IDFCFIRSTBANK/SD/217/2021-22 **October 30, 2021**

The Manager - Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C - 1, G - Block
Bandra-Kurla Complex, Bandra (East)
Mumbai 400 051
Tel No.: 022 – 2659 8237/ 38
NSE - Symbol: IDFCFIRSTB

The Manager - Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001
Tel No.: 022 – 2272 2039/ 37/ 3121
BSE - Scrip Code: 539437

Sub.: Press Release & Investor Presentation – Unaudited Standalone and Consolidated Financial Results of IDFC FIRST Bank Limited ("Bank") for the quarter and half year ended September 30, 2021.

Dear Sir / Madam,

Further to our intimation made earlier with regard to the Unaudited Standalone and Consolidated Financial Results of the Bank for the quarter (Q2) and half year ended September 30, 2021, we enclose herewith, the Press Release and Investor Presentation in connection with the aforesaid Financial Results.

The above information is also being hosted on the Bank's website at www.idfcfirstbank.com, in terms of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.

Please take the above on record and acknowledge receipt of the same.

Thanking you,

Yours faithfully,
For **IDFC FIRST Bank Limited**

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: As above

IDFC FIRST Bank Q2 FY22 results:

Profit After Tax increased by 50% YOY at Rs. 152 Crore in Q2-FY22

Mumbai, October 30, 2021:

Financial results at a glance

The Board of Directors of IDFC FIRST Bank, in its meeting held today, approved the unaudited financial results for the quarter and the half year ended September 30, 2021.

<u>**Summary of Results**</u>

- **Net Profit** grew by 50% YoY basis to reach Rs. 152 crore in Q2-FY22
- **Profit Before Tax** grew by 72% YOY to reach Rs. 218 crore in Q2-FY22
- **NII** grew by 27% on a YoY basis to reach Rs. 2,272 crore in Q2-FY22
  - **NIM%**: Increased to 5.76% in Q2-FY22 as compared to 4.91% in Q2-FY21
- **Bank's core operating income** (net of interest expense and excluding trading gains) grew by 41% YOY to Rs. 2,930 crore in Q2-FY22
- **PPOP (excluding Treasury Gains)** grew by 23% YOY to reach Rs. 571 crore
- **CASA balance**: Grew by 53% YoY basis to reach Rs. 46,269 crore.
  - **CASA ratio**: 51.28% as of Sep 30, 2021, as compared to 40.37% as of Sep 30, 2020.
- **Customer Deposits:** grew by 21% YoY to reach Rs. 83,889 crore
- **Funded Assets:** grew by 10% YoY to reach Rs. 1,17,270 crore
  - **Retail Loan Assets:** grew by 30% YoY to reach Rs. 78,048 crore, primarily driven by growth in Home Loans which grew by 46% YOY
- **Asset quality at Bank Level**: GNPA and NNPA at 4.27% and 2.09% respectively. GNPA and NNPA reduced sequentially by 35 bps and 23 bps respectively
  - **Retail Asset Quality**: GNPA and NNPA at 3.45% and 1.66% respectively
  - **Collection Efficiency**: Early bucket collection efficiency surpassed Pre-COVID levels for both urban and rural retail loans
- **Capital Adequacy Ratio**: Strong at 15.60% with CET-1 Ratio at 14.85%
- **Average Liquidity Coverage Ratio (LCR)**: Strong at 174% for Q2-FY22.

DETAILED NOTE ON BUSINESS & FINANCIAL PERFORMANCE OF THE BANK

Earnings

- **Net Interest Income (NII)**: Net Interest Income (NII) grew by 27% YOY to Rs. 2,272 crore in Q2 FY22, up from Rs. 1,784 crore in Q2 FY21.

- **Net Interest Margin (NIM%):** Net Interest Margin (quarterly annualized) of the Bank improved to 5.76% for Q2-FY22 from 4.91% in Q2-FY21 and 5.51% in Q1-FY22. The NIM expansion was primarily driven by the gradual improvement in the cost of funds, mainly the cost of deposits.

- **Bank's core operating income** (net of interest expense and excluding trading gains) increased by 41% YOY to Rs. 2,930 crore in Q2-FY22 from Rs. 2,075 crore in Q2-FY21 aided by strong NII and Fee Income growth. Fee Income growth was contributed primarily by the fees related to retail loans, transaction fees, distribution and wealth management fees.

- **Operating Expense** grew 47% YOY at **Rs. 2,359 crore** for Q2-FY22 as compared **to Rs. 1,610 crore** for Q2-FY21. During Q2 FY21, there was COVID lockdown and economy was stalled and on the other hand, during Q2 FY22, economy has normalized. Hence, there have been increase in expenses on loan origination. Similarly, collection is in full swing resulting in higher collection expenses. Thus, resumption of business activity and investment has resulted in increased expenses compared in Q2 FY22 as compared to Q2 FY21.

