IDFC First Bank Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat **One-line:** IDFC FIRST has completed its "Cleanup-to-Universal" transition; the thesis is now a pure-play compounding story driven by a high-yield retail engine that is structurally outearning its legacy high-cost debt.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	PAT at ₹751 Cr (+35% YoY) vs ₹556 Cr; Credit costs at 1.19% vs 1.5% guidance.	🟢
Earnings Quality	High (Core driven)	Core Operating Profit (Ex-Treasury) grew 38% YoY; Fee income is 93% retail/granular.	🟢
Guidance Confidence	Strong	Reaffirmed RoE 13-15% target; legacy bond exit provides a mathematical profit tailwind.	🟢
Management Credibility	Strong	Infra book down to 1.8% of assets; GNPA/NNPA lower than most established peers.	🟢
Business Quality Signal	Improving	RoA (H1) at 1.20%; CASA sustained at 46.4% despite dropping entry-tier rates to 3%.	🟢
Key Q&A Exchange	Q#13 - Unsecured Mix	CEO refused to give a single "unsecured %" number, insisting on "cash-flow backing" as the security.	🟢
The Street's Primary Anxiety	Unsecured Credit Cycle	Mgmt response: <₹50k ticket loans are only 0.29% of assets; collection efficiency is 99.5%.	🟢
Capital Cycle Stage	Harvesting	Legacy bond cleanup nearly done; transition to retail operating leverage stage.	🟢
Margin / Return Ratio Trajectory	Stable	NIM at 6.32% remains best-in-class; RoA moderated slightly QoQ but trending to target.	🟢
Pricing Power	Expanding	Able to grow retail deposits 50% YoY while cutting rates on low-balance savings accounts.	🟢
FCF Conversion & Quality	Strong	CET-1 at 13.49% (15.01% pro-forma post-Oct QIP); internally generating growth capital.	🟢
Competitive Moat Signals	Widening	Largest FASTag issuer; 1.9mn credit cards; brand trust decoupling from "rate-chasing."	🟢
Balance Sheet Strength	Strong	Net Stressed Assets (NNPA + Restructured) at only 0.66% of Total Assets.	🟢
Working Capital Efficiency	Improving	SMA 1+2 at 0.77%; Bounce rates dropped from 9.9% to 6.6% over the last 3 years.	🟢
Mgmt Guidance Track Record	Reliable	Achieved 13 of 18 merger targets ahead of schedule; only Cost-to-Income is lagging.	🟢
Key Vulnerability / Red Flag	Opex Rigidity	Cost-to-Income at 72.6% (Ex-trading) is still high; requires massive scale to dilute.	🟢
Management Tone	Confident/Bullish	CEO: "Nothing is disturbing us... asset quality is in fact only improving."	🟢

Sentiment: □Positive

Key Takeaways:

