

**IDFCFIRSTBANK/SD/SE/114/2019-20**
**July 18, 2019**

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

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

**Sub.: Intimation of change in Rating Action of the Senior Debt of the Bank by India Ratings & Research**

**Ref.: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')**

Dear Sir / Madam,

Pursuant to Regulation 30 of the Listing Regulations, we wish to inform you that **India Ratings & Research (Ind-Ra)** has revised the Outlook of the following Senior Debt Instruments of the Bank to Negative and has affirmed its Credit Rating to 'IND AA+':

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating / Outlook	Rating Action
Bonds*	-	-	-	INR 236.42 (decreased from INR 291.25)	IND AA+/Negative	Affirmed; Outlook revised to Negative from Stable
Infra Bonds*	-	-	-	INR 100	IND AA+/Negative	Affirmed; Outlook revised to Negative from Stable

\* Denotes Non-Convertible Debentures (NCDs).

Detailed Report for the aforesaid revision in the Rating Action of the Bank's Senior Debt is enclosed herewith.

Request you to take the above on record and acknowledge receipt of the same.

Thanking you,

For **IDFC FIRST Bank Limited**  
(Formerly known as IDFC Bank Limited)

  
**Satish Gaikwad**  
Head – Legal & Company Secretary



**Encl.: as above**

# India Ratings Revises Outlook on IDFC FIRST Bank's Senior Debt to Negative; Affirms 'IND AA+'

17

JUL 2019

By **Jinay Gala**

India Ratings and Research (Ind-Ra) has taken the following rating actions on IDFC FIRST Bank Limited's (IDFCFB; earlier known as IDFC Bank Limited) senior debt:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bonds*	-	-	-	INR236.42 (decreased from INR291.25)	IND AA+/Negative	Affirmed; Outlook revised to Negative from Stable
Infra bonds*	-	-	-	INR100	IND AA+/Negative	Affirmed; Outlook revised to Negative from Stable

\*Denotes non-convertible debentures (NCDs). Details in Annexure

The Outlook revision reflects Ind-Ra's expectation that IDFCFB could be adversely affected by the rise in credit costs (provision requirement) from the recent sharp downgrades of certain exposures in its credit substitute book (investments) and incremental provision from the legacy stressed book, as the provision coverage on the legacy stressed portfolio has moved lower. The rating action also reflects the subdued profitability on account of higher-than-envisaged operating expense, primarily resulting from investments in the branch network, thereby reducing the availability of operating buffers to absorb volatility in credit costs. The bank's build-up of retail CASA and retail deposit franchise, the diversification of the retail asset franchise away from wholesale assets, and the ability to remain profitable after factoring in provision on stressed assets would be key monitorables for the rating agency.

The ratings, however, are supported by the bank's stable capital buffers, comfortable liquidity position, and the increased portion of the retail book post the merger, thereby leading to a rise in net interest margins. Additionally, the strong experience of the management in the retail lending space would support the bank in the expansion of its retail franchise.

## KEY RATING DRIVERS

**Asset Quality Weakens; Incremental Provision to Remain Drag on Profitability:** After having trended lower since 1QFY19, the total stressed assets (gross non-performing assets + restructured assets + potential additional stress + security receipts) rose in 4QFY19 with the downgrades across financial services. The stressed assets accounted for 8.3% of the gross advances in FY19. The provisions against the stressed book, excluding security receipts, moderated to 55.9% in FY19 from 76.1% in FY18. Furthermore, the Negative outlook takes into account the incremental provisioning required on the credit substitutes book, where exposure of INR14.6 billion has faced downgrades in recent times, and the seasoning of existing non-performing assets, which would keep provisions at elevated levels, and thus, exert further pressure on profitability in the medium term.

**Higher Operating Expense to Remain Drag on Internal Accruals:** Post the merger, IDFCFB's cost-to-income ratio rose above 75% in 2HFY19, and it is likely to remain elevated in the medium term, largely due to branch expansion plans. This would add to the pressure on the bank's internal accruals, thereby causing the capital buffer to deplete at a higher rate. The impact of the negative carry on IDFCFB due to the priority sector lending, higher funding cost on legacy borrowing book, higher portion of stressed book staying unresolved, and the likelihood of an increase in operating expenditure for the expansion of its retail franchise would continue to weigh on the profitability in the medium-to-long term.

