BUY
TP: Rs 83 | ⮝ 17%

IDFC FIRST BANK | Banking | 28 July 2025

Return ratios set to improve

- **PAT beat estimates, mainly aided by higher non-interest income. Asset quality moderated marginally**
- **Return ratio expected to improve, backed by operating leverage and early signs of asset quality improvement**
- **Maintain BUY with revised TP of Rs 83 (Rs 79 earlier), set at 1.4x Jun'27E ABV**

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PAT beat estimates, mainly aided by higher non-interest income: IDFCBK beat our PAT estimates by 71% to Rs 4.6bn in Q1FY26, mainly driven by 20% higher non-interest income vs estimates. The significant rise in non-interest income was mainly driven by trading gains of Rs 5bn (Q1FY26) vs Rs 1.9bn (Q4FY25), due to decline in the overall system yields. This also led to the C/I ratio improving 68.7% (-464bps QoQ). Further, management expects C/I ratio to improve to 65% by FY27 (71.8% in FY25) via cost control.

Return ratio expected to improve: IDFCBK saw NIMs declining to 5.7% (-24bps QoQ) in Q1FY26, mainly on account of: a) pass through of repo rate cuts b) fall in high-yielding MFI portfolio mix to 3.3% (Jun'25) of gross loans vs 6.3% (Jun'24) c) rising share of wholesale mix d) moderation in investment yields. Management expects NIMs to be ~5.8% by Q4FY26, mainly supported by the lag impact of deposit repricing. Also, the bank expects credit costs to be ~2.0–2.05% 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.

Asset quality moderated marginally: GNPA ratio deteriorated marginally to 1.97% in Q1FY26 vs 1.87% in Q4FY25, mainly because slippages rose to Rs 24.9bn or 4.3% slippage ratio vs Rs 21.8bn (3.9%) in Q4FY25. The rise was impacted by slippage of ATM service provider company of Rs 1.1bn, seasonality, and MFI stress; though slippage in MFI book fell to Rs 5.1bn (Q1FY26) vs Rs 5.7bn (Q4FY25). Further, SMA1+2 pool in MFI book improved to 2.6% (Jun'25) from 5.1% (Mar'25). The bank holds a contingency provision of Rs 3.2bn on SMA book, as of Jun'25. The MFI's SMA pool falling and CE improving (99.0% in Q1FY26 vs 98.1% in Q4 FY25) indicates receding stress in MFI book.

Maintain BUY: We expect credit growth at a CAGR of ~19% in FY25-FY28E, supported by expected capital infusion. Focus on operating efficiencies and early signs of AQ improvement would be the key to improving RoA to 0.7-1.2% in FY26-FY28E. We maintain BUY and and roll over valuation to 1.4x Jun'27E ABV with revised TP of Rs 83 (Rs 79 earlier).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	IDFCBK IN/Rs 71
Market cap	US$ 7.0bn
Free float	100%
3M ADV	US$ 24.5mn
52wk high/low	Rs 78/Rs 52
Promoter/FPI/DII	0%/24%/23%

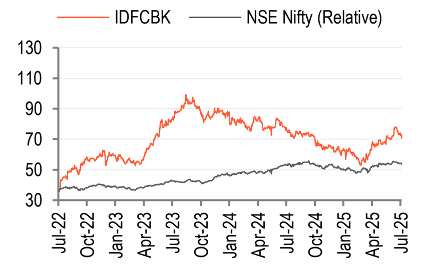
Source: NSE | Price as of 25 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	1,92,920	2,12,831	2,67,082
NII growth (%)	17.3	10.3	25.5
Adj. net profit (Rs mn)	15,248	26,031	45,547
EPS (Rs)	2.1	3.3	5.3
Consensus EPS (Rs)	2.1	3.6	5.8
P/E (x)	33.4	21.6	13.3
P/BV (x)	1.4	1.3	1.2
ROA (%)	0.5	0.7	1.0
ROE (%)	4.3	6.1	9.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	73,672	75,810	79,151	79,712	81,363	10.44	2.07
Income on investments	13,276	12,818	13,135	13,945	14,322	7.88	2.70
Int. on bal. with RBI & inter-bank funds & Others	938	942	1,144	472	737	(21.48)	55.93
Interest income	**87,886**	**89,569**	**93,430**	**94,129**	**96,421**	**9.71**	**2.43**
Interest expense	40,937	41,691	44,410	45,058	47,091	15.03	4.51
Net interest income	**46,949**	**47,879**	**49,021**	**49,072**	**49,331**	**5.07**	**0.53**
Growth YoY (%)	25.4	21.2	14.4	9.8	5.1		
Non-interest income	**16,192**	**17,273**	**17,799**	**18,954**	**22,268**	**37.5**	**17.5**
Growth YoY (%)	14.5	20.8	17.4	15.4	37.5		
Total income	**63,141**	**65,152**	**66,819**	**68,026**	**71,599**	**13.4**	**5.3**
Growth YoY (%)	22.4	21.1	15.1	11.3	13.4		
Staff expenses	13,374	14,241	14,203	15,282	14,956	11.8	(2.1)
Other operating expenses	30,943	31,292	35,026	34,628	34,249	10.7	(1.1)
Operating expenses	**44,316**	**45,533**	**49,230**	**49,910**	**49,205**	**11.0**	**(1.4)**
Pre-Provisioning Profit (PPoP)	**18,825**	**19,619**	**17,589**	**18,116**	**22,394**	**19.0**	**23.6**
Growth YoY (%)	25.5	29.9	12.6	8.9	19.0		
Provisions	**9,944**	**17,319**	**13,379**	**14,505**	**16,591**	**66.8**	**14.4**
Growth YoY (%)	108.8	227.8	104.3	100.8	66.8		
PBT	**8,881**	**2,299**	**4,210**	**3,611**	**5,803**	**(34.7)**	**60.7**
Tax	2,074	292	816	571	1,177	(43.3)	106.2
PAT	6,807	2,007	3,394	3,041	4,626	(32.0)	52.1
Growth YoY (%)	(11.0)	(73.3)	(52.6)	(58.0)	(32.0)		
Per Share							
FV (Rs)	10	10	10	10	10	-	-
EPS (Rs)	0.96	0.27	0.46	0.42	0.63	(34.4)	50.0
Book Value (Rs)	47.2	49.3	51.6	52.0	52.8	11.8	1.5

