"IDFC FIRST Bank Limited

Q4 FY '25 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to IDFC FIRST Bank's Q4 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, Michelle. Thanks a lot. Thanks, everyone, for joining the call. Today, we have with us Mr. V. Vaidyanathan, MD, CEO of the Bank; and Sudhanshu Jain, CFO and Head of Corporate Center with us. So we'll start the call with the discussion of the financials with Sudhanshu first, and then we'll have a brief review by Mr. Vaidyanathan as well. So over to you, Sudhanshu.

Sudhanshu Jain: Yes. Thanks, Saptarshi. First of all, good evening, everyone. Thank you for participating on a Saturday. Let me start with first by putting out some key financial numbers. I will try to keep it short. But nevertheless, let me call out a few key numbers for the year and for the quarter. The balance sheet size as on March 31, 2025 has stood at about Rs. 3.4 lakh crores. It has grown at 16% on a Y-o-Y basis.

If we go and see further components, then deposits continue to grow at a faster pace than advances. Our customer deposits have increased by 25% on a Y-o-Y basis and is now at Rs. 2.42 lakh crores. Within this, the growth in retail deposits was higher at about 26% on a Y-o-Y basis. CASA ratio, if you see for us, it has been quite stable around the 47% mark and that CASA deposits have increased strongly by about 25% on a Y-o-Y basis. If you see average CASA deposits for Q4, the increase is 30%, in fact, on a Y-o-Y basis.

Term deposits in the current financial year has grown by about 26%. And here also the retail TD has grown at a faster pace at about 28%. Happy to report that our branch count has crossed the 1,000 mark. It was 1,002 at 31st of March. We opened about 31 branches during the current quarter also. We have repaid high-cost legacy borrowings to the extent of about Rs. 7,000 crores in this current financial year.

The residual book now is, I would say, small at about Rs. 4,800 crores. And about bulk of it, that is about Rs. 4,500 crores will mature in the next year itself. We continue to bring down the credit-to-deposit ratio. That is now down to 93.9%. This was 98.4% at March '24. If we compute the incremental credit-to-deposit ratio during last 1 year, then it's at about 76.1%.

If I talk about cost of funds, that was stable around 6.5% for the quarter. And similarly, deposit cost remained stable at 6.38% for Q4 '25. If you see the trajectory for last 4 quarters, both cost of funds and cost of deposits has been quite range bound or stable, I would say. If I quickly move on to the asset side, then on the funded assets, we have registered a strong growth of 20.4% on a Y-o-Y basis to reach Rs. 2.42 lakh crores. Sequentially, the growth was about 4.7%.

If you go through the presentation and we have given more details on Slide 28, the growth was largely led by mortgage segment, which has grown by 19% on a Y-o-Y basis, the vehicle loan segment, which has grown at 26% on a Y-o-Y basis. The business banking, which is largely secured working capital that has grown at 32% on a Y-o-Y basis then the wholesale business has grown by 29% on a Y-o-Y basis.

There are certain other businesses which have also grown strongly, albeit coming from a small base like gold loan and credit cards. During the year, we also had a degrowth of 28.3% on the microfinance business because of the challenges going around that sector. Infrastructure book, happy to report, is now sub-1% of the total funded assets. If I talk of credit cards, which is a relatively newer product for us, the bank has now issued more than 3.5 million credit cards. The book size has reached now Rs. 7,500-odd crores at March. The gross spends on the credit cards grew strongly by about 42% in FY 25. I'm again happy to report that credit card as a business has turned operationally breakeven within 4 years of launch.

If I now move on quickly to the asset quality. The gross NPA of the bank stood at 1.87% at March. And similarly, net NPA is at 0.53%. If we exclude the microfinance book, then the GNPA in fact, is at 1.63%, and this has improved by 19 bps on a sequential basis. PCR for us, excluding technical write-offs, was healthy at 72.3%. It has, in fact, improved by 347 basis points on a Y-o-Y basis. If I talk about GNPA in retail, rural and MSME segment per se, then the GNPA stood at 1.70% and the net NPA was at 0.62%.

Again, here, if we disaggregate microfinance, then GNPA, in fact, has improved to 1.40% vis-a-vis 1.46% in the previous quarter. The standard restructured book continues to come down for us. That is now, I would say, very small at about 0.18% of the funded assets. If I talk about the SMA 1 and the SMA 2 portfolio, and again, without microfinance book, that has been quite stable. The number for the quarter is at 0.87%. It has marginally gone up from 82 bps in the previous quarter, but I would say the trend has been pretty stable over the last few quarters.

We saw an increase in SMA 1 and 2 of MFI book. That has went up from 4.56% to 5.10%. This is albeit on a declining base. If we see in value terms on the microfinance, then the SMA 1 and 2 pool has declined by 3% on a Q-o-Q basis and the SMA 0 has declined by 45% on a sequential basis, which in a way, is indicating a lesser incremental buildup. We have also seen an improvement in collection efficiency during the quarter, and it stood at 99.2% for March 25. And ex Karnataka, actually, it is at 99.4%.

If I talk about gross slippage now, that also has come down by about Rs. 18-odd crores from the previous quarter. It is at Rs. 2,175 crores for Q4. Here also, we saw 2 mixed trends in microfinance business, in fact, it went up. The gross slippages have gone up from Rs. 437 crores to Rs. 572 crores and if we strip out microfinance, the net slippage has, in fact, come down by about Rs. 152 crores.

Similarly, net slippage for the quarter was at Rs. 1,520 crores versus RS. 1,541 crores in the previous quarter. Recovery and upgrades was at Rs. 655 crores for Q4 FY25 as against Rs. 651 crores in the previous quarter.

If I move on to profitability, to start with the NII for FY 25, that has grown by 17% on a Y-o-Y basis. And for the quarter, it grew by 10% on a Y-o-Y basis. Excluding MFI, if we see NII, then the growth is about 17%.

The net interest margin on AUM for the quarter is 5.95%. We saw a moderation of 9 basis points vis-a-vis the previous quarter, and this is greatly attributable to the microfinance business, where the book has further come down and hence, the NIM has got impacted.

If I talk about fees, then the fee and other income for the year has increased by 15%. And for the quarter, it grew at 6%. The retail fee constitutes the bulk of it, and that's at 92% of the total fees. We continue to moderate on the operating expenses front. In fact, for the full year, the growth has moderated to 16.5%. And for Q4, the growth was at only 12.2% Y-o-Y and it stood at Rs. 4,991 crores.

Core operating profit for the year, excluding trading gains, that has grown by 17% on a Y-o-Y basis. And we have also given data that if we take out microfinance, then based on our internal reporting, this number has gone up by 31%. If I talk of core operating profit for the quarter, similarly, excluding microfinance business, then it has increased by 20% on a Y-o-Y basis.

Provisions for the full year stood at Rs. 5,515 crores as compared to Rs. 2,382 crores in the previous year. During the quarter, we have not utilized contingency provisions, which we had created on MFI in Q2 that stands at Rs. 315 crores. And the sequential increase in provisions was also primarily due to MFI, and this was in line with the guidance which we had given in the previous earnings call.

As a result, the credit cost for the full year stood at 2.46%. If we exclude MFI book and the one toll road hit, which we had to take into Q2, the credit cost for the full year was at 1.76%. In fact, for the current quarter, it improved to 1.73% vis-a-vis 1.82% in the previous quarter. We have reported a profit after tax of Rs. 1,525 crores. The profit for Q4, it is at Rs. 304 crores.

