

IDFC First Bank Ltd — Apr 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The transformation from a DFI-legacy entity to a retail powerhouse is entering its "operating leverage" phase. While near-term earnings will be back-ended due to accounting shifts in digital lending (FLDG) and salary cycles, the core engine—31% PPOP growth vs 25% loan growth—confirms the structural thesis.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	PAT of ₹724 Cr vs expected normalization; NII growth remains robust at 24% YoY for Q4.	☐
Earnings Quality	High (Core driven)	93% of fee income is retail-led/granular; PPOP growth (31%) outpaced loan growth (25%).	☐
Guidance Confidence	Strong	Mgmt reaffirmed Guidance 2.0 (ROE 17-18%); 5-year deposit CAGR of 36% exceeds targets.	☐
Management Credibility	Strong	Successfully liquidated 90% of legacy infra book; delivered on CASA and retail asset mix.	☐
Business Quality Signal	Improving	Incremental CD ratio at 76% demonstrates a self-sustaining liability franchise.	☐
Key Q&A Exchange	Q# 9 - FLDG Model Shift	Mgmt explained a shift where partners absorb credit costs, lowering H2 credit costs.	☐
The Street's Primary Anxiety	Normalizing Credit Costs	Analysts fear the 1.3% credit cost was a cyclical bottom; mgmt guided to 1.65% for FY25.	☐
Capital Cycle Stage	Consolidation / Harvesting	Slowing branch expansion (leveraging tech); focusing on unit economics of existing cards/wealth.	☐
Margin / Return Ratio Trajectory	Stable to Improving	NIMs healthy at 6.36%; ROA expected to reach 1.4-1.5% in 2-3 years.	☐
Pricing Power	Stable	Able to raise ₹1.4 lakh Cr retail deposits in 5 years while reducing SA rates to 3%.	☐
FCF Conversion & Quality	Strong (Operating Cash Flow)	Core PPOP growth suggests high-quality accruals despite high opex.	☐
Competitive Moat Signals	Widening	Top-rated mobile app and ethical banking positioning are driving NTB (New-to-Bank) flows.	☐
Balance Sheet Strength	Strong	CAR at 16.11%; legacy high-cost borrowings reduced by ₹6,000 Cr in FY24.	☐
Working Capital Efficiency	Improving	CD ratio improved from 137% at merger to 98.4%.	☐
Mgmt Guidance Track Record	Reliable	Met/Achieved almost all Guidance 1.0 metrics (Retail mix, CASA, Infra rundown).	☐
Key Vulnerability / Red Flag	Front-ended FY25 Costs	H1-FY25 PAT will be muted by salary hikes and FLDG opex payouts.	☐
Management Tone	Confident & Transparent	Vaidyanathan was unusually specific about H1 vs H2 earnings trajectory.	☐

Sentiment: ☐Positive **Key Takeaways: - Positives:** The bank has successfully "broken the back" of the legacy liability problem; retail deposits now constitute 78% of the mix, allowing the bank to stop "chasing" bulk deposits

