"IDFC FIRST Bank Limited

Q1 FY'25 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to the IDFC FIRST Bank Q1 FY'25 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Chintan Shah: Yes. Thank you, Sejal. Good evening, everyone, and welcome to the Q1 FY25 Earnings Conference Call for IDFC FIRST Bank. We have with us from the senior management, Mr. V. Vaidyanathan, Managing Director and CEO, along with the senior management team.

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

V. Vaidyanathan: Hello, everyone. Good evening. This is Vaidyanathan here.

Sudhanshu Jain: Good evening, everyone. This is Sudhanshu Jain. I'm the CFO.

Saptarshi Bapari: Hi. This is Saptarshi Bapari, Head of IR.

V. Vaidyanathan: So there's Saptarshi, Sudhanshu, and myself. First of all, thank you very much for joining us on a Saturday evening. We put out our results maybe a couple of hours ago. We hope you've had the opportunity of going through the presentation. We'd like to definitely talk about all the key items of this quarter. And certainly, later in the conversation, we'll come to cost-to-income ratio, we'll talk about credit cost, which has gone up in the quarter, and I'm conscious of that, we'll go through that. But just simply the sequence of this presentation, which we put out for you to review, let's just go through the numbers which we think are important, and then we'll definitely come to the point which are more critical items.

Now the way we look at it is that for any bank, and certainly for our Bank, raising deposits is the key, key capability that we need to have, because this is just the raw material and I'm very happy to say that our deposits momentum continues through this quarter and just to run you across some numbers, now our deposit numbers are now touching about Rs. 2 lakh crores, which we think is pretty much a landmark number for us, because we started with a pretty low base and even last year itself, our deposits Y-o-Y have grown at 38%.

Then when we look to the retail deposits, that's also coming very strong for us. Our retail deposits have grown from March '23 pardon me, from June '23 to June '24 have grown by 44%. And in fact, we got rather emboldened by this kind of deposit inflow that is coming to our Bank, and that we actually reduced the interest rate just now on our retail deposits, on the savings front, we reduced it to straight 3% for up to Rs. 5 lakh. We just did this about maybe 8 or 10 days ago, and the benefit of which I guess we'll begin to see a little more in the coming quarters. And the deposits still coming for maybe multiple reasons, which we will talk about that. We think one of the key reasons is customer service levels and the way we build the brand and the positioning and digital capabilities. But the thing is that it is coming so strong.

The third thing is CASA. As you know, CASA is a hot pot item in this market. Our CASA Y-o-Y has grown by 36%. We are now reaching around Rs. 97,000 crores.

Fourth is that CASA ratio continues at around 46.6%. Just for context, I think last quarter it had been a little higher, maybe around 47%. So that's about that.

The fifth thing is in terms of retailization. Now 80% of our deposits are retail. It gives us a lot of peace of mind, because retail customers get used to transaction ID, password, relationship managers, branch managers, branch services, auto debit, standing instructions, mutual fund investing. So they use a number of services, so it becomes very sticky. And I think this is one of the hardest things to build in business rather than building the wholesale deposits. So that's 80%.

Now, fifth thing is that certainly, in the last five years, we've had success, as you'll agree. And we have repaid legacy borrowings and certificate of deposits of around Rs. 65,000 crores since merger. So all such monies were maturing, and I'm happy to say that our Bank has been able to raise retail deposits of this order of magnitude that we could pay off and we could settle all those dues on the respective due dates, which is obviously expected of us. But the fact that we have raised it is still a moment of happiness for our organization and our team members. And that is something, again, calls back to our ability to raise deposits.

Now the next thing is the credit deposit ratio. In the credit deposit ratio front, our incremental credit deposit ratio from June '23 to June '24, is just 72.1%, and this is one of the things that is being talked about. Our credit deposit ratio has come below 100% now. Maybe by end of the year, it will go to some 92% / 93% and next year it will go to the 80s. So this is coming really very strong for us.

Now on the lending side, I'm happy to say that our portfolio continues to be highly diversified. We have close to about 25 business lines. And we have issued the joint liability book. We called it out in the last quarter also, but now later in the conversation I'll bring out more specific numbers for you. But barring that, let me say that all the rest of the businesses are behaving well and roughly in line with what we discussed last time or last quarter.

Now, one key thing that you may have kind of in all the melee may have missed your attention, but I'd like to point it out to you, because it's a very key capability our Bank has built and all our shareholders will be happy to note is that we had closed about Rs. 3,500 crore of RIDF investments. I'm really happy to say that since we are meeting our PSL requirements now, it's wound down, it has come down to close to about Rs. 840 crores.

And more importantly, we were buying PSL certificates to meet our private sector needs for the last three or four years. I'm happy to say that last year, we turned the corner. We are developing our own private sector, in a sense we are generating our own organic PSL, which is a key capability build. And in fact, last year, we actually posted a small profit because we sold PSL certificates.

Now I'd like to quickly come to the collection percentages and how the asset quality is behaving. Now on the asset quality front, there are two things. One is the core business. In fact, in our investor presentation, we have actually given a step-by-step process about how we are underwriting loans.

The first step after giving a loan is basically what we call the first EMI returns. The first EMI returns is basically indicator of how good a loan you booked last month. Basically, if you booked say 100 loans last month, this month is the first checks going into clearing, outstanding instruction or eNACH, and we see how many of them are returning.

So on this front, earlier we were getting -- about 7% were returning, and now only 5% are returning. So that is down 30%. So that is a clear indicator that incremental booking of the Bank over the last many years is obviously better than the past. The collection percentage continues at around 99.5%.

I mean, excluding joint liability group business, we'll talk about that in a moment. So it continues at 99.5%. In April of '24, we saw collections dip to 99.3%, it came down, but it's back to 99.5% in May and June. There is an impact of the 99.3%, because to that extent slightly it affects the SMA, but these are just events that even out over time.

Now on the joint liability group, while we are saying that we are collecting 99.5%, and frankly, just for definition I want to share with you that these numbers are excluding prepayment collections and they're excluding arrears, etcetera, still coming at 99.5%. That's not the issue.

In joint liability group, we saw this number come down from 99.7%, which is the number we were used to in the past. It's compared to 99.2%. So this time, many of you would be concerned on why did we have to do so much provisions this quarter. Even sequentially it has gone up, but certainly Y-o-Y it has gone up.

So what we have done is that on Page 29 and 30, we have specifically called out two very, very important slides. We have, for the first time, publicly put out a proper vintage chart of the loan bookings that we are doing right now. So how this works is that basically, we draw the chart of the loan bookings, the vintage analysis of loans booked, let me say, pre-COVID. So we see that what is the 30 DPD, 30 days past due after, say, 6 months, 9 months, 12 months, etcetera.

Then we take the bookings done last year, and then we see, at the same vintage, for the same 6 months, we see how much is the delinquency, how much is the 30 DPD. So we have put it out. And you can see from the chart that in 6 MOB, 6 months on books, both series of transactions being after 6 months. So if you book a loan in January 2020, and then see it after 6 months, it is in June 2020. If you book a loan in, say, January of 2023 and see it after 6 months, that is on June 2023. So just like-for-like vintage.

So that number has come down. It used to be 2.39%. Now it's coming at 0.83%. If you take 12 months on book, it was 3.87%, now it is 1.75%. So this is a very important slide. If you have time, I request you, of course, peruse it. It gives you a comfort about the longer-term picture, because some of you might be concerned what will be like one year from now? How do we model 2027? And how do we get a comfort that the credit quality will hold well?

