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We have enough gas in our tank and even if there is turbulence, we will be very safe: V Vaidyanathan, IDFC First Bank

V Vaidyanathan, MD & CEO, **IDFC First Bank**, says "ROA will improve in due course. I cannot claim it will increase every quarter because business is business and one quarter can be up and down. But when you take year on year, when you take '23 over '.2.Z '.24 over '.23, '.25 over '.24, '.26 over '.25, the bank will see continuous increase because we have set a very core model. We are not hurrying it up. We are playing this game in a very safe and stable manner and when you play in a safe and stable manner, sometimes you take time but it becomes more sure, that is the approach we have. But you will see a year-on-year growth and it has moved out literally from Oto 1 in four years."

You have ticked all the boxes, if I look at growth. Profit growth is 30% plus, deposit growth, 30% plus, NIM growth, 30% plus. So, 30% seems to be the new normal for IDFC First Bank. But as you grow, your base also increases. Can you maintain this run rate of 30% plus for the next 3 to 5 years?

Very interesting that you brought in a new angle of 30%. Really, we did not think about it like that. The way we think about it, looking ahead, we think that the **loan growth** of about 24-25% is what we guide for. We think that is very much achievable, even for this year. And profit and deposits, by the way, are the foundation for any bank because that is the raw material. Toe really good news for the bank is customer deposits are growing thick and strong for the bank, it is up like 44%. So, if not 44%, at least 40% is very much sustainable for the rest of the year. Toe route is very clear to us.

How will you manage to beat the base effect? Could it be because of the pure expansion of the book or you think it's the tailwind in the sector which is so strong that at your base, managing this kind of a number is not a problem, despite the high base?

It is not a high base, first of all. The big four banks are running deposits of Rs 18-20 lakh crore. Our deposit base is only like Rs 1.6 lakh crore. We feel that we are relatively a small base. And for a small base to sprint ahead at this rate is very much possible. So, basically, since our branch network has rolled out, our brand image has become very strong. Very, very strong, of course, not in the league of the big four but, let me say, it is quite strong. So, a good brand, good product, a good corporate governance image, all that will bring deposits. We feel confident for the rest of the year. And incidentally, we dropped interest rates with just 3% for less than Rs l lakh. Money was flowing so thick and fast into the bank.

The net interest margins remain steady at about 6.3%. They were steady at a time when peers have reported a drop largely because of the interest rate curve. Going forward, now that interest rates are becoming benign, what happens to your net interest margins?

We feel it will be stable for the rest of the year. We do not see a major problem with that.

And do you think you will be able to grow your deposit base at 40% given that there is still a war of liabilities in the Indian banking sector?

That is what I was pointing out. At least for the rest of this year, things look quite clear. We feel confident for the next year also. In 2024-25 also, we feel confident about sustaining a strong deposit growth because even in 2024-25, our base will still be small. There is a base effect working in our favour and the base being low, for the next four or five years, our base will continue to remain low compared to the big banks. Then probably things will stabilise. Frankly, we do not need deposit growth at 40% after two or three years because since the loan growth is only 20-25%, you do not need 40%. You need 40% only for two more years when we are going to pay off those legacy infrastructure bonds. We need to honour that and we need funds for growth. So this 40% need is only for a couple of years.

The way I look at the IDFC First Bank trajectory is that first it was in repair mode. Now it is in growth mode. And now the benefits of operating leverage would kick in which is that sooner than later, your cost to income ratio will start coming down. When do you see that big turn happening? 2000-2021 was repair mode; 2022-2023 was about growth. Now perhaps the benefit of scale and size should come in when it comes to things like cost to income ratio.

Yes, very much actually. The first four years, three years, we have been here post-merger for close to five years now. The first three and a half, four years were repair only. actually. In the last one, one and a half years, we are feeling very strong on the foundation. On this foundation, we are feeling very confident to grow the loan by 24-25% and grow the deposit by the numbers we talked about. When you look ahead, the key thing on cost to income is that even in this year itself, we were expecting some sort of a dip. But as interest costs went up in the system overall by a meaningful number, our interest costs went up and therefore the cost to income ratio got affected because when you have cost to income, you take net income, net of interest cost. By next year, by the exit quarter of 2025, we should see a more meaningful reduction. And 2026-2027- 2028, one can see that this story will play out very well. We have spent five years converting from a large DFI to a bank. So in that sense, the progress has been pretty swift.

