MANAGEMENT DISCUSSION & ANALYSIS

1. Impact of Covid-19 on Indian Economy

The countrywide lockdown brought nearly all economic activities to an abrupt halt. Though supply of essential items has been ensured by the government, it will take time for the economy to return to normal. The second wave of Covid-19 witnessed during this year was devastating. However, with vaccination efforts gaining momentum, there is hope that normalcy in economic activity would be restored in the second half of FY 2021-22. Trials have shown that the current suite of vaccines are effective against the new variants. The government is also taking steps to increase vaccine supply, including the recent decision to allow the import of vaccine. A combination of high seroprevalence in large cities, effective masking, hygiene and an efficient vaccine roll out as well as better preparedness for a possible third wave should put India in a stronger position in the months to come.

2. IDFC Limited – Current Status

IDFC Limited ("IDFC") is registered with the Reserve Bank of India as an NBFC (I). It has minimal business operations. It continues to hold investments in IDFC FIRST Bank (Bank) and IDFC Asset Management Company (IDFC AMC) through its wholly owned subsidiary IDFC Financial Holding Company Limited. IDFC and IDFC FIRST Bank are two listed entities of IDFC Group and IDFC AMC is an unlisted entity. As on March 31, 2021 IDFC held 39.98% in IDFC FIRST Bank and 99.96% in IDFC AMC. IDFC's holding in IDFC FIRST Bank has further reduced to 36.60% post the QIP issue done by the Bank in April 2021.

During the year, the standalone Balance Sheet size reduced from Rs. 9,331.88 crore as on March 31, 2020 to Rs. 9,303.78 crore as on March 31, 2021. Profit after tax and other comprehensive income was lower at Rs. 8.87 crore for FY 2020-21 as compared to Rs..64.22 crore in FY 2019-20. Net worth of the Company increased from Rs. 9,255.56 crore as on March 31, 2020 to Rs. 9,261.10 crore as on March 31, 2021.

3. Simplification of Corporate Structure

Efforts to simplify the corporate structure continued. During the year the following activities were completed towards the same:

- In keeping with the overall strategy of exiting non-retail businesses, the sale of IDFC Securities (business dealing with investment banking and institutional equities) was concluded and sale proceeds received.

- Office premises at Naman Chambers and Windmills were sold.
- IDFC Capital (Singapore) Pte Limited a wholly owned subsidiary of IDFC Alternatives was liquidated.
- Disputed tax liabilities were settled under the Vivad se Vishwas Scheme launched by the Government of India.

A favourable arbitration award was received in the matter of a road project sponsored by IDFC Projects Limited between Jetpur Somnath Tollways Private Limited (JSTPL) and National Highway Authority of India (NHAI).

4. Capital raise by IDFC FIRST Bank

- The bank raised additional capital of Rs. 2,000 crore during the fiscal to strengthen its capital adequacy. IDFC invested Rs. 800 crore in the preferential offer of the bank to comply with the regulatory mandate of maintaining its promoter stake during the first 5 years of operations of the bank. Of the Rs. 800 crore invested in the bank, Rs. 600 crore was from internal resources and the remaining Rs. 200 crore was raised through a loan from a leading housing finance company. The loan was fully pre-paid during the fiscal year and the balance sheet of IDFC as on March 31, 2021, was debt-free.

5. Overview of Group Companies

5A. IDFC FIRST BANK

Retailisation (Strong Growth in Retail Assets)

The retail book of the bank increased 26% (excluding the The Emergency Credit Line Guarantee Scheme (ECLGS) portfolio of Rs. 1,687 crore as on March 31, 2021) year-on-year (Y-o-Y) 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.

The 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.

Strong Growth in Retail Liabilities

CASA deposits increased by 122% Y-o-Y 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.

