

Fraud Incident to Weigh on Near-Term Profitability and Investor Sentiment

What Happened?

- IDFCFB reported fraud at its Chandigarh branch when the discrepancy came to light following a request from a department of the Government of Haryana seeking closure of its account at the bank's Chandigarh branch and transfer of the balance to another bank. During the reconciliation process, IDFCFB identified a mismatch between the balance recorded in its books and the amount claimed. Following this incident, **IDFCFB has been de-empanelled for the government business by the Government of Haryana with immediate effect.**
- Based on a preliminary review, the **issue appears confined to a specific set of govt.-linked accounts operated through the Chandigarh branch and do not extend to other customers of the branch or any other branch.** The fraud has been a cheque-related operational lapse in nature and not a cyber or tech-related lapse. Existing maker-checker controls, periodic balance confirmations, and customer communication, including monthly balance statements and SMS alerts to account holders was already being duly exercised.
- The total financial exposure ascertained for the account stands at Rs 490 Cr, with an additional Rs 100 Cr (conservatively) recognised through the scanning of related accounts, taking the aggregate impact to Rs 590 Cr.** The management has indicated that the amount has largely crystallised, and it does not anticipate any material upward revision from current levels. The issue surfaced after the Government of Haryana highlighted discrepancies in account balances, particularly post 18th February, 2026.

Remedial Actions Initiated by the Bank

- The bank has appointed KPMG as its forensic auditor** to identify control lapses, and the audit is expected to conclude in 4-5 weeks.
- All concerned branch-level employees have been suspended, and as per the bank's preliminary assessment, there is no evident indication of involvement at the top-level management presently.
- A formal complaint has been filed with the police authorities, and IDFCFB has indicated that it will extend full co-operation to investigating agencies. In parallel, recall requests have been sent to certain beneficiary banks, seeking lien marking of balances in identified suspicious accounts as part of the recovery and mitigation process.
- Going ahead, the bank **plans to deploy AI-led preliminary scrutiny, wherein transactions will undergo system-based checks before human verification of signatures, thereby minimising the risk of collusion.** Furthermore, to further fortify controls, it will introduce an explicit system-driven confirmation mechanism for transactions initiated through a branch which exceed a predefined threshold, making customer authorisation mandatory before execution. An automated alert will be triggered, requiring confirmation from the customer, thereby reducing reliance on manual validation.

Financial Impact

- Presently, from a deposit perspective, **the Haryana government's deposits account for ~0.5% of total deposits, and management believes the overall impact remains manageable.** Since the issue of notification from the govt., the bank has seen an outflow of Rs 200 Cr. **Overall, the govt deposits in aggregate, including state govt, central govt, and PSU entities, constitute 8-10% of total deposits and remain in line with the overall industry.** Apart from Haryana, IDFCFB has not received communication from any other state govt. regarding similar discrepancies.
- Additionally, the bank has an employee dishonesty insurance policy of Rs 35 Cr, which could partly offset losses. **The conclusive financial impact will remain contingent upon the outcome of insurance claims, recoveries from beneficiary accounts, and legal proceedings.**
- Apart from the near-term impact on profitability due to higher provisions, the operational performance continues to remain healthy and on an improving trajectory. The management remains confident of improving the core-PPOP/Total Asset ratio. **The overall impact (assuming the entire amount is routed through the P&L in Q4) of the incident potentially accounts for ~28% of FY26E earnings (pre-impact) and could eat up ~16 bps on Tier I Capital.**

Outlook, Valuation and Recommendation

The incident of fraud presently appears limited to a single branch, and the management does not expect any meaningful uptick in the amount of fraud going forward. While the core operational performance remains steady, the incident is expected to impact the near-term profitability of the bank. While IDFCB has not received any communication from other state govts, we remain watchful of any further negative development in this regard, which would raise concerns around govt-related business. The outcome of the forensic audit will also be keenly eyed. While we pencil in the entire impact of the fraud on the earnings, we take a sharp 23% cut to our FY26 earnings. Assuming no cascading impact of the incident, we broadly maintain our FY27/28E earnings. IDFCFB's deposit engine is largely driven by granular retail deposits, and the pace of growth is expected to remain healthy, meaningfully ahead of the system going ahead. **We believe current valuations of 1.2x/1.1x FY27/28E ABV are reasonable. However, a meaningful re-rating will hinge on impeccable execution, keeping the growth engine, especially in terms of deposits, up and running meaningfully ahead of the system, while parallelly strengthening internal controls, remains key. We reiterate our BUY recommendation with a revised TP of Rs 87/share, implying an upside of 24% from the CMP, valuing the stock at 1.4x Sep'28E ABV (vs 1.6x earlier) for a RoA/RoE delivery of 1-1.2%/9-12% over FY27-28E vs 0.4/3.7% in FY26E.**

