IDFC First Bank (IDFBAN)

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

July 28, 2026

Strong quarter; RoA trajectory strengthens...

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

Q1FY27 performance: IDFC First Bank reported a strong Q1FY27 performance, with core operating metrics improving across business growth, profitability and asset quality. Advances grew 20.6% YoY (5.2% QoQ) to ₹3.05 lakh crore, led by mortgages, vehicles, consumer, MSME and corporate segments, while customer deposits increased 16.6% YoY (5.3% QoQ) to ₹2.98 lakh crore, with CASA ratio improving to 50.8%. NII grew 21.1% YoY, while underlying NIM expanded to ~5.9% (adjusting for one-offs), aided by lower funding cost and an improved liability mix. Asset quality strengthened further, with GNPA/NNPA improving to 1.51%/0.44%, while credit cost moderated to 1.53%, reflecting lower slippages and normalization in the MFI portfolio. The bank also received ₹515 crore under CGFMU scheme and prudently created an equivalent contingency provision for potential macro and geopolitical risk. PAT stood at ₹1,075 crore, supported by strong core income growth, treasury gains and improving operating leverage, with management guiding for ~1% RoA in FY27.

Investment Rationale:

- **Improving liability franchise and margins to support earnings quality:** The bank continues to strengthen its funding profile, with CASA ratio improving to 50.8% (vs. 49.8% in Q4FY26) and cost of funds declining to 5.96% (vs. 6% in Q4), supporting underlying NIM expansion to ~5.9% (adjusted for one-offs). While continued growth in corporate loans (30% YoY) may modestly dilute yields and management expects some normalization in the investment book, FY27 NIM guidance has been upgraded to ~5.8% (from 5.75% earlier), reflecting confidence in sustaining margins through liability repricing and balance-sheet optimization. We believe improving deposit franchise, with customer deposits rebounding 5.3% QoQ and average CASA remaining above 50%, should provide structural support to profitability despite a gradual shift towards relatively lower-yielding assets.
- **Lower credit cost and operating leverage to drive RoA expansion:** The normalization of the MFI portfolio continues to strengthen the earnings outlook, with GNPA/NNPA improving to 1.51%/0.44%, gross slippages declining 30% YoY, and credit cost moderating to 1.53%. Consequently, management has lowered FY27 credit cost guidance to 1.5–1.6% (from 1.7–1.8% earlier), while maintaining a prudent stance through a ₹515 crore contingency provision despite receiving an equivalent ₹515 crore, CGFMU claim. Positive operating jaws of ~500 bps, a 310 bps YoY improvement in cost-to-income ratio to 70.7%, and management's target to reduce the ratio below 70% during FY27 should drive further operating leverage. We expect the combination of lower credit cost, stable margins and improving efficiency to support sustainable earnings growth and help the bank achieve ~1% RoA in FY27, with scope for further improvement over the medium term.

Rating and Target Price: The bank has delivered a strong recovery following the fraud-related disruption, with improving business momentum, lower credit cost and strengthening operating leverage reinforcing confidence in the medium-term earnings trajectory. Basis this, we revise our target price to ₹100, assigning multiple of 1.55x FY28E BV.

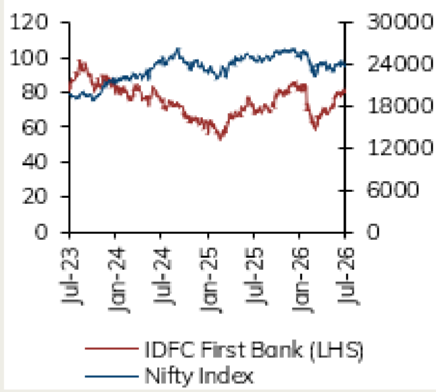
Particulars

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

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	0.0	0.0	0.0	0.0
FII	24.6	36.8	36.5	36.1
DII	24.3	22.4	22.7	24.4
Others	51.1	40.8	40.8	39.5

