

IDFC First Bank Ltd — Oct 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Miss (on PAT and Credit Costs) **One-line:** A robust 28% growth in core operating profit and 32% deposit accretion were eclipsed by a "perfect storm" of provisions (MFI stress + a legacy toll road shock), pushing the ROE re-rating story into FY26/27.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	PAT of ₹201 Cr missed consensus significantly due to ₹1,732 Cr provisions.	□
Earnings Quality	Medium	Operating profit is "clean" and granular, but bottom-line is hit by episodic legacy cleanup.	□
Guidance Confidence	Neutral	FY25 ROA/ROE targets officially marked as "Delayed" in PPT; FY29 targets intact.	□
Management Credibility	Stable	High transparency on the Toll shock and MFI SMA provisioning; however, "surprise" shocks persist.	□
Business Quality Signal	Improving	CASA + Retail deposits at 80%; Cost of funds excluding legacy is a low 6.37%.	□
Key Q&A Exchange	Q5 + Shareholder Predictability	Investors questioned why "early stage" excuses still apply 6 years post-merger.	□
The Street's Primary Anxiety	Predictability & Asset Quality Surprises	Concern that "one-offs" (MFI, Toll) keep recurring; Mgmt: Toll is now 100% provided.	□
Capital Cycle Stage	Harvesting (Core) / Cleanup (Legacy)	Core retail is printing money; legacy DFI book is finally being zeroed out.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	ROA hit 0.33% (reported); Adj. ROA 0.85% (excl. one-offs).	□
Pricing Power	Expanding	Savings rates cut to 3% for <₹5L; customer deposits still grew 32% YoY.	□
FCF Conversion & Quality	Strong	LCR at 116%; granular deposit engine allows exit from high-cost legacy bonds.	□
Competitive Moat Signals	Widening	#1 Indian Mobile Banking App (Forrester); Wealth AUM +79% YoY.	□
Balance Sheet Strength	Strong	Post-merger CET-1 at 14.08%; PCR increased to 75.3%.	□
Working Capital Efficiency	Improving	Incremental CD ratio at 79% (last 12 months); CD ratio down to 97.7%.	□
Mgmt Guidance Track Record	Mixed	Met all liability/mix goals of Guidance 1.0; missed profitability/ROE targets.	□
Key Vulnerability / Red Flag	MFI Concentration & Unsecured Mix	MFI credit cost hit 7.5% in Q2; 15% of total book is unsecured retail.	□
Management Tone	Transparent, Candid, Defensive	Vaidyanathan: "Building a Bank for the long run requires karmayogis."	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The liability franchise has reached "escape velocity," with 80% of deposits now retail and the bank successfully cutting savings rates while maintaining 30%+ growth. Core Pre-provisioning Operating Profit (PPOP) grew 28% YoY, indicating that the engine is highly profitable before credit costs. The digital moat is real, with the mobile app ranking #1 in India, driving a 34% reduction in contact center calls despite a 21% increase in customers. * **Negatives:** Predictability remains the Achilles' heel; a ₹253 Cr shock provision for a Mumbai Toll road (due to government fee waivers) and ₹15 Cr in MFI contingency provisions wiped out quarterly earnings. Microfinance stress is acute, with credit costs in that segment rising to 7.5%, and management has revised the total bank credit cost guidance for FY25 up to 225 bps. * **Street Concern:** Analysts are fatigued by "legacy shocks" 22 quarters post-merger. Management responded by zeroing out the toll account (100% provision) and providing for almost 99% of MFI SMA-1/2, suggesting the decks are now truly cleared for FY26. * **Forward-Looking Watchpoint:** Monitor the recovery of the MFI collection efficiency (currently 98.6%) and whether the "jaw" between income growth (21%) and opex growth (18%) continues to widen to reach the 65% C:I target.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	21%	↓	→	□	Driven by 21.5% loan growth; NII reached ₹4,788 Cr.
NIM (AUM basis %)	6.18%	↓	↓	□	Down from 6.32% YoY and 6.22% QoQ due to higher liquidity/investment book.
Cost of Funds %	6.46%	↓	→	□	Ex-legacy cost is 6.37%; DFI bonds cost 8.83% but are running off.
Cost of Deposits %	6.38%	→	→	□	Stable despite high interest rate environment.
CASA Ratio (period end %)	48.9%	↑	↑	□	Significant improvement from 46.4% YoY; now touches ₹1,09,292 Cr.
CASA Ratio (avg %)	46.3%	↑	↑	□	Average daily balance basis; indicates high quality and stickiness of CASA.
Credit-Deposit Ratio %	97.7%	↓	↓	□	Down from 103.8% in Sep-23; incremental CD ratio for the year is ~78%.
Loans Growth (% YoY)	21.5%	↓	↑	□	Funded assets at ₹2,22,613 Cr; Retail up 25%, Corporate up 20%.
Deposits Growth (% YoY)	32%	↓	→	□	Customer deposits at ₹2,18,026 Cr; Retail deposits at ₹1,75,300 Cr.
GNPA %	1.92%	↓	↑	□	Ex-MFI, GNPA improved to 1.50%; Overall bank GNPA at 1.92%.
NNPA %	0.48%	↓	→	□	Maintained below 0.5% threshold; Retail/Rural/MSME NNPA is 0.53%.
Slippage Ratio %	3.65%	↑	↑	□	Gross slippages ₹2,030 Cr (3.65% annualized); Net slippages ₹1,392 Cr.
Credit Cost (% funded assets)	3.12%	↑	↑	□	Spiked due to Toll (₹253 Cr) and MFI (₹315 Cr) one-offs; normalized is ~1.8%.
Collection Efficiency %	99.5%	→	→	□	Ex-MFI stable at 99.5%; MFI CE dropped to 98.6%.
Capital Adequacy / CET1 %	13.84%	↑	↑	□	Pro-forma CET-1 at 14.08% post-merger/H1 profits; Tier-1 capital ₹35,424 Cr.
PAT (₹Cr)	201	↓ 73%	↓ 70%	□	Hit by ₹568 Cr extra provisions; Adjusted PAT would be ₹626 Cr.
Fee Income Growth %	18%	↓	→	□	Reached ₹1,622 Cr; 92% is granular retail fee.