The PAT for the quarter, as we all know was largely impacted by the MFI business, and I would say also to some extent because of normalization of credit costs. If I talk about capital adequacy, the bank has maintained strong capital adequacy that stands at 15.48% as on March 31, 2025, with CET-1 ratio at 13.17%. The Board in its meeting today has recommended a dividend of 25 bps for FY 25. This will be subject to shareholder approval. Post the quarter end, we had also in the second week of April, announced that the Board has approved issuance of CCPS to 2 marquee investors.

These would eventually get converted into equity to the extent of about Rs.7,500 crores. Considering post conversion into equity, CRAR, that the total capital adequacy will be 18.2% if computed on March'25 numbers and CET1 will be about 16%. The LCR for the quarter stood at 117% on an average basis vis-a-vis about 114% in the previous quarter. So these are essentially the key numbers which I wanted to bring out. Maybe I'll hand over to Vaidya to sort of say a few words.

V. Vaidyanathan: Hello, everyone. Good evening, everybody. Nice speaking to all of you. Thank you for being with us on a Saturday evening. From our point of view, I just want to share with you what are the agenda in front of us over the next few years. And before that, I must want to just share with you the fundraise that we did recently, what is it that's going on in the back of our mind, how we're planning for the future?

And why did we raise that kind of a large amount of capital. I must say that indeed, we have seen some reports and reviews saying that, look, you people have raised 15% or diluting the bank by 15%, why was the need to raise that large amount of a capital in the first place.

Now it's a very fair question. The thing is that if you go back and see large corporations of today, like, say, for example, ICICI Bank, which is really a wonderful institution, which is a shining example. If you go back and see what ICICI Bank was in 2000 or 2003, you will realize that the early stages of any bank is like that, specifically for a domestic financial institution converting to a bank.

If it had been a normal NBFC, which is already profitable and then getting a bank license, then it can have a temporary period of turbulence just because of raising CRR, SLR, they'll go through it maybe in a couple of years.

But this was not that. This was a DFI, which really was not making any money. Its operating profit was 0.5%. So obviously, all of us know that with 0.5%, even if credit cost is 1%, you know that you're not making money at the core. So from that situation, how do you take a bank out of a situation like that? If you spend money, you don't have the operating profit to spend money, you can't fix the CASA.

You can't raise retail deposits, you can't fix the structural issues of the bank of not having a diversified liability base. If you don't spend, you can't fix the issue. This was really a hard-to-solve problem. And it was not a reason that all leading analysts at that point of time had really called it hard to solve or almost a problem impossible to solve.

Now I must say that from that situation, how does a bank come out? So the main thing is that you start building a really phenomenal franchise, a franchise that makes it attractive for new shareholders to come in and bring the capital because why would new shareholders come in? They would see if there's a strong business model. So what we've built was a really, really good customer franchise.

We have grown the deposits from about Rs. 38,000 crores to Rs. 2.4 lakh crores as of March. So the CASA ratio, now we've taken close to about 47%. Branches, we have taken to about 1,000 branches. Loans and advances we have taken about Rs. 2.4 lakh crores. So you get the drift. So by building such a really strong franchise, we got investors to be attracted to the bank enough to give us capital.

The second thing that people say is that, look, you've been diluting the bank every year for the last 5 years. It is true. We raised Rs. 2,000 crores in 2020, then we raised Rs. 3,000 crores next year in 2021. Then we raised some Rs. 2,000 crores after that, then we raised another Rs. 3,000 crores next year. And this year, we are now raising Rs. 7,500 crores. Now we just thank the market that markets found it attractive enough to give us the capital at a premium to the book.

So this was the reason why the bank had raised capital because the bank was not making money. So we found the way to raise capital. And then with the capital, we built the bank. Sorry, I was talking about the franchise. I was talking about the CASA ratio is at 47%. I told you loans and advance just about Rs. 2.4 lakh crores. Retail LCR, I don't mean the retail deposits as coming from retail branches. I mean retail LCR, we were 12% initially. Today, we are at about 60%, I must share with you that we are now in line with large private sector banks, which gives tremendous stability. Our credit deposit ratio has come down from 137% to about 94%.

So basically, in all of these fundamental franchise, we made the bank strong enough to be able to make it attractive for long-term investors. The second thing was that we kept incremental economics very strong at the bank. I'm happy to share with you that incremental economics are so strong that our operating profit has now touched about 2.3% of the book. So even with a credit cost of 1.2% or so, the core of the bank is profitable.

It will not post a loss. So therefore, bank has come that way, and we made the bank attractive enough for investors to come in. Then we made the bank attractive enough for customers. So we have really good customer propositions. We have, for depositors, we have good propositions. We have good system, good technology, a good franchise, and that made the customer proposition strong, which also, by the way, is one of the reasons why institutional investors would come in.

So having done that, now our task is that how do we start generating return on the capital because that was really the only way to grow a bank, and it's generating its own return on equity. Now for a minute, I had digressed to just talk to you about ICICI Bank, which I hope all of us agree, it's a great bank.

Now if you go back and see in time, the number of shares issued by the bank was 170 crores in 2005 or so. In just 4 or 5 years from there, maybe around 2009, it became 300 crores. Just think about it. And the bank raised $2 billion in 2005, $5 billion in 2007. That's $7 billion raised.

And imagine that's going back in 2005 and 2007. So we raised $1 billion now, one, that was $7 billion. That's how institutions are built because that was equally the same situation I'd imagine where the return on equity was low and the bank had to raise capital. But see, today, when time has passed, look at the kind of institution that got built and it's generating its own return on equity of 16%, 17%, 18%, and it's flying on its own.

It doesn't really depend on capital to be raised from time to time. I must honestly tell you that this institution was almost pretty much the same situation, early stage, have to raise capital. And now our job is walk the path and take the return on equity to about 15%, 16%, then it becomes self-sustaining.

Now as far as returns are concerned, when I say returns, I mean return on equity. Now we are at, like I said, 0. We've come to about 7%. If you actually strip out the drag cost by MFI, which we request you to look through it, you will actually see that we're probably about 7% or so return on equity on the core. Our first stop is to actually move this from 7% to 15%. We really intend to do it. We're serious about that. And then hopefully, our business model is such that probably give us a return on equity even higher than that.

So how do we do that? So we think the main thing is that we need to scale. And for scale, we got capital. So we're very happy about that, and we feel comfortable about that. Now the key thing is the situation where if you see the profitability of the bank, there was a significant U-turn in the profit of the bank. So we started with a loss of Rs. 1,944 crores in 2019, Rs. 2,864 crores in 2020, then Rs. 400 crores positive in 2021. Then Rs. 145 crores in 2022, then Rs. 2,400 crores in 2023, then Rs. 2,900 crores in 2024.

This is just a solid U-curve that happened or a J-curve that happened to profitability. I think it's really very hard to turn companies like that. But after that, from Rs. 2,957 crores, all of you expected us because the trajectory was like that, you expected us to go further up this year probably and go on from there. But it's true that we have not delivered to your expectation or even what we thought we could.

So instead of our PAT going up from Rs. 2,400 crores to Rs. 2,900 crores upwards, we did a downturn this year. I do agree. So it's down to about Rs. 1,500 crores. So I want to share with you that this dip is not that there's any fundamental issue with the bank or the model where it's going to go cutting down this way. No, no, no. The curve is not heading down this way for next 2 years, 3 years, nothing like that.

