“IDFC FIRST Bank Q2 FY25 Earnings Conference Call”

October 26, 2024

MANAGEMENT: **MR. V. VAIDYANATHAN – MD & CEO, IDFC FIRST BANK**
MR. SUDHANSHU JAIN – CFO, IDFC FIRST BANK
MR. SAPTARSHI BAPARI– HEAD, INVESTOR RELATIONS

MODERATOR: **MR. JAI MUNDRA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to IDFC First Bank Q2 FY25 Earnings 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jai Mundra from ICICI Securities. Thank you and over to you sir.

Jai Mundra: Hi Siddhant. Good evening, everyone, and thanks for joining the call. On behalf of ICICI Securities, we welcome you all to Q2 FY25 Post Earnings Conference Call of IDFC FIRST Bank.

From the Management side, we have with us Mr. V. Vaidyanathan – MD & CEO, Mr. Sudhanshu Jain – CFO and Mr. Saptarshi Bapari – Head Investor Relations.

I would request MD & CEO sir to open the call with his "Opening Remarks," post which we will have a Q&A session. Over to you sir.

V. Vaidyanathan: Good evening, everyone. Pleasure to speak to all of you this evening. This is Vaidyanathan here. I got Sudhanshu with me.

Sudhanshu Jain: Good evening, everyone. Thank you for joining.

V. Vaidyanathan: Thanks for joining and good evening again.

This quarter, as you could see, was impacted by provisions by two significant items, which was basically the microfinance business and One Toll Road and we will definitely attend to that because that is the one sticking issue about this quarter's results. But before that, let me just share with you the key highlights, which are also significant positives for the Bank. Lest we get drowned in the question of provisions, we should just notice the overall picture, and then, of course, come to the key issue of provisions.

Now, one key strength for the Bank is the growth in deposits. Now this quarter again, Y-o-Y growth in deposits is now 32% for the Bank. Now, if you grow deposits, then it gives us license to grow the loans because you've got to keep credit deposit ratio.

1. In our Bank, we like to keep it about 75% on an incremental basis. So, it gives us a license to grow the loans and that's a very big thing. So, now our deposits have now got a significant traction, now touching Rs. 2,18,000 crores. And like we said earlier, we don't see any problem growing at 30%, frankly, for our Bank.

2. Retail deposits was up 37% year-on-year to now reach Rs. 1,75,000 crores. And this is despite the fact that we dropped savings account rates to 3% last to last quarter. So, some of our customers and markets have accepted it, obviously, and still deposits are growing very well.
3. Our CASA deposits have grown by 37.5% this quarter. It has now reached Rs. 1,09,000 crores. Our CASA ratio is upwards of 48%.
4. And our cost of funds this quarter was stable at 6.46%. But this 6.46% includes, let me say, the legacy cost that we are sitting on, which is the pre-merger IDFC, what we carried into the Bank. If you exclude that, our cost of funds is 6.37%, which is quite stable.

Now on the Loans Front:

We saw strong growth of 21.5% year-on-year. If you remember, this is what we had kind of guided for earlier. And our total loan book has now got reasonable traction. I'd say we are now Rs. 2,22,000 crores. Our retail loan book grew by 25% year-on-year. And later you will see that this 25% is also accompanied with good asset quality. So, the retail gross NPA is 1.57% and the net NPA is 0.53%. So, basically what I am mentioning is that retail has grown by 25%, but asset quality is still very good on this front. We will talk about collection efficiency a moment later.

I want to add one more thing on loans. Basically our corporate loans, which is the non-infrastructure, but the corporate loans grew 20%. Obviously, initially, when the Bank was merged, our fingers were scalded by the memories of what had happened in the past. So, we were slow on corporate loans, but now we are getting more comfort having experienced it for 5 years. We've had no NPA. So, corporate loan book has grown by 20%.

Now on the Asset Quality:

On the asset quality, the Bank level gross NPA is 1.92% and the net NPA is 0.48%. The PCR of the Bank has now touched 75%. Now, many of you might want to know that if the NPA is holding up at 1.92% or 0.48%, then what is SMA? Because after all, SMA is a feeder to the NPA. The SMA of the retail, rural, and MSME book, but excluding microfinance. I will talk about microfinance separately. But the SMA-1 and 2 of the retail books (excluding microfinance) is 0.87% actually reduced over last quarter. It's come down by 8 basis points. Now we also track bucket zero, that is early bucket collection efficiency in the urban retail book. It's running at 99.5%.

If you go to slide or Page 28 in the presentation, you will notice that we have given from Q1 FY23, that is April, May, June of 2022, till today we have described our collection efficiency. It is stable at 99.5%. So, this is something important to note that our collection efficiency of this front is holding up pretty well.

Just a couple of more points:

Our rating continues to be AA+ (Stable). But on the fixed deposit program, CRISIL has rated us AAA, which to us is a huge arrival moment because of AAA by CRISIL, even on the FD program, it's a huge moment for us. Obviously, they reviewed our capital. They reviewed the way we manage our books, the way our trend lines are, our utilization of deposits, our liquidity, and all that. And we feel good about that.

Now I would like to come to Provisions:

Now provisions for Q2 was Rs. 1,732 crore. Now this Rs. 1,732 crore includes a Rs. 568 crore extra provision we had to take this quarter and we will just describe both of them to you. Maybe Sudhanshu will tell you in detail, but I will just keep it very brief for you.

Now the microfinance business:

As we have been pointing maybe for three quarters now. There has been enhanced increased delinquency. So, the Bank has taken a conservative contingency provision of Rs. 315 crores. Basically, what we've done is that we already had quite a conservative provision policy for microfinance. On 90 DPD basis, we have 80% of the book already provided.

Now, what we have done this quarter is because microfinance is an issue and we cannot wish it away because the microfinance portfolio is disturbing in many parts of India. So, what we have done is that in SMA-1 and SMA-2, we have taken provisions and therefore with this, almost all of SMA-1 plus SMA-2 has been provided for by the Bank. Like almost 99% of SMA-1 plus SMA-2, that is 31 to 60 and 61 to 90 have been provided for by the Bank, fully. So, this is what gave us Rs. 315 crores. There was a second item of provision this quarter, which was a legacy toll road. Now, we had called out to you like many years ago, like 2-3 years ago saying that, listen, we've seen the back of infrastructure. There were many, many accounts worth about Rs. 12,000 crores or Rs. 13,000 crores, which one by one, we all sorted. And we almost told you the look, infrastructure is all broadly done. But this quarter came a bit of a surprise to us. It was a shock to us. We were deeply disturbed ourselves when the state government announced that the toll doesn't have to be paid by customers for vehicles. Now, our clients, which is the entry point into Mumbai, we had an exposure of Rs. 1,100 crore at the time of merger. Now, even though the client went into NPA, we were collecting from the client. So, our exposure came down to ~Rs. 500 crores. Now, suddenly, and we were happy about that because end of the day, we already collected some Rs. 700 or Rs. 600 odd crores, and we thought even if NPA, the client will keep paying and life was okay because toll was getting collected. But now because toll got stopped by this directive, then our client is going to struggle to pay. We thought that we don't want to carry this problem on the books and keep troubling all of you. So, we've taken 100% provision against this legacy toll account. Now with this, there is no more exposure left in the account. We believe that the end of the day, the government will pay for this because I don't think any government will really cancel a contract like this and not pay. So, eventually when the government will pay, we will recognize it back to our income. So, this is the point that took away close to about Rs. 250 crores this quarter. So, these two items did affect our provision item. And that is why this number was Rs. 568 crore of extra provisions.

Finally, I must say that if you exclude these two accounts and then see the core, that is ex-microfinance, and this of course is toll account, our credit cost for this quarter was 1.8%. Now, which is very much in line with what we've been talking about. So, we want to mention that. Now, lastly, in terms of profitability, in terms of profitability, our NII was up 21%. Our net interest margin was 6.18%.

Our core operating profit was up 28%. So, it is true that we have disappointed many by these provisions, and even we don't feel very good about this toll account suddenly coming in, bothering us like this. But the important thing is the core operating profit. So, core operating profit is up 28% Y-o-Y. So, we feel that sooner or later, when we see the back of this microfinance business, which we will, then you will get to see a normalized profit of this Bank. So, therefore, our capital adequacy, I think, including the benefit of the merger that just happened, it'd probably be CET-1 of 14% is quite so strong and CRAR will be 16.6%.

So, I must say that the key points of call out this quarter was really the provisions item. But I think, like I said, we will want to put this behind us. The other thing is really a number of employees who might be hearing the program. I want to say that because the profits are down to Rs. 200 crores, maybe some of you might want to think how could this reduce so sharply? I want to just say to every employee that frankly, we are really, very proud of you. All of you are working very, very hard and brought the Bank to this position of strength from where it was.

