IDFC First Bank Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Miss (Bottom-line) / Beat (Core Operating Metrics) **One-line:** The long-term thesis is reinforced by a massive capital injection and accelerating operating leverage, even as cyclical microfinance (MFI) stress delays the 1.0% ROA milestone by 12 months.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	PAT of □304 Cr missed consensus; MFI credit cost (10.5% for FY25) overwhelmed core PPOP.	□
Earnings Quality	High (Core driven)	Ex-MFI core operating profit grew 30.6% YoY in FY25; Fee income is 92% retail-granular.	□
Guidance Confidence	Strong	Management provided a hard 12-13% Opex growth target for FY26 vs 20%+ loan growth.	□
Management Credibility	Strong	Unprecedented transparency in segment-wise profitability; front-loading MFI pain.	□
Business Quality Signal	Improving	Retail deposits now 79% of mix; CD ratio down to 93.9% from 137% at merger.	□
Key Q&A Exchange	Q# 8 Path to 2% ROA	Mgmt detailed how segment losses in Cards/Liabilities narrowing converts to ROA.	□
The Street's Primary Anxiety	MFI Spillover & Opex	Fear of MFI contagion to PL; Mgmt proved PL/Card SMA-1+2 actually improved.	□
Capital Cycle Stage	Investment / Harvesting	□7,500 Cr CCPS raise completes the "bulletproof" balance sheet phase.	□
Margin / Return Ratio Trajectory	Deteriorating (Short-term)	NIM compressed 9 bps QoQ to 5.95% due to MFI de-growth and liquidity drag.	□
Pricing Power	Expanding	Cutting SA rates from 7.25% to 5% while growing deposits 25% YoY.	□
FCF Conversion & Quality	Strong	LCR at 117% and CD ratio improvement indicate high liquidity quality.	□
Competitive Moat Signals	Widening	#1 Ranked Mobile App in India (Forrester); FASTag market share at 37%.	□
Balance Sheet Strength	Strong	Post-CCPS CRAR will be 18.20%; CET-1 at 15.89% (calculated on Mar-25).	□
Working Capital Efficiency	Improving	Incremental CD ratio of 76.1% over the last 12 months.	□
Mgmt Guidance Track Record	Mixed	Consistently meets volume goals; profitability timelines delayed by credit cycles.	□
Key Vulnerability / Red Flag	MFI Regional Concentration	Karnataka MFI stress remains a variable; SMA-1+2 for MFI at 5.10%.	□
Management Tone	Candid & Long-term	Admitted FY25 didn't meet internal expectations but focused on "building the engine."	□

