ANANDRATHI

India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

27 April 2025

IDFC First Bank

Healthy balance sheet growth, credit costs peaked; retaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.77
Share Price: Rs.67

Despite healthy balance sheet growth, higher provisioning led to a 58% y/y fall in IDFC First Bank's PAT. Microfinance credit costs have peaked for the year. We value the bank at 1.2x FY27e PBV and retain a Buy rating, primarily led by the higher balance sheet growth, strong NIM and improving operating leverage.

Healthy advances, deposit growth. Advances grew ~20% y/y, 4.5% q/q, with the focus on retail continuing. Of the added retail loans, vehicle, credit cards and gold grew the fastest. Deposit growth at 25.7% y/y, 6.4% q/q, is commendable. Retail deposits stood at 79% of total deposits. Legacy borrowings have further come down as part of the borrowing mix. We continue to build in strong, 24%, loan growth over FY25-27, with deposits expected to grow faster.

Operating leverage holds the key to RoA expansion. The NIM declined 9bps q/q to ~6%. The bank's credit-deposit ratio continued its downward trend, improving 170bps q/q to 92.5%. Cost-income, however, remains at a high ~73% on continuous investments in tech and liability franchisees. The better operating leverage is the key to RoA improvement. We estimate the cost-income improving to 68% by FY27.

Asset quality pressure eases. Headline asset quality remained stable and excluding MFI, improved sequentially. Within MFI, improvement was seen via soft delinquencies compared to the previous quarter; however, management continues to carry MFI provisions on a prudent basis. We expect credit cost to improve to 2% for FY26-27.

Valuation. Our TP of Rs77 stems from the two-stage DDM model. This implies a ~1.2x P/BV multiple (1.2x earlier) on its FY27e book. **Risks:** Slower growth in assets, faster growth in opex.

Key financials (YE Mar)	FY23	FY24	FY25	FY26e	FY27e
Net interest income (Rs m)	1,26,353	1,64,508	1,92,920	2,37,187	2,94,419
Pre-provisioning profit (Rs m)	49,320	62,370	74,149	94,662	1,25,074
PAT (Rs m)	24,371	29,565	15,249	34,184	52,298
EPS (Rs)	3.7	4.2	2.1	4.0	6.1
NIM (%)	6.2	6.5	6.3	6.5	6.6
Cost-Income (%)	71.2	72.2	71.8	70.6	68.5
RoE (%)	10.4	10.2	4.3	7.9	10.1
RoA (%)	1.1	1.1	0.5	0.9	1.1
Advances growth (%)	28.8	28.2	19.8	23.0	25.0
GNPA (%)	2.5	1.9	1.7	1.5	1.3
CRAR (%)	16.8	16.1	15.7	14.1	12.8
P / E (x)	19.8	17.4	34.9	18.3	12.0
P / BV (x)	1.9	1.6	1.4	1.3	1.2
P / ABV (x)	1.9	1.6	1.4	1.3	1.2

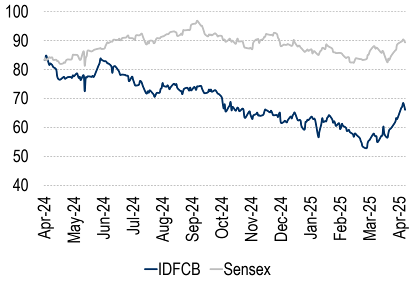
Source: Company, Anand Rathi Research

Key data	IDFCB IN
52-week high / low	Rs86 / 53
Sensex / Nifty	79213 / 24039
Market cap	Rs.484bn
Shares outstanding	7322m

Shareholding pattern (%)	Mar'25	Dec'24	Sep'24
Promoters	-	-	35.4
- of which, Pledged	-	-	-
Free float	100.0	100.0	64.6
- Foreign institutions	25.7	27.1	27.3
- Domestic institutions	19.3	16.1	16.2
- Public	55.0	56.7	21.1

Estimates revision (%)	FY26e	FY27e
Net interest income	0.5	(2.9)
Pre-provisioning profit	(1.0)	(1.3)
PAT	0.7	3.9

