MC Exclusive | Confident that PAT will come back by next quarter: V Vaidyanathan, MD & CEO, IDFC First Bank

V. Vaidyanathan, MD & CEO, IDFC First Bank, explains the reason behind exceptions made for loans given to MFIs. He is hopeful that the empathy shown to the MFI customers will pay rich dividends in the long run.

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V Vaidyanathan, MD & CEO, IDFC First Bank

V. Vaidyanathan, Managing Director (MD) & Chief Executive Officer (CEO), IDFC First Bank, weighed in on the reasons that led to lower profits in the second quarter, ending September 30. However, he exuded confidence that the situation would improve by the third quarter (October to December). The bank has made exceptions for loans given to microfinance institutions (MFIs). For instance for an MFI, a loan is usually considered to be at risk if a payment is over 30 days late. However, the bank extended the repayment plan to 90 days in a bid to extend more time to MFIs' customers to settle their outstanding dues. He is hopeful that the empathy shown to the MFI customers will pay rich dividends in the long run.

Vaidyanathan shed light on the bank's sub-optimal performance of the infrastructure sector. He cited that of the Rs 1,100 crore exposure, the bank has managed to collect Rs 600 crore till date and the rest of the amount would be credited in line with the government's settlement procedure.

He hastened to add that going forward, the bank would continue to disclose its special mention accounts in its investor presentation since it has become a default setting.

Edited excerpts from the exclusive interview:

Provisioning was high due to a Mumbai entry point toll account and microfinance loans. Are these one-off cases?

The toll account is a one-off. The probability of its occurrence on the residual infrastructure segment is less. We have done some backbreaking work to bring down the infrastructure outstanding dues from Rs 22,000 crore to Rs 2,000 crore. This was the last of the few accounts, and even this was not expected but for the withdrawal of the recent concession. We had an exposure of Rs 1,100 crore towards this infrastructure account, of which we collected Rs 600 crore. We have brought down the outstanding to Rs 500 crore. It’s a case where ‘*chooha nikal gaya, magar poonch phasgayi*’ (the rat escaped, but its tail go caught). It has cost us Rs 250 crore because the tail got caught. This was a *force majeure* situation. But as a responsible management, we don't hide things. There is a settlement process between the government and the client. Hopefully, we will see the money coming back to us.

Let's turn our gaze on the microfinance business. As an early mover banking institution in the MFI space, do you expect this pain to be an aberration, or normalisation is likley by the four quarter of financial year (FY) 2025?

Our bank has been doing MFI business since 2017 when we acquired Grama Vidiyal. This business has been very important for the bank because it helps us meet the priority sector norms across all categories. Basically, this business centres on lending to women for micro entrepreneurship.

Somewhere during December 2023, there were certain indications that this portfolio is going to worsen because of a lax in discipline. We immediately took some actions. We tightened credit norms and reduced our quarterly disbursements. For instance, we were disbursing Rs 4,000 crore per quarter, which was brought down to Rs 2,000 crore for that duration. As a result, our book growth slowed down. In March 2023, the bank and MFI industry was growing at an equivalent pace. By December 2023, we deliberately triggered the slowdown even though the industry followed suit a quarter later. We started improving the coverage under Credit Guarantee Fund for Micro Units (CGFMU). We didn't have any credit guarantee cover in the January 2024 quarter. So, by September 2024, we have took it up to 50 per cent. We expect the corresponding figure to touch 75 per cent by the fourth quarter, ending March 31, 2025.

On the contrary, your non-MFI book on the unsecured lending space isn't showing elevated stress unlike a few banks...

The non MFI businesses are behaving very stable for the bank. The best way to understand this is through the SMA (special mention accounts) data or the pre NPA (non-performing asset) figures. We have started disclosing our SMA data by product category and vintage. These numbers appear quite stable.

You've also brought down your share of MFI loans from a little over 6 per cent to around 5.5 per cent...

That's largely because we have tightened the credit criteria.