Sentiment: □**Positive**

Key Takeaways (Positives & Negatives): * **Positives:** The bank is winning the "Deposit War" without paying the highest price; retail deposits grew 26% YoY, and the bank is now aggressively cutting rates (SA and FD) to boost future NIMs. Operating leverage is finally visible as Opex growth slowed to 12.2% in Q4 (vs 20.4% loan growth). The credit card business, often viewed as a "cash burn" segment, reached operational break-even in just 4 years with a GNPA of only 1.68%. * **Negatives:** MFI stress is deeper than anticipated, with FY25 MFI credit costs hitting 10.5%. While SMA-0 (early stress) improved significantly (down 45% QoQ), the segment remains a drag on current earnings and NIMs (9 bps QoQ compression). * **Street Concern:** Analysts are skeptical of the high Cost-to-Income (C:I) ratio. Management countered with internal segment data showing that as the "Liability" and "Card" businesses scale toward zero-loss/profit, the bank naturally transitions to a 2% ROA model. * **Watchpoint:** Monitoring the 13% Opex growth target for Q1 FY26; hitting this while maintaining 20% loan growth is the primary re-rating trigger for the bank's multiple.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	9.8%	↓	↓	□	Moderated due to MFI book reduction and lower yields on wholesale mix.
NIM (AUM basis %)	5.95%	↓	↓	↓	9 bps QoQ compression; largely attributed to the reduction in MFI book.
Cost of Funds %	6.51%	↑	↑	□	Marginal 2 bps rise QoQ; expected to drop as new rate cuts take effect.
Cost of Deposits %	6.38%	→	→	□	Stable for 3 quarters; aggressive cuts in FD and SA rates announced post-quarter.
CASA Ratio (period end %)	46.9%	↓	↓	□	Slight dip from 47.7% in Dec-24; daily average CASA stable at 46.5%.
CASA Ratio (avg %)	46.5%	↑	↓	□	Daily average basis shows high quality; grew 60 bps YoY.
Credit-Deposit Ratio %	93.9%	↓	↓	□	Improved from 98.4% YoY; incremental CD ratio for the year was only 76.1%.
Loans Growth (% YoY)	20.4%	↓	→	□	Reached □2,41,926 Cr; led by Mortgages, Vehicles, and Business Banking.
Deposits Growth (% YoY)	25.2%	↓	→	□	Reached □2,42,543 Cr; Retail deposits grew 26.4% YoY to □1,91,268 Cr.
GNPA %	1.87%	↓	↓	□	Ex-MFI, GNPA improved to 1.63% (from 1.81% QoQ). Total bank GNPA < 2%.
NNPA %	0.53%	↓	→	□	Maintained at historical lows; PCR improved 347 bps YoY to 72.3%.
Slippage Ratio %	3.60%*	→	↓	□	Gross slippages □2,175 Cr (down □17 Cr QoQ). Ex-MFI slippages down □152 Cr QoQ.
Credit Cost (% funded assets)	2.46%	↑	↑	□	FY25 total; Ex-MFI credit cost is 1.76% (improved from 1.82% in Q3 to 1.73% Q4).
Collection Efficiency %	99.5%	→	→	□	Ex-MFI stable at 99.5%; MFI CE improved to 99.2% in March 2025.
Capital Adequacy / CET1 %	13.17%	↓	↓	□	Post-raise CET-1 calculated at ~16% (on Mar-25 base); removes growth hurdles.
PAT (□Cr)	304	↓ 58%	↓ 10%	□	Impacted by MFI provisions; FY25 PAT of □1,525 Cr vs □2,957 Cr YoY.
Fee Income Growth %	5.7%	↓	↓	□	Q4 growth slowed due to lower disbursements; retail fee is 92% of total.
**Annualized based on 2,175 Cr gross slippages.*					

