

IDFC FIRST Bank Limited

October 08, 2020

Ratings

Instruments/Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long term debt instruments	5,832.68 (Reduced from 10,226.78) (Rupees Five Thousand Eight Hundred Thirty Two Crore and Sixty Eight Lakhs only)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA+; Negative (Double A Plus; Outlook: Negative)

Detailed Rationale & Key Rating Drivers

The revision of rating assigned to long term debt instruments of IDFC FIRST Bank Limited (IDFC FIRST) takes into account further moderation in profitability during FY20. Further, it takes into account relatively weaker profitability and higher cost of funding compared to peers. The rating continues to factor in the experienced management of the bank, comfortable liquidity profile, adequate capitalization, comfortable asset quality albeit some moderation and diversified loan book with increasing proportion of retail advances and retail liabilities. The rating is, however, constrained by bank's relatively lower CASA proportion to total liability compared to peers; the same however is gradually ramping up with good growth over a short period of time and bank's moderate profitability. The rating also factors presence in high yielding retail segment which may be impacted by current economic slowdown.

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 sustainable basis

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

- Higher than expected deterioration in asset quality with adjusted gross NPA level increasing to above 8% and thereby impacting earnings profile
- Lower than expected improvement in granular retail liability franchise from existing levels
- Deterioration in capitalisation levels CET1 ratio dropping below 11%

Detailed description of the key rating drivers
Key Rating Strengths
Experienced management

The bank is led by CEO and Managing Director, Mr. Vaidyanathan, former Chairman & MD of Capital First Limited (CFL), who has over 25 years of experience working with organizations like Citibank and ICICI Group. He was earlier the Executive Director on the Board of ICICI Bank and was also MD and CEO of ICICI Prudential Life Insurance Company. He has over 25 years of experience in the financial services sector. The Board of Directors also has nominees from Government of India and IDFC Limited along with six independent directors. The key management people in the operating team individually have extensive and relevant experience of more than 20 years each in financial services sector.

Adequate capitalization

Tier-I capital adequacy ratio (CAR) and overall CAR stood at 13.30% and 13.38%, respectively, as on March 31, 2020 (15.27% and 15.47%, respectively, as on March 31, 2019) against the regulatory requirement of overall CAR of 10.875%. Capitalization is supported by demonstrated ability to raise capital. As on June 30, 2020, CAR improved to 15.03% (Tier-I CAR: 14.58%) as the bank raised Rs.2,000 crore of equity capital through preferential route for further strengthening the capital base.

Comfortable asset quality albeit some moderation

While provisions on watch list accounts have increased post-merger, gross NPAs percentage has remained stable. The Gross NPA ratio and Net NPA ratio of the bank stood at 2.60% and 0.94% respectively as on March 31, 2020 against 2.43% and 1.27% respectively as on March 31, 2019. Slippage ratio for FY20 stands at 3.08% compared to 3.32% for FY19. Net stressed asset (NNPA + Net Standard Restructured assets + Net Security Receipts) to net worth was ~13% as on March 2020 (PY: 14%). The bank has reported provision coverage ratio of 65% as on March 31, 2020 compared to 48% as on March 31, 2019. The bank written off loans of Rs.1,510 crore during FY20 and hence adjusted GNPA (GNPA+ write offs) stood at 4.25% as on March 31, 2020.

With respect to the COVID-19 situation, about 28% of the customers by value have availed the moratorium benefit as on June 30, 2020, down from the level of 35% in March 2020. The level of moratorium availed by the bank's customers is at the

higher end within the Private Banks peer group. The bank made a COVID19-related provision of Rs.225 crore for the quarter ended March 31, 2020, and a further provision of Rs.375 crore for the quarter ended June 30, 2020. Thus, the aggregate provision made till date stands at Rs.600 crore. As on June 30, 2020, the Gross NPA ratio and Net NPA ratio of the bank stood at 1.99% and 0.51% respectively.

