IDFC FIRST Bank Q1 FY22 results:

Core Pre- provisioning Operating Profit highest ever at Rs. 601 Crore

Bank takes prudent provisions for COVID second wave. Expects provisions to taper off for FY 22.

Mumbai, July 31, 2021:

Financial results at a glance

The Board of Directors of IDFC FIRST Bank, in its meeting held today, approved the unaudited financial results for the quarter ended June 30, 2021.

Summary of Results

- **Total Income** grew by 36% YoY basis to reach Rs. 3,034 crore in Q1 FY22.
- **Core PPOP (excluding Treasury Gains)** grew by 8% YOY to reach Rs. 601 crore.
- **Net Loss** of Rs. 630 crore for Q1-FY22 because of prudent provisions for COVID wave 2.0.
- **Covid provision** pool increased from Rs. 375 crore to Rs. 725 crore during the current quarter on a prudent basis to act as a cushion for Covid impact**.**
- **NII:** Strong growth by 25% on a YoY basis to reach Rs. 2,185 crore in Q1-FY22.
- **NIM%**: Highest ever at 5.51% in Q1-FY22 as compared to 4.86% in Q1-FY21.
- **CASA ratio**: 50.86%% as of June 30, 2021, as compared to 33.74% as of June 30, 2020.
- **CASA balance**: Grew by 98% YoY basis to reach Rs. 46,439 crore, despite 200 bps reduction in the peak savings rate in the last 6 months.
- **Customer Deposits:** Rs. 84,893 crore (grew by 36% YoY).
- **Funded Assets:** Rs. 1,13,794 crore (grew by 9% YoY).
- **Retail Loan Assets:** Rs. 72,766 crore (grew by 27% YoY excluding ECLGS portfolio).
- **Asset quality**: GNPA and NNPA at 4.61% and 2.32% respectively (Reported PCR at 50.86%). Including COVID provisions of Rs. 725 crore, the PCR would be 66.40% at June 30, 2021.
    - GNPA and NNPA include impact of 84 bps and 71 bps respectively on account of one Mumbai based infra toll account which slipped during the quarter. The Bank expects no material economic loss in this account eventually as this is an operating toll road and is only delayed. This was already part of the identified stressed asset list disclosed in the previous periods. Excluding this account, the PCR (including COVID provisions) would be 77.23%.
- **Capital Adequacy Ratio**: Strong at 15.56% with CET-1 Ratio at 14.86%
- **Average Liquidity Coverage Ratio (LCR)**: Average LCR at 166% for Q1-FY22.

<u>DETAILED NOTE ON BUSINESS & FINANCIAL PERFORMANCE OF THE BANK</u>

<u>Earnings</u>

- **Net Interest Income (NII)**: Net Interest Income (NII) grew by 25% YOY to Rs. 2,185 crore, up from Rs. 1,744 crore in Q1 FY21. The sequential Q-o-Q NII grew by 11%.
- **Net Interest Margin (NIM%) (quarterly annualized):** NIM% reached healthy levels at 5.51% in Q1 FY22 from 4.86% in Q1 FY21 and 5.09% in Q4 FY21 as the cost of funds further reduced.
- **Fee and Other Income** (without trading gains) increased 203% YOY to Rs. 449 crore in Q1 FY22 as compared to Rs. 148 crore in Q1-FY21. However, it was lower by 25% on sequential basis, because of lockdowns relating to the COVID second wave.
- **Total Income** (net of Interest Expense) grew 36% YOY at Rs. 3,034 crore for Q1-FY22 as compared to Rs. 2,229 crore for Q1-FY21, driven by the growth in NII and fee income.
- **Core Pre-Provisioning Operating Profit** (excluding the trading gains) grew by 8% YOY basis to reach highest levels ever, at Rs. 601 crore, for the quarter Q1-FY22.
- **Provisions:** The Bank has created additional COVID-19 provisions of Rs. 350 crore during the quarter taking the total COVID-19 provision pool to Rs. 725 crores. The Bank believes that the full estimated impact of COVID wave 2 is now provided for in the books of the Bank.
    - There was no moratorium provided to customers during COVID 2nd wave and thus there was ageing provisions that were required to be taken as per our conservative provisioning norms. The Bank believes that these provisions may not reflect actual economic loss but represent a delay in timing of repayments.
    - We believe cash flow of these customers have got affected due to lockdowns in Covid second wave in Q1-FY22. However, a reasonable proportion among them are likely to pay back their dues when economy normalizes.
    - The Bank has already taken provision of Rs. 1,879 crore during Q1 FY22. Based on the recent portfolio quality indicators (latest cheque bounce trends, collection efficiency, vintage analysis) we expect the provisions to taper off from here for the rest of the year (assuming no Covid third wave).
    - The annualized credit cost for FY22 is expected to be less than 2.5% of average funded assets.