- **Pre-Provisioning Operating Profit** (excluding the trading gains) grew by 23% YOY basis to Rs. 571 crore, for the quarter Q2-FY22 from Rs. 465 crore in Q2-FY21.

- **Provisions** were at Rs. 475 crore in Q2-FY22 as compared to Rs. 674 crore in Q2-FY21. The Bank utilized Rs. 560 crore of COVID provision in Q2-FY22 and carrying forward Rs. 165 crore of provision for future. The Bank expects the net credit loss for the retail loan segment to normalize from here on assuming there is no further disruption in the economy due to a new wave of COVID-19.

    - The Bank maintains its guidance of 2.50% credit loss as % of total funded assets for the full year FY22. The Bank has already taken provisions of Rs. 2,347 crore in H1-

FY22 and hence the provisions for H2-FY22 are likely to be significantly lower than the provisions in H1-FY22. This excludes the impact of one well-known telecom account if any.

- **Profitability:** The net profit for Q2-FY22 grew by 50% to Rs. 152 crore from Rs. 101 crore in Q2 FY21, driven by growth in core operating income and lower net credit losses. The profit before tax grew by 72% to Rs. 218 crore in Q2-FY22 from Rs. 126 crore in Q2-FY21.

  We would like to further point out the following drivers of profitability going forward.

  - **Legacy High Cost Borrowings to run off**: The Bank is carrying Rs. 27,667 crore of legacy high cost borrowings which is currently dragging the P&L by around Rs. 250 crore every quarter. These liabilities have residual average maturity of 2.25 years. As these legacy borrowings mature and are replaced by incremental low cost deposits and borrowings, this drag will gradually diminish and will add back to the core earnings.
  - **Loss on Retail Liabilities:** Since the Bank is new, and was a DFI with a large loan book at merger, and since our CASA % was very low, the Bank had to initially invest in setting up branches, ATMs, manpower and technology, most of which have been undertaken in the last two years. Since merger in Dec-18, the Bank has opened 393 branches and have installed 608 ATMs apart from investing in necessary digital capabilities. The Bank is currently incurring losses every quarter from the Retail Liabilities business segment to the tune of about Rs. 325 crores per quarter. As the Bank scales up its retail liability businesses and utilize on the cross-sell potential going forward, the retail liabilities would reduce these losses in this business.
  - **Investment in setting up the Credit Cards business:** The Credit Cards business had highly successful launch. Our cards are highly successful because they are extremely customer friendly, have no joining or annual fees, low interest rates, no hidden charges, informing the customer in advance if they are nearing utilization limit, easy rewards redemption processes, and many other such unique and customer friendly features. Credit Card business usually has high setup and technology costs because of complicated nature of building the credit cards businesses. Profitability is achieved when the outstanding book achieves the required scale, and when interest and fees exceed cost of business. The Bank has

already issued more than 400,000 credit cards since launch in January 2021. Our business is directly originated and we have yet not had to engage DSAs for our business. We expect this business to break even in due course. Loss from this business at this stage is around Rs. 75 Cr. per quarter at this stage.

  - We believe that all the above three items mentioned above which are currently yielding negative returns will get addressed in due course. The management feels that if we will get to mid-teens ROE as these three items are addressed, hence the profitability, ROA and ROE will naturally get address in due course as these events of retiring high cost of debt and building scale plays out.

  - Finally, we have excess liquidity and have LCR of 174% against the regulatory requirement of 100%. This is a negative drag to the P&L and the Bank would work forward to reducing the excess liquidity so as to reduce the drag on the P&L in the upcoming quarters.

<u>Liabilities</u>

The Bank continues to have a strong liability and deposits franchise

- **CASA Deposits** posted strong growth, rising 53% YoY to Rs. 46,269 crore as on September 30, 2021, as compared to Rs. 30,181 crore as on September 30, 2020. The Bank had reduced peak saving rates by 100 bps in Q4-FY21 followed by another 100 bps reduction in peak savings rate with effect from May 1, 2021, yet the total CASA balances remained strong based on our excellent service, unique product propositions (like monthly interest credits on savings account), digital experience, excellent brand, and track record of high corporate governance and transparency.

- **CASA Ratio** was at 51.28% as on September 30, 2021, as compared to 40.37% as on September 30, 2020. The CASA ratio was at 50.86% as on June 30, 2021.

