Thread by @sahil_vi on Thread Reader App – Thread Reader App

Sahil Sharma

30 May, 66 tweets, 19 min read

#idfcfirstbank is my largest and oldest investment. Thought of creating a thread to explain the business. If you like the thread, please spread the knowledge, retweet. Buckle up, because this is going to be a long one. :D

Quick summary of what a bank does. This enables me to establish a framework under which the analysis of the bank will become very structured.
Money is its raw material.

Bank takes customer deposits, raises money via borrowings (can issue its own bonds, takes loans from other banks etc). This is the input for the bank. Since the bank is liable to pay interest on it, it is also known as liabilities.

The output is a loan which the bank gives. These are broadly of 2 types: loans given to customers (Retail and Corporate) and subscription to bonds issued by other entities (Government of India, corporates like Vodafone Idea etc).

This is the output of a bank. Since these generate income for the bank, they are called assets. Not all the liabilities can be utilised as loans or used to purchase bonds, because banks need to have enough liquidity to service redemptions of their deposits.

RBI makes rules around this, that banks must follow. RBI is the regulator for this sector. Let's understand how a bank makes profits.

Suppose total deposits and borrowings for a bank is 10,000 cr. Total loans + subscription to bonds is 8,000 cr. Suppose that the rate of interest the bank pays on liabilities is 5%. Then, the interest outgo is 200cr.

Suppose that the rate of interest the bank charges on assets is 10%. Interest earned is 800 cr. The net interest margin (NIM) is a term you'll commonly see. NIM is the interest earned minus interest outgo as a proportion of interest earning assets. (800-200)/8000 = 7.5%.

The "spread" for the bank is the difference between interest rate for assets and interest rate for liabilities: 10% - 5% = 5%. The bank has other costs as well. Costs of running the branches, and money paid to employees, sales and marketing campaigns etc.

Key unit economics metrics to track for a bank are RoA and RoE. The first tells us how profitable the bank is as a proportion of its total assets (which includes the debt it takes). The second tells us the profitability as a proportion of its equity only.

You go from one to the other by leveraging (pun intended) the bank's D/E ratio: which captures how much liabilities/debt the bank has as a proportion of its equity capital. The higher the D/E, the riskier it is. investopedia.com/ask/answers/07….

Return on Equity (ROE) vs. Return on Assets (ROA): What's the Difference?

Return on equity (ROE) and return on assets (ROA) are two of the most important measures for the effectiveness of management at a company.

https://www.investopedia.com/ask/answers/070914/what-are-main-differences-between-return-equity-roe-and-return-assets-roa.asp#:~:text=ROE%20and%20ROA%20are%20important,resources%20to%20generate%20more%20income

There are 2 key drags on a bank's profitability. The first tracks its operating efficiency. It is the Cost-to-income ratio (CIR). It is calculated by dividing the operating expenses by the operating income generated: net interest income plus the other income.

The second tracks its lending efficiency. It is the Gross NPA (Non Paying Asset) of the bank. Remember the 8,000cr our bank gave out as loans + subscriptions to bonds? Well, not everyone will pay back the money.

There are RBI rules (rbi.org.in/scripts/BS_Vie…) around how to track non-payment but tl;dr is if you don't pay for 90 days to a bank, a due EMI, then you become an NPA . This leaves a hole in the bank's balance sheet.
The way to fill the hole is to set aside a part of your Profits to fill that hole. These are known as provisions. What is left of the metaphorical hole after the bank partially fills it with provisions is known as NNPA: Net NPA.

To Recap, there is the asset side, the liability side, profitability (NIM, RoA, RoE) and drag on profitability (CIR, GNPA, Provisions). Are we done? Nope.

The bank can do what is known as cross-selling and juice up its profitability by boosting its non-lending income. Many avenues: Banks can sell credit cards, create insurance or Mutual fund (MF) arms and manage assets, distribute others' insurance or MF.

Here is a brilliant VP post on estimating just the tip of the iceberg that is cross-selling which IDFCF bank can do: forum.valuepickr.com/t/idfc-first-b… All credit to Kedar.

IDFC First Bank Limited

Stock Opportunities

zygo23554 Collaborator 13d

Some of the possibilities for a bank can be appreciated with simple numerical examples.

Assume number of branches = 500
Every branch will have at least 50-60 families that have 2 Cr on an average parked with the bank. For large banks like HDFC Bank, ICICI Bank, Kotak bank one can see some flagship branches that have 1000 customers who fall into the category of affluent/HNI and above. Let us work with conservative numbers here. For a reference ICICI Bank has an MF AUM of ~1,00,000 Cr across privilege banking, wealth management and private banking team at a branch network of ~ 5000+. This is just MF mind you, we aren't even counting things like Insurance and demat assets yet.

Management decides to focus on fee income through a wealth management vertical which focuses on this customer segment. Investment needed for this is just 1 full time RM in each branch at a fixed salary of 0.15 Cr per year and a product/management team of another 20 employees.

Each such wealth RM in the branch manages to start a relationship with 20 such customers over an 18 month period and manages a wealth book of say 50 Cr. Through a combination of products like Insurance, mutual funds, PMS and other offerings, the RM manages to generate a yield per AUA of around 1%. IIFL Wealth which is a true blue private banking outfit makes 0.7%, hence a mid range wealth management outfit can manage to do 1% through a higher proportion of ULIP and other high margin products.

If one does the math, incremental revenue per branch = 0.5 Cr per annum
Total revenue from the wealth management vertical = 250 Cr at 500 branches
Incremental cost due to this is ~0.20 Cr per branch (accounting for overheads and performance bonus)

Behold! We have PBT of approx 150 Cr generated without incremental risk, incremental cost of capital just by doing cross selling and man management for 18 months. And this is an annuity that grows steadily every year without a cost of capital being attached to it. This is just one of the possibilities for an urban customer centric bank, a Bandhan Bank will have a tough time doing this given the customer base it deals with.

The delta from such operating leverage plays for a financial institution is insanely high. Once you have custody of customer's money, trust and a decent brand name, making incremental money is unbelievably easy. There aren't too many sectors where one can execute this so easily.

Which is why an institution that offers a cosmo work culture and can scale offerings over a period of time under a management that knows what they are doing can be interesting. See how Axis Bank has scaled up its wealth management vertical within just 5 years of serious focus, you can see a similar trend in a PSU like SBI too. They are barely scratching the surface, they started investing into a competent wealth team in 2013.

Is IDFC Bank such an institution who can execute these cross sell initiatives well enough? Do your own work and research

IDFC First Bank Limited Some of the possibilities for a bank can be appreciated with simple numerical examples. Assume number of branches = 500 Every branch will have at least 50-60 families that have 2 Cr on an average pa...
https://forum.valuepickr.com/t/idfc-first-bank-limited/3279/1688?u=sahil_vi

Let us now analyze the bank from the prism of asset side, liability side, profitability, Cost to Income, Asset Quality (NPAs), Cross-selling.

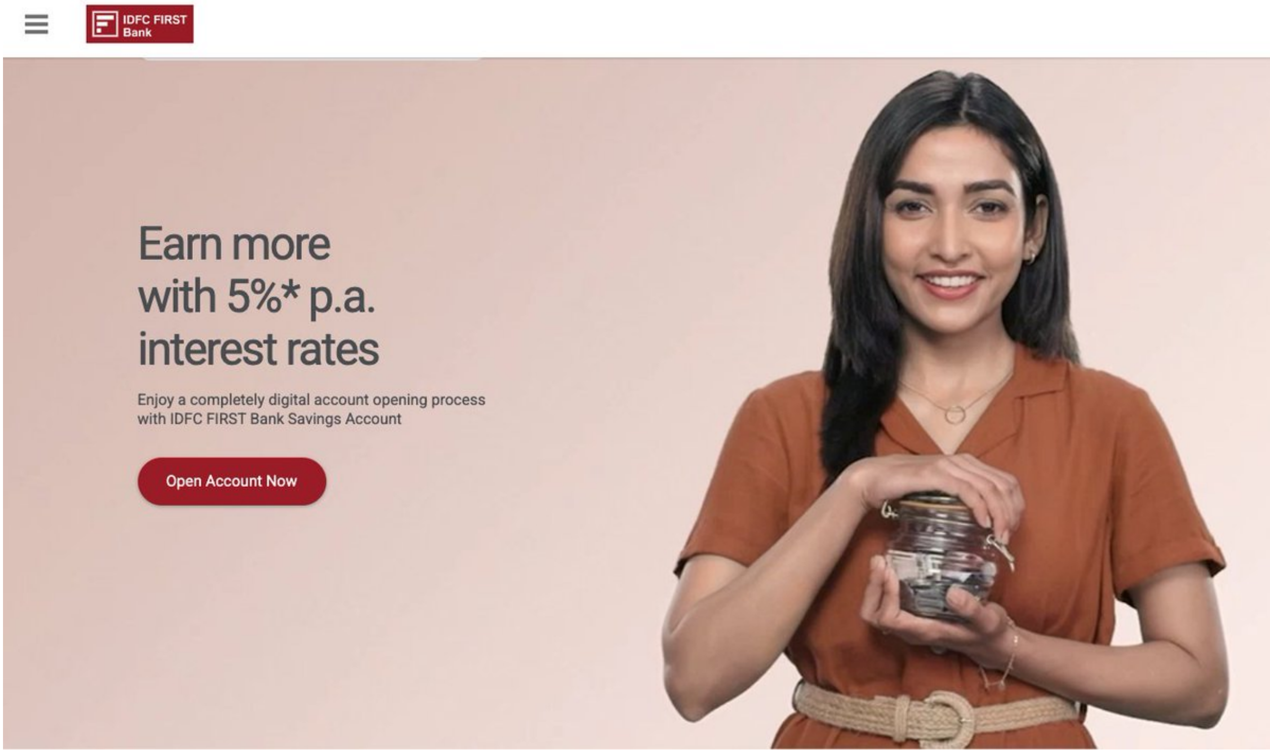
Liability Side. This is very important for a bank. Why? Because this is cheap money. HDFC Bank offers a 3.5% savings account interest rate. And then there are current accounts (used by businesses) where interest rate offered is 0%!

