IDFC FIRST BANK

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	72
12 month price target (INR)	68
52 Week High/Low	79/52
Market cap (INR bn/USD bn)	528/6.0
Free float (%)	89.9
Avg. daily value traded (INR mn)	1,346.6

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	0.0%	0.0%	0.0%
FII	24.6%	23.8%	26.6%
DII	24.3%	23.4%	19.3%
Pledge	0.0%	0.0%	0.0%

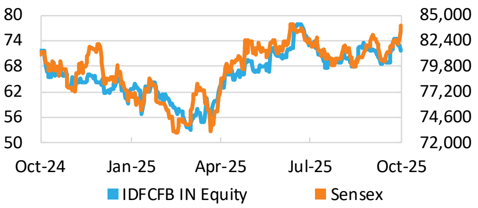
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	224527	263137	290378	340129
PPoP	62370	74148	83456	108377
Adjusted profit	29565	15248	21372	38696
Diluted EPS (INR)	4.2	2.1	2.5	4.5
EPS growth (%)	9.6	(50.2)	19.7	81.1
RoAE (%)	10.2	4.3	5.0	7.9
P/E (x)	17.2	34.5	28.8	15.9
P/BV (x)	1.6	1.4	1.3	1.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	2,90,378	3,40,129	-0.5	-2.4
PPoP	83,456	1,08,377	1.2	-4.9
Adjusted profit	21,372	38,696	-14.7	-8.9
Diluted EPS (INR)	2.5	4.5	-14.7	-8.9

PRICE PERFORMANCE



MFI stress reduces

IDFC reported reduced pain on MFI with lower slippage and SMA in Q2FY26. Core non-MFI (slippage ex-ATM service provider in Q1) rose 7.8% QoQ. Business growth continues to be higher than peers despite a declining MFI book with 6% QoQ growth in loans and 5% in deposits. NIM declined 12bp QoQ—higher than peers—as the bank has not cut the SA rate. Gross credit cost decreased to 2.2% from 2.7% QoQ.

The bank guided that credit cost in H2FY26 would fall to 1.8% with an MFI recovery. SA rate cut looks unlikely as the bank prioritises LDR improvement over short-term gains. SA cost of 5.85% is cheaper than TD/borrowings. We are cutting earnings and maintain 'HOLD' with a TP of INR68/1.2x BV FY26.

MFI stress declines; core non-MFI slippage higher QoQ

MFI slippage plunged 52% QoQ while MFI SMA fell sharply from 2.64% to 1.76%. Excluding lumpy slippage of INR1.08bn of an ATM service provider in Q1, core non-MFI slippage rose 8% QoQ. CE for MFI improved to 99.1% from 99% QoQ with non-MFI CE stable at 99.5%. Total lagged slippage fell to 4.1% from 4.8% QoQ. Calculated non-MFI credit cost rose 7% QoQ to 2.03%. We calculated gross MFI credit cost of ~9% (annualised) and believe it has fallen materially QoQ. IDFC drew down INR750mn from the MFI buffer and plans to draw down more in coming quarters with MFI recovering. It started taking CGFMU cover since Jan-24 for MFI loans with 77% of loans under CGFMU on which recoveries will be seen in FY27E. SMA1+2 for non-MFI was 0.9%. GNPL was 1.86% from 1.97% QoQ. PCR was steady at 72.2%.

Strong loan growth, lower NIM and stable cost/income

Loans grew 20% YoY/6% QoQ. MFI loans fell 13% QoQ though disbursals improved due to higher repayments. Deposits grew 24% YoY/5% QoQ while CASA surged 27% YoY. Average CASA growth was even higher at 32% YoY. SA rates for IDFC are higher than peers. NIM at 5.59% fell more than peers by 12bp mainly as IDFC has not cut SA rate. CoF fell 19bp QoQ to 6.23%. NII grew 7% YoY fell 4% QoQ. Core fee growth was 13% YoY compared with 9% YoY in Q1. Opex growth of 12.5% YoY was higher than 11% in Q1 due to festive spends and investments. Core CI was steady at 73.7%. Credit cost fell to 2.2% from 2.7% QoQ. PAT plunged 24% QoQ. Management points to an NIM recovery in H2FY26 with exit NIM at higher than 5.8% after factoring in one more repo cut. Credit cost is guided to move down to 1.8% in H2FY26E as MFI recoveries flow through. Full-year credit cost guidance has been maintained at 2.05–2.1%. The bank is unlikely to cut SA rate in foreseeable future as improving LDR from 95% to mid-80s is a priority and SA cost of 5.85% is still cheaper than TD/borrowings.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	70,040	65,152	7.5	71,599	-2.2
Pre-provisioning Profits	18,801	19,619	-4.2	22,394	-16.0
Reported Profits	3,523	2,007	75.5	4,626	-23.8
EPS	0.4	1.0	-65.7	0.6	-44.4