Relative price performance



Source: Bloomberg

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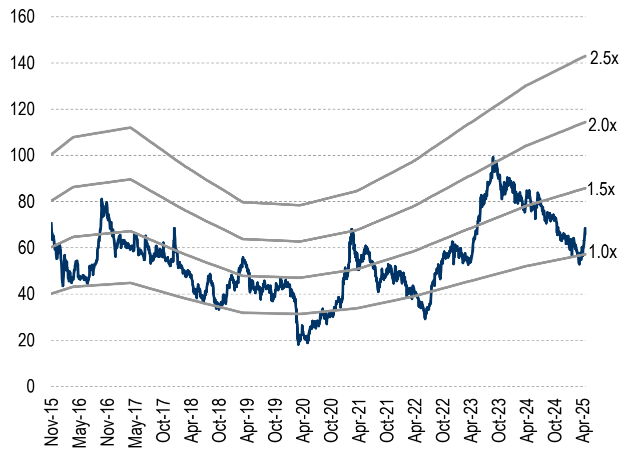
Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net interest income	1,26,353	1,64,508	1,92,920	2,37,187	2,94,419
NII growth (%)	*30.2*	*30.2*	*17.3*	*22.9*	*24.1*
Non-interest income	44,670	60,020	70,217	84,261	1,02,798
Net total income	1,71,023	2,24,528	2,63,137	3,21,448	3,97,217
Total inc. growth (%)	*32.3*	*31.3*	*17.2*	*22.2*	*23.6*
Operating expenses	1,21,704	1,62,158	1,88,988	2,26,786	2,72,143
PPoP	49,320	62,370	74,149	94,662	1,25,074
PPoP growth (%)	*50.2*	*26.5*	*18.9*	*27.7*	*32.1*
Provisions	33,248	23,817	55,147	49,385	55,805
PBT	16,071	38,553	19,001	45,277	69,269
Tax	-8,300	8,988	3,753	11,093	16,971
PAT	24,371	29,565	15,249	34,184	52,298
PAT growth (%)	1,575	21	-48	124	53
EPS (Rs)	3.7	4.2	2.1	4.0	6.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



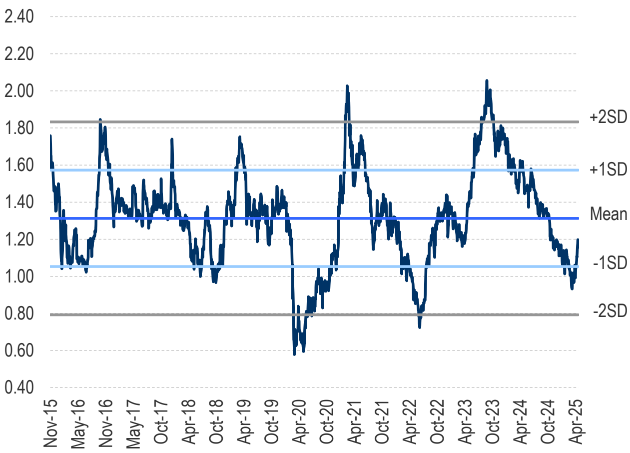
Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	66,181	70,699	73,221	85,721	85,921
Reserves & surplus	1,91,030	2,50,914	3,07,559	4,04,243	4,56,542
Deposits	14,46,373	20,05,763	25,20,653	31,00,403	38,75,503
Borrowings	5,72,121	5,09,356	3,89,748	3,31,286	2,81,593
Other Liabilities & Prov.	1,23,711	1,24,419	1,47,006	2,50,669	4,44,597
Total liabilities	**23,99,417**	**29,61,151**	**34,38,187**	**41,72,322**	**51,44,157**
Advances	15,17,945	19,45,924	23,31,125	28,67,284	35,84,105
Investments	6,11,236	7,47,104	8,07,155	9,68,586	11,71,989
Cash & bank balance	1,38,980	1,24,802	1,50,974	1,72,227	2,06,672
Fixed & other assets	1,31,256	1,43,321	1,48,932	1,64,225	1,81,390
Total assets	**23,99,417**	**29,61,151**	**34,38,187**	**41,72,322**	**51,44,157**
No. of shares (m)	6,618	7,070	7,322	8,572	8,592
Deposits growth (%)	*36.9*	*38.7*	*25.7*	*23.0*	*25.0*
Advances growth (%)	*28.8*	*28.2*	*19.8*	*23.0*	*25.0*

