

Deposit irregularity to delay albeit not derail a re-rating

BFSI - Banks ▶ Company Update ▶ February 23, 2026

CMP (Rs): 70 | TP (Rs): 80

IDFC First Bank (IDFCFB) reported a deposit mismatch of ~Rs5.9bn (~1.25% of networth, 0.2% of deposits, 7.2% of FY26E Op profit) at its Chandigarh branch—linked to a Haryana government entity. The bank clarified this was done by forging cheques/documents in multiple accounts via possible collusion with bank employees; IDFCB's account reflected the correct picture at all times, thus raising no alarms. The bank has already suspended 4 employees, launched a forensic audit (by KPMG) and recovery process, and expects some clarity in the next 4-5 weeks, once the preliminary audit report is available. While this seems to be an isolated operational lapse, the incident could trigger incremental outflows from the Haryana government (0.5% of overall deposits, ie Rs14.5bn) and partly from other government accounts (overall government exposure is 8-10% of total deposits), and thus hurt near-term CASA and margin recovery. We cut FY26E/FY27E/FY28E earnings by 30%/13%/9%, to factor in a provision for fraud in FY26 and second-order business/margin impact over FY27-28E. Although not a structural governance issue like IIB's (that led to a churn in the top management), the operational lapse may delay IDFCB's near-term re-rating story, but not derail it. After today's sharp market reaction, we retain ADD on IDFCB while cutting our TP by ~16% to Rs80 (1.2x FY28E ABV) from Rs95 (based on 1.5x Dec-27E ABV) for investors considering the near-term disruption but willing to participate in IDFCB's strong LT growth/RoA recovery story.

Deposit irregularity in Haryana state government deposits could hurt IDFCB's otherwise strong CASA profile and, thus, its margin trajectory

A deposit shortfall of Rs5.9bn (~1.25% of net worth, 0.2% of deposits, 7.2% of FY26E operating profit) was identified after a Haryana government department sought closure + transfer of its accounts, prompting reconciliation at the Chandigarh branch. The mgmt stated that 0.5% of IDFCB's deposits are from Haryana government and the overall government (state + central) exposure is 8-10% of total deposits. Following the incident, the state government has de-empaneled IDFCB and AU Bank. Thus, its deposit outflow (Rs14.5bn) is certain; there is also risk of some deposit outflow and fee loss from other government departments. Notably, IDFCB has one of the best CASA ratios (51.6%) among PVBs – the deposit outflow could push its CASA below 50% and so hurt funding cost/margins in the near term.

Asset quality recovery on track; no major long-term risk on operational cost

IDFCB's asset quality recovery is on track after prolonged stress in its MFI and card portfolios; this stress caused reduction in the credit cost to 2.3% from the highs of 3.6% in Q2FY25. While the management targets lowering the cost-to-income, from ~73% to ~65% over coming 2Y, we believe near-term progress could be uneven as the bank steps up spending for strengthening internal controls, risk functions, and deposit mobilization. This could cause a temporary uptick in opex, even as the long-term structural cost improvement story remains intact.

Target Price – 12M	Dec-26
Change in TP (%)	(15.8)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	(12.5)

Stock Data	IDFCFB IN
52-week High (Rs)	87
52-week Low (Rs)	52
Shares outstanding (mn)	8,599.2
Market-cap (Rs bn)	718
Market-cap (USD mn)	7,893
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	26.6
ADTV-3M (Rs mn)	2,217.1
ADTV-3M (USD mn)	24.4
Free float (%)	84.4
Nifty-50	25,713.0
INR/USD	91.0

Shareholding, Dec-25

Promoters (%)	0.0
FPIs/MFs (%)	36.8/22.4

Price Performance

(%)	1M	3M	12M
Absolute	1.7	5.8	36.1
Rel. to Nifty	0.4	8.4	22.0

1-Year share price trend (Rs)