2B. SEGMENT BREAKDOWN

Segment	Loans (□ Cr)	YoY Growth	GNPA	Trend	vs Co. Avg	Key Development
Home Loan	27,191	21.8%	0.70%	□	Outperform	Anchor product; 30+ DPD at 0.68% vs 3.40% industry average.
Vehicle Loans	26,303	26.3%	1.77%	□	Outperform	Two-wheeler 30+ DPD at 2.61% vs 5.50% industry; Car loan GNPA only 1.21%.
Credit Card	7,517	35.5%	1.68%	□	In-line	Operational break-even reached; SMA-1+2 improved to 1.53% from 1.88% (Jun-24).
Micro-Finance Loans (MFI)	9,571	-28.3%	7.71%	□	Underperf.	Deliberate de-growth; SMA-0 pool declined 45% QoQ indicating peak stress reached.
Business Banking (MSME)	9,757	31.8%	1.15%	□	In-line	High-quality secured working capital; SMA-1+2 stable at 1.07%.
Corporate Loans	42,010	33.2%	1.39%	□	In-line	Non-infra focus; top 20 single borrower concentration down to 4%.
Infrastructure	2,348	-17.1%	24.76%	□	Legacy	Down to 0.97% of total loan book; negligible impact on incremental performance.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	NIM to compress ~10 bps in FY26 due to rate cuts/ mix.	Needs average NII growth of ~15% to offset compression.	Missed (FY25 NIM compression was 23 bps).	Medium
Guidance	Margins	ROE target of 15-16% by FY28/29.	Needs PAT CAGR of 50% + from FY25 base.	Delayed (FY25 was 4.27% ROE).	High
Guidance	Volume / Capacity	~20% Loan Growth / 22-23% Deposit Growth.	On track; FY25 Loan growth was 20.4%.	Met consistently.	Low
Guidance	Capex Plan	Branch network to grow ~10% annually (vs 25% historically).	Feasible; 31 branches opened in Q4 FY25.	Met.	Low
Strategy	Operating Leverage	Opex growth of 12-13% for FY26.	**CRITICAL.** Requires absolute cost control while scaling.	Improving (Q4 FY25 Opex growth was 12.2%).	Medium
Strategy	MFI Concentration	Reduce MFI to 3.0-3.5% of funded assets.	Currently 4.0%; on track via de-growth strategy.	Met.	Low
Macro	MFI Normalization	MFI credit stress to peak in Q4 FY25 and taper.	SMA-0 data (□152 Cr vs □275 Cr) supports this.	New.	Medium
Balance	High-Cost Legacy Runoff	Retiring □4,495 Cr of 8.76% legacy bonds in FY26.	Fixed schedule; will provide structural NIM support.	Met.	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)	Verdi
1	4.5	Rikin Shah / IIFL	MFI Guidelines	Business Overview	"Post the implementation of new microfinance guardrails, would you be able to provide some color on how the business trends have changed on the ground?"	Management implemented guardrails in February, leading to reduced disbursements (□760 Cr) and expects no further regulatory impact. Lower MFI volumes will continue to drag NII but de-risk the balance sheet.	None	4.0	Proa imple
2	5.0	Zhixuan Gao / Schonfeld	SA Rates	Financials	"What's our blended SA rate now... do we expect a decent amount of SA rate cut in the coming months?"	Blended SA rate is 5.9% currently, but management plans sharp cuts in FD and SA rates (moving peak FD rates from 7.9% to ~7.2%). This aggressive repricing is the primary lever to protect NIMs during the upcoming rate cut cycle.	None	5.0	Clear pivot
3	4.5	Zhixuan Gao / Schonfeld	Credit Costs	Financials	"How should we think about credit costs for FY26... are we going to utilize the □300 crores MFI provision?"	Management guided for a ~50 bps reduction in total credit cost for FY26 (from 2.46% to ~1.9%) as MFI stress peaks. Tapering credit costs will be the biggest contributor to PAT growth in FY26.	None	4.5	Spec guide
4	4.0	Kunal Shah / Citigroup	Loan Growth	Management Commentary	"Post the capital raise...	Management will maintain a	None	4.0	Grow restra

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					would we see some lag up on the growth side?"	20% growth trajectory rather than accelerating, prioritizing credit quality over bulk growth. This signals a focus on ROE normalization rather than a market-share-at-any-cost strategy.			
5	4.5	Kunal Shah / Citigroup	Segment Stress	Financials	"Anything to read into some rise in the 30-plus in consumer durables... and provisioning coverage on the MFI portfolio?"	Management noted 30+ DPD rises are marginal/festive and MFI coverage (NPA+SMA) is 72%. Robust provisioning on stressed assets reduces the risk of tail-end earnings shocks in FY26.	None	5.0	High
6	4.0	Nitin Aggarwal / Motilal Oswal	Credit Cards	Business Overview	"How is the revolve rate there and what ROA numbers are we looking at now over the next 2 years?"	The Credit Card business reached operational break-even in 4 years (vs 6-7 industry avg) and is expected to be highly profitable by FY28. This proves the "digital-only" sourcing model is working and will be a major ROA driver.	Specific ROA number	3.5	Trend valida
7	4.0	Nitin Aggarwal / Motilal Oswal	Opex Leverage	Financials	"Which segments will drive that decline (in C:I ratio)?"	Drivers are Credit Cards (100% to 75% C:I) and Liabilities	None	4.5	Segre driver