Now this chart will tell you that if this is what the delinquency is at the end of this graph, so this will give you a longer-term picture about how credit will behave. And we believe it will continue to behave well because these numbers are holding up so well.

Now I want to come to the joint liability group, which is the key subject that we want to talk about today. Now if you recall, in the last quarter, we brought out to all of you that our credit cost for the year is expected at about 1.65%. And we had kept a rain check on the JLG thing that look, we'll have to watch out for the JLG business, JLG meaning the microfinance business, and we had told you that we will come back to you and we will look to it and all that.

Now during the quarter, we have assessed it properly. We believe there is an impact of the joint liability group. Basically, we have a portfolio of joint liability largely in Tamil Nadu, and Tamil Nadu had massive floods. So that portfolio did get impacted. And that book, the delinquency on the book has gone up in the joint liability book. Normally, pre the floods, our credit loss in the JLG book used to be around 1.6%. Frankly, it was quite low as compared to the industry. Industry used to run at 2%, 2.5%; we were running 1.6%.

Now our estimate of credit cost for this year on the joint liability group, because we are 60% concentrated in Tamil Nadu, it is expected around 5% or a little short of it. So that impact of about maybe 3.2% has come on the microfinance book. But fortunately, it is only 6% of the book. And the impact of that amount is giving us about 20 basis points more. So we'd imagine that about 1.85%, including the impact of the JLG book is what we are expecting, but it will be more front loaded for Q1 and Q2 because of the reason I talked about.

So the only thing I'd like to point out, the floods really are a one-off episode. It comes, it goes, and the impact, fortunately, the JLG book is only one or two years in life. So in quarter-to-quarter, this will go away through the books. But we want to just point out to you, so that you don't feel that the whole book has a problem. It's the joint liability group and we pointed out to you. Rest is behaving at 1.65% as we guided earlier.

Now I want to further tell you that how we are going to deal with this, because, of course, one thing is to take it through the P&L this quarter, next quarter, but the issue is more about how do we deal with it in the future. What we have done is that since January of this year, we've been insuring our joint liability loans. So we pay up our premium of about 1% to CGFMU and therefore, if any such situation were to come in the future, the book would stand insured. Also, we've kind of tapered this book. The book is at about Rs. 12,700 crores, which is kind of flat over March of 2024. Now if you look at SMA and SMA-2, that's not materially moved except for the joint liability group, maybe a little bit of here and there.

Now let me just sum it up, therefore, by saying on the asset quality that we had a bit of an issue on this microfinance book, which we called out. Calling out more specifically now, but last quarter also we called out. And we will, like any other episodic event, like COVID is an episode, COVID went, but portfolios have normalized, like this too will normalize. But it has not affected the fundamentals of the business, which we'll talk in a moment in terms of cost and cost-to-income ratios.

Now I'd like to move quickly to the cost-to-income ratio at the Bank. Now on the income front, let me tell you that the income is holding up quite strong. Fee income is really very diversified, coming out quite well. Now the issue that many of you would like to know on the cost-to-income ratio is to say that how does this 72.9% cost-to-income ratio which we had last year, how does this trend for the future? Now first to tell you that the Bank has done massive digitization in all our businesses. And that is really helping us reduce cost-to-income ratio.

To give you an idea, on the deposit front, I'll tell you how it helps. For example, we are now Rs. 212 crores deposits per branch on our balances. On an incremental basis, we are getting close to about Rs. 55 crores to Rs. 60 crores per branch per year. This is obviously not fully generated by the branch. Our digital capabilities are helping us and therefore, helping us in our overall equation. So same logic goes for loans and all that. But let me come back to the cost-to-income more specifically.

So our cost-to-income ratio, the key picture we want to give is, because we had given a picture for 2029, and then we said that we expect the ROA to start becoming quite respectable, probably meeting the best of the industry or probably beating the industry norms. But we did get a sense that okay, folks, but still an interim picture of 2027 could help rather than why wait till 2029, looks like far away. So what we've done is we have tried to estimate how our cost-to-income ratio will play out for 2027. And that is what we'd like to present to you.

Now I'd like to take you through numbers so that you can understand them better. Let me take the assets business, which is both the wholesale assets and retail assets, all put together. Now there, our cost-to-income ratio in FY22 was 60%. Now last year, that is FY24, it was 53.2%. We believe this will comfortably come below 50% between 2024, '25, '26, '27, we are talking about three years. Frankly, a 1% a year is comfortably doable in this space just because of scale. So I don't expand too much on it. Maybe if you need help, Q&A on that, I will take it there. So basically on the core, core franchise of lending, we are doing pretty well. At a 50% cost-to-income ratio, life will be good.

Now let's talk about retail liabilities. On the retail liabilities, we've discussed before; branches, ATMs, all that. I don't want to expand on that. But I can say that because we're a new Bank, our cost-to-income ratio is high. It's running 193%. Now, it is 193%. It has come down from 226% in 2022. Over the next three years, something very important is going to play out in our respective lives. What's going to happen in our lives, I mean, the difference is that in the next three years, the requirement of deposits in the Bank is going to come down.

As we speak, in the last five years, we've been handling a double burden, in the sense, one, we fund our loan book growth also, plus we are also paying Rs. 50,000 crores or Rs. 60,000 crores of past liabilities, which is bonds and all that. Now in the next three years, since then bonds will be almost paid off, we need money only for growth of the Bank. So we need only one, not two. And that is a big one. And therefore, our need for branches is going to come down.

So we are going to grow branches at 10% annually, but we are expecting deposits to grow by at least 25% annually. We're currently growing 39%, so 25% should not be difficult for us. So if the branches grow 10% and deposits grow 25%, automatically, the cost-to-income ratio of branches will come down. It has to come down mathematically. So this number in FY27, we expect this to be 140%.

Now I want to move to the credit cards. In the credit card business, in the first year of operation, we were running 240%. In FY23, we came down to 164%. FY24, we came down to 116%. And this trend will continue with scale. This will happen. So by FY27, we expect this to be 75%. So retail liabilities, I have told you, dipping from 193% to 140%. Credit cards, I have told you, dipping from 116% to 75%. And assets, I have told you, dipping from about 53% to 50%.

So these 3 combined put together, we've done the math, the combined, combined, which is currently running 72.9% will come down to 65%. That would be about a 700 basis point reduction on cost-to-income. And all of you know how that math works out if we cut the cost, but at order of magnitude.

So these were the key things I wanted to share with you, so that you get a picture about how the story is headed in a more clear way, rather than our earlier conversations, where we just used to tell you that it will, cost-to-income will come down at scale. Many of you would scratch your head and say, fine, logically sounds okay, but what, how much? So today, we put the numbers for you can model it internally. So that's what we are heading towards.

So finally, of course, I believe we've built a really phenomenal technology stack in the Bank. I hope many of you are using bank app, hopefully will testify that or will agree that it's really one of the fantastic apps. Just to tell you that we have a Google Play Store rating of 4.9. Very, very, very few banks have achieved something like that. Your has app has to be really good to get 4.9 there. On App Store, we have 4.8. As per Forrester, we are among the only Indian bank to feature on the top 15 global banking apps. So these are some really good things we're doing. But end of the day, this matters, because the customer experience matters, and that's where we get to deposits and loans and all that.