- The Bank has introduced monthly interest payment for its savings account customers rather than quarterly payment, usually followed by the large peer banks. It has also introduced attractive cashback offers on its debit cards for purchase during the festive season. The Bank is focusing on on-boarding the retail depositors with granular deposits and getting corporate salary accounts.

- **Customer Deposits** increased by 21% to Rs. 83,889 crores as of September 30, 2021, as compared to Rs. 69,368 crore as of September 30, 2020.
- **The Fixed Deposits** of the Bank have the highest rating "FAAA/Stable (pronounced F Triple A) by CRISIL.
- **Branch & ATM Network**: As of September 30, 2021, the Bank has 599 branches and 720 ATMs (including recyclers) across the country. The Bank has slowed down its branch expansion plan after the initial front-ended growth of branch network. As the economy gradually revives to the pre-Covid levels, the Bank would continue gradual expansion of branch network at that point of time

<u>Loans and Advances</u>

- **Total Funded Loan Assets** grew by **10% YOY** at Rs. 1,17,270 crore as on September 30, 2021, compared to Rs. 1,06,828 crore as on September 30, 2020. It stood at Rs. 1,13,794 crore as on June 30, 2021.
- **Retail Loan Book**, increased to Rs. 78,048 crore as on September 30, 2021, compared to Rs. 59,860 crore as on September 30, 2020. The year-on-year growth of the Retail Loan Book was 30% including Emergency Credit Guarantee Line loan book of Rs. 1,555 crore. Retail loan Book grew by 7% on a sequential basis.
    - The growth of the Retail Loans has been largely driven by the **Home Loan Book** which **grew by 46%** on YOY basis. With the economy gradually opening up, the demand for the new home purchase has fueled the growth of home loans across the Industry.
    - The Bank looks forward to continue the growth momentum going forward and is confident of growing the retail loan book by ~25% in the coming quarters as well.
- **Wholesale Loan Book** reduced by 15% to Rs. 33,269 crore as of September 30, 2021 from Rs. 39,286 crore as of September 30, 2020.
    - Within the wholesale segment, the **Infrastructure loan book (legacy run/off book)** reduced by 19% to Rs. 10,142 crore as on September 30, 2021, from Rs. 12,502 crore as on September 30, 2020

- **Infrastructure financing (legacy run/off book) as % of overall funded assets** has now reduced to just 8.6% of funded assets as on September 30, 2021, as compared to 11.7% as on September 30, 2020, and as compared to 21.7% at the time of merger.
- **Non-Infra Corporate Loans** decreased by 14% YOY. We are now comfortable with our Corporate Loans and look forward to sustaining its growth from here on, based on the market opportunity and economic condition.

- **The Bank reduced concentration risk by reducing the exposure to Top 10 borrowers** as % of the total funded assets to 5.5% as on September 30, 2021, as compared to 7.1% as on September 30, 2020

Asset Quality: The Asset Quality improved across all business segments at the bank in Q2 FY 22, as compared to Q1 FY 22. The following is the Segment wise Gross and Net NPA:

Particulars	Dec-19 (Pre-Covid)	Mar-21 (Post Covid 1.0)	Jun-21 (During Covid 2.0)	Sep-21 (During Covid 2.0)	PCR (%) As of Sep 30, 21
Retail					
GNPA	2.26%	4.01%	3.86%	3.45%	52.90%
NNPA	1.06%	1.90%	1.82%	1.66%	
Non-Infra Corporate					
GNPA	3.08%	3.98%	2.91%	2.85%	71.02%
NNPA	1.58%	1.92%	1.25%	0.84%	
Infrastructure					
GNPA	4.69%	5.76%	15.65%	15.83%	41.67%
NNPA	1.23%	1.35%	9.84%	9.89%	
Total					
GNPA	2.83%	4.15%	4.61%	4.27%	52.06%
NNPA	1.23%	1.86%	2.32%	2.09%	

- We see that the impact of COVID second wave is gradually diminishing and this improvement is showing in the above improvement in asset quality.
- One infrastructure loan (Mumbai Toll Road account) had become NPA during the last quarter Q1 FY 22. This account continued to pay its dues partially and the principal

outstanding reduced by Rs. 16 crore during the quarter to Rs. 838 crore as of Sep 30, 2021. Gradually the cash flows of this account are likely to regularize, as traffic volumes on the Mumbai road come back to normalcy. While the account is NPA as of now, we expect to collect our dues and expect eventual losses on this account to be not material in due course.

