

IDFC First Bank Ltd — Aug 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat One-line: IDFC FIRST has crossed the profitability "inflection point," moving from a legacy cleanup story to a structural compounding machine driven by high-yield retail assets and maturing liability unit economics.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	PAT at ₹474 Cr vs ₹343 Cr QoQ; Credit cost at 0.9% vs 1.5% guidance.	☐
Earnings Quality	High (Core driven)	Core operating profit (Ex-Treasury) grew 64% YoY; Fee income 91% retail-sourced.	☐
Guidance Confidence	Strong	Management pulled forward double-digit ROE guidance from Q4 to "earlier."	☐
Management Credibility	Strong	Delivered on infra-book reduction (now <5%) and CASA ratio (~50%) targets.	☐
Business Quality Signal	Improving	NIM at 5.89% and RoA nearing 1.0% indicate scale is finally overcoming high OPEX.	☐
Key Q&A Exchange	Q1: NII Growth Lag	Lag in passing on repo hikes; management confirms upward trajectory from Q2.	☐
The Street's Primary Anxiety	High Cost-to-Income (73%)	Mgmt: "Set-up costs" for a new bank; will drop as branches/cards reach scale.	☐
Capital Cycle Stage	Harvesting / Investment	Harvesting legacy cleanup; Investing heavily in Credit Cards/Wealth/Tech.	☐
Margin / Return Ratio Trajectory	Improving	RoE reached 8.96% (from 6.67% QoQ); NIMs expanded 39 bps YoY.	☐
Pricing Power	Stable	Ability to grow CASA while dropping SA rates suggests strong brand pull.	☐
FCF Conversion & Quality	Strong	PAT now backing into capital funds; Tier 1 at 14.01%.	☐
Competitive Moat Signals	Widening	Best-in-class digital app (user feedback) and 50% CASA ratio (top-tier).	☐
Balance Sheet Strength	Strong	GNPA/NNPA down 33/21 bps QoQ; Infrastructure book effectively neutralized.	☐
Working Capital Efficiency	Improving	Collection efficiency at 99.4% (above pre-COVID levels).	☐
Mgmt Guidance Track Record	Reliable	Consistently meeting "merger-time" guidance for FY24-25.	☐
Key Vulnerability / Red Flag	Legacy High-Cost Bonds	₹2,406 Cr still outstanding at 8.75%—a significant but dissipating drag.	☐
Management Tone	Confident / Bullish	CEO: "Our bank will never post a loss again in its life."	☐

Sentiment: □Positive **Key Takeaways: Positives:** * **Structural Inflection:** The bank reached a 1.0% RoA run-rate. The 64% YoY growth in core operating profit (₹987 Cr) proves that the incremental business is highly profitable. * **Liability Mastery:** Maintaining a ~50% CASA ratio despite reducing interest rates proves the franchise's durability. The ongoing retirement of ₹22,406 Cr in high-cost legacy bonds (8.75%) remains a "guaranteed" future tailwind of ~₹750 Cr to NII. * **Asset Quality Resilience:** Retail GNPA at 2.12% and bank-level NNPA at 1.30% (excluding infra) suggest the credit machine is among the best-in-class, even with a high-yield book.

Negatives: * **OPEX Overhang:** Cost-to-income remains high at 72.95%. While management calls this "investment," it remains the primary drag on RoE reaching the 15%+ tier. * **NIM Lag:** A slight 3% QoQ NII growth was disappointing, caused by a lag in passing on interest rate hikes, though this is expected to normalize in Q2.

