Interview

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"The Bank Is Clearly Riding A Steep Growth Curve"

What is your outlook on the Indian banking sector? In your view, which key drivers will boost India's credit growth over the next couple of years?

After the pandemic impact we have seen a strong rebound and expect to witness a healthier banking system on the back of strong economic growth. This improvement is evidenced in the recent RBI sectoral deployment data which showed that bank credit in the fortnight ended July 15 rose strongly by 12.89 per cent (which is more than the average credit growth of 10-12 per cent during the last five years) to touch ₹122.81 lakh crore while deposits rose by 8.35 per cent to ₹168.09 lakh crore.

On the policy front, the Reserve Bank of India hiked the repo rate by 50 basis points on August 5, taking the policy rate back to the late-2019 levels. The Monetary Policy Committee stated that domestic economic activity is progressing broadly along its expected lines, with India expected to be among the fastest growing economies during 2022-23. GDP growth for this fiscal is projected at 7.2 per cent. Considering the low credit penetration level in India as compared to the other economies and the vast opportunity of credit growth India provides, the Indian banking system will play a critical role going forward in moving India to USD 5 trillion in the coming years.

The overall credit ecosystem and infrastructure in terms of credit bureau maturity, data analytics, and technology stack and payment process innovations have enhanced the opportunity further. Over the past few years, several waves of recapitalisation have given banks the much-needed impetus to clean a large part of the bad loans. Banks have been able to cut their gross NPAs from 11 per cent of total advances in 2017-18 to 5.9 per cent in 2021-22. Most banks today have comfortable levels of capital. Against this backdrop, several factors are expected to drive growth for banks – from rising needs for working capital from businesses that are normalising operations to increase in consumption loans as retail customers increase spends after the pandemic.

At IDFC First Bank, for instance, we saw our housing loans book grow by 61 per cent YoY, while our overall funded assets increased by 21 per cent to ₹137,663 crore for the quarter ended June 30, 2022. Further, digital innovations, robust credit underwriting and customer-centricity would be some of the key drivers for India's credit growth over the next couple of years. The ease of operations along with data security would be one of the biggest priorities for customers while choosing their service providers, be it banking or any other services.

Getting all the essential services related to banking including savings, borrowings, investments and insurance under one umbrella along with value-added services would be something to watch out for. We believe the outlook for the banking sector is bright in FY23 but will depend to an extent on the global macroeconomic situation, evolving geopolitics and its impact on inflation and logistics. Despite these factors, we expect both deposits and credit to record healthy growth in FY23 for our bank, with retail loan growth outpacing corporate loan growth.

IDFC First Bank reported its highest ever net profit of ₹474 crore for the quarter ended June 2022. Can you highlight the factors that have contributed to your exceptional performance?

The bank has developed a robust business model with strong core earning power and profitability. The incremental business profitability economics is so strong that it is pulling up the overall profitability every quarter as it is evident from the significant improvement in the return ratios quarter on quarter. Our bank's Q1FY23 results show a strong growth trend in profitability with ROA now touching ~1 per cent. Business growth including assets and deposits has been strong and the bank has maintained the CASA ratio at a level of ~50 per cent which is better than the industry average. This has helped the bank to have a strong and steady net interest margin of around 6 per cent. The bank also has a very well-diversified fee income base which has just started firing up and would bring higher income levels going forward.

The bank has invested in branch network, digital innovations and technology framework over the last three years and will continue to do so. The bank has started reaping the benefits of such investments and the cost to income ratio is gradually improving. The bank has done extremely well in improving its asset quality quarter on quarter after the impact of the pandemic and reached a level where the key parameters of asset quality are indicating a much better portfolio performance, even better than the pre-pandemic levels. Along with the strong recovery in the provisioned portfolio, this has helped to contain the credit cost at a much lower level as compared to the levels guided by the bank earlier.

We expect the profitability trajectory to improve even further going forward led by several factors, including powerful unit economics, retail lending business ROE of 18-20 per cent, retiring of high-cost legacy liabilities of ~₹22,000 crore at 8.75 per cent with lower replacement cost, growth in the credit cards business, improving branch productivity, new business launches such as wealth, FASTag, cash management solutions, a profitable wholesale business, lower provisions and improved operating leverage.

Can you elucidate how IDFC First Bank is leveraging new technologies, automation of processes and the wave of digital adoption?

We are focused on creating value and great experiences for our customers. All our technology initiatives are targeted to deliver speed, agility and personalised digital experiences for our customers. Our superior technology stack gives customers the power to save, borrow, pay, invest and grow their wealth seamlessly, with minimum clicks. From digital on-boarding and live digital assistance to effortless investing and budgeting, we believe that our new platforms with superior UI | UX have led to higher digital density and greater digital adoption by our customers.

