

BSE SENSEX 83,295 S&P CNX 25,713

**CMP: INR70**

**TP: INR80 (+14%)**

**Neutral**



### Stock Info

	IDFCFB IN
Bloomberg	IDFCFB IN
Equity Shares (m)	7339
M.Cap.(INRb)/(USD\$b)	602.3 / 6.6
52-Week Range (INR)	87 / 52
1, 6, 12 Rel. Per (%)	-18/-3/3
12M Avg Val (INR M)	2222
Free float (%)	100.0

### Financials Snapshot (INR b)

Y/E March	FY25	FY26E	FY27E
NII	192.9	213.7	259.8
OP	74.1	85.6	115.4
NP	15.2	21.3	42.7
NIM (%)	6.0	5.6	5.7
EPS (INR)	2.1	2.7	5.0
BV/Sh. (INR)	52	55	59
ABV/Sh. (INR)	50	53	57

### Ratios

RoA (%)	0.5	0.6	0.9
RoE (%)	4.4	5.0	8.8

### Valuations

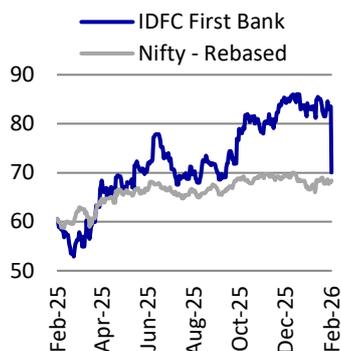
P/E(X)	33.0	26.2	14.0
P/BV (X)	1.4	1.3	1.2
P/ABV (X)	1.4	1.3	1.2

### Shareholding pattern (%)

As on	Dec-25	Sep-25	Dec-24
Promoter (%)	0.0	0.0	0.0
DII (%)	30.2	33.5	25.3
FII (%)	36.8	24.6	27.1
Others (%)	33.1	41.9	47.6

FII Includes depository receipts

### Stock's performance (one-year)



## Uncovers malafide transactions at Chandigarh branch

**INR5.9b deposits at risk; could potentially dent 4QFY26 PBT by 56%**

- IDFC First Bank (IDFCB) has reported certain fraudulent transactions in respect to unauthorized withdrawal of deposits amounting to INR5.9b from its branch in Chandigarh, Haryana.
- The bank mentioned that the fraud is confined to a single branch and pertains to a defined set of Haryana state government accounts. There appears to be a prima facie evidence of employee collusion, and this incident is not a reflection of systemic failure, the bank said.
- Government deposits (state + Central) account for ~8-10% of total deposits for IDFCB, while Haryana state government's balance stands at ~0.5% of total deposits.
- The bank has appointed KPMG as an auditor and the investigations are underway. Basis findings and following the due procedures, the bank will look to make necessary provisions in the coming quarter. We believe that in a worst-case scenario assuming negligible recovery, the provisioning requirement will impact 4QFY26 PBT by 56%.
- We look forward to get more clarity on these developments and potential recovery that may possibly happen as the authorities investigate the matter. We will review our numbers during the 4Q preview and in the interim, we maintain our Neutral rating on the stock with a revised PT of INR80 (1.3x Sep'27E ABV).

## Bank reports fraudulent transactions amounting to INR5.9b

IDFCB has reported certain fraudulent transactions in respect to unauthorized and fraudulent activity at a single Chandigarh branch, involving a defined set of Haryana government-linked accounts. Based on a preliminary assessment, the aggregate amount under reconciliation is approximately INR5.9b, comprising INR4.9b identified initially and an additional ~INR1b conservatively recognized. The issue is confined to this branch and does not extend to other customers or branches, with prima facie evidence pointing to employee collusion with external parties, not a system failure.

