IDFCFIRSTBANK/SD/269/2024-25 **December 11, 2024**

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 re-affirmed the rating/outlook of Bank's Debt instruments *(Basel III Tier 2 Bonds, Infrastructure Bonds and Non-Convertible Debt Instruments)* amounting to ₹ 25,684 crore at '**IND AA+/Stable**'.

A detailed Rating Rationale for the above is enclosed herewith.

Request you to take the above on record.

Thanking you,

Yours faithfully,
For **IDFC FIRST Bank Limited**
SATISH ASHOK GAIKWAD
Digitally signed by SATISH ASHOK GAIKWAD
Date: 2024.12.11 17:14:27 +05'30'
Satish Gaikwad
Head – Legal & Company Secretary

Encl.: as above

India Ratings Affirms IDFC FIRST Bank's NCDs, Bonds and Tier 2 Debt at 'IND AA+'/Stable

Dec 10, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has affirmed IDFC FIRST Bank Limited's (IDFCFB) debt instruments' ratings as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR81.64 (reduced from INR126.83)	IND AA+/Stable	Affirmed
Infrastructure bonds*	-	-	-	INR95.2	IND AA+/Stable	Affirmed
Basel III Tier 2 debt*	-	-	-	INR80	IND AA+/Stable	Affirmed

*Details in Annexure

Analytical Approach

Ind-Ra continues to take a standalone view of IDFCFB to arrive at the ratings.

Detailed Rationale of the Rating Action

The affirmation reflects IDFCFB's continued franchise expansion, its experienced management, stable liability franchise, diversified product portfolio and improved capital buffers. The ratings, however, remain constrained by higher operating expenditure and credit cost impacting the bank's internal accruals, which remains on the lower side compared to higher or similar rated peers.

List of Key Rating Drivers

Strengths

-Sizeable retail franchise with diversified product lines
-Funding profile has seen sizable retailisation
-Capital buffers see improvement with recent capital raise

Weaknesses

-Higher operating expense remains drag on internal accruals
-Asset quality needs monitoring with current challenges in unsecured segment

Detailed Description of Key Rating Drivers

Sizeable Retail Franchise with Diversified Product Lines: IDFCFB's retail , rural and small and medium enterprises (SME) book accounted for 83% of the total funded exposure in 2QFY25 (2QFY24: 80.1%). The bank intends to continue focusing on diversifying its overall loan portfolio, with focus on retail and SME loans, thereby driving its granular loan portfolio. This increased retailisation would help the bank maintain its margins, thereby reducing the impact of higher-than-peer funding cost and helping the bank absorb its operating cost. IDFCFB's net interest margin moderated marginally to 6.2% in 2QFY25 (FY24: 6.4%) because of a marginal decrease in the proportion of unsecured loans, including microfinance book, and continued retailisation of the loan book. The share of microfinance (MFI) loans in the overall loan book moderated to 5.6% in 2QFY25(2QFY24:7.2%) due to the current challenging operating environment. The bank has built credit guarantee funds for micro units cover for 50% of the MFI loan book. The bank has been witnessing a recovery in growth in the corporate segment, largely in the emerging corporates and financial institutions segment, and this is likely to continue in the medium term, supported by the bank's strategy.

Funding Profile Has Seen Sizable Retailisation: IDFCFB's top 20 deposits-to-total deposits moderated to 7.02% in 2QFY25 (FY24: 10.6%; FY23: 12.56%), thereby improving its overall granularity, in line with its peers. The current account saving account (CASA) ratio remained largely stable at 48.9% in 2QFY25 (FY24: 47.2%). In 2QFY25, IDFCFB's CASA deposits accounted for 40.5% (FY24: 37.7%; FY23: 35.7%) of the total liabilities (deposits + borrowing) and it has been on an improving trend compared to the industry. While the bank's cost of funds has moderated from the historical levels, its borrowing cost is likely to remain relatively high compared to its peers in the medium term, due to its historically high-cost fixed rate borrowings, which have been moving down and are being replaced with retail deposits. However, any reduction in the funding cost would be absorbed incrementally as the bank builds up a higher proportion of secured book. With the growth in its retail deposit base, IDFCFB has been able to reduce its high-cost borrowings and would run them down largely by FY26.

