# IDFC First Bank

25 July 2026

**Operator:** Good morning, ladies and gentlemen. Welcome to IDFC First Bank Ltd.'s Q1 FY27 earnings conference call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saptarshi Papari, Head of Investor Relations and ESG. Thank you, and over to you, Mr. Papari.

**Saptarshi Papari – Head of Investor Relations:** Thank you, Anju. Thanks a lot. Hi everyone, good evening. Thanks for joining the call. We have with us Mr. V Vaidyanathan, MD and CEO of our bank, and Sudhanshu Jain, our CFO. We will start with a brief financial update with Sudhanshu, then we can have some words from Mr. Vaidyanathan, and then we will open the forum for Q&A. I will hand it over to Sudhanshu.

**Sudhanshu Jain – CFO:** Thanks Saptarshi. Good evening, everyone. First of all, thank you for participating on a Saturday evening. I will start with the business side and eventually cover the profitability segment.

I would say that the business momentum was quite strong during the quarter. In fact, our customer business, which is your deposits plus your funded assets, has crossed 6 lakh crores during the quarter, and we saw a year-over-year increase of almost 20% put together. Individually, if I talk about the loan book, we registered a strong growth of 20.6% on a year-over-year basis, and that book has now crossed 3 lakh crores to reach about 3.05 lakh crores. This incremental growth on the loan side was primarily driven by mortgages, vehicles, corporate loans, and consumer loans. We have given a fairly detailed breakup on slide 29 of the presentation.

If I talk of the retail segment, the retail, Agri, and MSME book was at 2.4 lakh crores, and the wholesale book was at 64,000 crores as of the June quarter. The retail, Agri, and MSME book grew by about 18% on a year-over-year basis. In wholesale, we continue to power up, and there the growth was even stronger at 30%. Just another data point, the MFI book was at 6,700 crores at the end of June 2026. We saw a marginal increase as against the previous quarter. Also, 93% of the book is now covered in MFIs through the CGS coverage.

With respect to credit cards, the cards in force have now reached 4.8 million during the quarter. The book grew by about 19% on a year-over-year basis and was about 9,600 crores. The spends on the credit cards grew at a healthy pace of 22% on a year-over-year basis. Moving on to the wealth management business, the AUM has now reached almost 64,000 crores, and it grew at 24% on a year-over-year basis.

If I now talk of the asset quality, we saw an improving trajectory across GNPA, NNPA, SMA, and several other ratios. To put out some numbers, the gross NPA ratio of the bank further improved by 10 basis points from 1.61% reported in Q4 to 1.51%. Similarly, on net NPA, we saw an improvement of 4 basis points to 0.44% for the quarter. In the retail, rural, and MSME segment, the gross NPA improved sequentially by 7 basis points to 1.4%, and similarly, net NPA improved by 4 basis points to 0.52%.

Moving on to gross slippages, I am happy to report that we saw a 2% reduction on a quarter-on-quarter basis. On net slippages, we saw an improvement of about 4%. If we compare gross slippages on a year-over-year basis, it is down by almost 30%, and net slippages were lower by about 44% on a year-over-year basis. We know that in the initial quarters of last year we had higher slippages coming from MFI, but even if we exclude MFI slippages for both corresponding quarters, the decline in gross and net slippages was 14% and 28% respectively. In terms of translation to the overall slippage ratio, that further improved to 2.49% in the current quarter, compared to 2.68% in the previous quarter. The collection efficiency of the bank continues to be quite stable at 99.5% for the current quarter.

Moving on to SMA 1 and 2 numbers, we continue to see an improving trend. The SMA was at 0.77% in Q1 FY27 from 0.78% in the previous quarter and 1.10% in Q1 of last year. We have given a detailed breakup across segments regarding how SMA and NPA numbers have fared. Similarly, in microfinance, things have largely been restored on the asset quality front. Here, the SMA 1 and 2 normalized to only 0.71%.

