

Aiming for higher RoA backed by all-round improvements

Operating performance to recover steadily from 3QFY26

We met with the top management team of IDFC First Bank (IDFCFB), represented by Mr. V. Vaidyanathan, MD & CEO, and Mr. Saptarshi Bapari, Head – IR, to discuss the bank's growth outlook, asset quality trends, profitability pickup, and other key focus areas. Here are the key takeaways from the interaction:

Loan growth healthy; estimate ~20% CAGR over FY20-28E

IDFCFB remains committed to granular expansion, with a tilt toward Retail, MSME and secured portfolios, while consciously de-risking from the stressed microfinance book. Advances rose 21% YoY in 1QFY26, driven by steady momentum in mortgages, vehicles, business banking, and mid-sized corporate loans. Management highlighted that corporate disbursements are expected to remain healthy, albeit on a low base, and are important from the overall diversification perspective. The bank reiterated its medium-term loan growth target of ~20%, aided by product diversification and prudent underwriting. The focus remains on consistently lowering the CD ratio while maintaining healthy mix of retail deposits and CASA ratio. We estimate a loan CAGR of ~20% over FY25-28E, with the loan book surpassing ~INR3t by FY27E, supported by a diversified asset mix and disciplined growth.

Strong deposit franchise underpins healthy balance sheet growth; tech capabilities further augment overall positioning

IDFCFB has built a robust liability franchise, with retail deposits now making up ~80% of customer deposits vs. just 27% at the time of merger. Deposits grew 26% YoY in 1QFY26, with CASA deposits rising 30% YoY, leading to a healthy 48% CASA ratio. Importantly, management continues to prioritize granular, branch-led and digital deposits over bulk money, reflected in LCR retail deposits rising from 12% to ~61% over the past five years. IDFCFB's tech integration has been vital for driving customer acquisition and offering hyper-personalized services. Aided by robust tech capabilities, the bank's deposit franchise is likely to grow at a steady rate, which should drive a medium-term moderation in funding costs. With high-cost borrowings set to fully unwind by FY26 and strong brand positioning in urban centers, the bank is poised to sustain ~22% deposit CAGR over FY25-28E, comfortably supporting credit expansion and lowering the CD ratio to desired levels.

NIMs to bottom out in 2Q; FY26-exit margins guided at 5.8%

IDFCFB reported NIMs of 5.71% in 1QFY26, down 24bp QoQ, led by MFI shrinkage, repo pass-through, and a higher wholesale mix. Management has reiterated that NIMs will bottom out in 2Q, with a lower 10-15bp decline vs. 1Q compression, and recover to ~5.7% from 3QFY26 onward as repricing benefits start accruing. The bank indicates 4QFY26-exit margins of 5.8%.

CD ratio improvement to continue; legacy borrowing overhang to end

IDFCFB has realigned its liability mix in favor of deposits, thereby reducing the CD ratio from a peak of 137% in Dec'18 to 93.4% in 1QFY26. Management expects a CD ratio of ~90% by year-end and late 80s in the coming years, a key milestone for sustainable growth. This has been achieved through strong retail deposit mobilization, alongside steady repayment of legacy bonds and high-cost borrowings. Borrowings, which once formed nearly half of liabilities at the merger, now account for a small residual amount, that too maturing in FY26, which is likely to ease the cost drag in FY26. As funding costs normalize and capital buffers improve after the recent raise, the bank gains greater flexibility to expand loans without aggressively chasing deposit growth.

IDFC First Bank



Mr. V. Vaidyanathan, MD & CEO

Mr. Vaidyanathan has over three decades of experience in financial services. Prior to IDFCFB, he was with ICICI Bank, where he set up Retail Banking (during 2000-09), and built a large Retail business franchise alongside a healthy CASA base. Subsequently, he became MD & CEO of ICICI Prudential Life. In 2010, he quit the ICICI Group for an entrepreneurial opportunity to acquire an NBFC (Capital First), which later merged with IDFC Bank. He took over as MD & CEO of the merged entity in Dec'18. He is an alumnus of the Birla Institute of Technology and Advanced Management Program at Harvard Business School.