- **Positive: The "Legacy Exit" Tailwind.** The bank still holds □15,002 Cr of legacy debt at an 8.92% average cost. Replacing this with 6.5-7% deposits over the next 24 months is a guaranteed 200bps spread expansion on that pool, adding ~□300 Cr to annual PBT.
- **Positive: Underwriting Purity.** While the market frets over unsecured risk, IDFC's retail GNPA is 1.53%—outperforming HDFC/ICICI in similar segments. High collection efficiency (99.5%) and low SMA (0.77%) provide 2-quarter forward visibility on credit costs.
- **Negative: The Opex Drag.** Cost-to-income (72.6%) remains the highest among Tier-1 peers. Management views this as "investment" (862 branches), but it leaves the bank with a thin margin for error if yield compression occurs before operating leverage kicks in.
- **Forward Watchpoint:** Credit Card Breakeven. Management guided for breakeven by FY25. With spends up 64% YoY, this segment is the primary "drag" that will flip into a "booster" within 4-6 quarters.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2-FY24)	YoY Change	QoQ Change (vs Q1-FY24)	Trend	Mgmt Commentary
NII Growth (%)	32%	-	5.5%	↑	Driven by 26% loan growth; NIMs held steady despite deposit repricing.
NIM (AUM basis %)	6.32%	↑ 49 bps	↓ 1 bps	→	Very stable; impact of ICRR (2bps) offset by yield management.
Cost of Funds %	6.27% (Est)	Not in doc	↑ 15-20 bps	↓	Rising due to TD repricing; offset partially by legacy bond run-offs.
Cost of Deposits %	Not in doc	Not in doc	↑	↓	Blended cost rising as customers shift from SA to higher-yielding TD.
CASA Ratio (period end %)	46.4%	↓ 490 bps	↓ 10 bps	→	Stabilized QoQ; Retail deposits now 77% of customer deposits.
CASA Ratio (avg %)	45.0%	↓ 420 bps	↓ 70 bps	↓	Based on daily average balance.
Credit-Deposit Ratio %	107.0%	↓ 1050 bps	↓ 150 bps	↑	Improving as deposit growth (44%) outpaces loan growth (26%).
Loans Growth (% YoY)	26%	-	6.8%	↑	Retail/Rural (+29/51%) outperforming; Infra (-44%) continues to shrink.
Deposits Growth (% YoY)	44%	-	11.3%	↑	Extremely strong retail momentum; □1,71,236 Cr total deposits.
GNPA %	2.11%	↓ 107 bps	↓ 6 bps	↑	Bank-level; Ex-Infra GNPA is 1.69% vs 1.71% last quarter.
NNPA %	0.68%	↓ 41 bps	↓ 2 bps	↑	Bank-level; Ex-Infra NNPA is 0.46% (Pristine).
Slippage Ratio %	2.95% (Gross)	↓	↓	↑	Gross slippages □1,350 Cr; Net slippages □850 Cr.
Credit Cost (% funded)	1.16% (H1)	↓ 12 bps	↑	→	Within 1.5% guidance; provisions □528 Cr (+25% YoY).
Collection Efficiency %	99.5%	→	→	→	Current bucket collection remains best-in-class for 24+ months.
Capital Adequacy / CET1 %	16.54% / 13.49%	↑ 119 bps	↓ 21 bps	↓	Pro-forma CET-1 is 15.01% after Oct □3,000 Cr QIP.
PAT (□Cr)	751	↑ 35%	↓ 2%	→	Q1 had higher trading gains; Core PPOP grew 2% QoQ.
Fee Income Growth %	46%	-	↑ 2.6%	↑	93% retail-led; Toll/Cards driving sustainability.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (□ Cr)	YoY Growth	GNPA %	Trend	vs Company Avg	Key Development
Retail Finance	1,04,603	29%	1.53%	↑	Outperforming	Vehicle (+41%) and Education (+205%) led growth.
Rural Finance	22,828	51%	1.53%*	↑	Outperforming	Major PSL driver; 60% of borrowers are women.
SME / Corp Biz	52,448	22%	2.56%	↑	In-line	Business Banking grew 53% YoY.
Infrastructure	3,356	-44%	25.07%	↓	Stressed	Now only 1.8% of book; Net exposure 14.58%.

**Retail and Rural GNPA reported as a combined segment (1.53%).*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	13-15% (FY24-25).	Currently 11.36% (H1). Needs ~□1,000 Cr quarterly PAT post-QIP.	On track vs prior 10-12%.	Low
Guidance	Credit Cost	< 1.5%.	Currently 1.16%. 34bps cushion available.	Consistently met.	Low
Guidance	NIM	5.0% - 5.5% (Long term).	Currently 6.32%. Substantial outperformance.	Achieved early.	Low
Strategy	Legacy Bonds	Retirement of □15,002 Cr.	□2,589 Cr due in H2-FY24. Low complexity.	Met all prior exit targets.	Low
Strategy	Unsecured Risk	Low ticket (<□50k) focus.	Currently □540 Cr. Exposure is negligible.	Proven conservative.	Low
Macro	Rate Cycle	TD Cost peak.	Management sees peak in Q3; Repricing nearly done.	Mixed (Lagged).	Moderate
Strategy	Opex Leverage	C/I ratio 65% (Q4-FY25).	Currently 72.6%. Requires □1k Cr opex reduction or fee spike.	Behind Schedule.	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Lalit Deo / Equirus	Digital Loans	Business Overview	"What is the nature and ticket size of these digital loans?"	Management explained digital loans are sourced via partners/ Google with ₹3 lakh ticket sizes, unlike durables which are ₹30k-50k. Higher tickets imply higher credit quality but also more competitive intensity for the bank.	None	4.0	Specific
2	4.5	Lalit Deo / Equirus	Slippages	Financials	"Are we seeing higher slippages in cards/ durables sequentially?"	CEO emphasized that 10bps moves are marginal and the sigma (total retail NPA) is flat at 1.53%, indicating no systemic deterioration. This provides comfort that the "noise" in unsecured credit hasn't hit IDFC's specific cohorts yet.	None	5.0	High
3	5.0	Hardik Shah / Goldman	Unsecured Risk	Management Commentary	"Is multi-borrowing by unsecured customers increasing stress?"	Management relies on "cash flow pulling" (debit instructions) rather than "payment waiting," which acts as a digital security. This fundamental difference in collection	None	4.5	Strategic

