IDFC First Bank Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** The transition from "Consolidation" to "Growth" is complete; the retail engine's incremental ROE of ~20% is finally surfacing as legacy drags and COVID provisions recede.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	PAT of □343 Cr (up 168% YoY); NII growth of 36% YoY vs 32% for full year.	□
Earnings Quality	High (Core driven)	PPOP (ex-trading) grew 106% YoY; Fees grew 40% (84% retail-led). No COVID provision drawdown.	□
Guidance Confidence	Strong	Re-affirmed "2:1:2" asset quality goal and 20-25% loan growth.	□
Management Credibility	Strong	Decisive reduction in Infra (down 36% YoY) and Vodafone exposure (now only □500 Cr).	□
Business Quality Signal	Improving	Incremental retail ROE at 20%; Average CASA for FY22 hit 49.88%.	□
Key Q&A Exchange	Q#4 - ROE Timeline	Management committed to double-digit ROE by Q4 FY23.	□
The Street's Primary Anxiety	Opex / Cost-to-Income	Post-merger opex (76% C/I) is high; management proved income (+37%) is outpacing opex (+24%).	□
Capital Cycle Stage	Growth/Scaling	Shifted from "strengthening balance sheet" to "pressing the pedal" on the loan book.	□
Margin / Return Trajectory	Improving	NIM at 6.27% (up 110 bps YoY); ROE expanding as "three buttons" (legacy/CC/branches) stabilize.	□
Pricing Power	Expanding	Ability to maintain high CASA (48%) while aggressively granularizing the deposit base.	□
FCF Conversion & Quality	Strong	LCR at 136%; deposit base is 84% Retail CASA/Term (highly stable).	□
Competitive Moat Signals	Widening	Tech-led sourcing (7 lakh Credit Cards with zero DSAs) significantly reduces future CAC.	□
Balance Sheet Strength	Strong	CAR at 16.74% (CET1 14.88%); maiden □1,500 Cr Tier-2 raise successful.	□
Working Capital Efficiency	Improving	Collection efficiency at 99.6%; lead indicators (cheque bounces) 30% better than pre-COVID.	□
Mgmt Guidance Track Record	Reliable	Delivered on infra drawdown, retailization, and sequential provision reduction as promised.	□
Key Vulnerability	Legacy Borrowings	□25,181 Cr legacy debt at 8.71% remains a □1,000 Cr annual NII drag.	□
Management Tone	Confident	Tone was "tails up" and aggressive; used the phrase "no more legacy to worry about."	□

Key Takeaways: Positives: * **Pivot Point Reached:** Management explicitly signaled the end of the consolidation phase. The bank is now moving from 6% historical loan CAGR (FY19-22) to a guided 20-25% CAGR. * **Operating Leverage Inflection:** For the first time, the "Jaw" is opening significantly—Core Operating

Income grew 37% YoY while Operating Expenses grew 24%. * **Asset Quality Normalization:** Retail GNPA/NNPA of 2.63%/1.15% is approaching the "2:1:2" target. Lead indicators (vintage analysis and 1st EMI bounce) suggest structural improvement over pre-COVID levels. * **Legacy De-risking:** Infrastructure book is now only 5.2% of total funded assets; Telecom exposure (Vodafone) has been neutralized from ₹3,200 Cr to ₹500 Cr.

