"IDFC FIRST Bank Limited

Q3 FY'25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the IDFC FIRST Bank Q3 FY '25 Earnings Conference Call. 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. Saptarshi Bapari, Head, Investor Relations. Thank you, and over to you, sir.

Saptarshi Bapari: Thanks, Dorwin. Hello, everyone. Welcome to the call, and thanks for joining the call. Today, we have Mr. V. Vaidyanathan, MD and CEO of our bank; and Sudhanshu Jain, CFO and Head of Corporate Center for our bank. We will start the session with the opening remarks from Vaidya, followed by the brief on financials from Sudhanshu and post that, we'll open the session for Q&A.

So right now, I will hand over the call to Vaidya for his opening remarks.

V. Vaidyanathan: Hello, everyone. Good evening, everybody. Very happy to speak to all of you. Sudhanshu, you want to take this.

Sudhanshu Jain: Yes. Good evening, everyone. Sudhanshu here.

V. Vaidyanathan: The way we are doing this is that Sudhanshu will first take you through the numbers, and I'll comment a little later with my perspective, V. Vaidyanathan here, and Sudhanshu, you want to take over.

Sudhanshu Jain: Yes. Thanks, Vaidya. I'll keep it brief. I'll touch upon the key financial numbers for the quarter as of 31st December '24. If you see the balance sheet size, that has now expanded and reached about INR3.3 lakh crores. That was an expansion of about 24% on a Y-o-Y basis. If I go into the components of balance sheet, both the advances and deposits continue to grow at a faster pace.

The deposit traction continues to be very much there. In fact, our customer deposits have increased by 29% on a Y-o-Y basis and it is now at about INR2.27 lakh crores. Within this, the growth in retail deposits is at 30% on a Y-o-Y basis.

If I move on to CASA deposit, that has also increased by 32% on a Y-o-Y basis. In fact, on an average basis, CASA deposits have grown by 35% on a Y-o-Y basis. CASA ratio, while it has come from 48.9% to 47.7% in the current quarter, but I would say that this has remained quite stable over a period of time. Term deposits, it grew at 26% on a Y-o-Y basis. Here, again, the retail term deposits grew at a faster pace at 29%.

During the quarter, our branch network expanded to 971 branches. We have opened 10 branches during the quarter, which takes the tally for the year to about 27 branches. Moving quickly to the high-cost legacy borrowing, which has been giving us a drag because this is at 8.8%. Happy to report that we have retired another INR1,000-odd crores during Q3. The book which is of this high cost is now at about INR6,700 crores. We have given details in the presentation on Slide

23, where you would find that about INR1,850 crores will further mature in Q4 and bulk of it will retire into the next year.

Moving on to the credit deposit ratio, which I think nowadays is an important parameter. Again, here, we continue to do well as deposits are growing faster than advances. The credit deposit ratio at December quarter is now down to 95.7%. This is roughly 200 basis points improvement from the previous quarter. If you look at the incremental credit deposit ratio during the last one year, then we are coming at 76.4%.

Moving on to the cost of funds, which is connected to the deposits and borrowings. The cost of funds for the quarter was at 6.49%. We saw a marginal increase of 3 bps during the quarter due to the tight liquidity environment, which is sort of prevailing. But if we look at the deposit cost, that has been quite stable, at 6.38%. The same was the number, I would say, in the last 2 quarters as well. So net-net, both of this, I think, has been quite stable all around.

If I move on to the asset side of the picture, the overall funded assets registered a strong growth of 22% on a Y-o-Y basis to reach INR2.31 lakh crores. Sequentially, the growth was 3.8%. The growth was largely driven in this quarter and even on a Y-o-Y, largely by mortgage as a business, then from the vehicle segment, largely in 2-wheelers, where we have a strong foothold. The business banking segment, which is essentially working capital backed by FDs and property as a collateral.

Wholesale business, you would have seen that we have registered a strong growth in the last 2 quarters and also by certain products, which are coming from a small base like gold loan and credit card. We have given a detailed product-wise cut in the investor presentation. The credit card base now stands at 3.3 million cards. The book size is about INR6,918 crores, and this has grown at 40% on a YoY basis. The gross spends on credit cards increased by 45% on a Y-o-Y basis in the 9 months.

If I talk about asset quality, then the gross NPA of the bank was at 1.94% at 31st December, and the net NPA was at 0.52%. If we exclude the microfinance book, then the GNPA in fact, stood at 1.81% and improved by 7 basis points on a sequential basis. The PCR on the NPA we hold is at 73.6%.

If I give some further details in terms of the GNPA and retail, rural and MSME segment, then that stood at 1.63% and the net NPA stood at 0.59%. Again, the increase here sequentially was more because of MFI. The rest, if you exclude MFI, then the numbers would have slightly come off.

The overall standard restructured book continues to come down, and this has further reduced to 0.2% of the funded assets. And we hold sufficient cover there. The 97% of the book is secured in nature, and we hold about 18-odd percent provision on the same. On the SMA front, the SMA-1 & SMA-2 book, excluding microfinance, that improved by about 3 basis points to 0.82% in this quarter. This was 0.85% in the previous quarter. We saw, however, an increase in SMA-1 and 2 of MFI book where it increased from 2.54% to 4.56%.

If we talk about now the gross slippages for quarter 3, then this was at INR2,192 crores. And in the last quarter, this was at INR2,031 crores, right. So the delta increase is about INR160 crores. And I would say that about INR140 crores of this has come from MFI alone. Even on the net slippage front, the net slippages for the quarter was at INR1,541 crores vis-a-vis INR1,392 crores of the previous quarter. The delta increase of INR149 crores is largely attributable to MFI.

The recoveries and upgrades for the quarter was around INR651 crores and pretty much the same as the last quarter. Last quarter, it was about INR638 crores. If I move on to profitability, then I will start with NII. The NII for the quarter increased by 14% on a Y-o-Y basis to INR4,902 crores. The net interest margin on AUM for the quarter was at 6.04%. This, however, contracted by about 14 basis points sequentially.

I would attribute this reduction largely to the deduction in the MFI book. The impact was about 6-odd basis points on that count and also because we have started scaling the wholesale book in the last few months. So the average book increased and about 5 bps of impact came because of that. And rest 2 bps to 3 bps, I would attribute to the increase in the cost of fund, which I sort of elucidated earlier.

Moving on to the fee and other income, that increased by 20% in Q3 to INR1,757 crores. And this was largely retail led, which is at 92% of the total fee. Moving on to operating expenses. This grew at a reduced pace of 16% on a Y-o-Y basis. And for the full year, this increase in opex is about 18%. Again, in this quarter, because there was a heightened activity, increased disbursement because of festive and so on, operating expenses sequentially in value terms have grown, but we saw some of that impact even into the fee line item.

The core operating profit, which is NII plus fees, excluding trading gains, this grew by 15% on a Y-o-Y basis to INR1,736 crores. Moving on to provisions. Provision for the quarter stood at INR1,338 crores as compared to INR1,732 crores. During the quarter, the bank has not utilized any contingent provision. If you remember that we had created contingent provision of about INR315 crores against microfinance portfolio in the previous quarter, but we have not done any utilization during the current quarter.

The credit cost for the bank for this quarter stood at about 2.3%. If we exclude the provisions on the MFI book, then the credit cost is at 1.8%, and this was pretty much the same number in the last quarter if we exclude MFI and one toll account. So the provisions have not sequentially increased, but have been broadly stable is the point, which I want to make. The profit after tax for the quarter is at INR339 crores compared to INR201 crores in the previous quarter.

Of course, on a Y-o-Y basis, this has come off because of the decline, which we have observed in the MFI book, which led to impact on the top line as well as increase in provisions on the MFI as well as some normalization of credit costs, which have sort of come in through the year.

Moving on to the last section, which is capital adequacy. The bank has maintained strong capital adequacy and including profits for 9M, the capital adequacy was at 16.11% with CET1 ratio being at 13.68%. This also factors in an increase, which came on account of merger in terms of a positive impact, that benefit was about 25 basis points. The liquidity also, we continue to maintain healthy liquidity levels. The LCR was stable at about 114% as of December 31.

