IDFC First Bank Ltd — Oct 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat (Core PPOP) / Miss (Reported PAT) **One-line:** The long-term thesis is reinforced as IDFC FIRST successfully navigates the trough of its interest rate cycle and the tail-end of MFI stress, with structural operating leverage now the primary driver of future ROE expansion.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline / Core Beat	Core Operating Profit (ex-trading) grew 4.6% QoQ despite NIM compression.	□
Earnings Quality	High (Core driven)	Reported PAT drop QoQ is purely due to lower trading gains (□56 Cr vs □495 Cr).	□
Guidance Confidence	Strong	Re-affirmed NIM claw-back to 5.8% by Q4 and MFI bottoming by year-end.	□
Management Credibility	Strong	Transparent disclosure of product-level SMA/ NPA trends for 5 straight quarters.	□
Business Quality Signal	Improving	CASA ratio crossed 50% threshold; Retailization of deposits now at 79%.	□
Key Q&A Exchange	Q#4 & Q#5: The "Indradhanush" (Rainbow) Lever	Mgmt is intentionally holding SA rates high to fix CD ratio before cutting.	□
The Street's Primary Anxiety	NIM Compression & MFI Run-off	Fear of yield erosion; Mgmt countered with TD repricing lag (12 months).	□
Capital Cycle Stage	Harvesting / Consolidation	Post-CCPS conversion, CRAR at 16.82% provides 3+ years of growth runway.	□
Margin / Return Ratio Trajectory	Troughing	NIM at 5.59% is likely the cycle bottom; ROA (0.45%) impacted by MFI drag.	□
Pricing Power	Expanding	Successfully cut FD rates (100bps) while maintaining 20%+ deposit growth.	□
FCF Conversion & Quality	Strong	LCR at 115%; Average CASA growth (32%) outstripping end-of-period growth.	□
Competitive Moat Signals	Widening	#1 Rated Mobile App; 39% market share in FASTag toll value.	□
Balance Sheet Strength	Strong	Net NPA at 0.52%; Wholesale book concentration risk reduced by ~70%.	□
Working Capital Efficiency	Improving	Incremental CD ratio of 79.3% indicates disciplined growth.	□
Mgmt Guidance Track Record	Reliable	Opex growth (11.8% H1) consistently trails business growth (21.6%).	□
Key Vulnerability / Red Flag	MFI Concentration in Rural	While de-risking, MFI GNPA still sits at 7.76% (Gross).	□
Management Tone	Long-term Sanguine	Focus on "building it right" over "temporary joy" of immediate P&L gains.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The bank has reached a structural milestone with a **50.1% CASA ratio**, placing it in the elite tier of Indian private banks. Operating leverage is undeniable: H1 FY26 **Opex grew only 11.8% YoY** against **business growth of 21.6%**. The MFI portfolio, the primary source of recent volatility, has been de-risked to just **2.7% of funded assets** and is 77% covered by CGFMU insurance. * **Negatives:** Short-term profitability remains suppressed by a **NIM trough (5.59%)** caused by the timing mismatch between immediate asset repricing (repo cuts passed to customers) and the 12-month lag in term deposit repricing. * **Street Concern:** Analysts are focused on the lack of a Savings Account (SA) rate cut to boost NIM. **Management's Response:** They are intentionally deferring this "lever" to prioritize a structural fix of the Credit-Deposit (CD) ratio to the mid-80s first. * **Forward Watchpoint:** The "NIM Claw-back" in H2 FY26. If the 100bps cut in FD rates fails to lift NIM toward 5.8% by Q4, the 15% ROE trajectory will be delayed.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2 FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	6.8%	↓	↑	□	Core NII growth improving sequentially; Ex-MFI NII grew 13.3% YoY.
NIM (AUM basis %)	5.59%	↓ 59 bps	↓ 12 bps	↓	Troughing; impacted by repo-cut pass-through and MFI de-growth.
Cost of Funds %	6.23%	↑ (vs 5.1%)	↓ 19 bps	↑	Structurally improving as CASA share rises and high-cost bonds expire.
Cost of Deposits %	6.22%	↓ 15 bps	↓ 16 bps	↑	Repricing of Term Deposits (TD) started; H1 FY26 saw 100bps peak cut.
CASA Ratio (period end %)	50.1%	↑ 119 bps	↑ 208 bps	↑	Strategic priority reached; retail deposits now 79% of total customer deposits.
CASA Ratio (avg %)	48.6%	↑ 237 bps	↑ 281 bps	□	Daily average growth (32% YoY) reflects high-quality, granular inflow.
Credit-Deposit Ratio %	94.2%	↓ 170 bps	↑ 30 bps	↑	Incremental CD ratio for last 12m is 79.3%; target mid-80s.
Loans Growth (% YoY)	19.7%	→	↓	□	Total Advances at □2,66,579 Cr; Retail Finance grew 19.5%.
Deposits Growth (% YoY)	23.4%	→	→	□	Customer Deposits at □2,69,094 Cr; Retail deposits grew 21.4%.
GNPA %	1.86%	↓ 6 bps	↓ 11 bps	□	Improving; Ex-MFI GNPA stable at 1.69%.
NNPA %	0.52%	↑ 4 bps	↓ 3 bps	□	Near all-time lows; PCR remains strong at 72.2%.
Slippage Ratio %	3.39%*	↓	↓ 15 bps	□	*Ex-MFI slippage ratio improved sequentially. Total slippages down 9% QoQ.
Credit Cost (% funded assets)	2.24%	↑	↓ 45 bps	□	H1 blended cost at 2.45%; H2 guided lower to bring full year to ~2.05-2.1%.
Collection Efficiency %	99.5%	→	→	□	Stable ex-MFI; MFI CE improved to 99.1%.
Capital Adequacy / CET1 %	14.34% / 12.27%	↓	↓	□	Pro-forma post-CCPS conversion: CRAR 16.82% / Tier-I 14.75%.
PAT (□Cr)	352	↑ 75.6%	↓ 23.8%	□	Sequential drop due to lack of trading gains (□56 Cr vs □495 Cr).
Fee Income Growth %	13.2%	↓	↑	□	Granular; 91% from retail operations. Grew 6% QoQ.

