IDFC First Bank Ltd — Feb 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Core Beat / Major One-off Operational Loss **One-line:** The long-term thesis of IDFC FIRST as a structural retail compounding machine is validated by a "CASA milestone" and NIM recovery, though a □590 Cr fraud incident in Q4-FY26 (Feb-26) introduces a temporary earnings pothole and a governance watch-point.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat (Core)	Core NII grew 12% YoY; CASA reached 51.6%, exceeding the 50% target.	□
Earnings Quality	High (Pre-Fraud)	Q3 PAT (□503 Cr) is high-quality, driven by NIM expansion to 5.76% (vs 5.59% prior).	□
Guidance Confidence	Strong	Management re-affirmed credit cost targets (2.05%) and NIM recovery trajectory.	□
Management Credibility	Neutral	Proactive disclosure of Feb-26 fraud is positive, but the event itself flags a "collusion risk" gap.	□
Business Quality Signal	Improving	Cost of Funds (6.11%) has converged with mid-tier peers; CD ratio down to 93.9%.	□
Key Q&A Exchange	Q#2 - Liability Repayment	Mgmt will not litigate if the bank is at fault; prioritizing ecosystem harmony.	□
The Street's Primary Anxiety	Fraud Contagion	Fear of similar gaps in other branches; Mgmt insists it is isolated to one Chandigarh branch.	□
Capital Cycle Stage	Harvesting	CRAR at 16.22% following CCPS conversion provides ample growth runway.	□
Margin / Return Ratio Trajectory	Improving	NIM recovered 17bps QoQ; ROA (0.48% 9M) is troughing as MFI drag subsides.	□
Pricing Power	Expanding	Cost of deposits reduced to 6.07% despite maintaining strong retail inflows.	□
FCF Conversion & Quality	Strong	Retail deposits at 79% of total; average CASA growth (32%) indicates high stickiness.	□
Competitive Moat Signals	Widening	Only Indian bank in Global Top-5 Mobile Apps; CASA ratio now 51.6%.	□
Balance Sheet Strength	Strong	Net NPA at 0.53%; wholesale exposure to top 20 borrowers down to 5%.	□
Working Capital Efficiency	Improving	Incremental credit-deposit ratio is disciplined; legacy borrowings down 94% YoY.	□
Mgmt Guidance Track Record	Reliable	Delivered on NIM claw-back and MFI stress reduction (SMA pool ↓ 32% QoQ).	□
Key Vulnerability / Red Flag	Operational Risk	Feb-26 fraud (□590 Cr) represents a significant breakdown in physical cheque controls.	□
Management Tone	Resilient/ Transparent	Decisive on fraud handling while remaining bullish on core unit economics.	□

Sentiment: □Positive (Core) / □Neutral (Combined)