You think of this 2025 as a year that this has happened because of microfinance. You think of it that 2026, we will stage a smart recovery. And FY27, FY28, FY29, we should be back winning ways. After all the winning way of 2019 to 2024 was not a fluke because we had built something fundamentally a strong model that can take us there because that's how strong institutions are built.

So think of FY 2025 as a year that happened to us. It was a microfinance business issue. It happened to every player in the industry who played microfinance. It was an industry issue. We too participated. We suffered. But that's, I would say, part of growing up and part of learning the business and learning cycles. But I wouldn't even say learning cycles. It's not that we have to learn, I'd say that these cycles are something that are part of life, and we know these happen.

But in microfinance, it just tends to rear its head every 4, 5 years, and it's something that happened. Now we were also doing it because it was giving us priority sector requirement. It helped us meet many other requirements as well. Now coming back to the point, therefore, how do we take the story from here forward. Now there are two things. One is we want operating leverage.

That will come, for those of you who are concerned that it may not happen or it's not happening. Let me share with you that the last year, our book, the last year meaning in FY 25, our business grew by 23%. Basically, loans grew by 20% and deposits grew by 25%. Blend-blend call it, business grew by 23%, but our opex grew only 16.5%. It's a big, big, big gap between the two. And in fact, that should tell you that operating leverage is playing out.

Now if you see the trend line of opex for the last 4 quarters, you see the numbers. In Q1 FY25, our opex grew 21.1% Y-o-Y. In Q2 FY25, our opex grew 17.7% Y-o-Y. In Q3 FY25, it grew by 16.1% Y-o-Y. In Q4 FY25, the quarter just ended, it came down to 12.2% Y-o-Y. So this is clearly telling you 4 or 5 quarters in a row that our opex Y-o-Y is dipping. So this is obviously a result of some serious work we're doing on the opex front at the bank by using technology, by doing operating initiatives and so on and so forth.

So in the next year, that is in FY26, we give or take, would like to grow the loan book by 20-odd percent, deposits by 22%, 23%, something like that, and let me call it blend-blend somewhere around 22-odd percent. But now we want to grow or we are targeting inside the bank to grow opex only by 12% to 13%.

So you can see that the bank is putting brakes on opex. It is rather leveraging the same balance sheet, with the same level of opex, we're growing the balance sheet by 20%, 22%. And then you can see that if you play this story out for the next 2, 3 years, this has to naturally show an operating leverage. So therefore, to sum it up, I would like to say that given the bank was not making its own return on equity, you might say, you knew this when you merged with the bank, so well, you should have known.

Well, of course, I should have known, and I knew it's not that the fact that the bank was sitting on Rs. 25,000 crores of infrastructure loans. So it's not unknown to me. Of course, it's known to me. But then it is part of the story of the responsibilities we took because we thought there was an opportunity of converting to a bank and all that, and I take full responsibility for that. But we were where we were.

From there, we have come really a long way. Our deposit franchise is really very powerful. I can tell you that very rarely you would find a retail franchise that would have grown from Rs. 10,000 crores to Rs. 2 lakh crores retail deposits in 6 years, it's just really special. So there is something special at the bank, something not so good at the bank because our cost-to-income ratio is high.

We are fixing it. But I told you that the way we are reducing the opex Y-o-Y, I read out the numbers to you. The way it's coming and the way we are thinking it to play out next year, you will see this story improving. And this is how institutions, in my opinion, are built because you got to raise the capital and then you got to generate return on equity.

And once you generate return on equity, it becomes self-sustaining. We believe we are on that path. We are genuinely thankful to you that you allowed us to raise something like Rs. 21,000 crores of capital in 5 years. Really to all our institutional investors who support us in this space, we really want to thank you. And we believe that we will put that capital to good use in the next 4, 5 years. And progressively, you will see progress every year from here on for the next 4, 5 years.

And then we should reach the return on equity of what good respectable banks command. We don't make it today, but we believe we are on our way. So that's all I have to say in a broad sense, and we'll take questions from here on, either about the quarter or about what you felt about the overall story.

Moderator: The first question is from the line of Rikin Shah from IIFL Securities.

Rikin Shah: Just had one question. Post the implementation of new microfinance guardrails, would you be able to provide some color on how the business trends have changed on the ground, either in terms of the approval rates, disbursements, collection efficiencies? That's my only question.

Sudhanshu Jain: Yes. Rikin, thanks for the question. So in terms of the MFIN guidelines, which have come in from April, we had implemented it slightly prior to that. So these guidelines we made effective already from February. So to that extent, we also saw some impact on disbursements that came down to about Rs. 760 crores in the current quarter. So since we have already implemented, we don't see further impact as such to come on this front.

Moderator: We'll take the next question from the line of Zhixuan Gao from Schonfeld.

Zhixuan Gao: Congratulations on a good set of numbers. My first question is on SA rates. First of all, what's our blended SA rate now? And also given we have built a very strong deposit franchise over the last couple of years, and we're kind of price set within the midsized banks at least. So how are we thinking about leveraging on that in a rate cut scenario? And do we expect a decent amount of SA rate cut in the coming months or quarters?

V. Vaidyanathan: Yes, we are also planning to reduce our rates very soon, maybe in a day or two, you will see the numbers out there. We are trying to reduce, first of all, our fixed deposit interest rates. We are paying probably about 70 or 80 basis points more than the large big 4 banks on the fixed deposit side. But we want to literally go down to their rates. So we might see a large cut from our side to go like the peak rate.

People have lots of deposit rates, but there are always a special slab, which people pay the maximum rate. You'll see large banks paying around 7.20%-ish or so. We were about 7.90% or so. We want to come straight down to their rates now. So that will be a very big moment for our bank to go there. And then on the savings account front, also, we want to reduce rates.

So we will, first of all, trim off the accounts we were paying up to Rs. 100 crores. We were paying certain amounts, which we'll now pay only Rs. 25 crores and onwards. And then we'll let go of the high-value, high deposit cost of individual customers. And then even on the core SA rate itself, we have plans to reduce it from thereon.

Sudhanshu Jain: Sorry, just to add, this is further to the change, which we already did in February where for Rs. 5 lakhs to 10 lakhs, which we have reduced the rate from 7.25% to 5%. So as Vaidya mentioned, we are looking for some more cuts primarily in the slightly larger ticket sizes and we would announce these changes shortly.

V. Vaidyanathan: But mainly I'd like to just give one explanation so that it's easy for you to understand. Banks are raising money from two sources. One is CASA, one is term deposit. So there's a lot of eyes are all riveted around CASA right now at this point of time, saying when are you going to cut it.

But I think not many questions are being asked about fixed deposits. People are not looking at that. So we are cutting that very sharply. And that is going to be as and when those FDs come up for maturity, either they will come to us at the new rates or we are happy to let them go.

Actually, I wouldn't say it's happy to let them go. We'd prefer customers rollover. But if they have to go, they've got to go. So this will also be a structural benefit for the bank because we will save interest cost and annuity. So I want to just clarify that to you.

Zhixuan Gao: Got you, sir. So what's the blended SA rate for us right now?

V. Vaidyanathan: Can you repeat that question?

Zhixuan Gao: Blended SA rate.

Sudhanshu Jain: It's for the current quarter, it's about 5.9%. As I said, we made some changes in February. The full impact of that would play out into the next quarter. That, coupled with certain other changes which we plan to do, would further bring down the SA rates. But currently, for Q4, it's about 5.9% of the books.

V. Vaidyanathan: But we recently reduced rate for the Rs. 5 lakh to Rs. 10 lakh bucket from 7.25% to 5% so that should help reduce a few basis points. But like I said, we will further reduce it also from here.

