

BUY

TP: Rs 79 | ▲ 20%

IDFC FIRST BANK

| Banking

| 28 April 2025

Poised for higher profitability

- **PAT beat estimates, aided by higher non-interest income and lower operating expenses**
- **Asset quality on improving trajectory; return ratio expected to improve in near term**
- **Capital raise to aid business growth and operating leverage; maintain BUY with TP of Rs 79 set at 1.3x FY27E ABV**

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PAT beat estimates, aided by higher non-interest income and lower opex:

IDFCBK beat our PAT estimates by 7% to Rs 3.0bn in Q4FY25, mainly driven by 4% higher non-interest income and 2% lower operating expenses vs estimates. C/I ratio improved marginally to 73.4% (-31bps QoQ). Further, management expects C/I ratio to improve to 65% by FY27 (71.8% in FY25) via cost control.

Return ratio expected to improve: IDFCBK saw NIMs declining to 5.95% (-9bps QoQ) in Q4FY25, mainly on account of fall in MFI portfolio (-28% YoY) to 4% of total advances in Mar'25 (6.6% in Mar'25). Management expects NIMs to be impacted by 10bps in FY26 due to rate cuts; credit costs to decline to 1.85-1.9% in FY26 (2.6% in FY25). With portfolio growth expected at a healthy CAGR of ~19% during FY25-28E, cost efficiency likely to kick in, and credit cost expected to decline, return ratio will improve. Management expects RoA to rise to 1.0% in FY26 (0.5% in FY25).

Asset quality on improving trajectory: Asset quality improved with GNPA falling to 1.87% (-7bps QoQ) in Q4FY25. MFI portfolio accounted for 26% of the total gross slippages (Rs 21.8bn) in Q4FY25. In absolute terms, SMA1+2 pool in MFI book declined 2.7% QoQ and SMA 0 fell by 44.9% QoQ. IDFCBK has not utilised the MFI provision buffer of Rs 3.2bn in Q4FY25. Also, the insurance coverage for MFI book was 66% as of Mar'25 vs 58% as of Dec'24 (4% as of Jan'24).

Capital raise to aid business growth and operating leverage: IDFCBK approved preferential equity capital raise of Rs 75bn through CCPS at Rs 60/share. Of this, Rs 48.8bn will be raised from Currant Sea Investments B.V. (affiliate of Warburg Pincus LLC) and Rs 26.2bn from Platinum Invictus (wholly owned subsidiary of ADIA). This will augment the bank's capital cushion with pro-forma CET I of 16.5% (13.2% as of Mar'25), thereby providing growth capital and aid in operating leverage.

Maintain BUY: We expect credit growth at a CAGR of ~19% in FY25-FY28E, supported by expected capital infusion. Focus on operating efficiencies and early signs of AQ improvement would be key to improve RoA to 0.9-1.3% in FY26-FY27E. We maintain BUY and revise TP to Rs 79 (Rs 75 earlier), set at 1.3x FY27E ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IDFCBK IN/Rs 66
Market cap	US\$ 5.7bn
Free float	100%
3M ADV	US\$ 26.4mn
52wk high/low	Rs 86/Rs 52
Promoter/FPI/DII	0%/26%/19%

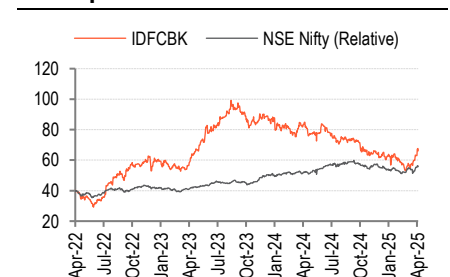
Source: NSE | Price as of 25 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	1,92,920	2,25,911	2,75,292
NII growth (%)	17.3	17.1	21.9
Adj. net profit (Rs mn)	15,249	34,841	58,471
EPS (Rs)	2.1	4.4	6.8
Consensus EPS (Rs)	2.2	4.4	6.8
P/E (x)	31.2	15.1	9.7
P/BV (x)	1.3	1.2	1.0
ROA (%)	0.5	0.9	1.3
ROE (%)	4.3	8.0	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Income Statement							
Interest Income	69,995	73,672	75,810	79,151	79,712	13.9	0.7
Income on investments	11,730	13,276	12,818	13,135	13,945	18.9	6.2
Int. on bal. with RBI & inter-bank funds & Others	467	938	942	1,144	472	1.1	(58.7)
Interest income	82,192	87,886	89,569	93,430	94,129	14.5	0.7
Interest expense	37,503	40,937	41,691	44,410	45,058	20.1	1.5
Net interest income	44,689	46,949	47,879	49,021	49,072	9.8	0.1
Growth YoY (%)	24.2	25.4	21.2	14.4	9.8		
Non-interest income	16,420	16,192	17,273	17,799	18,954	15.4	6.5
Growth YoY (%)	17.5	14.5	20.8	17.4	15.4		
Total income	61,109	63,141	65,152	66,819	68,026	11.3	1.8
Growth YoY (%)	22.4	22.4	21.1	15.1	11.3		
Staff expenses	13,280	13,374	14,241	14,203	15,282	15.1	7.6
Other operating expenses	31,190	30,943	31,292	35,026	34,628	11.0	(1.1)
Operating expenses	44,470	44,316	45,533	49,230	49,910	12.2	1.4
Pre-Provisioning Profit (PPoP)	16,639	18,825	19,619	17,589	18,116	8.88	3.0
Growth YoY (%)	6.8	25.5	29.9	12.6	8.9		
Provisions	7,223	9,944	17,319	13,379	14,505	100.8	8.4
Growth YoY (%)	49.7	108.8	227.8	104.3	100.8		
PBT	9,416	8,881	2,299	4,210	3,611	(61.6)	(14.2)
Tax	2,173	2,074	292	816	571	(73.7)	(30.1)
PAT	7,244	6,807	2,007	3,394	3,041	(58.0)	(10.4)
Growth YoY (%)	(9.8)	(11.0)	(73.3)	(52.6)	(58.0)		
Per Share							
FV (Rs)	10	10	10	10	10	0.0	0.0
EPS (Rs)	1.02	0.96	0.27	0.46	0.42	(58.8)	(8.7)
Book Value (Rs)	45.5	47.2	49.3	51.6	52.0	14.3	0.7

