

FIRST LIGHT

23 October 2025

RESEARCH

IDFC FIRST BANK | TARGET: Rs 89 | +16% | BUY

Asset quality improving with receding MFI pain

AU SMALL FINANCE BANK | TARGET: Rs 829 | -4% | HOLD

Business momentum stays strong, asset quality improving

FEDERAL BANK | TARGET: Rs 263 | +16% | BUY

Asset quality improved; business momentum moderates

RBL BANK | TARGET: Rs 292 | -3% | HOLD

Return metrics remain moderate

SUMMARY

IDFC FIRST BANK

- PAT missed estimates mainly due to higher opex; return ratio likely to improve on operating leverage and asset quality improvement
- Credit growth remains robust with a leading CASA ratio; asset quality improved with the MFI pain receding
- Maintain BUY with revised TP of Rs 89 (Rs 83 earlier), set at 1.4x Sep'27E ABV

[Click here](#) for the full report.

AU SMALL FINANCE BANK

- PPoP largely in line with estimates; lower provisions resulted in higher PAT; business momentum stays strong
- Asset quality improved marginally, driven by lower slippages
- Maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV

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BOBCAPS Research
research@bobcaps.in



FEDERAL BANK

- PAT beat estimates, largely driven by NIMs surprise; asset quality improved
- Focus on medium-yielding segments and proposal for fund raising
- Maintain BUY with revised TP of Rs 263 (Rs 242 earlier), valuing the stock at 1.4x Sep'27E ABV

[Click here](#) for the full report.

RBL BANK

- ENBD to acquire upto 60% stake in RBK through preferential issue of ~USD 3bn, subject to shareholder and regulatory approvals
- Return ratios remain moderate; asset quality showing signs of improvement
- Maintain HOLD with TP of Rs 292 (from Rs 253), valuation of 0.9x Sep'27E ABV (0.8x earlier)

[Click here](#) for the full report.

BUY

TP: Rs 89 | ▲ 16%

IDFC FIRST BANK

| Banking

| 23 October 2025

Asset quality improving with receding MFI pain

- **PAT missed estimates mainly due to higher opex; return ratio likely to improve on operating leverage and asset quality improvement**
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Niraj Jalan
Research Analyst
Vijiya Rao
Research Analyst
research@bobcaps.in

PAT missed estimates; return ratio likely to improve: IDFCFB missed our PAT estimates by 10% to Rs 3.5bn in Q2FY26, mainly due to higher opex and lower non-interest income. With lower trading gain of Rs 560mn (Q2FY26) vs Rs 4,950mn (Q1FY26), given the rise in yields, non-interest income fell by 15.1% QoQ. C/I ratio remains elevated to 73.2% (+3.3% YoY; +4.4% QoQ). This was mainly due to decline in the share of high-yielding MFI to 2.7% of AUM vs. 3.3% in Q1FY26. This also impacted NIMs, which declined to 5.6% (-10bps QoQ), along with pass through of repo rate cuts and higher SA interest rates. Management stated that they are unlikely to reduce SA rates in the near term, as it prefers to reduce LDR ratio to mid-80s vs 92.9% (Q2FY26). Management expects NIMs to have largely bottomed out in Q2FY26 and likely improve to 5.8% in Q4FY26, factoring in one more rate cut. Also, the bank expects credit costs to be ~2.0–2.05% of loans in FY26 (2.6% in FY25). With portfolio growth expected at a healthy CAGR of ~19% in FY25-28E, cost efficiency likely to kick in and credit cost to decline, return ratio will improve.

Credit growth remains robust with leading CASA ratio: Bank reported robust loan growth with net advances up by 19.5% YoY. This was supported by strong deposit growth of 23.8% YoY, largely led by rise in CASA deposits (+26.8% YoY). As a result, bank reported industry leading CASA ratio of 50.1% (Q2FY26).

Asset quality improved with MFI pain receding: AQ improved with GNPA ratio falling to 1.86% (-11bps QoQ) in Q2FY26. This improvement was led by a decline in slippages to 3.71% (-56bps QoQ), coupled with a rise in w/off to Rs 17.7bn (+12.8% QoQ). We note that slippage in MFI book fell sharply to Rs 2.5bn vs. Rs 5.1bn (Q1FY26). Also, the SMA 1+2 pool reduced significantly by 88 bps to 1.76%, indicating receding stress in MFI book. Further, the bank utilised Rs 0.75bn of contingency provision buffer, while still maintains Rs 2.4bn as contingency on MFI.