Zhixuan Gao: Got it, sir. And my next question is on credit cost outlook for FY 26. You have shown quite a decent or material improvement quarter-on-quarter on the SMA 1 and also on the non-MFI portfolio. So how should we think about credit costs for FY 26? And also, are we going to utilize or unwind some of that Rs. 300 crores of MFI provision in FY 26 when it's all over?

V. Vaidyanathan: I mean, until this quarter, we didn't feel like doing it because the MFI thing is still playing out. Our experience is that we had already called out last quarter that we expect the peak of provision to come in Q4, which has already come. We expect provisions to come down next quarter and come down quarter after that and so on and so forth.

We think of it like a wave that came and went and this is the peak of the wave that we had this quarter. And we are pretty much bang on whatever we roughly said, we said we are roughly on track. So when this eases out a little more, and when we get full confidence that we've seen the end of the wave, then we'll start releasing it.

Zhixuan Gao: Got it, sir. And do you mind provide us a run rate of credit cost that you see as of now for FY 26?

V. Vaidyanathan: Yes. If you take this number for this year, FY 25, first of all, it was 2.46% for this year. And the 2.46% included the high impact of MFI and the Mumbai entry point, the toll accounts that came because state government changed the rules, etc. So all put together, it came to 2.46%. If you exclude these 2 events, the MFI and this one, it was about 1.85%.

Sudhanshu Jain: 1.76%.

V. Vaidyanathan: 1.76% this year. So next year, you should expect us to be somewhere in the zone of about 1.85%, 1.90%. Sudhanshu?

Sudhanshu Jain: Yes. So on an overall basis, you can expect about a 50 bps reduction in credit cost for next year.

Sudhanshu Jain: Over 2.46% which we have come in for this year.

Zhixuan Gao: Got it, sir. Sorry, if you just let me squeeze in one last question on margin. So how should we expect margin to behave from here? So when also given your SA rate cut plan or TD rate cut plan, should we expect margin to at least stabilize from here? Or how should we think about that?

V. Vaidyanathan: The way we think about it this year, already 2 repo cuts have come. We expect at least 2 more repo cuts to come, of say, 25 bps each. So all put together, there is a certain reduction in the yield on the book, at least on the floating rate side. But on the other hand, there is going to be reduction in our own cost because they're cutting TD rates and also going to cut SA rates to an extent. So all put together. So net-net, blend, we are expecting the NIM to come down by about 10 basis points, all things playing with each other. Over the NIM of Q4 of FY25.

Moderator: We'll take the next question from the line of Kunal Shah from Citigroup.

Kunal Shah: So firstly, I think on the growth side, you said like the overall capital raise would be more towards the growth. So if you can suggest maybe with CD ratio of 94%, LCR at 107% and even like PSL requirements to be met. Now maybe how are we looking at the overall growth? Would we see some lag up on the growth side? Or can it still continue to be in this high teens to 20-odd percent kind of a range?

Sudhanshu Jain: So Kunal, thanks for the question. So as we have guided earlier, we would want to grow in the 20% zone. It could be 1% here and there, but largely in that range going forward as well.

Kunal Shah: So not changing much post the capital raise. I think still in terms of the growth, I think earlier also, we have been getting 20-odd percent. We still continue to maintain that trajectory, yes.

V. Vaidyanathan: Yes, that's right. That's right.

Kunal Shah: Okay. Okay. And secondly, anything to read into some rise in the 30-plus in consumer durables and the SMA pool and even some rise in 30-plus in business loans. So generally, like Q4 is relatively stronger with respect to collections, but sequentially, there is some rise out there. So anything to call out for if it's not too much of a worry. And if you can also highlight the provisioning coverage on the MFI portfolio, both GNPAs and SMA put together?

Sudhanshu Jain: Yes. So that's a marginal increase, Kunal. If you see, in fact, four quarter back number, it was 1.18% for consumer loans, and that is still now at 1.07% right? So I would suggest not to read too much into it. It's a marginal increase. Of course, Q3 was a festive period also. So some bit of impact has come because of that.

V. Vaidyanathan: But overall, if you see consumer loans four quarter trend, it's down from 1.18% to 1.07%. MSME was 1.19%, even after 4 quarters, it is 1.07%. I'm talking of SMA 1 and SMA 2. Vehicles was 1.05%, even after 4 quarters, it's still 0.94%. Credit cards was 1.88%, it's come down to 1.53% and the mortgages was 0.39% it's gone up to 0.45%.

That's really like fractional. So if you see every product category, we, of course, as you know, disclose SMA 1, SMA 2 by product category, by tenure, by vintage. And you can see they're all behaving stable. The only problem where we had was MFI moved from 1.71% to 5.10%. That's the only one to call out, but that's been called out before.

Kunal Shah: And coverage on MFI, yes.

Sudhanshu Jain: Yes. So coverage on MFI. So during the quarter, we have not released any provision out of that Rs. 315 crores so SMA 1, SMA 2 put together and NPA, we would have a cover of about 72%.

Kunal Shah: Okay. And one on the GNPAs are they 100% provided the way most of the other banks have done on the MFI portfolio? Have we also provided 100-odd percent on MFI GNPA or is it still lower, yes?

Sudhanshu Jain: We have put out the numbers there on the stock what we are holding, so we have not provided 100%, but we are applying consistent provisioning policy over the quarters. As you know, we also have a relatively higher share of CGFMU coverage on the book. So we feel that we are holding adequate provision on that book.

Kunal Shah: Okay. Okay. And one last question on LCR, this new guideline, how much do we see the impact for us maybe compared to our average LCR today at 107%?

Sudhanshu Jain: The LCR actually is 117% for the current quarter, and this was 114% in the previous quarter. So as we have guided earlier, our endeavor would be to maintain LCR around this range, about 115% and so on. As Vaidya mentioned earlier, we also have a relatively higher share of retail deposits, right, in the LCR, in the overall deposit composition, right?

Some runoff there, the runoff factor has gone up, right, by 2.5%. At the same time, we have got some benefit on account of the decrease in runoff on trust and so on. Cumulatively, however, we are seeing a small impact of maybe about 1% to 2%, but that's not material in the overall scheme of things.

Kunal Shah: Adverse impact of 1% to 2%.

Sudhanshu Jain: Yes, yes, largely coming because, as I said, because we have higher...

Kunal Shah: Yes, yes, higher retail linked TD, yes. Okay, got it. Yes, okay.

V. Vaidyanathan: Thanks so much. And Kunal, one comment on the microfinance book. We said many things, so I want to call out one particular one. Now in the microfinance, in SMA 0 book, in March '24, it was Rs. 133 crores. In June '24, it became Rs. 181 crores. In September, it rose further to Rs. 267 crores. In December, it rose further to Rs. 275 crores. So you can clearly see SMA 0 was going up.

But in March '25, it has come down from Rs. 275 crores to Rs. 152 crores, this is a very big development. It just shows that this curve, what we talked about that the microfinance is peaking out in this quarter and coming down. So at least this is corroborated by this very useful information that the SMA 0 has come down from Rs. 275 crores to Rs. 152 crores.

And now hopefully, we will see the back of it over the next 3, 4 quarters, as we said. Similarly, if you look at SMA 1 and 2, it was Rs. 169 crores in March '24, it had risen all the way to Rs. 501 crores. But now this quarter it has come down to Rs. 488 crores.

So the point is that we are clearly seeing that the SMA 0, 1, 2 of the MFI book is coming down in absolute terms, and this should naturally translate into lower credit costs in subsequent quarters. So that's what it is. So over to you Kunal, back to anybody else.

