V VAIDYANATHAN, MD & CEO, IDFC FIRST BANK

'Borrowers will get used to new rate structure in 3-4 months'

V Vaidyanathan, *MD & CEO, IDFC First Bank, is optimistic that despite the rise in interest rates, the huge need for cars and homes in the country will keep demand going. In an interview with* **Shashank Didmishe**, *he says that affordability is the highest in the last 25 years. Edited excerpts:*

What is the outlook on credit growth in the rising interest rate scenario?

The lending side interest rates have gone up by about 1-1.5% in the last few months. The rising interest rate scenario does slow down things, particularly in interest rate-sensitive segments such as home loans, for a few months, but within three or four months, typically people get used to the new rate structures and disbursals resume as usual. This is because at a fundamental level, there is a huge need for people in the country to buy homes, cars, etc.

Will affordability be adversely impacted?

Research reports say that the cost of a median home as percentage of median annual income was over 20 in the 1990s, it came down to around 5-6 in the 2000s, to around 4 in the 2010s, and to 3.2 to in the 2020s, so affordability has improved substantially. This was all because of a sharper rise in income than the increase in cost of goods, so affordability is the highest in 25 years. This is a very material point. Affordability for every category, like cars and others, has gone up for the same reason.

Do you see the demand for housing loans continuing?

Our mortgage-backed book, including home loan, loan against property or business banking, is ₹42-43,000 crore approximately. The home loan book is the fastest growing large segment for us.

Has the new inactive credit card users' norm led to more cancellations?

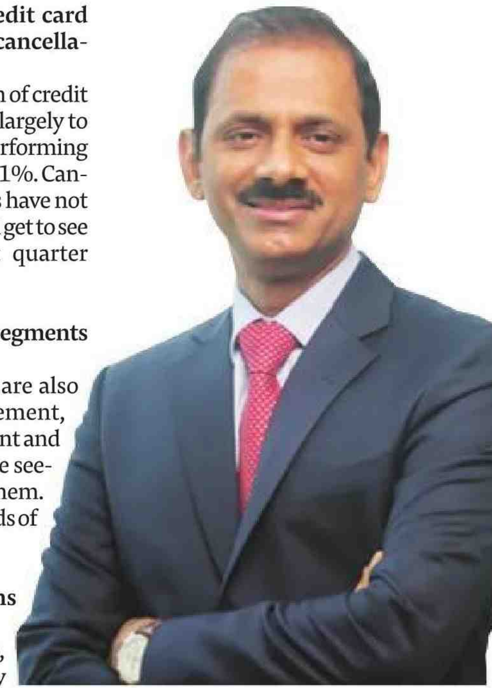
In the initial stage of launch of credit cards, we have given cards largely to existing customers. Non-performing assets (NPAs) are less than 1%. Cancellations for inactive users have not yet started for us, but we will get to see the numbers from next quarter onwards.

Which loans will be focus segments for the bank going ahead?

Apart from loans, etc, we are also growing our cash management, FASTag, wealth management and other fee businesses. We are seeing good success in all of them. They are all growing upwards of 50% per annum.

What are the future plans for wealth management?

This was a new launch for us, but we are growing strongly here. This book has already crossed around ₹8,000 crore for us, and is growing by over 50% annually. Here our products are very customer-friendly, with minimal charges, but we still make good fee income as we get annuity income.



What was your strategy on CASA?

We are providing high levels of customer service. We teach our employees again and again in every forum never to mis-sell anything. All our products mirror a customer-first approach. We are anyway honouring past infrastructure bonds, etc at 8-9%. We expect to sustain a CASA ratio above 50%.

How long will it take to retire legacy IDFC borrowings?

About three years. The amount is pretty large; we are honouring ₹22,000 crore at around 8.9%. We'll benefit significantly, say by over 3%, as we replace these with the current cost of funds. It will add ₹650-700 crore annually to our profitability.

> **We expect to improve our operating profit by 45-50% in FY23 over FY22, because income will rise faster than expenses from here. Going by the half-year performance, we are on track.**

In your presentation, you have shared asset quality numbers, but not given any guidance. What is your guidance on this front at the bank level?

Our retail gross NPA ratio is 2% and net is 0.7%, which is in line with our guidance. It has been in this range for 12 years now in our combined history, except for during the pandemic, so we have reverted to pre-pandemic levels. Our provision coverage ratio (PCR) on retail has crossed 78%. Even our bank-level PCR is about 77%. In fact, at a bank level, if you see the bank NPA excluding infrastructure loans, which we will run-off anyway, the gross is only 2.27% and the net is only 0.63%.

Are you planning to transfer legacy infrastructure loan accounts to NARCL?

No.

What is the outlook on profitability?

We have already guided that we expect to improve our operating profit by 45-50% in FY23 over FY22, because income will rise faster than expenses from here. Going by the half-year performance, we are on track. We expect FY24 to also be strong on similar lines. Profits would be strong from this year onwards.