IDFC FIRST Bank

**IDFCFIRSTBANK/SD/136/2021-22** **August 06, 2021**

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

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

**Sub.: Re-affirmation of Credit Rating of IDFC FIRST Bank Limited's (the 'Bank') Debt Instruments.**

***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**') has re-affirmed the rating/outlook of Bank's Basel III – Tier 2 Debt (Rs. 2,000 crore) and other debt instruments (Infra Bonds and NCDs) at 'IND AA+/Negative'.

A detailed Rating Rationale for the above is enclosed herewith.

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

Thanking you,

Yours faithfully,
For **IDFC FIRST Bank Limited**

SATISH ASHOK
GAIKWAD

Digitally signed by SATISH ASHOK GAIKWAD
DN: c=IN, o=Personal, title=6268,
pseudonym=32ce1b94c8b644d2d28aa2a622d313b9493b089b,
2.5.4.20=d506d0806a3bdf5eb0d2137692e0c22af4c64e451e400f0
23db0b8bcf8b4b9d2, postalCode=400078, st=Maharashtra,
serialNumber=edce8e92f33ff5ae8664e7ee988f4ffd60f2d8c56e4d
e31ba1262fd22fde1987, cn=SATISH ASHOK GAIKWAD
Date: 2021.08.06 08:19:10 -07'00'

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

*Encl.: as above*

**IDFC FIRST Bank Limited**
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CIN: L65110TN2014PLC097792 bank.info@idfcfirstbank.com www.idfcfirstbank.com

IndiaRatings
& Research
A Fitch Group Company

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

**06**

AUG 2021

By Jinay Gala

India Ratings and Research (Ind-Ra) has affirmed IDFC FIRST Bank Limited's (IDFCFB) 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)* | - | - | - | INR184.93 (reduced from INR205.19) | IND AA+/Negative | Affirmed |

*Details in Annexure
#unutilised

Ind-Ra has maintained a Negative Outlook to reflect the asset quality challenges that could persist on account of COVID-19 especially in IDFCFB's retail segment and also the ongoing uncertainty regarding its one large telecom exposure, resulting in higher provision and credit cost. This could lead to a moderation in the operating performance and dilute capital buffers. However, the bank has raised capital to the tune of INR50 billion, built-up adequate capital buffers for incremental provision requirements, strengthened liability franchise and improved funding profile both by reduction in cost and reduced concentration and increased granularity of asset profile.

## KEY RATING DRIVERS

**Retail Book Driving Loan Portfolio Expansion; Reducing Concentration Risk, Driving Margins:** IDFCFB's retail book accounted for 63.9% of the total funded exposure in 1QFY22 (FY21:62.9%; FY20: 53.6%; end-FY19, post the merger with Capital FIRST: 37%).The bank intends to continue focusing on expanding its retail loan portfolio, thereby increasing loan granularity, improving yields on overall book and resultantly strengthening margins, which would offset some of the impact of elevated funding cost compared to peers. Retailisation of the loan book led to IDFCFB's net interest margin rising to 5.5% in 1QFY22 (FY21: 4.98%, FY20: 3.91%). However, Ind-Ra believes the retail portfolio (where 46.7% loans remain unsecured in nature) may witness heightened credit costs in the prevailing challenging economic scenario. Thus, the banks' ability to manage its asset quality better than the peers remains monitorable. The bank's retail GNPA rose to 3.86% in 1QFY22 (FY21: 4.01%; FY20: 2.22%), and could face further pressure because of the ongoing pandemic. Thus, the banks' ability to adequately manage its asset quality remains key monitorable.

**Stable Capital Buffers:** IDFCFB raised INR20 billion in April 2020 and INR30 billion in April 2021, leading to an improvement in its common equity tier-1 ratio to 14.9% in 1QFY22 (FY21: 13.3%; FY20: 13.30%). The agency believes this improved capitalisation is necessary to strengthen bank's buffers to absorb shocks in case of any higher-than-expected stress on the loan portfolio. The improved capitalisation also allows the bank to expand its loan portfolio, as and when demand recovers. However, with the retail book growth on higher side for FY22, there could be increased absorption of capital levels during the year. Furthermore, any impact due to the deterioration in asset quality on account of COVID-19 or the large exposure slipping would necessitate a capital raise.

**Liquidity Indicator – Adequate:** IDFCFB's liquidity remained stable as of 1QFY22, with its quarterly liquidity coverage ratio improving to 166% (FY21: 153%; FY20: 111%). Moreover, the bank's assets-liability tenure remained matched across shorter buckets as at end-FY21. Also, it maintains 6.2% of net demand time liabilities as excess statutory liquidity ratio, indicating that it will be able to meet its short-term funding requirements.

