IDFC First Bank Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** IDFC FIRST has successfully completed its "transformation" phase and entered its "compounding" phase, with the core operating engine now generating 13%+ ROE (annualized) while maintaining best-in-class asset quality ex-infrastructure.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	PAT □803 Cr (normalized □701 Cr) vs □605 Cr in Q3; FY23 ROE at 10.95%.	□
Earnings Quality	High (Core driven)	Core Operating Profit grew 61% YoY; trading gain (□216 Cr) largely offset by PCR build (□79 Cr) and tax.	□
Guidance Confidence	Strong	Reaffirmed upper end of 13-15% ROE target for FY25; NIMs holding at 6.41%.	□
Management Credibility	Strong	Achieved nearly all 2018 merger guidances (Retail %, CASA %, NIM) a year ahead of schedule.	□
Business Quality Signal	Improving	Bank level NNPA ex-infra (0.46%) rivals top-tier peers; credit cost (1.16%) beat 1.5% guidance.	□
Key Q&A Exchange	Q#4 (Branch Efficiency)	Mgmt: "Branches break even in <24 months"; scale is now diluting fixed costs.	□
The Street's Primary Anxiety	OPEX/Cost-to-Income	Mgmt: "Mathematical certainty" that income growth (36%) will outpace cost.	□
Capital Cycle Stage	Harvesting	Harvesting retail platform investments; Credit Card and Wealth scaling.	□
Margin / Return Ratio Trajectory	Improving	ROA (annualized Q4) hit 1.41%; NIM expanded to 6.41% vs 6.13% QoQ.	□
Pricing Power	Stable	Sustained 50% CASA ratio despite reducing rates from 7% to 4% (up to □10L).	□
FCF Conversion & Quality	Strong	Tier 1 capital grew to 14.2% through internal accruals and capital raise.	□
Competitive Moat Signals	Widening	96% digital transactions; #1 FASTag issuer/acquirer; 1.5M+ credit cards issued.	□
Balance Sheet Strength	Strong	CRAR at 16.82%; Net Stressed Assets reduced to 0.8% of total assets.	□
Working Capital Efficiency	Improving	Collection efficiency steady at 99.6%; SMA 1+2 at 1.1% of retail book.	□
Mgmt Guidance Track Record	Reliable	Consistently under-promising on credit costs (1.5% guide vs 1.16% actual).	□
Key Vulnerability / Red Flag	Legacy Borrowing	□17,673 Cr legacy debt at 8.86% remains a ~160 bps drag on ROE.	□
Management Tone	Bullish	CEO: "The Bank will never make a loss again; we are building for generations."	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives):

Positives: * **Profitability Inflection:** The bank has decisively breached the 10% ROE and 1% ROA structural barrier. Annualized Q4 ROE (adjusted) of 12.3% and ROA of 1.23% suggest the FY25 target of 13-15% is now a conservative baseline. * **Asset Quality Decoupling:** The "Retail & Commercial" book (79% of assets) is performing flawlessly with NNPA at 0.55%. The broader bank, excluding the dying infrastructure book, has an NNPA of 0.46%, positioning it as one of the cleanest balance sheets in the private sector. * **Margin Expansion:** Despite industry-wide deposit wars, NIMs expanded to 6.41% (annualized Q4), supported by the repricing of the floating-rate book and the retirement of high-cost legacy borrowings (₹7,500 Cr reduced in FY23). * **Liability Granularity:** 83% of customer deposits are now <₹5 Cr, and 76% are retail. This granularity provides a low-cost, stable funding base that is less sensitive to wholesale rate volatility.

Negatives: * **Cost-to-Income (C/I) Drag:** At 72.5% for FY23, C/I remains high. While management expects this to drop to 65% by FY25, the bank continues to invest heavily in branches (102 in Q4) and the Credit Card business (not yet at breakeven). * **One-off Contribution:** Q4 results were aided by a ₹216 Cr trading gain (monetization of VCF). Excluding this, PAT would be ₹701 Cr. While still a record, the "headline" growth is slightly inflated. * **Slow Current Account (CA) Build:** Management admitted CA is a weakness (only 18% of CASA). Reliance on SA (Savings Account) remains high, which may face repricing pressure if competition intensifies.