If I talk of deposits, I am happy to report that customer deposits are now just shy of 3 lakh crores. It grew by about 16.6% on a year-over-year basis and 5.3% on a quarter-on-quarter basis. If I look at total deposits, which is customer deposits plus certificates of deposit, the growth was about 17.7% on a year-over-year basis and 5.9% on a quarter-on-quarter basis. Within customer deposits, CASA deposits grew the fastest. As a result, the CASA ratio for the quarter improved by 1% to 50.8%, and the average CASA ratio stood above the 50% mark at 50.1%. CASA deposits have now touched 1.58 lakh crores. Another milestone crossed during the quarter was CASA going beyond 150,000 crores.

Moving on to the profitability section, I am happy to report that we have crossed profit of 1,000 crores for the first time. The profit for the quarter stands at 1,075 crores, which is an improvement of about 132% on a year-over-year basis. During the quarter, all operating metrics continued to demonstrate an improving growth trajectory. For example, NII grew by 21.1% on a year-over-year basis. This improved from the 15.7% year-over-year increase we saw in the previous quarter. As a result, the net interest margin on AUM improved by 3 basis points to 5.96% from 5.93% in the previous quarter. However, let me point out that the last quarter had a day count convention benefit of about 8 basis points, and in this quarter, we had a benefit of interest on an income tax refund, which contributed 6 basis points. If I exclude these two line items from the individual quarters, the NIM has shown an improvement of 5 basis points, and the adjusted number would look like 5.85% going up to 5.9%. This improvement was largely contributed by the reduction in the cost of funds, which further came down from 6% to 5.96%.

Moving on to fee and other income, we saw strong growth backed by disbursements, which increased by over 25% on a year-over-year basis in Q1. As a result, the overall fee income increased by 22.9% on a year-over-year basis, compared to 21.3% year-over-year in Q4. Other streams of fee income, such as trade and forex, commercial banking, and lead fees, also continue to contribute strongly to fee growth. As a result of the increase in NII and fees, the total income for Q1 on a year-over-year basis was 21.5% higher, compared to the 17.1% reported for the previous quarter. During the quarter, we had a good run on the treasury front, helped by the softening of G-Sec yields to some extent. Hence, we were able to achieve a treasury gain of about 181 crores in Q1.

Moving on to opex, the opex for the quarter stood at 5,729 crores, which grew by 16.4% on a year-over-year basis. If we exclude the impact of the one-off fraud incident in Q4, the sequential increase in opex was 2.3%. This increase of 2.3% on a sequential basis corresponds to an increase in core income of about 4.6% on a sequential basis. As a result, the cost-to-income ratio, excluding trading gains, improved by 166 basis points on a sequential basis to 70.7%, and by 310 basis points on a year-over-year basis. We have also mentioned in the presentation that the operating jaw between total income and opex for Q1 now stands at about 500 basis points, which has translated into improvement in the cost-to-income ratio. The operating profit of the quarter, excluding trading gains, increased by 36% on a year-over-year basis and 10.9% sequentially, again excluding the impact of the fraud incident. For two quarters in a row, we are achieving an operating profit increase of upwards of 30%.

Provisions reduced by 31.1% from 1,659 crores to 1,144 crores. On a quarter-on-quarter basis, they remained at the same level as the previous quarter's actual credit cost of 1,143 crores. During the quarter, we received claims of 514.8 crores under the credit guarantee scheme against the MFI portfolio. I want to emphasize that we applied for and received this in the same quarter, which was quite fast. Another point regarding provisions is that we have created a contingency provision of 515 crores. This is purely voluntary and on a prudent basis, considering evolving macroeconomic and geopolitical uncertainties and monsoon-related factors. I reiterate that the bank's current asset quality performance remains quite healthy across key retail, rural, and SME portfolios, with delinquency indicators largely stable or improving. Hence, this provision is forward-looking and prudent. The credit cost percentage for the quarter further improved from 1.63% to 1.53%.

