IDFC First's at a Seminal Moment with Core Profit Growth

ET Q&A

IDFC First Bank reported a 50% year-on-year growth in net profit to ₹152 crore in the second quarter ended September led by strong loan and fee growth. In an interview with **Joel Rebello**, CEO **V Vaidyanathan** said after three years of sluggish profits, the bank has now a strong base to record consistent growth in net profit. Edited excerpts:

You have guided for retail net NPAs at 1%. Can you share your outlook for the bank?

Things have now settled. Even after two waves of Covid collections, recovery is coming back strongly and retail NPAs are headed back to our long-term average of gross 2% and net 1% — it reinforces the strength of our model. We want to run a simple model of low-cost borrowing and stable lending. We are sticking to our plan made during the merger three years ago in terms of assets, liabilities and earnings.

Where is your growth going to come from?

We will be a very diversified lender. Right now, 12 business segments in our loan book do not constitute more than 15% each, which is the big picture. Within that, the biggest growth area is home loans. Mortgages including loan against property will be 40% of the book in the long run, which is about 24% as of now.

NIMs were strong at 5.76% this quarter. Where can we expect them to stabilise?

NIMs (net interest margins) will probably stabilise from here because we are doing more prime home loans, which have lesser margins relatively speaking. But at the same time, the good thing about home loans is it is very stable in credit behaviour. So when mortgages become 40% of our loan book, it will also give us stability in credit quality. I cannot make a forward comment on margins but they will stabilise from hereon depending on how our portfolio mix changes.

The bank is now at a very seminal moment because our core profit (excluding treasury), which is the dependable profit, has grown by 41%. The special thing is that it is now at a level higher than the core normalised credit loss. I have already guided that credit loss will continue to decline in Q3 and Q4. If you see the pre-merger P&L, the core income was just ₹91 crore, of which provisions were ₹560 crore, which means we were at a core loss. Now we have come to a core profit which is why it is such a seminal moment in our lives.

You have used some Covid provisions in Q2. Will you need to do more?

We track different indicators like cheque bounce and match it with our collections, which are now better than pre-Covid at 99.4%. Both read together, our understanding is that our provision requirement will be lesser in Q3 and further even in Q4. Basis the trends in collections, we will reach our guidance for retail NPAs ahead of time probably in early fiscal 2023. Yes, infra NPAs at 15% are high, but that is only 9% of our book. At the bank level, our gross NPA is 4.27% and it would have been 3.47% without the one road account. We have not given guidance on NPAs because it depends on how this road account performs from here. But I can safely say NPAs will come down going forward.