The bank plans to focus on granular retail asset segments. Over the medium term, the share of the retail portfolio is targeted to increase to around two-thirds of the portfolio. However, given the intense competition, ability to scale up this book while maintaining asset quality and profitability needs to be seen. Going forward, bank's ability to limit credit costs and improvement in asset quality with no major slippages on account of COVID-19 related disruption will remain a key rating monitorable.

Comfortable liquidity profile

IDFC FIRST has maintained a comfortable liquidity profile with liquidity coverage ratio of 128% as on June 30, 2020 against the regulatory requirement of 100%. 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.

Diversified loan book with increased proportion of retail/SME advances

The Funded asset portfolio of IDFC FIRST Bank as at March 31, 2020 stood at Rs.1,07,004 crore (PY: 1,10,400 crore) with 36.81% of wholesale advances (PY: 48.59%), 53.56% of retail advances (PY: 36.97%), 7.43% of PSL buyout portfolio (PY: 11.71%) and 2.20% others (PY: 2.73%). The loan book proportion has favorably tilted towards retail post-merger with CFL. Wholesale Book decreased by 27% from Rs.53,649 crores as on March 31, 2019 to Rs.39,388 crores as on March 31, 2020. Within Wholesale Book, the Infrastructure loans decreased by 31% from Rs.21,459 crores as on March 31, 2019 to Rs.14,840 crores as on March 31, 2020. As per the management, bank will focus on increasing the retail loan book while gradually downsizing the wholesale loan book.

Key Rating Weakness

Relatively lower CASA proportion to total liability compared to peers; the same however is gradually ramping up with good growth over a short period of time

As on March 31, 2020, total liabilities (borrowings+deposits) stood at Rs.1,22,227 crore which comprise of legacy long term bonds (9.83%), infra bonds (8.54%), refinance (12.06%), other borrowings (10.62%), CASA deposits (16.90%), term deposits (30.32%), certificate of deposits (5.82%) and money market borrowings (5.91%). The bank's liability profile is inclined towards wholesale borrowings which include legacy long term debentures and wholesale term deposits which constituted 44% of overall liability as on March 31, 2020 (53% as on March 31, 2019). As on March 31, 2020, the bank's deposits stood at Rs.65,108 crore compared to Rs.70,479 crore as on March 31, 2019. CASA deposits as percentage of total liabilities stands at 19.25% as on June 30, 2020 which is relatively lower compared to its peers. However, the bank has shown significant growth over a short period of time. Building the liability franchise is the top priority of the management and the bank has taken various steps and initiatives in this regard.

Bank is focusing on reducing deposit concentration by making deposit book more granular. Percentage of deposits of twenty largest depositors to total deposits has reduced from 35% as on Mar'19 to 23% as on Mar'20. Building a retail liabilities franchise on a steady state basis will be a critical determinant in building a stable business model.

Moderate profitability

The bank reported net loss of Rs.2,864 crore for FY20 as compared to net loss of Rs.1,944 crore for FY19 on account of increase in provisions and write-offs. On account of branch expansion, bank's operating expense ratio is higher compared to peers and stood at 3.48% for FY20 compared to 4.07% for FY19. Cost of funds remained high compared to peers at 7.78% for FY20 against 7.11% for FY19. Credit cost (provisions and write-offs/average adjusted assets) has increased substantially from 1.01% as on March 31, 2019 to 2.77% as on March 31, 2020 mainly on due to increased provisions on some of the identified stressed accounts identified and write-offs during FY20. During FY20, the bank saw growth of 37% in total income supported by growth of 76% in net interest income. The substantial increase in net interest income was majorly driven by high yielding retail loan assets. Despite high cost of legacy long-term bonds/debentures and wholesale deposits, net interest margin (NIM) improved from 2.21% for FY19 to 3.62% for FY20. The ROTA stood at -1.84% for FY20 (PY: -1.34%). The bank reported PAT of Rs.94 crore for Q1FY21 compared to loss of Rs.617 crore a year ago.

Mobilization of low cost CASA, replacement of bonds/debentures by deposits, increase in retail portfolio and reduction in credit cost will be the key driver for profitability.