I really want to thank every one of you personally and on this occasion, the banks, the deposits, growth, everything's looking very strong. All of you are experiencing what a fantastic technology stack that you have. All of you are experiencing how our app is being experienced by our customers and they're talking to you about it. All of you are experiencing the systems we have given you, the products we have given you. So, all of you are experiencing that from within that we are building a good Bank. And as and when we see these provisions through and this microfinance issue through, the core will continue to emerge strong. And frankly, when you look ahead, I have no doubt in my mind, when we look ahead of we talked of this Rs. 6 lakh crore of deposits by FY29, frankly for us growing 25% is not an issue to grow the loan book to the numbers we talked about earlier, honestly I don't see any, those stories fundamentally change. And sooner or later you will forget this quarter and this legacy toll account and all these things.

That's my quick comment to all of you. Thank you.

Sudhanshu Jain: Sudhanshu here, I will touch upon a few other key numbers. There might be some repetitions, but I will try to sort of give some additional data points.

As Vaidya spoke of, that the customer deposit growth has been quite robust. It is at Rs. 2.18 lakh crores now at September 30, 2024. The Y-o-Y growth was 37% in retail deposits. CASA deposits increased by 38% on a Y-o-Y basis. In fact, if you see on an average CASA basis, the growth was at 37%. Term deposits also grew at about 27.5% on a Y-o-Y basis, with retail term deposit growing at 38%, which means the growth in the wholesale deposits was only 8% on a Y-o-Y basis. Our branch count is now at 961 branches. During this half year, we have opened about 17 branches for the year.

As we mentioned on slide 19 of the presentation, the high-cost legacy borrowing further reduced by Rs. 2,400 crores during the current quarter. At the end of this year, there will be a few more repayments and we will be left with just about Rs. 4,800 crores to be paid off. The credit deposit ratio improved on a sequential basis to 97.7%. The incremental CD ratio during the last year is at about 78%.

Moving on, if you see the cost of funds and the cost of deposits, both have remained quite stable during the quarter. The cost of deposit was 6.38%, broadly the same number was in the previous quarter. And the cost of funds for the quarter has reduced by one basis points to 6.46%. On the asset side, if I could then, as you would have noted, the funded assets registered a strong growth of 21.5%. The funded asset book is now Rs. 2.22 lakhs crores roughly. The sequential growth was at 6.3%. We have given a detailed product-wise cut in slide 23 of the presentation. You may further note that retail has grown at 25% on a Y-o-Y basis. Within this, the secured book has grown at a faster pace at roughly about 30%-31% on a Y-o-Y basis. We have increased our growth in the corporate book. You can see that sequentially the book has grown at about 11%. And on a Y-o-Y basis, the growth is about 20%. The infrastructure book is now down to about 1.2% of the total funded assets.

Another point to note here is our outstanding to one telecom major that's now almost reduced to zero. On the funded asset side, in fact, the outstanding is zero. And we have a very miniscule exposure to the non-funded exposure.

Talking of credit cards, we have now issued more than 3.1 million cards. The gross spend on credit cards increased by 46% on a Y-o-Y basis in Q2 and the book now stands at Rs. 6,332 crores.

Moving on to asset quality, the GNPA increased marginally by about 2 basis points to about 1.92% and the net NPA stood at 0.48%. If we exclude the microfinance book, the GNPA in fact improved by 4% on a sequential basis. We have stepped up the provisioning during the current quarter and the PCR now stands at 75.27%. This was primarily contributed by the increase in provision on the Mumbai-based toll account. GNPA in the retail, rural and MSME book stood at 1.57% and the net NPA stood at 0.53%. If we exclude the microfinance book, then the GNPA stands reduced to 1.50%. The overall standard restructured book continues to come down and has further reduced to 0.22% of the funded assets. This was 0.26% in the previous quarter. About 95% of the restructured book is secured in nature and we hold about 19% provision on the same.

Moving on to SMA1 and SMA2, we have already touched upon that we have seen a reduction of about 8 basis points from the previous quarter. The SMA1 and SMA2 book excluding microfinance, it was at 0.87%. Gross slippages for Q2 were Rs. 2,030 crores and net slippages were about Rs. 1,392 crores for the quarter. Recoveries and upgrades were slightly higher at Rs. 638 crores in this current quarter against Rs. 526 crores in Q1 FY25. The net slippages in value terms increased by Rs. 260 crores vis-à-vis the previous quarter. And 40% of it came from microfinance. Balance, I would say, was spread across products. In percentage terms, ex-microfinance, the sequential increase in the net slippage ratio was about 20 basis points.

Moving on quickly to profitability, NII increased by 21% on a YOY basis to Rs. 4,788 crores. NIM was broadly stable, I would say, at about 6.18%, which was lowered by about 4 bps on a sequential basis. Fee increased by 18% in Q2 on a Y-o-Y basis. Now 92% of the fee is contributed by the retail book. And the fee to total assets was at about 2.05% for the quarter. We had a good decent quarter on the trading front. The trading gains for Q2 were at Rs. 105 crores. Operating expenses increased by 18% on a Y-o-Y basis and cost to income was broadly stable at 71% for the current quarter, vis-à-vis 70.5% in the previous quarter.

Operating profit, including trading gains, increased by 30% on a Y-o-Y basis. And if we exclude trading gains, then the increase was about 28%.

Provisions, I would skip where they are adequately covered. But just one point to add that if we exclude the provision which we have taken on the toll account and the additional provision on the microfinance business. Then for the balance book, ex-microfinance and toll account, the provision was at 180 basis points. This was roughly 170 basis points in the previous quarter, which is to further state that we have not seen a much of an increase in the rest of the book. Profit after tax for the quarter was at Rs. 201 crores. And if we adjust for these additional provisions which we have taken, then the adjusted PAT would be Rs. 626 crores. Capital adequacy, as Vaidya touched upon, including the benefit which is expected to come in from mergers of about 24 basis points, our CET-1 would be 14.08%.

We have also taken an impact on the microfinance book where the risk weights have been increased from 75% to 125% during the quarter. This had an impact of about 21 basis points on RWA. LCR was broadly stable at 116% and this is well within the range which we have been guiding over the quarters.

With this, I will end my opening remark, and we can open the floor for questions.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Shivam Gahoi from Abu Dhabi Investments. Please go ahead.

Shivam Gahoi: Hello sir, every quarter there are some surprises coming up in our Bank. How should we model for the next 3 to 4 quarters? And how are you seeing the environment for the housing finance in the next few quarters?

V. Vaidyanathan: Housing finance is stable and growing, so I think it's growing for everybody. For us, I think housing finance is growing at 20% and that should be quite stable. Now to your first question actually that we gave a surprise this quarter. Frankly, we are sorry about this because we really believed that our issues on infrastructure were behind us. They were like, we haven't put out the list, but we wanted to put it on nameless basis. Next time we will put it. We have Rs. 14,000 crores of such loans which we identified, and we have dealt with it, dealt with it over the last 5 years, Rs. 14,000 crores. And that of course includes Vodafone, which is Rs. 3,244 crores, which eventually did not default, but gave us all quite a scare and fright and bad news in the media and all that stuff. But barring that also, including that there were Rs. 14,000 crores, we dealt with all of them one by one. I must tell you that many of them was very difficult. Some of them were in court, some of them were in the ARC. They were difficult calls all over. So, really, we took it out of great difficulty, and we finally thought we saw the back of it. This transaction by the state government to waive off fees for toll here was completely out of the blue. It was just nowhere in the picture, just a wild thing. This is one of the reasons we don't like project infrastructure financing because we are hostage to this kind of movement outside of our control. So, this was an odd one that came through.

Shivam Gahoi: Okay, and the second question regarding the credit card business. So, are we on the breakeven and what are the delinquency because the RBI already saying like there is a discomfort in the unsecured lending. Yes, so what's your thought on that?