**Retail Liabilities Improved, but Legacy Cost Keeps Funding Cost Elevated**: In 1QFY22, IDFCFB's current account saving accounts accounted for 33.2% (FY21: 34.1%; FY20: 16.9%) of the total liabilities (deposits + borrowing). IDFCFB's top 20 deposit-to-total deposit moderated to 9.39% in 1QFY22 (FY21: 7.75%; FY20: 20.36%), thereby improving granularity in line with peers. Ind-Ra believes maintaining the low-cost liability franchise would be a key monitorable for IDFCFB as it has been reducing its saving rates which was a significant driver in the build-up of its liability franchise. While the cost of funds has moderated, the borrowing cost remains elevated in comparison to peer banks due to the bank's historically high-cost fixed rate borrowings, thus suppressing the net interest margin. With the growth in retail deposit base, IDFCFB has been reduced its high cost borrowings (FY21: INR50.47billion; FY20: INR37.39 billion). The management expects the same to reduce further post FY24, as the legacy long-term and infrastructure bonds start maturing. As a part of the reducing wholesale borrowings, IDFCFB has also reduced its certificates of deposits by 75% yoy in FY20 and 16% yoy in FY21. IDFCFB also intends to strengthen its digital capabilities and offerings for its customers by expanding its retail branch network; however, the successful execution of this plan remains a key monitorable.

**Above-average Stressed Credit Portfolio Compared to Peers due to COVID:** The stressed assets (GNPA + gross nonperforming investments + gross security receipts + gross restructured book +potential additional stressed asset) as a percentage of total funded exposure stood at 11.2% in 1QFY22 (FY21: 10.0%; FY20: 9.6%). The provisions against the stressed assets including covid provision stood at 5.7% of the funded asset as of 1QFY22 (FY21: 5.2%, FY20: 5.5%), implying provision coverage of 51% (51.7%, 56.8%). The overall GNPA increased in 1QFY22 to 4.6% (FY21: 4.2%; FY20: 2.6%), due to the migration of one of the large legacy infrastructure loans (toll road part of stressed asset) with exposure of INR8.5 billion to a higher bucket because of the COVID-19 impact on toll collections.

The large telecom exposure of INR32.4 billion where bank carries 15% provision could see a higher provision impact amid the current financial challenges at the telecom entity. In event of deterioration, there could be a moderation on capital buffers from current levels in FY22 due to the incremental provision requirement and without materially diluting the existing provision coverage levels depending upon the loss given default for the exposure. The bank's retail GNPA also rose to 3.86% in 1QFY22 (FY21: 4.01%; FY20: 2.22%), which could face further pressure as it largely caters to self-employed borrowers, and the large proportion of the retail book being unsecured could pose the risk of high write-offs or addition to GNPA in FY22 because of the second covid wave. The bank follows a proactive write-off policy on retail products where write-offs for retail book stood at 1.9% of the retail book in 1QFY22 (FY21: 2.5%). The management has guided for a provision of INR30 billion for FY22 which remains a key monitorable.

**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 68.8% in FY21 (1QFY22: 69.5%). Ind-Ra expects it to remain elevated in the medium term, largely due to branch expansion and technology related cost, thus adding pressure on the bank's internal accruals. The drivers for strong retail fee income in the form of distribution fees may entail higher operating expenses, which would also keep the cost-to-income ratio elevated in the medium term. A further reduction in the saving rates would lead to a moderation in the cost of funds and with increased retailisation, there could be a further expansion in margins, helping absorb incremental credit cost coming from retail assets. However, the internal accruals would remain subdued and could be lower than peer banks' in the near to medium term. According to the management, retailisation of the loan book would be the key focus area for the medium-to-long term. While this should be margin-accretive in the medium term, its impact on overall return ratios would depend on loan growth, a moderation of negative carry due to the legacy borrowing book, stabilisation of operating cost and a moderation in provision costs.

## RATING SENSITIVITIES

**Positive:** A consistent improvement in the granularity of liability franchise, significantly improved operating performance, and strengthened asset quality while maintaining capital could result in a Stable Outlook.