With this, I am broadly done with the numbers, key numbers, which I wanted to touch upon. Maybe I'll ask Vaidya to sort of give his remarks for the quarter.

V. Vaidyanathan: Good evening, everybody. So I just want to share with you the brief approach and strategy we've been following on dealing with the current situation. So number one, if you notice why the cost-income ratio of the bank is high. So we called out the reason already to many of you that this is a new bank.

This is 6 years old. I know many of you have heard this before and know the facts also, but it is a fact we are losing close to about INR2,000 crores a year in setting up the branch architecture of this bank. Basically, the branches, the ATMs, the people, the technology stack had to be completely built up from scratch. The teams had to be hired, all that stuff. So all that is consuming.

So if you see the core profit of the bank, as and when this INR2,000 crores winds itself down to zero, you should be able to estimate that this is something that you can add back when you estimate the bank. Now on this front, I must say that we have made one new disclosure this time. If you see Page 66 of the presentation, we have actually shown how much the liability business has been losing as a percentage of the average deposits, and average retail deposits.

And this number in FY 20, when we started the bank in 2018. But really until 2 years, it is still very much a start-up stage. Our deposits were only INR10,000 crores in retail. So think about it like practically a startup. So in FY 20, Our loss, what is loss in liabilities, let me just tell you one second, but then I'll come back to the point. So, loss in liabilities is what income the liabilities team makes net of what it pays to the customers along with any fee income that it generates.

So that's what is really the net loss. So that number was 4.2% of the average retail deposits of INR23,000 crores. In FY 21, this came down to 3%. In FY 22, this came down to 2.1%. In FY 23, the loss went down to 1.8%. FY 24, it came down to 1.7%. In 9 months of this year, it come down to 1.3%. So you should believe me when I'm telling you that when the branches are scaling up, then they are becoming profitable.

It's of course easy to understand. It's common sense. But when we put the numbers to it, hopefully, you will be able to realize that 4.2% has continuously come down to 1.3%. It's 5 years. I must remind you, it's 5 years, unlike other banks do 30 years, it is taking its time.

Now we believe that this 1.3% will wind itself down to 0 certainly by 2030 or 2029. So the direction is clearly there. And this is why, when you model our bank, just don't go by the final numbers reported by us. Please factor for this fact that this INR2,000 crores that we're losing today or 1.3% of the deposits that we are losing today, will wind itself down to zero.

The second item, which is important to know as far as we are talking of cost to income, let me just share with you that the cost to income on the liability side, staying with liabilities in FY 22 was 227%. In FY 23 was 182%. FY 24 was 197%. In 9 months of FY 25, it has come down to

178%. So our guide is that we are seeing this clearly growing. I hope none of you are doubting our ability to raise deposits really coming well.

So this number coming downwards to 100%, which means it will not lose any money, 100% by FY 29 or FY30, if you want to even stretch itself by a year in that zone. So this direction is very clear, and I request you to please factor this in when you consider our bank vis-a-vis when you compare our bank with any others who've been around for a long time.

Now let me move to the next item where we talk of cost to income. In the cost to income on the credit card side, we are currently running in FY 22, we were 240%. FY23, we came down to 165%. FY 24, we came down rapidly to 116%. And in 9 months of FY 25, we already come down 100%, already done, meaning like there is cost-income ratio of credit card down to 100%.

And we believe that by the time we head towards the FY29 or so, it should come down to about 60-odd percent. That's the way the book is growing. And then we have also provided a particular slide, Page 67, where we have also shown the loss in credit cards as a percentage of the average credit card outstanding. So in FY 22, it was 27%, FY23 is 12%, FY24 is 3.78% and 9 months has already come down to minus 0.11%.

So by giving out this very specific disclosure about how much which business is losing and when and what the trend line over 5 years, and therefore, it should hopefully give you a really good picture that these numbers are truly moving in the right direction.

Now you might then say that, listen, why would you need to launch credit cards? That will be very fair question listen, you guys listen, you guys are not even making money. Your ROE is low. So why launch so many businesses? Now I must say that the way to think about this, and I must very clearly tell you the way we have thought about it, and personally, I stand by because I'm definitely architecting this broad thinking and I stand by it. I must tell you that the way this works is as follows. We are building a liability base.

Now in the liability business, we're building now we are close to INR2 lakh crores. I must explain to you that if we don't launch a credit card business, can you imagine telling a customer that we are going to be a big bank of the future, which we really believe we are. But listen, open savings accounts with us, have fixed deposit with us, but for credit card, go to some other bank, which you can't do or we will distribute some other bank credit card.

Well, it just cannot build a full relationship then the customer will have a credit card elsewhere, also get the saving accounts there, why should the customer come to our bank. So these are essential parts of building the bank.

Secondly, if we have not started a credit card business in 2021, if we are not losing INR 300 crores per year, which I believe is inevitable, then after becoming profitable, we'll have to come back and tell you now we're launching credit cards. Now we're going to lose INR 300 crores for 5 years from here on. So we believe to do it all one shot to build a complete comprehensive integrated franchise is a very important part of building a proper universal bank, which has to have a long-term future because once we start generating 16%, 17%, 18% return on equity, we don't want to turn the clock back and say we're investing in new businesses.

Let me give you one more example. Let's talk of wealth management. We get customers in a liability business and because of our service levels, technology, app, etc. really customers are coming in and our products are very good, our culture is good. So I mean, our wealth management business is growing like busters, it is growing by 50%, 60% per year. It's already touching something like INR 40,000 crores, if both the AUM as well as the deposits of those customers with our bank.

Now can you imagine telling a customer bringing them for liabilities and telling them that for wealth management, they go to some other wealth specialist bank or go to any peer bank. It just won't work. Why would the customer only leave savings with us and do wealth management elsewhere. So I must share with you we have a vision of building a really amazing bank for the future.

So there is not a choice for the bank to say that wealth management, we will postpone for another day. We just had to do it. And so you've got to build the team, the technology, the systems, the culture, the people, the leadership, everybody has to be hired and they need to do work well together.

Now let me give you cash management. That's the other business we are investing. So right now, we have current account balances of close to about INR 4,000-odd crores, which is a really fantastic piece that is now coming along. Now in the cash management business, again, let me just say that we lend to a lot of customers on the lending side, on corporate banking also.

As you know, we've been growing corporate banking quite strongly now by close to like maybe 20-odd percent. And let me tell you that 5, 6 years have gone by, not a single, not one new NPA has been created in the bank in corporate banking. And we are really very happy and proud about that. And we have a good credit committee and with the Board and everybody, and we are proud about how we're running that.

But coming back to the point, so when we do current credit -- corporate banking and we do that, we give loan to people, really, can we say to people that, okay, listen, you take money from me, but we're pretty foolish to tell the customer to go and say, now you can do cash management somewhere else. It's not possible. I mean, it's possible, but it will be not very smart. It won't be adding much value to us. So we said we need to do cash management.

When we do cash management we need to hire the team, build the people, build the coverage team, the product team, the technology team, the builds, go and find customers, you are going to do all that. And I genuinely believe there is no choice, but to do it. We've got to build a bank of the future. So I gave you just 3 examples.

I have many more, like close to about 15 or 20 products. We believe that we are building a good long-term bank with all these features. So whatever the pain, whatever the hit, whatever the negative, we are taking it today. But when we come out of this whole thing and we come through with this, I'm very proud. But by that time, we'll not have to look back and invest all over again.

So my objective of this opening part of the conversation was to tell you we are building the bank like this. I gave you 3 examples. There are many more, where we are building a complete integrated bank. Now what is a unifying factor between all these businesses we are launching? There are maybe a couple of them. So one is that they've got to meet a specific need, like a cash management meets a need or a FASTag meets a need or a wealth management or cards or whatever.

Now the thing is that apart what is connecting them all, they're all connected to one theme that they're all phenomenally technology enabled. If any of you tried a cash management services, any of you tried a credit card business or tried our even app, you'll find all of them are really connected to technology and in a very, very advanced technology.

