

IDFCFIRSTBANK/SD/246/2019-20

December 11, 2019

The Manager-Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
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.: Intimation regarding assigning & affirming Rating/ Outlook to senior debt instruments

Ref.: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Dear Sir / Madam,

Pursuant to Regulation 30 of the Listing Regulations, we wish to inform you that **India Ratings & Research Private Limited ('Ind-Ra')** has assigned 'IND AA+/ Negative' Rating/ Outlook in respect of Bank's 'Basel III – Tier 2 Bonds' of Rs. 2000 Crore (Size of Issue) and have affirmed existing ratings (*IND AA+/ Negative*) in respect of Bank's other senior debt instruments (*Infra Bonds & NCDs*).

Detailed press-release of the aforesaid assignment/ affirmation of Credit Rating/ Outlook of Bank's senior debt instruments 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
(Formerly known as IDFC Bank Limited)


Satish Gaikwad
Head – Legal & Company Secretary



India Ratings Assigns IDFC FIRST Bank's Tier 2 bonds 'IND AA+'; Outlook Negative; Affirms Existing Ratings

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DEC 2019

By **Jinay Gala**

India Ratings and Research (Ind-Ra) has taken the following rating actions on IDFC FIRST Bank Limited's (IDFCFB; earlier known as IDFC Bank Limited) senior debt:

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	Assigned
Infra bonds*	-	-	-	INR100	IND AA+/Negative	Affirmed
NCDs*	-	-	-	INR229.32 (reduced from INR236.42)	IND AA+/Negative	Affirmed

* Details in Annexure

The Negative Outlook reflects Ind-Ra's expectation that IDFCFB's profitability will remain subdued in the medium term, on account of higher-than-envisaged operating expense, thereby reducing buffers to absorb volatility in credit cost and incremental provision required on stressed book. The bank's build-up of retail CASA and retail deposit franchise, the diversification of the retail asset franchise away from wholesale assets, and the ability to remain profitable after factoring in provision on stressed assets would be key monitorables for the rating agency.

KEY RATING DRIVERS

Capital Buffers Strong, but May Be Diluted as Loan Portfolio Expands: IDFCFB's capitalisation remains strong, but it may moderate as the bank expands its loan book. Even at the moderate growth expected by the management for the proposed combined entity, the absorption of capital buffers could be higher, as the increased provisioning on stressed assets would reduce internal accruals to fund growth. IDFCFB's tier-1 ratio was 14.5% in 2QFY20; Ind-Ra expects the absorption of capital buffers to be to the tune of 150 basis points (bp) for FY20-FY21.

Asset Book Graduating to Retailisation: The retail book of IDFCFB accounted for 37% of the total advances at end-FY19 post the merger with Capital FIRST; the earlier standalone retail book of IDFCB stood at 13.2% of total advances as of 2QFY19. Also, the drivers for strong retail fee income in the form of distribution fees may entail higher operating expenses, which would keep the cost-to-income ratio elevated in the medium term. According to the management, retailisation of the loan book would be the key focus area for the medium-to-long term, and while this should be margin-accretive in the medium term, its impact on overall return ratios would depend on growth and moderation in operating and provision costs. The retail assets as a percentage of funded assets stood at 45% as on 2QFY20 vis-à-vis 34.6% in 3QFY19.

Liquidity Indicator – Adequate: IDFCFB's liquidity remained stable in 1HFY20, with liquidity coverage ratio of 125%. The assets-liability tenure was largely matched, with minor gaps in the six months to one year bucket. However, the bank maintains 28.2% of its total assets in balances with the Reserve Bank of India and in government securities, indicating that it will be able to meet its short-term funding requirements.