**Negative**: Following events that could individually or collectively lead to a negative action include:
- higher-than-expected credit costs or a weakening of the provision cover or diluted tangible capitalisation buffers
- the common equity tier-1 buffer falling below 13% on a sustained basis
- if the bank posts a further losses in FY22
- a slowdown in the low-cost granular retail liability accretion

## 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 | FY21 | FY20 |
|---|---|---|
| Total assets (INR billion) | 1,631.4 | 1,492.0 |
| Total equity base (INR billion) | 178.08 | 153.4 |
| Net profit (INR billion) | 4.52 | -28.6 |
| Return on assets (%) | 0.3 | -1.8 |
| Tier 1 ratio (%) | 13.3 | 13.3 |
| Capital adequacy ratio (%) | 13.7 | 13.4 |
| GNPA (%) | 4.2 | 2.6 |
| Source: IDFCFB | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook/Rating Watch | | | |
|---|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits (billion) | Rating | 7 August 2020 | 10 December 2019 | 17 July 2019 | 27 June 2018 |
| NCDs | Long term | INR184.93 | IND AA+/Negative | IND AA+/Negative | IND AA+/Negative | IND AA+/Negative | IND AA+/Stable |
| Infra bonds | Long-term | INR100 | IND AA+/Negative | IND AA+/Negative | IND AA+/Negative | IND AA+/Negative | IND AA+/Stable |
| Basel-III tier 2 debt | Long-term | INR20 | IND AA+/Negative | 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 | 15 September 2024 | INR0.50 | 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 | 8.8 | 27 January 2025 | INR2.00 | 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 | 8.9 | 9 April 2025 | INR2.50 | IND AA+/Negative |
| INE092T08451 | NCDs | 28 April 2010 | 8.9 | 28 April 2025 | INR3.50 | IND AA+/Negative |
| INE092T08469 | NCDs | 13 May 2010 | 8.95 | 13 May 2025 | INR5.00 | IND AA+/Negative |
| INE092T08485 | NCDs | 28 May 2010 | 8.84 | 28 May 2025 | INR2.00 | IND AA+/Negative |

| | | | | | | |
|---|---|---|---|---|---|---|
| INE092T08493 | NCDs | 15 June 2010 | 8.8 | 15 June 2025 | INR2.00 | IND AA+/Negative |
| INE092T08501 | NCDs | 8 July 2010 | 8.8 | 8 July 2025 | INR2.00 | IND AA+/Negative |
| INE092T08519 | NCDs | 21 July 2010 | 8.8 | 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 | WD(Paid in Full) |
| 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 | INR0.8 | WD(Paid in Full) |
| 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 | WD(Paid in Full) |
| INE092T08584 | NCDs | 29 September 2010 | 8.82 | 29 September 2025 | INR2.60 | IND AA+/Negative |
| INE092T08592 | NCDs | 19 November 2010 | 8.9 | 19 November 2025 | INR2.60 | IND AA+/Negative |
| INE092T08600 | NCDs | 2 December 2010 | 8.89 | 2 December 2020 | INR3.06 | WD(Paid in Full) |
| INE092T08618 | NCDs | 27 December 2010 | 9.05 | 27 December 2020 | INR3.39 | WD(Paid in Full) |
| 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 | WD(Paid in Full) |
| INE092T08AQ0 | NCDs | 28 March 2011 | 9.33 | 28 March 2026 | INR2.15 | IND AA+/Negative |
| INE092T08CG7 | NCDs | 21 February 2011 | 8 | 21 February 2021 | INR1.03 | WD(Paid in Full) |
| INE092T08CH5 | NCDs | 21 February 2011 | 8.01 | 21 February 2021 | INR3.36 | WD(Paid in Full) |
| INE092T08CI3 | NCDs | 30 March 2011 | 8.25 | 30 March 2021 | INR0.34 | WD(Paid in Full) |
| INE092T08CJ1 | NCDs | 30 March 2011 | 8.25 | 30 March 2021 | INR1.08 | WD(Paid in Full) |
| INE092T08CM5 | NCDs | 21 March 2012 | 8.7 | 21 March 2022 | INR1.08 | IND AA+/Negative |
| INE092T08CN3 | NCDs | 21 March 2012 | 8.7 | 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 | 30 December 2021 | INR0.74 | IND AA+/Negative |
| INE092T08CL7 | NCDs | 30 December 2011 | 9 | 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 | 9.3 | 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 |
| INE092T08BT2 | NCDs | 27 February 2015 | 8.52 | 27 February 2025 | INR3.00 | 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 | 8.7 | 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 | 8.7 | 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 | INR184.93 | |

| 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

| Instrument Type | Complexity |
|---|---|
| Infra bonds | Low |
| Basel III Tier 2 debt | Low |
| NCDs | Low |

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

## SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## DISCLAIMER



## Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies

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