"IDFC First Bank Q2 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of IDFC First Bank 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.

Chintan Shah: Good evening, everyone, and welcome to the Q2 FY24 Results Conference call for IDFC First Bank.

We have with us from the senior management Mr. V. Vaidyanathan, Managing Director and CEO, along with the senior 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, everyone. I'm Vaidyanathan.

Sudhanshu Jain: I'm Sudhanshu Jain. I'm the CFO and Head of Corporate Centre.

Saptarshi Bapari: Hi, everyone. This is Saptarshi Bapari, Head, Investor Relations.

V. Vaidyanathan: Hello, everyone. First of all, thank you very much for joining us this Saturday afternoon. We just announced results just a very short while ago.

The key highlights I'd like to call out for this quarter is as follows:

As far as our broad direction of the deposits, of loan growth, of profitability, of asset quality, all of them are quite stable and I think things are proceeding very well at our Bank. The numbers briefly are as follows:

1. On the deposit front, I think is one of our big strengths I'd say now it has been established for many, many years in a row we're able to raise deposits in a very strong manner. So, our deposits have now reached over Rs. 1.65 lakh crores and it's grown by over Rs. 50,000-odd crores with the growth of about 44% over the last year.
2. The second thing that I point out is that the CASA ratio, all of you know there is a movement of money from current, saving into term deposit etc. But we have seen a CASA ratio being quite stable at 46.4% this quarter, down marginally from 46.5% last quarter, but really that's marginal.
3. Our plan to diversify our liability base, the strategy which we started about four or five years ago continues. 77% of our customer deposits of Rs. 1.65 lakh crore is now retail diversified deposits. Just for context by the way that when we started

73% was wholesale and 27% was retail. Now it's the other way around. So that's one massive progress I'd like to call out and that process continues.

4. What is interesting is that our ability to raise deposits is so strong that we're able to fund our growth of the loan book at 25% comfortably and also, be able to repay the high-cost bonds as and when they are maturing. As you know we had closed about Rs. 25,000 - 26,000 crores of high-cost bonds at the time when the merger started. Today, that number has come down to something like Rs. 15,000 crores. Even I think for the rest of this financial year, another Rs. 3,000 crores coming up for repayment. We are quite confident that our deposit gathering machine is so strong that we can fulfill our obligations for the past as well as fund growth of the future.

The next thing on the asset side is the second part I'd like to speak about. On the asset side, really good thing is that our asset side is very diversified. The only book that is 28% of the total book is mortgages-backed. So, except that book, which is the big block, rest is all highly diversified. There's vehicle financing is close to 10% of the book. commercial vehicle is 3%, rural finance is 11%, consumer loans, personal loans and digital loans, etc., all that is like 13% education loan is 1%, credit card is 2%, other retail loans are 8%, gold loans are like less than 1%, SME loans are 5%, large corporates are 1%, emerging enterprises are 6%, financial institutions like NBFCs at 8% and other corporates are at 2%. So, you get the drift. They're all like 2, 3, 4, 5, 6, 10%. So, this makes the book very diversified and now we're feeling quite happy for the future because we feel that such a diversified book we can stand the test of time up and down.

Now, we wanted to call out, there is a talk about unsecured credit and what is the performance of unsecured credit so and so forth and a lot of media stories around that. So, I'd like to speak two minutes about that. The key thing I'd like to point out is that the entire lending of unsecured credit minus only the credit cards and BNPL kind of loans, I'll call them out separately to you in a moment, our entire retail lending book, whether it is secured or unsecured, it follows a fundamental philosophy that we do cash flow assessment. This is very important to note. What is cash flow assessment? Cash flow assessment, you pick a Bank statement of a customer and see through, what is the balance customers maintains in the Bank account. So, if you see for example customer keeping Rs. 2 lakhs in the Bank account, then the customer can honor EMI of Rs. 1 lakh. If the customer honors EMI of Rs.1 lakh, then we give a loan that can fit within that Rs. 1 lakh of EMI. So similarly, we do GST filing, that's a cash flow, you can see what kind of cash flow.

Third is, there is a lot of data in that bureau which indicates a certain cash flow. For example, if the customer is honoring a particular EMI of Rs. 50,000 to another Bank, you estimate the cash flow on that basis. These are various examples of understanding cash flow. So, our entire book of the Bank is built on this concept of cash flow and that is the main reason why frankly our book we think do well all this period. But we want to specifically call this out.

Now, the second part of the point to understand is that cash flow supported is what? Suppose there is cash in your Bank. How do you pick it up from there? So, there is a Point-B that goes along the cash flow and that point is we take a debit instruction to your Bank account if you take a loan from us, it could be any other Bank or it could be our own Bank also. So, the natural activity of the customers Bank account and then we also take a debit instruction to that account. Then on the due date we simply pull the money from that account. So, this is a very fundamental point and these two in a way is security. Just want to let you know. If you hear Nandan Nilekani speak about this, Nandan calls it a digital security. So, this is very important to understand. This is the reason why, we treat this concept for both secured and unsecured.

Now, the other thing is that we saw some bureau information and data which says that less than Rs. 50,000 ticket size loans, the delinquency is relatively higher in the industry. So, we want to call out the number of the extent, of our loan book that is less than Rs.50,000. So that exposure for us in personal loans is Rs. 540 crores, which is about 0.29% of the overall funded assets. Sudhanshu will talk about this number. But I want to just call out the amount to you so that give you full picture. The short point is that we don't lend in a really small ticket size of less than Rs. 50,000. That's really a small portion of a book. Now, this does not include a BNPL book or e-com kind of a book which we have.

