"IDFC First Bank Limited

Q1 FY '24 Results Conference Call"

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MODERATOR: **MR. CHINTAN SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to IDFC FIRST Bank Q1 FY '24 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you, and over to you, sir.

Chintan Shah: Thank you. Good evening, everyone, and welcome to the Q1 FY '24 Results Conference Call for IDFC FIRST Bank. We have with us from the management, Mr. V. Vaidyanathan, Managing Director and CEO, IDFC FIRST Bank, along with the management team.

So without further delay, I would now like to hand over the floor to the management. Thank you, and over to you, sir.

V Vaidyanathan: Hello. Good evening, everybody. This is Vaidyanathan.

Sudhanshu Jain: Good evening, everyone. I'm Sudhanshu Jain.

Saptarshi Bapari: Hi, everyone. This is Saptarshi Bapari.

V Vaidyanathan: So, first of all, thank you very much everybody for joining us for this evening call. We are all very happy to speak to you. We are quite happy as we are presenting this quarter's results because this is now establishing the steady direction we have set for ourselves and almost all the numbers we have that in the last few quarters, they seem to be just continuing on a linear curve in terms of the loan book, in terms of earnings, in terms of profitability. So I'd say that it's pretty much on track, and I'd imagine no major surprises, but I'd like to step back and actually share with you what are the key things that is we feel the top line comment that come to our mind of the curve.

One is that when we look at our Bank, oftentimes, we tend to think of it that we have a loan book that is now coming across linearly and so as the deposits. But actually, when we look at the Bank, it's a lot more than just a loan book. We have brought out in the presentation what are the various lines of business we do. So apart from the lines of businesses we've mentioned, we have now beginning to have a very strong presence in the NRI banking, wealth management, credit card business, within which we got Private Card, Millennia Card, a number of various versions of that. We got this FASTag. We are now gaining traction in trade finance, in transaction banking, cash management, treasury, supply chain solution, corporate lending, the whole thing.

So, let me just say the first point, therefore, I'd say is that the Bank is becoming more and more universal bank and the lines of revenue are pretty much getting much more diversified compared to, let me say, being only a lending business where fee income normally becomes disbursement income or maybe the annuity we get from customers as they start transacting with us with a much wider range, on a Bank platform, we're able to, of course, deliver to the customers a much wider sort of services and the consequence, of course, start getting the revenue lines across. The second thing to note for the Bank, of course, is that on the lines of businesses within lending, it's now really very diversified.

Close to about 24% of the loan book of the Bank is backed by mortgages, which is home loans and loan against property. We got business banking product, which is basically working capital to small businesses, that is again backed by property or mortgages. We got Kisan Credit Card, it's about 1% of our book, book meaning the whole book, not retail, the whole Bank-level book. So we got that. We got business banking, it's about 3% of the book.

If you add all of them up, close to about 28% of the book is now backed by mortgages. Then we got Wheels, which is about 10% of the book. Commercial vehicle and construction equipment financing is 2%, consumer loans is 13%, education loan is 1%, credit card is 2%, other retail loans is 7%, gold loans is, just what started, I guess, less than 1% now. Then rural finance is 11%, SME is 5%, large corporate is 1%, emerging corporate is 7%, financial institutions like lending to NBFCs is about 8%. So you get the drift.

And now, infra, of course, is now 2%. So the second point, I'd like to leave behind with you is that the Bank's advances have become really very diversified. So we also feel very much at peace that no one business can really -- the movement or odd behavior in any one business does not really significantly alter the credit performance of the Bank on an overall basis.

The third thing that I want to flag to you is the way the deposits are growing. Now frankly, it's a good nice credit environment and I think most banks are now posting really good results. If you see all of the results that came out, I think they're all growing well and NII is growing well for most banks. So it's income and so profits, etcetera, I'd say.

But I think what is really standing up for our Bank is the way deposits are growing. This is very important actually because our Bank as compared to many other organizations, we have to also pay off legacy liabilities of the infrastructure era that we inherited in the Bank and which helped us in our days, but as of today, there are other high costs.

So most banks I'd imagine will need deposits for growing the loan book and for getting the corresponding SLR, CRR. But in our case, we need that plus we need the need to pay off those deposits. So the good thing is that deposits are growing. To give you an idea, our total customer deposits have grown from Rs. 38,455 crores as on 31st of December 2018, that's at the time of merger. Today, it is Rs. 1,48,000 crores, that's a growth of Rs. 1,10,000 crores in 4 years.

So this is something that is like really stunning for our Bank the way the deposits are coming, it's coming really very strong. But this also does not tell you the full story because you might argue it's Rs. 1,48,000 crores, and it looks good on the face of it. It's a CAGR of 36%. But what is more important actually is the composition of this, because the composition of the original Rs. 38,000 crores we talked about, 73% of that was wholesale deposits and 27% was retail.

Today on a Rs. 1,48,000 crores of deposits, 77% is retail on much larger base and only 23% is wholesale. So you see that's what's happened here that not only the deposit base has grown, it's just diversified very much at retail, which is really a very, very positive thing. The last thing, again, talking of deposits is that CASA deposits are now touching Rs. 71,000 crores. Now, again, this is very good for a reason. If you recollect, when the merger had just happened, we had a large deposit base, I think something like Rs. 28,000 crores or so or a bit more than that of legacy high-cost deposits, where we're paying 9%. So for us 7% look very inexpensive. So we started paying 7% on savings rates at that point of time to raise the money. But what we did was along the way, somewhere in 2021, we dropped that rate from 7% to 4% for deposits up to Rs. 10 lakhs.

Now that is a big drop. I hope everyone will agree, like it's not like 25 basis points, 50 basis points, it's like 300 basis points straight from 7% to 4%. But when we did that, the surprise is that deposits still rise. I'd ask Sudhanshu to help me with the numbers on this, but if I'm not mistaken, something like about 44% or 45% of the growth in retail deposits is still going on. And on the CASA front, our deposits have grown by Y-o-Y of 27%.

Sudhanshu Jain: That's correct.