A long-awaited turnaround in C/I ratio is around the corner

Management aspires to bring the C/I ratio closer to ~65% by 4QFY27E, down from the sticky >70% level seen in recent years, aided by scale benefits and improving income as well as operating efficiency. In 1QFY26, expenses grew 11% YoY vs. 23% business growth, reflecting early signs of operating leverage and driving sequential core PPOp improvement. Fee income traction from credit cards (3.8m cards in force) and cash management services is set to accelerate, while deposit repricing benefits – estimated PBT impact of INR5b for every 1% shift – will further aid margins. The bank's digital-heavy deposit sourcing model, backed by state-of-the-art tech capabilities, will continue to enhance efficiency and enable cross-selling across wealth, payments, and retail segments. We expect cost ratios to steadily moderate, enabling a ~28% PPOp CAGR over FY25-28E as C/I moderates to 66%/63% over FY27/28E.

Asset quality outlook healthy; credit cost set to recede going further

Excluding the shrinking MFI portfolio, asset quality remains resilient with Retail, Rural, and MSME GNPA at 1.48% in 1QFY26, supported by disciplined cashflow-based underwriting. Overall GNPA stood at 1.97%, with the uptick driven mainly by MFI stress and a one-off corporate case. Importantly, the MFI book has reduced to 3.3% of total loans vs. 5.7% a year ago, with SMA ratios declining and collection efficiency improving to ~99%. Management reiterated that credit cost is expected to improve, with 2Q slippages likely to be sequentially lower, and the trend improving further in the coming quarters. PCR remains healthy at 72%, up 300bp YoY, ensuring adequate buffers. The bank has reaffirmed that its asset quality will improve, backed by better collections and controlled SMA pool. We model normalized credit costs (as a % of advances) of ~1.8-1.9% over FY27-28E with a steady improvement from 2HFY26.

Other highlights:

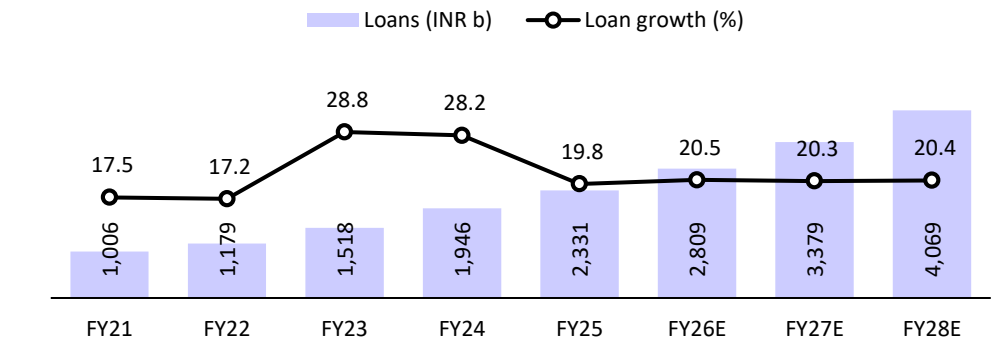
- The corporate environment appears to be healthy and the bank is focusing on mid-corporate segment. Currently, the base of its corporate book is lower at INR300b, and hence growth appears to be on the higher side.
- As there has been a capital infusion recently, the requirement to raise liabilities to support loan growth will be relatively lower, though the bank expects to grow the deposit base by 23% YoY. The CD ratio thus will be trending closer to ~90% this year and will reduce further in FY27E.

Valuation and view: Reiterate Neutral with a TP of INR80

- IDFCFB has delivered remarkable progress in deposit retailization while maintaining robust loan growth and steadily reducing balance sheet risks.
- With NIM guidance of ~5.8% in 4QFY26, continued deposit momentum, and strong capital buffers (CRAR 15% before capital raise; 17.6% after the raise), the bank is positioned to deliver improved profitability metrics in the coming years, though elevated cost ratios and the provisioning drag from MFI remain near-term constraints on earnings.
- We thus estimate PPOp/PAT CAGR of ~33%/71% over FY26-28E, translating into RoA/RoE of 1%/9.3% by FY27E. We maintain our Neutral rating with a TP of INR80. Execution on C/I reduction, sustained asset quality improvement, reduction in credit costs and steady NIMs are key upside catalysts.