These two sources of funds are so important that they have an acronym: CASA. Banks need to do advertising and brand building in order for customers to develop trust in a bank and bring there CASA. There is another thing banks can do. Attract customers with high SA interest rates.

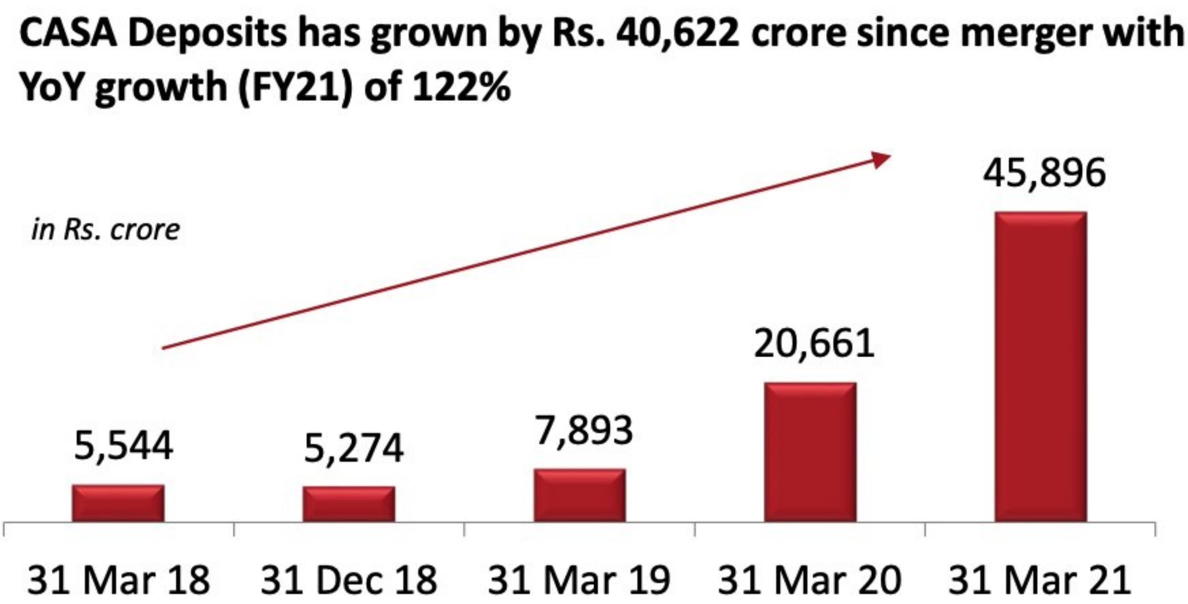
Not all banks can do this though. It depends on the kind of customers they are giving loans to. If these loans are at high interest rate (Say 14%) then bank can give 7% interest rate on its SA and attack customers.

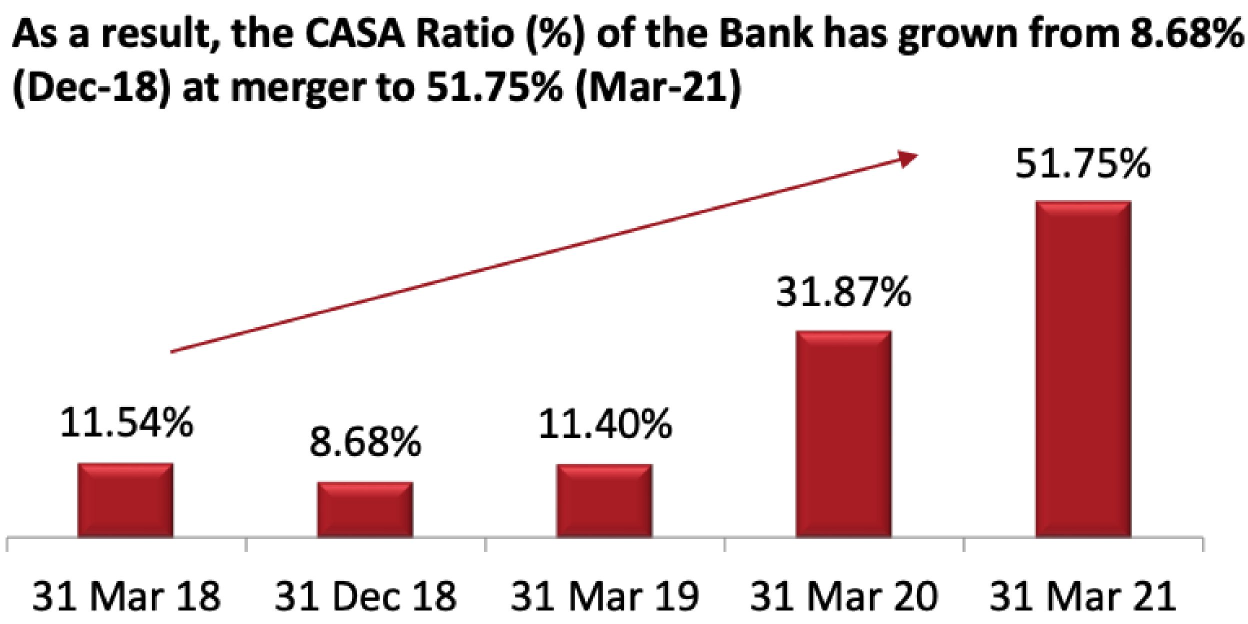
You bring them in with the money motif and keep them for the better services and the marginally higher SA interest rate. This is exactly what #IDFCF bank did! Started out with 7% interest about a year and half ago, brought in truckloads of CASA.

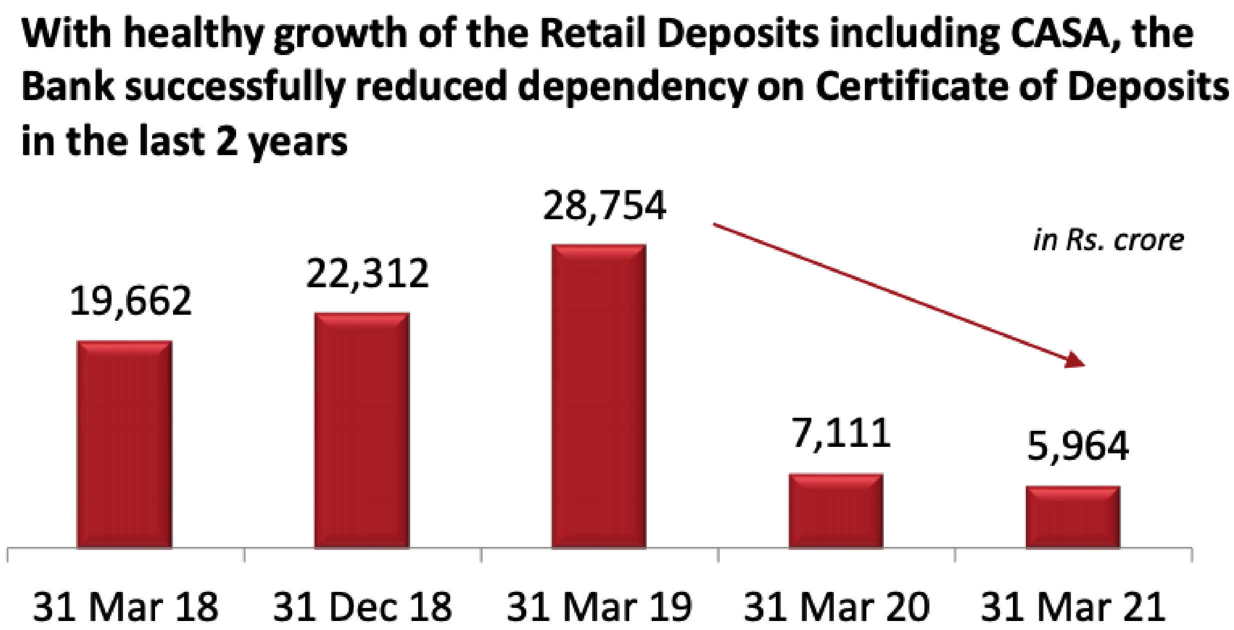
Bank is now able to retain it due to the better services (my subjective judgement) and marginally better Savings interest rates of 4-5% (than large banks). And Fixed deposit rates of 6% (marginally better than big banks)



Look at the growth in CASA and CASA Ratio (en.wikipedia.org/wiki/CASA_ratio)! Due to this, bank's dependence on costly borrowing from large lendees (CoD) has also gone down.



