IDFC First Bank Limited (Revised)

October 06, 2021

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long term Debt Instrument	4,696.98 (Reduced from 5,832.68) (Rupees Four Thousand Six Hundred Ninety Six and Ninety Eight Lakh only)	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term debt instruments of IDFC FIRST Bank Limited (IDFC FIRST) continues to factor in the experience of the management, comfortable capitalisation levels, comfortable liquidity profile, increasing diversification and granularization of advances post the merger with a shift towards retail lending and the gradual reduction of the legacy corporate and infrastructure lending book. The ratings also factor in the diversification in the resources profile as the bank has been able to build its deposit base with a focus towards garnering Current Account Savings Account (CASA) deposits; albeit its cost of deposit remained higher as compared to peer banks.

The rating is constrained on account of challenges in asset quality, on account of legacy infrastructure advances and wholesale loan book as well as stress witnessed on account of the second Covid-19 wave which has seen slippages in the retail and corporate advances, relatively higher operating cost as the bank is establishing its retail franchise, elevated credit cost with higher provisioning on the stressed book which has impacted the improving profitability profile of the bank. The profitability is expected to remain moderated in the near term and expected to improve in the medium term as the bank establishes its retail franchise and continues to have a stable depositor base with reduction in credit costs.

Rating Sensitivities

Positive factors: Factors that could lead to positive rating action/upgrade:

- Steady state and sustainable improvement in market positioning and resource profile with a higher share of retail deposits
- Improvement in operating performance and improvement in profitability on sequential basis with ROTA improving above 1% on sustained basis

Negative factors: Factors that could lead to negative rating action/downgrade:

- Higher than expected deterioration in asset quality with gross NPA level increasing to above 8% and thereby impacting earnings profile
- Decline in CASA ratio below 35% on a sustained basis.
- Deterioration in capitalisation levels CET I ratio below 11%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

Post the merger of the bank, the bank is led by Mr. V. Vaidyanathan (Managing Director & Chief Executive Officer; MD & CEO). Mr. Vaidyanathan is the former Chairman & MD of Capital First Limited (CFL) and has over 25 years of experience in the banking and financial services space having worked with organizations like Citibank and the ICICI group and has held positions of Executive Director at ICICI Bank and was also MD & CEO of ICICI Prudential Life Insurance Company. RBI has approved the re-appointment of Mr. V. Vaidyanathan as the MD & CEO of the bank for a period of 3 years (Dec.19, 2021 to Dec.19, 2024) which has received share-holders approval in the AGM held on Sept. 15, 2021. The key management people in the operating team individually have extensive and relevant experience of more than 20 years each in financial services sector.

Comfortable capitalization in spite of elevated credit cost, supported by equity raise

The bank has been maintaining comfortable capitalisation levels to support the growth in business as well as to have cushion to absorb credit costs. During FY21 (refers to period from April 01 to March 31), the bank raised equity capital of Rs.2,000 crore by way of preferential allotment of equity shares. The bank reported Capital Adequacy Ratio (CAR) of 13.77% with Tier I CAR (entirely Common Equity Tier I (CET I) of 13.27% as compared to CAR of 13.38% with Tier I CAR of 13.30% as on March 31, 2020. During April, 2021, the bank raised additional equity capital of Rs.3,000 crore from marquee Foreign Institutional Investors (FIIs) and Domestic Financial Institutions (DIIs) by way of Qualified Institutional Placement (QIP) of equity shares. As a result, the bank's CAR increased to 15.56% with Tier I CAR of 14.86% as on June 30, 2021, despite loss reported during Q1FY22 (refers to period from April 01 to June 30) on account of higher provisioning. The bank is expected to maintain CAR of over 13% with CET I Ratio of 12.5% on a steady state basis. The bank has demonstrated its ability to raise capital and maintaining comfortable capitalisation levels as the bank scales up its retail franchise would remain a key rating sensitivity.