Many of our digital-driven products are industry firsts in a way. For instance, we launched a new mobile app with several unique features like universal search facility, customer service, mutual fund investing, ASBA IPO facility, etc. In another example, since January 2021 we have issued more than 1 million credit cards and the journey is all digitally led. The following numbers are some evidence of the growing digital adoption among our customers: In FY22, 91.76 per cent of retail transactions were digital, virtual payment addresses grew by 95 per cent, person-to-person and person-to-merchant transactions grew by 155 per cent, bill payments rose 121 per cent and we saw a 79 per cent growth in transactions on our POS devices as compared to FY21.

With healthy trends in growth momentum expected to persist, what is your earnings outlook for the next few quarters?

Our bank now stands on a rock-solid foundation, built over the past three years. On this strong platform, we can grow our loan book, deposit base and profits in a sustained way. In Q1FY23, we saw steady growth of over 20 per cent YoY, both on the lending side as well as the deposits side. The latest June quarter marked a key milestone in core operating profits of the bank, which grew by 64 per cent to touch nearly ₹1,000 crore. The bank posted its highest-ever profit after tax of ₹474 crore with ROE touching nearly 1 per cent. Our retail gross NPA and net NPA has reverted to 2.1 per cent and 0.9 per cent, respectively, and retail asset quality normalised ahead of our guidance of March 2023.

The bank has been investing consistently in technology, innovation, service, people and physical infrastructure. But despite these outlays, operating profits rose to ₹2,753 crore, growing at a CAGR of 36 per cent over the last three years since the formation of IDFC First Bank while the loans grew by a CAGR of ~6 per cent during the same period. This is proof of our powerful business model. In FY22, our core operating profit, which is net interest income plus fees minus operating expenses, rose 44 per cent YOY. We expect to sustain this growth momentum in FY23 and FY24 as well. With proven capability to raise CASA deposits, grow the loan book, legacy issues behind us, core operation profit growing with significant improvement in ROA and ROE, the bank is clearly riding a steep growth curve.

Can you share your experience as the CFO of India's leading private sector bank? What are some of the key challenges you faced and overcame during your tenure?

IDFC First Bank is a world-class bank in the making. It is also a new-age bank that's going through transformation and a sharp turnaround. As part of its leadership, it's a rare opportunity for me to play a key role in building the bank. The bank is currently an evolving ecosystem and such massive transformations call for tremendous efforts and challenging decisions. Under the strategic guidance of Managing Director and CEO V Vaidyanathan, I ensure a strong connect between the bank's capital allocation and its strategic priorities. We treat capital as a precious commodity and treat it with great respect.

Working with the MD and CEO and the business and functional leadership to execute the bank's strategy, evaluate risk-reward relationship continuously and determine what exactly drives profitable growth is an extremely rewarding experience. As a CFO, shareholders are my key stakeholders, so I need to look beyond the finance function, especially in a bank like ours which is growing well and navigating market challenges. I need to take holistic view from the perspective of what's driving business performance and find a balance between growth and operational expenses to deliver optimal shareholder returns.

What are the salient skills an individual should possess to become a successful CFO of a banking institution?

According to me, some of the following skill-sets would help to drive things in a desired manner:

- **Strategic Mindset:** In addition to financial competence, a CFO in a bank needs to most importantly have financial foresight and a perspective on risk. Financial planning and analysis of the financial health of an organisation is a CFO's mainstay, but it also important that he proposes strategic directions the bank needs to take in terms of liquidity and raising capital in the future. A CFO essentially needs to anticipate financial management issues and have a strategy in place to address them.

- **An Intuitive Understanding of Business:** It's impossible to become a CFO without impressive competence in accounting and finances. However, a good CFO would not be able to drive the strategy as mentioned above unless the person has a comprehensive knowledge of how business works, besides numbers. The more they know about all the aspects of running a business, the easier it becomes to draw on this knowledge to make quick and smart decisions.

- **Compliance with Financial Regulations:** Banking is a highly regulated sector and hence compliance with the various rules and regulations should be given utmost importance. A CFO must therefore work to protect the vital assets of the company, work with the highest degree of ethics and ensure compliance with various financial regulations and communicate value and risk issues to investors and boards in a transparent manner.

- **Innovation:** Last but not the least, we all know that the banking paradigm is fast evolving and technology has a vital role to play to ensure the best of products innovation and superior services all around. In this context, a CFO can also be innovation's most important enabler and is best placed to help identify, select and refine the value proposition of the ideas that come up. He has to ensure that innovation investments produce economic value for the company and are well-balanced.