IDFC Bank Limited

Instrument	Amount Rated (In Rs. Crore)	Rating Action November 2016
Non-Convertible Debenture Programme	53,984	[ICRA]AAA (stable); reaffirmed
Certificate of Deposits Programme	20,000	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the rating of [ICRA]AAA with stable outlook on the Rs. 53,984 crore non-convertible debenture programme and the rating of [ICRA]A1+ on the Rs. 20,000 crore certificate of deposits programme of IDFC Bank Limited (IDFC 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 18.71% as on September 30, 2016.

The bank had a loan book (net advances + credit substitutes) of Rs 57,138 crore as on September 30, 2016. The bank has been expanding its presence in 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 6.0% and 2.4% respectively, as on September 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. The provision cover stood at ~60% as on September 30, 2016 as against ~63% as on March 31, 2016.

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. While bank has increased the share of CASA deposits to ~8% of the total deposits from 5.4% as on March 31, 2016, given the recent commencement of its banking operations, it is low at ~2% of the total liabilities. Although the bank had only 71 branches as on September 30, 2016, it has expanded its reach by establishing 32 ATMs, 727 micro-ATMs and is leveraging technology to tap depositors through its mobile platform.

IDFC Bank reported a strong capital adequacy of 19.17% with tier I of 18.71% as on September 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 holds stake in the bank.

Recent Results

IDFC Bank had an asset base of Rs. 109,228 crore and a loan book of Rs. 57,138 crore as on September 30, 2016. The bank reported a net profit of Rs. 653 crore in H1 FY2017. The bank's gross NPAs stood at 6.0% and net NPAs at 2.4% as on September 30, 2016 with net standard restructured advances of 2.9%. Its capital adequacy stood at 19.17% with tier I of 18.71%.

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