Key Takeaways: * **Positives:** The "Universal Bank" transition is largely complete. The bank achieved a **51.6% CASA ratio**, structurally lowering its Cost of Funds to 6.11% (now level with mid-tier peers). Asset quality is exceptional outside the MFI book, with **Net NPA at 0.53%** and the legacy infrastructure book effectively eliminated (<1% of loans). The MFI stress has decisively peaked, with the **SMA pool declining 78% since March 2025**. * **Negatives:** A **₹590 Cr fraud incident** (identified in Feb-26) involving the Haryana Government highlights a failure in physical cheque authorization and employee collusion. This will likely wipe out ~1.2 quarters of PAT. * **Street Concern:** Analysts are focused on whether the fraud is truly "isolated." **Management's Response:** It is restricted to one Chandigarh branch and one client group; systems (digital/SMS/alerts) worked, but physical human collusion bypassed checks. * **Forward Watchpoint:** The KPMG forensic audit outcome. If the audit confirms the incident is limited to one branch, the bank's core profitability (Core PPOP of ₹1,937 Cr) can absorb the hit without long-term capital impairment.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	12.0%	↑	↑	□	Improving sequential momentum as NIM recovers and TD repricing kicks in.
NIM (AUM basis %)	5.76%	↓ 28 bps	↑ 17 bps	↑	Recovery started; target 5.8%+ by Q4-FY26 remains on track.
Cost of Funds %	6.11%	↓ 38 bps	↓ 12 bps	↑	Converged with mid-tier banks; benefit of high CASA and legacy bond run-offs.
Cost of Deposits %	6.07%	↓	↓ 15 bps	↑	Repricing of Term Deposits (TD) following prior rate cuts is materializing.
CASA Ratio (period end %)	51.6%	↑ 391 bps	↑ 157 bps	□	Exceeded the long-term 50% target; driven by "Retailization" (79% of deposits).
CASA Ratio (avg %)	50.0%	↑ 309 bps	↑ 140 bps	□	Daily average basis shows high quality of inflows (CASA 9M grew 33% YoY).
Credit-Deposit Ratio %	93.9%	↓ 450 bps	↓ 30 bps	↑	Target mid-80s; bank continues to grow deposits (24%) faster than loans (21%).
Loans Growth (% YoY)	20.9%	→	→	□	Funded assets at □2,79,428 Cr; retail/rural/ MSME now 80% of book.
Deposits Growth (% YoY)	24.3%	→	→	□	Customer Deposits at □2,82,662 Cr; retail deposits grew 24.3%.
GNPA %	1.69%	↓ 25 bps	↓ 17 bps	□	Improving; Ex-MFI GNPA further improved to 1.61%.
NNPA %	0.53%	↑ 1 bps	↑ 1 bps	→	Near all-time lows; PCR remains strong.
Slippage Ratio %	3.09%*	↓	↓ 30 bps	□	*Ex-MFI slippage. Total slippages down as MFI stress subsides.
Credit Cost (% funded)	2.05%	↓	↓ 19 bps	□	Dec-25 quarter credit cost at 2.05%; Ex-MFI credit cost at 1.99%.
Collection Efficiency %	99.5%	→	→	□	Stable ex-MFI; MFI CE reaching pre-crisis levels (99.4% in Q3).
Capital Adequacy / CET1 %	16.22% / 14.23%	↑ 11 bps	↑ 188 bps	□	Boosted by conversion of □7,500 Cr CCPS to equity.
PAT (□Cr)	503	↓ 48.1%*	↑ 42.6%	□	*YoY drop reflects peak MFI provisions in FY26 compared to FY25 base.
Fee Income Growth %	15.5%	↑	↑	□	Granular; 91% from retail operations (Wealth, Credit Cards, Toll).

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	GNPA (Gross)	Trend	vs Co. Avg	Key Development
Mortgages	60,161	15.5%	1.38%	□	Below	Focus on low-risk HL/LAP; stable asset quality.
Vehicle Loans	32,010	27.0%	1.61%	□	In-line	Strong growth; scaling gold loans (+66%) as a high-yield sub-segment.
Consumer Loans	51,414	16.0%	1.45%	□	Below	Includes PL/Digital; re-classification during quarter.
Credit Cards	9,126	31.9%	1.98%	□	Above	C:I ratio improved from 240% to 98% in 4 years.
Business Finance	91,785	29.5%	1.39%	□	Below	Driven by Business Banking (+31%) and Wholesale (+34%).
Micro-finance (MFI)	6,657	-39.5%	5.00%	□	Above	SMA pool down 32% QoQ; 81% of book now CGFMU covered.
Infrastructure	2,218	↓	N/A	□	De-risking	Now <1% of total book; legacy runoff nearly complete.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	NIM to reach 5.8%+ in Q4 FY26.	Current 5.76% requires only 4bps incremental lift; highly feasible with TD repricing.	Met (Recovering)	Low
Guidance	Margins	Credit Cost (Ex-MFI) to stay ~2%.	Currently at 1.99%; consistent with the 15-year historical average.	Met	Low
Guidance	Volume	20% balance sheet growth.	Currently at 21% (Loans) and 24% (Deposits); no capital constraint post-CCPS.	Met	Low
Guidance	Capex	Reduce C:I Ratio to ~65% by FY27.	9M FY26 C:I is 74%; requires Opex growth to stay <12% while revenue grows 20%.	Improving	Medium
Strategy	Fraud Recovery	Seek restoration of □590 Cr.	Highly uncertain; relies on police recovery and counterparty cooperation.	First Entry	High
Strategy	MFI Strategy	MFI book to stabilize by FY26 end.	SMA pool reduction (78% since peak) suggests bottom is in sight.	On Track	Medium
Balance	CD Ratio	Reduce CD ratio to mid-80s.	Currently 93.9%; requires deposit growth to outpace loans by 4-5% for 4-6 quarters.	Met (Improving)	Low

