

Interview



V Vaidyanathan
Managing Director and CEO, IDFC First Bank.

“We Have The Opportunity To Build A Successful Bank Only Once In a Lifetime”

As a bank, we are putting a lot of effort into building a high-quality culture of customer-friendly relations, asserts V Vaidyanathan, Managing Director and CEO, IDFC First Bank.

IDFC First Bank reported a whopping 266 per cent YoY growth in profitability to ₹556 crore in Q2FY23. Can you highlight the factors responsible for your stellar outperformance?

The core business model of the Bank is quite strong and is delivering good quality risk-adjusted returns. What is driving the profitability is a strong growth in core income. We call this pre-provisioning operating profit and it is a direct indicator of core efficiency. The operating leverage is now playing out strongly, and growth in expenses is much lower than growth and income. Last year FY 22, our loan book grew only 13 per cent, and our operating profit grew by 44 per cent. This year FY 23 too, we have guided our core pre-provisioning operating profit, PPOP, to grow by over 50 per cent, even though the loan book is expected to grow by only 25 per cent year on year.

Thus, every year our increase in operating profit is outpacing the growth of the loan book. Further, the credit cost and provisions are also quite low. Together this has resulted in strong growth in profit after tax. Now our profit after tax at ₹550 crore a quarter has become quite healthy. The more important thing is asset quality and we are very watchful on that front.

Your asset quality has improved, and you have reported net NPA of retail is only 0.7 per cent as per your presentation. The retail Gross NPA is 2 per cent, is this sustainable?

See, on credit quality, we should always be watchful and never

take our eyes off the ball. We have set up monitoring systems where we track all parameters closely, product by product, segment by segment, city by city, and so on. It is more important to track the input indicators that lead to NPA, SMA or NPA as an output. What I mean is that we track the percentage of customers who are already credit-tested before we onboard them.

Today, about 90 per cent of the customers whom we are taking on our books are already compared to 83 per cent three years ago, so we are moving to better quality strategically. Next, we check what percentage of customers by the value returned on their cheques paid on the presentation for insufficient funds to check the quality of incremental bookings, this has come down from 10 per cent to 5.5 per cent over the last three years. All these input parameters are more important as they give comfort about the credit quality in the future.

So, will the retail NPA will sustain at these levels in the future?

As I said the monitoring of input parameters is more important. For over 10 years our gross and net NPA are at levels of 2 per cent and 1 per cent, and this was through demonetization, GST implementation, ILFS problems and so on. The historical numbers are there in the investor presentation. The key thing to note is not just NPA but credit costs, and for us, it is quite low for a long time. Incrementally we have migrated to the best quality customer profile in every segment we are operating in as

explained earlier. Our credit costs are quite low at 1.1 per cent, we have guided for 1.5 per cent we are doing better than guidance. We are quite diversified in our portfolio. Our Pre NPA stage of SMA is also quite low, which is an indicator for future NPA.

What about the corporate loans side?

Here, the only portfolio where we have a high NPA is infrastructure. This is historical. We have accounted for most, only one account of about ₹750 crore is leading to the most of the NPA here. We expect that toll road account to sort out sooner or later, as it has cash flows from road tolls and post covid, cash flow has normalized. Once that is sorted, the Gross NPA at the Bank level itself, not just retail will come down to below 0.7 per cent. Infra will become insignificant or irrelevant in the next 2 years.

On the corporate side, all legacy large ticket loans have already been dealt with. Incrementally, after the merger in December 2018, the Bank has sanctioned around ₹18,000 crore of new wholesale loans across more than 270 new clients and the asset quality on this book has been pristine.

How do you expect your segment-wise revenue mix and CASA ratio to evolve over the next 2-3 years?

Our revenue is gathering more momentum, not just from lending like retail and commercial assets business like home loans, car loans, etc, but also from wholesale banking businesses like a term loan, working capital facilities etc. The retail and commercial asset segment including the rural businesses is diversified across more than 20 products and product variants. The Bank is not dependent on the trading gains from treasury activities for its core profitability growth. Even if the trading gain is zero, the bank will do well in profits, that's a big progress for the bank.

The Bank has created a strong franchise of retail deposits supported by customer-friendly products and processes, a growing branch network and attractive product propositions. This has helped in growing the CASA deposits strongly and steadily and the CASA ratio is around 50 per cent which is quite healthy. We feel we can maintain this.

Beyond lending, in FY22 the IDFC First bank has also considerably scaled up several other new businesses such as digital cash management solutions, FASTag, toll acquiring business, credit cards and wealth management. What is your vision for these businesses over the long term?

There is a lot of scope here, we have just started here. The Bank has launched most of these businesses in the last 2-3 years and has been scaling them up with highly customer-friendly products. The Bank is very bullish on growing each one of them with a continuous focus on innovation and service. With scale, these businesses are likely to enhance the overall profitability of the Bank.

The bank's board has recently approved the capital raise plan for an amount aggregating up to ₹4,000 crore for the next one year. Could you elucidate on the same and the current state of your capital adequacy?

The Bank is well capitalized with a capital adequacy ratio of 15.35 per cent and does not need any immediate equity capital. However, as a prudent bank, we should always be well-capitalized. Our incremental business is very profitable on a risk-adjusted basis so incremental capital is utilized very well and will lift the overall return on equity of the bank as we deploy the capital. So we plan to raise capital within the next one year to support our growth and expansion plans.

With healthy trends in growth momentum expected to persist, what is your earnings outlook for the next few quarters? Do you expect retail loan growth to outpace corporate loan growth?

We are confident about continuing our profitability growth in the future quarters. At the beginning of the financial year, we set a target of reaching double-digit ROE by the fourth quarter of FY 23, which we achieved in the 2nd quarter itself. Our outlook for earning is quite strong. More than ROE itself, our trajectory of ROE is strong.

Presently, what are your top three strategic objectives?

One is to continue steady CASA and Retail Deposit Growth. We plan to fund incremental loan growth through incremental deposits. Second, to pay off about Rs 22000 crore of legacy borrowings which are at 8.8 per cent. Two, continuously focus on asset quality, and bring down Gross and net NPA to below 2 per cent and 1 per cent at the bank level, by better asset quality composition. Third, continuous improvement of the Profitability Ratio in a sustainable way.

In your annual report, you mentioned ethical banking is one of the key foundation pillars of the bank can you explain it?

We see that we have an opportunity to build a bank only once in a lifetime. So, we are putting a lot of effort into building a high-quality culture of customer friendly. It is not just a slogan, we actually want to demonstrate our employee-specific actions. So, all the products we have launched in the bank are highly customer friendly.

We have removed 25 complicated fees to make ourselves more friendly. We try and be innovative, and more convenient, and we train our employees for high customer service culture. If we make a mistake, we try to understand the root cause and fix it permanently, and advise our employees to be honest and apologise and fix it permanently. Culture is built bit by bit through demonstrative action, and we are working seriously on it from the foundation stage. You visit any branch and meet our employees informally, you'll see the point.