Then the other thing we're all connected with is that they're all very good in customer experience, right? We are just going crazy about the concept of customers getting superior experience at this bank. So when you have good service, good technology, good culture, then every product that's coming out is a winner.

Let me tell you, cash management has been around for 4 or 5 years, already INR4,000 crores of current account in the bank. No chance on earth our bank would have got current accounts of this scale if we had not launched that business. So this is my short point of just sharing with you how we are thinking of building this.

Now you might then say, for first 2 years between FY19-20 & FY20-21, you had legacy bad loans and you said you were writing it off or charting it off or you're collecting. Then this next situation came that your -- then COVID came fine that happened to everybody. Then for 2 years, we had peace, meaning FY23 and FY24 PAT looked up, direction was good. Everything was good, Life was looking great. Now suddenly, you come with the MFI problem. And now how long MFI will last, why did we do MFI.

So let me, therefore, very specifically address what we think about the fact that, that now have we set you up with a new problem. And let me just address that as honestly as I can. Let me tell you the first part of the situation that we faced in, let me say, FY19 was honestly unavoidable. Whether you had me that in the job or anybody else, nobody could have avoided taking a charge-off for Dewan or Reliance Capital or the Mumbai entry point account that we had INR 1,100 crores. No, just nobody. It was just there. Any management had to account for it and I took it.

Now then our operating profit is very low. So we have moved ahead and gradually built the operating profit. In fact, I wouldn't say gradually, quite strongly, I'd say, our operating profit is now touched 2.4%. It's very tough to build operating profit. It's, in fact, easier to charge off credit cost, but harder to build operating profit. So we built it from literally 0.3%, 0.4% to 2.4% now. So that is built.

Now let me tell you this issue about what you might think that we set up with the new problem. And to just say that, look, this is the bank's early stage. It just goes like you get one jab at the face on one front and you fix it, then you fix the next one. But the core is coming strong.

So let me specifically address therefore, the issue of MFI because we owe you a genuine and straightforward answer on why we did MFI business and then what is the plan, how much it hit and where is it going. So the MFI business has -- one of the key reasons why we do the MFI business is that it meets our PSL requirements.

Let me give you a simple reason. As a bank, we are required to meet the following. We are required to meet 40% PSL. Out of that, we're supposed to meet 18% agriculture PSL. Then small and marginal farmer, you need to meet 10%. Now your micro enterprise is supposed to meet 7.5% and loan to weaker section, weaker section of the Indian population need to meet 12%.

Now IDFC was into infrastructure. They were not doing any of these. Capital First did a bit of these, but really a little bit of this, but still is doing something of it. In fact, IDFC hasn't had chartered some of the businesses to meet the requirement, but really it was cross on the ground. So therefore, now how a bank, early-stage bank meets a loan to weaker section 12%, how does the bank meet small and marginal farmer 10%.

So the microfinance business was an amazing silver bullet, which met 3 requirements. One, it made money. We were lending at 22%, 23%, 24%. We had some additional fees on top of it. Our cost of funds was really nothing like 6% or 7%, and it just made a lot of money.

Number 2, it also met the requirement of small and marginal farmer, 10%. It met the requirement of loan to be construction, 12%. So it was an amazing product. Now therefore, this issue that has come to us in the MFI front is not an IDFC issue alone. It's come to everybody. So it's come to everybody, just let us say, a little bit of a collateral damage that has happened by a mishap, so to say, on a highway. And I'm really happy to tell you, and we'll discuss during the Q&A, we'll discuss specific numbers that except MFI, our bank has close to about 25 products.

We are on record in telling you that all of them are performing well. And they've not been performing well today, they've been performing well for 15 years now. I mean, the ones which have been alive for that long. Some have been launched later than that. So think about it that for 15 years, our home loan has not troubled us.

Our loan against property has not troubled us. Our used car has been behaving perfectly well. Our personal loans is doing perfectly well. Our credit card is doing perfectly well. In fact, much better. We put some numbers of our banks vis-a-vis industry. Our micro enterprises business, which you do Kirana shop, salons, etc. finance is doing perfectly well.

So every single business of ours is doing well. So it’s one item has got stuck somewhere in the center. Now how do we deal with this? So we have a provisioning policy whereby in MFI, we charge off 75% at 90 DPD and at 120 DPD, we are charging off or 123 DPD, we are charging off 100%.

So our methodology in all products, including this product is to be really upfront about everything. So because 90 DPD, 75 is very stiff. So when the MFI book is having problem, it is hitting us first. But when the MFI business will recover, we'll recover fastest. That's how it works. Now, because of the same logic, now our credit cost in MFI business for the 9 months is close to about 8% and we have not reversed the SMA-1, SMA-2 provision we took last quarter. We still have it in the buffer. So that's the last point.

Now on MFI one, closing comment I want to tell you is that now we are slowing down the book. Now it's not only that it's hitting us on credit cost, income is also coming down because I told it is amazingly profitable product. So to that extent, income is coming down. It's a bit of a double whammy, I should say, because suddenly now we also have credit cost coming or no income coming from that line because book is coming down.

So this is a real issue. Now how do we look ahead? Now when we look ahead, let me just say that we have 2 very simple approaches of dealing with this because really, it's quite uncomplicated. What is it? One is that on the cost front, we are very clear that our cost growth of the next year will come down. We have given a breakup of this time we introduced a new slide of what is our costs.

And we have given a proper breakup of how much of our cost is IT expenses, how much is employee, how much is infra, how much is channel sourcing, how much is volume linked. We have disclosed everything. We know it, but we want to share something with you how the operating leverage of the bank is already beginning to come.

The operating leverage of the bank is coming as follows. If you notice when you go back in time, maybe 2 or 3 years ago, our opex was growing by 30-odd percent and income was growing by 30%, 32%, and that's the way it was. This year, our opex –for the 9 months of this year has grown by 18.2%, but the business of the bank has grown by 25%. When I say business, I mean deposits business that has grown by 28% and the loan book has grown by 22%. So when you add that up, you'll find it 25%. So when opex is growing at 18% and your book is growing by 25%. So you know that this bank is now beginning to build serious leverage.

When you look ahead, our own estimate is that for FY25-FY26, our opex will not grow more than about maybe 13-odd percent, what is now growing at 18%. Now you might say, how will that happen? That's because a couple of things are happening here. The growth in income will be even slower than this year because the microfinance business is gone and it has to reset itself. But the good news is that opex will come down next year.

So now you might say that if you've been growing opex by 18%, how would it come down to 13%. Now the bank is doing many, many cost cut initiatives. Some of them are individual product related, some cash back proposition, some of the licenses we're taking from various technology companies, what are the kind of credit bureau pools we are doing?

Can we do alternative bureaus, which tend to come at a cheaper rate? Can we do multi-bureau structures? How to rework our IT licenses? How to rework our travel conveyance costs? There's a major project running out here. I mean how to have double occupancy, single occupancy, printing, stationery, whether people are sending two SMS to customers?

Can you break it up into a single SMS to send it, how can we change the sourcing cost of the bank, how the credit cost is doing and the credit expenses, how many people are doing credit evaluation, the ATM costs, etc. So there are a lot of projects that are going on. So this is all one part of the work that is cost and serious work is going on.

Then there are a large number of transformation projects that are going on. That is even beyond the normal touch about SMS, etcetera. It is about real transformation. For example, if you have maybe 100 CPs in the country, how to collapse them into 3 or how to digitize a particular process where you eliminate the entire chain of work going on in the chain. So let me just say a lot of transformation work is going on, a lot of operational activities is going on. So one big area, how cost work is going on. And we believe next year, it will come down to like 13-odd percent.

Second thing that will happen is that one information we have not provided, but hopefully we will provide next time is that we want to break up of the opex and show you how much of that is fixed and how much is variable. And if book is grown, what percentage of this, how much will the fixed grow by, how much will variable grow by.

