'Cost-income ratio to dip as legacy deposits get re-priced'

V VAIDYANATHAN, MD & CEO of IDFC First Bank, says after addressing liability side issues in the last three years following Capital First–IDFC Bank merger, the bank is set to grow the loan book and profitability, in an interview with **Manojit Saha**. Edited excerpts:

Q&A

V VAIDYANATHAN
MD & CEO,
IDFC First Bank

While announcing the Q4 results, the bank said for the first three years after the merger, it grew its retail deposits base and slowed down the loan growth. Which are the areas the bank will focus on growing its loan book?

The current loan book composition is as follows: 38 per cent of the loan book is home loans or loan against property 38 per cent. Consumer loans are 18 per cent, vehicles are 12 per cent and small and medium enterprise loans are 12 per cent. We feel with each of these loans, everything will grow in this country. So, for us to grow the home loans or any other loans by 20-25 per cent is not a problem. In fact, we will be launching new businesses also in the next 2-3 years.

When Capital First merged with IDFC Bank in December 2018, you said to increase the retail loan book to 70 per cent of total loans in 5 years (from 30 per cent then) Have you achieved that target?

Yes, that was achieved long back. The way we are looking right now is, we have launched so many businesses... none of the businesses of the bank should exceed 15 per cent, except home loans, loans against property — where we have kept the upper cap at 20 per cent, and corporate loans. Basically, we want to be a diversified bank.

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You also talked about bringing cost to income ratio to 55 per cent from 80 per cent during the merger. The ratio was at 76 per cent as of March 2022. Will you be able to bring it down to the target level?

Whenever a new business is set up, that is how cost-income behaves. In the initial stage, there is very little income and you are setting up branches, ATMs, people etc. In fact, the half-year pre-merger period, the cost-income ratio was 92 per cent. After that, it is coming down every year and there are three reasons. One, even today there are legacy borrowings where we are paying 8.7 per cent. When we replace them with the current cost of money, which is 4 per cent less, the cost-income ratio will get better. The other reason is credit card business in which we have high-cost income – in excess of 130 per cent... we are very sure credit cards will be profitable and will reduce the cost-income in the next three years. The third reason is as we have set up branches, those will start to sell many products.

The bank has seen improvement in asset quality in the last four quarters. How do you think asset quality will shape up going ahead?

In asset quality, there are two-three things to look at. Our Gross NPA has come down from 4.01 per cent in March 2021 to 2.63 per cent as of March 2022 on the retail side. Net NPA has come down from 1.9 per cent in March 2021 to 1.1 per cent in March 2022.

Our SMA (For special mention accounts), which is pre-NPA stage, the bucket is also shrinking quite sharply. Retail slippages are coming down every quarter.

I believe the bank is set for a very solid performance in the next three years. The first three years, we were not growing the loan book much because we have challenges on the liabilities side to address. But that is all sorted.

Excluding one wholesale account of the retail chain, which was a one-off and well provided, the Q4FY22 annualised net slippage was only 1.85 per cent. Recoveries are increasing for the last four quarters. Every indicator suggests our asset quality is getting better. By next year, the bank's retail NPA is expected to come down to below 2 per cent across and net NPA of retail should come down to below 1 per cent.

How do you see profitability of the bank in the next few years?

I believe the bank is set for a very solid performance in the next three years. The first three years, we were not growing the loan book much because we have challenges on the liabilities side to address. But that is all sorted. This year onwards, you will begin to see profitability rising. Last year our operating profit grew 44 per cent. We expect that this year and the next, that kind of track can be maintained.

Full interview on business standard.com