Capital Buffers See Improvement with Recent Capital Raise: IDFCFB's capital buffers improved in 2QFY25, with its common equity tier-1 (CET1) ratio rising to 14.08% (FY24: 13.4%; FY23: 14.9%). The bank has shown the ability to raise capital at frequent intervals; this would continue to aid its growth until the growth in internal capital generation exceeds loan growth. The bank raised INR32 billion in 2QFY25, and this along with the recent merger of IDFC Limited led to an accretion of INR6.18 billion to the overall capital base. The impact of the Reserve Bank of India's circular on IDFCFB's exposure towards consumer retail credit, credit card outstanding and exposures to non-banking financial companies has been absorbed and passed on to the borrowers, as per the management. The capital raise provides adequate cushion, and the guided growth being higher than internal accruals would lead to higher absorption of capital, necessitating a capital raise in FY26 to maintain adequate capital buffers over the regulatory minimum, in line with the similarly rated peers.

Higher Operating Expense Remains Drag on Internal Accruals: Despite the scaling up of its loan book, IDFCB's return ratios have moderated with the rise in credit cost. The return on assets in 1HFY25 stood at 0.6% (FY24: 1.1%; FY23: 1.1%), with growth of 21.5% yoy in funded assets. Furthermore, even with higher operating expenses, which could moderate with scale, the bank has seen an improvement in its pre-provision operating profit (PPoP) margin (1HFY25: 2.49%; 1HFY24: 2.38%), largely due to its improved liability profile, higher proportion of high-yielding book and an improved retailisation of the book. IDFCFB's cost-to-income ratio (1HFY25: 70.0%; FY24: 72.2%) was higher than that of its peers, largely due to branch expansion, addition of manpower across product lines, and technology spends. The drivers for strong retail fee income in the form of distribution fees might entail higher operating expenses, which would also keep the cost-to-income ratio elevated in the medium term. Also, incrementally, as the bank lends more towards secured assets and better-rated borrowers, it could curtail margin expansion, thereby keeping the cost-to-income ratio elevated in the near term. It would also impact the bank's PPoP margins, factoring in the current challenging environment on unsecured lending. As a result, the bank's internal accruals have remained subdued. This could continue until the bank stabilises its operating expenses through scaling of loan book, maintains net interest income and fee income growth higher than operating cost, and improves its funding cost in the medium term.

Asset Quality Needs to be Monitored with Current Challenges In Unsecured Segment: IDFCFB's overall gross non-performing assets (NPAs) witnessed a marginal rise to 1.92% in 1HFY25 (FY24: 1.88%; FY23: 2.5%), with the provision coverage ratio rising to 75.3% (68.8%, 66.4%). The credit cost as of average funded asset (annualised) increased to 255bp for 1HFY25 (FY24: 128bp; FY23: 113bp). The credit cost increased due to the provision done for its special mention accounts (SMA 1 and SMA 2) book of microfinance loans and one toll account; excluding this, the credit cost stood at 202bp, though this is still higher than the guided levels, largely due to the recent stress seen in microfinance loans. The management has guided to maintain overall credit cost for FY25 within 225bp, which remains a key monitorable.

Moreover, the bank's concentration in its top 20 borrowers in terms of overall advances fell to 4.47% in 2QFY25 (FY24: 5.66%, FY23: 7.1). Its restructured book reduced to INR5.05 billion in 2QFY25, accounting for 0.23% of the funded exposure (FY24: 0.3%; FY23: 0.6%). Also, SMA 1 and SMA 2 as a percentage of retail, rural and MSME loans rose marginally to 0.99% in 1HFY25 (FY24: 0.85%). Incrementally, any pressure on borrowers' cashflows due to inflation or an increase in the interest rates, where the bank's ability to manage its asset quality is better than that of its peers, remain key monitorables.