Therefore, the short point is that we are very careful and with the kind of heightened attention to this matter, we have been very cautious, but I think we have become more cautious now. So, we have tightened many of our norms because we don't want to be caught on the wrong foot and there's a long list of tightening that we have done over the last two years which we presented to our risk management committee of the board in today's board meeting as well. One is we want to demonstrate the seriousness of the issue, but also wanted to be sure of ourselves because we don't want to spoil our own track record of asset quality.

The next thing I want to bring out to you is that what is the total asset quality of the Bank. Now, the good news is that the Bank's gross NPA has come down to 2.11%, the net NPA has come down to 0.68%. The breakup is more important because if you exclude infrastructure and all that because we know there are known issues and they will go away with time. The Bank's NPA without infrastructure is 1.69% gross, net NPA is 0.46%. So, you can see that's also really very strong. We have not seen any disturbance. So, investors should take heart that nothing is disturbing us at the Bank and asset quality is in fact only improving.

The last thing that I want to specifically call out is the retail, rural and MSME finance. This is the three what traditional Banking system also calls it RAM. That portfolio our gross NPA is 1.53% which is ditto same as last quarter and our net NPA is 0.52%. So, the long and short of it I want to share with you is that, nothing to worry here. At this Bank things are absolutely stable, and we will try to maintain it like that going forward.

Then we also want to call out one more important piece of information, because you might say, or anybody might say that asset quality is good, but how do you feel good for it for the future?

There's one point I want to share with you that we monitor collection percentage because after all its collection percentage that leads to SMA and NPA and all that. Now, our collection percentage in the current bucket continues at 99.5%. It's been so if you've been tracking our Bank for a while, it's been like close to 2.5 years since the since the COVID ended, those days it used to be 99.1% to 99.3% and now it has been at 99.5% little like 12, 13 months in a row. And frankly it's been that way for a long time now, not just 13 months like 12-13 years ago, it's been quite strong.

So, my quick comment therefore is that as long as these numbers are what they are, our net NPA will also remain low only because net NPA is after all a derived number from how much collection efficiency is. So, we disclose in our Bank these numbers month-by-month. I mean every quarter, we disclose for the three months of that quarter, and then we also historically trend it for 2-3 years also. Why we say it's important is that if we were to have a credit quality problem as in gross NPA and net NPA in retail, you will first see it in our collection percentage dipping from 99.5%. Until the day you don't see that number dipping from 99.5%, you can think of this as a lead indicator. And therefore, we'll know maybe it's just three months before you, because every quarter we are now duty-bound to report it.

The last thing is SMA continues to be very low; it's 0.77% is probably the lowest we've seen it. And for the reason I told you earlier, we feel confident about that.

Now, we have also disclosed product-by-product gross NPA, net NPA and we've been disclosing it for quite a while now, maybe I think 4-5 quarters where we actually disclose our NPA in loan against property specifically, consumer loan specifically, for example in consumer loans our gross NPA is 1.96% and net NPA is 0.52%, vehicles, credit cards, digital loans, SME, home loans, rural, we disclose every one of them and the sum total sigma tending to 1.53% and 0.52%.

So long and short, I'd like to say that it's a pretty stable quarter. We feel quite confident on the overall growth prospects and everything looks good. So, you should expect this kind of a stable performance from the Bank for a while now because we don't see anything fundamentally changing in our story. And if there's anything changing, we'll of course constantly make changes to our strategy, but we assure you from our side that you can feel comfortable about us in all the parameters.

I would like to pause here and thank all of you for being here with me. And maybe Sudhanshu can give some more color. Thanks so much, folks.

Sudhanshu Jain: Thank you, Vaidya. Again, good evening, everyone.

I will touch upon key numbers for the quarter and the half year ended on September '23.

To start with the balance sheet size now stands at Rs. 2.64 lakh crores and expanded by 24% on a YoY basis. We continue to witness a strong momentum on our lending book and in deposit mobilization as Vaidya said. Our customer deposits he already said that we had a very strong growth of 44% on a YoY basis to reach Rs.1.64 lakh crores. In fact, the growth in retail deposits was higher at 50% on a YoY basis. CASA ratio was also very stable at 46.4%, CASA deposit increased by 26% on a YoY basis. Average current account deposits increased by 31% on a YoY basis, while average CASA increased by 24% on a YoY basis. We continue to see a faster growth in term deposits, which grew by 68% on a YoY basis and 11% sequentially as customers are looking for locking in the higher interest rates in the system. The growth here was predominantly driven by retail.

We opened 38 branches during the current quarter, thereby taking the branch count to 862 branches. The high-cost legacy borrowing has come down by about Rs. 1,000-odd crores in the current quarter. In the balance half of this year, there's about Rs. 2,600 crore which is scheduled to further runoff.

Moving quickly to assets, the overall funded assets grew by 26% on a YoY basis to reach Rs.1.8 lakh crores, I will cover this in four parts. First is that the retail book which comprises of mortgages, consumer loans, credit cards and vehicles that grew by 29% on a YoY and 7% sequentially.

We have seen strong growth across all categories. To mention a few, home loan book grew by 26% on a YoY basis. The vehicle segment which includes two wheelers and car it grew by 41% on account of increased distribution. Consumer loans increased by 22%. Credit card which is coming from a small base that also had a very good growth. The Bank has now issued more than 1.9 million cards. The gross spends on credit card increased by 64% in H1 of FY24.

Rural book, which primarily helps us to meet the PSL requirements, also registered a strong growth of 51% on a yearly basis. Funding for SME for business purposes and corporate segment increased by 22% on a YoY basis. Infrastructure book now is just nearly 1.8% of the total funded assets at Rs.3,300 crores. You can refer to slide 93 for more details around the product growth.

