IDFC First Bank Ltd — Aug 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Strong Beat **One-line:** IDFC FIRST has decisively moved from a "legacy cleanup" story to a "profitable compounding" story, reaching a structural RoA of 1.26% driven by a high-yield retail engine that is finally outrunning its high setup costs.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	PAT at □765 Cr vs □474 Cr YoY (+61%); Credit costs at 1.16% vs 1.5% guidance.	□
Earnings Quality	High (Core driven)	Core Operating Profit (Ex-Treasury) grew 45% YoY; 91% of fees are granular retail.	□
Guidance Confidence	Strong	Reaffirmed RoE targets of 13-15% for FY24-25 despite recent equity dilution.	□
Management Credibility	Strong	Infra book now down to 2.2% of loans; CASA ratio sustained above 45% despite rate cuts.	□
Business Quality Signal	Improving	RoA hit 1.26% (merger target was 1.4-1.6% by FY25); bank is ahead of schedule.	□
Key Q&A Exchange	Q#5 - LAP Growth	Flat QoQ growth in LAP was revealed as a deliberate sell-down/ competition choice.	□
The Street's Primary Anxiety	OPEX Intensity	Mgmt response: High opex is "karma" of a new bank; 4x branch increase in 3 years.	□
Capital Cycle Stage	Harvesting	Harvesting legacy cleanup; transitioning to retail operating leverage.	□
Margin / Return Ratio Trajectory	Improving	RoE reached 11.78% (Q1 FY24) from 8.96% (Q1 FY23).	□
Pricing Power	Stable	Deposits growing 44% YoY even after dropping primary SA rates from 7% to 4%.	□
FCF Conversion & Quality	Strong	Tier-1 capital at 13.70%; internal accruals now supporting growth.	□
Competitive Moat Signals	Widening	Largest FASTag issuer; 1.7mn credit cards issued in <3 years; 95% digital transactions.	□
Balance Sheet Strength	Strong	Net Stressed Assets (NNPA+SR+Restructured) at record low of 0.70% of assets.	□
Working Capital Efficiency	Improving	Collection efficiency at 99.5% for 24 months straight; SMA 1+2 at only 0.85%.	□
Mgmt Guidance Track Record	Reliable	Meeting/Achieving 13 out of 18 merger-time targets early (Section Annexure 1).	□
Key Vulnerability / Red Flag	Repricing Lag	36% YoY NII growth but only 4% QoQ due to lag in passing on repo hikes.	□
Management Tone	Bullish/ Confident	CEO: "I wish we had a time machine to jump a couple of quarters and report numbers."	□