Regarding capital adequacy and liquidity, the capital adequacy ratio stood at 15.05% in June, with a CET1 ratio of 13.33%. We had an impact of about 30 basis points on the CET1 ratio due to the operational risk RWA reset that typically happens in Q1. On liquidity, we continue to maintain LCR at stable levels. The average LCR ratio for the quarter was about 116%, which is broadly around our guided range. With this, I have covered the key numbers. I will hand over to Mr. Vaidyanathan for his opening remarks.

**V Vaidyanathan - MD & CEO:** Good evening, everybody. Sudhanshu has covered the numbers, so I will skip the comments on that. Beyond the numbers, what we are trying to build as a bank is a high-quality, customer-first institution. This goes to the core culture of the bank. When we say "customer-first," it is not just a slogan. Every policy, every product, and every interaction our employees have with customers must reflect that, even when giving customers the benefit of the doubt during complications or differences of opinion.

For example, we hate putting asterisks in our advertisements because people often do not see them before they consume the product. Even after several years of emphasizing this, I still occasionally encounter situations where an employee's response to a customer might not be customer-first, perhaps by disputing small amounts or negotiating unnecessarily. It is a long process, but we try to bring that culture into every product. We ensure we do not write fees and charges in complicated language that customers do not understand. We do not bill customers just because they might not notice a charge. If we are selling a mutual fund, we do not just pick the one with the highest commission; we use AI to find funds that give the maximum return to the customer, regardless of whether our commission is 0.7% or 1%. Building a bank like this costs money, but it creates a great long-term franchise.

The second thing is governance. Even during the most difficult times when we were starting the bank seven years ago and posting losses due to bad loans, we did not seek "cute" solutions. Our PPOP was only 0.5-0.6%, and our credit cost was 1%, leaving us with no core profit. Even then, we dealt with the situation straight. You will not find us lacking in governance. I do not know if something inadvertent might happen, but no one I know in our bank, board, or senior management would ever compromise on governance. This should give you comfort that the bank will deal straight and right in both good and bad days.

The third aspect is technology. We have been making the right moves on technology for many years. It is not just about the cost; it is about building the right architecture and having high-quality people. We have built an in-house stack covering customer data platforms, KYC, digital onboarding, payment infrastructure, risk engines, API streaming, machine learning, and AI. We put significant effort into the user interface and customer intelligence. Customers using our app or call center can see this experience. I am often surprised by how many people at conferences already have a connection with our bank. We are doing our best to stay at the cutting edge of technology.

Finally, this must translate to numbers. Whatever numbers we post, we believe they are coming strong from the core, which makes them more sustainable. We have been under pressure regarding the cost-to-income ratio for several years. I admit that in the first round, I got it wrong because I thought we would fix it in five years, and we are still dealing with it in the seventh year. However, I realized some income was wiped out because we wrote off a lot of bad loans. Some cost issues also came from the fact that we were building. While we may have been off on the cost-to-income ratio, we got many other things right. We targeted 1 lakh crore of retail loans at the end of five or six years; today, we are at 2.5 lakh crores. We talked about a CASA ratio of 30% and now we are at 50%. We now have 25,000 crores of NRI deposits.

Starting a bank involves expensive propositions in compliance, ticketing systems, and CRM systems. I must thank the market for providing capital while we were building. Our book value per share has gone up from 31 or 32 to 56 or 57 now. I agree that not all of this came from internal profits; much of it came from raising capital at a premium. Even when our return on equity was low, investors provided capital at a price-to-book of 1.5 or 1.6, which helped us build net worth. Now that we have adequate scale, our job is to grow the return on equity.

If you look at our cost-to-income ratio, it came down from 95.1% in Q2 FY19 to 85% upon the merger. From 85%, it moved down to around 72-73%. Some people worried we were stuck there, but that is not correct. Productivity gains were occurring, but income was impacted as we shrunk the microfinance book. Now that the microfinance issue is in the base case, we expect to see the cost-to-income ratio materially move down year-on-year.