V. Vaidyanathan: On credit card, this time we have given a lot more disclosures. So, while my colleague pulls out the number of credit cards, we have actually shown on our presentation the credit cards SMA. SMA for credit cards this quarter was 1.69%. Last quarter was 1.88%. And the quarter prior to that, the March 24 quarter was 1.74%. So, let me bring the other order of simplicity. March 24 was 1.74%, June 24 was 1.88%, and September 24 is 1.69%. So, for us, the credit card is behaving well and really on expected lines on the credit portfolio. And we are, of course, watching it very closely because we saw the numbers of the other credit card company which is monoline in this business and we saw those numbers and we saw another Bank's numbers and credit cards. It will be very thoughtful, but as of now, we are transparently sharing our numbers with you. It's quite stable. And in fact, on page 38 of the presentation, we have even put out data about the civil trans-union data of June 24. In that, they are seeing that the 30 DPD for June 24, for the industry is 4.6%. IDFC First Bank 30 DPD for June 24 is 3.6%. For March 24, industry was at 4.3%, we are at 3.3%. Similarly, there is also 90 DPD data. In the 90 DPD data for June 24, the industry is at 1.9%, IDFC is at 1.4%. And for March, it was 1.7% for industry, we are 1.4%. So, from these numbers, we conclude that we are doing well on credit card asset quality.

Sudhanshu Jain: And Nikhil, just to add, we have not seen an increase in credit cost in Q2 vis-à-vis Q1.

Moderator: Thank you, sir. Our next question is from the line of Ishan Agarwal from Erevna Capital. Please go ahead.

Ishan Agarwal: Firstly, excluding the prudent extra provisions on microfinance, SMA book, and the legacy toll account, you mentioned that the credit cost is 1.8% of the average loan book whereas my calculated number comes to 2.15% of the average loan book. Is there something that I am missing here?

Sudhanshu Jain: Yes, so essentially, if you exclude the provisions of the entire microfinance book.

Ishan Agarwal: Why would we do that because in the last quarter, when you're comparing it with the last quarter, so including at microfinance, our provision is 2.15% and last quarter we had reported a provision of 1.92% including microfinance. So, the 30 bps is adding because of the microfinance this time, the 30 bps provision for this quarter.

Sudhanshu Jain: Yes, so I think I had mentioned that we are seeing 1.8% excluding the microfinance book and the additional provision which we have taken under toll. This number was 170 basis points in the previous quarter, while the overall credit cost was 190 basis points. If we exclude similarly microfinance book in the previous quarter, then the number was 170 basis points. So, just to fill in the reconciliation for you, 180 basis points is ex-microfinance. We have seen additional provision on account of this toll and the microfinance additional provision that we have taken that is consumed about 105 basis points. And the rest is coming in the normal course on the microfinance book.

Ishan Agarwal: Okay, so our provision on the rest of the book has increased from 170 bps to 180 bps this quarter, but our SMA movement has actually gone down. So, what is leading to this jump? Like which portfolio is actually contributing on the higher for the high provisions this quarter?

Sudhanshu Jain: See 10 bps is not a major increase right as I said in credit card.

Ishan Agarwal: Nothing to worry in the personal loan segment or any other segment as of now?

Sudhanshu Jain: Small bit of increase would have happened there, right, because as I said, that we can see the normalization or so on, but it's not worrisome. That's why we have given a lot of data points. But the 10-bps increase is, I would say, is on the rest of the book, right, and some bit of increase would have come in the personal loan segment, but it's not material. Another comfort which I sort of, I am again reiterating is the increase is also not ascribed to credit card. There we are seeing stable credit costs in Q2 vis-à-vis Q1.

Ishan Agarwal: Okay, so for the remaining two quarters, I think Mr. Vaidyanathan had mentioned at the end of Q4 that FLDG comes into play from Q3 and Q4. And given that we have provided the SMA microfinance book as on date, how do you see the credit cost numbers shaping up for Q3 and Q4?

Sudhanshu Jain: So, while we continue to be cautious, right, because there's a lot of moving parts. But our best estimate as on date is that on this, I will split into two or three parts. On the toll account and the microfinance book we may come in at about 165 to 170 basis points, right, which you would notice that it's a slight improvement which we are sort of guiding vis-à-vis what we got in H1 because of some benefits coming from FLDG.

Ishan Agarwal: This includes the microfinance book completely?

Sudhanshu Jain: No. I will again sort of clarify. I am splitting this into, one, I would give you a data point on microfinance. How do we see the credit cost for the year? Second is an impact which we see on this toll account, right for the year. And third would be the rest of the book. So, let me start with the toll account, the annualized impact for the year could be about 10 to 11 basis points for the year. For the microfinance book, the impact would be about 45 to 50 basis points for the year and in terms of credit cost and for the rest of the book, it could be about 170 basis points. So, if you sum it up, it could be somewhere around 225 basis points for the year.

Ishan Agarwal: So, the retail would be around 215 bps and 10 bps is the toll, now retail I am including the microfinance (MFI) book.

V. Vaidyanathan: Yes, that's correct.

Ishan Agarwal: The entire full year credit cost could be 225 bps which includes the microfinance book, the toll account, and the normal retail provisions of around 165 to 170 bps. So, this 225 bps also includes the prudent provision that we've made today on the microfinance book, right?

V. Vaidyanathan: Yes, it subsumes that provision as well.

Ishan Agarwal: Now, from FY26 onwards, the new ECL provisioning norms that come into effect, what could be the steady state provisions we can expect under ECL norms for our Bank?

Sudhanshu Jain: So, it's difficult to comment on the timing on the ECL as far as concerned, right, while there have been indications that this might come in, but at the same time, the draft guidelines which came in also suggested the banks will be given a one year window to prepare in terms of system to work on the models, recalibrate and all those stuff. So, my belief is that ECL impact could come in certainly not in the next year, but could be earliest maybe FY26, FY27.

Ishan Agarwal: So, whenever that happens, that will lead to a credit cost impact of around say 10-20 bps or more?

Sudhanshu Jain: Could be around that, but I am not guiding. But it could be roughly that.

V. Vaidyanathan: Ishan since you understood the numbers and Sudhanshu split it for you properly, the thing is that even at 225 bps for other entities with similar business models on the lending side, I know our cost to income ratio is higher, but on the lending side for similar models, similar yield, 225 bps considering the microfinance given broken our back so hard, still to come back and be in that zone, this would actually count for really good credit in an overall sense, Ishan.

Moderator: Thank you very much, sir. Our next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Just a couple of clarifications. Firstly, the toll road account was Rs. 250 crore account or Rs. 500 crore account?

V. Vaidyanathan: It was Rs. 1,100 crore account initially, then along the way they paid back Rs. 600 crores, principal. Paid back meaning not one shot, but they kept paying along the way every quarter, little bit money. So, we collected a lot, we are left Rs. 500 crore. We were already prudent on that account. We were keeping about like Rs. 260 odd crores of provisions. So, we've taken the balance of Rs. 250 crore now.

Piran Engineer: So, it was 50% provided earlier, now it's 100% provided.

Sudhanshu Jain: It was about 42% provided earlier, the balance we have taken in this quarter, amounting to Rs. 253 crores.

Piran Engineer: Understood, okay that explains it. Secondly, just on the microfinance business, could you give us what are the slippages this quarter versus last quarter?

Sudhanshu Jain: We are not calling out specifically that number, there has been a slight uptick in slippages during the quarter. Credit cost for H1 on the microfinance book is about 6% odd.

Piran Engineer: So, it's fair to say that 1Q would have been a bit lower and 2Q would have been a bit higher than the 6%?

Sudhanshu Jain: Yes, that's correct. Q1 was roughly about 4.5%-5%. Q2 is about 7-7.5%. So, we have seen a slight uptick and that's why we have also on a prudent basis made that additional provision, which was equivalent to 2.5% of the overall microfinance.

V. Vaidyanathan: See, one of the reasons why our, see, we are observing the market. We've seen all of the numbers, we've spoken to peers in the industry. We were keeping a very high bar on provisioning policy, meaning that, like close to about 80% of 90 DPD we were providing for. So, imagine anything slips, 80% gone straight to the P&L. So, we kept it like that all the while, just to be well provided in this book. So, that is why our credit costs are what they are. And the way to think about it is that we recognize it early. And eventually, when a recovery comes, it comes, we will take it back as it comes, if it comes.

Sudhanshu Jain: Just to add, that's an important point. Just intuitively, while these numbers on microfinance provisioning may look a bit high, that's because we make a very high provisioning on the recognition of the stress. That's an important point to be kept in mind.

Piran Engineer: And in microfinance, have we moved it to 125% risk weights like some of the other banks have done? Or are we still at 75?

V. Vaidyanathan: No, we are at 125.

Piran Engineer: And this was done this quarter, is it?

Sudhanshu Jain: Yes, and this had an impact of about 21 basis points on CET-1.

Piran Engineer: And just lastly, VV, you mentioned that you had cut SA deposit rates to 3% a couple of quarters back. This is for what bucket? Less than 1 lakh ticket size?

V. Vaidyanathan: No, we took it straight up to 5 lakhs.

Piran Engineer: And have you seen any negative impact of that? It's fairly inelastic, the demand.

