

IDFC First Bank Ltd.

25th February 2026

Fraud detection expected to drive short-term headline risk

On 18th February 2026, IDFC First Bank (IDFCFB) identified a fraud at its Chandigarh branch involving accounts linked to the Haryana State Government. The issue surfaced when a state department-initiated closure of its account and transfer of balances to another Bank, revealing a mismatch between the department's stated balance and the Bank's records. Preliminary findings indicated discrepancies of ~Rs. 4,900 Mn, which subsequently increased by an additional ~Rs. 1,000 Mn as proactively identified by the bank's own internal scanning. On 22nd February 2026, the Haryana State Government de-empaneled IDFCFB. The Bank has since appointed KPMG as forensic auditor to conduct a comprehensive investigation and has suspended four employees from the concerned branch. Even though the investigation is ongoing the Bank has settled its account with the Haryana Government by paying Rs. 5,830 Mn. The Bank has also initiated an internal control review, with clarity on the financial impact expected upon completion of the forensic audit.

Expected fraud impact on Q4FY26 as compared to Q3FY26 performance

Metric	Q3 FY26 Value (Dec 2025)	Projected Fraud Impact	Relative Impact Analysis
Net Profit	Rs. 5,030 Mn	Rs. 5,830 Mn	The total fraud estimate exceeds one full quarter's net profit.
Net Worth	Rs. 460 Bn	Rs. 5,480 Mn (Net of Insurance)	Impact is limited to ~1% of the bank's total net worth.
Customer Deposits	Rs. 2,827 Bn	Rs. 2,000 Mn (Recent Outflow), Haryana Govt. deposits = 0.5% of total deposits	The total exposure is ~20 Bn.
CRAR	16.22%	~19 bps Reduction	Capital adequacy remains well above regulatory requirements.
Insurance Offset	N/A	Rs. 350 Mn	Provides a minor buffer against the total discrepancy.

View & Valuation

We have revised our estimates and change our view from BUY to REDUCE rating on IDFC First Bank Ltd, with a revised target price of Rs. 65.4 (1.2x FY27E adjusted book value). We have given a ~33% discount to the previous 1.8x due to the fraud which is expected to drive short-term headline risk and a sentiment overhang as investors assess the potential Q4FY26 P&L impact and await findings from the KPMG forensic audit, which could lead to temporary volatility in deposits. We remain cautious and will monitor for any similar incidents across other geographies.

REDUCE

CMP Rs. 71.7

TARGET Rs. 65.4 (-8.8%)

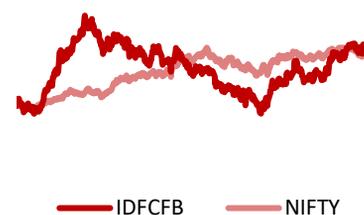
Company Data

Bloomberg Code	IDFCFB IN
MCAP (Rs. Mn)	6,16,333
O/S Shares (Mn)	8,596
52w High/Low	87 / 53
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	2,735

Shareholding Pattern %

	Dec 25	Sep 25	Jun 25
Promoters	0	0	0
FIIs	36.76	24.64	23.80
DIIIs	30.18	33.46	32.54
Non-Institutional	33.05	41.91	43.66

IDFC First Bank vs Nifty



Feb, 23 Feb, 24 Feb, 25 Feb, 26

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY25	FY26E	FY27E
NII	192.9	192.3	232.2
PPOP	74.1	73.7	94.4
Net Profit	15.2	10.8	19.3
Advances	2,331.1	2,820.7	3,413.0
ROE (%)	4.0%	2.3%	4.0%
ROA (%)	0.4%	0.3%	0.4%

Source: Company, Keynote Capitals Ltd. estimates

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Conference call takeaways

Highlights

- The Bank detected a fraud at one of its branches in Chandigarh pertaining to accounts related to Haryana state government.
- On 18th February, 2026, Haryana government department asked for closure of its account and transfer its funds to another bank. During this reconciliation process, it was discovered that there was a significant discrepancy between the amount of money the government department thought they had and the actual balance reflected in the Bank's books.
- The fraud was a traditional, physical manipulation rather than a digital or systemic cybersecurity breach. It was executed via forged cheques and unauthorized debit instructions facilitated by the connivance of branch employees with external counterparties, which allowed the perpetrators to bypass standard maker-checker-authorizer controls.
- The Bank stated that all employees who are currently suspected of being involved in the fraudulent incident have been suspended. The management clarified that there is no evidence indicating involvement of any senior management personnel in the matter.
- The Bank confirmed that its automated systems operated correctly throughout the period, sending routine monthly statements and SMS/email alerts reflecting the legitimately recorded balances to the clients. However, the client did not report the discrepancies despite receiving these automated alerts.
- The Bank holds an employee dishonesty insurance policy covering ~Rs. 350 Mn.
- The Bank has initiated recovery and lien marking across the banking system to trace and freeze funds that have not left the system.
- The Bank's exposure to Haryana State Government deposits constitute ~0.5% of the Bank's total deposits. The Bank also observed a minor outflow of ~Rs. 2,000 Mn following the news of the fraud. The Company considers this immaterial against their total deposit book of ~Rs. 3,800 Bn.
- The Bank said Indian government deposits account for 8-10% of total deposits, but the Bank's relationships are highly sticky due to deep systemic integrations, such as it provides tax collection solutions and host-to-host system integrations.
- The Bank is planning immediate operational upgrades, including the introduction of mandatory, app-based digital confirmations from customers for high-value physical branch transactions, and the deployment of AI tools for enhanced initial signature verification to minimize human error and physical collusion risks.
- Despite anticipating provisions for this event in Q4FY26, management expects the Bank to remain profitable for the quarter. This profitability is supported by strong underlying unit economics, including declining credit costs and NIM expected to expand to 5.8%.