V Vaidyanathan: So, 27% growth in Y-o-Y CASA deposits in this environment when money shifting over to TDs, and that too after we dropped our primary bucket, because 1 to 10 lakhs is a primary bucket, almost most money will be here. And after that, it dropped to 4% is something that is really quite -- I don't know what to say, it's looking so good. So our deposits are coming really very well. Now the next thing is about what's happening to our asset quality.

In terms of asset quality the Retail, Rural and SME financing, that is Rs. 1,36,000 crores. Now which is the larger part of the book, has a gross NPA of only 1.53% now. Our net NPA in the segment is only 0.52%. Now our infrastructure financing is still, of course, NPA is quite high, it's 23.27%, but the good news is that the book itself has come down to only Rs. 3,571 crores. So all in all, the Bank level NPA has come down to 2.17% including infra. So if you strip out infra, which is just the legacy book will go away, it's only a matter of time. Even today, our gross NPA has come down to only 1.71%, and our net NPA has come down to 0.44%, again excluding infra.

So when you think of our Bank, I know all of you look at the headline number of the Bank-level NPA, which everybody does, 2.17%, you should because there is a fact. But for a moment, you should strip of infra and see the numbers at 1.71% and 0.44%, and this will give you a lot of comfort. And frankly, at the Board level in the Bank, it gives us also a lot of comfort because we know that there is not much to bother about from here on. The next thing is, of course, is the way our SMA is there.

Our SMA numbers are really quite good now. Our SME and the Retail front is only 0.85%. So to calibrate that NPA is low is one thing which it is, but to know that the pipeline leading to NPA, that is SMA, which is SMA-1 plus SMA-2, which is 31 to 60 bucket and 61 to 90 bucket, that is only 0.85% means that the feeder, that feeds into NPA is really so low.

So, therefore, we look forward with great confidence about asset quality in the coming quarters also. If I want to step one step back and see what is leading to such a low SMA, then it is actually collection percentages. So in collection percentages, we track what is the collection we get in our primary bucket, our industry term uses a few terms that I don't want to confuse you, but the term that we use is 0, that is the current bucket we track for collection efficiency because after all, it's the current bucket that leads to 0 to 30 and 0 to 30 lead to 31 to 60, and 31 to 60 lead to 61 to 90, and so on.

Let me talk the current bucket. So in the current bucket, our collection efficiency is 99.5%, and this 99.5%, sometimes people say, Oh my God, it's a benign environment, so you must be so good. But no, if you go back in this investor presentation, we've actually given that field for 24 months in a stretch. And every time, it is like in that zone of 99.4%, 99.5%, 99.6%. So it is very, very, very stable, rock stable.

Now what is even more interesting about this is that you might have noticed that some lenders report the collection percentage is 107%, 105% and all that. We never cross 100%. Why? Because in our calculation, we take only EMI collectible this month, and we compare that against what is the EMI collected this month, just EMI to EMI this month. So we don't take any arrears in this calculation, and we also never take any prepayments in this calculation because that takes the numbers all wonky because the numbers can go above 100%, below 100%, and all that. So when we exclude arrears& prepayments, our collection continues at 99.5%.

So that is what is feeding to in SMA and then SMA feeds to NPAs and you know how the rest of the tricks works. So overall, all in all, we feel that our deposits are coming strong, our SMA is low, and NPA is low, etcetera. We're looking forward to a good few quarters coming up. In fact, we are feeling more confident for the next quarter and even more confident for the next quarter after that. But almost, I wish we had a time machine, we can jump a couple of quarters and report numbers to you.

At least from our end, it's looking that good. So if you have any concerns or anything, please feel free to share with us because we are giving our point of view because that's what we are seeing from within, and sometimes we don't want to get lost in our voice. So we do request you to be open with us and tell us if you have any concerns. I understand we don't have a vintage of, let me say established players of, let me say the big 4 banks, who all have 20 years, 25 years, 30 years. So you may have a lot more to track for them and feel more comfortable with them, I can understand that. But we are seeing our numbers, we're feeling pretty good from within, but you feel free to really ask us any questions which you feel is important to ask at this stage, so that you can comfort, get the right track, the quite comfort.

Sudhanshu Jain: Thanks, Vaidya. I'll just again touch upon a few key numbers, while Vaidya has covered few of them. So some repetition may be there, but let me just call out the key numbers from my perspective.

Sudhanshu Jain: To start with, I will say the overall balance sheet of the Bank grew by 24% on a Y-o-Y basis to reach Rs. 2.49 lakh crores. On the lending side, we see a strong growth as well as on the deposit front, as Vaidya mentioned. Customer deposits grew by 44% on a Y-o-Y basis. In fact, the growth in retail deposits was higher at 51% on a Y-o-Y basis. CASA deposits for us grew at 27% on a Y-o-Y basis. Even sequentially, the growth was 3%, if we adjust for outflow in Q1, which happened from one large corporate government banking account, which we had called out in Q4 '23. Average CASA ratio stood at 46% for Q1 '24. Average current account deposits increased by 38% during the year, while average CASA increased by 30% on a Y-o-Y basis.

Term deposits, of course, we saw faster growth due to overall increase in the interest rates in the system. I would say the growth even in term deposits were largely driven by retail. CASA and term deposits less than Rs. 5 crores was 81% of customer deposits, which points to granularity of deposits. Retail deposits stood at 77% of the total customer deposits, which used to be as low as 27% at merger as Vaidya touched upon.

We opened 15 branches during the current quarter, thereby taking the branch count to 824 branches. The high-cost legacy borrowings which would run down in next 2 years to 3 years has come down to Rs. 16,000-odd crores. About Rs. 3,005 crores is scheduled for rundown in balance of this year itself. We have given more details around this in the presentation on Slide 27.

Moving onto the funded assets. It grew by 25% on a Y-o-Y basis to reach Rs. 1.7 lakh crores. I'll then split this into 4 segments, one is Retail for personal consumption, second is Rural financing, third is SME and Corporate financing for business purpose, and lastly, the Infrastructure segment, which is a rundown book. The Retail book, which comprises of mortgages, consumer loans, credit cards and Wheels grew by 27% on a Y-o-Y basis and 6.8% sequentially.