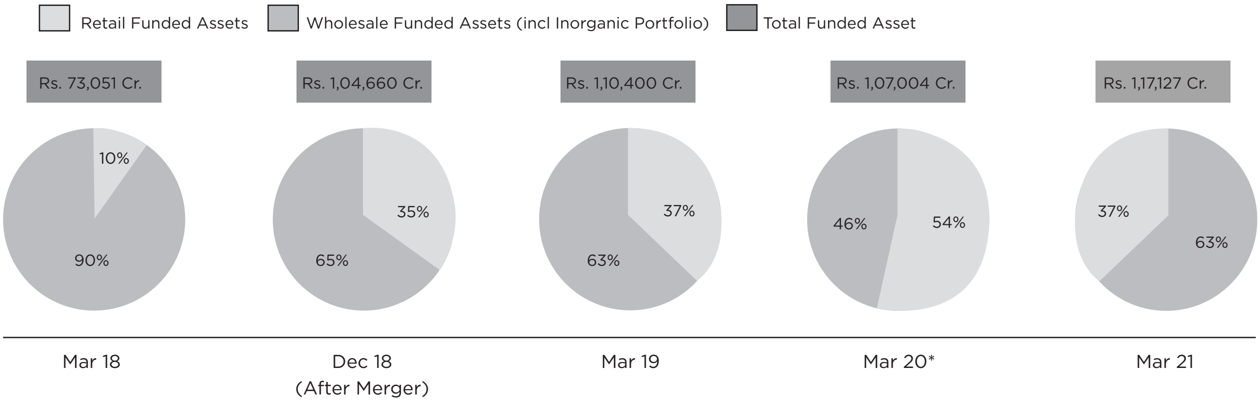
The IDFC First Bank Fixed Deposit program has the highest safety rating of FAAA by CRISIL.

Strong Growth in Core Earnings

- *Strong NII Growth:* Total Net Interest Income (NII) increased by 21% to Rs. 7,380 crore in FY21 from Rs. 6,076 crore in FY20. NII for Q4 FY21 grew by 15% Y-o-Y to Rs. 1,960 crore from Rs. 1,700 crore in Q4 FY20 (NII in Q4 FY21 includes the impact of Rs. 55 crore on account of interest on interest provision, following the order of the Honorable Supreme Court).
- *Strong NIM improvement:* The Net Interest Margin (NIM) for FY21 was at 4.98% as compared to 3.91% in FY20. The quarterly NIM improved to 5.09% in Q4 FY21 as compared to 4.61% in Q4 FY20.
- *Strong Growth in Total Income (NII + Fees and Other Income+ Trading Gain):* Total income increased by 24% to Rs. 10,207 crore in FY21 from Rs. 8,237 crore in FY20. Quarterly total income grew 14% Y-o-Y to Rs. 2,801 crore in Q4 FY21 from Rs. 2,451 crore in Q4 FY20.

Retalisation (Strong growth in Retail Assets)

- The Bank provides financing for prime home loans, affordable home loans, business banking, loan against property, car loans, consumer durables and other such products to salaried and self – employed individuals and entities which is a large opportunity in India.
- We have strong demonstrated capabilities on this front developed through greenfield efforts over the last 10 years and we have maintained high asset quality, and consistently rising profitability over the years.

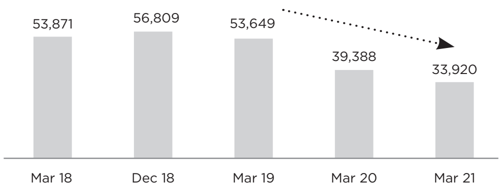


The Bank inorganically acquired portfolio as PSL retail loans. Including this as part of Retail Loan Book, the Retail contribution to the overall Loan Assets is 67% as of March 31, 2021.