Moderator: The participant has left the queue. We will move on to our next question, which is from the line of Nitin Aggarwal from Motilal Oswal.

Nitin Aggarwal: A few questions. One is on the credit card wherein we have achieved breakeven. If you can provide some color as to how is the revolve rate there and what ROA numbers are we looking at now over the next, say, 2 years?

V. Vaidyanathan: Well, you're looking at a very forward-looking question there. But we think if you ask us 2 years, let us say that even on a PAT basis post credit cost, you will see this solidly into profits. Today, the bank has achieved in 4 years, it has reached operational breakeven. And I don't know whether you know whether you are aware of how quickly cards business breakeven.

But if you speak to experts in the industry, they'll tell you it takes quite a while, at least for a fast-growing book it takes maybe 6, 7 years or so, but I'm very happy to share with you that within 4 years, our bank has achieved operational breakeven. This was made possible because the bank went digital. We did not have DSAs, and we had a very unique and fresh approach towards launching credit card business where we made the product so good that customers came in rather than we having to chase them through DSAs.

So that proved to be a big success for us. So therefore, average book for FY 25 has now touched Rs. 6,000 crores, and we have reached operating breakeven. Now 2 years, to your question, even after lowering credit cost, this will be profitable. And we think by FY28, FY29, this should be really, like if I use the word loosely, should be spinning cash.

Nitin Aggarwal: And sir, what is the...

Sudhanshu Jain: Sorry, Nitin, just to add, even on the credit cost front, in line with our earlier comments in previous calls, we have seen a reduction even this quarter. And for the full year, credit cost on credit card is lower than previous year and we expect it to further come down into the next year.

Nitin Aggarwal: And how much that number is now for FY 25?

Sudhanshu Jain: So we are not calling out that number, but we had done timely policy interventions. And some of those is reflected in the SMA numbers and the NPA numbers which we have been giving out a slightly longer-term trend. I would say that it is broadly performing on our expected lines.

V. Vaidyanathan: Basically, it's performing expected lines. And when we call out see, once we start going on every individual product credit cost and you have to then sigma it for the whole book. That's why we put it all together and call it 1.76% ex of MFI. Suffice to say that we are on record in telling you that, that is perfectly playing on plan. It is net of credit cost, think of it like FY27, it should be like in the money and a launch year of FY22. So you'd imagine that 5 years, including credit cost, this product is making money.

And the way this game works because we've done this business many times before in our lives, at least I have, once you go through the difficult phase of setting up incurring the reward points and credit costs and the technology and the scheme connections and the scale and the collections and the whole architecture, once you go through it, it's already gone through the last 5 years. Once it starts making money, then unless we get it wrong on any new fronts, which we can't think of today, this will be making like steady profits from next year onwards or maybe actually next to next year.

Sudhanshu Jain: Yes.

Nitin Aggarwal: Right. Got it. And second question is on the retail liabilities cost ratios there. So if I look at Slide 66, there is a sharp decline in the operating profit as a percentage of average liabilities there. So...

V. Vaidyanathan: You mean the loss is reducing.

Nitin Aggarwal: Yes, yes. The operating loss is reducing, yes. So while, of course, the cost ratios are getting better, but what explains this sharp reduction in loss between FY24 to FY25 because otherwise, the prior years, if I look last 2, 3 years, they were more or less in a very narrow range. But this year, it has come down drastically.

And when I look at this sharp fall, the guidance on your cost ratios around the liability side doesn't really reflect that optimism because FY25 to FY27, we are just projecting a 30% decline from 170% to 140%. But this year, we have already covered such a big distance. So where is the disconnect that I'm missing?

V. Vaidyanathan: Sometimes it can happen in one particular year that we got a solid improvement this year. But we don't promise this kind of massive improvement every year. But the thing is that if you see that from FY20 to FY21, it dipped massively to 3%. Then for a couple of years, it is stagnant. It has improved this year. But think of it that the way we have planned the book out, and it is a well-planned one. We feel that this 4.2% has come down to 1.2% over the 5 years and in the next 5 years, it should become 0. And hopefully a little better, but at least that's what we'd like to share.

Nitin Aggarwal: Right, right. And...

V. Vaidyanathan: So one good thing, by the way, Nitin noted that whenever we say that liabilities mix loses money, it is very easy to compute how much you're losing also. All you have to do is multiply the 1.2% by the average retail liabilities for that, and you know it's about Rs. 2,000 crores. So the good news is that even though the book is growing by maybe like 25% per year, and which means that the incremental business on this front is really very profitable.

Otherwise, you could not see such a sharp dip. So we are quite confident. The direction is good. The direction is definitely heading towards breakeven. And frankly, if 10 years from launch, liabilities is going to become profitable, just think about it, other banks have been around for 30-odd years.

When we will go past the 10 years, this liabilities will be throwing back cash, which will help us reduce the cost of funds on the lending side. And when we do that, then we'll start maybe getting to even higher income, lower yield customers. So the whole model will get more and more similar to other mainstream banks in that sense.

Nitin Aggarwal: Right, right. Understand. And a last question on the overall cost-income ratio at the overall bank level, wherein you talked about that the cost growth is now has moderated versus the revenue growth. So when you guide for a 65% cost income by FY27, what kind of absolute cost growth are you looking at over the next 2 years? And which segments, based on the pie chart that you have given in the PPT, which segments will drive that decline?

V. Vaidyanathan: Well, you should expect from us about 12%, 13% opex growth.

Nitin Aggarwal: Okay.

V. Vaidyanathan: Yes, that's the main thing, actually. While we want to grow the book by maybe 20-odd percent, give or take here there. So this is a very material 2, 3 years coming in front of us.

Nitin Aggarwal: And within the segments, if I just look at the slide, the Slide 63, which segments is something that you are more hopeful on this decline?

V. Vaidyanathan: It's, frankly, every business has to start delivering more and more operating leverage, but more operating leverage will obviously come in credit cards and in retail liabilities. Because let's see the cost-income ratios. The asset cost-income ratio is already running 56%, which is pretty good actually. I mean, if for a bank that puts out SLR/CRR, etc., on the core of it to have 56% is good.

And it will have its own operating leverage because book will grow and we'll get some operating leverage on its way. Maybe 56% will come down to be around 50% or so by that time. But to your question about where we will see the improvement, it is credit cards. So credit cards has come down from 165% in FY23 to 116% in FY24 to 100% in FY25. It should dip steeply from here next 2 years to come down to about 75-odd percent. And liabilities should dip from 171% to 140%. Hopefully, I mean, these are estimates we put together about 9 months ago. We'll keep monitoring these numbers.

Moderator: We'll take the next question from the line of Anand Swaminathan from Bank of America.

Anand Swaminathan: So Vaidya, I had a couple of questions. First, on the capital side, can you just give us some color on what was the thought process behind using the CCPS route? But more importantly, are there any other riders or structured securities attached to this that investors should be aware of? That's my first question.

V. Vaidyanathan: Yes. Let me talk about the terms. CCPS was a choice made among the few other choices available. It probably made the investors more comfortable to come through this route because the conversion was linked to the stock price prevailing in the exchange. Meaning that the way the contract is done is that after we allot them, first, you got to wait for regulatory approvals right now and shareholder approvals before they subscribe to it.

So that's when the money will come in and the subscription will happen. The terms of the contract are that if the stock stays above Rs. 60 for a period of 45 trading days, then it automatically stands converted. So to make it clear, therefore, we don't have to really exactly wait for 18 months and all that stuff.

