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Synopsis
IDFC First Bank's CEO, V Vaidyanathan, reveals stress in the microfinance sector due to multiple adverse events. Despite rising delinquencies, IDFC First fares better than peers. A significant write-off on an infrastructure loan is also highlighted. However, robust deposit growth and overall portfolio health indicate resilience and continued growth prospects.

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V Vaidyanathan on how IDFC First Bank is growing@30% despite MFI business stress & infra loan account write-off

V Vaidyanathan, MD & CEO, IDFC First Bank, says the microfinance sector's delinquency has been going up and other than IDFC First, other banks have also been affected. The good thing is IDFC's delinquency as compared to the rest of the industry, is much less. SMA or pre-NPA is only 2.5% as compared to 3.5% to 4% or maybe 2.7% to 4% for similar banks. Also, now 50% of the portfolio is insured and it will reach 75% by March '25. Vaidyanathan also says that they have taken a big write-off on an infrastructure loan candidate who used to collect tolls from cars entering and leaving Mumbai. As the government has announced that no toll will be levied, this company was in dire straits. From next quarter, the name of this account will not be there anymore.

Good comes with the bad and for the quarter gone by, there is a lot of good, but there is a lot of bad also. What shall we start with?
V Vaidyanathan: We should start with the bad because people will want to hear what really happened this quarter and we need to explain.

So, why don't you indicate to us what transpired and what caused stress for IDFC Bank for the quarter gone by?
V Vaidyanathan: This quarter, there is stress in the microfinance business, which is really in the news across the system now. Many things came together, the heat wave, the elections, a bit of over-leveraging in that segment because a lot of lenders wanted to lend to that segment. So, many things came together. There were also floods in Tamil Nadu.

So, a strange storm of events all came together. The sector's delinquency has been going up and we may have seen this from other players as well. In our case also, we have more delinquency in the microfinance sector. Now, the good thing is that we have compared our delinquency as compared to the rest of the industry. There, we are finding that our SMA was only 2.5% as compared to similar banks, etc, which are at about 3.5% to 4% or maybe 2.7% to 4%. Just to explain the technicality, SMA is the pre-NPA stage, 30 DPD to 90 DPD, that is 60-day overdue account, that number So comparatively, we were better, but still, at the end of the day, there is stress.

We were earlier providing at 90 days past due, we advanced it by two buckets of the entire 30 DPD stage, which is two stages before the NPA, we have taken 99% provisions. We saw the issue, we recognised it and hence, the delinquency in the microfinance sector went up.

Are you reasonably confident that you do not expect stress to accelerate in the entire microfinance business, because the economy has not accelerated back, the stress points in the economy, which caused the microfinance issue, still exist?
V Vaidyanathan: It is not about the economy. If it was the economy, then an entire portfolio should show delinquency. It is not so. We have given a very detailed presentation on page number 32 of the investor presentation, where we have shown that MFI, the SMA, which is the 30 to 90 DPD, and that is going up from 1.2 to 2.5. But the other books are all very stable. So, it is not the economy.

But coming back to the MFI sector, we saw this way back in December of 2023, when we saw the centre meeting attendance falling. What we did was, at that stage itself in a proactive manner, we started insuring our portfolio. So, today, 50% of the portfolio is insured, which will reach 75% by March 25.

I have a follow-up question on the MFI business. Would you be slowing this business down? If you slow this business down, could this have an impact on aggregate portfolio yields?
V Vaidyanathan: We should be very careful about what comes first. We have to keep our portfolio safe. So, to that extent, we have already brought it down by Rs 12,500 crore or 13,000 crore already. But we are in the market and we should be very careful. We have reduced dispersal, a portfolio has come down, and that is a part of life. If there is a concurrent impact on some income, etc, that is part of life, we will take it.

But while we slow it down, I want to make it clear that this is a very important segment for India, it is the lower part of the Indian economy. This is the first time they are all coming to formal credit. We should not really choke off the pipes on this segment. They are women, they are micro entrepreneurs, and so they are a very important segment. So, we have no intention of closing this book. It is an important segment. We live, we learn, we refine the criteria and keep growing. It is an important segment. We live, we learn, we refine the criteria and keep growing. It is an important segment for the country, and an important segment for us also.

What about the rest of the portfolio? You have taken a big write off in a single account. Everyone is curious to know what has gone wrong. Did you see this coming? And what could be the implications of it?
V Vaidyanathan: As you know, this bank had about Rs 22,000 crore of infrastructure loans. We have brought it down substantially, to about Rs 2500 crore as we speak. This company collects tolls when vehicles are entering or exiting Mumbai. This quarter, the government announced that there will be no toll. Our client got stuck in the midst of it. We know that they will not be able to service the account well enough from now on. While they were already NPA, at least they were paying. But that will be tickled down.

So, we really do not carry issues. If you remember how we dealt with Vodafone, Reliance Capital, Dewan Housing or Cox & Kings, you will remember how we dealt with it. So we saw the issue, and we have taken steps, because we do not want to prolong the issues and do not want to keep the future quarters hostage to this one account. But it is over and done with. But next quarter, you will not see the name of this account anymore.

In the last three years of IDFC Bank's trajectory, the growth has been strong. Deposit accretion has been fantastic and we have been gradually and surely improving the ROAs. Can I say that the big picture which you have been sharing in terms of mobilising retail deposit and aggregate credit growth, and your path to improve your ROA, is still intact? What has happened for the quarter gone by is not the true picture of what lies ahead?
V Vaidyanathan: Net profit has got affected by these items. They would not be repeated. At least the toll would not repeat and microfinance will play itself out and the credit cost will reduce from here. Coming to the core, that is why we said the bad news first so that we get it out of the way. But as far as the good news is concerned, this bank, this quarter, had some really good news on many fronts which got lost in the din to these two issues.

What were the two? Our deposit base is still growing at 32%. It is something in this country and has reached a reasonable scale, a good scale of 2,18,000 crores customer deposits, 80% of our deposits is retail, coming from retail branches and CASA is almost touching 48%, which is very healthy in the system. This is very significant and our loan growth is 20% plus.

So, if deposits grow by 30%, loan grows by 20%, and loan asset quality, excluding microfinance, for the rest of the book, the NPA is good, the SMA is good. The gross NPA is 1.9% and net NPA is 0.5% including MFI and everything else. The overall asset quality is also good. I want to leave it at that.

Do you expect this kind of credit growth that you have reported for the quarter gone by to maintain it or consciously, could you be forced to slow it down, looking at the health of the banking sector?
V Vaidyanathan: We are always very cautious of the health of the sector and frankly, the overall sector is quite good, except that we should be very careful. We are very conscious of asset quality and we are proud also. It has been like 14-15 years now. We have never had a blow up on credit. This quarter, we had microfinance, I do not deny. But that happened to everybody. It is not that our bank alone had a microfinance problem.

Coming back to the point, growth and deposit growth should continue. We are growing at 30% and that is doing very well for us. Our brand has become very powerful and attracting customers. So that growth should continue, both on the deposit side, as well as the loan side.