IDFC First Bank Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Miss **One-line:** The bank's formidable liability engine and 24% core PPOP growth were overwhelmed by cyclical MFI stress, pushing the ROE expansion thesis into FY26/27.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	PAT of □339 Cr hit by elevated MFI provisions; ROA/ROE targets officially "Delayed."	□
Earnings Quality	High (Core driven)	Core PPOP grew 32% YoY excluding MFI impact; internal segment disclosures show liability losses narrowing.	□
Guidance Confidence	Neutral	Guidance 2.0 (FY29) intact, but FY25 profitability goals are now unreachable.	□
Management Credibility	Strong	Unprecedented transparency in segment-wise losses (Cards/Liabilities) and front-loading MFI pain.	□
Business Quality Signal	Improving	CASA + Retail deposits at 80%; Cost of funds reduced 131 bps since merger despite rate hikes.	□
Key Q&A Exchange	Q# 8 + Segment Economics	Analysts pressed on ROA potential; Mgmt proved a path to 2% ROA via opex leverage.	□
The Street's Primary Anxiety	Unsecured Stress Spillovers	Fear that MFI defaults will leak into Credit Cards/PL; Mgmt: "MFI is a rural group-lending unique issue."	□
Capital Cycle Stage	Harvesting (Core) / Investment (Digital)	Scaling 20+ products; digital app now #1 ranked in India driving efficiency.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	NIM compressed 14 bps QoQ to 6.04% due to MFI de-growth and wholesale mix.	□
Pricing Power	Expanding	Cutting savings rates to 3% while growing deposits 29% YoY proves brand pull.	□
FCF Conversion & Quality	Strong	LCR at 114%; CD ratio improved to 95.7% (down 200 bps QoQ).	□
Competitive Moat Signals	Widening	Only Indian bank in Global Top-15 Mobile Apps (Forrester); Wealth AUM +53% YoY.	□
Balance Sheet Strength	Strong	Post-merger CET-1 at 13.68%; Net Worth increased by □618 Cr post-IDFC Ltd merger.	□
Working Capital Efficiency	Improving	Incremental CD ratio at 76.4% over the last 12 months.	□
Mgmt Guidance Track Record	Mixed	Met all volume/liability goals; missed FY25 profitability milestones due to credit cycles.	□
Key Vulnerability / Red Flag	MFI Concentration	MFI credit cost at 8% (9M FY25); recovery dependent on industry-wide stability.	□
Management Tone	Candid & Constructive	Vaidyanathan: "We are a bit unhappy with ourselves... but the core is phenomenal."	□

Sentiment: □Neutral **Key Takeaways (Positives & Negatives):** * **Positives:** The liability transformation is complete; 80% of deposits are now retail, allowing the bank to successfully lower its cost of funds to 6.48%

(down 131 bps since merger). Operating leverage is finally manifesting, with Opex growth slowing to 16% YoY (vs 25% business growth), and the credit card business has reached a PPOP break-even point in just 4 years. * **Negatives:** The "Surprise Factor" persists; MFI asset quality deteriorated sharply (GNPA 4.45% vs 2.52% QoQ) and SMA 1+2 spiked to 4.56%. The withdrawal from high-yield MFI lending created a "double whammy" of compressed NIMs (down 14 bps) and lower fee income. * **Street Concern:** Analysts are fatigued by recurring credit shocks (Legacy Toll in Q2, MFI in Q3). Management responded by providing granular internal P&L data for every business line, proving that 94% of the bank is highly profitable and the MFI stress is isolated. * **Watchpoint:** Monitoring the "Peak MFI Credit Cost" in Q4 FY25; any spillover into the Credit Card or PL books (currently stable) would break the long-term compounding thesis.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	14.4%	↓	↓	□	Growth moderated due to MFI book reduction and higher liquidity buffers.
NIM (AUM basis %)	6.04%	↓	↓	↓	14 bps QoQ compression: 6bps from MFI de-growth, 5bps from Wholesale mix.
Cost of Funds %	6.49%	↑	↑	□	Marginal 3 bps QoQ rise due to tight liquidity; Cost of Deposits stable at 6.38%.
Cost of Deposits %	6.38%	→	→	□	Stable over 3 quarters despite industry-wide deposit wars.
CASA Ratio (period end %)	47.7%	↑	↓	□	Improved from 46.8% YoY; slight seasonal dip from 48.9% QoQ.
CASA Ratio (avg %)	46.9%	↑	↑	□	Daily average basis shows high quality; improved 127 bps YoY.
Credit-Deposit Ratio %	95.7%	↓	↓	□	Significant improvement from 107% in Mar-23; incremental CD ratio is 76.4%.
Loans Growth (% YoY)	22.0%	↓	→	□	Reached □2,31,074 Cr; driven by Mortgages, Vehicles, and Business Banking.
Deposits Growth (% YoY)	29.8%	↓	→	□	Reached □2,36,878 Cr; Retail deposits grew 29.6% YoY.
GNPA %	1.94%	↓	↑	□	Ex-MFI, GNPA is 1.81% (improved 7 bps QoQ). Total bank GNPA stable < 2%.
NNPA %	0.52%	↓	→	□	Maintained low at 0.52% despite MFI stress.
Slippage Ratio %	3.86%*	↑	↑	□	Gross slippages □2,192 Cr; MFI contributed □143 Cr to the sequential delta.
Credit Cost (% funded assets)	2.3%	↑	↓	□	Excl. MFI, credit cost is 1.8%; management expects MFI peak in Q4.
Collection Efficiency %	99.5%	→	→	□	Ex-MFI stable at 99.5%; MFI CE bounced back to 98.6% in Dec from Oct lows.
Capital Adequacy / CET1 %	13.68%	↓	↓	□	Post-merger CET1 includes 25 bps benefit; remains well above 12.5% guide.
PAT (□Cr)	339	↓ 53%	↑ 68%	□	Impacted by □315 Cr MFI contingency buffer and de-growth in high-yield assets.
Fee Income Growth %	19.6%	↓	↑	□	Reached □1,757 Cr; 92% from granular retail products.

