ICICI Direct

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IDFC First Bank (IDFBAN)

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CMP: ₹ 85 | Target: ₹ 100 (18%) | Target Period: 12 months | BUY

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Sustained growth to aid operational leverage…

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

Investment Rationale

- **Credit growth momentum to sustain; enhanced capital aids balance sheet:** Loan growth remained healthy at 19.7% YoY in H1FY26 to ₹2.67 lakh crore, driven by mortgages, vehicle loans and business banking, partly offset by MFI rundown, while deposits outpaced loans with 23.4% YoY growth and steady CASA at 50.1%, underscoring strengthening retail liabilities franchise. The ₹7,500 crore CCPS issuance has strengthened capital position, with CRAR at ~16.8% and Tier-1 at ~14.8%, providing ample headroom to sustain business momentum, including high-growth segments such as retail lending, credit cards and wealth management without near-term capital constraint. Supported by strong deposit momentum, an improving funding mix and adequate capital buffer, we expect the bank to deliver ~20% loan CAGR over FY25–28E.
- **Margin to remain volatile in near term; recovery anticipated ahead**: Margins remained soft in H1FY26, due to repricing of repo-linked assets and moderation in high-yield MFI portfolio amid stress. Going ahead, gradual recovery is expected from H2FY26 with exit NIM guided at ~5.8% by FY26, supported by CRR benefits and calibration of term deposit rates, though recent 25 bps repo rate cut could delay anticipated recovery. The bank continues to follow a disciplined liabilities strategy, prioritizing reduction of the elevated CD ratio (~94%) before revisiting SA rate cut, which remains a key medium-term margin lever. As MFI stress normalizes and disbursement resumes, higher-yield MFI book could provide incremental yield upside, thereby supporting margin trajectory.
- **Normalization in stress supports asset quality**: Asset quality continued to improve, with GNPA/NNPA at 1.86%/0.52%, supported by a sharp reduction in MFI slippages and decline in SMA book to 0.9%. Credit cost moderated meaningfully to 2.25% in Q2FY26, aided by buffer utilization and stability in non-MFI portfolio. With incremental stress from MFI and credit card showing a declining trend, management expects asset quality to improve further in H2FY26, alongside moderation in credit cost, which are guided to remain in the 2.05–2.1% range.

Rating and Target Price

- Post balance sheet restructuring, now the focus is shifting towards sustaining growth along with improvement in operational efficiency to achieve uptick in RoA. Continued higher accretion of liabilities and moderation in opex growth relative to top-line remains key. Near term margin and credit cost volatility could not be ruled out, though management remains confident of streamlining the trend.
- Rolling over to FY28E, we value the bank at ~1.5x FY28E BV and revise our target price to ₹100 (earlier ₹78). We upgrade rating from Hold to **Buy.**

IDFC FIRST Bank

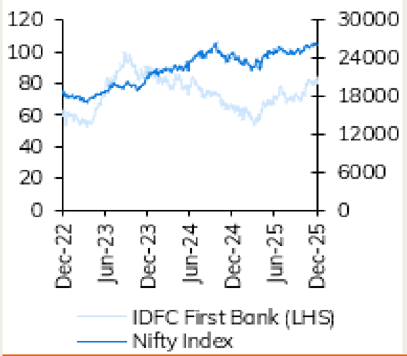
Particulars

Particulars	Amount
Market Capitalisation	₹ 73,177 crore
Networth	₹ 45,092 crore
52 week H/L	86 / 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

(i) Further compression in margins

(ii) Continued pain in MFI slippages

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ICICI Securities – Retail Equity Research

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%	21,224	26,136	30,898	17%
PPP	6,237	7,416	31%	8,395	11,630	15,209	27%
Net profit	2,957	1,830	133%	1,983	4,199	6,915	56%
P/E (x)	20	34		37	17	11	
ABV	44	50		53	57	64	
P/ABV (x)	1.9	1.7		1.6	1.5	1.3	
RoA (%)	1.1	0.6		0.5	0.9	1.3	
RoE (%)	10.2	5.2		4.7	8.6	12.8	

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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