

CMP: ₹ 82

Target: ₹ 100 (22%)

Target Period: 12 months

February 2, 2026

BUY

## All-round performance across core operating metrics

**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 1,066 as on Dec 2025

**Q3FY26 performance:** IDFC First Bank has delivered on most operational fronts in Q3FY26, with strong balance sheet growth, improving margins, and better asset quality trend. Loans grew ~21% YoY (4.8% QoQ) to ~₹2.8 lakh crore, led by broad-based traction across mortgages, vehicle, consumer, and MSME segments, while deposits rose ~24% YoY (5% QoQ) to ~₹2.82 lakh crore, with CASA ratio improving to ~51.6% (up 157 bps QoQ). NIM expanded 17 bps QoQ to 5.76%, aided by lower cost of funds and an improved liability mix, driving ~12% YoY growth in NII. Asset quality improved sequentially, with GNPA declining to 1.69% (down 17 bps QoQ) and credit cost moderating to ~2.05% (down 19 bps QoQ), supported by easing MFI stress and stable collection efficiency. PAT stood at ₹503 crore, up 48% YoY.

### Investment Rationale

- **Margin upcycle underway; liability repricing benefits to sustain momentum:** Q3FY26 marked a clear inflection in margins, with NIM expanding 17 bps QoQ to 5.76%, driven by lower cost of funds (-12 bps QoQ), easing CRR drag and continued improvement in CASA mix (51.6%). Management indicated that deposit repricing benefits are still flowing through, with exit margins guided higher (~5.85% in Q4FY26). While margins remain sensitive to rate cuts and mix shift, structural improvement in funding profile, declining reliance on high-cost deposits and calibrated loan growth position margins on a firmer footing over the medium term.
- **Healthy growth with benign asset quality:** Loan growth remained healthy at ~21% YoY (4.8% QoQ), led by mortgages, vehicle loans, MSME and consumer segments, while MFI exposure continued to decline to ~2.4% (vs ~4.8% Q3FY25) of funded asset. Asset quality trends strengthened further, with GNPA improving to 1.69% (-17 bps QoQ) and credit cost moderating to ~2.05%, supported by lower MFI slippages and stable collection efficiency. Gross slippages (ex-MFI) for Q3FY26 improved to 3.09% (vs 3.39% in Q2). Further, management expects credit costs to trend closer to through-the-cycle level as residual MFI stress normalizes. Combined with controlled opex growth and improving operating leverage, profitability is expected to improve gradually, supporting a steady RoA expansion trajectory over FY27–28E.

### Rating and Target Price

Stabilizing asset quality, strong liabilities franchise and improvement in margins provide comfort on medium-term earnings trajectory. Management expects improvement in profitability going into Q4 as repricing benefits flow through and credit cost moderates further. Factoring continued expansion in RoA, we maintain multiple our multiple at ~1.5x FY28E BV and thus target price of ₹100. Maintain BUY rating.

### Key Financial Summary

Key Financials	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-FY28E)
NII	16,451	19,292	26%	21,306	26,411	31,898	18%
PPP	6,237	7,416	31%	8,477	11,545	14,927	26%
Net profit	2,957	1,526	119%	1,983	3,805	5,755	56%
P/E (x)	20	33		35	18	12	
ABV	44	50		53	57	63	
P/ABV (x)	1.9	1.6		1.5	1.4	1.3	
RoA (%)	1.1	0.6		0.5	0.8	1.1	
RoE (%)	10.2	5.2		4.7	7.8	10.8	

Source: Company, ICICI Direct Research



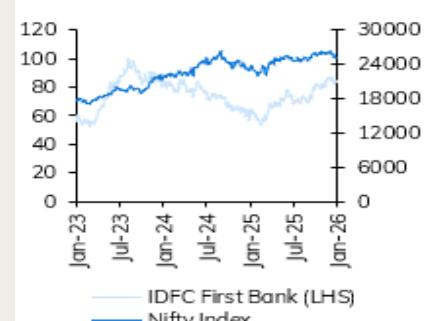
### Particulars

Particulars	Amount
Market Capitalisation	₹ 69,014 crore
Networth	₹ 46,838 crore
52 week H/L	87 / 53
Face value	₹ 10

### Shareholding Pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	0.0	0.0	0.0	0.0
FII	25.7	23.8	24.6	36.8
DII	19.3	23.4	24.3	22.4
Others	55.0	52.8	51.1	40.8

