21	8.7000	15.00
5	INE092T08DZ5	8.40% IDBKL CFL-35-13-04-2022	13-Apr-22	8.4000	50.00
6	INE092T08EB4	8.40% IDBKL CFL-37-03-05-2022	03-May-22	8.4000	180.00
7	INE092T08EJ7	8.25% IDBKL CFL-45-27-06-2022	27-Jun-22	8.2500	50.00
8	INE092T08EK5	8.25% IDBKL CFL-46-14-07-2022	14-Jul-22	8.2500	460.00
9	INE092T08EU4	8.25% IDBKL CFHFL-76-29-09-2022	29-Sep-22	8.2500	100.00
10	INE092T08EN9	8.25% IDBKL CFL-49-08-12-2022	08-Dec-22	8.2500	175.00
11	INE688I08012	10.30% IDBKL CFL-64-SUB 28-02-23	28-Feb-23	10.3000	100.00
12	INE688I08020	10.30% IDBKL CFL-63-SUB 28-02-23	28-Feb-23	10.3000	50.00
13	INE092T08DB6	9.10% IDBKL CFL-11-31-05-2023	31-May-23	9.1000	20.00

14	INE092T08DD2	9.10% IDBKL CFL-13-13-06-2023	13-Jun-23	9.1000	7.00
15	INE092T08DG5	9.15% IDBKL CFL-17-19-07-2023	19-Jul-23	9.1500	35.20
16	INE092T08EC2	8.45% IDBKL CFL-38-03-05-2024	03-May-24	8.4500	70.00
17	INE688I08194	9.10% IDBKL CFL-74-SUB 07-06-24	07-Jun-24	9.1000	30.00
18	INE688I08202	9.10% IDBKL CFL-75-SUB 06-06-25	06-Jun-25	9.1000	70.00
19	INE688I08087	9.40% IDBKL CFL-66-SUB 29-09-25	29-Sep-25	9.4000	50.00
20	INE688I08095	9.25% IDBKL CFL-67-SUB 30-10-25	30-Oct-25	9.2500	74.90
21	INE688I08103	9.25% IDBKL CFL-68-SUB 20-11-25	20-Nov-25	9.2500	25.00
22	INE688I08111	9.25% IDBKL CFL-69-SUB 15-12-25	15-Dec-25	9.2500	25.00
23	INE688I08129	9.25% IDBKL CFL-70-SUB 29-12-25	29-Dec-25	9.2500	35.00
24	INE688I08160	9.24% IDBKL CFL-72-SUB 24-07-26	24-Jul-26	9.2400	30.00
25	INE092T08DM3	8.75% IDBKL CFL-22-18-09-2026	18-Sep-26	8.7500	25.00
26	INE688I08178	8.25% IDBKL CFL-73-SUB 24-08-27	24-Aug-27	8.2500	147.30
27	INE688I08053	9.50% IDBKL CFL-65-SUB 17-05-28	17-May-28	9.5000	49.50
28	INE688I08145	10.50% IDBKL CFL-60PERP 01-03-99	01-Mar-99	10.5000	60.00
29	INE688I08038	11.00% IDBKL CFL-56PERP 08-03-99	08-Mar-99	11.0000	97.00
30	INE688I08046	11.00% IDBKL CFL-57PERP 14-03-99	14-Mar-99	11.0000	25.00
31	INE688I08061	10.65% IDBKL CFL-58PERP 24-05-99	24-May-99	10.6500	15.00
32	INE688I08152	9.75% IDBKL CFL-61PERP 06-06-99	06-Jun-99	9.7500	30.00
33	INE688I08186	8.60% IDBKL CFL-62PERP 18-09-99	18-Sep-99	8.6000	78.00
34	INE688I08079	10.50% IDBKL CFL-59PERP 23-09-99	23-Sep-99	10.5000	50.00
		Outstanding NCDs as of 24-May-2021			2496.9

Total Rupees Three Thousand Three Hundred Seventy Two Crores Twenty Lakhs Only

Bank Loans

Facility	Lender	Limit Rs Crs	O/s Rs Crs
Term loans	NABARD	500	0
Term loans	NABARD	700	0
Bank Loans outstanding as of 24-May-2021		1200	0

Total Rupees Nil

The bank loans have been fully prepaid by the Bank, as confirmed by the lender - NABARD.



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