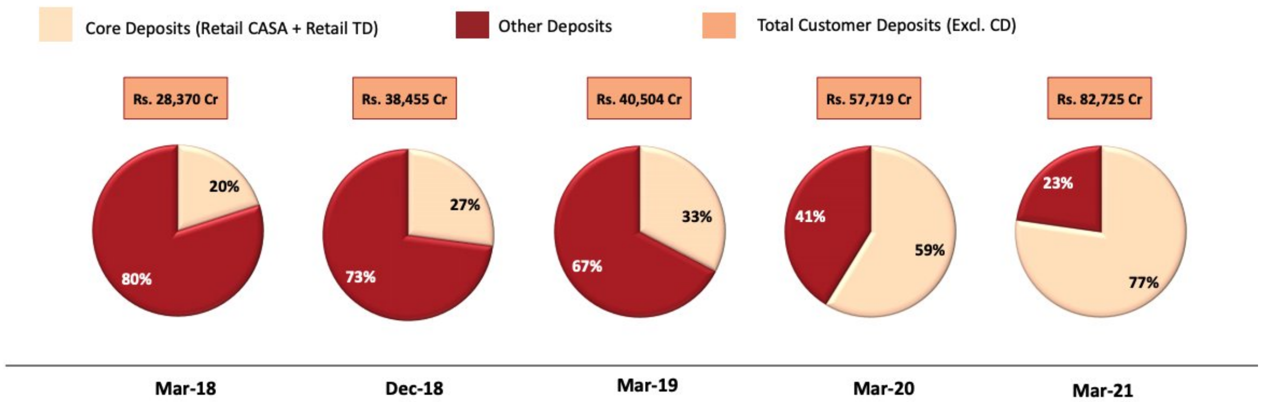


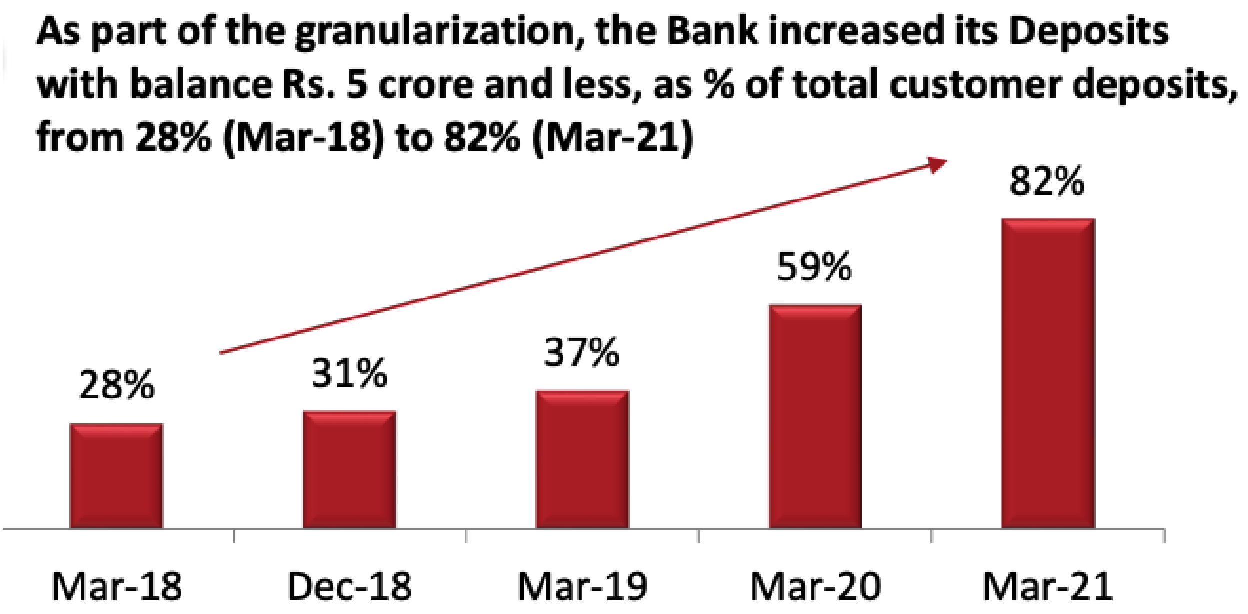


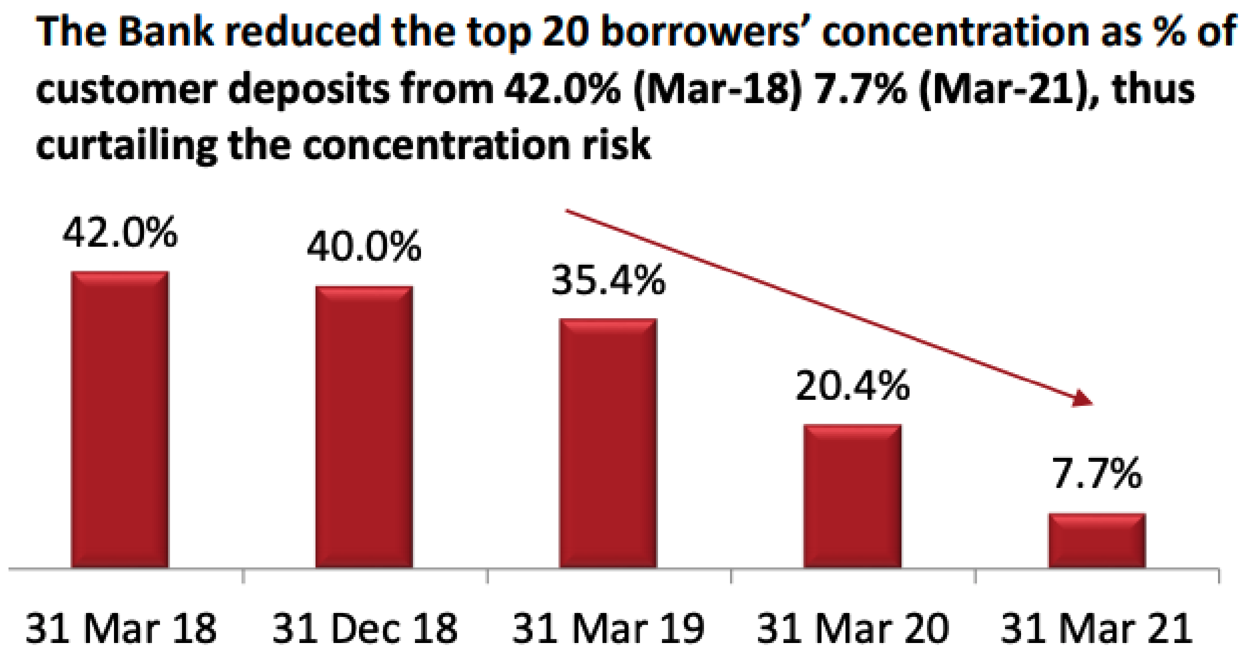
CASA ratio - Wikipedia https://en.wikipedia.org/wiki/CASA_ratio

Not only does bank want to grow its customer deposits, bank wants to make the liability granular: chhota chhota deposits by many customers. Makes the liability side more sticky and less prone to large changes. Good progress has been made on that side.

- The Bank is focused for retailization of the liabilities which is reflected in the growth in its Core Deposits.
- Such Deposits are sticky and sustainable in nature in comparison to Corporate Deposits or Certificate of Deposits.
- We are happy to report that the Bank has increased the Core Deposits (Retail CASA + Retail Term Deposits) as a % of Total Customer Deposits of the Bank as on March 31, 2021 to **77%** from **27%** as on December 31, 2018 (merger quarter).
- The Liability Franchise is strong and well diversified across retail depositors.



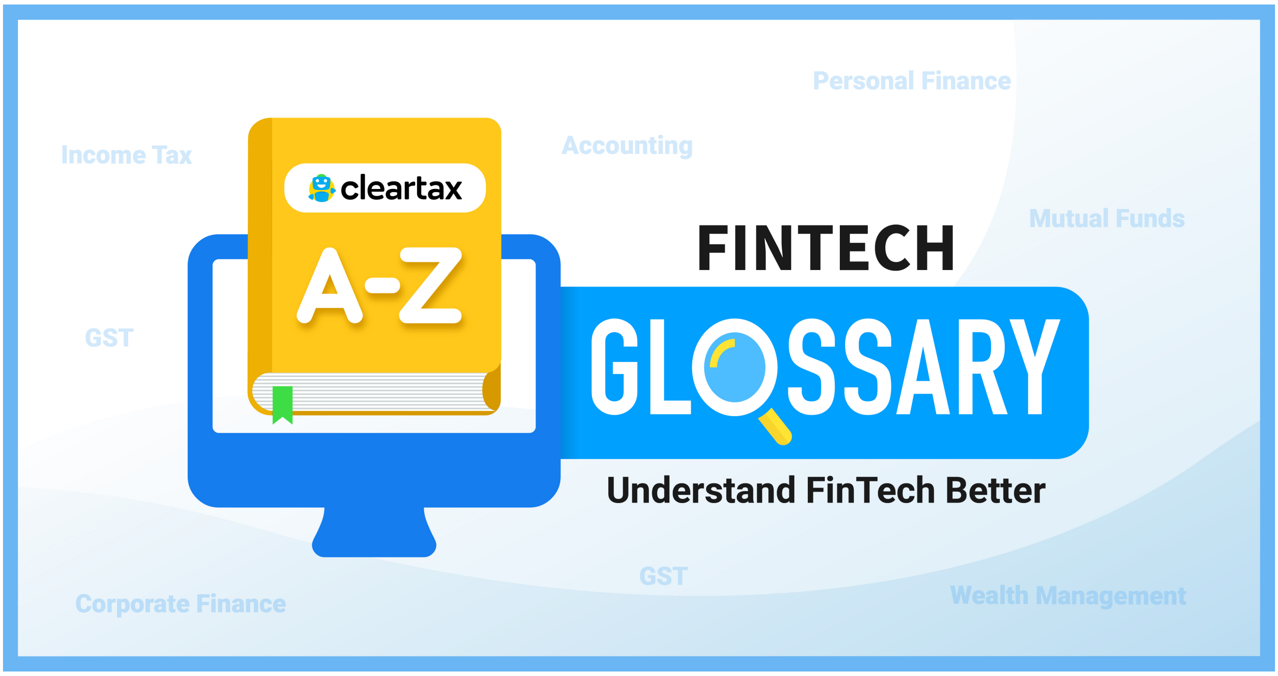




Cost of funds (CoF, cleartax.in/g/terms/cost-o...) will go down even more as SA interest rates go down and high interest bonds are substituted by Retail CASA+TD. CoF was 6.8% for 9MFY21.

The table below sets forth details of our retail loans:

Particulars	As at March 31,						As at December 31, 2020	
	2018		2019		2020			
	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total
	(₹ in crores, except for %)							
Mortgage loans	2,238.62	31.81%	14,268.46	34.96%	20,314.11	35.44%	24,379.37	36.57%
Consumer loans	416.32	5.91%	14,885.49	36.48%	19,970.77	34.85%	23,431.45	35.15%
MSME/SME loans	1,342.41	19.07%	7,122.35	17.45%	10,338.40	18.04%	11,607.66	17.41%
Rural Microfinance Institutions and Kisan Credit Card	3,041.04	43.21%	4,535.35	11.11%	6,687.21	11.67%	7,246.94	10.87%
Total	**7,038.39**	**100.00%**	**40,811.65**	**100.00%**	**57,310.49**	**100.00%**	**66,665.43**	**100.00%**



Cost of Funds - Definition, Understanding, and Why Cost of Funds is Important? Cost of Funds is an important aspect of planning your personal finances. Here, we have broken down the concept in terms of definition, understanding, and importance of Cost of Funds for you. https://cleartax.in/g/terms/cost-of-funds

This is because SA rates were at 7% throughout. As SA rate is 4-5% now, higher cost bonds would be paid back early and CoF will go down. Meaning, lower interest outgo. Higher NIMs. Sweet.