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	1,64,508	1,92,920	2,06,809	2,47,458
Non-interest income	60,020	70,217	83,569	92,672
Net revenues	2,24,527	2,63,137	2,90,378	3,40,129
Operating expense	1,62,158	1,88,988	2,06,922	2,31,753
Employee exp	48,925	57,099	60,525	67,788
Other opex	1,13,233	1,31,889	1,46,397	1,63,965
Pre provision profit	62,370	74,148	83,456	1,08,377
Provisions	23,817	55,147	56,055	57,460
PBT	38,553	19,001	27,401	50,916
Taxes	8,988	3,753	6,028	12,220
PAT	29,565	15,248	21,372	38,696
Extraordinaries	0	0	0	0
Reported PAT	29,565	15,248	21,372	38,696
Diluted EPS (INR)	4.2	2.1	2.5	4.5

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	6.2	6.1	5.5	5.5
Spread	6.8	6.6	6.0	6.0
Tax rate	23.3	19.7	22.0	24.0

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	17.2	34.5	28.8	15.9
Price/BV (x)	1.6	1.4	1.3	1.2

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	70,699	73,221	85,721	85,721
Reserves	2,50,914	3,07,559	3,89,294	4,24,120
Net worth	3,21,613	3,80,780	4,75,015	5,09,841
Deposits	20,05,763	25,20,652	31,00,403	37,82,491
Borrowings	5,09,356	3,89,748	3,93,646	3,97,582
Other liabilities	1,24,419	1,47,006	1,91,107	2,19,774
Total	29,61,151	34,38,187	41,60,171	49,09,688
Assets				
Loans	19,45,923	23,31,125	28,67,284	34,40,741
Investments	6,95,729	7,25,695	9,44,632	10,64,529
Cash & equi	1,24,802	1,50,974	1,70,600	1,92,778
Fixed assets	26,194	26,626	30,887	35,520
Other assets	1,17,127	1,22,306	1,46,767	1,76,121
Total	29,61,151	34,38,187	41,60,171	49,09,688

Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	28.2	19.8	23.0	20.0
Deposit growth	38.7	25.7	23.0	22.0

ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	6.1	6.0	5.4	5.5
Fees/Assets	2.0	1.9	1.9	1.9
Inv profits/Assets	0.1	0.2	0.2	0.1
Net revenues/assets	8.3	8.1	7.4	7.4
Opex/Assets	(6.1)	(5.9)	(5.4)	(5.1)
Provisions/Assets	(0.9)	(1.7)	(1.5)	(1.3)
Taxes/Assets	(0.3)	(0.1)	(0.2)	(0.3)
Total costs/Assets	(7.3)	(7.7)	(7.1)	(6.6)
RoA	1.1	0.5	0.6	0.9
Equity/Assets	10.8	11.0	11.3	10.9
RoAE	10.2	4.3	5.0	7.9

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	9.6	(50.2)	19.7	81.1
RoAE (%)	10.2	4.3	5.0	7.9

Q2FY26 conference call: Key takeaways

Guidance

- Management believes the MFI issue, which had been a significant drag over the last five to six quarters, is now behind the bank.
- A key goal is to achieve CD ratio in the mid-80s, down from the current 94%, by raising deposits to fund both loan growth and the repayment of the remaining INR250–300bn of legacy borrowings. As such, SA rate has not been cut.
- The primary strategic focus is on building capabilities in digitisation, underwriting, fraud management and collections to handle the volume of nearly one million loans issued per month.