- **Profitability:** As result of the higher provisioning on account of COVID, the net loss for Q1 FY22 was at Rs. 630 crore as compared to Net Profit of Rs. 94 crore in Q1 FY21. The bank expects to collect reasonable proportion of these dues in due course.

Liabilities – Positive growth despite sharp rate cut in Savings Accounts

The Bank continues to have a strong liability and deposits franchise

- **CASA Deposits** posted strong growth, rising 98% YoY to Rs. 46,439 crore as on June 30, 2021, as compared to Rs. 23,491 crore as on June 30, 2020 despite the Bank reduced the peak saving rates by 100 bps in Q4-FY21 followed by another 100 bps reduction in peak savings rate with effect from May 1, 2021.
- **CASA Ratio** was at 50.86% as on June 30, 2021, as compared to 33.74% as on June 30, 2020. The CASA ratio was at 51.75% as on March 31, 2021.
- The **Average CASA Ratio** (calculated on daily CASA balance) during the quarter was healthy at 50.3% as on June 30, 2021 as compared to 32.0% as on June 30, 2020.
- The total **Customer Deposits** increased by 36% to Rs. 84,893 crores as of June 30, 2021, as compared to Rs. 62,409 crore as of June 30, 2020.
- The Bank increased customer deposits with **outstanding balance of Rs. 5 crore and below** to 82% of the overall customer deposits as on June 30, 2021, as compared to 65% as on June 30, 2020 which has significantly diversified and strengthened the deposit base.
- **The Fixed Deposits** of the Bank have the highest rating "FAAA/Stable" by CRISIL.
- As of June 30, 2021, the Bank has 601 branches and 703 ATMs (including 94 Recyclers) across the country.

Loans and Advances

- **Total Funded Loan Assets** stood at Rs. 1,13,794 crore as on June 30, 2021, compared to Rs. 1,04,050 crore as on June 30, 2020, and as compared to Rs. 1,17,127 crore as on March 31, 2021. The QoQ reduction in the overall funded asset was primarily due to lower disbursals during the quarter as it was impacted by COVID 2.0 during April and May 2021. The overall retail book disbursals in Q1-FY22 were 53% of the disbursals done in Q4-FY21. The Bank expects disbursements to pick up from Q2 FY22 onwards.
- **Retail Loan Book**, increased to Rs. 72,766 crore as on June 30, 2021, compared to Rs. 56,043 crore as on June 30, 2020. The year-on-year growth of the Retail Loan Book was 27% excluding Emergency Credit Guarantee Line loan book of Rs. 1,645 crore. However, it declined by 1.2% on a sequential basis
- Retail loans including retail PSL portfolio constitute **68% of the overall funded assets**.
- **Wholesale Loan Book** reduced by 15% from Rs. 40,275 crore as of June 30, 2020, to Rs. 34,232 crore as of June 30, 2021.

- Within the wholesale segment, the **Infrastructure loan book** reduced by 23% to Rs. 10,346 crore as on June 30, 2021, from Rs. 13,416 crore as on June 30, 2020, and reduced by 4% from Rs. 10,808 crore at March 31, 2021.

- **Infrastructure financing book as % of overall funded assets** has now reduced to just 9.09% of funded assets as on June 30, 2021, as compared to 12.89% as on June 30, 2020, and as compared to 21.7% at the time of merger.
- **The bank reduced concentration risk by reducing the exposure to Top 10 borrowers** as % of the total funded assets to 5.8% as on June 30, 2021, as compared to 7.3% as on June 30, 2020, and as compared to 5.9% as on March 31, 2020.

Asset Quality: The Asset Quality trends of the Bank for different segments provided below –

Particulars	Dec-19 (Pre-Covid) (A)	Mar-21 (Post Covid 1.0) (B)	Jun-21 (During Covid 2.0) (C)	Change from Pre-Covid Levels (C – A) (in bps)	PCR (%) As of 30 Jun 21
Retail					
GNPA	2.26%	4.01%	3.86%	160	**53.84%**
NNPA	1.06%	1.90%	1.82%	76	
Corporate (Non-Infra)					
GNPA	3.08%	3.98%	2.91%	(17)	**57.60%**
NNPA	1.58%	1.92%	1.25%	(33)	
Infrastructure					
GNPA	4.69%	5.76%	15.65%	1,096	**41.13%**
NNPA	1.23%	1.35%	9.84%	861	
Total					
GNPA	2.83%	4.15%	4.61%	178	**50.86%**
NNPA	1.23%	1.86%	2.32%	109	

- Due to COVID-19 second wave, there were strict lockdowns across the country in April and May 21, and in part of June-21 including in major states like Delhi, Maharashtra, West Bengal, Tamil Nadu, Karnataka. This impacted the operations of the Bank, especially in terms of disbursals and collections as the logistical challenges increased due to lockdowns. At the same time, there was no moratorium, leading to slippages during the quarter.
- The NPA% mentioned above includes one infrastructure loans (Mumbai Toll Road account) which became NPA during the quarter with Rs. 854 crore outstanding, due to the impact on toll collections following COVID-19 second wave.
- This toll road account continued to repay its dues, partially, even during this quarter which was affected by second wave (Q1-FY22), the principal outstanding has come down by Rs. 19 crore during Q1 FY22. The Bank carries Rs. 154 crore provision on this account. This account was already disclosed under the identified stressed asset list.