We have seen strong growth across all categories, like home loans grew by 31% on a Y-o-Y basis, Wheels segment, which includes 2-wheelers and cars grew by 45% on account of increased distribution. Consumer loans comprising of consumer durable, personal loans and cross-sell grew by 15% Y-o-Y. Credit card book grew by 68% on a smaller base. The Bank has now issued more than 1.7 million cards since the launch in January '21. Gross spends on credit card increased by 72% on a Y-o-Y basis.

Moving onto the Rural financing book, which primarily helps in meeting the PSL requirements of the Bank that grew by 46% on a yearly basis. Funding to SME for business purposes and corporate segment increased by 23% on a Y-o-Y basis. Infrastructure book, which is the last portion, which degrew by 44% Y-o-Y and is now nearly 2.2% of the total funded assets. We have given more details in Slide 46 of the presentation.

Moving onto the asset quality. Gross NPA of the Bank further improved by 33 bps to 2.17% and net NPA improved by another 15 bps to 0.70% during the quarter. PCR gross of technical write-offs stood at 83% at the end of June quarter. Even in the Retail, Rural and the SME segment, GNPA improved sequentially by 12 basis points and net NPA is down to just now 0.52%. The corporate non-infra book continues to be well provided with a PCR of 99.4%. Gross slippages were lower by 1% and net slippages were lower by 30% on Y-o-Y in absolute basis.

Net slippages were lower by 19% even compared to the previous quarter. The overall standard restructured book as a percentage of total funded assets has further reduced to 0.47% as compared to 0.59% last quarter. The Bank holds a provision cover of 25% on this book. Also to note, more than 85% of this book is secured in nature. Vaidya touched upon the SMA book position in the retail segment, I would add that even on the corporate book, the ratio of SMA-1 and SMA-2 is around 0.2%.

Moving on to profitability. Profit after tax for Q1 increased to Rs. 765 crores versus Rs. 474 crores in Q1 FY '23. Adjusted for one-time items, which we had called out in Q4, PAT increased sequentially from Rs. 701 crores to Rs. 765 crores. This was largely driven by strong growth in the core operating income. Core operating profit which is NII plus fees, excluding trading gains and opex grew by 45% Y-o-Y to Rs. 1,427 crores.

On a quarterly annualized basis, the ROA stood at 1.26% and the ROE stood at 11.78% for Q1 '24. ROE was impacted by about 60 basis points during the quarter as compared to Q4 '23 on account of capital infusion which happened in the last week of March '23. NIM on an AUM basis moderated by 8 bps to 6.33% for Q1 '24. The credit cost on an annualized basis as a percentage of average funded assets was at 1.16% for Q1, which is well below than earlier guidance of 1.5%.

Moving on to the last section in my opening remarks, the Bank has maintained strong capital adequacy and CAR was at 16.96% at June with a CET ratio at 13.70%. During the quarter, we raised Tier 2 of Rs. 1,500 crores. The Bank has maintained an average LCR of 125%. We would like to maintain the same broadly around these levels. Our long-term credit rating was upgraded by 2 rating agencies during the quarter. So that was also a positive development for the Bank.

With this, I conclude my opening remarks. And we can move on to the Q&A. Thank you.

V Vaidyanathan: So, thank you, friends. I must make one small confession to you. I just dosed off in the last maybe a hour or so just before the con call. So just I woke up and suddenly Sudhanshu said con call is starting. So I just hope that whatever we made in our opening remarks, I mean Sudhanshu was well prepared, but my opening remarks were at least in context. And in case, there were any gaps in my opening remarks, please excuse, and you can fill them up in the course of the conversation. So I'm completely up and running as we speak now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Lalit Deo from Equirus Securities.

Lalit Deo: Yes. Congratulations on a great set of numbers. So, sir, like I have 2 questions. Firstly on the branches side. So, like we have added about like 15 branches during this quarter. And now on the competitor side, like we are seeing some large private banks becoming aggressive and adding newer branches. So how are we looking in terms of adding newer branches over the next 2 years to 3 years?

V Vaidyanathan: We'll keep adding as required. Maybe 150 in that zone.

Lalit Deo: So like 150 on an annual basis like or like over the next...

V Vaidyanathan: Annual, annual, maybe. We keep ourselves fluid on this front. Basically, we keep planning our liability requirements. So we know that we need to grow. We are planning at least to grow the balance sheet by 25-odd percent. So 25-odd percent meaning that we need Rs. 40,000 crores on

Rs. 1,60,000 crores. If we need Rs. 40,000 crores, actually, Rs. 50,000 crores of deposits. So, we will put as many branches required to roughly take us in that zone. So could be 150, could be 200. We keep ourselves in that window. We're not putting out any specific number, like we don't put a specific target on this because we just plan it to the requirements, rather be implement our requirements.

Lalit Deo: Sure, sir. And sir, second question will be on the deposit side. So currently, like what would be our average cost of saving account deposits as of now? And like we have recently increased our peak saving rates to 7% in that Rs. 10 lakh to Rs. 50 crores category right now. So like, do we foresee any other further increase in terms of peak rates?

V Vaidyanathan: No, we don't intend to. If you notice the biggest difference between this and what we did earlier is that up to Rs.10 lakhs, we pay only 4%. So really whether we pay 6.5% or 7%, makes no difference to that bucket.

Lalit Deo: And sir, like what would be our average cost of our saving account deposits as of now?

Sudhanshu Jain: Average cost of saving deposits is about 5.6%.

Moderator: Our next question is from the line of Rahul Jha from Bay Capital.

Rahul Jha: Yes. Great set of numbers, congratulations. So, my question was on the regards of 2 things. One, the profitability has consistently improved over the last, say, 6 quarters. So, what levers are you trying to pull to get to the next stage, like more philosophical and strategic question? Second on this thing, like earlier on the credit cards, I think the Bank was only offering it to existing customers. But now that you have launched a few co-branded and others. So what is the strategy? Are you open to outside of new to bank and other kinds of customers as well?

