IDFC First Bank Ltd — Jan 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** IDFC FIRST has shifted from a "transformation" story to an "execution" machine, with double-digit ROE now a structural reality rather than a forecast, driven by a highly profitable retail engine and dissipating legacy drags.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	PAT □605 Cr (Q3) vs □474 Cr (Q2); ROE solidified at 10.72% vs 10.13% QoQ.	□
Earnings Quality	High (Core driven)	Core PPOP (ex-treasury) grew 64% YoY; 91% of fees are granular retail fees.	□
Guidance Confidence	Strong	Reaffirmed FY24-25 ROE target of 13-15%; currently "pacing" ahead of schedule.	□
Management Credibility	Strong	Delivered on merger guidance: Retail % (77%) and CASA (50%) targets surpassed.	□
Business Quality Signal	Improving	Asset quality ex-infra (NNPA 0.60%) is best-in-class; NIMs expanded to 6.36%.	□
Key Q&A Exchange	Q#1-2 (Zero Fee Marketing)	Mgmt clarified no material fee impact; brand goodwill is the primary goal.	□
The Street's Primary Anxiety	OPEX & Cost-to-Income (72%)	Mgmt: "Operating leverage is mathematical"; income growing 32% vs OPEX 23%.	□
Capital Cycle Stage	Harvesting / Investment	Harvesting retail platform; Investing in Credit Cards (1.3mn issued) and Wealth.	□
Margin / Return Ratio Trajectory	Improving	ROA reached 1.11% (from 1.07% QoQ); NIM expanded 47 bps sequentially.	□
Pricing Power	Stable	Maintained 50% CASA ratio despite industry-wide liquidity tightening.	□
FCF Conversion & Quality	Strong	PAT now significantly contributing to net worth (□22,698 Cr).	□
Competitive Moat Signals	Widening	Strong digital adoption (95% digital txns); Largest FASTag acquirer bank.	□
Balance Sheet Strength	Strong	Total CRAR at 16.06%; Net Stressed Assets reduced to 1.1% of total assets.	□
Working Capital Efficiency	Improving	Early bucket (Bucket X) collections at 99.6%; SMA 1+2 at only 1% of book.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting or exceeding 2018 merger guidances (see Annexure 1).	□
Key Vulnerability / Red Flag	Legacy Borrowing Maturity	□18,762 Cr legacy debt at 8.86% remains a P&L drag of ~2% on ROE.	□
Management Tone	Bullish & Patient	CEO: "Model is so simple now... income growth will naturally dilute cost."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): Positives: * **Profitability Inflection:** The bank has decisively crossed the 1% ROA and 10% ROE thresholds. The "J-curve" of profitability is visible as Core Operating Profit (₹1,225 Cr) is growing at nearly 3x the rate of loan growth (25%). * **Asset Quality Decoupling:** The "Retail/ Commercial" book (77% of assets) continues to show pristine behavior with GNPA at 1.87% and NNPA at 0.70%. The bank-level NNPA (ex-infra) of 0.60% rivals the top three private banks. * **Liability Durability:** Sustaining a 50% CASA ratio in a rising-rate environment while keeping deposit rates competitive (but not aggressive) proves the brand's pull and granularity (83% of deposits are <₹5 Cr). * **Embedded Value Tailwinds:** The retirement of ₹18,762 Cr in high-cost legacy borrowings (8.86%) over the next 2-3 years is a "guaranteed" NII booster (~₹530 Cr/annum).

Negatives: * **OPEX Overhang:** At 72.2%, the Cost-to-Income ratio remains the primary barrier to a 15% ROE. While management argues that operating leverage will fix this, branch additions (150/year) and Credit Card investments keep the absolute cost floor high. * **Capital Raise Necessity:** The planned ₹4,000 Cr raise in FY24 will be slightly dilutive to ROE in the short term, though necessary to maintain the 25% growth pace.

