V VAIDYANATHAN, MD & CEO, IDFC FIRST BANK

‘Our deposit growth will continue to outpace advances’

IDFC First Bank is targeting to reduce its gross non-performing assets (GNPAs) to below 2% in FY24. This is likely to be achieved on the back of higher recoveries, better underwriting and shrinking the infrastructure loan book that showed higher delinquencies. **V Vaidyanathan,** *MD & CEO, tells* **Piyush Shukla** *that the trend of deposit growth outpacing loan growth will continue this fiscal. Excerpts:*

Which sectors are showing higher loan demand?
The biggest growth business is home loan since it is of long tenure. Other businesses such as loan against property, consumer loans and tractor loans are also doing well. We just launched gold and commercial vehicle loans. We have very low non-performing assets (NPA) in these businesses and the demand is strong. So, these businesses will keep growing for a long time.

Is corporate sector showing higher credit appetite?
The best part about the corporate sector is that clients have been deleveraging. During Covid, they raised equity. So, corporate balance sheets are quite strong and even the banking system has a lot of capital now. So, what they used to call a twin-balance sheet problem a few years ago has become the twin-balance sheet strength.

What is the NPA in infrastructure loans?
NPAs in infrastructure loans are around 25%. There is one account of about ₹750 crore, which is a performing toll road. But we expect it to be resolved soon since they are paying every quarter. Overall, the progress has been good — that is, from ₹25,000 crore, the book is now only about ₹4,400 crore.

Have you set any targets for overall loan growth in FY24?
We don’t put targets, but we can comfortably grow around 22%-24% year-on-year or so.

The bank has posted higher deposit growth than advances in Q4. Will the trend continue in FY24?
We are very focused on services. People believe in the bank and see it as a professional institution with efficient governance. We brought down rates in the bucket of ₹0-₹10 lakh to 4% from 7%. But deposits continue to grow at 40% plus every year.

> We expect NIM to stabilise from here on (NIM was 6.41% in Q4). Hikes in the fixed deposit rate in FY23 will affect NIMs of FY24. But we will get the benefit of re-pricing of legacy bonds.

Overall deposits are still less than outstanding advances. How will you change this metric?
Our’s was a developmental financial institution that got converted into a bank. So, we still have about ₹18,000 crore of pre-merger borrowings. Every year, we are raising deposits and paying off bonds as they mature. But we are very clear – every year, our deposits have to grow faster than our loan growth. Last year, the deposit growth was 47% and the loan book growth was only 24%. This process will continue for a few more years. In any case, even the legacy bonds are stable 3-year, -4 year money. So, there are no issues.

What is your guidance on net interest margin?
We expect NIM to stabilise from here on (NIM was 6.41% in Q4). Hikes in the fixed deposit rate in FY23 will affect NIMs of FY24. But we will get the benefit of re-pricing of legacy bonds. In all, it could be flat.

What is your guidance on asset quality?
We always guide for GNPA at 2%, net NPA of 1% in retail. But our GNPA in retail has come down to 1.64% and net NPA is 0.55%. Our guidance for credit cost is 2%, but the actual credit cost is around 1.2%.

How we do this? We underwrite good quality businesses, and then monitor collection percentage very closely. Without arrears and prepayments, it should be between 99.4% and 99.6% all the time. The SMA (special mention accounts) has come down from 2.2% last year to 1.1% this year, SMA-1 and SMA-2 put together.

Our PCR (provision coverage ratio) has crossed 80%. On infrastructure side, we expect some accounts to get resolved this year. So in all, we expect FY24 to be better.

Will overall GNPAs fall to under 2%?
Yes, that is our understanding. Basically, the overall non-performing asset at the bank-level at present is 2.51%. Even today, if you exclude infrastructure loans, which is in the run-down mode, our gross NPA is only 1.84% and net NPA would be 0.46%.