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Deposits	**20,96,663**	**22,36,067**	**23,68,778**	**25,20,653**	**26,49,713**	**26.4**	**5.1**
Growth YoY (%)	35.8	30.6	29.8	25.7	26.4		
Advances	**20,25,681**	**21,50,613**	**22,31,039**	**23,31,125**	**24,36,789**	**20.3**	**4.5**
Growth YoY (%)	21.0	23.0	20.3	19.8	20.3		
Investment	7,36,242	7,63,283	8,10,331	8,07,155	8,63,793	17.3	7.0
Equity	3,34,434	3,68,906	3,78,009	3,80,780	3,87,189	15.8	1.7
Assets	30,68,192	32,04,417	33,58,506	34,38,187	36,14,240	17.8	5.1
Growth YoY (%)	23.2	21.1	24.1	16.1	17.8		
Yield (%)							
Yield on Funds	12.2	12.0	11.9	11.6	11.4	(79bps)	(17bps)
Cost of Funds	6.4	6.3	6.4	6.3	6.3	(9bps)	1bps
Spread	5.8	5.7	5.5	5.3	5.1	(70bps)	(18bps)
Net Interest Margin (Cal)	6.5	6.4	6.3	6.0	5.9	(68bps)	(20bps)
Ratios (%)							
Other Income / Net Income	25.6	26.5	26.6	27.9	31.1	546bps	324bps
Cost to Income ratio	70.2	69.9	73.7	73.4	68.7	(146bps)	(465bps)
CASA ratio	46.6	48.9	47.7	46.9	48.0	140bps	108bps
C/D ratio	96.6	96.2	94.2	92.5	92.0	(465bps)	(52bps)
Investment to Assets	24.0	23.8	24.1	23.5	23.9	(10bps)	42bps
Assets Quality							
GNPA	39,042	41,952	43,993	44,336	48,675	24.7	9.8
NNPA	11,953	10,376	11,620	12,299	13,461	12.6	9.4
Provision	27,089	31,576	32,374	32,037	35,214	30.0	9.9
GNPA (%)	1.9	1.9	1.9	1.9	2.0	7bps	10bps
NNPA (%)	0.6	0.5	0.5	0.5	0.6	(4bps)	2bps
Provision (%)	69.4	75.3	73.6	72.3	72.3	296bps	9bps
Slippages (%)	0.9	1.0	1.0	1.0	1.1	21bps	9bps

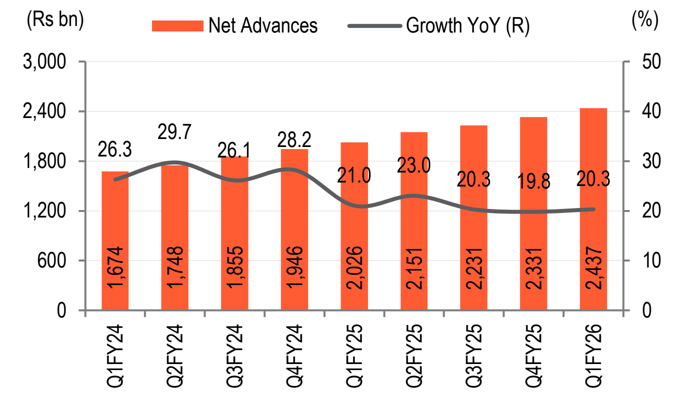
Source: Company, BOBCAPS Research

Fig 3 – Actual vs. Estimates

(Rs mn)	Q1FY26A	Q1FY26E	Actual vs. Estimates (%)
Loan	24,36,789	24,20,689	0.7
Deposits	26,49,713	26,16,636	1.3
Assets	36,14,240	35,82,899	0.9
NII	49,331	49,255	0.2
PPOP	22,394	18,473	21.2
Provision	16,591	14,909	11.3
PAT	4,626	2,702	71.2