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

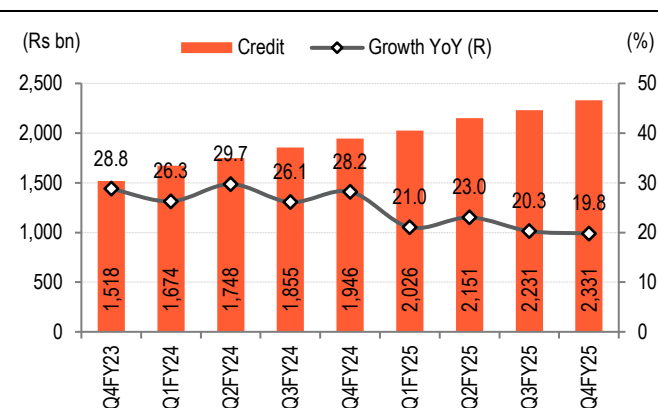
(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Deposits	20,05,763	20,96,663	22,36,067	23,68,778	25,20,653	25.7	6.4
Growth YoY (%)	38.7	35.8	30.6	29.8	25.7		
Advances	19,45,924	20,25,681	21,50,613	22,31,039	23,31,125	19.8	4.5
Growth YoY (%)	28.2	21.0	23.0	20.3	19.8		
Investment	7,47,104	7,36,242	7,63,283	8,10,331	8,07,155	8.0	-0.4
Equity	3,21,613	3,34,434	3,68,906	3,78,009	3,80,780	18.4	0.7
Assets	29,61,151	30,68,192	32,04,417	33,58,506	34,38,187	16.1	2.4
Growth YoY (%)	23.4	23.2	21.1	24.1	16.1		
Yield (%)							
Yield on Funds	12.20	12.23	11.96	11.94	11.60	(59bps)	(34bps)
Cost of Funds	6.26	6.38	6.28	6.42	6.28	2bps	(15bps)
Spread	5.94	5.85	5.68	5.52	5.33	(61bps)	(19bps)
Net Interest Margin (Cal)	6.63	6.53	6.39	6.27	6.05	(58bps)	(22bps)
Ratios (%)							
Other Income / Net Income	26.9	25.6	26.5	26.6	27.9	99bps	123bps
Cost to Income ratio	72.8	70.2	69.9	73.7	73.4	60bps	(31bps)
CASA ratio	47.2	46.6	48.9	47.7	46.9	(34bps)	(83bps)
C/D ratio	97.0	96.6	96.2	94.2	92.5	(454bps)	(170bps)
Investment to Assets	25.2	24.0	23.8	24.1	23.5	(175bps)	(65bps)
Assets Quality							
GNPA	37,184	39,042	41,952	43,993	44,336	19.2	0.78
NNPA	11,605	11,953	10,376	11,620	12,299	6.0	5.8
Provision	25,579	27,089	31,576	32,374	32,037	25.2	-1.0
GNPA (%)	1.88	1.90	1.92	1.94	1.87	(1bps)	(7bps)
NNPA (%)	0.60	0.59	0.48	0.52	0.53	(7bps)	1bps
Provision (%)	68.8	69.4	75.3	73.6	72.3	351bps	(129bps)
Slippages	0.73	0.85	1.00	1.02	0.97	25bps	(4bps)

