'In FY22, our loan book should grow by 20%'

After the quarterly result, where the bank reported a net loss of ₹630 crore due to higher provisions, **V VAIDYANATHAN**, managing director and chief executive officer, IDFC First Bank, in conversation with **Subrata Panda**, spoke about the bank's growth plans, its retail-focused approach when it comes to growing its loan book, and its corporate strategy. Edited excerpts:

Your provisions were the highest this quarter and you have made a loss. Do you think non-performing assets (NPAs) will go up?

We are very formula-driven by the delinquency stage when it comes to provisions. This time there were lockdowns, there was no moratorium. So, there were slippages. The formula is such that it forces early recognition. According to our formula, second-quarter (Q2) provisions will be less than the first quarter's (Q1's); third-quarter (Q3) will be less than Q2's, and fourth quarter will be lesser than Q3's. There will be collections from the provided book.

What sort of collections will you get from the provided book?

Q&A

V VAIDYANATHAN
MD & CEO,
IDFC FIRST Bank

When economic activity revives, they will start repaying. We are seeing it already. Collections in the early bucket in July crossed 100 per cent of pre-lockdown collections of March 2020. We saw the same trend after the first wave of the pandemic.

Your provisions have gone up since the merger.

Unfortunately, it turned out that way. The first four-five quarters were hit by legacy wholesale and infrastructure loans. When we charged off in the Dewan or other accounts, that loss was permanent. But in retail, even after we charge off, customers continue to pay for quarters and years. That's the big difference.

How do you see NPAs of the retail portfolio?

NPAs will come down, but that is not the only benchmark. But NPAs also come down by provisions. The true test of credit quality is not just NPAs, annualised credit losses or provisions. Including large Q1 provisioning, our estimated credit loss for 2021-22 (FY22) is only around ₹2,900-3,000 crore, which translates into 2.5 per cent of the average estimated book for this year. Frankly, at 2.5 per cent in a Covid year, ours is as good as anybody else's at this book mix. For the next financial year, we anticipate even less than 2 per cent on our retail book. The issue is not credit quality.

How will you get there?

We have had a 2.75-per cent credit loss over a 10-year period. That time we were doing more new-to-credit. Now as a bank, we have become more conservative. We are doing more of the proportion of prime home loans. On every single guidance without exception, we are only doing better on 10/10 things. Our analytics also suggest it will be lesser than that. Our retail margins are strong enough to absorb 2 per cent and make an 18ish return on equity.

Then why are such margins not showing in the profits?

That's because we are a new bank. We are having to set up new branches, automated teller machines, and build a current account savings account. So expenses come on Day One, income comes later. Our issue is high operating expense, high cost-to-income.

What kind of growth are you looking at for your overall loan book?

We expect disbursals to pick up every quarter from here, if there are no more lockdowns because of the third wave. We can easily grow at 25 per cent on the retail side of the book in FY22. At the bank level, it should be about 20 per cent.

More on business-standard.com