V. Vaidyanathan: Yes, the thing is that we want to raise only as much deposits as we need to have because as our legacy money keeps getting paid off, our need for money will reduce. So, therefore, but to answer your question more directly, I mean, our deposits continue to come very strong even after we cut it up to 5 lakhs. We are now realizing more and more that service is a very unbelievably powerful item and people who get used to service and relationship managers and the app and the internet and the ID and password and everything.

Piran Engineer: I think the slippage number in microfinance is what I wanted, but I think the credit cost also answers that.

V. Vaidyanathan: Credit cost is a good proxy for that. And I will tell you one important point, I will tell you about what provisioning policy we were following. We were following 75% at 90 DPD and 100% at 120 DPD. Now this is for microfinance. So, this is like, you'll agree with me that this is, and it's not now, we've been having this for many years now, like 4-5 years. So, this is the reason why our credit cost appears higher, at this 6% odd, it's not too high, but we will have to see the rest of the year coming through. Now, a portion of a portfolio is secured by CGFMU, which is in December of 2023, we started noting that the collection center meeting discipline was reducing, we were handing to send people to customers' homes to collect, etc. And at that time, no one in the industry was talking about this microfinance as an issue, but we did. So, in January of 2024, we spotted this, and we started insuring our book. And we also tightened all the screws on the lending side. So, our disbursal started coming down. So, our disbursal came down from Rs. 4,250 crores. It's what we disbursed in Q2 FY24, in Q3 we brought it on to Rs. 3,800 crores. In Q4, we disbursed Rs. 2,800 crores, in Q1 FY25 we disbursed Rs. 2,800 crores, and Q2 we disbursed Rs. 2,000 crores. So, basically, we saw this, let me say, ahead and then we reduced our disbursal. And we did one more thing. We started insuring the book with CGFMU. So, today, because incremental bookings in January 24 has been insured, so today 50% of our book is already insured. So, on this coming to provision policy again, on this we have a more relaxed provisioning because we know that end of the day, this is backed by security of a guarantee by CGFMU. So, blend-blend**,** the 75 and 100 policy of earlier and the CGFMU policy, which is more relaxed, blend-blend we are provided 80% of the 90 DPD.

Piran Engineer: But this CGFMU, how has your experience been in terms of recovery now that it's been almost three quarters because another Bank had some trouble in getting back what they came for**?**

V. Vaidyanathan: No, another Bank, they had their experiences for multiple reasons and they're out in public domain. In our case, we have started it now. We, first of all, the way it works is that we pay them about 1.6% of the loan amount as, think of it like an insurance premium, if you think about it like that. We pay that, and then every year on the principal outstanding of that, we pay them. Think of it like paying somebody on the whole book. We do that, and then we give a window of, I think they have a window of one year or something in which there's a lag after which they pay. So, the key benefit for us will come in FY27 because the full ageing of this book and that one-year lag will be conditionally met. But at least we know for sure that, we know that when you wake up in FY27, for example, in fact, by end of this year itself, by March 25th itself, 75% of a book will be insured. So, by March 26, it could have lived a full one year. So, all of 27, we will have very low credit cost in microfinance because the whole book will be insured and ready to claim it back from them.

Moderator: Thank you. Our next question is from the line of Prakash Bajpai from Blue Bull Stock Investor and Trader. Please go ahead.

Prakash Bajpai: I am basically not an analyst. I am a shareholder only. So, my comments or questions are from that perspective. So, first of all, I am worried about, let's say, this continuous provision. You have talked about it, good, but still I remember last quarter you said that next quarter, the results will be subdued. But then onward, it will be pretty good. But when you said subdued, we did not expect this will be a subdued. This is number one. Number two, I mean, good that you have cleaned up the books. But if we get out of, say, microfinance, we get out of infrastructure, we get out of personnel, where do you see these growth items coming next? Or do we just hang around like this only? We should forget about this as a shareholder. So, your comments, please?

V. Vaidyanathan: First of all, we are not getting out of microfinance. It's an important business for the Bank because it is helping us meet many variants of priority sector and it's an important book because this was so basically like small and marginal farmer, agriculture, weaker section and all that. So, we are not getting out of this, except that we have, of course, tightened the norms, got it insured in a prudent basis and all that. So, what I described earlier. Now with regard to which will be the areas for growth, of course, infrastructure, we announced right in the beginning, five years ago, we won't do it, and we are not doing it. So, even this legacy toll account is a bit of an odd thing that came, like a curve ball that came towards the end, but that's that. Now, so what are we growing? We are growing 25% is retail finance book growth. In September '23, our retail finance book was Rs. 1,04,000 crores. Today it is Rs. 1,30,000 crores. Our QoQ growth is 4%. Annualized is 16%, but YoY is 25%. Within that also, let me just share that the home loan business is growing by 20%, loan against property is growing by 20%, vehicle financing is going by 32%, the consumer business is growing by 21%, and the gold business is growing by 185%, but that's of course coming from a very low base. So, these are all growth areas for the Bank. And now corporate credit is also growing, corporate credit grew, ex-infrastructure grew by 20%. So, let me just say that these are all lines of business that are growing and will grow. We don't see any reason why we should not grow by 20% next year also.

Prakash Bajpai: When you say vehicle finance or property and such things, you have to bear in mind that there is supposed to be a slowdown going on and maybe the demand for all these things are likely to come down.

V. Vaidyanathan: Well, we will watch it carefully and I respect your caution. But we are finding that this demand is quite strong. And let me tell you that we have not relaxed any one of our credit criteria. This 20% growth in this business is coming with the current norms itself. We have not relaxed any credit score cutoffs or anything like that.

Prakash Bajpai: Mr. Vaidyanathan, a very simple question. In 2018 when the merger with Capital First was announced, our share price was rolling in the range of same, about 60 around, 58 to 60. And most likely on Monday, we will hit that point again after six years of work. So, how do you see this shareholder should take it? What do you have any word of advice or any? How we should basically look at it? I know there is a lot of cost and there is a lot of this, but it's still six years and we have done so much of capital raise, which has all gone, I don't know, so much provision. How really you see it?

V. Vaidyanathan: Let me just collect the number for you so that we are quite clear about this. At the time of merger, if you were holding an IDFC Bank share, the fact is that your share price was Rs. 37.6. You can please check your numbers, go and check your records on 11th or 12th of December of 2018. We know the numbers. We put it out in the annual report also. It was so. Now that 37th is now say the mid-60s. And what it will be on Monday or any day, we will see the numbers. Now let me just say that in this window, the first 4 years, please note my comment very carefully and I understand your question because from your point of view, you're right, you know your share price has not moved. Actually, it's moved, let me say from Rs. 37 to Rs. 65, but still that's what has grown. Now let me tell you that banks, as you very well know, since you're a seasoned shareholder, are valued price to book. Now on a price-to-book basis, the book value per share at the time of merger was Rs. 38.43. Now, after that, who wrote the Dewan Housing Loan Book? I didn't do it. Who wrote the Reliance Capital Loan Book of Rs. 1,500 crores? I didn't do it. This management didn't do it, which means that this management's not in this chair, and anybody who's running it, anybody would have to provide for it. It's not us. Who booked the Vodafone Loan? We didn't do it. So, what I am trying to say is that because of all these loans, the book value per share came down to Rs. 31 by March 21, from Rs. 38 to Rs. 31. And let me just tell you that had we not come with the chair and solve those accounts, God knows where would your stock should have been. And from there, from that Rs. 31, now the book value per share has come to Rs. 53. And we have raised capital all right, but we have raised capital always at a premium to the book. And therefore, the book value per share is Rs. 51. When you lament upon the fact that our share price has not moved adequately, I request you to think what would have been the position of this Bank with these Rs. 14,000 crores of loans of which so many thousands of crores were charged off, not by our mistake, and there was CASA of 8.5%, and there was no books, so where do you think a share price should have been? So, when you point out, I agree that is your expectation, but let me tell you, this is an issue, the Bank is in an early-stage Bank, it goes through these troubles. If you really wanted a stock which has all problems solved, then go and buy a Bank which is giving you 18% return on equity, which has already solved this problem for 25 years. This is an early-stage Bank. Now, my comment is that this Bank, with great difficulty with the work of 40,000 people of this Bank, has now come to a position of strength. Our rating agencies have rated as AAA and AA+, whether it's FD for long term rating. Now our CASA is 47%. Now our core operating profit is Rs. 6,000 crores, growing at 25%. So, I am saying that we have brought the Bank to a good position of strength from where it was. So, now from your point of view, has it gone up or not? These are the markets, these are early-stage Bank situations. So, I do believe Bank has made big progress on technology, brand, people, CASA, loan growth, deposits, retailization.