ECL

- Management's initial assessment suggests the ECL impact on capital transition should be neutral when viewed holistically with other upcoming regulatory changes.
- The transition to the ECL framework and application of effective interest rate amortisation need to be considered in conjunction.
- Final guidelines for the revised operational risk capital charge and credit risk RWA (which is likely to be a net positive to capital) are also anticipated around the same time as the ECL implementation.

Loans and deposits

- The microfinance portfolio fell to INR73bn from INR83bn in the previous quarter though it is likely to stabilise by end-FY26 and begin growing from next year.
- The CASA ratio improved to 50.1% versus 46.3% in Q2FY25. Customer deposits soared 23.4% YoY, driven by CASA deposits, which surged 28% on an end-of-period basis.

Asset quality and credit cost

- Gross NPA improved 11bp to 1.86% versus 1.97% in Q1FY26 while net NPA improved to 0.52% from 0.55% in Q1FY26.
- The overall SMA position improved from 1.01% to 0.90% during the quarter with the microfinance portfolio seeing a significant reduction of 88bp.
- Gross slippages reduced by roughly 9%, and net slippages improved 13% sequentially, driven largely by the improvement in MFI.
- The bank utilised INR750mn of its microfinance provision buffer during the quarter due to reduced stress and continues to carry a balance of INR2.4bn as a contingency provision.
- Credit cost percentage improved 45bp to 2.25% during the quarter and the guidance for overall FY26 credit cost stays around 2.05% to 2.1% of loans and advances.
- Excluding MFI, the credit cost was broadly stable at ~2% for the non-MFI loan book.

Yields, cost and margins

- Management believes NIM has largely bottomed out in Q2 and is guiding for margins to be upwards of 5.8% by end-Q4FY26, even factoring in a potential repo rate cut.
- NIM on AUM reduced 12bp QoQ to 5.59%. The sequential NIM compression was attributed to the impact of repo rate changes passed through in Q1 and a further decline in the high-yielding microfinance portfolio.
- Cost of funds improved 19bp sequentially, and cost of deposits improved 15bp in the current quarter.
- The bank continues to hold back on cutting its SA rates (currently average SA cost of 5.85%) despite peer cuts, prioritising deposit franchise building and fixing the LDR over short-term P&L gains.

Exhibit 1: Change in estimates

	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
	Old		New		% Change	
NII, INR mn	2,08,634	2,56,136	2,06,809	2,47,458	-0.9%	-3.4%
PAT, INR mn	25,055	42,496	21,372	38,696	-14.7%	-8.9%
EPS, INR	2.9	5.0	2.5	4.5	-14.7%	-8.9%
BVPS, INR	55.8	60.3	55.4	59.5	-0.7%	-1.3%
Target price, INR		**68**		**68**		**0.0%**
CMP				72		
% Downside to CMP				-5.4%		
Rating		**HOLD**		**HOLD**		

Source: Company, Nuvama Research

Exhibit 2: Breakdown of loans

INR mn	Q2FY26	Q1FY26	Q2FY25	YoY (%)	QoQ (%)
Retail Finance	**15,62,540**	**14,75,030**	**13,07,040**	**19.5%**	**5.9%**
Mortgage Loan	5,90,680	5,78,050	5,15,160	14.7%	2.2%
Vehicle Loans	3,02,460	2,70,200	2,36,550	27.9%	11.9%
Consumer Loans	3,44,640	3,18,830	2,82,930	21.8%	8.1%
Education Loans	35,650	32,980	28,120	26.8%	8.1%
Credit Card	86,380	80,750	63,320	36.4%	7.0%
Gold Loan	26,680	24,090	16,040	66.3%	10.8%
Others	1,76,050	1,70,130	1,64,920	6.7%	3.5%
Rural Finance	**2,35,420**	**2,39,220**	**2,59,340**	**-9.2%**	**-1.6%**
Micro-Finance Loans	73,060	83,540	1,25,200	-41.6%	-12.5%
Business Finance (MSME & Corporate)	**8,43,620**	**7,93,770**	**6,33,210**	**33.2%**	**6.3%**
CV/CE Financing	86,210	83,170	68,970	25.0%	3.7%
Business Banking	1,09,340	1,01,400	83,580	30.8%	7.8%
Corporate Loans	4,68,570	4,68,470	3,51,910	33.2%	0.0%
Infrastructure	24,220	24,320	26,540	-8.7%	-0.4%
Others	**1,17,840**	**1,40,730**	**1,45,560**	**-19.0%**	**-16.3%**
Total Gross Loans & Advances	**26,65,800**	**25,32,340**	**22,26,130**	**19.8%**	**5.3%**

