INTERVIEW: V VAIDYANATHAN, MD & CEO, IDFC FIRST BANK

'We are heading towards gross NPAs of 2% on a sustainable basis'

IDFC First Bank intends to use its current account savings account (CASA) base to enter the prime segment of the home loan market, ***MD and CEO V Vaidyanathan*** *told* ***Shritama Bose****. The bank expects 1.5% of its customer base to avail of the new restructuring scheme, he added. Edited excerpts:*

What has been the impact of the second wave of Covid been on business so far?
There is a lockdown-like situation in 20-odd cities of the country. Obviously, mobility is affected as are many businesses. The full impact of this on all players will show up only in the next one or two quarters. When the first wave ended, the economy took off like a rocket, a proper V-curve. April and May are affected, but hopefully after two or three months, things will come back.

In the first restructuring framework announced last year, what was the response like? Now that there is a new scheme, do you expect more borrowers to apply for it?
At that time we restructured 0.9% of our book by value. Again, it's hard to guess how many people would apply for the new scheme. It depends on the effect of the second wave. This wave is giving mixed signals. On one hand, it looks like a hard one to deal with. On the other hand, it is not a national lockdown. Sectors such as manufacturing and exports are still moving. Since signals are mixed, the impact will show only one quarter from now. Our guess is about 1.5% of the customer base could take advantage of this, but that's just a guess.

The savings rate now goes down to 5%. Will rates be sustainable at this level?
We are rated CRISIL F AAA for our FD (fixed deposit) programme, which talks of our safety. Customers want safety, plus our savings rates are still very competitive. Plus we have a great brand, institutional feel and customer service, so we think our deposits will continue to grow. Now our objective is to use the low-cost CASA to start lending in the prime home loans segment. To reduce cost of funds and focus on home loans is a very important moment for the history of our bank. Now that we've laid the foundation for two years by building a strong CASA base, it's now time to grow the loan book. Earlier, our growth came from SME and consumer financing. Now, our incremental growth is coming from home loans. Last year, our home loans grew by 37% and asset quality is great.

The entire market seems to be moving away from unsecured lending towards secured products. Are banks going to stop doing unsecured altogether, at least for the time being?
In home loans specifically, you get to make a long journey with the customer. It gives you peace of mind because your asset quality will be strong. There is a greater tilt in the industry now to move towards secured financing and we also want to participate in that process. Other segments will also grow, but we will watch the economic environment for that.

Coming to asset quality. You've seen cheque bounces fall and collections improve in Q4FY21. Has any of that process reversed in the current quarter?
In Q4 we saw collections exceeding 100% of our pre-Covid levels of January-February 2020. This gives us confidence that when our economy comes back after the second wave passes over, collections will come back again to pre-Covid levels. We look through these and focus on long-term models.

How have you changed your risk models in the wake of Covid?
We tightened lending criteria to Covid-affected industries like travel and tourism, restaurants etc. We reduced LTV (loan-to-value), we reduced authority levels, increased bank balance eligibility requirements and we increased the cut-off score for availing the loan. As a result, the incremental bookings post-Covid already factors for the pandemic-affected businesses. In addition, we are moving into prime home loans. These two factors should help improve asset quality from here on. Whatever the temporary impact of the second wave will be, directionally our asset quality should improve.

What is the guidance on credit quality?
We used to have gross NPAs of about 2.6%, net NPA of 1.2% and provisions of 2.6% prior to Covid. At our current underwriting standards and trends, we sense we are heading towards gross of 2%, net NPA of 1% and provisions of 2% on a sustainable basis. We are modelling our risk parameters for this and can meet this guidance, post the Covid second wave provisioning.