On the economics front, even long-term investors often said they like the model but want to see a 1% ROA. When we look at our own projections, we know this is not going to stop at 1%. Although this quarter's 1% ROA included some benefits from income tax interest and treasury gains—which, if adjusted, might be closer to 90 basis points—90 is still very close. During the depth of the crisis, I said we would be within kissing distance of 1% by the end of the year. I am happy to share that we are already there. We think it will stabilize and go up from here. We believe we should be able to post 1% for the year itself. Our belief is strengthened because credit costs are performing better than expected. We are sincerely thankful to our employees and shareholders for their support.

**Operator:** We will now begin the question and answer session. The first question comes from the line of Akshay Jain with Autonomous LLP. Please go ahead.

**Akshay Jain – Autonomous LLP:** Thank you, sir, and congratulations on a good quarter. My first question is on margins. If I look at the cost of funds, it is still improving with additional tailwinds from possible rate cuts. Does the asset mix shift mean that your clean margins of 5.9% this quarter will turn into 5.75% for the full year?

**Sudhanshu Jain – CFO:** Thanks, Akshay. In the previous earnings call, we guided for a 5.75% margin, and we have reached 5.9% if we adjust for the income tax refund. For the full year, our expectation is now that we could hit a margin closer to 5.8%. We saw some benefit this quarter because we ran a lower investment book. Moving through the year, margins could be slightly impacted by the asset mix change we articulated previously, as we grow segments that could be NIM dilutive but make sense from an ROA perspective. We expect the cost of funds to stay in a range around the 6% mark. We feel margins will broadly stay around the 5.8% handle for the full year.

**Akshay Jain – Autonomous LLP:** Have you done any sensitivity analysis for how margins will move in case of rate hikes?

**Sudhanshu Jain – CFO:** I have not factored in any rate hikes when giving these projections. We will see as it comes.

**Akshay Jain – Autonomous LLP:** Regarding credit cost, your credit cost for Q1 was around 153 basis points. Q1 is typically the weakest quarter. If you are beating your guidance of 180-190 basis points in Q1, is there scope for bringing down the credit cost guidance? Also, on the prudential provisions, are you seeing any early warning indicators turning negative due to geopolitical issues or weaker monsoons?

**Sudhanshu Jain – CFO:** To our surprise, Q1 has fared quite well. Typically, Q4 is the better quarter for collection momentum, but that has flowed into Q1 as well. Product-wise, all asset indicators like SMA, GNPA, and NNPA are trending well. We created a contingency provision as a prudent measure, given the current geopolitical uncertainties and monsoon factors. It is purely a prudent provision. While we pre-guided 170-180 basis points for credit cost in the previous call, we now feel we could land more around 150-160 basis points for the year.

**Akshay Jain – Autonomous LLP:** On ECL, do you have any numbers on the one-time transition and steady-state credit cost?

**Sudhanshu Jain – CFO:** Our current sense is that from a capital point of view on transition, the impact could be quite neutral. We will be required to keep more capital aside for ECL, but there will be benefits from reduced RWE application on both credit and operational risk.

**Akshay Jain – Autonomous LLP:** Regarding FCNR B, could you share the current mobilization and how those costs compare to normal TD costs?

**Sudhanshu Jain – CFO:** We see FCNR as a very good opportunity. Our current share in the NRI deposit market is about 1.7%, with an NRI deposit book of 25,000 crores. Through a combination of leverage and SBLC structures, we are hopeful of garnering a share of about 2.5% in the FCNR market. We have announced a competitive rate of 6.75% for FCNR deposits.

**Operator:** The next question comes from the line of Param Subramanyam with Investec. Please go ahead.

**Param Subramanyam – Investec:** Hi, good evening. Congratulations on the quarter; it is a strong bounce back from the issues in February. Regarding opex, are we still sticking to the 13-14% guidance for the full year?

