

IDFCFIRSTBANK/SD/134/2020-21

August 07, 2020

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

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

Sub.: Intimation regarding affirmation of Credit Rating to the, Basel III - Tier 2 Debt, Infra Bonds and Non-Convertible Debentures ('NCDs') (collectively referred as *Other Debt Instruments*) of IDFC FIRST Bank Limited ('Bank').

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

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI Listing Regulations, we wish to inform that **India Ratings & Research (Ind-Ra)** have affirmed 'IND AA+/ Negative' rating/ outlook in respect of Bank's 'Basel III - Tier 2 Debt' of Rs. 2,000 Crore (Size of Issue) and other Debt Instruments (Infra Bonds and NCDs).

Detailed press-release/ report of the aforesaid Credit Rating affirmation is enclosed herewith.

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

Thanking you,

Yours faithfully,

For **IDFC FIRST Bank Limited**

Satish Gaikwad
Head – Legal & Company Secretary
Encl.: as above

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

07

By **Jinay Gala**

AUG 2020

India Ratings and Research (Ind-Ra) has affirmed IDFC FIRST Bank Limited's debt instruments' ratings at 'IND AA+' with a Negative Outlook as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Basel III Tier 2 debt#	-	-	-	INR20	IND AA+/Negative	Affirmed
Infra bonds*	-	-	-	INR100	IND AA+/Negative	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR205.19 (reduced from INR229.32)	IND AA+/Negative	Affirmed

*Details in Annexure

#limit stands unutilised

The Negative Outlook reflects Ind-Ra's expectation of challenges on IDFCFB's asset quality and the resultant increased credit costs due to the measures taken in the wake of COVID-19 pandemic, such as the Reserve Bank of India-prescribed moratorium, coupled with a weak operating performance and moderately diversified liability profile compared to peers. The ratings, however, factor in the bank's strengthening franchise with increasing proportion of granular loans offering strong pricing power, adequate capital buffers and experienced management.

KEY RATING DRIVERS

Retail Book Driving Loan Portfolio Expansion, Reducing Concentration Risk and Improves pricing power: The retail book of IDFCFB accounted for 54% of the total funded exposure in 1QFY21 (end-FY19, post the merger with Capital FIRST: 37%; pre-merger 2QFY19: 13.2%). The bank intends to continue focusing on expanding its retail loan portfolio, thereby reducing concentration risk, improving yields and resultantly strengthening margins, which would offset some of the impact of higher funding cost of the bank. Retailisation of the loan book has led to an improvement in the net interest margin for IDFCFB to 4.53% in 1QFY21 (1QFY20: 3.01%; 4QFY20: 4.24%). However, Ind-Ra believes the retail portfolio (where 40.7% loans remain unsecured in nature) may witness heightened credit cost in the prevailing challenging economic scenario. Thus, the banks' ability to manage its asset quality better than the peers remains monitorable. As at end-June 2020, IDFCFB reported about 28% of its loan portfolio under the Reserve Bank of India-prescribed moratorium, which is higher than its peers.

Stable Capital Buffers: IDFCFB raised INR20 billion in April 2020, leading to an improvement in common equity tier-1 ratio to 14.58% in 1QFY21 (4QFY20: 13.30%). The agency believes this improved capitalisation strengthens the bank's buffers to absorb shocks in case of any higher-than-expected stress on the loan portfolio. A stronger capitalisation also allows the bank to expand its loan portfolio, as and when demand recovers, amid a conducive lending environment.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable as on 1QFY21, with liquidity coverage ratio of 128% (FY19: 120%). The bank's assets-liability tenure remains matched across shorter buckets as at end-FY20. However, the bank maintains 3.2% of net demand time liabilities, as excess statutory liquidity ratio, indicating that it will be able to meet its short-term funding requirements.

Funding Diversification Remains Monitorable: In 1QFY21, IDFCFB's current account saving accounts accounted for 33.74% of total deposits (1QFY20: 14.57%) and 19.3% (7.0%) of the total liabilities. IDFCFB's top 20 deposit-to-total deposit moderated to 20.36% in FY20 (FY19: 35.35%), which further improved to 16.86% at June-end, thereby improving granularity; the bank's granularity, however, remain lower than its peers. Ind-Ra believes an increase in the 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 bank has historically had high-cost fixed rate borrowings, which have resulted in a drag on the net interest margin. With the growth in retail deposit base, IDFCFB has reduced such borrowings to INR140 billion in FY20 and continued reduction in 1QFY21 to INR21.54 billion. The management expects the same to reduce further reduce post FY22 as the legacy long-term and infrastructure bonds start maturing. As a part of the reducing wholesale borrowing, IDFCFB has also reduced its certificates of deposits by 75% in FY20 and maintained it at INR72 billion, as of 30 June 2020. 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.

Retail current account and savings account plus retail term deposit as a percentage of total liabilities improved to 32.7% in 1QFY21 (FY19: 9.4%). However, any significant withdrawals on retail deposit front will remain a key monitorable.