Liquidity

Adequate: IDFCFB's liquidity remained stable in 2QFY25, with its quarterly liquidity coverage ratio standing at 116% (FY24: 114%; FY23: 120%). Moreover, the bank's asset-liability tenure was matched across shorter buckets at 2HFYE25. Also, it has 4.6% of net demand time liabilities as an excess statutory liquidity ratio, which provided adequate buffer to meet its short-term funding requirements at 2QFYE25.

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 and return ratios, maintaining stable through-the-cycle asset quality 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;

- CET1 buffer falling and remaining below 12.5% on a sustained basis; and

- a material decline in the pace of granularisation of deposits in its funding mix or sustained reduction of market share in advances or deposits.

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, due to either 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.

About the Company

Incorporated on 21 October 2014, IDFCFB is a new-age private sector bank. 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. The recently announced merger of IDFC Financial Holding Company with IDFC Ltd and IDFC Ltd with IDFCFB has dissolved the promoter holding. Post the merger of IDFC Limited, the President of India's shareholding stands at 9.11%; the remain stake remains diversified across public, financial institutions and foreign investors.

Key Financial Indicators

Particulars	1HFY25	FY24	FY23
Total assets (INR billion)	3204.4	2961.1	2,399.4
Total equity base (INR billion)	368.9	321.6	257.2
Net profit (INR billion)	8.8	29.6	24.4

Return on assets (%)	0.6	1.1	1.1
Tier 1 ratio (%)	14.1	13.4	14.2
Capital adequacy ratio (%)	16.6	16.1	16.8
Gross NPA (%)	1.9	1.9	2.5
Net NPA (%)	0.5	0.6	0.86
Source: IDFCFB; Ind-Ra			

Correction in Previous Rating Action Commentary

Ind-Ra updates the rating action commentary published on 11 December 2023 to correctly state the dates of maturity of NCDs (ISINs: INE092T08AO5, INE092T08AQ0, INE092T08AR8 and INE092T08AS6) in the Annexure. The limits for these NCDs stand withdrawn due to early redemption, thereby changing the outstanding limit to INR126.83 billion from INR146.28 billion.

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings/Outlook	Historical Rating/Outlook			
				11 December 2023	12 December 2022	22 March 2022	6 August 2021
Basel III Tier 2 debt	Long-term	INR80	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative
Infrastructure Bonds	Long-term	INR95.2	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative
Non-convertible debentures	Long-term	INR81.64	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Negative	IND AA+/Negative

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Basel III Tier 2 debt	Low
Infra bonds	Low
Senior bonds	Low

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

Annexure

ISIN No.	Instrument	Date of Issuance	Coupon rate (%)	Maturity Date	Issue size (billion)	Rating/Outlook
INE092T08014	NCDs	17 January 2006	0	17 January 2026	INR 2.00	IND AA+/Stable
INE092T08246	NCDs	25 August 2009	9.15	25 August 2024	INR 1.50	WD (Paid in Full)
INE092T08253	NCDs	31 August 2009	9.05	31 August 2024	INR 1.50	WD (Paid in Full)
INE092T08279	NCDs	15 September 2009	9	15 September 2024	INR 0.50	WD (Paid in Full)
INE092T08378	NCDs	15 January 2010	8.83	15 January 2025	INR 1.00	IND AA+/Stable
INE092T08386	NCDs	15 January 2010	8.81	15 January 2025	INR 1.00	IND AA+/Stable
INE092T08394	NCDs	27 January 2010	8.8	27 January 2025	INR 2.00	IND AA+/Stable
INE092T08428	NCDs	05 April 2010	9.03	05 April 2025	INR 2.50	IND AA+/Stable
INE092T08436	NCDs	05 April 2010	8.96	05 April 2025	INR 2.50	IND AA+/Stable
INE092T08444	NCDs	09 April 2010	8.9	09 April 2025	INR 2.50	IND AA+/Stable
INE092T08451	NCDs	28 April 2010	8.9	28 April 2025	INR 3.50	IND AA+/Stable

