

IDFC First Bank Q1 Profit Dips 32% Amidst Microfinance Sector Headwinds



IDFC First Bank reported a 32% decline in its net profit for the first quarter of the current financial year, reaching ₹463 crore. The Mumbai-based private sector lender, in a regulatory filing on Saturday, attributed the substantial drop primarily to increased provisions stemming from stress in its microfinance loan book. This marks a notable decrease from the ₹681 crore net profit recorded in the corresponding quarter of the previous fiscal year.

Despite the dip in profitability, the bank's total income saw an increase, rising to ₹11,869 crore during the June quarter of 2025-26, up from ₹10,408 crore in the same period of the prior fiscal year. Net Interest Income (NII), the difference between interest earned and interest expended, grew by 5.1% year-on-year to ₹4,933 crore. However, Net Interest Margin (NIM) on assets under management (AUM) saw a 24 basis point sequential reduction to 5.71% from 5.95% in the previous quarter.

The primary factor impacting the bottom line was a significant jump in provisions and contingencies, which surged by 67% year-on-year to ₹1,659 crore. This was largely necessitated by "slippages in the microfinance book," as confirmed by the bank. While IDFC First Bank's other loan segments, including mortgages, vehicle loans, and business banking, continued to perform robustly, the microfinance portfolio faced increased delinquencies, mirroring a broader industry-wide trend. The bank's gross non-performing assets (GNPA) ratio also saw a slight uptick, rising to 1.97% from 1.87% in the preceding quarter, while net non-performing assets (NNPA) increased to 0.55% from 0.53%.

V. Vaidyanathan, Managing Director and CEO of IDFC First Bank, acknowledged the challenges. "On asset quality, all our businesses, other than microfinance, continue to perform well," he stated, expressing optimism for an improvement. "Our margins reduced because we passed on the benefit of the repo rate to eligible borrowers and changed the asset mix, but term deposits broadly would take a year to reprice downwards. So, by H2 FY26, margins are likely to be better. Also, by H2 FY26, the MFI issue should largely be behind us."

Despite the microfinance headwinds, IDFC First Bank demonstrated strong growth in its deposit base, with customer deposits increasing by 25.5% year-on-year to ₹2.57 lakh crore. Retail deposits constituted 80% of total customer deposits, indicating a healthy and diversified funding base. The bank has also reduced its microfinance portfolio by 37% year-on-year to ₹8,354 crore, now constituting only 3.3% of its overall loan book, a strategic move to de-risk its exposure to the volatile segment. The bank also intends to raise ₹7,500 crore in capital, further strengthening its financial position.

As the bank looks to the second half of the fiscal year, the focus will be on the anticipated moderation of microfinance-related provisions and the repricing of term deposits to bolster net interest margins, aiming for a rebound in profitability.