**Liquidity Buffers Stable; Funding Diversification Remains Constrained:** IDFCFB's liquidity remained stable in FY19, with liquidity coverage ratio of 107%. The assets-liability tenure was largely matched, with minor gaps in higher buckets. The funding is highly dependent on wholesale borrowing, exposing the bank to volatility in interest rates. In FY19, the CASA accounted for 12.7% of the total deposits, and 6.5% of the total liabilities. Ind-Ra believes an increase in granularity and scaling of low-cost deposits can only be achieved over the medium-to-long term, and might require IDFCFB to incur higher funding costs than peer banks in light of the intense competition for retail liabilities in the system. The historically high-cost fixed rate borrowings have added to the challenge for the bank, resulting in a negative drag of 25bp on the net interest margin; this would subside post FY22. IDFCFB also intends to expand its retail franchise through large-scale branch roll-outs; however, the successful execution of this plan remains a key monitorable.

**Capital Buffers Strong, but May Be Diluted as Loan Portfolio Expands:** IDFCFB's capitalisation remains strong, but it would moderate as the bank expands its loan book. Even at the moderate growth expected by the management for the proposed combined entity, the absorption of capital buffers could be higher, as the increased provisioning on stressed assets would lead to dependence on the moderate internal accruals to fund growth. IDFCFB's tier 1 ratio was 15% in FY19; Ind-Ra expects the absorption of capital buffers to be to the tune of 150bp for FY20-FY21.

**Asset Book Graduating to Retailisation:** The retail book of IDFCFB accounted for 37% of the total advances at end-FY19 post the merger with Capital FIRST; the earlier standalone retail book of IDFCB had stood at 13.2% of total advances as of 2QFY19. Also, the drivers for strong retail fee income in the form of distribution fees, may entail higher operating expenses, which would keep the cost-to-income ratio elevated in the medium term. According to the management, retailisation of the loan book would be the key focus area for the medium-to-long term and the mix would improve quarter over quarter over this period. While this should be margin-accretive in the medium term, its impact on overall return ratios would depend on the growth/moderation in both operating and provision costs.

## RATING SENSITIVITIES

**Outlook Revision:** The Outlook could be revised back to Stable if the bank displays the ability to maintain incremental profitability after factoring in the credit cost on stressed exposures, along with the build-up in retail CASA being higher than management's guidance, and ensure successful diversification of the loan book towards retail assets, while maintaining above-average capitalisation.

**Negative:** Delayed or slower build-up of low cost granular retail liability, higher-than-expected credit costs or diluted capitalisation buffers would lead to negative rating action. Substantial negative mismatches on asset-liability tenors would also be negative for the ratings.

## COMPANY PROFILE

Incorporated on 21 October 2014, IDFCB is a new-age private sector bank. IDFC Ltd is its ultimate parent, which was established in 1997 by the government for financing infrastructure projects.

On 23 July 2015, IDFCB received a banking license. It commenced banking operations on 1 October 2015.

### FINANCIAL SUMMARY

Particulars	FY19*	FY18	FY17
Total assets (INR billion)	1671.8	1,265.2	1,121.6
Total equity base (INR billion)	181.6	152.5	146.7
Net profit (INR billion)	-19.44	8.59	10.2
Return on assets (%)	-1.3	0.7	1.0
Tier 1 ratio (%)	15.2	17.7	18.5
Capital adequacy ratio (%)	15.5	18.0	18.9
GNPA (%)	2.4	3.3	3
Stressed asset (GNPA+SR+SRA+ potential stress book) (%) of gross advances	8.3	10.9	15.1
Source: IDFCFB, Ind-Ra's estimates, *Financials for the combined entity of IDFCB and CAPF			

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (billion)	Rating	27 June 2018	28 March 2018	29 December 2016
NCDs	Long term	INR236.42	IND AA+/Negative	IND AA+/ Stable	IND AAA/RWN	IND AAA/Stable
Infra bonds	Long-term	INR100	IND AA+/Negative	IND AA+/Stable	IND AAA/RWN	IND AAA/Stable

## ANNEXURE

ISIN No.	Instrument	Date of Issuance	Coupon rate (%)	Maturity Date	Issue size (billion)	Rating/Outlook
INE092T08014	NCDs	17 January 2006	7.75	17 January 2026	INR2.00	IND AA+/Negative
INE092T08238	NCDs	25 August 2009	9.05	25 August 2019	INR1.50	IND AA+/Negative

INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR1.50	IND AA+/Negative
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR1.50	IND AA+/Negative
INE092T08261	NCDs	4 September 2009	8.95	4 September 2019	INR1.00	IND AA+/Negative
INE092T08279	NCDs	15 September 2009	9.00	15 September 2024	INR0.50	IND AA+/Negative
INE092T08287	NCDs	29 September 2009	8.90	29 September 2019	INR1.00	IND AA+/Negative
INE092T08311	NCDs	17 November 2009	8.75	17 November 2019	INR1.00	IND AA+/Negative
INE092T08352	NCDs	17 December 2009	8.75	17 December 2019	INR3.00	IND AA+/Negative
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR1.00	IND AA+/Negative
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR1.00	IND AA+/Negative
INE092T08394	NCDs	27 January 2010	8.80	27 January 2025	INR2.00	IND AA+/Negative
INE092T08402	NCDs	9 February 2010	8.77	9 February 2020	INR0.50	IND AA+/Negative
INE092T08428	NCDs	5 April 2010	9.03	5 April 2025	INR2.50	IND AA+/Negative
INE092T08436	NCDs	5 April 2010	8.96	5 April 2025	INR2.50	IND AA+/Negative
INE092T08444	NCDs	9 April 2010	8.90	9 April 2025	INR2.50	IND AA+/Negative
INE092T08451	NCDs	28 April 2010	8.90	28 April 2025	INR3.50	IND AA+/Negative
INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR5.00	IND AA+/Negative
INE092T08477	NCDs	24 May 2010	8.65	24 May 2020	INR3.80	IND AA+/Negative
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR2.00	IND AA+/Negative
INE092T08493	NCDs	15 June 2010	8.80	15 June 2025	INR2.00	IND AA+/Negative
INE092T08501	NCDs	8 July 2010	8.80	8 July 2025	INR2.00	IND AA+/Negative
INE092T08519	NCDs	21 July 2010	8.80	21 July 2025	INR3.00	IND AA+/Negative
INE092T08527	NCDs	6 August 2010	8.95	6 August 2025	INR2.00	IND AA+/Negative
INE092T08535	NCDs	15 September 2010	8.79	15 September 2020	INR1.00	IND AA+/Negative
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR1.00	IND AA+/Negative
INE092T08550	NCDs	20 September 2010	8.77	20 September 2020	INR0.80	IND AA+/Negative
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR1.20	IND AA+/Negative
INE092T08576	NCDs	29 September 2010	8.72	29 September 2020	INR1.55	IND AA+/Negative
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR2.60	IND AA+/Negative
INE092T08592	NCDs	19 November 2010	8.90	19 November 2025	INR2.60	IND AA+/Negative

