New **Bank.** New **Mission.** New **India.**






IDFC FIRST BANK LIMITED

ANNUAL REPORT
2018-19

IDFC FIRST Bank

Message from the MD and CEO

A New Beginning

Dear fellow Shareholders,

It is my great privilege to write this letter to you all. As the first MD and CEO of the newly merged entity IDFC FIRST Bank, I wanted to share our thoughts about our approach going forward, our vision, mission, our founding theme and what we want to achieve.

Since this is my first note to you, I am also sharing with you what really happened behind-the-scenes at my end that led me here, and the sequence of events that culminated in the creation of IDFC FIRST Bank.

In 2004, RBI announced two new bank licences for Kotak Bank and Yes Bank. I was with my colleagues at ICICI Bank when the news broke and instinctively exclaimed to my colleagues "Let's go to the RBI and ask for a bank licence too!." I figured that it was an impractical idea for an individual to apply for a bank licence, yet the thought stayed.

A year later, I was inaugurating an MCHI Property exhibition, and one of the stalls we passed by was of a palmist. My friends from ICICI remind me to this date that I asked the palmist in jest "When will I get a bank licence"! Jest it might have been, but it did reveal a wish nevertheless. The following year, in 2006, I joined the ICICI Bank Board of Directors and such ideas went into cold storage only to come back a few years later in 2010.

The Plan: The issue was - how do I get started? So I came across a simple idea - start an NBFC where entry licence conditions are relatively easier, finance small entrepreneurs and new-to-credit customers, and, hope to succeed and approach RBI for a banking licence someday. Pursuing this theme, I came across an existing NBFC, so I decided to acquire a stake in it, and give the idea a go. It was a long shot but an exciting thought.

And whom would we lend to? Since I was heading retail banking, the idea was to build a bank doing just that - retail banking. Thousands of small entrepreneurs all around us (shopkeepers, kirana shops, auto mechanics, dentists etc.) could not avail credit from the formal financial system because of not filing income tax returns, but usually had a strong cash-flow or sound business model

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We plan to implant the erstwhile Capital First's tried and tested model of financing small entrepreneurs and consumers [a retail franchise, growing at 29% per annum and 5-year profit CAGR of 55%, (FY18 PAT grew by 37%)], on a bank platform, (IDFC Bank's strong branch network of 242 and growing, excellent technology stack, quality internet and mobile banking, and strong rural presence).

V. Vaidyanathan
Managing Director & CEO,
IDFC FIRST Bank Limited

"The founding years, which I call the next five years, are particularly important, as the DNA we establish now will be hard to correct later. We will make every effort to sell the right products to customers, avoid mis-selling, avoid selling such third-party products that make wonderful fees for us but at the cost of expensive products for the customer. If we make a mistake, we will apologise and correct it. After all, we do not want to take this Bank to great heights in profits and profitability while having earned any penny that truly does not belong to us."

since generations. Further, the middle class was beginning to borrow for consumption. The thought was to provide finance for their businesses, and for buying homes, cars and consumption to the less organised. I thought of this as a big need, and a great opportunity. (Post-merger with IDFC Bank, our new banking platform offers opportunities to expand the scope of technology solutions to medium and large entrepreneurs and these too are great opportunities. This was not part of the plan then in 2010, though).

I got an opportunity for this plan in 2010. The NBFC I got involved with was a loss-making one, it had made losses of ₹ 30 crore & ₹ 32 crore in the prior two years respectively. But it saved time in getting access to a NBFC licence. So over time I acquired significant equity stakes in the company mostly through personal leverage. We shut down unrelated businesses like foreign exchange, broking, asset management and wealth management, and instead started consumer and small business financing in the entity as part of the longer plan.

It was the hardest five years of my life professionally. Raising debt funding was difficult for a start-up loss making entity, and when it was available after a lot of follow-up, it was expensive - we were borrowing at Base Rate plus 500 bps (about 14% rate of interest in today's terms), and we lent upwards of 20%. Bit by bit, bank by bank, we borrowed ₹ 1,000 crore, and started building the loan book. I got the timing all wrong because during this period, the growth rate of the Indian economy was falling precipitously by the quarter from 10% to 5%, inflation was high (9-10%), and the RBI was raising interest rates - they raised it 16 times at a stretch. I didn't know where to spend my time - there was so much to cover - we had to raise debt, raise equity, build business, hire people, build relationships, build technology stack, report quarterly results, make pitches, manage environment and media and so on. Fortunately, our team was great and each one of them put in extraordinary effort to deliver on these.

And there were always dilemmas whether to build business or slow it down, grow out of trouble or play conservative, focus on cost of funds or quantity, focus on immediate profits for the sake of stakeholders or to invest for the future, to book securitisation profits upfront or amortise it, to buy a stack or make it, greenfield research or off-the-stack models and so on. These decisions look easy when working for a MNC, or a large profitable institution, but not so when you are small, loss making and depend on the courtesy of the markets.

But one thing was clear: the target customer segment - it was the unorganised, underserved segment, by using technology. They would pay us the rates as appropriate to our borrowing costs. It was riskier to lend to, so we had to discover new ways to lend with greenfield research, sans tax returns. Over 50% of our target customers were not on the credit bureau as no one in the formal sector had lent to them. So we had to be extra careful.

The Take-off: The idea took off well; within a year, the retail loan book grew from ₹ 94 crore to ₹ 770 crore and we had the desired proof of concept to show to potential equity investors. We were running out of equity and our maiden attempt to raise equity through QIP had failed to take off. Then by the turn of certain circumstances, I learnt there was another way to raise equity - Private Equity. Meanwhile we raised more debt of ₹ 2,000 crore, and took the loan book to ₹ 2,700 crore by 2012. After countless presentations for over a year to all major PE players

Message from the MD and CEO (Contd.)

demonstrating the proof of concept, we won the backing of ₹ 810 crore in 2012 from Warburg Pincus.

Selling the idea to a backer was not enough, there were too many approvals to take: from the RBI, SEBI (for Open Offer), FIPB, lenders, shareholders, Forward Markets Commission and so on. The day ₹ 810 crore clinked in the bank account on September 29, 2012, I asked the CFO three times over the phone to check if it was true. We had been racing against time for this. That night I couldn't sleep, it was a great escape.

What followed was a fund raise at ₹ 162 a share in 2012, another equity raise at ₹ 153 a share in 2014, another one at ₹ 390 a share in 2015 and one at ₹ 712 a share in early 2017!

Leveraged Management Buyouts are not uncommon in the West, but in India, this was one of the rare ones. We got a new Board, and new shareholders. We recapitalised the company with a Preferential Allotment followed with a QIP, created a new entity and brand called Capital First. The business continued to grow between at 25% plus YoY.

The soft landing: Within just seven years into 2017, we grew retail loans from ₹ 94 crore to ₹ 18,353 crore in March 2017. We became a strong brand name in the consumer financing segment. The best part was that our asset quality was pristine all through these years. The Gross consistently low at 2% and Net NPA stayed below 1% all through. Our market cap jumped 10X from ₹ 780 crore to over ₹ 7,800 crore between March 2012 and March 2017. I then sold 1.5% of the company in March 2017 to close the loan I had availed to acquire the stake in the beginning. While this was playing out, I had also been trying to figure ways for a commercial banking licence for Capital First. By this time, the RBI had announced norms for on-tap banking licences for eligible entities.

The dynamic IDFC Group: Meanwhile, in parallel, by strong coincidence, a great story was playing out at the IDFC Group under Dr. Lall's dynamic leadership. Under his leadership, IDFC Limited, which was primarily into infrastructure financing, had successfully expanded into Asset Management (acquiring Standard Chartered AMC), Alternative Asset Management (infrastructure Focussed), Securities (acquiring SSKI) and Investment Banking.

IDFC Limited became a highly successful and diversified group under his leadership. The loan book grew from ₹ 21,000 crore in 2009 to ₹ 57,000 crore in 2013, with strong growth in PAT.

But Dr. Lall's extraordinary foresight told him that life as an infrastructure financing company had its limitations, particularly if markets turned hostile to infrastructure. So IDFC Limited had applied for and successfully acquired a banking licence in 2014. The Bank was successfully launched in 2015 and had already set up 17 urban and 83 rural branches, and more were rolling out in the pipeline by the time Dr. Lall reached me in November 2017.

I recently got an opportunity to see IDFC Limited's banking licence application to RBI. It's a masterpiece. Getting a banking licence in India is not an easy task in India; and it was the greatest accomplishment for Dr. Lall to get one for the infrastructure lending group. It says a lot about his foresight, his calm demeanour, his ability to surmount odds, his diplomacy, and the highest levels of corporate governance he imbibed into IDFC, that the RBI found it fit and proper to award a licence to the IDFC Group.

The value proposition was straightforward for both of us. IDFC Bank needed to retailise the loan book away from infrastructure. Building retail financing takes years or decades. Capital First fit the bill perfectly as a merger partner as the retail lending franchise was already built, the last-mile connectivity was built, intellectual property created and the loan book was large at over ₹ 22,000 crore (Sep 17). Not just that, the loan book was seasoned over cycles through seven years. It was a one-shot fast forwarding for IDFC Bank's diversification.

From Capital First's point of view, it got access to the banking licence. At the time we met, IDFC Bank already had a branch network, had great people, had already launched many unique products and services in the market, had great corporate governance, and the platform was already built for a scale-up on the liabilities side. Liabilities - that's all we needed! It was straightaway fast forward for the banking licence plan. Once we met and agreed, both parties quickly appointed lawyers, started financial and legal due diligence on each other, appointed the bankers, all in extreme secrecy.

When we were meeting in secrecy, we reminded each other of a little story. When our QIP had failed in 2011, I had called on Dr. Lall with a request to him to provide us a Subordinated Debt loan of ₹ 200 crore - he had politely declined the loan as it was a risky proposition! I told him a little secret, even Mr. Parekh had declined the same proposal so did many more!

I am quite confident that once we see through this investment phase (expansion of branch network, retailising assets, retailising liabilities), barring unforeseen circumstances, the Bank is set for a continuous and one-way growth in profitability from thereon.

We both had a hearty laugh over our little secret!

The merger announcement: We announced the deal to the markets on January 13, 2018. What followed was another high octane year. Dr. Lall, myself and the respective teams got steadfastly working on putting the merger together. The teams spent time seeking approvals from the Competition Commission of India, Stock Exchanges, SEBI, RBI, creditors, shareholders and NCLT, and other such approvals.

Often, these approvals were contingent on approvals from other parties. I must say that every single entity we approached during this period for approvals was pretty straightforward in their approach and facilitative of the process. Despite the fact that the integration was such a complex act involving a NBFC and a bank, involving regulators, dealing with Companies Act, Banking Regulations, legal issues and other such, the processes went smoothly and I must say to other observers of our country that we are one of the finest places to do business in.

We formally merged on December 18, 2018, and a new entity was founded by the merger, IDFC FIRST Bank. As a result of the work of Dr. Lall and the entire team, 99.98% of IDFC Bank Shareholders and 99.90% of Capital First Shareholders by value approved the transaction. Investment bankers said near 100% approval rates were "astonishing", "extraordinary" and "unprecedented", considering that the two entities were publicly listed and widely traded companies together with near 8,00,000 shareholders.

This was not the first time I had gone through such an experience. Earlier, when Capital First was founded, then too, it involved an open offer, fresh equity raise, preferential allotment, change of ownership, change of brand name, FIPB approval for FDI and so on. But I do believe that doing business in India has become easier over the years.

Our challenges were not these alone. It also involved putting together, merging and evolving the best architecture, and bringing the best of both institutions together. It involved integrating people, varied processes, credit policies, premises, customer segments, strategy, operations, treasury and so on. Putting these pieces together has been back-breaking work for the integration team, and it has been my greatest privilege to have had this opportunity of leading the integration of the two organisations, and to create a new composite, forward-looking bank.

The two institutions bring extraordinary strengths to the table. Both companies had high levels of corporate governance, extremely professional people and energetic staff. The complementarities are obvious and explained elsewhere in this report.

The New business model: The easiest way to understand the new business model is as follows. We plan to implant the erstwhile Capital First's tried and tested model of financing small entrepreneurs and consumers [a retail franchise, growing at 29% per annum and profits 5-year CAGR of 55%, (FY18 PAT grew by 37%)], on a bank platform, (IDFC Bank's strong branch network of 242 and growing, excellent technology stack, quality internet and mobile banking, and strong rural presence). We will also find cutting edge solutions for larger entrepreneurs and corporates and customise technology solutions to meet their needs for trade, forex, credit, deposits, and payments.

The Challenges: A number of research reports including those by reputed entities such as Credit Suisse, Deutsche Bank and Morgan Stanley have pointed out that the bank faces many uphill tasks on profitability

Message from the MD and CEO (Contd.)

Our new bank has a new vision. We want to create the world's best bank, right here in India, for aspiring Consumers and for Entrepreneurs

and liabilities. I don't deny these challenges, also thank them for their efforts to research us. For instance, Morgan Stanley's report read "IDFC has one of the weakest retail liability franchises and one of the lowest share of retail loans among peers." CNBC says the issue of low CASA will be hardest to fix. Deutsche Bank says the bank has a large loan book at over ₹ 1,00,000 crore and low CASA of ₹ 6,500 crore. Negligible CASA will have a very long gestation period." "Building CASA will be a costly and long journey: Credit Suisse"

Of course, we understand this issue, and we are determined to fix it. The only way to address this issue is to grow CASA faster than the growth of the loan book. Our liability products are already a hit in the marketplace and I think we will surprise you on the upside.

"Large infra book related issues": says Deutsche Bank. Our response - this will wind down over time to NIL. We are not doing this anymore.

"A very high opex ratio (79%) should keep returns depressed for a long time." "Low core profitability" are other concerns by research agencies. However, I'm sure this too will get fixed. The compounding power of a finely tuned retail lending machine coupled with low cost of funds of a bank is phenomenal. The margins have already increased from 1.7% to 3.03% as a result of the merger. It will increase year-on-year, you can see the trend in eight quarters.

We are going to invest in setting up a large branch network across the country over the next two years. This may appear to put pressure on the P&L but I assure you these are table stakes to be able to play a long-term game in banking as a large bank in India. I am quite confident that once we see through this phase, barring unforeseen circumstances, the bank is set for a continuous and one-way growth in profitability from thereon.

I have experienced the same situation before. The company I was associated with earlier had posted losses of ₹ 30 crore and ₹ 32 crore. It took two years to put all the building blocks in place, develop intellectual properties and gather momentum. But once the core profit (core NII + Core Fees less operating expenses less normalised credit losses) turned positive to ₹ 37 crore in 2013, there was no looking back as profits compounded at 55% straight for the next five to take us to ₹ 328 crore and yet compounding at 37%, at the time of the merger. I believe it is very much possible to do it again.

Plans: I have guided for the following simple strategy. Grow CASA % from 10% to 30%, grow retail deposits (CASA +TD) as % of total borrowings from 10% to 50%, grow retail loan book as % of total loan book from 35% to 70%, reduce infrastructure loans from 22% to 0%, reduce Cost to income ratio from 80% to 55%, grow branches from 200 to 800, grow NIM from 3% to 5%, all in five years. In short, build franchise, diversify liabilities, diversify assets, improve margins. It's that simple. You will see us consistently delivering on these fronts.

Our Customer Approach: It always starts with the customer. I have made it clear to all that we don't want to do anything that will hurt the customer's interest in the course of scaling up our Bank. The founding years, which I call the next five years, are particularly important, as the DNA of what we establish will be hard to correct later. We will make every effort to sell the right products to customers, avoid mis-selling, avoid selling such products that make wonderful fees for us but at the cost of the customer's pocket. We will communicate all material information to the customer in a transparent manner. If we make a mistake, we will apologise and correct it. After all, we do not want to take this

We want to touch the lives of millions of Indians in a positive way by providing high quality banking services to them, with particular focus on aspiring consumers and entrepreneurs of our new India, using contemporary technologies

Thank you, Dr. Lall, without you there would be no IDFC FIRST Bank. I want to whole heartedly appreciate you and the entire senior management team for the wonderful platform that you built with your hard work. I also sincerely thank the entire Board of erstwhile IDFC Bank for their guidance in building the bank, and to bring it to great success

Bank to great heights in profits and profitability while having earned any penny that truly does not belong to us.

Hence, we selected a new public tag line 'Always You First'. It is a carefully thought-through line and reflects our sincere commitment towards our customers. All of us employees stand committed to this.

A new bank: Since we have new shareholding, new brand name, new brand colour, I see IDFC FIRST Bank practically as a new bank, but with great strengths of the two entities incorporated into one. It pretty much feels like how we felt when Capital First was founded in 2012, with all things new - identity, name, brand colour, shareholders, and business model and we set sail with the same gusto.

Vision and mission: Our new bank has a new vision. "We want to create the world's best bank, right here in India, for aspiring Consumers and for Entrepreneurs."

We want to touch the lives of millions of Indians in a positive way by providing high quality banking services to them, with particular focus on aspiring consumers and entrepreneurs of our new India, using contemporary technologies.

Our nation first: We are confident of not only participating in the growth of Indian GDP, but also contributing to the growth of our beloved nation and her people. We aspire to create millions of employment opportunities, and finance the growth of business and consumption. This will lead to greater domestic production, greater consumption, and we want to contribute in further fuelling the virtuous cycle of growth for our great nation.

To our employees, I have this to say - I know all of you have been through a difficult one year because of the merger, media breakouts and rumours at different stages of the merger. I thank you for keeping your chin up during the process. We are going to create an institution, for all of you, and indeed India, will be proud of, one day.