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	GNPA (Gross)	Trend	vs Co. Avg	Key Development
Mortgages	59,068	14.7%	1.27%	□	Below	Blended HL/LAP; HL grew only 6% but LAP grew 23%. Asset quality stable.
Vehicle Loans	30,246	27.9%	1.72%	□	In-line	Strong growth; 2-wheeler and Car loans scaling with healthy underwriting.
Consumer Loans	34,464	21.8%	1.81%	□	In-line	Includes Personal Loans and Durables; SMA 1+2 stable at 0.83%.
Credit Cards	8,638	36.4%	1.99%	□	Above	Operational break-even achieved; Spends grew 36% YoY in H1.
Business Finance	86,784	31.5%	1.35%	□	Below	Driven by Business Banking (+30.8%) and Wholesale (+35.3%) regrowing phase.
Micro-finance (MFI)	7,306	-41.6%	7.76%	□	Laggard	Deliberate shrinkage; now 2.7% of book. SMA pool declined 67% from peak.
Infrastructure	2,422	↓	N/A	□	De-risking	Now <1% of total loan book; consistent rundown of legacy portfolio.

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%+ by Q4 FY26.	Needs TD repricing of ~□1.3 lakh Cr book at 60-100bps lower rates.	Missed (Timing lag)	Medium
Guidance	Margins	Credit Cost of 2.05% - 2.10% for FY26.	H1 at 2.45% implies H2 must run at ~1.7% credit cost.	On track (Ex-MFI)	High
Guidance	Volume / Capacity	Deposit growth of ~25% with ~10% branch growth.	High productivity needed; 1,041 branches currently yielding □258 Cr/branch.	Met (23% growth)	Low
Guidance	Capex Plan	Target Opex/Income of ~65% by FY27.	Needs Core Income to grow 20% while Opex stays <13%.	Improving (H1 Opex 11.8%)	Medium
Strategy	Capital Allocation	CCPS conversion to equity.	□7,500 Cr Tier-1 capital to be added post-merger formalities.	Met	Low
Strategy	Competitive Positioning	Universal Bank building (Wealth, Cash Mgmt).	Wealth AUM grew 28% to □55,000 Cr; scaling toward □2-3 lakh Cr.	Met	Low
Macro	Industry Headwinds	MFI crisis is "behind the bank."	CE stability at 99.1% and SMA pool reduction (34% QoQ) support this.	Improving	Medium
Balance	Debt / Leverage Target	CD Ratio to mid-80s; Repay legacy bonds.	Remaining □25,000 Cr of borrowings/bonds to be replaced by CASA/TD.	Met (Legacy bonds ↓ 92%)	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Akshay Jain / Autonomous	Margins	Financials	"Should we place Q4-FY26 margins to somewhere near the 6% number of Q4-FY25?"	Mgmt indicated NIM should definitely be upwards of 5.8% by Q4, even accounting for a potential repo cut. NIM is seen as bottoming this quarter; future upside comes from TD repricing tailwinds.	None	4.5	Specific target
2	5.0	Akshay Jain / Autonomous	Strategy	Management Commentary	"Is the Savings Account (SA) rate cut on the cards, which should also improve the NIMs?"	Mgmt confirmed this is a "lever" they can press any day, but are holding it back to fix the CD ratio and bond run-offs first. Prioritizing structural balance sheet strength (CD ratio in mid-80s) over immediate P&L "joy" is the strategic choice.	None	5.0	Strategic clarity
3	4.0	Akshay Jain / Autonomous	Asset Quality	Financials	"Any sectoral color on where the [non-MFI] slippages are coming from?"	Mgmt stated ex-MFI slippage ratio reduced to 3.39% and SMA positions improved, suggesting a downward trajectory in H2. Credit cost guidance of 2.05-2.1% remains achievable as SMA pools act as a feeder and are currently shrinking.	None	4.0	Reassuri
4	4.5		Returns	Financials	"Are we still looking at	Mgmt declined to pin a specific	Exact ROA number	3.5	Direction