Concentration risk in its wholesale lending portfolio and presence in high yielding retail segment which may be impacted by current economic slowdown

The bank has seen significant decline in proportion of advances in wholesale segment (Corporates & Infrastructure sector) and going forward would focus more on retail. However, Exposure to top 20 individual borrowers as % of total funded assets

stood at 19% and the exposure to top 20 groups as % of total funded assets stood at 29% as on March 31, 2020. Exposure to top 20 individual borrowers as % of tangible net worth stood at 154% and the exposure to top 20 groups as % of tangible net worth stood at 243% as on March 31, 2020. Further, exposure to top 20 individual borrowers as % of tangible net worth stood at 131% and the exposure to top 20 groups as % of tangible net worth stood at 204% as on June 30, 2020. Going forward, the bank's ability to improve the granularity of the loan book will be the key to decrease the concentration risk. As on June 30, 2020, retail funded assets stood at Rs.56,043 crore which comprise of mortgage loans (36%), consumer loans (34%), MSME loans (17%) and rural finance (12%).

Analytical Approach: Standalone

Applicable Criteria

[Rating of Short term instruments](#)

[Policy of Default Recognition](#)

[CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Financial Ratios-Financial Sector](#)

[Rating Methodology of Banks](#)

Liquidity Profile - Strong

IDFC FIRST has maintained a comfortable liquidity profile with liquidity coverage ratio of 128% as on June 30, 2020 against the regulatory requirement of 100%. 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.

Background

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. IDFC Limited holds 40% stake in IDFC FIRST Bank Limited as on June 30, 2020.

IDFC First Bank's (IFB) operations are spread across its three business verticals: corporate banking, consumer banking and rural banking. As on June 30, 2020, it has a network of 503 branches and 417 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)	FY19 (A)	FY20 (A)
Total Income	12,800	17,589
PAT	(1,944)	(2,864)
Total Assets*	1,64,365	1,46,907
Net NPA (%)	1.27	0.94
ROTA (%) [§]	(1.34)	(1.84)

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

Annexure I – Instrument Details

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	100.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08046	14-03-2013	11.00	14-03-2099	25.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08053	17-05-2013	9.50	17-05-2028	50.00	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	50.00	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	INE092T08CR4	23-10-2015	9.20	23-10-2020	15.00	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	INE092T08CS2	22-12-2015	9.25	22-12-2020	50.00	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	INE092T08CV6	22-01-2016	9.20	22-01-2021	195.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08CW4	29-01-2016	9.20	29-01-2021	50.00	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	INE092T08CX2	23-03-2016	8.73	28-05-2021	350.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08DA8	31-05-2016	9.10	31-05-2021	149.00	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	INE092T08DF7	30-06-2016	9.10	30-06-2021	99.00	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	INE092T08EI9	15-06-2017	8.38	15-06-2027	25.00	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	200.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE688I08186	18-09-2017	8.6	18-09-2099	80.00	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	INE092T08EP4	21-02-2018	8.40	22-02-2021	102.00	CARE AA; Stable
Debentures- Non Convertible Debentures	INE092T08ER0	27-03-2018	8.90	23-03-2021	40.00	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
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 II - 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Long term debt instruments	LT	5,832.68	CARE AA; Stable	CARE AA+; Negative (11-Oct-19)	CARE AA+; Stable (28-Mar-19)	-	-
2.	Short term debt instruments	ST	100.00	CARE A1+	CARE A1+ (11-Oct-19)	CARE A1+ (28-Mar-19)	-	-

Annexure III: Complexity levels of the rated instrument

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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.

Contact us

Analyst Contact 1

Name - Mr. Ravi Kumar
Contact no.- +91-22-6754 3421
Email ID - ravi.kumar@careratings.com

Analyst Contact 2

Name - Mr. Mitul Budhbhatti
Contact no.- +91-22-6754 3547
Email ID – mitul.budhbhatti@careratings.com

Business Development Contact

Name: Mr. Ankur Sachdeva
Contact no. : +91-22-6754 3495
Email ID - ankur.sachdeva@careratings.com

Media Contact

Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**