IDFC First Bank Ltd — Oct 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Strong Beat **One-line:** IDFC FIRST has transitioned from an "inflection point" to an "acceleration phase," hitting double-digit ROE ahead of schedule while proactively using one-off gains to build a fortress-level retail provision buffer.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Strong Beat	PAT □556 Cr vs □474 Cr QoQ; ROE 10.13% vs 8.96%.	□
Earnings Quality	High (Conservative)	Used ~□200 Cr one-off SR gain to strengthen Retail PCR to 77.6% rather than padding PBT.	□
Guidance Confidence	Strong	Achieved double-digit ROE guidance early; confirmed 6% NIM target.	□
Management Credibility	Strong	Consistent execution on infra rundown (now 4.1%) and CASA maintenance (~51%).	□
Business Quality Signal	Improving	Core Operating Profit (84% YoY) significantly outpacing Loan Growth (25% YoY).	□
Key Q&A Exchange	Q#1 (SR Provisioning)	Mgmt explained Retail PBT decline as a tactical move to hike PCR using "found money."	□
The Street's Primary Anxiety	Cost-to-Income (73.3%)	Mgmt: Scale is diluting costs; 65% target is mathematically "guaranteed" by bond swaps.	□
Capital Cycle Stage	Harvesting / Investment	Harvesting retail asset yields; Investing in Wealth, Fastag, and Credit Cards.	□
Margin / Return Ratio Trajectory	Improving	NIM expanded to 5.98%; ROA crossed the critical 1.0% threshold.	□
Pricing Power	Stable	Maintained 51% CASA ratio despite rising competitive intensity for deposits.	□
FCF Conversion & Quality	Strong	Net Stressed Assets dropped from 1.6% to 1.3% QoQ.	□
Competitive Moat Signals	Widening	Strong digital traction (96% retail digital trans); Fastag market leadership.	□
Balance Sheet Strength	Strong	CET-1 at 13.67%; legacy high-cost debt reduced by □2,000 Cr this quarter.	□
Working Capital Efficiency	Improving	SMA 1 & 2 (Retail) dropped from 1.8% in Mar-22 to 1.0% in Sep-22.	□
Mgmt Guidance Track Record	Reliable	Outperforming on credit cost and ROE timelines.	□
Key Vulnerability / Red Flag	Legacy Bond Drag	□20,449 Cr debt at 8.8% remains an NII drag, albeit a shrinking one.	□
Management Tone	Bullish & Confident	"Most of those clouds are behind us... we're feeling pretty good about the future."	□

Sentiment: □Positive

Key Takeaways:

- **Structural ROE Breakthrough:** Hitting 10.13% ROE marks the graduation of IDFC FIRST from a "turnaround story" to a "growth story." The fact that this was achieved while still carrying □20,449 Cr of high-cost legacy debt (8.8%) suggests the core retail engine is generating ROEs in the 18-20% range.
- **Asset Quality Fortress:** Management demonstrated extreme conservatism by diverting a ~□200 Cr provision release from Security Receipt (SR) sales into Retail provisions. Increasing Retail PCR to 77.6% while SMA 1 & 2 are at historical lows (1.0%) creates a significant cushion against macro volatility.
- **Operating Leverage is Real:** Core operating profit growth (84% YoY) is nearly 3.5x faster than loan book growth (25% YoY). This proves that the heavy "setup costs" of the last three years (branches, tech, people) are now being diluted by a rapidly expanding asset base.
- **The "Guaranteed" NII Tailwind:** Replacing the remaining legacy bonds with retail deposits at current rates provides a ~□600-650 Cr annual NII boost (~150 Cr/quarter) that requires zero incremental risk-taking.
- **Forward Watchpoint:** The Cost-to-Income ratio (73.3%) remains the final frontier. While management provided a mathematical path to 65%, any delay in deposit mobilization or a spike in tech/branch spending could stall the ROE climb toward the 13-15% target range.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary column.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	32%	-	9.1%	↑	Growth driven by 25% asset expansion and NIM expansion to 5.98%.
NIM (AUM basis %)	5.98%	↑ 15 bps	↑ 9 bps	↑	Repricing of floating rate book (38% of assets) following repo hikes helped.
Cost of Funds %	5.5%	Not in doc	↑ 30 bps	↓	Rising market rates; partially offset by retiring ₹2,000 Cr of 8.8% legacy debt.
Cost of Deposits %	Not in doc	-	-	-	Mgmt indicated no intention to raise 4% rate for balances <₹10 Lakh.
CASA Ratio (period end %)	51.28%	↓ 0 bps	↑ 124 bps	↑	Stable at ~51% despite rate intensity; CASA deposits grew 37% YoY.
CASA Ratio (avg %)	49.20%	↓ 25 bps	↑ 223 bps	↑	Daily average CASA growing strongly at 13% QoQ.
Credit-Deposit Ratio %	117.7%	↓ 1,130 bps	↓ 370 bps	↑	Improving as deposit growth (36%) outpaces loan growth (25%).
Loans Growth (% YoY)	25%	-	5.6%	↑	Retail/Commercial book grew 40% YoY; now 75% of total funded assets.
Deposits Growth (% YoY)	36%	-	10.8%	↑	Strong retail deposit growth (CASA + Retail TD) at 32% YoY.
GNPA %	3.18%	↓ 109 bps	↓ 18 bps	↑	Improving; Ex-infra GNPA stands at 2.27%.
NNPA %	1.09%	↓ 100 bps	↓ 21 bps	↑	Ex-infra NNPA stands at 0.63%.
Slippage Ratio %	Not in doc	-	→	→	Gross and net slippages similar to Q1 despite book growth.
Credit Cost (% funded assets)	1.2%	↓ 30 bps	↑ 30 bps	→	Well below 1.5% guidance; included tactical PCR build for retail.
Collection Efficiency %	99.5%	↑ 10 bps	↓ 10 bps	→	Urban retail efficiency stable at 99.5%; early-stage buckets improving.
Capital Adequacy / CET1 %	13.67%	↓ 118 bps	↓ 34 bps	→	Bank is well capitalized; internal accruals starting to support growth.
PAT (₹Cr)	556	↑ 266%	↑ 17.3%	↑	Highest ever quarterly profit; driven by 84% growth in core operating profit.
Fee Income Growth %	44%	-	6.9%	↑	92% of fees from retail; sustainble and granular.
Cost to Income Ratio (%)	73.34%	↓ 719 bps	↓ 39 bps	↑	Improving sequentially; scale beginning to diluting setup costs.