V Vaidyanathan: So we'll take the first things first here, profitability, what levers are we pulling? See, frankly, ours is a pretty steady machine. We always maintain that our retail assets, return on equity is running upward of 20% on stock, not on the incremental. When we see our earnings minus cost of funds, that kind of stuff. So that's getting 20% return on equity. So as this machine tree keeps growing, the ROE of the Bank will keep going up now, and this would hopefully stay there for a while. The second thing is that there are many other levers, right at the beginning, I pointed out to you that now the Bank is operating on many new lines of business, which are not normally visible to the market.

For example, if you take cash management system, it's not visible to you. If you give a home loan or a car loan, you can see it in the market. Cash management is coming up, that's throwing up nice income. Our FASTag is throwing up nice income. Our wealth management business with some select few of you may be experiencing, but that's quite profitable. So all of these things are one after the other beginning to give income actually to us. FX Solutions, for example, trade and FX is a big revenue earner. We plan to expand revenue on that front quite significantly, as part of the India's external trade both imports and exports that solution.

Our services in the branches about the turnarounds we give for people who want to import or export, etcetera. I'd say it's okay, it's good, but not the best in the market in terms of turnaround.

For example, there are things, exporters get their money converted sometimes in our Bank in 24 hours, maybe in some banks, they even get it converted in maybe 2 hours. So when we fix that issue and we are working on that, then that can be a big revenue generator for the Bank. So, there are many, many lines of business that is going to fire for the Bank.

Rahul Jha: On the second one, please?

V Vaidyanathan: Second one is very simple to answer, because in the credit card business because what we launched initially was Vanilla-Vanilla product, which has been quite successful for the Bank, because product features were good. But the core Vanilla feature alone does not meet all needs of a customer. For example, if we give a customer a good APR and zero annual fee and give a good product, it's good but there are many customers who have needs which are related to travel.

Rahul Jha: Right.

V Vaidyanathan: So for them, a co-brand partner brings much more value or brings value to the card, just like we can. And then the power of the card doubles, like for example, the Vistara card we launched recently. So it's already a big success. I can't say big success in terms of stock, but incremental flow demand is quite strong. So these are specific needs customers have in the market and we will just open, many more of those co-brands are open in the market for that.

Rahul Jha: Okay. So would you be open to give customers say more than one card if they already have a card because now that you have co-brand and other portfolios?

V Vaidyanathan: Yes. Well, it depends on the limit we are comfortable on a customer level.

Moderator: Our next question is from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: Yes. Congrats on a good set of numbers.

V Vaidyanathan: Thank you, Nitin

Nitin Aggarwal: Sir, couple of questions. One is on the fee income, if I look at the fee income growth has been running very strong and the fee as a percentage of total assets also this number is moving up and has now come up to almost 2.4%. So what is really driving this? And I'm curious to know because like a couple of quarters back, Bank launched zero banking wherein you waived out fee for almost 25 banking services. So, somehow seems to be no impact of that. So how much like fee loss have we experienced because of that waiver?

V Vaidyanathan: No, in many of the things we were not charging earlier also, it didn't make a big delta difference to the Bank. Of course, we've waived off on quite a few charges. We felt that the fee structure in the Indian system, even for us to the extent that we were charging were very complicated actually. And the more we poured on it, we felt the need to abolish it and that's why we took it off. But that is not the key driver. We still have other lines of businesses. Sudhanshu, can you explain, which line is giving how much income?

Sudhanshu Jain: Yes. Nitin, we have given details on Slide 50. If you see, it's a very diversified pool. In fact, the loan origination fees is coming down on a quarter-on-quarter basis in terms of the proportion, that is now about 30%, whereas the other, I would say, non-capital-consuming businesses are also started generating fees, right, like the toll business that is giving fees where we have a good market share. Credit card, we know is a good fee enabler, right, that also book is increasing. So between credit card and toll alone, the composition is about 17%. Again, as we're increasing customers, we are getting more revenues on the trade front, on the FX front and so on.

Then third-party distribution, distribution of other products like mutual funds, SIPs, and all that has been increasing. So it's a very diversified pool, right? In fact, if you see that the distribution from third-party and wealth management products, that fee has increased by 87% on a Y-o-Y basis, right? So it's a well diversified pool. And, of course, we have already reached to about 2.3%, 2.4%. We feel that we will be able to maintain a strong momentum even into the future quarters on these fronts.

Nitin Aggarwal: Right. –So, how should we really model this in terms of growth going ahead, because the current growth is like 2x the balance sheet growth. So will this continue to grow at the current run rate or closer to the balance sheet growth.

V Vaidyanathan: We will have to probably pull through our own internal projections to be able to answer that. But directionally, let me say that now the Bank has so many lines of business we launched, last 2 years or 3 years, all the lines we called out, credit card, wealth management, trade, client, FX, all the stuff whatever Sudhanshu pointed out, toll. So all of these are fee businesses. So we feel that there is strong growth. Let me just say that if you want to model it, we can say that if balance sheet grows by 25, fee will outstrip it by a margin, let me say that.

Nitin Aggarwal: Okay. Sure. And sir, the other question is on margins. Where are we on the cost of deposits repricing, where is it likely to peak? And therefore, what is the outlook for margins going forward?

V Vaidyanathan: We feel it's already peaked. We're not seeing any more increase and at least we are not finding a need to increase. For example, what we pay to 0 to 10, we have to pay 4%. We feel just no need to touch it because even at these rates as I mentioned earlier to you the numbers, the way they're coming in very, very strong. So we don't feel the need to increase it from here. And anyway, it looks like also the Indian system is tapering off. So margins should be stable from here.

Nitin Aggarwal: Okay. Sure. And...

Sudhanshu Jain: Sorry, just to add, since the cost of TD comes with a lag, and I would say, a good portion already came into this quarter, there may be some more increase which we could see, right? But as Vaidya mentioned, NIM should be broadly stable.

V Vaidyanathan: Increasing the cost of funds slightly.

Sudhanshu Jain: Yes. But again I'm saying there is a book, which is also linked to MCLR, that also happens, with sort of frequency. So some of these would get offset, but I see NIM to be broadly stable as Vaidya mentioned.