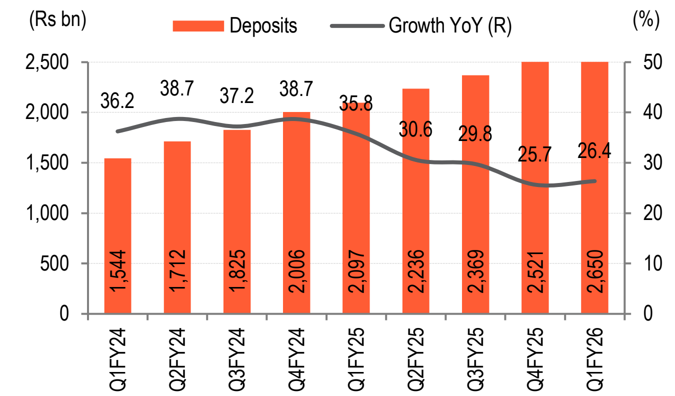
Source: Company, BOBCAPS Research

Fig 4 – Sustained healthy credit growth above system levels



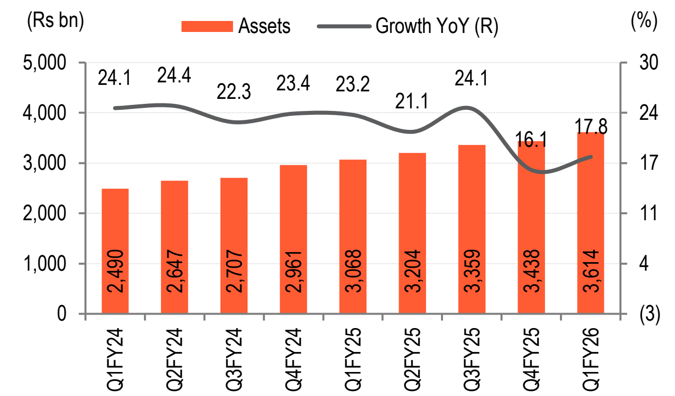
Source: Company, BOBCAPS Research

Fig 5 – Deposit continued to outpace loan growth, resulting in improved CD ratio of 92% (Jun'25) vs 96.6% (Jun'24)



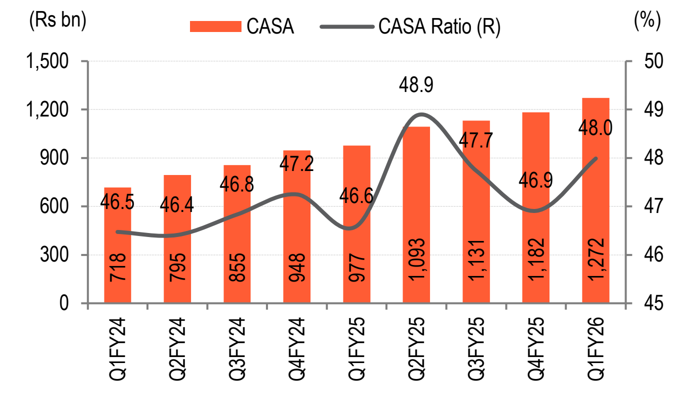
Source: Company, BOBCAPS Research

Fig 6 – Asset growth improved in Q1FY26



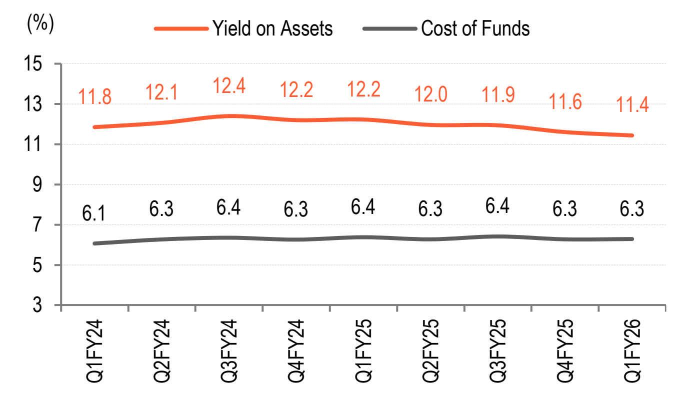
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio up 108bps QoQ