Negatives: * **The "Three Buttons" Drag:** Credit cards, retail liability setup, and legacy high-cost debt currently mask a ~15% ROE. These three segments must break even to hit the long-term RoE target. * **Legacy Debt Maturity:** The weighted average maturity of high-cost debt (8.71%) is 1.92 years, meaning the ₹1,000 Cr NII benefit from repricing is a 2024 story, not 2023. * **CASA Pricing Sensitivity:** The bank recently hiked savings rates back to 6% for certain tiers to prepare for growth, indicating that while CASA is high, it still requires a premium over large-cap peers to drive massive volume.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4 FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	36%	↑ (vs 32% FY21)	↑ (vs 36% Q3)	↑	Driven by 28% retail asset growth and 110 bps NIM expansion.
NIM (AUM basis %)	6.27%	↑ 110 bps	↑ 37 bps	↑	Expansion led by lower cost of funds; asset yields remained stable.
Cost of Funds (Legacy)	8.71%	↓ 16 bps (vs FY21)	→	→	Still carrying ₹25,181 Cr of high-cost DFI-era debt.
CASA Ratio (period end %)	48.44%	↓ 331 bps	↓ 315 bps	↓	Intentional reduction in excess liquidity (LCR 136% vs 149%).
CASA Ratio (avg %)	49.88%	↑ 838 bps	↓ 66 bps	→	Management targets maintaining ~50% CASA ratio going forward.
Loans Growth (% YoY)	13%	↑ (vs 11% Q3)	↑	↑	Total funded assets: ₹1,31,951 Cr. Retail +28%.
Deposits Growth (% YoY)	13%	↑ (vs 11% Q3)	↑	↑	Total Customer Deposits: ₹93,214 Cr.
GNPA %	3.70%	↓ 45 bps	↓ 26 bps	↑	Improved across Retail (2.63%) and Corporate (2.75%) segments.
NNPA %	1.53%	↓ 33 bps	↓ 21 bps	↑	Retail NNPA at 1.15% is now near the 1.0% long-term goal.
Slippage Ratio %	1.10%	First entry	↓ 24 bps	↑	Net slippages at ₹700 Cr (Gross ₹1,400 Cr). One legacy corp slip (₹250 Cr).
Credit Cost (% assets)	1.20%	↓ 135 bps	↓ 8 bps	↑	Q4 annualized was 1.2%; full year COVID-ravaged cost was 2.6%.
Collection Efficiency %	99.6%	↑ 60 bps	↑ 20 bps	↑	Urban retail collections surpassed pre-COVID Feb-20 levels.
Capital Adequacy / CET1 %	16.74% / 14.88%	↑ 297 bps	↑ 136 bps	↑	Strongly capitalized after Tier-2 raise and internal accruals.
PAT (₹Cr)	343	↑ 168%	↑ 22%	↑	Record quarterly profit as core income outpaces opex/provisions.
Fee Income Growth %	40%	↑ (vs 28% Q3)	↑	↑	Retail fees (84% of total) proving highly sustainable.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (₹Cr)	YoY Growth	Asset Quality (GNPA)	Trend	vs Co. Avg	Key Development
Retail Loans	83,740	28%	2.63%	↑	Lower	Home Loans grew 52%; Credit Cards at ₹2,013 Cr (+370%).
Commercial Finance	11,637	15%	Included in Retail	↑	Lower	Conservative stance maintained with strict underwriting.
Corporate (Non-Infra)	23,676	5%	2.75%	↑	Lower	Focused on cash-flow based lending; Net NPA is near zero.
Infrastructure	6,891	-36%	21.64%	↓	Higher	Run-down on track; now only 5.2% of total assets.
Others (PTC/SR/RIDF)	6,007	-29%	N/A	↓	N/A	Continued divestment of non-core legacy assets.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	20-25% CAGR	Needs ~₹2,200 Cr incremental monthly disbursals.	Delivered (Q4 disbursements +32% YoY).	Low
Guidance	Asset Quality	"2:1:2" (2% GNPA, 1% NNPA, 2% Credit Cost)	GNPA needs 170 bps further reduction; Credit cost currently beating target.	On track (Retail NNPA at 1.15%).	Low
Guidance	ROE	10% by Q4 FY23; 13-15% Long-term	Needs ₹500 Cr additional PAT/qtr from "3 buttons."	Improving (Q4 ROE ~6.7%).	Medium
Guidance	Infra Book	Nil in 5 years (from merger)	Needs ₹1,700 Cr reduction per year for next 4 years.	Delivered (Reduced ₹3,917 Cr in FY22).	Low
Strategy	Opex Ratio	Cost-to-Income to hit 50%	Requires income growth to sustain 10-15% delta over opex growth.	Improving (Jaw opened by 13% in Q4).	Medium
Strategy	Credit Cards	PAT of ₹500-600 Cr in 3-4 years	Requires book to grow 5x from current ₹2,013 Cr.	Too early (Current ₹320 Cr annual loss).	High
Strategy	Legacy Debt	Replace ₹25,181 Cr debt @ 8.7%	Wtd Avg maturity is 1.92 years; ₹6,442 Cr matures in FY23.	Delivered (₹2,000 Cr telecom bonds repaid).	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	Anish Moonka, Astrix	Tech / CC	Business Overview	High tech hiring and marketing costs for credit cards and mobile apps.	Management confirmed credit cards were built with zero DSAs, leading to long-term structural CAC advantages through digital-only sourcing. Direct positive impact on future ROE as current investment phase (~□324 Cr loss) transitions to profitability.	None	5.0	Specific and verified
2	3.5	Anish Moonka, Astrix	Attrition / Credit	Governance	How to maintain credit culture with 25% growth and high industry attrition.	Management indicated attrition is low at top 3 layers and credit scores have improved with 85% of customers having Bureau score >700. High quality sourcing (91% existing credit history) reduces the risk of growth-led delinquency spikes.	None	4.0	Directional evidence
3	4.0	Lalit Deo, Equirus	Margins	Financials	6.27% NIM is high; questioning if there are one-offs.	Management clarified no one-offs were present and the margin expansion	None	5.0	Quantified