Thank you, Dr. Lall, without you there would be no IDFC FIRST Bank. Infrastructure financing may not be in vogue today and may be known for low margins and high losses, but back in 2007 it was the in-thing. And to pull the group out of that and to get a banking licence is a stupendous achievement few have achieved, and the merged entity rides upon that today. I want to wholeheartedly appreciate you and the entire senior management team for the wonderful platform that you built with your hard work. I also sincerely thank the entire Board of erstwhile IDFC Bank for their guidance in building the bank, and to bring it to great success. A banking licence is a precious and sacred possession, and we will preserve it with the extreme respect it deserves.

I thank the Media for very responsible reporting during the entire merger process.

I would like to express our sincere thanks to the banking regulator for their consent to the merger. What you have offered is invaluable for us, and we will treasure it and justify your faith. We sincerely thank the Competition Commission of India, BSE, NSE, SEBI, NCLT, shareholders, creditors, rating agencies, and all other people who were instrumental in our successes. Thank you, customers.

V. Vaidyanathan
Managing Director & CEO,
IDFC FIRST Bank Limited

IDFC FIRST – its new identity

A New Look For A New Mission

The new brand identity of IDFC FIRST Bank signifies growth and energy.

It reflects the progressive spirit of our times. The symbolism behind our new identity is drawn from the theme of 'progress'. Inspired by a forward-moving bar graph, it embodies a symbol of growth that can be seen and measured. The three bars stand for a threefold purpose - progress of the bank, progress of our customers and progress of the nation.

About the Logo

The formation of a capitalised 'F' by the staked bars, stands for the principles of 'FIRST' as in, always putting the Customer first.

Looked at in another way, the bars can be also seen as bars of progress which increase continuously over time.

The design of the symbol is characterised by simplicity, connoting the ease of banking with us. The colour maroon sets a powerful tone for the brand. The strong typeface is an expression of our reliability & our constant endeavour to build trust with our customers.

The logo, as our new identity, in its entirety embodies the values of a new-age bank for today's India – progressive, agile, simple, trustworthy and above all, keeping the customer at the heart of everything we do.

Tag line –

Always You First

'You' refers to the customer

Road leading to the Merger

Since this is the first annual report after the founding of the new entity, it is important to share with our existing and prospective shareholders the background and history of the two organisations that have come together to create a new institution. This exercise, which includes trends as well as past strategies leading to the merger will provide clarity to our shareholders and prospective shareholders about the path that the company will take in the future. In this context, we present this report.

In 2010, IDFC Securities was ranked 2nd in the equity league tables by Bloomberg. IDFC ranked among the top 50 companies in India's S&P ESG Index.

History of erstwhile IDFC Bank

The erstwhile IDFC Bank was created by demerger of the infrastructure lending business of IDFC Limited to IDFC Bank in 2015. IDFC Limited was set up in 1997 to finance infrastructure focussing primarily on project finance and mobilisation of capital for private sector infrastructure development. Whether it is financial intermediation for infrastructure projects and services, whether adding value through innovative products to the infrastructure value chain or asset maintenance of existing infrastructure projects, the company focussed on supporting companies to get the best return on investments.

IDFC led infrastructure financing in India

IDFC was focussed on helping to develop the framework for making the funding of long gestation private infrastructure projects possible on a commercial basis. IDFC played a key role in assisting various government agencies design the contractual bases and some of the policies for making Public Private Partnerships (PPPs) financeable. IDFC Ltd raised ₹ 893 crore for India's first infrastructure dedicated growth equity fund in 2003.

Dr. Rajiv B. Lall joined IDFC Ltd in 2005 and diversified the company into a large financial conglomerate. In the same year, IDFC Ltd got listed both in BSE and NSE at a listing price of ₹ 60 per share. The Company raised ₹ 1,372 crore of equity capital through this IPO.

Diversifying into other businesses

Under his leadership, IDFC Limited had excellent growth and became one of the leading infrastructure players in India. In 2006, IDFC Ltd raised over ₹ 2,000 crore for its second infrastructure focussed growth equity fund. In 2007, IDFC Limited raised ₹ 2,100 crore through QIP at ₹ 127 per share. Also, in 2007, the Company acquired SSKI, a leading domestic investment bank and institutional equities firm. SSKI was completely integrated into IDFC as IDFC Securities. In 2008, IDFC Ltd acquired Asset Management business of Standard Chartered Bank in India and set up an office in Singapore. In 2009, IDFC Ltd became a part of the index, NIFTY 50.

In 2010, IDFC Securities was ranked 2nd in the equity league tables by Bloomberg. IDFC ranked among the top 50 companies in India's S&P ESG Index. In the same year, the Company raised ₹ 2,654 crore of equity capital through QIP at ₹ 168 per share. In 2011, IDFC Mutual Fund was ranked as one of the top 10 mutual funds in India by AUM.

In 2012, IDFC Ltd completed its 15 years of operations and got recognised as best NBFC for Infrastructure Financing

IDFC's evolution

1997
- IDFC incorporated in Chennai on the recommendation of the Expert Group on commercialisation of Infrastructure Projects

2003
- IDFC raises ₹ 893 crore for India's first infrastructure dedicated growth equity fund

2005
- IDFC lists on both NSE and BSE. Raises ₹ 1,372 crore of equity capital

2006
- IDFC raises over ₹ 2,000 crore for its second infrastructure focussed growth equity fund

2007
- Does a QIP raising ₹ 2,100 crore at a multiple of 4x the initial IPO price
- Acquired SSKI, a leading domestic investment bank and institutional equities firm

2008
- IDFC raises $700 million in a second growth equity fund and $930 million in a new asset-class to recycle equity in completed infrastructure projects
- Acquires AMC business of Standard Chartered Bank. Set up an office in Singapore

2009
- IDFC becomes a part of Nifty 50
- IDFC is recognised as a top 5 Lead Arranger for Project Finance Loans in Asha by Dealogic
- IDFC becomes a signatory to UNPRI, CDP and the UNGC Global Compact

2010
- IDFC Investment Bank ranked 2nd in the equity league tables by Bloomberg. IDFC ranked among the top 50 companies in India's S&P ESG Index. IDFC launches the National PPP Capacity Building programme to train over 10,000 government officials
- IDFC raises ₹ 2,654 crore in its second QIP at almost 5x of initial list price

2011
- IDFC Mutual Fund ranked 10th in the country by AUM

2012
- IDFC completes 15 years. Recognised as a Business Superbrand. Recognised as the best NBFC for Infrastructure Financing and also receives the Silver for excellence in Financial reporting from ICAI. Set up and office in New York, USA

2013
- IDFC becomes the first Indian signatory to the Equator Principles

2014
- Secured licence from RBI

2015
- Launch of IDFC Bank

and also received the Silver Shield for excellence in financial reporting from ICAI. In the same year, the Company opened its office in New York City, USA. By the end of FY12, IDFC Limited was the 4th largest infrastructure financing player in terms of portfolio size, after State Bank of India, ICICI Bank and Punjab National Bank. It was the largest Infrastructure Financing NBFC in the country.

IDFC Limited showed an exemplary growth in infrastructure financing and diversified well in broking, institutional equities, private equity, alternate assets and mutual fund in the 15 years of operation. The Company's ability to tap global as well as Indian financial resources made it the acknowledged expert in infrastructure finance. But around FY2013-14, India started experiencing issues in the infrastructure segment and the growth slowed down, along with the policy paralysis. Keenly observing this trend, IDFC Ltd wanted to pivot itself into a bank and diversify more into the retail banking businesses.

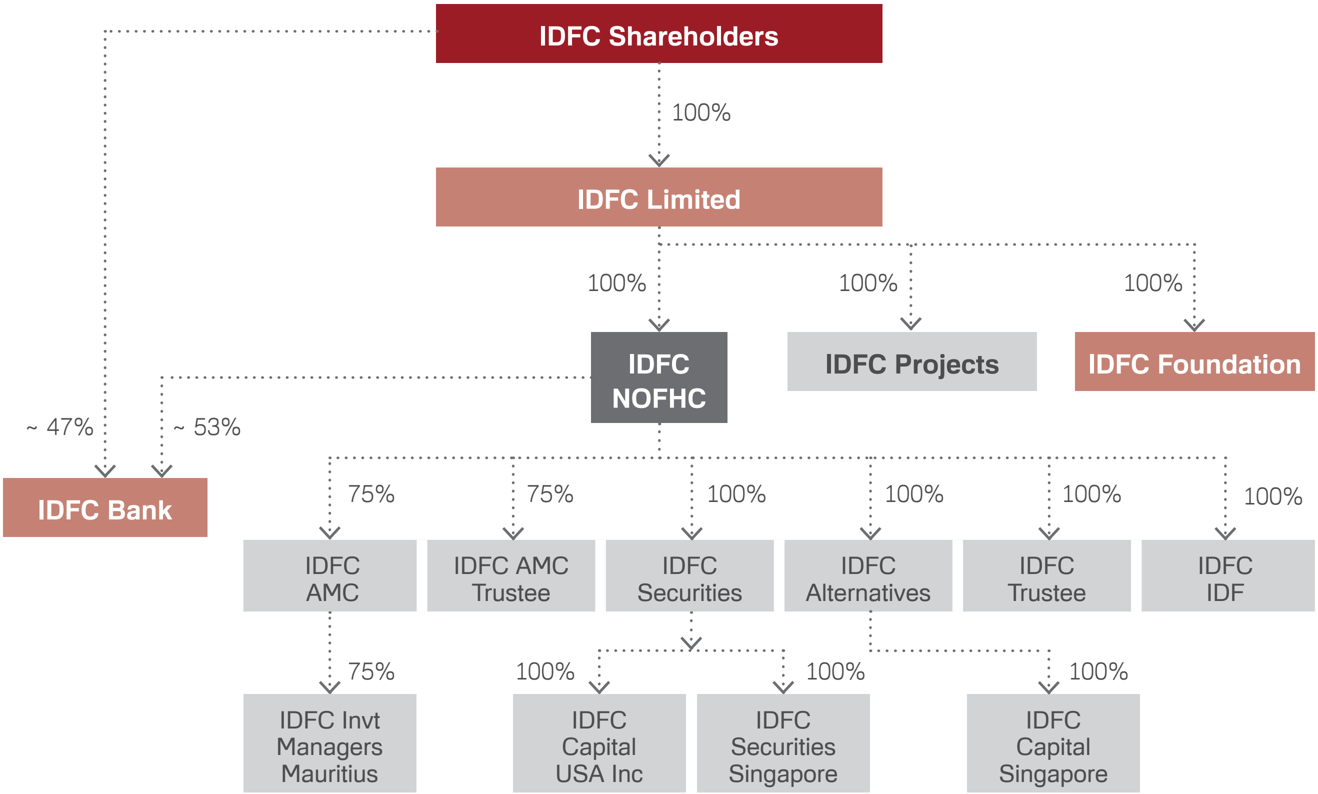
IDFC gets a banking licence

The Company applied for a commercial banking licence to the RBI in 2013. Owing to the efforts of the Company under the leadership of Dr. Rajiv B. Lall, in 2014, the Reserve Bank of India (RBI) granted an in-principle approval to IDFC Limited to set up a new bank in the private sector.

Thus erstwhile IDFC Bank was created by demerger of the infrastructure lending business of IDFC to IDFC Bank in 2015. The parent entity, IDFC Limited, retained businesses of AMC, Institutional Broking and Infrastructure Debt Fund business through IDFC Financial Holding Company Limited (NOFHC).

The shares of erstwhile IDFC Bank Limited were listed in the exchanges in November 2015. During the subsequent three years, the bank developed a strong and robust framework including strong IT capabilities and infrastructure for scaling up banking operations. The Bank designed efficient treasury management system for its own proprietary trading, as well as for managing client operations.

Structure after demerger of IDFC Bank from IDFC Ltd. in October 2015



Key financial highlights of IDFC Bank

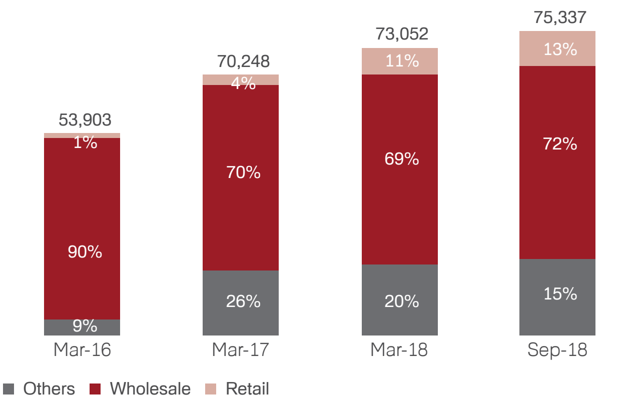
The first three years of the Bank from 2015 to 2018 were spent in setting up the platform which would form the basis for growth in the future. It was also the time when the bank recognised stressed and non-performing infrastructure loans and accounted for them in a transparent manner.

Also, the Bank realised that infrastructure loans could not give the necessary margins for profitability. Thus, the management put together a plan to retailise the balance sheet which would give it enough cushion. The Bank launched retail businesses successfully and was in the process of scaling up and building a sustainable business.

Some of the key financial parameters of the erstwhile IDFC Bank before the merger are shown below –

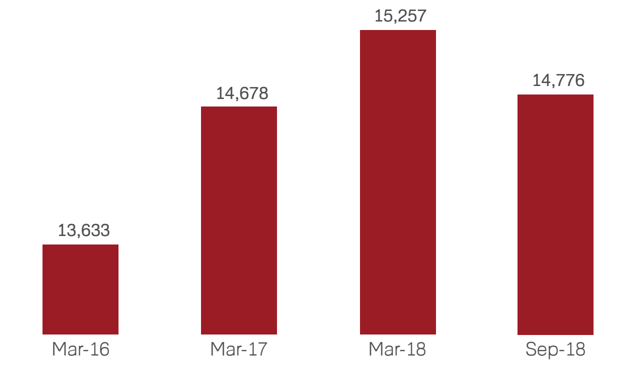
- **Loan Assets:** The Loan Assets of the Bank increased at a moderate pace over the years as the Bank inherited the legacy infrastructure financing book from its parent IDFC Ltd. In FY16, the Bank started the retail financing book and increased it to ₹ 9,916 crore contributing 13% of the overall funded assets as of September 30, 2018. Retail assets was planned for increase as a percentage of overall loan book.

Loan Assets (₹ Cr)



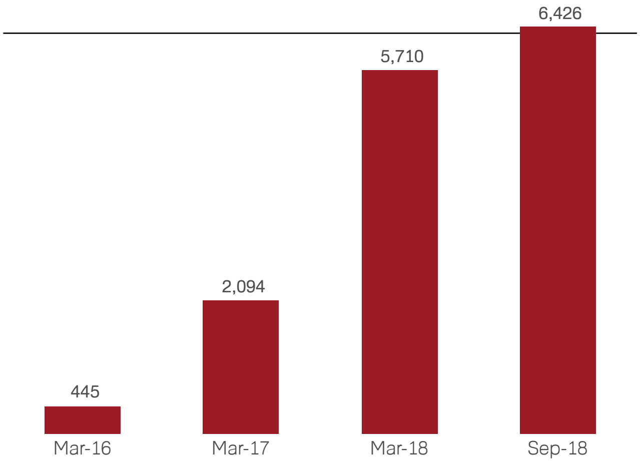
- **Net Worth:** The Net worth of the Bank increased from ₹ 13,633 crore as of March 31, 2016 to ₹ 14,776 crore as of September 2018. However, as the Bank accounted for additional provisioning for loan accounts in its wholesale loan book, and the net worth as of September 30, 2018 was at ₹ 14,776 crore.

Net Worth (₹ Cr)



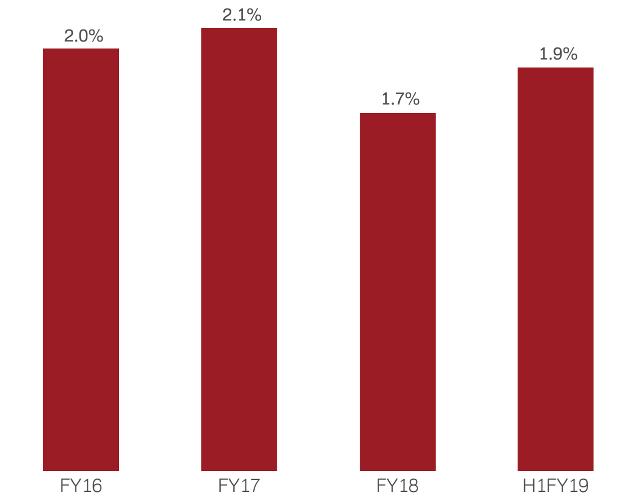
- **CASA Deposits:** Within 3.5 years of operation, the Bank was able to mobilise ₹ 6,426 crore of CASA deposits, out of which ₹ 3,092 crore was in Savings Account deposit and ₹ 3,334 crore was in current account deposits. This was done primarily through 140 branches, out of which 92 branches were rural branches. This was the set-up stage of the Bank.