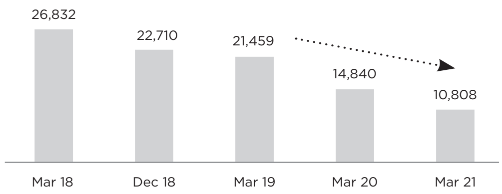
**Gross of Inter-Bank Participant Certificate (IBPC) transactions..*

- *Core Pre-Provisioning Operating Profit (excluding Trading gains & impact of interest on interest reversal):* Core pre-provisioning operating profit (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% Y-o-Y to Rs. 460 crore in Q4 FY21 as compared to core PPOP of Rs. 468 crore in Q4 FY20.
- *Provision:* Total provisions stood at Rs. 2,638 crore in FY21 as compared to Rs. 4,754 crore in FY20. Quarterly provisions for Q4 FY21 were Rs. 603 crore as compared to Rs. 679 crore in Q4 FY20.
- *Profit After Tax:* Net profit for FY21 was Rs. 452 crore as compared to

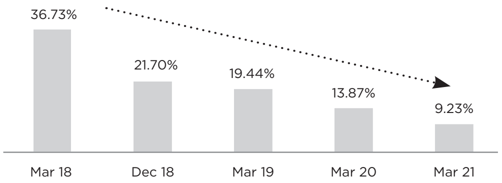
1 The Bank reduced the wholesale funded assets by CAGR of 29% between Mar-19 and Mar-21



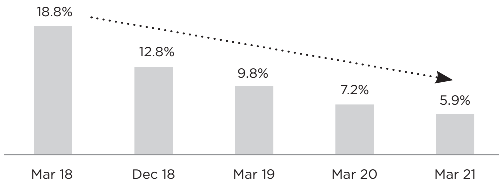
2 Out of this, infrastructure financing (Rs. crore) has reduced by 41% CAGR between Mar-19 to Mar-21



3 The Bank reduced Infrastructure financing portfolio as % of total funded assets from 37% (Mar-18) to 9% (Mar 21)

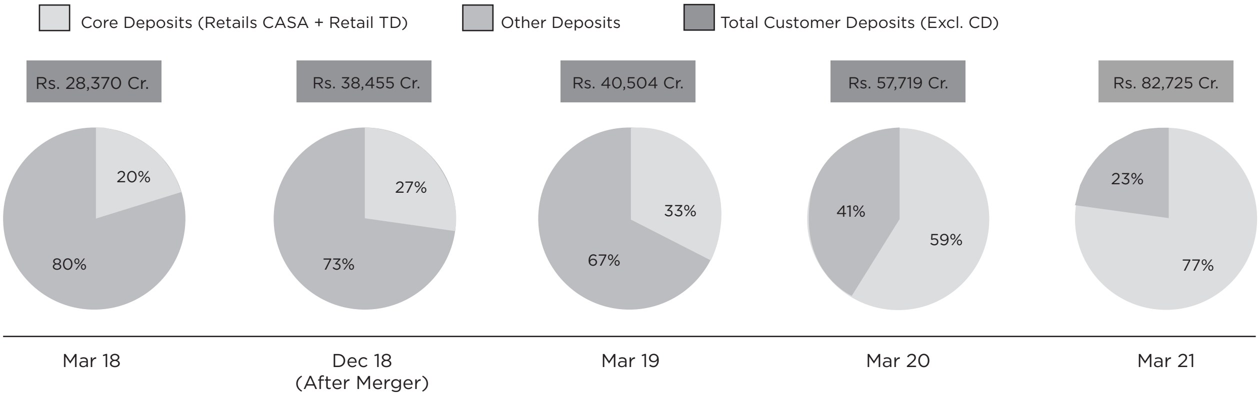


4 The Bank also proactively reduced the concentration risk by improving top 10 borrowers' concentration from 18.8% (Mar-18) to 5.9% (Mar-21)



Strong Grwoth in Retial Liabilities

- 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 Custome 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.



a loss of Rs. 2,864 crore in FY20. Quarterly net profit grew by 79% Y-o-Y to Rs. 128 crore in Q4 FY21 from Rs. 72 crore in Q4 FY20.

