ICRA

IDFC Bank Limited

Instrument	Amount Rated (In Rs. Crore)	Rating Action September 2016
Certificate of Deposits Programme	20,000 (enhanced from Rs. 10,000 crore)	[ICRA]A1+ / Assigned

ICRA has assigned a rating of [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs. 20,000 crore Certificate of Deposits programme (enhanced from Rs. 10,000 to Rs 20,000 crores) of IDFC Bank Limited (IDFC Bank). ICRA also has a rating of [ICRA]AAA (pronounced as ICRA triple A) with stable outlook outstanding on the Rs. 53, 984 crore Non-Convertible Debentures programme of the bank.

The ratings factor in the medium to long term structural benefits that will accrue to the entity with its conversion from an infrastructure financing NBFC to a full service commercial bank in terms of access to granular funding sources leading to a better liquidity profile, its ability to offer various fund based and non-fund based services, and a stronger regulatory and supervisory framework. ICRA takes comfort from IDFC Bank's experience of operating as an NBFC and the depth in its current management team. The rating also factors in the entity's strong capitalisation with core tier 1 capital of 19.91% as on June 30, 2016.

The bank had a loan book (net advances + credit substitutes) of Rs 50,410 crore as on June 30, 2016. The bank has been looking at expanding its presence into segments other than infrastructure financing. Corporate Banking, Consumer Banking and Rural Banking would be the key drivers of business volumes over the medium term. In ICRA's view, despite its diversification into other asset segments, IDFC Bank would largely continue to be a wholesale lending institution in the medium term.

IDFC Bank reported gross NPAs and net NPAs of 6.1% and 2.3% respectively, as on June 30, 2016, with a net standard restructured book of 2.9%. As a part of the conversion process, the entity had created additional provisions of ~ Rs. 2,500 crore in Q2FY2015 resulting in an over 50% provisioning on its stressed assets (NPA + restructured + other stressed assets) as on date. While the bank's reported NPAs increased following the conversion, the high level of past provisions limited the incremental provisioning requirement.

IDFC Bank's liability profile is expected to improve with access to a low cost deposit base; the extent of improvement will however be dependent on the bank's ability to establish its brand and grow its retail franchise to access granular term deposits and savings accounts and also develop products and relationships to build a current account base. Although the bank currently has only 65 branches, it has expanded its reach by establishing 14 ATMs, 330 micro-ATMs and is leveraging technology to tap depositors through its mobile platform.

IDFC Bank reported a strong capital adequacy of 20.39% with tier I of 19.91% as on June 30, 2016. The bank's capitalisation is expected to remain strong with the management's intention to maintain core tier 1 capital well in excess of the regulatory requirement over the medium term.

ICRA expects the bank's profitability to remain under pressure till it builds up its priority sector book, current and savings accounts base and increases its fee income.

Company Profile

IDFC Limited (IDFC) was set up by the Government of India (GoI), to facilitate infrastructure development in the country. Apart from the GoI, leading shareholders of IDFC included foreign financial institutions involved in infrastructure development world-wide. IDFC was classified as an Infrastructure Finance Company by the Reserve Bank of India (RBI) in June 2010.

IDFC was granted an in-principle approval by the RBI in February 2013, for undertaking banking business in India. The bank – IDFC Bank Limited – started operations on October 01, 2015 after receiving the final licence from RBI in July 2015. IDFC Limited hold stake in the bank.

Recent Results

IDFC Bank had an asset base of Rs. 101,694 crore and a loan book of Rs. 50,410 crore as on June 30, 2016. The bank reported a net profit of Rs. 265 crore in Q1FY2017. The bank's gross NPAs stood at 6.1% and net NPAs at 2.3% as on June 30, 2016 with net standard restructured advances of 2.9%. Its capital Adequacy stood at 20.39% with Tier I of 19.91%.

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