If all goes well, within 45 days of allotment, it might just stand converted. And in the interim, they will get an 8% return. This is what we could negotiate or what we could get best because we are in the process of raising capital. I earlier described to you why I needed that large amount of money and why we're going for big stakes, as I had explained earlier.

But for raising that money, these are the terms we could get. And we thought these were really good terms because it makes the bank bulletproof. And there's so many issues going around the world off late right now, there is an issue of India, Pakistan, all that. So it has made us totally at peace in this environment.

Anand Swaminathan: Sure, no, that makes a lot of sense. And about some lock-in periods and other options or securities just so that we are clear on anything else around this structure.

V. Vaidyanathan: There is no other, there are no other significant riders to call out. It is 8% and stock stays VWAP of Rs. 60 for a period of 45 days, it converts. That's all there is to it mainly.

Anand Swaminathan: Okay. That's very clear. And Vaidya, why not kind of increase the growth target? And why this 20% target, there's a lot of runway, still your scale is too small. Can you explain that also, please?

V. Vaidyanathan: You could, but it all comes with its own, we just find 20% is a nice stable number to go with, feels comfortable. Our engine can easily and comfortably deliver it. We don't have to strain any credit norms. We don't have to be aggressive at all. We don't have to relax any credit criteria. We don't have to play any fall shorts. We don't have to launch any major new businesses.

It's comfortable. And of course, when we put out the number of 20% initially, we were always conscious of capital. Of course, now we are more comfortable. But we were always conscious of capital. That's when we talked 20%. But 20% is a nice number.

If you can stay on the pitch and deliver consistently without any credit cost problem. And fortunately, I hope all of you will agree, including microfinance, including the toll, all put together in the most, let me say, difficult of years, it is still only 2.46%. So I mean, only doesn't mean it's very low. I'm just saying it's a good number in the context. So the point I'm going to say is that if you want to come down, if you want to keep tight credit cost control, then without playing a fall short, probably is a good percentage to go with.

Anand Swaminathan: Sure. And on the second question around deposit competition. I just wanted to get your thoughts around like what is happening there? Because even 2, 3 months back, the assumption was that it's a very, very tight market, very difficult to get share. But suddenly, we see all banks kind of racing against each other to cut SA rates, TD rates, a lot of things are happening.

One side, it could mean that the loan growth outlook is coming down or it's just that people have figured out the elasticity on the customer side is not that much. Just wanted to kind of understand what you're thinking on this front. And especially, at this pace, will it continue for, let's say, there is another 50 to 70 bps cut. What kind of deposit rate beta we should assume going forward?

V. Vaidyanathan: See, the way we are playing this, we are playing this simply to our need. We are really not so first and are not exactly keeping a very close eye who's cutting how much, etc. We of course, keep an eye because of the same market. But we are more particular about what we need. We are clear we want to grow this because if you want to grow loan book by 20%, loan deposit will grow by 20% for sure, minimum.

Then if you want to fix a little bit of credit deposit ratio, we need to do grow a little more than 20%. Then we've got to pay back some bonds. We still have Rs. 5,000 crores of old bonds, high-cost bonds. And then we have about Rs. 25,000 crores of bonds we raised after the merger. This has nothing to do with legacy, our own borrowing. They're not high cost, but still they got to be paid.

So we are focused about what amount of funds we need to pay the bonds and to grow the book. And we price ourselves keeping that picture in mind. And that's one thing. And second thing is that we believe that the capabilities we're building, it's not only rates.

Of course, people talk about rates all the time. But one thing IDFC has built really good, which is I think among the harder things to build. Rates is an easy stroke of a pen. But the harder thing to build is building customer experiences. You trust me on one thing, you can go and check any branch, talk to people, talk to customers.

The experience layer that bank has built for customers, the culture they built within the bank, the technology layer that we build so that the experience layer at the call center, our app, our branches, our VRM, that one to build, the UI/UX, the design, the aesthetics of it, all this and the culture of being soft with customers, it's very hard to build such things.

Our bank has built that. So I'm just connecting back to this earlier conversation we were doing, it's very, very hard to build that. So our bank has achieved major success on those fronts. And rates is one component. We'll use them as a judicious mix of the 2 to just take what we really need.

Anand Swaminathan: Sure. That's exactly what I want to understand. So based on your modeling and experience with your customers, you're comfortable of defending the CASA ratio. You don't expect these rate cuts to impact the CASA ratios?

V. Vaidyanathan: Yes, we think we'll maintain it. That's why we are not exactly going and cutting SA rates immediately. We are cutting FD rates because end of the day, money is money, whether we cut FD rates and get the P&L or we cut SA rates and get P&L. We are choosing to cut FD rates and get the P&L. And SA also we will touch, but we'll do it, like I said, like earlier told you what are the actions we'll take on SA.

For example, on savings account, it's true. We have earlier commented on elasticity, I didn't answer that, but I will say it now. For example, zero to Rs. 5 lakhs, we cut it straight to 3%. I don't think people expect us to go that far by cutting up 7% to 3%. We did it in 1 shot. So we did that. So we do keep an eye on elasticity, and we keep an eye on service.

Anand Swaminathan: Sure. That's very clear. And lastly, on LDRs from the current 93%, where do you expect to settle down? And what do you think is your steady state?

V. Vaidyanathan: Yes, we should come down to the, our ratio is late 80s.

Anand Swaminathan: Okay. So 20% loan growth then 22% deposit growth, that should be the next 2, 3 years generally in that way.

V. Vaidyanathan: If you notice how the bank's funding has been done, borrowings, let's take only borrowings, okay? Borrowings as a percentage of total liabilities was about 48% at the time of merger. Today, it has come down to only 11%, means we are repaying all the borrowings and running the bank on deposits. So it's now come down to 11%. Now 11% is good, it's meeting the bench of many other banks now, many good large banks also.

But we know of one large bank, to the best of my knowledge, so it's on record, so I should be careful. But we think ICICI Bank is something like about 6.5% or so. So which means the borrowings is even lesser than us? Our ambition is to go there. So we keep an eye on these things at this point of time.

So when we will raise more deposits, we'll keep retiring borrowings to become a more deposit-funded bank, we don't want to be a bank that's borrowing money. We want to be the bank that funds loans by deposits, not by borrowings.

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Most of my questions are answered. I just have a couple of small ones. Firstly, in MFI, what was the write-off we did this quarter versus last quarter?

Sudhanshu Jain: So Piran, I'll take that question. So if you see, we have not specifically called out that number, but if you see slippages, right, MFI is about 25%, 26% of the total slippages for the quarter. And on the write-off also, it's broadly around that range.

V. Vaidyanathan: No, but Sudhanshu you can give a straight answer. The credit cost of the full year for microfinance is about 10.5%.

Sudhanshu Jain: Yes. Yes, that's the most straight answer to you.

Piran Engineer: Okay. Okay. Fair enough. And secondly, our CASA ratio of 46%, 47%, what's the mix of CA and SA?

Sudhanshu Jain: Sorry, repeat the question the CASA mix of?

Piran Engineer: So no, no, the mix of CASA, like how much is current account in that 46%? And how much is savings account deposits.

Sudhanshu Jain: In the average CASA ratio?

Piran Engineer: I'm happy with average or year-end?

Sudhanshu Jain: So CA as a proportion of customer deposits would be about 7% to 8%.

Piran Engineer: Okay. And almost 40%, SA?

Sudhanshu Jain: Yes, that is correct.