Source: Company, BOBCAPS Research

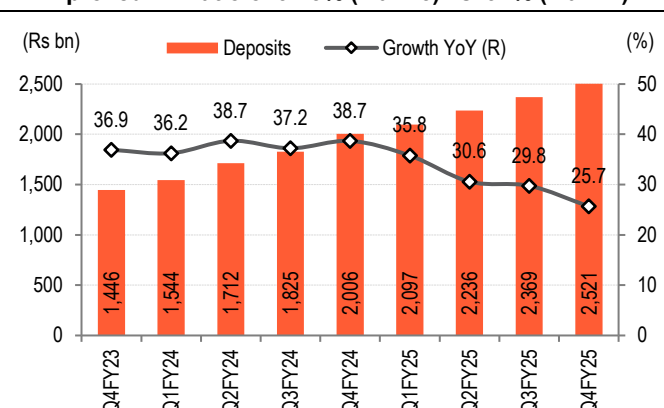
Fig 3 – Actual vs. Estimates

(Rs mn)	Q4FY25A	Q4FY25E	Actual vs. Estimates (%)
Loan	23,31,125	23,38,027	(0.3)
Deposits	25,20,653	25,11,215	0.4
Assets	34,38,187	35,66,993	(3.6)
NII	49,072	50,243	(2.3)
PPOP	18,116	17,414	4.0
Provision	14,505	13,707	5.8
PAT	3,041	2,835	7.2

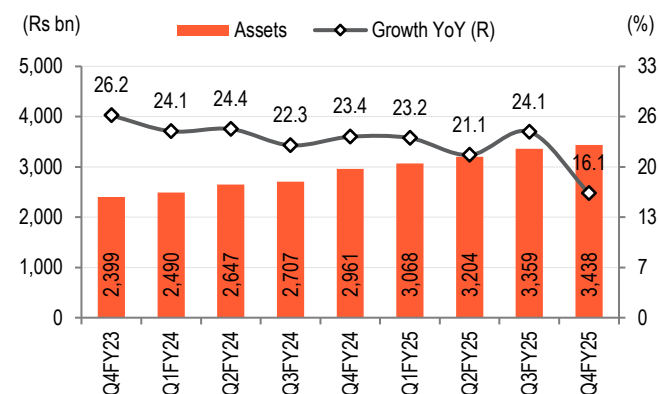
Source: Company, BOBCAPS Research

Fig 4 – Sustained Credit Growth

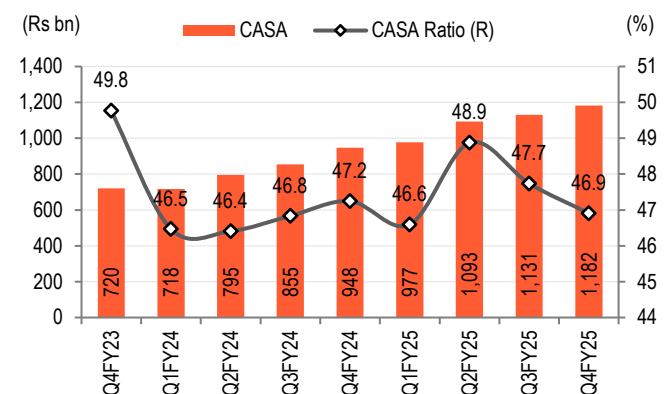
Source: Company, BOBCAPS Research

Fig 5 – Deposit continued to outpace loan growth resulting in improved CD ratio of 92.5% (Mar'25) vs. 97% (Mar'24)

