IDFC First Bank (IDFBAN)

ICICI Direct

CMP: ₹ 71 | Target: ₹ 75 (6%) | Target Period: 12 months | HOLD

July 29, 2025

Steady growth continues, but MFI normalisation crucial for stability...

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 1,016 as on June 2025

Q1FY26 performance: IDFC First Bank reported mixed performance in Q1FY26, with balance sheet growth being healthy, however, margin pressure and elevated provision impacted earnings. Margins declined 24 bps QoQ to 5.71%, primarily attributable to de-growth in microfinance book (-37% YoY) and impact of rate repricing following the policy rate cut. On business front, advances growth remained healthy at 21% YoY (4.7% QoQ) to ₹2,53,233 crore, driven by retail and corporate loans. Provisions rose 66.8% YoY to ₹1,659 crore, reflecting elevated slippages in microfinance and a one-off corporate account, thereby resulting in 32% YoY decline in PAT. Asset quality deteriorated slightly, with GNPA rising 10 bps QoQ to 1.97% and NNPA increasing 2 bps QoQ to 0.55%.

Investment Rationale

- **Margins under pressure, recovery hinges on deposit repricing:** Margins came under pressure in Q1FY26, declining 24 bps QoQ to 5.71%, impacted by the rundown in high-yield MFI book, repo rate transmission, and an increased mix of lower-yield wholesale asset. Management expects further pressure in Q2 as the full effect of past repo cuts plays out. However, a gradual recovery is anticipated from H2FY26, with NIMs guided to rebound to ~5.8% by Q4, supported by a sharp 115 bps reduction in TD rates from peak and further CRR benefit. Margin trajectory remains sensitive to any further rate cuts, but the structural shift towards a more retailised and cost-efficient franchise is expected to aid normalisation over the medium term.
- **Growth continues, but elevated slippages raise caution:** Bank continues to deliver healthy loan growth, up 21% YoY, led by secured retail, MSME, and selective wholesale lending. While overall credit momentum remains strong, slippages rose 14% QoQ to ₹2,486 crore (vs ₹2,175 crore in Q4FY25), partly due to seasonality and one-off stress in a corporate account (ATM service provider ~₹108 crore exposure). MFI related stress remains elevated, with segment contributing ₹514 crore (vs ₹572 crore in Q4) of slippages and forming 3.3% of asset mix, posing continued drag on asset quality. The ₹7,500 crore capital raise, expected to conclude in Q2, will enhance capital adequacy and provide a comfortable buffer to support future growth while absorbing any near-term credit cost volatility.

Rating and Target Price

Margins are expected to recover gradually from Q3, aided by lower funding costs, though near-term compression may weigh on earnings. Credit costs anticipated to remain broadly steady at ~2.05% in FY26, with gradual recovery expected ahead. Thus, we value the bank at ~1.2x FY27E BV and assign target price at ₹75 (earlier ₹70). Recommend Hold rating.

IDFC FIRST Bank

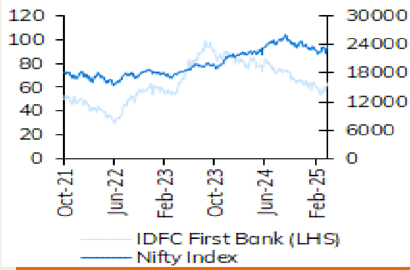
Particulars

Particulars	Amount
Market Capitalisation	₹ 52,203 crore
Networth	₹ 38,610 crore
52 week H/L	78.5 / 52.5
Face value	₹ 10

Shareholding Pattern

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

Price Chart



Key risks

(i) Persistent slippages could keep credit cost elevated

(ii) Faster improvement in CI ratio

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
parth.chintkindi@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

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%	21,194	25,475	15%
PPP	4,932	6,237	7,416	31%	8,878	12,116	28%
Net profit	2,437	2,957	1,830	133%	2,861	4,828	62%
P/E (x)	19	17	28		17	10	
ABV	37	44	50		53	59	
P/ABV (x)	1.9	1.6	1.4		1.2	1.1	
RoA (%)	1.1	1.1	0.6		0.9	1.1	
RoE (%)	10.4	10.2	5.2		7.3	11.3	

Source: Company, ICICI Direct Research

Concall Highlights

Operational performance

- Credit growth remained healthy at 21% YoY (4.7% QoQ) to ₹2,53,233 crore, driven by retail and corporate loans.
- CASA ratio improved sequentially ~110 bps to 48%; CASA deposits rose 30% YoY.
- High-cost legacy borrowings further reduced by ₹2,600 crore; residual ₹2,200 crore to mature this year.
- Cost of funds declined 9 bps QoQ to 6.42%; cost of deposits at 6.37%.
- Retail deposits remain the anchor of long-term growth; the bank expects to scale deposits to ₹5–10 lakh crore over time, leveraging branch expansion and digital capabilities.
- PAT came in at ₹463 crore, up 52% QoQ but down 32% YoY, primarily due to MFI drag and elevated provisions.