Increasing diversification and granularization of advances with a shift towards retail lending

Post the merger of IDFC Bank with CFL in December 2018, the bank has been focussed in diversifying its advances book with increase in the retail advances and gradually moderating and balancing the corporate lending book with steady decline in infrastructure lending book. The bank's retail funded book has increased from around Rs.40,812 crore as on March 31, 2019 to Rs.72,766 crore as on June 30, 2021 as the bank has increased the retail book with products like home loans, loan against property (LAP), SME loans, vehicle loans, consumer loans and entered credit cards during FY21. The bank's wholesale funded assets have decreased from around Rs.53,649 crore with infrastructure lending book of Rs.21,459 crore as on March 31, 2019 to around Rs. 32,148 crore with infrastructure lending book of Rs.10,346 crore as on June 30, 2021. The proportion of retail funded assets has increased to around 64% (March 31, 2021: 63%) of total funded assets as on June 30, 2021 from around 54% as on March 31, 2020.

Diversification in the resource profile as the bank has been able to garner deposits and reducing the proportion of build its depositor base

The bank has seen its deposits grow in the last three years to Rs.91,312 crore as on June 30, 2021 from Rs.70,479 crore as on March 31, 2019 (March 31, 2020: Rs.65,108 crore). After seeing a de-growth in FY20 as the Bank reduced dependency on Corporate Deposits and Certificate of Deposits, the bank's total deposits have grown by 36% during FY21 with Current Account Savings Account (CASA) deposits increasing by 119% during the year to reach around Rs.45,896 crore as on March 31, 2021 constituting 51.75% (P.Y.: 32.16%) of total deposits. The bank has been reducing its reliance on Certificate of Deposit (CD) from Rs.28,754 crore as on March 31, 2019 constituting around 42% of total deposits to Rs.5,964 crore as on March 31, 2021 constituting around 6.72% of total deposits. Further, the bank has seen reduction in the proportion of its wholesale deposits from around 43% as on June 30, 2020 to 28% as on June 30, 2021.

The bank has managed to retain the large retail CASA base even after substantial reduction of almost 200 Bps from peak Saving account interest rates over a six month period. Recently, the Bank has also reduced the interest rate for the Term Deposits and is at par with its large peers. However, maintaining a stable CASA base and Retail Term Deposits on a sustainable basis and bringing down the cost of deposit would be a key monitorable for the bank.

Key Rating Weakness

Moderate profitability on account of higher operating and credit cost

For the year ended FY21, the bank's net interest income has improved by 21%% to Rs.7,380 crore as the cost of funds reduced due to increase in proportion of deposits in total fund base. Accordingly, the Net Interest Margin (NIM) improved by about 89Bps to 4.79%. The bank's operating expenses has increased by 21% to Rs.7,093 crore during FY21 and remains considerably higher than its peers at opex. / ATA of about 4.6% as the bank expanded its branches and employee strength as well as invested in building digital capabilities during the last 2 years. Accordingly, the operating profit improved by 31.18% to Rs.2,541 crore. The bank's provisioning cost declined by 52.15% to Rs.2,065 crore, majorly due to partial reversal of provision created on a stressed account. As a result, the bank reported profit after tax (PAT) of Rs.452 crore on a total income of Rs.18,222 crore for FY21 as against net loss of Rs.2,864 crore on a total income of Rs. 18,030 crore.

During Q1FY22, the bank's operating profit improved by 12.22% to Rs.1,001 crore supported by strong income growth and decline in interest expense. The bank has reported a loss of Rs.630 crore on a total income of Rs.4,938 crore as on 30th June 2021 as against profit of Rs.94 crore on a total income of Rs.4,434 crore as on 30th June 2020 as the company has taken provisioning hit of Rs.764 crore during the quarter, including additional COVID related provisions of Rs.350 crore during Q1-FY22 to carry forward a total COVID-19 related corpus of Rs. 725 crore.

As the bank is expanding its retail operations, the operation costs are expected to remain high in the near term. Further with asset quality witnessing stress, credit cost is expected to remain at elevated levels. The incremental credit cost would decline if the bank sees improvement in collection during the remaining quarters of the year. However, with the credit cost upfronted in the first quarter, the profitability for FY22 would remain muted.