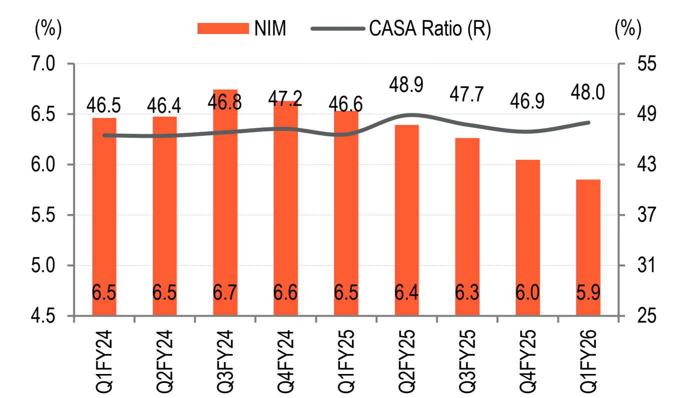
Source: Company, BOBCAPS Research

Fig 8 – Yield on assets contracts due to pass through of repo rate cuts



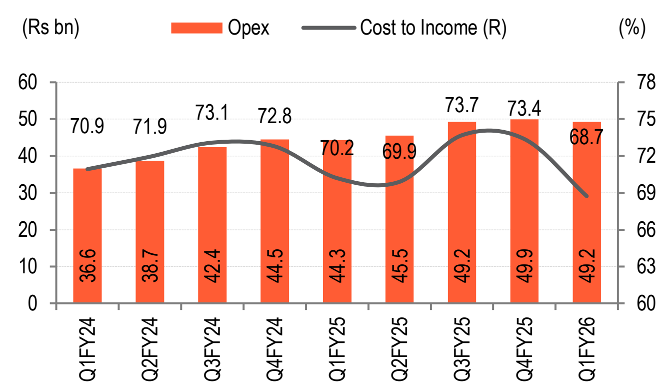
Source: Company, BOBCAPS Research

Fig 9 – Decline in MFI book and lower yields drag NIMs



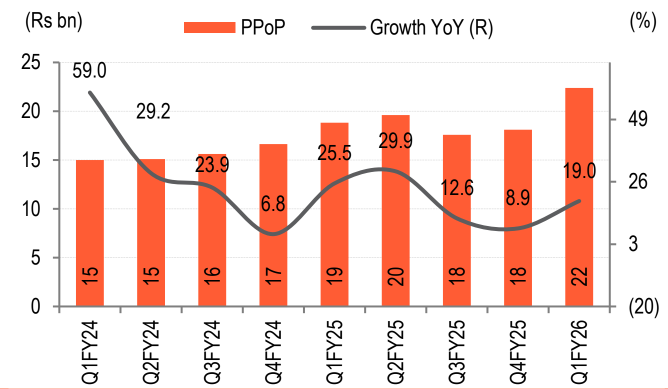
Source: Company, BOBCAPS Research

Fig 10 – Cost-to-Income improved aided by one-off trading gains



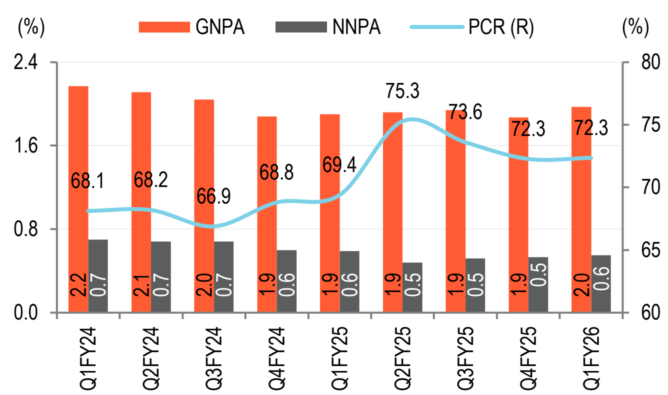
Source: Company, BOBCAPS Research

Fig 11 – PPOP growth remains healthy



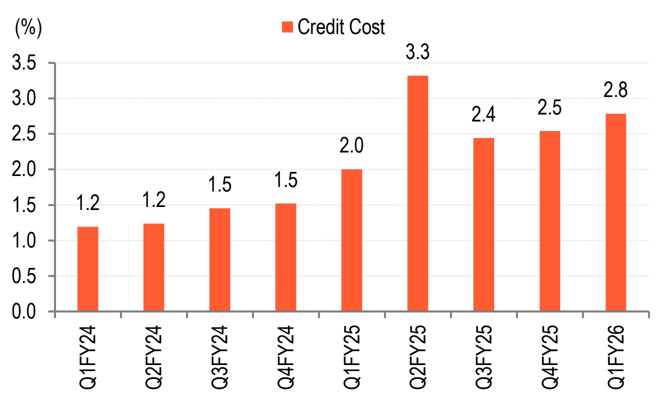
Source: Company, BOBCAPS Research

Fig 12 – Asset quality moderated marginally



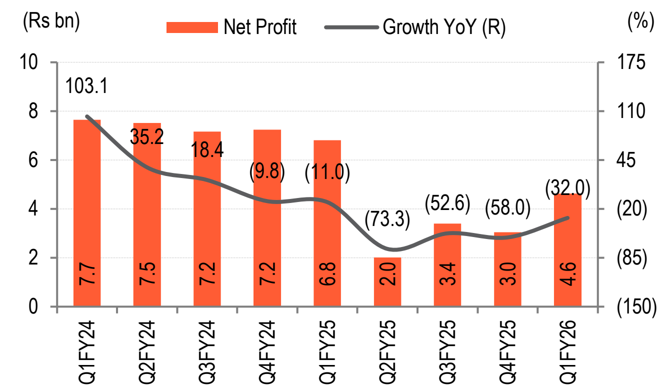
Source: Company, BOBCAPS Research

Fig 13 – Credit costs inched up



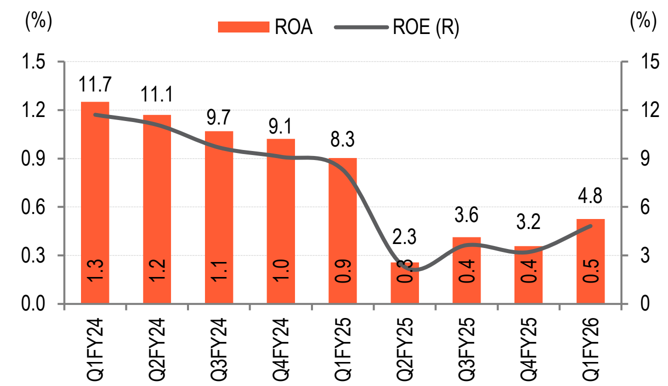
Source: Company, BOBCAPS Research

Fig 14 – PAT up 52% QoQ



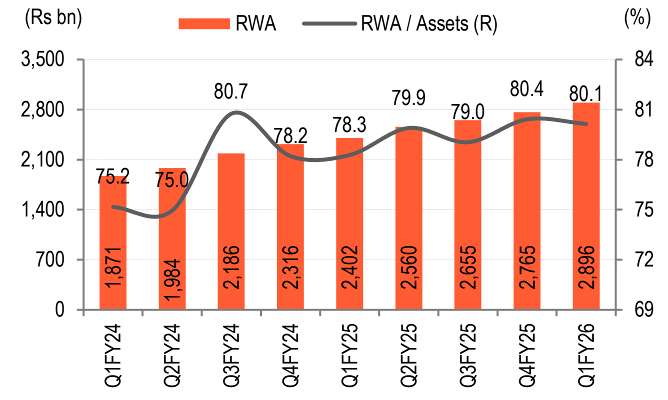
Source: Company, BOBCAPS Research