CASA Deposits (₹ Cr)



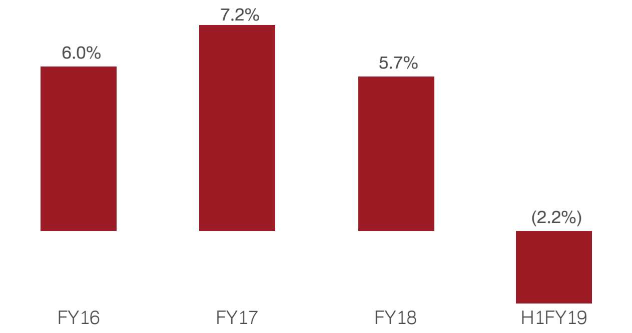
- **Net Interest Margin:** The Net Interest Margin broadly remained in the range of 1.7% - 2.0% during the years of operation. This was primarily because of the low yielding wholesale infrastructure financing book and comparatively higher cost of funds. The idea of the Bank was to increase the margins by retailising the loan books.

Net Interest Margin



- **Return on Equity:** Higher provisioning on loans in the infrastructure book reduced income because of non recognition of income of NPA book and low NIM in core book reduced the RoE in recent years. This would have increased with scale up of retail businesses after a few years.

RoE (%)



The bank diversified from being a predominantly infrastructure financier to wholesale banking operations. But the erstwhile IDFC Bank clearly realised that a bank entirely founded on infrastructure financing business is subjected to relatively higher black swan risks. Since a large portion (90%) of the bank was wholesale (infrastructure and corporate loans) as a legacy from IDFC Limited until 2017, the company put together a strategy to retailise its loan book. The bank launched businesses across retail liabilities including developing an advanced technology stack, Internet and mobile banking, a branch and ATM network, and supported by appropriate systems and processes. Even on the retail assets businesses, the bank launched home loans and other such businesses including acquiring a stake in Grama Vidyal to further its rural banking business. The Bank was well on its way to building a sustainable retail banking franchise.

Merger proposed to accelerate retail

However, the key issue of building retail businesses is that it takes a long time, and further, the market for retail banking is intensely competitive and constantly evolving. Products have to be continuously launched in the market in an agile manner, they have to find acceptance with customers, technological developments such as analytics and scorecard have to be worked out for each of those products, collection capabilities need to be built, the risk metrics of the portfolio show only when the books go through adequate aging. The business that is built has to be adequately scalable, and finally, building profitability of these retail businesses may take a long time to come through, as the business model has to be finely tuned between operating expenses, operating income and credit losses. This also requires building teams that stay stable and develop customer service capabilities across the digital ecosystem as well as the physical premises where the customers walk in.

> Hence, the erstwhile IDFC Bank looked for a retail lending partner who already had scale, profitability and specialised skills, to merge with so that it could jumpstart this process which could otherwise take many years to build, with its attendant probabilities.

The merger talk between the erstwhile Bank and a diversified financial group in India was initiated in 2017 but during the second half of the year, it was called off. Post that, erstwhile IDFC Bank started the discussion with the erstwhile Capital First Limited, one of the leading retail financing NBFCs in India for a possible merger, as Capital First met the requirements.

History of erstwhile Capital First Ltd.

Around the same time (2010-2017), while these events were playing out at IDFC Group, certain events were playing out in parallel at Capital First.

The then MD and CEO of ICICI Prudential Life Insurance Company in 2009-10, Mr. Vaidyanathan, quit the group for an entrepreneurial foray. During 2010-11, he acquired a significant stake in a small listed real-estate financing diversified NBFC and then prepared the ground for a Leveraged Management Buyout of the firm by launching retail financial businesses for small entrepreneurs and consumers.

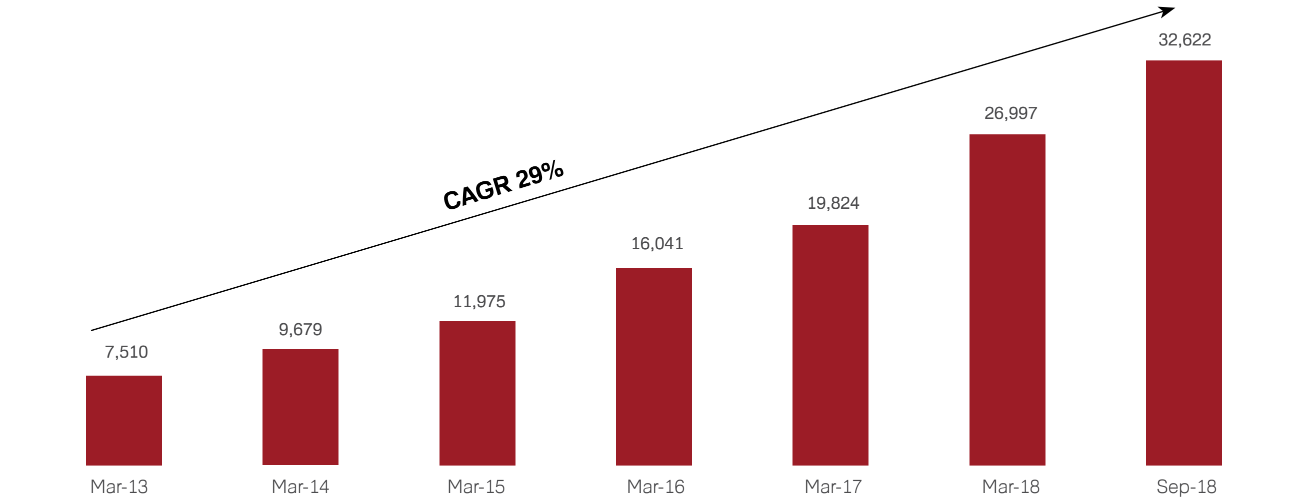
Capital First's technology-driven retail loan book reached ₹ 770 crore by March 2011, and this proof of concept was presented to global private equity players for a management buyout. Meanwhile, he exited non-core businesses like Retail Equity Broking, Foreign Exchange Business, and other unrelated business. In 2012, he concluded India's largest Management Buyout by securing equity backing of ₹ 810 crore from Warburg Pincus, got fresh equity into the company and founded Capital First as a new entity with new shareholders, new Board, new business lines, and fresh equity infusion.

Between March 31, 2010, to March 31, 2018, the Company's Retail Assets under Management increased from ₹ 94 crore to ₹ 25,243 crore. The company financed seven million customers through new age technology models. The credit rating increased from A+ to AAA. The Gross and Net NPA reduced from 5.28% and 3.78% respectively to 2% and 1% respectively. The asset quality remained consistently high.

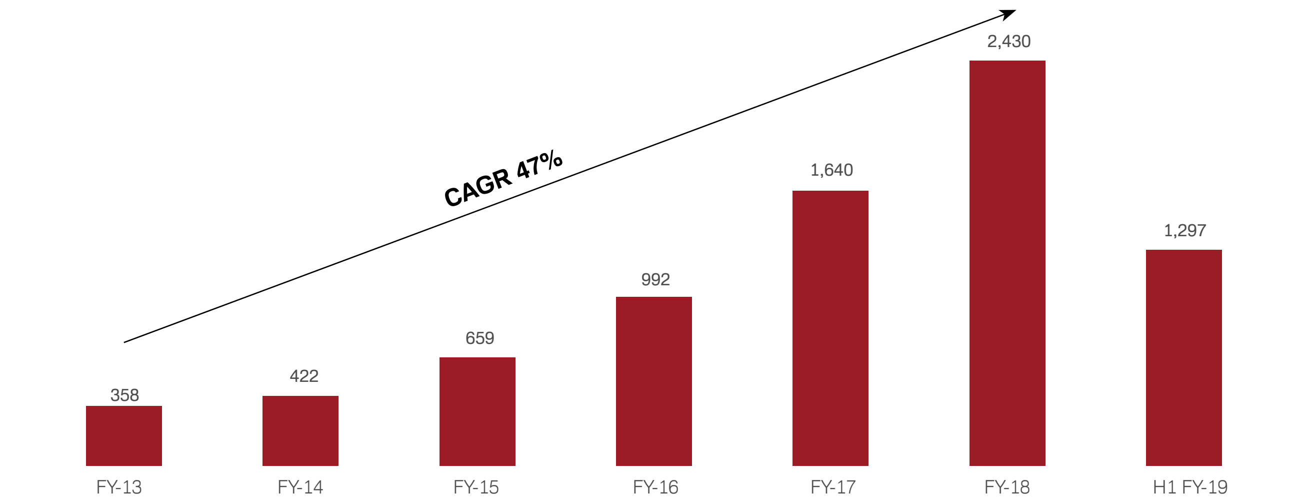
The Gross NPA reduced from 5.28% in 2010 to 2% in 2018 and the net NPA reduced from 3.75% in 2010 to 1% in 2018 and stayed low consistently. The asset quality remained high.

During the last five years, between FY13 and FY18, Capital First Limited grew its overall AUM with a CAGR of 29% and its Net Profit grew with a CAGR of 55% (FY18 PAT grew 37%). During this period, the EPS for the Company grew with a CAGR of 47% and the market capitalisation grew with a CAGR of 40%. However, the Company built its entire business model of retail lending on the basis on wholesale borrowing. This was a critical issue for Capital First as funding limit could be constrained during tight liquidity condition and could lead to black swan risks for the Company. To continue the growth momentum going forward, Capital First needed to diversify its liability base towards retail liabilities which could provide better pricing and sustainable availability of the long-term funding. As per the current regulatory environment, this was only possible under a banking platform.

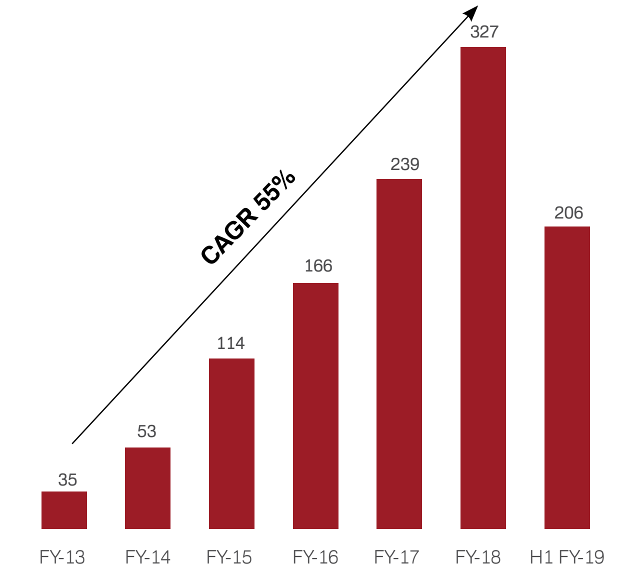
Assets Under Management (₹ Cr)



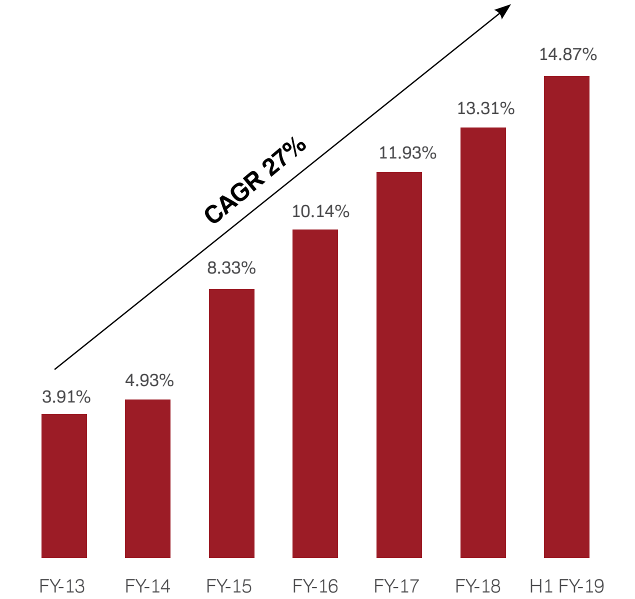
Total Income (₹ Cr)



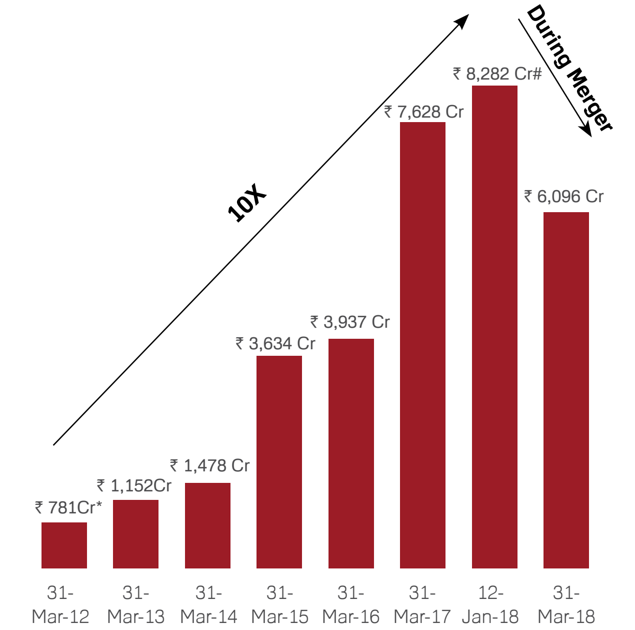
Profit after tax (₹ Cr)



ROE (%)



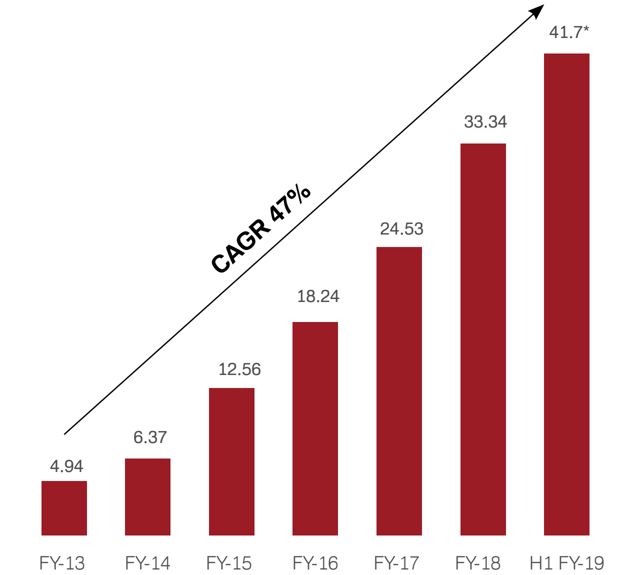
Market Capitalisation (₹ Cr)



* Last date of Financial Year immediately preceding the Management Buyout

\# Market Cap on the day before the announcement of merger with IDFC Bank (Jan 13, 2018).

Earnings per Share (₹)



* Half-Yearly annualised.

Excluding exceptional income of sale of property and upfront accounting for securitisation of ₹ 27 crore at PAT level

The classic turnaround

Further, the company turned around from losses of ₹ 30 crore and ₹ 32 crore in FY08 and FY09 respectively, to ₹ 327 crore by 2018, representing a 5-year CAGR increase of 39.5%. The loan assets grew at a 5-year CAGR of 29%. The RoE steadily rose from 2.5% in 2013 to near 15%. The market cap of the company increased ten-fold from ₹ 780 crore as in March 2012 to over ₹ 7,800 crore in January 2018 at the time of announcement of the merger.

Restructuring and sustained focus on Retail

As part of this recovery process, between 2010-12, the company shut down broking, foreign exchange, property broking, and single-mindedly focussed on building a platform that could easily convert itself to a bank. Importantly, in eight years, the company did not deviate into any other potentially attractive businesses which could otherwise distract the approach of a bank such as investment banking, broking or real estate.

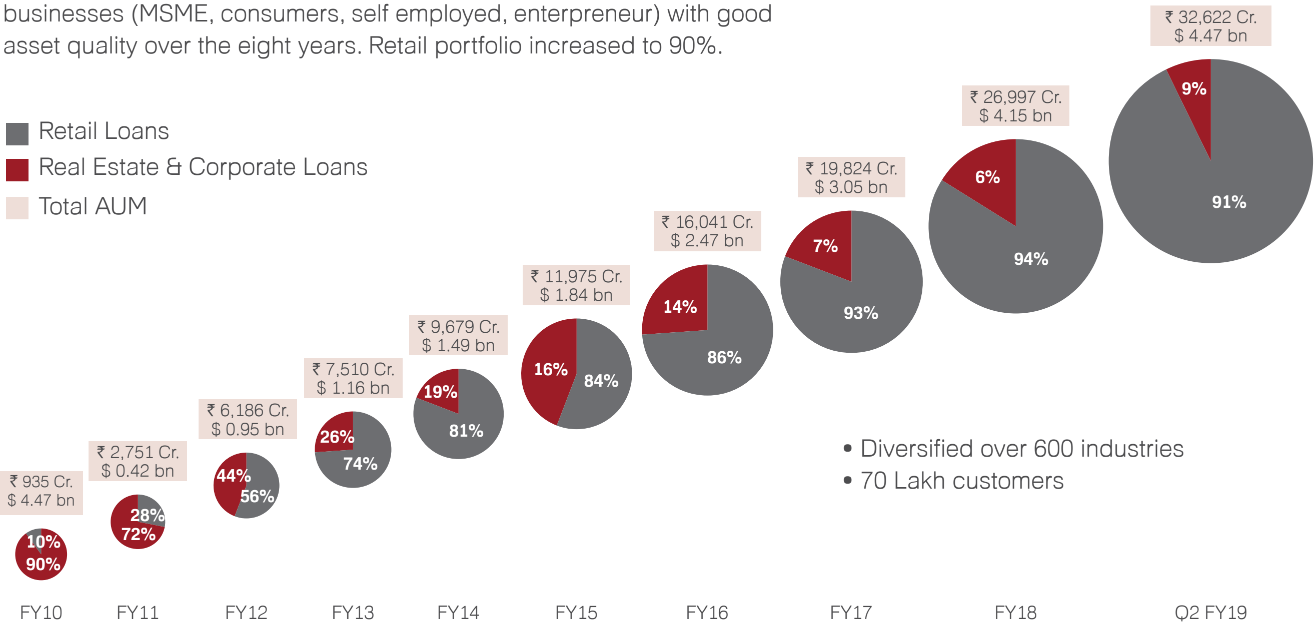
- The first two years prior to creation of Capital First, the company built certain business models financing small entrepreneurs and Indian consumers in a differentiated way using technology and positioned it for a buyout.