Watchpoint: Credit Card breakeven in FY25. Management has pegged FY25 as the year this business moves from a "drag" to a "kicker." Given the high growth (74% YoY), this is the single largest internal lever for ROE expansion.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	35%	-	9.5%	↑	Driven by 24% asset growth and NIM expansion.
NIM (AUM basis %)	6.41%	↑ 114 bps	↑ 28 bps	↑	Expansion due to asset repricing and legacy debt retirement.
Cost of Funds %	5.37% (SA rate)	-	↑ 10 bps	↓	Marginal increase despite 250 bps repo hike; retail base sticky.
Cost of Deposits %	Not in doc	-	-	→	Management noted deposit rates are competitive with peers.
CASA Ratio (period end %)	49.8%	↑ 140 bps	↓ 20 bps	→	Stable at ~50%; Q4 included □2,131 Cr transitory govt deposit.
CASA Ratio (avg %)	47.7%	↓ 160 bps	↓ 230 bps	↓	Daily average lower due to mid-quarter liquidity shifts.
Credit-Deposit Ratio %	117.4%	-	↓ 500 bps	↑	Calculated as Net Loans / Customer Deposits. Improving.
Loans Growth (% YoY)	24%	-	5.6%	↑	Funded assets crossed □1.6L Cr; Retail/ Commercial leads.
Deposits Growth (% YoY)	47%	-	10.7%	↑	Customer deposits at □1,36,812 Cr; 76% retail mix.
GNPA %	2.51%	↓ 119 bps	↓ 45 bps	↑	Bank-level improvement; Retail GNPA at 1.65%.
NNPA %	0.86%	↓ 67 bps	↓ 17 bps	↑	PCR at 80.29% (including technical write-offs).
Slippage Ratio %	Not in doc	-	-	→	Net slippages lower by 21% QoQ at □468 Cr (concall).
Credit Cost (% funded assets)	1.26%	Not in doc	Not in doc	↑	FY23 actual (1.16%) vs guidance (1.5%).
Collection Efficiency %	99.6%	↑ 20 bps	→	↑	Primary bucket collection efficiency steady for 12 months.
Capital Adequacy / CET1 %	16.82% / 14.2%	↑ 8/↓ 68 bps	↑ 76/71 bps	↑	Well capitalized; Tier II at □3,000 Cr.
PAT (□Cr)	803	↑ 134%	↑ 33%	↑	Record quarterly profit; FY23 PAT □2,437 Cr.
Fee Income Growth %	40%	-	6.2%	↑	□1,181 Cr; 91% retail. Wealth (48%) and Cards (74%) leading.
ROA (%)	1.41%	↑ 65 bps	↑ 30 bps	↑	Annualized for Q4; FY23 average 1.13%.
ROE (%)	13.45%	↑ 678 bps	↑ 273 bps	↑	Annualized for Q4; FY23 average 10.95%.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (₹Cr)	YoY Growth	GNPA %	Trend	vs Bank Avg	Key Development
Home Loan	19,552	39%	1.05%	↑	Outperforming	Launched prime home loans in 2021; scaling rapidly.
Wheels	14,823	53%	1.83%	↑	Outperforming	Strong festive demand and increased distribution.
Consumer Loans	20,819	20%	1.84%	→	In-line	Diversified mix: personal, durable, and cross-sell.
Rural Finance	19,181	48%	0.90%	↑	Outperforming	Higher yields; provides organic PSL compliance.
Credit Card	3,510	74%	1.65%	↑	High Growth	1.5M+ cards; spends up 92% YoY; FY25 breakeven.
Commercial Fin.	15,928	57%	1.43%	↑	Outperforming	Loans to small business owners; most <₹5 Cr.
Corporate (Non-Infra)	25,894	9%	2.87%	↓	Lagging	99.8% PCR on this book; de-risking continues.
Infrastructure	4,664	-32%	25.11%	↓	Shrinking	Down to 2.9% of total assets; exit in 2-3 years.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Math Feasibility	Historical Delivery	Risk Flag
Guidance	Loan Growth	20-25% sustainable growth.	Needs ~₹8,000-10,000 Cr incremental assets/qtr; currently doing ~₹8,500 Cr.	Met (24% FY23).	Low
Guidance	ROE	13-15% by FY25.	Needs PAT of ~₹3,500 Cr for FY25; current run-rate (₹3,212 Cr annualized Q4) is on track.	Ahead of schedule.	Low
Guidance	Cost-to-Income	55-65% by FY25.	Needs Op Income to grow >35% vs Opex growth <20%. Currently 72.5%.	Improving.	Moderate
Guidance	Credit Cost	1.5% for FY24.	Currently 1.16%; 34 bps cushion against target.	Beat consistently.	Low
Strategy	Legacy Debt	Retire ₹17,673 Cr debt.	₹5,132 Cr maturing in FY24; guaranteed NII boost.	Met (₹7.5k Cr in FY23).	Low
Strategy	Credit Cards	Breakeven by FY25.	Spends growing 92% YoY; needs scale to dilute fixed tech costs.	On track.	Moderate
Balance	Infra Book	Zero exposure in 5 years.	Book at ₹4,664 Cr (2.9% of book) down from 36.7% at merger.	On track.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Mohit Surana / CLSA	Efficiency	Financials	"The cost to income in liabilities have gone down from 198 to 174... what should be the income from liability?"	Management explained liability income is the spread between transfer pricing benchmarks (like G-Sec) and what branches pay customers, plus fee income. Implies branch profitability is a function of scale; as deposits grow, the high fixed costs are naturally diluted.	None	4.0	Clear mechanics
2	3.5	Mohit Surana / CLSA	Efficiency	Business Overview	"How many years does it take for a branch to reach full potential?"	Management indicated branches typically achieve breakeven in approximately 24 months, sometimes earlier depending on location. Confirms the J-curve of current expansion will start contributing to ROE in FY25-26.	None	4.0	Specific timeline
3	4.5	Mohit Surana / CLSA	One-offs	Financials	"What explains the healthy treasury gains... and comparable	Management cited monetization of Venture Capital Fund (VCF)	None	5.0	Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					NIM vs last quarter?"	investments as a one-time □216 Cr gain and confirmed Q4 NIM at 6.41% vs 6.13% in Q3. Points to structural margin expansion even when stripping out one-offs.			
4	4.0	Vivek / DSP MF	Liabilities	Management Commentary	"What is the secret sauce for getting more deposits... beyond higher rates?"	Management attributed growth to brand goodwill, service levels, and institutional image rather than just pricing. Suggests a "pull" factor that makes the liability franchise durable during liquidity crunches.	None	3.5	Qualitative
5	3.5	Lalit Deo / Equirus	Deposits	Financials	"What would be our rates on the saving deposits and how much it could increase?"	Management stated average SA rate was 5.37% (up only 10 bps QoQ), with the bulk of customers (under □10L) receiving 4%. Low SA rate sensitivity protects the bank against rapid cost of fund spikes.	None	4.0	Structural buffer