Source: Company, Nuvama Research

Exhibit 3: Breakdown of fee income

	Q2FY26		Q1FY26		QoQ
	% of total	INR mn	% of total	INR mn	(%)
Loan Origination fees	33%	6,057	33%	5,715	6.0%
Credit Card & Toll	23%	4,222	23%	3,983	6.0%
Trade & Client Fx	10%	1,835	10%	1,732	6.0%
Wealth Management/TPP	12%	2,203	12%	2,078	6.0%
General Banking & Others	22%	4,038	22%	3,810	6.0%
Total	100.00%	18,355	100.00%	17,318	6.0%

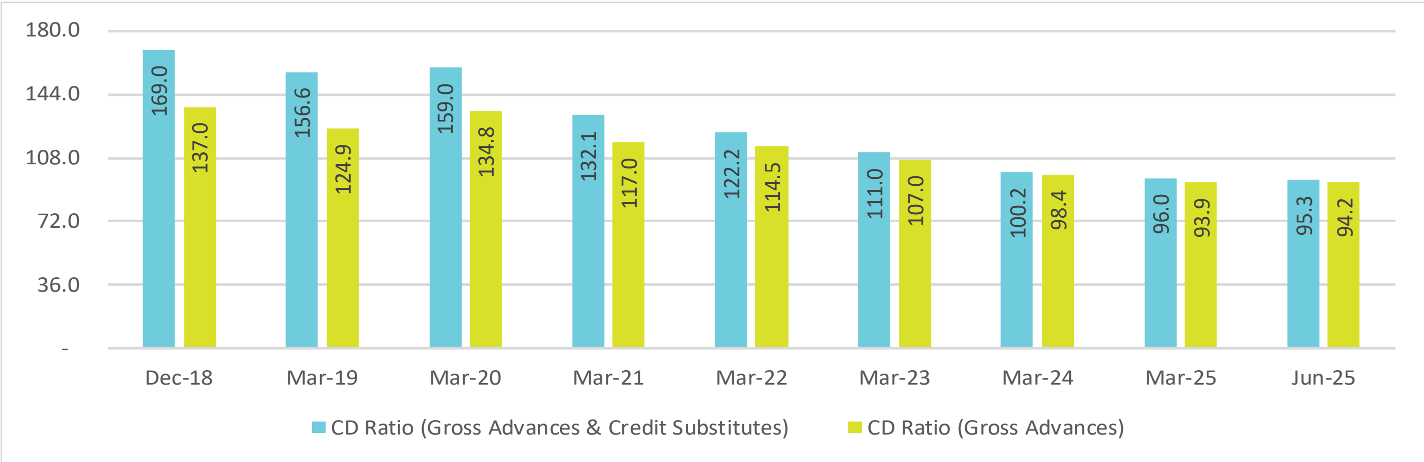
Source: Company, Nuvama Research

Exhibit 4: Deposit mix

INR mn	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	YoY%	QoQ%
CASA Deposits	13,86,623	12,71,861	11,82,185	11,29,908	10,93,438	27%	9%
Term Deposits	13,04,317	12,96,129	12,43,245	11,43,252	10,86,822	20%	1%
Customer Deposits	26,90,940	25,67,990	24,25,430	22,73,160	21,80,260	23%	5%
Certificate of Deposits	76,770	81,720	95,220	95,620	55,810	38%	-6%
Total Deposits	**27,67,710**	**26,49,710**	**25,20,650**	**23,68,780**	**22,36,070**	**24%**	**4%**