V Vaidyanathan: So, give or take, 10 bps, Nitin. So things should not be very different. If you go and do your modeling, feel comfortable to focus approximately where we are today. And also feel comfortable to take our credit cost, pretty low around the lines what we already said, because we hardly have any SMA. So we don't expect any increase in NPA also. So pretty straight-line stuff, just do it in a spreadsheet, you'll get the results for the next quarter or maybe the next year.

Moderator: Our next question is from the line of Pritesh Bumb from DAM Capital.

Pritesh Bumb: So, two questions. Basically, some months back, there was an article on regulator may increase risk-weight assets on retail, especially the unsecured side. So we having a well-managed retail unsecured book as well, so what do you see impact on our book? And if anything comes, how do you mitigate that in terms of strategy?

V Vaidyanathan: Well, our sense is that no such deal or proposal is in the table or something like that, but your guess could be as good as mine. But our sense is that even any such thing comes in the wisdom of the regulator, then it must be good for the system, and that may be proactive, so that's okay. So, we are running quite strong on capital adequacy at this point of time.

So our fundamental business model is generating such high collection percentages of 99.5%, giving us such low SMA, giving us a slow NPA. So our fundable strategy should not change. And if there is a slight risk-weight impact and if it has to be passed on to the customer, it may be passed on also, who knows, or if you could absorb it, we'll absorb it, we will take by the year. See, we have pretty strong margin. So these small movements of 10 basis points, 20 basis points here or there are not really disturbing us whether in cost of funds or any of these line items.

Pritesh Bumb: Got it. Sir, second question was generally what we have seen in the large bank side, whatever disclosures have come in, the lower end of the staff or the employees have a big churn, for a bank which is growing well strongly, how are you managing that? And what are our churning percentages or if you can give some light on that?

V Vaidyanathan: Yes. We've seen the numbers that have come from others. And we broadly feel that in the industry, like in the industry across the system, the lower-end people who are just joining the Bank, doing sales roles, etcetera, their attrition were relatively higher, as compared to the environment lesser, and as you go up, things are even lesser. We've seen our numbers. Our numbers are slightly lesser than what has been reported in the press for few other banks.

But you could call us somewhere in that zone, but maybe the lower end of that. But particularly what we see is that this year, Q1, it's better than what it was in all of last year and last year was better than what it was the prior year in a trend line sense. Numbers are getting better when we come out with the Annual Report, we will put some of these numbers up there.

Pritesh Bumb: Great, sir.

V Vaidyanathan: In short, this trend line is getting better, it's getting better and we are slightly better than the system numbers you're seeing in the press.

Moderator: Our next question is from the line of Ishan Agarwal from Erevna Capital.

Ishan Agarwal: First of all, congratulations to the management again for delivering a good set of numbers.

V Vaidyanathan: Thanks so much, Ishan.

Sudhanshu Jain: Thanks, Ishan.

Ishan Agarwal: So, my first question is regarding our cost structure. I'm unable to get my head around it. As on date if we see, we have close to 825 branches with assets worth Rs. 1,71,000 crores, and say if I have to name a large private sector bank, say Kotak, they have around 1,800 branches and Rs. 3,60,000 crores on advances. Our opex excluding employee expense is higher than Kotak, it's much higher than Kotak this quarter. So why do we have such a high cost structure? What are the components which lead to such a high cost even at half the number of branches?

V Vaidyanathan: See, you tend to think that branches are costs. Let me just tell you that, it is just one part of the cost. The main cost is driven by fundamentally the line of businesses you're in, you take a bank, which is probably doing home loans, yes. And Ishan, right, whom I speaking to right now?

Ishan Agarwal: Yes. Yes. Yes. Yes.

V Vaidyanathan: So, Ishan, you take a bank, which has probably done only home loans, only car loans, obviously, the opex will be much lesser for that business. But if you take a bank, which is doing probably more of a lines of businesses that we do, let's say durable financing or 2-wheelers or used cars or micro enterprise loans, so these are relatively higher-cost businesses. So we do have home loans. Of course, like you pointed out, we have about a Rs. 20,000 crores home loan book and we have a Rs. 20,000 crores loan against property book.

But let me say in a proportion sense, let me say the ex-home loan business for our Bank is a little bit higher. So that itself is fundamentally how it's all. So that's why our yield is much higher, our opex is higher. So really you can't pick only the opex number and say that, Oh my God, your opex is higher. What about income? Why don't you compare our income with other banks and say...

Ishan Agarwal: No, I'm just saying that when I compare it with the total asset book as well as the number of branches, and you're currently saying that the number of branches cannot be compared but even on an advances front...

V Vaidyanathan: That's why I'm saying, Ishan. Just hear me out. So the point I want to tell you is that composition is different. So let's take 3 cost structures separately. Okay. So that'll help you and everybody listening to understand this better. Let's take the asset lines. So asset lines, like I said, somebody running our business lines have more rural, for example, rural are more expensive. So our income line is more, opex is more. Other banks may have lesser income, lesser opex. In the end, we will deliver a certain ROE, they will deliver a certain ROE. Our belief is that our ROE is already running 20% plus, okay, on the lending side. So, therefore, as I said, so our combination is higher income and higher opex, put it like that.

Now let's move to liabilities. On the liability side, of course, we are setting up all the branches because you should know that we are a new Bank, and we are having to set up a number of all this infrastructure in a rapid pace. In the last 3 years alone, we have put probably close to about 650, 700 branches.

So 600, 750 is not the great, may not be very big number compared with big banks, but considering it comes on the base of 150, it's like a massive 4x increase. So that's where that cost structure comes. Number three comes in the other businesses like FASTag or wealth management, etcetera, those are fee-generating businesses. So these are 3 areas that each line of business for us is looking more expensive because we are starting off from a zero base and building the Bank, while the other banks may be already built for 20 years, 30 years.

Moderator: May I request the management we move to the next participant?

V Vaidyanathan: No, let the person ask, if he was not satisfied, he can.

Moderator: Sir, the line for the participant has dropped, sir.

V Vaidyanathan: Okay. no problem. So, basically, just to conclude, one is the stage of institution we talked about it. Our stage is new, so no one, no listener, no one should forget that, our stage is new, we're 5 years old, others are 25 years old, 30 years old. The second thing is that even for our Bank, apart from the factors we talked about earlier, there are a number of opex, which you take for granted or rather number of builds which you take for granted in established institution, for a new institution, someone has to pay to build it.