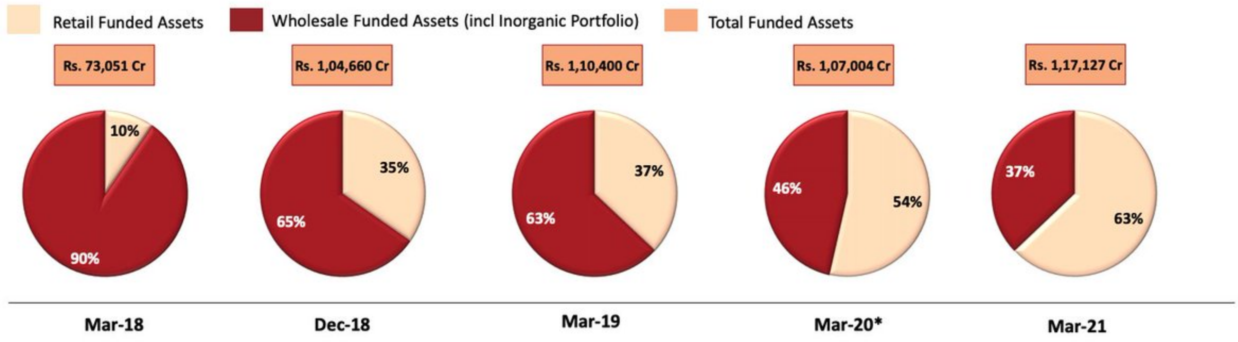
Observe Interest bearing liabilities and trend in interest rates. Both will go lower. And quantum of borrowings will also go lower.

	Nine months ended December 31,					
	2019			2020		
	Average Balance(4)	Interest Earned/ Expended	Average Yield/ Cost(5) (%)	Average Balance(4)	Interest Earned/ Expended	Average Yield/ Cost(5) (%)
	(₹ in crores, except %)					
Others (1)	10,341.07	225.85	2.91%	12,215.22	202.29	2.20%
Total interest-earning assets	**1,56,398.66**	**11,911.44**	**10.14%**	**1,45,070.82**	**11,584.53**	**10.60%**
Non-interest earning assets:						
Fixed assets	992.51	-	-	1,128.92	-	-
Other assets	8,725.58	-	-	9,123.47	-	-
Total non-interest earning assets	**9,718.08**	-	-	**10,252.39**	-	-
Total Assets	**1,66,116.74**	**11,911.44**		**1,55,323.21**	**11,584.53**	
Interest-bearing liabilities:						
Total deposits(2)	66,800.50	3,587.13	7.15%	72,687.08	3,512.02	6.41%
Subordinated bonds	-	-	-	-	-	-
Borrowings (3)	73,993.13	4,252.50	7.65%	55,394.74	3,042.97	7.29%
Total interest-bearing liabilities and demand deposits	**1,40,793.63**	**7,839.63**	**7.41%**	**1,28,081.81**	**6,554.99**	**6.79%**
Non-interest bearing liabilities minus demand deposits:						
Capital and reserves	17,804.10	-	-	17,107.82	-	-
Other liabilities	7,519.01	-	-	10,133.58	-	-
Total non-interest bearing liabilities	**25,323.11**	-	-	**27,241.40**	-	-
Total liabilities	**1,66,116.74**	**7,839.63**		**1,55,323.21**	**6,554.99**	

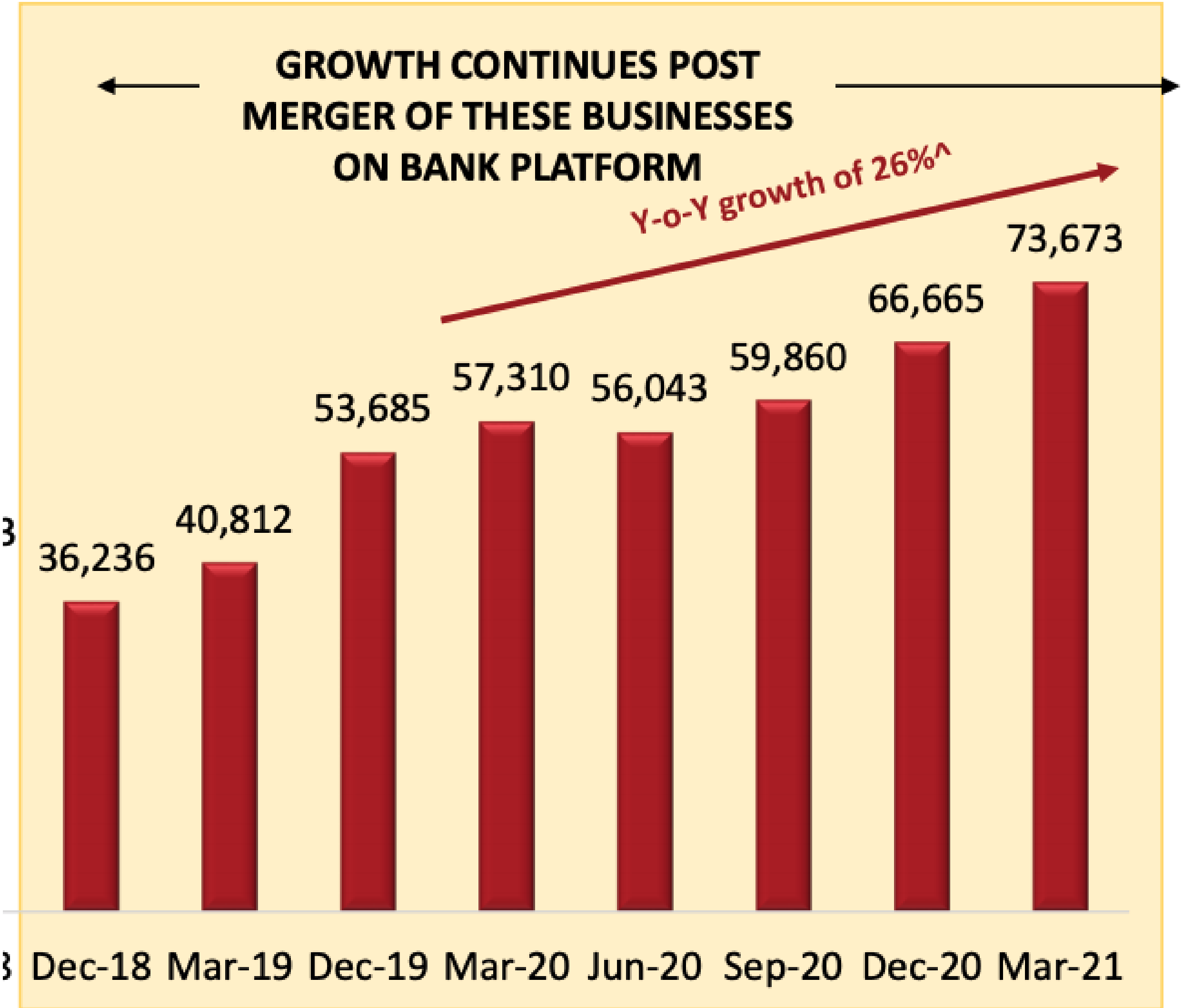
Summary of Liability side: Fast Growing CASA, Retailization of CASA, reducing interest rates on SA, CASA substituting higher interest borrowings.

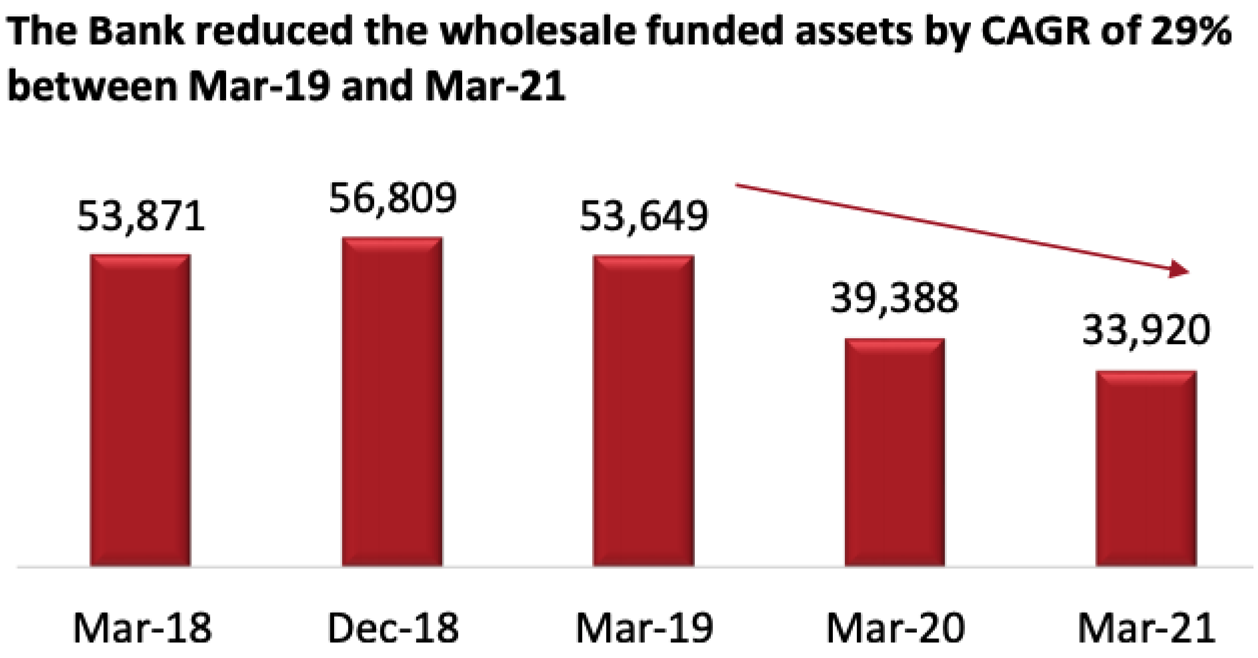
Asset side.
Here are the types of loans that the bank offers. Pay special attention to the very first tile. We will come back to this later.