Moving on to asset quality:

The gross NPA of the Bank further improved by 7 bps during the current quarter to 2.11% and net NPA improved by 2 bps to 0.68% during the current quarter. If we exclude the rundown infrastructure book, this GNPA is more like 1.69% and net NPA is 0.46% at Bank level. PCR gross of technical write-off was at 84% as of this quarter. GNPA in retail, rural and SME segment on a combined basis stood at 1.53% and net NPA is just at 0.52%. The corporate non-infra book is well provided and as a net NPA ratio is only 0.11%. The standard restructured book continues to come down and has further reduced to 0.38% as compared to 0.47% last quarter. More than 85% of the restructured book is secured in nature. The SMA-1 and SMA-2 as Vaidya mentioned, that is reduced to now only 0.77%, which is a good indicator of a better portfolio. Even in the corporate book, the ratio of SMA-1 and 2 is very low at around 0.3%.

Moving on to profitability:

Profit after tax for H1 FY24 increased to Rs.1,516 crores versus Rs.1,030 crores in H1 of last year and this was up by 47%. For the quarter, profit grew by 35% YoY to Rs.751 crores versus Rs.556 crores in Q2 FY23. This was largely driven by strong growth in core operating income.

Core operating profit which is NII plus fees excluding trading gains for H1 grew by 41% YoY to Rs.2,883 crores. For the quarter, it grew by 38% to Rs.1,456 crores. NII increased by 32% on a YoY basis to Rs.3,950 crores. The net interest margin was steady on a sequential basis at 6.32%. Fee and other income increased by 46% to Rs.1,376 crores for Q2 FY24 and this was largely retail-led which is at 93% of the total fee. Operating expenses increased by 34% on a YoY basis due to increase in business volumes, branch expansion and increase in some tech expenses. We had a trading gain of Rs.54 crores during the quarter and provisions came in at Rs.528 crores for the quarter. The credit cost on an annualized basis as a percent of average funded assets was at 1.19%, which is well below our guidance which we had given earlier. On an annualized basis, ROA stood at 1.2% and ROE stood at 11.36% for H1 FY24.

Moving on to capital adequacy:

The Bank has maintained strong capital adequacy, including profits for H1 FY24 was at 16.54% at September 30, 2023 with CET ratio at 13.49%. During first week of October '23, the Bank successfully raised Rs.3,000 crores through a QIP from a set of marquee investors. Considering this, CET-I and total capital adequacy would be higher by about 150 bps at September. We continue to maintain healthy liquidity levels and average LCR was at 122% for Q2 FY24. We would like to maintain it around these levels going forward as well.

With this we can move on to the Q&A.

Moderator: We will now begin the question-and-answer session. We have our first question from the line of Lalit Deo from Equirus Securities. Please go ahead.

Lalit Deo: So, sort of just ask a couple of questions. So first in the retail loan portfolio, so like we are seeing a strong growth in the digital loan segment. So, could you give us more color like what is the nature of these loans and what is the ticket over there like like who are the major customers as well?

V. Vaidyanathan: These are the digital loans, like how every other institution is doing digital loans, because these are loans that we can originate either through partners where loans are originated digitally, they could come from a partner, even be loans that are maybe we advertise in Google or somewhere and prospective customers click on it and then you process them digitally end-to-end.

Lalit Deo: So again, how would it be different in terms of ticket sizes as compared to our consumer loans and digital loans?

V. Vaidyanathan: Much bigger, much bigger. For example, consumer loans of durable financing that we do that ticket size could be as low as even Rs.30,000 - 50,000. But these loans maybe like Rs.3 lakh.

Lalit Deo: My second question was on like while we have indicated that our collection efficiency has been strong at about 99.5%, but if we see the segment wise GNPA in the retail segment, we see that in the credit card, consumer durables, there has been a small increase on a sequential basis in the GNPA. So, on a sequential basis, do we see higher slippages in these segments, could you tell us more color in this?

V. Vaidyanathan: No, I mean, if you see the numbers here like marginal movement of 10 basis points up or down can keep happening in any business, any month. But if you see for example, the credit card, 1.87% gross, 0.46% net. If you see, vehicles 1.76% gross, 0.73% net and it is unlikely to be any materially different than the last quarter. For example, if you see SME loans gross is 1.42%, net is 0.47%. So, like last quarter, it could be like 1.52% or 1.32%. What I am trying to say is all operating in a particular range and nothing has fundamentally changed. That's where we focus on sigma, the sigma is 1.53% and 0.52%.

Lalit Deo: Could you give the gross and net slippages for this quarter?

Sudhanshu Jain: Gross Slippages for the quarter were about Rs. 1,350 crores and net slippages were around Rs. 850 crores.

Moderator: We have our next question from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Hardik Shah: The bureau data indicates that the unsecured loans per borrower has been increasing in the last couple of years. Can you share some color around this for your book in terms of what the data is like?

