CHAIRMAN'S STATEMENT

Dear Shareholders,

The Indian economy did well notwithstanding global headwinds related to geo-political uncertainties in some parts of the world, Brexit hiccups, rising trade tensions and protectionism, slow-down in China and volatile crude prices. India's full year annual GDP growth for FY19 at about 7% is impressive in this backdrop. India is also emerging as an important player in the world economy as reflected in World Bank's ease of doing business 2019 report, which improves India's ranking by 23 positions to 77th rank in 2018.

All NBFCs having a net-worth of ₹ 500 crore or more were mandatorily required to adopt Indian Accounting Standard (Ind-AS). Accordingly, IDFC Limited ("IDFC") adopted Ind-AS from April 1, 2018 with a transition date of April 1, 2017 and all entities of the group except IDFC FIRST Bank Limited ("IDFC FIRST Bank" or "the Bank") have prepared financials under Ind-AS. Although IDFC FIRST Bank continues to be under Indian GAAP, IDFC FIRST Bank submitted 'Fit for consolidation Ind-AS' financials for preparing consolidated financials of IDFC. The consolidated balance sheet of IDFC as on March 31, 2019, was ₹ 10,558 crore, and the consolidated net worth was ₹ 10,385 crore.

FY19 was a critical year for us. We undertook a strategic review exercise during the year and decided to focus on and grow our retail oriented businesses i.e. IDFC FIRST Bank and IDFC Mutual Fund and exit our non-retail businesses i.e. private asset management, infrastructure debt fund and institutional broking, research & investment banking to unlock value for our shareholders. This twin-pronged strategy vis-à-vis retail and non-retail businesses was shared amongst all our stakeholders.

The fiscal saw the consummation of the merger of erstwhile IDFC Bank Limited and erstwhile Capital First Limited giving rise to IDFC FIRST Bank. The merger also helped facilitate compliance with the RBI requirement of reducing our holding in IDFC FIRST Bank from 53% to 40% by Oct '18. The licensing condition for IDFC FIRST Bank stipulated that by Oct '18, the holding of IDFC in IDFC FIRST Bank has to be brought down to 40% from 53% as on Oct '15. The swap ratio of allotting 139 shares of IDFC Bank Limited for every 10 shares of Capital First Limited would have resulted in IDFC's holding in IDFC Bank falling below 40%. To maintain 40%, IDFC bought about 12 crore additional shares of IDFC Bank from the open market before consummating this merger.

The Bank is well on its course towards becoming a mass retail bank focused on both retail assets and retail liabilities. Retail assets now contribute more than third to the bank's funded credit. As on March 31, 2019, of the ₹ 1,10,400 crore funded credit, retail was ₹ 40,812 crore constituting 37% of total. The retail assets were distributed across rural, SME and consumer segments. The bank plans to grow retail assets to over ₹ 1,00,000 crore in the next 5-6 years and reduce exposure to the infrastructure segment as they mature. In the non-infrastructure corporate segment, the focus is on pursuing growth based on market opportunities. In 5-6 years, the Bank intends to increase the retail loan book composition to over 70% from the existing 37%, which will significantly reduce the existing concentration risk in the portfolio.

Retail liabilities is a longer journey and the Bank is committed to making the requisite investments to aggressively expand its branch network in larger cities and offering attractive price incentives for Savings Accounts ("SA") and term deposits to retail customers. Of the ₹ 1,40,462 crore borrowings and deposits, as on March 31, 2019, the contribution of retail CASA and deposits was ₹ 13,214 crore. With a 7% p.a. rate on SA, the focus is now on aggressively ramping up SA. In the next 5-6 years, the Bank is focused on increasing the proportion of retail CASA and deposits to over 50% of total borrowings and is targeting a CASA ratio of about 30%.

The urgency for branches particularly to raise liabilities from retail customers in larger cities is now visible with branch presence in such cities gaining greater momentum. With a modest presence in metros when the Bank was launched in Oct '15, the Bank now has 242 branches across the length and breadth of the country. Over the next 5-6 years, the Bank is planning to add another 600-700 branches to substantially increase the proportion of retail CASA and term deposits.

The changing composition of assets and liabilities of the Bank will translate into increasing Net Interest Margins (NIMs). the Bank is targeting to enhance its NIMs from the existing about 2.4% to about 5% in the coming 5-6 years.

The Bank has been consistently acquiring around 1.5 lac customers a month and now has more than 7 million live customers, of which about 3.5 million are semi-urban and rural customers.

As the Bank is in its investment phase of expanding its distribution network, its cost to income is about 80%. In the coming 5-6 years, the Bank would have established itself as a mass retail bank with sound profitability metrics i.e. RoA of about 1.5% and RoE of about 15% and its cost to income ratio would have come down to about 55%.

The Mutual Fund industry witnessed a turbulent year in which major events such as regulatory changes impacting future profitability and credit quality led liquidity contagion threatening debt funds and flows, took place. IDFC Mutual Fund withstood these challenges well and its strategy of investing in a distribution architecture to grow its retail investor base and launching new products to bridge product-gaps is playing out well. The coming fiscal will give us a better sense on how the regulatory changes will impact our profitability but we are confident that with the right investments in retail distribution and new products, IDFC Mutual Fund is well poised to harvest its fair share in an industry that is growing and is expected to do well.

During the year, our average assets under management (AAUM) grew about 7% to ₹ 71,933 crore. Equity AAUM grew about 15% supported by a growing distribution network, which helped steadily build our systematic investment plan (SIP) base and offset mark-to-market loss with positive net flows. Fixed income AAUM grew 3% overall. We recovered our non-cash AUM market share while retaining our focus on high quality portfolios. While the industry saw higher yield (lower credit quality) oriented strategies benefiting from higher inflows during the first half of FY19, flows turned sharply towards high quality, cash-equivalent and short term strategies during the second half. This aligned well with our stated investment strategy, leading to a sharp increase in inflows.

Building on our existing product suite, we launched our overnight fund, ultra-short term fund and a series of fixed maturity plans (FMPs). We also launched the India equity hedge tactical alternative investment fund (AIF), further building on our liquid alternatives investment platform. We repositioned our banking and PSU fund, the arbitrage plus fund (as equity savings fund) and we reopened premier equity fund (now, IDFC multi-cap fund) for lump-sum investments.

More importantly on customers, we steadily grew the number of unique investors we serve by 22% during the year.

We are committed to investing in and strategically growing our asset management business. Our endeavor in this business is to increase AUMs and profits very significantly over the next 3-4 years and on the business achieving a certain scale and size, discover its value through options such as an offer-for-sale listing process. We are on track to scaling up this business and our AUM now is closer to about ₹ 90,000 crore.

Definitive agreement for sale of IDFC Infrastructure Finance Limited to National Investment and Infrastructure Fund (NIIF) has been signed. This deal is structured in two tranches. The first tranche on signing of definitive agreement was completed this fiscal leading to our holding in the entity coming down from 81.5% to 30%. The second tranche post fulfillment of conditions precedent is expected to be completed somewhere in the middle of coming fiscal.

The India business of IDFC Alternatives witnessed the sale of infrastructure vertical to Global Infrastructure Partners (GIP) and sale of private equity and real estate verticals to Investcorp.

To sum up, FY19 has been a landmark year for us. We will continue to grow our retail businesses. I am proud of our employees who, despite the challenges faced, have worked hard to create a strong, robust and growing retail platform. I take this opportunity to thank each one of them for their sincere efforts.

I also thank you - our valued shareholders, for placing your confidence in us. I look forward to your continued support.

Vinod Rai
Independent Non-Executive Chairman