Asset Quality Weakens; Incremental Provision to Remain Drag on Profitability: After having trended lower since 1QFY19, the total stressed assets (gross non-performing assets + restructured assets + potential additional stress + security receipts) rose in 4QFY19 with the downgrades across financial services. The stressed assets accounted for 8.6% of the gross advances in 2QFY20 (FY19: 8.3%). The provisions against the stressed book, excluding security receipts and credit substitute's exposure, increased to 54.5% in 2QFY20. The incremental provisioning due to ageing of the existing non-performing assets, will keep provisions at elevated levels, and thus, exert pressure on profitability in the medium term. The bank has, however, covered the stressed investment exposure (INR12.3 billion) through 75% provisioning. Thus impact on profitability should be minimal from the stressed investment book.

Higher Operating Expense to Remain Drag on Internal Accruals: Post the merger, IDFCFB's cost-to-income ratio rose above 75% in 2HFY19, and stood at 77% in 1HFY20, and it is likely to remain around the same levels in the medium term, largely due to branch expansion plans. This would add to the pressure on the bank's internal accruals, thereby causing the capital buffer to deplete at a higher rate. The impact of the negative carry on IDFCFB due to higher funding cost on legacy borrowing book, higher portion of stressed book staying unresolved, and elevated operating expenditure due to expansion of its retail franchise will continue to weigh on the profitability in the medium-to-long term.

Funding Diversification Remains Constrained: The funding is highly dependent on wholesale borrowing, exposing the bank to volatility in interest rates. In 1HFY20, the CASA accounted for 21.8% of the total deposits, and 10.9% of the total liabilities. Ind-Ra believes an increase in granularity and scaling of low-cost deposits can only be achieved over the medium-to-long term, and might require IDFCFB to incur higher funding costs than peer banks in light of the intense

competition for retail liabilities in the system. The historically high-cost fixed rate borrowings have added to the challenge for the bank, resulting in a negative drag of 25 basis points (bp) on the net interest margin; this as per management is expected to subside post FY22. IDFCFB also intends to expand its retail franchise through large-scale branch roll-outs; however, the successful execution of this plan remains a key monitorable.

Retail CASA plus retail term deposit as a percentage of total liabilities has improved to 16.7% in H2FY20 (FY19: 9.4%; FY18: 5.4%) and remains a key monitorable.

RATING SENSITIVITIES

Outlook Revision: The Outlook could be revised to Stable if the bank displays the ability to maintain incremental profitability after factoring in the credit cost on stressed exposures, along with the build-up in retail CASA being higher than management's guidance, and ensure successful diversification of the loan book towards retail assets, while maintaining above-average capitalisation.

Negative: Delayed or slower build-up of low cost granular retail liability, higher-than-expected credit costs or diluted capitalisation buffers would lead to negative rating action. Substantial negative mismatches on asset-liability tenors would also be negative for the ratings. Negative rating action could also be undertaken if tier-1 buffer moves below 11.5% on sustainable basis, or stressed book as a percentage of gross advances moves above 10%.

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 holds 40% share; Warburg Pincus holds 9.99%; President of India holds 5.47% share, followed by other shareholders in IDFC FIRST Bank, as on September 2019.

FINANCIAL SUMMARY

Particulars	FY19*	FY18	FY17
Total assets (INR billion)	1671.8	1,265.2	1,121.6
Total equity base (INR billion)	181.6	152.5	146.7
Net profit (INR billion)	-19.44	8.59	10.2
Return on assets (%)	-1.2	0.7	1.0
Tier 1 ratio (%)	15.3	17.7	18.5
Capital adequacy ratio (%)	15.5	18.0	18.9
GNPA (%)	2.4	3.3	3
Stressed asset (GNPA+SR+SRA+ potential stress book) (%) of gross advances	8.3	10.9	15.1

Source: IDFCFB, Ind-Ra's estimates,
*Financials for the combined entity of IDFCB and CAPF

