IDFCFIRSTBANK/SD/197/2021-22

December 12, 2022

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1, G-Block
Bandra-Kurla Complex, Bandra (East)
Mumbai 400 051
NSE Symbol: IDFCFIRSTB

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001
BSE Scrip Code: 539437

Sub.: 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 revised the Outlook on IDFC FIRST Bank Limited's debt instruments *(Basel III Tier 2 Bonds, Infrastructure Bonds and Non-Convertible Debt Instruments)* to 'Stable' from 'Negative' while re-affirming the ratings at '**IND AA+**'.

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
Date: 2022.12.12 17:49:23 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

IndiaRatings & Research
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India Ratings Revises Outlook on IDFC FIRST Bank's Debt Instruments to Stable; Affirms 'IND AA+'

Dec 12, 2022 | Private Sector Bank

India Ratings and Research (Ind-Ra) has revised the Outlook on IDFC FIRST Bank Limited's (IDFCFB) debt instruments to Stable from Negative while affirming the ratings at 'IND AA+'. The detailed rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/ Outlook	Rating Action
Basel III Tier 2 debt*	-	-	-	INR50	IND AA+/Stable	Affirmed, Outlook revised to Stable from Negative
Infrastructure bonds*	-	-	-	INR100	IND AA+/Stable	Affirmed, Outlook revised to Stable from Negative
Non-convertible debentures (NCDs)*	-	-	-	INR165.89 (reduced from INR177.30)	IND AA+/Stable	Affirmed, Outlook revised to Stable from Negative

*Details in Annexure

The Outlook revision reflects the likelihood of a continued traction in granular funding, the strengthening of its retail advance portfolio, a reduction in its infrastructure book, shoring up of its operating performance and stabilising the legacy issues of the asset quality.

Key Rating Drivers

Retail Book Driving Loan Portfolio Expansion; Reducing Concentration Risk Driving Margins: IDFCFB's retail and commercial finance book accounted for 75.4% of the total funded exposure in 2QFY23 (FY22:70.1%). The bank intends to continue focusing on expanding its retail loan portfolio, thereby increasing loan granularity, improving yields on its overall book. This would offset some of the impact of higher-than-peer funding cost and absorb above average operating cost. IDFCFB's net interest margin rose to 5.98% in 3QFY23 (FY22:5.96%; FY21: 5.03%; FY20: 3.91%), driven by the retailisation of the loan book, a moderation of cost of funds and higher share of high-yielding loan book.

Retail Liabilities and Repricing of Legacy Borrowing Reduces Funding Cost: In 2QFY23, IDFCFB's current account saving accounts (CASAs) accounted for 35.3% (FY22: 32.3%; FY21: 34.1%) of the total liabilities (deposits + borrowing). IDFCFB's top 20 deposit-to-total deposits moderated to 14.99% in 2QFY23 (FY22: 16.06%; FY21: 9.97%), thereby improving its granularity, in line with its peers. The CASA ratio stabilised at 48.4%-51.8% in the past seven quarters, while it stood at 51.3% in 2QFY23 (FY20: 31.9%). The agency expects the bank to strengthen its granular funding franchise, which would be a key ratng monitorable. This is especially important in the current rising interest rate scenario where banks' deposit growth has been lagging behind their credit growth, leading to banks having to bear with higher interest costs. While the bank's cost of funds has moderated from the historical levels, IDFCFB's borrowing cost is likely to remain higher than that of its peers in medium term, due to its historically high-cost fixed rate borrowings and its quest for raising more granular deposits, thereby suppressing its net interest margin. With the growth in its retail deposit base, IDFCFB has been able to reduce its high-cost borrowings (2QFY23: INR204.5billion; FY22: INR251.8 billion). The management expects it to further reduce them after FY25, when the legacy long-term and infrastructure bonds start maturing.

Asset Quality Stabilising with Improved Granularisation of Loan Book towards Retail Segment: IDFCFB's overall gross non-performing assets (NPAs) rose to 3.2% in 1HFY23 (FY22: 3.7%; FY21: 4.2%). The credit cost for 1HFY23 moderated to 112bp compared to its historical credit cost of 270bp in FY22 (due to the second wave of COVID-19), and 250bp in FY21 (largely on account of legacy wholesale exposures in overall loan mix). Its stressed assets (gross NPA + gross non-performing investments + gross security receipts + gross restructured book +potential additional stressed asset) as a percentage of the total funded exposure stood at 5.9% in 2QFY23 (FY22: 8%). The provisions against the stressed assets, including the COVID-19 provisions, accounted for 3.7% of the funded assets in 1HFY23 (FY22: 4.3%), implying a provision coverage ratio of 61.9% (53.8%).