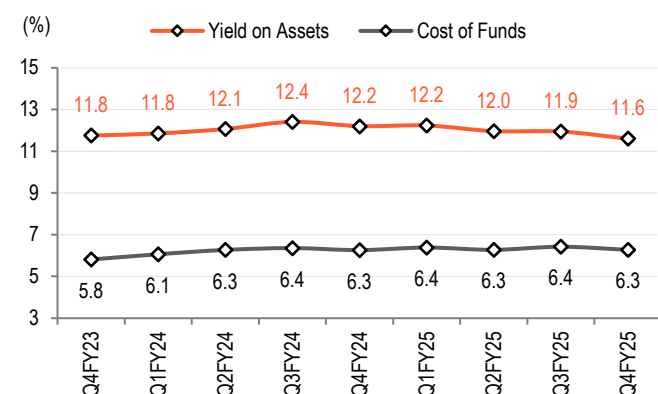
Source: Company, BOBCAPS Research

Fig 6 – Asset growth moderated in Q4FY25

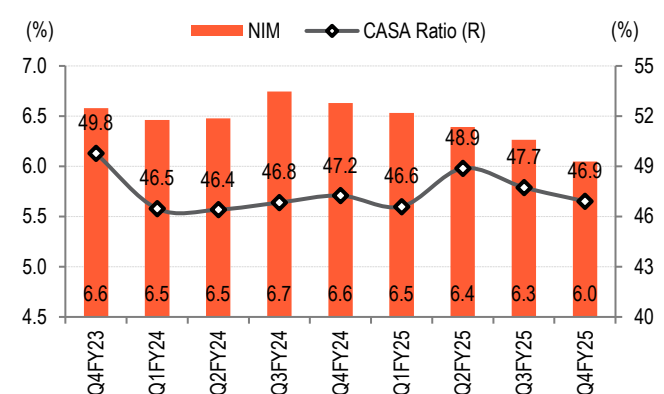
Source: Company, BOBCAPS Research

Fig 7 – CASA ratio decreased 83bps QoQ in Q4FY25

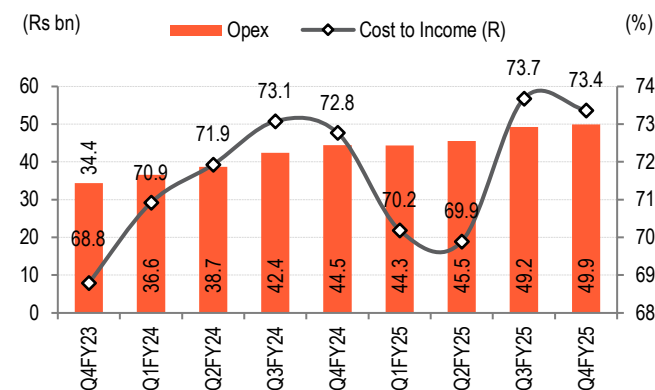
Source: Company, BOBCAPS Research

Fig 8 – Yield on Assets Compresses Slightly, Cost of Funds Stable

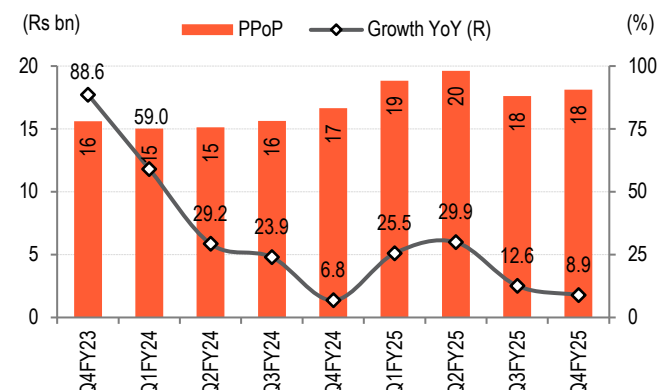
Source: Company, BOBCAPS Research

Fig 9 – Decline in MFI book and falling CASA dragging down NIMs

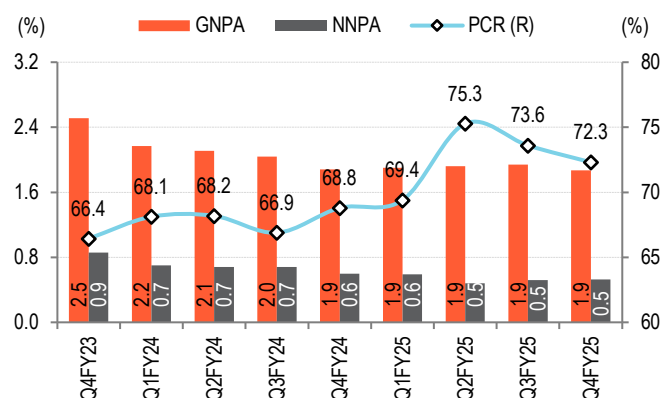
Source: Company, BOBCAPS Research

Fig 10 – Cost-to-Income stays elevated but improved marginally

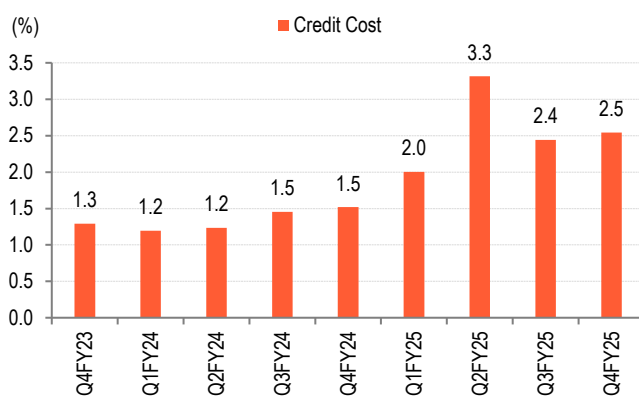
Source: Company, BOBCAPS Research

Fig 11 – PPOP growth remains volatile

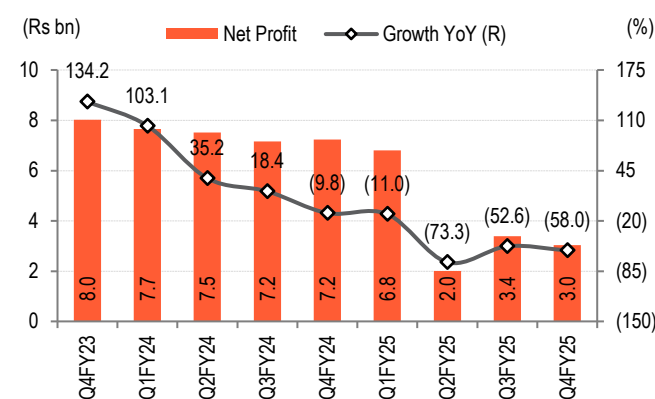
Source: Company, BOBCAPS Research

Fig 12 – Asset quality improving

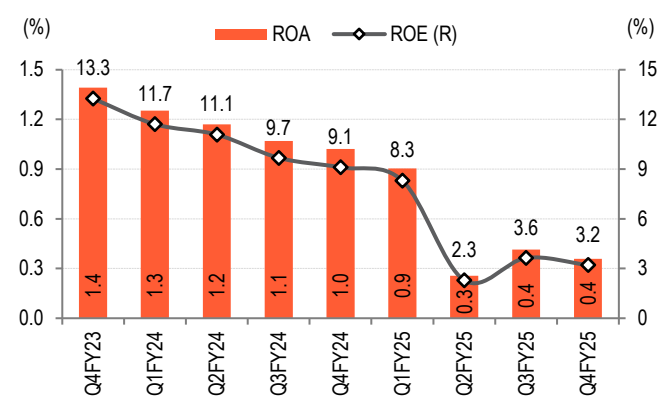
Source: Company, BOBCAPS Research

Fig 13 – Credit Costs normalising after one-off spike

