IDFC First Bank Ltd.

29th October 2026 | Close* – ₹73.53/- | View – BOOK PROFITS

Key Highlights – Q2FY27: Operating leverage delivers, margin dips

- IDFC FIRST Bank reported a second straight quarter of ₹10bn-plus profit. **PAT rose 196.5% YoY to ₹10.45bn** (−2.8% QoQ), with RoA of 0.93% and RoE of 8.45% (Q2FY26 RoA: 0.38%). Core PAT, which excludes trading gains, crossed ₹10bn for the first time at ₹10.36bn.
- **Balance-Sheet Growth, Helped by FCNR(B):** Loan assets grew **30.1% YoY to ₹3.47tn** (22.2% excluding FCNR(B)-backed loans) and deposits **25.9% YoY to ₹3.49tn** (+11.8% QoQ) after ₹343.9bn of FCNR(B) mobilisation. Customer deposits excluding FCNR(B) grew a more modest 14.1% YoY.
- **Margin Compression:** NIM fell **32bps QoQ to 5.58%** (Q2FY26: 5.59%) on FCNR(B)-loan dilution and excess liquidity; management guides to ~5.8% by Q4FY27. NII still grew 21.0% YoY to ₹61.84bn.
- **Asset-Quality Strength:** GNPA improved to **1.32%** (Q2FY26: 1.86%) and NNPA to 0.40% (0.52%). Credit cost fell to an all-time low of 1.38% of average loans (1.01% of assets), with net slippages steady at 1.6%.
- **Operating Leverage:** Opex grew 16% YoY against ~21–22% income growth (jaws of ~590bps) and the core cost-to-income ratio improved to 70.2% from 73.7% a year ago. PPOP rose 35% YoY to ₹25.39bn, but the cost ratio is still well above private-bank peers.

Important Statistics

Nifty	22,698
Sensex	73,246
Close* (₹)	73.56
M.CAP (₹ crs)	61,536.64
52 Week H/L (₹)	89.61/58.08
NSE Code	IDFCFIRSTB
BSE Code	539437
Bloomberg Code	IDFCFB:IN

Close as on 28th October 2026*

Shareholding	Mar-26	Jun-26	Sep-26
FII	36.50%	36.10%	36.70%
DII	30.50%	32.10%	33.20%
Public	32.90%	31.70%	30.10%

Q1FY27 Result Update

- **Business Efficiency**
  - **Net Interest Income (NII):** Up 21.0% YoY and 3.5% QoQ (4.5% excluding interest on income-tax refunds booked in Q1) to ₹61.84bn, driven by 30% growth in loan assets. H1FY27 NII was ₹121.57bn, up 21.0% YoY.
  - **Net Interest Margin (NIM):** 5.58% versus 5.90% in Q1FY27 (excluding refund interest) and 5.59% a year ago. Management attributes the 32bps sequential fall mainly to FCNR(B)-backed loans (−16bps) and to excess liquidity, day-count and denominator effects. It guides to a best-estimate 5.80% in Q4FY27 as liquidity is deployed and a 25bps repo hike feeds through.
  - **Other Income:** Fee and other income grew 24.5% YoY (+7.4% QoQ) to ₹22.85bn, or 2.03% of average assets. Trading gains were only ₹0.11bn against ₹1.81bn in Q1FY27 and ₹0.56bn a year ago, so total non-interest income was flat QoQ at ₹22.96bn (+21.4% YoY).
  - **Expense Management:** Opex rose 16.0% YoY and 3.7% QoQ to ₹59.42bn. Retail-liability cost-to-income improved to 136.9% (Q1FY27: 148.1%) and credit-card cost-to-income to 77.5%; management targets ~100% and the mid-60s respectively over four to five years.
  - **Cost-to-Income (C/I):** 70.2% excluding trading gains versus 70.7% in Q1FY27 and 73.7% in Q2FY26. H1FY27 incremental C/I of 55% is the lever behind management's ~1.84% incremental RoA arithmetic, though the absolute ratio is still well above larger private-bank peers.
  - **Operating Profit:** PPOP grew 35.0% YoY to ₹25.39bn (flat QoQ on lower trading gains). Core operating profit excluding trading rose 38.5% YoY and 6.6% QoQ to ₹25.27bn.
  - **Provisions & Tax:** Provisions fell 21.7% YoY to ₹11.37bn (flat QoQ), including a ₹1.0bn standard-asset provision on FCNR(B)-backed loans, and the bank holds ₹5.15bn of contingency provisions. At a ~25.5% tax rate, PAT of ₹10.45bn was 2.8% below Q1FY27, which had ₹1.81bn of trading gains.

