

Fraud dents FY26, while asset quality improves...

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 1,147 as on Mar 2026

Q4FY26 performance: IDFC First Bank reported a mixed Q4FY26 performance, with strong core trends offset by one-offs and slower deposit momentum. Advances grew 20% YoY (4% QoQ) to ₹2.9 lakh crore, led by vehicle, gold, MSME and wholesale segments, while deposits grew 17% YoY (1% QoQ), impacted by SA rate cuts, tight liquidity and fraud-related sentiment. NII grew 16% YoY with NIM at 5.93%. Provisions declined sharply, resulting in credit cost moderating to 1.63%, aided by normalization in MFI segment and buffer utilization. Asset quality improved, with GNPA/NNPA at 1.61%/0.48%, while collection efficiency strengthened to 99.7%, indicating easing stress. Reported PAT stood at ₹319 crore, impacted by fraud-related provisioning (~₹480 crore post-tax) and treasury losses (~₹118 crore post-tax), partly offset by an income tax refund (~₹173 crore). Adjusted for one-offs, PAT stood at ~₹746 crore, reflecting improving underlying profitability.

Investment Rationale

- **Revival in MFI expected; margins to remain steady:** Credit growth continues to be robust at ~20% YoY, supported by healthy traction across business banking (31% YoY), Wholesale (30.5%), Vehicle finance (32%) segments. The MFI portfolio has stabilized sequentially, with a sharp pickup in disbursements (up 27% QoQ), suggesting bottoming of stress and is poised for recovery in FY27E. Deposit growth remained subdued (~1% QoQ) due to temporary disruption, though management expects normalization ahead. NIM expanded to 5.93% in Q4, aided by transient factors such as liability repricing and reduction in investment book towards high-yielding loans; however, we expect margins to trend towards the lower end of the ~5.7–5.8% guidance range in FY27, given normalization of these benefits and gradual mix shift towards relatively lower-risk segment.
- **Improving credit cost and operating leverage to aid earnings:** Asset quality is expected to remain benign, with slippages trending lower (gross slippages down ~15% QoQ; MFI slippages reduced to ~₹96 crore vs ~₹153 crore in Q3FY26) and SMA pool moderating sharply to ~₹79 crore (vs ~₹141 crore QoQ), indicating easing stress. Consequently, credit cost, which declined to 1.63% in Q4 (vs ~2.05% in Q3), is guided to remain contained at ~1.7–1.8% in FY27, aided by high CGFMU coverage (~89% of MFI book) and contingency buffers (~₹130 crore). Further, management guided for opex growth of ~13–14% vs ~18%+ revenue growth, implying positive operating leverage ahead.

Rating and Target Price

- Near-term earnings are weighed down by fraud provisioning and slower deposit traction, while core performance and asset quality remain strong. Over medium term, franchise remains attractive as improving leverage and lower credit cost support steady RoA expansion. Factoring gradual uptick in RoA, we value the bank at ~1.3x FY28E BV, assigning revised target price of ₹80 (earlier ₹100). We maintain BUY rating.

Key Financial Summary

Key Financials	FY24	FY25	FY26	3 year CAGR (FY23-FY26)	FY27E	FY28E	2 year CAGR (FY26-FY28E)
NII	16,451	19,292	21,215	19%	25,110	30,266	19%
PPP	6,237	7,416	7,211	14%	10,229	13,691	38%
Net profit	2,957	1,526	1,636	-12%	3,412	5,289	80%
P/E (x)	16	27	35		17	11	
ABV	44	50	52		55	61	
P/ABV (x)	1.5	1.3	1.3		1.2	1.1	
RoA (%)	1.1	0.6	0.4		0.8	1.0	
RoE (%)	10.2	5.2	3.5		7.2	10.3	

Source: Company, ICICI Direct Research



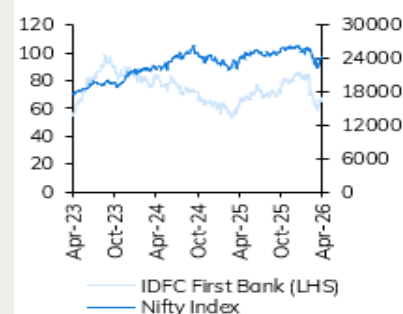
Particulars

Particulars	Amount
Market Capitalisation	₹ 57,833 crore
Networth	₹ 47,064 crore
52 week H/L	87 / 58
Face value	₹ 10

Shareholding pattern

(in %)	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	0.0	0.0	0.0	0.0
FII	23.8	24.6	36.8	36.5
DII	23.4	24.3	22.4	22.7
Others	52.8	51.1	40.8	40.8

Price Chart



Key risks

- Slower liabilities accretion thereby compressing margins
- Slower improvement in operating leverage and credit cost

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Concall highlights and outlook

Performance and growth outlook

- Advances grew 20% YoY (4% QoQ) to ₹2.9 lakh crore, led by vehicle, gold, MSME and wholesale segments, while deposits grew 17% YoY (1% QoQ), impacted by SA rate cuts, tight liquidity and fraud-related sentiment.
- Management highlighted improving trends in Q1FY27 with expectation of reverting to ~5% QoQ growth trajectory.
- Reported PAT of ₹319 crore impacted by fraud provisioning (~₹480 crore post-tax) and treasury losses; normalized PAT ~₹746 crore indicates strong core performance.
- The CASA balance during the quarter was affected by reduction of interest rates in savings accounts by 50 to 200 bps, and impact of the one-off fraud incident during the quarter.
- Microfinance loan disbursement for Q4FY26 were at ₹1,487 crore, as compared to ₹759 crore, in Q4FY25 and ₹1,174 crore, in Q3FY26. Management expects ~15–20% growth in FY27 with positive earnings contribution.
- Credit cards (>4.5mn base) and wealth AUM (~₹57,000 crore) continue to scale up, supporting diversification in fee income.
- Core income (NII + fees) expected to grow by ~18%+, supported by normalization in stressed segments and continued retail/MSME traction.
- Management guided for opex growth of ~13–14% vs ~18%+ revenue growth, implying positive operating leverage ahead.

Fraud-related update

- Fraud impact (~₹590 crore pre-tax) restricted to a single branch and limited set of accounts, with no systemic issue identified.
- Conservative recognition of impact in Q4 reduces uncertainty on future earnings.
- Recovery efforts ongoing; insurance cover (~₹35 crore) provides partial offset.
- Incremental controls being implemented, including digital confirmations, AI-based verification and tighter process monitoring.
- Capital position (~15.6% CAR) and improving core profitability provide adequate buffer to absorb the impact.

Margins

- NII grew 16% YoY with NIM at 5.93%, supported by lower cost of funds, though margins saw some benefit from a lower investment book and day-count impact.
- Management expects NIM to remain broadly stable in FY27E, around FY26 levels, despite mix shift toward relatively lower-yield segments. Guidance for FY27E at 5.75%.
- While growth in wholesale and prime segments may be margin-dilutive, management emphasized focus on overall profitability and risk-adjusted returns rather than headline NIM expansion.
- Majority of SA rate cut benefits already captured; incremental reduction in cost of funds likely to be marginal.

Asset quality and Opex

- Gross slippages declined ~15% QoQ and net slippages ~27% QoQ; SMA trends improved with collection efficiency at ~99.6% (ex-MFI).
- MFI collection efficiency nearing pre-crisis levels (~99.7%), indicating normalization in the segment.
- Credit cost guided at ~1.7–1.8% for FY27 vs ~2.1% in FY26, including any recovery from CGMFU. CGMFU covers ~89% of MFI book.
- Credit cost of the Bank reduced by 42 bps from 2.05% in Q3FY26 to 1.63% in Q4FY26.
- Gross slippages in MFI have reduced from ₹153 crore in Q3FY26 to ₹96 crore in Q4FY26.

- Bank has utilised ₹35 crore during the quarter and continues to hold ₹130 crore as a contingency provision on the MFI book.
- SMA Pool now stands at ₹79 crore as compared to ₹141 crore in Q3FY26, indicating easing stress. It has declined 88% since Mar-25.
- Adjusted opex growth at ~12–13%, aligned with investments in branches, technology and distribution.
- Q1FY27 may see higher opex due to branch additions (~80 in Q4) and annual increments, before normalizing.

Other updates

- LCR maintained at ~114–115%, with conservative liquidity buffers.
- Capital adequacy at ~15.6% (CET1 ~13.7%) provides sufficient headroom to support growth.
- Bank has undertaken portfolio-level stress assessment for geopolitical risks (West Asia); near-term impact expected to be limited, though cautious stance maintained.

Exhibit 1: Variance Analysis

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)	Comments
NII	5,677	4,907	15.7	5,492	3.4	Growth driven by ~20% credit expansion, with retail/MSME traction partly offset by MFI run-down
NIM (%)	5.93	5.95	-2 bps	5.76	17 bps	Sequential improvement supported by ~12 bps fall in cost of funds and CRR benefit
Other Income	1,630	1,895	-14.0	2,125	-23.3	Decline largely on account of lower treasury (₹-159 crore), partially cushioned by healthy core fees
Net Total Income	7,307	6,803	7.4	7,617	-4.1	
Staff cost	1,594	1,528	4.3	1,602	-0.5	Stable despite ongoing branch expansion and franchise build-out
Other Operating Exp	4,654	3,463	34.4	3,982	16.9	
PPP	1,059	1,812	-41.6	2,033	-47.9	
Provision	869	1,450	-40.1	1,398	-37.8	Credit cost improved by 42 bps QoQ to 1.63%
PBT	189	361	-47.6	635	-70.2	
Tax	-130	57	-327.2	133	-197.8	Write-back driven by deferred tax adjustments amid lower profitability
PAT	319	304	4.9	503	-36.5	One-time fraud related impact and pressure on treasury led to de-growth in PAT

Key Metrics

GNPA	4,559	4,434	2.8	4,614	-1.2	GNPA improved 8 bps QoQ to 1.61%
NNPA	1,346	1,230	9.5	1,427	-5.6	
Funded Assets	290,278	241,926	20.0	279,428	3.9	Incremental growth was driven by vehicle loans, gold loans and MSME loans
Deposits	294,475	242,543	21.4	282,662	4.2	CASA declined 184 bps QoQ to 49.8%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end march)	FY25	FY26	FY27E	FY28E
Interest Earned	36,501	40,549	47,827	57,223
Interest Expended	17,210	19,334	22,717	26,957
Net Interest Income	19,292	21,215	25,110	30,266
Growth (%)	17.3	10.0	18.4	20.5
Non Interest Income	7,022	7,873	9,549	11,111
Net Income	26,314	29,089	34,659	41,377
Employee cost	5,710	6,182	7,257	8,264
Other operating Exp.	13,188	15,695	17,173	19,422
Operating Income	7,416	7,211	10,229	13,691
Provisions	5,515	5,379	5,650	6,591
PBT	1,901	1,833	4,580	7,100
Taxes	494	196	1,191	1,846
Net Profit	1,526	1,636	3,412	5,289
Growth (%)	(48)	7.3	108.5	55.0
EPS (₹)	2.5	1.9	4.0	6.2

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios				
(Year-end march)	FY25	FY26	FY27E	FY28E
Valuation				
No. of shares (crore)	732.2	857.2	857.2	857.2
EPS (₹)	2.5	1.9	4.0	6.2
BV (₹)	51.8	53.4	57.0	62.5
ABV (₹)	50.1	51.7	54.9	60.5
P/E	28.2	35.2	17.7	11.4
P/BV	1.4	1.3	1.2	1.1
P/ABV	1.4	1.3	1.3	1.2
Yields & Margins (%)				
Net Interest Margins	5.6	5.0	5.1	5.3
Yield on assets	12.5	11.3	11.6	12.0
Avg. cost on funds	6.6	6.4	6.1	6.1
Yield on average advances	14.4	13.2	13.4	13.6
Avg. Cost of Deposits	5.0	6.2	5.8	5.9
Quality and Efficiency (%)				
Cost to income ratio	71.8	75.9	70.5	66.9
Credit/Deposit ratio	92.5	91.9	91.5	91.6
GNPA	1.9	1.7	1.5	1.4
NNPA	0.5	0.5	0.5	0.4
RoE	5.2	3.5	7.2	10.3
RoA	0.6	0.4	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(₹ Crore)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	7,322	8,602	8,572	8,572
Reserves and Surplus	30,607	38,750	40,276	45,036
Networth	37,929	47,352	48,848	53,608
Deposits	252,065	294,475	371,173	445,408
Borrowings	38,975	36,621	37,566	39,027
Other Liabilities & Provisions	14,849	21,333	20,711	24,696
Total	343,818	399,780	478,298	562,739
Application of Funds				
Fixed Assets	2,663	2,557	3,222	3,544
Investments	80,715	85,966	99,709	109,785
Advances	233,112	280,391	339,717	407,794
Other Assets	12,230	18,104	18,977	23,978
Cash with RBI & call money	15,097	12,762	16,673	17,638
Total	343,818	399,780	478,298	562,739

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios				
(Year-end march)	FY25	FY26	FY27E	FY28E
Total assets	16.1	19.5	16.5	17.7
Funded asset	19.8	22.7	18.7	20.0
Deposit	25.7	23.5	19.2	20.0
Total Income	19.8	9.6	20.3	19.1
Net interest income	17.3	0.7	29.3	20.5
Operating expenses	16.5	15.8	11.7	13.3
Operating profit	18.9	(2.8)	41.8	33.8
Net profit	(38.1)	7.3	108.5	55.0
Net worth	18.1	24.8	3.2	9.7
EPS	(40)	(24)	108	55

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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