

## MFI normalization underway, margin recovery key

**About the stock:** IDFC First Bank was formed by the merger of the erstwhile IDFC and Capital First in 2018. Retailization of business has been the key focus.

- Retail funded asset forms ~59% of total funded asset
- Branch network is at 1,041 as on Sept 2025

**Q2FY26 performance:** IDFC First Bank reported a mixed Q2FY26 performance as healthy loan and deposit growth was offset by margin pressure and lower treasury gains. NII rose 6.8% YoY to ₹5,113 crore, while NIM contracted 12 bps QoQ to 5.6%. Provisions moderated to ₹1,452 crore, aiding PAT of ₹352 crore (up 76% YoY, down 24% QoQ). Asset quality improved with GNPA/NNPA at 1.86%/0.52%. Funded assets expanded 19.7% YoY to ₹2.67 lakh crore led by mortgage, vehicle and business banking loans and deposits grew 23% YoY to ₹2.69 lakh crore with CASA ratio steady at 50.1%.

### Investment Rationale

- **Margins under pressure, recovery expected from H2FY26:** Margins remained soft in Q2FY26, with NIM declining 12 bps QoQ to 5.6% due to repo-linked repricing and moderation in high-yield MFI portfolio (down 41.6% YoY). Management indicated that margins are likely near their bottom, with gradual improvement expected from H2FY26 (exit margin guided at 5.8%) as deposit repricing benefits accrue and term deposit rates begin to ease. The bank continues to maintain a disciplined approach to liabilities management, focusing on lowering its CD ratio (~94%) before revisiting SA rate. Over the medium term, improving funding mix and stable cost trends are expected to support margin normalization.
- **Steady growth with improving asset quality:** Loan growth remained healthy at 19.7% YoY (5.3% QoQ) to ₹2.67 lakh crore, led by mortgages, vehicle loans, and business banking, partly offset by MFI run-down. Deposits grew 23.4% YoY with CASA ratio improving to 50.1% (up 208 bps QoQ), reflecting the strength of the retail liabilities franchise. Asset quality improved with GNPA/NNPA at 1.86%/0.52%, aided by halving of MFI slippages and SMA book reduction to 0.9%. Credit cost moderated to 2.25% (down 45 bps QoQ), supported by ₹75 crore buffer utilization and stable non-MFI portfolio. Management guided for further moderation in H2FY26 as MFI stress normalizes and credit cost to remain at 2.05-2.1%.

### Rating and Target Price

While operating performance in Q2FY26 remained mixed, strong business growth, revival in asset quality, and strong liabilities franchise provide comfort on medium-term earnings trajectory. Management expects sequential improvement in profitability from H2FY26 as repricing benefits flow through and credit cost moderates. We factor RoA at ~1.1% FY27E and we value the bank at ~1.3x FY27E BV and maintain target price at ₹78. Maintain Hold rating.



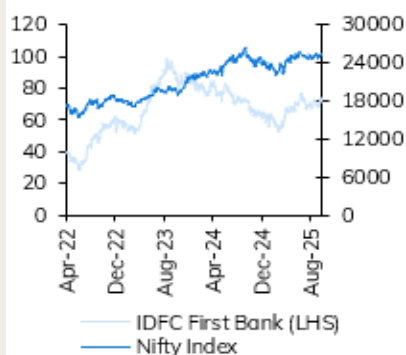
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 58,596 crore
Networth	₹ 45,092 crore
52 week H/L	78.5 / 52.5
Face value	₹ 10

#### Shareholding Pattern

(in %)	Dec-24	Mar-25	Jun-25	Oct-25
Promoter	0.0	0.0	0.0	0.0
FII	27.1	25.7	23.8	32.1
DII	16.1	19.3	23.4	21.9
Others	56.8	55.0	52.8	46.0

#### Price Chart



#### Key risks

- Higher than anticipated margin recovery
- Elevated MFI slippages

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#### Key Financial Summary

Key Financials	FY23	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	2 year CAGR (FY25-FY27E)
NII	12,635	16,451	19,292	26%	20,982	25,571	15%
PPP	4,932	6,237	7,416	31%	8,281	11,785	26%
Net profit	2,437	2,957	1,830	133%	1,898	4,314	54%
P/E (x)	19	17	28		25	11	
ABV	37	44	50		52	57	
P/ABV (x)	1.9	1.6	1.4		1.2	1.1	
RoA (%)	1.1	1.1	0.6		0.5	1.0	
RoE (%)	10.4	10.2	5.2		4.9	10.4	