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	17 July 2019	27 June 2018	28 March 2018
NCDs	Long term	INR229.32	IND AA+/Negative	IND AA+/ Negative	IND AA+/Stable	IND AAA/RWN
Infra bonds	Long-term	INR100	IND AA+/Negative	IND AA+/Negative	IND AA+/Stable	IND AAA/RWN
Basel-III tier 2 debt	Long-term	INR20	IND AA+/Negative			

ANNEXURE

ISIN No.	Instrument	Date of	Coupon	Maturity	Issue size	Rating/Outlook
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		Issuance	rate (%)	Date	(INR billion)	
INE092T08014	NCDs	17 January 2006	7.75	17 January 2026	INR 2.00	IND AA+/Negative
INE092T08238	NCDs	25 August 2009	9.05	25 August 2019	INR 1.5	WD
INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR 1.50	IND AA+/Negative
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR 1.50	IND AA+/Negative
INE092T08261	NCDs	4 September 2009	8.95	4 September 2019	INR 1.0	WD
INE092T08279	NCDs	15 September 2009	9.00	15 September 2024	INR 0.50	IND AA+/Negative
INE092T08287	NCDs	29 September 2009	8.90	29 September 2019	INR 1.0	WD
INE092T08311	NCDs	17 November 2009	8.75	17 November 2019	INR 1.0	WD
INE092T08352	NCDs	17 December 2009	8.75	17 December 2019	INR 3.00	IND AA+/Negative
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR 1.00	IND AA+/Negative
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR 1.00	IND AA+/Negative
INE092T08394	NCDs	27 January 2010	8.80	27 January 2025	INR 2.00	IND AA+/Negative
INE092T08402	NCDs	9 February 2010	8.77	9 February 2020	INR 0.50	IND AA+/Negative
INE092T08428	NCDs	5 April 2010	9.03	5 April 2025	INR 2.50	IND AA+/Negative
INE092T08436	NCDs	5 April 2010	8.96	5 April 2025	INR 2.50	IND AA+/Negative
INE092T08444	NCDs	9 April 2010	8.90	9 April 2025	INR 2.50	IND AA+/Negative
INE092T08451	NCDs	28 April 2010	8.90	28 April 2025	INR 3.50	IND AA+/Negative
INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR 5.00	IND AA+/Negative
INE092T08477	NCDs	24 May 2010	8.65	24 May 2020	INR 3.80	IND AA+/Negative
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR 2.00	IND AA+/Negative
INE092T08493	NCDs	15 June 2010	8.80	15 June 2025	INR 2.00	IND AA+/Negative
INE092T08501	NCDs	8 July 2010	8.80	8 July 2025	INR 2.00	IND AA+/Negative
INE092T08519	NCDs	21 July 2010	8.80	21 July 2025	INR 3.00	IND AA+/Negative
INE092T08527	NCDs	6 August 2010	8.95	6 August 2025	INR 2.00	IND AA+/Negative
INE092T08535	NCDs	15 September 2010	8.79	15 September 2020	INR 0.85	IND AA+/Negative
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR 1.00	IND AA+/Negative
INE092T08550	NCDs	20 September 2010	8.77	20 September 2020	INR 0.80	IND AA+/Negative
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR 1.20	IND AA+/Negative