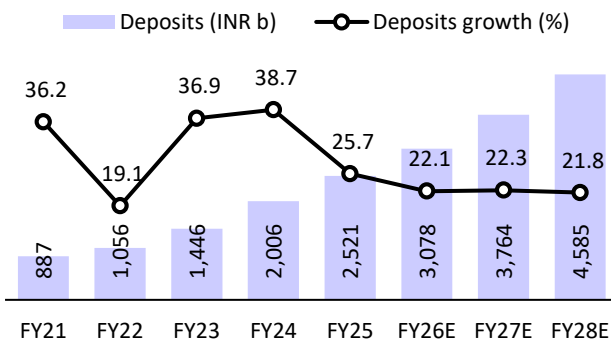
STORY IN CHARTS

Exhibit 1: Estimate loan growth to sustain at ~20% CAGR over FY25-28E



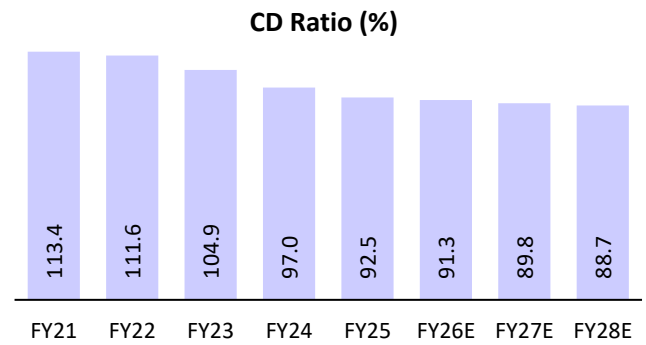
Source: MOFSL, Company

Exhibit 2: Estimate deposit CAGR at ~22% over FY25-28E



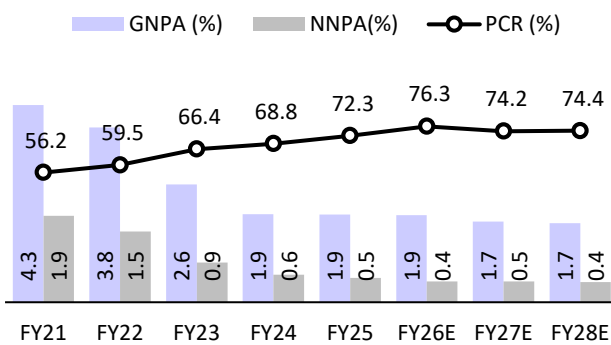
Source: MOFSL, Company

Exhibit 3: CD ratio has moderated to 92.5% in FY25, and is expected to trend down further to 88.7% in FY28E