Watchpoint: The speed of the "Cost-to-Income" descent. If OPEX doesn't begin to taper as a percentage of assets, the bull case for 15-18% RoE will be delayed.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	26%	-	3%	↑	Volume growth was strong; NII growth muted by lag in passing on repo rate hikes.
NIM (AUM basis %)	5.89%	↑ 39 bps	↓ 38 bps	→	Expect to maintain ~6% for FY23; lag in asset repricing impacted sequential NIM.
Cost of Funds %	5.2%	Not in doc	Not in doc	↑	Blended cost at 5.2%; includes impact of high-cost legacy bond retirement.
Cost of Deposits %	5.0%	Not in doc	Not in doc	↑	Savings account blended cost is ~5%.
CASA Ratio (period end %)	50.04%	↓ 82 bps	↑ 160 bps	→	Stable at ~50% despite interest rate reductions over the past year.
Average CASA Ratio (avg %)	46.97%	↓ 329 bps	↓ 231 bps	↓	Daily average CASA is growing at 10% QoQ.
Credit-Deposit Ratio %	121.4%	↓ 310 bps	↑ 100 bps	↓	High due to legacy borrowings; including long-term bonds, ratio is in the 80s.
Loans Growth (% YoY)	21%	-	6.7%	↑	Retail & Commercial grew 37% YoY; now 74% of total funded assets.
Deposits Growth (% YoY)	24%	-	7.3%	↑	Customer deposits reached ₹1,02,868 Cr; Granular retail deposits up 15% YoY.
GNPA %	3.36%	↓ 125 bps	↓ 34 bps	↑	Improvement across segments; Retail/Commercial GNPA at 2.12%.
NNPA %	1.30%	↓ 102 bps	↓ 23 bps	↑	Excluding Infrastructure, NNPA is only 0.80%.
Slippage Ratio %	Not in doc	-20% (Vol)	-20% (Vol)	↑	Gross slippages lower by 20% sequentially; net slippages down 25%.
Credit Cost (% funded)	0.90%	↓ 160 bps	↓ 25 bps	↑	Well within 1.5% guidance; management expects 1.0-1.1% for rest of year.
Collection Efficiency %	99.4%	↑ 80 bps	↑ 20 bps	↑	Early-stage bucket efficiency is better than pre-COVID levels (98.9%).
CET1 %	14.01%	↓ 85 bps	↓ 87 bps	↓	Impacted by 58 bps due to annual operational risk RWA recomputation.
PAT (₹Cr)	474	↑ 175%	↑ 38%	↑	Record quarterly profit; reflects operational leverage kicking in.
Fee Income Growth %	100%	-	7%	↑	91% of fees from retail; toll (FASTag) and credit cards contributing 16%.
Cost to Income Ratio (%)	72.95%	↓ 421 bps	↓ 323 bps	↑	Improving but remains high due to branch/tech investments.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (₹Cr)	YoY Growth	GNPA %	Trend	vs Company Avg	Key Development
Retail Book	90,630	40%	2.12%*	↑	Outperforming	Home loans grew 61% YoY; Cards book up 183%.
Commercial Finance	10,679	13%	2.12%*	↑	In-line	Focus on small business owners; yield and asset quality remain high.
Corporate (Non-Infra)	23,970	12%	3.67%	↓	Underperforming	Slipped due to one legacy retail chain (₹50 Cr); 100% provided.
Infrastructure	6,739	-35%	21.74%	↑	Stressed	Book continues to run down; now only 4.9% of total assets.

*Retail and Commercial GNPA are reported together.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	Double-digit ROE by Q4 FY23 (likely earlier).	Currently at 8.96%. Needs ~₹50-70 Cr incremental PAT per quarter to hit 10%+.	First entry	Low
Guidance	Credit Cost	<1.5% for FY23.	Q1 was 0.9%. Can afford a 1.7% run-rate for the rest of year and still hit target.	First entry	Low
Guidance	Funded Asset Growth	20-25% CAGR.	Q1 grew 21% YoY. On track.	First entry	Low
Strategy	Liability Replacement	Replace ₹22,406 Cr of 8.75% debt with ~5.5% deposits.	Will add ~₹750-800 Cr to NII annually over 3-4 years (avg maturity 2 yrs).	Repaid ₹5,530 Cr of high-cost debt in last 12 months.	Low
Strategy	OPEX / Cost-to-Income	Long-term target of mid-50s; mid-60s in next 2 years.	Needs income to grow at 30%+ while capping OPEX growth at 15-20%.	Improved from 77% to 73% YoY.	Moderate
Balance	Infra Book Reduction	Reduce to zero over time.	Down from 22% at merger to 4.9% today.	Consistently declining for 14 quarters.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Ishan Agarwal / Erevna	NIM / NII	Financials	Why was NII growth only 3% QoQ despite strong loan growth?	Management attributed the slow growth to a lag in passing on the repo rate hikes to the loan book. This implies a NIM bounce-back in Q2 as asset repricing catches up to cost of funds.	None	4.0	Directional but clear
2	4.0	Ishan Agarwal / Erevna	Provisions	Financials	Provisions at ₹308 Cr (0.9%) seem unsustainable; were there one-offs?	Management confirmed no write-backs or one-offs; asset quality is genuinely improving and 1.5% guidance is conservative. This signals a structural lower credit cost environment for the bank.	None	5.0	High Credibility
3	3.5	Ishan Agarwal / Erevna	OPEX	Financials	OPEX declined QoQ; is this the new trend?	Normal sequential increases will resume due to higher disbursements and collections, but operating leverage is building. This suggests the cost-to-income ratio has likely peaked.	None	4.0	Realistic
4	5.0	Tushar Sarda / Athena	OPEX Intensity	Business Overview	Why is cost-to-assets (5-6%) significantly	CEO explained that as a "new" bank,	None	4.5	Transparent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					higher than peers (2-3.5%)?	branches and technology (Cards/ Wealth) are in the investment phase and lack the 20-year vintage of peers. High OPEX is the price for future market share; monitoring the payback period is now critical.			
5	3.5	Tushar Sarda / Athena	Tech / App	Business Overview	The new app is great but has significant downtime.	Management acknowledged the launch-phase stability issues and confirmed they were largely addressed in the last week. Tech reliability is paramount for a "digital-first" bank thesis.	None	3.0	Acknowledged
6	4.0	Pritesh Bumb / DAM	Liquidity / Rates	Financials	Will the bank need to raise deposit rates ahead of the market to fund growth?	Management is comfortable with current rates and ~6% NIM; they see enough fee income and operating leverage buffers to absorb minor rate hikes. This indicates strong confidence in the liability franchise.	None	4.0	Confident