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value



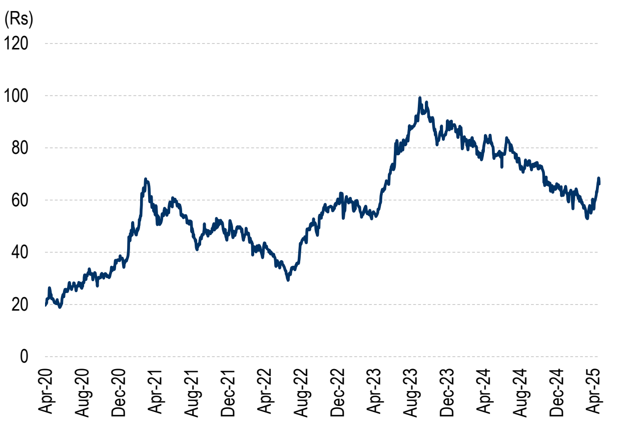
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
NIM	6.2	6.5	6.3	6.5	6.6
Other inc. / total inc.	26.1	26.7	26.7	26.2	25.9
Cost-income	71.2	72.2	71.8	70.6	68.5
DPS (Rs)	-	-	-	-	-
Credit-deposit	104.9	97.0	92.5	92.5	92.5
Investment-deposit	42.3	37.2	32.0	31.2	30.2
Gross NPA	2.5	1.9	1.7	1.5	1.3
Net NPA	0.9	0.6	0.7	0.5	0.4
Provision coverage	66.4	68.8	60.0	65.0	70.0
BV (Rs)	38.9	45.5	52.0	57.2	63.1
Adj. BV (Rs)	37.5	44.3	50.5	55.9	62.0
CRAR (%)	16.8	16.1	15.7	14.1	12.8
- Tier 1	14.2	13.4	13.1	11.9	11.1
RoE	10.4	10.2	4.3	7.9	10.1
RoA	1.1	1.1	0.5	0.9	1.1

Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Interest income	78,793	82,192	87,886	89,569	93,430	94,129
Interest expense	35,928	37,503	40,937	41,691	44,410	45,058
NII	**42,865**	**44,689**	**46,949**	**47,879**	**49,021**	**49,072**
Y/Y growth (%)	*30.5*	*24.2*	*25.4*	*21.2*	*14.4*	*9.8*
Non-interest income	15,166	16,420	16,192	17,273	17,799	18,954
Total Income	**58,030**	**61,109**	**63,141**	**65,152**	**66,819**	**68,026**
Y/Y growth (%)	*30.8*	*22.4*	*22.4*	*21.1*	*15.1*	*11.3*
Operating expenses	42,407	44,470	44,316	45,533	49,230	49,910
Of which staff cost	*12,217*	*13,280*	*13,374*	*14,241*	*14,203*	*15,282*
PPOP	**15,624**	**16,639**	**18,825**	**19,619**	**17,589**	**18,116**
Y/Y growth (%)	*23.9*	*6.8*	*25.5*	*29.9*	*12.6*	*8.9*
Total provisions	6,548	7,223	9,944	17,319	13,379	14,505
PBT	**9,076**	**9,416**	**8,881**	**2,299**	**4,210**	**3,611**
Tax	1,920	2,173	2,074	292	816	571
PAT	**7,156**	**7,243**	**6,807**	**2,007**	**3,394**	**3,041**
Y/Y growth (%)	*18.4*	*-9.8*	*-11.0*	*-73.3*	*-52.6*	*-58.0*

