Mr. V Vaidyanathan, MD & CEO – IDFC FIRST Bank speaks to CNBC TV18 on the recent Capital raise announcement

Anchor: Latha Venkatesh & Surabhi Upadhyay

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Lata Venkatesh: Let's shift focus to the sector that the markets have been loving - the banking sector. IDFC FIRST Bank's Board has given their approval for fundraising of about Rs. 3000 crore. The stock also had a stellar start to 2021 with a 56% rally so far. Joining us now is Mr. V Vaidyanathan, Managing Director and CEO of IDFC FIRST Bank.

Mr. Vaidyanathan, good morning. Thank you very much. Well, first, the board approval is with you. But you just raised money, isn't it? Rs. 2000 crore from Warburg. Is this just because the market is kind and so you want to make use of it and prepare for growth. What's the purpose of this back-to-back capital raising?

Mr. Vaidyanthan: First of all, it was not from Warburg. It was one of the investors. That Rs. 2000 crore was from a large number of investors, largely from insurance companies. But that Rs. 2000 crore Latha, we raised about in June of '20, was in the context of the fact that, because of the large accounts, we know Dewan, Reliance Capital and few other accounts, we had lost capital and all legacy accounts. And we wanted to enter the COVID period with more strength and confidence – that's the Rs. 2,000 crore at that point of time. The good news is that since that time we had never posted a loss so obviously all that money has gone towards growth.

Now, we are seeing very strong growth opportunities from here on because you've been hearing Nilesh now, how things are coming back in India across all sectors. So for that growth, we wanted to be really well capitalized, and we see really a fantastic time on the horizon, in terms of lending opportunities for us.

Latha Venkatesh: Can you give us some idea of how asset quality will pan out as you said it has not been as bad as you thought. But nevertheless, if you can share some numbers on what was the amount of restructuring required? What is - not counting Supreme Court - your stressed loans and how much might it rise?

Mr. Vaidyanathan: Okay, since our biggest piece of business Latha, you know you've been tracking for a while, is the retail lending business, largely MSME consumption, and so on and so forth. Let me talk about retail NPA. Our Pro forma NPA on the retail side post COVID, as per last quarter, was 3.88%, and the Net NPA was 2.27%. Now, you know the reported numbers are much lesser but let's not go there because they are not relevant.

Now, we've been tracking our collection numbers for the last seven months. And frankly, every month it is improving. I'm happy to share that as per December, for the standard bucket, the collections have reached 98%; January is even better. So, we feel that in the next three quarters or so, our retail NPA will come down, back to 2% gross and 1% net - that's our guidance already given in the next few quarters based on the collection trends we are seeing. So we are feeling very comfortable on the retail lending space.

Surabhi Upadhay: Okay. So then let's talk about growth Mr. Vaidyanathan because in the third quarter itself even in the wholesale book and retail book, whether I look at Q-o-Q, Y-o-Y, there was growth. Now that you are confident of asset quality and if this recovery continues, then for FY22, what's the vision and the target?

Mr. Vaidyanathan: See our loan book last year has grown by 24% on the retail side because it's the big machine we are firing, at this point in time; not for this point of time, but for 10 years now, I think. And, you know, we have put out a public guidance that we feel confident of growing at a 25% YoY for many years to come. So this capital of Rs. 3000 crore actually will take us to upwards of CET1… you know… core equity itself of close to about 15.5-16% or somewhere in that zone. And that should give us good strength to take care of that 25% sort of loan growth we are expecting, even in the upcoming year FY '21-'22.

Surabhi Upadhyay: So since the bulk of the growth is coming in from the retail book and it's your stated intent - that's how you want to sort of build and grow the Bank. There's always a concern around unsecured lending or whether you know - whether it's credit cards loans or any other form of personal loans. Whether at some point, they can start posing a challenge, your thoughts?

Latha Venkatesh: I was also going to ask you the same thing Mr. Vaidyanathan. The latest CRISIL report the day before yesterday said that of all the areas they see maximum stress in unsecured personal loans and unsecured MSME. How much is that for you?

Mr. Vaidyanathan: I want to explain that; I feel it's rather a blunt instrument being talked about when people just use the word unsecured and secured. Actually, let's think about, you know, the JLG business, the MFI business, and so on and so forth. Let us think about cash flow lending we do to entrepreneurs, etc.

Our gross NPA I told you even post COVID, mind you, post COVID, is 3.88 gross. Right? Which I'm saying will come down to 2 in two-three quarters. But for the system, this is anywhere close to, as you know, about 18-20% for public sector banks and maybe for private sector banks anywhere from 4-5% as per the CIBIL TransUnion report. So we have very deep specialization.

