IDFC First Bank Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The transition from a high-cost DFI-legacy balance sheet to a granular retail franchise is nearing completion, but a "speed bump" in the Microfinance (JLG) segment and a PAT miss due to elevated credit costs have tested short-term sentiment.

Result: Miss (on PAT and Provisions) **One-line:** Strong core operating performance and liability accretion were overshadowed by a spike in Microfinance (JLG) credit costs, though management maintains this is an episodic "one-off" event.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	Credit cost hit 1.90% vs earlier guidance of 1.65%.	□
Earnings Quality	Medium	PAT supported by strong NII (+25%) but dragged by 109% YoY rise in provisions.	□
Guidance Confidence	Neutral	Long-term FY27/29 targets intact; near-term credit cost guidance revised upward.	□
Management Credibility	Stable	Transparent about JLG stress and proactive with CGFMU insurance; however, MFI stress wasn't fully anticipated.	□
Business Quality Signal	Improving	Deposits per branch at □212 Cr; CASA sticky despite savings rate cuts.	□
Key Q&A Exchange	Q6 + Credit Cost Predictive Power	Analysts questioned if the "99.5% Collection Efficiency" chart is actually predictive.	□
The Street's Primary Anxiety	JLG/MFI and Unsecured Credit Stress	Mgmt: MFI is only 6% of book; rest of retail (94%) is performing at 1.65% credit cost.	□
Capital Cycle Stage	Consolidation / Harvesting	Raising □3,200 Cr equity to buffer growth; legacy bond repayments nearing end.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	ROA at 0.91% (down YoY); NIMs slightly compressed by high investment book.	□
Pricing Power	Stable/Expanding	Cut savings rates to 3% for <□5L balances; deposits still grew 38%.	□
FCF Conversion & Quality	Strong	Retail deposit accretion (□2,04,572 Cr) allows exit from high-cost wholesale funds.	□
Competitive Moat Signals	Widening	Digital app rating (4.9) and high deposit productivity per branch vs peers.	□
Balance Sheet Strength	Strong	Pro-forma CET1 at 14.67% post-July capital raise; PCR at 87.5% (with tech write-offs).	□
Working Capital Efficiency	Improving	CD ratio dropped to 98.1% from 137% at merger.	□
Mgmt Guidance Track Record	Reliable (Long-term) / Mixed (Short-term)	Missed near-term ROA/ROE targets but hit all "Guidance 1.0" liability/asset mix goals.	□
Key Vulnerability / Red Flag	JLG Concentration in Tamil Nadu	60% of JLG book in TN; hit by floods/seasonality.	□
Management Tone	Transparent & Confident	Vaidyanathan: "Episode will pass; FY26/27 will be breakout years."	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** * **Liability Powerhouse:** Deposits grew 38% YoY to □2.05 Lakh Cr. The ability to cut savings rates to 3% (balances up to □5L) without losing momentum suggests a brand/service moat that lowers the marginal cost of funds. * **Operational Efficiency:** Cost-to-Income (C:I) dropped to 70.45% (from 73.15% QoQ). Specific guidance to reach 65% by FY27 provides a clear profitability glide path. * **PSL Self-Sufficiency:** The bank has transitioned from buying PSL certificates to being a net seller, reflecting mature organic rural/MSME sourcing. * **Negatives:** * **MFI Stress:** The JLG (Microfinance) portfolio (6% of book) saw collection efficiency drop to 99.2%. Expected credit cost for this segment is now ~5% for FY25, adding 20bps to the total bank credit cost. * **Near-term Profitability Drag:** Elevated provisions (□994 Cr) and the impact of the capital raise will likely keep ROE in the single digits for H1-FY25. * **Unsecured Exposure:** While performing well currently, the 50% retail-unsecured mix remains the primary focus of analyst skepticism in a tightening rate cycle. * **Forward-Looking Watchpoint:** Monitor if the JLG stress spills over into Q3 or if the 1.85-1.90% revised credit cost guidance for the full year is breached.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	25%	↑	↑	↑	Driven by 22% asset growth and exit from legacy bonds.
NIM (AUM basis %)	6.22%	→	↓	□	Sequential drop (13bps) due to higher investment book (T-bills) and minor cost of funds uptick.
Cost of Funds %	6.47%	↓	→	□	Reduced from 7.79% at merger. Current uptick due to FD repricing.
Cost of Deposits %	6.38%	→	↓	□	Up 11bps QoQ due to FD repricing.
CASA Ratio (period end)	46.6%	→	↓	□	Broadly stable sequentially (ex-one govt account inflow in Q4).
CASA Ratio (avg %)	44.5%	↓	↓	□	Daily average balance for the quarter.
Credit-Deposit Ratio	98.1%	↓	↓	□	Down from 137% at merger; incremental CD ratio for Q1 was 68.3% (ex-govt flow).
Loans Growth (% YoY)	22%	↑	→	□	Retail, Rural & MSME up 25%. Infra reduced to 1.3%.
Deposits Growth (% YoY)	38%	↑	→	□	Customer deposits reached □2,04,572 Cr.
GNPA %	1.90%	↓	↓	□	Overall bank GNPA at 1.90%; Retail/Rural/MSME at 1.46%.
NNPA %	0.59%	↓	→	□	Down from 0.70% YoY.
Slippage Ratio %	3.20% (est)	→	↑	□	Gross slippages □1,657 Cr vs □1,347 Cr QoQ.
Credit Cost %	1.90%	↑	↑	□	Higher due to MFI/JLG normalization and Tamil Nadu floods.
Collection Efficiency	99.5%	→	→	□	Steady at 99.5% for non-JLG book; JLG dropped to 99.2%.
Capital Adequacy (CET1)	13.34%	→	→	□	Pro-forma 14.67% including July 2024 capital raise.
PAT (□Cr)	681	↓ 11%	↓ 6%	□	Impacted by higher provisions for MFI.
Fee Income Growth %	19%	↑	→	□	92% of fee income is from granular retail operations.
ROCE (%)	8.32% (ROE)	↓	↓	□	Delayed due to JLG provisions and higher capital base.
Net Debt / (Cash)	LCR 118%	↑	↑	□	Maintained comfortably above 110% requirement.