Watchpoint: The speed of branch-level productivity. Management targets 150 branches/year; the delta between income growth and branch vintage maturity will determine if ROE hits 13% by FY24.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Note: Discrepancies between PPT and Concall: NIM reported as 6.36% in PPT (quarterly annualized); CFO stated "1.1% ROA" in call vs 1.11% in PPT.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	27%	-	9.4%	↑	Driven by repo repricing (40% book linked) and excess liquidity deployment.
NIM (AUM basis %)	6.36%	↑ 46 bps	↑ 47 bps	↑	PPT primary source. Benefit from external benchmark repricing and investment churn.
Cost of Funds %	5.31%	-	↑ 20 bps	↓	Cost of funds increased as repo hikes were passed into deposits.
Cost of Deposits %	5.15%	-	-	→	Granular retail base helping maintain competitive costs.
CASA Ratio (period end %)	50.0%	↓ 160 bps	↓ 130 bps	→	Stable at ~50% despite industry moderation. Daily average also at 50%.
CASA Ratio (avg %)	50.0%	↓ 50 bps	↑ 80 bps	↑	On daily average balance for the quarter.
Credit-Deposit Ratio %	123.1%	-	-	↓	Calculated on Customer Deposits. Improving as deposit growth (44%) outpaces loans.
Loans Growth (% YoY)	25%	-	4.7%	↑	Overall funded assets crossed □1.5L Cr. Home loans (48%) and Wheels (50%) leading.
Deposits Growth (% YoY)	44%	-	8.4%	↑	Customer deposits reached □1,23,578 Cr. 77% of base is now retail.
GNPA %	2.96%	↓ 100 bps	↓ 22 bps	↑	Continued improvement. Bank level ex-infra GNPA is only 2.11%.
NNPA %	1.03%	↓ 71 bps	↓ 7 bps	↑	PCR at 77%. Ex-infra NNPA is 0.60%.
Slippage Ratio %	1.54%	-	↓ 10 bps	↑	Gross slippages at □1,150 Cr; Net slippages at □570 Cr (~0.76% annualized).
Credit Cost (% funded assets)	1.2%	↓ 10 bps	→	↑	Annualized 9M credit cost is 1.1% vs guidance of 1.5%.
Collection Efficiency %	99.6%	↑ 20 bps	↑ 10 bps	↑	Post-COVID peak due to tightened norms and moving to "prime" segments.
Capital Adequacy / CET1 %	16.06%	↑ 68 bps	↑ 71 bps	↑	Strong Tier II mobilization (□1,500 Cr) in Dec quarter.
PAT (□Cr)	605	↑ 115%	↑ 9%	↑	Record high; 9M PAT at □1,635 Cr.
Fee Income Growth %	50%	-	16%	↑	□1,117 Cr. 91% retail. Wealth (43% growth) and Cards (87% growth) contributing.
ROA / ROE %	1.11% / 10.72%	↑ 47/528 bps	↑ 4/59 bps	↑	Solidified double-digit ROE trajectory.
Cost to Income Ratio (%)	72.17%	↓ 540 bps	↓ 117 bps	↑	Improving via operating leverage; target 65% by FY24-25.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (₹Cr)	YoY Growth	GNPA %	Trend	vs Company Avg	Key Development
Home Loan	17,783	48%	1.87%*	↑	Outperforming	Sourcing primarily salaried (90%); Average ticket size ₹5M.
Wheels (Auto/ 2W)	13,893	50%	1.87%*	↑	Outperforming	55% market share in EV financing for the year.
Consumer Loans	20,098	27%	1.87%*	→	In-line	Average ticket size ₹500k; well-diversified geographically.
Credit Card	3,146	89%	1.87%*	↑	High Growth	1.3mn cards; spends up 87% YoY. Still in investment phase (pre-breakeven).
Corporate (Non-Infra)	25,373	17%	3.30%	→	Lagging Growth	PCR of 99%. 80% of portfolio rated A and above.
Infrastructure	5,572	-31%	25.33%	↓	De-risking	Down to 3.7% of total assets; Toll account paying down ₹20 Cr/qtr.

**Retail and Commercial GNPA are reported together at 1.87%.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	20-25% sustainable CAGR.	Needs ~₹7,500-8,000 Cr incremental assets per quarter; currently doing ~₹6,800 Cr.	Met (25% growth this quarter).	Low
Guidance	ROE	13-15% by FY24-25.	Needs PAT growth of ~15% YoY against net worth growth. Currently at 10.7%.	Met (Entered double digits 2 quarters early).	Low
Guidance	Credit Cost	1.5% guidance for FY23.	Current 9M at 1.1%. Can afford a sharp spike in Q4 and still hit target.	Beat (Consistently below guidance).	Low
Guidance	Cost-to-Income	~65% by FY24-25.	Needs Operating Income to grow at 30%+ while capping OPEX growth at 15-20%.	Improving (Dropped from 77% to 72% YoY).	Moderate
Strategy	Legacy Debt	Run down ₹18,762 Cr of high-cost debt.	Maturity schedule: ₹5,353 Cr in FY23; ₹7,478 Cr in FY24.	On track (Reduced by ₹1,687 Cr this quarter).	Low
Strategy	Branch Expansion	Add ~150 branches per year.	Currently at 707; implies ~35-40 additions per quarter.	Met (Opened 37 branches in Q3).	Low
Balance	Infra Book	Zero exposure in 5 years (from merger).	Book is down to ₹5,572 Cr (4% of book) from ₹22,710 Cr (22%) at merger.	Achieved (Effective de-risking complete).	Low