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
7	4.5	Sagar Shah / PhillipCap	Asset Quality	Financials	Details on the retail chain exposure and COVID provision utilization.	Management utilized ₹75 Cr of COVID provisions to 100% provide for a ₹550-560 Cr legacy retail chain exposure. This "kitchen sinking" of the last large legacy retail corporate loan cleans the slate for FY23.	None	5.0	Specific
8	3.5	Ashutosh Mishra	Repricing	Financials	What is the mix of fixed vs. floating (EBLR/MCLR) loans?	37% of the book is linked to external benchmarks (60% Repo, 40% MCLR), with the rest being fixed-rate. The high fixed-rate mix in short-term retail loans (CD, PL) allows for rapid repricing as the book churns.	None	4.0	Detailed
9	3.0	Ashutosh Mishra	Customer Quality	Strategy	What is the profile of customers being acquired via heavy advertising?	Focus is on quality; they don't offer zero-balance accounts and average account balances for new customers are ₹80k-₹1.5L. This mitigates the risk of "growth at any cost" in the liability book.	None	3.5	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
10	4.0	Ashutosh Mishra	Legacy Bond Drag	Financials	What is the specific NII tailwind from replacing legacy bonds?	Replacing ₹22,406 Cr of 8.75% debt with 5.5% deposits will save ~₹750 Cr annually (pre-tax). This is a "locked-in" ROE boost of ~200-250 bps as these bonds mature over the next 2-3 years.	None	5.0	Quantified

PATTERN FLAGS & SENTIMENT

Theme Cluster: OPEX Intensity & Efficiency. Analysts repeatedly questioned the high cost structure relative to peers (Tushar Sarada, Ishan Agarwal). Management's response was consistently focused on the "Investment Phase" narrative—arguing that comparing a 3-year-old bank's branch productivity to HDFC/ICICI's 25-year vintage is flawed. The posture was confident but defensive, insisting that the infrastructure is now "set" and income growth will naturally dilute the cost ratio. This concern will resurface until the Cost-to-Income ratio drops below 65%.

Theme Cluster: Net Interest Margin (NIM) Dynamics. There was minor friction regarding the NII growth lag (Ishan Agarwal, Ashutosh Mishra). Analysts were concerned about the bank's ability to pass on rates given its high fixed-rate retail book. Management resolved this by highlighting the short tenure of those fixed-rate loans (e.g., 8 months for Consumer Durables), which allows for quick repricing.

Analyst Sentiment Verdict: The overall sentiment was **Cautiously Bullish**. Analysts were impressed by the "clean" credit cost (0.9%) and the record PAT, but remain skeptical of the high OPEX. The most friction came from the Cost-to-Assets comparison. Management's credibility improved as they provided specific, quantified details on the legacy bond retirement and the finalization of the corporate cleanup (Retail Chain provision). The primary unresolved issue is the timeline for the digital/credit card business to break even.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.