- In its six years of existence as a standalone entity starting 2012, Capital First had consistently focussed on financing these chosen segments through technology-driven solutions, thereby recording strong growth in its retail franchise.

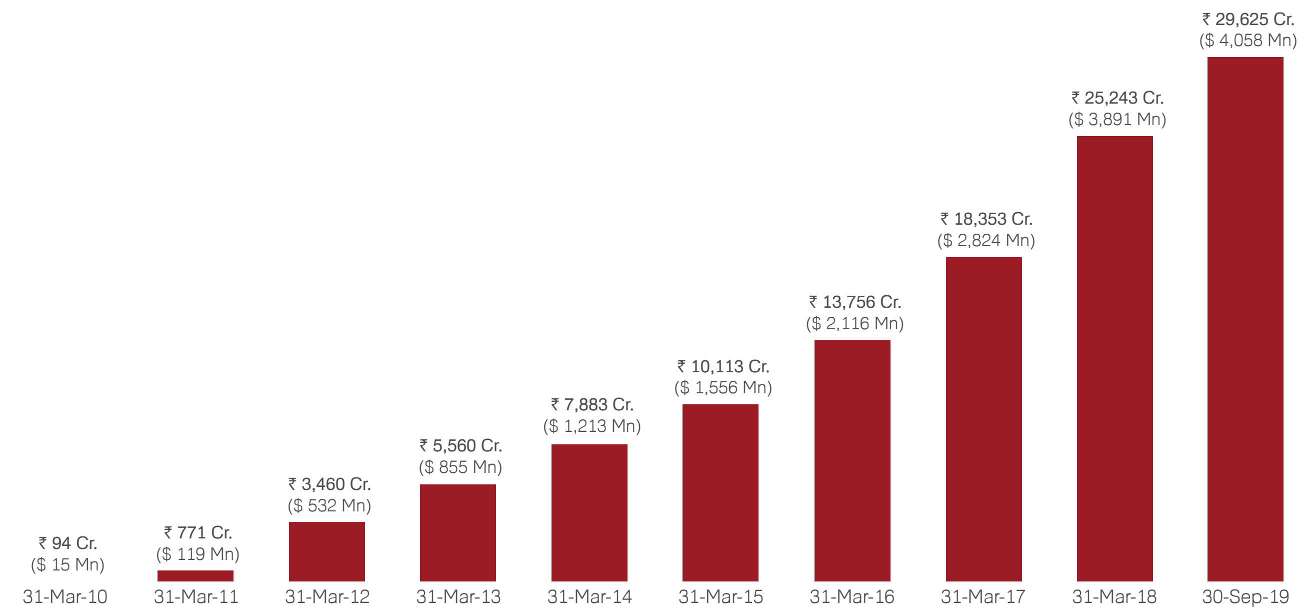
- The total Asset Under Management reached ₹ 32,622 crore while the Retail Asset contribution to the overall Asset under Management was at 91% as of September 30, 2018, the quarter before the merger, as compared to 10% in FY10.

By 2017, the business was mature and large enough to convert itself to migrate to a banking platform.

The Company stayed steadfast with its approach to buildup retail businesses (MSME, consumers, self employed, enterpreneur) with good asset quality over the eight years. Retail portfolio increased to 90%.

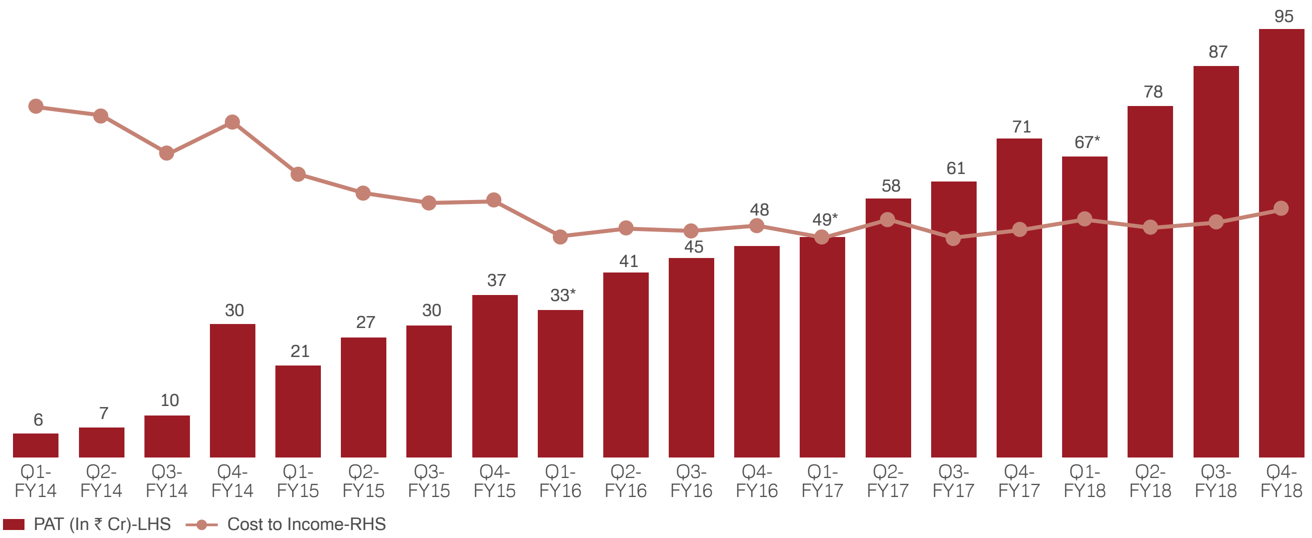


- Capital First's successful product launches made it a significant player in the Indian retail financial services landscape with its Retail Loan Book growing from ₹ 94 crore to touch nearly ₹ 30,000 crore as of September 30, 2018. Growth varied between 25-30% over the last 5-6 years.



- The company consistently grew its Net Profit over many quarters which was primarily driven by the growth in the Net Interest Margins due to higher retail asset contribution and moderation of the cost of funds. The cost-to-income ratio dipped from 76% to 50% within a span of 5 years.

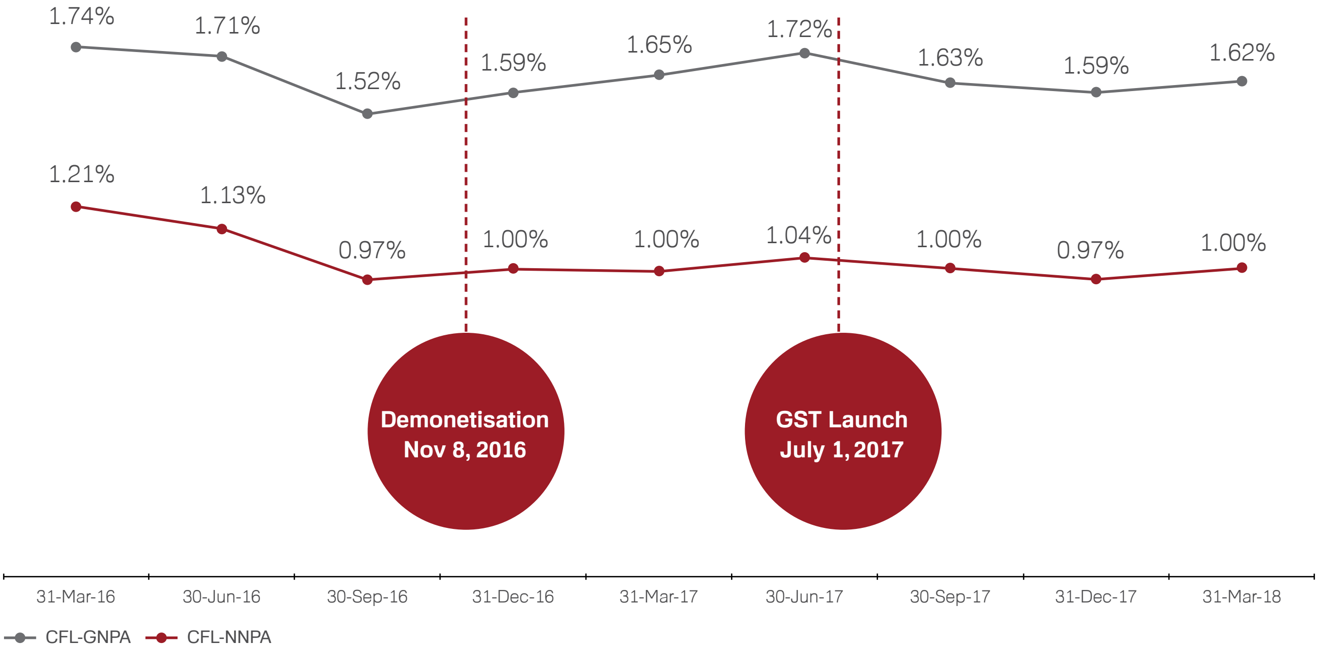
Profit After Tax has grown consistently with a CAGR of 55% in the last 5 years. In FY18 PAT growth was 37%



** Includes one-time impact of change in Standard Asset Provisioning Policy as per RBI guidelines*

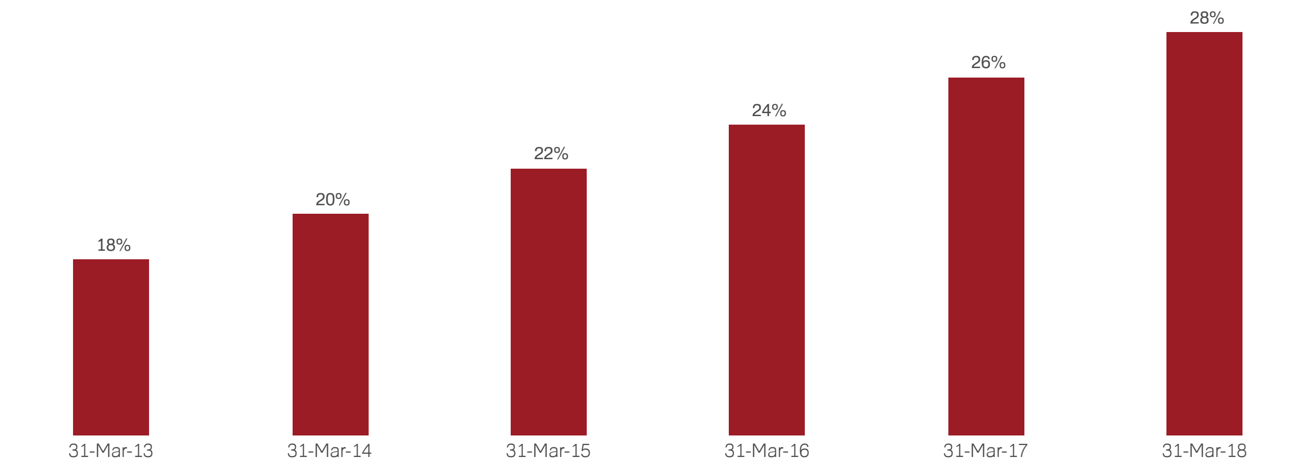
- Rigorous underwriting process helped in maintaining high asset quality. The credit performance of Capital First, over eight years, has been strong with Gross NPA not exceeding 2% and net NPA not exceeding 1% even during economic cycles and even through phases of interest rate hikes (2010-2014), Demonetisation (2016), and GST implementation (2017)

The Company reported NPA at 180 DPD till 2015, 150 DPD till FY16 at 120 DPD till FY17, and at 90 DPD since FY18 as per RBI norms. In order to enable easy comparability of NPA as a common scale, the NPA chart below has been compiled at 90 DPD basis for the last nine quarters.



- The dividend pay-out increased every year as the Company continued to grow its profitability and return ratios over the years.

Dividend (as % of face value per share)



Shareholders of IDFC Bank approved the merger with an overwhelming 99.98% votes in favour of the merger. Capital First shareholders too approved the merger with an equally overwhelming approval rate of 99.90%.

Strong net profit growth at 5-year CAGR of 55%

During the last five years, between FY13 and FY18, Capital First Limited grew its overall AUM with a CAGR of 29% and its Net Profit grew with a CAGR of 55% (FY18 PAT grew by 37%). During this period, the EPS for the Company grew with a CAGR of 30%.

Risks

However, the Company built its entire business model of retail lending on the basis on wholesale borrowing. This was risky in events of tight liquidity. To continue the growth momentum going forward, Capital First needed to diversify its liability base towards retail liabilities which could provide better pricing and sustainable availability of the long-term funding. As per the current regulatory environment, this was only possible under a banking platform which would have also enhanced the retail financing offerings of the Company.

Plans to convert to a bank; Proposed merger with IDFC Bank

Erstwhile Capital First evaluated applying for a banking licence to the RBI. However, this would take time even if it came through. In November 2017, IDFC Bank had a robust, technology-led, modern banking platform with

An Integration Committee Meeting in progress.

> The Competition Commission of India approved the transaction in March 2018. Both the stock exchanges BSE and NSE provided their respective approvals in May 2018 for the merger.

high capital base for growth. With this, Capital First got the opportunity to continue growth on a banking platform.

Post the business and synergy discussions, legal and financial due diligence, both the entities came together and announced the merger on of January 13, 2018 with an understanding to merge with each other and shareholders of Capital First were to be issued 139 shares of the merged entity for every 10 shares of Capital First. Both the companies went through a series of regulatory filings and approvals thereafter.

Merger gets approved and completed

The Competition Commission of India approved the transaction in March 2018. Both the stock exchanges BSE and NSE provided their respective approvals in May 2018 for the merger. The Reserve Bank approved the transaction in June 2018 with No-Objection Certificate.

Shareholders of IDFC Bank approved the merger with an overwhelming 99.98% votes in favour of the merger. Capital First shareholders too approved the merger with an equally overwhelming approval rate of 99.90%. Such overwhelming approval rates for a merger were unprecedented for merger of listed companies in India.

Post the NCLT approvals received by both the entities in the first week of December 2018, the merger was consummated on December 18, 2018 and subsequently the new identity “IDFC FIRST Bank” was born.

Initiating integration of Capital First with IDFC Bank

Within the boundaries of the regulatory guidelines, the Companies, erstwhile IDFC Bank and Capital First Limited kicked off the integration and synergy efforts in 2018. Key integration teams were formed in various areas including technology, businesses, operations, risk, people management and other support functions which involved representations from both the entities. With the excellent efforts put in by these core integration teams without disrupting the usual business operations of both the entities, on December 18, 2018, the Bank started its operation as a combined entity through a smooth transition.

The strategy of the new bank is largely to superimpose the lending business model of the erstwhile Capital First on the excellent liability platform built by the erstwhile IDFC Bank. The Bank will also focus on the tech-led solutions on trade, forex, remittances, transactions and credit selectively for corporates. The foundation includes technology, branches and systems that could be scaled up from here.

IDFC BANK + CAPITAL FIRST = IDFC FIRST Bank

IDFC BANK	CAPITAL FIRST	IDFC FIRST Bank
• Liability franchise base • Pan India presence of 200 branches (Dec 18) and CASA of ₹ 2,800 crore (Dec 18) • Strong technology platform • High Capital Adequacy • High Corporate governance • Efficient treasury management • Innovative digital banking and payment solutions • Retail lending businesses • Launched rural banking • Diverse offerings across asset and fee product	• Robust retail asset franchise in niche segments • Analytics-driven technology platform and strong credit skills • Presence in 220 locations with 102 branches • High NIM • Profitable & sustainable growth engine with five-year profit CAGR of 55%, (FY18 PAT grew by 37%), high RoE of 15% • Highly asset quality with seasoned loan book of 8 years • Granular book across retail including bottom of pyramid • High Capital Adequacy • High Corporate governance • Customer base of over 7 million	• Strong Loan assets of more than ₹ 1,04,660 crore, as of December 31, 2018, right after the merger, out of which 35% of loans were in the retail segment • Quarterly annualised Gross spread increased from 1.7% (before merger), to 2.9% post merger (Q3 FY19) • Diversified asset profile • Strong platform to grow retail deposits and CASA • A large retail customer base of more than 70 lakh live customers including 30 lakh rural customers

The merger of IDFC Bank and Capital First has created a new bank that builds on the strengths of both institutions and positions the new entity for continued growth in the future.

In the Press

Economic Times, January 15, 2018

ET Q&A

RAJIV LALL
Chairman, IDFC Bank

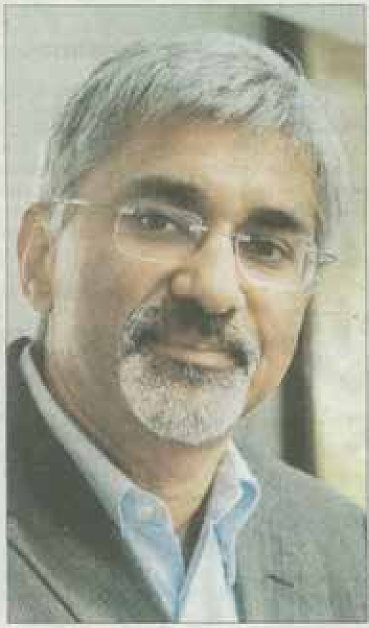
Betting on Vaidya Building a Bank that is Like no Other

In less than three months after snapping merger talks with Shriram Capital, IDFC Bank's chairman Rajiv Lall stitched up a deal with Capital First. In an interview with **Saloni Shukla** and **Shilpy Sinha**, Lall narrates the idea and hopes behind the deal. Edited excerpts:

Where was this marriage made?
This marriage was made on earth. I reached out to him and told him why don't we have a chat and then one thing led to another.