But to step back for a moment, this is our strength, but you will be able to convert finally, you'll want to see it in ROA, ROE and it will need the cost-to-income ratio the way we're guiding it, which we think we will, then things will fall in place. And this joint liability group will be an episodic thing and episode will pass. So that's my quick comment to just open the discussion.

You know what, after mine, Sudhanshu had some key points to make. We will request him keep it quick, so that you have time for Q&A. Back to Sudhanshu if you can take them through your key points.

Sudhanshu Jain: Yes. Thanks, Vaidya. In fact, you have touched quite a bit of numbers. So I'll try to restrict myself to only some incremental stuff. Yes. So one, the number which I want to call out was that the CASA ratio was quite healthy. In fact, the average CASA deposits have also increased by 34% on a Y-o-Y basis. The average CASA ratio for the quarter was around 45%. So we continue to see a good traction on this front. Even on term deposits, we all know rates have a factor to play in there. Retail term deposits have grown at 54% on a Y-o-Y basis.

Our branch count now stands at 955 branches. We have added about 11 branches during the current quarter, and maybe we'll add a few more in the year to pass-by. Another good point to note is that our high-cost legacy borrowings have now come down to about Rs. 10,000 crores. About 50% of this will further run off in the balance year. And so at the end of the year, we'll be left with just sub Rs. 5,000 crores on this front, which will definitely help us to look for lower deposits and other benefits that will kick in, which Vaidya already touched upon.

The credit-to-deposit ratio is quite good for the quarter. In fact, the incremental was only 68% for the quarter if we exclude one short-term deposit outflow, which we had called out from a government account during Q4. So that is coming quite healthy.

On stock, the credit-to-deposit ratio is now down to 98.1%. In this aspect, the cost of funds, if I have to touch upon, that increased marginally by 4 basis points to 6.47%, and the deposit cost was higher by about 11 basis points to 6.38%. The increase in deposit costs was primarily due to the repricing impact on FD.

Moving quickly on to assets. You would have noted that the growth on a Y-o-Y basis was 22.0% and on a sequential basis, it was 4.2%. We have given a detailed breakup product-wise in Slide 84 of the investor presentation.

On the non-infra corporate book, that also increased by 14% on a Y-o-Y basis and the infrastructure book is now down to 1.3% of the total funded assets. By the end of the year, we expect this to come more around 1%. Talking of credit card very quickly, we have now issued more than 2.7 million cards. The book size is about Rs. 6,000 crores. And the gross spend on credit card has increased by about 49% on a Y-o-Y basis.

Very quickly, moving on to asset quality. The gross NPA stood at 1.9% at Jun-24 and net NPAs down to about 0.59%. It's broadly stable if we compare to the previous quarter. In fact, if we exclude the infrastructure book, the GNPA would be more around 1.6%, and Net NPA will be more around 0.43% at bank level.

We have increased the PCR by about 60 basis points during the current quarter, and it now stands at 69.38%. Again, here, if we exclude the infrastructure book, the PCR book stands increased to 73.5%. The GNPA in the retail, rural and MSME segment put together saw a slight increase during the current quarter, and it was at 1.46%, but the net NPA here is only at 0.46%.

Moving on, the standard restructured book. That continues to come down. That has come down from 0.31% in last quarter to now 0.26% of funded assets. It has to be noted that around 95% of the restructured book is secured in nature and we hold around 20% provision on the same. Vaidya has already talked about SMA numbers, so I'll skip that, but the increase during the quarter was largely led by JLG.

Gross slippages for the quarter were Rs. 1,657 crores and net slippages were Rs. 1,132 crores. We saw some moderation in recoveries and upgrades during the quarter, and that number stands at Rs. 526 crores in Q1 vis-à-vis Rs. 623 crores in Q4 FY '24.

Moving quickly to profitability. NII saw strong growth. It grew by 25% on a Y-o-Y basis. The net interest margin for the quarter was at 6.22%. On a sequential basis, NIM was lower by 11 basis points. But as we have mentioned in the presentation that a primary part of this reduction was because we were carrying slightly higher investment book in the form of T-bills, which had an impact of about 8 basis points. The rest of the impact was due to a slight increase in cost of funds, as I mentioned earlier.

Fee and other income for the quarter increased by 19% on a Y-o-Y basis and the growth was largely led by retail, which grew by 21% on a Y-o-Y basis. The trading gain for the quarter was around Rs. 24 crores. Operating expenses increased by 21% on a Y-o-Y basis and it was, in fact, flat on a sequential basis. As a result, the cost-to-income has come down to 70.45% for Q1 from 73.15% in the previous quarter.

Core operating profit, as a result, also increased by 30% on a Y-o-Y basis to Rs. 1,858 crores for the quarter. As you would have noted, provisions came in slightly higher at Rs. 994 crores for the quarter and was higher by 38% on a sequential basis. This was largely led because of normalization and some uptick which we saw in the JLG portfolio.

Credit cost for the quarter was at 190 basis points, but if we exclude JLG, then it is more around 170 basis points. Tax for the quarter is at Rs. 681 crores. This was lower by 11% on a Y-o-Y basis, but if you exclude trading gains from both the periods, then the decline was more around 7%. Provisions in this quarter were higher in JLG relative to Q1 of last year by about Rs. 132 crores. This also led to a lower PAT if we apply the tax rate by about Rs. 100 crores.

Moving on to the last piece, which is on capital adequacy. The Bank now has a capital adequacy of 15.88% at June '24, with a CET1 ratio at 13.34%, which is including the profits over the quarter. We had a benefit of about 14 basis points due to the transition to the new investment circular with effect from April 1, '24. However, if we take into account the capital which came in July '24, then the CET1 ratio at June stands increased to 14.67%, and the total capital adequacy will stand increased to 17.21%.

Last point on my front before we open up. LCR, we have maintained about 118%. This has increased from 114% in the previous year, and we have been maintaining healthy liquidity levels.

Moderator: The first question is from the line of Pritesh Bumb from DAM Capital Advisors.

Pritesh Bumb: Sir, two questions. One is that the industry has seen a bit of NPAs in the unsecured piece, and we are one of the significant players. What is the reading from the early indicators, if this can move up further, any geographic concentration? And is this driven more by the early age group of borrowers?

V. Vaidyanathan: Our unsecured retail is around 50% of the retail book, which is the key focus area for the Bank, and key focus area any way in terms of people observing the book, so to say for performance. Not the focus of the Bank, but the area where it is focused upon for credit quality.

Now on this front, roughly, we are seeing that it's varying broadly normally. That is why we are able to stick to our credit guidance of 1.65% overall at the Bank level. No material movement at this point of time. But like everybody knows that we got to be very careful here. And we'll keep an eye out.

Pritesh Bumb: But sir, any age group which is driving for the industry, because a lot of millennials and everybody is raising money from, or borrowing money from even the fintech lenders. So anything there we can call out?

V. Vaidyanathan: Yes, yes, yes, we can call out, if you want to go deeper. So in the sense that when we analyze our credit card business, for example, I don't mean the overall unsecured, I'm not talking uniformly for the entire 50%, but I'll take 1 sliver of credit cards and talk to you. So on that, we find that people in the age group of 40 to 50 to 60 are the best performers of credit. The 30 to 50 or the 30 to 40, 50 are the next best. And the people who are the youngest borrowers, the 20 to 30, their delinquency is relatively higher. So we do see a definitive age pattern, but I think it's not news in that sense. People always know that youth are a little less responsible so to say. So that's one.