 (CMP as of 23rd February, 2026)

CMP (Rs)	70
Upside /Downside (%)	24%
High/Low (Rs)	87/53
Market cap (Cr)	60,229
Avg. daily vol. (6m in Crs) Shrs.	2,66,37,898
No. of shares (Cr)	859.9

Shareholding (%)

	Jun-25	Sep-25	Dec-25
Promoter	0.0	0.0	0.0
FII's	23.1	34.7	36.8
MF's	10.6	9.6	10.9
Others	66.3	55.7	52.3

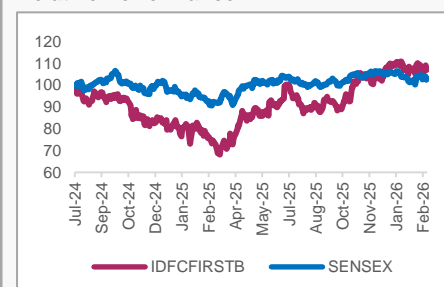
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	21,345	26,489	31,857
PPOP	8,507	12,075	15,875
Net Profit	1,621	4,543	6,602
EPS (Rs)	1.9	5.3	5.7
ABV (Rs)	53.6	58.7	66.0
P/ABV (x)	1.3	1.2	1.1
RoA (%)	0.4	1.0	1.2
NNPA (%)	0.5	0.5	0.5

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-0.1	-0.1	-0.1
PPOP	-0.2	-0.3	-0.2
PAT	-23.1	-0.6	-0.4

Relative Performance



Source: Ace Equity, Axis Securities Research

Results Gallery

[Q3FY26](#)
[Q2FY26](#)
[Q1FY26](#)
[Q4FY25](#)

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Key Risks to Our Estimates and TP

- Elevated levels of the C-I ratio would drag the bank's bottom line, thereby keeping RoA subdued.
- A slowdown in overall systemic credit growth could derail our earnings estimates.
- A significant slowdown in the Unsecured Retail and Credit Card business, along with asset quality challenges, could keep credit costs elevated, hurting our earnings estimates.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	21,345	26,489	31,857	21,362	26,524	31,892	-0.1	-0.1	-0.1
PBP	8,507	12,075	15,875	8,525	12,110	15,911	-0.2	-0.3	-0.2
Provisions	6,380	6,114	7,211	5,760	6,114	7,211	10.8	0.0	0.0
PAT	1,621	4,543	6,602	2,107	4,569	6,629	-23.1	-0.6	-0.4

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	19,292	21,345	26,489	31,857
Non-Interest Income	7,022	8,562	9,851	11,534
Total Income	26,314	29,907	36,340	43,391
Operating Expenses	18,899	21,399	24,265	27,516
Pre-Provision Profits	7,415	8,507	12,075	15,875
Provisions	5,515	6,380	6,114	7,211
PBT	1,900	2,127	5,962	8,664
Tax	375	506	1,419	2,062
Profit After Tax	1,525	1,621	4,543	6,602

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	7,471	8,596	8,596	8,596
Reserves & Surplus	30,607	38,758	43,357	50,027
Net Worth	38,078	47,354	51,953	58,622
Borrowings	2,52,065	3,14,534	3,87,054	4,75,540
-- O/W is Deposits	38,975	3,58,240	4,35,855	5,27,146
Other Liabilities	14,701	19,004	22,856	27,445
Total Liabilities	3,43,819	4,24,598	5,10,664	6,13,213
Cash & Bank balances	15,097	17,738	21,828	26,818
Investments	80,716	1,03,864	1,22,006	1,42,765
Loans	2,33,113	2,83,754	3,43,688	4,15,841
Fixed Assets & Others	14,893	19,242	23,142	27,789
Total Assets	3,43,819	4,24,598	5,10,664	6,13,213

