IDFC First Bank Ltd — Jan 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat on Core Operating Metrics; Inline on PAT. **One-line:** IDFC FIRST has graduated from its "Foundation Phase" to "Guidance 2.0," shifting the thesis from legacy cleanup to a high-visibility, 20% compounding machine where structural profitability (RoA 2.0%) is now a matter of operating leverage, not survival.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	9M-FY24 Credit Cost 1.26% vs 1.5% guidance; NIMs at 6.42% vs 5.5% merger target.	□
Earnings Quality	High (Core driven)	Core Operating Profit (ex-Treasury) grew 35% YoY; Fee income is 93% granular retail.	□
Guidance Confidence	Strong	Unveiled "Guidance 2.0" targeting □12k-13k Cr PAT and 17-18% RoE by FY29.	□
Management Credibility	Strong	Infra book down to 1.6% of loans; CASA ratio sustained above 46% despite massive rate cuts.	□
Business Quality Signal	Improving	CD Ratio dropped to 101.4% (from 111% in Q1); structural NIM expansion via bond replacement.	□
Key Q&A Exchange	Q#20 - Calibrated Growth	Mgmt acknowledged RBI signal on "exuberance," shifting growth to 20% for better asset selection.	□
The Street's Primary Anxiety	OPEX Intensity	Analysts flagged "underwhelming" opex growth (33% YoY); Mgmt targets Q4-FY25 for the margin "jaw."	□
Capital Cycle Stage	Harvesting / Scale	Shifting from branch/tech setup to harvesting retail operating leverage.	□
Margin / Return Ratio Trajectory	Improving	RoA hit 1.16% (9M avg); RoE at 10.7% (on higher capital base).	□
Pricing Power	Expanding	Deposit growth of 43% YoY even after cutting SA rates to 3% for balances <□1L.	□
FCF Conversion & Quality	N/A (Bank)	LCR at 121%; liquidity remains robust during credit tightening.	□
Competitive Moat Signals	Widening	Largest FASTag issuer; 2.2mn credit cards; brand trust decoupled from "rate-chasing."	□
Balance Sheet Strength	Strong	Net Stressed Assets (Bank) at record low 0.66% of assets.	□
Working Capital Efficiency	Improving	Collection efficiency at 99.6% (Dec-23); SMA 1+2 at 0.85% (Retail/SME).	□
Mgmt Guidance Track Record	Reliable	Achieved/On-track for 15/18 merger-time targets early (Annexure 1).	□
Key Vulnerability / Red Flag	Opex Inflexibility	High cost-to-income (72.8%) leaves little room for credit shocks if tech spend remains sticky.	□
Management Tone	Confident/Prudent	CEO: "20% growth is nothing... we can further verbeter asset quality."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The bank has decisively entered a "Steady State" phase. Guidance 2.0 provides a clear 5-year roadmap to an ₹13,000 Cr profit pool, backed by a proven 14-year retail underwriting track record (GNPA/NNPA consistently 2%/1%). The liability franchise is now a formidable moat; growing deposits at 43% while cutting rates to 3% is a feat few peers can match. Structural tailwinds from the retirement of ₹13,607 Cr of legacy bonds (8.89% cost) will automatically add ~90bps to RoE as they mature through FY26. * **Negatives:** Operating leverage is lagging. Opex (33% YoY) is still growing in lockstep with income, keeping Cost-to-Income at a high 72.8%. While management argues this is "setup karma," it delays the RoE expansion that the market expects. * **Street Concern:** Analysts are skeptical about the opex "jaw" opening. Management’s response was a firm "wait until Q4-FY25," citing the transition to FLDG models in digital lending as a key upcoming credit cost/opex lever. * **Watchpoint:** The transition from 25% to 20% growth. If this "calibration" leads to lower marginal credit costs, it will be a positive for RoA; if it's purely a result of liquidity tightness, it may test the valuation multiple.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3-FY24)	YoY Change (vs Q3-FY23)	QoQ Change (vs Q2-FY24)	Trend	Mgmt Commentary
NII Growth (%)	30%	-	8.5%	↑	Driven by 24.5% loan growth and NIM expansion.
NIM (AUM basis %)	6.42%	↑ 29 bps	↑ 10 bps	↑	Expansion driven by retail mix and legacy bond run-off.
Cost of Funds %	5.3%	Not in doc	Not in doc	→	Blended cost stable; legacy bonds at 8.89% still a drag.
Cost of Deposits %	Not in doc	Not in doc	Not in doc	-	Mgmt notes SA rates now at 3% for <□1L.
CASA Ratio (period end %)	46.8%	↓ 315 bps	↑ 40 bps	→	Stable despite system-wide CASA pressure.
CASA Ratio (avg %)	45.7%	↓ 431 bps	↑ 70 bps	↑	Daily average balance growth remains strong (+27% YoY).
Credit-Deposit Ratio %	101.4%	↓ 1310 bps	↓ 410 bps	↑	Incremental CD ratio for 9M-FY24 is 79.9%.
Loans Growth (% YoY)	24.5%	-	3.4%	↓	Sequential slowdown due to "calibrated growth" strategy.
Deposits Growth (% YoY)	42.8%	-	7.1%	↑	Strong retail momentum; Retail is 79% of customer deposits.
GNPA %	2.04%	↓ 92 bps	↓ 7 bps	↑	Improved; Retail segment even lower at 1.45%.
NNPA %	0.68%	↓ 35 bps	→	→	Pristine; Ex-infra NNPA is 0.47%.
Slippage Ratio %	3.1% (est)	→	→	→	Gross slippages flat QoQ at ~□1,400 Cr; Net at □850 Cr.
Credit Cost (% funded)	1.26% (9M)	↓ 11 bps	↑ 19 bps	↓	Q3 saw slight jump due to aging/ lower recoveries; guided 1.5%.
Collection Efficiency %	99.6%	↑ 10 bps	↑ 10 bps	↑	Dec-23 month peak; indicates high-quality booking.
Capital Adequacy / CET1	16.73% / 13.95%	↑ 67 bps	↑ 19 bps	↑	Supported by □3,000 Cr QIP in Oct-23.
PAT (□Cr)	716	↑ 18%	↓ 5%	↓	Muted by opex growth and credit cost normalization.
Fee Income Growth %	32%	-	↑ 6.7%	↑	93% retail; Wealth Mgmt (+37%) and Cards (+61%) leading.

