

**Mr. V Vaidyanathan, MD & CEO, IDFC FIRST Bank speaks to
Business Today TV on Q4FY22 results**

Anchor: Siddharth Zarabi, Managing Editor, Business Today TV

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Siddharth Zarabi: Hello and welcome to Business Today. I am Siddharth Zarabi and with me today, Mr. Vaidyanathan, MD & CEO of IDFC FIRST Bank. Welcome to the show. And let me begin by asking you about your latest numbers. Very good numbers really. Overall, a significant improvement. And given those numbers, what do you see happening in the year going ahead?

Mr. Vaidyanathan: Yes, we are very happy. In the last three years, we have addressed, I think most issues, now liabilities side is very strong. CASA 50%, assets side issues are all sorted. So, I think now it's time for growth.

Siddharth Zarabi: Where will that growth come from that you are talking about? Because that sectoral sort of split should also tell our viewers about the overall sense and direction that the economy is headed in.

Mr. Vaidyanathan: If you to come from the context of how the economy is moving, we're finding that there is a very strong demand for credit at the mass people level. Basically, if you notice the country, the way we have run for the last 70, 80 years, that credit from the banks is always available to the large corporates and therefore with credit they grew, but people below the line were all operating on equity means the personal equity. So, for the first time, they're beginning to get credit. So. it's so credit-starved there that the demand is actually coming from that side. So that's where that's where you will see most banks reporting on the retail side, a growth of 20%, even the large banks with the loan books of Rs. 4-5 lakh crore. They're all growing at 20%. That's because it's so much strong demand there.

Siddharth Zarabi: Mr. Vaidyanathan, can you expand on how you have re-engineered that part of the book that you were just speaking about?

Mr. Vaidyanathan: The yield on that book on the retail side, because it's all credit-starved and all that, is quite good and the margins are very strong on the retail side. And more than margins being strong, the asset quality is very stable and very predictable. You know, even when demonetization happened, temporarily there were issues, but things normalized, then GST implementation happened in 2017, normalized, and the NBFC crises came in 2019, you know, retail book behaved well. Now COVID also has come and gone, now also after COVID, NPA has come down to 2.5% after gross, and net is even 1.1% after COVID also for our bank. So, it teaches us one thing that crisis, or no crisis, may come and go, but the end consumer always pays the money, the moment the cycle becomes better. So, I think, that is the key takeaway for that.

Siddharth Zarabi: So, what are your expectations for provisioning for the current financial year?

Mr. Vaidyanathan: Yes, if you see our provisions for the last three quarters, Q2 provisions are lesser than Q1 FY22, Q2 was better than Q1, Q3 is better than Q2 and Q4 was lesser than Q3. So, you can see provisions are coming down every quarter for the Bank. We feel that overall basis provisions for FY23 will be lesser than the provisions of FY22 also, by order of magnitude and we are now guiding for credit loss of only 1.5%. We are confident about that. We feel that asset quality is truly improving in the country. All collection numbers, everything is saying that, and bureau records are also saying the same thing.

Siddharth Zarabi: Since we are on the issue of interest rates, I want your comments about that. It's clear, the interest rate cycle has changed, and the RBI will do whatever it feels is correct. What's your own sense?

Mr. Vaidyanathan: Yes, it is pretty obvious that interest rates will be rising in the country over the next year or so and we will have to factor for that. But in my experience of 2008 also or 2007-08, when interest rates suddenly rose in the country, typically banks end up, you know, increasing the interest rate but extending the tenure of the loan such that the EMI roughly remains the same. So, I think we have to get used to the cycles and this is one of them.

Siddharth Zarabi: One of the other facets about the current cycle is high inflation and the response that will come from the monetary authority. What do you see happening as far as this is concerned? And do you see an impact playing out on the consumer side of things?

Mr. Vaidyanathan: So that's what I pointed out to you, that in terms of consumer demand, I feel that the demand will continue to remain strong in this country because like I said, at a grassroots level, people find that the payback on loans is actually quite strong. I'll give you an example, If you're a farmer and you're taking some input credit for purchasing, say, fertilizers, and with that fertilizer you're producing your crop. So, there is a direct productive benefit for that loan that you're taking for your input material. And the payback is not in terms of interest, it's like very high. Similarly, if suppose money has been availed by a student to have an education loan, the payback on that education is a lifetime benefit. It's not about whether you pay 8 % or 9%.

So the credit enables, you know, a transformation of people's lives itself whether it's a farmer or a student or a business person and that happening, will, I foresee that should continue for quite a while, India is so credit-starved.