## Haryana state government dis-empanels IDFCB and AU Bank; State accounts for 0.5% of overall deposits

- Haryana state government has dis-empaneled IDFCB and AU Bank for government business.
- Government deposits (state + Central) account for ~8-10% of total deposits for IDFCB, while Haryana state government's balance stands at ~0.5% of total deposits.
- The post-incident outflow of approximately INR2bn is manageable and has not triggered broader stress across wholesale deposits.

### Bank has made strong deposit franchise led by digital and branch strategy

- IDFCB has built a robust and granular liability franchise, with retail deposits now contributing ~79% of customer deposits, up sharply from ~27% at the time of merger. This has been supported by healthy deposit growth of ~24% YoY and a steadily improving CASA mix of ~51.6%, compared with 46.5% in 1QFY24.
- The bank continues to prioritize branch-led and digital deposit mobilization over bulk deposits, with deposits per branch rising to INR2.7b in 3QFY26 from INR1.5b in FY21. Consequently, the share of retail deposits qualifying as LCR has increased from 12% to ~63% over the past five years.
- Despite a CD ratio of ~93%, the bank remains well positioned to scale deposits, aided by a competitive rate strategy and ongoing network expansion. We expect IDFCB to sustain a ~22% deposit CAGR over FY26-28E, comfortably supporting loan growth.

### Operating performance (NIMs, credit cost, C/I) recovering gradually

- IDFCB's operating performance is recovering gradually, with key profitability metrics turning supportive.
- NIMs, which faced near-term pressure from repo pass-through, MFI run-down and a higher wholesale mix, are close to a trough, with management guiding for margins to stabilize and exit FY26 at ~5.8% (3QFY26 NIMs at 5.76%), aided by improving asset mix and reduction in cost of funds.
- Credit costs are trending lower, supported by stabilization in unsecured portfolios, reduction in the MFI stress, improving collections and declining SMA levels, pointing to normalization over the medium term.
- While the C/I ratio remains elevated due to branch expansion and technology investments, early operating leverage is visible. We estimate C/I ratio to gradually recover to 64.4% by FY28E, driven by scale benefits, expansion of revenue due to better NIMs, and efficiency gains.

### Looking forward to further clarity; worst case impact of 56% on 4Q PBT

With INR5.9b of deposits at risk, the actual financial impact will hinge on the quantum and timing of recoveries as determined by the findings of the ongoing forensic audit and subsequent legal recovery process. IDFCB has appointed KPMG as an auditor and the investigations are underway. Basis findings and following the due procedures, the bank will look to make necessary provisions in the coming quarter.

**We believe that in a worst-case scenario assuming negligible recovery, the provisioning requirement will impact 4QFY26 PBT by 56%.**

### Valuation and view

IDFCB disclosed unauthorized withdrawals of INR5.9b from a single Chandigarh branch, involving a defined set of Haryana state government accounts, with prima facie evidence of employee collusion and no systemic failure. Government deposits form ~8-10% of total deposits, while Haryana balances make up only ~0.5%, limiting the balance sheet risk. KPMG has been appointed to conduct a forensic audit. In a worst-case scenario of negligible recoveries, provisioning could impact 4QFY26E PBT by ~56%. **We look forward to get more clarity on these developments and a potential recovery that may possibly happen as the authorities investigate the matter. We will review our numbers during the 4Q preview, and in the interim, we maintain our Neutral rating with a revised PT of INR80 (1.3x Sep'27E ABV).**