The bank has seen a reduction in its top 10 borrower concentration to 3.3% in 2QFY23 (FY21: 5.9%), with the recovery from large telecom exposure of INR32.4 billion. However, it still has an exposure of INR4.1 billion to the telecom entity. The bank's restructured book reduced to INR15.18 billion in 2QFY23, accounting for 1.04% of the funded exposure (FY22: 2.05%; FY21: 1.13%), the slippages from this would be a key rating monitorable. The bank has also witnessed a reduction in its special mention accounts (SMA 1 and SMA 2) to 1.1% in 1HFY23 (FY22: 2.2%). The bank's retail and commercial gross NPA moderated to 2.0% in 2QFY23 (FY22: 2.6%; FY21: 4.0%). As the bank has higher share of unsecured book compared to its peers, where delinquencies with seasoning remain monitorable, this book has seen a stable asset quality trend till date. Incrementally, the pressure on borrower cashflows due to inflationary pressure, an increase in interest rates, and the banks' ability to manage its asset quality better than the peers remain rating monitorables.

Stable Capital Buffers: IDFCFB capital buffers remained stable with its common equity tier-1 ratio at 13.67% in 2QFY23 (FY22: 14.9%; FY21: 13.3%). With the retail book growth remaining higher for FY23, there could be increased absorption of capital levels. The agency expects the bank to require further capital raise to fund growth and maintain adequate capital buffers over regulatory minimum, in line with the similar rated peers.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable as of 2QFY23, with its quarterly liquidity coverage ratio at 130.9% (FY22: 135.8%; FY21: 153.3%). Moreover, the bank's asset-liability tenure was matched across shorter buckets at FYE22. Also, it maintains 6.1% of net demand time liabilities as an excess statutory liquidity ratio, indicating that it will be able to meet its short-term funding requirements.

Improvement in Profitability Buffers: IDFCB has seen an improvement in its return ratios with a moderation in credit cost, with its loan book scaling. The return on assets in 2QFY23 stood at 1.07% with 25% growth in funded assets on a yoy basis. Furthermore, even with higher operating expense, which could moderate with scale, the bank has seen an improvement in its pre-provision operating profit margin, largely due to its improved liability profile, higher proportion of high-yielding book and an improved retailisation of the book, driving margins.

Higher Operating Expense to Remain Drag on Internal Accruals: IDFCFB's cost-to-income ratio (1HFY23: 72.5%; FY22: 74.6%) was higher than its peers', largely due to branch expansion, adding people across product lines and technology spends. However, the bank needs to see a moderation in these expenses to remain competitive and scale up further in the medium to long term. Ind-Ra expects it to remain elevated in the medium term, 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 reduction in the legacy high-cost borrowing and an increase in low-cost deposits led to a moderation in the cost of funds, and this along with an improved retailisation drove margin expansion till date. However, incrementally, as the bank lends more towards secured assets and better-rated borrowers, its margin could come under pressure. According to the management, the retailisation of the loan book would be the key focus area for the medium to long term. Nevertheless, the internal accruals have remained subdued and lower than that of its peers, which could continue until the bank witnesses a stabilisation in its operating expenses, a moderation in its provision cost as well as a drag of legacy borrowing on funding cost in the medium term.

Rating Sensitivities

Positive: A substantial improvement in the franchise size and scale, large granular retail funding in line with higher-rated banks, consistent profitability buffers, maintaining a stable asset quality through the cycle and stronger capital buffers could be key positive rating drivers.

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
- weak operating performance such as the bank posting losses in FY23
- a material decline in the pace of granularisation of deposits in its funding mix.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IDFCFB, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Incorporated on 21 October 2014, IDFCFB 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 a 40% share; Warburg Pincus held 9.99%; the President of India held a 5.47% share, followed by other shareholders in IDFCFB, as of September 2019.

FINANCIAL SUMMARY

Particulars	1HFY23	FY22	FY21
Total assets (INR billion)	2,127.8	1,901.8	1,631.4
Total equity base (INR billion)	220.5	210.0	178.08
Net profit (INR billion)	10.3	1.45	4.52
Return on assets (%)	1.07	0.1	0.3
Tier 1 ratio (%)	13.7	14.9	13.3
Capital adequacy ratio (%)	15.4	16.7	13.8
Gross NPA (%)	3.2	3.7	4.2
Net NPA (%)	1.1	1.5	1.9
Source: IDFCFB; Ind-Ra			

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	22 March 2022	6 August 2021	7 August 2020	10 December 2019
NCDs	Long term	INR165.89	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative
Infrastructure bonds	Long-term	INR100	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative	IND AA+/Negative
Basel-III tier 2 debt	Long-term	INR50	IND AA+/Stable	IND AA+/Negative	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+/Stable

INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR1.50	IND AA+/Stable
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR1.50	IND AA+/Stable
INE092T08279	NCDs	15 September 2009	9	15 September 2024	INR0.50	IND AA+/Stable
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR1.00	IND AA+/Stable
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR1.00	IND AA+/Stable
INE092T08394	NCDs	27 January 2010	8.8	27 January 2025	INR2.00	IND AA+/Stable
INE092T08428	NCDs	5 April 20 April 2010	9.03	5 April 2025	INR2.50	IND AA+/Stable
INE092T08436	NCDs	5 April 2010	8.96	5 April 2025	INR2.50	IND AA+/Stable
INE092T08444	NCDs	9 April 2010	8.9	9 April 2025	INR2.50	IND AA+/Stable
INE092T08451	NCDs	28 April 2010	8.9	28 April 2025	INR3.50	IND AA+/Stable
INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR5.00	IND AA+/Stable
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR2.00	IND AA+/Stable
INE092T08493	NCDs	15 June 2010	8.8	15 June 2025	INR2.00	IND AA+/Stable
INE092T08501	NCDs	8 July 2010	8.8	8 July 2025	INR2.00	IND AA+/Stable
INE092T08519	NCDs	21 July 2010	8.8	21 July 2025	INR3.00	IND AA+/Stable
INE092T08527	NCDs	6 August 2010	8.95	6 August 2025	INR2.00	IND AA+/Stable
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR1.00	IND AA+/Stable
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR1.20	IND AA+/Stable
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR2.60	IND AA+/Stable
INE092T08592	NCDs	19-November 2010	8.9	19-Nov-25	INR2.60	IND AA+/Stable
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR2.08	IND AA+/Stable
INE092T08AO5	NCDs	17 February 2011	9.35	17 February 2026	INR3.15	IND AA+/Stable
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR2.15	IND AA+/Stable
INE092T08AR8	NCDs	15 April 2011	9.28	15 April 2026	INR2.50	IND AA+/Stable
INE092T08CO1	NCDs	31 March 2012	8.43	31 March 2022	INR0.32	WD (Paid in Full)
INE092T08CP8	NCDs	31 March 2012	8.43	31 March 2022	INR0.86	WD (Paid in Full)
INE092T08808	NCDs	23 May 20 May 2013	7.98	23 May 20 May 2023	INR4.00	IND AA+/Stable
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR1.45	IND AA+/Stable

INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR11.65	IND AA+/Stable
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR5.70	IND AA+/Stable
INE092T08BN5	NCDs	7 August 2014	9.3	7 August 2024	INR1.74	IND AA+/Stable
INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR10.25	IND AA+/Stable
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR10.55	IND AA+/Stable
INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR10.00	IND AA+/Stable
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR4.80	IND AA+/Stable
INE092T08BS4	NCDs	5 January 2015	8.67	3 January 2025	INR20.00	IND AA+/Stable
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR3.00	IND AA+/Stable
INE092T08CB8	NCDs	17 April 2015	8.61	19 April 2022	INR0.75	WD (Paid in Full)
INE092T08BU0	NCDs	20 May 2015	8.7	20 May 2025	INR7.41	IND AA+/Stable
INE092T08BV8	NCDs	27 May 2015	8.73	30 May 2022	INR6.30	WD (Paid in Full)
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR2.00	IND AA+/Stable
INE092T08BX4	NCDs	12 June 2015	8.73	14 June 2022	INR3.18	WD (Paid in Full)
INE092T08BY2	NCDs	23 June 2015	8.7	23 June 2025	INR3.95	IND AA+/Stable
INE092T08BZ9	NCDs	9 July 2015	8.73	6 January 2023	INR5.11	IND AA+/Stable
INE092T08CA0	NCDs	28 July 2015	8.75	28 July 2023	INR10.50	IND AA+/Stable
				Total outstanding	INR165.89	

ISIN	Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size (billion)	Rating/Outlook	
INE092T08CQ6	Infrastructure bonds	19 May 2016	8.5	4 July 2023	INR4.8	IND AA+/Stable	
	Total unutilised				INR95.2	IND AA+/Stable	
	Total				**INR100**		

ISIN	Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size (billion)	Rating/Outlook	
INE092T08EY6	Basel III Tier 2 debt	8 February 2022	8.42% IDBKL 08-02-2032 TIER II	8 February 2032	INR15	IND AA+/Stable	

INE092T08EZ3	Basel III Tier 2 debt	1 December 2022	8.70% UNSECURED RATED LISTED REDEEMABLE NON-CONVERTIBLE BOND SERIES PP12023 DATE OF MATURITY 01/12/2032	1 December 2032	INR15	IND AA+/Stable	
	Total unutilised				INR20	IND AA+/Stable	
	Total				**INR50**		

Complexity Level of Instruments

Instrument Type	Complexity
Infrastructure 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.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Rating of Financial Institutions Legacy Hybrids and Sub-Debt

The Rating Process

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