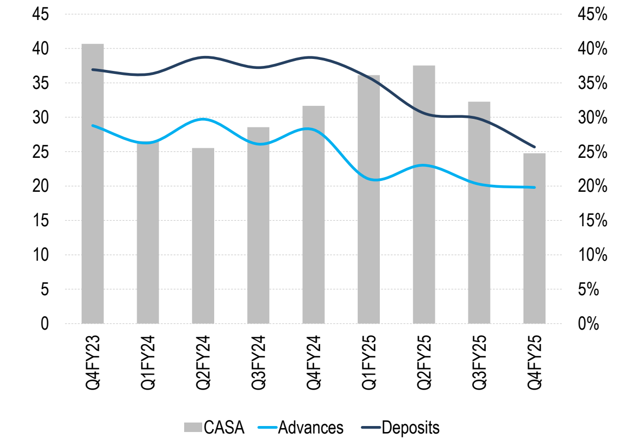
Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs m)	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Net worth	3,14,510	3,21,613	3,34,434	3,68,906	3,78,009	3,80,780
Deposits	18,25,490	20,05,763	20,96,663	22,36,067	23,68,778	25,20,653
Borrowings	4,51,090	5,09,356	5,18,693	4,63,444	4,63,900	3,89,748
Other liabilities	1,16,290	1,24,419	1,18,402	1,36,000	1,47,819	1,47,006
Total liabilities	**27,07,380**	**29,61,151**	**30,68,192**	**32,04,417**	**33,58,506**	**34,38,187**
Deposits y/y growth	*37.2*	*38.7*	*35.8*	*30.6*	*29.8*	*25.7*
Deposits q/q growth	*6.6*	*9.9*	*4.5*	*6.6*	*5.9*	*6.4*
Cash and cash balances	1,14,330	1,10,750	1,17,336	1,23,072	1,25,849	1,40,235
Advances	18,55,030	19,45,924	20,25,681	21,50,613	22,31,039	23,31,125
Investments	6,03,960	7,47,104	7,36,242	7,63,283	8,10,331	8,07,155
Other Assets	1,34,060	1,43,321	1,36,546	1,44,779	1,58,658	1,48,932
Total Assets	**27,07,380**	**29,61,151**	**30,68,192**	**32,04,417**	**33,58,506**	**34,38,187**
Advances y/y growth	*26.1*	*28.2*	*21.0*	*23.0*	*20.3*	*19.8*
Advances q/q growth	*6.1*	*4.9*	*4.1*	*6.2*	*3.7*	*4.5*