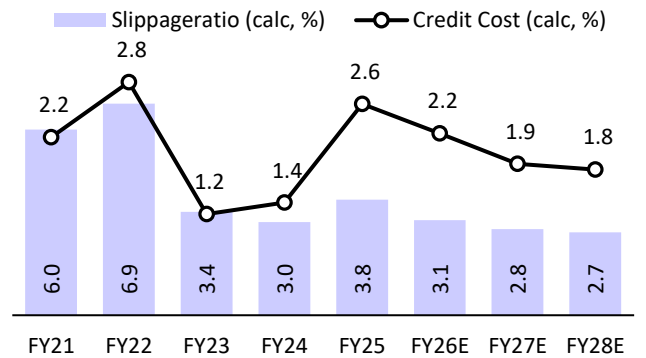
Source: MOFSL, Company

Exhibit 4: Est. GNPA/NNPA ratios at 1.7%/0.4% by FY28E



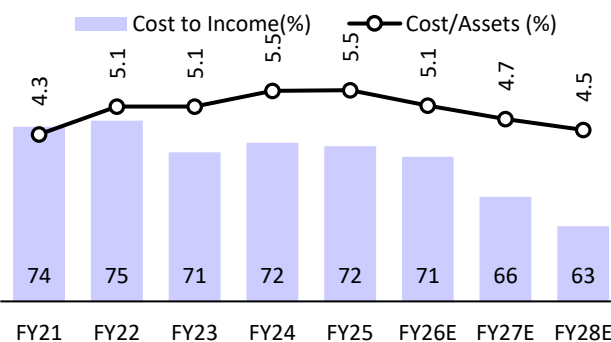
Source: MOFSL, Company

Exhibit 5: Credit cost to moderate to 1.8-1.9% by FY27-28E



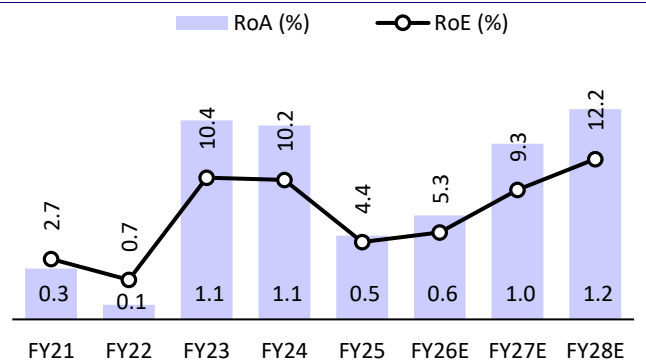
Source: MOFSL, Company

Exhibit 6: Estimate C/I ratio to moderate to ~63% by FY28E



Source: MOFSL, Company

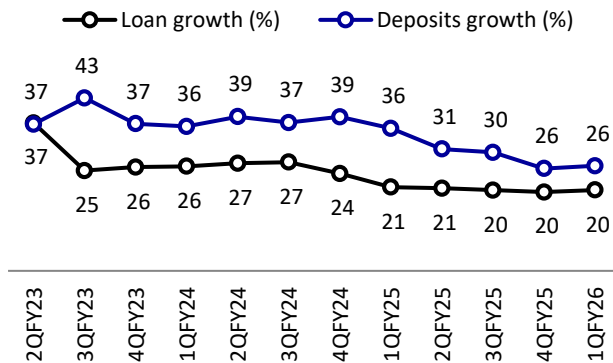
Exhibit 7: Enabling RoA to improve to 1.2% by FY28E