Key Segmental Growth – Q2FY27

Loan Portfolio	YoY Growth %
Total Loan Assets	30.1%
Loans ex-FCNR(B)	22.2%
Retail Finance	35.4%
– Mortgages	8.7%
– Vehicle	17.3%
– Consumer	25.3%
– Gold Loans	119.3%
MSME Finance	16.5%
Wholesale	33.5%
Customer Deposits	26.9%
CASA Deposits	19.8%

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1 Yr	3 Yr	5 Yr
IDFC FIRST	-8.3%	-15.6%	35.7%
Nifty 50	-5.9%	20.7%	24.5%
Sensex	-7.3%	16.6%	20.0%

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₹ bn	Q2FY27	Q2FY26	YoY	Q1FY27	QoQ	Mix
Mortgages (HL + LAP)	642	591	9%	625	3%	19%
Vehicle + Consumer	958	784	22%	920	4%	28%
FCNR(B)-backed loans	249	–	n.m.	–	n.m.	7%
Retail Finance	**2,116**	**1,563**	**35%**	**1,792**	**18%**	**61%**
MSME + Rural	649	577	13%	619	5%	19%
Wholesale	703	527	33%	643	9%	20%
Total Loan Assets	**3,469**	**2,666**	**30%**	**3,054**	**14%**	**100%**

Source: Company, Way2Wealth Research

- **Strengthening Liability Franchise:** Deposit growth was lifted by FCNR(B) mobilisation, while underlying franchise growth was more modest and the CASA ratio diluted:
  - Total **Deposits:** Up 25.9% YoY and 11.8% QoQ to ₹3.49tn; customer deposits rose 26.9% YoY to ₹3.41tn. Excluding FCNR(B), customer deposits grew 14.1% YoY and 2.5% QoQ. FCNR(B) mobilisation of ₹343.9bn (~US$3.6bn) is ~10% of deposits, and ~72% of it funded ₹248.9bn of FCNR(B)-backed loans.
  - **CASA Trends:** CASA deposits grew 19.8% YoY and 4.7% QoQ to ₹1.66tn. The period-end CASA ratio fell to 47.6% (52.8% excluding FCNR(B); Q1FY27: 50.8%) and the average ratio to 48.4% (50.1%). Average CASA grew 23.3% YoY, with average current accounts up 30.0% and savings accounts up 22.3%.
  - **Deposit Quality:** Retail deposits are 82% of customer deposits, and bulk term deposits (₹3cr and above) fell to 13.9% of the total from 17.1% in Q1FY27. Certificates of deposit were cut by ₹53bn QoQ and money-market borrowings were almost fully repaid.
  - **Cost of Funds:** Averaged 5.97% in H1FY27, down 183bps from 7.80% at the 2018 merger. FCNR(B) costs about 1% less than domestic fixed deposits on a fully loaded basis (~6.85% annualised versus ~7.8% including CRR/SLR costs), and savings rates were cut to 6% on balances above ₹25 lakh.
  - The bank operates **1,200 branches** and serves ~39 mn customers across channels, with 31.4 mn mobile-app registrations, 5 mn credit cards in force and 19.5 mn active FASTags (+40% YoY).