V. Vaidyanathan: See, specifically for less than Rs. 50,000 I called it out earlier in the discussion. Our book is Rs. 540 crores, that is below ticket size of Rs. 50,000, which is what was flag for us. Even that book is behaving well, it works out at 0.3% of the overall funded book of the Bank and it works out to 0.37% of the retail, rural and MSME book. That is the number that we are calling on specifically. But other than that, as we discussed earlier, there are three categories, just to give a little more color. The way we do it is that whether secured or unsecured, we follow the concept of cash flow. Because we believe this trapping of cash flow is itself a security. So, we follow the model. We believe that is a discriminating factor. For example, let me give you color. For example, if there is a product in which a customer has to pay you on due date vis-à-vis there is a product in which you take the money from the customers Bank account on the due date. So, the performance is very different between the two. The former is an example like a credit card. Now, imagine I give you a credit card. On the due date, what do you do? You pay us. I can't touch your Bank account and take money from the Bank account. But imagine, you take a personal loan from us. What do you do? You are not paying us. We're taking money from your Bank account. So, there is a fundamental difference between the fact that you can pull money from the Bank account, or we have to wait for you to pay off. This is a very, very fundamental point and all our unsecured loans or secured loans with the exception of credit card business is where we take money from the customer's account. Think about it like retail book, MSME book and rural book, all put together of about Rs. 1.46 lakh crores. And of that, only the credit card book of Rs. 4,000-odd crores is where you pay us and everything else, we pull money from your Bank account. I'll give you a breakup if that gives a little more color. There are three categories of financing we do. One is a retail financing book, that includes home loan, vehicle loan, consumer loan, education loan, credit card, gold loan, etc., So that book is Rs.1,04,000 crores. Second is rural finance, that is Rs. 22,800 crores. Third is SME finance, that is Rs. 9,500 crores. So basically, if you take these products and all of these products except credit card, which is Rs. 4,282 crores of exposure, everything else is we take money from the customer's account.

Hardik Shah: But sir, my question was coming from the fact that what we are seeing is that the borrowers who are taking unsecured loans, they are taking those unsecured loans from multiple institutions. So, if we can share the color on our borrower wherever we are lending, if you have that kind of a cut in terms of whether that customer is an exclusive customer for us or if that customer is borrowing from multiple institutions?

V. Vaidyanathan: No, I don't have the color off hand.

Hardik Shah: One more company reporting yesterday, SBI Cards which sounded caution on the stress building up in the unsecured loan book and that is also showing stress in their credit card book. So, are we seeing any of that sort in our book?

V. Vaidyanathan: No. Interestingly, to take out credit cards as an example, I really believe that, every product whether secured, unsecured or credit card, everywhere we should be careful, because that's the nature of lending. But in credit cards you should be extra careful, because credit card customer pays when they pay. So even if the customers have money in the Bank, we can't touch the money, right? So, we should be extra careful in credit card. As far as we are concerned our credit card book is 1.87% gross NPA and our net NPA is 0.46%. Particularly in credit cards what we do, because we want to be extra careful, we lend credit cards largely, I don't say exclusively, but largely to our customers who have our relationship, maybe savings, etc., So, it just makes it a little better for us I think.

Moderator: We have a next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: So almost on all the fronts, be it advances, asset quality, deposits we are doing exceedingly well. Just one question is if I see our H1 or even the Q2 numbers, the operating income growth is around 35-37%, but at the same pace, our operating expenses are also growing, we are in that 71%, 72% cost-to-income from last almost three quarters now. Obviously, we are expanding the branches for the growth also, but when we will start seeing the material reduction in the cost-to-income ratio if you can touch upon that. And my second question is regarding the credit card business, in earlier calls you were saying by FY24 end we may touch breakeven. So where do you feel that we will be breakeven by this year end, maybe start making profits next year?

V. Vaidyanathan: On the cost-income front, yes, I mean, as long as expansion is continuously going on because remember, we are growing our deposits very strongly by Rs. 50,000 crores a year. So probably next year we'll need to raise Rs. 65,000 crores. So yes, we'll continue to incur the necessary expenses and the drag is coming on the liability side. Our retail asset side is posting a return on equity of 20% even though we give transfer pricing at some rates from the liability point of view. So, as long as we keep expanding, I guess on the liability side, there will always be a bit of a drag. But we should look at in composite sense. As long as we meet the return on equity because after all cost-income is a component that is going to deliver ROE. Since we have a slightly higher NIM that for the street when we did the merger, we had guided 5.5%, we are running 6.3%. Our fee income is also very strong at about 2.2-2.3%. Even if a slightly higher cost-to-income ratio than what we initially guided for, the way the economics fall in the P&L, the return on equity front, we are broadly quite confident that in the exit quarter of FY25 we should be able to meet our guidance. So that's one important thing to remember about cost-income that look, after all, it's an input material and it's not an output item, output item is ROE. Now, what's the second question?

Dixit Doshi: Credit card business profitability?

V. Vaidyanathan: Broadly, we don't see any major discomfort to it. Yes, you're right, we had said that by FY25 we should be able to breakeven and in FY26 we should start making money, that's probably the direction continues.

Dixit Doshi: If you can throw some update on the merger. So, have we already applied to the Reserve Bank and all?

Sudhanshu Jain: Yes, we have applied to Reserve Bank of India as well as to SEBI, NSE and BSE. As you would have also noted that we have already received the approval from CCI. There are a few other bodies where approvals need to be sought. We are very much into the process, I can say that this is very much on track. Of course, it takes its own time, difficult to predict, but things are moving smoothly on this front.

V. Vaidyanathan: Things are going smoothly, friends. I know you people may want to know more details, but regulator, BSE, NSE and competition commission, all the process is working and there are no hiccups anywhere.

Moderator: We have our next question from the line of Kaitav Shah from Anand Rathi. Please go ahead.

Kaitav Shah: First question from my side would be on the interest rate on the deposit side. So, are we largely through you think on the interest rate pricing on the deposit front or do you see that there is still some sort of increase left for your deposits to get repriced?

Sudhanshu Jain: I would say a large part of the catch-up cost has already come in. There could be another 10, 15 bps which could happen in H2. Having said that, as I mentioned earlier, we have also some legacy borrowings which would retire. So, that came down by Rs. 1,000-odd crores in Q2, another Rs. 2,500 crores which is broadly evenly spread between Q3 and Q4, that will come off that is at 8.9%. That should give us some relief on the interest cost. So, we feel that cost of fund could go up marginally from the current levels, but the large part of the term deposit pricing has sort of come in. Maybe some increase could happen in Q3 and then things could play too or if the interest rates have to come down, then we could see some benefit down the quarter.