When we do that work also, we believe next year, we'll deliver about 13-odd percent. So this is a very material movement in our life. We believe in next 4, 5 years, since the opex has been incurred for the last 5 years and at least the essential building blocks have been built, we believe on a CAGR basis, our opex should stabilize somewhere in the 13% league.

And then next year, our income will probably grow by, I have to hazard a guess, so the analysts can do a little more deeper work, etc. But maybe like the 14% or 14.5% somewhere, that's how the income will grow. But the year after that, that's because the microfinance business would have stabilized the base case, the lower base would have been achieved.

But once that is achieved in FY25-FY26, I honestly don't see any doubt in the bank continuing to grow the bank on the loan side by 18% or 20%. We already guided to 20.5%. And I see honestly no problem growing the loan book at 20-plus. And deposit will grow by maybe 22%, 23%.

And then come 2029, whatever guidance is given that we will be a INR5 lakh crores loan book and INR6 lakh crores deposits, we don't see a risk to that. So once that comes through, then the rest of the equation is very good because our NIM is 6%. We make fees of 2%. If our cost to income eventually I believe will come down to the 50s. And then we'll have like a 3.5% or 4% operating profit, you have 1% of credit cost, you'll be operating posting ROA of like 2-odd percent. So probably a bit more than that on an even more longer basis.

So our theory is very simple that this MFI is a temporary situation. It will go. I have personally seen. I've been in business as you know for a long time, and we've seen many cycles in life. The good news is that neither on the retail front or wholesale front, we have put one foot wrong on credit. MFI is our first big issue, let me say, post merger, but we will deal with it. It is a bit of an industry accident.

So this is my quick brief. I hope with that opening comment about how we plan to & how we think of the future. We are frankly very bullish. We believe that some stage, our bank will turn. I'm requesting you all not to get very concerned about one quarter's result or what's going to come up in the next 2, 3 quarters. I mean this time obviously, it will be looking upwards, but I can't promise that exactly it will thrill you. It will be good.

But let me just say that as the FY26, FY27, FY28, FY29 comes, this is on record, you can check it out. I'm pretty confident that once the bases are met like FY25-FY26, then after that, next 4-5 years, I'm looking at a good story because there is no single business that is in 15 years has let us down. I'm not expecting to have any problem in any other business once we see the back of MFI.

So thank you very much, everybody. And with that note, we are open for discussions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Gao Zhixuan from Schonfeld.

Gao Zhixuan: Congratulations on a good quarter. Just on the MFI, do you mind sharing with us your outlook because the SMA-1 plus 2 seems to have increased sequentially more than what we have seen in some peers. So do you mind sharing with us what kind of credit costs are we expecting in the next 1, 2 quarters? And also on the overall credit cost, how are we thinking about FY 25 because our previous guidance is, I think, 225 basis points. And just look at 9 months, I don't know whether that still stands. That would be my first question.

Sudhanshu Jain: Yes. Thank you for the question. Maybe I'll take that. So on the MFI, we have seen an increase in certainly in the SMA-1 and SMA-2 book, even the NPA levels have gone up. As you would have noted from the presentation that we had an impact, which was felt because of the holidays in October, essentially Diwali, coincident with Diwali. And because we have a weekly collection cycle, the last week of collections got impacted which also led to some close into the subsequent months.

So we have seen a pile up in the MFI book and the challenge very much continues to be there. We are also closely monitoring the portfolio. As you would have noted that we have consciously slowed down on the disbursements. The good part is all our incremental disbursements, what we are doing is also CGFMU insured and so on.

So on this book, if I give you the 9-month number, we are already coming with credit cost of 8%. And this doesn't bake in the additional contingency provision of INR315 crores, which we have, right, because the SMA book levels went up, the NPAs went up, we felt it was more prudent to hold on to the provision and not utilize at this stage.

On your question on 225 basis points, as I sort of covered earlier that excluding MFI, the rest of the book is very much coming in line, right? We have not seen increase in SMAs. We have not seen increase in slippages. So we feel that on the rest of the MFI book, we could still hold on to this number even into the next quarter. However, the overall guidance for 225, that may slightly inch up a bit.

We, of course, need to see how the situation sort of pans out in Q4. But that would be a few bps of increase could be because of MFI because we are seeing slightly higher losses sort of coming there vis-à-vis the anticipation which we had maybe in the previous quarter.

V. Vaidyanathan: But our own sense is that the credit cost of MFI should peak out in Q4. So it should be even more than this quarter. But when we estimate the credit cost based on the collection percentages, assuming credit collection percentages continue to stay what it was in December and maybe probably even improve from here. But we expect that Q4 to increase and then Q1 FY26 to be less than the prior quarter, Q2 to be less than Q1, Q3 to be less than Q2 and Q4 to be less than Q3. So basically, there's the peak of it. Our estimates are that the coming quarter, that's ongoing right now is the peak of it.

Gao Zhixuan: And my second question is on the 14-odd percent revenue growth estimate for FY 26. Do you mind sharing with us what's the breakup in terms of the loan growth that we are expecting to do and also the margin outlook? But it seems that the strategy for now seems to have changed to grow more corporates in the last 1, 2 quarters. So how should we think about margins and loan growth?

V. Vaidyanathan: So basically next year, we believe loan book will continue to grow by about 20-odd percent. And deposit will probably grow by maybe 24%, 25% next year. The reason why the income will not grow directly in proportion is that the microfinance, like I said, is a highly profitable business. We're lending at 24%. Incidentally, though the microfinance book is only maybe 6%, 7% of the book, maybe until a couple of quarters ago, it's now come down to even less than that. The impact of the withdrawal symptom of not doing that high-yield book is also coming in the form of income line. So that is the reason why we expect the FY26 income line to get affected.

But the good news is that opex, like I said, we expect to be low because I told you a lot of initiatives are going on. And therefore, by Q3, Q4 of next year, I mean, you should see a reasonably sharp upward movement of operating profit, let me say. And for those of you who are going to be with us until that time and see how the room is turning, you'll be able to see how the margins are expanding.

And frankly, like I said before in the opening comment that once that MFI will, then probably by that time, be probably even 4% of the book or something like that. So it won't be much and it would also have been the spring cleaning up of the MFI book would have happened by that time. Our book would be insured largely by that time. So we expect that from there on, MFI shouldn't give us trouble. And then the rest of the book is anyway doing well. So we expect that, like I said before, after that, the rest of the story will keep moving in a positive direction.

Sudhanshu Jain: Yes. Just to add, this is our current estimation. Of course, this factors in that the shares in the MFI portfolio continues for a few quarters. If things sort of ease out maybe and some growth sort of comes in here, then we could see some uplift in these numbers. But these are our current estimates that income could grow by about 14.5% to 15%.

Gao Zhixuan: Got it sir. Sorry, just to double check, you are saying that the opex -- the material drop of opex growth, which should be much more visible in the second half of FY 26? Is that, did I get it right?

V. Vaidyanathan: You will see it every quarter. You can see it even already this quarter itself, if you see Q1 to Q1 of this year, Q2 to Q2 of this year, Q3 to Q3 of this year. For example, our opex growth in Q1 FY25 was 21.1% Y-o-Y. In Q2, it was 17.7%. In Q3, it's 16.1%. So our opex is stabilizing and definitely coming down.

I'm first of all happy that you're asking this question because many people do believe that, listen, this bank is spending and spending and this opex never seems to come under control. What's going on? Well, you see the numbers, it's dropping quarter-by-quarter, at least in the percentage Y-o-Y sense. And we are confident of next year, because we believe that the bulk of the investments have been done.

Of course, investments are never completely done in life, but at least like I said before, whatever we had to launch, we launched. So we're not going to set you up with a new business launch tomorrow morning and say, oh my God, it is losing money. That's not coming, that trouble is not coming your way.

Moderator: The next question is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: Thanks for additional disclosures on slippages, MFI and a lot many things. Sir, first question is on MFI only. So outstanding book is around INR10,900 crores, that is the MFI book. But I wanted to check, is there any other loans that we offer to this customer, maybe 2-wheeler, maybe small auto loan or any other PL loan or that these customers get only MFI loans from us?