And the other thing is that on the comment on fintech that you talked about, we also experienced that in the buy-now-pay-later business. We did find that our delinquency, especially the 1 month kind of loans that we were doing, we were one of the early players in that game when we were tying up e-comm companies and doing buy-now-pay-later businesses, where somebody could come to an e-comm, set up the preset line and they could draw and they could pay 1 month later.

Now again, small ticket, age group usually low, the delinquency is relatively high for us. So we dealt with all that, but nothing that's like disturbing us, because it's like normal course, part of the same 1.65% we're talking about.

Pritesh Bumb: Got it. Sir, second question was on the LCR impact from the recent guidelines. We are at 118% in Q1. So any impact assessment on that? And as you mentioned in the opening remarks that our deposit raising intensity moves down, and also the resultant cost-to-income. So any thoughts on this one, if that will slightly delay or do something on our end results?

Sudhanshu Jain: So on the LCR, as I said, while these draft guidelines have come in. And if you see that we have been maintaining a very high solid base on the retail deposits. That is one of the highest in the industry. If you see as per the LCR disclosure, that is at 58%. And because now the runoff factor is suggested to be increased, we would have some impact on that front. But we feel quite confident because deposits are coming on very strongly. In addition to that, we feel that we have not drawn much in form of borrowings, right?

So we have lines available in the form of refinance. We have a very small portion currently utilized in the form of certificate of deposits. Then forex borrowings is also an option. So we feel that if we have to meet that ratio on April 1, we will be able to mobilize through some of these sources. Incrementally, if you ask me, there would be some additional ask which could come in, but we feel that our deposit machinery is quite strong enough to mobilize some additional deposits.

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

Ishan Agarwal: Firstly, I would want to appreciate the customer service and the mobile app of the Bank. Superb as compared to other banks that I have experienced. And I'll move on to my questions. So my first question is, you had guided for a cost-to-income to be stable at 72% for Q1 and Q2, and then start dropping off and break the 70s by Q4. This quarter, the cost to income is at 70.5%. So how does the trajectory look like for the coming quarters of this year?

V. Vaidyanathan: First of all, we're very thankful that you said what you said about our app. We go crazy building it. We are just loving it. All of us are doing user testing on it every day. So it's built on really superb platform. So we're very happy that you liked it. So thanks.

Now on the cost-to-income ratio for this, we'd like to actually really guide for FY27, one quarter maybe a little up and down. So sometimes it can give signals one way or the other but directionally, of course, this year, we expect to grow opex only by 20%. Last year, our opex grew by 33%. So we are definitely slowing down opex growth of this Bank. And that, as you know, once you slow the opex growth, straight away it feeds into cost-to-income. So we expect that this year we'll grow opex only by 20%. Even first quarter, I think opex growth was only 20% -- 21%. So this quarter's opex has grown only by 21%. So you should expect of us that when you track us Q-on-Q-on-Q for the next 4 quarters, we should not grow opex more than 20%, let me say. Income, of course, should grow by maybe 23% or so.

Sudhanshu Jain: 23% to 24%.

V. Vaidyanathan: 23% to 24%. So automatically, the jaw opens. So that's what you should expect from us. And therefore, there should be a reduction. But more importantly, the picture that we've given for FY27, where we have done our work, done our modeling, that should give you a better glide path.

Ishan Agarwal: Okay. So moving on to my next question. You have guided...

V. Vaidyanathan: Ishan, just before you continue, just one quick feedback from you, it will help us. This picture that we gave about how the credit card cost-to-income ratio and retail liabilities and assets, how they'll come together into the overall Bank. You can be honest with us, did that help clarify? Or you still feel the doubt. So if you have doubts, please ask us.

Ishan Agarwal: Actually, for me, as an analyst tracking our Bank for a long time, for me what really helps is the blended number, because for me to see from outside the internal moving parts does not really help me, to be honest.

V. Vaidyanathan: Okay. Thank you for the feedback.

Ishan Agarwal: Yes. Now my second question is, you had guided for our ROE touching the lower end of our guidance by Q4 of this year. Now with the increased equity capital base and increased JLG provisioning, which we did not anticipate, say, 2 quarters or 1 quarter back, do you believe you can still achieve that? And if no, then what ROE number can we look at by Q4 of this year?

V. Vaidyanathan: It would be good to see the number, but it looks like it's difficult because there is capital and also the extra provision that is coming because of the microfinance book, so to an extent. But I think let's talk ROA, Ishan, if that helps you, and then ROE is just a multiple on that number. So let's talk ROA. So our estimate is that we'll probably be flat this year, flat over FY24, and next year probably 1.2%, and by FY27, 1.4%. That's how things are moving in our estimates.

Sudhanshu Jain: And Ishan, just to add, we continue to sort of hold that profits in H1 could be slightly lower because of the JLG impact which we have called out. But H2 profit should be much better than that. So you would see an ROA uptick as we move on during the quarter.

V. Vaidyanathan: Yes, yes, that's right, Sudhanshu. Basically, see, for us, our profits would be more back-ended this year because the JLG impact is coming in the first 2 quarters. And maybe a little bit of tail will come in the third quarter, but not so much. But next quarter you must expect that the numbers on the PAT front, though we do expect the deposit growth to be very strong, we expect the loan growth to be well-moderated, and that should define NIM and cost and everything will be fine, but provision will be more elevated next quarter also. But then that for the reasons we already said many times in this session, so I don't want to repeat it. But then Q3 should be okay, and then Q4 will look good.

Ishan Agarwal: Okay. And one last one with respect to the reverse merger with IDFC Limited. So IDFC Limited recently declared an interim dividend of Rs. 1/-. So was this a part of the merger? Like was this capital going to flow into the Bank? Or was this already discussed with the parent?

V. Vaidyanathan: No, no, it is clearly discussed with IDFC Limited, because basically there was a project that, that entity had invested in, in their project financing hat. And that project was still sitting with IDFC Limited. So when we had done the work, there was a clear understanding within the 2 parties that, that cash flow, outflow of cash from that entity will belong to them. And it was structurally contracted like that. So this is part of that contract. And there were some timing issues on the front, but we felt in good spirit that they should get what is theirs and they paid the dividend. It's fully with our understanding, with our support. And as per the agreement, between the 2 parties. It does not affect the cash and it doesn't affect the economics of the transaction.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: I've got two questions, actually, both on two different asset classes. One is the digital person loan, the second one is personal loan. And the other one is on digital consumer durable loans and consumer durable loans. Just wanted to understand what is the difference in terms of ticket size, the cost of acquisition, the customer segment that we are targeting in both these segments? And what is the sourcing difference here? And my last question would be what kind of zero plus are you seeing in salaried PL and digital PL now versus, say, two quarters ago?

V. Vaidyanathan: Let's take it one by one. If you meant to say is the credit consumer durable different than digital consumer credit? Is that what you asked?

Shubhranshu Mishra: Yes. Correct.