Kaitav Shah: The second question is more on the exposures that you have towards the NBFC. If you can kind of give us some sort of numbers that you look at to get comfort on the lending to NBFCs because the exposure to below 50,000 or smaller ticket size has largely been through the NBFC route. So, what sort of comfort do you look at and if you can just make us understand a bit more about?

Sudhanshu Jain: So, on the NBFC book we are seeing a very strong performance. Again, we have been doing this for quite a while, right. That book is broadly about Rs. 15,000-odd crores today. On a rating, just to give you more comfort, more than 80% of the book is rated "A and above" and rest is "BBB / BBB+" and only 1% of the book is "BB and Below." So, we see very strong performance on this book. We have not seen any blown ups.

V. Vaidyanathan: To your question about how we think about it, the one fundamental thing in NBFC is that we should be very careful about the NBFCs ability to manage cash flow. It is never really the underlying, whether the lending for less than Rs. 50,000, more than Rs. 50,000 because internally they also have a strong amount of capital and the capital cushions are most NBFCs are running at 15%, 18%, 20%, some of them even more. So unlikely that you're going to blow up so much of the book that capital gets wiped out, that's pretty less likely. But it's more important to understand their cash flows. So, when we lend to NBFCs, we look at basically the level of capitalization, their ability to raise capital that's also very important and that make a reasonable assumption and guess based on understanding of the people, who are the founders, promoters, their own track record, their historical record of how they raise capital from time-to-time. We also understand the discipline of their lending practices themselves. We understand reputation, as all of you know reputation makes a very big difference. Then we also understand trends of their asset quality, their flows, etc. So, when we look at this and we feel comfortable then we lend.

Kaitav Shah: Given what has kind of been alluded to within the retail space and of course lot of players have been going on their own on the unsecured lending fees, personal loans, a lot being said there. Does it in anyway change the growth trajectory for you or you will be more data dependent on what's happening within your firm and you will be going ahead with the show as it's been going?

V. Vaidyanathan: See, it is our job to very carefully heat the market. Because when there is a particular news flow, we have to look at it and we have to immediately call for the data and double check, triple check. To be honest, we evaluate our portfolio really at a microscopic level in the Bank. To give you one idea, we have like four or five or maybe six levels of controls. Let me speak to them out to you. Number one, the teams which are doing the underwriting themselves, so they have their own KPIs that their NPA should not cross x and net NPA should not be more than x and y. Then beyond that, there is a policy management team, who approve the policy. They have their own conditions and they are an independent team. Then thirdly is the risk management division of the Bank which runs independent of the underwriting teams. So they have no truck with the first team that either wrote the policy or the people who wrote the underwriting, they are independently evaluating, every month they're looking at every city, every state, every location, every segment, everything is micro monitored and they all track the numbers and see the numbers going up and down. Anything goes up, they keep identifying what went up and they keep making changes. Then next at my level because after all of this end of the day, I am responsible to the market, I am responsible to the board, I am responsible to the shareholders. So, I am keeping a very hawk eye on this issue because like I said we are very proud record of 13 years where a gross NPAs never crossed two and net NPAs has never crossed one. So why would we disturb that? When I look at it, I take it very seriously. Even if I find an incident in the marketplace where I find that, Oh My God! how did this customer of our Bank get this offer from the Bank. We turn the unit upside down, thinking that how did this loan go through our Bank. Then after my level of valuation, I can call myself the fourth. Then after that there is management committee of the board. The risk management committee is presented with 160-170 pages and there we present a full trend line of 12 months or four quarters or eight quarters as required. There it is presented by ticket size, by LTV, by geography, everything. Then after risk management committee, then come to the board, then we finally present all of these numbers to the board and literally in every single board meeting we present all the key parameters to the board. Just for information, I hope this will give you some comfort. To the board, we don't present overall retail NPA numbers. That would be really very basic and that doesn't give any color. So back to the board we present all these numbers and then we present all the trend lines and everything that are material, secured, unsecured, unsecured but secured by cash flow, etc., And then finally the shareholders and analysts, etc., So imagine it is just going through so many levels that almost everybody here is becoming a Ph.D. in credit in terms of asset quality monitoring. So, I'm only assuring you, I'm saying this I am on record, that we have so many checks and balances, I'm personally focused on it, but it's not only me, because whole team has to work and that's how we focus on it. So, our board will hear this call and they will take it even more seriously because I'm invoking their name as well, but I can only say that we are that fast. In fact, in yesterday's risk management committee, we presented vintage analysis. Vintage analysis, what we do is that we see a loan booked in, say, January of 2019 and then we see that six months later, i.e. June of 2019, what was the delinquency. So, then we take a loan that's booked in January of 2023 and then we see after June of 2023, exact six months, so that is very comparable, what is the delinquency. So, then we see, has it gotten better over time or has it gotten worse? So, for every single product we present vintage analysis, like yesterday we did with RMC. So, we do this level of details. So, I can tell you that it's very unlikely that so many people can miss up an item.

Moderator: We have a next question from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Two questions. One is on margins, like while we have reported a stable margin, but this quarter we have also raised a lot of liquidity and deposit growth has been very strong. But for this looks like margins could have been better this quarter and now that we have sailed through the entire last year with a relatively higher mix of fixed rate book, how do you look at the margins going ahead, what levels will be comforting to us given that that some risks on the delinquency side that the industry is watching for and how do you want this to progress going ahead?