2B. SEGMENT BREAKDOWN

Segment	Loans (₹ Cr)	YoY Growth	GNPA	Trend	vs Co. Avg	Key Development
Home Loan	25,494	19.9%	0.66%	□	Outperform	Spick and span quality; primary focus for PSL requirements.
Loan Against Property (LAP)	26,022	20.3%	1.48%	□	In-line	Granular retail mortgage; stable SMA at 0.39%.
Vehicle Loans	23,655	32.6%	1.73%	□	In-line	Strong growth in two-wheelers and cars; SMA stable at 1.07%.
Consumer Loans	28,293	21.8%	2.08%	□	Underperf.	Includes personal/durable loans; SMA improved QoQ to 0.91%.
Rural Finance (incl MFI)	25,934	13.6%	1.76%	□	Underperf.	Stress in MFI (7.5% credit cost); disbursals reduced 50% YoY.
Credit Card	6,332	47.9%	1.95%	□	In-line	Delinquencies (1.4% at 90dpd) trending better than industry (1.9%).
Corporate (Non-Infra)	35,191	20.0%	1.22%	□	Outperform	Zero NPA in this book post-merger; concentration risk reducing.
Infrastructure	2,654	-20.9%	24.15%	□	Legacy	Toll road provided 100%; no further provisions expected here.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Profitability (ROA)	1.4% - 1.6% ROA for FY25.	UNLIKELY. Currently 0.57% (H1); needs ~2.4% ROA in H2 to hit.	Delayed	High
Guidance	ROE	13% - 15% ROE for FY25.	UNLIKELY. Currently 5.15% (H1).	Delayed	High
Guidance	Credit Cost	~225 bps for FY25 (Full Year).	Feasible if Q3/Q4 settle at 170-180 bps.	Missed (orig. 165bps)	Medium
Guidance	C:I Ratio	~65% by Q4 FY25.	Needs opex growth to slow to <12% in H2.	Delayed	Medium
Strategy	Deposit Growth	~25% CAGR (Guidance 2.0).	Currently 32%; well ahead of required rate.	Achieved	Low
Strategy	Loan Growth	~20% CAGR (Guidance 2.0).	Currently 21.5%; on track.	Achieved	Low
Strategy	MFI Insurance	>75% CGFMU coverage by March 2025.	Currently 50%; adds ₹2,000 Cr+ coverage.	New Target	Low
Balance	Infra Unwinding	Nil Infrastructure in 5 years (from Dec-18).	Book is 1.2%; Toll road now 100% provided.	Achieved	Low

4. ANALYST Q&A

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
1	5.0	Shivam Gahoi / Abu Dhabi	Predictability	Financials	"Every quarter there are some surprises... how should we model for next 3-4 quarters?"	Management admitted the Toll shock was a "curve ball" but clarified that ₹14,000 Cr of legacy loans have now been successfully dealt with. The implication is that the "shocks" are finally finite as the infra book is zeroed out, though MFI remains cyclical.	None	4.0	Proactive cleanup claim
2	4.5	Ishan Agarwal / Erevna	Credit Cost	Financials	"Full year credit cost shaping up... 225 bps includes prudent provisions?"	Management confirmed 225 bps is the new ceiling for FY25, split as 170 bps (core), 10 bps (toll), and 45-50 bps (MFI). This provides a clear, albeit higher, cost floor for valuation models through FY25.	None	4.5	Clear ceiling provided
3	4.0	Piran Engineer / CLSA	MFI Provisioning	Financials	"Provisioning policy in MFI... 75% at 90dpd and 100% at 120dpd?"	Management confirmed an aggressive 80% PCR on the MFI NPA book, far exceeding industry norms. This front-loads	None	5.0	High transparency