2B. SEGMENT BREAKDOWN

Segment	Gross Adv (□ Cr)	YoY Growth	GNPA	Trend	vs Co. Avg	Key Development
Home Loans	24,658	22.4%	0.67%	□	Outperform	Strong growth; key for PSL.
Mortgage (LAP)	24,729	23.0%	1.57%	□	In-line	Granular retail mortgages.
Consumer Loans	27,828	24.6%	1.86%	□	In-line	Includes Personal/Durable loans.
Vehicle Loans	21,824	33.4%	1.62%	□	Outperform	Aggressive growth in cars.
Credit Cards	5,938	52.5%	1.89%	□	In-line	Scale helping C:I drop (116%).
Rural Finance	24,518	18.2%	1.20%	□	Outperform	Growth moderated to manage risk.
MSME Finance	24,658 (est)	13.5%	1.30%	□	Outperform	Part of MSME & Corp Finance group.
Infrastructure	2,766	-26.4%	24.75%	□	Legacy	Nearly fully wound down.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROA / ROE	1.4-1.6% ROA; 13-15% ROE by FY25.	**HIGH RISK.** Current ROA 0.91%. Needs significant provision drop and C:I reduction to hit this by Q4.	Delayed	High
Guidance	Cost-to-Income (C:I)	~65% by FY27.	Achievable. Requires opex growth at ~20% vs income at 24-25%.	On Track (long term)	Low
Guidance	Credit Cost	~1.85-1.90% for FY25 (revised).	Feasible if MFI stress is indeed front-loaded in H1.	Missed earlier 1.65%	Medium
Strategy	Liability Growth	~25% Deposit growth.	Likely to exceed. Currently growing at 38%.	Achieved	Low
Strategy	Branch Expansion	10% annual growth.	Achievable. Adding ~100 branches/year.	Achieved	Low
Balance	Infra Unwinding	<1% of book by end FY25.	On track. Currently at 1.3%.	Achieved	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Pritesh Bumb / DAM Cap	Asset Quality	Financials	"The industry has seen a bit of NPAs in the unsecured piece... is this driven more by the early age group?"	Management confirmed that younger borrowers (20-30 age group) show higher delinquency than the 40-60 age group. Unsecured retail remains 50% of the book, which could lead to volatility if the youth segment faces broader economic pressure.	None	4.0	Clearpattern identified
1b	3.5	Pritesh Bumb / DAM Cap	Liquidity	Financials	"LCR impact from the recent guidelines... we are at 118%?"	Management expects a 75-100bps drag on NIM if they have to hold higher HQLA under new draft norms. This would impact overall profitability but is manageable given the strong deposit engine.	None	3.5	Quantified impact
2	4.0	Ishan Agarwal / Erevna	Profitability	Financials	"Cost-to-income... you had guided to break the 70s by Q4. Trajectory for coming quarters?"	Management plans to cap opex growth at 20% while income grows at 23-24%, creating a positive "jaw." This indicates a	None	4.0	Structural path given