Fig 15 – Operational efficiency to be key lever for higher return ratios



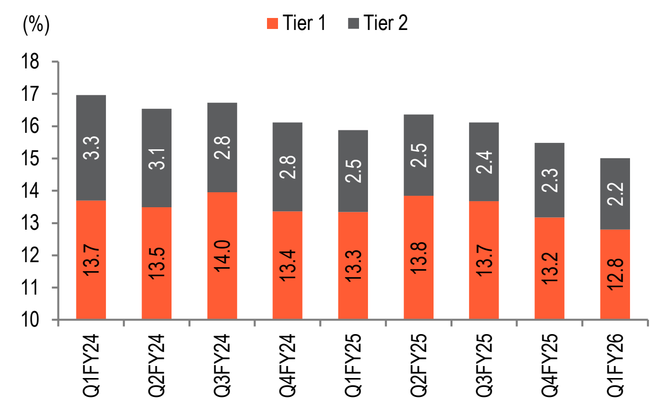
Source: Company, BOBCAPS Research

Fig 16 – Stable RWA-to-asset ratio



Source: Company, BOBCAPS Research

Fig 17 – Capital ratios to increase, aided by capital raise



Source: Company, BOBCAPS Research

Fig 18 – Deposit trend

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
CASA Deposits	9,76,920	10,92,920	11,30,780	11,82,370	12,71,580	30.2	7.5
Term Deposits	11,19,743	11,43,147	12,37,998	13,38,283	13,78,133	23.1	3.0
Total Deposits	**20,96,663**	**22,36,067**	**23,68,778**	**25,20,653**	**26,49,713**	**26.4**	**5.1**

Source: Company, BOBCAPS Research

Fig 19 – Deposit distribution

(%)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY	QoQ
CASA Deposits	46.6	48.9	47.7	46.9	48.0	140bps	108bps
Term Deposits	53.4	51.1	52.3	53.1	52.0	(140bps)	(108bps)
Total Deposits	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0bps**	**0bps**