Why did Capital First and Vaidyanathan strike you when there are several other NBFCs?
All of you were asking me when I will get a retail head. Each time, I looked at the list of people running retail, his (Vaidyanathan's) name was on top of the list. So, this is perfect. Someone with Vaidyanathan's experience driving retail along with a full gamut of banking products, leadership qualities, building an institution – it's a very good package as far as our shareholders are concerned. Our stated strategy is aggressive retailisation, so we also get management heft to drive it, and it deals elegantly with the issue of succession.

Capital First gives only retail assets, but you needed deposits. How do you get that?
Acquiring liabilities is a marathon and it costs money to do it. You have to burn significant amounts of money to get a liabilities base. CASA (current account savings account) number is going up every quarter. We have good traction, but given the large size of our balance sheet, it will take time. The strategy dilemma that we faced at IDFC Bank was that while we were confident of building this franchise over time, the reality was it would take time and we were a listed entity. We got listed very early in our journey, we would have had to withstand significant periods of depressed earnings because we would have had to constantly invest huge amount of our earnings which were under pressure because of our corporate franchise.



ET ARCHIVES

what Capital First brings. Now, with these two things together, we have fused the entire range. We have now close to ₹3,000 crore exposure organically created towards Bharat Banking, and indirectly through acquisitions is even larger. With the use of technology, it is now possible to service much smaller ticket sizes in ways which are more profitable.

But what about liabilities...
Even on the liability side, it is my belief that it is possible to collect liabilities at much lower cost. If you are able to provide banking services at zero net cost, it is good for customer stickiness over time. I would wager that the 3 million happy customers of Capital First would give me a little bit of their money to put in a savings account. You need to first have a connect with the customer, then only you can start cross-selling. The most difficult thing today is to develop a

Economic Times, January 15, 2018

ET Q&A

V VAIDYANATHAN
Founder, Capital First

I Count on Dr Lall to Keep Books Clean, Make Provisions

Vaidyanathan built Capital First into a ₹20,000-crore retail franchise from scratch with funding from Warburg Pincus. The former ICICI Bank hand now prepares for a big role as the chief executive of the merged IDFC Bank-Capital First, which is yet to get a new name. In an interview with **Shilpy Sinha** and **Saloni Shukla**, Vaidyanathan describes what lured him into this deal and how he intends to build the bank. Edited excerpts:

Why do you need a bank when you are valued better at 3.5 times the book and a bank that is less than half of that?

It is not about price to book, but about longevity. Well-run banks also command fantastic premiums. I am very confident of the synergies a bank brings which is diversified, deep relationship, composite in terms of product suite and will last long. NBFCs are fantastic in identifying the niche and doing a great job at that. Funding for NBFC is at the end of the day largely wholesale. I do believe having a diversified source of savings is a must for lending. At some stage when assets reach ₹70,000 crore or ₹1 lakh crore, you would wish your deposit base, independent of any large institution, paid for it. We are a little too early in the game. We could have waited 3 to 4 years for the story to play out. Sometimes opportunities like these don't come every day.

How do you build a deposit base in such a competitive market?

If we have the right products and the right technology which suits the new generation of people and new kind of ecosystem that India has, we will get the deposits. Even the new banks like Bandhan have all got deposits. It is not that only the big boys get deposits. Our loan book itself is growing at 27-30%. That story on the lending side can continue for the next few years. Our challenge will be to raise liabilities. It is expensive, it is micro, it is hard work. But I don't worry about that. The good thing is it is low cost, stable and perennial.

track. I want to make companies which are black swan free.

Which is the best peace-of-mind bank which stands out as an example for you to emulate?

HDFC Bank is a peace-of-mind bank. What we are saying is there is peace of mind in other fronts. We want peace of mind in credit loss. I am looking to create peace-of-mind institution and that comes with retail. Wholesale lending is an important piece. We have to see, are we financing power plants, steel plants? If I have to lend today and predict the price of steel five years from now, I am scared of that. But if I am financing cash flow of a large institution, I am okay with that. If we do wholesale, we will do it for top-rated corporates with visible cash flows. Retail never blows you out.

But we have seen retail blowing up and

(Contd... from page 30)

ON FINANCIAL SYNERGIES

In less than 36 months, our existing high-cost funds start getting repriced. In the interim, our emphasis will be to build CASA franchise

So, couldn't wait to get there?
It is chicken or egg, right? To be able to invest and prepare for this marathon, we need to boost our earnings. You can also get liabilities by building a retail asset franchise that gives you higher NIMs, gives you good earnings, gives you customers to whom you can cross-sell. So that's the road we have strategically chosen. Capital First has 3 million active customers, close to 70 branches; we can expand that network and cross-sell our liabilities product to that customer base.

How is this different from Shriram?
If you go back to the Shriram deal, this is the SCUF (Shriram City Union Finance) bit of the deal. So the intent was to go after SCUF, but it came with all kinds of arms and legs attached, and that added to the complication. Here it is so elegant. Our stated strategy was to get a retail earnings driver engine with customers. And it is trying to reach a customer segment, which most other banks find difficult. The Shriram deal was also a learning. It was kept under wraps until the intent was made clear – the idea being that the actual swap ratio would be negotiated after the intent was declared. So, I learnt from that and said that unless we have a deal, we are not going public. After the Shriram deal, we didn't want any complexity. Let's keep it simple, let's keep it straight forward, may be you won't get everything in one sweep, but one step at a time, and you build momentum.

Where does this deal take you?
When we got our banking licence, we put a lot of importance on entering new customer segments and that is why the emphasis on Bharat Banking, which is one customer segment below connection with the customer.

What's the financial cost of regulatory requirements like SLR, CRR?
We overall require ₹5,000-6,000 crore as a result of this merger. We already have surplus CRR, SLR of about a little over ₹2,000 crore. So for us, to mobilise another ₹3,000-4,000 crore will not be a problem.

Why are you paying a premium to Capital First when the bank licence is more valuable?
That is not how it works in a marriage. We are not asking ourselves how much you paid to me, and how much I am paying you. Kotak Mahindra Bank paid a premium of 21.5% for its deal with ING Vysya. This is a very fair deal.

Will the merged entity be a retail bank, or another ICICI or HDFC Bank?
I have my view and Vaidya will have his. But I am betting on Vaidya building a bank that is like no other. Yes, you have a full range of businesses as a universal bank. But, I draw confidence and inspiration from the purpose which we ourselves, coming from the extreme end of the corporate spectrum, set out to do when we got the banking licence.

Have you christened the new entity?
We have not yet finalised it but we have had conversations, and it is fair to say that the broad thinking that there is an opportunity here to bring the strength of both brands together and create something fresh.

Have you worked out the financial synergies and how the book will look post the merger?
Financial synergies will emerge as high-cost liabilities gets repriced. In less than 36 months, our existing high-cost funds start getting repriced. In the interim, our emphasis will be to build CASA franchise. All these things will help systematically bring down the cost of liability.

What next for you?
Immediate focus is to get the merger done and guide a well-organised transition process. I will also see the new bank has the best possible chance of sustaining the success, and delivers on my dream of leaving behind an institution.

OVERVIEW
DIRECTORS' REPORT
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS

(Contd... from page 31)

ON WORKFORCE SYNERGY

We are more in a hiring mode than looking at people synergies. We want to make it explicitly clear that everybody has a job

Now that the rates are hardening, have you caught the best time to insulate yourself against it?

It is not a interest rate game. Interest rates going up by 50-80 basis points does not change anything for NBFCs. We have NIMs upwards of 8%. If interest rates go up by 50 basis points, it is only incremental borrowing and does not move the needle much. It is playing ahead of the time to get banking.

Did you look at other banks?

This was the first bank. It was spontaneous combustion. I am always thinking about how to build an institution that will last very long. For that, it has to be a bank. If I create a bank which is retail, growing at 25% per annum, return of equity of high teens, then it is sustainable.

So, will it be largely a retail bank?

The first thing that comes to my mind is long term; second, diversification; third, relationships; and fourth is sustainable profitability. Retail is going to be an important part of the story. What the existing institution has built is inheritance from the IDFC parent that migrated into bank. It is giving you a headstart into some profitability. Long-term future is diversified retail franchise. I get peace of mind running Capital First. In no quarter do I have to worry about a black-swan event. We can predict profitability of the next quarter with reasonable efficiency. When the leader has peace of mind, then the shareholders have it too. Our profitability is one-way

many including foreign banks burning their fingers?

In retail, there are largely four kinds of lines – mortgages, auto, personal credit to salaried segment – these did not have problems. In one or two years, in unsecured business, if there was a cycle, it was a learning curve for the industry. India's retail business has done really well if you look at the composite. You should take a niggle for 2008-09, but if you look at the 25-year cycle, it has never blown up. In the US or the UK, you will see advertisements asking people with bad credit scores to come to a particular lender. In India, they say you have a problem, don't come to me.

In any merger, human resources is the trickiest one. How would you handle it?

It is not tough for us. As far as people is concerned, two entirely complementary teams are coming together. We are carrying a large book of retail. IDFC Bank is more wholesale. We felt there was no overlap. We are more in a hiring mode than looking at people synergies. We want to make it explicitly clear that everybody has a job.

You are quite allergic to wholesale corporate finance, while IDFC Bank's book is made of that. How did you convince yourself to go with it?

When we looked at the book as part of financial diligence, the book is well provided for. There is good corporate governance that exists. It is a wholesale business, so I can never have a complete peace of mind. I will not be surprised if there is a blow-up tomorrow morning. I am counting on Dr Lall to keep the book clean and keep making provisions. The story is not about how wholesale book is, but are we getting into a liability platform that is stable and low cost? Are we looking at perennial organisation so that availability of funds is perennial? The answer is yes. Are we seeing runway for growth in India for growth opportunity in consumption side, the answer is yes.

Economic Times, January 15, 2018

PROJECT IDLI-DOSA

Cooked Over Curd Rice & Khichdi

MC Govardhana Rangan

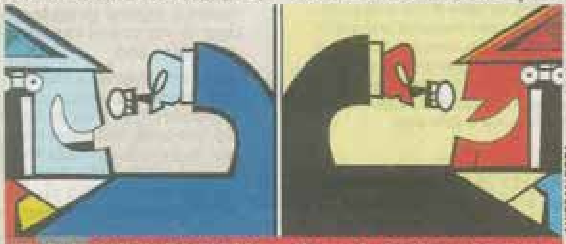
Mumbai: On a pleasant November evening when Rajiv Lall was contemplating life after a broken engagement with Shriram Capital, the thought of the giant of Indian banking — KV Kamath — flashed across his mind. And with that, the man who he was introduced to years ago, V Vaidyanathan.

A moment after, Lall dialled Vaidya, and a courtship began even before the bitter aftertaste of a divorce with Shriram left his mouth.

Both knew it was a marriage of convenience. Capital First's Vaidyanathan, who built his empire in the past decade by giving loans to retail and small businesses, knew all too well that long-time survival in financial services is assured only for banks.

And IDFC Bank was desperate to get someone who could build a retail franchise, especially when talent was hard to come by. Vaidyanathan, who built ICICI Bank's retail business and later repeated the success at Capital First — a non-banking finance company — fitted the bill.

So, the project — Idli-Dosa — was born when the chiefs of two institutions began discussions of a possible merger at central Mumbai's Four Seasons hotel which didn't have many prying eyes unlike at the picturesque South Mumbai's Taj or the Oberoi.



ANIRBAN BORA

ET Q&A Rajiv Lall & V Vaidyanathan ▶▶ On Money Matters

The first understanding was that they would neither walk in nor walk out together, and that there would be no investment bankers in the picture. But how did they pull it off?

"There's a deep trust in what Vaidya has done," said Lall. "Actually, we spent more time discussing the ethos, culture and the longevity of the institution rather than numbers," chipped in Vaidyanathan.

Continued on ▶▶ MONEY MATTERS

Cooked Over Curd Rice & Khichdi

▶▶ From ET Markets Page 1

One thing they were clear about was to avoid complications, thanks to Lall's experience with the Shriram episode. For Vaidyanathan, who sold stock broking and foreign exchange at Capital First to focus on retail lending, the mantra was clear: "keep it simple".

As the two were determined to maintain secrecy, the five or six meetings they held were invariably late in the evenings, and even the menu was simple and repetitive.

Vaidyanathan would nibble at his curd-rice, a favourite of most Tamilians, and Lall just stuck to Khichdi in all these meetings.

A dialogue was possible, thanks to Warburg Pincus' decision to prune its stake in Capital First to 34% from nearly 60%. That cleared the biggest obstacle that would have faced regulatory hurdle. With such a huge stake for a private equity firm in a bank, convincing the Reserve Bank of India would have been a Herculean task.

The status of both as operating companies without any other associates, or subsidiaries, to be dragged along helped them stitch the alliance quickly.

It is normal to believe that valuations and executive positions consume more time in any merger talk, but in this case it was the easiest part, with Lall choosing to be the chairman leaving the CEO's role to Vaidyanathan.

But there is still one unsettled issue between the two — what are they going to name the new born? Will it be First IDFC Bank, or IDFC First Bank? Probably, it would need some more curd rice and kichdi before they come up with a name.

Business Standard, January 14, 2018

Sunday Business Standard MUMBAI | 14 JANUARY 2018 COMPANIES 3

'We're getting a person who understands retail'

Q&A

RAJIV LALL
MD and CEO, IDFC Bank

The merger with Capital First will drive home three years of growth at one go to IDFC Bank, said the bank's MD and CEO **RAJIV LALL** in an interview with Anup Roy. The succession of V Vaidyanathan in the bank is part of the strategy to drive retail growth, said Lall. Edited excerpts:

Why are you stepping down as the CEO of the bank?

As you know for sometime we have been looking for a head of retail to drive retailisation in the bank. This is really the best of all worlds in the sense, we are getting a person who really understands retail and not only retail, has also vast experience in general banking. He has a team building and institution building experience, and here I am able to step up and act like a mentor. It works for everybody.

Under the new leadership, will your vision of mass retailisation and aggressive acquisitions, continue?

The mass retailisation no doubt will continue. How much more acquisitions we will do will remain to be seen, but these are things that Vaidyanathan will have to think through. For now, focus will have to be on getting the merger fully done and making sure that the transition and integration is done properly. Beyond that we are not thinking of anything at this point.

How long the transition will take?

We are getting different estimates. We are planning about nine months.

Your shareholders will agree to this plan?

Our belief is that this is a very good deal because it really adds value. It accelerates the growth of the bank to gain at least three years. In the absence of this deal we would have depressed earnings because we would be invested in building our branch network and Casa (current and savings account) franchise. So this actually gives us again the best of both worlds. It gives us enhanced earnings and the ability to aggressively grow our Casa franchise. I believe our shareholders should welcome this.

Do you think this merger is a good replacement of your original plan with Shriram? Was that a better deal had it gone through?

The proof of the pudding is in the eating. So, a deal not done is not a good deal. A deal that is done is a good deal. This is a good deal.

Your future plans...

My future plans are related to focus on making this deal a success. There are time enough to contemplate on broader details.