**Annualized based on 2,192 Cr gross slippages.*

2B. SEGMENT BREAKDOWN

Segment	Loans (□ Cr)	YoY Growth	GNPA	Trend	vs Co. Avg	Key Development
Home Loan	26,295	24.5%	0.74%	□	Outperform	Anchor for PSL; 28% of total book is mortgage-backed.
Vehicle Loans	25,209	38.5%	1.75%	□	Outperform	Strong momentum in 2-wheelers; SMA stable at 1.15%.
Credit Card	6,918	39.9%	1.91%	□	In-line	Reached PPOP break-even; GNPA improved from 1.95% QoQ.
Micro-Finance Loans (MFI)	10,997	-19.3%	4.45%	□	Underperf.	Deliberate de-growth; credit cost hit 8% for 9M FY25.
Business Banking (MSME)	9,049	35.1%	1.17%	□	In-line	High-quality working capital financing; SMA 1+2 stable at 1.15%.
Corporate Loans	39,389	28.9%	1.13%	□	In-line	Zero new NPAs in corporate book post-merger; non-infra focused.
Infrastructure	2,546	-15.0%	25.0%	□	Legacy	Down to 1.1% of total book; Mumbai Toll account now 100% provided.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	ROA / ROE	1.9-2.0% ROA and 17-18% ROE by FY29.	**HIGH RISK.** Needs PAT to grow at ~60% CAGR from FY25-29 base.	Delayed (FY25)	High
Guidance	Credit Cost	Peak MFI stress in Q4 FY25; tapering thereafter.	Needs MFI SMA (4.56%) to convert to NPA/Recovery without further spillover.	Met (Ex-MFI)	Medium
Guidance	Opex Growth	13% Opex growth for FY26 (vs 18% current).	Feasible via slowing branch expansion (10% growth) vs book growth (20%).	Improving	Medium
Guidance	Loan / Deposit Growth	~20% Loans / ~24% Deposits CAGR.	**ON TRACK.** Current run rates are 22% and 30% respectively.	Achieved	Low
Strategy	Liability Break-even	Liability business to reach 0% loss by FY29/30.	Requires loss to reduce from 1.3% of deposits to 0% over 16 quarters.	On Track	Low
Strategy	CGFMU Coverage	75%+ of MFI book to be insured.	Currently at 58%; management continues insuring all new incremental disbursals.	On Track	Low
Macro	MFI Normalization	Industry recovery by H2 FY26.	External dependency; requires regulatory/political stability in states like Karnataka.	New	High
Balance	High-Cost Legacy Runoff	Retire □6,682 Cr of 8.8% bonds by FY26.	□1,855 Cr maturing in Q4 FY25; will immediately boost NIM by ~5-10 bps.	Achieved (Phase 1)	Low