Margins and credit cost

- NIM contracted 24 bps QoQ to 5.71%:
  - Largely due to MFI rundown
  - Repricing of asset amid rate cut
  - Increase in proportion of wholesale loans
- Management expects margins to bottom out in Q2FY26, then improve in H2FY26 to ~5.8% levels, aided by TD repricing and CRR benefits
- Full year credit cost guidance maintained at 2.0–2.05% for FY26

MFI and asset quality

- MFI book de-grew 37% YoY to ₹8,354 crore (3.3% of total book), impacted by sectoral stress.
- Microfinance loan disbursements for Q1FY26 were at ₹882 crore as compared to ₹2,883 crore in Q1FY25, indicating continued caution.
- MFI slippages declined sequentially to ₹514 crore (vs ₹572 crore in Q4FY25); 100% provisioning done on a stressed ATM services corporate account (~₹108 crore).
- Gross slippages rose 14% QoQ to ₹2,486 crore; gross slippage ratio (ex-MFI) at 3.54%.
- Management attributed part of slippage increase to seasonality in Q1.
- Total provisions at ₹1,659 crore (vs ₹1,450 crore in Q4FY25); credit cost (ex-MFI) at ~2%.
- No contingency provisions were utilised. Balance remains stable at ₹315 crore.

Other updates

- Opex expected to grow 11–12% annually; improvement in operating leverage to aid C/I ratio which is targeted below 65% for FY27E.
- ₹7,500 crore, equity raise expected to conclude in Q2FY26; no investor-side risks flagged.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	4,933	4,695	5.1	4,907	0.5	Flat sequencially due to decline in MFI segment and repo rate transmission
NIM (%)	6	6	-51 bps	6	-24 bps	Rate cuts, changing asset mix, and lower yields impacted margins
Other Income	2,227	1,619	37.5	1,895	17.5	Surge in treasury gains
Net Total Income	7,160	6,314	13.4	6,803	5.3	
Staff cost	1,496	1,337	11.8	1,528	-2.1	
Other Operating Exp	3,425	3,094	10.7	3,463	-1.1	CI ratio remained elevated due to weak income growth
PPP	2,239	1,882	19.0	1,812	23.6	
Provision	1,659	994	66.8	1,450	14.4	Increased slippages, especially from MFI and one-off corporate account
PBT	580	888	-34.7	361	60.7	
Tax	118	207	-43.3	57	106.2	
PAT	463	681	-32.0	304	52.1	Higher provision impacted earnings momentum
Key Metrics						
GNPA	4,867	3,904	24.7	4,434	9.8	Increased mainly due to MFI stress and seasonal agri delinquencies
NNPA	1,346	1,195	12.6	1,230	9.4	
Funded Assets	253,233	209,361	21.0	241,926	4.7	Led by wholesale, mortgage, and vehicle loans; offset by MFI de-growth
Deposits	256,799	204,572	25.5	242,543	5.9	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	41,347	49,145
Interest Expended	13,872	17,210	20,153	23,671
Net Interest Income	16,451	19,292	21,194	25,475
Growth (%)	30.2	17.3	9.9	20.2
Non Interest Income	6,002	7,022	8,114	9,593
Net Income	22,453	26,314	29,308	35,068
Employee cost	4,893	5,710	6,406	7,325
Other operating Exp.	11,323	13,188	14,024	15,626
Operating Income	6,237	7,416	8,878	12,116
Provisions	2,382	5,211	5,037	5,636
PBT	3,855	2,205	3,841	6,480
Taxes	1,002	573	999	1,685
Net Profit	2,957	1,830	2,861	4,828
Growth (%)	21	(38)	56	69
EPS (₹)	4.2	2.5	3.9	6.6

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	3.9	6.6
DPS (₹)	-	-	0.3	0.6
BV (₹)	45.4	51.8	55.3	61.3
ABV (₹)	43.8	50.1	53.2	58.7
P/E	16.9	28.2	18.0	10.7
P/BV	1.6	1.4	1.3	1.2
P/ABV	1.6	1.4	1.3	1.2
Yields & Margins (%)				
Net Interest Margins	5.9	5.6	5.2	5.3
Yield on assets	12.6	12.5	12.1	12.1
Avg. cost on funds	6.4	6.6	6.4	6.2
Yield on average advances	15.0	14.4	14.1	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	69.7	65.4
Credit/Deposit ratio	97.0	92.5	89.4	86.7
GNPA	1.9	1.9	2.1	1.9
NNPA	0.6	0.5	0.5	0.5
RoE	10.2	5.2	7.3	11.3
RoA	1.1	0.6	0.9	1.1

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	33,182	37,527
Networth	32,102	37,929	40,504	44,849
Deposits	200,576	252,065	313,744	389,293
Borrowings	50,936	38,975	36,203	37,566
Other Liabilities & Provisioi	12,501	14,849	17,420	20,711
Total	296,115	343,818	407,872	492,418
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	13,597	25,806
Cash with RBI & call mone	12,480	15,097	18,380	19,558
Total	296,115	343,818	410,060	494,904

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end march)	FY24	FY25	FY26E	FY27E
Total assets	23.4	16.1	19.3	20.7
Funded asset	28.2	19.8	20.3	20.4
Deposit	38.7	25.7	24.5	24.1
Total Income	33.6	19.8	13.6	18.8
Net interest income	30.2	17.3	9.9	20.2
Operating expenses	33.2	16.5	8.1	12.3
Operating profit	26.5	18.9	19.7	36.5
Net profit	21.3	(38.1)	56.4	68.7
Net worth	25.0	18.1	6.8	10.7
EPS	14	(40)	56	69

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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