Maintain BUY: We expect credit growth at ~19% CAGR in FY25-FY28E. Early signs of AQ improvement would be the key to improving RoA to 0.6-1.1% in FY26-FY28E. We maintain BUY and roll over valuation to 1.4x Sep'27E ABV with revised TP of Rs 89 (Rs 83 earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IDFCBK IN/Rs 77
Market cap	US\$ 7.5bn
Free float	100%
3M ADV	US\$ 15.5mn
52wk high/low	Rs 78/Rs 52
Promoter/FPI/DII	0%/32%/22%

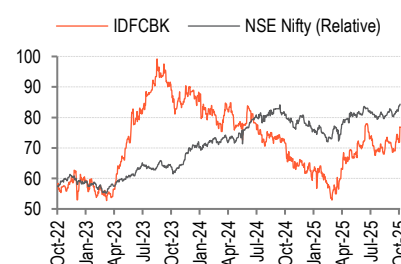
Source: NSE | Price as of 21 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	1,92,920	2,11,044	2,64,951
NII growth (%)	17.3	9.4	25.5
Adj. net profit (Rs mn)	15,248	23,746	43,958
EPS (Rs)	2.1	3.0	5.1
Consensus EPS (Rs)	2.1	3.2	5.5
P/E (x)	36.2	25.7	15.0
P/BV (x)	1.5	1.4	1.3
ROA (%)	0.5	0.6	1.0
ROE (%)	4.3	5.5	8.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD

TP: Rs 829 | ▼ 4%

**AU SMALL FINANCE
BANK**

| Banking

| 22 October 2025

Business momentum stays strong, asset quality improving

- PPOP largely in line with estimates; lower provisions resulted in higher PAT; business momentum stays strong
- Asset quality improved marginally, driven by lower slippages
- Maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV

Niraj Jalan
Research Analyst
Vijiya Rao
Research Analyst
research@bobcaps.in

PPoP largely in line with estimates; lower provisions resulted in higher PAT:

PPoP was largely in line with estimates (-1%) at Rs 12.1bn (+6.9% YoY). This was supported by healthy loan growth (+22% YoY) and a sequential rise in NIMs to 5.5% (+10bps QoQ). Management expects NIMs to expand in the next couple of quarters as deposit reprices. However, PAT was 6% higher than our estimates at Rs 5.6bn (-1.8% YoY), mainly due to lower credit cost vs our estimates by 7%. However, provisions remain elevated at Rs 4.8bn (+28.9% YoY; -9.8% QoQ) or credit cost of 1.3% of ATA. Around 50% of CC was from credit card and MFI segments. With stress easing in MFI, management guided credit costs to be <1% of ATA for FY26.

Business momentum stays strong: AUBANK witnessed net advance growth of 22% YoY, which was twice the system growth. Secured retail assets (wheels, MBL, HL and GL) accounted for 67.3% of total loans, followed by Commercial Banking (CB) (20.7%) and unsecured (7.6%) and others (4.3%). Management stated that secured retail assets will continue to grow at a high pace, given rise in distribution expansion in the states of AP, Karnataka, TN, Telangana, UP and West Bengal. Deposit growth stays strong at 20.8% YoY (Sep'25) and was ~2x the system growth.

Asset quality improved marginally, driven by lower slippages: GNPA ratio improved marginally to 2.41% (-6bps QoQ), largely driven by lower slippages of Rs 9.1bn (-11.6% QoQ) or slippage ratio of 3.7% (-72 bps QoQ). The reduction in slippages was due to lower slippages in cards, mortgages and CB. Further, CE in non-overdue MFI loans improved to 98.9% in Q2FY26 vs 98.3% in Q1FY26. Also, the SMA book improved to 2.9% (Sep'25) vs 4.3% (Jun'25), indicating improving early bucket delinquency. Management expects high recovery in the Wheels segment in H2FY26 and expects credit card to normalise by the end of FY26.