₹ bn	Q2FY27	Q2FY26	YoY	Q1FY27	QoQ
Term deposits	1,755	1,305	34%	1,409	25%
Certificates of deposit	72	77	-7%	125	-43%
CASA	**1,660**	**1,386**	**20%**	**1,585**	**5%**
Customer deposits	3,414	2,691	27%	2,994	14%
Total Deposits	**3,486**	**2,768**	**26%**	**3,119**	**12%**
CASA ratio (%)	47.6	50.1	–	50.8	–

Source: Company, Way2Wealth Research

- **Asset Quality – Best in the Bank's History**
  - Asset quality improved on every headline measure. GNPA at **1.32%** is down 54bps YoY and 20bps QoQ, and NNPA at **0.40%** is down 13bps YoY and 4bps QoQ. Gross NPAs also fell in absolute terms, to ₹44.67bn.
  - **Slippages:** Gross additions were ₹18.93bn (Q1FY27: ₹17.36bn) against ₹6.84bn of recoveries and upgrades, leaving the net slippage ratio at 1.6% for a second quarter (Q2FY26: 2.8%). Write-offs were ₹12.52bn. RAM-book GNPA was 1.24% (1.36% excluding FCNR(B) loans), with SMA-1+2 at 0.72% in RAM and 0.58% for the bank.
  - **Coverage:** PCR was 70.1% (Mar-26: 70.5%), supported by ₹5.15bn of contingency provisions. The microfinance book is only ₹68.3bn (about 2% of funded assets, −6.6% YoY) and 97% CGFMU-covered; current-bucket collection efficiency was 99.5%.

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- **Credit Cost:** An all-time low 1.38% of average loan assets (1.30% excluding the FCNR(B)-loan provision), or 1.01% of average total assets, versus 2.24% a year ago. FY27 guidance is 1.5–1.6%. Management flagged El Niño and drought risk in Maharashtra and Karnataka but sees no impact in Q3 or Q4 so far.
- **Capital & Liquidity:** CRAR was 14.67% with CET1 at 13.00% (Q1FY27: 15.05% / 13.33%; Q2FY26: 16.82% / 14.75%) as RWAs rose 4.9% QoQ. LCR was 139% at September-end (quarterly average 125%) because FCNR(B) inflows were parked in HQLA, and the domestic credit-deposit ratio was 89.9%.