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
						losses, meaning any recovery in FY26 will provide an outsized boost to the bottom line.			
4	3.5	Prakash Bajpai / Shareholder	Shareholder Value	Governance	"Stock price at merger was ₹60, on Monday it might hit same point... where is the progress?"	Management countered that book value has grown from ₹38 to ₹53 (+40% adj.) despite charging off legacy DFI loans not booked by current team. The long-term thesis relies on the compounding of this book value as ROE hits 15%+.	None	4.0	Fair contextualiza
5	4.5	Aditya Shah / Vikram Adv.	Earnings Quality	Financials	"95% of NII goes in opex... what is left for provisions when such events come up?"	Management explained high opex is the cost of building 20+ new product lines (Wealth, FASTag, etc.) from scratch over 5 years. As these products scale, operating leverage is the key "unlock" for future profitability.	None	4.0	Operating leverage stor
6	4.0	Kunal Shah / Citi	MFI Absolute Provision	Financials	"Absolute number of MFI	Management confirmed H1 credit cost in	None	4.5	Quantified stress

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
					provisions... ₹400 Cr plus ₹315 Cr contingency?"	MFI is 6%, with Q2 spiking to 7.5%. High provisioning is due to a policy of early recognition, ensuring no "hidden" stress remains in the rural book.			
7	4.0	Rohit Jain / Tara Capital	Credit Cards	Financials	"How are we escaping turmoil in credit cards when every player has highlighted stress?"	Management pointed to CIBIL data showing 92% of their card customers are "Prime and above" vs 74% for industry. This higher-income customer profile (linked to ₹3.5L avg liability balance) acts as a credit buffer.	None	4.0	Evidence-backed claim
8	4.5	Jai Mundra / ICICI Sec	Merger Accretion	Financials	"Change in net worth from merger effective Oct... ₹618 Cr?"	Management confirmed a ₹618 Cr net worth addition and a 24 bps CET-1 relief in Q3 from the merger completion. This simplifies the structure and provides an immediate, non-dilutive capital	None	5.0	Specific accretion

Q#	Relevance (1-5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1-5)	Verdict
						cushion for growth.			

PATTERN FLAGS & SENTIMENT

- **The "Surprise" Fatigue:** Multiple analysts (Gahoi, Shah, Bajpai) expressed frustration over quarterly surprises. Management's posture was one of "karmic endurance"—claiming they are cleaning up a decades-old DFI mess while simultaneously building a modern retail bank. While the Toll road provision is a 100% write-off (conservative), the Street's skepticism will likely persist until a "clean" quarter with >1.2% ROA is delivered.
- **MFI vs. Broader Retail:** A clear theme emerged where management decoupled MFI stress (cyclical/industry-wide) from the rest of the retail book (stable/outperforming). By providing SMA data product-wise (Slide 32), they successfully argued that 94% of the bank is behaving perfectly, isolated from the 6% MFI stress.
- **Analyst Sentiment Verdict:** Skeptical on near-term earnings but impressed by the liability franchise. The friction point remains the ROE timeline, which has shifted from "FY25" to "FY26/27." Management's credibility on transparency improved (via deep SMA disclosures), but their predictability remains on watch.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening / Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Credit Cost	~1.65% for FY25	~225 bps for FY25	60 bps upward revision in credit cost due to MFI and Toll.	Hits FY25 PAT by ~₹1,200 Cr+ vs original estimates.
FY25 ROA/ROE	On Track (Jan 24)	"Delayed"	Recognition that credit costs and opex will prevent hitting 1.4% ROA this year.	ROE re-rating catalyst pushed out by 12 months.
Opex/C:I	~65% by FY25	~70-71% currently	Opex growth at 18% is still high; "Jaw" is narrow.	Slower-than-expected operating leverage realization.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
MFI Credit Cost	~4.5% - 5.0%	7.5%	↓
Legacy Infra Provisioning	42% on Toll Account	100% (Fully Provided)	□
Total Credit Cost Guidance	1.90% (Actual)	225 bps (Full Year Est)	↓
MFI CGFMU Coverage	~35%	50%	↑
Mobile App Ranking	N/A	#1 in India (Forrester)	↑
Merger Status	Pending	Completed (Oct 24)	□
MFI Risk Weights	75%	125%	↓
Savings Account Strategy	High Yield	Cut to 3% for <₹5L balances	□
Net Worth Accretion	N/A	₹618 Cr (Merger)	↑
ROA / ROE Guidance	On Track	Delayed	↓

STOP HERE.