Prakash Bajpai: I think everything is not correct because you are talking only the numbers from the point that the merger happened. You should take it from the point when the merger was announced, and you knew fully well what you are getting into. And from that point onward, if you will see that we have practically actually not made any progress. And Rs. 58 to Rs. 60, that share price I remember because I have been a shareholder from 2013, not today.

V. Vaidyanathan: Yes, please go and I would definitely like a request to go and see the numbers. We will share the screenshot with you. The share price was Rs. 37.5 in December 2018, with the time of merger has happened. Now, I am not saying, by the way, that the movement of Rs. 38 or Rs. 37 to Rs. 58 is a great job, but it's also a fact that during this window, the banking system got did not get re rated. You can see, there were many other banks who, if you check the banking index, banking index has not performed since then. Our Bank, you please check the shareholder report, we will send you, if you leave your details behind with us, we will share with you exactly what the BANKEX index has moved, how much our share price has moved, and how much our book value per share has moved. Our book value per share has moved up only 20% in five years. That is after the initial collapse that happened upto Rs. 31 and now up to Rs. 53, it has now gone up by 20%. All other banks have gone up 100%, meaning the book value per share. Now if have grown by a percent, I am not saying it's a great job. It's not that. But I am just saying this was just an issue. Whether whoever is there in the chair, this would have been the situation, because it's a past issue. So, for example, if one Bank share price is quoting Rs. 400, today it's quoting Rs. 25, then well, it is not because of this management. Someone else has gone and done whatever they've done. So, we've got to benchmark somebody from where they take over a position, and then move the stock measure benchmark from there.

Moderator: Thank you, sir. Our next question is from the line of Aditya Shah from Vikram Advisory Services. Please go ahead.

V. Vaidyanathan: One more thing just to the previous comment, just to tell you, just to finish that answer. Therefore, we have done our best. The Bank has made tremendous progress. Otherwise, the book value of share could not have been 51 today after the situation we were in. But let me just say that we've got to look ahead. I am not in the business of looking backwards. This was given for context since you raised a particular number. When we look ahead, we believe that this Bank at this stage is posting a 10% return on equity on a more normalized basis. Now, 10% has to move to 12%, 12% has to move to 14%, 14% has to move to 16%. Let me tell you a bit of about what the underlying prospect of this Bank is. Now, I leave it to you as a shareholder for you to assess this and get the confidence, and I request for your confidence. What is it? Now, end of the day, the Bank is borrowing money at 6.3%. We have brought down the cost of funds from 7.8% to 6.3% in this five years. And we are raising Rs. 55,000 crores of money with just 1,000 branches creating Rs. 55,000 crores at 6.3%. I would request you to note that this is really good by any Bank standards of the country today. Now we are raising money at 6.3%. We are lending, we are getting a NIM of 6.3%. Now this is a five-year-old Bank. Now for 6.3% NIM, even if you add about 1.5%, 1.6% as fees, so that makes it about 7.8%. Now, this cost-income ratio is about 71% today. In due course, this is at a 5-year Bank, but in due course, when you take a 5 year-6 year-7 year forward, or maybe a longer, this cost-income ratio will touch 50%. That's the way, you know, end of the day, even capital first is running at only 48%, and we have done that. So, it will come to 50% and then you know that that would be the operating profit of the Bank could be that 8% minus 50% like something like 4%. Even if a credit cost is 1.3% of assets, that would mean a pretty strong return on assets for the Bank. So, fundamentally long run Bank is structured superbly in terms of brand plus incremental economics. Now things do come, regulatory changes do come. Even now we are given a guidance for five years, but we are always watching out for market changes, guidance changes, regulation, etc. Please consider those risks also when you're investing in the Bank. But this is the early stage, but I think the long term of the Bank is really, really very, very good.

Aditya Shah: First of all, congratulations on the last 6 years of the merger, where you were able to build the Bank in terms of deposits and CASA and growth in changing the matrix of the Bank from infra to retail and everything. It just sounds perfect, and it is a great job. We were against all odds where people were doubting whether you would be able to do it or not and all of that. So, that's a great start. But what I would like to point out to you right now is that it has been a great journey in the last six years for the depositors, for the customers, for the for every people in the Bank, except for investors. I will tell you why. I don't care about the share price. But what I care for is the predictable nature of the results. So, in my opinion, sir, till 2018, ICICI Bank never got a great valuation, whatever the reason is, because of not predictable nature of the results. Whereas HDFC Bank always got good valuation because of the predictable nature. Now we understand our Bank is an early-stage Bank, but for how long can this early stage be counted as? Is it six years, 10 years, 15 years? That will help us take our valuation calculated. Second point I would like to point out is that, when as a Bank, even if we have 6% or 6.5% of NIMS, 95% of our net interest income goes in our OPEX. So, what do we have left for provisions when such events come up? So, that is the problem. See, while we understand none of the past first 4-5 years was your fault or anybody else, banking industry things go up and down. But all I am asking is, how can we predict the results of the Bank going forward? Either we just provide everything in one shot, like Rs. 10,000 crores, get it done with, raise capital as much as we want, because the arbitrary nature of raising capital is also something that you need to look at, sir. This is all what I want to understand. Thank you.

V. Vaidyanathan: Both questions are fair and let me take them one by one. Now when we say predictability of results, first of all, I do agree that it is 100% our intent to make the Bank more and more predictable in its results. If you see our operating profit, the operating profit of the Bank has been moving up significantly. You know why I call out on operating profit, that is core operating profit, that is Rs. 6600 crores. Now this Rs. 6600 crores was Rs. 1,100 crores at post-merger, annualized. How do the Bank become predictable? Treasury profits and all, it can never make it predictable. So, the Rs. 1100, that Rs. 1100 is core operating profit, NII plus fees minus OPEX has now touched Rs. 6030 crores in FY24. Now even for H1 FY24 to H1 FY25, it has grown up by 29%. So, this core operating profit, very important so that we can get predictable income. Two, in terms of credit cost. Now in terms of credit cost, let me give you a clear picture**,** in terms of credit cost, this year is normalizing, but next year onwards, it would be normalized. For those of you who are tracking some capital first time. You please tell me is that even one year in those eight years or in fact till today in 14 years have we ever given you in the retail side a shock and said oh my god, we are doing a one-time cleanup. There is no such word as onetime cleanup I have used for 14 years, which means that we have a very good, controlled credit underwriting process. It is working. So, therefore, predictability will come only when all these kind of infrastructure loans and legacy toll account and this, that, etc., we have taken out I told you Rs. 14,000 crores of such loans, but now this will last still left. The predictability appears after that. And therefore, we believe that it will be reasonably predictable from now on for the next 5 years, because there are no major shocks, but I can tell you the one shock that you should even now be prepared for is that from the regulations change from time to time. Regulations do change from time to time. The signals that come from the regulator may change, about what may need to change or not, market situations may change. We may not want to do a particular line or line of business because we may consider risky. So, these kind of risks can be there, but broadly speaking, we should expect some predictability, but we do expect that maybe FY27 onwards for the next 7 or 8 years, that is FY27 onward, we do expect that by the time whatever had to come and go would have come and gone and then it becomes a reasonably stable machine. And what was second question, your second question was on the OPEX, you are saying basically if the margin is strong, but a lot of money is going in OPEX, was there a second question?

Aditya: Sorry, the third question on that was that let us see if we consider this quarter's results for ICICI Bank, though it is not comparable, but what I wanted to give you food for thought is that out of Rs. 1,700 crores that we provided, let us say, we remove this Rs. 500 crore of buffer we still have Rs. 1,200 crores of provision on a net interest income of around Rs. 9,000 crores, so Rs. 8,900 whereas ICICI Bank has Rs. 40,000 crores of net interest income and is providing for Rs. 1,200 crores?