Sentiment: Positive

Key Takeaways (Positives & Negatives): * **Structural Inflection:** The thesis is no longer about "will they survive the cleanup?" but "how fast will they compound?" RoA at 1.26% puts them in the league of established private peers. * **Liability Durability:** The bank’s ability to grow CASA by 27% YoY while paying only 4% on balances up to 10L proves the brand has decoupled from "rate-chasing" depositors. * **Asset Quality "Purity":** Stripping out the legacy infrastructure book, the bank-level NNPA is a pristine 0.44%. The high collection efficiency (99.5%) suggests the underwriting model is resilient to inflation/interest rate shocks. * **Negatives:** Opex remains a heavy drag (Cost-to-Income at 72%). While management calls this "investment," it means RoE expansion will be gradual rather than explosive. The NII growth lag (4% QoQ) shows the bank is currently absorbing some cost-of-funds pressure before asset yields fully reprice. * **Watchpoint:** The "Legacy Bond" tailwind. 16,055 Cr of 8.91% debt matures over the next 2-3 years. Replacing this with 6% deposits is a mathematically guaranteed profit booster.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q1-FY24)	YoY Change (vs Q1-FY23)	QoQ Change (vs Q4-FY23)	Trend	Mgmt Commentary
NII Growth (%)	36%	-	4.1%	↑	Driven by 25% loan growth; muted QoQ by lag in passing repo hikes to borrowers.
NIM (AUM basis %)	6.33%	↑ 56 bps	↓ 8 bps	→	Moderated slightly from 6.41% due to deposit repricing; expected to stay stable.
Cost of Funds %	5.2%	Not in doc	Not in doc	↑	Blended cost rising; legacy bonds still at 8.91% drag.
Cost of Deposits %	5.6% (SA only)	Not in doc	Not in doc	↑	SA cost at 5.6%; total customer deposits up 44% YoY.
CASA Ratio (period end %)	46.5%	↓ 350 bps	↓ 330 bps	↓	TD grew faster (46%) than CASA (27%) as depositors locked in higher rates.
Average CASA Ratio (avg %)	45.7%	↓ 130 bps	↓ 200 bps	↓	Based on daily average balance.
Credit-Deposit Ratio %	111.1%	↓ 1030 bps	↑ 10 bps	↑	Improving as deposit growth (44%) outpaces loan growth (25%).
Loans Growth (% YoY)	25%	-	6.8%	↑	Driven by Retail/Rural (+27%); Wholesale (+15%); Infra (-44%).
Deposits Growth (% YoY)	44%	-	8.5%	↑	Strong retail momentum; 77% of customer deposits are now retail.
GNPA %	2.17%	↓ 119 bps	↓ 34 bps	↑	Bank-level; Retail/SME GNPA is even lower at 1.53%.
NNPA %	0.70%	↓ 60 bps	↓ 16 bps	↑	Bank-level; Retail/SME NNPA at 0.52%.
Slippage Ratio %	Not in doc	↓ 30% (Net)	↓ 19% (Net)	↑	Absolute net slippages at □380 Cr; trend is down.
Credit Cost (% funded)	1.16%	↓ 16 bps	↑ 26 bps	↑	Well within 1.5% guidance; Q4 FY23 was exceptionally low.
Collection Efficiency %	99.5%	↑ 10 bps	→	→	Consistently high; refers to current-bucket EMI collection only.
Capital Adequacy / CET1 %	16.96% / 13.70%	↑ 119 bps	↑ 14 bps	↑	CAR improved YoY; CET1 impacted 44bps by op-risk re-assessment.
PAT (□Cr)	765	↑ 61%	↑ 9%	↑	Normalizing for Q4 one-offs (□701 Cr), growth is strong.
Fee Income Growth %	49%	-	↑ 15%	↑	91% retail; Credit Card/Toll fees grew 17% of mix.
Cost to Income Ratio (%)	71.94%	↓ 320 bps	↓ 60 bps	↑	Improving but remains highest among peers due to branch expansion.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (□ Cr)	YoY Growth	GNPA %	Trend	vs Bank Avg	Key Development
Retail Finance	97,327	27%	1.53%	↑	Outperforming	Wheels (+45%) and Home Loans (+31%) led growth.
Rural Finance	20,744	46%	1.53%*	↑	Outperforming	High-growth engine; critical for PSL requirements.
SME / Corp Biz	49,749	23%	2.65%	↑	In-line	CV/CE financing doubled YoY (+108%).
Infrastructure	3,758	-44%	23.27%	↓	Stressed	Now only 2.2% of book; net exposure minimized.
Retail and Rural GNPA reported as a combined segment (1.53%).						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	13-15% (FY24-25).	Currently 11.78%. Needs ~□250 Cr incremental quarterly PAT over FY23 levels.	Met prior 8-10% target.	Low
Guidance	Credit Cost	~1.5%.	Currently 1.16%. Can absorb ~30% spike in slippages and still hit.	Consistently below.	Low
Guidance	Branch Expansion	150-200 per year.	Currently at 824. 15 added in Q1 (slow start, needs back-ended ramp).	Track record of ~100-150.	Moderate
Strategy	Legacy Bond Exit	Retire □16,055 Cr @ 8.9%.	□3,541 Cr due in FY24. High certainty of NII expansion upon maturity.	Delivered □6,351 Cr YoY.	Low
Strategy	Liability Mix	CASA + Retail TD @ 85%.	Currently 81%. Needs to sustain 40%+ retail deposit growth.	Strong (27% to 77% mix).	Low
Balance	Asset Quality	GNPA < 2% (Ex-Infra).	Currently 1.71%. Requires maintaining 99%+ collection efficiency.	Consistent for 12 years.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Lalit Deo / Equirus	Branches	Capex	Are you becoming more aggressive on branches given peer expansion?	Management plans to add ~150-200 branches annually to support the □40k-50k Cr deposit growth requirement. High opex will persist as these branches take 18-24 months to break even.	None	4.0	Directional
2	4.5	Rahul Jha / Bay Capital	Profitability	Strategy	What levers are you pulling to get to the next stage of ROE?	CEO highlighted that the 20% ROE on incremental retail assets is now overriding setup costs, with new fee lines (FASTag, Wealth, FX) firing. ROE expansion is structural, not cyclical, as fee income outstrips balance sheet growth.	None	5.0	High
3	4.0	Nitin Aggarwal / MOSL	Fee Income	Financials	Why is fee growth so strong (2.4% of assets) despite waiving 25 services?	Fee growth is driven by non-capital intensive lines like FASTag, Cards (17% of fees), and Wealth (+87% YoY). Diversification away from loan-origination	None	5.0	Specific