THE HUB BANKING

NEW RIDER AT IDFC FIRST BANK

V. VAIDYANATHAN, THE NEW BOSS OF THE MERGED ENTITY, HAS HAD A GOOD RUN BUT NOW FACES CHALLENGES AND HIGH EXPECTATIONS.

By ANAND ADHIKARI
Photograph By SHEKHAR GHOSH

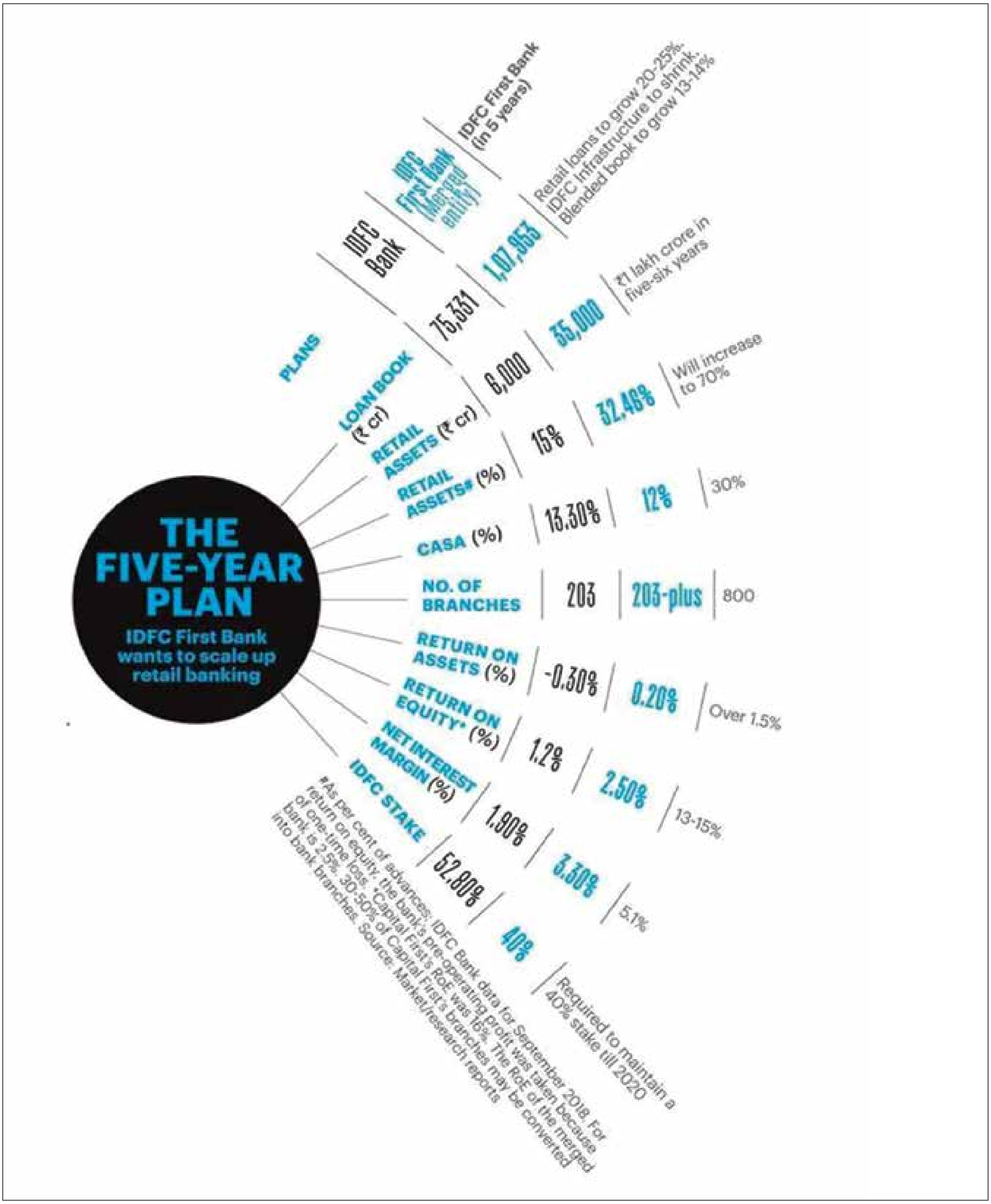
"INDIA HAS SPACE FOR ANOTHER INSTITUTION ENTIRELY DEDICATED TO FINANCING SMALL ENTREPRENEURS AND CONSUMERS"

V. Vaidyanathan
MD & CEO, IDFC First Bank

S

ANDY WEILL, THE FORMER Chairman of Citigroup, now in his mid-80s, had an exceptional five-decade-long career during which he rose from being a professional to an entrepreneur to head the largest bank in the world. Weill sold his securities business to American Express for a billion dollars in the 1980s and also became the president of the merged entity. After leaving American Express mid-way, he founded a small finance company, and went on to acquire some big Wall Street names like Primerica, Travelers and Salomon. But his biggest kill was merging his entire business with Citicorp. After close to a decade at Citigroup, Weill hung up his boots as Chairman in 2006.

The latest merger of a non-bank finance company Capital First and IDFC Bank draws simi-



PLANS	IDFC Bank	IDFC First Bank (Merged entity)	IDFC First Bank (in 5 years)
LOAN BOOK (₹ cr)	75,331	1,07,953	Retail loans to grow 20-25%. IDFC infrastructure to shrink. Blended book to grow 13-14%
RETAIL ASSETS (₹ cr)	6,000	35,000	₹1 lakh crore in five-six years
RETAIL ASSETS# (%)	15%	32.46%	Will increase to 70%
CASA (%)	13.30%	12%	30%
NO. OF BRANCHES	203	203-plus	800
RETURN ON ASSETS (%)	-0.30%	0.20%	Over 1.5%
RETURN ON EQUITY* (%)	1.2%	2.50%	13-15%
NET INTEREST MARGIN (%)	1.90%	3.30%	5.1%
IDFC STAKE	52.80%	40%	Required to maintain a 40% stake till 2020

#As per cent of advances; IDFC Bank data for September 2018. For return on equity, the bank's pre-operating profit was taken because of one-time loss. *Capital First's RoE was 16%. The RoE of the merged bank is 2.5%. 30-50% of Capital First's branches may be converted into bank branches. Source: Market/research reports

Multiple Voices

Business Standard
MUMBAI | THURSDAY, 20 DECEMBER 2018

The Smart Investor

THE COMPASS

IDFC First's downside limited but challenges mount

Faster-than-expected loan growth could lift valuations for the bank

HAMSINI KARTHIK

Shares of IDFC Bank and Capital First were up 4 per cent each, after the announcement that the merged entity — to be called IDFC First Bank — has commenced operations.

The combined entity is headed by V Vaidyanathan, founder and chairman of Capital First.

Analysts believe that the IDFC Bank stock (Capital First is merging into this), which has shed 21 per cent over the last year, has bottomed out.

"Currently trading at around its book value, I don't see further downside for the stock," says G Chokkalingam, founder of Equinomics Research.

The question, however, is whether investors should be lured by valuations in anticipation of improvement in financials.

Compiled by BS Research Bureau

The Street is divided on this. Since its inception, the bank has worked its way in terms of deposit growth, loan growth and bad loans.

While the bank closed the recently gone by September quarter (Q2) in red with a loss of ₹3.7 billion, its net non-performing assets (NPA) has reduced from 1.6 per cent a year ago to 0.6 per cent.

Likewise, it has doubled its branch presence in a year to 203 branches, and increased the share of low cost current account-savings accounts (CASA) deposits to 13.3 per cent, from 8.2 per cent a year ago.

"As IDFC Bank has been investing in building processes, systems and infrastructure, the merger with Capital First will help build its retail franchise, bolstered by the latter's execution capability," said analysts in an Edelweiss Securities note.

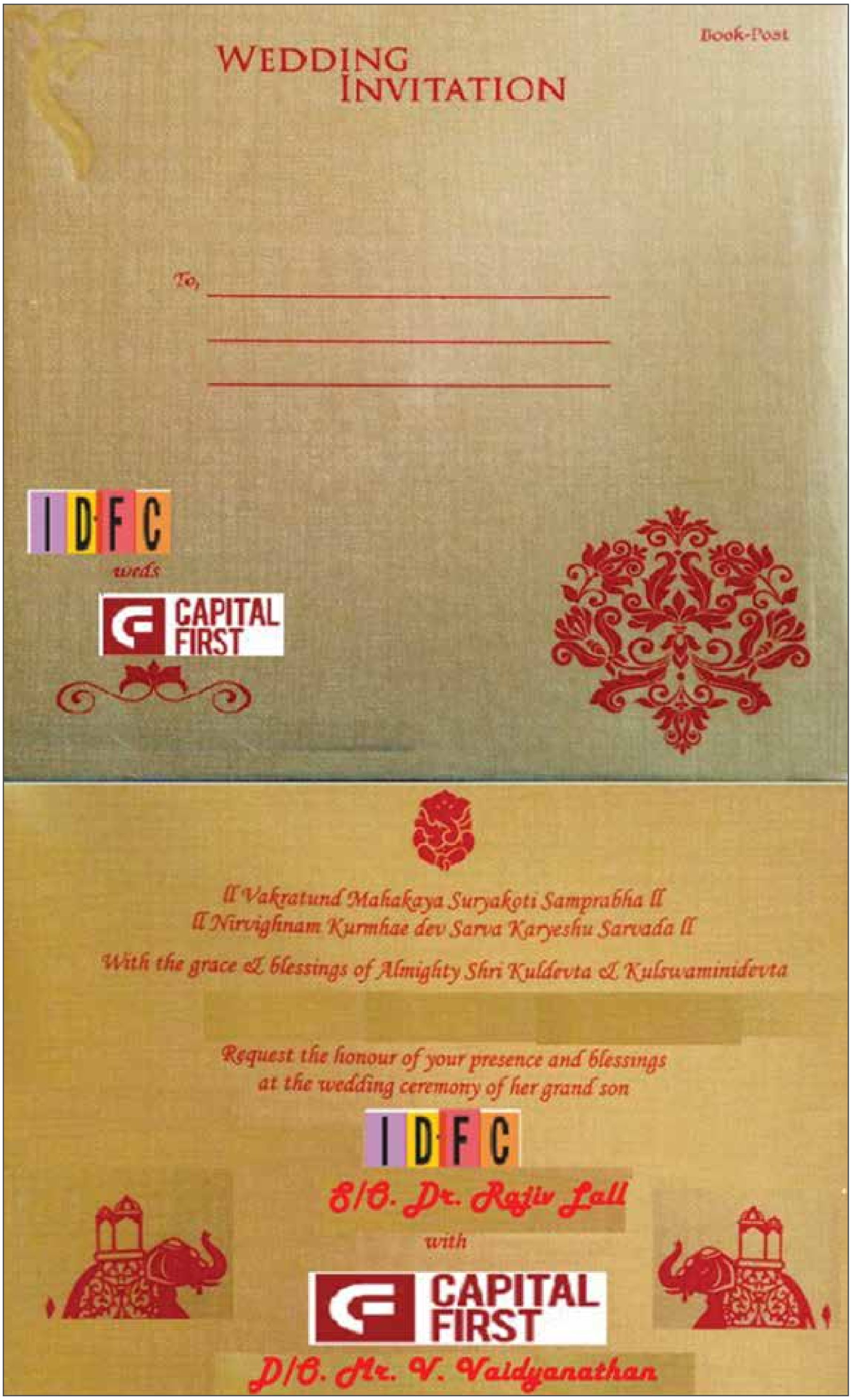
That said, those at Deutsche Bank Research feel the merger with Capital First will only be accretive on the asset side, with pressure on liabilities becoming more acute.

Even now, despite the increase in CASA ratio, IDFC First Bank's number is way below that of even the public sector banks on this metric.

On an average, the PSU banks maintain 33-38 per cent CASA ratio. Therefore the core operating parameters could remain under pressure given the planned expansion.

Chokkalingam also points out that while Vaidyanathan is an able leader who can take the bank to the next level, the intensity of penetration and competition could make his job challenging. Analysts say benign valuations will appeal only to long-term investors, as the bank faces multiple challenges over the medium term.

The social media was quick in its sense of humour about the merger and messages floated around quickly. We don't know who is the creator of this creative piece is, but even in the melee of the media, this piece of humour evoked laughter among us all!

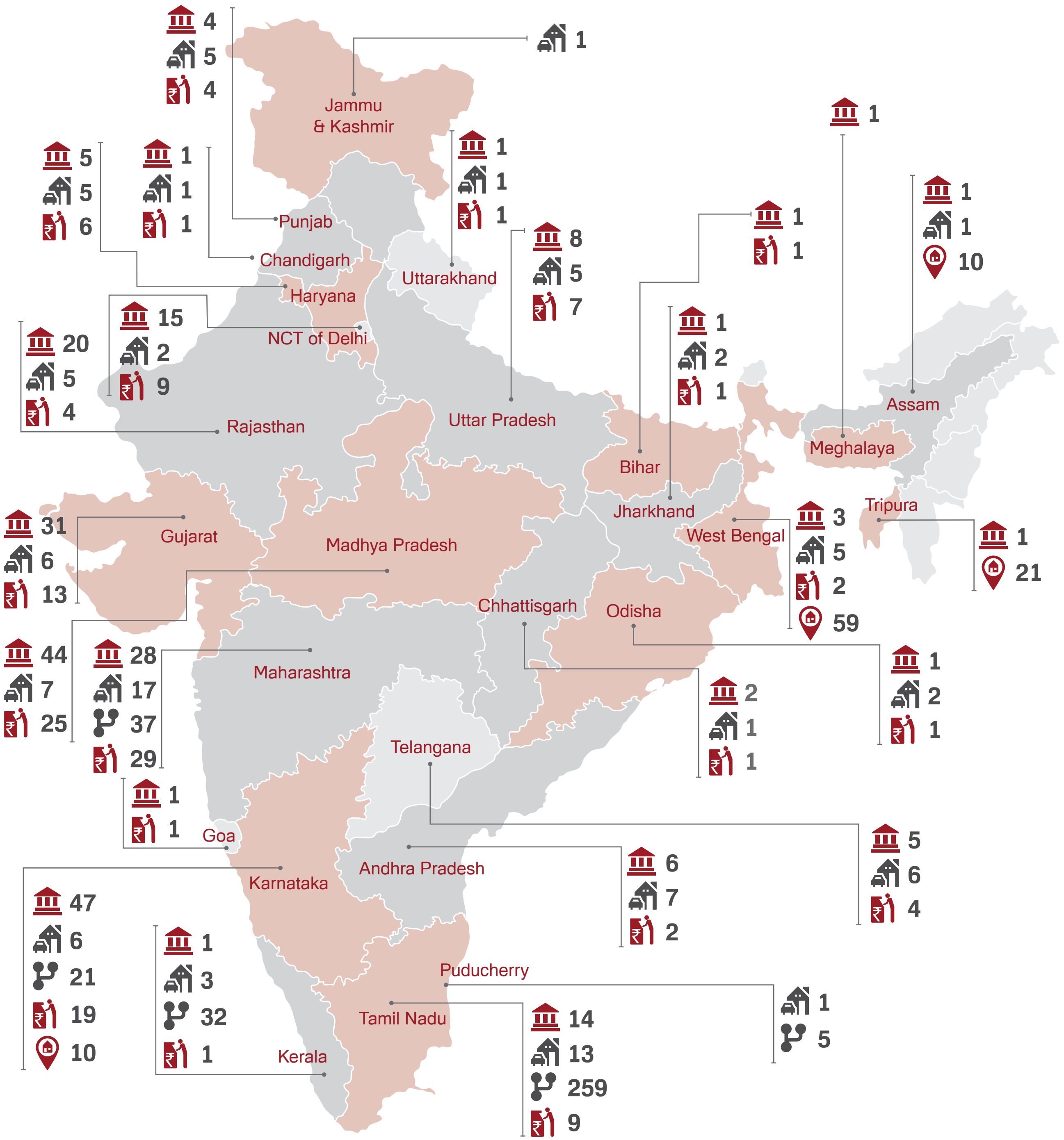


Employees across the country in all branches greet the merger with celebrations on Day 1 - December 18, 2018

The listing of IDFC FIRST Bank shares on NSE

Employees greeted the merger with great creativity and decorations across the country in all branches

New & Expanded Reach



Map not to scale. For illustrative purposes only.

242 Branches	102 Asset Service Branches	354 Rural BC Branches (IFBL)	141 ATMs	100 Other BC Branches

New Value Proposition

The merger creates a distinctly new value proposition and opens exciting business possibilities for IDFC FIRST Bank.

IDFC FIRST Bank now has the benefit of:

Robust retail product suite

- Instant and paperless opening of savings accounts, current accounts, NRI accounts, with no hidden charges
- Corporate salary customers of the Bank have access to digitised employee benefits and rewards solutions
- Demat accounts, fixed and recurring deposits
- Home loans, Personal loans, Two-wheeler loans, Consumer Durable loans, small business loans, forex products
- All-in-one feature-rich mobile app, user-friendly netbanking, 24x7 Banker-on-Call support, Digital Payment solutions
- Democratised wealth management services which makes managing investments easy

Diversified asset profile

- Retail Loans have increased to 37% of Total Loans (post-merger) from 10% as on March 31, 2018 (pre merger)

Strong growth in retail deposits and CASA

- Retail CASA + Retail Term Deposits, which together constitute core retail deposits, has grown 132% to ₹ 13,214 crore as on March 31, 2019, from ₹ 5,693 crore as on March 31, 2018
- Retail CASA + Retail Term Deposits as percentage of the overall liability book has grown to 9.41% as of March 31, 2019, from 5.40% as on March 31, 2018

Larger customer base

- More than 70 lakh live customers including 30 lakh rural customers

Growing distribution channels

- As of March 31, 2019, the Bank's distribution network comprised 242 bank branches and 141 ATMs, as compared to 150 branches and 115 ATMs (including white label ATMs) in the previous year. The Bank also has 102 asset branches (from erstwhile Capital First), 354 rural financing branches and 100 business correspondence centres.

Combined power of digital technology

- Unique analytics-led credit assessment system, mobile and internet banking of erstwhile Capital First allows for faster decision-making, and lending solution at bottom of the pyramid.
- Contemporary technology stack of erstwhile IDFC Bank, mobile & internet banking, enables speedy account opening for savings accounts, current account, NRI business etc. and overall setting up a platform for liability solutions.

Retail expertise and intellectual capital

- Diverse talent from two institutions to energise growth plans

Putting Customers First

IDFC FIRST Bank places customers ahead of everything else. We care for our customers. The theme is 'Always You First'. This culture of putting our customers first is helping us establish deeper and long-standing relationships with them, thereby contributing to their financial well-being.

(All pictures are of actual customers)

"I enjoy sewing and my talent used to help me take up small orders in my village. I wanted to scale up but was unable to obtain funds. I came across IDFC FIRST Bank and obtained a small business loan. It helped me employ people and thereby take on more orders. My sewing business is now a growing success!"

Lakshmi Sarathe,
Entrepreneur, Hoshangabad

"As a software technology company, engaged in data science, AI and machine learning, our teams are young, tech savvy. We started a corporate salary account with IDFC FIRST Bank and were delighted from the start. The account opening was instant and paperless, so payroll for our new joinees was never delayed. The mobile banking app was simple and user friendly. It's been a great experience."