2B. SEGMENT BREAKDOWN

Segment	Funded Assets (₹Cr)	YoY Growth	GNPA %	Trend	vs Co Avg	Key Development
Retail & Comm Finance	1,09,669	40%	2.03%	↑	Outperf	Home Loans grew 59% YoY; Credit Card book up 119% YoY.
Corporate (Non-Infra)	24,883	20%	3.43%	↓	In-line	Concentration risk reduced; Top 20 borrowers now 8% vs 16% at merger.
Infrastructure	5,992	-41%	24.48%	↓	Stressed	Run-down book; now only 4% of funded assets vs 19% at merger.
Commercial Finance	13,173	34%	2.03%*	↑	Outperf	Sourcing small ticket SME loans with high yields and low NPAs.

**Retail and Commercial GNPA are reported together in the presentation.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROE	13-15% by FY24-25.	Needs PAT to scale to ~₹1,000 Cr/qtr.	**Achieved** 10% target 2 quarters early.	Low
Guidance	Cost to Income	65% in next 2 years; 55% long-term.	Needs NII + Fee to grow 10% faster than Opex.	**Improving:** Down from 80% to 73% YoY.	Moderate
Guidance	Credit Cost	<1.5% for FY23.	Currently 1.1-1.2% H1. On track.	**Delivering:** Consistently below guidance.	Low
Guidance	NIM	Maintain ~6%.	Currently 5.98%. Feasible given bond swap.	**Delivering:** NIM expanding despite rate hikes.	Low
Strategy	Liability Replacement	Replace ₹20,449 Cr legacy debt (8.8%) with deposits.	Swapping ₹5-6k Cr per year.	**Delivering:** Repaid ₹7,218 Cr legacy debt in TTM.	Low
Strategy	Asset Quality	Keep Retail GNPA ~2% and NNPA ~1%.	Currently 2.03% and 0.73%. On track.	**Delivering:** Stable over 10-year period.	Low
Macro	Credit Growth	20-25% funded book growth.	Grew 25% YoY. Feasible given small base.	**Delivering:** Accelerated from 21% last Q.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Bhavin Gala / Marine Cap	Retail PBT	Financials	"There was a drastic decline in the PBT from [Retail]?"	Management clarified they received a □200 Cr provision release from selling Security Receipts (SR) and used it to strengthen Retail PCR to 77.6%. This explains the Retail PBT dip as an accounting choice for safety, not an operational decline.	None	5.0	Clear and quantified
2	4.5	Ishan Agarwal / Erevna	Core ROE	Financials	"Are you confident the Bank will touch core annualized ROE of 10% ex of treasury by Q3?"	Management gave a simple "Yes." Reaching 10% ROE on core earnings would be a major re-rating trigger as it eliminates reliance on volatile market gains.	None	4.0	Confident
3	4.0	Ishan Agarwal / Erevna	Opex	Financials	"Opex for this quarter is around 8.7% higher... is it yielding to a cost to income plateauing?"	Management admitted sequential movements are hard to pin down but insisted the Y-o-Y trend is downward. Investors should focus on the annual Cost-to-Income trajectory rather than	None	3.5	Directional