Source: MOFSL, Company

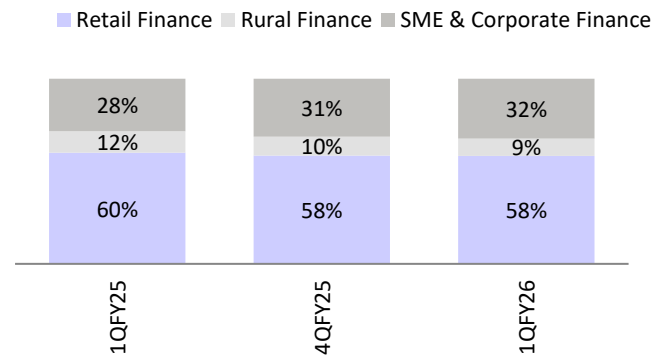
Story in charts

Exhibit 8: Loans/deposits grew 20.3%/26.4% YoY



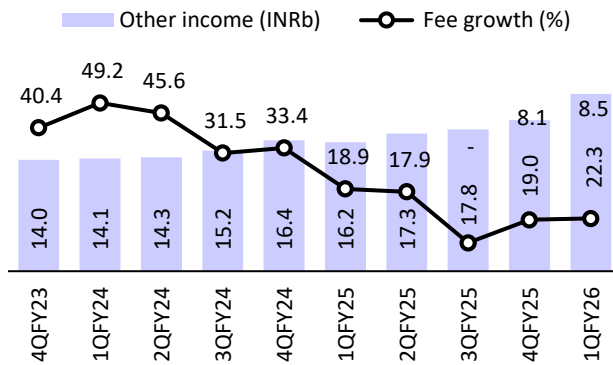
Source: MOFSL, Company

Exhibit 9: Consumer & Rural Finance formed ~68% of loans



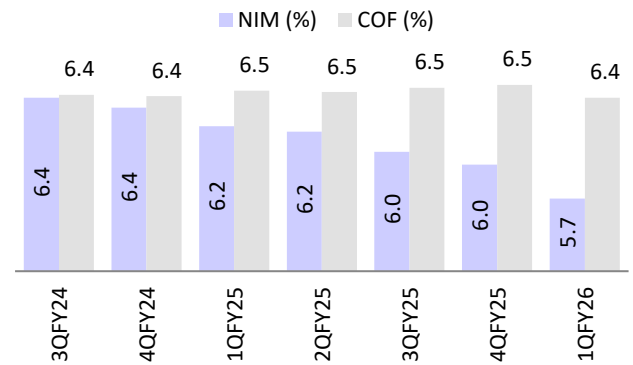
Source: MOFSL, Company

Exhibit 10: Fee income grew 8.5% YoY to INR17.3b in 1QFY26



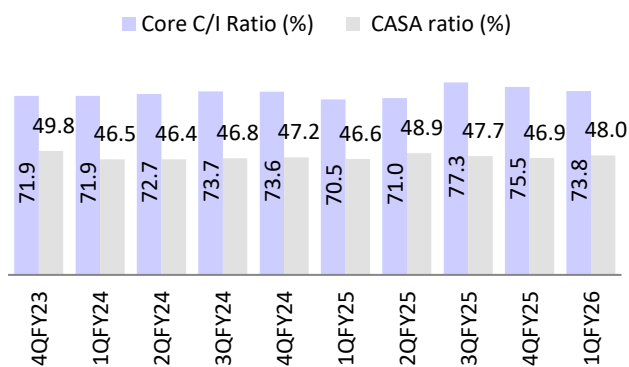
Source: MOFSL, Company

Exhibit 11: NIMs moderated 24bp QoQ to 5.71%



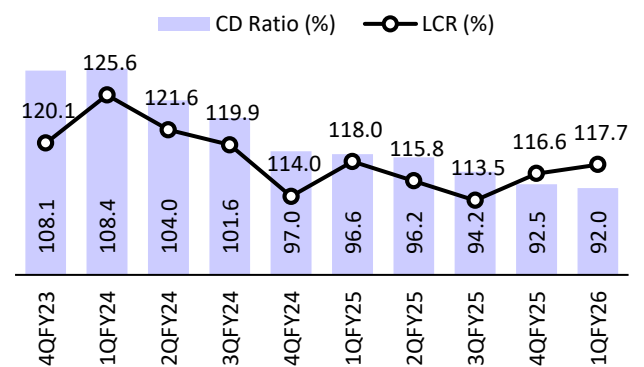
Source: MOFSL, Company

Exhibit 12: Core C/I ratio stood at 73.8%; CASA ratio at 48%



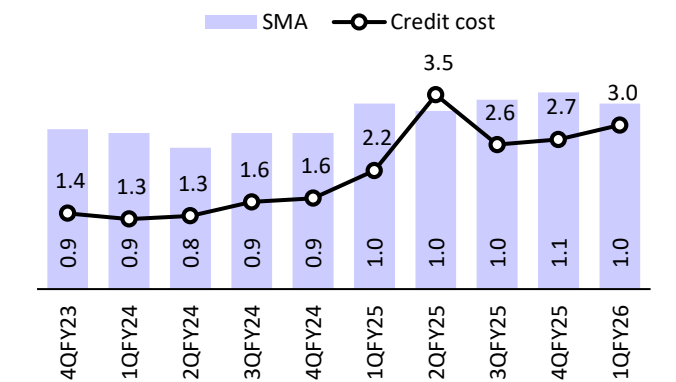
Source: MOFSL, Company

Exhibit 13: CD ratio declined to 92% in 1QFY26



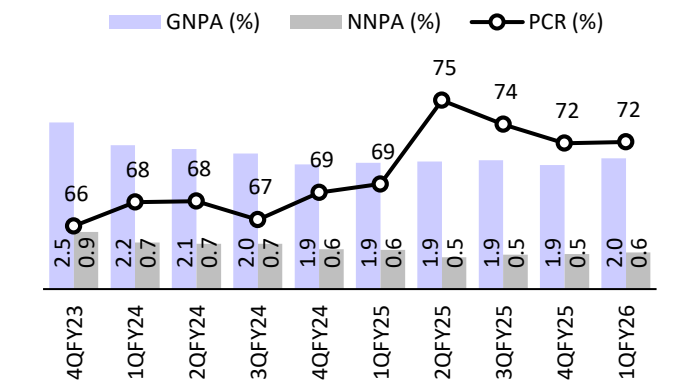
Source: MOFSL, Company

Exhibit 14: Credit costs stood high at 3%; expected to be 2.2% in FY26E and likely to decline to 1.8-1.9% in FY27-28E



Source: MOFSL, Company