**Sudhanshu Jain – CFO:** Business momentum remains very strong. Our endeavor is to maintain the opex leverage—the 500 basis points delta we achieved in Q1. We are hopeful of maintaining this jaw through the rest of the quarters. There could be changes in both the income and opex sides, but we want to maintain at least a 500 basis points gap.

**Param Subramanyam – Investec:** So the main drivers of the improved ROA guidance are the 20 basis point upgrade on credit cost and a slightly higher NIM?

**Sudhanshu Jain – CFO:** Yes, broadly.

**Param Subramanyam – Investec:** How should we think about the ROA trajectory going into FY28?

**V Vaidyanathan – MD & CEO:** It should increase naturally. We previously discussed a 13-14% increase in opex with an 18-18.5% increase in income. If that income growth is actually 20% or 20.5%, you might see a corresponding increase in opex because we don't want to miss market opportunities. This 450 to 500 basis point jaw opening translates to a cost-to-income reduction of about 350 basis points, which is meaningful to the P&L.

**Param Subramanyam – Investec:** Regarding the fraud incident, are we seeing any recoveries, and where will those be booked in the P&L?

**Sudhanshu Jain – CFO:** There is progress on that front. Arrests have been made and the Enforcement Directorate is looking into it. However, this is a legal process involving the PMLA court, and it is difficult to put a specific timeline on recoveries, though we are actively engaged. There was no recovery booked in the P&L this quarter.

**Operator:** The next question is from Ankit Bhiyani from Nomura. Please go ahead.

**Ankit Bhiyani – Nomura:** Good evening. How is the bank leveraging AI and Generative AI across functions, and how do you see technology investments trending? IT expense as a percentage of overall opex has come down from 11% to 9%.

**V Vaidyanathan – MD & CEO:** It is not about how much you invest, but where. We have built a modern architecture involving cloud, APIs, microservices, and real-time data streaming. This is a big enabler for our business and services. This strong foundation means the bank can continue to grow at 20% for a long time.

**Ankit Bhiyani – Nomura:** Regarding FCNR, you mentioned potentially capturing 2.5% of the overall market. How much have we mobilized so far?

**Sudhanshu Jain – CFO:** It has just started and is gaining steam. We can provide a more specific update next time.

**Operator:** The next question is from Jai Mundra from ICICI Securities. Please go ahead.

**Jai Mundra – ICICI Securities:** Good evening. What were the MFI slippages and disbursements this quarter?

**Sudhanshu Jain – CFO:** MFI slippages were quite low, similar to the previous quarter. Collection efficiency is around 99.5%. Disbursements in MFI have almost doubled compared to Q1 of last year. While the book has not grown much in the last two quarters, the decline has been arrested. We are targeting a book increase of 15% year-over-year.

**Jai Mundra – ICICI Securities:** Regarding the interest on the income tax refund, which translates to roughly 60 crores, where was that booked?

**Sudhanshu Jain – CFO:** It is in the "other" line item within NII. The number is slightly lower than 60 crores, but around that range.

**Jai Mundra – ICICI Securities:** On CASA, could you provide the separate numbers for CA and SA? How has the traction been in savings accounts, especially high-ticket ones, following the recent episode?

**Sudhanshu Jain – CFO:** Both have grown well. Average CA deposits grew by 30% year-over-year, and SA grew by about 25%. CASA deposits overall grew by 8% on a sequential basis. Our SA deposits are quite granular, and we have seen an increase in balances across both granular and high-ticket buckets.

**Jai Mundra – ICICI Securities:** To reconfirm, you are now saying you are gunning for approximately 1% ROA for the full year?

**V Vaidyanathan – MD & CEO:** That is what we are gunning for. It is primarily driven by the lower credit cost and a stable NIM.