## IDFC First Bank: Concall in respect to fraudulent transactions at bank's Chandigarh branch

### Management remarks

- The matter is restricted to a single Chandigarh branch, with no involvement of any other branches.
- Employees from this branch were involved and have since been suspended.
- The bank has appointed KPMG to conduct an audit.
- Police complaints have already been filed in connection with the incident.
- Recovery efforts have commenced, and existing control mechanisms remain in place.
- The identified discrepancy stands at INR4.9b, with the bank conservatively recognizing an additional INR1b, taking the total estimated impact to INR5.9b. This figure is considered broadly accurate at present.
- The bank remains well-capitalized, with profitability continuing on a positive trajectory.
- This was an isolated branch-level group incident, where debit instructions originated from the client and funds were transferred to external parties, with involvement of branch employees.
- The incident occurred with the connivance of certain employees, and the bank has moved swiftly by initiating a forensic audit.
- Necessary corrective actions will be taken to contain the issue and prevent any recurrence.
- The board has taken cognizance of the matter and is acting in line with regulatory guidance.
- The bank operates over 1,000 branches and has not encountered a similar fraud in the past.
- The bank expects NIMs of approximately 5.8% for the current quarter.

### No error on system generated statements

- The bank was first notified by the Haryana state government, with the issue gaining momentum after 18th Feb'26.
- One customer highlighted discrepancy in account statements, after which the bank reconciled other related accounts.
- There was no error in system-generated statements; alerts, SMS notifications and transaction statements were duly sent.
- No communication has been received from any other state governments regarding similar issues.

### Nature of the incident

- The incident is limited to a single branch and involved multiple accounts.
- This was not a system failure but a case of employee collusion with third parties.
- The transactions were executed through the cheque-based system, not electronic channels.
- This is a one-off incident, given its otherwise strong operating track record.
- Decisive steps will be taken to address collusion-related risks.

### Haryana deposits at 0.5% of bank deposits; Govt deposits at 8-10%

- Haryana-related deposits constitute ~0.5% of total bank deposits.
- The observed outflow from these accounts is approximately INR2b.

- Total exposure is estimated at ~INR5.9b, comprising INR4.9b identified initially and an additional ~INR1b identified subsequently.
- Management has clearly communicated the outer limit of the incident without delay.
- Government deposits (state + central) account for 8-10% of total deposits.

#### **Recovery actions are underway**

- The bank is analyzing the incident across Level 1, 2 and 3 scenarios to identify funds not legitimately disbursed.
- Recovery efforts are underway, including from other linked accounts.
- Funds were transferred to multiple other banks, and all of them have been cooperative.
- Certain recipient accounts required additional confirmations as part of the recovery process.
- The bank expects further recoveries from the identified accounts.

#### **Controls, checks and preventive framework**

- Transactions above INR0.5m are covered under a Positive Pay system, with customer cross-verification.
- Transactions above INR1m undergo additional verification layers.
- The bank has introduced a monthly balance monitoring system as part of fraud prevention.
- Going forward, it will introduce digitally verified stipulations for transaction authorization.
- Enhanced measures are being implemented specifically to prevent collusion risks.
- Government accounts continue to receive heightened sensitivity and oversight.

#### **KMPG appointed as a forensic auditor**

- A forensic audit has been initiated, covering the entire chain of events.
- KPMG has been appointed, with the process expected to take 4-5 weeks.
- The forensic review will verify facts, determine responsibility and assess intent, with a focus on fairness.
- The bank is engaging with employees and counterparties involved and will proceed strictly as per the law.