V. Vaidyanathan: No, we don't sell many other products along with it. It's a regular MFI, the short answer.

Jai Mundhra: Okay. So the second question is, sir, just to get this correct, you have mentioned that you have a conservative provisioning policy and you have not utilized any contingent, right? So as against the SMA-1 plus SMA-2 outstanding of roughly around INR500-odd crores, as of now, we still have INR300 crores provisioning that we had at the end of the Q2, right? That is the right understanding.

Sudhanshu Jain: That's correct. In fact, if you sum up the NPA book on MFI and the SMA-1 and SMA-2 book, the cumulative provision which is in hand is about 70%.

Jai Mundhra: Okay. And thirdly, sir, collection on MFI book again. So collection efficiency, you have mentioned that it has come up to 98.6%. But what we can also recall is there is likely to be tighter guardrails, which will be coming in effect from April 1, which would create further disturbance, at least for the people who have slightly higher share of lenders. If you can comment, are you factoring into that development while saying that the MFI should be peaking in fourth quarter?

V. Vaidyanathan: No. When we say MFI should be peaking in fourth quarter, basically, we have estimated the collection percentage that is coming currently and assumed a little more improvement because the trend line is in that direction, slightly assume. And then we know the flow on the portfolio. So our estimates are that Q4 on this basis should be the peak.

The other thing is that in terms of your question about the changes in the industry, about the norms with which others are going to work with, if they're going to work with, etc. We are going to follow all the norms of the industry. And we have a little more controls over and above that at our own end. So basically, once you follow all the norms of industry, number of lenders, amount of exposure, etc, we'll broadly be in line with the industry to say.

Jai Mundhra: Right. And sir lastly, if you can elaborate your assessment of the current situation in the state of Karnataka? And what is the portfolio that we have in the state of Karnataka.

V. Vaidyanathan: When you move to the next question, as and when we get it, we'll share on Karnataka.

Sudhanshu Jain: Yes. So we have about 9% in Karnataka, that is the number.

Jai Mundhra: Okay. Sure. And lastly, sir, your consumer loan growth, right? So consumer loan growth, it has been coming down, as with every other bank also. But if I look at now, it has come down to 10% Y-o-Y. Is this more or less stabilizing here? Or you think it can more or less continue to see a bit of a moderation because of the ongoing cautiousness at the system level?

V. Vaidyanathan: See, frankly, for us to grow any of these businesses is not difficult at all because like we always say, they are coming on a low base as compared to, let me say, industry leaders who have a very large share of the market. We are like nothing or nobody. So we are not so concerned about market share. We are not even talking that language within the organization or outside. But more specifically on consumer loans, we feel that they're all doing well. There's no issue.

Jai Mundhra: Right, sir. And sir lastly, last question from my end, sir. We now estimate that fixed cost to income should be ideally 65% by FY '27

Moderator: Sorry to interrupt Jai, but your line seems to be unclear right now. Could you please repeat the question?

Jai Mundhra: Sir, I was talking about cost-to-income trajectory that you have given that by FY 27, we should be hitting 65% mark. Assuming we do that, what kind of an ROA would you expect on 65%, cost-to-income.

V. Vaidyanathan: See different analysts have different estimates on this front. If you don't mind, can I just take you a little larger question about the breakup of our various lines of businesses and their economics. So if you move to Page 65 of the presentation, we have shown the operating profit as a percentage of the loan book of the lending business. We've broken our bank into 3 parts. One is entire lending business, retail, MSME, rural, corporate all put together is one family.

Now on that front, we are having 4.3% of the loan book as an operating profit. This includes MFI, by the way. So before the MFI crisis stuck, it was 4.7%. We actually expect it to go to 4.8% or 4.9% because of operating leverage. But of course, it's come down to 4.3%. But still 4.3% is 4.3%, there's nothing bad about it's pretty good actually.

And we believe this should go up because end of the day, even as our loan book grows from INR2.2 lakh crores, which is today to, say, INR5 lakh crores in the next 4, 5 years, this has to go up. Obviously, we're not going to keep on spending more and more money in the same proportion of the loan book growth. So this will come. So think of this number a little higher than this.

Now the second thing is like, you take the second business I told you, the liability business has said that you must expect us to take it to 0%, which is cost income to come down to 100%, which means that the loss will come to 0. So let us assume for a minute that it does hit to 0. And let us assume for a minute that the credit card business, of course, we're not doing this for a social work or a research work. It's a profitable business.

We want to make money on it. So that business has already touched 100% cost-income ratio. And we believe it will touch the 60-odd in the next 4, 5 years. So that should be making like INR500-odd crores of PAT by that time. Today, it's making loss of INR300 crores last year, probably about INR180 crores, INR200 crores this year. And next year, breakeven for sure.

And then from year after that, I have to bite my tongue when I say for sure because sometimes it may play, it may not play. But we are expecting -- we're highly confident that next year, credit cards should be positive. And by that time, like I said FY24, FY29, FY30, it should be making like INR500 crores, INR600 crores of PAT. So therefore, if you take this 4.3%, which is today and get some operating leverage on it take it to maybe 4.7%, 4.8% by that time, probably more. And then you assume both liabilities that will become positive at least, if you know, then you see what happens.

On this 4.3%, you take some credit cost of maybe 1.1% off or 4.5%, take 1.1% off because we are comparing everything of assets and then you subtract 1.1%, assuming credit cost stays at current levels, ex MFI. So you would take that off. So 4.4% minus 1.1% looking like about 4.3% or sorry, we should take the percentage of loans, my bad, let me correct myself. So let me say this 4.6% or 4.7%, you subtract from that about 1.7% as the credit cost by that time. So you'll be looking like about 3% or so.

And then you have tax on it or maybe 2.9% and then you take tax on it of maybe 60, 70 basis points. This bank is surely headed to a 2% plus ROA basis or 2% plus for sure. And it will be a 2% plus ROA bank. It will be a growing bank. It will have unique technologies. It will have growth. It will have its own moats. And culture is very good, a customer-friendly approach. So we will tick all the boxes.

Today, we tick 5 boxes, but we don't tick one box, which is the cost-to-income ratio. But we are conscious of it, we'll fix it. So that's the only way to think about this bank in the longest run. Honestly, I have zero doubt in my head, the bank is heading in that direction. Now you may have one year plus/minus whatever, but I'm pretty sure the bank is heading in that direction.

Jai Mundhra: Right sir. Sir, your assessment of the current situation in Karnataka for MFI, there are quite a few development state government trying to sort of intervene, if you can update as to what is happening on the latest front?

V. Vaidyanathan: Yes. Before I come to the question, let me just give one finishing touch to the previous question because I answered that detail. So think about like I was saying earlier, that this 4.5%-odd and you take 1.7%-odd for credit cost. So you are left with 2.8% or so. And then also remember, that's all percentage of loans. We've got to convert the percentage of assets that will come down to something like 2.4% or so. And then you take the facts off compared to 2%. I'm sorry, I just want to just make the distinction between percentage of loans and percent of assets, so that you can get the math right.

So in this math, if you did the math, went through a spreadsheet, you will get to see a 2% ROA bank. And the only catch here can be credit cost. There's no other catch here. Now in the credit cost front, well, like this long period of 14, 15 years running a good credit cost company, except the MFI mishap that has happened now, you should believe that we should be able to run the credit cost on the lines we're talking about. 1.7% percentage of loans, which will probably be 1.2% percentage of assets. Sorry, that's the previous question. Now back to your question again.

Sudhanshu Jain: Yes. And with respect to Karnataka, again, this is a very latest development. This has come in the last 3 days. So we will closely watch the situation. It's difficult to sort of give out what could be the impact on that front, but we are quite watchful any way on the overall MFI portfolio.

Jai Mundhra: Thank you, sir. All the very best.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Thanks for taking my question and thank you very much for all the enhanced disclosures. Just firstly, on MFI, the 3-member rule that's coming up next quarter. Have we proactively moved to that?

