'I am building a bank for the long run'

Having settled most of the merger-related issues, IDFC First Bank is well on its way to what it set out to be – the first-stop for both small entrepreneurs and consumers. It has built a stable current and savings accounts base quickly, and is to eschew lending to the infrastructure sector. The bank's managing director and chief executive officer, **V VAIDYANATHAN,** spoke to ***Hamsini Karthik,*** on the journey so far and the road ahead for the bank. Edited excerpts:

"IF I HAD GOT CARRIED AWAY BY THE 40 PER CENT ANNUAL GROWTH IN CAPITAL FIRST'S MARKET CAP THAT WAS HAPPENING, I WOULD NEVER HAVE GOT THE NOD FOR THE MERGER. BUT I WASN'T GETTING DRUNK IN THE NBFC PARTY".

It is almost a year since the merger of Capital First and IDFC Bank. How would you rate the progress of the merger so far?

It was important to put through the merger in such a way where the best of the business models of Capital First and IDFC Bank came together. I think we've put together one of the finest mergers that India has seen. Firstly, we've been able get the goodwill of our employees. Secondly, our communication of what we want to do was consistent – both internal and external. And lastly, we were clear about what we will, and will not do.

We made it pretty plain that given the cost of funds, the focus of the bank will be financing smaller customers — entrepreneurs and consumers. On the liabilities side, IDFC Bank had a fantastic platform and we wanted to promote it. On the assets side, Capital First's lending model was tried, tested, it had scale, and was profitable. So, we said the liabilities will come from IDFC Bank and assets largely from Capital First, and we believe that's a very powerful combination. And that's the new bank for you!

We don't do investment banking and all that. We do wholesale banking based on our unique technology solutions and cost of funds. By being plain about these issues, things became easy. If I want to make everybody happy, then nobody will be because it would have become a khichdi.

Q&A

V VAIDYANATHAN

Managing director and chief executive officer, IDFC First Bank

There has been a sharp improvement in your current account and savings accounts (Casa). Do you believe Casa is back in focus as money from other sources is getting to be expensive?

At the time of the merger, Capital First's book was ₹30,000 crore and IDFC Bank's stood at ₹69,000 crore. Both entities had the assets, but neither had Casa. The combined Casa was 8.5 per cent, which was the lowest in the industry. We were clear that our first goal will be to get Casa right and all buttons were pressed to achieve that. Everything else, including loan growth, would come later. We came up with a simple strategy — moderate the loan book and increase Casa, which has grown to 18.7 per cent in the September quarter from 8.68 per cent last year. And I don't think any bank has covered so much ground on Casa in three quarters.

As CEO, I need to first get the deposits practice right. Banking is not about lending alone; it is about managing liabilities and being liquid as well. And building it the right way, and transparently. In Q2, there was ₹2,500-odd crore of Casa from a government account, which we didn't include for calculation purposes because we felt it was not sustainable. These are all true tests of transparency of a bank, right? If we had included this number, our Casa would have been close to 20 per cent. We don't do short-term things because I'm building a great bank for the long run. These 'quick-wins' don't belong to us. If anything is a one-time, we don't want to take credit for it.

How much of the legacy wholesale book is behind the bank now?

We are at a far more manageable level than what it was. One of the key things we have achieved is to bring down the wholesale book to ₹58,000 crore from ₹68,000 crore; of which infrastructure is down to ₹17,000 crore from ₹23,000 crore. We have reduced the probabilities of big-ticket hits on the bank. This has been the biggest learning — the more we diversify the book, less will be the non-performing assets (NPA). We have been honest in our disclosures. And while I cannot guarantee that there will be no problems in the future (because it's the nature of the business and we have to be very watchful), I can assure you that the probability of 'Black Swan' events has been substantially reduced.

Does this also signal an end to infrastructure loans for your bank, and private banks in general?

Infrastructure is an extremely important part, and I'm proud of our bank's heritage in its previous avatar. The important thing that we should remember is, which part of infrastructure financing can be good and what can go bad. All those learnings will be very material when the next round of infrastructure funding comes about. Bankers have figured out which projects are more suited for private equity and what can be done through bank loans.

Good infrastructure is where the project has been completed and is throwing back cash, and I believe there will be enough of these projects. But having said that, we also believe for our bank, infrastructure financing is not the way forward. Our key line of business is to finance entrepreneurs and small consumers which is a ₹70-trillion market. There is a huge underbanked market, especially on the lending side. I love this space and the asset quality is excellent; we specialise in it. A banker's role is to be safe first and foremost; safeguard public deposits.

But in the small entrepreneurs' and customers' segment, there isn't much by way of credit histories...

That's true. But you know in Capital First, young entrepreneurs made up about 40 per cent of the customers. These were people who had not taken loans before. That small-lending DNA has been merged into the bank and will be big business, going forward. This is a space that has been highly lucrative with low NPAs. Capital First's gross NPAs never crossed two per cent for nine years and the net NPA was 1%!

It's said that you were lucky with the central bank allowing Capital First's merger with IDFC Bank and the timing happened to be right...

Lucky yes, but it also takes effort. See the consistency. For eight years, we built only such businesses that were compatible with a bank because that was the game-plan. So, to stay consistent for a decade and not get tempted with 'quick-wins' and non-core things takes effort. And yes, at the right time, we wanted to switch over to a banking platform from a non-banking finance company (NBFC), and we thank the Reserve Bank of India for enabling this transition.

As the CEO, I am the pilot and have to navigate it from one platform to another at the right time. If I had got carried away by the 40 per cent annual growth in Capital First's market cap that was happening, I would never have got the nod for the merger. But I wasn't getting drunk in the NBFC party! I was always thinking of the probable problems – that liquidity may someday turn out be the biggest problem.

Do you get the sense that the best days of NBFCs are perhaps coming to an end?

I believe that institutions that have been around for long, building fantastic businesses with great corporate governance have created unlimited value for both shareholders and the society. NBFCs which have strong assets and also are deposit-taking will have a good story to tell. For those who have strong business models, but are constrained by liabilities, will have a future in a partnership structure. Those giving large-ticket loans to risky industries will face difficult times.