V. Vaidyanathan: But we're building a CA franchise, no doubt about it. We're building it. It's coming well. But the thing is that our SA is growing so fast, CA is finding a tough time catching up with it.

Piran Engineer: And what would be the, let's say, road map out here to get it to say, your larger banks average of 12%, 13%, 14%?

V. Vaidyanathan: See thing is that our SA is growing so fast that really CA is also a difficult franchise to build because as you know, the whole ecosystem, you've got to tie up the whole flow of cash and all that. But in absolute terms, our CA itself is growing by about, CA grew by what percentage Sudhanshu?

Sudhanshu Jain: CA has grown at about 15-odd percent, 15% to 20%. I'll just give the exact number.

V. Vaidyanathan: As we speak, we'll try to retrieve the number for you. But the short answer is that we also are building a very good CA franchise. We've developed a really good CA franchise, it may not have caught your attention. We keep talking of loans and all that. So it may not have caught your attention. But in the current cash management business, we built a really good franchise.

We have current account deposits of something like about Rs. 4,500 crores that we built. We are really tech ahead on that. Any clients who are using our cash management services are now beginning to talk about it. And so that is a very good way of building our current account franchise. So we're building that.

Piran Engineer: Got it. Got it. Okay. That's it from my end. And just one humble request would be if we could move our results from Saturdays to a weekday. Just I mean, most of the none of the large global banks anyway keep results on weekends and on weekdays you'll also get a lot of foreign investors dialing in.

V. Vaidyanathan: So how does it help actually? Just help us understand 10 seconds only. How does it help if we move it to a working day?

Piran Engineer: No. I mean, firstly, most people are sell-side analysts, buy-side analysts, etc, aren't working on weekends. The second thing is that I'm pretty sure most of the foreign clients based out of London, U.S., etc, would not be dialing in and would rely on a third- party service like a sell-side note rather than a live like dialing in live, right? So I think as an investor I mean...

V. Vaidyanathan: Okay, we'll try next time onwards. Maybe we can, I'll talk to Sudhanshu, maybe we'll try for Fridays or something.

Piran Engineer: That would be really helpful. Yes, please.

V. Vaidyanathan: Yes, we'll try for Fridays because we'd like to have a non-trading day so that we can be more confident about our data and all that stuff. But we'll try for Fridays. Thanks for the thought.

Piran Engineer: Yes, that's true. That's true. But I mean, if you can, that will be great. I'm sure you'll find a way to protect the data.

V. Vaidyanathan: No, it's a good input. No, thanks, we really thank you for that.

Sudhanshu Jain: And Piran, just the data point that you had asked so CA has grown by about 21%, 22% on a Y-o-Y basis. And as Vaidya said, of course, our endeavor would be to take up this growth or increase the CA proportion in the total mix.

Piran Engineer: Okay. And the ballpark time frame for this would be like say 7%, 8% to what, 10% in 2, 3 years?

V. Vaidyanathan: We haven't really thought that, I mean, since we think about CA all the time but we haven't put a number to it, but maybe we'll have a better thought, we'll give you a more thought through answer next time.

Piran Engineer: Okay. Sure, sir. That helps. That's it from my end. Wish you all the best.

Moderator: We'll take the next question from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: Congratulations on your capital raise. I had a few questions. Firstly, what would be the maturity of our average duration of your term deposits? It's 13% to 15% for most. So what would it be for you?

Sudhanshu Jain: Yes, it would be a similar range for us, Mahrukh.

Mahrukh Adajania: So it will be 13% to 15%. Okay. Okay. And then would you be able to share any proportion between your low-value and high-value savings, so say like below Rs. 10 lakhs, what would be the savings and then above how much, roughly any proportion?

V. Vaidyanathan: Maybe we'll keep some numbers out shared for you something next time. We're not prepared for the question or data for that question.

Mahrukh Adajania: Okay. Perfect. Also just on MFI, how has the April collection efficiency turned out?

Sudhanshu Jain: I think March, as we have reported, we have seen much improved numbers and that typically continues in April.

Mahrukh Adajania: Okay. So April also remains good.

Sudhanshu Jain: Yes.

V. Vaidyanathan: We can share the numbers also, just give me a second.

Sudhanshu Jain: Yes. So maybe I'll talk it out, so collection efficiency, as you would have noted that it was 99.2% for March month and ex Karnataka is at 99.4%, and we have seen a good rebounds in, I would say, a month or so, and the same trajectory is broadly holding up in April.

V. Vaidyanathan: So at 99.4% it takes us back to how, what it was in Q4 of FY24. So let me say, it's normalizing, it's getting closer. But after the scare it has given us, we never want to call the end of the program till it's behind. But I read out the SMA numbers to you earlier. SMA 0 number, I read SMA 1 and 2 numbers to you, that in absolute terms, it is dipping.

Mahrukh Adajania: Got it. And then I have a broad question on opex. Of course, you gave many details on this and the last few calls. But opex now will be a key lever of ROA. So going ahead, so credit card will be the key driver, right? It's not as if you would be cutting commissions or cutting other opex in other loan segments, right? Because then that will be very volatile, right? You may have to increase it if competition rises in our loan product. So it will largely hinge on credit card, correct? Is that the correct takeaway?

V. Vaidyanathan: No, no. Credit cards is one of the business lines. The way we are, if your question is how are we going to cut this kind of cost? Is that your question? Because we are talking of...

Mahrukh Adajania: Yes, we're seeing about a 12% to 13% growth in opex over the next 2 years, Y-o-Y. So the problem is that you may be able to control it in the short term, right? But if competition rises and you may have to incur more opex because of the segments you operate in? So how sustainable is this? And how confident are you that this is going to be achieved? Of course, you've shown a good reduction in opex growth over the last 2 quarters, no doubt. But going ahead, how confident are you of 12%, 13%?

V. Vaidyanathan: See, the best proof is the proof of delivery. So 4 quarters ago, 5 quarters ago, we told you in one of these calls, you meaning not to your question, but one of the analysts, we had mentioned clearly that we will bring down costs because people were worried that our cost was growing at 27%, 28%. So that was a phase that was the bank was going and all that. So the best proof of delivery we brought down, I read all the numbers to you that how it'd come down from 20% to the 12% now.

Now next year, again, 12%, 13%, we talked about it. We really are serious about it. We are working on it. And if your question is that how will you deliver these kind of low opex growth and still grow the book, if that's your question, let me just say how we're going about it. So there are 2 ways we are going about it, Mahrukh. One is that there is a set of operational cost cuts that is going on.

Operational cost cut is something that Sudhanshu drives personally, meaning under his leadership, he has a dedicated team, which is meant for cutting costs. And they look at item after item in the organization, vision of what is the size of the SMS that's going out, can we reduce it to 2 SMSs in 1, people can plan travel early, plan 4 days at an advance rather than booking on the fly.

Those kind of things. There are a long list of opex for the bank. They keep cutting one by one by one and they keep get some realization of benefits. We do get some Rs. 150 crores of cost cuts through that process every year. The second way how we do this is by transformational projects at the bank. So, I'll give you an example of that, if that helps you, then the 2 of them put together make the full story.

So for the example, second one is supposing we are getting calls in the call center. So we were getting 11 lakh calls. Now when we said that, listen, the customer base is growing on by 20%, now 11 lakhs calls will become 13 lakh, become 15 lakh, become 18 lakh, the bank will become forever keep expanding. So we ran some transformation projects saying that looking at every reason why customers are calling us, then messaging them that information upfront so that you don't call us or figuring out some cultural, etc.