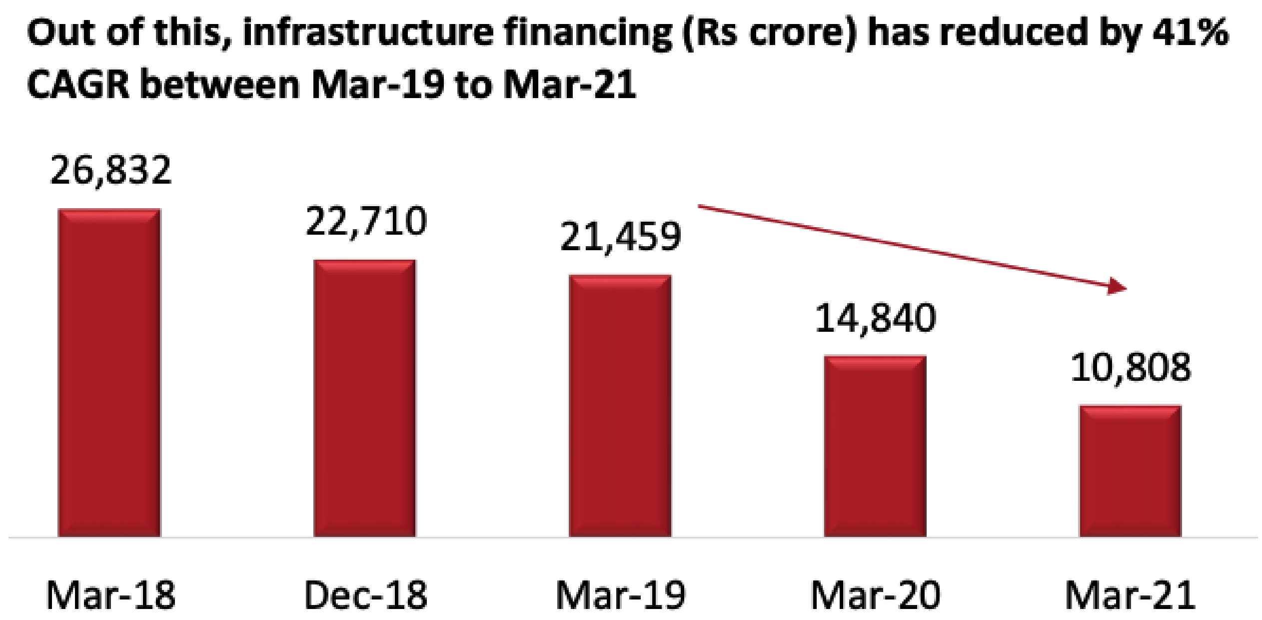
Similar transformation is playing out. Wholesale assets are corporate loans (large ticket size, some of them legacy & high risk like infra loans). Bank's stated objective is to be a retail bank (on both sides). Wind down infra loans (risky, low NIM) to 0% of book.



Retail book has grown beautifully post merger (IDFC Bank + Capital First, haven't talked much about this coz dont find it that important to understand biz of the bank). Have consciously degrown wholesale book, and within that infra book aggressively.







Another perception about #IDFCFIRSTBank is that it lends to risky lenders. This has been somewhat true, historically speaking. But we are seeing a transformation here as well.

Look at how mortgage and consumer loans (low duration, low ticket size, given to high earning potential people like no cost EMIs) have gone up, SME has remained stable and Microfinance has gone down.

The table below sets forth details of our retail loans:

Particulars	As at March 31,						As at December 31, 2020	
	2018		2019		2020			
	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total	Balance Outstanding	% of Total
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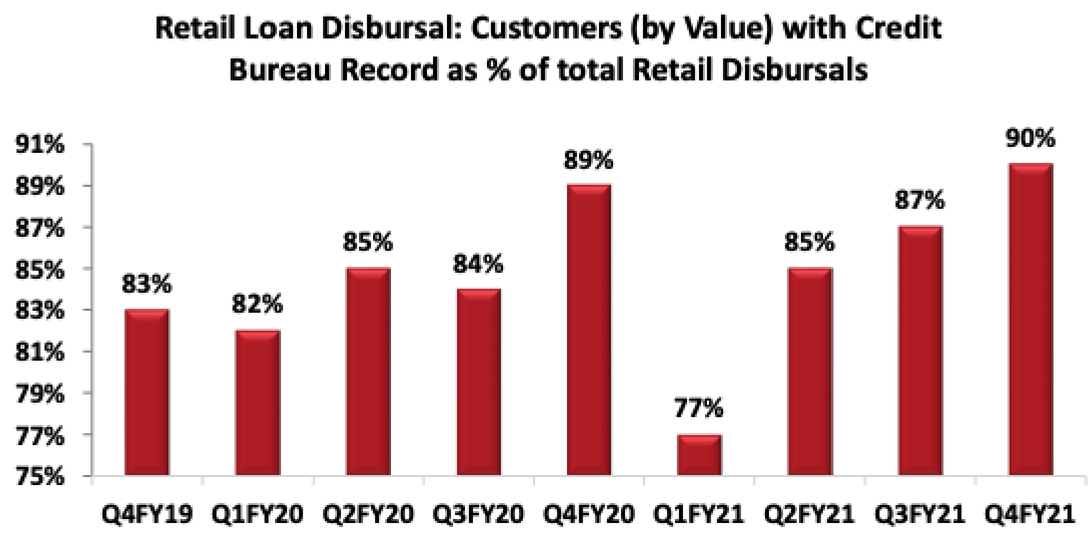
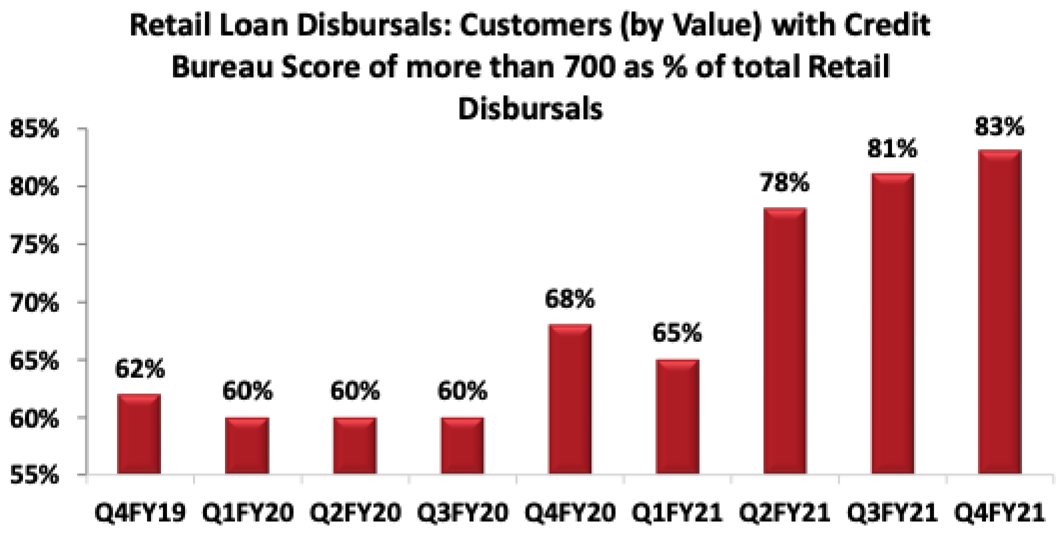
In the latest Q, bank has also started that reducing saving rate to 4% has enabled it to start a new segment. Prime home loan lending. Giving home loans to top corporate customers at low interest rates.

Section 4: Key Strategic Step going forward..

- Thus far, the bank has specialised in providing loans in the affordable segment, where yields have been between 8 to 9%. Our asset quality has been high and experience in the segment has been excellent.
- Based on the strong inflow on retail liabilities into the Bank and surplus liquidity, the Bank has reduced the Savings Rate to 4% for balance below Rs. 1 lac and reduced the peak savings account interest rate to 5%.
- Consequent to the rate reduction of savings accounts, the Bank can now afford to participate in the prime segments of all businesses including the prime home loans to employees of top corporates at a very competitive interest rate starting at 6.9%, in line with market for this segment.
- This will open up a new and large market with higher asset quality for our Bank and set up the Bank for continuous and sustainable book growth as home loans have comparative longer tenure up to 20 years.

Bank also revealed other ways in which they are reducing risk of the assets:
Reduction in credit to first time borrowers, and increase in credit to customers with high credit scores.





Section 4: Incremental controls implemented in the light of COVID-19

- Further, in the light of the Covid-19, the bank has implemented a number of new measures to restrict lending to sectors affected by the pandemic. All new bookings that have been done post-pandemic already factors for pandemic related restrictions for lending to sectors and segments affected by COVID-19. Examples of such initiatives include –
  - i. Implemented sector restrictions for underwriting in the COVID-19 affected sectors
  - ii. Reduction of Authority Limits for Credit Appraisals
  - iii. Implemented additional caps on individual ticket sizes on incremental loans
  - iv. Reduced the LTV limits in certain categories
  - v. Revised restrictions on collaterals
  - vi. Revised criteria for bureau score cut-offs and tightened the criteria for number of credit enquiries on the bureau
  - vii. Increased requirement for FOIR (Fixed Obligations to Income Ratio to estimate the customer's ability to repay monthly instalments)
  - viii. Increased checking whether the customer has availed moratorium, also subsequent track record
  - ix. Increased average balance requirements for our average Bank Balance based lending program
  - x. Revised preapproved prequalified program with increased scrutiny;
- Consequent to these new criteria and restrictions implemented in the light of Covid-19, the new bookings done post-July 2020 are showing significantly better credit performance (adjusted for like-to-like vintage) as compared to pre-pandemic loan bookings, as these new loan bookings post July 2020 already factor for Covid-19 impacted industries.
- During COVID wave 1, the cheques/ECSs/NACHs bounce increased to 2.5X from the Pre-COVID bounce levels, but when economic revival happened between September 20 to March 21, cheque returns have been dropping consistently and reached to 1.2X of Pre-Covid level in March 2021.
- Collection Efficiency for the Bank has improved every month since July 2020 and in March 2021, the collection efficiency has reached 100% of the Pre-COVID collection efficiency levels.

Establishes a long-term (15-20 years) relationship with a high income high saving customer. Good cross-selling opportunity. Low NPAs. Lowers Balance sheet riskiness as well.

Let us establish why these trends are sustainable and will continue going forward. Bank has a lot of money in government securities. Some minimum amount they need to keep as per RBI guidelines, but above that, bank has simply parked excess liquidity here.