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						fees (now only 30%) makes revenue higher quality and sustainable.			
4	4.5	Nitin Aggarwal / MOSL	NIMs	Financials	Where is the cost of deposits repricing peaking?	Management believes deposit rates have peaked, as they are seeing strong inflows even at 4% for balances <□10L. NIMs should remain stable (give or take 10bps) as asset repricing catches up.	None	4.0	Directional
5	3.5	Pritesh Bumb / DAM	Regulation	Strategy	Impact of potential RBI risk-weight increases on unsecured retail?	Management noted no specific proposal yet but confirmed they have high capital adequacy (16.96%) and margins to absorb or pass on costs. This suggests limited impact on the growth trajectory for Personal/ Consumer loans.	None	3.0	Hedged
6	5.0	Ishan Agarwal / Erevna	Opex	Financials	Why is your opex higher than Kotak despite having half the branches?	Management argued that "branches" aren't the primary cost; rather, it's the product mix	None	4.5	Transparent

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						(Rural/SME/Cards) and "setup karma" of being only 5 years old. This confirms that IDFC First will have a structurally higher opex/asset ratio than wholesale-led peers until it reaches massive scale.			
7	4.0	Sagar Shah / PhillipCap	Demand	Outlook	Can customers absorb interest rate hikes?	Proof of absorption is in the 99.5% collection efficiency and low SMA-1/2 (0.85%). Most loans are underwritten with cash-flow cushions, and nominal GDP growth (12%) has increased borrower incomes.	None	5.0	Evidence-based
8	3.5	Sagar Shah / PhillipCap	Asset Sales	Financials	Why is LAP growth flat QoQ?	Management admitted to selling a small part of the book, which muted sequential growth figures. This implies a strategy to optimize the balance sheet and RWA rather than just	None	4.0	Clear

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						chasing volume.			
9	4.0	Sonal Minhas / Prescient	CASA Strategy	Management	How are you growing CASA when the rest of the market says it has dried up?	Success is attributed to "Brand Character" and service levels; people trust the brand enough to provide "annuity flows." This suggests the bank has achieved a "top-tier" brand perception that lowers its long-term cost of funds.	None	3.5	Qualitative
10	4.5	Jai Mundhra / I-Sec	Growth	Outlook	Will you accelerate loan growth beyond 25% given the benign environment?	Management refused to "push the pedal" or relax norms, targeting a steady 20-25% CAGR. This conservative stance is a positive signal for long-term fundamental investors worried about credit cycles.	None	5.0	Clear

PATTERN FLAGS & SENTIMENT * **The " Kotak Comparison" Friction:** Analysts are increasingly benchmarking IDFC First's opex against best-in-class legacy peers. Management's response—that high opex is the "setup cost" for a modern universal bank—was firm but defensive. The concern will remain live until the Cost-to-Income ratio drops below 65% (targeted by Q4 FY25). * **Liability Anomaly:** The bank is a clear outlier in the current environment, growing CASA/Retail deposits at 40%+ while peers struggle. Management attributes this to brand equity, which analysts are starting to accept as a structural competitive moat. * **Analyst Sentiment: Bullish.** Skepticism about the merger cleanup has vanished, replaced by a focus on the speed of "operating leverage." The primary friction point is the timing of the RoE reaching the 13-15% band, which management handled with high confidence.

5. WHAT CHANGED vs PRIOR CONTEXT (Q1-FY23)

What Changed	Prior Context (Q1-FY23)	This Quarter (Q1-FY24)	Direction
RoA (Annualized)	0.97%	1.26%	↑ Improving
RoE (Annualized)	8.96%	11.78%	↑ Improving
Core Operating Profit	₹987 Cr	₹1,427 Cr	↑ (+45%)
Infrastructure Book %	5.3%	2.2%	↑ Cleanup nearly done
Credit Rating	AA (Stable)	AA+ (Stable)	↑ Upgraded by CRISIL/ICRA
Legacy Bond Burden	₹22,406 Cr	₹16,055 Cr	↑ Reducing drag
Wealth Mgmt AUM	₹6,758 Cr	₹10,679 Cr	↑ (+58%)
Net Stressed Assets %	1.65%	0.70%	↑ Record health
Cost to Income	76.9%	71.9%	↑ Gradual leverage