INE092T08469	NCDs	13 May 2010	8.95	13 May 2025	INR 5.00	IND AA+/Stable
INE092T08485	NCDs	28 May 2010	8.84	28 May 2025	INR 2.00	IND AA+/Stable
INE092T08493	NCDs	15 June 2010	8.8	15 June 2025	INR 2.00	IND AA+/Stable
INE092T08501	NCDs	08 July 2010	8.8	08 July 2025	INR 2.00	IND AA+/Stable
INE092T08519	NCDs	21 July 2010	8.8	21 July 2025	INR 3.00	IND AA+/Stable
INE092T08527	NCDs	06 August 2010	8.95	06 August 2025	INR 2.00	IND AA+/Stable
INE092T08543	NCDs	15 September 2010	8.89	15 September 2025	INR 1.00	IND AA+/Stable
INE092T08568	NCDs	20 September 2010	8.86	20 September 2025	INR 1.20	IND AA+/Stable
INE092T08584	NCDs	29 September 2010	8.82	29 September 2025	INR 2.60	IND AA+/Stable
INE092T08592	NCDs	19 November 2010	8.9	19 November 2025	INR 2.60	IND AA+/Stable
INE092T08626	NCDs	06 January 2011	9.15	06 January 2026	INR 2.08	IND AA+/Stable
INE092T08AO5*	NCDs	17 February 2011	9.35	17 February 2026	INR 3.15	WD (Paid in Full)
INE092T08AQ0*	NCDs	28 March 2011	9.33	28 March 2026	INR 2.15	WD (Paid in Full)
INE092T08AR8*	NCDs	15 April 2011	9.28	15 April 2026	INR 2.50	WD (Paid in Full)
INE092T08824	NCDs	02 January 2014	9.63	02 January 2024	INR 1.45	WD (Paid in Full)
INE092T08AS6*	NCDs	08 January 2014	9.65	08 January 2029	INR 11.65	WD (Paid in Full)
INE092T08840	NCDs	15 April 2014	9.61	15 April 2024	INR 5.70	WD (Paid in Full)
INE092T08BN5	NCDs	07 August 2014	9.3	07 August 2024	INR 1.74	WD (Paid in Full)
INE092T08BO3	NCDs	21 August 2014	9.36	21 August 2024	INR 10.25	WD (Paid in Full)
INE092T08BP0	NCDs	12 September 2014	9.38	12 September 2024	INR 10.55	WD (Paid in Full)
INE092T08BQ8	NCDs	14 October 2014	9.17	14 October 2024	INR 10.00	WD (Paid in Full)
INE092T08BR6	NCDs	11 December 2014	8.49	11 December 2024	INR 4.80	IND AA+/Stable
INE092T08BS4	NCDs	05 January 2015	8.67	03 January 2025	INR 20.00	IND AA+/Stable
INE092T08BT2	NCDs	27 February 2015	8.52	27 February 2025	INR 3.00	IND AA+/Stable
INE092T08BU0	NCDs	20 May 2015	8.7	20 May 2025	INR 7.41	IND AA+/Stable
INE092T08BW6	NCDs	29 May 2015	8.71	29 May 2024	INR 2.00	WD (Paid in Full)
INE092T08BY2	NCDs	23 June 2015	8.7	23 June 2025	INR 3.95	IND AA+/Stable
				Total outstanding	INR 81.64	

Source: NSDL, IDFCFB

* early redemptions for ISIN INE092T08AO5 on 17February 2021, INE092T08AQ0 on 30 March 2021, INE092T08AR8 on 15 April 2021 and INE092T08AS6 on 8 January 2024.

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	8 February 2032	INR15	IND AA+/Stable
INE092T08EZ3	Basel III Tier 2 debt	1 December 2022	8.70	1 December 2032	INR15	IND AA+/Stable
INE092T08FA3	Basel III Tier 2 debt	27 June 2023	8.40	27 June 2033	INR15	IND AA+/Stable
	Total unutilised				INR35	IND AA+/Stable
	Total				**INR80**	

Source: NSDL, IDFCFB

Contact

Primary Analyst
Jinay Gala
Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Aishwary Khandelwal
Associate Director

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.
Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.
India Ratings is a 100% owned subsidiary of the Fitch Group.
For more information, visit www.indiaratings.co.in.

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.

APPLICABLE CRITERIA AND POLICIES

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process