	Nine months ended December 31,					
	2019			2020		
	Average Balance[(4)]	Interest Earned/ Expended	Average Yield/ Cost[(5)] (%)	Average Balance[(4)]	Interest Earned/ Expended	Average Yield/ Cost[(5)] (%)
	(₹ in crores, except %)					
Interest-earning assets:						
Advances	87,040.28	8,633.60	13.20%	87,690.09	9,027.68	13.66%
Investments	59,017.32	3,052.00	6.88%	45,165.50	2,354.56	6.92%

Investment Portfolio (Gross)

The following table sets forth the gross book value of our Bank's investment portfolio as at the specified dates.

	As at March 31,			As at December 31,
	2018	2019	2020	2020
	(₹ in crores)			
In India:				
Government securities	38,823.20	35,384.94	33,013.82	31,703.72
Shares	1,417.38	1,349.60	1,547.56	1,650.32
Bonds and debentures	12,208.08	12,951.85	6,357.59	4,700.48
Commercial paper	754.80	200.74	-	-
Certificates of deposit	248.73	-	-	-
Venture capital	664.10	549.65	587.90	576.73
Subsidiaries and joint ventures	299.36	232.40	232.40	232.40
Others[(1)]	8,223.66	9,618.10	6,528.36	5,171.80
Gross Investments in India (A)	**62,639.33**	**60,287.27**	**48,267.63**	**44,035.46**
Outside India:	-	-	-	-
Government securities	-	-	-	-
Others	-	-	0.33	0.33
Gross Investments outside India (B)	-	-	-	-
Gross Investments (A+B)	**62,639.33**	**60,287.27**	**48,267.96**	**44,035.78**

Notes:

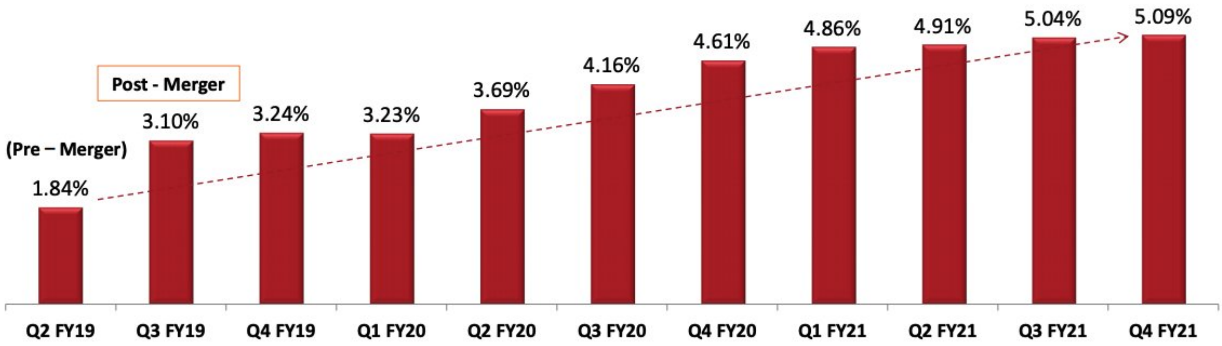
(1) *Comprises Pass through Certificates and Security Receipts.*

When this gets disbursed as retail loans, average yield would go up. Expanding interest income and NIMs. Sweet.

Summary of Asset side: Growing Retail loans, shrinking corporate loans, vanishing infra loans, increasing yields & interest incomes, expanding NIMs, reducing risk on balance sheet.

Profitability.
What does all this result in?
Expanding NIMs, and the first full year of profits.

- The NIM of the bank has accelerated to **5.09%** post merger (Q4-FY21) despite accounting for reversal of Interest on Interest of Rs. 55 crore.
- Interest income from the loans originated through Business correspondents being booked net of the origination and servicing expense incurred by business correspondents. Effective from Q4 FY21 such income is now booked as gross interest income and the origination expenses pertaining to this book is included in the operating expense line of the Bank. For the fair comparison purposes, the previous period interest income and opex figures, and as a result, the NIM% have been reinstated.
- As per our earlier guidance, we aspire to take it to 5-5.5% in the next 5 years. We are on track for reaching there.



In Rs. Crore	FY20	FY21	Growth (%)Y-o-Y
Interest Income	16,308	15,968[1]	-2%
Interest Expense	10,232	8,588	-16%
Net Interest Income	**6,076**	**7,380**	**21%**
Fee & Other Income	1,550	1,622	5%
Operating Income (Excl Trading Gain)	**7,625**	**9,002**	**18%**
Trading Gain	612	1,204	97%
Operating Income	**8,237**	**10,207**	**24%**
Operating Expense	5,861	7,093	21%
Pre-Provisioning Operating Profit (PPOP)	**2,376**	**3,113**	**31%**
Core PPOP (Ex. Trading gain and Interest on interest reversal)	**1,764**	**1,964**	**11%**
Provisions	4,754	2,638[2,3]	-45%
Profit Before Tax	**(2,379)**	**476[4]**	
Tax	486	24[5]	-95%
Profit After Tax	**(2,864)**	**452**	

1. *Includes reversal of Interest on Interest Rs. 55 crore in Q4 FY21 following the Supreme Court order*
2. *Earlier, Capital First had portfolios of Loan Against Shares with ticket sizes above Rs. 20 lac and Loans with annual interest payments, which were permitted for an NBFC, but not permitted in the Bank. On merger with the Bank, the dispensation was provided by the RBI for the said portfolio which is no longer available. Because of the same, the Bank was required to make 100% provision to this outstanding portfolio, and the provisions on this count amounted to Rs. 89 crore in Q4-FY21.*
3. *The provisions included the reversal of provisions of Rs. 324 crores on account of one large telecom account. The Bank created COVID 19 provisions for Rs. 375 crores and carried it into FY 22.*
4. *Without the impact of the point 1 and 2 mentioned above, the PBT for FY21 would be Rs. 620 crore and with normalized tax rate, the corresponding PAT would be Rs. 464 crore for FY21*
5. *Includes de-recognition of DTA on goodwill pursuant to recent changes in Finance Act and benefit on account of DTA reassessment at March 31, 2021*

Drags on Profitability:Asset Quality
Pre-covid, bank's GNPA was around 2.6%. Post covid, it has risen to ~4.1%. I personally think this is a great performance given that a large part of the book is lending to SME and Micro Finance.

CEO has guided for long term stable GNPA of 2% financialexpress.com/industry/banki…

In Rs. Crore	Dec-19 (Pre-Covid)	Mar-20	Proforma Dec-20 (Post-Covid)	Mar-21 (Post-Covid)	Sequential (QoQ) movement
GNPL	2,511	2,280	4,044	4,303	Increased by Rs. 259 crore
Provisions for GNPL	1,440	1,471	2,117	2,420	Increased by Rs. 303 crore
NNPL	1,071	809	1,927	1,883	Decreased by Rs. 44 crore
GNPA (%)	2.83%	2.60%	4.18%	4.15%	Decreased by 3 bps
NNPA (%)	1.23%	0.94%	2.04%	1.86%	Decreased by 18 bps
Provision Coverage Ratio %	57.35%	64.53%	52.35%	56.23%	Increased by 388 bps

- Earlier, the Supreme Court vide an interim order dated September 03, 2020 had directed to stop NPA classification till further orders. The interim order granted to not declare accounts as NPA stood vacated on March 23, 2021 vide the judgement of the Honourable Supreme Court. Accordingly, the Bank has continued with asset classification of borrower accounts as per the extant RBI Instructions.
- Including the additional COVID-19 provision of Rs. 375 crore made in Q4-FY21 and carried forward to FY22, the PCR would be **64.95%** on reported GNPA and NNPA as on March 31, 2021.
- The total restructured (approved & implemented) book including retail and wholesale loans stood at 0.9% of the total funded assets.

We are heading towards gross NPAs of 2% on a sustainable basis: V Vaidyanathan, MD & CEO, IDFC First Bank There is a lockdown-like situation in 20-odd cities of the country. Obviously, mobility is affected as are many businesses. The full impact of this on all players will show up only in the next one or …
https://www.financialexpress.com/industry/banking-finance/we-are-heading-towards-gross-npas-of-2-on-a-sustainable-basis-v-vaidyanathan-md-ceo-idfc-first-bank/2250255/
An interesting deep dive into the NPAs for the bank reveals some of the sectors which are most stressed. Infra contributes to half of all wholesale NPAs. (This is going to go away in steady state).

Name of the Industry	As at December 31, 2020		
	Gross advances	NPAs	% of NPA in Industry
	(₹ in crores, except %)		
Coal	0.59	0.00	0.00
Mining	0.72	0.00	0.00
Iron and Steel	1,010.20	0.00	0.00
Other Metal and Metal Products	308.10	0.06	0.02
All Engineering	155.38	0.03	0.02
Electronics	929.17	3.55	0.38
Cotton Textiles	71.01	0.00	0.00
Jute Textiles	0.04	0.00	0.00
Other Textiles	440.61	39.49	8.96
Sugar	0.22	0.00	0.00
Tea	0.80	0.00	0.00
Food Processing	184.11	0.00	0.00
Vegetable Oils and Vanaspati	100.51	0.00	0.00
Tobacco and Tobacco Products	0.10	0.00	0.00
Paper and Paper Products	404.69	0.00	0.00
Rubber and Rubber Products	222.56	25.01	11.24
Chemicals, Dyes, Paints etc.	979.33	0.00	0.00
(i) of which are Fertilisers	55.50	0.00	0.00
(ii) of which are Petrochemicals	0.00	0.00	0.00
Cement	146.04	0.00	0.00
Leather and Leather Products	6.05	0.04	0.58
Gems and Jewellery	243.32	52.82	21.71
Construction	468.80	0.00	0.00
Petroleum	552.20	0.00	0.00
Automobiles (including trucks)	752.81	0	0.00
Computer Software	112.28	8.06	7.18
Infrastructure	9,177.50	348.23	3.79
NBFCs	6,964.83	175.05	2.51
Other Industries	5,899.59	24.73	0.42
Total	**29,131.55**	**677.06**	**2.32**
Others and Retail Advances	67,610.89	612.18	0.91
Grand Total	**96,742.44**	**1,289.24**	**1.33**

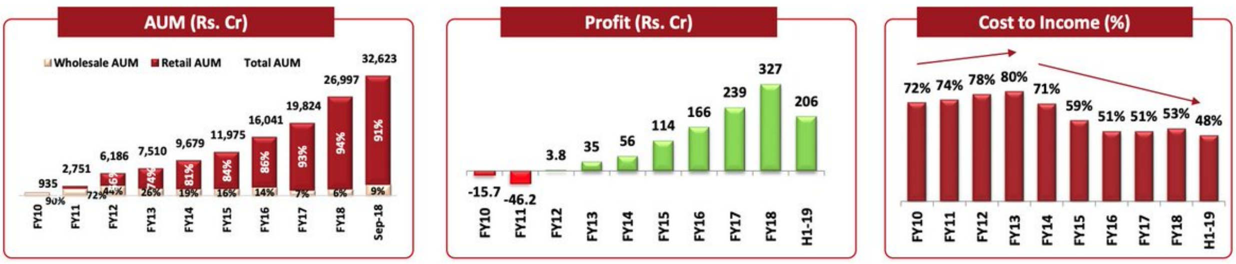
Drags on Profitability: Cost to Income Ratio

The Net Interest Income (NII, investopedia.com/terms/n/net-in…) for the bank was Rs

10,000 cr for FY21. But profits only Rs 450 cr. Why? Coz profits got eaten by up CIR and provisions.