Number two, so basically the key point is - we do cash-flow based lending, we should not bluntly call the instrument secured or unsecured. Secondly, we do, for example, we do group lending to woman borrowers, I mean we lend Rs. 25,000-30,000, the repayment is as good as 100%. So are we better off lending unsecured to a poor woman who's willing to pay you back 100% or we you want to give secured loan to infrastructure or a corporate, who’s going to blow the hole into your balance sheet?

Latha Venkatesh: No I got that, one of the best parts of the Q3 numbers I thought was the way in which current and savings accounts have grown - 48.3% is the current and saving account ratio or low cost deposits. You know, that's really mind-boggling for a small bank to be able to get so much of cheap liability. Do you see this, do you see your ability in this front to continue, and therefore are margins going to improve? Already 4.65.

Mr. Vaidyanathan: The short answer is margin will definitely improve and you know, it's more like what you've been seeing the trend Latha, it was a 1.56% pre-merger already touched 4.5% - very happy about that. You’ll see the trend. The trend will continue to look up, we feel quite confident about that. But you know on liabilities, Latha, I must specifically to you, you know, personally point out to you that the first interview you did with me at that point of time, you know in a 15-minute interview, you came back to the point six times, saying that it’s very very hard to grow it.

I’m very happy, you know, you're acknowledging it that we did it. And, you know, CASA of 48%, you know, 48% CASA puts us in the league of really good banks. And, you know, we felt so flush with cash that we reduced interest rates from 7% to 6%. That itself has improved the margin of course, which we did a month ago.

Going forward again, you know, as cash in the bank increases, we could further look at reducing rate, may be many months from now. But we are feeling really good on the liabilities side. And that's the foundation. Now we feel very confident of growing loans because the liability side is very well protected for the Bank.

Surabhi Upadhyay: I just have a quick final question on the fact that you know growing the liability side, just saw branch come up in Juhu in one of the market streets here. Going forward, will it be easier for you to build these branches and build the networks in tier two/ tier three cities because perhaps tier one - Bombay and Delhi - there's a big fight already with the bigger more established private sector old names?

Mr. Vaidyanathan: First of all, it’s not about how many players are there in which sector etc. We love tier 2/tier 3, we just love it, you know that business for many years, it goes back 8- 10 years. We just love that space, because people have the deposits, people have the borrowing capability and it is underserved, unorganized, we love all such things.

So, that’s the segment where we will grow more of branches in, urban markets we have already innovated, frankly, for the number of branches we have already put up, we feel that our funding capability for the next one year is kind of sorted. So, we feel we will go slow on branches from now on, particularly on the urban side. And, now with a strong liability base, we will be able to grow the asset side.

So, this is the commentary / first interview I'm giving after the announcement of the results, let me just say this to the shareholders because you might want to know why we are raising Rs. 3000 crore. And what's good about that?

I feel first of all, I want to say that, of course, it supports the balance sheet, it’s good for growth coming forward. But secondly, we have a very unique capability. We are playing in a US$ 500 billion market on the lending side. That’s a big market, underserved. Our collection capabilities are strong, good yield, low cost of funds. We are feeling very good about the future, I hope you feel as well.

Latha Venkatesh: Well, I must squeeze in a last question Mr. Vaidyanathan. You know, you said that you brought down the deposit rate from 7% to 6%, but you're still raising at 6%, SBI is raising at 2.75. So, there is always this fear of will you be lending to more risky bets?

Mr. Vaidyanathan: No Latha, this is a misconception actually. Everybody chooses their segment. You know, you could be lending at 6.85 or 6.7% home loans and make no margin at all. I mean, maybe, make margin for them. But may not for us. So you know you may lend at 6.7% and make no money at all. Or you could lend to small entrepreneurs or consumers or so on and make a hell of a lot of margin, like 4.6% you're already making. So, which one would we choose? It's pretty obvious.

The second thing is that you know something very interesting is going on here, our lending model is proven, now all we have to do in due course is to keep bringing down the cost of funds with greater brand awareness, greater capability. See, we are 5-year-old brand vis-a-vis SBI being maybe 200 years old. So I think over time, as we get greater traction, we'll keep bringing down cost of funds; I think the margin will increase through that factor alone.

Latha Venkatesh: Alright. We'll leave it at that. Mr. Vaidyanathan thank you very much indeed for joining us and all the very best for a glorious 2021.