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Param Subramanian / Investec			0.9% to 1% ROA by Q4?"	decimal point but confirmed sequential profitability improvement as credit costs drop and margins rise. ROA will benefit from the reversal of the "microfinance drag" which is now subsiding.			
5	5.0	Param Subramanian / Investec	Liability Strategy	Financials	"Why can we not use the [SA rate cut] lever... you would still be market share gaining?"	Mgmt explained that cutting SA rates prematurely would force a shift to more expensive Fixed Deposits (FDs) to fund growth and bond repayments. The bank is playing the "long game" to broad-base distribution before reducing pricing.	None	5.0	High-conviction strategy
6	4.0	Sameer Bhise / Dymon Asia	NIM Comparative	Financials	"Have we seen relatively slower decline in cost of funds [compared to peers]?"	Mgmt highlighted they chose to cut TD rates by 100bps instead of SA rates; while SA cuts give "instant benefits," the TD route takes 12 months for full results but is structurally more sustainable. The bank is intentionally building a "rainbow" of levers for the future.	None	4.5	Tactical trade-off
7	3.5						None	4.5	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Gao Zhixuan / Schonfeld	Vehicle Growth	Business Overview	"What's driving the 12% sequential growth in vehicle loans?"	Mgmt attributed the lift to market share gains in 2-wheelers and a late-quarter "pent-up demand" spike following GST-related announcements. The bank scaled its capability to handle 1 million loan applications per month via digital scorecards.			Capacity-led growt
8	4.0	Jai Mundhra / ICICI Securities	MFI Book	Business Overview	"Will this book keep running down? Or will it start growing?"	Mgmt expects the MFI book to stabilize/bottom by end-FY26 and begin growing in FY27 as industry lessons are "learned." They intend to keep MFI as a core part of the Agri/ PSL strategy but with tighter risk controls.	None	4.0	Cycle-depende
9	4.0	Jai Mundhra / ICICI Securities	MSME Risk	Business Overview	"How much sensitivity of the SME into export and particularly to US [re: Trump tariffs]?"	Mgmt analyzed the list of corporate exporters and found they are well-rated with domestic fallback options. Unsecured MSME (Business Installment Loans) is being tracked via 4.5% FEMI bounce rates, which remain stable.	Exact % exposure	3.5	Watchful stance
10	3.5		Stress Segments	Management Commentary	"Is there stress in	Mgmt gave a definitive "No,"	None	4.5	Confiden denial

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Farhaan Wadia / HDFC Sec			any other sector other than MFI?"	stating that across 25 business lines, while individual city/location scorecards may flicker, the net portfolio remains stable. Real-time digital monitoring of check bounces acts as an early warning system that is currently quiet.			

PATTERN FLAGS & SENTIMENT * **The "Indradhanush" (Rainbow) Defense:** Management's recurring theme is that they are sitting on unpressed levers (SA rate cuts). They successfully pivoted analyst anxiety about NIM into a discussion about long-term structural integrity. By choosing the "harder" path (TD cuts over SA cuts), they are signaling confidence in their brand's ability to attract deposits without over-relying on high rates. * **MFI Exit Certainty:** The tone regarding MFI has shifted from defensive to conclusive. The significant reduction in SMA pools (down 34-67%) and the 77% CGFMU coverage have largely silenced fears of a second-wave contagion in the rural book. * **Analyst Sentiment Verdict:** Analysts appeared cautiously satisfied. While the "timing mismatch" on NIM was a point of friction, Vaidyanathan's emphasis on "building it right" for the next 10 years rather than the next 10 days resonated. The credibility of the bank's digital underwriting (1 million loans/month) was a key positive offset to the margin compression. The greatest risk remains the speed of TD repricing, which analysts will monitor closely in Q3.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY26)	This Quarter (Q2 FY26)	Direction
CASA Ratio	48.0%	50.1%	↑ Improving
NIM (AUM)	5.71%	5.59%	↓ Deteriorating (Cycle Trough)
MFI Book %	3.3%	2.7%	↑ De-risking
MFI SMA 1+2	2.64%	1.76%	↑ Improving
Opex Growth	11.0% (YoY)	12.5% (YoY)	↓ Marginal Increase
Trading Gains	□495 Cr	□56 Cr	↓ Normalized
CCPS Status	Capital Raised	Approval/Formalities	↑ Tier-1 Strengthened
Management Tone	Cautious/Defensive	Optimized/Long-term	↑ Improving
Credit Cards	Pre-breakeven	Operational Break-even	↑ Scaled
CD Ratio	93.9%	94.2%	↓ Flat/Marginal Inflow

STOP HERE.