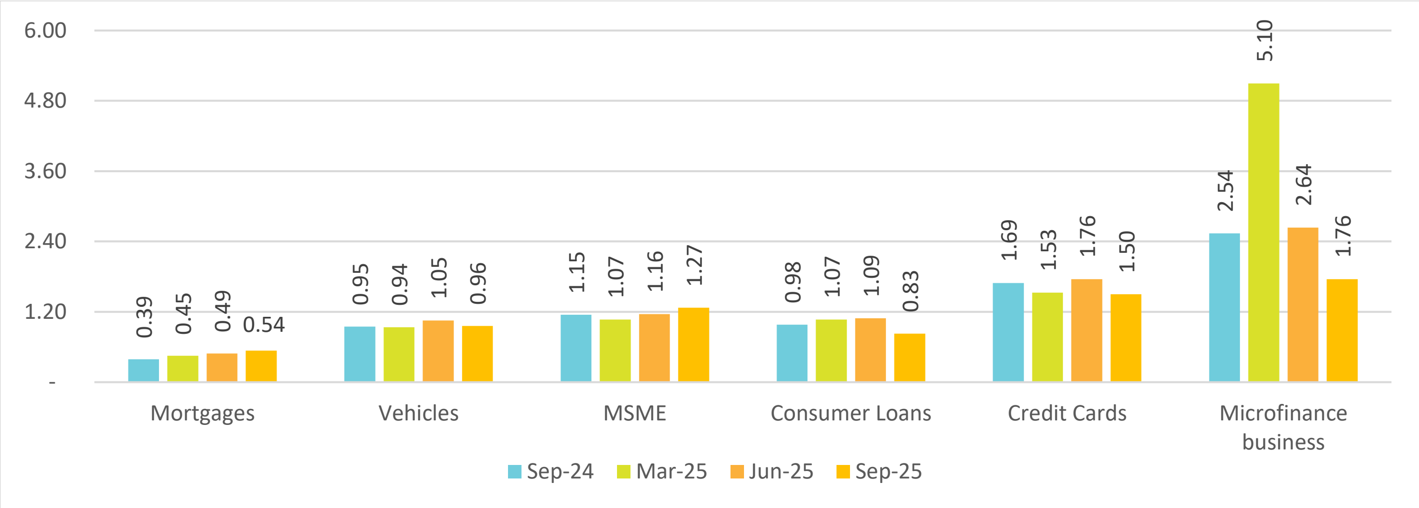
Source: Company, Nuvama Research

Exhibit 5: CD ratio (%)