- Excluding this particular toll account mentioned above, the GNPA and NNPA of the Infrastructure Loans would have been 5.21% and 0.60% respectively with PCR at 89%. On the overall Bank level, but for this one infrastructure account, which we hope to cure in due course, the GNPA and NNPA would have been 3.47% and 1.42% respectively as of September 30, 2021 and the PCR would have been 60%.
- The Bank's proactively identified Stress Assets pool of legacy infrastructure accounts (over and above the disclosed NPA list), reduced to Rs. 1,352 crore as on September 30, 2021 compared to Rs. 2,717 crore as on September 30, 2020. The Bank now holds provision cover of 67% on this proactively identified stressed pool.
- In the Retail Loan segment, the quality of incremental business originations continues to improve, based on data of the first EMI bounce rates. We continue to witness improved collection efficiency. The collection efficiency on early buckets in Q2 FY22 are better than the collection efficiency on same buckets of pre-Covid times.
    - 91% of the incremental retail loans book during the quarter had existing credit history. The percentage of customers having bureau score of more than 700 improved to 85% of incremental origination during the last quarter.
    - The early bucket bounce rate for Sep-2021 in case of the urban retail portfolio is at 1.12x of the pre-Covid (March 2020) level which improved from 1.18x in June-2021 and 2.53x in Sep-2020.
    - The Early Bucket Collection Efficiency (urban retail) in Sep-2021 was at 99.35% (including the cheque clearances and collections on the bounce cheque cases within the same month). This has surpassed the pre COVID level (Feb-2020) of 98.88%.

    - The Early Bucket Collection Efficiency in Rural Retail segment was impacted in Q1-FY22 but improved in Q2-FY22 to reach 98.96%, higher than the Pre-COVID level (Feb-20) of 98.81%.
- The Bank continued its support the customers affected by COVID by offering restructuring solution to the eligible customers. Restructuring for the overall portfolio stood at 2.9% of the total Funded Assets as of Sep 30, 2021. In Q2-FY22, the Bank witnessed higher restructuring in the rural financing portfolio.
- With the gradual improvement seen in key indicators, like (a) Improving customer profile for on-boarding (b) improving cheque bounce trends of portfolio (c) improving collection efficiencies and improved vintage analysis indicators, the bank continues the journey of reducing Gross NPA and NPA to pre-COVID levels and are confident of meeting the target of reducing annualized credit costs to less than 2% for the retail loan book.

Capital and Liquidity Position

- **Capital Adequacy** of the Bank was strong at 15.60% with CET-1 Ratio at 14.85% as compared to regulatory requirement for the Capital Adequacy Ratio of 10.875% and for CET-1 Ratio of 7.375%.
- **Average LCR** was strong at 174% for the quarter ending on September 30, 2021.

Mr. V Vaidyanathan, Managing Director and CEO, IDFC FIRST Bank, said, "We are seeing strong revival of the economy and strong demand for home loans, loan against property, MSME and consumer loans. The retail loan book is now highly diversified across over 10 lines of business and millions of customers.

Further, the quality of the deposit franchise also improved significantly; our CASA Ratio has sustained at upwards of 50% even after reducing rates.

As far as asset quality is concerned, we are confident that we will soon revert to the pre-Covid levels of Gross and Net NPA of 2% and 1% again in the retail business as seen from improvement in the input indicators such as cheque/ mandate bounce percentages, Collection efficiency and recoveries. Looking ahead, we are feeling quite confident."

About IDFC FIRST Bank

IDFC FIRST Bank was created by the merger of IDFC Bank and Capital First in December 2018. The Bank provides a range of financial solutions to individuals, small businesses and corporates. The Bank offers savings and current accounts, NRI accounts, salary accounts, demat accounts, fixed and recurring deposits, home and personal loans, two-wheeler loans, consumer durable loans, small business loans, forex products, payment solutions and wealth management services. IDFC FIRST Bank has a nationwide presence and operates in the Retail Banking, Wholesale Banking and other Banking segments. Customers can choose where and how they want to Bank: 599 Bank liability branches, 185 asset branches, 720 ATMs (includes Recyclers) and 630 rural business correspondent centres across the country, net Banking, mobile Banking and 24/7 Customer Care services. The Bank is rated FAAA by CRISIL for the Fixed Deposit Program.

Cautionary Statement

"Statements made in this release may contain certain forward-looking statements based on various assumptions on the Bank's present and future business strategies and the environment in which it operates. Actual results may differ substantially or materially from those expressed or implied due to risk and uncertainties. These risks and uncertainties include the effect of economic and political conditions in India and abroad, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the Bank's businesses as well as the ability to implement its strategies. The information contained herein is as of the date referenced and the Bank does not undertake any obligation to update these statements. The Bank has obtained all market data and other information from sources believed to be reliable or its internal estimates, although its accuracy or completeness cannot be guaranteed."