One chink in the armour or fly in the ointment is ROA. It is not way below your guidance, but it is still below your guidance of 1.4%. When will that surprise factor kick in?

Definitely, it will improve in due course. I cannot claim it will increase every quarter because business is business and one quarter can be up and down. But when you take year on year, when you take 23 over 22, 24 over 23, 25 over 24, 26 over 25, the bank will see continuous increase because we have set a very core model. We are not hurrying it up. We are playing this game in a very safe and stable manner and when you play in a safe and stable manner, sometimes you take time but it becomes more sure, that is the approach we have. But you will see a year-on-year growth and it has moved out literally from Oto 1 in four years. It is pretty healthy now and we feel better.

It is healthy indeed, but the growth that you have reported in a sense is making markets and your shareholders hungry for more. That is the spirit of the market. My next point is that you raise capital in the quarter gone by.

No, I said that is the spirit of the market but it is my job to calm down everybody and not to get too excited and we are playing for steady innings, for long innings and I really request people not to expect miracles, not to expect quick work. Bank is doing a steady job and steady and sure job is much better than quick and unsteady.

How much importance, honestly, do you pay to the stock performance because when banks are growing, they need capital and they tap the market, which is what you have done. So, in the overall scheme of things, for any growing bank like yours, there is a need of capital which in a sense is serviced by equity raise and for that you need a good price. How much importance do you pay to your stock price?

The way we look at it is that if we do the fundamentals right, somehow the markets do recognise that. Even today, our return on equity is not that high, compared to many of the peer banks, it is still in the build-up stage.

But the market is valuing us relatively better than our return on equity today. So, we do believe that the markets appreciate a safe and steady job with a clear picture thrown out for the future, and it is reflected in share price. I agree with you, but the more important thing is that we are well capitalised. In today's concept, we are well set and even if war and other things are going around, even if there is some bit of turbulence, we will be very safe because we have enough gas in our tank.

You have just done a small round of capital raise. Do yon think you have raised capital because capital was available, on the tap or did you genuinely need capital because the growth right now is so strong that even if you plough back your profit, you genuinely do not need capital?

It is not only because the capital is available on taps. The good news is that, like I said, in our case, when we wanted capital, we touched the market and we got Rs 3,000 crore. The market has confidence in us for which I am really grateful to the markets. The more important thing is that as a well-governed bank to be over-capitalised is a good thing and it gives lot of ... give us our board, our risk management committee, it gives a lot of comfort to our board. Our board is a very conservative board and they just want to be sitting on a lot of capital all the time and I think the same way as well.

If you have to divide the trajectory of the bank in three pockets, shortterm or one to two years; medium-term, three to five years; long-term, which is five years plus. Can you give us a sense of the roadmap, shortterm, medium-term, long-term?

Let me talk long term first. In terms of long term, I once did a quick work about the Indian market on three businesses - retail business, MSME business and the agricultural/ rural business. This market today is $1 trillion. If we just did a reasonable assumption of growth, in 20 years it should be $15 trillion and when we did our growth, you do not have to take my word but we guessed it at say 20% for 20 years. It could be 18% also, it could be 15% also.

I want to leave the caveats open but if we did that, we found that the loan book could be any number, I do not want to say the number also, it looks really so high, it looks like a multiple of 35 plus, so that is kind of growth opportunity is available. So, we are always focussed on that. I know quarter numbers are good, but we do not get excited by that because our eyes are there. In the medium run, we should focus upon building the bank in a stable manner, manage all these headwinds and economic situations and post a decent return on equity and return on assets.

In the short run, we should be very focussed on managing our credit quality and particularly with the messages going around in the environment, etc, global environment not India, we should be very particular on asset quality.

But given that right now Reserve Bank of India once again has raised concerns about unsecured loans, as a banker do you think there is a concern coming there? Is there a bomb ticking somewhere or don't you see any problem whatsoever at least on the unsecured part?

We have tightened all our credit norms. We do not want to get complacent on the fact that we never had a credit problem. In 13 years, our gross NPA has been 2%, net has been 1%, and credit costs are very low. We take confidence from that but we do not want to be complacent. So, we have tightened all our norms just to be extra safe because we heed the concerns and they are important concerns.