V. Vaidyanathan: So the consumer durable business is how, let me say, you go to a Vijay Sales and regular consumer durables, you go to any Reliance Digital store and you buy goods. So these are offline purchases, like physical purchases, where usually one of our representatives is sitting there. They are engaging with the customers and they are onboarding customers. And they are providing them instant credit on the spot to customers. So that business, maybe Sudhanshu can confirm to me, but like close to about Rs. 4000 crores, Rs. 4,500 crores of loan book we have on that front.

Sudhanshu Jain: About Rs. 6,000 crores.

V. Vaidyanathan: About Rs. 6,000 crores of loan book is there on the consumer durable business. So that business pretty much works like how the other large NBFC in India is operating. So that is how consumer durable business is. So our book is about Rs. 6,000-something crores. And we've been doing the business now for 14 years. We are, let me say, number two player in the country after the #1 and have got really fantastic capabilities at the store point. It is a very, very difficult business to do because of the economies of scale, ticket size is small, tenor is small, and just a difficult business to do, but we are happy we did that and we learnt that business. It takes a long time. And scorecards and technologies and all that.

Now the second business that you're referring to is the digital consumer is what we do on the online stores. If you go to any of the large e-com companies and go to check out there, then we could finance the product for you just on the fly, just as you would have done it on the physical store. That's what is called the digital consumer durable.

Shubhranshu Mishra: And the average ticket sizes in the customer segment? My sense is that in offline, we would be doing a lot of NTB versus the other format, where we would largely do a KPB. Is that a fair assessment?

V. Vaidyanathan: So I remember, ticket size would be more like about Rs. 50,000-60,000 on the consumer durables. See, even the digital personal credit, consumer durables we talked about, it comes in 2 types, actually. One that comes with a 1-month kind of product, 1 month, like you pay back in a month.

Now I told earlier in the call that, in answer to somebody else's question, probably Pritesh's question, that we do find more delinquency in that. But we do continue to do the longer term. So if a consumer did buy a mobile phone on a Flipkart or somewhere, or let me say, any other this one, so we do finance them for a longer period, like 6 months or 9 months. That we continue to do, we like this business also. So these are the 2 things. But frankly, what is really good about our Bank is that we have developed really fantastic capabilities. You try doing this business at scale, it just has a lot of tech involved, a lot of scorecards involved, fraud score card and credit score card and identity checks and collection capabilities. Everything is required for this business with digital and we've built these capabilities.

Shubhranshu Mishra: Understood. And the question on personal loans. There is digital personal loan and then there's a salaried personal loan. So what is the difference in the ticket size, customer segment?

V. Vaidyanathan: These are 2 types. One is a salaried person loan. These are regular personal loans. Like how you are employee of any of the large scale A cat, B cat companies, and you apply for a loan and take maybe Rs. 2 lakh, Rs. 3 lakh personal loan, or maybe Rs. 4 lakh, Rs. 5 lakh. And then you pay back over 2 or 3 years, or maybe 4 years. So that is one kind of personal loan. But those are typical users that could be like really personal use, could be medical or whatever.

Now the thing is that the other kind of personal loan that we have started doing now is for customers who come to, so the former is regular, it has been going on in India for 20, 30 years. The second one, which I'm going to describe now to you on more specific question from you is that if you are an existing savings account customer of our Bank, and then we are consistently seeing that your salary credit is coming to your account at, say, maybe Rs. 2 lakh or Rs. 1 lakh per month and it gets continuously credited in our account, and then we see that you're constantly meeting, say, Rs. 2 lakh, or Rs. 3 lakh in your bank, let me make it up.

So then what we do is that we assess that flow of cash and then we set up a limit for you. So then you can come to our app and you can draw that money literally in a few seconds. So we set up a limit for you. What we do is we set up a limit of Rs. 2 lakh. You can come in tomorrow, draw Rs. 30,000 out of that limit and start paying EMI only on Rs. 30,000, and we allow anytime prepayment and best part is we don't charge for prepayment fees at all. So we just close it any day you want, any time, no prepayment fee. So we do this facility, and we were also being pretty much loved by customers. That's a difference between the 2, because this one can go in multiple tranches with no prepayment, the digital personal loan, versus the other salary loan are regular ones with the prepayment fee because it's an offline originated and all that.

Shubhranshu Mishra: And what is the difference in the ATS?

Moderator: Sorry to interrupt you, sir. May I request you to please rejoin the queue for your follow-up question.

Shubhranshu Mishra: Sure.

Moderator: The next question is from the line of Nishant Shah from MLP.

Nishant Shah: Congratulations for a very good quarter. And well appreciated on the cost-to-income kind of trajectory going on. Sir, I just had like one question. You've answered one on the LCR already. Just on the merger consummation, when can you expect that merger consummation? And a related question to that, does that have any net worth accrual benefits to it?

V. Vaidyanathan: Yes, About maybe Rs. 600 crores of net worth accrual.

Sudhanshu Jain: Yes, about Rs. 500 crores to Rs. 600 crores.

V. Vaidyanathan: Rs. 500 crores to Rs. 600 crores. And it looks like a Q2 item.

Nishant Shah: Q2. Okay. So basically any time in this month or like next month or so?

V. Vaidyanathan: This quarter. I think there was an NCLT hearing yesterday.

Sudhanshu Jain: Yes. So there was an NCLT hearing, which has been slightly adjourned. While we are still awaiting the official date, but we are hopeful of this getting concluded by end of Q2, more around end of September.

Nishant Shah: Okay. Got it. And you've already addressed this a bit on the LCR front. So what do you anticipate like the NIM impact could be from this like? Is it just the simple on math of, okay, HQLA goes up by a certain percentage and whatever is the cash drag there has been an impact? Or is there some more nuance to it than what we understand?

V. Vaidyanathan: See, since the norms itself have been so tightened by now, made more conservative, then we got to watch out for the rest of the industry also as to how much is the new benchmark of extra you want to hold over the 100. We haven't yet come to sort that through, because earlier it was a norm to keep 116, 118, 120. We don't know, maybe we will keep 110. I don't know. We've not yet made up our numbers, because we've got to see the emerging protocols. But let me just say suppose you have got a number, so our own estimates are something like you might have to incur 1% of a drag on the incremental amount that comes our way. So we've got to see what the number turns up to be.

Sudhanshu Jain: Yes, and some part of the cost we could also pass. So we'll see in terms of how the industry also reacts to it. So where they are saying 1%, it could be more around 0.75% to 1%, in that zone. So we don't see a major impact out of this, but we feel that we need to see how this pans out.

V. Vaidyanathan: But let's simulate it for a moment, so that you get some clarity. Let us say that it's like Rs. 10,000 crores. And then you say that, look, if it's 80 basis points, let's call it Rs. 80 crores. I'm just giving you some picture, but don't think this is like a final word from me, but I'm giving you some color, so that you can get a sense of what numbers we're thinking in our mind.

Moderator: The next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Services.

Nitin Aggarwal: I have 3 questions. And before that, firstly, thanks for the additional disclosures and the FY '27 projections on cost-to-income ratio. This really helps to understand the glide path on the cost-to-income. So sir, first question is if I see like the bulk of the improvement in cost-to-income is likely to come in from the retail liabilities, because on assets, we are broadly there at 53%. And on cards, it's a very small part of the total business.

So now that as you have worked with large banks also and would have a sense about how the industry data moves on this. So if you can talk about how the cost-to-income ratio will be for bigger banks and how this generally evolves as such, because IDFC Bank, if I look at, this is like fifth or sixth year of its operations post-merger. So how does it really evolve over the longer period? How do you see that?