Vishwas Mudagal,
Promoter, Good Work Labs - Entrepreneur, Angel Investor, Author – The Last Avatar, Motivational Speaker

"Yoga and dance have been a passion. After my post-graduation, I started work as a Yoga instructor and a dance teacher. I loved my work but it meant a great deal of commute. I used to borrow my sister's vehicle to make it to class in time. One day, I decided to borrow from a bank instead and own a vehicle. I secured a two-wheeler loan as a first-time borrower from IDFC FIRST Bank. I now own a Suzuki, zip to classes and save time."

Deepti Pathey,
Yoga and Dance Instructor, Nashik

"I started Krushna Bhakti Pooja Bhandar & General Store over 7 years ago. However, upkeep of the place and stocking inventory needed funds, which I had no access to. The small business loan from IDFC FIRST Bank helped me furnish the store and expand my business. This gave my family additional income and made me a successful entrepreneur."

Jyoti Shirsath,
Shop Owner, Ahmednagar

"The inlay of silver and gold in antique handicrafts is a difficult task and I have spent a lifetime doing it. My profession paid me well but it wasn't just enough to buy a home. It was my dream to own a house. But as a self-employed person, it was difficult to get a bank loan. A friend then introduced me to IDFC FIRST Bank. I got a home loan from the Bank and I now have an independent house that I can call my own."

Navratan Thanthera,
Craftsman, Bikaner

"Life as a medical professional is busy and challenging. Our current account and savings account with IDFC FIRST Bank helps us manage our day-to-day finances in the most simplest manner through the Bank's mobile app, netbanking and its doorstep banking facilities. We've never had to visit a branch."

Dr. Gaurav Gupta,
Internist - Critical Care at Breach Candy & HN Reliance Hospital, Dr. Meghna Oza, Paediatrician, Mumbai

"In an import business, we look for bank that provides speed, 24x7 service and is digitally savvy. I chose IDFC FIRST Bank and have been using their digital banking services for efficient remittances and for transacting on-the-go."

Gaurav Khatri,
Businessman, Big Imports and Gifts, Mumbai

"Starting up a restaurant business was an ambition I had pursued for long. But for entrepreneurs like me, it is not easy to secure working capital. A Loan Against Property from IDFC FIRST Bank enabled me to start Kitchen Stories, a restaurant in the most happening area of Pune. Footfall is high and my business is now turning into a success story."

Aditya Satpute,
Proprietor, Kitchen Stories, Pune

"The world of fitness always interested me. After completing my engineering and management, I decided to deviate into a completely unrelated area – fitness. A business loan from IDFC FIRST Bank enabled me to buy land and start, what is today, Nashik's coolest gym."

Vinod Waghmare,
Proprietor, New Xpose Fitness Club, Nashik

"I am engaged in the fabrication business and have to manage cash flows tightly. When I needed to buy a refrigerator and an LED, I looked for financing which would help me manage my monthly budget better. I purchased both appliances with an instant consumer durable loan from IDFC FIRST Bank. The new conveniences have brought a lot of joy to my family."

Gorakh Aher,
Businessman, Nashik

I used to make bricks on a very small scale and the money I earned used to supplement the family income. Someone told me about IDFC FIRST Bank and I approached them for a loan to expand my business. After I secured a loan from IDFC FIRST, I was able to not only grow my business and income, but also employ others in my village. I am happy that my endeavour has augmented the income of even other women in my village."

Sunita Triloki Kumar,
Bandrabhan, Entrepreneur, Madhya Pradesh

Beyond Business: **Enabling Social Transformation**

Creating social value is integral to our existence. The Bank's Corporate Social Responsibility programmes have brought a positive and sustainable impact in the lives of socially under-served communities.

Social inclusion, be it of students, women and communities, was the broad theme of your Bank's CSR efforts in FY19. Our programmes focussed on improving people's lives, giving them an opportunity to succeed, and helping them become resilient to life's challenges in the future. Your Bank's corporate responsibility mission is focussed on four areas: Education, Livelihoods, Women Empowerment and Health. We look for programmes that have the potential for long-term sustainability and where we can add value beyond financial support. We have been able to successfully work with select impact partners on influencing their strategy, partnering on advocacy programmes and supporting in on-ground implementation.

Education: Equal opportunities to succeed

Our initiatives in the education space focus on supporting the most vulnerable communities with the access to quality education across different fields. We support youth from poor socio-economic backgrounds, youth with disabilities and those from shelter homes, to name a few. Our approach includes offering direct scholarships along with partnering with non-profits to reach underserved communities.

Flagship MBA Scholarship Program

Background

Our flagship programme under this theme is the **MBA Scholarship Program**. Under this, we provide scholarships of ₹ 1 lakh a year for two years to full time MBA students who secure admissions in B-schools on their own merit, but are unable to fund the fees due to socio-economic background. We provide scholarship for such successful students with family income of less than ₹ 6 lakhs.

IDFC FIRST Bank CSR team with Mrs. Kala Sridhar, former AVP of Centre for Continuous Employability, IFIM Institutions

Impact:

163 students from top 100 B-schools across 22 states of India have been awarded the scholarship this year.

22 states of India have been covered for the scholarship this year.

Scholarship for education in Mental Health

Background

We facilitated capacity building for faculties teaching mental health and supported scholarships and stipends for students pursuing their Masters in Mental Health Studies from **Banyan Academy of Leadership in Mental Health**. The support helped cover travel, living and other expenses for people from weaker economic backgrounds. Stipends and scholarships were awarded to students pursuing any of the following courses from the Institute:

- Mental Health Studies
- Diploma in Community Mental Health Care
- Masters in Applied Psychology & Buddhist Studies
- Students working with Vulnerable Children

Students of Diploma in Community Mental Health Studies supported by IDFC FIRST Bank at their graduation ceremony

Impact:

62 students from economically disadvantaged backgrounds were given scholarship this year which helped them sustain the cost of Mental Health education and complete their degree successfully.

Aspiring Life Scholarship

Background

This unique programme aligns with the Bank's commitment towards making our society inclusive for persons with disability and integrating them into mainstream. In partnership with **Bubbles Centre for Autism,** we supported scholarships for students with autism who could not afford the cost of intervention given their economically disadvantaged background.

We also supported life-skills training to help young adults with autism cope with the uncertainties of life, these trainings were conducted across different settings away from home. To meet this objective, an adventure camp was organised to expose them to environmental stimulations and help them learn problem-solving, fitting in the general workplace environment, through systematic exposures in controlled excursions and overnight stays away from familiar set-up.

To raise awareness about autism, we also supported making of short films in and around the subject of autism and shared them on our social media and communication channels to create awareness about the capabilities and challenges of a person with autism among the masses.

Mr. V. Vaidyanathan, MD and CEO of IDFC FIRST Bank with students of Bubbles Centre for Autism at the theatre production of 'Jungle Book'

Impact:

59 students

were supported with scholarships to pursue their education and skills training at Bubbles.

- The Bank sponsored the Bubbles Theatre Program which was held in Bengaluru in January 2019. The students of Bubbles Centre for Autism performed on a special edition of 'Jungle Book'. This is a one of its kind initiative in the country by Bubbles Centre for Autism where theatre was used for therapy and performing arts for advocacy and awareness on the subject of autism.

- In our volunteer engagement 'Buddy Sports program', 25 employees from the Bengaluru branch got an opportunity to play cricket and basketball with the youth of Bubbles in an inclusive manner at an indoor sports centre in Bangalore.

- We supported 'Bubbles Centre for Autism' with funding for video-production for an advocacy series on autism and livelihoods. These films are screened on-ground and on-line as an advocacy initiative to influence corporates, NGOs, parents of youth with autism and other important stakeholders.

Ashoka University Scholarship

Background

In our endeavour to make high-quality education accessible to deserving students irrespective of their socio-economic backgrounds, we supported need-based scholarships for students enrolled in Young India Fellowship programme of **Ashoka University**. This programme brought together a group of individuals from across the country and trained them to become socially committed agents of change. This is part of our effort to support inclusion and gender, geographic, cultural, socio-economic diversity.

Impact:

19 students

of the Young India Fellowship were supported by us. The support was used towards their tuition and accommodation fees thereby relieving them of financial stress of sustaining their education.

IDFC FIRST Bank CSR team with Young India fellowship students 2018-2019 at Ashoka University campus

Aftercare Program

Background

This programme is run in partnership with **Make a Difference** and ensures youth from shelter homes complete their education and are able to pursue their chosen career paths agnostic of their financial backgrounds. The Aftercare programme provided support to young adults in the form of reliable mentorship after they left their shelter homes and were admitted to college or when placed in a job.

Impact:

21 students

from shelter homes across five cities in India : Bengaluru, Coimbatore, Chennai, Mumbai and Mysore were supported by us.

- We also conducted a sensitisation workshop at our Bengaluru branch to throw some light into the lives of children in shelter homes and how our employees could make a difference in their lives in their your own capacity.

Students of Aftercare programme at Make a Difference in discussion with their mentors

Voice of Impact

I am a disabled student with many financial responsibilities. My family has always supported my dreams. But when I got through IIM, I was apprehensive as the tuition fees were high. I didn't want to let go of this golden opportunity, so I decided to apply for the IDFC FIRST scholarship.
I believe that getting awarded by IDFC FIRST Bank is recognition in itself, which I can proudly present to others.

Valli Lakshmanan

MBA scholarship awardee, Indian Institute of Management, Kolkata

I belong to an underprivileged community. My mother is the only breadwinner of my family. With her limited income, she has been supporting my education. This scholarship has helped me reduce my mother's financial burden. It would have been very difficult to complete my studies without it.

Rashmi Aakode

Scholarship awardee studying M.A. in Applied Clinical Psychology from Banyan Academy of Leadership in Mental Health

Women Empowerment: Enabling economic independence and social inclusion

Under this theme, we support programmes that have a special focus on economic and social empowerment of women. We do this in partnership with non-profits and incubators supporting women entrepreneurs creating social impact.

Self-Shakti Program

Background

'Self-Shakti' is a women empowerment programme in partnership with **Buzz India Trust** under which we supported training of women on basic principles of financial literacy, elements of personal growth and entrepreneurship skills across 92 villages of Karnataka.

Impact:

2,534 women

from low-income families of Kolar district in Karnataka were trained through this program.

- Bangalore branch employees were invited to the launch of this programme and also volunteered for a 'Buzz Buddy Program' wherein they met the trainees at Kolar and engaged in conversations with them to understand their challenges, difficulties and impact of the program. The objective of this activity was to help them evaluate how they could add value to the lives of these women and mentor them to expand and run their business.

IDFC FIRST Bank employee volunteers at the Launch of Self-Shakti programme in partnership with Buzz India Trust

Social Entrepreneurship Program

Background

In our endeavour to drive change through innovation, we supported **Tactopus Learning Solution Private Limited**, a women-led social enterprise that develops tactile kits and interaction tools for students with visual impairment. Tactopus makes audio-tactile learning resources which though are primarily designed for children with visual impairment but can be useful for children with developmental delays and learning disabilities too.

A child with visual impairment learning numbers using Tactopus's tactile product kit

Impact:

- The support has been extended in partnership with **Social Alpha**, a technology business incubator which supports social enterprises. The funds are currently being used to develop proprietary interaction content that would be worth five years of curriculum and will be deployed in at least 180 blind schools, while making 3,900 Schools inclusive.
- We are also working closely with the Tactopus team to guide their go-to market strategy, brand building and developing their theory of change.
- This programme has been featured in the Stanford Social Innovation Review for its model and approach focusing on sustainability.

Saksham

Background

This programme aims to upgrade skills and livelihood potential of underprivileged women residing in urban slums of Mumbai through a systematic tailoring internship in a 'learn and earn' format. We run three centres in partnership with **Animedh Charitable Trust** at Jogeshwari West, Mahakali Caves and Vashi that are strategically located inside slum communities.

Mr. Pankaj Sanklecha, CFO & Head-Corporate Centre and CSR team of IDFC FIRST Bank felicitating women trainees of Project Saksham, Vashi centre

Impact:

314 **women**

from low-income groups underwent training across all our Saksham centres and have started working in tailoring units or started their own business from home.

- On this International Women's day, we felicitated our women achievers at the Deeva Excellence Awards. The event included certificate distribution to Saksham's graduate trainees and handing-over a cheque of ten thousand as prize money to the Superdeeva awardee for her dedication and unwavering commitment to fighting the odds and earning a living for herself and her family.
- This year, we also started a Pilot Project Saksham 4, which was the rural extension of Project Saksham and provided vocational training and guidance to Adivasi women in six villages of Dadra Nagar Haveli to enable them to become self-sufficient through livelihood activities like Animal Husbandry and Organic Farming.

Voice of Impact

At Tactopus, we have spent the past two years working closely with a wide community of teachers and parents of children with vision loss and learning disabilities. The funding support from IDFC FIRST Bank has helped us refine the prototypes and produce the first batch of books for launch. With continued support, we're now able to focus on creating more of the content that the community has expressed need for. The faith and confidence of the Bank has helped us turn a promising idea into the fully functional product that many blind and sighted children actively use today.

Chandni Rajendran
Co-Founder, Tactopus Learning Solution Private Limited

Kartika who has difficulty hearing in both her ears, started training at Project Saksham, programme supported by IDFC FIRST Bank. She was keen to learn how garments were made. Due to her hearing impairment, she was given instructions in writing. "I never thought I would be able to work in an environment like this," says Kartika. Now my hearing disability does not stop me from achieving economic success.

Kartika
Trainee at Advanced Tailoring course run by Animedh Charitable Trust

Livelihoods: Fostering skill development and entrepreneurship

We partner with various non-profits who provide Livelihoods training and support to marginalised communities in urban and rural India. Our programmes range from supporting skills training to developing entrepreneurship programmes.

Entrepreneurship Program

Background

This programme in partnership with **Pratham Training Institute** helped women from economically disadvantaged backgrounds living in slums or rural areas to undertake entrepreneurship activities in beauty services. This was an example of a self-sustaining model where our grant money was given as interest-free seed capital to the entrepreneur and was repaid over a period of two years to Pratham Institute. We aim to reinvest this funding pool into a new batch of beauty business owners. The women we support are from low-income groups living across Mumbai, Nashik, Nagpur, Indore, Dhamtari and Bareilly.

Women Entrepreneurs of the Beauty Entrepreneurship Program at Pratham Training Institute

Impact:

42 women

were supported with a seed capital of up to ₹ 50,000 to help them set up their beauty salons

Vocational Training & Women Entrepreneurs Program

Background

With an aim to skill the youth and help them gain meaningful employment, we supported the Vocational Training Program in partnership with **ETASHA Society** which trains youth from urban slums of Delhi and imparts them with sustainable and marketable skills for securing employment.

We also supported the Women Entrepreneurs Program which empowered underprivileged slum-dweller women of Mangolpuri and Sultanpuri by enabling them to set-up and run profitable self-owned business enterprises thereby helping them earn income. Under this program, women formed groups to share entrepreneurial roles in terms of investing their resources, time and skills for a jointly owned enterprise where decision-making was shared.

IDFC FIRST Bank CSR team with staff of ETASHA society and the women entrepreneurs of Women Entrepreneurship Program in Delhi

Impact:

147 **women**

in total have been supported under the Vocational Training Program and Women Entrepreneurship Program

- Five women-led enterprises were set-up for the following trades - Assembly & sales of LED bulbs and light fittings, repackaging & selling of spices, catering of office lunches and snacks for parties, manufacturing and retailing of handmade soaps & manfacturing of fashion accessories & garments.
- Employee volunteers of our Delhi branch attended the launch of 'Women Entrepreneurs Program' and engaged with the women of ETASHA to learn more about the programme and ways in which they could contribute to this program.

Social Action for Manpower Creation (SAMPARC)

Background

We supported **SAMPARC** Industrial Training Institute and Vocational Training centre to train rural school dropout youth in and around Lonavala and to help them gain employment in nearby industries in Electrician and Welder Jobs.

Students of Vocational Training programme at SAMPARC during a classroom session in Lonavala

Impact:

42 students

were trained in ITI and welder jobs. To ensure 100% placement, SAMPARC Vocational Training Centre has partnered with D.Y. Patil Academic Education Excellence Federation, Pune.

- We also supported the yearly 'Heritage Walk' organised by SAMPARC that is aimed at creating awareness among people about the historical importance and architectural significance of our heritage monuments.

Football program

Background

The 'Football program' in partnership with **OSCAR Foundation** educated young adults and imparted them with life-skills using the medium of sports. This sports-based life-skills programme for marginalised students recruited and trained youth and volunteers from the slums and coached them in football. Here, sports was used for development and to move children out of poverty by nurturing them from childhood to adulthood using football as a medium to bring about behaviour change. These young adults were given exposure to better opportunities and encouraged to attend schools.

Students of Football programme at OSCAR Foundation during a match

Impact:

73 students

attended 41 football and life-skills sessions which included lessons on self-awareness, assertiveness – confidence, creative thinking, leadership and the importance of education.

- Our support helped start a new 'Development through football' project in Bandra and to sustain the existing project at Cuffe Parade.
- The students who were divided in three batches received a football jersey each. This will be followed by distribution of football shoes in the coming year.

Om Creations Trust

Background

We understand that development can only be sustainable when it is equitable, inclusive and accessible for all and acknowledge the fact that 'women with disabilities' suffer a double discrimination, both on the grounds of gender and on impairment and thus partnered with **Om Creations Trust** to support training of women with Intellectual disabilities. As part of this program, we supported monthly stipends of women who were being trained in production of a wide range of art and food products. This created a supportive environment which allowed them to earn and contribute to their households.