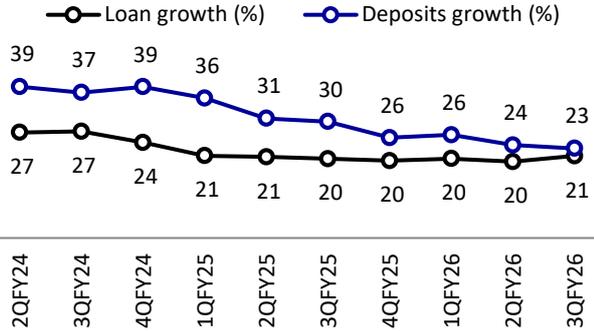
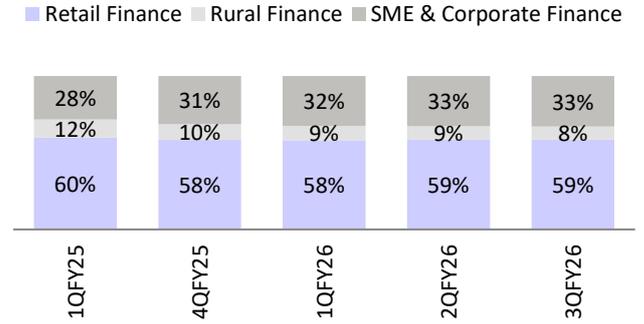
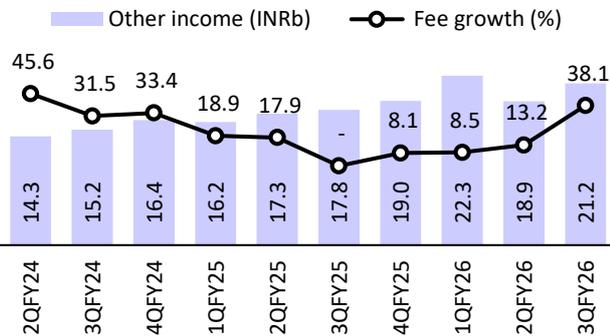
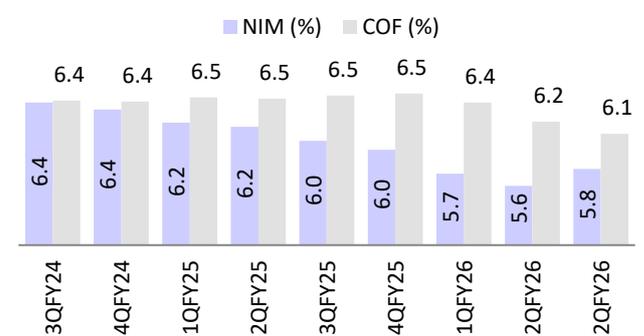
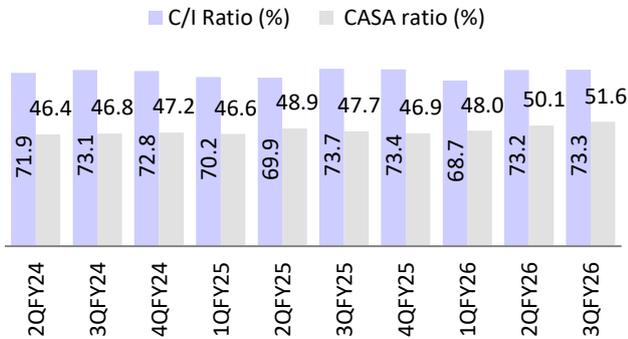
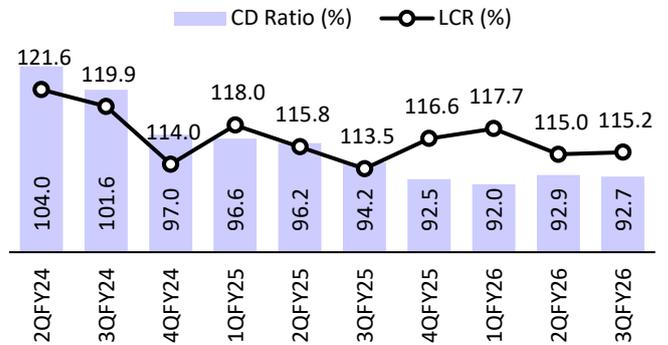
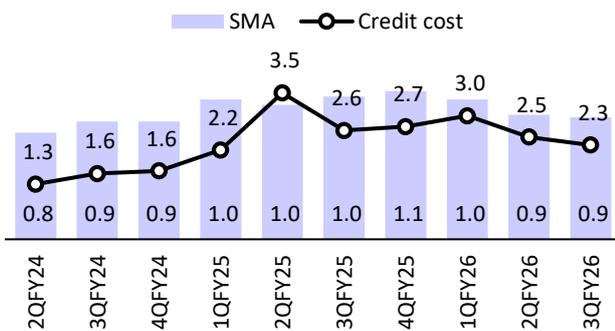
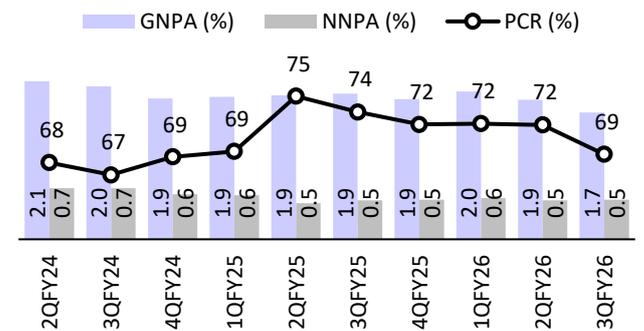
#### **Bank holds INR350m in insurance**