Moderation in asset quality

The bank's Gross NPA (GNPA) has increased to Rs.4,303 crore as on March 31, 2021 from Rs.2,280 crore as on March 31, 2020 on account of rise in slippages in the retail loan book. The bank reported Retail GNPA ratio at 4.01% as on March 31, 2021 as against 2.27% as on December 31, 2019. Accordingly, the bank has reported a GNPA ratio at 4.15% as on March 31, 2021 as against 2.60% as on March 31, 2020. The bank's provisioning coverage ratio has declined from 64.53% as on March 31, 2020 to 56.23% as on March 31, 2021 without considering additional COVID provisioning of about Rs.375 crore. Consequently, the Net NPA ratio has increased from 0.94% as on March 31, 2020 to 1.86% as on March 31, 2021.

The bank has reported slippages of Rs.2,847 crore during Q1FY22, mainly because of impact of second wave of COVID and one Mumbai based toll road account with Rs.854 crore of outstanding balance slipped because of impact in collections COVID second wave. The bank expects to collect its dues in due course as it is an operating toll road entity and does not expect material economic loss on the account, even as the bank carries a provision of Rs.154 crore on the account. Accordingly, the bank reported a GNPA and NNPA at 4.61% and 2.32% respectively. Bank also holds cumulative COVID-19 provision of Rs.725 crore as on June 30, 2021. However, in the retail segment which has been impacted by the COVID-19 wave 2 across the industry and peer banks, the Bank has reported GNPA of 3.86% as of June 30, 2021 as compared to 4.01% as of March 31, 2021. The NNPA in the retail segment improved to 1.82% as of June 30, 2021 from 1.90% as of March 31, 2021.

The bank has a standard restructured book of Rs.2,834 crore i.e. 2.80% on gross advances [Rs.1,895 crore (i.e. 1.87%) of restructuring was done under both COVID-19 resolutions scheme] as on June 30, 2021. The bank has maintained total provision at 17% of the standard restructured book. The standard restructured outstanding portfolio (under COVID-19 resolution scheme) in retail loans stood at 1.81%

of the overall retail book. Also, the Bank's retail loan book included Guaranteed Emergency Credit Line ECLGS outstanding amount of Rs.1,645 crore as on June 30, 2021.

The net stressed asset [Net NPA + Net Standard Restructured Assets + Net Security Receipts + Net Stressed Pool (as identified by the bank)] to net worth stood at 31% as on June 30, 2021 and any material slippages impacting the asset quality parameters and requiring higher provisioning would be a key rating sensitivity.

Liquidity Profile: Strong

The bank's liquidity profile as on June 30, 2021 had no cumulative mismatches up to 1 year. The bank's daily Liquidity Coverage Ratio was comfortable at 166% and 153% for quarter ended June 30, 2021 and March 31, 2021. Its daily average High-Quality Liquid Assets (HQLA) stood at Rs.31,731 crore and Rs.30,132 crore for quarter ended June 30, 2021 and March 31, 2021. The bank also has access to borrowing from RBI's Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) along with cash reserves with RBI which provide comfort in meeting any liquidity pressures.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE Policy on Default Recognition
Rating Methodology – Banks
Criteria for Rating Basel III - Hybrid Capital Instruments issued by Banks
Financial Ratios – Financial Sector

About the bank

IDFC FIRST Bank Limited was incorporated in October 2014 and the name of the bank underwent a change from 'IDFC Bank Limited' (IBL) to 'IDFC FIRST Bank Limited' with effect from January 12, 2019 following the merger of Capital First Limited with the bank. The merger of Capital First Limited and its two subsidiaries with IDFC Bank Limited has become effective from December 18, 2018. Post-merger, IDFC Limited held 40% stake in IDFC First Bank as the promoter which has come down to 36.56% as on June 30, 2021.