### Price Chart



### Key risks

- Delay in achieving gradual improvement in CI ratio
- Slower liabilities accretion thereby compressing margins

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## Concall Highlights

### Operational performance

- Loans and advances grew 21% YoY (5% QoQ) to ₹2.79 lakh crore, led by mortgage loans, vehicle loans, consumer loans, MSME loans and wholesale loans.
- Customer deposits rose 24.3% YoY (5% QoQ) to ₹2.82 lakh crore, led by strong retail traction and CASA ratio improved 157 bps sequentially to 50.1%.
- CASA improvement this quarter should not be extrapolated immediately; management indicated clarity will emerge over the next 1–2 quarters post rate cut.
- Bank is comfortable operating with CASA ratio in the 45–50% range; does not view >50% as structurally necessary.
- MFI book declined to ~₹6,657 crore and is now ~2.4% of funded book; pace of decline moderated as repayment started improving.
- Opex up ~13.4% YoY; included ₹65 crore impact through P&L related to new labour code provisioning.
- Credit cards: customer base at ~4.3 million; card book at ~₹9,100 crore; 9M spends up ~35% YoY.
- Wealth AUM: ~₹60,000 crore, up ~30–31% YoY.
- 91% of the fee income & other income is from retail banking operations.
- Fee to Average total assets stood at 2.04% for 9MFY26
- Management projects a reduction in its blended CI ratio from current 73–74% to mid-50s, driven by scaling of business and anticipated operational leverage. Among business verticals, CI ratio of retail lending is targeted to reduce to low 50's (from current 62.3%), credit cards to 70% (from current 97.5%), wholesale book in 30's (from current 36%) and retail liabilities at ~100% (from current 149%).

### Margins

- NIM expanded ~17 bps QoQ in Q3FY26 to 5.76%; management clarified that ~12 bps came from lower cost of funds, while ~2–3 bps benefit accrued from lower CRR requirement, with balance from capital infusion.
- Savings rate cuts (especially in ₹5–10 lakh bucket, reduced by ~200 bps) are expected to pass through without meaningful outflows, aided by service quality and brand strength.
- Margin guidance revised upwards: management now expects Q4FY26 NIM of ~5.85% (earlier ~5.80%).

### Credit cost and asset quality

- Credit cost: improved ~19 bps QoQ to ~2.05%; ex-MFI credit cost at ~1.99% (improved ~10 bps QoQ), broadly in line with earlier guidance (~2.1%); management expects further moderation in Q4 and FY27.
- GNPA improved ~17 bps QoQ to ~1.69% (from ~1.86% in Q2).
- Collection efficiency:
  - Ex-MFI early bucket stable at ~99.5%.
  - MFI improved to ~99.4%, close to pre-stress levels.
- Gross slippages (excluding microfinance book) for Q3FY26 improved to 3.09% as compared to 3.39% for Q2FY26
- 81% of the MFI book (vs. 77% QoQ) is insured with CGFMU

### Other updates

- Capital adequacy: ~16.22% with CET-1 ~14.23% (includes 9M profits).
- CCPS conversion: ₹7,500 crore converted into equity during the quarter; ratios incorporate this conversion.
- Liquidity: average LCR ~115%; new guidelines to have 100-115 bps impact.
- 1.3-1.4 million loans disbursement in Oct'25

## Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	5,492	4,902	12.0	5,113	7.4	Supported by balance sheet growth and margin expansion
NIM (%)	5.8	6.0	-28 bps	5.6	17 bps	Aided by lower cost of funds, CRR benefit and favourable liability repricing
Other Income	2,125	1,780	19.4	1,891	12.3	Led by higher fee income
Net Total Income	7,617	6,682	14.0	7,004	8.8	
Staff cost	1,602	1,420	12.8	1,490	7.5	Labour code impact of ~65 crore was seen in Q3
Other Operating Exp.	3,982	3,503	13.7	3,634	9.6	
PPP	2,033	1,759	15.6	1,880	8.2	
Provision	1,398	1,338	4.5	1,452	-3.7	Lower slippages and moderation in MFI stress; Credit cost normalised to 2.05% (vs 2.24% QoQ)
PBT	635	421	50.8	428	48.3	
Tax	133	82	62.4	76	74.5	
PAT	503	339	48.1	352	42.6	Lower provision and NII growth aided earnings
<b>Key Metrics</b>						
GNPA	4,614	4,399	4.9	4,841	-4.7	Declined 17 bps QoQ to 1.69%
NNPA	1,427	1,162	22.8	1,345	6.1	
Funded Assets	279,428	231,074	20.9	266,579	4.8	Driven by broad-based traction across vehicle, consumer and MSME loans
Deposits	282,662	227,316	24.3	269,094	5.0	CASA ratio Improved 157 bps QoQ to ~51.6%