IDFC FIRST Bank CSR team interacting with trainees of women with intellectual disabilities programme in partnership with Om Creations Trust

Impact:

56 women

we supported made 95,529 ceramic/art and 46,702 food products.

- The women beneficiaries successfully delivered an order that they received from Israeli consulate for National day customised gift bags, chocolates and Challah breads.

Om Abode

Background

Om Abode, a self-sustainable social innovation centre in Karjat developed by **Om Creations Trust** is a multi-functional residential campus to train young adults with intellectual disability and to gainfully employ them in different areas. This centre has been built by Om Creations Trust and provides women with intellectual disability with a special environment and the right training and amenities to live independently and participate fully in all aspects of life and development.

IDFC FIRST Bank CSR team with Dr. Radhike Khanna, Founder and Trustee discussing launch of Om Abode

Impact:

8 staff member

salaries were funded by the Bank. The team comprised of special educators, trainers and care-staff who work with adults with disabilities to turn their capabilities into a means of sustenance and income.

Lighthouse Program

Background

We supported the 'Sustainable Livelihood Program' which is run through physical centres called 'Lighthouses'. This programme skilled the underprivileged youth from slum community of Aundh, Pune, and assisted them in placements to enhance their employability and livelihood opportunities. It involves a multi-disciplinary project with a holistic approach to skill development. These centres are run in partnership with **Pune City Connect** and **Pune Municipal Corporation**.

Impact:

188 **students**

underwent the training programme which consisted of a foundation course of 40-50 hours followed by one-to-one counselling, market exploration session and skills training.

- The trainees were encouraged to take up placements, start their entrepreneurial journey or pursue higher education as the case may be.

IDFC FIRST Bank CSR team at Aundh Lighthouse with the team of Pune City Connect

Digital Empowerment Program

Background

We supported digital literacy training of those enrolled in the 'Digital Empowerment Program', run in partnership with **Pune City Connect** and **Pune Municipal Corporation**. The objective of this programme was to impart digital skills required for day-to-day functions of life to youth and adults from slum areas of Pune. We supported five digital empowerment centres across the Pune city in Janata Vasahat, Bopodi, Sagar Colony, Kothrud, Jai Bhawani Nagar & Aundh.

Dr.(Mrs.) Brinda Jagirdar felicitating graduate trainees at the 1st anniversary celebration of Digital literacy centre at Bopodi, Pune

Impact:

3,000 **people**

across the five centres have undergone training

- Dr.(Mrs.) Brinda Jagirdar graced the 1st anniversary celebration as Guest of Honour for the event of the National Digital Literacy Mission (NDLM) centre funded by erstwhile Capital First in Bopodi, Pune

Shwetdhara Program

Background

Shwetdhara is a rural livelihood enhancement programme which promotes dairy farming among small and marginal farmers in rural areas of Rajasthan and M.P. This programme helped increase livelihoods and income opportunities for the farmers by increasing the milk output of their cattle. This program, is carried out in the catchment areas of our rural bank branches. We are currently operating in two states in partnership with three organisations namely **Vrutti, CARD and End Poverty**.

Gram Sakhi and other field staff during training in Madhya Pradesh

Impact:

800 **trainings** have been undertaken at the community level to disseminate best practices on dairy farming. These trainings were focussed on key aspects of dairying like breed improvement and nutrition. The capacity building exercise is complemented with mechanisms that promote behaviour change among farmers.

- Over 200 Shwetdhara groups met every month to discuss the best practices in dairying. This process was duly supported by a cadre of village level women volunteers called the Gram Sakhis.
- 7 Pashu Vikas Kendras (PVK) were established which acted as resource centres manned by a veterinary doctor and extension officers.
- The programme enabled over 10,000 rural households across over 200 villages, access good quality inputs and services required for effective dairy farming.
- During the year, the Artificial Insemination Technicians (AITs) engaged with the programme have provided around 5,000 breed improvement services.

Voice of Impact

After joining OSCAR's Football Programme, I feel very inspired to study and to attend school regularly. My two sisters Pooja and Poonam who live in the same community represented OSCAR in the UK Schools Football Tour 2018 and also had the opportunity to go to Russia and be a part of the FIFA Foundation Festival during the FIFA World Cup 2018. After this my parents became supportive of me joining the OSCAR Football program. I express my sincere gratitude to IDFC FIRST Bank as because of their support I get to learn new things, and explore new places. Because of this program, I am experiencing a new life.

Radhika Verma

Student at Colaba Municipal School and trainee at OSCAR foundation

This training has helped me a lot. I got to understand about the market and its trends. Now I feel much more confident to step out and set up a stall to sell our products on my own. Now my family supports me in participating in events and in going to markets for purchasing raw materials. I feel much more confident as I am able to do things on my own and don't have to depend on anyone. Earlier I was not doing anything and I was just sitting at home but now I also have a goal to expand my business and wish to contribute to my family income.

Ms. Meera

Co-owner of Sahas Mahila Udyog and trainee of WEP program

Health: Cleaner surroundings for a better life

Project Swachh Worli Koliwada

Background

This is a programme started in partnership with **G5A Foundation for Contemporary Culture** and **Brihanmumbai Municipal Corporation**.

Apart from creating awareness, the programme also involves locating community bins at the identified spots along the shoreline, setting up composting pits within the community where the bins carrying the organic waste will be offloaded. All of this forms a part of the larger Solid Waste Management Plan.

Mr. V. Vaidyanathan, MD and CEO of IDFC FIRST Bank at G5A Foundation for Contemporary Culture with volunteers and crew of theatre production 'Utterly Gutterly Atrocious'

Impact:

500 residents have undergone various sessions on behaviour change and basics of solid waste management.

- An audit of 1,040 households was conducted and 1,099 households were surveyed.
- In our effort to bring about social transformation through arts, we also supported a theatre production titled 'Utterly Gutterly Atrocious" produced by G5A in collaboration with Aarambh Mumbai. The play which is a take on the classic hare and tortoise story satirises our society's attitude to waste, class and caste featured children from Worli Koliwada who had little or no experience in theatre prior to this production. Mr. V. Vaidyanathan was the Chief Guest for the evening and he expressed his support towards the programme as he thanked all the artists for putting up a great show.

Voice of Impact

Project Swachh Worli Koliwada will prove to be beneficial for the residents of Worli Koliwada. Plastic and waste is not only impacting our surroundings, but also fishing trade and marine life. Thus, the project by G5A Foundation for Contemporary Culture and IDFC FIRST Bank is timely and has our full support. Awareness plays an important role in the success of a project. So we are committed to doing our bit.

Harishchandra Nakhwa

President - Nakhwa Machhimar Cooperative Society and resident of Worli Koliwada community

There is a difference in how theatre sessions are conducted in college and here. We don't have games and sports as a part of theatre in college. Here, they taught us how to speak, to modulate voice, indentation, eye contact with people, and trust your fellow actor.

Prajyot

community member and participant of theatre play directed by G5A and supported by IDFC FIRST Bank

Board of Directors

DR. RAJIV B. LALL - *Part-Time Non-Executive Chairman*

Dr. Rajiv Lall is the Non-Executive Chairman of IDFC FIRST Bank. He was the Founder MD & CEO of IDFC Bank from October 1, 2015, till December 18, 2018. Previously, he was the Executive Chairman of IDFC Limited. A veteran economist for 30 years, Dr. Lall has been an active part of the finance and policy landscape, both in India and internationally. In his diverse career, he has also held leadership roles in global investment banks and multilateral agencies.

MR. V. VAIDYANATHAN - *Managing Director and CEO*

As a career banker and entrepreneur, Mr. Vaidyanathan worked with Citibank (1990-2000) and ICICI Group (2000-2010). He then acquired a stake in an existing NBFC, concluded a leveraged Management Buyout of the Company, and founded Capital First (2012) as a new entity and brand with PE backing. In 2018, he became the MD and CEO of IDFC FIRST Bank, the Bank formed by the merger of IDFC Bank and Capital First. He is an alumnus of Birla Institute of Technology and Harvard Business School (AMP).

MS. ANINDITA SINHARAY - *Non-Executive Non-Independent Director*
(Representing the Govt. of India)

Ms. Anindita Sinharay is an Indian Statistical Service (2000) officer working as a Director in the Department of Financial Services, Ministry of Finance. She holds a post graduate degree in Statistics from the University of Calcutta. She has vast working experience of more than one decade in National Accounts Statistics in Central Statistics Office (CSO) and analysis of data of large scale sample surveys conducted by National Sample Survey Office (NSSO).

MR. ANAND SINHA - *Independent Director*

Mr. Anand Sinha joined the Reserve Bank of India in July 1976 and rose to become Deputy Governor in January 2011. He was Adviser in RBI up to April 2014 after demitting the office of Deputy Governor in RBI on January 18, 2014. As Deputy Governor, he was in-charge of regulation of commercial banks, Non-Banking Financial Companies, Urban Cooperative Banks and Information Technology, among others.

MR. AASHISH KAMAT - *Independent Director*

Mr. Aashish Kamat has over 30 years of experience in the corporate world, with 24 years being in banking & financial services & 6 years in public accounting. Mr. Kamat was the Country Head for UBS India, from 2012 until his retirement in January 2018. Prior to that he was the Regional COO/CFO for Asia Pacific at JP Morgan based out of Hong Kong. Before moving to Hong Kong, Mr. Kamat was in New York, where he was the Global Controller for the Investment Bank (IB) at JP Morgan in New York; & at Bank of America as the Global CFO for the IB, and, Consumer and Mortgage Products. Mr. Kamat started his career with Coopers & Lybrand, a public accounting firm, in 1988 before he joined JP Morgan in 1994.

DR. (MRS.) BRINDA JAGIRDAR - *Independent Director*

Dr. (Mrs.) Brinda Jagirdar, is an independent consulting economist with specialisation in areas relating to the Indian economy and financial intermediation. She is on the Governing Council of Treasury Elite, a knowledge-sharing platform for finance and treasury professionals. She retired as General Manager and Chief Economist, State Bank of India, based at its Corporate Office in Mumbai. She has a brilliant academic record, with a Ph.D. in Economics from the Department of Economics, University of Mumbai, M.S. in Economics from the University of California at Davis, USA, M.A. in Economics from Gokhale Institute of Politics and Economics, Pune and B.A. in Economics from Fergusson College, Pune. She has attended an Executive Programme at the Kennedy School of Government, Harvard University, USA and a leadership programme at IIM Lucknow.

MR. HEMANG RAJA - *Independent Director*

Mr. Hemang Raja, is an MBA from Abeline Christian University, Texas, with a major emphasis on finance. Mr. Raja has also been the head of Capital Market activities in the Institutional and Retail Segments when he started and became the Managing Director and CEO of the then newly formed initiative by IL&FS, namely IL&FS Investsmart Ltd. His last assignment from the year 2006 onwards was in the area of Private Equity and Fund Management business with Credit Suisse and Asia Growth Capital Advisers in India as MD and Head - India.

MR. PRAVIR VOHRA - *Independent Director*

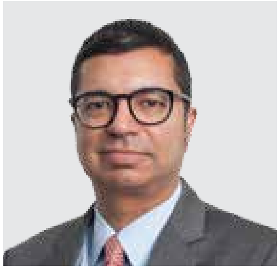
Mr. Pravir Vohra is a postgraduate in Economics from St. Stephen's College, University of Delhi & a Certified Associate of the Indian Institute of Bankers. He began his career in banking with State Bank of India where he worked for over 23 years. He held various senior level positions in business as well as technology within the bank, both in India & abroad. The late 1990s saw Mr. Vohra as Vice President in charge of the Corporate Services group at Times Bank Ltd. In January 2000, he moved to the ICICI Bank group where he headed a number of functions like the Retail Technology Group & Technology Management Group. From 2005 till 2012 he was the President and Group CTO at ICICI Bank.

MR. SANJEEB CHAUDHURI - *Independent Director*

Mr. Sanjeeb Chaudhuri is a Board member and Advisor to global organisations across Europe, the US and Asia. He has most recently been Regional Business Head for India and South Asia for Retail, Commercial and Private Banking and also Global Head of Brand and Chief Marketing Officer at Standard Chartered Bank. Prior to this, he was CEO for Retail and Commercial Banking for Citigroup, Europe, Middle East and Africa. He has an MBA in Marketing and has completed an Advanced Management Program.

MR. SUNIL KAKAR - *Non-Executive Non-Independent Director*
(Representing IDFC Limited)

Mr. Sunil Kakar is the Managing Director & CEO of IDFC Limited. He started his career at Bank of America where he worked in various roles, covering Business Planning & Financial Control, Branch Administration and Operations Market Risk Management, Project Management and Internal Controls. After Bank of America, Mr. Kakar was the CFO at Max New York Life Insurance since 2001. He led numerous initiatives including Planning, Investments / Treasury, Finance and Accounting, Budgeting and MIS, Regulatory Reporting and Taxation.



MR. VISHAL MAHADEVIA - *Non-Executive Non-Independent Director*

Mr. Vishal Mahadevia joined Warburg Pincus in 2006 & is a member of the firm's executive management group. Previously, he was a Principal at Greenbriar Equity Group, a fund focussed on private equity investments in the transportation sector. Prior to that, Mr. Mahadevia worked at Three Cities Research, a New York-based PE fund, & as a consultant with McKinsey & Company. He received a B.S. in economics with a concentration in finance & B.S. in electrical engineering from the University of Pennsylvania

Management Discussion & Analysis

Macro-economic environment

Economic activity appeared to be on an uptrend as the Indian economy entered into FY19. From a low of 6% GDP growth in April-June of FY18, there was a steady improvement in GDP growth to 8% in April-June FY19.

A pick-up in sales growth, capacity utilisation and acceleration in the fast moving consumer goods space clearly indicated that demand was fast catching up with supply in the economy. On the supply side, manufacturing activity picked up while services sector exhibited resilience. From the demand side, private final consumption expenditure expanded to grow at 9.8% in July-September FY19 and was also amply supported by a steady pick-up in the capital formation. Importantly, there was an increase in the share of Gross Fixed Capital Formation in GDP to 32.3% in FY19 from 31.4% a year ago, indicating a strengthening of investment demand, mostly from the government's drive to boost spending on the road sector and affordable housing.

However, domestic economic activity lost some of the early momentum in the second half of the year. GDP growth dipped to 6.6% in Q3FY19 – with aggregate demand showing some softness with a dip in the consumption expenditures of both the private sector and the government sector.

Full year FY19 growth is estimated by the CSO to be at 7.0%, slightly weaker than the 7.1% growth recorded in FY18. The resilience of the economy is commendable given the global macroeconomic and financial market conditions that have been guided by growing trade protectionism between major economies of the world, Brexit related uncertainties, monetary tightening in the US that also found an expression in bouts of volatility in financial markets of EMs. Further, forward-looking surveys in India have indicated improvement in consumer confidence and business expectations, that is likely to guide for a resurgence in growth in FY2020.

Flow of credit to the commercial sector remained robust with the credit growth of Scheduled Commercial Banks (SCBs) improving to 13.2% by end-March 2019 from 10% in end-March 2018. On the other hand, growth in the deposits of the banking sector improved to 10% by end-March 2019 from around 6% as of end-March 2018.

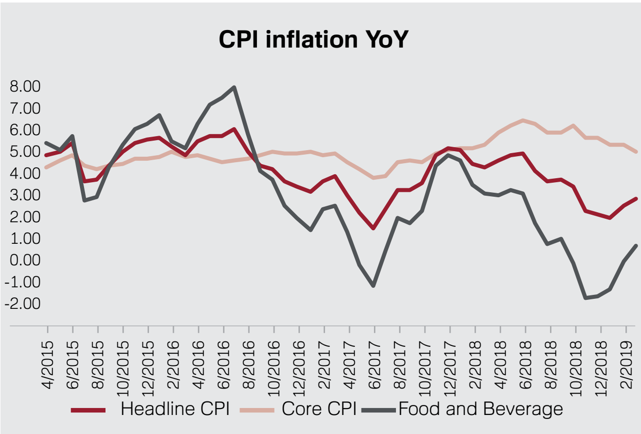
With the growth in credit stronger than the growth in deposit, the credit-deposit ratio rose to 78% by end-March 2019 from 75% in end-March 2018. Importantly, as per the last data reported by RBI, the asset quality of SCBs showed improvement with the Gross NPA ratio moving lower to 10.8% as of September 2018 from 11.5% in March 2018, but with some stress continuing in the mining, food processing and construction sectors. The Net NPA ratio also registered a drop in this period.

Developments on the price front remained largely comfortable, despite some uptick in the fuel and light inflation in the first half of the year. Given the closing of the output gap, core inflation had tended to move higher in the first half of the year.

However, this did not create much problems for the Headline CPI inflation, as food inflation remained on a persistent softening trend, led by a lower-than-seasonal hardening in the prices of vegetables and also a softening in the prices of fruits.

Food inflation dropped from 3.7% in Q4 FY18 to 2.2% in the first half of FY19 and continued to move lower, entering into a deflationary zone in the second half of FY19. Prices of cereals and pulses also witnessed drops in the second half of FY19, despite an increase in the minimum support prices. The second half of FY19 was also blessed with a gradual dip in the core inflation as the economic growth also tended to slacken in pace. Overall, Headline CPI inflation peaked at around 4.9% in June 2018 but fell sharply to touch a low around 2% in January 2019, before rising back to around 2.6% in February 2019.

Core inflation comes down while food inflation remains low



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Chartered Accountants

Solicitors & Advocates

AZB & Partners
Shardul Amarchand Mangaldas & Co.
Wadia Ghandy & Co.

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