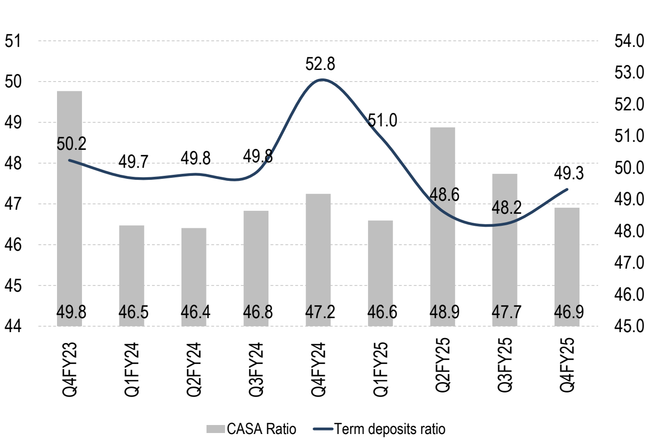
Source: Company, Anand Rathi Research

Fig 9 – CASA vs. advances and deposits



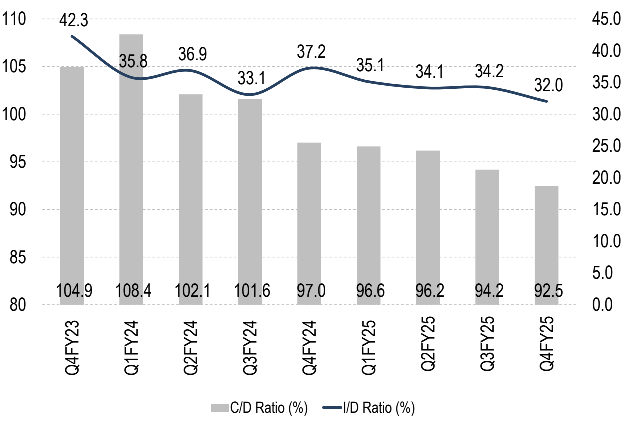
Source: Company, Anand Rathi Research

Fig 10 – CASA and term deposits



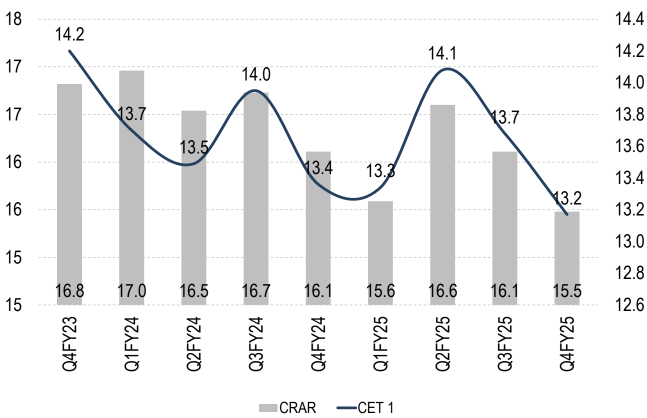
Source: Company, Anand Rathi Research

Fig 11 – C/D ratio and I/D ratio



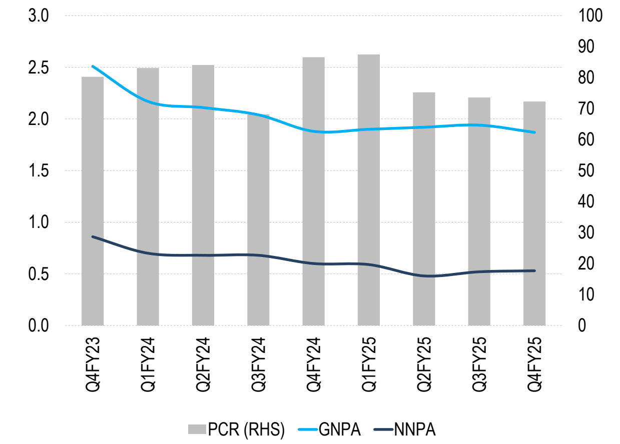
Source: Company, Anand Rathi Research

Fig 12 – CRAR and CET 1



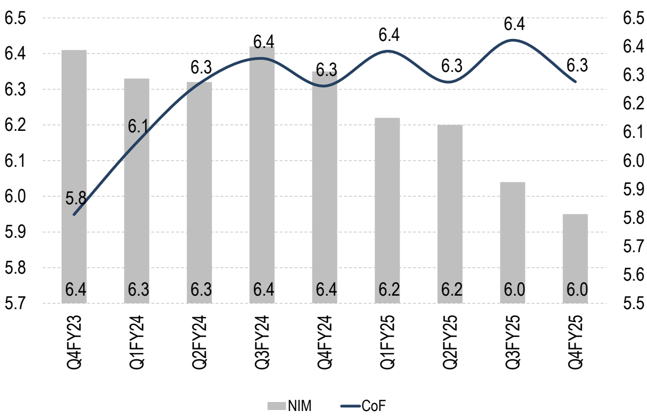
Source: Company, Anand Rathi Research

Fig 13 – PCR, GNPA and NNPA



Source: Company, Anand Rathi Research

Fig 14 – NIM vs. CoF



Source: Company, Anand Rathi Research

Concall Highlights

Operating efficiency and cost control

- FY25 saw a sharp moderation in y/y opex growth to 12.2% by Q4, compared to 21% at the start. The bank crossed the 1,000-branch milestone, adding 31 branches in Q4.
- It is using tech, centralization and operational efficiencies to structurally bring down its cost-to-income ratio.
- It plans to maintain opex growth at 12–13% y/y, while achieving 20% loan growth and reaping the benefits of operating leverage.

Deposit rates

- The CASA rate rationalization is ongoing and would sustain profitability margins.
- Management is planning to begin rate cuts in the next week by cutting fixed deposit rates ~70-80bps to come down to the level of big banks.
- The bank had already reduced saving deposit rates for < Rs10,00,000 substantially (200-400bps), based on elasticity of deposits. After the FD rate reduction, it might reduce savings rates again to lower funding cost.

Margins and profitability

- Q4 NIM was 5.95%, down 9bps q/q due to shrinkage in the MFI portfolio.
- NIMs are expected to compress slightly (~10bps) in FY26, compared to Q4, due to repo rate cuts and realignment of deposit rates.
- Management emphasized that the FY25 PAT decline was mainly due to external shocks and not structural. FY26-27 should see a smart recovery; from FY28, the bank should be on the growth path.

MFI portfolio

- The microfinance portfolio dipped 28.3% y/y, a conscious strategy to manage risk. MFI stress was largely absorbed; the share of MFI in total loans will be brought down to ~3–3.5%.
- Gross slippages increased sequentially; however, SMA 0 and1+2 have come down q/q. Collection efficiency stood at 99.2 and excluding Karnataka, it was 99.4 (the same level as in Q4 FY24). Excluding MFI, the bank's GNPA improved 19bps q/q to 1.63%.
- The bank implemented the new MFIN guidelines in Feb itself, which had an impact of ~Rs760cr on disbursements. However, it doesn't expect any major impact to follow.
- Provisions of ~ Rs315cr continue to be on the book for MFI, which will be released once management is confident that the stress cycle has fully receded. FY25 credit cost stood at 10.5%.