Source: Company, ICICI Direct Research

## Concall Highlights

### Operational performance

- Loans and advances grew 19.7% YoY and 5.3% sequentially to ₹2.67 lakh crore, led by mortgages, vehicle loans, consumer and business banking.
- Customer deposits rose 23.4% YoY to ₹2.69 lakh crore, led by strong retail traction and CASA ratio improved 208 bps sequentially to 50.1%.
- The bank added 25 branches, taking the total count to 1,041, and continued to enhance its digital capabilities.
- The credit card base crossed 40 lakh, with the book at ₹8,638 crore and spends up 36% YoY.
- Vehicle finance grew 12% QoQ driven by festive demand and pent-up sales post-GST cuts. Management expects this momentum to sustain in Q3FY26.
- 94% of the incremental growth is contributed through mortgage loans, vehicle loans, consumer loans, MSME loans and wholesale loans
- Fee & other income rose 13.2% YoY, aided by higher retail fees; trading gains dropped to ₹56 crore (vs ₹495 crore in Q1).
- Wealth AUM grew 28% YoY to ₹55,000 crore, with strong momentum expected ahead.

### Margins

- Net interest margin declined 12 bps sequentially to 5.59% due to impact of repo rate cut and asset mix changes including decline in MFI business. Management expects NIM to recover to ~5.8% by Q4FY26 as funding costs ease.
- The cost of funds improved by 19 bps, while cost of deposits fell by 15 bps sequentially.
- Savings rate cuts will be deferred until CD ratio falls toward mid-80s, current CD ratio at 94.2%.

### Credit cost and asset quality

- Credit cost eased to 2.25% from 2.7% in Q1, with full-year guidance retained at 2.05-2.1%.
- Provisions declined 12.5% QoQ to ₹1,452 crores primarily on account of lower provisions in microfinance book, with ₹75 crore of the MFI buffer utilized and ₹240 crore retained.
- Gross slippages in MFI have reduced to ₹249 crore (vs ₹514 crore in Q1FY26) and gross slippages (excluding microfinance book) for Q2FY26 improved to 3.39% (vs 3.54%)
- The Bank has utilised ₹75 crore of contingency provision and continues to hold ₹240 crore as contingency provision on MFI book
- Collection efficiency remained strong at 99.5% ex-MFI and 99.1% within MFI.
- ~77% of MFI book is now covered under CGFMU.
- Gross NPA reduced to 1.86% (down 11 bps) and net NPA improved to 0.52% (down 3 bps), showing continued stability. Management confirmed that stress is limited to MFI, with no major concerns in other portfolios.
- MSME exposure to US-linked exports is limited; portfolio largely domestic and secured by property collateral, mitigating risk from tariff uncertainties.

### Other updates

- Capital adequacy ratio (including H1 profits): 14.34%, CET-1 at 12.28%; post-CCPS conversion, CRAR 16.82%, Tier 1 at 14.75%.
- Average LCR maintained at 115%.

## Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	5,113	4,788	6.8	4,933	3.6	Continued decline in MFI segment and repo rate transmission kept NII traction slower
NIM (%)	5.59	6.18	-59 bps	5.71	-12 bps	Rate cuts, changing asset mix, and lower yields impacted margins
Other Income	1,891	1,727	9.5	2,227	-15.1	Fee income grew 13.2% YoY
Net Total Income	7,004	6,515	7.5	7,160	-2.2	
Staff cost	1,490	1,424	4.6	1,496	-0.4	
Other Operating Exp	3,634	3,129	16.1	3,425	6.1	
PPP	1,880	1,962	-4.2	2,239	-16.0	
Provision	1,452	1,732	-16.2	1,659	-12.5	Moderation seen in slippages, MFI portfolio continue to see stress accretion. Utilized ₹75 crore of buffer
PBT	428	230	86.3	580	-26.2	
Tax	76	29	159.8	118	-35.5	
PAT	352	201	75.5	463	-23.8	Lower provision aided earnings
<b>Key Metrics</b>						
GNPA	4,841	4,195	15.4	4,867	-0.5	Slippages from MFI book declined in Q2FY26
NNPA	1,345	1,038	29.7	1,346	-0.1	
Funded Assets	266,579	222,613	19.7	253,233	5.3	Led by wholesale, mortgage, and vehicle loans; offset by MFI de-growth
Deposits	269,094	218,026	23.4	256,799	4.8	Improved CASA mix and strong retail traction