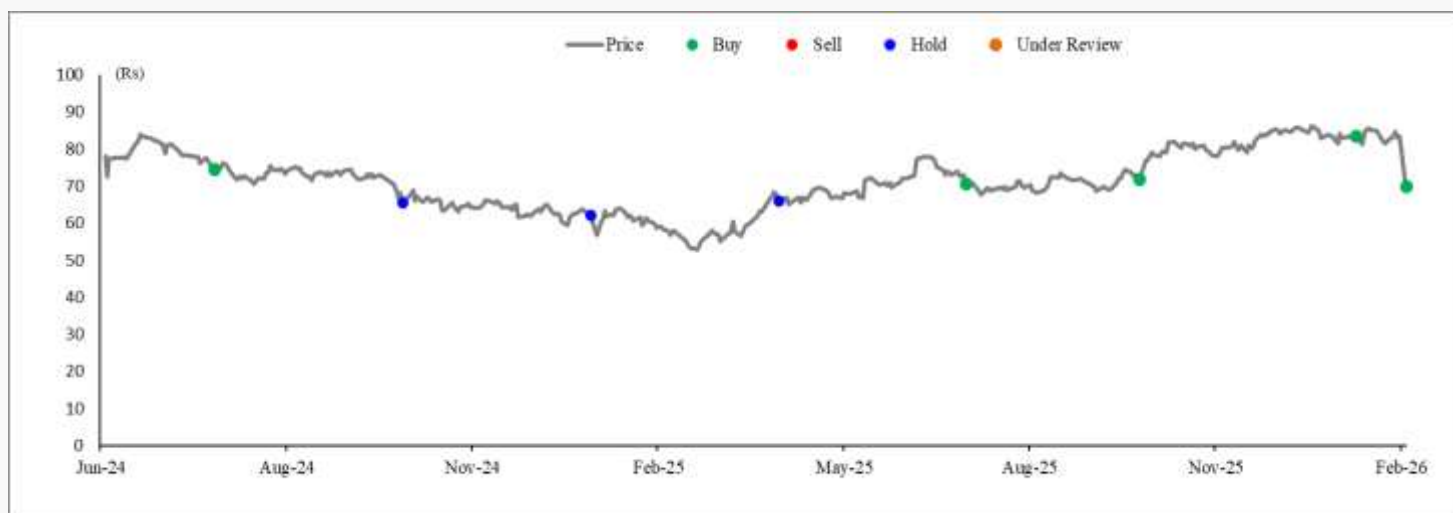
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	2.1	1.9	5.3	7.7
Earnings Growth (%)	-50.2%	-9.4%	180.2%	45.3%
BVPS	52.0	55.1	60.4	68.2
Adj. BVPS	50.3	53.6	58.7	66.0
RoAA (%)	0.4	0.4	1.0	1.2
ROAE (%)	4.0	3.7	9.0	11.7
P/E (x)	33.6	37.1	13.2	9.1
P/ABV (x)	1.4	1.3	1.2	1.1
PROFITABILITY & OPERATING EFFICIENCY				
NIM – calc. on IEA (%)	6.3	5.8	5.9	5.9
Cost/Avg. Asset Ratio (%)	5.9	5.6	5.2	4.9
Cost-Income Ratio (%)	71.8	71.6	66.8	63.4
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	19.8	21.7	21.1	21.0
Deposit Growth (%)	25.7	24.8	23.1	22.9
C-D Ratio	92.5	90.2	88.8	87.4
Equity/Loans (%)	16.3	16.7	15.1	14.1
Equity/Assets (%)	11.1	11.2	10.2	9.6
Capital Adequacy Ratio (CRAR)	15.5	17.0	16.4	15.2
Tier I Capital	13.2	14.9	14.6	13.6
ASSET QUALITY				
Gross NPLs (%)	1.9	1.6	1.6	1.7
Net NPLs (%)	0.5	0.4	0.4	0.5
Coverage Ratio (%)	72.3	72.5	72.5	72.5
Provision/Avg. AUM (%)	2.6	2.5	1.9	1.9
ROAA TREE (on Total Assets)				
Net Interest Income	6.0	5.6	5.7	5.7
Non-Interest Income	2.2	2.2	2.1	2.1
Operating Cost	5.9	5.6	5.2	4.9
Provisions	1.7	1.6	1.3	1.3
Tax	0.1	0.2	0.3	0.4
ROAA	0.4	0.4	1.0	1.2
Leverage (x)	9.1	9.0	9.4	10.2
ROAE	4.0	3.7	9.0	11.7

Source: Company, Axis Securities Research

IDFC First Bank Price Chart and Recommendation History



Date	Reco	TP	Research
29-Jul-24	BUY	90	Result Update
28-Oct-24	HOLD	66	Result Update
27-Jan-25	HOLD	64	Result Update
28-Apr-25	HOLD	68	Result Update
28-Jul-25	BUY	83	Result Update
20-Oct-25	BUY	83	Result Update
01-Feb-26	BUY	101	Result Update
23-Feb-26	BUY	87	Company Update

Source: Axis Securities Research

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