So for example, let us say that you're giving a cash management solutions today, we are building it up, it's our opex today. But someone who built it 15 years ago, for them, the opex is already built, today they're only earning income out of that. So think of anything, if you want to build a mobile app, we are building mobile app today, someone who built it 10 years ago is just reaping the income out of that today. So a new bank will go through all the setup expenses. I think this can't be avoided because we're building the Bank for the long run. We will take it as part of our, let me say our karma to do it at this stage. Yes.

Moderator: We move to our next question, that is from the line of Sagar Shah from Phillip Capital.

Sagar Shah: So first of all, congratulations for another great quarter. And now I just had some few questions. My first question was on the demand front, especially on all our segments actually. So now almost we are seeing almost the peak of interest rates. Now I wanted to understand the general nature on ground that how actually customers are actually absorbing these.

Are they being able to absorb the hike in rates or are they able to absorb the increased interest rates and because of that, what is the actually effect of that? Going ahead, will we see some increase or decrease in demand for loans, especially on the retail front this year and next year or you are seeing that customers are being able to easily absorb the interest rate hike? So my first question is that.

Sudhanshu Jain: Yes, Sagar, maybe I'll take in that. Thanks for the question. As we said, we are seeing a very strong demand right across all products, right, of course, in some products, we are also able to increase our market share. And I would say in terms of customers' ability, the proof of the pudding is the numbers, which we are seeing in our SMA and that kind of a buildup, right?

I think rates has not much of an impact in terms of demand, the customer ability to pay and so on, right? So in fact, if you go and check the rate increase which has happened, still I would say, even after the increase, the rates have reached pre-COVID, right? So I think we are quite comfortable in terms of the growth, which can come in for the Bank, and we don't see this as a concern at all.

V Vaidyanathan: See, it is a very good question, by the way what you asked, saying that, look, interest rates have gone up, how are customers coping with this, right? That's a short question, that's a point.

Sagar Shah: Yes, sir. Okay.

V Vaidyanathan: The thing is that I think when lenders are lending to people, they are keeping a cushion. No one is lending to the customer to the brim. So let me give an example. If suppose a customer has, say, Rs. 1 lakh in the bank as a cash flow, and for the EMI, the bank now reverse calculate saying that, okay, the customer on average keeps Rs. 1 lakh in the bank on the 1st to 7th of the month, let me give the customer a loan, where the EMI is Rs. 50,000.

Now, if you say that interest rates have gone up, and the customers' affordability has come down, but remember there was still already a cushion of Rs. 50,000 in that example, they had a cushion of Rs. 50,000 already. Now even if we had a little bit of a cushion, customers are still honouring. At least we are finding that 99.5% collection we are getting, we are getting, say, 24 months, interest rates are high, interest rates are low.

So I think it's probably because of the cushions lenders are keeping and lending. And also one important thing by the way, Sagar, to also note that lenders are always lending at a point of time after assessing a customer today. But with the growth of GDP, suppose we lend to somebody 2 years ago, so interim GDP growth on a nominal basis by 12% and the customer's income probably has grown by 12%. So that also adds to the cushion actually. I'm guessing that is the reason, at least that could be the reason why this collection percentage continues to look good.

Sagar Shah: Yes. Certainly, it looks by your numbers, sir. Certainly, I agree that your numbers are quite robust in terms of asset quality. But my concern was related to the recent hike in interest rates, what is the effect on ground, but that's okay, I got your point. Now my second question is related to your loan against property. Your loan against property segment has almost remained flat quarter-on-quarter. So are we facing competition or have we actually stopped disbursing in the segment, any reasons for the same?

V Vaidyanathan: Not really. I mean sometimes, I think we also sold out a small part of the book actually. So that also brought down the numbers at this time.

Sagar Shah: Okay, okay. Sure, sir. Now just a bookkeeping question actually related to the slippages number and the write-offs number for this quarter, and another I wanted the floating provisions for this quarter, sir. How much are you holding in your balance sheet?

V Vaidyanathan: No, we don't keep floating provisions in all. But we do the normal credit cost is 1.2%. Maybe Sudhanshu can tell you the numbers.

Sudhanshu Jain: Yes. So slippages as I mentioned in the opening remark, though that has come off, in fact, net slippages is down by 30% on a Y-o-Y basis, even sequentially, it's down by about 20%. And in absolute terms that net slippage number is about Rs. 380 crores for the quarter.

V Vaidyanathan: If you annualize that, that would be not very much, it's quite comfortable.

Sagar Shah: Okay. And what are the write-offs for this quarter? How much have you written off in this quarter?

Sudhanshu Jain: We don't call out that number specifically. But in our Pillar 3 disclosures, you will get that number in due course,

V Vaidyanathan: But more than that, end of the day, just to get the technicalities out of the way, so that you are clear about the provision versus write-off issue. What hits the bank's P&L? Provisions.

Sagar Shah: Provisions.

V Vaidyanathan: That's it. After provisions, you write off at a particular stage, whether some people write off at 360, some people write off at 540, some people write off at whenever. So how much you write off & when you write off is not a material thing, what you provide. So what we are providing is costing us about 1.2% on a credit cost basis.

Sudhanshu Jain: Yes. 1.16% for this quarter.

V Vaidyanathan: 1.16% for the quarter. So you should model that in your math, of course, we guide for 1.5% and all that, but right now, it's coming much lesser than that. So income minus opex minus that amount of provisions that we'll take will be a P&L, when we write off is a matter of technicality.

Moderator: Our next question is from the line of Ritika from Ocean Dial.

Ritika: Congrats on the great set of numbers. I have two, three questions. One, I would again request you to maybe share some of your thoughts on the industry growth. It feels obviously, after coming off a low base, but it's been quite some quarters and the growth remains very healthy for the sector. What as per you is like the key to the same? And another surprising thing is that it's like across board. It's not just obviously a couple of banks. Just like every banks are showing a superlative number on a quarter-on-quarter basis. So that's one.