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						quarterly noise.			
4	4.5	Ishan Agarwal / Erevna	Competition	Strategy	Does easier data access for fintechs/peers reduce IDFC's algorithm advantage?	Management argued that their 10-year-old refined algorithm is "maturing" and getting more precise in a massive underserved market. Competitive moat is preserved through decade-long data feedback loops and lower cost of funds as a bank.	None	4.0	Specific
5	3.5	Nitin Aggarwal / Motilal	NIM / EBLR	Financials	"How do you see the margin strengthening... proportion of loans linked to EBLR?"	38% of funded assets are linked to benchmarks (60% repo), with benefits of recent hikes expected in Q3. NIM expansion to 6% is likely sustainable as asset yields rise faster than cost of deposits.	None	4.5	Specific
6	4.0	Nitin Aggarwal / Motilal	Consumer Loans	Business Overview	"Consumer loan portfolio... held essentially flat [QoQ]?"	Management noted they sold ⃞333 Cr of loans during the quarter, which normalized the growth. Core demand remains high, and the flattish Q-on-Q growth	None	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						is an artifact of portfolio management, not demand slowdown.			
7	3.5	Lalit Deo / Equirus	Fee Income	Financials	"Fees from the credit card and the toll business has declined [QoQ]?"	The decline was due to a retrospective MDR adjustment in the toll (Fastag) business effective April 1. This is a one-time regulatory adjustment; credit card fee growth remains on a strong sequential trajectory.	None	4.0	Specific
8	5.0	Ashutosh Mishra / Ashika	Cost to Income	Financials	"What are the levers... to take [Cost to Income] from current 70%+ [to 65%]?"	Management provided a mathematical breakdown: Retiring legacy debt (□150 Cr/ qtr), Credit Cards reaching scale (□75 Cr/qtr), and Branch maturity (□300 Cr/qtr) add □525 Cr to NII. Adding this to current P&L mathematically brings the Cost-to-Income ratio to 65%.	None	5.0	Specific timeline
9	4.0	Sahil Sharma	Hiring / Risk	Strategy	"Can you please talk... about the credit risk team... as India is	Management is moving away from traditional credit managers to	None	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					changing so fast?"	high-end AI/ Algorithmic coders and UX designers. The bank's risk DNA is shifting from manual appraisal to predictive data science, lowering the cost of underwriting.			
10	4.5	Sagar Shah / PhillipCap	ROE Drivers	Financials	"What are the key drivers for further traction in the ROE?"	Management's one-word answer was "Scale." Operating leverage—where income grows 30% on a large base and expenses grow 20% on a smaller base—is the primary engine for the next 500 bps of ROE.	None	4.0	Clear
11	3.5	Franklin Moraes	Branch Breakeven	Financials	"How many months does it take [for a branch to breakeven]?"	Management indicated 18-24 months for fully loaded breakeven. With 400-450 branches already profitable on a variable basis, the "vintage" of the network is now working in the bank's favor.	None	3.0	Vague

PATTERN FLAGS & SENTIMENT

Theme Cluster: Earnings Management & Conservatism. Analysts were initially confused by the Retail PBT dip (Bhavin Gala). Management's revelation that they used "found money" from SR sales to hike provisions was a major credibility booster. It shows a management team focused on balance sheet "fortress building" rather than reporting the highest possible EPS to satisfy the Street.

Theme Cluster: Mathematical Path to 65% Cost-to-Income. The friction point of high Opex was addressed not with vague promises, but with a hard-coded mathematical bridge (Ashutosh Mishra). By quantifying the NII tailwind from bond swaps and branch maturity, management provided a verifiable checklist for analysts to track over the next 4-8 quarters.

Analyst Sentiment Verdict: The sentiment was **Decidedly Positive**. Friction regarding the Retail PBT and Opex was resolved with high-quality data. Management's credibility has significantly improved because they hit the "double-digit ROE" milestone early. The primary unresolved issue is the exact timing of when the "Opex growth" will slow down to the 15% range while "Income growth" stays at 30%+. Analysts are convinced of the *direction*, but will remain watchful of the *speed* of the cost-ratio descent.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
ROE Status	8.96%	10.13%	↑ (Hit 10% threshold)
ROA Status	0.97%	1.07%	↑ (Hit 1% threshold)
NIM	5.89%	5.98%	↑ Improving
Asset Growth	21% YoY	25% YoY	↑ Accelerating
Infra Book %	4.9%	4.1%	↑ Improving (Risk down)
Retail PCR	72.16%	77.61%	↑ Improving (Fortress building)
SMA 1 & 2	1.5% (Retail/Comm)	1.0% (Retail/Comm)	↑ Improving
Legacy Debt	₹22,406 Cr	₹20,449 Cr	↑ Improving (Drag down)
PPOP Growth	64% YoY (Core)	84% YoY (Core)	↑ Significant Leverage
Tone	Cautiously Optimistic	Decidedly Bullish	↑ Credibility confirmed