V. Vaidyanathan: No, we are currently following what is allowed in the system. I told you there are to reasons we like the business also. It makes the money and it is insured. So we are happy the way we're doing it right now. We are just following the rules of the broader ecosystem.

Piran Engineer: But don't you think it makes sense to tighten right now when it's eventually going to come a quarter later? I mean if you're going to be the fourth lender today and it's not going to be allowed, say, April 1 onwards, and the next lender is not able to, let's call it, evergreen that borrower, she will default to you, right?

V. Vaidyanathan: No, that's true. But we are very carefully, very, very carefully watching this. So basically, what we have done is we put some extra controls in our MFI business over and above the normal market rules. We're not restricting ourselves to the ecosystem rules that have come, the 4 lenders or 3 lenders. That's not only condition. We have developed actually a very active scorecard where we have introduced a lot more number of parameters, which we believe will give us a much more scientific decision-making process than blunt rules.

Piran Engineer: Got it. And do you also track the entire household debt?

V. Vaidyanathan: Well, as part of the appraisal process, certainly, our people ask the question, we understand the household debt and we're supposed to meet certain requirement of as a percentage of the household debt is what is supposed to lend, etc. We follow all of that. You get the best estimate from the situation. We go by our best estimates of what our people assess on the occasion actually. But you can understand that much of these households anyway.

Moderator: Thank you. The current participant seems to have dropped from the queue. We have the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Thanks for the opportunity. Sir, coming back to Slide 65, 66, 67, I just want to understand a couple of assumptions here. One was the opex, which is linked to the technology part of the head office and other things, which are not allocable to a certain business, they are not captured here. I just want to get that right.

And second was on the fee income piece. Like is it getting captured in -- if it's a wholesale business fee, is it getting captured anywhere? And if not, is that missing in this analysis? Or is it getting captured somewhere?

And third was on the liability business, the ratio that we are showing. Are we building in any transfer pricing income in the interest income for the liability business? So that was one part of the question...

V. Vaidyanathan: Rohan, let's take one question at a time. It will be easier for us. Let’s take the first one, Sudhanshu, do you want to take that.

Sudhanshu Jain: Yes. So maybe I'll just tell you how this has been constructed. So essentially, if you take the P&L of the asset book, which includes retail as well as wholesale. So these numbers capture both the businesses. Then we have a liability business, then we have put out a credit card business separately, right? Then we have a small income and opex, which comes to the toll business.

Essentially, these are the broad lines of business. If you sum all of it, then it becomes the bank's numbers, right? In terms of how are we assessing this? So this is based on an internal transfer pricing and a cost allocation methodology, which we have put in place. So to your question on IT cost, even a portion, all of it is allocated in any one of these businesses, right? So it's on a fully allocation basis, how these numbers have been drawn out when we are computing the pre-provisioning operating profit for all of these businesses.

So on your question on liability, in terms of how this number has been computed? Let me just quickly dwell on that. So there is an NI where the liability unit earns on the deposit, which it mobilizes, right? So they could mobilize current account, they could mobilize savings account, they could mobilize term deposits, right? We all know current account is the best form of money to have, right, because it comes at 0% cost. So we give an internal transfer pricing income to the retail liability unit.

Similarly, on savings, we get some transfer pricing income. And so is the case with TD, which is more a commodity product, it will be much lesser there, right? So that would be the NI income from the retail liability group. Then there are fees, which can be directly identified and attributable to the retail business. This could be fees you are earning by not maintaining average monthly balance or a quarterly balance by the customer, could be ATM-linked fees, could be fees on account of insurance, FOREX, distribution of mutual funds and so on.

So that would be the second pool of income for the liability branch. We could also sell assets or say, sell a home loan, a personal loan, loan against property. We given certain internal transfer pricing fee to the liability unit, okay? So NI and that fees, all of these components makes it the total income. In terms of a cost, there are costs which are directly attributable to the branch, which could be the people cost, the housekeeping, salary, the DICGC premium, ATM running cost and so on.

And second, as I said, is it's also loaded for the allocations, right, which could be for IT, which could be for operations, which could be for customer service, which could be for the corporate center teams. So it's on a fully loaded basis. That's how finally the P&L is arrived for each of the businesses, right? And like for an asset specific, you will load it with the sourcing cost, you will load it with the collection cost. So some of these items change according to the nature of the businesses.

Rohan Mandora: So sir, I was trying to reconcile this number. So if you look at FY 24, the asset income coming at 4.7%, and this is on total advances, is roughly two-third of the total balance sheet. If you look at the retail liabilities, the cost is 1.7%, which is again roughly two-third of the balance sheet. So if we adjust this 3% is a net that we make. If I add the interest on investments, that is roughly 1.4%, so we get to around 4.4% at a PPOP level.

And if you take two-third of it, it comes to around 3% odd, whereas the computed ROAs for the bank was coming at around 2.4%. Roughly 50 basis point gap was coming in. So that's where I was trying to understand what could be explaining the difference vis-a-vis the analysis that you have shared?

Sudhanshu Jain: We also have the credit card business, which also generates NII and fees, right? So…

Rohan Mandora: But that was a small amount on the total loan book, so that's fair?

Sudhanshu Jain: Yes. Then on the investment income, as you said, you have taken a certain component -- we have treasury investments. We have a few other investments. So let me assure all of this adds up to the bank's numbers, right. And so -- and these numbers are in that way, very sacrosanct.

V. Vaidyanathan: And they're also shared with the Board and I mean the sense that whatever we're sharing with you, they've all gone past the Board over.

Sudhanshu Jain: Maybe this reconciliation, we can take it offline and we will be able to give you more details around this.

Rohan Mandora: Sure, sir. And secondly, sir, this was on the deposit piece. See, if you look at it, you have been delivering healthy growth on deposits. So I just want to understand in terms of the contribution, if we are -- the journey wherein an asset customer is coming to us first and we are converting them into liability subsequently, how would that journey play out? And what could be the contribution in terms of incremental growth?

And overall, how is the mix of new to bank customers on deposits vis-a-vis the organic growth on deposits? Some color around that?

V. Vaidyanathan: So currently, as we are new bank in the sense that if you think of any bank that has been around for 20, 30, 50, 100 years, they'll have a large customer base. And even if they gave interest credit of 5%, all of them, the balances goes up by that alone. And then they got to get a little less of the external market, so to say, because they're flying on 2 wings.

A bank like us, which is starting up right now since you start with zero base, today, we're no longer zero base, we're still two lakhs but in the context in what we want to build in life, maybe INR10 lakh crores, INR15 lakh crores, INR20 lakh crores over the next many years, we're still zero based. So a large part of our business is still very heavily NTB.

And good thing is that we build really good journeys to make it smooth for customers to bring money to us. So that's how we think about it. So we are -- right now, we're still a zero-day company and a zero-based company, and we still have a good percentage that is coming from new customers.

Rohan Mandora: Sure. Anything on the asset linked originations?

V. Vaidyanathan: Sorry. What was that?

Rohan Mandora: Any mix that you can share on how much deposits coming from the asset customers whom we were originating first?

V. Vaidyanathan: Yes, assets are useful. But see, frankly, all asset customers are not really good liability customers. So, in the sense that we are not finding customers with consumer durables and 2-wheelers, etc, bringing any meaningful asset liabilities at all. They are really relatively more modest income and therefore, they're borrowing to buy 2-wheelers. So it's unlikely they'll have money with them.

So I mean they may keep INR5,000, INR8,000, INR10,000, so that's not good balances. But the customers who avail say, a home loan, for example, or customers are availing these kind of products or even loan against property for that matter. These are the people who have money. And the credit card customers are usually coming in, they have more money because there's a credit self-selected people.

So what I'm trying to say is that the high affluent customers is what we make the money. So not all asset customers on our bank are high affluence. But we do have people who open home loans, etc, we do open the savings account to a very, very high degree actually.