Secondly, you've been consistently showing good numbers in the profitability side. So how should we really see, any guidance on that front as we look forward to? Maybe by the end of FY '24, how do you look the ROA should settle or if you want to give a little more longer could also be fine? And thirdly, you did answer on the LAP bit, but I would still maybe want to still maybe check your thoughts again on the strategy on the mortgage, please, including both home loan and LAP?

V Vaidyanathan: No, thanks. All very good questions. So the last one is easy to answer, because see, frankly, this mortgage and home loans will grow forever and ever and ever, there is no end to the growth in this country, and we will keep growing it. So that's easy one. Now with regard to industry growth, just what is happening, we feel is that there is a lot of business that is getting opened up in the small and medium enterprises business and in the retail business because the Indian ecosystem has opened up, has become more conducive to organized lending. If you notice, all banks are basically by nature conservative lenders and nobody wants to take undue risks.

So what is happening is that because of the opening of the cash flow evaluation, tools have become much more better, now most people are now doing transactions with a bank account which was not so earlier. So when people are doing transactions on a bank account, we are able to see their transaction trails or GST trails. So with these trails, people are able to lend. So this by itself opened up the market to organized lending.

So this is one really big factor why everybody is able to grow because the control systems have very much improved. For example, earlier we used to do collections by calling customers, if somebody has skipped an installment, or maybe sent an agent to the customers' home to pick up the money.

These days, we are simply sending a UPI link and then the customer is paying on the UPI link, no agent doesn't need to go in many cases. So I'm saying the whole ecosystem, whether originating, evaluation, collection, monitoring, everything has become more conducive and feels more safe now because of availability of data and tools and all that. So that could be one reason why you're beginning to see growth I guess with everybody. So one was your question on what we'll do with mortgage LAP, I told it will grow. Second question on why growth is coming. What is the third question? You had one more question.

Ritika: Sir, it was on the ROA trajectory, because you are already at like 1.26% for the quarter.

V Vaidyanathan: See now we clearly feel that ROA will stay healthy now. I don't think we're going to dip on this front because the very important thing that we call out right from the beginning since 2018 is that we only focus and tell the market what we are truly doing on the core income. We don't try to take some cute advantage of what happened in treasury markets and all that. So since the core operating income is now touching like Rs. 1,450 crores. Correct, Sudhanshu?

Sudhanshu Jain: Rs. 1,427 crores.

V Vaidyanathan: Rs. 1,427 crores, core, by the way, which is sustainable number every quarter from here on. So that number is so strong. And minus credit cost numbers we told you, we should be comfortably above 1% for a long, long time, probably increase from here. So, let me talk about next quarter and all, I told you we are feeling quite confident about even second quarter, third quarter, fourth quarter, etcetera.

We feel it's a pretty much straight line model, sometime an odd quarter, ROA can come down by 2 basis points, 3 basis points, can go up by 2 basis points, 3 basis points, you should not expect that every single quarter for lifetime, this will keep on increasing. These things don't work like that and odd things happen. But if you take a year by year measure, definitely, you should see '24 should be better than '23, '25 should be better than '24, '26 should be better than '25, that is something you should expect from us.

Moderator: Our next question is from the line of Sonal Minhas from Prescientcap Investment Advisors LLP.

Sonal Minhas: This is Sonal Minhas. I hope I'm audible.

V Vaidyanathan: Yes, Sonal.

Sonal Minhas: Sir, I wanted to get a bit of a broader macro understanding around the CASA in the market. We've seen the results of a couple of banks, and it almost seems like at a broader level, the CASA has dried up, and you mentioned in your notes that it's linked to intrastates. But just wanted to understand from your perspective and how you are seeing the market, your take on CASA? And what is it happening in the market? That's my first question.

V Vaidyanathan: See, CASA comes from two things. It comes from the ability to provide solutions to customers, especially in current account, everybody is being zero, then what are you going to compete? And it's not even about rate, it's about what solutions you give the customer, that is why you will find all the large existing banks who have been around for 20 years, 30 years, they have tied up the entire solutions for clients end to end in the supply chain, for example, or end to end in a government banking business, right from the time the money is released from the Government of India to the last festival. There is a chain of flow that happens.

So it takes time to build these things. Once you build the solutions, then you start getting quite a lot of annuity income, you basically start getting annuity flows, and then you start getting annuity income. So, therefore, when you think of it like that, I really believe we have terrific opportunity because we are a new bank, we are a very good tech bank.

So our ability to build all end-to-end supply chain solutions is very good. And therefore, when we build a solution, it's already making good headway, but not great I'd say, not as good as it should be for a well-developed bank, we are still very low on CA. But we are making very good progress on this front. That's on the CA front.

On the SA front, that market is a bit different. Because it's a very service-oriented business. For example, we are paying 4%, but money is flowing in like crazy into a bank on the deposit front. So when we are paying only 4% up to Rs. 10 lakhs, why is money coming to us like this? I'd imagine brand.

Definitely when you become a brand, that's a very crucial moment in a institution's life. When you become a good brand, money starts coming in. Then service levels, I really get upset about anything, but the one thing I get personally very upset is, say, if some customers have been dealt very badly or anything of that and there's some systemic issue at a bank. So we go really take customer service very, very seriously and we try to offer high-quality service to customers.

So let me just say brand, service, even pricing to an extent, all of these things combine to give a good SA balance. At least in our case, SA is coming from other banks obviously. We are not obviously growing at 40%, it's not that India is growing at 40%. It's coming to us from somewhere, but I think it's coming because of brand, I'd say one of the factors in brand.

Sonal Minhas: And you expect the trend to continue like the way it is going forward?

V Vaidyanathan: Yes, we feel so. At least for us, we feel very confident for the upcoming 3 quarters, 4 quarters, 5 quarters, you should expect that our liability and deposits should be 40, 45, 40, 45. We should continue to report numbers in this zone. We will, I'm pretty confident of that, because that's how we're seeing flow in our branches right now.

Sonal Minhas: Got it, sir.

V Vaidyanathan: So it is something that is interesting with the brand. Brand is just not being that, Oh my God, people know about your brand. It's not about knowing.

Sonal Minhas: The service quality is.