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.0	Ishan Agarwal / Erevna	Marketing	Strategy	Will the "Zero Fee Banking" marketing impact future fee income?	Management stated most services were already free and the move simply packaged them for clarity; no material impact on income is expected. Enhances brand loyalty without P&L sacrifice.	None	4.0	Brand-led strategy
2	4.5	Ishan Agarwal / Erevna	Efficiency	Financials	Can the bank achieve the 65% cost-to-income target given current slow reduction?	Management reaffirmed the target for FY25, highlighting that ROE is the ultimate anchor and operating leverage is set. Suggests opex reduction is back-ended as branches mature.	None	3.5	Leverage dependent
3	5.0	Ishan Agarwal / Erevna	Exposure	Governance	What is the current exposure to Vodafone Idea (VI)?	Exposure is down to ~₹350 Cr from ₹500 Cr, with quarterly repayments and residual maturity <1 year. Risk is now idiosyncratic and non-systemic for the bank.	None	5.0	Quantified de-risking
4	4.0	Sagar Shah / PhillipCap	OPEX	Financials	How will branch additions (150/yr)	Management explained that the "game" is	None	4.0	Growth-first model

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					impact the 13-15% ROE guidance for FY25?	growing the book to utilize strong incremental economics; costs will be absorbed by scale. Confirms aggressive growth remains the priority over cost-cutting.			
5	4.5	Sagar Shah / PhillipCap	NIMs	Financials	Are NIMs at 6.4% sustainable or will they face pressure in FY24?	Management expects NIMs to stay "somewhere here" (6%+) as legacy high-cost debt is replaced by cheaper deposits. Implies margin stability even if cost of deposits rises.	None	4.0	Structural buffer
6	3.5	Ritika / Ocean Dial	Asset Quality	Financials	What is the outlook for the stressed Infrastructure book (25% NPA)?	No new additions; the toll account (primary NPA) continues to pay down □20 Cr principal per quarter. Expects recovery/ positive outcomes rather than incremental stress.	None	4.5	Specific recovery
7	4.0	Mohit Surana / CLSA	NIM Drivers	Financials	What specifically drove the NIM	Repricing of repo-linked book (40%), investment	None	5.0	Data-driven

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					improvement this quarter?	yield churn (T-Bills), and deployment of excess liquidity (LCR moderated). Points to active treasury management alongside core lending.			
8	4.5	Ronak Daga / B&K Sec	Capital	Financials	What is the timeline and quantum for the next capital raise?	Planned raise of ₹4,000 Cr within the next 4 quarters (likely by Sept '23). Necessary to sustain 25% growth; monitor dilution vs ROE accrual.	None	4.0	Strategic timing
9	4.0	Bhavin Gala / Marine Cap	Credit Cost	Financials	Can the bank hit "moonshot" credit costs of 60-70 bps?	Management prefers being conservative, guiding for 1.5% while reality is 1.1-1.2%. High yields and specialization allow for "standard" credit costs with "superior" margins.	None	4.5	Conservative tone
10	4.0	Sarvesh Gupta / Maximal	Card Business	Business Overview	When will the credit card business break even?	Breakeven expected at approximately 2 million cards (currently 1.3 million). This is the key "hidden" ROE	None	4.0	Specific milestone

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						kicker for FY24.			

PATTERN FLAGS & SENTIMENT

Theme Cluster: The "NBFC with a Bank License" Debate. Analysts (Bhavin Gala, Sarvesh Gupta) continue to probe if the bank's high-yield, high-margin model is sustainable or merely taking on higher risk. Management was very firm: this is "specialization," not "risk-taking," citing 10-year retail credit cost history and 99.6% collection efficiency as proof. The posture was highly confident, nearly dismissive of the NBFC comparison, emphasizing that their cost of funds is now bank-like while yields remain specialized.

Theme Cluster: Operating Leverage vs. Absolute Costs. Analysts remain skeptical of the high cost-to-income ratio (72%). Management’s response shifted from "investment" to "mathematical certainty," arguing that income growth (32%) is structurally outpacing expense growth (23%). This concern will likely persist until the ratio drops below 70%.

Analyst Sentiment Verdict: Analysts were **highly impressed** by the ROE crossing 10% and the NII/PPOP outperformance. The most friction remains on the OPEX line, but management's track record of hitting merger-time guidance has earned them significant "benefit of the doubt." Credibility improved this quarter due to the specific pay-down of the VI exposure and clear milestones for the Credit Card breakeven. The primary unresolved issue is the exact timing of the ₹4,000 Cr capital raise and its impact on FY24 EPS.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY23)	This Quarter (Q3 FY23)	Direction
ROE Run-rate	10.13%	10.72%	↑ Improving
NIM (Quarterly)	5.89%	6.36%	↑ Improving
ROA	1.07%	1.11%	↑ Improving
Legacy Debt	₹20,109 Cr	₹18,762 Cr	↑ De-risking
Fee Income Growth	44% (YoY)	50% (YoY)	↑ Improving
VI Exposure	~₹400 Cr	~₹350 Cr	↑ De-risking
PPOP Growth	60% (YoY)	64% (YoY)	↑ Improving
Capital Adequacy	15.35%	16.06%	↑ Improving
Retail NPA	2.03% (GNPA)	1.87% (GNPA)	↑ Improving

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