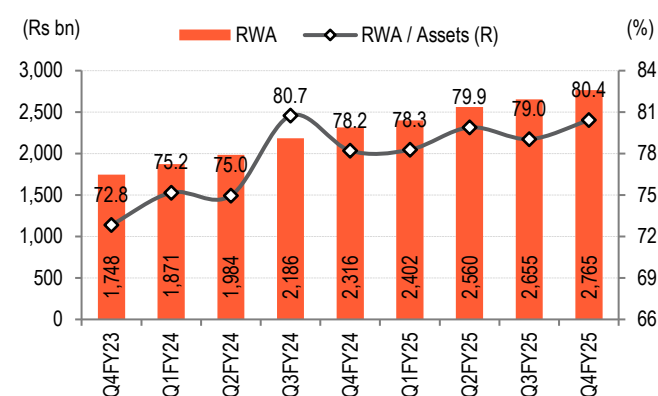
Source: Company, BOBCAPS Research

Fig 14 – PAT declined due to higher credit cost

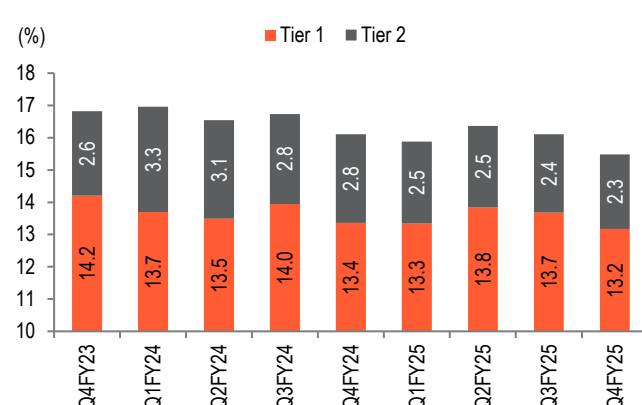
Source: Company, BOBCAPS Research

Fig 15 – Operational efficiency to be key lever for higher return ratios

Source: Company, BOBCAPS Research

Fig 16 – Stable RWA-to-asset ratio to aid CAR

Source: Company, BOBCAPS Research

Fig 17 – Healthy capital profile

Source: Company, BOBCAPS Research

Fig 18 – Deposit trend

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
CASA Deposits	9,47,680	9,76,920	10,92,920	11,30,780	11,82,370	24.8	4.6
Term Deposits	10,58,083	11,19,743	11,43,147	12,37,998	13,38,283	26.5	8.1
Total Deposits	20,05,763	20,96,663	22,36,067	23,68,778	25,20,653	25.7	6.4

Source: Company, BOBCAPS Research

Fig 19 – Deposit distribution

(%)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
CASA Deposits	47.2	46.6	48.9	47.7	46.9	(34bps)	(83bps)
Term Deposits	52.8	53.4	51.1	52.3	53.1	34bps	83bps
Total Deposits	100.0	100.0	100.0	100.0	100.0	0bps	0bps