Siddharth Zarabi: I have a broader question and this relates to the impact of monetary policy on a supply side distortionary impact on inflation, what we are seeing in India and one of the concerns that has been expressed is that while it may control prices to some extent, it will also have the potential of stalling the recovery that has happened so far.

Mr. Vaidyanathan: It does work of course in terms of monetary policy, that's why the monetary policy they tighten it up when the inflation goes up. I'm sure there are some functions that are working there. But overall, credit demand, I think is improving. If you see the numbers, FY22 credit was higher than FY21. I do see that trend improving and particularly the balance sheets of banks are very, very clean, not just our bank, I'd say that generally the banking system because everybody's provided for whatever problems. So strong balance sheet, strong capital position of banks, I think it augurs well for the Indian economy.

Siddharth Zarabi: Let me turn to another broader aspect. And, you know, we have seen significant cleanups, a cycle in banking, really. And some people say that it's the cycle has changed decisively, and the banking sector is now in a position to support economic growth. What are your own views?

Mr. Vaidyanathan: Well, there's no doubt at all in my mind that the banking systems, credit books are quite clean during last four or five years, I think banks have worked at it and I can assure you, at our bank

for sure, we are in a very good shape, there are no more legacy accounts that are going to become NPA, either it has already become NPA or already provided, so, all legacy issues are sorted. Certainly at least at our bank, you can expect that from now on you will get to see growth and that's because the base is all clean.

Siddharth Zarabi: Let me hop to another subject and this is a completely different one in some ways the subject of startups, India has a very large startup ecosystem now and a lot of expectations and hype there. Do you think it's going to be sustainable as we go ahead?

Mr. Vaidyanathan: I am very bullish about that ecosystem of our country and very proud that our country has put it together. You know the numbers of the unicorns that got created and all that. But issue is not unicorns. Even if you go below and below and below those, there is a large chain of things happening there. The main reason is because that India has set up a really good payment architecture through UPI and now there are so many newer tools that are now coming about in the ecosystem, which are basically the bureau and the account aggregator and the ability to scrape information.

And of course, AI, ML, mobile phone, telephone, Aadhar, the whole capability has come together and that is a reason I believe that startups will continue to grow.

Siddharth Zarabi: Where do you see the institution in three years from now?

Mr. Vaidyanathan: The thing that about our bank is that our customer products are really very, very customer-friendly products. So, if any of your viewers are listening to the program, you can check your own bank, you are probably getting 3% on savings accounts or interest rate on your current bank. Siddharth I don't know, which your bank is, but you know, our bank is paying a minimum of 4% on savings rates.

So well, it's money, you shouldn't leave it on the table, and then there is, and of course, on the highest slab, we pay more. So, you get better interest rates, our customer friendliness is very high and you know we pay monthly credits, on credit cards we have so many benefits. So, we believe, really with good products on the side and with good profitability that's coming up in the next three years, we believe that our operating profit can compound by anywhere between 40 to 45% every year now for the next two

years that our eyes can see, actually for the next three years, is what we have predicted or projected. So, that all augurs very well for the profitability of the bank and we are very proud of the way the bank is coming up.

Siddharth Zarabi: My next question is a personal one but it's also significant I don't know how many of our viewers really know that you have actually sold your shares to give as gifts basically to help your staff out. Where did that come from? And would you like to speak about it a bit?

Mr. Vaidyanathan: Well, I normally don't speak much about that, you've got to excuse me. I just think that there's some stock I have, if anybody needs any help, I just transfer it, that's all. I mean, I don't want to comment on that.

Siddharth Zarabi: Finally, as we wind down this conversation, I want to come back to a topic that we had touched upon earlier. And this is consumer worry. So, they are also impacted by inflation. And a certain class of consumers is also worried that now as a consequence of tightening, they will see their loans becoming costlier. Is that something that will have a broader impact in the quarters ahead?

Mr. Vaidyanathan: I told you, there is still strong demand. Maybe there'll be some dampening but I don't see that as a major issue because our bank is certainly coming from a smaller base and when you are coming from a small base, whether the Indian credit system grows by 8 or 9 or 10%, that doesn't affect our life because we are starting off from a very, you know, we can grow at 25%.

Now, as far as the second point about the customer behavior is concerned, I think should be OK. People do get used to interest rate cycles going up, hundred basis points going down hundred basis points, people get used to it.

Siddharth Zarabi: All right. We'll leave it there. Thank you very much. Always a pleasure talking to you, Mr. Vaidyanathan, and look forward to discussing banking and the broader economy with you in the future. With that, it's a wrap on this conversation. Thank you very much for watching.

Mr. Vaidyanathan: Thank you so much Siddharth, nice speaking to you.