Sudhanshu Jain: Nitin, we expect the NIMs to be quite stable, right. In fact, as you saw for this quarter also we came down by 1bps, there was 2bps impact which came because of ICRR. Going ahead, as I said, large part of the deposit cost has come in on the term deposit front. There could be some increase which could happen, but at the same time we are also seeing some benefit which continues to come in in terms of repricing of investments when they get churned on the liquidity which we get deployed, interest rates have moved over a period of time, then even on advances because we had certain loans which were linked to one-year MCLR some benefit is coming in. So, we feel that NIMs will be quite stable for us even into the remaining quarters of this year.

Nitin Aggarwal: So, if I look at the deposits, the traction has been very, very strong over the last 4, 4.5 years and the deposit per branch now is quite comparable to some of the large private Banks. And while they have been in existence for more than two decades and we have started our journey like say four to five years back. So how do you look at the trend going ahead and if you can provide some color on the deposit productivity, therefore, as the branches they achieve vintage and how are you looking at that, because we have also opened a large number of branches in the recent years. So how do you distinguish in terms of productivity between the early branches that we opened and versus what we are opening now? How good is this metric to really look that like deposits for branch for IDFC Bank?

V. Vaidyanathan: See, I'll give you more specific response. Our deposit per branch is running like Rs.185 crores. Like you rightly said, it's comparable. I think some large private sector Banks are probably better than us. They're probably in the mid-200 kind of zone, but the pace at which we caught up I think is really something. In fact, I'd say that we've almost caught up with Banks, which have been there for like 15, 20 years in terms of deposit per branch. The good news is that our brand has become very strong. You may have missed the annual report, but one comment I've written out there; it's not about how many people know a brand, it is about what people think of a brand and that is the hardest to crack. If you advertise a lot or you are in some news for some good reasons and bad reasons, you can be the news but not the same thing as being known for the right reasons. I don't know how it came to us, but can't put a finger on to it. People say good things about us in our brand surveys and our own employees, when I go and visit branches and talk to them. I do that quite frequently, I go and employees are almost like jumping with happiness and walk around, they say, customers are coming and appreciating our Bank and our products are well appreciated, etc. So the point is that is a good thing. Now with that power of the brand, our products are quite good, genuinely clean, we don't charge any penny from customers through this route or that route and don't change fee structures on the fly without the customers' knowledge. So, when you have a good image and a good brand and good products, then you open a branch. Straight away we get a lift off. Any location we go and put a branch like almost our Bank gets like the flow of money into our branch is quite fantastic. So, we think we are very encouraged by all this to be honest.

Moderator: We have a next question from the line of Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: Sudhanshu, if you can come to slide 93, loans and advances, firstly, could you give us the size of the credit substitute book?

Sudhanshu Jain: It's a small book of about Rs. 5,000-odd crores, which includes certain bonds and also the PTC portfolio which we have.

Manish Shukla: And then on unsecured retail, right, in all form and shape, if I were to look at this loan mix, where does it sit and what is the size of the total unsecured retail book, I'm not talking small ticket, I'm talking about overall unsecured retail?

V. Vaidyanathan: We have given more of a product wise cut in this portfolio and that's the kind of disclosure we put out since the beginning.

Manish Shukla: Which is what I'm trying to understand that of the consumer loan book, for example, 22,000 crores, how much would be unsecured retail of the other retail which is 14,000 crores, how much would be unsecured retail?

V. Vaidyanathan: No, I think I've answered this to you already that it is for people to take a reasonably informed assessment of what portion is secured, unsecured, for example, you can imagine that home loan is secured, you can imagine LAP, you can imagine vehicle, consumers portion is not, gold loan is, tractor loans is, say equipment financing is, commercial vehicle is, education is not, consumer loans, these are well known for business Banking yes. Business Banking is basically working capital product finance to small enterprises. So, it is for you to make a good guess. I think these are well understood businesses.

Manish Shukla: If I were to guess, I can guess anywhere between 25% and 100%, right? So, it will be better if we could have an estimate from you rather than us guessing it? Secondly, Mr. Vaidyanathan, in the opening comments you made a statement that given so much of noise around media you have changed certain policies if I heard it right or made some changes and made that presentation to the board as well today. Can you make some qualitative comments around the same what exactly is it that you're trying to do incrementally?

V. Vaidyanathan: See, we are constantly identifying pockets. It's a continuous process, it's not just for only this quarter. Any good organization would continuously do it. We have to be sensitive to the news flow, but we have to do our own thing, with or without news proactively also. Let me give an example. Now, suppose the income installment ratio you play is 50% and you have given out loans at 50% and then this income installment ratio in one particular segment you're finding that delinquency is more than the other. You might then say that okay, for this segment, I don't want to take 50%, I want it at 40% whereby in other words we'll lend only Rs.40 to the amount of income. So, these are continuous criteria that that we touch like this. I mean there are many more examples. There could be a location, in the case of another tightening could be say for example, secured example, for the sake of argument, if you find that loan against property in a particular city is not behaving as well as other city and of the mean, then you might say I don't want to give 65% LTV to this market, let's give 50%. It's a continuous process and it's a long list, it runs into like what we presented today to the board we compiled this for a quarter, it ran into some four pages of changes to credit policy. It is a continuous process.

Moderator: We have our next question from the line of Jay Mundra from ICICI Securities. Please go ahead.

Jay Mundra: Sir, wanted to check on your term deposit pricing strategy, right. So, if I look at your current structure of term deposit, right now, we are offering up to one year at 6.5%, whereas our SA rate above 5 lakhs is 7%. So that looks a bit unusual. What does it mean? Could TD rates be revised upward or you think there is a chance that SA rate could move downwards or how should one think of this and what are we trying to achieve? Of course, given a choice at 6.5% TD and 7% SA, you would see a lot of inflow in SA only, but from your ALM perspective is that the optimal way you would want to strategize?