Above-average Stressed Credit Portfolio vis-à-vis Peer could worsen on account of COVID: After having trended lower since 1QFY19, the bank's total stressed assets (gross non-performing assets (GNPA) + restructured assets (RA) + potential additional stress + security receipts (SR)) rose in 4QFY19 as certain large-exposure assets witnessed rapid credit migration. There has been further stress addition in the bank's investment book with a possibility of devolvement of stressed non-fund based exposures. The stressed assets as a percentage of funded exposure remained at 8.8% in FY20 (FY19: 7.9%); however, due to the moratorium benefit on certain accounts, it stood at 7.6% in 1QFY21. The provisions against the stressed assets, factoring moratorium benefit for 1QFY21 only, stood at 67.1% (FY20: 57.3%; FY19: 40.7%). The ageing-related provision on wholesale book has been largely provided; however, the agency believes slippages due to COVID-19 related disruption could lead to higher provisioning, and thus, may exert pressure on profitability in the medium term. The bank has, however, covered the stressed investment exposure (INR30.6 billion) through 58.9% provisioning in 1QFY21 and the bank provision coverage ratio on advance book, factoring moratorium benefit, stood at 74.9% (FY20: 64.5%; FY19: 48.2%).

IDFCFB follows an aggressive write-off policy for retail and small and medium enterprises loans, where post moratorium, the disruption in cash flows in the self-employed segment could be higher due to the lockdown and normalisation could be a long drawn process, thereby leading to a rise in delinquencies and thus impacting profitability buffers. However, due to an aggressive provisioning policy, the impact of moratorium-related provisioning would be accounted till 1QFY22 as per the management, thereby keeping credit cost elevated. The bank has provided INR6 billion for COVID-19 related provisions till date. Also, the bank's actual stress could be far higher than envisaged by the agency, which could keep credit costs elevated in the medium term.

Higher Operating Expense to Remain a Drag on Internal Accruals: Post the merger, IDFCFB's cost-to-income ratio exceeded 79.5% in 2HFY19, before falling to 73.7% in FY20 (1QFY21: 58%, factoring lockdown impact), and the management/agency expects it to moderate marginally in the medium term, largely due to branch expansion plans, thus adding pressure on the bank's internal accruals. 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 while this should be margin-accretive in the medium term, its impact on overall return ratios would depend on growth, moderation of negative carry due to legacy borrowing book, and operating and provision costs.

RATING SENSITIVITIES

Positive: A substantial increase in the franchise and scale, along with a considerable improvement in the granularity of liability franchise, improving operating performance, and strengthened asset quality while maintaining capital could result in a positive rating action.

Negative: Delayed or slower build-up of low-cost granular retail liability, higher-than-expected credit costs or weakening of provision cover or diluted tangible capitalisation buffers would lead to a negative rating action. A continued weak operating performance or substantial negative mismatches on asset-liability tenors, too, would be negative for the ratings. A negative rating action could also be undertaken if the common equity tier-1 buffer falls below 13% on a sustained basis or if the bank posts a yearly loss in FY21.

COMPANY PROFILE

Incorporated on 21 October 2014, IDFCB is a new-age private sector bank. IDFC Ltd was its ultimate parent, which was established in 1997 by the government for financing infrastructure projects. On 23 July 2015, IDFCB received a banking license. It commenced banking operations on 1 October 2015. IDFCB later merged with Capital First Ltd to form IDFC FIRST Bank in December 2018. IDFC Financial Holding Company Limited held 40% share; Warburg Pincus held 9.99%; the President of India held 5.47% share, followed by other shareholders in IDFC FIRST Bank, as on September 2019.

FINANCIAL SUMMARY

Particulars	FY20	FY19
Total assets (INR billion)	1,492.0	1,671.8
Total equity base (INR billion)	153.4	181.6
Net profit (INR billion)	-28.6	-19.4
Return on assets (%)	-1.8	-1.2
Tier 1 ratio (%)	13.3	15.3
Capital adequacy ratio (%)	13.4	15.5
GNPA (%)	2.6	2.4
Stressed asset (GNPA+SR+SRA+ potential stress book) (%) of funded exposure	8.9	7.9
Source: IDFCFB		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook/Rating Watch
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	Rating Type	Rated Limits (billion)	Rating	10 December 2019	27 June 2018	28 March 2018
NCDs	Long term	INR205.19	IND AA+/Negative	IND AA+/Negative	IND AA+/Stable	IND AAA/RWN
Infra bonds	Long-term	INR100	IND AA+/Negative	IND AA+/Negative	IND AA+/Stable	IND AAA/RWN
Basel-III tier 2 debt	Long-term	INR20	IND AA+/Negative	IND AA+/Negative	-	-

ANNEXURE

ISIN No.	Instrument	Date of Issuance	Coupon rate (%)	Maturity Date	Issue size (billion)	Rating/Outlook
INE092T08014	NCDs	17 January 2006	7.75	17 January 2026	INR2.00	IND AA+/Negative
INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR1.50	IND AA+/Negative
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR1.50	IND AA+/Negative
INE092T08279	NCDs	15 September 2009	9.00	15 September 2024	INR0.50	IND AA+/Negative
INE092T08352	NCDs	17 December 2009	8.75	17 December 2019	INR3.00	WD(Paid in Full)
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	WD(Paid in Full)
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	WD(Paid in Full)
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	INR0.85	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	INR1.35	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
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
INE092T08808	NCDs	23 May 2013	7.98	23 May 2023	INR4.00	IND AA+/Negative
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR1.45	IND AA+/Negative
INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR11.65	IND AA+/Negative
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR5.70	IND AA+/Negative
INE092T08BN5	NCDs	7 August 2014	9.30	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	INR5.33	WD(Paid in Full)
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR3.00	IND AA+/Negative
INE092T08972	NCDs	15 April 2015	8.64	15 April 2020	INR11.51	WD(Paid in Full)
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	INR205.19	

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>.

SOLICITATION DISCLOSURES

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Rating FI Subsidiaries and Holding Companies](#)

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