- The Bank emphasized that its core fundamentals remain strong and resilient. Core operating profitability has now exceeded 2% of assets, with a clear upward trajectory and management guiding toward ~3.5% over the medium term.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Net Interest Income	1,64,508	1,92,920	1,92,251	2,32,217	2,78,519
Other Income	60,020	70,217	71,133	82,437	97,482
Net Income	2,24,528	2,63,137	2,63,383	3,14,654	3,76,001
Operating Expenses	1,62,158	1,88,988	1,89,636	2,20,258	2,59,441
Pre-Provision Operating Profit	62,370	74,148	73,747	94,396	1,16,560
Provisions	23,817	55,147	59,246	68,570	78,840
Profit Before Tax	38,554	19,001	14,502	25,826	37,720
Tax	8,988	3,753	3,625	6,457	9,430
Profit After Tax	29,565	15,249	10,876	19,370	28,290
EPS	4.2	2.1	1.3	2.3	3.3

Balance Sheet

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	71,289	74,708	85,950	85,950	85,950
Reserves & Surplus	2,50,325	3,06,072	3,82,194	4,01,563	4,29,853
Networth	3,21,613	3,80,780	4,68,144	4,87,513	5,15,803
Deposits	20,05,763	25,20,653	30,99,628	37,92,223	45,50,667
Borrowings	5,09,356	3,89,748	4,11,449	5,46,644	6,07,363
Other Liabilities & Provisions	1,24,419	1,47,006	1,65,901	1,81,474	1,96,150
Total Liabilities	29,61,151	34,38,187	41,45,121	50,07,854	58,69,984
ASSETS					
Cash and Balance	1,24,802	1,50,974	2,50,160	3,88,080	4,54,380
Investments	7,47,104	8,07,155	9,07,155	10,07,155	10,88,355
Advances	19,45,924	23,31,125	28,20,662	34,13,001	40,95,601
Fixed Assets & Others	1,43,321	1,48,932	1,67,146	1,99,621	2,31,646
Total Assets	29,61,151	34,38,187	41,45,125	50,07,854	58,69,985

Ratios

	FY24	FY25	FY26E	FY27E	FY28E
Growth YoY (%)					
Advance Growth (%)	28.2%	19.8%	21.0%	21.0%	20.0%
Deposit Growth (%)	38.8%	25.7%	23.0%	22.3%	20.0%
NII Growth (%)	30.2%	17.3%	-0.3%	20.8%	19.9%
PPOP Growth (%)	24.8%	18.9%	-0.5%	28.0%	23.5%
Ratios					
NIM (%)	6.5%	6.3%	5.3%	5.3%	5.3%
Cost to Income Ratio	72.2%	71.8%	72.0%	70.0%	69.0%
Credit /Deposit Ratio	97.0%	92.5%	91.0%	90.0%	90.0%
CASA Ratio (%)	47.2%	47.5%	49.0%	49.5%	49.5%
ROE (%)	9.2%	4.0%	2.3%	4.0%	5.5%
ROA (%)	1.0%	0.4%	0.3%	0.4%	0.5%
Asset Quality					
GNPA	1.9%	1.8%	1.7%	1.7%	1.5%
NNPA	0.6%	0.6%	0.6%	0.6%	0.5%
PCR (%)	68.1%	66.7%	67.6%	66.7%	66.7%
Credit Cost (%)	1.4%	2.5%	2.3%	2.2%	2.1%
Valuation					
Book Value Per Share	45.5	52.0	54.4	56.7	60.0
Adjusted Book Value Per Share	43.8	50.1	52.6	54.5	57.6
P/BV (x)	1.4	1.2	1.3	1.2	1.2
Price-ABV (x)	1.5	1.3	1.3	1.3	1.2

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 th Oct 2022	BUY	55.7	+45.6%
25 th Oct 2022	BUY	56.5	+43.4%
20 th Jan 2023	BUY	59.4	+38.1%
2 nd May 2023	BUY	64.0	+32.8%
31 st July 2023	BUY	87.0	+13.4%
30 th Oct 2023	BUY	83.0	+22.8%
23 rd Jan 2024	BUY	82.0	+21.5%
29 th April 2024	BUY	81.7	+19.3%
1 st Aug 2024	BUY	75.9	+20.4%
30 th Oct 2024	NEUTRAL	67.6	+8.0%
5 th May 2025	NEUTRAL	66.4	+7.0%
24 th Oct 2025	BUY	78.6	+14.1%
25 th February 2026	REDUCE	71.7	-8.8%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
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