(reflected in the lower 114% LCR). The 31% growth in core PPOP is the clearest signal that incremental unit economics are vastly superior to the legacy book. Asset quality remains pristine in the retail/SME segment (GNPA 1.38%). - **Negatives:** FY25 will be a "tale of two halves." H1 will face headwinds from salary increments and a shift in digital lending accounting (FLDG) where the bank pays partners upfront (opex) to insulate itself from future credit costs. This makes the stock a "patient play" for the next six months. - **The Street's Concern:** Analysts are hyper-focused on the normalization of credit costs from 1.3% to 1.65%. Management responded by highlighting that this is a deliberate trade-off for higher-yielding segments and that the FLDG model will keep H2 credit costs benign. - **Watchpoint:** Monitor the "Engine 2" (ETB) growth—as the bank matures, its ability to extract more deposits from existing customers will be the key to lowering the cost of funds further.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4 FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	24.2%	↓ (vs 30%)	↓ (vs 30%)	→	FY24 NII grew 30% YoY; Q4 NII at ₹4,469 Cr. Driven by 25% loan growth.
NIM (AUM basis %)	6.35%	↑ 30 bps	→	↑	FY24 NIM at 6.36% vs 6.05% in FY23. Strong retail mix offsets rising deposit costs.
Cost of Funds %	6.43%	↑ 68 bps	↓ 1 bp	→	Cost of funds stabilized sequentially. Benefit from legacy borrowing runoff (₹6,000 Cr in FY24).
Cost of Deposits %	6.27%	↑ 69 bps	↑ 7 bps	↓	Marginal increase due to repricing; mgmt avoided "rate game" for bulk deposits in Q4.
CASA Ratio (period end %)	47.2%	↓ 252 bps	↑ 40 bps	→	Remained healthy despite industry-wide pressure. Ex-govt flow, CASA would be 46.5%.
CASA Ratio (avg %)	45.9%	↓ 176 bps	↑ 20 bps	→	Daily average CASA growth remains strong at 28% YoY.
Credit-Deposit Ratio %	98.4%	↓ 860 bps	↓ 260 bps	↑	Consistent reduction from 137% at merger. Incremental CD ratio for FY24 was 76.2%.
Loans Growth (% YoY)	25.1%	→	↑ 6.1%	→	Gross advances at ₹2,00,965 Cr. Growth driven by Vehicle (+40%) and SME/Corporate (+20%).
Deposits Growth (% YoY)	38.7%	↓ (vs 47%)	↑ 9.9%	→	Total deposits at ₹2,00,576 Cr. Customer deposits specifically grew 42% YoY.
GNPA %	1.88%	↓ 63 bps	↓ 16 bps	↑	Improvement across segments. Retail/SME GNPA at 1.38%.
NNPA %	0.60%	↓ 26 bps	↓ 8 bps	↑	Net NPA in Retail/SME is very low at 0.44%.
Slippage Ratio % (FY24)	2.75%	First entry	First entry	→	Gross slippages for Q4: ₹1,347 Cr (down from ₹1,422 Cr in Q3).
Credit Cost (%)	1.50%	↑ 45 bps	↑ 24 bps	↓	FY24 avg at 1.32%. Guided to 1.65% for FY25 as a "normalized" level.
Collection Efficiency %	99.6%	→	→	→	Maintained 99.5%-99.6% for 24 consecutive months.
Capital Adequacy / CET1 %	13.36%	↓ 84 bps	↓ 59 bps	↓	Impacted by RBI risk-weight changes (~100 bps total). CAR at 16.11%.
PAT (₹Cr)	₹724 Cr	↓ 10%	↑ 1%	□	Q4 FY23 had one-off tax/trading items. FY24 PAT at ₹2,957 Cr (+21% YoY).
Fee Income Growth %	36%	↓ (vs 40%)	↑ 9.6%	↑	FY24 Fee income grew 40%; 93% from retail operations.

2B. SEGMENT BREAKDOWN

Segment	Gross Advances (₹Cr)	YoY Growth	GNPA %	Trend	vs Company Avg	Key Development
Home Loan	₹22,325	14.2%	0.75%	→	Better	Steady growth; high asset quality.
Loan Against Prop	₹24,247	20.0%	1.59%	↑	Better	Accelerated growth in Q4 after several flattish quarters.
Vehicle Loans	₹20,827	40.5%	1.52%	→	Better	Strongest growth segment; market share gains in Two-Wheeler.
Consumer Loans	₹26,499	33.3%	1.72%	→	Better	Includes Personal Loans and Consumer Durables.
Rural Finance	₹23,882	24.5%	1.01%	↑	Much Better	JLG portfolio normalizing after Chennai flood impact.
Credit Card	₹5,546	58.0%	1.76%	→	Better	Book reached ₹5,500 Cr; expected to turn profitable in H2-FY25.
SME & Corporate	₹55,122	20.5%	1.20%	→	Better	Strong traction in Business Banking (+46%).
Infrastructure	₹2,830	-39.3%	26.45%	↑	Run-off	Now only 1.4% of total loans.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	22% - 23% for FY25	Consistent with historical 13% 5-yr CAGR.	Exceeded (25%)	Low
Guidance	Deposit Growth	~30% for FY25	Needs ~₹15,000 Cr per qtr (H1 FY24 avg).	Achieved (42%)	Low
Guidance	Credit Cost	1.65% for FY25	Step up from 1.32% in FY24.	Inline (1.32%)	Medium
Guidance	Branch Expansion	1,700-1,800 by FY29	Needs ~150-170 branches per year.	Achieved (135 in FY24)	Low
Strategy	FLDG Model	Partner absorbs credit loss	Higher opex in H1, lower provision in H2.	New Strategy	High (Vol)
Strategy	Credit Card Breakeven	Q4 FY25 Profitability	C/I ratio must drop from 116% to <100%.	Improving (240% to 116%)	Medium
Balance	Legacy Borrowings	Run-off of ₹11,809 Cr	₹7,000 Cr scheduled for FY25 repayment.	On Track	Low
Profitability	ROE / ROA (FY29)	ROE 17-18% / ROA 1.9-2.0%	PPOP/Assets needs to stay > 2.25%.	On Track (10.3/1.1)	Medium