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
6	4.0	Ishan Agarwal / Erevna	Risk	Financials	"Is the 1.03% annualized credit cost a structural lowering due to better sourcing?"	Management believes the lower credit cost is becoming structural due to digital underwriting and better customer profiles, though they keep guidance at 2% for conservatism. Implies a "hidden" profit buffer if costs stay near 1.2%.	None	4.5	Conservative tone
7	4.5	Ishan Agarwal / Erevna	Growth	Management Commentary	"Can the bank achieve 40-45% PPOP growth in FY24/25?"	Management confirmed they expect PPOP to continue outrunning balance sheet growth (25%) as operating leverage kicks in. Strong signal that PAT growth will continue to exceed asset growth.	None	4.0	Reaffirmed targets
8	4.0	Anand Dama / Emkay	Deposits	Financials	"How much of SA is less than □10 lakhs and above □10 lakhs?"	Management declined to give the split but noted average balances are 30-40% higher than similarly placed banks. Indicates a higher-HNI retail profile	Exact split	3.0	Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						which is typically more stable.			
9	4.5	Anand Dama / Emkay	Efficiency	Management Commentary	"How will the cost-to-income ratio come down to 65%?"	Management identified three levers: Credit Card breakeven (FY25), retirement of 8.9% legacy debt, and scaling branch productivity. This provides a clear "roadmap" for the 65% target.	None	4.5	Specific roadmap
10	4.0	Kunal Shah / Citi	Risk	Management Commentary	"Do we see a risk in any retail segment due to rate increases/ inflation?"	Management noted that after 12 years of history, they have never seen NNPA >1.1% and current collection efficiency (99.6%) would signal stress 12 months in advance. Provides high confidence in the credit model's resilience.	None	4.5	History-backed
11	4.0	Kunal Shah / Citi	PSL	Financials	"How is PSL positioning? Our RIDF is coming off."	Management stated they are meeting PSL organically (especially via Rural Finance) and PSLC drag reduced from □160 Cr to	None	5.0	Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						□30 Cr YoY. Significant NII tailwind as high-cost PSLCs are phased out.			
12	4.0	Jai Mundhra / ICICI Sec	ROE	Management Commentary	"Likely ROE progression... you said 13-15% by FY25."	Management signaled they expect to touch the *upper end* of the 13-15% range by the exit of FY25. Indicates high internal confidence in the current trajectory.	None	4.5	Upward bias
13	4.0	Sonal Minhas / Prescient	Cards	Business Overview	"What card number makes the business breakeven?"	Management shifted focus from card count (~2M) to a "timeframe" of FY25 for breakeven. Sets a clear milestone for investors to track the P&L transition of this segment.	None	4.0	Specific timeframe