Would you tinker with it further?

It will come down in the due course, as we will further tighten criteria to be on the safer side. But remember, it's a very important segment for India. At the end of the day, this segment lends to relatively low-income group of people, who get an access to organised credit. Organised credit is a very important part of the country and we want to support this segment. We must, as a nation, try and support this sector, but within risk practices that are more sustainable.
This category supports women, entrepreneurs and in the micro (space). That's a combination of three powerful words. But for now, we are looking at moderating it. For example, if the loan book grows by 20 per cent we don't want to grow this (MFI) book by more than 8 – 10 per cent. We want to watch the situation for another six-odd months. If the collections get better, we will be comfortable with the growth.

Let me explain what we did with MFI loans a little more in depth.

Practically, we have taken 100 per cent provision for loans outstanding at 30 days past due. By doing this, we can collect from the customers a little more comfortably without hurrying them to pay. Now is not the time for us to push aggressively for collections. In fact, during the Covid-19 crisis, we gave our customers packets of t*hair saadam* (curd rice). Our employees went home to home and gave them 10 kg rice/ flour, 2 kg dal (lentils), 1 kg sugar and salt, 1 kg cooking oil, 5 packets of assorted spices, tea and biscuits and other essentials needed to support a small family for about a month. This was when most MFIs were chasing customers for money. That's how we want to deal with our this set of customers because they will come back to us and pay the money. This was also a soft way of dealing with them. We believe our empathy will help us in the long run.

What about your guidance on net interest margin, which dipped marginally in the second quarter?

Where we were paying 7 per cent on savings accounts, we brought it down to 5 per cent. Now, we have brought down our interest rate on savings account to 3 per cent. This helped us on the NIMs (net interest margins). While 6 per cent NIM is not a firm number, we see that there's a reasonable chance that we will retain at these levels, because our cost of funds is coming down. When other banks are raising deposit rates, we are dropping interest rates and still getting deposits. What explains the magic is good customer service. We have good technology, even according to Forrester's ranking. IDFC First Bank is the only Indian bank app to feature among global top 15 banking apps. We want to grow very much digitally. We don't want to open too many branches from here on. This move will give us operating leverage.

Let me share a little more perspective on our digital capabilities. Our number of customers has grown from 34 million to 42 billion, up 21 per cent. But the number of calls to from our call centre (to customers) has slashed from 1.3 million to 800,000 — down 34 per cent.

This is impossible for banks, as normally, these the curves go together. We are able to do this because of our transformation, the trust customers have in us and the quality of our customer service. Another big feature you should note is that 90 per cent our customers calls are picked within one second. The industry benchmark is 20 seconds. This is why despite our loan book at 21 per cent year-on-year in the second quarter, our operating profit has risen by 29 per cent during the same period. Technology is a powerful tool for us.

Would you expect your net profit growth to bounce back quickly?

I'm confident that PAT (profit after tax) will come back next quarter.

Your mortgage backed book is about 29 per cent of total loans. If it should further increase, it might have an implication on NIMs. How do you plan to tackle this challenge?

We can further drop our interest rates. Our brand is known better. Our service is getting better. Cost of funds for the bank has come down further. If we walk down more on the secured path, NIM could broadly remain in the current zone. But we will wait and see. We don't want to be fixated about anything.

We like to grow our secured book further since our unsecured book is tightly managed from an asset quality perspective. The gross NPA of the unsecured book was 2.08 per cent in the second quarter and net NPA was 0.61 per cent. SMA of this book was 1 per cent.

About 12 months ago, we started tightening the credit criteria of the unsecured book when the regulator was speaking about unsecured loans. We have seen its benefit. The secured book will continuously increase in proportion as we know the direction of travel. We should be very cautious and this is certainly not the time to relax credit.

At a time like this, you’ve started disclosing your SMA numbers. What's the reason behind the move?

It is our agenda to keep NPA at this level. We have started disclosing SMA data for greater transparency.