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	5.0	Gao Zhixuan / Schonfeld	MFI Outlook	Financials	"The SMA-1 plus 2 seems to have increased sequentially more than what we have seen in some peers... credit cost for FY25?"	Management stated MFI credit costs for 9M hit 8% and will likely peak in Q4 FY25 before tapering every quarter in FY26. This confirms FY25 will be a "lost year" for profitability, but sets a clear recovery baseline for FY26.	None	4.0	Clear peak stated
2	4.5	Gao Zhixuan / Schonfeld	FY26 Revenue	Management Commentary	"14-odd percent revenue growth estimate for FY 26... margins and loan growth?"	Management expects 20% loan growth but 14-15% income growth due to the de-growth of high-yield MFI and higher wholesale mix. Investors must model a "margin reset" in FY26 as the bank prioritizes asset quality over yield.	None	4.0	Prudent walk-back
3	3.5	Jai Mundra / ICICI Sec	Product Cross-sell	Business Overview	"Any other loans that we offer to this (MFI) customer... PL or 2-wheeler?"	Management clarified they do not cross-sell many other products to MFI borrowers, keeping it a pure rural	None	5.0	High clarity

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						MFI play. This limits the risk of contagion to the rest of the retail book.			
4	4.0	Jai Mundra / ICICI Sec	MFI Provisions	Financials	"Still have INR300 crores provisioning... against SMA-1 plus SMA-2?"	Management confirmed that between the NPA and SMA book, they carry a cumulative provision of 70%. This aggressive provisioning policy reduces the risk of future "negative surprises" from the existing stressed pool.	None	5.0	Strong buffer
5	4.0	Jai Mundra / ICICI Sec	MFI Guardrails	Management Commentary	"Tighter guardrails from April 1... factoring that into MFI peaking in Q4?"	Management is factoring in current collection trends and assumes slight improvement, while following all ecosystem lender-count rules. This implies Q4 reflects the worst-case scenario under the new regulatory regime.	None	3.5	Trend-based guide
6	4.5	Jai Mundra / ICICI Sec	Regional Risk	Management Commentary	"Assessment of the current situation in	Karnataka represents 9% of the	Specific impact of	3.0	Watchful/ Neutral

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					the state of Karnataka?"	MFI portfolio; management is "quite watchful" following recent government interventions. This regional concentration remains a key variable for Q4 credit costs.	govt actions		
7	3.5	Jai Mundra / ICICI Sec	Consumer Credit	Business Overview	"Consumer loan growth... come down to 10% Y-o-Y... stabilizing here?"	Management is not concerned with market share and is comfortable with current levels as they focus on high-quality NTB (New to Bank) sourcing. Slower growth in unsecured PL is a positive for the risk profile.	None	4.0	Growth moderation confirmed
8	5.0	Jai Mundra / ICICI Sec	ROA Moat	Financials	"Assume cost-to-income at 65%, what ROA would you expect?"	Management walked through a math model showing a path to 2% ROA as liability losses (1.3%) go to zero and Card losses (0.11%) turn to profits. This provides the fundamental "why" for the	None	4.5	Math-backed vision

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						thesis: the core engine is a 2% ROA machine masked by setup costs.			
9	4.0	Piran Engineer / CLSA	3-Lender Rule	Business Overview	"3-member rule coming up... proactively moved to that?"	Management is following current ecosystem rules but using proprietary scorecards with extra parameters beyond just lender counts. This suggests they are relying on tech over blunt regulatory rules to filter risk.	None	4.0	Tech-led risk mgmt
10	3.0	Piran Engineer / CLSA	Household Debt	Business Overview	"Do you also track the entire household debt?"	Management attempts to understand household debt as part of appraisal, though data accuracy in rural households is limited to "best estimates." This remains a systemic risk for the MFI sector.	Data precision	3.0	Vague/ Consistent
11	4.0	Rohan Mandora / Equirus	Cost Allocation	Financials	"Opex linked to head office... not allocable to certain business...	Management confirmed all costs, including IT and Corporate Center, are	None	5.0	Fully loaded disclosure

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					captured here?"	fully allocated into the segment P&Ls on a "fully loaded" basis. This ensures the segment loss disclosures are honest and not hiding costs in a corporate bucket.			
12	3.5	Rohan Mandora / Equirus	Deposit Sourcing	Business Overview	"Mix of new to bank customers on deposits vis-a-vis organic growth?"	The bank is still "zero-based," so the vast majority of growth is from NTB customers attracted by digital journeys. The "brand pull" is the primary driver, not just cross-selling to existing borrowers.	Exact NTB %	3.5	Directional
13	4.0	Pritesh Bumb / DAM Cap	2-Wheeler Stress	Business Overview	"Industry seeing some uptick in 30-plus DPD... what is our sense?"	Management is "very watchful" but noted the book has been stable for 15 years through cycles. No immediate stress seen in their portfolio despite industry-wide noise.	None	4.0	Portfolio stability claim
14	4.0		CGFMU Recovery	Financials	"How much money back	Tranche of claims will	None	4.5	Specific timeline