Source: Company, BOBCAPS Research

Fig 20 – Source of fund distribution

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Legacy Long Term & Infra Bonds	94,350	70,820	60,680	42,150	16,610	(82.4)	(60.6)
Refinance & Other borrowings	1,86,810	1,99,400	2,63,260	2,34,500	2,30,610	23.4	(1.7)
Tier II Bonds	45,000	45,000	45,000	45,000	45,000	-	-
Total Borrowings	**3,26,160**	**3,15,220**	**3,68,940**	**3,21,650**	**2,92,220**	**(10.4)**	**(9.1)**
CASA Deposits	9,76,920	10,92,920	11,30,780	11,82,370	12,71,580	30.2	7.5
Term Deposits	10,68,800	10,87,350	11,42,370	12,43,060	12,96,400	21.3	4.3
Total Customers Deposits	**20,45,720**	**21,80,270**	**22,73,150**	**24,25,430**	**25,67,980**	**25.5**	**5.9**
Certificate of Deposits	50,950	55,800	95,620	95,220	81,730	60.4	(14.2)
Money Market Borrowings	1,92,530	1,48,230	94,960	68,090	1,35,830	(29.4)	99.5
Borrowings & Deposits	**26,15,360**	**26,99,520**	**28,32,670**	**29,10,390**	**30,77,760**	**17.7**	**5.8**

Source: Company, BOBCAPS Research

Fig 21 – Source of fund distribution trend

(%)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY	QoQ
Legacy Long Term & Infra Bonds	3.6	2.6	2.1	1.4	0.5	(307bps)	(91bps)
Refinance & Other borrowings	7.1	7.4	9.3	8.1	7.5	35bps	(56bps)
Tier II Bonds	1.7	1.7	1.6	1.5	1.5	(26bps)	(8bps)
Total Borrowings	**12.5**	**11.7**	**13.0**	**11.1**	**9.5**	**(298bps)**	**(156bps)**
CASA Deposits	37.4	40.5	39.9	40.6	41.3	396bps	69bps
Term Deposits	40.9	40.3	40.3	42.7	42.1	126bps	(59bps)
Total Customers Deposits	**78.2**	**80.8**	**80.2**	**83.3**	**83.4**	**522bps**	**10bps**
Certificate of Deposits	1.9	2.1	3.4	3.3	2.7	71bps	(62bps)
Money Market Borrowings	7.4	5.5	3.4	2.3	4.4	(295bps)	207bps
Borrowings & Deposits	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0bps**	**0bps**

Source: Company, BOBCAPS Research

Key conference call takeaways

Loan growth and capital

- Loan book grew 20% YoY (4.5% QoQ), led by retail (up 17.4% YoY, 4.3% QoQ), rural (-2.4% YoY, -3.4% QoQ) and business finance portfolio (up 38.1% YoY, 8% QoQ).
- Loan growth was robust in retail segments such as home loans (up 17% YoY, 4% QoQ), LAP (up 23.6% YoY, 7.7 QoQ), vehicle loans (up 23.8% YoY, 2.7% QoQ) and gold loans (up 83.4% YoY, 10.4% QoQ). Business banking saw a strong growth of 33.6% YoY (3.9% QoQ).
- IDFCBK's current C/D ratio stands at 93.4% and incremental C/D ratio at 75.8%. The bank expects C/D ratio to be in the late 80% in the next few years.
- Unsecured retail loans accounted for ~13% of the total book.
- IDFCBK's infrastructure book is now down to 0.96% of the total funded assets; management does not intent to grow this book.
- The bank continues to actively de-grow MFI portfolio, which now constitutes 3.3% of the overall book, down 37% YoY.
- Currant Sea Investments B.V. has received RBI's approval with respect to its proposed investment of up to 9.99% of the paid-up share capital of the bank

Deposits

- Deposits rose 26.4% YoY and 5.1% QoQ. With CASA ratio standing at 48% (+30.2% YoY). Of this, SA balances contributed 92.5% and CA balances 7.5%. Management recognises that CA balances are lower vs peers and is taking steps to improve the same.
- High cost legacy borrowing was repaid this quarter- Rs 26bn and the residual stock is now just Rs 22bn; expected to fully mature within this financial year. This is expected to improve the cost of funds (CoF).

Asset quality

- GNPA up by 10bps QoQ to 1.97% while NNPA increased by 2bps QoQ to 0.55%, driven by slippages in the MFI book.
- Gross slippages stood at Rs 24.9 bn, including Rs 5.14 bn from MFI and Rs 1.08 bn from a one-off corporate account, with management expecting a decline in slippages going forward.
- Credit cost ex-MFI (JLG) book was at 2% vs 1.8% in FY25, indicating sequential jump.
- Management gave credit cost guidance to 2.00% - 2.05% in FY26.