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end march)	FY25	FY26E	FY27E	FY28E
Interest Earned	36,501	41,368	49,732	59,887
Interest Expended	17,210	20,062	23,321	27,990
Net Interest Income	19,292	21,306	26,411	31,898
Growth (%)	17.3	10.4	24.0	20.8
Non Interest Income	7,022	8,218	9,694	11,283
Net Income	26,314	29,524	36,105	43,180
Employee cost	5,710	6,406	7,325	8,342
Other operating Exp.	13,188	14,640	17,235	19,912
Operating Income	7,416	8,477	11,545	14,927
Provisions	5,515	5,816	6,437	7,202
PBT	1,901	2,661	5,107	7,725
Taxes	494	692	1,328	2,009
Net Profit	1,526	1,983	3,805	5,755
Growth (%)	(48)	30	92	51
EPS (₹)	2.5	2.3	4.4	6.7

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
(Year-end march)	FY25	FY26E	FY27E	FY28E
<b>Valuation</b>				
No. of shares (crore)	732.2	857.2	857.2	857.2
EPS (₹)	2.5	2.3	4.4	6.7
DPS (₹)	-	0.2	0.4	0.6
BV (₹)	51.8	55.1	59.1	65.1
ABV (₹)	50.1	53.4	56.8	62.9
P/E	28.2	30.5	15.9	10.5
P/BV	1.4	1.3	1.2	1.1
P/ABV	1.4	1.3	1.2	1.1
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins	5.6	5.1	5.3	5.4
Yield on assets	12.5	11.9	11.9	12.0
Avg. cost on funds	6.6	6.4	6.2	6.1
Yield on average advances	14.4	13.9	13.8	13.9
Avg. Cost of Deposits	5.0	6.2	5.9	5.9
<b>Quality and Efficiency (%)</b>				
Cost to income ratio	71.8	71.3	68.0	65.4
Credit/Deposit ratio	92.5	91.9	90.2	87.9
GNPA	1.9	1.6	1.5	1.4
NNPA	0.5	0.5	0.6	0.5
RoE	5.2	4.7	7.8	10.8
RoA	0.6	0.5	0.8	1.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				₹ crore
(₹ Crore)	FY25	FY26E	FY27E	FY28E
<b>Sources of Funds</b>				
Capital	7,322	8,572	8,572	8,572
Reserves and Surplus	30,607	38,641	42,066	47,245
Networth	37,929	47,213	50,638	55,817
Deposits	252,065	311,322	381,857	470,338
Borrowings	38,975	36,203	37,566	39,027
Other Liabilities & Provision	14,849	17,420	20,711	24,696
<b>Total</b>	<b>343,818</b>	<b>412,159</b>	<b>490,771</b>	<b>589,878</b>
<b>Application of Funds</b>				
Fixed Assets	2,663	2,929	3,222	3,544
Investments	80,715	96,109	111,901	128,290
Advances	233,112	286,107	344,321	413,249
Other Assets	12,230	11,177	14,655	27,157
Cash with RBI & call money	15,097	15,837	16,673	17,638
<b>Total</b>	<b>343,818</b>	<b>412,159</b>	<b>490,771</b>	<b>589,878</b>

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios				
(Year-end march)	FY25	FY26E	FY27E	FY28E
Total assets	16.1	19.9	19.1	20.2
Funded asset	19.8	22.7	20.3	20.0
Deposit	25.7	23.5	22.7	23.2
Total Income	19.8	13.9	19.8	19.8
Net interest income	17.3	10.4	24.0	20.8
Operating expenses	16.5	11.4	16.7	15.0
Operating profit	18.9	14.3	36.2	29.3
Net profit	(38.1)	8.4	91.9	51.2
Net worth	18.1	24.5	7.3	10.2
EPS	(40)	(7)	92	51

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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