Exhibit 15: GNPA/NNPA ratios stood at 2.0%/0.6%; PCR at 72%

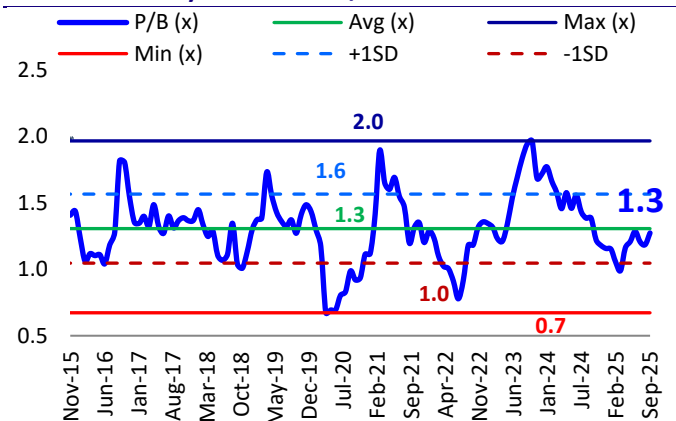


Source: MOFSL, Company

Exhibit 16: DuPont analysis

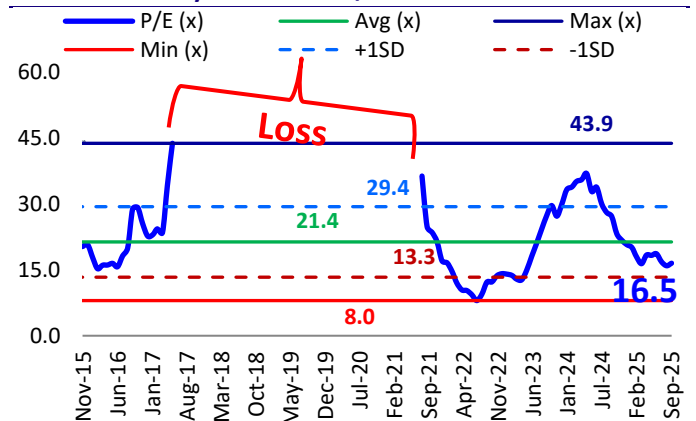
Y/E MARCH (%)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	9.7	10.6	11.3	11.4	11.1	10.9	10.8
Interest Expense	4.2	4.7	5.2	5.4	5.4	5.2	5.1
Net Interest Income	5.5	5.9	6.1	6.0	5.6	5.7	5.7
Fee income	-1.3	0.6	1.5	1.2	1.7	1.7	1.7
Trading and others	3.1	1.5	0.8	1.0	0.5	0.4	0.3
Non Interest income	1.8	2.1	2.2	2.2	2.2	2.1	2.0
Total Income	7.3	8.0	8.4	8.2	7.9	7.8	7.7
Operating Expenses	5.5	5.7	6.1	5.9	5.6	5.2	4.9
Employee cost	1.5	1.7	1.8	1.8	1.7	1.6	1.5
Others	3.9	3.9	4.2	4.1	3.9	3.6	3.4
Operating Profit	1.9	2.3	2.3	2.3	2.3	2.6	2.8
Core Operating Profit	-1.2	0.8	1.6	1.3	1.8	2.2	2.5
Provisions	1.8	0.8	0.9	1.7	1.5	1.3	1.3
PBT	0.1	1.5	1.4	0.6	0.8	1.3	1.6
Tax	0.0	0.4	0.3	0.1	0.2	0.3	0.4
RoA	0.1	1.1	1.1	0.5	0.6	1.0	1.2
Leverage (x)	9.1	9.2	9.3	9.1	8.9	9.3	10.2
RoE	0.7	10.4	10.2	4.4	5.3	9.3	12.2