**Operator:** The next question is from Jayant Karote from Axis Capital. Please go ahead.

**Jayant Karote – Axis Capital:** Have you quantified the impact of the steady-state credit cost after the ECL transition?

**Sudhanshu Jain – CFO:** On transition, the impact on capital could be broadly neutral. Regarding the run rate, there would be a higher provision requirement, but we would get benefits from EIR implementation because sourcing opex and processing fees will be amortized. Net of these, the impact should be manageable.

**Jayant Karote – Axis Capital:** How does the healthy growth in the corporate book play into your NIM and ROE ambitions over the next few years?

**V Vaidyanathan – MD & CEO:** Corporate banking NIM is lower than retail, so more corporate booking will have an impact on overall NIM. However, we see this in totality. Our vision is for the bank's ROA to structurally reach 1.7% to 1.8% over time. We believe this can be achieved even with more corporate loans and a lower credit cost. After seven years, our corporate underwriting capabilities are well-proven.

**Operator:** The next question is from Anand Dama from Emkay. Please go ahead.

**Anand Dama – Emkay:** Has there been any issue with institutional or government deposits following the recent episode?

**V Vaidyanathan – MD & CEO:** Deposits are coming in very strong. We did not lose deposits in any material way; in fact, we had a flat quarter during the peak of it, and they have come back very strongly. Institutional deposits are also quite stable. Our long-term strategy remains focused on retail deposits, and we are very happy with how customers believed in us during the crisis.

**Anand Dama – Emkay:** Where do you see margins settling over the next two or three quarters?

**Sudhanshu Jain – CFO:** Adjusted for the income tax refund, the margin was around 5.9%. We expect some normalization as the investment book size adjusts. For the year, we think the margin will be around 5.8%. There could be some minor contraction from the 5.9% level.

**Anand Dama – Emkay:** What kind of cost-to-income ratio should we look at for FY27?

**Sudhanshu Jain – CFO:** In Q4, we had the fraud incident booked through opex. Excluding that, opex increased by 2.3% sequentially. The Q1 cost-to-income ratio was 70.7%, and our endeavor is to bring it below 70% during the course of the year.

**Anand Dama – Emkay:** Should we expect any more credit guarantee scheme (CGS) recoveries this year?

**Sudhanshu Jain – CFO:** Procedurally, that happens only once a year. We could get more next year, but the amounts would likely be much smaller.

**Operator:** The next question is from Pritesh from Daan Capital Advisors. Please go ahead.

**Pritesh – Daan Capital Advisors:** Regarding channel sourcing, are we insourcing more, and is that helping lower the opex?

**Sudhanshu Jain – CFO:** Channel sourcing expenses are about 20% and have been quite range-bound. We are working on insourcing capabilities product by product. That benefit is bit by bit translating into our ratios, but generally, these expenses grow in line with volume.

**Pritesh – Daan Capital Advisors:** Has the use of AI changed the opex required for customer origination and rejection?

**V Vaidyanathan – MD & CEO:** We have used classical AI and machine learning for scorecards in our consumer durable, two-wheeler, and small ticket loans for many years. Generative AI will eventually affect every part of the bank, but from an investor's point of view, it must show in the numbers. We are focusing more on the outcomes.

**Pritesh – Daan Capital Advisors:** What were the PSLC costs for last year and this quarter?

**V Vaidyanathan – MD & CEO:** We are still a bank that is short on its PSL requirements, as we started from a DFI base and zero retail franchise. Last year, the negative drag was approximately 250 crores. We are building our organic PSL franchise—which is now over 1 lakh crore—but we will continue to buy PSLCs as needed to meet our targets.

**V Vaidyanathan – MD & CEO:** Thank you very much to everyone who joined the call. We look forward to continuing our work, and we believe that over the next few quarters, even those who may be skeptical will gain confidence in us.

**Sudhanshu Jain – CFO:** Thanks everyone for joining. Have a nice weekend.

**Operator:** On behalf of IDFC First Bank Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines.