

About the Company

IDFC FIRST Bank (IDFCFB) is a new-age private sector bank servicing 35.5 Mn live customers, with a customer deposit and advances base of Rs 2.4 Tn each. The bank's portfolio is diversified and spread across Housing, LAP, Vehicle loans, Consumer loans, and Microfinance, among others. The bank has a pan-India presence with 1,002 branches spread over 60,000 cities, towns, and villages across India.

Investment Rationale

- **Asset Quality in MFI on the mend:** The bank has seen a gradual recovery in collection efficiency (CE) over Q4FY25, which bounced back to 99.2% (~99.4% ex-Karnataka) vs. 96.9% in Dec'24. Moreover, the bank has seen a significant reduction in SMA pool in absolute terms (% SMA continued to increase on a de-growing portfolio), indicating lower incremental stress formation. Thus, the management has indicated that the credit costs in the MFI portfolio have peaked out and should recede from Q1FY26. With asset quality metrics in the secured portfolio remaining under control and a declining trend in MFI slippages over FY26, IDFCFB expects credit costs for the year to be significantly lower.
- **Opex ratio improvement:** Opex ratio improvement remains a key RoA improvement driver. Operating leverage playing out across the business should help drive the C-I ratio improvement, thereby supporting RoA improvement for the bank.
- **Margins to improve after a near-term challenge:** The improving outlook on MFI slippages, leading to lower interest reversals, should support NIMs for the bank. IDFCFB has not tinkered with its deposit rates and plans to take a rate cut in a phased manner. Moreover, the bank will also look at gradually reducing its SA rates. However, it will begin by trimming the high-value individual deposits. The bank has taken a 25bps rate cut on SA deposits in Feb'25, and the impact would reflect in the coming quarter. The management has guided for margins to face near-term headwinds with the floating rate book (39% mix, of which 30% is repo-linked) repricing immediately, while the downward repricing of CoF would commence with a lag. Thus, IDFCFB's margins are expected to stabilise and improve marginally in H2FY26 after a challenging H1FY26.
- **Growth to remain healthy:** IDFCFB expects credit growth momentum to remain healthy and aims at delivering a steady ~20% CAGR growth over the medium term. However, the share of the MFI book will continue to decline to ~3-3.5% over FY26 with the bank maintaining a cautious stance. With a view to improving the LDR, the bank will look at growing its deposit franchise at 20-22% CAGR over the same period. Focus will remain on CASA deposits, with the bank trying to improve the share of CA accounts in the overall mix. We expect IDFCFB to deliver a strong 20/24% CAGR Credit/Deposit growth over FY25-27E, driving LDR improvement to ~87% by FY27E.

Valuation & Recommendation:

IDFCFB continues to remain well-placed to steer healthy business growth over the medium term. The bank also remains confident in its ability to control Opex growth significantly below business growth at ~12-13% in FY26. Thus, the C-I Ratio improvement to ~65% by FY27 appears to be on the cards with operating leverage playing out. The outlook on credit costs has turned positive, with MFI credit costs possibly peaking out and trending downwards over FY26, especially in H2FY26. NIMs could face pressure in the near term with a lag in rate cut transmission on CoF. However, cost ratio optimisation and credit cost moderation would adequately set this off. **We recommend a BUY on the stock with a target price of Rs 85/share, implying an upside of 10% from the CMP**

Financial Summary

Y/E March	NII (Rs Cr)	PPOP (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	ABV (Rs)	P/ABV (x)	RoA (%)	NNPA (%)
FY24	22,382	6,167	2,886	4.1	43.8	1.8	1.1	0.6
FY25	26,314	7,415	1,525	2.1	50.3	1.5	0.4	0.5
FY26E	30,611	9,333	3,286	3.8	55.4	1.4	0.9	0.5
FY27E	37,219	13,358	5,670	6.6	61.6	1.3	1.2	0.5

Source: Axis Securities; CMP as on 1st July, 2025

Duration: 3-6 Months

CMP (Rs)	77.2
Target Price (Rs)	85.0
Upside (%)	10%

| Why IDFC First Bank Ltd?

- ✓ **Healthy Growth Momentum**
- ✓ **MFI Stress Fading Away**
- ✓ **Improving Asset Quality Metrics**
- ✓ **RoA Improvement Levers Available**

| Key risks

- ✓ **Near-term headwinds on NIMs and Asset Quality in MFI segment**
- ✓ **Slower Business Growth**

MARKET DATA

No. of Shares	732.2
Market Cap	56,650
52-week High / Low	82.2/52.5
BSE Code	539437
NSE Code	IDFCFIRSTB

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| Axis PUNCH is strong research based idea based on



Events Based: Our recommendations are based on the following critical factors, providing a comprehensive approach to medium-term investment opportunities:

- **Company-Specific Events:** Recommendations consider significant company-specific events such as new orders, product launches, acquisitions, management changes, and the commissioning of new plants.
- **Commodity Price Fluctuations:** We analyze changes in commodity prices, including metals, cement, chemicals, and pharmaceutical materials.
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- **Earnings Surprises:** We identify companies expected to report better-than-anticipated earnings in upcoming quarters.
- **Corporate Actions:** Corporate actions such as mergers and acquisitions, capital raising programs, and regulatory announcements that impact a company or its industry form crucial elements for our recommendations.

Strategic Insights: Benefit from insights based on a blend of critical business events, economic trends, and thorough company valuations.

Informed Decisions: Make well-informed investment decisions backed by the expertise of our dedicated research team.

Medium-term Horizon: Enjoy the medium-term investment strategy, perfectly suited for those looking to optimize returns over 3 to 6 months.

| Why to choose Axis PUNCH



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