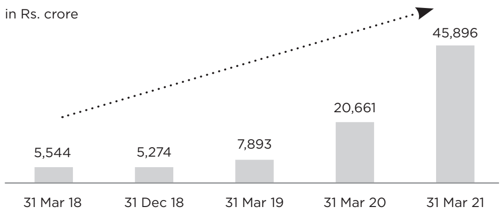
Asset Quality

The Bank's Gross NPA marginally improved by 3 bps to 4.15% as on March 31, 2021 as compared to 4.18% as of December 31, 2020 (proforma). The Bank's Net NPA improved by 18 bps to 1.86% as of March 31, 2021 from 2.04% as of December 31, 2020 (proforma). The Bank's Gross & Net NPA were 2.60% and 0.94% respectively as on March 31, 2020 which increased in FY21 due to COVID-19 impact. Provision Coverage Ratio (PCR) improved by 388 bps to 56.23% as of March 31, 2021 from 52.35% as of December 31, 2020 (proforma). The PCR is at 64.95% including the additional COVID-19 provision of Rs. 375 crore made in Q4-FY21 and carried forward to FY22.

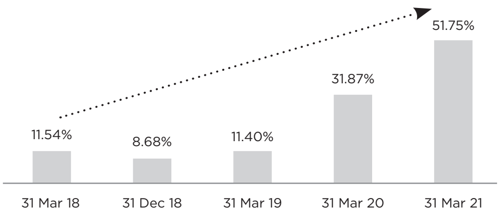
Asset Quality on Retail Loan Book

Retail Asset Gross NPA increased by 13 bps to 4.01% as on March 31, 2021 from 3.88% as of December 31, 2020

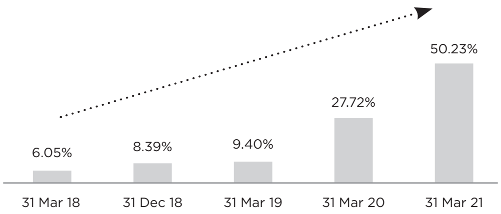
1 CASA Deposits has grown by Rs. 40,622 crore since merger with YoY growth (FY21) of 122%



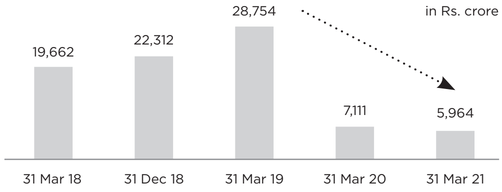
2 As a result, the CASA Ratio (%) of the Bank has grown from 8.68% (Dec-18) at merger to 51.75% (Mar-21)



3 Average CASA Ratio (on daily CASA balances)(%) also shows strong improvement over the years

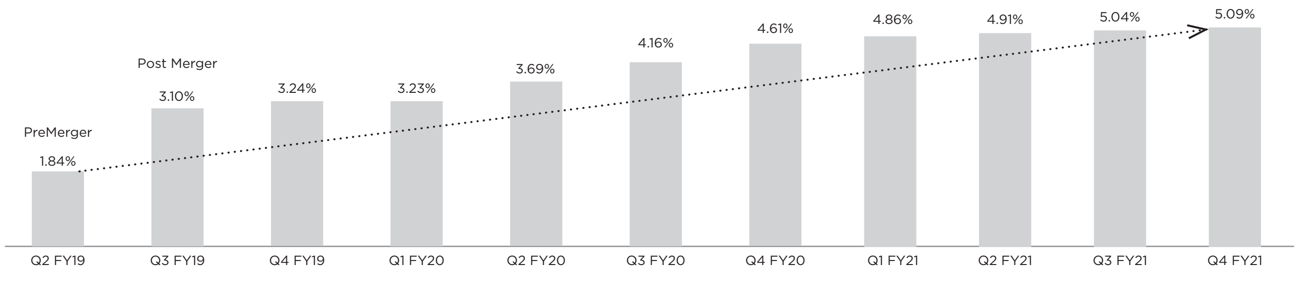


4 With healthy growth of the Retail Deposits including CASA, the Bank successfully reduced dependency on Certificate of Deposits in the last 2 years



Strong Growth in Core Earnings

- 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 the resultant 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.



(proforma). Retail Asset Net NPA improved by 45 bps to 1.90% as of March 31, 2021 from 2.35% as of December 31, 2020 (proforma). The GNPA and NNPA as on March 31, 2021 are higher by 175 bps and 77 bps respectively from the Pre-COVID average GNPA and NNPA of 2.27% and 1.13% respectivelyThis is considered to be quite normal considering the pandemic situation. The management believes, as economic activities revive, a significant portion of overdues will be collected bringing the GNPA and NNPA back to pre-COVID level.