Sudhanshu Jain: And sorry, before you put up the next question, just on the previous question, the number question which you asked, see, as you said, 4.4% is the PPOP on assets, right? And 1.7% is the negative on liability, which makes it 2.7%. And the advances book is up roughly 70% of the asset balance sheet, right? And on the rest 30% essentially investments or incomes coming from toll, right

If you apply these proportions, you will get a number of about 2.3% on PPOP, which is the disclosed number for us for the 9 months, right? PPOP to total assets is about 2.29%, and this is the broad reconciliation.

V. Vaidyanathan: So this is very useful.

Rohan Mandora: So you added that interest income from investment also addition to this? If we exclude that the net margin, if we include that okay. I'll just take it offline and then just reconcile that?

V. Vaidyanathan: And also to the previous question I was answering on the how the economics in the longer run will play out. This Sudhanshu's question answers it very well because this 4.4% we've shown there, which we believe will move towards the 4.7% or so comfortably and you take off the 1.7% from that, it comes down to the 3%. And then that math when you do that way also, you'll come back to the same answer.

Because we'll come, net of your credit cost will come down like the 3%. And then because of the fact that we are now going to comp as a percentage of assets, not loans, that 3% will start looking towards like a 2.4% or so and then you subtract the tax from, it will come back to 2%. So we feel that any which way we look at it, this bank is feeling the heading there, whether you can reach there in 2030, or FY31 or FY32, I mean, it would be very hard to really pick a number.

But this bank will have zero doubt in my mind that this 1.7%, 1.8% kind of ROA. This is not a difficult thing for a bank with our economics. The true real issue is that our true economics, which is a true incremental profitability of this bank is getting clouded by the fact that all of you are looking at the whole thing and you're not factoring for the fact that the liability loses money or credit liability loses money.

Or by the way, there are many products which are not called out to you because it will become too complicated. There are many other business bankers launched. Like I told you, like we've launched so many. They are all in negative zone, but we have no interest in running business in negative zone whatever. They're just meant to become profitable. It's just a matter of time.

So every product is going through its own J-curve of loss to profit. And when they all come up together, it will become -- it will all come together.

Rohan Mandora: Sure sir. And sir, lastly, just on this composition of operating expenses slide, the volume expenses and channel sourcing expenses. If you can help us understand what would be the contribution from the asset side and the liability side, if there's anything that you can share?

Sudhanshu Jain: Yes. So sourcing expenses or channel sourcing expenses would be essentially from the asset side, right. This is cost for your DSAs, DSTs, business correspondents and so on. The volume linked, largely, I would say it would be across, right, because you could have first credit card, the reward point expense, which comes in, you could have the cash backs and propositions, which go along with the credit card.

On the liability side, it could be the DICGC premium, it could be IMPS, RTGS, NEFT and so on, right? On the asset side, it could be the collection linked cost. It could be even like a bureau cost and all which you incur at origination. So it's across all of these verticals, I would say.

Moderator: We have the next question from the line of Pritesh Bumb from DAM Capital Advisors.

Pritesh Bumb: Sir, just wanted to check on 2-wheeler. In our slide also, we've shown that the industry is seeing some uptick in terms of 30-plus DPD and asset quality issues. What is our sense we have that as a large book, and it's a high-yielding, high credit cost business as well. So what do you see there?

V. Vaidyanathan: It's paying quite stably. But in this business, we all learned never to be too sure. So we'll be very, very watchful. But we built the business. We built this business over the last maybe 10, 15 years, actually more 15 years than 10, 15 years probably. And we've seen lots of cycles. So as of now it's bearing very well for us.

Sudhanshu Jain: Yes. Sorry, on the 2-wheeler question, just adding a few inputs here. So 2-wheeler is the bulk of the book in the vehicle segment. That's roughly at about 70% of the vehicles book. If you see the presentation, we have also given SMA 1, SMA 2 numbers and NPA, right, at the vehicle level. So it has been holding up quite well, 2-wheeler has been growing quite nicely for us.

We have a formidable market share here. we have been, again, invested in this business for quite long, right? So while we are quite watchful because of the economic environment, but we feel comfortable at this stage, probably in terms of the sourcing and the portfolio sort of which is sort of moving on this front.

Moderator: Sir, the current participant seems to have dropped from the queue. We will proceed to the next question, which is Mr. Piran Engineer from CLSA.

Piran Engineer: Sorry, I probably got dropped off from the line earlier. So just on MFI, how much money can we expect back from CGFMU right now? Is it fair to say that since half the loans are insured and assuming the same slippage ratio between the insured and the non-insured book, this should be the amount we get back?

Sudhanshu Jain: Yes. So essentially, today also when we have an NPA pool, which has got piled up, this has some proportion which is out of the CGFMU portfolio and there is some portion which is out of the old sourcing. Right? So particularly on the CGFMU insured book, right, we would start getting claims starting from FY 27, right? And the recoup of credit losses could be as high as about 70%, right, of the losses, which we incur on the CGFMU linked NPA.

Piran Engineer: It's only up to 70%?

Sudhanshu Jain: Yes, it's up to 70%.

Piran Engineer: So like 30% is sort of co-pay? Is that how I have to think about it in insurance...?

V. Vaidyanathan: So let's skip 2 years ahead just for simplicity's sake, so that let's assume 100% is insured.

Piran Engineer: Okay.

V. Vaidyanathan: And let us say that 2028, you wake up and you find that credit cost in microfinance is 4%. So your credit cost and the books will probably be 30% or 28% to be more precise, 28% of that -- if it's 3%, it will be probably 1% will come to us and 2% will go to CGFMU. It's like that.

Sudhanshu Jain: But the policy which we have, we end up providing earlier, right? While the money generally comes within 2 years after the date of disbursement. Hence, I said for the disbursements, which we started from January '24, we expect the tranche to sort of come in from FY '27. So we would have provided to a great extent on these NPAs. So we could expect a recoup in credit costs in that year.

Piran Engineer: And just lastly, how are things on the credit cards front? I see that your NPA is stable, SMA 1 and 2 has improved quite a bit. Your comments on this would be useful.

V. Vaidyanathan: Our credit card is doing well. You could see our numbers. Our SMA 1 and 2 credit cards has come down last quarter. It come down from 1.69% to 1.32%, in fact, last 3 quarters come down to 1.88%, 1.69%, 1.32%. So even on the NPA number...

Sudhanshu Jain: Yes. The GNPA has come off to 1.91% vis-a-vis 1.95% in the previous quarter. I had mentioned in the call last time that on credit card, we feel quite comfortable because of various timely policy interventions, which we had done. And credit cost in credit card on the book is marginally lower than the previous quarter. And we expect this trajectory could continue.

V. Vaidyanathan: **No** reason to get very disturbed anything like that. We have one problem, but that's a known problem in MFI. It's not the credit cards.

Piran Engineer: Understood. Okay. No, because for the industry, it has been an issue. And since you have now started disclosing SMA-1, SMA-2 data, it was quite useful?

Sudhanshu Jain: Yes.

Moderator: The next question is from the line of Anurag Mantry from Oxbow Capital. Please go ahead.

Anurag Mantry: Just one question on the credit cost ex MFI. So eventually, if I do the math for this quarter and for the last couple of quarters, it seems that the normal book ex MFI and that we had last quarter, the credit cost is coming more like 1.7%, 1.8%, 1.9% trajectory for the last 3 quarters as such. So just wanted to understand how you're looking at it because there has been a margin increase every quarter in that as well? Do you see the current level is more stable? Do you see maybe potential for some more increase? And if you can point to any reasons why this increase has happened in the couple of quarters.

Sudhanshu Jain: Yes. So on this front, the credit cost ex MFI and the tool account, if you also keep it aside, for Q1, the credit cost was about 1.7%. In Q2, it was 1.8% and Q3 has also come in at 1.8%. We feel that this could broadly remain in this range, maybe it could be or maybe 180 to 190 that kind of range. So we per se don't foresee this to materially go up or it could marginally sort of inch here and there, right? So we feel quite comfortable on the rest of this book.

V. Vaidyanathan: In fact, people often ask us because it's a concern because if you're an investor, you should worry all the time, so you should. Many people do ask, not just us, I've seen some television interviews on these business channels, etc., saying that is the issue on MFI going to spill over to consumer credit and people do half an hour discussions on these things.