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						was a steady result of lower cost of funds. Implies NIM of 6%+ is the new baseline, barring a massive shift in mix toward home loans.			
4	5.0	Ishan Agarwal, Erevna	NIM / ROE	Financials	Why would NIMs taper if legacy high-cost deposits are being replaced with 5% funds?	Management conceded NIM could rise further from 6.27% and projected hitting 10% ROE by Q4 FY23. This accelerates the valuation re-rating thesis as the bank nears its long-term mid-teens ROE target sooner than expected.	None	4.5	Specific timeline
5	3.0	Rohan Mandora, Equirus	Opex Breakdown	Financials	Split between fixed opex, variable business costs, and future capacity building.	Management declined to give a specific split but noted that hiring is now limited to new branches/ gold/wealth, not regular retail loan processing. This signals the arrival of operating leverage as existing teams handle higher volumes.	Specific split withheld	2.5	Deflected

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6	4.5	Bhavin Gala, Marine Cap	Vodafone / Retail Turnaround	Financials	Specific exposure to Vodafone Idea and the reason for retail turnaround.	Management confirmed Vodafone exposure is down to ₹500 Cr and retail profitability reached ₹430 Cr (external segment) due to lower provisions and core growth. Significant de-risking of the largest single-account valuation overhang.	None	5.0	Clear and quantified
7	4.0	Sahil Sharma, S.S. Capital	CASA / Current Account	Financials	CASA growth slower than loan growth; current account strategy.	Management aims to improve Current Account (now 18% of CASA) toward a 30% target by offering tech/ accounting ecosystems. Success here would lower the blended cost of deposits and protect NIMs in a rising rate cycle.	None	3.5	Vague on tactics
8	4.0	Ashutosh Mishra, Ashika	Fee Income / Opex	Financials	Sustainability of retail fees (80% of total) and cost-to-income targets.	Management argued that stripping out the loss-making "three buttons" (CC, liabilities, legacy debt) brings	None	4.5	Calculated breakdown

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						current C/I to 64% today. This provides a clear roadmap to the 50% target as those segments reach scale.			

PATTERN FLAGS & SENTIMENT * **The ROE Inflection Theme:** Analysts focused heavily on when the bank will reach "respectable" ROEs. Management's posture was extremely confident, shifting the focus from "legacy issues" to "profit buttons." The consensus concern over low ROE is shifting toward a live monitoring of opex efficiency. * **Asset Quality Theme:** Questions on slippages and credit culture were met with granular data (Bureau scores, cheque bounce indices). Post-COVID, the management has regained high credibility on retail asset quality. * **Analyst Sentiment Verdict:** Analysts were broadly constructive and impressed by the PPOP growth. The main friction point remains the high Cost-to-Income ratio, but management's "3-button" explanation largely neutralized the immediate anxiety. Management's credibility improved this quarter as they delivered on the telecom reduction and sequential provision declines promised last year.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | **ROE Timeline** | Improving | 10% ROE specifically by Q4 FY23. | Positive Gap (more specific). | Low | | **NIM Direction** | Tapering/Stable | Could inch up further from 6.27%. | Positive Gap (upside risk). | Low |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY22)	This Quarter (Q4 FY22)	Direction
NIM	5.90%	6.27%	↑ (Expansion)
CASA Ratio	51.59%	48.44%	↓ (Normalization)
PAT	₹281 Cr	₹343 Cr	↑ (Growth)
Infra Book	₹8,051 Cr	₹6,891 Cr	↑ (De-risking)
Vodafone Exposure	Overhang / Bond receipt	₹500 Cr total	↑ (Resolved)
Capital Adequacy	15.38%	16.74%	↑ (Buffer)
Loan Growth CAGR	6% (Consolidation phase)	20-25% (Growth phase)	↑ (Acceleration)
Credit Card Book	₹1,662 Cr	₹2,013 Cr	↑ (Scaling)
ROE (Exit)	~5.6%	~6.7%	↑ (Improving)

CFO-to-PAT Quality Check: Q4 PAT was ₹343 Cr. Operating Cash Flow (CFO) was significantly higher due to deposit mobilization and reduced liquidity drags (LCR reduction). No divergence flags found; profit is core-interest and fee-driven. The "Three Buttons" (CC, Branches, Legacy Debt) remain the primary working capital/opex levers to watch.