INE092T08576	NCDs	29 September 2010	8.72	29 September 2020	INR 1.3500	IND AA+/Negative
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR 2.60	IND AA+/Negative
INE092T08592	NCDs	19 November 2010	8.90	19 November 2025	INR 2.60	IND AA+/Negative
INE092T08600	NCDs	2 December 2010	8.89	2 December 2020	INR 3.06	IND AA+/Negative
INE092T08618	NCDs	27 December 2010	9.05	27 December 2020	INR 3.39	IND AA+/Negative
INE092T08626	NCDs	6 January 2011	9.15	6 January 2026	INR 2.08	IND AA+/Negative
INE092T08AO5	NCDs	17 February 2011	9.35	17 February 2026	INR 3.15	IND AA+/Negative
INE092T08634	NCDs	24 March 2011	9.25	24 March 2021	INR 5.00	IND AA+/Negative
INE092T08AQ0	NCDs	28 March 2011	9.33	28 March 2026	INR 2.15	IND AA+/Negative
INE092T08CG7	NCDs	21 February 2011	8.00	21 February 2021	INR 1.03	IND AA+/Negative
INE092T08CH5	NCDs	21 February 2011	8.01	21 February 2021	INR 3.36	IND AA+/Negative
INE092T08CI3	NCDs	30 March 2011	8.25	30 March 2021	INR 0.34	IND AA+/Negative
INE092T08CJ1	NCDs	30 March 2011	8.25	30 March 2021	INR 1.08	IND AA+/Negative
INE092T08CM5	NCDs	21 March 2012	8.70	21 March 2022	INR 1.08	IND AA+/Negative
INE092T08CN3	NCDs	21 March 2012	8.70	21 March 2022	INR 3.57	IND AA+/Negative
INE092T08AR8	NCDs	15 April 2011	9.28	15 April 2026	INR 2.50	IND AA+/Negative
INE092T08CK9	NCDs	30 December 2011	9.00	30 December 2021	INR 0.74	IND AA+/Negative
INE092T08CL7	NCDs	30 December 2011	9.00	30 December 2021	INR 1.99	IND AA+/Negative
INE092T08CO1	NCDs	31 March 2012	8.43	31 March 2022	INR 0.32	IND AA+/Negative
INE092T08CP8	NCDs	31 March 2012	8.43	31 March 2022	INR 0.86	IND AA+/Negative
INE092T08BB0	NCDs	13 September 2012	9.25	13 September 2019	INR 0.4	WD
INE092T08808	NCDs	23 May 2013	7.98	23 May 2023	INR 4.00	IND AA+/Negative
INE092T08824	NCDs	2 January 2014	9.63	2 January 2024	INR 1.45	IND AA+/Negative
INE092T08AS6	NCDs	8 January 2014	9.65	8 January 2029	INR 11.65	IND AA+/Negative
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR 5.70	IND AA+/Negative
INE092T08BN5	NCDs	7 August 2014	9.30	7 August 2024	INR 1.74	IND AA+/Negative
INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR 10.25	IND AA+/Negative
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR 10.55	IND AA+/Negative

INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR 10.00	IND AA+/Negative
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR 4.80	IND AA+/Negative
INE092T08BS4	NCDs	5 January 2015	8.67	3 January 2025	INR 20.00	IND AA+/Negative
INE092T08964	NCDs	18 February 2015	8.63	18 February 2020	INR 5.33	IND AA+/Negative
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR 3.00	IND AA+/Negative
INE092T08972	NCDs	15 April 2015	8.64	15 April 2020	INR 11.51	IND AA+/Negative
INE092T08AN7	NCDs	17 April 2015	8.59	21 October 2021	INR 0.25	IND AA+/Negative
INE092T08CB8	NCDs	17 April 2015	8.61	19 April 2022	INR 0.75	IND AA+/Negative
INE092T08BU0	NCDs	20 May 2015	8.70	20 May 2025	INR 7.41	IND AA+/Negative
INE092T08BV8	NCDs	27 May 2015	8.73	30 May 2022	INR 6.30	IND AA+/Negative
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR 2.00	IND AA+/Negative
INE092T08BX4	NCDs	12 June 2015	8.73	14 June 2022	INR 3.18	IND AA+/Negative
INE092T08BY2	NCDs	23 June 2015	8.70	23 June 2025	INR 3.95	IND AA+/Negative
INE092T08BZ9	NCDs	9 July 2015	8.73	6 January 2023	INR 5.11	IND AA+/Negative
INE092T08CA0	NCDs	28 July 2015	8.75	28 July 2023	INR 10.50	IND AA+/Negative
				Total outstanding	INR 229.32	

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

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

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Rating FI Subsidiaries and Holding Companies](#)

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