IDFC First Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	29,565	15,248	14,955	41,056	69,007
Loan growth (%)	28.2	19.8	20.3	22.1	24.5
NII growth (%)	30.2	17.3	9.5	23.7	25.0
NIM (%)	6.5	6.3	5.9	6.1	6.2
PPOP growth (%)	26.5	18.9	11.0	32.9	37.2
Adj. EPS (Rs)	4.2	2.1	1.7	4.8	8.0
Adj. EPS growth (%)	13.6	(50.2)	(16.5)	174.5	68.1
Adj. BV (INR)	44.3	50.7	53.7	58.0	66.1
Adj. BVPS growth (%)	18.4	14.7	5.8	8.0	13.9
RoA (%)	1.1	0.5	0.4	0.9	1.3
RoE (%)	10.2	4.3	3.5	8.4	12.7
P/E (x)	16.7	33.6	40.3	14.7	8.7
P/ABV (x)	1.6	1.4	1.3	1.2	1.1

Source: Company, Emkay Research

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Key call takeaways

- The matter pertains to a specific branch located in Chandigarh. Certain branch employees, allegedly in collusion with external parties, have been involved in fraudulent activities. The concerned account has been identified as suspicious and is currently under detailed examination.
- The bank initially received a request from the state government of Haryana to transfer funds to certain accounts, following which it undertook reconciliation of the transactions. Upon reconciliation, the discrepancies amounted to Rs4.9bn. The matter was largely identified and corrective actions were initiated after 18-Feb-2026. The bank subsequently scanned other related accounts and identified an additional exposure of around Rs1bn (this figure may change as the review progresses); the bank also expects recovering amounts from the identified accounts.
- No members of the senior management are involved in these discrepancies, and the fraud is confined to this particular branch and a specific group of accounts of the Haryana government.
- The bank conducted an independent internal review and identified an additional Rs1bn of suspected fraudulent transactions over and above Rs4.9bn, thus totaling to Rs5.9bn. The bank believes that the overall impact should not be more than Rs5.9bn, based on its current assessment; more clarity should emerge once the forensic audit is completed.
- The bank has appointed KPMG to conduct a forensic audit and has initiated recovery proceedings. The investigation process is expected to take approximately 4-5 weeks.
- The bank claims that its balances were correctly reflected, but after completion of the reconciliation, government books reflected higher balances.
- The bank expects credit costs to decline and NIM to improve to 5.8% in Q4FY26. The bank's PPop has crossed 2%. The management has indicated that the bank is adequately positioned to absorb the financial impact. The impact from this incident will flow through the P&L account, while the incremental impact on opex should be negligible.
- The fraud was executed through forged cheques and documents processed at the branch (non-digital), involving possible collusion between certain bank employees and external parties, whereby debit instructions from the client's account led to transfers to third-party accounts. The bank has initiated a detailed investigation and indicated that the ultimate financial impact will depend on recoveries, insurance claims, and the outcome of the ongoing review.
- Deposits from the Haryana government constitute ~0.5% of total deposits (excluding outflow of Rs2bn). The bank has witnessed some deposit outflow of Rs2bn.
- The bank is on a strong growth trajectory, which is though sensitive to all government transactions. The bank's government deposits stand at 8-10% of total deposits, which include those from the state and central governments. Apart from the state government, the bank does not receive any communication from other governments.
- The bank plans to obtain confirmation from customers for high-value transactions and will trigger alerts on the customer app for such transactions. The bank also intends to deploy AI-based monitoring tools and is looking at additional measures like authorization from external branch managers, for enhanced signature verification controls.
- The bank has a fraud insurance cover of Rs350mn.
- IDFCB's systems/internal controls are already in place and functioning effectively; the incident is confined to a single branch and relates to a case of collusion risk, when certain employees allegedly acted in collaboration with external parties to perpetrate the fraud.
- The funds were transferred to multiple banks within the system, and these banks are cooperating fully in the ongoing investigation.
- If multiple parties are found to be involved, IDFCB will pursue appropriate legal action; and, in the event of any liability attributable to the bank, it will honor and repay the obligation accordingly.
- The bank has reduced interest rates; even after this development, deposit inflows have remained healthy.
- The bank has given guidance for remaining profitable after taking the hit of the fraud in 4Q (Rs5.9bn less what could be recovered).