[**Net Interest Income** Net interest income reflects the difference between the revenue from a bank's interest-bearing assets and expenses on its interest-bearing liabilities.
https://www.investopedia.com/terms/n/net-interest-income.asp](https://www.investopedia.com/terms/n/net-interest-income.asp)

Bank is expanding fast. Needs to hire employees. Build/lease branches. The costs are front-loaded. Thus, the profitability is back-ended. As the OpEx and CapEx gets amortized over a larger AUM and CASA, CIR will come down. Has happened before for Capital First.



What will happen is that the OpEx will grow slower than AUM/CASA and that way, operating leverage will play out, resulting in increased Net Profits. This is also the reason why the retail segment shows constant losses right now.

Operating expenses increased by ₹ 654.04 crore, or 16.80%, from ₹ 3,893.23 crore in the nine months ended December 31, 2019 to ₹ 4,547.27 crore in the nine months ended December 31, 2020. This increase was primarily due to the following factors:

- a net ₹ 360.67 crore, or 13.22%, increase in non-HR expenditures (operating expenses other than payments to and provisions for employees) from ₹ 2,729.21 crore in the nine months ended December 31, 2019 to ₹ 3,089.88 crore in the nine months ended December 31, 2020 which was on account of the increase in branch networks and also premiums paid under the DICGC Insurance etc.; and

- payment to and provisions for employees increased from ₹ 1,164.03 crore in the nine months ended December 31, 2019

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to ₹ 1,457.38 crore in December 31, 2020 due to an increase in the number of employees from 16,888 as at December 31, 2019 to 22,633 as at December 31, 2020.

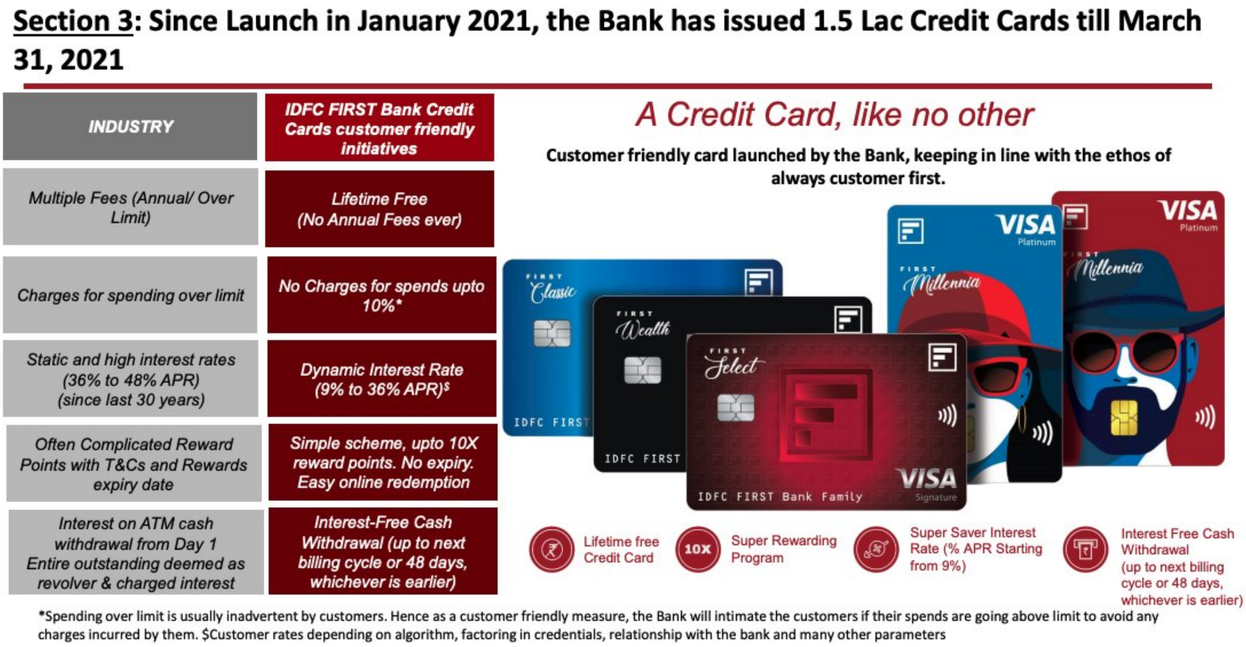
Retail Banking

Year Ended March 31, 2020 Compared to the Year Ended March 31, 2019

Segment result (before tax) for the retail banking segment decreased by ₹ 489.85 crore, from a loss of ₹ 427.48 crore in Fiscal 2019 to a loss of ₹ 917.33 crore in Fiscal 2020. This was primarily due to an increase in (i) total segment expenses (comprising interest expenses, inter-segment expenses and operating expenses) by ₹ 6,612.02 crore from ₹ 3,833.04 crore in Fiscal 2019 to ₹ 10,445.06 crore in Fiscal 2020 which was primarily due to an increase in deposits, branches and network expansion; and (ii) total provisions by ₹ 1,316.08 crore from ₹ 493.66 crore in Fiscal 2019 to ₹ 1,809.74 crore in Fiscal 2020.

The increase in the expenses and provisions were partially offset by an increase in segment revenue (comprising interest income, other income & inter segment revenue) by ₹ 7,438.26 crore from ₹ 3,899.21 crore in Fiscal 2019 to ₹ 11,337.47 crore in Fiscal 2020 which was mainly due to increase in the loan portfolio.

Cross-selling. The icing on the cake. Bank has already launched a credit cards business. And it is an innovative one. Instead of giving constant high rate of interest on credit which all banks give, IDFCF bank will lower interest rate depending on one's credit profile. Sweet



Section 3: Since Launch in January 2021, the Bank has issued 1.5 Lac Credit Cards till March 31, 2021

INDUSTRY	IDFC FIRST Bank Credit Cards customer friendly initiatives
Multiple Fees (Annual/ Over Limit)	Lifetime Free (No Annual Fees ever)
Charges for spending over limit	No Charges for spends upto 10%*
Static and high interest rates (36% to 48% APR) (since last 30 years)	Dynamic Interest Rate (9% to 36% APR)$
Often Complicated Reward Points with T&Cs and Rewards expiry date	Simple scheme, upto 10X reward points. No expiry. Easy online redemption
Interest on ATM cash withdrawal from Day 1 Entire outstanding deemed as revolver & charged interest	Interest-Free Cash Withdrawal (up to next billing cycle or 48 days, whichever is earlier)

*Spending over limit is usually inadvertent by customers. Hence as a customer friendly measure, the Bank will intimate the customers if their spends are going above limit to avoid any charges incurred by them. $Customer rates depending on algorithm, factoring in credentials, relationship with the bank and many other parameters

Bank wants to promote credit card as a means to get “credit”. 9-15% interest for a short duration is not something most customers that are ok with taking credit would mind. No interest on short term cash withdrawals. Sweet.

Even the reward points were better than my current HDFC bank credit card! Read more here:
idfcfirstbank.com/credit-card. The cross selling opportunity has only started.
There is a surprise in this thread. We already analyzed the bank from the prism of asset, liability, profitability, Cost to income, NPAs, cross selling. But we haven’t looked at the MOST important thing.

If someone asked me what would be the top 3 things to track and understand in a bank they would be:


MANAGEMENT
TRAINING
SKILLS
EMOTIONAL
LEADERSHIP
TEAM
COMMITMENT
INNOVATION
STRENGTH
MISSION
CONDUCT
RISK
DIRECTING
RESPECT
GOAL
MEMBER
TRUST
ABILITY
PEOPLE
COMMERCE


Management
Key Differences

Why? Numbers are only as trustworthy as the management in a bank. There are hazaar ways for management to hide bad assets, or manipulate the P&L if they want to. Heck, even the NPAs only become NPAs when management recognizes them as such.

So let us analyze why I like the management of IDFCF bank

1. They give their own score-card every quarter. Management had set some 5 year goals when merger happened. Quarter after quarter they show progress on these. Almost never seen management make it so easy for investors to track “walk the talk”.

Key Metrics and our progress vis-à-vis Guidance provided at the time of the merger in Dec 2018

	Particulars	Dec-18 (At Merger)	Mar-19	Mar-20	Mar-21 (YoY %)	Guidance given at the time of merger for FY24-FY25	Status
CAPITAL	Net-worth	Rs. 18,736 Cr	Rs. 18,159 Cr	Rs. 15,343 Cr	Rs. 20,808 Cr (36%)^		
	CET – 1 Ratio	16.14%	15.27%	13.30%	15.62%^		
	Capital Adequacy (%)	16.51%	15.47%	13.38%	16.32%^		
LIABILITIES	CASA Deposits	Rs. 5,274 Cr	Rs. 7,893 Cr	Rs. 20,661 Cr	Rs. 45,896 Cr		
	CASA as a % of Deposits (%)	8.68%	11.40%	31.87%	51.75%	30% (FY24), 50% thereafter	Achieved
	Average CASA Ratio (%)	8.39%	9.40%	27.72%	50.23%		
	Core Deposits as a % of Total Deposits & Borrowings	8.04%	9.49%	27.76%	47.51%	50%	On Track
	Branches (#)	206	242	464	596	800-900	On Track
	Customer Deposits <=5 crore (% of Customer Deposits)	31%	37%	59%	82%	80%	On Track
	Top 20 Depositors concentration (%)	40%	35%	20%	8%	~5%	On Track
	Certificate of Deposits	Rs. 22,312 Cr	Rs. 28,754 Cr	Rs. 7,111 Cr	Rs. 5,964 Cr		On Track

^ Including fresh equity capital raise of Rs. 3000 crore in April 2021. Without the additional capital, the total CRAR and CET-1 ratios are 13.77% and 13.27% respectively as on March 31, 2021.