Operating parameter

- Management expects C/I ratio to improve to 65% by FY27 (68.7% in Q1FY26) via cost control.
- This is expected to be achieved by cost control, which will result in opex growth of ~11-13% in FY26.
- Liquidity coverage ratio (LCR) remained healthy at 118% as of Q1FY26, improving from 117% in Q4FY24.

Valuation methodology

Maintain BUY: We expect credit growth at ~19% CAGR in FY25-FY28E, supported by expected capital infusion. Focus on operating efficiencies and early signs of AQ improvement would be key to improving RoA to 0.7-1.2% in FY26-FY28E. We maintain BUY and roll over valuation to 1.4x Jun'27E ABV with revised TP of Rs 83 (Rs 79 earlier).

Fig 22 – Key operational assumptions

Parameter (%)	FY25E	FY26E	FY27E	FY28E
Advances Growth	19.8	19.0	19.5	20.0
NII Growth	17.3	10.3	25.5	20.9
PPoP Growth	18.9	15.9	37.3	21.3
PAT Growth	(48.4)	70.7	75.0	37.1
NIM	6.1	5.8	6.1	6.1
GNPA	1.9	1.8	1.7	1.6
CAR	15.5	16.8	15.5	14.2

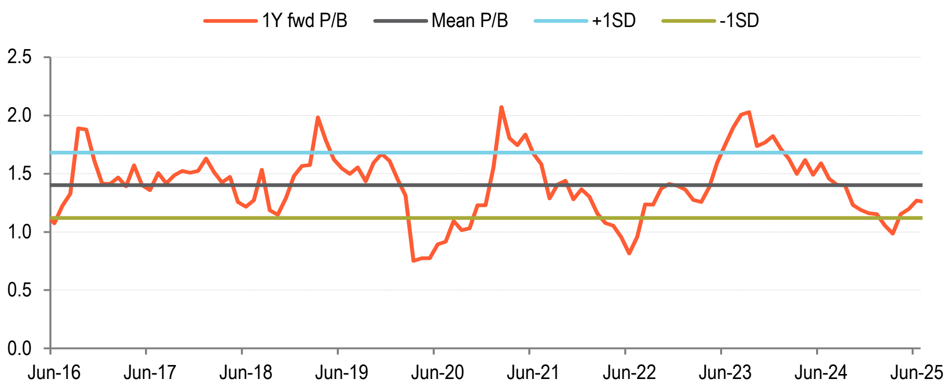
Source: Company, BOBCAPS Research

Fig 23 – Key valuation assumptions: Gordon Growth model

(%)	Assumptions
Cost of equity (%)	10.8
Blended ROE (%)	11.8
Initial high growth period (years)	12.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	6
Long term dividend payout ratio (%)	50
Justified P/BV (x)	1.4
Implied BVPS (Rs)	60
Value per share (Rs)	83

Source: Company, BOBCAPS Research

Fig 24 – PB Band Chart



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- The bank's inability to manage CoF, leading to compressed margin.
- Inability to control costs and improve cost efficiency.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	**1,64,508**	**1,92,920**	**2,12,831**	**2,67,082**	**3,22,899**
NII growth (%)	30.2	17.3	10.3	25.5	20.9
Non-interest income	60,020	70,217	84,906	92,972	1,02,231
Total income	2,24,528	2,63,137	2,97,737	3,60,054	4,25,130
Operating expenses	1,62,158	1,88,988	2,11,791	2,42,067	2,82,007
PPOP	62,370	74,148	85,946	1,17,988	1,43,123
PPOP growth (%)	26.5	18.9	15.9	37.3	21.3
Provisions	23,817	55,147	51,052	56,932	59,438
PBT	38,553	19,001	34,894	61,055	83,686
Tax	8,988	3,753	8,863	15,508	21,256
Reported net profit	**29,565**	**15,248**	**26,031**	**45,547**	**62,430**
Adjustments	0	0	0	0	0
Adjusted net profit	**29,565**	**15,248**	**26,031**	**45,547**	**62,430**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	70,699	73,221	85,720	85,720	85,720
Reserves & surplus	2,50,914	3,07,559	3,92,960	4,33,042	4,87,980
Net worth	3,21,613	3,80,780	4,78,680	5,18,762	5,73,700
Deposits	20,05,763	25,20,652	30,49,989	37,05,737	45,20,999
Borrowings	5,09,356	3,89,748	3,78,056	3,70,495	3,74,200
Other liab. & provisions	1,24,419	1,47,006	2,35,960	2,88,773	4,08,476
Total liab. & equities	**29,61,151**	**34,38,187**	**41,42,686**	**48,83,767**	**58,77,375**
Cash & bank balance	1,24,802	1,50,974	2,06,114	2,56,718	3,20,843
Investments	7,47,104	8,07,155	9,98,305	11,25,642	13,68,143
Advances	19,45,924	23,31,125	27,74,039	33,14,977	39,77,972
Fixed & Other assets	1,43,321	1,48,932	1,64,228	1,86,431	2,10,417
Total assets	**29,61,151**	**34,38,187**	**41,42,686**	**48,83,767**	**58,77,375**
Deposit growth (%)	38.7	25.7	21.0	21.5	22.0
Advances growth (%)	28.2	19.8	19.0	19.5	20.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	4.3	2.1	3.3	5.3	7.3
Dividend per share	0.0	0.3	0.4	0.6	0.9
Book value per share	45.5	52.0	55.8	60.5	66.9