2B. SEGMENT BREAKDOWN

Segment	Loans (₹ Cr)	YoY Growth	GNPA %	Trend	vs Bank Avg	Key Development
Retail Finance	1,11,397	29.3%	1.45%*	↑	Outperforming	Consumer Loans (+37.6%) and Vehicles (+31%) leading.
Rural Finance	23,955	47.4%	1.45%*	↑	Outperforming	Strong growth in JLG and Agri/Farmer loans.
SME & Corporate	51,129	15.6%	2.89%	↓	Underperforming	CV/CE financing (+69.2%) and Business Banking (+49.9%).
Infrastructure	2,994	-46.3%	26.66%	↓	Stressed	Run-down nearly complete; now only 1.6% of book.
**Retail and Rural GNPA reported as combined segment.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Deposits (FY29)	₹5,85,000 Cr.	Needs 24.8% CAGR; currently delivering 42.8%. Highly feasible.	Achieved FY25 targets early.	Low
Guidance	Loans (FY29)	₹5,00,000 Cr.	Needs 20.3% CAGR; currently delivering 24.5%. Highly feasible.	Consistent (25% CAGR).	Low
Guidance	RoA (FY29)	1.9-2.0%.	Needs ~40bps expansion from 9M-FY24 levels. Feasible via opex/bond levers.	Improving (1.05% to 1.16%).	Moderate
Guidance	RoE (FY29)	17-18%.	Needs ~700bps expansion. Requires high operating leverage play.	Improving (9.95% to 10.67%).	High
Strategy	Opex Ratio	Cost-to-Income 65% (Q4-FY25).	Currently 72.8%. Needs income to grow 10% faster than opex for 4 quarters.	Behind Schedule.	High
Strategy	Legacy Bonds	Retire ₹13,607 Cr @ 8.89%.	₹5,064 Cr retiring in FY25; automatic margin kicker.	Delivered (₹5k Cr run-down YoY).	Low
Macro	Growth	"Calibrated" 20% Growth.	Lowering from 25% to weed out marginal risk and RBI exuberance.	New Pivot.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Ishan Agarwal / Erevna	Opex Intensity	Financials	"Why is performance underwhelming with opex growing 33% vs income 31%?"	Management admitted being behind on the cost-to-income target but insisted the RoA remains on track due to higher-than-guided NIMs. Forward implication: Operating leverage is the primary re-rating trigger remaining for FY25.	None	4.0	Transparent
2	4.5	Ishan Agarwal	FLDG	Financials	"When will the benefits of the new FLDG structure hit the P&L?"	Benefits of moving to FLDG in digital loans will hit in Q3/Q4 FY25 through lower credit costs. This suggests a back-ended margin kicker for the next fiscal year.	None	4.5	Specific
3	4.0	Ishan Agarwal	Capital Adequacy	Financials	"When will you raise capital again given CET-1 is below 14%?"	Management declined to name a timeline, stating they would watch internal accruals over the next 4 quarters. No immediate dilution threat, but Tier-1 remains a monitoring point.	Timeline	3.0	Hedged
4	4.0	Ishan Agarwal	Account Closures	Business	"Why did debit card count drop in November?"	Management confirmed a cleanup of dormant/ inactive	None	5.0	Clear