Story in charts

Exhibit 1: Prior state government actions on private banks regarding deposits

State	Bank(s) / Category	Action issued	Date	Order status
Odisha	HDFC Bank, ICICI Bank, Axis Bank (private banks)	Removed from the empaneled list for government business; directed departments to close accounts and transfer the balance (FDs to move on maturity)	21-Jun-25	Order withdrawn (reversed on 5-Jul-25)
Haryana	Private banks (IDFCFB/AUBank)	Departments directed to avoid private banks and withdraw/transfer government funds; shift to empaneled banks	18-Feb-26	Active / ongoing
Karnataka	SBI and PNB	Directed departments to withdraw deposits and stop transactions with these banks over alleged irregularities	12-14 Aug, 2024	Order paused/retracted (held/abeyance, then formally retracted after repayments by banks)
Punjab	HDFC Bank	De-empaneled and instructed all departments to cease government transactions with it due to non-cooperation and failure to execute time-bound transactions.	11-Jun-25	No withdrawal of orders yet

Source: Emkay Research

Exhibit 2: Recent fraudulent activities led to a deposits outflow in banks

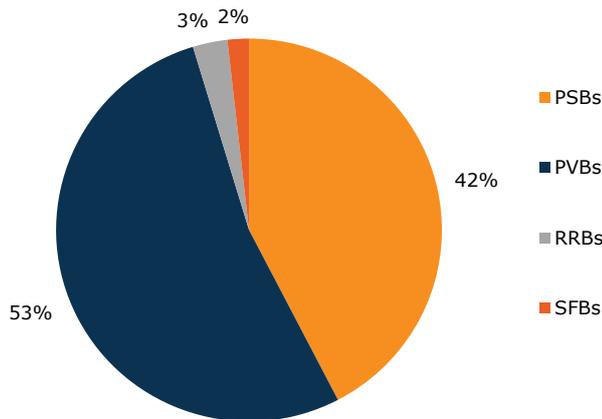
Bank name	Fraud type	Amount	Date/Period	Impact/Details
IDFC First Bank	Fraud related to government-linked deposit accounts	~Rs5.9bn	Feb-26	Fraud at the Chandigarh branch involving the state government of Haryana's accounts; mismatch in deposits resulted in employee suspensions and forensic audit
IndusInd Bank	Accounting discrepancies and suspected staff-linked fraud; deposit growth pressure	~Rs19.6bn	Mar-25	Internal reviews revealed significant accounting mismatches (derivatives and microfinance); retail and small business deposits reportedly declined (~Rs35.5bn) during the March quarter, as depositor confidence was affected; resignation by the management
Bank of India (Bandra branch)	Official siphoned customer deposits	~Rs0.16bn	Sep-25	ED arrested the official who illicitly closed accounts and transferred funds
ICICI Bank	Branch relationship manager misused FD withdrawal powers	Rs0.045bn	Jun-25	Manager withdrew funds from multiple FD accounts and invested in the stock market; arrested
Equitas Small Finance Bank	Fixed deposit fraud by ex-branch manager	Rs0.024bn	Jan-25	FIR lodged against the ex-branch manager over mismatched FD transactions (smaller in scale, but deposit-related)
New India Co-operative Bank	Misappropriation of funds leading to depositor restrictions	Rs1.22bn	Feb-25	RBI superseded the Board after finding cash discrepancies; withdrawals capped to protect depositors

Source: Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions.com)

Exhibit 3: PVBs hold the major share of deposits in Haryana, followed by PSBs

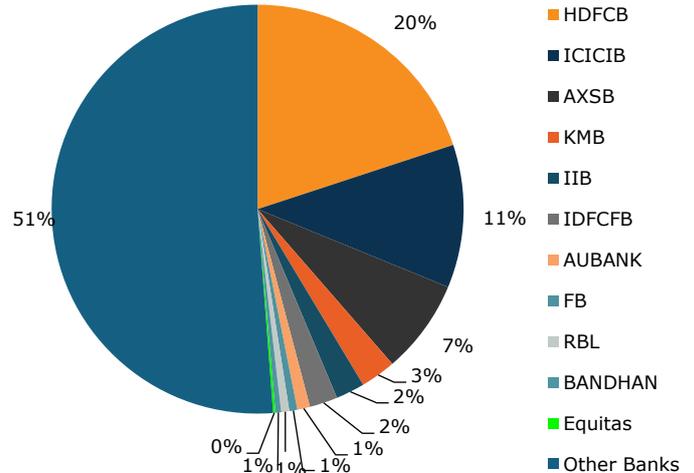
Segment-wise banks deposit share in the state of Haryana