V Vaidyanathan: No, no, no. Not in quality. Quality I talked about already. I want to say something different.

Sonal Minhas: Sure.

V Vaidyanathan: See one thing is the brand saying that, do people know your brand. Obviously, our brand is much less known than, say, an ICICI Bank or an HDFC Bank or any of those banks. So obviously it is so, that's fine, but that's the reality of our life stage at this point of time. But question is, even among people who know, what they think of you, this is very important. That's where the brand character comes. So, you may think of the top 4 banks, let me say, ICICI, HDFC, Axis, Kotak, who are all pretty well-known banks and great banks.

If you see the next tier banks, that is say, our bank, Bandhan, IndusInd, YES Bank, etcetera. Now, let me say that we are a mid-tier bank in that family of banks. Now, but even among these banks, you cannot say that all customers think the same thing about all these 4 banks. We may be similarly known, but people just think fortunately quite well about our bank. So, what people think about us and whether they know us are 2 separate things actually.

Sonal Minhas: That's exactly, that's I think the longer term, as you said that gets built up over time.

V Vaidyanathan: That builds over time, but somehow we are enjoying that image. How it comes, I don't know. But we are enjoying that image and money just come to us. Whenever you go to any location, open a branch, one flush of cash comes to the bank straight away.

Sonal Minhas: Got it, sir. Sir my second question is linked to the credit card business, it's a small-ish business, which is going fairly well. Just wanted to understand if you could disclose broadly what is the credit cost we're working in that particular business? Just to understand, because I think there is not too much of a disclosure, which is understandable. But broadly, if you could just guide a little bit on credit cost on that business, that will help understand where are we heading in that business?

V Vaidyanathan: So we should expect a really good return on equity in the business. I've personally done that business for close to over 20 years, 25 years now. My colleague, Madhivanan, has done that business forever and he's pretty much a master in that business. Under him, there is a colleague called Shirish Bhandari, who has also done the business for long. So we are a set of people who know that business really very well.

Sonal Minhas: Sure.

V Vaidyanathan: And, of course, there's people in this. So we are very confident of that business. And we believe return on equity on credit card business will exceed to 24%, 25% whenever it comes of age. And if you want to understand truly the credit card business economics in a strip-down basis end to end, you take the listed company, SBI Card. It's a monoline credit card financing business, see the economics.

Sonal Minhas: No, it's a great business. They have a credit cost of 6.5%. So that's why I was just trying to benchmark here.

V Vaidyanathan: No, no, no, that's a little high. We have lent largely credit cards to our existing customers at this point of time and people who have savings account with us and all. So, I think we put out our NPA numbers in the Investor Presentation somewhere, gross is some 1.7% or something, net is some 0.2%, 0.3%, 0.4% something like that. So, we are not in those kind of numbers of credit costs. But still, if you understand the economics of that business, just look at SBI Credit Card, they are doing a wonderful job, and you see the economics there. Are we done? Folks, I thought we spent quite some time, I think it's crossing 7 pm.

Moderator: Sir, we have a question from the line of Mr. Jai Mundhra from ICICI Securities.

V Vaidyanathan: Okay. Can we take that as the last question, Jai?

Jai Mundhra: Yes, sir. So this would be the last question, sir. So I wanted to check, sir, now that asset quality outcomes have been much better. And as you said that we have been following a very, let's say, robust process, which is giving us the confidence of that asset quality should remain benign. In that context sir, would you like to sort of accelerate the loan growth from current 25% level, which is what we are reporting or you think this kind of a level of loan growth is commensurate to kind of asset quality outcomes that you are seeing? So what I wanted to check is, are the better operating environment would help you to push the pedal on growth or you think this is a fine balance as of now?

V Vaidyanathan:: I said that we should be very careful here. Of course, like I said, the enabling environment has become much better today than before. But we have one fetish in our organization that we have a 12-year record that our gross NPA is low, net NPA low, it gives us a lot of confidence to continue to do the business. We would hate it if that moved up even 10 basis points, 20 basis points to be in the wrong side. So that's very important. That for us our gross NPA stays around 1.7%-ish or so and net stays around 0.4%, 0.5% is very important to us.

Number two, we don't want to test the limits on that front. Second thing is that for us to grow, we tell ourselves internally all the time that we don't need to relax norms at all, at all, just you don't have to do it. So we're relatively such a small player in the market that if you want to do some more business, all you need is just in the same city, just add some more distribution points, just tap on one more city, just add one more credit business line like we just launched gold loans recently or education loan, just add one thing more and go meet that volumes. So we don't need to grow anything anymore. And to give guidance on the question on the. You said can we go beyond 25%, let me answer that very specifically.

So thus far, for the last 3 years or 4 years, what you've been seeing is that the wholesale is coming down, infrastructure is coming down and retail is growing greater than 25%. So blend-blend, bank is growing at 25%. Let me say in a couple of years from now, the degrowth in infrastructure will stop because it can't go below 0 and it will head towards there. But even then we'd like to grow the balance sheet only at 20%, 25%.

Let me say, 23%, 25%, which means that the retail growth itself will taper down towards that number. Today, retail is growing more than 25%, wholesale is growing less than 25%, blend is 25%. Let me say in a couple of years, retail still grow only at 25%. And if you keep it at 25%, 25%, it can go for a long time. We don't need to disturb that & go faster than that.

Jai Mundhra: Sure.

V Vaidyanathan: Even if you grow something at 23%, 24% for a long time over 8 years, 10 years, 15 years, that will be a pretty good component story, why grow faster than that.

Moderator: Thank you. Due to time constraints, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

V Vaidyanathan: No, I have no closing comments to make. I want to just thank all of you. Sudhanshu, do you want to say anything?

Sudhanshu Jain: Yes. Thank you, everyone. And thanks for patient hearing. Have a great weekend.

V Vaidyanathan: And all we can say is that, you've been with us even in our, let me say, harder days. Now we probably have a little more happier moment coming our way. If you watch our story for the next 2 years or 3 years, even those who are not convinced, bit by bit you'll get more comfortable with us. That's all I can say. Thanks so much.

Sudhanshu Jain: Thank you.

Saptarshi Bapari: Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.