4. ANALYST Q&A (Feb-23-2026 Concall)

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdi
1	5.0	Kunal Shah / Citigroup	Fraud Impact	Financials	"Would this entire [₹590 Cr] amount be repayable to the Haryana government and the liability lies on us?"	Management stated that while they are tracing funds, they have put out the ₹590 Cr as a "good faith" outer limit of the potential hit. This implies a near-certain quarterly earnings write-off, impacting Q4 FY26 PAT significantly.	None	4.0	Oute set
1a	4.5	Kunal Shah / Citigroup	Liquidity	Financials	"What is the total Haryana government deposits and total government deposits for IDFC Bank?"	Haryana govt deposits are ~0.5% of total (₹2.8L Cr), and total govt deposits are 8-10%; ₹200 Cr has already flown out post-incident. Minimal liquidity risk given high LCR (115%) and granular retail base.	None	4.5	Low syste
2	4.0	Kunal Shah / Citigroup	Internal Controls	Management	"What internal controls... how stringent we would get particularly with respect to the government accounts?"	The bank is making explicit digital confirmation (via app) mandatory for high-value branch transactions and introducing AI for signature verification. This adds operational friction but is necessary to rebuild	None	4.0	Fricti safety

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdi
						"Collusion Defense."			
3	4.5	Piran Engineer / CLSA	Timeline	Financials	"How long did this fraud go on before it was uncovered?"	Management deflected the exact start date due to legal/audit sensitivities but confirmed the gap surfaced after Feb 18th following a balance confirmation request. Suggests a lapse in periodic audit efficacy at the branch level.	Exact start date	2.5	Audit flagg
4	4.0	Piran Engineer / CLSA	Responsibility	Management	"Why should the bank pay up for it... if their own officials have done that?"	Management indicated they will not litigate if the mistake is theirs but will pursue third-party beneficiaries "hell for leather." This signals a conservative accounting approach: provide first, recover later.	None	4.0	Cons
5	3.5	Vincent / Principal AM	Contagion	Business Overview	"What other communications from other government related or linked clients have we received?"	No other inward calls or issues identified across 1,000+ other branches; incident is strictly one branch/one client group. Reassuring for the "contagion risk" thesis.	None	4.5	Isolat event

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdi
6	4.5	Vincent / Principal AM	Reporting Accuracy	Financials	"How is it that the client received statements monthly and did not realize this happened?"	Management confirmed system-generated alerts and statements were correct (reflecting the lower balance), but the client/ fraudsters ignored them. This shifts some legal culpability toward the client's internal monitoring.	None	4.0	Proce Frauc
7	4.0	Param Subramanian / Investec	Cost Implications	Financials	"Will this have any implications [on tight control on cost]?"	No material cost increase expected from new controls; most are digital/AI-based enhancements to existing stacks. Long-term C:I ratio trajectory remains intact.	None	4.0	Struc Opex
8	3.5	Prakhar Sharma / Jefferies	Systemic Check	Management	"Is it possible to cover... a reconciliation of balances across governments and issue a consolidated press release?"	Management agreed to evaluate a system-wide reconciliation to provide market clarity. High-impact move for restoring credibility if executed.	None	4.5	Credi trigge

PATTERN FLAGS & SENTIMENT * **The "Collusion" vs. "System" Defense:** Analysts were hyper-focused on how a ₹590 Cr gap could persist given the bank's tech-first reputation. Management successfully decoupled "System Failure" (which they deny) from "Human Collusion" (which they admit). By emphasizing that statements and SMS alerts were correctly sent, they protect the core digital banking thesis while admitting a vulnerability in legacy physical processes. * **Decisiveness over Litigation:** Vaidyanathan's tone was notably non-combative.

The preference for "amicable settlement" with government clients suggests the bank prioritizes its long-term brand as a "Government Banker" over a multi-year legal battle for ₹590 Cr. * **Analyst Sentiment Verdict:** Skeptical but appreciative of transparency. The primary friction point is the **₹590 Cr magnitude**; analysts were surprised that a single branch could harbor such a large discrepancy. Credibility remains stable because management didn't "drip-feed" the news—they estimated an extra ₹100 Cr "good faith" gap immediately.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY26)	This Quarter (Q3 FY26 / Feb-26)	Direction
CASA Threshold	50.1%	51.6%	↑ Milestone Reached
NIM Trajectory	5.59% (Trough)	5.76% (Recovering)	↑ Improving
Operational Risk	Standard	Major Fraud (₹590 Cr)	↓ Deteriorating
MFI Stress	SMA pool declining	SMA pool down 78% from peak	↑ Near Conclusion
Capital Adequacy	14.3% (CRAR)	16.22% (CRAR)	↑ Post-CCPS Boost
Wholesale Risk	20% of loans	Concentration ↓ (Top 20 at 5%)	↑ De-risking
MFI GNPA	7.76%	5.00%	↑ Improving
Governance Focus	Strategy/Growth	Forensic Audit / Internal Controls	↓ Watch Triggered

STOP HERE.