- IDFCB holds an employee dishonesty insurance policy of ~INR350m.
- The bank's LCR stands at ~115%, well above regulatory requirements.
- Capital adequacy remains comfortable and in excess of minimum norms.
- Core operations remain strong, though the bank may take appropriate provisions.

#### **Business outlook**

- The bank maintains a strong reputation in the market, despite recent interest rate reductions.
- Prior to the incident, the bank was expecting a strong quarter, supported by better NIMs and lower credit costs.
- Management has reiterated its confidence in the strength of core operations and long-term franchise stability.

# STORY IN CHARTS: IDFC First Bank

**Exhibit 1: Loans/deposits grew 21%/22.9% YoY**

**Exhibit 2: Consumer & Rural Finance formed 67% of loans**

**Exhibit 3: Fee income grew 38% YoY to INR20.3b**

**Exhibit 4: NIMs expanded 17bp QoQ to 5.76%**

**Exhibit 5: C/I ratio stood at 73.3%; CASA ratio at 51.6%**

**Exhibit 6: CD ratio stood at 92.7% in 3QFY26**

**Exhibit 7: Credit costs declined to 2.3%; SMA at 0.88%**

**Exhibit 8: GNPA/NNPA ratios fell to 1.69%/0.53%; PCR at 69%**


Source: MOFSL, Company

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## Financials and valuations

Income Statement							(INRb)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	171.7	227.3	303.2	365.0	412.6	485.2	572.8
Interest Expense	74.7	100.9	138.7	172.1	198.9	225.4	262.2
<b>Net Interest Income</b>	<b>97.1</b>	<b>126.4</b>	<b>164.5</b>	<b>192.9</b>	<b>213.7</b>	<b>259.8</b>	<b>310.6</b>
-growth (%)	31.5	30.2	30.2	17.3	10.8	21.6	19.5
Non-Interest Income	32.2	44.7	60.0	70.2	84.3	96.9	115.3
<b>Total Income</b>	<b>129.3</b>	<b>171.0</b>	<b>224.5</b>	<b>263.1</b>	<b>298.0</b>	<b>356.7</b>	<b>425.9</b>
-growth (%)	34.8	32.3	31.3	17.2	13.2	19.7	19.4
Operating Expenses	96.4	121.7	162.2	189.0	212.3	241.3	274.4
<b>Pre Provision Profits</b>	<b>32.8</b>	<b>49.3</b>	<b>62.4</b>	<b>74.1</b>	<b>85.6</b>	<b>115.4</b>	<b>151.5</b>
-growth (%)	31.4	50.2	26.5	18.9	15.5	34.7	31.3
<b>Core PPop</b>	<b>27.4</b>	<b>46.1</b>	<b>60.3</b>	<b>71.0</b>	<b>83.8</b>	<b>113.6</b>	<b>149.8</b>
-growth (%)	44.0	68.6	30.8	17.6	18.0	35.6	31.9
Provisions (excl tax)	31.1	16.6	23.8	55.1	58.6	58.6	66.9
<b>PBT</b>	<b>1.8</b>	<b>32.7</b>	<b>38.6</b>	<b>19.0</b>	<b>27.0</b>	<b>56.8</b>	<b>84.6</b>
Tax	0.3	8.3	9.0	3.8	5.8	14.0	20.9
Tax Rate (%)	16.9	25.4	23.3	19.7	21.3	24.7	24.7
<b>PAT</b>	<b>1.5</b>	<b>24.4</b>	<b>29.6</b>	<b>15.2</b>	<b>21.3</b>	<b>42.7</b>	<b>63.7</b>
-growth (%)	-67.8	1,575.3	21.3	-48.4	39.4	101.1	49.1