Source: RBI, Emkay Research

Exhibit 4: Large PVBs command a dominant share of deposits in Haryana, while SMID PVBs account for ~1-3% of the state's deposit base, including IDFCB at 2.2%

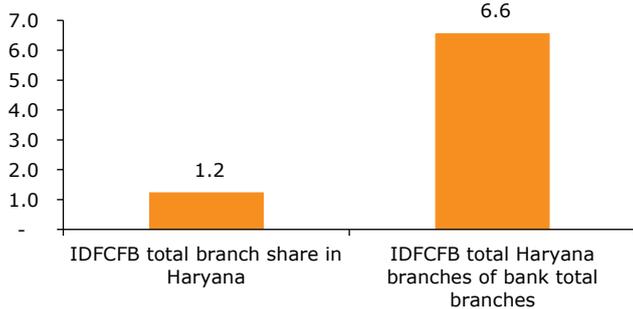
Deposits' share of banks in Haryana



Source: RBI, Emkay Research

Exhibit 5: The bank accounts for 1.2% of the total branch network in Haryana...

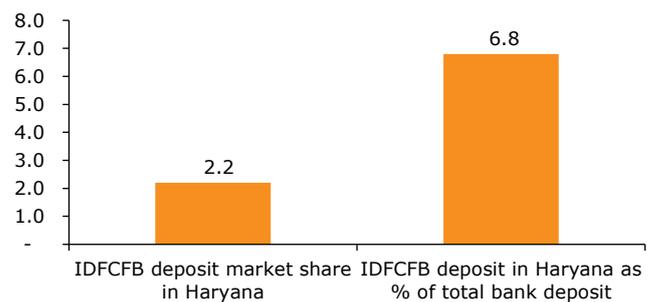
IDFCFB Branch share (%)



Source: Emkay Research

Exhibit 6: ...and commands 2.2% share of total deposits in Haryana

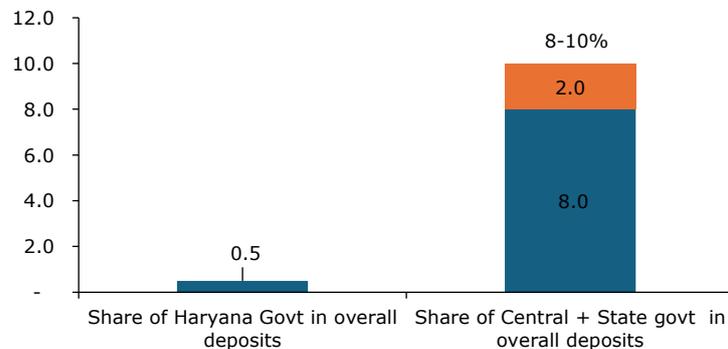
IDFCFB Deposit share (%)



Source: Emkay Research

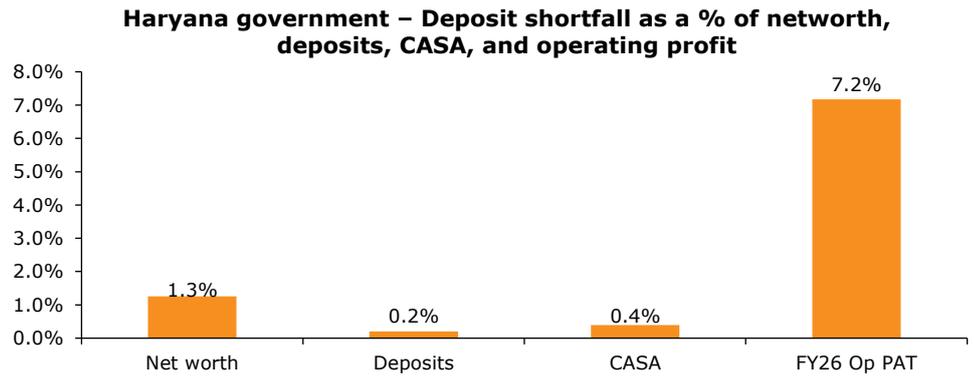
Exhibit 7: The state government of Haryana contributes 0.5% of overall deposits, while the State + Central government deposits for IDFCB stand at 8-10% of overall deposits and could be at some outflow risk