Really, we are not seeing any spillover or anything like that. That's a very rural MFI, it's a very rural kind of stuff. Within urban, we've seen no impact at all. There's no reason for any impact. So where is the question of spillover?

Now we're talking of rural, the microfinance is a very unique business as compared to any other business. What is unique about microfinance? Microfinance is when the group of borrowers are coming together and repaying when our people have to go to the customers to a common venue and customers to come and pay, meaning we have no right to debit the customer's bank accounts for an EMI.

Every other product we sell, we have a right to debit the customer's bank account. And we have to only deal with the terms that come. In MFI, the nature of the business is different. We give the money on the due date to go sit in the college or the school or somewhere and at a joint, customer has to pay.

So MFI is a unique thing. So it's a unique thing behaving differently. It has its odd behavior sometimes, but it's only very, very MFI-focused thing for us, rest of the book, we said that before, I'm saying it again. It's doing well. I mean, in the sense, the entire corporate book is doing well, entire retail book is doing well, entire MSME book is doing well, business banking is doing well, credit card is behaving well. They're all doing well. And you see the numbers.

And let me just tell you one very, very important thing, which towards the closing, I'll share with you. We are giving you not just NPA or credit cost. These are standard, of course, everybody should give it, and that's part of the job. We have in our investor presentation and even otherwise, we are explaining our basis of lending.

We are giving an EMI check bounce, the EMI bounces. We're giving collection percentage efficiency on those bounces. Then next, we're giving SMA data, then we give SMA data by product, then we give NPA data, NPA data give by product, then we give NPA data by product and by the 4 quarters at a stretch. Then we give vintage analysis, then we give industry comparison, 30 DPD of our bank versus other industry.

So the amount of detail we give is something. I mean, we're giving the full funnel to you. So it should not be difficult to estimate any and all our numbers reconcile. So it should not be difficult for you to realize that this is only a microfinance problem. Others are doing well. All the numbers are there. In fact, if you went to Page 13 to maybe 45, you'll find all the information.

Sudhanshu Jain: And just to add, even into the next year, so as Vaidya said, that on MFI, we expect the peak to sort of come in, in Q4, and the credit cost should keep coming down into the next year, every quarter. And for the rest of the book, we feel the provisions could be very range bound or more or less around the current levels, right. So which means that the overall credit cost is expected to come down for the next year vis-a-vis the pain -- some of the pain on the MFI, which we saw into this year.

V. Vaidyanathan: So only as a caveat, just to be safe because we're speaking and a lot of people listening to us, etc. Now we have seen this, like I said, for a long time, I'm talking ex MFI. I told you we've given every part of the chain and funnel we've given to you publicly there in the presentation.

Now we have seen that every business has their own nature. They have their own credit cost behavior. If you do some product of all of that, you'll get a reasonable estimate of our bank credit cost, which is the 1.8% we're talking about. We are human, we're running a business, 1.8% can become 1.9%, may can become 2%, who knows, maybe it can become 1.8% or 1.6% also.

But it's going to be range bound. It's going to be here. It's not like, I'm not saying by the way, it will become 2% tomorrow morning or something, but I'm just telling you that it is the range. It's never gone completely off back because there is a certain credit criteria we lend to.

We don't fiddle with our credit criteria. We have lent and we learned and we refine and we refine. So as long as we don't get greedy and we don't want big business and we don't want to get aggressive, etc., which you don't want to, it will be a particular way and it's behaving a particular way it will behave a particular way because it has a particular cadence to it.

Moderator: The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: My first question is on your opex. I think you said that 18%, 19% of opex will go down to 13%. Any 3 to 4 key drivers that you see where basically you will see this kind of a cost reduction going forward?

Moderator: Sorry to interrupt Anand, but your line is not very clear.

Anand Dama: Is it better now?

Moderator: Yes, this is better. Request you to please ask your question again.

Anand Dama: Sure. So basically, you said that your opex, which is about 18% to 19% growth...

V. Vaidyanathan: Sudhanshu, will answer it.

Sudhanshu Jain: Yes. So essentially, the overall theme is that we expect the operating leverage to play out, right, clearly as we move along into the next year. If you see, we have given some level of details, like if you see employee cost, right, that was growing at a much higher pace and the pace has considerably come off.

So even into the next year, we expect that employee cost percentage increase could come down, right. It's a combination of the number of employees, which we foresee could sort of come in, in terms of addition for the expansion, which we are planning and so on, right. So we expect that the employee cost to taper down.

Even on the nonemployee cost, right, I'm saying there, as I said, there is some fixed component and there is some variable component, right. So there also, the fixed cost will grow in a particular trajectory. And the volume is something which will go -- which is linked to the volume, right. Some of the examples, which I can sort of give here, like we have said that we may grow the deposits at 25%, the branch may not come in that tandem, right.

We may add about 75 to 100 branches into next year, which is 10% over the current stock. So clearly, some leverage sort of comes in there, right. Then our tech costs and so on, we have already done a lot of front loading in last few years, right. So that could increase at a particular pace.

So we feel that because a lot of expenses have sort of already come in, there is clearly an operating leverage or the proportion increase could definitely come down from the current levels.

Anand Dama: And would that also mean that next year, our growth could be sub-20%, and that also, to some extent, will contribute towards this kind of lower opex?

V. Vaidyanathan: No, we are not planning to slow down the growth. I mean like 20% of the loan and about 22%, 23%, 24% of the deposits because, frankly, as you have seen for the last many years, we are good at deposits. If we wanted, we could grow 25%, 27%, whatever we want. But the need will come down next year. So therefore, is that 24%?

Sudhanshu Jain: So we may require only 23%, 24% kind of growth in deposits next year, fueling a 20% growth on the asset side.

V. Vaidyanathan: So our deposits are growing well already. So we don't need very many branches. The short answer is, Sudhanshu if I were to sum it up for you. On the deposit side because deposit is one part of our expense, as you know. On that front, we are not planning to load very many branches because current branch architecture of 1,000 odd is good enough to give us roughly the numbers you want.

Of course, we think a little ahead. I don't want to be caught on the wrong foot for FY27 or FY28 or FY29. So just as an insurance, we'll still go and put about 100-odd, but we are comfortable. And of course, we may tinker the size of the branches, we may reduce the size and put a little more or we may increase and put a little less, whatever.

But you'll get the drift that this is order of magnitude we're planning to grow. So let's call it 100. So if a current base is 1,000, you go 100, you're going to add only 10% branches, but we are expecting book to grow by 20% plus. So that is operating leverage.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Vaidyanathan for closing comments. Over to you, sir.

V. Vaidyanathan: I want to just thank all of you. I think you've had a long time with us today, and we thank you for being with us for this long. And we do request you to think a little ahead. We've given you quite a few new things. I think for 4, 5 years were known issues, suddenly comes the MFI issue. We're also feeling a little disturbed by that.

So why we are surprising like this, and we are a bit unhappy with ourselves that after settling everything right, suddenly the MFI has come at us, and we are having to have this conversation. But we believe after this, we see the back of MFI, there should be, we are not seeing any major crisis other than that. Thank you.

Sudhanshu Jain: Yes. Thank you, everyone. Just to add to it. So while we are seeing some top line pressures, which would come in, but clearly, we are working towards improving the operating leverage. And that's why the opex growth could moderate and so on. I also touched upon that provisions would be lower on an overall basis. So we are very much sort of working on improving the set of numbers. And thank you for a patient hearing, and have a great weekend.

V. Vaidyanathan: From all of us at IDFC FIRST Bank, if any of our employees are hearing this call, I want to just take the opportunity to say that we're building an amazing bank, have confidence in yourself. In a long journey, these odd things can happen in a quarter, 2 quarters, 3 quarters, but have confidence of building something amazing. Yes. Thank you, everybody. And if any employees are hearing, that's for you. Thank you, everybody.

Moderator: Thank you. That concludes this conference, ladies and gentlemen. Thank you all for joining us. You may now disconnect your lines.