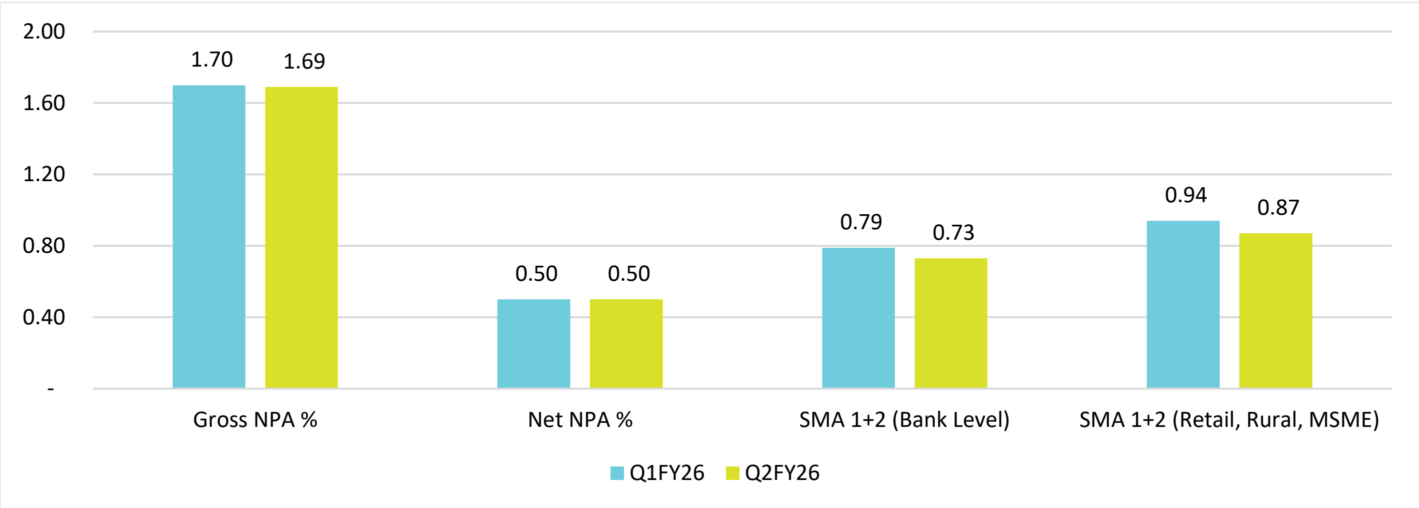
Source: Company, Nuvama Research

Exhibit 6: SMA1 and SMA2 portfolio by product (%)