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						accounts to focus on quality over quantity. Reaffirms the shift from "growth at all costs" to "profitable quality."			
5	4.5	Gao Zhixuan / Schonfeld	Credit Cost	Financials	"Why is credit cost trending up if slippages are flat?"	Upward trend attributed to aging of existing NPA buckets and lower recoveries vs post-COVID peaks. Implies a "normalization" of credit costs toward the 1.5% long-term guidance.	None	4.5	Quantified
6	5.0	Jai Mundhra / I-Sec	Growth Pivot	Outlook	"Is the 20% loan growth guidance the new normal vs previous 25%?"	CEO confirmed a deliberate slowdown to ease deposit pressure, cut rates, and address RBI concerns on "exuberance." This is a significant strategic shift toward stability over rapid expansion.	None	5.0	Strategic
7	4.0	Nitin Aggarwal / MOSL	CD Ratio	Financials	"Any near-term targets for CD Ratio improvement?"	Bank intends to keep incremental CD ratio at 80% to bring the total below 100% by year-end. Indicates an end to the "capital-	None	4.5	Evidence-based

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						hungry" phase of the bank.			
8	3.5	Rohan Mandora / Equirus	Credit Card	Financials	"What are the operating losses in the credit card portfolio?"	Management expects the credit card business to break even next year and be profitable the year after. Confirms the gestation period of new retail products is nearing its end.	Specifics	3.5	Directional
9	4.0	Gao Zhixuan	Guidance 2.0	Outlook	"Is the 20% growth conservative or due to RBI issues?"	Management stated it is a "reasonably safe" number that allows for better asset quality and less branch expansion pressure. Implies a higher probability of beating guidance.	None	4.0	Prudent

PATTERN FLAGS & SENTIMENT * **The "Calibration" Narrative:** Multiple analysts pressed on the growth slowdown (25% to 20%). Management's posture was confident, framing it as a "mature" choice to improve credit selection and comply with regulatory undertones. This pivot was generally accepted as it reduces the "liquidity-chasing" risk. * **Opex Skepticism:** Analysts (led by Erevna Capital) are growing tired of the "early-stage investment" explanation for high opex. Management was defensive but provided a specific catalyst (FLDG transition) and a timeline (Q4-FY25) for improvement. * **Analyst Sentiment Verdict: Cautiously Bullish.** Conviction in the deposit franchise and asset quality is at an all-time high. However, friction has shifted to "Cost-to-Income" and "ROE timing." Skepticism about the merger cleanup has fully vanished, replaced by a forensic focus on operating leverage. Credibility remains strong as the bank continues to meet/beat its primary margin and credit guidance.

5. WHAT CHANGED vs PRIOR QUARTER (vs Q1-FY24)

What Changed	Prior Quarter (Q1-FY24)	This Quarter (Q3-FY24)	Direction
Loan Growth Strategy	Chasing 25%+ CAGR.	"Calibrated" 20% CAGR.	↓ Slower/Safe
CD Ratio	111.1%.	101.4%.	↑ Improving
NIMs (AUM basis)	6.33%.	6.42%.	↑ Expanding
RoA (9M avg)	1.13%.	1.16%.	↑ Improving
Capital Adequacy (CAR)	16.96%.	16.73%.	↓ (Post QIP usage)
Legacy Bonds @ 8.9%	₹16,055 Cr.	₹13,607 Cr.	↑ Reducing Drag
Net Stressed Assets %	0.70%.	0.66%.	↑ Record Health
Long-Term Guidance	Guidance 1.0 (FY25).	Guidance 2.0 (FY29).	↑ Higher Visibility
SA Interest Rate	~4% for <₹10L.	3% for <₹1L.	↑ Brand Strength

STOP HERE.