Price Chart



Key risks

(i) Adverse change in mix diluting margins

(ii) MFI stress builds up

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

₹ crore	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%	10,540	14,107	40%
Net profit	2,957	1,526	1,636	-12%	3,922	5,878	90%
P/E (x)	20	34	45		19	12	
ABV	44	50	52		56	62	
P/ABV (x)	1.9	1.7	1.6		1.5	1.4	
RoA (%)	1.1	0.6	0.4		0.8	1.0	
RoE (%)	10.2	5.2	3.5		8.2	11.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Advances grew 20.6% YoY (5.2% QoQ) to ₹3.05 lakh crore, led by mortgages, vehicles, consumer, MSME and corporate segments.
- Customer deposits increased 16.6% YoY (5.3% QoQ) to ₹2.98 lakh crore, with CASA ratio improving to 50.8%.
- Retail, Rural & MSME book grew 18% YoY, while wholesale portfolio expanded 30% YoY, reflecting continued scaling of the corporate franchise.
- MFI book stabilized at ~₹6,700 crore, with decline arrested; disbursements nearly doubled YoY and management expect ~15% growth in FY27.
- Credit card business remained healthy, with cards in force reaching 48 lakhs, spends growing 22% YoY, while wealth AUM increased 24% YoY to ₹64,000 crore.
- Deposit momentum has normalized, with management indicating no material deposit loss following the fraud episode and strong traction across both retail and institutional relationships.
- NRI deposit book currently stands at ~₹25,000 crore, translating into an estimated ~1.7% share of the system NRI deposit market. Bank sees the recent FCNR opportunity as meaningful and aims to capture ~2.5% of incremental system pool.
- Bank has announced an FCNR rate of 6.75%, which management considers competitive.
- Management indicated FY26 PSLC-related cost was ~₹250–260 crore, with FY27 cost dependent on market pricing.
- Organic PSL book has scaled materially to ~₹1.2 lakh crore, but the bank has not yet fully eliminated the requirement to purchase certificates.

Margins

- Reported NIM improved to 5.96%; after adjusting for Q1 income-tax refund benefit and Q4 day-count impact, underlying margins improved by ~5 bps QoQ to around 5.9%.
- FY27 NIM guidance has been revised upward to ~5.8% (vs earlier ~5.75%), although management expects some moderation from Q1 levels due to asset mix changes, normalization of the investment book and stable funding cost.
- Fee income increased 22.9% YoY, driven by 25%+ growth in disbursements along with healthy contribution from trade finance, commercial banking and forex-related fees.
- Treasury gains stood at ₹181 crore, supported by softer G-Sec yields.

Asset Quality and Opex

- Credit cost guidance was revised down to ~1.5–1.6% for FY27 from earlier ~1.7–1.8%, after Q1 came in at ~1.53% and asset quality indicators remained better than expected.
- MFI stress has largely normalized; management indicated very low MFI slippages and expects the book to grow ~15% YoY by FY27-end as disbursements continue to recover.
- SMA-1 & SMA-2 reduced to 0.77%, while MFI SMA normalized to 0.71%, indicating that stress in the segment has largely subsided.
- Bank received ₹515 crore under the CGFMU scheme during the quarter and simultaneously created an equivalent ₹515 crore contingency provision, purely as a prudent buffer against macro, geopolitical and monsoon-related uncertainties.
- Operating expenses increased 16.4% YoY; excluding the Q4 fraud-related one-off, sequential growth was limited to 2.3%, below the pace of core income growth.
- Cost-to-income ratio (excluding trading gains) improved to 70.7%, down 166 bps QoQ and 310 bps YoY.
- Operating jaws expanded to nearly 500 bps, while adjusted operating profit increased 36% YoY and 11% QoQ.
- Around 93% of the MFI portfolio is covered under CGFMU, providing significant downside protection.