So that we brought down calls from 11 lakh calls to 8 lakh calls and customer base went up by 20%, so when you cut costs at 3 lakh calls a month, straight away that number of lesser employees, less number of space, less number of premises. These are transformations.

Similarly, if you centralize an entire activity, if you introduce robotic process automation, if you introduce bots that speaks with customers rather than human beings calling customers, call centers calling, collection agents calling customers. So, in many cases, bots are calling customers and collecting money by just sending a UPI link.

So these are transformational projects. So we do both of these to cut cost. But they're not doing something that is cutting the muscle of the bank and we're going to suffer in the long run. We don't do those kind of things. We're building a bank for the long run. We never do things which are unhealthy for the bank.

Mahrukh Adajania: Got it. And I have just 2 data keeping questions. In case you can share the full year MFI slippage, that would be great.

Sudhanshu Jain: The full year MFI, Mahrukh, sorry, the MFI?

Mahrukh Adajania: Slippage, slippage sorry.

V. Vaidyanathan: Kind of Sudhanshu can.

Sudhanshu Jain: Mahrukh, we will give you that number offline.

Mahrukh Adajania: Okay.

V. Vaidyanathan: But we told, we called it the credit cost, end of the day just think of securities...

Mahrukh Adajania: Yes, 10.5%, yes.

V. Vaidyanathan: Yes, we'd called that to you. So that's the most straight forward number we can call out to you. And we think next year it will come down. I mean not think, it will reasonably certainly come down.

Moderator: Ladies and gentlemen, we'll take this as our last question for today, which is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: I have a few questions, sir. First is on the MFI proportion, where do you think it should settle? I mean, of course, it has been reducing. But at the same time, we have also increased the proportion of CGFMU. Where do you think it should be settling as a percentage of overall loans?

Sudhanshu Jain: So we expect it to further come down because overall loan growth, we are talking of 20%. And given that the industry is still going through, I would say, some things are still settling down we feel that the MFI proportion may come down to about 3% to 3.5% into the next year. We are very cautiously monitoring this portfolio.

Jai Mundhra: Sure. And Sudhanshu, if you would have the proportion of fixed rate book and floating rate loan book, just a ballpark number will also do?

Sudhanshu Jain: Yes. So we have about 61% of the book which is fixed rate, and which means 39% is floating. And within that 39%, about 30% is linked to repo and rest is linked to MCLR, T bills and so on.

Jai Mundhra: Sure. And sir, in your opening, I mean, in one of the questions you answered that consumer loan, the uptick in 30 DPD plus is marginal is only 8 basis points. And anyway, the broader trend is improving. But if you combine this with the loan growth in this segment, the loan growth has been moderating.

The Q-o-Q growth has come down even sharper. Is there anything to read? I mean, you have tightened the underwriting here, that is why the growth is low and the uptick is more visible? Or even it is also, I mean, how to think on this?

V. Vaidyanathan: It's marginal. I mean if you see the trend line, some 4, 5 basis points, every quarter will go up and down, but they're all marginal things. The important thing is to see the trend, every product, if you take mortgage, like about 40, 45 basis points is the SMA 1 and 2.

Every other product, vehicles, MSME, consumer, credit cards, okay, let me take credit card separately. There is vehicles, MSME, consumer, they are all like 1%, stable quarter after quarter after quarter. So we're feeling comfortable about all these things.

Jai Mundhra: Okay, right...

V. Vaidyanathan: We should watch out more and more carefully for the environment, what happened to Karnataka, whether it should happen to any of the state, what is an impact of that on the book? How should our strategy be with regard to lending to the state at all if it becomes more difficult to lend to those markets.

So these are things we have to constantly watch out for, and we'll play as it comes. But excluding MFI, other businesses of the bank are all doing very well. I mean, they were always well, to be honest. Like we said 14, 15 years, it never bothered us. It's still not bothering us.

Jai Mundhra: Right. And sir, the fee growth, if I look at fee growth..

Moderator: Mr. Mundhra, I'm sorry, sir, your voice broke, can you please repeat your question or maybe use your handset?

Jai Mundhra: So, sir in the presentation the fee and other income ex mfi has grown by 6.2% and including mfi the combined fee is also touching that line. But within that, the core fee growth seems to be lagging in single digit. I mean any reason we this 14.5% this trajectory is feasible and there's no change in that?

Sudhanshu Jain: Sorry, we couldn't hear you that clearly. Yes, but if you see fee to total assets for the full year, that's at 2.09%, right? So it's quite healthy in that sense. Our quarter-on-quarter movement could be a function of the disbursements in a particular quarter and so on. But we feel that we should be able to grow fees at around 14% to 15% even into the next year.

Jai Mundhra: Sure. And lastly, just an observation, sir. I mean I maybe, I tried to calculate the runoff rate for the nonoperational deposits for the bank. It is straight 40% for the last multiple quarters, I mean it looks, would you gain anything on it based on these revised guidelines, only because of there is a change in the nonoperational deposit runoff, I mean cool off or that benefit is not there in the sense because the already runoff rate seems like 40% only?

Sudhanshu Jain: No, no, as I said, we have a small benefit, which is coming off, like, for example, on trusts and so on because runoff has been reduced from 100% to 40%. But on the contrast, we also had an impact because of the runoff increasing on retail deposits where we have a higher proportion. There is some impact coming on because of valuation of, I would say, government securities and so on.

Combination of all of this, we would have a small impact about 1% to 2% in the LCR ratio, but in value terms, it's quite manageable.

Jai Mundhra: Sure. And last question, sir. You had mentioned about 15% ROE as maybe first milestone. Would you have any time line for maybe 1% ROA for that?

V. Vaidyanathan: Well, we should be very careful with this. But yes, at least we're trying to end of this year, right, Sudhanshu?

Sudhanshu Jain: Yes, it's about to get there.

V. Vaidyanathan: Yes, trying to get there by the end of this year, fourth quarter. But I use the word try to because it looks like we'll get there, but we'll always watch out carefully. But it looks like, it looks like that's what we're shooting for. So can we conclude friends? It's been a while. So moderator, can I close the conversation?

Moderator: Sure, sir. Thank you very much. Ladies and gentlemen...

V. Vaidyanathan: Wait. Let me just give a closing comment. So thanks very much, everybody, for being with us on the Saturday evening. I have to just say that I'll conclude by saying that we are truly building a long-term institution.

The reason I say that is that we do request you to look through 1 or 2 quarters of this microfinance issue more because, of course, credit costs have come down quarter-on-quarter, but still the PAT impact, we do not expect a Y-o-Y growth on PAT at least not in Q1. And then for Q2 onwards, hopefully, we should start delivering Y-o-Y growth meaningfully.

Secondly, I want to say that to look through 1 or 2 quarters, this is what exactly what we requested even the investors who were incoming we told them that look through 1 or 2 quarters, we're building a long-term bank. And that's one. Two is that in building the long-term bank, while all of us are focused on ROA, ROE, which we are, but our true, big focus is building a quality franchise, customer experience, customer friendliness, culture, brand, technology system.

Those things are under the radar, you can't see them, but they are actually contributing to building a long-term franchise. So that's the way we think about it. We request you to just stay with us while we build this out. Surely, it is coming out. It's coming about and coming up and coming about. Yes. Thanks very much. Good night, everybody.

Sudhanshu Jain: Thank you, everyone.

Moderator: Thank you very much, sir. Thank you. Ladies and gentlemen, on behalf of IDFC FIRST Bank, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.