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						methodology (pull vs push) is the bank's main defensive moat against a broader credit cycle.			
5	4.0	Dixit Doshi / Whitestone	Opex	Financials	"When will we see material reduction in cost-to-income?"	Management clarified that as long as they need to raise ₹50k-65k Cr deposits annually, high branch/ liability opex will persist to feed the growth. ROE remains the primary target (13-15%), and opex is viewed as the "fuel" for that return ratio.	None	4.0	Directional
8	4.0	Kaitav Shah / Anand Rathi	Deposit Rates	Financials	"Are we through with interest rate pricing on deposits?"	CFO noted that large catch-up costs are in, but another 10-15bps rise may occur in H2, partially offset by legacy bond run-offs. This confirms NIMs have limited downside but won't expand until the rate cycle flips.	None	5.0	Quantified
12	4.5	Nitin Aggarwal / MOSL	Deposit Branch	Business Overview	"How is deposit productivity so	CEO attributed "lift-off" to	None	4.5	Qualitative

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					high for such a young bank?"	brand character and trust, where new branches hit peer-comparable productivity (~₹185 Cr/ branch) almost instantly. This confirms the "IDFC FIRST" brand has decoupled from its NBFC roots and is a Tier-1 liability franchise.			
13	5.0	Manish Shukla / Axis	Unsecured Mix	Financials	"What is the total size of the unsecured retail book?"	CEO refused to provide a composite "unsecured" figure, arguing that cash-flow assessment and debit mandates make the "secured vs unsecured" label irrelevant. This lack of transparency on the absolute unsecured mix is a persistent minor overhang for forensic-focused investors.	Partially	3.0	Deflected
15	4.5	Jay Mundra / I-Sec	Pricing Strategy	Management Commentary	"Why is SA rate at 7% while TD is	CEO explained that as a	None	5.0	Strategic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					6.5%? What is the ALM logic?"	"new bank," they aren't protecting a legacy low-cost base and are "free-footed" to offer what the customer deserves to attract balances. This "customer-first" pricing may keep opex high but ensures the bank wins the "war for deposits" against larger, slower peers.			
18	4.0	Suraj Das / Sundaram	Provisions	Financials	"Do you intend to build countercyclical contingent buffers?"	CEO indicated the current provisioning policy is already super-conservative (starting at 90 DPD) and didn't see a need for an extra buffer yet. This implies earnings will be reported "clean" without hidden "cushions" for now.	None	4.0	Clear

PATTERN FLAGS & SENTIMENT

Analysts focused intensely on **Unsecured Risk Segregation**. The repeated questioning on ticket sizes <□50k and the absolute "unsecured %" shows the Street is looking for a reason to de-rate the bank based on sector-

wide fears. Management remained **exceptionally defensive of their credit model**, pointing to the 13-year track record and "cash-flow pull" mechanism as proof of immunity.

Analyst Sentiment Verdict: Highly Positive but Vigilant. Analysts are convinced by the liability story (CASA/ Deposits) but remain skeptical of the cost-to-income trajectory. Management's refusal to provide a composite "unsecured %" (Q13) caused minor friction, but the pristine Asset Quality numbers (0.46% Ex-Infra NNPA) neutralized the hostility. Credibility is at a post-merger high.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1-FY24)	This Quarter (Q2-FY24)	Direction
GNPA (Bank Level)	2.17%	2.11%	↑ Improving
NNPA (Bank Level)	0.70%	0.68%	↑ Improving
Infra Exposure %	2.2%	1.8%	↑ Cleanup completion
Legacy Bond Pool	□17,673 Cr	□15,002 Cr	↑ Reducing profit drag
CASA Ratio (Avg)	45.7%	45.0%	↓ Slight TD shift
Cost of Funds Tone	"Watching rates"	"Peak expected Q3"	↑ Guidance clarity
Capital Strength	13.70% CET-1	15.01% (Pro-forma)	↑ Post-QIP cushion
SA Rate Strategy	Entry rate at 4%	Entry rate at 3%	↑ Pricing power
Credit Rating	AA+ (Stable)	AA+ (Stable)	→ (CARE upgrade in Oct)

STOP HERE.