Government deposit share in IDFCB (%)



Source: Company, Emkay Research White Marquee Solutions (team.emkay@whitemarquesolutions)

Exhibit 8: The deposit mismatch accounts for approximately 1.3% of net worth, 0.2% of total deposits, and 7.2% of FY26 operating profit



Source: Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	213,432	211,327	-1.0%	270,192	261,403	-3.3%	340,110	326,850	-3.9%
PPOP	84,378	82,273	-2.5%	118,442	109,350	-7.7%	160,891	150,043	-6.7%
PAT	21,358	14,955	-30.0%	47,263	41,056	-13.1%	75,530	69,007	-8.6%
EPS (Rs)	2.5	1.7	-30.0%	5.5	4.8	-13.1%	8.8	8.0	-8.6%
BV (Rs)	55.6	54.9	-1.3%	60.7	59.4	-2.2%	68.8	66.9	-2.7%

Source: Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

IDFC First Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	303,225	365,015	407,414	477,014	571,275
Interest Expense	138,717	172,095	196,087	215,610	244,425
Net interest income	164,508	192,920	211,327	261,403	326,850
NII growth (%)	30.2	17.3	9.5	23.7	25.0
Other income	60,020	70,217	83,286	95,111	111,163
Total Income	224,528	263,137	294,613	356,515	438,014
Operating expenses	162,158	188,988	212,340	247,164	287,971
PPOP	62,370	74,148	82,273	109,350	150,043
PPOP growth (%)	26.5	18.9	11.0	32.9	37.2
Core PPOP	60,315	69,342	75,544	103,967	144,929
Provisions & contingencies	23,817	55,147	63,579	55,682	59,244
PBT	38,553	19,001	18,693	53,668	90,798
Extraordinary items	0	0	0	0	0
Tax expense	8,988	3,753	3,739	12,612	21,792
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	29,565	15,248	14,955	41,056	69,007
PAT growth (%)	21.3	(48.4)	(1.9)	174.5	68.1
Adjusted PAT	29,565	15,248	14,955	41,056	69,007
Diluted EPS (Rs)	4.2	2.1	1.7	4.8	8.0
Diluted EPS growth (%)	13.6	(50.2)	(16.5)	174.5	68.1
DPS (Rs)	0	0	0.2	0.3	0.5
Dividend payout (%)	0	0	8.6	6.3	6.2
Effective tax rate (%)	23.3	19.7	20.0	23.5	24.0
Net interest margins (%)	6.5	6.3	5.9	6.1	6.2
Cost-income ratio (%)	72.2	71.8	72.1	69.3	65.7
Shares outstanding (mn)	7,069.9	7,322.1	8,595.7	8,595.7	8,595.7

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	37,184	44,332	45,211	52,130	63,760
Net NPLs	11,605	12,299	13,563	15,639	19,128
GNPA ratio (%)	1.9	1.9	1.6	1.5	1.5
NNPA ratio (%)	0.6	0.5	0.5	0.5	0.4
Provision coverage (%)	68.8	72.3	70.0	70.0	70.0
Gross slippages	39,270	80,550	87,909	86,492	96,914
Gross slippage ratio (%)	2.0	3.4	3.1	2.5	2.3
LLP ratio (%)	1.5	2.4	2.2	1.8	1.5
NNPA to networth (%)	3.5	3.2	2.8	3.0	3.2
Capital adequacy					
Total CAR (%)	16.1	15.5	16.3	14.8	13.6
Tier-1 (%)	13.4	13.2	14.3	13.1	12.2
CET-1 (%)	13.4	13.2	14.3	13.1	12.2
RWA-to-Total Assets (%)	78.2	80.4	78.0	77.0	76.0
Miscellaneous					
Total income growth (%)	33.6	19.8	12.7	16.6	19.3
Opex growth (%)	33.2	16.5	12.4	16.4	16.5
Core PPOP growth (%)	31.0	15.0	8.9	37.6	39.4
PPOP margin (%)	17.2	17.0	16.8	19.1	22.0
PAT/PPOP (%)	47.4	20.6	18.2	37.5	46.0
LLP-to-Core PPOP (%)	39.5	79.5	84.2	53.6	40.9
Yield on advances (%)	15.1	14.5	13.4	13.1	12.8
Cost of funds (%)	6.1	6.3	6.2	5.8	5.4