Key Metrics and our progress vis-à-vis Guidance provided at the time of the merger in Dec 2018

	Particulars	Dec-18 (At merger)	Mar-19	Mar-20	Mar-21 (YoY %)	Guidance given at the time of merger for FY24-FY25	Status
ASSETS	Retail Funded Assets	Rs. 36,236 Cr	Rs. 40,812 Cr	Rs. 57,310 Cr	Rs. 73,673 Cr (26%^)	Rs. 100,000 Cr	On Track
	Retail as a % of Total Funded Assets	35%	37%	54%	63%	70%	On Track
	Wholesale Funded Assets	Rs. 56,809 Cr	Rs. 53,649 Cr	Rs. 39,388 Cr	Rs. 33,920 Cr (-14%)	< Rs. 40,000 Cr	On Track
	- of which Infrastructure loans	*Rs. 22,710 Cr*	*Rs. 21,459 Cr*	*Rs. 14,840 Cr*	*Rs. 10,808 Cr (-27%)*	*Nil in 5 years*	*On Track*
	Top 10 borrowers as % of Total Funded Assets (%)	12.8%	9.8%	7.2%	5.9%	< 5%	On Track
	GNPA (%)	1.97%	2.43%	2.60%	4.15%	2-2.5%	On Track
	NNPA (%)	0.95%	1.27%	0.94%	1.86%	1-1.2%	On Track
	Provision Coverage Ratio (%)	52%	48%	65%	55%	~70%	On Track
EARNINGS	Net Interest Margin (%)	3.10%	2.61%	3.91%	4.98%	5-5.5%	On Track
	Cost to Income Ratio (%) without trading gains	81.56%	82.74%	76.86%	78.79%	55%	On Track
	Return on Asset (%)	-3.70%	-1.33%	-1.75%	0.29%	1.4-1.6%	On Track
	Return on Equity (%)	-36.81%	-11.64%	-17.10%	2.73%	13-15%	On Track
	Quarterly Avg. LCR (%)	123%	120%	111%	153%		

^ excluding the ECLGS portfolio of Rs. 1,687 crore as on March 31, 2021
Note: Earnings ratios are quarterly annualized for the quarter ended on Dec-18

"On Track" status represents that the Bank is progressing well on the parameter and in confident of achieving the guidance by ***the defined date*** 4 IDFC FIRST Bank

2. It's the little things that matter. Bank recognized Vodafone Idea as stressed asset (and this was a large one at around 3% of book) and created a 50% provision when the SC AGR dues judgement came. Not many other banks did this aggressively.

[**Vodafone Idea bankers brace for higher provisions on loans** Bankers said that there is now a risk that the company could be declared insolvent.](https://economictimes.indiatimes.com/markets/stocks/news/vodafone-idea-bankers-brace-for-higher-provisions-on-loans/articleshow/74200950.cms?from=mdr)
https://economictimes.indiatimes.com/markets/stocks/news/vodafone-idea-bankers-brace-for-higher-provisions-on-loans/articleshow/74200950.cms?from=mdr

3. When they state their profits or other metrics which companies maximize, they always try to focus on calling out the one-offs, state with and without the one-offs. Few examples from latest Investor presentation.

d. Core Pre-Provisioning Operating Profit (excluding Trading gains & impact of interest on interest reversal): For the full year, the Core PPOP grew by **11%** to **Rs. 1,964 crore** in FY21 from **Rs. 1,764 crore** in FY20. Quarterly Core PPOP de-grew by 1.5% YOY to Rs. 460 crore in Q4 FY21 as compared to Core PPOP of Rs. 468 crore in Q4 FY20.

1. Strong Growth in Retail Assets:

- **Retail Book** increased **26%^ YoY** to **Rs. 73,673 crore** as on March 31, 2021 from **Rs. 57,310 crore** as on March 31, 2020.
- **Retail** constitutes **67%** of funded loan assets as on March 31, 2021 including retail PSL buyouts.
- **Wholesale funded book decreased by 14%** to **Rs. 33,920 crore** as on March 31, 2021 from **Rs. 39,388 crore** as on March 31, 2020
- **Infrastructure loans** (part of wholesale) **decreased by 27%** to **Rs. 10,808** crore as on March 31 2021 from **Rs. 14,840 crore** as on March 31, 2020.
- **Infrastructure loans** are only **9.23%** of total funded assets as on March 31, 2021 as compared to **13.87%** as on March 31, 2020

2. Strong growth in Retail Liabilities

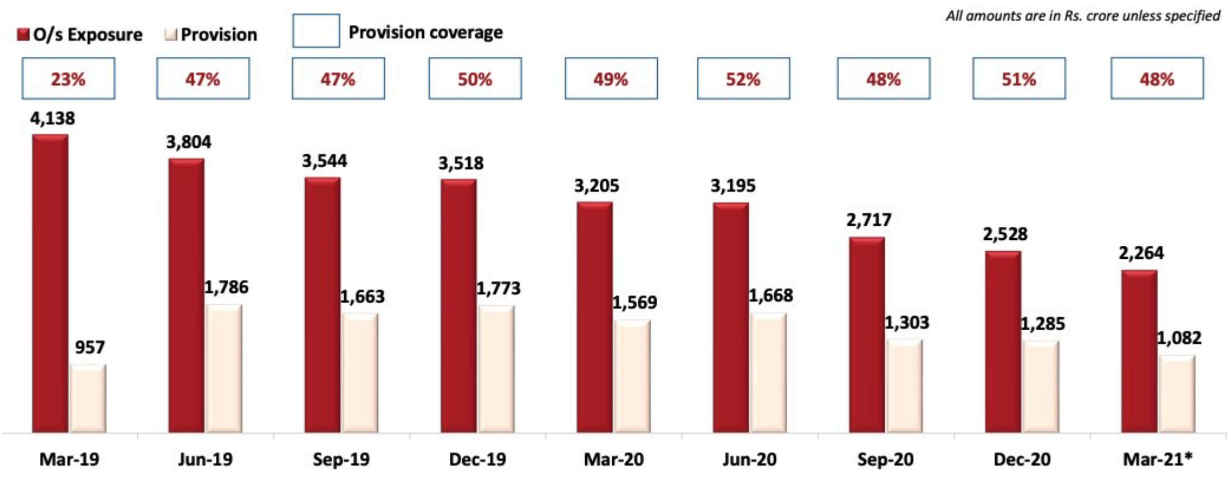
- **CASA Deposits** increased by **122% YOY** to **Rs. 45,896 crore** as on March 31, 2021 from **Rs. 20,661 crore** as on March 31, 2020
- **CASA Ratio** improved to **51.75%** as on March 31, 2021 from **31.87%** as on March 31, 2020.
- **Average CASA Ratio** (calculated on daily CASA balance) also improved to **50.23%** as on March 31, 2021 from **27.72%** as on March 31, 2020.
- **Total Customer Deposits** increased to **Rs. 82,725 crore** as on March 31, 2021 from **Rs. 57,719 crore** as on March 31, 2020, **Y-o-Y increase of 43%**.
- **Top 20 Depositors' concentration** as % to total customer deposits has reduced to **7.75%** as on March 31, 2021 from **20.36%** as on March 31, 2020
- IDFC First Bank Fixed Deposit program have the highest safety rating of **FAAA by CRISIL**

^ excluding the ECLGS portfolio of Rs. 1,687 crore as on March 31, 2021

5. Strong Capital Adequacy:

- **Capital Adequacy Ratio** of the Bank was strong at **16.32%** with **CET-1 Ratio at 15.62%** including additional equity capital of Rs. 3,000 crore raised through QIP on April 6, 2021, calculated on figures as on March 31, 2021.
- Excluding the capital raised, the capital adequacy as of March 31 would have been 13.77% with CET-1 ratio of 13.27%.

4. Bank proactively reveals the stressed book (non NPA but chances of it becoming NPA). Observe how stressed book has been degrowing but provisions for stressed book (these are not NPAs, so bank creating provisions for them is conservative, pro-active lending).



*Apart from the accounts mentioned above, the Bank had also marked one large telecom account as stressed and provisioned 15% against outstanding of Rs. 2,000 crore (Funded) and against Rs. 1,244 crore (Non Funded). The said account is current and has no overdues as of March 31 2021.

5. Look at what they are doing for credit cards to make sure they remain customer friendly.

whichever is earlier)

*Spending over limit is usually inadvertent by customers. Hence as a customer friendly measure, the Bank will intimate the customers if their spends are going above limit to avoid any charges incurred by them. $Customer rates depending on algorithm, factoring in credentials, relationship with the bank and many other parameters

Section 3: Product Offering 22 IDFC FIRST Bank

6. CEO has said in multiple interviews that they would never delay recognizing an asset as NPA. Won't be afraid of doing so. I know many ppl would say: how can we trust him? Fair point. I do, others can choose to not. At least he says the right things.

Now the most important section, the risks.
1. If bank does not follow conservative underwriting processes, NPAs could blow up and eat into NIMs.

2. There will be few years of low profitability as they expand branch network and OpEx grows without significant loan book growth (since infra loans are being wound down)
3. Any covid wave would cause short term pain to the bank's lendees.

End of a 63 65 tweet long thread. If you liked it, please RT the first tweet. Many retail investors are invested in IDFC first. Deserve to understand the business well.

4. Prime lending would cause some downward pressure on NIMs.

Disclosure: invested since Dec 2019. Largest investment, so positively biased. This is not an investment advice, purely for educational purpose.

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