V. Vaidyanathan: No, let us be very clear about this. We are comparing two different models altogether because these are models built for 25-30 years, largely mortgage based and if you go back and see the same Bank of between 2000 to 2005 or 2006 or maybe even earlier period of this, you could see that these banks were going through the period of ups and downs. Finally, a model takes time to stabilize but let me just tell you this much that our Bank has made massive progress in 5 years. Now, at least we are in a position to predict Rs. 6,000 crores of operating profit and we can expect about 24%-25%, we can expect operating profit to increase this year also. So, the point is therefore is that early stage Bank do have the share of ups and downs, I am requesting you to please factor it in, but the good news is that when you look ahead, let me say FY29, I am quite confident that by the time, all of these things you asked me how long? 5 years, 10 years, 15 years, I am telling you that by FY27, FY28, FY29, I am definitely expecting our Bank to become very stable in terms of predictability. That is your first question, predictability. On second question, on the OPEX front, now if you see well known, I don't spend too much time expanding on it in interest of time, but in the last 5 years, we have grown our branch network. The Bank has launched not less than 20 products, the Bank has launched prime home loan, tractor loan, education loan, new car loan, gold loan, commercial vehicle, farmer loan, Kisan Credit Card, micro credit loan, wealth management business, FASTag, FOREX solutions, Credit card, I mean every product has its cost to start with. And branch network, there is a huge branch network coming up here and people and technology. So, all this has happened in the last 5 years. So, therefore early stage has to go through the OPEX, the next generation of people running this Bank between, say, 2030-2035, will find all of these things will be amortized. When the other Bank I was running between 2000 and 2009, we were struggling with all the kind of things, but today it is all an amortized book and each of the branches are having Rs. 300 crores of deposits and all amortized and looked how the Bank is printing money. So, everything has a life stage and the people who go through the initial stage of building a Bank are karmayogis. And you have to go to karmayogi, someone has to do the job of karamyogi for the future generation to print money.

Moderator: Thank you, sir. Our next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: So, just to get into a few specific numbers for the quarter and maybe it would be great if you can get the absolute numbers, so firstly on microfinance, is it correct to assume that we would have done the provisioning in total of Rs. 500 crores including Rs. 350 odd crores of contingency and the last quarter it would have been Rs. 120-Rs. 150 crores, just want to reconfirm those numbers?

Sudhanshu Jain: So, Kunal, as I mentioned that for half a year, the credit cost on this book is about 6%, right.

Kunal Shah: Absolute number if you can just say how much it is?

Sudhanshu Jain: Coming to that, right and I further sort of gave a break up that in Q1 the credit cost was about 4.5%-5% and in Q2 that has inched up to about 7% and of average microfinance book is about Rs. 12,000 odd crores, right, so if you apply these percentages, you will realize that the credit cost, which has come through is about Rs. 400 crores. On top of that, we have made this additional provision of Rs. 315 crores. So, those are the numbers in the microfinance front. Of course, we have done some, I would say, advanced provisioning and hence I said while in the full year guidance credit cost, this additional provision is also subsumed.

Kunal Shah: Sir, 7.5% on Rs. 13,000 or maybe 7%-8% on Rs. 13,000 crores or Rs. 20,000 crores that would be like Rs. 250 odd crores on a quarterly basis, 7.5% is the annualized number?

Sudhanshu Jain: Yes, broadly.

Kunal Shah: So, Rs. 250 plus almost Rs. 350 odd crores, that is the broader number and when we look at it in terms of the last quarter, if I take the same as the 4% number, that would have been closer to like Rs. 130 odd crores?

Sudhanshu Jain: No, that would be higher. So, on a Rs. 12,000 crores, if we apply 4.5%-5% right then.

Kunal Shah: Yes, that is again an annualized number?

Sudhanshu Jain: Yes, it comes to about Rs. 150 odd crores, you are right.

V. Vaidyanathan: Basically, think of it that this quarter we have taken provision of this Rs. 320 crores on the SMA-1 and II portfolio. As in, this portfolio, some of this money obviously got slipped to 90 DPD and what is 90 DPD will slip to 120 DPD in normal course. So, when the slippage will happen, this time since it is pre-provided, the impact in Q3-Q4 at least on the microfinance line will not be that much.

Kunal Shah: And when we were guiding for the full year number, 40-50 basis points of impact on microfinance, so that comes to broadly like Rs. 1,100-Rs. 1,200 odd crores, so particularly coming from microfinance for entire year FY25, so considering what has been provided there is still maybe something more which can come in and that is to the extent of Rs. 300 odd crores?

Sudhanshu Jain: Yes, so number for the year matches broadly correct, could be about Rs. 1,000 to Rs. 1,100 crores, right, but Kunal again to know right provisioning policy is very stringent, right, when they have said that we end up providing 75% in 90 days and 100% in 120 days, right, for other institutions the provisioning policies could be very different. While for us it looks high, I think that picture also needs to be kept in mind that we are doing a lot of earlier recognition.

V. Vaidyanathan: We do early recognition. We don't touch the books; we don't give the extra benefits to pay us back. We just keep the books clean. It is just the way we work. That is the way we dealt with our prior issues at the time of merger. We did what we did, we are dealing with the same way. I can tell you investors that nobody can ever pick up a finger on our Bank in terms of how we run our books, how we manage our accounts. We keep it super clean, and our practices are clean. So, we do that and to earlier question, we were talking about our SMA, we have actually given out the data of SMA for every product. If you go to page 32, it is a very important slide we introduced at this time. As you know, banks do disclose NPA, now we disclose SMA, but this time we carried transparency to another level. We have disclosed SMA by product. Then we have disclosed SMA by product for 3 quarters at a stretch. So, you can see that you don't have to take a word for numbers can talk, if you see the first column of mortgages, it is 0.4%, 0.39%, 0.39%. So, we know that mortgages are stable. We don't have to expect a problem next year at these numbers. So, see vehicles, 0.96%, 1.22%, 1.07%, it is stable. Similarly, MSME is stable at 1.26%. Consumer durables are stable at 1%.

Kunal Shah: Most of the product segments are stable, yes.

V. Vaidyanathan: We are clearly calling up only one product is bothering us, other than every product is fine.

Sudhanshu Jain: And Kunal, another disclosure which we have made in terms of our exposure to top 5 states and vis-a-vis some of performance vis-a-vis with the industry, there also is that we are broadly there except Kerala where we are slightly higher. There also we reduced the book in last one year or so by 30%.

V. Vaidyanathan: But let me tell you one more thing for shareholders and a few shareholders spoke before as well as analysts, let me just keep it simple for everybody. I feel that people who would be looking at this quarter's results and this look at one microfinance book and thinking that there is the problem etc., that data we have dispelled in page 32, but let me just say that looking at one data point or one legacy toll account or this one, people who take come to conclusions, the Bank will make a mistake because you cannot underestimate the power of a Bank that is borrowing money at 6.3% and lending it out to get a NIM of 6.3% with controlled credit cost. Even now, if you compare it to other banks with similar models, this credit cost, including microfinance, including that, is still quite low. So, the power of a Bank running at 47% CASA, clean governance, good incremental return on equity at the Bank which is you can compute it and a growth model running at 25% is something that you will make a huge mistake, in my opinion, if you take a call, but I think people who would bet against this call would be, I would say that this is a really great Bank in the making, really great Bank. After 5 years you have forgotten this quarter, but you would have seen a Rs. 11,00,000 crores business Bank which will be Rs. 6,00,000 crores of deposits and maybe Rs. 5,00,000 crores of loans. I think it is a really good Bank coming up even at a 2% ROA or 1.8% ROA, 1.7% ROA that would still be a lot of money.

Sudhanshu Jain: And Kunal, on this microfinance just to add, see this all along, this book was not giving us that kind of a pain, right. Credit cost was range bound except COVID if we take out right, it was about 1.5%-2% right. We know although that some overleveraging has happened right, while I can confirm we also gave only one loan to borrower at the time, right, and our problem started with Tamil Nadu where unfortunately we had a slightly higher concentration. We had an impact coming out of floods and then we know that heat wave and all those. So, it accentuated the problem, right, but we were proactive enough to slow down the book right, and we have kept stringent provisioning policy. We are allowing the loss to sort of come through. So, as a management we have been quite proactive in recognition of this. While credit costs are high in this year, and we expect it to sort of cool off into Q1-Q2 and so on and next year it may be still higher than the normalized levels of 2% which we are seeing earlier, but we feel that the provision which is about 225 basis point guided for this year that would come off to a normalized level into the next year, right. We have also done a lot of policy interventions. That is why you are seeing that apart from microfinance, we are not seeing that kind of an increase, whether it is SMA-1 and SMA-2. So, what I can comfort the shareholders and investors is that we have done a lot of policy interventions. That is why you are seeing some of these numbers. I spoke of that in credit cards we have been very cautious, the stress is not increasing, similarly in other product classes. So, there are these one or two topical things which have come in and that need to be taken into account.