V. Vaidyanathan: Thanks for that, first of all, Nitin. See, the thing is that, just see that our retail deposits in December of 2018 was ~Rs. 10,000 crores. Okay? So think of it like practically, it is at 0 base. In the context of Rs. 2 lakh crores, let me say, Rs. 10,000 crores pretty much 0 base. So let me say it's been 5 years. Now it's not exactly 0 base, because the teams had been working on it 2, 3 years before that also, but just for context.

So it's been 5 years. So now, if you think of other objects, I'd say that it would be like 14, 15 years for banks to completely break even on this space and start making money if you start from 0 base, because it does have a drag, similar experiences that other large DFIs that converted, et cetera, liabilities took a long time to break even, from what we know.

But in our case, there is one very positive thing coming in our favor. Because of the new winds of change of digital technology that have come and something that we have really gotten a grip of and if you check out informally in the market, they'll probably tell you that we are one of the best banks in terms of digital capabilities. So because of the digital capabilities by us and the brand we've built and the image the bank enjoys, etcetera, we are getting our deposits quicker than anybody would have anticipated.

Therefore, that period when this negative drag will 0 out may not be that long, like 5 more years, in our estimate. So in 5 more years, it would have dragged out, and by the fifth year from today to be 0, in our estimates. And by sixth year, should have started making money, that's our estimate. Maybe the 6th year kind of breakeven. Think of it like a year here or there. So definitely, one thing is pretty certain, the way we are looking at it, we are running ahead on the cost-to-income at least on the liability side, because it's not going to be that long-drawn for any other start-up DFI converting, no.

And to just add one extra point to that. The reason is also easy to see. I bet, Nitin, even you would not have imagined that this Bank is going to raise Rs. 2 lakh crores in 5 years. Did you imagine? I don't think so. Nobody imagined. So, imagine, in the next 5 years, we think it would be Rs. 6 lakh crores. So, the book is going to grow by Rs. 4 lakh crores, but we're going to add only maybe 500 branches more. Right? So maybe 500, 600, in that order of magnitude. So think of the efficiency of the incremental product coming up.

Nitin Aggarwal: Right. Got it. And sir, second question is like, have we taken some portfolio actions and tightened the writing in our retail business other than JLG, because we are guiding for unchanged credit cost and all the impact on the guidance is because of the rising cost of the JLG, while most banks and other large NBFCs also are reporting an increase in credit costs already. So what is really driving that stability in the rest of the retail business?

Sudhanshu Jain: So Nitin, we have been watching the portfolio on a continuous basis. In fact, we have also taken a lot of policy interventions. Of course, we all know that if you take some intervention in a particular quarter, it takes a bit of time for it to play out. So we have been watching this. We have been also picking cues that things have been normalizing. So we are constantly monitoring the portfolio. We gave an example of a vintage analysis for one particular product. This is something which we do and assess on a continuous basis for all the products, right, including check bounce, including collection efficiency, how things are moving, as I said, on a vintage basis.

So a lot of interventions we have taken in a few other products. And hence we are guiding that credit cost could start normalizing more so in H2. So these interventions could be more around leverage related, could be that we reduce our disbursement in the bottom of the pie. So there could be many factors which we sort of look into and take into account.

V. Vaidyanathan: So I'll give you some examples, if you're looking at. Now in some businesses, we chose that customers below a certain CIBIL leverage, because what we take from CIBIL is not exactly the score only, that's just one data point. We actually go and take the underlying criteria. So we tightened, in one product, say, in our cross-sell product. What we do is that we cross-sell -- I will give you color about 1 product. For example, we cross-sell personal loans to consumer durable customers who have been on our books for a period of time and who have performed well. And that's part of the profitability of the consumer durable business.

Now in that business, some months ago, we tightened the CIBIL leverage, how much leverage the customer could have. Then we cut the lower end of the size. For example, the cutoff was say, x, we tightened it to cut 10% of the lowest end of the customer base. We do stuff like that. Basically, we've identified those kind of businesses and taken some actions. For example, in another business, we cut out certain pin codes. In some of the businesses, we figured out some phone locking model, there was some fintech that are giving us the capability of locking a phone if a customer doesn't perform and with the customer's permission. So that we introduced and that we think is a nice control. In another business, in some smaller cities, we cut out below certain cutoff, or certain dealerships, we cut out the volumes. So that kind of work, we keep doing all the time.

Sudhanshu Jain: We also said that BNPL also as a product, we were seeing slightly higher delinquency there. So that also is a product we have shut down. So we are not disbursing there on that product.

Nitin Aggarwal: Right. Got that. And sir, lastly, just 1 housekeeping also. Like if you can share the NPA recovery and upgrade and write-off data also?

Moderator: Sir, may I request you to please rejoin the queue for your follow-up question?

Nitin Aggarwal: Okay, sure. I will join back the queue.

Moderator: The next question is from the line of Manish Shukla from Axis Capital.

Manish Shukla If I were to look at the vintage analysis slide, this graph A and graph B. Of your outstanding book, what proportion would be graph A and what proportion would be graph B? If retail rural, SME is about Rs. 150,000 crores. How does that...

V. Vaidyanathan: That's a very, very good question. So the graph A would have become much lesser by now, because graph A pertained to pre-COVID booking. And that was basically an FY18-19 slide. So FY18-19, frankly, the book itself at that point of time used to be, I'd say, about maybe Rs. 35,000 crores or Rs. 40,000. It would have gone up by now. So it's largely the new book.

Manish Shukla: Okay. Perfect. Moving to the SMA slide...

V. Vaidyanathan: It would largely be the graph 2.

Manish Shukla: Understood.

V. Vaidyanathan: Yes. Because graph 2, just to be technically correct with you and so that we're all talking about the same sheet. Graph 2 represents booking done between April 1, 2022 to 31st March 2024.

Manish Shukla: Okay. Very clear. Yes. Moving to the SMA slide, Slide #32. Overall SMA has gone up by 16 bps, and considering that JLG is only 6%, it has contributed only 3 bps to this increase, barring 13 bps has come from rest of the portfolio. Clearly, that is stress beyond JLG as well, right?

V. Vaidyanathan: No, no. First of all, it's not only 3 bps. I think it's a little more than that. But let me just say that, of course...

Manish Shukla: So that's straight math, right? 0.85% going to 1.01% and it's 6% of the book.

V. Vaidyanathan: We will come to that, of course. So we want to do that. Basically, the core book is about 0.91%, or 0.95%?

Sudhanshu Jain: 0.95%.

V. Vaidyanathan: 0.95%. So just to get your math right, so you can do the math offline, but we're telling you the numbers. So, 0.95% is the SMA excluding the JLG impact, and that is 10 basis points over March '24. And if you went back to the slide in collection efficiency, you saw the April number at 99.3%. If you remember, I called it out when I was speaking to you. We were normally running at 10.5%. So that is some amount of our money, because that period of April, May, elections were on, holidays were on. So it is a small thing. But frankly, some slight movement comes there and seasonal things go away, collections have recovered after that. It's back to 99.5%. So if you see May '24, it's already back to 99.6%. June is back to 99.5%.