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 2: Profit and loss statement**

₹ crore

(Year-end march)	FY24	FY25	FY26E	FY27E
Interest Earned	30,323	36,501	41,090	49,145
Interest Expended	13,872	17,210	20,108	23,574
Net Interest Income	16,451	19,292	20,982	25,571
Growth (%)	30.2	17.3	8.8	21.9
Non Interest Income	6,002	7,022	8,114	9,593
Net Income	22,453	26,314	29,097	35,164
Employee cost	4,893	5,710	6,287	7,189
Other operating Exp.	11,323	13,188	14,529	16,191
Operating Income	6,237	7,416	8,281	11,785
Provisions	2,382	5,211	5,734	5,994
PBT	3,855	2,205	2,548	5,790
Taxes	1,002	573	662	1,505
Net Profit	2,957	1,830	1,898	4,314
Growth (%)	21	(38)	4	127
EPS (₹)	4.2	2.5	2.6	5.9

Source: Company, ICICI Direct Research

**Exhibit 3: Key ratios**

(Year-end march)	FY24	FY25	FY26E	FY27E
Valuation				
No. of shares (crore)	707.0	732.2	732.2	732.2
EPS (₹)	4.2	2.5	2.6	5.9
DPS (₹)	-	-	0.2	0.5
BV (₹)	45.4	51.8	54.1	59.4
ABV (₹)	43.8	50.1	52.1	56.7
P/E	16.9	28.2	27.2	12.0
P/BV	1.6	1.4	1.3	1.2
P/ABV	1.6	1.4	1.4	1.2
Yields & Margins (%)				
Net Interest Margins	5.9	5.6	5.1	5.3
Yield on assets	12.6	12.5	12.0	12.1
Avg. cost on funds	6.4	6.6	6.4	6.2
Yield on average advances	15.0	14.4	14.0	14.0
Avg. Cost of Deposits	4.9	5.0	6.2	5.9
Quality and Efficiency (%)				
Cost to income ratio	72.2	71.8	71.5	66.5
Credit/Deposit ratio	97.0	92.5	89.7	87.1
GNPA	1.9	1.9	1.7	1.4
NNPA	0.6	0.5	0.5	0.6
RoE	10.2	5.2	4.9	10.4
RoA	1.1	0.6	0.5	1.0

Source: Company, ICICI Direct Research

**Exhibit 4: Balance sheet**

₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	7,070	7,322	7,322	7,322
Reserves and Surplus	25,032	30,607	32,315	36,197
Networth	32,102	37,929	39,637	43,519
Deposits	200,576	252,065	312,533	387,791
Borrowings	50,936	38,975	36,203	37,566
Other Liabilities & Provisor	12,501	14,849	17,420	20,711
Total	296,115	343,818	405,794	489,587
Application of Funds				
Fixed Assets	2,619	2,663	2,929	3,222
Investments	74,710	80,715	90,961	104,358
Advances	194,592	233,112	280,447	337,585
Other Assets	11,713	12,230	18,963	31,092
Cash with RBI & call mone	12,480	15,097	12,494	13,330
Total	296,115	343,818	405,794	489,587

Source: Company, ICICI Direct Research

**Exhibit 5: Growth ratios**

(Year-end march)	FY24	FY25	FY26E	FY27E
Total assets	23.4	16.1	18.0	20.6
Funded asset	28.2	19.8	20.3	20.4
Deposit	38.7	25.7	24.0	24.1
Total Income	33.6	19.8	13.1	19.4
Net interest income	30.2	17.3	8.8	21.9
Operating expenses	33.2	16.5	10.1	12.3
Operating profit	26.5	18.9	11.7	42.3
Net profit	21.3	(38.1)	3.7	127.3
Net worth	25.0	18.1	4.5	9.8
EPS	14	(40)	4	127

Source: Company, ICICI Direct Research

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