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	70,699	73,221	85,957	85,957	85,957
Reserves & surplus	250,914	307,559	385,724	424,402	488,890
Net worth	321,613	380,780	471,681	510,358	574,847
Deposits	2,005,763	2,520,652	3,017,630	3,689,745	4,560,776
Borrowings	509,356	389,748	387,892	379,725	365,694
Interest bearing liab.	2,515,119	2,910,401	3,405,522	4,069,470	4,926,470
Other liabilities & prov.	124,419	147,006	205,298	325,908	527,029
Total liabilities & equity	2,961,150	3,438,187	4,082,502	4,905,736	6,028,346
Net advances	1,945,924	2,331,125	2,804,142	3,423,172	4,262,649
Investments	747,084	807,155	960,707	1,121,765	1,350,698
Cash, other balances	124,802	150,974	153,249	178,626	215,391
Interest earning assets	2,817,809	3,289,254	3,918,097	4,723,563	5,828,738
Fixed assets	26,194	26,626	29,492	32,362	35,518
Other assets	117,147	122,306	134,913	149,811	164,089
Total assets	2,961,150	3,438,187	4,082,502	4,905,736	6,028,346
BVPS (Rs)	45.5	52.0	54.9	59.4	66.9
Adj. BVPS (INR)	44.3	50.7	53.7	58.0	66.1
Gross advances	1,971,503	2,363,158	2,835,790	3,459,663	4,307,281
Credit to deposit (%)	97.0	92.5	92.9	92.8	93.5
CASA ratio (%)	47.2	46.9	47.7	46.5	46.8
Cost of deposits (%)	5.9	6.2	6.1	5.6	5.3
Loans-to-Assets (%)	65.7	67.8	68.7	69.8	70.7
Net advances growth (%)	28.2	19.8	20.3	22.1	24.5
Deposit growth (%)	38.7	25.7	19.7	22.3	23.6
Book value growth (%)	17.0	14.3	5.5	8.2	12.6

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	16.7	33.6	40.3	14.7	8.7
P/B (x)	1.5	1.3	1.3	1.2	1.0
P/ABV (x)	1.6	1.4	1.3	1.2	1.1
P/PPOP (x)	11.5	9.7	8.7	6.6	4.8
Dividend yield (%)	0	0	0.2	0.4	0.6
DuPont-RoE split (%)					
NII/avg assets	6.1	6.0	5.6	5.8	6.0
Other income	2.2	2.2	2.2	2.1	2.0
Fee income	2.1	2.0	2.0	2.0	1.9
Opex	6.1	5.9	5.6	5.5	5.3
PPOP	2.3	2.3	2.2	2.4	2.7
Core PPOP	2.3	2.2	2.0	2.3	2.7
Provisions	0.9	1.7	1.7	1.2	1.1
Tax expense	0.3	0.1	0.1	0.3	0.4
RoA (%)	1.1	0.5	0.4	0.9	1.3
Leverage ratio (x)	9.3	9.1	8.8	9.2	10.1
RoE (%)	10.2	4.3	3.5	8.4	12.7

Quarterly data

Rs mn	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
NII	49,021	49,072	49,331	51,126	54,924
NIM (%)	6.0	6.0	5.7	5.6	5.8
PPOP	17,589	18,116	22,394	18,801	20,334
PAT	3,394	3,041	4,626	3,523	5,025
EPS (Rs)	1.9	1.7	2.5	1.6	2.3

Source: Company, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
01-Feb-26	82	95	Add	Anand Dama
07-Jan-26	84	95	Add	Anand Dama
19-Oct-25	72	80	Add	Anand Dama
29-Sep-25	70	80	Add	Anand Dama
27-Jul-25	71	80	Add	Anand Dama
09-Jul-25	77	80	Add	Anand Dama
27-Apr-25	66	70	Add	Anand Dama
09-Apr-25	59	65	Add	Anand Dama
26-Jan-25	62	65	Add	Anand Dama
27-Oct-24	66	65	Add	Anand Dama
07-Oct-24	72	80	Add	Anand Dama
27-Jul-24	74	85	Add	Anand Dama
28-Apr-24	85	98	Add	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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