Exhibit 17: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 18: One-year forward P/E ratio



Source: MOFSL, Company

Financials and valuations

Income Statement

	(INRb)						
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	171.7	227.3	303.2	365.0	419.9	495.9	589.6
Interest Expense	74.7	100.9	138.7	172.1	205.8	235.4	278.7
Net Interest Income	97.1	126.4	164.5	192.9	214.1	260.5	310.9
-growth (%)	31.5	30.2	30.2	17.3	11.0	21.7	19.3
Non Interest Income	32.2	44.7	60.0	70.2	84.6	94.8	110.9
Total Income	129.3	171.0	224.5	263.1	298.7	355.3	421.8
-growth (%)	34.8	32.3	31.3	17.2	13.5	18.9	18.7
Operating Expenses	96.4	121.7	162.2	189.0	211.1	235.7	266.3
Pre Provision Profits	32.8	49.3	62.4	74.1	87.6	119.5	155.5
-growth (%)	31.4	50.2	26.5	18.9	18.2	36.4	30.1
Core PPop	27.4	46.1	60.3	71.0	85.7	117.7	153.8
-growth (%)	44.0	68.6	30.8	17.6	20.8	37.3	30.6
Provisions (excl tax)	31.1	16.6	23.8	55.1	58.4	59.0	68.6
PBT	1.8	32.7	38.6	19.0	29.3	60.5	86.9
Tax	0.3	8.3	9.0	3.8	6.8	14.9	21.5
Tax Rate (%)	16.9	25.4	23.3	19.7	23.4	24.7	24.7
PAT	1.5	24.4	29.6	15.2	22.4	45.6	65.4
-growth (%)	-67.8	1,575.3	21.3	-48.4	46.9	103.3	43.6

Balance Sheet

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	62.2	66.2	70.7	73.2	85.7	85.7	85.7
Reserves & Surplus	147.7	190.7	250.3	306.1	386.4	422.0	477.5
Net Worth	209.9	256.8	321.0	379.3	472.1	507.7	563.2
Deposits	1,056.3	1,446.4	2,005.8	2,520.7	3,077.7	3,764.0	4,584.6
-growth (%)	19.1	36.9	38.7	25.7	22.1	22.3	21.8
-CASA Dep	511.7	719.8	947.7	1,182.4	1,486.5	1,825.6	2,223.5
-growth (%)	11.5	40.7	31.7	24.8	25.7	22.8	21.8
Borrowings	529.6	572.1	509.4	389.7	419.7	490.6	573.4
Other Liabilities & Prov.	105.8	123.7	124.4	147.0	173.5	204.7	241.5
Total Liabilities	1,901.7	2,399.0	2,960.6	3,436.7	4,143.0	4,967.0	5,962.8
Current Assets	157.6	139.0	124.8	151.0	179.1	200.0	221.8
Investments	461.4	611.2	747.1	807.2	979.9	1,175.9	1,411.0
-growth (%)	1.6	32.5	22.2	8.0	21.4	20.0	20.0
Loans	1,178.6	1,517.9	1,945.9	2,331.1	2,809.0	3,379.2	4,068.6
-growth (%)	17.2	28.8	28.2	19.8	20.5	20.3	20.4
Fixed Assets	13.6	20.9	26.2	26.6	33.0	37.0	41.4
Other Assets	90.6	110.4	117.1	122.3	142.0	175.0	220.0
Total Assets	1,901.8	2,399.4	2,961.2	3,438.2	4,143.0	4,967.0	5,962.8

