Crying Demand in India Is to Finance the Unfinanced

ET Q&A

Private lender IDFC First Bank will improve the mix of its loan book to at least 70% retail loans in the next few years, says chief executive **V Vaidyanathan**. In an interview with **Saloni Shukla**, he also says the bank would predominantly focus on lending to the bottom of the pyramid. Edited excerpts:

This quarter, the bank turned to profit, if we keep the tax aside. What are the focus areas for you from here on?
Turning into profitability is a good moment for us, but as a bank we are focused on building a solid foundation for long-term growth. I don't think I should be scaling up the loan book today until our CASA (current account savings account) becomes 30%. CASA has moved from 8.68% to 18.7% in three quarters and that is a strong feat that we have achieved.

The loan book moved to only ₹1.07 lakh crore in nine months from ₹1.04 lakh crore at merger (of IDFC Bank and Capital First, completed in December 2018), but if you see beneath the surface, the break-up, it's ₹48,000 crore retail now, which was ₹36,000 crore at merger. So, see how quickly the story is pivoting; so, we are focused on changing the composition.

You are moving towards making IDFC First a completely retail-focused bank?
Not entirely, but predominantly. We have guided for 70% retail book in five years. But the pace at which retailisation is happening, I think we will overshoot the 70% target.

What is the endgame for wholesale? Will you run down those assets?
In wholesale, we are doing selectively, based on our net worth, our cost of funds and risk appetite. It's good business. But equally, the crying demand in the country is to finance the unfinanced. I believe the top 5,000 corporates have been overbanked. But for the person at the bottom of the pyramid who wants a business loan of ₹20,000 to ₹1 lakh, it's difficult. And this is a big demand and an opportunity for us. We have limited capital, so these are choices I am making.

The NBFC sector has witnessed a lot of pain in the last one year. Has the situation improved?
I have seen worse cycles. Between 2010 and 2015, inflation was high, there was policy paralysis, coal scam, interest rates rose 16 times and MSF (marginal standing facility rate) was raised 300 basis points in one day. The system was jammed. It came back to life. I believe that strong non-banking lenders who have healthy business models will pull through again. But NBFCs, which have largely lent to real estate and corporates without matching cash flows, are having issues.

It's been a year since the IL&FS crisis. What is the endgame to this because the pain continues?
Every cycle takes its own course. Right now, the memory of the recent crisis is too strong in the mind of lenders and investors, but the boom period will be back. This is a cyclical issue, the biggest learning is the asset-liability management.

Even at the bank, we are keeping a liquidity coverage ratio of 125%; the regulatory requirement is 100%. I have seen the past NBFC crises and anybody who has burnt his fingers once in liquidity won't forget the past lessons. Even at Capital First, we kept a lot of excess liquidity always.

On the credit growth front, the latest numbers are sub-9%. Is this risk aversion or demand destruction?
The size of the credit market in India in 2009 was ₹28 lakh crore. Now, it is ₹100 lakh crore. In the interim 10 years, the Indian economy faced every possible problem. Sometimes, it felt worse than even what it feels today. So, if you look at a one-year horizon, obviously, I can't say, but we should look at the long term. It will grow three times again. I believe the underlying credit story of the Indian consumer and entrepreneurs is very strong.

The consumption credit and demand for small businesses credit is very strong. Look at the Mudra scheme, it has disbursed ₹6 lakh crore. Obviously, there is demand in that segment. We are seeing strong demand.

What is your assessment of the state of the Indian economy?
The macro pictures have become better for India. I believe people underestimate the macros – they only look at the auto industry or the real estate industry. Since the inflation is structurally low at 4%, the current-account deficit is comfortable, the government's borrowing programme is stable, the tax cuts are very positive in the long run … we are structurally fine. That gives India space to make the moves to revive the spirits in the economy.