So these things happen in the industry. If you see last year, you go back to the same slide, Page #27, we have clearly shown that April '23 also we reported 99.3%. Though, of course, there was no election at that time. I don't know what happened. I mean, I got to go back in time and see what happened then. But by some good coincidence, even April '23, it is also 99.3%. But the good thing is that now our Bank is continuously achieving this 99.5% for a long time.

Manish Shukla: Yes, looks like an April phenomenon every year.

V. Vaidyanathan: I don't know. In fact, I requested my team members to actually go back and check what April '22 also was. Oh, yes, it's there already. April '22 also has 99.3%, so '22, '23, '24. So 3 times in a row, April has this dip.

Moderator: The next question is from the line of Raghu from Travest Capital Private Limited.

Raghu: I just want to come back to the cost-to-income ratio again. Sorry for raising it so many times. The FY27 guidance that you have given, is it for the start of FY27 or the end of FY27?

V. Vaidyanathan: For FY27.

Raghu: Okay. So the reason why I was asking, I was a bit disappointed by the 65%. I'll tell you why I was. Because the Capital First, the exit cost-to-income ratio was something around 56%, 57%.

Sudhanshu Jain: 48%.

Raghu: 48%, okay. So yes, at least the March end of the year. I saw it for March FY17. So even after 8, 9 years of operation of the Bank and we doing so well with deposits, we still are about 10%, 15% higher than one we were with as an NBFC. It somehow doesn't fit. So can you please explain why is it that way?

V. Vaidyanathan: No, it's a very fair question. The thing is that you're right, by FY27, this would be 10 years of the Bank. But just to be honest, you see that this was running 95%.

Raghu: Yes. Correct.

V. Vaidyanathan: So we started with a big sandbag on the back, and then on top of it, then after that, one second, let me open my slide, so I can have a good conversation with you. Yes, my slide is in front of me. Now back to you. So therefore, when we look at the number, we started with that sort of a situation of having a high cost-to-income ratio, so it rapidly came down. By the way, to move from 95% to 72% in 5 years is really not a joke. I can tell you that it's been very, very, very hard at our end to achieve this. I mean, you are not happy with the numbers even at 72%. I understand that. You are an investor and you would have other areas to invest, and therefore, your choices.

But from our point of view, even 72% has been very hard because we were investing in branches, ATMs, people, technologies, tax change, everything changed, and people, the branches, et cetera. So it did come down. Now therefore, when we look ahead, well, at 65%, should we be unhappy or happy, depends on what your expectations are. Because even this movement of 700 basis points, from 72% to 65%, it is coming because there is very concrete action being taken on each of the 3 subcomponent businesses. Really, for a bank, bank fundamentally is heavily more loaded. There is 30% of the book goes away earning nothing. And NBFC every penny earns. And it's a very big difference. By the way CRR, SLR, its drag, compliance costs, now even LCR. So 30% of your money just doesn't earn anything at all.

So I'd just imagine that's probably one of the reasons, but still at 65%, frankly, last year, it did not drop. I concede that. But generally speaking, the pace at which it is moving down from 95% to 65%, let me say, a 30% drop, if we achieve this in 2027, I'd say that, from our point of view, it would be quite a movement.

Moderator: The next question is from...

V. Vaidyanathan: Wait a minute, madam. Just one second. Let me just confirm with him, because I'm not sure he is aligned with me or not. So what would you think? Would you think, Raghu, it's a fair comment? The reason I gave you, 30% of the money in a bank doesn't earn anything at all, maybe that's a reason, would you agree with that? Or you would disagree with that?

Moderator: Sir, the line for the current participant got disconnected.

V. Vaidyanathan: Okay. Got it. Let's move ahead.

Moderator: Let's move on to the next participant. The next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh I just had this question on Slide 27. Historically, you kind of indicated that it's a good reference point to understand what credit cost looks like? But if you go back and see this quarter, it doesn't seem to be showing that representation, because the increase in credit cost seems to be much higher. And you also asked us to look at '23 and '22 data as an example of the same. But if you go back into those quarters also, you don't see such kind of a credit cost increase. Just wanted to understand, does this chart actually give you a reference point of credit costs in the first place?

V. Vaidyanathan: Well, as you know, this is the current bucket. And by the time it moves to credit cost, 6 months after this chart, but it's a good indicator. Because end of the day, if you're collecting 99.5% of the current bucket, it is a really good indicator.

Now number two, the credit cost itself, as you know, Mahesh, and you're tracking financials and you're really good at it. We think that there is a normalization happening this year. What is normalization. So this will benefit everybody. normalization meaning that, look, when the COVID is going on, there was a certain amount of charge-offs and provisions people took. Now some part of the money kept getting collected through '22, '23, '24. So that kind of reduced the amount of impact people were taking on the credit cost until last year.

Now this year, that kind of the portfolio, whatever we had to recover is kind of recovered. So that normalization is happening. And of course, on top of it, the JLG happened. But normalization, frankly, I'm not very disturbed about because, Mahesh, I hope you'll also agree, 1.65% without JLG. Would you agree with me Mahesh, if you think of the other large institution, which is also in very similar lines of business like ours, it's almost very similar, and they are also talking of 1.85%. Isn't that a fair comment, Mahesh?

M.B. Mahesh: That is fair.

V. Vaidyanathan: So if they are running 1.85%, and we are talking of 1.85% with the impact of JLG, and without JLG, we are talking 1.65%, would you not agree that it's really best-in-class performance, Mahesh?

M.B. Mahesh: No, it is. I'm just trying to reconcile the way you're presenting the information to see whether this slide has any predictive power, that's it?

V. Vaidyanathan: Eventually, it does. Because end of the day, this is current bucket, but eventually it translates over to the buckets subsequently.

M.B. Mahesh: Yes. Sir, just one question. This Rs. 720 crores going to, let's say, Rs. 995 crores, the provisions and contingencies. You've kind of alluded to the fact that this quarter, recovery from previously written-off assets was on the lower side. But from a Delta perspective, nearly about Rs. 250 crores has essentially gone towards the MFI book?

V. Vaidyanathan: Rs. 180 crores, no? How much has gone to provisions in MFI book this quarter?

M.B. Mahesh: I'm just trying to understand the Delta?

V. Vaidyanathan: Yes, referring the Delta.

Sudhanshu Jain: Yes. So, you're saying, over the sequential quarter?

M.B. Mahesh: No. Sequential quarter is better for me, because that help us to understand the numbers a little bit easier?

V. Vaidyanathan: No problem.

Sudhanshu Jain: No. On sequential quarters also, we saw increase in JLG as well. While we have called out Rs. 130 crores is the impact over this Q1, but in this quarter also, we saw some bit of increase coming from JLG and there were additional impacts which came in because of heat wave and some of, I would say, seasonality, elections and so on. So we saw some effect on the collection efficiency overall, particularly in April and some bit in May.

So the increase has come in JLG plus in some other portion of the book. We had, in fact, in Q4, when we had called out that H1 credit cost could be slightly higher, right, and it could come down into H2, we had also called out one factor like an FLDG, where we have done some disbursement, right, which was not to the FLDG route, where we are getting some NCL and we'll get some NCL in H1. And that will sort of not be there in H2.

V. Vaidyanathan: Just to be clear, that is not an NCL that is out of the ordinary. It is like it's a normal course of business, except that it won't come in H2, because, let me just say, it is secured by the counterparty. It's a default guarantee. So FLDG, we should not bother too much about it, because I mean, even we take it as part of a normal business, because you're booking in the book getting the income, and we have the credit costs, so that's normal.