INE092T08600	NCDs	2 December 2010	8.89	2 December 2020	INR3.06	IND AA+/Negative
INE092T08618	NCDs	27 December 2010	9.05	27 December 2020	INR3.39	IND AA+/Negative
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR2.08	IND AA+/Negative
INE092T08AO5	NCDs	17 February 2011	9.35	17 February 2026	INR3.15	IND AA+/Negative
INE092T08AP2	NCDs	14 March 2011	9.33	14 March 2026	INR1.31	WD (paid in full)
INE092T08634	NCDs	24 March 2011	9.25	24 March 2021	INR5.00	IND AA+/Negative
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR2.15	IND AA+/Negative
INE092T08CG7	NCDs	21 February 2011	8.00	21 February 2021	INR1.03	IND AA+/Negative
INE092T08CH5	NCDs	21 February 2011	8.01	21 February 2021	INR3.36	IND AA+/Negative
INE092T08CI3	NCDs	30 March 2011	8.25	30 March 2021	INR0.34	IND AA+/Negative
INE092T08CJ1	NCDs	30 March 2011	8.25	30 March 2021	INR1.08	IND AA+/Negative
INE092T08CM5	NCDs	21 March 2012	8.70	21 March 2022	INR1.08	IND AA+/Negative
INE092T08CN3	NCDs	21 March 2012	8.70	21 March 2022	INR3.57	IND AA+/Negative
INE092T08AR8	NCDs	15 April 2011	9.28	15 April 2026	INR2.50	IND AA+/Negative
INE092T08CK9	NCDs	30 December 2011	9.00	30 December 2021	INR0.74	IND AA+/Negative
INE092T08CL7	NCDs	30 December 2011	9.00	30 December 2021	INR1.99	IND AA+/Negative
INE092T08CO1	NCDs	31 March 2012	8.43	31 March 2022	INR0.32	IND AA+/Negative
INE092T08CP8	NCDs	31 March 2012	8.43	31 March 2022	INR0.86	IND AA+/Negative
INE092T08BB0	NCDs	13 September 2012	9.25	13 September 2019	INR0.40	IND AA+/Negative
INE092T08808	NCDs	23 May 2013	7.98	23 May 2023	INR4.05	IND AA+/Negative
INE092T08AU2	NCDs	18 December 2013	9.68	18 December 2023	INR20.00	WD (paid in full)
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR1.45	IND AA+/Negative
INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR11.65	IND AA+/Negative
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR5.70	IND AA+/Negative
INE092T08857	NCDs	29 April 2014	9.50	29 April 2019	INR1.85	WD (paid in full)
INE092T08AV0	NCDs	29 April 2014	9.60	29 April 2024	INR2.70	WD (paid in full)
INE092T08865	NCDs	29 April 2014	9.50	02 April 2019	INR0.10	WD (paid in full)
INE092T08AT4	NCDs	15 May 2014	9.50	15 May 2024	INR6.35	WD (paid in full)
INE092T08AW8	NCDs	11 June 2014	9.18	11 June 2024	INR5.00	WD (paid in full)
INE092T08BN5	NCDs	7 August 2014	9.30	7 August 2024	INR1.74	IND AA+/Negative

INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR10.25	IND AA+/Negative
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR10.55	IND AA+/Negative
INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR10.00	IND AA+/Negative
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR4.80	IND AA+/Negative
INE092T08BS4	NCDs	5 January 2015	8.67	3 January 2025	INR20.00	IND AA+/Negative
INE092T08964	NCDs	18 February 2015	8.63	18 February 2020	INR6.28	IND AA+/Negative
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR3.00	IND AA+/Negative
INE092T08AH9	NCDs	25 March 2015	8.66	25 June 2018	INR2.25	WD (paid in full)
INE092T08A7	NCDs	25 March 2015	8.66	24 December 2018	INR0.55	WD (paid in full)
INE092T08AJ5	NCDs	30 March 2015	8.66	28 June 2018	INR1.75	WD (paid in full)
INE092T08AK3	NCDs	30 March 2015	8.65	27 September 2018	INR2.50	WD (paid in full)
INE092T08AL1	NCDs	30 March 2015	8.66	27 December 2018	INR2.00	WD (paid in full)
INE092T08139	NCDs	8 April 2015	8.64	27 February 2019	INR2.70	WD (paid in full)
INE092T08121	NCDs	8 April 2015	8.64	8 April 2019	INR2.70	WD (paid in full)
INE092T08972	NCDs	15 April 2015	8.64	15 April 2020	INR12.36	IND AA+/Negative
INE092T08AN7	NCDs	17 April 2015	8.59	21 October 2021	INR0.25	IND AA+/Negative
INE092T08CB8	NCDs	17 April 2015	8.61	19 April 2022	INR0.75	IND AA+/Negative
INE092T08BU0	NCDs	20 May 2015	8.70	20 May 2025	INR7.41	IND AA+/Negative
INE092T08BV8	NCDs	27 May 2015	8.73	30 May 2022	INR6.30	IND AA+/Negative
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR2.00	IND AA+/Negative
INE092T08BX4	NCDs	12 June 2015	8.73	14 June 2022	INR3.18	IND AA+/Negative
INE092T08BY2	NCDs	23 June 2015	8.70	23 June 2025	INR3.95	IND AA+/Negative
INE092T08BZ9	NCDs	9 July 2015	8.73	6 January 2023	INR5.11	IND AA+/Negative
INE092T08CA0	NCDs	28 July 2015	8.75	28 July 2023	INR10.50	IND AA+/Negative
				Total outstanding	INR 236.42	

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



	Total unutilised				INR95.2	IND AA+/Negative
	Total				INR100	

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments please visit <https://www.indiaratings.co.in/complexity-indicators>.

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

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## Applicable Criteria

[Non-Bank Finance Companies Criteria](#)

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