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Pritesh Bumb / DAM	Opex Inflection	Financials	When will branch banking costs start to decline?	Mgmt indicated cost increases will be flattish for two quarters with "meaningful reduction" in Q3/Q4 as Credit Cards turn profitable. This confirms the J-curve thesis where high infrastructure costs finally meet revenue scale, triggering an ROE re-rating trigger.	None	4.0	Specific timeline given
2	3.5	Pritesh Bumb / DAM	Tech Resilience	Business Overview	How is the bank geared to handle high UPI/FASTag volumes?	Mgmt stated they have built a "golden source of truth" data lake and invested in modern middleware/ CRM systems. High uptime and app ratings (4.9/4.7) suggest lower technical debt than older peers, providing a competitive moat signal.	None	4.5	Confirmed with specifics
3	4.0	Gao Jaixuam / Schchontao	Branch Productivity	Strategy	When will per-branch deposits	Mgmt targets doubling branch	None	4.0	

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					outgrow the industry?	productivity, adding ₹4 lakh Cr deposits via only 900 more branches (2x current efficiency). This highlights a shift toward tech-led liability growth, reducing future capex intensity and improving ROA.			Directional with evidence
4	5.0	Gao Jaixuam / Schchontao	Credit Cost Guidance	Financials	How should we think about credit cost normalization?	Mgmt guided to 1.65% for FY25, stating it will be front-ended in Q1/Q2 and lower in Q3/Q4 due to FLDG partner absorption. This is a critical disclosure that prevents a "shock" in provisioning, though investors must monitor if actuals exceed 1.65%.	None	4.0	Clear and quantified
5	3.5	Deepak Vohra / Premier	Cost to Income	Financials	Why did C/I increase in FY24 vs FY23?	Mgmt explained high investments in new lines (Gold, KCC, Prime Home Loans) which are currently	None	3.5	Specific product list

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						"negative drag" products. These are early-stage J-curve investments that will add to margins only after 12-24 months of seasoning.			
6	4.0	Prakhar Sharma / Jefferies	Growth & ROE	Management Commentary	What is the 3-year view on loan growth and ROE?	Mgmt guided to 22-23% loan growth and an endeavor to touch 1.45-1.5% ROA. This implies steady execution rather than aggressive risk-taking, reinforcing management credibility.	None	4.0	Specific targets given
7	3.0	Nitin Agarwal / Motilal	LAP Portfolio	Business Overview	Why did LAP growth accelerate after a gap?	Mgmt stated they have "fantastic tech capabilities" to originate without relaxing norms but are moderating growth to preserve capital. This suggests the growth is selective and realization-driven rather than a volume push.	None	3.0	Directional

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8	4.0	Vikram Subramanian / Marshall Wace	LCR Drop	Financials	Why did LCR drop despite strong deposit growth?	Mgmt deflected "playing the rate game" for bulk deposits, choosing to optimize liquidity at 115% instead of paying 8% +. This is a sign of liability strength; the bank no longer needs to buy LCR at the expense of NIM.	None	4.5	Specific strategy signal
9	5.0	Kunal Shah / Citigroup	FLDG Impact	Financials	What are the levers for PPOP growth beyond 2.25%?	Mgmt detailed the FLDG shift—paying partners opex in H1 to insulate the P&L from credit costs in H2. This accounting nuance is the most important signal from the call; PAT will likely miss in Q1 but beat in Q3/Q4.	None	5.0	Clear and quantified
10	4.5	Sonal Minhas / Prescient	Asset Quality Segments	Financials	Where are slippages occurring specifically?	Mgmt noted higher slippages in Two-Wheeler and Consumer Durables (low-income pyramid) vs Home Loans (0.1% cost).	Verbatim schedule of NPA	4.0	Directional with evidence

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						However, a 99.5% collection efficiency across the blend keeps the overall GNPA contained.			

PATTERN FLAGS & SENTIMENT Analyst questioning centered heavily on **Cost Normalization** (Credit Cost and Opex). There is a palpable skepticism about the bank's ability to keep credit costs at ~1.3%, which management largely conceded by raising guidance to 1.65%. The recurring "LCR" and "Deposit Competition" themes were met with a very confident posture; the CEO effectively claimed they are "swimming in oxygen" regarding liquidity, a sharp contrast to larger peers.

Analyst Sentiment Verdict: Analysts were cautiously optimistic, convinced of the liability franchise's success but skeptical of the near-term opex trajectory. The "FLDG" disclosure generated the most analytical friction, as it complicates near-term earnings modeling. Management's credibility remains high, as they have a 5-year track record of meeting Guidance 1.0. The primary unresolved issue is the **H1 FY25 PAT moderation**, which poses a risk of a "time correction" in the stock price until Q3 results.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-----|-----|-----|-----|-----| | Credit Cost | FY24 Average was 1.32% | FY25 Guidance is 1.65% | 33 bps expansion | Low (Guided step-up) | | Earnings Profile | Sustainable profitability | H1 FY25 will be "moderate" | Back-ended recovery | Medium (Short-term) |

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.