V. Vaidyanathan: So, I will tell you our rates and then you can derive our view from that. So, our interest rates on term deposit for let me say 180 days is 4.5%. So, we pay 3% up to say 45 days, so 46 days to say 180 days we pay 4.5% and let me say 181 days to say a year we pay 5.75% and up to one year we pay only 6.5% for your information. So, one year, one day and above we pay 7.5%. So, by the way, these rates are not too high let me tell you. If you go and check out the interest rates for, let me say. Even leading state-owned Banks, our rates are very competitive, competitive meaning not high, on the lower end and even one year one day 7.5% it's fine, maybe 30-40 basis points more than some leading Banks. So, we find that our Bank has acquired that sort of a stature now or whatever goodwill now. I told you this before that we are able to raise deposits like this.

Jay Mundra: No, no point taken, sir. What I was trying to understand the relative strategy of term deposit and SA, right. So, your term deposits are competitive and maybe a few basis points spread over other Banks. But within your Banks you are offering SA at 7% above Rs.5 lakh and you have the TD rates which are much lower than even SA. So, how does this benefit Bank from ALM, what are you prioritizing SA over TD or how should one look at it?

V. Vaidyanathan: Okay, that's a good question. For our Bank, whether frankly you brought money to the form of TD route or whether you kept money in savings, end of the day it's costing us a certain amount of money. So, the Banks which have traditionally been in business for maybe 20-30 years, they hate to change the savings rate because it changes the interest cost of the whole base. So, they normally prefer to just raise the interest rates in the TD front and pick up money and hope for the interest rate cycle to change where TD rates come down and they can protect the low-cost savings rate. They are interested parties in never touching this. We are free-footed people. We have no interest to protect the whole base because my whole base is new, it's a new Bank. So, we say no, no, we don't want to play this game. If we're willing to keep the SA rates what they deserve to be from the customers point of view and even from our point of view it makes sense. So that's our thinking on this issue. So that's how we play our cards. That's why I always say to all of you that look on the savings front, I make no forward commitments on what the rates will be. They will be. Sometimes when market will be tight, I will increase it and not tight, I will drop it, that's how it works. And right now, just see what we've done. You may have missed it. That zero to 1 lakh, we have dropped savings rate to 3% now. At 3% it's in the league of many other well-known Banks. But amazing thing is that we still feel the person will come to us and is coming to us. So, we feel that it's a very epochal moment that we drop the rate to 3% on the savings rate, zero to 1 lakh. And if our deposit trend continues like this for another three, four, five months, six months, etc., then we may even extend the zero to 1 lakh, even 2 lakhs, 3 lakhs, who knows. But it's a very important moment to the Bank that we dropped we dropped the rates to 3% on zero to 1 lakh. So that's how we see.

Sudhanshu Jain: Just to add, as I said that we continue to see strong inflows in the term deposit as you see the rates for one year one day to two years is 7.5%. So, if people want to lock it it's a good rate, right? And we are getting deposits in that bucket. Of course, if you keep money in savings account, it gives you more flexibility and we offer the rates that Vaidya mentioned about.

V. Vaidyanathan: So just finish this point, the thing is that we feel very comfortable with our strategy at this point of time and if you notice, see, we think of banks as two categories of Banks. One is a big four. Big four is another league. They've been around for 25 years, 30 years, they have a great brand, maybe good product, good service, everything and they have also been there, the entire ecosystem has been serviced by these Banks. So, the whole chain of money coming from a vendor to the principal, principal to the dealer, dealer to the distributor, distributor to the dealer, there is a whole chain. The government money from the government to the scheme right to the taluk or zila parishad levels are there. So, a lot of these institutions have very strong brand and good capabilities. The good thing is that as far as our Bank is concerned, despite being a new entrant, like I said, just a goodwill brand image, whatever you call it, even if you're paying competitive pricing, we are competitive to our peer group, we are able to get to the deposits. I just put this in one more thing. So, let me say a big four, they have all the legacy benefits I told you. Now, think of the next four Banks like, say, IndusInd Bank, YES Bank, say, maybe Bandhan Bank, our Bank, maybe few Banks which are tier-2 Banks in that sense. Among those Banks we are like very well priced, like competitively priced, we don't pay more. In fact, now we are nudging in the bigger Bank category by offering 3% from zero to 1 lakh. And still this kind of deposits are flowing to us. So, it gives confidence to us.

Jay Mundra: A small observation and maybe you can correct, right. So, FY23 slippages as a percentage of AUM was around 3% and considering current quarter slippages are also around 3%. So is this the normalized run rate for slippages or you think basis your 99.5% collection efficiency, the slippages should ideally be around 2% and hence there is some scope. So yes, that is the broader question.

V. Vaidyanathan: This concept of slippages and etc., and their correlation with credit costs has to be very carefully understood here. That will define what is that 99.5%, 99.5% means 0.5% moves from zero bucket, that is current bucket of zero to 30, and 99.5% is collected from that current bucket. Now, from that bucket that is 0 - 30 to 31 - 60 some more customers slip. From 31 - 60 to 60 - 90 some more customers slip and so on. When we look at slippage, there is also flow forward, flow backward. Different Banks have different kind of product suite. So, for example if you have a home loan probably never slip at all. If you went to a company for the commercial vehicle, they will probably have a lot of slippage, have a lot of collection back, right, even after 90 DPD. So, therefore, depending on businesses, they all have different slippages, different collections. But the way to look at is not only one metric, there are these five metrics you should track. As far as we are concerned, the five metrices to track which has helped us very well for over a decade now, and this makes process follow. #1, what is the collection percentage? We told you the number 99.5%. #2, what is the SMA? We told you the number like 0.77%. #3, which is you could probably be in a band, even 1% is also good enough #3, what is the gross NPA? #4 what is the net NPA? #5 what is the credit cost at our provisioning policy? So, if these five things are met, then the rest is taken care of. We are following this for a long, long time. And mind you, I specifically flag credit cost because the Bank or anybody can take more provisions or write-off more and claim to have low gross and net NPA. But we don't do that. We also show a credit cost and we guide the credit cost and we meet the credit cost.