PATTERN FLAGS & SENTIMENT

Theme Cluster: The "J-Curve" of Operating Leverage. Analysts were laser-focused on the high cost-to-income ratio. Management's posture was one of "calculated patience," repeatedly explaining that branch and card investments are front-ended while income is an annuity. The concern remains live but is being mitigated by the sequential drop in C/I (from 77% to 72% YoY).

Theme Cluster: Asset Quality Resilience. Analysts queried if high growth in a rising-rate environment would trigger NPAs. Management was most confident here, citing 12 years of credit data and 99.6% collection efficiency. The posture was defensive of their underwriting "moat," which appears to have won the Street's trust.

Analyst Sentiment Verdict: Analysts were **highly constructive** and impressed by the 13.4% annualized ROE. The primary friction point—the high OPEX—is being accepted as a necessary trade-off for the 25% growth pace. Management's credibility is at a multi-year high, having met or beaten nearly all "merger-time" promises.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY23)	This Quarter (Q4FY23)	Direction
Headline ROE	10.72%	13.45% (Annualized Q4)	↑ Improving
Headline ROA	1.11%	1.41% (Annualized Q4)	↑ Improving
NIMs	6.13%	6.41%	↑ Improving
Legacy High-Cost Debt	□18,762 Cr	□17,673 Cr	↑ De-risking
CASA Transitory Flow	Not significant	□2,131 Cr (Govt client)	□Distorted
Credit Cost Performance	1.1% (9M)	1.16% (FY23)	↑ Beat guidance
Infra Book Mix	3.7% of assets	2.9% of assets	↑ De-risking
Credit Card Growth	89% YoY	74% YoY	↓ Moderating
Branch Addition Pace	37 branches	102 branches	↑ Accelerating
PSLC Cost Drag	□160 Cr (Prior Year)	□30 Cr (FY23)	↑ Improving