But let me come back to more about the credit cost as such. People have talked about heat wave, people have talked about lots of things. We said everything is subsumed in the numbers. And everything subsumed also, at least as far as our eyes can see right now. As Q2, Q3, Q4 rolls out, God knows, maybe 5, 6 basis points more or less, I don’t know. It could be somewhere there.

But as far as our eyes can see and the way we can model the book right now, it looks like 1.65%, and including JLG, 1.85%, let's take upward bars, let's call it, 1.90% for a minute. It's still much lesser than, let me say not lesser than, but at least it's the best-in-class performance of the industry in these customer segments.

Moderator: The next question is from the line of Jai Mundra from ICICI Securities. Please go ahead.

Jai Mundra: On this aspect only, in JLG, I mean, so the rise in delinquency has been because of the Tamil Nadu floods, but do you see any impact due to heatwave or maybe any disturbance due to general election? Or it should subside as you had expected last quarter by second quarter?

V. Vaidyanathan: Well, these numbers subsume everything. So we don't have anything more to call out because of the reasons. But you're right, when we talked to our people, our people did give feedback. They said, elections, so many people were on leave. It was very phased and long-term process. So these kind of things keep on happening. These kind of cycles happen, come and go. But I mean, kind of small incidents happen here and there, but our numbers are all broadly, it's all subsumed.

Jai Mundra: Right. And sir, in JLG, I mean, do you also run individual MFI book also, or all the MFI is JLG?

V. Vaidyanathan: All the MFI is JLG only.

Jai Mundra: Right. Lastly, sir, cost of deposit, how should I look at cost of deposit when your ask rate for deposit is going to come down? Maybe for next 2 quarters, 3 quarters, how do you see the cost of deposit panning out?

V. Vaidyanathan: Let's think cost of funds actually. That is probably a good benchmark, because end of the day, that's what we transfer the profitability. So our cost of funds right now running at 6.47%. And out of this, close to about, as you know, around Rs. 10,000 crores is still high-cost money sitting with us.

So when the high-cost money goes off, we modelled it and then we assume for a minute that, that Rs. 10,000 crores of high-cost money, let us say it is replaced with the normal cost of deposits of the Bank. We found that this number of 6.47% has come down to around 6.36%. We'll get a 11 basis points improvement.

So think of another word, think of our Bank at cost of funds of 6.36% today as in the pay of the bonds, it is like a year from now. And frankly, 6.36% is lower than at least the peer banks, peer banks meaning the mid-size banks. So we are probably the lowest among the mid-size banks today at 6.36.

So we are very proud, just to step away, just probably to digress for a moment, that our deposits are coming so strong because of the brand and many of the things. But they are coming at this pace of a 39% growth or 30% growth despite having cost of funds lowest in the mid-size bank group. So that's very important, and I hope you'll agree, it's a very significant thing actually.

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

Hardik Shah: I have 2 questions. One is, for a couple of weeks, I think you tweaked your savings rate rule by offering 7.25% for more than Rs. 5 lakhs instead of more than Rs. 10 lakhs. Anything that you can share on how much can that have the impact on the cost of funds according to your model?

V. Vaidyanathan: No, we did 2 things at the same time. So as you know, we were paying 7%. And if I'm not mistaken, up to Rs. 1 lakh, we were paying 3%. Actually, up to Rs. 1 lakh, earlier, we were paying 7% through. But now, we have now dropped 0 to Rs. 5 lakh to 3%?

Hardik Shah: Correct. So is it going to be net-net positive because of this?

V. Vaidyanathan: Yes, net-net positive, yes. So one interesting thing that we are observing that the savings account is actually not interest rate sensitive. At least we are experiencing that. So whether we were paying 4% or 5% or 7% or 3%, in the 0 to Rs. 5 lakh now, we've emboldened and moved ahead and taken our call, now we did it. I don't know, there's not sensitivity. Money is coming to us. Brand, I don't know, it's hard to pick what exactly moving, but I think brand is strong now, and app is good, service is good. I think these things are more material than the rate now.

Hardik Shah: Interesting. Okay.

V. Vaidyanathan: Hardik, I would like to pause it just for a second, if you don't mind. Now like if you were to take a call now and say that, look Vaidya, 2 quarters you're going to struggle, or would you say, no, you'll be fine. What would be your guess as an analyst? For having dropped the rate to 3% up to Rs. 5 lakhs. What's your guess?

Hardik Shah: I don't know what your bucket movements are, to be honest. That's why the question.

V. Vaidyanathan: No. When we drop rates so sharply, would you say that we may find it difficult to raise deposits? Or would you find that we'd be fine? As an outsider analyst, what would be your professional opinion for us?

Hardik Shah: It's not clearly, right, because still the rates are quite high, more than Rs. 5 lakh, with the 7.25%. So as a customer, again, I would say that the depositors are still rate sensitive, the ones that are holding. So when you actually drop the rates on the entire to the 6%, that is when we will see the real impact. That's how I would view it.

V. Vaidyanathan: Got it. Thanks for that. And your question.

Hardik Shah: And second question is on the SMA, sir, if you could share the SMA 1 SMA 2 numbers for consumer loans and credit card level the way you have shared for JLG.

V. Vaidyanathan: I don't think we have it ready off-hand explaining what the SMA with respect to products are. But overall numbers, maybe Sudhanshu, we can ask our next question and I'll try to figure out if in the interim we can figure it out.

Hardik Shah: No, this was the only question I had.

V. Vaidyanathan: No, I'm saying maybe Sudhanshu, if you have the answer, you can fill in.

Sudhanshu Jain: Yes. So we generally don’t give out product-specific numbers, while we have called out for a reason.

V. Vaidyanathan: The thing is that if you have it now, you give it.

Sudhanshu Jain: I don't have it handy.

V. Vaidyanathan: But hopefully, in the next maybe 5, 10 minutes, by the time another question goes through, we will find it and we will tell it to you.

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

V. Vaidyanathan: Sure we discussed long enough. I have no closing comments to make, except to say that thank you very much for being with us through this discussion. It's a long one. And number two, if you can see how the bank has progressed at least over the last few years, you can hopefully see this as an episodic thing.

And once couple of quarters go through, then even if you feel that the numbers are weaker this quarter or next quarter, we come in in the painter sense we don't expect balance sheet numbers to be weak, okay? Even if you to see it, I would say that don't be very disturbed, because Q3 will come, Q4 will come, and then things will normalize, and life will be good after that.

I mean, it will be good for the stage of the bank as it is today. And then if you track us to FY26, we expect FY25 to be like similar to the zone of FY24, but we expect FY26 to be a breakout year in terms of profitability. We expect FY27 to be a breakout year in terms of profitability. So FY26, '27, '28. '29, we see a good runway, the way we are looking, because of a very simple fundamental logic that our costs will definitely slow down from here.

Cost increase will slow down from here. Maybe it's 20% this year, will be 18% or 17% year after that, and so on, and further down from there, and then income should rise. So basically, we should see the jaw opening. FY26, ‘27, ‘28, ‘29 should be materially improving years. And those of you who are with us through that cycle will hopefully experience it with us.

I have seen this before, turning capital first and in other organizations. So I'm expecting the good cycle to come at us in that window. Thank you, everybody. We want to just thank you for being with us. Thanks.

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