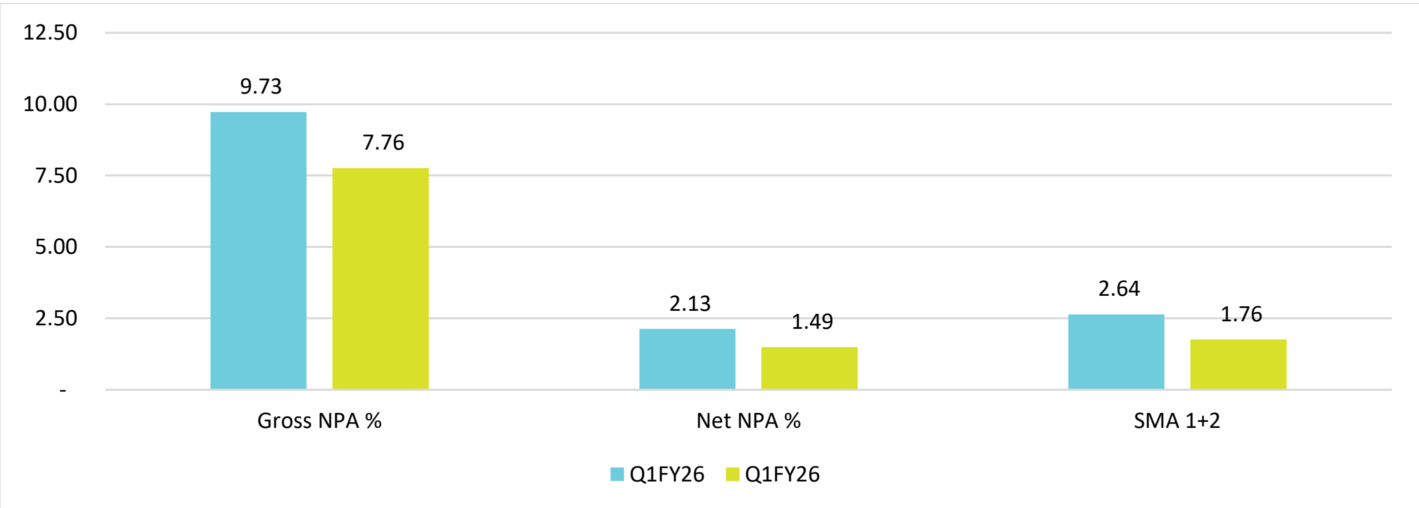
Source: Company, Nuvama Research

Exhibit 7: Asset quality ex-MFI business



Source: Company, Nuvama Research

Exhibit 8: Asset quality MFI business



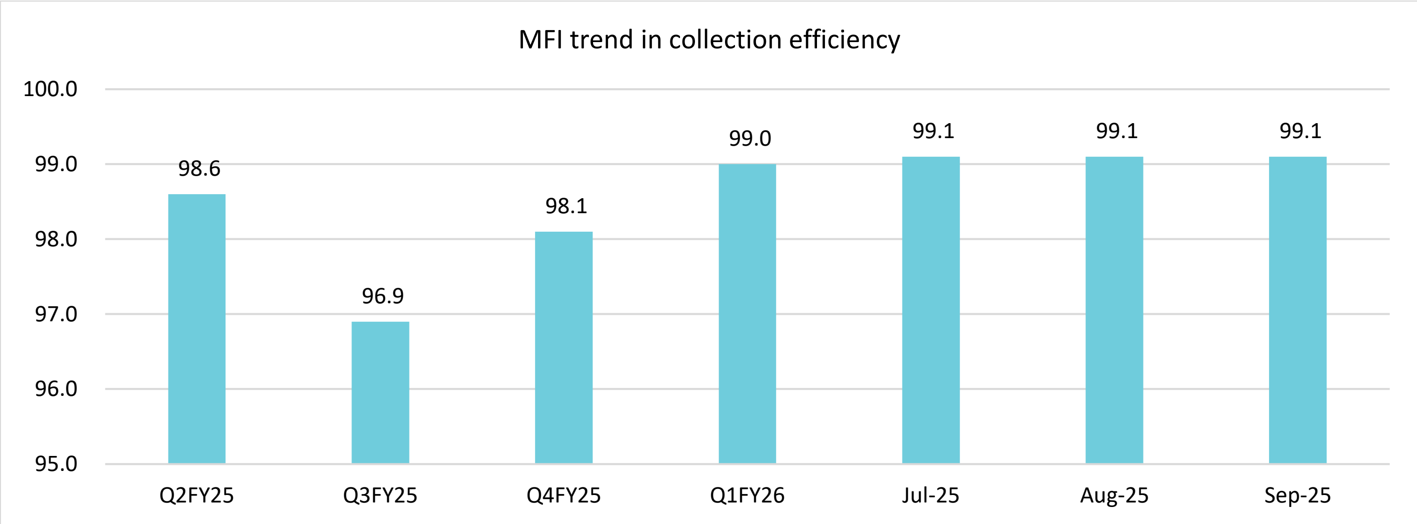
Source: Company, Nuvama Research

Exhibit 9: NPA movement

INR mn	Q1FY26	Q2FY26
Opening NPAs	44,330	48,670
ADD: Gross additions (Fresh Slippages)	24,860	22,600
- Other than MFI	19,720	20,110
- MFI	5,140	2,490
LESS: Recoveries, Upgrades and others	-4,860	-5,220
Net Addition	20,000	17,380
LESS: Write-offs	-15,660	-17,650
Closing NPA	48,670	48,410

Source: Company, Nuvama Research

Exhibit 10: MFI collection efficiency (%)



Source: Company, Nuvama Research

Exhibit 11: Yield, cost and margins

%	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25
Yield on investments	7.08	7.31	7.31	7.03	7.19
Yield on advances	13.00	13.36	13.70	14.19	14.27
Cost of funding	6.17	6.29	6.28	6.42	6.28
Calculated NIM	6.02	6.13	6.35	6.59	6.75
Reported NIM	5.59	5.71	5.95	6.04	6.18

Source: Company, Nuvama Research

Exhibit 12: Income statement summary

INR mn	Q2FY26	Q1FY26	Q2FY25	YoY (%)	QoQ (%)
Interest on advances	83,195	81,363	75,810	10	2
Income on investments	14,790	14,322	12,818	15	3
Interest on balances with RBI	344	247	333	3	39
Others	1040	490	609	71	112
Interest Income	99,369	96,421	89,569	11	3
Interest expense	48,243	47,091	41,691	16	2
Net Interest Income	**51,126**	**49,331**	**47,879**	**7**	**4**
Other Income	18,915	22,268	17,273	10	-15
Employee expenses	14,901	14,956	14,241	5	0
Other Operating expenses	36,338	34,249	31,292	16	6
Total Operating expenses	51,239	49,205	45,533	13	4
Operating Profit	**18,801**	**22,394**	**19,619**	**-4**	**-16**
Provisions	14,519	16,591	17,319	-16	-12
PBT	**4,282**	**5,803**	**2,299**	**86**	**-26**
Tax	759	1,177	292	160	-35
Net Profit	**3,523**	**4,626**	**2,007**	**76**	**-24**

Source: Company, Nuvama Research

Company Description

IDFC FIRST Bank is founded by the merger of IDFC Bank, a scheduled commercial bank and Capital First Limited, a systematically important Non-Banking Financial Services Company. The merger was formally consummated on December 18, 2018.