IDFC First Bank's (IFB) operations are spread across its three business verticals: corporate banking, consumer banking and rural banking. As on June 30, 2021, it has a network of 601 branches and 703 ATMs across the country. The bank is led by MD-CEO, Mr. V. Vaidyanathan, who has over 25 years of banking experience across Citibank and ICICI Bank Group.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total Income	18,030	18,222
PAT	(2,864)	452
Total Assets*	1,47,180	1,61,144
Net NPA (%)	0.94	1.86
ROTA (%)$	(1.84)	0.29

*A: Audit; * Total Assets is net of deferred tax asset and intangible assets*
$Ratio has been computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/ facilities

Name of the Instrument	ISIN No	Date of Issuance	Coupon Rate	Maturity date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	-	-	-	-	692.38	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08012	28-02-2013	10.30	28-02-2023	100.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08020	28-02-2013	10.30	28-02-2023	50.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08038	08-03-2013	11.00	08-03-2099	95.30	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08046	14-03-2013	11.00	14-03-2099	24.50	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08053	17-05-2013	9.50	17-05-2028	49.50	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08061	24-05-2013	10.65	24-05-2099	15.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08079	23-09-2014	10.50	23-09-2099	49.70	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08087	29-09-2015	9.40	29-09-2025	50.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08095	30-10-2015	9.25	30-10-2025	74.90	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08103	20-11-2015	9.25	20-11-2025	25.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08111	15-12-2015	9.25	15-12-2025	25.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08129	29-12-2015	9.25	29-12-2025	35.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08145	01-03-2016	10.50	01-03-2099	60.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DB6	31-05-2016	9.10	31-05-2023	20.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08152	06-06-2016	9.75	06-06-2099	30.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DD2	13-06-2016	9.10	13-06-2023	7.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DG5	19-07-2016	9.15	19-07-2023	35.20	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08160	25-07-2016	9.24	24-07-2026	30.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DI1	15-09-2016	8.70	15-09-2021	20.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DL5	20-09-2016	8.70	20-09-2021	15.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DM3	20-09-2016	8.75	18-09-2026	25.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DR2	28-10-2016	8.55	28-10-2021	20.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DS0	21-12-2016	8.50	21-12-2021	100.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DX0	05-04-2017	8.40	05-04-2022	300.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EB4	03-05-2017	8.40	03-05-2022	180.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EC2	03-05-2017	8.45	03-05-2024	70.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EJ7	27-06-2017	8.25	27-06-2022	50.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EK5	14-07-2017	8.25	14-07-2022	460.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08178	24-08-2017	8.25	24-08-2027	147.30	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08186	18-09-2017	8.6	18-09-2099	78.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EU4	29-09-2017	8.25	29-09-2022	100.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EN9	08-12-2017	8.25	08-12-2022	175.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08ES8	04-05-2018	8.24	15-05-2023	340.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08194	07-06-2018	9.10	07-06-2024	30.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08202	07-06-2018	9.10	06-06-2025	70.00	CARE AA; Stable

Name of the Instrument	ISIN No	Date of Issuance	Coupon Rate	Maturity date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Debentures- Non Convertible Debentures	INE092T08EV2	12-12-2018	8.38	10-12-2021	349.40	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EW0	12-12-2018	8.60	12-12-2022	349.40	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08EX8	12-12-2018	8.69	12-12-2023	349.40	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Borrowings-Secured Long Term Borrowings	LT	**4696.98**	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-20)	1)CARE AA+; Negative (04-Mar-20)2)CARE AA+; Negative (11-Oct-19)	1)CARE AA+; Stable (28-Mar-19)
2	Short Term Instruments-Short Term Borrowing	ST	-	-	-	1)Withdrawn (30-Oct-20)	1)CARE A1+ (04-Mar-20)2)CARE A1+ (11-Oct-19)	1)CARE A1+ (28-Mar-19)

Annexure-3: Detailed explanation of covenants of the rated instruments – N.A.

Annexure-4: Complexity levels of the rated instrument

Sr. No.	Name of the Instrument	Complexity Level
1.	Borrowings-Secured Long Term Borrowings	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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