Source: Company, BOBCAPS Research

Fig 20 – Source of fund distribution

(Rs mn)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Legacy Long Term & Infra Bonds	1,01,320	94,350	70,820	60,680	42,150	(58.4)	(30.5)
Refinance & Other borrowings	1,92,130	1,86,810	1,99,400	2,63,260	2,34,500	22.1	(10.9)
Tier II Bonds	45,000	45,000	45,000	45,000	45,000	0.0	0.0
Total Borrowings	3,38,450	3,26,160	3,15,220	3,68,940	3,21,650	(5.0)	(12.8)
CASA Deposits	9,47,680	9,76,920	10,92,920	11,30,780	11,82,370	24.8	4.6
Term Deposits	9,89,850	10,68,800	10,87,350	11,42,370	12,43,060	25.6	8.8
Total Customers Deposits	19,37,530	20,45,720	21,80,270	22,73,150	24,25,430	25.2	6.7
Certificate of Deposits	68,230	50,950	55,800	95,620	95,220	39.6	(0.4)
Money Market Borrowings	1,70,910	1,92,530	1,48,230	94,960	68,090	(60.2)	(28.3)
Borrowings & Deposits	25,15,120	26,15,360	26,99,520	28,32,670	29,10,390	15.7	2.7

Source: Company, BOBCAPS Research

Fig 21 – Source of fund distribution trend

(%)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Legacy Long Term & Infra Bonds	4.0	3.6	2.6	2.1	1.4	(258bps)	(69bps)
Refinance & Other borrowings	7.6	7.1	7.4	9.3	8.1	42bps	(124bps)
Tier II Bonds	1.8	1.7	1.7	1.6	1.5	(24bps)	(4bps)
Total Borrowings	13.5	12.5	11.7	13.0	11.1	(240bps)	(197bps)
CASA Deposits	37.7	37.4	40.5	39.9	40.6	295bps	71bps
Term Deposits	39.4	40.9	40.3	40.3	42.7	336bps	238bps
Total Customers Deposits	77.0	78.2	80.8	80.2	83.3	630bps	309bps
Certificate of Deposits	2.7	1.9	2.1	3.4	3.3	56bps	(10bps)
Money Market Borrowings	6.8	7.4	5.5	3.4	2.3	(446bps)	(101bps)
Borrowings & Deposits	100.0	100.0	100.0	100.0	100.0	0bps	0bps

Source: Company, BOBCAPS Research

Key conference call takeaways

Capital

Currant Sea Investments B.V. to hold 9.48% and Platinum Invictus B 2025 RSC Limited to hold 5.10% of the bank on a post-money basis, on the conversion of CCPS.

Conversion will take place at the earlier of either: (a) the option of the relevant Proposed Allottee (b) automatically, within 15 business days from the date on which the 45 trading days' average of the daily volume weighted average price of the equity shares of the Bank on NSE, reaches at least the subscription price; and in any event, no later than 5 business days prior to the expiry of 18 months from the date of allotment.

We have factored in the capital raise in FY26. The proposed issues are subject to shareholder and regulatory approvals.

Loan growth

Loan book grew 20% YoY (4.5% QoQ), led by retail (up 18.7% YoY, 4.8% QoQ), rural (up 3.7% YoY, down 1.9% QoQ) and SME portfolio (up 33.8% YoY, 7.9% QoQ).

Loan growth was robust in retail segments such as home loans (up 21.8% YoY, 3.4% QoQ), LAP (up 17.0% YoY, 10.1% QoQ), vehicle loans (up 26.3% YoY, 4.3% QoQ) and gold loans (up 112.1% YoY, 15.2% QoQ). Business banking saw strong growth of 31.8% YoY (7.8% QoQ).

IDFCBK's current C/D ratio stands at 92.5% and incremental C/D ratio at 76.1%. The bank expects C/D ratio to be in the late 80% in the next few years.

Unsecured retail loans form around 14% of the total book.

IDFCBK's infrastructure book is now down to 0.97% of the total funded assets; management expects to maintain this level.

The bank continues to actively de-grow its MFI portfolio, which now constitutes 4.0% of the overall book, down from 6.6% a year ago.

Deposits

Deposits rose 25.7% YoY and 6.4% QoQ. Going ahead, high-cost borrowing would be paid off and growth in deposits would be more towards funding assets rather than paying off legacy borrowings.

High-cost legacy borrowings have already come down sharply to Rs 4.8bn as of March 2025 from Rs 11.8bn a year ago, and are expected to reduce further to negligible levels in FY26E.

Asset quality

GNPA improved by 7bps QoQ to 1.87% while NNPA increased by 1bps QoQ to 0.53%, driven by slippages in the MFI book.

Higher provisions during the quarter were primarily attributed to elevated slippages from the Joint Liability Group (JLG) portfolio within the MFI segment.

Credit cost excluding the MFI (JLG) book was at 1.73%, compared to 1.82% in Q3FY25, indicating sequential improvement.

Management gave credit cost guidance to 1.85% to 1.9% for FY26.