## Balance Sheet

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	62.2	66.2	70.7	73.2	85.7	85.7	85.7
Reserves & Surplus	147.7	190.7	250.3	306.1	385.2	418.0	471.8
<b>Net Worth</b>	<b>209.9</b>	<b>256.8</b>	<b>321.0</b>	<b>379.3</b>	<b>470.9</b>	<b>503.7</b>	<b>557.5</b>
<b>Deposits</b>	<b>1,056.3</b>	<b>1,446.4</b>	<b>2,005.8</b>	<b>2,520.7</b>	<b>3,070.2</b>	<b>3,733.3</b>	<b>4,536.0</b>
-growth (%)	19.1	36.9	38.7	25.7	21.8	21.6	21.5
<b>-CASA Dep</b>	<b>511.7</b>	<b>719.8</b>	<b>947.7</b>	<b>1,182.4</b>	<b>1,532.0</b>	<b>1,855.5</b>	<b>2,258.9</b>
-growth (%)	11.5	40.7	31.7	24.8	29.6	21.1	21.7
Borrowings	529.6	572.1	509.4	389.7	419.7	490.6	573.4
Other Liabilities & Prov.	105.8	123.7	124.4	147.0	173.5	204.7	241.5
<b>Total Liabilities</b>	<b>1,901.7</b>	<b>2,399.0</b>	<b>2,960.6</b>	<b>3,436.7</b>	<b>4,134.3</b>	<b>4,932.3</b>	<b>5,908.5</b>
Current Assets	157.6	139.0	124.8	151.0	178.7	198.5	219.7
<b>Investments</b>	<b>461.4</b>	<b>611.2</b>	<b>747.1</b>	<b>807.2</b>	<b>979.9</b>	<b>1,185.7</b>	<b>1,434.7</b>
-growth (%)	1.6	32.5	22.2	8.0	21.4	21.0	21.0
<b>Loans</b>	<b>1,178.6</b>	<b>1,517.9</b>	<b>1,945.9</b>	<b>2,331.1</b>	<b>2,792.7</b>	<b>3,354.0</b>	<b>4,031.5</b>
-growth (%)	17.2	28.8	28.2	19.8	19.8	20.1	20.2
Fixed Assets	13.6	20.9	26.2	26.6	33.0	37.0	41.4
Other Assets	90.6	110.4	117.1	122.3	150.0	157.1	181.2
<b>Total Assets</b>	<b>1,901.8</b>	<b>2,399.4</b>	<b>2,961.2</b>	<b>3,438.2</b>	<b>4,134.3</b>	<b>4,932.3</b>	<b>5,908.5</b>

Asset Quality	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
GNPA	44.7	38.8	37.2	44.3	46.6	52.5	50.9
NNPA	18.1	13.0	11.6	12.3	13.8	15.7	14.4
GNPA Ratio (%)	3.8	2.6	1.9	1.9	1.7	1.6	1.3
NNPA Ratio (%)	1.5	0.9	0.6	0.5	0.5	0.5	0.4
Slippage Ratio (%)	6.9	3.4	3.0	3.8	3.6	3.3	2.8
Credit Cost (%)	2.8	1.2	1.4	2.6	2.2	1.9	1.8
PCR (Excl Tech. write off) (%)	59.5	66.4	68.8	72.3	70.3	70.2	71.7