Investment Theme

The bank guided that credit cost in H2FY26 would fall to 1.8% with MFI recovery. SA rate cut looks unlikely as the bank prioritises LDR improvement over short term gains. SA cost of 5.85% is cheaper than TD / borrowings . We cut earnings and maintain HOLD with TP of INR 68/1.2x BV FY26.

Key Risks

- Slowing macro could result in a spike in credit cost in non-MFI.
- Rising competition in deposit taking
- Slow improvement in CI ratio.

Additional Data

Management

Chairman	Sanjeeb Chaudhuri
CEO & MD	V. Vaidyanathan
CFO	Sudhanshu Jain
ED	Pradeep Natarajan
Auditor	M. P. Chitale & Co.

Holdings – Top 10*

	% Holding		% Holding
President of India	9.08	TATA MF	1.76
Odyssey	3.68	Ashish Dhawan	1.26
LIC	2.76	TAT AIA Life	1.19
HDFC Life	2.57	Bandhan MF	1.18
ICICI Prudential	2.51		

**Latest public data*

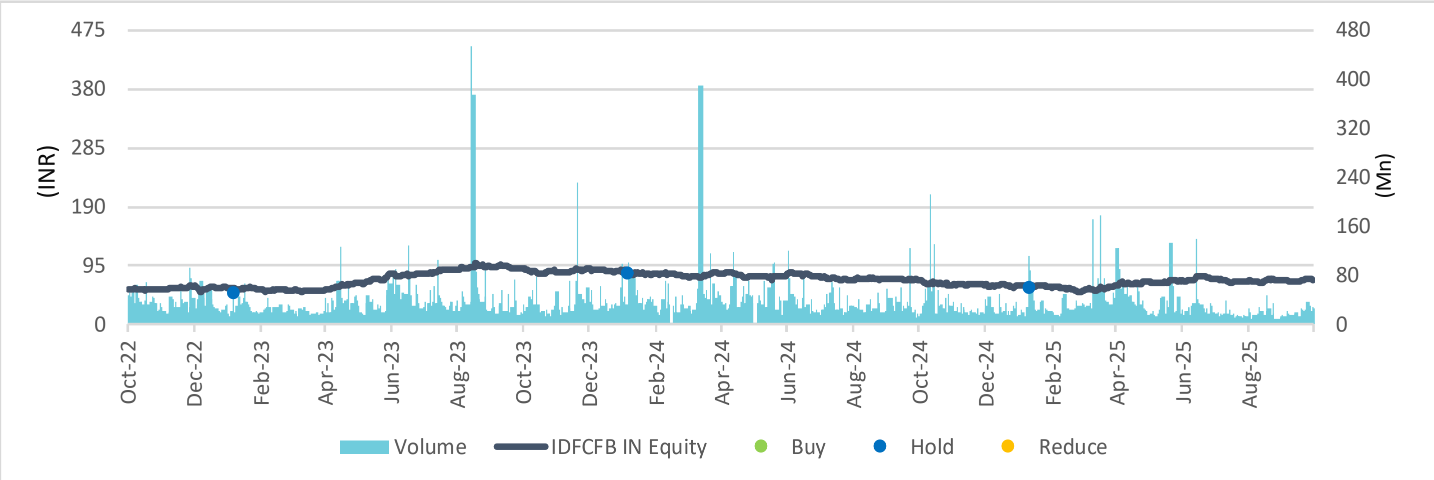
Recent Company Research

Date	Title	Price	Reco
27-Jul-25	MFI stress reduces; good progress on C/I; *Result Update*	70.7	Hold
27-Apr-25	MFI stress has peaked; *Result Update*	66.0	Hold
26-Jan-25	Positive surprise on slippage; *Result Update*	62.0	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
18-Oct-25	ICICI Bank	Beat on NIM again; reiterate Top Pick; *Result Update*
18-Oct-25	HDFC Bank	In-line NIM; strong NPL recovery; *Result Update*
18-Oct-25	Federal Bank	Profitability over growth; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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