Story in Charts

Exhibit 1: Net Interest Income & YoY growth

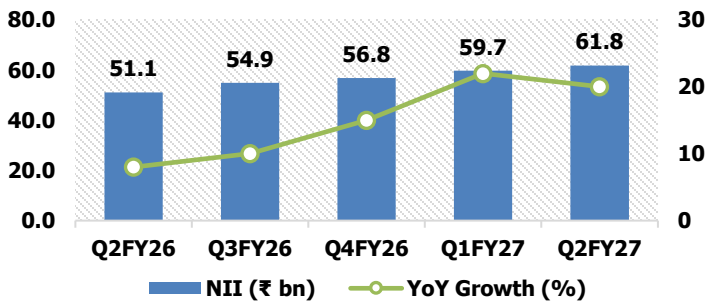


Exhibit 2: Net Profit & YoY growth

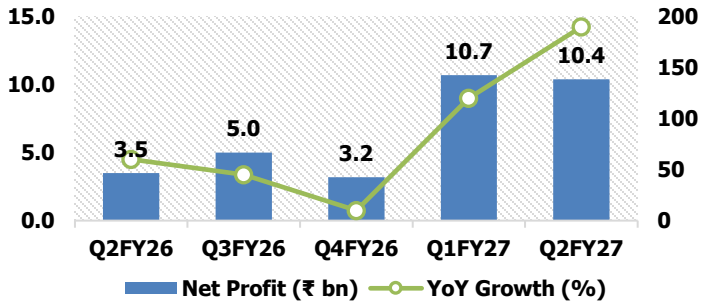


Exhibit 3: Asset quality trend

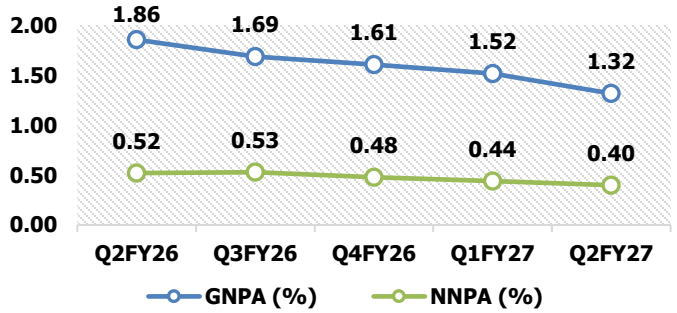
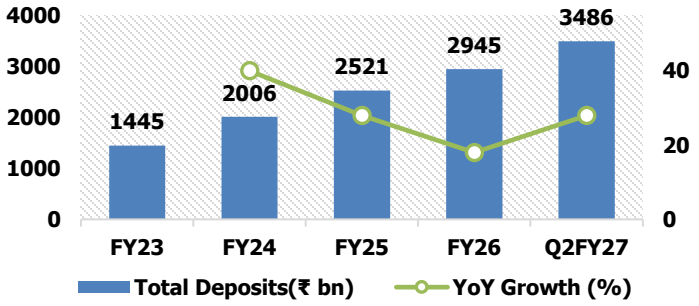


Exhibit 4: Total deposits & YoY growth



Source: Company, Way2Wealth Research

Conference Call Key takeaways

- **Margins — Q2 is the trough, ~5.8% targeted by Q4FY27**
  - Management expects NIM to stay range-bound in Q3 and reach ~5.8% by Q4FY27, holding there into FY28, as excess liquidity is deployed (+8bps), day-count normalises (+7bps) and an assumed 25bps repo hike flows through (+7bps). About 32% of the book is repo-linked and blended cost of funds is expected to rise only 5–10bps in FY28.
- **FCNR(B) — dilutive to NIM, accretive to profit**
  - FCNR(B) is ~1% cheaper than domestic fixed deposits fully loaded and adds an IBU lending spread of ~40bps. It is NIM-dilutive but accretive to NII, PAT, RoE and EPS, with only a ~2bps steady-state RoA impact; leveraged FCNR(B)-backed loans already stand at ₹248.9bn.
- **The RoA bridge — operating leverage is the story**
  - H1FY27 incremental cost-to-income was 55%, which management described as "firmly in the bag" for FY27. On that basis it calculates PPOP of ~3.5%, PBT of ~2.4% and an incremental RoA of ~1.84%, and it targets high-teens RoE with ~20% balance-sheet growth over time.

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- **Credit cost and loan quality**
  - FY27 credit cost guidance of 1.5–1.6% is called comfortable against 1.38% in Q2. The corporate book is 76% rated A and above, 20% BBB and 4% BB and below, and the top 20 borrowers are 5% of the book versus 16% in March 2019.
- **Growth and funding**
  - Loan growth is guided at 20% or more, deposit-growth capacity at ~20–21% and CASA in the high 40s. Bulk deposits and CDs were reduced, and the bank priced a maiden US$500mn senior note issue in August 2026.
- **Fee income and the IRDAI risk**
  - Fee and other income grew 24.5% YoY, but the IRDAI consultation paper on insurance commissions could lower fee income. Management expects the FY28 profitability impact to be "broadly addressed" through the FCNR(B) cost benefit, savings in domestic fundraising, product changes and the repo-hike benefit.
- **Retail liabilities and cards — the path to breakeven**
  - Retail-liabilities cost-to-income fell to 136.9% from 148.1% in Q1FY27 and is targeted at ~100% over four to five years. Credit-card cost-to-income is 77.5% (240% in FY22) with a mid-60s target; the ₹98.8bn card book grew 14.3% YoY on 5 mn cards in force, with spends up ~15% YoY.
- **Capital and liquidity**
  - CRAR fell ~38bps QoQ to 14.67% as RWAs rose on FCNR(B)-backed loans. The 139% LCR at September-end is being run down towards ~115–116%, which management expects to lift NIM by ~8bps.
- **Macro and the credit cycle**
  - Retail SMA-1+2 improved to 0.72% from 0.77% and current-bucket collection efficiency was 99.5%. Management's key watch item is El Niño and drought in Maharashtra and Karnataka, with no impact visible so far.

View

IDFC FIRST Bank's Q2FY27 reinforced the operating-leverage story. PAT of ₹10.45bn was nearly three times last year's, core PAT crossed ₹10bn, credit cost fell to an all-time low 1.38% and GNPA/NNPA reached 1.32%/0.40%. Income grew ~22% against 16% opex growth, and loan assets grew 30% (22% excluding FCNR(B)-backed loans).

We recommend investors **book profits** in IDFC First Bank. The quarter had positives, but two issues temper the print and, in our view, limit further re-rating from here.

1. **Margin recovery is conditional, and deposit quality is diluted.** NIM fell 32bps QoQ to 5.58%. A recovery to ~5.8% depends on two things: deploying the excess liquidity on the balance sheet, and a repo hike. Neither is within management's control. FCNR(B) makes up about 10% of deposits and dilutes the CASA ratio to 47.6%, against 52.8% excluding it. Customer deposits excluding FCNR(B) grew only 14%, which suggests the underlying franchise is not accelerating.
2. **Returns remain thin.** RoE of 8.45% and a core cost-to-income ratio of about 70% leave the high-teens RoE ambition far away. Getting there depends on cost leverage and a benign credit cycle, and both are execution and macro risks rather than near-term certainties.

   Our view: With margin repair contingent on external triggers and RoE still well below the stated ambition, the risk-reward is less favourable at current levels. We advise booking profits and would revisit on evidence of:

   - NIM sustaining at or above ~5.8%
   - Core CASA and customer deposit growth (excluding FCNR(B)) improving
   - Core cost-to-income moving meaningfully below ~70%

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Quarterly Performance

(₹ bn)

Particulars	Q2FY27	Q2FY26	YoY Change	Q1FY27	QoQ Change
Interest earned	119.2	99.4	20.0%	110.5	7.9%
Interest expended	57.4	48.2	18.9%	50.8	13.0%
Net interest income	**61.84**	**51.13**	**20.9%**	**59.72**	**3.5%**
NIM (%)	5.58	5.59	-1bps	5.90	-32bps
Non-interest income	22.96	18.92	21.4%	23.09	-0.6%
Total income	84.80	70.04	21.1%	82.82	2.4%
Operating expenses	59.42	51.24	16.0%	57.29	3.7%
Pre-provision operating profit (PPOP)	**25.39**	**18.80**	**35.1%**	**25.53**	**-0.5%**
Total provisions	11.37	14.52	-21.7%	11.44	-0.6%
PBT	14.02	4.28	227.6%	14.09	-0.5%
Provision for taxes	3.57	0.76	369.7%	3.34	6.9%
PAT	**10.45**	**3.52**	**196.9%**	**10.75**	**-2.8%**
Loan assets (net of IBPC)	3,469.1	2,665.8	30.1%	3,053.7	13.6%
Loan assets ex-FCNR(B)	3,291.7	2,692.8	22.2%	3,114.4	5.7%
Deposits	3,485.8	2,767.7	25.9%	3,118.9	11.8%
BVPS (₹)	57.34	54.06		56.43	
RoA (%)	0.93	0.38		1.06	
RoE (%)	8.45	3.1		9.0	
EPS (₹)	1.21	0.41		1.25	
GNPA (%)	1.32	1.86	-54bps	1.52	-20bps
NNPA (%)	0.40	0.52	-13bps	0.44	-4bps

Source: Company, Way2Wealth Research

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Name of the Security	IDFC FIRST Bank Ltd.
Name of the analyst	Dhananjay Kansara
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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