The Bank has implemented a list of initiatives, specifically in credit policy and collections, to factor for COVID-19 impact on its retail loans and the results of the same have been very positive.

- The New to Credit customers represent only 10% of the disbursals (by value) in Q4-FY21 as compared to 18% in Q4-FY19.
- 83% of the customers sourced (by value) now in Q4-FY21 has Credit Bureau Score above 700 as compared to 61% in Q4-FY19.
- The overall collection efficiency for standard loans improved every month since July 2020 and in March 2021, it was near 100 % of the pre-covid (Feb-20) levels.
- Going forward, the Bank would continue to actively monitor the portfolio quality and tighten credit standard further in the context of the second wave of COVID-19 pandemic.

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%.

Franchise

The network stands at 596 branches, 592 ATMs and 85 recyclers across the country as on March 31, 2021.

Bank maintains strong overall Asset Quality

IN RS. CRORE	DEC-19 (Pre-Covid)	MAR-20	PROFORMA DEC-20 (Post-Covid)	MAR-21 (Post-Covid)	SEUQENTIAL (Q0Q) 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.

5B. IDFC ASSET MANAGEMENT COMPANY

Mutual Fund Industry Overview

Despite the pandemic, the financial year (FY) 2020-21 turned out to be a positive one for the Mutual Fund industry. After the initial uncertainty, a string of fiscal and monetary measures, along with a reduction in the number of active infections and news of effective vaccines helped stabilize and then led to a sharp recovery in markets. However, the resurgence of the virus in late Q4 muddled the outlook once again.

During the year FY21 the mutual fund industry witnessed net inflows of over Rs. 2.08 lakh crores, an increase of 140% vs FY20, led by fixed income asset class (with net flows of over Rs. 2.03 lakh crores). Despite the sharp market correction post-March'20 fall, equity net flows remained muted throughout the year, with tentative signs of a reversal to inflows in March'21. The industry also continued to add new folios, with the overall folios count increased by over 81 lakhs to 9.79 crores, while the number of unique investors is up by over 14 lakhs to 2.22 crores. SIP throughput remained strong with total SIP Accounts increasing to 3.73 crores (up by 19% vs FY20), while SIP AUM was Rs 4,27,916 crores (about 13% of the overall MF Industry AUM). The average AUM per retail folio has increased by 33% to Rs.1.77 lakh in March 2021 from Rs.1.33 lakh in March 2020. The average AUM per folio of retail investors in both B30 and T30 cities rose by 35% and 33% to Rs.1.04 lakh and Rs.2.30 lakh in March 2021 from March 2020, respectively.

Strong Financial Performance in FY 2020-21

Despite the external challenges, we continued our strong momentum in FY21 with Average Annual AUM growing ~19.3% YoY, sharply outperforming the industry growth of 8.6%. This resulted in a full-year market share increase to 4.0% from 3.7% in FY20. In the second half of FY21, our growth moderated as low risk-free rates resulted in a 'chase-for-yield'. However, we continued with our prudent stance on credit and 'true-to-label' approach to portfolio construction. We expect that our differentiated strategy will deliver better than market growth in the medium to long term while carefully managing risk to our franchise, though we may witness intermittent periods of wider variance in near-term growth rates relative to the industry.

Our overall financial outcomes reflect a combination of higher core fee income, proactive expense management along with Covid-19 related savings, and higher investment gains leading to a PAT (*Including other comprehensive income)* of Rs. 144 Cr (+81.4% vs. last year) – resulting in our best year ever from a profitability standpoint.