Moderator: We have a next question from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: A few questions have already been answered. A couple of questions. I heard that you talked about more in a detailed way on the branch vintage and all that thing. If you can also talk about on the customer acquisition run rate, what has been in your Bank for the last couple of quarters and vis-à-vis what was the run rate for, let us say, a few years back on that? Also, nowadays I mean when I hear a lot of Banks, I mean people all talk about going more penetration on the existing customers base. So, on that front I mean, what would be your product per retail customer, how has been that trend if you have any analysis or any thoughts there?

V. Vaidyanathan: So now this thing about number of accounts and how the trend line of product per customer etc., is, see, we are let me say little underperforming on product per customer. If any of your customer you may have noticed that you're not getting aggressive calls from the Bank, you don't get too many calls from the Bank and pushing products, we are trying to tone down our team, so that we don't disturb the customers too much. Of course, it's an exception to the rule and if any of them is disturbed, I apologize for that. But generally, 99% of the time you will not get very many calls from the Bank. So, our product per customers are little lesser than and we find it's an opportunity actually but we want to keep the current strategy of keeping the smell of a bank good and #2, if you take any of the established Bank, who have been there for maybe 20, 30 years, they have two engines that fire for them every year. One is, imagine a Bank that's already sitting on 10 lakh crores of deposits and imagine that 10 lakh crores maybe about 10%-odd will come anyway growth because Indian economy is growing, if you're a salaried customer, salaries have gone up, and some deposits come from existing customers anyway, just by the growth of the economy and growth of financial services. Then they raise a little more money through NTB. In our Bank since we don't have that base of 20, 30, 40 years, almost everything is coming through NTB. So, we believe that as the years progress, let me wake up in say FY27, FY28, FY29, FY30 then hopefully at that time our deposit will be like 3 lakh crores or something like that. At that time, you will find that a certain amount of good balances will come from existing customers and NTB. If other Banks are running in two engines, we are probably running on only 1.2 engine because we are largely NTB bank. But that's the price of being a new Bank, because you have to go and acquire.

Suraj Das: But, sir, do you have any number on the customer acquisition side, what was the customer that you acquired in the last quarter?

V. Vaidyanathan: We've not put it out specifically. It must be a lakh, lakh and a half something like that. We also acquired digitally, but somehow maybe 70,000 - 80,000 customers a month or so, earlier, we used to acquire more than that, but then later we figured out that these customers are not keeping enough balances. At one point of time we were acquiring 1.5 lakh, 1.6 lakh customers digitally. Then we figured out the customers are not keeping enough balances, then we put a specific condition in the process that please fund the money as part of the process itself. Then it drops in number of volumes; it came down from 1.5 lakh to 70,000 - 80,000. But at least now we're getting better quality because customers are coming with the money. That's on the digital side. Then maybe on the normal account opening side, maybe 70,000 - 80,000 accounts per month. So, we are focusing more on quality customers, we're not amassing millions of customers and supporting millions of customers in the market. So those things don't give us any joy. We are trying to get customers both digitally and physically meaningful relationships because we don't want to crowd our branches unnecessarily for the little experience for our existing customers. That's a strategy that gives you a little bit of color.

Suraj Das: Obviously, you have a proven track record on the asset quality side in this retail book. If I see your retail and SME loan, GNPA and NNPA, it is probably best in line in the industry and probably we are one of the best when compared to large peers. But at the same time, sir, I mean, do you have any other contingent provision for say in your book that is not included in the PCR calculation? And do you intend to bill, I mean, because few of the larger peers, they have built contingent buffer over the last few quarters, in your plans, in your strategy, do you intend to build any kind of countercyclical contingent provision just to keep this retail asset quality, probably we are in the best time of asset quality and probably in the next two, three years down the line when any retail cycle comes, do you have any plans for that, creating any contingent provision buffer or something like that?

V. Vaidyanathan: First of all, that is also a good question by the way. It's just not because of the benign time I point out to, to you to look at our when the timing was not benign also. Look at demonetization, our NPA never been disturbed. Look at ILFS Crisis or GST implementation. So, we've had good times, bad times, the quality has been good. But I do agree that it's an extraordinary even like a

COVID comes, right, when India goes into lockdown and there's no moratorium for customers. And if those kinds of situations happen, those things can happen and we should be very aware of that. We feel that barring those situations, we are really well, well covered. Now, as far as the contingency is concerned, what we have done is we have taken our provisioning policy itself basically starts at 90 DPD in a pretty conservative manner, and actually depending on product category either between 120 days to 150 days to 180 days is all provided for. So, with that kind of a super-conservative provisioning policy, it's pretty unlikely that we'll have a problem. But we'll watch carefully.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

V. Vaidyanathan: My God, it is like one hour and twenty minutes. That's a lot more than we expected. So maybe moderator, you can keep track of next time for our sake. So, thanks very much, friends for being with us today.

Sudhanshu Jain: Thank you, everyone. Have a great weekend.

Saptarshi Bapari: Thank you, everyone.

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