Other updates

- Fee income increased 22.9% YoY, driven by 25%+ growth in disbursements along with healthy contribution from trade finance, commercial banking and forex-related fees.
- Treasury gains stood at ₹181 crore, supported by softer G-Sec yields.
- Capital adequacy remained comfortable at 15.05%, with CET-1 at 13.33%, despite a 30 bps impact from the annual operational-risk RWA reset.
- Management now expects the bank to achieve ~1% RoA for FY27, earlier than previously anticipated, supported primarily by lower credit cost.
- Under the proposed ECL framework, management expects the capital impact at transition to be broadly neutral, with higher provisioning offset by lower risk-weight requirement.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	5,972	4,933	21.1	5,677	5.2	Healthy core income was supported by 20.6% YoY loan growth and aided by 4 bps QoQ decline in CoF
NIM (%)	5.96	5.71	25 bps	5.93	3 bps	Margin expansion was driven by lower funding costs and liability repricing; management raised FY27 NIM guidance to ~5.8% from 5.75%
Other Income	2,309	2,227	3.7	1,630	41.7	Supported by healthy fee income and the ₹515 crore CGFMU claim receipt
Net Total Income	8,282	7,160	15.7	7,307	13.3	
Staff cost	1,696	1,496	13.4	1,594	6.4	Steady cost
Other Operating Exp	4,033	3,425	17.8	4,654	-13.4	
PPP	2,553	2,239	14.0	1,059	141.1	
Provision	1,144	1,659	-31.1	869	31.6	Credit costs moderated to 1.53% on improving MFI trends; however, the bank prudently created a ₹515 crore contingency provision
PBT	1,409	580	142.8	189	644.2	
Tax	334	118	183.6	-130	-357.4	Q4 write-back driven by deferred tax adjustments shows distorted QoQ
PAT	1,075	463	132.4	319	237.0	Earnings were supported by improving core operating performance, lower credit costs and operating leverage
Key Metrics						
GNPA	4,510	4,867	-7.3	4,559	-1.1	GNPA improved 10 bps QoQ to 1.51%
NNPA	1,286	1,346	-4.4	1,346	-4.5	
Funded Assets	305,370	253,233	20.6	290,278	5.2	Incremental growth was driven by gold loans, MSME loans, CV/CE financing and wholesale
Deposits	311,892	256,799	21.5	294,475	5.9	CASA improved by 102 bps QoQ to 50.8%

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: **Profit and loss statement** ₹ crore

(₹ Crore)	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	6,946	7,848
Other operating Exp.	13,188	15,695	17,173	19,422
Operating Income	7,416	7,211	10,540	14,107
Provisions	5,515	5,379	5,276	6,218
PBT	1,901	1,833	5,264	7,889
Taxes	494	196	1,369	2,051
Net Profit	1,526	1,636	3,922	5,878
Growth (%)	(48)	7.3	139.7	49.9
EPS (₹)	2.5	1.9	4.6	6.9

Source: Company, ICICI Direct Research

Exhibit 3: **Key ratios** ₹ crore

(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	4.6	6.9
BV (₹)	51.8	53.5	57.6	63.8
ABV (₹)	50.1	51.8	55.5	62.0
P/E	28.2	44.5	15.4	10.3
P/BV	1.4	1.6	1.2	1.1
P/ABV	1.4	1.6	1.3	1.1
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	75.5	69.6	65.9
Credit/Deposit ratio	92.5	91.9	91.5	91.6
GNPA	1.9	1.7	1.4	1.4
NNPA	0.5	0.5	0.5	0.4
RoE	5.2	3.5	8.2	11.3
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	40,809	46,098
Networth	37,929	47,352	49,381	54,670
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	478,830	563,801
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	10.2	13.1
Operating profit	18.9	(2.8)	46.2	33.8
Net profit	(38.1)	7.3	139.7	49.9
Net worth	18.1	24.8	4.3	10.7
EPS	(40)	(24)	140	50

Source: Company, ICICI Direct Research

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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. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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