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V VAIDYANATHAN, MANAGING DIRECTOR & CEO, IDFC FIRST BANK

'Additional capital will position us for growth'

Marquee investors — Currant Sea and Platinum Invictus, affiliates of Warburg Pincus and ADIA Private Equity, respectively — are set to pick up stakes in IDFC First Bank for a combined ₹7,500 crore. **V Vaidyanathan**, *managing director and CEO of IDFC First Bank, tells* **Shobhana Subramanian** *that the additional capital will help position the lender for growth. Excerpts:*

Q&A

This is truly a big deal for IDFC First Bank...
Yes, it is an important day for the bank. Both investors are iconic names and invest only in companies that have good governance, and are professionals. They are focused on the long-term. When we get this kind of capital, I can focus on my work in the bank and value will get created. We are building foundations to be part of the big league, and this capital can set us on this path.

How did the deal come about? Is it because Warburg made a lot of money the last time, so the comfort level exists?
The honest answer is I reached out to them because I think the bank needed capital. I was also talking to one more party. We told them how the phase one was all about foundation building and how we can create phenomenal value over the five-seven years. I understand prospective investors did a lot of external due diligence, they studied how customers perceive the bank, the level of customer service vis a vis peers and so on. They said they liked the customer feedback. We were looking for a big block. Market conditions are not good for QIPs, QIBs often ask for discount to market if conditions are weak. Here, we were getting our full price as per Sebi formula, and in fact, a premium to the 10-day QIB formula. And there are no bankers, this is a direct deal.

The capital infusion gives you a good base....
The main point is that in today's environment, it is always good to have a buffer and prepare for any global chaos, etc. As a CEO, one of my big responsibilities is to always play safe, people trust us for that. Even though we were at 16%, I wanted to raise capital and take it to 19%. Capital gives us scale, operating leverage and profitability. So, I am really keen on that.

> YES, THIS WILL MEAN A DILUTION OF ABOUT 15%. BUT, OUR EARNINGS WILL GROW FASTER THAN THAT... THE BANK HAS A PHENOMENAL OPERATING MODEL

But, this means an immediate dilution...
Yes, this will mean a dilution of about 15%. But, our earnings will grow faster than that. The main point is that the bank has a phenomenal operating model. Otherwise, our operating profits could not have grown from ₹750 crore to ₹6,000 crore in just six years. But, even the best of ideas and models can get suffocated for lack of capital...we must be conservative. So I went looking for capital. The next phase will be transformative for the bank.

So, how exactly will the money be used?
At present, all our businesses are set with good underwriting capabilities and the corporate environment is more disciplined. We would like to continue to pursue rural banking, retail and MSME, which are our forte, and also corporate and commercial banking. To create long-term value, you need products that customers love and a brand that attracts customers, and strong unit economics.

How do you see the bank's performance in coming years?
Our losses on the liability side are coming down as the franchise is scaling up. Our retail loan portfolio — retail, agri, MSME, etc — which was ₹100 crore in 2010, has grown to ₹2 lakh crore. We have specialisation here, this should go one way up. I can see a 20% CAGR for a few years with quality. The bank has not posted a loss for five years. Our profit after tax will outpace the growth. This year has been bad for us because of the microfinance loss. From FY26 onwards, you should expect good numbers for four-five years.