V. Vaidyanathan: I like to give one important clarification, not clarification, a way to think about a credit cost. What is the credit cost for next year, for example, if this is a question in your mind? Let me help you think this through. We think that every business has its own nature, like home loans, they hardly give any credit cost. Loan against property gives very low, maybe call it 25-30 basis points. So, you assume if you have a Rs. 25,000 crores book you multiply that by 10 basis points in home loans, maybe the Rs. 25,000 crores of land into 30 basis points or 35 basis points for loan use property. Then you take consume durable book and then you multiply that the numbers are there in the book. So, I don't want to expand on it. But let me say that, say, Rs. 7,000 crore book into say 400 basis points and then you take a credit card book, you multiply by 500 basis points just to pick a number and so on. You apply, let me say a used car, say 250 basis points, maybe personal loans, 250 basis points. What you do is that simply take the book, multiply that by well-known industry numbers, you through sigma, do a sum product of that, you will get a number of about 1.85% for our Bank. So, in one quarter, one month, something may be up, something may be down, but blend-blend, our Bank is heading for about 185 and for this yield that we are getting, 185 is a good number, stable number coming for 15 years. So, we don't doubt our model because it is working. So, if you do this, you will get a fair number, you can predict the number for many years to come. Now, if an odd thing like a microfinance happened or toll happened, then odd things change. But in general, we are running a stable credit book. We are running a stable yield as you know 6% plus. We don't expect credit with this one and then only the cost-to-income ratio has to come down, that is it. We don't have a problem fundamentally on numbers and credit quality. We don't have a problem in the yield. Our cost-to-income is an issue and that is not an issue as in we are running a bad Bank. It is just that it is a new age Bank, and we are building all the expenses, and I told you of all the products we launched. It will come off in due course. And once the cost income comes off, this Bank will be making a like 16%, 17%, 18% ROE comfortably without skipping a beat.

Kunal Shah: The second question is on cost of funds. So, when we look at it, we indicated that cost of funds should see the benefit of 12 to 13 basis points as and when there is run down in the legacy borrowing. But maybe this quarter there was almost like Rs. 3,000 crores run down, now, we still have like Rs. 6,000 odd crores left, but still cost of funds staying poor. So, should we assume that maybe broadly that benefit could be lower as the repricing is also continuing? How should we look at the overall cost of funds because that benefit is still not getting reflected with the repayments having been done?

V. Vaidyanathan: Little bit, you think of it like, if not 6.3%, think of like 6.38%, somewhere in that zone.

Sudhanshu Jain: Kunal, if you see cost of deposits has been quite stable, right, that is not going up for us, right. And of course, we do certain borrowings and so on. There is an impact which is coming as this book has come down significantly right, now still there is 10 bps of gap which could be still filled in. But at least the cost is not going up for us and into the coming quarters into the next year, we expect this to come down further, right. So, directionally, we feel that cost of funds for the Bank would reduce from the current levels.

V. Vaidyanathan: See, we feel quiet, to one of the earlier shareholders' questions, honestly, we feel that like our FY27, FY28, FY29, FY30 should be a reasonably upward trend of operating profit. Credit costs should stabilize about 1.85% for the math I told you. You can do the math for yourself also on a spreadsheet if you do some product of the book into that, the known behavior of this product, you will get that number. So, we feel that with that kind of yield and this kind of credit cost and cost to income ratio coming down, we do expect that our FY27, FY28, FY29, FY30 should be reasonably strong uptrend. You take this comment with the usual caveats about market, industry, regulatory, etc., if you have to adjust anything there might be a share of its own little bit of issues like can happen to any Bank at any stage, but that is how to think about it. But on a long-term basis, we feel quite confident where the Bank is headed.

Moderator: Thank you. Our next question is from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Hardik Shah: Sir, my first question is the data keeping one. Can you tell us what is the total contingency provisions on the book and what is the restructured book that you have right now?

Sudhanshu Jain: So, the contingency provision is the one which we have created during the quarter of about Rs. 315 crores. And the restructured book, as I said, that book is now only 0.23% in value terms that it is about Rs. 500 crores of restructured book which we have and the predominant part of it is the mortgage book which is sitting here. On this, we are carrying a provision of about 19%.

Hardik Shah: And the second question is on the write-off policy, sir, what would be your write-off policy for microfinance and other unsecured products?

Sudhanshu Jain: We cannot give a specific product-wise policy or a number out there, but we follow, I would say out of faster write-off on the pool, right, I am saying we go product by product, see the nature of the product and so on. And that is how we sort of define a policy at the Bank.

Moderator: Thank you, sir. Our next question is from the line of Nitin Agarwal from Motilal Oswal Financial Services. Please go ahead.

Nitin Agarwal: Sir, I will say that while the journey over the past 5 years wasn't smooth as one would have liked it to be, but there were many bright spots which we appreciate and deposit growth which has been impressive. The technology stack that the Bank has built, RBI approval more recently and the CRISIL also upgrading the deposit program rating to AAA are all like highlighting the progress that the Bank has made. But the investors would also like to see the improvement in profitability, which is one metric where the Bank still has to catch up even when compared to guidance 1.0. So, my questions now are more in that context to assess the profitability outlook better, and so first, if you look at the earlier guidance was like 1.4% to 1.6% ROA by FY25 and now reaching this number may take us like another 2-3 years, if things like go on well from here. So, you think that further expansion in ROA to 1.9% - 2% ROA by FY29 is a doable after you reach this initial milestone, or will you want to revisit it at some point?

V. Vaidyanathan: See, we will have to as of now when we drew up this model at that point of time, see basically what we did to come to the guidance? We assumed a certain continuation of the lending yield and lending income and the cost of funds being continuing to where it was and then we modeled it and then we came to the numbers, and we shared it. Now along the way, so our model directionally is very much valid. Now, the important caveat to note on this is that along the way we are seeing changes, for example, there is a message, let me say, in the system to reduce the yield on microfinance business and because of the issues going on with the industry and also maybe there is a more vulnerable segment of the society and so on. Now, if you touch that, yes there is an impact on the income line. Similarly, if there is any other situational change that come at us, for example, we are told that in insurance industry, now there is a message to say that insurance, the commissions that a Bank gets will have to be amortized over the contract. Now you might find that next year, the number that we were expecting to post, we might not be able to post it because we will have to amortize it into FY27 or what we would have normally booked in FY26, so these kind of things do change along the way, but we have to be very focused on building a long term Bank which has fundamentals in place. So, once the fundamentals are in place, then it could be a year, this year that is right. But I think that I have no doubt in my mind that if you borrow money at 6.5% and you get a book yield where which gives the NIM of 6.3%, it just has to make a lot of money. It is just plain mathematics. Whether it comes in 2029 or 2030, I am not saying that I am stretching it because too early for me to look at the numbers again. But I am trying to tell you that directionally, the Bank has to get there. There is no doubt in my mind.

Moderator: Thank you, sir. Our next question is from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan: So, just on the excluding microfinance and total credit cost of 180 basis points, just want to understand as you kindly provided SMA data, other segment data seems to be stable, but back in March 24, we are guiding for FY25 credit cost of 165 basis points, but even excluding microfinance, we are running at 180 basis points. So, which segments that is kind of deviating from your earlier expectation and how should we think about it going forward because our guidance for now is in the second-half for the ex-microfinance book should be better than the 180 basis points. Just want to understand how confident are we on this guidance in this very challenging kind of evolving macro environment situation?

V. Vaidyanathan: Sudhanshu pointed out our expectation for the credit cost for microfinance business, and he also pointed out and he started it up to going to 225 bps, now it has three components like Sudhanshu pointed out, one is the microfinance, but that we discussed before, and we have factored it in. Number two is this, one account of this Rs. 250 crores, we had to take for that toll that we talked about. So, that is also factored. Now, for the rest of the business like we have shown in the numbers, our data is saying that it is reasonably under control, not reasonably, it is quite under control. You can see the numbers out there. Even now, if you exclude these two, 180 is not the bad number. You can see the numbers in the market. So, we feel that this is reasonably under control and basically the way to think about it as compared to last year to this year. Our credit cost is going up because of normalization but looks like accentuated because of this microfinance and the toll and all that. But a short answer is that we feel for this 225, reasonably in control of this. We understand that industry, the numbers have gone up, personal loans, we saw some data of other banks and credit cards. We have not seen it in our books as of now. We have seen data on personal loans and other banks. We have not seen it in our books as of now and home loan is like absolutely spick and span. There is absolutely no credit cost at all there. It is like as good as nil and the loan against property is behaving very well. So, net-net, other products are doing well, the numbers are out there, SMA product wise, NPA product wise, everything is out there in the presentation.

Gao Zhixuan: Just a quick one on the thinking on the next capital raise, because the industry challenges is kind of hitting profitability and the capital consumption, if we continue to grow at 20% seems to be a bit higher than expected. So, how should we think about the timing of the capital raise and also the CET1 level that we are comfortable holding?