- The slippage of this account led to an increase in GNPA by Rs. 854 crores, and a corresponding reduction in the Identified Stress Asset List. Bank expects to collect our dues in due course from this entity as this is an operating toll road entity and does not expect any material economic loss on this account.
- Thus, excluding the impact of the said Mumbai based infra Toll road account, the GNPA and NNPA as of June 30, 2021 would have been 3.77% and 1.61% with PCR of 58.22%.
- With this account moving to NPA, the proactively identified Stress Assets pool of the Bank now stands reduced to Rs. 1,371 crore as on June 30, 2021 from Rs. 3,195 crore as on June 30, 2020, a reduction of 57%, for which the Bank holds provision cover of 67%.
- Including the COVID provision of Rs 725 crore as of June 30, 2021, the PCR would improve to 66.40% and without the effect of the Mumbai based road toll account where we expect to collect our dues in due course, it would be 77.23%.
- Further, the Bank has seen improvement in key indicators, like (a) Improving customer profile for on-boarding (b) improving cheque bounce trends of portfolio (c) improving collection efficiencies and improved vintage analysis indicators. Based on the above portfolio analysis of these key indicators, the bank is confident of reducing Gross NPA and NPA to pre-COVID levels and expects to reduce annualized credit costs to less than 2% by Q4 FY22 for the retail loan book.
- The Bank was sensitive to customers affected by COVID during this quarter. Standard restructured outstanding portfolio (under the COVID-19 relief package provided by the RBI) in retail loans was 1.81% of the overall Retail Loan Book as of June 30, 2021. Restructuring for the overall portfolio stood at 2.01% of the total Funded Assets.

Capital and Liquidity Position

- **Capital Adequacy** of the Bank was strong at 15.56% with CET-1 Ratio at 14.86% as compared to regulatory requirement for the Capital Adequacy Ratio of 10.875% and for CET-1 Ratio of 7.375%. During the quarter, the Bank has successfully raised equity capital of Rs. 3,000 crore on April 06, 2021.
- **Average LCR** was strong at 166% for the quarter ending on June 30, 2021.

Mr. V Vaidyanathan, Managing Director and CEO, IDFC FIRST Bank, said, “Within just two years we have made tremendous progress at the bank. Our CASA ratio is high at 50.86% despite reducing savings account interest rates by 200 bps recently, which points to the trust customers have in our Bank and service levels. Because of our low cost CASA, we can now participate in prime home loans business, which is a large business opportunity.”

"Regarding the loss during the quarter, we have made prudent provisions for COVID second wave, and expect provisions to reduce for the rest of the three quarters in the FY 22. We guide for achieving pre-COVID level Gross and Net NPA, with targeted credit loss of only 2% on our retail book by Q4 FY 22 and onwards, assuming no further lockdowns."

"Our Core Operating Profits even without treasury operations have reached the highest ever level at Rs. 601 crore. Thus from now on, with reduced expected provisions, the Bank will be well on its path of creating a wonderful profitable franchise."

About IDFC FIRST Bank

IDFC FIRST Bank was created by the merger of IDFC Bank and Capital First in December 2018. The Bank provides a range of financial solutions to individuals, small businesses and corporates. The Bank offers savings and current accounts, NRI accounts, salary accounts, demat accounts, fixed and recurring deposits, home and personal loans, two-wheeler loans, consumer durable loans, small business loans, forex products, payment solutions and wealth management services. IDFC FIRST Bank has a nationwide presence and operates in the Retail Banking, Wholesale Banking and other Banking segments. Customers can choose where and how they want to Bank: 601 Bank liability branches, 161 asset branches, 609 ATMs and 94 recyclers and 623 rural business correspondent centres across the country, net Banking, mobile Banking and 24/7 Customer Care services. The Bank is rated FAAA by CRISIL for the Fixed Deposit Program.

Cautionary Statement

"Statements made in this release may contain certain forward-looking statements based on various assumptions on the Bank's present and future business strategies and the environment in which it operates. Actual results may differ substantially or materially from those expressed or implied due to risk and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and abroad, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the Bank's businesses as well as the ability to implement its strategies. The information contained herein is as of the date referenced

and the Bank does not undertake any obligation to update these statements. The Bank has obtained all market data and other information from sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed.”