Asset Quality

	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
GNPA	44.7	38.8	37.2	44.3	53.1	59.0	69.8
NNPA	18.1	13.0	11.6	12.3	12.6	15.2	17.9
GNPA Ratio (%)	3.8	2.6	1.9	1.9	1.9	1.7	1.7
NNPA Ratio (%)	1.5	0.9	0.6	0.5	0.4	0.5	0.4
Slippage Ratio (%)	6.9	3.4	3.0	3.8	3.1	2.8	2.7
Credit Cost (%)	2.8	1.2	1.4	2.6	2.2	1.9	1.8
PCR (Excl Tech. write off) (%)	59.5	66.4	68.8	72.3	76.3	74.2	74.4

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	10.4	11.2	11.9	12.0	11.6	11.4	11.3
Avg. Yield on loans	13.0	14.2	15.0	14.4	14.0	13.7	13.5
Avg. Yield on Investments	5.8	6.1	6.1	6.9	6.9	6.8	6.7
Avg. Cost-Int. Bear. Liab.	5.1	5.6	6.1	6.3	6.4	6.1	5.9
Avg. Cost of Deposits	4.4	5.0	5.9	6.2	6.1	6.0	5.9
Interest Spread	8.6	9.2	9.1	8.2	7.8	7.7	7.6
Net Interest Margin	6.1	6.5	6.8	6.6	6.2	6.2	6.2
Capitalisation Ratios (%)							
CAR	16.7	16.8	16.1	15.5	16.7	15.8	17.5
Tier I	14.9	14.2	13.4	13.2	14.6	13.8	15.5
-CET-1	14.9	14.2	13.4	13.2	14.6	13.8	15.5
Tier II	1.9	2.6	2.8	2.3	2.0	2.0	2.0
Business Ratios (%)							
Loans/Deposit Ratio	111.6	104.9	97.0	92.5	91.3	89.8	88.7
CASA Ratio	48.4	49.8	47.2	46.9	48.3	48.5	48.5
Cost/Assets	5.1	5.1	5.5	5.5	5.1	4.7	4.5
Cost/Total Income	74.6	71.2	72.2	71.8	70.7	66.4	63.1
Cost/Core Income	77.9	72.5	72.9	72.7	71.1	66.7	63.4
Int. Expense/Int.Income	43.5	44.4	45.7	47.1	49.0	47.5	47.3
Fee Income/Total Income	20.7	24.3	25.8	25.5	27.7	26.2	25.9
Non Int. Inc./Total Income	24.9	26.1	26.7	26.7	28.3	26.7	26.3
Empl. Cost/Total Expense	28.0	30.7	30.2	30.2	30.3	30.4	30.7
Efficiency Ratios (INRm)							
CASA per branch	798.3	889.8	1,003.9	1,180.0	2,477.6	3,042.6	3,705.9
Employee per branch (in nos)	43.4	43.7	43.6	42.1	84.4	94.5	105.8
Staff exp per employee	1.0	1.1	1.2	1.4	1.3	1.3	1.3
Busi. per Empl.	80.4	83.8	96.1	115.0	116.3	126.0	136.3
NP per Empl.	0.1	0.7	0.7	0.4	0.4	0.8	1.0

Profitability Ratios and Valuation

RoE	0.7	10.4	10.2	4.4	5.3	9.3	12.2
RoA	0.1	1.1	1.1	0.5	0.6	1.0	1.2
RoRWA	0.1	1.6	1.5	0.6	0.8	1.5	2.1
Book Value (INR)	34	39	45	52	55	59	66
-growth (%)	7.6	15.0	17.0	14.1	6.3	7.5	10.9
Price-BV (x)	2.1	1.8	1.5	1.4	1.3	1.2	1.1
Adjusted BV (INR)	31	37	44	50	53	57	63
Price-ABV (x)	2.3	1.9	1.6	1.4	1.3	1.2	1.1
EPS (INR)	0.2	3.8	4.3	2.1	2.8	5.3	7.6
-growth (%)	-71.6	1,452.3	13.8	-50.9	33.1	88.5	43.6
Price-Earnings (x)	NM	18.4	16.2	33.0	24.8	13.2	9.2

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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