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						(171% to 140% C:I) as they achieve scale. Operating leverage is now a segment-by-segment execution story rather than a vague bank-level promise.			
8	4.5	Anand Swaminathan / BofA	Capital Structure	Capex and Allocation	"What was the thought process behind using the CCPS route... any other riders?"	CCPS was chosen to tie conversion to stock price (□60+ for 45 days) with an 8% coupon. This ensures the bank is "bulletproof" against macro shocks while minimizing immediate equity dilution until stock performance warrants it.	None	5.0	Tactic
9	4.0	Anand Swaminathan / BofA	Deposit Beta	Financials	"Will it continue for another 50 to 70 bps cut... what kind of deposit rate beta should we assume?"	Management is cutting FD rates sharply (70-80 bps) to align with large peers and focusing on "customer experience" over "price" to retain CASA. This transition from "price-taker" to "price-setter" marks a significant maturity in the liability franchise.	Exact beta number	3.0	Struc
10	3.5	Piran Engineer / CLSA	MFI Write-offs	Financials	"What was the write-off we did this quarter	Management didn't specify the exact write-off value but	Exact □Cr value	2.5	Hedg value

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					versus last quarter?"	noted MFI credit cost for the year was 10.5%. This high number suggests they are aggressively cleaning the book to enter FY26 with a lower NPA base.			
11	4.5	Mahrukh Adajania / Nuvama	Opex Sustainability	Management Commentary	"How confident are you of 12%, 13% (Opex growth)?"	Management is using transformational projects (e.g., reducing call volume from 11L to 8L via bots) to cut costs without "cutting muscle." This structural efficiency is the most credible path to the ROE expansion thesis.	None	4.5	Math strate
12	4.0	Jai Mundra / ICICI Sec	Fixed vs Floating	Financials	"Proportion of fixed rate book and floating rate loan book?"	61% of the book is fixed rate, protecting yields as repo rates drop, while liabilities (largely short-term TDs) will reprice faster. This asset-liability mix is a positive setup for NIM protection in a rate-cut environment.	None	5.0	Quar

PATTERN FLAGS & SENTIMENT * **MFI Stress "Cresting":** Analysts repeatedly probed the MFI situation (Q1, Q5, Q10). Management's posture was transparent but cautious, relying on the SMA-0 data (□152 Cr vs □275 Cr) to prove the cycle is turning. The consensus seems to be that while the bottom-line is hit now, the "peak" is likely behind us. * **Operating Leverage Pivot:** A clear shift in analyst focus from "how will you grow" to "how will you be profitable." Management’s hard target of 12-13% Opex growth (Q11, Q7) was the most discussed metric. This remains the biggest point of skepticism, but Q4’s 12.2% print gave management significant credibility. * **Deposit Pricing Power:** Analysts were surprised by the aggressive rate cut plans (Q2, Q9). Management's confidence in cutting SA rates while maintaining 25% deposit growth suggests they believe the brand "IDFC FIRST" now has enough pull to move away from being a "high-interest-only" bank.

Analyst Sentiment Verdict: Analysts were skeptical of the PAT miss but impressed by the core franchise's resilience. Management's credibility was bolstered by the capital raise (removing growth overhangs) and the specific 13% Opex growth guidance. The greatest unresolved risk remains a potential "second wave" of MFI stress in Karnataka/rural markets, which could delay the FY26 recovery.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY25 context)	This Quarter (Q4 FY25)	Direction
MFI Stress Indicator (SMA-0)	□275 Cr	□152 Cr	↑ Improving
Capital Adequacy (CRAR)	16.11%	18.20% (Post-conversion)	↑ Improving
Opex Growth (YoY)	16.1%	12.2%	↑ Improving
CD Ratio	95.7%	93.9%	↑ Improving
MFI CGFMU Coverage	58%	66%	↑ Improving
Credit Card 30+ DPD	3.69%	3.54%	↑ Improving
Branch Expansion Pace	~20% CAGR historically	10% Guidance for FY26	↑ Efficiency
SA Rate (Peak Slab)	7.25%	5.00%	↑ NIM Lever
Credit Cost (Ex-MFI)	1.82% (Q3)	1.73% (Q4)	↑ Improving
ROA (Annualized)	0.44%	0.35% (Q4 PAT basis)	↓ Deteriorating
Dividend	N/A	□0.25 / share proposed	↑ Milestone

Note: CFO-to-PAT ratio analysis for the bank is inherently volatile due to the nature of deposits/advances as "working capital." The primary lever for the current divergence (High Liquidity/Lower PAT) is the deliberate reduction in high-yield MFI assets and the high liquidity buffer (LCR 117%) maintained during the CCPS raise.