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	16.4	33.4	21.6	13.3	9.7
P/BV	1.6	1.4	1.3	1.2	1.1
Dividend yield (%)	0.0	0.4	0.6	0.9	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	6.1	6.0	5.6	5.9	6.0
Non-interest income	2.2	2.2	2.2	2.1	1.9
Operating expenses	6.1	5.9	5.6	5.4	5.2
Pre-provisioning profit	2.3	2.3	2.3	2.6	2.7
Provisions	0.9	1.7	1.3	1.3	1.1
PBT	1.4	0.6	0.9	1.4	1.6
Tax	0.3	0.1	0.2	0.3	0.4
ROA	1.1	0.5	0.7	1.0	1.2
Leverage (x)	9.3	9.1	8.8	9.0	9.9
ROE	10.2	4.3	6.1	9.1	11.4

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	30.2	17.3	10.3	25.5	20.9
Pre-provisioning profit	26.5	18.9	15.9	37.3	21.3
EPS	13.8	(50.9)	54.6	62.2	37.1
Profitability & Return ratios (%)					
Net interest margin	6.4	6.1	5.8	6.1	6.1
Fees / Avg. assets	0.5	0.5	0.5	0.5	0.5
Cost-Income	72.2	71.8	71.1	67.2	66.3
ROE	10.2	4.3	6.1	9.1	11.4
ROA	1.1	0.5	0.7	1.0	1.2
Asset quality (%)					
GNPA	1.9	1.9	1.8	1.7	1.6
NNPA	0.6	0.5	0.5	0.5	0.4
Slippage ratio	3.5	4.1	2.8	2.5	2.3
Credit cost	1.4	2.6	2.0	1.9	1.6
Provision coverage	68.4	72.7	72.1	72.4	72.6
Ratios (%)					
Credit-Deposit	97.0	92.5	91.0	89.5	88.0
Investment-Deposit	37.2	32.0	32.7	30.4	30.3
CAR	16.1	15.5	16.8	15.5	14.2
Tier-1	13.4	13.2	15.2	14.1	13.0

Source: Company, BOBCAPS Research

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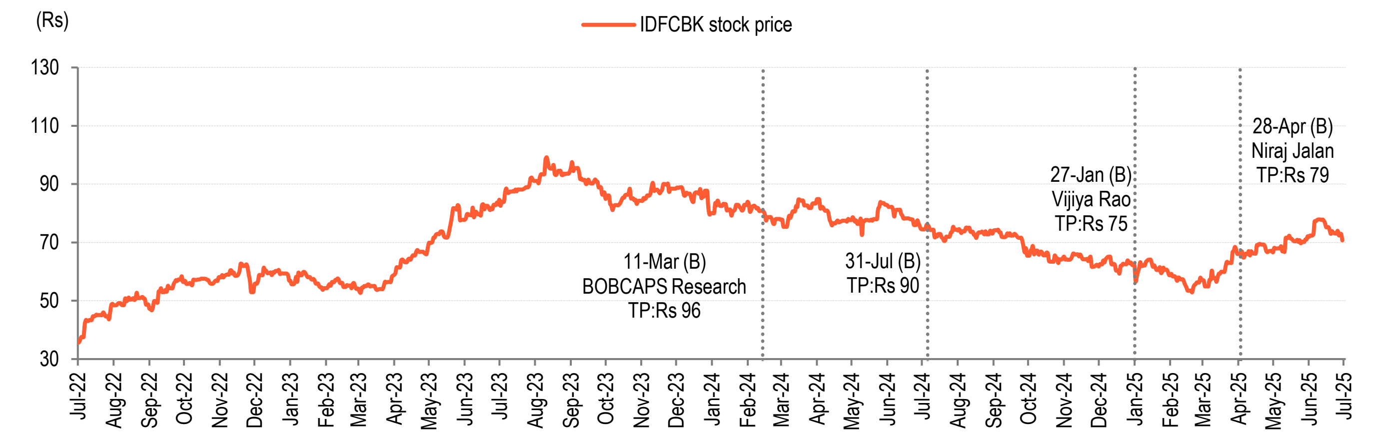

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