Maintain HOLD: AUBANK received in-principle approval from RBI for conversion into a universal bank in Aug'25. We believe the bank's current valuations appear stretched relative to underlying fundamentals. We expect the bank to deliver RoA of 1.8% by FY28E. We maintain HOLD with revised TP of Rs 829 (from Rs 741) and roll over the valuation to 2.5x Sep'27E ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AUBANK IN/Rs 861
Market cap	US\$ 7.3bn
Free float	77%
3M ADV	US\$ 24.5mn
52wk high/low	Rs 872/Rs 478
Promoter/FPI/DII	23%/35%/32%

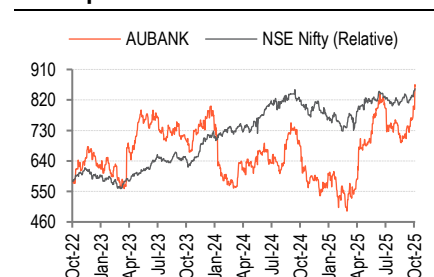
Source: NSE | Price as of 21 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	80,116	93,729	1,16,336
NII growth (%)	55.4	17.0	24.1
Adj. net profit (Rs mn)	21,059	25,587	35,401
EPS (Rs)	29.8	34.4	47.5
Consensus EPS (Rs)	28.2	34.4	46.6
P/E (x)	28.9	25.1	18.1
P/BV (x)	3.7	3.3	2.8
ROA (%)	1.6	1.5	1.7
ROE (%)	14.2	13.9	16.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY**TP: Rs 263 | ▲ 16%****FEDERAL BANK**

| Banking

| 21 October 2025

Asset quality improved; business momentum moderates

- **PAT beat estimates, largely driven by NIMs surprise; asset quality improved**
- **Focus on medium-yielding segments and proposal for fund raising**
- **Maintain BUY with revised TP of Rs 263 (Rs 242 earlier), valuing the stock at 1.4x Sep'27E ABV**

Niraj Jalan**Research Analyst****Vijiya Rao****Research Analyst**

research@bobcaps.in

PAT beat estimates, largely driven by NIMs surprise: PAT at Rs 9.6bn (+11% QoQ) was 9% above our estimates, mainly due to surprise improvement in NIMs to 3.06% (+12bps QoQ). Despite a decline in yield on advances (-18bps), NIMs improved due to higher decline in CoD (-21bps QoQ) to 5.6%. Increase in CASA ratio to 31% (+66bps QoQ) also resulted in CoD improvement. Further, earnings were supported by lower CC of 50bps vs 65bps (Q1FY26) amid the easing MFI stress. Management guided for CC of ~55bps in FY26. RoA will likely improve to 1.1-1.3% in FY26-28E, driven by its focus on fee income growth, CASA and change in loan mix (medium-yielding).

Asset quality improved: AQ improved with GNPA ratio declining to 1.83% (-8bps QoQ), mainly driven by lower slippages, which stood at Rs 5.8bn (-12% QoQ). Slippage came largely from MFI segment (1.6% of gross loans), which accounted for 34% of the total slippage in Q2FY26. Management stated that the MFI stress peaked last quarter and is moderating every month, yet to be fully normalised.

Focus on medium-yielding segments and proposal for fund raising: FB witnessed moderate loan growth (+6.2% YoY) as of Sep'25 and was below the system loan growth. We note that FB is recalibrating loan mix and focuses on medium-yielding segments (CV/CE, LAP, Auto, Gold) that saw a rise in its gross advances share to 43.8% (42.5% in Q2FY25). Management's strategy for loan mix and growth is to a) scale up the high-yielding MFI (-2% YoY) and personal loan (-7% YoY) segments once the external environment stabilises b) expect to grow at a high pace in LAP and BuB segments over the next few quarters. We note that the bank has scheduled a board meeting on Oct 24, 2025 to approve the proposal to raise funds subject to regulatory / statutory approvals. We await further clarity on the purpose and details of fund raise.

Maintain BUY: We expect the fruition of FB's strategic initiatives to take time and would be watchful. We model advances growth of 15% CAGR over FY25-28E with RoA/RoE of 1.3%/13.9% in FY28E. We maintain BUY and roll over valuation to 1.4x Sep'27E ABV with TP of Rs 263 (Rs 242 earlier).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FB IN/Rs 227
Market cap	US\$ 6.3bn
Free float	100%
3M ADV	US\$ 18.0mn
52wk high/low	Rs 230/Rs 173
Promoter/FPI/DII	0%/26%/50%

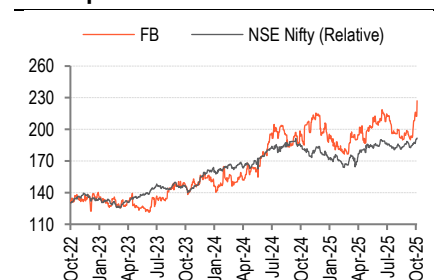
Source: NSE | Price as of 20 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	94,680	1,04,118	1,23,702
NII growth (%)	14.2	10.0	18.8
Adj. net profit (Rs mn)	40,519	39,705	50,973
EPS (Rs)	16.6	16.2	20.8
Consensus EPS (Rs)	16.6	16.0	20.2
P/E (x)	13.7	14.0	10.9
P/BV (x)	1.7	1.5	1.3
ROA (%)	1.2	1.1	1.2
ROE (%)	13.0	11.3	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD

TP: Rs 292 | ▼ 3%

RBL BANK

| Banking

| 20 October 2025

Return metrics remain moderate

- ENBD to acquire upto 60% stake in RBK through preferential issue of ~USD 3bn, subject to shareholder and regulatory approvals
- Return ratios remain moderate; asset quality showing signs of improvement
- Maintain HOLD with TP of Rs 292 (from Rs 253), valuation of 0.9x Sep'27E ABV (0.8x earlier)

Niraj Jalan

Research Analyst

Vijiya Rao

Research Analyst

research@bobcaps.in

ENBD to acquire up to 60% stake in RBK: Emirates NBD PJSC (ENBD) plans to acquire up to 60% stake in RBK by infusing ~USD 3bn through preferential issue. The deal is subject to shareholders and various regulatory approvals. This will also involve amalgamation of ENBD's India branches with RBK. It will augment RBK's capital position with net worth rising by 3x to Rs 420bn+. The bank's credit rating (CARE AA- (Stable)) might improve, which would lead to lower CoF and would influence its risk-reward choices. Also, this will enable the bank to scale up through branch expansion and improve digital capabilities.

Earnings impacted by high C/I ratio; secured retail products turned profitable while NIMs likely to improve: PPOp declined 20% YoY, due to high C/I ratio at 70.7% (64.2% in Q2FY25). NII was down 4% YoY to Rs 15.5bn in Q2FY26, mainly due to falling share of unsecured book (high-yield), coupled with a decline in yield on loans by 20bps QoQ to 12.3%, due to repo rate cuts. NIMs were stable on QoQ basis at 4.5% with the management expecting margins to improve by 10-15bps QoQ from Q3FY26 and exit NIMs would be ~4.75-4.8% by Q4FY26. Further, PAT was down 11% QoQ to Rs 1.8bn, given the rise in provisions to Rs 5bn (+13% QoQ). Return profile remains moderate with RoA/ RoE of 0.5%/ 4.4% in Q2FY26. Management stated that secured retail products, except for prime housing that was in the investment phase in the last 2 years, have turned PBT positive.

Asset quality showing signs of improvement: GNPA declined to 2.32% (-45bps QoQ), largely driven by a) improvement in the slippage ratio to 3.9% (Q2FY26) vs. 4.6% (Q1FY26) b) high w/off of Rs 10.4bn (+48% QoQ). Unsecured retail accounted for 85% of total slippage in Q2FY26. Also, total SMA book in JLG improved to 3.5% (Sep'25) vs 5.4% (Jun'25). Management expects slippage in CC and PL to normalise in the next couple of quarters.

Maintain HOLD: We believe lower growth in unsecured retail (high RoA) and high C/I will likely result in moderate return ratios. We maintain HOLD and roll over valuation at 0.9x Sep'27E ABV (0.8x earlier) vs 3Y average P/ABV of 0.8x with revised TP of Rs 292 (from Rs 253).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RBK IN/Rs 300
Market cap	US\$ 2.1bn
Free float	100%
3M ADV	US\$ 42.1mn
52wk high/low	Rs 308/Rs 146
Promoter/FPI/DII	0%/15%/35%

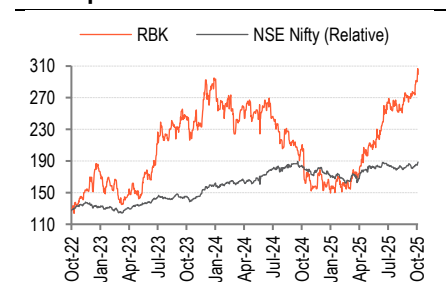
Source: NSE | Price as of 17 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	64,630	69,677	83,220
NII growth (%)	7.0	7.8	19.4
Adj. net profit (Rs mn)	6,954	11,736	17,615
EPS (Rs)	11.5	19.3	29.0
Consensus EPS (Rs)	11.5	18.2	27.9
P/E (x)	26.1	15.5	10.3
P/BV (x)	1.2	1.1	1.0
ROA (%)	0.5	0.8	1.0
ROE (%)	4.6	7.3	10.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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Note: Recommendation structure changed with effect from 21 June 2021

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