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						structural shift toward operating leverage which is critical for the ROE re-rating.			
3	4.5	Shubhranshu Mishra / Phillip	Product Risk	Business Overview	"Difference in ticket size/ segment for Digital vs Salaried PL?"	Digital personal loans (to existing savings customers) have no prepayment fees and are draw-down based, unlike offline salaried PL. High digital integration lowers acquisition costs but tests the bank's ability to price risk without manual intervention.	Zero+ delinquency data	3.0	Product nuance explained
4	3.0	Nishant Shah / MLP	M&A	Governance	"When can you expect merger consummation [with IDFC Ltd]?"	Expected by end of September (Q2 FY25), leading to a □500-600 Cr net worth accrual. This simplifies the corporate structure and provides a small capital buffer.	None	4.0	Specific timeline
5	4.0	Nitin Aggarwal / Motilal	Efficiency	Management Commentary	"Bulk of improvement in C:I is in retail liabilities...	Mgmt indicated retail liability breakeven usually takes	None	4.0	Credible rationale

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					how does this evolve for bigger banks?"	14-15 years, but digital acceleration will compress this to ~5-6 years for them. Faster liability breakeven is the primary catalyst for the bank's long-term ROE transition.			
6	4.5	M.B. Mahesh / Kotak	Asset Quality	Financials	"Does this [Collection Efficiency] chart actually give you a reference point of credit costs... in those quarters also, you don't see such kind of credit cost increase?"	Management admitted that while CE is 99.5% in the current bucket, the credit cost spike was a result of normalization and the episodic JLG flood impact. Analysts remain skeptical that CE alone is a predictive lead indicator for credit costs during cycles.	Linkage between CE and Credit Cost	2.5	Deflected logic
7	4.0	Jai Mundra / ICICI Sec	Liabilities	Financials	"How should one look at cost of deposit when your ask rate is going down?"	Legacy bonds costing 8.93% are being replaced by deposits, which management claims will reduce overall cost of funds by 11bps. This is a clear	None	4.0	Specific tailwind

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						tailwind for NIMs as the DFI-legacy burden finally rolls off by FY26.			

PATTERN FLAGS & SENTIMENT * **The MFI/JLG Anxiety:** Multiple analysts (Mahesh, Mundra, Agarwal) pressed on the JLG stress. Management's posture was defensive but transparent, attributing it to Tamil Nadu floods. While they've taken steps (CGFMU insurance), the Street remains wary of the "normalization" of credit costs across the broader unsecured book, not just MFI. * **Cost-to-Income Glide Path:** Analysts were seeking concrete numbers to justify the high opex. Management responded by providing a segment-wise breakdown for FY27 for the first time. This appears to have temporarily pacified concerns, shifting the focus from "why is it high?" to "will they hit 65%?". * **Analyst Sentiment Verdict:** Analysts were **skeptical** regarding near-term asset quality but **convinced** by the liability franchise's strength. The most friction was around the predictive power of the bank's collection efficiency data. Management's credibility on liability gathering remains high, but they are on "credit cost watch" for the next two quarters.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|--------------------------------------|-------------------|-----------------|----------------| | Credit Cost | 1.65% for FY25 | Revised to 1.85-1.90% | 20-25bps upward revision | Significant impact on H1 PAT; tests the "steady asset quality" pillar of the thesis. | | ROA / ROE | On track for FY25 targets | "Delayed" status in presentation | Implicit admission that Q4-FY25 targets (1.4% ROA) are likely pushed to FY26. | Delayed re-rating of the stock. |

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.