Operating parameter

Management expects C/I ratio to improve to 65% by FY27 (71.8% in FY25) via cost control.

This is expected to be achieved by cost control, which will result in opex growth of ~12-13% in FY26.

Liquidity Coverage Ratio (LCR) remained healthy at 117% as of Q4FY25, improving from 114% in Q3FY24.

Valuation methodology

Maintain BUY: We expect credit growth at a CAGR of ~19% in FY25-FY28E, supported by expected capital infusion. Focus on operating efficiencies and early signs of AQ improvement would be key to improve RoA to 0.9-1.3% in FY26-FY27E. We maintain BUY and revise TP to Rs 79 (Rs 75 earlier), set at 1.3x FY27E ABV.

Fig 22 – Key operational assumptions

Parameter (%)	FY25E	FY26E	FY27E	FY28E
Advances Growth	19.8	19.0	19.5	20.0
NII Growth	17.3	17.1	21.9	21.3
PPoP Growth	18.9	27.4	37.8	28.7
PAT Growth	(48.4)	128.5	67.8	37.8
NIM	6.3	6.2	6.4	6.5
GNPA	1.9	1.6	1.5	1.4
CAR	15.5	17.1	16.2	15.3

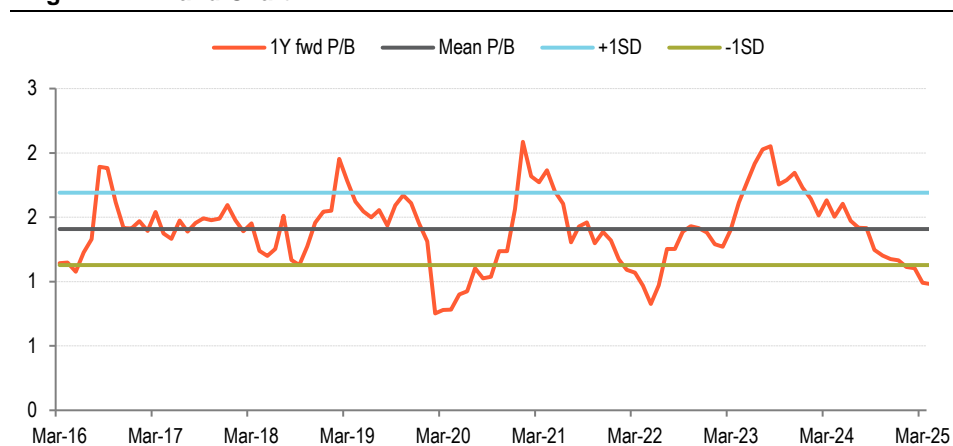
Source: Company, BOBCAPS Research

Fig 23 – Key valuation assumptions: Gordon Growth model

(%)	
Cost of equity (%)	9.6
Blended ROE (%)	10.2
Initial high growth period (years)	12.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	5
Long term dividend payout ratio (%)	50
Justified P/BV (x)	1.3
Implied BVPS (Rs)	62
Value per share (Rs)	79

Source: Company, BOBCAPS Research

Fig 24 – PB Band Chart



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- The bank's inability to manage cost of funds, leading to compressed margin
- Inability to manage credit cycle
- Inability to control costs and improve cost efficiency.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	1,64,508	1,92,920	2,25,911	2,75,292	3,33,893
NII growth (%)	30.2	17.3	17.1	21.9	21.3
Non-interest income	60,020	70,217	82,983	98,722	1,17,679
Total income	2,24,528	2,63,137	3,08,894	3,74,014	4,51,572
Operating expenses	1,62,158	1,88,988	2,14,456	2,43,879	2,84,103
PPOP	62,370	74,149	94,438	1,30,136	1,67,469
PPOP growth (%)	26.5	18.9	27.4	37.8	28.7
Provisions	23,817	55,147	47,733	51,757	59,438
PBT	38,553	19,001	46,704	78,379	1,08,031
Tax	8,988	3,753	11,863	19,908	27,440
Reported net profit	29,565	15,249	34,841	58,471	80,591
Adjustments	0	0	0	0	0
Adjusted net profit	29,565	15,249	34,841	58,471	80,591

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity capital	70,699	73,221	85,720	85,720	85,720
Reserves & surplus	2,50,914	3,07,559	4,02,455	4,58,003	5,35,370
Net worth	3,21,613	3,80,780	4,88,175	5,43,722	6,21,090
Deposits	20,05,763	25,20,653	30,37,386	36,75,237	45,20,542
Borrowings	5,09,356	3,89,748	3,78,056	3,70,495	3,74,200
Other liab. & provisions	1,24,419	1,47,006	2,36,580	2,86,084	3,55,530
Total liab. & equities	29,61,151	34,38,187	41,40,198	48,75,538	58,71,362
Cash & bank balance	1,24,802	1,50,974	2,05,647	2,55,080	3,19,635
Investments	7,47,104	8,07,155	9,96,320	11,19,176	13,63,422
Advances	19,45,924	23,31,125	27,74,039	33,14,977	39,77,972
Fixed & Other assets	1,43,321	1,48,932	1,64,191	1,86,306	2,10,332
Total assets	29,61,151	34,38,187	41,40,198	48,75,538	58,71,362
Deposit growth (%)	38.7	25.7	20.5	21.0	23.0
Advances growth (%)	28.2	19.8	19.0	19.5	20.0

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
EPS	4.3	2.1	4.4	6.8	9.4
Dividend per share	0.0	0.3	0.3	0.3	0.4
Book value per share	45.5	52.0	57.0	63.4	72.5

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
P/E	15.3	31.2	15.1	9.7	7.0
P/BV	1.5	1.3	1.2	1.0	0.9
Dividend yield (%)	0.0	0.4	0.5	0.5	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Net interest income	6.1	6.0	6.0	6.1	6.2
Non-interest income	2.2	2.2	2.2	2.2	2.2
Operating expenses	6.1	5.9	5.7	5.4	5.3
Pre-provisioning profit	2.3	2.3	2.5	2.9	3.1
Provisions	0.9	1.7	1.3	1.1	1.1
PBT	1.4	0.6	1.2	1.7	2.0
Tax	0.3	0.1	0.3	0.4	0.5
ROA	1.1	0.5	0.9	1.3	1.5
Leverage (x)	9.3	9.1	8.7	8.7	9.2
ROE	10.2	4.3	8.0	11.3	13.8

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Net interest income	30.2	17.3	17.1	21.9	21.3
Pre-provisioning profit	26.5	18.9	27.4	37.8	28.7
EPS	13.8	(50.9)	106.9	55.6	37.8
Profitability & Return ratios (%)					
Net interest margin	6.4	6.2	6.1	6.3	6.3
Fees / Avg. assets	0.5	0.5	0.5	0.5	0.5
Cost-Income	72.2	71.8	69.4	65.2	62.9
ROE	10.2	4.3	8.0	11.3	13.8
ROA	1.1	0.5	0.9	1.3	1.5
Asset quality (%)					
GNPA	1.9	1.9	1.6	1.5	1.4
NNPA	0.6	0.5	0.4	0.4	0.4
Slippage ratio	3.5	4.1	2.4	2.3	2.0
Credit cost	1.4	2.6	1.9	1.7	1.6
Provision coverage	68.2	71.8	72.1	72.3	72.5
Ratios (%)					
Credit-Deposit	97.0	92.5	91.3	90.2	88.0
Investment-Deposit	37.2	32.0	32.8	30.5	30.2
CAR	16.1	15.5	17.1	16.2	15.3
Tier-1	13.4	13.2	15.5	14.8	14.1

Source: Company, BOBCAPS Research

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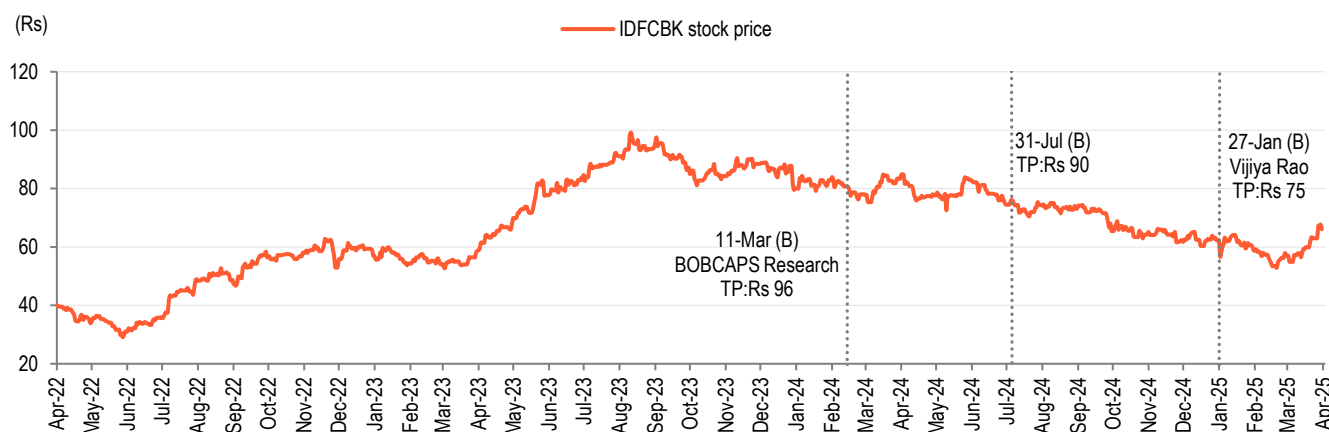
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Note: Recommendation structure changed with effect from 21 June 2021

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