Navigating Operational Challenges Through Preparedness and Resilience

During the financial year, the AMC successfully dealt with Covid-19 related disruptions and emerging challenges. Having tested and activated our business continuity plans before the first government-mandated lockdown in March 2020, we delivered a smooth transition to 'digital ways' of doing business for our customers and distribution partners. Worldwide, cyber risk continues to remain one of the major risks facing financial companies, including IDFC AMC. Therefore, we further strengthened our IT and security infrastructure to protect our customer data and operations from potential malware and cyber threats. We also launched a slew of digital initiatives to keep employees connected, and engaged with the organization while working from home. We are very proud that all functions worked smoothly to serve clients without any major disruptions, and continued to fully comply with regulatory requirements.

Product Suite Expansion

Building further on our strong fixed income platform, the AMC expanded its product range by launching the IDFC Floating Rate Fund as well as India's first Gilt Index funds - the IDFC Gilt 2027 Index Fund and IDFC Gilt 2028 Index Fund. These new funds successfully marry unique opportunities in the current market conditions and needs of our customers - underlining our ability to innovate to deliver across different types of market environments. These new products received a strong response from our customers and distribution partners, and we garnered over Rs. 800 Cr through these NFOs. The AMC plans to launch several new products in FY22 in the Equity as well as Fixed Income space to cater to evolving customer demand and needs.

Investor Awareness Programs That Stood Out

A steady flow of memorable campaigns such as Smart Bano, Invest Karo, #DateyRaho, and #PaisonKoRokoMat ensured that IDFC Mutual Fund continued to generate mindshare with our customers and distribution partners. The #PaisonKoRokoMat was built upon an innovative storyboard and unique characterization to nudge savers to overcome inertia and explore mutual funds. The campaign received an overwhelmingly positive response from the investor community.

Safety-First Approach for Employees

Our business continuity plans and scaled up technology infrastructure also extended to our employees working from home. This enabled our teams to be efficient and productive, irrespective of where the team members were working from. Even as conditions improved, IDFC AMC took a conservative 'safety-first' approach and urged employees to step out only if necessary. Towards the end of Q4 with the resurgence of the virus, this approach allowed us to function smoothly, without any major disruptions. Continued team engagement activities throughout the year enabled teams to be connected while working remotely. We believe our cautious approach to Covid-19 resulted in higher employee morale, and higher productivity – thereby resulting in a true win-win.

Accelerated Investments in Technology

We accelerated our adoption of digital capabilities to cater to a new way of working during the pandemic. New features were added to the IDFC MF website as well as our distributor-centric app 'Saathi'. A unique digital marketing platform 'IDFC Pocketbook' was launched to help distributors take IDFC AMC products to investors in new and interesting ways. Partner engagement was scaled up through unique programs run by sales and branch operations teams. The AMC continues to strengthen its analytics platform by launching a personal business assistant app called 'Cuddle', enabling the sales team with up-to-date and relevant data to help clients and distribution partners make the most informed choice.

Additionally, a new website, www.idfcamc.com was launched for Corporate and Non-MF clients, and we launched a video KYC facility on our website, sharply reducing paperwork in on-boarding new clients.

Liquid Alternatives

The AMC is registered as a Portfolio Manager with the Securities and Exchange Board of India ("SEBI") to carry out Portfolio Management Services pursuant to SEBI (Portfolio Managers) Regulations, 2020. We currently offer IDFC NEO Equity Portfolio, a PMS portfolio that incorporates Artificial Intelligence and Machine Learning, with an objective to outperform the BSE 200 Index.

The AMC also acts as an Investment Manager to IDFC India Equity Hedge Fund, a Category III Alternative Investment Fund. We are currently offering IDFC IEH Conservative Fund, which seeks to generate absolute and uncorrelated returns from Indian equity markets while maintaining volatility lower than Indian equity market volatility.

Responsible Corporate Citizen

As the unprecedented wave of pandemic swept across the country, the ones impacted most were those who were already underserved. The pandemic forced daily wage earners to abandon their workplace and head back to their village, mostly covering long distances on foot. Through our partnership with United Way – Mumbai, IDFC AMC provided food and water supply to satisfy their immediate needs. Additionally, IDFC AMC also provided medicines, masks and PPE kits to front line health workers.