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>10.4</b>	<b>11.2</b>	<b>11.9</b>	<b>12.0</b>	<b>11.4</b>	<b>11.2</b>	<b>11.0</b>
Avg. Yield on loans	13.0	14.2	15.0	14.4	13.7	13.4	13.1
Avg. Yield on Investments	5.8	6.1	6.1	6.9	6.8	6.7	6.7
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.1</b>	<b>5.6</b>	<b>6.1</b>	<b>6.3</b>	<b>6.2</b>	<b>5.8</b>	<b>5.6</b>
Avg. Cost of Deposits	4.4	5.0	5.9	6.2	6.0	5.6	5.4
<b>Interest Spread</b>	<b>8.6</b>	<b>9.2</b>	<b>9.1</b>	<b>8.2</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>
<b>Net Interest Margin</b>	<b>6.1</b>	<b>6.5</b>	<b>6.8</b>	<b>6.6</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>

### Capitalisation Ratios (%)

CAR	16.7	16.8	16.1	15.5	16.1	14.6	13.6
Tier I	14.9	14.2	13.4	13.2	14.1	12.9	12.2
-CET-1	14.9	14.2	13.4	13.2	14.1	12.9	12.2
Tier II	1.9	2.6	2.8	2.3	2.0	1.7	1.4

### Business Ratios (%)

Loans/Deposit Ratio	111.6	104.9	97.0	92.5	91.0	89.8	88.9
CASA Ratio	48.4	49.8	47.2	46.9	49.9	49.7	49.8
Cost/Assets	5.1	5.1	5.5	5.5	5.1	4.9	4.6
Cost/Total Income	74.6	71.2	72.2	71.8	71.3	67.7	64.4
Cost/Core Income	77.9	72.5	72.9	72.7	71.7	68.0	64.7
Int. Expense/Int.Income	43.5	44.4	45.7	47.1	48.2	46.5	45.8
Fee Income/Total Income	20.7	24.3	25.8	25.5	27.6	26.7	26.7
Non Int. Inc./Total Income	24.9	26.1	26.7	26.7	28.3	27.2	27.1
Empl. Cost/Total Expense	28.0	30.7	30.2	30.2	30.7	30.7	30.8

### Efficiency Ratios (INRm)

CASA per branch	798.3	889.8	1,003.9	1,180.0	2,553.3	3,092.4	3,764.9
Employee per branch (in nos)	43.4	43.7	43.6	42.1	84.4	94.5	105.8
Staff exp per employee	1.0	1.1	1.2	1.4	1.3	1.3	1.3
Busi. per Empl.	80.4	83.8	96.1	115.0	115.8	125.0	134.9
NP per Empl.	0.1	0.7	0.7	0.4	0.4	0.8	1.0

### Profitability Ratios and Valuation

RoE	0.7	10.4	10.2	4.4	5.0	8.8	12.0
RoA	0.1	1.1	1.1	0.5	0.56	0.9	1.2
RoRWA	0.1	1.6	1.5	0.6	0.7	1.2	1.6
Book Value (INR)	34	39	45	52	55	59	65
-growth (%)	7.6	15.0	17.0	14.1	6.1	7.0	10.7
<b>Price-BV (x)</b>	<b>2.1 (x)</b>	<b>1.8</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
Adjusted BV (INR)	31	37	44	50	53	57	63
<b>Price-ABV (x)</b>	<b>2.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
EPS (INR)	0.2	3.8	4.3	2.1	2.7	5.0	7.4
-growth (%)	-71.6	1,452.3	13.8	-50.9	26.2	86.5	49.1
<b>Price-Earnings (x)</b>	<b>NM</b>	<b>18.4</b>	<b>16.2</b>	<b>33.0</b>	<b>26.2</b>	<b>14.0</b>	<b>9.4</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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