V. Vaidyanathan: See, we are a growth Bank and because of growth only our ROA, ROE also started getting addressed and it gets fixed. But at this point of time, since our core CET1 is also at 14%, including the benefit of the merger and otherwise it is 16.6% including CET2, so as of now we are comfortable. We are not thinking of, even internally, we are not talking capital at this point of time.

Moderator: Thank you, sir. Our next question is from the line of Pritesh Bumb from DAM Capital Advisors. Please go ahead.

Pritesh Bumb: Just one question from my side, on the credit card business, so just wanted to check, basically when you scrub the data and do data analytics and see what kind of a customer profile is, if you can highlight 2-3 issues, what is happening suddenly in the industry for last, say 1-1.5 quarter, 2 quarters in terms of what has changed and if you can also highlight how we have been immune in terms of, one or two reasons where we have been cautious for in terms of the credit card business?

V. Vaidyanathan: In the credit card business, we have been very cautious right from the beginning, frankly, in every business we are cautious. That is why our credit costs are low, meaning except the microfinance where we had the issue. But other than that in our other business, our credit cost is quite low and you can compare them with the market and hope you will agree. Now, in the credit card business, the way we did it is that largely initially, we started giving only to our own savings account customers and built a big part of the book like that. We have no DSA. I don't know if you are aware or not, but we do only direct sourcing broadly, most of it, actually all of it, we do direct sourcing. And therefore, we built a unique model without having to pay DSA fees and so on. So, therefore, in our segment that we have lent to with initially like we said our own customers and later we also started taking direct customers from direct origination like direct acquisition customers in the open market as well. I shared the numbers earlier, so I would not like to repeat it, but I just told you that please go to page 38, we have put out CIBIL TransUnion data of the industry for 30 DPD and for us, and at every point June 23, September 23, December 23, March 24, June 24 and September 24, we are distinctly 60 basis points or 70 basis points below the industry 30 DPD. Similarly, 90 DPD we are below. So, I think our scorecards are working and so on.

Sudhanshu Jain: And just to add, even in H2, I am saying given the interventions which we have done for us, at least we feel that credit cost could marginally come down.

V. Vaidyanathan: Honestly, we are not going to give you any surprise or shocks in credit cards because the book is behaving well. Our issue was one product, we have called it out, frankly. Other than one product, I think all are behaving well and the numbers are out there for you.

Moderator: Thank you, sir. Our next question is on the line of Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: My question is the continuation of the last question. Now, in general in the credit card segment, we have seen stress across players, whether it is NBFC players, marquee NBFC players, whether it is the likes of Kotak also, I am not even talking about SBI Card, the monoline player and in your case, I see that credit card, which is a business that has grown recently, there the SMA's are going down and you are saying that the credit costs are going to be lower, I understand that you have your own filters and your own sources of confidence, but when there is so much issue in an industry that even the best of the breed are sort of showing stress, it sort of beggars belief, so I just wanted to understand how is it that we are going to escape from this turmoil in the credit card segment, when almost every single player has highlighted stress there?

V. Vaidyanathan: First of all, the question is very fair saying that how is it that our credit costs can be so low when the market is higher. Frankly, you could ask this question of us in the other businesses as well because frankly except microfinance in every business, our credit cost is moving well as compared to similar players with similar industry, so credit cards is just one more of such products. Now, the credit card, one reason could be that if you again go by the CIBIL data that you put out in page 38, in the prime segment and above, the industry data, I am just reading out the CIBIL TransUnion data, okay, so the correctness of it is for that you have to check with CIBIL. But I am just reading out the exact data, we put it on page 38. The prime and above for the industry is 74%. For IDFC, it is 92.1%. It is probably just the way we have acquired our customers. Even on the liability side, for some reason, the way the brand is built, and it is according to me as strategic source of how we built the Bank. On the liabilities also, our Bank is getting a customer base which is slightly premium customer base which higher balances with us. Our average balances when we are opening our household savings account etc., is something like about Rs. 3.5 lakhs. I don't think any Bank is getting Rs. 3.5 lakhs in the household accounts in their opening. So, our Bank is just attracting, let me say, customer base which has slightly higher income on the liability side and when we lend credit cards to them, by definition we end up slightly, maybe we are getting a slightly better credit profile. I can guess that from the data that is coming from CIBIL, it is there on page 38. So, this can be a really good reason in my opinion as I speak. But really, on the other products, let me say, home loan, we just hardly have a credit cost. So, that is true for the industry, I assume. For every business of credit cost is at 185 bps also, I would imagine that ex-microfinance and ex-toll account, I hope you will agree with me that 185 bps is good in these conditions, probably better than other institutions and similar lines of business. I am sure of that actually.

Moderator: Thank you, sir. Our next question is from the line of Jai Mundra from ICICI Securities. Please go ahead.

Jai Mundra: Sir, just two data points, one, if you can share the movement of NPA, so I think the slippages you mentioned that Rs. 260 crores is the addition, but if you can just say an absolute amount of slippages and write off for this quarter?

Sudhanshu Jain: Gross slippages were about Rs. 2,030 crores in the current quarter vis-a-vis Rs. 1,657 crores in the previous quarter. And the net slippages went up from Rs. 1,132 crores to Rs. 1,392 crores in Q2, right, which means that delta of Rs. 260 crores which I talked off, out of that, about 40% was contributed by microfinance which would be about Rs. 100 crores that leaves about Rs. 160 crores as the balance right which I said is broad based across products, right and in terms of percentage, the net slippage increase if you exclude the microfinances, it is about 20 odd basis points. So, yes, things have slightly in stuff, but it is primarily, I would say because of microfinance.

Jai Mundra: And secondly, and lastly, we have effected the merger, effective October first week, what is the change in the networth, not on the number of shares are visible, but have we accreted some cash or is there any impact on the networth of the Bank?

Sudhanshu Jain: Yes, networth accretion would be about Rs. 618 crores at September end and this benefit would flow into Q3. And in terms of capital adequacy benefit, this would give us about 24 bps of relief, right, which will come in Q3.

Jai Mundra: So, this Rs. 618 crores is the cash that you would have received or this is something else that that comes to networth?

Sudhanshu Jain: Yes, it will be combination of cash, certain investments and so on, so networth accretion would be Rs. 618 crores.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Jai Mundra from ICICI Securities for closing comments.

Jai Mundra: Thanks a lot, everyone for joining the call. Vaidyanathan, sir, if you would like to give any closing remarks.

V. Vaidyanathan: First of all, I want to thank every one of you for being with us for this long, you spent over an hour and a half with us. Thank you for your interest and your confidence in us and for supporting us for the last 4-5 years. The Bank had its issues in terms of its core profitability. Many people think that they were bad loan that we had to charge off and that is the problem, but that is a bit of a naive view. I have known institutions which have had strong operating profits and if they have a credit cost, they charge it off and next quarter they can smile again. But in our case, our issue was low operating profit. We were just 0.32% of assets was our operating profit. So, that means that we have to fundamentally change a business model where operating profit comes to 2.5%. That was very hard for us to build the core operating profit. So, let me just say that the hard work of doing that has been a good part of it put behind and now our core operating profit is 2.5% of assets. Now, if our credit cost is 1.3% of assets, I want to just clarify when we said 1.85%, 1.85% was in loans, but when you take it of assets, it is 1.3%, so you have 2.5% and then you have credit cost of 1.3%, then you are at least looking at about 1.3% of PBT and post-tax may be 1%. So, therefore our Bank on a stable state basis ROA has is reaching about 1-ish, which literally zero base. So, I say the Bank has made big progress on profit. To the shareholder who spoke earlier, if I came across explaining the past numbers, I want to just clarify that I didn't mean to be rough or anything like that, it is just that I just want to explain. So, coming back to the point, so like you are coming to 1-ish, now, we have no doubt in our mind that a model that has brought us from 0 to 1 in 5.5 years can also take us from 1 to 2 because you have got to pull the model through in this spreadsheet and pull it for long, you will get bps. So, this is the long term model of the Bank is definitely looking good and we feel that we should have the patience, we mean as management, I shouldn't hurry things, build it in a stable way with good foundation, with good products, good governance, not cutting corners, not taking, doing cheap tricks to manage the profit of the quarter, say things as they are, present the numbers as they are and build a core model. Then in the long run, we can expect to build a really fantastic Bank. If I do shortcuts, then wrong things will happen, and no one will be happy with that. So, we are building a Bank for the long run, and we are building it strong. Just see the numbers and it will play out in the times to come. Thank you everybody.

Sudhanshu Jain: Thank you, everyone, and best wishes for the festival.

V. Vaidyanathan: Best wishes for the festival to every one of you and Happy Diwali to every one of you.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us.