While it was clear that some are immediately affected by the pandemic, one section that received lesser attention were children and how the pandemic affected their education. IDFC AMC continued to fulfil its commitments towards promoting education for the girl child and weaker sections of our society in partnership with leading NGOs. Through our work with various NGOs such as Nanhi Kali, Saajha, STiR Education and Technoserve, we have directly or indirectly supported the education of over 18 lakh children across the country.

5C. IDFC INSTITUTE

Research and Studies

IDFC Institute has been set up as an independent, economic development-focused think/do tank. Our approach to public policy issues rests on a solid foundation of evidence-based research. IDFC Institute continued to be a thought leader on urbanisation. The World Economic Forum (WEF) published our white paper, Indian Cities in the Post-Pandemic World, which compiled a series of interviews with experts including Alain Bertaud, Jessica Seddon, to chart out a new urban reforms agenda. In collaboration with the WEF, we are hosting an expert Working Group with the Government of Punjab on urban reforms. We also continued to build expertise in the area of criminal justice reform. In partnership with the Madhya Pradesh Police, we conducted a study on internal communication, intrinsic motivation and agency of constables on COVID-19 duty across all districts and launched PARIMAL (Pracademic Action Research Initiative with Multidisciplinary Approach Lab) within their state police academy. We set up the Data Governance Network (DGN) in 2019 to bridge the gap in research on data governance. DGN produces research that informs policymaking and generates dialogue among a wide audience on key themes such as privacy, consent, digital rights and surveillance. In its second year, DGN published several papers and policy briefs on issues ranging from competition law to community ownership of non-personal data and established a partnership with **NITI Aayog** to organise webinars and training sessions on the theme of Technology for Governance, to bring cutting edge global expertise on tech for governance to government officials in India.

In March 2020, we set up an **expert task**

force to help the government respond to Covid-19 — this included the first serological surveys in Mumbai and Karnataka. The results of our serological surveys in Mumbai were included in the World Health Organisation's Global Solidarity Trial and published in Lancet Global Health. The results from the surveys in Karnataka and Tamil Nadu were published respectively in JAMA and MedrXiv. We developed a state-wide communications strategy for the Government of Punjab to encourage early testing, which was widely used by several departments including the District Public Relations Office. We are currently working with their Health Department on a statewide vaccine hesitancy campaign. We wrote a white paper for the World Bank India office on the Pradhan Mantri Garib Kalyan Yojana, the Indian government's relief package of Rs 1.70 trillion, that examined issues of coverage, identification and implementation. Our data science team supported numerous state governments; for instance, we helped build and streamline some of the early Covid case dashboards for the Government of Maharashtra and have been working with the Government of Tamil Nadu, supporting them with the analysis of seroprevalence surveys and with modelling bed capacity during the second wave. The Track 2 Task Force has representatives from the World Bank, Omidyar Network, Gates Foundation, Rockefeller Foundation, UChicago, MIT, NYU, Dalberg, McKinsey and BCG, and is backed by a team of 50-60 researchers at Stanford University, MIT and elsewhere.

In 2020-21, we convened several webinars to facilitate discussions through informed, candid and substantive conversations. We hosted **virtual roundtables** and **brown bags** on a host of issues including public health, access to justice, governance reforms, building state capacity and data governance. We wrote and published actively in leading newspapers like Mint, Hindustan Times, Bloomberg Opinion, among others. All our research, reports, databases and recommendations are in the public domain and freely accessible through our website: www.idfcinstitute.org.

6. Risk Management

IDFC Limited is a holding company for its various businesses. Wherever applicable, concerned businesses have a robust risk management practice in place to proactively identify and manage various types of risks, namely, credit, market and operational risks.

7. Internal Controls And Their Adequacy

The company has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that the transactions are authorised, recorded and reported correctly. Such internal controls are supplemented by a programme of internal audits, review by management and documented policies, guidelines and procedures. These are designed to ensure that financial and other records are reliable for preparing financial information and other reports and for maintaining regular accountability of the company's assets. The internal auditors present their report on a quarterly basis in operating companies and half yearly basis in holding companies to the audit committee of the respective boards.

8. Human Resources

IDFC LIMITED had 6 employees as on March 31, 2021.