Credit cards

- The credit card business achieved operational breakeven. The bank expects solid profitability post-credit costs by FY28-29.

- The bank's focus is on improving the cost-to-income ratio of credit card business to ~75% in the next two years.
- Credit card revolver rates remain sticky but profitable.
- The book size has grown 40% y/y to ~Rs7,500cr and at the same time, credit cost fell in FY25 compared to the previous year.

Lending and business mix

- The fixed rate book constitutes 61% of the overall book.
- The target is to take borrowings as a proportion of liabilities to 7-8% in the long term.

Strategic commentary

- Management targets RoE of 15% and RoA of 1% by the next financial year.
- FY26 guidance: Loan book growth of ~20%; deposit growth rate of 22-23%; LDR in late eighties and opex growth limited to 12–13%.
- FY26 credit cost is guided lower to 1.85–1.90%.
- The emphasis is on scaling up without proportionately increasing costs.
- CASA/granular retail deposit strategy remain a core focus.

Key risk areas and mitigation

- Infrastructure exposure is now negligible.
- The LCR is maintained at 117%, ensuring a strong liquidity position. Ahead, LCR is to be maintained at ~115%.
- No material impact (1-2%) is anticipated from regulatory tightening of LCR norms.

Valuation

Despite healthy balance sheet growth, higher provisioning led to a 58% y/y fall in IDFC First Bank's PAT. Microfinance credit costs have peaked for the year. We raise our estimates marginally and incorporate the equity fund-raising of Rs 75bn. We value the bank at 1.2x FY27e PBV and retain a Buy rating, primarily led by the higher balance sheet growth, strong NIM and improving operating leverage.

Fig 15 – Change in estimates (Rs m)

	FY26			FY27		
(Rs m)	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income	2,37,187	2,35,958	0.5	2,94,419	3,03,358	(2.9)
Pre-provisioning profit	94,662	95,590	(1.0)	1,25,074	1,26,736	(1.3)
PAT	34,184	33,946	0.7	52,298	50,352	3.9

Source: Anand Rathi Research

Fig 16 – duPont Analysis

	FY23	FY24	FY25	FY26e	FY27e
Interest Income / Assets	10.6	11.3	11.4	11.3	11.2
Interest Expense / Assets	4.7	5.2	5.4	5.1	4.9
Net interest income / Assets	5.9	6.1	6.0	6.2	6.3
Non-interest income / Assets	2.1	2.2	2.2	2.2	2.2
Net revenues / Assets	8.0	8.4	8.2	8.4	8.5
Operating expense / Assets	5.7	6.1	5.9	6.0	5.8
PPoP / Assets	2.3	2.3	2.3	2.5	2.7
Provision / Assets	1.5	0.9	1.7	1.3	1.2
Taxes / Assets	-0.4	0.3	0.1	0.3	0.4
RoA	1.1	1.1	0.5	0.9	1.1
RoAE	10.4	10.2	4.3	7.9	10.1

Source: Company, Anand Rathi Research

Risks

- Less-than-expected growth in advances or deposits.
- Higher-than-expected capital use.
- Significant negative surprises on asset quality from the NBFC book.

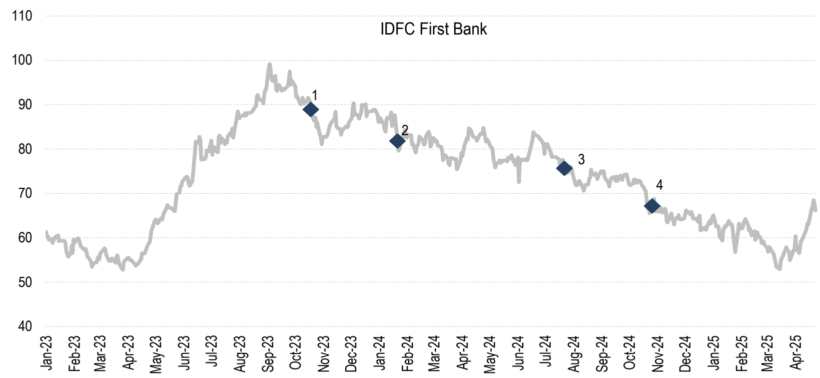
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 27 April 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	16-Oct-23	**Buy**	114	91
2	22-Jan-24	**Buy**	107	87
3	28-Jul-24	**Buy**	90	74
4	28-Oct-24	**Buy**	77	67

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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