

● **INTERVIEW: V VAIDYANATHAN, MD & CEO, IDFC First Bank**

‘Our provision numbers will eventually fall to just 2% of advances’

IDFC First Bank expects the government to prevent a duopoly in the telecom sector, MD & CEO V Vaidyanathan tells Shritama Bose. The lender expects its credit costs to taper off over the years, he says. Excerpts:

Loan growth has been anaemic for the whole industry for a while now at 5-6% levels. You have grown at 9%. What is driving that?

The main thing is that we've started home loans, and that was the biggest driver of growth. A quarter ago, we brought down the interest rate on savings accounts from 6% to peak rate of 5%. Therefore, we have suddenly become competitive in the prime home loan segment.

Q1 was a difficult quarter for collections. Are you seeing a pullback thereafter?

After mid-June, we have been seeing a sharp recovery in the collections. In pre-Covid February 2020, the collection level

was 98.8% and in July 2021 collections in the early bucket have risen to 99.4% ... That is why we are guiding that our provision numbers will be coming down to just 2% of the advances going forward, below pre-Covid levels, which would be pretty good. Another reason also is that we are doing prime home loans, which has hardly any delinquency. Don't go by this quarter provisions, we recognised early because of the nature of our stiff provisioning policy.

Retail distress has risen in Q1 mainly because of lower collections. Could the distress be more entrenched for some households?

No. If that were the case, how could our early or current bucket collections have come back to the 99.4% level after the Covid second wave? The cash flows of customers were affected, once their cash flows came back, they began to



honour the instalments.

There is concern around a telecom company which is not stressed, but has sent out rescue calls to the government. How are you dealing with that exposure?

We believe the government will try to work out some solution to keep it a viable

industry and it won't become a duopoly for India's sake. We were transparent about this account, we identified it early, and have a provision of ₹487 crore on this account already. Our capital adequacy is already 15.6%. So, theoretically, just to simulate, even if we charge the entire 100% on the funded exposure of ₹2,000 crore, our capital adequacy will still be very strong at around 14.7%. Not that we intend to do that, but just to simulate, even if it did get there, we are prepared. We have a very profitable incremental business. One day all these issues will become history.

What is the profitability outlook?

We have been profitable for the last five quarters. Last quarter, we hit the highest ever core pre-provisioning operating profit of ₹601 crore in the history of the bank, which is more than double since the merger. This despite adding 400 branches,

600 ATMs, hiring 12,000 employees, launching credit cards, salary accounts, fast tags, Fleet cards, building the technology layer, and growing ₹50,000 crore of retail liabilities ... So obviously, the incremental lending is very profitable, which is buffering these investments in liabilities. As the past issues go away, you will see it more in the profits line.

But there have been too many issues in infrastructure?

Yes, that's the nature of any infra DFI (development finance institution). Whether Dewan, Reliance Infra or this telecom, they are all legacy businesses. Not a single new corporate account booked post-merger is even in SMA1 in the last two-and-a-half years.

The conversion from the DFI has taken too long.

You ask Mr. (KV) Kamath how hard it is. He is the only other person that I know who has converted a DFI to a bank. By the time you raise new low-cost retail liabilities, replace the high-cost liabilities and run off old loans, it takes years, and meanwhile it drags profit down. Even today, we are carrying ₹27,500 crore of infrastructure and other past borrowings where we are paying 8.6%, which we will replace with sub-5% and save about ₹1,000 crore a year. That's why it takes time. But once done, this will be an amazing institution. All issues, whether infra or the telecom, will go away today or tomorrow.

One of the options being floated is that banks take over the company.

We are not even thinking along those lines. We are holding bonds. We have dealt with many things in our life, we will deal with this situation also.