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		Piran Engineer / CLSA			from CGFMU... amount we get back?"	start in FY27 for loans sourced from Jan 2024; recovery can be up to 70% of credit losses. This creates a "hidden asset" or a provisioning write-back story for FY27.			
15	4.5	Piran Engineer / CLSA	Credit Cards	Business Overview	"NPA is stable, SMA 1 and 2 has improved... comments?"	Credit Card SMA 1+2 improved to 1.32% (from 1.88% in Q1), and GNPA fell to 1.91%. This contradicts the industry narrative of CC stress, validating the bank's "Prime-only" sourcing strategy.	None	5.0	Outperformance validated
16	4.5	Anurag Mantry / Oxbow	Core Credit Cost	Financials	"Credit cost ex MFI... 1.7-1.9% trajectory... see potential for more increase?"	Management expects the ex-MFI credit cost to remain range-bound (1.8%-1.9%) with no "spillover" seen from rural to urban credit. This provides a floor for modeling the "normalized" earnings power of the bank.	None	4.5	Range-bound guide

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17	4.0	Anand Dama / Emkay	Opex Leverage	Financials	"Opex growth down to 13%... 3 to 4 key drivers?"	Drivers include slower branch growth (10% vs 20% book growth), tech front-loading completion, and reducing employee hiring pace. This is the critical "lever" for ROE expansion over the next 24 months.	None	4.0	Specific levers
18	4.0	Anand Dama / Emkay	Growth vs Efficiency	Management Commentary	"Growth could be sub-20%... to some extent will contribute to lower opex?"	Management will not slow growth to hit cost targets; they expect 20% loan growth and 24% deposit growth. Efficiency will come from "operating leverage," not "business contraction."	None	4.0	Growth-led leverage

PATTERN FLAGS & SENTIMENT * **Decoupling MFI from Retail:** A recurring theme was analysts trying to find "leaks" from the MFI stress into the urban PL/Card books. Management was exceptionally firm (and backed by data) that the urban books are actually *improving* (CC SMA down to 1.32%). This posture shifts the focus from "systemic risk" to "cyclical sector risk," which is a major positive for long-term sentiment. * **Operating Leverage Skepticism:** Analysts remain skeptical about the bank's high C:I ratio. Management responded by providing the "J-curve" logic for Liabilities and Cards, showing Liability losses narrowing from 4.2% to 1.3%. This moved the needle from "inefficiency" to "investment," though analysts will want to see the 13% opex growth target hit in Q1 FY26. * **Analyst Sentiment Verdict:** Analysts were cautiously optimistic on the liability franchise but remain "show-me" on the bottom line. The level of friction was highest around the MFI peak and the FY25 guidance walk-back. Management's credibility improved due to the granular segment disclosures, which were seen as a "coming of age" for the bank's transparency. The unresolved issue remains the Karnataka MFI situation, which could still delay the "peak" beyond Q4.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|--------------------------------------|-------------------|-----------------|----------------| | FY25 Profitability | "On Track"

(Jan 2024) | "Delayed" (PPT Annexure) | Formal admission that ROA/ROE targets for FY25 will not be met. | Thesis is now an FY27 story, not FY25. | | MFI Peak | Q3 was expected to stabilize | Q4 is now the "Peak" | Stress lasted one quarter longer than initially anticipated. | Prolonged earnings drag. | | Opex Growth | Growing to build | Targeting 13% next year | First time a hard number (13%) was given for opex moderation. | Execution risk on cost-cutting. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
MFI GNPA	2.52%	4.45%	↓
MFI SMA 1+2	2.54%	4.56%	↓
NIM (Quarterly)	6.22% (9M: 6.18%)	6.04% (9M: 6.14%)	↓
Credit Card SMA 1+2	1.69%	1.32%	↑
Liability Business Loss	1.7% of Avg Deposits (FY24)	1.3% of Avg Deposits (9M25)	↑
CD Ratio	97.7%	95.7%	↑
Legacy High-Cost Bonds	₹7,082 Cr	₹6,068 Cr	↑
MFI CGFMU Coverage	50%	58%	↑
FY25 Guidance Status	"On Track"	"Delayed" (for ROA/ROE)	↓
Net Worth	₹36,891 Cr	₹37,801 Cr (incl. ₹618Cr merger)	↑
Digital App Ranking	N/A	#1 Mobile App in India	↑